

**ALASKA STATE LEGISLATURE  
HOUSE STATE AFFAIRS STANDING COMMITTEE**

February 14, 2002

8:06 a.m.

**MEMBERS PRESENT**

Representative John Coghill, Chair  
Representative Jeannette James  
Representative Hugh Fate  
Representative Gary Stevens  
Representative Peggy Wilson  
Representative Harry Crawford  
Representative Joe Hayes

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 10

"An Act relating to the taxation of income."

- HEARD AND HELD

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 199

"An Act relating to taxation, including taxation of income of individuals, estates, and trusts."

- HEARD AND HELD

HOUSE BILL NO. 300

"An Act relating to the procurement of certain travel services."

- BILL HEARING POSTPONED TO 2/21/02

**PREVIOUS ACTION**

BILL: HB 10

SHORT TITLE: INCOME TAX ON INDIVIDUALS & FIDUCIARIES

SPONSOR(S): REPRESENTATIVE(S) MOSES

Jrn-Date	Jrn-Page		Action
01/08/01	0026	(H)	PREFILE RELEASED 12/29/00
01/08/01	0026	(H)	READ THE FIRST TIME - REFERRALS

01/08/01 0026 (H) STA, FIN  
 01/08/01 0026 (H) REFERRED TO STATE AFFAIRS  
 02/14/02 (H) STA AT 8:00 AM BUTROVICH 205

BILL: HB 199

SHORT TITLE: INCOME TAX: INDIVIDUALS/TRUSTS/ESTATES  
 SPONSOR(S): REPRESENTATIVE(S) HUDSON

Jrn-Date	Jrn-Page		Action
03/19/01	0650	(H)	READ THE FIRST TIME - REFERRALS
03/19/01	0650	(H)	STA, FIN
03/23/01	0712	(H)	COSPONSOR(S): SCALZI
01/18/02	2002	(H)	SPONSOR SUBSTITUTE INTRODUCED
01/18/02	2002	(H)	READ THE FIRST TIME - REFERRALS
01/18/02	2002	(H)	STA, FIN
01/18/02	2002	(H)	REFERRED TO STATE AFFAIRS
02/14/02		(H)	STA AT 8:00 AM BUTROVICH 205

**WITNESS REGISTER**

TIM BENINTENDI, Staff  
 to Representative Carl Moses  
 Alaska State Legislature  
 Capitol Building, Room 500  
 Juneau, Alaska 99801  
 POSITION STATEMENT: Presented HB 10 on behalf of Representative  
 Moses, sponsor.

REPRESENTATIVE BILL HUDSON  
 Alaska State Legislature  
 Capitol Building, Room 502  
 Juneau, Alaska 99801  
 POSITION STATEMENT: Testified as sponsor of SSHB 199.

CHUCK HARLAMERT, Juneau Section Chief  
 Tax Division  
 Department of Revenue  
 P.O. Box 110420  
 Juneau, Alaska 99811-0420  
 POSITION STATEMENT: During hearing on SSHB 199, answered  
 questions on that bill and other proposed tax legislation.

NEIL SLOTNICK, Deputy Commissioner  
 Office of the Commissioner  
 Department of Revenue

PO Box 110405  
Juneau, Alaska 99811-0405  
POSITION STATEMENT: Testified regarding SSHB 199.

**ACTION NARRATIVE**

TAPE 02-10, SIDE A  
Number 0001

CHAIR JOHN COGHILL called the House State Affairs Standing Committee meeting to order at 8:06 a.m. Representatives Coghill, Fate, Stevens, Wilson, and Crawford were present at the call to order. Representatives James and Hayes arrived as the meeting was in progress.

HB 10-INCOME TAX ON INDIVIDUALS & FIDUCIARIES

[Contains discussion of SSHB 199 and HB 413]

Number 0042

CHAIR COGHILL announced the first order of business, HOUSE BILL NO. 10, "An Act relating to the taxation of income."

Number 0206

TIM BENINTENDI, Staff to Representative Carl Moses, Alaska State Legislature, presented HB 10 on behalf of Representative Moses, sponsor. Of the three major proposals [HB 413, SSHB 199 and HB 10], he said [HB 10] would probably be "income tax light," generating between \$90-\$100 million. Its main distinguishing feature is providing a credit for both personal property taxes and real estate taxes paid in the state; it is a considerable deduction, which is one reason the income from [HB 10] is considerably less than from the other [bills]. He noted that the bill is fairly conventional in its setup and is basically modeled on "the income tax that used to be active in this state."

Number 0314

CHAIR COGHILL asked Mr. Benintendi to describe the basis for the tax rate and the fundamentals of the tax liability.

MR. BENINTENDI told committee members the bill graduates the tax - or "brings it in somewhat modestly" - and raises it over the course of three years. He said if an income tax were chosen,

Representative Moses wanted to "get it in and across as easily as possible." For example, he noted that for the first year, [the proposed tax] would tax people at 5 percent of their federal tax liability if that liability were less than \$20,000, and at 10 percent if it were more than \$20,000. In the second year, it would go to 10 percent for less than \$20,000 and 15 percent for over \$20,000. He concluded that in the third and final year, it would be 15 percent for less than \$20,000, and 20 percent for over \$20,000.

Number 0440

CHAIR COGHILL asked Mr. Benintendi what is meant by "the federal income tax liability of under \$20,000." He asked how he'd arrived at that number.

MR. BENINTENDI explained that after the taxpayer prepares a federal tax filing, the liability would be determined on [Form] 1040. If that amount is less than \$20,000, then the [5 percent in the first year, for example] would apply; if it's more than [\$20,000], then the [10 percent in the first year, for example] would apply.

CHAIR COGHILL said he thought the tax rate was a key issue. He indicated the word "fiduciary" on page 6 [of HB 10] and asked Mr. Benintendi how he'd arrived at the definition.

MR. BENINTENDI said beyond having "picked that up from the old ... income tax structure," he didn't know why that was there.

CHAIR COGHILL remarked that a trust doctrine has been created in Alaska that has given people an incentive to "warehouse money here." He said, "I just need to know to what degree we're going to affect that whole scheme that we have been building over the last several years."

Number 0572

REPRESENTATIVE CRAWFORD asked, if a person's federal tax liability is \$22,000, whether that person would be taxed at the lower rate for the first \$20,000 and at the higher rate for everything over that amount.

MR. BENINTENDI answered that if a person's federal tax liability is above \$20,000, then the entire amount would be taxed in the third year, for example, at 20 percent.

Number 0623

REPRESENTATIVE STEVENS, regarding the credit for property tax, said this is in regard to personal - not corporate - income tax. He asked, "Is it just your primary home, or is it credit for people who have vacation homes?" He also asked Mr. Benintendi to clarify whether the 15 or 20 percent would be taken on the amount owed the federal government on line 70 of tax Form 1040.

MR. BENINTENDI answered yes to the latter question. Regarding the former question, he said the intent of Representative Moses' bill, as presently written, is to give the credit for any and all personal property taxes paid or real estate taxes paid. He said, "It's pretty wide-open, and that's one of the features that draws the income down that would eventuate from the tax." He noted that the language could be modified to restrict it to primary residences only; he added, "That's compatible with some other programs in the state, so there are options there."

