

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

April 15, 2021

11:34 a.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Adam Wool
Representative Andy Josephson
Representative Calvin Schrage
Representative Andi Story
Representative Mike Prax
Representative David Eastman

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Dan Ortiz

COMMITTEE CALENDAR

PRESENTATION: ALASKA BUDGET CHOICES

- HEARD

PRESENTATION: ALASKA'S TAX BURDEN

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

CHERYL FRASCA, Co-Chair
Fiscal Policy Study Group
Commonwealth North
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation, titled "Budget Choices - What Alaskans are Saying," dated 4/15/21.

REPRESENTATIVE DAN ORTIZ

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Asked questions during the presentation by Commonwealth North.

ROSE FOLEY, Staff
Representative Ivy Spohnholz
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions during the presentation by Commonwealth North, on behalf of Representative Spohnholz.

JARED WALCZAK, Vice President of State Projects
Center for State Tax Policy
Tax Foundation
Washington, D.C.

POSITION STATEMENT: Provided a PowerPoint presentation, titled "Navigating Alaska's Fiscal Crisis."

ACTION NARRATIVE

[11:34:23 AM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 11:34 a.m. Representatives Wool, Josephson, Story, Prax, Eastman, and Spohnholz were present at the call to order. Representative Schrage arrived as the meeting was in progress. Also present was Representative Ortiz.

PRESENTATION: Alaska Budget Choices

[11:35:29 AM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be a presentation on balancing the budget by Cheryl Frasca, Commonwealth North.

[11:36:22 AM](#)

CHERYL FRASCA, Co-Chair, Fiscal Policy Study Group, Commonwealth North, introduced a PowerPoint presentation, titled "Budget Choices - What Alaskans are saying," [hard copy included in the committee packet]. She informed the committee about Commonwealth North and its Fiscal Policy Study Group. She highlighted the Alaska Budget Choices website, www.akbudget.com, which was created as a tool to engage Alaskans in discussing the tradeoffs involved in balancing the budget. Today's

presentation, she said, would provide an overview of the 2,008 responses received from the website.

[11:38:44 AM](#)

MS. FRASCA directed attention to slide 2, which read as follows [original punctuation provided]:

CWN Asked Alaskans . . .

- What choices they would make to balance \$1.3 billion difference between expected revenue to pay for current year state services
- Presented choices for:
 - 10 different sources for revenue
 - Spending on 18 state programs
 - Ability to make other suggestions
- Goal:
 - Recognize balancing budget is more than a spread sheet
 - Each choice requires trade-offs that will need to be made to bring spending in line with recurring revenue
- Data presented reflects 2,008 responses received at www.akbudget.com through April 13, 2021

MS. FRASCA explained that www.akbudget.com featured a video that summarized the state's current fiscal condition. She turned to slide 3, which categorized the responses by geographic location. She noted that the underrepresented areas were the Kenai Peninsula and the Mat-Su, indicating that the data was not representative of Alaska's population, as participation was voluntary. She continued to slide 4, which read as follows [original punctuation provided]:

Spending Choices . . .

- Maintain current funding
 - Early learning
 - Medicaid
 - Senior Benefits and Pioneer Homes

- Mental Health & Substance Misuse and Children's Services
 - Public Safety
 - Prosecutors & Public Defenders and Court System
 - Fish and Game and Natural Resource Management
- Reduce funding
 - Governor's office
 - Legislature

MS. FRASCA explained that the data reflected the areas in which Alaskans wanted to see the current funding maintained and reduced. Slide 5, which highlighted additional spending choices, read as follows [original punctuation provided]:

More Spending Choices . . .

- K-12 funding
 - 31% said maintain current funding
 - 35% said to increase
 - 35% said to decrease
- University
 - 39% proceed with planned \$20 million cut
 - 35% said reinstate some of the cuts
 - 25% maintain current funding
- Transportation
 - 31% Transition ferry to self-sustaining model
 - 29% maintain current funding

[11:43:01 AM](#)

REPRESENTATIVE STORY questioned whether the people who selected "maintain current funding" for K-12 programs understood that doing so would result in changes to class size and a reduction in services.

