

HB

91

TONY KNOWLES
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

HB 91
P O Box 11000:
Juneau, Alaska 99811-0001
(907) 465-3500
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February 9, 1999

The Honorable Brian Porter
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear ^{Brian} Speaker Porter:

As part of the Alaska Balanced Budget Plan I proposed to close Alaska's budget gap within the next 18 months, today I am transmitting a bill to re-impose a state income tax on individuals.

The current size of our fiscal gap—the difference between annual revenues and expenditures—exceeds one billion dollars. Because of our sizeable savings account, the Constitutional Budget Reserve (CBR), we have been able to fill this gap over the past several years. However, the CBR is currently projected to run dry in the next three years. Although we have cut the budget substantially over the past four years, and further cuts and efficiencies must take place, budget cuts alone will not solve a budget gap of this proportion if basic state services to Alaskans are to be preserved.

One part of the plan is to transfer \$4 billion dollars from the Earnings Reserve Account of the Permanent Fund to the CBR. This will generate approximately \$550 million annually. However, this too will not close the gap. I believe an income tax is the fairest way to provide the additional \$350 million dollars needed to balance our budget in the next 18 months.

Alaska's tremendous natural resource wealth has allowed us to maintain the basic services of state government for many years without significant contributions from the Alaskans who benefit from those services. We also have been able to return dividends from that wealth to Alaskans. But existing revenue sources simply will not sustain the basic services -- the schools, protection of our children, contributions to local communities, and other basic health and safety programs -- on which Alaskans rely.

The Honorable Brian Porter
February 9, 1999
Page 2

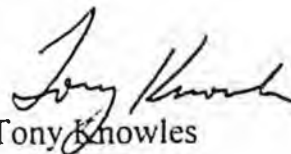
HB 91

A state individual income tax is one way to address at least a part of the budget gap. Alaska is the only state that has neither a state personal income tax nor a statewide sales tax. I believe an income tax is one of the fairest ways to raise revenue. It taxes people on their ability to pay and taxes people who work in Alaska, whether they live here or not. Non-residents can begin to contribute to the state-provided services they receive.

The tax set out in the attached bill begins with a simple percentage of the federal tax we pay. It then provides every Alaskan a credit, based on the Permanent Fund Dividend that person receives, as a way to compensate for the federal tax we pay on our dividends. This feature of the bill, because it provides a per-capita credit, protects families. Under the bill, a family of four earning \$60,000 would pay no tax.

I urge your prompt consideration of this bill. You may not agree that the structure of the proposed tax is the best, and I welcome your suggestions for alternatives. But we cannot afford to wait until all our reserves are expended. The Legislature must act this year to protect the future of all Alaskans.

Sincerely,



Tony Knowles
Governor

Summary of public testimony regarding the Governor's budget bills: HB 89, 90, 91

3/3/99

Comments from the public were generally rational, well reasoned, and based on solid information.

MOST testifiers were against a state income tax. Some reasons given were, it is:

- Too unfriendly,
- Too discriminatory in general,
- Too discriminatory against single people without children,
- Unconstitutional, and
- The budget needs more cutting first.

Three people favored a flat tax, and one suggested a residency credit.

SOME testifiers preferred a sales tax, if taxing is necessary, because it:

- Keeps the dollars in Alaska,
- Is based on ALL peoples' ability to spend,
- Captures visitors' dollars as well,
- Taxes unorganized areas that should be paying their share,
- Taxes areas that currently don't have a sales tax and should be paying their share.

But those opposed to a sales tax said it was too repressive.

Three people suggested that there should be a vote of the people before instituting any tax, and that it should have a sunset date (maybe two years), after which it would have to be voted on again.

It was pointed out several times that Alaska is the ONLY state in the United States that has NEITHER an income tax nor a sales tax.

Several people also noted that Alaska loses credibility with the other 49 states when we request federal funding, or talk of a fiscal problem, because not only do our citizens pay no taxes, we also collect a dividend for living here.

An interesting fact to note is that the amount paid out in Permanent Fund Dividends last year (\$900 million) is nearly equal to the amount of our fiscal gap this year (\$1.2 billion).

Four people testified they would rather give up their Permanent Fund Dividends than have a tax.

Several accountants gave facts and numbers to support their ideas. One accountant supplied us with very interesting figures showing what would happen if we capped the dividend at \$850 (an arbitrary figure) and used the earnings reserve. Her testimony is attached, showing that, under the Governor's proposed tax, some individuals would actually end up losing money by collecting the current PFD.

We heard several suggestions that the permanent fund earnings be used – to close the gap, to pay for education, etc.

Only one person actually said she LIKED the Governor's proposal, but several expressed appreciation for his putting something forth to consider. The spirit of cooperation between the Governor and the Legislator was also lauded.

Other miscellaneous suggestions were:

- Use privatization as much as possible to save money.
- Decide what we need first, what the state must provide.
- Prioritize needed services first.
- Don't use budget reductions as a punitive tool.

Increase income (after reducing spending) with users' fees.

Be aware that too many cuts in the wrong places can cripple the economy.

Be aware that government is not here to create the economy but to provide necessary services that result in jobs and economic development.

KELLY LUDWIG appeared before the committee. She stated, "I'm just an accountant, I'm not a CPA, I have an accounting degree from the University of Alaska-Southeast in Juneau, and I've worked with taxes for the last few years and my concern comes down to an income tax and the affect that it has with the PFD (permanent fund dividend) to me (indisc.) going to give us a PFD on one hand and then we're going to turn around and take it away. I did some preliminary figures based on Joe Q.-citizen who earns \$40 thousand a year as a single person, has no dependents, doesn't have a big investment portfolio - and if you take that \$40 thousand - and I used the amount of last year's permanent fund of \$1,500.00, I applied the standard deduction - he can itemize deductions and he can only subtract from your federal income tax return - state taxes if you itemize deductions, otherwise it all falls under the standard deduction. He gets his personal exemption for himself, that comes down to a taxable income of \$32,550. The federal tax on that is \$5,826. Now the state tax would be 31 percent of that, which is \$1,806 and the PFD credit, which would be 33 percent of the PFD amount at \$1,500 is \$495 which makes the state tax \$1,311. If you take the PFD at \$1,500, you deduct the state tax of \$1,311, you get \$188.94. Now by adding the \$1,500 into his income that he has to pay taxes on, the federal tax effect is \$245, so if you

subtract all that out, it ends up costing that person \$56.12 to get the PFD and pay the state tax on it."

MS. LUDWIG further stated, "If we were to cap the PFD - I'm just picking a figure of \$850, and we don't have a state income tax, then that \$850, included in his income, costs him in federal taxes \$266. But the gain on that, that he gets, is \$584, which means that for each person, that's \$584 drop into our economy and a \$56.12 decrease because, not to mention the cost of setting up the department, and which would be a collection department - kind of like child support enforcement which is scary to me. I know people want to keep their PFDs, but I think that maybe capping them and then using the earnings reserve account for the unrealized gains and that is a better option."

Preference for Tax, Revenue increase	D	R	U	O	I/N	TOTAL
1. Opposes any new tax; all savings through cuts		15	3		14	31
2. Tax, not PFD cut/ leave PFD alone		2		1	2	5
3. Sales tax first (with exemptions)	1		2		4	7
4. Income tax first		2	1		1	4
5. Accepts tax but deep cuts first; keep tax simple	1	7	4	3	7	22
6. No INCOME tax		3			2	5
7. Lottery	1					1
8. Use CBR first		2	1		1	4
9. Tax non- residents			1			1
10. Cap, cut PFD check first/only	2	2			3	7
11. Taxes OK; supports Gov.	2	1			2	5
12. Sales tax 1 st , PFD cut 2 nd , income tax last ...		2	1		1	4
13. If tax, sales tax only	1	3	1	1	4	10
14. Opposes Gov. plan ...	1		1	1	4	7
15. "sin" taxes only					1	1
16. Develop natural resources					2	2
17. Tap PFD, sales tax only					1	1
18. Protect social services					2	2



Alaska State Legislature

Please enter into the record my testimony to the H State Affairs
committee name
committee on budget , dated 2-20-99
bill/subject

page 1 of 3

Signed: Michael J. Conroy
Testifier

Representing (Optional)

Address

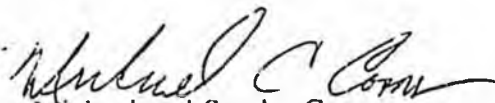
Phone No.

We know that you all in Juneau are making hard decisions, some which will not be popular but necessary. We dread to think what this 1 Billion deficit would be like if the Republican Legislature hadn't been reducing the size and scope of State Government over the last several years! We'd dare say it would be more like 2 or 3 Billion!

As to the "tax" issue. We could swallow a State Income Tax if the following were followed. Any deviation would not get our support!:

- 1) A point is reached that everything our State Constitution says that the State Legislature is responsible for funding is done at the most effective level, but still in the red. We understand that there are programs out there that are not in the State Constitution. Delete those. That may be painful politically but it must be done.
- 2) We support the bill before the legislature on top executives pay decreases as per the law.
- 3) Privatization of State agencies as appropriate.
- 4) Forcing the Local DA's, State Attorney General, and Federal Court systems through Project Exile funding, to prosecute Federal weapons and other charges so as to reduce our prison incarceration costs.
- 5) Performance based funding is law and strong enough evaluation to find the positives and negatives, with corrections in place. We note that this is back on the agenda and fully support it!
- 6) If all the above are done, and we are still in the red, with no sure date of in the black, i.e. at least 3 or 4 years out, then and only then start seriously considering an Income Tax. That said we could only support the following Income Tax parameters:
 - a. A advisory vote by the people for any Income Tax. We would encourage the legislature to consider the outcome of the vote a NO vote if less than 51% of registered voters turnout.
 - b. Flat tax across the board, no deductions, no loopholes and no State IRS like department. Money would go straight from the employees paycheck to the State Treasury. We would feel comfortable with a 2% Flat Tax for all Alaskans and people who earn money here but leave for the "Lower 48" to live.
 - c. Sun downing of the Income Tax with a re-vote by the people to either continue or stop. Would base this on projected earnings of the Tax, projected earning of business taxes, i.e. oil industry etc. This should be Sun downed no later than 4 years after implementation. During those years would like a change to the Constitution that any and all votes dealing with a State Income tax must have at least a 51% voter turnout to be considered valid.

7) Clear and concise information to the general public on what, why, who and when prior to any vote. Just the facts, pro and con, not political statements. We realize this may be difficult but a neutral pro and con education of the public must be available for the voters to make a sound decision one way or the other. We would like to see this in both print and on TV and radio so as to saturate the State with the needed information.



Michael and Sandra Coons

P.O. Box 4229

Palmer, AK 99645

(907) 745-6779



Alaska State Legislature

Please enter into the record my testimony to the House State of Affairs, Finance
 committee name
 committee on Bill # 91 St. Income Tax dated 2-20-99
 bill/subject

I'm not writing this message in protest of the ~~the~~ ^{state} income tax, but I'm protesting the way this plan has been written. I feel it is very unfair to single people without children. I am a 42 year old woman who has ~~chosen~~ ^{made} the ~~choice~~ choice not to have children. I work full time and lead a very productive life. The way this tax ~~plan~~ ^{plan} is written is that single people w/out children will have to pay most of this tax. I ^{feel} feel this is very discredmenting. I like I'm being punished in someway for my life style. What really makes me mad is that a family of 4 who makes 60,000. or less will not have to pay anything at. That's not right. If you live in this state and recp the benefits of this state you should have to pay. I also think 31% is a little excessive.

Signed: Renny Huldsworth
 Testifier

Representing (Optional)
P.O. Box 244 Palmer, AK 99645
 Address
907-746-6856
 Phone No.

although I like the idea of a flat tax.

IF I were given a choice of giving up my ~~permanent~~ ^{permanent} fund to ~~not~~ ^{not} ~~paying~~ ^{having to} state income tax, I would. The permanent fund puts me into a higher tax bracket anyway. And I end up paying more federal income tax.

I feel the state should try harder in trimming the fat from the state budget. There's a lot of fat out there. We should also take another look at a state sales tax instead of a state income tax. We have a lot of tourists that visit our state every year. There would be a lot of income from that.

All I'm asking is that if there has to be a state tax, please please make it fair to all. We the people.

Thank - you,

Remy Holdsworth
Remy Holdsworth

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Remy Holdsworth

Remy Holdsworth

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... a Southeast Alaska Company

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Rep. Jeannette James

February 23, 1999

Representative Jeannette James
Chairperson, State Affairs Committee
State of Alaska House of Representatives
State Capitol, Room 102
Juneau, Alaska 99801-1182

Dear Madam Chair;

This past Saturday I took the opportunity to watch the televised proceedings of your House State Affairs Committee, and I'd like to add perhaps another perspective to the ongoing debate on the Governor's recent proposals dealing with Alaska's fiscal crisis.

Let me begin by commending the Governor and the members of the legislature for their willingness to tackle this difficult problem head on. Senator Daniel Patrick Moynihan of New York has often referred to Social Security as the 'third rail' of National politics - 'touch it and die!' That seems equally true of the Permanent Fund in the context of Alaskan politics. You certainly have your work cut out for you.

As a recent transplant from Upstate New York, I don't presume to tell you, the Governor or the long-term residents of this magnificent State how to deal with these delicate issues. But I do have considerable experience as a New York State taxpayer, and I thought I would share with you some of the lessons New Yorkers have learned, and are still learning concerning these matters.

As you may know, New York is among the highest taxed states in the union. In recent memory, the State's top income tax bracket has been as high as 10%. And it is precisely the issue of income tax brackets I would like to discuss.

There are many ways to evaluate the impact of an income tax, but I believe economists would tell us that the most significant impact relates to what they would refer to as 'marginal tax rates', and what the rest of us might call 'tax brackets'. The economist would tell us that a taxpayer makes financial and tax decisions 'at the margin', since he views the income tax on the next dollar of income as being at least partially under his control. While the taxpayer can't control the tax directly, he can determine if it is or is not worth pursuing that extra dollar of income in view of the extra tax burden. It was

precisely this marginal tax rate issue which created severe economic problems in New York.

For many years the State of New York watched as businesses, professionals and skilled workers left in large numbers. The reasons were complex, but everyone seems and agree that one of the root causes of the problem was the income tax structure. On top of high Federal income tax rates, the State imposed its own taxes with marginal rates reaching as high as 10%, as I mentioned. Certain high-income residents paid State and Federal marginal income tax rates approaching half of each additional dollar earned. Many of these people felt that any effort to get ahead, to earn higher levels of income and thereby improve their personal quality of life, was futile in New York, so they left. To compound the problem, many of the taxpayers subject to these extreme marginal rates were business owners or high level executives, and when they left, their companies left with them. New York got a well-deserved reputation in the business community as a good place to avoid, in large part because of its personal income tax structure.

A number of years ago New York got the message, and has gradually reduced the maximum tax bracket from 10% to 6.85%. The problem is far from resolved, but the direction is clear. New York State politicians of all persuasions have become convinced that excessive marginal income tax rates don't work. They cost the State more than they're worth.

Viewed objectively, I cannot help but feel that Alaska is charging headlong down that same path. Because of the Permanent Fund credits, and the complex link between Alaska's proposed income tax and the Federal income tax, it is somewhat difficult to get a true picture of the marginal rates inherent in the proposed income tax legislation. But let me assure you they are high by any standards.

While attempting to avoid undue technical detail, I have prepared a simple schedule which shows the Federal and Alaskan marginal tax rates for three classes of taxpayers at various income levels. The schedule is attached as Exhibit A. (Assumptions used in preparing the schedule are disclosed, and should be reviewed carefully.)

Since the Alaskan income tax is calculated at 31% of the Federal tax (reduced by the PFD credit), the Alaska marginal tax rate is equal to the state rate multiplied by the progressive federal rate. The result is a progressive marginal state income tax rate. (Several individuals testifying before your committee on Saturday characterized the income tax proposal as a 'flat' tax - it is not.)

Let's assume, for example, an Alaskan resident pays a federal rate of 15%, and then pays 31% of that amount to the State of Alaska (after applicable credits.) Assuming further that the individual takes the standard deduction on his Federal return, he pays a marginal State tax rate of 4.65% (i.e., 31% times 15% = 4.65%). For an individual in the 28% Federal bracket taking the standard deduction, the marginal State rate is 8.68% (i.e., 31% times 28% = 8.68%). Clearly, the marginal State tax rate is progressive and highly so.

As mentioned, Exhibit A shows the effect of this progressive rate on different classes of taxpayers at different income levels. To further explain the information contained in Exhibit A, let me describe an example from that document. Look at the data on Exhibit A under the heading "Single, no dependents". The table translates as follows:

- A single individual earning \$17,600 per year, including her PFD, faces a marginal Alaska income tax rate of 4.65% on the next dollar of income received.
 - At and below \$17,600 she pays no tax because of the PFD credit, but beyond income levels of \$17,600, and up to \$31,600, she pays 4.65% on each additional dollar of income she earns.
- At \$31,600 annual income, the marginal Alaska income tax rate picks up substantially (this is because the Federal tax bracket jumps from 15% to 28%, and, of course, the State tax is based on the Federal tax).
 - On all income dollars above \$31,600, up to a level of \$66,700, the single Alaskan taxpayer pays State income tax of 8.68% on each additional dollar of income received.
- At \$66,700, the single Alaskan's marginal income tax rate goes up again as the Federal rate notches up from 28% to 31%. At this point our resident single Alaskan taxpayer is paying 9.61% of each additional dollar of income. Though I have not included them in the table, the upward progression continues for high-income taxpayers finding themselves in the 36% or 39.6% Federal tax brackets. .

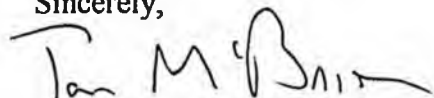
Married and head of household taxpayers (single parents) are protected by the PFD credit on the downside, but once the credits have been consumed, they have essentially the same marginal tax rate problem as the single taxpayer. For example, once a married taxpayer with two children exceeds income of \$62,500 (an average of only \$31,250 per spouse), she pays State income tax at a rate of 8.68% on each additional dollar earned by the couple.

Clearly, the tax bill as proposed focuses the brunt of the tax burden on higher income individuals (if, indeed, income at some of these levels can be viewed as high in today's economy.) It is, of course, to be expected that those who can best afford to pay should pay proportionately more. But Alaskans should ask themselves at what point these highly taxed citizens will consider their marginal tax burden to be no more than legalized confiscation. And they should ask further at what point these folks might elect to leave rather than pay. This is exactly the problem that has faced New Yorkers for two decades or more.

In conclusion, I recognize that the problem is serious, the options are few, and every dollar not raised through income tax must come from somewhere else – very likely from the Permanent Fund, which would prove unpopular, to put it mildly. But the damage

done by an income tax viewed by at least part of the population as unfair and confiscatory would be very difficult to repair. Before you proceed, I strongly urge you to carefully study the case of New York and other states that have gone down that road and wish they hadn't. Don't make the same mistakes they did.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom M. McBrien". The signature is written in a cursive style with a large initial "T" and "M".

Thomas F. McBrien

cc: Representative John Coghill, Jr.
Representative Bill Hudson
Representative Scott Ogan
Representative Jim Whitaker
Representative Beth Kerttula
Representative Harold Smalley

Exhibit A

Federal and State Marginal Income Tax Rates

<u>Alaskan Taxpayer:</u>	<u>Federal Adjusted Gross Income</u>	<u>Marginal Federal Tax Rate</u>	<u>Marginal Alaskan Tax Rate</u>
Single, no dependents	Over \$17,600	15%	4.65%
	Over \$31,600	28%	8.68%
	Over \$66,700	31%	9.61%
Head of Household, 1 child	Over \$34,800	15%	4.65%
	Over \$44,700	28%	8.68%
	Over \$97,000	31%	9.61%
Married, two children	Over \$62,500	28%	8.68%
	Over \$117,500	31%	9.61%

ASSUMPTIONS:

1. In the interest of simplicity, certain complicating Federal tax issues have been ignored. For example, the standard deduction has been assumed for all taxpayers. Use of itemized deductions would reduce State marginal tax rates for certain taxpayers. However, incorporation of other Federal income tax issues such as Alternative Minimum Tax, progressive taxability of social security benefits, phase-out of itemized deductions and personal exemptions, and various other AGI based adjustments and phase-outs could increase marginal tax rates for certain other taxpayers.
2. Children are assumed to be qualified dependents, and eligible for Federal Child Tax Credit, unless subject to AGI phase-out. Tax calculations include child's PFD, but AGI amounts shown exclude child's PFD. (i.e., AGI displayed is the income of parent(s) or guardian(s) only.)
3. 1998 Federal tax factors (standard deduction, personal exemption amount, tax rates, child credit, etc.) have been used for Federal tax calculations.
4. All Federal Adjusted Gross Income is assumed to be classified as 'Income From Sources in the State', and therefore taxable under the proposed Alaska Income Tax statute.

Alaska State Legislature

REPRESENTATIVE
JEANNETTE JAMES

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North Pole, Alaska 99705
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FAX (907) 488-4271



While in Juneau
State Capitol
Juneau, Alaska
99801-1182
(907) 465-3743
FAX (907) 465-2381

House Of Representatives

House District 34

February 26, 1999

Mr. Thomas McBrien
Polaris Financial Planning, Ltd.
526 Main Street
Juneau, AK 99801

Dear Mr. McBrien,

Thank you for your excellent letter regarding our House State Affairs committee hearing last Saturday. I really appreciate the thoughtful analysis your letter provided.

