SCOMM

142.3

Department of Revenue
Comparative Analysis
Alaska State Individual Income Tax Proposals

	Child under age 14	Teenager with summer job	Single parent earning $11/hour	Single taxpayer	Retiree with Soc. Sec. Income	Single income family - renting	Dual income family with $150k mortgage	Dual income family with $225k mortgage	Dual income family with $300k mortgage	Dual income family with $600k mortgage
Wages		2,700	22,650	65,000		40,000	65,000	130,000	260,000	520,000
Interest Income	200	200		400	5,000		400	2,000	10,000	20,000
Taxable Pension					8,000					
Gross Social Security					12,000					
AKPFD	1,000	1,000	1,000	1,000	1,000	2,000	2,000	2,000	2,000	2,000
Dependents			1			2	2	2	2	2
Child Care Expenses			4,000				8,000	8,000	8,000	8,000
Real Estate Tax							3,100	4,650	6,200	12,400
Mortgage Interest							11,500	17,250	23,000	46,000
Charitable Contributions							1,000	3,000	10,000	25,000
Federal Return Values										
Adjusted Gross Income	1,200	3,900	23,650	66,400	14,000	42,000	67,400	134,000	272,000	542,000
Taxable Income	400	1,200	10,300	58,450	5,100	19,900	39,400	96,700	230,727	470,579
Tax Before Federal Credits	40	120	1,030	11,344	510	1,990	5,199	17,656	57,165	139,346
Tax After Federal Credits	40	120	-	11,344	510	-	1,999	16,456	55,965	138,146
Alaska Income Tax										
Prior Law	12	36	417	5,314	174	835	2,269	8,221	25,902	60,334
HB 470	6	18	155	1,702	77	299	-	-	5,233	15,469
HB 321	-	-	309	1,754	153	597	1,182	2,901	6,922	14,117
Effective Tax Rate on Federal Taxable Income										
Prior Law	3.00%	3.00%	4.00%	9.10%	3.40%	4.20%	5.80%	8.50%	11.20%	12.80%
HB 470	1.50%	1.50%	1.50%	2.90%	1.50%	1.50%	0.00%	0.00%	2.30%	3.30%
HB 321	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Assumptions:

1) HB 470 provides for variable rates. These results reflect the highest rate or set of rates provided for.
2) All family examples assume two children. Dual income family examples assume child care expense of $4,000 per child.
3) All results are based on federal tax law and rates in effect for 2004.
4) Analysis does not include the effect of a federal itemized deduction for the Alaska tax.

3/10/200510:11 AM

Prepared by Mike Williams

Projected Income Tax Revenue
Comparison of 3 proposals

Total Annual Revenue beyond 3rd year

AGI range (000)	< $20	$20 < $30	$30 < 50	$50 < 75	$75 < 100	$100 < $200	>= $200	Total
Under Prior Law	12,207,511	23,443,525	83,683,473	131,767,359	121,906,824	191,531,238	194,023,470	758,563,401
Under HB 470 (2004)	*	*	*	*	*	*	*	107,300,000
Under HB 321 (2004)	10,749,808	15,758,179	43,744,250	59,418,173	50,741,238	75,340,662	44,247,690	300,000,000

Notes:

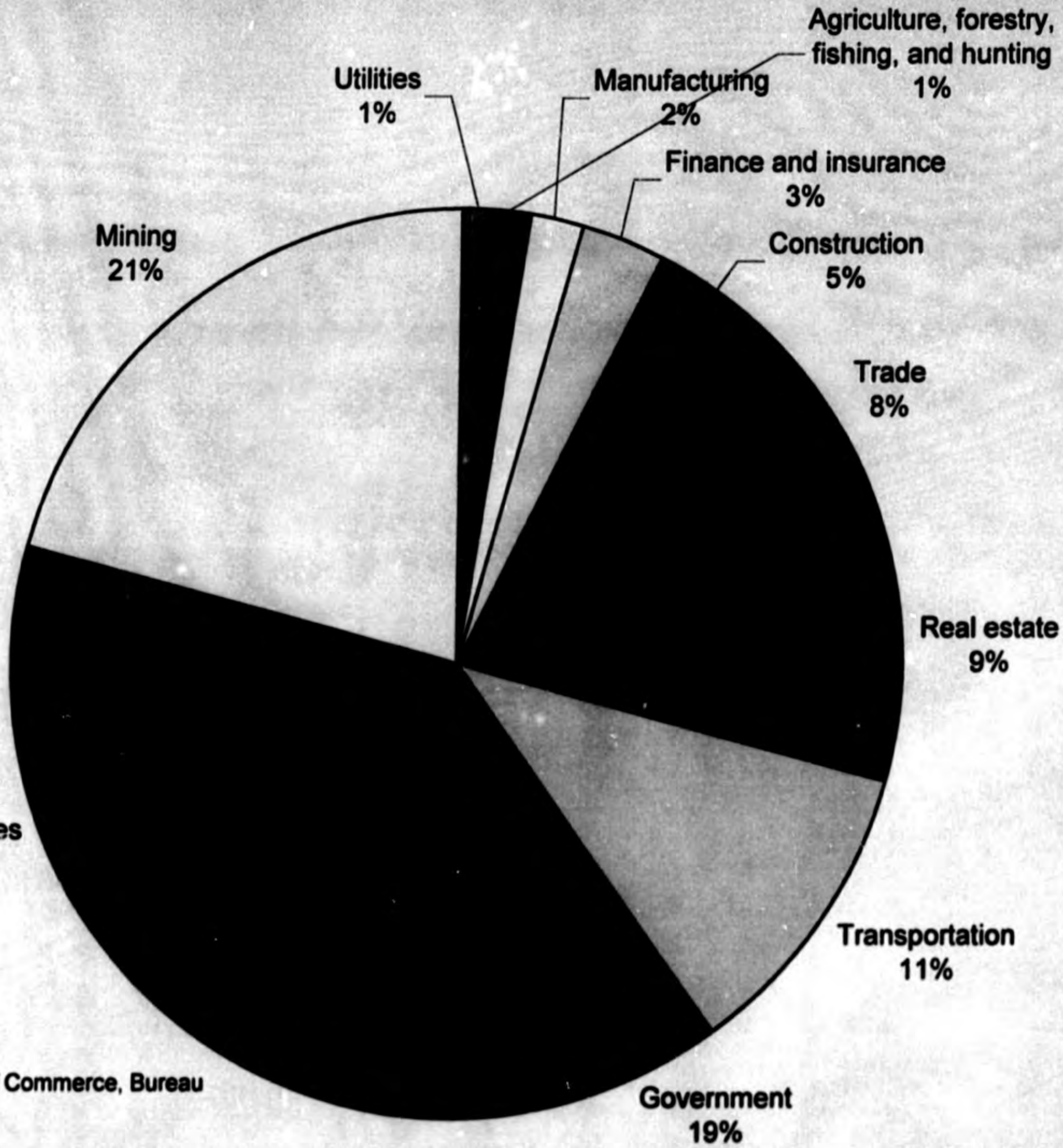
Projected revenue for prior law based on average taxable income for each gross income range. Prior law had 22 brackets for each filing status.
Old law taxed federal COLA, which is exempt from federal tax. Limited data prevents estimate of revenue from tax on COLA.

Since HB 470 proposes 3-year phase in, presentation looks only at "mature" version for comparative purposes.
Data limitations prevent stratification of HB 470. Estimating revenue for HB 470 only possible from an aggregate approach.

HB 321 proposes a tax liability cap of $20,000 for single and $30,000 for married filing joint. Data and model limitations prevent an accurate estimate of impact on revenue.

Alaska Department of Revenue - Tax Division

Alaska Gross State Product
$29.7 billion in 2002

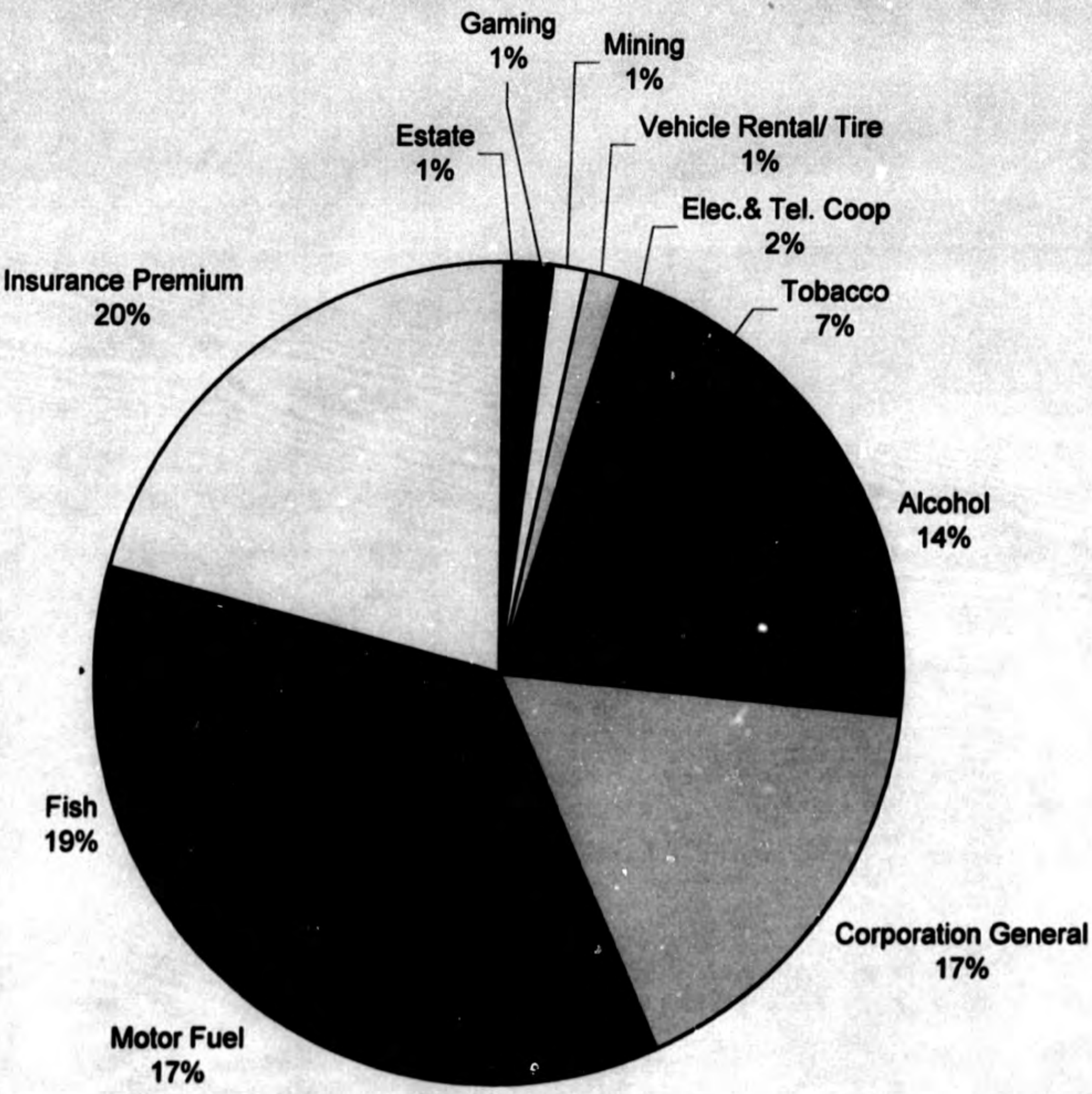


Source: U.S. Department of Commerce, Bureau of Economic Analysis

3/4/2005 5:23 PM

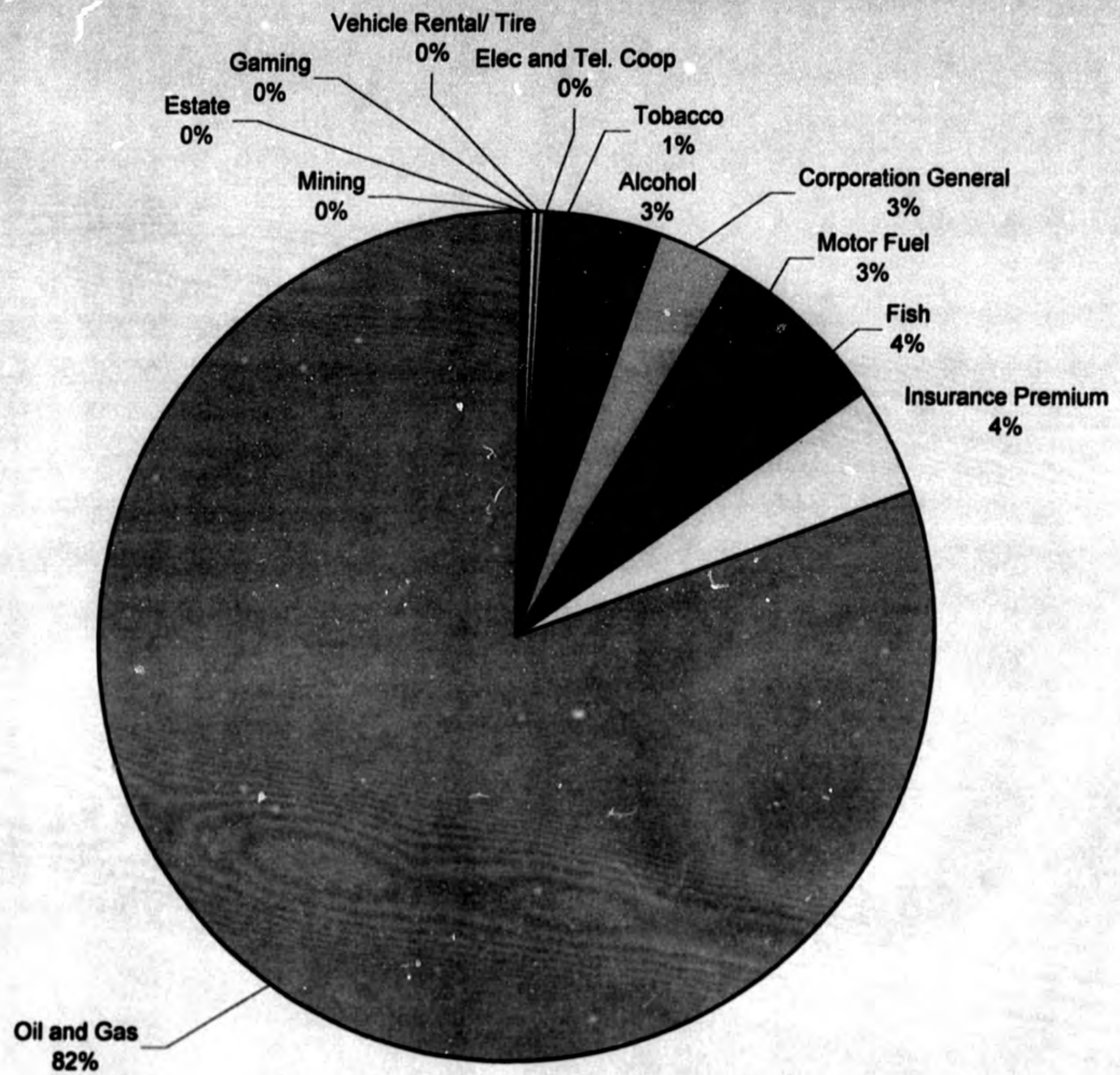
gspandtaxpiecharts

General Fund Tax Revenue Excluding Oil and Gas
$240 million in FY 2004



Alaska Department of Revenue - Tax Division

General Fund Revenue by Tax Type including Oil and Gas
$1.2 billion in FY 2004



3/4/2005 5:23 PM

gspandtaxpiecharts

These Statutes from the 1980's are somewhat different than what you might be used to looking at, in that changes to statutes are listed in a Supplemental and not reflected in the statute pages. Legislative Research has made notations on the edges of pages of statutes to help explain the changes and when they were adopted.