Number 0700

REPRESENTATIVE JAMES asked if it was the intent [of the sponsor] that there be a separate itemized deduction schedule for the State of Alaska to determine whether there is any income or expenses from outside the state that would be recognized as a state tax, particularly on part-time residents or nonresidents. She also asked Mr. Benintendi if it would be expected that the federal tax paid would be an itemized deduction, just as state tax is an itemized deduction [on federal taxes]. She remarked, "If you didn't do that little calculation, you'd find yourself having the state tax deduction, which reduces your tax, ... and it doesn't seem fair to me." She then said:

If we're going to piggyback on the federal tax at all, I would prefer starting with the adjusted gross income. The reason for that is there's lots of playing around with different benefits of credits ... and so forth, at the federal level, which I don't necessarily believe Alaska should be buying into.

Number 0800

MR. BENINTENDI said [HB 10] would only tax income from sources within Alaska. He asked Representative James if that answered part of her question.

REPRESENTATIVE JAMES replied yes. She added, "We're making the tax return more complicated, because now everybody has to separate, and the federal tax doesn't do that."

MR. BENINTENDI admitted "that could very well be."

CHAIR COGHILL noted that the foregoing is in Section 5. He indicated it would leave that open. He asked Mr. Benintendi to explain the rationale of starting with the liability instead of the adjusted gross income.

MR. BENINTENDI said he couldn't explain, other than it was Representative Moses' preference. He noted that this was the eighth year the Representative Moses had submitted this bill.

Number 0866

REPRESENTATIVE JAMES stated that she has avidly supported a flat tax, not a graduated one, because of her experience in working in payroll a long time ago. At that time, she said, she witnessed people getting an increase in their [gross] pay but receiving a smaller check because they were then in a higher [tax] category. She said people had asked her to calculate what their incomes would be if their spouse went to work - which would move them into a higher tax bracket - and if they put their children into childcare. She said her rationale is: "For those people who work harder, longer, and smarter, why should they work for a smaller dollar?"

Number 0935

CHAIR COGHILL offered his belief that a tax credit against local taxes is good idea. He asked Mr. Benintendi if that would allow for other exceptions and other credits.

MR. BENINTENDI answered that possibly other credits or deductions could be applied; however, it's fairly easy to determine what real estate taxes have been paid in [Alaska]. He said he thinks the department's estimate of the amount of real estate property tax paid in the state is \$451 million. According to the department, he noted, the personal property tax amount is difficult to identify. He said he was not certain why, but suspected there were different inclusions from community to community. He added, "They've wrestled with it."

CHAIR COGHILL commented that property tax valuation has significant effects in other areas of the world, as well.

Number 1019

REPRESENTATIVE CRAWFORD asked Mr. Benintendi if he had done any calculations regarding "breaking it down from people's personal residence, as opposed to their rental property that they might have."

MR. BENINTENDI answered no.

REPRESENTATIVE CRAWFORD said he could see a good reason for people to get a break on their own residence, but not on rental property.

MR. BENINTENDI commented that people may have cabins out in the wilderness, or in other boroughs, for example. He added, "It's pretty generous, but that's what Representative Moses ... has wanted all these years."

Number 1060

REPRESENTATIVE JAMES mentioned her own tax bill of four years ago. She said one of the purposes for her flat-tax income tax was to "nullify the argument between those people in the rural areas and the urban areas who do or do not help to pay for their education." Furthermore, in her tax, if people paid a property tax on their residence and a portion of that "was for education," then those people would get a credit; those who didn't pay a property tax didn't [get that credit].

REPRESENTATIVE JAMES mentioned forcing the boroughs "on these people so they'll force them to pay" for their education. She mentioned taking long testimony in the past without ever hearing a single person say he/she didn't want to pay. She added, "They didn't have a provision to pay, and I thought, 'That would keep that.'" Referring to the property tax, she asked Mr. Benintendi whether [the sponsor] had considered simply making it "the amount that you pay for education on your personal residence."

MR. BENINTENDI responded that he hadn't heard from Representative Moses that he'd considered that. He commented that those areas in rural Alaska that do not pay a property tax locally, of course, cannot take advantage of the credit [proposed in HB 10]. He said he suspected that the reason Representative Moses included personal property tax in the bill was to "hook in some of those areas that may have personal

property taxes, but not local." He added that he did not know if there were many of those.

Number 1172

REPRESENTATIVE WILSON offered that many fishermen have homes [on which they pay] property tax, but have a business on a fishing boat. In many areas, there is no property tax on that boat, she said. She asked, "How would that affect the fishermen?"

MR. BENINTENDI answered, "If they pay no property taxes, that wouldn't affect that nonresidential property, as far as I'm aware." He explained that if those fishermen were not paying tax on that boat "out somewhere," they wouldn't be "using the credit here."

REPRESENTATIVE WILSON said, "So, then, they would have to claim the boat and then pay the tax on the boat. Is that what you're saying?" She added, "There's no exemptions. So, ... they just don't have to count that at all, then? Or that's just a moot point?"

[An unidentified speaker said, "Uh-hum."]

Number 1230

REPRESENTATIVE STEVENS sought clarification regarding what the "old tax" was. He said he thought it was 20 percent.

[Several committee members simultaneously offered numbers between 16 and 18.]

REPRESENTATIVE STEVENS asked for a definitive answer. He said the more it could be kept simple, the better off it would be.

MR. BENINTENDI said he was guessing from memory that the number was 18 percent. Regarding Representative Stevens' suggestion to keep it simple, he said, "Oh, yes, sir."

Number 1275

MR. BENINTENDI, in response to a request from Chair Coghill, said the anticipated income in the first year, according to the bill's currently written graduated format, is approximately \$2 million, rising to \$82 million in the third year. He said those are estimated figures from the Department of Revenue, which

included "their wrestling with ... the personal-property-tax side of that issue."

MR. BENINTENDI told the committee that Representative Moses had changed his mind in one regard: He would like to remove the graduated feature because he realizes the income is very "light."

CHAIR COGHILL offered his understanding that the burden to the individual would be to fill out the federal tax form and submit it to the state with [the state's] form, "starting at whatever the tax liability is." He indicated the state form would then "give them the multiplier - whatever that percentage was."

MR. BENINTENDI said yes. He clarified that people would have to submit a copy of their federal tax filing to the state, and the state would retain it in their records for a period of time.

CHAIR COGHILL asked, "Are we going to run afoul of 'how do we describe a resident [and] nonresident?'"

MR. BENINTENDI answered that he didn't think so. He said Representative Moses was "most anxious to hook in out-of-state workers who actually work up here," to have them pay "more of their way up here." He explained that most of them are seasonal, tourism and fisheries workers. Under the current proposed bill, the estimated income from that pool of workers is less than \$3 million - a modest amount, which he said is a subject for amendment.

Number 1435

REPRESENTATIVE STEVENS surmised that if people earn a salary in Alaska, they can only be given credit for taxes paid within Alaska.