Also, thank you for appreciating that any decisions we make to ease Alaska's financial dilemma will be unpopular with some segment of our citizens. You are right, we do have our work cut out for us!

Paying attention to the mistakes other states have made is very good advice. I was going to forward copies of your letter to the other State Affairs Committee members, but I notice you have already done so.

I hope you will continue monitoring our progress as we work our way through the budget process and that you will feel free to contact me with any other thoughts or ideas you might have on this difficult issue.

Sincerely,

Representative Jeannette James
JJ/bc

Total Impact on Typical Alaskan Household (Married, No Children)

	40k	60k	80k	100k	120k
Adjusted Gross Income					
Federal Tax Liability (Based on Claiming Standard Deductions)	\$ (4,125)	\$ (7,795)	\$ (13,395)	\$ (18,995)	\$ (24,751)
Alaska Tax Liability	-\$279	-\$1,416	-\$3,152	-\$4,888	-\$6,673
Dividends Received	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Potential Federal Tax Savings (If Itemizing Deductions)	\$42	\$397	\$883	\$1,369	\$2,069
Alaskan Tax Net to Household	\$2,763	\$1,980	\$730	-\$520	-\$1,604

NOTES:

- 1) Tax assumes standard deductions are taken on federal tax form.
- 2) Assumes a hypothetical \$1,500 Permanent Fund dividend.
- 3) The Alaska income tax is deductible for computing federal taxable income if the taxpayer itemizes deductions.

Estimated Effect of Alaska Credit Income Tax

Alaska Credit Income Tax (31% of Federal Tax Liability)

Adjusted Gross Income	40k	60k	80k	100k
Single	\$ 1,347	\$ 3,083	\$ 4,927	\$ 6,849
Married, No Children	\$ 279	\$ 1,416	\$ 3,152	\$ 4,888
Head of Household, 2 Children	\$ -	\$ 1,094	\$ 2,830	\$ 4,566
Married, 2 Children	\$ -	\$ -	\$ 1,684	\$ 3,420

Net to Household (Permanent Fund Dividends less Tax)

Adjusted Gross Income	40k	60k	80k	100k
Single	\$ 153	\$ (1,583)	\$ (3,427)	\$ (5,349)
Married, No Children	\$ 2,721	\$ 1,584	\$ (152)	\$ (1,888)
Head of Household, 2 Children	\$ 4,500	\$ 3,406	\$ 1,670	\$ (66)
Married, 2 Children	\$ 6,000	\$ 6,000	\$ 4,316	\$ 2,580

NOTES:

- 1) Tax assumes standard deductions are taken on federal tax form.
- 2) Assumes a hypothetical \$1,500 Permanent Fund dividend.
- 3) The Alaska income tax is deductible for computing federal taxable income if the taxpayer itemizes deductions.

THE
FOLLOWING
DOCUMENT(S)
ARE
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Written Testimony on H.R. 91 Income Tax from:

Eric Weathers
Third Judicial District
c/o P.O. Box 1791
Cordova, Alaska
No Zip Code

Madam Chair:

The state can only tax something they create. They can not tax "people" because they did not create them.

The state can tax corporations and individuals who work for state and municipalities because their source of income was created by the the government.

The state may tax the permanent fund because it is state owned and created.

Nothing a tax will do is make more government and more government spending, and can only be paid by those who are employed and/or benefit from that government.

An unconstitutional tax on private business and "people" will generate more tax consuming public servants and welfare. If a tax is to be imposed, it must be apportioned. For example if I pay \$100.00 everyone else will each pay their \$100.00.

When government taxes "We the People" the government becomes the master and the "people" the slaves.

The IRS cannot tax a private persons just compensation without deceit, neither can the state.

Remember that the "people" created the Constitution and government for the "people" and it is the right of the "people" to alter or to abolish it, and to institute a new government if the government becomes oppressive.

I strongly urge you not to impose an unconstitutional individual income tax. Thank you for this opportunity to testify.

Eric John Weathers

TCN # 40170

Sorry -
hope these are
better
mimi

Written Testimony on HB 91 Income Tax from:

Denny Kay Weathers
Third Judicial District
c/o P.O. Box 1791
Cordova, Alaska
No Zip Code

Madam Chair:

The Constitution of the United States of America recognizes two classes of taxes.

The first one is the "direct" tax authorized by Congress under...

Article 1; Section 2, Clause 3: "Representatives and direct taxes shall be apportioned among the several states which may be included within this Union, according to their respective numbers..." and,

Article 1, Section 9, Clause 4: "No Capitation, or other direct tax shall be laid, unless in proportion to the census or enumeration herein before directed to be taken."

The second one is "indirect" taxation authorized by Congress under...

Article 1, Section 8, Clause 1: "The Congress shall have power to lay and collect taxes, duties, imposts and excises to pay the debts and provide for the common defense and general welfare of the United States; but all duties, imposts and excises shall be uniform throughout the United States."

The State of Alaska also recognizes direct & indirect taxes & I believe the State recognizes "franchise taxes" too...

Franchise tax: An annual tax on the privilege of doing business in the state; A tax on the franchise of a corporation...."

All three types of taxes listed above are constitutional taxes. But HB 91 is not a direct tax nor a indirect tax and it does not fall under the franchise tax. What type of tax is contained in HB 91?

Our government in Alaska seems to want to reward the unproductive and penalize the producer. Politicians have been writing laws designed to confiscate the fruit of the working peoples labor and use those confiscated dollars to buy the votes of the unproductive. This is wrong and "We The People" are realizing it.

Just remember, Tax protest is our American political heritage. It was tax protestors who formed our two greatest documents, the Declaration of Independence and the Constitution for the United States of America. Our first four presidents were notorious tax protestors who were criminals under the laws of England.

The Revolutionary war fought between 1775 to 1783 was for many reasons and the Declaration of Independence lists those reasons...interestingly one of those reasons was and I quote "For imposing taxes on us without our consent" is it time for another revolution?

I strongly urge you not to impose an unconstitutional individual income tax.

Madam Chair, please could your committee answer my two questions stated within my testimony & do you have any questions for me.

Thank you for this opportunity to testify.

Alaska State House of Representatives
STATE AFFAIRS COMMITTEE
Representative Jeannette James, Chair



Rm 102, Capitol Building, Juneau

Phone 465-3743, Fax 465-2381

Members:

Rep. John Coghill, Vice-Chair
Rep. Bill Hudson
Rep. Beth Kertula
Rep. Scott Ogan
Rep. Harold Smalley
Rep. Jim Whitaker

DATE: February 24, 1999
TO: State Affairs Committee Members
FROM: Barbara Cotting, Committee Aide
RE: House Bills 89, 90, 91

Just in case you don't have enough reading material, attached are copies of written testimony and letters received for the State Affairs Committee on the Governor's proposed funding solutions.



Alaska State Legislature

Please enter into the record my testimony to the House State of Affairs, Finance
committee name

committee on Bill #91 St. Income Tax dated 2-20-99
bill/subject

I'm not writing this message in protest of the ~~the~~ ^{state} income tax, but I'm protesting the way this plan has been written. I feel it is very unfair to single people without children. I am a 42 year old woman who ~~has~~ ^{made} the ~~choice~~ choice not to have children. I work full time and lead a very productive life. The way this tax ~~is~~ ^{plan} is written is that single people without children will have to pay most of this tax. I feel this is very discredmenting. I ^{feel} like I'm being punished in some way for my life style. What really makes me mad is that a family of 4 who makes 60,000. or less will not have to pay anything at. That's not right. If you live in this state and reap the benefits of this state you should have to pay. I also think 31% is a little excessive.

Signed: Renny Holdsworth
Testifier

Representing (Optional)
P.O. Box 244 Palmer, AK 99645
Address
907-746-6856
Phone No.

although I like the idea of a flat tax.

If I were given a choice of giving up my ~~permanent~~ fund to ~~not~~ ^{not} ~~paying~~ ^{having to} state income tax, I would. The permanent fund puts me into a higher tax bracket anyway. And I end up paying more federal income tax.

I feel the state should try harder in trimming the fat from the state budget. There a lot of fat out there. We should also take another look at a state sales tax instead of a state income tax. We have a lot of tourist that visit our state every year. There would be a lot of income from that.

All I'm asking is that if there has to be a state tax, please please make it fair to all. We the people.

Thank - you,

Remy Holdsworth
Remy Holdsworth

Subject: Teleconference Notes
Date: Mon, 22 Feb 1999 11:57:59 -0900
From: Lori Backes <Lori_Backes@legis.state.ak.us>
Organization: Alaska State Legislature
To: Interior Delegation Members <lhsc1lb+interior@legis.state.ak.us>

INTERIOR DELEGATION NOTES

2/22/99

Reminder: We've got a teleconference Tuesday night @ 7 p.m., which will be broadcast on KUAC radio.

The Saturday Teleconference with the State Affairs Committee sure stirred up the conversation on the budget! Callers to KFAR Radio are opposed to any income tax and any dip into the permanent fund. Their prevailing opinion is to cut the budget more.

I will have an agenda for the teleconference to you later this afternoon, but it is certainly not too late to add something to it if you wish to discuss a particular subject!

Have a Great Day!
Lori

TUXCS

Subject: Taxes**Date:** Mon, 22 Feb 1999 09:05:38 -0800**From:** Kirby Wheeler <kwhccler@ptialaska.net>**To:** Fairbanks_LIO@legis.state.ak.us

Dear Representative:

Whenever a company has a loss of income they try to reduce operations costs or raise the cost of goods or services sold to make up the loss. When a family has a loss of income or the cost of goods is raised they have to cut expenses. Do they resort to friends and neighbors to give them money to survive? I think not.

Governments, on the other hand, tax to recover from poor business decisions. It is the standard for Americans to want more and want someone else to pay for the added services. Not once in my 57 years have I seen a member of the legislature look at reducing services when times are tough. At the present rate the increases in taxes are mounting and we will soon be spending more on government than on our family.

We are already taxed on most goods and services but it is hidden so that the people don't know the tax exists (user fees). I'm sure that other taxes exist that I don't know about or see and routinely pay.

A few hundred years ago a group of people decided that taxes were unfair and raised taxes against the government of the time to correct the unfairness. Many times throughout history the common people (citizens) revolted against unfairness; i.e., prohibition, the Vietnam War, civil rights, etc. That is just a few examples and I'm confident that there are more. It may be time again for a reorganization of our structure to keep the people free and in control and keep the government aware of the needs of the people not the people aware of the needs of the government.

I ask you to rethink your position on taxes and using the permanent fund account to fund unnecessary projects or services. We are getting closer to citizen unrest and closer to some other form of government other than a Republic. We want more freedom and less government. More say in how our government is operated and less fear of the government. It is time the government tighten it's belt not the citizen.

Not a Lemming,

Kirby Wheeler
1604 Marika Rd. Apt. 12
Fairbanks, Ak. 99709

Alaska Legislative Office, Fairbanks, Alaska
Please send this to all Alaska Legislators:

Dear Alaskan Legislator:

I worked hard and paid my State and Federal Taxes for 40 years. I paid Alaska State Taxes before the big oil boom. Now I am retired on a small pension and my Social Security. The taxes are taking too much of my retirement income, leaving me too little to live comfortably on. The Federal Government alone takes almost 30% in direct taxes, and I can't calculate how much in indirect taxes. It leaves too little for me to take care of my family, and me, in my old age.

I have never asked anything from the State or Federal Government in the way of Welfare or Workmans Comp. or Unemployment. I have striven to be self-sufficient. I do accept the Longevity Bonus because it is available to all elderly Alaskans equally. I would rather give up the Longevity Bonus Program than see you add more taxes.

Now I ask you, please do not add any more taxes on my income, either direct or indirect (gasoline tax).

I ask you to stop the Permanent Fund Dividend Program if you need more money to run the State Government. Just stop it! That will treat every Alaska resident equally. We started the Program that way, and we should end it that way. Equally. The Permanent Fund was intended to run the State Government when the oil ran low or ran out. The time is now. You should take the money and spend it as you will. It is State money.

My retirement is my money. Please do not take any more of that from me.

If you start a State Income Tax, it will require great cost and many State employees to administer. Whereas if you stop the Permanent Fund Dividend Program, it will save money and require fewer State employees than we now have.

In short, take my Permanent Fund Dividend, but don't take any more of my retirement.

Thank you,

Joe Nava
469 NRA Lane
Fairbanks, AK 99709

Post-It™ brand fax transmittal memo 7671		# of pages	1
To	INT. DEL.	From	FBKS LIO
Co.		Co.	
Dept.		Phone #	
Fax #		Fax #	

Permanent Fund Dividends, State Income Tax, and State Sales Tax.

Permanent Fund:

I've lived in Alaska since 1977 - not as long as some, but longer than many, and, as I recall, when the Permanent Fund was first conceived, the purpose was to provide funds for the day when oil revenues fell off - so we could keep providing the citizens of Alaska necessary government services. That is, those services required for life, safety and health reasons, as opposed to "nice to have" services.

Somewhere along the way, though, the whole idea of the Permanent Fund got translated into a fund that's purpose was solely to pay annual cash dividends to Alaskans. Now we hear cries of "Don't touch the Permanent Fund," and "Don't touch my Permanent Fund Dividend, the State owes it to me." Well, there's no such thing as a free lunch! If Alaskans want to continue to enjoy the standard of living they've become accustomed to over the last twenty years, they ought to be willing to contribute to it.

State Income Tax:

I don't mind paying taxes for state services that are needed by the citizenry. What I object to is those who want everything for nothing, and wanting someone else to pay for it. I would support a FLAT state income tax - deductible from federal income tax, with standard and dependent deductions, and a "credit" for state residency.

State Sales Tax:

I also support an across the board (food excepted) state sales. I think the legislature should tell communities who don't have a local sales tax that their portion of state funds will be reduced by whatever amount such a tax could raise for them. Why should residents of communities who pay local tax to partially fund local services contribute to a statewide sales tax to fund similar services in boroughs and municipalities where there is NO sales tax? Doesn't make sense to me. Does it to you?

In summary, and I'm sure you've heard this before, Alaska is the only state in the Union that has neither a state income tax nor a state sales tax. We basically pay our residents to live here. And, while we have \$25 Billion Dollars in the bank, we cry "poor mouth." The "lower 48" states laugh at us. It's about time the people of Alaska re-entered reality and recognized that they need to pay for government and the government services and programs they want.

G. Greg Young
POB 34337
Juneau AK 99803
907-789-3146
907-739-3633 (Fax)
asmle@alaska.net

David Karalunas
P.O. Box 77293
Fairbanks, AK 99707-3853

February 20, 1999, City of Fairbanks

Representative Jeannette James, Chairperson
House State Affairs Committee
Juneau, AK 99877

Dear Rep. James:

Below is the written copy of my testimony on HB89/90/91 given this morning at the Fairbanks LIO.

Thank you for hearing us today.

I have been a citizen of Alaska since I was born in Anchorage. I make the distinction between being merely a resident and being a citizen. Residency makes you eligible to receive certain benefits, and citizenship acknowledges the responsibility that we all share to contribute to the needs of our society. That is why I am testifying today.

I support the Governor's leadership in advancing these ideas. In so many instances in Alaska, our elected officials fail to lead the open discussion of options, while instead waiting for the other side to blink, and that hurts all of us.

I support the effort to let the people vote on these issues. Again, I see too often a reluctance to let the public vote, in fact even attempts to block some issues from making it onto a ballot, and I think that is wrong.

I support the elimination of the Permanent Fund Dividend program before we enact any state tax, and here is why:

1. Many people have come to view the PFD as an entitlement, in the worst sense of a welfare-type program. We see people moving to the state with no job and large families, just because we have the PFD (and no state tax). And this is the segment of the population that uses the most other state services - from Public Safety to DHSS to Corrections.
2. If we tax at the top and hand out PFDs at the bottom, we are providing an incentive for this type of behavior to continue.
3. We are constantly talking about trying to reduce state government expenditures, and it seems to me that the paperwork and staff costs to run the PFD program should be reduced or eliminated before we create new costs via staff/paperwork to collect taxes.

My overall view is that we should at least cap and/or eliminate the Dividend before resorting to any tax. If and when a tax is enacted, I would like to see a state sales tax, with certain basic needs, like food and medicine purchases, not taxed.

I admit that this may not be the best way to reach the seasonal or transient non-resident workers in our state. I would be happy to see this or other options on the ballot (or publicly debated, with real numbers) so that the citizens of Alaska can choose what they feel is the best option.

Although reducing state spending is perhaps a discussion for another day, I will say that I do not support any further reduction in real state services or education spending. However, I do think we need to take a hard look at how to make the basic bureaucracies of our Departments more flexible and responsive to change. I urge the Legislature to avoid the practice of using budget reductions as a punitive tool. Again, we need leadership that will work with the problem Departments to solve their structural problems, not make their jobs even more difficult and hurt the end users with further cuts.

Thank you for this opportunity.

-----End of February 20, 1999 testimony-----

After listening to other testimony and sitting down to write this, I want to add a few more thoughts.

In my first few paragraphs above, I mentioned leadership and public voting. Although I very strongly believe we should not let the public or the press keep our Commissioners and Departments from properly executing their functions under the rules put in place by the Legislature, I am convinced that we would see far fewer contentious ballot measures if the same Legislature or Commissioners exercised leadership in promoting open discussion on the merits and drawbacks of various solutions. My view on elected officials has always been that they are our representatives, and should vote for us in a representative manner, or in a manner that in their considered opinion is at least in our best interest. However, I think they also have an obligation to educate us about how and why they make their decisions. Many people will vote, but in between elections they will only complain about the legislative process based on their own perspective of what would be best for themselves. That is where the leadership comes in. If the Legislature debates behind closed doors, refuses to advance options for discussion, or focuses on pointing out the weaknesses of the other side's argument without offering their own solution, then we will see an increase in ballot measures from every interest group on every subject. People will vote, based on the most recently appealing rhetoric, and that can result in a hamstrung Department - mandated by the state constitution or legislation to do the best job it can using sound facts/research, labeled in the public eye as ineffective, in reality understaffed or under-supported by leadership, and in the end punitively budgeted as a message to clean up their act. It doesn't matter if we are talking about DFYS, ADF&G, the Troopers, or DOT. We need to work together to find solutions to problems, support those solutions once they are selected, give the Departments the tools they need to carry out those solutions, and lead the public dialog or otherwise educate the public on why that is the best plan. And if the political willpower to make tough decisions is not there, get out of the way and let the people vote - on that specific issue, if not on who should be there to make the decisions.

Rep. James, thank you for valuing my comments enough to ask for them in writing. I want to stress that none of the above is directed at any one person or party, but is equally applicable to all. (For example, the Legislature and the Governor could cease the "crisis" bit and discuss the budget only in terms of a stable, long-range plan. And the public could be better-educated on the fact that the Legislature chooses, every year, what to do with the vast majority of the Permanent Fund's earnings. This is not a "crisis," this is a choice - a tough one, on how to manage the affairs of the state.) There is a great deal of dissatisfaction among voters today with all government, and the time is ripe to put politics aside and solve the current and future problems of Alaska.

Again, thank you for your time and consideration.

Sincerely,



David Karalunas
Life-long Alaskan and citizen of Fairbanks

dk

cc: Interior Delegation

Governor's Office

Lady's and Gentlemen of the Committee

2/20/99

We know that you all in Juneau are making hard decisions, some which will not be popular but necessary. We dread to think what this 1 Billion deficit would be like if the Republican Legislature hadn't been reducing the size and scope of State Government over the last several years! We'd dare say it would be more like 2 or 3 Billion!

As to the "tax" issue. We could swallow a State Income Tax if the following were followed. Any deviation would not get our support!

1) A point is reached that everything our State Constitution says that the State Legislature is responsible for funding is done at the most effective level, but still in the red. We understand that there are programs cut there that are not in the State Constitution. Delete those. That may be painful politically but it must be done.

2) We support the bill before the legislature on top executives pay decreases as per the law.

3) Privatization of State agencies as appropriate.

4) Forcing the Local DA's, State Attorney General, and Federal Court systems through Project Exile funding, to prosecute Federal weapons and other charges so as to reduce our prison incarceration costs.

5) Performance based funding is law and strong enough evaluation to find the positives and negatives, with corrections in place. We note that this is back on the agenda and fully support it!

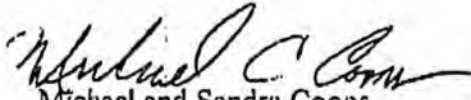
6) If all the above are done, and we are still in the red, with no sure date to be black, i.e. at least 3 or 4 years out, then and only then start seriously considering an Income Tax. That said we could only support the following Income Tax parameters:

a. A advisory vote by the people for any Income Tax. We would encourage the legislature to consider the outcome of the vote a NO vote if less than 51% of registered voters turn out.

b. Flat tax across the board, no deductions, no loopholes and no State IRS like department. Money would go straight from the employees paycheck to the State Treasury. We would feel comfortable with a 2% Flat Tax for all Alaskans and people who earn money here but leave for the "Lower 48" to live.

c. Sun downing of the Income Tax with a re-vote by the people to either continue or stop. Would base this on projected earnings of the Tax, projected earning of business taxes, i.e. oil industry etc. This should be Sun downed no later than 4 years after implementation. During those years would like a change to the Constitution that any and all votes dealing with a State Income tax must have at least a 51% voter turnout to be considered valid.

