

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

April 12, 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

Representative Mike Cronk

COMMITTEE CALENDAR

HOUSE BILL NO. 109

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

- HEARD & HELD

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
03/27/23	(H)	Heard & Held
03/27/23	(H)	MINUTE(W&M)
04/12/23	(H)	W&M AT 6:00 PM DAVIS 106

WITNESS REGISTER

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

POSITION STATEMENT: On behalf of Representative Carpenter, prime sponsor, provided an explanation of changes for the proposed committee substitute for HB 109.

ACTION NARRATIVE

[6:04:31 PM](#)

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

HB 109-REDUCE CORP. NET INCOME TAX RATE

[Contains discussion of HB 142.]

[6:05:13 PM](#)

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

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REPRESENTATIVE MCCABE moved to adopt the committee substitute (CS) for HB 109, Version 33-LS0376\B, Nauman, 4/12/23, as a working document.

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REPRESENTATIVE GRAY objected.

[6:06:03 PM](#)

KENDRA BROUSSARD, Staff, Representative Ben Carpenter, on behalf of Representative Carpenter, prime sponsor, paraphrased the explanation of changes [included in the committee packet], which read as follows [original punctuation provided]:

New Title: "An act reducing the corporate net income tax rate; relating to a 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."

The Committee Substitute for House Bill 109 combines HB 109 REDUCE CORP. NET INCOME TAX RATE and HB 142 STATE SALES AND USE TAX Bill. There are no other changes after the title except renumbering sections and combining effective date provisions.

Section 1, 2

Sections 1 and 2 from HB 142

Section 3

Section 1 from HB 109

Sections 4,5

Sections 3, 4 from HB 142

Section 6

Section 2 from HB 109

Section 7, 8

Sections 5, 6 from HB 142

Section 9

Makes the corporate income tax reduction effective January 1, 2024.

Section 10

Makes the sales and use tax effective January 1, 2025.

[6:07:07 PM](#)

CHAIR CARPENTER stated that the proposed bill is part of a long-term fiscal plan for the state. He expressed the opinion that corporate income taxes harm businesses, and a sales tax would be stable, as well as less economically disruptive. He said the proposed bill would create incentives for municipalities to reduce property taxes, and, coupled with a corporate income tax

reduction, the proposed legislation would replace the current tax structure with a more stable way to fund state government and ensure permanent fund dividends (PFDs) would be kept.

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REPRESENTATIVE GRAY pointed out that during the initial discussions of HB 109, it was said that 70 percent of the state's corporate income tax revenue comes from oil and gas, and there was a suggestion that the state might be able to make up losses in revenue another way. He expressed the opinion that the state would be giving a tax break to oil companies while making up the lost tax revenue by taxing residents. He asked why sales tax is being paired with corporate income tax, rather than with the per-barrel tax credit.

CHAIR CARPENTER explained that the choice to combine [HB 109 and HB 142] was based on the idea of a way to move forward with the fiscal plan. He said the intent of the committee meeting is to combine the two bills, thereby narrowing the number of bills needed to move through the legislature as part of a fiscal plan.

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REPRESENTATIVE GROH questioned what the estimated amount would be by raising taxes on essentials, like groceries, clothing, and cleaning supplies.

CHAIR CARPENTER responded that an estimate is not currently available.

REPRESENTATIVE GROH questioned whether the intention of the proposed legislation would be to tax groceries to reduce corporate income tax to about \$350 million a year. He suggested that taxing groceries alone might total \$350 million.

CHAIR CARPENTER reiterated that there is not an assessment as to the amount the individual sectors of the state's economy would be putting into a sales tax. He said it is a mischaracterization to suggest the bill would offer a tax on food so a corporate income tax reduction could happen. He explained that other sectors of the economy would be paying sales tax as well. He concurred that having the requested data would be valuable.

REPRESENTATIVE GROH pointed out there are 17 sales tax exemptions being proposed, but food is not included.

CHAIR CARPENTER said that, before a fiscal plan is passed, there would need to be a conversation on exemptions in the sales tax bill. He stated that it would be similar to an income tax bill, where certain classes of people may be exempted.