MR. BENINTENDI concurred.

Number 1456

CHAIR COGHILL recognized the sponsor's willingness to amend out the "step up," and indicated that 15-20 percent would [be the amount of] the federal income tax liability.

Number 1472

REPRESENTATIVE WILSON asked what the total was.

MR. BENINTENDI said under the third tier of the bill as presently written, the income would be between \$90-\$100 million - probably closer to \$90 million. He noted that the foregoing was not "net of the cost of the program." Last year, there was an estimated administrative cost of approximately \$3 million, whereas, to his understanding, currently it is "up around" \$7 [million].

CHAIR COGHILL informed Mr. Benintendi of the comparison sheet [of the three similar bills] provided by the administration [included in the committee packet].

Number 1538

REPRESENTATIVE CRAWFORD said he would like to make a conceptual amendment to keep the property tax "just for personal residences."

CHAIR COGHILL indicated that before considering amendments, he would bring a proposed committee substitute of the sales tax for consideration. [HB 10 was held over.]

HB 199-INCOME TAX: INDIVIDUALS/TRUSTS/ESTATES

[Contains discussion of HB 10 and HB 413]

Number 1609

CHAIR COGHILL announced the final order of business, SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 199, "An Act relating to taxation, including taxation of income of individuals, estates, and trusts."

Number 1623

REPRESENTATIVE BILL HUDSON, Alaska State Legislature, sponsor, came forward to present SSHB 199. He brought attention to a chart that he said was predicated upon the most current figures from the Department of Revenue, the Office of Budget and Management (OMB), and others. By 2003 and beyond, he noted, the state is looking at a billion-dollar shortfall in the money required to balance the books - which there is a constitutional responsibility to do. He told members:

Working with the fiscal policy caucus, and having been working on this issue - and, frankly, taking some of

my lead from the majority leader here some years back - we have put together what we think ... is one element of a cure - or at least a portion of the cure - to this fiscal gap, to try to increase the recurring revenue stream so as to avoid falling off the edge of that ... proverbial cliff.

REPRESENTATIVE HUDSON pointed out that the Constitutional Budget Reserve (CBR), which has become the "filler," is expected to essentially be gone by 2004. When that occurs, the only other major account available will be the Earnings Reserve Account (ERA) of the permanent fund. Suddenly, schools, public safety, maintenance of roads, matching federal money, keeping prisoners in prisons, and so forth will compete with the permanent fund dividend (PFD).

REPRESENTATIVE HUDSON told members that according to top advisors for the permanent fund who'd spoken before the House Finance Standing Committee two days ago, the entire permanent fund could be hurt if "we try to feed both dividends and making up the fiscal gap out of the earnings of the permanent fund"; right now, the ERA levels things out so that there is enough money to both inflation-proof the fund and pay the dividends.

REPRESENTATIVE HUDSON noted that he'd served on the House State Affairs Standing Committee for four of his sixteen years as a legislator. He acknowledged that the committee must first consider policy, followed by the elements of the policy. He suggested the chart makes the case for why he is willing to author legislation regarding such an onerous thing as returning taxes to Alaska.

REPRESENTATIVE HUDSON reported that he'd had numerous conversations with former Governor Jay Hammond, "who laments the fact that he permitted the ... personal income tax to totally be removed from the books; he felt ... he should have suspended it." Nonetheless, Representative Hudson said, people in Alaska have paid no [state] income taxes, have received a dividend, and have watched oil [royalties] "build many of the wonderful things that we have in the state of Alaska."

[There was a motion to adopt the sponsor substitute, but it was already before the committee.]

Number 1845

REPRESENTATIVE HUDSON explained that his bill uses a flat tax based on a percentage of the federal gross income. He'd tried to make it as simple as possible, he said. It starts with 1 percent of the adjusted gross income in the first year, "so as not to be too weighty on ... any taxpayer in the state of Alaska." He estimated it would cost about \$350 per household in the first year, and would yield approximately \$118 million in revenue. It would then rise to 2.25 percent of the adjusted gross income in the following years; based on an average salary across the state, he suggested it would cost about \$680 per household in the second year, and would yield approximately \$285 million.

REPRESENTATIVE HUDSON remarked, "By all of the figures that we've seen, ... it would be about half of the taxes that were paid by Alaskans under the old tax mechanisms, which was far more complicated." He conveyed his belief that the average cost per Alaskan household would be less than \$900 for the new tax liability. Even if there were a decreased PFD of \$1,000 per individual, households of two or more people would pay some money for government services and still be able to spend the remaining dividends.

REPRESENTATIVE HUDSON referred to a handout that compares various proposals. He pointed out that the governor's proposed legislation would bring in \$350 million, but is predicated upon the federal tax after deductions. By contrast, SSHB 199 would bring in \$285 million [after the first year], using a flat tax based upon the adjusted gross income found on the first page of the federal tax form. Allowable deductions change over time on the federal level, he noted. He asked who is to say that a deduction for a second home, mobile home, or other investment is what Alaskans should adopt as the basis for taxation.

REPRESENTATIVE HUDSON explained that under SSHB 199, everybody who receives taxable income will pay 1 percent in the first year - even if the income is from a PFD; a \$1,000 PFD would require a tax of \$10. He remarked that it would be the first "tax back," which former Governor Hammond has indicated he believes is one element the state should look at: "If you want to take some of the permanent fund money, rather than capping it, tax it back." A child's PFD is now included in the adult's income tax, Representative Hudson added, "and so it would still essentially be tapped."

Number 2010

REPRESENTATIVE HUDSON continued:

Somebody mentioned, "What about rural Alaskans who pay no taxes, who receive exceptionally high governmental money for education, for example, on a per-student basis?" I heard [it's] something like \$20,000 per student in certain ... districts. This would at least begin to take some of that money back.

How does it treat nonresidents? There are 65,000 nonresidents that are employed in ... Alaska in ... the year 2000. Those 65,000 nonresidents took home - to their states of Washington, Idaho, wherever they came from - ... something close to \$905 million, paying not one thin dime to the State of Alaska.

Mr. Chairman, we believe that they should start paying. We believe at 1 percent, that would cost them approximately \$9 million; at [2.25 percent] it would be ... close to \$20 million dollars. ... Again, from my good friend [former governor] Jay Hammond, we can't let these people come up here, take the bounty of the State of Alaska, incur costs to the State of Alaska in the form of health and social services and education and corrections and ... things of that nature, and not pay a portion of that. So this would begin to at least take some of the money that is leaving the state ... and bring it back in....

Number 2075

REPRESENTATIVE HUDSON mentioned asking for a model to get ideas as to how the bill would affect Alaskans. He said the data was based on the 1999 tax year. He referred to a handout in the committee packet, "% of Adjusted Gross Income," which shows in the top left box the [target revenue] amount of \$285 million. Representative Hudson asked committee members to look at the \$0-to-\$20,000 range, which shows that 142,308 households paid approximately \$24 million of that \$285 million. He continued:

If you follow it across, you can see how much each one of these tax categories of the adjusted gross income would end up paying. So it runs all the way from \$24 million at the bottom end to \$87 million at the top end. And that, incidentally, is essentially what is done by all the other tax measures, as well.

