

**HJR**

**35**

SFIN

FILE

# SENATE FINANCE COMMITTEE REPORT

REPORTED OUT  
 MAY 13 2002  
 SENATE FINANCE  
 COMMITTEE

DATE: 4/16/02

FURTHER:

DATE TURNED  
IN TO OFFICE:

12 May 2002

Finance Committee considered **HOUSE JOINT RESOLUTION NO. 35 am**

**HJR 35 REPEAL ESTATE TAX**

Relating to urging the United States Congress to amend the tax code to permanently repeal the estate tax.

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

**Senate Bill:**

- same title
- new title

**House Bill:**

- same title
- technical title
- new: SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#
LFAA	1/25/02		✓	#1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Lepke Green</i>	✓			
<i>Blankenship</i>			✓	
<i>Tommy Hoff</i>			4	
<i>Donnell</i>			✓	
<i>Conroy</i>	✓			
<i>DeLoach</i>	✓			
<i>Lord &amp; Herman</i>	✓			
COCHAIR: <i>James Dowling</i>		✓		1
COCHAIR: <i>Pat Kelly</i>	✓			1

*Really bad idea.*

# FISCAL NOTE

**STATE OF ALASKA  
2001 LEGISLATIVE SESSION**

REPORTED OUT  
MAY 12 2002  
SENATE FINANCE  
COMMITTEE

Fiscal Note Number: 1  
Bill Version: HJR 35  
(H) Publish Date: 1/30/02

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: LAA  
Title: Relating to urging the United States Congress BRU: \_\_\_\_\_  
to amend the tax code to repeal the de Component: \_\_\_\_\_  
Sponsor: Representative James Component Number: \_\_\_\_\_  
Requester: H(STA)

**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						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2001) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This resolution has no fiscal impact on state spending.

Prepared by: Rynniva Moss

Phone 465-3719

Representative John Coghill  
Committee Chair, House State Affairs

Date 1/25/02

# ALASKA STATE LEGISLATURE

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House of Representatives  
House District 34

## SPONSOR STATEMENT HJR 35

**Title:** Relating to urging the United States Congress to amend the tax code to permanently repeal the death tax

HJR 35 requests that Alaska's Congressional delegation "support, work to pass, and vote for the permanent repeal of the death tax."

Since 1996 Congress has voted twice to repeal this 85-year-old tax. HR 8 was passed in 2001, sponsored by Congresswoman Jennifer Dunn (R-WA) and enjoyed broad, bi-partisan support. Currently, there are four pieces of legislation being considered by the House of Representatives to repeal the tax.

Congresswoman Dunn and Congressman John Tanner (D-TN) have been working jointly on a permanent repeal of the Estate Tax. Under current tax law as provided in HR 8, the tax will be phased out completely by 2010, but the phase out will sunset in 2011.

There is significant economic evidence to support the repeal of this regressive tax. A study completed by William W. Beach, a John M. Olin Fellow in Economics, has shown this tax disproportionately hurts:

- ◇ Women & minorities
- ◇ Farmers
- ◇ Workers
- ◇ Low-income people
- ◇ Small Businesses

Further, this same study found that this tax is more costly to collect than the revenue it generates. A 1994 analysis clearly demonstrated that "total compliance costs (including economic disincentives) amount to 65 cents for every dollar collected." The additional compliance costs means that in 2000 the \$27.8 billion collected actually cost the American taxpayers \$36.4 billion.

## **Non-Oil Tax**

### **Alcohol Beverage Tax**

Alcoholic beverage taxes are collected primarily from wholesalers and distributors for alcoholic beverages sold in Alaska. The current rates per gallon are \$5.60 for liquor, \$0.85 for wine and \$0.35 for beer — about 3 to 4 cents per drink. All revenue from the alcoholic beverages tax is deposited in the General Fund.

### **Corporate Income Tax**

Corporations that do business in Alaska pay the Corporate Net Income Tax unless they are organized under a special IRS rule (Subchapter S) that generally applies to small, closely held companies. A corporation that does business both inside and outside Alaska must apportion its income to determine how much income it earned here. Corporations other than oil and gas corporations apportion their income to Alaska by using a three-factor formula based on sales, property and payroll. Alaska taxable income is determined by applying the apportionment factor to the corporation's modified federal taxable income. Corporate tax rates are graduated from 1% to 9.4% in \$10,000 increments of Alaska taxable income. The maximum rate of 9.4% applies to income over \$90,000.

