

**HB**

**303**

CBFF More Than \$3 Billion

AK FAIR TAX (amounts in thousands)		Base mult	0.54										
Income (lower) ----->	0.000	10.000	20.000	30.000	50.000	75.000	100.000	150.000	200.000	500.000	1000.000		
Average AGI ----->	4.038	14.851	24.791	39.366	61.393	85.964	118.484	170.766	283.772	675.418	1982.316		
Income (upper) ----->	10.000	20.000	30.000	50.000	75.000	100.000	150.000	200.000	500.000	1000.000	over		
Base bracket rate	1.00%	1.50%	2.00%	2.00%	1.30%	1.30%	1.25%	1.10%	0.30%	0.05%	0.04%		
No. of returns/bracket	92,596	47,406	38,368	54,758	43,651	24,213	16,249	3,925	3,356	486	196		
Eff rate (bracket max)	0.54%	0.68%	0.81%	0.92%	0.85%	0.81%	0.77%	0.72%	0.39%	0.21%			
Bracket rate	0.54%	0.81%	1.08%	1.08%	0.70%	0.70%	0.68%	0.59%	0.16%	0.03%	0.02%		
Bracket amount max	0.054	0.081	0.108	0.216	0.176	0.176	0.338	0.297	0.486	0.135			
Cum amount max	0.054	0.135	0.243	0.459	0.635	0.810	1.148	1.445	1.931	2.066			
Cum amount ave AGI	0.022	0.093	0.187	0.344	0.539	0.711	0.935	1.271	1.580	1.978	2.278		
Eff rate @ ave AGI	0.54%	0.63%	0.75%	0.87%	0.88%	0.83%	0.79%	0.74%	0.56%	0.29%	0.11%		
Eff. sales rate (303)	2.24%	2.08%	1.90%	1.73%	1.58%	1.53%	1.47%	1.38%	1.03%	0.48%	0.24%	Total Rev	
Bracket revenue	2019	4423	7165	18845	23527	17227	15189	4988	5303	961	446	\$100,093	
<b>NOTES:</b>												Alaskans Pay	
Income (lower) ----->	Lower limit of income bracket										Sales	\$93,087	
Average AGI ----->	Average Adjusted Gross Income (AGI) within bracket										Fair	\$75,070	
Income (upper) ----->	Upper limit of income bracket										Savings	\$18,017	
Base bracket rate	Base tax rate on income within bracket limits (base rate X base mult factor = bracket rate)												
No. of returns/bracket	Total tax returns with AGI falling within bracket												
Eff rate (bracket max)	Effective tax rate for a taxpayer whose AGI is at the upper limit of the bracket												
Bracket rate	Tax rate for all income within bracket (note that all taxpayers with income in a bracket pay the same rate for the income in that bracket)												
Bracket amount max	Maximum amount of tax for income within bracket												
Cum amount max	Total tax owed if AGI = upper limit of bracket												
Cum amount ave AGI	Total tax owed if AGI = average for bracket												
Eff rate @ ave AGI	Effective tax rate for a taxpayer whose AGI is average for the bracket												
Eff. sales rate (303)	Average sales tax paid expressed as a percentage of AGI (3% sales tax from HB 303)												
Bracket revenue	Total revenue from returns with AGI within bracket												
Total Rev	Total revenue from all brackets											4/22/2002	

