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

Institute on Taxation & Economic Policy

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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.

EXECUTIVE SUMMARY

This report contains ITEP's analysis of the distributional and revenue consequences of the revised version of House Bill 115 (Version L) as proposed on March 23, 2017. This proposal would reduce Alaska's Permanent Fund Dividend (PFD) payout and implement a personal income tax based on a modified version of Federal Adjusted Gross Income, with rates ranging from 0 to 7 percent. The analysis was produced using ITEP's Microsimulation Tax Model.[1] Its core findings include:

- When fully implemented, HB 115 (Version L) achieves a relatively consistent impact across every income group in Alaska. The long-run scenario modeled in this report indicates that the impact on each group would range from 1.8 to 2.8 percent of their incomes. (See Figure 3 and Table C.)
- Low-income families, for whom the PFD represents a major source of income, would be impacted more heavily in the years immediately following implementation of this bill. This is because reductions in the PFD payout are forecast to be largest in the short-term. If the PFD payout is reduced by $950 per person, the bottom 20 percent of earners could expect to see an impact from this bill equal to 8.6 percent of their incomes. This far exceeds the 2.9 to 4.1 percent impact felt by other groups under this scenario. (See Figure 2 and Table A.)
- Most states with personal income taxes offset some of the impact of regressive fiscal policies on their low-income taxpayers by offering a refundable Earned Income Tax Credit (EITC) patterned after the federal EITC. In Alaska, a state credit calculated at 25 percent of the federal EITC could reduce the impact of this bill on the state's low-income taxpayers by 1 percent of their income. Such a credit would reduce Alaska income tax revenues by roughly $25 million per year.
- Reducing the PFD and creating a personal income tax would lower Alaskans' taxable income for federal income tax purposes. In a scenario where the PFD is reduced by $950 per person, this would trigger a short-term federal income tax cut of $202 million for Alaska residents. (See Table A.) The size of this cut would be smaller in years when the cuts to the PFD payout are less dramatic. (See Tables B and C.)
- Approximately one-fifth (20 to 21 percent) of the impact of this bill would not fall on Alaska residents, but rather on the federal government and non-resident workers. In effect, these sources would contribute up to $255 million in revenue toward closing Alaska's budget gap. (See Table A.)
- The personal income tax proposed in HB115 (Version L) would be low by national standards. When measured relative to personal income in Alaska, it would rank as the fourth lowest among the 41 states with broad-based personal income taxes. The tax would amount to roughly 1.7 percent of Alaskans' overall personal income, though low- and middle-income families could expect to pay less than this amount while high-income families could expect to pay more. (See Figure 4 and Table D.)
- The personal income tax proposed in HB 115 (Version L) on March 23 is very similar in its overall distribution to the original income tax contained in this bill. Most income groups would see their average tax payments change by an amount less than 0.1 percent of their income relative to the original proposal. (See Figure 5.) The most significant result of this change in structure would be to limit the tax's vulnerability to changes in federal tax law.

[1] An overview of the ITEP Microsimulation Tax Model is available in Appendix B of this report and at: http://itep.org/about/itep_tax_model_simple.php.

DESCRIPTION OF SCENARIOS MODELED

This report examines both the personal income tax proposed on March 23 and the amended reduction in the PFD payout adopted on March 14. The personal income tax is based on a modified version of Federal Adjusted Gross Income (FAGI) that includes a $4,000 exemption per person and an exemption for income received from the PFD. Tax rates range from 0 to 7 percent, as shown in Figure 1.

Figure 1: Personal Income Tax Proposed in Alaska HB 115 (Version L)

Tax base is Federal Adjusted Gross Income (FAGI) with a $4,000 exemption per person, an exemption for Permanent Fund Dividend (PFD) payouts, and various other modifications.

Tax Brackets: Single Filers			
0%	$0	to	$10,300
2.5%	$10,300	to	$50,000
4%	$50,000	to	$100,000
5%	$100,000	to	$200,000
6%	$200,000	to	$250,000
7%	$250,000		and up

Tax Brackets: Married Filing Joint			
0%	$0	to	$22,600
2.5%	$22,600	to	$100,000
4%	$100,000	to	$200,000
5%	$200,000	to	$400,000
6%	$400,000	to	$500,000
7%	$500,000		and up

The impact of HB115 (Version L) on Alaska's PFD payout would vary each year, as would the PFD provided under current law. The Alaska Legislative Finance Division forecasts that the cuts to the PFD would be larger in the short-run than in the long-run.[2] Based on that forecast, ITEP modeled three scenarios meant to reflect the short-term, medium-term, and long-term impacts of HB115 (Version L).

The short-term scenario assumes that the PFD payout, which is projected by the Legislative Finance Division to be approximately $2,200 per person in 2017 under current law, is reduced to the $1,250 floor set in HB115 (Version L). This represents a cut to the PFD of $950 per person.

The medium-term and long-term scenarios reflect the Legislative Finance Division's forecast that the baseline PFD will shrink in the years ahead to approximately $1,700 per person, even absent any change in law. Relative to that baseline, ITEP modeled a medium-term cut in the PFD payout of $450 per person (down to $1,275), and a long-term cut of $300 per person (down to $1,400).

