

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

April 17, 2023

6:07 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 Genevieve Mina
Representative Donna Mears
Representative Will Stapp

COMMITTEE CALENDAR

HOUSE BILL NO. 156

"An Act relating to the taxation of income of individuals, partners, shareholders in S corporations, trusts, and estates; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 156

SHORT TITLE: INCOME TAX

SPONSOR(S): REPRESENTATIVE(S) GALVIN

04/10/23	(H)	READ THE FIRST TIME - REFERRALS
04/10/23	(H)	W&M, FIN
04/17/23	(H)	W&M AT 6:00 PM DAVIS 106

WITNESS REGISTER

REPRESENTATIVE ALYSE GALVIN
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As the prime sponsor presented HB 156 and gave a PowerPoint presentation, titled "HB 156: Income Tax."

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

POSITION STATEMENT: Offered information on the fiscal note for HB 156.

GUNNAR KNAPP, Professor Emeritus of Economics
Institute of Social and Economic Research
University of Alaska Anchorage
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 156.

ALEXEI PAINTER, Director
Legislative Finance Division
Legislative Affairs Agency
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 156.

ACTION NARRATIVE

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CHAIR BEN CARPENTER called the House Special Committee on Ways and Means meeting to order at 6:07 p.m. Representatives, Allard, Tilton, Groh, McKay, McCabe, Gray, and Carpenter were present at the call to order.

HB 156-INCOME TAX

[6:08:00 PM](#)

CHAIR CARPENTER announced that the only order of business would be HOUSE BILL NO. 156, "An Act relating to the taxation of income of individuals, partners, shareholders in S corporations, trusts, and estates; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

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REPRESENTATIVE ALYSE GALVIN, Alaska State Legislature, prime sponsor of HB 156, introduced HB 156 via a PowerPoint presentation, titled "HB 156: Income Tax" [hard copy included in the committee packet.] She commented that the presentation has been pared to focus specifically on HB 156. Overviewing the presentation, she pointed out that HB 156 would create a broad-based revenue source by implementing an income tax. On slide 3, she said the proposed legislation would implement a 2 percent income tax on Alaskans earning more than \$200,000 per year and a [\$20 head tax] on all other Alaska wage and income earners. She estimated that this would generate approximately \$120 million to \$150 million per year in revenue. She suggested that this would give the legislature a different way to discuss the revenue, rather than cutting the permanent fund dividend (PFD). She suggested that an income tax rather than a sales tax would best fit the Alaska economy and state revenue needs, as it would stabilize the unpredictable revenue from oil prices.

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REPRESENTATIVE GALVIN expressed the opinion that HB 156 would not raise any revenue for the fiscal year 2024 (FY 24) or solve Alaska's fiscal crisis on its own; however, a broad-based income source is an important part of a sustainable, long-term fiscal plan. She suggested that the state has approached a fiscal cliff and pointed out how the proposed legislation could offer a solution, as seen on slide 5. She stated that a long-term structural budget deficit can no longer be filled solely by draws from savings or PFD cuts; therefore, a broad-based revenue source should be considered a part of a sustainable fiscal plan. She argued that a broad-based revenue source would provide a stabilizing source of revenue, not be dependent on volatile oil prices, and grow the state's economy. She also suggested that an income tax could have benefits over other broad-based tax options, such as a sales tax.

REPRESENTATIVE GALVIN moved to slide 6 and stated that there has been a general agreement by many economic experts that a broad-based revenue is needed in Alaska. She argued this point by referencing the Fiscal Policy Working Group's (FPWG's) final report on slide 6, which recommended that the legislature consider adding annual revenues as a part of a comprehensive solution. She pointed out that FPWG did not make a specific recommendation for the type of revenue; however, it recommended

the adoption of a broad-based revenue measure, in addition to other revenue measures, as part of a comprehensive solution. She stated that many tax and economic experts have also recommended an income tax over a sales tax. She listed the reasoning behind the opinion, as follows: a sales tax would be more regressive than an income tax because it would hurt poorer families; a sales tax would create complications for the over 100 municipalities with a current local sales tax; and a sales tax would disproportionately hurt rural residents because of regional price disparities. Addressing the burden on nonresidents, she said that an income tax would affect visiting workers while a sales tax would affect tourism.

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REPRESENTATIVE GALVIN referred to slide 8 which showed a study on the regressive nature of a sales tax by the Institute on Taxation and Economic Policy. She described the graph, which showed how generating \$500 million with a sales tax versus an income tax would impact taxpayers based on economic status. She recognized that the figures in the graph were slightly different than HB 156, but the general idea remains the same, and she opined that from the figures in the graph "taking 212 percent from the poorest Alaskans affects their lives far more than taking an extra 2.8 percent from the highest earning Alaskans." Explaining the visuals on slide 9, she said there are many models for income taxes. Once a model has been chosen, she conveyed that it can be further modified by changing the "gears" within the model, depending on the model's desired function.

