

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 23, 2016

6:02 p.m.

MEMBERS PRESENT

Senator Mia Costello, Chair
Senator Cathy Giessel, Vice Chair
Senator Kevin Meyer
Senator Gary Stevens

MEMBERS ABSENT

Senator Johnny Ellis

COMMITTEE CALENDAR

SENATE BILL NO. 134

"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."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 134

SHORT TITLE: INDIV. INCOME TAX: CREDITS; RETURNS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(S)	READ THE FIRST TIME - REFERRALS
01/19/16	(S)	L&C, FIN
02/18/16	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/18/16	(S)	<Above Item Removed from Agenda>
02/18/16	(S)	MINUTE (L&C)
02/18/16	(S)	L&C AT 6:00 PM BELTZ 105 (TSBldg)
02/18/16	(S)	-- MEETING CANCELED --
02/23/16	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/23/16	(S)	L&C AT 6:00 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

BRANDON SPANOS, Deputy Director
Tax Division

Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: Presented SB 134 on behalf of the administration.

KEN ALPER, Director
Tax Division
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Participated in the discussion of SB 134.

ZEFFORAH DALTON, representing herself
Delta Junction, Alaska

POSITION STATEMENT: Testified in opposition to SB 134.

SHARON DALTON, representing herself
Delta Junction, Alaska

POSITION STATEMENT: Testified in opposition to SB 134.

PATRICK DALTON, representing himself
Delta Junction, Alaska

POSITION STATEMENT: Testified in opposition to SB 134.

TONY TENGS, representing himself
Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 134 as part of the solution to the budget crisis.

CAROLINE STORM
Alaska PTA (AKPTA)

POSITION STATEMENT: Testified in support of SB 134.

ALLISON ARIANS, Region 4 Vice President
Alaska PTA

POSITION STATEMENT: Testified in support of SB 134.

JUAN SAN MIGUEL, President
Alaska PTA

POSITION STATEMENT: Testified in support of SB 134.

DON ETHERIDGE, Alaska, AFL-CIO
Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 134.

JIMMY FOX, Vice President for Legislation
Alaska PTA
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of SB 134.

LYNN HOHL, Region 6 Vice President
Alaska PTA Board of Managers

POSITION STATEMENT: Testified in support of SB 134.

MICHELLE LATHAM, representing herself
Wasilla, Alaska

POSITION STATEMENT: Testified in opposition to SB 134.

JIM LATHAM, representing himself
Wasilla, Alaska

POSITION STATEMENT: Testified in opposition to SB 134.

ELISHA WAUGH, representing himself
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 134.

RAY KREIG, representing himself,
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 134.

HANS RODVIK, representing himself
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 134.

RYAN MCKEE, representing himself
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 134.

JEREMY PRICE, Alaska Director
Americans for Prosperity
Anchorage, Alaska

POSITION STATEMENT: testified in opposition to SB 134.

DONALD WESTLUND representing himself
Ketchikan, Alaska

POSITION STATEMENT: testified in opposition to SB 134.

TOMI MADAFFARI, representing himself
Ketchikan, Alaska

POSITION STATEMENT: Testified in opposition to SB 134.

LANCE ROBERTS, representing himself
Ketchikan, Alaska

POSITION STATEMENT: Testified in opposition to SB 134.

WES HUMBYRD, representing himself
Homer, Alaska
POSITION STATEMENT: Testified in firm support of SB 134.

KEN LANDFIELD, representing himself
Homer, Alaska
POSITION STATEMENT: Testified in firm support of SB 134.

MICHAEL MCCARTHY, representing himself
Homer, Alaska
POSITION STATEMENT: Testified in support of SB 134.

KELSI PULCZINSKI, representing herself
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to SB 134.

JAMES SQUYRES, representing himself,
Rural Deltana
POSITION STATEMENT: Testified in opposition to SB 134.

PAM GOODE, representing herself,
Rural Deltana
POSITION STATEMENT: Testified in opposition to SB 134.

ANGIE HUTCHINGS, representing herself
MatSu, Alaska
POSITION STATEMENT: Testified in opposition to SB 134.

STUART THOMPSON, representing himself
Meadow Lakes, Alaska
POSITION STATEMENT: Testified in support of SB 134.

PAT CHAMBERS representing herself
Fairbanks, Alaska
POSITION STATEMENT: Testified in opposition to SB 134.

SCOTT OGAN, representing himself
Palmer, Alaska
POSITION STATEMENT: Testified in opposition to SB 134.

ACTION NARRATIVE

[6:02:45 PM](#)

CHAIR MIA COSTELLO called the Senate Labor and Commerce Standing Committee meeting to order at 6:02 p.m. Present at the call to order were Senators Stevens and Costello.

