

ALASKA LEGISLATURE COMMITTEE BILL FILES - 1987 - 1988 8879

HB 154 cont. 283

21. 2 Borroughs EP 301 with maintenance	3,000	
22. DOR's additional office space requirements	<u>204,708</u>	
TOTAL CONTRACTUAL		\$1,028.1

c) Supplies:

Computer, microfilm, duplicating, general consumption		\$18.0
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d) Equipment:

1. Kodak film carousel	\$ 225	
2. Additional systems furniture	137,988	
3. Operational seating	9,000	
4. File cabinets, calculators, etc.	<u>11,000</u>	
TOTAL Equipment		\$158.2

TOTAL EXPENDITURES		<u>\$2,309.4</u>
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3. Funding - General funds

4. Section Cost Analysis - N/A

Computations - N/A

Economic Impact - N/A

Impact on Local Government - N/A

FY90 - FY92

1. Positions:

A. Data Processing:

1 PFT Analyst/Programmer V, R21,
@ \$4,856/Mo including salary and
benefits for 12 months = \$58,272

2 PFT Analyst/Programmer IV, R19,
@ \$4,281/Mo each including salary
and benefits for 12 months = 102,744

1 PFT Analyst/Programmer III, R17,
@ \$3,730/Mo each including salary
and benefits for 12 months = 44,760

The above analyst programmer team will design, program, and maintain the two major systems mentioned above, including all subsystems and interfaces with the existing Revenue systems and the Alaska State Accounting System.

These systems will provide for a minimum of the following:

Alaska Individual Income Tax Withholding System

- * Online system comparable to the federal system with monthly deposits, quarterly returns, and an annual reconciliation.
- * Direct deposit system at a "lock-box" bank by employers.
- * Automatic generation of:
 - quarterly packets of:
 - * monthly deposit coupons
 - * quarterly tax returns
 - notices of tax deficiencies, penalty and interest
 - standard correspondence
 - management reporting data.
- * Interface with accounts receivable system and Alaska Individual Income Tax Return Processing System.

Alaska Individual Income Tax Return Processing System

- * document locator number system
- * return data capture
- * online systems
 - access/inquiry
 - address changes
 - status change system
 - generation of out cards
 - use of microfilm vs hard copy for review
 - automated calculation checks
 - generation of reduced refund notices with appeal rights
 - generation of automated billings for deficiencies, penalty and interest with appeal rights

- * Interface with accounts receivable system (A/R)
- * interface with AIITWHS to verify claimed withholding history file
- * possibility of multi-year file for easy access to information on prior year activity, etc.
- * check writing for refunds
- * management reporting data

B. Document Processing:

1. Mailroom

1 PFT Clerk IV, R9, @ \$2,343/Mo
including salary and benefits for
12 months = \$28,116

1 PFT Clerk II, R7, @ \$2,118/Mo
including salary and benefits
for 12 months = 25,416

These positions will augment the existing mailroom staff to perform the task of handling, opening, sorting, and distributing an additional:

- * approximately 275,000 Individual Income tax returns filed per year.
- * approximately 70,000 pieces of mail due to the Individual Income Tax Withholding System.
- * posting, handling and sorting of additional outgoing mail as follows:
 - approximately 7,000 missing information letters, billing notices, etc.

2. Validation

1 PFT Data Processing Clerk I,
@ \$2,222/Mo including salary
and benefits for 12 months = \$26,664

This position will manually validate all the Alaska Withholding and Individual Income Tax Returns accompanied with a payment.

- * separate checks and returns
- * validate checks and returns
- * forward checks to Treasury
- * forward returns to microfilming

3. Manual Review

1 PFT Tax Examiner III, R14, @
\$3,124/Mo including salary and
benefits for 12 months = \$37,488

6 PFT Document Processor I, R7, @
\$2,118/Mo each including salary and
benefits for 12 months = 152,496

20 TEMP Document Processor I, R7, @
\$1,569/Mo each including salary and
benefits for 6 months = 188,280

These positions will manually review all Withholding and Individual Income Tax returns filed based on a predetermined criterion.

- * identify incomplete returns
- * send out automatically generated missing information letters
- * identify returns for desk examination

4. Microfilming

1 PFT Document Processor I, R7 @
\$2,118/Mo including salary and
benefits for 12 months = \$25,416

This position will augment the existing microfilm staff to microfilm, assign document locator numbers, and date stamp 100% of Withholding and Individual Income Tax returns filed.

5. Data Capture

1 PFT Data Processing Clerk III, R11
@ \$2,613/Mo including salary and
benefits for 12 months = \$31,356

3 PFT Data Processing Clerk I, R8,
@ \$2,222/Mo each including salary
and benefits for 12 months = 79,992

7 TEMP Data Processing Clerk I,
R8 @ \$1,657/Mo each including
salary and benefits for 6 months = 69,594

These positions will augment the existing Data Capturing staff to data capture and verify captured data of 100% of Withholding and Individual Income Tax returns filed.

C. General Departmental Support Services

1 PFT Chief, Income Tax Operations,
R23, @ \$5,558/Mo including salary
and benefits for 12 months = \$66,696

1 PFT Personnel Assistant II, R14,
@ \$3,115/Mo including salary and
benefits for 12 months = 37,380

1 PFT Personnel Assistant I, R12,
@ \$2,773/Mo including salary and
benefits for 12 months = 33,270

2 PFT Accounting Clerk III, R10,
@ \$2,468/Mo each including salary
and benefits for 12 months = 59,232

1 PFT Clerk Typist III, R8, @
\$2,222/Mo including salary and
benefits for 12 months = 26,664

1 PFT Publications Specialist I,
R13, @ \$2,915/Mo including salary
and benefits for 12 months = 34,980

1 PFT Supply Officer II, R16,
@ \$3,515/Mo including salary and
benefits for 12 months = 42,180

These positions will augment the existing general administration support staff for the additional programs and related 100+ new employees.

* Personnel:

- classification of positions and respond to reclassification requests
- maintain payroll and leave records
- process registers, and arrange interviews
- handle grievances, information requests, typing tests, etc.

* Fiscal:

- increase in travel requests
- general distributions
- handling increase in cancelled warrants

* Supply and purchasing:

- increase in supply orders for paper intensive organization
- Purchases increase:
 - * general equipment
 - * computer terminals, printers
 - * maintenance contracts
 - * general office supplies
- Property Control (terminals, furniture, calculators, etc. will increase.

* Forms management:

- preparation of Individual Income Tax booklet each year (considerably more complex than PFD booklet)
- preparation of employment withholding forms
- miscellaneous support forms:
 - * missing information letter
 - * denial forms
 - * check stock (refunds)

- * General:
 - general supervision and management of major additional line program in division, in addition to:
 - * permanent fund dividend program
 - * shared taxes
 - * administrative services to the department

TOTAL PERSONAL SERVICES \$1,171.0

2. Other Expenditures:

a) Travel:

training, increased EEO travel, data processing coordination \$8.0

b) Contractual:

1. 11 Wang 4250 workstations	\$66,792
2. 11 Wang emulator boards	8,855
3. 9 Wang 4230 workstations	48,600
4. 1 Wang DWS 55 printer	3,636
5. Printing - tax booklets, "L" letters, W/H forms, check stock, envelopes, etc.	186,000
6. Postage - booklets, letters, W/H forms, etc.	80,475
7. 2 Kodak Microfilmers with maintenance	30,336
8. 2 Kodak Reader/Printers	13,704
9. IBM Copier with maintenance	10,308
10. 20 phones, centrex costs, local and long distance	26,960
11. Risk management	600
12. Pitney Bowes 6500 system with maintenance	7,284
13. Chargeback for computer time from DOA	357,500
14. Wang Disk Pack cleaning	700
15. IBM Control Unit maintenance	600
16. Wang VS-100 I.O.P maintenance	360
17. Wang VS-100 Memory maintenance	720
18. Wang VS-100 Disk Drive maintenance	2,256
19. Wang/IBM development package (NETRON-CAP) with maintenance	15,000
20. Wang/IBM remote access maintenance	240
21. 2 Borroughs EP 3G1 with maintenance	3,000
22. DOR's additional office space requirements	<u>204,708</u>

TOTAL CONTRACTUAL \$1,068.6

c) Supplies:

Computer, microfilm, duplicating,
general consumption

\$18.0

d) Equipment: None.

TOTAL EXPENDITURES

\$2,265.6

3. Funding - General funds

4. Section Cost Analysis - N/A

Computations - N/A

Economic Impact - N/A

Impact on Local Government - N/A

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: CS HB 1415A
Publish Date: _____

REQUEST: _____

Revision Date: _____

Title: State Income Tax

Agency Affected: Department of Revenue

BRU: Treasury

Sponsor: _____

Requestor: _____

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	32.8	46.4	46.4	46.4	46.4
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	44.6	89.1	89.1	89.1	89.1
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	77.4	135.5	135.5	135.5	135.5
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	77.4	135.5	135.5	135.5	135.5
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	77.4	135.5	135.5	135.5	135.5

POSITIONS:

FULL-TIME	-	1	1	1	1	1
PART-TIME	-	1	1	1	1	1
TEMPORARY	-	-	-	-	-	-

ANALYSIS: see attached analysis.

Prepared By: Milt Barker MB

Division: Treasury

Phone: 465-2350

Date: February 25, 1987

Approved by Commissioner: [Signature] for

Agency: Department of Revenue

Date: 2/26/87

3/16/87

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

DEPARTMENT OF REVENUE
TREASURY DIVISION

FISCAL NOTE ANALYSIS

ASSUMPTIONS:

1. Cash Management Section will develop the RFP and the contract to lockbox the monthly employers' withholding tax deposits. 17,500 payments per month.
2. Cash Management Section will perform the depository functions of the remittances attached to individual tax returns. 100,000 per year.
3. Cash Management Section will process all returned items (NSF checks, etc.). 1,500 per year.
4. Processing and deposit of penalty and interest payments.
5. Cash Management Section will provide the accounting to AKSAS and reconciliation between the bank, AKSAS, and the Department of Revenue's system for the tax payments on a consolidated basis.

COSTS:

<u>Personal Services</u>	<u>FY 1988</u>	<u>FY 1989</u>
Accounting Technician I \$2,718 X 12 mo	19.0*	32.6
Accounting Clerk II \$2,310 X 6 mo	13.8	13.8
Lockbox contract	<u>44.6</u>	<u>19.1</u>
 TOTAL	 <u>\$77.4</u>	 <u>\$135.5</u>

* 7 months in FY 1988

DEVELOPMENT TIME:

		<u>Completion Date</u>
Technical Analysis of the required system	4 months	10/87
Lockbox Contract	3 months	12/87
In-house training of depository procedures	2 weeks	12/87
In-house training of accounting procedures	2 weeks	12/87

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST _____

Bill Version: CS HB 1541(A)
Publish Date: _____

Revision Date: _____
Title: Individual Income Tax

Agency Affected: Revenue
BRU: Commissioner's Office (Research)

Sponsor: _____
Requestor: _____

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	54.6	54.6	54.6	54.6	54.6
TRAVEL	-	1.5	1.5	1.5	1.5	1.5
CONTRACTUAL	-	39.9	28.6	28.6	26.6	28.6
SUPPLIES	-	.9	.9	.9	.9	.9
EQUIPMENT	-	6.8	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	103.7	85.6	85.6	85.6	85.6
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	103.7	85.6	85.6	85.6	85.6
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page if necessary

See Attached.

Prepared By: David Tonkovich ^{DRT}
Division: Revenue/Research

Phone: 465-2173
Date: 2/20/87

Approved by Commissioner: Hugh Malone
Agency: Department of Revenue

Date: 2/26/87
3/16/87

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

Continuation of Fiscal Note/Bill Analysis

Individual Income Tax

Assumptions:

1. The Research Section will be responsible for economic and statistical reports on the Individual Income Tax.
2. The Research Section will forecast tax revenues and respond to requests from the Governor's Office, the Legislature and the Public for current and historical statistical information.
3. The Research Section will prepare fiscal notes on revenue impacts of any proposed changes to income tax law.
4. Assumes that duties begin at the start of FY88. Items with a asterisk (*) are costs for the first year only.

1. Positions

Research

1 PFT Economist II, R 20 at \$4,550/mo.
including salary and benefits for
12 months

Total Personal Services

\$54.6

The above position will do all analysis, program development and coordination of research on the individual income tax. These duties include forecasting economic conditions and tax revenues. Other duties will include development and maintenance of data bases to support the research and forecasting efforts, the preparation of fiscal notes, policy analyses, and coordination of research needs with those of tax administrators.

This work will provide the following information:

1. Income and tax information by income class.
2. The ability to estimate revenue impacts of any significant change in tax structure - rates, income classes, exemptions and deductions.
3. If zip code information is available it should be possible to present such data on a geographic basis.

2. Other Expenditures

a. Travel

Assume 3 trips in-state per year for
coordination, public information, testimony \$1.5

b. Contractual

1. Economic Consulting during model development
15 days at \$750/day 11.3*
2. Phone, centrex, local and long
distance charges .6
3. Chargeback for computer time from DOA 28.0

c. Supplies

Duplication, general consumption, mailing .7
Books, technical journals .2

d. Equipment

1. Wang APC, VS Communication Board and
30mb Hard Disk 6.5*
2. Desk Calculator .3*

Total Expenditure First Year \$103.7

Total Expenditure Subsequent Years \$85.6

3. Funding - General Funds

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: SB 128/HB 154 (S)
Publish Date: _____

REQUEST _____
Revision Date: _____ Agency Affected: Revenue
Title: "...taxation of income derived by individuals, partnerships, & fiduciaries..." BRU: Public Services - Operating
Sponsor: Rules Committee by the Governor Components: _____
Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES	0	39.5	250.3	270.6	281.4	292.7
TRAVEL	0	16.5	22.0	8.4	8.7	9.1
CONTRACTUAL	0	98.0	136.5	102.0	107.1	111.0
SUPPLIES	0	.5	6.0	6.5	7.0	7.5
EQUIPMENT	0	5.0	31.2	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS/CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	159.5	446.0	387.5	404.2	420.3

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	0	159.5	446.0	387.5	404.2	420.3
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	159.5	446.0	387.5	404.2	420.3

POSITIONS:

FULL-TIME	0	1	9	9	9	9
PART-TIME	0	0	3	3	3	3
TEMPORARY	0	0	0	0	0	0

ANALYSIS: Attach a separate page if necessary

See attached

Prepared by: Sally Smith *Sally Smith*
Division: Public Services

Phone: 465-2392
Date: February 26, 1987

Approved by: *J. Malone*
Commissioner: _____
Agency: Revenue

Date: 3/16/87

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management & Budget
- Impacted Agency(ies)
- Senate Secretary

Assumptions

1. Regulations will be promulgated requiring monthly or quarterly reporting of taxes withheld on wages.
2. Approximately 17,500 withholding reports and 275,000 annual individual income tax returns will need processing.
3. Public Services Division will provide individual income tax assistance to both businesses and individuals.
4. Public Services Division, in close association with the Audit Division, will develop employee training for the division and employer training for the public.