MS. FRASCA said no, there was no accompanying narrative that provided that information. Nonetheless, she believed that some people may have intuitively understood that.

[11:45:08 AM](#)

MS. FRASCA directed attention to slide 6, which read as follows [original punctuation provided]:

Spending Choice: Permanent Fund Dividend

Use statutory formula	Spend \$1.2 billion
Pay last 3 years of dividends	Spend \$2.2 billion
Pay out same amount next year	No change
Suspend dividends for now	Save \$680 million

MS. FRASCA continued to slide 7, highlighting that 12 percent of respondents preferred the statutory formula; 12 percent preferred a payout of the last three years of dividends; 42 percent preferred maintaining the current dividend amount; and 34 percent preferred suspending dividends until the state could afford it.

[11:47:17 AM](#)

MS. FRASCA turned to slide 8, which read as follows [original punctuation provided]:

Revenue Choices . . .

- Maintain current tax structure
 - Corporate income, commercial fisheries taxes
- OK with varying level of increase
 - Mining license 44% maintain; 55% ok with varied increases
 - Oil and gas production 43% maintain; 58% ok with varied increases
 - Excise 39% maintain; 61% ok with varied increases
 - Fuel 41% maintain; 59% ok with varied increases
- OK with a lottery
 - 39% said no
 - Combined 61% okay with various forms of games
- Also asked about:
 - Income tax
 - Sales tax
 - Permanent Fund earnings

[11:48:28 AM](#)

MS. FRASCA reviewed the revenue choices for an income tax on slide 9, which read as follows [original punctuation provided]:

2% flat tax no exemptions	+ \$440 million
4% flat tax no exemptions	+ \$880 million
10% progressive tax	+ \$350 million
20% progressive tax	+ \$700 million
No income tax	No additional revenue

MS. FRASCA discussed the responses on slide 10. The data suggested that 13 percent of respondents preferred a 2 percent flat tax; 6 percent preferred a 4 percent flat tax; 21 percent preferred a 10 percent progressive tax; 12 percent preferred a 20 percent progressive tax; and 48 percent preferred no income tax.

[11:49:50 AM](#)

MS. FRASCA reviewed the revenue choices for a sales tax on slide 11, which read as follows [original punctuation provided]:

1% sales tax	+ \$250 million
2% sales tax	+ \$500 million
4% sales tax	+ \$1 billion
6% sales tax	+ 1.5 billion
No sales tax	No additional revenue

MS. FRASCA detailed the responses on slide 12, indicating that 20 percent of respondents preferred a 1 percent sales tax; 20 percent preferred a 2 percent sales tax; 11 percent preferred a 4 percent sales tax; 6 percent preferred a 6 percent sales tax; and 43 percent preferred no sales tax.

[11:50:49 AM](#)

MS. FRASCA continued to slide 13, which read as follows [original punctuation provided]:

Revenue Choice: Permanent Fund Earnings

Take additional 0.5%	+ \$300 million
Take additional 1%	+ \$600 million
Take additional 1.5%	+ \$900 million
Follow existing payout formula	No additional revenue

MS. FRASCA reviewed the responses on slide 14. She relayed that 17 percent of respondents preferred taking an additional 5 percent of earnings; 11 percent preferred taking an additional 1 percent of earnings; 14 percent preferred taking an additional

1.5 percent of earnings; and 58 percent preferred following the existing payout formula.

[11:51:58 AM](#)

MS. FRASCA noted that in a perfect world, [the budget balancing tool] would have been the basis for community-based discussions, as opposed to a virtual exercise. She expressed her hope that a similar tool could be used to initiate future discussions if Alaska's fiscal issues were to continue.

[11:52:59 AM](#)

REPRESENTATIVE PRAX asked whether the survey tool required a balanced budget.

