

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1462 SCOMM 55: INT. SPEC. COMM. ON STATE TAX POLICY, 1986-1987 1242

Chairman Sund said it was a consensus to look at the projected figures for five years, and that it was not a recommendation of the committee, but only for informational purposes.

Number 638

Mr. Nelson proposed a change to page 8 regarding separate accounting. There was further discussion.

Number 685

Chairman Sund noted that there was a suggestion to delete other language related to separate accounting. Representative Martin discussed questions which arose regarding revenue raised by separate accounting versus modified apportionment.

Number 691

Ms. Halloran suggested an oversimplified reading of the Department of Revenue report on separate accounting resulted in inaccurate language in the report, and that it should be changed.

TAPE 12 SIDE 1

Number 000

Gregg Erickson testified that the Department of Revenue report issued December 19, 1986 and titled "Sensitivity Analysis of HB 353" concluded that if separate accounting was used instead of modified apportionment in FY 87, the state would have collected about \$100 million more, which was not accurately reflected by the language in the draft report. He discussed where the source of confusion existed.

Number 78

Representative Martin stated that there was information presented at the July meeting which verified there would be losses from separate accounting, and that a general statement indicating there would have been an increase would be deceiving.

Number 115

There was further discussion regarding the correct language for the section on separate accounting.

Number 193

Representative Martin stated the separate accounting information being discussed may not be appropriate to include in the report as it was new information. Ms. Halloran remarked that it was a good point because the information in the separate accounting report had not been formally presented or considered by the committee.

Number 212

Chairman Sund asked if there was any objection to deleting the separate accounting information from the report. There was no objection.

Number 220

Mr. Nelson proposed deleting the first sentence on page 9, which reads "The oil and gas industry vigorously opposes the imposition of separate accounting in Alaska as they feel that it can expose them to taxation on more than 100% of their earnings" and replacing it with "The oil and gas industry has opposed the imposition of separate accounting in Alaska in previous testimony before other legislative committees."

Number 250

Chairman Sund asked if there were any objections, there being none, Mr. Nelson's proposal was adopted.

Number 260

Mr. Nelson suggested adding two items to page 11, those being personal income tax and state sales tax.

Number 265

Chairman Sund asked if there were any objections to Mr. Nelson's proposal, there being none, it was adopted. Chairman Sund noted that the decoupling issue of oil and gas property tax exemptions was briefly discussed and should be included under property tax issues on page 11. He asked if there were any objections to including appropriate language to the list. There was no objection.

Number 294

Representative Martin suggested inserting an emphasis that there are excise taxes to page 10. Chairman Sund noted that he would have staff include that in the report as well as an update of retail sales tax projections.

Number 315

Representative Brown asked about oil gravity adjustment on page 11. John Hartle, aide to Chairman Sund, explained that it was a tax credit based on oil gravity.

Number 350

Chairman Sund asked what the committee wanted to do with issues regarding the comparison of oil production taxes and reinvestment by the oil industry.

Number 363

Senator Kerttula noted there was a serious question about reinvestment with respect to equity holders of oil companies in London, Houston and elsewhere, in that they do not reinvest here.

Number 375

Senator Coghill recommended keeping the structure and direction open for a short time to allow new members of the Tax Policy Committee to come up to speed.

Number 400

Representative Brown stated there were numerous proposals by the administration and legislature regarding income tax, the ELF, and motor fuel tax. She suggested the committee review them to narrow the range and see if there were other areas the committee wished to pursue.

Number 420

Senator Kerttula suggested that any information pertinent to the committee which can be quickly perused would be valuable to the short legislative session.

Number 440

Chairman Sund asked about when the next meeting should occur and what issues should be discussed. There was some discussion about appropriate meeting times and consensus that a date should not be set until issues for discussion are decided on. Chairman Sund suggested another meeting around mid-March.

Number 470

Senator Kerttula suggested the committee look at royalty income in conjunction with its work on severance taxes. Chairman Sund noted that the committee would also work with the Senate Oil and Gas Committee on that issue.

Number 486

Mr. Nelson commented that all taxes and royalty income paid by the oil and gas industry should be looked at by the committee.

Number 495

Representative Brown commented that the committee should also look into what is earned by the oil and gas industry, as well as what is paid.

Number 510

Chairman Sund asked if the committee wanted to approved the minutes. Mr. Garber noted that he had a technical correction which

was given to the secretary. There was a motion to approve the minutes, there being no objection, the minutes of December 4-5, 1986 were approved.

Number 520

Chairman Sund adjourned the meeting at 5:45 p.m.



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START TIME: _____

DATE: July 21, 1986

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PLACE: _____

SPONSOR/SUBJECT: Tax Policy Comm.

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Peter McDowell	Copier Hybrid	274-3602		X

Meeting
July 21, 1986

<u>Name</u>	<u>Affiliation</u>
Thomas Chester	OMB
John Harrington	Eaton
Charles Logsdon	D.O.R.
Dick Briggs	Dept of Penna
Martin Richard	Re DOR
Allen Amord	Sen V. Fischer
Mark Slater	D.O.R.
Ronald H. Berger	DOR
Carl A. Meyer	DOR
GREGG ERICKSON	OMB
STEVE HEIMEL	A P R N
Louann Culter	Rep. Adams
Sharman Piper	Rep. S. Cotten

Please give name & Affiliation

Tax Policy Committee 7-2-84

Name

Affiliation

Chris Zerbe

Louann Cullen

Jim Turner

Buellville

Laurie Anderson

Mitch Lipka

CH Rosenthal

Jeff Bohman

TIM BRADNER

BOB VAN HOOK

Jim Palmer

Waco Shelly

Robert J. Walker

Mary Jensen

John Hartle

Dee McDowell

Senator Fair

Rep. Adams

AK PIRG

Rep. Henley

And Times

ARCO Alaska

AKPIRG

ALASKA ECONOMIC REPORT

STAND. ALASK. PROD. CO.

STANDARD ALASKA

Mobil

EXXON

EXXON

Rep John Sund

Cooper & Lybrand

TAX POLICY COMMITTEE

9-11-86

<u>Name</u>	<u>Affiliation</u>
Tim Bradner	Alaska Economic Report
Patti Epler	Anchorage Daily News
Pat Pourchot	State House
Nan Smith	ETAM Co. USA.
Mary Jones	EXXON CO USA
Rebecca Parker	ARCO Alaska, Inc.
~~E. E. Dyer~~	~~Self~~
Dave Sears	STANDARD OIL
Dixie Hudish	IBEW Local 1547
Jim Fowler	IBEW L.U. 1547
Mike Savane	Legislature
J.M. Rosey	ARCO ALASKA, INC.
Grent Hazaway	Self
Jim Palmer	STANDARD OIL
BOB VAN HOOK	STANDARD OIL
TAMERA DAVIS	SEN. ABOOD
Cheryl Frasca	Senator Fuchs
Rexa Weller	Reward
C.L. Taylor	Conoco Inc
Kevin Krauklis	ARCO ALASKA INC
C.H. Rosenthal	ARCO Alaska
Bruce L. DePriester	ARCO ALASKA
H.R. Motley	ARCO ALASKA, INC.



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Norma Johnson Common Sense	P.O. Box 202087	276-7648		✓
Walter Phum	1521 C St	279-1069		✓

Preliminary
Report & Supplement
Feb. 1987

Tax Policy Committee

Notes for Sund:

- Please inform members of change to Vol. I Table of Contents:
Item 3 - Revenue Projections by Tax Type will not be included.
(Hartle requested this from Dept. Revenue and it probably won't be ready on time.)
- Approve minutes of Dec. 4-5 mtg.

Hance
S
B
Hartle

Also, note change in membership on Senate side : Bennett Co-chair
Coghill
Duncan

- Welcome invited members of Senate Oil & Gas Comm. - Fahrenkamp
Coghill
Fischer

DRAFT TAX POLICY COMMITTEE REPORT
Volume I

Table of Contents:

1. Memo from Rep. John Sund, Co-Chair

2. Committee Report Draft

~~3. Revenue Projections by Tax Type~~

not to N/A

4. SCR 42

5. Membership List

6. Bibliography



Official Business

Alaska State Legislature

JOINT SPECIAL COMMITTEE ON TAX POLICY

Pouch V
State Capitol
Juneau, Alaska 99811

January 27, 1987

MEMORANDUM

TO: Members, Joint Special Committee on Tax Policy

FROM: Rep. John Sund, House Co-Chair

RE: Draft Committee Report

Attached please find a draft of the first report of the Joint Special Committee on Tax Policy. The report is limited in scope for three reasons: The committee took no votes and made no recommendations, the Senate Chairman resigned from the Legislature, and the House Chairmanship changed hands (from Rep. Grussendorf to Rep. Sund) at the final meeting, in December.

Please review the report and Table of Contents of materials to be attached to the final report and let me know any changes you might recommend.

A. Introduction

The purpose of this report is to outline briefly issues of Alaska tax policy considered by the Joint Special Committee on Tax Policy.

The Committee was created by the passage of Senate Concurrent Resolution 42, in May 1986. It is scheduled to dissolve on the 11th day of the second session of the Fifteenth Alaska Legislature, in January 1988.

Membership on the Committee includes three members from the House, three from the Senate, two from the Administration, and three public members.

*as stated
↑
SLR 42 to.*
The Committee has a comprehensive charge of examining all issues relating to tax policy in Alaska. *revised*

The Committee has met three times, in Anchorage (see minutes, attached).

B. Issues explored by the Tax Policy Committee

Before evaluating any specific taxes, it is important to establish criteria for evaluation. The Department of Revenue, in a memo given to the Committee on alternative means for increasing revenues, listed five criteria for evaluating tax policies.

The five are:

Economic Efficiency: What effect does the proposed tax law change have on incentives and economic decision-making which may alter consumption, production or resource allocation decisions?

Equity: Who bears the burden of the tax and how does that burden compare with ability to pay or benefits received? Is the tax progressive or regressive with respect to income and/or wealth?

Elasticity: What is the sensitivity of the tax revenue yield to changes in economic or demographic conditions? As income or population increase and decrease does tax revenue increase or decrease in greater, lesser or equal proportion?

Administrative Efficiency: How costly is the tax to administer in terms of resources devoted to administration and compliance relative to the revenue yield of the tax? Who bears the burden of administrative cost, the taxpayer, the State, or the tax collector if different from the state?

Political Feasibility: How acceptable is a proposed tax law change to the legislature and/or the electorate given the existing social, political, and economic conditions? Who benefits, who loses, and who has the most political power?

In addition to these, the Committee considered several other tax evaluation criteria:

Revenue raised for the state: How much revenue does the tax change raise for the State?

Employment Impact: What will be the impact on employment in the public and private sector?

Capital Impact: What will be the impact on investment capital availability in Alaska?

New Federal Tax Code: How does the proposed tax law change relate to the new Federal Tax Code?

For oil and gas taxes, the Committee looked at several additional evaluation criteria:

Impact on exploration, development and production.

Relative impacts on small and large fields.

Impact on secondary and tertiary recovery and recoverable reserves.

Possibility of premature shutdown of producing fields, and future oil and gas production loss.

Impact on Cook Inlet fields.

Impact on royalty income.

Impact on severance income.

Alaska Tax Policy

ELF

One
Much of the Committee's time has been spent on questions relating to the Alaska Severance Tax, in particular, the Economic Limit Factor (ELF). [The purpose of the ELF is to provide severance tax relief to marginal oil fields in order to keep them in production, retaining economic benefits for the state.] The ELF is calculated to be a number between zero and one and can be thought of as representing a percentage of the nominal severance tax rate (e.g. a field with an ELF of 0.6 means 60% of the nominal severance tax rate is applied to that field). The ELF is an issue at this time largely because an ELF provision that sets the ELF at 1.0 if the calculated ELF is greater than 0.7, expires after a field has been in production for ten years, and Prudhoe Bay will have been in production for ten years as of July 1987. When the ten-year exemption for Prudhoe Bay expires, and no changes are made to the law, the ELF for Prudhoe Bay will go to an estimated .82, reducing severance taxes by over \$100 million per year. The oil industry *is expected to* ~~opposes~~ any change to the ELF formula, saying that it will reduce producer revenues available for reinvestment in Alaska, reduce research and development in Alaska and may cause premature shutdown of producing fields.

Eight options were considered for the ELF:

1) Fix the per-barrel severance tax floor at \$.80 to which ELF does not apply.

	FY 88	FY 89	FY 88-2005
Revenue from this option:	30 M	20 M	210 M (50% case)
[Source: Dept. of Revenue]			30%

2) Same as #1, plus set 300 bbl/day PEL (Production Economic Limit) in statute (now a rebuttable presumption), and repeal the ELF exponent.

3) Set the per-barrel floor at \$1.50 and index it with inflation. The \$1.50 figure was selected based on applying a CPI inflator to the original \$.80 floor. This option was rejected by the Committee based mainly on the fact that it would have a severe negative impact on oil production [in Cook Inlet.]

4) Repeal the ELF entirely on all fields. ^{basic} This option was rejected as the Committee supported the policy of giving marginal oil fields a tax break as with the ELF.

5) Modify the exponent ^{in addition to} of the ELF formula and base the PEL on field production [rather than] per-well production. The modification of the ELF exponent would have the effect of giving additional tax relief to marginal fields while increasing the tax receipts from very large fields. The net result would be an increase in severance tax income over present law.

	FY 88	FY 89	FY 88-2005
Revenue from this option:	140 M	140 M	1,670 M (50% case)
[Source: Dept. of Revenue]			30%

6) Include the provisions of option 5 with the addition of a floor which is not affected by the ELF. This option was rejected by the Committee based on the negative effects on Cook Inlet oil fields stemming from the floor change.

7) Extend the ten-year Prudhoe Bay exemption to fifteen years.

8) No change in the law, i.e. allow the scheduled application of ELF to Prudhoe Bay.