SB 134-INDIV. INCOME TAX: CREDITS; RETURNS

[6:02:53 PM](#)

CHAIR COSTELLO announced the consideration of SB 134. She noted that this is the first hearing.

SENATOR GIESSEL joined the committee.

[6:03:56 PM](#)

KEN ALPER, Director, Tax Division, Department of Revenue (DOR), introduced himself.

[6:04:08 PM](#)

BRANDON SPANOS, Deputy Director, Tax Division, Department of Revenue (DOR), introduced himself and began the presentation on SB 134 beginning with the history of income tax in Alaska. It began in 1949 at 10 percent of the federal tax liability. By 1961, the tax was 16 percent of the federal tax liability. In 1975, Alaska decoupled from the federal tax liability and attached its own tax brackets. Those rates ranged from 3 percent to 14.5 percent of taxable income. Alaska repealed the personal income tax in 1980 after the oil boom.

The Governor's proposal creates a tax on an individual's income. The proposed rate is 6 percent of a person's federal income tax liability. He displayed a chart to illustrate the effective Alaska rate based on the federal taxable income rates from 10 percent to 39.6 percent. In the 10 percent bracket, the Alaska rate would be 0.60 percent of the federal income.

[6:05:42 PM](#)

SENATOR GIESSEL asked in what bracket most Alaskans fall.

MR. SPANOS offered to follow up with the information.

MR. ALPER noted that DOR submitted a handout that has tables showing the effective tax impact by different household size and different income levels. That information would provide the answer because both income level and household size would be a factor. He added that federal tax rates are marginal rates, meaning the lowest X dollars are at the lowest rate and the next set of dollars are at the next higher rate. To a certain extent, Alaska's tax would be a blended average of those things.

CHAIR COSTELLO asked for an explanation of the policy decision to establish 6 percent.

MR. ALPER explained that if all the other cuts and tax proposals were to pass, this last piece completes a balanced budget; it would generate the desired \$200 million. He noted that Alaska would have the lowest income tax rate of those states that have a tax.

CHAIR COSTELLO asked if she's to assume that the administration might increase the rate if some of the other tax proposals don't pass.

MR. ALPER said he didn't believe so, but the members should be mindful that the intent of the number in the bill is that it's part of a complete package that gets to a balanced budget.

SENATOR STEVENS asked what state has the highest tax rate.

MR. ALPER told the members that there are two attachments for state income tax. A few, including Alaska, are attached to the idea of federal income tax liability. That is a flat rate that builds the federal government's progressivity into the state tax. Most states tie their income tax to adjusted gross income so it's a smaller percentage of a larger number.

[6:10:36 PM](#)

MR. SPANOS offered to follow up with the requested information about ranking.

He displayed a chart showing the 2016 federal tax brackets and proposed Alaska effective rates on taxable income for single filers, married joint filers, and head of household.

SENATOR GIESSEL recalled that the Governor said 43 percent of Alaskans would have no tax liability under this proposal.

MR. SPANOS said that estimate is based on Internal Revenue Service (IRS) data that shows that 43 percent of Americans do not pay income tax.

SENATOR GIESSEL asked for confirmation that it could be a higher percent; "You're actually not sure."

MR. SPANOS said that's correct; DOR isn't sure based on the available data.

MR. ALPER added that the percentage of people paying zero tax at the federal level has increased over the last 20-30 years as the

federal tax code has become more complicated. There are a lot more credits, the most prominent being the earned income tax credit and the child tax credit that tend to zero out the tax liability of lower income individuals. The same structure would carry through to the Alaska state tax.

CHAIR COSTELLO asked Mr. Spanos to go through a sampling of the tax chart to show what this would mean for individual Alaskans and families.

MR. SPANOS noted that the document was available online. He said there are a lot of assumptions built into the calculations and the following are estimates.

- A married couple filing joint with no children and a \$50,000 gross income would pay a total tax of \$208.
- For a married couple filing jointly with two children and \$50,000 gross income, the child tax credit applies and they would pay \$15.
- For a married couple filing jointly with three children and \$50,000 gross income, the child tax credit applies and they would pay no tax.
- A single person with no children and \$50,000 gross income would pay Alaska income tax of \$341.
- A single person with no children and \$20,000 gross income would pay \$59.
- A single person with no children and \$100,000 gross income would pay \$1,091.
- A married couple with \$100,000 gross income and 3 children would pay \$369.
- A married couple with \$20,000 gross income and 3 children would pay no tax.
- A single parent filing as head of household with two children and \$50,000 gross income would pay \$97.
- A single parent filing as head of household with two children and \$100,000 gross income would pay \$791.
- A single parent filing as head of household with two children and \$20,000 gross income would pay no tax.

