

**HB**

**4001**

<TARGET><BILL>HB4001</BILL><SUBJECT>HB4001</SUBJECT><COMM>  
HFIN29</COMM></TARGET>

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# Fiscal Note

State of Alaska  
2016 Legislative Session

Bill Version:	HB 4001
Fiscal Note Number:	1
(H) Publish Date:	5/23/2016

Identifier: DOR-TAX-05-22-16  
 Title: OMNIBUS TAXES & CREDITS; MINING LICENSES  
 Sponsor: RLS BY REQUEST OF THE GOVERNOR  
 Requester: Governor

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

**Expenditures/Revenues**

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

	FY2017	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2017 Request	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>OPERATING EXPENDITURES</b>	<b>FY 2017</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
Personal Services	150.0		150.0	150.0	150.0	150.0	150.0
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>150.0</b>	<b>0.0</b>	<b>150.0</b>	<b>150.0</b>	<b>150.0</b>	<b>150.0</b>	<b>150.0</b>

**Fund Source (Operating Only)**

1004 Gen Fund	150.0		150.0	150.0	150.0	150.0	150.0
<b>Total</b>	<b>150.0</b>	<b>0.0</b>	<b>150.0</b>	<b>150.0</b>	<b>150.0</b>	<b>150.0</b>	<b>150.0</b>

**Positions**

Full-time	1.0		1.0	1.0	1.0	1.0	1.0
Part-time							
Temporary							

<b>Change in Revenues</b>	95,300.0		238,900.0	344,750.0	349,850.0	355,950.0	361,400.0
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**Estimated SUPPLEMENTAL (FY2016) cost:** 200.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2017) cost:** 500.0 *(separate capital appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**ASSOCIATED REGULATIONS**

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 If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/17

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

Original fiscal note for special session bill. This bill incorporates elements of multiple bills that did not pass during the 2nd session of the 29th legislature.

Prepared By:	Ken Alper, director	Phone:	(907)465-8221
Division:	Tax Division	Date:	05/22/2016 05:00 PM
Approved By:	Jerry Burnett, Deputy Commissioner	Date:	05/22/16
Agency:	Department of Revenue		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2016 LEGISLATIVE SESSION

## Analysis

**Bill Analysis**Income Tax

The bill establishes a personal income tax based on 6% of the taxpayer's federal tax liability. The tax is payable by both Alaska residents and non-residents. The tax on non-residents is calculated based on the portion of their calendar year income derived from a source in the State.

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

The bill provides for withholding of income by employers, with regular remittance to the state. Employers must also provide annual income statements analogous to the federal W-2. The annual tax return would be due at the same time as the federal return. This portion of the bill has a delayed effective date, applying to income earned after January 1, 2018. At full implementation, revenue will be about \$200 million / year.

Motor Fuel Tax

Alaska has had an excise tax on motor fuel since 1945, which is charged and collected monthly. The highway tax rate was last increased in 1970; marine rate in 1977; aviation and jet fuel rates in 1994. The last major changes to the program were in 2008 when the motor fuel tax was suspended effective September 1, 2008 to August 31, 2009.

The primary change in this legislation would be to increase the tax rates of all categories of motor fuel. The tax rate for highway fuel would rise from \$0.08 to \$0.16 per gallon; for marine fuel, from \$0.05 to \$0.10 per gallon; for jet fuel, from \$0.032 to \$0.065 per gallon; and for aviation gasoline, from \$0.047 to \$0.07 per gallon. The increases take effect on July 1, 2016.

DOR estimates that increasing the motor fuel tax rates approximately double tax collections, with additional revenue of approximately \$43 million per year. Of this, approximately \$0.2 million would be shared with municipally owned airports.

Tobacco Tax

Currently, there are two separate taxes on cigarettes—the base tax of 38 mills per cigarette and the additional tax of 62 mills. Revenue from the base rate is deposited in the School Fund. Revenue from the additional tax is General Fund., other than the 8.9% of that revenue deposited into the Tobacco Use Education and Cessation Fund.