7) Clear and concise information to the general public on what, why, who and when prior to any vote. Just the facts, pro and con, not political statements. We realize this may be difficult but a neutral pro and con education of the public must be available for the voters to make a sound decision one way or the other. We would like to see this in both print and on TV and radio so as to saturate the State with the needed information.



Michael and Sandra Coons

P.O. Box 4229

Palmer, AK 99645

(907) 745-6779



LEGISLATIVE INFORMATION OFFICE
119 N. CUSHMAN, SUITE 101
FAIRBANKS, AK 99701
452-4448

RECEIVED BY

FEB 24 1000

Rep. Jeanette W. Smith

DATE: 2/22/98

Please accept the enclosed original(s) of written testimony for the

House State Affairs teleconference scheduled on

HB 89, HB 90, HB 91. A copy of this testimony was transmitted to your committee via fax.

Thank you,

Fax 1 Fax Ltd

David Karalunas
P.O. Box 73893
Fairbanks, AK 99707-3893

RECEIVED BY

FEB 24 1999

Rep. Jeannette James

February 20, 1999, City of Fairbanks

Representative Jeannette James, Chairperson
House State Affairs Committee
Juneau, AK 998??

Dear Rep. James:

Below is the written copy of my testimony on HB89/90/90, given this morning at the Fairbanks LIQ.

Thank you for hearing us today.

I have been a citizen of Alaska since I was born in Anchorage. I make the distinction between being merely a resident and being a citizen. Residency makes you eligible to receive certain benefits, and citizenship acknowledges the responsibility that we all share to contribute to the needs of our society. That is why I am testifying today.

I support the Governor's *leadership* in advancing these ideas. In so many instances in Alaska, our elected officials fail to lead the open discussion of options, while instead waiting for the other side to blink, and that hurts all of us.

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2. If we tax at the top and hand out PFDs at the bottom, we are providing an incentive for this type of behavior to continue.
3. We are constantly talking about trying to reduce state government expenditures, and it seems to me that the paperwork and staff costs to run the PFD program should be reduced or eliminated before we create new costs via staff/paperwork to collect taxes.

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Thank you for this opportunity.

-----End of February 20, 1999 testimony-----

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In my first few paragraphs above, I mentioned leadership and public voting. Although I very strongly believe that we should not let the public or the press keep our Commissioners and Departments from properly executing their functions under the rules put in place by the Legislature, I am convinced that we would see far fewer contentious ballot measures if the same Legislature or Commissioners exercised leadership in promoting open discussion on the merits and drawbacks of various solutions. My view on elected officials has always been that they are our representatives, and should vote for us in a representative manner, or in a manner that in their considered opinion is at least in our best interest. However, I think they also have an obligation to educate us about how and why they make their decisions. Many people will vote, but in between elections they will only complain about the legislative process based on their own perspective of what would be best for themselves. That is where the leadership comes in. If the Legislature debates behind closed doors, refuses to advance options for discussion, or focuses on pointing out the weaknesses of the other side's argument without offering their own solution, then we will see an increase in ballot measures from every interest group on every subject. People will vote, based on the most recently appealing rhetoric, and that can result in a hamstringing Department - mandated by the state constitution or legislation to do the best job it can using sound facts/research, labeled in the public eye as ineffective, in reality understaffed or undersupported by leadership, and in the end punitively budgeted as a message to clean up their act. It doesn't matter if we are talking about DFYS, ADF&G, the Troopers, or DOT. We need to work together to find solutions to problems, support those solutions once they are selected, give the Departments the tools they need to carry out those solutions, and lead the public dialog or otherwise educate the public on why that is the best plan. And if the political willpower to make tough decisions is not there, then get out of the way and let the people vote - on that specific issue, if not on who should be there to make the decisions.

Rep. James, thank you for valuing my comments enough to ask for them in writing. I want to stress that none of the above is directed at any one person or party, but is equally applicable to all. (For example, the Legislature and the Governor could cease the "crisis" bit and discuss the budget only in terms of a stable, long-range plan. And the public could be better-educated on the fact that the Legislature *chooses*, every year, what to do with the vast majority of the Permanent Fund's earnings. This is not a "crisis," this is a choice, albeit a tough one, on how to manage the affairs of the state.) There is a great deal of dissatisfaction among voters today with all government, and the time is ripe to put politics aside and solve the current and future problems of Alaska.

Again, thank you for your time and consideration.

Sincerely,



David Karalunas
Life-long Alaskan and citizen of Fairbanks

dk

cc: Interior Delegation

Governor's Office



THOMAS, HEAD & GREISEN

RONALD E GREISEN, CPA
KEVIN E BRANSON, CPA
JOHN A. LETOURNEAU, CPA

FACSIMILE TRANSMITTAL SHEET

Phone # 907-272-1571 Fax # 907-277-2639 Sender's e-mail address _____@thgcpa.com

DATE: 2/19/99 CLIENT # 9

TO: Representative James

OFFICE: State Capitol

FAX NUMBER (S): 907-465-2381

RE: AB-91

COPIES OF THIS TRANSMISSION WILL FOLLOW VIA U.S. MAIL: Y N

THIS TRANSMISSION IS FROM: John Letourneau

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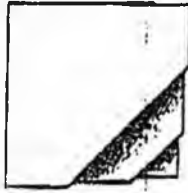
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REMARKS:

Larry Meyer 209-66644
Wilson Condon 907-465-2389

Thanking you in advance.

THOMAS, HEAD & GREISEN



CERTIFIED PUBLIC ACCOUNTANTS

THOMAS, HEAD & GREISEN

RONALD E. GREISEN, CPA, ABV
 KEVIN E. BRANSON, CPA
 LETOURNEAU, CPA

February 19, 1999

Representative Jeannette James, Chair
 House State Affairs Committee
 State Capitol, Room 102
 Juneau, Alaska 99705

Via Fax 1-907-465-2381

Dear Representative James:

Thank you for the opportunity to submit my comments on HB-91. I understand from watching the hearing on February 18th held by your committee that there is still some uncertainty about a need for an income tax. Please do not take these comments as an endorsement of an income tax.

My interest in the subject is that of a CPA spending a great deal of time as a tax practitioner. As a tax preparer and advisor I will be one of the people thrust into the position of having to understand the details of the law if any income tax bill is passed. In a system built on voluntary compliance it is the private sector tax preparers who bear much of the burden of enforcing tax laws. For this reason, we value clarity in any law, in addition to simplicity.

The views expressed in my testimony are mine as an individual and not those of the firm that I am associated with.

In the following comments I am referring to the draft bill as introduced on February 10, 1999, and will use the line numbering in this draft of the bill.

1. Proposed AS 43.20.009(b)(c) [as shown on lines 1 & 2, and line 4 of page 3] uses the term "federal income tax" as the starting point for the computation of the Alaska income tax. Unfortunately, I do not believe that "federal income tax" is a defined term in the Internal Revenue Code (IRC), which Alaska generally adopts by reference in its income tax scheme, see AS 43.20.021.

To clarify the base on which the Alaska tax will be computed, I suggest that the reference be to the federal income tax imposed by 26 USC 1. This change would clarify the starting point for the computation of the tax.

I believe this change would clarify what is apparently the intent for the starting point of the tax as expressed on page 2 of the February 8, 1999 document explaining the "Alaska Credit Individual Income Tax" draft 1-GB1057.A, when referring to Line 49 of 1998 Form 1040.

2. I note that the proposed bill, does not provide for an "education credit". As you are aware corporations are allowed an "Income tax education credit", AS 43.20.014,

Representative Jeannette James, Chair
House State Affairs Committee
Page 2

for contributions to Alaska public or private two or four year colleges or Universities. Additionally a similar education credit is allowed against the following taxes:

Oil & Gas Production Tax - AS 43.55.019
Oil & Gas Property Tax - AS 43.56.018
Mining License Tax - AS 43.56.018
Insurance Premium Tax / Title Insurance Premium Tax - AS 21.89.070
Fisheries Business Tax - AS 43.75.018
Fisheries Landing Tax - AS 43.77.045

I believe that the possibility of reducing the income tax due by a contribution to a college or University might be of interest to many Alaskans' striving to find ways to deal with the challenges of providing educational opportunities close to home.

3. In reviewing proposed AS.43.20.030(h) [lines 16 & 17 on page 4] I was left wondering if the failure to pay the tax on the consolidated state return could give rise to a claim that a child could be treated as joint and several liability for any unpaid tax. This question arises due to the structure of the consolidated state return?
4. As mentioned by Don Rulien in his testimony, proposed AS.43.20.171 (a)(1) [line 16 page 7] provides for a state income tax withholding on "crew shares" a type of income which is not subject to withholding under current federal law. I believe that it will take substantial efforts to educate boat owners of this change should it be adopted. I note in passing that I do not believe that AS 43.20 contains a definition of the term "crew share" since this term is defined for federal tax purposes in 26 USC 3121(b)(20) which is not incorporated by reference in the Alaska Statutes.
5. The proposed deletion from the current text of AS 43.20.160(c) [lines 7 & 8 on page 7 HB 91] has the potential to leave tax practitioners in a void. Alaska is a young state that in the interest of simplicity has chosen to piggy back its income tax system on the Internal Revenue Code, see AS 43.20.021(a). Given the lack of regulations or other forms of specific written guidance from the Department of Revenue on many areas of the tax law, the ability to rely on applicable "administrative and judicial interpretations of the federal law" is of tremendous benefit to me as a CPA trying to act as a tax advisor, if there is no specific Alaska guidance. However, the proposed change deletes this potential source of information without offering a replacement. The description of this provision contained on page 6 of draft 1-GB1057.A, understates the importance of this provision of the current law.

For example adopting this language could mean that the department was not bound to consider the administrative interpretations of the IRS issued in Rev. Rul. 77-102 and Rev. Rul 91-19, (copies attached) which help to define what is, and what is not, a "crew share". Since HB-91 anticipates imposing withholding on "crew shares" the definition of this term will be of interest to all those trying to comply with the law. The proposed change to AS 43.20.160(c) may reduce the ability of an accountant or other tax advisor to understand what is meant by the term crew share, which will be essential if they are to explain the withholding requirements to their clients.



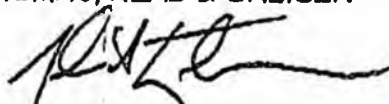
Representative Jeannette James, Chair
House State Affairs Committee
Page 3

Thank you once again for the opportunity to provide comments. As a practicing CPA I am quite interested in this and other tax legislation affecting Alaskans.

Should you have any questions, please contact me.

Very truly yours,

THOMAS, HEAD & GREISEN



John A. Letourneau, CPA

c. Wilson L. Condon, Commissioner, Department of Revenue
Larry E. Meyers, Director, Income and Excise Audit Division

JAL:aeb

W:\ASCPA\HB91.ONE



Rev. Rul. 77-102, 1977-1 CB 299 -- IRC Sec. 3121

Rev. Rul. 77-102, 1977-1 CB 299 -- IRC Sec. 3121

Rev. Rul. 77-102, 1977-1 CB 299 -- IRC Sec. 3121

Sec. 3121 -- Definitions nl (Also Sections 1402, 3401.)

HEADNOTE:

Fishing boat crew.

None of the services of the mate, engineer, and cook of a fishing boat paid an amount in addition to a share of the catch, or crew members entitled to hourly pay for repair of nets and other incidental work while the boat is in port, are excepted from employment under section 3121(b)(20) of the Code and all of their remuneration for the services is subject to FICA and income tax withholding. Crew members of a fishing boat, whose services are excepted from employment, are engaged in a trade or business for self-employment tax purposes.

nl (Also released as News Release IR-1777, dated March 21, 1977.)

Text:

Advice has been requested whether, in the situations described below, the services performed by certain individuals are excepted from "employment" under section 3121(b)(20) of the Federal Insurance Contributions Act and whether remuneration for those services is excepted from "wages" under section 3401(a)(17) of the Collection of Income Tax at Source on Wages (chapters 21 and 24 respectively, subtitle C, Internal Revenue Code of 1954). Both sections were added by section 1207(e) of the Tax Reform Act of 1976 (Pub. L. 94-455, 1976-3 C.B. (Vol. I) 182).

Section 3121(b)(20) of the Federal Insurance Contributions Act provides that employment does not include: service performed by an individual on a boat engaged in catching fish or other forms of aquatic animal life under an arrangement with the owner or operator of such boat pursuant to which--

(A) such individual does not receive any cash remuneration (other than as provided in subparagraph (B)),

(B) such individual receives a share of the boat's (or the boats' in the case of a fishing operation involving more than one boat) catch of fish or other forms of aquatic animal life or a share of the proceeds from the sale of such catch, and

(C) the amount of such individual's share depends on the amount of the boat's (or the boats' in the case of a fishing operation involving more than one boat) catch of fish or other forms of aquatic animal life, but only if the operating crew of such boat (or each boat from which the individual receives a share in the case of a fishing operation involving more than one boat) is normally made up of fewer than 10 individuals.

Section 3401(a)(17) of the Code provides that wages, for purposes of income tax withholding, does not include remuneration paid for service described in section 3121(b)(20).

Rev. Rul. 77-102, 1977-1 CB 299 -- IRC Sec. 3121

Section 1

The owner of a fishing boat employs a captain and eight other crew members to perform services on the boat, which is engaged in catching fish. The operating crew of the boat is normally made up of nine individuals. The arrangement provides that the remuneration paid to each of the individuals will be computed as follows: (1) out of the gross proceeds from the sale of the catch deductions are made for certain specified expenses such as ice, fuel, and a payment of \$25 each to the mate, engineer, and cook; (2) 60 percent of the remaining proceeds (net stock) is divided equally among the captain and other crew members, and the remaining 40 percent is divided between the captain and the owner. Before each voyage, the crew members are responsible for loading supplies and doing other necessary work in port in preparation for the voyage. At the completion of the voyage, the crew must remove and transport the catch to the point of sale and perform other incidental duties necessary to leave the boat in the same condition as it was before the voyage. These duties, which may include repairing nets, constructing new nets, and splicing cable, are performed without additional remuneration.<Page 300>

Under the arrangement in this situation, the mate, engineer, and cook receive a payment of \$25 that does not depend upon the amount of the boat's catch of fish, and, thus, the arrangement fails to meet the requirements of section 3121(b)(20)(C) of the Federal Insurance Contributions Act.

Accordingly, the services performed by the mate, engineer, and cook are excepted from employment under section 3121(b)(20) of the Act and their remuneration (including their share of the net stock) is not excepted from wages, for income tax withholding, under section 3401(a)(17) of the Code.

However, services performed by the other six crew members are excepted from employment because they do not receive any cash remuneration other than a share of the proceeds from the sale of the catch, their share depends on the amount of the catch, and the operating crew of the boat normally consists of fewer than 10 individuals. Because the services of the six crew members are excepted under section 3121(b)(20), remuneration for those services is excepted from wages, for income tax withholding, under section 3401(a)(17) of the Code.

The services performed by those six crew members are included in the term "trade or business" by section 1402(c)(2)(F) of the Self-Employment Contributions Act of 1954. This provision was also added by section 1204(e) of the Tax Reform Act of 1976.

Rev. Rul. 77-102, 1977-1 CB 299 -- IRC Sec. 3121

Situation 2.

The facts are the same as in *Situation 1*, except the arrangement also provides that for each voyage the captain and other crew members, in addition to receiving a share of the catch, are entitled to receive x dollars per hour for repairing nets, constructing new nets, splicing cable, and doing other incidental work while in port.

Under the arrangement in *Situation 2* all of the crew members are entitled to receive cash remuneration other than a share of the catch. Accordingly, none of their services are excepted from employment under section 3121(b)(20) of the Federal Insurance Contributions Act and their remuneration is not excepted from wages, for income tax withholding, under section 3401(a)(17) of the Code.

§ 3121 Definitions.

(20) service (other than service described in paragraph (C)(ii)) performed by an individual on a boat engaged in catching fish or other forms of aquatic animal life under an arrangement with the owner or operator of such boat pursuant to which—

(A) such individual does not receive any cash remuneration other than as provided in subparagraph (B) and other than cash remuneration—

(i) which does not exceed \$100 per trip;

(ii) which is contingent on a minimum catch; and

(iii) which is paid solely for additional dues (such as mate, engineer, or cook) for which additional cash remuneration is traditional in the industry,

(B) such individual receives a share of the boat's (or the boats' in the case of a fishing operation involving more than one boat) catch of fish or other forms of aquatic animal life or a share of the proceeds from the sale of such catch, and

(C) the amount of such individual's share depends on the amount of the boat's (or the boats' in the case of a fishing operation involving more than one boat) catch of fish or other forms of aquatic animal life,

but only if the operating crew of such boat (or each boat from which the individual receives a share in the case of a fishing operation involving more than one boat) is normally made up of fewer than 10 individuals; or

Rev. Rul. 91-19, 1991-1 CB 186 -- IRC Sec. 1402**Rev. Rul. 91-19, 1991-1 CB 186 -- IRC Sec. 1402****Rev. Rul. 91-19, 1991-1 CB 186 -- IRC Sec. 1402****Sec. 1402 -- Definitions****26 CFR 1.1402(a)-1: Definition of net earnings from self-employment. (Also Sections 3121, 7805, 31.3121(b)(20)-1, 301.7805-1.)****HEADNOTE:****Definition of net earnings from self-employment.**

Amounts paid to commercial fishing boat owners and operators and crew members as compensation for losses suffered because of alleged negligence are includible in net earnings from self-employment for purposes of the Self-Employment Contribution Act. The Service will not follow the decision in *Newberry v. Commissioner*, 76 T.C. 441 (1981).

Text:**Rev. Rul. 91-19, 1991-1 CB 186 -- IRC Sec. 1402****ISSUE**

Are amounts received by fishing boat owners and operators and crew members under the circumstances described below included in their net earnings from self-employment for purposes of the Self-Employment Contributions Act (SECA)?

Rev. Rul. 91-19, 1991-1 CB 186 -- IRC Sec. 1402**FACTS**

X, a corporation, compensated certain commercial fishing boat owners and operators and crew members (collectively referred to as "fishers") for losses suffered during the year because of X's alleged negligence. The losses incurred by the fishers arose because they could not fish due to certain alleged negligent acts of X. Prior to X's alleged negligence, which substantially reduced or completely eliminated the commercial fishing operations in the area, the fishers were self-employed and engaged in the trade or business of fishing. Most of the fishers did not fish during the taxable year subsequent to X's alleged negligence, although some engaged in fishing in unaffected waters during the year.

Two categories of fishers made claims to X: (1) boat owners and operators who held limited entry permits to fish (permits that allow the holder to fish for a specific kind of fish using a particular method for

a designated geographic area and period of time); and (2) crew members who worked for shares of the catch and otherwise meet the requirements of sections 3121(b)(20) and 1402(c)(2)(F) of the Internal Revenue Code.

To avoid protracted litigation, X established a claims office and instituted a settlement procedure. X required proof that the fishers had received a certain amount of income from fishing in prior years and that each was ready, willing, and able to fish during the taxable year. In these representations, X compensated the fishers for estimated losses.

The fishing boat owners and operators are considered self-employed for SECA purposes. In addition, crew members who do meet the requirements of sections 3121(b)(20) and 1402(c)(2)(F) are, for purposes of the SECA only, considered to be engaged in a trade or business, and thus the earnings of these crew members are subject to SECA taxes.

Rev. Rul. 91-19, 1991-1 CB 186 -- IRC Sec. 1402

LAW AND ANALYSIS

Section 1401 of the Code imposes taxes on the self-employment income of every individual. Section 1402(b) defines "self-employment income" as the net earnings from self-employment derived by an individual, with certain limitations. Section 1402(a) defines an individual's "net earnings from self-employment" as the "gross income derived by an individual from any trade or business carried on by such individual," also with certain limitations.

Whether an individual is carrying on a trade or business for purposes of section 1402 of the Code is a question of fact that may depend on an analysis of the individual's intent as determined from all the facts and circumstances. It is generally not essential that an individual actually be engaged in the day-to-day conduct of a trade or business in order to be carrying on a trade or business. A taxpayer can still be engaged in a trade or business even if there is a temporary hiatus in the conduct of the activities of that trade or business. See *Reisinger v. Commissioner*, 71 T.C. 568, 572 (1979); *Haft v. Commissioner*, 40 T.C. 2, 6 (1963); see also Rev. Rul. 75-120, 1975-1 C.B. 55 (job search costs may be deductible trade or business expense even if taxpayer is temporarily unemployed).

Similarly, whether a payment is derived from a trade or business carried on by an individual for purposes of section 1402 of the Code depends on whether, under all the facts and circumstances, a nexus exists between the payment and the carrying on of the trade or business. The Tax Court articulated this "nexus" requirement in *Newberry v. Commissioner*, 76 T.C. 441, 444 (1981), where it observed that, under section 1402.

