THE STATE
of ALASKA
GOVERNOR BILL WALKER

Department of Revenue
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April 14, 2016

The Honorable Mark Neuman and the Honorable Steve Thompson
Alaska State Representatives
Co-chairs, House Finance Committee
State Capitol Rooms 505 and 515
Juneau, AK 99801

Dear Co-Chairs Neuman and Thompson:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue during our presentation to the House Finance Committee on April 5, 2016, regarding the personal income tax legislation, House Bill 250. Please see questions in italics and our responses immediately below the questions.

1. *Do some non-resident workers still qualify as residents for purposes of the income tax because they stay in the state long enough to receive a Permanent Fund Dividend? How much income do these workers earn?*

   A person who claims residency in another state for tax purposes is not eligible for a PFD, even if he or she spends more than 180 days in Alaska. Therefore, DOR's estimate of income tax revenue, which is based on IRS data for Alaska residents, should not include such a person.

2. *What is the total amount of wages earned by Alaska residents?*

   According to the IRS, Alaska taxpayers reported $16.6 billion in salaries and wages in 2013. Other sources such as the Bureau of Economic Analysis (BEA) provide different numbers, but the IRS is likely the best source for the amount of salaries and wages that would be subject to an Alaska state income tax.

3. *In the presentation, there were graphs showing the expected state income tax liability for families with gross income ranging from $20,000 to $100,000. Please extend those graphs to include those making over $100,000. Please also show these graphs for families without children, as well as those with 2 children.*

   Please see the attached graphs. Please note these represent specific scenarios subject to numerous assumptions—in particular, that the taxpayer does not itemize deductions and receives all income from salary and wages. Those assumptions are less likely to apply to higher-income households, but are kept in place for simplicity and in order to provide a more direct comparison to lower-income households.

4. *How much extra will Alaskans be paying after adjusting for the deduction of state income tax from federal taxable income?*

   According to a report by the Institute of Social and Economic Research (ISER), about 10% of an Alaska income tax would be "paid by the federal government" through reduced federal taxes. Since DOR's projected revenue from HB 250 is about $200 million, the portion paid by the federal government (based on ISER's estimate) would be about $20 million.

   However, that does not mean the benefit to any particular Alaskan household would be 10% of their state tax liability. The effect would vary widely by household, specifically between those who itemize deductions on their federal tax returns and those who do not. Only taxpayers who itemize deductions may take state income tax as a credit against federal income tax. In 2013, according to the IRS, about 23% of Alaska taxpayers itemized deductions. That included 15% of taxpayers whose federal adjusted gross income (AGI) was below $100,000, and 59% of taxpayers whose AGI was above $100,000.

   Note that the graphs provided in DOR's presentation, referenced in question 3, do not represent the "average Alaskan" but a specific taxpayer about whom DOR made numerous assumptions. In particular, those graphs assume for simplicity that the taxpayer takes the standard deduction. Therefore, the graphs would not be affected by the deduction for state income tax.

5. *When you estimate that 20% to 30% of Alaskans will pay no state income tax, does that refer to all Alaskans or just wage-earners?*

   DOR estimates 20% to 30% of all Alaskans will be members of households that pay no income tax. That includes non-filers as well as those who file tax returns but have zero liability. The estimate of 20% to 30% is based on ISER analysis and statistics from the Tax Foundation about the number of non-payers by state.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

Randall Hoffbeck
Commissioner

Attachments: Alaska income tax per-family estimates

Title: Alaska Income Tax Per-Family Estimates

Preparer: Will Bishop, Economist

Purpose: To estimate the state income tax burden that various Alaskans would face under Senate Bill 134 and House Bill 250 (2016). This analysis considers both single people and married couples, with 0 to 4 children, and incomes ranging from $20,000 to $300,000 per year.

Data Source: IRS federal income tax rates, child tax credits, personal exemptions, and standard deductions for tax year 2016 (publicly available)

Key Assumptions: Single parent qualifies for and files as "head of household", married couple files jointly, children are all 16 or under, income is from wages, standard deduction is greater than itemized, the only credit the filers qualify for is the child tax credit, children are only dependents.

