

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 3115



RECORDS CERTIFICATION



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William J. Carter

Signature of Camera Operator

6/25/2007

Date

SJR

6

HFIN

FILE

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Recd-3-14-05

GARY WILKEN

SENATOR
Fairbanks



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SPONSOR STATEMENT

**Senate Joint Resolution 6
Federal Medical Assistance Reduction**

Senate Joint Resolution 6 urges federal action to maintain the current level of federal funding for the state's Medicaid program. The U.S. Department of Health and Human Services recently announced that the federal share of the medical assistance program, known as the Federal Medical Assistance Percentage (FMAP), will be reduced by 7.58% on October 1, 2005.

The reduction in the FMAP will result in an approximately \$53 million loss in federal Medicaid dollars in fiscal year 2006 and \$73 million in fiscal year 2007.

It is imperative that Congress and the federal administration know and understand the reasons behind the high level of health care costs in Alaska. Senate Joint Resolution 6 requests Congress to take action to correct the formula flaw that resulted in the proposed substantial FMAP reduction and to take whatever measures necessary to hold Alaska harmless from the reduction in the Federal Medical Assistance Percentage for Alaska.

Please join me in support of our state Medical program and endorse Senate Joint Resolution 6.

SENATE JOINT RESOLUTION NO. 6
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Introduced: 2/7/05
Referred: Finance

A RESOLUTION

1 Relating to a reduction in the Federal Medical Assistance Percentage for Alaskans, and
2 urging the United States Congress to take action to prevent the reduction.

3 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 WHEREAS, under each state's Medicaid program, the federal government pays a
5 share of medical assistance expenditures, known as the Federal Medical Assistance
6 Percentage; and

7 WHEREAS the Centers for Medicare and Medicaid Services in the United States
8 Department of Health and Human Services have recently announced that the Alaska Federal
9 Medical Assistance Percentage will be reduced by 7.58 percent in the coming years, changing
10 the existing rate of 57.58 percent federal and 42.42 percent state to a rate of 50 percent federal
11 and 50 percent state; and

12 WHEREAS the reduction in the Federal Medical Assistance Percentage will result in
13 a \$53,000,000 loss to Alaskans in fiscal year 2006 and a \$73,000,000 loss to Alaskans in
14 fiscal year 2007; and

15 WHEREAS the high level of health care costs in Alaska reflects the overall high cost
16 of living in Alaska; and

1 WHEREAS the overall high cost of living in Alaska is greatly driven by geographic
2 and demographic factors including that

3 (1) 600,000 people live in Alaska, a state the size of Texas, California, and
4 Montana combined, that extends over 3,000 miles from the Aleutian Islands to Canada;

5 (2) most of Alaska is without roads and transportation is largely accomplished
6 by boat, airplane, and snowmobile;

7 (3) much of the health care provided in Alaska is located outside of local
8 villages and residential areas, necessitating air transportation to larger metropolitan areas such
9 as Anchorage, Alaska, and Seattle, Washington, that are hundreds or thousands of miles
10 away;

11 (4) gasoline prices in much of rural Alaska are close to \$6 a gallon; heating
12 fuel, at a comparably high cost, must be used year-round; and electricity must be locally
13 generated due to the distances between rural electrical grids relying on expensive fossil fuels;

14 (5) much of Alaska food and all manufactured goods must be shipped in from
15 the lower 48 states by barge during the brief summer months and flown in by air during the
16 rest of the year at a high cost;

17 (6) recruitment and retention of qualified health care providers is made
18 difficult by the remoteness of the areas served and the necessity of working long hours
19 without relief, requiring higher salaries;

20 (7) the population of Alaska is scattered across vast distances, rendering the
21 establishment and maintenance of infrastructure support for medical testing and surgical
22 procedures impossible and necessitating air transportation of patients and lab specimens
23 outside of Alaska at great expense; and

24 (8) the prevalence of chronic disease, such as diabetes, is increasing faster in
25 Alaska than in other states, cancer is the leading cause of death in Alaska, tuberculosis is still
26 a public health problem in the state, and each translates into higher health care costs in
27 Alaska; and

28 WHEREAS, while the federal government recognizes the high cost of living in
29 Alaska by adding a 25 percent cost-of-living allowance to federal employees working in
30 Alaska, the federal government does not recognize the high cost of living in Alaska in other
31 federal payments or programs; and

1 WHEREAS the Kaiser Family Foundation's State Health Facts report shows Alaska
2 to have the highest hospital inpatient cost per day and to be in the top ranks of pharmaceutical
3 costs; and

4 WHEREAS the reduction of the Federal Medical Assistance Percentage threatens the
5 availability of continued health care services for seniors, disabled people, and other needy and
6 vulnerable populations in Alaska; and

7 WHEREAS the reduction of the Federal Medical Assistance Percentage threatens the
8 stability and sustainability of the health care infrastructure in Alaska, including hospitals and
9 other primary care facilities, as well as the provision of rural health care in Native health care
10 facilities and community health clinics across the state;

11 BE IT RESOLVED by the Alaska State Legislature that the United States Congress
12 and the federal administration must understand the significant effect on the people of the state
13 by the reduction of the Federal Medical Assistance Percentage in Alaska; and be it

14 FURTHER RESOLVED that the Alaska State Legislature urges federal action to
15 correct the formula that allows for the reduction of the Federal Medical Assistance Percentage
16 in Alaska, to maintain the existing rate for Alaska of 57.58 percent federal and 42.42 percent
17 state, and to take whatever additional actions are necessary to hold Alaska harmless from the
18 proposed reduction in the Federal Medical Assistance Percentage in the state.

19 COPIES of this resolution shall be sent to the Honorable George W. Bush, President
20 of the United States; the Honorable Richard B. Cheney, Vice-President of the United States
21 and President of the U.S. Senate; the Honorable Michael O. Leavitt, United States Secretary
22 of Health and Human Services; the Honorable Ted Stevens and the Honorable Lisa
23 Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of
24 the Alaska delegation in Congress; and to all other members of the 109th United States
25 Congress.

SJR 6

Impact of FMAP Reduction on State Match
Projected Medicaid Expenditures
2005 to 2015
 Funds in Thousands

STATE FISCAL YEAR

State Fiscal Year	Impact of FMAP Reduction on State Match
2005	\$0
2006	\$52,872,300
2007	\$72,853,900
2008	\$80,974,800
2009	\$86,267,100
2010	\$91,200,100
2011	\$96,490,400
2012	\$101,437,900
2013	\$106,115,400
2014	\$110,716,900
2015	\$115,287,300
Total	\$914,216,100

FEDERAL FISCAL YEAR

Federal Fiscal Year	Impact of FMAP Reduction on State Match
2005	\$0
2006	\$70,223,800
2007	\$77,410,800
2008	\$82,670,600
2009	\$87,473,900
2010	\$92,535,500
2011	\$97,781,300
2012	\$102,608,400
2013	\$107,274,400
2014	\$111,861,900
2015	\$116,421,500
Total	\$946,262,100

Announced FMAP *

Federal Fiscal Year	Title XXI FMAP	Title XIX FMAP
2005	70.31%	57.58%
2006	65.11%	50.16%
2007	65.00%	50.00%
2008	65.00%	50.00%
2009	65.00%	50.00%
2010	65.00%	50.00%
2011	65.00%	50.00%
2012	65.00%	50.00%
2013	65.00%	50.00%
2014	65.00%	50.00%
2015	65.00%	50.00%

Assumptions:

SFY2005 is from the Operating Budget; SFY2006 is from the Governor's Budget; SFY2007 to SFY2015 are actual quarterly claim payments (Jan. 1998-Dec. 2004) projected using a linear trend.

FFY2005 to FFY2015 are actual quarterly claim payments (Jan. 1998-Dec. 2004) projected using a linear trend.

The announced FMAP for FFY2007 and forward is assumed to be the minimum allowed rate.

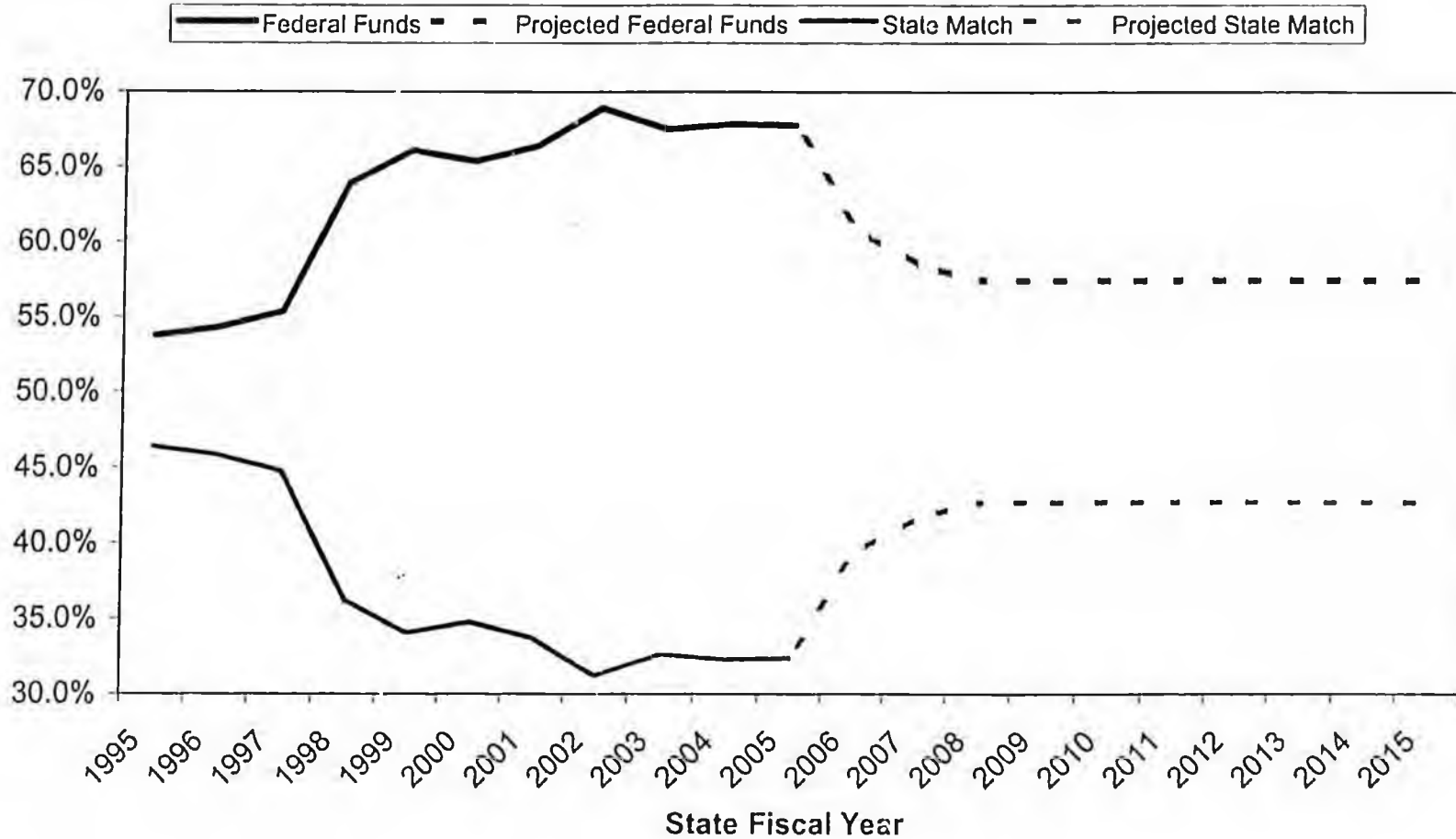
No changes to program services or eligibility are included except a 39% reduction in pharmacy costs for Medicare Part D coverage beginning in 2006.

Past trends in inflation and population growth are expected to continue and are therefore already included in the projection. No additional adjustments are made.

