

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

April 26, 2017

9:03 a.m.

MEMBERS PRESENT

Senator Mia Costello, Chair
Senator Shelley Hughes, Vice Chair
Senator Kevin Meyer
Senator Gary Stevens
Senator Berta Gardner

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 115(FIN) AM(EFD FLD)
"An Act bearing the short title of the 'Education Funding Act'; relating to the taxation of income of individuals, partners, shareholders in S corporations, trusts, and estates; relating to a payment against the individual income tax from the permanent fund dividend disbursement; and repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 115

SHORT TITLE: INCOME TAX; PFD PAYMENT/CREDIT;

SPONSOR(S): FINANCE

02/10/17	(H)	READ THE FIRST TIME - REFERRALS
02/10/17	(H)	FIN
02/13/17	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
02/13/17	(H)	Heard & Held
02/13/17	(H)	MINUTE(FIN)
02/14/17	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
02/14/17	(H)	Heard & Held
02/14/17	(H)	MINUTE(FIN)
02/15/17	(H)	FIN AT 1:30 PM HOUSE FINANCE 519

02/15/17	(H)	Heard & Held
02/15/17	(H)	MINUTE(FIN)
02/17/17	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
02/17/17	(H)	Heard & Held
02/17/17	(H)	MINUTE(FIN)
02/21/17	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
02/21/17	(H)	Heard & Held
02/21/17	(H)	MINUTE(FIN)
02/24/17	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
02/24/17	(H)	Heard & Held
02/24/17	(H)	MINUTE(FIN)
03/14/17	(H)	FIN AT 8:30 AM HOUSE FINANCE 519
03/14/17	(H)	Heard & Held
03/14/17	(H)	MINUTE(FIN)
03/15/17	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
03/15/17	(H)	Heard & Held
03/15/17	(H)	MINUTE(FIN)
03/17/17	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
03/17/17	(H)	Heard & Held
03/17/17	(H)	MINUTE(FIN)
03/20/17	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
03/20/17	(H)	Heard & Held
03/20/17	(H)	MINUTE(FIN)
03/23/17	(H)	FIN AT 9:00 AM HOUSE FINANCE 519
03/23/17	(H)	Heard & Held
03/23/17	(H)	MINUTE(FIN)
03/27/17	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
03/27/17	(H)	Heard & Held
03/27/17	(H)	MINUTE(FIN)
03/28/17	(H)	FIN AT 9:00 AM HOUSE FINANCE 519
03/28/17	(H)	Heard & Held
03/28/17	(H)	MINUTE(FIN)
03/28/17	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
03/28/17	(H)	Heard & Held
03/28/17	(H)	MINUTE(FIN)
03/29/17	(H)	FIN AT 1:00 PM HOUSE FINANCE 519
03/29/17	(H)	Heard & Held
03/29/17	(H)	MINUTE(FIN)
03/29/17	(H)	FIN AT 5:30 PM HOUSE FINANCE 519
03/29/17	(H)	Heard & Held
03/29/17	(H)	MINUTE(FIN)
03/30/17	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
03/30/17	(H)	Heard & Held
03/30/17	(H)	MINUTE(FIN)
04/03/17	(H)	FIN AT 1:00 PM HOUSE FINANCE 519
04/03/17	(H)	Heard & Held
04/03/17	(H)	MINUTE(FIN)

