

HB 365
Individual Income Tax
&
Permanent Fund
Refundable Tax Payment

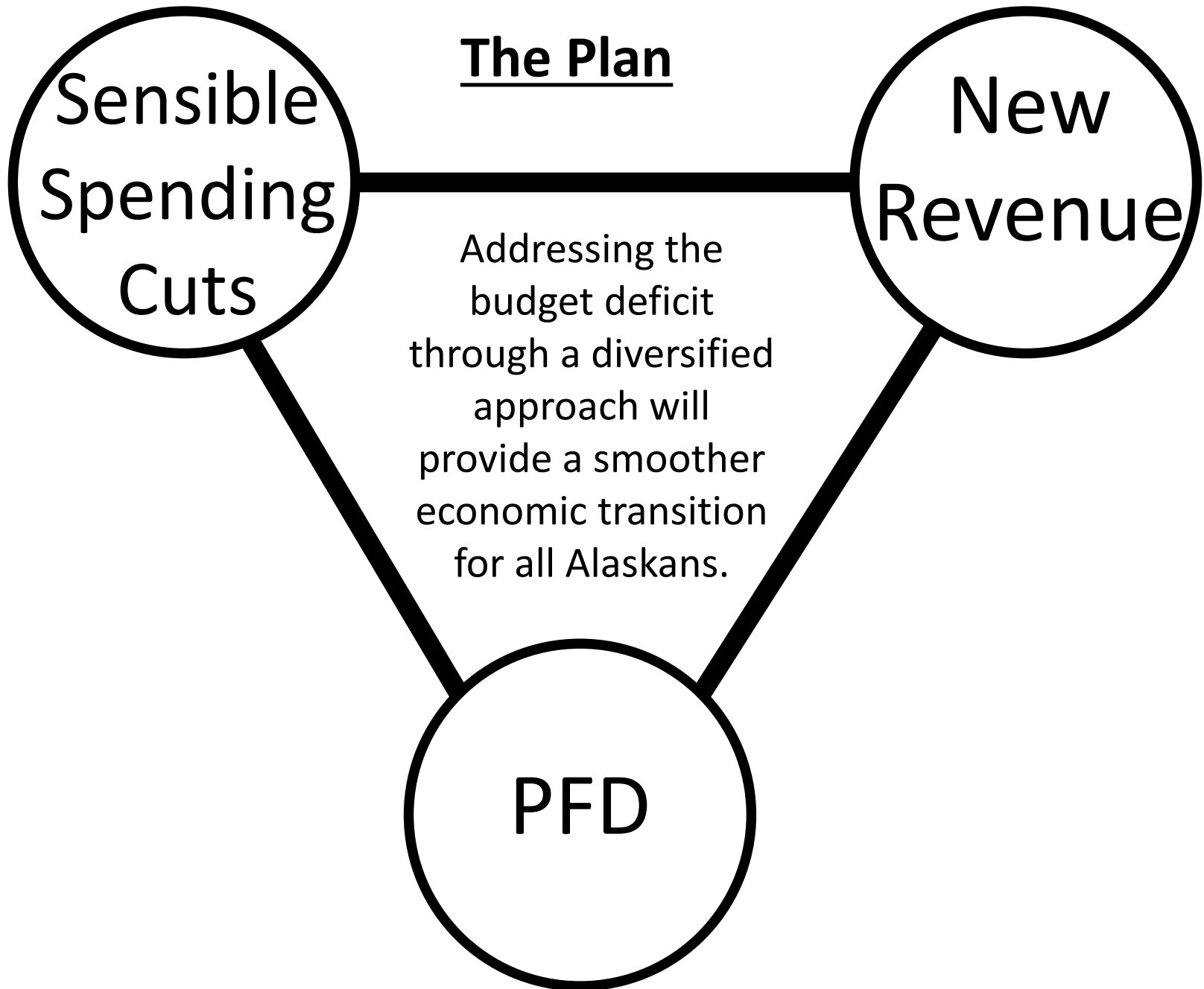
House Finance – April 7, 2016

Presentation-Rep Seaton's copy

Not paying for what we spend this year means that our children will pay for what we spend this year.

-Gunnar Knapp

The Plan



The Plan

Sensible
Spending
Cuts

New
Revenue

Addressing the budget deficit through a diversified approach will provide a smoother economic transition for all Alaskans.

The Legislature controls the budget cuts and will continue reducing.