History: This document updates charts originally provided to the House Finance Committee on April 5, 2016. This version is current as of April 12, 2016.

Disclaimer:

The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.

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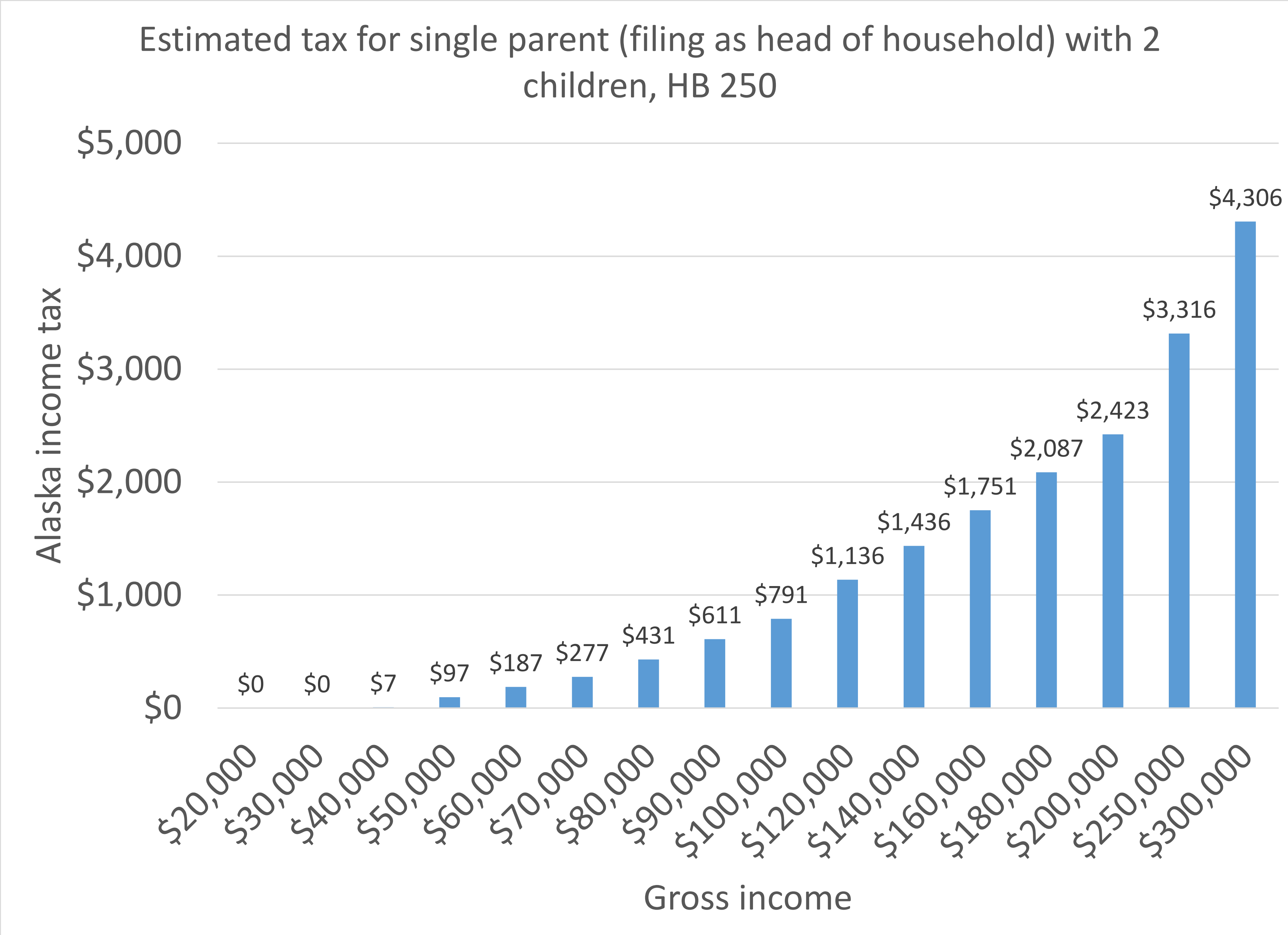

