

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

March 22, 2023

6:04 p.m.

MEMBERS PRESENT

Representative Ben Carpenter, Chair
Representative Jamie Allard
Representative Tom McKay
Representative Kevin McCabe
Representative Cathy Tilton
Representative Andrew Gray
Representative Cliff Groh

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Robert Myers
Representative Will Stapp
Representative Jesse Sumner

COMMITTEE CALENDAR

PRESENTATION(S) : TAX OVERVIEW AND FOUNDATION

- HEARD

PRESENTATION(S) : NEW REVENUE OPTIONS

- HEARD

HOUSE BILL NO. 109

"An Act reducing the corporate net income tax rate; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

COLLEEN GLOVER, Director
Tax Division
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Co-presented the PowerPoint presentation, titled "Tax Programs and Tax Exemptions;" co-presented the PowerPoint presentation, titled "New Revenue Options."

BRANDON SPANOS, Deputy Director
Tax Division
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Co-presented the PowerPoint presentation, titled "Tax Programs and Tax Exemptions;" co-presented the PowerPoint presentation, titled "New Revenue Options."

ACTION NARRATIVE

[6:04:49 PM](#)

CHAIR BEN CARPENTER called the House Special Committee on Ways and Means meeting to order at 6:04 p.m. Representatives Allard, McKay, McCabe, Tilton, Gray, Groh, and Carpenter were present at the call to order.

Presentation(s): Tax Overview and Foundation

[6:05:55 PM](#)

CHAIR CARPENTER announced that the first order of business would be a tax overview and foundation presentation.

[6:06:33 PM](#)

The committee took an at-ease from 6:06 p.m. to 6:07 p.m.

[6:07:34 PM](#)

COLLEEN GLOVER, Director, Tax Division, Department of Revenue (DOR), began a PowerPoint presentation [hard copy included in the committee packet], titled "Tax Overview and Foundation." She directed attention to slide 1, an introduction to the presentation, which will be a high-level overview of the division's tax programs. She said this will also include information about examples of tax exemptions, tax credits, motor vehicle exemptions, and fisheries exemptions.

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MS. GLOVER moved to slide 2 to review the contents of the presentation, which include the following: fiscal year 2022 (FY 22) tax revenue collections; summary of tax programs and how resources are shared; and tax exemptions. She moved to slide 3 to address FY 22 Tax Division collection revenues. She explained that the collections include: all amounts before any sharing with local governments; all amounts before any sharing with other state agencies; and all amounts before any distributions to designated and dedicated funds, like alcohol and drug abuse treatment and prevention funds and the marijuana education treatment fund. She said that the state administers property tax revenues which are the net of the credits for local government property taxes paid to local municipalities. She noted that, due to the COVID-19 pandemic, the collections do not include any replacement of tax revenues with the American Rescue Plan Act of 2021 (ARPA) funds for fish and vessel taxes.

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MS. GLOVER showed a chart that provides a summary of all the tax collections in FY 22, which was a significant year for the division in tax collections, and she reported that \$2.7 billion was collected. She noted the order on the chart is by size of the tax program's collection amount, and the state's largest collections program is on oil and gas production tax and surcharges. She said that another large collection program is the corporate income tax.

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MS. GLOVER moved to slide 5 to present a graph of FY 22 tax programs ranked by total number of taxpayers. She pointed out that the corporate income tax program contains the largest number of taxpayers, which totals 20,152 and represents 85.8 percent of the division's total taxpayers. She said that the revenues collected come from a broad range of programs. She directed attention to charitable gaming, which, while having the second highest number of taxpayers, is one of the smallest in tax revenue.

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REPRESENTATIVE GRAY asked why the number of taxpayers for tobacco taxes is listed as 50.

MS. GLOVER answered that tobacco tax is a wholesale tax, and not a retail tax. She said that some local jurisdictions may have similar taxes but are at the retail level.

[6:12:19 PM](#)

BRANDON SPANOS, Deputy Director, Tax Division, Department of Revenue, explained that whoever filed the tax return would be considered the taxpayer.