Public Services Operating BRU

Expenditures

100 Personal Services

		<u>FY 88</u>	<u>FY 89</u>
1-	Revenue Office Manager	3,293 @ 12 mos.	39.5
2-	Document Processing Clerk III	2,468 @ 10 mos.	49.4
3-	Document Processing Clerk II	2,221 @ 10 mos.	66.6
1-	Document Processing Clerk II	2,468 @ 10 mos.	24.7
2-	Clerk Typist II	2,118 @ 10 mos.	42.4
2-	Document Processor II	2,221 @ 4 mos.	17.8
1	Document Processor II	2,468 @ 4 mos.	<u>9.9</u>

Total Annual Wages and Benefits

39.5 250.3

The Revenue Office Manager's position will be activated in July of 1987 to develop employee training for the division and employer training for the public on the withholding requirements which will begin in the first quarter of 1988. The remaining positions will be activated in September 1988 to allow for training of individual income tax issues. Filing of individual income taxes will start January 1, 1989 and be required on April 15, 1989.

200 Travel

Employer Training

One Employee to Anchorage, Fairbanks, Nome, Kotzebue, Barrow, Kodiak, Kenai Peninsula, Sitka, Ketchikan Bethel, Petersburg, and Wrangell

6.5 -0-

Administrative Travel

Anchorage and Fairbanks

10.0 12.0

Employee Training

10.0

Total Travel

16.5 22.0

Employees hired to assist the general public in the completion of their individual income tax returns will be required to participate in a training course. Funds are designated above to facilitate course presentation in Anchorage and Juneau.

<u>300 Contractual</u>	<u>FY88</u>	<u>FY89</u>
Advertising campaign		
Withholding requirements	45.0	
Income Tax Filing		80.0
Postage	30.0	8.5
Printing	5.0	5.0
Telephone Charges	15.0	30.0
Messenger Service	2.0	5.0
Computer Terminal Maintenance (7)	.5	3.5
Publications	.5	2.0
Reconfiguration of Office Space	<u>-0-</u>	<u>2.5</u>
	Total Contractual 98.0	136.5

Enactment of the individual income tax with the requirement for employer withholding from wages will be brought to the attention of the public. Funds are requested for production of a television and radio advertising campaign plus two mailouts to all businesses informing them of the requirement to withhold an employee's wages. Funds are also requested in FY 89 for a general newspaper, radio and television campaign to notify the general public to file, where to file, and where to get help in completing their returns.

400 Supplies

Office Supplies	.5	6.0
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Office supplies are estimated at \$.5 per employee.

500 Equipment

Office Equipment	5.0	31.2
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Office equipment and furniture includes desks, chairs, calculators, file cabinets, and computer terminals.

FINANCE COMMITTEE HEARING
ON
HB 154

Chairman: The next bill we'll take up is House Bill #154. You have before you Committee Substitute for House Bill #154 State Affairs, an act relating to the taxation of the income relating to individual tax credit and providing for an effective date. This particular bill is the Governor's proposal for an income tax on individuals. It is a so-called progressive tax in "the higher your income, the more tax you pay." There are two rates: 3.2% of taxable income less than \$30,000 and \$906 plus 5.7% of taxable income on \$30,000 or more. The major change in the State Affairs CS is to exempt Longevity Bonus and Permanent Fund income from the tax. The bill is expected to bring in approximately \$82 million in new revenues for FY 88. Revenue has asked for approximately \$1.8 million to administer the new tax. At my request, Legislative Finance reviewed the fiscal note and recommends that we reduce the total appropriation to \$1.3 million. Information on the fiscal note is in your particular packet. Here to testify on this bill is the Commissioner.

Malone: Thank you, Mr. Chairman. For the record, my name is Hugh Malone, Commissioner-designate for the Department of Revenue. Mr. Chairman, I appreciate the Committee scheduling the legislation. The income tax proposal that the Governor has introduced to the Legislature, and as it's been amended by Committee, of course, is designed to help stabilize our State revenues to provide some certainty in the provision of the

public service budget in Alaska. Mr. Chairman, what I would like to do, with your permission, would be to have a brief presentation by Mr. Ericson of the Office of Management and Mr. John Hanson of the Department of Revenue. Mr. Ericson to talk over briefly the overall place of the income tax in the State revenue picture and its importance in the State's economic picture. And Mr. Hanson, who is head of the income tax project in the Department of Revenue, to go over briefly the mechanics of the bill and answer any specific questions on the incidence of the tax and the application of it. And if there are any questions at the end, I'd be glad to try to answer them. Is that an agreeable procedure, Mr. Chairman?

Chairman: That is, Commissioner-designee Malone. I would more than welcome the two members that you and perhaps with their presentation answer most of our questions that we have in mind. It's going to be the Chair's desire that this particular bill move out of Committee this afternoon with individual recommendations and go down to Rules. If you'll send your ...

Malone: If it's agreeable, Mr. Chairman, I'd like to start with a brief presentation by Greg who has been a member of the working group for the Administration from the Office of Management and Budget and he'd like to go through the, just briefly where the income tax fit into the Governor's overall budget plan for the State of Alaska, why it's being proposed that way and how, at least, this Administration views the economic effects of an income tax in Alaska at this time.

Greg.

Ericson: Mr. Chairman.

Chairman: Would you state your name and speak loud so I can get you on tape also, Greg, please, it's, you know, with the presentation away from the speaker, please.

Ericson: My name is Greg Ericson. I'm Senior Economist with the Office of Management and Budget. Mr. Chairman, I know you have a heavy calendar here today so we're going to move through this quickly, but there are two points we think need to be explained and need to be emphasized. One is the role of the income tax on the overall fiscal situation and the consequences if this income tax is not adopted. And the second is the economic consequences to the State of Alaska of adopting the income tax or of not adopting it. And I'm going to move very quickly, so if there are questions, please feel free to interrupt me if that's what it takes.

There are an infinite number of ways, I hope I haven't scared everybody away here; there are a number of ways that you can explain the State's fiscal situation, all of which, many of which are equally valid because you can take money out of one place and put it in another account for different things. These charts are the charts we prepared back in March after the March revenue forecasts were issued to show how we saw the State's fiscal position at that time and our fiscal plan for the State's future. Some of the things have changed and I have marked in red those changes here. In the packets you have, you have copies of the original charts and if you'd like to follow along and make the changes in pencil,

you may. We are going to update these ourselves next week and so you don't need to do that if you don't need it immediately. Let's start with the chart that shows the FY 87 budget shortfall problems and solutions. Starting here, we have no change in the budget reserve fund that has been added to this year's revenue available. It's already [indiscernible]. We've made no change in our budget, although the House has slightly increased it, the amount available for expenditure that is, the revenues available are unchanged. The current budget is, we have made no change to that, but if we assume that House Bill 113 was adopted, which shows the FY 88 capital ahead one year, we would reduce this and if we make the changes for the supplementals that have occurred by about \$180 or so million in this amount instead of the \$2,391,000,000 becomes \$2,180,000,000 largely as a result of pushing the FY 87 capital forward a year. That leaves you with a surplus then of \$18 million which, if you add the Bradley Lake funding change or however that's going to be handled, it gives you a total surplus of \$68 million. Now, let's assume that you decide to follow the Governor's suggestion and create a buffer fund this year with \$250 million in it, that would then mean that you could take the \$68 million from surplus 87 and take \$182 million of Permanent Fund earnings, Permanent Fund reserves I should say, and that would create the \$250 million buffer the Governor has requested. That would leave in the Permanent Fund reserves a total of \$334 million that could presumably be used in

funding next year's budget. I'll leave these here after I'm done so if the people want to ...

Chairman: Yeah, before you leave that particular sheet up there, our balance for FY 87 is only \$18 million and where we get ours, starting with a deficit of \$174 million, we've also passed a bill with supplementals of \$20 million. Then if you move the capital budget by delaying the effective date then you leave \$163 million plus the \$50 for Bradley if that did come back out of Rules. So that's the difference there, was only \$18 million and between our figures and yours, we've \$68 million difference.

Ericson: Well, I understand there are those differences. I think those come from different conventions on how you want to use it. Marla, Marla Burg I think understands the differences between these two.

Let's move ahead then to FY 88 budget. Let's start here with the revenue available at the 30th percentile we still have \$1.527 billion available. Pushing the capital ahead brings this figure up from \$1.925 to \$2.089 and that leaves a shortfall of, if we assume that the loan close outs here which we've changed from \$26 million to \$32 million is adopted, leaves a shortfall of \$514 million, assuming none of the revenue enhancements were adopted. If none of the revenue enhancements were adopted and if the \$514 million gap was to be plugged with Permanent Fund reserves, that would leave for FY 88 a remaining budget gap of \$180 million. Now this body has already adopted the ELF so that really

could be subtracted from there but it would be, the ELF as it stands right now is actually \$88 million if you look at the, if the Senate were to adopt the bill that passed the House since there's a little bit of FY 87 money there as well, so we would have a remaining budget gap if all of the Permanent Fund reserves were used, all of the remaining reserves of about \$100 million. A little less than \$100 million actually it's closer to \$90 million. That, of course, is where we see the income tax fitting in. Now, of course, there is this buffer fund if you were to have created it of \$250 million. You could, of course, raid the buffer fund and that could fill this FY 88 budget gap and would leave a remaining buffer fund of approximately \$150 million. So you would then go into FY 89 with some reserves. So there's clearly no question that a budget that will work can be fashioned in FY 88 without the income tax. I'm not sure you can do it without the income tax and the ELF and without the gasoline tax or all those things, but we'll get back to that in a moment. Let's see where that leaves us though in FY 89 if we were to do that. I haven't changed these charts because the numbers are about the same, looking at approximately \$1.55 billion for revenue, looking at approximately, and these are rough numbers, \$1.9 million for a budget, if we don't have the income tax and the ELF, well, let's assume we have the ELF and let's assume that we do have the licenses and fee increase, we still have about a \$350 million gap here and if we have not adopted an income tax, the State has

not adopted an income tax and decides, "Oh, my gosh, we got to FY 89, we've got a problem here after all," particularly as we would if the revenues were to go down, for example. And if we have used the balance of the buffer, what we need from the buffer to fill the remaining gap in FY 87, we have here on the buffer with about \$150 million in it and a gap here of about \$250 million, because that's what you'd have to fill here if you adopted these, this and this, the ELF postponement and the license fee increases. Well, if you adopt an income tax in FY 89, you'll only fill about \$85 million of that gap because you can only collect if you adopt in FY, 1988 session for FY 89 the income tax, you only get a half year's revenue in FY 89. You can't get it in place in time to collect more, not to mention the political and practical difficulties of adopting an income tax in an election year. So, I'm going to stop there on the fiscal issues and see if there are any questions that I can answer and then go onto the economic impacts.

Chairman: Yes, Representative Rieger.

Rieger: I guess I'd like to go all the way back to your first chart.

Ericson: Yes, Sir.

Rieger: Starting point, you know, I remember the sheets that were handed out at the start of the year and I have a computer printout that's probably about 1/2 to 3/4 of an inch thick which lists appropriations which have unexpended and obligated balances and unexpended and unobligated balances. There's

three columns: what's been spent, what's been encumbered, what hasn't yet even been encumbered. If my memory's right, about \$400 million is encumbered but not yet spent, and another \$500 some, \$527 million is unexpended and unencumbered and I'm wondering if you have a forecast of how much out of that total \$928 million you expect to be needing in cash for spending out of those old appropriations in fiscal year 1988.

Ericson: The answer is I do not have such a forecast.

Rieger: Do you think it would be anywhere near \$928 million?

Ericson: I have no idea. I truly don't. Now, to appease the general thrust of your question though, there's certainly other places that one could fill these gaps from and repealing prior appropriations is, of course, one of those possibilities which thus far I think the Legislature has generally not been anxious to do. But I would leave that to Commissioner Malone to expand on, perhaps give you a ...

Chairman: Commissioner, the Representative is talking about the numbers he has seen in the State's annual report which states there's approximately \$537 million in the capital and also the \$400 figure that he's talking about, unobligated, and those two numbers are on one sheet there. Would you like to respond to him on that.

Malone: Mr. Chairman, I think there's several things, several considerations in answer to Representative Rieger. One is that, of course, the overall amount of money that's coming into the State for fiscal 87 is much less than what we'd

originally anticipated. I mean we're talking, when the budget was put together, people were hoping for revenues close to \$2.5 billion and we won't see \$2 billion in the current fiscal year. So, one factor is that overall on a cash basis revenues are down. Secondly, of the unexpended, unobligated balances that we have, not, and I'm not 100% sure of the figures in the report that you're talking about, but we have both, I mean if you're talking about all the general funds, we have both federal receipts that we haven't received, accounts receivable and general funds. Those were as of the financial report for the end of the last fiscal year and we're most the way through this fiscal year now and we are spending down the accounts. I don't have the current accounting for that, but we are spending them down. And thirdly, the ability of the government or the executive branch of government to restrict the timing of the expenditures for policy reasons, I think, is pretty much severely circumscribed by the Supreme Court decision that was just issued. There's no way we can put the clamps on the money if there's, if the money needs to be spent and it's not there, about the only answer that the Governor has would be to exercise some sort of immediate restriction, call the Legislature into session. So what I'm saying is the appropriations that were previously made certainly can't be reached by the executive and we won't have, as far as I know, any way to crank them into this year's budget if the revenues don't materialize. I mean we're short hundreds of

millions of dollars in the State revenues. That's not a complete answer to your question. How much, what will be the balance at the end of the year? How much cash balance will we have at the end of the year, is a question I probably could answer, but I can't give you an answer of how much of that is unobligated.

