

HOUSE FINANCE COMMITTEE
FOURTH SPECIAL SESSION
June 2, 2016
3:03 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 3:03 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; Ken Alper, Director, Tax Division, Department of Revenue; Representative Louise Stutes; Representative Sam Kito; Representative Liz Vasquez; Lora Reinbold; Representative Andy Josephson; Representative Gabrielle LeDoux.

PRESENT VIA TELECONFERENCE

Brandon S. Spanos, Deputy Director, Tax Division, Department of Revenue.

SUMMARY

HB 4003 MOTOR FUEL TAX

CSHB 4003(FIN) was REPORTED out of committee with "no recommendation" and with one fiscal impact note from the Department of Revenue.

HB 4004 INDIVIDUAL INCOME TAX

HB 4004 was HEARD and HELD in committee for further consideration.

HB 4005 MINING: LICENSE,TAX, FEES; EXPLOR. CREDIT

There being NO further OBJECTION, CSHB 4005(FIN) was REPORTED out of committee with "no recommendation" and with one fiscal impact note from the Department of Revenue.

HB 4006 FISHERIES: TAXES; PERMITS

There being NO further OBJECTION, CSHB 4006(FIN) was REPORTED out of committee with an "amend" recommendation and with one fiscal impact note from the Department of Revenue.

Co-Chair Thompson discussed the meeting agenda.

#hb4003

HOUSE BILL NO. 4003

"An Act relating to the motor fuel tax; and providing for an effective date."

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Representative Gara took issue with the order of the bills. He thought industry should pay before taxing individuals.

Representative Wilson stated that industry paid for all of the taxes, including gasoline. She was concerned that the committee did not have all of the information and did not know what impact it would have on the economy. She thought it was important to ensure that as many areas of government as possible were self-sufficient.

Representative Kawasaki had concerns over the bill for many of the same reasons Representative Wilson had mentioned. He referred to the subject of jet fuel, which had been brought up in a previous meeting and had inspired him to research

negotiated prices in the United States. He thought there should have been a cost analysis completed by the department prior to the introduction of the bill. He spoke to gas prices in the Northwest region of the country. He did not know if the taxes were punitive and would drive away business. He thought more analysis on economic impacts was warranted. He agreed with Representative Gara's comments. He spoke to the tax system in the state. He thought the oil and gas tax system needed to be addressed before looking at taxes on individual citizens.

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Co-Chair Neuman expressed his concerns about the bill. He stated that 35,000 Alaskans drove a 100-mile daily commute to Anchorage from Mat-Su. He discussed the danger of the highway and the needed repairs. He was unsure that the committee was prepared with the right data. He stated that people in the Mat-Su tended to drive larger vehicles, and used more fuel than other areas of the state with shorter commutes and less hazardous roads.

Co-Chair Thompson noted representatives in the room.

Representative Gattis believed the bills represented a huge change in the way the state was doing business. She echoed the comments of Representative Wilson.

Vice-Chair Saddler discussed his constituents living on the Glenn Highway corridor. He discussed the need for decent roads and affordable fuels. He discussed fuel prices. He stated that he would support advancing the bill to the floor.

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Representative Pruitt thought valid concerns had been addressed pertaining to the bills on the agenda. He associated his comments with Representative Gattis' prior statements. He remarked that if the bills did not leave the committee the governor would keep calling them back, and he would vote to pass the bills from committee to save the state money. He did not support the bills, and thought the committee process was being usurped.

Representative Gara recalled that in the past few days there had been significant criticism of the administration.

He did not see what the administration had done wrong. He spoke to the state's \$3.2 billion to \$3.7 billion deficit. He gave the governor credit for putting together a plan, and thought criticism of the governor's office had been unfair.

Representative Gara opined that there were many ways to close the fiscal gap. He believed the gap needed to be closed in a way that was fair to all residents across the state. He did not see individuals and corporations with great privilege contributing in a way that was notable. He understood the need to raise funds, but wanted the burden to be shared. He mentioned a corporate tax with exemptions.

Co-Chair Thompson noted that Representative Josephson and Representative Reinbold were in attendance.

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Representative Guttenberg was concerned about who was impacted by the bill. He considered that the bill was the lowest on his priority list and he thought it affected people across the board. He thought it was more prudent to start with larger fiscal issues before taking on the smaller ones. He thought the package of bills on the agenda was difficult.

