

# HB

# 250

<TARGET><BILL>HB 250</BILL><SUBJECT>HB  
250</SUBJECT><COMM>HFIN29</COMM></TARGET>

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# Fiscal Note

State of Alaska  
2016 Legislative Session

Bill Version:	HB 250
Fiscal Note Number:	1
(H) Publish Date:	1/19/2016

Identifier: DOR-TAX-01-13-16  
Title: INDIV. INCOME TAX: CREDITS; RETURNS  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
Requester: Governor

Department: Department of Revenue  
Appropriation: Taxation and Treasury  
Allocation: Tax Division  
OMB Component Number: 2476

## Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates					
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>OPERATING EXPENDITURES</b>								
Personal Services	1,250.0		3,400.0	6,000.0	6,300.0	6,600.0	6,900.0	
Travel	50.0		100.0	100.0	100.0	100.0	100.0	
Services	200.0		700.0	1,000.0	1,100.0	1,200.0	1,300.0	
Commodities	50.0		100.0	100.0	100.0	100.0	100.0	
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>1,550.0</b>	<b>0.0</b>	<b>4,300.0</b>	<b>7,200.0</b>	<b>7,600.0</b>	<b>8,000.0</b>	<b>8,400.0</b>	

## Fund Source (Operating Only)

1005 GF/Prgm	1,550.0		4,300.0	7,200.0	7,600.0	8,000.0	8,400.0
<b>Total</b>	<b>1,550.0</b>	<b>0.0</b>	<b>4,300.0</b>	<b>7,200.0</b>	<b>7,600.0</b>	<b>8,000.0</b>	<b>8,400.0</b>

## Positions

Full-time	10.0		24.0	44.0	44.0	44.0	44.0
Part-time			16.0	16.0	16.0	16.0	16.0
Temporary							

<b>Change in Revenues</b>	100,000.0		200,000.0	205,000.0	210,000.0	215,000.0	220,000.0
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**Estimated SUPPLEMENTAL (FY2016) cost:** 250.0 (separate supplemental appropriation required)  
(discuss reasons and fund source(s) in analysis section)

**Estimated CAPITAL (FY2017) cost:** 14,000.0 (separate capital appropriation required)  
(discuss reasons and fund source(s) in analysis section)

## ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? yes  
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/17

## Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By:	Ken Alper	Phone:	(907)465-8221
Division:	Tax Division	Date:	01/13/2016 12:00 PM
Approved By:	Jerry Burnett	Date:	01/13/16
Agency:	Deputy Commissioner, DOR		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2016 LEGISLATIVE SESSION

## Analysis

**Bill Analysis**

The bill establishes a personal income tax based on 6% of the taxpayer's federal tax liability. The tax is payable by both Alaska residents and non-residents on the portion of their income derived from income earned within the State. Like the federal income tax, it would be payable based on calendar year earnings.

To qualify as "from a source in the state," income is broadly defined to include regular compensation, as well as income and rents from property, business, and other assets within Alaska. Business income, including partnership income and earnings from subchapter-S corporations transacting business in Alaska will also be subject to this tax.

The bill provides for withholding of income by employers, with regular remittance to the state. Employers must also provide annual income statements analogous to the federal W-2. The annual tax return would be due at the same time as the federal return, currently April 15 with any extensions tied to the federal filing. Both payments and refund requests would be received with the annual filing.

In its first year of full implementation, the cost to the average Alaskan would be about \$300 per capita. As the impact would be proportionate to each household's federal tax, it would vary widely by income level and eligibility for various federal tax credits. Any impact would be partially mitigated because state individual income taxes are deductible from federal taxes, meaning Alaskans who itemize would reduce their federal taxable income by the amount of their state tax.

**Revenue Impact**

The Tax Division has created an income tax revenue model based on aggregated federal income data for Alaska residents. We then account for incremental revenue based on the estimated income of out of state residents, partially offset by the out-of-state income of Alaskans.

The model assumes moderate underlying growth and inflation in the state economy, thus generating increasing nominal revenues from year to year. It also includes a coefficient that reduces the growth rate proportionally as the tax rate increases. A high enough tax rate would effectively begin shrinking the state's economy.

The bill would take effect on January 1, 2017, meaning that FY17 revenue would be for only the second half of the fiscal year, entirely in the form of withholding taxes.

**Implementation Cost**

Adding an individual income tax, especially on a tight timeline, would be a significant challenge to the Tax Division. We are currently in the third and final phase of implementing the Tax Revenue Management System (TRMS), which is creating an integrated online tax application used by both taxpayers and administrators for the 24 tax types currently administered by the Division. We expect to engage FAST Enterprises, the TRMS contractor, to build an income tax module into TRMS. The timing works well with the expected wind-down of the TRMS project; FAST already has staff mobilized in Alaska who are well informed about our processes and have excellent working relations with our staff. FAST has built and currently maintains individual income tax systems for 17 other states, and is currently developing them in at least four others.

The initial need will be to engage a contractor to work with Department leadership to create an implementation plan with more refined estimates of staffing, space, supply, and equipment needs. The cost estimates in this fiscal note are a first attempt to anticipate the results of this analysis. The \$250.0 supplemental request will enable us to develop this plan.

**Analysis Continued**

The \$14,000.0 capital request reflects an estimate for our contract with FAST to add the income tax module as well as the Department's other short term implementation costs. This is a multi-year process and much of the actual spending will not occur until after we begin collecting revenues. The initial fast-track need will be to build and implement a tax withholding system, which will need to be in operation by January 1, 2017. In addition to the software development, this will require a rapid and robust outreach to the business community throughout Alaska, as well as integration with national accounting and tax software vendors in order to update programs such as TurboTax and QuickBooks to incorporate Alaska.

Once the withholding system is in place, the contractor and staff will begin building the tax return filing and examination modules, with their associated databases, communications, and integration with our existing imaging, accounting, and collections systems. The legislation creates an annual tax, meaning that the first tax returns will be filed in January of 2018, with a filing due date of April 15. Taxpayers who request and receive extensions would have filing deadlines in October of 2018.

The department envisions a gradual ramping up of the staff needed to collect and administer the tax. As part of our research into the potential costs, we spoke to tax administrators at the State of Montana, which has a population about 1/3 higher than Alaska's and uses FAST for its income tax. Montana's Revenue Department has 155 employees dedicated to their income tax, which scales back to about 120 for Alaska using a simple per-capital adjustment. We intend to implement an income tax with half this number, 60 employees including a substantial group of seasonal part-time imaging and data entry technicians. We expect the new staff to be roughly split between our Juneau and Anchorage offices.

We expect to replicate the online filing percentages of the Permanent Fund Division, currently at 83%. However, the 17% of paper filers will entail manual handling and data entry for approximately 75,000 out of 400,000 tax returns. In contrast, the Tax Division's largest current taxpayer base is the State Corporate Income Tax, with approximately 22,000 total filers half of whom file perfunctory reports indicating no tax liability due to their S-corporation status.

We do not expect to need full staffing until FY18. The eventual addition of 52 FTE's to the Tax division (44 full time plus 16 part time imaging and data entry technicians) would increase the staff of the Tax Division by approximately 45%. However, throughout the six-year period covered by this fiscal note, we anticipate total implementation costs, operating plus capital, to be less than 5 percent of additional state revenue.

**An initial analysis of the staff needs within the Tax Division to implement a personal income tax is as follows**

Title	FY16	FY17	FY18+
Audit Supervisor	2	2	2
Tax Auditor	4	9	18
Tax Technician	2	6	10
Income Tax Specialist	1	2	2
Appeals Officer	0	1	5
Accounting Technician	0	2	4
Admin Assistant	1	2	3
<b>Total FT</b>	<b>10</b>	<b>24</b>	<b>44</b>
Imaging Operators & Office Assistants	0	16	16
<b>Total PT</b>	<b>0</b>	<b>16</b>	<b>16</b>

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Governor Bill Walker  
STATE OF ALASKA

January 15, 2016

The Honorable Mike Chenault  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

Dear Speaker Chenault:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill relating to personal income taxation.

The bill would establish a personal income tax equal to six percent of a taxpayers total federal tax liability for Alaska residents and nonresidents with income from a source in the state. Because the tax that would be established by the bill is calculated based on federal tax liability and not on income, the bill effectively incorporates federal brackets and exemptions and so permits this bill, and the Alaska personal income tax system it would create, to be as simple and transparent as possible and minimizes administrative burdens both for the state and for taxpayers. The bill would apply to income earned on or after January 1, 2017. In addition, the bill would repeal a set of orphaned individual tax credits from the former income tax.

The relatively modest tax is expected to raise approximately \$200,000,000 annually. For those who itemize federal tax deductions, the tax would be deductible from federal income tax. The deduction from federal taxes would offset the actual burden of this tax to Alaska taxpayers by 20 – 25 percent.

The bill is an integral component of the New Sustainable Alaska Plan to provide a balanced and sustainable budget for Alaska's long-term fiscal stability.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in cursive script that reads "Bill Walker".