Source: DHSS, FMS, Medicaid Budget Group, February 12, 2005

Provided by Dept. Health &

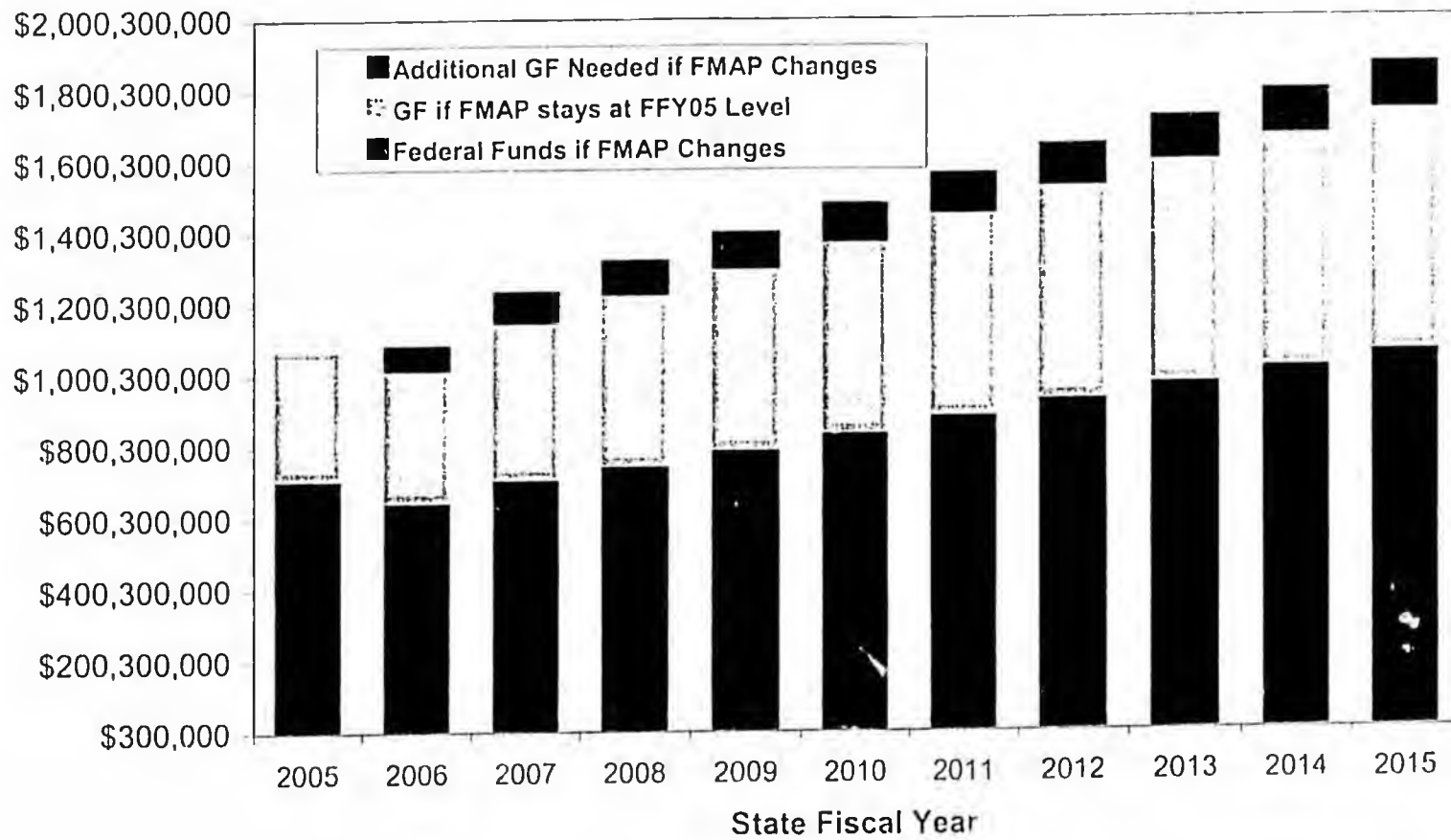
Percent of Total Medicaid Expenditures by Fund Source SFY1995 to SFY2015



SFY1995 to SFY2004 are actual quarterly claim payments; SFY2005 is from the Operating Budget; SFY2006 is from the Governor's Budget. SFY2007 to SFY2015 are actual quarterly claim payments projected using a linear trend.

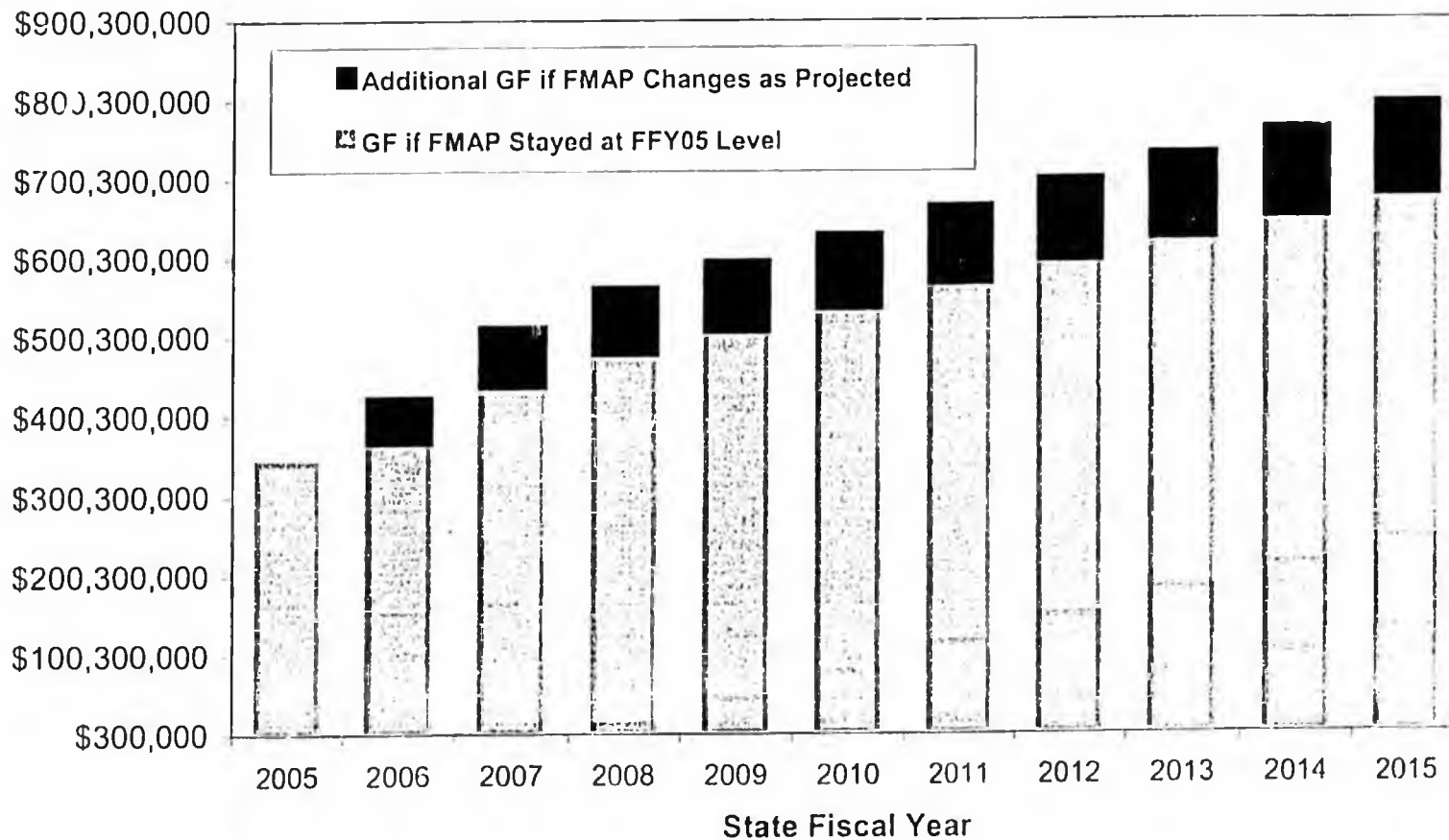
Source: DHSS, FMS, Medicaid Budget Group

Impact of FMAP Reductions on General Funds Projected Medicaid Expenditures by Fund Source SFY2005 to SFY2015



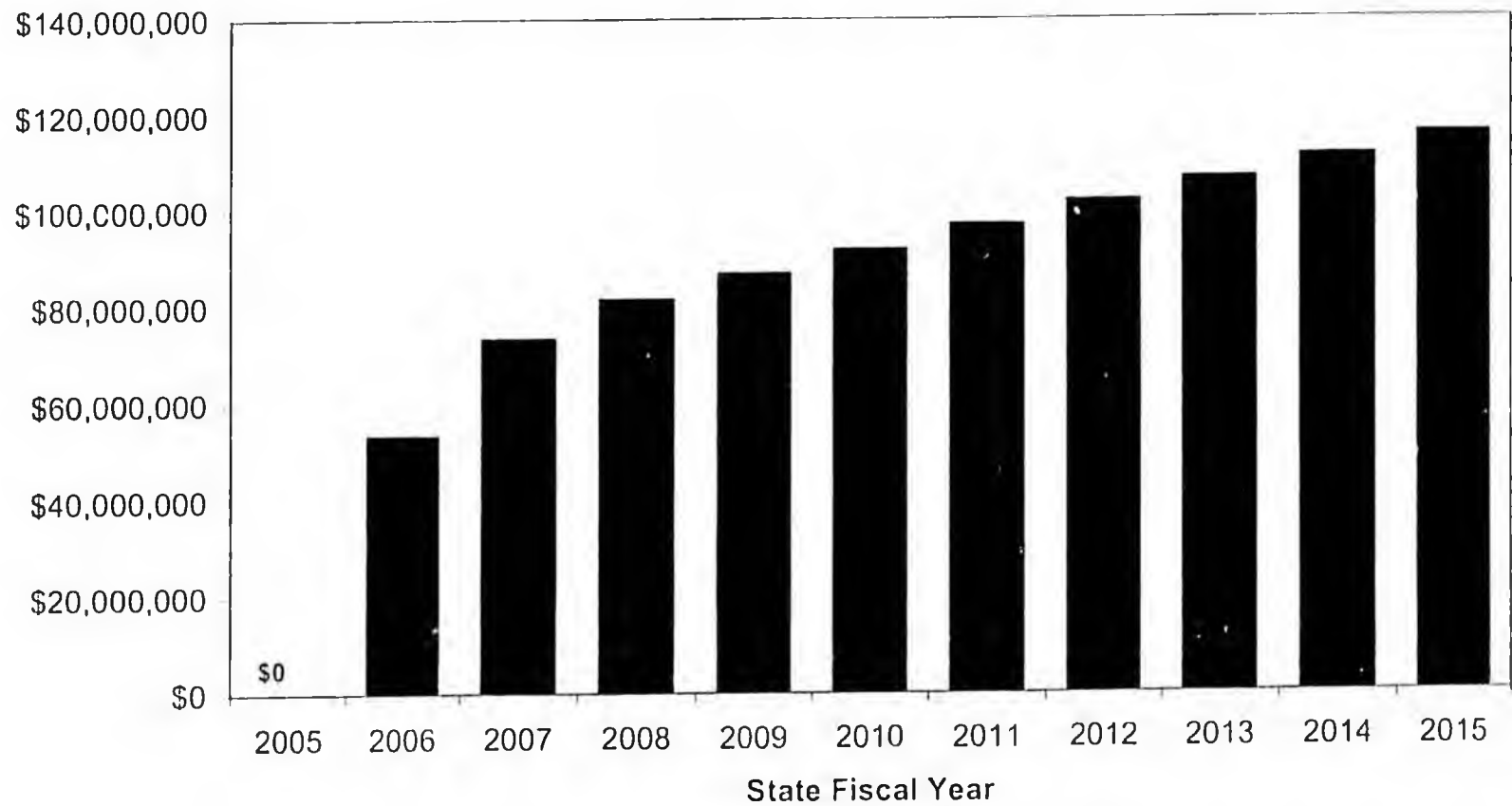
SFY2005 is from the Operating Budget, SFY2006 is from the Governor's Budget, SFY2007 to SFY2015 are actual quarterly claim payments projected using a linear trend.
Source: DHSS, FMS, Medicaid Budget Group

Impact of FMAP Reductions on General Funds Projected Medicaid General Fund Need SFY2005 to SFY2015



SFY2005 is from the Operating Budget; SFY2006 is from the Governor's Budget; SFY2007 to SFY2015 are actual quarterly claim payments projected using a linear
Source: DHSS, FMS, Medicaid Budget Group

Impact of FMAP Reductions on General Funds
Projected *Additional* General Funds Needed for Medicaid
SFY2005 to SFY2015



SFY2005 is from the Operating Budget, SFY2006 is from the Governor's Budget, SFY2007 to SFY2015 are actual quarterly claim payments projected using a linear trend
Source: DHSS, FMS, Medicaid Budget Group

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1

Bill Version: SJR 6

(S) Publish Date: 2/22/05

Revision Date/Time (Note if correction):

Dept. Affected: Health & Social Services

Title FEDERAL MEDICAL ASSISTANCE
REDUCTION

RDU Behavioral Health

Component Behavioral Hlth Medicaid Svcs

Sponsor SENATE FINANCE

Requester SFIN

Component No. 2660

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES (0)						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: _____

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

If the current federal law is not changed, the FFY06 Federal Medical Assistance Payment (FMAP) for Medicaid Services will be 50.16%, down 7.42% from the 57.58% in FFY05. This decrease is more than twice that of the state with the next highest cut. While the federal government recognizes the high cost of living in Alaska by adding a 25% COLA to federal salaries, the federal government does not recognize the high cost of living when calculating federal payments. Alaska has the highest hospital inpatient cost per day and is in the top ranks of pharmacy costs. The reduction in FMAP will result in a loss of federal funds and an increase in state general funds of \$53 million in FY06 and \$73 million in FY07. Over the next 10 years the cost of the FMAP reduction is projected to exceed \$900 million.

