

HOUSE FINANCE COMMITTEE  
February 14, 2017  
1:34 p.m.

1:34:05 PM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Paul Seaton, Co-Chair  
Representative Les Gara, Vice-Chair  
Representative Jason Grenn  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Dan Ortiz  
Representative Lance Pruitt  
Representative Steve Thompson  
Representative Cathy Tilton  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

John Hutchins, Attorney, Department of Law; Angela Rodell, Executive Director, Alaska Permanent Fund Corporation; Ken Alper, Director, Tax Division, Department of Revenue; Taneeka Hansen, Staff, Representative Paul Seaton.

PRESENT VIA TELECONFERENCE

Carl Davis, Research Director, Institute on Taxation and Economic Policy, Washington DC; Brandon S. Spanos, Deputy Director, Tax Division, Department of Revenue.

SUMMARY

HB 115 INCOME TAX; PFD CREDIT; PERM FUND INCOME

HB 115 was HEARD and HELD in committee for further consideration.

[1:34:19 PM](#)

Co-Chair Foster discussed the meeting agenda.

#hb115

HOUSE BILL NO. 115

"An Act relating to the permanent fund dividend; relating to the appropriation of certain amounts of the earnings reserve account; relating to the taxation of income of individuals; relating to a payment against the individual income tax from the permanent fund dividend disbursement; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

[1:35:04 PM](#)

JOHN HUTCHINS, ATTORNEY, DEPARTMENT OF LAW, introduced himself and was available for questions.

Representative Kawasaki remarked that members of the other body had commented on the single subject rule and whether it applied to HB 115. He asked for comments from the Department of Law (DOL).

Mr. Hutchins answered that the test in the single subject rule was not about whether it was possible to have two analytically distinct subjects covered by the same bill; it was clear from existing Alaska case law that it was not true. For example, in *Gellert v. State of Alaska*, the court had looked at a bill that would combine small boat harbors in coastal cities and flood control projects in Fairbanks. He furthered that Fairbanks was not close to the coast, which made it easy to say the two subjects were separate. However, the court had determined it was a single subject related to navigation and water control. The pertinent question was whether there was a subject that would cover everything in the bill and whether it was too broad. He was confident HB 115 would pass scrutiny under that test for a variety of reasons.

Mr. Hutchins detailed that the purpose of the single subject rule was to prevent tactical use of the committee structure. The court had specified that one of the primary things the rule was trying to avoid was combining a multitude of different constituencies to pass legislation that otherwise could not pass on its own. He surmised that the bill could perhaps be analytically divided into a Permanent Fund component and an income tax component, but the reason for including both in one bill was not because neither would pass on its own. He continued that when considering each component separately, neither option was a popular measure that would pull a weaker bill along. He detailed that both components were millstones that could be used to sink a measure rather than the other way around; therefore, he surmised there was limited concern in that area.

Mr. Hutchins stated that more importantly, the components were both part of a solution to one problem and were interrelated - action taken on one of the components would impact the desirability of what could be done with the other, while reaching the same revenue requirement. He believed it made sense to talk about, debate, and consider amendments to the two components simultaneously in the same bill because they were both aimed at fixing the budget problem. For that reason, he would be stunned if a court decided the bill did not meet the single subject rule. He did not believe the issues could be efficiently considered without being considered at the same time.

[1:39:55 PM](#)

ANGELA RODELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, introduced herself and was available for questions.

Co-Chair Seaton stated the bill had a 4.75 percent market value draw from the Permanent Fund. He asked if the draw would place the fund at risk of depletion.

Ms. Rodell answered it was important for the legislature to know that the Alaska Permanent Fund Corporation (APFC) board of trustees did not want APFC to take a position on the bill in terms of the appropriate draw amount. She elaborated that APFC recognized it would be a give and take and that the legislature would ultimately decide on what was best for the state. She detailed that APFC would

respond accordingly. The 4.75 percent draw would generate a certain amount of money for the state budget, which the corporation would deliver if directed.

Co-Chair Seaton stated that the only other section of the bill pertaining to the Permanent Fund was a distribution draw (33 percent to the Distribution Fund for the Permanent Fund Dividend and 67 percent to the General Fund). He asked if it was an obstacle for APFC to calculate and distribute the draw to two different funds.

Ms. Rodell answered in the negative. She believed in practice APFC would remit one transfer of cash to the Department of Revenue (DOR). She detailed that DOR would then allocate the funds between the two accounts, which were under its management. A portion would be transferred into the dividend fund and 67 percent would be transferred to unrestricted general fund (UGF) accounts.

[1:43:25 PM](#)

Representative Guttenberg stated there were various flow charts showing how the Permanent Fund worked at present versus other proposals that had arisen over time. He stated it was not like going to a percent of market value (POMV) - it was not all one lump sum of cash (it involved various pots of money). He asked how similar investing the Permanent Fund based on POMV would be to the structure in HB 115 - to maximize the return.

Ms. Rodell answered it was important to recognize APFC's mandate to protect the fund principal and to maximize income. She noted the objectives could be competing because in order to maximize growth there was a tendency to take more risk, but taking more risk could jeopardize the protection of principle. The corporation had worked hard to create a diverse asset allocation that balanced the two competing requirements. She furthered that when considering the provisions in HB 115, APFC was focused on that the draw was equal to 4.75 percent of the market value and what type of liquidity it would require each fiscal year. She detailed that because it was five of the six previous years there would be dollar amount certainty on the draw amount. In other words, the current statutory process for transferring money for the dividend was based on an estimated amount of the statutory net income for the fiscal year currently in progress. The corporation was moving that uncertainty from the calculation and looking at the previous five years. The benefit to the legislature would be knowing with certainty

(at the start of session) what one of its revenue streams would be for the upcoming fiscal year.

Ms. Rodell continued that in terms of managing the investments, currently APFC did not foresee a needed change to the asset allocation and investment management. The challenge would be as programs matured, whether the asset allocation of the [Permanent Fund] Earnings Reserve Account (ERA) needed to be adjusted into a different asset allocation that more fully recognized the inability of that account to take on the risk the corpus currently endured. She underscored that the ERA could not afford to lose at all.

[1:47:04 PM](#)

Representative Guttenberg recalled voting for a constitutional amendment proposed by former Governor Frank Murkowski related to POMV. He remarked there had been numerous conversations and presentations over the years on endowments and how they worked around the world. He remarked that it was not unique in the world, but it was unique for Alaska. He spoke to establishing a fixed draw from the Permanent Fund. He asked if other nations did a fixed rate draw or a percentage of what was made on an annual basis or in five of the past six years. He asked what the usual definition was for how much money was taken off a sovereign fund. He added that perhaps there would be inflation proofing, but perhaps there would not be.