Bill Walker  
Governor

Enclosure

**CS FOR HOUSE BILL NO. 250( )**

IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-NINTH LEGISLATURE - SECOND SESSION

**BY**

**Offered:**  
**Referred:**

**Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to the taxation of income of individuals; repealing tax credits applied**  
2 **against the tax on individuals under the Alaska Net Income Tax Act; and providing for**  
3 **an effective date."**

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 \* **Section 1.** AS 43 is amended by adding a new chapter to read:

6 **Chapter 22. Individual Income Tax.**

7 **Sec. 43.22.010. Tax on individuals.** (a) A tax is imposed for each calendar  
8 year or fraction of a calendar year on every

9 (1) resident individual; and

10 (2) nonresident individual with income from a source in the state.

11 (b) The tax under this section for a

12 (1) resident individual is six percent of the taxpayer's total federal  
13 income tax;

14 (2) nonresident individual is six percent of the taxpayer's total federal

1 income tax payable on the amount of the taxpayer's income that is from a source in the  
2 state.

3 (c) In this section, "federal income tax" means the total tax payable to the  
4 federal government, as reported by the taxpayer on a federal individual income tax  
5 return, including alternate minimum tax and other taxes imposed by the Internal  
6 Revenue Code, net of nonrefundable credits allowed against a liability.

7 **Sec. 43.22.020. Credit for taxes paid.** (a) A resident is entitled to a credit  
8 against the tax liability under this chapter for the amount of tax paid to other states,  
9 territories, or possessions of the United States on income derived from sources in  
10 those jurisdictions that is also subject to the tax imposed by this chapter.

11 (b) A claim for a credit under (a) of this section may include tax paid by an S  
12 corporation or partnership on behalf of the individual, based on that individual's share  
13 of income derived in the other jurisdiction. In this subsection, "S corporation" has the  
14 meaning given in 26 U.S.C. 1361.

15 (c) The credit allowed under this section may not exceed an amount equal to  
16 the tax imposed under this chapter multiplied by a ratio equal to federal adjusted gross  
17 income derived from sources in the other jurisdiction divided by total federal adjusted  
18 gross income.

19 (d) The application of the tax credit under this section may not operate to  
20 reduce the tax payable under this chapter to an amount less than would have been  
21 payable if the income from the other state were disregarded.

22 **Sec. 43.22.030. Returns and payment of taxes.** (a) An individual required to  
23 make a return under the provisions of the Internal Revenue Code shall file with the  
24 department a return setting out

25 (1) the amount of tax due under this chapter; and

26 (2) other information for the purpose of carrying out the provisions of  
27 this chapter that the department requires.

28 (b) The return must either be on oath or contain a written declaration that it is  
29 made under penalty of perjury, and the department shall prescribe forms accordingly.

30 (c) The total amount of tax imposed by this chapter is due and payable to the  
31 department at the same time and in the same manner as the tax payable to the United

1 States Department of the Treasury, Internal Revenue Service.

2 (d) A taxpayer, upon request by the department, shall furnish to the  
3 department a true and correct copy of the tax return that the taxpayer has filed with the  
4 United States Department of the Treasury, Internal Revenue Service. A taxpayer shall  
5 notify the department, in writing, of an alteration in or modification of the taxpayer's  
6 federal income tax return and of a recomputation of tax or determination of deficiency,  
7 whether with or without assessment. The taxpayer shall file the notice together with a  
8 full statement of the facts within 60 days after the final determination of the alteration,  
9 modification, recomputation, or deficiency, and the taxpayer shall pay any additional  
10 tax due under this chapter at that time. In this subsection, "final determination" means  
11 the time that an amended federal return is filed or a notice of deficiency or an  
12 assessment is mailed to the taxpayer by the Internal Revenue Service, and the taxpayer  
13 has exhausted rights of appeal under federal law.

14 (e) The department may credit or refund overpayments of taxes, taxes  
15 erroneously or illegally assessed or collected, penalties collected without authority,  
16 and taxes that are found unjustly assessed or excessive in amount, or otherwise  
17 wrongfully collected. The department shall set limitations, specify the manner in  
18 which claims for credits or refunds are made, and give notice of allowance or  
19 disallowance. When a refund is allowed to a taxpayer, it may be paid out of the  
20 general fund on a warrant issued under a voucher approved by the department.

21 **Sec. 43.22.040. Income from sources in the state.** (a) For purposes of  
22 AS 43.22.010(a), income from a source in the state includes

23 (1) compensation for personal services rendered in the state;  
24 (2) salary or wages earned in the state;  
25 (3) income from real or tangible personal property located in the state;  
26 (4) income from stocks, bonds, notes, bank deposits, and other  
27 intangible personal property having a taxable or business situs in the state; however,  
28 the receipt of interest income from intangible personal property in the state does not  
29 alone establish a taxable or business situs in the state;

30 (5) rentals and royalties for the use of or for the privilege of using, in  
31 the state, patents, copyrights, secret processes and formulas, good will, marks, trade

1 brands, franchises, and other property having a taxable or business situs in the state;

2 (6) income distributed from a trust established under or governed by  
3 the laws of the state;

4 (7) income from a source with a taxable or business situs in the state of

5 (A) a trust not established under or governed by the laws of the  
6 state; or

7 (B) the estate of a decedent who, on the date of death, was not  
8 domiciled in the state;

9 (8) income of whatever nature from a source with a taxable or business  
10 situs in the state.

11 (b) In (a) of this section, income is from a source with a taxable or business  
12 situs in the state if it is attributed to or derived from

13 (1) business facilities or property in the state;

14 (2) business, farming, or fishing activities in the state;

15 (3) conducting in the state the management or investment function for  
16 intangible property;

17 (4) a partnership, limited liability company, estate, or trust conducting  
18 business activities in the state;

19 (5) a corporation transacting business activities in the state that has  
20 elected to file federal returns under subchapter S under 26 U.S.C. 1362 (Internal  
21 Revenue Code);

22 (6) any other activity from which income is received, realized, or  
23 derived in the state.

24 (c) For purposes of (a) of this section, if a business, trade, or profession is  
25 carried on partly inside and partly outside the state, other than the rendering of purely  
26 personal services by an individual, the income from sources in the state shall be  
27 determined as provided in AS 43.19.

28 **Sec. 43.22.050. Tax withholding on wages, salaries, or crew shares of**  
29 **individuals.** (a) An employer paying wages, salaries, or crew shares

30 (1) shall deduct and withhold an amount of tax computed in a manner  
31 to approximate the amount of tax due on those wages, salaries, or crew shares under

1 this chapter for that calendar year;

2 (2) shall remit to the department the tax withheld accompanied by a  
3 return on a form prescribed by the department at the times required by the department  
4 by regulation;

5 (3) is liable for the payment of the tax required to be deducted and  
6 withheld under this section, an employer is not liable to any individual for the amount  
7 of the payment; and

8 (4) shall furnish to the employee on or before January 31 of the  
9 succeeding year, or not later than 30 days after a request by the employee after the  
10 employee's termination if the 30-day period ends before January 31, a written  
11 statement on a form prescribed by the department showing the

12 (A) name and taxpayer identification number of the employer;

13 (B) name and social security number of the employee;

14 (C) total amount of wages, salary, or crew shares for the  
15 calendar year; and

16 (D) total amount deducted and withheld as tax under this  
17 chapter for the calendar year.

18 (b) The department shall publish the rate of withholding required by this  
19 section.

20 (c) In this section,

21 (1) "employee" includes an individual who receives compensation on a  
22 crew-share basis in connection with a commercial fishing activity;

23 (2) "employer" includes a person who pays compensation to an  
24 individual on a crew-share basis in connection with a commercial fishing activity.

25 **Sec. 43.22.060. Administration.** The department shall prescribe all necessary  
26 forms and adopt regulations to implement and interpret this chapter, including  
27 regulations for electronic filing and payment of the tax due under this chapter. The  
28 department may incorporate into the regulations provisions of the Internal Revenue  
29 Code that are necessary or useful to the administration of this chapter.

30 **Sec. 43.22.190. Definitions.** In this chapter,

31 (1) "domiciled" means established in a true principal permanent home

1 to which the individual has the intention of returning whenever absent;

2 (2) "individual" means a natural person, married or unmarried, adult or  
3 minor, subject to payment of income tax under 26 U.S.C. (Internal Revenue Code);

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

9 (4) "nonresident" means an individual who is not a resident;

10 (5) "resident" means an individual who

11 (A) was domiciled in the state or resided in the state for the  
12 entire calendar year;

13 (B) claims to be a resident of the state on the individual's  
14 federal tax forms;

15 (C) receives a permanent fund dividend under AS 43.23;

16 (D) is registered to vote under AS 15; or

17 (E) received a resident fishing, hunting, or trapping license  
18 under AS 16 during the calendar year;

19 (6) "taxpayer" means a person subject to a tax imposed by this chapter.

20 \* **Sec. 2.** AS 43.05.085; AS 43.20.012(b), and 43.20.013 are repealed.

21 \* **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to  
22 read:

23 **APPLICABILITY.** This Act applies to income received on or after the effective date  
24 of sec. 1 of this Act.

25 \* **Sec. 4.** The uncodified law of the State of Alaska is amended by adding a new section to  
26 read:

27 **TRANSITION: REGULATIONS.** The Department of Revenue may adopt regulations  
28 necessary to implement the changes made by this Act. The regulations take effect under  
29 AS 44.62 (Administrative Procedure Act), but not before the effective date of the law  
30 implemented by the regulation.

31 \* **Sec. 5.** Section 4 of this Act takes effect immediately under AS 01.10.070(c).

1

\* **Sec. 6.** Except as provided in sec. 5 of this Act, this Act takes effect January 1, 2019.