CBRF Between \$2 Billion and \$3 Billion

AK FAIR TAX (amounts in thousands)		Base mult=0.945										
Income (lower) ----->	0.000	10.000	20.000	30.000	50.000	75.000	100.000	150.000	200.000	500.000	1000.000	
Average AGI ----->	4.038	14.851	24.791	39.366	61.393	85.964	118.484	170.766	283.772	675.418	1982.316	
Income (upper) ----->	10.000	20.000	30.000	50.000	75.000	100.000	150.000	200.000	500.000	1000.000	over	
Base bracket rate	1.00%	1.50%	2.00%	2.00%	1.30%	1.30%	1.25%	1.10%	0.30%	0.05%	0.04%	
No. of returns/bracket	92,596	47,406	38,368	54,758	43,651	24,213	16,249	3,925	3,356	486	196	
Eff rate (bracket max)	0.95%	1.18%	1.42%	1.61%	1.48%	1.42%	1.34%	1.26%	0.68%	0.36%		
Bracket rate	0.95%	1.42%	1.89%	1.89%	1.23%	1.23%	1.18%	1.04%	0.28%	0.05%	0.04%	
Bracket amount max	0.095	0.142	0.189	0.378	0.307	0.307	0.591	0.520	0.851	0.236		
Cum amount max	0.095	0.236	0.425	0.803	1.110	1.418	2.008	2.528	3.378	3.615		
Cum amount ave AGI	0.038	0.163	0.327	0.602	0.943	1.245	1.636	2.224	2.765	3.461	3.986	
Eff rate @ ave AGI	0.95%	1.10%	1.32%	1.53%	1.54%	1.45%	1.38%	1.30%	0.97%	0.51%	0.20%	
Eff. sales rate (303)	2.24%	2.08%	1.90%	1.73%	1.58%	1.53%	1.47%	1.38%	1.03%	0.48%	0.24%	Total Rev
Bracket revenue	3533	7740	12539	32979	41172	30147	26581	8729	9281	1682	781	\$175,164
<b>NOTES:</b>												Alaskans Pay
Income (lower) ----->	Lower limit of income bracket										Sales	\$162,902
Average AGI ----->	Average Adjusted Gross Income (AGI) within bracket										Fair	\$131,373
Income (upper) ----->	Upper limit of income bracket										Savings	\$31,529
Base bracket rate	Base tax rate on income within bracket limits (base rate X base mult factor = bracket rate)											
No. of returns/bracket	Total tax returns with AGI falling within bracket											
Eff rate (bracket max)	Effective tax rate for a taxpayer whose AGI is at the upper limit of the bracket											
Bracket rate	Tax rate for all income within bracket (note that all taxpayers with income in a bracket pay the same rate for the income in that bracket)											
Bracket amount max	Maximum amount of tax for income within bracket											
Cum amount max	Total tax owed if AGI = upper limit of bracket											
Cum amount ave AGI	Total tax owed if AGI = average for bracket											
Eff rate @ ave AGI	Effective tax rate for a taxpayer whose AGI is average for the bracket											
Eff. sales rate (303)	Average sales tax paid expressed as a percentage of AGI (3% sales tax from HB 303)											
Bracket revenue	Total revenue from returns with AGI within bracket											
Total Rev	Total revenue from all brackets											4/22/2002

AK FAIR TAX (amounts in thousands)		Base mult- 1.35										
Income (lower) ----->	0.000	10.000	20.000	30.000	50.000	75.000	100.000	150.000	200.000	500.000	1000.000	
Average AGI ----->	4.038	14.851	24.791	39.366	61.393	85.964	118.484	170.766	283.772	675.418	1982.316	
Income (upper) ---->	10.000	20.000	30.000	50.000	75.000	100.000	150.000	200.000	500.000	1000.000	over	
Base bracket rate	1.00%	1.50%	2.00%	2.00%	1.30%	1.30%	1.25%	1.10%	0.30%	0.05%	0.04%	
No. of returns/bracket	92,596	47,406	38,368	54,758	43,651	24,213	16,249	3,925	3,356	486	196	
Eff rate (bracket max)	1.35%	1.69%	2.03%	2.30%	2.12%	2.03%	1.91%	1.81%	0.97%	0.52%		
Bracket rate	1.35%	2.03%	2.70%	2.70%	1.76%	1.76%	1.69%	1.49%	0.41%	0.07%	0.05%	
Bracket amount max	0.135	0.203	0.270	0.540	0.439	0.439	0.844	0.743	1.215	0.338		
Cum amount max	0.135	0.338	0.608	1.148	1.586	2.025	2.869	3.611	4.826	5.164		
Cum amount ave AGI	0.055	0.233	0.467	0.860	1.347	1.779	2.337	3.177	3.951	4.945	5.694	
Eff rate @ ave AGI	1.35%	1.57%	1.88%	2.19%	2.19%	2.07%	1.97%	1.86%	1.39%	0.73%	0.29%	
Eff. sales rate (303)	2.24%	2.08%	1.90%	1.73%	1.58%	1.53%	1.47%	1.38%	1.03%	0.48%	0.24%	Total Rev
Bracket revenue	5048	11057	17912	47113	58817	43067	37973	12470	13258	2403	1116	\$250,234
<b>NOTES:</b>												Alaskans Pay
Income (lower) ----->	Lower limit of income bracket										Sales	\$232,717
Average AGI ----->	Average Adjusted Gross Income (AGI) within bracket										Fair	\$187,675
Income (upper) ---->	Upper limit of income bracket										Savings	\$45,042
Base bracket rate	Base tax rate on income within bracket limits (base rate X base mult factor = bracket rate)											
No. of returns/bracket	Total tax returns with AGI falling within bracket											
Eff rate (bracket max)	Effective tax rate for a taxpayer whose AGI is at the upper limit of the bracket											
Bracket rate	Tax rate for all income within bracket (note that all taxpayers with income in a bracket pay the same rate for the income in that bracket)											
Bracket amount max	Maximum amount of tax for income within bracket											
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Eff. sales rate (303)	Average sales tax paid expressed as a percentage of AGI (3% sales tax from HB 303)											
Bracket revenue	Total revenue from returns with AGI within bracket											
Total Rev	Total revenue from all brackets											4/22/2002