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

April 6, 1989

MEMORANDUM

TO: House Finance Fiscal Policy Subcommittee

FROM: Gretchen Keiser G. Keiser
Legislative Analyst

RE: **Alaska's Personal Income Tax: History, Structure and Policy Considerations**
Research Request 89.253

You asked this agency to prepare a summary of the history, structure and policy considerations regarding Alaska's personal income tax. This memorandum draws upon the legislative history of the Alaska Net Income Tax Act (AS 43.20), fiscal records of the Department of Revenue, personal income data from U.S. Bureau of Economic Analysis, Governor's Office (Division of Policy) analysis, as well as several publications covering state income taxes nationwide. The first section describes the history and structure of Alaska's individual income tax. Recent legislative proposals regarding the personal income tax are discussed in the second section. The third section briefly considers state income taxes nationwide, and the final section examines the major policy considerations of an income tax.

HISTORY AND STRUCTURE OF ALASKA'S PERSONAL INCOME TAX

Following several years of political battles, the Alaska Legislature established a net income tax in 1949 as part of an overall change in the territorial tax system.[1] The tax was levied on all resident and nonresident individuals and fiduciaries (and also corporations operating in Alaska) at a tax rate of ten percent of the taxpayer's federal income tax liability. Given its close correlation to the federal tax, Alaska's income tax was quite simple and easy to collect; employers withheld ten percent of the amount being withheld for federal income taxes. The Alaska tax withstood an immediate challenge of its constitutionality [Alaska Steamship Co v. Mullaney, 12 Alaska 594, 180 F.2d 805 (1950)]. In addition, the court considered the state's tax, with its reliance on the federal graduated tax rates, to be grounded in a reasonable policy since the tax was structured according to a taxpayer's ability to pay.

---

[1] History of Alaska's income tax presented in Department of Revenue v. Gibson, 544 P.2d 852, 1975.

Between 1949 and 1961, Alaska's personal income tax rate gradually increased from ten to 16 percent of a taxpayer's federal income tax liability. Other changes required federal employees to pay state tax on cost-of-living allowances and limited nonresidents' exemptions, credits and deductions. The simplified method of determining state income tax worked well during a period when federal tax changes mostly involved increases in tax rates. Following the reduction in federal income tax rates in 1963, however, the legislature grappled with a state tax structure which would operate independently of the federal system. In 1965, the legislature modified the tax statute so that a taxpayer's state tax payment remained at 16 percent of the federal income tax liability <u>but</u> at the federal tax rates in effect on December 31, 1963, prior to federal tax reform. A 1964 legislative report noted that nonresident taxpayers usually had a disportionately higher income tax liability than residents because they were denied the standard ten percent deduction and could claim only those deductions directly connected with income from Alaska sources.[2]

In 1975, the legislature revamped the Alaska income tax and established a graduated tax rate structure independent of federal income tax rates. A taxpayer's taxable income, as defined under the Internal Revenue Code, was modified by various longstanding additions, exemptions and credits to determine Alaska taxable income, which was then subject to a progressive rate of 3.0 to 14.5 percent. The 1975 tax law expanded considerably the section governing nonresident taxable income for individuals and partnerships (including a provision which allowed the standard federal deduction according to the portion of a taxpayer's total adjusted gross income derived from Alaska sources).

The revenue effect of the overhaul was not dramatic; the significant increases in state individual income tax revenues in fiscal years 1975 - 1977 primarily reflect the dramatic rise in total state personal income (and individual taxable income) during construction of the TransAlaska Pipeline System (TAPS).[3] Table 1 summarizes information on state individual income taxes paid for the 1977 - 1979 tax years.

---

[2]Alaska Legislative Council, "Taxes in Alaska," November 1964, p. 8.

[3]Steve Kettel, director, Income and Excise Tax Division, Department of Revenue, personal communication, March 16, 1989.

TABLE 1
ALASKA INDIVIDUAL INCOME TAX INFORMATION: 1977 - 1979

	1977	1978	1979
Number of Taxpayers	190,988	177,572	188,780
Avg. Taxable Income	$13,844	$13,377	$12,686
Avg. Tax Paid	$700	$572	$494
Percent Tax Paid by Nonresidents	18.4%	12.2%	10.9%
Effective Tax Rate	5.1%	4.3%	3.9%

Source: 1977, 1978 and 1979 Individual Income Tax reports prepared by the Research Section, Alaska Department of Revenue, and May 6, 1987 memorandum ("Income tax Incidence on Nonresidents") from John Hansen and Gregg Erickson to Commissioner Hugh Malone.

Alaska's personal income tax was repealed in 1980. During the regular session, the 1980 legislature modified AS 43.20 to provide a partial to total exemption from state income tax for individuals, depending upon the number of prior years the taxpayer had filed a state tax return (Ch 22 SLA 1980). In early September 1980, the Alaska Supreme Court ruled that the resident longevity exemptions violated the equal protection clause of the Alaska Constitution. A special session was called and the legislature repealed the personal income tax on individuals and fiduciaries, retroactive to January 1, 1980 (Ch 1 SSSLA 1980). In addition, the legislature appropriated about $186 million to the Department of Revenue for refund of income taxes paid by individuals and fiduciaries during both the 1979 and 1980 tax years.

Table 2 summarizes state revenue from the individual income tax for the period FY 59 - FY 80. Income tax revenue increased dramatically beginning in FY 75 and peaked in FY 77 at $210 million. Table 2 also provides the annual state personal income, which is broadly defined to include all income received from wages, salaries, dividends, interest, rent, transfer payments, etc. The state's income tax revenue is then presented as a percentage of state personal income in order to portray the historical tax effort (i.e., the percent of total income paid to the state in income taxes). The tax effort ranged between 1.6 percent (FY 59 - FY 61) and 4.6 percent (FY 77). The dramatic increase in tax effort beginning in FY 75 generally reflects higher taxable incomes (during the TAPS construction), which were subject to higher tax rates under the graduated tax system. By FY 79, the tax effort had declined to 2.4 percent, which was also the average tax effort over the 22-year period.

TABLE 2
REVENUES FROM ALASKA INDIVIDUAL INCOME TAX: FY 59 - FY 80
(Millions of Dollars)

Fiscal Year	State Income Tax Revenue	Total State Personal Income	Income Tax Revenue as Percent of Total State Personal Income	Income Tax Revenue as Percent of Total State Tax Revenue	Income Tax Revenue as Percent of Unrestricted Revenue
1959	$8.1	$506.6	1.6%		
1960	8.9	542.4	1.6		
1961	10.4	630.9	1.6		
1962	12.2	626.3	1.9		
1963	13	654.1	2.0		
1964	13.9	711.3	2.0		
1965	16.2	799.7	2.0		
1966	19.2	866.3	2.2		
1967	22.7	935.3	2.4		
1968	22.6	1,029.0	2.2		
1969	25.2	1,119.1	2.3		
1970	32.4	1,373.9	2.4		
1971	35.5	1,543.7	2.3		
1972	39.1	1,679.1	2.3	43.8%	17.8%
1973	43.4	1,827.0	2.4	45.1	20.8
1974	49.2	2,148.3	2.3	44.8	19.3
1975	86.9	2,650.4	3.3	46.8	26.1
1976	146.2	3,780.0	3.9	25.2	20.6
1977	210.4	4,559.6	4.6	28.0	24.1
1978	145.7	4,701.2	3.1	27.1	19.0
1979	117.2	4,790.8	2.4	14.6	10.3
1980	100.5	5,020.9	2.0	7.1	4.0

Note: The fiscal year tax revenue data corresponds to taxes paid for the prior calendar year's income. For example, FY 80 tax revenue corresponds to individual taxable income and total state personal income in 1979.

Sources: 1977 - 1979 Individual Income Tax reports and Revenue Sources (January 1986) prepared by the Research Section, Alaska Department of Revenue, and state personal income data from the Bureau of Economic Analysis, U.S. Department of Commerce.

Prepared by the House Research Agency, April 1989 (89.253).

Table 2 also presents information for the 1970s which indicates the importance of income tax receipts relative to total state tax revenue and unrestricted revenue available for state spending. During the period FY 72 - FY 75, income tax receipts represented nearly half of the state's total tax revenue. As oil and gas reserves, property, and severance tax revenue expanded beginning in FY 76, the individual income tax declined in importance to roughly one-quarter of the state's tax revenue. In FY 72 - FY 74 and again in FY 78 (after the high income tax years during the TAPS construction), the state individual income tax brought in roughly 18 to 21 percent of the state's unrestricted revenues.

RECENT LEGISLATIVE PROPOSALS TO REIMPOSE THE PERSONAL INCOME TAX

Since 1985, several resolutions have been introduced opposing an income tax or proposing a constitutional amendment to require voter approval or a two-thirds majority vote in each house prior to reimposition. In 1986, the legislature established the Joint Special Committee on State Tax Policy which was to submit a report to the legislature that "addresses the merits of and makes recommendations concerning a long-term, broad-based and stable tax policy to minimize taxes and foster economic growth."[4] The committee compiled a series of reports on the merits of specific taxes, including studies on the individual income tax prepared by the Department of Revenue and the Institute of Social and Economic Research in 1986 and 1987. Nevertheless, the committee's final report (January 1988) did not present conclusions as a result of all these studies or make recommendations regarding state tax policy and the role an individual income tax might play.

In 1987, Governor Cowper introduced individual income tax legislation (House Bill 154) which underwent considerable public scrutiny but died in the House Rules Committee. The proposed state income tax was piggybacked on the federal tax--as under the former Alaska income tax repealed in 1980. The tax base was broadened through adjustments to federal gross income and limitations on the number of allowable deductions (i.e., alimony paid, interest from U.S. obligations, penalty for early withdrawals from savings accounts, and Permanent Fund dividends). The DOR estimated that failure to allow the deduction of mortgage interest would increase taxable income in 1988 by about $600 million. A personal exemption of $3,000 per dependent was subtracted from adjusted gross income to arrive at taxable income. In contrast to the former state income tax rate schedule (with several tax rates to a maximum of 14.5 percent), Governor Cowper proposed a two-tiered structure of 3.2 and 5.7 percent. Higher taxable income brackets--at thresholds between $25,000 and $50,000 depending upon a taxpayer's filing status--would be taxed at the higher rate. At the time, the DOR estimated that the income tax, under HB 154, would raise about $250 million annually. A subsequent DOR estimate for the Governor's income tax--with Permanent Fund dividends taxable--yielded about $265 million.

---

[4]Senate Concurrent Resolution 42; the committee included three senators, three representatives, two executive branch members and three public members.

An individual income tax bill (HB 252; sponsored by Representative Koponen) was recently introduced in the 1989 Legislature (attached). As with the Governor's 1987 proposal, HB 252 would piggyback a two-tiered, graduated state income tax (at 3.2 and 5.7 percent) onto the federal tax, beginning with the federal definition of gross income. However, the current tax bill incorporates several new features:

- Permanent Fund dividends are not allowable deductions and would be taxable (as they are under the federal tax law);

- Personal exemptions applied against a taxpayer's adjusted gross income to arrive at taxable income are the greater of 1) the exemptions allowed under federal taxes [i.e., $1,950 per dependent in 1988] or 2) an amount of income equal to 100 percent of the federal poverty income guidelines applicable to the number of exemptions claimed;[5]

- Tax Credits are allowed for motor vehicle registration tax, sales and use tax, and property tax levied by a municipality. A renter's credit (not to exceed 20 percent of the annual rent) is also allowed; and

- Longevity bonuses would no longer be exempt from state taxes, as is currently the case under AS 47.45.120(a).

The fiscal note is not available yet for HB 252, but it appears likely that the larger personal exemption for all taxpayers (based on federal poverty income guidelines) and the credits for municipal taxes would significantly reduce previous income tax revenue estimates. Municipal sales tax revenues in 1988 equaled about $55 million--of which most is paid by Alaskans, and in 1987, DOR estimated that a property tax deduction would reduce projected taxable income in 1988 by $100 million. A centralized estimate of municipal motor vehicle registration tax revenue is not available from the Department of Community and Regional Affairs (DCRA). On the other hand, the tax liability generated by the Alaska longevity bonus would raise collections by about $2 million annually.[6] Also, the DOR estimated in 1987 that taxing Permanent Fund dividends would raise between $8 and $12 million in additional income tax revenue.

---

[5] The 1989 federal poverty income guidelines are as follows: $7,480 (family of one); $10,030 (two); $12,580 (three); $15,130 (four); $17680 (five); $20,230 (six); $22,780 (seven); $25,330 (eight); plus $2,550 per additional person.

[6] This estimate assumes that the average Alaska senior would have taxable income falling under the lower 3.2 percent rate. An annual bonus of $3,000 would yield $96 in taxes per senior, or about $1.6 million for 17,000 seniors.

Although he has not introduced an individual income tax bill this year, Governor Cowper included a state income tax in the conceptual framework of his five-year fiscal plan and 20-year projection as part of his State of the State address in January. A rough estimate of about $217 million from a graduated income tax--generally similar to the Governor's 1987 proposal but with lower tax rates--is indicated for FY 92, following implementation of the tax on January 1, 1991. According to Gregg Erickson of the Office of Management and Budget, this income tax effort would be equal to about 1.9 percent of the projected state personal income at that time.

COMPARISON WITH OTHER STATES

Alaska is one of seven states which do not have an individual income tax. Florida, Nevada, South Dakota, Texas, Washington, and Wyoming are the others. Two other states tax only interest and dividend income (New Hampshire and Tennessee). Nationwide, the individual income tax provided about 31 percent of state tax revenue in 1987.[7] In FY 78--the last year (prior to the runup in severance and petroleum corporate income taxes) for which we have comparable figures--Alaska's individual income tax receipts represented about 27 percent of the state's total tax revenue (Table 2).