Ms. Rodell addressed one of the important distinctions between the constitutional amendment in 2003 or 2004 and what other sovereign wealth funds were able to do. She detailed that Alaska's constitutional amendment required all income go to the General Fund. She explained it was creating the machinations at present because the way traditional POMV processes work was to look at the fund value and take a percentage of the market value, which became the spend; additionally, there was no reference to realized and unrealized earnings or income (it was based fully on the value). The APFC board of trustees had enthusiastically supported the constitutional amendment because it cleaned up all the income language and made it clear that APFC would transfer a set percentage annually. It had meant the fund had no longer had to worry about inflation proofing or income, because the money was all in one big pot.

Ms. Rodell referred to the current requirement for income to go to the General Fund. The corporation was trying to make something work within the language it was required to operate under. She referenced other sovereign wealth funds and endowments and shared that she had recently seen a survey showing that the average payout on endowments was 4.2 to 4.3 percent in 2016. She reminded the committee that those endowments were able to take it without regard to what actual income was because all the income was swept back into the fund and invested. Currently in Alaska the income was flowing into another account that was available to be appropriated in its entirety regardless of the rules that were in place and the legislature was deciding how much it wanted to spend on an annual basis.

Ms. Rodell continued that when discussing inflation proofing, it was very important to recognize that because all the income flowed into the ERA, none of the gain or income generated by the corpus got reinvested into the corpus without the inflation proofing mechanism. For example, ten years back APFC had purchased an office building - the ERA bought a pro rata share of every investment the fund held - under a four to one ratio, the office had been \$50 million (\$40 million from the corpus and \$10 million from the ERA). She continued that the investment was sold in 2017 and was valued at \$100 million; the \$50 million gain went into the ERA and the \$10 million the ERA invested into the office building went back into the ERA. All the corpus received was the original \$40 million investment. She explained that if the \$60 million was needed for other purposes and it could not be reinvested for another 10 years into a long-term investment, all that would be available to put back into real estate was the original \$40 million, but at present office buildings cost \$100 million. She elucidated it was how APFC was losing investment power and why inflation proofing was so important. She underscored the need to distinguish between what the ERA could do and what the corpus could do. The accounts were very different: the corpus could not be spent, but the ERA could.

[1:52:59 PM](#)

Representative Wilson asked if there was a mechanism that would enable APFC to alert the legislature if a POMV was determined to be too high. She asked if a mechanism could be put in place to indicate if the corporation may be

endangered, may not have the ability to invest as it wanted, or may not adequately protect the Permanent Fund.

Ms. Rodell replied it was possible to include the safeguards into legislation. She referred to separate legislation (HB 61), which included a provision for a lookback to occur every three years. She believed the legislature would be alerted well before the three-year mark, based on her experience reviewing various reserve levels annually with the legislature. However, it would be nice to codify it in the legislation to force a lookback to check on whether things were working out as anticipated.

Representative Wilson asked for verification the bill did not currently have the provision. Ms. Rodell replied in the affirmative.

Representative Pruitt stated that one thing he had not seen in any of the bills in the current year was providing APFC with the tools to manage what it had. He cited procurement changes as an example. He remarked that the legislature was putting more weight on APFC and he wondered if the corporation believed some changes to give it the ability to hire and manage the fund were still needed. He asked why the corporation felt the items were good to have.

[1:55:29 PM](#)

Ms. Rodell answered that the previous year the corporation had asked for an exception to the state procurement that had not been included in one of the bill version's procurement language. She noted it was an important tool. Currently the APFC was not exempt from state procurement, while other agencies such as the Alaska Housing Finance Corporation (AHFC) and the Alaska Retirement Management Board (ARMB) were. For example, if the corporation wanted to hire an expert consultant for a private equity engineering idea, the corporation would have to go through the state's procurement process to hire the engineering consultant. Often investments did not have the six to eight-week lead time to allow for procurement, getting the individual up to speed, and get the work done; it potentially meant a 12-week delay, which would result in lost opportunity. The corporation was seeking relief that its other partners like ARMB had. The corporation was seeking the ability to manage more quickly and be more flexible in its response. None of the bills currently

accounted for the requested change. She would love to see the detail added to a bill or to a standalone bill.

[1:57:43 PM](#)

Representative Pruitt believed Ms. Rodell's testimony was that the ERA needed to be managed differently than it had been managed in the past. He was trying to understand how the need for increased liquidity impacted the corporation's goal. He asked if the corporation's goal remained at 6.95 percent for the fund overall if the bill passed with the 4.25 percent draw.

Ms. Rodell replied it was a challenging question to answer. Part of it was the tension surrounding the corporation's desire for the legislature to do business as usual and to continue to manage the fund as it always had. The APFC board target return was 5 percent plus CPI [Consumer Price Index]; the 6.95 percent was a forecast generated by [fund consultant] Callan Associates based on the fund's asset allocation. She elaborated it was the median forecast - there was a 50 percent likelihood of achieving better returns and a 50 percent likelihood of achieving below that result. She explained that instead of leaving the ERA alone and merely taking its statutory net income calculation to pay out dividends, the fund was being considered for a budget stabilization fund. She was concerned that even though the POMV was sustainable, the corporation had a fiduciary responsibility to be prudent and responsible. Hypothetically, if all that was left in the ERA (after the budget passed in the current year) was \$5 billion and the 4.75 percent, 5.25 percent, or 6 percent draw came with the expectation \$3 billion would be needed for FY 19, she would want to invest the \$5 billion the same way the corporation would have at present, knowing that it could not afford to lose; a minimum of \$3 billion was needed.

Ms. Rodell continued that it was challenging to answer these types of questions because if there was a severe down market (e.g. down 24 percent as in 2008) and there was an excess of \$2.5 billion in losses. She asked what the response would be if she came to the legislature in January of 2018 and reported that the money had all been lost because the market was off. At a minimum she wanted recognition that if the corporation was going to invest the way it always had, there needed to be awareness that the ERA would lose some years. She elaborated that if the state

could not afford the loss, perhaps the solution was something different than or a mitigation of was under discussion. It was a recognition that the return was not 6.95 percent on the ERA or a recognition that there were other mechanisms that could be discussed. She recognized the challenge facing the state and the need for using the fund. She did not want the legislators to misinterpret her statements to not touch the fund.