MS. FRASCA answered no, the choices could still be submitted with an unbalanced budget. She reiterated that tool was intended to be an educational instrument for Alaskans. She expressed her hope that if people were challenged by the process, it would highlight the difficulties of balancing the budget. She noted that 55 percent of respondents submitted a balanced budget.

[11:54:36 AM](#)

REPRESENTATIVE STORY asked whether Commonwealth North had considered performing a study with representative sampling.

MS. FRASCA responded no, pointing out that Commonwealth North was a nonprofit organization. She reiterated that the survey tool was intended to be an educational process for the user, as opposed to a statistical study.

REPRESENTATIVE STORY acknowledged that it would be expensive; nonetheless, she reiterated her interest in seeing statistical data.

[11:56:04 AM](#)

REPRESENTATIVE WOOL said he found the responses on the income tax interesting, as a more progressive income tax was favored over a flat tax. He sought to confirm that the progressivity was "baked into" the income tax calculation because it was based on a percentage of the federal income tax.

MS. FRASCA confirmed.

CHAIR SPOHNHOLZ clarified that 52 percent supported some form of income tax and 57 percent supported some form of sales tax.

[11:58:34 AM](#)

REPRESENTATIVE PRAX surmised that the majority of respondents were senior citizens. He opined that the exercise was a valuable educational tool, however, he cautioned against basing policy decisions on the findings, as policy making required a more scientific approach.

MS. FRASCA replied, "My only snide remark would be, I don't think three minutes or two minutes of testimony in front of Finance Committee is a scientific approach either."

CHAIR SPOHNHOLZ shared her understanding that the process was not specifically weighted towards senior citizens. She pointed out that more "mature" people might have had extra discretionary time and could be more interested in the topic compared to people in their early twenties. She said she would not be surprised if participation was skewed on the "mature" side.

[12:00:41 PM](#)

REPRESENTATIVE WOOL asked whether the age of respondents was collected.

MS. FRASCA answered no, adding that zip code was the only identifier that was collected.

CHAIR SPOHNHOLZ speculated that Representative Prax had presumed that the pool of respondents was weighted towards senior citizens because the responses favored services for the elderly. However, she contended that she would not make that same assumption.

[12:02:11 PM](#)

REPRESENTATIVE DAN ORTIZ, Alaska State Legislature, returned to slide 3 and asked why certain geographic areas had a higher response rate than others.

MS. FRASCA conveyed that no analysis had been performed on the geographic distribution. She noted that legislators had been asked to encourage their constituents to participate.

Additionally, Commonwealth North worked with the Alaska Municipal League (AML) and encouraged community participation at its annual meeting.

REPRESENTATIVE ORTIZ inferred that Commonwealth North had attempted to work with different municipal groups. He asked whether that attempt was geographically balanced.

MS. FRASCA reiterated that they had worked with AML, so statewide communities that were AML members had equal access. She recalled participating in two radio talk shows in Anchorage and Kenai as well.

12:05:01 PM

REPRESENTATIVE JOSEPHSON said he found the budget tool very useful and informative. He added that it reminded him of the difficulty with polling. He shared his belief that politicians write their own narrative and suggested that unless the poll results were 80 percent or higher, an elected official would not believe what they were reading.

CHAIR SPOHNHOLZ opined that the tool was a useful tool for educating people about the fiscal gap. She recalled that Ms. Frasca had stated that only 55 percent of respondents submitted budgets that were balanced, which indicated that some people [45 percent of respondents] didn't want to make the tough choices. She emphasized that these findings were not a representative sample; nonetheless, she said she found the support for new revenue surprising. She shared her belief that sometimes, politicians needed to make the tough decisions in the best interest of the state. Further, she stated that educating the public on these issues was part of her objective as chair of the House Special Committee on Ways and Means.