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Co-Chair Neuman MOVED to REPORT CSHB 4003(FIN) out of committee with individual recommendations and the accompanying fiscal note.

Representative Wilson OBJECTED. She was unsure how the bill would affect business and individuals, and without the information was unwilling to move the bill from committee. She discussed use of heating fuel in her district.

Co-Chair Neuman noted that the motion was to move the bill from committee.

A roll call vote was taken on the motion.

IN FAVOR: Saddler, Edgmon, Gara, Guttenberg, Pruitt, Munoz, Neuman, Thompson
OPPOSED: Wilson, Gattis, Kawasaki

The MOTION PASSED (8/3).

CSHB 4003(FIN) was REPORTED out of committee with "no recommendation" and with one fiscal impact note from the Department of Revenue.

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AT EASE

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RECONVENED

#hb4005

HOUSE BILL NO. 4005

"An Act relating to the mining license tax; relating to the exploration incentive credit; relating to mining license application, renewal, and fees; and providing for an effective date."

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Vice-Chair Saddler noted that the committee had a full discussion pertaining to the bill in previous meetings. He echoed the comments of Representative Pruitt. He did not support the mining tax but would vote to move the bill out of committee. He thought the concept that the taxes spread the burden on too few people was a rhetorical argument and he disagreed.

Representative Gara supported the bill. He did not think the bill would raise much money, and regretted that an amendment to the bill the previous day had failed. He recounted that the proposal had been for mines that made over \$250,000 per year in profit to pay an 11 percent tax on profits; which he thought was modest. He noted that with the amendment that did not pass the bill would have raised an extra \$7 million, and in total would have raised \$14 million. He added that the mining tax had not been changed since approximately 1955, and it was a profit-based tax. He thought the current 9 percent tax would only apply to larger mines. He did not think larger profitable mines paid very much back to the state. He was concerned that if the same approach was taken with every resource industry, the fiscal gap would not go away and the burden would be on those who did not make large amounts of money.

Co-Chair Neuman MOVED to REPORT CSHB 4005(FIN) out of committee with individual recommendations and the accompanying fiscal note.

Representative Wilson OBJECTED. She reminded the committee that the bill constituted a 29 percent increase in taxes. She referred to a letter she had received that indicated the bill would deter new investment in the state and would shorten the lives of existing mines. She discussed future investment in mining and jobs in the industry. She did not consider the tax to be trivial. She was concerned about diminished mining investment in the state and thought the state should do more to incentivize mines, oil development, and other industry.

A roll call vote was taken on the motion.

IN FAVOR: Edgmon, Gara, Guttenberg, Munoz, Pruitt, Saddler, Neuman, Thompson

OPPOSED: Wilson, Gattis, Kawasaki

The MOTION PASSED (8/3).

There being NO further OBJECTION, CSHB 4005(FIN) was REPORTED out of committee with "no recommendation" and with one fiscal impact note from the Department of Revenue.

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AT EASE

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RECONVENED

#hb4006

HOUSE BILL NO. 4006

"An Act relating to the fisheries business tax and fishery resource landing tax; removing the minimum and maximum restrictions on the annual base fee for the reissuance or renewal of an entry permit or an interim-use permit; relating to refunds of the fisheries business tax and the fishery resource landing tax to local governments; and providing for an effective date."

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Representative Gara stated that there had been an hour long discussion on the bill the previous day.

Vice-Chair Saddler addressed the fiscal note from the Department of Revenue, which had a requested appropriation of \$19.4 million in FY 17, and an increase of \$400,000 each year thereafter. He informed that there was \$50,000 of estimated FY 16 supplemental cost, and no position changes.

Representative Wilson asked for the date on the fiscal note.

Co-Chair Neuman MOVED to REPORT CSHB 4006(FIN) out of committee with individual recommendations and the accompanying fiscal note.

Representative Wilson OBJECTED. She recalled that the discussion the previous day had lasted close to two hours. She thought most members were confused as to the details of the tax. She thought the bill needed the most work of all the tax bills on the agenda. She was unsure of the effects of the bill and thought the fishing industry had experienced major changes recently.

A roll call vote was taken on the motion.

IN FAVOR: Guttenberg, Munoz, Pruitt, Saddler, Edgmon, Gara, Neuman, Thompson
OPPOSED: Gattis, Kawasaki, Wilson

The MOTION PASSED (8/3).