Oil and Gas Income Tax

The major issues considered regarding the Oil and Gas Income Tax revolve around the question of separate accounting of oil and gas income in Alaska versus that of apportioning Alaska income by formula. Present law uses the 'modified apportionment' approach. Separate accounting was used in Alaska for the years 1978-1981, but was repealed because the State was exposed to the possibility of large tax refunds if the courts had ruled for the oil companies who brought suit. The State Supreme Court and the U.S. Supreme Court ruled in favor of the state, holding that separate accounting is within the prerogative of the legislature as a method of determining Alaska income for taxation.

by the State of Alaska
Separate accounting is ~~generally~~ considered to more accurately reflect oil and gas income earned in Alaska. Separate accounting has the disadvantage of being more volatile, that is state income closely follows the rise and fall of oil prices on the world

market. The oil and gas industry ^{has} vigorously ^{in previous testimony} opposed ^{before other legislative} the ^{Committee} imposition of separate accounting in Alaska ^{as} they feel that it can expose them to taxation on more than 100% of their earnings.

House Bill 353, which would have reinstated separate accounting was introduced in the Fourteenth Legislature, but did not pass either body.

According to the most recent (January, 1987) report of the Alaska Department of Revenue, at current oil prices separate accounting would result in lower revenues for the state.

They show a crossover point where separate accounting would result in more revenue for the state at \$14-16/barrel wellhead value.

Individual Income Tax

The State of Alaska is one of seven states without an individual income tax. The Committee requested a report from the Department of Revenue on the revenue potential and economic impacts of a personal income tax. The report was completed at the end of December, 1986, and is attached. The report examines three types of state income taxes and examines revenue potentials of each against two possible economic scenarios for the state's future. It is interesting to note that were the State to reimpose the individual income tax with the same rate structure as was in effect before it was repealed, the tax would yield between \$399 million (low economic scenario) and \$436 million (moderate economic scenario) for tax year 1988. These amounts exceed previous estimates by approximately \$100 million.

State Sales Tax

The State of Alaska is one of five states without a statewide sales tax. The Department of Revenue recently completed a study of the revenue potential of a statewide sales tax. The report concludes that in calendar year 1988, if sales of food are not exempted, a retail sales tax would yield \$38,355,000 per one percent tax. In addition, the service sector of the economy, could yield approximately \$14 million per one percent tax.

60-70M
yield w/o
exemption

Issues to be explored by Committee

There are a great many tax issues which could be productively explored by the Joint Special Committee on Tax Policy. An outline of some of these issues is provided below.

1. Corporate Income Tax
 - a) Rates
 - b) Worldwide Combination
 - c) Separate entity
 - d) Waters' edge
 - e) Changes to Apportionment formula
2. Severance Tax
 - a) Definition of a marginal field?
 - b) Definition of Field, Unit
3. Motor Fuel taxes
4. Special tax incentives and credits
 - a) Exploration Incentive
 - b) Mining License 3.5-year moratorium

- c) Special Industrial Tax Credit
- d) Credits included in adoption of IRS code
- e) Investment Tax Credit
- f) Non-Highway Use refund
- g) Oil Gravity Adjustment
- 5. Oil and Gas Property Tax (ad valorem)
 - a) Municipal uniformity → *Decoupling*
- 6. Disputed taxes
 - a) DOR need for auditors, etc.
 - b) Taxpayer Confidentiality
 - c) Outlook for settlements
- 7. Lottery
- 8. Oil & Gas Reserves Tax
- 9. Tobacco Tax
- 10. Alcohol Tax
- 11. Gross Receipts Tax
- 12. School Tax
- 13. Fisheries Taxes

Conclusion The Joint Special Committee on Tax Policy has attempted to establish policy guidelines to examine Alaska's tax structure. The Committee has developed information regarding impacts of some proposed tax schemes. Other than rejecting certain proposals relating to the ELF, the Committee has reached no conclusions or recommendations regarding any specific tax proposal.

Introduced: 4/23/86
Referred: State Affairs

1 IN THE SENATE

BY THE STATE AFFAIRS COMMITTEE

2 SENATE CONCURRENT RESOLUTION NO. 42

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 Relating to a legislative committee to
6 study the state's tax policy.

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

8 WHEREAS the State of Alaska has a tax structure that has not been
9 comprehensively reviewed for fairness and equity; and

10 WHEREAS it is in the state's best interest to have a long-term tax
11 policy that is broad, stable, and accountable; and

12 WHEREAS the State of Alaska lacks the necessary information to develop
13 a comprehensive approach to existing state taxes, tax credits, licenses and
14 user fees; and

15 WHEREAS an examination of the relationship between minimizing taxes
16 and fostering economic growth is critical to the understanding of the
17 state's tax structure;

18 BE IT RESOLVED by the Alaska State Legislature that under Uniform Rule
19 21 a joint special committee on tax policy is established consisting of
20 three members of the senate appointed by the president of the senate, three
21 members of the house of representatives appointed by the speaker of the
22 house, three ex-officio members from the private sector appointed by the
23 governor and one ex-officio representative each from the Office of Manage-
24 ment of Budget and the Department of Revenue to conduct research, hold
25 public hearings and take testimony and collect data on the state's tax
26 policy; and be it

• 27 FURTHER RESOLVED that before the committee dissolves on the 11th day
28 of the Second Session of the Fifteenth Legislature, it submit a written
29 report to the legislature that addresses the merits of and makes

- 1 recommendations concerning a long-term, broad-based and stable tax policy
- 2 to minimize taxes and foster economic growth.

JOINT SPECIAL COMMITTEE ON TAX POLICY

List of Members

- Not Appointed

Itch Abood

Richard Eliason

ative John Sund, Co-Chair

ative Kay Brown

ative Terry Martin

Officio

r
ive Programs
of Alaska

ey
on of Operating Engineers, Local 302

son
laska Production Company

tion Ex-Officio

er Hugh Malone
of Revenue

tan
Management and Budget

BIBLIOGRAPHY OF MATERIALS
JOINT SPECIAL COMMITTEE ON TAX POLICY
January, 1987

The following is a bibliography of research papers collected by the Joint Special Committee on Tax Policy as of January, 1987. A set of the materials is on file in the Office of Rep. John Sund, House Chair. (Rm 118, Capitol. 465-4919).

A. Individual Income Tax

1. Individual Income Tax Report, Mary Ellen Frank, Economist, et. al. State of Alaska, Department of Revenue, memo to Vince Wright, Chief of Research, State of Alaska, Department of Revenue, December 1986
2. Commuter Taxes as They Relate to Resident Hire, Memo to Rep. Mike Davis from Mary Jennings, Legislative Analyst, State of Alaska, House Research Agency, April 1986

B. State Sales Tax

1. Revenue Potential of a General Sales Tax, Vince Wright, Chief of Research, State of Alaska, Department of Revenue, December 1986

C. Oil Taxes - General

1. The Taxation of the Petroleum Industry Under Alaska's Corporate Income Tax: A Report Prepared for the Alaska Legislature and the Alaska Department of Revenue, Jerome Zeifman and Kenneth Ainsworth, January 1977
2. Alaska's Oil and Gas Tax Structure: A Study with Recommendations for Improvement. Alaska Department of Revenue, February 1977
3. Impact of Increased Taxation on Oil Exploration and Development in Alaska: A Report to the Alaska State Legislature, Tanzer Economic Associates, March, 1977
4. Recommended Changes in Alaska's Oil and Gas Production Tax Rates, A Report to Governor Jay Hammond, By the Alaska Department of Revenue, 1978
5. The History of Oil and Gas Taxation in Alaska, Thomas K. Williams, Commissioner of the Alaska Department of Revenue, 1978
6. Prudhoe Bay Field and Trans-Alaska Pipeline System: Comparative State Tax Burden Study, Arthur Anderson & Co. for the Alaska Oil and Gas Association, February, 1979
7. Historical Review of Alaska Petroleum Taxes, 1955-1978, Mike Bradner for the Alaska State Legislature, April 1979
8. Alaska Oil and Gas Income Taxation, John Messinger, Gregg Erickson, and Lawrence Eppenbach for the Alaska State Legislature Joint Gas Pipeline Committee, April 1981
9. A Sound Strategy for Protecting Alaska's Oil and Gas Revenues: an Analysis of the Backstop Tax Legislation, Preston Thorgrimson, Ellis & Holman (John Messenger) for the

Alaska State Legislature Joint Gas Pipeline Committee

10. Legislative History Materials, 1981 Corporate Income Tax Amendments, Volumes I & II
11. Alaska Petroleum Revenues: The Influence of Federal Policy, University of Alaska, Institute of Social and Economic Research, for the State of Alaska, Office of the Governor October 1984
12. Impact of Tax Simplification Proposals on Oil and Gas Production and the Economy - Alaska, Interstate Oil Compact Commission, February 1985
13. State, Federal and Industry Shares of Alaska Resource Income, Fiscal Years 1982-1985, State of Alaska, Office of the Governor, Office of Management and Budget, Tom Chester, April 1986

D. Severance Tax

1. Policy Considerations Behind the Severance Tax, Jon Tillinghast, Assistant Attorney General, State of Alaska, Attached to Memo to the Joint Special Committee on Tax Policy from Richard Monkman, Deputy Commissioner, Taxation, Department of Revenue, September 1986
2. History of Oil and Gas Tax Law, State of Alaska, Department of Revenue, September 1986

E. ELF

1. Transcript of Presentation on ELF given by Gregg Erickson State of Alaska, Office of the Governor, Office of Management and Budget, for the Tax Policy Committee Meeting, September 1986
2. Memorandum on Proposed Changes to the Severance Tax ELF, Memo from G.J. Abraham to George Nelson, Standard Alaska Production, October 1986
3. Analysis of ELF Alternatives, Charles Logsdon, Petroleum Economist, State of Alaska, Department of Revenue, December 1986
4. Alternative ELF, Thomas Chester, State of Alaska, Office of the Governor, Office of Management and Budget, 1986
5. Low (Oil) Prices and the ELF, Memo from Charles Logsdon, Petroleum Economist, State of Alaska, Department of Revenue to Vincent Wright, Chief of Research, April 1986
6. Letter from John R. Kemp, Division Manager, Conoco, Inc. to Senator Frank Ferguson, Senate Chair, Joint Special Committee on Tax Policy, September 1986
7. The Economic Limit Factor in Alaska's Oil and Gas Properties Production Tax, Thomas K. Williams for Standard Alaska Production Company, September 1986

F. Separate Accounting

1. Affidavit of Edward B. Deakin, CPA, Ph.D. In the Superior Court, State of Alaska, in ARCO v. State of Alaska, November 1981
2. Interim Report of the House Finance Subcommittee on Oil and Gas, Louann Cutler and Sharman Piper, Alaska State Legislature, January 1986
3. Analysis of HB 353, Alaska Department of Revenue, Memo from Vince Wright, Director of Research to Commissioner Mary Nordale, October 1985
4. Sensitivity Analysis of House Bill 353, Memo from John Larson, Economist, et. al. State of Alaska, Department of Revenue, to Vince Wright, Chief of Research, State of Alaska, Department of Revenue, December 1986
5. Overview of Issues Involved in Consideration of HB 353, Memo from Louann Cutler, Special Assistant to Rep. Al Adams, Chair, House Finance Committee, State of Alaska, Alaska State Legislature, October 1985
6. White Paper Report to the Alaska State Legislature on Alaska Oil and Gas Resources, Alaska State AFL-CIO and Alaska Teamsters, Local 959, January 1986
7. The Effects of State Income Tax Policy on the Development of Marginal Oil Fields: An Analysis of the Impact of House Bill 353, House Research Agency, Alaska State Legislature, January 1986
8. Revenue from Separate Accounting, Memo to Mary Halloran, Office of the Speaker, State of Alaska, Alaska State Legislature, Gregg Erickson, Senior Economist, State of Alaska, Office of the Governor, Office of Management and Budget, December 1986
9. Overview and Sectional Analysis of House Bill 353, Deborah Vogt, Assistant Attorney General, State of Alaska,

G. Oil and Gas Conservation Tax

1. Memo to Governor Bill Sheffield and attached Proposed Legislation on the Oil and Gas Conservation Tax, Harold M. Brown, Attorney General, State of Alaska, November 1986

H. Corporate Income Tax

1. Sujong v. State of Alaska, Department of Revenue Court Decision, Alaska, 622 P.2d 967
2. Income Tax in Alaska, Deborah Vogt, Assistant Attorney General, State of Alaska, July 1986
3. Research Regarding Other States' Corporate Income Taxes Memo to Deborah Vogt, Assistant Attorney General, State of Alaska, from Michael D. Lowe and Jeffrey Blattner, Rogovin, Hugs & Lenzer, November 1985

4. Container Corporation of America v. Franchise Tax Board, U. S. Supreme Court Decision, June 1983

I. Tax Credits, Exemptions, and Deductions

1. "Special" Tax Credits, Exemptions, Deductions, Refunds provided by (Alaska) State Statutes, State of Alaska, Department of Revenue, September 1986

J. Misc. Taxes

1. Alternative Means of Increasing Revenues, Alaska Department of Revenue, Memo from Mary Ellen Frank, et. al. to Vince Wright, Director of Research, January 1986
2. Revenue Alternatives - Excise Taxes, Fisheries Taxes, Licenses and Permits, Vince Wright, Chief of Research, State of Alaska, Department of Revenue, December 1986
3. Alaska Mineral Taxation Compared to Taxes on Mines in Eleven States, Whitney & Whitney, Inc. for State of Alaska, Department of Commerce and Economic Development, Office of Mineral Development, January 1982

K. Disputed Taxes

1. Expedited Collections of Disputed Taxes, Memo to Rep. Al Adams, Chairman, House Finance Committee, State of Alaska, Department of Revenue, January 1986
2. Prepayment of Disputed Taxes, Memo to Rep. Al Adams, Chairman, House Finance Committee, State of Alaska, Department of Law, January 1986
3. Department of Revenue Accounts Receivable, Richard Monkman, Deputy Commissioner, Taxation, State of Alaska, Department of Revenue, July 1986
4. The Appeals Process and Disputed Tax Dollars, Memo to the JSPTP, Division of Audit, State of Alaska, Department of Revenue, September 1986
5. Memo to Rep. Ben Grussendorf on Cases in Appeal Status, Martin Richard, Division of Audit, State of Alaska, Department of Revenue, October 1986

February 3, 1986

G.N. NELSON COMMENTS ON DRAFT COMMITTEE REPORT

The following proposed changes are presented for consideration by the Committee.

