

HB

413

TONY KNOWLES
GOVERNOR
governor@gov.state.ak.us



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

HB 413
P.O. Box 110001
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February 11, 2002

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

Dear Speaker Porter:

Alaska's economy is strong -- with our 14th consecutive year of economic growth, more Alaskans working than ever before, and the lowest unemployment rates in a generation. And yet, the economic health and security of Alaska families is threatened by the growing budget gap, which is projected to reach about \$1.2 billion by next year.

For 20 years, Alaska governors, legislators, economists, and business and civic leaders have urged long-range budget plans recommending the same basic combination of cuts and revenues to replace dwindling oil dollars. Now the day of reckoning is upon us.

The approach I have proposed, which calls for raising approximately \$400 million in new revenues a year over the coming three years, is based on five principles:

- Any plan must be fair. Everyone should contribute, including those who make money here but live elsewhere.
- Permanent Fund earnings, after inflation-proofing and dividends and a vote of the people, should be used only after a broad-based tax and corporate taxes are in place.
- New revenues should be phased in rather than imposed all at once. This avoids shocking the economy and helps families and businesses adjust to the change.
- Any budget plan must be realistic -- not based on unsubstantiated estimates or bogus promises.
- Efficiencies, savings and continued cost reductions must always be part of budget considerations.

The Honorable Brian Porter

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This bill I am transmitting today proposes one of the new revenue measures -- a tax on income earned in Alaska.

The State of Alaska relied on personal income taxes from the time of statehood until 1980. The income tax was then repealed because the tax and royalty income from North Slope oil fields provided sufficient revenue to operate state government.

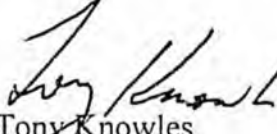
The income tax I propose is a simple measure based on a percentage of the income tax paid to the federal government. For most Alaskans, this will mean an easy calculation to determine their Alaska tax. It also adopts the progressive measures and incentives of the federal tax system.

The target is for this tax to raise about \$350 million, which would require a tax rate of 20 percent of an individual's income tax currently paid to the federal government. This level of income tax combined with other taxes I support would result in \$400 million in additional annual revenue for the state. If the state adopts new revenue measures averaging \$400 million per year for three years, we will reach the goal of \$1.2 billion in new annual revenue.

An important feature of this bill is a provision to reduce the tax rate when reserves are sufficient. The bill includes a trigger to lower the tax rate to 10 percent when the state's reserves in the Constitutional Budget Reserve Fund climb above \$2 billion and a further reduction to 5 percent when the fund reaches \$2.5 billion. Any excess general fund income from a major development, such as a natural gas pipeline or the implementation of responsible revenue measures, will increase the balance in the budget reserve fund. The state should maintain at least \$1.5 billion in the reserve to avoid an emergency caused by a sudden drop in oil and gas prices. Once reserves reach \$2 billion, however, we could lower the tax rate on our citizens.

I urge your prompt and favorable consideration of this legislation.

Sincerely,


Tony Knowles
Governor

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HB 413
 (H) Publish Date: 2/13/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title: Alaska Personal Income Tax BRU: Revenue Operations
 Component: Tax Division
 Sponsor: Rules Committee
 Requester: Governor Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	2,308.2	3,985.6	4,991.4	4,903.3	4,903.3	4,903.3
Travel	138.8	150.5	169.3	150.0	150.0	150.0
Contractual	1,379.4	1,850.9	2,099.1	2,090.4	2,090.4	2,090.4
Supplies	40.5	81.5	103.1	102.3	102.3	102.3
Equipment	392.0	608.0	104.0			
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	4,258.9	6,676.5	7,466.9	7,246.0	7,246.0	7,246.0

CAPITAL EXPENDITURES	3,921.5	1,302.5	500.7			
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CHANGE IN REVENUES (increase)	175,000.0	350,000.0	**	**	**	**
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	8,180.4	7,979.0	7,967.6	7,246.0	7,246.0	7,246.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	8,180.4	7,979.0	7,967.6	7,246.0	7,246.0	7,246.0

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time	49	79	92	88	88	88
Part-time						
Temporary		46	46	46	46	46

ANALYSIS: (Attach a separate page if necessary)

** In FY 2003, we estimate that the Alaska Personal Income Tax will raise \$175 million. This is half of the total annual revenue estimate of \$350 million. Actual revenues for the first six months of the tax (the last six months of Fiscal 2003) might be larger or smaller depending on the timing of withholding, refunds and estimated payments. We have estimated this revenue using 1999 Internal Revenue Service Data.

We used asterisks on years after FY 2004 because of the level of uncertainty. Estimates do not include any of the following variables: (1) federal tax changes (including the tax cuts approved by Congress last year) that will decrease personal tax liability, (2) growth of real income or population, (3) tax avoidance or evasion, (4) changes in the structure of the Alaska economy, and (5) non-resident business income.

Prepared by: Chuck Harlamert, Revenue Supv., and Brett Fried, Economist Phone 465-3682
 Division: Tax Division Date/Time 02/11/2002 11 a.m.
 Approved by: Larry Persily, Deputy Commissioner Date 02/11/2002
 Agency: Department of Revenue

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FROM : BYERS SOLDOTNA AK-#99669-COPY# FAX NO. : 907-262-8474

Feb. 12 2002 03:23PM P2

February 12, 2002

MOST HONORABLE, MR. CARL ROSEN;
HOUSE STATE AFFAIRS COMMITTEE
 Box V.
 Juneau, Alaska
 #99811

RE: HB 10 - INCOME TAX ON INDIVIDUALS & FIDUCIARIES:

Thank you very much for your Time, Service and Help, to the Citizens, of the Great State of Alaska, Your efforts are greatly appreciated.

I understand the need for tax's, to pay for Government Services for all citizens. I do not know of many people who live within a City and or Borough who can afford to pay for their own roads, sewer systems, water supplies, curbs and sidewalks, street lights, fire, and police department employees. However, by collecting monies, from all of the citizens, all of these services can be utilized.

Respectfully, I would therefore request that Disabled Veterans, who have all ready served their Country and State. Be granted a "Tax - Exempt Status", from the proposed Income Tax on Individuals, Trusts and Estates. This Tax Exemption would be a pleasant and greatly appreciated way of saying "Thank You", to these Veterans, for their Services, to one and all.

I greatly appreciate, the privilege of voting - since 1974, I have only missed voting once and while I am not in your voting area, I believe that this specific issue, also affects the veterans, when you represent.

My Sincerest, Thank You, Sir: For allowing me the honor and privilege to participate in Alaska State, Community processes.

Robert A. Byers

Mr. Robert A. Byers
 P.O. Box 865
 Soldotna, Alaska
 99669-0865
 PHONE: 907-262-6188

Mr. R. Byers
 P.O. Box 865
 Soldotna, Alaska
 99669-0865

~~PAGE #2 OF 4 PAGES~~



Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
committee name
 Committee on HB 10, dated February 14, 2002
bill # / subject

I would like to go on record as being **OPPOSED** to HB 10. Please do **NOT** seriously consider any new funding source (TAXES) until all public funds given to private businesses, individuals, and special interest groups, have been completely eliminated.

In the past two weeks alone the Alaska Legislature has considered spending bills with a price tag of over one **BILLION** dollars, the majority of which provide funding for special interest groups or non-essential state government spending. This money would be much better utilized elsewhere, or better yet, put away for future funding of essential state services.

A **\$7.5 BILLION** dollar budget amounts to our state government spending over **\$12,000.00** for every man, woman, and child in Alaska. At this rate, spending for a family of six amounts to over **\$72,000.00!** For each working person, this level of spending amounts to over **\$26,000** each. That's a lot of tax money! I want to know how many average working people and small business owners will be able to afford living here once the oil pipeline goes dry?

Taxes are **NOT** the answer, at this time, to our state budget woes; cutting non-essential spending **IS**. In my opinion HB 10 does nothing more than to encourage continued uncontrolled excessive government spending.

No informed Alaskan citizen will seriously consider any new taxes until all public funds given to private businesses, individuals, and special interest groups have been completely eliminated. Our money would be better spent funding present and future essential government services such as education, roads, public health & safety. Until you reach that point, don't come to me asking for more money.

Please show true leadership at this difficult time, by voting **NO** on HB 10.

Thank you.

Signed: Mike McBride
Testifier

Self
Representing (optional)

P O Box 6 Kenai, Alaska 99611-0006
Address

907 776 5444
Phone number



Alaska State Legislature

Please enter into the record my testimony to the House State Affairs
committee name
 Committee on HB 199, dated February 14, 2002
bill # / subject

I would like to go on record as being **OPPOSED** to HB 199. Please do **NOT** seriously consider this or any new funding source (TAXES) until all public funds given to private businesses, individuals, and special interest groups, have been completely eliminated.

In the past two weeks alone the Alaska Legislature has considered spending bills with a price tag of over one **BILLION** dollars, the majority of which provide funding for special interest groups or non-essential state government spending. This money would be much better utilized elsewhere, or better yet, put away for future funding of essential state services.

A \$7.5 **BILLION** dollar budget amounts to our state government spending over \$12,000.00 for every man, woman, and child in Alaska. At this rate, spending for a family of six amounts to over \$72,000.00! For each working person, this level of spending amounts to over \$26,000 each. That's a lot of tax money! I want to know how many average working people and small business owners will be able to afford living here once the oil pipeline goes dry?

Taxes are **NOT** the answer, at this time, to our state budget woes; cutting non-essential spending **IS**. In my opinion HB 199 does nothing more than to encourage continued uncontrolled excessive government spending.

No informed citizen of Alaska will seriously consider any new taxes until all public funds used for non-essential spending have been completely eliminated. Our money should **ONLY** be spent funding present and future essential government services such as education, roads, public health & safety. Until you reach that point, do not come to me asking for more money.

Please show true leadership at this difficult time, by voting **NO** on HB 199.

Thank you.