This bill would increase the additional tax on cigarettes from 62 mills to 112 mills (a tax increase of 5 cents per cigarette). This bill also increases the tax on tobacco products other than cigarettes from 75% of the wholesale value to 100%. It also creates a tax on electronic smoking products at 75% of wholesale value. Electronic cigarettes aren't currently taxed. Additional revenue is estimated between \$25 and \$30 million / year.

Alcohol Tax

Alaska has had an excise tax on wholesale alcoholic beverages since 1933. Over the years, the tax rate has increased to account for inflation, public need, and in line with increases made in other states. The alcoholic beverage tax is charged and collected monthly.

The last major changes to the program were in 2002, during another period of large budget deficits when the taxes were raised to the current "dime a drink." In the actual statutory change made at that time, tax was set to equal 10 cents for each one ounce of distilled spirits, five ounces of wine, or 12 ounces of beer. For small craft breweries, the tax is reduced to 3.3 cents per 12 ounce portion.

STATE OF ALASKA  
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**Analysis Continued**

The primary change in this legislation would be to double the tax rates on all forms of alcoholic beverages, to a total of 20 cents per drink portion, with the rate increased to 6.6 cents for small craft breweries. The bill maintains the current statutory formula, in which 50% of the alcoholic beverage tax is deposited into the Alcohol and Other Drug Abuse Treatment and Prevention Fund, supporting various programs within the Mental Health budget. Total additional revenue is about \$40 million / year.

Mining Tax

Alaska levies a Mining License Tax on mining net income and royalties received in connection with mining properties and activities in Alaska. Mining licensees file annual tax returns. The mining license tax dates back to 1913 and the rate structure as it exists today was adopted in 1955. In 1951, the legislature authorized a 3 ½ year exemption for new mining operations.

The primary change in this legislation would be to increase the highest tax rate from 7% to 9% of the amount of net taxable income over \$100,000 and to reduce the exemption from paying tax from 3 ½ years to 2 years after production begins for new mining operations. The tax brackets for income levels below \$100,000 are unchanged. Because of the annual tax structure, the state will not see the impact of the increase until the returns that are filed after the first full year after the effective date. Therefore, this tax change shows no fiscal impact until FY 2018. Additional revenue is about \$7 million / year.

Fisheries Taxes

The Fisheries Business Tax is generally paid by seafood processors, although it is also paid by fisherman if they market and sell their fish directly. The rate varies from 1% to 5% depending on the location and type of processing and the condition of the fishery (onshore / offshore; canning / other processing; developing / mature fishery.) The Fisheries Landing Tax is generally paid by offshore processors, usually working in federal fisheries, who bring their product through Alaska ports.

These are the only two fisheries taxes that generate unrestricted general funds; any others are dedicated special purpose levies. Currently both these taxes are split 50/50 with the municipality in which the activity takes place.

This legislation would increase the tax rates for all established fishery categories within both the Fisheries Business Tax (FBT) and the Fisheries Landing Tax (FLT). The tax rates for developing fisheries are unchanged. This legislation would also alter the municipal sharing formula so that the state receives the first 1% of the value of each fishery, for both Fisheries Business Tax and Fisheries Landing Tax, before any funds are shared with municipalities. The tax changes result in additional revenue to the state of about \$18 million / year.

The bill also removes the "cap" on the formula which establishes the annual fee for a limited entry permit from the Commercial Fisheries Entry Commission, which currently cannot be more than \$3,000. This removal is estimated to raise an additional \$2 million in annual revenue.

Marijuana Taxes

The Marijuana excise tax was established via the 2014 initiative that legalized recreational marijuana in Alaska. The first tax collections will occur in FY2017. This legislation clarifies several authorities of the Department of Revenue, with an indeterminate revenue impact. In practice, revenue will be gained in two ways. First, there will be certain tax penalties levied through the enforcement of these statutes. Second, we believe there will be substantial deterrent effect, which will result in a larger percentage of Alaska's marijuana growers to choose to seek legal status through the MCB's licensing process, and a larger percentage of retailers to purchase their product from licensed sources. Ultimately, the success of Alaska's legal marijuana industry will depend in large part on our ability to minimize or eliminate the illegal black market economy that has traditionally existed for this product.

