

HB

10

Alaska State Legislature

Representative Carl E. Moses



Member
House Finance Committee



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SPONSOR STATEMENT / SECTIONAL ANALYSIS

HB 10 - Reinstatement of Personal Income Tax

HB 10 would reimpose a state income tax on individuals and fiduciaries (estates and trusts), last in effect in Alaska in 1980. This measure could be considered a valid component of a long-range fiscal plan, and produce income in excess of \$200 million. Its cost of administration has been estimated at nearly \$3 million. The 1995 Long Range Financial Planning Commission recommended an income tax by 2002, as well as other taxes, and the use of Permanent Fund income.

There are no issues of constitutionality in bringing back the state income tax. This measure certainly responds to the need for additional state income, given that we continue deficit spending, and it has appeal to those who believe non-resident workers should pay a fair share of their burden here. It would not extend to any Native Corporation not currently paying a corporate state income tax.

The core of the bill reinstates the individual income tax in Tax Year 2002, makes it a percentage of a taxpayer's federal income tax liability, sets up a graduated scale of taxation in the first three years, provides requirements for completing filing and employer responsibilities, makes provisions for amended filings, and identifies those credits made available to the taxpayer.

The major tax credit of interest to Alaskans would be the tax credit authorized for real and personal property taxes paid to a municipality in this state.

Bill Section 1: Adds to AS 43.20.011, a provision for taxation of income of every resident, non-resident, and part-year resident individual, and fiduciary of the state. It apportions the tax liability of a non-resident, part-year resident, or fiduciary, as that percentage of their federal income tax liability that is their taxable income from sources within Alaska only.

In Tax Year 2002 (from December 31, 2001 through December 31, 2002), HB 20 sets a level of federal income tax liability at \$20,000 as the bar below which, state income tax liability would be 5% of that liability, and above which, state income tax liability would be 10%.

In Tax Year 2003 (from December 31, 2002 through December 31, 2003), the bill changes the rates as follows: When federal income tax liability is less than \$20,000, the rate would go up to 10%, and when it is greater than \$20,000, the rate would go up to 15%.

Finally, in Tax Year 2004 and beyond, the state income tax rates become 15% and 20% respectively, for federal income tax liabilities either below or above the \$20,000 level.

This section further requires the use of one's federal filing status as that which would be used in determining the state income tax liability.

Bill Section 2: Directs individuals and fiduciaries to file state income tax returns with the Department of Revenue, the same as corporations and others required to file under 26 U.S.C., the Internal Revenue Code. Provides for allowable credits and payments against the state tax liability.

Bill Section 3: Makes the state income tax liability due and payable at the same time and in the same manner as one's federal income tax liability.

Bill Section 4: Requires the taxpayer to file with the state tax return, a copy of one's federal tax return for the same tax year. It also provides for the filing of an amended return within sixty-days following a final determination of the taxpayer's federal tax liability if such should be in question.

Bill Section 5: Adds a new section to AS 43.20 that determines income sources within the state, which would be used in calculating the tax liabilities of non-residents, part-year resident, or fiduciaries. For purposes of calculating taxable income attributable to sources from within the state, this section also provides that deductions and adjustments are allowed only to the extent they are connected with income that arises from sources within the state.

Bill Section 6: Adds salaries or wages, and estate or trust income, to the list of income sources considered as being from within the state.

Bill Section 7: Provides for the Multistate Tax Compact, AS 43.19, as the authority in determining what income is taxable from entities which do business both partly inside and partly outside of the state.

Bill Section 8: Establishes credits against the state income tax liability, beginning with the amount of payroll tax withheld. It further establishes a credit for resident and part-year resident taxpayers for income taxes imposed by other U.S. states or territories, on income that is also subject to tax in Alaska. This credit, though, is limited to the proportion of the tax calculated under Alaska statute that relates to the percentage the taxable income from the other jurisdiction bears to the taxpayer's total taxable income. The credit may not exceed actual taxes paid to the other jurisdiction.

A significant tax credit authorized under this bill allows a tax deduction for real and personal property taxes paid to a municipality in this state.

Bill Section 9: Provides for corporate taxpayers to allocate and apportion their net income as provided in the Multistate Tax Compact, on income taxable both inside and outside the state, or on income from other sources both inside and outside Alaska.

Bill Section 10: Establishes tax collection procedures, including deduction and withholding features, and instructions to employers regarding tax payments and other information due the

state. This section also describes the employer reporting responsibilities to the employee, annually by January 31st, or thirty days after termination, of wages/compensation, and withholding/ deductions. Employer penalties are also referenced as those in AS 43.05.220 (d).

This section also establishes the authority for governmental entities to deduct and withhold from employees, as well as return deductions and withholdings to those officers of the entities appropriately designated to perform these functions. The terms "employee," "employer," and "wages," are defined by the Internal Revenue Code under 26 U.S.C.

Bill Section 11: Imposes the same time limitations on the assessment and collection of taxes by the state, and the same exceptions, as is found in the Internal Revenue Code, 26 U.S.C. 6501-6503. When additional tax is due from changes made to a federal income tax return, the period of limitation begins from the date that one files an amended return. If no amended return is filed, the additional tax due may be assessed at any time.

Bill Section 12: Defines the terms "bank," "corporation," "fiduciary," "fiscal year," "individual," "Internal Revenue Code," "resident," "non-resident," "part-year resident," "person," "taxable year," "taxpayer," and "trade or business."

Bill Section 13: Identifies necessary repealers.

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Member
House Finance Committee

MEMORANDUM

DATE: March 12, 2001

TO: Rp. John Coghill, Chairman
House State Affairs Committee

FROM: Rp. Carl E. Moses *CEM*
House District 40

SUBJ: Request for Hearing - HB 10

I would like to request a committee hearing on HB 10, the bill to reimpose a state income tax. This measure would affect individuals and fiduciaries (trusts and estates). At its core, HB 10 would reinstitute the income tax as a percent of one's federal income tax liability, would involve employer withholding, and would offer credits for certain taxpayers, chief of which is a credit for real and personal property taxes paid to municipalities within the state.

A reinstated personal income tax would generate revenues of at least \$200 million per year. Support material is attached.

A committee hearing at your earliest convenience will make a positive contribution to the public discussion regarding a long-range fiscal plan. If there are any questions, please contact me, or Tim Benintendi of my office. Thank you.

Alaska State Legislature

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There are no issues of constitutionality in bringing back the state income tax. This measure certainly responds to the need for additional state income, given that we continue deficit spending, and it has appeal to those who believe non-resident workers should pay a fair share of their burden here. It would not extend to any Native Corporation not currently paying a corporate state income tax.

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ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
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April 6, 1989

MEMORANDUM

TO: House Finance Fiscal Policy Subcommittee

FROM: Gretchen Keiser *G. Keiser*
Legislative Analyst

RE: Alaska's Personal Income Tax: History, Structure and Policy Considerations
Research Request 89.253

You asked this agency to prepare a summary of the history, structure and policy considerations regarding Alaska's personal income tax. This memorandum draws upon the legislative history of the Alaska Net Income Tax Act (AS 43.20), fiscal records of the Department of Revenue, personal income data from U.S. Bureau of Economic Analysis, Governor's Office (Division of Policy) analysis, as well as several publications covering state income taxes nationwide. The first section describes the history and structure of Alaska's individual income tax. Recent legislative proposals regarding the personal income tax are discussed in the second section. The third section briefly considers state income taxes nationwide, and the final section examines the major policy considerations of an income tax.

HISTORY AND STRUCTURE OF ALASKA'S PERSONAL INCOME TAX

Following several years of political battles, the Alaska Legislature established a net income tax in 1949 as part of an overall change in the territorial tax system.¹ The tax was levied on all resident and nonresident individuals and fiduciaries (and also corporations operating in Alaska) at a tax rate of ten percent of the taxpayer's federal income tax liability. Given its close correlation to the federal tax, Alaska's income tax was quite simple and easy to collect; ~~employers withheld ten percent of the amount being withheld for federal income taxes.~~ The Alaska tax withstood an immediate challenge of its constitutionality [*Alaska Steamship Co v. Mullaney*, 12 Alaska 594, 180 F.2d 805 (1950)]. In addition, the court considered the state's tax, with its reliance on the federal graduated tax rates, to be grounded in a reasonable policy since the tax was structured according to a taxpayer's ability to pay.

¹History of Alaska's income tax presented in Department of Revenue v. Gibson, 544 P.2d 852, 1975.