CHAIR COSTELLO asked the average income of most Alaskans, either single or married with children.

MR. SPANOS said these charts are based on estimates and the model is based on information from the IRS. He wasn't sure if

the IRS breaks it down by tax filers but he would check and follow up.

6:16:56 PM

MR. SPANOS said the proposed tax applies to nonresidents who earn income from a source in Alaska. Residents who earn income from a source outside Alaska would receive a credit for taxes paid in other states.

SENATOR STEVENS asked how much revenue is expected from nonresident workers who earn income from a source in Alaska.

6:18:05 PM

MR. ALPER said DOR is using information from the Department of Labor and Workforce Development and the estimate is that about 15 percent of the people who work in Alaska don't live here. Roughly that percentage of the total is expected to come from nonresidents, but there will be an offset from the income from Alaskans that is earned in other states. He added that what's interesting with this tax is that it captures a lot of types of income that aren't generally considered wage income. For example, the earnings of partnerships and S corporations currently are not taxed in Alaska. If they were Alaska-based entities, the owners would pay this income tax.

SENATOR STEVENS asked if they'd have an answer to the question at some point.

MR. SPANOS said the Department of Labor and Workforce Development has amounts, but it's difficult to determine what the federal tax would be. He agreed to come up with an estimate.

SENATOR STEVENS called that important information for Alaskans to know.

MR. ALPER advised that the 15 percent figure is what is built into the model. That is the percentage of the nonresident workforce and at the very least 15 percent of the taxes should come from that source. He added that those are a mix of above average oil jobs and below average tourism jobs, and the weighted average is probably close to the average. He offered to follow up with more precise numbers as the process moves along.

SENATOR STEVENS calculated that 15 percent of \$200 million \$30,000,000.

6:20:25 PM

MR. SPANOS continued the presentation pointing out that the bill also proposes a withholding element of the tax.

He displayed a bar chart of estimated Alaska tax for a married couple filing jointly with 2 children based on gross income ranging from \$20,000 to \$100,000. The estimated tax on gross income of \$50,000 would be \$15 and the tax on \$100,000 would be \$465.

The subsequent bar chart estimates the Alaska tax for someone filing as head of household with 2 children based on income ranging from \$20,000 to \$100,000. The estimated tax on gross income of \$40,000 would be \$7, the tax on \$50,000 would be \$97, and the tax on \$100,000 gross income would be \$791.

[6:21:24 PM](#)

SENATOR MEYER asked if rental income and the PFD would be taxed at the state level.

MR. SPANOS said it depends on the individual but all income generally is subject to tax, with many exceptions. For example, the interest on federal bonds is excluded from state tax.

SENATOR MEYER asked if \$50,000 gross income is a general threshold for paying taxes.

MR. ALPER said it varies by filer status, but that's about the crossover between paying and not paying taxes. He added that the proposal is for 6 percent of gross income but the complexities come in when an individual has income from more than one state.

CHAIR COSTELLO asked how many Alaskans receive income from more than one state.

MR. SPANOS said DOR is still analyzing that but isn't sure there's enough accurate data at this point. The state is starting to receive information from the IRS that is specific to the taxpayer, and DOR may be able to analyze W-2 information based on the address of the payer, which may or may not tell where the income was earned.

[6:24:39 PM](#)

MR. SPANOS noted that of the 43 states that currently have an income tax, Alaska's rate would be the lowest and North Dakota would be second lowest. The average state income tax is about 30 percent of the federal liability, which is five times Alaska's

proposed rate. Six states would still have zero state income tax and two states tax only dividends and interest.

Income from subchapter S corporations and partnerships will be taxed. This pass through income is reported on an individual's federal tax return and would therefore be taxed at the state level. Alaska has a corporate income tax and S corporations are excluded from that tax federally so they currently are not subject to tax. He noted that if an S corporation is owned by a corporation, it may be subject to the tax. Income earned in Alaska by both nonresidents and residents will be taxed under the proposed bill. A rough estimate is that 45 percent of Alaskans would pay no tax.

[6:26:28 PM](#)

CHAIR COSTELLO questioned the fairness if only 45 percent of Alaskans would pay a state income tax.

MR. SPANOS replied the administration wants to be fair in its approach and many different options have been proposed. This is a progressive tax so that those who are most able to pay the tax will pay the tax.

CHAIR COSTELLO asked if that policy call runs through all the tax bills, because the committee heard that the tobacco tax is regressive and it fills 1 percent of the deficit.

