

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

March 27, 2023

6:00 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Robert Myers
Representative Mike Prax

COMMITTEE CALENDAR

PRESENTATION(S) : MUNICIPAL TAXES

- HEARD

HOUSE BILL NO. 109

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

- HEARD & HELD

HOUSE BILL NO. 142

"An Act relating to a state sales and use tax; authorizing the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement; and providing for an effective date."

- BILL HEARING CANCELED

HOUSE BILL NO. 110

"An Act relating to the Alaska permanent fund; relating to permanent fund dividends and the dividend fund; transferring the dividend program from the Department of Revenue to the Alaska

Permanent Fund Corporation; relating to the duties of the Department of Revenue; relating to the duties of the Alaska Permanent Fund Corporation; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 109

SHORT TITLE: REDUCE CORP. NET INCOME TAX RATE

SPONSOR(S): REPRESENTATIVE(S) CARPENTER

03/13/23	(H)	READ THE FIRST TIME - REFERRALS
03/13/23	(H)	W&M, FIN
03/22/23	(H)	W&M AT 6:00 PM DAVIS 106
03/22/23	(H)	Scheduled but Not Heard
03/27/23	(H)	W&M AT 6:00 PM DAVIS 106

WITNESS REGISTER

NILS ANDREASSEN, Executive Director
Alaska Municipal League
Juneau, Alaska

POSITION STATEMENT: gave a PowerPoint presentation, titled "Municipal Taxation."

KENDRA BROUSSARD, Staff
Representative Ben Carpenter
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: On behalf of Representative Carpenter, prime sponsor of HB 109, gave a PowerPoint presentation, titled "Corporate Income Taxes and Economic Growth."

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

POSITION STATEMENT: Answered questions on the fiscal note for HB 109.

ACTION NARRATIVE

[6:00:36 PM](#)

CHAIR BEN CARPENTER called the House Special Committee on Ways and Means meeting to order at 6:00 p.m. Representatives Tilton, Allard, Groh, McKay, McCabe, Gray, and Carpenter were present at the call to order.

Presentation(s): Municipal Taxes

[6:01:40 PM](#)

CHAIR CARPENTER announced that the first order of business would be a presentation on municipal taxes.

[6:01:57 PM](#)

The committee took a brief at-ease at 6:02 p.m.

[6:02:30 PM](#)

NILS ANDREASSEN, Executive Director, Alaska Municipal League (AML), gave a PowerPoint presentation, titled "Municipal Taxation" [hard copy included in the committee packet]. He notified the committee that he is not a tax expert, and he stated that questions may be directed to the Department of Commerce, Community, and Economic Development, Division of Community and Regional Affairs and the Office of the State Assessor. He began on slide 2 on the topic of tax authority, which read as follows [original punctuation provided]:

Tax Authority

Articles IX and X of the Alaska Constitution and Title 29 of the Alaska Statutes establish the legal framework for municipal taxation.

- The Alaska Constitution delegates the state's taxation power to only organized cities and boroughs.
- The provision that "no tax shall be levied... except for a public purpose..." applies to municipal taxation, too.
- Home rule municipalities are granted broad powers by the Constitution, which provides that "...standards for appraisal of all property assessed by the state or its political subdivisions shall be prescribed by law..."
- General law municipalities can by law levy a tax or special assessment and impose a lien for its enforcement.

- Both home rule and general law municipalities are subject to limitations on their taxing powers by law.
- AS 29.45.010 authorizes cities, boroughs and unified municipalities to levy a property tax, which must be assessed, levied and collected as provided in AS 29.45. Authorizes implementation of sales and use taxes.
- Based on Article X, Section I of the Alaska Constitution: "...a liberal construction shall be given to the powers of local government..." it is assumed that all real and personal property is taxable unless it is specifically exempted from property taxation.

[6:05:14 PM](#)

MR. ANDREASSEN addressed limitations on taxation, shown on slides 3 and 4, which read as follows [original punctuation provided]:

Limitations on Taxation

Home Rule Municipalities - have all legislative powers not prohibited by law or charter. AS 29.10.200 lists all of the sections of Title 29 that act as limitations on home rule legislative powers.

General Law Boroughs - required to assess and collect property, sales, and use taxes that are approved and levied within their boundaries, subject to the provisions of Chapter 45.

All Boroughs. Taxes levied by a city within a borough must be collected by a borough and returned in full to the city levying the tax. This provision applies to home rule and general law municipalities.

All Municipalities. Specific limitations on the property taxation powers of all general law and home municipalities AS 29.45.080/90.