Between 1949 and 1961, Alaska's personal income tax rate gradually increased from ten to 16 percent of a taxpayer's federal income tax liability. Other changes required federal employees to pay state tax on cost-of-living allowances and limited nonresidents' exemptions, credits and deductions. The simplified method of determining state income tax worked well during a period when federal tax changes mostly involved increases in tax rates. Following the reduction in federal income tax rates in 1963, however, the legislature grappled with a state tax structure which would operate independently of the federal system. In 1965, the legislature modified the tax statute so that a taxpayer's state tax payment remained at 16 percent of the federal income tax liability but at the federal tax rates in effect on December 31, 1963, prior to federal tax reform. A 1964 legislative report noted that nonresident taxpayers usually had a disproportionately higher income tax liability than residents because they were denied the standard ten percent deduction and could claim only those deductions directly connected with income from Alaska sources.²

In 1975, the legislature revamped the Alaska income tax and established a graduated tax rate structure independent of federal income tax rates. A taxpayer's taxable income, as defined under the Internal Revenue Code, was modified by various longstanding additions, exemptions and credits to determine Alaska taxable income, which was then subject to a progressive rate of 3.0 to 14.5 percent. The 1975 tax law expanded considerably the section governing nonresident taxable income for individuals and partnerships (including a provision which allowed the standard federal deduction according to the portion of a taxpayer's total adjusted gross income derived from Alaska sources).

The revenue effect of the overhaul was not dramatic; the significant increases in state individual income tax revenues in fiscal years 1975 - 1977 primarily reflect the dramatic rise in total state personal income (and individual taxable income) during construction of the TransAlaska Pipeline System (TAPS).³ Table 1 summarizes information on state individual income taxes paid for the 1977 - 1979 tax years.

²Alaska Legislative Council, "Taxes in Alaska," November 1964, p. 8.

³Steve Kettel, director, Income and Excise Tax Division, Department of Revenue, personal communication, March 16, 1989.

TABLE 1
ALASKA INDIVIDUAL INCOME TAX INFORMATION: 1977 - 1979

	1977	1978	1979
Number of Taxpayers	190,988	177,572	188,780
Avg. Taxable Income	\$13,844	\$13,377	\$12,686
Avg. Tax Paid	\$100	\$572	\$494
Percent Tax Paid by Nonresidents	18.4%	12.2%	10.9%
Effective Tax Rate	5.1%	4.3%	3.9%

Source: 1977, 1978 and 1979 Individual Income Tax reports prepared by the Research Section, Alaska Department of Revenue, and May 6, 1987 memorandum ("Income tax Incidence on Nonresidents") from John Hansen and Gregg Erickson to Commissioner Hugh Malone.

Alaska's personal income tax was repealed in 1980. During the regular session, the 1980 legislature modified AS 43.20 to provide a partial to total exemption from state income tax for individuals, depending upon the number of prior years the taxpayer had filed a state tax return (Ch 22 SLA 1980). In early September 1980, the Alaska Supreme Court ruled that the resident longevity exemptions violated the equal protection clause of the Alaska Constitution. A special session was called and the legislature repealed the personal income tax on individuals and fiduciaries, retroactive to January 1, 1980 (Ch 1 SSSLA 1980). In addition, the legislature appropriated about \$186 million to the Department of Revenue for refund of income taxes paid by individuals and fiduciaries during both the 1979 and 1980 tax years.

Table 2 summarizes state revenue from the individual income tax for the period FY 59 - FY 80. Income tax revenue increased dramatically beginning in FY 75 and peaked in FY 77 at \$210 million. Table 2 also provides the annual state personal income, which is broadly defined to include all income received from wages, salaries, dividends, interest, rent, transfer payments, etc. The state's income tax revenue is then presented as a percentage of state personal income in order to portray the historical tax effort (i.e., the percent of total income paid to the state in income taxes). The tax effort ranged between 1.6 percent (FY 59 - FY 61) and 4.6 percent (FY 77). The dramatic increase in tax effort beginning in FY 75 generally reflects higher taxable incomes (during the TAPS construction), which were subject to higher tax rates under the graduated tax system. By FY 79, the tax effort had declined to 2.4 percent, which was also the average tax effort over the 22-year period.

TABLE 2
 REVENUES FROM ALASKA INDIVIDUAL INCOME TAX: FY 59 - FY 80
 (Millions of Dollars)

Fiscal Year	State Income Tax Revenue	Total State Personal Income	Income Tax Revenue as Percent of		
			Total State Personal Income	Total State Tax Revenue	Unrestricted Revenue
1959	\$8.1	\$506.6	1.6%		
1960	8.9	542.4	1.6		
1961	10.4	630.9	1.6		
1962	12.2	626.3	1.9		
1963	13	654.1	2.0		
1964	13.9	711.3	2.0		
1965	16.2	799.7	2.0		
1966	19.2	866.3	2.2		
1967	22.7	935.3	2.4		
1968	22.6	1,029.0	2.2		
1969	25.2	1,119.1	2.3		
1970	32.4	1,373.9	2.4		
1971	35.5	1,543.7	2.3		
1972	39.1	1,679.1	2.3	43.8%	17.8%
1973	43.4	1,827.0	2.4	45.1	20.8
1974	49.2	2,148.3	2.3	44.8	19.3
1975	86.9	2,650.4	3.3	46.8	26.1
1976	146.2	3,780.0	3.9	25.2	20.6
1977	210.4	4,559.6	4.6	28.0	24.1
1978	145.7	4,701.2	3.1	27.1	19.0
1979	117.2	4,790.8	2.4	14.6	10.3
1980	100.5	5,020.9	2.0	7.1	4.0

Note: The fiscal year tax revenue data corresponds to taxes paid for the prior calendar year's income. For example, FY 80 tax revenue corresponds to individual taxable income and total state personal income in 1979.

Sources: 1977 - 1979 Individual Income Tax reports and Revenue Sources (January 1986) prepared by the Research Section, Alaska Department of Revenue, and state personal income data from the Bureau of Economic Analysis, U.S. Department of Commerce.

Prepared by the House Research Agency, April 1989 (89.253).

Table 2 also presents information for the 1970s which indicates the importance of income tax receipts relative to total state tax revenue and unrestricted revenue available for state spending. During the period FY 72 - FY 75, income tax receipts represented nearly half of the state's total tax revenue. As oil and gas reserves, property, and severance tax revenue expanded beginning in FY 76, the individual income tax declined in importance to roughly one-quarter of the state's tax revenue. In FY 72 - FY 74 and again in FY 78 (after the high income tax years during the TAPS construction), the state individual income tax brought in roughly 18 to 21 percent of the state's unrestricted revenues.

RECENT LEGISLATIVE PROPOSALS TO REIMPOSE THE PERSONAL INCOME TAX

Since 1985, several resolutions have been introduced opposing an income tax or proposing a constitutional amendment to require voter approval or a two-thirds majority vote in each house prior to reimposition. In 1986, the legislature established the Joint Special Committee on State Tax Policy which was to submit a report to the legislature that "addresses the merits of and makes recommendations concerning a long-term, broad-based and stable tax policy to minimize taxes and foster economic growth."⁴ The committee compiled a series of reports on the merits of specific taxes, including studies on the individual income tax prepared by the Department of Revenue and the Institute of Social and Economic Research in 1986 and 1987. Nevertheless, the committee's final report (January 1988) did not present conclusions as a result of all these studies or make recommendations regarding state tax policy and the role an individual income tax might play.

In 1987, Governor Cowper introduced individual income tax legislation (House Bill 154) which underwent considerable public scrutiny but died in the House Rules Committee. The proposed state income tax was piggybacked on the federal tax--as under the former Alaska income tax repealed in 1980. The tax base was broadened through adjustments to federal gross income and limitations on the number of allowable deductions (i.e., alimony paid, interest from U.S. obligations, penalty for early withdrawals from savings accounts, and Permanent Fund dividends). The DOR estimated that failure to allow the deduction of mortgage interest would increase taxable income in 1988 by about \$600 million. A personal exemption of \$3,000 per dependent was subtracted from adjusted gross income to arrive at taxable income. ~~In contrast to the former state income tax rate schedule (with several tax rates to a maximum of 14.5 percent),~~ Governor Cowper proposed a two-tiered structure of 3.2 and 5.7 percent. Higher taxable income brackets--at thresholds between \$25,000 and \$50,000 depending upon a taxpayer's filing status--would be taxed at the higher rate. At the time, the DOR estimated that the income tax, under HB 154, would raise about \$250 million annually. A subsequent DOR estimate for the Governor's income tax--with Permanent Fund dividends taxable--yielded about \$265 million.