REPRESENTATIVE GALVIN described the variety of income types which could be included in an income tax, as seen on slide 10. This included the following: wages, retirement income, business income, investment income, and other income sources, such as the PFD, unemployment allowances, and farming income. She stated that most state income taxes are built off the federal tax system, as this simplifies the choices and the impacts on taxpayers. On slide 11, she explained the federal tax process and how it has been used to inform state income tax calculations. She provided three options to identify income derived from the federal tax process: adjusted gross income (AGI), federal taxable income, and federal taxes due.

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REPRESENTATIVE GALVIN moved to slide 12 and showed the income tax structural options chosen for HB 156. She said that the

federal AGI was used because this is what most states use. She said that a standard deduction model was chosen, expressing the opinion that this would garner maximum support, both from the public and within the legislature. She expressed the belief that the success of the proposed legislation would hinge on this. Between the choices of a flat tax rate or a graduated tax rate, she reported that HB 156 would include a flat tax rate and an additional \$20 head tax. She expressed the belief that the combination of the flat tax rate and head tax would help create the sense that all taxpayers are stakeholders in Alaska.

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REPRESENTATIVE GALVIN, moving to slide 13, pointed out support for HB 156. She stated that, in response to discussions with other legislators, this version of the bill has a lighter income tax, as this would help obtain passage. To create a sustainable fiscal plan the lighter income tax would be paired with other sources of revenue, such as oil tax reform or a PFD reduction. She expressed the opinion that the proposed legislation represents a compromise which could gain the votes needed to pass. She continued to slide 14, which included a bar chart showing the current tax structure in the proposed legislation. She explained that the \$20 head tax would be on taxpayers making less than \$200,000 annually. She further explained that the flat rate of 2 percent would only be applied to taxpayers who have an income above \$200,000, with only the amount above \$200,000 taxed. The \$20 head tax would also be applied to the total amount, and she referred to the bar chart to give specific.

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REPRESENTATIVE GALVIN spoke about the technical provisions of HB 156 on slide 15, which read as follows [original punctuation provided]:

Tax paid by nonresidents on income earned in the state

Tax is paid by Alaska residents on all their income regardless of where earned

A credit is given for income taxes paid to other states for income earned in that state(so no double taxing of income)

Tax also applies to income earned by trusts and estates, not on their asset value

Detailed provisions to establish what income is "from a source in the state"

Employer withholding from wages with periodic payments from employers to the state

Employers send employees annual wage statement similar to the federal W-2

Annual tax returns due same day as federal return

Department of Revenue to establish regulations to provide further details

Income tax exempted from general DOR requirement to file electronically

Most state income tax payments are deductible from federal taxes for those who itemize; thus a portion of taxes paid will be saved due to reduced payments to the IRS

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REPRESENTATIVE GALVIN, in response to Representative McCabe, stated that she did not remember saying a nonresident income tax would raise more money than a sales tax. She stated that it was not her intention to imply this.

REPRESENTATIVE MCCABE emphasized that taxing nonresidents would not create more revenue than a broad-based sales tax and referenced FPWG findings.

REPRESENTATIVE GALVIN reiterated that she had not intended to compare revenue generation from a sales tax and an income tax on nonresidents, but rather she expressed the intention to compare the impact on taxpayers. She expressed the opinion that Alaska residents who live in communities that already have a municipal sales tax would be burdened by an additional statewide sales tax. In comparison, she shared her belief that nonresident workers would not feel as burdened by an income tax, as the 2 percent tax would be much lower than other states, and she added that this low rate would not deter out-of-state workers from coming to Alaska. In response to Chair Carpenter, she confirmed

the revenue specifics of the proposed bill would be addressed later in the presentation.

REPRESENTATIVE MCCABE referenced that HB 156 uses the federal AGI model. He questioned whether the \$200,000 is based on individual or total household income.

REPRESENTATIVE GALVIN responded that it depends on how a taxpayer files federal tax. She expressed the opinion that for most people it would be very simple.

REPRESENTATIVE MCCABE posed a hypothetical situation in which a married couple each made \$199,000 in a year. He expressed the assumption that in this scenario it would be better to file separately.

REPRESENTATIVE GALVIN agreed with the assumption and referred to an upcoming slide which discusses this problematic area of HB 156.

