

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

March 4, 2005

8:31 a.m.

**MEMBERS PRESENT**

Representative Bruce Weyhrauch, Chair  
Representative Norman Rokeberg  
Representative Ralph Samuels  
Representative Paul Seaton  
Representative Peggy Wilson  
Representative Max Gruenberg  
Representative Carl Moses

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

OVERSIGHT HEARING PERSONAL INCOME TAX

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

DAN DICKINSON, Director  
Tax Division  
Department of Revenue  
Anchorage, Alaska

POSITION STATEMENT: Offered information about income tax legislation and tax types.

MICHAEL WILLIAMS, Auditor  
Tax Division  
Department of Revenue  
Anchorage, Alaska

POSITION STATEMENT: Offered information about income tax legislation.

BRETT FRIED, Economist IV  
Department of Revenue  
Anchorage, Alaska

POSITION STATEMENT: Offered information about income tax legislation and tax types.

#### **ACTION NARRATIVE**

**CHAIR BRUCE WEYHRAUCH** called the House Special Committee on Ways and Means meeting to order at [8:31:22 AM](#). Representatives Weyhrauch, Wilson, Seaton, and Moses were present at the call to order. Representatives Rokeberg, Samuels, and Gruenberg arrived as the meeting was in progress.

#### OVERSIGHT HEARING PERSONAL INCOME TAX

[8:31:35 AM](#)

CHAIR WEYHRAUCH relayed that today's meeting would be an overview on alternative income tax measures. After the state began receiving money from the oil pipeline, during the early 1980's, the state income tax was repealed by Governor Jay Hammond. Since then the fiscal gap has become more acute and both Representatives Wilson and Moses have introduced legislation to reinstitute an income tax. The aforementioned legislation proposed different methodologies for obtaining revenue. He added that the committee should deliberate the different income tax scenarios in order to determine the implications on the long-term fiscal picture.

CHAIR WEYHRAUCH turned to The New York Times, March 4, 2005, article entitled, "Fed's Chief Gives Consumption Tax Cautious Backing", which reports that Alan Greenspan, the Federal Reserve chairman, is endorsing a structural change in the nation's tax system from an income tax to a consumption tax. A consumption tax in lieu of an income tax would promote savings and tax only for consumption and not on income. He related his belief that the fore mentioned dialogue taking place at the national level is [applicable] to the changes taking place at the state level.

[8:34:07 AM](#)

REPRESENTATIVE WILSON related that the possibility of a federal sales tax concerns her.

CHAIR WEYHRAUCH replied that the federal sales tax is basically the aforementioned consumption tax and he related his belief that the nation could be "a long way from that" considering the current dialogue about social security policies.

The committee took an at-ease from [8:35:24 AM](#) to [8:36:10 AM](#).

[8:36:16 AM](#)

CHAIR WEYRAUCH said the Department of Revenue has analyzed the potential fiscal impacts of the aforementioned legislation.

[8:37:36 AM](#)

DAN DICKINSON, Director, Tax Division, Department of Revenue, related that the department would be explaining the following issues: how to measure various sectors of the economy and their relative contribution; the tax contribution versus the relative contribution to the overall economy of the state; the implications of the bills introduced during the Twenty-Third Legislature, House Bill 470 and House Bill 321; and a comparison of the aforementioned bills with the original income tax legislation.

[8:38:53 AM](#)

CHAIR WEYRAUCH asked if the Department of Revenue would explain the aforementioned legislation.

[8:38:57 AM](#)

MICHAEL WILLIAMS, Auditor, Department of Revenue, turned to the comparison chart entitled, "Projected Income Tax Revenue Comparison of 3 Proposals" which details revenue generated under the prior income tax law, House Bill 470, and House Bill 321. Due to the ramp-up provisions in House Bill 470 and House Bill 321, for comparison purposes it was necessary to estimate the value based on the total annual revenue beyond a third year. According to the chart, if prior law were still in place there would be over \$758 million in personal income taxes.