REPRESENTATIVE HUDSON referred to the governor's bill, which he said was presently before the committee. He continued as follows:

It would run at the lower end, \$11 million of [\$]350 [million] to \$165 million at over [\$]100,000. And incidentally, I went back and I modeled the last one that the governor had put together, as well. And I think one of the reasons that the legislature in its wisdom chose not to take up the governor's proposal that he submitted several years ago was - at least what I heard from my colleagues - was that it took far too little from people at the low end of the spectrum and far too much [from] the high end of the spectrum.

So, what we've tried to do was to pick a method that balanced it out to the extent possible. Those people [who] make more [money would] clearly be paying more of the bill. But people at the low end of the scale, too, also receive most of the services and should pay ... part of the cost.

REPRESENTATIVE HUDSON suggested, in essence, that legislators could do various things with the figures. If the 1 percent is not favored, it can be eliminated, and the decision to "start it" next year, for example, can be made. He said, "You get less money; you don't get that \$100 million first year." He explained, "We put that in there because there is going to be a cost of setting up the tax mechanism. We're going to have to pay money in order to set this whole monster back up there."

Number 2195

REPRESENTATIVE HUDSON disagreed with the governor's fiscal note, which shows \$12 million in the first year, dropping to approximately \$7.5 million thereafter. He said he'd like to "go back to the governor's last fiscal note," which was included with [the governor's] own bill and was only about \$3.5 million. Speaking as a member of the House Finance Standing Committee that will be the next to hear [SSHB 199], Representative Hudson said whatever "we" do, he would make certain that the cost is not inflated.

REPRESENTATIVE HUDSON referred to a copy of the [Internal Revenue Service (IRS) Form] 1040. He said, "My tax applies to line 33 on the 2001 and - I suspect it'll be - the 2002 tax

form. So anybody in Alaska will be able to look at line 33 and take 1 percent of that."

Number 2241

REPRESENTATIVE JAMES surmised that the tax returns being identified were those with an Alaska address, as opposed to any Alaskan residents who are filing a federal tax return with a "different address." She said she thought [a category] that was being left out was all those people who worked in Alaska "not full-time" and have other income in other states for which they file a tax return - the same people who "we're hoping to be able to help us to pay." She asked, "How do you include them in this tax return, and how do you differentiate between Alaska residents and nonresidents with Alaska income?"

REPRESENTATIVE HUDSON mentioned deferring to [Neil Slotnick of the Department of Revenue]. He added, "I think we take a percentage of it, so that whatever percentage of their income is made in ... Alaska is taxed by the State of Alaska."

Number 2301

CHUCK HARLAMERT, Juneau Section Chief, Tax Division, Department of Revenue, offered that Mike [Williams, who was online from the Department of Revenue] would be a better person to answer regarding revenue impact of residents and nonresidents. He continued as follows:

In all three of the bills, essentially, the treatment of residents and nonresidents is the same, in terms of if you're a resident, we tax you on all of your income, and then if you happen to have business in another state and are taxable there, we'll give you a credit based upon the taxes you pay the other state. And that's pretty much the same through all the bills.

Similarly, if you are a nonresident, we tax you on the income that is deemed to be earned in Alaska. That's the difference. ... The differences between the three bills on ... that issue is how you make that determination. And the only difference between the three bills is, in essence, how you calculate the fraction of income that is earned in [Alaska].

TAPE 02-10, SIDE B  
Number 2389

MR. HARLAMERT concluded that fundamentally, there isn't a great difference.

REPRESENTATIVE JAMES followed up:

However, since this tax is based on the adjusted gross income, you don't have playing with the numbers on the rest of getting to the tax in this one, as you would in the other, because where you'd have to have whether property tax from another state is deducted from your federal [return] - and that wouldn't be allowed - and/or any other business expenses.

And that's one of the concerns that I have, is the 2106 - the types of deductions at the federal level for people who may have some expenses working in the state - how does that relate, because now the 2106 doesn't come on the front like it used to; it comes on the ... itemized deductions.

MR. HARLAMERT said he thought Representative James was correct that when the tax is apportioned on the federal tax, incorporated are all of the deductions inherent in the federal tax liability. He added that when "you don't go that far down your tax returns" and stop it at adjusted gross income, one avoids any impacts of ...

REPRESENTATIVE HUDSON offered, "Second homes in Washington State."

MR. HARLAMERT said yes.

REPRESENTATIVE HUDSON noted that he was working with two different [bill] versions and was "becoming educated " as he proceeded. He continued as follows:

On page 4 of the draft that you've now adopted [Version J], it does cover the ... credit under (a) of this section for a nonresident, which multiplies the tax computed by a fraction, the numerator of which is the income derived from sources in other state[s] or territories.

REPRESENTATIVE HUDSON offered his belief that this was how it was done in the past. He urged members to consider how complicated to make it. He noted that on the second page [of

the federal return], deductions are in constant flux, even in Washington, D.C., where there is talk about reducing taxes and giving numerous credits. He told the committee:

I think we're better off to do something that is a very small percentage of whatever the actual wage is on the bottom of this whole thing - a very clear, straightforward, flat tax. And then you don't have to worry about the question of whether or not somebody from California is up ... here and going to go ahead and try to claim - through the federal tax mechanism, at any rate - all of these other adjustments and end up [with] Alaska holding the bag.

We want to try to get a fair return on any and every wage that's earned in ... Alaska before all of these political exemptions and other manipulations that are taking place by the federal government [occur]. We don't want to be [controlled] by the federal government. That's the reason that I put this substitute in.

CHAIR COGHILL said, "And as I understand it, then, Representative Hudson, the ability for us to start the laundry list of exemptions and/or deductions would be -- we'd end that argument."

REPRESENTATIVE HUDSON concurred.

Number 2245

REPRESENTATIVE JAMES said, "I agree with the department."

REPRESENTATIVE HUDSON mentioned a fiscal note prepared [for] the governor by the Department of Revenue when he put forth his tax bill forward a couple of years ago.

Number 2209

REPRESENTATIVE STEVENS told Representative Hudson he appreciated the clarity of the charts he'd provided. He referred to the bottom line and asked Representative Hudson if it was his understanding that if nothing is done, the impact on the permanent fund dividend (PFD) will be a regular reduction.

REPRESENTATIVE HUDSON said yes, indicating that was [the testimony of] "experts in the House" two days ago.

Number 2185

REPRESENTATIVE JAMES mentioned seeking a fiscal solution. She said the big boon that [the state] had - and the big surplus provided at the federal level - was not a surplus from the increase from tax conditions, but was because more people were making more money. She said she was not convinced that the amount of taxes that can be collected from the existing earners in [Alaska] can be sustained without higher wages, more workers, and increased revenues - not by raising the tax rates, but by having more people pay. She added, "If I'm going to be supporting any kind of taxes at all, we have to have some ... method of addressing how we're going to get more people making more money in the state."