04/04/17 (H) FIN AT 1:30 PM HOUSE FINANCE 519
 04/04/17 (H) -- MEETING CANCELED --
 04/07/17 (H) FIN AT 1:30 PM HOUSE FINANCE 519
 04/07/17 (H) <Bill Hearing Canceled>
 04/11/17 (H) FIN AT 1:30 PM HOUSE FINANCE 519
 04/11/17 (H) Moved CSHB 115(FIN) Out of Committee
 04/11/17 (H) MINUTE(FIN)
 04/12/17 (H) FIN RPT CS(FIN) NT 4DP 4DNP 2NR 1AM
 04/12/17 (H) DP: GUTTENBERG, GARA, SEATON, FOSTER
 04/12/17 (H) DNP: TILTON, THOMPSON, PRUITT, WILSON
 04/12/17 (H) NR: GRENN, ORTIZ
 04/12/17 (H) AM: KAWASAKI
 04/15/17 (H) BEFORE HOUSE IN SECOND READING
 04/16/17 (H) TRANSMITTED TO (S)
 04/16/17 (H) VERSION: CSHB 115(FIN) AM(EFD FLD)
 04/17/17 (S) READ THE FIRST TIME - REFERRALS
 04/17/17 (S) L&C, FIN
 04/24/17 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
 04/24/17 (S) -- MEETING CANCELED --
 04/25/17 (S) L&C AT 9:00 AM BELTZ 105 (TSBldg)
 04/25/17 (S) Heard & Held
 04/25/17 (S) MINUTE(L&C)
 04/25/17 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
 04/25/17 (S) Heard & Held
 04/25/17 (S) MINUTE(L&C)
 04/25/17 (S) L&C AT 5:00 PM BELTZ 105 (TSBldg)
 04/25/17 (S) Heard & Held
 04/25/17 (S) MINUTE(L&C)
 04/26/17 (S) L&C AT 9:00 AM BELTZ 105 (TSBldg)

WITNESS REGISTER

JARED WALCZAK, Policy Analyst
 Tax Foundation
 Washington, D.C.

POSITION STATEMENT: Delivered a PowerPoint presentation titled "Implications of an Alaska Income Tax."

ACTION NARRATIVE

9:03:10 AM

CHAIR MIA COSTELLO called the Senate Labor and Commerce Standing Committee meeting to order at 9:03 a.m. Present at the call to order were Senators Stevens, Hughes, Gardner, Meyer, and Chair Costello.

HB 115-INCOME TAX; PFD PAYMENT/CREDIT;

9:03:28 AM

CHAIR COSTELLO announced the consideration of HB 115, and advised her office was accepting written testimony on the income tax bill.

She welcomed Mr. Walczak from the Tax Foundation.

9:05:10 AM

JARED WALCZAK, Policy Analyst, Tax Foundation (TF), Washington, D.C., said HB 115 seeks to resolve the important issues of the budget shortfall, but it's a challenge because the state relies on a single industry for most of its revenue.

9:06:18 AM

SENATOR STEVENS asked Mr. Walczak to introduce himself and who he works for, so the committee understands his potential bias.

MR. WALCZAK stated that he represents the Tax Foundation, a nonpartisan, nonprofit tax policy organization based in Washington, D.C. They work with the principles that taxes should be simple, transparent, and pro-growth. Taxes should also be applied in as neutral a manner as possible. As a tax policy organization, TF tries to steer clear of questions about whether a state needs additional revenue and what the optimal level of tax revenue may be. He said his interest is tax structure and the implications of imposing an income tax versus a sales tax versus the current situation of no tax. He looks at behavioral responses and what is optimal in a tax code. Being a nonprofit, TF receives contributions from both family and charitable foundations, corporations, and individuals.

9:09:09 AM

SENATOR HUGHES asked if he prepared his comments after he had looked at the overall budget, the per capita spending, how Alaska compares to other states, the state's savings, and the Senate's goals to reduce the budget deficit.

MR. WALCZAK said he'd go into that in more detail later in the presentation but Alaska does have the highest expenditures per capita of any state in the nation. Some of that can be explained by Alaska's unique characteristics. Other states can take advantage of economies of scale that are more difficult in a large, dispersed geographic region like Alaska. Providing education and basic services in Alaska can be expected to be more expensive on a per capita basis.

He said he does believe that Alaska has been on a glide path where expenditures were not controlled as strictly as they would have been in other states. Because revenue was so readily available, the pros and cons of different spending programs probably were not scrutinized as much as they might have been. The individual income tax was repealed because it was essentially deemed unnecessary once oil started to flow through the pipeline. At the peak in FY2014, state and local per capita spending was \$19,357 compared to about \$8,700 nationwide. This is something to take seriously within the context and perhaps before any consideration of broad-based tax changes, he said.

CHAIR COSTELLO asked him to proceed with the slide presentation.