### **Electric Cooperative and Telephone Cooperative Taxes**

The electric cooperative and telephone cooperative taxes dates back to 1959, when the first Alaska legislature enacted the Electric and Telephone Cooperative Act to promote cooperatives around the state. The electric cooperative tax is based on kilowatt-hours furnished by qualified electric cooperatives recognized under AS 10; the telephone cooperative tax is levied on gross revenue of qualified telephone cooperatives under AS 10. All revenue from the co-op taxes is deposited in the General Fund, but revenue from co-ops located in municipalities is treated as restricted revenue in this forecast because it is shared 100% with the municipalities.

### **Estate Tax**

This tax is levied on the transfer of an estate upon death. The Alaska estate tax is tied to the federal tax: The amount of the state tax equals the maximum state credit allowed on the estate's federal return. As a result of changes to the federal estate tax, the Alaska estate tax will be phased out by FY 2006. All revenue derived from estate taxes is deposited in the General Fund.

## ESTATE TAX REPEAL

Perhaps the most controversial aspect of the Act is the future repeal of the estate tax. Although everyone in Washington agreed that substantial estate tax reductions were in order, outright repeal was resisted by those who feared that, over the long run, it would consume too much of the money needed for other tax cuts and spending priorities. Congress and the president eventually compromised on the issue by settling on a protracted repeal — one in which the cost is kept down by extending the full phase-in until the end of this decade. Importantly, the Act contains a “sunset provision” that results in all of the Act’s provisions being repealed as of December 31, 2010. As a result, the estate, gift, and generation-skipping transfer provisions in effect in 2001 will become the law once again on January 1, 2011, if Congress takes no intervening action.

Proponents of estate tax repeal must now worry that a future Congress will halt the repeal before it occurs or will fail to act, allowing the provisions to lapse. A similar fate awaited the provision enacted as part of the 1981 Reagan tax cut to reduce the top estate tax rate from 70 percent to 50 percent. In 1984, tight budgets forced Congress to freeze that rate reduction at 55 percent. Under the Act, that 50 percent rate will finally be realized next year — 17 years behind schedule.

### TWO-STEP APPROACH

Beginning in 2002, the Act gradually will reduce the estate, gift, and generation-skipping transfer (GST) taxes, increase the unified credit, and make a significant number of more technical changes.

After repeal, the Act generally sets into place a carryover basis regime for the taxation of inherited property. That is, an heir’s basis in inherited assets will equal the decedent’s basis at the time of death.

## Overview of the Economic Growth and Tax Relief Reconciliation Act of 2001

Provision	Present Law	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Rates</b>											
	39.6%	39.1%	38.6%		37.6%		35% Fully Effective				
	36.0%	35.5%	35.0%		34.0%		33% Fully Effective				
	31.0%	30.5%	30.0%		29.0%		28% Fully Effective				
	28.0%	27.5%	27.0%		26.0%		25% Fully Effective				
	15.0%	10% for First \$6,000 of income for Singles and \$12,000 for Married Couples Remaining portion of 15-Percent Bracket Unchanged							Raise Bracket Threshold to \$7,000 and \$14,000	Index Thresholds for Inflation	
<b>Marriage Penalty Relief</b>		NO CHANGE				Gradually Increase Standard Deduction for Married Couples			Twice Single Level Fully Effective		
Standard Deduction		NO CHANGE				Gradually Increase 15-Percent Bracket for Married			Twice Single Level Fully Effective		
15-Percent Bracket		NO CHANGE				Phase-In Period			Repeal		
Child Credit	\$500	\$600				\$700			\$800	\$1,000 Fully Effective	
Personal Exemption Limitation Repeal		NO CHANGE				Phase-In Period			Repeal		
IRA Limit	\$2,000	NO CHANGE	\$3,000			\$4,000		\$5,000	Index \$5,000 for Inflation		
AMT Exemption	\$33,750 Single \$45,000 Married	\$35,750 Single \$49,000 Married				\$33,750 Single \$45,000 Married					
<b>Estate Tax</b>											
Top Rate	55%	NO CHANGE	50%	49%	48%	47%	46%	45%		Repeal	
Exemption	\$675,000	NO CHANGE	\$1 million		\$1.5 million		\$2 million		\$3.5 million	Repeal	

# SENATE COMMITTEE REPORT

DATE: 2/4/02

FURTHER:

DATE TURNED IN TO OFFICE: 3/22/02

State Affairs Committee considered HOUSE JOINT RESOLUTION NO. 35 am

*HJR 35 REPEAL ESTATE TAX*

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Department	Date	Fiscal	Zero	FN#
LAA	1/25	-	✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	Do PASS	Do NOT PASS	No REC	AMEND
<i>Betty Davis</i>	✓			
<i>John ...</i>	✓			
<i>Rick Halford</i>	✓			
CHAIR: <i>Care Herriott</i>	✓			