**Analysis Continued**

**Implementation Cost (other than Income Tax)**

This legislation would require the Department of Revenue to update its Tax Revenue Management System (TRMS) and Revenue Online (ROL) which allows a taxpayer to file their return online, for reach of the tax types impacted in this legislation. The update would consist of reprogramming both systems, updating the return rules in TRMS and testing both systems thoroughly to verify that they function as expected. We would also need to update the current tax return forms.

The supplemental fiscal note figure of \$200.0 in FY16 is to cover the costs of having our contractor update the systems for the impacted (existing) taxes. We do not anticipate any continuing costs or additional staff needs.

**Implementation Cost (Income Tax)**

Additionally, the Department is requesting \$500.0 in FY17 capital funds to begin the process of planning for the 2018 implementation of the individual income tax component. With these funds, we will engage with outside expertise with experience building an individual income tax at the state level. We will also begin the outreach to Alaska's business community to prepare for wage withholding. The essential deliverable of the outside contract will be an implementation plan that includes staffing, infrastructure, and additional outreach needs. The full cost of implementing this tax will be brought to the legislature during the 2017 regular session. We are also requesting one new employee, an Income and Excise Specialist (Range 25A) to lead the project.

**Revenue Detail**

**Revenue from Omnibus Special Session Tax Bill**

	FY17	FY18	FY19	FY20	FY21	FY22
<b>Component</b>						
Income Tax	-	100,000.0	205,000.0	210,000.0	215,000.0	220,000.0
Motor Fuel	42,800.0	42,800.0	42,800.0	42,800.0	42,800.0	42,800.0
Tobacco	29,100.0	28,400.0	27,750.0	27,250.0	26,850.0	26,400.0
Alcohol	4,000.0	40,900.0	41,800.0	42,800.0	43,700.0	44,700.0
Mining	-	7,000.0	7,200.0	6,400.0	6,600.0	6,000.0
Fisheries- Tax	17,400.0	17,800.0	18,200.0	18,600.0	19,000.0	19,500.0
Fisheries- CFEC	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0
Marijuana	-	-	-	-	-	-
<b>Total Additional Revenue</b>	<b>95,300.0</b>	<b>238,900.0</b>	<b>344,750.0</b>	<b>349,850.0</b>	<b>355,950.0</b>	<b>361,400.0</b>
<b>Revenue by Fund</b>						
Unrestricted General Fund	73,000.0	216,150.0	321,650.0	326,350.0	332,000.0	337,050.0
Alcohol and other Drug Abuse Treatment & Prevention	20,000.0	20,450.0	20,900.0	21,400.0	21,850.0	22,350.0
Tobacco Use Education and Cessation	2,100.0	2,100.0	2,000.0	1,900.0	1,900.0	1,800.0
Aviation Shared Taxes	200.0	200.0	200.0	200.0	200.0	200.0
<b>Total Additional Revenue</b>	<b>95,300.0</b>	<b>238,900.0</b>	<b>344,750.0</b>	<b>349,850.0</b>	<b>355,950.0</b>	<b>361,400.0</b>

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## **Governor's Special Session Omnibus Tax Bill HB 4001**

**Presentation to the House Finance Committee  
May 24, 2016**

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## *An Act relating to taxation...*

⑩ *"An Act relating to taxation, including establishing an individual income tax; relating to the marijuana tax and bonding requirements for marijuana cultivation facilities; relating to the exploration incentive credit; increasing the motor fuel tax; increasing the taxes on cigarettes and tobacco products; taxing electronic smoking products; adding a definition of 'electronic smoking product' and requiring labeling of an electronic smoking product; increasing the excise tax on alcoholic beverages; relating to exemptions from the mining license tax; removing the minimum and maximum restrictions on the annual base fee for the reissuance or renewal of an entry permit or an interim-use permit; increasing the mining license tax rate; relating to mining license application, renewal, and fees; increasing the fisheries business tax and fishery resource landing tax; relating to refunds to local governments; and providing for an effective date."*