Prepared by: Bill Hogan

Phone 907-465-3166

Division: Behavioral Health

Date/Time 02/17/2005

Approved by: Joel S. Gilbertson, Commissioner

Date 02/18/2005

Agency: Department of Health and Social Services

FISCAL NOTE

FN # 1

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. SJR 6

ANALYSIS CONTINUATION

Assuming the level of Behavioral Health Medicaid Services in FY06 will be the same as in FY05, the FMAP reduction will result in a \$7,909.2 reduction in federal revenues for this component that will need to be supplanted by GF.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 2

Bill Version: SJR 6

(S) Publish Date: 2/22/05

Revision Date/Time (Note if correction):

Dept. Affected: Health & Social Services

Title FEDERAL MEDICAL ASSISTANCE
REDUCTION

RDU Children's Services

Component Children's Medicaid Services

Sponsor SENATE FINANCE

Requester SFIN

Component No. 2661

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES (0)						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost:

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

If the current federal law is not changed, the FFY06 Federal Medical Assistance Payment (FMAP) for Medicaid Services will be 50.16%, down 7.42% from the 57.58% in FFY05. This decrease is more than twice that of the state with the next highest cut. While the federal government recognizes the high cost of living in Alaska by adding a 25% COLA to federal salaries, the federal government does not recognize the high cost of living when calculating federal payments. Alaska has the highest hospital inpatient cost per day and is in the top ranks of pharmacy costs. The reduction in FMAP will result in a loss of federal funds and an increase in state general funds of \$53 million in FY'06 and \$73 million in FY'07. Over the next 10 years the cost of the FMAP reduction is projected to exceed \$900 million.

Prepared by: Marcia Kennel
 Division: Office of Children's Services
 Approved by: Joel S. Gilbertson, Commissioner
 Agency: Department of Health and Social Services

Phone 907-465-3011
 Date/Time 02/17/2005
 Date 02/18/2005

FISCAL NOTE

FN # 2

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. SJR 6

ANALYSIS CONTINUATION

Assuming the level of Children's Medicaid Services in FY06 will be the same as in FY05, the FMAP reduction will result in a \$654.8 reduction in federal revenues for this component that will need to be supplanted by GF.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: SJR 6
 (S) Publish Date: 2/22/05
 Dept. Affected: Health & Social Services

Revision Date/Time (Note if correction):

Title FEDERAL MEDICAL ASSISTANCE
REDUCTION

RDU Senior and Disabilities Svcs

Component Senior/Disabilities Medicaid Svc

Sponsor SENATE FINANCE

Requester SFIN

Component No. 2662

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (0)						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: _____

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

If the current federal law is not changed, the FFY06 Federal Medical Assistance Payment (FMAP) for Medicaid Services will be 50.16%, down 7.42% from the 57.58% in FFY05. This decrease is more than twice that of the state with the next highest cut. While the federal government recognizes the high cost of living in Alaska by adding a 25% COLA to federal salaries, the federal government does not recognize the high cost of living when calculating federal payments. Alaska has the highest hospital inpatient cost per day and is in the top ranks of pharmacy costs. The reduction in FMAP will result in a loss of federal funds and an increase in state general funds of \$53 million in FY06 and \$73 million in FY07. Over the next 10 years the cost of the FMAP reduction is projected to exceed \$900 million.

Prepared by: Steve Ashman
 Division: Senior and Disabilities Services
 Approved by: Joel S. Gilbertson, Commissioner
 Agency: Department of Health and Social Services

Phone 907-465-3819
 Date/Time 02/17/2005
 Date 02/18/2005

FISCAL NOTE

FN # 3

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. SJR 6

ANALYSIS CONTINUATION

Assuming the level of Senior & Disabilities Medicaid Services in FY06 will be the same as in FY05, the FMAP reduction will result in a \$15,474.7 reduction in federal revenues for this component that will need to be supplanted by GF.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: SJR 6
 (S) Publish Date: 2/22/05
 Dept. Affected: Health & Social Services
 RDU Health Care Services
 Component Medicaid Services

Revision Date/Time (Note if correction):
 Title FEDERAL MEDICAL ASSISTANCE
REDUCTION

Sponsor SENATE FINANCE
 Requester SFIN

Component No. 2077

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (0)						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: _____

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

If the current federal law is not changed, the FFY06 Federal Medical Assistance Payment (FMAP) for Medicaid Services will be 50.16%, down 7.42% from the 57.58% in FFY05. This decrease is more than twice that of the state with the next highest cut. While the federal government recognizes the high cost of living in Alaska by adding a 25% COLA to federal salaries, the federal government does not recognize the high cost of living when calculating federal payments. Alaska has the highest hospital inpatient cost per day and is in the top ranks of pharmacy costs. The reduction in FMAP will result in a loss of federal funds and an increase in state general funds of \$53 million in FY06 and \$73 million in FY07. Over the next 10 years the cost of the FMAP reduction is projected to exceed \$900 million.

Prepared by: Dwayne Peoples
 Division: Health Care Services
 Approved by: Joel S. Gilbertson, Commissioner
 Agency: Department of Health and Social Services

Phone 907-465-5830
 Date/Time 02/17/2005
 Date 02/18/2005

FISCAL NOTE

FN # 4

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. SJR 6

ANALYSIS CONTINUATION

Assuming the level of Medicaid Services in FY06 will be the same as in FY05, the FMAP reduction will result in a \$28,883.6 reduction in federal revenues for this component that will need to be supplanted by GF.

SJR

6

SFIN

FILE

**SENATE FINANCE COMMITTEE REPORT
First Committee of Referral**

REPORTED OUT
FEB 22 2005
SENATE FINANCE
COMMITTEE

DATE: 2/7/05

FURTHER:

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: Feb. 22, 2005

Finance Committee considered SENATE JOINT RESOLUTION NO. 6

SJR 6 FEDERAL MEDICAL ASSISTANCE REDUCTION

Relating to a reduction in the Federal Medical Assistance Percentage for Alaskans, and urging the United States Congress to take action to prevent the reduction.

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#
HSS Behavior Health	2/19/05			✓	
HSS Children's Services	2/18/05			✓	
HSS Senior Disabilities	2/18/05			✓	
HSS Health Care	2/18/05			✓	

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>				
COCHAIR: <i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			

FEB 22 2005

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: SJR6-DHSS-DBH-02-18-05

Revision Date/Time (Note if correction): _____
Title: FEDERAL MEDICAL ASSISTANCE
REDUCTION

() Publish Date: _____
Dept. Affected: Health & Social Services
RDU: Behavioral Health
Component: Behavioral Hlth Medicaid Svcs

Sponsor: SENATE FINANCE
Requester: SFIN

Component No. 2660

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES (0)						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: _____

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

If the current federal law is not changed, the FFY06 Federal Medical Assistance Payment (FMAP) for Medicaid Services will be 50.16%, down 7.42% from the 57.58% in FFY05. This decrease is more than twice that of the state with the next highest cut. While the federal government recognizes the high cost of living in Alaska by adding a 25% COLA to federal salaries, the federal government does not recognize the high cost of living when calculating federal payments. Alaska has the highest hospital inpatient cost per day and is in the top ranks of pharmacy costs. The reduction in FMAP will result in a loss of federal funds and an increase in state general funds of \$53 million in FY06 and \$73 million in FY07. Over the next 10 years the cost of the FMAP reduction is projected to exceed \$900 million.

Prepared by: Bill Hogan
Division: Behavioral Health
Approved by: Joel S. Gilbertson, Commissioner
Agency: Department of Health and Social Services

Phone 907-465-3166
Date/Time 02/17/2005
Date 02/18/2005

FISCAL NOTE
FN #

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. SJR6-DHSS-DBH-02-18-05

ANALYSIS CONTINUATION

Assuming the level of Behavioral Health Medicaid Services in FY06 will be the same as in FY05, the FMAP reduction will result in a \$7,909.2 reduction in federal revenues for this component that will need to be supplanted by GF.

02-18-2005

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: SJR6-DHSS-OCS-02-18-05
() Publish Date:
Dept. Affected: Health & Social Services

Revision Date/Time (Note if correction):
Title FEDERAL MEDICAL ASSISTANCE
REDUCTION

RDU Children's Services
Component Children's Medicaid Services

Sponsor SENATE FINANCE
Requester SFIN

Component No. 2661

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES (0)						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: _____

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

If the current federal law is not changed, the FFY06 Federal Medical Assistance Payment (FMAP) for Medicaid Services will be 50.16%, down 7.42% from the 57.58% in FFY05. This decrease is more than twice that of the state with the next highest cut. While the federal government recognizes the high cost of living in Alaska by adding a 25% COLA to federal salaries, the federal government does not recognize the high cost of living when calculating federal payments. Alaska has the highest hospital inpatient cost per day and is in the top ranks of pharmacy costs. The reduction in FMAP will result in a loss of federal funds and an increase in state general funds of \$53 million in FY06 and \$73 million in FY07. Over the next 10 years the cost of the FMAP reduction is projected to exceed \$900 million.

Prepared by: Marcia Kennai
Division: Office of Children's Services
Approved by: Joel S. Gilbertson, Commissioner
Agency: Department of Health and Social Services

Phone 907-465-3011
Date/Time 02/17/2005
Date 02/18/2005

FISCAL NOTE
FN #

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. SJR6-DHSS-OCS-02-18-05

ANALYSIS CONTINUATION

Assuming the level of Children's Medicaid Services in FY06 will be the same as in FY05, the FMAP reduction will result in a \$654.8 reduction in federal revenues for this component that will need to be supplanted by GF.

FEB 22 2005

SENATE FINANCE COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number:

Bill Version:

SJR6-DHSS-SDS-02-18-05

() Publish Date:

Dept. Affected:

Health & Social Services

Revision Date/Time (Note if correction):

Title

FEDERAL MEDICAL ASSISTANCE
REDUCTION

RDU

Senior and Disabilities Svcs

Component

Senior/Disabilities Medicaid Svc

Sponsor

SENATE FINANCE

Requester

SFIN

Component No.

2662

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES (0)						
-------------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost:

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS:

(Attach a separate page if necessary)

If the current federal law is not changed, the FFY06 Federal Medical Assistance Payment (FMAP) for Medicaid Services will be 50.16%, down 7.42% from the 57.58% in FFY05. This decrease is more than twice that of the state with the next highest cut. While the federal government recognizes the high cost of living in Alaska by adding a 25% COLA to federal salaries, the federal government does not recognize the high cost of living when calculating federal payments. Alaska has the highest hospital inpatient cost per day and is in the top ranks of pharmacy costs. The reduction in FMAP will result in a loss of federal funds and an increase in state general funds of \$53 million in FY06 and \$73 million in FY07. Over the next 10 years the cost of the FMAP reduction is projected to exceed \$900 million.

Prepared by: Steve Ashman

Division: Senior and Disabilities Services

Approved by: Joel S. Gilbertson, Commissioner

Agency: Department of Health and Social Services

Phone: 907-465-3819

Date/Time: 02/17/2005

Date: 02/18/2005

FISCAL NOTE

FN #

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. SJR6-DHSS-SDS-02-18-05

ANALYSIS CONTINUATION

Assuming the level of Senior & Disabilities Medicaid Services in FY06 will be the same as in FY05, the FMAP reduction will result in a \$15,474.7 reduction in federal revenues for this component that will need to be supplanted by GF.

8 2 2 2005

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: SJR6-DHSS-HCS-02-18-05
() Publish Date:

Revision Date/Time (Note if correction):
Title FEDERAL MEDICAL ASSISTANCE
REDUCTION

Dept. Affected: Health & Social Services

Sponsor SENATE FINANCE
Requester SFIN

RDU Health Care Services
Component Medicaid Services

Component No. 2077

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES (0)						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: _____
Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

If the current federal law is not changed, the FFY06 Federal Medical Assistance Payment (FMAP) for Medicaid Services will be 50.16%, down 7.42% from the 57.58% in FFY05. This decrease is more than twice that of the state with the next highest cut. While the federal government recognizes the high cost of living in Alaska by adding a 25% COLA to federal salaries, the federal government does not recognize the high cost of living when calculating federal payments. Alaska has the highest hospital inpatient cost per day and is in the top ranks of pharmacy costs. The reduction in FMAP will result in a loss of federal funds and an increase in state general funds of \$53 million in FY06 and \$73 million in FY07. Over the next 10 years the cost of the FMAP reduction is projected to exceed \$900 million.

Prepared by: Dwayne Peoples
Division Health Care Services
Approved by: Joel S. Gilbertson, Commissioner
Agency Department of Health and Social Services

Phone 907-465-5830
Date/Time 02/17/2005
Date 02/18/2005

FISCAL NOTE
FN #

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. SJR6-DHSS-HCS-02-18-05

ANALYSIS CONTINUATION

Assuming the level of Medicaid Services in FY06 will be the same as in FY05, the FMAP reduction will result in a \$28,883.6 reduction in federal revenues for this component that will need to be supplanted by GF.

GARY WILKEN

SENATOR
Fairbanks

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Alaska State Legislature

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Website: www.garywilken.com
E-Mail: SenatorGaryWilken@legis.state.ak.us

SPONSOR STATEMENT

Senate Joint Resolution 6 Federal Medical Assistance Reduction

Senate Joint Resolution 6 urges federal action to maintain the current level of federal funding for the state's Medicaid program. The U.S. Department of Health and Human Services recently announced that the federal share of the medical assistance program, known as the Federal Medical Assistance Percentage (FMAP), will be reduced by 7.58% on October 1, 2005.