Rieger: The \$928 that I referred to is all general funds. It does seem like, I wish it were true, but it does seem unlikely that all of that would be released in the next calendar year. But that was just really a point I wanted to draw is that when there's a shortfall, a boldface type shortfall wedge there, is a shortfall in being able to have cash placed in an account side by side with an appropriation that won't be spent, not a shortfall to have cash to fund encumbrances, you know, payrolls and all that are going to incur in the next year or two. I just wanted to draw that distinction.

Malone: Mr. Chairman, there is a distinction between a deficit from an accounting function and a lack of money to meet the bills and the State has faced both of those problems during the current fiscal year. In either case, I mean, facing either situation, we either have to have additional money from some place or we have to reduce expenditures. To reduce them legally, we require legislative action, we require a reduction in the actual level of appropriations, at least to the extent that the statutory requirements for the expenditures of the money have to be met and so, I guess what I'm really saying is that there's a very limited amount of money that

we can reasonably be carrying forward from the present year to the next year. And I think the point that Mr. Ericson is trying to make is that we might be able to defer the imposition of an income tax for a year at a relatively high risk to the State public service budget. In the second year, the risk becomes even higher. In fact, it's not clear that we can forego it without major budget reductions and as we go on using our reserves, we increase the risk to the ability to provide public services and face an increasing chance, of course, that some sort of dramatic action would have to be taken, it would be at the public's expense. I think that finally comes back to the stability question. That's part of what's in here in this measure, of course.

Rieger: Yeah, I just have one last question at this point. On the FY 89 pie chart there's a \$1.55 billion figure. What percentile of revenue does that represent for FY 89?

Ericson: Thirtieth percentile. This is a general generic figure to represent revenues, approximately revenues for '89, '90 and '91. Those are roughly the thirtieth percentile. I could, they're, each year, of course, is somewhat different, but they're about that level.

Rieger: Yeah, okay. [Indiscernible]. I thought the FY 89 thirtieth percentile was over 1.6. I guess my memory ...

Ericson: I think it is in fact, but also I think the total budget estimate for FY 89 is also expected to be a little bit higher than this, bringing the budget down a little slowly.

Rieger: Thank you, Mr. Chairman.

Chairman: Continue

Ericson: The Governor has indicated that his desire is to see that the budget, in a memorandum to all of you, that he has two basic things that he thinks are needed out of this budget. One is a balanced State budget based on realistic revenue estimates, the thirtieth percile. Number two, a budget reserve fund of no less than \$250 million. Now, he hasn't said that, "Hey, I've got to have the income tax." But this is our proposal to get from here to there and I think that leaves the Legislature a good deal of flexibility; but, frankly, we see the income tax as a critical element in reaching these goals to which the Governor has indicated he would use his full constitutional authority to insure that those goals are met. That, I assume, although I assume means his constitutional authority to veto elements of the budget if there are not adequate funds to give us, to meet these two criteria. If that is the case, if that occurs, we then have to compare the effects on the economy of a cut in spending in place of the revenues that would have been achieved had an income tax been adopted or had the ELF proposal, for example, been adopted. Now, it's our contention that the ELF proposal results in no loss of jobs to Alaska and we think we're on solid economic ground in making that assertion. That is not the case with income tax. If an income tax is adopted, there is no question that it will cause jobs in the State of Alaska to be lost. There will be a reduction in employment as a consequence of that and the

opponents of the income tax make a great deal of that point. We don't dispute it, although we might argue about the numbers and all. In the State Affairs Committee a panel of economists testified and these numbers represent the general consensus of that panel of distinguished economists. They are fairly simple. If a full year of income tax is collected in a calendar year, we can expect about 2,900 jobs to be lost. In part, we get some breaks from income tax; in part, because about \$50 million we expect will be paid by the feds in reduction in federal income taxes that Alaska taxpayers will benefit from as a consequence of paying the tax. Roughly another \$25 million will be collected from non-residents which will have relatively minor economic impact in Alaska. The \$175 million that actually comes out of the whole \$250 million, that actually comes out of Alaskans pockets, will cause them to spend less at the grocery store, spend less with other Alaska merchants and working its way through the economy, though the multiplier will probably result in a reduced demand and the loss of about 2,900 jobs. It depends in part on factors that we're not certain about, but we believe that the accuracy of this estimate is relatively high, probably plus or minus 15%. If that \$250 is achieved by spending cuts, then the loss of jobs will, of course, depend on where the spending cuts occur, but if they occur in the places that occur reasonably likely, namely in transfers to municipalities, transfers to individuals and to a certain extent in the rest of an agency budget, it is our

estimate that almost 7,000 jobs will be lost. So we're really not looking at 2,900 jobs being lost to the income tax. In effect, we're looking at a very severe negative effect if spending cuts result from the failure to adopt an income tax. Those are the two points, Mr. Chairman, that I wanted to make and unless there are, if there are questions on those points, I'd be glad to answer them, otherwise I will turn things back to my colleague.

Davis: Mr. Chairman.

Chairman: Yes, Representative Davis first, then Boyer.

Davis: Actually my original question has been answered, but I have just one question about the term \$50 million. Is that, I've heard various figures on that. Is that based on income that is received today or is that from an old figure?

Ericson: We expect to collect in FY 89 \$255 million from the original bill if it were to be adopted, we would collect in FY 89 \$255 million. [Indiscernible] we would collect \$249 million, I believe. Those estimates are based on a declining economy, declining personal income, declining employment. In other words, they are conservative estimates. Frankly, I think we'll probably collect a little more than that, but I also think it's proper and appropriate to be conservative when we're making these kinds of estimates. It's better to be pleasantly surprised than unpleasantly surprised in those circumstances.

Chairman: Yes, Representative Boyer, then to Rieger.

Boyer: Thank you. You had indicated that the income tax at \$255 million would depress the purchasing appetite of the public and I'm wondering how long that lasts. I can see it in the initial bite that's taken by the income tax, perhaps a year or 18 months, but doesn't that appetite rebound as you continue to move through time. I'm wondering how long that depression or that loss of jobs stays with us or whether or not we regain those jobs fairly quickly as we regain our spending appetite.

Ericson: Well, those, we expect as the economy grows, those jobs will be regained or other jobs of a similar number will be regained, but if we start out with about \$9 billion of personal income in Alaska and if we are continuing to take out of that ... [END OF TAPE 1, SIDE A].

TAPE 2, SIDE B

Ericson: On it's own, so it's not so much a rebounding of the appetite; it's a rebounding we expect to occur in the economy as a whole. Incidentally, I can pass on some good news, at least I think it's good news, the recent employment figures from the Department of Labor indicate, to me anyhow, that the economy is not declining nearly as rapidly as we had expected it to in the early parts of this year and while it's too early to draw any definitive conclusions, it looks like the recession we're in may bottom out a bit sooner than the economists have been telling us recently.

Boyer: So the assumption is that it's money out of the total disposable income pool and not necessarily a spending appetite, for lack of a better word.

Ericson: The notion of an appetite there is perhaps a good one, but it tends to work the other way. When peoples' incomes are reduced, as by an income tax, there is a tendency not to reduce consumption as quickly as that would suggest because the spending appetites, if you want to use that word and I think it's a good word, takes a while to get cranked down and so people tend to withdraw funds from savings or to borrow to maintain the lifestyles at which they've become accustomed. I'm certainly, my salary was cut by 10% last July and I certainly have noticed that in my own personal finances, that you have to make adjustments and it takes you a while to make those adjustments in your consumption.

Boyer: Thank you, Mr. Chairman.

Chairman: Representative Rieger.

Rieger: Thank you, Mr. Chairman. Just one last question on these two [indiscernible] pie charts, I noticed that farther on in this packet there's a little bit of talk about Permanent Fund dividends, how many jobs are lost by taking the equivalent dollar amount out of the Permanent Fund dividend distribution?

Ericson: I don't have those numbers at my fingertips, but I can supply them to you. We have that data and, in fact, I'll just dig it out of my folder here as soon as I sit down and provide you with that testimony.

Rieger: Thank you, Mr. Chairman.

Chairman: Representative Frank.

Frank: Thank you, Mr. Chairman. Greg, you're saying that the effects of the tax will be less detrimental than a cut in

the economy, a cut in the spending. If you took that logic and turned it around and said, "Why don't we double the tax and spend \$250 million more in State spending?" it seems like your logic would lead to a conclusion that that would further stimulate the economy.

Ericson: And that is exactly what it would do, up to, at least as long as you remain in the region that we're talking about here, of 2.5% of personal income. If you take that, it has that effect. If we took another 2.5% of personal income and put it into State spending, it probably would, in fact I'm sure it would create, could be spent in a way that would create more jobs on the spending side that would be lost on the taxing side. You can't keep doing that forever because people's spending habits change when you get down to taking 10% of their income and the job loss is likely to rise significantly higher at the margin. That, I suppose, makes the point that the purpose of a tax is not to create jobs. I'm presenting this information to show those effects. Clearly, if State spending can be reduced beyond the levels that it has already been reduced, that is not something that is necessarily to be avoided just because some jobs would be lost as a consequence of it.

Chairman: Continue.

Frank: One other question. You suggested that the Governor might choose to veto the budget if the Legislature didn't provide, are we on teleconference?

Chairman: No, we're not on teleconference.

Frank: If the Legislature didn't provide a budget reserve account of some sort. And to me, you know, I can appreciate the Governor's desire to have a reserve account, but I don't see the inherent wisdom or logic in cutting the operating budget now so that you don't have to maybe cut it later if revenues fall. I mean if it happens, we'll take the worst when it happens, but why cut it now just in case it might happen.
Mr. Chairman.

Chairman: Yes.

Frank: There are obvious comments on that. I think that one of the things we face, for example, during the current fiscal year was a reduction in, just to take for example, a reduction in the early part of the fiscal year by executive action, in that care there, but of the funds that were available to municipalities, which in some cases dramatically affected their local budget. And I think that the idea that the Governor is approaching the budget with is trying to build in some stability in that if, in fact, there are additional revenues accrue during the fiscal year over and above what the budget requires, that [indiscernible] may be in the happy situation of looking to put those where they might be most needed rather than to face the alternative which might be part way through the budget year when some of the money has already been spent to have to revise the budget. It's a philosophy of stability. That's the reason that the Governor's basically proposing a budget that is so much lower than the

current year's budget. Now ultimately, of course, the appropriation level that is reached is a legislative decision and as to what the Governor may or may not veto, I think are questions he's going to have to sort through when he sees all the whole package, I mean. But I think what Greg was saying is that if we assume, just for the purposes of economic illustration, that we had a reduction in the budget equal to the revenue that would be raised in the income tax, then the economists, at least, pretty much have reached a conclusion you lose a lot more jobs by reducing the budget than by levying a relatively minor income tax. And I think that's the point that Greg was reaching to.

Ericson: Mr. Chairman, if I ... go ahead.

Chairman: Did you want to respond to him?

Ericson: I'm sorry.

Frank: What's that?

Chairman: Are you all done?

Frank: Yeah, I'm done.

Chairman: Let me have Representative Brown then.

Brown: Thank you. I'm looking at Figure 10 in the packet of charts that you passed out regarding the tax rates and I wanted to explore your thoughts on the, what's been described to me by constituents as discrimination against single people that results from, I think, the combination of the way the tax is structured coupled with the payment of Permanent Fund dividends and I tend to agree with the Administration's analysis of the need for additional revenues and was just

wondering whether you see any ways that we could modify this proposal to make it less discriminatory on single people?

Ericson: Mr. Chairman. What I would like to do, and this might be a good juncture and I don't want to avoid answering the question, but it might be a good juncture to go through the specifics of the bill and its incidents, which is the second phase of the presentation. It would answer that question and maybe others that might be pending at this time without addressing one at a time and then if the questions so remains, we could answer them, if that would be agreeable? I ...

Chairman: Representative Brown.

Brown: Yeah, my bill is scheduled to come up in another committee at 3:30, so I don't know how long it will take to do this.

Ericson: The short answer, Representative Brown, is yes. The bill could be restructured. It would be particularly difficult although generally a significant restructuring of that nature would require some additional staff work. We did contemplate at the outset a bill that treated married couples and single individuals identically. The structure you have there in front of you in that Chart 10 really follows the model of the federal tax and provides the same kinds of differences between tax treatment of married and unmarried individuals that is suggested on the basis if you were to try and model a tax that was similar to the one the federal government has adopted.

Malone: Mr. Chairman, basically those issues underlie the reason this tax model was taken and I spent a lot of time in the

early stages and I think the best way to cover those kinds of issues would be to go through the specifics of the model in the bill, which doesn't take very long, and then if there remaining questions, we can answer them directly.

Chairman: Continue.

Malone: If you don't mind, Mr. Chairman, what I'd like to do would be to have.

Ericson: Can I answer Steve Rieger's question first.

Malone: Oh, sure.

