

HOUSE FINANCE COMMITTEE  
February 21, 2017  
1:33 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 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

Jerry Burnett, Deputy Commissioner, Treasury Division, Department of Revenue; Taneeka Hansen, Staff, Representative Paul Seaton.

PRESENT VIA TELECONFERENCE

Ken Alper, Director, Tax Division, Department of Revenue; 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.

Co-Chair Foster reviewed the agenda for the day. He first wanted to address the fiscal note from the Tax Division of the Department of Revenue (DOR). The component number associated with the fiscal note was 2476. He invited Deputy Commissioner Burnett to the table. Mr. Alper and Mr. Spanos from the Tax Division were available online.

#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."

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Co-Chair Foster invited Mr. Alper to introduce himself. [There was no response].

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AT EASE

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RECONVENED

Co-Chair Foster invited Ms. Hansen from Representative Seaton's office to the table.

Representative Wilson referred to page 4, lines 16-17, which indicated that 15 percent of an individual's total federal income tax would be due or \$25, whichever was greater. There would be a \$25 charge for individuals who did not have a tax liability so that everyone in the state was contributing. However, she thought the fiscal note implied the tax had only to do with a person's federal income tax liability.

TANEEKA HANSEN, STAFF, REPRESENTATIVE PAUL SEATON, drew attention to Page 5, subsection C. She read from the bill:

An individual who, under federal law, is not required to file a federal individual income tax return is exempt from the tax due under this chapter.

Ms. Hansen clarified that if an individual was not required to file, they would not be required to pay the \$25 minimum tax.

Vice-Chair Gara mentioned that there was a class of people required to file who did not end up paying anything. He asked about the cutoff for a single person. Ms. Hansen believed members had a one-page document in their files that contained the information. She recalled that if a person's income was below \$10,300 they would not have to file. For an individual making above that amount but who did not have a federal tax liability, their tax liability would depend on the number of their dependents and other exemptions. They would likely pay a minimum tax.

JERRY BURNETT, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, addressed the fiscal note for DOR, Taxation and Treasury Tax Division, Office of Management and Budget component number 2476. He started out with the supplemental request on Page 1. It was a capital supplemental request for \$14 million to extend and add a new module to the tax revenue management system. It was funding that was needed as soon as possible. The supplemental amount of \$250,000 was needed for writing regulations. The FY 18 appropriation was for 10 full-time and 8 part-time positions. The division would not be fully staffed in FY 18 because of not receiving tax returns until later in the year. However, set up was needed. In FY 19, the division would have 35 full-time and 15 part-time positions. At full implementation by FY 20 the division would employ 45 full-time and 15 part-time positions. The part-time staff would handle all of the paper applications. The department was assuming that the online and paper applications would match the percentages associated with the Permanent Fund Dividend (PFD) program (83 percent online, and 17 percent on paper). He relayed that in 1979 or 1980, the last time the state had an income tax, the state actually employed more staff than what was being suggested. It was very difficult to go back in the records to determine an exact amount, but he thought it was over

100 staff due to the structure. At the time, the state did not have a Tax Division or the Permanent Fund Division. There was an enforcement division and an audit division. He reported there were 62 people within the Administrative Services Division that handled accounting and collections. The structure was different at the time and difficult to compare with today's.

Mr. Burnett highlighted the revenue assumption and the increase in undesignated general fund (UGF) revenue from the Permanent Fund portion of the bill and the income tax. In FY 19 and FY 20, with full implementation, he anticipated revenues of about \$2.3 billion. For example, in FY 20, he anticipated \$1.697 billion of non-UGF (converted to UGF) and \$648 million from the income tax portion of the bill.

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KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference) introduced himself. He relayed that a portion of the money from the PF, called new money, showed up and was subtracted from non-UGF. The bottom line total was the incremental revenue from the income tax. There was a detail on the income tax on page 2 of the handout. It showed that about \$3 million would come from the \$25 minimum tax. [Mr. Alper's testimony became inaudible].

Co-Chair Seaton interrupted Mr. Alper because he was too difficult to hear due to a poor connection. Mr. Burnett relayed the comments from Mr. Alper. Approximately \$3 million of the total income tax revenue would come from the \$25 amount. The charts that showed the totals were on the second page of the fiscal note. It showed the income tax revenue and other.