The reduction in the FMAP will result in an approximately \$53 million loss in federal Medicaid dollars in fiscal year 2006 and \$73 million in fiscal year 2007.

It is imperative that Congress and the federal administration know and understand the reasons behind the high level of health care costs in Alaska. Senate Joint Resolution 6 requests Congress to take action to correct the formula flaw that resulted in the proposed substantial FMAP reduction and to take whatever measures necessary to hold Alaska harmless from the reduction in the federal Medical Assistance Percentage for Alaska.

Please join me in support of our state Medical program and endorse Senate Joint Resolution 6.

Impact of FMAP Reduction on State Match
Projected Medicaid Expenditures
2005 to 2015
 Funds in Thousands

STATE FISCAL YEAR

State Fiscal Year	Impact of FMAP Reduction on State Match
2005	\$0
2006	\$52,872,300
2007	\$72,853,900
2008	\$80,974,800
2009	\$86,267,100
2010	\$91,200,100
2011	\$96,490,400
2012	\$101,437,900
2013	\$106,115,400
2014	\$110,716,900
2015	\$115,287,300
Total	\$914,216,100

FEDERAL FISCAL YEAR

Federal Fiscal Year	Impact of FMAP Reduction on State Match
2005	\$0
2006	\$70,223,800
2007	\$77,410,800
2008	\$82,670,600
2009	\$87,473,900
2010	\$92,535,500
2011	\$97,781,300
2012	\$102,608,400
2013	\$107,274,400
2014	\$111,861,900
2015	\$116,421,500
Total	\$946,262,100

Announced FMAP *

Federal Fiscal Year	Title XXI FMAP	Title XIX FMAP
2005	70.31%	57.58%
2006	65.11%	50.16%
2007	65.00%	50.00%
2008	65.00%	50.00%
2009	65.00%	50.00%
2010	65.00%	50.00%
2011	65.00%	50.00%
2012	65.00%	50.00%
2013	65.00%	50.00%
2014	65.00%	50.00%
2015	65.00%	50.00%

Assumptions:

SFY2005 is from the Operating Budget; SFY2006 is from the Governor's Budget; SFY2007 to SFY2015 are actual quarterly claim payments (Jan. 1998-Dec. 2004) projected using a linear trend.

FFY2005 to FFY2015 are actual quarterly claim payments (Jan. 1998-Dec. 2004) projected using a linear trend.

The announced FMAP for FFY2007 and forward is assumed to be the minimum allowed rate.

No changes to program services or eligibility are included except a 39% reduction in pharmacy costs for Medicare Part D coverage beginning in 2006.

Past trends in inflation and population growth are expected to continue and are therefore already included in the projection. No additional adjustments are made.

Source: DHSS, FMS, Medicaid Budget Group, February 12, 2005

Provided by Dept. Health & Social Services

**Impact of FMAP Reduction
Projected Medicaid Expenditures
2005 to 2015**

Funds in Thousands

Announced FMAP	Title XXI	Title XIX
FFY2005	70.31%	57.58%
FFY2006	65.11%	50.16%
FFY2007 forward	65.00%	50.00%

STATE FISCAL YEAR

State Fiscal Year	Impact of FMAP Reduction on State Match	Keeping FFY05 FMAP				Using Announced FMAP				Announced FMAP (blended for SFY)	
		Total	% Fed	Federal	Match	Total	% Fed	Federal	Match	XXI FMAP	XIX FMAP
2005	\$0	\$1,059,719,600	67.7%	\$717,615,700	\$342,103,900	\$1,059,719,600	67.7%	\$717,615,700	\$342,103,900	70.45%	57.78%
2006	\$52,872,300	\$1,075,280,600	65.7%	\$706,991,400	\$368,289,200	\$1,075,280,600	60.8%	\$654,119,100	\$421,161,500	66.41%	52.02%
2007	\$72,853,900	\$1,226,852,500	64.3%	\$789,364,300	\$437,488,200	\$1,226,852,500	58.4%	\$716,510,400	\$510,342,100	66.41%	52.02%
2008	\$80,974,800	\$1,313,480,700	63.6%	\$834,897,900	\$478,582,800	\$1,313,480,700	57.4%	\$753,923,100	\$559,557,600	65.03%	50.04%
2009	\$86,267,100	\$1,391,945,400	63.6%	\$884,773,000	\$507,172,400	\$1,391,945,400	57.4%	\$798,505,900	\$593,439,500	65.00%	50.00%
2010	\$91,200,100	\$1,471,540,900	63.6%	\$935,366,900	\$536,174,000	\$1,471,540,900	57.4%	\$844,166,800	\$627,374,100	65.00%	50.00%
2011	\$96,490,400	\$1,556,901,100	63.6%	\$989,625,100	\$567,276,000	\$1,556,901,100	57.4%	\$893,134,700	\$663,766,400	65.00%	50.00%
2012	\$101,437,900	\$1,636,731,700	63.6%	\$1,040,368,400	\$596,363,300	\$1,636,731,700	57.4%	\$938,930,500	\$697,801,200	65.00%	50.00%
2013	\$106,115,400	\$1,712,203,300	63.6%	\$1,088,341,000	\$623,862,300	\$1,712,203,400	57.4%	\$982,225,700	\$729,977,700	65.00%	50.00%
2014	\$110,716,900	\$1,786,450,100	63.6%	\$1,135,535,100	\$650,915,000	\$1,786,450,100	57.4%	\$1,024,818,200	\$761,631,900	65.00%	50.00%
2015	\$115,287,300	\$1,860,195,600	63.6%	\$1,182,410,500	\$677,785,100	\$1,860,195,600	57.4%	\$1,067,123,200	\$793,072,400	65.00%	50.00%
Total	\$914,216,100	\$16,091,301,500	64.0%	\$10,305,289,300	\$5,786,012,200	\$16,091,301,600	58.4%	\$9,391,073,300	\$6,700,228,300	n/a	n/a

FEDERAL FISCAL YEAR

Federal Fiscal Year	Impact of FMAP Reduction on State Match	Keeping FFY05 FMAP				Using Announced FMAP				Announced FMAP	
		Total	% Fed	Federal	Match	Total	% Fed	Federal	Match	XXI FMAP	XIX FMAP
2005	\$0	\$1,064,112,000	63.6%	\$676,389,700	\$387,722,300	\$1,064,112,000	63.6%	\$676,389,700	\$387,722,300	70.31%	57.58%
2006	\$70,223,800	\$1,157,503,300	63.6%	\$735,752,700	\$421,750,600	\$1,157,503,300	57.5%	\$665,528,900	\$491,974,400	65.11%	50.16%
2007	\$77,410,800	\$1,249,046,400	63.6%	\$793,941,000	\$455,105,400	\$1,249,046,400	57.4%	\$716,530,200	\$532,516,200	65.00%	50.00%
2008	\$82,670,600	\$1,333,915,400	63.6%	\$847,886,900	\$486,028,500	\$1,333,915,400	57.4%	\$765,216,300	\$568,699,100	65.00%	50.00%
2009	\$87,473,900	\$1,411,417,600	63.6%	\$897,150,300	\$514,267,300	\$1,411,417,600	57.4%	\$809,676,400	\$601,741,200	65.00%	50.00%
2010	\$92,535,500	\$1,493,088,100	63.6%	\$949,063,100	\$544,025,000	\$1,493,088,100	57.4%	\$856,527,800	\$636,560,500	65.00%	50.00%
2011	\$97,781,300	\$1,577,731,700	63.6%	\$1,002,865,800	\$574,865,900	\$1,577,731,700	57.4%	\$905,084,500	\$672,647,200	65.00%	50.00%
2012	\$102,608,400	\$1,655,617,700	63.6%	\$1,052,373,000	\$603,244,700	\$1,655,617,700	57.4%	\$949,764,600	\$705,853,100	65.00%	50.00%
2013	\$107,274,400	\$1,730,905,000	63.6%	\$1,100,228,500	\$630,676,500	\$1,730,905,000	57.4%	\$992,954,100	\$737,950,900	65.00%	50.00%
2014	\$111,861,900	\$1,804,925,600	63.6%	\$1,147,278,800	\$657,646,800	\$1,804,925,600	57.4%	\$1,035,416,900	\$769,508,700	65.00%	50.00%
2015	\$116,421,500	\$1,878,495,800	63.6%	\$1,194,042,800	\$684,453,000	\$1,878,495,800	57.4%	\$1,077,521,300	\$800,874,500	65.00%	50.00%
Total	\$946,262,100	\$16,356,758,600	63.6%	\$10,396,972,600	\$5,959,786,000	\$16,356,758,600	57.8%	\$9,450,710,500	\$6,906,048,100	n/a	n/a

Assumptions:

SFY2005 is from the Operating Budget. SFY2006 is from the Governor's Budget. SFY2007 to SFY2015 are actual quarterly claim payments (Jan. 1998-Dec. 2004) projected using a linear trend.

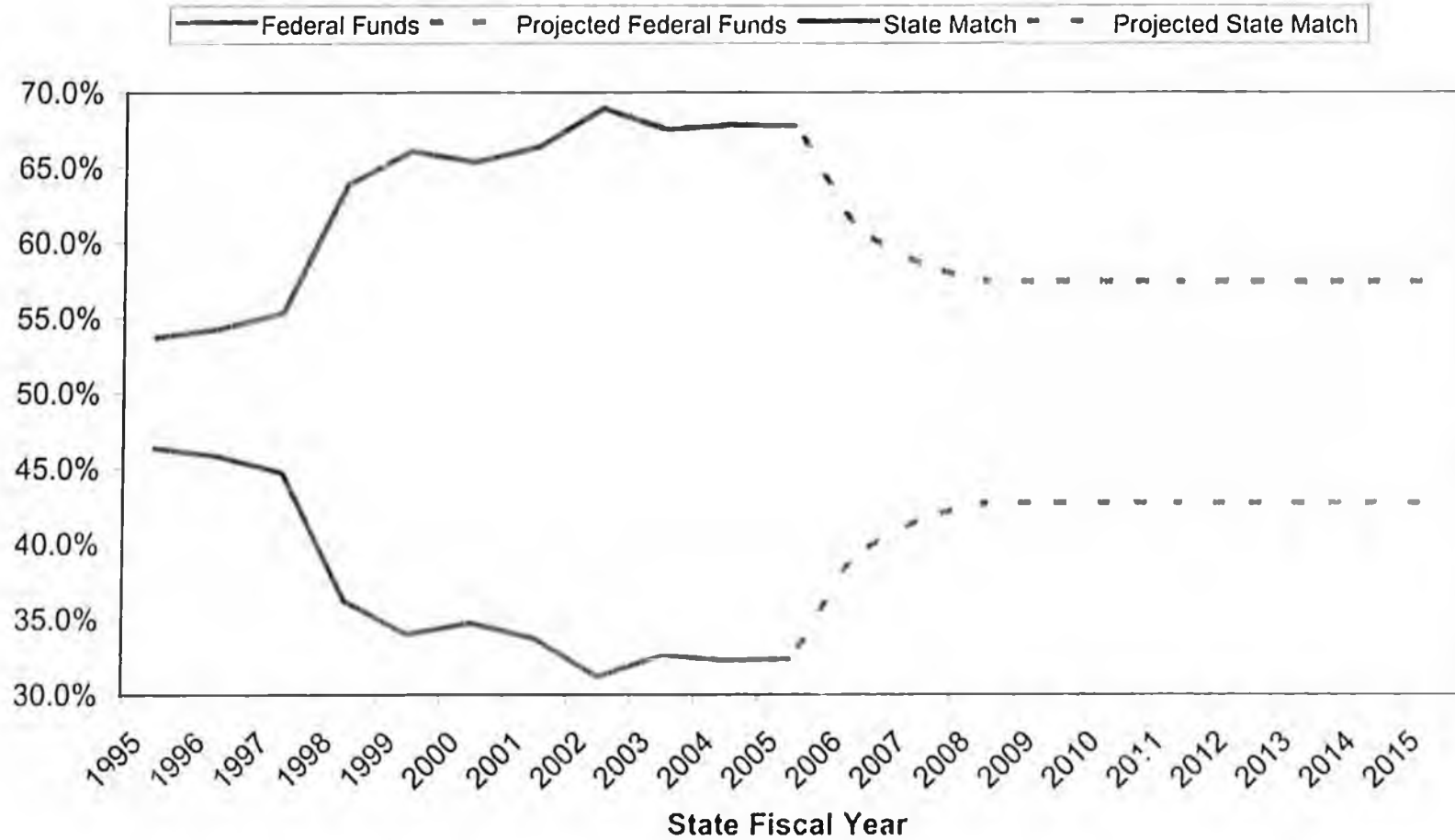
FFY2005 to FFY2015 are actual quarterly claim payments (Jan. 1998-Dec. 2004) projected using a linear trend.

The announced FMAP for FFY2007 and forward is assumed to be the minimum allowed rate.

No changes to program services or eligibility are included except a 3% reduction in pharmacy costs for Medicare Part D coverage beginning in 2006.

Past trends in inflation and population growth are expected to continue and are therefore already included in the projection. No additional adjustments are made.