Since 1986, there has been considerable activity and major reforms in state individual income tax laws across the country as a result of 1) the federal tax reforms of 1986, 2) major tax studies in more than half of states since the early 1980s, and 3) economic changes and the desire for an income tax structure which is competitive with neighboring states.[8] Furthermore, a December 1988 National Conference of State Legislatures' survey indicates that income taxes would be among the top three issues facing 21 state legislatures in 1989.[9]

In general, states have become more progressive in their income tax structure because most conformed with the progressive changes in the federal tax law--particularly the broadening of the tax base at higher income levels. Also, many states raised personal exemptions and/or standard deductions, which provides greater relief for taxpayers with relatively low incomes. However, it is difficult, if not misleading, to compare a potential income tax rate structure in Alaska with those of other states because income brackets, deductions, exemptions, and credits vary widely from state-to-state.

---

[7] State Government Tax Collections in 1987, Bureau of the Census, Government Finances Series GF-87-1, March 1988, Table 6.

[8] S. Gold (ed), "The Unfinished Agenda for State Tax Reform, National Conference of State Legislatures, 1988, pp. 14 - 21.

[9] "Leading Fiscal Issues in 1989 Legislative Sessions," National Conferences of State Legislatures, December 1988.

POLICY CONSIDERATIONS OF A STATE INCOME TAX

Equity

The individual income tax is generally considered the fairest tax. The tax burden falls primarily on the individual and there is less opportunity for shifting the incidence of taxation compared with corporate income or business taxes where tax burdens can be shifted backward onto workers or forward onto consumers. Income taxes typically incorporate graduated tax rates based on the ability to pay principle--individuals pay according to their level of income.

A progressive income tax takes a higher percentage of high incomes than of low ones. The progressivity of an individual income tax depends upon a number of factors, including

1) the type of income taxed and the degree of preferential treatment of different categories of income - elimination of the special treatment of capital gains under the federal 1986 tax reform is regarded as a progressive change in the income tax;

2) the tax rate structure (i.e., the number and spacing of income brackets and the spread in tax rates from lowest to highest income bracket) in general, fewer income brackets and a smaller spread in the tax rates results in less progressivity;

3) the amount of standard deductions and personal exemptions - increasing these helps reduce the tax burden of lower income taxpayers to a greater extent than higher income taxpayers; and

4) the type and amount of tax credits - converting deductions to tax credits places higher and lower income taxpayers on an equal footing.

Since HB 252 begins with the federal gross income definition, it would incorporate some of the progressive changes of the recent federal tax reform. The two-tiered, graduated rate structure proposed in HB 252 is moderately progressive, but the provision for large personal exemptions would have a greater beneficial effect on lower income taxpayers than those with higher incomes, and greatly increases the progressivity of the proposed income tax.

A portion of the proposed state income tax burden would be "exported" because some of the tax would be paid by nonresidents. The Office of Management and Budget (OMB) estimated in 1987 that at least ten percent of the tax revenue would come from nonresidents (including filers who worked instate only part of the year).[10]

Simplicity and Economic Efficiency

A broad-based tax system, with few deductions and limited preferential treatment of income, is the simplest form of income tax for government to administer and individuals to pay. From an administrative viewpoint, the majority of disputes under the former state income tax were related to itemized deductions. The Internal Revenue Service also focuses a great deal of time on deductions and tax credits since these are the primary areas of abuse. However, in comparison with other taxes--such as a sales tax--an income tax is administratively much more complex. A 1987 fiscal note estimated that about 65 new DOR employees would be necessary to administer a state income tax; about 60 DOR staff worked on the income tax prior to its repeal in 1980.[11]

Limiting the complexity of the income tax is politically responsible because it clarifies who shoulders the tax burden. A tax which broadly incorporates all types of cash income--and allows for few exceptions or special treatments--would likely result in lower tax rates if a particular level of revenue is targeted. Although virtually any form of taxation affects individuals' decisions regarding work, savings, education, or consumption, a broad-based tax with low rates is generally considered to be less distorting. With low rates, personal, individual, business, and investment decisions are likely to be primarily based on economic rather than tax avoidance considerations. Similarly, a tax system which allows few deductions would limit the incentive effects, such as may occur when the deduction of medical expenses induce individuals to spend more on medical services than they otherwise would.

---

[10]"Percent of State Income Tax "Exported"," Memorandum from Gregg Erickson, senior economist, to David Ramsure, press secretary to the Governor, May 4, 1987.

[11]Steve Kettel, personal communication, March 16, 1989.

Intergovernmental Effects

Payment of state income taxes has been estimated to reduce Alaskans' federal tax payments by an amount equivalent to about 20 percent of their state income tax liability. This offset of federal taxes would occur only for taxpayers who itemize deductions on their federal tax returns--typically higher income taxpayers. This federal tax offset, coupled with the above-mentioned taxes collected from nonresidents, indicates that roughly 30 percent of the state income tax burden would be "exported" out of state.

The inclusion of municipal property, sales, and vehicle registration tax credits would have a significant effect on the capability of the state to generate revenue under the income tax proposed in HB 252. The annual revenue expected from the state income tax would be somewhat unpredictable because each time a local government raised its taxes, state revenue would decline by a roughly corresponding amount. The tax credits would be popular among Alaska's communities because they provide a direct dollar-for-dollar incentive for local governments to increase property and sales taxes; local taxpayers would recover their local tax payment through reductions in state income taxes. However, credits for local taxes would be allowed only up to the amount of state income taxes owed, i.e., taxpayers could not receive a refund from the state.

From the taxpayers' perspective--particularly those with higher income who would be able to fully credit local taxes against their tax liability--it makes little difference to whom one pays the tax bill. In either case, an individual's disposable income would be reduced. It could be argued that a state income tax system which incorporates this local tax credit provision would in fact encourage taxation at the local level where taxpayers not only have greater direct influence over the expenditure of tax revenue, but could also keep the tax dollars circulating in the regional economy. On the other hand, individuals living in areas with low tax rates or lacking local taxes--particularly in the unorganized borough--would pay more of their tax dollars to the state where they would have less control over where and how the tax dollars were spent. Another factor to consider is that the local government response to the incentive embodied in the tax credits would also affect the distribution of state aid under the Public School Foundation and Revenue Sharing programs (which have a local tax effort measure built into their formulas).

In summary, the design of a state income tax is not necessarily a straightforward task. Policy makers have to consider several factors as they establish the tax system in order to achieve the desired level of progressivity and target the intended beneficiaries of various exclusions, deductions, exemptions and credits. I have attempted to briefly discuss the policy issues which commonly arise regarding income taxes as well as some issues raised by HB 252.

Please contact us if you would like further information.

Attachment

Introduced: 3/24/89
Referred: State Affairs
and Finance

6-0323A

IN THE HOUSE

BY KOPONEN, SPOHNHOLZ, ULMER AND BROWN

HOUSE BILL NO. 252

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the taxation of income and to individual tax credits; and providing for an effective date."

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

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

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

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

(h) There is imposed for each taxable year upon the taxable income of every resident, nonresident, and part-year resident married individual who makes a single return jointly with a spouse, as provided in 26 U.S.C. 6013 (Internal Revenue Code), and upon every resident, nonresident, and part-year resident surviving spouse, as defined in 26 U.S.C. 2(a) (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 $50,000	3.2 percent of taxable income
$50,000 or more	$1,600 plus 5.7 percent of the

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

May 15, 1987

MEMORANDUM

TO: Representative Cliff Davidson

FROM: Gretchen Keiser *Gretchen Keiser*
Legislative Analyst

RE: **History of Taxes Paid by Individual Alaskans**
Research Request 87.299

You requested that we provide information on all taxes paid by individual Alaskans for the years: 1972, 1976, 1978, and 1980 - 1986. Table 1 summarizes the information obtained for the following taxes: individual income, school, estate, alcohol, cigarette, and motor fuels.

Table 1 subdivides the taxes into two categories: those paid by individual taxpayers filing State tax returns (i.e., income, school and estate taxes) and those paid--on average--by all adult Alaskans (i.e., alcohol, motor fuels and cigarette taxes). The Alaska Department of Revenue provided records of fiscal year tax receipts. We then estimated the number of taxpayers (based on the school tax receipts at $10 per taxpayer) and calculated an average taxpayer share. With respect to the taxes on alcohol, motor fuels and cigarettes, we calculated an average adult share, based on the Alaska Department of Labor's estimates of Alaskans 15 years and older.

The estimated average tax shares are additive to the extent that an individual was both a taxpayer and also an adult Alaskan. There are undoubtedly adult Alaskans who paid taxes on alcohol, motor fuels and cigarettes but did not file a State income tax return in the 1970s. For the years analyzed, the estimated taxes paid by an adult Alaska taxpayer peaked in FY 78 at $739 and declined sharply beginning in FY 81. The primary reason for the decreased tax burden was the repeal of the State income tax and school tax in 1980. If we compare the annual tax burdens in real, inflation-adjusted dollars, the average adult Alaskan has paid roughly the same in annual taxes since 1981. Tax levels in recent years are roughly 12 - 13 percent of the real tax burden paid during FY 76 and FY 78.

* * *

Please contact me if you have any questions regarding this information.

Attachment

TABLE 1
ESTIMATED STATE TAXES PAID BY INDIVIDUAL ALASKANS: FY 72 - FY 86

TAX CATEGORY	FY 72	FY 76	FY 78	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
TAXES PAID BY INDIVIDUALS FILING STATE TAX RETURNS										
Individual Income Tax*										
Total Receipts (000's)	$39,076.3	$146,202.1	$145,749.1	$100,479.0	$7,237.9	$1,493.0	$0.0	$0.0	$0.0	$0.0
Estimated No. of Taxpayers**	149,150	263,700	240,140	255,590	na	na	0	0	0	0
Average Taxpayer Share	$262	554	607	393	na	na	0	0	0	0
School Tax*										
Total Receipts (000's)	1,491.5	2,637.0	2,401.4	2,555.9	970.1	1.6	0.0	0.0	0.0	0.0
Estimated No. of Taxpayers	149,150	263,700	240,140	255,590	na	na	0	0	0	0
Average Taxpayer Share	10	10	10	10	na	na	0	0	0	0
Estate Tax***										
Total Receipt (000's)	39.3	158.1	244.1	197.6	453.5	334.7	700.0	700.0	500.0	700.0
Estimated No. of Taxpayers	149,150	263,700	240,140	255,590	na	na	na	na	na	na
Average Taxpayer Share	0	1	1	1	na	na	na	na	na	na
TAXES PAID BY ALL ADULT ALASKANS										
Tax on Alcoholic Beverages										
Total Receipt (000's)	4,837.8	7,841.7	7,572.0	7,365.9	8,326.4	8,977.9	10,400.0	14,042.4	13,808.2	13,161.7
Estimated Adult Population	222,750	289,110	295,660	306,520	317,396	339,917	362,759	380,400	393,558	397,477
Average Adult Share	22	27	26	24	26	26	29	37	35	33
Tax on Motor Fuels										
Total Receipt (000's)	11,401.9	24,403.5	23,293.2	26,174.9	23,224.7	3[illegible] 273.1	36,700.0	32,300.0	36,000.0	36,100.0
Estimated Adult Population	222,750	289,110	295,660	306,520	317,396	339,917	362,759	380,400	393,558	397,477
Average Adult Share	51	84	79	85	73	89	101	85	91	91
Tax on Cigarettes****										
Total Receipt (000's)	3,224.5	4,617.3	4,627.2	4,282.5	4,539.4	4,908.1	5,300.0	5,400.0	5,200.0	7,700.0
Estimated Adult Population	222,750	289,110	295,660	306,520	317,396	339,917	362,759	380,400	393,558	397,477
Average Adult Share	14	16	16	14	14	14	15	14	13	19
TOTAL AVERAGE TAX BURDEN OF ADULT ALASKAN TAXPAYERS*****										
Nominal Dollars	$359	$692	$739	$527	$113+	$129+	$145+	$136+	$139+	$143+
Real (1986) Dollars	$894	$1,218	$1,138	$664	$132+	$143+	$158+	$143+	$142+	$143+

NOTES:

* The individual income tax and school tax were repealed in 1980--effective for calendar year 1980 taxes. Therefore, income and school tax receipts beginning in FY 81 were sharply lower and represent solely payments of back taxes.

** The number of taxpayers is estimated from the school tax receipts @ $10 per taxpayer since the actual number of taxpayers is not readily available from the Alaska Department of Revenue.

*** Without an estimate of t e number of taxpayers, we are unable to estimate the estate taxes paid per taxpayer beginning in FY 81.

**** The cigarette tax receipt represent the total tax receipts--which are deposited both into the General Fund and a special fund distributed to school dis icts.

***** A "+" follows the average ax burden figure beginning in FY 81 to indicate that taxes would be slightly higher if we had been abl to allocate estate tax receipts on a per taxpayer basis.

The adult population is based on the Alaska Department of Labor's estimates of Alaskans 15 years and older.

Prepared b the House Research Agency, May 1987 (87.299; 870330-10).

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

MEMORANDUM September 20, 1980

TO: Representative Terry Gardiner

FROM: Jack Kreinheder and Anne DeVries
Research Staff

RE: State Income Tax Data
Research Request No. 166

You have asked that we provide the following information regarding State income taxes: (1) total individual income taxes collected for the past several years; (2) the percentage of Alaska's population who paid income taxes; (3) the distribution of taxes paid; and (4) the percentage of Alaska residents who paid taxes in the past several years who are still residents. Before discussing the information we compiled, we should mention the information that was not available.

The Department of Revenue has accurate income tax data only for the tax years 1977 and 1978. 1979 data will not be available until the end of 1980 and the only pre-1977 information available is an estimate for total tax collections in 1976. All tax collection information for earlier years is on a calendar year basis and is not comparable to the later tax year data. Finally, no State agency has compiled the outmigration data required to answer the fourth question stated above; the only outmigration data available for Alaska is from the 1970 census and is too old to be useful.

Despite this lack of data, we were able to compile information for 1977 and 1978 which should be useful. The following table shows the income taxes paid by residents and non-residents in 1977 and 1978, with a total figure for the two groups for 1976. The non-resident figures include part-year residents.

Individual Income Taxes Paid

By

Residents and Non-Residents, 1976 - 1978

	Residents	% of Total	Non-Residents	% of Total	Total
1976	N.A		N.A.		$115,000,000
1977	$113,673,977	83.9%	$21,808,647	16.1%	$135,482,624
1978	$ 94,988,869	89.0%	$11,730,657	11.0%	$106,719,525

The table shows that non-residents paid over 16 percent of all income taxes in 1977, but only 11 percent in 1978. This decrease is probably due in part to the completion of the trans-Alaska pipeline in mid-1977. The total income taxes collected for both residents and non-residents also declined from 1977 to 1978. Much of this decrease was the result of the Individual Income Tax Credit introduced in 1978. The credit accounted for an estimated reduction of over $20 million in taxes collected in 1978.

The precentage of Alaska's population that paid income taxes in 1977 and 1978 appears to be slightly less than half. In 1978, 215,374 persons filed resident tax returns, out of a total state population of 408,000 people, meaning that about 53 percent of the population filed returns. Not all of the persons filing returns paid taxes, however. Roughly 30,000 people who filed returns owed little or no income tax, so that the percentage of the population who actually paid income taxes in 1978 is about 45 percent. The percentage for 1977 is nearly identical. It should be noted that the figures for both years may be slightly high, because it is not possible to determine the number of married persons filing joint returns who paid no tax. About 70,000 joint returns were filed in each of the two years.