Representative Wilson mentioned a hypothetical scenario with a single parent. She wondered if the parent would be assessed a \$25 tax. Mr. Burnett thought Representative Wilson was correct. He would double check.

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BRANDON S. SPANOS, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), stated the Representative Wilson was correct. He added that if a single mother made under the threshold in gross income

before any deductions (last year the threshold was \$10,300 gross income), she would not be required to file a federal return. Therefore, under the draft language, she would not be required to file an Alaska income tax return or pay the \$25 minimum tax.

Representative Wilson asked if the same applied to a college student. She wondered if it all depended on income. Mr. Spanos responded, "As long as there was no filing requirement." He clarified that for a student it depended on whether they met other requirements such as age and other things. If they were filing as a single person and have a gross income of \$10,300 or less, they would have no filing requirement. The state would know what the person filed with the IRS assuming they were honest in their reporting. Representative Wilson hoped they were honest.

Representative Kawasaki referred to page 4 of the fiscal note which talked about 400,000 tax returns. He asked if the 400,000 returns included the total number of returns from residents and non-residents. Mr. Burnett responded affirmatively. Representative Kawasaki thought the department's figure for manually processed applications, based on the PFD Division online filings, was low. He thought there would be several applicants that were not part of the online system. Mr. Burnett commented that it was difficult to tell because the program would be different. In his personal experience, he filed out-of-state tax returns online.

Mr. Spanos told of receiving the information from the State of Vermont because it had a similar population base as Alaska. The estimate of 400,000 included residents and non-residents. Regarding the online filing requirement, there was a simple methodology through the IRS called modernized electronic filing. Anyone that filed their return with the IRS could piggyback that and the state would accept it in the modernized electronic filing format. Anyone using the standard TurboTax, or a similar program could select to file electronically with the state. They could also login to the state's revenue online system.

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Representative Pruitt wondered about a person being able to write off their state income tax on their federal income tax. He thought the challenge would be for the individual

to determine their state income tax based on their federal income tax since it could not be completed without knowing the amount of their state income tax amount. He asked how they would make the write-off calculation. Mr. Spanos pointed out the circular logic. He suggested that a person would report to the IRS on a cash basis. They would include what was withheld from their W-2 as their state tax liability. If a person received a refund or ended up paying more tax they would receive another form from the state which would be reported on the following year's tax return.

Representative Pruitt asked if he would be able to write off the state income tax he paid for 2015 on his 2016 taxes. Mr. Spanos responded in the negative. He explained that the write-off would equal what a person paid from their withholding in calendar year 2016. For example, if a person made quarterly estimated payments and had written checks to the state, those amounts would get reported on their federal return. If a person had withholdings from their paycheck, they would report that amount to the IRS as their state tax. He noted that the majority of folks end up getting a refund and paying less than what they reported to the IRS. The following year they would report what was withheld less the refund that they received for the previous year. The timing difference would be made up in the following year.

Representative Pruitt returned to the discussion about staffing. In the previous year, the department reported needing an additional 60 positions. He thought the number of additional positions remained the same with the current legislation. He asked for the department's justification. Mr. Burnett was familiar with both of the fiscal notes. He responded that the need had more to do with the number of filings rather than their complexity. The audit staff would be concerned with the complexity of the filings. The department might require putting more emphasis at the audit staff level. In terms of actually doing the day-to-day work, much of it was automated. The sole function for many of the positions would be scanning and documenting the filings. The system would match things up. Over time, the department might need more or less in terms of the number of positions but currently provided its best estimate.

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Co-Chair Seaton clarified that the previous years' bill, HB 365 [Legislation introduced in 2016 - Short Title: INCOME TAX; PERMANENT FUND TAX CREDIT}, had a 15 percent and 10 percent capital gains component to the bill. He indicated that the current bill had the same components.

Representative Pruitt continued that there was an effort to move people towards online filing in conjunction with the PFD filling. Since the state was establishing a system presently, he wondered if there was anything prohibiting the state from starting off with the expectation of e-filing or online filing to streamline and save costs. Mr. Burnett noted that in the previous year the legislature had passed a bill that required all of the state's taxes to be presumptively filed electronically. The difference in the current bill was that it would affect many individuals. He thought the question should be directed to the sponsor of the bill rather than DOR. The Department of Revenue would prefer to have PFD applications and any taxes presumptively done online, as it saved time, effort, and money. It was not possible or practical for everyone to do that. Administratively speaking, electronic filing made sense.