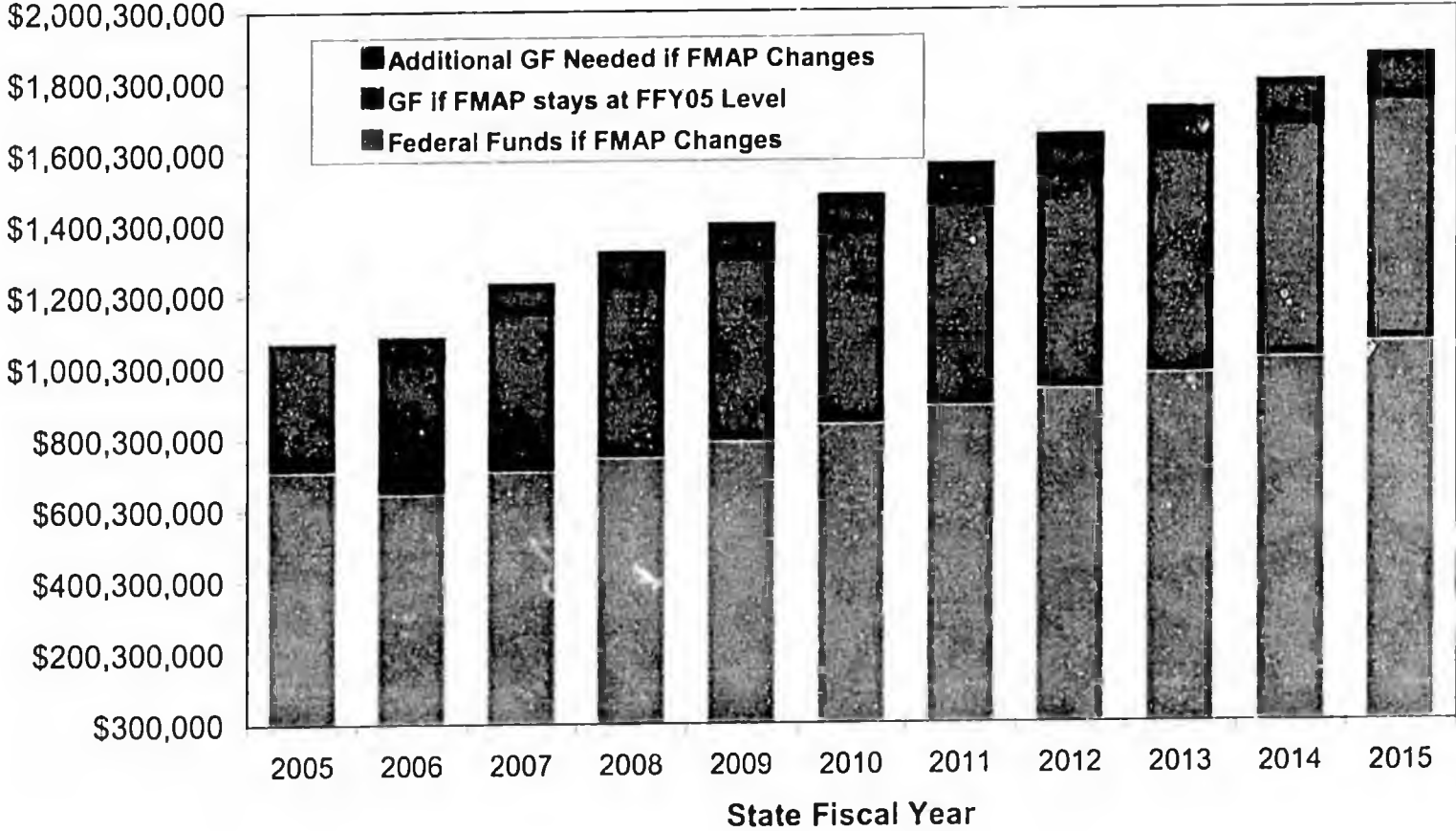
Percent of Total Medicaid Expenditures by Fund Source SFY1995 to SFY2015



SFY1995 to SFY2004 are actual quarterly claim payments; SFY2005 is from the Operating Budget; SFY2006 is from the Governor's Budget; SFY2007 to SFY2015 are actual quarterly claim payments projected using a linear trend.

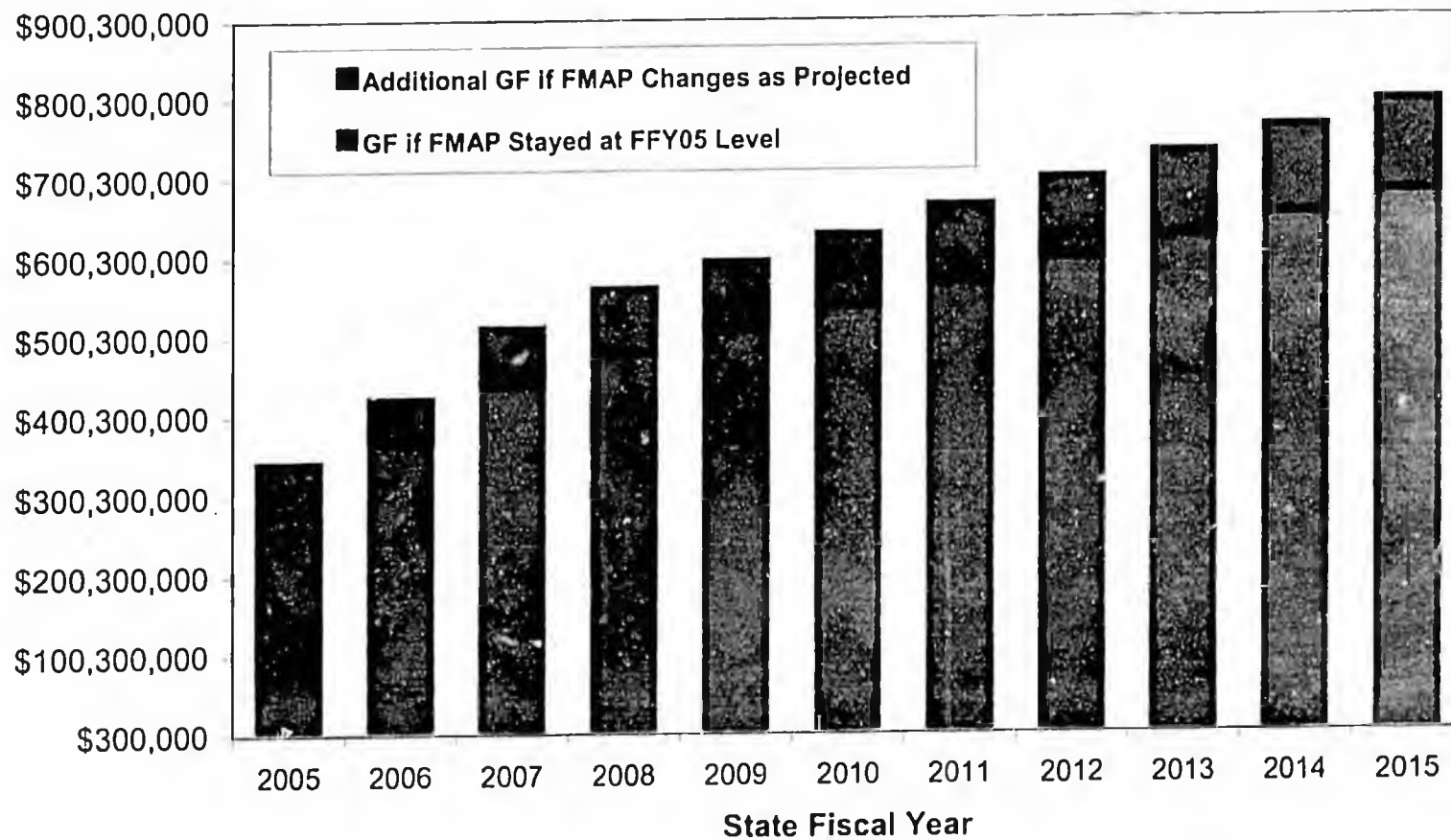
Source: DHSS, FMS, Medicaid Budget Group

**Impact of FMAP Reductions on General Funds
 Projected Medicaid Expenditures by Fund Source
 SFY2005 to SFY2015**



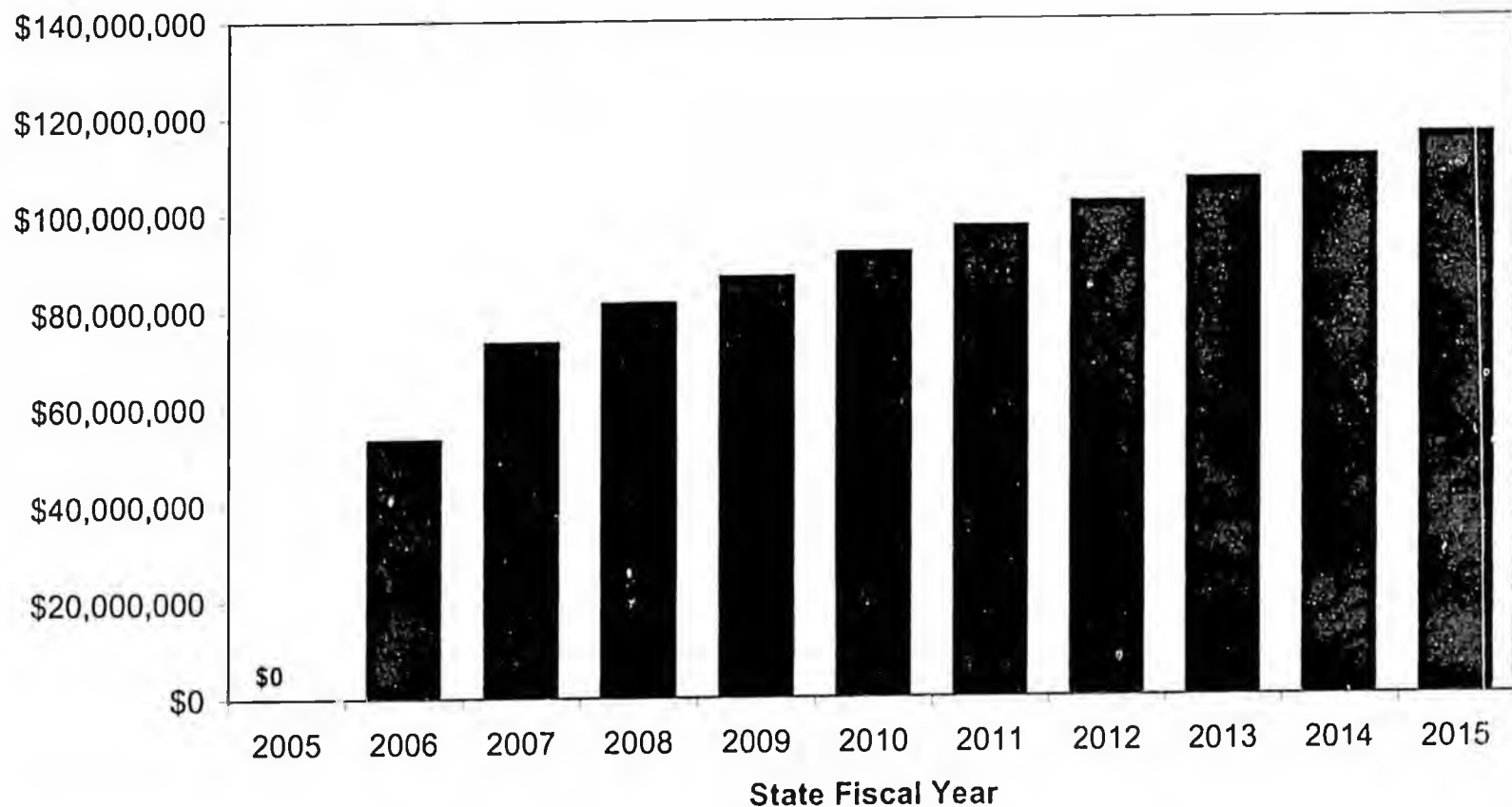
SFY2005 is from the Operating Budget; SFY2006 is from the Governor's Budget; SFY2007 to SFY2015 are actual quarterly claim payments projected using a linear trend.
 Source: JHSS, FMS, Medicaid Budget Group

**Impact of FMAP Reductions on General Funds
Projected Medicaid General Fund Need
SFY2005 to SFY2015**



SFY 2005 is from the Operating Budget; SFY2006 is from the Governor's Budget; SFY2007 to SFY2015 are actual quarterly claim payments projected using a linear
Source: DHSS, FMS, Medicaid Budget Group

Impact of FMAP Reductions on General Funds
Projected *Additional* General Funds Needed for Medicaid
SFY2005 to SFY2015



SFY2005 is from the Operating Budget; SFY2006 is from the Governor's Budget; SFY2007 to SFY2015 are actual quarterly claim payments projected using a linear trend.
Source: DHSS, FMS, Medicaid Budget Group

GARY WILKEN

SENATOR
Fairbanks

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Fax: (907) 465-4714

Alaska State Legislature

Senate

During Session:
State Capitol Building
Juneau, Alaska 99801-1182
Tel: 451-5501 (from FBlks)
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Fax: (907) 465-4714
Web-site: www.garywilken.com
E-Mail: Senator.Gary.Wilken@legis.state.ak.us

* NOTE: This sponsor
statement was replaced
w/ a corrected
version on
2/18/05

SPONSOR STATEMENT

Senate Joint Resolution 6
Federal Medical Assistance Reduction

Senate Joint Resolution 6 urges federal action to maintain the current level of federal funding for the state's Medicaid program. The U.S. Department of Health and Human Services recently announced that the federal share of the medical assistance program, known as the Federal Medical Assistance Percentage (FMAP), will be reduced by 7.58% on October 1, 2005.