[2:02:46 PM](#)

Vice-Chair Gara stated regardless of the percentage selected (e.g. 4, 4.5, 5.25 percent) if there were poor consecutive market years and the legislature implemented a statutory POMV, he surmised the state would probably be in trouble and the issue would have to be dealt with at that time.

Ms. Rodell believed it was fair to say.

Vice-Chair Gara remarked that no one believed a constitutional amendment was likely; if there was majority support to do something with the ERA, it would be statutory. He assumed the legislature would act appropriately if there were numerous consecutive poor market years and no POMV formulas worked because there were no earnings remaining. Separately, he referred to prior testimony by David Teal, Director, Legislative Finance Division related to a 4.25 or a 5.25 percent POMV of five of the past six years, which Mr. Teal found reasonable provided that if there were multiple negative stock market years something different would need to be done. He asked if Ms. Rodell could agree.

Ms. Rodell believed all the numbers spoken about in the current meeting were in the realm of reasonableness.

Vice-Chair Gara noted that Ms. Rodell had been very clear that at some point she would like to see inflation proofing return, which had been absent in the past two years. He observed that the state's budget was still strapped. He asked if she would feel more comfortable if there was an inflation proofing mechanism put in place.

Ms. Rodell replied in the affirmative. The only way for future generations of Alaskans to get the same type of benefits the population was currently receiving off the

fund, was for the Permanent Fund corpus to retain its investment power; it would be diminished without inflation proofing.

Vice-Chair Gara believed the most comfortable part of inflation proofing would be if someone put a substantial amount of money into the fund principal. He thought it was the most comfortable scenario for the corporation.

Ms. Rodell replied the most comfortable place to be was somewhere in the waterfall, preferably at the top - to take a bit each year. If the legislature opted to allocate a lump sum to the fund, she questioned whether the state would track what inflation proofing would have been in 2016, 2017, and other years where a moratorium was taken. She stated the method was a possibility without knowing what inflation in those future years would be.

[2:07:11 PM](#)

Vice-Chair Gara provided a scenario where there was a formula specified that would cap the amount taken out of the ERA and the account grew. He asked if the scenario would provide APFC some comfort even in the absence of annual inflation proofing.

Ms. Rodell replied in the negative because the ERA could be spent for any purpose at any time. She used Vice-Chair Gara's scenario with the addition of a catastrophic event that led to a bad budget gap year, which meant the draw from the ERA needed to be larger than 4.5 to 5.25 percent. She spoke to flexibility given to the ERA and explained that part of the nice thing about inflation proofing was that the funds went back into the corpus and kept the corpus value growing. She elaborated that it would avoid the current debate of determining what the ERA should be spent for.

Vice-Chair Gara asked if a hard cap on what could be spent from the ERA would cause Ms. Rodell some comfort.

Ms. Rodell replied "no."

[2:09:20 PM](#)

Representative Thompson surmised the current bill did not include anything to address revenue volatility of revenue,

yet it appeared the governor's plan included some items that addressed the issue. He asked if he was accurate.

Ms. Rodell believed comparing the two bills was challenging, because the HB 115 included the income tax components, which led to a different revenue outcome than the governor's bill in terms of volatility. She stated the Permanent Fund needed to not be the only answer to the budget deficit, because it would have volatility in outcome. She did not know how much volatility in outcome the legislature was willing to take.

Representative Ortiz referred Ms. Rodell's response to an earlier question that she was not comfortable supporting one plan over another. Ultimately, the legislature would have to decide on one type of plan versus another or on no plan at all. He asked if it was safe to assume that investment return fluctuation was the biggest threat to the success of any plan. He asked if that was true.

Ms. Rodell replied in the affirmative. She clarified that they did not necessarily need to be talking about a scenario where the market was down 20 percent (i.e. events that occurred once every 20 years). She was referring to a scenario where the fund returned 1 percent per year for a variety of reasons and fixed income rates were low. She cited the volatile 2015 stock market as an example. The concern was not about multiple years of losses, but about years with very low returns, which prevented the generation of significant income. A recognition of the potential impact was important. She relayed the state faced significant volatility in revenue sources through oil commodity prices. There would continue to be volatility in revenue, although it would probably be smoother than it had been in the past, due to the five-year average and other things.

Representative Ortiz set the volatility aside. He asked otherwise if it was as simple as looking at the difference between the various plans regarding the POMV draw and weighing it as a tradeoff where the lower the POMV draw, the lower the revenue for the GF. He asked if it was that simple.

Ms. Rodell answered in the affirmative.

[2:14:14 PM](#)

Representative Pruitt addressed the topic of inflation and noted it had not been done for the fund over the past couple of years. He believed the current bill and several bills aimed at dealing with the issue with the four times amount that spilled over. He surmised it could create a situation where the corpus was not maintained at the needed level going forward. He referred to the current bill where two-thirds would go to government and one-third would go to the dividend. He asked if a form of inflation should be included. He asked how to design it if so. He wondered if it would merely follow the CPI.

Ms. Rodell responded that HB 115 and HB 61 were helpful in that they both provided a mechanism of inflation proofing. She clarified that the calculation of four times had no relationship to inflation or what would have been deposited had the existing statutory remained in place, but it created a recognition that some money should flow back into the corpus. She believed some ways to look at it related to the definition of statutory net income. She knew that HB 115 had eliminated "available for distribution" and had changed it to "market value." The legislature could choose to put it into a waterfall or in the definition of statutory net income subtract an amount out - statutory net income by definition, would be the amount available for distribution that was deposited into the ERA. There were probably a couple of formats. It was important the bills contemplated inflation proofing and did not do away with it all together. She believed it was hard when language was repealed to reinstate it. She recognized that the bill did contain a mechanism, albeit it was not perfect. The perfect scenario would be something higher up that was automatic each year.

[2:17:50 PM](#)

Representative Pruitt asked what if part of the issue was merely changing definitions. For example, perhaps the definition of income was changed. He cited Ms. Rodell's earlier building example where \$40 million ten years after the investment had been made should be valued at "x," so that the income remaining within the principal became whatever would have been adjusted. He asked if definition mechanisms could be used.

Ms. Rodell deferred the question as it related to constitutional law interpretations and the definition of income. The Permanent Fund had been in place 40 years and there had been a series of attorney general interpretations over the years and different kinds of investments had been added to the fund. She was hesitant to fully respond, but she could follow up with his office on what options may be.