Representative Thompson referred to page 2 of the fiscal note. He noted there was a FY 17 Permanent Fund earnings Percent of Market Value (POMV) of \$1.446 billion. He wondered if it was a retroactive FY 17 Permanent Fund draw. If so, he asked if the money would be deposited into the Constitutional Budget Reserve (CBR) or elsewhere. Mr. Burnett deferred to Mr. Alper. [Mr. Alper tried to respond but was inaudible]. Mr. Burnett answered that the governor's budget for the current year assumed a draw in FY 17. The bill was consistent with the budget under consideration.

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Representative Thompson was still confused with FY 17. Mr. Burnett responded that the budget, as introduced, had a draw from the Permanent Fund in FY 17 with the presumption that it would reconstitute a portion of the CBR. It would reduce the draw from the CBR fund for FY 17. Representative Thompson remained perplexed. He wondered if both the FY 17 draw of \$1.446 billion and the FY 18 draw of \$1.527 billion would be drawn from the Permanent Fund in FY 18. Mr. Burnett responded that the effective date would allow a

portion to be drawn in FY 17 and another portion to be drawn in FY 18.

Representative Thompson asked if the retroactive draw would reduce the amount taken out of the CBR in FY 17. Mr. Burnett responded that Representative Thompson would be correct, assuming there were not expenditures made by the legislature in FY 17.

Co-Chair Seaton asked if there were further questions. He asked Mr. Burnett if he was going to present the other DOR fiscal notes. Mr. Burnett was happy to do so. He referred to the fiscal note, OMB component 2310, by the Alaska Permanent Fund Corporation (APFC). The fiscal note was zero assuming there were no changes in the management of the Permanent Fund as a result of the bill. The analysis spoke to the annual draw which was shown in the Tax Division's fiscal note, rather than APFC's fiscal note. It showed that the corporation did not expect any managerial changes in their operations budget as a result of the bill.

Representative Wilson indicated that when APFC came before the committee, they informed members there would be an impact depending on the size of the draw. There were other things that could impact it including market performance. Since government was turning to use the Permanent Fund, the corporation would potentially invest differently. She referred to page 2 of the note which contained language that relayed the difficulty of being able to forecast whether the asset allocation for the earnings reserve account (ERA) would be impacted to a degree that would affect investment manager fees. It was clear to her, based on the comments made by Angela Rodell of APFC, that if the legislature started using the reserves for government, investment practices would be impacted. She thought the information should be part of the fiscal note. Mr. Burnett stated that Ms. Rodell approved the fiscal note completed by her staff. She noted that if there was a change, it would be a reduction in management fees as opposed to an increase. The fiscal note showed a zero fiscal impact and assumed that there would be a positive budgetary impact rather than a negative one.

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Representative Wilson wondered where the legislature would see the potential negative impact if APFC was not investing

at its current levels. She compared a change in investment practices to a person's retirement stage. The Alaska Permanent Fund Corporation would scale back on high-risk investments and not yield as high of investment returns. She wondered where such a change was reflected in the fiscal note. Mr. Burnett answered that it would not be reflected in a fiscal note. Ms. Rodell spoke to the committee and discussed the possibility, depending on the POMV structure and how future markets behaved, of an impact on returns. It was not clear what the impact would be. The bill did not define a certain amount of money that would be put aside and kept liquid, it was simply a draw, unlike the CBR. The Constitution Budget Reserve had to be kept liquid because it had to be readily available. It would not necessarily change the overall investment performance of the fund. It had the potential to change if there was a series of bad markets and the ERA was drawn down. It was not something anyone would expect or predict.

Representative Wilson remarked that was not she had heard. She reported Ms. Rodell had emphasized that if the state were to start taking out money and changing the reason for the Permanent Fund, it would have an impact. It was unclear of the negative impact. She was concerned because APFC reported that it would definitely begin to invest differently. She wanted additional clarity. Co-Chair Seaton responded that the committee could bring Ms. Rodell back to answer members' questions. His interpretation was that if the state drew down too much of a POMV, which was the reason for keeping 4 times the annual draw, there would not be a change in structure. There would be plenty of liquidity. If the state took too large of a percentage, the corporation would be forced to change its investment strategy to maintain liquidity. As long as the ERA was kept at healthy level, there would not be a problem. He agreed with bringing Ms. Rodell back to answer questions, as the committee was not in a rush. He wanted to avoid speculation.