Signed: Mike McBride
Testifier

Self
Representing (optional)

P O Box 6 Kenai, Alaska 99611-0006
Address

907 776 5444
Phone number

Alaska State Legislature
Public Opinion Messages

Mrs. Madeleine D Betz,
666 11th Avenue 205
666 11th Ave #205
Fairbanks, AK 99701
Phone: -
E-mail:

Constituency: N
Distribution: 2
Affiliation: Tanana Valley League of Women Voters
Reg Voter: Y

Subject/Bill BUDGET

I support exploring additional sources of revenue to fund State government besides oil revenue. Please look into institution a tax on either income or sales of goods. Let partisan ideology by the wayside and consider what is best for all Alaskans.
Date Sent: 02/11/2002

Phyllis Ogar,
3221 Douglas HWY
Juneau, AK 99801
Phone: -
E-mail:

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: U

Subject/Bill TAXATION

I oppose state income tax. Cost of living extremely high here. As retiree living here year round added expenses would reduce my purchasing power. I would have less money to put back into economy. Alaska offers perks which allow retirees to remain in Alaska. Please consider retaining our older population by opposing state income tax.
Date Sent: 02/12/2002

Richard L Hutchison,
Po Box 84909
1919 Lathrop St #101
Fairbanks, AK 99708
Phone: -
E-mail:

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: Y

Subject/Bill Fiscal Gap

If the nature of funding for state government and services is going to be modified I strongly feel that all Alaskans should share in the responsibility. Therefore the permanent fund should be utilized not a state income tax.
Date Sent: 02/12/2002

Lance R Jordan,
4130 Crannog St
Anchorage, AK 99502
Phone: -
E-mail:

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: Y

Subject/Bill TAXATION

Cut state spending in all areas by 1 third before you add taxes. That also includes cutting our PFD percentage by 1 third my understanding is our state spends over double the next highest state as far as per capita spending by state government lets drop that down to a little more than the next highest.
Date Sent: 02/12/2002

Alaska State Legislature
Public Opinion Messages

Cheryl A Keepers,
Po Box 74898
9981 Fahrenkamp Ave
Fairbanks, AK 99707
Phone: -
E-mail:

Constituency: N
Distribution: 9
Affiliation:
Reg Voter: Y

Subject/Bill HB 367 Opposes

Denali Kid Care is a vital support for families that saves Alaska money in the long run. Remember the old saying an ounce of prevention is worth a pound of cure"? It's still true. I urge you to defeat this bill."
Date Sent: 02/12/2002

Mr. Christopher B Dewitt,
Po Box 240694
Juneau, AK 99801
Phone: 364-1554
E-mail: cdewitt@blm.ak.gov

Constituency: N
Distribution: 60
Affiliation: Myself
Reg Voter: Y

Subject/Bill TAXATION

I oppose a state income tax. I support liquor tax per drink limited luxury sales tax and removing PDF payoff if it was used to balance the budget. Instead of subsidising the federal government keep it and balance the budget. My support for these issues would have to include a spending and balanced budget bill.
Date Sent: 02/12/2002

Edna A Resari,
4031 North Star St
4031 North Star St
Anchorage, AK 99503
Phone: -
E-mail:

Constituency: N
Distribution: 8
Affiliation:
Reg Voter: Y

Subject/Bill HB 367 Opposes

I wish to oppose HB 367 regarding Denali Kid Care. I'm a school nurse and see many children benefiting from this program.
Date Sent: 02/12/2002

Mr. Gregg L Ashwill,
2212 Cliff Ct
2212 Cliff Ct
Anchorage, AK 99517
Phone: -
E-mail: airman@alaska.com

Constituency: N
Distribution: 40
Affiliation:
Reg Voter: Y

Subject/Bill SB 258 Opposes

I adamantly oppose any kind of tax on Alaska businesses. This will discourage business startups. Reduce the State budget to areasonable" number. The spending in this State is ridiculous."
Date Sent: 02/12/2002

Alaska State Legislature
Public Opinion Messages

James C Weidner,
5479 Chena Hot Springs Rd
5479 Chena Hot Springs Rd
Fairbanks, AK 99712
Phone: -
E-mail:

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: Y

Subject/Bill TAXATION

I support actually cutting the budget. There is no need for any of these taxes. Cost of operating the State of Alaska's government is more than other states such as Wyoming Idaho North Dakota.
Date Sent: 02/12/2002

Kathleen A Lawton,
11435 Mausel Rd
11435 Mausel Rd
Eagle River, AK 99577
Phone: -
E-mail:

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: Y

Subject/Bill HB 66 Opposes

Also SB 14. As a soil chemist plant physiologist and environmental specialist I believe the Pesticide Right to Know bill is a waste of Alaska's time and money at this time. I respect Representative Cissna's efforts but this bill is not needed. Please choose to spend that money elsewhere.
Date Sent: 02/12/2002

Mr. Thomas R Kelly,
4211 Passage Wy
Anchorage, AK 99516
Phone: 269-8040
E-mail: kellyt@katewwdb.com

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: Y

Subject/Bill HB 258 Opposes

As a business owner I strongly oppose the introduction of this legislation. And I would urge you to vote against this proposed change which would tax businesses on gross revenue. Another example of trying to tax people who are trying to be productive.
Date Sent: 02/12/2002

Clifford E Boner,
Hc 60 Box 2465
Hc 60 Box 2465
Copper Center, AK 99573
Phone: -
E-mail:

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: Y

Subject/Bill SCR 25 Opposes

Who is going to pay the bill for a lawsuit to change ANILCA? Either do your job or get out of dodge!
Date Sent: 02/12/2002

Alaska State Legislature
Public Opinion Messages

Kenneth J Mears,
1941 Wickersham Dr
1941 Wickersham Dr
Anchorage, AK 99507
Phone: -
E-mail:

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: Y

Subject/Bill TAXATION

Contributions from non-resident guides fisherman and lodges who have priority over urban and rural residents are hard to get with their very sharp pencils. A gross renewable resource business tax with liberal resident credits could do it. The state AG had previously willed this possibility as the money is not spent here.
Date Sent: 02/12/2002

Jerome R Moore,
Po Box 140223
Po Box 140223
Anchorage, AK 99514-0223
Phone: -
E-mail:

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: Y

Subject/Bill TOURISM

I am against the proposed \$6million ads for the tourism industry. There are no guarantees for any return on the money spent. The economy is bad alot of folks are putting off travel plans. The major amount of the money is spent in the company businesses.
Date Sent: 02/12/2002

Ms. Michelle s Tabler,
13241 Vern Dr
13241 Vern Dr
Anchorage, AK 99516
Phone: 274-2886
E-mail: mtabler@alaska.net

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: Y

Subject/Bill TAXATION

I am VERY opposed to a state income tax. Use the Permanent Fund FIRST for state government - that is what the Fund was set up for. Don't tax my income while thousands of peop'le who don't work won't pay the tax AND still receive their Permanent Fund checks. Michelle Tabler
Date Sent: 02/12/2002

Linda E Sisson,
129 Parkwood Cir
129 Parkwood Cir
Soldotna, AK 99669
Phone: -
E-mail: jsisson@ideafamilies.org

Constituency: N
Distribution: 59
Affiliation: Sisson Homeschool
Reg Voter: Y

Subject/Bill EDUCATION

The proposed regulations by D.E.E.D. regarding restrictions on the use of privately purchased curricular material[4AAC33.421(d) 4AAC33.421(e) and 4AAC33.421(g)(2)] NEED TO BE RE-WRITTEN! We have a constitutional right to use Christian curriculum purchased with private funds. This regulation would prohibit this freedom.
Date Sent: 02/12/2002

Alaska State Legislature
Public Opinion Messages

Jeffrey A Sisson,
129 Parkwood Cir
Po Box 3585
Soldotna, AK 99669
Phone: -
E-mail: csisson@connect.kpbsd.k12.ak.us

Constituency: N
Distribution: 20
Affiliation:
Reg Voter: Y

Subject/Bill EDUCATION

I oppose the D.E.E.D proposed regulations affecting homeschooling in Alaska. These regulations if allowed to pass would devastate I.D.E.A. and other homeschooling programs in Alaska. THESE REGULATIONS NEED TO BE RECONSIDERED. Homeschooling is a wonderful alternative educational system and it would be too bad to loose it.

Date Sent: 02/12/2002

Leora A Pooler,
Po Box 714
Po Box 714
Sterling, AK 99672
Phone: -
E-mail:

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: Y

Subject/Bill TAXATION

Is it the water in Juneau? Have you guys gone crazy? All we hear coming out of Juneau is taxes taxes taxes! How can you DREAM of taxes and appropriate tourism \$6M? Be advised: people are watching VERY carefully. I gaurantec tax supporters are serving their last term in Juneau.

Date Sent: 02/13/2002

Mr. Michael K Segelhorst,
3910 Image Dr
Anchorage, AK 99504
Phone: 33-8788
E-mail:

Constituency: N
Distribution: 27
Affiliation:
Reg Voter: Y

Subject/Bill TAXATION

Stop taking direction from the Anchorage Daily News. Listen to people and read the polls. Spending cuts and spending cap are needed first. No new taxesyet". Remember you were elected generally as fiscal conservatives. Please keep your promises and remember it's an election year."

Date Sent: 02/13/2002

Lapriel C Stephan,
Po Box 112114
Po Box 112114
Anchorage, AK 99511-2114
Phone: -
E-mail:

Constituency: N
Distribution: 18
Affiliation:
Reg Voter: Y

Subject/Bill HB 303 Opposes

Bad bill HB 303 the sales tax proposal. You're definitely more apt to lose at the next election if you pass HB 303. Use the interest from permanent fund if necessary cut give-away programs and social services. Didn't need to give money to ANWR advertising

Date Sent: 02/13/2002

Alaska State Legislature
Public Opinion Messages

Dr. Thomas. N Davis,
375 Miller Hill RD
Fairbanks, AK 99709
Phone: -
E-mail: neildavs@mosquionet.com

Subject/Bill TAXATION

I strongly support reinstatement of the Alaska Income Tax as proposed by Governor Knowles. I strongly oppose imposition of a sales tax. T. Neil Davis Voter ID 00090959.
Date Sent: 02/13/2002

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: U

Mr. Leroy K Smith,
10030 Gebhart DR
Anchorage, AK 99515
Phone: 248-8375
E-mail: lspara@acsalaska.net

Subject/Bill TAXATION

I support a seasonal sales tax - everybody pays including tourists using infrastructure. Regarding municipal or borough objections share it. A 6 percent sales tax with 1 percent to the municipalities village or borough collecting it.
Date Sent: 02/13/2002

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: U

Janet Lemire,
Po Box 293
Po Box 293
Klawock, AK 99925-0293
Phone: 826-3007
E-mail: lemirecharters@yahoo.com

Subject/Bill TAXATION

Any kind of taxation is not a good idea. The economy is not good now and we Alaskans who are left are struggling enough as it is. Face reality and cut spending.
Date Sent: 02/13/2002

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: Y

Mr. Bret W Kunkle,
1901 McCormick RD
North Pole, AK 99705
Phone: -
E-mail:

Subject/Bill TAXATION

Rep. Kohring's recently released approach to cure the fiscal problems of state government by shrinking the size of government receives the full support of me and my co-workers here at the refinery in North Pole.
Date Sent: 02/13/2002

Constituency: N
Distribution: 60
Affiliation:
Reg Voter: U

Subject: Re: permanent fund proposal,Reply

Date: Mon, 11 Feb 2002 14:48:16 -0800

From: "W." <william.slone@acsalaska.net>

To: "Representative John Coghill" <Representative_John_Coghill@legis.state.ak.us>

Thanks for reviewing and for your comments

Slone

----- Original Message -----

From: "Representative John Coghill"

<Representative_John_Coghill@legis.state.ak.us>

To: "W." <william.slone@acsalaska.net>

Sent: Sunday, February 10, 2002 6:41 PM

Subject: Re: permanent fund proposal,Reply

> Dear W. L. Slone,

>

> Thanks for the very thoughtful solution to our Permanent Fund Earnings
> usage for Alaskans. Much of what you propose would have constitutional
> and IRS barrier ramifications that would be significant. However the
> biggest barrier would be the political one of public mistrust and
> legislative reluctance in installing such a complex system. An agreement
> of sixty legislators and a governor on such an issue would be next to
> impossible.