Number 2130

REPRESENTATIVE HUDSON concurred. He added, "I hope, at any rate, that we would see that this is an element that will begin to make the connection between expanded workers in the state of Alaska and the expanded costs, and how it's going to be paid for." He then mentioned "the Alaska disconnect" - that if the economy in Alaska is increased and numerous people open up businesses - a microchip factory in the Matanuska Valley or building General Electric dishwashers in Fairbanks, for example - the increased number of people coming into the state will also increase the burden on services those people require, such as schools. He noted that those people pay nothing; therefore, they cost [the state] money and "dilute our dividend." For example, if there were 10,000 more people, everyone's dividend would be proportionately less. Representative Hudson said he agreed with [Representative James], but had wanted to add that.

Number 2068

REPRESENTATIVE FATE said both [Representative Hudson and Representative James] were correct, but bringing in more people requires more jobs and a condition in Alaska that is "friendly to the increase of industry and businesses." He suggested that whenever [the legislature] discusses taxes of any kind, it must also discuss state spending and fiscal restraint.

REPRESENTATIVE HUDSON concurred.

Number 2021

CHAIR COGHILL offered that the "upward pressure of this year's budget would only just fill the expansion of our government, or very close to that." He said that troubled him; it would be hard to go to his constituents and say, "Well, we'll expand it with this tax, and then next year we'll start biting into the deficit." Referring to a previous comment by Representative James, he said, "We've got to take our hands off some of the places where we've made it harder for businesses to grow in Alaska."

Number 1998

REPRESENTATIVE JAMES mentioned previous comments by Representative Fate and Chair Coghill regarding spending. In a state with 100-percent control over all the resources and how business is created, she said, it will be difficult to make money "in those areas," because there are insufficient employees to provide prompt service to requests for permits, for example, to help people understand that [Alaska] is "truly open for business." When decisions regarding budget reductions and decreased spending are made, specific areas need to be considered as well as the overall picture, she said, to decide how to create a [business-friendly] atmosphere.

Number 1938

CHAIR COGHILL noted that as the chair of the resources subcommittee of the House Finance Committee, [he'd] heard part of that discussion the prior day.

REPRESENTATIVE HUDSON said he thought "we're all on the same page in that respect." He mentioned the attempt to constrain growth of government and cited the following examples of growth: a cost-of-living increase, more students entering schools, the increase of the senior population, and more Medicaid recipients. As mentioned in the prior day's subcommittee meeting, he noted, the balance is now being discussed over whether to keep parks open in Alaska, as opposed to "putting more money into geological engineers and accountants to make certain that the state receives the maximum amount of money from the sale and discovery of our oil" and the gas line, for example.

REPRESENTATIVE HUDSON described himself as an optimist. He mentioned trying to fill the gap, slowing down consumption, and preserving the PFD to the extent possible. Regarding the latter, he opined that he did not think "we can do it altogether," and remarked, "You'll hear that next Saturday." He

agreed regulations must be cleared up to ensure that private industry can "step forward, invest their money, create jobs, and make a profit." He concluded that [the legislature] is faced with a big job, and that this [proposed legislation] is just one small step to try to fill "an emergency gap."

CHAIR COGHILL offered his appreciation and noted that as the chair of the House State Affairs Standing Committee, his reluctance to tax is based on a reluctance to restrain the growth of government, which he said is a difficult thing to do. He said he hoped this would show him the details of where the money will come from and how to constrain "ourselves" so that the state doesn't go further into debt.

CHAIR COGHILL referred to [page 2, lines 11-13, Version J], which read:

An individual whose income includes a cost-of-living allowance that is exempt from the federal income tax shall determine and include that amount as part of the individual's taxable income as if the cost-of-living allowance were not exempt.

CHAIR COGHILL asked how that is possible.

REPRESENTATIVE HUDSON said it can be done because "our" taxes are entirely different from the federal tax. The federal tax laws exclude the federal cost-of-living [allowance], which varies, he thought, between 18-25 percent and used to be a flat 25 percent - every [federal] employee from [another state] that came to Alaska received an untaxed 25 percent cost-of-living allowance. He said "we" think that is part of the income. He offered, "If they can get a deduction from the federal government, that's fine." He added, "Now, if we go to the second page, then they're going to get the credit for that, because it's in the federal makeup."

CHAIR COGHILL agreed the flat tax is "probably the best place to do it, because it's the simplest and you pay on your ability to earn." He said his concern about an income tax regards putting a downward pressure on the workforce. He asked Representative Hudson if he anticipates that "this percentage is going to throttle us back."

Number 1741

REPRESENTATIVE HUDSON suggested that is an area the committee may want to consider. As the author of the bill, he said he wouldn't have any problem whatsoever in finding an "exemption to the trust," because he was in the legislature when it passed the legislation to encourage more trust management in the State of Alaska. He said it does accrue a profit to the state. He suggested [the legislature] needs to consider whether "taxing that element" would drive that business to "some far off island," for example.

REPRESENTATIVE HUDSON said he hadn't addressed that in the current draft before the committee, but would consider it before the next hearing. He offered [cooperation] with Chair Coghill, the chair of the House Judiciary Standing Committee, and others.

CHAIR COGHILL said he wanted to consider that issue.

Number 1703

REPRESENTATIVE JAMES mentioned discovering whether there is a way to separate trusts made Outside from trusts made in Alaska.

REPRESENTATIVE HUDSON responded, "Good idea."

Number 1692

CHAIR COGHILL asked [Representative Hudson] how he perceives the process in regard to employers, the state, and the administration.

REPRESENTATIVE HUDSON replied that there would be no withdrawals by the employer in the first year. He said it was his suggestion that the tax commence on January 1, 2002 - essentially, retroactively - and that it be 1 percent of the adjusted gross income. He mentioned notification to everyone and said, essentially, the forms and setup would have to be undertaken [by the Department of Revenue] from the date that this was passed into law.

REPRESENTATIVE HUDSON listed the following items for which [the Department of Revenue] would be responsible: electronic computations, worksheets, system changes, schedules, and communications. He said that is why it's only 1 percent in the first year - it covers the cost of the complete setup, while still providing a surplus, he believes, "even at their figures of about ... \$80-\$90 million, to actually start applying against that debt."

REPRESENTATIVE HUDSON explained that the debt will not be appreciably affected in the first year' it will be necessary to use the Constitutional Budget Reserve (CBR) for the difference. In the second year, employers would have the forms; the department would have set up the mechanisms; withholding would take place on a periodic basis; and the money would flow to the Department of Revenue. He said he presumed that individuals would file "the appropriate page of their federal income tax, or their adjusted gross income, or their W-2 forms." Representative Hudson emphasized that he would need to have this discussion with the Department of Revenue, once [SSHB 199] appears to be moving forward.

CHAIR COGHILL mentioned not being able to track certain things as other states do because Alaska does not have state income tax. He mentioned going to an adjusted gross income, which he said is a flat tax; he said it would give a different look at the economy from looking at the federal tax liability, for example. He asked Representative Hudson if he'd thought about what that would do regarding the provision of services.

REPRESENTATIVE HUDSON said he had not.

