

HOUSE FINANCE COMMITTEE

April 14, 2016

2:08 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 2:08 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair  
Representative Steve Thompson, Co-Chair  
Representative Dan Saddler, Vice-Chair  
Representative Bryce Edgmon  
Representative Les Gara  
Representative Lynn Gattis  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Cathy Munoz  
Representative Lance Pruitt  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Randall Hoffbeck, Commissioner, Department of Revenue;  
Jerry Burnett, Deputy Commissioner, Treasury Division,  
Department of Revenue; Brandon S. Spanos, Deputy Director,  
Tax Division, Department of Revenue; Jane Pierson, Staff,  
Representative Steve Thompson.

SUMMARY

HB 194 AK SECURITIES ACT; PENALTIES; CRT. RULES

CSHB 194(FIN) was REPORTED out of committee with a "no recommendation" recommendation and with two previously published zero fiscal notes: FN2 (ADM), FN3 (CED).

HB 249 ELECTRONIC TAX RETURNS & MOTOR FUEL TAX

HB 249 was HEARD and HELD in committee for further consideration.

HB 250 INDIV. INCOME TAX: CREDITS; RETURNS

HB 250 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson discussed housekeeping.

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#hb250

HOUSE BILL NO. 250

"An Act relating to the taxation of income of individuals; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

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RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, relayed that the legislation was the largest component of the New Revenue section of the governor's Sustainable Alaska Plan, and would generate approximately \$200,000,000. He furthered that the tax was based on 6 percent of the federal tax liability. He assured the committee that the stat was not proposing to create its own set of tax tables, or exemptions, or credits, but was relying on the federal tax system. He hypothesized that a family of 4, making \$50,000 per year, would pay approximately \$15 in state tax under the proposal. He added that the first person that would pay 1 percent of their gross earnings would be a single filer, making \$100,000 per year, and would pay just over \$1000 in tax. He believed that the tax was modest when compared to incomes taxes in other states. He said that if the bill were passed as proposed, the tax would be the lowest in the nation.

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Representative Gara expressed reluctance to support the legislation. He supported the effort in pushing various revenue proposals, but wondered why the state would choose the lowest income tax in the nation.

Commissioner Hoffbeck explained that the governor had thought that small, incremental adjustments to existing taxes, in addition to a small income tax, would spread the burden across all Alaskans.

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Representative Gara wondered whether the administration had planned on raising the income tax in the future in order to close the budget gap.

Commissioner Hoffbeck responded in the negative.

Representative Gara spoke to the equitability of the tax. He suggested that the wealthy lived off of capital gains, which had a federal tax of 15 percent. He said that many Alaskans paid 29 percent in income tax. He thought that the bill would mean that those living off of capital gains would pay less than a 1 percent tax on their income.

Commissioner Hoffbeck replied that it was a possibility.

Representative Gara suggested that a very wealthy person, living on capital gains, would pay a lower tax rate than a person who "worked for a living".

Commissioner Hoffbeck thought that the assessment was broad. He admitted that there were provisions within the federal tax structure that provided for certain capital gains benefits. He said that many states had special capital gains taxes to address the issue. He said that the tax was meant to be as simple and noncontroversial as possible.

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Vice-Chair Saddler expressed concerns that the tax would increase over time.

Commissioner Hoffbeck noted that the state used to have an income tax, which was repealed and replaced by oil and gas revenue. He believed that protections lay in the totality of the governor's proposed fiscal package, as well as in spending caps initiated by the legislature. He said that provisions could be created that would make it difficult to increase the tax.

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Vice-Chair Saddler opined that spending increases in government could lead to an increase in the income tax.

Commissioner Hoffbeck replied that raising of the tax would be at the discretion of the legislature.

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Representative Wilson asked whether there would be a specific line on the federal tax return to accommodate the payment of the income tax.

Commissioner Hoffbeck replied that the tax would be 6 percent of the "total tax liability" line on federal filing documents. He added that there would be a few provisions that would impact some, but the majority of people would multiply their federal tax liability by 6 percent to determine their personal income tax.

