

Alaska State Legislature



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Official Business

Sponsor Statement for Sponsor Substitute HB 199 **Reinstating a state personal income tax** Representative Bill Hudson

SSHB 199 (22-SL0753\J) changes the method for calculating taxes from a percent of the household's federal tax liability (from the federal tax tables) to a percent of federal adjusted gross income (AGI). Essentially this changes the base from a percentage of your federal taxes payable to a percentage of your income and earnings.

The bill starts with a flat tax of 1% of AGI for the first year and ratchets up to 2.25% of AGI in the following year. The estimated new revenues for the first year after implementation of SSHB 199, at 1% would be approximately \$118.0 million. The second and subsequent years at 2.25% would yield approximately \$285.0 million per year to help close the estimated \$1 billion per year fiscal gap. Federal adjusted gross income is defined as:

In addition to wages, salaries and tips, adjusted gross income includes other kinds of income, such as pensions and annuities, dividends, alimony and capital gains. It also includes several of the so-called above the line deductions that taxpayers are not required to itemize on their federal tax return, such as interest on student loans, contributions to medical savings accounts and moving expenses.

Since this bill only partially closes the gap, other new revenue generating measures must be applied. I believe this phased in approach of new taxes should help provide essential services, affect the average Alaskan worker only minimally, and coupled with some use of the excess earnings of the Permanent Fund help stabilize the Alaskan economy and retain the maximum amount of PFD's.

The taxes generated at full implementation will be less than half of the tax paid by Alaskan workers prior to repeal of the state income tax in 1980. It would be modest in comparison to other states' personal income tax in both the percentage applied and income derived.

It should be noted that the average cost per Alaskan household would amount to less than \$900.00 per year at 2.25% of AGI. If we are able to continue PFD's, even at \$1,250.00, the average Alaskan household's new tax liability would likely be fully covered by less than the value of one PFD. But we don't get out of the hole by this step alone. Other elements presented by the Fiscal Policy Caucus will have to be considered.

Finally, this very modest new tax would be deductible from your federal income tax and would allow over \$50.0 million that would otherwise flow to Washington D.C. to remain in the Alaskan economy. We would also begin to capture revenues from non-residents employees that annually take over \$900.0 million out of our state without contributing a dime for services they receive.

I believe it is imperative that we act on this and other new revenue generating measures before adjournment of this 2nd Session of the 22nd Alaska Legislature.