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MS. GLOVER moved to slide 6 and slide 7 to provide a summary of the DOR's tax programs. She said that collections from natural resources were the largest group by amount, with about \$2.3 billion in total collections. She continued that this was followed by taxes in the following categories: business, utilities, tobacco, alcohol, and gambling (sin taxes), fisheries, and tourism and transportation.

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MS. GLOVER moved to slide 8 to expand on the natural resources tax program, specifically the oil and gas production tax. She said the production tax, which does not apply to royalty barrels, is taxed at the segment level. For example, the North Slope is one segment for tax purposes, while Cook Inlet is taxed by fields, and this creates multiple tax segments. She explained that the program contains a 35 percent net profits tax with a 4 percent gross minimum tax floor. She said the last major statutory change was made under Senate Bill 21 [passed during the Twenty-Eighth Alaska State Legislature], with other changes made under Senate Bill 138 [passed during the Twenty-Eighth Alaska State Legislature], House Bill 247 [passed during the Twenty-Ninth Alaska State Legislature], and House Bill 111 [passed during the Thirtieth Alaska State Legislature]. She noted that Senate Bill 38 [passed during the Twenty-Eighth Alaska State Legislature] had delayed the provision to separate gas into a 13 percent gross tax, and this went into effect January 1, 2022.

MS. GLOVER explained that oil and gas property taxes are paid by oil and gas property owners and operators at a rate of 20 mils, or 2 percent of assessed value. She said that municipalities can levy property taxes at the same rate as all non-oil and gas property, with credit towards state tax. She said the tax program was enacted and has gone unchanged since 1973.

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MS. GLOVER moved to slide 9 to further discuss the natural resource tax programs. She pointed to a chart on the right of the slide that shows the income tax brackets and the respective rates. She said the brackets are the same regardless of whether the company is a petroleum company. The mining license tax program is a net income tax on net income and royalties above \$40,000, and she said that the tax had been enacted in 1913 and has remained unchanged since 1955. She noted that the tax also exempts the first three years of when mining activity starts.

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MS. GLOVER moved to slide 10 to present a historical graph of the division's tax program revenues. She pointed to the blue line, which represents oil and gas production and surcharges, showing the variation of the revenue from year to year. The gray line is the oil and gas income tax, which she said is also volatile. She said that the orange line, representing oil and gas property taxes, is stable in revenues, as is the mining license tax.

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MR. SPANOS moved to slide 11 to talk about non-oil and gas corporate income tax and other regulatory cost charges. On the non-oil corporate tax, he said that the tax is paid on Alaska net taxable income. He pointed out the multistate tax compact and Alaska's adjustments to the multistate tax compact. He said the compact strives to tax the income of a corporation in only one way, instead of multiple times. He said that states have created the Uniform Division of Income for Tax Purposes Act (UDITPA), which outlines that every state can receive "a piece of one pie," and no state can have "a pie and a half." He said this was created because states were taxing more than 100 percent of the income of a multi-state corporation. He stated that receiving a portion is based on three factors: property, payroll, and sales. He explained that this means the property, payroll, and sales in a single state versus the property, payroll, and sales everywhere. He explained that oil and gas companies have a different apportionment factor: property, sales, and extraction. He said the non-oil and gas corporate income tax was first enacted in 1949, and the tax brackets were last changed in 2013. He addressed regulatory cost charges, and said the division does not administer tax, rather the revenue is

collected and shared. He said the division collects the revenue, and it is shared with the Regulatory Commission of Alaska (RCA).

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MR. SPANOS explained the electric cooperative tax on slide 12, which has 17 taxpayers. The tax is based on the per kilowatt hour furnished by qualified electric cooperatives, and the tax rate is based on the years of operation, with 100 percent of the revenues being shared with municipalities. On the telephone cooperative tax, there are seven taxpayers. The tax is based on gross revenue, and the rate is based on the number of years in service. He said that 100 percent of the revenue is shared with the municipality. He pointed out that slide 13 shows the total revenue from these programs.

