

Alaska Revenue Options

Presented at the Alaska Municipal League's Winter Meeting
February 19, 2020

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About ITEP

The Institute on Taxation and Economic Policy (ITEP)

- Non-profit, non-partisan research organization
- Federal, state, and local tax policy issues

Mission:

- Ensure elected officials, media, and general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies with an emphasis on tax incidence analysis.

ITEP's Recent Work in Alaska (2016-2017)

Distributional Analyses of Revenue Options for Alaska

Institute on Taxation & Economic Policy

April 2016

Aidan Russell Davis
Carl Davis
Matthew Gardner

Assessing the Distributional Consequences of Alaska's House Bill 115 (Version L)

Institute on Taxation & Economic Policy

March 2017

Carl Davis

Comparing the Distributional Impact of Revenue Options in Alaska

Institute on Taxation & Economic Policy

April 2017

Carl Davis
Aidan Russell Davis

About The Institute on Taxation & Economic Policy

The Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization that works on federal, state, and local tax policy issues. ITEP's mission is to ensure that elected officials, the media, and the general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies. ITEP's work focuses particularly on issues of tax fairness and sustainability.

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What I'll be talking about today:

Two ideas for now

1. Motor fuel tax increase
2. Gambling

Two ideas for later(?)

1. Statewide general sales tax
2. Personal income tax

Alaska's 8-cent motor fuel tax rate is turning 50!