MR. ALPER said there are a range of types of tax bills and the alcohol and tobacco taxes are regressive. Also, in the suite of presentations there are proposals that might reduce the permanent fund dividend, which in many ways is the most regressive tax of all if one considers it a tax. That is an issue of personal opinion and policy difference across the spectrum, but if Alaskans are going to be asked to contribute equally through reduced dividend on one side of the equation, on the other end the proposal is to take a greater tax from those with the most ability to pay. That is where income tax fits it, sort of as a counterweight.

[6:28:42 PM](#)

MR. SPANOS continued the presentation saying that DOR estimates that half of the budget gap (\$100 million) would come in FY2017 through withholding. No tax returns would be filed until April 2018.

[6:29:27 PM](#)

CHAIR COSTELLO asked him to discuss whether or not the administration considered exempting trusts; if not, do they think it's important?

MR. SPANOS admitted the department is fairly inexperienced with individual income taxes and he wasn't aware that the administration knew about the trust issue prior to the bill being drafted.

CHAIR COSTELLO asked if DOR's research team had done any modeling on the economic impacts of the income tax. If not, she asked if modeling would be done and if he would provide that to the committee.

MR. SPANOS agreed to provide an analysis of the model and noted that it has a drag on the economy built in.

[6:30:45 PM](#)

SENATOR STEVENS asked if there would be an opportunity for late filing similar to the federal rules.

MR. ALPER said the statutory due date would be in April the same as the federal return. Penalty and interest is applied to any tax due in April and not paid until the return is filed under an extension, and he presumes the state would establish a similar mechanism.

SENATOR STEVENS asked if there is a late filing provision in the bill

MR. SPANOS said the bill allows the department to adopt the federal statutes that have an April 15 filing and payment due date. If the taxpayer receives an extension to file in October, the tax is still due on April 15.

SENATOR STEVENS asked if a taxpayer would need to file an extension for both the federal and state returns.

MR. SPANOS said the state's corporate income tax piggybacks the federal statutes and a federal extension automatically applies to the corporate tax return. He envisions the same thing for the individual income tax.

[6:33:13 PM](#)

SENATOR GIESSEL asked if he's saying that withholdings would begin January 2017, assuming the bill passes.

MR. SPANOS said that's correct.

SENATOR GIESSEL pointed out that the fiscal note indicates that in the next 6 months DOR will put in place 44 full-time employees, 16 part-time employees and the regulations.

MR. SPANOS said a minimum number of new employees would be needed in FY2017 and they'd only develop the software to accept withholding. The additional employees would come in waves and the regulations would take some time to write.

SENATOR GIESSEL asked if the estimated \$200 million in revenue would be reduced by the cost of the new employees, the software and the time factor.

MR. SPANOS said the \$200 million is the gross amount and the fiscal note reflects the net.

MR. ALPER said the cost to implement a personal income tax bill is relatively fixed to the size of the tax itself.

CHAIR COSTELLO asked Mr. Alper to discuss the fiscal note.

[6:35:27 PM](#)

MR. ALPER pointed out that because it's a calendar year tax and a fiscal year budgeting process, there is only \$100 million in revenue in FY2017 and not a full year of revenue in FY2018. The cost of expert assistance to implement an income tax plan is estimated to be \$250,000. The estimated one time capital appropriation is \$14 million, based on DOR's recent experience implementing a tax software system. DOR would like to bring back that same contractor to add a new system alongside the existing system. He estimated a couple of dozen programmers would be working for a couple of years. DOR estimates 44 full time employees and 16 part time employees which equates to 52 full time equivalent positions. DOR expects that 80 percent of taxpayers will file online, which roughly parallels the filing percentages of the Permanent Fund Division. That still leaves manual handling and data entry for about 80,000 paper returns. The total staffing cost per year is in the neighborhood of \$7 million.

CHAIR COSTELLO asked where these employees will come from.

MR. SPANOS said the hope is to find some expertise within Alaska.

SENATOR STEVENS asked where the employees will be located.

MR. SPANOS said DOR anticipates that half will be located in Juneau and half in Anchorage.

CHAIR COSTELLO mentioned housing availability and asked if much thought had gone into where the employees should be located.

MR. SPANOS said it will be a continuing discussion.

MR. ALPER clarified that the full complement of 60 employees aren't in the budget until FY2019, so there will be a couple of years to recruit.