1. Page 3, fourth full paragraph:

adopted.
The Committee's comprehensive charge is 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."

2. Page 6, first full paragraph, insert following first sentence:

→
Testimony was limited to only representatives of the Department of Revenue, the Office of Management and Budget, and the Department of Law. The primary focus was on revenue raised by various proposals balanced with the various negative effects on exploration and production. Time did not permit testimony comparing Alaskan production taxes with the production taxes of other states, although such a comparison was noted as useful information.

3. Page 6, first full paragraph, replace the second sentence:

As noted in the attached paper by T.K. Williams at page 9,
"The ELF operates to reduce the effective rate of the
Production Tax as an oil and gas property nears its economic
limit; i.e., the point where the income (gross value) from
producing a barrel or Mcf of production from that property
is just enough to cover the costs of producing that barrel
or Mcf."

4. Page 6, first full paragraph, last sentence:

The Oil Industry is expected to oppose any changes to the
ELF formula, saying that it will reduce producer revenues
available for reinvestment in Alaska, reduce research and
development in Alaska and may cause premature shutdown of
producing fields.

5. Page 7, option 3):

Delete "in Cook Inlet"

6. Page 7, option 4, replace the second sentence:

This option was rejected as the Committee supported the
basic policy of the ELF.

7. Page 7, option 5), insert after the second sentence:

However, the modification ~~would~~ discourage full development
within large fields. *may*

8. Page 8, bottom paragraph, first sentence:

Separate accounting is considered by the State of Alaska to more accurately reflect oil and gas income earned in Alaska.

9. Page 9, first full sentence:

The oil and gas industry has opposed the imposition of separate accounting in Alaska in previous testimony before other legislative committees.

10. Page 9, first partial paragraph, last sentence:

". . . . \$14-16/barrel well head value (\$21-23/bbl delivered).

11. Pages 10 and 11 numbered items, add:

14. Personal Income Tax

15. State Income Tax

JOHN SUND, REPRESENTATIVE

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Ketchikan, Alaska 99901
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While in Juneau
P. O. Box V
Juneau, Alaska 99811
(907) 465-4919

MEMORANDUM

2/3/87

TO: Members, Joint Special Committee on Tax Policy

FROM: Rep. John Sund, House Co-Chair
Joint Special Committee on Tax Policy

RE: Suggested changes to tax report

We have circulated the draft of the preliminary report of the Joint Special Committee on Tax Policy and are starting to get back comments and suggested changes.

The report, or course, should be viewed as attempting to briefly outline issues the Committee has considered. The actual Committee Report is due next year.

Based on comments received to date, I am suggesting the following changes:

- 1) Page 7, numbered paragraph 5: substitute "in addition to" for "rather than." This indicates that in an ELF proposal studied by OMB, field productivity would be used in addition to well productivity in calculating the ELF.
- 2) Page 7, where revenue estimates are used, use the 30% case instead of the 50% case.
- 3) On page 9 of the draft, first paragraph, delete the last two sentences and replace with:

"According to a January 1987 report from the Department of Revenue, substituting separate accounting for modified apportionment would increase FY 1988 revenues by almost \$100 million, assuming current oil prices [Graph II-9-1, page 95]. Little or no additional revenue would be gained, however, if the change to separate accounting were accompanied by the severance tax reduction called for under HB 353, again assuming no change in oil prices [Graph II-9-3, page 95].

The DOR study suggests that the crossover point, above which separate accounting by itself would produce more FY 1988 revenue for the state, is between \$5/barrel and \$7/barrel wellhead value. The current wellhead value is about \$8.75/barrel. The crossover point tends to increase in later years, as does the DOR forecast of wellhead value."

STATE OF ALASKA



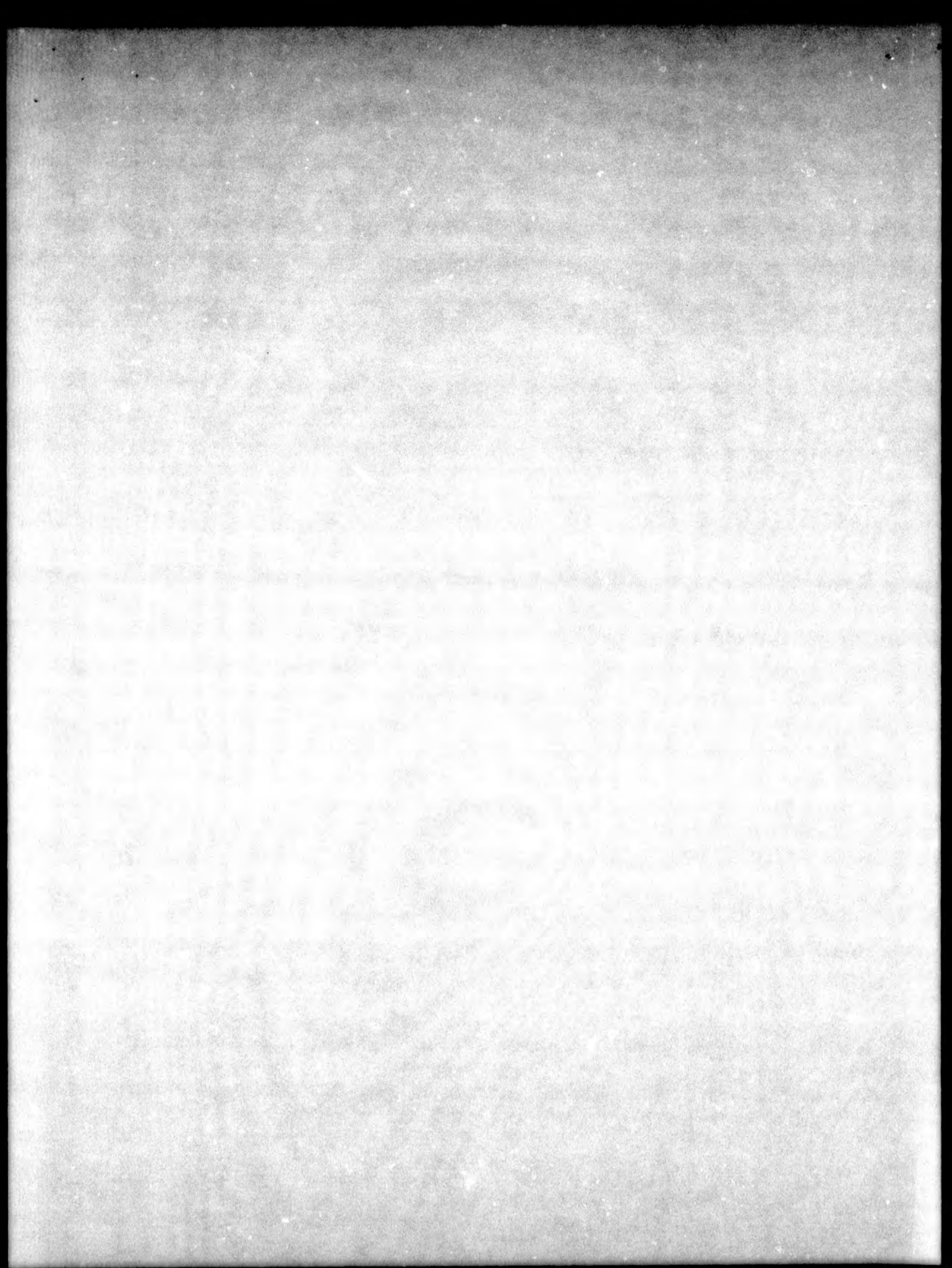
JOINT SPECIAL COMMITTEE

ON

TAX POLICY

PRELIMINARY REPORT

February 1987



STATE OF ALASKA
JOINT SPECIAL COMMITTEE ON TAX POLICY
PRELIMINARY REPORT
FEBRUARY 1987

JOINT SPECIAL COMMITTEE ON TAX POLICY

Senate Chairman	Senator Don Bennett
House Chairman	Representative John Sund
Senate Member	Senator Jack Coghill
Senate Member	Senator Jim Duncan
House Member	Representative Kay Brown
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Public Member	George Nelson
Public Member	David Rasley

TAX POLICY COMMITTEE PRELIMINARY REPORT

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Alaska State Legislature



P. O. Box V
State Capitol
Juneau, Alaska 99811
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JOINT SPECIAL COMMITTEE ON TAX POLICY

February 13, 1987

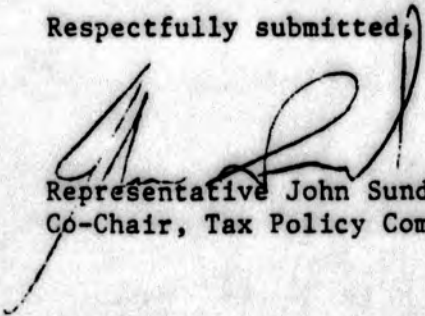
Members of the Alaska State Legislature

Fellow Members:

The following is a preliminary report of the Joint Special Committee on Tax Policy. Tax policy issues which have been considered by the committee and are the subject of this report include criteria for evaluating tax policy, the Economic Limit Factor (ELF), oil and gas income tax, individual income tax, and state sales tax. Detailed reports and papers on these particular issues are included in the Supplement volume to this report.

Should you have any questions regarding any of the information contained in this report, please feel free to contact our offices.

Respectfully submitted,


Representative John Sund
Co-Chair, Tax Policy Committee


Senator Don Bennett
Co-Chair, Tax Policy Committee

Introduction

The purpose of this report is to outline issues of Alaska tax policy considered by the Joint Special Committee on Tax Policy.

The Committee was created in May 1986 by the passage of Senate Concurrent Resolution 42. It is scheduled to make a final report and dissolve on the 11th day of the second session of the Fifteenth Alaska Legislature, in January 1988.

Membership on the Committee includes three members from the House, three from the Senate, two from the Administration, and three public members.

The Committee's comprehensive charge, as stated in SCR 42, is to submit a final 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."

The Committee has met four times; minutes are available from the office of Rep. John Sund, Capitol Building, Room 120. (P.O. Box V, Juneau, Alaska 99811. Phone 465-4990).

Other than rejecting certain options considered for modifying the Economic Limit Factor in the state Severance Tax, the Committee made no recommendations as to tax policy at this time.

Issues Explored by the Tax Policy Committee

Before evaluating any specific taxes, it is important to establish criteria for tax policy evaluation. The Department of Revenue (DOR), in a memo given to the Committee on alternative means for increasing revenues (See Supplement, Section 4), listed five criteria for evaluating tax policies. The five are:

Economic Efficiency: What effect does the proposed tax law change have on incentives and economic decision-making which may alter consumption,

production or resource allocation decisions?

Equity: Who bears the burden of the tax and how does that burden compare with ability to pay or benefits received? Is the tax progressive or regressive with respect to income and/or wealth?

Elasticity: What is the sensitivity of the tax revenue yield to changes in economic or demographic conditions? As income or population increase and decrease does tax revenue increase or decrease in greater, lesser or equal proportion?

Administrative Efficiency: How costly is the tax to administer in terms of resources devoted to administration and compliance relative to the revenue yield of the tax? Who bears the burden of administrative cost, the taxpayer, the State, or the tax collector if different from the state?

Political Feasibility: How acceptable is a proposed tax law change to the legislature and/or the electorate given the existing social, political, and economic conditions? Who benefits, who loses, and who has the most political power?

In addition to these, the Committee considered several other tax evaluation criteria:

Revenue raised for the state: How much revenue does the tax change raise for the State?

Employment Impact: What will be the impact on employment in the public and private sector?

Capital Impact: What will be the impact on investment capital availability in Alaska?

New Federal Tax Code: How does the proposed tax law change relate to the new Federal Tax Code?

For oil and gas taxes, the Committee looked at several additional evaluation criteria:

Impact on exploration, development and production.

Relative impacts on small and large fields.

Impact on secondary and tertiary recovery and recoverable reserves.

Possibility of premature shutdown of producing fields, and future oil and gas production loss.

Impact on Cook Inlet fields, royalty and severance income.

Alaska Tax Policy

Economic Limit Factor (ELF)

Much of the Committee's time has been spent on questions relating to the Alaska Severance Tax, in particular, the Economic Limit Factor (ELF). Testimony was limited to representatives of the Department of Revenue, the Office of Management and Budget, and the Department of Law. The primary focus was on revenue raised by the various proposals balanced with the various negative effects on exploration and production. Time did not permit testimony comparing Alaska production taxes with the production taxes of other states, although such a comparison was noted as useful information.

One purpose of the ELF is to provide severance tax relief to marginal oil fields in order to keep them in production. In addition, as noted in the attached paper by T.K. Williams, (See Supplement, Section 3), "The ELF operates to reduce the effective rate of the Production Tax as an oil and gas property nears its economic limit; i.e., the point where the income (gross value) from producing a barrel or Mcf of production from that property is just enough to cover the costs of producing that barrel or Mcf."