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE  
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April 14, 2016

The Honorable Mark Neuman and the Honorable Steve Thompson  
Alaska State Representatives  
Co-chairs, House Finance Committee  
State Capitol Rooms 505 and 515  
Juneau, AK 99801

Dear Co-Chairs Neuman and Thompson:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue during our presentation to the House Finance Committee on April 5, 2016, regarding the personal income tax legislation, House Bill 250. Please see questions in italics and our responses immediately below the questions.

1. *Do some non-resident workers still qualify as residents for purposes of the income tax because they stay in the state long enough to receive a Permanent Fund Dividend? How much income do these workers earn?*

A person who claims residency in another state for tax purposes is not eligible for a PFD, even if he or she spends more than 180 days in Alaska. Therefore, DOR's estimate of income tax revenue, which is based on IRS data for Alaska residents, should not include such a person.

2. *What is the total amount of wages earned by Alaska residents?*

According to the IRS, Alaska taxpayers reported \$16.6 billion in salaries and wages in 2013. Other sources such as the Bureau of Economic Analysis (BEA) provide different numbers, but the IRS is likely the best source for the amount of salaries and wages that would be subject to an Alaska state income tax.

3. *In the presentation, there were graphs showing the expected state income tax liability for families with gross income ranging from \$20,000 to \$100,000. Please extend those graphs to include those making over \$100,000. Please also show these graphs for families without children, as well as those with 2 children.*

Please see the attached graphs. Please note these represent specific scenarios subject to numerous assumptions—in particular, that the taxpayer does not itemize deductions and receives all income from salary and wages. Those assumptions are less likely to apply to higher-income households, but are kept in place for simplicity and in order to provide a more direct comparison to lower-income households.

4. *How much extra will Alaskans be paying after adjusting for the deduction of state income tax from federal taxable income?*

According to a report by the Institute of Social and Economic Research (ISER), about 10% of an Alaska income tax would be "paid by the federal government" through reduced federal taxes. Since DOR's projected revenue from HB 250 is about \$200 million, the portion paid by the federal government (based on ISER's estimate) would be about \$20 million.

However, that does not mean the benefit to any particular Alaskan household would be 10% of their state tax liability. The effect would vary widely by household, specifically between those who itemize deductions on their federal tax returns and those who do not. Only taxpayers who itemize deductions may take state income tax as a credit against federal income tax. In 2013, according to the IRS, about 23% of Alaska taxpayers itemized deductions. That included 15% of taxpayers whose federal adjusted gross income (AGI) was below \$100,000, and 59% of taxpayers whose AGI was above \$100,000.

Note that the graphs provided in DOR's presentation, referenced in question 3, do not represent the "average Alaskan" but a specific taxpayer about whom DOR made numerous assumptions. In particular, those graphs assume for simplicity that the taxpayer takes the standard deduction. Therefore, the graphs would not be affected by the deduction for state income tax.

5. *When you estimate that 20% to 30% of Alaskans will pay no state income tax, does that refer to all Alaskans or just wage-earners?*

DOR estimates 20% to 30% of all Alaskans will be members of households that pay no income tax. That includes non-filers as well as those who file tax returns but have zero liability. The estimate of 20% to 30% is based on ISER analysis and statistics from the Tax Foundation about the number of non-payers by state.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,



Randall Hoffbeck  
Commissioner

Attachments: Alaska income tax per-family estimates

**Title: Alaska Income Tax Per-Family Estimates**

**Preparer:** Will Bishop, Economist

**Purpose:** To estimate the state income tax burden that various Alaskans would face under Senate Bill 134 and House Bill 250 (2016). This analysis considers both single people and married couples, with 0 to 4 children, and incomes ranging from \$20,000 to \$300,000 per year.

**Data Source:** IRS federal income tax rates, child tax credits, personal exemptions, and standard deductions for tax year 2016 (publicly available)

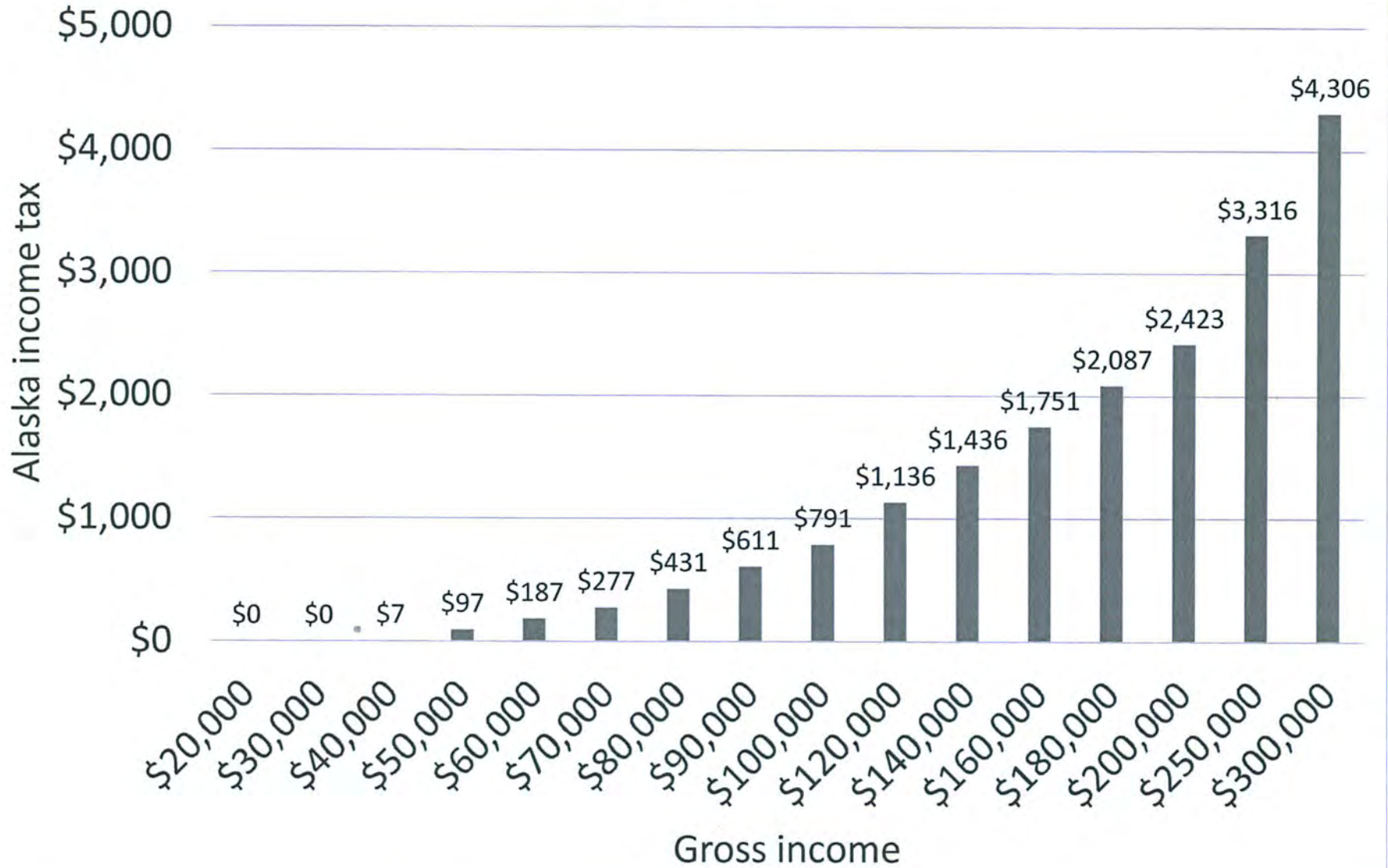
**Key Assumptions:** Single parent qualifies for and files as "head of household", married couple files jointly, children are all 16 or under, income is from wages, standard deduction is greater than itemized, the only credit the filers qualify for is the child tax credit, children are only dependents.

**History:** This document updates charts originally provided to the House Finance Committee on April 5, 2016. This version is current as of April 12, 2016.

