THE STATE of ALASKA
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE

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June 7, 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 June 2, 2016, regarding the personal income tax bill House Bill 4004. Please see questions in italics and our responses immediately below the questions.

1. *What percentage of the roughly $200 million in income tax revenue would come from each income cohort? Within each of these cohorts, how many are Alaskans vs. non-Alaskans?*

   The 2013 IRS Statistics of Income data break down Alaska taxpayers' federal income tax liability into brackets by the size of their adjusted gross income. Since the income tax in HB 4004 would be a flat percentage of the federal tax liability, and Alaska's income distribution has not changed dramatically since 2013, we would expect the distribution to follow approximately these percentages.

Size of adjusted gross income (AGI)	Federal income tax liability ($ '000)	Percentage of total income tax liability
Total of all income groups	3,320,217	100.0%
Under $10,000	6,323	0.2%
$10,000 to $25,000	44,469	1.3%
$25,000 to $50,000	201,638	6.1%
$50,000 to $75,000	311,030	9.4%
$75,000 to $100,000	347,954	10.5%
$100,000 to $200,000	1,054,005	31.7%
$200,000 to $500,000	680,404	20.5%
$500,000 to $1,000,000	257,377	7.8%
$1,000,000 and over	417,018	12.6%

   Also attached is the "Alaska income by filing type and family size" document which shows the number of returns in each of these categories and some additional information.

   The numbers above only apply to taxpayers who are Alaska residents. The Department of Revenue does not have data on actual tax liability for non-resident workers in Alaska. According to the Department of Labor's 2014 "Nonresidents Working in Alaska" report, non-residents were 20.4% of workers and earned 15.6% of wages in Alaska in 2014, and their average wages were $29,230 compared with $41,559 for residents. Therefore, the percentage of tax revenue contributed by non-residents would likely be higher in the low-income categories, and lower in the high-income categories. Note that wages are not the same thing as gross income, but are likely the only source of income for which non-residents could be charged Alaska income tax. More details on non-resident workers can be found in the attached Department of Labor report.

2. *Can the Department of Revenue provide the commissioned ISER report that compares income tax to sales tax?*

   Yes, please see the attached ISER report.

3. *What would the revenue impact of the income tax bill be if various different income groups were charged the average rate in the country, instead of 6% of their federal income tax liability?*

   Among the 41 states that tax personal income, DOR's estimate of the average ratio of state to federal income tax liability is between 20% and 40%. There is no single number, as the other states all use a base of adjusted gross income or federal taxable income rather than federal tax liability, and therefore the ratio of state to federal tax liability varies by income level.

   Here are some alternative revenue impacts DOR has estimated for tax rates other than 6% in a HB 4004-style income tax bill:

Tax rate on federal tax liability	Revenue impact ($ millions)
20%	690
30%	1,030
40%	1,375
50%	1,720

   The table in question 1 can be used to estimate the impact of raising the tax rate on some, but not all, taxpayers. For example, suppose the tax rate were 6% on taxpayers with an AGI below $100,000 but 20% on those with an AGI above $100,000. The table shows that 27.5% of revenue comes from taxpayers below $100,000 AGI, so the revenue impact would be about 27.5% of the impact of a 6% rate plus 72.5% of the impact of a 20% rate. In other words, it would be 27.5% * ($200 million) + 72.5% * ($690 million) = $560 million. The same procedure can be used to calculate revenue impacts of a variety of scenarios. However, this would be an unusual way to structure an income tax, as it would result in a taxpayer incurring a large amount of new tax liability upon crossing the $100,000 threshold.

In addition, some questions were asked by the committee about the impacts of income tax interacting with a reduction of Permanent Fund dividends at different parts of Alaska's income distribution. Please see the attached report from the Rasmuson Foundation. The Rasmuson report's depiction of the administration's plan to restructure the Permanent Fund requires clarification. The plan does not simply "cap" the dividend at $1,000 and use the excess dividend money for state government, which would result in a very volatile revenue stream. Instead, the plan proposes a draw equal to 5.25% of the market value of the entire fund, which would be fairly consistent from year to year. However, on the issue of distributional impacts, the Rasmuson report addresses the committee's questions.

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 by filing type and family size; Nonresidents Working in Alaska 2014; ISER revenue options report; Rasmuson Foundation report