The ELF is calculated to be a number between zero and one and can be thought of as representing a percentage of the nominal severance tax rate (e.g. a field with an ELF of 0.6 means 60% of the nominal severance tax rate is applied to that field). The ELF is an issue at this time largely

because an ELF provision that sets the ELF at 1.0 if the calculated ELF is greater than 0.7, expires after a field has been in production for ten years, and Prudhoe Bay will have been in production for ten years as of July 1987. When the ten-year exemption for Prudhoe Bay expires, and if no changes are made to the law, the ELF for Prudhoe Bay will go to an estimated .82, reducing severance taxes by over \$100 million per year. The oil industry is expected to oppose any change to the ELF formula, saying that it will reduce producer revenues available for reinvestment in Alaska, reduce research and development in Alaska and may cause premature shutdown of producing fields.

Eight options were considered for the ELF:

1) Eliminate the application of the ELF to the current \$.80 per barrel tax floor.

Increased Severance tax revenue from this option:

<u>FY 88</u>	<u>FY 89</u>	<u>FY 88-2005</u>
20.18 M	13.83 M	135.42 M

The DOR estimates that average expected production on the North Slope would be reduced by 19.16 million barrels during the period 1987-2005, if this change in the ELF were enacted.

[Source: DOR ELF alternatives analysis, 12/4/86. North Slope fields, mean case. See Supplement, Section 3]

2) Same as Option 1, and, in addition, set the 300 barrel per day Production Economic Limit, (PEL), now a rebuttable presumption, into statute, and repeal the ELF exponent.

3) Set the per-barrel floor at \$1.50 and index it with inflation. The \$1.50 figure was selected based on applying a CPI inflator to the original \$.80 floor. The Committee rejected this option because it would have a severe negative impact on oil production.

4) Repeal the ELF entirely on all fields. This option was rejected as the Committee supported the basic policy of

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

because an ELF provision that sets the ELF at 1.0 if the calculated ELF is greater than 0.7, expires after a field has been in production for ten years, and Prudhoe Bay will have been in production for ten years as of July 1987. When the ten-year exemption for Prudhoe Bay expires, and if no changes are made to the law, the ELF for Prudhoe Bay will go to an estimated .82, reducing severance taxes by over \$100 million per year. The oil industry is expected to oppose any change to the ELF formula, saying that it will reduce producer revenues available for reinvestment in Alaska, reduce research and development in Alaska and may cause premature shutdown of producing fields.

Eight options were considered for the ELF:

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[Source: DOR ELF alternatives analysis, 12/4/86. North Slope fields, mean case. See Supplement, Section 3]

2) Same as Option 1, and, in addition, set the 300 barrel per day Production Economic Limit, (PEL), now a rebuttable presumption, into statute, and repeal the ELF exponent.

3) Set the per-barrel floor at \$1.50 and index it with inflation. The \$1.50 figure was selected based on applying a CPI inflator to the original \$.80 floor. The Committee rejected this option because it would have a severe negative impact on oil production.

4) Repeal the ELF entirely on all fields. This option was rejected as the Committee supported the basic policy of

the ELF.

5) Modify the exponent of the ELF formula and base the PEL on field production in addition to per-well production. The modification of the ELF exponent would have the effect of giving additional tax relief to marginal fields while increasing the tax receipts from very large fields. However, the modification may discourage full development within large fields. The net result would be an increase in severance tax income over present law.

Increased severance tax revenue from this option:

<u>FY 88</u>	<u>FY 89</u>	<u>FY 88-2005</u>
123.61 M	149.86 M	2270.5 M

The DOR estimates that average expected production on the North Slope would be reduced by 28.41 million barrels during the period 1987-2005, if this change in the ELF were enacted.

[Source: DOR ELF alternatives analysis, 12/4/86 North Slope fields, 45,000,000 constant, mean case. See Supplement, Section 3]

6) Include the provisions of Option 5 with the addition of a floor which is not affected by the ELF. The Committee rejected this option based on the negative effects on Cook Inlet oil fields stemming from the change in the per-barrel severance tax floor.

7) Extend the ten-year Prudhoe Bay exemption to fifteen years.

Increased severance tax revenue from this option:

<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>	<u>FY 91</u>	<u>FY 92</u>
100.4 M	114.8 M	125.2 M	129.2 M	134.9 M

The DOR estimates that average expected production on the North Slope would be reduced by 4.43 million barrels during the period 1987-2005, if this change in the ELF were enacted.

[Source: DOR ELF alternatives analysis, 12/4/86 North Slope fields, mean case. See Supplement, Section 3]

8) No change in the law, i.e. allow the scheduled application of ELF to Prudhoe Bay.

Oil and Gas Income Tax

The major issues considered regarding the Oil and Gas Income Tax revolve around the question of separate accounting of oil and gas income in Alaska versus that of apportioning Alaska income by formula. Present law uses the 'modified apportionment' approach. Separate accounting was used in Alaska for the years 1978-1981, but was repealed because the State was exposed to the possibility of large tax refunds had the courts ruled for the oil companies who brought suit. The Alaska Supreme Court and the U.S. Supreme Court ruled in favor of the State, holding that separate accounting is within the prerogative of the legislature as a method of determining Alaska income for taxation.

Separate accounting is generally considered by the State of Alaska to more accurately reflect oil and gas income earned in Alaska. Separate accounting has the disadvantage of being more volatile, since under separate accounting state income closely follows the rise and fall of oil prices on the world market. The oil and gas industry has opposed the imposition of separate accounting in Alaska in previous testimony before other legislative committees. House Bill 353, which would have reinstated separate accounting and lowered the severance tax rate, was introduced in the Fourteenth Legislature, but did not pass either body.

Individual Income Tax

The State of Alaska is one of seven states without an individual income tax. The Committee requested a report from the Department of Revenue on the revenue potential and economic impacts of a personal income tax. The report was completed at the end of December, 1986, and is included in the Supplement. The report examines three types of state

income taxes and examines revenue potentials of each against two possible economic scenarios for the state's future. It is interesting to note that were the State to reimpose the individual income tax with the same rate structure as was in effect before it was repealed, the tax would yield between \$399 million (low economic scenario) and \$436 million (moderate economic scenario) for tax year 1988. These amounts exceed previous estimates by approximately \$100 million.

State Sales Tax

The State of Alaska is one of five states without a statewide sales tax. The Department of Revenue recently completed a study of the revenue potential of a statewide sales tax. The report concludes that in calendar year 1988, if sales of food are not exempted, a retail sales tax would yield \$38,355,000 per one percent tax. In addition, a state sales tax on the service sector of the economy could yield approximately \$14 million, and sales taxes on electric utilities could yield \$2 million per one percent tax.

Issues to be explored by Committee

There are a great many tax issues which could be productively explored by the Joint Special Committee on Tax Policy. An outline of some of these issues is provided below.

1. Corporate Income Tax
 - a) Rates
 - b) Worldwide Combination
 - c) Separate entity
 - d) Waters' edge
 - e) Changes to Apportionment formula
2. Severance Tax
 - a) Definition of a marginal field
 - b) Definition of Field, Unit
3. Motor Fuel Tax
4. Tax Incentives and Credits
 - a) Exploration Incentive
 - b) Mining License 3.5-year moratorium

- c) Special Industrial Tax Credit
- d) Credits included in adoption of IRS code
- e) Investment Tax Credit
- f) Non-Highway Use refund
- g) Oil Gravity Adjustment
- 5. Oil and Gas Property Tax (ad valorem)
 - a) Municipal uniformity
 - b) Decoupling state and municipal property taxes
- 6. Disputed Taxes
 - a) DOR need for auditors, etc.
 - b) Taxpayer Confidentiality
 - c) Outlook for settlements
- 7. Lottery
- 8. Oil & Gas Reserves Tax
- 9. Tobacco Tax
- 10. Alcohol Tax
- 11. Gross Receipts Tax
- 12. School Tax
- 13. Fisheries Taxes
- 14. Individual Income Tax
- 15. State Sales Tax

Conclusion

The Joint Special Committee on Tax Policy has attempted to establish policy guidelines to examine Alaska's tax structure. The Committee has developed information regarding impacts of some proposed tax schemes. Other than rejecting certain proposals relating to the ELF, the Committee has reached no conclusions or recommendations regarding any specific tax proposal.

Introduced: 4/23/86
Referred: State Affairs

1 IN THE SENATE

BY THE STATE AFFAIRS COMMITTEE

2

SENATE CONCURRENT RESOLUTION NO. 42

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - SECOND SESSION

5

Relating to a legislative committee to

6

study the state's tax policy.

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

8

WHEREAS the State of Alaska has a tax structure that has not been

9

comprehensively reviewed for fairness and equity; and

10

WHEREAS it is in the state's best interest to have a long-term tax

11

policy that is broad, stable, and accountable; and

12

WHEREAS the State of Alaska lacks the necessary information to develop

13

a comprehensive approach to existing state taxes, tax credits, licenses and

14

user fees; and

15

WHEREAS an examination of the relationship between minimizing taxes

16

and fostering economic growth is critical to the understanding of the

17

state's tax structure;

18

BE IT RESOLVED by the Alaska State Legislature that under Uniform Rule

19

21 a joint special committee on tax policy is established consisting of

20

three members of the senate appointed by the president of the senate, three

21

members of the house of representatives appointed by the speaker of the

22

house, three ex-officio members from the private sector appointed by the

23

governor and one ex-officio representative each from the Office of Manage-

24

ment of Budget and the Department of Revenue to conduct research, hold

25

public hearings and take testimony and collect data on the state's tax

26

policy; and be it

• 27

FURTHER RESOLVED that before the committee dissolves on the 11th day

28

of the Second Session of the Fifteenth Legislature, it submit a written

29

report to the legislature that addresses the merits of and makes

- 1 recommendations concerning a long-term, broad-based and stable tax policy
- 2 to minimize taxes and foster economic growth.

BIBLIOGRAPHY OF MATERIALS
JOINT SPECIAL COMMITTEE ON TAX POLICY
January, 1987

The following is a bibliography of research papers collected by the Joint Special Committee on Tax Policy as of January, 1987. A set of the materials is on file in the Office of Rep. John Sund, House Chair. (Rm 118, Capitol. 465-4919).

A. Individual Income Tax

1. Individual Income Tax Report, Mary Ellen Frank, Economist, et. al. State of Alaska, Department of Revenue, memo to Vince Wright, Chief of Research, State of Alaska, Department of Revenue, December 1986
2. Commuter Taxes as They Relate to Resident Hire, Memo to Rep. Mike Davis from Mary Jennings, Legislative Analyst, State of Alaska, House Research Agency, April 1986

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1. Revenue Potential of a General Sales Tax, Vince Wright, Chief of Research, State of Alaska, Department of Revenue, December 1986

C. Oil Taxes - General

1. The Taxation of the Petroleum Industry Under Alaska's Corporate Income Tax: A Report Prepared for the Alaska Legislature and the Alaska Department of Revenue, Jerome Zeifman and Kenneth Ainsworth, January 1977
2. Alaska's Oil and Gas Tax Structure: A Study with Recommendations for Improvement. Alaska Department of Revenue, February 1977
3. Impact of Increased Taxation on Oil Exploration and Development in Alaska: A Report to the Alaska State Legislature, Tanzer Economic Associates, March, 1977
4. Recommended Changes in Alaska's Oil and Gas Production Tax Rates, A Report to Governor Jay Hammond, By the Alaska Department of Revenue, 1978
5. The History of Oil and Gas Taxation in Alaska, Thomas K. Williams, Commissioner of the Alaska Department of Revenue, 1978
6. Prudhoe Bay Field and Trans-Alaska Pipeline System: Comparative State Tax Burden Study, Arthur Anderson & Co. for the Alaska Oil and Gas Association, February, 1979
7. Historical Review of Alaska Petroleum Taxes, 1955-1978, Mike Bradner for the Alaska State Legislature, April 1979
8. Alaska Oil and Gas Income Taxation, John Messinger, Gregg Erickson, and Lawrence Eppembach for the Alaska State Legislature Joint Gas Pipeline Committee, April 1981
9. A Sound Strategy for Protecting Alaska's Oil and Gas Revenues: an Analysis of the Backstop Tax Legislation, Preston Thorgrimson, Ellis & Holman (John Messenger) for the

Alaska State Legislature Joint Gas Pipeline Committee

10. **Legislative History Materials, 1981 Corporate Income Tax Amendments, Volumes I & II**
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12. **Impact of Tax Simplification Proposals on Oil and Gas Production and the Economy - Alaska, Interstate Oil Compact Commission, February 1985**
13. **State, Federal and Industry Shares of Alaska Resource Income, Fiscal Years 1982-1985, State of Alaska, Office of the Governor, Office of Management and Budget, Tom Chester, April 1986**

D. Severance Tax

1. **Policy Considerations Behind the Severance Tax, Jon Tillinghast, Assistant Attorney General, State of Alaska, Attached to Memo to the Joint Special Committee on Tax Policy from Richard Monkman, Deputy Commissioner, Taxation, Department of Revenue, September 1986**
2. **History of Oil and Gas Tax Law, State of Alaska, Department of Revenue, September 1986**

E. ELF

1. **Transcript of Presentation on ELF given by Gregg Erickson State of Alaska, Office of the Governor, Office of Management and Budget, for the Tax Policy Committee Meeting, September 1986**
2. **Memorandum on Proposed Changes to the Severance Tax ELF, Memo from G.J. Abraham to George Nelson, Standard Alaska Production, October 1986**
3. **Analysis of ELF Alternatives, Charles Logsdon, Petroleum Economist, State of Alaska, Department of Revenue, December 1986**
4. **Alternative ELF, Thomas Chester, State of Alaska, Office of the Governor, Office of Management and Budget, 1986**
5. **Low (Oil) Prices and the ELF, Memo from Charles Logsdon, Petroleum Economist, State of Alaska, Department of Revenue to Vincent Wright, Chief of Research, April 1986**
6. **Letter from John R. Kemp, Division Manager, Conoco, Inc. to Senator Frank Ferguson, Senate Chair, Joint Special Committee on Tax Policy, September 1986**
7. **The Economic Limit Factor in Alaska's Oil and Gas Properties Production Tax, Thomas K. Williams for Standard Alaska Production Company, September 1986**

