

**HB**

**3 6 5**

<TARGET><BILL>HB 365</BILL><SUBJECT>HB  
365</SUBJECT><COMM>HFIN29</COMM></TARGET>

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# ALASKA STATE LEGISLATURE HOUSE FINANCE COMMITTEE

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Alaska State Capitol Building- Rm 513

Alaska State Capitol Building- Rm 515

SB 74 – Explanation of Changes SB 74 version U.A to HCSCSSB 74 (FIN) version T

**Title Changes:** (Pages 1-2, Lines 1-20) Changes to conform with the changes in the bill

**Sec. 1:** (Pages 2-3, Lines 19-8) Adds Telehealth for registered audiologist assistants AS 08.11.080

**Sec. 2:** (Page 3, Lines 13 – 28) Adds Telehealth for licensed speech-language pathologist assistants. AS 08.11.083

**Sec. 3:** (Pages 3-4, Lines 25-9) Adds Telehealth for licensed speech-language pathologist. AS 08.11.085

**Sec. 5:** (Page 5, Line 19-21) Requires a licensed dentist with a federal DEA registration number to register with the PDMP. AS 08.36.070(a).

**Sec. 7:** (Pages 6, Lines 27-29) Requires that a physician with a federal DEA number register with the controlled substance database. AS 08.64.101

**Sec. 10:** (Page 9, Lines 6-8) Requires that an Advanced Nurse Practitioner with a federal DEA number register with the controlled substance database. AS 08.68.100(a)

**Sec. 11:** (Page 9, Lines 14-16) Requires that an Optometrist with a federal DEA number register with the controlled substance database. As 08.72.060(c)

**Sec. 12:** (Page 10, Line 19-21) Requires a licensed pharmacist with a federal DEA number register with the controlled substance database. AS 08.80.030(b)

**Sec. 13:** (Page 10-11, Lines 22-5) Adds Telehealth protections for licensed physical therapists and occupational therapists. AS 08.84.120.

**Sec. 18:** (Page 13, Line 15) Conforming language re: removal of seizure and forfeiture of property.

(Page 13, Lines 20-24) Allows for full reasonable attorney fees and costs in a fraudulent claim

(Page 13, Lines 28-29) Allows for Rule 82 attorney fees for cases that do not involve fraud.

(Page 14, Line 7) Limits liability to the section rather than chapter  
(Page 14, Lines 11-12) Adds protection to the principal in a fraud case if their agent acted with intent to deceive the principal.

(Pages 17-18, Lines 30-3) Allows for full reasonable attorney fees and costs in a fraudulent claim. Allows for Rule 82 attorney fees for cases that do not involve fraud.

(Page 19, Lines 16, 22, 24) Conforming amendments.

**Sec. 21:** (Page 22, Lines 1-4) Removes references to the Department of Commerce, Community, and Economic Development. AS 17.30.200(a)

**Sec. 22:** (Page 22-23, Lines 31-2) Adds that if a person picking up a prescription is not the person to whom the drug was prescribed, the pharmacist shall collect their name and date of birth. AS 17.30.200(b)

**Sec 23:** (Page 23, Lines 17-21) Adds that an agent of a practitioner who has access to the PDMP must be licensed or registered or licensed under AS 08.

(Page 23, Lines 23-27) Adds that an agent of a pharmacist that has access to the PDMP must be licensed or registered or licensed under AS 08.

(Page 23, Line 30) removes the word subpoena, so that a search warrant or court order must be obtained for law enforcement to access the PDMP.

(Page 24, Lines 26-27) Allows a practitioner employed by the United States Indian Health Services to access the database. AS 17.30.200(d)

**Sec. 26:** (Page 25, Lines 21 and 24) Removes pharmacists from having to check the PDMP before dispensing.

(Page 25, Lines 21-25) States that the practitioner only, not a pharmacist has to review the database before prescribing or dispensing schedule II or III controlled substance, removing schedule IV.

(Page 26, Lines 4-7) adds to exceptions for reviewing the database before dispensing:

1. 48 hours immediately before, during, or after surgery or a medical procedure.
2. In a hospice or nursing home that has an in-house pharmacy
3. A nonrefillable prescription of a controlled substance in a quantity intended to last

not more than three days. AS 17.30.200(h)

**Sec. 27:** (Pages 26-27, Lines 8-3) Sets forth that the Department of Commerce, Community, and Economic Development shall:

1. Assist the pharmacist board and provide necessary staff and equipment to implement the PDMP.
  - Establish fees for registration with the database with a pharmacist or practitioner for operational costs equally among all required to register.
  - Consult with the board to establish fees. AS 17.30.200
  -

**Sec. 28:** (Page 27, Line 5) deletes monetary recoveries under the Alaska Medical Assistance False Claim and Reporting Act.

(Page 27, Lines 4-18) States the Commissioner of DOC shall apply for medical assistance for prisoners during a period of hospitalization outside of a correctional facility. Allows DOC to obtain necessary information to determine whether a prisoner is eligible for medical assistance and that the information obtained may only be used to apply for assistance. AS 33.30.028

**Sec. 32:** (Page 28, Lines 16-17) adds security provisions to the computerized eligibility verification system. AS 47.05.105

**Sec. 36:** (Page 31) Old Section AS 47.05.260 was deleted having to do with seizures and forfeitures.

(Page 15, Lines 23-27) Adds subsection (15) to the reporting requirements the amount of state funds saved as the result of policy authorizing 100 percent federal funding provide for America Indian and Alaska Native individuals eligible for Medicaid, and estimated savings if the department had fully implemented the changes in policy. AS 47.05.250

**Sec. 38:** (Page 37, Lines 2-4) requests that the Department give continuing cooperation to the grant funded community mental health clinics and drug and alcohol treatment centers that have historically provided care to recipients. AS 47.07.036

**Sec. 39:** (Page 39, Lines 5-6) Amends the coordinated care project to include (9) innovative payment process, including bundled payments or global payments. AS 47.07.038

(Pages 40-41) Amends the Project Review Committee membership.

(Page 41, Line 30) Amends third-party actuary review of demonstration projects from one year to two years.

**Sec. 40:** Reports (Pages 41 -42, Lines 27-9) 30) Adds an additional report to require the Department to prepare, semi-annually a report to the legislature on the Medicaid Management Information System.

**Sec. 43:** (Page 42, Lines 24-30) Amends 47.25.140 which prohibits the ability to receive public assistance benefits while in institutions, like nursing homes or correctional facilities.

**Sec. 46:** (Page 43, Line 11) Repeals section 47.07.076(c),

**Sec. 47:** (Pages 44-45, 30-6) Conforming language regarding attorney fee changes.

**Sec. 50:** Feasibility studies removes section to study privatization of the Alaska Pioneer Homes and select facilities of the division of juvenile justice.

**Sec. 51:** (Pages 48-49, Lines 28-13) Requires a report from medical professionals regarding recommended guidelines for prescribing schedule II controlled substances.

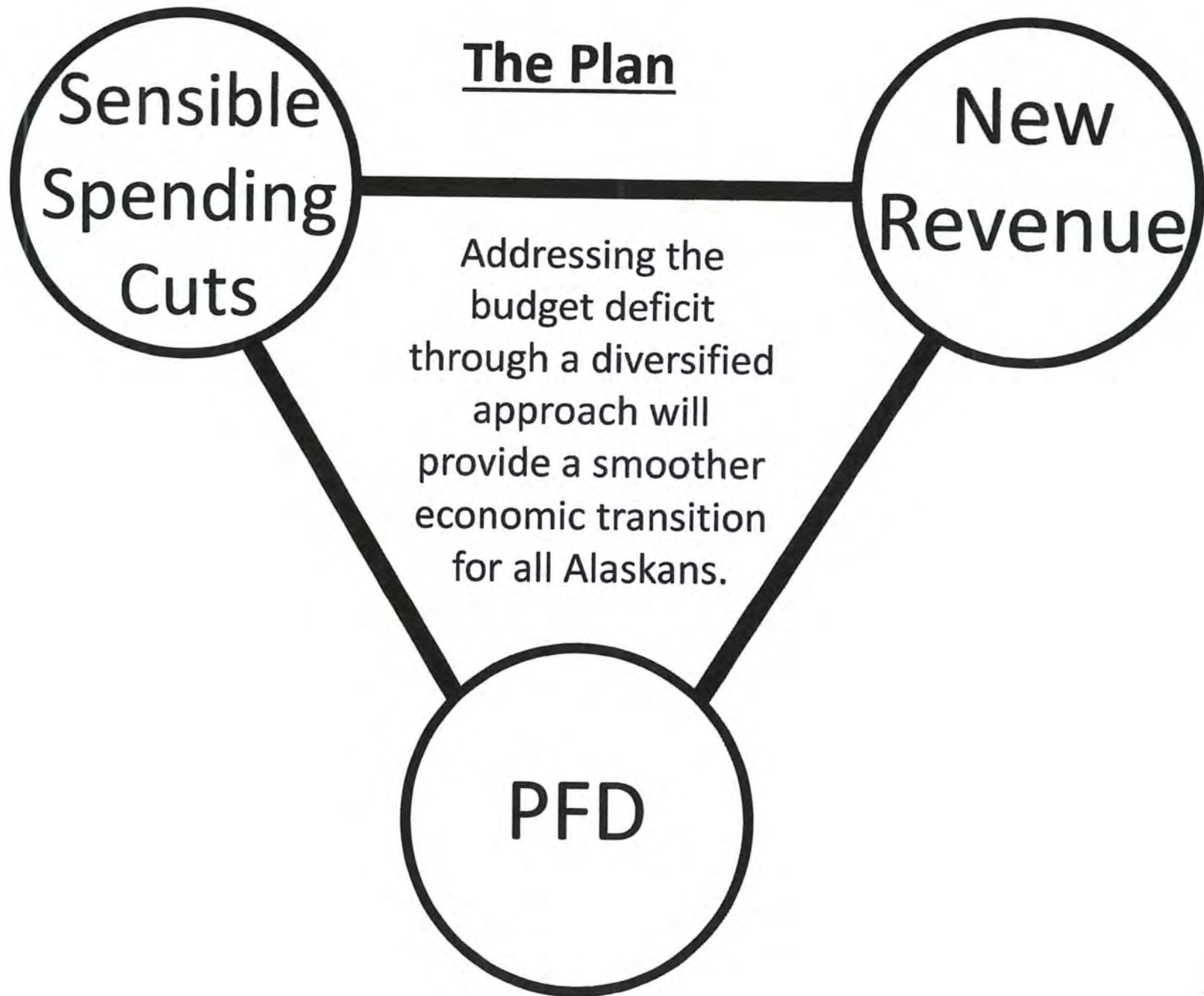
HB 365  
Individual Income Tax  
&  
Permanent Fund  
Refundable Tax Payment

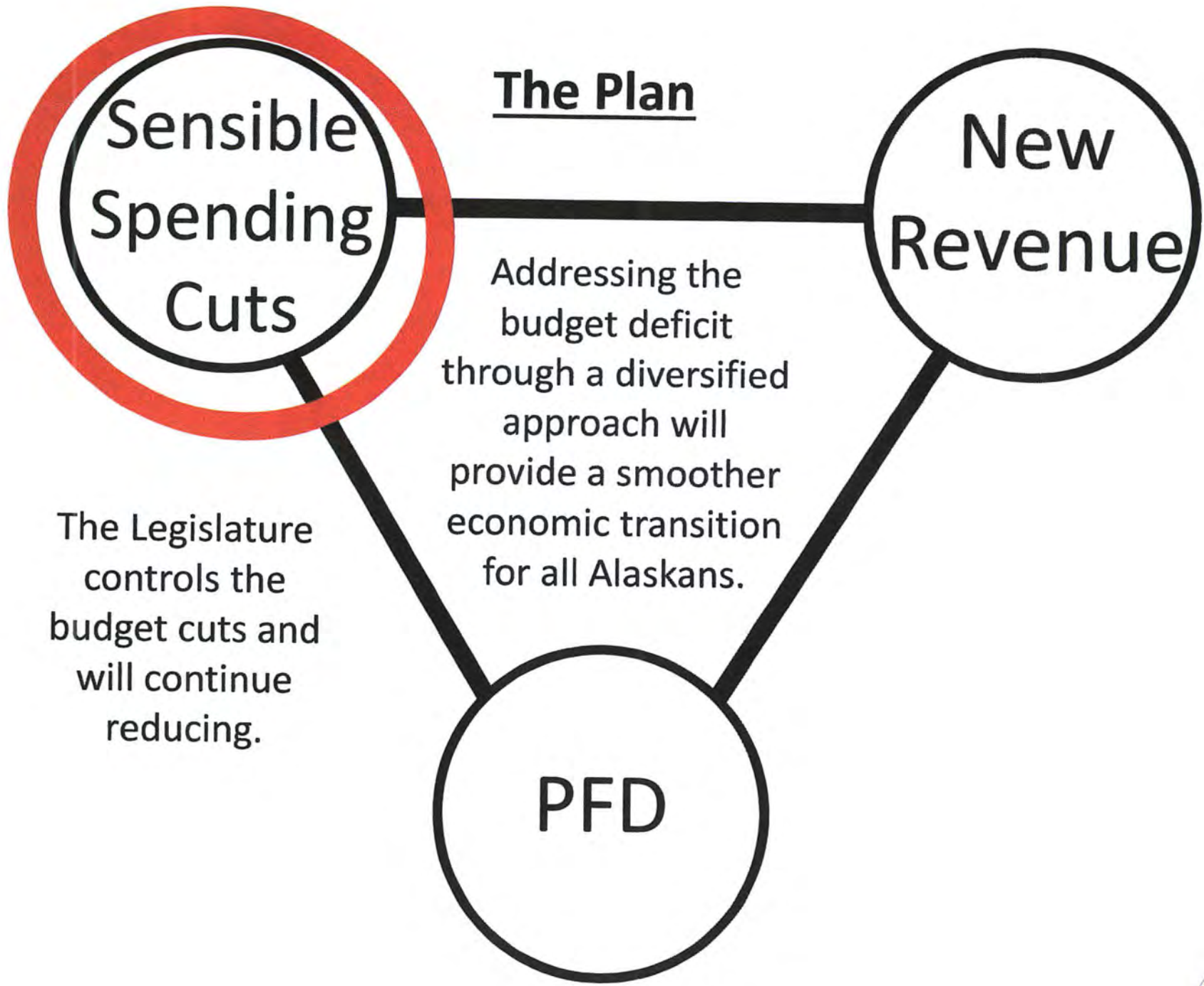
*House Finance – April 7, 2016*

Presentation prepared by the Office of Rep. Paul Seaton

Not paying for what we spend this year means that our children will pay for what we spend this year.

*-Gunnar Knapp*





## The Plan

Sensible  
Spending  
Cuts

New  
Revenue

Addressing the budget deficit through a diversified approach will provide a smoother economic transition for all Alaskans.

The other Permanent Fund bills only address one part of the plan.

PFD

Sensible  
Spending  
Cuts

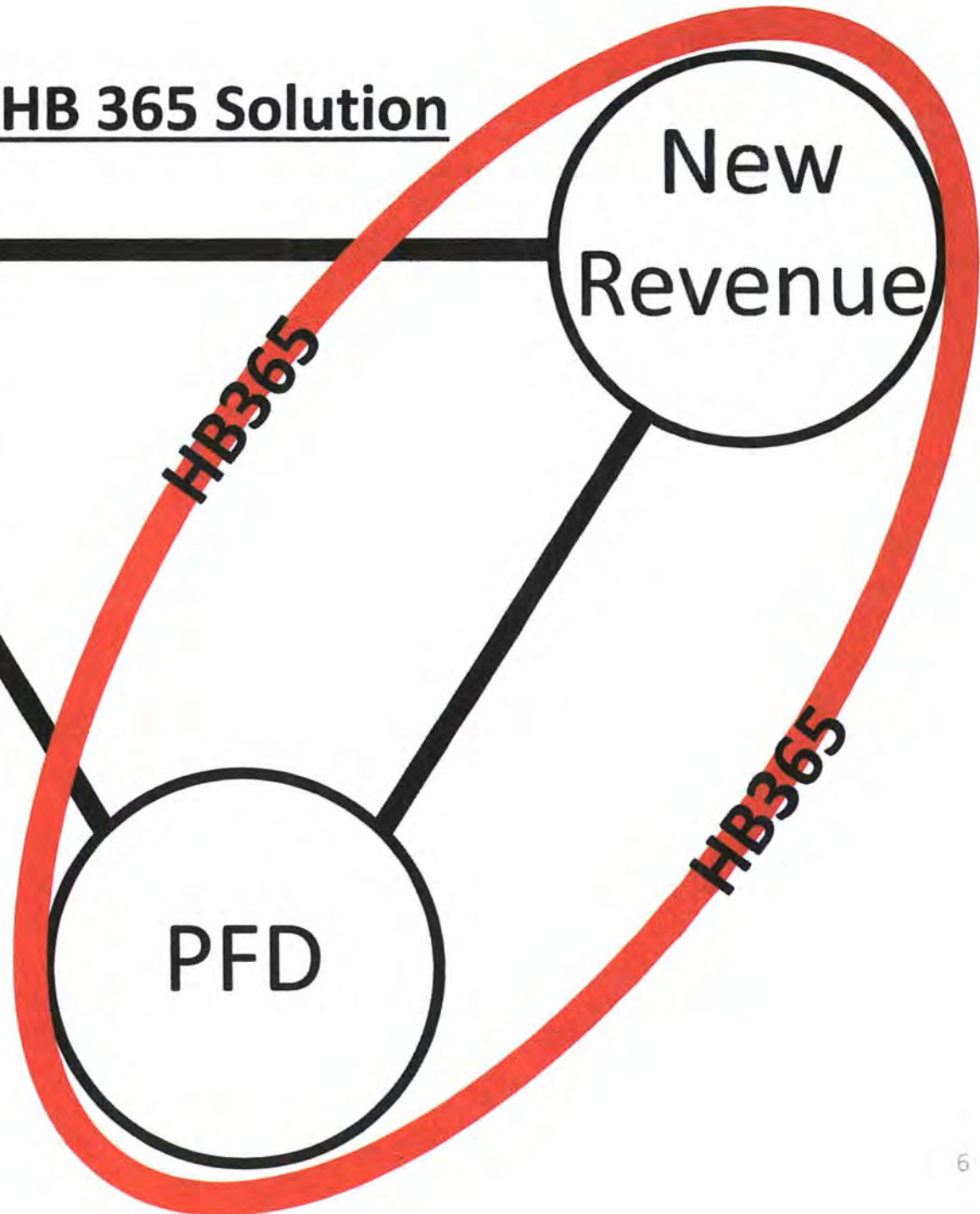
HB 365 Solution

New  
Revenue

HB365 is the  
**most fair and  
balanced** solution  
to address both PFD  
restructuring and  
new revenue.