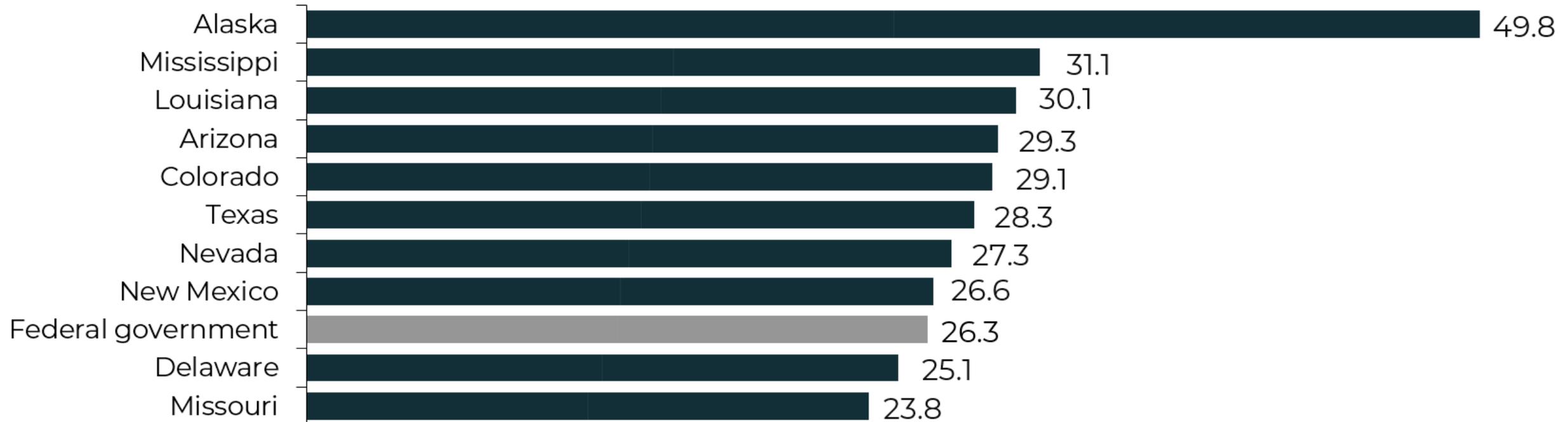
**Save the date:
May 28, 2020**

*last increased:
May 28, 1970*



Years Since Last Gasoline Tax Increase

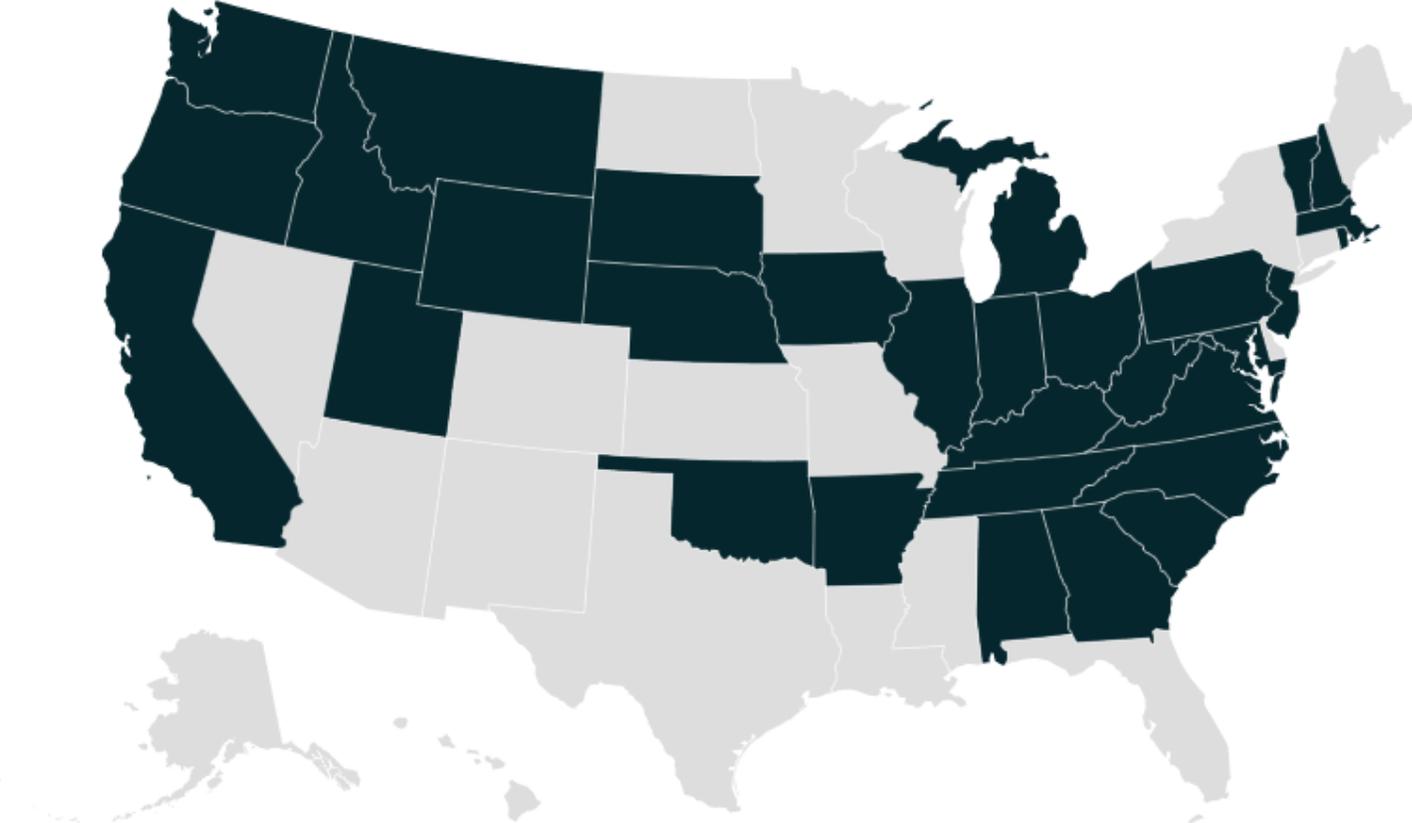
As of February 19, 2020



Source: Institute on Taxation and Economic Policy (ITEP)

Recent State Gasoline Tax Increases or Reforms

Includes laws enacted between 2013 - 2019



Reformed or Raised Taxes

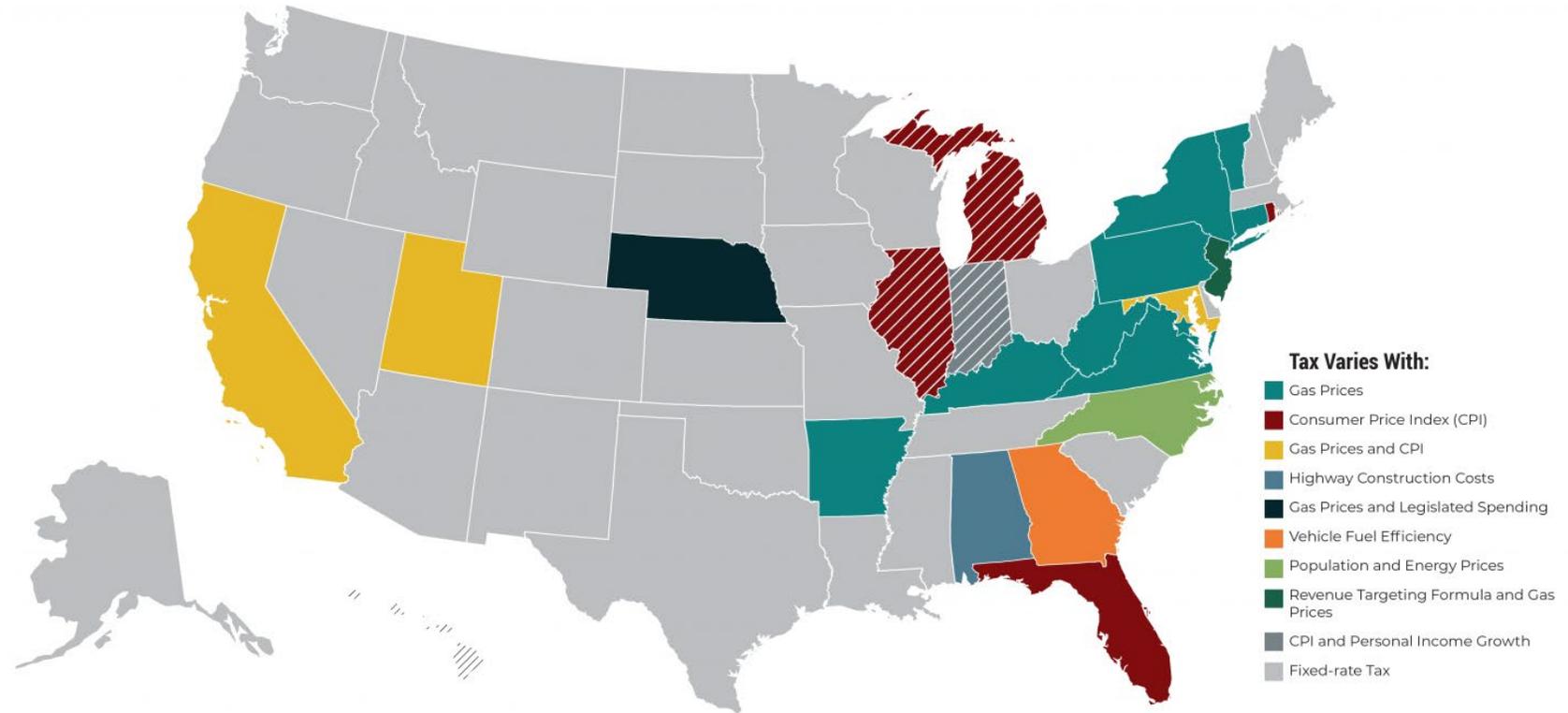
Reflects laws enacted through June 25, 2019