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REPRESENTATIVE GRAY referred to a point made on slide 15 regarding credits for Alaskan residents who work and pay income tax in another state. He asked whether the income tax in the proposed legislation would be applied to all nonresident workers, "no matter what."

REPRESENTATIVE GALVIN confirmed that the Alaskan income tax would apply to nonresidents, "no matter what."

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CHAIR CARPENTER clarified that it would apply assuming the nonresident made over \$200,000.

REPRESENTATIVE GALVIN replied yes. She shared her understanding that there are a couple of sectors where there may be exceptions but deferred to other experts for this information.

REPRESENTATIVE GALVIN continued to slide 17, pointing out that 86 percent of Alaskans would have no paperwork associated with the proposed tax; however, they would see a \$20 reduction note on the first paycheck of the year. She continued that the 14 percent who pay the 2 percent tax would likely use the same tax preparation method currently used for federal taxes. She added that taxpayers could also choose a reduced PFD to pay the tax.

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REPRESENTATIVE GALVIN discussed possible amendments to HB 156, on slide 18. She pointed out that the \$200,000 deduction would limit the impact of the income tax to about 14 percent of Alaska income earners, and a \$50,000 standard deduction would limit the impact to 50 percent of Alaska income earners. She referred to a graph on the slide which showed the estimated revenue generated by the two different deduction limits and stated that if HB 156 was amended to use a \$50,000 standard deduction instead, \$240 million in revenue could be expected.

REPRESENTATIVE GALVIN explained that adjusting the head tax could be another possible amendment, as seen on slide 19. She pointed out that the \$20 head tax is estimated to raise approximately \$10.5 million; however, if the head tax were changed to \$100 per person, there would be \$52.5 million raised. She suggested that raising the head tax may significantly affect lower-income households; however, she stated that she had been advised the \$20 would not be enough. She continued to slide 20 with a graph categorizing the public comments received. She reported that the majority of the comments were in support of the proposed legislation, and it is "the will of the people" for Alaska to institute a state income tax based on this model.

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REPRESENTATIVE GALVIN concluded the presentation on slide 21 and pointed out that a sustainable fiscal plan for Alaska should include a broad-based tax. She explained that an income tax would be preferable to a sales tax for a variety of reasons, and the proposed legislation would serve as a useful component to a sustainable fiscal plan. She welcomed any proposed amendments from the committee. She added that the presentation has an appendix of additional slides with further context.

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The committee took a brief at-ease.

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BRANDON SPANOS, Deputy Director, Tax Division, Division of Revenue (DOR), offered information on the fiscal note for HB 156. He reported that in the first full year of implementation of an income tax, DOR estimates the revenue would be \$120

million for FY 25. Because of quarterly payment plans, he expressed the possibility that some of this revenue could be shifted to FY 26. Because of the proportional nature of the proposed tax model, he advised that the impact on households would vary "widely." He also mentioned that some impact would be mitigated by the deduction of state taxes from federal taxes, and this would affect taxpayers who choose to itemize their taxes. He explained that DOR based the proposed tax model on aggregated federal income data for Alaskan residents, and it is expected an income tax on nonresidents would raise Alaska's AGI by approximately 5 percent. He added that this is a net income estimation based on the total nonresident income, minus the income of what Alaskans earned elsewhere. He emphasized that the model does not account for population growth, inflation, or economic impacts from the income tax itself. He mentioned that the model was adjusted for the standard deduction and the PDF exemption, and although the bill projects there will be changes in taxpayer behavior in regard to how families file, the model does not adjust for these changes.

MR. SPANOS, discussing the cost of implementation, reported that this would be steep because of the robust nature of the proposed broad-based tax. He stated that there would be a 12-month minimum implementation process at an estimated cost of \$9.5 million. This would include adding the income tax module to the existing tax revenue management system by the current outside contractor. These modules would also include software to prevent identity theft, which is standard practice. He continued that after implementation, an estimated \$2.25 million in support and maintenance would be required through FY 25; however, this would decrease to \$1.5 million from FY 26 onward. He explained that implementing an income tax module would be a multi-year process, beginning with establishing a tax withholding system and the regulations, which would be needed by January 1, 2025.

MR. SPANOS stated that because taxpayers would be allowed to use their PFD to pay income tax, interfacing capabilities between the systems would need to be added. He listed the additional costs included in the fiscal note, such as travel for outreach to Alaskan businesses and additional programming for integration with national tax services. He reported that the second phase would concern DOR staff and the outside contractor building the following: the tax return itself, the online filing component, examination modules, and communication between the existing accounting, imaging, and collection systems. Noting the exemption for electronic filing in HB 156, he said that DOR's

imaging system allows processing of paper returns. He expressed the belief that the state has seen great success with online filing in the past, and he expressed the hope of moving towards more online filing with the new model, increasing taxpayer compliance.