PFD

The Plan

Sensible
Spending
Cuts

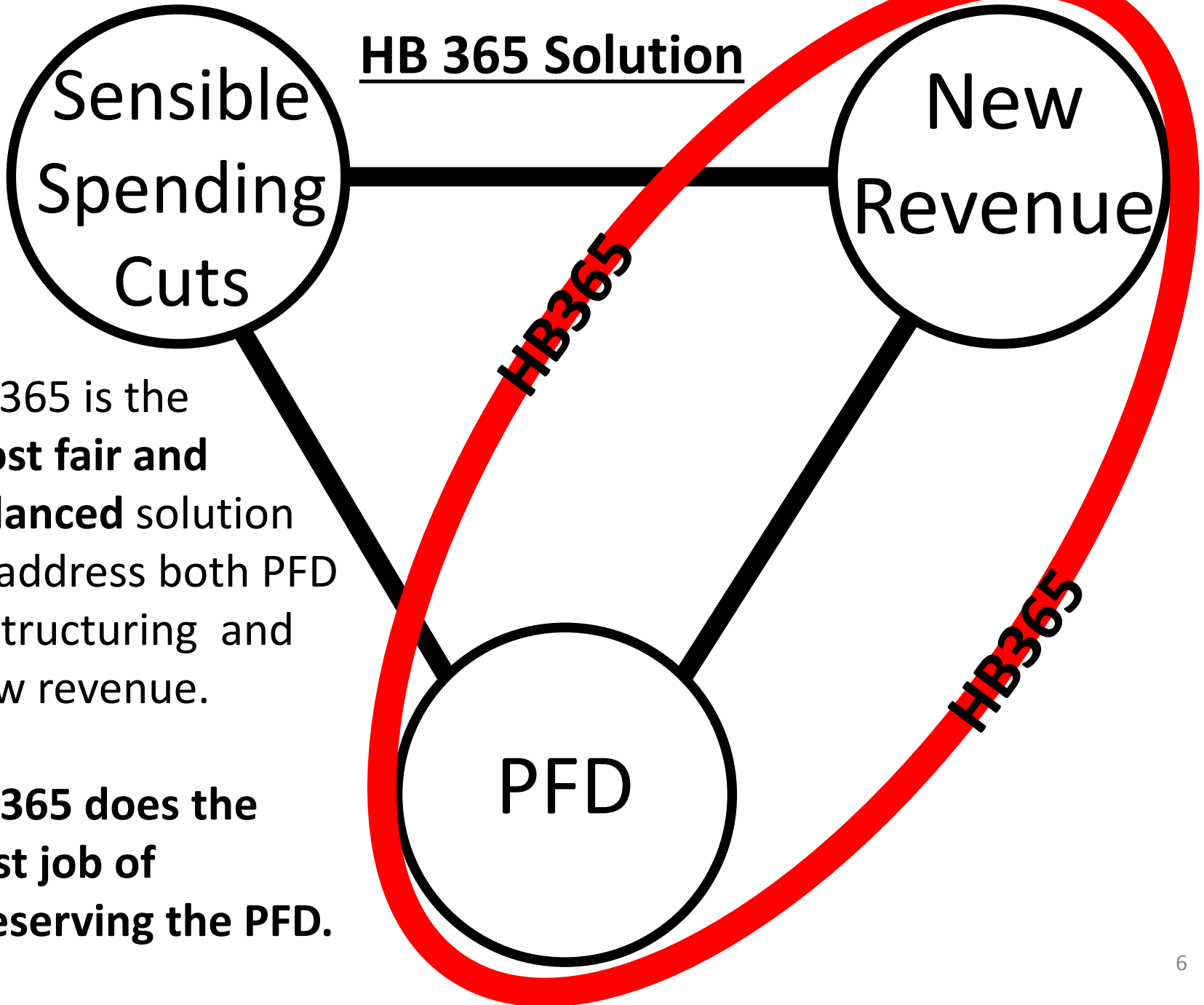
New
Revenue

Addressing the budget deficit through a diversified approach will provide a smoother economic transition for all Alaskans.

The other Permanent Fund bills only address one part of the plan.

PFD

HB 365 Solution



HB365 is the **most fair and balanced** solution to address both PFD restructuring and new revenue.

HB365 does the best job of preserving the PFD.

