

State Revenue Restructuring Act HB 115

Finance CS version L

30th Legislature

HB 115: Permanent Fund Earnings

- **5.25% Permanent Fund POMV, 5% after FY19.**
- **1/3 of POMV to pay dividends.** \$1250 and growing over years, with payouts more stable than current calculation.
- **2/3 of POMV directed to the General Fund.** \$1.69 billion in FY18 growing to \$2 billion in FY25.
- Residents may choose to **apply their PFD to their upcoming state income tax due as a Refundable Tax Payment.** Any amount left over after paying taxes will be refunded by the Tax Division.

INCOME TAX:

- Adjusted Gross Income
\$4000 personal exemption
PFD exemption

Total estimated revenue

FY19 –half year ***\$330 million***

FY20- First full year ***\$663 million****

Non-residents pay between 7-14% of total tax revenue:

\$44-93 million in a full year

*Dept. of Revenue initial estimate. Updated fiscal note forthcoming

AK Permanent Fund

Principal

(may not be spent—only invested)

Inflation
proofing:

when ERA 4x
POMV Draw

0.25%
POMV
annually

~~Distributable Income~~

Structured
POMV Draw

FY18 & FY19: 5.25%
FY20 & beyond: 5%

21% of
5 year avg.
POMV: 5 of
last 6 yrs

Earnings
Reserve

(may be spent)

Oil and Gas &
Mineral Royalties

25-~~30%~~

Legislative
Appropriations
from Earnings
Reserve

~~70-~~75%

CS-HB 115

State Revenue Restructuring Act

*after House Finance Perm.
Fund Amendments and
change to Adj. Gross Income
3/23/17*

Changes to current
Permanent Fund system
shown in **Red**.

**Green is new
revenue & changes
to PF system.**

Prepared by Rep. Seaton

50%

0% 67% (FY18-FY19: \$1.7 billion FY20: \$1.8 billion)

~~50%~~ 33%

Calculate PFD

FY18 & FY19= \$1250 min.
FY20 = \$1250 growing to
\$1400 by FY26

PFD

Donations to
Pick Click Give
& College Funds

Optional

Refundable Tax
Payment applied to
State Income
Tax Due

Optional

Tax Refund
or PFD
to Resident

Income Tax:

\$663 million

Based on
Adjusted Gross Income

General
Fund

HB Proposal: Total Estimated Revenue to General Fund **FY20** – First Full Year of Tax Implemented

Income Tax Revenue*	\$663,000,000
2/3 of the 5% POMV Draw **	\$1,780,000,000
Total Revenue to General Fund	\$2,443,000,000