> I am making a copy of your proposal and will show it to some legislators
> and maybe this could spark further discussion.

> Thanks for the time you have put into this idea, I truly respect you
> effort.

> John Coghill

>

>

Subject: State Budget

Date: Mon, 11 Feb 2002 12:52:35 -0900

From: Delia Call <deliac@ciri.com>

To: "Representative_John_Coghill@legis.state.ak.us" <Representative_John_Coghill@legis.state.ak

Rep. Coghill: I'll keep this short.

Here's what this and many hardworking Alaskans want:

- cut spending by creating efficiencies in State government offices
- require state workers who are frequent flyers to use mileage plan miles towards state-related travel, not personal use.
- cap or eliminate perm. fund
- if a tax is needed to close the gap, let it be a sales tax.

Two of the three above would affect me - as a receiver of perm. fund and as a business manager in collecting taxes. Both would be burdensome, however, there is no logic to distributing perm. fund checks and collecting income taxes from those of us work hard to support ourselves and our families.

Thank you,

Delia Call

Anchorage citizen

508 Lynwood Dr., Apt. B

Anchorage, AK 99518

Subject: DEFICIT

Date: Mon, 11 Feb 2002 14:55:40 -0600

From: "Grawunder, Phillip L." <Phillip.Grawunder@BakerPetrolite.com>

To: "Representative_John_Coghill@legis.state.ak.us" <Representative_John_Coghill@legis.state.ak

Rep. Coghill;

Please forward my position to others who will listen. Keep up the good fight!

JUST SOLVE THE PROBLEM

If our deficit is \$1B. Cut spending. Why is it that all elected representative, whether state or federal, refuse to understand this when they are spending someone else's money?

If it's your personal finances, what do you do when your income drops? You cut your spending.
Why is this so hard to understand, when it relates to government?

A Plan That Would Work:

1. Cut Permanent Fund Dividend payments to everyone in the state.
Initiating a State Income Tax in Alaska, while giving away money to all citizens of the state is ludicrous! We as citizens of the state DO NOT DESERVE a Permanent Fund Dividend, when the states' expenses are almost twice as much as it's revenues. In fact we don't deserve a PFD under any circumstances. The only reason our representatives haven't voted to repeal it is because they would be unpopular and all they want is to get re-elected-NOT do what is right for the state!
2. Initiate a 5% State sales tax-it is the only fair tax, and we get tourists to pay also. Everyone pays, unlike an income tax where only those that work pay.
3. Cut State Spending to balance the budget this and every year, regardless the impact on state services. I don't have the actual volume that #1 & #2 above will pull into the treasury-but you do. Whatever the amount, cut an adequate amount from spending to balance the budget, without pulling it from reserves. Yes, it will hurt many people, but if we don't have the money-we don't have the money.

Think about why state revenues are down-production is down, and it will continue to decline at a rate of 5%---it isn't coming back. The only way to get revenue back to previously high levels is to produce ANWR.

It's ludicrous to think that the legislature is willing to spend \$12MM on promoting tourism, when you're only willing to spend \$1MM on promoting ANWR. The budget can't be balanced with tourism unless you tax each tourist thousands of dollars to come to Alaska!

Solving this problem will not be easy or pleasant. But you weren't elected to get paid and not do what is right-we want solutions. In business if you don't perform-you get fired.

If you don't perform we will do everything we can to elect someone else. We don't want excuses we want you to do what is right. And yes, you might not get re-elected if you do solve the problem-but you will know that you did something you can be proud of the rest of your life. You will also know that those before you didn't have the guts to do the right thing, but you did.

A concerned citizen;

DEFICIT

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STATE INDIVIDUAL INCOME TAXES
(Tax rates for tax year 2002 -- as of January 1, 2002)

	TAX RATE RANGE		Number of Bracket:	INCOME BRACKETS		PERSONAL EXEMPTIONS			FEDERAL INCOME TAX DEDUCTIBLE
	Low	High		Lowest	Highest	Single	Married dependents		
ALABAMA	2.0	- 5.0	3	500 (b)	- 3,000 (b)	1,500	3,000	300	*
ALASKA	No State Income Tax								
ARIZONA	2.87	- 5.04	5	10,000 (b)	- 150,000 (b)	2,100	4,200	2,300	
ARKANSAS	1.0	- 7.0 (e)	6	2,999	- 25,000	20 (c)	40 (c)	20 (c)	
CALIFORNIA (a)	1.0	- 9.3	6	5,748 (b)	- 37,725 (b)	79 (c)	158 (c)	247 (c)	
COLORADO	4.63		1	-----Flat rate-----		-----None-----			
CONNECTICUT	3.0	- 4.5	2	10,000 (b)	- 10,000 (b)	12,000 (f)	24,000 (f)	0	
DELAWARE	2.2	- 5.95	7	5,000	- 60,000	110 (c)	220 (c)	110 (c)	
FLORIDA	No State Income Tax								
GEORGIA	1.0	- 6.0	6	750 (g)	- 7,000 (g)	2,700	5,400	2,700	
HAWAII	1.4	- 8.3	8	2,000 (b)	- 40,000 (b)	1,040	2,080	1,040	
IDAHO	0.6	- 7.8	8	1,000 (h)	- 20,000 (h)	2,900 (d)	5,800 (d)	2,900 (d)	
ILLINOIS	3.0		1	-----Flat rate-----		2,000	4,000	2,000	
INDIANA	3.4		1	-----Flat rate-----		1,000	2,000	1,000	
IOWA (a)	0.36	- 8.98	9	1,211	- 54,495	40 (c)	80 (c)	40 (c)	*
KANSAS	3.5	- 6.45	3	15,000 (b)	- 30,000 (b)	2,250	4,500	2,250	
KENTUCKY	2.0	- 6.0	5	3,300	- 8,000	20 (c)	40 (c)	20 (c)	
LOUISIANA	2.0	- 6.0	3	10,000 (b)	- 50,000 (b)	4,500 (i)	9,000 (i)	1,000 (i)	*
MAINE (a)	2.0	- 8.5	4	4,150 (b)	- 16,500 (b)	2,850	5,700	2,850	
MARYLAND	2.0	- 4.75	4	1,000	- 3,000	2,400	4,800	2,400	
MASSACHUSETTS	5.0		1	-----Flat rate-----		4,400	8,800	1,000	
MICHIGAN (a)	4.1 (j)		1	-----Flat rate-----		2,800	5,600	2,800	
MINNESOTA (a)	5.35	- 7.85	3	18,710 (k)	- 61,461 (k)	2,900 (d)	5,800 (d)	2,900 (d)	
MISSISSIPPI	3.0	- 5.0	3	5,000	- 10,000	6,000	12,000	1,500	
MISSOURI	1.5	- 6.0	10	1,000	- 9,000	2,100	4,200	2,100	*(s)
MONTANA (a)	2.0	- 11.0	10	2,200	- 75,400	1,720	3,440	1,720	*
NEBRASKA (a)	2.51	- 6.68	4	2,400 (l)	- 26,500 (l)	94 (c)	188 (c)	94 (c)	
NEVADA	No State Income Tax								
NEW HAMPSHIRE	State Income Tax is Limited to Dividends and Interest Income Only.								
NEW JERSEY	1.4	- 6.37	6	20,000 (m)	- 75,000 (m)	1,000	2,000	1,500	
NEW MEXICO	1.7	- 8.2	7	5,500 (n)	- 65,000 (n)	2,900 (d)	5,800 (d)	2,900 (d)	
NEW YORK	4.0	- 6.85	5	8,000 (b)	- 20,000 (b)	0	0	1,000	
NORTH CAROLINA (o)	6.0	- 8.25	4	12,750 (o)	- 120,000 (o)	2,900 (d)	5,800 (d)	2,900 (d)	
NORTH DAKOTA	2.1	- 5.54 (p)	5	27,050 (p)	- 297,350 (p)	2,900 (d)	5,800 (d)	2,900 (d)	(p)
OHIO (a)	0.743	- 7.5 (q)	9	5,000	- 200,000	1,150 (q)	2,300 (q)	1,150 (q)	
OKLAHOMA	0.5	- 6.65 (r)	8	1,000	- 10,000	1,000	2,000	1,000	*(r)
OREGON (a)	5.0	- 9.0	3	2,350 (b)	- 5,850 (b)	132 (c)	264 (c)	132 (c)	*(s)
PENNSYLVANIA	2.8		1	-----Flat rate-----		-----None-----			
RHODE ISLAND	25.0% Federal tax liability (t)								
SOUTH CAROLINA (a)	2.5	- 7.0	6	2,400	- 12,000	2,900 (d)	5,800 (d)	2,900 (d)	
SOUTH DAKOTA	No State Income Tax								
TENNESSEE	State Income Tax is Limited to Dividends and Interest Income Only.								
TEXAS	No State Income Tax								
UTAH (a)	2.30	- 7.0	6	863 (b)	- 4,313 (b)	2,175 (d)	4,350 (d)	2,175 (d)	*(u)
VERMONT	24.0% Federal tax liability (t)								
VIRGINIA	2.0	- 5.75	4	3,000	- 17,000	800	1,600	800	
WASHINGTON	No State Income Tax								
WEST VIRGINIA	3.0	- 6.5	5	10,000	- 60,000	2,000	4,000	2,000	
WISCONSIN	4.6	- 6.75 (v)	4	7,500	- 112,500	700	1,400	400	
WYOMING	No State Income Tax								
DIST. OF COLUMBIA	4.5	- 8.5 (w)	3	10,000	- 40,000	1,370	2,740	1,370	

STATE INDIVIDUAL INCOME TAXES (footnotes)

Source: The Federation of Tax Administrators from various sources.