Source: Institute on Taxation and Economic Policy (ITEP), June 2019 • Created with Datawrapper

Motor fuel tax reform

- **Update the rate.**
 - As background: 8 cents in 1970 = 53 cents today, inflation-adjusted.
- **Rethink the tax structure.**
 - Inflation indexing
 - Fuel economy indexing
 - Hybrid/electric vehicle fees

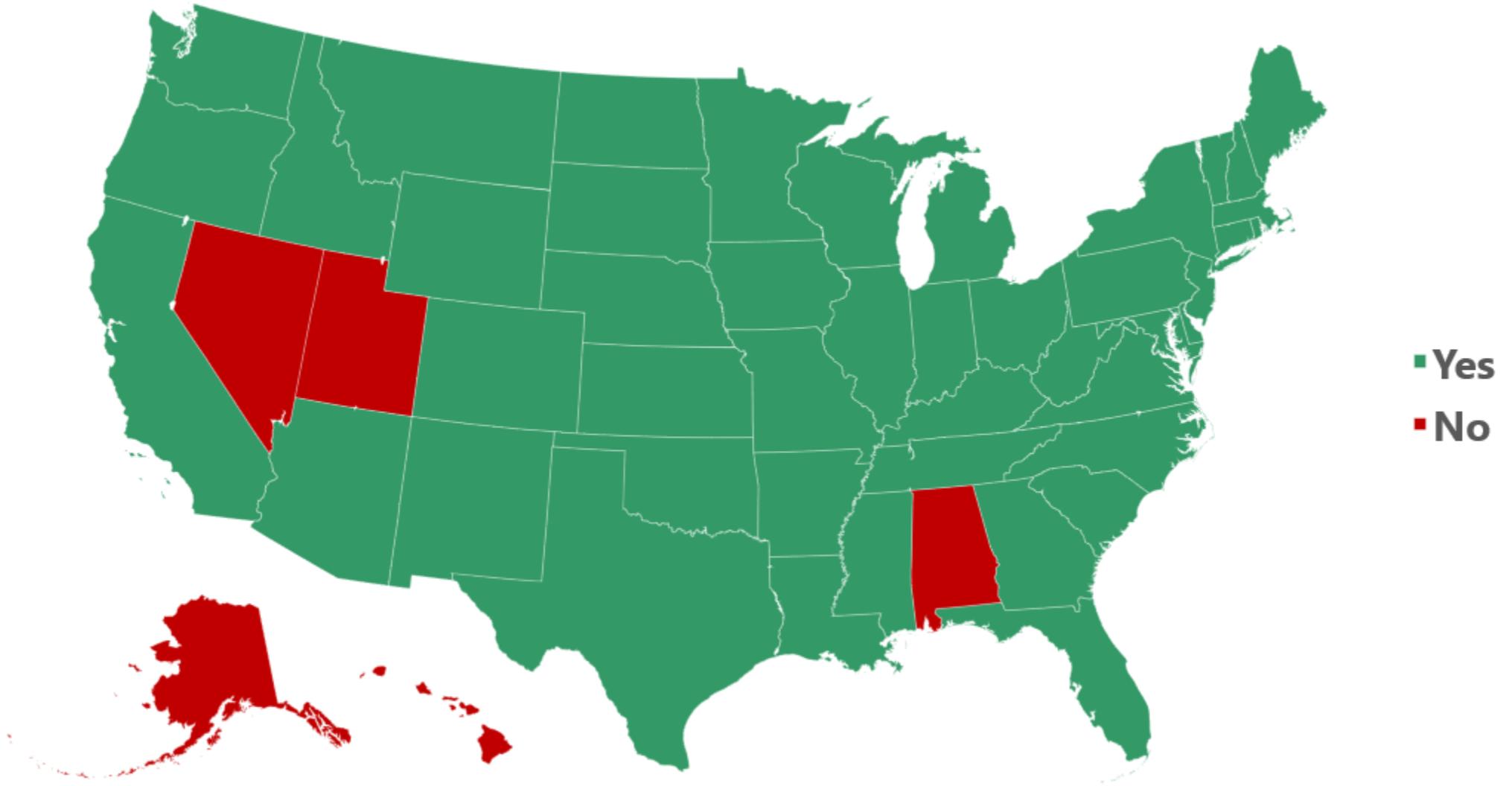
States with Variable-Rate Gasoline Taxes



Source: Institute on Taxation and Economic Policy, June 2019.

Striped states (HI, IL, IN, and MI) apply their general sales taxes to gasoline, which results in variations in the tax paid per gallon based on the price of fuel.