Representative Wilson agreed. She reemphasized hearing Ms. Rodell talking about looking to invest in the same fashion in a fund that would keep growing as a savings no one would rely on except for the dividend. If the state was going to be using it for government, the investors would invest differently. She hoped her question could be answered.

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Representative Guttenberg was under the impression that, whatever the management style, one group managing the Permanent Fund would be told to do "X" instead of "Y." However, the particular component only dealt with outside management fees rather than the result of an investment style. He thought it could impact how the state managed the fund and the investment manager fees. He argued that it was not possible to tell what affect it would have. It was outside of the Permanent Fund to pay for management fees. He wondered if he was correct. Mr. Burnett responded that the fiscal note was for management fees paid for by APFC to money managers for the Permanent Fund. The changes in the bill were minimal compared to other changes that were in the budget such as adding investment officers, or changes in market value of the fund due to market experience. The bill was not what would cause a change in their budget.

Mr. Burnett reviewed the fiscal note by DOR, Taxation and Treasury, Permanent Fund Dividend Division, with OMB component number 981. The fiscal impact for ongoing operations was zero. However, there was and \$8,000 programing charge at the very beginning due to changes in the application. The workload and operations of the Permanent Fund Dividend Division would not change.

Representative Pruitt gave his interpretation which he thought was the same as Mr. Burnett's.

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Mr. Burnett thought it was a very simplified way of looking at it. When a person applied for their PFD, they would be able to specify that a portion of it could be used to make their tax payment. It would be an estimated amount. For some people, the amount might equal their entire dividend and for others, only a portion of it. Co-Chair Seaton added that there might be a checked box to specify that a person would not owe anymore.

Mr. Burnett had reviewed the fiscal notes from DOR. There were also fiscal notes by the Department of Corrections (DOC) and by the Department of Administration (DOA). He could speak to the fiscal note by DOA. The fiscal note had to do with the Office of Administrative Hearings. The department was estimating hearing costs in the amount of \$174,000 in the first year and staying in the \$170,000

range in the out years. The Office of Administrative Hearings had looked at other states with personal income taxes to estimate hearing costs. Appeals were anticipated, as some people believed the state did not treat them well in the collection of their taxes. The fiscal note reflected general funds. He mentioned the possibility of substituting a fiscal note in interagency receipts and putting the general funds in DOR's fiscal note. The amount had to come from one place or the other.

Representative Wilson mentioned those individuals that did not live in the state, especially if they had a joint return where some assets were in Alaska and some were in another state such as Washington. She asked if appeals came from folks with joint returns or from Alaskan residents. Mr. Burnett was not positive where the appeals would come from. He described the appeal process. The first appeal would be handled within DOR. If it was not satisfied there, it would go to the Office of Administrative hearings, then to court. He suggested that a person could suspect that there would be appeals by people, whether they had income earned in the State of Alaska or attributed to the State of Alaska. However, there were a number of other reasons. He cited an example.

Representative Wilson asked about a scenario with a couple where one person worked in Alaska and the other did not. She asked about the person earning income in the state and whether they would only claim their job income from Alaska. She relayed that most of their assets, like a checking account, might be in Washington state, for example. Mr. Burnett deferred to Mr. Spanos.

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Mr. Spanos wondered if Representative Wilson was asking whether an employee who worked only on the North Slope, lived in Washington, and had income from investments and other sources would only be paying income tax on the portion from the North Slope. Representative Wilson responded in the affirmative. Mr. Spanos indicated she was correct. If income made working on the North Slope was the only source of income they made in the state, they would only be paying tax in Alaska on the North Slope income.

Representative Wilson asked about a resident with a business outside of the state. She wondered if that

business would only be taxed by the other state. Mr. Spanos responded that it depended on whether the other state had an income tax and the income tax was as much or greater than in Alaska. If so, the income would presumably be taxed in the other state. The business would get a credit. However, if the business was in a state with no income tax, then it would be taxed entirely in Alaska due to the person's residency in Alaska.