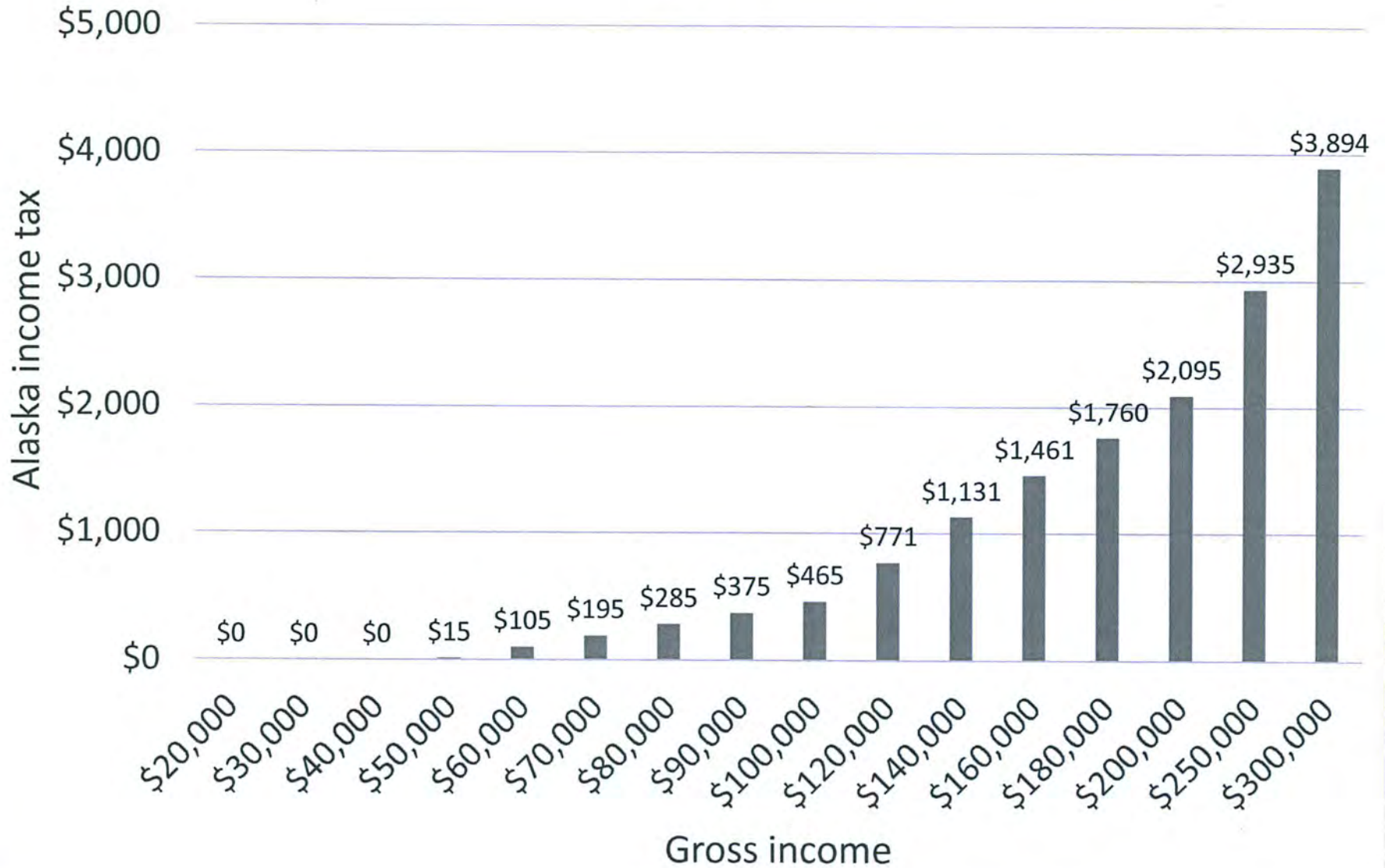
**Disclaimer:**

The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.

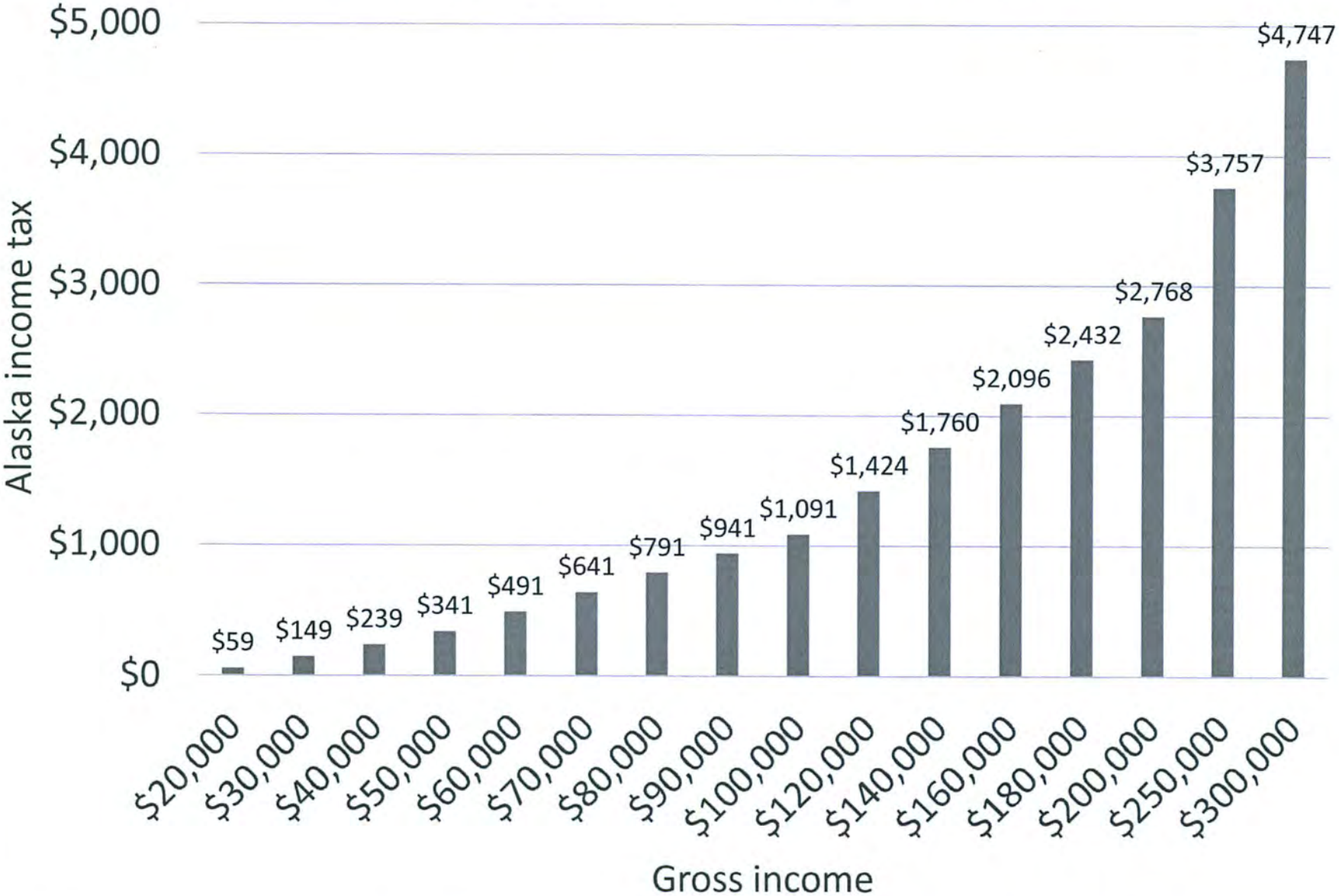
### Estimated tax for single parent (filing as head of household) with 2 children, HB 250



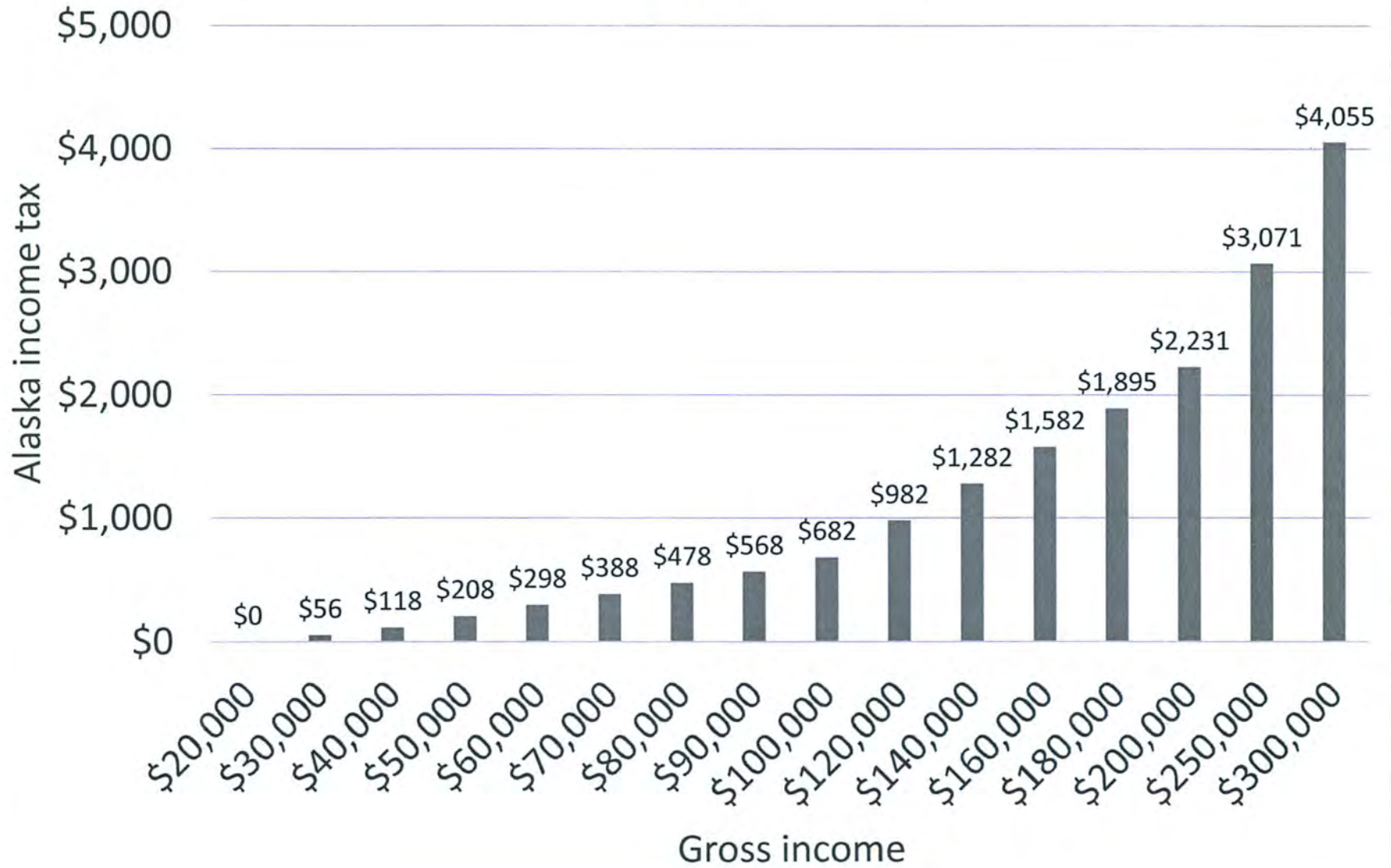
### Estimated tax for married couple filing jointly with 2 children, HB 250