States with Lotteries



- Yes
- No

Source: Institute on Taxation and Economic Policy, February 2020.

TABLE 3

Sports Betting Tax Revenue

Millions of dollars



State	Months of reported collections	Tax revenue collected	Annual projection
Delaware	10	\$6.0	\$5
Mississippi	8	\$3.1	\$5–10
Nevada	12	\$20.3	NA
New Jersey	10	\$20.0	\$12–17
Pennsylvania	5	\$4.5	\$5
Rhode Island	5	\$0.7	\$23.5
West Virginia	6	\$0.9	\$5

Sources: State gaming and lottery reports and the University of Nevada Las Vegas Center for Gaming Research. See appendix A for each state's regulatory agency. Representatives from Delaware and Rhode Island provided additional information.

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Statewide general sales tax considerations

- Tax base
- Distribution by income level
- Distribution by geography
- Revenue growth
- Interaction with existing local sales taxes
- Economic effects



National trend: slow march toward sales tax modernization

- Personal services (car repairs, taxi rides, lawn service, snowplowing)
- Gig economy (Airbnb, Uber, Lyft)
- Digital downloads / streaming
- Online shopping (direct v. marketplace)



State personal income tax considerations

- Tax base (incl. interaction with existing federal tax)
- Tax bracket structure
- Distribution by income level
- Distribution by geography
- Revenue growth
- Economic effects

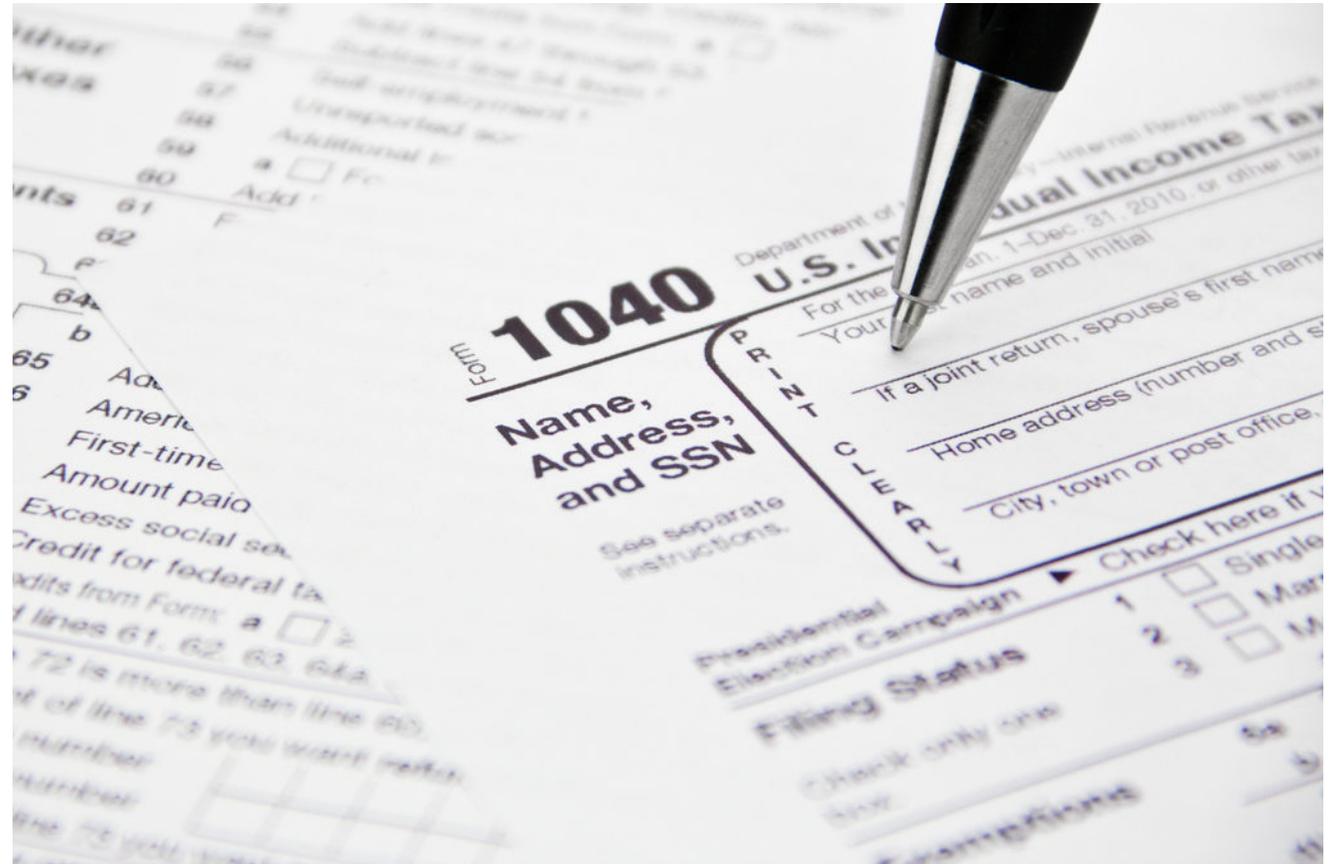
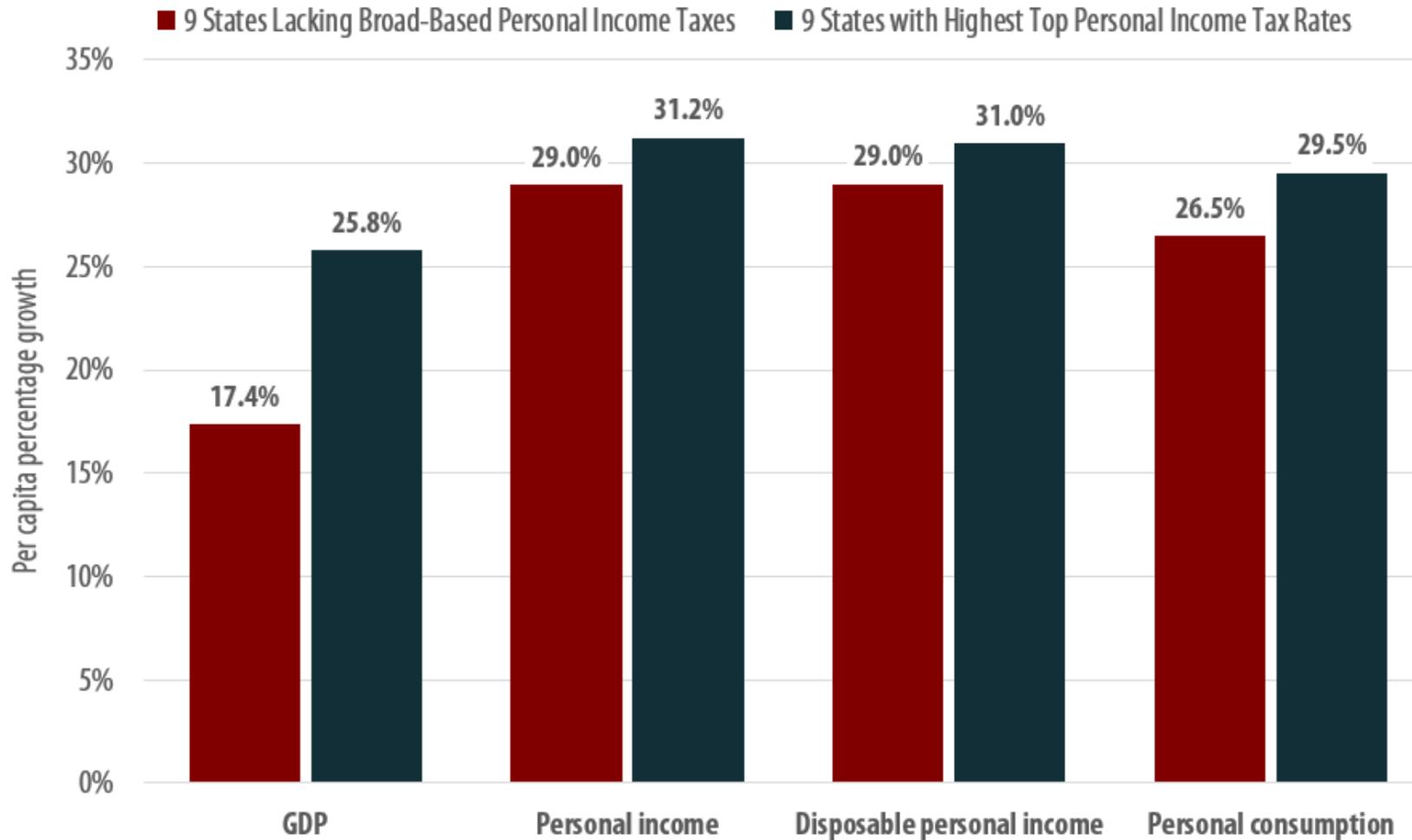