The reduction in the FMAP will result in an approximately \$53 million loss in federal Medicaid dollars in fiscal year 2006 and \$73 million in fiscal year 2007.

It is imperative that Congress and the federal administration know and understand the reasons behind the high level of health care costs in Alaska. Senate Joint Resolution 6 requests Congress to take action to correct the formula flaw that resulted in the proposed substantial FMAP reduction and to take whatever measures necessary to hold Alaska harmless from the reduction in the Federal Medical Assistance Percentage for Alaska.

Please join me in support of our state Medical program and endorse Senate Bill 1.

Gary Wilken

SJR

11

HFIN

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Alaska State Legislature

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Senate

While in session
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SENATE DISTRICT F

SJR 11

Sponsor Statement

This resolution encourages Congress to once again pass a provision to repeal the "tax on talking", formally known as the federal excise tax on communications. This tax was originally put into place in 1898 to help fund the Spanish American War under the guise of a temporary luxury tax.

Since that time, it has been repealed twice, reenacted in 1941, adjusted from 10% in 1965 downward to be phased out at 1% per year, reached a low of 1% in 1981 and then began to rise and climbed back to 3%. It has remained at that level since the Revenue Reconciliation Act of 1990. In 2000 Congress moved to repeal the tax once and for all; however President Bill Clinton vetoed the measure.

Currently more than 94 million households pay the 3% phone tax. It disproportionately hurts seniors and others on low or fixed incomes. It affects 96% of the households using the phone lines for Internet service. At a time when we are trying to increase commerce this is a harmful tax.



Alaska State Legislature

Senate Majority Web: www.akrepublicans.org

Sponsor: Senator Gene Therriault
Current Version: SJR 11
Contact: Dave Stancliff, 465-4797

Fact Sheet for: Senate Joint Resolution 11

Short Title: REPEAL TELECOMMUNICATIONS TAX

Summary:

- Urges the United State Congress to amend the tax code to repeal the federal excise tax on communications.

Benefits:

- Could encourage expansion of the telephone infrastructure, Internet and other new technologies.
- Urges repeal of a regressive federal excise tax that no longer serves its intended purpose.

Background:

- The federal excise tax on communications was enacted in 1898 for the purpose of funding the Spanish-American war as a "temporary" luxury tax. Telephone service is no longer a luxury, but a necessity. The federal excise tax is regressive, as low-income Americans pay a higher percentage of their income for telephone services than high-income Americans. The tax now flows into the general fund, rather than being earmarked for a specific purpose. The U.S. Congress passed a repeal of the federal excise tax on telecommunications in 2000, but it was vetoed by President Bill Clinton.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SJR 11
(S) Publish Date: 4/6/2005

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
Title Repeal Telecommunications Tax RDU Tax and Treasury
Component Tax
Sponsor Senator Therriault
Requester (S) L&C Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
-------------------------------	------------	------------	------------	------------	------------	------------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS:

We could not find any data specifically on the federal excise tax revenue on telecommunications broken down by State. However, the economic census for 1997 lists total receipts from telecommunications revenue in Alaska at \$766,441,000 and in the nation at \$260,500,898,000. Although updated census information is available for the nation it is not yet available for telecommunications in Alaska. The ratio of Alaska telecommunications sales to national telecommunication sales is then .0029. The revenue collected nationally from this tax for federal fiscal year 2003 (October 1 - September 30) was \$5.8 billion. If we multiply the above ratio against the national tax revenue from the federal telecommunications tax (\$5.8 billion x .0029) we obtain an estimate of about \$17 million for the amount Alaskan taxpayers pay in federal telecommunication taxes.

Prepared by: Chuck Harlamert and Brett Fried Phone 465-2320
Division Tax Division Date/Time 3/31/05 8:15 AM
Approved by: Tom Boutin, Deputy Commissioner Date 3/31/2005
Agency Revenue

SJR

11

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 4/6/05

FURTHER:

REPORTED OUT

APR 18 2005

SENATE FINANCE
COMMITTEE

DATE TURNED
IN TO OFFICE: 18 April 2005

Finance Committee considered SENATE JOINT RESOLUTION NO. 11

SJR 11 REPEAL TELECOMMUNICATIONS TAX

Urging the United States Congress to amend the tax code to repeal the federal excise tax on communications.

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

CS Senate Bill:
 Same Title
 New Title

SCS House Bill:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#
Revenue	3/31/05			✓	#1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>				

APR 18 2005

SENATE FINANCE
COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SJR 11
(S) Publish Date: 4/6/2005

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
Title Repeal Telecommunications Tax RDU Tax and Treasury
Component Tax
Sponsor Senator Therriault
Requester (S) L&C Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Part-time						
Temporary						

ANALYSIS:
We could not find any data specifically on the federal excise tax revenue on telecommunications broken down by State. However, the economic census for 1997 lists total receipts from telecommunications revenue in Alaska at \$766,441,000 and in the nation at \$260,500,898,000. Although updated census information is available for the nation it is not yet available for telecommunications in Alaska. The ratio of Alaska telecommunications sales to national telecommunication sales is then .0029. The revenue collected nationally from this tax for federal fiscal year 2003 (October 1 - September 30) was \$5.8 billion. If we multiply the above ratio against the national tax revenue from the federal telecommunications tax (\$5.8 billion x .0029) we obtain an estimate of about \$17 million for the amount Alaskan taxpayers pay in federal telecommunication taxes.

Prepared by: Chuck Harlamert and Brett Fried Phone 465-2320
Division: Tax Division Date/Time 3/31/05 8:15 AM
Approved by: Tom Boutin, Deputy Commissioner Date 3/31/2005
Agency: Revenue

Alaska State Legislature

SENATOR
GENE THERRIALT

Mailing Address:
119 N. Cushman, Suite 101
Fairbanks, Alaska 99701
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Fax: (907) 488-4271



Senate

While in session
State Capitol
Juneau, Alaska
99801-1182
(907) 465-4797
Fax: (907) 465-3884
SENATE DISTRICT F

SJR 11

Sponsor Statement

This resolution encourages Congress to once again pass a provision to repeal the "tax on talking", formally known as the federal excise tax on communications. This tax was originally put into place in 1898 to help fund the Spanish American War under the guise of a temporary luxury tax.

Since that time, it has been repealed twice, reenacted in 1941, adjusted from 10% in 1965 downward to be phased out at 1% per year, reached a low of 1% in 1981 and then began to rise and climbed back to 3%. It has remained at that level since the Revenue Reconciliation Act of 1990. In 2000 Congress moved to repeal the tax once and for all; however President Bill Clinton vetoed the measure.

Currently more than 94 million households pay the 3% phone tax. It disproportionately hurts seniors and others on low or fixed incomes. It affects 96% of the households using the phone lines for Internet service. At a time when we are trying to increase commerce this is a harmful tax.

**SENATE COMMITTEE REPORT
First Committee of Referral**

DATE: 3/3/05

FURTHER: Finance

Date of 5-Day Notice: 3/24/05
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 4/6/05

Labor and Commerce Committee considered SENATE JOINT RESOLUTION NO. 11

SJR 11 REPEAL TELECOMMUNICATIONS TAX

Urging the United States Congress to amend the tax code to repeal the federal excise tax on communications.

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
REV	3/31/05			✓	1

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:		Do PASS	Do NOT PASS	NO REC	AMEND
Davis	<i>Bettye Davis</i>			X	
Ellis	<i>Ph Ellis</i>			X	
Seelins	<i>Alphon Seelins</i>	✓			
B. Skovens	<i>Ben Skovens</i>	✓			
CHAIR:	<i>C. Bunde</i>	✓			

Bunde

SJR

14

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

REPORTED OUT
APR 13 2005
SENATE FINANCE COMMITTEE

DATE: 3/23/05

FURTHER:

DATE TURNED IN TO OFFICE: 13 April 2005

Finance Committee considered SENATE JOINT RESOLUTION NO. 14

SJR 14 REPEAL FEDERAL ESTATE TAX

Urging the United States Congress to amend the tax code to permanently repeal the federal estate and generation-skipping transfer tax.

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

CS Senate Bill:
<input type="checkbox"/> Same Title
<input type="checkbox"/> New Title
SCS House Bill:
<input type="checkbox"/> Same Title
<input type="checkbox"/> Technical Title Change
<input type="checkbox"/> New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Ind.	Zero	FN#
Row	3/24/05			✓	# 1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>	✓			
<i>[Signature]</i>			✓	
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			

APR 13 2005

SENATE FINANCE
COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SJR 14
(S) Publish Date: 3/23/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Repeal federal estate and GST tax RDU Revenue Programs and Services
Component Tax
Sponsor Senator Huggins, Therriault
Requester _____ Component No 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
-------------------------------	------------	------------	------------	------------	------------	------------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
This resolution requests Congress to permanently repeal the federal estate and generation skipping transfer tax. Alaska's estate tax (AS 43.31) is based upon the state death tax credit allowed under federal law. In 2001, Congress changed the Internal Revenue Code to phaseout the state death tax credit by 12/31/2004. Since Alaska's estate tax was effectively reduced to zero by the change in federal law, permanent repeal of the federal estate tax will have no fiscal impact to general fund revenue.

Prepared by: Mike Williams, Revenue Auditor Phone: (907) 269-6632
Division: Tax Division Date/Time: 3/22/05 1:58 PM
Approved by: Jerry Burnett, Special Assistant to the Commissioner Date: 3/22/2005
Agency: Department of Revenue

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800-862-3878
www.akrepublicans.org/huggins/

Charlie Huggins Senator

3/18/05

Sponsor Statement

SJR 14 – Urging the United States Congress to amend the tax code to permanently repeal the federal estate and generation-skipping transfer tax.

SJR 14 urges Congress to permanently repeal the estate tax, commonly known as the death tax, on inherited estates.

There is a fundamental problem with people accumulating assets with income that has already been taxed, then requiring their survivors to pay taxes on those assets again through an inheritance tax. The tax is unfair, first of all, to the decedent and to his or her heirs. We are talking about people who work hard throughout their lives, perhaps start businesses, or buy homes or property where real estate values are skyrocketing, and then the heirs are left, in some instances, with not enough cash to pay the applicable tax so they are forced to liquidate the family business, farm, or home.

In 2001 Congress, working with President Bush, enacted bipartisan legislation, under the Economic Growth and Tax Relief Reconciliation Act of 2001, to phase out and eventually repeal the death tax until 2010. At that time they did not have the votes to make the repeal permanent so under Senate rules, the cuts could only be extended for the term of the budget, which is 10 years. Therefore in 2010 the estate tax is repealed, however it springs back to life in 2011 at its old rate of 55 percent and at an exemption level of only \$1 million dollars.

President Bush has included the permanent repeal of the estate tax in his Fiscal Year 2006 budget proposal. Legislation has also been introduced this year in the U.S. Senate and U.S. House to permanently repeal the estate tax.

With passage of this legislation we will offer our support to Congress to act this year ending this tax on virtue, work, savings, job creation and the American dream.

Contact Information – Deborah Grundmann 465-4711

The tax credit is formally known as the "applicable credit amount" or the "unified credit," referring to the unified estate and gift tax. The amount of the tax credit is equal to the estate tax that would be due on the "applicable exclusion amount" for a decedent dying in the particular calendar year. For 2001, the applicable credit amount is \$220,550, corresponding to the tentative tax on a taxable estate of \$675,000. The credit is non-refundable. That is, it cannot reduce the tax on an estate below zero. Table 1 presents the applicable exclusion amount and the corresponding applicable credit amount scheduled under the tax law enacted in June 2001, for each year from 2001 until 2009.³

Table 1. Applicable Exclusion Amount and Corresponding Applicable Credit Amount, 2001 to 2009

(In the case of estates of decedents dying, and gifts made, during) Calendar Year	Applicable Exclusion Amount	Applicable Credit Amount (Equal to the tentative estate tax on the corresponding applicable exclusion amount)
2001	\$675,000	\$220,550
2002-2003	1,000,000	345,800
2004-2005	1,500,000	555,800
2006-2008	2,000,000	780,000
2009	3,500,000	1,455,800

Sources: Applicable exclusion amount from Sec. 2010(c) of the Internal Revenue Code as of June 7, 2001. Applicable credit amount calculated by CRS.

Marginal Tax Rates

Table 2 presents the graduated schedule of federal estate tax rates for 2001. Rising marginal tax rates apply to different portions of an estate. The statutory rates range from 18% for the taxable value of estates below \$10,000, up to 55% for taxable value over \$3 million. A 5% surtax raises the effective marginal tax rate to 60% on the taxable value of estates between \$10 million and \$17.184 million.