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MS. GLOVER moved to slide 14 which addresses the taxes on tobacco, alcohol, and gambling, or sin taxes. On tobacco, she said, the tax is paid primarily by distributors, wholesalers, and retailers, with tax rates determined by type. She said the last major statutory change was in 2004, and it applied an annual increase to cigarette tax rates in 2005, 2006, and 2007. Alcoholic beverage tax is paid by distributors and wholesalers with rates determined by type and per gallon. She explained that in 2022, Senate Bill 9 [passed during the Thirty-Second Alaska State Legislature] levied a new direct seller tax effective January 1, 2024. She said that marijuana taxes are paid by marijuana cultivators with the rate determined per ounce. She explained that the ballot measure to legalize and tax marijuana cultivation passed in late 2014, with the first sales in FY 17.

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CHAIR CARPENTER asked if Ms. Glover has a projection of what Senate Bill 9 is anticipated to levy.

MS. GLOVER responded that she would follow up with Chair Carpenter.

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MS. GLOVER moved to slide 15 to address large passenger vessel gambling tax. This tax was enacted in 2006 and paid by vessel

owners at a rate of 33 percent of adjusted gross income of the gambling activities while the vessels are in the state. Regarding charitable gaming tax and fees, she said annual permit fees are \$20 to \$100 and paid by the permittees. There are over 1,000 permittees, and when gross receipts are greater than \$20,000, 1 percent of the net proceeds fee would be paid by the permittees. She said that net proceeds to permittees, like charitable organizations, are around 10 percent of gross receipts. She said there is a 3 percent pull-tab tax paid by pull-tab distributors. She said the last major statutory change was in 1993, and another in 2022, which allowed for online raffles and added a new game.

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MS. GLOVER moved to slide 16 to show a graph illustrating the historical revenues of the sin tax programs. She pointed out that the tobacco tax generates the most revenues but dropped off in FY 22 due to unknown reasons. She said that the revenues from alcohol taxes have been steady at about \$40 million. The gray line, which represents marijuana tax revenue, saw a large increase from 2017 to 2021. This peaked in FY 21 with \$30 million, and then decreased in FY 22 to \$28 million. The gambling tax program "dropped off completely" in 2021 because of the closure of the cruise industry; this tax is recovering in FY 22 and is expected to return to its historical average of \$8 million. She said the gaming tax program collects \$3 million a year.

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MR. SPANOS moved to slide 17 to discuss fisheries-related taxes. He explained that the fisheries business tax is paid primarily by fisheries businesses and persons who process fishery resources in Alaska, or export unprocessed fisheries resources from Alaska. He said the tax rate is 5 percent for a floating processor, 4.5 percent for a salmon cannery, and 3 percent for shore-based processing; if it is a developing fishery, however, then the rate is 3 percent for processors and 1 percent for shore-based processors. He reported that the number of taxpayers in this program was 444 in 2022. He transitioned to explaining the fisheries resource landing tax, which he said is a tax program created to capture what could be considered a loophole in the fisheries business tax, in that the business tax applies to fish processed in Alaska, or unprocessed fish landed outside of Alaska, so the loophole is unprocessed fish landed in Alaska and then exported out of the state. He said the resource

landing tax captures this tax. There are 36 taxpayers in this program.

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MR. SPANOS moved to slide 18 and further elaborated on fisheries related tax programs. He explained the seafood marketing assessment and said that a tax is levied on the value of seafood products produced in Alaska if the value of the product is \$50,000 or more in a calendar year. He said there are 185 taxpayers in this program. The salmon enhancement tax is a self-imposed tax paid by the fishermen and remitted to DOR by the buyers; it applies to Southern Southeast and Northern Southeast Alaska at 3 percent, and to Prince William Sound, Cook Inlet, Kodiak, Chignik, and Yakutat at 2 percent. He said the seafood development tax is a self-imposed 1 percent tax paid by the fishermen and remitted to DOR by the buyers, and \$3 million was collected in FY 22. The tax applies to Bristol Bay salmon drift gillnets, Prince William Sound salmon drift gillnets, and Prince William Sound salmon set gillnets.