**HB365 does the  
best job of  
preserving the PFD.**

PFD



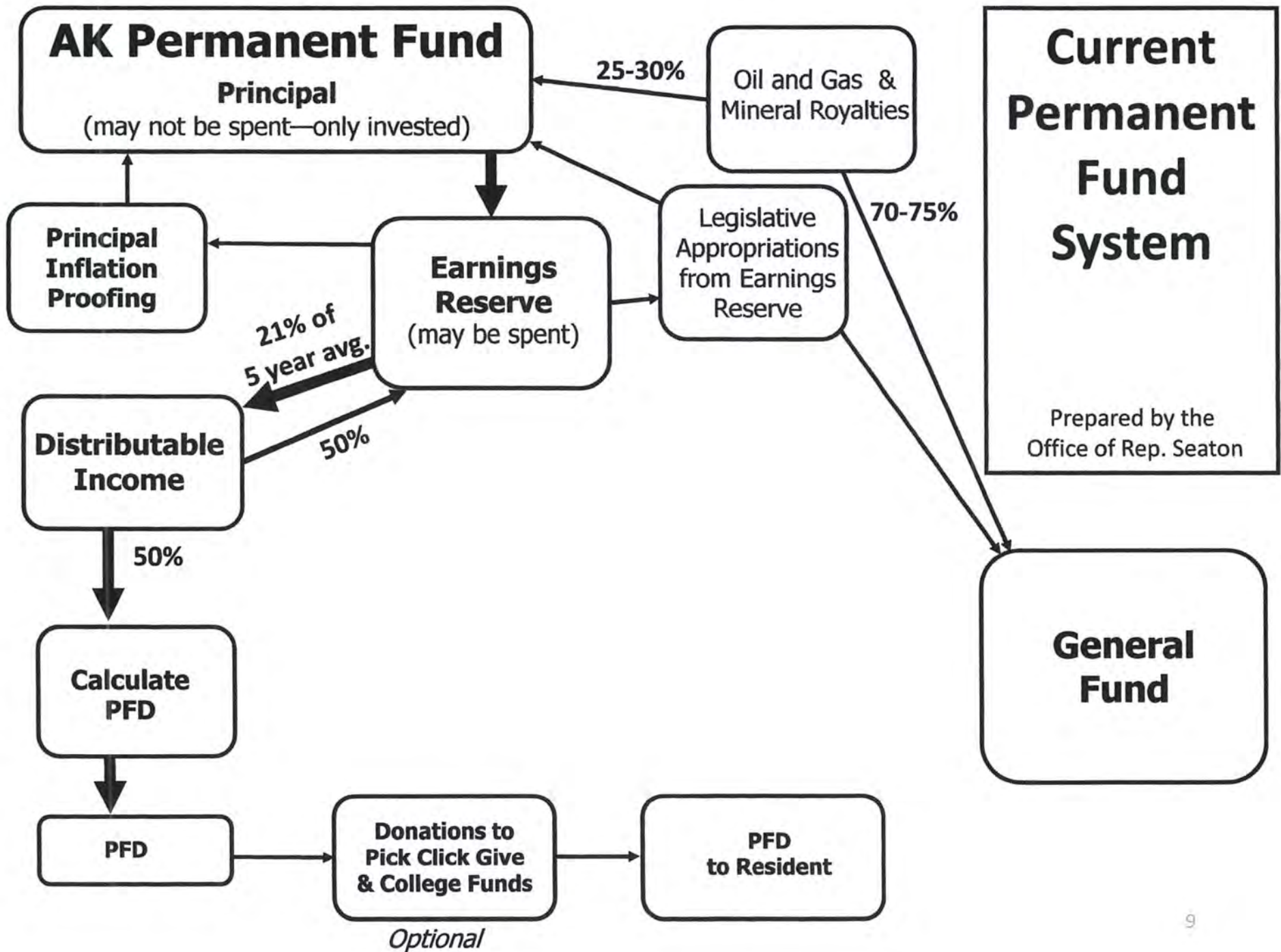
## INCOME TAX:

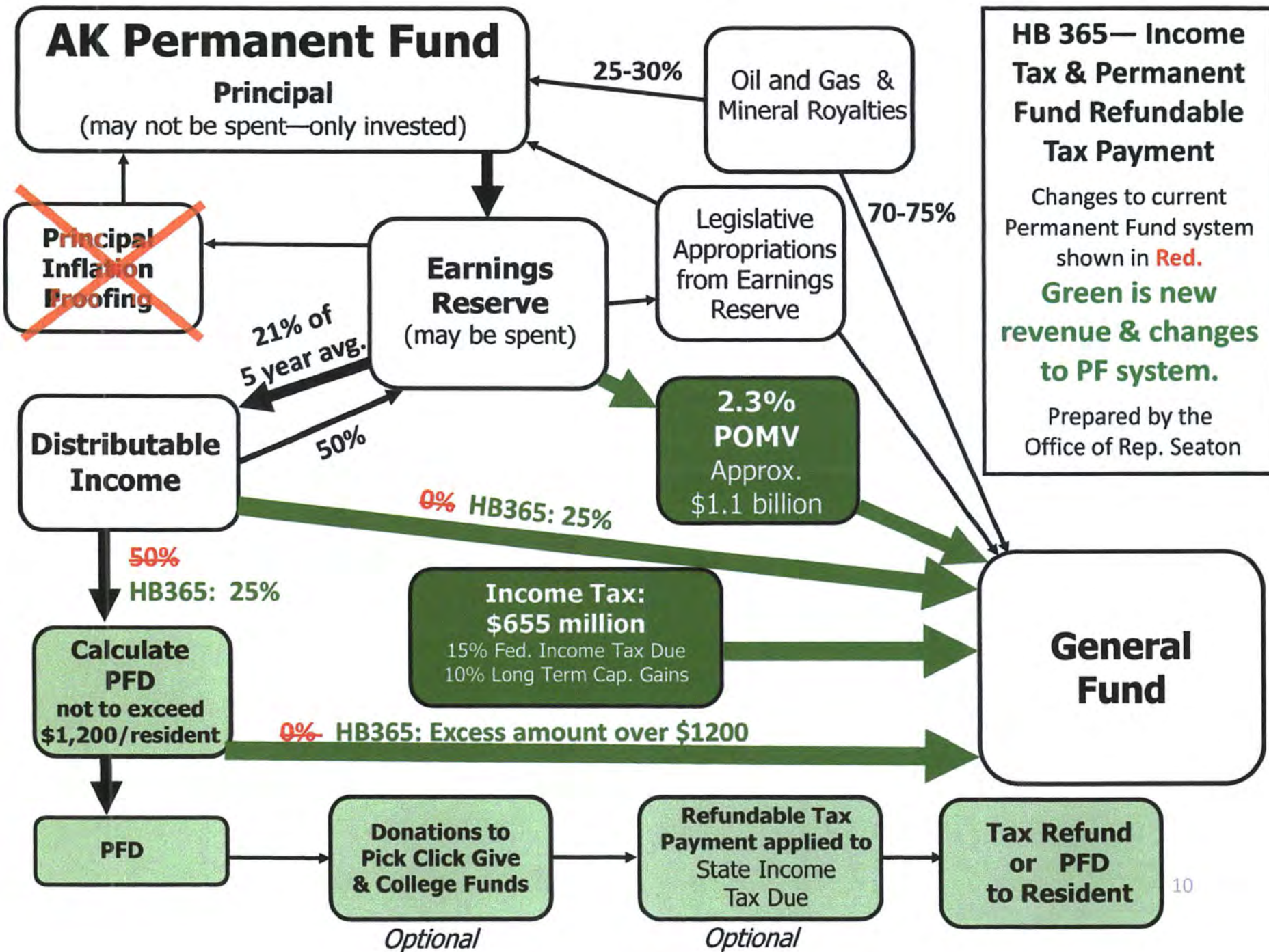
	<u>Revenue*</u>
• 15% Federal Liability	\$500 million
• 10% Long Term Capital Gains	\$ 85 million
• Nonresidents	\$ 70 million
• <b>Total estimated revenue</b>	<b>\$655 million</b>

\*Dept. of Revenue fiscal note estimates 4/15/15 from HB182 which is similar to the income tax portion of HB365.

# Changes with the PFD

- Distributable Income: currently 50% of the income available for distribution goes to PFDs and 50% stays in the Earnings Reserve. **HB365: 25% goes to PFDs, 25% goes to the general fund**, 50% still stays in the Earnings Reserve.
- A PFD will not exceed \$1,200. If the amount calculated for the PFD is over \$1,200, the **amount in excess of \$1,200 shall be appropriated to the general fund.**
- Residents may **apply their PFD to their upcoming state income tax due as a Refundable Tax Payment.** Any amount left over after paying taxes will be refunded by the Tax Division.
- **2.3% Permanent Fund POMV directed to the General Fund and delete inflation proofing.**





## HB 365: Total Estimated Revenue to General Fund

Income Tax Revenue*	\$655,000,000
25% PF Distributable Income**	\$686,542,500
2.3% POMV Draw & Delete Inflation Proofing ***	\$1,100,000,000
<b>Total Revenue to General Fund</b>	<b>\$2,441,542,500</b>

\*Based on 2015 Fiscal Note for HB 182 which mirrors the income tax portion of HB365

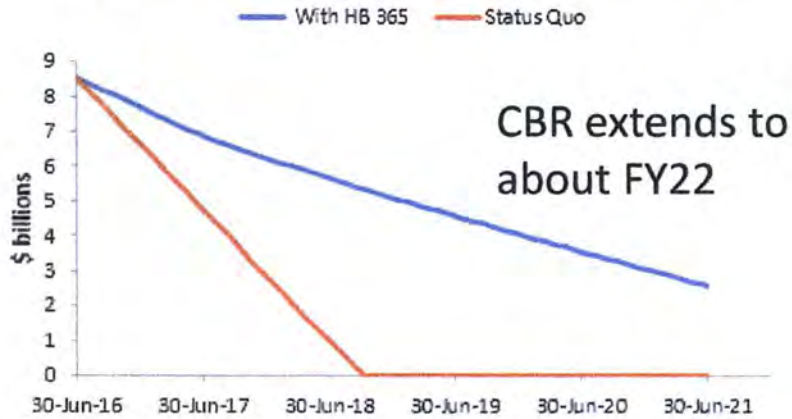
\*\*HB 365 will provide money to the general fund from two sources: 1) it will limit the PFD to \$1200; any excess over \$1200 will go to the General Fund. 2) distributable income from the Earnings Reserve: 25% goes to pay PFDs, 25% goes to the General Fund, & remaining 50% still stays in Earnings Reserve. This amount is based on the 2015 PFD calculation.

\*\*\* 2.3% POMV Draw & delete inflation proofing amount based on Alaska Futures model 5 year average projection FY17-FY21.

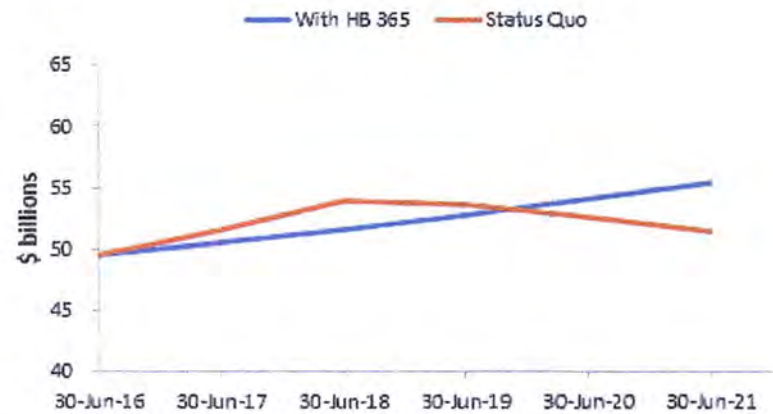
# Alaska Futures – CS HB 365 ver. P

These charts were created using the Alaska Futures model program developed by economist Alan Mitchell.

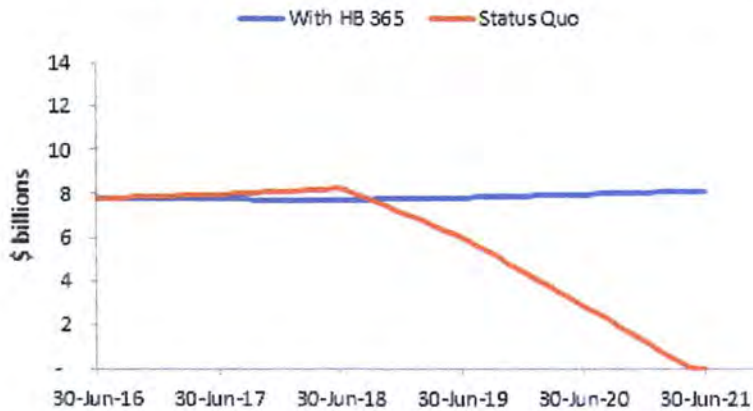
### Constitutional Budget Reserve + Misc Funds



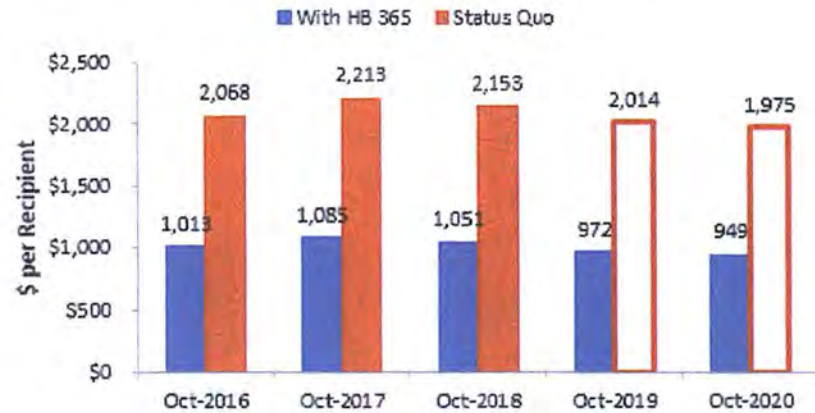
### Total Permanent Fund



### Permanent Fund Earnings Reserve



### Dividend Check Forecast



Assumption:	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21
Oil Price Forecast, \$/bbl:	\$40	\$39	\$44	\$49	\$54	\$60

Permanent Fund Total Return Rate, FY17 & beyond **6.90%** /year

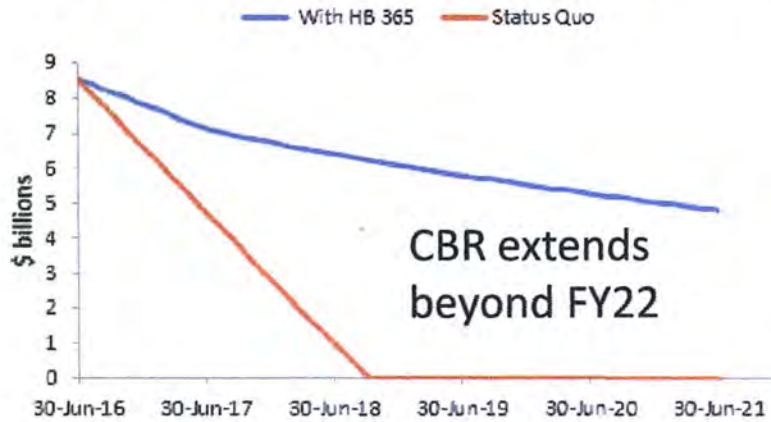
Average Dividend Check for the last five years (2011 - 2015) was **\$1,382**.

2019 & 2020 - Empty Red bars indicate PFD could be gone if status quo

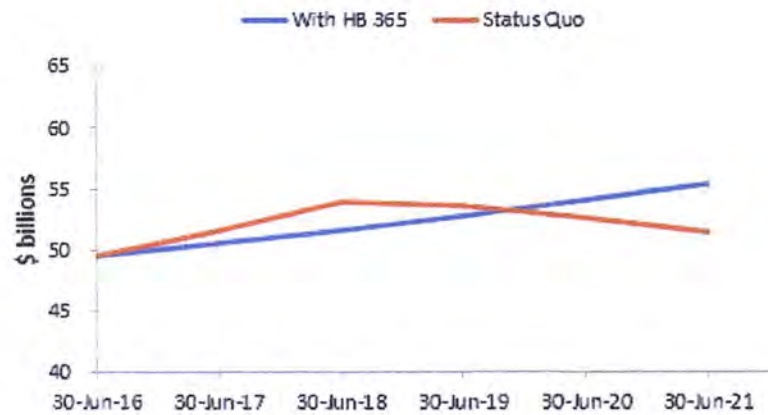
# Alaska Futures – CS HB 365 ver. P – with Additional Budget Reductions & Revenues

These charts were created using the Alaska Futures model program developed by economist Alan Mitchell.