<i>Separate 1/3 of POMV Draw to dividend</i>	<i>\$879,000,000</i>
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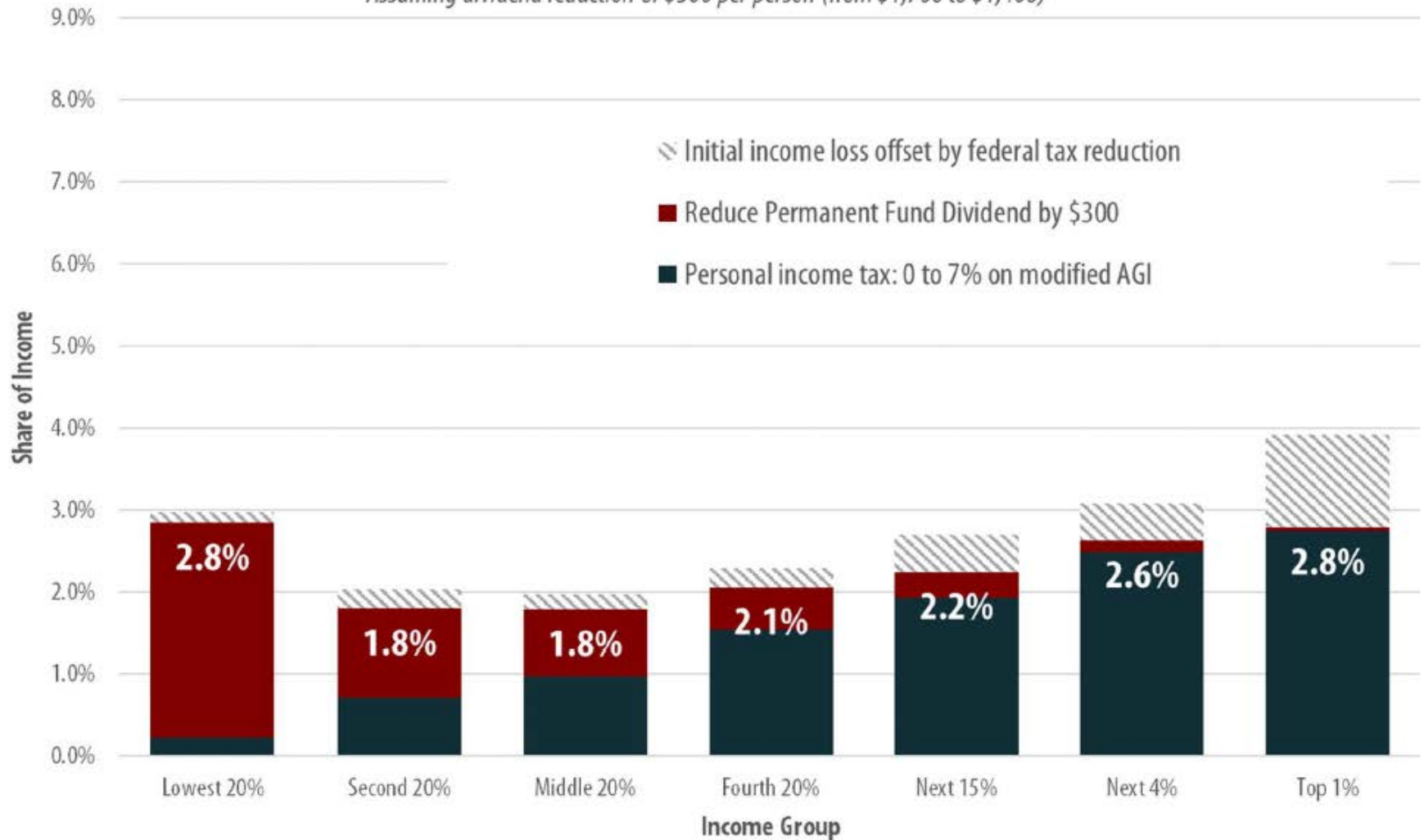
*Dept. of Revenue initial estimate updated fiscal note forthcoming

** 5.25% draw for previous two years, 5% POMV Draw starting FY20. amount based Legislative Finance calculations. 33% to the dividend and 67% to the general fund.

*Potential future impact based on projected status quo & HB 115 dividends in FY25

Figure 3: Impact of Alaska House Bill 115 (Version L)

Assuming dividend reduction of \$300 per person (from \$1,700 to \$1,400)



Source: Institute on Taxation and Economic Policy, March 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$1,700 per person.

*Long term impact of HB 115 across income groups. Short term impact has a greater effect on the lowest 20% due to immediate & larger change to the Permanent Fund Dividend in the first few years.

Why Adjusted Gross Income?

- ***Volatility of federal tax liability** – If federal tax rates change this automatically impacts state revenue levels, with no state input. Issue is addressed by using adjusted gross instead of tax liability
- ***Exemptions & credits** – Using adjusted gross gives a clean slate instead of automatically adopting federal credits and deductions
- ***Equity between capital gains & other income types** – All income is taxed at the same rate under adjusted gross income, avoiding the federal tax reduction for capital gains
- ***Administrative ease** – Calculating what non-resident income is taxable is simpler under adjusted gross income, and would have been very complex under federal tax liability
- ***Alaska Specific** – Adjusted gross income now includes a deduction for the permanent fund dividend, which is not exempt on federal taxes

Where does Alaska sit currently?