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## *An Act relating to taxation...*

**This bill pulls together several bills that failed to pass during the legislative session:**

- HB250 / SB134 (Income Tax)
- HB249 / SB132 (Motor Fuel Tax)
- HB304 / SB133 (Tobacco Tax)
- HB248 / SB131 (Alcohol Tax)
- HB253 / SB137 (Mining Tax)
- HB251 / SB135 (Fish Tax)
- HB337 (Marijuana Tax enforcement, by Rep. LeDoux)

**We have incorporated, where appropriate, changes made to these in committee during the session**

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## *An Act relating to taxation...*

**In the descriptions in this presentation, we are using a standard format**

1. What does the bill do?
2. How does it differ from what was heard during the regular session?
3. How much money does it raise?
4. How does it impact Alaskans?

**Also, each of the regular session bills included an electronic filing requirement**

**This was met via the passage of HB375, so has been removed from this legislation**

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## *Income Tax (new AS 43.22)*

### **What it Does**

- Creates Individual Income Tax at 6% of Federal Tax Liability
- Similar structure to Alaska's historic income tax, which was repealed in 1980
- The old tax peaked at 16% of Federal liability
- Provides for withholding by employers
- Also taxes out of state income, partnerships, S-corps

### **How it Differs from Regular Session Bill**

- Cleans up language related to taxation of trusts
- Removes fishery crew shares from withholding tax requirements
- Delays effective date to January 2018

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## *Income Tax (new AS 43.22)*

### **How Much Does it Raise?**

- \$100 million in FY18, \$205 million in FY19
- After 2019 tied to inflation and income growth

### **How Does it Impact Alaskans?**

- About 20-30% of Alaskans will have no liability
- Very low tax burden on households who make < \$50,000
- Most households will pay substantially less than 1% of income
- State income taxes are deductible from federal income tax, for those who itemize
- 43 states currently have an income tax

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## *Motor Fuel Tax (AS 43.40)*

### **What it Does**

- Increases current tax rates
  - Highway Fuel: 8 cents to 16 cents
  - Marine Fuel: 5 cents to 10 cents
  - Aviation Gas: 4.7 cents to 7 cents
  - Jet Fuel: 3.2 cents to 6.5 cents
- Doubles the credit for highway fuel used off-road

### **How it Differs from Regular Session Bill**

- Reduces proposed increases on Aviation and Jet Fuel (from proposed HFIN work draft CS to HB249)
- Does not incorporate 2-year sunset in Transportation Committee Substitute

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## *Motor Fuel Tax (AS 43.40)*

### **How Much Does it Raise?**

- About \$43 million / year
- Roughly doubles current motor fuel collections
- About \$200,000 shared with municipal airports

### **How Does it Impact Alaskans?**

- Current tax rates haven't increased in many years; last increase to the 8c Highway rate was in 1970
- Alaska would still have the lowest tax rate
- A typical person who drives 12,000 miles / year in a vehicle that gets 20 miles / gallon will pay an added \$48

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## *Tobacco Tax (AS 43.50)*

### **What it Does**

- Increases current tax rates
  - Cigarettes: 100 mills / cigarette to 150  
(tax on a standard pack goes from \$2.00 to \$3.00)
  - Other Tobacco Products: 75% of wholesale to 100%
  - Electronic Smoking Products: currently untaxed; adds new definitions and a tax at 75% of wholesale value
- Cleans up definition of “wholesale price”

### **How it Differs from Regular Session Bill**

- Uses House bill as starting point
- Only taxes e-smoking products that contain nicotine; adds a labeling requirement

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## *Tobacco Tax (AS 43.50)*

### **How Much Does it Raise?**

- About \$29 million / year (forecasted to decline)
- Roughly 50% above current collections
- Indeterminate revenue from e-cigarettes
- About \$2 million goes to Tobacco Use Education and Cessation Fund

