

**ALASKA STATE LEGISLATURE**  
**SENATE LABOR AND COMMERCE STANDING COMMITTEE**

February 25, 2016

6:03 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

All members present

**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 & 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) | Scheduled but Not Heard           |
| 02/23/16 | (S) | L&C AT 6:00 PM BELTZ 105 (TSBldg) |
| 02/23/16 | (S) | Heard & Held                      |
| 02/23/16 | (S) | MINUTE (L&C)                      |

02/25/16

(S)

L&C AT 6:00 PM BELTZ 105 (TSBldg)

**WITNESS REGISTER**

JANE BROWN, representing herself  
Glennallen, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 134.

JOHN KUNIK, representing himself  
Glennallen, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 134.

JOE PRAX, representing himself  
Valdez, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 134.

RACHEL NEUENDORF, representing herself  
Soldotna, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 134.

DANIEL LYNCH, representing himself  
Soldotna, Alaska

**POSITION STATEMENT:** Testified in support of SB 134.

FRED STURMAN, representing himself  
Soldotna, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 134.

JIMMY RICE, representing himself  
Soldotna, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 134.

GEORGE PIERCE, representing himself  
Kasiloff, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 134.

SHANNON CONNELLY, representing herself  
Palmer, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 134.

PAT BRANSON, Mayor  
City of Kodiak  
Kodiak, Alaska

**POSITION STATEMENT:** Testified on SB 34.

TOM LAKOSH, representing himself  
Anchorage, Alaska

**POSITION STATEMENT:** Testified on SB 134.

CINDI SQUIRE, representing herself  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in favor of SB 134.

ED MARTIN, representing himself  
Cooper Landing, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 134.

EMILY BUTLER, representing herself  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of SB 134.

MARY NANUWAK, representing herself  
Bethel, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 134.

RANDY HOFFBECK, Commissioner  
Department of Revenue (DOR)  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions related to SB 134.

BRANDON SPANOS, Deputy Director  
Tax Division  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions related to SB 134.

DAVID MCCABE, representing himself  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of SB 134.

JANET MCCABE, represented herself  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of SB 134.

FRANK KELTY, representing himself  
Unalaska, Alaska

**POSITION STATEMENT:** Testified in support of SB 134.

TED KRIEG, representing himself  
Dillingham, Alaska

**POSITION STATEMENT:** Testified in support of SB 134.

DIANNE MACRAE, representing herself  
Kasilof, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 134.

JAMES SQUYRES, representing himself  
Rural Deltana, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 134.

**ACTION NARRATIVE**

[6:04:11 PM](#)

**CHAIR MIA COSTELLO** adjourned the afternoon meeting and called the Senate Labor and Commerce Standing Committee meeting to order at 6:04 p.m. Present at the call to order were Senators Ellis, Stevens, Giessel, Meyer, and Chair Costello.

**SB 134-INDIV. INCOME TAX: CREDITS; RETURNS**

[6:04:22 PM](#)

**CHAIR COSTELLO** announced the committee would hear public testimony on SB 134. She noted that this is the second hearing.

[6:04:40 PM](#)

**JANE BROWN**, representing herself, testified in opposition to SB 134. She maintained that the bill has more loopholes than a Jarlesburg cheese. She doubted that taxes would raise \$200 million per year and wanted to see documentation to support it. She voiced concern about how the state will collect taxes on out-of-state workers and questioned how much it will cost. She mentioned states that have credits against tax liability.

She questioned the earned income tax, citing exemptions for monies earned out of state. She suggested the death tax be in a separate bill. She asked if the U.S. government will pay taxes it has collected to the state. She didn't know what state this bill was modeled on.

**CHAIR COSTELLO** recognized Department of Revenue Commissioner Hoffbeck.

[6:08:11 PM](#)

**JOHN KUNIK**, representing himself, testified in opposition to SB 134. He maintained that the 6 percent state tax and 3 percent sales tax will not be guaranteed - they will only increase. He blamed the state for willful spending with no controls and requested it stop spending. He described how private industry manages their budgets.

[6:09:00 PM](#)

JOE PRAX, representing himself, testified in opposition to SB 134. He said he owns a business and an income tax is a disincentive to productive people who can move to other states that don't have taxes. It would cost a lot to implement an income tax.