- (a) Seven states have statutory provision for automatic adjustment of tax brackets, personal exemption or standard deductions to the rate of inflation. Michigan, Nebraska and Ohio indexes the personal exemption amounts only.
- (b) For joint returns, the taxes are twice the tax imposed on half the income.
- (c) tax credits.
- (d) These states allow personal exemption or standard deductions as provided in the IRC. Utah allows a personal exemption equal to three-fourths the federal exemptions.
- (e) A special tax table is available for low income taxpayers reducing their tax payments.
- (f) Combined personal exemptions and standard deduction. An additional tax credit is allowed ranging from 75% to 0% based on state adjusted gross income. Exemption amounts are phased out for higher income taxpayers until they are eliminated for households earning over \$52,500.
- (g) The tax brackets reported are for single individuals. For married households filing separately, the same rates apply to income brackets ranging from \$500 to \$5,000; and the income brackets range from \$1,000 to \$10,000 for joint filers.
- (h) For joint returns, the tax is twice the tax imposed on half the income. A \$10 filing tax is charge for each return and a \$15 credit is allowed for each exemption.
- (i) Combined personal exemption and standard deduction.
- (j) Tax rate scheduled to decrease to 4.0% for tax year 2003.
- (k) The tax brackets reported are for single individual. For married couples filing jointly, the same rates apply for income under \$27,350 to over \$108,661.
- (l) The tax brackets reported are for single individual. For married couples filing jointly, the same rates apply for income under \$4,000 to over \$46,750.
- (m) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under \$20,000 to over \$150,000.
- (n) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under \$8,000 to over \$100,000. Married households filing separately pay the tax imposed on half the income.
- (o) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$21,250 to \$200,000. Lower exemption amounts allowed for high income taxpayers. Tax rate scheduled to decrease after tax year 2003.
- (p) Rates reported are for short form filers. Long form filers rates range from 2.67% for income under \$3,000 to 12% over \$50,000. Long form filers only can deduct federal income taxes. An additional \$300 personal exemption is allowed for joint returns or unmarried head of households.
- (q) Plus an additional \$20 per exemption tax credit. Rate reported are for tax year 2001, the 2002 rates will not be determined until July, 2001.
- (r) The rate range reported is for single persons not deducting federal income tax. For married persons filing jointly, the same rates apply to income brackets ranging from \$2,000 to \$21,000. Separate schedules, with rates ranging from 0.5% to 10%, apply to taxpayers deducting federal income taxes.
- (s) Deduction is limited to \$10,000 for joint returns and \$5,000 for individuals in Missouri and to \$3,000 in Oregon.
- (t) Federal Tax Liability prior to the enactment of economic Growth and Tax Relief Act of 2001.
- (u) One half of the federal income taxes are deductible.
- (v) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$10,000 to \$150,000.
- (w) Tax rate decreases are scheduled for tax years 2003.

STATE PERSONAL INCOME TAXES: FEDERAL STARTING POINTS

STATE	Relation to Internal Revenue Code	Tax Base
ALABAMA	---	---
ALASKA	no state income tax	
ARIZONA	1/1/01	federal adjusted gross income
ARKANSAS	---	---
CALIFORNIA	1/1/98	federal adjusted gross income
COLORADO	Current	federal taxable income
CONNECTICUT	Current	federal adjusted gross income
DELAWARE	Current	federal adjusted gross income
FLORIDA	no state income tax	
GEORGIA	1/1/01	federal adjusted gross income
HAWAII	12/31/00	federal taxable income
IDAHO	1/1/00	federal taxable income
ILLINOIS	Current	federal adjusted gross income
INDIANA	1/1/01	federal adjusted gross income
IOWA	1/1/01	federal adjusted gross income
KANSAS	Current	federal adjusted gross income
KENTUCKY	12/31/99	federal adjusted gross income
LOUISIANA	Current	federal adjusted gross income
MAINE	12/31/00	federal adjusted gross income
MARYLAND	Current	federal adjusted gross income
MASSACHUSETTS	Current	federal adjusted gross income
MICHIGAN	Current (a)	federal adjusted gross income
MINNESOTA	Current	federal taxable income
MISSISSIPPI	---	---
MISSOURI	Current	federal adjusted gross income
MONTANA	Current	federal adjusted gross income
NEBRASKA	Current	federal adjusted gross income
NEVADA	no state income tax	
NEW HAMPSHIRE	on interest & dividends only	
NEW JERSEY	---	---
NEW MEXICO	Current	federal adjusted gross income
NEW YORK	Current	federal adjusted gross income
NORTH CAROLINA	1/1/01	federal taxable income
NORTH DAKOTA	Current	federal taxable income
OHIO	Current	federal adjusted gross income
OKLAHOMA	Current	federal adjusted gross income
OREGON	Current	federal taxable income
PENNSYLVANIA	---	---
RHODE ISLAND	6/3/01	federal liability
SOUTH CAROLINA	12/31/00	federal taxable income
SOUTH DAKOTA	no state income tax	
TENNESSEE	on interest & dividends only	
TEXAS	no state income tax	
UTAH	Current	federal taxable income
VERMONT	6/3/01	federal liability
VIRGINIA	Current	federal adjusted gross income
WASHINGTON	no state income tax	
WEST VIRGINIA	1/1/00	federal adjusted gross income
WISCONSIN	12/31/00	federal adjusted gross income
WYOMING	no state income tax	
DIST. OF COLUMBIA	Current	federal adjusted gross income

Source: Compiled by the Federation of Tax Administrators from various sources.

--- state does not employ a federal starting point. Current indicates state has adopted IRC as currently in effect. Dates indicate state has adopted IRC as amended to that date.

(a) or 1/1/99, taxpayer's option.

2000 State Tax Collection by Source

(Percentage of Total)

	Property	Sales	Selective Sales	Individual Income	Corporate Income	Other
Alabama	2.8	26.4	23.7	32.2	3.8	11.1
Alaska	3.1	0.0	9.7	--	30.8	56.4
Arizona	3.7	44.8	12.5	28.3	6.5	4.3
Arkansas	9.9	35.0	13.5	30.2	4.9	6.5
California	4.0	28.0	7.4	47.2	7.9	5.5
Colorado	--	26.1	12.2	51.4	4.7	5.6
Connecticut	--	33.6	16.1	39.1	4.2	7.0
Delaware	--	--	13.6	34.4	11.3	40.8
Florida	3.1	60.5	16.6	--	4.8	15.1
Georgia	0.4	34.3	8.3	47.1	5.3	4.7
Hawaii	--	46.1	15.5	31.9	2.3	4.3
Idaho	--	31.4	12.9	40.6	5.3	9.7
Illinois	0.2	28.1	19.6	33.5	9.9	8.7
Indiana	0.0	35.4	14.4	37.1	9.2	3.8
Iowa	--	33.2	14.6	36.5	4.1	11.6
Kansas	1.0	35.8	11.9	38.3	5.6	7.4
Kentucky	5.1	28.2	17.4	35.1	4.0	10.2
Louisiana	0.4	31.6	25.5	24.3	3.4	14.8
Maine	1.1	31.8	12.9	40.5	5.6	8.0
Maryland	2.5	24.1	18.0	44.6	4.2	6.7
Massachusetts	0.0	22.1	9.3	56.0	8.1	4.6
Michigan	7.5	33.7	9.3	31.6	10.5	7.5
Minnesota	0.1	27.9	15.4	41.6	6.0	9.0
Mississippi	0.0	49.5	17.3	21.4	4.8	7.0
Missouri	0.2	32.5	14.5	41.4	3.1	8.2
Montana	15.5	--	24.4	36.6	7.1	16.4
Nebraska	0.1	34.5	14.0	39.4	4.7	7.3
Nevada	2.5	52.2	32.6	--	--	12.7
New Hampshire	27.9	0.0	32.8	3.9	18.4	17.0
New Jersey	0.0	30.4	14.8	39.7	7.4	7.7
New Mexico	0.9	40.1	13.5	23.5	4.3	17.7
New York	--	20.5	11.4	55.6	6.6	5.9
North Carolina	0.0	22.1	17.5	46.6	6.5	7.2
North Dakota	0.2	28.2	27.7	16.9	6.7	20.3
Ohio	0.1	31.8	14.2	41.9	3.2	8.8
Oklahoma	--	24.6	12.6	36.5	3.3	22.9
Oregon	0.0	0.0	12.2	68.9	6.8	12.0
Pennsylvania	0.5	31.4	15.1	30.1	7.6	15.2
Rhode Island	0.0	30.5	18.8	40.7	3.7	6.3
South Carolina	0.2	38.5	12.3	38.3	3.6	7.1

South Dakota	--	52.6	26.4	--	4.9	16.1
Tennessee	--	57.4	17.6	2.3	7.9	14.7
Texas	--	51.1	29.9	0.0	--	19.0
Utah	--	35.8	12.6	41.5	4.4	5.8
Vermont	27.5	14.6	17.4	29.4	3.0	8.0
Virginia	0.3	19.5	14.9	54.0	4.5	6.9
Washington	13.5	61.6	15.5	0.0	--	9.4
West Virginia	0.1	27.4	26.4	28.9	6.5	10.7
Wisconsin	0.7	27.7	13.0	47.1	4.6	6.9
Wyoming	10.5	38.3	11.2	0.0	--	40.0
Total	2.0	32.3	14.4	36.0	6.0	9.2

Source: U.S. Bureau of the Census.
--- tax not levied at state level.

HB 413 – PERSONAL INCOME TAX
- SECTIONAL ANALYSIS BY THE DEPARTMENT OF REVENUE -
February 16, 2002

OVERVIEW

This bill would implement a state income tax on individuals, estates and trusts, using as its taxable base the tax liability reported on federal income tax returns. Federal tax liability is generally the tax after federal deductions and credits, including the Earned Income and Additional Child tax credits.

The state income tax would be imposed at the rate of 20% of the federal tax. The rate would be reduced to 10% or 5% if the balance in the Constitutional Budget Reserve Fund grows to \$2 billion or \$2.5 billion, respectively.

Residents would compute their Alaska tax based upon their federal tax. However, they would be allowed an offset for any income taxes paid to other states. Nonresidents would be taxed on the percentage of their total federal tax attributed to Alaska income. If, for example, half of a nonresident's income is attributed to activity in Alaska, then his or her Alaska income tax would be 20% times half of the nonresident's federal tax.

Withholding would be required on wages. Employers are already withholding federal taxes, and the state withholding would be a percentage of the federal withholding. Quarterly estimated tax payments would be required for income not subject to withholding.

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 potential tax loophole. The plan for taxing these entities essentially follows that for resident and nonresident individuals. Alaska trusts and estates would be taxed at the Alaska percentage of their federal tax liability, with an offset allowed for taxes paid to other states. All other trusts and estates would be taxed only on a percentage of the total tax attributed to Alaska income.

A section-by-section analysis of the bill follows.

SECTION 1 – TAXPAYER DEFINED

This section provides that employers required to withhold income taxes are treated the same as taxpayers for purposes of the penalty, interest, assessment, collection and appeal provisions in AS 43.05. These provisions would apply to an employer that fails to file reports or fails to pay to the state any withheld income taxes.