Representative Wilson asked whether the department had performed an analysis on the personal income tax versus a sales tax.

Commissioner Hoffbeck responded that the government expenditure that supported a sales tax or an income tax were not materially different. He noted that it cost the same thing to administer a 6 percent sales tax versus 15 percent. He felt that by having a low tax rate, the cost of the administration of the tax was higher, but the difference in administrative cost between the income tax and the sales tax was minimal.

Representative Wilson wondered why the administration chose to implement a small income tax, coupled with motor fuel and fish taxes, rather than one large income tax.

Commissioner Hoffbeck reiterated that the governor felt that rather than have one tax bear the entire burden, the burden should be spread across multiple layers of the state's economy.

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Representative Wilson requested assurances that budget cuts and taxes would be spread equally across the residents of Alaska.

Commissioner Hoffbeck did not have an analysis that showed how each group in the state would be affected. He did not believe that a system could be created that would absolutely spread the burden equally across the board.

Representative Wilson was glad that all taxes being discussed at the same time. She feared that raising taxes could result in people moving out of state.

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Representative Guttenberg mentioned the balancing of the burden on Alaskans. He asked Commissioner Hoffbeck to comment on some of the criticism from the public related to the proposed taxes and Permanent Fund reductions.

Commissioner Hoffbeck replied that dividend check was defined by a formula. He contended that the income tax would be the lowest in the nation, and that dividends would still be paid.

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Representative Guttenberg mentioned the legislature working on a bill on tax credits. He wondered whether it was fair to pay out tax credits to the oil industry, while taxing Alaskans and capping the dividend.

Commissioner Hoffbeck responded that under the governor's plan the credit liability would be rolled back by \$400,000,000. He mentioned the governor's efforts to make sure the public was aware of how the oil tax credits were being used. He spoke of the rhetoric concerning the public concern about the credits, but asserted that the credits were substantially less than in the past.

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Representative Guttenberg asked whether the amount of credits currently in place justified the return to the state.

Representative Wilson noted a point of order.

Co-Chair Thompson requested that conversation be limited to the subjects contained in HB 250.

Representative Guttenberg thought that the credit issue was germane to the discussion about balancing the fiscal burden on the people of the state.

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Co-Chair Thompson referred to an analysis of the governor's plan by Gunnar Knapp.

Commissioner Hoffbeck noted that Mr. Knapp's presentation did not get into the specifics of the oil and gas tax.

Co-Chair Thompson said that the analysis covered the income tax and the different components of the governor's plan.

Commissioner Hoffbeck agreed.

Vice-Chair Saddler understood that the administration had contracted with economists to assess the impact of cutting state jobs to the economy. He wondered whether specific modeling on the income tax had been done.

Commissioner Hoffbeck stated that Mr. Knapp had included an analysis on broad based taxes in his presentation.

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Vice-Chair Saddler asked whether the presentation had included analysis on an income tax.

Commissioner Hoffbeck clarified that there were two different version of an income tax that had been modeled in the presentation.

Vice-Chair Saddler requested clarification as to the type of taxes assessed in the presentation.

Commissioner Hoffbeck clarified that Mr. Knapp had looked at a flat rate income tax, and a progressive income tax, as well as a sales tax.

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JERRY BURNETT, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, interjected that Mr. Knapp referred to both an analysis of sales tax with few exclusions, and a sales tax with multiple exclusions.

Co-Chair Thompson clarified that income tax was the topic.

Vice-Chair Saddler was confused about what had actually been modeled. He remarked about the effects of a cut in the dividend would hurt the poor, and an income tax would affect the rich. He said that he expected to see further analysis of the proposed income and sales taxes.

Commissioner Hoffbeck stated that all of the information was in the report.

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Representative Gara surmised that the dividend could drop to \$400, under the governor's proposal, which for some Alaskans was 20 percent of their yearly income. He questioned the fairness of the proposed dividend cut, compared to the proposed income tax.