CHAIR COGHILL opined that because Alaska provides so many services, "this is going to give us a look into the economy that we haven't had for the last 20-some years."

REPRESENTATIVE HUDSON agreed it will give Alaskans an "ownership" in the services provided on their behalf. He added that people would be able to look bureaucrats in the eye and say they want to make sure their tax dollars are being used in the most cost-efficient way. Presently, he said, the people pay nothing and receive everything; therefore, there is no downward pressure on those who [the people] elect to make laws. He concluded that "this will certainly provide that nexus between the taxpayer and the government."

CHAIR COGHILL said he thinks there is a nexus. He offered a counterpoint view that "just using some of the earnings of the permanent fund has been such a political pressure that it has driven us right to this very discussion."

REPRESENTATIVE HUDSON said that would be a major part of the discussion in [the upcoming hearing on Saturday, February 23].

Number 1452

REPRESENTATIVE JAMES offered her belief that making [the bill] retroactive would be wrong because people would object to "having had it be taxed for something that they didn't know was taxed when they got it." She urged having an effective date of January 2003 and implementing the withholding concurrently. She recalled federal laws when her husband had to start paying on 85 percent of his social security, which was a substantial, unexpected expense.

Number 1390

REPRESENTATIVE JAMES referred to a recent visit by "the Close-up students" who'd met with her in her office. She explained that these are kids who want to be involved in government and have a say in how the country is run. She said the system is flawed, but it is the most perfect system that exists and gives people the chance to be involved. She added, "It is a government 'of the people, by the people, for the people,' and it's the 'people' part that's not working, when you can't even get 50 percent of the people to be informed and go to the polls to vote."

REPRESENTATIVE JAMES noted that her staff checks the district and party of those who issue a complaint, for example; she said it is amazing how many of those people aren't even registered [to vote]. She said if the public wants to have a say in the government, they need to participate. She offered her belief that people should pay for some of the services they want and that "they will be more interested in how they are affected." She thanked Representative Hudson for bringing this legislation forward.

CHAIR COGHILL asked for a definition of the word "situs", found on page 3, line 25 [SSHB 199].

REPRESENTATIVE JAMES defined "situs" as "where it's located."

Number 1289

REPRESENTATIVE WILSON referred to previous discussion regarding the deficit's being so large that "we can't cut our way out of it, and we can't tax our way out of it, and we can't grow our way out of it, so we have to do a combination of all three." She stated that in many areas of [Alaska], despite growth and employed people, the pay for employees is less than in the past;

therefore, [the legislature] needs to consider how to grow the economy in ways that can afford people to make a living.

Number 1229

CHAIR COGHILL mentioned "the move for the Great Society"; Medicaid and Medicare; and a greater and stronger centralized government in the 1960s. He continued as follows:

Many times, we in the state have felt the rebellion, if you will, of that that has come to us as a state, and we've had to swallow a lot of things here in the state, and - myself included - kind of resist that growth to a stronger, centralized and more subsidized world, where we're actually changing money from one group of people to another, and we're doing that redistribution that has such a socialist kind of background to it.

So many of us are so reluctant to continue that type of government growth that when we come to these discussions, it's very painful for us to just wave it off, even though we know we have the need. But how do we change the form of government from going further down that road, and maybe recovering back to a free-market economy where we're balanced out by competition and the individual liberties?

Number 1148

REPRESENTATIVE CRAWFORD mentioned being affected by stories he has heard from people, most of whom were "at the very bottom." He related one story of a retired, widowed lady who lives in a condominium close to his own home, who told him the income she receives through social security and a longevity bonus is spent on rent, while the money she receives from the PFD is [what she has to spend on food]. He mentioned [Representative Hudson's] "starting this out based just on adjusted gross income." He said he understood that [Representative Hudson] wanted everyone to pay his/her share, but said [this proposed legislation] would [affect] those people at the bottom.

REPRESENTATIVE HUDSON mentioned various tax forms. He surmised that the lady of whom Representative Crawford had spoken would use tax Form 1040EZ. He offered his belief that there are liberal exemptions for social security benefits, and that for those who only have social security, it is often not taxed at

all. He indicated he has to pay taxes on his own social security because of his legislative salary.

REPRESENTATIVE CRAWFORD related a story of a single mother who works at Kmart stocking shelves for just under \$8 per hour, who has to struggle each month to pay rent and buy food; any type of medical bill is [difficult to pay]. He asked Representative Hudson how this [proposed legislation] would affect her.

REPRESENTATIVE HUDSON answered that he did not know. He said the focus had been on the wage issues and the thought that everybody should pay "a very small percentage." He explained the reason that he'd made the change from 15 percent of taxable income or tax that a person would pay to the government, to 2.25 of a person's adjusted gross income - he'd thought that was the fairest place to "begin your deduction from." Referring back to the story of the mother, he suggested that Representative Crawford could certainly contact somebody from the administration to satisfy his interest.

REPRESENTATIVE HUDSON said his concern is that [the legislature] does not get "led down that path" of trying to find "some sort of special exemption for every type of special exemption." He said there has been concern expressed regarding people in rural Alaska receiving benefits without paying anything. He said, "If we pass this bill, every dollar that they receive on the permanent fund dividend, for example, would become part of the taxable income amount - if it fits into that ... line on the federal income tax return - and will become taxable at that very low rate."

REPRESENTATIVE CRAWFORD said he would remember that talk [with the woman] at her doorstep for the rest of his life, because she was "at her wits end." He said he didn't want to put a greater burden on her.

REPRESENTATIVE HUDSON urged Representative Crawford to look at that as it applies to the bill, and said he would do the same. He mentioned health and social services, which is one of the largest costs to the state and covers everything from adults' and children's medicine and foster homes, for example. He suggested the need to "fill in some of that [budget gap] before we run out of our savings account, so ... know, the people at the low end will pay the least and receive the most." He added, "I think that's just a fair assessment."

Number 0802

REPRESENTATIVE JAMES, regarding the PFD, said it didn't make sense to her to give with one hand and take it away with the other. She emphasized that she has absolutely no interest in making the PFD a welfare program; consequently, she stated her belief that everyone who qualifies should get the same [amount]. She opined that it would be simple to reduce the PFD by 1 percent, "if that's what we wanted to do, and we're already there, and that person doesn't even have to file a tax return." She recommended considering the simplicity of this issue, if "we" really want to get money and then take it from everyone, "and just not make them have to file, if they don't have to."

Number 0720

CHAIR COGHILL said, "And the cost would be either between \$3 and \$13 million dollars less."

Number 0689

REPRESENTATIVE HAYES pointed out the need to discuss another issue: that the legislature only controls one-third of the budget - the \$2.3 billion or so in the [general fund] - whereas approximately \$2.1 [billion] comes from the federal government and \$1.7 [billion in the permanent fund] is given away, "and we do an inflation proofing [of] the permanent fund."

Number 0572

CHAIR COGHILL mentioned "federal strata" of income, federal employees, the [U.S.] Department of Defense, and the Bureau of Land Management that owns and operates at least two-thirds of the land in Alaska. He said certainly the Tongass National Forest has been out of "our" control. He noted that he'd recently heard that 10 percent of the state land is beetle-infested forest. He said "we" have some significant issues, and he agreed with Representative Hayes that this all has to be part of the discussion.