Representative Wilson suggested that if she had investment properties, such as rentals, in other states as long as the states had an income tax, she would be able to apply her credits to her Alaska filing. Mr. Spanos relayed that for the investment income, as long as it was taxed by that state, a person would receive a credit against taxes paid in Alaska.

Vice-Chair Gara asked how the interstate tax compact worked. It was easy to understand that with a state income tax, a person would be taxed on their Alaska income. There were two parts of the bill's definition of Alaska income: one for individuals who earned their wages in Alaska and one for businesses. Issues arose when a person had a business in another state, such as Arizona. It would be different if a person did not pay Arizona taxes versus if they did pay Arizona taxes. He thought the interstate tax compact came into play in certain circumstances. Mr. Spanos could not speak to whether it was based on the interstate tax compact. There was some general language provided by the Multi-State Tax Commission to help with interstate taxes. It was based on fairly apportioning income to where it was earned to avoid double taxation. A tax could be found unconstitutional if it did not fairly apportion income or apply income to its source.

Vice-Chair Gara thought the multi-state issue was that there were constitutional limitations. The states that participated found a way to avoid double taxation by adopting similar rules. He asked if he was correct about the idea behind the tax compact. Mr. Spanos believed Vice-Chair Gara was referring to corporate taxes. He referred to unified taxation between states which was the pre-factor formula that the state had for corporate taxes. The formula included property, payroll, and sales. He continued that if every state had the exact same statute, the income would be fairly apportioned among the states. It had been some time ago that the Multi-State Tax Commission had suggested such

language. Alaska had incorporated the language word-for-word into Alaska's statute (AS 43.19). However, most states have changed it slightly so that if a person had a business in all 50 states, they might be taxed on their income more than once. The courts have looked at whether it was fair if state tax was applied in all 50 states.

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Vice-Chair Gara interrupted Mr. Spanos. He was not trying to use Mr. Spanos' time on his own bill. On the bill before the committee, he wondered about a business outside of Alaska that sold products in Alaska. He wondered how the tax would be applied. Mr. Spanos asked Vice-Chair Gara to clarify his question. Co-Chair Seaton asked Vice-Chair Gara to limit his questions to the topic of individual income tax.

Vice-Chair Gara wondered about an individual (Not a C corporation) who owned a business in Arizona and lived in Arizona but sold products in Alaska. He asked if the income tax would apply to them. Mr. Spanos restated the question. Vice-Chair Gara was talking about a business that operated via the mail and had no presence in Alaska. Mr. Spanos responded that generally, for corporations, the US Supreme Court found that companies would not have a taxable nexus in Alaska without a physical presence. He thought the same would apply to S corporations, partnerships, and sole proprietorships. Generally, an income tax would not apply unless a business had an employee in Alaska receiving and dispersing goods, an office in Alaska, or a sales person that traveled to Alaska occasionally to make sales calls. These conditions would create a physical presence nexus and trigger Alaska to apportion part of the business' income. Most states did not tax only sales. He thought the same would apply to individual income taxes.

Representative Pruitt spoke to the fiscal notes and the Office of Administrative Hearings. He spoke to tax auditors and the need by 2020. He asked how many IRS tax auditors were in Alaska. Mr. Burnett did not know. Mr. Spanos did not know.

Representative Pruitt asked about the need for auditors. Mr. Spanos replied it would depend on several factors. He recently spoke to the House Finance subcommittee about corporate income tax auditors. He had stated that if the

department had more resources, it could potentially raise more revenue. He thought the same would apply to individual income tax. Generally, most states had discovered that by adding additional auditors, more revenue was generated. Most people tried to avoid or evade paying taxes. People tended to be more diligent about reporting all of their income when additional auditing was taking place.

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Representative Pruitt referred to the Office of Administrative Hearings' request for one full-time auditor. He noted that in the seventies Alaska's income tax accounted for about 20 percent of the workload for 3 revenue appeals officers. Since that time, the state has increased by 84 percent. He asked if the state would eventually need another administrative judge. He wondered if one position was sufficient, as the state had grown substantially. Mr. Spanos answered that the individual income tax cases in other states were mostly resolved or settled at the first stage of the appeal, which in Alaska was handled by DOR. The Office of Administrative Hearings indicated the one position would be sufficient for now. The complexity of cases would influence hiring. He suggested that most cases were easily resolved through an informal conference. If individuals were appealing that they did not have a taxable nexus, the appeal process would be more complicated and require going up further in the appeal process.