MR. SPANOS stated that the proposed legislation would create an annual tax starting January 2026, to be filed by April 2026. He spoke further on the return structure for the income tax, stating that it would generate 400,000 plus returns. Although only taxpayers with incomes over \$200,000 would be taxed, he expressed the understanding that all residents and nonresidents would have a filing obligation. For cost estimation for implementation, he reported that DOR had communicated with tax administrators in Montana and Vermont because of their comparable population to Alaska. He said that DOR used a per capita adjustment of the staff needed for these states. It was determined that DOR would need 70 staff; however, because of the lack of experience and the anticipated volume of calls, the higher end of the estimate was used. These new staff would be split between the offices in Anchorage and Juneau, but he informed that DOR would continue to look for ways to increase automation and improve efficiency. He reported that the state currently processes a much smaller number of paper tax returns than estimated for the new tax model, and this would require a larger staff in the imaging department. He explained that there would be travel costs for public education and staff training across the state. He continued that there would also be additional costs for services, such as rent for additional office spaces and costs for the contractor. He ended his analysis of the fiscal note by pointing out the breakdown of the 70 employees DOR anticipates adding.

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CHAIR CARPENTER questioned whether the state is required to use FAST Enterprises as the contractors for the programming, or whether the project could go to an open bid.

MR. SPANOS replied that the state already has a contract with FAST Enterprises; however, if the state is interested in using a new program, there could be a public bid. He opined that staying with the current program and having FAST Enterprises create a new module would be more efficient than going to a completely new program. He pointed out that the program is already integrated across departments and creating a separate system for an income tax would be less efficient.

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REPRESENTATIVE MCCABE inquired about the 62,100 nonresident employees estimated to work in Alaska. He asked whether staff would be specifically hired to manage these tax returns and expressed the opinion that extra management would be required.

MR. SPANOS answered that the cost between a resident and nonresident return has not been broken down. From an administrative perspective, he said "a return is a return." He stated that the breakdown between resident and nonresident in the proposed legislation was necessary to establish whether the state would have this authority. He expressed uncertainty whether there was enough difference between a resident versus a nonresident return to make one cost more than the other. He offered the information to calculate the cost of processing just nonresident returns.

REPRESENTATIVE MCCABE questioned whether the program DOR uses already includes tax filing reciprocity between states.

MR. SPANOS replied that this is often done by a multistate tax commission, but it can also be processed state by state. He said the department already has reciprocal tax agreements for the state's corporate income tax, so the multistate tax commission would continue to be used, or each state could be dealt with separately. He added that tax returns between states are not directly shared typically, but there is a file share system with other states or the Internal Revenue Service (IRS).

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REPRESENTATIVE TILTON referenced the portion of the fiscal note that budgeted money for integrating the PFD system with the DOR tax system to allow taxpayers to use the PFD to pay income tax. She questioned whether this would also cover proposed changes to the PFD application.

MR. SPANOS responded that this particular issue has not been discussed recently; however, it had been discussed in previous iterations of the bill. He inferred that the large fiscal note referred to may be related to moving the entire division. He assured the committee that the programming changes covered by the fiscal note for HB 156 would be quite small, as it would not require moving the entire division, but rather a way would need to be created for reporting the PFDs used for income tax, and

the transfer of this money would need to be facilitated. He expressed the assumption that DOR would absorb much of the contractor's cost; however, he allowed that DOR may need to contribute some of its own funds.

REPRESENTATIVE TILTON interjected that the proposed bill she was referencing was not about moving divisions. She clarified that she was referencing proposed legislation which would allow a recipient to give a PFD back to the state's general fund.

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REPRESENTATIVE GROH expressed excitement by the content of the proposed legislation. He referenced the graph relating Alaskans would pay less in an income tax than a sales tax. He asked the sponsor's opinion on why many Alaskans would prefer a sales tax over an income tax, when they would end up paying more.

REPRESENTATIVE GALVIN hypothesized that it might be a lack of understanding, as taxpayers may think of sales tax in daily increments and not be considering the amount spent in a year. She deferred the question to Gunnar Knapp.

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CHAIR CARPENTER reminded the committee that the topic is about a comprehensive fiscal plan and to keep revenue comparisons in mind. He pointed out that the estimated revenue from a previously proposed state sales tax was \$900 million. In comparison HB 156 would generate about \$120 million. He inferred that these two options would have very different impacts because of the amount of revenue each would be generating.