[6:41:02 PM](#)

MR. SPANOS said implementing an individual income tax in 18 months will be a significant challenge. Regulations would need to be drafted and there would be a need to design, develop, and test the technology to administer the tax. Based on numbers from Vermont that has a similar population and non-resident workers, DOR estimates that approximately 450,000 tax returns would be filed annually. DOR estimates a \$250,000 supplemental appropriation for a contractor to work with the department on an implementation plan. The estimated one-time capital appropriation to build an income tax into the state's current tax revenue system is \$14,000,000. This includes withholding and online filing. The annual staffing cost for 52 FTE employees is about \$6 million.

MR. SPANOS displayed two charts to show how the income tax fits into the Governor's plan to close the budget gap. It fills the last piece with \$200 million in estimated receipts.

[6:42:34 PM](#)

MR. SPANOS read the sectional analysis for SB 134 into the record.

Sec. 1. Adds a new chapter 22 in AS 43 for individual income taxes.

43.22.010 Imposes an income tax on both resident and nonresident individuals. The tax is six percent of a resident's federal tax liability. The tax for a nonresident is six percent of the portion of federal tax liability that is from a source in the state.

43.22.020 Provides a credit to residents for taxes paid to another state based on income earned in that other state.

43.22.030 Provides for annual returns to the Department of Revenue with taxes due on the date the federal tax return is due. The taxpayer must provide a copy of their IRS return. The department is authorized to pay refunds of overpaid taxes.

43.22.040 Defines sources of income within Alaska that are subject to the tax.

43.22.050 Provides for withholding from wages and salaries by employers, with those withheld taxes periodically remitted to the state. 42.22.060 Authorizes DOR to administer the tax. 42.22.190 Adds definitions for specific terms used in this section.

42.22.060 Authorizes DOR to administer the tax.

42.22.190 Adds definitions for specific terms used in this section.

Sec. 2. Repeals statutes related to a former tax credit for political contributions that existed under Alaska's prior individual income tax which was repealed in 1980.

Sec. 3. Applicability section establishing that the new tax applies to income received on or after the effective date of the bill.

Sec. 4. Authorizes DOR to adopt regulations.

Sec. 5. Immediate effective date for Section 4, so that regulations can be drafted immediately.

Sec. 6. Effective date of 1/1/17 for the rest of the bill.

[6:44:32 PM](#)

MR. ALPER asked the committee to look at the individual income tax as part of a large package of measures to try to resolve the fiscal situation, not as a desire to impose a tax on Alaskans.

[6:45:35 PM](#)

CHAIR COSTELLO opened public testimony.

[6:46:12 PM](#)

ZEFFORAH DALTON, representing herself, Delta Junction, testified in opposition to SB 134. She said she's 25 and just getting started and finding a job. This is hard enough and having to pay an individual income tax will make it that much more difficult.

[6:48:17 PM](#)

SHARON DALTON, representing herself, Delta Junction, testified in opposition to SB 134. She said the United for Liberty Plan has a wonderful plan for a balanced budget with cuts and no taxes. There is no excuse for not implementing this plan, she said.

PATRICK DALTON, representing himself, Delta Junction, testified in opposition to SB 134. He quoted Milton Freeman and Martin Anderson to support his assertion that taxes are detrimental to an economy. He views the economy as a living, breathing being. The economy is exhaling right now and we need to ride it through by cutting and staying within expenses and we will rebound on the other side of the business cycle, he said. That's what happened during the 1980s. He also endorsed the United for Liberty Plan to cut taxes and live within the budget.

[6:51:56 PM](#)

TONY TENGS, representing himself, Juneau, stated support for SB 134 as part of the solution to the budget crisis. He wishes it were more a cornerstone of the solution rather than what appears to be an add on. Income taxes were much higher in the past and the 6 percent appears to be a talking point. His preference would be for a tax closer to 10 percent. "Having a little extra to make things work is going to be important," he said. Adjusting the PFD is regressive and he doesn't like it because a three-year-old will pay as much as a millionaire.

[6:53:52 PM](#)

CAROLINE STORM representing Alaska PTA (AKPTA), testified in support of SB 134. She said AKPTA members are volunteers from across the state and AKPTA supports the Governor's plan as a starting point to balance the budget. She pointed out that 56 respondents in the latest Rasmussen poll favor the Governor's Sustainable Alaska Plan. She also stated strong support for income taxes. You get what you pay for, she said.

[6:55:32 PM](#)

ALLISON ARIANS, Region 4 Vice President, Alaska PTA, testified in support of SB 134. She said she supports the Governor's budget including an income tax. Along with thousands of PTA members in Alaska she is willing to pay for the services she receives for her children and grandchildren in the future. She reported that one of AKPTA's legislative priorities is to have a long term fiscal plan for Alaska that includes new sources of general fund revenue. An income tax is an important component of this new structure.