### Estimated tax for single person with no children, HB 250



### Estimated tax for married couple (filing jointly) with no children, HB 250



NEW SUSTAINABLE

**ALASKA**

PLAN



*Pulling Together to Build Our Future*

## **Individual Income Tax**

### **HB 250**

**Presentation to the House Finance Committee**

**April 5, 2016**

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## *Individual Income Tax*

"An Act relating to the taxation of income of individuals; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

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## *Income Tax History*

- Began in 1949 at 10% of federal tax liability
- By 1961, the tax was 16% of federal tax liability
- In 1975, Alaska switched from federal tax liability to its own tax brackets
  - Ranged from 3% to 14.5% on taxable income
- Alaska repealed personal income tax in 1980 after oil revenue boom

## *Tax Proposal*

- Creates a tax on an individual's income. The proposed rate is 6% of a person's federal income tax liability

Federal Income Rate	Effective Alaska Rate
10%	0.60%
15%	0.90%
25%	1.50%
28%	1.68%
33%	1.98%
35%	2.10%
39.6%	2.38%

## *Income Tax Proposal (Continued)*

### **2016 Federal Tax Brackets and Proposed Alaska Effective Rates on Fed. Taxable Income (FTI) <sup>1</sup>**

<b>Fed / AK Rate</b>	<b>Single Filers</b>	<b>Married Joint Filers</b>	<b>Head of Household</b>
10% / 0.60%	\$0 to \$9,275	\$0 to \$18,550	\$0 to \$13,250
15% / 0.90%	\$9,275 to \$37,650	\$18,550 to \$75,300	\$13,250 to \$50,400
25% / 1.50%	\$37,650 to \$91,150	\$75,300 to \$151,900	\$50,400 to \$130,150
28% / 1.68%	\$91,150 to \$190,150	\$151,900 to \$231,450	\$130,150 to \$210,800
33% / 1.98%	\$190,150 to \$413,350	\$231,450 to \$413,350	\$210,800 to \$413,350
35% / 2.10%	\$413,350 to \$415,050	\$413,350 to \$466,950	\$413,350 to \$441,000
39.6% / 2.38%	\$415,050+	\$466,950+	\$441,000+

<sup>1</sup>FTI is and individuals gross income minus allowable deductions, exemptions, and other adjustments. FTI is always less than gross income.

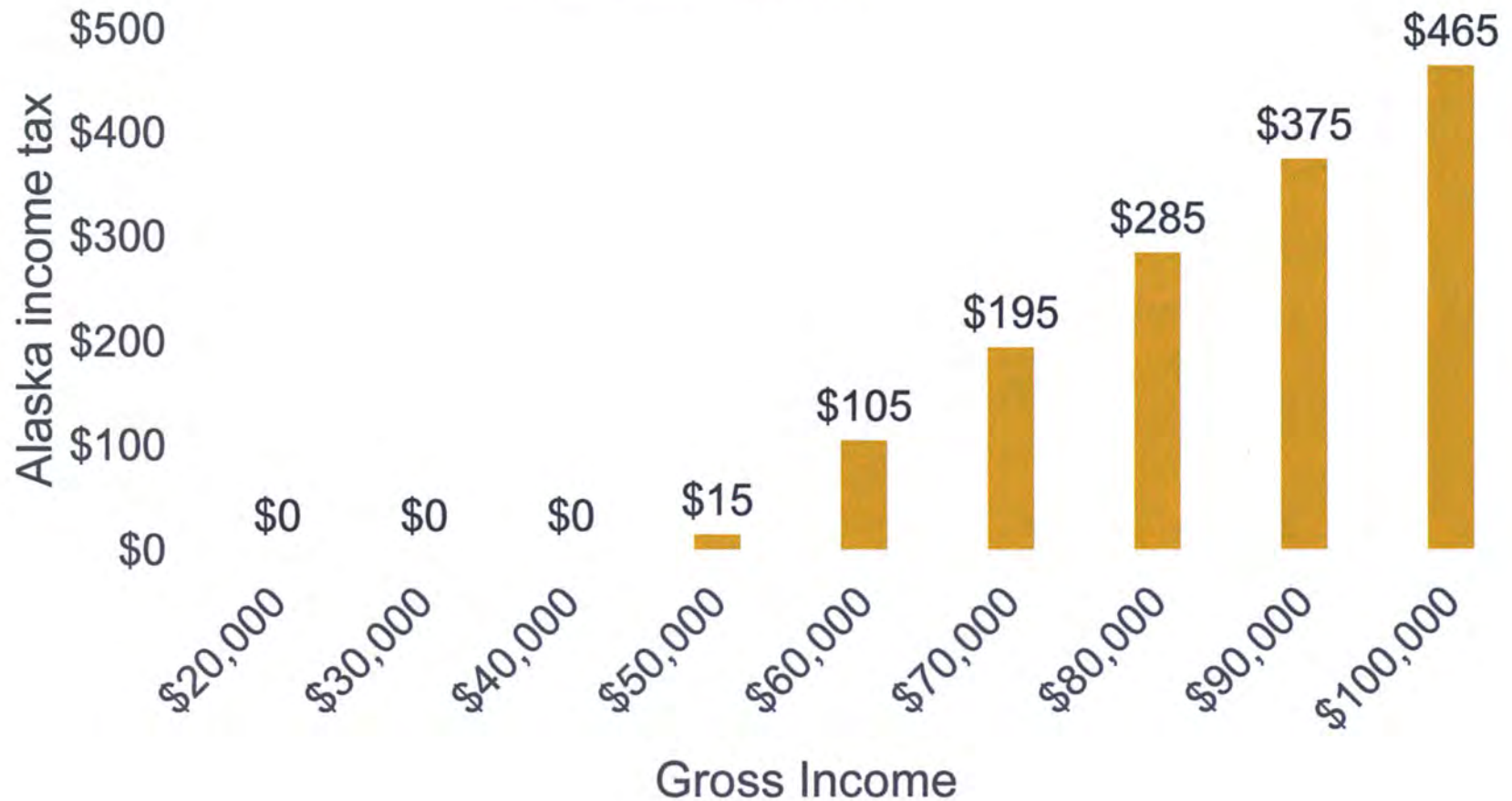
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## *Income Tax Proposal (Continued)*

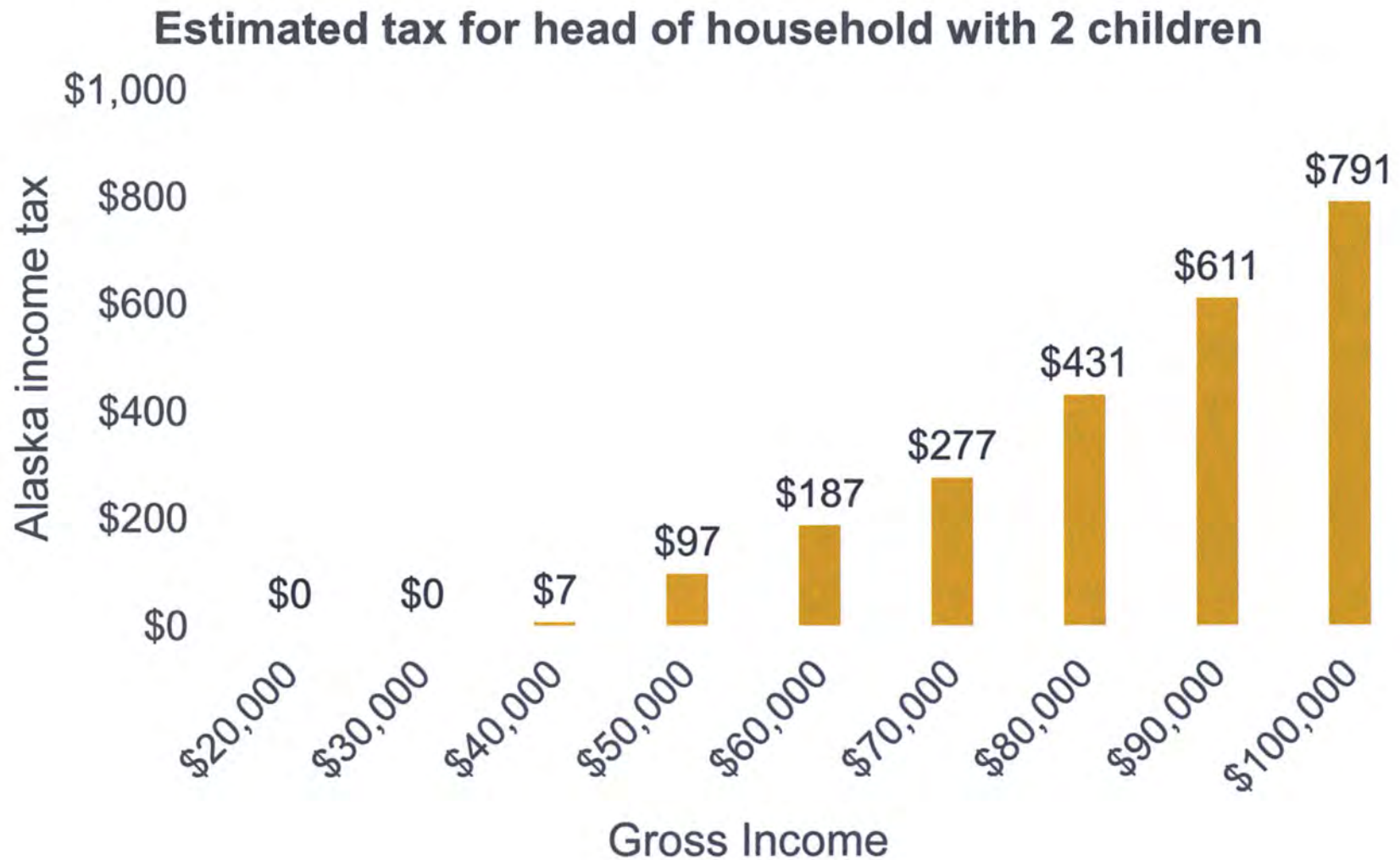
- Tax applies to nonresidents' income from a source in Alaska
- Residents receive credit for taxes paid in other states
- Provides for employers to withhold taxes and remit them to the state