There being NO further OBJECTION, CSHB 4006(FIN) was REPORTED out of committee with an "amend" recommendation and with one fiscal impact note from the Department of Revenue.

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AT EASE

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RECONVENED

#hb4004
HOUSE BILL NO. 4004

"An Act establishing an individual income tax; and providing for an effective date."

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RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, stated that the income tax was the largest of the tax components proposed by the governor; and at \$200 million per year (6 percent of federal tax liability for each taxpayer), it was a relatively modest tax. He stated that the proposed tax was approximately 20 percent of the average state income tax in the nation. He stated that it was part of the total fiscal package of everyone contributing towards a fiscal solution.

KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, communicated that Mr. Spanos would narrate the majority of the presentation and he would help by forwarding slides.

BRANDON S. SPANOS, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), provided a PowerPoint presentation titled "New Sustainable Alaska Plan: Pulling Together to Build Our Future: Governor's Special Session Individual Income Tax Bill HB 4004" dated June 2, 2016 (copy on file). He addressed slide 2 titled "Individual Income Tax":

"An Act establishing an individual income tax; and providing for an effective date."

Mr. Spanos turned to slide 3, " Income Tax (new AS 43.22)":

What it Does

- Creates Individual Income Tax at 6% of Federal Tax Liability
- Similar structure to Alaska's historic income tax, which was repealed in 1980
- The historic tax peaked at 16% of Federal Tax liability
- Provides for withholding by employers
- Also taxes out of state income, partnerships, S-corps

How it Differs from Regular Session Bill

- Cleans up language related to taxation of trusts
- Removes fishery crew shares from withholding tax requirements
- Delays effective date to January 2018

Mr. Spanos detailed that the department had worked on the bill to clean up the language so that trusts would not be taxed directly. He noted that the delay of the effective date was in order to give the department enough time to formulate regulations and build the tax system and allow for electronic filing options.

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Mr. Spanos addressed slide 4, "Income Tax (new AS 43.22)":

How Much Does it Raise?

- \$100 million in FY18, \$205 million in FY19
- After 2019 tied to inflation and income growth

How Does it Impact Alaskans?

- About 20-30% of Alaskans will have no liability
- Very low tax burden on households who make < \$50,000
- Most households will pay substantially less than 1% of income
- State income taxes are deductible from federal income tax, for those who itemize
- 43 states currently have an income tax

Mr. Spanos provided a brief overview of how the proposed tax compared to the federal tax on slide 5, "Income Tax (new AS 43.22)." He noted that the proposed rate was 6 percent of a person's federal income tax liability; thusly the effective Alaska tax rate would be 0.6 percent of a person's income if they were in the 10 percent bracket for federal taxable income. He highlighted that federal taxable income was not gross income, and tax would be calculated after deductions, exemptions, and credits. He pointed out that the highest federal tax bracket (at 39.6 percent) would equate to an effective Alaska rate of 2.38 percent.

Mr. Spanos reviewed slide 6, "Income Tax Estimates", which showed a bar graph depicting estimated tax for a married couple filing jointly with two children. The graph showed gross income from 20,000 to 100,000. He pointed that a gross income of \$50,000 would require a tax payment of \$15 per year.

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Mr. Spanos addressed slide 7, "Income Tax Estimates," which included a graph showing estimated tax for a head-of-household with two children. He noted that the tax level had one less exemption. The tax for \$50,000 in gross income would equal \$97.

Co-Chair Thompson asked about the delayed effective date of January 2018 listed on slide 3. He provided an example of an individual who filed an extension on her federal taxes. He asked how the delay impacted the estimated revenues.

Mr. Spanos answered that the federal government required estimated payments. He thought the state would expect to incorporate the portion of the internal revenue code to also require estimated tax payments for individuals with a larger amount of tax due.

Co-Chair Thompson provided another example of a person who would receive a deduction from their income by their employer. He asked if Mr. Spanos foresaw a potential problem. He asked if there was an effect on families and individuals.

Mr. Spanos responded that if an individual had withholding from a completed W-4 form, the state would consider the matter and make adjustments in the form of a refund or otherwise. He noted that an individual could request a W-4 form at any time in order to make adjustments. He discussed tax software that was available to aid individuals in calculating W-4 corrections to exemptions, so that the proper amount was withheld.