⁴Senate Concurrent Resolution 42; the committee included three senators, three representatives, two executive branch members and three public members.

An individual income tax bill (HB 252; sponsored by Representative Koponen) was recently introduced in the 1989 Legislature (attached). As with the Governor's 1987 proposal, HB 252 would piggyback a two-tiered, graduated state income tax (at 3.2 and 5.7 percent) onto the federal tax, beginning with the federal definition of gross income. However, the current tax bill incorporates several new features:

- Permanent Fund dividends are not allowable deductions and would be taxable (as they are under the federal tax law);
- Personal exemptions applied against a taxpayer's adjusted gross income to arrive at taxable income are the greater of 1) the exemptions allowed under federal taxes [i.e., \$1,950 per dependent in 1988] or 2) an amount of income equal to 100 percent of the federal poverty income guidelines applicable to the number of exemptions claimed;⁵
- Tax Credits are allowed for motor vehicle registration tax, sales and use tax, and property tax levied by a municipality. A renter's credit (not to exceed 20 percent of the annual rent) is also allowed; and
- Longevity bonuses would no longer be exempt from state taxes, as is currently the case under AS 47.45.120(a).

The fiscal note is not available yet for HB 252, but it appears likely that the larger personal exemption for all taxpayers (based on federal poverty income guidelines) and the credits for municipal taxes would significantly reduce previous income tax revenue estimates. Municipal sales tax revenues in 1988 equaled about \$55 million--of which most is paid by Alaskans, and in 1987, DOR estimated that a property tax deduction would reduce projected taxable income in 1988 by \$100 million. A centralized estimate of municipal motor vehicle registration tax revenue is not available from the Department of Community and Regional Affairs (DCRA). On the other hand, the tax liability generated by the Alaska longevity bonus would raise collections by about \$2 million annually.⁶ Also, the DOR estimated in 1987 that taxing Permanent Fund dividends would raise between \$8 and \$12 million in additional income tax revenue.

⁵The 1989 federal poverty income guidelines are as follows: \$7,480 (family of one); \$10,030 (two); \$12,580 (three); \$15,130 (four); \$17,680 (five); \$20,230 (six); \$22,780 (seven); \$25,330 (eight); plus \$2,550 per additional person.

⁶This estimate assumes that the average Alaska senior would have taxable income falling under the lower 3.2 percent rate. An annual bonus of \$3,000 would yield \$96 in taxes per senior, or about \$1.6 million for 17,000 seniors.

Although he has not introduced an individual income tax bill this year, Governor Cowper included a state income tax in the conceptual framework of his five-year fiscal plan and 20-year projection as part of his State of the State address in January. A rough estimate of about \$217 million from a graduated income tax--generally similar to the Governor's 1987 proposal but with lower tax rates--is indicated for FY 92, following implementation of the tax on January 1, 1991. According to Gregg Erickson of the Office of Management and Budget, this income tax effort would be equal to about 1.9 percent of the projected state personal income at that time.

COMPARISON WITH OTHER STATES

Alaska is one of seven states which do not have an individual income tax. Florida, Nevada, South Dakota, Texas, Washington, and Wyoming are the others. Two other states tax only interest and dividend income (New Hampshire and Tennessee). Nationwide, the individual income tax provided about 31 percent of state tax revenue in 1987.⁷ In FY 78--the last year (prior to the runup in severance and petroleum corporate income taxes) for which we have comparable figures--Alaska's individual income tax receipts represented about 27 percent of the state's total tax revenue (Table 2).

Since 1986, there has been considerable activity and major reforms in state individual income tax laws across the country as a result of 1) the federal tax reforms of 1986, 2) major tax studies in more than half of states since the early 1980s, and 3) economic changes and the desire for an income tax structure which is competitive with neighboring states.⁸ Furthermore, a December 1988 National Conference of State Legislatures' survey indicates that income taxes would be among the top three issues facing 21 state legislatures in 1989.⁹

In general, states have become more progressive in their income tax structure because most conformed with the progressive changes in the federal tax law--particularly the broadening of the tax base at higher income levels. Also, many states raised personal exemptions and/or standard deductions, which provides greater relief for taxpayers with relatively low incomes. However, it is difficult, if not misleading, to compare a potential income tax rate structure in Alaska with those of other states because income brackets, ~~deductions, exemptions, and credits vary widely from state-to-state.~~

⁷State Government Tax Collections in 1987, Bureau of the Census, Government Finances Series GF-87-1, March 1988, Table 6.

⁸S. Gold (ed), "The Unfinished Agenda for State Tax Reform", National Conference of State Legislatures, 1988, pp. 14 - 21.

⁹"Leading Fiscal Issues in 1989 Legislative Sessions," National Conferences of State Legislatures, December 1988.

POLICY CONSIDERATIONS OF A STATE INCOME TAX

Equity

* The individual income tax is generally considered the fairest tax. The tax burden falls primarily on the individual and there is less opportunity for shifting the incidence of taxation compared with corporate income or business taxes where tax burdens can be shifted backward onto workers or forward onto consumers. Income taxes typically incorporate graduated tax rates based on the ability to pay principle--individuals pay according to their level of income.

* A progressive income tax takes a higher percentage of high incomes than of low ones. The progressivity of an individual income tax depends upon a number of factors, including

- 1) the type of income taxed and the degree of preferential treatment of different categories of income - elimination of the special treatment of capital gains under the federal 1986 tax reform is regarded as a progressive change in the income tax;
- 2) the tax rate structure (i.e., the number and spacing of income brackets and the spread in tax rates from lowest to highest income bracket) in general, fewer income brackets and a smaller spread in the tax rates results in less progressivity;
- 3) the amount of standard deductions and personal exemptions - increasing these helps reduce the tax burden of lower income taxpayers to a greater extent than higher income taxpayers; and
- 4) the type and amount of tax credits - converting deductions to tax credits places higher and lower income taxpayers on an equal footing.

Since HB 252 begins with the federal gross income definition, it would incorporate some of the progressive changes of the recent federal tax reform. The two-tiered, graduated rate structure proposed in HB 252 is moderately progressive, but the provision for large personal exemptions would have a greater beneficial effect on lower income taxpayers than those with higher incomes, and greatly increases the progressivity of the proposed income tax.

A portion of the proposed state income tax burden would be "exported" because some of the tax would be paid by nonresidents. The Office of Management and Budget (OMB) estimated in 1987 that at least ten percent of the tax revenue would come from nonresidents (including filers who worked in state only part of the year).¹⁰

Simplicity and Economic Efficiency

A broad-based tax system, with few deductions and limited preferential treatment of income, is the simplest form of income tax for government to administer and individuals to pay. From an administrative viewpoint, the majority of disputes under the former state income tax were related to itemized deductions. The Internal Revenue Service also focuses a great deal of time on deductions and tax credits since these are the primary areas of abuse. However, in comparison with other taxes--such as a sales tax--an income tax is administratively much more complex. A 1987 fiscal note estimated that about 65 new DOR employees would be necessary to administer a state income tax; about 60 DOR staff worked on the income tax prior to its repeal in 1980.¹¹

Limiting the complexity of the income tax is politically responsible because it clarifies who shoulders the tax burden. A tax which broadly incorporates all types of cash income--and allows for few exceptions or special treatments--would likely result in lower tax rates if a particular level of revenue is targeted. Although virtually any form of taxation affects individuals' decisions regarding work, savings, education, or consumption, a broad-based tax with low rates is generally considered to be less distorting. With low rates, personal, individual, business, and investment decisions are likely to be primarily based on economic rather than tax avoidance considerations. Similarly, a tax system which allows few deductions would limit the incentive effects, such as may occur when the deduction of medical expenses induce individuals to spend more on medical services than they otherwise would.

¹⁰"Percent of State Income Tax "Exported"," Memorandum from Gregg Erickson, senior economist, to David Ramsure, press secretary to the Governor, May 4, 1987.

¹¹Steve Kettel, personal communication, March 16, 1989.

Intergovernmental Effects

Payment of state income taxes has been estimated to reduce Alaskans' federal tax payments by an amount equivalent to about 20 percent of their state income tax liability. This offset of federal taxes would occur only for taxpayers who itemize deductions on their federal tax returns--typically higher income taxpayers. This federal tax offset, coupled with the above-mentioned taxes collected from nonresidents, indicates that roughly 30 percent of the state income tax burden would be "exported" out of state.