9:13:00 AM

MR. WALCZAK said everyone realizes that the budget shortfall is related to the degree of reliance on a single industry. Mining and minerals represent about 18 percent of the gross domestic product (GDP) and, at peak, oil and gas taxes were responsible for as much as 72 percent of all state revenue. He said Alaska also has a severance tax that is based on the operator's net income, which is unique and potentially volatile. He highlighted that the oil related revenue in 2017 is estimated to be about \$1 billion, whereas it was \$7.4 billion in 2014. He said Texas, North Dakota, and Louisiana have also experienced shortfalls, but not the scope of what we're seeing in Alaska. He said one answer to the problem of relying on a single industry for the overall revenue picture is to adopt a new broad-based individual income tax. The difficult question is whether that is the right answer. He said he believes that most people would say that the current tax structure is too volatile, but many other questions need answers too. These generally relate to price forecasts, estimated revenue needs, the tax structure and duration, the role of the state's traditional revenue sources, and expenditure reform.

9:16:45 AM

MR. WALCZAK said he wanted to talk about what constitutes optimal tax design to help inform the general understanding of how a tax code is developed. One principle is to develop a tax code that distorts economic choices to the least extent possible. The goal is that the code is not picking winners and losers. It's as neutral as possible so people base their market decisions on their own assessments of relative value and worth rather than on tax arbitrage or tax avoidance. He said there's also a broad principle that the optimal tax on intermediate goods is always zero.

9:18:09 AM

SENATOR GARDNER asked if he agrees that tax incentives distort economic choices.

MR. WALCZAK said absolutely, and the amount of distortion varies based on the incentive and how it functions. An incentive that is available to many firms in the market operates more like simply having a lower overall rate, whereas one that is very narrowly construed to benefit one industry or economic activity is going to establish a set of winners and losers. That would be economically distortive and sub-optimal.

He said there is widespread agreement in the public finance world that incentives are sub-optimal, but it's hard for states to opt out when they see themselves in a competition. He opined that the best economic development policy a state can adopt is to have a broader base and a lower rate. He cited the extreme example of North Carolina that extensively carved out incentives for agricultural and textile manufacturing industries. The state's economy changed over time, but it was still hard for other businesses to come in and compete. It demonstrates that it's increasingly difficult to pick winners and losers, particularly as the economy changes over time, he said.

SENATOR COSTELLO asked if he had any experience with people deciding to leave a state based on tax policy. She related that the committee heard extensive testimony to that effect last night. She asked if these are the things that a military family considers when they decide where to retire.

MR. WALCZAK said that is relevant, but in Alaska it may be difficult to get a handle on the significance. People do make decisions on location based to some degree on taxes, but generally it's based on a range of factors regarding the broader environment. This can be the tax climate, the actual climate, proximity to amenities, an educated workforce, or ease of access in transportation. He said he suspects that a lot of people would find it challenging to move to Alaska, meaning there are probably some people who are on the margin on whether they want to be in Alaska or another state.

MR. WALCZAK said we know people make this determination at the margin. There is a net outmigration from high tax states and immigration to states with low taxes, especially those with no individual income tax. In fact, 7 of the 9 states that forego wage income taxes are growing faster than the national average,

and the other 2 are growing faster than their regional peers. While this isn't the only thing people care about, it is something that is within the power of the legislature to address, so it's pertinent. Many people in Alaska experience high costs of living. That can put them on the cusp of the decision and increasing living costs through a new tax could drive out some individuals. He clarified that he isn't suggesting there will be a massive outmigration, but people do make these decisions, especially when they have flexibility. Retirees, for example, are more sensitive to tax changes than people in the workforce. "We often see retirees or wealthier individuals leaving." The idea isn't to protect wealthy individuals, but communities don't necessarily want to see a large outflow of higher income individuals.

CHAIR COSTELLO advised that Mr. Walczak was still discussing optimal tax design and avoiding distorting economic choices.

MR. WALCZAK discussed exempting intermediate goods in the optimal tax design. He said the goal is to tax things just once. This isn't just a problem with a sales tax but also with capital taxation. Capital is more mobile than labor, which makes the element of the individual income tax that hits small business particularly pertinent. It may change where a business locates and whether there is new hiring. Businesses also need to respond to the fact that an individual income tax reduces the value of an employee's salary. Over time wages will rise as an offset, but it means that employment overall will be lower. He said an economist at the University of Alaska Anchorage did some economic modeling and suggested a loss of 3,500 to 5,000 jobs, should the tax to be implemented. He opined that while there may be some dislocation of jobs initially, the real impact will be in later years when growth is slower than it would be otherwise.