### **How Does it Impact Alaskans?**

- Makes it more expensive to smoke
- Alaska would go from the 11<sup>th</sup> to the 5<sup>th</sup> highest cigarette tax rate in the US
- Helps offset tobacco related health costs incurred by State
- Adds a tax for the first time to the new “vape” industry

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## *Alcohol Tax (AS 43.60)*

### **What it Does**

- Increases current tax rates
  - Distilled Spirits: \$12.80 / gallon to \$25.60
  - Wine: \$2.50 / gallon to \$5.00
  - Beer and Cider: \$1.07 / gallon to \$2.14
  - Craft Brewery: \$0.35 / gallon to \$0.70
- Increases correspond to 10c per “drink” portion, raising the rates from 10c to 20c
- Changes bonding requirement from \$25k to variable

### **How it Differs from Regular Session Bill**

- No changes

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## *Alcohol Tax (AS 43.60)*

### **How Much Does it Raise?**

- About \$40 million / year
- Roughly double current collections
- About \$20 million goes to Alcohol and other Drug Abuse Treatment and Prevention Fund
- (This is a Mental Health Budget fund that is supplemented with substantial GF that can be backed out if desired)

### **How Does it Impact Alaskans?**

- Makes it more expensive to drink
- Alaska currently has among the highest alcohol tax rates in the US; this would make us #1 by a substantial margin

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## *Marijuana Tax (AS 43.61)*

### **What it Does**

- Does not change the \$50 / oz rate established by the 2014 initiative
- Requires a surety bond of \$5,000 for taxpayers (the growers)
- Empowers DOR to enforce the tax against a marijuana retailer who is selling product that did not come from a licensed / taxpaying cultivator
- Empowers DOR to enforce a tax penalty on illegal grow operations in excess of the personal use limit

### **How it Differs from Regular Session Bill**

- Incorporates all changes in CSHB337(L&C)

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## *Marijuana Tax (AS 43.61)*

### **How Much Does it Raise?**

- Indeterminate revenue from enforcement actions

### **How Does it Impact Alaskans?**

- Intent is to make it advantageous to be a legal licensed / taxed business and disadvantageous to remain in the black market. This will indirectly increase revenue to the state from legal marijuana

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## *Mining License Tax (AS 43.65)*

### **What it Does**

- Increases the current top tax rate on net profits greater than \$100,000 / year from 7% to 9%
- Reduces tax holiday for new mines from 3 ½ years to 2 years
- Prevents the mining Exploration Incentive Credits from being used to reduce royalties, limiting to just the tax
- Adds a \$50 annual license fee (miners are exempted from needing a business license, which is also \$50)

### **How it Differs from Regular Session Bill**

- Original bill sought elimination of tax holiday
- EIC / Royalty change made in House Resources

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## *Mining License Tax (AS 43.65)*

### **How Much Does it Raise?**

- About \$7 million / year
- About \$25,000 from the license fee

### **How Does it Impact Alaskans?**

- In 2014, only 14 taxpayers had over \$100k in taxable profits, meaning they paid at the top bracket
  - There are only about 5 large mines in the state. The rest are either placer miners who had a good year, or landowners who collect taxable mining royalties
- The tax increase does not impact “mom and pop” miners at all, other than the \$50 annual license fee

## *Fisheries Business Tax (AS 43.75) and Fisheries Landing Tax (AS 43.77)*

### **What it Does**

- Increases the current tax rates by one percentage point (currently these are between 3% and 5%)
- The entire tax increase is exempted from municipal revenue sharing (the rest is shared 50/50)
- Removes the \$3,000 “cap” on annual CFEC entry permit fees
- Developing fisheries are exempted from the increase

### **How it Differs from Regular Session Bill**

- Original bill increased rate for one developing fishery category
- Entry permit fee change was added in committee

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## *Fisheries Business Tax (AS 43.75) and Fisheries Landing Tax (AS 43.77)*

### **How Much Does it Raise?**

- About \$18 million / year from the tax change, plus
- About \$2 million / year from the CFEC fee change