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MR. SPANOS moved to slide 19 and explained the dive fishery management assessment program. This tax is a self-imposed assessment on fisheries resources taken with dive gear in designated areas. There were 21 taxpayers in FY 22, which is a standard figure, with \$550,000 collected in FY 22. He said that the common property fishery assessment is used only for Hidden Falls Hatchery and allows for cost recovery of the hatchery. He moved to slide 20 and presented a historical graph on the total revenues of all the fishing programs.

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MR. SPANOS moved to slide 21 and addressed tourism and transportation related tax programs. He said the motor fuel tax and surcharge has 110 taxpayers. This is an excise tax, with everyone in the state paying. He further explained that, when the fuel comes to Alaska, the wholesaler or distributor is the entity which pays the tax. He noted that this tax is the smallest in the nation. For example, the highway motor fuel tax is 8 cents per gallon. The rates were changed in 2004, and again in 2015 by the legislature for cleanup costs associated with fuel spills. He talked about the commercial passenger vessel tax, a tax paid on passengers who come on tourist vessels. The tax is \$34.50 per passenger, per voyage, or \$5 per

person per seven ports of call. He pointed out when there are seven ports of call the state shares more than it would receive in revenue; however, most vessels do not visit seven ports. He said that Juneau and Ketchikan have local taxes which are credits against the state tax rates, and the state constitution requires that the tax collected must be paid towards infrastructure around the ports which benefit both the vessel and the passengers. For example, there was a time when a road going from a port to a museum was thought to be a benefit; however, it has been decided these roads do not benefit the vessel directly. He said this program varies from 8 to 17 taxpayers a year.

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MR. SPANOS moved to slide 22 to further speak on tourism and transportation related tax programs. He said the vehicle rental tax, which has 257 taxpayers, is paid by the owner of the leased or rented vehicle. The rate is 3 percent of the total fees collected on a recreational vehicle. He offered his understanding that the legislative reasoning for this was that the 3 percent rate netted the same revenue as a 10 percent tax on a rented car. He spoke on the tire fee tax program, which is an excise tax paid primarily by tire dealerships, of which there are 72 taxpayers, and \$1.6 million in revenue has been collected. The tax rate is \$2.50 per regular tire, and \$5 per metal studded tire. He said an exception to this tax is for tires which are sold to federal and local governments and not intended for use on public roads.

[6:40:26 PM](#)

MR. SPANOS moved to slide 23 to show a historical graph of tax program revenue on transportation and tourism programs. He pointed out that the commercial passenger vessel tax in 2007 had a 25 percent higher tax and was originally a \$46 tax per head, but now this take is \$34.50 per head. He further explained why the lower cost occurred. A statutory change had implemented this tax for only the vessels which were in Alaska for over 72 hours, and this resulted in a drop in revenue in FY 12. He continued that, at about the same time, in FY 07 to FY 12, the legislature moved to suspend the motor fuel tax.

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CHAIR CARPENTER commented that during this time Alaska had a large amount of revenue flowing into the state.

MR. SPANOS confirmed that is correct. He said that instead of giving a payment for fuel, the state moved to suspend the tax for a period.

[6:42:06 PM](#)

MR. SPANOS moved to slide 24 to explain the state's newest tax programs over the last several years. He pointed out that an alcohol tax applied to alcohol purchased and shipped to states where there are no wholesalers was in Senate Bill 9, with [the final effective date of] 2024. He explained that the motor fuel tax surcharge was enacted in 2015, the marijuana tax in 2014, and the large passenger vessel gambling tax in 2006. He pointed out that many of the tax programs have provisions for sharing or are designated funds.

[6:44:04 PM](#)

MS. GLOVER moved to slide 25 and slide 26 to talk about tax exemptions. She explained that indirect expenditures are defined as foregone revenue to the state because of tax credits, exemptions, discounts, deductions, and other provisions. She shared that an indirect expenditure report is published by DOR every two years, and there are indirect expenditure books published by Legislative Finance Services every other year for specific departments on a six-year cycle. The most recent report data spanned from FY 17 to FY 21 and was published last year. She moved to slide 27 to show a table of indirect expenditure value reports by individual state departments. The total is about \$1 billion from 263 specific indirect expenditure items. She said DOR processes 80 percent of the \$1 billion that is collected, as the items are from within the department.