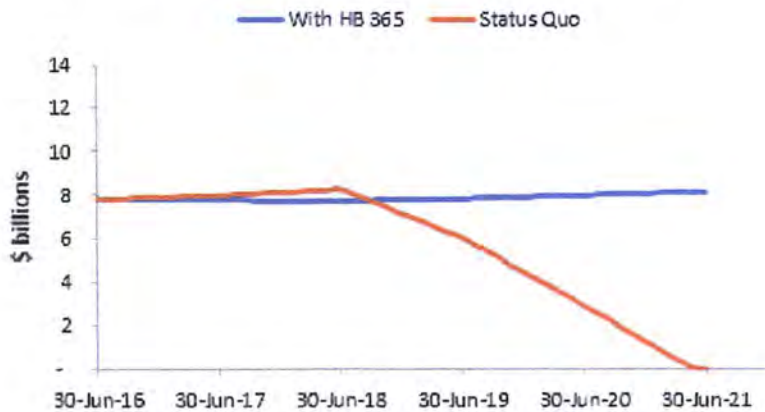
### Constitutional Budget Reserve + Misc Funds



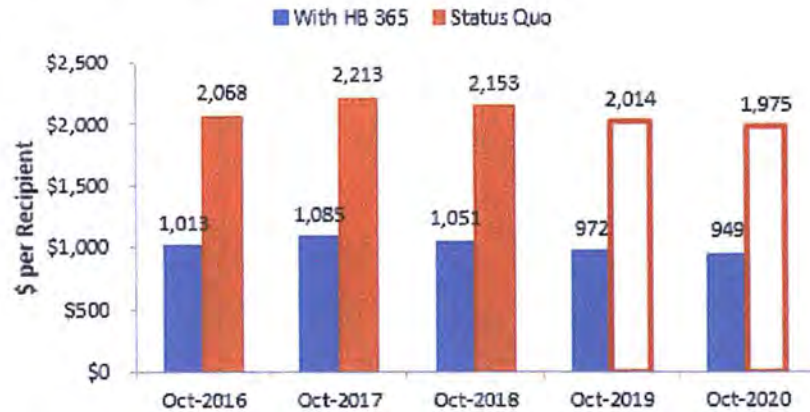
### Total Permanent Fund



### Permanent Fund Earnings Reserve



### Dividend Check Forecast



Same assumptions as slide 12 with the following included:

Transportation Fuel Tax Increase: \$49 million (M) each year FY 17-FY21

Fisheries Tax Increase: \$18M FY17, \$19M FY18-FY19, \$20M FY20-FY21

Cook Inlet Tax Credit WLE expire 7-1-16, QCE expire 1-1-17: \$150M FY17, \$300M FY18-FY21

North Slope NOL Tax Credit reduce 35% to 25% 1-1-17: \$50M FY17, \$100M FY19-21

Average Dividend Check for the last five years (2011 - 2015) was \$1,382.

29-LS1422P  
Nauman  
4/3/16

ADOPTED  
4-7-16

**CS FOR HOUSE BILL NO. 365( )**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

**BY**

**Offered:  
Referred:**

**Sponsor(s): REPRESENTATIVES SEATON, Kito, Edgmon, Stutes**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to the permanent fund dividend; relating to the taxation of income of  
2 individuals; relating to tax credit against the individual income tax in the amount of a  
3 permanent fund disbursement; repealing tax credits applied against the tax on  
4 individuals under the Alaska Net Income Tax Act; and providing for an effective date."

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

6 \* **Section 1.** AS 37.13.145(b) is amended to read:

7 (b) At the end of each fiscal year, the corporation shall transfer from the  
8 earnings reserve account to the

9 (1) dividend fund established under AS 43.23.045, 25 [50] percent of  
10 the income available for distribution under AS 37.13.140;

11 (2) general fund, 25 percent of the income available for  
12 distribution under AS 37.13.140; and

13 (3) general fund, 2.3 percent of the average market value of the  
14 fund, including the earnings reserve account established in this section, for the

preceding five fiscal years, including the fiscal year just ended, computed annually for each fiscal year in accordance with generally accepted accounting principles.

\* Sec. 2. AS 43 is amended by adding a new chapter to read:

**Chapter 22. Individual Income Tax.**

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

- (1) resident individual; and
- (2) nonresident individual with income from a source in the state.

(b) The tax under this section for a

(1) resident individual is equal to the sum of

(A) 15 percent of the individual's total federal income tax due;

and

(B) the product of the individual's long-term capital gains for the calendar year and the lesser of

- (i) 10 percent; or
- (ii) the difference between the individual's incremental federal income tax rate on ordinary income and the individual's federal tax rate on long-term capital gains; or

(2) nonresident individual is equal to the sum of

(A) 15 percent of the nonresident individual's total federal income tax due on the amount of the individual's income from a source in the state; and

(B) the product of the taxpayer's long-term capital gains from a source in the state for the calendar year and the lesser of

- (i) 10 percent; or
- (ii) the difference between the taxpayer's incremental federal income tax rate on ordinary income and the taxpayer's federal tax rate on long-term capital gains.

(c) In this section,

(1) "federal income tax due" means the total tax payable to the federal

1 government as reported by the taxpayer on a federal individual income tax return,  
2 including alternate minimum tax and other taxes imposed by the Internal Revenue  
3 Code, net of nonrefundable credits allowed against a liability;

4 (2) "long-term capital gains" means the total long-term capital gains  
5 required to be reported on the federal individual income tax form related to capital  
6 gains attached to a federal individual income tax return.

7 **Sec. 43.22.020. Returns and payment of taxes.** (a) An individual required to  
8 make a return under the provisions of the Internal Revenue Code shall file with the  
9 department a return setting out

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

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

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

15 (c) The total amount of tax imposed by this chapter is due and payable to the  
16 department at the same time and in the same manner as the tax payable to the United  
17 States Internal Revenue Service.

18 (d) A taxpayer, upon request by the department, shall furnish to the  
19 department a true and correct copy of the tax return that the taxpayer has filed with the  
20 United States Internal Revenue Service. Every taxpayer shall notify the department in  
21 writing of an alteration in, or modification of, the taxpayer's federal income tax return  
22 and of a recomputation of tax or determination of deficiency, whether with or without  
23 assessment. A full statement of the facts must accompany this notice. The taxpayer  
24 shall file the notice within 60 days after the final determination of the alteration,  
25 modification, recomputation, or deficiency, and the taxpayer shall pay the additional  
26 tax under this chapter. For purposes of this subsection, a final determination means the  
27 time that an amended federal return is filed or a notice of deficiency or an assessment  
28 is mailed to the taxpayer by the Internal Revenue Service, and the taxpayer has  
29 exhausted rights of appeal under federal law.

30 (e) The department may credit or refund overpayments of taxes, taxes  
31 erroneously or illegally assessed or collected, penalties collected without authority,

1 and taxes that are found unjustly assessed or excessive in amount, or otherwise  
2 wrongfully collected. The department shall set limitations, specify the manner in  
3 which claims for credits or refunds are made, and give notice of allowance or  
4 disallowance. When a refund is allowed to a taxpayer, it shall be paid out of the  
5 general fund on a warrant issued under a voucher approved by the department.

6 **Sec. 43.22.030. Income; income from sources in the state.** (a) For purposes  
7 of AS 43.22.010(a), income includes

- 8 (1) compensation for personal services;
- 9 (2) salary or wages;
- 10 (3) income from real or tangible personal property;
- 11 (4) income from stocks, bonds, notes, bank deposits, and other  
12 intangible personal property;
- 13 (5) rentals and royalties for the use of or for the privilege of using, in  
14 the state, patents, copyrights, secret processes and formulas, good will, marks, trade  
15 brands, franchises, and other property;
- 16 (6) income distributed from a trust;
- 17 (7) income from
  - 18 (A) a trust not established under or governed by the laws of the  
19 state; or
  - 20 (B) the estate of a decedent who on the date of death was not  
21 domiciled in the state;
- 22 (8) income of whatever nature.

23 (b) For purposes of AS 43.22.010(a), income from a source in the state  
24 includes

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

1 (5) rentals and royalties for the use of or for the privilege of using, in  
2 the state, patents, copyrights, secret processes and formulas, good will, marks, trade  
3 brands, franchises, and other property having a taxable or business situs in the state;

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

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

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

9 (B) the estate of a decedent who on the date of death was not  
10 domiciled in the state;

11 (8) income of whatever nature from a source with a taxable or business  
12 situs in the state, including income attributed to or derived from

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

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

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

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

19 (E) a corporation transacting business activities in the state that  
20 has elected to file federal returns under subchapter S of the Internal Revenue  
21 Code;

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

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

28 **Sec. 43.22.035. Credit for taxes paid.** (a) A resident is entitled to a credit  
29 against the tax liability under this chapter for the amount of tax paid to other states,  
30 territories, or possessions of the United States on income derived from sources in  
31 those jurisdictions that is also subject to tax in this chapter.

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

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

9 (d) The application of the tax credit provided under this section may not  
10 operate to reduce the tax payable under this chapter to an amount less than would have  
11 been payable if the income from the other state was disregarded.

12 **Sec. 43.22.040. Permanent fund refundable tax credit.** (a) An individual  
13 eligible for a dividend under AS 43.23.005 may apply a tax credit against the tax due  
14 under this chapter in the amount determined under AS 43.23.092.

15 (b) The tax credit under this section shall be refundable. The department shall  
16 adopt regulations that establish procedures for an individual to be reimbursed under  
17 AS 37.25.050(a)(2). To receive a refund under this section, an individual must file an  
18 income tax return under AS 43.22.020.

19 (c) Except as otherwise limited by law, if an individual is eligible for a tax  
20 credit under this section but fails to file an income tax return or fails to claim the tax  
21 credit, the individual may file a return or an amended return for that year.

22 **Sec. 43.22.050. Tax withholding on wages of individuals.** (a) Every  
23 employer making payment of wages, salaries, or crew shares

24 (1) shall deduct and withhold an amount of tax computed in a manner  
25 to approximate the amount of tax due on those wages, salaries, or crew shares under  
26 this chapter for that calendar year;

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

30 (3) is liable for the payment of the tax required to be deducted and  
31 withheld under this section but is not liable to any individual for the amount of the

1 payment; and

2 (4) shall furnish to the employee on or before January 31 of the  
3 succeeding year, or within 30 days after a request by the employee after the  
4 employee's termination if the 30-day period ends before January 31, a written  
5 statement on a form prescribed by the department showing

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

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

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

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

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

15 (c) In this section,

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

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

20 **Sec. 43.22.055. Refunds.** Notwithstanding AS 43.05.230, information on an  
21 individual income tax return may be released to a banking institution to verify the  
22 direct deposit of an income tax refund or correct an error in that deposit.

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

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

29 (1) "domiciled" means established in a true principal permanent home  
30 to which the individual has the intention of returning whenever absent;

31 (2) "individual" means a natural person, married or unmarried, adult or

1 minor, subject to payment of income tax under 26 U.S.C. (Internal Revenue Code);

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

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

8 (5) "resident" means an individual who

9 (A) was domiciled in the state or resided in the state for the  
10 entire calendar year;

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

13 (C) receives a permanent dividend under AS 43.23;

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

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

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

18 \* **Sec. 3.** AS 43.23.025 is amended by adding a new subsection to read:

19 (c) A dividend calculated under (a) of this section may not be issued in excess  
20 of \$1,200 for each individual. If a dividend calculated under (a) of this section exceeds  
21 \$1,200 for each individual, the amount in excess of \$1,200 for each individual shall be  
22 appropriated by the legislature from the dividend fund to the general fund. Nothing in  
23 this subsection creates a dedicated fund.

24 \* **Sec. 4.** AS 43.23.045 is amended by adding a new subsection to read:

25 (f) By February 1 of each year the department shall deliver to the legislature  
26 an estimate of the amount held under AS 43.23.092 for application as a tax credit  
27 under AS 43.23.040. The legislature may appropriate the amount estimated under this  
28 section to the general fund.

29 \* **Sec. 5.** AS 43.23 is amended by adding a new section to read:

30 **Sec. 43.23.092. Refundable tax credit.** (a) The department shall prepare the  
31 Alaska permanent dividend application to allow an applicant to direct the department

1 to hold the amount of the individual's permanent fund dividend for use as a refundable  
2 tax credit against the individual income tax imposed under AS 43.22. The amount held  
3 by the department in this section is the amount after contributions, garnishments,  
4 levies, fees, attachments, assignments, or other reductions or donations allowed under  
5 this chapter.

6 (b) The department shall adopt regulations to implement this section.

7 \* **Sec. 6.** AS 37.13.145(c); AS 43.20.012(b), and 43.20.013 are repealed.

8 \* **Sec. 7.** This Act takes effect January 1, 2017.

# Alaska State Legislature

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**REPRESENTATIVE PAUL SEATON**  
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## **CSHB 365: Income Tax & Permanent Fund Refundable Tax Credit** **Version: 29-LS 1422\P**

### **Sectional**

*Please note that a sectional analysis of a bill or resolution should not be considered an authoritative interpretation of the measure itself.  
The legislation is the best statement of its contents.*

**Section 1** (page 1, line 6) – Alaska Permanent Fund Corporation - Disposition of Income: this section does not change the calculation for determining distributable income (21% of last 5 year's earnings from principal investments of permanent fund in AS 37.13.140). This section does 2 things. 1) It changes what is done with the distributable income. Currently, 50% of the distributable income goes towards paying PFDs and 50% stays in the Earnings Reserve for inflation proofing the principal or for use by the legislature. With this bill, 50% stays in the Earnings Reserve, 25% now goes to pay PFDs, and the remaining 25% goes directly to the General Fund to help support state services. 2) It directs to the general fund, 2.3% of the average market value (POMV) of the permanent fund, including the earnings reserves, for the past 5 fiscal years, including the fiscal year ended.

----- **start of Income Tax section** -----

**Section 2** (page 2, line 4) – creates the Individual Income Tax within AS 43.

**Subsection: Sec. 43.22.010** (page 2, line 6) – Imposes an income tax and a long term capital gains tax on both residents and nonresidents. For residents it is based on all income and all long term capital gains earned both within and outside of Alaska. For nonresidents it is based on income and long term capital gains earned from a source within Alaska. The tax is equal to 15% of the taxpayer's total federal income tax due (typically Line 63 on 1040 form). Long term capital gains are additionally taxed by multiplying the taxpayer's long term capital gains for the calendar year (typically Line 13 on 1040 form) by the lesser of:

- 10%; or
- The difference between the taxpayer's incremental federal income tax rate on ordinary income and the taxpayer's federal tax rate on long term capital gains.

Currently the difference between the taxpayer's incremental federal income tax rate on ordinary income and the taxpayer's federal tax rate on long term capital gains is between 10 -19.6%. Should the federal government change the rates on either, this could increase or decrease this difference. Based on in this section, a taxpayer's long term capital gains will be multiplied by no

more than 10%. This section also defines *federal income tax due* and *long term capital gains* as that reported on a taxpayer's federal individual income tax return.

**Subsection: Sec. 43.22.020** (page 3, line 7) - Establishes how taxpayers will submit tax returns and make payments for the individual income tax. It clarifies that this tax is due and payable to the department at the same time and in the same manner as the tax payable to the U.S. IRS for federal taxes. The section also outlines procedures in case there are changes to the taxpayer's federal income tax return. Any overpayments will be reimbursed by the department out of the general fund.

**Subsection: Sec. 43.22.030** (page 4, line 6) – Defines *income* and *income from sources in the state* as compensation for services rendered; salary or wages earned; income from real or tangible personal property located; income from stocks, bonds, notes, bank deposits, and other intangible personal property having a taxable or business site; rentals and royalties; patents, copyrights, trade brands, franchises, etc.

The section also defines that income from a taxable or business site in the state includes: business facilities or property, business, farming, fishing, management or investment for intangible property, partnerships, limited liability companies, estate and trust businesses, corporations conducting business in the state, etc. It also clarifies that if a business, trade or profession is carried on both within and outside of Alaska, the income from the sources in Alaska shall be determined as provided in AS 43.19 "*Multistate Tax Compact*."

**Subsection: Sec. 43.22.035** (page 5, line 28) – Provides a credit to residents for taxes paid to another state based on income earned in that other state (so someone is not taxed twice on the same income).

**Subsection: Sec. 43.22.040** (page 6, line 12) – States a person may apply their PFD as a Refundable Tax Credit to their upcoming state income tax due, less any garnishment, levy, donations to Pick Click Give or college funds, etc., and based on the amount determined under AS 43.23.092 (see Sect. 5). If a person's Refundable Tax Credit is more than the amount of their state income tax due, any remaining amount will be reimbursed to the person as a tax refund, after the person has filed their state income taxes. Note: the Refundable Tax Credit only applies to residents because it is tied to the PFD.

**Subsection: Sec. 43.22.050** (page 6, line 22) – Establishes how taxes will be withheld by employers making payment of wages, salaries, or crew shares. The employer shall deduct and withhold the amount of tax, remit the tax to the department, provide a written statement to the employee by January 31 of the succeeding year showing the amount deducted and other necessary information. The Department of Revenue shall publish the rate of withholding required by this section on a person's W2. The terms "employee" and "employer" are defined.

**Subsection: Sec. 43.22.055** (page 7, line 20) – Allows a person's income tax information to be shared with a banking institute to verify direct deposit of refunds.

**Subsection: Sec. 43.22.060** (page 7, line 23) - Authorizes the department to provide all necessary forms and adopt regulations to implement this tax, including regulations for online filing and online payment of tax due.

**Subsection: Sec. 43.22.190** (page 7, line 28) - Definitions of the following terms: domiciled, individual, Internal Revenue Code, nonresident, resident, and taxpayer. Resident is defined as an individual who: lives in the state for the entire calendar year; claims to be a resident of Alaska on their federal tax forms; receives an Alaska permanent fund dividend; is registered to vote in Alaska; or has an Alaska resident fishing, hunting, or trapping license during the calendar year.

----- **end of Income Tax section** -----

**Section 3** (page 8, line 18) – Adds a new section: States that the PFD amount will not exceed \$1200.00 for each individual. Any excess over \$1200 shall be appropriated to the General Fund to support state services.

**Section 4** (starting on page 8, line 24) – Adds a new section: States that on Feb. 1 each year the PFD-Dept. of Revenue will estimate how much money will be appropriated from PFDs to be applied to state income taxes and into the general fund. The estimate will be based on AS 43.23.092 (see Sect. 5) and the number of residents who received a PFD and chose to apply their PFD to their upcoming income tax due.

**Section 5** (page 8, line 29) – Adds a new section AS 43.23.092: Directs the PFD-Dept. of Revenue to create a spot on the PFD application where an applicant may apply their PFD to their upcoming state income tax due. The amount applied to state income taxes will be what is remaining after any optional charitable donations to Pick Click Give or college funds, or any voluntary or involuntary garnishments are deducted. The section also directs the department to adopt regulations to implement this new process.

**Section 6** (page 9, line 7) – Repeals:

- AS 37.13.145(c): repeals inflation proofing of the permanent fund.
- AS 43.20.012(b) and AS 43.20.013: these remove a former tax credit for political contributions that existed under Alaska's prior individual income tax which was repealed in 1980.

**Section 7** (page 9, line 8) – Effective date of January 1, 2017.

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## REPRESENTATIVE PAUL SEATON Rep.Paul.Seaton@akleg.gov

### Changes between HB 365 ver. H and CSHB 365 ver. P 29-LS 1422

Ver. H changed the PFD to a Refundable Tax Credit and required over 40 pages of statute modifications related to this name change. Ver. P maintains the PFD system and simply allows a person to apply their PFD as a Refundable Tax Credit to their upcoming state income tax due. Because of this main difference, 43 pages were deleted from ver. P. The remaining changes are below.