Figure 3: Economic Growth in the States, Per Capita 2006-2016



Source: ITEP calculations based on data from the Bureau of Economic Analysis. State averages are unweighted.

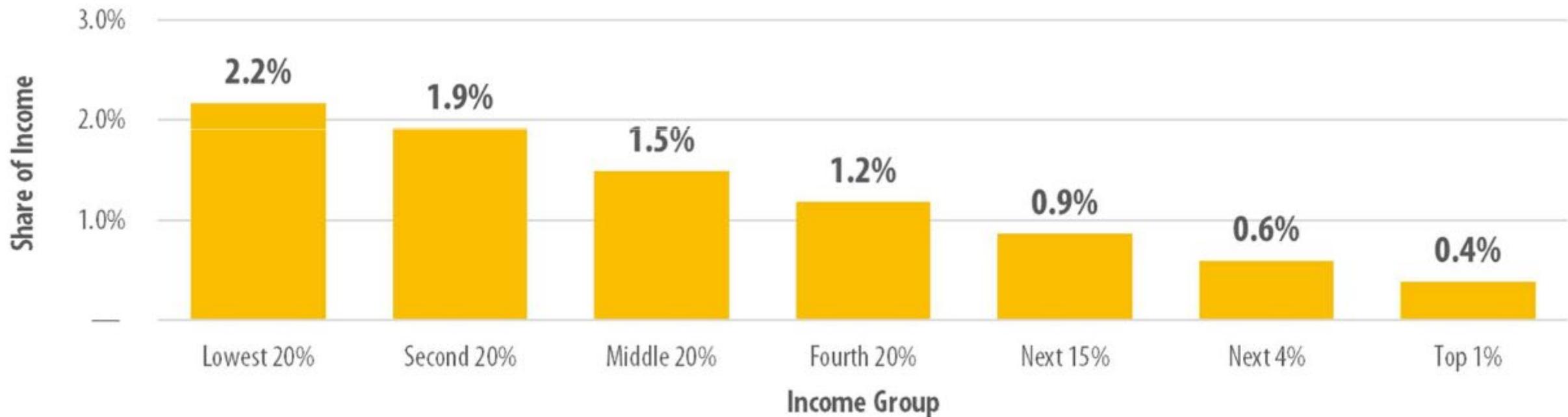
National trend: rethinking linkages to federal income tax law in the wake of Jan. 1, 2018 changes

Do states want to follow federal government in implementing...