### **How Does it Impact Alaskans?**

- The price of fish is generally set by the commodity market, and likely won't absorb this increase
- This tax, although paid by processors, is typically backed out of payments made to harvesters. So in effect, the fisherman pays this tax

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## *Sectional Analysis*

**Sec. 1.** Removes CFEC fee cap; part of fish tax

**Sec. 2.** Requires bond as condition of issuing a marijuana cultivation license

**Sec. 3-6** Conforming language so that mining exploration incentive credits cannot be used against mining royalties

**Sec. 7.** Adds a new chapter 22 in AS 43 for an individual income tax

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

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

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## *Sectional Analysis (Continued)*

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

43.22.040 Defines sources of income within Alaska that are subject to the tax.

43.22.050 Provides for withholding from wages and salaries by employers, with those withheld taxes periodically remitted to the state.

42.22.060 Authorizes DOR to administer the tax.

42.22.190 Adds definitions for specific terms used in this section.

**Sec. 8-9.** Increases motor fuel tax rates for the four fuel types

**Sec. 10.** Increases the motor fuel tax credit for off-road use

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## *Sectional Analysis (Continued)*

- Sec. 11.** Conforming language to add electronic smoking products to the current statute allowing the department to share information with municipalities (tobacco).
- Sec. 12.** Conforming language to reference the new definition of “electronic smoking product” in Section 23 (tobacco).
- Sec. 13.** Increases the “additional tax levy” on each cigarette from 62 mills to 112 mills (tobacco).
- Sec. 14.** Increases the tax on tobacco products other than cigarettes from 75% of the wholesale price to 100% of the wholesale price.
- Sec. 15.** Adds a tax on electronic smoking products at 75% of the wholesale price (tobacco).
- Sec. 16.** Conforming language to add electronic smoking products to an existing statute referencing federal tax exemptions (tobacco).

## *Sectional Analysis (Continued)*

- Sec. 17.** Conforming language to add electronic smoking products to the license requirement (tobacco).
- Sec. 18.** Conforming language to add electronic smoking products to the monthly tax return (tobacco).
- Sec. 19.** Conforming language to add electronic smoking products to the procedures for issuing tax credits and refunds (tobacco).
- Sec. 20.** Conforming language to add electronic smoking products to the requirement to keep complete and accurate records to support the tax return (tobacco).
- Sec. 21.** Adds language to clarify that a cessation product, tobacco dependence product or modified risk tobacco product are excluded from the definition of a tobacco product for purposes of taxation.

## *Sectional Analysis (Continued)*

- Sec. 22.** Clarifies the definition of "wholesale price" of a tobacco product or electronic smoking product as the gross invoice price including all federal excise taxes, less any trade discounts or other reductions.
- Sec. 23.** Adds the definition of "electronic smoking product" (tobacco).
- Sec. 24.** Changes the per-gallon tax rates for the three major categories of alcoholic beverages: malt beverages and ciders from \$1.07 to \$2.14; wine and other beverages with less than 21% alcohol content from \$2.50 to \$5.00; and beverages with greater than 21% alcohol content (generally distilled spirits) from \$12.80 to \$25.60.
- Sec. 25.** Changes the per-gallon tax rate for the first 60,000 barrels sold in the state from small craft breweries that meet the federal definition of a small brewer, from \$0.35 to \$0.70 (alcohol).
- Sec. 26.** Changes the surety bond requirement from \$25,000 to an amount determined by the department (alcohol).

## *Sectional Analysis (Continued)*

- Sec. 27.** Clarifies requirements for monthly filing of marijuana taxes.
- Sec. 28.** Adds \$50 / oz tax penalty for marijuana possession in excess of the amount of plants legally authorized. Establishes a bonding requirement for marijuana cultivators. Establishes liability for a marijuana retailer or manufacturer to pay the \$50 / oz excise tax if they have product for which the taxes have not been paid.
- Sec. 29.** Reduces the 3 ½ year tax exemption for new mining operations after production begins to 2 years.
- Sec. 30.** Increases the highest tax rate from 7% to 9% for net mining taxable income in excess of \$100,000. The other tax rates remain the same. For net income over \$100,000 the tax is \$4,000 plus 9% of the amount in excess of \$100,000.
- Sec. 31.** Establishes a mining license fee of \$50 per year, a license renewal fee of \$50 per year, and changes the due date for applications and renewals from May 1 to January 1.