[T]here must be a nexus between the income received and a trade or business that is, or was, actually carried on. Put another way, the construction of the statute can be gleaned by reading the relevant language all in one breath: the income must be derived from a trade or business carried on.

Generally, the required nexus exists if it is clear that a payment would not have been made but for an individual's conduct of a trade or

business. The fact that a payment represents compensation for lost income of a trade or business rather than income generated directly by the day-to-day conduct of the trade or business is generally irrelevant in determining whether this required nexus exists. In Rev. Rul. 76-500, 1976-2 C.B. 254, for example, a farmer suffered an \$8,000 crop loss resulting from a drought. The farmer received an \$8,000 loan from the Farmers Home Administration, of which \$5,000 of the principal was immediately canceled. The revenue ruling concludes that the amount of the canceled portion of the loan represents a replacement of a portion of the farmer's lost profits, and must be taken into account in computing net earnings from self-employment. See also Rev. Rul. 60-32, 1960-1 C.B. 23; Notice 87-26, 1987-1 C.B. 470.

Applying these principles to the present case, the payments made by X are included in the fishers' net earnings from self-employment. Even though the fishers were temporarily unable to fish due to the alleged negligent acts of X, they remained in the trade or business of fishing. The payments they received, measured by historical profits, were conditioned on this fact, and represented income that would have been derived by them from the season's catch. Thus, there was a nexus between the payments and their current conduct of a trade or business.

The Service does not agree with the Tax Court's decision in *Newberry* to the extent that it is inconsistent with this analysis. Specifically, while the Service agrees with the court's statement that, under section 1402 of the Code, there must be a nexus between a payment and the carrying on of a trade or business in order for the payment to be considered self-employment income, it does not agree with the court's conclusion that such a nexus cannot exist if an individual is not currently engaged in the day-to-day conduct of the trade or business, e.g., is unemployed. In *Newberry*, the <Page 188> petitioner owned and operated a grocery store that was destroyed by fire, as a result of which he was unable to operate the business for approximately seven months. During that time, he received insurance payments for lost earnings measured by his historical profits. The payments in *Newberry* were made, not because of a liquidation of the petitioner's business, but rather in connection with the petitioner's continuing conduct of the trade or business, even though he was temporarily unable to conduct day-to-day affairs during the store's reconstruction.

Rev. Rul. 99-17, 1991-1 CB 186 -- IRC Sec. 1402

HOLDING

The amounts received by the fishers from X are included in their net earnings from self-employment for SECA purposes.

If an individual received payments based on both the individual's prior years' self-employment fishing income (income subject to the SECA tax) and the individual's prior years' fishing income as an employee (income subject to the FICA taxes), the above conclusion applies only to the portion of the payments received that represents the self-employment fishing income. The portion of the payments received that represents fishing income as an employee, while includible in gross income, is not included in net earnings from self-employment and is not wages for federal employment tax purposes.

The Internal Revenue Service will not follow the decision in *Newberry*. Under the rationale of this revenue ruling, amounts received by a taxpayer under facts similar to those in *Newberry* would be included in net earnings from self-employment for purposes of the Self-Employment Contributions Act.

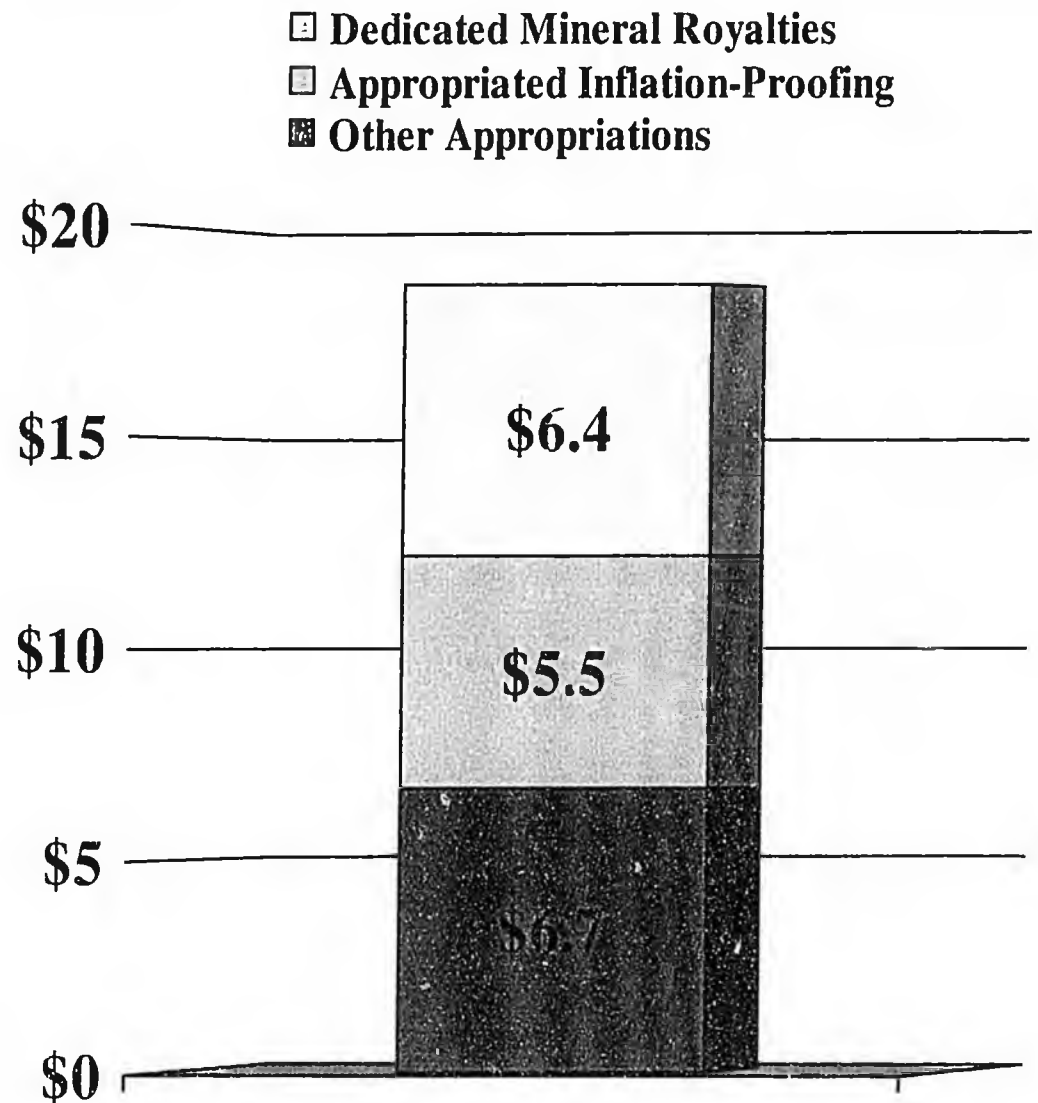
Rev. Rul. 91-19, 1991-1 CB 186 -- IRC Sec. 1402

EFFECTIVE DATE

Under the authority contained in section 7805(b) of the Code, the holding of this revenue ruling that the amounts received by the fishers from X are included in their net earnings from self-employment for SECA purposes will be applied only to payments received in taxable years beginning after December 31, 1990. This section 7805(b) relief is limited to situations described in the facts of this revenue ruling. In other situations, the analysis and holding in this revenue ruling apply for all taxable years.

Alaska Permanent Fund Principal

- **The Alaska Permanent Fund principal is protected by the Alaska Constitution.**
- **The Legislature may not spend it.**
- **The principal consists of:**
 1. **Dedicated mineral royalties;**
 2. **Money the Legislature has appropriated to inflation-proof the principal; and**
 3. **Other money the Legislature has appropriated into the principal.**

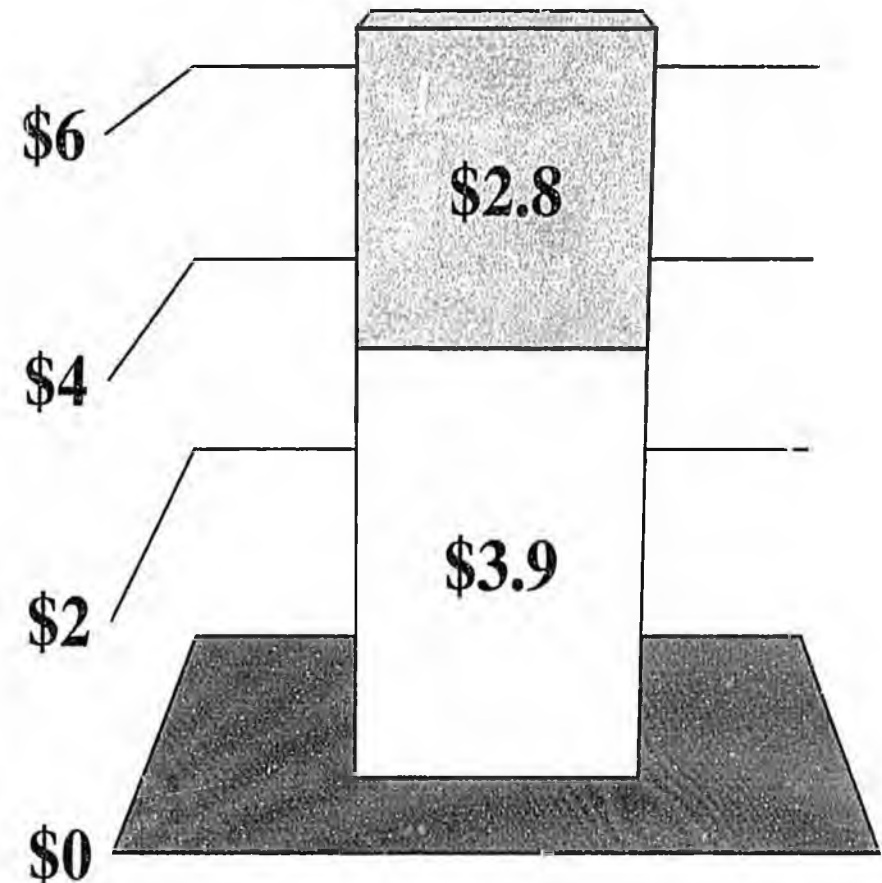


Principal Total \$18.6 Billion
(as of 1/1/99)

Permanent Fund Income

- Realized Income
- Unrealized Income

- All income from the Permanent Fund's investments is retained by the Fund until appropriated by the Legislature.
- "Realized Income," which includes interest, dividends and profits resulting from the sale of assets, is used to calculate the annual Permanent Fund Dividend.
- "Unrealized Income" is the market value over the purchase price of the assets currently held by the fund which become realized income only when the asset is sold.



Total Income \$6.7 billion

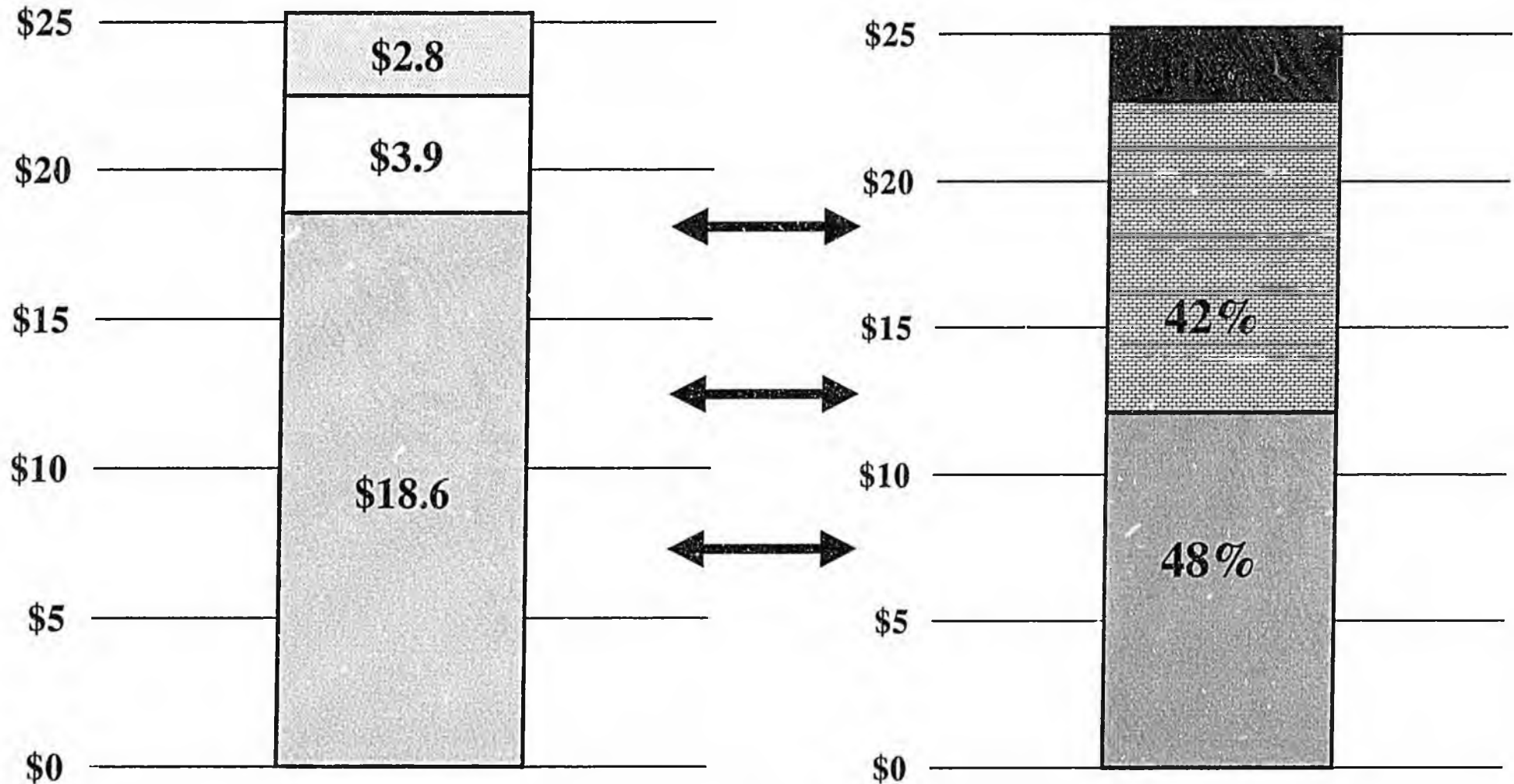
(as of 1/1/99)

Permanent Fund Investments

The principal and income of the Fund are
invested together in all asset classes

- Realized Gains
- Unrealized Gains
- Principal

- Real Estate 10%
- ▨ Bonds 42%
- ▩ Stocks 48%



Total fund 1/1/99 = \$25.3 billion

Annual Permanent Fund Dividend

How is it calculated?

- You add the realized income for the last five years.
- Take 10.5% of that total.
- That amount of money (with some small adjustments) is divided by the eligible applicants.

Realized Income

FY94 \$1,088.74 million

FY95 \$1,001.80 million

FY96 \$1,790.60 million

FY97 \$2,035.43 million

FY98 \$2,619.16 million

\$8,535.73 million

multiply by **0.105 = \$896.25 million**

then divide by eligible applicants =

1998 dividend per person = \$1,540.88

Fact: Since inception, the AK Permanent Fund Dividend Program has paid out \$14,777.55 in total to applicants who were eligible for every year the program has existed.

Inflation-Proofing

How is inflation-proofing done?

- Determine the % change in the CPI over the last calendar year.
- Multiply that rate times the principal value of the fund at the next June 30.
- Transfer this amount from earnings reserve to principal via an accounting entry.
- Assets do not really move.

- 1.54% = change in CPI for calendar year 1998;

- Principal at June 30 is approximately \$18.6 billion;

- Fund principal value of \$18.6 billion x 0.0154 CPI = \$286 million;

- \$286 million is appropriated to the principal by an accounting transfer from earnings reserve.

**Alaska's
Public
Finances**

Alaska's Public Finances

We have a problem!

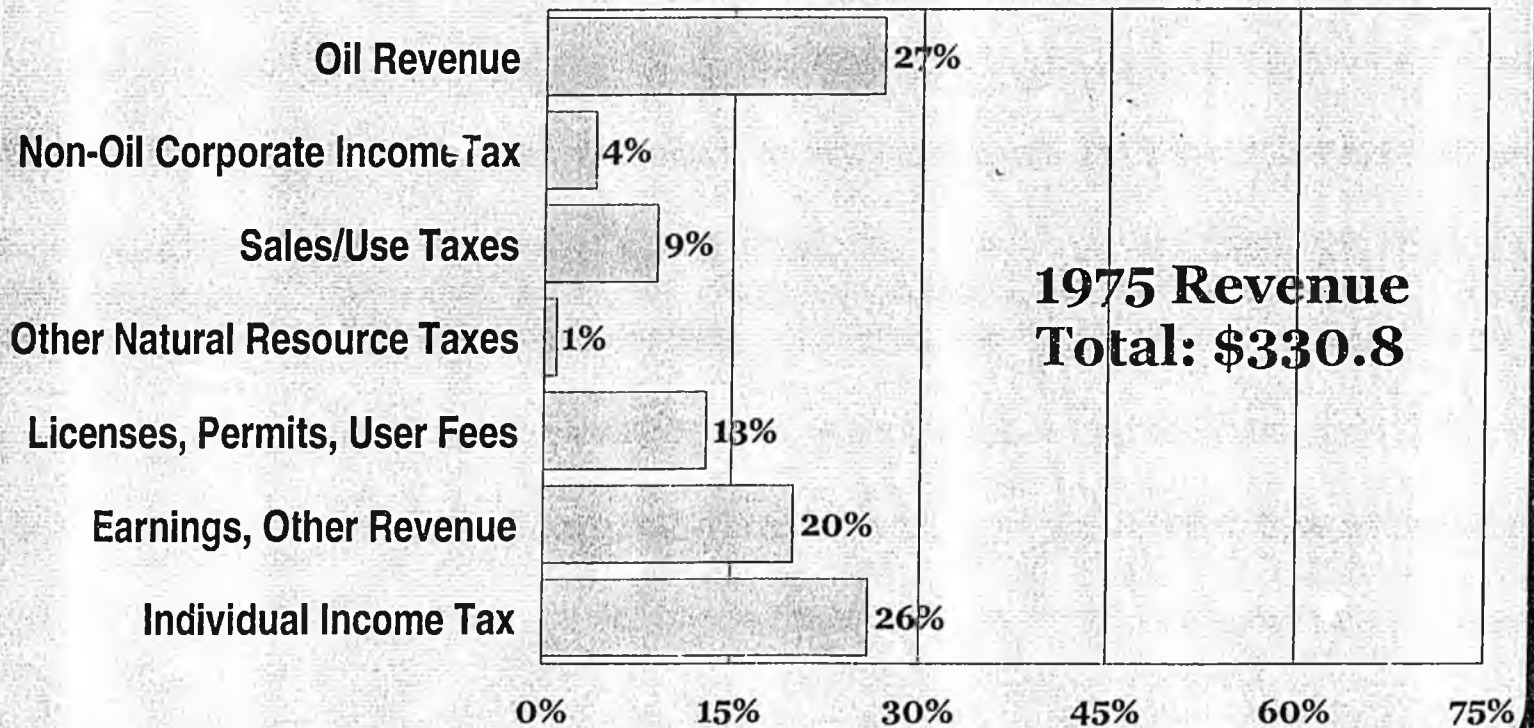
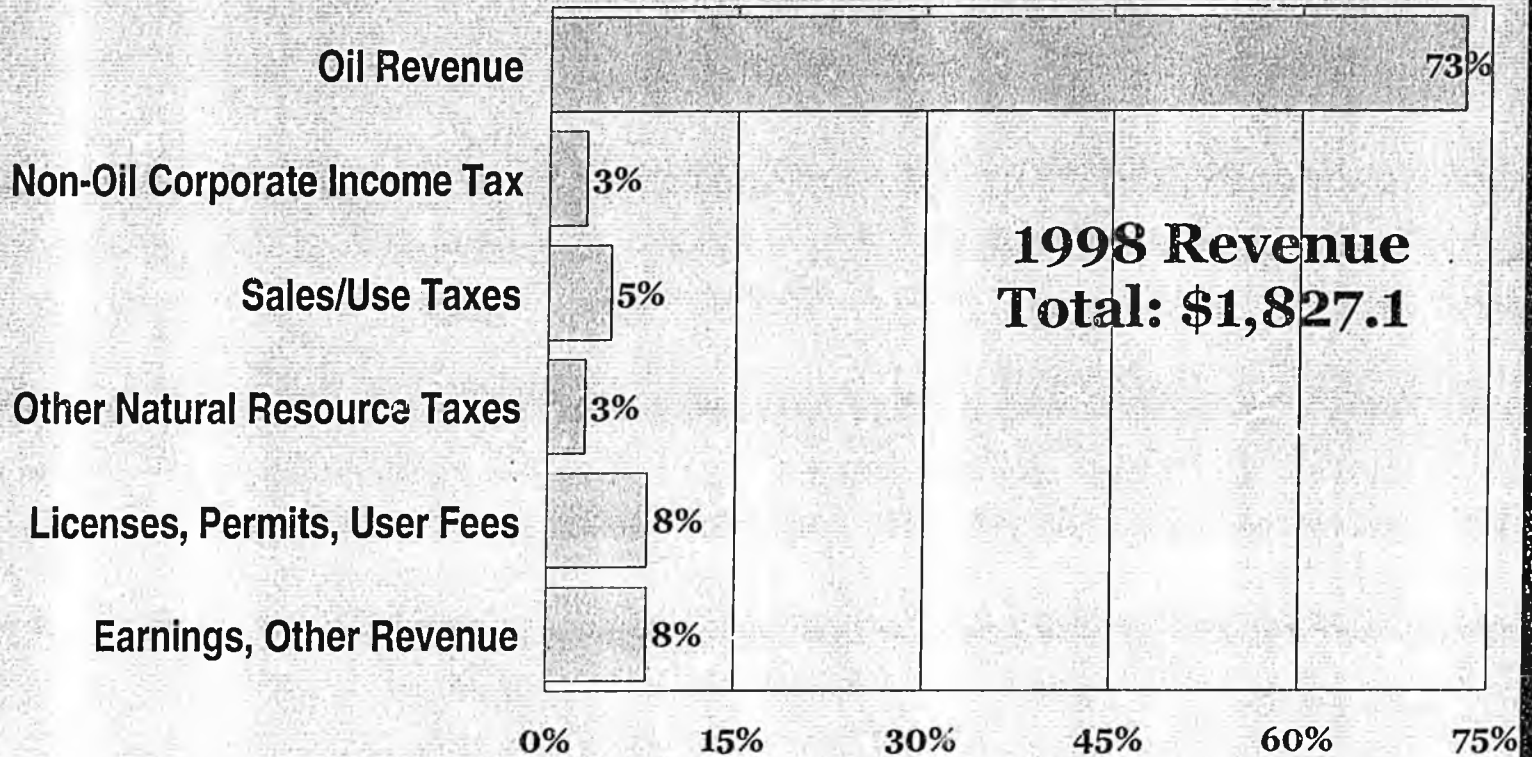
How did we get here?