Although no data is available for 1979, it is reasonable to assume that the percentage of the population who paid taxes in 1979 is similar to that of 1977 and 1978.

The attached table shows the percentage distribution of income taxes in 1977 and 1978, thereby illustrating how the benefits of refunding taxes for past years would be spread among taxpayers. For example, by comparing the cumulative percentage of taxpayers in 1978 with the cumulative percentage of taxes paid, one can see that 16.9 percent of the taxpayers paid 49.6 percent of the income taxes collected that year.

In round numbers, over one-half of the 1978 taxes collected were paid by about one-sixth of the state's taxpayers. Continuing down the columns, it can be seen that over two-thirds (69.8%) of the 1978 taxes were paid by less than one-third (30.8%) of the taxpayers. Thus, if all 1978 income taxes were refunded, two-thirds of the refund would go to less than one-third of the taxpayers. Similar comparisons can be made for other tax distributions and for the 1977 figures.

These distributions can also be converted to reflect the percentage of the total population, rather than taxpayers, which would receive a given percentage of the tax refund. The percentages of the population are in parentheses next to the cumulative percentages of taxpayers. In terms of the example stated above, the 30.8 percent of the taxpayers who paid two-thirds of the income taxes collected in 1978 represent about 16 percent of Alaska's population.

If you would like further explanation of this information or if you have other questions, please do not hesitate to contact us.

JK:AHD:bf

PERCENTAGE DISTRIBUTION OF TAXES PAID

1978

Adjusted Gross Income	Number of Taxpayers*	Percentage of Taxpayers	Cumulative Percentage of Taxpayers	Percentage of Population	Cumulative Percentage of Population	Percentage of Taxes Paid	Cumulative Percentage of Taxes Paid
Over $100,000	911	0.4	0.4	0.2	0.2	5.2	5.2
$60,001 - $100,000	6,438	3.0	3.4	1.6	1.8	13.0	18.2
$50,001 - $ 60,000	9,190	4.3	7.7	2.3	4.1	12.2	30.4
$45,001 - $ 50,000	8,320	3.8	11.5	2.0	6.1	8.9	39.3
[illegible],001 - $ 45,000	11,479	5.4	16.9	2.8	8.9	10.3	49.6
$35,001 - $ 40,000	14,094	6.5	23.4	3.5	12.4	10.5	60.1
$30,001 - $ 35,000	16,010	7.4	30.8	3.9	16.3	9.7	69.8
$25,001 - $ 30,000	17,219	8.0	38.8	4.2	20.5	8.6	78.4
$20,001 - $ 25,000	18,353	8.5	47.3	4.5	25.0	7.3	85.7
$15,001 - $ 20,000	20,255	9.4	56.7	4.9	29.9	5.4	91.1
$10,001 - $ 15,000	23,924	11.2	67.9	5.9	35.8	3.2	94.3
$ 5,001 - $ 10,000	26,375	12.2	80.1	6.5	42.3	0.7	95.0
$ 1 - $ 5,000	32,382	15.0	95.1	7.9	50.2	-	95.0
-0-	10,424	4.9	100.0	2.6	52.8	5.0	100.0
	215,374	100.0		52.8		100.0	

*Adjusted for married couples filing jointly.

Source: Individual Income Tax Paid in 1977 and 1978 by Residents and Non-Residents, April 1980
Individual Income Tax Paid by Residents in 1977 and 1978 by Filing Status, June 1980

Alaska Department of Revenue

HOUSE RESEARCH AGENCY

(9/18/80)

PERCENTAGE DISTRIBUTION OF TAXES PAID

1977

Adjusted Gross Income	Number of Taxpayers*	Percentage of Taxpayers	Cumulative Percentage of Taxpayers	Percentage of Population	Cumulative Percentage of Population	Percentage of Taxes Paid	Cumulative Percentage of Taxes Paid
Over $100,000	1,148	0.5	0.5	0.3	0.3	5.5	5.5
$60,001 - $100,000	6,333	3.0	3.5	1.6	1.9	11.5	17.0
$50,001 - $ 60,000	9,104	4.2	7.7	2.2	4.1	11.2	28.2
$45,001 - $ 50,000	8,157	3.8	11.5	2.0	6.1	8.1	36.3
$40,001 - $ 45,000	11,651	5.4	16.9	2.9	9.0	9.9	46.2
$35,001 - $ 40,000	15,058	7.0	23.9	3.8	12.8	11.0	57.2
$30,001 - $ 35,000	17,676	8.2	32.1	4.4	17.2	10.6	67.8
$25.001 - $ 30,000	19,037	8.9	41.0	4.8	22.0	9.6	77.4
$20,001 - $ 25,000	19,808	9.2	50.2	4.8	26.8	8.3	85.7
$15,001 - $ 20,000	20,310	9.5	59.7	5.1	31.9	6.4	92.1
$10,001 - $ 15,000	23,597	11.0	70.7	5.9	37.8	4.3	96.4
$ 5,001 - $ 10,000	26,077	12.2	82.9	6.5	44.3	1.9	98.3
$ 1 - $ 5,000	31,641	14.7	97.6	7.9	52.2	0.2	98.5
-0-	5,157	2.4	100.0	1.3	53.5	1.5	100.0
	219,754	100.0		53.5		100.0	

*Adjusted for married couples filing jointly.

Source: Individual Income Tax Paid in 1977 and 1978 by Residents and non-Residents, April 1980
Individual Income Tax Paid by Residents in 1977 and 1978 by Filing Status, June 1980

Alaska Department of Revenue

HOUSE RESEARCH AGENCY

(9/18/80)

FALL 2002

Revenue Sources Book

Forecast & Historical Data

STATE OF ALASKA
DEPARTMENT OF
REVENUE

Tax Division

Tony Knowles, Governor
Wilson L. Condon, Commissioner
Dan E. Dickinson, Director
Charles Logsdon, Chief Petroleum Economist

Personal Income Tax

Of the 50 states, 43 have a personal income tax. Joining Alaska on the list without a tax are Florida, Nevada, South Dakota, Texas, Washington and Wyoming. Of the 43 with a tax, New Hampshire and Tennessee collect taxes on dividends and interest income only.

There are three options for the tax base for calculating a personal income tax:

- Adjusted gross income. Because the tax base would be the highest of the three options, the tax rate would be the lowest. Adjusted gross income is Line 33 on the federal personal income tax Form 1040, which is an individual's gross income from all sources minus: IRA contributions, student loan interest, Medical Savings Account contributions, moving expenses, one-half of the self-employment tax paid by self-employed individuals, the self-employed health insurance deduction and alimony.

- Federal taxable income. This is Line 39 on Form 1040, which is adjusted gross income minus either the standard deduction or all of the itemized deductions allowed under federal law, plus the per-person exemptions allowed under the federal tax code. This requires the state to accept whatever tax deductions are allowed under federal law, although the state also could include its own deductions, credits or other conditions.

- Federal tax liability. This is what an individual pays the IRS. Because the tax base would be the lowest of the three options, the actual tax rate would be higher than if the rate were applied to gross income or taxable income. For example, a 1.87% tax on gross income, a 2.54% tax on taxable income, or a 12.66% tax on federal tax liability would all raise the same amount for the state — about $250 million a year. Using Federal Tax Liability as the base would require the state to accept whatever deductions and credits are allowed under federal law. Federal tax liability is Line 40 on Form 1040 (before several credits under the IRS code), or Line 52 (after Education Tax Credits and Elderly and Disabled Care Credits and others), or Line 52 plus the Earned Income Credit and Additional Child Tax Credit.

These are approximate numbers for tax rates and how much revenue would be raised by a state personal income tax in Alaska. The table assumes a flat tax for the sake of simplicity in showing potential revenues.

Table 13. Income Tax Rates and Income Tax Projections (2000 IRS Data)

$ Million Revenue	% Adjusted Gross Income	% Federal Taxable Income	% Net Federal Tax Liability
$250	1.87	2.54	12.66
$300	2.22	3.03	15.08
$350	2.58	3.51	17.49
$400	2.93	4.00	19.91

Alaska abolished its personal income tax in 1980. The tax raised $210.4 million in Fiscal 1977, its highest collections ever. The tax was assessed as a percentage of federal taxable income, ranging from 3.5% for income up to $8,000 per year to a high of 14.5% on income in excess of $300,000. In the middle, taxpayers paid 10% of their federal taxable income over $52,000. If the pre-1980 tax rates were in effect today, Alaskans would pay about $750 million in state personal income taxes. If the tax brackets were adjusted for inflation, that number would be $660 million.

An income tax certainly would collect money from non-residents working in Alaska, but there is no way to know exactly how much it would collect. The IRS reports income earned by taxpayers with an Alaska mailing address; it does not report income earned by non-residents working in Alaska. There are no exact numbers for non-resident wages in Alaska, but estimates range from 3% to 10% and the Department of Revenue believes the true number is probably in the middle. At 6% or 7%, an income tax that raised $350 million would collect perhaps $21 million to $22 million a year from non-residents.

A state personal income tax would be deductible from federal income taxes for Alaskans who itemize. IRS statistics indicate about 25% of Alaska taxpayers itemize their deductions, though most higher-income Alaskans itemize on their federal returns. And since it would be the higher-income Alaskans who would provide most of the state's new income tax revenues, a substantial portion of that tax would be deducted from Alaskans' tax payments to the federal government.

Statewide Sales Tax

The only states in the nation without a statewide sales tax are Alaska, Delaware, Montana, New Hampshire and Oregon. The others collect taxes that range from a low of 2.9% in Colorado to 7% in Mississippi and Rhode Island. In most states, the cities, counties, transit districts and other taxing authorities add their sales tax onto the state tax rate, with the states handling collection and enforcement, then disbursing the funds to the municipal agencies. Because of the cumulative effect of adding local sales taxes to the state tax, many states set a maximum overall rate. The highest total rates approach 10%.

Most states exempt all or some food purchases from sales taxes, with a few states charging a lower tax rate on foods. All states exempt prescription medicines from sales tax. Of those states with a general statewide sales tax, the tax provides an average 32.3% of overall state general fund revenues.

Although there is no statewide sales tax in Alaska, about one-third of Alaskans live in a community — a city or a borough — with a municipal sales tax. The rates for those 200,000-plus Alaskans range from:

- A low of 1% in Tenakee and White Mountain.
- To a high of 7% in Wrangell and 6% in Petersburg, Cordova, Kodiak and Kotzebue.

The 100 cities and boroughs with a sales tax collected about $125 million in Fiscal Year 2001, for an average of more than $600 per capita. Each municipality has its own list of tax exemptions, limits and rules, such as a cap on the maximum amount of a single purchase subject to a sales tax (to ease the burden on purchasers of big-ticket items such as cars). There is no uniformity across the state.

If Alaska had a statewide sales tax, the Department of Revenue estimates the state would collect approximately:

- $110 million a year for every 1% in a statewide sales tax on retail goods and services sold in Alaska, assuming no exemptions.
- $75 million a year if foods and medical goods and services were exempted.

The New York Times

March 4, 2005

Fed's Chief Gives Consumption Tax Cautious Backing

By EDMUND L. ANDREWS

WASHINGTON, March 3 - Alan Greenspan, the Federal Reserve chairman, cautiously endorsed a shift in the nation's tax system on Thursday from one that primarily taxes what people earn to one that taxes what they spend.

Testifying before a presidential advisory panel on overhauling the tax code, Mr. Greenspan steered away from sweeping plans to replace the income tax with a national sales tax.

But he supported what many of President Bush's advisers see as a backdoor version of a consumption tax: expanding the role of tax-free savings accounts so that people could shield their income from taxes until they actually spend it.

"Many economists believe that a consumption tax would be best from the perspective of promoting economic growth - particularly if one were designing a system from scratch - because a consumption tax is likely to favor saving and capital formation," Mr. Greenspan said.

But the Fed chairman warned that shifting to a new system would raise difficult "transition issues," and he cautioned against "going for purity" in any kind of tax overhaul.

President Bush, struggling to sell a reluctant Congress on his ideas for partly privatizing Social Security, said he would wait to see what the panel proposes at the end of July.

"I've told the American people I want to work to simplify the tax code to make it easier to understand so that people are spending less time filing paper," Mr. Bush said Thursday afternoon. "I'm looking forward to what the commission has to say."

But many lawmakers in his own party would like to combine Mr. Bush's goals for Social Security with his goal of transforming the tax code. Republican analysts say the two efforts could dovetail in Congress around the idea of private retirement accounts.

The centerpiece of Mr. Bush's Social Security plan is to let people divert part of their payroll taxes to individual investment accounts. Similarly, the kind of "consumed income tax" implied by Mr. Greenspan would be based on a major expansion of tax-free savings accounts like Individual Retirement Accounts. People could put in as much money as they wanted, withdraw it any time and not pay any tax on the investment.

Supporters say that kind of a system might resemble a traditional income tax. But by letting people shield savings and investment income, supporters say, the system could in practice leave only a tax on consumption.

The president's advisory panel, which is bipartisan, is to develop at least one recommendation that alters the basic structure of today's income tax, though the expectation is it will produce more than one proposal. Its recommendations are to be submitted by July 31 to the Treasury Department, which will then devise its own recommendation and present it to Mr. Bush.

Mr. Bush has refused to endorse a particular approach to tax overhaul, but White House officials have made it clear they favor some sort of consumption tax.

The Economic Report of the President, published last month, argued that consumption taxes could increase personal savings by as much as 43 percent in the first year and ultimately lead to higher output and higher wages.

"By removing the tax on the return to savings and investment, a consumption tax would increase savings and investment," the report contended. "With a larger stock of capital, workers would be more productive and output and wages would rise."

Representative Bill Thomas, the California Republican who is chairman of the Ways and Means Committee, has argued since early January that tax overhaul and Social Security should be part of the same agenda. John B. Breaux, the former Democratic senator from Louisiana who is co-chairman of the advisory panel, said recently that he saw merit in combining the issues as well.

"I just think they want to deal with these simultaneously," said Bruce Bartlett, a senior fellow at the National Center for Policy Analysis, a conservative research group. "It opens up a lot of options for them to put together a package. That's what I've been hearing for weeks. The problem is the president - he doesn't want to do it."

In contrast to the partisan divide over Social Security, where Congressional Democrats are almost uniformly opposed to Mr. Bush's plans, the issue of tax overhaul has attracted some Democrats.

Representative Steny H. Hoyer of Maryland, the House Democratic whip, vowed on Thursday to "make progress" on tax overhaul this year and echoed Mr. Bush's rhetoric about the need to make the system "simpler" and "fairer."

But Mr. Hoyer and many other Democrats say they oppose any form of a consumption tax, contending that it would primarily benefit the wealthy, who would escape taxes on investment income.

Some Democrats are also furious with Mr. Greenspan, who they say contributed to the record budget deficits incurred under President Bush by condoning the tax cuts he pushed.