The inclusion of municipal property, sales, and vehicle registration tax credits would have a significant effect on the capability of the state to generate revenue under the income tax proposed in HB 252. The annual revenue expected from the state income tax would be somewhat unpredictable because each time a local government raised its taxes, state revenue would decline by a roughly corresponding amount. The tax credits would be popular among Alaska's communities because they provide a direct dollar-for-dollar incentive for local governments to increase property and sales taxes; local taxpayers would recover their local tax payment through reductions in state income taxes. However, credits for local taxes would be allowed only up to the amount of state income taxes owed, i.e., taxpayers could not receive a refund from the state.

From the taxpayers' perspective--particularly those with higher income who would be able to fully credit local taxes against their tax liability--it makes little difference to whom one pays the tax bill. In either case, an individual's disposable income would be reduced. It could be argued that a state income tax system which incorporates this local tax credit provision would in fact encourage taxation at the local level where taxpayers not only have greater direct influence over the expenditure of tax revenue, but could also keep the tax dollars circulating in the regional economy. On the other hand, individuals living in areas with low tax rates or lacking local taxes--particularly in the unorganized borough--would pay more of their tax dollars to the state where they would have less control over where and how the tax dollars were spent. Another factor to consider is that the local government response to the incentive embodied in the tax credits would also affect the distribution of state aid under the Public School Foundation and Revenue Sharing programs (which have a local tax effort measure built into their formulas).

In summary, the design of a state income tax is not necessarily a straightforward task. Policy makers have to consider several factors as they establish the tax system in order to achieve the desired level of progressivity and target the intended beneficiaries of various exclusions, deductions, exemptions and credits. I have attempted to briefly discuss the policy issues which commonly arise regarding income taxes as well as some issues raised by HB 252.

Please contact us if you would like further information.

Dr. Carl S. Benson, PhD
1551 Farmers Loop
Fairbanks, Alaska 99709
10 December 2000

Senator Gary Wilken
1851 Fox Ave.
Fairbanks, Alaska 99701

Dear Gary,

Thanks for your letter of 28 November 2000, in which you asked for information on a long-range fiscal plan that makes sense. Here are my responses to your three questions:

1. What is your definition of a long-range fiscal plan?
A long-range fiscal plan provides renewable sources of funding for essential services of state government.
2. What is the ultimate goal(s) of a long-range fiscal plan?
The ultimate goal is to provide stability for both operating and capital budgets. It is not in the best interest of the state to have its funding of state functions tied to the price of a single commodity.
 - (a) Operating Budget:
Alaska's operating budget has been cut to dangerous levels. As I stated in my campaign: "If a foreign power had done to Alaska what our Legislative Leadership has done, we would consider it an act of war."
 - (b) Capital Budget:
Alaska's work force and contractors depend on stability in the state capital budget from year to year in order to maintain competence and quality. The state has many pressing needs and it has the labor available to deal with them. But when the amount of work to be done in a given year exceeds local capability, we bring in too many workers from outside. On the other hand in a lean year we let projects go unfunded, lay off local workers and, by deferring maintenance, cause costs to increase.
3. What components should be included in a long-range fiscal plan?
An essential component is to reinstate the state income tax. I realize that some Republicans are opposed to this in a "knee-jerk" way but I respectfully request that it be considered as a key ingredient in a long-range fiscal plan.

I have outlined an argument for reinstating the state income tax at a simple percentage of the federal tax, as it was before. Although Republican leaders have said *absolutely no* to reinstating our income tax, it cannot be removed from the table before we analyze the condition of the state's budget. Everything should be considered and the income tax could play an important part of the long-range plan which we obviously need.

The first step is to analyze the pros and cons of an income tax as opposed to a state sales tax.

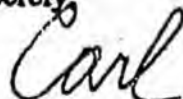
A state-wide sales tax would be hardest on rural areas and poor people; costs are already higher in rural areas. Decisions on sales taxes should be left to local governments, along with property taxes. Some communities already have sales tax and the mix of sales tax and property tax is best left to local communities. This was essentially decided when the state-wide property tax was voted down. A state-wide sales tax will not be considered further here. At the state level an income tax is more appropriate for several reasons.

Let us consider the problem in more detail:

1. It was stated that it makes no sense for the legislature to send out a dividend and then take it back with the income tax. But this statement makes no sense; the amount of the dividend is far greater than the amount to be raised by a tax. Last year the Dividend was \$1,200 million and the expected tax revenue is estimated at about \$300 million, that is only one quarter of the Dividend. Also, an income tax would not come only from the unearned money of the Dividend alone but from all of the \$10 billion in wages and salaries earned in Alaska by residents and non-residents.
2. People for whom the Dividend means the most would pay the least in income tax, many would pay only a few hundred dollars.
3. People for whom the Dividend means the least would pay the most in income tax, but:
 - (a) their dividend would pay most or all of it, and
 - (b) what they pay would be deductible from their Federal income tax; this would keep more Alaskan money in Alaska, which is the state they say they love.
4. About ten percent of Alaska's \$10 billion in total wages and salaries is earned by non-residents (\$930 million in 1999). This money is taken out of Alaska by non-residents who make no contribution to paying for state services. An income tax on this would contribute about 30 million dollars to our state's general fund. Even in a wealthy state like Alaska this is significant.
5. The income tax would give us a base of about \$300 million from which to operate. If we matched it two-for-one with money from the earnings reserve account we would basically eliminate our "budget gap." This money would be from what some refer to the "surplus earnings," i.e., the annual earnings in excess of what is needed for dividends and inflation proofing. By tying it to the amount raised by the income tax we would put a limit on it which some people feel is important.
6. Finally, the income tax could help reinvigorate the concept of citizenship in Alaska. People have no stake in the state government now because they do not contribute to it. Instead, they wait for an annual check from the state and have begun to look on it as an entitlement. We are attracting people to move here because we have no taxes and we give away free money. Although the dividend program is unique in the United States, it can be enhanced by combining it with our income tax so that people can again say: "I am a citizen and a tax payer."

The income tax should be looked at and thought about. It needs more than a knee-jerk reaction. In 1948 Alaska set up the territorial income tax and became a proud Territory with resources available to serve its citizens. Before that, it was essentially at the control of outside interests, primarily fishing and mining run from New York and Seattle. Today another industry dominates Alaska and we need to exercise the same degree of independence now that we did in 1948. I will be glad to discuss this with you further.

Sincerely,



Dr. Carl S. Benson, PhD



Lake and Peninsula Borough

P.O. Box 495
King Salmon, Alaska 99613

Telephone: (907) 246-3421
Fax: (907) 246-6602



February 16, 2001

Representative Carl Moses
State Capital Building
Room 500 / Mail Stop 3100
Juneau, AK. 99801-1182

SUBJECT: State Income Tax

Dear Carl:

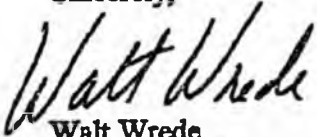
I am writing to let you know that the Lake and Peninsula Borough fully supports your efforts to institute a State Income Tax. The Borough Assembly considered this question at length during its regular meeting on January 16, 2001. At that time, the Assembly voted unanimously to endorse an income tax. It also instructed me to inform the Legislature, the Governor, and the general public of the position it has taken. Although the members expressed reservations about recommending new taxes, they all agreed that this step was necessary to insure long term social and economic stability.

The Assembly voted to support an income tax for a number of reasons which include:

1. It believes that a long range fiscal plan for the State would be prudent and urges the Legislature and the Administration to work together to adopt one. The reality is that revenue enhancement and diversification must be part of this plan. Long term financial stability is necessary if we are going to insure that that our economy continues to grow and that our residents receive the basic public services necessary for the quality of life they deserve. Our Assembly members were born and raised in Alaska and they intend to stay here. They care deeply about how our schools, public facilities, infrastructure, and economy will look 20 years from now.
2. An income tax is preferable to a general sales tax because it is less regressive and it does not impinge upon the traditional taxing authority of municipalities.
3. An income tax is the best vehicle to enable workers that are employed here but reside outside to make a contribution to infrastructure and basic public services in Alaska.
4. An income tax could be structured so that taxes paid can be deducted from one's Federal income tax obligation. This would insure that the new tax has a minimal impact upon Alaskans.

In closing, the Borough appreciates your efforts the past few years to institute a State Income Tax. We recognize that this has been a lonely effort and that the environment in Juneau has not been conducive to reasonable debate and forward thinking. However, we believe you should be commended for the leadership you have shown and for having the courage to "get out in front" on this politically difficult issue. Please let us know if there is anything the Borough can do to assist you in this effort.

Sincerely,



Walt Wrede
Borough Manager

c.

Governor Tony Knowles
House and Senate Finance Committees

Broad-based Taxes

Alaska has an extraordinarily narrow tax base centered on the oil and gas industry. In FY 2000 three tax and royalty payers were responsible for more than 75 percent of the money spent from the General Fund.