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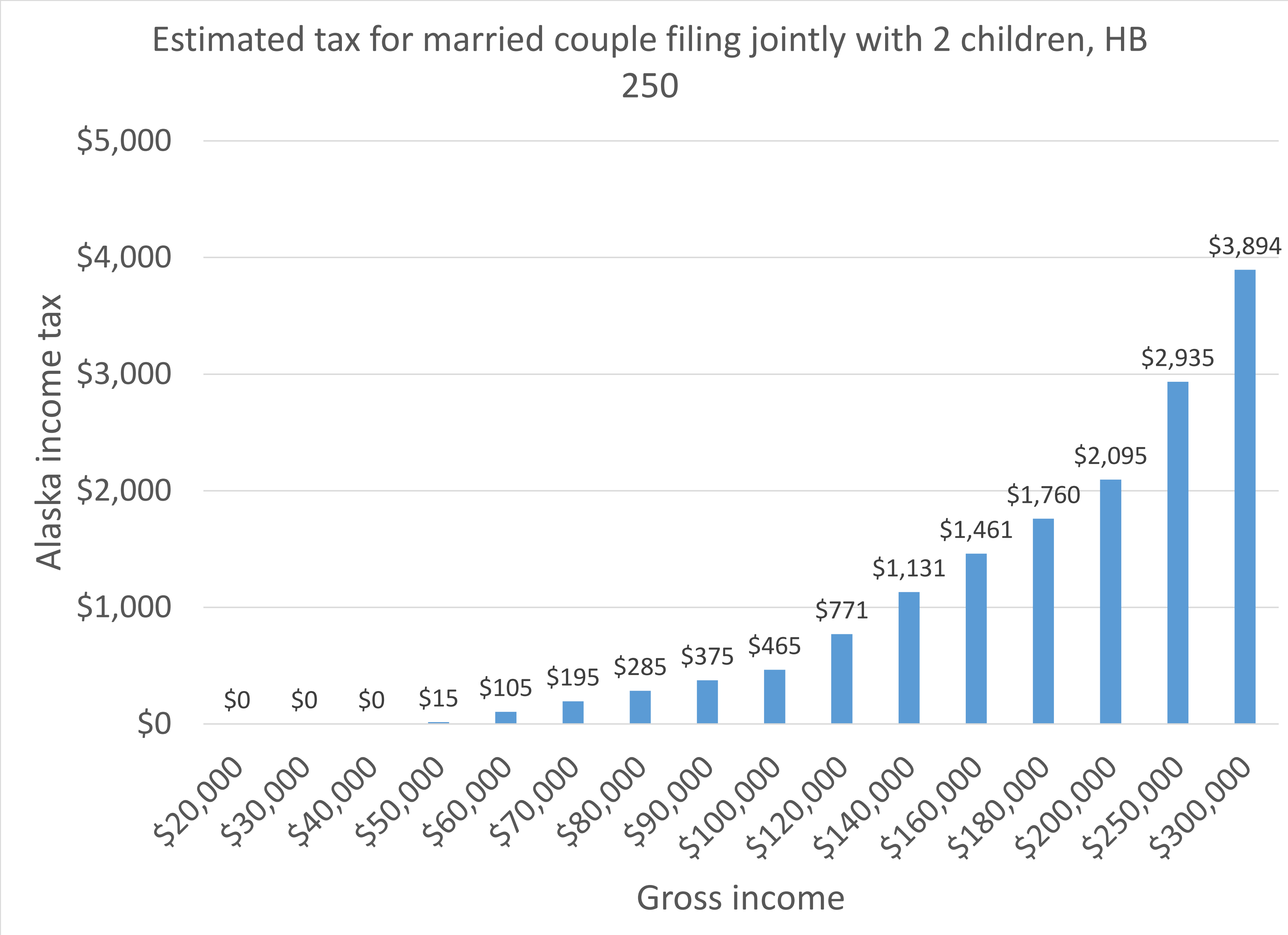