MR. WILLIAMS, in response to Chair Weyhrauch, replied that the acronym "AGI" stands for "adjusted gross income." He relayed that the chart shows the total aggregate revenue from each gross income class which categorizes the incomes between the lowest, those incomes less than \$20,000, and the highest, incomes over \$200,000. The aggregate revenue from each percentile of income mirrors the information received by the Internal Revenue Service (IRS), which is helpful for comparison purposes, he noted. He reiterated that if the prior income tax law were still in place it would generate \$758 million. He added that if House Bill 470 had been adopted it would have generated \$107 million, and if

House Bill 321 had been adopted it would have generated \$300 million. The House Bill 470 property tax credit provision complicates an accurate projection for the various income percentiles, he related.

CHAIR WEYHRAUCH asked if the figures on the right of the chart were gross revenue and do not account for the state's overhead.

MR. WILLIAMS answered that was correct. He relayed that the chart aggregates beyond the fourth year of enactment because House Bill 470 has a ramp-up provision which effects revenue potential. For instance, the first year expected revenue would be \$19 million, and the second year would be \$55 million.

[8:43:48 AM](#)

REPRESENTATIVE WILSON asked what the implications of House Bill 321 would be without the \$20,000 cap.

MR. WILLIAMS replied that the chart projections don't include that cap because of data limitations. However, due to the tax liability cap of \$20,000 for a single person and \$30,000 for married filing jointly, there will be revenue loss; presumably for incomes over \$1 million because the maximum tax liability will only be \$30,000 to the state.

REPRESENTATIVE WILSON related that the cap was a committee substitute (CS) proposed after people offered testimony. She asked what the case would be without the added CS provisions.

MR. WILLIAMS reiterated that the \$300 million projection doesn't take into account the cap.

[8:45:29 AM](#)

MR. WILLIAMS turned to the chart entitled, "Comparative Analysis", which analyzes "what if scenarios" about the aforementioned income taxes. The first column provides examples of different tax scenarios [i.e. income, home owner, marital status, ect.], which assess the income tax schemes between the federal tax liability and the effective rate of their Alaska tax divided. He noted that the "what if scenarios" shows how the bills could impact any family's deductions, credits, and various rates set.

[8:47:27 AM](#)

CHAIR WEYRAUCH asked if House Bill 321 proposed a link to the constitutional budget reserve (CBR).

MR. WILLIAMS replied that his copy of House Bill 321 doesn't include any link to the CBR.

REPRESENTATIVE ROKEBERG commented that Chair Weyhrauch was referring to a "trigger mechanism," but he cannot recall if it was amended in the aforementioned bill.

[8:48:17 AM](#)

MR. WILLIAMS, in response to Representative Seaton, related his belief that dual income families with a mortgage of \$150,000 or \$225,000 don't pay income tax under House Bill 470. House Bill 470 has a property tax credit provision, which assumes that the individuals living in a city or a borough have a property tax; therefore, they have already paid sufficient property tax such that it would "wipe out" any Alaska income tax liability.

[8:49:12 AM](#)

REPRESENTATIVE WILSON asked what percentage of Alaskans fall into the aforementioned income percentiles.

MR. WILLIAMS relayed that is difficult to answer. According to the U.S. Census Bureau, home ownership in Alaska is roughly 67 percent. However, there is no correlation regarding how the data is distributed on the income scale, he added. In further response to Representative Wilson, Mr. Williams said the property tax credit provision is very substantial in House Bill 470.

[8:50:07 AM](#)

REPRESENTATIVE ROKEBERG relayed that he is interested in the "particulars" of the aforementioned legislation but not the background.

CHAIR WEYHRAUCH replied that the legislation will be analyzed, but first the committee needs a general overview on the implications.

[8:50:28 AM](#)

REPRESENTATIVE SEATON asked if the aforementioned exemptions in House Bill 470 were anomalies.

REPRESENTATIVE ROKEBERG answered the exemptions aren't anomalies and that is why the committee needs to discuss each bill.

[8:50:46 AM](#)

MR. WILLIAMS, in response to Representative Samuels, explained that those individuals who can itemize deductions on their federal income tax returns can include the state income tax as a deduction. Although there is no capability to accurately reflect the aforementioned offset provisions, it wouldn't be a significant impact of revenue under the proposed legislation.

[8:51:53 AM](#)

REPRESENTATIVE SAMUELS asked how much a dual income family with \$150,000 mortgage would pay out-of-pocket.