**Section 1 ver. P corresponds with Section 22 ver. H** - One addition in ver.P directs to the general fund, 2.3% of the average market value (POMV) of the permanent fund, including the earnings reserves, for the past 5 fiscal years, including the fiscal year ended.

**Section 2 ver. P corresponds with Section 24 ver. H - State Income Tax** – only a few changes to the subsections as follows:

- **Subsection: Sec. 43.22.010:** Ver. P clarifies that residents will be taxed on all their income and long term capital gains regardless of which state it was earned in. Nonresidents will only be taxed on their income and long term capital gains earned within the state. The explanation of how a person's long term capital gains is reworded in ver. P but means the same as ver. H. The definition of *federal income tax due* was expanded to clarify it is after credits and deductions (typically Line 63 on 1040 form).
- **Subsection: Sec. 43.22.030:** Because Ver. P 43.22.010 (above) taxes residents on all income and long term capital gains and nonresidents on only income and long term capital gains earned within the state, in ver.P this section had to differentiate between *income* and *income from sources in the state*.
- **Subsection: Sec. 43.22.040:** In ver. P this subsection is reworded to reflect that the PFD system is maintained and a person may apply their PFD as a Refundable Tax Credit against their upcoming state income tax due, as determined under AS 43.23.092 (section 5 in ver. P).

**Section 3 ver. P corresponds with Section 47 ver. H** – Ver. P Keeps the term “dividend”. In ver. H, the PFD had been changed to a Refundable Tax Credit. In ver. P, the PFD is maintained (and a person has the choice on their application to apply it as a Refundable Tax Credit). Ver. P also clarifies that nothing in this subsection creates a dedicated fund.

**Section 4 ver. P - Adds a new section not in ver. H:** States that on Feb. 1 each year the PFD-Dept. of Revenue will estimate how much money will be appropriated from PFDs to be applied to state income taxes and into the general fund. The estimate will be based on AS 43.23.092 (see Sect. 5) and the number of residents who received a PFD and chose to apply their PFD to their upcoming income tax due. In ver. H, Section 53, money was appropriated for the Refundable Tax Credit which was replacing the PFD.

**Section 5 ver. P - Adds a new section not in ver. H:** AS 43.23.092: Directs the PFD-Dept. of Revenue to create a spot on the PFD application where an applicant may apply their PFD to their upcoming state income tax due. The amount applied to state income taxes will be what is remaining after any optional charitable donations to Pick Click Give or college funds, or any voluntary or involuntary garnishments are deducted. The section also directs the department to adopt regulations to implement this new process.

**Section 6 ver. P corresponds with Section 94 ver. H – Repeals section:**

- Ver. P adds: AS 37.13.145(c): repeals inflation proofing of the permanent fund.
- Ver. P keeps from ver. H: AS 43.20.012(b) and AS 43.20.013: these remove a former tax credit for political contributions that existed under Alaska’s prior individual income tax which was repealed in 1980.
- Ver.P does not include AS 43.05.085 which was in ver. H. This was an oversight by the Legal department and should still be repealed. 43.05.085 *List of Contributions* is related to AS 43.20.013 which is repealed in both ver. P and ver. H (see above).

**Section 7 ver. P corresponds with Section 96 ver. H -** This is just a section number change for the “Effective date of January 1, 2017.”

# CSHB 365

# Back up Slides

House Finance Presentation  
4/7/2016

Presentation prepared by the Office of Rep. Paul Seaton

# CSHB365: Individual Income Tax

The next 2 slides show:

- examples from the Federal 1040 form
- how to determine the capital gains tax rate.

Form **1040** Department of the Treasury - Internal Revenue Service (99) **2015**OMB No. 1545-0047 Use Only - Do not write or staple in this space

For the year Jan. 1-Dec. 31, 2015, or other tax year beginning 2015, ending 2015

See separate instructions.

Your first name and initial Last name Your social security number

If a joint return, spouse's first name and initial Last name Spouse's social security number

Home address (number and street), if you have a P.O. box, see instructions. Apt. no. **Make sure the SSN(s) above and on this form are correct.**

City, town or post office, state, and ZIP code. If you have a foreign address, also complete space below (see instructions).

Foreign country name Foreign province/state/country Foreign postal code

**Filing Status**

1  Single 4  Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here.

2  Married filing jointly (even if only one had income) 5  Qualifying widow(er) with dependent child

3  Married filing separately. Enter spouse's SSN above and full name here.

**Exemptions**

6a  Yourself. If someone can claim you as a dependent, do not check box 6a. **Boxes checked on 6a and 6b:**

b  Spouse **No. of children on 6c who:**

c **Dependents:** (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4)  If child under age 17 qualifying for child tax credit (see instructions) **Head of household, \$9,250**

If more than four dependents, see instructions and check here

d Total number of exemptions claimed

**Income**

7 Wages, salaries, tips, etc. Attach Form(s) W-2 7

8a Taxable interest. Attach Schedule B if required 8a

8b Tax-exempt interest. Do not include on line 8a 8b

9a Ordinary dividends. Attach Schedule B if required 9a

9b Qualified dividends 9b

10 Taxable refunds, credits, or offsets of state and local income taxes 10

11 Alimony received 11

12 Business income or (loss). Attach Schedule C or C-EZ 12

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here  13

14 Other gains or (losses). Attach Form 4797 14

15a IRA distributions 15a b Taxable amount 15b

16a Pensions and annuities 16a b Taxable amount 16b

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17

18 Farm income or (loss). Attach Schedule F 18

19 Unemployment compensation 19

20 Social security benefits 20a b Taxable amount 20b

21 Other income. List type and amount 21

22 Combine the amounts in the far right column for lines 7 through 21. This is your total income 22

**Adjusted Gross Income**

23 Educator expenses 23

24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24

25 Health savings account deduction. Attach Form 8889 25

26 Moving expenses. Attach Form 3903 26

27 Deductible part of self-employment tax. Attach Schedule SE 27

28 Self-employed SEP, SIMPLE, and qualified plans 28

29 Self-employed health insurance deduction 29

30 Penalty on early withdrawal of savings 30

31a Alimony paid b Recipient's SSN 31a

32 IRA deduction 32

33 Student loan interest deduction 33

34 Tuition and fees. Attach Form 8817 34

35 Domestic production activities deduction. Attach Form 8903 35

36 Add lines 23 through 35 36

37 Subtract line 36 from line 22. This is your adjusted gross income 37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 1134003 Form 1040 (2015)

**Capital Gains Line 13**

Form 1040 (2015) Page 2

**Tax and Credits**

38 Amount from line 37 (adjusted gross income) 38

39a Check  You were born before January 2, 1951.  Blind Total boxes it:  Spouse was born before January 2, 1951.  Blind checked 39a

39b If your spouse itemizes on a separate return or you were a dual-status alien, check here  39b

40 Itemized deductions (from Schedule A) or your standard deduction (see left margin) 40

41 Subtract line 40 from line 38 41

42 Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions 42

43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- 43

44 Tax (see instructions). Check if any from: a  Form(s) 6814 b  Form 4972 c  44

45 Alternative minimum tax (see instructions). Attach Form 6251 45

46 Excess advance premium tax credit repayment. Attach Form 8962 46

47 Add lines 44, 45, and 46 47

48 Foreign tax credit. Attach Form 1116 if required 48

49 Credit for child and dependent care expenses. Attach Form 2441 49

50 Education credits from Form 8863, line 19 50

51 Retirement savings contributions credit. Attach Form 8880 51

52 Child tax credit. Attach Schedule 8812, if required 52

53 Residential energy credits. Attach Form 5695 53

54 Other credits from Form: a  3800 b  8801 c  54

55 Add lines 48 through 54. These are your total credits 55

56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- 56

**Other Taxes**

57 Self-employment tax. Attach Schedule SE 57

58 Unreported social security and Medicare tax from Form: a  4137 b  6919 58

59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required 59

60a Household employment taxes from Schedule H 60a

60b First-time homebuyer credit repayment. Attach Form 5402 if required 60b

61 Health care: individual responsibility (see instructions) Full-year coverage  61

62 Taxes from: a  Form 9999 b  Form 8960 c  Instructions; error code(s) 62

63 Add lines 57 through 62. This is your total tax 63

**Payments**

64 Federal income tax withheld from Forms W-2 and 1099 64

65 2015 estimated tax payments and amount applied from 2014 return 65

66a Earned income credit (EIC) 66a

66b Non-taxable combat pay election 66b

67 Additional child tax credit. Attach Schedule 8812 67

68 American opportunity credit from Form 8863, line 1a 68

69 Net premium tax credit. Attach Form 8962 69

70 Amount paid with request for extension to file 70

71 Excess social security and tier 1 RRTA tax withheld 71

72 Credit for federal tax on fuels. Attach Form 4136 72

73 Deduction from: a  2439 b  Remed c  8895 d  73

74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments 74

**Refund**

75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid 75

76a Amount of line 75 you want refunded to you. If Form 8888 is attached, check here  76a

Direct deposit? See instructions. b Routing number c Type:  Checking  Savings

d Account number

77 Amount of line 75 you want applied to your 2016 estimated tax 77

78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions 78

79 Estimated tax penalty (see instructions) 79

**Third Party Designee**

Do you want to allow another person to discuss this return with the IRS (see instructions)?  Yes. Complete below.  No

Designee's name Phone no. Personal identification number (PIN)

**Sign Here**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature Date Your occupation Daytime phone number

Joint return? See instructions. Keep a copy for your records. Spouse's signature, if a joint return, both must sign Date Spouse's occupation

If the IRS sent you an Identity Protection PIN, enter it here (see IRS.gov/OPIN)

**Paid Preparer Use Only**

Print/type preparer's name Preparer's signature Date

Check  if PTIN

Firm's name Firm's EIN Firm's address Phone no.

www.irs.gov/form1040 Form 1040 (2015)

**Federal Tax Due Line 63**

**2016 federal income tax brackets**

<u>Tax rate on ordinary income</u>	Single		<u>Tax rate on qualified dividends and long term capital gains</u>
	over	to	
10%	\$0	\$9,275	0% (10%-0%=10%)
15%	\$9,275	\$37,650	0% (15%-0%=15%)
25%	\$37,650	\$91,150	15% (25%-15%=10%)
28%	\$91,150	\$190,150	15% (28%-15%=13%)
33%	\$190,150	\$413,350	15% (33%-15%=18%)
35%	\$413,350	\$415,050	15% (35%-15%=20%)
39.60%	\$415,050		20% (39.6%-20%=19.6%)
<b>Married filing jointly / Qualifying widow or widower</b>			
	over	to	
10%	\$0	\$18,550	0%
15%	\$18,550	\$75,300	0%
25%	\$75,300	\$151,900	15%
28%	\$151,900	\$231,450	15%
33%	\$231,450	\$413,350	15%
35%	\$413,350	\$466,950	15%
39.60%	\$466,950		20%

How to determine the capital gains tax “lesser of 10% or the difference between....”

Information from: Charles Schwab website  
<http://www.schwab.com/public/schwab/nn/articles/Taxes-Whats-New>

**The next slide shows:**

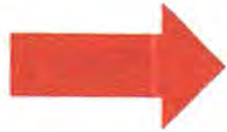
Taxpayers can elect to  
deduct their State Income Tax  
on their

Federal Itemized Deductions - Schedule A  
(1040 form – Line 40)



## **The next 2 slides show:**

- Individual income tax collection per capita
- State-Local tax burden for residents



State	Collections per Capita	Rank	State	Collections per Capita	Rank
U.S.	\$975		Mont.	\$1,039	19
Ala.	\$662	37	Nebr.	\$1,128	13
<b>Alaska (a)</b>	<b>\$0</b>	--	<b>Nev. (a)</b>	<b>\$0</b>	--
Ariz.	\$515	41	N.H. (b)	\$70	42
Ark.	\$877	26	N.J.	\$1,340	7
Calif.	\$1,753	4	N.M.	\$622	38
Colo.	\$1,057	17	N.Y.	\$2,176	1
Conn.	\$2,162	2	N.C.	\$1,045	18
Del.	\$1,112	14	N.D.	\$674	36
<b>Fla. (a)</b>	<b>\$0</b>	--	Ohio	\$726	34
Ga.	\$888	24	Okla.	\$764	32
Hawaii	\$1,229	11	Ore.	\$1,674	6
Idaho	\$818	30	Pa.	\$845	29
Ill.	\$1,247	10	R.I.	\$1,032	20
Ind.	\$742	33	S.C.	\$709	35
Iowa	\$1,028	21	<b>S.D. (a)</b>	<b>\$0</b>	--
Kans.	\$865	27	Tenn. (b)	\$37	43
Ky.	\$850	28	<b>Texas (a)</b>	<b>\$0</b>	--
La.	\$592	39	Utah	\$981	22
Maine	\$1,063	16	Vt.	\$1,077	15
Md.	\$1,301	9	Va.	\$1,306	8
Mass.	\$1,961	3	<b>Wash. (a)</b>	<b>\$0</b>	--
Mich.	\$794	31	W.Va.	\$958	23
Minn.	\$1,746	5	Wis.	\$1,180	12
Miss.	\$557	40	<b>Wyo. (a)</b>	<b>\$0</b>	--
Mo.	\$884	25			

## State Individual Income Tax Collections per Capita Fiscal Year 2014

- (a) State has no individual income tax.
- (b) State does not tax wage income but does tax interest and dividend income.



**Table 1. State-Local Tax Burden by Rank Fiscal Year 2012 by Alaska Residents**

	State-Local Tax Burden as Percent of State Income	Rank	Taxes Paid to Home State	Taxes Paid to Other States	Total State-Local Tax Burden	Income	Income Rank
<b>Alaska</b>	6.5%	50	\$1,986	\$1,242	\$3,229	\$49,780	10



Chart from Tax Foundation website:

<http://taxfoundation.org/article/state-local-tax-burden-rankings-fy-2012>

# **Why an Individual Income Tax?**

## **The next 3 slides show:**

- Tax nonresidents
- Tax S-corps and LLCs
- Tax all people who claim residency in the state

# 5 Workers and Wages, Major and Selected Industry Categories

## Alaska, 2014

Industry	Total		Nonresident			
	Workers	Wages (mil)	Workers	Percent	Wages (mil)	Percent
Agriculture, Forestry, Fishing and Hunting	2,424	\$55.8	1,257	51.9%	\$27.8	49.9%
Mining	22,316	\$2,361.9	7,690	34.5%	\$752.4	31.9%
Oil and Gas	4,666	\$893.8	1,248	26.7%	\$237.2	26.5%
Oilfield Services*	13,790	\$1,155.4	5,216	37.8%	\$421.3	36.5%
Utilities	2,580	\$188.5	142	5.5%	\$6.3	3.3%
Construction	27,763	\$1,343.0	6,172	22.2%	\$237.0	17.6%
Manufacturing	29,156	\$612.7	18,642	63.9%	\$277.3	45.3%
Seafood Processing	23,957	\$398.2	17,792	74.3%	\$257.8	64.7%
Wholesale Trade	7,318	\$346.7	688	9.4%	\$21.1	6.1%
Retail Trade	49,196	\$1,126.9	7,629	15.5%	\$90.1	8.0%
Transportation and Warehousing	25,147	\$1,194.6	6,488	25.8%	\$286.7	24.0%
Air Transportation	7,349	\$317.9	1,772	24.1%	\$57.2	18.0%
Information	7,551	\$401.8	710	9.4%	\$25.4	6.3%
Finance and Insurance	8,049	\$430.6	637	7.9%	\$16.6	3.9%
Real Estate and Rental and Leasing	7,025	\$216.3	712	10.1%	\$15.6	7.2%
Professional, Scientific, and Technical Services	18,378	\$1,027.0	4,359	23.7%	\$224.6	21.9%
Management of Companies and Enterprises	2,757	\$185.2	566	20.5%	\$25.9	14.0%
Administrative Support/Waste Management and Remediation	17,905	\$545.3	3,923	21.9%	\$90.6	16.6%
Educational Services	2,873	\$67.2	669	23.3%	\$7.3	10.8%
Health Care and Social Assistance	50,708	\$2,108.6	5,101	10.1%	\$158.0	7.5%
Arts, Entertainment, and Recreation	7,153	\$93.2	2,208	30.9%	\$20.5	22.0%
Accommodation and Food Services	42,235	\$625.1	12,823	30.4%	\$130.0	20.8%
Accommodation	12,523	\$200.7	5,704	45.5%	\$61.8	30.8%
Food Services and Drinking Places	29,497	\$422.9	7,022	23.8%	\$67.6	16.0%
Other Services	13,090	\$372.7	1,979	15.1%	\$36.1	9.7%
Other/Unknown	428	\$7.0	156	36.4%	\$2.1	30.0%
Local Government	49,949	\$1,808.1	3,388	6.8%	\$69.8	3.9%
State Government	28,515	\$1,357.7	1,949	6.8%	\$47.9	3.5%
<b>Total</b>	<b>422,516</b>	<b>\$16,475.9</b>	<b>87,888</b>	<b>20.8%</b>	<b>\$2,569.0</b>	<b>15.6%</b>

Note: Data exclude the self-employed, fishermen, and other agricultural workers, and private household workers. For estimates of fish harvesting employment, go to [labor.alaska.gov/research/seafood/seafood.htm](http://labor.alaska.gov/research/seafood/seafood.htm).

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section, 2014 Nonresidents Working in Alaska report.