In practice, however, the lowest marginal estate tax rate for 2001 is *not* 18%, but 37%, the rate corresponding to taxable estates in the range of \$500,000 to \$750,000. This occurs because the "applicable exclusion amount" for 2001 exempts from tax the first \$675,000 in taxable estate per decedent. This is emphasized in Table 2 by gray shading over the first nine rows of the table, which cover taxable estate values from \$0 to \$500,000, and the corresponding statutory marginal tax rates

³An estate tax return must be filed if the gross value of the estate exceeds the applicable exclusion amount for the particular year. This filing requirement holds even if the estate's taxable value falls below this amount after subtracting eligible deductions, such that no tax is owed.

Table A.3. Federal Estate Tax Rate Schedule for 2004

Taxable Estate		Tentative Tax	
(a) Bottom of bracket	(b) Top of bracket	(c) Tax on bottom of bracket	(d) Marginal tax rate on bracket
Over	But not over	Tax on amount in column (a)	Plus: Rate of tax on amount over bottom of bracket, in column (a), up to top of bracket, in column (b)
\$ 0	\$ 10,000	\$0 +	18% of such amount
10,000	20,000	1,800 +	20% of excess over \$10,000
20,000	40,000	3,800 +	22% of excess over 20,000
40,000	60,000	8,200 +	24% of excess over 40,000
60,000	80,000	13,000 +	26% of excess over 60,000
80,000	100,000	18,200 +	28% of excess over 80,000
100,000	150,000	23,800 +	30% of excess over 100,000
150,000	250,000	38,800 +	32% of excess over 150,000
250,000	500,000	70,800 +	34% of excess over 250,000
500,000	750,000	155,800 +	37% of excess over 500,000
750,000	1,000,000	248,300 +	39% of excess over 750,000
1,000,000	1,250,000	345,800 +	41% of excess over 1,000,000
1,250,000	1,500,000	448,300 +	43% of excess over 1,250,000
Applicable Exclusion Amount is \$1.5 Million for 2004			
1,500,000	2,000,000	555,800 +	45% of excess over 1,500,000
2,000,000	--	780,800 +	48% of excess over 2,000,000

Note: In 2004, tax rates above 48% are repealed. The tax rate on taxable estate values over \$2 million will fall from 49% to 48%. The applicable exclusion amount will rise from \$1 million to \$1.5 million.

Table A.4. Federal Estate Tax Rate Schedule for 2005

Taxable Estate		Tentative Tax	
(a) Bottom of bracket	(b) Top of bracket	(c) Tax on bottom of bracket	(d) Marginal tax rate on bracket
Over	But not over	Tax on amount in column (a)	Plus: Rate of tax on amount over bottom of bracket, in column (a), up to top of bracket, in column (b)
\$ 0	\$ 10,000	\$0 +	18% of such amount
10,000	20,000	1,800 +	20% of excess over \$10,000
20,000	40,000	3,800 +	22% of excess over 20,000
40,000	60,000	8,200 +	24% of excess over 40,000
60,000	80,000	13,000 +	26% of excess over 60,000
80,000	100,000	18,200 +	28% of excess over 80,000
100,000	150,000	23,800 +	30% of excess over 100,000
150,000	250,000	38,800 +	32% of excess over 150,000
250,000	500,000	70,800 +	34% of excess over 250,000
500,000	750,000	155,800 +	37% of excess over 500,000
750,000	1,000,000	248,300 +	39% of excess over 750,000
1,000,000	1,250,000	345,800 +	41% of excess over 1,000,000
1,250,000	1,500,000	448,300 +	43% of excess over 1,250,000
Applicable Exclusion Amount is \$1.5 Million for 2005			
1,500,000	2,000,000	555,800 +	45% of excess over 1,500,000
2,000,000	--	780,800 +	47% of excess over 2,000,000

Note: In 2005, tax rates above 47% are repealed. The tax rate on taxable estate values over \$2 million will fall from 48% to 47%. The applicable exclusion amount will remain at \$1.5 million.

Table A.5. Federal Estate Tax Rate Schedule for 2006

Taxable Estate		Tentative Tax	
(a) Bottom of bracket	(b) Top of bracket	(c) Tax on bottom of bracket	(d) Marginal tax rate on bracket
Over	But not over	Tax on amount in column (a)	Plus: Rate of tax on amount over bottom of bracket, in column (a), up to top of bracket, in column (b)
\$ 0	\$ 10,000	\$0 +	18% of such amount
10,000	20,000	1,800 +	20% of excess over \$10,000
20,000	40,000	3,800 +	22% of excess over 20,000
40,000	60,000	8,200 +	24% of excess over 40,000
60,000	80,000	13,000 +	26% of excess over 60,000
80,000	100,000	18,200 +	28% of excess over 80,000
100,000	150,000	23,800 +	30% of excess over 100,000
150,000	250,000	38,800 +	32% of excess over 150,000
250,000	500,000	70,800 +	34% of excess over 250,000
500,000	750,000	155,800 +	37% of excess over 500,000
750,000	1,000,000	248,300 +	39% of excess over 750,000
1,000,000	1,250,000	345,800 +	41% of excess over 1,000,000
1,250,000	1,500,000	448,300 +	43% of excess over 1,250,000
1,500,000	2,000,000	555,800 +	45% of excess over 1,500,000
Applicable Exclusion Amount is \$2.0 Million for 2006			
2,000,000	--	780,800 +	46% of excess over 2,000,000

Note: In 2006, tax rates above 46% are repealed. The tax rate on estate values over \$2 million will fall from 47% to 46%. The applicable exclusion amount will rise from \$1.5 million to \$2 million.

Table A.6. Federal Estate Tax Rate Schedule for 2007 and 2008

Taxable Estate		Tentative Tax	
(a) Bottom of bracket	(b) Top of bracket	(c) Tax on bottom of bracket	(d) Marginal tax rate on bracket
Over	But not over	Tax on amount in column (a)	Plus: Rate of tax on amount over bottom of bracket, in column (a), up to top of bracket, in column (b)
\$ 0	\$ 10,000	\$0 +	18% of such amount
10,000	20,000	1,800 +	20% of excess over \$10,000
20,000	40,000	3,800 +	22% of excess over 20,000
40,000	60,000	8,200 +	24% of excess over 40,000
60,000	80,000	13,000 +	26% of excess over 60,000
80,000	100,000	18,200 +	28% of excess over 80,000
100,000	150,000	23,800 +	30% of excess over 100,000
150,000	250,000	38,800 +	32% of excess over 150,000
250,000	500,000	70,800 +	34% of excess over 250,000
500,000	750,000	155,800 +	37% of excess over 500,000
750,000	1,000,000	248,300 +	39% of excess over 750,000
1,000,000	1,250,000	345,800 +	41% of excess over 1,000,000
1,250,000	1,500,000	448,300 +	43% of excess over 1,250,000
Applicable Exclusion Amount is \$2.0 Million for 2007 and 2008			
1,500,000	--	555,800 +	45% of excess over 1,500,000

Note: In 2007, tax rates above 45% are repealed. The tax rate on taxable values over \$2 million will be lowered from 46% to 45%. The tax rate is already 45% on taxable estate values from \$1.5 million to \$2 million, under prior law. Thus, the tax rate will be 45% on taxable values over \$1.5 million. The law for 2008 remains the same as for 2007.

Table A.7. Federal Estate Tax Rate Schedule for 2009

Taxable Estate		Tentative Tax	
(a) Bottom of bracket	(b) Top of bracket	(c) Tax on bottom of bracket	(d) Marginal tax rate on bracket
Over	But not over	Tax on amount in column (a)	Plus: Rate of tax on amount over bottom of bracket, in column (a), up to top of bracket, in column (b)
\$ 0	\$ 10,000	\$0 +	18% of such amount
10,000	20,000	1,800 +	20% of excess over \$10,000
20,000	40,000	3,800 +	22% of excess over 20,000
40,000	60,000	8,200 +	24% of excess over 40,000
60,000	80,000	13,000 +	26% of excess over 60,000
80,000	100,000	18,200 +	28% of excess over 80,000
100,000	150,000	23,800 +	30% of excess over 100,000
150,000	250,000	38,800 +	32% of excess over 150,000
250,000	500,000	70,800 +	34% of excess over 250,000
500,000	750,000	155,800 +	37% of excess over 500,000
750,000	1,000,000	248,300 +	39% of excess over 750,000
1,000,000	1,250,000	345,800 +	41% of excess over 1,000,000
1,250,000	1,500,000	448,300 +	43% of excess over 1,250,000
Applicable Exclusion Amount is \$3.5 Million for 2009			
1,500,000	--	555,800 +	45% of excess over 1,500,000

Note: In 2009, the applicable exclusion amount will rise from \$2 million to \$3.5 million. There are no additional reductions in tax rates.



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REASONS TO ELIMINATE THE FEDERAL ESTATE TAX

- Estate tax rates, which range from 41% to 48%, are substantially higher than other. The lowest estate tax rate is almost as high as the highest income tax rate of 39.6%. The estate tax is imposed on earnings and assets that have already been subject to social security, and other taxes at the federal and state level.
- Under the current tax system, it is cheaper to sell the family-owned business before death rather than pass the business to one's heirs. Growing business can not remain viable under a tax regime that imposes rates as high as 48% upon the death of the founder/owner.
- Small business has long been recognized as the backbone of America's economy. It employs almost 60% of the workforce and creates about two-thirds of the new jobs in the United States in the 1970's. Our tax laws should encourage rather than discourage the perpetual small businesses.

- ① The estate tax costs jobs. Potential employment is lost when business owners don't expand or open another store because of the ever looming death tax, and current jobs are destroyed when businesses are liquidated to pay estate taxes. If estate and gift taxes were eliminated in 1999, 275,000 jobs would be created between 1999 and 2010. (IPI Report #150)
- ① With Americans living longer, we need to encourage individuals/families to save in order to plan for their future. However, the estate tax creates a disincentive to save and instead, encourages consumption. The more assets one has at death, the more one has to pay to the federal government.
- ① The estate tax, which was intended to break up large concentrations of wealth and create economic opportunity, has instead become a barrier to economic growth and job creation. This "disincentive to growth" effect of the estate tax is equivalent to doubling income taxes. (Tax Foundation)
- ① The estate tax has a negative impact on current business decisions. Critical resources are diverted away from investing in people and growth, and spent on attorneys, accountants, and insurance. It is estimated that family-owned businesses spent approximately \$33 billion in 1995 on attorneys, accountants and financial experts to assist in estate planning. (1995)
- ① The estate tax amounts to less than 2% of total federal revenues while costing the government and taxpayers approximately the same amount collected for enforcement and collection. (Joint Economic Committee Report, 1998)

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Death Taxes

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"Death Should!
Taxable Event"



Have you had to sell a business or other assets and/or liquidate jobs to pay or plan for the "estate tax"?



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1 Reduces the Inequality of Wealth and Income?

In Alan Blinder's (a President Clinton appointee) book 'Toward an Economic Theory of Distribution', he concludes a "radical reform of inheritance policies can accomplish comparatively little income redistribution" and one of his findings was that only 2% inequality was attributable to the unequal distribution of inherited wealth.

Joseph Stiglitz, who served as Chairman of President Clinton's Council of Economic Advisors found that the estate tax may ultimately cause an increase in income inequality (Journal of Political Economy).

Death Taxes penalize work and saving and encourages large-scale consumption by the rich. If an individual knows that they will be unable to pass on their wealth, then they choose to simply produce less wealth or to consume their wealth; Professor Edward McCaffery, USC - Liberal Democrat.

2 Deduction for Charitable Bequests Encourages Giving to Nonprofit Organizations

Because charitable donations are also deductible for income tax purposes, the tax system is much friendlier to gifts during life than to gifts made at death.

Total charitable bequests increased in real terms by nearly 23% in the first five years after the last major reduction in the death tax rate (1982-1986).

Over 1992-1995, more than four out of five estates (82%) did not take advantage of the charitable deduction.

3 Revenue Raised Warrants the Existence of Death Tax?

Alicia Munnell, a former member of President Clinton's Council of Economic Advisors estimates that the costs of complying with estate tax laws are roughly the same magnitude as the revenue raised, or about \$23 billion in 1998.

In this century, the stock of capital in the economy has been reduced by approximately \$1 trillion due to the death tax and the death tax only raised \$585 billion.

The distortionary effects of the death tax result in losses under the income tax that the same size as the death tax revenue.

(Joint Economic Committee Report, Dec

A Brief History of Federal Estate, Gift and Generation-Skipp

The current federal estate tax has been in effect since 1916. The original legislation provided a \$50,000 exemption with marginal tax rates ranging from 1% to 10%, for estates over \$100,000. In 1924, concerned about the erosion of the base for estate taxes through lifetime gifts, Congress enacted the first gift tax with rates from 1% to 25%. This gift tax was repealed two years later and reinstated in 1932. Donors were allowed a \$50,000 exemption and a \$5,000 annual exclusion per donee. During the years 1943-1976, the basic provisions of the federal estate and gift taxes remained substantially unchanged. The law allowed a \$60,000 Estate tax exemption with marginal rates ranging from 3% to 77%. The gift tax exemption was fixed at \$30,000 with an annual exclusion of \$3,000 per donee. During this period, the gift tax rates were lower than the estate tax rates, making gifts more attractive.