Table 1. State-Local Tax Burden by Rank Fiscal Year 2012 by Alaska Residents

	State-Local Tax Burden as Percent of State Income	Rank	Taxes Paid to Home State	Taxes Paid to Other States	Total State-Local Tax Burden	Income	Income Rank
Alaska	6.5%	50	\$1,986	\$1,242	\$3,229	\$49,780	10



Chart from Tax Foundation website:

<http://taxfoundation.org/article/state-local-tax-burden-rankings-fy-2012>

State Personal Income Tax Revenue as a Share of Personal Income in States with Broad-Based Personal Income Taxes

2015, dollar amounts in thousands

Rank (1 = lowest)	State	Effective Tax Rate (tax / income)	State Personal Income Tax Revenue	Personal Income
1	North Dakota	1.19%	\$504,394	\$42,349,688
2	Arizona	1.45%	\$3,868,234	\$267,361,132
3	Louisiana	1.46%	\$2,922,499	\$200,594,438
4 (proposed)	Alaska (HB115)*	1.66%	\$681,006	\$40,907,753
4	Kansas	1.70%	\$2,335,804	\$137,316,497
5	New Mexico	1.72%	\$1,358,702	\$79,104,093
6	Mississippi	1.73%	\$1,798,699	\$104,045,259
7	Ohio	1.77%	\$8,950,232	\$505,950,314
8	Oklahoma	1.80%	\$3,209,442	\$178,250,475
9	Pennsylvania	1.84%	\$11,735,689	\$636,857,158
10	Alabama	1.84%	\$3,407,750	\$184,784,917
11	South Carolina	2.03%	\$3,802,638	\$187,532,342

Source: Analysis by the Institute on Taxation and Economic Policy (ITEP) of Calendar Year 2015 state income tax data from the U.S. Census Bureau and personal income data from the Bureau of Economic Analysis (BEA).

Sample of Other State Income Brackets

Hawaii	1.40%	>	\$0
	3.20%	>	\$2,400
<i>Hawaii does not adjust brackets for inflation</i>	5.50%	>	\$4,800
	6.40%	>	\$9,600
	6.80%	>	\$14,400
	7.20%	>	\$19,200
	7.60%	>	\$24,000
	7.90%	>	\$36,000
	8.25%	>	\$48,000

Ohio	0.495%	>	\$0
(b, c, e, g)	0.990%	>	\$5,250
	1.980%	>	\$10,500
<i>Has additional income taxes at local level of 2.25%</i>	2.476%	>	\$15,800
	2.969%	>	\$21,100
	3.465%	>	\$42,100
	3.960%	>	\$84,200
	4.597%	>	\$105,300
	4.997%	>	\$210,600

Mont.	1.0%	>	\$0
(a, e, g)	2.0%	>	\$2,900
<i>Allows deduction for some of federal taxes</i>	3.0%	>	\$5,200
	4.0%	>	\$7,900
	5.0%	>	\$10,600
	6.0%	>	\$13,600
	6.9%	>	\$17,600

Ky. (b)	2.0%	>	\$0
<i>Kentucky does not adjust brackets for inflation</i>	3.0%	>	\$3,000
	4.0%	>	\$4,000
<i>Has additional income taxes at local level of 2%</i>	5.0%	>	\$5,000
	5.8%	>	\$8,000
	6.0%	>	\$75,000

Source: Tax Foundation "Facts & Figures 2017: How Does Your State Compare?" www.taxfoundation.org/publications/facts-and-figures/