SECTION 2 – IMPOSITION OF TAX

This section imposes an income tax on all income of resident individuals, estates and trusts; and on only the income from Alaska sources of part-year residents and nonresident individuals, estates and trusts.

For the majority of year-round Alaska residents with no income earned in other states, they would simply go to Line 52 on IRS Form 1040, which reflects their federal tax after federal credits, and multiply Line 52 by the Alaska tax rate to determine their Alaska tax liability. Those with Earned Income Credit or Additional Child Tax Credit would subtract Lines 61(a) and 63 from Line 52 before multiplying the sum by the Alaska tax rate to determine their Alaska income tax liability.

The process would be different for others. They would start with the federal income tax liability as shown on Line 40 of Form 1040. This tax must then be adjusted, if necessary, for the following items (line references are to the Form 1040 for 2001):

1. The Alternative Minimum Tax liability, if any, shown on Line 41 must be added to the tax.
2. Any federal credits taken on Form 1040 would then be deducted from the tax. Most of the federal credits are shown on Line 51. The federal credits also include the Earned Income Credit on Line 61(a) and the Additional Child Tax Credit on Line 63. However, the federal credits may not reduce the Alaska tax below zero; unused credits, if any, are allowed only to the extent they are reflected on the federal return in another tax year.
3. This legislation would also allow taxpayers to deduct credits against their tax liability for Alaska Longevity Bonus payments, interest on U.S. government bonds or notes, and any other income that the state may not tax under state or federal law, in effect shielding this income from the state income tax. These Alaska credits may not reduce the tax below zero.
4. The Alaska tax rate is then multiplied against the federal tax liability as determined above. The result is a taxpayer's Alaska income tax liability.
5. Alaska residents could then deduct from their tax bill any income taxes paid to other states for income earned in that state.

Nonresidents have one additional computation to determine the Alaska income tax liability. Unlike residents who are taxed on all their income regardless of where it was earned, nonresidents under federal law may only be taxed on the income derived from an Alaska source. That part of their federal tax liability attributed to income from Alaska sources becomes the base against which the Alaska tax rate is applied. Nonresidents would add all their income from Alaska sources as reported on Lines 7-21 and divide that number by the total income on Line 22; that percentage would then be multiplied by their federal tax liability to determine how much of their federal tax liability is subject to Alaska income tax. If, for example, half the income is from Alaska sources, half of their federal tax liability would be subject to the Alaska income tax calculation.

The Alaska tax rate for 2003 is a flat rate of 20% of the adjusted federal income tax liability. The bill provides that in future years the tax rate would range from 5% to 10% to 20% depending on the balance in the Constitutional Budget Reserve Fund on September 30th of the year preceding the tax year. Since the federal income tax liability is the result of a graduated federal tax, and the Alaska tax piggybacks upon the federal tax liability, the Alaska tax is also graduated even though it is a flat rate.

Some residents earn income in other states and pay an income tax in those states. In order to prevent these residents from paying tax twice on the same income, an offset to the Alaska tax liability is provided. The offset is the lesser of the amount of the actual tax paid to the other state, the amount of the Alaska tax that is otherwise attributed to the out-of-state income, or the Alaska tax liability. The calculation of the amount of Alaska tax attributed to out-of-state income is discussed in Section 4.

Estates and trusts determine the Alaska tax in much the same manner as individuals. The differences are mostly federal in nature and arise because a Form 1041 is filed rather than a Form 1040. A resident estate and trust starts with the federal income tax liability shown on Line 23 of Form 1041. This is the line that reflects the federal income tax liability to the estate or trust on taxable income after deductions, including the income distribution deduction for amounts distributed to beneficiaries, and the line also is net of credits and other taxes.

After taking into account any adjustments to the tax for Alaska credits that may be required, the Alaska tax rate is multiplied against the adjusted tax to produce the Alaska tax liability. While the estate or trust does not pay tax on income distributed to beneficiaries, the individual beneficiaries are required to report the income on their federal tax return and the income will be subject to the Alaska tax in that manner.

Nonresident estates and trusts are only taxed on the income from sources within Alaska. The federal tax is segregated into Alaska source income and non-Alaska income by multiplying the federal tax as adjusted by the percentage that Alaska income included in lines 1 through 8 of the form 1041 is to the total income shown on line 9. The segregated federal tax on Alaska source income is then multiplied by the Alaska tax rate to produce the Alaska tax liability.

SECTION 3 - ELECTRONIC FILING

This section allows the department to provide a financial incentive to taxpayers to file the tax return and pay the tax electronically. The incentive is capped at \$25 per taxpayer per year.

SECTIONS 4, 5, & 6 – RETURNS AND PAYMENTS.

These sections amend AS 43.20.030 to require individuals, partnerships, estates and trusts to file a tax return. The return is due on the date the federal return is required to be filed. The tax payment is due on the original due date, generally April 15 for an individual, regardless of extensions of the filing due date for the return. Withholding and estimated tax prepayments are required so the tax liability in practice should be paid during the tax year itself. Penalties and interest will apply to any tax deficiency after April 15 of the tax year.

SECTION 7 – CREDITS

This section provides an additional credit (distinct from the federal credits shown on the federal tax return) against the federal tax liability. The credit is an amount equivalent to the sum of the federal tax on (1) the Alaska Longevity Bonus that is exempt pursuant to AS 47.45.120(a), and (2) interest on such things as US Treasury Notes that federal law precludes a state from taxing. These credits are not contained on the Form 1040 because they have application only at the state level. The Longevity Bonus and Treasury Note interest are taxable for federal income tax purposes and are included within the total income shown on Line 22 of the Form 1040. Since the Alaska tax liability is based upon a percentage of the federal tax, that part of the federal tax attributed to these income items must be removed.

The part of the federal tax attributed to these non-taxable items is determined by reference to the effective rate of federal tax on each dollar of federal adjusted gross income. That is accomplished by dividing the actual federal tax shown on Line 40 of Form 1040 (tax on taxable income before credits and other taxes) by Line 33 (adjusted gross income before deduction and exemption amounts). This effective rate of federal tax can then be multiplied against the non-taxable income items and the result is the amount of the credit. The credit, however, may not exceed the federal tax liability remaining after federal credits are applied.

Because of the effect of the Alternative Minimum Tax, it might be possible to compute an effective tax rate that is less than the lowest federal tax rate or greater than the highest federal tax rate. If that occurs, the effective rate for the computation is set at the lowest or highest federal tax rate, whichever is applicable.

The effective tax rate is also a part of the computation of the offset for income of residents taxed in other states. The effective tax rate is multiplied by the income derived from sources in the other state and then again by the Alaska tax rate. This amount is an offset to the amount of the Alaska tax liability as otherwise computed without regard to the offset but may not reduce the Alaska tax liability below zero.

SECTION 8 – INCOME FROM SOURCES IN THE STATE DEFINED

For purposes of clarity, this section repeals and re-enacts the provision allocating by source the income of individuals, estates and trusts. Since residents are taxed on income from all sources, this provision applies to nonresidents. Examples include:

- A nonresident who receives a salary or wages for work performed in the state, or is otherwise compensated for performing services in the state such as legal or consulting services, has income from an Alaska source.
- A nonresident who owns and leases real estate, equipment or other tangible personal property that is located in Alaska, or receives licensing income from a franchisee located in Alaska, has income from an Alaska source.
- A nonresident engaged in fishing activities either partly or wholly in Alaska has income from an Alaska source.
- A nonresident who receives a royalty or other payment on minerals extracted in the state has income from an Alaska source.
- A nonresident who is a partner in a partnership, a member of a limited liability company (LLC) treated as a partnership for federal tax purposes, or a shareholder in a corporation that has elected Subchapter S treatment under federal law (S Corp), and the partnership, LLC or S Corp conducts business activities in Alaska, has income from an Alaska source.

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 whom the trust receives an income distribution deduction is considered to be Alaska source income to the beneficiary.

The income from sources in Alaska of a business conducted inside and outside Alaska is determined by the allocation and apportionment provisions in AS 43.19. These rules are those that generally apply to corporations and provide that income is apportioned based upon the relationship of property, payroll, and sales in Alaska as compared to everywhere, rather than by geographic sourcing. The business of an individual that involves only personal services is not subject to this rule and such income is sourced based upon the location where the services were performed, although some other form of allocation of the income may be required.

The department is to develop regulations to apportion the income of individuals involved in mobile businesses, such as those in commercial fishing and water, air, and land transportation businesses.

SECTION 9 – WITHHOLDING OF TAX ON WAGES AND ESTIMATED TAX PAYMENTS

This section requires employers to 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.

Estimated payments of the tax are required for income that is not subject to withholding. The failure by an individual to have sufficient taxes withheld, considered together with any estimated tax payments, would subject the individual to the underpayment of estimated tax penalties provided by federal law and incorporated into Alaska law. The same exceptions to the federal penalty will apply to the state penalty but based upon the Alaska tax.

SECTION 10 - ADMINISTRATION

This section amends AS 43.20.160(c) to instruct the department to facilitate automated or other means for the filing of tax returns and making of tax payments. The section also repeals the provision requiring the department to prepare a concise statement of every Internal Revenue Code section incorporated into Alaska law, which was an almost impossible task.

SECTIONS 11 AND 12 - DEFINITIONS

These sections provide various definitions. For tax purposes, a resident is not necessarily a resident for purposes of the Alaska Permanent Fund dividend program. Resident is a broader term. It is important because a person characterized as a resident for tax purposes is taxed on 100% of the person's income.

A resident individual is an individual domiciled in the state or residing within the state for the entire tax year. Residing or residence refers to actual physical presence while domicile refers to the true, permanent home without regard to absences. An individual therefore may be a resident for income tax purposes and not qualify in that year for a Permanent Fund dividend.

Just like individuals, estates and trusts may be residents or nonresidents. A resident estate is one whose decedent was domiciled in the state on the date of death, while a resident trust is one established under Alaska law; otherwise the estate or trust is a nonresident.

SECTION 13 - SECTIONS REPEALED

This section repeals AS 43.20.012, which currently exempts individuals, trusts and estates from income tax; AS 43.20.013, which is a suspended refundable credit provision; and AS 43.05.085, which is tied to AS 43.20.013.

SECTION 14 - APPLICABILITY

This section provides that the income tax is effective for tax years beginning on or after January 1, 2003.

SECTION 15 - REGULATIONS

This section allows the department to proceed to adopt regulations prior to the effective date of the income tax. The regulations themselves would not take effect before January 1, 2003.

SECTION 16 - TRANSITION

This section provides that the applicable Alaska tax rate in 2003 is 20%.