12:09:34 PM

REPRESENTATIVE WOOL, in response to Representative Josephson's comments regarding poll percentages, pointed out that many legislators were elected with 51 percent of the vote; consequently, he believed that 80 percent was "pushing it." Additionally, he opined that attempting to balance the budget with the tool did not demonstrate the difficulty of making those choices in reality. He said it would be interesting if the tool required users to balance the budget, as their choices may have been different. He emphasized that the legislature had to balance the budget, later adding that finding a balance between

revenue, services, and the dividend was difficult to navigate. Finally, he concluded with the observation that 76 percent of respondents were "okay" with either no PFD or a dividend of \$1,000, later adding "that's the 80 percent that Representative Josephson might have been looking for."

[12:12:11 PM](#)

REPRESENTATIVE PRAX asked whether the users' responses could be found somewhere other than the PowerPoint presentation.

ROSE FOLEY, Staff, Representative Ivy Spohnholz, Alaska State Legislature, stated that the responses could be found on BASIS.

PRESENTATION: Alaska's Tax Burden

[12:12:52 PM](#)

CHAIR SPOHNHOLZ announced that the final order of business would be a presentation on Alaska's tax burden by Jared Walczak, Tax Foundation.

[12:13:09 PM](#)

JARED WALCZAK, Vice President of State Projects, Tax Foundation, introduced a PowerPoint presentation, titled "Navigating Alaska's Fiscal Crisis" [hard copy included in the committee packet]. He began on slide 2, explaining that at its peak, petroleum revenue, which totaled \$8.9 billion, accounted for 93 percent of Unrestricted General Fund (UGF) revenue. He noted that presently, nonpetroleum UGF revenue was projected to contribute only 8.3 percent of the total projected UGF revenue in FY 21 and 3.3 percent of total state revenue. He emphasized that those percentages made Alaska unique, as most states had far more revenue from other sources and were not as reliant on the energy sector and investment income. He explained that Alaska's situation was "both a blessing and a curse," as it had allowed for low taxes and significant revenue, while being highly volatile and in secular decline. He noted that many states that had been heavily reliant on the energy sector were looking to diversify to ensure that there were enough resources to cover expenses.

[12:16:46 PM](#)

MR. WALCZAK advanced to slide 3 and stated that because of the volatility associated with a heavy reliance on the oil and gas

industry, hedges, such as the Constitutional Budget Reserve (CBR) and Statutory Budget Reserve (SBR), peaked at \$19 billion in FY 14 and have since decreased.

CHAIR SPOHNHOLZ clarified that contrary to slide 2, there was currently \$1 billion in the CBR, as opposed to \$2 billion. Additionally, she pointed out that per the Constitution of the State of Alaska, oil was to be developed for the maximum benefit of all Alaskans.

[12:18:06 PM](#)

MR. WALCZAK clarified that when he discussed taxes on the oil and gas industry and the revenue from investment on that funding, his intention was not to suggest that Alaska was targeting a specific industry. He acknowledged that oil was a resource that was "common" to all Alaskans. He emphasized that his intent was to point out the challenges associated with a heavy reliance on one industry, as opposed to highlighting an "industry burden." He added that the good news for Alaska over the past year was that investment income looked better than expected because despite the pandemic, the stock market was up and performing better than anticipated. He resumed the presentation on slide 4, which illustrated the revenue volatility. Further, he noted the significant amount of money going to Alaska from the federal government for pandemic relief funding.

[12:21:26 PM](#)

MR. WALCZAK directed attention to slide 6, which detailed Alaska's total state revenue. He reviewed that non-petroleum revenue accounted for \$389 million while total state revenue was at \$11.6 billion. He reiterated that the ratio [of non-petroleum revenue to total state revenue] was highly unique. He highlighted that Alaska spent \$15,972 per capita, whereas the average state spent about \$8,000 per capita. However, he acknowledged that other states had fewer expenditures, as it was more difficult to provide education and transportation, for example, in such a large state with a low population density.

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REPRESENTATIVE JOSEPHSON pointed out that instead of counties, Alaska had boroughs with limited taxing authority, for which the State of Alaska provided for. He asked whether that would factor into this discussion.