Given the effect on state revenue from the eventual decline in North Slope oil production and the volatility of oil prices, instituting a personal income tax or a statewide sales tax often surfaces as a potential solution for stabilizing state revenues. Some key concepts to consider in choosing a broad-based tax are summarized below.

- **Revenue** – How much revenue does the tax generate?
- **Exportability** – How much tax do nonresidents pay?
- **Fairness** – How fair is the tax?
- **Economic Effects** – How would the tax change economic behavior?
- **Administrative Cost** – How much does tax administration cost?
- **Changes in Technology** – How would this tax change in the future?

Revenue

Income Tax

How much revenue would a tax generate? The answer to this question really depends on the tax base and the rate structure. Most individuals who work in Alaska already file an U.S. income tax return, thus the most cost-effective income tax base would probably come from that return, using one of three options: (1) adjusted gross income, (2) federal taxable income, or (3) federal tax liability before federal credits.

The table below represents the income tax rates (expressed as a percentage) necessary to generate the indicated revenue amount.

Income Tax Rates Needed to Reach Revenue Projections

\$ Million Revenue	Percent Adjusted Gross Income	Percent Federal Taxable Income	Percent Federal Tax Liability
250	2.1	2.9	13.7
300	2.5	3.4	16.3
350	2.9	4.0	18.9
400	3.3	4.5	21.4
450	3.7	5.0	24.0
500	4.1	5.6	26.6

Sales Tax

Although most everyone is familiar with the sales part of a "sales and use" tax, most Alaskans are probably not familiar with the "use" part. What it means is that if a state has a sales and use tax and, for example, a resident buys a car in another state, the resident is liable for the use tax (generally the same rate as the sales tax) when the car comes across the state line. The idea is to protect the state (and its businesses) from losing revenue to sales in other states.

The amount of public revenue that a sales and use tax would generate is the product of the size of the sales tax base and rate. The size of the sales tax base depends on (1) the size and structure of the economy; (2) the specific goods and services included in the base; and (3) the type and size of credits or deductions.

The best four sources of information for estimating the revenue that could be derived from an Alaska sales tax are:

- (1) Data from the 98 Alaska cities and boroughs that currently impose sales taxes. This comprises about one-third of Alaska's population.
- (2) Data on sales tax revenues from other states similar in size to Alaska.
- (3) Data from the U.S. Economic Census for Alaska.
- (4) Data from the Consumer Expenditure Survey for Anchorage.

From the four data sources, we conclude that at a rate of 1 percent Alaska statewide sales tax with almost no exemptions would generate roughly \$100 million in public revenue a year. However, as is commonly done in other states and in Alaska communities with sales taxes, exempting food and medicine from the Alaska sales tax base would reduce the annual income to the state to roughly \$70 million per 1 percent tax rate.

Exportability

Exportability is the extent to which a state can shift its tax burden to out-of-state residents, either through directly charging nonresidents or through deductibility against the federal income tax. The amount of tax nonresidents pay depends on the amount of income nonresidents earn in the state, or in the case of sales taxes the goods and services that nonresidents purchase here.

Income Tax

The easiest way to export a tax is through deduction against federal tax liability. There is no deduction for state or municipal sales taxes; only income taxes are deductible. A deduction, or offset, means part of the tax revenue remains in state instead of going to Washington D.C. We estimate that Alaskans, on average, would recover about 15 percent of the cost of a state income tax by deducting it from their federal tax bills. For example, if a state income tax generated \$300 million, \$45 million would come from the deductibility of the state income tax against federal income taxes and \$255 million would come from the pockets of Alaskans.

Taxing nonresidents also would help relieve the tax burden on Alaskans. The Bureau of Economic Analysis at the U.S. Department of Commerce estimates the nonresident income produced in each state. It's an estimate of the annual income that nonresidents earn in Alaska, minus income that Alaska residents earn in other states. The 1998 figure was \$813 million, or, approximately 6 percent of total 1998 earnings in Alaska.

The Alaska Department of Labor provides another source of data on nonresident income in its annual report on nonresident wages. According to the department, the total nonresident earnings for 1998 were \$930 million — about 10 percent of total wages paid in the state. There are two reasons why this number is larger than the U.S. Department of Commerce number. First, the state classifies more workers as nonresidents. The Alaska Department of Labor strictly defines a nonresident worker as someone who did not receive a Permanent Fund Dividend that year or apply for it the following year. Second, the Department of Labor number does not address income earned by Alaska residents in other states.

Regardless whether you use the state or federal estimate of nonresident income in Alaska, it's likely that a personal income tax of \$300 million a year would generate less than \$30 million a year from nonresidents working in Alaska.

Sales Tax

In a recent study, the McDowell Group, an Alaska economic consulting company, estimated that nonresident visitors spent \$949 million in Alaska in 1998. Rounding that off to \$1 billion a year in visitor spending, a 1 percent statewide sales tax would generate about \$10 million from sales to nonresidents. That assumes no exemptions for food or medical care, and makes no allowance for sales exempt under federal law such as airline tickets.

Fairness

Income Tax and Sales Tax

The concept of fairness in taxes is subjective, as the term evokes a host of philosophical and political considerations in addition to the economic ones. Essentially, a majority of the state's residents must perceive any tax system as fair if it is to work well. An unfair tax structure generally reduces support for public expenditure and reduces compliance with the tax system.

Tax equity can be looked at in two ways: ability-to-pay and benefits received. The benefit principle rests on the premise that taxpayers should pay tax in proportion to the value of the public-service benefits they receive. On the other hand, the ability-to-pay principle follows from the belief that taxes should be assessed in terms of some measure of an individual's capacity to pay. Taxes are usually described as progressive, regressive or proportional. If the tax, as a percentage of income, rises as a person's income rises, it is labeled as progressive. If the tax, as a percentage of income, rises as income falls, the tax is considered regressive. A tax that stays the same is deemed as proportional.

Supporters of an income tax say it is progressive, in that it generally assigns a higher tax rate to higher-income households.

Opponents of a sales tax say it is regressive because low-income households spend a greater proportion of their income on essential purchases than do higher-income households. Supporters of a sales tax say it is fair in that it taxes everyone at the same rate.

Economic Effects

Income Tax and Sales Tax

Economists classify a tax as "efficient" when it has little or no effect on economic behavior. For example, sales taxes are inefficient when they influence consumer buying decisions or manufacturers' production decisions.

The size of the tax rate may also influence economic behavior. A personal income tax certainly could influence a person's economic decisions by lowering take-home pay, thereby affecting spending and working decisions. The amount of a sales tax also can make a difference in spending decisions. For example, a person who normally buys goods locally may continue to do so at a low sales tax rate. However, a high tax rate may cause the person to purchase the same product on the Internet or by mail order. In addition to changing the behavior of the individual, the Alaska economy suffers because the expenditure is made out-of-state and the money does not circulate in the local economy.

One measure of the stability of a tax is how state revenue changes as personal income changes. Studies show that as income changes, sales tax revenues change less than income tax revenues.⁽¹⁾ That is, in general, sales tax revenues decrease less in a recession than income tax revenues. Conversely, sales tax revenues increase less in a period of growth than income tax revenue.

Low Administrative, Enforcement and Compliance Cost

Desirable features of any tax system are low administrative, enforcement and compliance costs. These features imply that the tax system should attempt to minimize both individual and business compliance costs (including record keeping costs and fees paid to professional tax preparers), as well as the government's cost of administering, monitoring and enforcing the tax system.

Based on other states' experiences, we believe Alaska's cost of collecting either a sales or an income tax could be as low as 1 percent of total state revenue from the tax, depending on how the tax is structured.

Income Tax

Typically, the compliance cost to an individual for a state personal income tax is relatively minimal when the state tax is based on federal definitions of taxable income. The state tax return generally is simple to complete after federal taxable income and taxes are calculated.

Businesses will incur some additional compliance costs. For the personal income tax, the added costs are mostly associated with bookkeeping for employee tax withholding.

Sales Tax

Individuals have no sales tax compliance cost; the burden falls on businesses to collect the tax, keep the books and send the money to the tax office. Businesses will incur costs for labor, point-of-sale equipment and software and record keeping.

⁽¹⁾ "State Fiscal Issues and Risks at the Start of a New Century," by Donald J. Boyd, Nelson A. Rockefeller Institute of Government, Albany, New York; June 2000.