Co-Chair Seaton spoke to the four times the draw remaining and waterfall that would be designated for inflation proofing. He stated the modeling took effect, but not annually. He looked at balancing the draw and inflation proofing. He asked if Ms. Rodell was referring to a scenario where the draw was increased to 5 percent and 0.25 percent was dedicated to inflation proofing.

Ms. Rodell answered in the affirmative.

[2:20:28 PM](#)

Vice-Chair Gara remarked that having the current statute specifying inflation proofing was nice; however, the legislature did not follow it the past two years. He surmised that one of the bigger threats to inflation proofing was the failure for the state to have a way out of the fiscal crisis. He asked Ms. Rodell if she believed letting the fiscal crisis continue was a threat to inflation proofing.

Ms. Rodell answered that her job was to protect the corpus of the fund.

Vice-Chair Gara asked for verification the fund had not been inflation proofed for two years. Ms. Rodell answered in the affirmative.

Vice-Chair Gara understood that APFC could not get involved in politics. He referred to an earlier question by Representative Thompson related to the various bills. He recalled that Ms. Rodell had testified that since the bill was not only reliant on Permanent Fund revenue to fund public services, but it also had another element to produce revenue it gave her more comfort. He wondered if he had mischaracterized her statement.

Ms. Rodell replied that she had been trying to point out that the bills were not an apples-to-oranges [apples]

comparison because there was other income [in HB 115], which may have dampening effects that other bills did not have because of the combination nature of the bill. As opposed to pulling two bills together making it a plan.

Vice-Chair Gara asked if Ms. Rodell was using the term "dampening effects" to mean less pressure on the Permanent Fund if there was extra revenue coming in besides revenue from the Permanent Fund.

Ms. Rodell answered in the affirmative.

2:23:04 PM

CARL DAVIS, RESEARCH DIRECTOR, INSTITUTE ON TAXATION AND ECONOMIC POLICY (ITEP), WASHINGTON DC (via teleconference), introduced himself. He relayed that ITEP was a nonprofit and nonpartisan research group based in Washington, D.C.

Co-Chair Seaton asked if Mr. Davis had experience with Alaska's taxes and fiscal situation.

Mr. Davis replied in the affirmative. He detailed that ITEP had done two reports on Alaska's fiscal situation the previous year. The first report had looked at a variety of different packages for raising revenue to help close the budget gap. The institute maintained a microsimulation tax model, which was similar to a model maintained at the federal level by the Congressional Budget Office and the Joint Committee on Taxation. A number of states maintained the models as well. The model contained information on taxpayers' incomes, consumption habits, property owned, how much gasoline they purchased, etcetera. When there was a proposal to change state tax law, ITEP could run it through the model to determine how it would impact a state's population. The organization had the model for all 50 states and the country. The model could analyze changes in the dividend, the creation of an income or sales tax, gasoline tax changes, and other. The model could produce revenue figures, similar to the information included in the fiscal note by DOR.

Mr. Davis continued that ITEP could also break down the revenue by income level to show whether a tax would fall primarily on middle, high, or low-income families. The focus of ITEP's reports thus far had been largely on changing the dividend and the potential of enacting an

income tax and how the two may balance. The organization recognized that Alaska was facing a fiscal challenge that would not be fixed with only one solution. The solution would likely involve a package of changes; how that package was comprised had very different impacts in terms of the distribution. For example, if the package relied more heavily on scaling back the dividend, it may impact low-income families more heavily. Whereas, a package relying more on income tax could hit higher income families more. A mix of the two may end up with a more proportioned result where similar shares of income were paid by individuals at different income levels.

[2:26:58 PM](#)

Co-Chair Seaton asked what kind of workload and timing on a work product looking at the provisions in the bill. He asked if the entity could do the work in a reasonable timeframe.

Mr. Davis answered in the affirmative. The organization was intending to do an analysis on the bill in the next several weeks. He relayed that ITEP liked to take its time and ensure it accurately captured all the nuances. He had taken a preliminary look at the income tax in the bill and offered to report on how it stacked up nationally.

Co-Chair Foster agreed.

Mr. Davis reported that it was tricky comparing income taxes across states because every state had different exemptions, deductions, and different rates. The simplest way to measure was to look at the size of the overall tax relative to a state's economy. The organization had found that relative to Alaskans' personal income, the tax would collect about 1.5 percent of the state's personal income. He advised the committee that the rate would vary by income level. For example, a very low-income earner paying the \$25 minimum tax could be paying a rate significantly below 1.5 percent, whereas, the rate could be higher than 1.5 percent for higher-income earners. Overall, the tax was equal to about 1.5 percent of Alaska personal income. Relative to other states, the proposed tax would be the fourth lowest broad-based personal income tax in the nation. Currently, the country's lowest personal income tax was in North Dakota, which was the second most energy dependent state. State's with significant energy revenues could raise

revenues in nontraditional ways. North Dakota also had a 5 percent sales tax, which also helped explain why it had a such a low income tax. Additionally, Arizona and Louisiana had smaller income taxes than the tax proposed in HB 115. Arizona got by on levying the 11th highest sales tax rate in the country and Louisiana recently took the top spot in sales tax, which averaged at 10 percent when state and local taxes were combined. He concluded that states with income taxes smaller than the tax proposed in HB 115, was generally because of significant energy revenues or sales tax revenues.

[2:30:13 PM](#)

Co-Chair Seaton requested to receive the information in writing.

Co-Chair Foster agreed to follow up to ensure the information was received.

Vice-Chair Gara provided a scenario where states taxed at a percentage of the federal income tax rate. He noted states did not currently use this method. He asked if it was possible to determine where the bill ranked with other states with income tax in terms of what percentage of the federal tax rate states were charging.

Mr. Davis responded that the bill topped out slightly below 6 percent on ordinary income, which took 15 percent of the top federal tax rate of 39.6 percent. He stated it was below the national median and average in terms of a top income tax rate of 6.4 percent. He continued that it was possible to take a look by income level to see how it stacked up on a more fine-grained level.

[2:32:28 PM](#)

Vice-Chair Gara relayed it would be useful to know what percentage of the federal tax rate the proposed tax would charge and how it stacked up to what percentage of the federal tax rate other states charged. He understood that other states taxed differently and had individual percentages as opposed to taxing a percentage of federal taxes. He was interested in the average percentage of federal taxes charged by other states.

Mr. Davis replied he could provide the information.

Vice-Chair Gara asked how many tax brackets existed in the federal tax code.