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MS. GLOVER moved to slide 28 to show the first top 10 exemptions within DOR, based on value. The first three programs listed are oil and gas production taxes. The first listed is the per-taxable-barrel credit for non-gross value reduction (GVR) eligible production, of which 80 percent of the state's production falls within this program. She explained the credit ranges and said that the number of beneficiaries is between four and eight companies, which is a limited number of taxpayers. Because of confidentiality in reporting, the division combined the total credit values for the following: alternative credit for exploration, the qualified capital expenditure credit, the

carried-forward annual loss credit, the well lease expenditure credit, and the small producer credit. She said that all these credits in total amount to \$48 million. She said that because of legislative changes over several years, these credits are in the process of expiring. She spoke on the indirect exposure for GVR, which reduces the tax bases per barrel. She said the program is limited to the first seven years of production, and the benefit would end early if the average Alaska North Slope price exceeds \$70 for 3 years. She said this program is designed to provide a tax break for new oil fields and participating areas. She said there are limited beneficiaries in the program, and there was a revenue impact of \$23.2 million in FY 21.

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MS. GLOVER moved to slide 29 and showed the second part of the table on the top 10 exemptions, which are all motor fuel related tax exemptions. She said all the programs listed on slide 29 add up to \$50 million; however, she indicated that there is no information on the number of beneficiaries.

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MR. SPANOS pointed out that some of the programs listed are required by federal law. He said a change was attempted when the surcharge was approved, but there was no interest in exempting anything under the surcharge. For example, the foreign commerce clause is applied to fuel used on flights to foreign countries, which dictates that this fuel cannot be taxed.

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MS. GLOVER moved to slide 30 to point out the various reports made available by DOR.

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CHAIR CARPENTER asked for tax information about the Willow Project.

MS. GLOVER answered that the project is not an exemption; it will be under the corporate income tax, as well as production tax. In terms of spending, she said, the Willow Project will qualify for gross value reduction, which provides a discount on the tax base.

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REPRESENTATIVE GRAY referred to slide 23 and talked about the large dip depicted in motor fuel tax revenues. He urged future legislators to not stop taxing, but rather to save money.

Presentation(s): New Revenue Options

[6:52:53 PM](#)

CHAIR CARPENTER announced that the final order of business would be a presentation on new revenue options.

[6:53:36 PM](#)

COLLEEN GLOVER, Director, Tax Division, Department of Revenue, began a PowerPoint presentation [hard copy included in the committee packet], titled "New Revenue Options." She brought attention to slide 1 and noted that the presentation contains information the committee has requested and does not reflect the viewpoint of the administration. She said the items to be presented today are options that the Department of Revenue (DOR) and the division have reviewed for years in case it is needed.

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MS. GLOVER moved to slide 2 which addresses the state's broad-based tax options. She said that a sales tax is a broad-based tax on goods and services, and she relayed that 45 states have a statewide sales tax. She explained that most states collect the tax on behalf of local jurisdictions, to which they are dispersed; however, Alaska is unique because there are some local sales taxes but no statewide sales tax. She noted that sometimes the term "use tax" is applied to a sale in another state for use in the customer's home state. She moved to slide 3 and said an example the division examined was in South Dakota, which is considered to have a broader tax when compared to other states, as the tax is not only on goods but also services, as well as business-to-business transactions. She said that South Dakota has a 4.5 percent sales tax, but for consistency in presenting the state's hypothetical new revenue options, the division created an option where the tax is based on South Dakota's broad sales and use-tax rate of 4 percent, which she said could generate \$1.83 billion in revenue if initiated in Alaska. She said that the division has researched sales tax implementation and its impact on the division. The division

currently has 96 employees and administering a South Dakota-style sales tax would require 74 additional staff. She said the division's sales tax model was reviewed by a third-party consultant, who suggested that the division's models were not as accurate as the division indicated, so the numbers on slide 3 were adjusted after the consultant's review.