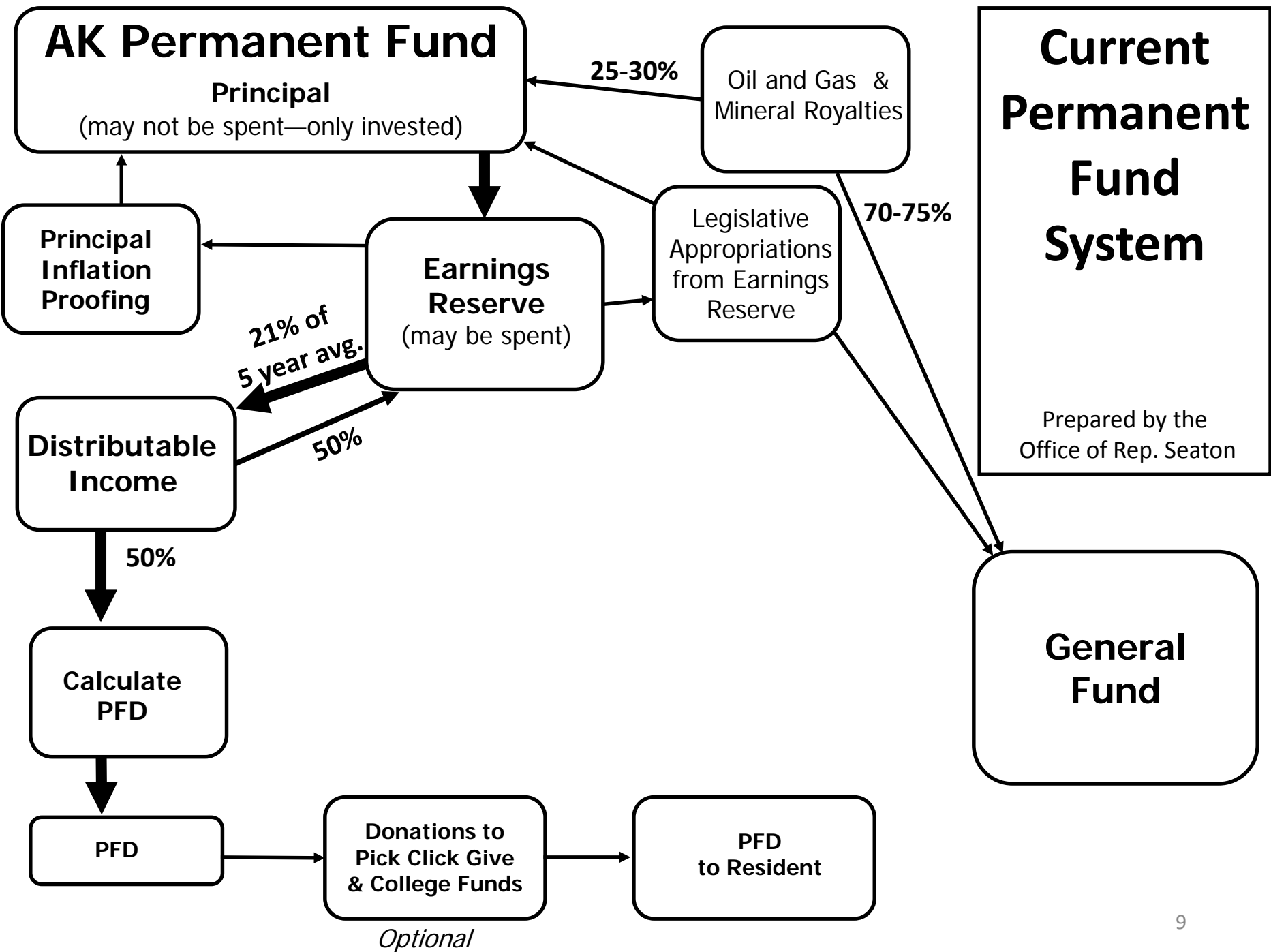
INCOME TAX:

	<u>Revenue*</u>
• 15% Federal Liability	\$500 million
• 10% Long Term Capital Gains	\$ 85 million
• Nonresidents	\$ 70 million
• Total estimated revenue	\$655 million

*Dept. of Revenue fiscal note estimates 4/15/15 from HB182 which is similar to the income tax portion of HB365.