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Representative Kawasaki pointed to slide 3 and asked about the historic tax that peaked at 16 percent of federal tax liability.

Mr. Alper answered that the 16 percent mentioned on the slide had been the state's statutory tax rate in the 1970s. The bill proposed a lower tax rate of 6 percent.

Representative Kawasaki asked about the modelling in the presentation related to married couples with kids and single heads of a household with kids (slides 6 and 7). He wondered if the department was aware of how many people were in each of the categories being examined.

Mr. Spanos replied that the department had a good idea of the numbers, and noted that the Internal Revenue Service published a document called "The Statistics of Income." He thought that the department had provided the material to the committee earlier in the year, and the information included individuals with an Alaskan address and whom they had assumed were all Alaska residents. The materials had identified information pertaining to income brackets and deductions.

Representative Kawasaki asked about the logic behind the 6 percent income tax.

Mr. Alper answered that when the governor had been formulated the fiscal plan the previous fall, there had been many components. Considering the various components as well as the revenue forecast, the administration had identified that \$200 million was still needed to balance the budget. Various options had been discussed and the decision had been made to introduce an income tax and choose a tax rate in order to generate the remaining funds to complete the fiscal plan package.

Representative Gara referred to slide 6, and stated that he was willing to consider an income tax if it was fair. He asked if the testimony purported that the proposed tax was one-fifth of the rate of the average state income tax in other states.

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Commissioner Hoffbeck replied that other states generally had their own tax brackets, but they equated about 30 to 32 percent of the federal liability.

Representative Gara pointed to slide 6 that related to taxes on gross income, and understood that gross income meant much the same as "take-home pay" before deductions.

Mr. Alper relayed that gross income was income before federal withholding, and was the actual salary an individual would receive.

Representative Gara believed things needed to be balanced. He had seen several proposals to cut the permanent fund dividend by \$1000, and commented that a very wealthy person

would not be affected by such a change. He referred to an Institute of Social and Economic Research (ISER) study that indicated that for 50 percent of Alaskans, the PFD represented 20 percent of their income. He interpreted the graph on slide 6 to say that gross income of \$100,000 per year would require a person to pay \$465 in state tax, which equated to one half of one percent. He asked if he was calculating the amount correctly.

Mr. Alper answered in the affirmative.

Representative Gara believed that the committee and the legislature should spend more time considering a measure such as the income tax in order to arrive at a fair solution. He thought the flat tax percentage was problematic. He asked if he could request some additional modelling.

Mr. Alper answered that the department would provide modelling to the best of its ability.

Representative Gara requested to see a model including an exception from paying taxes on a PFD. He wanted to see a model of taxed income for a single person household making over \$125,000 per year at the average tax rate across the country (among states that had income tax). He asked about determining tax rates for individuals making over \$125,000 but with multiple adults in the household.

Mr. Alper responded that the standard deductions and numbers tended to double when there was two adults in the household. For estimating purposes, a single person making \$125,000 would compare to a married (double-income) couple making \$250,000.

Representative Gara asked for modelling of a single person household making equal to or greater than \$125,000, modelled with two adults in the household and with two children in the household.

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Commissioner Hoffbeck replied that the department could do the modelling. He referred back to the notes from the original presentation to the committee about the income tax proposal, and thought there were models of multiple sizes of households at the 6 percent rate. He suggested

multiplying the data times 5 to achieve the national average rate.

Representative Gara asked if one-fifth of a federal tax rate would be close to the national average of state income tax rates.

Mr. Alper answered that approximately 30 percent was the average of the 41 states with full income taxes. He stated that most of the states were taxing with a progressive tax based on gross income rather than a flat tax based on federal liability. He stated that the percentage equivalent to the federal tax tended to vary by income level, but the average tax was the equivalent of 30 percent of federal tax liability.

Representative Gara asked how one-fifth of federal tax liability would relate to average taxes.

Mr. Alper responded with an example of a household with \$100,000 income and a person with a 25% tax rate. He discussed deductions and other factors. He specified that the modelling on slide 6 indicated the average \$100,000-income household was paying about \$9,000 in federal taxes. Based on the federal tax, 6 percent would equate to roughly \$465.