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MS. GLOVER, in response to Representative McCabe regarding the term "first full-year impact," explained that it is when there would be a full year of collections. She further explained that, if a broad-based statewide sales tax were to pass, it would take the division a year to implement and would take place the year after passage.

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BRANDON SPANOS, Deputy Director, Tax Division, Department of Revenue, added that the effective date on legislation is typically placed in the middle of the fiscal year; thus, the division would look at the whole fiscal year.

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MS. GLOVER noted that, from the division's perspective, most tax years are calendar years, so converting to fiscal years is challenging.

MR. SPANOS said that a sales tax is a monthly tax, and his comments concerned fiscal years would apply to an income tax but not a sales tax.

MS. GLOVER moved to slide 4 and showed a scenario similar to Wyoming's state sales tax and use-tax program, which is also at 4 percent. She said this tax is broad but not as broad as South Dakota's sales tax, and she pointed out another difference is the business-to-business transactions. She noted that the modeling on this slide shows the revenue impact of the sales tax and does not consider if business-to-business transactions were taxed. She noted that the cost of implementing the tax would be the same as implementing the South Dakota tax and, after a full year of collections, would generate \$600 million in revenue.

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REPRESENTATIVE GRAY noted that the South Dakota sales tax carries few exemptions, and the presenters did not mention groceries. He asked if the tax applies to all food and if there truly are no exemptions on groceries.

MS. GLOVER expressed the belief that this is the case.

[7:01:59 PM](#)

REPRESENTATIVE GROH commented that there is a \$1.2 billion difference in revenue between the two sales tax scenarios, so far. He asked if the presenters know whether groceries make up the bulk of the \$1.2 billion difference.

MS. GLOVER answered that the South Dakota sales tax is not just on groceries but on all business-to-business transactions because of the tax's limited exemptions, whereas Wyoming does not apply those same taxes.

REPRESENTATIVE GROH expressed interest in receiving a breakdown of the \$1.2 billion difference.

MR. SPANOS added that such information needs business input.

[7:03:22 PM](#)

MS. GLOVER moved to slide 5 to discuss a 4 percent sales tax with a narrower tax base. She said this option excludes all services and targets online and brick and mortar retail sales. This tax would generate \$358 million in revenue, lower than both the South Dakota and Wyoming structures.

[7:04:21 PM](#)

MR. SPANOS picked up the presentation at slide 6 to talk about income tax scenarios. He noted the population of the state is 750,000. He said the tax would be on wages, tips, and incomes earned in Alaska by individuals, levied at 1 percent of the Federal Adjusted Gross Income (AGI) via employer withholdings. He noted that this tax would include business income from pass-through entities. He pointed out Alaska is the only state that does not have one of the three major tax types of property, sales, and individual income. He said this tax would bring in about \$337 million in revenue, which would be 11 percent of the taxes collected in FY 22. The cost to implement the program would be lower, requiring just 45 additional people and \$8 million in annual administration costs; this lower cost is due

to the work being conducted with the public rather than with retailers. He said the cost also includes a new online tax filing system for citizens to use. He shared that, thanks to an appropriation from the legislature, the division is moving to a new system where taxes can be filed via cell phone.

[7:08:31 PM](#)

MR. SPANOS, in response to a question from Representative Groh, confirmed that most other states have a state income tax and sales tax, but he expressed uncertainty concerning whether two-thirds of the states have both. In response to a follow-up question regarding income tax, he said the state would have the authority to collect it, and if income is earned in the state, then the state would have the authority to tax this income.

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MS. GLOVER interjected that the division's modeling assumes some of the revenue from an income tax would come from nonresidents.

REPRESENTATIVE GROH said he has heard higher figures around the actual income earned by nonresidents. For example, he pointed out the workers in the North Slope, commercial fisheries workers, and nonresident medical professionals.

[7:11:19 PM](#)

CHAIR CARPENTER stated that getting the numbers right is important, and if Representative Groh has data suggesting a larger number, then it should be brought before the committee.

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MR. SPANOS, while still on slide 6, clarified that the division's modeling uses federal data published by the Internal Revenue Service (IRS) and includes residents of Alaska. He expressed the understanding that assumptions must be made on ascertaining the other figures. If Alaska were to have a tax, employers would file 1099, W-2 forms with the state, which would enable the division to have a clearer picture of nonresident income.