Mr. Davis reported there were seven federal brackets. He noted that occasionally the issue was brought up in the context of simplicity and whether having more brackets was complicated. He explained that most taxpayers did not notice how many brackets existed; there was a table at the end of the tax booklet that reported a tax amount based on the individual's taxable income. The number of brackets needed to be thought through carefully, but the average taxpayer did not generally notice.

Vice-Chair Gara stated that there could be a proposal to tax a certain percentage of the federal tax. For example, the proposal could pick 15 percent of the federal tax to tax each bracket. If one of the tax brackets was 20 percent and the state taxed 15 percent of the amount, the tax would be 3 percent. He reasoned that under the scenario the state would have a set number in statute if federal taxes went up and down. He asked if Mr. Davis could provide the seven tax brackets.

Mr. Davis answered in the affirmative. He believed the approach was reasonable in terms of lessening the vulnerability of the tax to whatever changes may be passed by Congress. It was necessary to think through how federal tax credits came into play. If there was interest in keeping a linkage to federal tax liability, but limiting the extent it would swing with whatever federal changes were enacted, some states used use fixed date conformity. He detailed that the method meant not automatically coupling to whatever the Internal Revenue Code happened to be at a given point in time. The method meant coupling to a version of federal law. For example, it would be possible to specify that Alaska's income tax was based upon federal law as of January 1, 2017. He explained that the date could be updated from time-to-time if the federal government enacted tax changes, but when Alaska was debating whether to update the date, it would have information at its disposal showing what Congress had enacted and what would occur if the date was updated to January 1, 2018 when federal taxes may be significantly lower.

[2:37:10 PM](#)

Representative Guttenberg was interested in hearing Mr. Davis's perspective on comparing apples-to-apples. He explained that it could be difficult analyzing things when they were so different in Alaska compared to other states. For example, when comparing tax liability, Alaska had the Permanent Fund. He noted that other places had sales taxes that could have a cap (e.g. there could be the same cap on tax for a new or old car). He continued that there were deductions and other calculations for income tax. He asked how accurate could a comparison could be between Alaska and other states.

Mr. Davis responded that it was complicated because every taxpayer's financial situation was different. For example, if there were two individuals with identical incomes, but one owned a larger home or had a home in a more expensive area, that individual would pay significantly more property tax. Additionally, if one individual's buying habits were different they could pay significantly more sales tax. Where an individual's income was derived could make a difference, given that social security income had a partial or full exemption. Hypothetical examples could illustrate how individuals were impacted at different levels.

Mr. Davis addressed how individuals were impacted by a different mix of policy options. He detailed if a \$500 million revenue package was constructed in the form of a sales or income tax, the University of Alaska had done a study showing that most residents would end up paying significantly less under the income tax option. He explained that an income tax could raise more revenue from individuals with very large incomes and the income collected from low, middle, and even upper middle-income taxpayers were significantly lower. He added that something like the Permanent Fund Dividend, being unique to Alaska, complicated comparisons across states. The organization tried to be mindful about those things, but it was difficult to generalize too much because it depended on each taxpayer's specific financial situation.

[2:41:09 PM](#)

Representative Pruitt asked who Mr. Davis was and he wondered why he was selected to testify. He asked if ITEP had worked on tax policy for the Alaska Legislature in the past.

Mr. Davis reported that the organization did research in 50 states; ITEP was a small and could sometimes be spread a bit thin. The previous year it had done a report supported by the Rasmussen Foundation that had been published online. The organization was funded by foundations including the Annie E. Casey Foundation and Ford Foundation (the list of donors was available on the ITEP website). The organization's work was largely pro bono; it used the tax model to help fill informational voids at the state level. At the federal level there were already numerous groups doing distributional and revenue analyses of tax policy changes. The capacity within government to do the analyses varied from state-to-state. The company frequently helped to fill in the gaps.

Representative Pruitt referred to an informational sheet on the ITEP organization in members' packets (copy on file). He read from the company's mission statement:

ITEP is committed to fair and sustainable tax laws that protect lower income Americans from aggressive policies while generating revenues adequate to serve the public interest. ITEP's timely, accessible, and accurate analysis for advocacy groups and public servants who share that commitment.

Representative Pruitt observed that the mission statement did not include a conversation related to the impact on the private sector or the economy as a whole. He asked what role those things played in ITEP's modeling.

Mr. Davis stayed that there was a debate on dynamic scoring and whether tax policy changes should be analyzed in the light of what broader ripple impacts the changes would have on the economy. It was a straighter forward matter to consider how a tax proposal would impact the current economy. When starting to try to determine impacts on the broader economy, the question became much more complicated, particularly at the state level. He elaborated that at the state level, states were generally not able to run a deficit for a sustained amount of time; any change in tax policy would generally lead to a change in spending policy as well. There were states with analysts that would attempt to analyze the economic impact of a change in tax policy. He explained it was not possible to answer the question unless what the change in tax policy would fund was also analyzed. He detailed if the money was spent on

infrastructure, there were measurable impacts of infrastructure spending as well. There were longer-term, less measurable impacts of education spending.

[2:45:50 PM](#)

Mr. Davis continued that the economic analysis of tax policy became much more speculative. He furthered there were limited things states could do in terms of their tax policy to impact their economies. Evidence from states that had recently changed their personal income tax rates showed that about half of them did better after the change and the other half did worse. He explained it was hard to tease out the effect of the tax policy change because there were so many other things happening (e.g. a decline in manufacturing, an influx in revenue due to nice weather, and other). He concluded the economic impacts were not as easily measured as the distributional impacts.

Representative Pruitt surmised the organization focused on what it took to fill the gap and the levers a state could move to limit the impact on certain populations. He asked for verification that the economic analysis was for the legislature to determine separately.

Mr. Davis agreed. He added that the organization did not make statements or judgements about the appropriate level of taxes, which was outside its purview. Once it had been decided that a certain amount of revenue needed to be raised, ITEP could help fill in gaps about what it meant to raise it in various ways. He believed the economic impact it was much more speculative and was not something that could usefully be modeled with economic models at the state level.

[2:48:18 PM](#)

Representative Grenn asked which state most recently implemented an income tax. He knew Michigan had implemented an income tax a few years back. He asked about the environment in which the tax had been implemented and whether ITEP had done any associated reports the committee could review.