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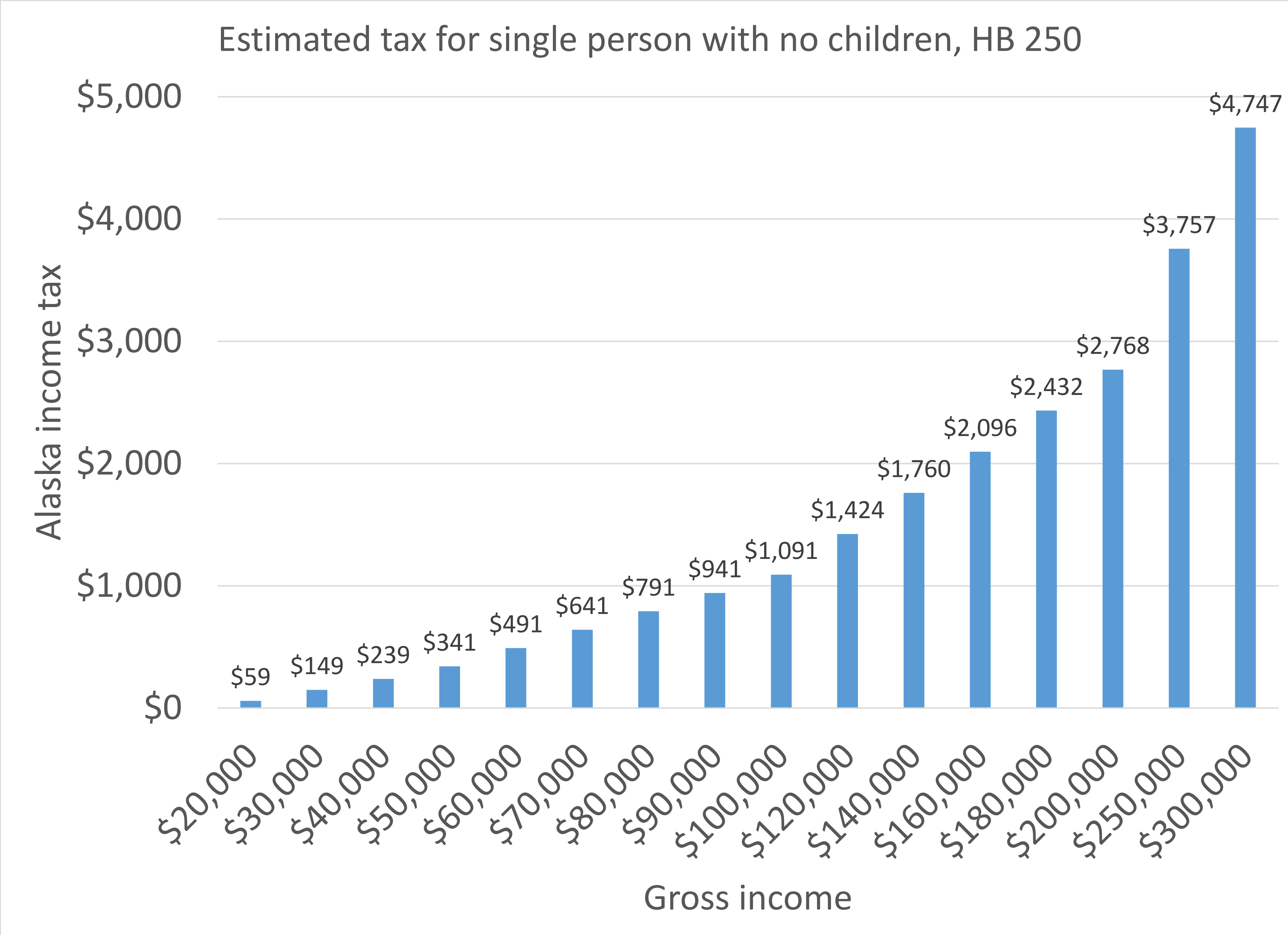

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