# Corporate Income Tax avoided by Sub S Corps and Limited Liability Corps in Alaska.

**Table 15.**  
State Corporate Income Tax Rates  
As of January 1, 2015

Tax Foundation: Facts & Figures 2015

State    Rates    Brackets    State    Rates    Brackets

State	Rates	Brackets	State	Rates	Brackets	State	Rates	Brackets	State	Rates	Brackets
Ala.	6.50%	> \$0	La.	4.00%	> \$0	Calif.	8.84%	> \$0	Nebr.	5.58%	> \$0
Alaska	0.00%	> \$0		5.00%	> \$25,000	Colo.	4.63%	> \$0		7.81%	> \$100,000
	2.00%	> \$25,000		6.00%	> \$50,000	Conn. (b)	9.00%	> \$0	Nev.	None	
	3.00%	> \$49,000		7.00%	> \$100,000	Del. (c)	8.70%	> \$0	N.H.	8.50%	> \$0
	4.00%	> \$74,000		8.00%	> \$200,000	Fla.	5.50%	> \$0	N.J. (f)	6.50%	> \$0
	5.00%	> \$99,000	Maine	3.50%	> \$0	Ga.	6.00%	> \$0		7.50%	> \$50,000
	6.00%	> \$124,000		7.93%	> \$25,000	Hawaii	4.40%	> \$0		9.00%	> \$100,000
	7.00%	> \$148,000		8.33%	> \$75,000		5.40%	> \$25,000	N.M. (g)	4.80%	> \$0
	8.00%	> \$173,000		8.93%	> \$250,000		6.40%	> \$100,000		6.40%	> \$500,000
	9.00%	> \$198,000	Md.	8.25%	> \$0	Idaho	7.40%	> \$0		6.90%	> \$1,000,000
	9.40%	> \$222,000	Mass.	8.00%	> \$0	Ill. (d)	7.75%	> \$0	N.Y.	7.10%	> \$0
Ariz.	6.00%	> \$0	Mich.	6.00%	> \$0	Ind. (e)	7.00%	> \$0	N.C.	5.00%	> \$0
Ark. (a)	1.00%	> \$0	Minn.	9.80%	> \$0	Iowa	6.00%	> \$0	N.D.	1.48%	> \$0
	2.00%	> \$3,000	Miss.	3.00%	> \$0		8.00%	> \$25,000		3.73%	> \$25,000
	3.00%	> \$6,000		4.00%	> \$5,000		10.00%	> \$100,000		4.53%	> \$50,000
	5.00%	> \$11,000		5.00%	> \$10,000		12.00%	> \$250,000	Ohio	(c)	
	6.00%	> \$25,000	Mo.	6.25%	> \$0	Kans.	4.00%	> \$0	Okla.	6.00%	> \$0
	6.50%	> \$100,000	Mont.	6.75%	> \$0		7.00%	> \$50,000	Ore.	6.60%	> \$0
						Ky.	4.00%	> \$0		7.60%	> \$1,000,000
							5.00%	> \$50,000	Pa.	9.99%	> \$0
							6.00%	> \$100,000	R.I.	7.00%	> \$0

## Resident is defined as an individual who:

- lives in the state for the entire calendar year;
- claims to be a resident of Alaska on their federal tax forms;
- receives an Alaska permanent fund dividend;
- is registered to vote in Alaska; or
- has an Alaska resident fishing, hunting, or trapping license during the calendar year.

# CSHB365: Refundable Tax Credit

## The next two slides:

- Chart: Changes to Distributable Income AS 37.13.14(b) for PFD calculation
- Charts: Examples of AK Income Tax & PFD Refundable Tax Credit for filing groups

**CSHB 365 – Changes to Distributable Income AS 37.13.145(b) (Section 1, ver.P)**

example calculation of PFD based on 2015 PFD

Calculation	Current 2015 PFD	CSHB 365 - PFD
Statutory Net Income (Earnings) from Permanent Fund for previous 5 years (2011-2015)	\$ 13,077,000,000	\$ 13,077,000,000
Multiply by statutory % of 5 yr earnings	21%	21%
Total	\$ 2,746,170,000	\$ 2,746,170,000
Multiply by statutory % to determine earnings income available for distribution for dividend (or tax credit)	50%	25%
total	\$ 1,373,085,000	\$ 686,542,500
Add FY2013 PFD Fund beginning balance (money no longer needed to pay dividends from prior years)	\$ 11,600,000	\$ 11,600,000
total	\$ 1,384,685,000	\$ 698,142,500
Subtract prior year obligations, expenses and cost of operating the PFD division	\$ 48,300,000	\$ 48,300,000
total	\$ 1,336,385,000	\$ 649,842,500
Subtract reserves for payment of prior year dividends (dividends for people who received application extensions, etc.)	\$ 900,000	\$ 900,000
total	\$ 1,335,485,000	\$ 648,942,500

Divide by the est. number of eligible dividend applicants	644,511	644,511
Individual PFD (could be used for Tax Credit)	\$ 2,072	\$ 1,007
Total amount paid out for PFDs / Tax Credits	\$ 1,335,485,000	\$ 648,942,500

## CSHB 365: Income Tax & PFD Refundable Tax Credit Estimated Federal and State Income Tax for Year 2016

### Married with No Children

A	Gross Income	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
B	Less Standard Deduction	\$ 12,600	\$ 12,600	\$ 12,600	\$ 12,600	\$ 12,600	\$ 12,600	\$ 12,600	\$ 12,600	\$ 12,600
C	Less Personal Exemptions	\$ 8,100	\$ 8,100	\$ 8,100	\$ 8,100	\$ 8,100	\$ 8,100	\$ 8,100	\$ 8,100	\$ 8,100
D=A-B-C	Taxable Income	\$ (700)	\$ 9,300	\$ 19,300	\$ 29,300	\$ 39,300	\$ 49,300	\$ 59,300	\$ 69,300	\$ 79,300
E	Tax Before Credits	\$ -	\$ 930	\$ 1,968	\$ 3,468	\$ 4,968	\$ 6,468	\$ 7,968	\$ 9,468	\$ 11,368
F	Less Child Tax Credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
G=E-F	Total Federal Tax	\$ -	\$ 930	\$ 1,968	\$ 3,468	\$ 4,968	\$ 6,468	\$ 7,968	\$ 9,468	\$ 11,368
H=G x 15%	Total Alaska Income Tax	\$ -	\$ 140	\$ 295	\$ 520	\$ 745	\$ 970	\$ 1,195	\$ 1,420	\$ 1,705
I	PFD - Refundable Tax Credit x 2 Adults*	\$ 2,014	\$ 2,014	\$ 2,014	\$ 2,014	\$ 2,014	\$ 2,014	\$ 2,014	\$ 2,014	\$ 2,014
J=H-I	Refund	\$ 2,014	\$ 1,875	\$ 1,719	\$ 1,494	\$ 1,269	\$ 1,044	\$ 819	\$ 594	\$ 309

Row I assumes a person is applying all of their PFD as a Refundable Tax Credit.

### Married Couple with 2 Children

Gross Income	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Less Standard Deduction	\$ 12,600	\$ 12,600	\$ 12,600	\$ 12,600	\$ 12,600	\$ 12,600	\$ 12,600	\$ 12,600	\$ 12,600
Less Personal Exemptions	\$ 16,200	\$ 16,200	\$ 16,200	\$ 16,200	\$ 16,200	\$ 16,200	\$ 16,200	\$ 16,200	\$ 16,200
Taxable Income	\$ (8,800)	\$ 1,200	\$ 11,200	\$ 21,200	\$ 31,200	\$ 41,200	\$ 51,200	\$ 61,200	\$ 71,200
Tax Before Credits	\$ -	\$ 120	\$ 1,120	\$ 2,253	\$ 3,753	\$ 5,253	\$ 6,753	\$ 8,253	\$ 9,753
Less Child Tax Credit	\$ -	\$ 120	\$ 1,120	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Total Federal Tax	\$ -	\$ -	\$ -	\$ 253	\$ 1,753	\$ 3,253	\$ 4,753	\$ 6,253	\$ 7,753
Total Alaska Income Tax	\$ -	\$ -	\$ -	\$ 38	\$ 263	\$ 488	\$ 713	\$ 938	\$ 1,163
PFD - Refundable Tax Credit x 2 Adults*	\$ 2,014	\$ 2,014	\$ 2,014	\$ 2,014	\$ 2,014	\$ 2,014	\$ 2,014	\$ 2,014	\$ 2,014
Refund	\$ 2,014	\$ 2,014	\$ 2,014	\$ 1,976	\$ 1,751	\$ 1,526	\$ 1,301	\$ 1,076	\$ 851

## Single with No Children

Gross Income	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Less Standard Deduction	\$ 6,300	\$ 6,300	\$ 6,300	\$ 6,300	\$ 6,300	\$ 6,300	\$ 6,300	\$ 6,300	\$ 6,300
Less Personal Exemptions	\$ 4,050	\$ 4,050	\$ 4,050	\$ 4,050	\$ 4,050	\$ 4,050	\$ 4,050	\$ 4,050	\$ 4,050
Taxable Income	\$ 9,650	\$ 19,650	\$ 29,650	\$ 39,650	\$ 49,650	\$ 59,650	\$ 69,650	\$ 79,650	\$ 89,650
Tax Before Credits	\$ 984	\$ 2,484	\$ 3,984	\$ 5,684	\$ 8,184	\$ 10,684	\$ 13,184	\$ 15,684	\$ 18,184
Less Child Tax Credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Federal Tax	\$ 984	\$ 2,484	\$ 3,984	\$ 5,684	\$ 8,184	\$ 10,684	\$ 13,184	\$ 15,684	\$ 18,184
<b>Total Alaska Income Tax</b>	<b>\$ 148</b>	<b>\$ 373</b>	<b>\$ 598</b>	<b>\$ 853</b>	<b>\$ 1,228</b>	<b>\$ 1,603</b>	<b>\$ 1,978</b>	<b>\$ 2,353</b>	<b>\$ 2,728</b>
PFD - Refundable Tax Credit x 1 Adult*	\$ 1,007	\$ 1,007	\$ 1,007	\$ 1,007	\$ 1,007	\$ 1,007	\$ 1,007	\$ 1,007	\$ 1,007
<b>Refund</b>	<b>\$ 859</b>	<b>\$ 634</b>	<b>\$ 409</b>	<b>\$ 154</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## Single with 2 Children

Gross Income	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000	\$ 80,000	\$ 90,000	\$ 100,000
Less Standard Deduction	\$ 9,300	\$ 9,300	\$ 9,300	\$ 9,300	\$ 9,300	\$ 9,300	\$ 9,300	\$ 9,300	\$ 9,300
Less Personal Exemptions	\$ 12,150	\$ 12,150	\$ 12,150	\$ 12,150	\$ 12,150	\$ 12,150	\$ 12,150	\$ 12,150	\$ 12,150
Taxable Income	\$ (1,450)	\$ 8,550	\$ 18,550	\$ 28,550	\$ 38,550	\$ 48,550	\$ 58,550	\$ 68,550	\$ 78,550
Tax Before Credits	\$ -	\$ 855	\$ 2,120	\$ 3,620	\$ 5,120	\$ 6,620	\$ 8,935	\$ 11,435	\$ 13,935
Less Child Tax Credit	\$ -	\$ 855	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 1,750	\$ 1,250	\$ 750
Total Federal Tax	\$ -	\$ -	\$ 120	\$ 1,620	\$ 3,120	\$ 4,620	\$ 7,185	\$ 10,185	\$ 13,185
<b>Total Alaska Income Tax</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18</b>	<b>\$ 243</b>	<b>\$ 468</b>	<b>\$ 693</b>	<b>\$ 1,078</b>	<b>\$ 1,528</b>	<b>\$ 1,978</b>
PFD - Refundable Tax Credit x 1 Adult*	\$ 1,007	\$ 1,007	\$ 1,007	\$ 1,007	\$ 1,007	\$ 1,007	\$ 1,007	\$ 1,007	\$ 1,007
<b>Refund</b>	<b>\$ 1,007</b>	<b>\$ 1,007</b>	<b>\$ 989</b>	<b>\$ 764</b>	<b>\$ 539</b>	<b>\$ 314</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

- PFD - Refundable Tax Credit based on 2015 permanent fund amounts = \$1007 per person (slide 15).
- Row I : Assuming a child's PFD - Refundable Tax Credit would not be used towards payment of their parent's taxes and so not included in Row I.
- Rows A-G based on Dept. of Revenue chart created for SB 134 - Income Tax bill presentation to Senate Labor & Commerce committee 2/23/16.
- Assumptions: Single parent qualifies as "Head of Household". Married couple files "Jointly". Children are under 16 yrs of age and are the only dependents.
- Gross income is from wages. Standard deduction is greater than Itemized Deductions. The only credit the filers qualify for is the Child Tax Credit

# Fiscal Note

State of Alaska  
2016 Legislative Session

Bill Version: HB 365  
Fiscal Note Number: \_\_\_\_\_  
( ) Publish Date: \_\_\_\_\_

Identifier: HB365-DOR-APFC-04-01-16  
Title: INCOME TAX; PERMANENT FUND TAX CREDIT  
Sponsor: SEATON  
Requester: House Finance

Department: Department of Revenue  
Appropriation: Alaska Permanent Fund Corporation  
Allocation: APFC Operations  
OMB Component Number: 109

**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								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
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>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

None								
<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>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time								
Part-time								
Temporary								

<b>Change in Revenues</b>								
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**Estimated SUPPLEMENTAL (FY2016) cost:** 0.0 (separate supplemental appropriation required)  
(discuss reasons and fund source(s) in analysis section)

**Estimated CAPITAL (FY2017) cost:** 0.0 (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? No  
If yes, by what date are the regulations to be adopted, amended or repealed?

**Why this fiscal note differs from previous version:**

Prepared By: Laura Achee  
Division: Alaska Permanent Fund Corporation  
Approved By: Angela Rodell  
Agency: Alaska Permanent Fund Corporation

Phone: (907)796-1522  
Date: 04/01/2016 12:00 AM  
Date: 04/01/16

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2016 LEGISLATIVE SESSION

BILL NO. HB 365

**Analysis**

HB 365 would change the destination fund for a portion of the withdrawals from the Permanent Fund earnings reserve. It would not affect the workload of the APFC finance staff or change the investment strategy for the Fund.

# Alaska State Legislature

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## REPRESENTATIVE PAUL SEATON

Rep.Paul.Seaton@akleg.gov

### Sponsor Statement

#### HB 365

Alaska has a \$3.8 billion budget deficit. This deficit is caused by the precipitous oil price drop to between \$30 and \$40 per barrel and requires consideration of both state budget reductions and additional revenues. Even though the legislature cut FY16's combined capital and operating budget about \$900 million, the price per barrel breakeven point for a balanced budget is still over \$100 per barrel. The "easy" cuts were taken last year. A diversification of revenue sources is required. Combining revenues from a Permanent Fund Dividend reduction and a progressive income tax creates a balance most fair to all Alaskans.

HB 365, *Individual Income Tax and Permanent Fund Refundable Tax Credit*, establishes an income and long term capital gains tax on residents and nonresidents, changes the Permanent Fund Dividend (PFD) to a Permanent Fund Refundable Tax Credit and directs a moderate portion of the permanent fund earnings to support state services. Alaska is the only State without a state sales, income, or property tax. An income tax will generate the greatest revenue in an equitable manner at the lowest administrative cost. Individual Alaskan contributions will not balance the budget alone, but are a necessity for a realistic fix along with additional cuts to expenditures.

The income tax will be for both residents and nonresidents; however only qualifying residents will be eligible for the Refundable Tax Credit, under the same eligibility requirements that exist for the PFD today. The Refundable Tax Credit will first be applied to a resident's state income tax due with all remaining amount sent to the resident as a refund. Residents qualifying for the Refundable Tax Credit will be given the option to apply some or all of their credit to Pick Click Give and/or their child's college fund, similar to the PFD arrangement now. This bill would have contributed \$1.3 billion to the General Fund in 2015, half coming from the income tax revenues and half coming from the changes made to the permanent fund distributable income calculation.

Permanent Fund Refundable Tax Credit: This portion of the bill will change the dividend to a Refundable Tax Credit. The tax credit would be very similar to how the PFD operates now. The main difference is the tax credit would be first applied to a resident's state income tax due with any remaining amount sent to the resident as a refund. The amount of the tax credit will be taxable income on an individual's Federal taxes, as the PFD is currently. However, state income tax payments can be claimed as an itemized deduction on Federal taxes. Other changes are explained below.

Similarities between the Refundable Tax Credit and the PFD:

- Same application and eligibility requirements
- Similar to PFD, the tax credits can be garnished to pay for state fees, University fees, loan defaults, child support, etc.
- Similar to PFD, the tax credit is not counted as income for residents applying for public assistance, Alaska Pioneer Home, Alaska Veteran Home, or other state programs based on financial need.
- Similar to PFD, a qualifying resident can choose to apply all or some of their tax credit to Pick Click Give and/or their child's college fund.

Changes between the Refundable Tax Credit and the PFD:

- Tax credit refunds, if any, will be received by eligible residents after they have completed the state income tax forms (typically Jan-April). The tax credits are not available for non-residents paying state income tax on wages earned in Alaska.
- Same formula calculation as the PFD for determining income available for distribution – which is 21% of the net income from the permanent fund for the last 5 years. However, currently 50% of the income available for distribution goes to the PFD and 50% stays in the Earnings Reserve. With this bill, 25% of the income available for distribution will go to the Refundable Tax Credits, 25% will go directly to the general fund to support state services, and the remaining 50% will still stay in the Earnings Reserve.
- A tax credit will not exceed \$1,200. If the amount calculated for the tax credit exceeded \$1,200 per tax credit, the amount in excess of \$1,200 shall be appropriated to the general fund.

Individual Income and Long Term Capital Gains Tax: This portion of the bill will create an individual income tax on residents and nonresidents who have income from a source within the state. The tax is equal to 15% of the taxpayer's total federal income tax due. Long term capital gains are additionally taxed by multiplying the taxpayer's long term capital gains for the calendar year by the lesser of:

- 10%; or
- The difference between the taxpayer's federal income tax rate on ordinary income and the taxpayer's federal tax rate on long term capital gains.

Taxpayers can elect to deduct their state income tax payments on their federal itemized deductions- schedule A. The individual income tax would also apply to income earned by Sub-S corporations or limited liability corporations, which currently do not pay the state corporate income tax. Currently, nonresidents pay their home state income tax on money they earned in Alaska. With the passage of HB 365, Alaska would now receive that tax revenue. It's estimated at least 20% of income tax revenue will be paid by nonresidents.

# Alaska State Legislature

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## REPRESENTATIVE PAUL SEATON

Rep.Paul.Seaton@akleg.gov

### HB 365: Income Tax & Permanent Fund Refundable Tax Credit Version: 29-LS 1422\H

#### Sectional – Short Version

*Please note that a sectional analysis of a bill or resolution should not be considered an authoritative interpretation of the measure itself.  
The legislation is the best statement of its contents.*

The majority of the sections in HB365 are only changing the name of the Permanent Fund Dividend (PFD) to the Refundable Tax Credit. This packet will provide a short sectional addressing only those parts of the bill where there are system changes to the permanent fund and the new income tax. A copy of just those corresponding pages from the bill are also attached.