REPRESENTATIVE GALVIN expressed agreement, and she reiterated that changing the "levers" of the bill, such as implementing a 5 percent tax instead of a 2 percent tax, could get the revenue generation of HB 156 closer to \$900 million. She also posited that there could be confusion among the public about the differing fiscal plans, and this may be affecting support for the proposed legislation.

CHAIR CARPENTER asked Mr. Knapp if he could provide insight on the tax behaviors of Alaskans as it pertains to the two different broad-based tax plans.

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GUNNAR KNAPP, Professor Emeritus of Economics, Institute of Social and Economic Research, University of Alaska Anchorage, expressed uncertainty concerning Representative Groh's earlier question. He confirmed that he had heard the lower-income taxpayers would prefer a sales tax, even though they would pay less with an income tax, presuming an income tax would raise the same amount as a sales tax. However, he expressed uncertainty concerning the origin of the idea.

REPRESENTATIVE GROH suggested that many Alaskans think the alternative to a broad-based tax would be "painless budget cuts" and referenced discussions to support his claim that "this isn't the case." Another alternative he mentioned was the toll system currently in place across many of Alaska's highways. He requested a discussion on taxpayers' perceptions about alternatives to a state-wide income or sales tax.

REPRESENTATIVE GALVIN replied that there may be a lack of awareness [from the public] on the size of the state's budget deficit. She inferred that there are also decisions waiting to be made within [the legislature] about the money to "filling the hole." The answer, she suggested, depends on the direction [the legislature] goes and which services and issues will take priority. As far as options for creating revenue, she stated that most Alaskans do not understand what the revenue from oil and gas has been covering. She provided a breakdown of the state's current revenue streams, stating that oil and gas has made a third, another third has come from the savings earned on the Permanent Fund, while the last third has come from smaller state fees and taxes, such as licenses and the cigarette tax. She conveyed the belief that marijuana tax would solve the revenue issue; however, it brought in only \$50 million, much of which was held for specific purposes. She said this was not sufficient to fix the millions in the [budget deficit] Alaska faces. She expressed the belief that [Alaskans] have "a shared responsibility to come up with an answer," and an income tax would create stakeholders who put hard-earned paychecks into the state. She continued that this would force the government to have a higher accountability for the services provided. She recognized that there are different ways revenue could be generated, but reemphasized the belief that, although a lot of revenue could be generated through a sales tax, it may not be the best way forward for the state because of its regressive nature. She noted the three biggest expenditures were the PFD, education, and health services. She reiterated that building a

bigger sense of ownership within the public of Alaska's spending decisions was crucial.

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MR. KNAPP added that the question is broad, but the core of the issue is every state must provide government services, and there has to be a way to pay for them. The most common way to pay for these state services is with a broad-based income or sales tax, and he stated that almost every state besides Alaska has implemented one, if not both. He opined that Alaska has been fortunate for the last 40 years, as oil and the PFD revenue has been high enough to make a broad-based tax unnecessary; however, the current decline in oil revenue has made Alaska face the hard reality that paying for government services and the accustomed PFD will require a new revenue source. Unless the state decides to cut the budget or the amount of the PFD, which he suggested the government has been unable or unwilling to do, a broad-based tax would be the only way to make up for the loss in revenue. He agreed with Representative Galvin's sentiment that a broad-based tax would increase citizen engagement in the government.

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REPRESENTATIVE TILTON, regarding the promise of no additional paperwork for Alaskans by removing the \$20 head tax from the taxpayer's first paycheck of the year, posited that the burden of the first tax would then fall to the employer. She requested clarification on this process.

REPRESENTATIVE GALVIN deferred to Mr. Spanos.

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MR. SPANOS confirmed that it would be the employer's responsibility to remit the tax. He added that in the case of a taxpayer with multiple jobs, an employer would have to rely on the employee to disclose whether a first paycheck of the year had been received from a different employer. He stated that there would be two options for DOR to regulate this. The regulation could require the employer to withhold the \$20 head tax for every new employee, and the taxpayer would need to file a return to get a refund if it had already been paid. Alternatively, the regulation could provide that an employee, upon being hired, sign an affidavit that the \$20 for the year had been paid. He spoke on the benefits of each option, stating that the first example would generate more revenue and would be

easier for DOR to administer, while the second example would be less burden on the taxpayer.

REPRESENTATIVE TILTON questioned how tax disputes would be resolved between employers and employees.

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REPRESENTATIVE GALVIN deferred the question to Alexi Painter.

CHAIR CARPENTER asked Mr. Spanos if he could answer the question.

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MR. SPANOS replied that this issue is new and would require some brainstorming from DOR. He reported that at the federal level the dispute is handled by the employer. Employees fill out a tax form at the beginning of employment, which dictates the amount withheld. An employee would bring any issues with this directly to the employer. He expressed the opinion that DOR would not be involved in these disputes.