[7:12:17 PM](#)

MR. SPANOS moved to slide 7 and addressed a different income tax option, which would be a tax on individual wages, tips, and

incomes earned in Alaska by individuals. This would be levied at 1 percent of federal individual income tax liability via employer withholding. He said there has been legislation proposed in the past to implement this tax; however, the actual implementation of the tax would be complicated because there are certain incomes which the state cannot tax. He said that, for example, a state revenue bond is untaxable but is "wrapped up" in the tax computation and would have to be backed out from AGI. He said that in the first full year, \$264 million would be collected under the program, with the cost of implementation being the same as the program on slide 6.

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MS. GLOVER added that the division has sophisticated modeling on general personal income taxes and reiterated that the data the division uses is from the IRS. She said that an adjustable model can be shared with members. In response to a question from Chair Carpenter, she stated that the models are static, and modeling on behavior is complicated.

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MR. SPONOS said there are economic costs to taxes which would change behavior. He said that if the state were to tax out-of-state income, for example, then there might be fewer people who work for the state. Conversely, if the state were to tax resident income, then a resident may say, "Well, I don't want to live here anymore."

CHAIR CARPENTER clarified that these questions would be applied to any broad-based tax.

[7:15:53 PM](#)

MR. SPANOS, in response to a question from Representative McKay about possible sales tax on goods bought via the internet, said that the states with a sales tax for many years have dealt with this issue. He explained that traditional purchases made in brick-and-mortar buildings would be taxed, but with court cases against companies like Wayfair Inc and Amazon.com, the U.S. Supreme Court decided the states can tax transactions from nonresidents. He said that the past "taxing nexus" involved the person being physically in the state, but now if a person is taking advantage of a market, this is considered the taxing nexus. He said the sales tax models have accounted for online transactions.

MR. SPANOS, in response to Representative McKay, explained the reason for the difference between the modeled sales and income taxes mentioned for South Dakota.

[7:18:41 PM](#)

CHAIR CARPENTER asked what the average income tax rate is in states with income taxes.

MR. SPANOS responded that he would follow up with the information.

[7:18:59 PM](#)

MR. SPANOS, in response to a comment from Representative Allard regarding the effect of a federal tax on retirement, reiterated that the model within the presentation does not account for these sorts of factors, and a non-biased approach has been taken. He said that any legislation could exempt federal retirees or social security. He stated that this is why 1 percent of federal tax liability is complicated, not only because some of it is not taxable, but because states want the ability to choose rates and exemptions. In response to a follow-up request, he said modeling showing the impacts of losing 10 percent of Alaska's resident military population could be provided.

[7:21:21 PM](#)

MR. SPANOS, in response to Representative McKay, confirmed that the state would have the ability to not tax certain items. He advised that an exemption should be considered in terms of what is fair rather than what is constitutional. He said that the state has the constitutional authority to tax its residents and all income earned within its borders, and this would include resident retirees.

[7:22:10 PM](#)

REPRESENTATIVE GROH noted that the Tax Foundation has reported 43 states and the District of Columbia have income tax; therefore, while some states do not have income taxes, most states do.

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REPRESENTATIVE MCCABE shared that, in reference to the military, case law relates that, as long as a person never becomes a resident, even if the person is earning money in the state, the state cannot tax this person's retirement.

[7:24:06 PM](#)

MS. GLOVER said that 1 percent is a low rate, and sales tax cannot be compared to an income tax, and the numbers the division is presenting aim to give the committee an idea around the taxes. She suggested that setting federal income tax liability from 1 percent to 2 percent would be doubling the income. She noted that South Dakota and Wyoming do not have personal or corporate income taxes; therefore, these states are similar to Alaska because sales taxes are these states' biggest sources of revenue generation. In response to Representative McCabe, she confirmed that the numbers being presented are calculations of direct tax income, not the economic impact of these taxes.