#### Sectional

**Section 7 & 8** (page 4, line 3- page 4, line 10) – Allows a person to donate part of their Refundable Tax Credit to Advance College Tuition Savings Fund prior to applying the credit to their state income tax due.

**Section 22** (page 10, line 27) – Alaska Permanent Fund Corporation & Disposition of Income: this section does not change the calculation for determining distributable income (21% of last 5 year's earnings from principal investments of permanent fund). This section changes what is done with the distributable income. Currently, 50% of the distributable income goes towards paying PFDs and 50% stays in the Earnings Reserve for inflation proofing the principals or for use by the legislature. With this bill, 50% stays in the Earnings Reserve, 25% now goes to pay Refundable Tax Credits, and the remaining 25% goes directly to the General Fund to help support state services.

#### Income Tax Section:

**Section 24** (page 11, line 14) – creates the Individual Income Tax within AS 43.

**Subsection: Sec. 43.22.010** (page 11, line 16) – Imposes an income tax on both residents and nonresidents who have earned income from a source within Alaska. The tax is equal to 15% of the taxpayer's total federal income tax due on the amount of the taxpayer's income from sources within the state (typically Line 63 on 1040 form). Long term capital gains are additionally taxed by multiplying the taxpayer's long term capital gains for the calendar year (typically Line 13 on 1040 form) by the lesser of:

- 10%; or
- The difference between the taxpayer's incremental federal income tax rate on ordinary income and the taxpayer's federal tax rate on long term capital gains.

Currently the difference between the taxpayer's incremental federal income tax rate on ordinary income and the taxpayer's federal tax rate on long term capital gains is between 10 -19.6%. Should the federal government change the rates on either, this could increase or decrease this difference. Based in this section, a taxpayer's long term capital gains will be multiplied by no more than 10%.

**Subsection: Sec. 43.22.020** (page 12, line 4) - Establishes how taxpayers will submit tax returns and make payments for the individual income tax. It clarifies that this tax is due and payable to the department at the same time and in the same manner as the tax payable to the U.S. IRS for federal taxes. The section also outlines procedures in case there are changes to the taxpayer's federal income tax return. Any overpayments will be reimbursed by the department out of the general fund.

**Subsection: Sec. 43.22.030** (page 13, line 3) – Defines income from sources in the state that are subject to tax. Long term capital gains shall be reported from all property regardless of the location of the property.

**Subsection: Sec. 43.22.035** (page 14, line 11) – Provides a credit to residents for taxes paid to another state based on income earned in that other state (so someone is not taxed twice on the same income).

**Subsection: Sec. 43.22.040** (page 14, line 26) – States a person may apply their Refundable Tax Credit to a person's state income tax due, less any garnishment, levy, donations to Pick Click Give or college funds, etc. The word "may" is used vs. "shall" because it allows a person the choice to not apply their Refundable Tax Credit to their income taxes. If a person made this choice, their tax credit would remain with the state. If a person's Refundable Tax Credit is more than the amount of their state income tax due, the remaining amount will be reimbursed to the person. A person must apply for their state income tax to receive a refund. A person must be a qualified resident to qualify for the Refundable Tax Credit.

**Subsection: Sec. 43.22.050** (page 15, line 7) – Establishes how taxes will be withheld by employers and those taxes are periodically remitted to the state. Employers will provide withholding amounts on a person's W2.

**Subsection: Sec. 43.22.055** (page 16, line 5) – Allows a person's income tax information to be shared with a banking institute to verify direct deposit of refunds.

**Subsection: Sec. 43.22.060** (page 16, line 8) - Authorizes the department to provide all necessary forms and adopt regulations to implement this tax, including regulations for online filing and payment.

**Subsection: Sec. 43.22.190** (page 16, line 13) – Defines specific terms used in the bill. Resident is defined as an individual who: lives in the state for the entire calendar year; claims to be a resident of Alaska on their federal tax forms; receives an Alaska Permanent Fund Reimbursable Tax Credit; is registered to vote in Alaska; or has an Alaska resident fishing, hunting, or trapping license during the calendar year.

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**Section 47** (page 27, line 7) – States that the Refundable Tax Credit amount will not exceed \$1200.00 for each individual. Any excess over \$1200 shall be appropriated to the General Fund to support state services.

**Section 54** (page 30, line 12) – Duties of the Dept. of Revenue are outlined. This section changes the date the Refundable Tax Credit is available for an individual from the current October PFD date to the subsequent year when the individual applies for their state income taxes. A person is allowed to apply their Refundable Tax Credit to previous tax years if they did not apply their tax credit within two years after the date of its issuance.

**Section 55 - 61** (starting on page 32, line 6) – Allows a person to donate part of their Refundable Tax Credit to Pick Click Give prior to applying the credit to their state income tax due.

**Section 91** (page 49, line 24) – Repeals:

- AS 09.38.015(a)(9) Property exempt without limitation: this repeal removes the Refundable Tax Credit from the list of property exemptions.
- AS 43.05.085, AS 43.20.012(b), AS 43.20.013: these repeals remove a former tax credit for political contributions that existed under Alaska's prior individual income tax which was repealed in 1980.
- AS 43.23.035(b) & AS 43.23.035(d): Penalties & Enforcement of the Permanent Fund: these are repealed because the PFD is now changed to a Refundable Tax Credit and under AS 43.05 and 43.10 the Dept. of Revenue has sufficient statute and regulations related to penalties and enforcement of refunds and tax credits.

**Section 92** (page 49, line 26) – States that the Income tax will be applied to income received on or after the effective date. Also, if a person has a dispute on their 2016 PFD and this dispute rolls over into 2017, then if HB 365 were passed, the old regulations (prior to the effective date of HB 365) would apply to the 2016 PFD dispute until it is resolved.

**Section 93** (page 50, line 5) – Effective date of January 1, 2017.

<b>Name changes from Permanent Fund Dividend to Refundable Tax Credit</b>
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All other sections in the bill deal only with changing the name from PFD to Refundable Tax Credit. Some also include minor "clean up language" to address the difference between receiving a dividend vs. a tax credit. The majority of these sections have to do with garnishing the PFD/Refundable Tax Credit for defaults on state fees and education loans, child support, etc. For a full list of these sections and the topics they address, please see the Long Version Sectional for this bill.

1 more days past due. Upon default, the university may take the individual's permanent  
2 fund refundable income tax credit [DIVIDEND] under AS 43.23.073.

Name Chan

3 \* Sec. 7. AS 14.40.803(b) is amended to read:

4 (b) The fund consists of

5 (1) permanent fund refundable income tax credit [DIVIDEND] and  
6 cash contributions made under AS 14.40.807 under the terms of an advance college  
7 tuition savings contract;

Advance  
College  
Tuition  
Savings

8 (2) appropriations, gifts, bequests, and contributions; and

9 (3) income and earnings of the fund.

10 \* Sec. 8. AS 14.40.807(a) is amended to read:

11 (a) Contributions to the fund under the terms of an advance college tuition  
12 savings contract may be made by direct cash payments or by contributions from the  
13 permanent fund refundable income tax credit [DIVIDEND]. The Department of  
14 Revenue shall

15 (1) prepare the permanent fund refundable income tax credit  
16 [DIVIDEND] application to allow an applicant or a parent, legal guardian, or other  
17 authorized representative of an applicant who is an unemancipated minor to contribute  
18 50 percent of a refundable income tax credit [DIVIDEND] to the fund; and

19 (2) include with each application for a permanent fund refundable  
20 income tax credit [DIVIDEND] an explanation of the advance college tuition savings  
21 program, including the right to receive a refund, a disclosure of the potential tax  
22 liability of the fund, and disclosure of the possible general effect of the tax liability on  
23 the advance college tuition savings program.

24 \* Sec. 9. AS 14.43.145(a) is amended to read:

25 (a) For the purposes of this chapter, a loan is in default after a loan payment  
26 has become 180 or more days past due or, for a loan under AS 14.43.161 - 14.43.168  
27 or 14.43.170 - 14.43.175, the default requirements established by the commission have  
28 been met. Upon default,

29 (1) repayment of the remaining balance is accelerated and due;

30 (2) the commission may take the borrower's permanent fund  
31 refundable income tax credit [DIVIDEND] under AS 43.23.067;

Name  
change

**Excerpts from HB 365**

*These pages only include those sections of the bill that are part of the Short Sectional.*

29-LS1422\H

1 \* **Sec. 21.** AS 37.10.210(b) is amended to read:

2 (b) The Alaska Retirement Management Board consists of nine trustees, as  
3 follows:

4 (1) two members, consisting of the commissioner of administration  
5 and the commissioner of revenue;

6 (2) seven trustees appointed by the governor who meet the eligibility  
7 requirements for an Alaska permanent fund refundable income tax credit  
8 [DIVIDEND] and who are professionally credentialed or have recognized competence  
9 in investment management, finance, banking, economics, accounting, pension  
10 administration, or actuarial analysis as follows:

*Name  
change*

11 (A) two trustees who are members of the general public; the  
12 trustees appointed under this subparagraph may not hold another state office,  
13 position, or employment and may not be members or beneficiaries of a  
14 retirement system managed by the board;

15 (B) one trustee who is employed as a finance officer for a  
16 political subdivision participating in either the public employees' retirement  
17 system or the teachers' retirement system;

18 (C) two trustees who are members of the public employees'  
19 retirement system, selected from a list of four nominees submitted from among  
20 the public employees' retirement system bargaining units;

21 (D) two trustees who are members of the teachers' retirement  
22 system selected from a list of four nominees submitted from among the  
23 teachers' retirement system bargaining units;

24 (E) the lists of the nominees shall be submitted to the governor  
25 under (C) and (D) of this paragraph within the time period specified in  
26 regulations adopted under AS 37.10.240(a).

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27 \* **Sec. 22.** AS 37.13.145(b) is amended to read:

28 (b) At the end of each fiscal year, the corporation shall transfer from the  
29 earnings reserve account to the

30 (1) refundable income tax credit [DIVIDEND] fund established  
31 under AS 43.23.045, 25 [50] percent of the income available for distribution under

*Sect. 2*

*Distribut  
Income*



*Continue*

Sect. 22  
Continued  
★

1 AS 37.13.140; and  
2 (2) general fund, 25 percent of the income available for  
3 distribution under AS 37.13.140.

4 \* Sec. 23. AS 37.13.145(d) is amended to read:

5 (d) Notwithstanding (b) of this section, income earned on money awarded in  
6 or received as a result of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior  
7 Court, First Judicial District), including settlement, summary judgment, or adjustment  
8 to a royalty-in-kind contract that is tied to the outcome of this case, or interest earned  
9 on the money, or on the earnings of the money shall be treated in the same manner as  
10 other income of the Alaska permanent fund, except that it is not available for  
11 distribution to the refundable income tax credit [DIVIDEND] fund or for transfers to (Name change  
12 the principal under (c) of this section, and shall be annually deposited into the Alaska  
13 capital income fund (AS 37.05.565).

Sect. 24  
Income  
TAX

14 \* Sec. 24. AS 43 is amended by adding a new chapter to read:

15 **Chapter 22. Individual Income Tax.**

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

- 18 (1) resident individual with income from a source in the state; and
- 19 (2) nonresident individual with income from a source in the state.

20 (b) The tax under this section is equal to the sum of

21 (1) 15 percent of the taxpayer's total federal income tax due on the  
22 amount of the taxpayer's income that is from a source in the state; and

23 (2) the amount resulting from multiplying the taxpayer's long-term  
24 capital gains for the calendar year by the lesser of

25 (A) 10 percent; or

26 (B) the difference between the taxpayer's incremental federal  
27 income tax rate on ordinary income and the taxpayer's federal tax rate on long-  
28 term capital gains.

29 (c) In this section,

30 (1) "federal income tax due" means the total tax due to the federal  
31 government as reported by the taxpayer on a federal individual income tax return;

Sect. 24  
Continued

1 (2) "long-term capital gains" means the total long-term capital gains  
2 required to be reported on the federal individual income tax form related to capital  
3 gains attached to a federal individual income tax return.

4 **Sec. 43.22.020. Returns and payment of taxes.** (a) An individual required to  
5 make a return under the provisions of the Internal Revenue Code shall file with the  
6 department a return setting out

- 7 (1) the amount of tax due under this chapter; and  
8 (2) other information for the purpose of carrying out the provisions of  
9 this chapter that the department requires.

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

12 (c) The total amount of tax imposed by this chapter is due and payable to the  
13 department at the same time and in the same manner as the tax payable to the United  
14 States Internal Revenue Service.

15 (d) A taxpayer, upon request by the department, shall furnish to the  
16 department a true and correct copy of the tax return that the taxpayer has filed with the  
17 United States Internal Revenue Service. Every taxpayer shall notify the department in  
18 writing of an alteration in, or modification of, the taxpayer's federal income tax return  
19 and of a recomputation of tax or determination of deficiency, whether with or without  
20 assessment. A full statement of the facts must accompany this notice. The taxpayer  
21 shall file the notice within 60 days after the final determination of the alteration,  
22 modification, recomputation, or deficiency, and the taxpayer shall pay the additional  
23 tax under this chapter. For purposes of this subsection, a final determination means the  
24 time that an amended federal return is filed or a notice of deficiency or an assessment  
25 is mailed to the taxpayer by the Internal Revenue Service, and the taxpayer has  
26 exhausted rights of appeal under federal law.

27 (e) The department may credit or refund overpayments of taxes, taxes  
28 erroneously or illegally assessed or collected, penalties collected without authority,  
29 and taxes that are found unjustly assessed or excessive in amount, or otherwise  
30 wrongfully collected. The department shall set limitations, specify the manner in  
31 which claims for credits or refunds are made, and give notice of allowance or

1 disallowance. When a refund is allowed to a taxpayer, it shall be paid out of the  
2 general fund on a warrant issued under a voucher approved by the department.

3 **Sec. 43.22.030. Income from sources in the state.** (a) For purposes of  
4 AS 43.22.010(a), income from a source in the state includes

- 5 (1) compensation for personal services rendered in the state;
- 6 (2) salary or wages earned in the state;
- 7 (3) income from real or tangible personal property located in the state;
- 8 (4) income from stocks, bonds, notes, bank deposits, and other  
9 intangible personal property having a taxable or business situs in the state; however,  
10 the receipt of interest income from intangible property in the state does not alone  
11 establish a taxable or business situs in the state;

12 (5) rentals and royalties for the use of or for the privilege of using, in  
13 the state, patents, copyrights, secret processes and formulas, good will, marks, trade  
14 brands, franchises, and other property having a taxable or business situs in the state;

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

17 (7) income from a source with a taxable or business situs in the state of  
18 (A) a trust not established under or governed by the laws of the  
19 state; or

20 (B) the estate of a decedent who on the date of death was not  
21 domiciled in the state;

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

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

- 26 (1) business facilities or property in the state;
- 27 (2) business, farming, or fishing activities in the state;
- 28 (3) conducting in the state the management or investment function for  
29 intangible property;

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

1 (5) a corporation transacting business activities in the state that has  
2 elected to file federal returns under subchapter S of the Internal Revenue Code;

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

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

9 (d) For purposes of AS 43.22.010(b), long-term capital gains shall be reported  
10 from all property, regardless of the location of the property.

11 **Sec. 43.22.035. Credit for taxes paid.** (a) A resident is entitled to a credit  
12 against the tax liability under this chapter for the amount of tax paid to other states,  
13 territories, or possessions of the United States on income derived from sources in  
14 those jurisdictions that is also subject to tax in this chapter.

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

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

23 (d) The application of the tax credit provided under this section may not  
24 operate to reduce the tax payable under this chapter to an amount less than would have  
25 been payable if the income from the other state was disregarded.

26 **Sec. 43.22.040. Permanent fund refundable tax credit.** (a) An individual  
27 eligible for an income tax credit under AS 43.23.005 may apply a tax credit against the  
28 tax due under this chapter in the amount determined under AS 43.23, less any  
29 garnishment, levy, assignment, attachment, or other claim, reduction, or donation  
30 allowed by law.

31 (b) The tax credit under this section shall be refundable. The department shall

**Excerpts from HB 365**

*These pages only include those sections of the bill that are part of the Short Sectional.*

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1 adopt regulations that establish procedures for an individual to be reimbursed under  
2 AS 37.25.050(a)(2). To receive a refund under this section, an individual must file an  
3 income tax return under AS 43.22.020.

Sect. 24  
Continued

4 (c) Except as otherwise limited by law, if an individual is eligible for a tax  
5 credit under this section but fails to file an income tax return or fails to claim the tax  
6 credit, the individual may file a return or an amended return for that year.

7 **Sec. 43.22.050. Tax withholding on wages of individuals.** (a) Every  
8 employer making payment of wages, salaries, or crew shares

9 (1) shall deduct and withhold an amount of tax computed in a manner  
10 to approximate the amount of tax due on those wages, salaries, or crew shares under  
11 this chapter for that calendar year;

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

15 (3) is liable for the payment of the tax required to be deducted and  
16 withheld under this section but is not liable to any individual for the amount of the  
17 payment; and

18 (4) shall furnish to the employee on or before January 31 of the  
19 succeeding year, or within 30 days after a request by the employee after the  
20 employee's termination if the 30-day period ends before January 31, a written  
21 statement on a form prescribed by the department showing

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

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

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

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

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

31 (c) In this section,

**Excerpts from HB 365**

*These pages only include those sections of the bill that are part of the Short Sectional.*

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Sect. 24  
Continued

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

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

5 **Sec. 43.22.055. Refunds.** Notwithstanding AS 43.05.230, information on an  
6 individual income tax return may be released to a banking institution to verify the  
7 direct deposit of an income tax refund or correct an error in that deposit.

8 **Sec. 43.22.060. Administration.** The department shall prescribe all necessary  
9 forms and adopt regulations to implement and interpret this chapter, including  
10 regulations for the online filing and payment of tax due under this chapter. The  
11 department may incorporate into the regulations provisions of the Internal Revenue  
12 Code that are necessary or useful to the administration of this chapter.