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## *Sectional Analysis (Continued)*

- Sec. 32.** Increases three different tax rates within the Fisheries Business Tax by one percent. The current rates range from three to five percent.
- Sec. 33.** Increases tax rate within the Fisheries Business Tax for direct marketers from 3 to 4 percent. Rate remains at 1 percent for developing fish species sold by direct marketers.
- Sec. 34.** Conforms with electronic filing. Deletes the requirement for fisheries taxpayers to submit their returns to the department in Juneau.
- Sec. 35.** Establishes that the revenue from the one percent fisheries tax increase is deposited in the general fund. The remaining revenue shall be shared with municipalities per the currently existing formula.
- Sec. 36.** Increases tax rate within the Fisheries Landing Tax for fish species other than developing fish species from 3 to 4 percent. Rate remains at 1 percent for developing fish species.

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## *Sectional Analysis (Continued)*

- Sec. 37-38.** Establishes that the revenue from the one percent fisheries tax increase is deposited in the general fund. The remaining revenue shall be shared with municipalities per the current formula.
- Sec. 39.** Amends uncodified language to include the increase to the mill rate increase for cigarettes (tobacco).
- Sec. 40.** Repeals statutes related to a former tax credit for political contributions that existed under Alaska's prior individual income tax which was repealed in 1980.
- Sec. 41.** Applicability language related to the effective dates of multiple tax changes in the bill.
- Sec. 42.** Applicability language related to the bonding requirement before the issuance of marijuana cultivation licenses
- Sec. 43.** Transition language related to the use of mining exploration credits against mining royalties.

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## *Sectional Analysis (Continued)*

- Sec. 44.** Transition language related to the authorization to write regulations. The authority extends to DOR, DNR, Fish & Game, CFEC, and the Marijuana Control Board (multiple).
- Sec. 45.** Allows marijuana regulations to be retroactive to the day marijuana became legal under the initiative, February 24, 2015.
- Sec. 46-47.** Makes marijuana statute changes retroactive to 2/24/15.
- Sec. 48.** Delayed effective date of January 1, 2018 for income tax.
- Sec. 49.** Immediate effective date for regulatory sections (multiple).
- Sec. 50.** Effective Date of July 1, 2016 for the rest of the bill sections (multiple).

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**Thank You!**

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Governor Bill Walker  
STATE OF ALASKA

May 23, 2016

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

Dear Speaker Chenault:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to revenue measures, including the establishment of an individual income tax, tax measures on fisheries business tax and fisheries landing tax, the mining license tax, the excise tax on alcoholic beverages, raising the tax on tobacco products and taxing electronic smoking products, fees for commercial fisheries entry or interim use permits, regarding the administration and enforcement of the marijuana excise tax.

This is a necessary measure to address our fiscal situation. My approach is a broad-based tax bill to address the need as our current revenues decrease. This has made it necessary to update our tax laws. My proposed measures, while modest, will make a significant difference to the State's fiscal situation.

First, the bill would establish a personal income tax of six percent of total federal tax liability. Because the tax would be calculated based on federal tax liability rather than on income, the bill effectively incorporates federal brackets and exemptions. This permits this bill, and the Alaska personal income tax system it would create, to be as simple and transparent as possible and minimizes administrative burdens both for the State and for taxpayers. This portion of the bill has a delayed effective date, and would apply to income earned on or after January 1, 2018. In addition, the bill would repeal a set of orphaned individual tax credits from the former income tax.