CPRF Less Than \$2 Billion

## How the Alaska Fair Tax Works

The Alaska Fair Tax is a broad-based revenue measure to help fix the fiscal gap and to preserve healthy Permanent Fund dividends far into the future. It combines the best features of sales and income taxes and, as part of an overall fiscal plan, would help protect the Permanent Fund and Budget Reserve Fund for another generation of Alaskans.

Like a sales tax . . .

everyone pays something; and  
the amount is similar to what individuals would pay under a sales tax.

Like an income tax . . .

it's deductible on many federal tax returns (you can't deduct sales taxes);  
it doesn't interfere with existing sales taxes in 97 communities; and  
workers who earn money in Alaska but live Outside would pay.

Most tax returns will be simple enough to fit on a single piece of paper and only take a minute to fill out. You'll just copy Line 33 from your federal tax return (adjusted gross income) and then look up the amount on the state tax table. Adjusted gross income is all income minus IRA contributions, alimony, student loan interest and a few other items. The tax would be withheld from wages.

The amount the Alaska Fair Tax would raise statewide would depend on how much is in the Constitutional Budget Reserve. If state revenues improve through higher oil prices or new development such as the natural gas pipeline and refill the Budget Reserve Fund, the Alaska Fair Tax rate would go down so the state doesn't collect any more money than is needed for essential public services and an adequate reserve.

Here's how much you would pay if the tax were set to raise \$250 million a year:

If your adjusted gross income is:	Your tax*	Your effective tax rate would be:
\$4,000	\$55	1.35%
\$25,000	\$467	1.88%
\$40,000	\$860	2.19%
\$65,000	\$1,412	2.17%
\$100,000	\$2,025	2.02%
\$150,000	\$2,869	1.91%
\$285,000	\$3,951	1.39%
\$675,000	\$4,965	0.73%

\*If you itemize on your federal taxes, this amount would be deductible.

The Alaska Fair Tax calculates income taxes to approximately equal the amount individuals would pay under a moderate sales tax. But, unlike a sales tax, the income tax would be deductible on the federal tax returns for many Alaskans. Unlike a sales tax, the variable rate schedule of the Alaska Fair Tax would not impose an unduly heavy burden on low-income Alaskans. And, unlike a traditional income tax, it would not penalize the success of higher-income Alaskans.

Representative John Davies, 4/27/02

How it works

## The Alaska Fair Tax

Representative John Davies

April 22, 2002

The Alaska Fair Tax is based on adjusted gross income (AGI) and designed to raise from individual taxpayers approximately what they would have paid if a sales tax had been enacted. It is a "sales tax" that is paid once a year, does not impact municipal sales taxes and which can be deducted from federal taxable income. The Alaska Fair Tax, therefore, is least disruptive of the economy because it does not upset the local balance of taxation and causes the lowest loss of jobs. It is fair because everyone pays it, including those who live Outside, everyone pays the same tax on each bracket of income, success is not punished, and some allowance is made for those in the lowest income brackets. The Alaska Fair Tax reflects the responsibility that everyone has to help support our system of government, regardless of income level or spending habits. Coupled with fair use of half the earnings from the Permanent Fund, it can substantially fill the fiscal gap. The Alaska Fair Tax is offered unabashedly as a compromise to help break the stalemate in which we find the debate on how to balance the budget.