Alaska's Public Finances

General Fund Revenue

Now and Then

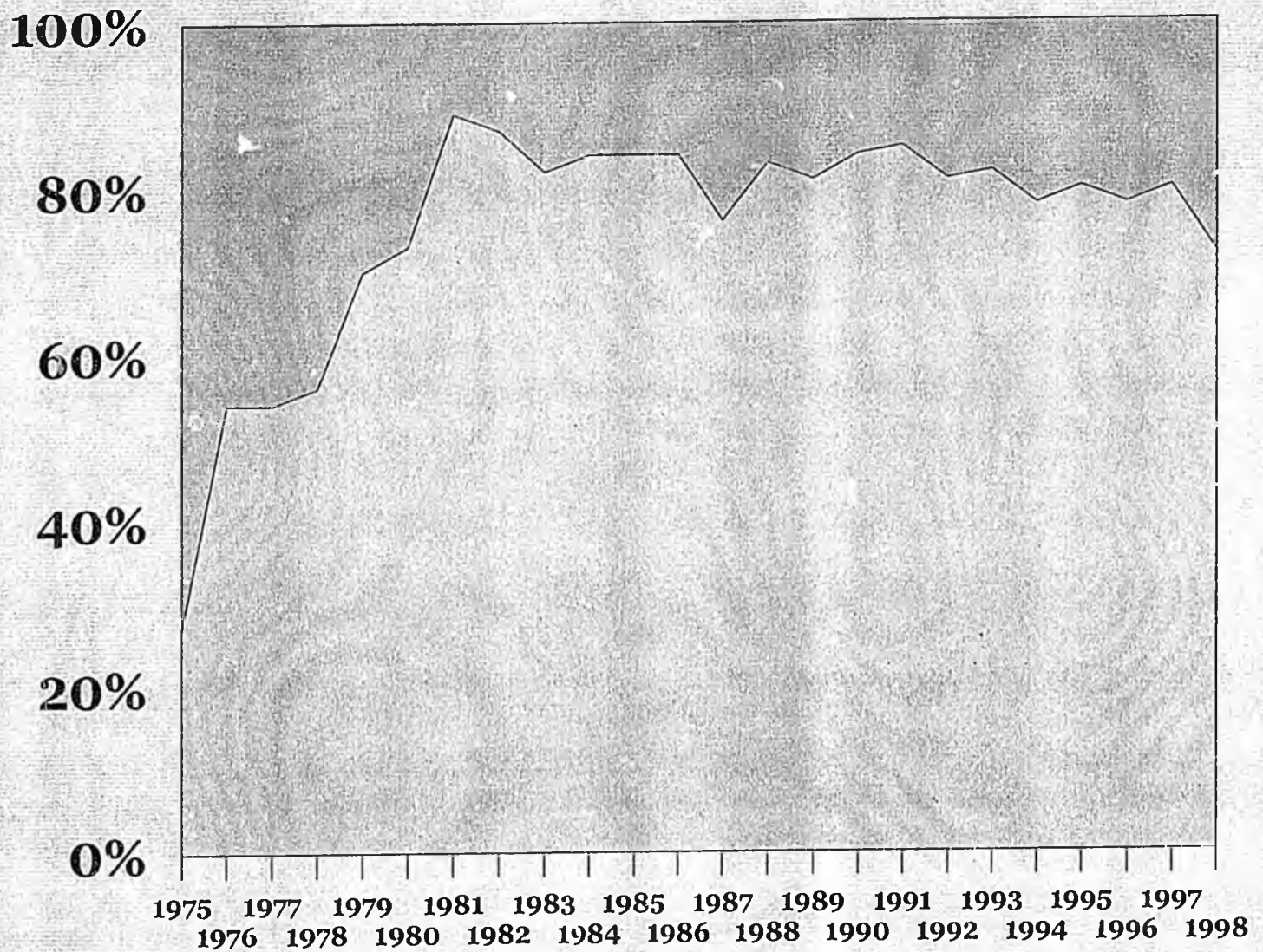
(\$ millions)



Alaska's Public Finances

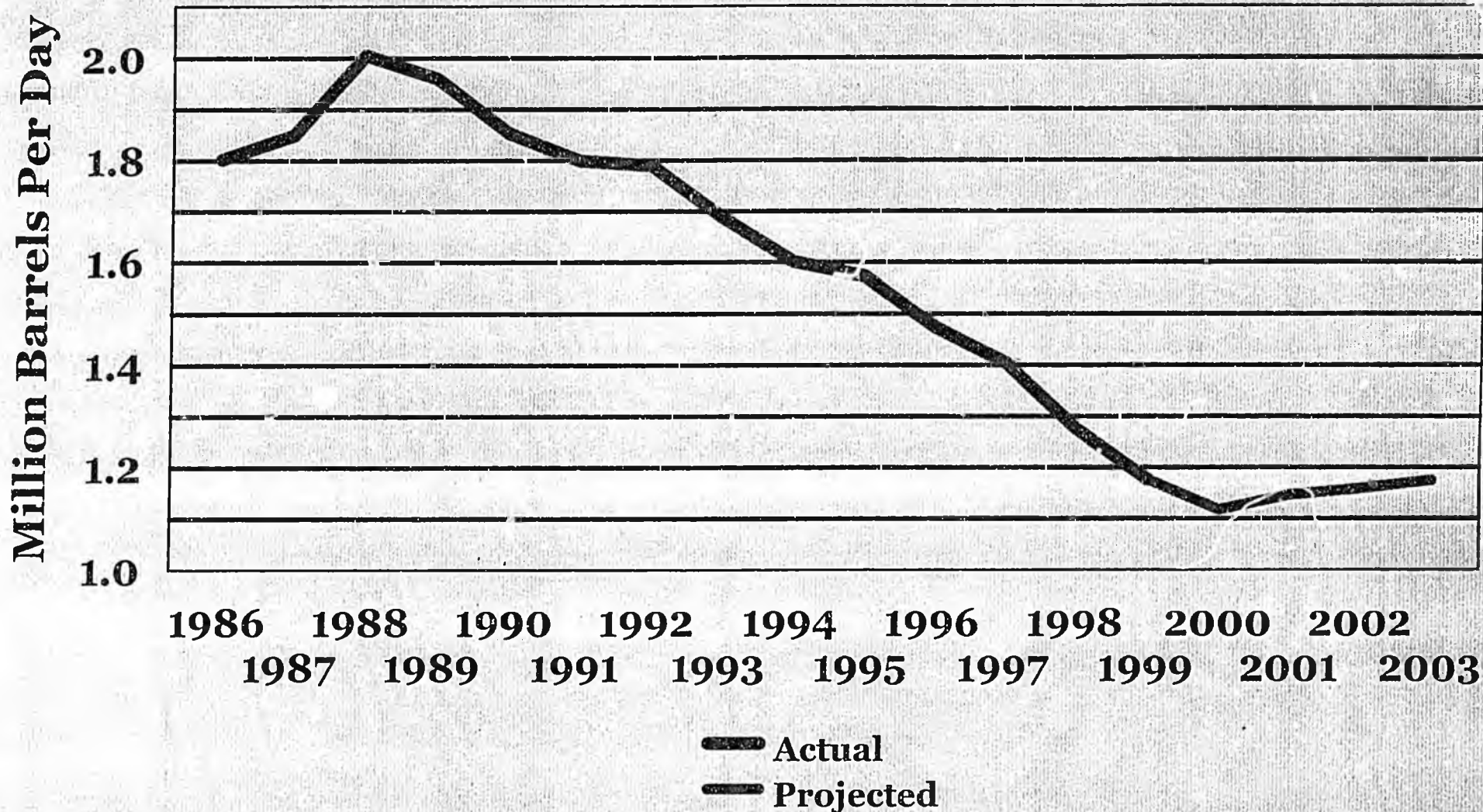
Oil Revenue as a Percentage of Total General Fund Revenue

■ Non-Oil Revenue
□ Oil Revenue



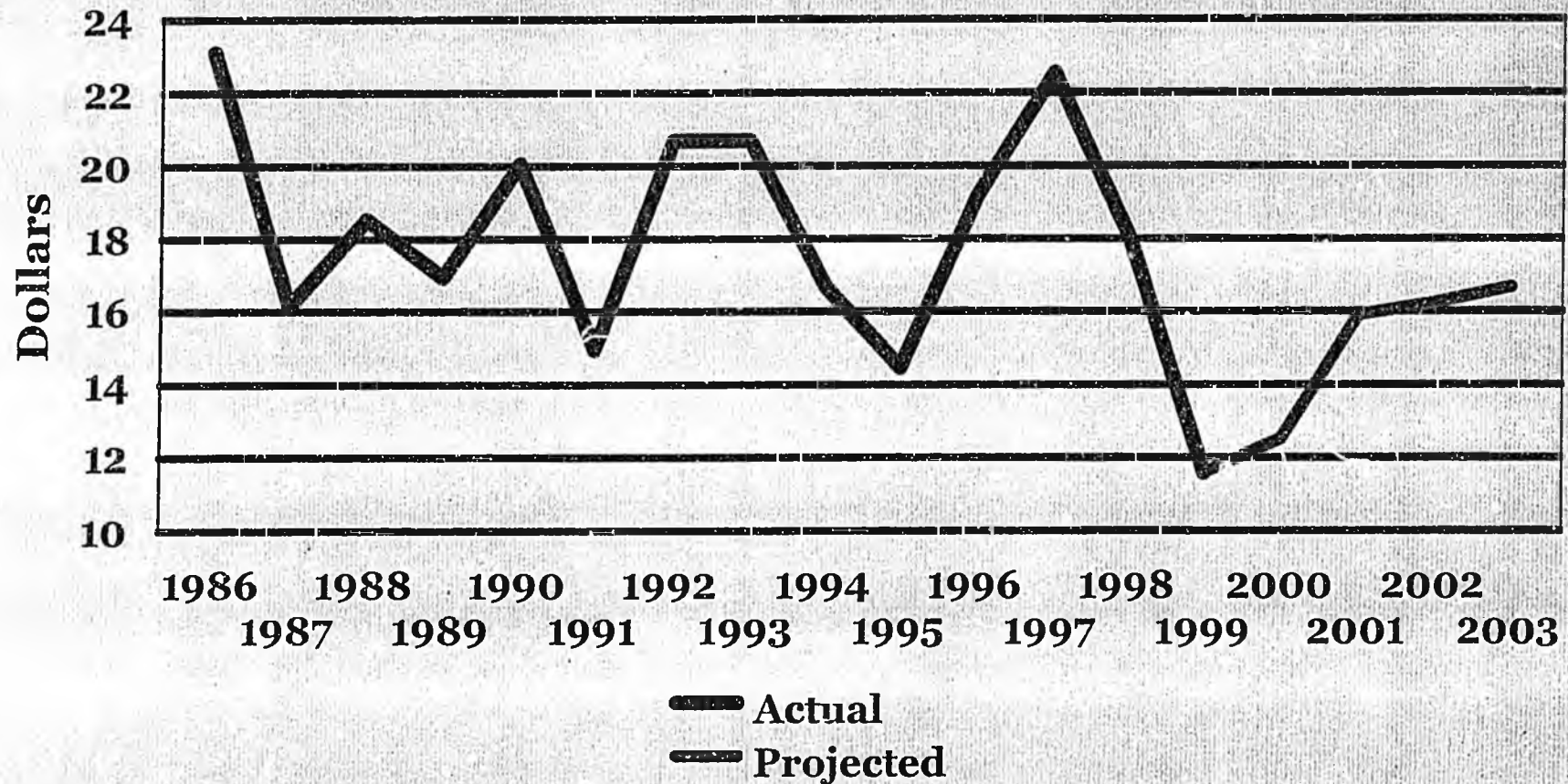
Alaska's Public Finances

Alaska North Slope Production Volume



Alaska's Public Finances

Alaska North Slope Destination Price (\$ per barrel)



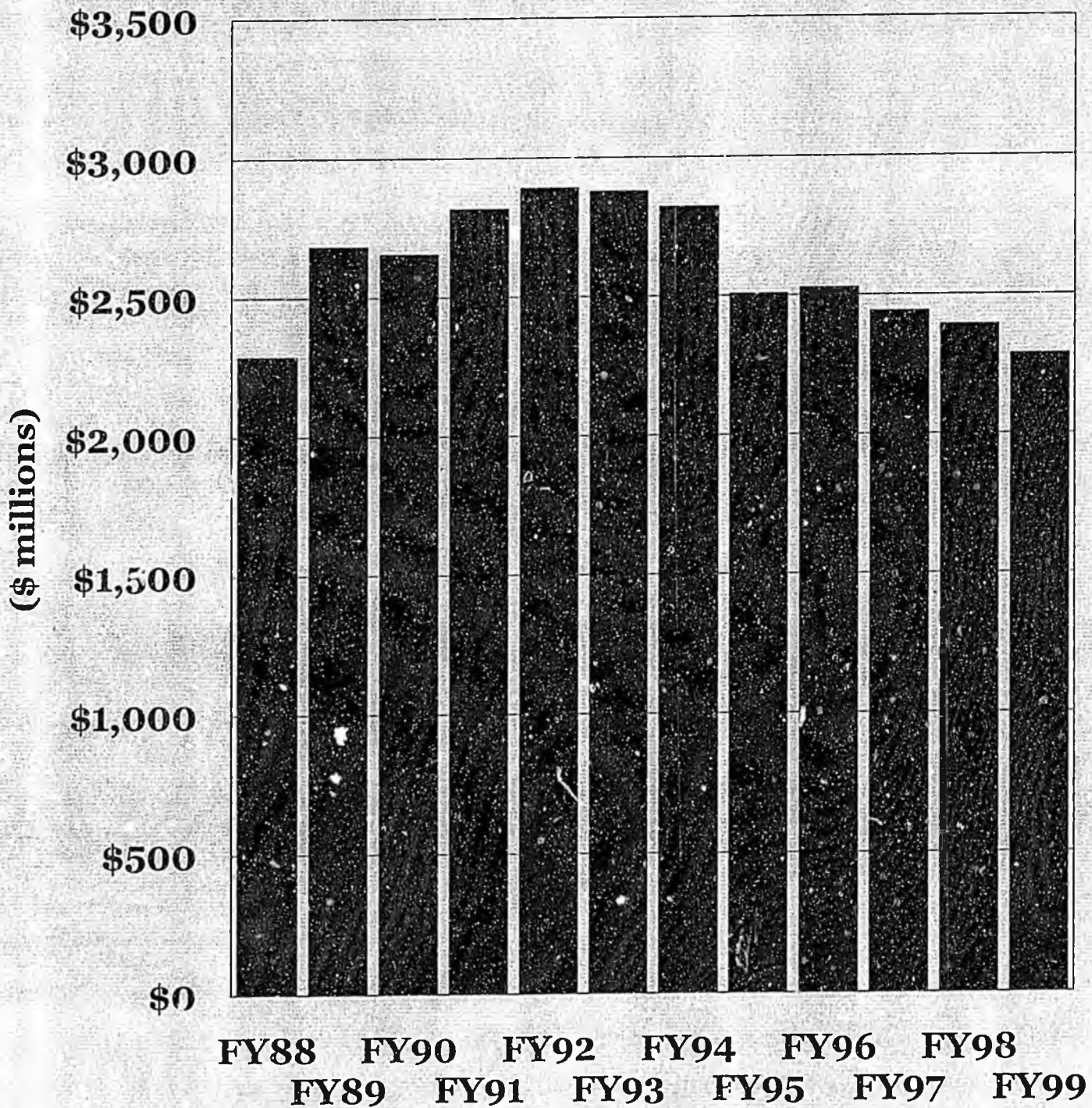
Alaska's Public Finances General Fund Revenue

Oil Revenue	1998	1999
Property Tax	\$51.2	\$49.2
Corporate Income Tax	200.1	120.0
Severance Tax	577.8	337.4
Royalties	480.4	295.5
Bonuses and Rentals	23.0	33.7
Total Oil Revenue	\$1,332.6	\$835.8
Non-Oil Revenue	1998	1999
Sales/Use Taxes	\$98.9	\$93.1
Corporate Income Tax	53.4	55.0
Natural Resources Tax	43.8	45.9
Estate Tax	5.5	1.7
Charitable Gaming Tax	2.1	1.9
Non-Tax Revenue	290.9	261.6
Total Non-Oil	\$494.5	\$459.2
Total GF Revenue	\$1,827.1	\$1,295.0

Alaska's Public Finances

General Fund Budgets

(\$ millions)



Alaska's Public Finances

CBRF Settlement Contributions (\$ millions)

Production Tax	\$2,105
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Corporate Income Tax (AS 43.20)	1,162
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Corporate Income Tax (AS 43.21)	843
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Royalties	820
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Property Tax	1
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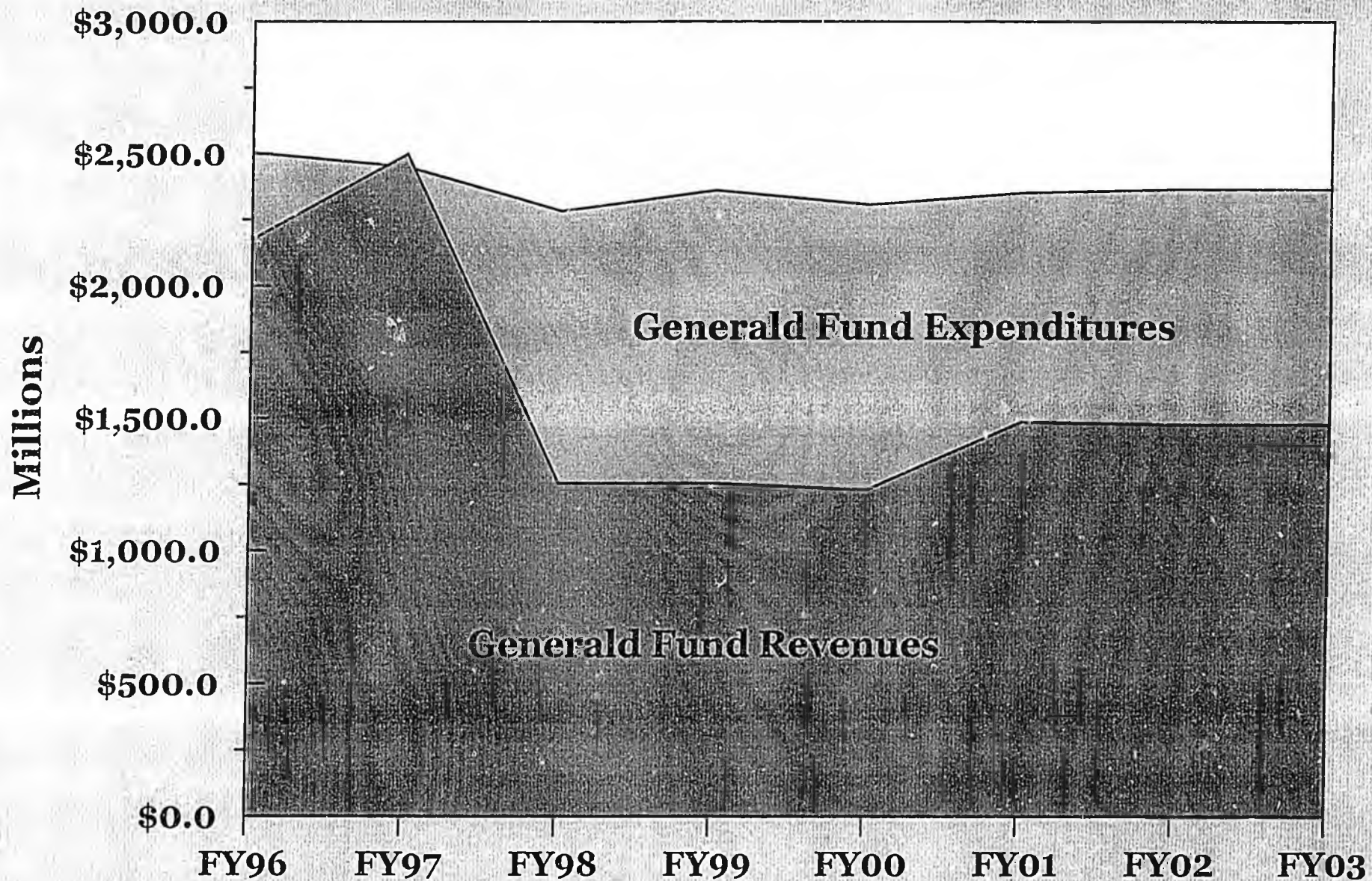
Total:	\$4,931
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Alaska's Public Finances
Constitutional Budget Reserve Fund
Opiate of the '90s
(\$ millions)