[9:31:36 AM](#)

SENATOR HUGHES asked if he had looked at the idea that Alaska would be more negatively impacted by an individual income tax because it has more small businesses per capita than any other state.

MR. WALCZAK said he isn't sure if Alaska has more small businesses per capita or if it's that a larger percentage of working Alaskans are employed by a small business. He related that nearly 90 percent of all businesses in the U.S. are identified as small businesses. These are primarily passthrough entities meaning that for tax purposes income passes through to the individual federal form. If Alaska were to have an

individual income tax, they would pay that too. He said this is a significant issue for Alaska's economy, perhaps more than in other states because so many individuals are employed by small businesses, many of whom are fulltime residents.

[9:34:47 AM](#)

MR. WALCZAK suggested thinking of an income tax as a tax on the total value of consumption plus the rate of change in savings, which is essentially a tax on future consumption. At some level it's a double tax if you have an income tax and a sales tax, he said, because you're taxing current consumption in the sales tax and future consumption of both the income and the sales tax. He said we often don't think about what income is equivalent to economically. Sales tax falls to a return to savings or on capital income which is exempt from a consumption tax, but it is taxed in an income tax. He said taxable return to savings does distort work effort because it lowers the payoff to work. People who work today and plan on consuming in the future will be able to consume less in the future for a given hour of work. A tax on the return to savings, like a sales tax, would increase that future cost of consumption. It's hours of labor producing fewer goods at a later date. He said we think of different taxes in different ways, but economists worry about income taxes with high rates because of the distortive effects.

[9:37:57 AM](#)

SENATOR GARDNER asked him to speak to the definition of tax neutrality.

MR. WALCZAK explained that tax neutrality is essentially the notion that the tax code should apply equally to all similarly situated persons or activities. It should try to stay out of economic decisions as much as possible while raising the revenues desired. Trying to pick winners and losers is sub-optimal.

SENATOR GARDNER said it's puzzling that you're saying that efforts and programs to change behavior are sub-optimal as a tax policy because virtually every state employs those tools.

MR. WALCZAK said he believes that people in the economic community would broadly agree that programs to change behavior are sub-optimal but extremely common. He drew a distinction between an overarching goal to grow the economy of the state versus a more modest goal to shift investment into a blighted area. He suggested thinking of the latter as a more traditional

governmental expenditure or grant than as a tax policy tool even though they do run through the tax code.

[9:43:39 AM](#)

MR. WALCZAK returned to the slide that looks at both sales tax and income tax. He noted the variation in the 107 jurisdictions in Alaska that impose sales tax and commented on the advantage of a broader base and lower income tax rate versus a very narrow eroded base. He said tax can be applied to capital accumulation, labor force participation, consumption, or property, but the advantage in taxing consumption and property is that it has less impact on economic growth.

[9:45:11 AM](#)

CHAIR COSTELLO asked if consideration of an income tax should also include a look at the onslaught of other taxes and expenses individuals and families face. Last night the committee heard about a family of four who spent \$36,000 on health care costs and now their property taxes are going up. She asked him to talk about the impact that passing an income tax will have on the overall economy.

MR. WALCZAK agreed that taxes should be considered in the aggregate because they can be a significant burden, particularly for those on a lower or fixed income. He continued to say that legislators are probably in a better position than he is to look in detail at the interaction of local tax increases and an income tax proposal.

[9:49:48 AM](#)

MR. WALCZAK returned to the presentation. He summarized the advantages of sales taxes saying they are more economically efficient, have low compliance costs, and can capture revenue from tourists. If the legislature were to decide on a state sales tax, it would provide an opportunity to standardize the local sales tax bases and collection. The disadvantages of a sales tax include regressivity, business input would be a problem if they are taxed, taxes on use often aren't remitted, and remote transactions could be a problem.

The challenges associated with an income tax are that it reduces labor force participation and makes it more expensive to do business in the state. An advantage for the state is that an income tax would capture revenue from nonresident workers. An income tax also falls on small businesses, which is a pro or con depending on the perspective. He said the disparity between corporations that are taxed and small businesses that are not

taxed would persist if an income tax were adopted, because a corporate income tax is essentially a double tax. He didn't necessarily agree that adopting an income tax creates greater equity.

