STATE CAPITOL
P.O. Box 110001
Juneau, AK 99811-0001
907-465-3500
fax: 907-465-3532

Governor Bill Walker
STATE OF ALASKA

550 West Seventh Avenue, Suite 1700
Anchorage, AK 99501
907-269-7450
fax 907-269-7461
www.Gov.Alaska.Gov
Governor@Alaska.Gov

January 15, 2016

The Honorable Mike Chenault
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Chenault:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill relating to personal income taxation.

The bill would establish a personal income tax equal to six percent of a taxpayers total federal tax liability for Alaska residents and nonresidents with income from a source in the state. Because the tax that would be established by the bill is calculated based on federal tax liability and not on income, the bill effectively incorporates federal brackets and exemptions and so permits this bill, and the Alaska personal income tax system it would create, to be as simple and transparent as possible and minimizes administrative burdens both for the state and for taxpayers. The bill would apply to income earned on or after January 1, 2017. In addition, the bill would repeal a set of orphaned individual tax credits from the former income tax.

The relatively modest tax is expected to raise approximately $200,000,000 annually. For those who itemize federal tax deductions, the tax would be deductible from federal income tax. The deduction from federal taxes would offset the actual burden of this tax to Alaska taxpayers by 20 – 25 percent.

The bill is an integral component of the New Sustainable Alaska Plan to provide a balanced and sustainable budget for Alaska's long-term fiscal stability.

I urge your prompt and favorable action on this measure.

Sincerely,

Bill Walker
Governor

Enclosure

HOUSE BILL NO. 250

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 1/19/16
Referred: Finance

A BILL

FOR AN ACT ENTITLED

"An Act relating to the taxation of income of individuals; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

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

*** Section 1.** AS 43 is amended by adding a new chapter to read:

Chapter 22. Individual Income Tax.

Sec. 43.22.010. Tax on individuals. (a) A tax is imposed for each calendar year or fraction of a calendar year on every

(1) resident individual; and

(2) nonresident individual with income from a source in the state.

(b) The tax under this section is equal to

(1) for a resident individual, six percent of the taxpayer's total federal income tax;

(2) for a nonresident individual, six percent of the taxpayer's total

federal income tax payable on the amount of the taxpayer's income that is from a source in the state.

(c) In this section, "federal income tax" means the total tax payable to the federal government, as reported by the taxpayer on a federal individual income tax return, including alternate minimum tax and other taxes imposed by the Internal Revenue Code, net of nonrefundable credits allowed against a liability.

Sec. 43.22.020. Credit for taxes paid. (a) A resident is entitled to a credit against the tax liability under this chapter for the amount of tax paid to other states, territories, or possessions of the United States on income derived from sources in those jurisdictions that is also subject to tax in this chapter.

(b) The claim for credit under (a) of this section may include tax paid by an S corporation or partnership on behalf of the individual, based on that individual's share of income derived in the other jurisdiction; in this subsection, "S corporation" has the meaning given in 26 U.S.C. 1361.

(c) The credit allowed under this section may not exceed an amount equal to the tax imposed under this chapter multiplied by a ratio equal to federal adjusted gross income derived from sources in the other jurisdiction divided by total federal adjusted gross income.

(d) The application of the tax credit provided under this section may not operate to reduce the tax payable under this chapter to an amount less than would have been payable if the income from the other state was disregarded.

Sec. 43.22.030. Returns and payment of taxes. (a) An individual required to make a return under the provisions of the Internal Revenue Code shall file with the department a return setting out

(1) the amount of tax due under this chapter; and

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

(b) The return must either be on oath or contain a written declaration that it is made under penalty of perjury, and the department shall prescribe forms accordingly.

(c) The total amount of tax imposed by this chapter is due and payable to the department at the same time and in the same manner as the tax payable to the United

States Internal Revenue Service.