Number 0478

NEIL SLOTNICK, Deputy Commissioner, Office of the Commissioner Department of Revenue, noted that Mr. Harlamert was also present and that [online was] Mike Williams, a revenue auditor. Mr. Slotnick thanked the committee for having this discussion. Having an unbalanced budget is an unstable situation for the economy of Alaska, he said. An unbalanced budget is a deterrent

to investment, because it may be that the state would have to "balance the budget on the backs of business."

MR. SLOTNICK told the committee that he had testified the day before against a gross-receipts tax. He explained that he does not like to testify against any revenue measure; however, [the department] did not think that was a business-friendly tax. [The department], he said, believes a broad-based tax is needed to go forward and balance the budget.

MR. SLOTNICK referred to a chart prepared by Mr. Harlamert, which summarizes some of the differences and similarities between the three proposed income tax bills. [The three bills compared on the chart are: HB 413, the governor's bill; SSHB 199, Representative Hudson's bill; and HB 10, Representative Moses' bill.] Pointing to the first [attribute], "Tax Base," he said, "The tax base for the governor's bill and for Representative Moses' bill is 'federal tax liability,' whereas Representative Hudson has proposed that we use as the tax base, 'adjusted gross income.'"

MR. SLOTNICK noted a third possibility on [Form] 1040, which is "taxable income," found on line 39. The difference is that taxable income includes the exemptions and the deductions. He indicated exemptions are for oneself and one's dependents. With adjusted gross income, he noted, "the wage earners who have dependents - whether it's children or elderly dependants - there is no exemption provided for that." He continued:

Now, when we go to the governor's bill and Representative Moses' bill, I've said, ... the tax base there is federal tax liability. But it is actually not clear to us, as we read HB 10, ... what the tax base really is, because federal tax liability -- first you figure out your tax from the tax tables; is that federal tax liability? After you've figured your federal tax, then you look and see whether you get any credit to apply against that tax, before you end up writing your check or requesting your refund.

Now, I believe Tim [Benintendi, in earlier testimony that day on HB 10] said he interpreted ... HB 10 to apply to the amount that you owe, which would be line 70 here on your ... [Form] 1040. I don't think that can be right, because that's after withholding amount that you owe, when you go all the way down there.

So, what the governor's bill does, is it takes line 52, which is, "You can go to the tax tables, compute your tax, then subtract any credits that you may have - and this would be credits for things like ... a childcare credit, which is a credit that's designed to encourage people to enter the workforce and not have to absorb all of the cost of childcare. There's various other credits, including certain business credits that are included within that. That's line 52 - tax after credits. And so that's what we call federal tax liability. It's not clear to me if HB 10 goes to line 52, or if it just goes to line 39, which is taxable income.

But that helps focus, I think, for this committee, the policy decisions that you are going to have to make. Do you go to AGI [adjusted gross income] - and we've heard arguments from ... Representative James and from Representative Hudson as to why AGI has ... has some, I believe, ... compelling arguments in favor of that. It is the simplest and perhaps the broadest.

But we've heard from Representative Crawford why it would be ... what I would call "more encouraging, more friendly to the people entering the workforce or in the margins of the workforce" - a tax base that's more friendly towards those people at the edges. And I would submit to you that line 52 is the most friendly to those who are trying to enter the workforce.

You could also look, however, at line 39, "taxable income."

Number 0043

REPRESENTATIVE WILSON noted that for people who don't do their own taxes, this information could be confusing. She asked Mr. Slotnick if he could provide examples, such as a single mother or a family of four.

MR. SLOTNICK said he thought he could provide the examples by Tuesday [February 19].

TAPE 02-11, SIDE A  
Number 0001

CHAIR COGHILL urged members to keep the conversation focused so that when considering all three [tax bills], they will have before them all the best information regarding the heading of "income tax."

MR. SLOTNICK said that information could be made ready by Mr. Williams. He also noted that Mr. Persily [Deputy Commissioner] would be present at the Tuesday [February 19] hearing.

MR. SLOTNICK moved on to the attribute entitled "Tax rate." He continued as follows:

One of the big questions in rate is, "Do you want to graduate a rate, or do you want a flat tax?" Now, ... the governor's proposal ... takes a flat tax on federal tax liability, and that picks up the graduated rates that are within the federal system. Graduated tax rates are very common. Most states that have income taxes have graduated rates.

Certainly, we're all familiar with the federal system. And the way it works, I think, as Representative Crawford pointed out, is that for everybody, your initial income - first ... \$7,000 - would not be subject [to] tax. And then your next ... dollars earned would be subject to the lowest tax bracket, which used to be 15 percent, and it's ... going down now. And then your next, again, incremental ... graduations, so that there's no ... penalty for moving into the next bracket.

And, again, Representative James has argued very eloquently what she sees as the advantages of a flat tax. ... But I would want to just put on the record - and I think that Representative Crawford has expressed it - that the advantage of the graduated rates is that those who are in the higher brackets are earning more. They're able to take more advantage of the advantages of civilized society in which we are all able to live and work, and they are left with more disposable income, even after the effects of the graduated rate, which now, with the federal rates as they are - and we're just piggybacking on the federal rates - the graduations are not nearly what they used to be, either with the federal rates or with the old Alaska law that we repealed.

Number 0235

CHAIR COGHILL mentioned the complexity of the federal law and changing the complexity of the state law. He asked Mr. Slotnick, "Do you sidestep that discussion?"

MR. SLOTNICK answered yes. He indicated an assumption that the policy behind the federal tax changes are, in general, "adopted here." For example, he stated that in the future there will be an additional child tax credit, which "we" would [adopt]; however, he said if there were policy changes in the future that legislators don't want, then amendments can be made.

Number 0300

REPRESENTATIVE FATE asked Mr. Slotnick for data regarding "the ratio of discretionary income to gross income" and whether people with low income have less discretionary income."

MR. SLOTNICK replied that he would try to "work that up"; however, that is a broad policy, more of a "common-sense notion that we have there."

REPRESENTATIVE FATE responded, "Regardless, whether it's common sense or not, I know people with high incomes that have very, very little discretionary income, and people with low incomes that have a lot of discretionary income. I would like to see some data on it - that's all I'm requesting."

MR. SLOTNICK responded that he would try to fill Representative Fate's request; however, he said he had never seen statistics published on discretionary income.

Number 0380

REPRESENTATIVE HAYES stated his appreciation of the work done by [Mr. Slotnick's department] regarding this issue. He mentioned property owners who pay property taxes for education in their communities. He asked, "Have you all thought about including some type of credit, as in Representative Moses' bill, and how much money would you actually lose by doing that?"