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

Next, the bill would update our cigarette taxes and include newer electronic smoking products. Smoking technology has advanced to include multiple use electronic smoking products which are currently untaxed in Alaska. Therefore, our tobacco tax statutes (AS 43.50 Cigarette Tax Act) should be revised to include this new smoking product. To further update our outdated tobacco tax structure, I propose to amend the additional tax levy on cigarettes – which has not been raised since

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**HOUSE BILL NO. 4001**

2007 – from 62 mills to 112 mills. This change will increase the total State tax per standard cigarette pack from \$2.00 to \$3.00. I also propose increasing the tax rate on tobacco products (other than cigarettes) from 75 percent of the wholesale price to 100 percent of the wholesale price. These reasonable adjustments will bring our tax structure up to date.

The alcoholic beverage tax rates have not been raised for many years. Therefore, the bill would increase the tax rates on alcoholic beverages under AS 43.60 (excise tax on alcoholic beverages). Alcoholic beverage excise taxes are levied on malt beverages, cider with at least 0.5 percent alcohol, wine, and other beverages with a higher alcohol content. The bill would double the tax rates on each gallon or fraction of a gallon. As a result, the excise tax on malt beverages or cider would be \$2.14 a gallon or fraction of a gallon; the tax on wine or other beverages would be \$5.00 a gallon or fraction of a gallon; and the tax on beverages containing more than 21 percent alcohol by volume would be \$25.60 a gallon. The effective tax rate, after these changes, will be 20 cents per standard drink portion. I believe this proposed increase is reasonable, especially considering the high societal cost of alcoholic beverage consumption. Under this bill, the alcoholic beverage industry would bear a fairer share of industry costs to the State, yet still continue as an economically healthy industry.

The bill also would amend AS 43.60.040(a) related to surety bonds. Current law requires a \$25,000 surety bond before a license is issued. This amount is out of date, as many wholesalers require a surety bond much greater than that; at the same time very small brewers and distillers require a smaller surety bond. The bill proposes to amend AS 43.60.040(a) to delete the \$25,000 bond and instead add language that the surety bond amount would be determined by the Department of Revenue.

The mining industry is important to the state, but the taxation rates are too low to maintain. My proposal makes necessary adjustments to the tax imposed on mining operations. Therefore, the bill would change the exemption from paying the mining license tax that currently applies to operations for three and one-half years after production begins to a more reasonable two years. This provides a sustainable balance between assisting new mining operations and taxing revenues from those operations. Additionally, the bill would change the way the mineral and coal deposit exploration incentive credit is determined by removing the ability to apply the credit against mineral royalty production payments. The bill also would increase the mining license tax rate from seven percent to nine percent for that portion of net income in excess of \$100,000 beginning July 1, 2016.

Further, the bill would increase the tax rates of the fisheries business tax (AS 43.75.015) and the fishery resource landing tax (AS 43.77.010). Developing fisheries are exempted from the increase. The tax rates covered by these statutes vary from three percent to five percent, depending on the type of fishery. The bill would increase those tax rates by one percentage point across the board. Currently, the revenue generated by these taxes is split evenly between the State and the municipalities where the fisheries are located. The bill would exempt this one percentage point increase from the revenue sharing arrangement, thereby insuring that the entire increase is applied to the general fund. The bill also would require electronic submission for fishery taxpayers.

Additionally, the bill removes the existing \$3,000 annual cap for entry permits issued by the Commercial Fisheries Entry Commission.

The bill also addresses the marijuana tax laws, first, by requiring a marijuana cultivation facility to furnish a bond before a license may be issued by the Marijuana Control Board, and by establishing under the Department of Revenue's authority the ability to levy the marijuana excise tax on both persons who are in possession of more marijuana than the amount that is allowable for personal use and possession under our marijuana statute as well as marijuana retail establishments who have purchased product from an unlicensed cultivator.

The citizens of our state are ready to pitch in to solve our fiscal crisis. My measures, by involving a broad base of industries, would result in each industry bearing a small share of needed tax changes. Together we can continue to assure Alaska's strong and stable financial future.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in black ink that reads "Bill Walker". The signature is written in a cursive, flowing style.

Bill Walker,  
Governor

Enclosure