He said that outside people who don't pay taxes use very few services. He recommended to get serious about cutting spending before looking at getting more revenue through taxation. Income tax should be the last option.

6:11:55 PM

RACHEL NEUENDORF, representing herself, testified in opposition to SB 134. She voiced concern about an income tax which would subsidize the fiscal irresponsibility of the state. It is unclear what cuts, if any, have been made to the state budget. She pointed out that the Alaska Constitution guarantees public education, and safety and well-being, and all other programs are optional. She recommended making cuts first.

6:13:34 PM

DANIEL LYNCH, representing himself, testified in support of SB 134. He stated that an income tax is fair because it taxes everyone. Many people have benefited from the state, but don't contribute anything back. He gave an example and related how he used state services when he worked in Alaska. He said he is willing to contribute and do his part.

6:15:09 PM

FRED STURMAN, representing himself, testified in opposition to SB 134. He said he cannot support taxes until at least 30 percent is cut from the state budget. People on the North Slope are taking salary cuts. He suggested to "take your time, make the cuts," and possibly use money from the CBR, and then next year start talking about taxes.

JIMMY RICE, representing himself, testified in opposition to SB 134. He thanked the committee for its work. He opined that an income tax punishes productive individuals and lets unproductive individuals pay nothing. He said an income tax in Alaska is particularly cruel and immoral because those who work will have their PFD taxed away. He said to cut the state budget to \$3 billion and repeal oil tax credits and loopholes, and keep government hands off the PFD.

GEORGE PIERCE, representing himself, testified in opposition to SB 134. He said if there has to be a tax, it should be an income

tax so everyone has to suffer. He suggested cutting more from the budget and raising taxes on resources, but don't touch the PFD.

[6:21:14 PM](#)

SHANNON CONNELLY, representing herself, testified in opposition to SB 134. She suggested cutting the bloated state budget and not imposing taxes. There has been massive overspending and there is a top-heavy administration. She said the university needs to be self-sustaining and changes need to be made to the disastrous education system.

[6:22:51 PM](#)

PAT BRANSON, Mayor, City of Kodiak, testified on SB 134. She thanked the committee for its hard work. She noted that she is a board member of the Alaska Municipal League which has put together a sustainability plan. It suggests the legislature identify ways to raise revenues. Cuts without restraint will have a negative impact on the state's credit rating. The choices the legislature makes will have a huge impact on the viability of municipalities.

She shared that local governments only have three ways to raise revenue; sales and property taxes, fees, and federal and state revenues. While the Governor's bills are an opportunity to re-think how the state spends money, local governments must still provide basic services to its citizens.

She spoke of advantages of a state income tax, but said it would be the last choice of the municipalities. She said Kodiak has a 7 percent sales tax already and taxation should remain a local government power. She hoped the legislature would first consider cuts and raising revenues.

[6:25:18 PM](#)

TOM LAKOSH, representing himself, testified on SB 134. He said more information for the public is needed on SB 134 and information on corporate taxes should be included. He suggested SB 134 impose a progressive tax instead of using the Permanent Fund and to preserve the Permanent Fund to allow an economy based on something other than oil. He also encouraged a seasonal sales tax.

CINDI SQUIRE, representing herself, testified in favor of SB 134. She suggested fine-tuning the bill. She opined that the worst thing is to try and focus on any one thing to solve the problem. She testified in support of an income tax, a local

sales tax, and slightly higher taxes on extracted resources, all of which will come together to make a big impact.

She agreed that the Permanent Fund is a huge resource and it is there for a purpose. She said it is a good opportunity to take little bits and pieces from everywhere and make Alaska's economy work.

[6:31:49 PM](#)

ED MARTIN, representing himself, testified in opposition to SB 134. He said he is against everything in the bill. Taxes aren't necessary and the Permanent Fund should not be touched. He said 74 percent of small businesses are opposed to an income tax. It is an easy way out for the legislature and the governor. He suggested selling a million acres a year to the people and using half of the Permanent Fund earnings to fund government. He was opposed to using the PFD.

[6:35:00 PM](#)

EMILY BUTLER, representing herself, testified in support of SB 134. She wished to see the individual components of SB 134 broken out and considered on their own and have more time to comment on them. She stated that Alaskans are lucky to live in Alaska and to have had a wonderful tax holiday, but it's over. She said she is ready to pay for all government services and for the people to "own the house," not the oil companies. It's a moral issue to talk about being independent, self-reliant people and yet being beholden to oil. She said it is Alaska's chance to build a state that will last longer.