REPRESENTATIVE GROH suggested that the proposed reduction in corporate income tax would cost the state \$350 million annually. He asked for data which shows lowering corporate tax rates would cause significant economic growth.

CHAIR CARPENTER responded that there are examples in other states where tax reductions had a positive impact on economic growth.

REPRESENTATIVE GROH asked whether the goal would be to make the state more attractive to businesses. He questioned whether other options were considered.

CHAIR CARPENTER said that the legislation before the committee was modeled off the work of the Fiscal Policy Working Group (FPWG). He explained that the base student allocation is not before the committee, and this was not a conversation held by FPWG, nor would it be something in the framework of a fiscal plan which addresses the reduction of tax revenue to the state. He said that the proposed corporation tax reduction would be offset by a sales tax and create a net gain of about \$700 million in tax revenue.

REPRESENTATIVE GROH offered that the tax would be paid mainly by Alaskans and some by tourists. He questioned why the \$350 million in reductions would not go to the dividend payouts.

CHAIR CARPENTER responded that this may be a possibility. He expressed uncertainty about what corporate interests would do with the additional revenue. He expressed the hope that the companies would be incentivized to make money; therefore, the more money companies can keep, the more likely they are to invest in business growth.

REPRESENTATIVE GROH, regarding a sales tax, questioned whether it would affect rural communities where the prices are higher. He inquired whether exemptions or decreased rates for goods and services have been explored.

CHAIR CARPENTER answered that the current proposal does not contain exemptions and reiterated he is open to having the

conversation on exempting certain populations before action is taken on any tax proposals.

REPRESENTATIVE GROH said, according to the Institute of Social and Economic Research (ISER) University of Alaska Anchorage, 70 percent of Alaskans would do better under an income tax instead of a sales tax. He reiterated that a sales tax would significantly impact rural communities, as well as the communities which already have a sales tax.

CHAIR CARPENTER responded that while any new tax is going to fall on some Alaskans, the sales tax would fall on all Alaskans. He said that the current alternative being discussed in the legislature is no taxes. This is other than a reduction of the PFD, something that ISER said is the most regressive tax on Alaskans. He expressed the opinion that the sales tax would be fair for all Alaskans, and it would have the possibility of passing through the legislature.

REPRESENTATIVE GROH stated that another income tax bill has been referred to the committee, and he expressed the understanding that part of this would be a consideration of a high-earner tax. Demonstrating other alternatives, he pointed out that there are two more oil tax bills, one in the Senate and one in the House.

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REPRESENTATIVE MCCABE commented that money going into the private economy has a return of around 9 times, while money going to government has a return of around 1.2 times. Regarding the lowering of corporate income tax, he said that, while the state may lose money, it is not pointed to the oil companies which are already in the state, rather it is designed to attract businesses. He expressed the opinion that the oil companies would be ambivalent about getting a 7 percent gain in corporate tax because they already know how to operate under the 9.2 percent rate. He suggested that a 2 percent corporate tax decrease would be a larger "carrot" for those initially starting a business. He stressed that tourists would also pay into the statewide sales tax.

REPRESENTATIVE GROH explained that he spoke to businesspeople who would be in favor of having greater amenities, like having adequate roads. He said that a substantial bulk of the sales tax would be paid by Alaskans because Alaskans are in the state year round, while the tourists are in the state a small part of the year.

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REPRESENTATIVE ALLARD offered her understanding that tourism is either second or third in terms of revenue to the state. She said that, while groceries are expensive in rural communities, these communities do not pay property taxes. She explained that, with the offset in corporate taxes, the state must entice the oil companies.

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REPRESENTATIVE GRAY referred to Section 2, Line 7, of the proposed legislation and requested an explanation about the "grievance process."

MS. BROUSSARD said she could follow up after the meeting regarding the question.

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CHAIR CARPENTER explained that this section would establish a process for when the department revokes or suspends a seller's permit.

REPRESENTATIVE GRAY questioned the definition of a seller's permit.