Commissioner Hoffbeck stated that the wealthiest people of the state would be paying in the highest tax bracket, or 3.87 percent, under the income tax. He did not agree with Representative Gara's statement that the wealthiest people would only be paying a 1 percent tax. He continued that the reduction in the size of the dividend will have a greater impact on lower income families. He admitted that it was not a perfect balance, but was crafted to be as fair as possible across the board.

Co-Chair Thompson asked whether the lowest income earners in the state would pay income taxes.

Commissioner Hoffbeck replied in the negative.

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Representative Gara argued that the cuts and taxes would not be balanced until a fair oil tax credit bill was crafted. He contended that the federal capital gains tax would be less than 1 percent for the very rich.

Commissioner Hoffbeck confirmed that 6 percent of 15 percent was less than 1 percent.

Representative Kawasaki referred to a Rasmussen and Institute for Tax and Economic Policy report that noted that the Permanent Fund proposal was regressive, and the income tax proposal was progressive, and asked whether the low income tax proposed meant that the poor would be hit hardest by the governor's plan.

Commissioner Hoffbeck replied that the report being referred to had assumed a \$2000 dividend. He reminded the committee the formula used to determine the dividend had been structured 30 years ago, and that any plans for using the earnings reserve required a restructuring of the formula. He said that the restructured formula would have an impact on the size of the dividend, and smaller dividends would impact low income families greater because it was a larger portion of their overall income. He argued that the same amount was being taken from each Alaskan's dividend. He asserted that the income tax would be progressive in an attempt to balance the burden. He stressed that the proposals were necessary in order to address the budget deficit. He corrected that income tax to the wealthy would be 2.38, and not 3.87.

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Representative Kawasaki spoke to the progressive element of the proposal. He indicated that people counted on the dividend as income. He asked whether the governor had done other modeling with higher income tax rates.

Commissioner Hoffbeck responded that originally the governor looked at 15 percent of the federal tax rate. He reminded the committee that the dividend for 2013 had been less than \$1000.

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Vice-Chair Saddler thought "fair" was a subjective term. He wondered whether there were people in Alaska who earned their living through investment income.

Commissioner Hoffbeck said that he could provide the information at a later date.

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Representative Edgmon felt that the different taxes would affect different groups in various ways. He wondered whether an analysis had been done in order to understand the impacts on various demographics statewide.

Commissioner Hoffbeck said that he could not provide a detailed analysis on how the plan would affect specific individuals in the state.

Representative Edgmon prophesized that an income tax would not pass during the current year. He said that people in his district preferred an income tax over a sales tax and were concerned about the regressive nature of a dividend cap.

Commissioner Hoffbeck asserted that the administration had spent the past interim conducting conversations with the public in order to educate the people on the issues. He relayed that Alaskans understood the need for new revenue in closing the \$4 billion deficit gap. He contended that the issue of generating new revenue would come before the legislature year-after-year until the problem was solved, and warned that during that time, the state's savings would be depleted.

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Representative Munoz understood that trust income distributions to non-residents would be taxed under the legislation.

Commissioner Hoffbeck replied that the issue had been brought to the attention of the administration, and that an amendment would be happily considered; the state would not benefit from taxing the trusts. He said that there was a strong argument for exemption.

Representative Munoz understood that business would immediately go to other states if Alaska implemented a tax on the income from the trusts.

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Representative Munoz whether Alaska would be the only state that structured its income tax as a percentage of the

federal tax liability, and not as a percentage of actual income.

Commissioner Hoffbeck confirmed that Alaska would be using the federal tax structure.

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Representative Munoz asked whether structuring the tax under the federal tax structure could cause a constitutional conflict.

Commissioner Hoffbeck indicated that the administration was aware of the potential conflict.

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Representative Gara queried the rate of the state's previous income tax.

Commissioner Hoffbeck deferred the question to Mr. Spanos.

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BRANDON S. SPANOS, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, informed the committee that in 1975, Alaska decoupled from the federal income tax liability and had an autonomous tax bracket, which ranged from 3 to 14.5 percent of federal taxable income.

Representative Gara commented that the rate was substantially higher in the 70's. He asked why the administration would choose a plan that benefitted the state's most wealthy residents, while penalizing low income earners.

Commissioner Hoffbeck reiterated that the governor thought his plan was a balanced plan.