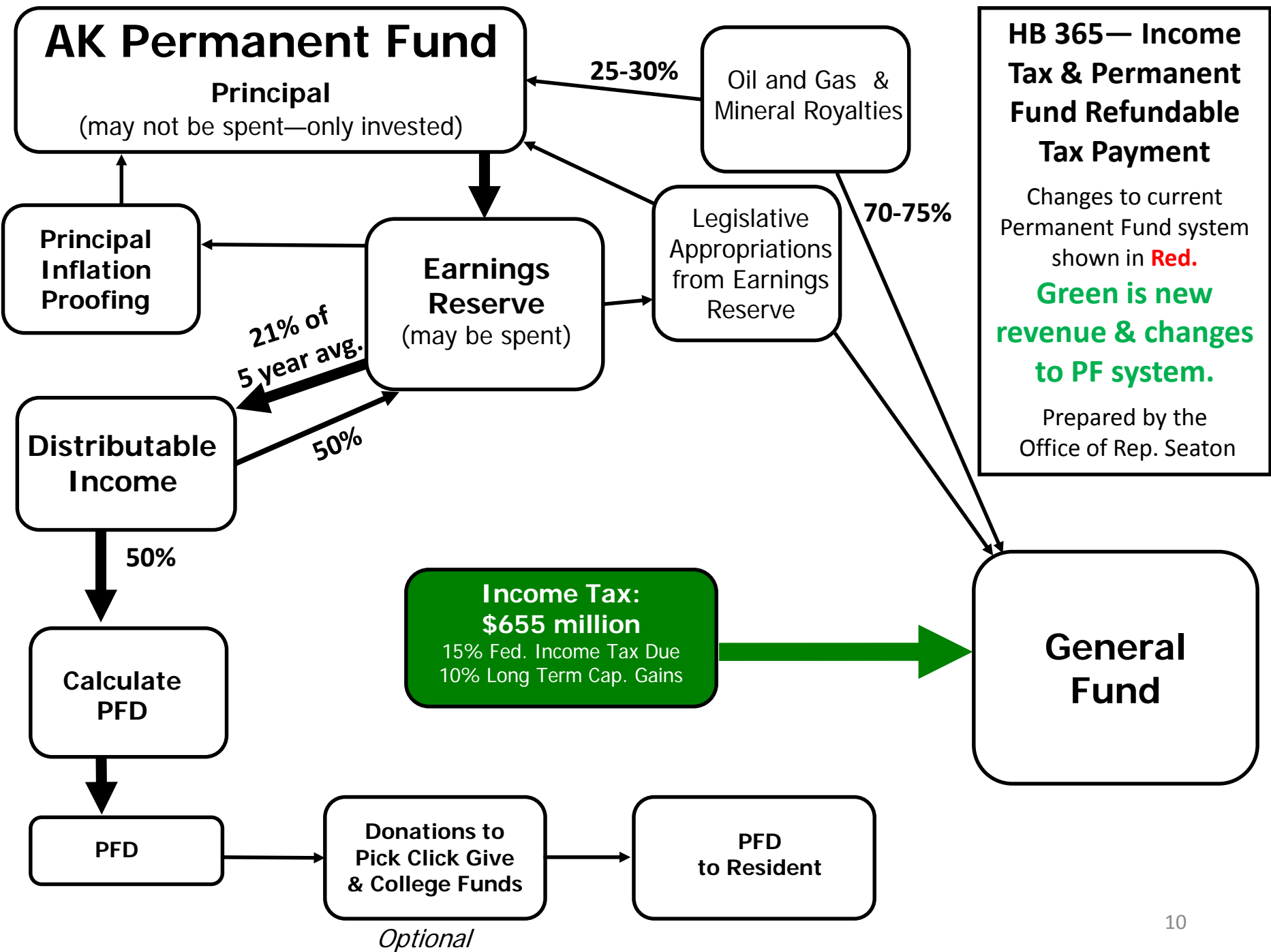
Changes with the PFD

- Distributable Income: currently 50% of the income available for distribution goes to PFDs and 50% stays in the Earnings Reserve. **HB365: 25% goes to PFDs, 25% goes to the general fund**, 50% still stays in the Earnings Reserve.
- A PFD will not exceed \$1,200. If the amount calculated for the PFD is over \$1,200, the **amount in excess of \$1,200 shall be appropriated to the general fund.**
- Residents may **apply their PFD to their upcoming state income tax due as a Refundable Tax Payment.** Any amount left over after paying taxes will be refunded by the Tax Division.
- **2.3% Permanent Fund POMV directed to the General Fund and delete inflation proofing.**



Current Permanent Fund System

Prepared by the Office of Rep. Seaton



AK Permanent Fund

Principal

(may not be spent—only invested)

25-30%

Oil and Gas & Mineral Royalties

70-75%

Legislative Appropriations from Earnings Reserve

Earnings Reserve

(may be spent)

21% of 5 year avg.