	Settlement Contributions	Investment Income	Net Loans to General Fund	Balance Available to Loan GF at Year-End
FY91	\$291	\$6	-----	\$297
FY92	247	19	-----	563
FY93	914	57	<849>	685
FY94	437	61	<569>	614
FY95	1,543	122	<285>	1,994
FY96	586	111	<173>	2,518
FY97	570	167	<83>	3,172
FY98	343	369	<325>	3,559
FY99 (Proj)	106	220	<1,104>	2,780
FY00 (Proj)	106	130	<1,080>	1,940
FY01 (Proj)	106	38	<865>	1,269
FY02 (Proj)	106	50	<888>	536
FY03 (Proj)	106	8	<899>	<248>
Total:	\$5,461	\$1,408	<\$7,120 >	-----

Alaska's Public Finances

Alaska's Budget Gap



Alaska's Public Finances

Constitutional Budget Reserve Exhausted Month/Year

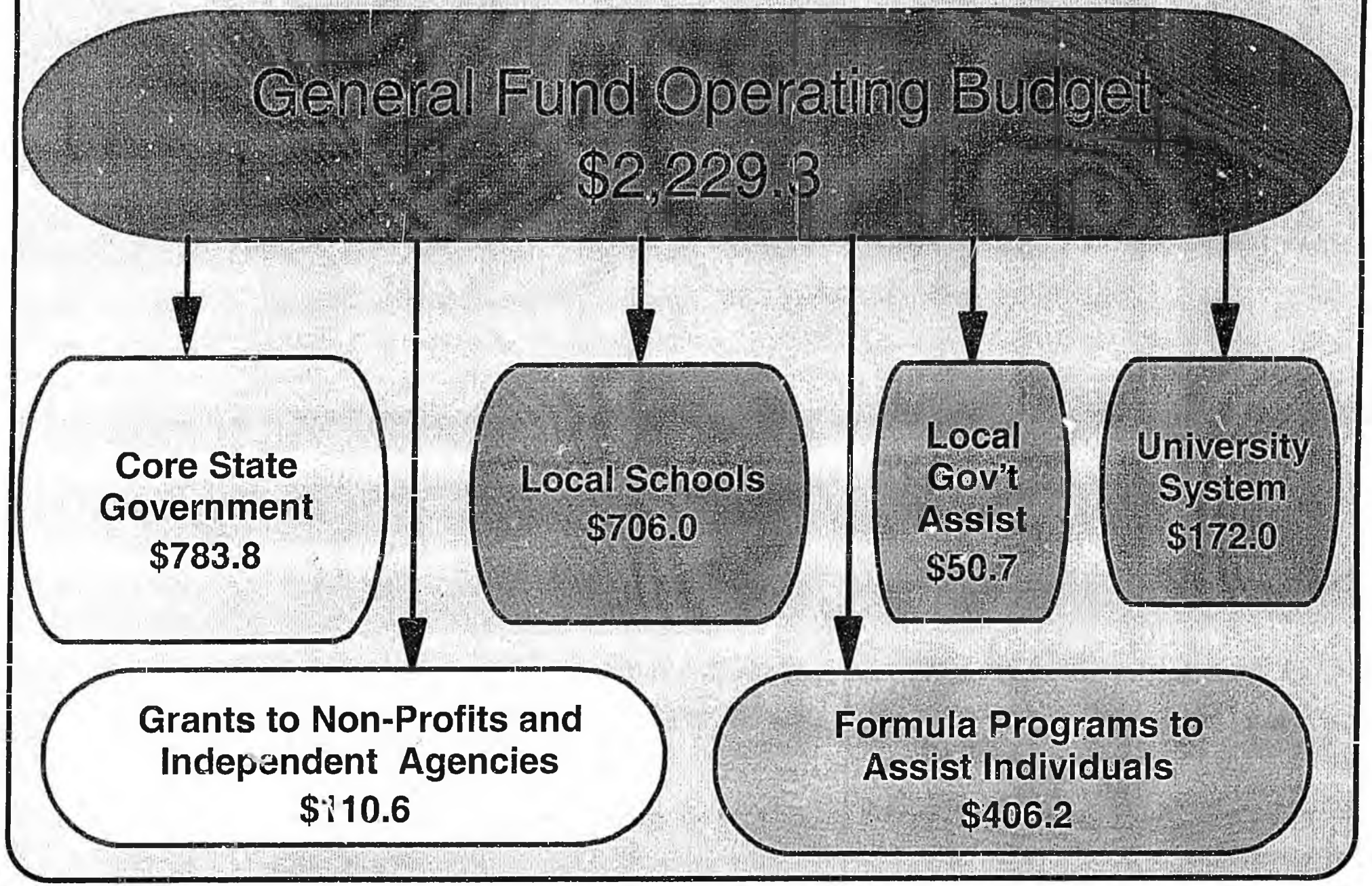
Operating Budget Annual Change	Average ANS Destination Price \$/barrel							
	\$10.50	\$11.50	\$12.50	\$13.50	\$14.50	Forecas †	\$15.50	\$16.50
+2.0%	Dec-01	Feb-02	Apr-02	Jul-02	Oct-02	Sep-02	Jan-03	Jun-03
+1.5%	Dec-01	Feb-02	May-02	Aug-02	Nov-02	Oct-02	Mar-03	Jul-03
+1.0%	Jan-02	Mar-02	Jun-02	Sep-02	Dec-02	Nov-02	Apr-03	Aug-03
+0.5%	Jan-02	Apr-02	Jun-02	Sep-02	Jan-03	Jan-03	May-03	Oct-03
0.0%	Feb-02	Apr-02	Jul-02	Oct-02	Feb-03	Feb-03	Jun-03	Nov-03
-0.5%	Feb-02	May-02	Aug-02	Nov-02	Mar-03	Mar-03	Aug-03	Jan-04
-1.0%	Mar-02	May-02	Sep-02	Dec-02	Apr-03	Apr-03	Sep-03	Mar-04
Maj. Plan	Apr-02	Jun-02	Oct-02	Jan-03	May-03	Jun-03	Nov-03	May-04

Alaska's Public Finances

Principles

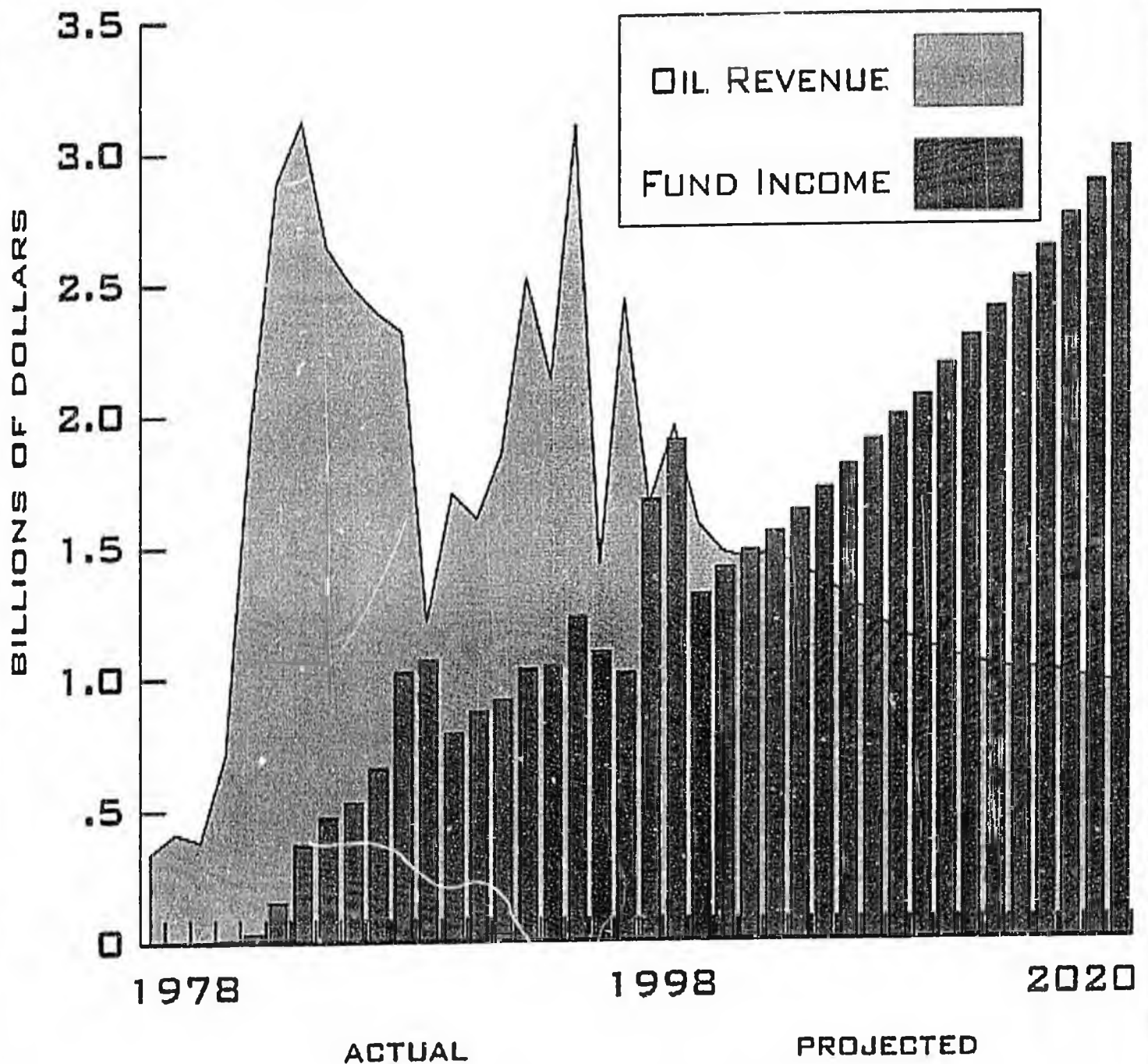
- **Balance the budget on a sustainable basis.**
- **Budget reductions must be responsible.**
- **Maintain a healthy Permanent Fund dividend.**
- **Grow the state's savings accounts.**
- **Any new tax should be fair and broad-based.**
- **No change to the Permanent Fund or the dividend program without a vote of the people.**

Alaska's Public Finances
FY 1999 General Fund Operating Budget
(\$ millions)



Alaska's Public Finances

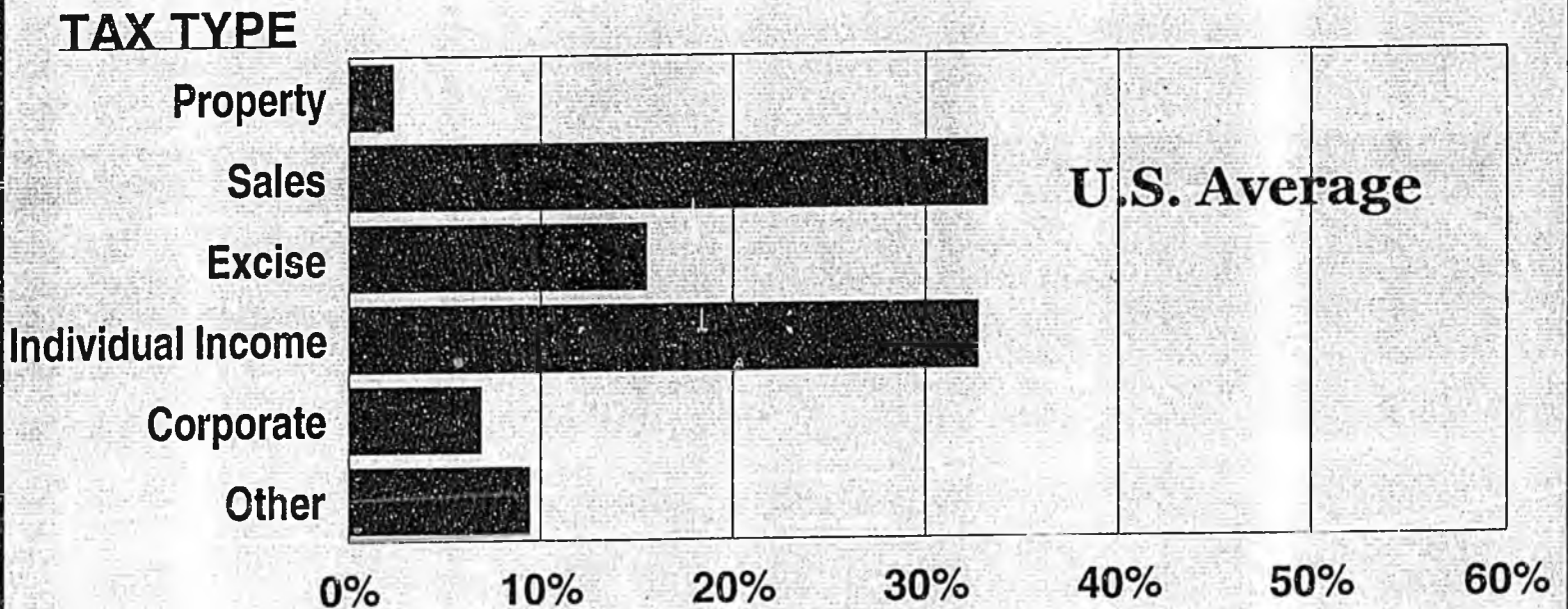
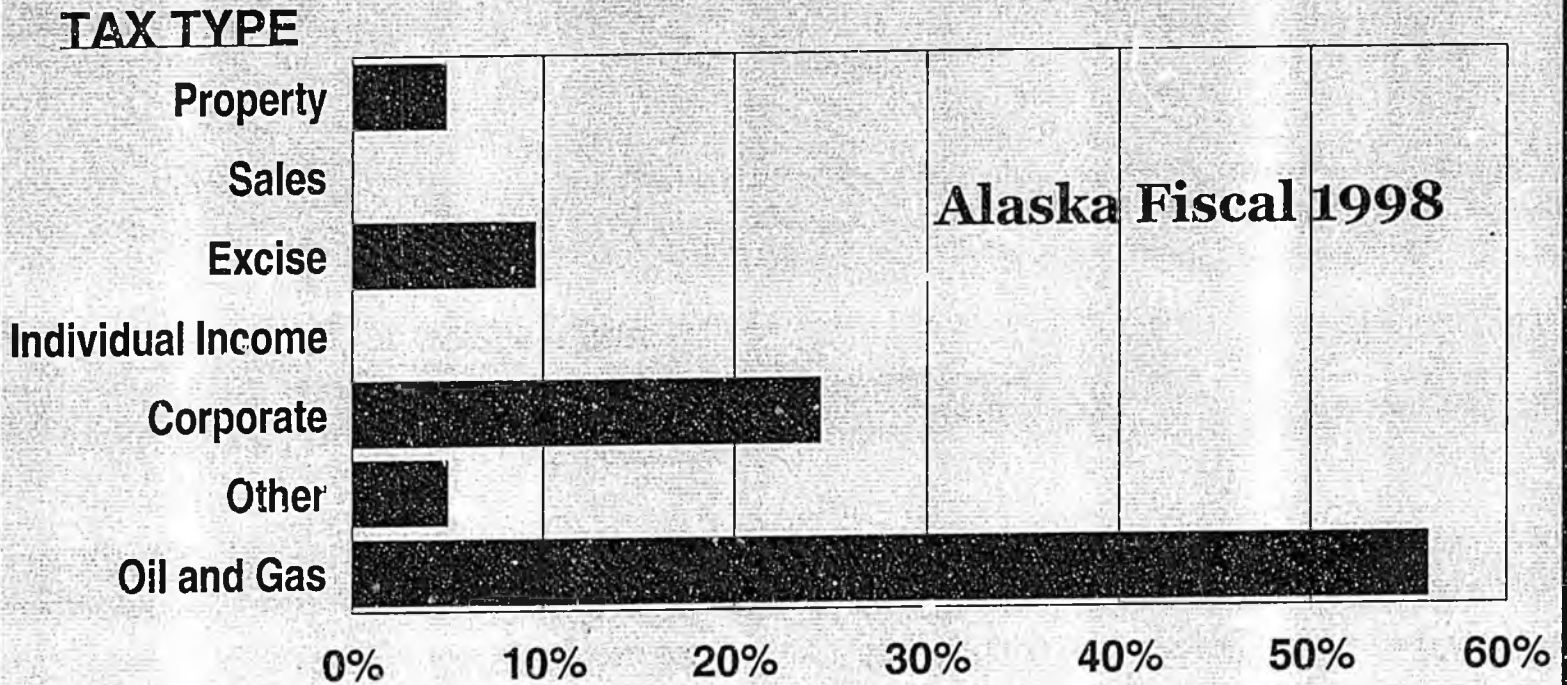
What About the Permanent Fund? Oil Revenue vs. Permanent Fund Income