"I'm not a big Greenspan fan," said Senator Harry Reid of Nevada, the Senate Democratic leader, in an interview with CNN on Thursday. "I think he's one of the biggest political hacks we have in Washington."

Mr. Greenspan tried to avoid specific recommendations about taxes, but told the panel that a consumption tax could raise savings and still place more of the tax burden on higher-income households.

A report by the Treasury Department in 2002, though, concluded that almost any form of consumption tax or flat tax would shift some taxes from upper-income to middle-income households.

Mr. Bush also faces a potential contradiction between his own goals. In initiating the advisory panel, Mr. Bush insisted that any new system would have to protect tax breaks for homeowners, the biggest of which is the deduction for mortgage interest.

But William Gale, a senior fellow at the Brookings Institution, a Democratic-leaning research group, said that the mortgage-interest deduction would allow rampant tax avoidance in a system where people did not have to pay taxes on their savings.

"If interest income isn't being taxed and interest payments are deductible, you and I could just lend each other $1 million," Mr. Gale said. "Neither of us could be taxed on our income, and both of us could deduct the interest payments."

James A. Baker III, who was treasury secretary when President Ronald Reagan pushed through a tax overhaul in 1986, warned the panel of the political minefields.

Mr. Baker noted that the Reagan administration originally proposed a sharp limit on the mortgage-interest deduction to reduce tax rates as much as possible.

But that provoked a storm of protest from the real estate, construction and home-finance industries. Only by capitulating, Mr. Baker said, was it possible to pass a bill that sharply lowered tax rates and eliminated scores of special tax breaks.

"This is a political exercise as much as it is an economic exercise," Mr. Baker noted. "A basic recognition of political reality will help you shape recommendations that can survive the legislative process."

HOUSE BILL NO. 470

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY REPRESENTATIVE MOSES

Introduced: 2/16/04
Referred: House Special Committee on Ways and Means, Finance

A BILL

FOR AN ACT ENTITLED

"An Act relating to the taxation of income."

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

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

(g) For each taxable year or fractional part of a taxable year after December 31, 2004, there is imposed a tax upon the taxable income of every resident, nonresident, and part-year resident individual and fiduciary of the state. The tax imposed by this subsection is determined as a percentage of the taxpayer's entire federal income tax liability, except that the tax on a nonresident or part-year resident individual or fiduciary is the tax determined as a percentage of the taxpayer's entire federal income tax liability multiplied by a fraction the numerator of which is the taxpayer's taxable income from sources in the state and the denominator of which is the taxpayer's taxable income from all sources. The tax is determined as follows:

(1) for the taxable year after December 31, 2004, and through December 31, 2005,

if the taxpayer's entire federal then the tax, as a percentage

income tax liability is:	of the taxpayer's entire federal income tax liability, is:
not more than $20,000	5 percent
over $20,000	10 percent;

(2) for the taxable year after December 31, 2005, and through December 31, 2006,

if the taxpayer's entire federal income tax liability is:	then the tax, as a percentage of the taxpayer's entire federal income tax liability, is:
not more than $20,000	10 percent
over $20,000	15 percent; and

(3) for each taxable year beginning after December 31, 2006,

if the taxpayer's entire federal income tax liability is:	then the tax, as a percentage of the taxpayer's entire federal income tax liability, is:
not more than $20,000	15 percent
over $20,000	20 percent.

(h) An individual shall determine the tax under (g) of 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) **<u>An individual, fiduciary,</u>** [IF A] corporation, or [A] partnership that has a corporation as a partner, **<u>that</u>** is **<u>subject to the tax imposed in AS 43.20.011 and is</u>** required to make a return under the provisions of **<u>26 U.S.C. (</u>** [THE] Internal Revenue Code**<u>)</u>**, [IT] shall file with the department [, WITHIN 30 DAYS AFTER THE FEDERAL RETURN IS REQUIRED TO BE FILED,] a return setting out

(1) the amount of tax due under this chapter, less **<u>allowable</u>** credits **<u>and payments</u>** claimed against the tax; and

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

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

(c) **<u>The</u>** [NOTWITHSTANDING (a) OF THIS SECTION, THE] total amount of tax imposed by this chapter is due and payable to the department at the same time and in the same manner as the tax payable to the United States Internal Revenue Service.

*** Sec. 4.** AS 43.20.030(d) is amended to read:

(d) A taxpayer [, UPON REQUEST BY THE DEPARTMENT,] shall <u>**file with the return**</u> [FURNISH TO THE DEPARTMENT] a [TRUE AND] correct copy of the <u>**taxpayer's**</u> tax return [WHICH THE TAXPAYER HAS] filed with the United States Internal Revenue Service <u>**for the taxable year**</u>. Every taxpayer shall <u>**file an amended return with the department and remit any additional tax and interest due**</u> [NOTIFY THE DEPARTMENT IN WRITING OF ANY ALTERATION IN, OR MODIFICATION OF, THE TAXPAYER'S FEDERAL INCOME TAX RETURN AND OF A RECOMPUTATION OF TAX OR DETERMINATION OF DEFICIENCY, WHETHER WITH OR WITHOUT ASSESSMENT. A FULL STATEMENT OF THE FACTS MUST ACCOMPANY THIS NOTICE. THE NOTICE SHALL BE FILED] within 60 days after the final determination of the <u>**taxpayer's federal tax liability**</u> [MODIFICATION, RECOMPUTATION OR DEFICIENCY, AND THE TAXPAYER SHALL PAY THE ADDITIONAL TAX OR PENALTY UNDER THIS CHAPTER]. For purposes of this section, a final determination <u>**means**</u> [SHALL MEAN] the time that an amended federal return is filed or <u>**the date a federal**</u> [A NOTICE OF DEFICIENCY OR AN] assessment is <u>**made**</u> [MAILED TO THE TAXPAYER BY THE INTERNAL REVENUE SERVICE, EXCEPT THAT IN NO EVENT WILL THERE BE A FINAL DETERMINATION FOR PURPOSES OF THIS SECTION UNTIL THE TAXPAYER HAS EXHAUSTED RIGHTS OF APPEAL UNDER FEDERAL LAW].

*** Sec. 5.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.032. Tax calculation for nonresidents and part-year residents and fiduciaries. (a) In computing the tax under AS 43.20.011(g) of a nonresident or a part-year resident individual, or a fiduciary, the part of the taxpayer's taxable income attributable to sources in the state is determined under AS 43.20.040.

(b) In computing the taxpayer's taxable income attributable to sources in the state for a nonresident or a part-year resident individual, or a fiduciary, deductions and adjustments are allowed only to the extent that they are connected with income that arises from sources in the state or property having a situs for taxation in the state.

*** Sec. 6.** AS 43.20.040(b) is amended to read:

(b) In this section, income is from a source having a taxable or business situs in the state if it is derived from

(1) owning or operating business facilities or property in the state;

(2) conducting business, farming, or fishing operations in the state;

(3) [REPEALED

(4)] a partnership **<u>that</u>** [WHICH] transacts business in the state;

<u>(4)</u> [(5)] a corporation **<u>that</u>** [WHICH] transacts business in the state **<u>and that</u>** [WHICH] has elected to file federal returns under **<u>26 U.S.C. 1361 - 1379 (Subtitle A, Ch. 1S, Internal Revenue Code)</u>** [SUBCHAPTER S OF THE INTERNAL REVENUE CODE];

<u>(5)</u> [(6) REPEALED

(7)] engaging in any other activity from which income is received, realized**<u>,</u>** or derived in the state**<u>;</u>**

<u>(6) working for salary or wages in the state;</u>

<u>(7) an estate or trust deriving income from sources in the state</u>.

*** Sec. 7.** AS 43.20.040 is amended by adding a new subsection to read:

(d) With regard to the tax under AS 43.20.011(g), if a business, trade, or profession, other than the rendering of purely personal services, is carried on partly inside and partly outside the state, the income from sources in the state is determined under AS 43.19 (Multistate Tax Compact).

*** Sec. 8.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.062. Credits against tax. (a) The amounts deducted and withheld as taxes under this chapter during a calendar year are allowed as credits to the taxpayer against the tax imposed by this chapter.

(b) A resident or part-year resident is allowed as a credit against the tax otherwise due under this chapter the amount of income tax imposed on the taxpayer for the taxable year by another state or territory of the United States on income derived from sources in the other state or territory that is also subject to tax under this chapter. However, the credit allowed in this subsection is limited to that proportion of the tax computed under this chapter that the taxable income from the other state or territory bears to total taxable income, and the credit may not exceed the actual tax paid to the other state or territory.

(c) An individual or fiduciary is allowed as a credit against the tax otherwise due under this chapter the amount of any real and personal property taxes paid by the individual or the fiduciary to a municipality in this state under AS 29.45.

* **Sec. 9.** AS 43.20.065 is amended to read:

Sec. 43.20.065. Allocation and apportionment. A <u>corporate</u> taxpayer who has income from business activity that is taxable both inside and outside the state or income from other sources both inside and outside the state shall allocate and apportion net income as provided in AS 43.19 (Multistate Tax Compact), or as provided by this chapter.

* **Sec. 10.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.171. Collection of income at source. (a) Every employer making payment of wages or salaries after December 31, 2004, shall deduct and withhold an amount of tax computed in a manner to approximate the amount of tax due on those wages under this chapter for that year. The employer shall remit withheld taxes to the department, together with a return or report prescribed by the department, at the time or times required by the department by regulation. The department shall publish the rate of withholding required by this section. Every employer making a deduction and a withholding shall furnish to the employee not later than January 31 of the succeeding year, or within 30 days after termination of employment, whichever is earlier, a written statement on a form prescribed by the department showing

(1) the name and taxpayer identification number of the employer;

(2) the name and social security number of the employee;

(3) the total amount of wages and other compensation; and

(4) the total amount deducted and withheld as tax.

(b) Every employer making payments of wages or salaries earned in the state, regardless of the place where the payment is made,

(1) is liable for the payment of the tax required to be deducted and withheld under this section and is not liable to an individual for the amount of the payment; and

(2) shall make return of and pay to the department the amount of tax levied that the employer is required to deduct and withhold under this chapter.

(c) An employer who fails to comply with this section is subject to the penalties set out in AS 43.05.220(d).

(d) If the employer is the United States or the state or a political subdivision of the state, or an agency or instrumentality of one or more of those entities, the return of the amount deducted and withheld on wages or salaries may be made by an officer of the employer having control of the payment of the wages or salaries or who is appropriately designated for that purpose.

(e) In this section, "employee," "employer," and "wages" have the meanings given to them under 26 U.S.C. (Internal Revenue Code).

*** Sec. 11.** AS 43.20.200(b) is amended to read:

(b) The same period of limitation upon the assessment and collection of taxes imposed under this chapter and the same exceptions to it shall apply as provided in 26 U.S.C. 6501 - 6503 (Internal Revenue Code). In the case of additional tax due by reason of a modification, recomputation, or determination of deficiency in a taxpayer's federal income tax return, the period of limitation on assessment commences from the date that the **amended return** [NOTICE] required in AS 43.20.030(d) is filed, and, if no **amended return** [NOTICE] is filed, the tax may be assessed at any time.

*** Sec. 12.** AS 43.20.340 is amended to read:

Sec. 43.20.340. Definitions. In this chapter,

(1) "bank" means a financial institution, including a national banking association;

(2) "corporation" includes an association, joint-stock company, and an insurance company;

(3) [REPEALED

(4)] "fiscal year" means an accounting period of 12 months ending on the last day of a month other than December;

(4) [(5) "INCLUDES" AND "INCLUDING" WHEN USED IN A DEFINITION DO NOT EXCLUDE OTHER THINGS OTHERWISE WITHIN THE MEANING OF THE WORD DEFINED;

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

(5) [(7)] "part-year resident" means an individual who **becomes a resident or loses the status of a resident** [ENTERS OR LEAVES THE STATE] during the taxable year [AND WHO HAS RESIDED OR WAS DOMICILED IN THE STATE FOR A PERIOD OF LESS THAN 12 MONTHS DURING THE TAXABLE YEAR];

(6) [(8)] "person" means an individual, a trust**, an** [OR] estate, **a** [OR] partnership, or a corporation;

(7) [(9)] "taxable year" means the calendar year or the fiscal year ending during the calendar year upon the basis of which the net income is computed under this chapter; "taxable year" includes, in the case of a return made for a fractional part of a year under this chapter, the period for which the return is made;

(8) [(10)] "taxpayer" means a person subject to a tax imposed by this chapter;

(9) [(11)] "trade or business" includes the engaging in or carrying on of a trade, business, profession, vocation, employment, and rendition of services or commercial activity and includes the performance of the function of a public office.

* **Sec. 13.** AS 43.20.340 is amended by adding new paragraphs to read:

(10) "fiduciary" means an estate, trust, guardian, trustee, executor, administrator, receiver, conservator, or a person acting in a fiduciary capacity for another or for the estate of a deceased person;

(11) "individual" means a natural person, married or unmarried, adult or minor, who is subject to the obligation to pay an income tax under 26 U.S.C. (Internal Revenue Code);

(12) "nonresident" means an individual who is not a resident or part-year resident;

(13) "resident" has the meaning given to the term "state resident" in AS 43.23.095.

*** Sec. 14.** AS 43.05.085; AS 43.20.012, 43.20.013; and AS 47.45.120(a) are repealed.

SPONSOR STATEMENT / SECTIONAL ANALYSIS

Rp. Carl E. Moses, 465-4451 / Staff: Tim Benintendi, 465-6591

HB 470 – Reinstatement of Personal Income Tax

HB 470 would reimpose a state income tax on individuals and fiduciaries (estates and trusts). A state income tax was last on the books in Alaska in 1980, and the sponsor feels it is time to revive it. This bill would essentially bring back the format of the tax as it used to be, but phases it back in over the first three years. This measure could be considered a valid component of a long-range fiscal plan, and produce income of about $100 million annually. Its cost of administration has been estimated at about $7 million. The bipartisan 1995 Long Range Financial Planning Commission recommended an income tax by 2002. Other legislative and private entities have recommended the revival of a personal income tax as well.

There are no issues of constitutionality in bringing back the state income tax. This measure responds to the need for additional state revenue, given that we continue deficit spending. It also has appeal to those who believe non-resident workers should pay a fair share of their burden here. It would not extend to any Native Corporation which is not currently paying a corporate state income tax.

The core of the bill reinstitutes the individual income tax in Tax Year 2005, makes it a percentage of a taxpayer's federal income tax liability (form 1040, line 60), sets up a graduating scale of taxation in the first three years, provides requirements for completing filing and employer responsibilities, makes provisions for amended filings, and identifies those credits made available to the taxpayer.

The major tax credit of interest to Alaskans would be the tax credit authorized for real and personal property taxes paid to a municipality in this state. This credit impacts the greater potential for revenue under this measure, but is designed to soften the effect of the income tax on working families.