Ericson: The, if \$250 million were taken out of the economy by an income tax, we'd lose about 2,900 jobs. If \$250 million is taken out of the economy by an equivalent reduction of Permanent Fund dividends, the job loss is expected to be slightly higher than from the job loss resulting from an income tax. There's three reasons for that. One is we don't get to export part of our Permanent Fund dividend to non-residents or to very many non-residents. Actually, we do export some of our dividends to people who are living here during the qualifying period but have left. But most of this non-resident effect is actual effect in Alaska in the case of reduced dividends. Secondly, we, the federal tax bite is a little bit export to the federal taxes are less because the people who do most of the paying of the income taxes tend to be high-income people and high-income tax brackets who can export some of that state tax bite to the federal government. On the Permanent Fund dividends it's much more evenly distributed across the population and

as a consequence, many of the people who receive the Permanent Fund dividend don't pay that much federal tax. Thirdly, and this is really the most important reason, that the equivalent amount of money taken out of the economy via a reduction in dividends would cost more jobs, is that people in the lower income categories or if they pay any income tax have what economists call a high propensity to consume locally. They don't save very much money. They can't take a trip to Hawaii. They don't buy a great many things from outside as do the people who are of low incomes and who concentrate their purchases in the necessity of life. As a consequence, the employment multiplier of low income spending tends to be higher than the employment multiplier of people with high incomes. I mean we are getting into some technical detail, but the answer is there would be slightly more jobs lost if an equivalent amount of money were taken out of the dividend program than there would be if it would be coming out of an income tax. By "slightly" we aren't actually sure how much more, but my estimate would be about 3,500 jobs. Scott Goldsmith with the University of Alaska has estimated slightly higher.

Chairman: Yes, Representative Frank, continue.

Frank: Thank you. Greg, we have a little bit of history to go on here. It seems to me the budget was up as high as 1.965 or something like that, and I'm not sure you called the numbers off the top of your head, but we're now spending at a rate of 1.7 in the operating budget since the Governor's,

Governor Sheffield's instructions. That's over \$235 million and I'm wondering what kind of empirical evidence is out there and how it relates to your projection of losing 6,700 jobs.

Ericson: The results aren't all in on that yet in terms of the, because you have to wait a year or more before you can really look back and reliably associate those two. But so far the models seem to be holding up very well in terms of the jobs we've lost are being related in the models to what has, what you just described. Now, we're not just relating it to operating expenses, we're relating it to all spending and that is very different impacts, of course, from the capital budget and the operating budget and the loan programs.

Frank: I'd like to follow-up on that. We've cut the budget from our highest spending years maybe as much as a billion, I don't know.

Ericson: We had a budget that was almost, I believe it was over \$4 million.

Frank: Some of the ones on the, maybe, I don't know. Anyway, I would submit that the bulk of our job loss in the economy have been a result of reductions in oil spending and capital spending because if you look at the number of operating budget jobs lost over the last two years, we haven't lost, we certainly haven't lost 10% of them. We've lost a few hundred, I think four or five hundred at the most and I tend to, I think that the case has perhaps been made more dramatic than it ought to have been made. I just don't believe that

the effect is going to be as bad on the job loss as you're suggesting and I don't think the evidence is there to support it. But I, you know, it's my gut feeling.

Malone: Mr. Chairman. There's certainly room for differences of opinion in these areas of economics. Scott Goldsmith, Professor Goldsmith at the University of Alaska, as far as I'm aware, doesn't have any particular axe to grind in this debate. He indicates that in his calculations the minimum impact from a spending cut if you concentrated it all in capital would be 2,700 jobs. Now we don't have \$250 million in capital to cut right now. So he indicates the maximum job loss if you concentrated it in those operating areas and those income transfer areas to low income people, which would be the places where you get the biggest adverse "bang for the buck," if you will, would be 8,600 jobs from the \$250 million cut. So there is certainly room for disagreement. But it's not my opinion that we've humped up these numbers. I think we've been conservative.

Chairman: Representative Wallis.

Wallis: Thank you. A question to the Commissioner please. In the previous income tax upon the state, there was a section that allowed for \$10 to go to the education fund. Is that included in this bill, anything like that? Mr. Chairman, what is the intent of the Chair on this bill?

Chairman: The intent of the Chair, as I stated earlier, that it's my intention that the Chair's going to move to move this particular bill out of committee once we hear testimony.

Wallis: Thank you, Mr. Chairman. I wonder if we can include language to have some of that money go to education?

Chairman: Pardon me?

Wallis: I would like to have language included in the bill to have some of the income tax money go to education.

Chairman: Representative Larson.

Larson: Mr. Chairman. I believe Representative Wallis is talking about the school tax that we had previously. In some ways, if my recollection is correct, that was kind of a misnomer in that the \$10 went to the General Fund; it didn't go to schools directly. But, that's another source of revenue that I think we should be looking at, so I don't think necessarily that this is the vehicle, but it should be probably in a separate piece of legislation.

Chairman: Commissioner.

Malone: Mr. Chairman. I would like to, for the benefit of the Committee, have Mr. Hanson briefly go through the model in the bill, why it's written that way, how it would work, so that if there are questions on that, and there was one so far I think that we could cover. Is that agreeable?

Chairman: That's agreeable.

Malone: Don.

Hanson: Don Hanson. I'm with the Department of Revenue. I'd like to just take a minute Mr. Chairman to show you how the tax would work and just give you an estimate of how much it's going to cost the taxpayers that are going to be paying it. And I think probably one of the easiest ways to do it

is to actually show you the return that we've mocked up here. And one of the criterias that the Governor gave us was to make this a very simple tax and I think we've accomplished that. The return itself is in your handout. It's on page 5 if you want to follow with me. I'll just go through it and show you how it's going to work. It's going to be a one page return and the filing statuses will be the same as on your federal return and one of the questions that the Representative asked was how we could perhaps change the severity in the single person's tax liability. That could be accomplished in the bonds that is the breakpoint. As the bill is now, the single filer will pay tax on the lower rate on the first \$30,000 of income and then the higher rate of 5.7 would be over 30, so we call that the bracket breakpoint. So a single bracket breakpoint is \$30,000; married filing joint is \$50,000; married filing separately is \$25,000; and head of household or surviving spouse is \$40,000. So if the Committee wanted to make an adjustment in that area, that would be a simple way of doing it which wouldn't take much effort other than we would probably have to recompute the rates because it all kind of, it's all on a big model and if you make one change here, you have to change other things.

Chairman: Yes, Representative Frank.

Frank: You said you'd have to change the rates?

Hanson: Correct because you have certain income percentages in a single bracket and if you change the threshold from \$30,000 to \$40,000, you're going to be collecting less tax from a

certain percentage of income so we might have to increase the rates accordingly. Do you see how ...?

Frank: [Indiscernible].

Hanson: To produce the same revenue.

Frank: Mr. Chairman, if I could?

Chairman: Continue.

Frank: So you started out with the amount of revenue you wanted to collect and figured out how much of a rate you'd have to ...

Hanson: That's correct. That's how this model works. We started with \$250 million revenue goal and then based the bill and what we've done with our tax structure based on that revenue goal.

Malone: Mr. Chairman.

Chairman: Commissioner.

Malone: Just to elaborate briefly, there are two kind of themes behind this bill. One is that we would have an income tax that basically anybody that had enough income, you might say, to live on would pay some tax. And secondly, that it would be a progressive tax. Then after that the fundamental question was to make it as simple as possible and then, of course, we wanted to raise a certain amount of revenue. So that affected all the different elements of the bill, including the breakpoints and where the tax rates came to different people. But those are the, that's the theory behind the bill itself as written.

Hanson: To follow that up. For instance, the Committee Substitute has taken out the Longevity Bonus and the Permanent Fund dividends. If we wanted to achieve the same revenue goal, we could increase the upper rate from 5.7 to 6.1. That would make up that \$6 million difference there. If the Committee wanted to do that, that would be one way to do it.

To continue on now, we're going to start here on Line 1 and this is total income. We have adopted all the income provisions of the Internal Revenue Code Section 61, so we have the benefit of all that case law and all that history and we're not starting with a new concept on our income, in 1986 this total income was Line 23 on the federal return. So it's very simple for a person to prepare their return as they file their federal return. They take this federal return and they start right here on Line 1, which would be Line 23 on the federal return. After that, we make several adjustments, which is Line 2, we would add in the federal cost of living allowance, the COLA allowance that federal employees receive, that's 25%, cost of living allowance they get, we would add that into income. We would also add interest that's exempt from federal tax; that would be our interest on State municipal bonds. We would add that in also as the bill is outlined. We also make adjustments to take out from income on Line 5 would be penalty for early withdrawal of savings, Line 6 is alimony paid and the reason behind the alimony is the recipient of that alimony is including that in their income. These are traditionally

adjustments that are made on the federal return to arrive at Adjusted Gross Income (AGI). Now the Committee Substitute bill will be having two line items here for the Longevity Bonus, if that was included on the federal return, and, of course, the Permanent Fund dividend, we'd be backing that out here also. Interest on U.S. Government Securities, that would be interest on U.S. Government Bonds. We cannot tax that, the federal government doesn't allow states to tax that. And Line 8 is for Alaska tax refunds and those would be refunds that were claimed on the federal return as income that were written off in previous years. After we come, making those adjustments, we come down to our Alaska Adjusted Gross Income. From there we have our personal exemptions which are \$3,000 per person and those dependents and exemptions would be the same as your federal. For instance, a family of four would have \$12,000 exempted from income; The first \$12,000, at \$3,000 per person, for exemptions. So that's it. From there we go down to the tax: 3.2 and 5.7 as it is. So, it's a very simple return. It's not going to cost a person a lot of money to have it prepared or do it. It's one page and that's essentially going to be it. We've also on our form included a line item for a Permanent Fund dividend check off. I know there's been a lot of those already introduced this year, but what that could be is a person could prepay their '89 tax, if this was instituted in '88, by on their Permanent Fund dividend making a check and having a certain amount allocated for the State and we could handle

that in our department. Essentially that's the return and that's how the bill works. It's a very simple tax and we believe that it's probably one of the most progressive taxes in the United States. We tried to design it that way.

Chairman: Representative Boyer.

Boyer: Just out of curiosity, what would the tax generate if you just, instead of taking gross income, if you started with the federal adjusted gross?

Hanson: Okay, it would depend on the rates. See, we can design the tax to raise any revenue you want.

Boyer: If it's designed exactly the way it's designed with your threshold levels but instead of using your Alaska adjusted gross, you use ...?

Hanson: Go to the federal adjusted gross.

Boyer: Yeah.

Hanson: Okay. Those items that are adjusted on the federal return or, for instance ...

Boyer: Mortgages.

Hanson: [Indiscernible] contributions, moving expenses, they're not a lot of big ticket items. I can't give you a figure, but it isn't going to be substantially less.

Boyer: All right, one of the concerns I've heard from people is, you know, there isn't a deduction here for home mortgage interest and things like that. If we could modify the tax to do that, it would make it more palatable for many, many people. So that's why I'm interested.

Hanson: Okay. Those kind of adjustments actually aren't adjustments; they're itemized deductions and our bill has no deductions or credits and if those that, the Committee wanted to examine those kind of impacts, we certainly could do it and tell you. That is the largest deduction that is taken is the home mortgage interest deduction. It's probably one of the most controvertial. A decision has to be made, "do you want to subsidize or allow that particular deduction?" If that's the goal, we can certainly come back to you and tell you.

Boyer: Mr. Chairman. I'm not sure I want that but I'd certainly like to be armed with the numbers so that I could argue.

Hanson: We can provide that for you.

Boyer: I'd appreciate that.

Chairman: Representative Frank. I'm sorry, go ahead.

Ericson: No, I was just going to comment on it. Like that would be a major deduction for most people. In this bill what we tried to do is set a relatively high personal exemption and say, "Okay, that's it." That treats people pretty much equally and whereas you get into the business saying, "Well, this group will give deductions to home owners, but to balance it out, we'll raise the rates overall." People who are renting get hit twice. So, we said, "Let's stay away from that and go with a single personal exemption and if the Legislature wants to dive into all the policy questions that are contained in the federal legislation, we'll just do them one at a time, but we'd like to leave them out of the bill.

Hanson: Essentially, what we have here is a flat tax with two rates and in some ways this is the tax format that President Reagan promised; we deliver. That's kind of what we're saying. I just want to take a minute and show you recently, ...

Chairman: Just a minute, I've got Representative Frank.

Hanson: Oh, excuse me.

Frank: Well, this is probably more appropriate now that you've started to explain some of the characteristics of the tax. You used the word "progressive" a few minutes ago.

Hanson: Yes.

Frank: I was going to ask you to define that because what you mean ...

Hanson: Okay. What we consider a progressive tax is a tax that looks at the ability to pay. The higher income you make, the more ability you have to pay, the higher rate you're going to pay out. That's what we consider a progressive tax and I think it's ...

Frank: Isn't that the opposite of a flat tax?

Hanson: To a certain extent it is, however, because we have the two rates, okay, we are having a very progressive tax and it's, when we compare it to what other states have, it's probably one of the most progressive taxes in the United State, state tax.

Frank: In other words, of all the taxes in the tax systems in the United States, it's designed to take more from the higher income people and exempt the lower income people. Is that what you mean by progressive?

Hanson: Yes. I can't say that that was especially true, what you just said, but that is ...

Frank: The higher your income, the higher the tax rate.

Hanson: That's correct, exactly. The higher effective rate.

Frank: The higher the effective tax rate.

Hanson: The higher effective rate. Because you merge those two rates together. As a matter of fact, in the handout we gave you, if you look on Page 6, it shows you the effective tax rates and you can see that if you make \$0 to \$10,000 your effective tax rate is .83, this is all returns, and if you make over \$400,000, it's 5.24%. So that's what we've designed and that's supposed to be how it works and we feel that's how it will work.

Frank: Okay. Then how about our overall effective rate relative to other states.

Hanson: Okay.

Frank: Is this going to be a high or low, or medium, or what?

Hanson: On Page 7, we have tax rates in other states and just to summarize that -- there's 43 states that have an income tax and based on our effective rates here, we would be the fourteenth lowest. In other words, 30 states would have higher effective rates than what our plan is here.

Frank: Okay. That gets me to my next question which is if you go back up here a few lines, say the credit for taxes paid in other states, I think one of the most compelling arguments for having the income tax is that it in some way gets at some of the non-resident workforce. But we appear to be

giving them a credit here for the taxes they pay in other states.

