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VIA EMAIL AND FIRST CLASS MAIL

Honorable Anna MacKinnon
Co-Chair Senate Finance Committee
Senator.Anna.MacKinnon@akleg.gov
State Capitol, Room 516
Juneau, AK 99801-1182

Honorable Pete Kelly
Co-Chair Senate Finance Committee
Senator.Pete.Kelly@akleg.gov
State Capitol, Room 518
Juneau, AK 99801-1182

Re: SB 15 (Alaska State Premium Tax)

Dear Senators MacKinnon and Kelly:

I am writing to you about Senate Bill 15, which is currently before your Committee. Among other things, the bill would reduce the State tax on annual life insurance premiums from 1/10th of 1% to 8/100th of 1%. I am confident this would increase tax revenues for Alaska rather than cause them to decline.

By way of background, I am a retired member of the Alaska Bar. I have written many provisions which are now part of Alaska law and have helped make Alaska the best jurisdiction in the country to do estate planning for both those who live in Alaska and those Americans who live outside. These include the so-called Alaska

Trust Act (HB 101 passed in 1997) and the Alaska Community Property Law (Chapter 34.77).

In 1998, I met with the then Commissioner of the Insurance Department of Alaska, Ms. Marianne Burke, and advised her that I was going to recommend that the State reduce its premium tax on annual life insurance premiums to .10% (that is, one-tenth of one percent) above a certain threshold. She advised me that no one in the state was paying a life insurance premium of as much as \$50,000 a year. I suggested that the State, therefore, have the lower (.10%) rate apply only to annual life insurance premiums above \$100,000, to ensure the State would not lose any revenue.

The reason for my suggestion was that many wealthy individuals acquire life insurance for income tax planning because the investment returns "inside" a life insurance policy are not subject to income tax. I believed that many individuals would acquire these policies in Alaska to avoid the much higher premium taxes imposed by other states. I felt few, if other states, could copy the proposed Alaska legislation because many people in other states (e.g., New York and California, two of the other states where I practiced law) paid very large annual life insurance premiums and these states would lose considerable revenue if it reduced their tax on annual premiums above \$100,000. By having premiums below \$100,000 a year paid at the standard Alaska premium tax rate (2.7%), Alaska could not lose revenue because no one in Alaska was paying premiums of more than \$50,000 a year. I felt Alaska would gain tax revenue by having non-Alaskans buy insurance through Alaska and pay the normal 2.7% tax on the first \$100,000 of annual life insurance premiums and .10% on the annual premiums above \$100,000. Alaska could not lose; it could only gain.

That proposal was enacted. And since that time, Alaska has received millions of dollars each year on life insurance premiums paid by individuals residing in other states and without incurring any cost to the State and without any loss of revenue on premiums paid by Alaskans.

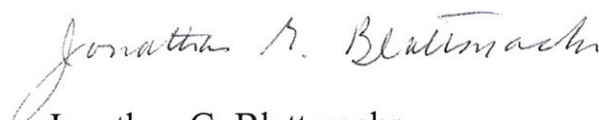
Unfortunately, South Dakota, which has few if any individuals who pay annual life insurance premiums in excess of \$100,000 a year, has adopted similar legislation but with an even lower premium tax on premiums above that threshold-- .08% (that

is, 8/100th's of one percent). And South Dakota is now receiving millions of dollars a year in state premium tax from people not residing there. I think much of this revenue would have gone to Alaska if South Dakota had not reduced its premium tax rate. And South Dakota advises its lowest tax rate position. Your attention is invited to <http://www.sdtrustco.com/About-South-Dakota-Trust-Company/Types-of-Trust-Administration/Premium-Tax-Planning.aspx>.

Accordingly, if Alaska wishes to continue to get a significant share of this costless revenue, I recommend it lower its premium tax on annual life insurance premiums to .08% on annual premiums above \$100,000, which is one of the things SB 15 would do. Rather than reducing State revenues by the lower tax rate, it will, I believe, increase the Alaska state revenues by avoiding the diversion of premiums to South Dakota.

I would welcome the opportunity to speak with you or your staffs about this matter.

Respectfully yours,


Jonathan G. Blattmachr