*figures are not adjusted for inflation

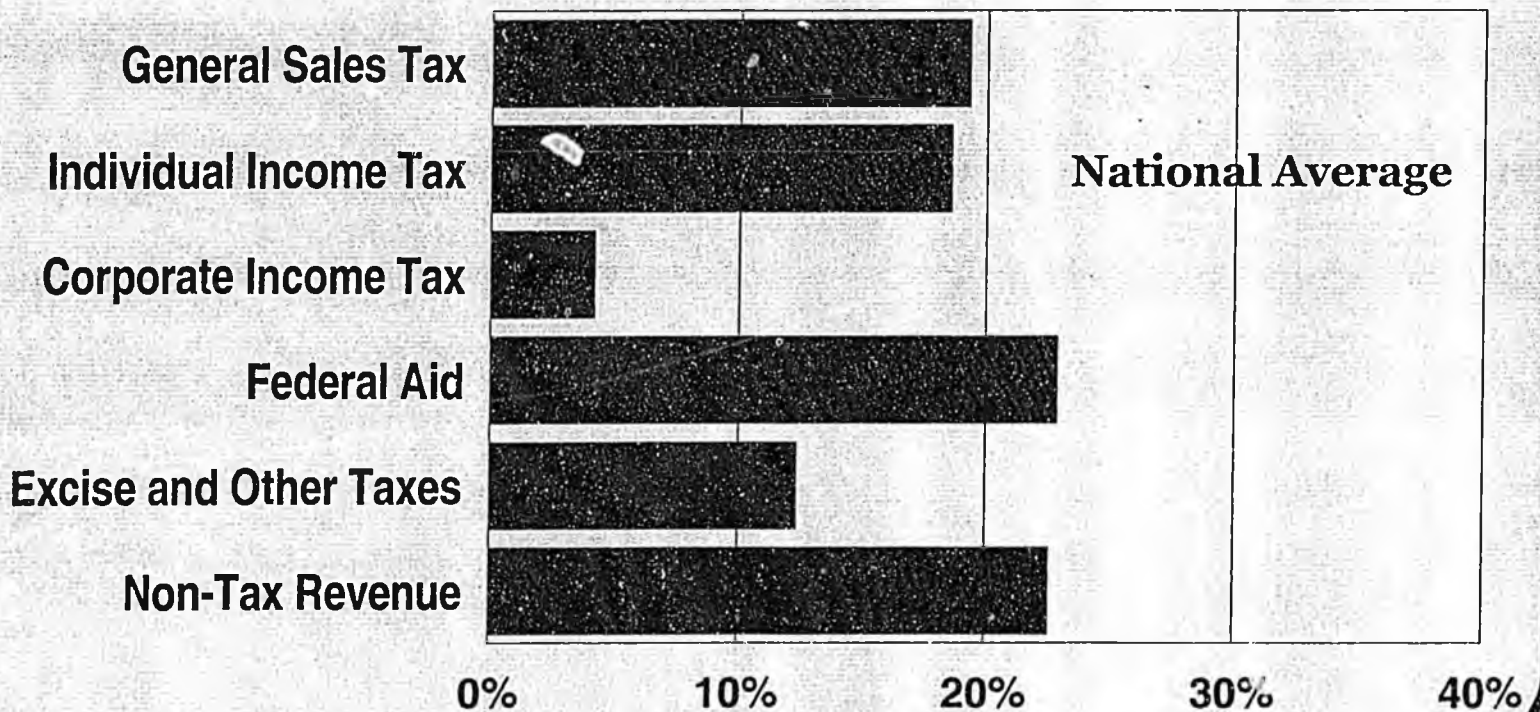
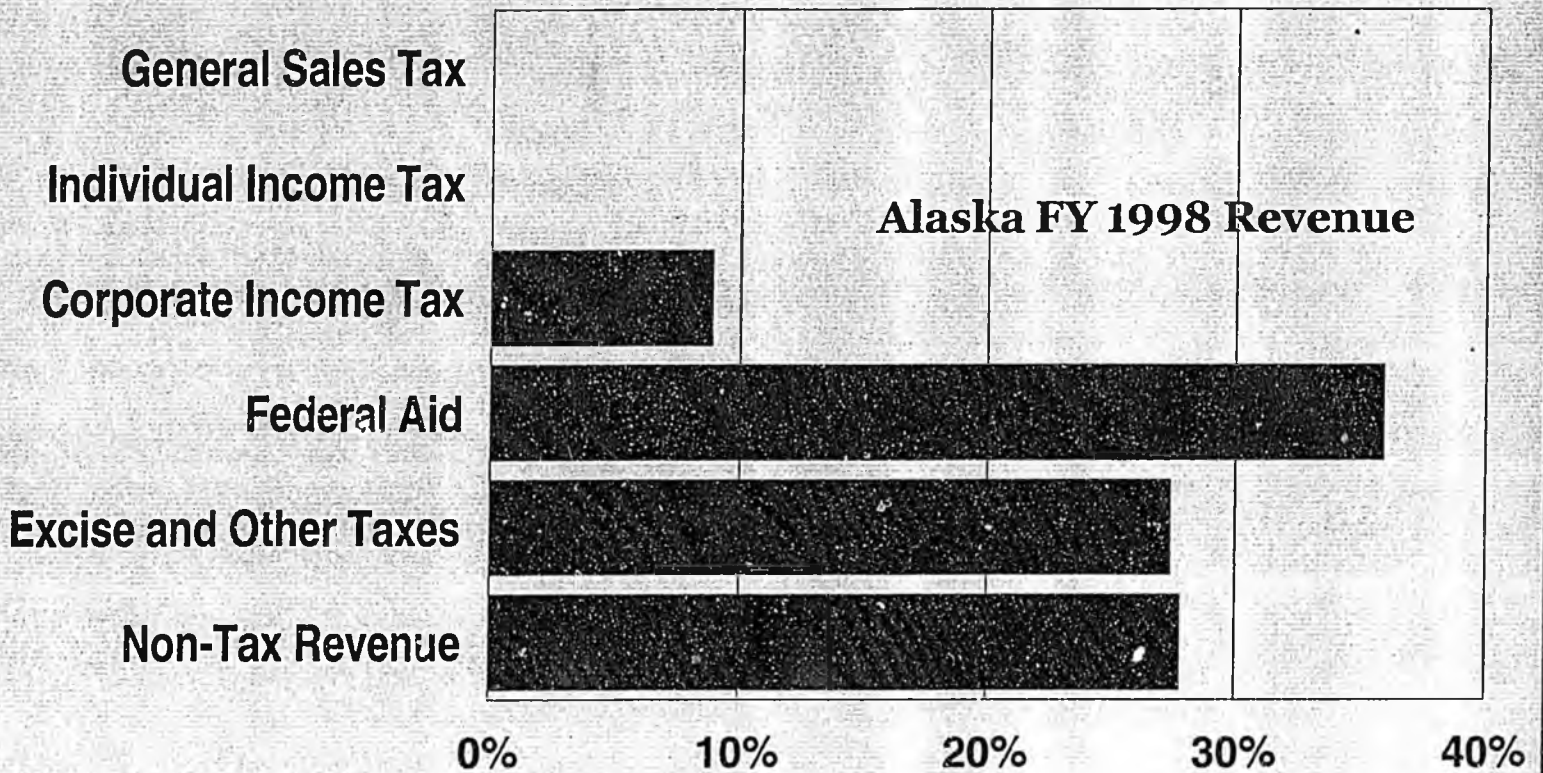
Alaska's Public Finances

Tax Revenues Comparison with Other States



Alaska's Public Finances

Total Revenue Comparison with Other States



Alaska's Public Finances

Sales and Personal Income Taxes

▶ **States with no state sales tax:**

1. **Alaska**
2. **Delaware**
3. **Montana**
4. **New Hampshire**
5. **Oregon**

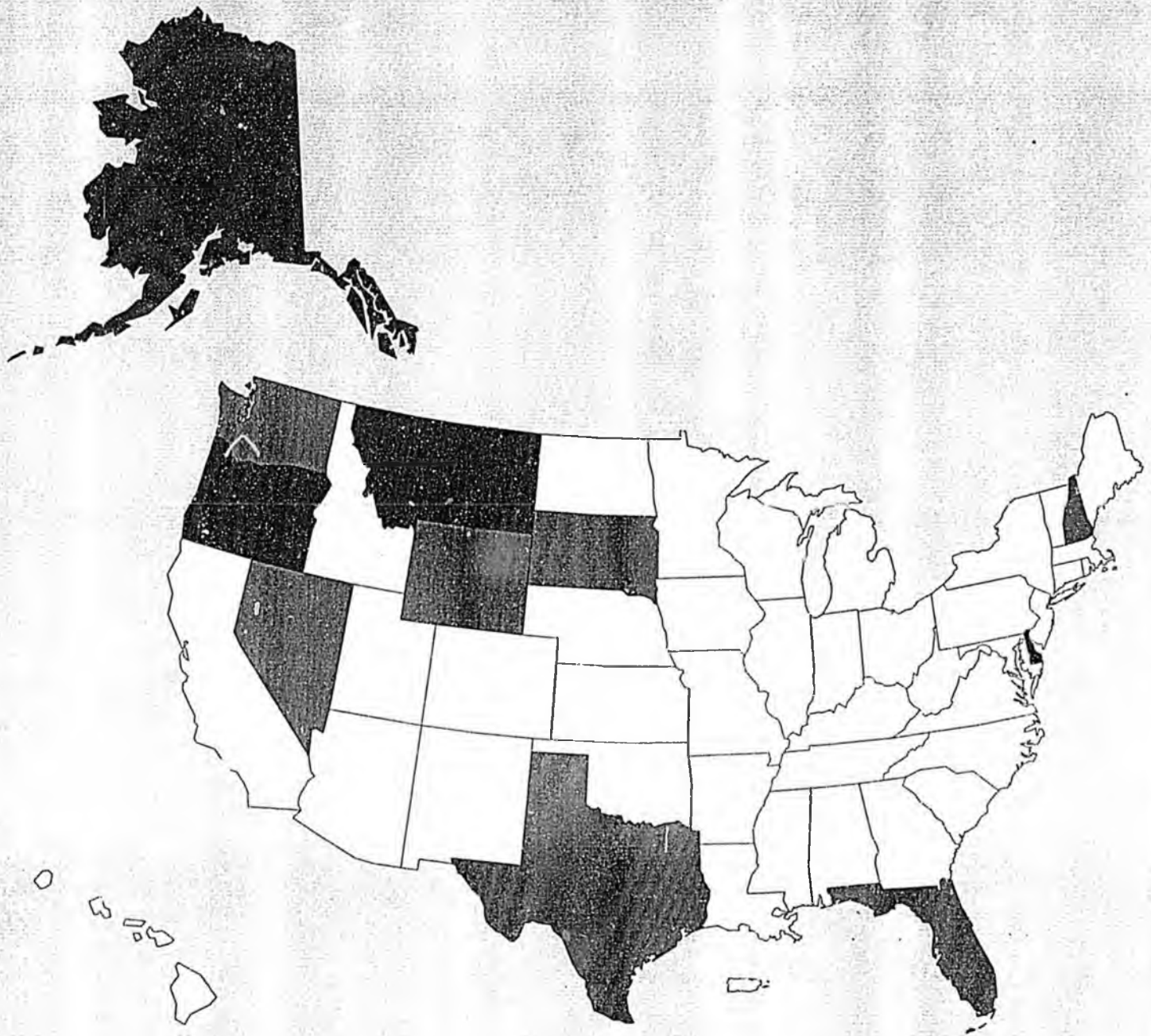
▶ **States with no individual income tax:**




1. **Alaska**
2. **Florida**
3. **Nevada**
4. **South Dakota**
5. **Texas**
6. **Washington**
7. **Wyoming**

▶ **Alaska is the only state with neither tax.**

Alaska's Public Finances

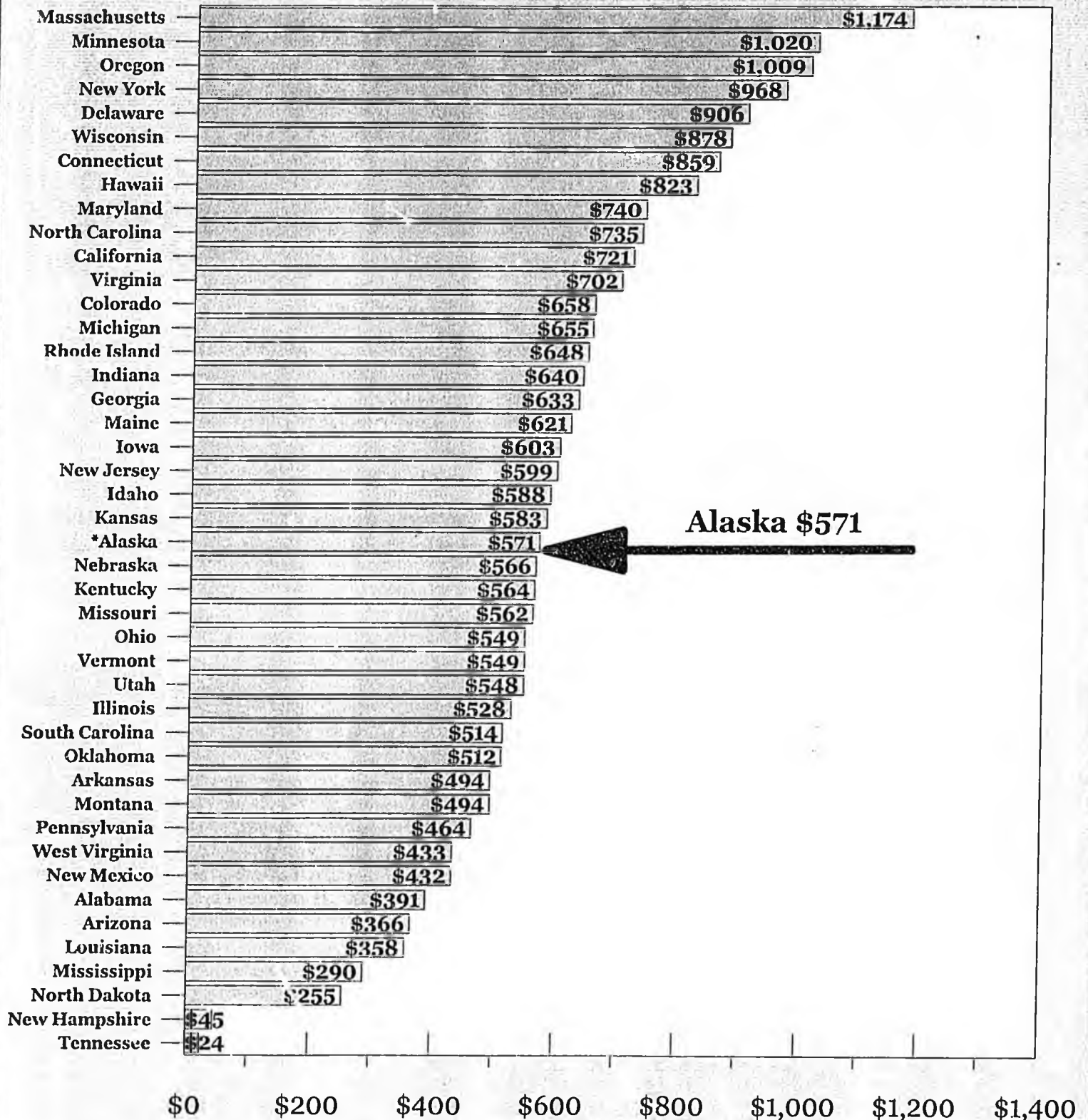
States with No Sales or Personal Income Tax



-  States with no personal income tax
-  States with no sales tax
-  States with no personal income tax and no sales tax

Alaska's Public Finances

Per Capita Comparison of Individual Income Tax Collections (\$ millions)



*Based on FY 2000 projections in Governor's income tax bill.

BILL ANALYSIS

The bill is designed to implement a state income tax on individuals, trusts, and estates, using a simplified format keyed to the income tax liability reported on the federal income tax return. A family unit, such as parents and children, will file one return combining all tax that may be shown on any federal returns filed by the children. The tax is imposed at the rate of 31% of the federal tax. The federal tax is the tax after federal credits but before other taxes (currently line 49 on the 1998 1040 form) such as the alternative minimum tax.

A tax credit of 33% of the permanent fund dividend is allowed for each family member claimed as a dependent who receives a dividend in the tax year. The design is to make the benefit of the tax credit go as far as possible within the family unit. In addition, a 10.2% tax credit is allowed on the amount of longevity bonus payments received in the tax year. This effectively removes the bonus payments from the federal tax and, correspondingly, the Alaska tax. The 10.2% is determined by multiplying a 31% state tax rate by an assumed 33% effective federal tax rate. Unlike the PFD credit, the longevity bonus credit is not designed to hold the recipient harmless from the effect of the federal income tax.

A 10.2% credit is also allowed for the amount of interest received on obligations of the United States. This credit only applies if the state is precluded by federal law from applying a state tax based upon a percentage of the federal tax, a portion of which is attributable to this type of interest.

Residents will compute the Alaska tax based upon 100% of the federal tax. However, residents are allowed a credit for taxes paid to other states. Nonresidents are taxed on the percentage of the total tax attributable to Alaska income. The methodology used to compute the Alaska tax for nonresidents is the percentage of the total tax that Alaska income bears to total income.

Withholding is required on wage income. Withholding is also required in the typical crew share arrangement in the fishing industry.

A tax on individuals requires that trusts and estates also be subject to the income tax. This is necessary for fairness and to avoid creating a potentially large tax loophole. The scheme for taxation of these entities essentially follows that for resident and nonresident individuals. An Alaska trust and estate is taxed by reference to the federal tax, with a credit allowed for taxes paid to other states, and all other trusts and estates are taxed only on a percentage of the total tax attributable to Alaska income. On balance, the tax scheme is inherently simple. A taxpayer can easily determine the tax without having to pay a

CPA or attorney to prepare the return. This simplicity also means that it will be easier and less costly for the state to administer than other tax schemes.

A section by section analysis of the bill follows:

SECTION 1 – FINDINGS AND PURPOSE

This section states the income tax is intended to be a revenue raising measure.

SECTION 2 – TAXPAYER REQUIREMENTS IN CONSTITUTIONAL DISPUTES

This section adds a new subsection to the taxpayer appeals provision. The bill provides that a taxpayer that intends to contest a tax on constitutional or preemption grounds must file a notice of protest with the return and pay the amount of the contested tax. A failure to file the notice with the return precludes a refund if the tax is subsequently determined to be unconstitutional. The notice begins the informal conference administrative appeal process but this procedure is terminated if the taxpayer subsequently files an action in superior court as provided by law. The provision is intended to provide early notice of, and expedited action on, constitutional claims, and to reduce the state exposure to refund claims.

SECTIONS 3 and 4 – REFUND CLAIMS IN CONSTITUTIONAL DISPUTES

In conformity with Section 1 that requires a notice of protest with the return as a refund condition, these sections amend the statutory refund provision to remove constitutional and preemption claims from the standard two and three year filing period. The notice of protest filed with the return is considered to be a timely refund claim. The sections further provide that a taxpayer may file an action with the superior court within 60 days of the notice of protest and avoid the administrative appeal process in an appropriate case.

SECTION 5 – IMPOSITION OF TAX

This section imposes the income tax on resident individuals, nonresident and part-year resident individuals, and estates and trusts with income from sources in the state. The tax rate is 31% of the federal income tax after federal credits and before other federal taxes.

Nonresident and part-year resident individuals first compute the tax as a resident would do by applying the 31% tax rate to the entire federal tax liability. The Alaska tax liability is then determined by multiplying that result by the percentage that Alaska source income bears to all income.

SECTION 6 – RETURNS REQUIRED

This section amends the current law that applies only to corporations to provide that individuals, trusts, estates, and partnerships are also required to file income tax returns within 30 days after the federal return is required to be filed. Partnership returns will be in the nature of information returns.

SECTION 7 – AMENDED RETURNS REQUIRED FOR IRS ADJUSTMENTS

This section provides that the department may require a copy of the federal return be filed with the state return. The department currently does not intend to require the filing of a copy of the federal return with resident individual returns.

This section also amends current law to provide an objective bright line rule for how to comply at the state level with adjustments to the federal income tax returns. An amended state return is required to be filed within 60 days after a federal amended return is filed, the date upon which a federal assessment is made, or the date upon which the taxpayer waives the restrictions on assessment. This is a generally a codification of a long-standing department interpretation of present law.

SECTION 8 – CONSOLIDATED RETURNS BY FAMILY UNITS

This section provides that a family unit shall file one consolidated income tax return. The family unit is defined as all resident individuals for whom a personal exemption is claimed. For example, parents may file a joint federal return and their children may file separate federal returns. For Alaska tax purposes the federal tax shown on those filings would be combined on one state return for purposes of determining the Alaska tax.

The consolidated return requirement is achieved by aggregating all the federal tax shown on all federal returns filed by individuals in the family unit. All available state credits are then aggregated as well and applied against the state tax.

SECTION 9 – DEDUCTION FOR TAXES BASED ON NET INCOME

This section is a housekeeping amendment to make clear that only corporations are not allowed to deduct any taxes based on or measured by net income. Under the simplified individual, trust and estate income tax scheme provided in the bill, taxes of this nature are characteristically deducted in arriving at the federal tax liability. This is not envisioned to be a specific modification requiring a recomputation of the federal tax pursuant to the bill.

SECTION 10 – INCOME FROM SOURCES IN THE STATE DEFINED

For purposes of better clarity, this section repeals and reenacts the provision that allocates by source the income of individuals, estates, and trusts. In addition, the section provides that all the income of a trust established under Alaska law and of an estate of an Alaska

decedent is from an Alaska source. Income from other trusts and estates is considered to be from an Alaska source only to the extent it arises from a taxable or business situs in Alaska. The income distributed from an Alaska trust to a beneficiary for which the trust receives an income distribution deduction is considered to be Alaska source income to the beneficiary.

SECTION 11 - STATE CREDITS ALLOWED AGAINST THE TAX

This section contains the entire universe of state specific credits that are available to individuals, estates, and trusts under the income tax scheme. Except for the federal credits incorporated into state law by basing the Alaska tax on the federal tax liability after credits, no other state specific credits outside AS 43.20.046 are allowed and the credits are limited to the amount of tax liability for the taxable year in which the credits are generated with no carryback or carryforward to any other tax year.

A resident, and a trust established under state law and an estate of an Alaska decedent, is allowed a credit on taxes paid to another state or territory on income derived in that other jurisdiction. Since the tax on these persons is based on all their income, the credit prevents income from being taxed twice. The credit amount is the percentage of the computed Alaska tax that the income derived in the other jurisdiction bears to all income, and it may not exceed the actual tax paid to the other state or territory.

A credit of 33% of the amount of a permanent fund dividend is allowed for each exemption claimed on the federal return. The 33% credit amount is a rough approximation of the federal tax payable to the IRS on the dividend and the additional state tax resulting from piggybacking the state tax upon the federal tax. Each person for whom the exemption is claimed must receive the dividend in that tax year in order for the credit to apply to that exemption. This provision matches the credit with the family unit. For example, a dependent may file a separate federal return. However, the exemption for this individual is taken on the federal return of the person who supports the dependent rather than on the dependent's return. The credit provided in this section is taken on the consolidated return of the family unit. This allows for ease of administration and also provides a greater benefit to the family unit since the dependent likely is not in a 33% federal tax bracket.

10.2% of the amount of longevity bonus payments are allowed as a credit against the Alaska tax. The purpose of this credit is to remove from the federal tax the portion attributable to the inclusion of longevity bonus payments. A 33% federal marginal tax rate is used for this purpose. Multiplying the amount of the longevity bonus payments received by 33% equals the federal tax and then multiplying that amount by the Alaska tax rate of 31% is the amount of the Alaska tax that would otherwise be imposed on the

longevity bonus payments. The 10.2% credit is thus the result of multiplying 33% by 31%.

A similar credit is provided for the amount of interest received on obligations of the United States, but only to the extent required by federal law. Federal law precludes a state from taxing this income but it is unclear whether that prohibition applies to a situation where the Alaska tax is based upon a percentage of the federal tax. This credit will be unavailable if Alaska is not required by federal law to provide a credit of this nature.

SECTION 12 - ADMINISTRATION

This section is a housekeeping amendment to delete archaic and outdated provisions.