# *Income Tax Estimates*

**Estimated tax for married couple filing jointly  
with 2 children**



# *Income Tax Estimates*



---

## *Relative Tax Rate*

- 43 states currently have an income tax
- Among states with an income tax, Alaska's rate would be lowest
  - North Dakota would be second-lowest
  - Average state income tax is about 30% of federal liability, five times Alaska's proposed rate
- Six states would still have zero state income tax<sup>1</sup>
- Two states tax only dividends and interest<sup>2</sup>

<sup>1</sup>Florida, Nevada, South Dakota, Texas, Washington, Wyoming

<sup>2</sup>New Hampshire, Tennessee

---

## *Impacts of Tax Proposal*

- Income from subchapter S corporations and partnerships will be taxed
  - Taxed on income with a source in Alaska
  - Not currently subject to state Corporate Income Tax
- Income earned in Alaska by both non-residents and residents will be taxed
- **Rough** estimate: 20% - 30% of Alaskans would pay zero tax

---

## *Revenue Impact*

- DOR estimates \$100 million in FY17 due to the tax taking effect in January 2017
  - This amount is from withholding
  - No tax returns filed until April 2018
- DOR estimates \$200 million in FY18 based on modeling using aggregated federal income data for Alaska residents

## *Implementation Cost*

- Implementing an individual income tax in 18 months will be a significant challenge
  - Need to draft regulations
  - Need to design, develop, and test technology to administer tax that would have estimated 450,000 tax returns filed annually.
- Estimated \$250,000 supplemental appropriation for a contractor to work with DOR on an implementation plan
- Estimated \$14,000,000 one time capital appropriation to build income tax into our current tax revenue system
  - Includes withholding and online filing
- Annual staffing cost of about \$6,000,000 for 52 FTE employees

# *Closing the Budget Gap*

	<b>(Millions)</b>
<b>FY16 Budget</b>	<b>\$ 5,200</b>
<hr/>	
<b><u>FY17 Baseline Revenue (after proposed legislation)</u></b>	
AK Permanent Fund Protection Act (annual draw)	\$ 3,300
Revenue from existing taxes and fees	\$ 850
Earnings on Savings	<u>\$ 135</u>
	<b>\$ 4,285</b>
<hr/>	
<b><u>FY17 Spending Reductions</u></b>	
Continue Cuts	\$ 140
Reform O&G Tax Credits	\$ 400
Net Priority Investments	<u>(\$ 40)</u>
	<b>\$ 500</b>

## *Closing the Budget Gap (Continued)*

<b><u>New Revenue Components (estimated)</u></b>	<b>(Millions)</b>
Mining (starting in FY 2018)	\$ 6
Fishing	\$ 18
Tourism	\$ 15
Motor Fuel	\$ 49
Alcohol	\$ 40
Tobacco	\$ 29
Oil and Gas (strengthening minimum tax)	\$ 100
<b><i>Income Tax (half in FY17; first full year is FY18)</i></b>	<b><u>\$ 200</u></b>
	<b>\$ 457</b>
<b>Total with reductions and new revenue</b>	<b>\$ 5,242</b>

---

## *Sectional Analysis*

**Sec. 1.** Adds a new chapter 22 in AS 43 for individual income taxes.

43.22.010 Imposes an income tax on both resident and nonresident individuals. The tax is six percent of a resident's federal tax liability. The tax for a nonresident is six percent of the portion of federal tax liability that is from a source in the state.

43.22.020 Provides a credit to residents for taxes paid to another state based on income earned in that other state.

43.22.030 Provides for annual returns to the Department of Revenue with taxes due on the date the federal tax return is due. The taxpayer must provide a copy of their IRS return. The department is authorized to pay refunds of overpaid taxes.

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## *Sectional Analysis (Continued)*

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42.22.190 Adds definitions for specific terms used in this section.

**Sec. 2.** Repeals statutes related to a former tax credit for political contributions that existed under Alaska's prior individual income tax which was repealed in 1980.

**Sec. 3.** Applicability section establishing that the new tax applies to income received on or after the effective date of the bill.

**Sec. 4.** Authorizes DOR to adopt regulations.

**Sec. 5.** Immediate effective date for Section 4, so that regulations can be drafted immediately.

**Sec. 6.** Effective date of 1/1/17 for the rest of the bill.

NEW SUSTAINABLE

**ALASKA**

PLAN



*Pulling Together to Build Our Future*

**Thank You!**

**Contact Information**

**Randall Hoffbeck**  
Commissioner  
Department of Revenue  
[Randall.Hoffbeck@Alaska.gov](mailto:Randall.Hoffbeck@Alaska.gov)  
(907) 465-2300

**Brandon Spanos**  
Deputy Director, Tax Division  
Department of Revenue  
[Brandon.Spanos@Alaska.gov](mailto:Brandon.Spanos@Alaska.gov)  
(907) 269-6736

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## **Individual Income Tax**

### **HB 250**

**Presentation to the House Finance Committee**

**March 31, 2016**

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# *Individual Income Tax*

"An Act relating to the taxation of income of individuals; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

---

## *Income Tax History*

- Began in 1949 at 10% of federal tax liability
- By 1961, the tax was 16% of federal tax liability
- In 1975, Alaska switched from federal tax liability to its own tax brackets
  - Ranged from 3% to 14.5% on taxable income
- Alaska repealed personal income tax in 1980 after oil revenue boom

# *Tax Proposal*

- Creates a tax on an individual's income. The proposed rate is 6% of a person's federal income tax liability

Federal Income Rate	Effective Alaska Rate
10%	0.60%
15%	0.90%
25%	1.50%
28%	1.68%
33%	1.98%
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# *Income Tax Proposal (Continued)*