MR. WALCZAK said that would be addressed in a forthcoming slide. He noted that like Alaska, most of New England lacked counties; nonetheless, he acknowledged that it was important to look at the state and local total combined, as the state was raising much of the money that funded localities.

CHAIR SPOHNHOLZ contended that it had more to do with the fact that the State of Alaska funded services that were paid for by local communities in other states. She emphasized that Alaska's government was structured differently than most other states.

[12:25:31 PM](#)

MR. WALCZAK resumed the presentation on slide 7, which provided a comparison of the tax burden in all 50 states. He highlighted that Alaska had the lowest tax burden in the country at an effective rate of 5.8 percent of personal income. He explained that Alaskans in the aggregate, which included both businesses and individuals, sent 5.8 percent of their personal income to the state in taxes. He noted that if Alaska were to adopt a moderate rate income or sales tax, the state would still rank among the lowest in terms of tax burden.

[12:28:02 PM](#)

REPRESENTATIVE WOOL asked whether the tax burden was inclusive of local property tax, local sales tax, motor fuel tax, Alcohol tax, cigarette tax, marijuana tax, and every other tax paid by Alaskans.

MR. WALCZAK answered yes.

REPRESENTATIVE WOOL considered a scenario in which Alaska imposed a 4 percent flat income tax. He sought to confirm that the state's tax burden would not increase to 9.8 percent because not everyone would pay the 4 percent. Instead, he assumed that the tax burden would increase by some fraction of the 4 percent. He asked if that was correct.

MR. WALCZAK confirmed. He estimated that if the state implemented a 4 percent income tax, Alaska's tax burden would be somewhere in the low 7 percent range.

[12:29:51 PM](#)

REPRESENTATIVE EASTMAN asked what the state's tax burden would be if it took into account that "it's Alaskan's oil and energy resources that are in fact being taxed."

MR. WALCZAK acknowledged that Alaskans owned the oil; however, he clarified that the taxes were largely incurred by the investors who exploit those markets. He explained that due to the global price on oil, Alaska's taxes were changing the cost of extraction, as opposed to changing the price of oil. He said it could be argued that more oil in Alaska would be utilized if Alaska had lower severance taxes; however, it was unclear whether that would be to the benefit of Alaskans. He added that it would not make sense to have a burdens analysis that assumed that the taxes on oil and gas were burdening Alaskans, as the ultimate owner of the resources.

REPRESENTATIVE EASTMAN asked whether any analysis distinguished that fact about Alaska from the 49 other states.

MR. WALCZAK reiterated that it would not be relevant to a burdens study, but the Tax Foundation did address Alaska's distinct approach in a paper, he said.

CHAIR SPOHNHOLZ argued that oil taxes could be considered a benefit to most Alaskans.

[12:33:44 PM](#)

REPRESENTATIVE SCHRAGE asked whether the reduction to the PFD in recent years was factored into the effective tax burden rate for Alaska.

MR. WALCZAK answered no, as the dividend was not considered a tax provision. He noted that if the PFD were included as a negative income tax, the overall number would be lower than 5.8 percent by a significant margin; however, it would have grown over the last few years as the dividend had been reduced.

[12:34:28 PM](#)

REPRESENTATIVE WOOL asked what the tax burden rate would be if the dividend had been considered a negative income tax.

MR. WALCZAK estimated that the effective tax burden would be close to zero.

[12:35:49 PM](#)

MR. WALCZAK resumed the presentation on slide 8, which compared sources of tax revenue in Alaska to the national average. He noted that the state's corporate income tax was over double the reliance in other states for several reasons: Alaska's corporate income tax was more "aggressive" than other states and its denominator was smaller. He pointed out that property tax generated more at the state level than any other state because some property taxes fell on pipelines. Additionally, he highlighted that 65 percent of Alaska's tax revenue came from the "other" category versus 9 percent nationwide due to severance tax. He directed attention to the total revenue per capita, noting that for state and local combined, Alaska's total revenue was \$21,064 per capita versus \$14,209 nationally. He reported that revenue from all sources at the state level was 68 percent higher than the national average per capita versus 11 percent higher when combining state and local.