Hanson: No this is the resident return. This would be the resident worker that works in other states. We would actually have a non-resident return, okay, and the system we've developed is far superior to our methodology of taxation for non-residents in prior years. Whereas in prior years we've taxed non-residents at the lowest possible. We looked at, we sourced the income. We looked at their Alaska source income and taxed it. We didn't combine income. What this bill does, it looks at their total income and taxes that income equally to residents. We apportion the tax, not sourcing the income.

Malone: In other words, if you were Alaskan and you were paying taxes on \$50,000 of income, you pay a certain rate on \$50,000 worth of income. If you're a non-resident working in Alaska and you made \$50,000 during the year and \$25,000 of that is in Alaska, you're going to be paying the same rate the Alaskan is on the \$25,000. You're going to be paying at the higher bracket because your higher total income puts you in that bracket, instead of only counting the Alaska income, which would put you in a much lower effective tax rate. So that's the change in this bill that we think is a fair way, by the way, of treating everyone the same. If they're in the same tax bracket, we don't care where they get the money, they pay at the same rate, but they don't pay on any more income than they would actually earn in Alaska.

Frank: This form is mark-line apportioning.

Hanson: Yes, exactly. We're apportioning ...

[Unknown]: It's good for the oil companies, it's good for the
[indiscernible].

Hanson: We're apportioning their tax based on their income,
okay.

Frank: No separate accounting?

Hanson: No, exactly, and this Line 14, I might add, that this
credit is again for residents that work out of state that
pay income tax in other states and that's going to be limited
to what the tax would have been in the state. We have a
neat little formula to do that works out.

Chairman: Representative Brown.

Brown: Thank you. I'm looking at Page 6 and the effective tax
rates and I'm still just not clear why it is the single
person pays a higher effective tax rate in every category.

Hanson: Okay. Why that works mechanically is because their
bracket breakdown, where they're going to be taxed at the
higher rates is at \$30,000, as opposed to a married filing
joint which is at \$50,000. That's how it works. When we
designed this bill, again, we looked at what the federal tax
policy is as far as where they had their brackets breakpoints
and we used those same numbers, those same percentages
where our bracket breakpoints were going to come into place.
Again, if ...

Brown: Do you think that's ...

Hanson: Reasonable?

Brown: Yeah. Do you think that ...

Hanson: Personally, I do, yes.

Brown: Discriminates against single people?

Hanson: No, I don't, personally. It's a policy decision which, you know, you guys decide. I don't personally, no.

Chairman: Representative Frank.

Frank: I guess it's clear that it discriminates against single people, the question is whether it's fair [indiscernible].

Hanson: Yeah. It's, that's a question [indiscernible].

Brown: Why do you think it's fair to discriminate against single people?

Hanson: I'm thinking about my wife right now. No, I shouldn't have said that. I don't think we are discriminating against people, single people, in that, I really don't have an answer for that, but I don't feel we're discriminating.

Brown: Was this discussed at all in the Administration's deliberations on the proposal?

Hanson: Yes.

Malone: Oh, yes.

Hanson: A lot, and we have quite a bit of discussion written up in summary pages on that and I just can't come out with an answer right now. I'm sure there's a good one somewhere.

Unknown: They were all married.

Chairman: Mr. Malone.

Malone: Mr. Chairman. In fact, there was a substantial amount of discussion. In fact, it's one of the points that struck me about the initial approach is that why do we have to

discriminate against any particular marital status. In looking into the actual administration in tax laws and the selection of the rates and how they're going to apply, one of the reasons we're making this decision was that it actually, because of where the, how the federal returns are prepared, it makes it a great deal easier to administer this tax by setting these changes where they are now. It doesn't mean we couldn't enforce the tax by changing the breakpoints. Obviously, we could. But that's one of the considerations in it and the other is that when you make the change, if you make the change and want to keep the changed revenue neutral, obviously you're going to be raising rates someplace else and, so, after going through that whole discussion a couple of times, the people in the Administration, which mainly was me and the Governor, decided it wasn't worth it to make that change; maybe the Legislature would disagree, of course.

Chairman: Representative Brown.

Brown: On the point of the necessity of keeping it revenue neutral, it seemed like from the charts we went through earlier that even in the out years, three, four five years from now, do you feel that we absolutely have to have the full amount that's projected to be raised by this?

Malone: Mr. Chairman, I can't answer that question. I think that the theory behind the income tax is to add another element to our overall State revenues. One that is more predictable than our main source of revenue is, it would be affected by that obviously, and the level, for example, the

amount of money that would be raised by this tax is substantially less than what would have been raised by the previous income tax if it were still on the books. It would have raised about \$400 million a year now as contrasted with this tax. Now, that's one of the considerations that we looked at. If we went back to the same effective tax rates, why not just do that again and decided not to do that to place Alaska lower down and not necessarily to say that we're going to use the income tax, in effect you might say, to pump up the budget. Whether the total amount might be needed in future years or whether minor adjustments might be reflected by changing the rates, the income levels at which the rates changes are essential three or four years in the future. Of course, it's something like the economist's projection of the jobs. I mean, we've got like a couple hundred thousand jobs in Alaska and I don't know if they really can call it within one-half of one percent. I think their relative effects of what they're talking about are probably right and the relative effects of making a change in the revenues from the income tax of \$4 or \$5 million by changing rate points can be guessed at just as well by you or me today, what's it effects are in the budget as a legislator sitting in your place four years from now. What is \$6 million worth to the budget. Well, it's hard to say. If it's my project, it's a lot; otherwise it might not count.

Chairman: Continue.

Hanson: Mr. Chairman. I'll just take a minute to show you the bottom line, so to speak, how much we're going to pay. In this instance, on \$25,000 of income, a family of four with a \$3,000 exemption is actually going to pay \$415 in state income tax. As a comparison here, I think they were using this for other purposes but I'll show that also. The Permanent Fund dividends would be \$3,188 in this family of four. A married couple will pay \$607 in income tax and a single person will pay \$705 in income tax. Just to show you how that works on the high area, where we would have the bracket breakpoint kick in and out. A family of four would be paying \$1,251 if they earned income of \$50,000 and they would receive \$3,188 in Permanent Fund dividends. A married couple's tax liability would be \$1,425 and a single individual would be \$1,930. Also in the handout we gave you, there's a summary tax liability per taxable income so a person on page 8 wanted to say, "Well, how much am I going to pay?" All you would have to do is look at this chart and it will tell you specifically what your tax liability would be. Is there any other questions I could answer.

Chairman: Further questions. Thank you, Sir.

Chairman: Is there any other members that have any further questions on this bill? Is there anybody from the public that would like to testify on the bill? At this time the Chair moves Committee Substitute for House Bill #154 State Affairs to Audit Committee. Is there any objections?

Brown: Object.

Chairman: Yes.

Brown: In thinking about this, you know, I've been a supporter of this proposal and in the last week I've been contacted by a lot of people in my district, several specifically raising the issue about, or there have been a number of issues raised about it, but one that I'm concerned about is the effect of the tax on single people because it seems to me that it does discriminate against single people and I just wondered do we really need to accept the federal tax just for ease of administration and if the Committee would be interested in pursuing that, I would work with the Administration to draft an amendment. I don't have an amendment prepared to do that but I would like to make that attempt to offer that amendment and I think this Committee would be a better forum for that discussion than subsequent opportunities.

Chairman: I think that particular opportunity still lies on the House floor on this piece of legislation. Yes, Representative Rieger.

Rieger: Thank you, Mr. Chairman. I just wanted to say, I sure don't oppose this bill going out of committee, but I'm not in favor of the bill and I notice that in the charts that we've seen and, you know, the flows of funds back and forth that go in there one of the biggest things that they're trying to do is to put some extra money in a budget reserve fund but I think we all know how long a budget reserve fund lasts. We put money into a budget reserve fund last year. The very first thing we did when we got down here was

immediately dump it all right back into the General Fund and I think that until there's a new spending limit enacted which will hold spending constant, increased revenues will lead directly to increased spending and I think the budget reserve fund will not protect that money from being spent.

Chairman: The motion is not to reflect what your vote could be on the income tax, it's just the movement of this particular bill from the Committee. Representative Frank.

Frank: I was just going to say that I'd be happy to work with Representative Brown to do committee work on the floor, you know.

Malone: Mr. Chairman.

Chairman: Commissioner.

Malone: Mr. Chairman. Of course, I'm certainly willing to work with people that want to get the information to people like me to support amendments to the legislation insofar as the Department of Resources can do it and this issue that's been raised here recently is one that would take you through a lot of discussion by the Administration before introduction to the bill, so the information is available.

Adams: If, in fact, this bill does not get to the floor this particular session, I'll be more than happy to work on your single status in the interim.

Brown: For the record, I will declare for anybody's interest, I am a single person.

Unknown: So you posted notice, Mr. Chairman.

Chairman: Representative Boyer.

Boyer: Mr. Chairman, I'd be curious to know whether or not the amendment that's being asked for is something that you could make now as we have it before committee, again, not to prejudice anybody's vote on the thing, but if it's something we could accommodate here and have a vote on that measure today, we would avoid having to deal with it in Rules or on the floor. It sounds to me like it's a relatively easy thing and you probably have the language, if not on the top of your head, fairly close.

Hanson[?]: Mr. Chairman.

Chairman: Yes.

Hanson[?]: It isn't hard, but it's not simple. It affects all of the brackets when you do this. The administration of the tax out, it's going to affect all the brackets in the relative places that you make the breakpoints ... [END OF TAPE 1, SIDE 2].

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The Case Against Income Taxes



BY REP. TERRY MARTIN

THE CASE AGAINST INCOME TAXES

By Rep. Terry Martin

They say it was individual pride of achievement that developed Alaska. The miracle of Alaska was forged when men's and women's dreams put on work clothes and the pioneers set forth armed only with self-esteem, ambition and resolve to compete and excel on their own.

How ironic it is today that some of these same people or their children are demanding cash handouts because they arrived first.

Edward Gibbon wrote about the Athenians, "They wanted comfortable life and they lost it all - security, comfort and freedom. When they finally wanted not to give to society, but for society to give to them; when the freedom they worked for was freedom from responsibility, Athens ceased to be free and was never free again." They learned that when the people failed to exercise their control over government, the public servants turned to public masters.

The question is - When does a welfare state destroy the free society that established it? For, it is the sober truth that, as long as government cares for the people, the people will not care for themselves. Some great societies of the past - Rome, Athens, Great Britain - there people have learned that nothing is free; that socialism pulls few up, but drags many down. And a totally unnecessary tax, used to prop up such a system, is nothing more than punishment for working.

Whenever the government spends or taxes a single dollar more than it needs, it sprouts another seed of poisonous inflation.

Looking to government for "security" destroys the self-reliance that built America and Alaska. You cannot vote yourself security - you must earn it. And you cannot bribe poverty to go away - you must work it to death.

The encouragement of pressure groups to "get theirs" at the expense of the working people - by threatening elected officials with defeat - will destroy the self-reliant class and the will to achieve. If the state legislature had more confidence in a hard-work, free-enterprise future than in a cash-for-vote present, there would be a glorious Alaskan future, and it could start now.

We have already indirectly paid a tax to the state by paying for the high cost of oil. The state saved these taxes in the name of the Permanent Fund.

There will always be some indigent, sick or old who cannot produce; they must be taken care of by the rest of us, of course. But that is charity, which is right; not security, which is not a right, but is of our own individual doing, earned by our hard work.

INCOME TAX

The first income tax, in the modern sense, was imposed in England by William Pitt in 1799 to help pay for the wars with Napoleon. It was abolished after the peace of Amiens in 1802. The following year, when war again broke out with France, the tax was reimposed. After Waterloo, it was again abolished. Then, in 1842, the British government adopted the income tax as a permanent feature of its revenue system.

In 1861, the United States government levied a tax on income for the first time in its history. All income in excess of \$800.00 was taxed at a 3 percent rate. This wartime tax was abolished after the Civil War was over.

The 16th amendment to the constitution, legalizing federal income taxes as a permanent fund-raising device, was adopted in 1913. It began as an amendment to a bill in Congress lowering the tariff on imports. The idea was that the small deficit from reduced tariff receipts could be taken care of by a tiny tax on prosperous incomes. On incomes from \$4,000 to \$20,000 the bite was one percent. Few people made more than \$4,000 per year back then, and that amount had the buying power of at least \$42,000.00 in today's dollars. So, since the tax didn't effect most Americans, few opposed the idea. It didn't seem important.

Well, what started this whole tariff business, anyway? When the Moors were masters of Spain, their ships would lie in wait for merchant vessels coming through the Straits of Gibraltar bound for Italy, Greece and Egypt. The Moors were no fools, and instead of plundering the vessels, they levied a sort of blackmail, with a fixed scale of payment based on the value of the cargo. This amount was determined at their port of Tarifa; thus originated the word "tariff." Some people still think a tariff is a form of piracy, even after all these years of government sanction.

The history of Alaska's tax system has been described as follows by Claus M. Naske, a professor of history at UA-F:

"Territorial Alaska's tax system consisted of a conglomeration of heterogenous taxes imposed by both Congress and the territorial Legislature for different purposes, on different bases, with many forms of rate schedules and a variety of administrative provisions.

"Congress imposed the first taxes in response to the gold rushes of the late 1890's. In 1899, it passed a criminal code and code of criminal procedure that, among other things, imposed some 43 license taxes on specific businesses.

"Congress passed the second Organic Act in 1912, which, among other things, gave Alaska a territorial Legislature to meet biennially. Between 1913 and 1948, the Legislature developed a tax system of its own. It consisted of a number of taxes and fees levied on the fisheries and mining industries, Alaska's two major economic activities.

"There also was an inheritance tax as well as a patchwork quilt of miscellaneous business, professional, and occupational taxes and fees. In addition, the territory also participated in the Federal Social Security Program on the same basis as the contiguous states, and after World War II, at the urging of Territorial Governor Ernest Gruening, the territorial Legislature provided a generous Veteran's Loan and Bonus Program financed by a general sales tax, 1 percent on retail and 0.5 percent on wholesale sales."