MR. WILLIAMS relayed the aforementioned example under the prior Alaska law would generate an income tax of \$2,269 and if they were able to itemize deductions 15 percent would save \$340 on their federal taxes.

REPRESENTATIVE ROKEBERG pointed out that the aforementioned doesn't take into account the alternative minimum tax (AMT). He remarked that in 2004 there will be a sales tax offset for the first time in Alaska in decades, and one of the previous concerns regarding the sales tax is it did not have the offset whereas the income tax did; it is yet to be seen how the new provision under federal law allows for a sales tax offset.

[8:53:57 AM](#)

MR. WILLIAMS highlighted that the "self tax deduction" is only allowed for residents living in cities within boroughs that impose a local sales tax. For instance, the residents of Anchorage or Fairbanks do not benefit from that provision, unless they have receipts detailing sales taxes paid elsewhere in Alaska.

MR. DICKINSON added that if the state were to pass a statewide tax, under federal law it would go under the "normal table." He related his belief that Representative Rokeberg was pointing out that a state's choice between income and sales tax doesn't equalize in terms of its relationship with the federal deductibility.

[8:54:57 AM](#)

MR. DICKINSON, in response to Representative Samuels, specified that as a general rule any self-employed or pass-through entity would be included in the \$758 million projection for the previous income tax law. In further response to Representative Samuels, Mr. Dickinson added that although limited liability companies (LLCs) in its current structure were not widely used vehicles in 1977, LLCs would be just taxed once at the owner level.

[8:56:13 AM](#)

REPRESENTATIVE ROKEBERG asked if the committee will discuss the impact of taxation for the adjusted gross sales via Alaska gross products.

MR. DICKINSON replied that the department will address that after the comparison of the three income tax bills.

[8:56:52 AM](#)

MR. DICKINSON, in response to Chair Weyhrauch, replied that there was no presentation prepared that compared the background of the three income taxes other than from the revenue perspective.

[8:58:22 AM](#)

BRETT FRIED, Economist IV, Department of Revenue, turned to the pie chart entitled, "General Fund Revenue by Tax Type Including Oil and Gas", which shows that FY 04 general fund (GF) tax revenue totaled \$1.2 billion of which 82 percent is oil and gas and the remaining 18 percent is non oil and gas totaling \$240 million. He turned to the second pie chart entitled, "GF Tax Revenue Excluding Oil and Gas" which excludes the 82 percent of oil and gas and details the non oil and gas revenues of 18 percent.

[9:00:05 AM](#)

MR. FRIED, in response to Representative Seaton, said the pie chart entitled, "Alaska Gross State Product" doesn't include oil and gas, which he plans to explain later. Mr. Fried continued with detailing the non oil and gas revenues, which includes the following tax types:

Tax Types:	Amount:	Percentage of GF:
insurance premium	\$49 million	20 percent
fisheries	*	19 percent
motor fuel	\$41 million	17 percent
corporation general	\$40 million	17 percent
alcohol	\$33 million	14 percent
tobacco	\$16 million	7 percent

[ \* amount unstated]

[9:01:26 AM](#)

REPRESENTATIVE ROKEBERG pointed out that the pie chart shows 1 percent for mining, and asked if the mining portion includes the real and personal property taxes paid to organized boroughs.

MR. FRIED replied that the chart only includes the GF taxes; therefore, it excludes the local sales taxes, property taxes, and restricted revenues. In further response to Representative Rokeberg, Mr. Fried related that fish tax is GF revenue as are the aforementioned share tax revenues. In contrast, the school fund is a dedicated fund that excludes any local sales tax.

[9:02:39 AM](#)

REPRESENTATIVE ROKEBERG opined that the Red Dog mine's tax contribution to the Northwest Arctic Borough cannot be truly represented by 1 percent. He recalled that the legislature has made policy calls for investment credits for mining incentives. He said he is interesting to see the gross government take versus the state GF take.

CHAIR WEYRAUCH commented that the fish tax doesn't go to the GF, but instead it's re-appropriated to specific purposes.