[12:40:57 PM](#)

CHAIR SPOHNHOLZ asked what percentage for property tax would be if the pipeline was excluded.

MR. WALCZAK said it would be "fairly modest." He noted that the state was taxing residential property similarly to other states - commercial property was not dramatically different either. He reiterated that the significant revenue generation was from pipeline property and other oil and gas production property, which was either a non-factor or a small factor in other states.

[12:42:21 PM](#)

REPRESENTATIVE EASTMAN asked for further clarification on the tax revenue from corporate income tax at the state level only.

MR. WALCZAK stated that it was a percentage of the state tax revenue, as opposed to the rate of the tax itself. He explained that Alaska generated slightly more revenue than the typical state from corporate taxes, partly due to the oil and gas industry paying higher effective rates in corporate taxes. Additionally, Alaska had fewer provisions than other states had structurally. He reiterated that Alaska's corporate income tax was a slightly higher rate than the median and slightly broader on its definitions of taxable income. Additionally, Alaska's denominator was lower.

REPRESENTATIVE EASTMAN asked whether the 7 percent from property tax at the state level included money going to local governments.

MR. WALCZAK said this calculation relied on census data, which in turn, relied on certifications from state and local governments. He understood that it accounted for the state only being a collector of that; therefore, placing it in the "local" tally.

[12:46:11 PM](#)

MR. WALCZAK discussed "Alaska's Three Rs" on slide 9, which highlighted three different ways the state could respond to the revenue crisis: reallocations, reductions, and revenues. He noted that in terms of fixed costs per capita, Alaska was 50-60 percent higher than the average as of 2018.

CHAIR SPOHNHOLZ interjected to point out that if Alaska were divided in half, it would still be the top two largest states in the U.S.

[12:48:10 PM](#)

MR. WALCZAK acknowledged that the state had made reductions; further, that there was no way for Alaska to spend similarly to other states. He proceeded to discuss states with sales tax on slide 10. He noted that Alaska was one of five states that had not adopted a statewide sales tax. He explained that most states adopted a sales tax before Alaska statehood. He added that if Alaska were to adopt its own, there was potential to learn from the challenges that other had states faced. He recalled that Mississippi was the first to adopt a sales tax in 1930, with most states copying that language and inserting minor alterations. Slide 11 featured a graph of the percentage of total personal consumption expenditures. He pointed out that historically, services were often related to goods, which changed over time as the economy became more service oriented. He shared his belief that it would make sense to include personal services in a sales tax.

[12:51:42 PM](#)

MR. WALCZAK discussed revenue implications of sales tax rates and base options on slide 12. He explained that the broadest possible base, which included all personal consumption that included a transaction, could generate \$500 million with a 1.6

percent sales tax. He noted that a sales tax this broad had not been implemented in any state, as it would include all medical services. If Alaska were to implement a sales tax, he encouraged the consideration of a broad-based sales tax. Further, he advised structuring it in a way that would be relatively efficient, simple, neutral, and would generate revenue from changes in the economy that could not be anticipated presently.

[12:53:36 PM](#)

REPRESENTATIVE SCHRAGE asked whether the table on slide 12 was ordered by priority or frequency of occurrence.

MR. WALCZAK said the effort was to reflect some sense of the frequency with which each was exempted, as well as the political difficulty of taxation. He added that there was no way to order it objectively. He noted that physician's services of any kind were only taxed in Hawaii and South Dakota.

[12:55:00 PM](#)

REPRESENTATIVE WOOL asked whether services weren't taxed at all in some states.

MR. WALCZAK replied that many states began by defining the sales tax base as tangible goods and adding select services. Every state had at least some services, he said. He added that most states did not include business-to-business transaction services and often excluded professional services. He stated that anything associated with both tangible property and a service was more likely to be taxed, such as appliance installation or car repair.