5 Workers and Wages, Major and Selected Industry Categories

Alaska, 2015

Industry	Total		Nonresident			
	Workers	Wages (mil)	Workers	Percent	Wages (mil)	Percent
Agriculture, Forestry, Fishing and Hunting	2,507	\$55.8	1,354	54.0%	\$28.0	50.2%
Mining	22,349	\$2,416.4	7,937	35.5%	\$805.2	33.3%
Oil and Gas	4,702	\$910.8	1,385	29.5%	\$252.8	27.8%
Oilfield Services*	13,777	\$1,184.4	5,343	38.8%	\$454.7	38.4%
Utilities	2,596	\$201.1	133	5.1%	\$6.7	3.3%
Construction	26,868	\$1,338.0	5,932	22.1%	\$217.8	16.3%
Manufacturing	28,481	\$646.7	18,005	63.2%	\$295.4	45.7%
Seafood Processing	23,131	\$413.8	17,024	73.6%	\$267.5	64.6%
Wholesale Trade	7,315	\$358.0	713	9.7%	\$22.8	6.4%
Retail Trade	49,499	\$1,154.1	8,176	16.5%	\$101.1	8.8%
Transportation and Warehousing	25,515	\$1,222.1	6,704	26.3%	\$288.3	23.6%
Air Transportation	7,718	\$336.3	2,001	25.9%	\$62.3	18.5%
Information	7,551	\$419.0	766	10.1%	\$29.0	6.9%
Finance and Insurance	8,130	\$453.0	665	8.2%	\$19.2	4.2%
Real Estate and Rental and Leasing	7,108	\$220.1	837	11.8%	\$17.0	7.7%
Professional, Scientific, and Technical Services	18,186	\$1,022.2	4,367	24.0%	\$226.8	22.2%
Management of Companies and Enterprises	2,823	\$195.6	566	20.0%	\$29.1	14.9%
Administrative Support/Waste Management and Remediation	17,460	\$545.8	4,171	23.9%	\$101.3	18.6%
Educational Services	2,873	\$68.6	648	22.6%	\$7.4	10.8%
Health Care and Social Assistance	50,996	\$2,232.5	5,457	10.7%	\$183.5	8.2%
Arts, Entertainment, and Recreation	7,405	\$97.0	2,416	32.6%	\$23.2	23.9%
Accommodation and Food Services	43,801	\$676.4	13,822	31.6%	\$147.4	21.8%
Accommodation	12,858	\$211.1	6,080	47.3%	\$68.5	32.4%
Food Services and Drinking Places	30,430	\$460.5	7,565	24.9%	\$77.6	16.8%
Other Services	12,971	\$388.8	1,880	14.5%	\$37.1	9.5%
Other/Unknown	653	\$13.3	257	39.4%	\$4.6	34.5%
Local Government	50,138	\$1,878.0	3,553	7.1%	\$77.5	4.1%
State Government	27,625	\$1,341.8	1,908	6.9%	\$48.0	3.6%

Total

422,850 \$16,944.3 90,267 21.3% \$2,716.0 16%

Note: Data exclude the self-employed, fishermen, and other agricultural workers, and private household workers. For estimates of fish harvesting employment, go to labor.alaska.gov/research/seafood/seafood.htm.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section, 2015 Nonresidents Working in Alaska report.

Corporate Income Tax avoided by Sub S Corps and Limited Liability Corps in Alaska.

Table 15.
State Corporate Income Tax Rates
As of January 1, 2015

Tax Foundation: Facts & Figures 2015

State	Rates	Brackets
Ala.	6.50%	> \$0
Alaska	0.00%	> \$0
	2.00%	> \$25,000
	3.00%	> \$49,000
	4.00%	> \$74,000
	5.00%	> \$99,000
	6.00%	> \$124,000
	7.00%	> \$148,000
	8.00%	> \$173,000
	9.00%	> \$198,000
	9.40%	> \$222,000
Ariz.	6.00%	> \$0
Ark. (a)	1.00%	> \$0
	2.00%	> \$3,000
	3.00%	> \$6,000
	5.00%	> \$11,000
	6.00%	> \$25,000
	6.50%	> \$100,000