[9:03:32 AM](#)

REPRESENTATIVE ROKEBERG related that he is interested "to see who was paying what freight." He added that the oil and gas component on the real property tax for the North Slope Borough, Fairbanks, and Valdez are significant, "so it should be apples

and oranges anyway." In response to Chair Weyhrauch, Representative Rokeberg clarified it's "apples and oranges" when comparing the sources of funds with the tax burdens placed on the different industries.

[9:04:11 AM](#)

REPRESENTATIVE SEATON remarked that the fish tax includes the raw fish taxes collected, which is shared back to the communities where the revenue was generated, but it excludes the severance taxes charged by boroughs like Kodiak which has a 7.5 percent severance tax on all fish products landed. Therefore, the total burden for each industry would be helpful to see.

MR. DICKINSON related that [the division] would take that assignment, although those diagrams will be open to varying interpretations.

MR. FRIED added that "other revenue sources" such as licensing, permits, fines, forfeitures, and charges for services are not included because they are difficult to break down.

CHAIR WEYHRAUCH asked if there was a ballpark estimate on the other revenue sources.

MR. FRIED replied not at this time.

MR. DICKINSON added that the taxes in the GF amount to \$300 million, and reiterated that other categories are more complex to define.

MR. FRIED reiterated that the other categories deal with restricted revenues like the Alaska Department of Fish and Game permits, which total \$20 million, or the tobacco settlement revenue. To help highlight his point he turned to the pie chart entitled, "Alaska Gross State Product," detailing the gross economic measure of output in the economy.

[9:07:56 AM](#)

REPRESENTATIVE WILSON recalled that fisheries wanted to be taxed in order to fund the cuts to the Alaska Department of Fish and Game. She then turned to the aforementioned chart and asked for an explanation on the yellow portion entitled, "Insurance Premium."

MR. FRIED related that the yellow portion represents the insurance premium tax that insurance companies pay in lieu of corporate income taxes or other state taxes.

CHAIR WEYHRAUCH, for clarification purposes, asked if the insurance tax is based on the premiums paid by individuals and entities.

MR. FRIED replied yes.

[9:09:55 AM](#)

REPRESENTATIVE GRUENBERG relayed that the committee is interested in the various sources of revenue, including sub-categories that detail all the fines, royalties, exemptions, and credits. He said that he is specifically interested in university tax credits on a yearly basis, and how those vary over time versus the maturity of other developing credits.

MR. DICKINSON related that the Department of Revenue does a credits and operations report required by statute which sets out all credits taken. The Revenue Sources Book lists all the governmental fund revenues, such as taxes and charges for services, which accounts for \$4 billion. He reiterated that how the line is drawn regarding what to account for makes the exercise "more or less useful and more or less difficult."

REPRESENTATIVE GRUENBERG reiterated that gathering the aforementioned information would be helpful for the committee.

[9:13:27 AM](#)

CHAIR WEYHRAUCH said that he would note the committee's requests for information.

REPRESENTATIVE ROKEBERG offered that it might be helpful if Representative Gruenberg put his request in writing.

REPRESENTATIVE GRUENBERG clarified that he made a general request to have all the information put into a form for all the committee members, [specifically for] university tax credits.

REPRESENTATIVE ROKEBERG noted that the requested information is already in the Revenue Source Book. He noted that the 20 percent insurance premium tax generates \$49 million, which is a larger portion than the general corporate taxes. Representative Rokeberg asked if the \$9-12 million in mutual fund type fees

from the Division of Banking and Securities was still a source of income.

MR. FRIED replied that the aforementioned revenue is aggregated with "supported services" under charges for services in the sources book. In further response to Representative Rokeberg, Mr. Fried said the aforementioned is not included in the chart because it's a charge for services and not tax revenue.

[9:16:14 AM](#)

REPRESENTATIVE SEATON related that he is concerned that the insurance premium tax accounts for a large portion of the [GF]. He asked if a comparison on the insurance premium tax versus the corporation general tax was available.

MR. DICKINSON replied that most states have gone to this methodology because the nature of insurance company income is hard to track. In further response to Representative Seaton, Mr. Dickinson reiterated that the insurance premium tax was in lieu of a corporate tax.

[9:18:13 AM](#)

REPRESENTATIVE GRUENBERG asked if some states are looking at other ways to tax "banks and financial institutions" through a general corporate tax.