[12:56:35 PM](#)

REPRESENTATIVE WOOL sought to confirm that a contractor who bought \$10,000 in lumber at Home Depot for a home addition would not be taxed; alternatively, a completed job for a client could be taxed. He asked whether a home addition that cost \$50,000 would be fully taxed as sales tax in most states.

MR. WALCZAK stated that most states would tax the materials and approximately 15-20 states would tax the actual labor services.

[12:57:25 PM](#)

CHAIR SPOHNHOLZ returned attention to slide 12 and asked whether the calculations were based on the sales tax being uncapped.

MR. WALCZAK answered yes, adding that the assumption was that the full value of the goods/services was subject tax. He added that in most states, that's how the sales tax worked with very small exceptions. He further noted that many states had a cap on automobiles; however, it would be unusual to have a cap on anything other than vehicles.

[12:58:15 PM](#)

MR. WALCZAK resumed the presentation on slide 13, which listed state sales tax collections as a percentage of personal consumption expenditures (PCE). He reported that on average, 2.3 percent of personal consumption ended up as tax revenue, which would yield \$852 million. Slide 14 provided a graph of states with a wage income tax by year. He pointed out that Alaska was the only state that had repealed its state income tax. Slide 15 listed income tax collections as a percentage of adjusted gross income (AGI). On average, he said, the states that had an income tax generated tax revenue worth 4.4 percent of AGI. If Alaska were to follow suit, \$925 million could be raised, he noted. He relayed that if Alaska were to implement either an income or a sales tax, the tax burden would remain relatively low; alternatively, if both were adopted, the tax burden would be in the "middle of the pack." He explained that individual income taxes could be conceptualized as a tax on both present and future consumption, while sales tax was a tax on present consumption. Income tax, he said, fell on both labor and investment. He continued to explain that an income tax would reduce the return to savings and would also fall on small businesses. Consequently, sales tax was more economically efficient than income tax. He stated that some policy makers liked the greater progressivity offered by an income tax as opposed to sales tax; however, there were tradeoffs, as income taxes had more of an effect on jobs and more economic dislocation. He recalled a representative study, which found that at the federal level, a cut of 1 percent of the average income tax rate would raise GDP per capita by 1.8 percent. Further, for every 1 percentage point on state income tax, there were 0.2-0.4 percent fewer businesses. He reported that by adopting both an average income and an average sales tax, Alaska could raise an extra \$2,435 per capita, which would make the state's collections extremely high at 50 percent higher than the national average.

[1:03:35 PM](#)

CHAIR SPOHNHOLZ sought to confirm that when Mr. Walczak was discussing the adoption of both taxes, he was referring to the national average in each a sales tax and an income tax.

MR. WALCZAK answered yes. He expounded that for this analysis, he was considering the collection of revenue consistent with the national averages based on shares of personal consumption and shares of AGI.

[1:04:53 PM](#)

MR. WALCZAK reiterated that there many different ways to generate this revenue. He emphasized that in many ways, these options would always be a less significant source of revenue to Alaska than they would be to most other states. He explained that a sales tax would present an opportunity, but also a coordination challenge because local government have the authority to set their own rules. He said if Alaska were to adopt a state tax, it would either become independent of the local sales taxes or it would require a difficult negotiation and discussion with local governments about coordination.

[1:07:48 PM](#)

CHAIR SPOHNHOLZ returned to slide 7 and pointed out that aside from Alaska, New Hampshire was the only other state with neither a sales tax nor income tax. She asked why the slide indicated that New Hampshire's tax burden was 9.7 percent.

MR. WALCZAK stated that New Hampshire had two different corporate taxes. He explained that New Hampshire was the inverse of Alaska in that its government was devolved to the local level. He reported that New Hampshire's local governments were almost exclusively responsible for many services, such as education and roads. He concluded that the state [New Hampshire] had high municipal taxes, high corporate taxes, no individual income tax, and no sales tax, which resulted in a tax burden that was lower than the national average but higher than Alaska's.