REPRESENTATIVE TILTON redirected her question to disputes specific to the \$20 reduction note on the paycheck. In the case that an employee never had the \$20 withheld, she asked how this liability dispute would be addressed.

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REPRESENTATIVE GALVIN deferred the question to Alexei Painter. She reiterated the intention to lessen the paperwork burden on taxpayers. She offered to work with the various state departments to make this happen.

CHAIR CARPENTER interjected that the question is interesting since many people work multiple jobs. He questioned how different employers would discern this.

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ALEXEI PAINTER, Director, Legislative Finance Division, Legislative Affairs Agency, responded that other bills with head taxes were designated to be implemented through the Department of Labor and Workforce Development (DLWD). He explained that this was because DLWD already has the structure in place for the unemployment tax. He added that DLWD is not equipped to handle

the same process for an income tax. He suggested splitting the model in the proposed bill into two separate taxes, allowing the head tax to be administered through the DLWD structure and using the structure in HB 156 for income tax. He said that there could be some efficiencies for employers from this course of action since the DLWD system is already used for the unemployment tax.

CHAIR CARPENTER pointed out that two different taxes would be implemented by two separate departments. He questioned which department, DLWD or DOR, would be responsible for identifying how the state would collect the money.

MR. PAINTER explained that currently the bill puts all the tax management on DOR. He suggested that the legislature could separate the head tax to reduce the amount of work for the employers. He added that an income tax would still create a filing obligation for individuals.

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REPRESENTATIVE TILTON pointed out a potential fiscal note from DLWD if the tax was split.

MR. PAINTER concurred; however, he expressed uncertainty whether creating a fiscal note involving DLWD would create enough efficiencies for net savings for the state.

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REPRESENTATIVE MCCABE referred to the earlier statement that an income tax would be less regressive than a sales tax for lower-income workers. He then referenced ISER's report which stated that PFD cuts would be more impactful to the lower-income workers, while the effects of an income tax on all Alaskans would be more than a sales tax. He quoted from the ISER study which relates that the difference is the tourists would pay a 10 percent sales tax versus nonresident workers who would pay up to 7 percent income tax. He posited that this information may be why Alaskans "instinctively know that a sales tax is actually less regressive than an income tax." In response to a question from Chair Carpenter, he replied that the ISER study he referenced was entitled "Short-run Economic Impacts of Alaska Fiscal Options." He reported he was referencing the executive summary on pages 1 and 2.

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MR. KNAPP, in response to a request to speak to the study, acknowledged that there were two separate issues. The first issue compared the regressive nature of the different methods for filling the fiscal gap. He explained that cutting the amount of the PFD is highly regressive because this would be taken from a person's yearly income, and this would be a much higher percentage for low-income individuals than those with a higher income. He stated that data shows a sales tax would also be more regressive in comparison to an income tax. He stated that the various forms of filling the fiscal gap would all have different impacts on Alaskans, and he emphasized that who will be impacted is an important point to consider. He continued that the second issue in the study related to the money coming from nonresidents, which is an important but different question. He explained that a sales tax would include revenue from tourists and nonresident workers, while an income tax would only collect revenue from nonresident workers. He stated that the study suggested the state would receive more revenue from nonresidents through a sales tax; however, he opined that the most important factor should not be the amount raised from nonresidents, rather what the tax burden would be on Alaskans.

REPRESENTATIVE MCCABE referenced the table on page IIV of the report, which shows the difference between a 2.5 percent income tax and a 3 percent sales tax in revenue generated from nonresidents. He said that the difference is "huge." He expressed the idea that Alaskans instinctively understand this amount to be significant. He further implied that the focus on an income tax as the least regressive option may be overlooking the "high regressivity" of [reducing] PFDs.

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CHAIR CARPENTER reminded members that the conversation is about one particular bill and how it could be part of a larger fiscal plan.

REPRESENTATIVE GALVIN expressed agreement that PFD reductions would be the most regressive action the legislature could take, and this is why she supports an income tax, to minimize the need for a reduction to PFDs. She restated that the proposed model would allow for adjustments to increase revenue. She acknowledged that, as the proposed bill stands, it would include a \$200,000 "floor," and this would not make as much as a sales tax. She pointed out that the amount of revenue brought in by nonresidents would not affect the regressivity of a tax on

Alaskans. She expressed the understanding that Alaskans would like these out-of-state workers who make the highest pay to contribute in some way. She expressed the goal of putting the proper systems in place to ensure Alaskans are getting these jobs instead, but in order to do this the state would need a stable fiscal plan which does not depend on volatile oil prices.