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

14 (1) "domiciled" means established in a true principal permanent home  
15 to which the individual has the intention of returning whenever absent;

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

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

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

24 (5) "resident" means an individual who

25 (A) was domiciled in the state or resided in the state for the  
26 entire calendar year;

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

29 (C) receives a permanent fund refundable income tax credit  
30 under AS 43.23;

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

**Excerpts from HB 365**

*These pages only include those sections of the bill that are part of the Short Sectional.*

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Sect. 24  
ends

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

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

4 \* Sec. 25. AS 43.23.005(a) is amended to read:

5 (a) An individual is eligible to receive one permanent fund refundable  
6 income tax credit [DIVIDEND] each year in an amount to be determined under  
7 AS 43.23.025 if the individual

8 (1) applies to the department;

9 (2) is a state resident on the date of application;

10 (3) was a state resident during the entire qualifying year;

11 (4) has been physically present in the state for at least 72 consecutive  
12 hours at some time during the prior two years before the current refundable income  
13 tax credit [DIVIDEND] year;

14 (5) is

15 (A) a citizen of the United States;

16 (B) an alien lawfully admitted for permanent residence in the  
17 United States;

18 (C) an alien with refugee status under federal law; or

19 (D) an alien that has been granted asylum under federal law;

20 (6) was, at all times during the qualifying year, physically present in  
21 the state or, if absent, was absent only as allowed in AS 43.23.008; and

22 (7) was in compliance during the qualifying year with the military  
23 selective service registration requirements imposed under 50 U.S.C. App. 453  
24 (Military Selective Service Act), if those requirements were applicable to the  
25 individual, or has come into compliance after being notified of the lack of compliance.

26 \* Sec. 26. AS 43.23.005(c) is amended to read:

27 (c) A parent, guardian, or other authorized representative may claim a  
28 permanent fund refundable income tax credit [DIVIDEND] on behalf of an  
29 unemancipated minor or on behalf of a disabled or an incompetent individual who is  
30 eligible to receive a payment under this section. Notwithstanding (a)(2) - (4) of this  
31 section, a minor is eligible for a refundable income tax credit [A DIVIDEND] if,

All  
name  
changes

**Excerpts from HB 365**

*These pages only include those sections of the bill that are part of the Short Sectional.*

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1 (2) determining the number of individuals eligible to receive a  
 2 **refundable income tax credit** [A DIVIDEND PAYMENT] for the current year and  
 3 the number of estates and successors eligible to receive a **refundable income tax**  
 4 **credit** [A DIVIDEND PAYMENT] for the current year under AS 43.23.005(h); and  
 5 (3) dividing the amount determined under (1) of this subsection by the  
 6 amount determined under (2) of this subsection.

*Name Changes*

7 \* **Sec. 47.** AS 43.23.025 is amended by adding a new subsection to read:

*Sect. 47*

8 (c) A refundable income tax credit calculated under (a) of this section may not  
 9 be issued in excess of \$1,200 for each individual. If a refundable income tax credit  
 10 calculated under (a) of this section exceeds \$1,200 for each individual, the amount in  
 11 excess of \$1,200 for each individual shall be appropriated to the general fund.

*"not exceed \$1200"*

12 \* **Sec. 48.** AS 43.23.028(a) is amended to read:

13 (a) By October 1 of each year, the commissioner shall give public notice of the  
 14 value of each permanent fund **refundable income tax credit** [DIVIDEND] for that  
 15 year and notice of the information required to be disclosed under (3) of this  
 16 subsection. In addition, the **notice** [STUB ATTACHED TO EACH INDIVIDUAL  
 17 DIVIDEND DISBURSEMENT ADVICE] must

18 (1) disclose the amount of each **refundable income tax credit**  
 19 [DIVIDEND] attributable to income earned by the permanent fund from deposits to  
 20 that fund required under art. IX, sec. 15, Constitution of the State of Alaska;

*All Name Changes*

21 (2) disclose the amount of each **refundable income tax credit**  
 22 [DIVIDEND] attributable to income earned by the permanent fund from  
 23 appropriations to that fund and from amounts added to that fund to offset the effects of  
 24 inflation;

25 (3) disclose the amount by which each **refundable income tax credit**  
 26 [DIVIDEND] has been reduced due to each appropriation from the **refundable**  
 27 **income tax credit** [DIVIDEND] fund, including amounts to pay the costs of  
 28 administering the **refundable income tax credit** [DIVIDEND] program and the hold  
 29 harmless provisions of AS 43.23.075;

30 (4) include a statement that an individual is not eligible for a  
 31 **refundable income tax credit** [A DIVIDEND] when

**Excerpts from HB 365**

*These pages only include those sections of the bill that are part of the Short Sectional.*

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1 (a) The refundable income tax credit [DIVIDEND] fund is established as a  
2 separate fund in the state treasury. The refundable income tax credit [DIVIDEND]  
3 fund shall be administered by the commissioner and shall be invested by the  
4 commissioner in the same manner as provided in AS 37.10.070.

*Name  
Changes*

5 \* **Sec. 53.** AS 43.23.045(d) is amended to read:

6 (d) Unless specified otherwise in an appropriation act, the unexpended and  
7 unobligated balance of an appropriation to implement this chapter lapses into the  
8 refundable income tax credit [DIVIDEND] fund on June 30 of the fiscal year for  
9 which the appropriation was made and shall be used in determining the amount of and  
10 paying the subsequent year's refundable income tax credit [DIVIDEND] as provided  
11 in AS 43.23.025(a)(1)(B).

12 \* **Sec. 54.** AS 43.23.055 is amended to read:

*Sect. 54*

13 Sec. 43.23.055. Duties of the department. The department shall

14 (1) annually administer [PAY] permanent fund refundable income  
15 tax credit [DIVIDENDS] from the refundable income tax credit [DIVIDEND]  
16 fund;

17 (2) subject to AS 43.23.011 and paragraph (8) of this section, adopt  
18 regulations under AS 44.62 (Administrative Procedure Act) that establish procedures  
19 and time limits for claiming a permanent fund refundable income tax credit  
20 [DIVIDEND]; the department shall determine the number of eligible applicants by  
21 October 1 of the year for which the refundable income tax credit [DIVIDEND] is  
22 declared and administer the application of [PAY] the refundable income tax  
23 credits for the subsequent tax [DIVIDENDS BY DECEMBER 31 OF THAT] year;

*Refundable  
Tax Credit  
Available  
for Income  
Tax.*

24 (3) adopt regulations under AS 44.62 (Administrative Procedure Act)  
25 that establish procedures and time limits for an individual upon emancipation or upon  
26 reaching majority to apply for a permanent fund refundable income tax credit  
27 [DIVIDENDS] not received during minority because the parent, guardian, or other  
28 authorized representative did not apply on behalf of the individual;

29 (4) assist residents of the state, particularly in rural areas, who because  
30 of language, disability, or inaccessibility to public transportation need assistance to  
31 establish eligibility and to apply for a permanent fund refundable income tax credit

1 [DIVIDENDS];

2 (5) use a list of individuals ineligible for a refundable income tax

3 credit [A DIVIDEND] under AS 43.23.005(d) provided annually by the Department

4 of Corrections and the Department of Public Safety to determine the number and

5 identity of those individuals;

6 (6) adopt regulations that are necessary to implement AS 43.23.005(d);

7 (7) adopt regulations that establish procedures for the parent, guardian,

8 or other authorized representative of a disabled individual to apply for a prior year

9 permanent fund refundable income tax credit [DIVIDENDS] not received by the

10 disabled individual because no application was submitted on behalf of the individual;

11 (8) adopt regulations that establish procedures for an individual to

12 apply a refundable income tax credit to previous tax years [TO HAVE A

13 DIVIDEND DISBURSEMENT UNDER AS 37.25.050(a)(2) REISSUED] if it is not

14 applied [COLLECTED] within two years after the date of its issuance; however, the

15 department may not establish a time limit [WITHIN WHICH AN APPLICATION] to

16 apply a back tax credit [HAVE A DISBURSEMENT REISSUED MUST BE

17 FILED];

18 (9) provide any information, upon request, contained in permanent fund

19 refundable income tax credit [DIVIDEND] records to the child support services

20 agency created in AS 25.27.010, or the child support enforcement agency of another

21 state, for child support purposes authorized under law; if the information is contained

22 in an electronic data base, the department shall provide the requesting agency with

23 either

24 (A) access to the data base; or

25 (B) a copy of the information in the data base and a statement

26 certifying its contents;

27 (10) establish a fraud investigation unit for the purpose of assisting the

28 (A) Department of Law in the prosecution of individuals who

29 apply for [OR OBTAIN] a permanent fund refundable income tax credit

30 [DIVIDEND] in violation of a provision in AS 11, by detecting and

31 investigating those crimes; and

Sec. 54  
Continued

Can Apply  
to previous  
years tax  
←

1 (B) commissioner to detect and investigate the claiming or  
2 application [PAYING] of a permanent fund refundable income tax credit  
3 [DIVIDENDS] that should not have been claimed by or applied against the  
4 income tax of [PAID TO] an individual and to impose the penalties and  
5 enforcement provisions under AS 43.05, AS 43.10, and AS 43.23.035.

6 \* Sec. 55. AS 43.23.062(a) is amended to read:

7 (a) Notwithstanding AS 43.23.069, the Department of Revenue shall prepare  
8 the electronic [ALASKA] permanent fund refundable income tax credit  
9 [DIVIDEND] application to allow an applicant who files electronically to direct that  
10 money be subtracted from the refundable income tax credit [DIVIDEND  
11 PAYMENT] and contributed to one or more of the educational organizations,  
12 community foundations, or charitable organizations that appear on the contribution list  
13 contained in the application. A contribution to an organization may be \$25, \$50, \$75,  
14 \$100, or more, in increments of \$50, up to the total amount of the permanent fund  
15 refundable income tax credit [DIVIDEND] that the applicant is entitled to receive. If  
16 the total amount of contributions elected by an applicant exceeds the amount of the  
17 permanent fund refundable income tax credit [DIVIDEND] that the applicant is  
18 entitled to receive, contributions shall be deducted from the refundable income tax  
19 credit [DIVIDEND] in the order of priority elected by the applicant on the application  
20 until the entire amount of the refundable income tax credit [DIVIDEND] that the  
21 applicant is entitled to receive is allocated for contribution. The electronic refundable  
22 income tax credit [DIVIDEND] application form must include notice that seven  
23 percent of the money contributed will be used for administrative costs incurred in  
24 implementing this section, and money from the refundable income tax credit  
25 [DIVIDEND] fund will not be used for that purpose.

26 \* Sec. 56. AS 43.23.062(c) is amended to read:

27 (c) The department may not include a charitable organization, other than a  
28 community foundation, on the contribution list for a refundable income tax credit  
29 [DIVIDEND] year unless the purpose of the charitable organization is to provide  
30 services for youth development, workforce development, arts and culture, aid and  
31 services to the elderly, low-income individuals, individuals in emergency situations,

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1 victims of crime, disabled individuals, individuals with mental illness, primary,  
2 vocational, and higher education, health and dental care, recreational facilities, child  
3 abuse and neglect, economic development, food assistance, libraries, public  
4 broadcasting, recycling of waste, animal rescue, and zoos. The department may not  
5 include on the contribution list an educational organization, community foundation, or  
6 charitable organization that is the affiliate of a group. For purposes of this subsection,

7 (1) "affiliate" means an organization or foundation that directly or  
8 indirectly through one or more intermediaries controls, is controlled by, or is under  
9 common control with, a group;

10 (2) "group" has the meaning given in AS 15.13.400(8)(B).

11 \* Sec. 57. AS 43.23.062(d) is amended to read:

12 (d) Except for each campus of the University of Alaska, the department may  
13 include an educational organization, community foundation, or charitable organization  
14 on the contribution list for a current refundable income tax credit [DIVIDEND] year  
15 only if the organization

16 (1) before March 31 of the qualifying year, files an application for  
17 inclusion on the list for that refundable income tax credit [DIVIDEND] year on the  
18 form required by the department;

19 (2) is exempt from taxation under 26 U.S.C. 501(c)(3) (Internal  
20 Revenue Code) as an educational or a charitable organization on the date of  
21 application;

22 (3) was qualified for tax exempt status under 26 U.S.C. 501(c)(3)  
23 (Internal Revenue Code) as an educational or a charitable organization during the two  
24 calendar years that immediately precede the year the application is filed;

25 (4) unless exempted under federal law, has a current Internal Revenue  
26 Service Form 990 on file with the United States Department of the Treasury, Internal  
27 Revenue Service, or, if the Internal Revenue Service has granted a filing extension for  
28 the current year, has on file that form for the immediately preceding year;

29 (5) is directed by a voluntary board of directors or local advisory board,  
30 a majority of whose members are residents of the state;

31 (6) if a community foundation, provided in the state aid during the two

**Excerpts from HB 365**

*These pages only include those sections of the bill that are part of the Short Sectional.*

29-LS1422\H

1 calendar years that immediately precede the year the application is filed, or, if an  
2 education organization or charitable organization, provided in the state services during  
3 the two calendar years that immediately precede the year the application is filed;

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4 (7) receives at least \$100,000 or five percent of its total annual receipts,  
5 whichever is less, from contributions;

Continued

6 (8) has completed and provided to the department a financial audit with  
7 an unqualified opinion conducted by an independent certified public accountant for the  
8 fiscal year to which the Internal Revenue Service Form 990 required under (4) of this  
9 subsection applies; this paragraph applies only to an organization that is required by  
10 the federal government to complete a financial audit by an independent certified  
11 public accountant; and

12 (9) does not make grants or contributions to an organization that is  
13 exempt from taxation under 26 U.S.C. 501(c)(4) or (6).

14 \* Sec. 58. AS 43.23.062(e) is amended to read:

15 (e) Unless an appropriation specifically directs that the money be used for  
16 costs incurred in implementing this section, the department may not use money from  
17 the refundable income tax credit [DIVIDEND] fund for administrative costs  
18 incurred in implementing this section, even if it has been appropriated for costs of  
19 administering the refundable income tax credit [DIVIDEND] program.  
20 Contributions shall be distributed to each organization as soon as practicable.

21 \* Sec. 59. AS 43.23.062(h) is amended to read:

22 (h) A public agency that claims a refundable income tax credit [DIVIDEND]  
23 on behalf of an individual under AS 43.23.015(e) may not elect to make contributions  
24 from the refundable income tax credit [DIVIDEND] under (a) of this section.

25 \* Sec. 60. AS 43.23.062(l) is amended to read:

26 (l) The University of Alaska shall apply separately for each of the three main  
27 campuses to be listed on the contribution list for the current refundable income tax  
28 credit [DIVIDEND] year in the manner prescribed by the department. The University  
29 of Alaska may apply for each campus other than the three main campuses to be listed  
30 on the contribution list for the current refundable income tax credit [DIVIDEND]  
31 year in the manner prescribed by the department.

\* Sec. 61. AS 43.23.062(m) is amended to read:

(m) In addition to the application fee in (f) of this section, the department shall withhold a coordination fee from each organization, foundation, or university campus that receives contributions under this section in the immediately preceding refundable income tax credit [DIVIDEND] year. The coordination fee for an organization, foundation, or university campus that receives contributions under this section shall be seven percent of the amount of contributions reported by the department under (j) of this section for the organization, foundation, or university campus for the immediately preceding refundable income tax credit [DIVIDEND] year. The coordination fee shall be separately accounted for under AS 37.05.142 and shall be accounted for separately from the application fee collected under (f) of this section. The annual estimated balance in the account maintained under AS 37.05.142 for coordination fees collected under this subsection may be appropriated for costs of administering this section.

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\* Sec. 62. AS 43.23.065 is amended to read:

Sec. 43.23.065. Exemption of and levy on permanent fund refundable income tax credits [DIVIDENDS]. (a) Except as provided in (b) of this section, 20 percent of the annual permanent fund refundable income tax credit that [DIVIDEND PAYABLE TO] an individual is eligible for under AS 43.23.025 is exempt from levy, execution, garnishment, attachment, or any other remedy for the collection of debt. No other exemption applies to a refundable income tax credit [DIVIDEND]. Notwithstanding other laws, a writ of execution upon a refundable income tax credit [DIVIDEND] that has not been delivered to the debtor may be served on the commissioner by

Name  
Changes

(1) certified mail, return receipt requested; or

(2) a civilian process server licensed by the commissioner of public safety using electronic execution procedures, as provided under regulations adopted by the department.

(b) An exemption is not available under this section for a permanent fund refundable income tax credit [DIVIDENDS] taken to satisfy

(1) child support obligations required by court order or decision of the

- 1 Native Claims Settlement Act):
- 2 (A) cash dividends and other income equal to at least \$2,000 as
- 3 established by the department by regulation;
- 4 (B) stock;
- 5 (C) noncash dividends from stock; and
- 6 (D) land;
- 7 (3) a permanent fund refundable income tax credit [DIVIDEND]
- 8 issued under AS 43.23;
- 9 (4) compensation to volunteers under the federal retired and senior
- 10 volunteers (42 U.S.C. 5001), foster grandparents (42 U.S.C. 5011), and senior
- 11 companion (42 U.S.C. 5013) programs made in accordance with 42 U.S.C. 5044(f);
- 12 (5) federal World War II restitution payments made under 50 U.S.C.
- 13 App. 1989b-4 and c-5;
- 14 (6) payments under AS 18.67 (Violent Crimes Compensation Board);
- 15 (7) an amount, determined by the department by regulation, that is
- 16 sufficient for burial expenses of the resident, the resident's spouse, and dependents of
- 17 the resident;
- 18 (8) real property being used as the primary residence of the resident's
- 19 spouse or a dependent of the resident;
- 20 (9) other real or personal property equal to at least a total value of up to
- 21 \$10,000 as established by the department by regulation;
- 22 (10) federal payments that are excluded by law from income for federal
- 23 assistance purposes.

Name change

24 \* Sec. 91. AS 09.38.015(a)(9); AS 43.05.085; AS 43.20.012(b), 43.20.013;

25 AS 43.23.035(b), and 43.23.035(d) are repealed.  
26 \* Sec. 92. The uncodified law of the State of Alaska is amended by adding a new section to  
27 read:

28 APPLICABILITY. (a) The individual income tax under AS 43.22, enacted by sec. 24

29 of this Act, applies to income received on or after the effective date of this Act.  
30 (b) Notwithstanding the changes made in secs. 1 - 23 and 25 - 91 of this Act related to  
31 the change of the permanent fund dividend to a refundable income tax credit, for purposes of

Sect 91 Repeals

Sect. 92

**Excerpts from HB 365**

*These pages only include those sections of the bill that are part of the Short Sectional.*

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1 awarding a dividend, or considering or disputing the eligibility of an individual for a  
2 permanent fund dividend, before the effective date of this Act, the Department of Revenue  
3 shall apply AS 43.23 and the regulations adopted thereunder, as those statutes and regulations  
4 read on the day before the effective date of this Act.