SECTION 13 - WITHHOLDING OF TAX ON WAGES

This section requires that employers withhold the state income tax from wages paid to employees at a rate of withholding set by the department, and then to report and remit the tax. For purposes of withholding, a person who pays compensation to another in the form of a share of the income from a commercial fishing activity must withhold the state income tax from the payment. These "crew share" arrangements are generally not subject to federal withholding but are necessary at the state level because many of the recipients are nonresidents. Withholding avoids some of the problems that otherwise would arise in trying to collect the tax from persons outside the state.

SECTION 14 - HOUSEKEEPING

This section merely makes a housekeeping amendment consistent with the amended return requirement provided in *SECTION 7* of the bill.

SECTION 15 - DEFINITIONS

This section defines the terms "domicile", "individual", "nonresident", and "resident". For tax purposes, a resident is not defined as a resident under the Alaska permanent fund dividend program. An individual may be a resident for income tax purposes and not qualify for a permanent fund dividend.

SECTION 16 - SECTIONS REPEALED

This section repeals AS 43.20.012, which excludes individuals, trusts, and estates from income tax, AS 43.20.013, which is a suspended refundable credit provision, AS 43.20.200(a), which deals with the review of returns that is covered in AS 43.05, and AS 43.20.300, which has been outdated since 1975 when provisions of the Internal Revenue Code were incorporated through AS 43.20.021.

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SECTION 17 - REGULATION TRANSITION

This section allows the department to adopt regulations in 1999 to take effect on or after the bill effective date.

SECTION 18 - PROVISIONS ARE SEVERABLE

This section provides that a provision held invalid is severable from the remaining unaffected provisions.

SECTION 19 - IMMEDIATE EFFECTIVE DATE FOR REGULATIONS

Provides that *SECTION 17*, which allows the department to adopt regulations in 1999, has an immediate effective date.

SECTION 20 - BILL EFFECTIVE DATE

Establishes a January 1, 2000 effective date for the income tax on individuals, estates,

OPERATING EXPENDITURES

A separate unit of the Income and Excise Audit Division will be created to administer the taxation of income of individuals, estates, and trusts.

In general, the unit would be responsible for educating taxpayers about the tax, and receiving and processing tax returns and payments. The current Income and Excise Audit Division processes approximately 30,000 returns and reports for 16 programs. These programs are small in comparison to the processing of the 370,000 tax returns and 64,000 employer quarterly reports expected each year under the new tax bill. The new unit would be more specialized with respect to high volume processing and enforcement. There are two systems necessary to implement the taxation of individuals, estates, and trusts:

- ✓ individual, estate, and trust system
- ✓ employer withholding system

Staffing

The Individual Income Tax unit would include the following sections:

- Taxpayer Service
- Data Entry
- Accounting & Cash Management
- Compliance
- Appeals
- Programming

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We would staff the unit with 41 permanent positions and 46 temporary positions. We would utilize the temporary positions for data entry, mail handling, and taxpayer service. Temporary personnel would work five months a year in data entry, or three months in mail handling and taxpayer service. We have planned two shifts a day to maximize client (taxpayer) service and to minimize equipment costs.

We calculated the staffing costs included in this fiscal note by patterning the new unit after the existing structure of the Income and Excise Audit Division with the addition of a Taxpayer Service Section and the augmentation of the Collection Section. We adjusted staffing for differences in the number of documents processed. We planned staffing utilizing the lowest staff grades possible.

We have checked the proposed staffing level for reasonableness by comparison to the states of Montana and North Dakota. We selected these states for comparability in population base and complexity of the income tax. We compared staffing requirements to the Permanent Fund Dividend Division for reasonableness and for the contingency that we would combine mail room and data entry operations to gain economies of scale.

We have planned staffing based on the first dates that particular staff is needed. For example, collection staffing would not be funded until FY 02, audit staffing funded in FY 01. One appeals position would be funded in FY 00 to draft regulations, policies, and procedures. The second appeals position would be funded in FY 02, as appealed cases increase.

CAPITAL EXPENDITURES

Start-up costs are difficult to quantify because the last state to build a new system was Connecticut in 1991. At the time, the best available technology was main-frame technology; their start-up costs were \$7.6 million in the first year of implementation of the tax. We would not choose a main-frame system because of its lack of flexibility. Most states are moving toward client-server technology. Wyoming has more recently studied (but not ultimately imposed) a personal income tax. Their start-up costs were estimated at \$3.8 million, based on a client-server environment. This included imaging equipment (to store the document), but did not include Optical Character Recognition software, which would take the place of data-entry. These estimates were rough and were not detailed.

We estimate that the costs will be approximately \$5.4 million spread out over the first three years of implementation. The Administrative Services Division based this estimate on the list of tasks to be performed by the system (see attached task list). Because we had such a short time frame to analyze costs and a true needs analysis was not performed,

most experts would recommend a contingency allowance of 100-300 percent. These estimates do not include such a contingency allowance recognizing that budgets are reviewed and can be corrected on an annual basis. The estimated cost is significantly affected by the short time-frame for implementation. Projects of this magnitude, of such a critical nature, normally are designed, implemented, tested, and brought on-line in 18 months.

REVENUE

The attached analysis details the revenue increase due to the imposition of the Alaska Credit Individual Income tax. We used 1996 Internal Revenue Service data, plus the federal tax based upon a 10% increase in Alaska Gross Income to account for non-residents. In FY 00, we are estimating that the Alaska Credit Income Tax will result in 175 million dollars of revenue. This is half of the total annual revenue estimate of 350 million dollars. Actual revenue might be larger or smaller depending on the timing of withholding, refunds and estimated payments. For FY 01-05, we are estimating an annual revenue of 350 million dollars. Clearly, this does not account for inflation, growth of real income, population increases or labor market effects. We did not include any of these factors to try and minimize the amount of uncertainty in our revenue model. Additionally, any labor-supply effects will probably be counter balanced by income and population growth. Economists differ on the size of labor-supply effects but in a survey of the literature done by Heckman (1993), he found that elasticities are closer to zero than one. That is, the labor supply is not very responsive to changes in wages and income.

System Tasks

The computer hardware and software (the system) are necessary to process income tax returns, employer reports, and payments. We will use the system for the following tasks:

- credit withholding payments to employer payors and individual taxpayer accounts
- record employer quarterly reports including individual taxpayers to which the reports relate (names social security numbers, and amounts for each taxpayer.)
- credit estimated tax payments and payments received with individual income tax returns
- record individual income tax return information
- cross-match employer withholding to withholding claimed by individual taxpayers
- cross-match income tax filings with Internal Revenue Service data tapes to check validity of tax returns filed and to identify non-filers
- link to Permanent Fund Division data to establish taxpayer name, address, and social security data-base and to identify income tax non-filers who did not file a federal income tax return
- cross-match employer quarterly report filings with Department of Labor to identify non-filers
- record and cross-match Form 1099-equivalent to identify non-filers
- generate routine billings for tax, interest, and penalties due
- generate subsequent demand letters in the event of non-payment
- generate liens and levies upon determination by enforcement personnel
- link to Permanent Fund Division data for validity check on deductions or credits with respect to the Permanent Fund Dividend.
- provide access to taxpayers for electronic filing

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- link to Child Support Enforcement Division for seizure of income tax refunds for application to delinquent child support obligations

- link to Permanent Fund Dividend Division and possibly Child Support Division data to provide an opportunity for taxpayers to choose to apply available money toward their income tax

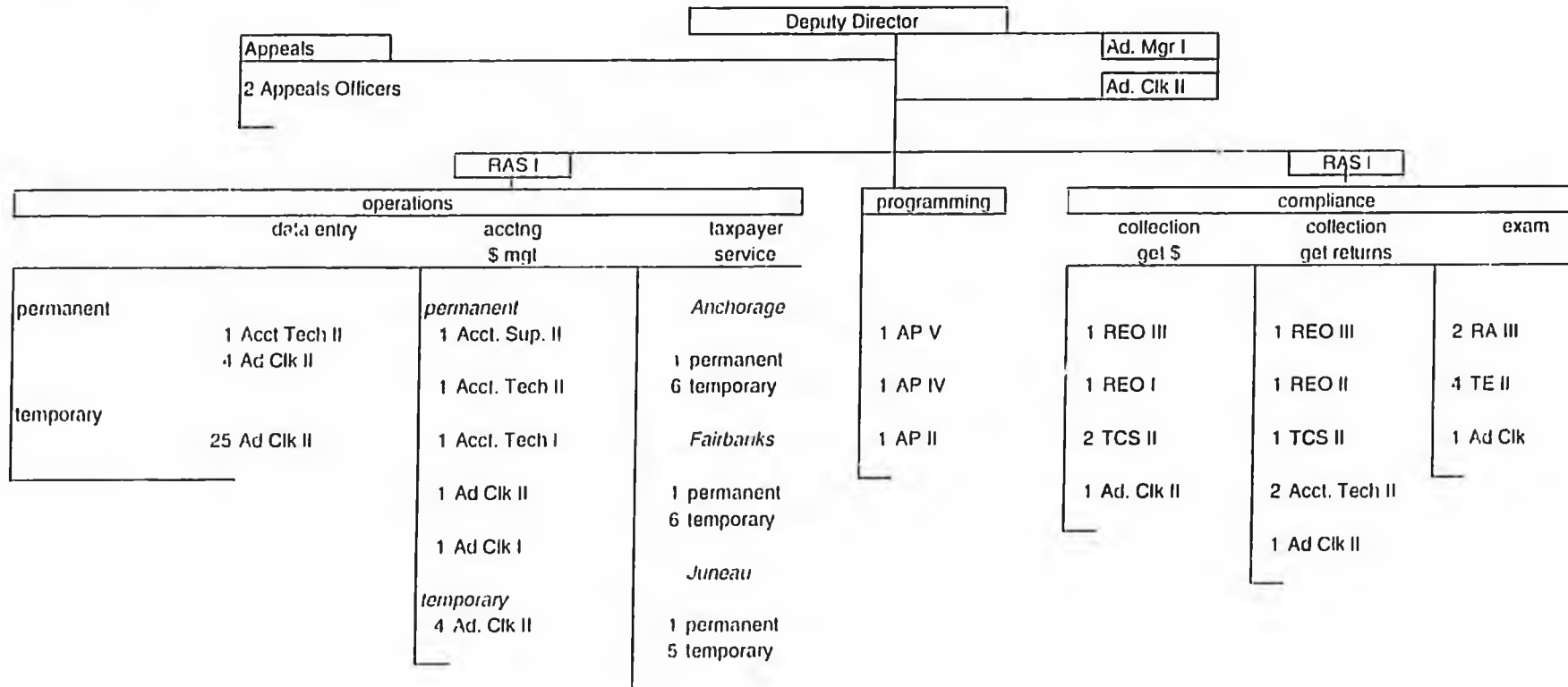
Alaska Administration Costs Using Estimated Staffing Requirements (in thousands)

By Fiscal Year

By Fiscal Year	Staffing	# Positions	Range	start date	annual costs excluding payroll**	Personal Services	Total annual costs	PERSONNEL DEPENDENT COSTS								
								FY 00		FY 01	FY 02	FY 03	FY 04	FY 05		
								equipment	operating							
Permanent Full Time																
	Deputy Director	adm	1	24	Jul-99	28.8	86.9	115.7	7.5	115.7	115.7	115.7	115.7	115.7	115.7	
	Appeals--RA IV	appeals	1	20	Aug-99	17.6	67.7	85.3	7.5	78.2	85.3	85.3	85.3	85.3	85.3	
	Appeals--RA IV	appeals	1	20	Aug-01	17.5	67.7	85.2	7.5		78.1	85.2	85.2	85.2	85.2	
	RAS I	operations	1	22	Aug-99	17.6	76.6	94.2	7.5	86.4	94.2	94.2	94.2	94.2	94.2	
	RAS I	exam	1	22	Jul-01	17.5	76.6	94.1	7.5		94.1	94.1	94.1	94.1	94.1	
	RA III	exam	2	18	Jul-01	43.6	118.6	162.2	15.0		162.2	162.2	162.2	162.2	162.2	
	TE II	exam	2	12	Apr-00	27.6	82.4	110.0	15.0	27.5	110.0	110.0	110.0	110.0	110.0	
	TE II	exam	2	12	Jul-01	27.6	82.4	110.0	15.0		110.0	110.0	110.0	110.0	110.0	
	Ad Clk II	exam	1	8	Apr-00	13.8	33.7	47.5	7.5	11.9	47.5	47.5	47.5	47.5	47.5	
	REO III	collection/vets	1	18	Jul-00	18.8	59.3	78.1	7.5		70.1	78.1	78.1	78.1	78.1	
	REO II	collection/vets	1	18	Jul-01	18.3	52.8	71.1	7.5		71.1	71.1	71.1	71.1	71.1	
	TCS II	collection/vets	1	12	Jul-01	13.8	41.2	55.0	7.5		55.0	55.0	55.0	55.0	55.0	
	Ad Clk II	collection/vets	1	8	Jul-01	13.8	33.7	47.5	7.5		47.5	47.5	47.5	47.5	47.5	
	TCS II	collection/S	2	12	Jul-01	27.6	82.4	110.0	15.0		110.0	110.0	110.0	110.0	110.0	
	REO III	collection/S	1	18	Jul-01	18.8	59.3	78.1	7.5		78.1	78.1	78.1	78.1	78.1	
	REO I	collection/S	1	14	Jul-01	13.8	45.3	59.1	7.5		59.1	59.1	59.1	59.1	59.1	
	Acct Tech II	collection/S	2	14	Jul-01	27.6	90.6	118.2	15.0		118.2	118.2	118.2	118.2	118.2	
	Ad Clk II	collection/S	1	8	Jul-01	13.8	33.7	47.5	7.5		47.5	47.5	47.5	47.5	47.5	
	AP V	programming	1	22	Sep-99	18.8	76.6	95.4	7.5	79.5	95.4	95.4	95.4	95.4	95.4	
	AP IV	programming	1	20	Sep-99	18.8	67.7	86.5	7.5	72.1	86.5	86.5	86.5	86.5	86.5	
	AP II	programming	1	16	Sep-99	18.8	52.8	71.6	7.5	59.7	71.6	71.6	71.6	71.6	71.6	
	TE II	lps	1	12	Sep-99	13.8	41.2	55.0	7.5	45.8	55.0	55.0	55.0	55.0	55.0	
	TE II	lps	2	12	Jan-00	27.6	82.4	110.0	15.0	55.0	110.0	110.0	110.0	110.0	110.0	
	Acct. Sup. II	acct/S mgt	1	16	Mar-00	13.8	52.8	66.6	7.5	22.2	66.6	66.6	66.6	66.6	66.6	
	Acct. Tech II	acct/S mgt	1	14	Mar-00	13.8	45.3	59.1	7.5	19.7	59.1	59.1	59.1	59.1	59.1	
	Acct. Tech I	acct/S mgt	1	12	Mar-00	13.8	41.2	55.0	7.5	18.3	55.0	55.0	55.0	55.0	55.0	
	Ad Clk II	acct/S mgt	1	8	Mar-00	13.8	33.7	47.5	7.5	15.8	47.5	47.5	47.5	47.5	47.5	
	Ad Clk I	acct/S mgt	1	7	Mar-00	13.8	32.4	46.2	7.5	15.4	46.2	46.2	46.2	46.2	46.2	
	Acct. Tech II	data entry	1	14	Apr-00	13.8	45.3	59.1	7.5	14.8	59.1	59.1	59.1	59.1	59.1	
	Ad Clk II	data entry	4	8	Apr-00	55.2	134.8	190.0	30.0	47.5	190.0	190.0	190.0	190.0	190.0	
	Ad Mgr.	adm	1	15	Jul-99	13.8	49.3	63.1	7.5	63.1	63.1	63.1	63.1	63.1	63.1	
	Ad Clk II	adm	1	8	Aug-99	13.8	33.7	47.5	7.5	43.5	47.5	47.5	47.5	47.5	47.5	
	Subtotal permanent positions		41			641.3	1900.1	2621.4		307.5	892.1	1,583.4	2,614.3	2,621.4	2,621.4	
Temporary																
	Ad Clk II	mailfiles (acctg)	4	8	2/20-5/19	15.1	33.6	48.7	15.0		48.7	48.7	48.7	48.7	48.7	
	TE II	lps	17	8	2/20-5/19	61.9	142.8	207.7	67.5		207.7	207.7	207.7	207.7	207.7	
	Ad Clk II	data entry	25	8	2/01-6/04	143.1	350.0	493.1	97.5		493.1	493.1	493.1	493.1	493.1	
			46			220.1	526.4	749.5	100.0		749.5	749.5	749.5	749.5	749.5	
Equipment																
										100.0	187.5	120.0				
SUBTOTAL- PERSONNEL DEPENDENT COSTS																
			87			861.4	2,506.5	3,370.9		407.5	1,072.1	2,520.4	3,483.0	3,370.9	3,370.9	
Add: Common area occupancy*																
							84.6	84.6		84.6	84.6	84.6	84.6	84.6	84.6	
TOTAL COSTS																
						949.0	2,506.5	3,455.5		487.5	1,156.7	2,605.0	3,568.4	3,455.5	3,455.5	
0%	Personnel annual step increase assumed Implementation Team															

* Common area includes: taxpayer lobby, mailroom, conference rooms, file space

** Includes travel, contractals, supplies, and space costs. Contractals include maintenance, copier lease, data-base access charges, outside services, etc.



<u>total FTE's</u>		
permanent		41.0
temporary	21 * 3 mo. =	5.3
temporary	25 * 5 mo. =	10.4
total FTE's		<u>56.7 *</u>

REO = Revenue Enforcement Officer (old class)
 ranges equal to Revenue Auditor class

TCS = Tax Collection Specialist (old class)
 ranges equal to Tax Examiner class

	A	B	C	D	E	F	G	
1	Alaska Credit Individual Income Tax							
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5								
6	1996 SOI Data	% of Federal Income Tax						
7								
8								
9	Target Revenue	\$ 350,000,000						
10	NR Business Income Tax Est.	\$ -	<<<Enter the revenue you expect from Non-resident business income					
11	Model Target Revenue	\$ 350,000,000						
12	Rate on Fed Tax < \$4,000	none	<<< none = flat					
13	PFD (individual amount)	\$ 1,500						
14	PFD Credit (Y or N)	y	>>>> If 'Y' enter >>>>		% PFD for credit	33.3%		
16								
17	AGI range (000)	< \$30	\$30 < 50	\$50 < 75	\$75 < 100	>= \$100	Total	
26								
27	Federal income tax	136,794,000	229,625,000	330,627,000	273,064,000	680,937,000	1,651,047,000	
28	Est FIT on NR wages	21,821,820	25,063,995	30,207,345	20,641,650	25,906,425	123,641,235	
29								
30	Alaska Tax Base	158,615,820	254,688,995	360,834,345	293,705,650	706,843,425	1,774,688,235	
31	Amount over Bracket			360,834,345	293,705,650	706,843,425		
32								
33	Tax Generated (Base x Rate)	49,048,331	78,756,773	111,579,805	90,821,785	218,575,235	548,781,929	
34								
35	PFD Credit	(40,844,430)	(49,665,035)	(46,477,726)	(24,506,969)	(20,959,769)	(182,453,929)	
36	Credit: taxes pd to other states	(1,456,000)	(3,132,000)	(4,763,000)	(3,324,000)	(3,653,000)	(16,328,000)	
37								
38								
39	Revenue (Tax - Credits)	6,747,901	25,959,737	60,339,080	62,990,816	193,962,466	350,000,000	
40								
41	Flat Rate	31%	31%	31%	31%	31%		

FISCAL NOTE

Bill Version: HB 91
 (H) Publish Date: 2/10/99

STATE OF ALASKA
 1999 LEGISLATIVE SESSION

Revision Date/Time (Note if correction) _____ Dept. Affected Revenue
 Title Alaska Credit Individual Income Tax BRU Revenue Operations
 Component Income and Excise Audit
 Sponsor Rules
 Requester Governor Component Serial No. 113

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services	681.7	1,722.4	2,500.8	2,506.5	2,506.5	2,506.5
Travel	34.4	42.5	75.2	75.5	75.5	75.5
Contractual	247.8	616.1	819.9	820.9	820.9	820.9
Supplies	12.8	36.5	52.5	52.6	52.6	52.6
Equipment	180.0	187.5	120.0			
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	1,156.7	2,605.0	3,568.4	3,455.5	3,455.5	3,455.5
CAPITAL EXPENDITURES**	1,942.0	2,217.0	1,226.0			
CHANGE IN REVENUES ()	175,000.0	350,000.0	350,000.0	350,000.0	350,000.0	350,000.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	3,098.7	4,822.0	4,794.4	3,455.5	3,455.5	3,455.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	3,098.7	4,822.0	4,794.4	3,455.5	3,455.5	3,455.5

Estimate of current year (FY99) cost: 0.0

POSITIONS

Full-time	24	1	16			
Part-time						
Temporary		46	46	46	46	46

ANALYSIS: (See attached for further analysis)

** These estimates do not include a contingency allowance (see narrative).

Prepared by Brett Fried Phone 465-3682
 Division Income and Excise Audit Date/Time February 8, 1999
 Approved by Wilson L. Condon Date February 8, 1999
 Commissioner Department of Revenue
 Agency

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