SECTIONS 17 AND 18 - EFFECTIVE DATE

This section provides that the authority to adopt regulations has an immediate effective date, while the income tax is has an effective date of January 1, 2003.

Tax-law simplification is "clearly needed." "Tax complexity itself is a kind of tax."



**Sen. Max Baucus (D-MT)
Senate Finance Committee
Chairman**



**Treasury Secretary
Paul O'Neill**

"I think our tax system is not worthy of an advanced society and I think we ought to do something about it."

"I'm very much of a mind that we need fundamental tax reform. The current tax code serves to undermine U.S. leadership ... and tie up some of the brightest minds in the country."

And speaking of bright minds...

"The hardest thing in the world to understand is the income tax"



Albert Einstein

Income Taxes were Unconstitutional until 1913

Subject: Fiscal Gap

Date: Mon, 11 Feb 2002 10:22:23 -0900

From: "Micky A Becker" <mbecker@ppco.com>

To: Representative_John_Coghill@legis.state.ak.us

I'm not opposed to taxes -- having said this. I feel it is absolutely not in the best interest of anyone to start taxing people when we are sitting on a \$25 billion+ savings account.

I realize capping the permanent fund won't fix the entire gap, but please don't pass taxes until we have reasonable approached this for our "savings account" point of view!

A. S. Micky Becker
907 265-6512 ph
907 265-6922 fx
Phillips Alaska, Inc., ATO 2100

Subject: Taxes

Date: Sun, 10 Feb 2002 11:59:08 +0100

From: fairbanksak@t-online.de (Colin Wanner)

To: Representative_John_Coghill@legis.state.ak.us

Dear Representative Coghill,

In light of recent discussion of new taxes, my wife and I would like to state our support for a REDUCTION or ELIMINATION of the annual DIVIDEND checks, rather than an income tax. Much of the Dividend money flows out of state anyway, so this method would be more likely to result in having funds directed inside Alaska.

Thanks,

Colin and Dale Wanner
Beacon Rd/Box 81704
Fairbanks, AK 99708

I wish you the best in your efforts to cut state spending.

Subject: I wish you the best in your efforts to cut state spending.

Date: Thu, 7 Feb 2002 09:24:22 -0900

From: "McFarlane" <lmcfarlane@mosquionet.com>

To: <Representative_John_Coghill@LEGIS.state.ak.us>

Dear Rep. John Coghill.

I wish you the very best in Juneau. I wish you the very best in your efforts to cut state spending. I'm sure next week will be a very busy week for you with the hearings that you will be holding. If cuts in spending are not enough to fill the billion-dollar hole in the state budget, I would rather see the permanent fund dividend cut or eliminated before a state income tax or a state sales tax would be enacted. I agree with Sen Pete Kelly's comment that the state should not give you a dividend with one hand and charge you a state income tax with the other hand. That was his thought if not his exact words.

I'm hoping for the best on the Redistricting issue. I'm looking forward to helping you in your reelection campaign this summer. I'll be remembering you in prayer.

Your friend,
Leslie McFarlane

<Representative_Carl_Moses@legis.state.ak.us>,
<Representative_Norman_Rokeberg@legis.state.ak.us>,
<Representative_Peggy_Wilson@legis.state.ak.us>

Dear Senators and Representatives of the State of Alaska-

I am an Anchorage resident. I have been following the legislature's debate of the State's fiscal gap closely, as I hope other Alaskans have. I believe the answer is very simple. You can not spend what you do not have. The state must do as all citizens and businesses do when we are in financial straits. We cut back. I have heard very little from anyone in the legislature about cutting payroll, non-essential services and travel expenditures. Shame on you Mr. Halford for the quote I read in the Anchorage Daily News: "And I think you also have to put some reductions (in state spending) on the table that people consider important enough that they are willing to contribute to avoid," Halford said. What exactly are you saying Mr. Halford? That the esteemed governmental leaders of our state are going to cut the services that are most needed in order to convince the citizens that an income tax is necessary? What are you going to tell us next Mr. Halford? Perhaps you should threaten to take our Permanent Fund Dividends away from us too. Scare tactics work good when you are trying to divert the public from the real issue, which is the State is overspending. The citizens are not getting their moneys worth. There is too much governmental waste.

Why not start with trimming the fat first? Why is it that the State has the largest number of employment ads consistently when I look at the Anchorage Daily News classifieds? Not only does the State have the most ads, but the wages are higher than any other private sector counterpart. Can anyone (this means you Senators and Legislators) please tell me what the annual payroll expenditure is for the State of Alaska? How much money would a 10% reduction be equal to? Maybe not enough to fill the so-called gap, but, hey it's a start. Then perhaps we could reduce each department budget by 20%. What kind of figure would that be?

I think you should put a panel of 12 residents together, give them red pens and let them have a look at the budget.

I was talking to an Anchorage proprietor last week whose business was directly and negatively affected by the events of September 11. The first thing he did was to cut the salary of the officers of the business. He knows that in order to meet the necessary obligations of his business, he had to make cuts. But that business is doing what it takes to survive one more year.

I obviously have the time to e-mail every senator, legislator and representative. Believe me, if nothing is done to reduce the State budget before new taxes are enacted, I will have the time to talk to the constituents in your districts. I have a feeling that I am not the only hard working Alaskan that views our budget (overspending) gap this way. The answer is not to take more money from the residents, but to live within your means, which is what the residents have not choice but to do. Thank you for your time.

Sincerely,

Rachel K. Morrison
907-349-7224

Subject: NO NEW TAXES!!! REDUCE THE BUDGET!!!

Date: Wed, 6 Feb 2002 23:46:30 -0900

From: "Rachel Morrison" <rachellak@gci.net>

To: <Senator_Rick_Halford@legis.state.ak.us>

CC: <Senator_Loren_Leman@legis.state.ak.us>, <Senator_Johnny_Ellis@legis.state.ak.us>, <Senator_Alán_Austerman@legis.state.ak.us>, <Senator_Kim_Elton@legis.state.ak.us>, <Senator_Robin_Taylor@legis.state.ak.us>, <Senator_John_Cowdery@legis.state.ak.us>, <Senator_Lyda_Green@legis.state.ak.us>, <Senator_Georgianna_Lincoln@legis.state.ak.us>, <Senator_Gene_Therriault@legis.state.ak.us>, <Senator_Bettye_Davis@legis.state.ak.us>, <Senator_Rick_Halford@legis.state.ak.us>, <Senator_Donny_Olson@legis.state.ak.us>, <Senator_John_Torgerson@legis.state.ak.us>, <Senator_Dave_Donley@legis.state.ak.us>, <Senator_Lyman_Hoffman@legis.state.ak.us>, <Senator_Randy_Phillips@legis.state.ak.us>, <Senator_Jerry_Ward@legis.state.ak.us>, <Senator_Pete_Kelly@legis.state.ak.us>, <Senator_Ben_Stevens@legis.state.ak.us>, <Senator_Gary_Wilken@legis.state.ak.us>, <Representative_Brian_Porter@legis.state.ak.us>, <Representative_Jeannette_James@legis.state.ak.us>, <Representative_Ethan_Berkowitz@legis.state.ak.us>, <Representative_Harry_Crawford@legis.state.ak.us>, <Representative_Richard_Foster@legis.state.ak.us>, <Representative_Joe_Hayes@legis.state.ak.us>, <Representative_Beth_Kerttula@legis.state.ak.us>, <Representative_Beverly_Masek@legis.state.ak.us>, <Representative_Eldon_Mulder@legis.state.ak.us>, <Representative_Drew_Scalzi@legis.state.ak.us>, <Representative_Con_Bunde@legis.state.ak.us>, <Representative_Eric_Croft@legis.state.ak.us>, <Representative_Joe_Green@legis.state.ak.us>, <Representative_Bill_Hudson@legis.state.ak.us>, <Representative_Vic_Kohring@legis.state.ak.us>, <Representative_Lesil_McGuire@legis.state.ak.us>, <Representative_Lisa_Murkowski@legis.state.ak.us>, <Representative_Gary_Stevens@legis.state.ak.us>, <Representative_Mike_Chenault@legis.state.ak.us>, <Representative_John_Davies@legis.state.ak.us>, <Representative_Gretchen_Guess@legis.state.ak.us>, <Representative_Albert_Kookesh@legis.state.ak.us>, <Representative_Kevin_Meyer@legis.state.ak.us>, <Representative_Scott_Ogan@legis.state.ak.us>, <Representative_Jim_Whitaker@legis.state.ak.us>, <Representative_Sharon_Cissna@legis.state.ak.us>, <Representative_Fred_Dyson@legis.state.ak.us>, <Representative_Andrew_Halcro@legis.state.ak.us>, <Representative_Reggie_Joule@legis.state.ak.us>, <Representative_Pete_Kott@legis.state.ak.us>, <Representative_Carl_Morgan@legis.state.ak.us>, <Representative_John_Coghill@legis.state.ak.us>, <Representative_Hugh_Fate@legis.state.ak.us>, <Representative_John_Harris@legis.state.ak.us>, <Representative_Mary_Kapsner@legis.state.ak.us>, <Representative_Ken_Lancaster@legis.state.ak.us>.

"Representative_Andrew_Halcro@legis.state.ak.us" <Representative_Andrew_Halcro@legis.st:
"Representative_Reggie_Joule@legis.state.ak.us" <Representative_Reggie_Joule@legis.state.ak
"Representative_Pete_Kott@legis.state.ak.us" <Representative_Pete_Kott@legis.state.ak.us>,
"Representative_Carl_Morgan@legis.state.ak.us" <Representative_Carl_Morgan@legis.state.ak
"Representative_Bill_Williams@legis.state.ak.us" <Representative_Bill_Williams@legis.state.:
"Representative_John_Coghill@legis.state.ak.us" <Representative_John_Coghill@legis.state.ak
"Representative_Hugh_Fate@legis.state.ak.us" <Representative_Hugh_Fate@legis.state.ak.us>.
"Representative_John_Harris@legis.state.ak.us" <Representative_John_Harris@legis.state.ak.us:
"Representative_Mary_Kapsner@legis.state.ak.us" <Representative_Mary_Kapsner@legis.state
"Representative_Ken_Lancaster@legis.state.ak.us" <Representative_Ken_Lancaster@legis.state
"Representative_Carl_Moses@legis.state.ak.us" <Representative_Carl_Moses@legis.state.ak.us
"Representative_Norman_Rokeberg@legis.state.ak.us" <Representative_Norman_Rokeberg@le
"Representative_Peggy_Wilson@legis.state.ak.us" <Representative_Peggy_Wilson@legis.state.