- Tax cuts for business income, Opportunity Zones, private K-12 tuition, high-income itemizers, standard deduction claimants
- Tax hikes through reduced personal exemption, mortgage interest deduction, property tax deduction



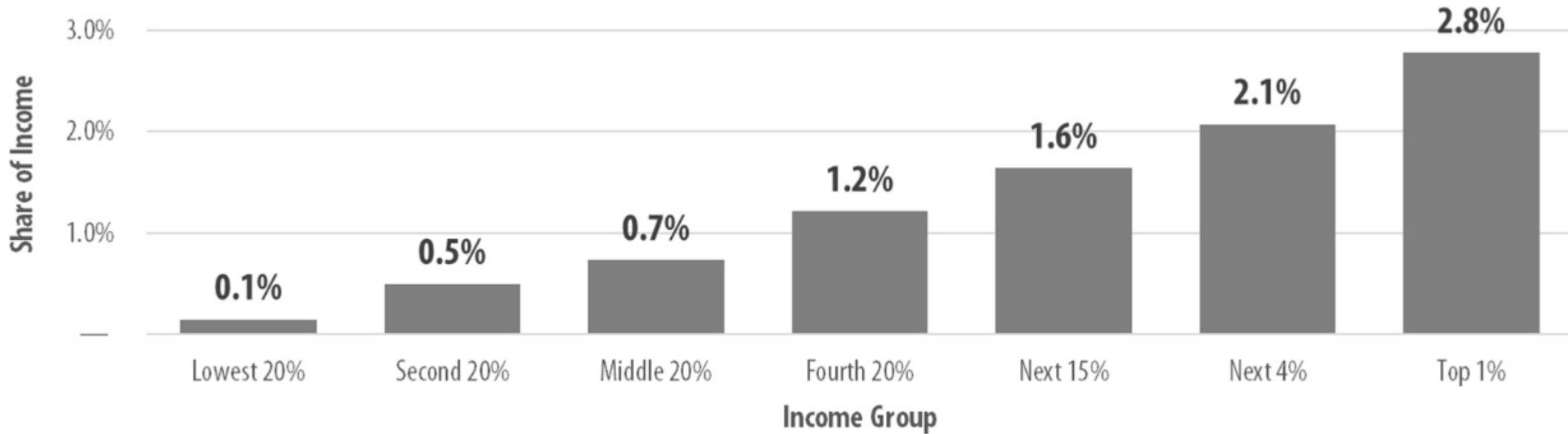
Modeling a 3% Alaska statewide sales tax on most goods and services



Source: Institute on Taxation and Economic Policy, April 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$2,200 per person. This tax includes exemptions for purchases of groceries, health care, prescription drugs, shelter, and child care.

From: ITEP, "Comparing the Distributional Impact of Revenue Options in Alaska," April 2017

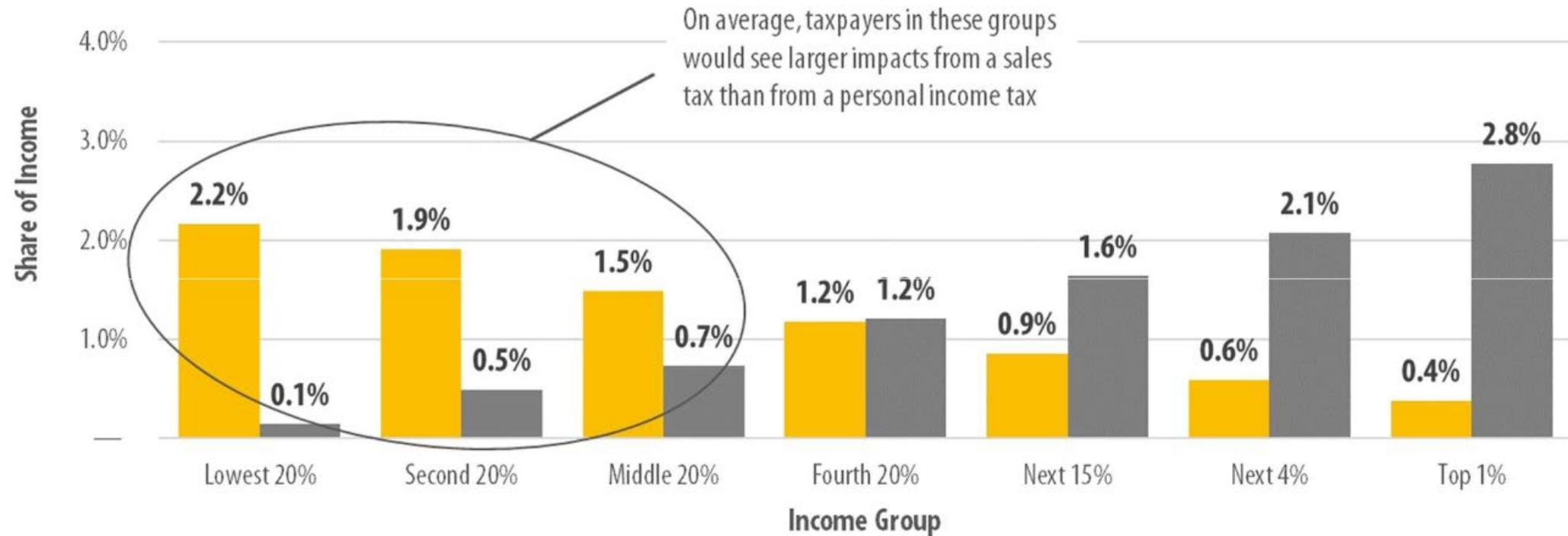
Modeling an Alaska personal income tax with rates ranging from 0% to 5.06%