## **2016 Federal Tax Brackets and Proposed Alaska Effective Rates on Taxable Income**

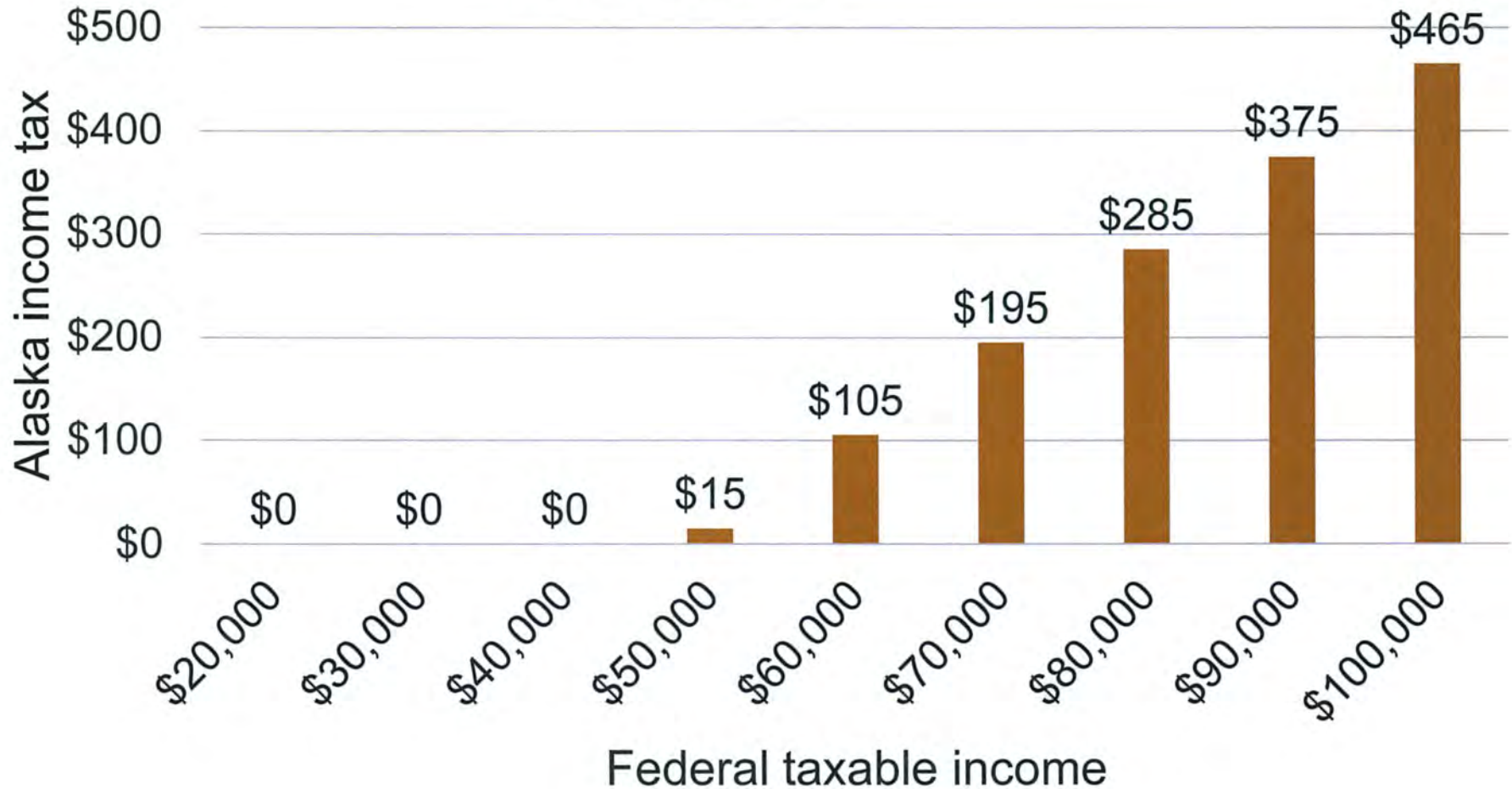
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- Tax applies to nonresidents' income from a source in Alaska
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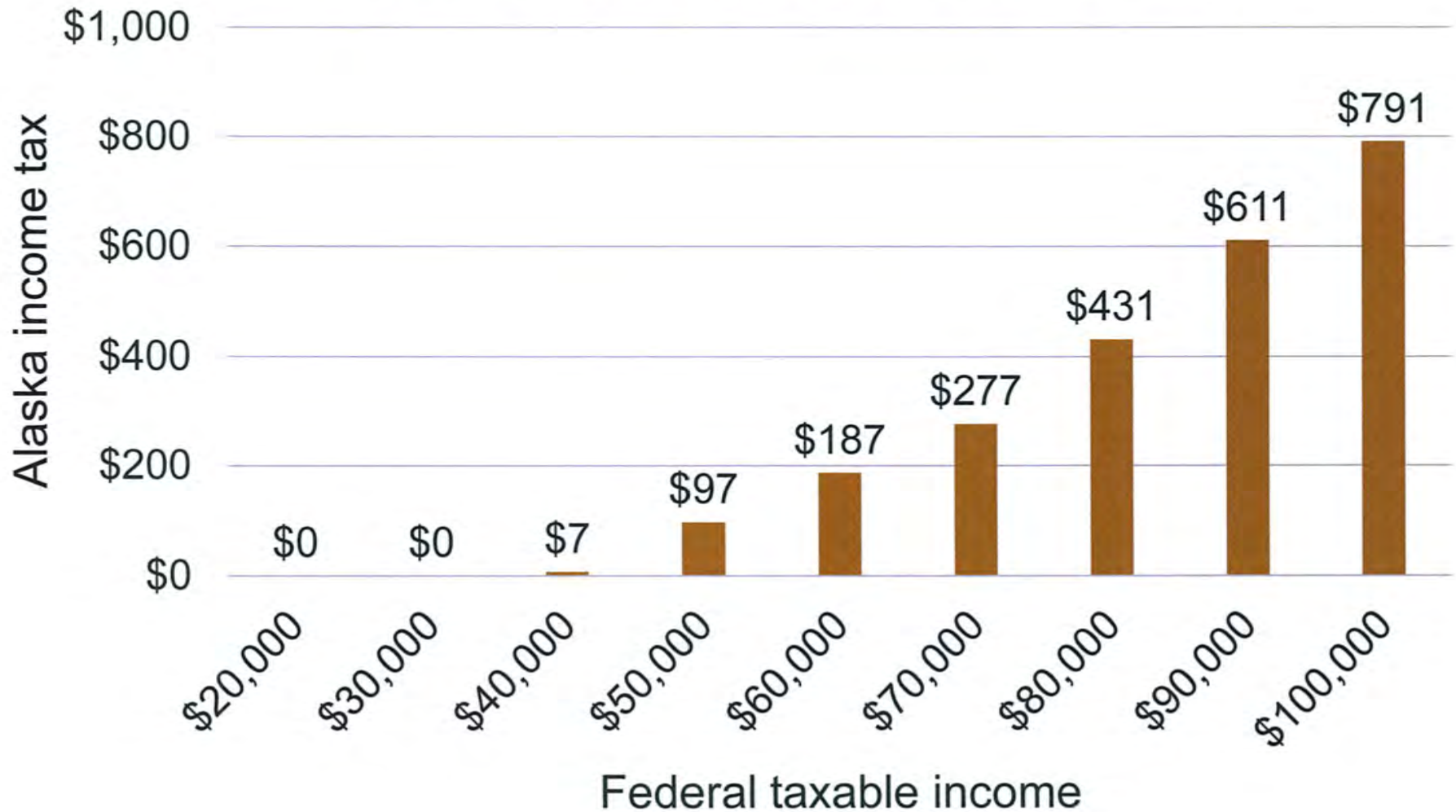
# *Income Tax Estimates*

**Estimated tax for married couple filing jointly  
with 2 children**



# *Income Tax Estimates*

**Estimated tax for head of household with 2 children**



## *Relative Tax Rate*

- 43 states currently have an income tax
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NEW SUSTAINABLE

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*Pulling Together to Build Our Future*

**Thank You!**

**Contact Information**

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Department of Revenue  
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(907) 465-2300

**Brandon Spanos**  
Deputy Director, Tax Division  
Department of Revenue  
Brandon.Spanos@Alaska.gov  
(907) 269-6736



# UNITED FISHERMEN OF ALASKA

**Mailing Address:** PO Box 20229, Juneau AK 99802-0229

**Physical Address:** 410 Calhoun Ave Ste 101, Juneau AK 99801

**Phone:** (907)586-2820 **Fax:** (907) 463-2545

**Email:** [ufa@ufa-fish.org](mailto:ufa@ufa-fish.org) **Website:** [www.ufa-fish.org](http://www.ufa-fish.org)

April 7, 2016

Representative Steve Thompson, Chair  
House Finance Committee  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801

## **RE: Concerns with HB 250 – Income tax –Withholding of Crew Income**

Dear Chairman Thompson and committee members,

UFA does not currently have a position of support or opposition to HB 250 regarding a state income tax. However, we have serious concerns with the current bill as introduced. Many or most fishermen will have major difficulties with the provisions of HB 250 relating to fishing wages and crew.

Generally, most fishing businesses operate as contractors with crew paid as a percentage of the catch, based on a contract, and reported at the end of the year to the payee and to IRS with form 1099-Misc. Fishermen and crew are not treated as employers and employees, they are all considered self-employed, and few would be prepared to withhold an estimated state tax payment based on a percentage of federal income tax.

Our specific concerns are:

### **Section 43.22.050 Tax withholding on wages of individuals**

(c) (1 & 2) Page 4, beginning on line 28 - Withholding on fishing crew.

The bill would have fishermen skippers who pay their crew, subject to requirements to withhold a portion of crew share payments “computed in a manner to approximate the amount of tax due...” This is unworkable because:

-Skippers don't have the information they would need to estimate a crew member's potential federal tax liability.

-The typical crew share for most fisheries falls below income thresholds for federal tax liability.

-Many crew members may have federal tax liability through combined income of other employment (which would be subject to withholding by that employer), through fishing on multiple vessels throughout the year, or other sources of income. This information is not available to a skipper, or if it were would only be based on the crew member's word. In the common case of crew working a summer job, even the crew member may not know their own

estimated tax liability during the summer season when the fishing income takes place, as it would be affected by potential employment in the remainder of the calendar year.

-Even in the cases of crew who work year around with the same skipper in multiple fisheries, where the payments may exceed the threshold for federal taxable income, the tax liability includes marital status and number of dependent allowances in the calculation formula.

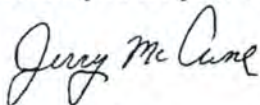
For actual employers, number of dependents, and filing status are included in formulas that calculate FICA withholding, and the functions for withholding income taxes and Social Security and Medicare are worth the cost of the overhead expense of accounting software. The 6% of federal tax obligation can be estimated easily as a percentage of federal withholding tables for real employers, but these do not exist for 1099 contractors, and the short term nature of many fisheries results in payment amounts that would fall below minimum income levels for federal withholding. A crew member receiving a 1099 form is considered self-employed and as such are allowed to take many expenses as deductions that reduces their federal liability and makes it impossible for a skipper to determine the amount to withhold from a crew's payment.