[7:25:34 PM](#)

CHAIR CARPENTER referred to Ms. Glover's comments that federal income tax liability at 2 percent would mean double the estimated \$264 million in revenue. He pointed out this would be assuming the population in Alaska would live under a 2 percent income tax.

[7:26:27 PM](#)

MR. SPANOS returned to the presentation on slide 8 to show modeling if the state were to expand corporate income tax to oil and gas pass-through entities. He explained that most states with a corporate income tax also have an income tax; therefore, the state is capturing all income owned in its borders. For Alaska, he further explained, the state's C corporation tax mimics other states, and since the state adopted the multi-state tax compact, the tax would apply only to C corporations, which would not pay a tax under an income tax. He advised that if the legislature pursues pass-through entities, this should not be in combination with an income tax, because then this would be considered double taxation. He clarified that the C corporation model scenario described on slide 8 would apply only to oil and gas companies, as they fall under AS 43.55. Using the current rate structure, he said, the first full year would generate \$131 million in revenue. He noted that there are no incremental costs to implement the change.

[7:28:25 PM](#)

MS. GLOVER moved to slide 9 which showed modeling of the amount of the maximum tax credit for each taxable barrel of oil when reduced from \$8 to \$5. This would occur when the average gross value at the point of production for the month is less than \$110 a barrel. The credit would scale down to zero if the average gross value at the point of production for the month is \$150 or more. Based on spring forecast information, if such a change were to be made, the revenue generated for FY 24 would be \$383 million, but would be reduced over time. She said that in lieu of oil forecasts going down in the future, this change would have a lower revenue impact in the out years.

[7:30:30 PM](#)

MS. GLOVER moved to slide 10 to share that the division's fiscal plan models are available online. She explained that the fiscal plan model provides policymakers and the public users with a tool to model revenue and spending options; provides flexibility for users to design solutions with their assumptions; provides outputs which include spreadsheets and graphs of critical financial data; and presents current updates after each official forecast is released in the fall and spring.

[7:32:13 PM](#)

MS. GLOVER, in response to a question from Representative Groh regarding a shift in mil rate, said the total amount the state receives in oil and gas property taxes is about \$550 million, so a 50 percent increase would be in the \$200 million to \$270 million range.

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REPRESENTATIVE GRAY commented that he had looked up California's tax rates and found the state has a 7.25 percent state sales tax, as well as a 12.3 percent state income tax. He relayed his appreciation to the presenters for using South Dakota and Wyoming as conservative models to show the impacts of imposing any of the different taxes.

[7:34:50 PM](#)

REPRESENTATIVE MCCABE, referring to slide 6 of the presentation, questioned the 1 percent gross income base and the 1 percent

federal tax liability base, which Mr. Spanos called a "flat tax."

MR. SPANOS answered that adjusted gross income would be considered a flat tax because, as shown on slide 7, the federal tax brackets have already been applied to the federal tax liability.

REPRESENTATIVE MCCABE sought clarification that the federal tax liability base would already encompass the progressive tax. He expressed surprise that the flat tax seems to earn more.

MR. SPANOS responded, "It is apples and oranges that we're comparing." He explained that AGI is a much larger number than federal tax liability, which is tax paid on the AGI, so it is a smaller number.

REPRESENTATIVE MCCABE, referring to the charts on slide 6 and slide 7, said that a flat tax would be a broad tax, and he offered his understanding that the slides show the state receives more income in tax if the tax is spread across the entire cross section of the population, instead of depending on the top 5 percent to handle the tax increase.

MR. SPANOS replied that AGI at 1 percent could be modeled, "with AGI but with brackets." He said that was not done for this presentation and would give a different number.

[7:37:58 PM](#)

MR. SPANOS, responding to remarks by Representative McKay regarding C corporations and S corporations, noted that the latter is not public information and could not speak to it.

[7:39:09 PM](#)

MS. GLOVER, in response to Representative McKay reviewed the topic of legacy fields. In response to a follow-up question, she said the division could provide some historical information regarding these fields.

[7:40:27 PM](#)

MR. SPANOS added that, should the legislature choose to implement an income tax, the division will implement the tax. He reiterated that he does not speak for the administration.

7:41:18 PM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 7:41 p.m.