Further within AS 29.45.090 a municipality, or a combination of municipalities occupying the same geographic area, may not levy taxes upon value that, when combined with the value of property otherwise taxable by the municipality, exceeds the product of a sliding scale percentage of the average per-capita

assessed value as determined under AS 43.56.010(c), multiplied by the number of residents of the taxing municipality.

[slide 4]

- Section 29.45.100 of the Alaska Statutes provides that limitations on the amount of property tax that may be collected apply only to taxes for operating expenses and not to taxes collected to pay for bonded indebtedness.
- Second Class Cities. A second class city may, by referendum, levy property taxes as provided for first class cities. Specific limitations on the property taxation powers of second class cities are found in AS 29.45.590. A special limitation on taxation by second class cities is that the city cannot levy property taxes exceeding 2 percent (20 mills) of the assessed value of property within the municipality in any one year. This limitation was increased from 0.5 percent (5 mills) in 1994.
- Compliance by municipalities within the taxation limitations in the state statutes is enforced through the State Assessor's Office under the powers granted by AS 29.45.103 and AS 29.45.105. Under these statutes, the Office of the State Assessor may investigate claims of errors in assessment and taxation procedures, inspect municipal records and order correction of any procedural errors discovered.

[6:08:17 PM](#)

MR. ANDREASSEN addressed the issue of property tax and pointed out that slide 5 depicts a map of median property taxes paid in 2020 by county [or borough] throughout the U.S.

[6:10:40 PM](#)

MR. ANDREASSEN, in response to a question from Chair Carpenter, expressed uncertainty whether there is a trend in the U.S of moving away from property taxes.

[6:11:33 PM](#)

MR. ANDREASSEN addressed limitations on property taxes, as shown on slide 6, which read as follows [original punctuation provided]:

Property Taxation - Limitations

All real and personal property is taxable unless it is exempted from property taxation.

Municipal property tax required exemptions are specified in AS 29.45.030.

- Examples: household furniture and personal effects of members of a household, natural resources in place, and property used exclusively for nonprofit religious, charitable, cemetery, hospital, or educational purposes.

Under AS 29.45.090, no municipality may levy taxes exceeding 3 percent (30 mills) of the assessed value of property within the municipality during a year. This tax limitation has been interpreted by the Alaska Supreme Court to apply only to property.

Property owned by Alaska Native Claims Settlement Act (ANCSA) Native corporations is also exempt from municipal property tax unless the property is leased or developed.

All taxable real and personal property within a municipality is included in its Full Value Determination, which is a key element in the calculation of state aid to schools.

MR. ANDREASSEN moved to slide 7, which showed a map of land ownership in Alaska. He pointed out that Alaska is the only state with a large part of the land mass not subject to a property tax. Moving to slide 8, he addressed an effective mill rate and tax base reduction. He pointed out that an effective mill rate would range from 5.62 in Skagway to 20 in Valdez, with the average in the state being 11.12.

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MR. ANDREASSEN, in response to Representative Groh, explained that the mill rate in statute is 2.65. This would be required by local governments who have municipal school districts, and it applies as part of the property tax or equivalent. He said that this is applied to the full value of determination, which is the total assessed, less the mandatory state exemptions.

[6:19:15 PM](#)

MR. ANDREASSEN moved to slide 9 and pointed out that the state's mandatory exemption is valued at \$103 million. This is required in law to be reimbursed by the state but has not been done since fiscal year 1997 (FY 97). He continued that in 2012 this value was at \$56 million, doubling in 10 years.

[6:22:28 PM](#)

MR. ANDREASSEN, in response to Representative Gray, offered clarification regarding slide 9, noting that "the legislature" may be the more appropriate term to use rather than "the state." In response to a follow-up question, he clarified that the exemptions are only those specified under AS 29.45.030. He noted that local governments can add additional exemptions.

[6:24:30 PM](#)

MR. ANDREASSEN, in response to Representative Allard, confirmed that if there is a budget at one level and the full tax cannot be accessed to meet this budget, then the tax rate goes up and is spread out to other taxpayers. In response to a follow-up question, he said the reallocation would be within the municipality.

[6:25:52 PM](#)

MR. ANDREASSEN, in response to a question from Representative McCabe regarding the 24 jurisdictions shown on the bar chart on slide 9, said the exemption is being spread out to all commercial and residential properties or taxable projects within a city or bureau. He said that there are 600,000 residents within these 24 jurisdictions. To a follow-up question, he indicated that [property] tax does not apply to the 60,000 residents living in a home rule city within an unorganized borough.