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Ms. Hansen was available for questions.

Representative Pruitt thought it would be interesting to hear from the Board of Public Accountants. He suggested asking the board for a name of someone to talk to about some of the complexities and potential challenges with the bill. He mentioned the focus had been on the income tax portion of the bill rather than on the Permanent Fund. He opined that for many people, changes to the Permanent Fund would have a larger impact. He hoped to hear from an outside economist about the impact individuals. He thought the macro side of things had been explored. However, he wanted to know what a middle-class individual should expect. He wanted to better understand how things would

trickle down. He asked if the committee would be hearing a different perspective.

Co-Chair Foster thought the committee could work with Representative Pruitt in finding an individual or organization to come before the committee. He invited Co-Chair Seaton to comment.

Co-Chair Seaton responded that they had heard testimony from the Institute of Social and Economic Research and Northern Economics and other people who had done reviews looking at impacts to the economy. He did not have anyone lined up to speak to the impacts of individuals. He offered that 41 other states had income taxes with neighboring states with income taxes. The complexities of in-state and out-of-state income taxes and filing returns in multiple states was a very common process across the United States. There were only 7 states that did not have an income tax. He was not sure who he would invite to testify but would appreciate any suggestions.

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Representative Wilson asked if there was any income excluded from the bill. Ms. Hansen responded that the bill was based on federal tax liability. Therefore, anything taxed at the federal level would be taxed at the state level with the exception of things states were not allowed to tax. For example, income from federal bonds was an exemption in the bill.

Representative Wilson asked if a sole proprietorship would be taxed differently from a limited liability corporation. The income from her sole proprietorship was reported on her federal income tax filing. She would be taxed at 15 percent. If she were a different entity she would not be taxed at the same level. She asked if she was accurate. Ms. Hansen believed she was correct but deferred to Mr. Spanos. Mr. Spanos responded that S corporations and partnerships had pass through income, meaning that the income was not taxed at the partnership or S corporation level. Rather, it was reported down to the individual owners or shareholders. They reported that information on their federal Form 1040 and paid taxes on it federally. It would be included as income.

Representative Wilson asked if an individual and a sole proprietor would be taxed in the same way. She asked if there was a difference. Mr. Spanos answered that a sole proprietor would fill out a Schedule C form showing income and business deductions. A business partnership would file Form 1065 and would report it to the individual. Income and deductions would be reported proportionate to a partner's percentage of ownership. The rules could become complicated. If a partner owned 50 percent of a business, they would report 50 percent of the income and take 50 percent of the deductions on their individual income tax return.

Representative Wilson wondered if a study had been done showing that businesses would leave Alaska because of a sweeter deal in another state that did not have an income tax. She asked if there was any data or a map showing who would be paying income taxes. She thought the same people who were already paying property taxes and sales taxes would be paying income taxes. She wanted to know who would be paying income taxes and other taxes in different areas of the state. She did not want the same people being taxed over and over again.

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Co-Chair Foster wondered if there was anyone wanting to address Representative Wilson's question.

Representative Wilson was not expecting that someone would be able to draw her a map quickly. She wanted to have a better understanding. She mentioned hearing about high-income and low-income folks but thought all of the bills targeted middle-income people. She did not believe it was anyone's intention to target one specific group of people. She thought a map would be helpful.

Co-Chair Foster asked if there was anyone willing to look into it and get back to the committee. Representative Kawasaki informed the committee that there was a report sponsored by the Rasmussen foundation that came out in late April 2016. It discussed exactly what Representative Wilson had brought up. It used a generic income tax model along with a PFD testing regressively. There were documents specific to Alaska and specific to certain types of taxes.

Co-Chair Seaton pointed out that there were no other income taxes in Alaska. He noted that no local jurisdictions had income taxes. The proportion of income tax that would be paid was based on a person's income and location. If people worked on the North Slope and were high-income individuals, they would be paying on their income. There were no other state taxes except the fuel tax. The taxes at local jurisdictions that had been voted on to pay for special services were different from taxes paid to the state treasury to provide infrastructure in Alaska. He thought it was important to distinguish state taxes from local taxes and not refer to them as double taxes.