Source: Institute on Taxation and Economic Policy, April 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$2,200 per person. This tax is very similar to House Bill 115 of Alaska's 2017 legislative session, though its rates have been reduced by 27.75% across the board to reduce its yield to \$500 million per year.

From: ITEP, "Comparing the Distributional Impact of Revenue Options in Alaska," April 2017

Comparing a \$500m Alaska sales tax to a \$500m Alaska personal income tax

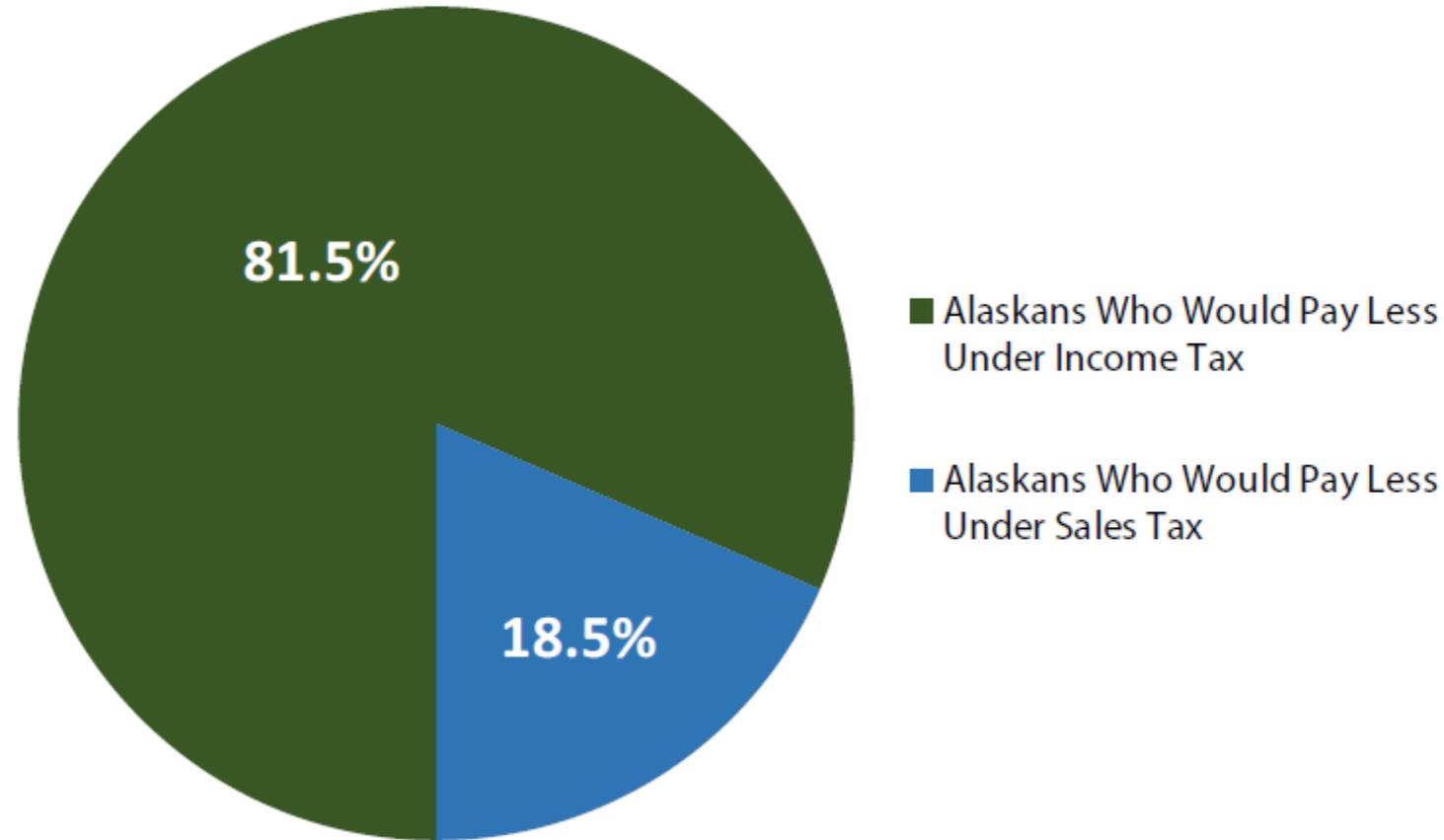


Source: Institute on Taxation and Economic Policy, April 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$2,200 per person. In the sales tax scenario the rate is 3% and includes exemptions for purchases of groceries, health care, prescription drugs, shelter, and child care. In the personal income tax scenario, the tax is assumed to be very similar to House Bill 115 of Alaska's 2017 legislative session, though its rates have been reduced by 27.75% across the board to reduce its yield to \$500 million per year.