F. Separate Accounting

1. Affidavit of Edward B. Deakin, CPA, Ph.D. In the Superior Court, State of Alaska, in ARCO v. State of Alaska, November 1981
2. Interim Report of the House Finance Subcommittee on Oil and Gas, Louann Cutler and Sharman Piper, Alaska State Legislature, January 1986
3. Analysis of HB 353, Alaska Department of Revenue, Memo from Vince Wright, Director of Research to Commissioner Mary Nordale, October 1985
4. Sensitivity Analysis of House Bill 353, Memo from John Larson, Economist, et. al. State of Alaska, Department of Revenue, to Vince Wright, Chief of Research, State of Alaska, Department of Revenue, December 1986
5. Overview of Issues Involved in Consideration of HB 353, Memo from Louann Cutler, Special Assistant to Rep. Al Adams, Chair, House Finance Committee, State of Alaska, Alaska State Legislature, October 1985
6. White Paper Report to the Alaska State Legislature on Alaska Oil and Gas Resources, Alaska State AFL-CIO and Alaska Teamsters, Local 959, January 1986
7. The Effects of State Income Tax Policy on the Development of Marginal Oil Fields: An Analysis of the Impact of House Bill 353, House Research Agency, Alaska State Legislature, January 1986
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9. Overview and Sectional Analysis of House Bill 353, Deborah Vogt, Assistant Attorney General, State of Alaska,

G. Oil and Gas Conservation Tax

1. Memo to Governor Bill Sheffield and attached Proposed Legislation on the Oil and Gas Conservation Tax, Harold M. Brown, Attorney General, State of Alaska, November 1986

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1. Expedited Collections of Disputed Taxes, Memo to Rep. Al Adams, Chairman, House Finance Committee, State of Alaska, Department of Revenue, January 1986
2. Prepayment of Disputed Taxes, Memo to Rep. Al Adams, Chairman, House Finance Committee, State of Alaska, Department of Law, January 1986
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Feb. 87

STATE OF ALASKA



JOINT SPECIAL COMMITTEE

ON

TAX POLICY

SUPPLEMENT

TO

PRELIMINARY REPORT

February 1987

STATE OF ALASKA
JOINT SPECIAL COMMITTEE ON TAX POLICY

SUPPLEMENT

TO

PRELIMINARY REPORT

FEBRUARY 1987

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SECTION I

INDIVIDUAL INCOME TAX REPORT

SUPPLEMENT
PRELIMINARY TAX POLICY COMMITTEE REPORT

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Section IV	Revenue Alternatives Reports <u>Alternative Means of Increasing Revenues</u> Department of Revenue, January 1986 <u>Revenue Alternatives - Excise Taxes, Fisheries Taxes, Licenses and Permits</u> Department of Revenue, December 1986

MEMORANDUM

State of Alaska

TO: Vincent D. Wright
Chief of Research
Department of Revenue

DATE: December 31, 1986

FILE NO.:

THRU:

TELEPHONE NO.: 465-2173

SUBJECT: Individual Income Tax
Report

FROM: Mary Ellen Frank, Economist *MEF*
David Tonkovich, Economist *DT*
Al Zangri, Economist *AZ*

The enclosed report contains an analysis of three differently structured individual income taxes based on two possible economic scenarios that might occur in the State.

The first tax structure is based on the old state law, including tax rate tables, that existed in 1978-1979 but incorporates federal law changes that have occurred since that time. The state law was "piggybacked" to Federal law. The second tax structure is more closely akin to the Federal tax structure and adopts tax rate tables similar to the latest Federal law. The third tax structure is flat in nature and largely independent of the existing Federal system. The latter two approaches are constructed to generate roughly the same amount of revenue as the first, in the first year only, and are thus revenue neutral. For succeeding years beyond FY88 the taxes are not revenue neutral. The significant aspect of these three approaches and what one should focus on is the differing internal structures i.e. consideration of inclusions, exclusions, deductions, and exemptions.

The model that we designed can be modified to change these tax structures as well as apply different tax tables. We do not recommend any particular tax structure but simply lay out three possible alternatives that the decision makers may wish to consider.

MEF:DT:AZ:mkw

Enclosure

REVENUE ALTERNATIVES

Individual Income Tax

Prepared by

**Alaska Department of Revenue
Research Section
Vincent D. Wright**

**Mary Ellen Frank, Economist
Dave Tonkovich, Economist
Al Zangri, Economist**

EXECUTIVE SUMMARY

The purpose of this study was to develop a model allowing us to evaluate the revenue potential and burden of individual income tax proposals presented by Legislative and Executive policy makers. We have presented three alternative structures here primarily for illustrative purposes, and in no way wish to suggest these are proposals of this Department or section. The value of these alternatives is comparative, illustrating the way different structural elements in a tax can be altered to obtain various results, and to show what scope of information it is possible to generate in response to a proposal. We have evaluated the advantages and disadvantages, as well as preliminary estimates of fiscal impact, for each of our three illustrative individual income tax alternatives in order to suggest what kinds of questions could be asked about various proposals.

It should be noted at the outset, that it will be practically impossible to replace petroleum revenues with taxes on individuals or other industrial sectors given the present structure of the Alaskan economy. In fiscal year 1984 the gross wellhead value of North Slope oil production was approximately \$10.6 billion⁽²⁾ while the estimated gross production of all other nongovernmental industrial sectors was only \$8.7 billion and total disposable personal income was \$6.8 billion. In addition, oil production has been a high profit sector and thus supported much higher levels of taxation than other more marginal industrial sectors. Also, many other industries are currently supported, directly and indirectly through state government spending of oil revenues.

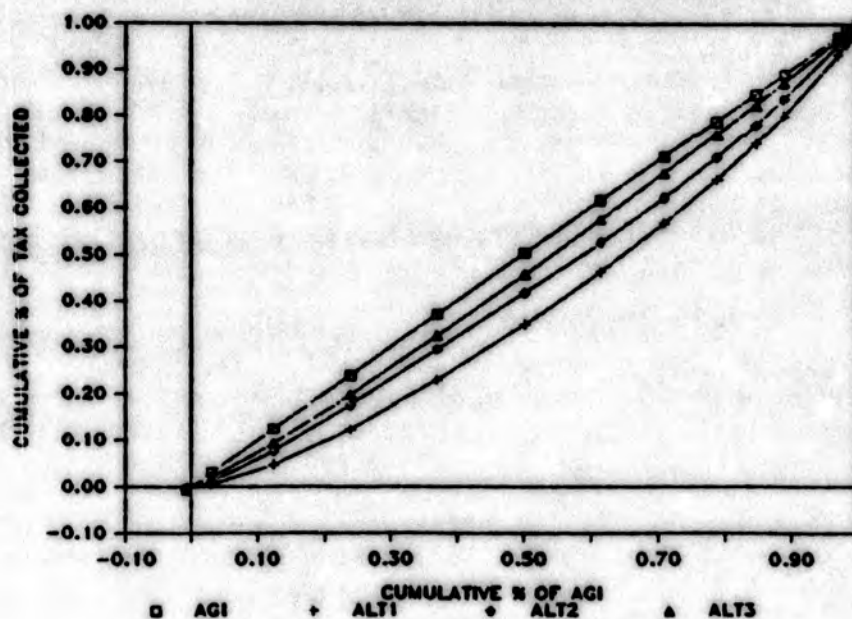
In a study of the tax capacity of the 50 states, the Advisory Commission on Intergovernmental Relations concludes that Alaska has a relatively low tax effort index (high additional tax capacity) for three tax types, personal income tax, general sales tax, and estate and gift tax.

<u>Tax</u>	<u>State-Local Tax Collections as % of U.S. Total</u>	<u>Alaska Effort Index 1982</u>
General Sales	23.5%	29.1
Selected Sales	11.7%	102.0
License Taxes	3.5%	118.0
Individual Income	19.7%	.7
Corporate Income	5.6%	95.0
Property	31.8%	105.0
Estate and Gift	.9%	22.9
Severance	3.4%	278.8

It should be noted that the three tax alternatives examined are revenue neutral in nature for the first year only (1988), i. e. they were designed to generate approximately the same amount of revenue. For each succeeding year, they are not necessarily revenue neutral. What is important is to focus on differences in inclusions, exclusions, deductions, and exemptions as they affect differing income groups.

The figure below compares the progressivity of the effective tax rates of the three tax alternatives. The lowest line is the most progressive, while the straight line indicates what a strictly proportional tax with no exemptions would look like. A regressive tax structure would lie above the proportional line over at least some area. The most progressive alternative examined here is the progressive rate alternative (one), and the least progressive is the flat rate alternative (three).

PROGRESSIVITY MEASURES



-
- Alternative 1: Reimposition of old Alaska tax rates to new Federal taxable income.
 - Alternative 2: Adoption of two brackets and rates applied to new Federal taxable income.
 - Alternative 3: Flat rate tax applied to new Federal adjusted gross income with high personal exemption.

On the page following, we present a table that compares the three alternatives we looked at for the year 1988, showing the effective tax rates for each income group and each alternative. The table also reveals the actual percentage paid by income groups as a result of the transfer from the Federal to the State pocket, i. e. itemization of deductions allows the taxpayer to deduct state income taxes from Federal income taxes, and thereby infuses new money into the State's economy by transferring funds that would have gone to the Federal government to the State government.

ES TABLE 1
COMPARISON OF EFFECTIVE RATES
TAX ALTERNATIVES FOR 1988 LOW CASE

AGI GROUP	ADJ GROSS INCOME	ALTERNATIVE 1			ALTERNATIVE 2			ALTERNATIVE 3		
		TAX LIABILITY PFD TAXABLE	TAX AS % OF AGI	TAX % WITH FEDERAL TAX SAVINGS	TAX LIABILITY PFD TAXABLE	TAX AS % OF AGI	TAX % WITH FEDERAL TAX SAVINGS	TAX LIABILITY PFD TAXABLE	TAX AS % OF AGI	TAX % WITH FEDERAL TAX SAVINGS
LOSS	(661,678,793)	(6899,317)			(6895,951)			(6678,443)		
0- 10000	8305,298,081	82,416,119	0.79%	0.76%	84,438,624	1.45%	1.42%	87,499,042	2.46%	2.41%
10001-20000	8769,719,578	817,051,401	2.22%	2.14%	826,219,841	3.41%	3.31%	830,091,066	3.91%	3.78%
20001-30000	8943,559,133	830,516,317	3.23%	2.99%	839,176,980	4.15%	3.86%	841,876,832	4.44%	4.06%
30001-40000	91,072,829,850	842,108,721	3.93%	3.42%	846,660,499	4.35%	3.82%	850,465,200	4.70%	4.06%
40001-50000	91,068,241,986	847,133,371	4.41%	3.68%	847,545,499	4.45%	3.65%	852,281,835	4.89%	3.90%
50001-60000	8923,238,677	844,668,610	4.84%	3.71%	842,090,913	4.56%	3.50%	846,667,981	5.05%	3.81%
60001-70000	8777,522,186	841,849,108	5.38%	4.02%	837,811,790	4.86%	3.63%	840,294,811	5.18%	3.84%
70001-80000	8636,844,305	837,367,186	5.87%	4.33%	834,225,036	5.37%	3.95%	833,667,450	5.29%	3.86%
80001-90000	8485,165,675	830,927,599	6.37%	4.62%	828,681,819	5.91%	4.28%	826,128,240	5.39%	3.80%
90001-100000	8349,859,148	824,391,842	6.97%	4.98%	822,072,167	6.31%	4.47%	819,142,228	5.47%	3.82%
100001-150000	8668,888,559	852,949,085	7.92%	5.62%	845,828,247	6.85%	4.82%	837,367,794	5.59%	3.93%
150001-200000	891,310,516	89,159,568	10.03%	7.30%	86,892,991	7.95%	5.47%	85,258,491	5.76%	4.21%
200001-300000	822,032,722	82,681,240	12.17%	9.08%	81,006,047	4.54%	3.30%	81,298,923	5.90%	4.38%
300001-400000	844,902,552	85,376,237	11.97%	8.75%	84,355,330	9.70%	7.10%	82,640,693	5.88%	4.30%
OVER 400000	875,394,772	89,756,416	12.94%	9.32%	86,134,956	8.14%	5.86%	84,477,066	5.94%	4.28%
TOTAL	88,173,120,947	8397,473,503			8392,328,787			8398,484,025		

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INTRODUCTION AND PURPOSE OF STUDY

Current revenue projections for fiscal years 1988 through 1992 indicate that revenues generated by petroleum related activities (Oil and Gas Corporate Net Income Tax, Oil and Gas Property Tax, Oil and Gas Severance Tax and Oil and Gas Royalties) will comprise over 81.5 percent of total unrestricted General Fund Revenues for the period. Therefore, state government is presently very dependent on these sources of revenue. Finding sources of additional revenue is becoming increasingly important.

Prudhoe Bay oil production has already peaked. Total Alaskan production is currently projected to decline from over 1.848 million b/d in fiscal year 1986 to under 400,000 b/d by fiscal year 2005. This represents a compound annual average rate of decline of 7.9 percent.⁽¹⁾ Other North Slope fields which are currently projected to begin producing will only partially offset this decline. These projections are based only on the development of presently known and economically developable reserves. Additional discoveries may be made in the future, but their development as well as the development of some currently known but high cost reserves is highly dependent on the future growth of real oil prices. In addition, these future discoveries may be made on federal OCS lands from which the state would receive little or no revenues. Future petroleum revenues are therefore both exhaustible and highly uncertain.