She related that last week in Anchorage, she heard four or five people talking about what it will take for them to leave the state and it's not an income tax; it's schools failing, mental and health services falling apart, public media and the arts going to pieces, and having an unlivable place. She cautioned that cuts to services will mean losing a class of people and the state will be much poorer.

[6:40:20 PM](#)

MARY NANUWAK, representing herself, testified in opposition to SB 134. She said she barely has any money and a tax will hurt her financially. She won't have a house to live in anymore, and social services and mental health will not be able to help with rent. She was concerned about what is a fair share and if Social Security and retirement income will be taxed. She concluded that life is hard for one person.

CHAIR COSTELLO said that at this moment there isn't anyone waiting to talk, but the committee will stay until 8 p.m. She invited the commissioner to answer questions.

[6:44:23 PM](#)

At ease

[6:45:09 PM](#)

CHAIR COSTELLO reconvened the meeting and welcomed Commissioner Hoffbeck and Mr. Spanos to answer questions.

[6:45:32 PM](#)

RANDY HOFFBECK, Commissioner, Department of Revenue (DOR), answered questions related to SB 134. He said he appreciates hearing public testimony and the broad spectrum of opinions. He noted the difficulty of the decisions to be made.

[6:46:01 PM](#)

BRANDON SPANOS, Deputy Director, Tax Division, Department of Revenue (DOR), answered questions related to SB 134. He responded to the question about whether Social Security is taxable. He explained that if adjusted gross income is over \$32,000 half of Social Security is taxed.

CHAIR COSTELLO requested that information in writing.

SENATOR STEVENS asked for a timeline if SB 134 passes this session.

COMMISSIONER HOFFBECK answered that DOR would need policies in place by January 1, 2017, to start withholding, and then to provide staff for collections and audits by January 1, 2018. Withholding would take place in 2017 with money available in 2018.

SENATOR STEVENS summarized that withholdings would be taken by employers throughout 2017 and transferred to the state.

COMMISSIONER HOFFBECK said yes.

[6:48:25 PM](#)

SENATOR STEVENS asked how outsiders would be taxed.

COMMISSIONER HOFFBECK explained that different states have different ways of apportioning tax burden. If someone lived in Oregon and worked in Alaska, Alaska would tax the monies they made in Alaska and the individual could take that as a credit

against their Oregon state income tax. When there is no tax in Alaska, they pay the entire tax to Oregon.

If somebody lives in Texas, which doesn't have personal income tax, and works in Alaska, Alaska might get money from Texas income.

SENATOR STEVENS asked how federal employee taxes work.

MR. SPANOS answered that federal employers remit withholdings to the state depending on residency of the employee. If they are an Alaska resident, their income would be taxed in Alaska.

CHAIR COSTELLO asked him to clarify "remit withholdings."

MR. SPANOS explained that the employer must withhold the tax and remit it to the state on behalf of the employee.

[6:52:06 PM](#)

SENATOR GIESSEL appreciated the consistency of answers regarding what would be taxed under an income tax. Pensions and retirement funds would be taxed. She asked whether Native corporation dividends would be taxed.

MR. SPANOS said dividends are unearned income are generally taxed, but there is an income threshold involved.

SENATOR GIESSEL said the PFD would also be taxed.

MR. SPANOS agreed.

[6:53:31 PM](#)

SENATOR STEVENS asked for information about Section 43, the death tax.

MR. SPANOS said the death tax is widely misunderstood. The inheritance tax starts at \$10.8 million. If a person receives an inheritance above that amount, they will pay federal tax and the proposed 6 percent of the federal tax to the state. The state currently has an inheritance tax, but very few returns filed.

SENATOR GIESSEL pointed out that 45 percent of Alaskans would have no tax liability because they fall below minimum income. She asked what the minimum level of income is.

MR. SPANOS said that number was estimated based on national IRS data. He offered to provide the earning threshold data in Alaska.

[6:56:03 PM](#)

DAVID MCCABE, representing himself, testified in support of SB 134. He said a state income tax should be based on types of income taxed by federal income tax and be based on the ability to pay, and be deductible from the federal income tax. Much of it could be collected from out-of-state workers, and it could be phased in over time and apply to all kinds of income. There should also be a base level for exemption.