Representative Gara asked about a single person who earned an income above \$500,000; and additionally asked about corresponding numbers for households with two adults, and households with two children. He wondered about the revenue impact of the bill if such households were charged one-fifth of the federal tax rate. He stated that wealthier people had deductions and would pay a lower state tax; while lower income people did not have the luxury of deducting their state tax from their federal tax. He was concerned that the bill would raise close to one-fifteenth of the state's deficit. He thought there was not a great deal of fiscal impact considering the burden that would be imposed upon people if the bill passed. He thought there should be more hearings on the bill.

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Representative Guttenberg referred to slide 3, and asked why an exemption was provided to fishery crew.

Mr. Alper answered that fishery crew operated differently and did not have federal taxes withheld by their employers. He noted that the historic income tax code had generated concern that many of the fishery crew were non-residents. The administration had instituted a requirement that the state withheld funds so that the individuals were easier to track, but had taken the requirement out of the bill after understanding it would place a burden on fishing captains. He clarified that crew members would still pay their taxes even though they were not required to withhold as they were earning their wages during the year.

Representative Guttenberg asked if the administration had considered raising the tax rate and then giving a credit for residents who received the PFD as a way of capturing more non-resident taxes.

Mr. Alper thought Representative Guttenberg raised an interesting idea. The income tax was the simplest form of tax because it was a fixed number of a fixed amount. He relayed that most states were using a more complex system that considered adjusted gross income, bracketed tax rates, and then state exemptions. He contemplated that the idea was the beginning of creating a complicated tax code.

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Vice-Chair Saddler asked if the department had charts to show how much in taxes would be collected from the various cohorts of Alaskans per \$10,000 of gross annual income.

Mr. Spanos asked Vice-Chair Saddler to repeat the question.

Vice-Chair Saddler repeated his question. He thought the information indicated that 20 to 30 percent of Alaskans would have zero income tax liability. He asked if the expected tax revenue was broken down by income cohort.

Mr. Spanos answered in the affirmative, and agreed to provide the data to the committee.

Vice-Chair Saddler asked if the department had done an analysis to see what percentage of the proposed income tax would be paid by non-resident workers.

Mr. Spanos responded in the affirmative. According to data from the Department of Labor and Workforce Development

(DLWD), there were currently over 87,888 non-resident workers, and 422,516 Alaskan workers. He offered to provide the committee with the information in print.

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Co-Chair Thompson believed that the DLWD had stated there was approximately \$2.6 billion in wages earned by non-residents and taken outside the state. He did not have a breakdown of income levels that contributed to the amount, and hoped the department could provide the information.

Mr. Spanos answered that the department would do its best to provide the information.

Vice-Chair Saddler requested the information in each income cohort broken down into resident and non-resident categories. He considered that if the presumption that oil-industry workers were higher-income, he wanted to see how much of the higher-income cohorts would be paid by non-residents versus residents.

Vice-Chair Saddler had heard in previous hearings that most states that had developed an income tax through calculating a percentage of federal tax had later modified the tax model. He wondered if the department was working to design an income tax that did not use federal income tax calculation brackets.

Mr. Alper responded that once states began modifying the tax structure, there were personalized exemptions to meet the needs and internal politics of the state. He stated that if the decision was made to move from straight federal liability and towards tax based on actual income, there would be brackets and plans to set up. He noted that part of the benefit of a year delay was that the department was anticipating an implementation plan, which they would work on the following six months to develop after the passage of the bill. The time would allow for the department to consult expertise, make modifications, and get the program running by 2018.

Co-Chair Thompson recalled a similar tax in the 1970s. He asked Mr. Alper to research the prior income tax and its configuration.

Mr. Alper answered that the department would get the information to the committee. He recalled that the state had switched to a hybrid model with a graduated rate that peaked at 14.5 percent, and was repealed in 1980.

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Vice-Chair Saddler restated his question pertaining to a different tax model that did not base its structure on the federal tax.

Mr. Alper answered in the negative. He stated that the administration's plan was to implement the bill that was before the committee.

Vice-Chair Saddler referred to research on other states' income taxes. He wondered if Mr. Alper had observed the taxes of other states rise and fall with the needs of the states.

Mr. Alper was not sure how often other states changed their tax rates. He qualified that changes might be necessary in the initial implementation of the income tax. He hoped that once the income tax was in place, it would remain steady. He thought it would be burdensome to revisit the topic frequently after the bill was implemented.