"Still another character of the system then (and now) was the narrowness of the tax base. For example, the territorial tax commissioner reported that during the calendar years 1947 and 1948, some 91.25 percent of the tax revenues collected came from a mere five sources. The salmon industry contributed 21.25 percent, liquor excise taxes 21.31 percent, motor fuel and motor vehicles 15.65 percent, gross sales tax 28.8 percent, and the school head tax 4.12 percent."

"Territorial residents had the habit of asking Congress for providing funds for any number of services. The federal government maintained Alaska's judicial system, managed its fish and game resources, paid the salaries and expenses of the territorial Legislature, built its roads, trails and tramways and educated its Native children. The territory, it is true, made some minor annual contributions to some of these programs. By and large, however, the territory's hardy pioneers expected Uncle Sam to foot the bill for most activities normally conducted and paid for by territorial and local government."

"Governor Gruening battled for 10 years, from 1939 until 1949, for a modern tax system. Finally, in the latter year, [the] Legislature passed a modern tax system, including a personal income tax."

This income tax was in effect until it was repealed by the State Legislature in 1980. In today's debate concerning the reimposition of this tax, people seem to have forgotten that they used to pay state income tax, and how big a bite it took. That was and always should be the first direct share or bonus Alaskans receive as sharing the state's wealth from oil revenues. Those who are working can look at their paycheck and see \$0.00 taken out for state taxes.

All working Alaskan can compute their weekly or monthly dividend simply by multiplying their Federal withholding tax by 16%, the amount of the tax at the time of its repeal. You may want to see your total tax dividends over the years since 1979. To do this, just add up your gross federal income tax for the last eight years, and determine an additional 16% that would have gone to the State coffers.

The working people of Alaska have saved more than \$1.9 billion in state income taxes since the taxes were repealed in 1980. On the other hand, all persons, six months into conception or older, have received a total of just under \$1 billion in permanent fund dividend checks.

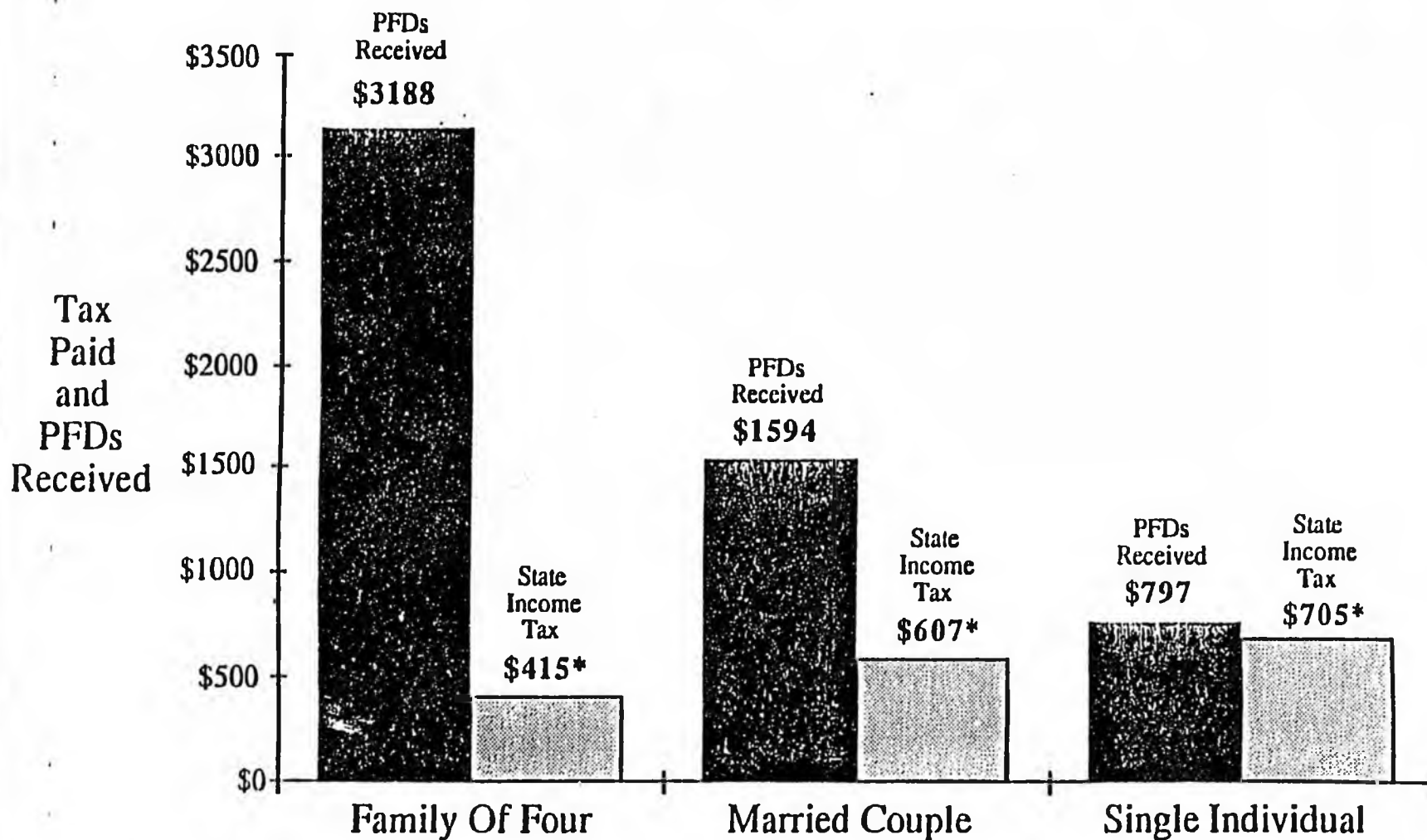
Proponents of reimposing the income tax argue that, at 4% the tax would be on par with what other states levy. But they overlook the fact that with a much higher per capita income, at \$17,700, Alaskans would end up paying more in hard dollars.

Figure No. 1 is a graph devised by the Governor's Office of Management and Budget, and purports to compare the income various family groupings would receive from the permanent fund to the amount they would pay in personal income tax. The idea behind it is to graphically illustrate how well-off taxpayers will be with the PFD offsetting their taxes. This graph is quite misleading. Remember, you must first include the total PFD received in your gross income, which causes your taxes to increase. Since the tax on the PFD is not withheld, you will pay, either by receiving a smaller federal refund, or by sending in a bigger check with your 1040 form.

The chart is further misleading, especially for single individuals who must pay federal taxes on their PFD first, at an average of \$15 per \$100, or from a \$800 PFD check, subtract \$120.00. In this case, the individual may receive \$680.00 clear after federal taxes, but would still have to pay \$705 to the state income tax.

Next, misguided assumptions are used to lead families and married couples into accepting the tax, instead of reducing the size of the PFD checks. The major misconception is not taking reality into computation. In the highest percentage of cases for families in Alaska both parents, or both partners in a married couple, are working. Instances where a multi-member

How Does The Tax On \$25,000 Income Compare With PF Dividends Received ?



* Net tax will be lower because state tax is an allowable deduction in figuring federal tax liability. Oct. 1988 dividend estimated by PF Corp. OMB/Division of Policy, 3/12/87.

FIGURE NO. 1

family unit has only one breadwinner are clearly the exception, not the rule.

So, in computing how your family will actually advance in total income, be sure you include the tax to be paid by each working member of the family, and subtract it from the total dividends received.

The second major factor to be aware of is that these comparisons are made on tax levels of 3.2% and 5.7%. Once the tax is into law, how quickly will it rise? If the most recent state tax level of 16% is used, how then does your gross tax level compare with PFD income?

When one considers the tremendous amount of revenue the State of Alaska will receive during FY 1988 (more than \$3 billion) it is illogical, irrational, unnecessary and, most important, unjustifiable to tax the working people of this state. Should we reduce the workers of Alaska to slavery to a government that has billions of dollars in savings, and gives out hundreds of millions of dollars for every conceivable purpose?

Last year, 539,000 people applied for permanent fund dividend checks. Of that group, approximately 200,000 would pay an income tax, if enacted. Remember, only working people pay taxes. For 1987, it is proposed that \$364 million be given out in dividend checks. The average taxpayer would have to pay \$1820 to equal this giveaway. This is 10% of the average wage earned in Alaska.

Is it really fair, logical or economically sound to give 184,000 children checks for \$775 each while taxing their parents twice or three times that amount? This is no way to secure the happiness of the people. You are going to tax mom and dad just to give the kids a dividend check. It used to be the responsibility of the parents to give their children an allowance. Now we are telling the children that from now on they shouldn't bug mom and dad about an allowance - just talk to your legislator. In most cases, with both parents working and considering a high percentage of single parents working in Alaska, there will be no net gain from the dividend checks, because the taxes will be higher than the dividends.

Let's compare taxing the working class to giving \$3000 to everyone over 65. Is it really fair - and of what government purpose - to tax a single parent who is barely making ends meet, while giving a bonus to retired persons who in more than 25% of cases have larger incomes. The average per capita income for Alaska in 1985 was \$18,187. Under the latest proposal of the present administration, all persons over 65 with an income of less than \$25,000 would receive a bonus (plus, of course, their permanent fund dividend check). However, all working people making more than \$12,000 would be

taxed - which would go to someone who is drawing a higher income in retirement. Of the 16,455 senior citizens who, as of March 1, 1987, are receiving \$3,000 each, 4,113 have incomes of \$25,000 or more. It would take more than 24,000 taxpayers, at \$500 each, just to pay \$12,339,000 for this group whose incomes already exceed the average Alaskans annual wage. This amounts to stealing from the have-nots to give to those who have enough. Some who are proposing this unjustified tax on the people who toil for their bread (so others can eat it) must realize the burden you are placing on the people who can least afford it. When legislators impose an unnecessary tax on the state's citizens, we hurt hundreds of thousands of people. This is especially true when we try to regulate human behavior - force charity - as we envision ourselves the redistributors of personal income.

Can the working people of Alaska carry the increased burden of government spending to support the demands of a large non-working segment of our state that demands not only unnecessary services, but in addition, enormous amounts of cold cash to elevate their buying power. I find no reason why we must concern ourselves with the redistribution of the working people's personal income while we continue to give out hundreds of millions of dollars to every citizen who did nothing to earn it.

Now the question is, "How many non-workers can the workers support?" We have to know where the line of refusal to support stops in our system. Maybe it runs until it becomes impossible for the workers any longer to handle the job. Are we approaching the breaking point? Here are some of the figures for people who help increase the costs of government, but contribute little to pay those costs: 184,000 under the age of 19; 16,000 college students; 35,000 seniors over the age of 65, 3/4 of whom have no tax liability; 3,386 inmates in the state correction system; 23,000 military personnel; 22,000 average per year unemployed - all receive permanent fund dividend checks.

Taxing the working class and giving the revenues to the non-working segment of a population is the worst sort of inflation a state government can put into the economy.

An interesting side note to this issue is that under the permanent fund dividend program "hold harmless" provisions, the state will pay \$8.5 million in federal income taxes on the behalf of certain low income PFD recipients to ensure that they will not exceed their low income limits, and thereby become ineligible for federal government programs they are currently covered by. An additional \$5 million plus is allocated by the state to pay federal taxes under the hold harmless benefit for recipients of the longevity bonus, who would become ineligible for programs such as medicaid with the additional income.

Of course, these hold harmless provisions are just two of tax exemption benefits allowed certain groups of people. Another well-known state subsidy is the payment of \$3 million in property taxes to municipalities on behalf of senior citizens.

Too many of my colleagues are crawling all over each other to be canonized as the patron saint of the permanent fund dividend program. They fail to see that the income tax they propose will take away any dividend the working class has coming. The new tax form the department of revenue would send to each taxpayer makes this very clear by telling the taxpayer to subtract the dividend credit from their tax liability. The department also estimates a rebate to the state of \$16.6 million from the dividends. Even worse, families earning more than \$25,000 for single taxpayers or \$40,000 for joint statements, will be deprived of the income of their children's dividend checks. Families (including children) who keep their income below \$12,000 a year will receive a full dividend check.

Emotional slogans are useful for rallying people to a cause, but slogans are no substitute for thought. Take, for instance, "we must have an income tax to make the non-resident worker pay for working in the state." The department of revenue, in a hypothetical case, analyzed that a \$300 million income tax scenario would only bring in \$17 million from out of state workers. Does it make sense, then, to tax ourselves \$283 million just to get \$17 million? Resident workers would pay 95% of the tax, while out-of-staters would pay 5%.

Another rationale for paying state income taxes is that they can be deducted from your federal tax. Because we have no state income tax, \$86 million stays with the federal government each year (out of \$399 million in federal taxes paid by Alaskans). This is termed the "federal tax leakage." In other words, if we had a state income tax, 22 cents out of every dollar in income tax paid to the IRS would stay in the state. Does it make sense to tax the working class \$316 million to save the \$86 million? If this is the case, then the same logic should apply to other leakages to the federal government. Why not stop giving out permanent fund dividends and save that \$73 million leakage? Is this not a reasonable trade-off? And who will benefit? - the working people. With the PFD check increasing each year, the federal tax leakage will dramatically increase. This year, close to \$100 million will go to the federal government.

I really cannot blame the Juneau representative for pushing for a state income tax, because the program itself would employ, at a minimum, 92 new people with a payroll of at least \$3.5 million (and an enormous start-up cost with new machinery and office space required). At the same time, we

will still be employing 71 people to give out the dividend checks.

Currently, state employees and teachers across the state are complaining about forced salary cuts. However, many of them also say they support an income tax. I am bewildered by their rationalization. Don't they realize that an income tax is also a reduction in their wages? As everyone has shared equally in the wealth of Alaska through the PFD checks, so everyone should also be willing to share equally in the loss through a reduction in the PFD. With an income tax, working people are being forced to take too great a portion of the burden in replacing the lost revenues.

Others who advocate reimposing the state income tax say people were more interested in government when they paid taxes. This is really grabbing at straws, and is not borne out by the facts. Figure No. 2 shows that the public's participation in government, in terms of percentages of people who voted, has risen since the end of the income tax in 1980. I find people even more interested today in protecting their pocketbooks from the government.