[6:28:31 PM](#)

MR. ANDREASSEN returned to the PowerPoint to speak about property exemptions, as seen on slide 10. He pointed out that exemptions would shift the tax burden to other taxpayers. He stated that this is important to understand in context of the budget process, as the property tax rate would be determined post budget. Concerning higher and lower rates, he explained that the proposed legislation would vary based on the total

available base value. He added that currently there is no difference between residential, industrial, and commercial tax in Alaska, and the state can offset the rate through the reimbursement of mandatory exemptions or a circuit breaker program.

[6:31:48 PM](#)

MR. ANDREASSEN, in response to Representative Gray, said the type of tax in other states depends on the desired outcome. For example, residential and business taxes would offset costs for families.

[6:32:49 PM](#)

MR. ANDREASSEN discussed sales tax, on slides 11-13, which read as follows [original punctuation provided]:

Sales Tax

- Alaska Statutes 29.45.650 - 29.45.710 authorizes the levy of sales and use taxes.
- The statutes give broad authority to municipalities to levy taxes on sales, rents and services provided within the municipality.
- Few limitations placed upon municipalities in regards to levying a sales tax.
- Orbital space facilities are exempt from the levy of sales tax and
- Alcohol may not be taxed unless other items are similarly taxed.
- Municipality may not levy a sales tax on a construction contract awarded to a contractor or subcontractor that has been awarded by a state agency or on a subcontract awarded in connection with a project funded under the construction contract.
- Other exemptions may be granted by a local ordinance.
- A general law municipality that levies a sales tax may also levy a use tax on the storage, use or consumption of tangible personal property; however, the use tax rate must be equal to the rate of the sales tax and may only be levied on buyers.
- These limitations do not apply to home rule municipalities. By statute, there are no limits on the rate of levy for sales or use taxes for either type of

municipality; however, if interest is charged on unpaid sales taxes, the interest may not exceed 15%.

[slide 12]

Sales Tax

- Data for 100 municipalities for 2022, 106 is standard number
- No sales tax applies to 600,260 residents
- Average Rate of 3.8% - highest of 7%
- Six seasonal
- Implied tax base of \$7.6 billion (notwithstanding effect of exemptions)

[slide 13]

Sales Tax

Rate stability - over 20 years:

- 57 communities stayed same
- 20 increased by 1%
- 16 had increases of between 1.5% and 4%

28 increased in early 2000s because of lost Community Revenue Sharing

- Compared to 15 in last decade

As a portion of overall revenue:

- 14 communities above 50%
- 33 communities between 20 and 50%
- 20 communities between 10 and 20%
- 32 communities under 10%

MR. ANDREASSEN added that potentially the tax base would be much larger with fewer exemptions. In response to Chair Carpenter, he offered clarification. He talked about a 3 percent to 5 percent middle ground in sales tax in Alaska. He further broke down the sales tax rate of most cities. He confirmed for Representative Groh that the impact of a statewide sales tax has been considered.

[6:42:31 PM](#)

MR. ANDREASSEN offered information about South Dakota v. Wayfair, Inc., 585 U.S. (2018), as seen on slide 14. The case resulted in eliminating the requirement of a physical presence for online sales; instead, an economic nexus was created, which streamlines a statewide, single-level business tax. He stated

that AML has worked with local governments to establish the Alaska Remote Seller Sales Tax Commission. The commission has a uniform code with consistent definitions and an online portal for single registration and filing. He said that this would apply to communities that sign intergovernmental agreements. He added that AML would administer the collections.

[6:46:20 PM](#)

MR. ANDREASSEN moved to slide 15 and addressed AML's collection experience, which includes 46 participating communities with 3,000 registered sellers. He stated that remote sales tax collected in 2022 totaled \$20 million, or 8 percent. He moved to slide 16, which addressed the online sales gross and exemption. He stated that the exemption in 2022 included a resale exemption of 29 percent, government expenditures, and nonprofits.

[6:50:06 PM](#)

MR. ANDREASSEN, in response to Chair Carpenter, surmised that the change between 2021 and 2022 could be attributed to the program's growth. As more communities are added to the data, the data may be skewed depending on the tax scale variability.

[6:51:29 PM](#)

MR. ANDREASSEN continued discussing sales tax on slide 17. When implementing a state sales tax, he suggested the following: local collection of sales tax should be protected, local control of rates and exemptions should be ensured, and the system of current governance should be considered. He recommended that sales tax legislation not be built from old legislation, and a new system of collection be established. He added that the local tax burden and a distributional analysis should be included.

[6:53:25 PM](#)

MR. ANDREASSEN addressed the topic of excise taxes, shown on slide 18 to slide 20. Slides 18 and 19 read as follows [original punctuation provided]:

Excise Taxes

- Allowed under liberal construction of local government powers in Constitution.