Private costs for collecting and remitting sales tax are generally higher for small- and medium-sized businesses. In Washington, the cost to businesses to collect and remit sales tax was 6.47 percent of total sales tax collections for small, 3.35 percent for medium and 0.97 percent for large retailers.⁽²⁾ Many states allow businesses to retain a small percentage of the sales tax collections to at least partially cover the costs of the tax collection service.

Changes in Technology

Sales Tax

Use of the Internet directly affects a state's ability to collect sales tax revenues. Taxing sales over the Internet would lead to higher cost to businesses of complying with almost 7,500 state and local sales tax jurisdictions. In response, state governments have joined together to propose streamlining existing sales taxes. The key features of these proposals include uniform definitions, simplified exemptions, simplified rates, state administration of local sales taxes, uniform auditing and states assuming a greater responsibility for implementing the system.

Petroleum Fiscal System

The Current System

There are four major components of the fiscal system for oil and gas:

- **Ad Valorem Property Tax** — A 20 mill levy on all petroleum production and transportation equipment.
- **Severance (Production) Tax** — A tax on production of up to 15 percent of value.
- **Royalty** — An ownership interest of an average 12.5 percent of production value.
- **Corporate Income Tax** — An income tax on oil and gas corporation net income of 9.4 percent.

A discussion of each of these taxes can be found in Section IV, Oil Revenue, beginning on Page 39.

Adequacy of the Current System

There are at least two criteria for evaluating the adequacy of a fiscal system:

- The share of the (pre-tax) profits from oil and gas activity in the state that the state receives.
- Whether the system encourages or discourages investment in the state.

⁽²⁾ "Retailers' Cost of Collecting and Remitting Sales Tax," by Mary Welsh and Frederick C. Kiga, Washington State Department of Revenue, Olympia, Washington; December 1998.

A key parameter for examining the presence of these properties is the degree of *progressivity* of the fiscal system.

Proportional, Progressive and Regressive Fiscal Systems

A proportional fiscal system is one in which the state's take is proportional to the profitability of the project. A system where the state's share of profits increases as profits increase is progressive. A system where the state's share of the profits increases as profits decrease (and decrease as profits increase) is called regressive.

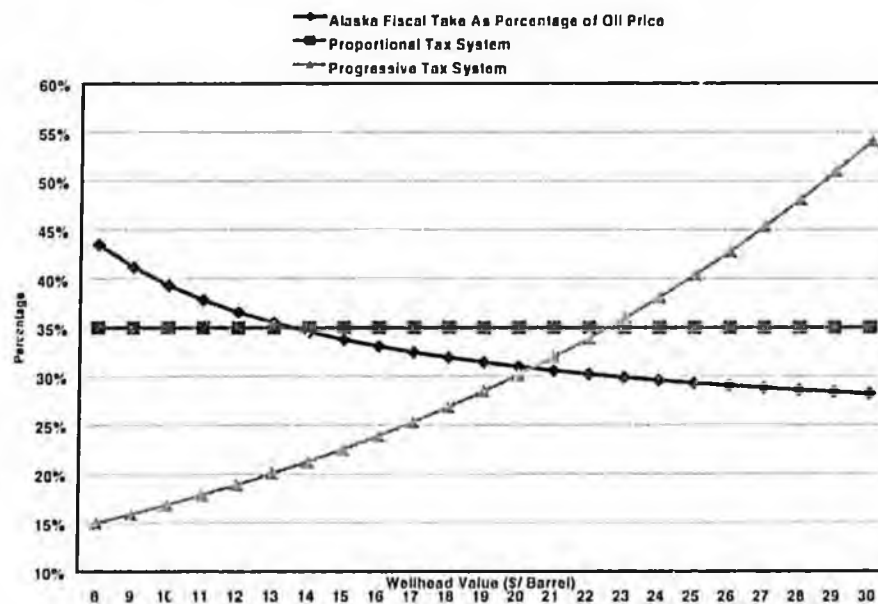
Regressive systems create investment risk. Because the state's take is high at low prices, the risk to the investor of either high costs or low prices is exacerbated. Regressive systems also result in low government takes at high prices.

Alaska's petroleum fiscal system is regressive. The state's share as a percentage of the profits drops at higher prices. For instance, in FY 1999 when the wellhead price for North Slope oil averaged just \$8.50 per barrel, we estimate the state's share to be about 45 percent of the pre-tax profit (assuming \$3 per barrel in upstream operating and depreciation costs). In 2000, the wellhead price averaged \$19 a barrel and we estimate the state's share of the pre-tax profit at a little more than 30 percent.

Alaska's share of the profits at low prices is higher than many other oil-producing nations earn at comparable prices, but when prices are high is lower than most other governments earn.

The chart below illustrates Alaska's regressive fiscal system compared to what progressive and proportional systems might look like.

Regressive, Progressive and Proportional Fiscal Systems



HB 1 Move Legislature to Anchorage Fiscal Note Calculation

	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>
% Change Anchorage CPIU	1.5%	1.2%	1.2%	1.5%	1.5%	2.0%	2.0%	2.5%	2.5%	2.5%
Administration	81.7	74.7	74.7	74.7			91.0	85.3	85.3	85.3
Commerce	105.1	105.1	105.1	105.1			117.1	117.1	117.1	117.1
Corrections	59.9	59.9	59.9	59.9			66.7	66.7	66.7	66.7
Education	92.7	92.7	92.7	92.7			103.3	103.3	103.3	103.3
Environmental Conservation	86.7	89.3	92.0	94.7			96.6	99.0	101.5	104.0
Fish and Game	205.7	208.2	210.7	213.8			229.2	234.9	240.8	246.8
Governor	755.0	610.2	616.3	623.7			841.2	696.9	714.3	732.2
Health & Social Services							395.4	395.4	395.4	395.4
Labor	55.4	58.2	61.1	64.1			61.7	63.3	64.9	66.5
Law	318.7	258.7	258.7	258.7			355.1	295.4	295.4	295.4
Military and Veterans Affairs	8.0	8.0	8.0	8.0			8.7	8.7	8.7	8.7
Natural Resources	-	-	-	-			-	-	-	-
Public Safety Total	70.7	70.7	70.7	70.7			78.8	80.7	80.7	80.7
Revenue	145.4	151.2	157.3	163.5			162.0	166.1	170.2	174.5
Transportation and Public Facilities	86.9	90.7	94.6	98.8			96.8	99.2	101.7	104.3
Total Executive Branch	2,071.9	1,877.6	1,901.8	1,928.4			2,703.7	2,512.1	2,546.1	2,581.0



Alaska State Legislature

Please enter into the record my testimony to the HOUSE STATE AFFAIRS
committee name

Committee on HB 10 / Income Tax Bill
bill # / subject

Signed: Lawrence D. Meshkin and Marie H. Holley
Testifier

Ourselves
Representing (optional)

950 N. Balsam Circle, Wasilla, AK. 99654-5552
Address

(907) 357-7515
Phone number

March 22, 2002

We very strongly disagree with the graduated income tax plan as a way to pay the expenses of this state.

Many American, due to its inequality and unfairness, hate the graduated (or so-called "progressive") income tax. It has been the subject of intense debate at the national and state level.

We feel that the graduated income tax treats citizens unequally and is blatantly unfair, discriminatory and immoral. Immoral because taxes are private property (money) taken by the state through the use of force and used for other people's benefit. The taxpayer may not use most of the services he is forced to pay for. It would be immoral if I went to my neighbor's house and forced him to pay for my child's shoes. I would be branded a thief. This is exactly similar to what it done with much of government services.

This proposed state tax would give the burden of paying the majority of the state's expenses to only the wealthiest of its citizens and also to those who are not its citizens. The rest of Alaskans would pay little or none of this tax. The citizens who paid little or none of this tax may even use more government services than those who paid for it would.

Citizens who paid little or no tax would not work to keep government expenses under control because they wouldn't have to pay for it. They may even use government services more wastefully and freely because

someone else is paying the bill. They could vote for more government services that they didn't have to pay for. It could be sort of like having all of your married kids living at home eating all of the food, leaving the lights on and having the furnace turned up high since they weren't paying the bill.

The national income tax used to be unconstitutional because it was a direct tax. Then the constitution was changed. When first introduced, the income tax was very low until it finally grew into the nightmare that it is today.