Vice-Chair Saddler did not hear a firm commitment that the department did not plan to make changes to the income tax rate.

Commissioner Hoffbeck responded that the administration was proposing a 6 percent tax rate. He pondered that it was difficult to foresee the future finances of the state. He asserted that the legislature would have to take action to change the tax rate, and the change could not be made administratively.

Co-Chair Neuman wondered about the number of out-of-state workers, not including workers in fisheries.

Mr. Alper thought that Mr. Spanos had mentioned slightly less than 88,000 non-resident workers in the state. He referred to Vice-Chair Saddler's question about the income cohorts; and stated that the administration interpreted the numbers to form a bar-bell-shaped income curve, with

higher-income workers as well as a fairly large number of lower-income seasonal fishery and tourism workers.

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Co-Chair Neuman looked at the graph on slide 6 and pondered that about 20 percent of the expected \$200 million in tax revenues would come from out of state workers.

Mr. Alper relayed that the administration had estimated that 15 to 20 percent of the total revenue would be coming from non-residents. He noted that there was also a scenario in which Alaska residents would earn some income from a job outside the state or from owning business or property outside the state. He specified that the outside income would not be taxable.

Representative Gattis referred to the historical 16 percent tax, and suspected that the rate had started at a lower percentage. She had concerns that costs of the program would be discovered after the bill had passed. She was concerned that an income tax would be a disincentive from making an income. She relayed that people from her district favored a sales tax. She reiterated concerns about the proposed income tax being raised above 6 percent in the future. She relayed a personal story about receiving her first paycheck and discovering how much she paid for tax. She related that she was going to be a "no" vote on the bill.

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Representative Edgmon wanted additional detail about estimated income tax revenues from non-residents. He relayed hearing from industry participants about the proposed taxes, and thought industry favored a broad-based tax such as an income tax. He had heard a discussion about an 8 percent tax. He thought an income tax was the least regressive form of a broad-based tax that had come before the committee, and asked the department to comment.

Commissioner Hoffbeck related that the issue Representative Edgmon brought up had been a large portion of the discussion with the governor to determine whether a sales tax or income tax was more appropriate. He thought that a flat sales tax was a very regressive tax, although it could be made less regressive by exempting food and other items.

He asserted that the income tax, particularly as it was tied to the federal tax liability, was as progressive of a tax that the state could put in place. He referred to Representative Gara's comments on reduction of the dividend.

Commissioner Hoffbeck continued, stating that the administration had endeavored to make the proposed income tax as balanced as possible and as low as possible. He discussed motivation for the income tax proposal, including the effort to involve Alaska residents in paying for government services and helping with a budget solution. He thought that people had become used to a system that was unusual. He noted that an income tax would be tied to the treasury, which would reflect of economic growth in the state. He discussed the dichotomy of economic growth as a strain on providing government services, without more funds flowing into the treasury. He spoke to the 8 percent tax Representative Edgmon had referred to, and confirmed that ISER had used the number in a previous presentation.

Co-Chair Thompson acknowledged that Representative Gabrielle LeDoux was in attendance.

Representative Edgmon asked about possible revenues from non-residents from a statewide income tax as compared to a statewide sales tax.

Mr. Alper answered that the administration needed to do more analysis but had the sense that the amounts were about equal. A sales tax had been less seriously discussed by the House Finance Committee in 2003. He related that one concern about a sales tax was the tremendous regional price disparity in Alaska and disproportionate impact on certain areas of the state.

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Commissioner Hoffbeck added that ISER had estimated that 15 percent of commodities and 10 percent of services were purchased by non-residents.

Co-Chair Neuman believed there should be a fair comparison between a sales tax and an income tax. He thought wages were probably much higher in rural Alaska than in urban Alaska. He thought the state needed something to show the public in order to gain understanding and support. He

thought the uncertainty around the table was related to the need for more information.

Commissioner Hoffbeck referred back to an ISER report which indicated there were 5 categories that would each generate income of \$350 million to \$400 million, including: a 2 percent flat income tax; 10 percent of the federal income tax; a \$600 reduction in the PFD; a 4 percent sales tax (with exclusions for food, shelter, healthcare, and education); or a 3 percent sales tax without exclusions.

Co-Chair Neuman asked Commissioner Hoffbeck to provide the information to the committee. Commissioner Hoffbeck agreed to do so.