[6:57:46 PM](#)

JANET MCCABE, represented herself, testified in support of SB 134. She said the income is fair. People with more income would pay more. She recalled that Alaska had a state income tax until 1980, because it is a tried and true American way to raise money for public purposes in a fair way. She opined that the sales tax should be reserved for municipalities.

[6:59:39 PM](#)

FRANK KELTY, representing himself, testified in support of SB 134. He said the state is in a bad situation and needs to raise revenues now. He believed the state should use all alternatives, including capping the dividend. He likes both SB 128 and SB 114. He said the state can't cut its way out of this situation.

He pointed out that rural Alaska felt the cuts a long time ago and he provided examples.

[7:02:27 PM](#)

SENATOR GIESSEL restated her question about the minimum income level.

MR. SPANOS answered that it depends on family size and age of dependents. He referred to the tax matrix document titled "Proposed Alaska Income Tax at 6 Percent of Total Federal Tax." He related that for married with no children, the threshold is \$30,000; married with four children, the threshold is \$70,000; single with no children, the threshold is \$20,000.

He referred to a handout titled "Statistics of Income (SOI)" from the IRS website. It shows the breakdown by state of the total federal tax paid. In the lower income levels, very little or no federal tax is paid. At the \$10,000 to \$25,000 income

level, the average Alaska tax is \$40. It goes up significantly after the \$50,000 level.

SENATOR GIESSEL thanked him for the information so new listeners could hear it. She asked where the Alaska information can be found.

MR. SPANOS answered that the information is not broken down by taxpayer, it is aggregated information. It is available on the IRS website.

[7:06:06 PM](#)

SENATOR GIESSEL asked if the IRS chart is able to refine the estimate of 45 percent of Alaskans not having tax liability.

MR. SPANOS answered that the chart provides the number of tax filers - 359,000. The number of taxpayers is 285,000.

SENATOR GIESSEL commented on the number.

MR. SPANOS clarified that they are tax returns received from households.

[7:07:55 PM](#)

SENATOR STEVENS asked if it is unconstitutional to tax outsiders at a higher tax rate.

MR. SPANOS said a Yale University report indicated the U.S. Supreme Court determined it is unconstitutional to discriminate based on residency.

SENATOR STEVENS thanked Ms. Butler for her comments.

[7:09:27 PM](#)

TED KRIEG, representing himself, testified in support of SB 134. He said a state income tax is fair, but he is skeptical about using the Permanent Fund. He pointed out that rural residents depend on the PFD.

SENATOR GIESSEL asked whether commercial fishing vessels that are in federal waters and never come to shore would have to pay a commercial fishing tax.

MR. SPANOS answered that it depends. If the fish is caught in federal waters, there is no tax, but if it is landed in Alaska there is a landing tax. If it is landed in Washington, but caught in Alaska it is taxed.

SENATOR GIESSEL inquired if employees who fish in federal waters and fuel up in Alaska fall under Alaska's tax structure.

MR. SPANOS answered if the wages are earned in Alaska, they would be taxed. If they are being paid in Alaska they would be taxed. It depends on many things. He noted the throwback rule; if they are fishing in federal waters, their home state would tax them.

[7:13:42 PM](#)

SENATOR STEVENS asked if Alaskans fishing in federal waters would be taxed in Alaska.

MR. SPANOS answered yes.

[7:14:18 PM](#)

DIANNE MACRAE, representing herself, testified in opposition to SB 134. She said she is against the income tax, but would consider a sales tax. She suggested cutting the budget first. Throwbacks would contribute with a sales tax. Everyone should be able to hold their head up high and contribute.

[7:16:49 PM](#)

JAMES SQUYRES, representing himself, testified in opposition to SB 134. He said the legislature needs to cut government. He discussed how enforcement and collection of taxes would be handled. He maintained that a 6 percent inheritance tax is rude and it will cause people to leave.

SENATOR GIESSEL thanked Commissioner Hoffbeck and Mr. Spanos.

[7:21:36 PM](#)

At ease

[7:54:42 PM](#)

CHAIR COSTELLO reconvened the meeting, thanked the participants, closed public testimony on SB 134, and held the bill in committee.

[7:55:05 PM](#)

There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 7:55 p.m.