We should consider the tax revolt fever going on all over the nation. Take a hint from the state of Michigan, where the people recalled five Democrat State Senators who voted to increase their income taxes, and replaced them with conservative Republicans. I wouldn't be surprised to find a lot of requests for recall procedures in this state, to be used on those who pass any bill for a new income tax.

A new cliché was introduced to rationalize an income tax, namely "Representation without taxation." I see nothing wrong with this. That's the way our country operated for more than 126 years, except for a brief period during the Civil War. What is really bad and certainly constitutionally questionable, is taxation without equal representation. Alaska is the only state where a simple majority in the Legislature can impose a tax on its citizens. This means 21 members in the House of Representatives, and 11 members of the Senate. Because our state is so mal-apportioned, the majority of legislators do not represent the majority of the citizens, which bears out Lord Acton's famous aphorism, "Power tends to corrupt: absolute power corrupts absolutely." Figure No. 3 illustrates the extent to which Alaskan voting districts have been gerrymandered out of proportion. While an ideal district would consist of just under 7500 registered voters, some districts now contain as few as 5500, while others have ballooned up to almost twice that amount.

No other state allows a simple majority of the legislature to increase taxes on the citizens. Most states, by their constitution or state laws, require a 2/3 or 3/4 majority, and one state even requires 4/5 of each house before a tax

Below is a brief table which reflects the number of registered voters and the number of registered voters who actually cast ballots in the last ten year period.

YEAR	# OF REGISTERED VOTERS	% OF CHANGE OVER PREVIOUS YEAR	VOTES ACTUALLY CAST IN PRIMARY	% OF REGISTERED VOTERS WHO VOTED IN PRIMARY	% OF REGISTERED VOTERS WHO VOTED IN GENERAL
1974	162,876		84,585	51.9%	60.1%
1976	193,546	16%	55,233	28.5%	61.7%
1978	224,118	14%	108,057	48.2%	54.3%
1980	242,898	8%	102,409	42.2%	62.8%
1982	241,357	-1%	139,133	57.6%	74.9%
1984	278,665	13%	97,837	35.1%	70.0%
*1986	280,351 (As of 8/5/86)	1%			

- As of July 1, 1984, Alaska's population had reached approximately 523,000.
- According to the 1980 Census, approximately 67.5% of Alaska's population was of voting age.
- Using the 67.5% estimate as a basis for determining the approximate number of voting age individuals, it would indicate the voting age population in Alaska at about 353,025.

	APPROXIMATE ELIGIBLE POPULATION	REGISTERED VOTERS	% OF ELIGIBLE POPULATION REGISTERED
1983	344,250	254,785	74%
1984	353,025	278,665	78%

*1986 Population Data is not yet available.

FIGURE No. 2

increase can become effective. Voter approval is required in more than half the states, while here in Alaska, the people are denied this opportunity. The citizens of Alaska, in 1983, have even been denied the right to petition through the initiative process for the right to vote on taxation.

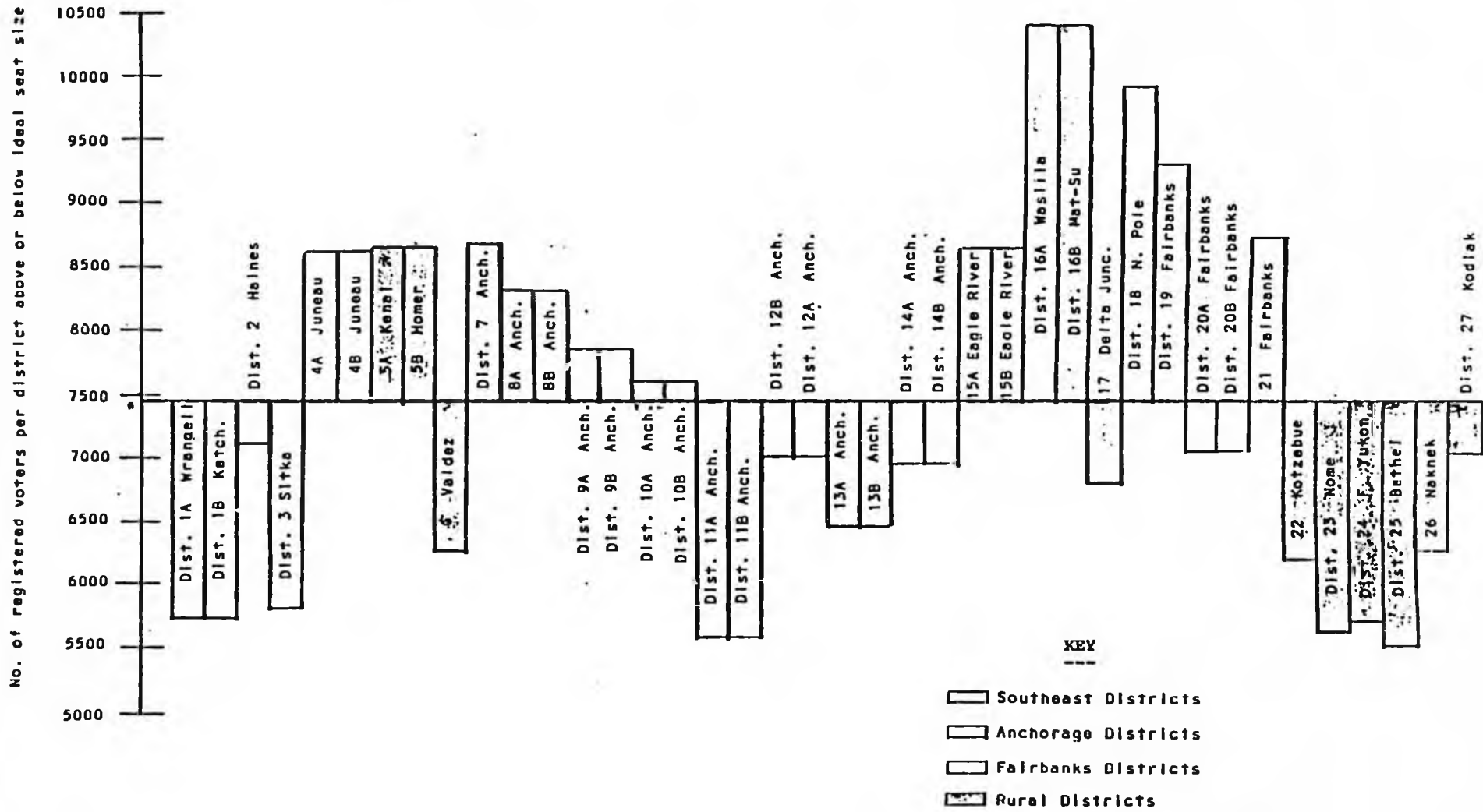
It borders on tyranny if this current legislature would invoke a new tax on the citizens, the majority of whom they do not represent. It certainly would be an affront to the principles of a republic if such a thing were done.

We in Alaska have a golden opportunity to not make the mistake most other states, and especially Congress, have made, by preventing the state from engaging in inflationary deficit spending, and forcing taxation on our children and our children's children - taxation they will be paying until the death of democracy.

On the other hand, what a unique legacy we can establish in Alaska, perhaps for other states to emulate, where future generations - every child born in Alaska - can hope to grow up to enjoy no state taxation. Blessed may be the young Alaskans for they shall not inherit state debt. Once they start providing for themselves, being an independent, self-reliant Alaskan breadwinners, they can be sure the state will not take a big slice of it. A new income tax is the worst type of capital punishment we could impose on the future generations. Especially when the state is collecting more taxes than is absolutely necessary - this may be considered legalized robbery. It is said that the income tax has made more liars out of the American people than any other institution. Alaska does not need to add to this temptation.

Once a new tax is put into law, there would be no limit to how high future legislatures could raise it. Alaskans used to pay 16% income tax (see Figure No. 4). Nor would there be any limit on the growth of state government. The new tax is a threat to the individual's personal and family well-being. The state does not need the extra revenue. The legislature was not created to devour the savings of the widows, nor the income of the single parent who provides the needs of her or his children.

Disparities In Number of Registered Voters Per House Seat
 Division of Elections Count April 1987



* Ideal House Seat Size is 7426

FIGURE No. 3

INCOME TAX RATES IN ALASKA STATE & TERRITORY

<u>Year</u>	<u>Individuals</u>	<u>Corporations</u>
1949	10% of Fed. tax	10% of Fed. tax
1955	12½% of Fed. tax	12½% of Fed. tax
1957	14% of Fed. tax	18% of Fed. tax
1961	16% of Fed. tax	18% of Fed. tax
1964	3.2% - 14.56% of income (graduated) (retroactively repealed)	5.4% & 3.96% surtax of income (surtax on income over \$25,000)
1965	16% of Fed. tax	18% of Fed. tax
1975	3% - 14.5% of income (graduated)	5.4% & 4% surtax (surtax on income over \$25,000)
1980 (June)	3% - 14.5% of income (graduated) (1/3 of income exempt for each prior year of filing)	5.4% & 4% surtax (surtax on income over \$50,000)
1980 (Sept.)	repealed	
1981		2% - 11% (graduated to \$4,000,000)
1982		1% - 9.4% (graduated to \$90,000)

ALASKA STATE TAX REVENUES BY SOURCE (STATED IN THOUSANDS)

<u>Fiscal Year</u>	<u>Income Tax</u>	<u>Business & Licenses Tax</u>	<u>Fuel Tax</u>	<u>Disaster Tax School Tax</u>
1977	\$246,243	\$ 23,252	\$ 20,418	\$ 2,589
1978	179,332	21,675	23,287	2,401
1979	374,731	28,158	22,323	2,530
1980	665,877	4,180	26,174	2,555
<u>1981</u>	<u>906,087</u>	5,484	23,331	970
1982	701,077	5,477	30,166	---
1983	267,846	6,949	36,675	---
1984	305,773	19,906	32,169	---
1985	205,869	38,815	35,972	---
1986	145,655	2,059	36,076	---

FIGURE NO. 4



TAX HIKE PROPOSAL

Democrat Party
1980

Democrat Party
1984

Democrat Party
1988

How many times can you shoot yourself in the foot?

4/13/87

ALASKA DEPARTMENT OF REVENUE
1988 INDIVIDUAL INCOME TAX
IMPLEMENTATION PLAN OUTLINE

This outline is intended to inform the reader of the Department's implementation of the Individual Income Tax as outlined in the Governor's proposed bill.

The calendar year tax returns will not be due until April 15, 1989. However, a withholding tax system must be in place and operative by January 1, 1988.

This outline is brief and may be subject to change depending on the final outcome of the bill. Specific detail of staffing requirements and expenditures can be found in the fiscal notes.

<u>DATE COMMENCED</u>	<u>DIVISION</u>	<u>ACTIVITY</u>
Prior to July, 1987	Admin Services	General analysis of law, identify employers, job classifications, regulation drafting
July, 1987	Public Services	Hire & train one individual
July, 1987	Admin Services	Hire personnel analyst, programmer staff, publications expert. Design forms. System analysis & design. Contract with bank for lock box.
		Start analysis of income tax law. Develop regulations (income tax)
September, 1987	Public Services	Schedule employer training & advertise schedule to public
September, 1987	Public Services	Train in-house staff on withholding
Prior to October, 1987	Treasury	Technical analysis of required system
October, 1987	Public Services	Employer training
October, 1987	Admin Services	Provide employers formal notice of withholding process. Purchase micro-film equipment
October, 1987	Audit	Hire & train office audit staff Conduct public education of withholding program Plan & purchase equipment and supplies. Establish refund credit program withholding

<u>DATE COMMENCED</u>	<u>DIVISION</u>	<u>ACTIVITY</u>
November, 1987	Public Services	Develop cash deposit procedures
Prior to December, 1987	Treasury	Lock box contract In-house training - depository procedure In-house training - accounting procedure
December, 1987	Admin Services	Distribute forms Begin design of income tax system. Hire Analyst/Programmer for income tax.
January, 1988	Public Services	Advertise Individual Income Tax Filing
January, 1988	Admin Services	Withholding begins
January, 1988	Audit	Establish billing procedure withholding Establish appeal procedure withholding
February 5, 1988	Admin Services	Employers make first deposits through lock box bank
March, 1988	Admin Services	Hire & train document processing staff. Establish microfilming & destruction schedule Automated withholding system complete
March, 1988	Enforcement	Hire & train staff
April, 1988	Admin Services	Employers file first quarterly returns. Manual processing and data capture. First estimated individual income tax prepayments due
June, 1988	Admin Services	Classify FY89 positions. Adopt income tax regulations.
July, 1988	Admin Services	Purchase forms
September, 1988	Admin Services	Prepare instructions for employers on magnetic tape annual recon reporting
September, 1988	Public Services	Hire & train permanent full-time staff
October, 1988	Audit	Individual tax
December, 1988	Admin Services	Distribute Income Tax returns Hire & train staff Establish microfilm/document retention schedule Automated Income Tax Return program complete.

<u>DATE COMMENCED</u>	<u>DIVISION</u>	<u>ACTIVITY</u>
January, 1989	Admin Services	Annual reconciliation for 1988. Begin processing & data capture.
January, 1989	Enforcement	Hire & train staff
March, 1989	Public Services	Hire & traing four month seasonal staff
April, 1989	Enforcement	Hire & train staff
July, 1989	Enforcement	Hire & train staff
July, 1989	Audit	Hire & train field audit and appeals staff Public education of individual income tax program Technical analysis of individual income tax Establish billing procedures - individual income tax Establish appeals procedures - individual income tax Establish refund credit program - individual income tax



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 26, 1987

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 13, of the Alaska Constitution, I am transmitting a bill relating to the taxation of individuals and fiduciaries, and to amended tax returns filed by taxpayers. The bill reimposes an individual income tax.

I know that an income tax is not an instantly popular idea. However, I believe Alaskans want to be in control of our own destiny. I believe we have reached the time when we must reduce our dependence on the price of oil, a price that is not within our control.