Bill Section 1: Adds to AS 43.20.011, a provision for the taxation of income of every resident, non-resident, and part-year resident individual and fiduciary in the state. It apportions the tax liability of a non-resident, part-year resident, or fiduciary, as that percentage of their federal income tax liability that is their taxable income from sources within Alaska only.

In Tax Year 2005 (from December 31, 2004 through December 31, 2005), HB 470 sets a level of federal income tax liability at $20,000 as the bar below which, state income tax liability would be 5% of that liability, and above which, state income tax liability would be 10%.

In Tax Year 2006 (from December 31, 2005 through December 31, 2006), the bill changes the rates as follows: When federal income tax liability is less than $20,000, the rate would go up to 10%, and when it is greater than $20,000, the rate would go up to 15%.

Finally, in Tax Year 2007 and beyond, the state income tax rates become 15% and 20% respectively, for federal income tax liabilities either below or above the $20,000 level.

This section further requires the use of one's federal filing status as that which would be used in determining the state income tax liability.

Bill Section 2: Directs individuals and fiduciaries to file state income tax returns with the Department of Revenue, the same as corporations and others required to file under 26 U.S.C., the Internal Revenue Code. Provides for allowable credits and payments against the state tax liability.

Bill Section 3: Makes the state income tax liability due and payable at the same time and in the same manner as one's federal income tax liability.

Bill Section 4: Requires the taxpayer to file with the state tax return, a copy of one's federal tax return for the same tax year. It also provides for the filing of an amended return within sixty days following a final determination of the taxpayer's federal tax liability if such should be in question.

Bill Section 5: Adds a new section to AS 43.20 that determines income sources within the state, which would be used in calculating the tax liabilities of non-residents, part-year residents, or fiduciaries. For purposes of calculating taxable income attributable to sources from within the state, this section also provides that deductions and adjustments are allowed only to the extent they are connected with income that arises from sources within the state.

Bill Section 6: Adds salaries or wages, and estate or trust income, to the list of income sources considered as being from within the state.

Bill Section 7: Provides for the Multistate Tax Compact, AS 43.19, as the authority in determineing what income is taxable from entities which do business both partly inside and partly outside of the state.

Bill Section 8: Establishes credits against the state income tax liability, beginning with the amount of payroll tax withheld. It further establishes a credit for resident and part-year resident taxpayers for income taxes imposed by other U.S. states or territories, on income that is also subject to tax in Alaska. This credit, though, is limited to the proportion of the tax calculated under Alaska statute that relates to the percentage the taxable income from the other jurisdiction bears to the taxpayer's total taxable income. The credit may not exceed actual taxes paid to the other jurisdiction.

A significant tax credit authorized under this section allows a tax deduction for real and personal property taxes paid to a municipality in this state.

Bill Section 9: Provides for corporate taxpayers to allocate and apportion their net income as provided in the Multistate Tax Compact, on income taxable both inside and outside the state, or on income from other sources both inside and outside Alaska.

Bill Section 10: Establishes tax collection procedures, including deduction and withholding features and instructions to employers regarding tax payments and other information due the state. This section also describes the employer reporting responsibilities to the employee, annually by January 31st, or thirty days after termination, of wages / compensation, and withholding / deductions. Employer penalties are also referenced as those in AS 43.05.220 (d).

This section also establishes the authority for governmental entities to deduct and withhold from employees, as well as return deductions and withholdings to those officers of the entities appropriately designated to perform these functions. The terms "employee," "employer," and "wages," are defined by the Internal Revenue Code under 26 U.S.C.

Bill Section 11: Imposes the same time limitations on the assessment and collection of taxes by the state, and the same exceptions, as is found in the Internal Revenue Code, 26 U.S.C. 6501-6503. When additional tax is due from changes made to a federal income tax return, the period of limitation begins from the date that one files an amended return. If no amended return is filed, the additional tax due may be assessed at any time.

Bill Section 12: Defines the terms "bank," "corporation," "fiduciary," "fiscal year," "individual," "Internal Revenue Code," "resident," "non-resident," "part-year resident," "person," "taxable year," "taxpayer," and "trade or business."

Bill Section 13: Identifies necessary repealers.

HB 470 / Rp. Carl E. Moses (staff: tim benintendi / 6591) 2-23-04

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 470
() Publish Date:

Revision Date/Time (Note if correction):

Title	Income Tax on Individuals and Fiduciaries	Dept. Affected:	Revenue
		RDU	Revenue Programs & Services
		Component	Tax Division
Sponsor	Representative Moses		
Requester	House Ways & Means	Component No.	2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*
CAPITAL EXPENDITURES	*	*	*	*	*	*
CHANGE IN REVENUES ( )	*	*	*	*	*	*

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	*	*	*	*	*	*

Estimate of any current year (FY2004) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

See page 2 for analysis.

Prepared by: Mike Williams & Chuck Harlamert — Phone 465-2320
Division: Tax Division — Date/Time 2/25/04 10:48 PM
Approved by: Steve Porter, Deputy Commissioner — Date 2/25/2004
Agency: Department of Revenue

(Revised 12/2003 OMB)

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. HB 470

ANALYSIS CONTINUATION

Revenue Analysis

The proposed bill would create an income tax on individuals and fiduciaries, based on a percentage of the individual's entire federal income tax liability. The proposed tax increases in rate over a three-year period, as follows:

• First year (2005): State tax is 5% of federal income tax liability up to $20,000 and 10% for federal liabilities over $20,000.

• Second year (2006): State tax is 10% of federal income tax liability up to $20,000 and 15% for federal liabilities over $20,000.

• Third year and beyond (2007 +): State tax is 15% of federal income tax liability up to $20,000 and 20% for federal liabilities over $20,000.

The graduated tax rates are not marginal rates, the applicable rate applies to the taxpayers entire tax base. An additional $1,000 of state income tax on the taxpayers first $20,000 of federal tax liability is assessed at the point their federal tax exceeds $20,000.

The proposed bill would allow property tax paid to a municipality as a credit against the income tax, as well as taxes paid to other states on income earned in those states.

The proposed bill provides for withholding on income at the source, and creates a duty of the employer to remit taxes to the state.

Estimating revenue is particularly difficult with this bill because on a per-individual basis there is no method currently available to match property tax and personal income tax liabilities. Consequently, we used data from the Internal Revenue Service to estimate property tax credits by income group. The Department of Revenue estimates the proposed bill would generate revenue as follows (net of credits):

• FY 2005: $ 18.9 million
• FY 2006: $ 55.1 million
• FY 2007: $ 89.9 million
• FY 2008: $107.3 million
• FY 2009: $107.3 million
• FY 2010: $107.3 million

Cost Analysis

We have not conducted an exhaustive cost analysis of this bill. Our initial estimate of ongoing operational costs is $8.65 million annually. The operational costs estimate was derived from prior estimates of comparable legislation (2002 Legislative Session HB 10) updated for current personnel costs. No other cost estimates from that fiscal note were adjusted. Initial operating costs will be less than $8.65 million. Based on ongoing costs of $8.65 million as of FY07, we estimate costs during FY05 and FY05 at $4.8 and $8.0 million respectively.

Capital costs over the first three years of the program are estimated at $6.1 million based on prior estimates without adjustment. Our projected distribution of this capital outlay during FY05, FY06, and FY07 is $4.3, $1.3, and $.5 million respectively.

Revenue/Tax Division

To: **Dan Dickinson, Tax Division Director**

From: Mike Williams, Revenue Auditor

Date: February 26, 2004

RE: **Personal Income Tax Rate Comparison**

The table below represents various potential tax rates that Alaska could impose on personal income. The purpose of the table is to compare flat rates based on Adjusted Gross Income with the equivalent flat rates on other potential tax bases.

HB470

	(LINE 34)	(LINE 40)	(LINE 54)
	% of Adjusted Gross Income	% of Federal Taxable Income	% of Net Federal Tax Liability
Revenue (millions)			
$130.0	1.0	1.38	7.0
$270.0	2.0	2.74	13.88
$415.0	3.0	4.15	21.00
$555.0	4.0	5.50	27.90
$700.0	5.0	6.91	35.03
$840.0	6.0	8.27	41.92
$985.0	7.0	9.68	49.05
*	8.0	n/a	n/a
*	9.0	n/a	n/a
*	10.0	n/a	n/a

* The Department's model currently does not have the ability to generate rates for more than $1 billion in revenue. Speaking practically, there is insufficient personal income within the State to sustain a $1 billion personal income tax.

Note that the revenue increasing from one percentage point to the next does not correspond exactly with adding the amount of revenue at one percentage point. This is a result of computing potential credits for taxes paid to other states, on income earned in those states.

For reference:

Adjusted gross income can be found on Form 1040 line 34.

Federal taxable income can be found on Form 1040 line 40.

Net federal income tax liability can be found on Form 1040 line 54.

All references apply to the 2003 Form 1040.

Income Tax on Individuals and Fiduciaries
HB 470
February 23, 2004
Page of

(YEAR ONE)

HB 470 INCOME TAX MODEL - INCOME TAX WITH PROPERTY TAX CREDIT

FY 2005 Revenue

$132,486,849	Revenue before credits. From 2001 IRS data.
($790,799)	Less: Non-resident revenues
$131,696,050	Tax before credits
68.00%	Home ownership % from US Census Bureau
$89,553,314	Potential Tax on homeowners
($412,243,808)	Potential Property Tax Credit
$0	Tax raised from Alaska homeowners
$42,142,736	Tax raised from Alaska non-homeowners
($5,190,720)	Non-homeowner portion of credit for tax paid to other states
$36,952,016	Tax raised from residents

$790,799	Tax raised from nonresidnets
$790,799	Total tax raised from nonresidents.
$37,742,815	TOTAL TAX RAISED AFTER CREDITS (Calendar year)
$18,871,408	Assume tax takes effect Jan. 1, 2005 (half year of withholding)

Insufficient data to determine who paid personal property taxes.

Insufficient data to determine who paid taxes to other states. Credit tied to home-owner percentage. Homeowner credit for taxes paid to other states not included since property tax credit offsets any revenue from property owners.

Income Tax on Individuals and Fiduciaries
HB 470
February 23, 2004
Page of

(YEAR TWO)

HB 470 INCOME TAX MODEL - INCOME TAX WITH PROPERTY TAX CREDIT

FY 2006 Revenue

$239,507,547	Revenue before credits. From 2001 IRS data.
($1,581,597)	Less: Non-resident revenues
$237,925,950	Tax before credits
68.00%	Home ownership % from US Census Bureau
$161,789,646	Potential Tax on homeowners
($412,243,808)	Potential Property Tax Credit
$0	Tax raised from Alaska homeowners
$76,136,304	Tax raised from Alaska non-homeowners
($5,190,720)	Non-homeowner portion of credit for tax paid to other states
$70,945,584	Tax raised from residents

$1,581,597	Tax raised from nonresidnets
$1,581,597	Total tax raised from nonresidents.
$72,527,181	TOTAL TAX RAISED AFTER CREDITS (Calendar year)
$55,134,999	1/2 year at 5%-10% rate and 1/2 year at 10%-15% rate

Insufficient data to determine who paid personal property taxes.

Insufficient data to determine who paid taxes to other states. Credit tied to home-owner percentage. Homeowner credit for taxes paid to other states not included since property tax credit offsets any revenue from property owners.

Income Tax on Individuals and Fiduciaries
HB 470
February 23, 2004
Page of

(YEAR THREE)

HB 470 INCOME TAX MODEL - INCOME TAX WITH PROPERTY TAX CREDIT

FY 2007 Revenue

$346,528,245	Revenue before credits. From 2001 IRS data.
($2,372,395)	Less: Non-resident revenues
$344,155,850	Tax before credits
68.00%	Home ownership % from US Census Bureau
$234,025,978	Potential Tax on homeowners
($412,243,808)	Potential Property Tax Credit
$0	Tax raised from Alaska homeowners
$110,129,872	Tax raised from Alaska non-homeowners
($5,190,720)	Non-homeowner portion of credit for tax paid to other states
$104,939,152	Tax raised from residents

$2,372,395	Tax raised from nonresidnets
$2,372,395	Total tax raised from nonresidents.
$107,311,547	TOTAL TAX RAISED AFTER CREDITS (Calendar year)
$89,919,364	FY 2007 with 1/2 year at 10%-15% and 1/2 year at 15%-20%

Insufficient data to determine who paid personal property taxes.

Insufficient data to determine who paid taxes to other states. Credit tied to homeowner percentage. Homeowner credit for taxes paid to other states not included since property tax credit offsets any revenue from property owners.

Department of Revenue
Comparative Analysis HB 470
Alaska State Individual Income Tax Proposals

	Child under age 14	Teenager with summer job	Single parent earning $11/hour	Single taxpayer - renting	Retiree with Soc. Sec. Income	Single income family - renting	Dual income family with $150k mortgage	Dual income family with $225k mortgage	Dual income family with $300k mortgage	Dual income family with $600k mortgage
Wages		2,700	22,880	65,000		32,500	65,000	130,000	260,000	520,000
Interest Income	50	150		400	5,000		400	2,000	10,000	20,000
Taxable Pension					10,000					
Gross Social Security					12,000					
AKPFD	1,100	1,100	1,100	1,100	1,100	2,200	2,200	2,200	2,200	2,200
children file separate to report PFD										
Dependents			1			2	2	2	2	2
Child Care Expenses			3,000				6,000	6,000	6,000	6,000
Real Estate Tax							3,100	4,650	6,200	12,400
Mortgage Interest							11,500	17,250	23,000	46,000
Charitable Contributions							1,000	3,000	10,000	25,000
Federal Return Values										
Adjusted Gross Income	1,150	3,950	23,980	66,500	22,100	34,700	67,600	134,200	272,200	542,200
Taxable Income	400	1,250	10,880	58,700	13,350	13,000	39,800	97,100	220,800	446,600
Tax Before Credits	40	125	1,088	11,491	1,656	1,303	5,274	17,895	54,310	131,517
Tax After Credits	40	125	(1,721)	11,491	1,656	(697)	2,074	16,695	53,110	130,317
Alaska Income Tax										
If fed tax before fed credits	6	19	163	1,724	248	195	791	2,684	10,862	26,303
Property tax credit	-	-	-	-	-	-	791	2,684	6,200	12,400
AK tax net of AK credit	6	19	163	1,724	248	195	-	-	4,662	13,903
If fed tax after fed credits	6	19	-	1,724	248	-	311	2,504	10,622	26,063
Property tax credit	-	-	-	-	-	-	311	2,504	6,200	12,400
AK tax net of AK credit	6	19	-	1,724	248	-	-	-	4,422	13,863

Assumptions:
1) All family examples assume two children. Dual income family examples assume child care expense of $3,000 per child.
2) All results are based on AKPFD and federal tax law and rates in effect for 2003.
3) Analysis does not include the effect of a federal itemized deduction for the Alaska tax.
4) Analysis does not phase out deductions or exemptions at top end, as amounts were immaterial to presentation.