Representative Edgmon thought that if the bills did come before the legislature the following session there would be more opportunity to delve into the regressive aspects of the taxes. He stressed that a rural resident would see a dramatic change in their tax burden.

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Representative Gara had a problem with the equity portion of the legislation. He wondered how much taxable income an individual would have to make to pay a \$1,000 income tax. He used the example of a senior citizen who had their dividend cut.

Commissioner Hoffbeck answered that an individual single taxpayer would have to earn \$100,000 to pay a \$1,000 income tax.

Representative Gara asked why it was fair that someone making \$100,000 was paying \$1,000 in income tax and a senior making \$20,000 would lose a \$1,000 of the dividend.

Commissioner Hoffbeck considered that it was necessary to look at the issue on a broader scale. He provided an example of a senior citizen using substantially more government services than the individual making \$100,000 per year. He suggested that it was a balance of services received with monies being paid in to the system. He asserted that reducing the size of the dividend would allow the state to retain other services.

Representative Gara disagreed with some of what the commissioner had said but stated that he understood the viewpoint being expressed. He referred to the impetus for the income tax proposal being closure of the fiscal gap, and thought it was no longer the case. He referred to a permanent fund bill being considered by the committee, and understood that the bill would generate roughly \$2.3 billion. He asked what amount was needed from an income tax or sales tax to close the fiscal gap when considering the budget that recently passed the legislature, the passage of the permanent fund bill in committee, and the forecast oil prices.

Commissioner Hoffbeck did not have the information needed to answer the question. He stated that the information needed for a sustainable long-term budget would be discernable in the next year or the year after. He continued that the department had not made the calculation based on the interim status of bills.

Representative Gara thought it was clear that if the bills passed, the proposed lowest income tax rate in the country would not balance the budget.

Mr. Alper thought that Representative Gara made a reasonable statement. He elaborated that with the passage of the bills, in addition to the tax credit reform bill, the state would be a few hundred million dollars short. He added that the price of oil was currently a little higher than what was forecast.

Representative Gara commented that the public did not want to see an income tax that would perpetually increase. He wanted to see further analysis and thought a tax should fit the state's fiscal picture.

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Representative Wilson asked how many people in Alaska did not have any income and were living off of some type of welfare.

Mr. Alper deferred to Mr. Spanos.

Mr. Spanos did not have the information on hand.

Representative Wilson asked about the number of people earning between \$1 and \$50,000 per year.

Mr. Alper believed the average income in Alaska was \$50,000.

Commissioner Hoffbeck clarified that about 20 to 30 percent of Alaskans had no tax liability, and earned less than \$50,000 per year.

Representative Wilson stated that there was much focus on taxing non-Alaskans, and wondered if the state had a larger problem with the number of individuals using the welfare system. She wondered if it would have more of an impact on the state's budget if more Alaskans were put to work than subject to an income tax.

Commissioner Hoffbeck did not know the answer to Representative Wilson's question.

Mr. Alper elaborated that the 20 percent to 30 percent figure was substantially lower than the national statistic of 40 percent to 45 percent of American households that paid no federal income tax. He added that Alaska had higher average income, and also had the PFD to provide a minimum household income.

Representative Wilson discussed statistics of people using different welfare programs. She wondered about statistics if the PFD was not counted as income. She reiterated her comment about using training and education to get more individuals into the workforce and reduce state program expenses.

Co-Chair Neuman calculated that there was about \$800 million remaining in the deficit after the aforementioned legislation was put in to effect.

[4:47:12 PM](#)

Commissioner Hoffbeck answered that there were also existing taxes that earned in the \$500 million range.

Vice-Chair Saddler discussed spending by Department of Health and Social Services (DHSS), and compared it to revenues from the proposed income tax. He requested any analysis that may be helpful in understanding the impact of

the proposed income tax. He asked if there was a way to calculate what constituted a "fair" tax rate.

Commissioner Hoffbeck answered that a fair tax rate was in the eye of the beholder.

HB 4004 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson discussed the schedule for the following day. He recessed the meeting to a call of the chair [note: the meeting never reconvened].

^RECESSED TO A CALL OF THE CHAIR

[4:49:13 PM](#)

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ADJOURNMENT

[4:49:17 PM](#)

The meeting was adjourned at 4:49 p.m.