5 \* Sec. 93. This Act takes effect January 1, 2017.

Sect. 93

# Alaska State Legislature

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**REPRESENTATIVE PAUL SEATON**  
Rep.Paul.Seaton@akleg.gov

## **HB 365: Income Tax & Permanent Fund Refundable Tax Credit** **Version: 29-LS 1422\H**

### **Sectional – Long Version**

*Please note that a sectional analysis of a bill or resolution should not be considered an authoritative interpretation of the measure itself.  
The legislation is the best statement of its contents.*

The majority of the sections in HB 365 are only changing the name of the Permanent Fund Dividend (PFD) to the Refundable Tax Credit. This sectional will be divided into three parts. The first part will discuss those sections where there are system changes to the permanent fund, repeals and effective dates. The second part will discuss the new Income Tax section. The third part will list those sections that deal only with name changes from PFD to Refundable Tax Credit and minor “clean up language”.

### **Part 1: System changes from Permanent Fund Dividend to Refundable Tax Credit**

**Section 7 & 8** (page 4, line 3) – Allows a person to donate part of their Refundable Tax Credit to Advance College Tuition Savings Fund prior to applying the credit to their state income tax due.

**Section 22** (page 10, line 27) – Alaska Permanent Fund Corporation & Disposition of Income: this section does not change the calculation for determining distributable income (21% of last 5 year’s earnings from principal investments of permanent fund). This section changes what is done with the distributable income. Currently, 50% of the distributable income goes towards paying PFDs and 50% stays in the Earnings Reserve for inflation proofing the principals or for use by the legislature. With this bill, 50% stays in the Earnings Reserve, 25% now goes to pay Refundable Tax Credits, and the remaining 25% goes directly to the General Fund to help support state services.

**Section 47** (page 27, line 7) – States that the Refundable Tax Credit amount will not exceed \$1200.00 for each individual. Any excess over \$1200 shall be appropriated to the General Fund to support state services.

**Section 54** (page 30, line 12) – Duties of the Dept. of Revenue are outlined. This section changes the date the Refundable Tax Credit is available for an individual from the current

October PFD date to the subsequent year when the individual applies for their state income taxes (also minor clean up language). A person is allowed to apply their Refundable Tax Credit to previous tax years if they did not apply their tax credit within two years after the date of its issuance.

**Section 55 - 61** (starting on page 32, line 6) – Allows a person to donate part of their Refundable Tax Credit to Pick Click Give prior to applying the credit to their state income tax due.

**Section 91** (page 49, line 24) – Repeals:

- AS 09.38.015(a)(9) Property exempt without limitation: this repeal removes the Refundable Tax Credit from the list of property exemptions.
- AS 43.05.085, AS 43.20.012(b), AS 43.20.013: these repeals remove a former tax credit for political contributions that existed under Alaska’s prior individual income tax which was repealed in 1980.
- AS 43.23.035(b) & AS 43.23.035(d): Penalties & Enforcement of the Permanent Fund: these are repealed because the PFD is now changed to a Refundable Tax Credit and under AS 43.05 and 43.10 the Dept. of Revenue has sufficient statute and regulations related to penalties and enforcement of refunds and tax credits.

**Section 92** (page 49, line 26) – States that the Income tax will be applied to income received on or after the effective date. Also, if a person has a dispute on their 2016 PFD and this dispute rolls over into 2017, then if HB 365 were passed, the old regulations (prior to the effective date of HB 365) would apply to the 2016 PFD dispute until it is resolved.

**Section 93** (page 50, line 5) – Effective date of January 1, 2017.

<b>Part 2: Income Tax</b>
---------------------------

**Section 24** (page 11, line 14) – creates the Individual Income Tax within AS 43.

**Subsection: Sec. 43.22.010** (page 11, line 16) – Imposes an income tax on both residents and nonresidents who have earned income from a source within Alaska. The tax is equal to 15% of the taxpayer’s total federal income tax due on the amount of the taxpayer’s income from sources within the state (typically Line 63 on 1040 form). Long term capital gains are additionally taxed by multiplying the taxpayer’s long term capital gains for the calendar year (typically Line 13 on 1040 form) by the lesser of:

- 10%; or
- The difference between the taxpayer’s incremental federal income tax rate on ordinary income and the taxpayer’s federal tax rate on long term capital gains.

Currently the difference between the taxpayer’s incremental federal income tax rate on ordinary income and the taxpayer’s federal tax rate on long term capital gains is between 10 -19.6%. Should the federal government change the rates on either, this could increase or decrease this difference. Based on in this section, a taxpayer’s long term capital gains will be multiplied by no more than 10%. This section also defines *federal income tax due* and *long term capital gains* as that reported on a taxpayer’s federal individual income tax return.

**Subsection: Sec. 43.22.020** (page 12, line 4) - Establishes how taxpayers will submit tax returns and make payments for the individual income tax. It clarifies that this tax is due and payable to the department at the same time and in the same manner as the tax payable to the U.S. IRS for federal taxes. The section also outlines procedures in case there are changes to the taxpayer's federal income tax return. Any overpayments will be reimbursed by the department out of the general fund.

**Subsection: Sec. 43.22.030** (page 13, line 3) – Defines *income from sources in the state* as compensation for services rendered in the state; salary or wages earned in the state; income from real or tangible personal property located in the state; income from stocks, bonds, notes, bank deposits, and other intangible personal property having a taxable or business site in the state; rentals and royalties in the state; patents, copyrights, trade brands, franchises, etc.; and income of any nature from a source with a taxable or business site in the state.

The section also defines that income from a taxable or business site in the state includes: business facilities or property, business, farming, fishing, management or investment for intangible property, partnerships, limited liability companies, estate and trust businesses, corporations conducting business in the state, etc. It also clarifies that if a business, trade or profession is carried on both within and outside of Alaska, the income from the sources in Alaska shall be determined as provided in AS 43.19 "*Multistate Tax Compact*."

Long term capital gains shall be reported from all property regardless of the location of the property.

**Subsection: Sec. 43.22.035** (page 14, line 11) – Provides a credit to residents for taxes paid to another state based on income earned in that other state (so someone is not taxed twice on the same income).

**Subsection: Sec. 43.22.040** (page 14, line 26) – State a person may apply their Refundable Tax Credit to a person's state income tax due, less any garnishment, levy, donations to Pick Click Give or college funds, etc. The word "may" is used vs. "shall" because it allows a person the choice to not apply their Refundable Tax Credit to their income taxes. If a person made this choice, their tax credit would remain with the state. If a person's Refundable Tax Credit is more than the amount of their state income tax due, the remaining amount will be reimbursed to the person. A person must apply for their state income tax to receive a refund. A person must be a resident to qualify for the Refundable Tax Credit.

**Subsection: Sec. 43.22.050** (page 15, line 7) – Establishes how taxes will be withheld by employers making payment of wages, salaries, or crew shares. The employer shall deduct and withhold the amount of tax, remit the tax to the department, provide a written statement to the employee by January 31 of the succeeding year showing the amount deducted and other necessary information. The Department of Revenue shall publish the rate of withholding required by this section on a person's W2. The terms "employee" and "employer" are defined.

**Subsection: Sec. 43.22.055** (page 16, line 5) – Allows a person’s income tax information to be shared with a banking institute to verify direct deposit of refunds.

**Subsection: Sec. 43.22.060** (page 16, line 8) - Authorizes the department to provide all necessary forms and adopt regulations to implement this tax, including regulations for online filing and online payment of tax due.

**Subsection: Sec. 43.22.190** (page 16, line 13) - Definitions of the following terms: domiciled, individual, Internal Revenue Code, nonresident, resident, and taxpayer. Resident is defined as an individual who: lives in the state for the entire calendar year; claims to be a resident of Alaska on their federal tax forms; receives an Alaska permanent fund dividend; is registered to vote in Alaska; or has an Alaska resident fishing, hunting, or trapping license during the calendar year.

### **Part 3: Name changes from Permanent Fund Dividend to Refundable Tax Credit**

*Sections listed in this part only deal with name changes and minor “clean up language” to incorporate the name change and the difference between receiving a dividend vs. tax credit. Many of these have to do with garnishing the PFD/Refundable Tax Credit for defaults on state fees and education loans, child support, etc. The topic of each section is provided below as a reference.*

**Section 1 & 2 & 3** (page 1, line 7- page 2 line 6) – Criminal offenses associated with lying on an Refundable Tax Credit application.

**Section 4** (page 2, line 27) – Garnish the Refundable Tax Credit for various types of fines.

**Section 5** (page 3, line 17) – Garnish for court surcharges.

**Section 6** (page 3, line 29) – Garnish for default on University of Alaska fees.

**Section 9** (page 4, line 24) – Garnish for default on Alaska Advantage Student Loans.

**Section 10 & 11** (page 5, line 9 – line 21) – Voter registration

**Section 12** (page 5, line 27) – Garnish for child support.

**Section 13** (page 6, line7) – Garnish for increased court fees.

**Section 14** (page 6, line 14) – Garnish for jail fees (also minor clean up language).

**Section 15** (page 7, line 13) – Garnish for costs of residential facility or similar facility (also minor clean up language).

**Section 16** (page 8, line 10) – Municipal taxation exemptions.

**Section 17** (page 9, line 2) – Using PFD/Refundable Tax Credit applicant numbers to determine population size of a municipality.

**Section 18** (page 9, line 9) – Unclaimed property facility (also minor clean up language).

**Section 19** (page 9, line 13) – Using PFD/Refundable Tax Credit applicant numbers to determine Alaska employment preference numbers for businesses that are required to hire a certain percentage of Alaska residents.

**Section 20** (page 9, line 22) – Warrants.

**Section 21** (page 10, line 1) – Determining eligibility for Alaska Retirement Management Board.

**Section 23** (page 11, line 4) – State v. Amerada Hess, et.al. case as it relates to PFD/Refundable Tax Credit.

**Section 25** (page 17, line 4) – Eligibility requirements.

**Section 26** (page 17, line 26) – Allows a parent or guardian to claim a Refundable Tax Credit for an eligible minor or eligible disabled or incompetent individual.

**Section 27** (page 18, line 5) – States that eligibility can be denied if found guilty of felony or two or more misdemeanors.

**Section 28** (page 18, line 18) – Under certain circumstances, allows for a deceased person's Refundable Tax Credit to be applied to their state income tax due.

**Section 29** (page 19, line 11) – Allowable absences.

**Section 30** (page 21, line 5) – Application period.

**Section 31** (page 21, line 30) – Regulations for eligibility requirements (also minor clean up language).

**Section 32 & 33** (page 22, line 10 – page 22, line 15) – Eligibility requirements.

**Section 34** (page 22, line 20) – A public agency holding a Refundable Tax Credit refund in trust on behalf of an individual (also minor clean up language).

**Section 35** (page 22, line 26) – A minor or disabled or incompetent individual cannot make a claim against the state for what their parent/guardian did with their refund from a Refundable Tax Credit.

**Section 36** (page 23, line 2) – Appeal process.

**Section 37** (page 23, line 18) – Penalty and enforcement provisions with eligibility.

**Section 38** (page 23, line 22) – Releasing information from application to Dept. of Military and Veterans Affairs.

**Section 39** (page 24, line 3) – Voter registration.

**Section 40** (page 24, line 12) – Confidentiality with applicant information. NOTE: subsection relating to releasing information to banking institutes was moved to the income tax section (page 16 line 5).

**Section 41 & 42** (page 25, line 2 – page 25 line 10) – Eligibility determination and use of Refundable Tax Credit can be delayed if a person who is required to register as a sex offender or child kidnapper has not done so.

**Section 43** (page 25, line 19) – Garnish for debts to state (also minor clean up lanague).

**Section 44** (page 25, line 27) – Additional circumstance for a deceased person's Refundable Tax Credit to be applied to their state income tax due.

**Section 45** (page 26, line 4) – Information provided within application about when the Dept. of Revenue can delay payments.

**Section 46** (page 26, line 7) – Procedure for calculating the Refundable Tax Credit amount based on number of eligible applicants (also minor clean up language).

**Section 48** (page 27, line 12) – Outlines how the Dept. of Revenue will provide public notice about the Refundable Tax Credit amount per individual (also minor clean up language).

**Section 49** (page 28, line 22) – Public notice about various garnishments.

**Section 50 & 51** (page 29, line 12 – page 29, line 19) – Penalties and enforcement for lying on application.

**Section 52 & 53** (page 29, line 31- page 30, line 5) – Refundable Tax Credit Fund established in state treasury.

**Section 62** (page 35, line 15) – Outlines exemptions and levies on a Refundable Tax Credit.

**Section 63 & 64** (page 37, line 12 – page 38, line 6) – Garnish for court ordered treatment costs.

**Section 65 -67** (starting on page 38, line 21) – Garnish for default on Alaska Commission on Postsecondary Education loans.

**Section 68 & 69** (page 39, line 24 – page 40, line 18) – Garnish for overpayment of public assistance.

**Section 70 & 71** (page 41, line 1 – page 41, line 7) – A person may not assign the right to their Refundable Tax Credit.

**Section 72** (page 41, line 11) – Fees for processing claims on a Refundable Tax Credit.

**Section 73 & 74** (page 41, line 23 - page 42, line 21) – Garnish for claims under the Alaska Employment Security Act.

**Section 75-77** (starting on page 43, line 6) – Garnish for default on University of Alaska fees.

**Section 78** (page 44, line 17) – Eligibility for public assistance: just like a PFD, a Refundable Tax Credit may not be considered as income when applying for public assistance that is based on financial need (also minor clean up language).

**Section 79** (page 45, line 15) – Eligibility for state programs: just like a PFD, a Refundable Tax Credit may not be considered as income when applying for state programs that are based on financial need.

**Section 80 & 81** (page 45, line 21 - page 45, line 24) – Definitions of a Refundable Tax Credit.

**Section 82** (page 45, line 29) – Assignment of a Refundable Tax Credit cannot be included as a provision on a lease agreement.

**Section 83** (page 46, line 15) – Defines “resident worker” as part of Motor / Aircraft fuel tax exemptions.

**Section 84** (page 47, line 13) – Defines “Alaska Resident” within the contract terms for hiring Alaskan residents and Alaskan businesses.

**Section 85** (page 47, line 20) – Use of elected state official’s pictures.

**Section 86** (page 47, line 24) – Garnish for public assistance overpayment.

**Section 87** (page 47, line 29) – Child in Need of Aid: Dept. of Health and Social Services will apply on behalf of a foster care child for a Refundable Tax Credit.

**Section 88 & 89** (page 48, line 5- page 48, line 13) – Parent accountability for juvenile delinquent: garnish for court ordered treatment for parent.

**Section 90** (page 48, line 18) – Eligibility for payment assistance for Veteran Home, Pioneer Home, etc.: just like a PFD, a Refundable Tax Credit may not be considered as income when applying for payment assistance.

# HB 365— Income Tax & Permanent Fund Refundable Tax Credit

Changes to current Permanent Fund system shown in **Red**.  
Prepared by the Office of Rep. Seaton

**Oil and Gas & Mineral Royalties**

**70-75%**

**Alaska Permanent Fund Principal**  
(may not be spent—only invested)

**25-30%**

**Earnings Reserve**  
(may be spent)

**Principal Inflation Proofing**

**Legislative Appropriations from Earnings Reserve**

**21% of 5 year avg.**

**Distributable Income**

**50%**

**0% HB365: 25%**

**General Fund**

**Calculate credit—not to exceed \$1,200/resident**

**50% HB365: 25%**

**Income Tax: \$655 million**  
15% Fed. Income Tax Due  
10% Long Term Cap. Gains

**0% HB365: Excess amount over \$1200**

*PFD changes to*  
**Refundable Tax Credit**

**Donations to Pick Click Give & College Funds**

**Refundable Tax Credit applied to State Income Tax Due**

**Refundable Tax Credit Refund to Resident**

# HB 365 - Permanent Fund Refundable Tax Credit

*example calculation of Refundable Tax Credit based on 2015 PFD*

Calculation	Current 2015 PFD	Refundable Tax Credit
Statutory Net Income (Earnings) from Permanent Fund for previous 5 years (2011-2015)	\$ 13,077,000,000	\$ 13,077,000,000
Multiply by statutory % of 5 yr earnings	21%	21%
<i>total</i>	\$ 2,746,170,000	\$ 2,746,170,000
Multiply by statutory % to determine earnings income available for distribution for dividend (or tax credit)	50%	25%
<i>total</i>	\$ 1,373,085,000	\$ 686,542,500
Add FY2013 PFD Fund beginning balance <i>(money set aside to pay dividends from prior years that is no longer needed)</i>	\$ 11,600,000	\$ 11,600,000
<i>total</i>	\$ 1,384,685,000	\$ 698,142,500
Subtract prior year obligations, expenses and cost of operating the PFD division	\$ 48,300,000	\$ 48,300,000
<i>total</i>	\$ 1,336,385,000	\$ 649,842,500
Subtract reserves for payment of prior year dividends <i>(such as dividends for people who received application extensions, 18 yr olds applying for past dividends when their parents failed to file for them, etc)</i>	\$ 900,000	\$ 900,000
<i>total</i>	\$ 1,335,485,000	\$ 648,942,500

Divide by the est. number of eligible dividend applicants	644,511	644,511
PFD / Tax Credit amount	\$ 2,072	\$ 1,007
<i>Total amount paid out for PFDs or Tax Credit</i>	\$ 1,335,485,000	\$ 648,942,500

<b>*Difference between Tax Credit Calculation &amp; \$1200 limit</b>	<b>\$ 0</b>
<b>**25% of Earnings Reserve Distributable Income to General Fund</b>	<b>\$ 686,542,500</b>
<b>***Revenue from Income Tax &amp; Long Term Cap Gains Tax</b>	<b>\$ 655,000,000</b>
<b>Total Revenue going to General Fund</b>	<b>\$ 1,341,542,500</b>

\*HB 365 will limit the Refundable Tax Credit to \$1200; any excess over \$1200 will go to the General Fund

\*\*Currently, 50% of distributable income stays in the Earnings Reserve and 50% goes to pay PFDs

HB 365 changes: 25% goes to pay Tax Credit, 25% goes to the General Fund, & remaining 50% still stays in Earnings Reserve

\*\*\* Based on 2015 Fiscal Note for HB 182

*Prepared by Office of Rep. Seaton*