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CHAIR CARPENTER said that the verbiage before the committee states that before a person engages in business in the state, the individual would need to obtain a seller's permit so the state knows it should be collecting sales tax.

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REPRESENTATIVE GRAY pointed out that Sections 1 and 2 are from HB 142 while Section 3 is from HB 109. He continued that Sections 4 and 5 are from HB 142, while Section 6 is from HB 109. He expressed confusion concerning the bill's exchange between corporate tax cuts and sales tax language.

CHAIR CARPENTER explained that there were two bills, one was on starting a sales tax and the other would lower the corporate tax. He said the request made to Legislative Legal Services was to combine HB 142 and HB 109 into one bill. He added that his

office did not request the bill to be drafted in this way. He said that any drafting questions will have to be directed to Legislative Legal Services

REPRESENTATIVE GRAY responded that he would print off the two bills and compare them.

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MS. BROUSSARD offered that there would be a sectional analysis at a future meeting.

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REPRESENTATIVE MCCABE commented that the sections go in order of the statutes.

CHAIR CARPENTER stated that Legislative Legal Services uses a drafting manual, and the bill is written following this.

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REPRESENTATIVE GROH asked if FPWG recommended lowering the corporate tax rate.

CHAIR CARPENTER answered that FPWG had not; however, he had added the economic growth element because it was in the committee recommendations. He stated that a corporate income tax rate reduction was identified as a way to encourage economic growth. He further clarified that it was not added by FPWG but added to the generated report.

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REPRESENTATIVE GRAY pointed out quitting businesses and the successor's liability on page 11, line 20, of the proposed legislation. Concerning this he questioned the process of filing a return for sales tax.

CHAIR CARPENTER explained that when a sales tax is collected by a business and remitted to the jurisdiction, there is a document showing the business's sales. He said this is attached to the collection and is considered the tax return. He said HB 110 would direct that, if a business ceases, its final action would be a tax return to the state with a remittance of tax owed.

REPRESENTATIVE GRAY moved to page 10 and asked about language which directs that a person filing a return may deduct sales found to be worthless.

CHAIR CARPENTER offered to follow-up after the meeting with an answer.

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REPRESENTATIVE MCCABE suggested that the language within HB 110 is "boilerplate," in that, the bill language originates from other states or organizations. He said bad debt reduction is standard.

CHAIR CARPENTER stated that he does not mind getting a taxation attorney to assist the committee.

REPRESENTATIVE MCCABE expressed his concern that the committee may be getting too involved with the minutia of the bill; however, he stated that the questions posed should be answered at some point.

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REPRESENTATIVE MCKAY said that the essence of the discussion focuses on page 1 through page 3, as these are the sections covering corporate tax rates and sales tax.

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REPRESENTATIVE GRAY pointed to page 13, line 20, of the proposed legislation, which read as follows:

The department shall separately account for the revenue collected from the tax under this chapter that the department deposits in the general fund. The legislature may appropriate half of the annual estimated balance in the account to municipalities. A municipality may receive an appropriation under this section if the municipality does not collect an oil and gas production tax or gas pipeline property tax under AS 29.45.080.

REPRESENTATIVE GRAY requested an explanation.

CHAIR CARPENTER answered that the language would allow the state to share 50 percent of the tax collected with certain

municipalities and boroughs. He stated that they would be eligible for sharing the sales tax revenue if they have a low-mill property tax, do not have oil and gas production, or do not have gas pipeline property tax. Hypothetically, he stated that if a community with a property tax of 20 mills wants to receive a portion of the sales tax revenue generated, then it could choose to reduce property tax to less than 10 mills.

REPRESENTATIVE GRAY expressed doubt that a municipality would reduce property tax to 10 mills and make up the difference by increasing sales tax. He commented that with the proposed statewide sales tax on top of a city sales tax, the city might end up with a sizable overall tax rate. He expressed the fear that a city would be lowering property taxes in order to access the statewide sales tax fund, and it would choose to take from the fund instead of raising its own municipal sales tax.