CHAIR CARPENTER asked the committee to consider whether the goal would be to raise revenue or to promote economic growth. He stated that the regressivity of a tax would be a good measure if the goal is revenue, but other measures should be looked at if the goal is economic growth.

[7:37:50 PM](#)

REPRESENTATIVE GROH expressed "his excitement" over his interpretation of Representative McCabe's previous statement, suggesting that Representative McCabe would be joining his efforts in raising taxes in order to avoid cutting PFDs.

REPRESENTATIVE MCCABE interjected that Representative Groh's comment was uncalled for.

REPRESENTATIVE GROH continued by requesting that Representative Galvin and Mr. Knapp speak about the ideal role of the proposed legislation in providing an overall fiscal fix. He further requested that a concise explanation be given to help the committee and the Alaskan public understand.

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REPRESENTATIVE GALVIN shared the view that the proposed legislation would be a starting point in considering a fiscal plan which looks at regressivity, raising revenue, having state-wide accountability for this revenue, and keeping Alaskans in state without driving them further into poverty.

MR. KNAPP expressed agreement that this bill would be a starting point for the state to look at a broad-based tax as a way to generate revenue. He stated that other forms of revenue have proven to not be enough, and the proposed income tax would be a way for Alaskans to "start helping to pay for what they receive" from the state government, which is the status quo in almost all other states.

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CHAIR CARPENTER asked whether the information on slide 8 represented what the bill would do.

REPRESENTATIVE GALVIN responded in the negative, as slide 8 does not represent the bill; instead, it is a "broad stroke" comparison between two broad-base revenue measures and how each would impact Alaskans across various levels of income.

CHAIR CARPENTER sought to confirm that Representative Galvin's explanation of slide 8 showed what an income tax would look like for all categories of earners.

REPRESENTATIVE GALVIN responded in the affirmative. She circled back to the topic of regressivity and gave an anecdotal example of a family of four who makes \$31,000 a year. In order for the state to raise \$500 million, it would require a \$2,400 cut to this family's PFDs, which she expressed as exceptionally regressive and why the state needs to look at other ways to raise this money.

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REPRESENTATIVE ALLARD stated that a family of four making \$31,000 would already be on several state services and receiving aide in the form of food stamps. She inferred that a family in these circumstances would not be purchasing high priced items, like a car, which would incur a high sales tax. She questioned whether a sales tax would actually be as regressive to lower-income Alaskans as depicted on slide 8.

REPRESENTATIVE GALVIN replied that all families buy goods, and the sales tax would apply to all goods. She reiterated that it is relatively more of a burden to pay a sales tax to lower-income families.

REPRESENTATIVE ALLARD emphasized the use of the word "relatively."

REPRESENTATIVE GALVIN said that all taxpayers would feel a burden from a sales tax, but a millionaire would feel this burden relatively less than a lower-income person.

REPRESENTATIVE ALLARD expressed the opinion that nonresidents work in Alaska because there are Alaskans who are unable or unwilling to do these jobs. She questioned whether imposing a tax on out-of-state workers would "scare them off," leaving a vacancy in the job market Alaska would be unable to fill.

REPRESENTATIVE GALVIN responded by comparing tax rates across the country. She reported that Alaska would have a 5.8 percent combined state and local tax rate, and the state with the next lowest has 7 percent. She suggested that the low tax rate combined with the natural beauty of the state would be a selling point for sought after professionals, such as engineers. She reiterated that Alaskans should have these jobs, and [the legislature] should work toward this.

REPRESENTATIVE ALLARD opined that Alaskans have chosen to not take these jobs, and this is why nonresidents fill the jobs. She stated that making money is the appeal, as being in Barrow or Prudhoe Bay in the winter may not be "the dream gig." She expressed concern about the \$200,000 deduction creating a situation where "the 20 percent" would pay for "the 80 percent," and this would be discriminatory to high income earners. She included dual military families among those who may be impacted. She concluded that an income tax with this model would not be a sound fiscal plan.

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REPRESENTATIVE GRAY quoted former Alaska Governor Jay Hammond's thoughts on the repeal of Alaska's income tax in the 1980s, which stated that removing the tax would sever the connection between "the citizen's pocketbook" and the state's budget, reducing the total revenue and eliminating the primary "restraint on government spending". He suggested that heightened government spending had come to pass and asked how the proposed \$20 head tax may work toward keeping state spending in check.