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Representative Guttenberg thought that the commissioner was internally tweaking the bill in respect to trusts and federal obligations. He requested an explanation of changes to provide a current analysis of the legislation.

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Vice-Chair Saddler asked whether the state income tax could be deducted from the federal income tax, or vice versa.

Commissioner Hoffbeck replied that any tax that was deductible against the federal income tax would by default become deductible against the state tax. Additionally, the state income tax would be a deduction against the federal income tax.

Vice-Chair Saddler clarified that the filer had to itemize in order to get the deductions.

Commissioner Hoffbeck agreed.

Vice-Chair Saddler queried the income limit for itemization.

Commissioner Hoffbeck did not have an answer.

Mr. Spanos spoke to the standard deduction for necessary itemization. He said for individuals the standard deduction was \$6300, and for a married couple filing jointly it was \$12,600.

HB 250 was HEARD and HELD in committee for further consideration.

#hb194

HOUSE BILL NO. 194

"An Act repealing and reenacting the Alaska Securities Act, including provisions relating to exempt securities and transactions; relating to registration of securities, firms, and agents that offer or sell securities and investment advice; relating to administrative, civil, and criminal enforcement provisions, including restitution and civil penalties for violations; allowing certain civil penalties to be used for an investor training fund; establishing increased civil penalties for harming older Alaskans; retaining provisions concerning corporations organized under the Alaska Native Claims Settlement Act; amending Rules 4, 5, 54, 65, and 90, Alaska Rules of Civil Procedure; and providing for an effective date."

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Co-Chair Thompson announced his intention to move the bill out of committee.

Vice-Chair Saddler MOVED to ADOPT the proposed committee substitute for HB 194, Work Draft (29-GH1060\S). There being NO OBJECTION, it was so ordered.

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JANE PIERSON, STAFF, REPRESENTATIVE STEVE THOMPSON, testified that the change from version I to version S was a higher standard for violations of the chapter; it has been moved from "knowingly" to "intentionally". She noted that the changes were reflected on Page 13, line 2; Page 88, line 26; Page 89, line 2; Page 89, line 12.

Co-Chair Thompson solicited questions from the committee.

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Representative Wilson appreciated all of the work on the current draft of the legislation.

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Vice-Chair Saddler reviewed the fiscal notes, both were zero, with no additional positions.

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Vice-Chair Saddler MOVED to REPORT CSHB 194 (FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 194(FIN) was REPORTED out of committee with a "no recommendation" recommendation and with two previously published zero fiscal notes: FN2 (ADM), FN3 (CED).

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AT EASE

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RECONVENED

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#hb249

HOUSE BILL NO. 249

"An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the motor fuel tax; and providing for an effective date."

Vice-Chair Saddler MOVED to ADOPT the proposed committee substitute for HB 249 (FIN), Work Draft (29-GH2912\G). There being NO OBJECTION, it was so ordered.

Ms. Pierson stated that the legislation was a combination of the fisheries taxes, the mining taxes, and the motor fuel taxes. She read from the sectional analysis:

**Alaska Commercial Fisheries Entry Commission**

Section 1: Amends AS 16.43.160 (c) - Removes the \$3000 cap for entry permits and interim use permits in entry into Alaska Commercial Fisheries

**Royalty Payments for Mining**

Section 2: Amends AS 27.30.030 (a) -eliminates the use of credits for royalty payment

Section 3: Conforming language to re-numeration in section 2

Section 4: Amends AS 27.30.40 - Removes royalty payment period from credits that be carried forward

Section 5: Amends AS 27.30.050 - Removes royalty payment periods from the limit of applications of credits

**Electronic Filing**

Section 6: Adds new section, AS 43.05.045 - Electronic filing reporting, provides a 5 year exemption

Section 7: Adds new section, AS 43.05.220 - penalty for failure to comply with electronic filing