I Have never written legislators or testified concerning state budget matters, but my resistance has been overcome by the posturing and lack of courage to take actions necessary to put the State on a sound fiscal course. I am copying all members of the legislature, so those characterizations may or may not fit any particular recipient of this message. Even if it fits, my intention is not so much to offend as it is to voice a challenge to be forthright in addressing the budget. For anyone who has not read "Profiles in Courage" by Jack Kennedy, I commend it to you, as it enables the reader to see that doing what is right is far and away better than doing what is popular.

I have heard the "gap" figured at around \$1 billion this year. I will forego commenting on the need to control spending, the need to create motivation at the agency and employee level to actively question how functions can be prioritized and accomplished at lesser cost (i.e., the type of motivation and response the private sector employs of necessity as it has no power to tax others), and the availability of other funding sources. Rather, I wish to challenge the legislature to address the wisdom as well as the moral and economic propriety of continuing the PFD giveaway in unabated fashion in perpetuity. I can already hear minds calculating the votes (99 constituents against touching "my" PFD for each 1 willing to give up a portion of the giveaway for the sake of fiscal solvency). Recognizing the politics involved, I have little hope that the legislature will act, but am making my comments despite the odds.

The Permanent Fund was not created for the purpose of enabling the state to hand out \$1,700 checks every year to every toddler, every mailbox bashing bored teenager, every Seattle retiree who decided to move to Alaska to be near children (or fish), every snow birding millionaire, or every member of my family. Rather, the Fund was created to provide a savings account in which revenues excess to current needs would accumulate and grow until such time as they could be tapped to cover necessary budget components for which declining oil revenues proved insufficient. Lest you think I am proposing an invasion of the Fund or a depletion of its principal, I am not. Nor am I proposing that inflation proofing end. Contributions to the Fund, and inflation proofing can continue unabated until such time as the fiscal demands are even greater than at present.

What I find unconscionable is the insistence that the State maintain the public circuses (unlimited PFD's) lest the voters revolt. Many, and possibly most citizens of Alaska were not born here, but came of their own free will because they thought it in their best interest to do so, just as others move to Seattle, Florida, Texas, or anywhere else seeking a better job, climate, life, etc. We do not need to pay everyone for moving to, or remaining in Alaska.

I have three children who receive PFD's every year. Make no mistake, it's

nice to get the money. Like most others, it goes to Costco (headquartered outside Alaska with most shareholders outside Alaska) or Alaska Airlines (Seattle), or Charles Schwab (with no meaningful benefit to Alaska) or a condo rental in Hawaii. Some small portion no doubt trickles down within the state, in theory helping to create a few more jobs (which add nothing to the State revenue base and only add more mouths at the PFD trough). It's unfortunate that the majority of people (whether in Alaska or elsewhere) seem to evaluate right and wrong, fair and unfair, largely in reliance on the impact to their personal wallet. It is equally unfortunate when elected representatives are unwilling to explain the facts of life and risk non-retention.

This year the State will take in a stream of revenues. Of those revenues, roughly \$1 billion will then be mailed out to every resident, irrespective of any need-based considerations, irrespective of any deliberate policy determination that the benefits merit such an expenditure, and irrespective of the fact that roughly \$200-300 million of those State revenues will be needlessly siphoned off to the U.S. Treasury in the form of income taxes.

The budget gap could be closed in a heartbeat if the State would close down the PFD bribe system (we pay you, you let us save some current revenue for future needs instead of wasting it all each year). The budget gap could be reduced to a modest problem if we even capped PFD's at, say \$500 (still enough of a bribe to keep folks going to the public circus). Or, if the shock is too much to bear, cap it at a tolerable level with step down decreases over 3-5 years to wean people from the trough.

Unfortunately, the political current seems to be flowing in the direction of imposing income taxes. The target, seen all too often in political spheres, is to divide the population and put the burdens on the lesser number of voters in order to ensure continued favor with the greater number of voters. As Alaskans who would like to see ANWR developed, we know what that feels like (congressional members who are adamant in opposing oil and gas development because they can count the votes in their district). Its too bad we are so quick to parrot that approach to decision making. Instead of dealing with runaway PFD outflows, an income tax will, sooner or later, be imposed. Those who drag themselves out of bed, bleary-eyed, and trudge off to work each day to earn a living, will have their pockets tapped so the State can simply give the money to others (toddlers, unemployed teens, millionaire retirees, etc.).

If the State needed an income tax in order to pay for health care, to address the scourge of poverty for those who due to circumstances are unable to have decent housing, nutrition, clothing, etc., to build out sewer and water infrastructure where it is lacking, I would be the first to step up and gladly pay an income tax (or donate to charities absent an income tax). If the State needed an income tax to create or continue any program which, on its merits, was deemed necessary, I might disagree on a case by case basis, but would defer to the collective judgment. Where I draw the line, and urge the legislature to draw the line, is when an income tax is not imposed to carry out any government function at all, but simply to redistribute income from those who earn it to those who do not (with a hefty slice going to Uncle Sam).

Is there a valid economic reason to impose an income tax and keep paying \$1 billion out in PFD's each year? No. Is there a state government need which will not be otherwise met? No. Is there a need-based rationale to take income from those who earned it and simply give everyone a check (Marx would love the concept)? No. Is there any other state government in the United States, or any national government on the face of the planet which taxes income for the sole purpose of redistributing it on a non-need based, non-program based approach? No.

There is no budget gap. The State takes in enough revenue to fund the expense side. Where we get into red ink is only after taking \$200-300

million of State revenue each year to send (indirectly) to the U.S. Treasury, and sending another \$700-1,000 million of State revenue to every person who meets minimum residency requirements and has a pulse. If the legislature is looking for a way to reduce the PFD burden without cutting PFD's, perhaps an income tax is the way to go. Those who work hard and create jobs for others will eventually move out of state (fewer PFD obligations). Of course, they might be offset by the inflow of others who want to take their vacated spot at the public trough. Thanks for reading this, and may your conscience be your guide.

Subject: Closing the Budget Gap

Date: Thu, 7 Feb 2002 16:09:09 -0900

From: Steve Tervooren <SST@htlaw.com>

To: "Senator_Rick_Halford@legis.state.ak.us" <Senator_Rick_Halford@legis.state.ak.us>

CC: "Senator_Loren_Leman@legis.state.ak.us" <Senator_Loren_Leman@legis.state.ak.us>,
"Senator_Johnny_Ellis@legis.state.ak.us" <Senator_Johnny_Ellis@legis.state.ak.us>,
"Senator_Alán_Austerman@legis.state.ak.us" <Senator_Alán_Austerman@legis.state.ak.us>,
"Senator_Kim_Elton@legis.state.ak.us" <Senator_Kim_Elton@legis.state.ak.us>,
"Senator_Robin_Taylor@legis.state.ak.us" <Senator_Robin_Taylor@legis.state.ak.us>,
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"Senator_Donny_Olson@legis.state.ak.us" <Senator_Donny_Olson@legis.state.ak.us>,
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"Senator_Ben_Stevens@legis.state.ak.us" <Senator_Ben_Stevens@legis.state.ak.us>,
"Senator_Gary_Wilken@legis.state.ak.us" <Senator_Gary_Wilken@legis.state.ak.us>,
"Representative_Brian_Porter@legis.state.ak.us" <Representative_Brian_Porter@legis.state.ak.us>,
"Representative_Jeannette_James@legis.state.ak.us" <Representative_Jeannette_James@legis.state.ak.us>,
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"Representative_Con_Bunde@legis.state.ak.us" <Representative_Con_Bunde@legis.state.ak.us>,
"Representative_Eric_Croft@legis.state.ak.us" <Representative_Eric_Croft@legis.state.ak.us>,
"Representative_Joe_Green@legis.state.ak.us" <Representative_Joe_Green@legis.state.ak.us>,
"Representative_Bill_Hudson@legis.state.ak.us" <Representative_Bill_Hudson@legis.state.ak.us>,
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"Representative_Lisa_Murkowski@legis.state.ak.us" <Representative_Lisa_Murkowski@legis.state.ak.us>,
"Representative_Gary_Stevens@legis.state.ak.us" <Representative_Gary_Stevens@legis.state.ak.us>,
"Representative_Mike_Chenault@legis.state.ak.us" <Representative_Mike_Chenault@legis.state.ak.us>,
"Representative_John_Davies@legis.state.ak.us" <Representative_John_Davies@legis.state.ak.us>,
"Representative_Gretchen_Guess@legis.state.ak.us" <Representative_Gretchen_Guess@legis.state.ak.us>,
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Department of Revenue

Comments on Personal Income Tax – February 14, 2002

OTHER STATES

Of the 50 states, 43 have a personal income tax. Joining Alaska on the list without a tax are Florida, Nevada, South Dakota, Texas, Washington and Wyoming. Of the 43 with a tax, New Hampshire and Tennessee collect taxes on dividends and interest income only.

Some states have a flat tax — Colorado, Michigan, Massachusetts, Illinois, Indiana and Pennsylvania — ranging from 2.8% of federal taxable income in Pennsylvania to 5.6% of adjusted gross income in Massachusetts.

Other states use graduated tax rates, with as many as 10 income brackets and tax rates. Montana, for example, has 10 tax brackets, ranging from 2% to 11% of adjusted gross income, with some deductions allowed.

Most states use federal adjusted gross income as a starting point to calculate the state tax, and most also use federal provisions in calculating allowable itemized deductions.

- 29 states exempt Social Security benefits from taxation.
- 8 states exempt unemployment benefits from taxation.
- 2 states exempt all capital gains from taxation.
- 37 states exempt interest earned on their own state and municipal bonds.
- 5 states exempt military pay from taxation.
- 33 states allow a standard deduction for taxpayers, with 12 using the federal amount.

TAX BASE OPTIONS

There are three options for a tax base for calculating an individual's state tax liability:

- Adjusted gross income.
Total income with few, if any, deductions. Because the tax base would be the highest of the three options, the tax rate would be the lowest.
- Federal taxable income.
This requires the state to accept whatever tax deductions are allowed under federal law, although the state also could include its own deductions, credits or other conditions.
- Federal tax liability.
This also requires the state to accept whatever deductions and credits are allowed under federal law. Because the tax base would be the lowest of the three options, the tax rate would be the highest. Another feature of using federal tax liability as the base is that the state tax would be progressive, even with a flat tax rate. By using federal tax liability as the base, the state would be adopting the progressive nature of the federal tax tables.

ALASKA INCOME

Internal Revenue Service tapes show Alaskans filed 327,510 personal income tax returns for 1999, representing 442,199 taxpayers (114,689 were joint returns). Some facts from those returns:

- Almost 90% of the tax returns showing more than \$100,000 in adjusted gross income were joint returns.
- About 7% of returns showing less than \$20,000 in gross income were joint returns.
- Federal adjusted income reported by Alaskans in 1999 totaled \$13.2 billion.
- Of the 442,199 taxpayers, 63% reported gross income of under \$50,000 and almost 80% reported gross income below \$75,000 a year.
- The 10% of taxpayers reporting more than \$100,000 a year in gross income represent 33% of total income reported by all Alaskans.