REPRESENTATIVE GALVIN noted that there is no recent data on taxes in Alaska. She referenced studies done in other countries around the benefits of an income tax. She suggested these studies align with the thoughts of Governor Hammond. She stressed that even if the state decided to choose another broad-based tax over an income tax, taxpayers are still going to be taxed, which she identified as a common misunderstanding. A family of four may spend thousands of dollars annually "buying stuff" all of which would be subject to a sales tax. Regarding the fiscal plan as a whole, she questioned the committee on which [tax mechanisms] are going to keep Alaskans engaged in the process. She stated that if the legislature decides to use broad-based taxes as one of these mechanisms, she recommended that close to 50 percent of Alaskan families who make \$50,000 or

less be considered and how the different aspects of a tax would affect them. She reminded the committee that the \$20 head tax would be enough to pay for implementing the tax plan set forth in HB 156, and then the 2 percent tax would all be additional revenue. She emphasized that the proposed bill is not intended to "pick at people," rather, she expressed the belief that it would be an easily implemented plan to start the discussion on how Alaskans would handle sharing the fiscal responsibility.

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MR. KNAPP added that Alaska used to have head tax dedicated to schools, which was also deducted from a first paycheck. He expressed the opinion that Governor Hammond's idea that a public contribution to government increases the value of expected services is still relevant today. He pointed out that every tax has associated flaws, and the administration of the tax will dictate the economic impacts, but neither an income nor a sales tax is "the ideal solution". Regardless of which tax is used, he emphasized the importance of thinking carefully about the available "levers." He reiterated that the essential difference between the two types of taxes will be who bears the most burden from the tax. He reinforced the idea that the tax model can be adjusted by maneuvering the "levers" within it to fit different standards.

CHAIR CARPENTER asked Mr. Knapp to expand on how a person's income dictates who creates business and economic growth.

MR. KNAPP spoke on the many different elements of economic growth. He mentioned that there are economic growth implications for both income taxes and sales taxes, and although there is an assumption an income tax is bad for economic growth, the answer to this question is very complex.

CHAIR CARPENTER commented that perhaps his question was too specific, as it had not been directly addressed.

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REPRESENTATIVE TILTON referred to slide 10, which listed the various types of income to be considered with an income tax. She questioned which income sources would be considered in the proposed legislation. Additionally, she asked whether taxpayers who receive income exclusively from sources other than employment would be required to pay the head tax.

REPRESENTATIVE GALVIN replied that the income considered taxable was defined in the bill and listed several examples, including salaries, business ownership or partnership, and the ownership of a S corporations. She also noted a possible amendment to remove social security as taxable. She asked for clarification on Representative Tilton's second question.

REPRESENTATIVE TILTON restated her question by confirming that the head tax would be taken out of the first paycheck of actively working taxpayers. She questioned whether those whose income does not come from employment would have to pay the \$20 head tax and how the state would go about collecting it.

REPRESENTATIVE GALVIN responded that these people would need to pay the head tax, as all taxpayers still need to file taxes, even when actual paychecks are not received. She explained that there were several ways for the taxpayer to make the payment once taxes are filed.

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REPRESENTATIVE MCKAY made comments on previous parts of the discussion, including Alaskans' ability to be hired and the PFD being the current string between citizens and state spending. He continued by providing information from his experience in the oil industry in regard to the taxable incomes list on slide 10. He insisted that the list would need to be vetted. He expressed concern on taxing S corporations, as all the oil and gas operations in Cook Inlet are S corporations. He quoted data from the Department of Natural Resources to explain the amount of oil needed to provide for the state and the amount it costs to drill the oil wells for this production. He cautioned that further taxing these corporations could prevent them from working in Alaska, and this would lead to huge job losses with the potential of the state running out of gas. He argued that the list of taxable income should be thoroughly vetted to avoid such unseen consequences.

REPRESENTATIVE GALVIN expressed agreement that including S corporations on the list of taxable income is misleading, and she stated she had questioned this. She continued that the income tax would only apply to the owner of an S corporation with income above \$200,000. She further clarified that this bill would tax individuals and not corporations, and the types of businesses listed were included because business owners making more than \$200,000 would be taxed 2 percent on the amount above \$200,000. She assured the committee that she had asked

the same questions about the implications of the proposed bill because tax law is complicated. She stated that the intent is not to scare people away from the state. She expressed agreement with Chair Carpenter's earlier question about economic growth, as this is important. She added that regressivity plays an important role in economic growth because consumption is a big economic driver, and taking money directly from the poorest Alaskans would impact consumption. She wrapped up her comments by mentioning Warren Buffet's theories on middle-income workers and how the proposed legislation could be one tool to help reach the goal of a vibrant economy with Alaskans all prospering.

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CHAIR CARPENTER announced that HB 156 was held over.

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ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 8:06 p.m.