- Extends to severance tax, a type of excise tax (performance of an act, in this case severing of natural resources from the place in which they are located).
- There is no distinction here between home rule and general law, nor is it subject to voter ratification.

[slide 19]

Excise Taxes - Bed and Rental

Ad Valorem (%) or Flat

- Bed Taxes
 - 49 communities
 - 4-12% tax rate
 - \$31 million
- Rental Car Taxes
 - Two communities
 - 8% rate
 - \$7.3 million 19

Future Considerations

- Short Term Rentals
- Marketplace Facilitators
- Peer-to-Peer Sharing
- Ultimately about shifting local tax burden to non-residents, and ensuring local services and infrastructure in place to support a visitor industry
 - Non-specific community development

[6:56:07 PM](#)

MR. ANDREASSEN, in response to Representative McCabe, confirmed the accuracy of the statement that Alaska does not have a state bed tax. To a follow-up question, he expressed uncertainty on how a Medicare tax would be categorized.

MR. ANDREASSEN continued to slide 20, showing a map of states which have the highest "sin tax." Listed was the consumption tax for alcohol, tobacco, and marijuana.

[6:58:32 PM](#)

MR. ANDREASSEN, in response to Representative Groh, expressed uncertainty concerning a video game tax. He explained that some

taxes in other states are not in Alaska because Alaska does not have state-level allowance for these taxes.

[6:59:42 PM](#)

MR. ANDREASSEN, in response to Representative McCabe's comments about the substantial taxes from gaming in New York, said that local governments in Alaska do not tax this way.

MR. ANDREASSEN moved to slide 21, which listed various resource-based taxes collected between 2013 and 2027.

[7:02:34 PM](#)

MR. ANDREASSEN, in response to Representative Allard, confirmed that he would follow up with the committee on updated tax information on resources. He moved to slide 22 and pointed out that at the state level a broad-based tax has the largest available base because of the following: there are no limitations based on who owns the land, there are no limitations based on the land being developed or its value, there are no exemptions for government and nonprofits, and there are no exemptions by sales type or service.

[7:04:14 PM](#)

MR. ANDREASSEN concluded on slide 23, pointing out the basic building blocks for communities, which include micro level evaluation, evaluation of the relative tax burden by community, and incentivizing what matters, as housing and jobs, education and childcare, and basic infrastructure. He suggested that local governments will shift to meet emerging needs by evaluating the current tax burden, and this will meet new priorities and focus on community stability and economic growth.

[7:06:15 PM](#)

MR. ANDREASSEN responded to a remark from Representative McCabe concerning that taxation shifts the burden to what society deems most necessary. He expressed the opinion that there are many ways to consider taxation. He gave examples, including the relation of distribution and value.

[7:08:32 PM](#)

CHAIR CARPENTER expressed concern on what would help grow the economy on both the state and local levels. He added that his

perspective is not just in terms of revenue, but also in consideration of whether the state will "have more jobs."

HB 109-REDUCE CORP. NET INCOME TAX RATE

[7:09:40 PM](#)

CHAIR CARPENTER announced that the final order of business would be HOUSE BILL NO. 109, "An Act reducing the corporate net income tax rate; and providing for an effective date."

[7:10:01 PM](#)

[Chair Carpenter passed the gavel to Vice Chair McCabe.]

[7:11:43 PM](#)

CHAIR CARPENTER, as prime sponsor, paraphrased the sponsor statement [copy included in the committee packet], as follows [original punctuation provided]:

Alaska's economy is lagging that of the nation. Our GDP (economic) growth over the past decade has been the worst in the country. Sixty-eight thousand more people have left Alaska, than have moved here from other states, over the last decade. In our modern economy, people are mobile, and will move for employment opportunities. The House Ways and Means Committee has been tasked with improving Alaska's economy. Reducing the cost of doing business in Alaska is a good place to start.

Corporate income taxes are levied in 44 states, and twenty-nine states have single-rate corporate tax systems. While often thought of as a major tax type, states' corporate income taxes accounted for an average of just over seven percent of state tax collections and four percent of state general revenue in fiscal year 2021. And while these figures are not high, they are among the reasons corporations decide where to conduct business.

Alaska's 9.4% corporate income tax (CIT) currently has the fourth highest tax rate and the highest graduation of rates in the nation. Only New Jersey, Minnesota and Illinois have higher rates. HB109 would reduce Alaska's rates to a single rate and the lowest rate in

the nation for states with corporate taxes—for now. North Carolina currently has the lowest CIT rate at 2.5% but will phase out its tax by 2030.

Graduated corporate rates are inequitable—that is, the size of a corporation bears no necessary relation to the income levels of the owners; low-income corporations may be owned by individuals with high incomes, and high-income corporations may be owned by individuals with low incomes. A single-rate system minimizes the incentive for firms to engage in economically wasteful tax planning to mitigate the damage of higher marginal tax rates that some states levy as taxable income rises.