CHAIR CARPENTER expressed the opinion that the only scenario where this would occur is when the sales tax revenue sharing amount is greater than the figure the city would receive from the lost property tax revenue. He pointed out that these cities could reduce their property tax and raise their sales tax.

REPRESENTATIVE GRAY expressed the belief that cities might want to take advantage of "free money" from the state.

CHAIR CARPENTER commented that cities could do that now, and the taxes paid at the local level are what the people want to pay.

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REPRESENTATIVE GRAY maintained his objection.

[6:47:21 PM](#)

The committee took a brief at-ease.

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A roll call vote was taken. Representatives Allard, Groh, McKay, McCabe, Tilton, and Carpenter voted in favor of adopting the proposed CS for HB 109, Version 33-LS0376\B, Nauman, 4/12/23, as a working document. Representative Gray voted against it. Therefore, by a vote of 6-1, Version B was before the committee.

[6:49:04 PM](#)

REPRESENTATIVE GROH expressed the opinion that a sales tax would be inferior policy compared to other taxes. Furthermore, he expressed his concern about whether the state could pay for the corporate tax reductions.

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REPRESENTATIVE GROH, in response to a question from Representative Allard, explained that ISER has studies which show that an income tax would be better than a sales tax because the bottom 80 percent of people in Alaska would do better. He said that the top 20 percent of the residents in the state would pay more, while the top 1 percent would pay substantially more.

REPRESENTATIVE ALLARD questioned the impact of an income tax on a family who makes \$100,000 a year. Furthermore, she questioned whether retirement income would be a part of the state income tax.

REPRESENTATIVE GROH responded that he supports a high-earner tax. He explained that in economic literature a sales tax hits harder for most economic levels until the top 20 percent of income earners is reached.

REPRESENTATIVE ALLARD requested a comparison between the states which do not have an income tax.

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REPRESENTATIVE GRAY said that the proposed tax would be for those making \$20,000 or more. He pointed out that all the members are proponents of bigger PFDs. He expressed the belief that the budget should not be balanced by cutting the PFD, and a broad statewide sales tax would financially impact individuals in rural communities more than the gain from receiving a PFD; therefore, the budget would be balanced off the PFD.

CHAIR CARPENTER suggested that a per-capita limit could be investigated.

REPRESENTATIVE GRAY said that he would like the information to cover more than just the large cities in Alaska.

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REPRESENTATIVE MCCABE suggested the revenue sharing system within HB 109 would benefit rural communities. He advised that a tax expert should be present to help the committee through the scenarios. He recalled that FPWG had compared an income tax with a sales tax, and the issue with a high earner tax had been there are not many high earners in Alaska.

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REPRESENTATIVE GROH said ISER studies showed that a sales tax would be more expensive for households whose incomes are under \$125,000, and this would cost more than an income tax. He concurred that cutting the PFD would be the most regressive tax, which is what makes the issue more complicated. He expressed willingness to work with the committee to come up with a comprehensive fiscal solution.

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CHAIR CARPENTER opined that, in his talks with legislators, there is no broad support for the passage of a broad-based income tax. In response to sales tax versus income tax, he stated that economic growth is wealth creation; therefore, the companies are the ones with the resources to employ people and grow the economy. He said there is a balance to strike between who pays taxes and who has the money to grow the economy. He added that the permanent fund is the only thing growing. He suggested that the state needs to re-structure taxes and spending to ensure that the PFD stays.

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REPRESENTATIVE GRAY stressed that Alaska needs a fiscal plan. He expressed agreement with Representative Groh in the preference of income tax over sales tax and with Chair Carpenter that a sales tax could make it over the "finish line." He commented that there could be a sales tax established at zero percent, then the state would have the tax structure when needed. He asked if there would be opposition to a zero percent income tax.

CHAIR CARPENTER responded that modeling for when the state may need an income tax is possible. He suggested the committee should be open to discussing a staircase tax approach.

[7:09:07 PM](#)

[HB 109, Version B, was held over.]

7:09:18 PM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 7:09 p.m.