MR. DICKINSON related his belief that some states deal with financial institutions in different measures than the typical gross income; however, he related the need to do more research before commenting on specifics.

REPRESENTATIVE GRUENBERG said he was very interested in knowing more about that.

MR. DICKINSON related that he has taken note of the assignment.

REPRESENTATIVE GRUENBERG asked if other state's industries, because of sophisticated technology, are getting away from the general corporate tax and are examining alternative ways of taxing specific industries that may be more realistic.

MR. DICKINSON offered that he would rather not speculate before obtaining more information, however, he noted that in Alaska telephone and electric cooperatives are exempted from income taxes and pay a fee calculated on its economic output. He

highlighted that the pie chart entitled, "General Fund Tax Revenue Excluding Oil and Gas" details an electrical and telephone cooperative portion of 2 percent. In further response to Representative Gruenberg, Mr. Dickinson reiterated that the department would try to obtain more information.

[9:21:07 AM](#)

REPRESENTATIVE SEATON clarified "that answer was good enough for me."

[9:21:26 AM](#)

REPRESENTATIVE SAMUELS surmised that if an entity like WalMart lost money nationally, it wouldn't pay tax in Alaska despite the success of the store.

MR. DICKINSON said correct because WalMart's income is based on its national [revenue accrual].

MR. WILLIAMS cautioned about using such analogies because separate accounting issues are open to manipulation, as are other methods of accounting.

[9:22:19 AM](#)

CHAIR WEYHRAUCH asked whether the issue of the mining tax burden has been fully addressed.

[9:22:46 AM](#)

REPRESENTATIVE ROKEBERG said the [legislature] needs to understand shared revenue tax policies, and the impact of the government's take. He remarked that the [legislature] should be sensitive to changing tax policies including encroaching on sales tax areas, which in turn impacts the government because it's partly dependant upon these industries.

MR. DICKINSON noted that the next step in the aforementioned analysis would be to account for the services the [industries] receive from the government and how to differentiate those services by industries, which "isn't necessarily a transparent set of numbers to calculate."

[9:23:36 AM](#)

REPRESENTATIVE SAMUELS asked, for clarification purposes, if S corps, private practices, or LLCs pay no taxes at all.

MR. DICKINSON related that when an LLC files a federal return it has the option of creating a "pass through," which pays no taxes in certain cases, and the owners receive their due share of the income to pay taxes when appropriate. In further response to Representative Samuels, Mr. Dickinson said that under the current law S Corporations are taxed the same as C Corporations. If [House Bill 321 and House Bill 470] had been implemented, it would generate \$30 million.

[9:25:13 AM](#)

MR. DICKINSON, in response to Representative Gruenberg, replied that S corporations taxes pass through to the owners. In the state of Alaska those owners pay federal tax but no income taxes, however, in other states owners are subject to both the federal and income taxes.

REPRESENTATIVE GRUENBERG asked if the \$30 million was "really lost to the state."

MR. DICKINSON reiterated that the calculations are based on taxing at the entity level; not taxing both the pass through and personal income tax because that would combine the federal income tax and state income tax.

[9:26:45 AM](#)

MR. FRIED returned to the pie chart entitled, "Alaska Gross State Product" and said the data was from the Bureau of Economic Analysis, which uses the North American industrial classification system methodology for government entities to classify industries, earnings for employment, and the gross state product. The mining portion is "broken out" into the following components: oil and gas extraction is 16 percent, support activities and mining excluding oil and gas is 2 percent. The aforementioned body classifies the following industries accordingly: the oil and gas extraction under "Mining" is also categorized under "Manufacturing" and "Transportation"; fish is under "Agriculture, forestry, fishing, and hunting" and only includes fish harvesting; and seafood processing would be under "Manufacturing", of which 1 percent would be the seafood processing. He concluded that the tourism industry is especially hard to break out because of all the different aspects tourism encompasses.

[9:29:44 AM](#)

MR. FRIED, in response to Representative Rokeberg, said that in 2002, according to the U.S. Department of Commerce, Alaska's gross state product was \$29.7 billion.

[9:30:08 AM](#)

REPRESENTATIVE ROKEBERG said "It's kind of interesting to see the mining versus the seafood and fishing component ... It's kind of shocking in a way. Is this because of offshore processing ... or added value isn't working here, or what?"