State	Rates	Brackets
La.	4.00%	> \$0
	5.00%	> \$25,000
	6.00%	> \$50,000
	7.00%	> \$100,000
	8.00%	> \$200,000
Maine	3.50%	> \$0
	7.93%	> \$25,000
	8.33%	> \$75,000
	8.93%	> \$250,000
Md.	8.25%	> \$0
Mass.	8.00%	> \$0
Mich.	6.00%	> \$0
Minn.	9.80%	> \$0
Miss.	3.00%	> \$0
	4.00%	> \$5,000
	5.00%	> \$10,000
Mo.	6.25%	> \$0
Mont.	6.75%	> \$0

State	Rates	Brackets
Calif.	8.84%	> \$0
Colo.	4.63%	> \$0
Conn. (b)	9.00%	> \$0
Del. (c)	8.70%	> \$0
Fla.	5.50%	> \$0
Ga.	6.00%	> \$0
Hawaii	4.40%	> \$0
	5.40%	> \$25,000
	6.40%	> \$100,000
Idaho	7.40%	> \$0
Ill. (d)	7.75%	> \$0
Ind. (e)	7.00%	> \$0
Iowa	6.00%	> \$0
	8.00%	> \$25,000
	10.00%	> \$100,000
	12.00%	> \$250,000
Kans.	4.00%	> \$0
	7.00%	> \$50,000
Ky.	4.00%	> \$0
	5.00%	> \$50,000
	6.00%	> \$100,000
Nebr.	5.58%	> \$0
	7.81%	> \$100,000
Nev.	None	
N.H.	8.50%	> \$0
N.J. (f)	6.50%	> \$0
	7.50%	> \$50,000
	9.00%	> \$100,000
N.M. (g)	4.80%	> \$0
	6.40%	> \$500,000
	6.90%	> \$1,000,000
N.Y.	7.10%	> \$0
N.C.	5.00%	> \$0
N.D.	1.48%	> \$0
	3.73%	> \$25,000
	4.53%	> \$50,000
Ohio	(c)	
Okla.	6.00%	> \$0
Ore.	6.60%	> \$0
	7.60%	> \$1,000,000
Pa.	9.99%	> \$0
R.I.	7.00%	> \$0

Form 1040		Department of the Treasury—Internal Revenue Service		(99)	2015	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2015, or other tax year beginning . . . 2015, ending . . . 20 . . . See separate instructions.							
Your first name and initial		Last name		Your social security number			
If a joint return, spouse's first name and initial		Last name		Spouse's social security number			
Home address (number and street). If you have a P.O. box, see instructions.						Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).						Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
Foreign country name		Foreign province/state/country		Foreign postal code			
Filing Status Check only one box. 1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(or) with dependent child							
Exemptions 6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input type="checkbox"/> Spouse. c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) <input type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions) If more than four dependents, see instructions and check here <input type="checkbox"/>							
Boxes checked on 6a and 6b No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above ▶							
Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2 8a Taxable interest. Attach Schedule B if required b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required b Qualified dividends 9b 10 Taxable refunds, credits, or offsets of state and local income taxes 11 Alimony received 12 Business income or (loss). Attach Schedule C or C-EZ 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> 14 Other gains or (losses). Attach Form 4797 15a IRA distributions 15a b Taxable amount 15b 16a Pensions and annuities 16a b Taxable amount 16b 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 18 Farm income or (loss). Attach Schedule F 19 Unemployment compensation 20a Social security benefits 20a b Taxable amount 20b 21 Other income. List type and amount 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶							
Adjusted Gross Income 23 Educator expenses 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 25 Health savings account deduction. Attach Form 8889 26 Moving expenses. Attach Form 3903 27 Deductible part of self-employment tax. Attach Schedule SE 28 Self-employed SEP, SIMPLE, and qualified plans 29 Self-employed health insurance deduction 30 Penalty on early withdrawal of savings 31a Alimony paid b Recipient's SSN ▶ 31a 32 IRA deduction 33 Student loan interest deduction 34 Tuition and fees. Attach Form 8917 35 Domestic production activities deduction. Attach Form 8903 36 Add lines 23 through 35 37 Subtract line 36 from line 22. This is your adjusted gross income ▶							

Multiply by \$4000 for AK personal exemption

Adjusted Gross Income line 37