Mr. Davis replied Connecticut had enacted an income tax in 1991 and had expanded what had been a tax on investment income. New Jersey had implemented had implemented an

income tax in the 1970s. Generally, the states that had enacted income taxes had been a facing budget gap. He continued that income tax tended to be enacted during tougher times. He had recently seen an analysis about the 11 states that had most recently enacted income taxes. He believed the source of the study was Arthur Laffer. He noted that Mr. Laffer was known for the Laffer Curve - the idea that certain types of tax cuts could produce such explosive economic growth that they ultimately pay for themselves.

Mr. Davis believed the look at the 11 states could have been useful if it had been for a randomized experiment of states spread out across the country that were demographically or economically diverse. However, all 11 states had been concentrated in the Mid-West, Appalachia, and the North East - many states that could be characterized as the Rust Belt including Michigan, West Virginia, Ohio, Pennsylvania, and Indiana. There was history of states that had recently enacted income taxes, but it was difficult to tease out the effects of tax policy changes on the economy versus other bigger picture things that had already been going on with manufacturing or westward migration.

[2:51:12 PM](#)

Co-Chair Seaton asked if Mr. Davis was familiar with any other states with a minimum tax like the one included in HB 115. He detailed the bill had a \$25 minimum tax for any filer.

Mr. Davis answered the method of a minimum tax was more commonly seen in corporate income taxes (e.g. \$100, \$250, or \$500). He did not believe any state had a minimum under the personal income tax. Many states allowed their income taxes to go negative through refundable credits (e.g. earned income tax credit, which was offered in 26 states). He noted that most of the taxes were refundable, but not all. Alaska was a unique state with the Permanent Fund Dividend, which may take some of the interest in refundable tax credits off the table. He shared that Oklahoma and Hawaii had no minimum tax and offered refundable credits to offset things like its sales tax on groceries. He reiterated that the minimum tax at the state level was primarily confined to the corporate income tax.

[2:52:46 PM](#)

Co-Chair Seaton believed the tax in the bill was simple. He detailed it was 15 percent of line 56 plus 10 percent on line 13. He was trying to determine if they did not use the bill's current method and went to generating each of the exemptions, deductions, tax brackets, and what the percentages would be for the tax brackets. He asked if ITEP had followed income tax debates in other states. He asked if the generation of the exemption and deduction and percent for tax brackets was long and complex compared to the tax method in HB 115.

Mr. Davis responded it had been so long since a state had enacted an income tax, but some had changed brackets in more recent years. Much of the negotiation tended to happen behind closed doors and there were many tradeoffs involved if a bracket was changed by one amount, an exemption was changed by another, and the sales tax base was also changed. There were numerous moving pieces. At the same time there were other states like Alabama, Virginia, and West Virginia that enacted brackets and personal exemptions decades ago, which they did not appear to have revisited in subsequent years. In some cases, it was a problem because they had written their bracket and exemption amounts in flat dollar terms. Bracket creep could occur, where flat dollar amounts were not updated for inflation and eventually the personal exemption was so small in real dollars it became meaningless and everyone became subject to the top income tax rate.

Mr. Davis continued that \$5,000 decades earlier may have been a significant bracket, whereas currently, it was almost a token bracket. It was a fact under any tax and may be witnessed even more under sales tax in terms of negotiating over exemptions. State sales tax bases tended to be incredibly narrow, not just carveouts for things like groceries or prescription drugs. He cited exemptions for broad types of personal services like haircuts and massages, business services like accounting or legal fees, and industry specific exemptions. There would always be significant wrangling over which exemptions should be created or closed for any type of broad-based tax.

[2:56:19 PM](#)

Vice-Chair Gara asked if any states took the federal taxable income line and came up with their own tax rate within each bracket to avoid fighting over exemptions and deductions.

Mr. Davis replied in the affirmative. The states that started with federal taxable income and applied their own brackets were Colorado, Minnesota, North Dakota, South Carolina, and Vermont. He noted the states typically offered their own tax credits as well. The method made the forms significantly shorter and simple. States would often couple to federal adjusted gross income. He agreed that coupling to federal taxable income would make simplify things - it came prepackaged with a personal exemption, standard deduction, and set of itemized deductions.

Vice-Chair Gara referred to a taxable and adjustable gross lines. He knew there were several different lines for income on the income tax form, but he did not remember what they were. He asked about the differences. He wondered if it was taxable income and adjustable gross income.

Mr. Davis answered the two lines were adjusted gross income, which was a fairly comprehensive measure of income, although it included certain adjustments for things like self-employment taxes or moving expenses. There were a handful of adjustments. Adjusted gross income was a broad measure of income. An individual could subtract up to \$4,000 per family member. A taxpayer could also subtract either the standard deduction or homeowner property taxes and mortgage interest. Other items that could be subtracted were charitable donations, state income tax, and sales taxes (in states without income tax). The taxable income definition was lower down the form and tended to be a smaller amount for most people because by the time a taxpayer reached that point, exemptions and deductions had been subtracted.

[2:59:36 PM](#)

Representative Wilson asked if Mr. Davis knew the minimum earning amount before a person had to file.

Mr. Davis answered in 2016 the minimum was earning level was \$10,350 for a single taxpayer and \$20,700 for a married couple. There was also the head of household filing status - a single person taking care of children did not have to

file unless they earned over \$13,350 per year. Many taxpayers may choose to file anyway to claim tax credits (e.g. child tax credit or earned income tax credit).

Representative Wilson had thought the amount was much lower. She thought it was \$400 or \$500 of interest or income that a person had to file and that they got it all back. She asked for verification that a single person did not have to file unless they brought in a minimum of \$13,000 in income.

Mr. Davis affirmed. He believed the number was built from taking the personal exemption - nobody was taxed on the first \$4,000 of income. Under the standard deduction, nobody was taxed on the next \$6,000 or so. The exemption and deduction combined created a filing threshold.

[3:01:31 PM](#)

Co-Chair Seaton clarified that Mr. Davis was talking about earned income. There was also a threshold of \$1,050 for unearned income; if a person received more than \$1,050 from unearned income they qualified to file.

Representative Wilson asked for verification that if the dividend was \$1,100, everyone in Alaska would be required to file.

Co-Chair Seaton answered, "either that or children receiving that can be filed on their parents' form."

KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, addressed the committee. He could not speak authoritatively to the federal tax code. He asked for a repeat of the questions.

Co-Chair Seaton referred to Representative Wilson's question about what it took to be required to file a federal tax form.

Mr. Alper did not know with any certainty. He shared that his family's taxes were prepared by an accountant. He had three children and even when the dividend had exceeded \$2,000 a couple of years back, they had been able to file as part of his family return.