REVENUES TO THE STATE GENERAL FUND

These are approximate numbers for tax rates and how much revenue would be raised. The following table assumes a flat tax, for sake of simplicity in showing potential revenues. The Tax Division could devise tax tables with several different tax brackets to generate whatever level of revenue is desired.

For its discussions, the Legislative Fiscal Caucus has used a 3% flat tax on federal taxable income as its starting point for consideration of a state personal income tax. Such a tax would raise an estimated \$270 million to \$275 million a year.

<u>\$ Million Revenue</u>	<u>% Adjusted Gross Income</u>	<u>% Federal Taxable Income</u>	<u>% Net Federal Tax Liability</u>
\$250	2.00	2.77	13.86
\$300	2.38	3.29	16.47
\$350	2.75	3.82	19.08
\$400	3.13	4.34	21.70

ALASKA'S FORMER INCOME TAX

Alaska abolished its personal income tax in 1980. The tax raised \$210.4 million in Fiscal 1977, its highest collections ever.

The tax was assessed as a percentage of federal taxable income, ranging from 3.5% for income up to \$8,000 per year to a high of 14.5% on income in excess of \$300,000. In the middle, taxpayers paid 10% of their federal taxable income over \$52,000.

If the pre-1980 tax rates were in effect today, Alaskans would pay about \$750 million in state personal income taxes. If the tax brackets were adjusted for inflation, that number would be \$660 million.

OUT-OF-STATE RESIDENTS

An income tax certainly would collect money from non-residents working in Alaska, but there is no way to know exactly how much it would collect.

Available IRS data reports income earned by taxpayers with an Alaska mailing address; it does not report income earned by non-residents working in Alaska.

There are no exact numbers for non-resident wages in Alaska but estimates range from 3% to 10%, and the Department of Revenue believes the true number is probably in the middle. At 6% or 7%, an income tax that raised \$300 million would collect perhaps \$20 million a year from non-residents.

It is important to remember that most of the non-resident workers who come to Alaska are here for low-paying summer tourism and seafood processing jobs and would not pay much in personal income taxes.

FEDERAL DEDUCTION FOR STATE INCOME TAX

A state personal income tax would be deductible from federal income taxes for Alaskans who itemize. IRS statistics indicate about 25% of Alaska taxpayers itemize their deductions, though most higher-income Alaskans itemize on their federal returns. And since it would be the higher-income Alaskans who would provide most of the state's income tax revenues, a substantial portion of that tax would be deducted from Alaskans' tax payments to the federal government.

The easiest way to "export" a tax — that is, to shift its cost — is through its deduction against federal tax liability. There is no deduction for state or municipal sales taxes; only income taxes are deductible. A deduction means part of the tax revenue remains in the state instead of going to the federal treasury.

We estimate that Alaskans would recover about 15% 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 a year, \$45 million would come from the deductibility of the state income tax against federal income taxes and therefore \$235 million would come from pockets of Alaskans (assuming that \$20 million, or 7%, came from non-residents).

COST OF COLLECTION

The Department of Revenue estimates it could cost \$6 million in one-time expenses to set up a personal income tax, including computers, computer software and mainframe programming, printing forms and booklets, launching a public education campaign, and establishing a central office and field offices in several Alaska cities.

Ongoing expenses for a personal income tax are estimated at \$7 million a year.

Assuming \$350 million a year in tax revenues, that would be 2% of collections. This compares to other states, where the cost of collection runs a similar percentage.

EFFECTIVE DATE

Because of the nature of a personal income tax, a new tax in Alaska would need to start Jan. 1. Any other start date would cause immense logistical problems for calculating tax liabilities, and would place a burden on taxpayers, employers and the Tax Division.

And because of the large amount of work required to start an income tax program from scratch, the Department of Revenue would need to devote significant resources to the effort immediately upon passage of enabling legislation. Much of the work, however, would have to be started before a bill passes, in preparation for the new tax and in expectation that the tax would begin within a matter of months after passage.

With payroll deductions and estimated tax payments in the first calendar year of the new tax, the state could expect to collect somewhat less than half of a full year's revenue the first fiscal year of the tax. January through May payroll deductions would be collected in February through June, producing five months of withholding tax income.

WORK REQUIRED TO SET UP A NEW TAX PROGRAM

The Department of Revenue would face several challenges in setting up a tax to start Jan. 1 after legislative passage. In addition to adopting regulations to implement the new tax, the department and its Tax Division would need to:

- Hire and train staff.
- Procure central office space and any field offices.
- Design software and a web-based system for taxpayers.
- Set up electronic fund transfers with employers.
- Prepare and print tax books and forms, and distribute to employers.
- Conduct workshops statewide to explain the new law, particularly to employers.

All of this would need to be completed by November in order for employers to distribute withholding forms to their employees and update their payroll software to start collecting the new tax on Jan. 1.

ISSUES

In addition to deciding on the tax base (gross income, taxable income or federal tax liability), the rate schedule (flat tax vs. a variable tax), and exemptions and deductions, the state also would have to consider:

- Expectations for audits, enforcement.
The stronger the enforcement, the more effective the program, especially with out-of-state residents.
- Taxability of federal employee cost-of-living payments.
These are exempt from federal income tax but could be taxed by the state.

Subject: Comparative Analysis of Fiscal Gap Reducing Measures

Date: Fri, 22 Feb 2002 10:04:34 -0900

From: "OLIVER GOLDSMITH" <afosg2@uaa.alaska.edu>

Organization: UAA/ISER

To: Representative_John_Coghill@legis.state.ak.us

Dear Representative Coghill--

As a followup to my testimony before your committee on Tuesday on HB413, the governor's income tax proposal, I put together a more formal analysis of the job impact of various fiscal gap closing measures. It underscores one of the main points of my testimony--that any way we choose to close the fiscal gap is going to have negative repercussions on the economy. Thus it is best to adopt a phased approach to closing the gap, to minimize damage to the economy, and also to give consideration to the income tax, particularly compared to the sales tax, since the adverse effect on the economy would be less from an income than a sales tax.

Here is a somewhat more complete analysis of the comparative impact of different fiscal gap reducing measures.----

Any method of reducing the fiscal gap that reduces purchasing power within the state will have a negative economic impact. An income tax, a sales tax, a dividend reduction, and a cut in the state operating budget for example all would reduce the purchasing power of Alaskan households and have a negative economic impact.

Attached is a small excel spreadsheet that calculates the job loss for the Alaska economy from 4 methods of reducing the state Fiscal Gap by \$350 million--an income tax, a sales tax, a dividend reduction, and a cut in the state operating budget.

The job loss is as follows:

income tax	2,625
sales tax	3,255
dividend cut	3,234
operations cut	6,510

The income tax impact is the smallest because non-residents would pay a portion and a state income tax is deductible from federal tax liability for itemizers. Therefore Alaskans would end up only paying 75 cents for every \$1 collected and the Alaska economy would only lose 75 cents for every \$1 collected.

The sales tax would have a greater impact because non-resident visitors would pay a portion of the tax, but there would be no deduction from federal tax liability. Alaskans would end up paying 93 cents for every \$1 collected.

The dividend reduction would have an impact similar to the sales tax. Only a small share is paid by non-residents, but federal tax payments would fall if the dividend were reduced. Alaskans would end up paying about 86 cents for every \$1 collected. Although the share paid by Alaskan households would be less than for the sales tax the job loss would be similar since dividend dollars are more heavily concentrated among low income households that spend all their income. More of a sales tax would fall on higher income households that do not spend all their income.

The cut in the operating budget would have the largest negative jobs impact. This is because it would result in the loss of public jobs and

the loss of spending from these public employees would additionally have an economic impact similar to a tax or dividend cut. That is, purchasing power throughout the economy would fall.


A expanding economy can more easily absorb a drop in purchasing power than one that is stagnant. Since the Alaska economy has been adding between 3 and 4 thousand jobs annually through the 1990s, the hit from a measure that reduces the fiscal gap by \$350 million is in the range that could be absorbed without driving the economy into negative territory.

The job loss from the income tax which collected \$350 million is less in this analysis than in the Anchorage Daily News article on Wednesday. The smaller figure of 2,625 takes into account the share paid by non-residents and the federal government whereas the 3,500 figure assumed the entire amount would be paid by Alaskans.

--Scott Goldsmith

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 GAPCLOSINGJOBLOSS.XLS	Name: GAPCLOSINGJOBLOSS.XLS Type: Microsoft Excel Worksheet (application/vnd.ms-excel) Encoding: base64
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WHAT IS THE JOB LOSS FROM DIFFERENT METHODS OF CLOSING THE FISCAL GAP?

**PRO FORMA ANALYSIS
4 OPTIONS FOR GENERATING \$350 MILLION**

(MILL \$) JOB LOSS

OPTION 1. IMPOSE INCOME TAX

REVENUES			\$350
	FEDERAL LEAK	19%	
	NON-RESIDENT LEAK	6%	
	COLLECTED FROM REDUCTION IN FEDERAL TAX PAYMENTS		\$67
	COLLECTED FROM NON-RESIDENTS		\$21
	NET WITHDRAWAL FROM ALASKA HH PURCHASING POWER		\$263
JOBS LOST	JOBS BANG PER BUCK	10	
	PRIVATE		2,625
	PUBLIC		0

OPTION 2. IMPOSE SALES TAX

REVENUES			\$350
	FEDERAL LEAK	0%	
	NON-RESIDENT LEAK	7%	
	COLLECTED FROM REDUCTION IN FEDERAL TAX PAYMENTS		\$0
	COLLECTED FROM NON-RESIDENTS		\$25
	NET WITHDRAWAL FROM ALASKA HH PURCHASING POWER		\$326
JOBS LOST	JOBS BANG PER BUCK	10	
	PRIVATE		3,255
	PUBLIC		0

OPTION 3. REDUCE PF DIVIDEND

REVENUES			\$350
	FEDERAL LEAK	14%	
	NON-RESIDENT LEAK	2%	
	COLLECTED FROM REDUCTION IN FEDERAL TAX PAYMENTS		\$49
	COLLECTED FROM NON-RESIDENTS		\$7
	NET WITHDRAWAL FROM ALASKA HH PURCHASING POWER		\$294
JOBS LOST	JOBS BANG PER BUCK	11	
	PRIVATE		3,234
	PUBLIC		0

OPTION 4. REDUCE STATE OPERATING BUDGET ACROSS THE BOARD

REVENUES			\$350
JOBS LOST	JOBS BANG PER BUCK	18.6	
	PRIVATE	8.4	2,954
	PUBLIC	10.2	3,556