With the Tax Reform Act (TRA) of 1976, the structure of the federal estate and gift taxes changed considerably. This Act unified estate and gift taxes with a single rate structure provided for a maximum tax rate of 70%. With the Economic Recovery Tax Act of 1981, the estate and gift tax was substantially changed with a graduated increase in the unified credit exemption to \$600,000 in 1987. The marginal tax rate was decreased from 70% to 55%, and the marital deduction was removed, and the annual gift tax exclusion was raised to \$10,000.

With the Deficit Reduction Act of 1984, the Tax Reform Act of 1986, and the Omnibus Budget Reconciliation Acts of 1987, 1990 and 1993, various changes were made in Estate and Gift tax laws. The 1986 Tax Act also instituted the current generation-skipping tax on transfers to grandchildren and more remote descendants. With the Taxpayer Relief Act of 1997, Congress provided for an increase in the unified credit to an equivalent of a \$1 million exemption by the year 2006. It also allowed for a special exclusion for qualified family businesses and other provisions. Currently the top Estate and Gift tax rate is 48%, with a marital deduction on assets in excess of \$650,000 (the current equivalent exemption). A marital deduction on all assets passed from one spouse to another. There is a \$11,000 per year, per donor exclusion from gift taxes and a \$1 million generation-skipping lifetime exemption allows an effective rate assessed of 80% on money transfers to grandchildren after use of the \$1 million exemption.

Under the 2001 Tax Act, the rate of Estate Tax and Generation-Skipping Tax is reduced to 55% in 2009 and the lifetime exemption increases to \$3.5M then both are repealed in 2010 and brought back in 2011 at a 55% rate with a \$1M exception.

The gift tax is reduced to 35% with a \$3.5M exception but not repealed.



THE FUTURE

"The Death Tax has created perverse incentives that encourage people to spend their savings now, rather than pass them on to their children later. As the National Commission on Economic Growth

report: 'It makes little sense and is patently unfair to impose on people who choose to pass their assets on to their children and grandchildren spending them lavishly on themselves. Families faced with these confiscatory tax themselves forced to sell off farms or businesses, destroying jobs in the process.' This is (

CONCLUSION

"The estate tax is simply unfair. It tells every American that no matter how hard you work or how wisely you manage your affairs, in the end the Federal Government is going to step in and take it away. The estate tax is double and, in some cases triple taxation, it punishes hard work and savings, and it fails to raise the revenues that could possibly justify the damage it causes. It has been destroying businesses and ruining lives for four generations. Let us not make this mistake with our children. End the Death Tax now."



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REASONS THE DEATH TAX DOES NOT WORK!

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IT'S WRONG!

WF

- 1 **It is the wrong tax**
It collects just one percent of the nation's revenues, and dollar for dollar, it costs as much to collect Death Taxes as it raises.
- 2 **It comes at the wrong time**
A core principle behind repealing the Death Tax is the idea that people should not be burdened at the most difficult time of their lives. Newt Gingrich has the best line: "You have to visit the undertaker and the taxman on the same day."
- 3 **It hurts the wrong people**
If you saved for the future, put away money for your children, built a small business, farm, or achieved the American Dream in other ways, the Death Tax punishes you.
- 4 **It helps the wrong people**
The only people who are helped by the estate tax are the army of fancy lawyers and tax accountants - and IRS agents.

SOME NUMBERS

❑ The value to Washington and the cost to the family

Americans are surprised to learn that the estate tax raises a little more than a total Federal revenues and costs are of the same magnitude. To personalize then add, "Though they account for only one percent of Federal revenues, es have forced the sale of thousands of farms, ranches, and businesses through country, and we can only guess at the jobs and economic potential lost."

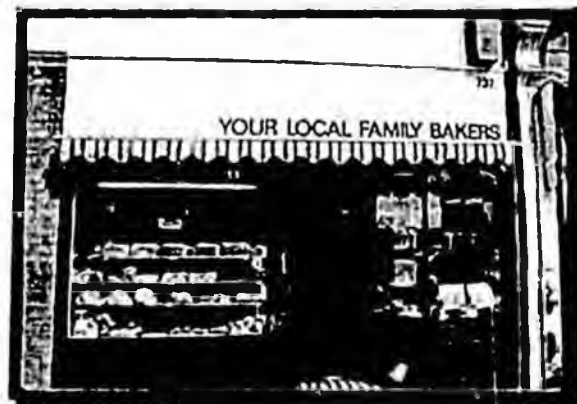
❑ The jobs argument

Economists calculate that if the money paid in estate taxes in 1999 were to be the total savings in 2010 would be \$1.7 trillion higher, the economy would be larger, and we would have 275,000 more jobs.

THE FARM ARGUMENT

"Imagine owning a family farm that you have worked for 30 years. You have built and developed the land with the hope of passing it along to your children so that they may have a better life. But after your death, your children tragically find that the farm will not be staying in the family. This is not a rare occurrence. Many family farms must be sold off to pay the Federal taxes due on the property. It's just plain wrong."

"Death taxes hits the family farmer particularly hard, who may be cash poor but are tradition rich. The value of their farms is not in the IRS valuation of their equipment and land, but in the farm's ability to produce. Farmers make their living growing food and fiber, not speculati equipment."



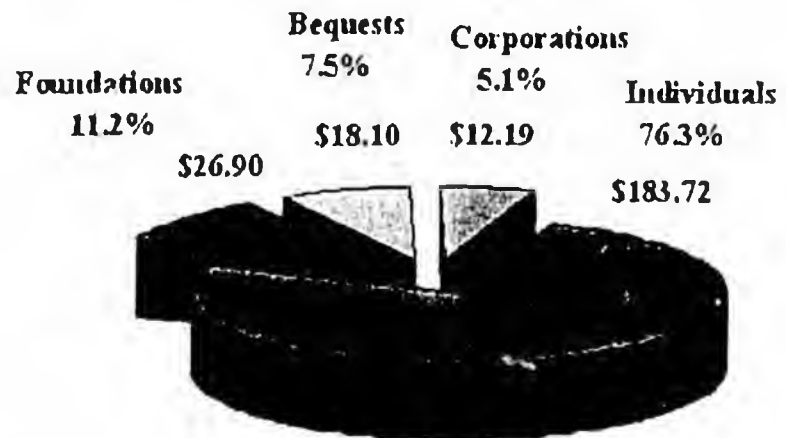
THE SMALL BUSINESS ARGUMENT

"Nothing penalizes the small business more than the Death Tax."

"It has been es ed that 70 percent businesses never make it past the fir generation, while 87% do not make it second generation. I believe the est responsible for much of this failure."

REASONS CHARITABLE ORGANIZATIONS SHOULD NOT BE AFI THE REPEAL OF THE DEATH TAX

2002 Contributions = \$240.92 Billion



Source: Giving USA 2003/AFRC Trust for Philanthropy

- ① Charitable giving has increased each year, after inflation, for the past 40 years. Despite fluctuations in the levels of income tax, capital gains tax and estate tax rates. Even warnings that the reductions in marginal income tax rates that occurred in the mid-80s decrease charitable giving, annual gifts by individuals rose by nearly 30% between 1989.
- ② When the top estate tax rate was reduced from 70% to 50% between 1981 and 1997, the amount of annual bequests grew approximately 80.8% (adjusted for inflation) during that period. There is simply no empirical evidence to suggest that charitable contributions decline if there is no death tax.
- ③ Giving USA 2000 reflects that those who have more give a larger percent of their assets to charity. People that make more than \$1 million dollars give twice as much, as a percent of income, than those who make less.
- ④ It is obvious that if families and individuals are not forced to pay 48% of their assets in taxes, they will have 48% more to give to charity.

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TAX REPORT

Washington Court Ruling Puts Spotlight on State Estate Taxes

By **RACHEL EMMA SILVERMAN**
Staff Reporter of THE WALL STREET JOURNAL
March 16, 2005; Page D3

A recent court ruling could prompt taxpayers to question their states' estate-tax laws.

Washington's Supreme Court recently struck down the state's estate tax, ordering that estate taxes collected since Jan. 1, 2002, be refunded. The court ruled Washington's estate tax was invalid because it didn't reflect current federal tax law.

State estate taxes have become a big issue in recent years as a result of federal tax-law changes in 2001 that phased out a federal credit for state estate taxes paid, among other things.

TAX RESOURCES



Read more about deductions and tax preparation². Plus, check out tax calculators and resources.

Before the tax-law changes, many states, including Washington, tied their tax rates to the amount of the federal credit. Afterward, some

states let their estate taxes phase out along with the federal credit. Others implemented separate estate-tax systems which means that some estates in those states face higher tax bills.

This year, for example, the biggest New York estates face a combination of state and federal taxes at a maximum estate-tax rate of 55.48%. Meanwhile, in states that have no estate tax this year, such as Florida, Nevada and California, large estates face only the top federal tax rate of 47%. That's because when the credit disappeared on Jan. 1, those states' estate taxes effectively did as well. (The credit was replaced by a federal deduction for state estate taxes paid.)

To help fill state coffers, at least 18 states and jurisdictions "decoupled," or separated, their estate taxes from the federal system, setting their own tax rules that no longer tied their estate taxes to the current federal system, according to tax-information provider CCH Inc. Among them: New York, New Jersey, Massachusetts, Maryland, Illinois and the District of Columbia.

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While the Washington case had some unique circumstances that might not apply to other states, the ruling "might encourage taxpayers in other states to look at the situation in their states to see if it's analogous," says John Logan, senior state tax analyst at CCH in Riverwoods, Ill.

Whether Washington state validly separated its estate taxes from the federal system was at the heart of the recent class-action case. In 1981, Washington voters approved a ballot initiative that effectively tied state estate taxes to the federal credit. But the state never updated its estate-tax statute to reflect the credit's phaseout. Instead, the state continued to collect taxes at amounts set before the tax-law changes.

In a class-action suit, representatives from three estates sued the state's department of revenue, arguing that the state's estate tax was invalid and should have disappeared with the federal credit. The state Supreme Court sided with the taxpayers, ruling that under state law, "any amount of a state estate tax not fully absorbed by a current federal credit is an invalid independent tax."

Now, the state must return an estimated \$152 million back to taxpayers, and stands to lose a projected \$279 million in estate taxes over the next couple of years. Before the ruling, the state was already facing a \$1.8 billion budget shortfall, says a department of revenue spokesman. The Legislature, however, could propose new laws for a state estate tax to ease the shortfall.

What can you do if you live in a state with an estate tax? For one thing, create a flexible estate plan. Cheryl Hader, a partner with law firm Drinker Biddle & Reath in New York, suggests the use of so-called disclaimers. The tax code allows nine months to give up -- or disclaim -- all or part of an inheritance. Disclaimers are complex but they can allow survivors to adjust their inheritance as tax rules change, while still keeping enough money to live on.

Things can get complicated for those who live in a state with no estate tax, but have homes in taxable states. One solution: Place the taxable state's property into an entity such as a limited liability company, says Jonathan Rikoon, a partner with law firm Debevoise & Plimpton in New York. When property is in an LLC, it can be taxed under the estate-tax laws of the state you live in, rather than those of the state where the property is located, he says.

State of the states: State tax revenues were strong for the last quarter of 2004, a new report says.

State tax rolls grew 7.8% during the fourth quarter, compared with a year earlier. The increase was the strongest fourth-quarter growth since 1991. Adjusted for inflation and tax-law changes, real state tax-revenue growth was only 2.3%. The biggest gains were in corporate income taxes, but revenues from personal income and sales taxes also grew.

The report cautions that "this growth is likely not sufficient, however, to solve all of the states' budget problems, both current and emerging." The research comes from the Nelson A. Rockefeller Institute of Government in Albany, the public-policy research arm of the State University of New York.

Dude, where's my tax refund? Tax-preparation giants are trying to lure younger customers.

Intuit Inc., maker of TurboTax software, recently launched trefund.com³, a Web site geared toward tax filers age 18 to 24. Customers can file their taxes online and put their refunds toward trips or purchases at **Best Buy** stores. Meanwhile, **H&R Block Inc.** has launched a Web site for teens called "Get Yours," www.hrblock.com/goto/firstfilers⁴. The site has free online federal-tax preparation for teens under the age of 18 and an education section with tax basics for teens and their parents.

BRIEFS: Former U.S. Sen. Connie Mack, who heads President Bush's Advisory Panel on Federal Tax Reform, has joined law firm King & Spalding's Washington office to be the co-chairman of the firm's government relations practice. ... The IRS designated the Indian Ocean tsunami a "qualified disaster," which allows corporate foundations to make grants to employees who are tsunami victims. Without that designation, such grants would generally be considered improper. ... Filers in New York and California can now donate to prostate-cancer research on their state tax returns. See prostatecancerfoundation.org⁵.

• E-mail Tom Herman at taxreport@wsj.com⁶.

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