Representative Wilson stated that the committee had been told that a person was not required to file under certain circumstances. She referenced the \$13,000 threshold cited by Mr. Davis. She surmised that if the \$13,000 was correct, the only people the \$25 minimum would apply to was people receiving earned income. She asked if her understanding was correct.

Mr. Alper replied that the \$25 minimum tax would be per filer and anyone required to file the tax return (anyone earning income in the state) would pay \$25 if the formula sent them to zero. Minors with no income, who were dependents on someone else's return, would be part of that person's tax calculation.

Co-Chair Seaton pointed to the tax tables in members' packets titled "HB 115: Estimates for Income Tax and PFD Refundable Tax Payment; Estimated Federal and State Income Tax for Year 2016" (copy on file). He pointed to a scenario on the third page of a married couple with four children - there was a \$25 minimum tax at \$20,000 up to \$70,000. Other people who were single with no children never reached the \$25 minimum and paid at \$20,000. A single person with two children would pay the minimum through \$40,000 (shown on the third to the last page); at \$50,000 an individual would pay \$243 for the Alaskan income tax. He stated that how a person filed was dependent on whether they were married, single, or had children.

Representative Wilson surmised that a person earning \$19,999 would not pay tax because the minimum was \$20,000. She thought it had sounded like everyone would have to pay the \$25 at whatever level - she guessed it was \$30,000 for a married couple with no children. However, she noted that Mr. Davis had testified that a person could chose to file - the minimum was \$13,000 for a single individual and \$20,000 for a married couple - because they may have low enough income to receive earned income back. She stated that if a person was not eligible for earned income because they earned slightly over a certain amount, they would not file or give anything. She thought there could be two people making similar income and one person may file while the other may not. She expounded that the individual filing was only doing so to get some income back into the household, but the bill would mean they would be charged \$25.

[3:07:37 PM](#)

Co-Chair Seaton clarified the handout did not reflect the complete tax table - it only represented relevant incomes. He explained that if someone filed and earned \$13,000, the federal tax as a percent of gross income was 0.00. If a married couple with no children earned \$20,000, they would not pay any federal tax, but they would pay a \$25 minimum tax to the state. He continued that the couple had not reached enough income to pay more than the \$25 - as soon as income reached \$30,000, the taxpayer would pay \$140.

Representative Wilson thought there could be a situation where a child would have to pay \$25 as well, depending on how much their interest or other income they may receive.

Co-Chair Seaton replied in the affirmative.

Vice-Chair Gara asked if the \$25 minimum tax applied to every adult without a federal tax liability.

Co-Chair Seaton replied in the negative. He clarified the minimum \$25 tax applied to every required filer. He detailed that taxpayers earning \$30,000 would pay \$140 in tax, but they did not pay \$25 in addition to that amount. He clarified that \$25 was the minimum tax people would contribute.

[3:09:54 PM](#)

Vice-Chair Gara expressed confusion about who the \$25 minimum tax applied to. He asked if the tax would apply only to individuals required to file, but who did not pay a tax. Alternatively, he asked if it applied to people earning below the required filing level.

Mr. Alper referred to page 5 of the legislation and read: "an individual required to make a return under the Internal Revenue Code shall also file with the department a return." He clarified the language applied to individuals filing with the federal government for any reason. He remarked that the examples provided by the co-chair the previous day were a bit stylized because every family's circumstances were different (some taxpayers would itemize). At around \$20,000 a person would have some federal tax liability; if a person had some federal tax liability that calculation would govern. He continued that if a taxpayer had numerous children with many deductions, even if a person was at a

higher income (the tax calculation may bring them to zero), the bill ensured that the person would pay a minimum of \$25 to the state.

Vice-Chair Gara was trying to understand at what minimum income a person would not have to pay the \$25.

Mr. Alper answered that a person filing taxes had to pay the \$25. He explained that "pretty much everyone" would have to pay. He believed it was \$25 per household.

[3:11:56 PM](#)

Vice-Chair Gara was trying to understand the \$25 minimum. He did not understand the federal rules on who had to file when they did not owe a tax liability. He continued there were different categories of people - those who did not have to file, those who had to file even though they had no federal tax liability, and those who had a federal tax liability and had to file.

Mr. Alper deferred to a colleague.

Vice-Chair Gara asked who would pay the \$25 minimum tax. He asked if everyone would pay or if it only applied to individuals at a certain income level.

Mr. Alper answered that some fraction of taxpayers filed their federal tax and owed zero; the number changed from year-to-year and varied widely throughout the country. Based on the best available data, DOR presumed that about 25 percent of the taxpayers in Alaska owed zero federal tax for one reason or another (i.e. earned income tax credits, the number of individuals in a household, and lower income). For its fiscal note, the department had presumed about 100,000 taxpayers out of 400,000 households would be at the zero federal rate. Per the statutory rate of 15 percent, those taxpayers would owe zero; individuals owing zero federal taxes would pay \$25 in state tax.

Vice-Chair Gara expressed confusion about filers who did not pay. He asked if an adult would be required to pay the \$25 tax if their only income was a \$1,020 Permanent Fund Dividend.

Mr. Alper believed Vice-Chair Gara was trying to determine who had to file with the federal government at all. He deferred the question to a colleague.

BRANDON S. SPANOS, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), answered the federal minimum for individuals required to file was \$10,300 gross income for individuals under the age of 65. An individual who was not a dependent and received an \$1,100 dividend would not have a filing requirement if that was their only form of income because it was under the \$10,300 threshold. Dependents earning over \$10,050 of unearned income were required to file their own tax return or usually with their parents. Individuals under the age of 65 filing as head of household who earned less \$13,250 had no federal filing requirements. Under HB 115, individuals would not have to file if there was no federal filing requirement. Many people chose to file even if they earned less than \$10,000 because they had withholdings and could get a refund.

[3:16:47 PM](#)

Mr. Alper added that an individual making less than \$10,000 may not have to file, but could chose to file if they had withholding they wanted back. Also, if the individual had dependents who also had to file, it may be easier for the entire household to file together. He clarified that even if they did not need to file because of the individual's income threshold, they may need to because of a child's income threshold due to the PFD.

Co-Chair Seaton provided a scenario of an adult head of household with dependents receiving the PFD. He asked if each member of the household would have to pay the \$25.

Mr. Alper answered that if a child was filing an individual return separately, they may individually be susceptible to the \$25 tax. However, if the household filed together there would be a single \$25 tax.