Principal Inflation Proofing

Distributable Income

50%

50%

Calculate PFD

PFD

Donations to Pick Click Give & College Funds

Optional

PFD to Resident

Income Tax: \$655 million

15% Fed. Income Tax Due
10% Long Term Cap. Gains

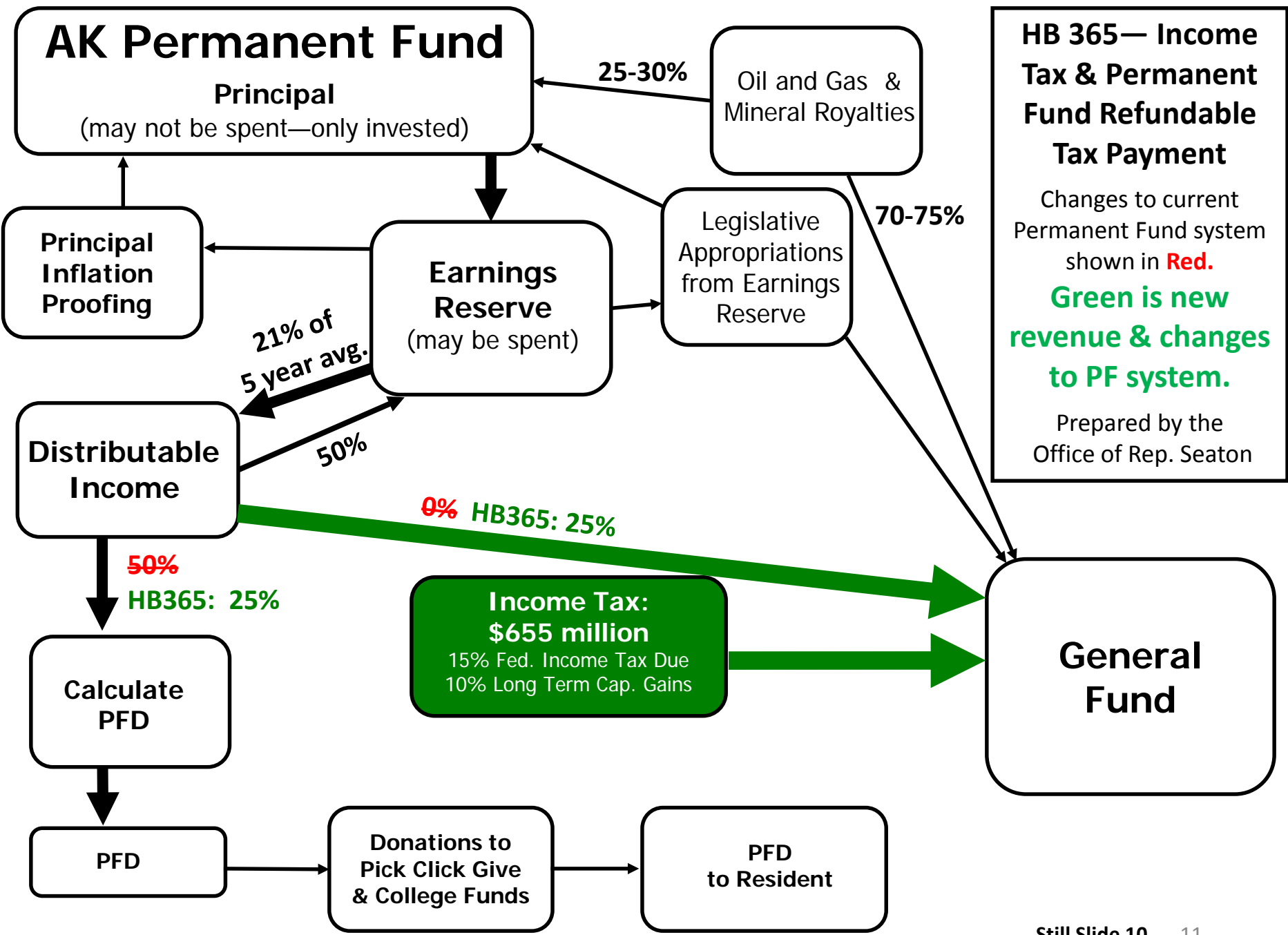
General Fund

HB 365— Income Tax & Permanent Fund Refundable Tax Payment

Changes to current Permanent Fund system shown in **Red**.