Another objection I have to this tax is that it would also tax a non-resident, who does not live here and would use none of the state services to the degree that he is forced to pay for them. Some people like to think that there is a pile of unearned wealth sitting somewhere and that it is the job of the state to distribute it to those it sees fit. They feel that a non-resident is somehow collecting unearned wealth for himself in some immoral manner. They feel that he is taking a job away from an Alaskan and that he had better pay for that "privilege". Jobs (nor wealth) are not created by the state to be handed out to the politically favored. In a free country, they are created by private industry, which enters into voluntary exchanges of goods and services with free individuals (workers and consumers). Alaska used to force people to have resident cards in the past (as if this were the former USSR) to be able to work here until it was ruled to be unconstitutional. This residency card sentiment remains strong and some people feel that an income tax is a way to get non-residents to pay for these supposed wrongs against the state that he is committing by working here.

I like this quote from the recently departed philosopher, Robert Nozick: "Taxation of earnings from labor is on a par with forced labor".

Here an observation made by Frederic Bastiat, a 19th century French philosopher-economist: A man who produces while others dispose of his product is a slave. That's the essence of slavery: one person forcibly used to serve the purposes of others. See the following web link
<http://www.jewishworldreview.com/cols/williams091599.asp>

Here is a statement from Walter Williams (Walter E. Williams is the John M. Olin Distinguished Professor of Economics at George Mason University): Plunder is when people forcibly take the property of another. It's legalized plunder when people use government to do the same thing. Or, as Bastiat put it, "The state is the great fiction by which everybody tries to live at the expense of everyone else." See the following web link:
http://www.worldnetdaily.com/news/article.asp?ARTICLE_ID=23576

Alan Keyes (2000 presidential candidate) said: "Any income tax is tax-slavery"
See web link: http://www.issues2000.org/More_Alban_Keyes_Tax_Reform.htm

The following is a quote from a scholarly work by Christopher Stuart Young called "*Death of the 1040: Replacing the Federal Income Tax.*"

"As government increased its role in financing social programs, income taxes became heavier and heavier, and the inherent nature of our progressive income-tax system became apparent: it was a tool for forced redistribution of wealth by the state.

"Perhaps not many Americans today recognize redistribution of wealth by the state as a major goal of communism. Karl Marx and Friedrich Engels, authors of *The Communist Manifesto* in 1848, would be pleased to see that we have come to tolerate and even embrace one of their major tenets designed to facilitate the conversion of an 'advanced' free-market nation to communism.

"Tenet No.2 of *The Communist Manifesto* calls explicitly for 'a heavy progressive or graduated income tax.'
"Is it any wonder that we experience injustice and confusing complexity as we strive to adapt this communistic method of taxation, a progressive income tax, to what we uphold as sacred-a free society and a free economy that enjoys the creative and productive motivations of free enterprise?"

See these following 2 web links:

<http://www.nccs.net/store/newsletter/mar96nl.html>

Go to this web link for The Communist Manifesto and do a search for progressive or graduated income tax:
<http://csf.colorado.edu/psn/marx/Archive/1848-CM/cm.html>

- In Alaska we spend around \$12,000 for every man woman and child in Alaska. Hawaii spends around \$5,000 for every man, woman and child and this is considered high. We have a small population with the budget of some small countries.
- Cut state spending and implement a constitutional cap for our out of control spending. Shrink the government bureaucracy and waste that has been created from all of the past (now dwindling) oil wealth.
- Sell state land and assets starting with the Alaska Railroad (governments should not be involved in what should be a private concern in a free country).
- Return to only constitutionally mandated government services. If our constitution rewards some citizens at the expense of others, then change it at some future date.
- Privatize where it is at all possible. Go to users' fee based system where it can be done.
- The fuel tax for the road system is just one example that is sort of a user's fee program. People then pay for what they use (the road system;) by their own free will and choice. This fuel tax should be only used for the road system and nothing else. The fuel tax should be marked on the fuel pump like the price of gas so that it is not hidden. There should be no hidden taxes. We should know the price we pay for government to keep it under control. People should be fully aware of any taxes they pay just like for private goods and services.
- Don't create a system of legalized plunder with an income tax to force some people to pay for other people's consumption of government services.
- We can do better in cutting spending than what has been done. We must do this because it is the right and moral thing to do.
- Taxation is a moral issue because it involves the use of force (by government) upon people who have not threatened or harmed other people.
- Passing an income tax would be wrong and immoral for some of the reasons we have listed above. It matters not that other states and the federal government have an income tax. Being in the majority does not make the majority right. Not all laws are right nor necessarily moral just because they are legal. Slavery used to be legal in our national past.

We respectfully ask you to please vote no on any income tax proposal.

Thank you for your time and efforts.

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Employer withholding

Real & Property Tax Credit

#200 ~~million~~ Revenues \$7
Administrative Cost ~~million~~

~~Amendment~~

^{Committee}
C Substitute

1st 1590

2nd 2070



Principle of operation of income tax

Benefit of income tax

Property Tax

22-LS0007\F
Kurtz
2/8/02

CS FOR HOUSE BILL NO. 10()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE MOSES

A BILL
FOR AN ACT ENTITLED

1 "An Act relating to the taxation of income."

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 * Section 1. AS 43.20.011 is amended by adding new subsections to read:

4 (g) For each taxable year or fractional part of a taxable year after
5 December 31, 2002, there is imposed a tax upon the taxable income of every resident,
6 nonresident, and part-year resident individual and fiduciary of the state. The tax
7 imposed by this subsection is determined as a percentage of the taxpayer's entire
8 federal income tax liability, except that the tax on a nonresident or part-year resident
9 individual or fiduciary is the tax determined as a percentage of the taxpayer's entire
10 federal income tax liability multiplied by a fraction the numerator of which is the
11 taxpayer's taxable income from sources in the state and the denominator of which is
12 the taxpayer's taxable income from all sources. The tax is determined as follows:

13 if the taxpayer's entire federal then the tax, as a percentage
14 income tax liability is: of the taxpayer's entire federal
15 income tax liability, is:

1	not more than \$20,000	15 percent
2	over \$20,000	20 percent.

3 (h) An individual shall determine the tax under (g) of this section using the
 4 same filing status as used on the individual's federal income tax return.

5 * Sec. 2. AS 43.20.030(a) is amended to read:

6 (a) An individual, fiduciary, [IF A] corporation, or [A] partnership that has a
 7 corporation as a partner, that is subject to the tax imposed in AS 43.20.011 and is
 8 required to make a return under the provisions of 26 U.S.C. ([THE] Internal Revenue
 9 Code), [IT] shall file with the department [, WITHIN 30 DAYS AFTER THE
 10 FEDERAL RETURN IS REQUIRED TO BE FILED,] a return setting out

11 (1) the amount of tax due under this chapter, less allowable credits
 12 and payments claimed against the tax; and

13 (2) other information for the purpose of carrying out the provisions of
 14 this chapter that the department requires

15 * Sec. 3. AS 43.20.030(c) is amended to read:

16 (c) The [NOTWITHSTANDING (a) OF THIS SECTION, THE] total amount
 17 of tax imposed by this chapter is due and payable to the department at the same time
 18 and in the same manner as the tax payable to the United States Internal Revenue
 19 Service.

20 * Sec. 4. AS 43.20.030(d) is amended to read:

21 (d) A taxpayer [, UPON REQUEST BY THE DEPARTMENT,] shall file
 22 with the return [FURNISH TO THE DEPARTMENT] a [TRUE AND] correct copy
 23 of the taxpayer's tax return [WHICH THE TAXPAYER HAS] filed with the United
 24 States Internal Revenue Service for the taxable year. Every taxpayer shall file an
 25 amended return with the department, and remit any additional tax and interest
 26 due, [NOTIFY THE DEPARTMENT IN WRITING OF ANY ALTERATION IN,
 27 OR MODIFICATION OF, THE TAXPAYER'S FEDERAL INCOME TAX RETURN
 28 AND OF A RECOMPUTATION OF TAX OR DETERMINATION OF
 29 DEFICIENCY, WHETHER WITH OR WITHOUT ASSESSMENT. A FULL
 30 STATEMENT OF THE FACTS MUST ACCOMPANY THIS NOTICE. THE
 31 NOTICE SHALL BE FILED] within 60 days after the final determination of the

1 taxpayer's federal tax liability [MODIFICATION, RECOMPUTATION OR
2 DEFICIENCY, AND THE TAXPAYER SHALL PAY THE ADDITIONAL TAX OR
3 PENALTY UNDER THIS CHAPTER]. For purposes of this section, a final
4 determination means [SHALL MEAN] the time that an amended federal return is
5 filed or the date a federal [A NOTICE OF DEFICIENCY OR AN] assessment is
6 made [MAILED TO THE TAXPAYER BY THE INTERNAL REVENUE
7 SERVICE, EXCEPT THAT IN NO EVENT WILL THERE BE A FINAL
8 DETERMINATION FOR PURPOSES OF THIS SECTION UNTIL THE
9 TAXPAYER HAS EXHAUSTED RIGHTS OF APPEAL UNDER FEDERAL
10 LAW].