Representative Wilson asked for clarification. She surmised that a person would not be subject to the \$25 tax if they did not have to file, but decided to file because they had children and could receive earned income back.

Mr. Alper believed the individual would be subject to the \$25 tax. He thought that filing the Alaska tax return would trigger the \$25 minimum.

Representative Wilson disputed the statement. She noted that Mr. Alper had pointed out that a person was subject to the \$25 tax if they were required to file an income tax return. However, those earning below a certain income were not required to file, but could choose to do so because it would be financially beneficial. Under the scenario, she questioned how the state could make them pay the \$25.

Mr. Alper responded that if a person chose to file the federal return, they would be required to file the Alaska return. He believed the benefit received would have to be reduced by the \$25.

Co-Chair Seaton relayed it was a good reason for committee discussion. He wanted to make sure the intent was clear.

[3:20:04 PM](#)

Mr. Alper explained if the bill became law, DOR wanted to ensure the regulations were written in accordance with the legislature's intent.

Representative Wilson stated that the \$25 was based on how many returns a household gave. She provided a scenario where a household included three adult children with their children as well. She asked for verification that the household would only be charged one \$25 tax if they filed as a household.

Co-Chair Seaton believed it was the way the bill was currently written.

Representative Wilson was not objecting, but just wanted to understand.

TANEEKA HANSEN, STAFF, REPRESENTATIVE PAUL SEATON, replied that the ability for a dependent to file under the household - if they had unearned income such as the PFD - required the dependent to be under the age of 19. Adult children living in a parent's household would be required to file for their own PFD.

[3:22:12 PM](#)

Representative Wilson relayed she was not referring to unearned income. She understood that earned income could only come from a parent who had children in the household based on their income; however, they could still have others living in the household who were making some money, but not enough money to file. She explained that when her children had been in college they had still been her dependents. Although they had earned some income, it had not met the filing threshold. She was trying to ensure that the \$25 fee was not based on how many adults lived in a household.

Ms. Hansen replied there was a requirement to file for unearned income for a dependent if the unearned income exceeded \$1,050. Children could be claimed by a parent, but only if they were under the age of 19. An adult receiving a dividend living in their parents' house would need to file for the dividend. Any child under the age of 19 could be claimed on their parents' return.

Representative Thompson noted the bill did not address the volatility of revenue. He believed the governor's plan would. He asked for detail.

Mr. Alper answered HB 115 had a relatively stable annual draw from the Permanent Fund earnings towards the General Fund as well as another that flowed directly to the dividend. The governor's bill - the Permanent Fund Protection Act - had a slightly higher draw at 5.25 percent. There was a claw back feature where if GF oil revenue from the production tax and royalty grew above a certain amount, there was a dollar-for-dollar pull back of the PF draw, equal to the amount of the oil money above the \$1.2 billion threshold. It protected against the circumstance in where the event of a big boom in oil revenue an increase in PF money could overheat government or cause an unsustainable runup in expenditures. When long-term modeling was done it included high and low years and there could be a slightly higher annual draw at 5.25 percent with the expectation that at some point in the next 25 years there would be a few years where the full amount was not taken due to the volatility provision; the average draw would remain at a sustainable number.

[3:25:33 PM](#)

Representative Pruitt commented that he had heard no discussion about military personnel living out-of-state receiving a PFD. He asked if the bill would mean the state would have to chase the individuals for the \$25.

Mr. Alper answered that certain types of military wages were exempt from the income tax. There were a number of rules unique to service personnel and the federal income tax. One of the weaknesses was a lack of expertise on individual income taxes at DOR, given that Alaska had not had an income tax in 35 years. The department would need to learn more about the subject. He hoped the state would not expend significant resources chasing after people living out of state; however, people living out of state should not be claiming a dividend.

Representative Pruitt noted that the state had allowed provisions for military personnel intending on coming back to Alaska. He believed they needed to be very clear about how they respect military personnel living in Alaska those that planned on living in Alaska. He noted the fiscal note addressed 100,000 taxpayers paying the \$25 minimum tax rate. He spoke to a withholding and estimated it was \$1 per pay period (twice a month). He asked about the cost to the state in administering the \$25 for 100,000 taxpayers. He asked how the department would ensure the state was receiving the \$25 and what would happen for nonpayment.

Mr. Alper answered the individuals would have to file because they were filing a federal tax return. If individuals were not filing with the state, but were filing with the IRS, the state would go after them for failure to file. He continued that if an individual filed, but failed to send the \$25, it was something the state would have to address. There were a number of small dollar people owing money in taxes, which was not the highest priority. He did not know if the amount owed could be attached to a person's PFD, but he thought it was likely. He spoke to the cost of administering the tax and remarked there was significant paper involved. The fiscal note indicated that as many people as possible would file electronically. However, a \$25 check required no fewer resources than required to produce a \$2,500 check; there would still be substantial data entry.

Representative Pruitt referred to a bill introduced by the governor the previous year with a 6.25 percent. He recalled

an estimate from DOR of around 60 people. He believed the fiscal note for HB 115 was similar. He asked if the estimate was still the same.

Mr. Alper replied in the affirmative. The department was estimating roughly the same additional staff increment to administer and be prepared to deal with 400,000 income tax returns on an annual basis.

[3:29:26 PM](#)

Representative Pruitt stated HB 115 was very different; it was not a flat 6.25 percent of a federal tax, which was simple - information from federal taxes could be paired. Whereas, HB 115 had other moving mechanisms connected to whether an individual decided to check the box for the dividend and/or had paid the \$25. He asked staffing would still be 60 people or if the Permanent Fund Dividend Division would also need additional people. He reasoned more people would be needed because he thought the work under HB 115 would be a bit more burdensome.

Mr. Alper answered that he could only speak to the Tax Division. He believed the Permanent Fund Dividend Division had its own fiscal note, but he did not believe there was additional staffing needed. The math of the 15 percent tax versus the 6 percent tax proposed by the governor the prior year (the 10 percent capital gains tax). He stated that the arithmetic was largely done by computers. The biggest burden from a staffing point of view would relate to a multistate individual; ensuring the person with income in and outside of Alaska was paying the appropriate share to the state. The underlying complexity of the tax formula was secondary to that.

HB 115 was HEARD and HELD in committee for further consideration.

[3:31:18 PM](#)

Co-Chair Seaton reviewed the schedule for the following day.

#

ADJOURNMENT

[3:31:54 PM](#)

The meeting was adjourned at 3:31 p.m.