Representative Wilson did not believe it was the intent of any member to overburden any one group. She agreed that not all taxes were state taxes. However, they were all taxes on Alaska residents. She thought it was important not to lose sight of the burdens being placed on Alaskans. Although some taxes were not imposed by the state, they still had a significant effect on Alaskans.

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Representative Grenn echoed Representative Pruitt's desire for a more detailed breakdown regarding individual tax payers. He noted he had sent out the tax matrix document to some of his constituents. It was a good matrix which included single, married, and married with children. The chart was a good starting place. He wanted to see additional detail and echoed Representative Pruitt's proposal to get more information.

Representative Tilton had a technical question on taxation. She relayed that when a person filed their taxes they could take a deduction of their state income tax. From her understanding, though, a person could not deduct a state income tax and a sales tax at the same time. The person would be paying a tax on the sales tax. She wondered if she was correct. Mr. Spanos clarified that Representative Tilton was saying that the federal government did not allow a person to deduct both an income tax and a sales tax. He thought she wanted to know if they would be paying tax on a sales tax. He asked her if he had understood her question correctly.

Representative Tilton suggested that a person would be paying a tax on a tax that had already been paid. Mr.

Spanos responded that the deduction for sales tax was a line item deduction on the federal form which allowed a person to receive a benefit for taxes paid to the state. The income tax and the sales tax were not quite the same. There had been complaints from states that imposed a sales tax but not an income tax about not receiving the same benefit as other states with an income tax. It was similar to congress applying the allowance per deduction against sales tax. If someone claimed the income tax because it was a choice, a person could claim their income tax or sales tax, whichever was most beneficial to the individual. If someone were to choose to claim their income tax because it was more beneficial, they would not be really losing anything and would not be paying the income tax twice.

Representative Tilton agreed that they would not be paying an income tax twice. However, their income could be higher because they would not have the deduction. Mr. Spanos responded, "Correct." They would have to choose to deduct either their state income tax or the local sales tax. Representative Tilton also wanted to know more about how the bill would affect private sector jobs and the state's economy overall.

Vice-Chair Gara referred to Representative Wilson's question about whether companies would come to or leave Alaska if the state imposed an income tax. He suggested that every business in the world would be in the 9 states that did not have an income tax right now if it was a company's goal to locate to a place with the lowest income tax. He mentioned that Alaska had the fourth lowest income tax in the nation. He requested that Mr. Spanos address his points.

[2:51:27 PM](#)

Representative Pruitt referred to a question he had asked a prior day. He had heard the answer but was not comfortable with it. He had asked about 401K plans and the elderly. He noted 10 percent would be added to capital gains. He could not understand the answer that was provided. The idea was that a person could offset their taxes until later. Many people operated under the understanding that Alaska did not have an income tax and they planned on retiring in the state. He wanted to confirm that the state would be imposing an additional 10 percent capital gains tax on top of the federal capital gains tax of 28 percent. He wondered

if he was correct about the ramifications for a senior drawing from their 401K. He wondered how such a policy would impact Alaska's senior population which was currently growing. Ms. Hansen responded that she was in the midst of putting together a list of how the different pension disbursements were counted. Some would be counted as capital gains and some would not. She would be able to more cleanly answer his question once she completed the list.

Representative Pruitt asked for more information to be provided. Mr. Spanos added that most 401K plans were taxed as ordinary income at the same income rate as a paycheck. Co-Chair Seaton added that the purpose of the capital gains tax was to approximate the taxation on capital gains as if it were ordinary income. There were some calculation difficulties in the bill currently, which he was looking at correcting. The idea was for all income to be taxed about equally. He would get back to members with further clarification.

Vice-Chair Gara also had concerns about capital gains. In the bill he thought that the 10 percent tax only applied to long-term capital gains.

Co-Chair Seaton wanted to let people know that in response to public testimony, testimony by representatives from APFC, and some of the modeling of the bill, the co-chairs were posing some amendments to the sections that related to the POMV draw on the ERA. As soon as the amendments were finalized, they would be put forward for committee review and consideration. It could happen by the end of the week as long as the amendments were drafted in time to give members 24 hours to review them before they came before the committee. It would not be the final round of amendments.

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

Co-Chair Foster reviewed the agenda for the following day.

#  
ADJOURNMENT

2:56:32 PM

The meeting was adjourned at 2:56 p.m.