[6:57:49 PM](#)

JUAN SAN MIGUEL, President, Alaska PTA, testified in support of SB 134. He discussed the potential of endangering the state's credit rating by waiting to change the structure of the state's budget. He pointed out that a credit downgrade will increase costs and have a chilling effect on investments statewide. A sustainable budget includes a state income tax and Alaska PTA supports that.

[6:58:44 PM](#)

DON ETHERIDGE, Alaska, AFL-CIO, testified in support of SB 134. He read a resolution from the Alaska, AFL-CIO into the record in support of a state income tax for individuals. It is among the least regressive taxes and will generate the greatest contributions from the wealthiest citizens and nonresident workers who earned \$2.6 billion and paid no taxes. [A copy is in the bill packet.]

[7:01:39 PM](#)

SENATOR STEVENS asked if he said that \$2.6 billion was earned by people who live outside Alaska.

MR. ETHERIDGE said yes.

SENATOR STEVENS calculated that would amount to about \$30 million in taxes.

MR. ETHERIDGE agreed.

[7:02:15 PM](#)

JIMMY FOX, Vice President for Legislation, Alaska PTA, Fairbanks, testified in support of SB 134. He reported that Alaska state expenditures per capita have been almost the lowest of any state in the nation and the individual tax burden is the lowest. He said Gunnar Knapp had it right when he said Alaska needs an all of the above strategy to address the budget shortfall. That includes cuts to government spending, taxes, and

tapping into the permanent fund dividend. He urged the committee to think about this and do the research instead of talking about guns on campuses.

7:03:39 PM

LYNN HOHL, Region 6 Vice President, Alaska PTA Board of Managers, testified in support of SB 134. She shared the results of an Alaska PTA survey of 482 people from 62 towns across Alaska. When they were asked to identify the top three concerns for Alaska's children, access to quality education was the number one concern followed by student poverty, homelessness, and access to food. Relatively close third and fourth concerns were the school safety issues of bullying and peer pressure and healthy diet and exercise. The top challenge identified for Alaska public schools was appropriate class size followed by adequate funding for supplies and materials and teacher and staff retention. Since staff is the largest expense in school district budgets, and the number of certificated staff is directly related to class sizes, reductions in school funding impacts the top challenge.

She related that she paid a \$10 school tax when she worked in a Kodiak Island cannery in 1970 and it took 3 hours of work to pay that tax. She also paid an income tax on her summer wages. Paying those taxes did not discourage her from returning to the cannery for 3 summers and moving to Anchorage in 1971. She expressed support for an income tax to help pay for the many beneficial services provided by the State of Alaska, especially to help schools obtain reliable, adequate funding that is protected from the volatility of oil prices.

MS. HOHL shared a recent experience sitting next to a gentleman who worked in one of Alaska's active mines and was flying home for R&R. She asked what he would think of having to pay income taxes in Alaska to help support schools. He said of course he didn't want to pay more taxes, but understood that with the price of oil that nonresident workers may need to pay taxes when working in Alaska.

7:07:55 PM

MICHELLE LATHAM, representing herself, Wasilla, testified in opposition to SB 134. She questioned how it is fair to impose a tax that will be paid by just half the population. The administration said this tax is intended to hit those who have "the most ability to pay," but she feels it will hit those foolish enough to work. She listed the Temporary Assistance for Needy Families (TANF) program that allows people to not work for

5 years straight and still receive cash assistance, disability requirements that allow someone to be declared incompetent to work yet they can be seen driving around the community, easy income qualification parameters for Denali Kid Care, and a Medicaid system where recipients have no skin in the game. She referenced studies that show that when work requirements are stricter, welfare decreases and employment rates increase, and suggested that job programs need to be monitored more closely. She said the solution is to control spending and pass the PFD bill.

[7:11:45 PM](#)

JIM LATHAM, representing himself, Wasilla, testified in opposition to SB 134. He referred to economic studies that show that introducing an income tax in a state that doesn't have one does a lot of damage to the state's economy. He pointed out that the price of oil is likely to be around \$30 for a number of years, which will hurt Alaska's economy. He believes it is more than fair to tax nonresident workers at a higher rate. He encouraged more budget cutting measures and specifically mentioned welfare and health and social services as well as education. He would rather see no PFD than an income tax due to the negative long-term consequences.

[7:14:19 PM](#)

ELISHA WAUGH, representing himself, Anchorage, Alaska, testified in opposition to SB 134 because an income tax will take money out of workers' paychecks. He has been struggling to save money to buy a home and an income tax will make it much harder.