Section 8: Amends AS 43.31.111 - changes notification of death for tax filings

### **Motor Fuel Tax**

Section 9: Amends AS 43.40.010 (a) motor fuel tax on fuel sold or transferred  
**Motor Fuel** - changes the tax rate to 16 cents from 8 cents  
**Aviation Gasoline** - changes the tax rate to 7 cents from 4.7 cents  
**Watercraft Motor Fuel** - changes the tax rate to 10 cents from 5 cents  
**Aviation Fuel** - changes the tax rate to 6.5 from 3.2 cents

Section 10: Amends AS 43.40.010 (b) motor fuel tax on fuel consumed by user  
**Motor Fuel** - changes the tax rate to 16 cents from 8 cents  
**Aviation Gasoline** - changes the tax rate to 7 cents from 4.7 cents  
**Watercraft Motor Fuel** - changes the tax rate to 10 cents from 5 cents  
**Aviation Fuel** - changes the tax rate to 6.5 from 3.2 cents

Section 11: Amends AS 43.40.030 (a) - changes the non-highway use refund to 12 cents from 6 cents

### **Alcohol Tax**

Section 12: Amends AS 43.60.020 (a) - changes filing requirements for filing reports

### **Mining Tax**

Section 13: Amends AS 43.65.101 (a) - changes tax exempt for new production to 3 years from 3.5 years

Section 14: Amends AS 43.65.010 (c) - License tax rates on net income  
Changes the tax rate for taxpayers, excess over \$100,000 to 8 cents from 7 cents

Section 15: Amends AS 43.65.020 (d) - changes filing requirements for filing tax returns

Section 16: Amends AS 43.65.030 - Changes mining application fees and renewals to \$50 and changes date for filing to January 1st from May 1st of each license year

### **Fish Business Tax**

Section 17: Amends AS 43.75.015 (a) - Fisheries Business License Tax  
**Salmon Canned Shore-based Business** - changes tax rate to 5 percent from 4 percent  
**Salmon Processed Shore-based Business** - changes tax rate to 4 percent from 3 percent  
**Floating Business** - changes tax rate to 6 percent from 5 percent

Section 18: Amends AS 43.75.015 (b) Developing Commercial Species - Fisheries Business License Tax  
**Developing Commercial Species Fisheries Shore-based Business**- changes tax rate to 4 percent from 1 percent  
**Developing Commercial Species Fisheries Floating Business** - changes tax rate to 4 percent from 1 percent

Section 19: Amends AS 43.75.015 (d) Direct Marketing Developing Commercial Species - Fisheries Business License Tax  
**Developing Commercial Species Fisheries** - changes tax rate to 4 percent from 1 percent  
**Commercial Fish Species** - changes tax rate to 4 percent from 3 percent

Section 20: Amends 43.75.030 (b) - changes filing requirements for filing tax returns

Section 21: Amends AS 43.75.130 (a) - 1 percent of tax revenue is deposited in general fund the remaining balance is divided by formula for local municipalities and governments as currently in statute

**Fish Resource Landing Tax**

Section 22: Amends AS 43.77.010 -Fish Landing Tax  
Developing commercial fish species - changes tax rate to 4 percent from 1 percent  
All other fish species - changes tax rate to 4 percent from 3 percent

Section 23: Amends AS 43.77.060 (a) - 1 percent of tax revenue is deposited in general fund the remaining balance is divided by formula for local municipalities and governments as currently in statute

Section 24: Amends AS43.77.060 (b) - 1 percent of tax revenue is deposited in general fund the remaining balance is divided by formula for local municipalities and governments as currently in statute

**Uncodified Law**

Section 25: Establishes Mining Tax Working Group

Section 26: Applicability for all statutes referenced

Section 27: Transitional provision to accommodate regulations

Section 28: Established an immediate effective date for Section 27

Section 29: Establishes an effective date of July 1, 2016 for Section 1-26

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HB 249 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson reviewed the agenda for the day. He relayed that amendments for HB 245, HB 249, and HB 250 were due to his office by 5:00 pm Friday, April 15, 2016.

Co-Chair Thompson recessed the meeting to the Call of the Chair. [Secretary Note: the meeting never reconvened.]

#

ADJOURNMENT

3:14:03 PM

The meeting was adjourned at 3:14 p.m.