[9:30:35 AM](#)

REPRESENTATIVE SEATON replied that the mining, 21 percent, included oil. He asked if 2 percent of that portion includes minerals.

MR. FRIED clarified that 2 percent was mining except oil and gas; the oil and gas part only includes the oil and gas extraction component which is 16 percent. The remaining 3 percent is from the support activities, which also includes oil and gas support activities, he added.

[9:31:33 AM](#)

MR. DICKINSON relayed that the lines used to define the industries may not be exactly what the committee asked for, but the graphs show the data with which the Department of Revenue was allowed to work. The next step would be to define the project and areas more precisely. He added that the department [doesn't have] the ability or resources to allow this research, or the statutory authority to conduct this conservatism or sensitive information. Therefore, it uses the data available and it may not line up with the categories the committees think of as being the primary ones that should be compared.

[9:32:46 AM](#)

REPRESENTATIVE ROKEBERG asked if the aforementioned pie chart included "medical provider" under "Services 20%".

MR. FRIED replied that is correct.

[9:33:01 AM](#)

REPRESENTATIVE ROKEBERG pointed to the chart entitled, "Alaska Gross State Product", which details real estate accounts for 9 percent of the gross product; he opined that real estate accounts for at least half of the gross product of oil and gas.

[9:33:19 AM](#)

CHAIR WEYHRAUCH said the committee should briefly discuss the income tax legislation. He related his understanding that House Bill 470 was concerned with people coming into the state, such as those working in fisheries and oil and gas, and contributing to local government.

[9:34:15 AM](#)

REPRESENTATIVE MOSES said:

That's correct, the chances of a non resident worker having property tax credit would be quite remote and if [they] did invest in the state [they] would be entitled to that credit. There's another catch to that, areas of the state that do not have property taxes would not get any credits either. [The] original intent was to get something on the table and the percentage of tax could be adjusted according to whatever [the legislature] wanted to raise. [Are] fishermen are considered independent businessmen or labor? In the settlements they get a 1099 and there's no taxes withheld. I would expect they would be classified as independent businessmen.

[9:35:34 AM](#)

REPRESENTATIVE SEATON relayed that under the previous tax, fisherman who received a 1099 filed as a business under state law and wrote a 14 percent check for their federal taxes. He remarked that the state shouldn't set up a tax for "just the employed" and fishermen should pay the same taxes as any other businessmen.

[9:36:28 AM](#)

REPRESENTATIVE ROKEBERG said:

I have never been a great fan of writing checks to government's taxes, like most of [the] constituents

and the citizens of state, so I preface the remark I am about to make .... I want to compliment Representative Moses, I have always been intrigued with this concept that he brought forward a number of years ago. It has the beauty of being more of like a rifle approach to those elements of the working public in our state that [don't] make a contribution, that is more specifically the out-of-state workers and the unorganized borough. Because by allowing a real property tax credit against your liability those people who own property - and a matter of fact, ... I have a legal opinion that says not just residential property, but it would be any owner of property that paid property taxes in the state of Alaska would have to be allowed to have the credit for equal protection in the constitution provisions - but ... it has that element that has been one of the leading arguments for some type of a broad-based type tax because there was people in our labor force coming to the state and not making a contribution; and this would also lower the burden on everybody ... this is drafted on the original draft; there has never been a lot of work on the bill, that shows those holes in middle income .... The principle of the exemption ... is something that should be considered in any future tax scheme in Alaska and it could be applied to any of the other bills ....

[9:39:18 AM](#)

REPRESENTATIVE WILSON said that many people who don't own property still pay [property tax] indirectly because landlords pass their expenses on to renters.

REPRESENTATIVE SAMUELS added that if you don't have a [property tax] exemption, the cost for rent will increase because costs always pass through to renters.

[9:40:53 AM](#)

CHAIR WEYRAUCH asked if House Bill 321 tied into the value of the constitutional budget reserve (CBR) regarding when that proposed income tax would "kick in."