Green is new revenue & changes to PF system.

Prepared by the Office of Rep. Seaton



HB 365— Income Tax & Permanent Fund Refundable Tax Payment

Changes to current Permanent Fund system shown in **Red**.
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Income Tax: \$655 million
 15% Fed. Income Tax Due
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Earnings Reserve
(may be spent)

21% of
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Principal Inflation Proofing

Distributable Income

50%

~~0%~~ **HB365: 25%**

50%

HB365: 25%

Income Tax:
\$655 million

15% Fed. Income Tax Due
10% Long Term Cap. Gains

~~0%~~ **HB365: Excess amount over \$1200**

Calculate PFD
not to exceed
\$1,200/resident

General Fund

PFD

Donations to Pick Click Give & College Funds

Optional

Refundable Tax Payment applied to State Income Tax Due

Optional

Tax Refund or PFD to Resident

HB 365— Income Tax & Permanent Fund Refundable Tax Payment

Changes to current Permanent Fund system shown in **Red**.

Green is new revenue & changes to PF system.

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AK Permanent Fund

Principal

(may not be spent—only invested)

25-30%

Oil and Gas & Mineral Royalties

70-75%

Legislative Appropriations from Earnings Reserve

Earnings Reserve
(may be spent)

21% of
5 year avg.

~~Principal Inflation Proofing~~

Distributable Income

50%

2.3% POMV
Approx.
\$1.1 billion

~~0%~~ HB365: 25%

~~50%~~

HB365: 25%

Income Tax:
\$655 million

15% Fed. Income Tax Due
10% Long Term Cap. Gains

General Fund

~~0%~~ HB365: Excess amount over \$1200

Calculate PFD
not to exceed
\$1,200/resident

PFD

Donations to
Pick Click Give
& College Funds

Optional

Refundable Tax
Payment applied to
State Income
Tax Due

Optional

**Tax Refund
or PFD
to Resident**

HB 365— Income Tax & Permanent Fund Refundable Tax Payment

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Prepared by the Office of Rep. Seaton

HB 365: Total Estimated Revenue to General Fund

Income Tax Revenue*	\$655,000,000
25% PF Distributable Income**	\$686,542,500
2.3% POMV Draw & Delete Inflation Proofing ***	\$1,100,000,000
Total Revenue to General Fund	\$2,441,542,500

*Based on 2015 Fiscal Note for HB 182 which mirrors the income tax portion of HB365

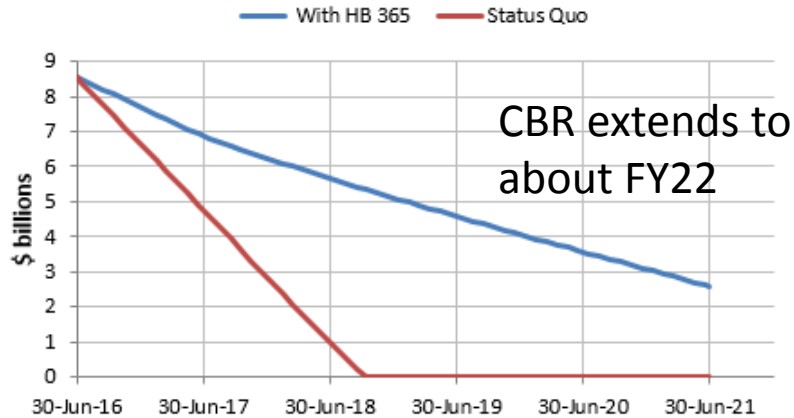
**HB 365 will provide money to the general fund from two sources: 1) it will limit the PFD to \$1200; any excess over \$1200 will go to the General Fund. 2) distributable income from the Earnings Reserve: 25% goes to pay PFDs, 25% goes to the General Fund, & remaining 50% still stays in Earnings Reserve. This amount is based on the 2015 PFD calculation.