(d) A taxpayer, upon request by the department, shall furnish to the department a true and correct copy of the tax return that the taxpayer has filed with the United States Internal Revenue Service. Every taxpayer shall notify the department in writing of an alteration in, or modification of, the taxpayer's federal income tax return and of a recomputation of tax or determination of deficiency, whether with or without assessment. A full statement of the facts must accompany this notice. The taxpayer shall file the notice within 60 days after the final determination of the alteration, modification, recomputation, or deficiency, and the taxpayer shall pay any additional tax due under this chapter at that time. For purposes of this subsection, a final determination means the time that an amended federal return is filed or a notice of deficiency or an assessment is mailed to the taxpayer by the Internal Revenue Service, and the taxpayer has exhausted rights of appeal under federal law.

(e) The department may credit or refund overpayments of taxes, taxes erroneously or illegally assessed or collected, penalties collected without authority, and taxes that are found unjustly assessed or excessive in amount, or otherwise wrongfully collected. The department shall set limitations, specify the manner in which claims for credits or refunds are made, and give notice of allowance or disallowance. When a refund is allowed to a taxpayer, it may be paid out of the general fund on a warrant issued under a voucher approved by the department.

Sec. 43.22.040. Income from sources in the state. (a) For purposes of AS 43.22.010(a), income from a source in the state includes

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

(2) salary or wages earned in the state;

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

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

(5) rentals and royalties for the use of or for the privilege of using, in the state, patents, copyrights, secret processes and formulas, good will, marks, trade

brands, franchises, and other property having a taxable or business situs in the state;

(6) income distributed from a trust established under or governed by the laws of the state;

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

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

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

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

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

(1) business facilities or property in the state;

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

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

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

(5) a corporation transacting business activities in the state that has elected to file federal returns as a subchapter under 26 U.S.C. 1362 (Internal Revenue Code);

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

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

Sec. 43.22.050. Tax withholding on wages of individuals. (a) Every employer making payment of wages, salaries, or crew shares

(1) shall deduct and withhold an amount of tax computed in a manner to approximate the amount of tax due on those wages, salaries, or crew shares under

this chapter for that calendar year;

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

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

(4) shall furnish to the employee on or before January 31 of the succeeding year, or not later than 30 days after a request by the employee after the employee's termination if the 30-day period ends before January 31, a written statement on a form prescribed by the department showing the

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

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

(C) total amount of wages, salary, or crew shares for the calendar year; and

(D) total amount deducted and withheld as tax under this chapter for the calendar year.

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

(c) In this section,

(1) "employee" includes an individual who receives compensation on a crew share basis in connection with a commercial fishing activity;

(2) "employer" includes a person who pays compensation to an individual on a crew share basis in connection with a commercial fishing activity.

Sec. 43.22.060. Administration. The department shall prescribe all necessary forms and adopt regulations to implement and interpret this chapter, including regulations for the online filing and payment of tax due under this chapter. The department may incorporate into the regulations provisions of the Internal Revenue Code that are necessary or useful to the administration of this chapter.

Sec. 43.22.190. Definitions. In this chapter,

(1) "domiciled" means established in a true principal permanent home

to which the individual has the intention of returning whenever absent;

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

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

(4) "nonresident" means an individual who is not a resident;

(5) "resident" means an individual who

(A) was domiciled in the state or resided in the state for the entire calendar year;

(B) claims to be a resident of the state on the individual's federal tax forms;

(C) receives a permanent fund dividend under AS 43.23;

(D) is registered to vote under AS 15; or

(E) received a resident fishing, hunting, or trapping license during the calendar year under AS 16;

(6) "taxpayer" means a person subject to a tax imposed by this chapter.

*** Sec. 2.** AS 43.05.085; AS 43.20.012(b), and 43.20.013 are repealed.

*** Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to read:

APPLICABILITY. This Act applies to income received on or after the effective date of this Act.

*** Sec. 4.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITIONAL PROVISION: REGULATIONS. The Department of Revenue may adopt regulations necessary to implement the changes made by this act. The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before January 1, 2017.

*** Sec. 5.** Section 4 of this Act takes effect immediately under AS 01.10.070(c).

*** Sec. 6.** Except as provided in sec. 5 of this Act, this Act takes effect January 1, 2017.