[9:41:18 AM](#)

REPRESENTATIVE WILSON said she couldn't recall if the CBR was incorporated into House Bill 321. However, she highlighted that the proposed tax included requirements by which a warning about taxation was printed on commercial fishing license applications. The aforementioned requirement is found in Section 1 of House Bill 321, which specifies that notice be printed on the commercial fishing license warning that the licensee is obligated to pay Alaska state income tax and federal income tax. Section 2, imposes an income tax of 3 percent of a person's federal taxable income or \$100, whichever ever is greater. She added that provision is incorporated to ensure everyone paid something and the low income base is covered. Section 3 is a conforming amendment to a corporate income tax. Section 4 required taxpayers to file returns and remit their taxes the same day the federal return was due and those that owed a \$100 could have the tax deducted from the permanent fund, if they so wished. She added that non residents whose only income from the state is from a trust or corporation could opt to withhold the taxes and file their returns. The tax liability is capped at \$20,000 for single individuals and \$30,000 for married filing jointly. She reiterated that the legislation was trying to appease everyone and it resulted in a floor of \$100 and a ceiling not to exceed \$30,000. The legislation also tried to incorporate the education tax and it set an employee age limit of 19. Furthermore, there was a provision that allowed employers to withhold some of that tax.

[9:45:02 AM](#)

MR. DICKINSON related that last session Representative Wilson introduced another tax bill that included the CBR.

[9:45:32 AM](#)

MR. WILLIAMS, in response to Chair Weyhrauch, relayed that the graph entitled, "Projected Income Tax Revenue" has asterisks across the House Bill 470 row, because it's difficult to produce a distributional analysis of the revenue generated from each class of income. He explained that the methodology used an aggregate approach for the total revenue because it had to assume the rate of home ownership and who would be eligible for those credits. In further response to Chair Weyhrauch, Mr. Williams said \$107 million was the estimated total gross income from the taxes implemented under House Bill 470.

[9:47:13 AM](#)

MR. DICKINSON recalled that Representative Wilson's legislation for the billion-dollar CBR floor and suspension of the tax when it was greater than \$2.5 billion was House Bill 236.

CHAIR WEYHRAUCH noted that the questions regarding the legal technicalities of using the CBR and the permanent fund earnings to fill the fiscal gap have yet to be received.

[9:48:16 AM](#)

REPRESENTATIVE ROKEBERG turned to the "2002 Revenue Source Book" analysis on income tax, detailing the revenue of the [original income tax]. He asked if the reason the spreadsheet shows \$750 million adjusting for inflation to \$660 million is because of nominal versus inflated dollars.

MR. WILLIAMS said that is correct, the old law unchanged would be [\$750 million] but if the brackets had been adjusted for inflation then it would be \$660 million. He related his belief that the old law wouldn't survive intact to the present because there would have been a tax revolt such that the brackets would have been simplified and the personal income more than likely would have regressed to a more national average, which is roughly 6 or 7 percent of federal taxable income generating an estimated \$300-\$350 million. In further response to Representative Rokeberg, Mr. Williams reiterated that the \$750 million is a true representation if the old law were in place and remained unchanged.

[9:50:52 AM](#)

MR. WILLIAMS, in response to Representative Rokeberg, replied that the "Tax Division Annual Report" Appendix B includes a chart showing the personal income tax rate of the various states in the nation, which range from 5-6 percent based on the federal taxable income. He added that the effective rate of the old income tax, if it had remained intact, would have made Alaska the highest taxing state in the nation.

[9:52:44 AM](#)

MR. WILLIAMS, in response to Chair Weyhrauch, said the old income tax would generate \$660 million and oil and gas taxes are about \$2 billion. In further response to Chair Weyhrauch, he said in comparison the old law would generate approximately one quarter of what oil and gas generates.

[9:53:23 AM](#)

REPRESENTATIVE ROKEBERG commented that it's important to pursue the last line of questioning because it's important to consider [income taxes] in a national context and address "whether the state can afford itself." The committee needs to look at the potential anticipated revenue streams and assess what can be relied on for the future, he opined. For instance, the aforementioned \$750 million would not be a potential tax revenue stream because it would cause a "mutiny."

CHAIR WEYHRAUCH added it would cause an outflow of industry.

REPRESENTATIVE ROKEBERG added that the impacts on the economy would be devastating.

**ADJOURNMENT**

[9:54:28 AM](#)

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 9:54 a.m.