11 * **Sec. 5.** AS 43.20 is amended by adding a new section to read:

12 **Sec. 43.20.032. Tax calculation for nonresidents and part-year residents**
13 **and fiduciaries.** (a) In computing the tax under AS 43.20.011(g) of a nonresident or
14 a part-year resident individual, or a fiduciary, the part of the taxpayer's taxable income
15 attributable to sources in the state is determined under AS 43.20.040.

16 (b) In computing the taxpayer's taxable income attributable to sources in the
17 state for a nonresident or a part-year resident individual, or a fiduciary, deductions and
18 adjustments are allowed only to the extent that they are connected with income that
19 arises from sources in the state or property having a situs for taxation in the state.

20 * **Sec. 6.** AS 43.20.040(b) is amended to read:

21 (b) In this section, income is from a source having a taxable or business situs
22 in the state if it is derived from

- 23 (1) owning or operating business facilities or property in the state;
24 (2) conducting business, farming, or fishing operations in the state;
25 (3) [REPEALED

26 (4)] a partnership that [WHICH] transacts business in the state;

27 (4) [(5)] a corporation that [WHICH] transacts business in the state
28 and that [WHICH] has elected to file federal returns under 26 U.S.C. 1361 - 1379
29 (Subtitle A, Ch. 1S, Internal Revenue Code) [SUBCHAPTER S OF THE
30 INTERNAL REVENUE CODE];

31 (5) [(6) REPEALED

1 (7)] engaging in any other activity from which income is received,
2 realized, or derived in the state;

3 (6) working for salary or wages in the state;

4 (7) an estate or trust deriving income from sources in the state.

5 * Sec. 7. AS 43.20.040 is amended by adding a new subsection to read:

6 (d) With regard to the tax under AS 43.20.011(g), if a business, trade, or
7 profession, other than the rendering of purely personal services, is carried on partly
8 inside and partly outside the state, the income from sources in the state is determined
9 under AS 43.19 (Multistate Tax Compact).

10 * Sec. 8. AS 43.20 is amended by adding a new section to read:

11 **Sec. 43.20.062. Credits against tax.** (a) The amounts deducted and withheld
12 as taxes under this chapter during a calendar year are allowed as credits to the taxpayer
13 against the tax imposed by this chapter.

14 (b) A resident or part-year resident is allowed as a credit against the tax
15 otherwise due under this chapter the amount of income tax imposed on the taxpayer
16 for the taxable year by another state or territory of the United States on income derived
17 from sources in the other state or territory that is also subject to tax under this chapter.
18 However, the credit allowed in this subsection is limited to that proportion of the tax
19 computed under this chapter that the taxable income from the other state or territory
20 bears to total taxable income, and the credit may not exceed the actual tax paid to the
21 other state or territory.

22 (c) An individual or fiduciary is allowed as a credit against the tax otherwise
23 due under this chapter the amount of any real and personal property taxes paid by the
24 individual or the fiduciary to a municipality in this state under AS 29.45.

25 * Sec. 9. AS 43.20.065 is amended to read:

26 **Sec. 43.20.065. Allocation and apportionment.** A corporate taxpayer who
27 has income from business activity that is taxable both inside and outside the state or
28 income from other sources both inside and outside the state shall allocate and
29 apportion net income as provided in AS 43.19 (Multistate Tax Compact), or as
30 provided by this chapter.

31 * Sec. 10. AS 43.20 is amended by adding a new section to read:

1 **Sec. 43.20.171. Collection of income at source.** (a) Every employer making
2 payment of wages or salaries after December 31, 2002, shall deduct and withhold an
3 amount of tax computed in a manner to approximate the amount of tax due on those
4 wages under this chapter for that year. The employer shall remit withheld taxes to the
5 department, together with a return or report prescribed by the department, at the time
6 or times required by the department by regulation. The department shall publish the
7 rate of withholding required by this section. Every employer making a deduction and
8 a withholding shall furnish to the employee no later than January 31 of the succeeding
9 year, or within 30 days after termination of employment, whichever is earlier, a
10 written statement on a form prescribed by the department showing

- 11 (1) the name and taxpayer identification number of the employer;
- 12 (2) the name and social security number of the employee;
- 13 (3) the total amount of wages and other compensation; and
- 14 (4) the total amount deducted and withheld as tax.

15 (b) Every employer making payments of wages or salaries earned in the state,
16 regardless of the place where the payment is made,

17 (1) is liable for the payment of the tax required to be deducted and
18 withheld under this section and is not liable to an individual for the amount of the
19 payment; and

20 (2) shall make return of and pay to the department the amount of tax
21 levied that the employer is required to deduct and withhold under this chapter.

22 (c) An employer who fails to comply with this section is subject to the
23 penalties set out in AS 43.05.220(d).

24 (d) If the employer is the United States or the state or a political subdivision of
25 the state, or an agency or instrumentality of one or more of those entities, the return of
26 the amount deducted and withheld on wages or salaries may be made by an officer of
27 the employer having control of the payment of the wages or salaries or who is
28 appropriately designated for that purpose.

29 (e) In this section, "employee," "employer," and "wages" have the meanings
30 given to them under 26 U.S.C. (Internal Revenue Code).

31 * **Sec. 11.** AS 43.20.200(b) is amended to read:

1 (b) The same period of limitation upon the assessment and collection of taxes
2 imposed under this chapter and the same exceptions to it shall apply as provided in 26
3 U.S.C. 6501 - 6503 (Internal Revenue Code). In the case of additional tax due by
4 reason of a modification, recomputation, or determination of deficiency in a taxpayer's
5 federal income tax return, the period of limitation on assessment commences from the
6 date that the amended return [NOTICE] required in AS 43.20.030(d) is filed, and, if
7 no amended return [NOTICE] is filed, the tax may be assessed at any time.

8 * Sec. 12. AS 43.20.340 is amended to read:

9 **Sec. 43.20.340. Definitions.** In this chapter,

10 (1) "bank" means a financial institution including a national banking
11 association;

12 (2) "corporation" includes an association, joint-stock company, and an
13 insurance company;

14 (3) "fiduciary" means an estate, trust, guardian, trustee, executor,
15 administrator, receiver, conservator, or a person acting in a fiduciary capacity
16 for another or for the estate of a deceased person; [REPEALED]

17 (4) "fiscal year" means an accounting period of 12 months ending on
18 the last day of a month other than December;

19 (5) "individual" means a natural person, married or unmarried,
20 adult or minor, who is subject to the obligation to pay an income tax under 26
21 U.S.C. (Internal Revenue Code) ["INCLUDES" AND "INCLUDING" WHEN
22 USED IN A DEFINITION DO NOT EXCLUDE OTHER THINGS OTHERWISE
23 WITHIN THE MEANING OF THE WORD DEFINED];

24 (6) "Internal Revenue Code" means the Internal Revenue Code of the
25 United States (26 U.S.C.) as the code exists now or as hereafter amended, as the code
26 and amendments apply to the normal taxes and surtax on net incomes, which
27 amendments are operative for the purposes of this chapter as of the time they became
28 operative or will become operative under federal law;

29 (7) "nonresident" means an individual who is not a resident or
30 part-year resident;

31 (8) "part-year resident" means an individual who becomes a resident

1 or loses the status of a resident [ENTERS OR LEAVES THE STATE] during the
2 taxable year [AND WHO HAS RESIDED OR WAS DOMICILED IN THE STATE
3 FOR A PERIOD OF LESS THAN 12 MONTHS DURING THE TAXABLE YEAR];

4 (9) [(8)] "person" means an individual, a trust, an [OR] estate, a [OR]
5 partnership, or a corporation;

6 (10) "resident" has the meaning given to the term "state resident"
7 in AS 43.23.095;

8 (11) [(9)] "taxable year" means the calendar year or the fiscal year
9 ending during the calendar year upon the basis of which the net income is computed
10 under this chapter; "taxable year" includes, in the case of a return made for a fractional
11 part of a year under this chapter, the period for which the return is made;

12 (12) [(10)] "taxpayer" means a person subject to a tax imposed by this
13 chapter;

14 (13) [(11)] "trade or business" includes the engaging in or carrying on
15 of a trade, business, profession, vocation, employment, and rendition of services or
16 commercial activity and includes the performance of the function of a public office.

17 * Sec. 13. AS 43.05.085; AS 43.20.012, 43.20.013, and AS 47.45.120(a) are repealed.