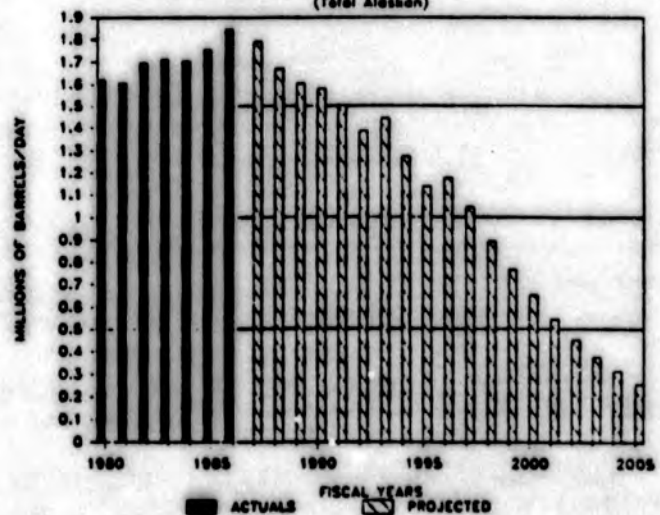
TABLE 1

PETROLEUM PRODUCTIONS PROJECTIONS
(Millions of Barrels/Day)

FISCAL YEAR	TOTAL ALASKAN
1980	1.621
1981	1.679
1982	1.696
1983	1.714
1984	1.714
1985	1.714
1986	1.848
1987	1.842
1988	1.755
1989	1.687
1990	1.558
1991	1.499
1992	1.364
1993	1.287
1994	1.257
1995	1.237
1996	1.095
1997	1.102
1998	1.120
1999	0.995
2000	0.775
2001	0.674
2002	0.593
2003	0.512
2004	0.471
2005	0.284

FIGURE 1

PETROLEUM PRODUCTION PROJECTIONS
(Total Alaskan)

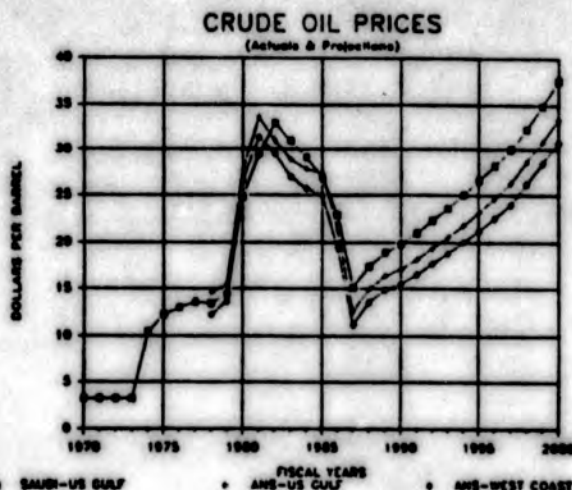


Alaska North Slope oil prices, meanwhile, have dropped from a high in 1981 of \$33.67 per barrel to a 1987 low of \$8.50 (the average is projected to be \$12.59 for the year). These prices have become extremely volatile and difficult to predict. Even if production wasn't declining, this volatility in oil prices and riskiness of oil related revenues could undermine the major source of revenue for this state. To a large extent, this has already happened.

TABLE 2

FISCAL YEAR	SAUDI- US GULF	AMS- US GULF	AMS- WEST COAST
1970	3.23		
1971	3.23		
1972	3.23		
1973	3.23		
1974	10.43		
1975	12.30		
1976	13.04		
1977	13.61		
1978	13.46	14.60	12.30
1979	14.01	15.30	12.70
1980	24.75	27.68	26.80
1981	29.45	33.67	31.43
1982	32.99	31.07	29.50
1983	31.05	28.87	27.60
1984	29.10	27.83	25.68
1985	26.80	27.35	24.92
1986	22.90	21.38	19.26
1987	15.13	12.29	11.19
1988	17.29	14.97	13.57
1989	18.93	16.39	14.90
1990	19.77	17.10	15.52
1991	20.96	18.16	16.32
1992	22.21	19.27	17.70
1993	23.62	20.53	18.62
1994	25.03	21.80	20.02
1995	26.35	23.18	21.20
1996	28.10	24.67	22.57
1997	29.93	26.20	24.01
1998	32.36	28.60	26.18
1999	34.91	30.95	28.46
2000	37.62	33.43	30.87

FIGURE 2



The purpose of this study was to develop a model allowing us to evaluate the revenue potential and burden of individual income tax proposals presented by Legislative and Executive policy makers. We have presented three alternative structures here primarily for illustrative purposes, and in no way wish to suggest these are proposals of this Department or section. The value of these alternatives is comparative, illustrating the way different structural elements in a tax can be altered to obtain various results, and to show what scope of information it is possible to generate in response to a proposal. We have evaluated the advantages and disadvantages, as well as preliminary estimates of fiscal impact, for each of our three illustrative individual income tax alternatives in order to suggest what kinds of questions could be asked about various proposals.

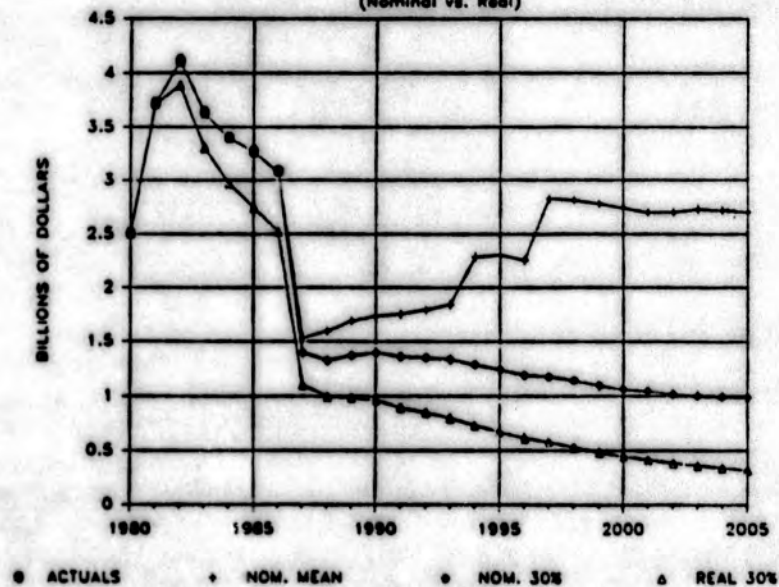
It should be noted at the outset, that it will be practically impossible to replace petroleum revenues with taxes on individuals or other industrial sectors given the present structure of the Alaskan economy. In fiscal year 1984 the gross wellhead value of North Slope oil production was approximately \$10.6 billion⁽²⁾ while the estimated gross production of all other nongovernmental industrial sectors was only \$8.7 billion and total disposable personal income was \$6.8 billion. In addition, oil production has been a high profit sector and thus supported much higher levels of taxation than other more marginal industrial sectors. Also, many other industries are currently supported, directly and indirectly through state government spending of oil revenues.

TABLE 3

GENERAL FUND UNRESTRICTED REVENUE PROJECTIONS
(Nominal vs. Real)

FISCAL YEAR	ACTUALS	ESTIMATES MEAN CASE (NOMINAL \$)	ESTIMATES 30 % CASE (NOMINAL \$)	ESTIMATES 30 % CASE (REAL \$/1981)
1980	2.501			
1981	3.710			3.710
1982	4.108			3.091
1983	3.651			3.290
1984	3.390			2.940
1985	3.260			2.766
1986	3.076			2.522
1987		1.535	1.399	1.105
1988		1.601	1.325	1.000
1989		1.697	1.374	0.992
1990		1.748	1.378	0.965
1991		1.763	1.359	0.897
1992		1.802	1.349	0.851
1993		1.851	1.324	0.800
1994		2.290	1.287	0.775
1995		2.207	1.241	0.672
1996		2.254	1.191	0.615
1997		2.050	1.170	0.576
1998		2.010	1.143	0.550
1999		2.779	1.090	0.480
2000		2.720	1.062	0.444
2001		2.690	1.045	0.414
2002		2.699	1.020	0.381
2003		2.720	1.004	0.350
2004		2.710	0.997	0.327
2005		2.699	0.989	0.317

FIGURE 3

GENERAL FUND UNRESTRICTED REVENUES
(Nominal vs. Real)

TAX CAPACITY AND TAX BURDEN ON ALASKANS

The assessment of the burden of taxation is a complicated problem. Statutes determine who is legally responsible for a tax. In contrast the economic incidence of a tax is the change in the distribution of private real income brought about by a tax. Different taxes can be shifted to differing extents from the person or business legally responsible to other individuals or businesses.

In less rigorous terms, concepts such as burden are examined by resorting to state-by-state comparisons of taxes paid usually on a per capita basis or in relation to some measure of revenue capacity. Because measures such as per capita income are poor measures of revenue capacity, alternative concepts have been developed. One such measure involves the concept of a representative tax system (RTS).(3)

"The RTS is designed to answer this question: what would be the total revenue of each of the 50 states if every state applied identical tax rates - national averages - to each of 26 commonly used tax bases?"

Tax effort is a companion concept that indicates the overall tax burden placed on the base as defined by the tax capacity concept. A tax effort index is created by dividing the state's actual tax collections by its estimated tax capacity and multiplying by 100.

"The result may be interpreted as a measure of how much a state chooses to exploit all its potential tax bases relative to other states. If a state has a tax effort beneath the national norm, it will have an effort index under 100. Conversely, if a state has a tax effort in excess of the national average, it will have an effort index over 100."

The most current estimates of these ratios is in an Advisory Commission on Intergovernmental Relations publication Tax Capacity of the 50 States. Dated May 1985, the book is based on tax data for 1982. While aged, the numbers are indicative of Alaska's state and local tax burden relative to other states.(4)

Indexes of this sort can often hide subtleties in the underlying relationships. For instance the effort variables are developed using per capita measures which hide the fact that a substantial portion of the tax may be paid by out-of-state visitors or seasonal workers. Alaska, for instance, shows a high effort for hunting and fishing licenses. Although care has to be exercised in their interpretation, the figures indicate that Alaska residents are taxed at relatively low levels on income and sales when compared to residents of other states.

Overall Alaska shows a high tax effort because of our resource based taxes. However, effort measures are considerably below national norms for several major taxes commonly found in other states. Column two below shows the relative importance of major taxes and column three shows Alaska's effort index for these taxes.

<u>Tax</u>	<u>State-Local Tax Collections as % of U.S. Total</u>	<u>Alaska Effort Index 1982</u>
General Sales	23.5%	29.1
Selected Sales	11.7%	102.0
License Taxes	3.5%	118.0
Individual Income	19.7%	.7
Corporate Income	5.6%	95.0
Property	31.8%	105.0
Estate and Gift	.9%	22.9
Severance	3.4%	278.8

GENERAL STRUCTURE OF INDIVIDUAL INCOME TAXES

Individual income taxes are based on income at its source in contrast to other taxes, such as sales, excise taxes and duties which tax income in its use. The basic elements of any tax structure apply to the individual income tax. These are tax base, rate(s) and credits against tax owed.

Tax Base

Tax base is characterized by what is included, excluded, and deductible from income. It is also affected by the presence and size of personal exemptions, and whether these exemptions apply to the taxpayer only, or also to dependents or to special debilitating conditions, such as blindness or elderliness.

Tax Rates

Tax rates are applied to the tax base. They can be separated into rate groups for qualifying taxpayers, such as marital status or household type (i. e. married filing jointly, married filing separately, single, single head of household or widower). Rates can also be stratified by income groups so that taxpayers with different incomes pay different rates.

Tax Credits

Tax credits against tax owed are deducted after the rate is applied to the tax base. Tax credits are available for special expenditures and generally are effective in encouraging those expenditures. Examples of common individual income tax credits are for child care expenses, energy conservation investments, or political contributions.

Tax credits have much more impact in eroding tax base than tax exclusions or deductions do, as the following example illustrates.

In the first example below, an exclusion or deduction would have to be worth \$2,500 in order to reduce the tax to \$1,100 that the \$100 tax credit produced. At a four percent tax rate, the \$100 exclusion or deduction effectively reduced the tax base by \$100, or 0.33%; while the \$100 credit reduced the tax base by \$2,500, or 8.33%.

The higher the tax rate, the greater is the value to the taxpayer of all tax base reductions even though the absolute value of the tax credit is the same, \$100. In the second example, the eight percent tax rate has increased the value of the \$100 tax base reduction to \$8 dollars and the credit remains \$100. An exclusion or deduction would have to be worth only \$1,250 in order to reduce the tax to \$2,300 that the \$100 tax credit produced in the second example.

TABLE 4
EXAMPLES OF TAX CREDITS
VERSUS
TAX DEDUCTIONS

	<u>\$100 EXCLUSION</u>	<u>\$100 DEDUCTION</u>	<u>\$100 CREDIT</u>
INCOME	\$30,000	\$30,000	\$30,000
EXCLUSIONS	\$ 100	\$ 0	\$ 0
ADJ GROSS INCOME	\$29,900	\$30,000	\$30,000
DEDUCTIONS	\$ 0	\$ 100	\$ 0
TAXABLE INCOME	\$29,900	\$29,900	\$30,000
IF TAX RATE	4%	4%	4%
TAX	\$ 1,196	\$ 1,196	\$ 1,200
CREDIT	\$ 0	\$ 0	\$ 100
FINAL TAX	\$ 1,196	\$ 1,196	\$ 1,100
TAX REDUCTION	\$ 4	\$ 4	\$ 100
IF TAX RATE	8%	8%	8%
TAX	\$ 2,392	\$ 2,392	\$ 2,400
CREDIT	\$ 0	\$ 0	\$ 100
FINAL TAX	\$ 2,392	\$ 2,392	\$ 2,300
TAX REDUCTION	\$ 8	\$ 8	\$ 100

The Federal Tax Structure and its Effect on State Tax Policy

The Price Waterhouse Guide to the New Tax Law⁽⁵⁾ points out several of the major objectives of the Tax Reform Act of 1986:

1. "Those with similar incomes should pay essentially the same amount of taxes. This injects an element of fairness into the system that has been absent from prior tax laws. At the same time, the new law reflects a sharp departure from the recent trend toward attempting to cure a wide variety of social and economic problems through tax incentives, or perhaps more accurately tax subsidies."⁽⁶⁾
2. "Another objective was that the law be as understandable and as straightforward as possible, to avoid manipulation of statutory complexities that work to the advantage of the sophisticated and the disadvantage of the financially naive."⁽⁷⁾

While these objectives have not been fully realized by the new Federal law, any movement toward realization is laudable. Tying state law to the new federal law, in addition to simplifying return preparation for Alaska taxpayers, would implicitly signal the adoption of similar principles.