*** 2.3% POMV Draw & delete inflation proofing amount based on Alaska Futures model 5 year average projection FY17-FY21.

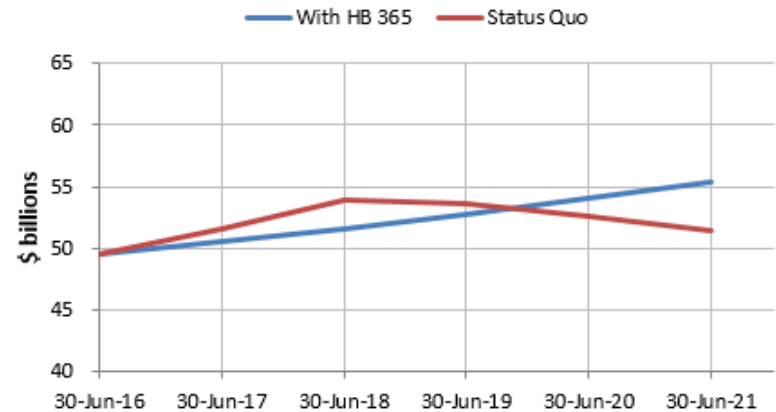
Alaska Futures – CS HB 365 ver. P

These charts were created using the Alaska Futures model program developed by economist Alan Mitchell.

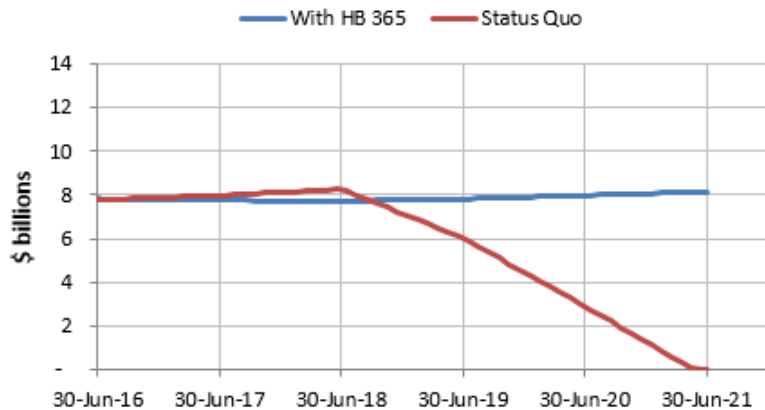
Constitutional Budget Reserve + Misc Funds



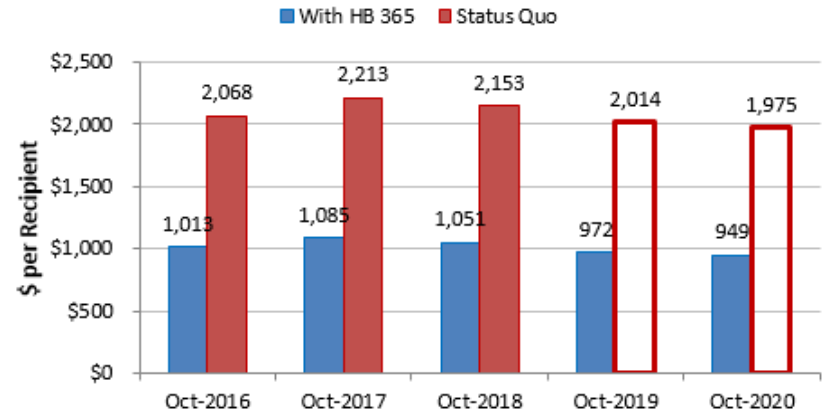
Total Permanent Fund



Permanent Fund Earnings Reserve



Dividend Check Forecast



Assumption:	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21
Oil Price Forecast, \$/bbl:	\$40	\$39	\$44	\$49	\$54	\$60

Average Dividend Check for the last five years (2011 - 2015) was **\$1,382**.

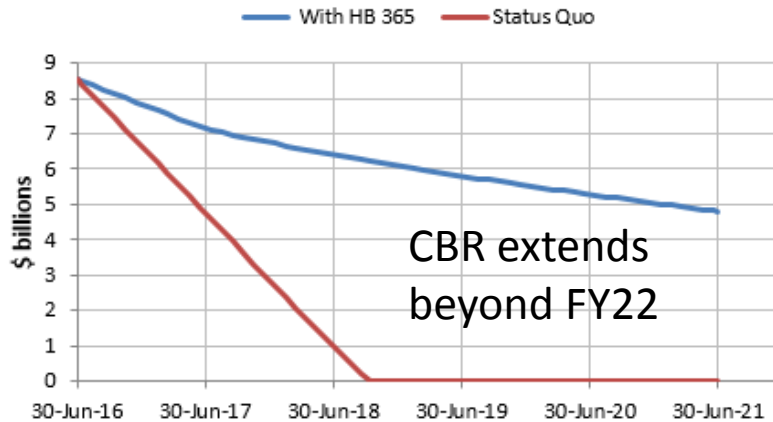
2019 & 2020 - Empty Red bars indicate PFD could be gone if status quo