I also believe Alaskans want state government to provide a decent and consistent level of public services. An individual income tax is one of the fairest ways of meeting this goal. Those who are most able to pay bear a greater proportion of the burden.

This bill also ensures that nonresidents who take jobs in Alaska make their fair contribution to our state. As explained below, this bill is more effective than our earlier law in making sure that this happens.

I believe that Alaskans are willing to help pay for government if that government is responsive and accountable. I think that an income tax will help make sure that our government listens to its people.

The bill embodies a tax structure that is simple, fair, and relatively easy to administer. The taxpayer need only complete a one-page return. Basically, the taxpayer begins with "total income" as set out on the federal return, and may make only limited adjustments to that figure. The personal exemptions are then deducted, and the remainder is taxable income.

The income is taxed in two brackets: 3.2 percent and 5.7 percent. By not providing for the full array of familiar deductions historically available in a personal income tax, this bill will tax a comparatively broad tax base. As a result, the tax rate is lower than it would be if deductions were permitted. The tax rates have been established to generate \$250,000,000 over a full year; collections for FY 88 are estimated to be approximately \$85,000,000. Receipts in FY 88 will be from "withholding" only, since returns for calendar year 1988 will not be due until the spring of 1989. FY 88 receipts will not reach one-half of a full year's receipts because of the lag between wages paid and withholding remitted to the state.

An individual's filing status will be the same as on the federal return. The filing status determines how much income is taxed in the lower bracket of 3.2 percent. For individual taxpayers (and fiduciaries), that amount is income of less than \$30,000. For married couples filing a joint return, and for surviving spouses, the amount is income of less than \$50,000; for married individuals filing separate returns, it is income of less than \$25,000. For heads of household, the amount is income of less than \$40,000. Income in excess of these levels is taxed at the higher 5.7 percent rate. Section 1 of the bill sets out the rates for each filing status.

The individual income tax law, before its repeal in 1980, favored nonresidents over residents by taxing nonresident income in the lowest possible tax brackets. This bill remedies that inequity by placing nonresidents on an equal footing with residents. This is accomplished by computing a tax on the entire taxable income of nonresidents from all sources and then determining the fraction of that tax that is attributable to income earned in Alaska. This approach results in apportioning the nonresident's income between the tax brackets rather than lumping it all in the lower bracket. Under the bill, part-year residents will be taxed in the same manner as nonresidents. Section 1 of the bill sets out the method for determining nonresident and part-year resident tax liability, and secs. 5, 6, and 7 of the bill add provisions relating to tax calculation for nonresidents as well as part-year residents.

Section 4 of the bill adds three subsections to AS 43.20.-031, delineating gross income, adjusted gross income, and taxable income. A taxpayer's gross income will correspond with gross income under federal law, with certain modifica-

tions. First, cost-of-living allowances that are exempt from federal income taxation will be added to the state tax base. Second, interest on state and municipal obligations that is tax exempt at the federal level will be added to the tax base. A taxpayer's "total income" on the federal return automatically will incorporate the income from and expenses attributable to a trade or business, the sale of capital assets, and rental and royalty property. Since federal "gross income" already includes the income from these activities, the bill allows the costs of producing that income as deductions to the same extent as provided under federal law.

Adjustments to gross income are greatly limited. Federal law prohibits states from imposing an income tax on interest from United States obligations; therefore, that income is deducted from the tax base. State income tax refunds are excluded from the base to eliminate artificial state income. Alimony paid and the penalty for the early withdrawal of funds from savings accounts are permitted as deductions since they cannot realistically be regarded as income. No other deductions of any nature are allowed.

Taxable income is calculated by deducting allowable personal exemptions from adjusted gross income. The bill uses the federal rules for qualification for personal exemptions; that is, a taxpayer will qualify for the number of personal exemptions for which the taxpayer qualified under federal law. The exemption amount is \$3000. Since the federal exemption is adjusted for inflation, the bill makes it clear that Alaska does not adjust its exemption for inflation. Estates and trusts will not receive any exemption.

Under sec. 4 of the bill, proposed AS 43.20.031(j), (k), and (l), relating to gross income, adjusted gross income, and taxable income, will appear in an existing statute entitled "Taxable income of residents; deductions; exemptions." AS 43.20.031. Because those proposed subsections are intended to apply to all taxpayers, resident or not, proposed AS 43.20.031(m) defines "individual" and "fiduciary" to mean resident, nonresident, or part-year resident individuals and fiduciaries. If this bill is enacted, the revisor of statutes should change the title of AS 43.20.031 to reflect that the section no longer applies only to residents.

Residents will receive a credit for taxes paid to other states on income earned in the other states. Nonresidents do not receive this credit since the income earned outside the state is not taxed. Those taxpayers qualifying for the permanent fund dividend can elect to have the dividend ap-

plied directly against their tax liability. The Department of Revenue will adopt regulations specifying the procedure for requesting the PFD offset. These provisions appear in proposed AS 43.20.062, in sec. 8 of the bill.

Employers will be required to withhold taxes from their employees' wages, remit the taxes, and file withholding returns and reports with the department. The department will establish the rate of withholding. Employers will be required to furnish employees with wage and tax statements by January 31 of each year or within 30 days after the termination of employment, whichever is earlier. The withholding provisions are in sec. 9 of the bill.

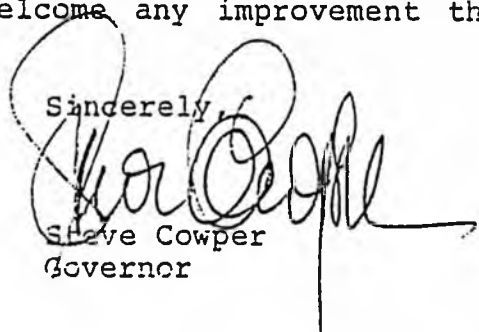
Section 3 of the bill amends AS 43.20.030(d) to require that every taxpayer, whether individual, fiduciary, or corporate, is required to file an amended state tax return within 60 days after filing an amended federal return or within 60 days after a federal assessment. Any additional tax due, together with accrued interest, must also be paid within the 60-day period. The existing language of that subsection requires that a "notice" be filed within the 60 days, and leaves unclear the due date of any additional tax or penalty.

Sections 2 and 10 make conforming changes. Section 11 repeals the provisions relating to tax credits for political contributions and child care (AS 43.20.013), as well as the provision in the longevity bonus program dealing with the taxability of the longevity bonus (AS 47.45.120(a)). The effect of this last repeal is to make taxability of the bonus track federal treatment. If the bonus remains taxable by the United States, the state will also tax it. If it is not taxed by the United States, the state will not tax it. AS 43.20.012 is repealed because it states that AS 43.20 does not apply to individuals or fiduciaries. In addition, that section contains a reference to AS 43.20.013, which is also being repealed in sec. 11 of the bill.

In summary, a taxpayer under this bill would begin with "total federal income," that is, line 23 on the 1986 federal 1040 form. Cost-of-living allowance income and tax exempt interest income would be added, and interest on U.S. obligations, state income tax refunds, alimony paid, and the penalty on early withdrawal of savings from time deposits would be deducted. Personal exemptions would be applied against the result, to produce "taxable income." Withholding, the credit for taxes paid other states, and the PFD offset, would then be applied against the tax liability.

I believe that an income tax is an essential step in providing secure revenues for public services. I urge your prompt and favorable consideration of this proposal during this legislative session, and welcome any improvement that you may have to offer.

Sincerely,

A handwritten signature in dark ink, appearing to read "Steve Cowper". The signature is written in a cursive style with a large, looping initial "S".

Steve Cowper
Governor

1 IN THE HOUSE BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 154

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the taxation of income derived by
7 individuals; relating to amended tax returns filed by
8 taxpayers; and providing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 43.20.011 is amended by adding new subsections to read:

11 (g) There is imposed for each taxable year upon the taxable
12 income of every resident, nonresident, and part-year resident indi-
13 vidual and fiduciary of the state, except those subject to the rates
14 in (h), (i), and (j) of this section, a tax computed according to the
15 following table:

16 If the taxable income is:	Then the tax is:
17 Over \$31 but less than \$30,000	3.2 percent of taxable income
18 \$30,000 or more	\$960 plus 5.7 percent of the
19	excess over \$30,000

20 (h) There is imposed for each taxable year upon the taxable
21 income of every resident, nonresident, and part-year resident married
22 individual who makes a single return jointly with a spouse, as provid-
23 ed in 26 U.S.C. 6013 (Internal Revenue Code), and upon every resident,
24 nonresident, and part-year resident surviving spouse, as defined in 26
25 U.S.C. 2(a) (Internal Revenue Code), a tax computed according to the
26 following table:

27 If the taxable income is:	Then the tax is:
28 Over \$31 but less than \$50,000	3.2 percent of taxable income
29 \$50,000 or more	\$1,600 plus 5.7 percent of the

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excess over \$50,000

(i) There is imposed for each taxable year upon the taxable income of every resident, nonresident, and part-year resident head of a household, as defined in 26 U.S.C. 2(b) (Internal Revenue Code), a tax computed according to the following table:

If the taxable income is:	Then the tax is:
Over \$31 but less than \$40,000	3.2 percent of taxable income
\$40,000 or more	\$1,280 plus 5.7 percent of the excess over \$40,000

(j) There is imposed for each taxable year upon the taxable income of every resident, nonresident, and part-year resident married individual who does not make a single return jointly with a spouse a tax computed according to the following table:

If the taxable income is:	Then the tax is:
Over \$31 but less than \$25,000	3.2 percent of taxable income
\$25,000 or more	\$800 plus 5.7 percent of the excess over \$25,000

(k) In (g), (h), (i), and (j) of this section, the tax on a nonresident or part-year resident individual or fiduciary is the tax computed on taxable income from all sources, multiplied by a fraction the numerator of which is adjusted gross income from sources in the state and the denominator of which is adjusted gross income from all sources.

(l) An individual shall determine the tax under this section using the same filing status as used on the individual's federal return.

* Sec. 2. AS 43.20.030(a) is amended to read:

(a) Every individual, fiduciary, and [IF A PARTNERSHIP WHICH HAS A CORPORATION AS A PARTNER OR A] corporation [IS] required to make a

1 return under the provisions of the Internal Revenue Code, [IT] shall
2 at the same time file with the department a return setting out

3 (1) the amount of tax due under this chapter, less allow-
4 able credits and payments claimed against the tax; and

5 (2) other information for the purpose of carrying out the
6 provisions of this chapter, which the department requires.

7 * Sec. 3. AS 43.20.030(d) is amended to read:

8 (d) A taxpayer[, UPON REQUEST BY THE DEPARTMENT], shall file
9 with the return [FURNISH TO THE DEPARTMENT] a [TRUE AND] correct copy
10 of the tax return [WHICH THE TAXPAYER HAS] filed with the United
11 States Internal Revenue Service. Every taxpayer shall file an amended
12 return with the department, and remit any additional tax and interest
13 due [NOTIFY THE DEPARTMENT IN WRITING OF ANY ALTERATION IN, OR MODI-
14 FICATION OF, THE TAXPAYER'S FEDERAL INCOME TAX RETURN AND OF A RECOM-
15 PUTATION OF TAX OR DETERMINATION OF DEFICIENCY (WHETHER WITH OR WITH-
16 OUT ASSESSMENT)]. A FULL STATEMENT OF THE FACTS SHALL ACCOMPANY THIS
17 NOTICE. THE NOTICE SHALL BE FILED] within 60 days after the final
18 determination of the taxpayer's federal tax liability [MODIFICATION,
19 RECOMPUTATION OR DEFICIENCY, AND THE TAXPAYER SHALL PAY THE ADDITIONAL
20 TAX OR PENALTY UNDER THIS CHAPTER]. For purposes of this section, a
21 final determination means [SHALL MEAN] the time that an amended feder-
22 al return is filed or the date a federal [A NOTICE OF DEFICIENCY OR
23 AN] assessment is made [MAILED TO THE TAXPAYER BY THE INTERNAL REVENUE
24 SERVICE, EXCEPT THAT IN NO EVENT WILL THERE BE A FINAL DETERMINATION
25 FOR PURPOSES OF THIS SECTION UNTIL THE TAXPAYER HAS EXHAUSTED RIGHTS
26 OF APPEAL UNDER FEDERAL LAW].

27 * Sec. 4. AS 43.20.031 is amended by adding new subsections to read:

28 (j) The gross income of an individual or a fiduciary is gross
29 income as defined in 26 U.S.C. 61 (Internal Revenue Code), and

1 includes those items specifically included in gross income under
2 Subtitle A, Ch. 1B, Part II of the Internal Revenue Code (26 U.S.C. 71
3 -- 89) and excludes those items specifically excluded from gross
4 income under Subtitle A, Ch. 1B, Part III of the Internal Revenue Code
5 (26 U.S.C. 101 -- 135), with the following modifications:

6 (1) a taxpayer who receives a cost-of-living allowance that
7 is exempt from federal income tax shall determine and include that
8 amount as part of the taxpayer's income as if the cost-of-living
9 allowance were not exempt;

10 (2) a taxpayer who receives interest upon obligations of a
11 state, or interest upon obligations of a political or municipal subdi-
12 vision of a state, which is exempt from federal income tax, shall
13 determine and include that amount as part of the taxpayer's income as
14 if the interest were not exempt.

15 (k) The following adjustments to the gross income of an indi-
16 vidual or fiduciary are allowed as deductions in arriving at adjusted
17 gross income under this section:

18 (1) the deductions allowable under 26 U.S.C. 62 (Internal
19 Revenue Code)

20 (i) attributable to a trade or business carried
21 on by a taxpayer;

22 (ii) from the sale or exchange of property;

23 (iii) attributable to property held for the produc-
24 tion of rents or royalties;

25 (iv) for the premature withdrawal of money from
26 time savings accounts or deposits;

27 (v) for alimony;

28 (2) interest received on obligations of the United States;

29 (3) refunds of state income taxes included in gross income.