[9:53:01 AM](#)

MR. WALCZAK turned to the issue of volatility. He said a Pew study found that state revenue swings over the last decade average plus or minus 5 percent. Wyoming ranked second nationwide with revenue swings of plus or minus 12.1 percent. Alaska experienced revenue swings of plus or minus 34 percent over that period. With that sort of volatility, it is very difficult to do accurate projections, make long-term investments, or build programs that require stable funding. He noted that the state does have several options to respond to and smooth these significant revenue swings. Investment revenue from the Alaska Permanent Fund and the Constitutional Budget Reserve Fund may be used as well as interest on the permanent fund. It's also very good news that Alaska has substantial reserves to draw from. Earlier this year the market value of the funds totaled \$55.7 billion. He opined that as long as the state has a natural resource based economy, there will always be significant volatility and it makes sense to regularly rely on these funds. Put the money away in good years and use it in the bad years to address a shortfall, but not as a source of supplemental revenue for new programs.

[9:57:45 AM](#)

SENATOR STEVENS recalled that when Alaskans voted to create the permanent fund it was as a rainy-day fund and now there isn't one. He asked Mr. Walczak to talk about the difference between a rainy-day fund and a fund that smooths the state's economy.

MR. WALCZAK said rainy-day funds vary in structure, but they're basically designed so that states don't need to recreate their tax code when they experience the inevitable economic declines in the business cycle. He said Alaska is different primarily because it has reserves that are an order of magnitude larger than any other state. Because the state relies heavily on one industry for revenue, it makes sense to modify the way the reserves currently work to have a more traditional rainy-day fund. The structure is in place, but the way it's been used is not as consistent as what we normally see for a rainy-day fund, he said.

MR. WALCZAK turned to the question of competitiveness and what taxes should be if there were an individual income tax. He said

the Tax Foundation published the State Business Tax Climate Index that looks at whether the tax structure is simple, neutral, and transparent. Other components on the index look at corporate taxes, property taxes, and unemployment insurance taxes. Alaska does very well right now because it forgoes both an individual income tax and a state sales tax. It currently is in a four-way tie for first but would fall to 27th if an income tax were adopted. There are several reasons for that. HB 115 reflects an above average top marginal rate of 7 percent, it has an above average number of brackets, and the personal exemption is not indexed to inflation. If the bill becomes law, Alaska would go from having no personal income tax to having the 12th highest top marginal rate in the country.

He advised that Alaska would have a broader than average individual income tax base simply because nothing has been carved out through deductions and exemptions. However, that also means that the effective tax rate would be higher than in other states that have a similar top marginal rate.

[10:07:40 AM](#)

CHAIR COSTELLO asked what people should expect in the transition from a no income tax to an income tax, should HB 115 pass.

MR. WALCZAK said these transitions are always difficult. There is a large body of regulatory and administrative code that must be built essentially from scratch, revenue projections might be less than precise the first couple of years, and certain necessary components might be initially forgotten. He clarified that individuals won't see a large difference because they're already accustomed to paying income tax; it's the state administrative buildout that would be somewhat burdensome.

CHAIR COSTELLO clarified that her question related to the impact on the economy transitioning from no income tax to an income tax environment.

MR. WALCZAK answered that you should anticipate some adverse impacts. "People are going to realize that they just have less disposable income, or small businesses are suddenly going to have a cost that they had not budgeted." This will show up in the employment market. There aren't any studies at the state level, but federal studies generally indicate that the reduction in economic activity resulting from imposing or increasing an income tax would be larger by a significant margin than the revenue gained.

[10:15:35 AM](#)

CHAIR COSTELLO asked if it's the right time to initiate an income tax when Alaska is experiencing a recession.

MR. WALCZAK said it's relatively common for states and individuals to experience an economic crunch at about the same time. Taxes are often raised when people are already struggling to make ends meet. That's why revenue reserves are so important. He pointed out that Alaska the opportunity to take things slowly because HB 115 doesn't actually impose the tax until 2019.

[10:17:14 AM](#)

SENATOR HUGHES asked, despite the 2019 effective date, if implementing an individual income tax could prolong and deepen the recession.