A low, flat-rate corporate tax will significantly level the playing field between C-corps and S-corps and limited liability companies. Low corporate tax rates have been proven to increase productivity which leads to improved economic output for the state.

Corporate income taxes are also volatile, as they are taxes on production. When corporate income tax rates get high enough, the business will produce less in that state. This is because the business, as opposed to the customers, are the less elastic side of the market. Customers, the more elastic side of the market, may decide to no longer buy from the business at the higher price. Elasticity also increases the more time passes after a price change. As time goes on, the corporate income tax will mean that a business hires fewer workers and/or moves the business out of the state because the income tax has made the cost of doing business in the state prohibitively high. As businesses leave the state, income tax revenue decreases in the years that follow. This makes revenue volatility for income taxes relatively high compared to that of sales and use taxes.

Economically competitive states, like North Carolina, have been reducing rates, flattening brackets, or phasing out their corporate taxes. South Dakota, another Economically competitive State, has no corporate tax.

[7:16:49 PM](#)

KENDRA BROUSSARD, Staff, Representative Ben Carpenter, Alaska State Legislature, on behalf of Representative Carpenter, gave a PowerPoint presentation, titled "Corporate Income Taxes and Economic Growth" [included in the committee packet]. On slide 2, she explained the definition of corporate income taxes. She said that Alaska levies a corporate income tax (CIT) on certain corporations doing business in the state, under AS 43.19 and 43.20. She continued that corporate tax rates are graduated, with a maximum rate of 9.4 percent applying to taxable income above \$222,000. She added that S corporations and limited liability companies which file federally as partnerships are generally exempt from Alaska's corporate income tax. A non-oil and gas corporation computes its tax liability based on the federal taxable income of its water's edge combined report, with Alaska adjustments. For example, the Alaska tax code allows special treatment for certain dividends and royalties received from foreign corporations. She continued that U.S. income is apportioned to Alaska based on three factors: sales, property, and payroll, while Alaska taxable income is determined by applying the apportionment factor to the corporation's modified federal taxable income. Corporate income tax for oil and gas corporations is calculated differently and reported separately.

MS. BROUSSARD stated that, generally, a corporation is subject to tax on its current-year Alaska taxable income, and any net operating losses may be carried forward indefinitely to offset future tax liabilities; however, as part of the federal CARES Act passed in 2020, corporations may carry back net operating losses from tax years 2018, 2019, and 2020, for up to five years and receive refunds for previous federal taxes paid. Alaska adopts most provisions of the federal corporate income tax code, including the provision allowing the five-year carry back for net operating losses; thus, the carry back provision applies to Alaska corporate income tax as well.

[7:19:07 PM](#)

MS. BROUSSARD, moving to slide 4, showed the non-oil CIT revenues as \$125 million in fiscal year 2024 (FY 24). She moved to slide 4 and said the FY 24 petroleum CIT revenue is forecast to be \$320 million. Slide 5 showed taxable income rates as prescribed in AS 43.20.11 (e). She paraphrased from slide 6, which read as follows [original punctuation provided]:

Alaska currently has the fourth highest tax rate and the highest graduation of rates in the nation. Only New Jersey, Minnesota and Illinois have higher rates.

This bill would reduce Alaska's rates to a single 2% rate and the lowest rate in the nation for states with corporate taxes—for now. North Carolina currently has the lowest CIT rate at 2.5. They will phase out its tax by 2030.

[7:20:25 PM](#)

REPRESENTATIVE GROH, concerning slide 5, questioned why the rates on the table are different than what is in the proposed bill. He pointed out that the slide shows a maximum rate of \$90,000 or more, but in the proposed bill the rates go up to \$222,000 or more.

CHAIR CARPENTER responded with the acknowledgement that the proposed bill and slide do not match, and he offered to follow up to the committee.

[7:21:27 PM](#)

MS. BROUSSARD moved to slide 7 to show a map illustrating corporate income tax rates in every state. The color gray represents no such taxes, while states with this tax are yellow to red, representing lower to higher taxes, respectively. She pointed out that Alaska is shaded red, with the fourth highest rate in the nation. She paraphrased from slide 8, which read as follows [original punctuation provided]:

Graduated corporate rates are inequitable—that is, the size of a corporation bears no necessary relation to the income levels of the owners; low-income corporations may be owned by individuals with high incomes, and high-income corporations may be owned by individuals with low incomes. A single-rate system minimizes the incentive for firms to engage in economically wasteful tax planning to mitigate the damage of higher marginal tax rates that some states levy as taxable income rises.