One obvious disadvantage to the "piggyback" arrangement is that changes in the Federal law significantly alter the state tax base and state revenues without a policy change by Alaska. This is of particular concern given that large Federal deficits are already leading some in Congress to suggest modifications to the new tax code. The advantages of piggybacking are primarily administrative and relate to audit, compliance and collections functions. When the IRS audits returns and determines adjustments this information can be shared with the state. This lowers audit costs for the state in that there is less independent verification of information. Minimizing administrative and compliance expenses is an important criteria in evaluating alternative tax systems. These costs are an important consideration as is evidenced by this discussion of expenses at the federal level:

"The costs of administering the income tax in the United States are fairly low. In 1981, for example, the Internal Revenue Service expended only 41 cents to raise each \$100 in taxes [Commissioner of Internal Revenue, 1982, p. 55]. However, the compliance costs of personal income taxation are quite substantial. On the basis of survey evidence, Slemrod and Sorum [1983] estimated that in 1982, the average U.S. household devoted about 29 hours to state and federal tax preparation, and spent about \$53 for professional advice. If the value of time is approximated at about \$10.70 per hour, then the total resource cost per household is about \$364. Multiplying this by the 97 million taxpaying units in 1982 gives a total resource cost of \$35.3 billion, about 9 percent of total federal and state income tax revenue."(8)

A final criteria by which any other tax system might be judged is adequacy. That is, does it raise sufficient revenues particularly with reference to all the costs, both political and monetary, associated with its imposition. Currently, individual income taxes rank second as a producer of state revenues nationally producing about 30 percent of revenues in 1984. That proportion has increased significantly over time. In 1973 about 23 percent of state revenues came from this source. In general then income taxes raise significant amounts of revenue in relation to the administrative costs.

PATTERN OF COLLECTION & REFUND

Actual tax collections are spread throughout time. Generally, income taxes are withheld by employers and submitted directly by them to the State. Those who are self-employed submit estimated tax payments on a regular basis throughout the year. Finally, taxes are submitted, if owing, with the tax return prepared for the tax year (due by April 15).

Refunds are generally requested when tax has been overpaid by submission of a tax return that documents the overpayment. Those returns are primarily submitted in February through April and the refunds issued a month after the return is received.

The time pattern of tax payments was evaluated for this project using data available on Department of Revenue data bases and the refunds were analyzed using State accounting system reports. From those, a projected time pattern was generated. This can be used to translate the projected tax year liabilities presented in the tables into gross collections, refunds and net collections by quarter. This translation is an important step in determining fiscal year revenues.

Historically, collections for any given tax year have exceeded liability and a portion of tax collections have been refunded. For this analysis, tax collections for a tax year are estimated to be 25 percent greater than the estimated liability for that tax year.

Receipts for the fiscal year by quarter are estimated using ratios that are based on an analysis of 1970 - 1979 Cash Flow data (9) from the Alaska individual income tax. Refunds are then estimated as 27.2 percent of the total fiscal year receipts from the prior fiscal year; an estimate based on Department of Administration PBA reports for 1970 - 1979.(9)

This analysis may overestimate tax refunds for the flat tax options as presumably the ability to estimate tax liability for the individual will be considerably easier. The refund amounts tend to net out over time, in any case, so this refund estimate is used for all alternatives.

EVALUATION OF ALTERNATIVES

We have presented three alternative structures here primarily for illustrative purposes, and in no way wish to suggest these are proposals of this Department or section. We have designed the three alternatives to raise approximately the same total revenue with three different tax structures; our benchmark revenue amount being that obtained by the first alternative, reinstatement of the old individual income tax.

The tables presented in this report summarize only the projected quantitative impacts of these illustrative individual income tax alternatives and can't effectively be compared on revenue raised. Tax alternatives two and three were constructed to yield approximately the same 1988 revenue as alternative one. After 1988, tax alternatives were allowed to yield whatever revenue the interaction between the tax structure and the economic variables generated. The comparison of the alternative yields identifies the relative responsiveness of each structure to the projected changes in the economy. In addition, these alternatives illustrate the way different structural elements in a tax can be altered to obtain various results, and to show what scope of information it is possible to generate in response to a proposal. We also have evaluated the advantages and disadvantages, as well as the preliminary estimates of fiscal impact, for each of our three illustrative individual income tax alternatives in order to suggest what kinds of questions could be asked about various proposals.

This highlights the other crucial issues. Each of the elements of the tax structure can be tailored to affect different taxpayers differently (or to try and affect them identically). The alternative tax structures we present will each be analyzed briefly on a number of issues including how they affect taxpayer groups, how easily administered they are and how politically palatable they might be.

In general, the issues which should be considered with respect to measures to increase revenues are as follows.

Economic Efficiency: What effect does the proposed tax have on incentives and economic decision making? How does the tax alter consumption, production or resource allocation decisions?

Equity: Who bears the burden of the tax and how does that burden compare with ability to pay or benefits received? Is the tax progressive or regressive with respect to income and/or wealth?

Elasticity: What is the sensitivity of the tax revenue yield to changes in economic or demographic conditions? As income or population increase or decrease, does tax revenue increase or decrease in greater, lesser or equal proportion?

Administrative Efficiency: How costly is the tax to administer in terms of resources devoted to administration and compliance relative to the revenue yield of the tax? Who bears the burden of administrative cost, the taxpayer, the State or the tax collector (if different from the State)?

Political Feasibility: How acceptable is the proposed tax to the legislature and/or the electorate given existing social, political, and economic conditions? Who benefits, who loses, and who has the most political power?

Additionally, we are concerned with three other issues.

Interstate Capture: How much of the tax owed by nonresident taxpayers who work in Alaska is it possible to capture?

Intergovernmental Effects: Does the tax erode the tax base of higher level (federal) or lower level (local) governments? If this should be mitigated, how can it be done?

Inflation Effects: What is the effect of inflation on the elements of the tax structure and the burden on the taxpayer? If this should be mitigated, how can it be done?

Distribution of Income Inclusions, Exclusions and Deductions

The individual income tax is based on source of income. As such, the distribution of income among households is very important in determining the vertical distribution of the tax incidence. It is also important how inclusive of various types of income the tax base is. The tables below present data estimated to simulate the 1988 new federal income tax structure to which all our alternatives will at least partially be tied.

It is obvious from this table that special treatment or exclusions applied to some sources of income are going to affect households at different points on the income distribution, differently. For example, capital gains, until recent tax reform, had special treatment. A portion of net capital gains could be excluded from income for tax purposes. Capital gains and investment income (such as corporate dividends and interest) are not major sources of income for lower income households. The complete inclusion in the tax base of these income sources affects higher income households to a much greater degree than lower income households.

TABLE 5
1988 DISTRIBUTION OF INCOME INCLUSIONS

ADJ GROSS INCOME GROUP	PERCENT OF RETURNS	PERCENT OF ADJ GROSS INCOME	PERCENT OF WAGES & SALARIES	PERCENT OF INTEREST INCOME	PERCENT OF CAPITAL GAIN/LOSS	OF SMALL ENTER PRISE	PERCENT OF PENSIONS ANNUITIES
LOSS	1.19%	-0.75%	0.38%	2.33%	5.32%	-138.19%	1.47%
0- 10000	22.06%	3.74%	3.59%	4.62%	2.06%	-12.96%	5.61%
10001-20000	20.46%	9.42%	9.66%	8.14%	3.96%	21.46%	12.00%
20001-30000	14.92%	11.54%	11.89%	9.18%	4.84%	14.30%	13.12%
30001-40000	11.90%	13.13%	14.05%	10.97%	7.32%	14.71%	12.08%
40001-50000	9.26%	13.07%	14.08%	10.86%	7.39%	3.24%	13.19%
50001-60000	6.56%	11.30%	11.80%	8.50%	5.76%	1.31%	14.41%
60001-70000	4.64%	9.51%	9.89%	7.35%	6.09%	2.37%	7.64%
70001-80000	3.26%	7.79%	7.84%	7.04%	6.42%	13.81%	6.52%
80001-90000	2.15%	5.94%	5.77%	6.39%	6.40%	13.03%	4.07%
90001-100000	1.34%	4.28%	3.71%	5.25%	7.40%	27.92%	3.87%
100001-15000	2.00%	8.18%	6.15%	13.55%	20.46%	84.86%	4.75%
150001-20000	0.17%	1.12%	0.58%	2.23%	4.69%	15.48%	0.73%
200001-30000	0.02%	0.27%	0.06%	0.48%	2.30%	4.21%	0.10%
300001-40000	0.04%	0.55%	0.22%	1.24%	3.16%	12.31%	0.37%
OVER 400000	0.03%	0.92%	0.25%	1.81%	6.36%	22.09%	0.00%
ESTIM MEDIAN	\$26,000	\$44,700	\$44,600	\$55,600	\$84,900	\$182,200	\$45,000

The estimated median is the level of 1984 AGI where one half of the inclusion, exclusion or deduction dollars are found on returns with less than this AGI and half on returns with more than this AGI. The exception to this is the percent of returns column (col. 2) where number of returns determined the median. Half of the returns in the 1988 low case had a 1984 AGI of \$26,000 or less.

The distribution of income exclusions and deductions differs among households also. The table below shows how these are distributed differently among income groups. Special exclusions and deductions will alter the distribution of the tax burden depending on which income sources or expenditure items are given favorable tax treatment. For instance, half of the dollars claimed as standard deductions occurred on returns with AGI less than \$10,500, while the comparable figure for itemized deductions is \$35,200. There is interaction in the function of these two, so a change in one will affect the other.

TABLE 6
1988 DISTRIBUTION OF INCOME EXCLUSIONS
AND INCOME DEDUCTIONS

ADJ GROSS INCOME GROUP	PERCENT OF RETURNS	PERCENT OF ADJ GROSS INCOME	PERCENT OF SAVINGS EXCLUSIONS	PERCENT OF ITEMIZED DEDUCTIONS	PERCENT OF STANDARD DEDUCTIONS	PERCENT OF MEDICAL DEDUCTIONS	PERCENT OF PROP TAX DEDUCTIONS	PERCENT OF TO INT DEDUCTIONS	PERCENT OF MORT INT DEDUCTIONS	PERCENT OF MISC DEDUCTIONS	PERCENT OF VALUE OF EXEMPTIONS
LOSS	1.1%	-0.7%	1.1%	1.4%	1.3%	15.9%	1.3%	1.2%	1.0%	2.0%	1.4%
0- 10000	22.0%	3.7%	1.0%	12.0%	27.3%	11.0%	1.5%	1.1%	1.1%	1.8%	14.2%
10001-20000	20.4%	9.4%	4.1%	12.9%	25.3%	25.1%	4.2%	3.5%	3.9%	6.0%	16.6%
20001-30000	14.9%	11.5%	9.0%	11.0%	17.8%	16.3%	8.3%	7.9%	8.4%	9.8%	14.8%
30001-40000	11.9%	13.1%	20.1%	11.7%	11.9%	11.4%	12.3%	12.6%	13.3%	13.4%	14.0%
40001-50000	9.2%	13.0%	15.2%	10.9%	7.2%	7.9%	14.0%	14.6%	14.9%	13.5%	11.8%
50001-60000	6.5%	11.3%	6.4%	10.0%	3.8%	4.5%	13.6%	15.0%	15.7%	12.1%	8.7%
60001-70000	4.6%	9.5%	4.5%	7.8%	2.0%	2.5%	11.5%	12.0%	12.0%	9.9%	6.3%
70001-80000	3.2%	7.9%	6.8%	6.2%	1.1%	1.9%	9.3%	9.7%	9.7%	8.0%	4.5%
80001-90000	2.1%	5.9%	5.1%	4.6%	0.7%	1.1%	7.6%	7.0%	6.7%	6.5%	2.9%
90001-100000	1.3%	4.2%	4.2%	3.2%	0.4%	1.0%	4.8%	4.7%	4.4%	5.1%	1.7%
100001-150000	2.0%	8.1%	16.4%	5.8%	0.5%	0.9%	9.0%	8.5%	7.6%	9.6%	2.4%
150001-200000	0.1%	1.1%	2.8%	0.6%	0.0%	0.0%	1.0%	0.9%	0.7%	1.1%	0.0%
200001-300000	0.0%	0.2%	0.5%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%
300001-400000	0.0%	0.5%	0.4%	0.1%	0.0%	0.0%	0.3%	0.2%	0.1%	0.0%	0.0%
OVER 400000	0.0%	0.9%	0.7%	0.2%	0.0%	0.0%	0.3%	0.2%	0.0%	0.4%	0.0%
ESTIM MEDIAN	\$26,000	\$44,700	\$43,900	\$35,200	\$10,500	\$13,900	\$54,700	\$34,600	\$54,600	\$65,800	\$35,400

Comparison of State Structures

Our alternatives were developed as illustrations of information scope and structural comparison only; however, if they were compared to other states with individual income taxes, that comparison would be as follows:

TABLE 7
STATE INDIVIDUAL INCOME TAXES
(As of January 1, 1986)(10)