**(a) (1) Page 5, line 21-24** - Fishermen as employers. Most small family fishing operations are not classified as employers for state and federal tax purposes. Although this passage is "for this section", we are concerned that the classification opens up potential complications with state and federal laws including workman's comp, health insurance, unemployment insurance, etc.

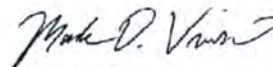
If a state income tax is to be implemented as part of a comprehensive fiscal package to address the current situation, the only viable treatment of commercial fishing income is through treatment the same as other self employed business owners. The State could require any business that provides a contractor with a 1099 form to provide a duplicate of the IRS form 1099-Misc to the state, with the responsibility for paying of the tax on the individual payee.

We recommend that HB 250 be amended to delete the passages that classify fishermen as employers and crew as employees, and delete those that treat fishermen and crew differently than other contractors or 1099 payees.

Thank you for your consideration,



Jerry McCune  
President



Mark Vinsel  
Executive Administrator

CC:

Representative Cathy Munoz

Representative Bruce Edgmon

Senator Bert Stedman

Commissioner Randal Hoffbeck, Department of Revenue

Deputy Commissioner Jerry Burnett, Department of Revenue

Director Ken Alper, Tax Division, Department of Revenue

Director Pat Pitney, Office of Management and Budget

Barbara Blake, Office of the Lt. Governor

Darwin Peterson, Office of the Governor

---

**From:** Lynette Bergh  
**Sent:** Friday, April 15, 2016 3:22 PM  
**To:** Helen Phillips  
**Cc:** Jane Pierson  
**Subject:** FW: HB 250 Comments

---

**From:** Jennie Hafele  
**Sent:** Friday, April 15, 2016 9:05 AM  
**To:** House Finance <lhscfin@akleg.gov>  
**Cc:** Rep. Adam Wool <Rep.Adam.Wool@akleg.gov>; Rep. David Guttenberg <Rep.David.Guttenberg@akleg.gov>; Rep. David Talerico <Rep.David.Talerico@akleg.gov>; Rep. Scott Kawasaki <Rep.Scott.Kawasaki@akleg.gov>; Rep. Steve Thompson <Rep.Steve.Thompson@akleg.gov>; Rep. Tammie Wilson <Rep.Tammie.Wilson@akleg.gov>; Sen. Click Bishop <Sen.Click.Bishop@akleg.gov>; Sen. John Coghill <Sen.John.Coghill@akleg.gov>; Sen. Pete Kelly <Sen.Pete.Kelly@akleg.gov>  
**Subject:** HB 250 Comments

Please enter into the record the testimony below to HB 250.

---

**From:** D. A. McGilvary

**Subject:** For ALL state legislators: I feel a modest State income tax AFTER MAXIMUM SPENDING CUTS is the way to go.

A modest State Income tax spreads the burden among ALL who earn MONEY in Alaska, including outsiders who have NO skin in the game.

First cut spending, eliminate bonuses, limit state paid travel (- or eliminate state paid travel.) limit State employee perks.

Thank you,  
D. McGilvary,  
Fairbanks, AK 99701-4382

---

**From:** Lynette Bergh  
**Sent:** Friday, April 15, 2016 3:22 PM  
**To:** Helen Phillips  
**Cc:** Jane Pierson  
**Subject:** FW: HB 250

**From:** Caroline Storm [mailto:caroline.f.storm@gmail.com]

**Sent:** Thursday, April 14, 2016 3:59 PM

**To:** House Finance <lhscfin@akleg.gov>; Rep. Tammie Wilson <Rep.Tammie.Wilson@akleg.gov>; Rep. Steve Thompson <Rep.Steve.Thompson@akleg.gov>; Rep. Dan Saddler <Rep.Dan.Saddler@akleg.gov>; Rep. Mark Neuman <Rep.Mark.Neuman@akleg.gov>; Rep. Cathy Munoz <Rep.Cathy.Munoz@akleg.gov>; Rep. Scott Kawasaki <Rep.Scott.Kawasaki@akleg.gov>; Rep. Mike Hawker <Rep.Mike.Hawker@akleg.gov>; Rep. David Guttenberg <Rep.David.Guttenberg@akleg.gov>; Rep. Lynn Gattis <Rep.Lynn.Gattis@akleg.gov>; Rep. Les Gara <Rep.Les.Gara@akleg.gov>; Rep. Bryce Edgmon <Rep.Bryce.Edgmon@akleg.gov>; Rep. Lance Pruitt <Rep.Lance.Pruitt@akleg.gov>

**Subject:** HB 250

Rep. Neuman, Rep. Thompson, Rep. Saddler, Rep. Edgmon, Rep. Gattis, Rep. Munoz, Rep. Pruitt, Rep. Wilson, Rep. Gara, Rep. Guttenberg, Rep. Kawasaki, Rep. Hawker,

**I support Bill 250 for the following reasons:**

1. The tax on a family of four living on \$50,000 would be \$15. This is not a crippling tax.
2. The proposed income tax captures money from out-of-state workers, who in 2014 took home \$2.6 billion in wages. That's money that was not circulated in the Alaska economy.
3. An income tax helps offset the disproportionate impacts of a dividend reduction. Three-quarters of the projected \$200 million in revenue would come from six-figure earners.
4. Alaska has the lowest personal tax rate in the nation. Under the Governor's plan, Alaska will have the second lowest personal taxes in the nation - but Alaska offers dividends.

Please support this Bill in order to develop a sustainable future for Alaska.

Respectfully,

Caroline Storm

## ***As Related to HB250, SB128 and SB138***

As the 29<sup>th</sup> Alaska Legislature winds down in just under 2 weeks, they are 'working hard' to fix the budget and figure out how to pay for it. A couple of weeks ago at a press conference, Governor Bill Walker pretty much said that if Our legislators don't send him a budgeting package that incorporates HB250 & SB128 along with a assortment of other legislation that include an income tax, raises taxes on certain consumer goods and a total restructuring of the Permanent Fund... he will call them into a special session to fix the problem. Sure sounds a lot like President Obama when a 'shutdown' is looming in DC. With an election season looming, it's likely that the Alaska Legislature will buckle and comply to the dictate and pass along several bills that will have adverse impacts upon the private economy across Alaska.

In raising Our voices, #ProtectThePFD has presented options/ideas/solutions/plans to address the fiscal fiasco in Juneau. From the 3-Year Budget Plan that maps out how to pay for the next three years of government to the modifications/amendments to pending legislation, We are doing more than protesting. In looking at the cuts that can be made and trying to balance the numbers, We decided to show what impact these numbers actually have on individual Alaskans.

Over the Winter, United for Liberty coordinated the authoring of an in-depth study at how Alaska is spending it's money and what measures could be taken to restructure/revamp agency operations to be more efficient and economical. Knowing that the first year of cuts on the way to bringing the UGF budget down to a sustainable level would cause a bit of a 'shock' throughout Alaska, recommendations were aimed at minimizing impact upon the services that the State of Alaska provides Alaskans.

Several cost cutting measures were identified for implementation in 2017 that add up to \$720,000,000.00 annually. Wow! That's sure is a big number...especially for most citizens. But what does that number actually mean to Us individual Alaskans? *Let's Look...*

Unfunded PCNs  
250000000 ÷ 760000 =  
328.947368421

Medicaid Revamping  
220000000 ÷ 760000 =  
289.473684211

Education Restructuring...  
250000000 ÷ 760000 =  
328.947368421

Total Savings...  
***\$947.368421053 per Alaskan***

Now, let's re-do these numbers using the approximate 420,000 people in the Alaskan workforce since Governor Walker wants to increase State of Alaska revenues by approximately \$200,000,000.00 to cover above inflation and per-capita government sector spending by implementing a Personal Income Tax.

Unfunded PCNs...  
250000000 ÷ 420000 =  
595.238095238

Medicaid Revamping...  
220000000 ÷ 420000 =  
523.80952381

Education Revamping...  
250000000 ÷ 420000 =  
595.238095238

Total Savings...  
***\$1571.42857143 per Alaskan Taxpayer***

Now, let's figure out what the government spends...

Under the Governor's New Sustainable Alaska Plan:

$5200000000 \div 760000 =$

**\$6842.10526316** per Alaskan

Now, let's break this number down again and pull out the above mentioned per Alaskan savings.

$6842.10526316 - 947.368421053 =$

**\$5894.73684211** per capita spending

$5894.73684211 \div 6842.10526316 =$

0.86153846153, a **14% reduction** in government cost with minimal impact upon what the SoA provides Alaskans.

Total Budget Size:

$5894.73684211 \times 760000 =$

**\$4,480,000,000**

This is inline with the 3-Year budget reduction plan that gradually reduces government to an inflation proofed growth rates of \$4.5 Billion, \$4.0 Billion & and \$3.8 Billion for FY 2017, 2018 and 2019 respectively. These aren't the only cuts that can be made as there are efficiency and consolidation measures that can be made all across the spectrum of the State of Alaska that will help continue the path to sustainability under a real plan for Alaska's future.

These measures are just the Step One in fixing the issue of our sinking ship...Stopping The Leaks. If the House and Senate can immediately legislate these three suggestions, the next phase of finding more to trim and fix can be 'kicked down the road' without implementing or raising taxes nor altering the PFD.