[7:22:18 PM](#)

MS. BROUSSARD moved to slide 9 and explained the proposed legislation. She stated that if the taxable income is less than \$25,000, then the tax would be zero. If the taxable income is \$25,000, then the tax would be two percent of taxable income. She moved to slide 10 and pointed out that the proposed legislation would not change income tax education credit in AS

43.20.014. Addressing why the proposed legislation is needed, she moved to slide 11, which read as follows [original punctuation provided]:

Alaska's economy is lagging that of the nation. Our GDP (economic) growth over the past decade has been the worst in the country. Sixty-five thousand more people have left Alaska for, than have moved here from, other states over the decade. In our modern economy, people are mobile, and will move for employment opportunities. The House Ways and Means Committee has been tasked with improving Alaska's economy and reducing the cost of doing business in Alaska is a good place to start.

[7:23:37 PM](#)

MS. BROUSSARD moved to slide 12 and expressed the opinion that Alaska is not doing well economically, as the state's gross domestic product (GDP) growth is the worst in the nation. She pointed out that people are leaving the state, as seen on the graph on slide 13. Slide 14 read as follows [original punctuation provided]:

Corporate income taxes are levied in 44 states, and twenty-nine states have single-rate corporate tax systems. While often thought of as a major tax type, states' corporate income taxes accounted for an average of just over seven percent of state tax collections and four percent of state general revenue in fiscal year 2021. And while these figures are not high, they represent a substantial increase over prior years, and are among the reasons corporations decide where to conduct business. Corporate income taxes accounted for 2.26 percent of general revenue in FY 2020.

[7:24:39 PM](#)

MS. BROUSSARD, moving to slide 15, said that Alaska's CIT is at 9.4 percent. Slide 16 and slide 17 read as follows [original punctuation provided]:

People pay all taxes. When the government levies a tax on a corporation, the corporation is more like a tax collector than a taxpayer. The burden of the tax

ultimately falls on people—the owners, customers, or workers of the corporation.

[slide 17]

The corporate income tax is popular in part because it appears to be paid by rich corporations. Yet those who bear the ultimate burden of the tax—the customers and workers of corporations—are often not rich. If the true incidence of the corporate tax were more widely known, this tax might be less popular among voters.

[7:24:55 PM](#)

MS. BROUSSARD moved to slide 18 and suggested that a low flat-rate corporate tax would level the playing field between C corporations and S corporations and limited liability companies. She explained that low corporate tax rates have been proven to increase productivity, leading to improved economic output; however, as time goes on, a corporate income tax could result in a prohibitively high cost for doing business in the state. Businesses would then leave the state, and income tax revenue would decrease. She explained that this would make a high revenue volatility for income taxes, relative to sales and use taxes. She continued onto slide 20 and reiterated that volatility would be created because corporate income taxes would tax production. She warned that when corporate income taxes are too high, businesses will produce less in the state. Concerning markets, she said that businesses are on the less elastic side than consumers, because at the higher prices, consumers may decide to no longer buy from businesses. After a price change, she suggested that elasticity would also increase with time.

[7:26:57 PM](#)

MS. BROUSSARD, moving to slide 21, said the figure shown illustrates the volatility of state tax revenue. On slide 22, she elaborated that economically competitive states, like North Carolina, have been reducing rates, flattening brackets, or phasing out corporate taxes. She noted that South Dakota has no corporate tax. She expressed the opinion that this is because taxes have economic consequences.

[7:27:49 PM](#)

REPRESENTATIVE MCKAY pointed out on slide 21 that South Dakota has no CIT, but according to a previous presentation made to the

committee, the state does have a tax. He offered the understanding that the revenue generated was about \$1.8 billion with a tax on goods and services.

CHAIR CARPENTER responded that the question draws a point directly on the committee's discussions around a fiscal package, which would reorder thinking on state finances and revenue generation for the state government. He spoke about growing economic activity and said the state's CIT policy is a hurdle for investors coming to the state. He elaborated that a complete fiscal package addressing the hurdle by shifting the burden of the tax to a broader economic factor would reorder how the state is receiving money. He continued that this would improve the state's ability to grow the economy. He explained that, as the non-government economy grows with a sales tax, the state revenue would increase. He explained that, if the non-oil economy grows and generates more revenue, without CIT there would be no connection to the state revenues. He deduced that a broad-based tax coupled with a decrease in the CIT rate would have the net effect of making Alaska a more advantageous place to invest in. He stated that the proposed legislation is a CIT rate reduction bill, and it is being presented in the context of a fiscal plan with more than one action.