Permanent Fund Total Return Rate, FY17 & beyond **6.90%**/year

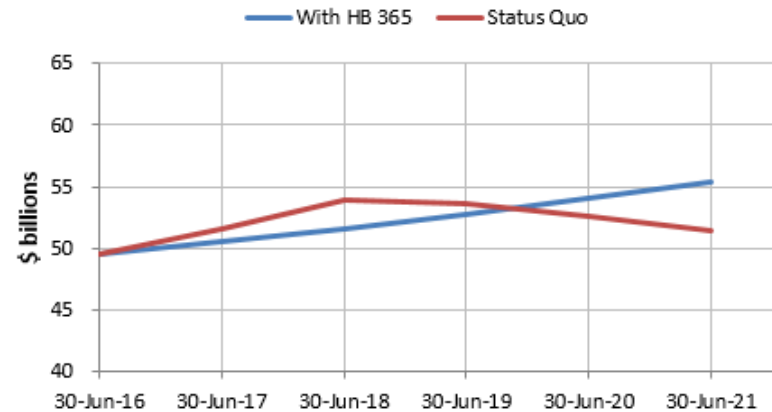
Alaska Futures – CS HB 365 ver. P – with Additional Budget Reductions & Revenues

These charts were created using the Alaska Futures model program developed by economist Alan Mitchell.

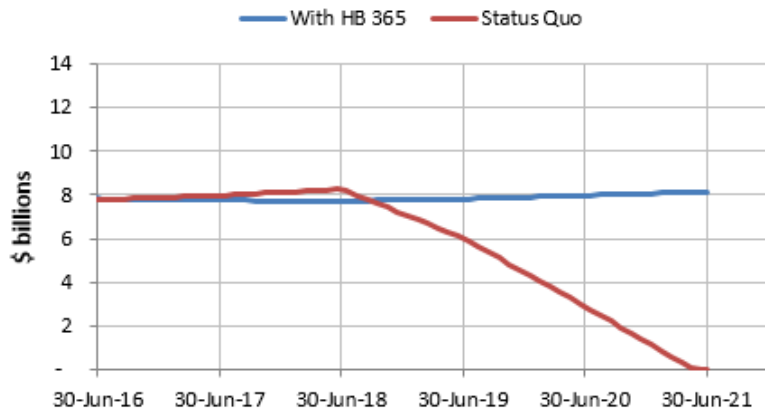
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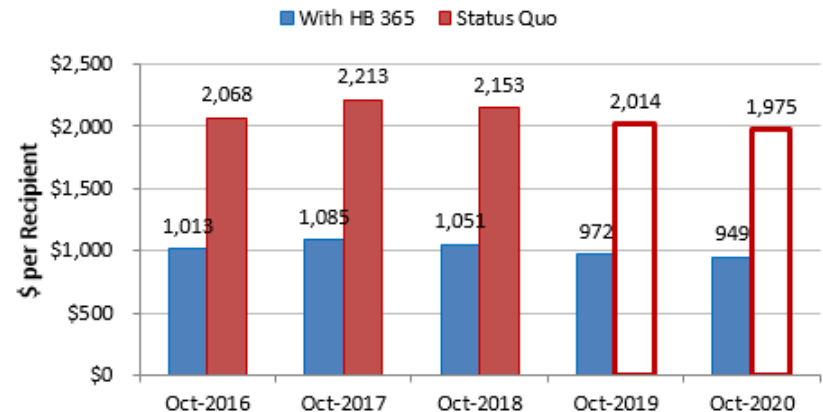
Total Permanent Fund



Permanent Fund Earnings Reserve



Dividend Check Forecast



Same assumptions as slide 12 with the following included:

Transportation Fuel Tax Increase: \$49 million (M) each year FY 17-FY21

Fisheries Tax Increase: \$18M FY17, \$19M FY18-FY19, \$20M FY20-FY21

Cook Inlet Tax Credit WLE expire 7-1-16, QCE expire 1-1-17: \$150M FY17, \$300M FY18-FY21

North Slope NOL Tax Credit reduce 35% to 25% 1-1-17: \$50M FY17, \$100M FY19-21

Average Dividend Check for the last five years (2011 - 2015) was \$1,382.