02/25/2004 16:37

IRS SOI Data (2001 Tax Yr) **% of Federal Tax Liability after federal credits (net federal tax)** **DRAFT**

Target Revenue	**$ 300,000,000**	
Nonresident Business Inc. Tax Est.	**$ -**	<<<Enter the revenue you expect from Non-resident business Income
Model Target Revenue	**$ 300,000,000**	
Rate on AGI below bracket amount	**none**	<<< none = flat
Bracket amount	**$ -**	
AK Credit (Y or N)	**n**	>>>> If 'Y' enter >>>>> Individual AK credit $ -
Credit on Rts or Person.	**t**	>>>> T for Person Based Credit

AGI range (000)	< $20	$20 < $30	$30 < 50	$50 < 75	$75 < 100	>= $100	Total
Federal Tax Returns	134,676	39,926	57,399	46,166	26,653	28,241	333,061
Joint Returns Above	9,466	9,523	21,619	29,539	22,041	24,824	117,012
Taxpayers	144,142	49,449	79,018	75,705	48,694	53,065	450,073
Federal Adjusted Gross Income	913,599,000	991,767,000	2,254,111,000	2,840,734,000	2,298,259,000	4,865,891,000	14,164,361,000
Federal Tax after credits	42,203,000	66,332,000	208,804,000	326,186,000	322,767,000	1,059,999,000	2,026,291,000
Est tax on DOL wage differential	760,788	0	2,861,748	283,153	2,738,317	0	6,644,007
Alaska Tax Base	42,963,788	66,332,000	211,665,748	326,469,153	325,505,317	1,059,999,000	2,032,935,007
Amount over Bracket		0	0	0	0	0	
Tax Generated (Base x Rate)	6,597,741	10,186,285	32,504,486	50,134,289	49,986,278	162,778,921	312,188,000
Credits	0	0	0	0	0	0	0
Credit: taxes pd to other states	(266,000)	(338,000)	(1,191,000)	(2,232,000)	(2,232,000)	(5,929,000)	(12,188,000)
Revenue (Tax - Credits)	6,331,741	9,848,285	31,313,486	47,902,289	47,754,278	156,849,921	300,000,000
Flat Rate	15.36%	15.36%	15.36%	15.36%	15.36%	15.36%	
Flat Rate		15.36%	15.36%	15.36%	15.36%	15.36%	
Average Effective AK Tax Rate	0.69%	0.99%	1.39%	1.69%	2.08%	3.22%	
% of revenue from group	2.11%	3.28%	10.44%	15.97%	15.92%	52.28%	

IRS SOI Data (2001 Tax Yr) **% of Federal Tax Liability before federal credits** **DRAFT**

Target Revenue	$ 300,000,000	
Nonresident Business Inc. Tax Est.	$ -	<<<Enter the revenue you expect from Non-resident business income
Model Target Revenue	$ 300,000,000	
Rate on AGI below bracket amount	none	<<< none = flat
Bracket amount	$ -	
AK Credit (Y or N)	n	>>>> If 'Y' enter >>>>> Individual AK credit $ -
Credit on Rts or Person.	t	>>>> T for Person Based Credit

AGI range (000)	< $20	$20 < $30	$30 < 50	$50 < 75	$75 < 100	>= $100	Total
Federal Tax Returns	134,676	39,926	57,399	46,166	26,653	28,241	333,061
Joint Returns Above	9,466	9,523	21,619	29,539	22,041	24,824	117,012
Taxpayers	144,142	49,449	79,018	75,705	48,694	53,065	450,073
Federal Adjusted Gross Income	913,599,000	991,767,000	2,254,111,000	2,840,734,000	2,298,259,000	4,865,891,000	14,164,361,000
Federal Tax before credits	50,650,000	80,126,000	236,047,000	353,360,000	338,359,000	1,066,056,000	2,124,598,000
Est tax on DOL wage differential	760,788	0	2,861,746	283,153	2,738,317	0	6,644,007
Alaska Tax Base	51,410,788	80,126,000	238,908,746	353,643,153	341,097,317	1,066,056,000	2,131,242,007
Amount over Bracket		0	0	0	0	0	
Tax Generated (Base x Rate)	7,530,741	11,736,994	34,995,765	51,802,258	49,964,522	156,157,719	312,188,000
Credits	0	0	0	0	0	0	0
Credit: taxes pd to other states	(266,000)	(338,000)	(1,191,000)	(2,232,000)	(2,232,000)	(5,929,000)	(12,188,000)
Revenue (Tax - Credits)	7,264,741	11,398,994	33,804,765	49,570,258	47,732,522	150,228,719	300,000,000
Flat Rate	14.65%	14.65%	14.65%	14.65%	14.65%	14.65%	
Flat Rate		14.65%	14.65%	14.65%	14.65%	14.65%	
Average Effective AK Tax Rate	0.80%	1.15%	1.50%	1.74%	2.08%	3.09%	
% of revenue from group	2.42%	3.80%	11.27%	16.52%	15.91%	50.08%	

Personal Income Tax

OTHER STATES

Of the 50 states, 43 have a personal income tax. Joining Alaska on the side without a tax are Florida, Nevada, South Dakota, Texas, Washington and Wyoming. Of the 43 with a tax, New Hampshire and Tennessee collect taxes on dividends and interest income only.

Some states have a flat tax — Colorado, Michigan, Massachusetts, Illinois, Indiana and Pennsylvania — ranging from 2.8% of federal taxable income in Pennsylvania to 5.6% of adjusted gross income in Massachusetts.

States with tax brackets range to a high of 10 income brackets. Montana has 10 tax brackets, ranging from 2% to 11% of adjusted gross income, with some deductions allowed.

Most states use federal adjusted gross income as a starting point to calculate the state tax, and most also use federal provisions in calculating allowable itemized deductions.

- 28 states exempt Social Security benefits from taxation.
- 8 states exempt unemployment benefits from taxation.
- 2 states exempt all capital gains from taxation.
- 37 states exempt interest earned on their own state and municipal bonds.
- 5 states exempt military pay from taxation.
- 33 states allow a standard deduction for taxpayers, with 12 using the federal amount.
- 37 states allow check-off contributions for endangered wildlife funds, with 22 states allowing check-off contributions for children and domestic abuse funds.

TAX BASE OPTIONS

There are three options for a tax base for calculating an individual's state tax liability:

- Adjusted gross income.
  Total income with few, if any, deductions. Because the tax base would be the highest of the three options, the tax rate would be the lowest.
- Federal taxable income.
  This requires the state to accept whatever tax deductions are allowed under federal law, although the state also could include its own deductions, credits or other conditions.
- Federal tax liability.
  This also requires the state to accept whatever deductions and credits are allowed under federal law. Because the tax base would be the lowest of the three options, the tax rate would be the highest. Another feature of using federal tax liability as the base is that the state tax would be progressive, even with a flat tax rate. By using federal tax liability as the base, the state would be adopting the progressive nature of the federal tax tables.

ALASKA INCOME

Internal Revenue Service tapes show Alaskans filed 333,061 personal income tax returns for 2001, representing 450,073 taxpayers (117,012 were joint returns). Some facts from those returns:

- Almost 90% of the tax returns showing more than $100,000 in adjusted gross income were joint returns.
- About 7% of returns showing less than $20,000 in gross income were joint returns.
- Federal adjusted income reported by Alaskans in 2001 totaled $14.2 billion.
- Of the 450,073 taxpayers, 70% reported gross income of under $50,000 and almost 82% reported gross income below $75,000 a year.
- The 10% of taxpayers reporting more than $100,000 a year in gross income represent 33% of total income reported by all Alaskans.
- The 18% earning more than $75,000 represent 51% of total income for Alaskans.

REVENUES TO THE STATE

These are approximate numbers for tax rates and how much revenue would be raised. The following table assumes a flat tax, for sake of simplicity in showing potential revenues. The Tax Division could devise tax tables with several different tax brackets to generate whatever level of revenue is desired.

For its discussions, the Legislative Fiscal Caucus has used a 3% flat tax on federal taxable income as its starting point for consideration of a state personal income tax. Such a tax would raise an estimated $270 million to $275 million a year.

Income Tax Rates and Revenue Projections (2001 IRS Data)

$ Million Revenue	% Adjusted Gross Income	% Federal Taxable Income	% Federal Tax Liability
$250	1.85	2.54	12.90
$300	2.20	3.03	15.36
$350	2.55	3.51	17.82
$400	2.90	4.00	20.28

ALASKA'S OLD INCOME TAX

Alaska abolished its personal income tax in 1980. The tax raised $210.4 million in Fiscal 1977, its highest collections ever.

The tax was assessed as a percentage of federal taxable income, ranging from 3.5% for income up to $8,000 per year to a high of 14.5% on income in excess of $300,000. In the middle, taxpayers paid 10% of their federal taxable income over $52,000.

If the pre-1980 tax rates were in effect today, Alaskans would pay about $750 million in state personal income taxes. That number would be significantly lower if the tax tables were adjusted for inflation.

OUT-OF-STATE RESIDENTS

An income tax certainly would collect money from non-residents working in Alaska, but there is no way to know exactly how much it would collect.

Available IRS data reports income earned by taxpayers with an Alaska mailing address; it does not report income earned by non-residents working in Alaska.

There are no exact numbers for non-resident wages in Alaska, but estimates range from 3% to 10% and the Department of Revenue believes the true number is probably in the middle. At 6% or 7%, an income tax that raised $300 million would collect perhaps $20 million a year from non-residents.

It is important to remember that most of the non-resident workers who come to Alaska are here for low-paying summer tourism and seafood processing jobs and would not pay much in personal income taxes.

FEDERAL DEDUCTION FOR STATE INCOME TAX

A state personal income tax would be deductible from federal income taxes for Alaskans who itemize. IRS statistics indicate about 25% of Alaska taxpayers itemize their deductions, though most higher-income Alaskans itemize on their federal returns. And since it would be the higher-income Alaskans who would provide most of the state's new income tax revenues, a substantial portion of that tax would be deducted from Alaskans' tax payments to the federal government.

The easiest way to "export" a tax — that is, to shift its cost — is through its deduction against federal tax liability. There is no deduction for state or municipal sales taxes; only income taxes are deductible. A deduction means part of the tax revenue remains in the state instead of going to the federal treasury.

We estimate that Alaskans would recover about 15% of the cost of a state income tax by deducting it from their federal tax bills. For example, if a state income tax generated $300 million a year, $45 million would come from the deductibility of the state income tax against federal income taxes and $255 million would come from pockets of Alaskans.

COST OF COLLECTION

The Department of Revenue estimates it could cost $7 million in one-time expenses to set up a personal income tax, including computers, printing forms and booklets, launching a public education campaign, and establishing a central office and field offices in several Alaska cities.

Ongoing expenses for a personal income tax would be an estimated $6 million a year.

Assuming $300 million a year in tax revenues, that would be 2% of collections. This compares to other states, where the cost of collection runs a similar percentage.

EFFECTIVE DATE

Because of the nature of a personal income tax, a new tax in Alaska would need to start Jan. 1. Any other start date would cause immense logistical problems for calculating tax liabilities, and would place a burden on taxpayers, employers and the Tax Division.

And because of the large amount of work required to start an income tax program from scratch, the Department of Revenue would need to devote significant resources to the effort immediately upon passage of enabling legislation. Much of the work, however, would have to be started before a bill passes, in preparation for the new tax and in expectation that the tax would begin within a matter of months after passage.

With payroll deductions and estimated tax payments in the first calendar year of the new tax, the state could expect to collect somewhat less than half of a full year's revenue the first fiscal year of the tax. January through May payroll deductions would be collected in February through June, producing five months of withholding tax income.

WORK REQUIRED TO SET UP A NEW TAX PROGRAM

The Department of Revenue would face several challenges in setting up a tax to start Jan. 1 after legislative passage. In addition to adopting regulations to implement the new tax, the department and its Tax Division would need to:

- Hire and train staff.
- Procure central office space and field offices.
- Design software and a web-based system for taxpayers.
- Set up electronic fund transfers with employers.
- Prepare and print tax books and forms, and distribute to employers.
- Conduct workshops statewide to explain the new law, particularly to employers.

All of this would need to be completed by November in order for employers to distribute withholding forms to their employees and update their payroll software to start collecting the new tax on Jan.1.

ISSUES

In addition to deciding on the tax base (gross income, taxable income or federal tax liability), and flat tax vs. a variable tax, the state also would have to consider:

- Taxability of federal employee cost-of-living payments.
  These are exempt from federal income tax but could be taxed by the state.
- Permanent Fund dividends.
  Politically, it would make sense to exempt the dividends from state taxes.
- Expectations for audits, enforcement.
  The stronger the enforcement, the more effective the program, especially with out-of-state residents.

STATE OF ALASKA
DEPARTMENT OF REVENUE
TAX DIVISION
550 West 7th Avenue, Suite 500
Anchorage, Alaska 99501
(907) 269-6632
Fax (907) 269-6644

Fax

To:	Tim Benintendi	**From:**	Mike Williams
Fax:	907-465-3445	**Pages:**	11
Phone:	(907) 465-4451	**Date:**	February 25, 2004
Re:	HB 470 Schedules, etc.	**CC:**	

☐ **Urgent** ☐ **For Review** ☐ **Please Comment** ☐ **Please Reply** ☐ **Please Recycle**

•Comments:

The members of the Ways & Means committee may find some of this info useful.
mw

☒ **Hard Copy will not follow:**

☐ **Hard Copy will follow by:**

☐ **DHL**
☐ **Regular Mail** ☐ **For**

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM February 24, 2004

SUBJECT: S-Corporations, LLCs, and the Individual Income Tax (HB 470)

TO: Representative Carl Moses
Attn: Tim Benintendi

FROM: Kathryn Kurtz KK
Legislative Counsel

You asked about the treatment of S corporations and limited liability companies (LLCs) under HB 470.

Corporate Income Taxes

An S corporation is a corporation that has elected to file federal returns under 26 U.S.C. 1361 - 1379 (Internal Revenue Code, Subtitle A, Chapter 1, Subchapter S). S corporations and some LLCs are required to file Alaska state corporate income tax returns.

According to the Department of Revenue's corporate income tax return instructions,

> An S Corporation doing business in Alaska is required to file an Alaska return. . . . Alaska does not impose a tax on the S Corporation for pass-through items of income or loss. . . . Alaska imposes both the federal excess net passive income tax and the corporate level tax on built-in gains.

And:

> An LLC doing business in the state must file an Alaska return consistent with its federal tax status. If the LLC is characterized as a corporation for federal income tax purposes, the LLC must file a return in accordance with the instructions applicable to corporations. An LLC with corporate member(s), that is characterized as a partnership for federal income tax purposes, must follow the instructions applicable to partnerships with corporate partners. An LLC taxable as a partnership, but which has no corporate members, is not required to file a return or report.

Form 04-611 Alaska Corporation Net Income Tax Return Instructions.

So, some income received by S corporations may be subject to the corporate income tax, but much of it is simply passed through to shareholders. Similarly, income received by an LLC may be subject to the corporate income tax, depending on the federal tax status elected by the LLC. If the LLC elects to be taxed as a partnership, the income is simply passed through to the members.