[7:31:15 PM](#)

VICE CHAIR MCCABE suggested that in the end the people pay the tax, and if CIT is too high, the people would still pay one way or another. If the tax were to be lowered, he suggested that businesses would come to the state, and as businesses grow the people would pay a sales tax.

CHAIR CARPENTER commented that consumers ultimately pay the tax, whether it is CIT, sales tax, or income tax. He said that CIT is not a direct tax on a person; however, it is a tax someone is paying because the consumer pays it.

[7:33:07 PM](#)

REPRESENTATIVE ALLARD said that, even if people were enticed to come to the state, and the CIT is too high, the consumer would pay.

CHAIR CARPENTER suggested that the term "sin tax" is used for a reason. He explained that the theory is if there is a tax on what is unwanted, there will be less of the unwanted thing; therefore, if the state is taxing corporate investment at a high

rate, then the state is likely to get less. He further said that if the state is trying to encourage corporate investment, the tax should be reduced, and then the state would reap the benefit of more business activity. He suggested that if the tax burden is replaced with a broad-based tax, it should not be a tax so narrow that it negatively impacts economic growth. If CIT is reduced and the lost revenue is replaced with a broad tax, he suggested that the benefit would be a possibility for economic activity where there was none before.

[7:35:25 PM](#)

VICE CHAIR MCCABE questioned whether corporations are taxed on all income, even when doing business in another state.

CHAIR CARPENTER responded that the state would tax corporations just on its operations within the state.

[7:36:57 PM](#)

REPRESENTATIVE GRAY said that according to Forbes in 2021, Alaska was last in GDP growth while South Dakota was ranked forty-seventh. He asked whether ranking forty-seventh is the goal.

CHAIR CARPENTER responded that moving up one in the ranking would be an improvement. He expressed that the goal is not just to move up three percentage points, rather it is to look for some positive direction, since the status quo is not doing this.

[7:37:50 PM](#)

MS. BROUSSARD, continuing the presentation, explained that the next few slides address the result of the Tax Cuts and Jobs Act of 2017. She said slide 23 shows data on tax cuts from 2017. On slide 24, she pointed out that GDP grew higher in the U.S. than Europe. Data on slide 25 showed that poverty and unemployment rates went down after the tax cuts. Slide 26 showed that U.S. real median income went up after the tax cuts, while unemployment rates for Hispanics went down. Slide 27 showed that U.S. unemployment went down after 2017, as did the rate for those with less than a high school diploma. She moved to slide 28, which showed that more money was generated after 2017. She moved to slide 29 to show a graph on the Organization for Economic Cooperation and Development (OECD) corporate tax rate versus OECD corporate tax revenues as a percentage of GDP from 1981 to 2018. She explained that the rate went down while

the percentage went up. Slide 30 showed that six-month real GDP growth rates annualized, comparing the administrations under President Ronald Reagan and President Barack Obama. She concluded on slide 31, stating that the goal of HB 109 would be to make Alaska yellow on the map.

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REPRESENTATIVE GROH asked about the comparisons in Alaska's brackets and CIT in other states. He stated if two businesses both make \$10,000 in profit, while one is located in Hawaii and the other in Alaska, under current law, he questioned which business would pay more in CIT.

CHAIR CARPENTER said that the CIT rate in Hawaii is 6.4 percent, while the top tax bracket in Alaska is 9 percent. He expressed uncertainty as to the tax graduation in Hawaii.

REPRESENTATIVE GROH clarified that for Alaska, the figure would be zero, while in Hawaii the business would pay \$440; therefore, the taxes would be lower under the proposed regime. As for a business generating \$60,000 in revenue, the business would pay about half the taxes than in North Carolina. He pointed out that the Alaska brackets are not the highest at every level. For example, if a business makes \$700,000 in Alaska and a business does the same in Iowa, the taxes on the business in Alaska would be lower than in Iowa. Regarding the proposed legislation, he expressed uncertainty whether there has ever been a fiscal note which has this sort of loss in revenues while adding 25 percent to the deficit. He requested an explanation of the fiscal note.

CHAIR CARPENTER responded that there are companies in the state paying 9 percent tax, while the largest corporations are the ones fitting the tax rate bracket. He stated that there were 21,152 CIT payers in 2022. He stressed that the point of reducing the bracket from 9 percent to 2 percent is not about the rates companies are paying within the brackets, rather it is about all companies paying a flat two percent; therefore, all companies would be benefited except the ones paying 2 percent to begin with. He said that the proposed legislation would mean a reduction of \$300 million in revenue this fiscal year.