CHAIR SPOHNHOLZ recalled that Mr. Walczak had stated earlier that if Alaska were to adopt either a sales or income tax, it would still have one of the lowest tax burdens in the nation. She asked whether Tennessee was the second lowest after Alaska.

MR. WALCZAK answered yes. He surmised that Alaska would remain in the bottom three if either an average sales tax or income tax was adopted; however, that would no longer be the case if both were adopted.

[1:10:17 PM](#)

REPRESENTATIVE WOOL shared his understanding that New Hampshire had a broad-based statewide property tax. He asked if that was correct.

MR. WALCZAK clarified that New Hampshire had a limited statewide property tax; however, the majority of property tax collections was at the local level. He expounded that most of New Hampshire's statewide property tax was taxing tangible personal property, such as business equipment and machinery.

[1:11:01 PM](#)

REPRESENTATIVE SCHRAGE believed that Alaska needed a broad-based revenue-generating measure with some form of taxation. Additionally, he opined that Alaska's taxation policy was fragmented, as the state had gone 40-plus years without a broad-based tax. He inquired about other states that had transitioned from a localized tax system to implementing a broad-based tax.

MR. WALCZAK said there weren't many examples, as there were only nine states without an income tax and five state without a sales tax. He said there had not been a situation in which neither tax was in place and then one was adopted since the Great Depression era. He noted that North Carolina was a state that had shifted from a heavy reliance on several industries that were not as economically relevant and transitioning to more neutral, broader-based taxes. He emphasized that diversification was important because it would provide greater stability and help to maintain levels of spending if there were a secular decline in energy revenues. He opined that a sales tax would be more efficient and easier to administer for a geographically large and sparsely populated state because there would be far fewer taxpayers compared to an income tax.

CHAIR SPOHNHOLZ pointed out that every Alaskan would still be a taxpayer with a sales tax; however, businesses across the state would be involved in formally managing the remittance of the sales taxes collected from individual Alaskans and tourists.

MR. WALCZAK agreed.

1:15:58 PM

REPRESENTATIVE EASTMAN pointed out that most of Alaska's state revenue came from investment on the Alaska Permanent Fund. He expressed concern that Mr. Walczak's analysis did not emphasize that distinction enough.

MR. WALCZAK apologized if that's how it was conveyed in his presentation. He said he was trying to emphasize reliance on industry because it was important to understanding how burdens were exported and the volatility of the tax code. He clarified that he did not intend to comment on the ultimate ownership of the resource. Nonetheless, he reiterated that resource ownership had no effect on the burdens analysis.

REPRESENTATIVE EASTMAN opined that much of Mr. Walczak's analysis assumed that Alaska was comparable to other states, as opposed to distinguishing that its current revenue was coming from investment income.

MR. WALCZAK agreed that Alaska was highly unique. He acknowledged that Alaska had a large permanent fund, which was not comparable to any other state. He added that it was something that the Tax Foundation tried to reflect in its broader analysis.

1:20:00 PM

REPRESENTATIVE PRAX remarked, "all a tax fundamentally does is take the decision away from the individual and put it into the collective." He shared his belief that a number of Alaskans thought that the resources and the permanent fund belong to them, as opposed to politicians. He opined that it was not "profitable" to make comparisons to other states, later adding that in-migration and out-migration needed to be considered. He cautioned against the implementation of a tax due to the outmigration of residents in recent years.

CHAIR SPOHNHOLZ recalled that economic instability was one of the drivers of the outmigration of people in recent years. She stated that Alaska had always had a high population turn; however, recently, the same number of people were leaving Alaska every year and fewer people were coming. She opined that it was complicated. Further, to those that said people would leave Alaska if revenue measures were adopted, she asked "where would they have to go where they wouldn't have some responsibility to

pay some sort of sales or income tax?" She likened paying a tax to making a contribution for important services, such as public safety, education, and plowed roads. She thanked Mr. Walczak for his presentation.

[1:24:21 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on ways and Means meeting was adjourned at 1:24 p.m.