[7:15:05 PM](#)

RAY KREIG, representing himself, Anchorage, Alaska, testified in opposition to SB 134. The Governor's income tax bill will take \$200 million a year out of family budgets while state government has wasted \$5.5 billion on gas pipeline dreams that experts agree is unlikely to happen for decades. He urged both bodies to push back and try to restore credibility to the state by cutting billions from the budget and stopping waste before thinking of an income tax or cutting permanent fund dividends.

[7:17:43 PM](#)

HANS RODVIK, representing himself, Anchorage, Alaska, testified in opposition to SB 134. He described the individual income tax as the most egregious of the 8 bills the Governor introduced to close the budget gap. He listed three reasons why he is adamantly opposed to resurrecting the income tax: it is unfair and immoral, jobs will be lost, and economic growth in Alaska

will be stifled. He opined that the state is in this fiscal crisis for two reasons. First, Alaskans have allowed their government to spend irresponsibly for 40 years and have not demanded measures to secure fiscal sustainability for future generations. Second, the state has been unable to adequately develop its abundant resources that should have helped diversify the reliance on oil revenues.

MR. RODVIK encouraged the legislature to look at alternative ways to reduce the deficit and listed funded but unfilled PCNs, state worker healthcare contributions, Medicaid reform, and corrections reform.

[7:22:42 PM](#)

RYAN MCKEE, representing himself, Anchorage, Alaska, said one reason he is opposed to SB 134 is that state spending is out of control and unsustainable. He cited the number of unfilled but still funded positions in state government as an example. Second, implementing an income tax would hurt Alaskans without addressing the issue of Alaska's growing debt. The estimated \$200 million in annual revenue would take money out of the hands of Alaskans that is needed to cover the high cost of living. He urged the committee to oppose SB 134.

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JEREMY PRICE, Alaska Director, Americans for Prosperity, Anchorage, Alaska, testified in opposition to SB 134. He said an appropriate saying here is that when you tax something more, you get less and when you tax less you get more. He related his concern with the economic impacts of taking money from the private sector to fund government because the years of high oil prices demonstrated that government will spend what it receives. He cited a study called "Rich States Poor States" that found that states that rely primarily on income taxes routinely underperform states that do not levy taxes on personal income. He urged the committee to reject a state income tax.

[7:25:42 PM](#)

DONALD WESTLUND representing himself, Ketchikan, Alaska testified in opposition to SB 134. He said this bill will only burden people who pay federal income tax, not those who rely on handouts. He questioned whether the tax would be repealed once the deficit reaches zero. He stated support for a permanent fund bill that takes all the earnings and a consumption tax that exempts food and fuel. He questioned how government can ask citizens to pay an income tax when the legislature is still looking at purchasing a \$40 million building in Anchorage.

[7:27:41 PM](#)

TOMI MADAFFARI, representing himself, Ketchikan, Alaska testified in opposition to SB 134. He suggested the public should be able to vote on this matter. He asked if there was a chance that state employees could receive lower paychecks and benefits to help with the deficit. He described an income tax as an extortion of working people and the progress of this state and country.

[7:30:21 PM](#)

LANCE ROBERTS, representing himself, Ketchikan, Alaska stated that SB 134 isn't a good idea because taking money out of the private sector and putting it in the government sector results in a decrease in both jobs and economic output. Further, initiating an income tax to capture money from the 15 percent of nonresident workers imposes a huge penalty on Alaska citizens. The bill also implements an estate tax. That tax takes away the ability to transfer money between generations, which is often used to build new businesses. Handling the withholding tax will also impose more cost on private enterprise as well as local and state government entities, he said, because people have to be hired to take care of that. He stressed that the worst provision in the bill is allowing the department to incorporate provisions of the Internal Revenue Code into the regulations; adding: "This would allow this or future administrations to inflict the terroristic activities of the IRS on Alaskan citizens." He concluded that passing this bill "is the worst possible thing you can do."

[7:34:02 PM](#)

WES HUMBYRD, representing himself, Homer, Alaska, testified in firm support of SB 134. His feeling is that you either pay to play or you don't play. The young people who are complaining about no jobs need to find out what the real world is about because there is plenty of infrastructure in Alaska for people to make a living. He suggested reintroducing the school tax that used to be withdrawn from a worker's first paycheck.

[7:35:18 PM](#)

KEN LANDFIELD, representing himself, Homer, Alaska, testified in support of SB 134. This is the fairest and least onerous of the proposed revenue sources, and it gives Alaskans direct input into the state budget. Those who can least afford are least impacted. It's also a good selling point that Alaska would have the lowest tax in the nation. He also favors bringing back the school tax.