Individual Income Taxes
HB 470 would impose an income tax based on a percentage of federal income tax liability. The income taxed would include income individuals and fiduciaries receive from subchapter S corporations and LLCs, including income that was not subject to the corporate income tax.

KLK:med
04-226.med

AARP

Alaska

Tax Reform in Alaska:
An AARP Survey of Residents Age 18+

Highlights

- At least eight in ten people in Alaska believe that it is important the state maintain current levels of funding for education and human services and programs.
- A majority of Alaskans support the state finding ways to generate revenue for services, with those age 35 years and older more likely to strongly support these efforts.
- Half of all Alaskans think that the cost of human services and programs should be shared between the individual and the state government.
- Alaskans of all ages and income levels are equally likely to strongly oppose a state-wide sales tax, as well as strongly oppose this initiative because of the burden it may place on lower-income families.
- Half of all Alaskans support a state-wide income tax.
- A majority of Alaskans oppose ending the Alaska Permanent Fund Dividend checks even if it means increasing sales taxes or imposing a new state income tax. However, about one-third of all Alaskans may be very willing, and another quarter are somewhat willing, to accept a $100 reduction in their checks as option to help maintain human services and balance the state budget.
- Half of all Alaskans strongly support increasing the cigarette tax and the beer and alcohol tax in order to avoid cuts in funding for education and human services.

AARP Alaska

February 17, 2004

To: The Honorable Frank Murkowski, Governor of Alaska
The Honorable Loren Leman, Lieutenant Governor of Alaska
Members of the Alaska Senate
Members of the Alaska House of Representatives

Elizabeth Lucas

Marguerite Stetson

From: Elizabeth Lucas, President
AARP Alaska
2880 Fritz Cove Road
Juneau, Alaska 99801
(907) 789-9655
eellpd@gci.net

Marguerite Stetson
AARP State Coordinator for Advocacy
3009 Northwood Street
Anchorage, Alaska 99517
(907) 245-5259
ffmas@aurora.uaf.edu

Subject: AARP Commissioned Survey on Tax Options

We are enclosing a copy of the results of a survey of Alaskans over age 18 to solicit their recommendations on how to resolve our fiscal gap and generate additional revenue for our State.

We recognize that you are receiving input from a variety of organizations and individuals. This survey is not representative of AARP members but we feel it is a representative sample of Alaskans over age 18, those who are most likely to be paying some form of taxes.

We hope you and your staff will be able to take a few minutes to review the results and add them to your deliberations about how to resolve our fiscal situation. Please be assured that AARP stands ready to assist you as you deal with this issue.

Should you have any questions about our position, please feel free to contact Marie Darlin, Coordinator of the AARP Capital City Task Force (907- 586-3637); Patrick Luby, AARP Legislative Representative (907-762-3314); or one of us.

CC: Marie Darlin
Patrick Luby

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 321

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE WILSON

Introduced: 5/20/03
Referred: House Special Committee on Ways and Means, State Affairs, Finance

A BILL

FOR AN ACT ENTITLED

"An Act relating to taxation, including taxation of income of individuals, estates, and trusts, to application of an individual's permanent fund dividend toward the individual's income tax liability, and to a warning about taxation on commercial fishing license applications; and providing for an effective date."

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

*** Section 1.** AS 16.05.480 is amended by adding a new subsection to read:

(j) The application for a commercial fishing license must contain the following warning in boldface type: "WARNING: You are obligated to pay Alaska state income tax and federal income tax on your earnings from fishing, to the extent required by law."

*** Sec. 2.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.009. Tax on individuals, estates, and trusts. (a) There is imposed for each taxable year an income tax, computed as provided in this section, on every

(1) resident individual; and

(2) estate, trust, and nonresident and part-year resident individual with income from sources in the state.

(b) For a resident individual, the tax under this section is three percent of the individual's taxable income, or $100, whichever is greater.

(c) For an estate or a trust, or for a nonresident or part-year resident individual, the tax under this section is three percent of that portion of the taxpayer's taxable income that is attributable to sources in the state. To identify that portion of the taxpayer's taxable income, the taxpayer shall identify the percentage of the taxpayer's adjusted gross income that comes from sources in the state and apply that percentage to the taxpayer's taxable income.

(d) In this section, "taxable income" means "taxable income" as defined in 26 U.S.C. 63

(1) less any income that is exempt under other provisions of state or federal law, including longevity bonus payments under AS 47.45;

(2) plus

(A) the cost-of-living allowance that is exempt under 26 U.S.C. 912(2); and

(B) interest on bonds issued by other states and political subdivisions of other states that is exempt under 26 U.S.C.

* **Sec. 3.** AS 43.20.031(c) is amended to read:

(c) In computing the tax under this chapter, **a corporation** [THE TAXPAYER] is not entitled to deduct any taxes based on or measured by net income.

* **Sec. 4.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.032. Individual income tax returns and payment; tax cap. (a) Except as provided in (f) of this section, every individual, trust, estate, and partnership subject to tax under this chapter required to make a return of income under 26 U.S.C. (Internal Revenue Code) shall file with the department, not later than the date the federal return is required to be filed, a return setting out

(1) the amount of tax due under this chapter, less allowable credits and payment claimed against the tax; and

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

(b) The total amount of tax imposed under AS 43.20.009 is due and payable to the department at the same time and in the same manner as the tax is payable under 26 U.S.C.

(c) A person required to file a return under this section shall file the return using the same filing status as the person uses on the person's return of income under the provisions of the Internal Revenue Code for the year.

(d) The maximum tax liability of a person filing as a single individual under AS 43.20.009 is $20,000. The maximum tax liability of a couple filing jointly under AS 43.20.009 is $30,000.

(e) The provisions of AS 43.20.030(b), 43.20.030(d), and 43.20.030(e) apply to individual income tax returns and payments under this section.

(f) An individual subject to tax under this chapter need not file a return and remit the tax if:

(1) the individual is under 19 years of age, and the individual's tax liability is zero;

(2) the individual's only income from sources in the state is from a partnership or corporation that has filed a return on that income under AS 43.20.175; or

(3) the individual's tax liability is $100 and the individual has elected, on the form provided for under AS 43.23.015(b), to have $100 of the individual's permanent fund dividend applied to the individual's income tax liability.

(g) The commissioner may by regulation provide for an incentive for accurate and timely filing of tax returns by individuals, trusts, estates, and partnerships, and for electronic filing and payment by individuals, trusts, estates, and partnerships. An incentive under this section may not exceed $25 a taxpayer.

* **Sec. 5.** AS 43.20.040 is repealed and reenacted to read:

Sec. 43.20.040. Income from sources in the state. (a) In this chapter, income from sources in the state includes

(1) compensation for personal services rendered in the state;

(2) working in the state for salary or wages;

(3) income from real or tangible personal property located in the state;

(4) income from stocks, bonds, notes, bank deposits, and other intangible personal property having a taxable or business situs in the state; however, the receipt of interest income from intangible property in the state does not alone establish a taxable or business situs in the state;

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

(6) income distributed from a trust established under or governed by the laws of the state, except that income of a trust established under or governed by the laws of the state that is income of a nonresident is not included if the nonresident is a resident of a state that does not impose an income tax on income to residents of this state from trusts established or governed by the laws of the nonresident's state of residence;

(7) income of a trust established under or governed by the laws of the state and income of the estate of a decedent who on the date of death was domiciled in the state;

(8) income, from a source with a taxable or business situs in the state, of

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

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

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

(b) Except as provided in (a)(4) of this section, in this section, income is from a source with a taxable or business situs in the state if it is attributed to or derived from

(1) business facilities or property in the state;

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

(3) conducting in the state the management or investment function for

intangible property;

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

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

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

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

* **Sec. 6.** AS 43.20 is amended by adding a new section to article 1 to read:

Sec. 43.20.046. Individual, trust, and estate tax credits. (a) For a resident, a trust established under or governed by the laws of this state, or the estate of a decedent who on the date of death was domiciled in this state, the income tax imposed on that resident, trust, or estate by another state or territory of the United States for the taxable year, on income derived from sources in that state or territory, is allowed as a credit against the tax under this chapter.

(b) The credit under (a) of this section is determined by multiplying the tax computed under this chapter by a fraction, the numerator of which is the income derived from sources in the other state or territory and the denominator of which is income derived from all sources. However, the credit under (a) of this section may not exceed the actual tax paid to the other state or territory.

(c) An individual under 19 years of age with a tax liability of $100 under AS 43.20.009 is entitled to a credit of $100.

(d) An individual, estate, or trust is allowed only the state credits provided in this section. The total state credit allowed under this section may not exceed the tax liability for the taxable year for the individual, estate, or trust. A credit may not be carried, in whole or in part, to a different taxable year.

* **Sec. 7.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.171. Tax withholding on wages of individuals. (a) Every employer making payment of wages or salaries after December 31, 2003,

(1) shall deduct and withhold an amount of tax computed in a manner to approximate the amount of tax due on those wages or salaries under this chapter for that taxable year;

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

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

(4) shall furnish to the employee at the time required by the department a written statement on a form prescribed by the department showing

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

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

(C) the total amount of wages or salary for the taxable year; and

(D) the total amount deducted and withheld as tax for the taxable year.

(b) The department shall publish the rates of withholding required by this section.

* **Sec. 8.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.175. Tax withholding by pass-through entities. (a) A partnership that pays or credits amounts to a nonresident on account of the partner's distributive share of income from sources in the state shall withhold the tax owed by the individual under AS 43.20.009.

(b) A corporation for which an election under 26 U.S.C. 1362(a) (Internal Revenue Code) is in effect for the tax year that pays or credits income from sources in the state to a nonresident shall withhold the tax owed by the nonresident under AS 43.20.009.

(c) A partnership or corporation required to withhold tax under (a) or (b) of this section is liable to the department for payment of that tax.

(d) A partnership or corporation required to withhold tax under (a) or (b) of this section shall file a return of the income on a form prescribed by the department and pay the tax to the department.

(e) For purposes of this section, "partnership" means a person that is taxable as a partnership for purposes of 26 U.S.C. (Internal Revenue Code).

* **Sec. 9.** AS 43.20.340 is amended by adding new paragraphs to read:

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

(13) "nonresident" means an individual who is not a resident or part-year resident;

(14) "resident" means an individual who, for the entire taxable year, was domiciled in the state or resided in the state.

* **Sec. 10.** AS 43.23.015(b) is amended to read:

(b) The department shall prescribe and furnish an application form for claiming a permanent fund dividend. The application must include notice of the penalties provided for under AS 43.23.035 and contain a statement of eligibility and a certification of residency. <u>**The application must allow an applicant to elect to have $100 of the dividend retained by the department and applied to the individual's state income tax liability.**</u>

* **Sec. 11.** AS 43.05.085; AS 43.20.012, and 43.20.013 are repealed.

* **Sec. 12.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITIONAL PROVISIONS: REGULATIONS. The commissioner of the Department of Revenue shall adopt regulations to implement the provisions of this Act.

* **Sec. 13.** Section 12 of this Act takes effect immediately under AS 01.10.070(c).

* **Sec. 14.** Except as provided in sec. 13 of this Act, this Act takes effect January 1, 2004.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

May 18,2003

SUBJECT: Income Tax CSHB 321( )

TO: Representative Peggy Wilson

FROM: Kathryn L. Kurtz

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1. Requires that a notice be printed on commercial fishing license applications, warning that income from commercial fishing is taxable.

Section 2. Imposes an income tax of three percent of federal taxable income or $100, whichever is greater.

Section 3. Conforming amendment to corporate income tax.

Section 4. Requires tax payers to file return and remit tax on the same day federal return is due. Exempts
. those that owe $100 and have the tax deducted from their permanent fund dividend;
. those under 19 with tax liability of $1 00 or less;
. nonresidents whose only income in the state is from a trust or corporation that withholds taxes and files returns.
Caps tax liability at $20,000 for individuals and $30,000 for joint filers.

Section 5. Defines income from sources in the state.

Section 6. Provides credits for taxes paid to another state, and a $100 credit for individuals under 19 years of age with a tax liability of $1 00 or less.

Section 7. Provides for employer withholding of taxes

Section 8. Provides for withholding by partnerships and certain corporations of taxes from the distributive share of nonresidents.

Section 9. Adds definitions pertinent to the individual income tax to the definitions section for the individual and corporate income taxes.

Section 10. Provides for a box on the pennanent fund dividend for a taxpayer to elect to have $100 withheld from the taxpayer's dividend and applied to the taxpayer's income tax liability.

Section 11. Repeals credit provisions relating to Alaska's fonner individual income tax.

Section 12. Gives the Department of Revenue authority to adopt regulations to inlplement the individual income tax.

Section 13. Provides an immediate effective date for the section authorizing regulations. **Section 14.** Provides an effective date of January 1,2004 for the remainder of the bill.

KLK:med
03-562.med

Alaska State Legislature

Representative Peggy Wilson
House District 2

SPONSOR STATEMENT

SSHB 321

State Income Tax

It is time for the Legislature to get down to the business of assuring a dependable revenue stream for the State NOW before it is too late.

Any broad based tax that the legislature puts in place will take two years to fully implement. We can't continue on the road before us without knowing from one year to the next how we are going to fund the Budget much less where the funds are going to come from. A decision needs to be made this year in order for it to be fully in place by 2006. We must plan for the future now and not wait until our economy hits the wall or drops off the cliff. We don't want a repeat of the mid 80's.

I am proposing SSHB 321- as a starting point for discussion and consideration of an income tax. SSHB 321 would impose a 3% flat tax on federal taxable income as reported on Federal tax 1040 form.

An income tax is the right choice for a broad base tax because:

- It is the fairest to all concerned
- It is the easiest to administer
- It is the cheapest to administer
- It is the least harmful to the State as a whole
- It is the best broad based tax for municipalities
- It is the right thing to do.

- o State income taxes can be deducted from your federal income tax thus part of it would be paid by the federal government.
- o An income tax would require those out of state workers who work in Alaska but live in another state to pay their fair share.

The majority of the people in the state agree that K-12 education badly needs more money in order to provide the quality education that we all want for our children and grand children. In addition we have spent so much from our savings account, the Constitutional Budget Reserve that it is in danger of running dry. We need to keep $1 billion in the CBR for a disaster fund to insulate against wild fluctuations in the price of oil and any possible natural or man made disaster to our State. It is time for the people of Alaska to step up to the plate and pay something at the State level for the required services plus those we all think we need and want.
I believe that the fairest tax overall is a flat rate income tax.

Representative Peggy Wilson
February 20, 2004

Alaska State Income Tax

Enter Taxable Income from Federal Income Tax Return	1. ________________
Multiply line 1. by .03%	2. ________________
Enter Number of Persons over 19 covered by this return	3. _______
Multiply line 3 by $100.	4. ________________
Enter the greater of line 2 or line 4	5. ________________
Enter $20,000 if filing singly or $30,000 if filing jointly	6. ________________
Enter the lesser of line 5 or line 6	7. ________________

Line 7 is amount owed for Alaska State Income Tax