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# FISCAL NOTE

**STATE OF ALASKA  
2002 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: 2d CSHB303(RLS)  
 () Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Individual Income Tax BRU: Revenue Operations  
 Component: Tax Division  
 Sponsor: Representative Whitaker  
 Requester: House 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	2,188.1	3,743.0	4,356.7	4,331.2	4,331.2	4,331.2
Travel	81.5	57.5	55.4	44.0	44.0	44.0
Contractual	1,620.4	1,519.4	1,549.8	1,599.7	1,599.7	1,599.7
Supplies	49.0	77.4	91.5	92.0	92.0	92.0
Equipment	426.0	592.0	96.0			
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>4,365.0</b>	<b>5,980.3</b>	<b>6,149.4</b>	<b>6,066.9</b>	<b>6,066.9</b>	<b>6,066.9</b>

<b>CAPITAL EXPENDITURES</b>	<b>4,608.5</b>	<b>1,302.5</b>	<b>421.2</b>			
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<b>CHANGE IN REVENUES (Increase)</b>	<b>110,000.0</b>	<b>250,000.0</b>	<b>250,000.0</b>	<b>250,000.0</b>	<b>250,000.0</b>	<b>250,000.0</b>
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF	8,973.5	7,282.8	6,570.6	6,066.9	6,066.9	6,066.9
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>8,973.5</b>	<b>7,282.8</b>	<b>6,570.6</b>	<b>6,066.9</b>	<b>6,066.9</b>	<b>6,066.9</b>

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	42	62	74	74	74	74
Part-time	5	5	5			
Temporary		54	54	54	54	54

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

See attached page

Prepared by: Larry Persily, Deputy Commissioner Phone 465-5469  
 Division: Department of Revenue Date/Time 5/3/2002 2 p.m.  
 Approved by: Larry Persily, Deputy Commissioner Date 05/03/2002  
 Agency: Department of Revenue

For distribution information, call the Governor's Legislative Office

**2d CSHB303(RLS)**  
**Department of Revenue**

**OVERVIEW**

This legislation would put into statute a personal income tax, which Alaskans last paid in 1979. The tax structure in this legislation, however, is one-third the level of the 1979 tax. If imposed today, the 1979 tax would produce about \$750 million a year in revenue. This legislation's tax rates will produce an estimated \$250 million a year in revenue.

This legislation would base the new income tax on an individual's Adjusted Gross Income, Line 33 from the 2001 federal tax return. Adjusted Gross Income is all income minus certain items, including IRA contributions, alimony and student loan interest.

The legislation includes two different "triggers" that would set into place a lower tax rate schedule for any year in which the Constitutional Budget Reserve Fund exceeds \$2 billion or \$3 billion as of September 30 of the previous year.

**REVENUE ESTIMATE**

Based on the starting tax rate schedule specified in the legislation, the Department of Revenue estimates the personal income tax would generate about \$250 million in revenue for its first full fiscal year (Fiscal 2004).

Because the tax would start on Jan. 1, 2003, in the middle of Fiscal 2003, and because the state would not receive by June 30, 2003 all of the taxes withheld from wages and all of the estimated tax payments due from self-employed workers, we estimate the legislation will produce about \$110 million in revenue for the last half of Fiscal 2003.

The department's revenue estimates do not include any of the following variables: (1) federal tax changes that could affect the definition of Adjusted Gross Income, (2) any growth of real income or population in Alaska, (3) tax avoidance or evasion, and (4) changes in the structure of the Alaska economy.

**COSTS OF OPERATION**

The department based its estimate for setting up and running a personal income tax on the following assumptions:

- A program capable of providing quality service to the public, with timely response to phone calls, emails and letters; prompt processing of returns and refunds; adequate staff resources devoted to helping employers with the withholding requirements; and a comprehensive web-based system for distributing forms and information.
- A data processing center and three other offices to serve Alaska's population centers.
- Allowing electronic payments of taxes and electronic filing of tax returns.
- Electronic imaging of tax returns to reduce paperwork handling and storage needs.

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Department of Revenue**

The fiscal note estimate also assumes that either or both the Permanent Fund Dividend Division in Juneau and the Alcoholic Beverage Control Board in Anchorage may need to be relocated to other offices to accommodate the new personal income tax section within the department's Tax Division. These moves would allow the income tax section to be located in and use the premises, equipment and staff of the Tax Division, which would be a more efficient use of staff rather than locate the two sections in separate offices.

The one-time cost of relocating the Dividend Division and the ABC Board is estimated at approximately \$325,000, which is reflected in the Fiscal Year 2003 capital budget request for this legislation.

Any increase in annual operating costs for the Dividend Division and/or the ABC Board would depend on the lease costs for new office space, and would be addressed, if necessary, in a supplemental Fiscal 2003 budget request next session.