State or other jurisdiction	Rate structure (percent)	Income brackets		Personal exemptions			Federal income tax deduction
		Lower bracket	Higher bracket	Single	Married	Dependent	
Alabama	2.0 - 6.0%	\$ 8,000	\$ 1,000	\$1,000	\$1,000	\$1,000	0
Alaska	1.0 - 7.0%	1,121	6,750	1,000	1,000	1,000	0
Arizona	1.0 - 4.0%	1,000	25,000	1,000	1,000	1,000	0
Arkansas	1.0 - 11.0%	1,000	27,000	1,000	1,000	1,000	0
California	1.0 - 8.81%	1,000	14,100	1,000	2,000	1,000	0
Colorado	1.2 - 6.75%	1,000	40,000	1,000	2,000	1,000	0.01
Connecticut	1.0 - 6.0%	1,000	7,000	1,000	1,000	1,000	0
Delaware	1.25 - 11.0%	1,000	30,000	1,000	1,000	1,000	0
District of Columbia	2.0 - 7.5%	1,000	1,000	1,000	2,000	1,000	0
Florida	2.3	1,000	1,000	1,000	2,000	1,000	0
Georgia	1.0	1,000	1,000	1,000	2,000	1,000	0
Hawaii	0.5 - 13.0%	1,000	70,000	1,000	1,000	1,000	0
Idaho	2.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0.01
Illinois	2.0 - 6.0%	1,000	30,000	1,000	2,000	1,000	0
Indiana	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Iowa	1.0 - 6.0%	1,000	30,000	1,000	2,000	1,000	0
Kansas	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Kentucky	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Louisiana	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Maine	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Maryland	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Massachusetts	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Michigan	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Minnesota	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Mississippi	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Missouri	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Montana	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Nebraska	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Nevada	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
New Hampshire	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
New Jersey	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
New Mexico	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
New York	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
North Carolina	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
North Dakota	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Ohio	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Oklahoma	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Oregon	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Pennsylvania	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Rhode Island	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
South Carolina	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
South Dakota	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Tennessee	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Texas	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Utah	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Vermont	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Virginia	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Washington	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
West Virginia	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Wisconsin	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Wyoming	1.0 - 6.0%	1,000	25,000	1,000	2,000	1,000	0
Dist. of Col.	2.0 - 11.0%	1,000	25,000	1,000	2,000	1,000	0

Alaska Alternative I.....3-14.5	2000	200000	1950	3900	1950	no
Alaska Alternative II.....6.5-11.5	0	25000	1950	3900	1950	no
Alaska Alternative III.....6	Flat Rate		3000	6000	3000	no

Source: The Federation of Tax Administrators, on the basis of legislation enacted at the 1985 session.

Note: The table includes the following state taxes: Commercial sales tax; personal income tax; and corporate income tax. Corporate income tax rates are shown as a percentage of taxable income.

1. Not applicable.

2. The table is presented in the number of years in the range. For example, Alaska, and North Carolina, are shown as having the lowest tax rates in the range. The table also shows the number of years in the range.

3. The table is presented in the number of years in the range.

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Source: The Federation of Tax Administrators, on the basis of legislation enacted at the 1985 session.

Note: The table includes the following state taxes: Commercial sales tax; personal income tax; and corporate income tax. Corporate income tax rates are shown as a percentage of taxable income.

1. Not applicable.

2. The table is presented in the number of years in the range.

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As noted previously, the tax rates in the benchmark alternative (one) were in effect ten years prior to the first forecast year, 1988. Significant inflation has altered the tax base so these rates could be onerous. Inflation from 1978 to October 1986 has been 69.1 percent and over the entire ten year period is estimated to be 84.4 percent. Lack of inflation adjustment to the tax brackets in the rate structure will necessarily lead to bracket creep. What this means in practical terms, is that taxpayers may be no better off in any real sense (their income, after adjustment for inflation, is no greater) but may have to pay greater portions in tax. This can be mitigated with inflation indexed tax brackets.

Federal tax law has also changed the tax base significantly. Our estimate of the revenue yield in 1988 under the old tax law with no federal tax law change to the tax base is over \$35 million less than the alternatives in this study. The estimated tax revenue from our illustrative alternatives is over 35.25 percent of the the taxpayers' estimated federal tax for those years (compared to rates ranging from 19 to 26 percent for states with percentage of federal rate structures in the table above, i. e. Rhode Island, Nebraska and Vermont). Additionally, the old highest rate effective in alternative one (14.5 percent) is higher than any other state, (13.5 percent in New York). In our flat rate tax alternative (three), our tax rate of six percent is higher than any other state that has a flat rate (i. e. Illinois, Indiana, Massachusetts, Michigan, and Pennsylvania).

GENERAL DESCRIPTION OF THE ECONOMIC SCENARIOS

The revenue which can be generated by any income tax structure is obviously dependent on the future course of the Alaskan economy. It is probably safe to say that uncertainty about that course is greater at the present time than at any time in recent Alaska history. The future movement of oil prices is a key determinant as are state policy responses to significantly lower levels of revenue. Briefly, a case can be made for a wide range of economic outcomes.

A large number of economic scenarios combined with a variety of tax structures can quickly lead to a proliferation of cases which can overwhelm both researchers and policy makers. As a consequence we have limited this initial analysis to two economic scenarios and to three tax structures.

With the caveat that it is fairly costly to run different tax structures against the data base, we have considerable flexibility with regard to modelling different structures. Unfortunately we have very little flexibility with regard to economic scenarios. Econometric models which have been developed by state agencies have been rendered inoperative due to the departure of key personnel. Access to university or private models would have involved contractual funds which simply were not available.

Because of this problem we were forced to rely on an already published forecast. In March of 1986 ISER prepared a working paper titled "The Impact of Collapse of the World Oil Market on the Alaska Economy." (11) The paper essentially presents two cases - one based on state revenues as forecasted in December 1985 before the severe oil price decline and one based on revenues which approximate those currently forecasted. In the former case state general fund appropriations fall to about 74 percent of 1986 levels by 1990 while in the latter case these appropriations fall to about 47 percent of 1986 levels. In addition the paper shows other key variables - employment, population and personal income - also as a percent of 1986 levels. While this analysis would be strengthened by an approach which combined the tax forecasting model with custom tailored economic forecasts we feel the two cases we have available provide useful guidance on the sensitivity of our results to economic outcomes.

GENERAL DESCRIPTION OF THE TABLE FORMATS AND TERMS

There are three alternative tax structures considered in this report. Each structure is described, the tax issues discussed, projection tables are presented, and the revenue collections estimates are provided.

A set of two tables is presented for each year in the projection period, 1988 through 1992, and for each of two economic scenarios (described briefly above). The first table in the set is the sum for each variable, and the second set is the mean for each non zero value of the variable. Mean values help determine what is the impact of the individual variables on the average tax return in the income group.

The variables considered for the tax alternatives and economic scenarios are:

- Wages & Salaries;
- Adjusted Gross Income;
- Taxable Income;
- Number of Personal Exemptions;
- Value of Personal Exemptions;
- Itemized Deductions;
- Standard Deductions;
- Tax Liability if PFD is Taxable;
- Amount of Tax Liability Paid from Federal Tax;
- Tax Liability if PFD is not Taxable; and
- Leakage of Tax to Municipalities (from Property Tax).

These variables are presented for each of 15 adjusted gross income groups (AGI GROUP) and for the total. The data was grouped by 1984 AGI because it was felt it would aid in the intuitive interpretations of the tables. It is also possible to group by the AGI of the relevant tax year.

ALTERNATIVE ONE: 1978 ALASKA RATES/ FEDERAL TAX BASE

This alternative attempts to reinstate, largely, the tax structure effective in Alaska before it was repealed. That structure had its own set of progressive tax rates grouped by filing status, and was piggybacked to the federal law for most of its tax base elements.

Tax Base

The federal law has changed dramatically since the Alaska individual income tax was in effect. This proposal assumes that the changes adopted by the federal government will be referenced in Alaska Statute much as they were in 1978-1979. This will result in the expansion of the tax base through the inclusion of more items in income, a decrease in both exclusions and itemized deductions from income, and an increase in standard deductions and the value of exemptions, resulting in lower taxable income in the lower part of the income distribution and higher taxable income in the upper part of the income distribution. The specifics of the changes resulting from tax reform at the federal level are available in a number of publications and we will not attempt to discuss those here. The provisions of the new law that we assume would be effective for this proposal are summarized below.

Income Inclusions and Exclusions

Included as total income are wages, salaries, tips, interest income, dividends, income tax refunds, alimony received, business income, capital gains, pensions, IRA and annuity distributions, rents, royalties, partnership, estates, trusts, farm income, unemployment insurance (which we are unable to include in our model), social security benefits and other income. The new Federal law eliminates the \$100 - \$200 exclusion of dividend income and treats the full amount of capital gain as ordinary income. The Alaska Permanent Fund Dividend is included as income.

New restrictions are now included in the Federal law which define passive and active participation in ventures and set limits for higher income taxpayers on offsetting losses of any kind. Passive losses cannot be used to offset other income except for \$25,000 in participatory rental losses. (Passive losses occur particularly in some partnership and rental activities.)

Additionally, Alaska individual income tax law did include the Federal cost of living allowance and excluded exempt pensions and annuities, military pay of nonresidents serving in Alaska, and income from U. S. government securities. Because our data bases did not have sufficient detail to isolate these elements, it is difficult to quantify their impact. Conceptually our figures (which rely on the Federal income tax data) would exclude the Federal cost of living allowance and include the pay of military stationed in Alaska. Exempt pensions, annuities and U. S. government securities income would be excluded.

Income Adjustments

Under the new Federal law, only the Keogh plan contributions, savings withdrawal penalties and alimony paid adjustments from income remain. Eliminated is the Two Earner adjustment; while the IRA adjustment is phased out at higher income levels or eliminated if the employer covers the employee with a retirement plan. The moving expense and employee business expense adjustment are now deductions.

Treatment of the Alaska Permanent Fund Dividend

All of the alternatives presented show tax liability with PFD both taxable and not taxable. The 1988 low case Table 8 following indicates a loss of \$16.6 million in taxes from exclusion of the PFD from taxable income (\$399.3 million with PFD included - \$382.7 million with PFD excluded). The taxable income shown in the tables is with PFD not taxable. Children and other persons not required to file will not pay tax on the PFD. The estimates of the PFD are as follows:

1988	\$750
1989	\$800
1990	\$800
1991	\$800
1992	\$800

These are rounded values from the December 1986 Long Run Fiscal Model of the Department of Revenue. (12)

Nonresident Apportionment

As was done in the 1978 Alaska individual income tax law, nonresident workers apportion their income by source state in this proposal. The apportionment ratio is obtained by dividing Alaska adjusted gross income (income earned in this state or attributable to investments in this state) by total adjusted gross income. The ratio obtained is used to adjust exemptions and standard deduction. Itemized deductions are apportioned to Alaska based on the expenditure location, property site or source of income to pay the expenditure.

Standard Deduction

The following standard deductions are assumed to be adopted from the Federal Code and are indexed yearly for inflation.

<u>Filing Status</u>	<u>Standard Deduction</u>	<u>Add'l for Blindness/ Age Exemption</u>
Single	\$3,000	\$750 per Exemption
Married Filing Joint	\$5,000	\$600 per Exemption
Married Filing Sep	\$2,500	\$600 per Exemption
Head of Household	\$4,400	\$750 per Exemption

Itemized Deductions

Those with greater than the standard deduction can itemize deductions on state returns as done on the Federal return. Alaska income taxes cannot be deducted for Alaska tax although they can for Federal income tax. Medical expenses in excess of 7.5 percent of adjusted gross income are deductible. Sales taxes are not deductible but property taxes are. Home mortgage interest (for primary and secondary residences) is still deductible, but consumer interest is phased out and other mortgage interest is no longer deductible. Union and professional dues, tax return preparation fees, employee business expenses are also deductible, but must total more than two percent of adjusted gross income. Moving expenses are deductible.

Personal Exemptions

Exemptions are available for the taxpayer, spouse, dependents and for certain debilitating conditions. They are worth \$1,950 each in 1988, \$2,000 in 1989 and are indexed for inflation thereafter. For higher income taxpayers, the value of these exemptions is reduced by five percent of taxable income if taxable income is greater than the threshold amount (which is indexed yearly for inflation).

<u>Filing Status</u>	<u>Income Threshold</u>
Single	\$89,560
Married Filing Joint	\$149,200
Married Fil'g Separately	\$113,300
Head of Household	\$123,790

Tax Credits

We have not included any tax credits in these proposals. Summaries of the major tax credits effective in Alaska and profiles of the taxpayers and amounts credited have been published previously and are available from this office.(13)

Tax rates effective for the 1978 and 1979 Alaska individual income tax are assumed to be re-adopted for this proposal.

These rates were designed to apply to a tax base with a range of exclusions and deductions. With the new federal tax reform, income is much more fully exposed to taxation. We estimate almost \$640 million (or 8.5 percent) more income is subject to taxation. It may be advisable to consider changing these brackets to reflect this exposure to taxation. Our estimate of the revenue yield in 1988 under the old tax law with no federal tax law change to the tax base is over \$35 million less than the alternatives in this study.

한국의 전통 예술은 현대에 이르러서도 그 가치를 잃지 않고 있다.

But there is issued for each taxable year with the taxable income of every resident, nonresident and part year resident married individual who makes a timely return jointly with his spouse, a statement as provided in section 6013 of the Internal Revenue Code and upon every resident, nonresident and part year resident submitting a return for a year in which the Internal Revenue Code have collected according to the following table:

(c) There is added for each taxable year with the taxable income of every taxpayer, corporation and part per centum trust of a new column (a) entitled "United States of the Internal Revenue Code", being computed according to the following table:

For the purposes shall compute and publish the State income tax liability for taxable taxpayers at the end of each quarter of adjusted gross income for the year in which the Internal Revenue Code applied as required by law. If at any time in the year the State income tax liability is less than the minimum liability, the State shall refund the difference to the taxpayer. The State shall not be liable for the standard deduction, any State income tax credit, and any other deduction, credit, or exemption under this section.