MR. SLOTNICK answered that the question had been discussed previously. He said that is one advantage of [adopting as a basis] the federal tax liability, because there is a deduction for state taxes paid when computing the federal tax liability. One reason that a property tax credit - such as Representative

Moses included in [HB 10] - was not chosen is that there is "some double counting when you add up credit on top of taxes [that] have already been deducted," he added. He continued:

I know when I was a renter, when the local property taxes here in Juneau went up, my rent bill went up. So that really, if you're renter, you are paying what I might call "an imputative property tax," and yet that person isn't going to get to take advantage of the credit, or even the deduction. So, in some ways, ... we believe that having a one-for-one property tax credit is unfair to that portion of the population that isn't a homeowner.

The final reason that we did not go with a property tax credit is that the Department of Law questioned the constitutionality of allowing a property tax credit only for property tax paid in the state. There is a line of cases that is very clear in taxation - that you cannot discriminate against nonresidents. And the federal courts are very vigilant about enforcing discrimination problems that they see in state taxes.

Now, I don't know that the Department of Law ever reached a conclusion on that analysis. The question was raised. It was a significant enough question that we chose not to go there in our analysis.

Number 0549

MR. SLOTNICK referred to Representative Hayes' question regarding how much the property tax credit costs the state. Mr. Slotnick said that number is in the fiscal note for HB 10; the revenue raised by HB 10 is on the last page of the analysis. [Mr. Slotnick was searching for the exact information as he was talking.] He said, "I can get back to you on that."

CHAIR COGHILL said he'd been looking more towards a comparison, rather than delving into [Representative Moses' bill], because Representative Moses would be given [time to present his bill] in the following week. Chair Coghill mentioned an adjusted rate based on "some of our accounts" that was different in "your bill" than in any other. He said it was a fundamental issue. He also mentioned a "trigger mechanism" he has been intrigued with, and figuring a tax-base rate based on "where are we at

with some of our larger accounts, like the CBR and the earnings reserve."

Number 0670

MR. SLOTNICK addressed that as follows:

What we've done in the governor's bill is, we've put in a trigger based on the size of the Constitutional Budget Reserve. ... At the Department of Revenue, we recommend that we ... not let the budget reserve go below \$1.5 billion. We think we need that much money in there to act as a shock absorber, [in case] there is a sudden plunge in the price of oil, because even if we have a broad-based tax such as this, and even if we have other tax revenues to balance the budget, we're still, even in the future, going to be dependent upon oil revenue - a very important part of the state's budget.

MR. SLOTNICK reiterated that the CBR acts as the shock absorber, which he believes is part of the reason the voters enacted it. He said [the department] highly recommends that the CBR stays at \$1.5 billion; once it begins to climb above that, some tax relief can be provided to Alaskans. To provide a buffer, he explained, the "trigger" was put in the bill at \$2 billion, at which point the tax rate "on the citizens" could be cut down to 10 percent. Furthermore, if [the CBR] reaches above \$2.5 billion, the tax would be lowered to 5 percent, he said, which is "something to hold the tax in place, rather than just do away with it." He explained that [the department] would not want to be in the position of laying off employees one year when the tax is abolished and then having to rehire them the next year, for example.

Number 0772

REPRESENTATIVE JAMES said there is a payback requirement on the CBR. She asked how Mr. Slotnick can support the CBR as currently drafted and not "pay it back up to ... the payback before you stop taxes."

MR. SLOTNICK responded that he didn't believe the payback provision was an imperative demanding that the state tax its citizens such that it get back to the \$6 billion figure that is owed to the CBR fund.

REPRESENTATIVE JAMES said, "That's what I voted for. I mean, were you out there voting for the CBR? What did you think it did?" She said [the CBR] "does things that I didn't think it did," but explained what she thought one of [the CBR's] functions was as follows:

This was a fund that was going to be coming from the windfalls, sort of. They would identify windfalls, which to me weren't really truly windfalls, but what they were is "bump-ups" in the budget, so we didn't spend too much: "Let's cap that off and put this in here, and we can utilize that when we need to. And then when we have the money we have to pay it back."

REPRESENTATIVE JAMES said the "paying back" was a very important part of keeping the pot of money, when she'd voted for [the CBR]. She added her belief that many people felt the same way.

MR. SLOTNICK described an example of a circumstance whereby [Alaska] had a gas line and, as a consequence, surplus revenue. That, he said, is when the CBR fund would be paid back and when it would grow. He said he did not want to do anything to inhibit that growth of the CBR back to its "full payback." However, Mr. Slotnick reiterated, he didn't think it necessary to tax the citizens at the highest rate "we could stand" solely to replenish the CBR to an amount higher than necessary to act as a shock absorber, although a certain minimum amount is needed as a shock absorber to avoid the type of sudden fallout in the economy seen in 1986 when oil prices plummeted.

Number 0910

REPRESENTATIVE FATE clarified for any listening public that a gas pipeline would not put the same kind of money into the state coffers that the oil pipeline did.

Number 0955

REPRESENTATIVE JAMES suggested the real benefit of having the gas line [would be] to have more high-paying jobs and the other kinds of industry that it might support, not the revenue received at the state level from "the taxes on the oil company."

CHAIR COGHILL noted that one of the policy discussions that would be heard when the governor presents his bill regards the difference between the base rates - "how we attach ourselves to the federal government," whether by flat tax, graduated tax, or

a combination. He indicated there may be discussion on exemptions. He added that if the discussion did not happen, then exemptions would become a moot point, except that the committee would be talking about the cost-of-living allowance (COLA), for example. He expressed interest in "the trust doctrine discussion."

CHAIR COGHILL said he thinks although the House Finance Standing Committee is better equipped to deal with the expected revenues, the [House State Affairs Committee] should set parameters, perhaps by stating its expectations of the administration.

Number 1052

REPRESENTATIVE HUDSON requested that the committee ask the department to consider - on all three "approaches" - the amount of money that would not be flowing to Washington, D.C. He made note that the governor, in his State of the State [address], said that "if we impose this tax, \$50 million that people of Alaska now pay to the federal government would stay in the State of Alaska." He added, "And I think each one of these mechanisms would have some relevance there, and I would appreciate that."

CHAIR COGHILL said that was a good point which he appreciated. He asked Mr. Slotnick if [the committee] could expect that from him.

MR. SLOTNICK answered yes.

Number 1128

REPRESENTATIVE STEVENS referred to the aforementioned issue of whether it is legal to give a benefit for property taxes paid in the state and not those paid out of the state. He said that is a legal question that he would like to know more about.

Number 1149

REPRESENTATIVE JAMES said her understanding and her perspective were to "only give a credit on the education." She said she believed that could be called a "school tax," paid either through property tax or income tax. She added, "It could be even identified to be the \$100 that I hear all of the state people proposing to do." Representative James suggested \$100 of "that bottom line" could be assigned as a school tax to give a refund for those people who, "in their personal residence, pay a

property tax that is allocated to schools." She said she did not see anything unconstitutional about that.

REPRESENTATIVE STEVENS remarked that he'd appreciate further discussion of that issue, from a legal standpoint.

CHAIR COGHILL commented that he would be interested to find out how an exemption might be provided for those who "pay their own schooling at home." [SSHB 199 was held over.]

#### **ADJOURNMENT**

Number 1208

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 10:00 a.m.