CHAIR CARPENTER, regarding the fiscal note, pointed out that the FY 24 appropriation column shows a \$169 million reduction in the budget, and in the out years starting with FY 25, a \$328 million reduction in revenue to the state. He expressed the opinion

that the state would have to "grapple" with this if CIT were reduced. He suggested the proposed fiscal package would reduce taxes in one area, and it would pick up taxes in a different area. He continued that the shift would have a corresponding positive impact on economic growth. Conversely, if the state were to reduce to just CIT, the deficit would grow. He continued that if the state were to reduce CIT, and the state experienced economic growth into the future, the state would see a corresponding positive impact to the economy because of this change.

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VICE CHAIR MCCABE asked, with the fiscal note estimates, what will happen without outside factors, like a new company coming into Alaska. He argued that a hypothetical savings cannot be represented by corporations foreseeing a lower CIT. He continued that fiscal notes show what will happen right now without outside intervention. He suggested that fiscal notes are cut and dry, and do not show the hidden benefit or cost.

CHAIR CARPENTER concurred that fiscal notes are just the numbers. He pointed out that the change between the reduction in revenue from FY 25, FY 26, and FY 27, for example, would go from \$328 million to \$333 million to \$350 million, respectively. He stressed that CIT is volatile, so it is unknown what exactly would happen. He deferred further explanation to the Department of Revenue.

[7:50:29 PM](#)

BRANDON SPANOS, Deputy Director, Tax Division, Department of Revenue, stated that he wrote the fiscal note and economists performed the revenue impact analysis. He said the starting point on the revenue impact was the revenue sources. He elaborated that 2 percent would be applied to all and the graduated rates would go away. He explained that the figure is estimated to go up every year because CIT, under current law, shows growth; therefore, HB 109 would create a reduction in CIT.

VICE CHAIR MCCABE reiterated whether the fiscal note estimates would assume no new corporations coming to Alaska.

MR. SPANOS responded yes, in that the division did not analyze the impact of new companies coming to the state because of a lower tax rate.

VICE CHAIR MCCABE asked if it is possible to perform the Monte Carlo method on such a topic.

MR. SPANO answered that the division would need to know the assumptions. He said it has contracted with a company named Chainbridge to do analysis, and there is an associated cost. If there is funding in the budget, the division could request an analysis. He said another option is to analyze recently reduced CIT rates in other states to see the tax effects.

VICE CHAIR MCCABE responded that he is not requesting economic modeling at this time.

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REPRESENTATIVE GRAY pointed out that 70 percent of the state's CIT comes from oil, as the state receives \$320 million in oil and gas taxes. He asked whether the GDP growth would increase if the state cut the revenue from oil. He further asked if there is a mechanism for the state to reduce CIT for all non-oil businesses to 2 percent and keep the current \$300 million in revenue from oil and gas.

CHAIR CARPENTER responded that, to the extent the legislature can set the rates, this is something which could be considered. He advised that he is not suggesting this, as it would be unfair to single out specific corporations. He suggested that there may be other ways to do this. He continued that the oil and gas sector is challenged with growth in Alaska, and growing the non-oil private sector economy is the goal. He pointed out that most Alaskans work in the non-oil private sector, and this is where most opportunities are. He considered that many Alaskans work in the oil and gas sector, and he expressed the desire not to penalize this industry to grow another portion of the state's economy. Furthermore, he expressed the opinion that the oil industry should not be singled out to pay more in taxes because it is already heavily taxed.

REPRESENTATIVE GRAY referred to California's high state tax. He said that the state's CIT rate is 8.84 percent, and it charges every company a flat rate. He continued that, according to Forbes, California was 3rd in GDP growth in 2021. He pointed out that while this state is highly taxed, it still manages to be in the top three for GDP growth for a decade.

CHAIR CARPENTER responded that a CIT reduction would be one part of the plan. Furthermore, Alaska has different disadvantages

compared to California, namely, the cost of electricity. He said that economic growth in Alaska is more than just reducing CIT, it is also providing economic activity with a reduction in the cost of energy.

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REPRESENTATIVE GROH asked Mr. Spanos about the other factors companies should consider, other than CIT, when opening a business in Alaska.

MR. SPANOS answered he is a tax administrator and is not qualified to answer the question.

REPRESENTATIVE GROH expressed concern about "giving away" more than \$3 million in tax revenue.

[8:02:41 PM](#)

CHAIR CARPENTER expressed the opinion that the state would not be giving away \$320 million in tax revenue. He clarified that a CIT reduction would have a corresponding impact on the state's private sector economy. He expressed the belief that Alaskans would like to see this happen. He suggested a conversation on how to address the deficit question.

[8:03:47 PM](#)

VICE CHAIR MCCABE announced that HB 109 was held over.

[8:03:54 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 8:03 p.m.