From: ITEP, "Comparing the Distributional Impact of Revenue Options in Alaska," April 2017

Most Alaskans Would Pay Less Under an Income Tax

Comparing Two Taxes Designed to Generate Identical Levels of Revenue

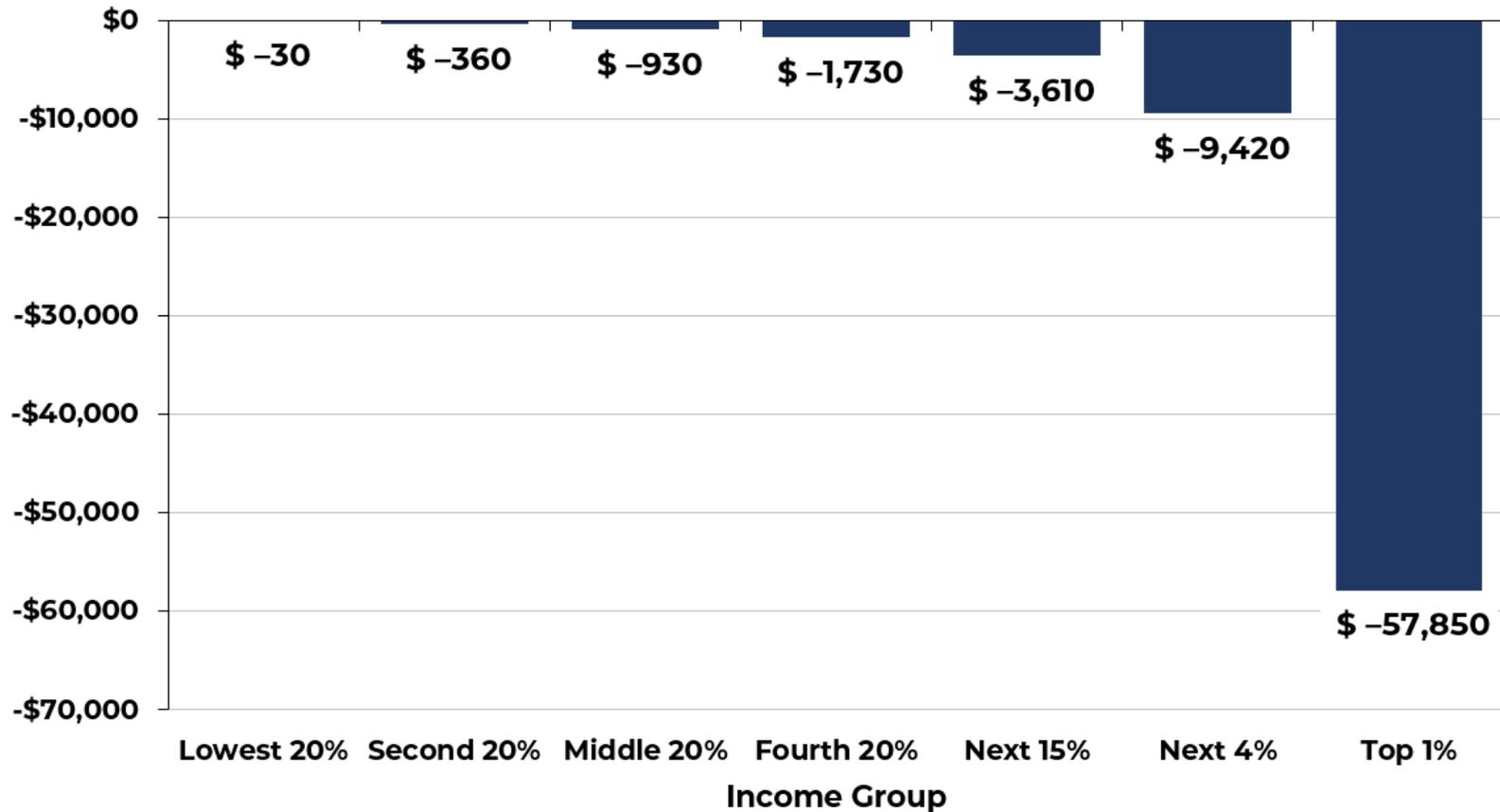


Note: Analysis by researchers at the Institute of Social and Economic Research (ISER), University of Alaska Anchorage as of June 2016. Precise share paying less under the income tax falls somewhere between 77 and 86 percent of the state's population, with 81.5 percent representing the midpoint. Chart compares the hypothetical impact of income and sales taxes designed to generate identical levels of revenue. Income tax is calculated as a percentage of federal tax liability (e.g., Gov. Bill Walker's proposal). Sales tax is assumed to apply to all retail expenditures except food at home, health care, education, and shelter.

\$753 million



Federal Tax Cuts for Alaska Residents in 2020 Under the Tax Cuts and Jobs Act (TCJA)



Source: Institute on Taxation and Economic Policy (ITEP), August 2019

Read more:

www.itep.org

Or let's talk about it:

carl@itep.org