[7:36:44 PM](#)

MICHAEL MCCARTHY, representing himself, Homer, Alaska, testified in support of SB 134. He recently polled 200 Homer residents and found that everyone was in favor of a state income tax and vacating the new Anchorage legislative information office (LIO) building as soon as possible. That same group unanimously opposed a statewide sales tax. He opined that a state income tax will increase citizen oversight of legislative efforts because they will be more engaged.

[7:38:12 PM](#)

KELSI PULCZINSKI, representing herself, Anchorage, Alaska, testified in opposition to SB 134. She works full time and is a fulltime student. She must carefully budget both her time and money to be successful and pay for school. The proposed individual income tax would result in significant, negative changes to her life. The cost of living in Anchorage, particularly housing, is already high and additional taxes would make it more difficult to maintain her independence. This is not the way to solve the fiscal problems of the state. The problem is not a revenue shortfall, it is a spending surplus as a result of a bloated state government. Before considering increased or new taxes, significantly cut spending, eliminate waste, and rein in state government to constitutional and sustainable levels. This means limiting the funds to which the state has access.

[7:40:25 PM](#)

JAMES SQUYRES, representing himself, Rural Deltana, Alaska, testified in opposition to SB 134. He maintained that the size of government should be reduced to the inflation and population adjusted 2006 level instead of entertaining the idea of a state income tax or reducing the PFD. He encouraged members to listen to Brad Kiethley's common sense testimony before the Senate State Affairs Committee [on 2/4/16]. He stated support for the judicious use of the earnings reserve and the power of the majority to lower the overall budget to \$4.5 billion or more this year. A state income tax would only bring in about \$200 million and he believes there are easier ways to raise that amount under the current structure. For example, the legislature should revisit the issue of continuing to apply the original inflation proofing formula to the permanent fund, because 80 percent of the investments are self-inflation-proofed. He urged the committee to kill the bill.

[7:43:27 PM](#)

PAM GOODE, representing herself, Rural Deltana, testified in opposition to SB 134. She maintained that the proposed taxes are not necessary for an efficient government. She pointed out that the bill does two major things. It collects data from the federal government and it goes after earned income. She said the federal government already has a hand in one of our pockets and this bill allows state government to put its hand in the other one. That is a violation. Noting that Mr. Spanos described the tax as progressive, she pointed out that progressive taxation is the second plank on the Communist Manifesto. She restated her opposition to SB 134.

[7:45:36 PM](#)

ANGIE HUTCHINGS, representing herself, MatSu, Alaska, testified in opposition to SB 134. She asked when the state is going to actually balance the budget and how much the state is going to take from the people before the people have no more to give. It's time for the state to look at the budget and admit there isn't enough money to support everything. She favors cutting school funding and cutting funding for a lot of programs. She has yet to hear a legislator say "We don't have money for this, it's time to cut it." Stop asking the people for more money because they don't have it.

[7:49:49 PM](#)

STUART THOMPSON, representing himself, Meadow Lakes, Alaska, testified in support of SB 134. He said past indiscretions and the refusal to learn from our political heritage has led to the current financial crisis and trapped us into enacting a state income tax. Over 10 years ago he tried to proliferate state income planning by the legislature, but he was brushed off. He urged the committee to entertain the idea that ordinary citizens might help solve the financial problems. He suggested simultaneously enacting an income tax with a sunset clause and calling bands of citizens together to offer suggestions about how the state can ethically and reasonably increase revenue through new income systems. Second, the legislature must rise above the irrational notion that it can get things for free. This means stop allocating state funds to match federal fund bribery. Third, believe that Alaska and its citizens can be self-supporting and self-sufficient and then apply the great financial management maxim: income greater than outgo plus reserves.

[7:53:28 PM](#)

PAT CHAMBERS representing herself, Fairbanks, Alaska, testified in opposition to SB 134. She said an income tax punishes the

people who work and encourages the people who receive free services. She suggested cutting regulations and services on education and health and social services. Have a long-term spending plan and save for rainy days, don't touch the PFD and keep Alaska free, she said.

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SCOTT OGAN, representing himself, Palmer, Alaska, testified in opposition to SB 134. He reported that he recently retired from a state job. Before he left, he reduced his program budget by 50 percent by laying off himself and eliminating lower end positions. He suggested others could do this. He expressed disappointment that the focus is on passing taxes instead of looking at programs the legislature has created since the state started receiving oil wealth. He noted that Representative Keller has a list of those programs. Until programs are eliminated and we're back to a constitutional government we can afford, it's ill-advised and premature to initiate an income tax, he said.

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CHAIR COSTELLO held SB 134 in committee with public testimony open.

[7:58:46 PM](#)

There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 7:58 p.m.