MR. WALCZAK said it has the potential to create adverse economic impacts. He said he couldn't speculate on whether it has recessionary impacts, but reducing disposable income of individuals or reducing the demand for labor would have an adverse effect on a recession. If HB 115 were to pass, businesses would presumably make investment decisions this year and next year in anticipation of the change in the tax code in 2019.

[10:18:58 AM](#)

SENATOR GARDNER mentioned the generalized uncertainty due to the failure of the state to tackle the fiscal crisis, and asked how he suggests addressing the recession and building confidence that there is a durable plan when there aren't new revenues now or the promise of new revenues from taxes in 2020.

MR. WALCZAK answered that if legislators decide that a new general tax is the way to tackle the fiscal crisis, there are several things to consider in the process. There are questions about the appropriate revenue aims for the tax and whether this is a fix for the current recession or a more fundamental shakeup of the entire tax code. It appears that HB 115 leans toward reshaping the tax code, but that is something that needs to be explicitly debated and understood. Expenditure reform is also an important part, particularly since the state has significantly higher expenditures per capita than any other state in the nation. He said he also thinks that revenue smoothing must be a big part of the picture. New revenues may be necessary, but there doesn't seem to be agreement on the amount that's needed. There's also the question of what will avert this situation in the future. He said he thinks there is some danger to only

tackling the revenue side without tackling the other issues. He urged a cautious approach. He said HB 115 is certainly a credible starting point but there are a lot of questions that it doesn't entirely answer. He pointed out that HB 115 doesn't have things like a Section 179 deduction or a standard deduction, although the latter may be intentional. Also, the conformity to the Internal Revenue code doesn't appear to be complete. He suggested taking a step back to assess whether all the aims are in context.

[10:26:26 AM](#)

SENATOR GARDNER commented that placing a sunset on a new revenue program prolongs the uncertainty.

MR. WALCZAK said there's truth to that, but he didn't know if there would be a downside for the taxpayer.

CHAIR COSTELLO asked Mr. Walczak to continue the presentation.

[10:28:53 AM](#)

MR. WALCZAK said he thinks there is risk associated with adopting a new tax regime on the notion that the current expenditure level is sustainable and desirable. If the goal is to be comprehensive, it's important to look at spending, revenue smoothing, revenue needs, and whether the new tax is necessary. He opined that a sunset or trigger mechanism is consistent with the aims of many members who don't support a permanent tax. He said there is something to the Senate proposal to limit the dividend to \$1,000 for three years and to implement \$750 million in spending cuts over three years, because it looks at both elements. He reiterated that looking at the smoothing option is very important. He urged doing things simultaneously so getting the new revenue doesn't short circuit other efforts.

CHAIR COSTELLO advised that the Senate proposal has a spending cap, whereas the House proposal does not. She asked if raising revenue through taxes without a spending cap is a concern.

MR. WALCZAK said the Tax Foundation doesn't have a position on spending caps, but some sort of expenditure control is an important part of a package that looks at revenues.

[10:32:46 AM](#)

SENATOR HUGHES asked him to comment on the potential impact if the state income tax deduction is no longer available.

[10:33:27 AM](#)

MR WALCZAK said it's relevant because that is essentially the partial offset associated with state and local governments raising revenues through the major tax sources. He noted that this deduction is one of the rare, highly regressive elements in the federal income tax code. He said there is a good argument that Alaskans would benefit from having a lower rate and eliminating the deduction because most of the value is flowing to states like New York, California, Pennsylvania, and New Jersey. Nevertheless, it means that state income tax wouldn't be offset by the federal income tax deduction. More of it would be borne by Alaskan payers. It is also significant because federal adjusted gross income might change. If the base is broadened for the federal income tax and used to lower rates, those base broadeners are going to flow through to any Alaska income tax. The rate reductions will not flow through because HB 115 sets those separately. He further pointed out that if HB 115 were adopted, it would be a stealth increase in the tax because a larger definition of income would be taxed at the same rate. All states with an income tax will need to think about that and perhaps lower rates to avoid a potentially significant income tax increase.

[10:38:32 AM](#)

CHAIR COSTELLO thanked Mr. Walczak and held HB 115 in committee.

[10:38:48 AM](#)

There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 10:38 a.m.