Because of the uncertainty inherent in any effort to forecast future income levels in Alaska, all of these scenarios were modeled as if they had been implemented in a Tax Year 2016 economy.

[2] Alaska Legislative Finance Division, "HB 115- POMV draw amended: 5.25% in FY18 & FY19. 5% after. $1250 PFD floor in FY18 & FY19. Flat budget," Mar. 14, 2017, at http://www.akleg.gov/basis/get_documents.asp?session=30&docid=13968.

DISTRIBUTIONAL CONSEQUENCES

Reductions in the PFD are regressive. That is, when measured as percentage of household income, these reductions fall most heavily on families with low and moderate incomes. This analysis finds that while a $950 reduction in the PFD payout would reduce the income of Alaska's lowest-income families by 8.7 percent, the impact on the top 5 percent of earners would be less than 0.7 percent of income (see Table A on page 10).

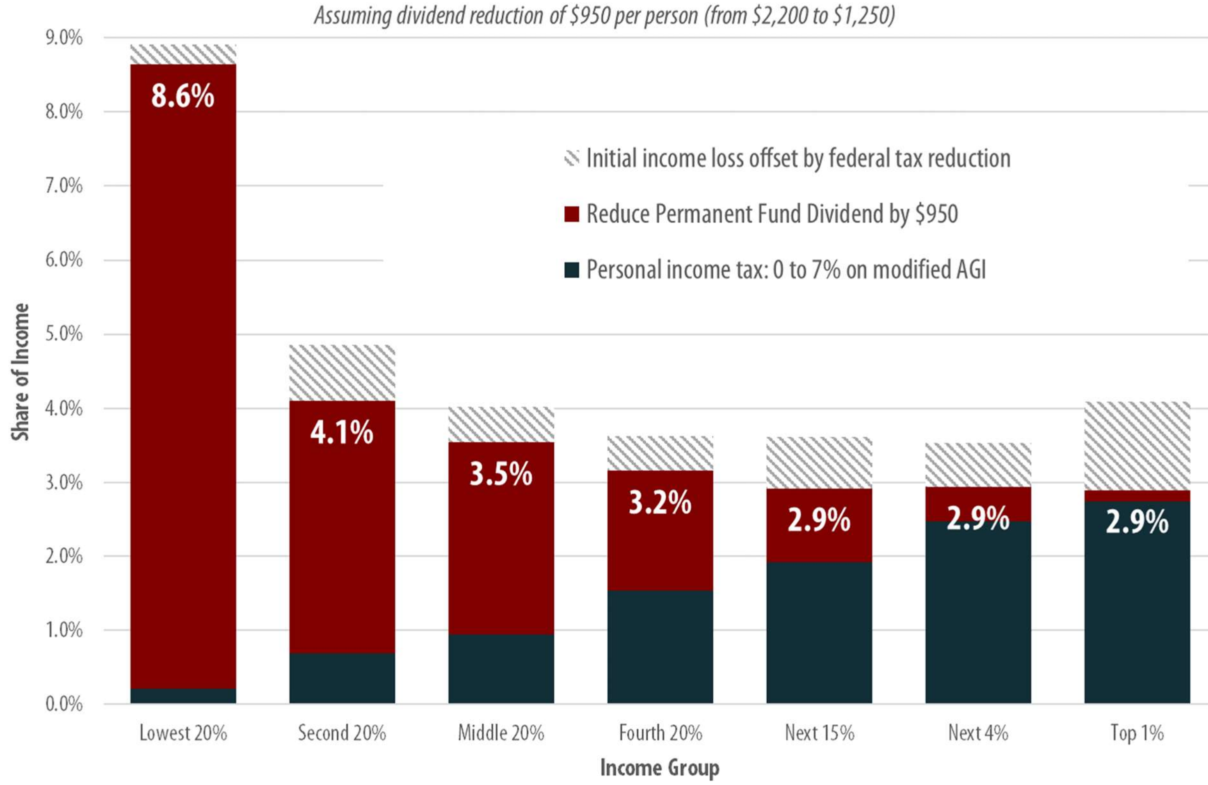
At the same time, a personal income tax of the type contained in HB 115 (Version L) would be progressive, asking more of families with higher incomes than of families of more modest means. Tax payments would range from 0.2 percent of income at the bottom of the income distribution to 3.8 percent of income at the top, before any offsetting reductions in federal tax liability are considered (see Table A).

This analysis reveals that the balance of these two policies, as proposed in HB 115 (Version L), comes close to achieving a proportional impact across most of Alaska's population in the long-run, though it would have a disproportionate impact on lower-income families in the short-run.

In the years immediately following implementation, low-income families would be impacted more heavily than any other group because the steep reduction in the PFD payout would eliminate a significant share of these families' incomes. As seen in Figure 2, if this package had been implemented in Tax Year 2016, the impact on most families would have been fairly consistent, between 2.9 and 4.1 percent of income. But the bottom 20 percent of Alaska earners would have seen impacts more than twice as large as their more affluent neighbors, at 8.6 percent of their incomes.

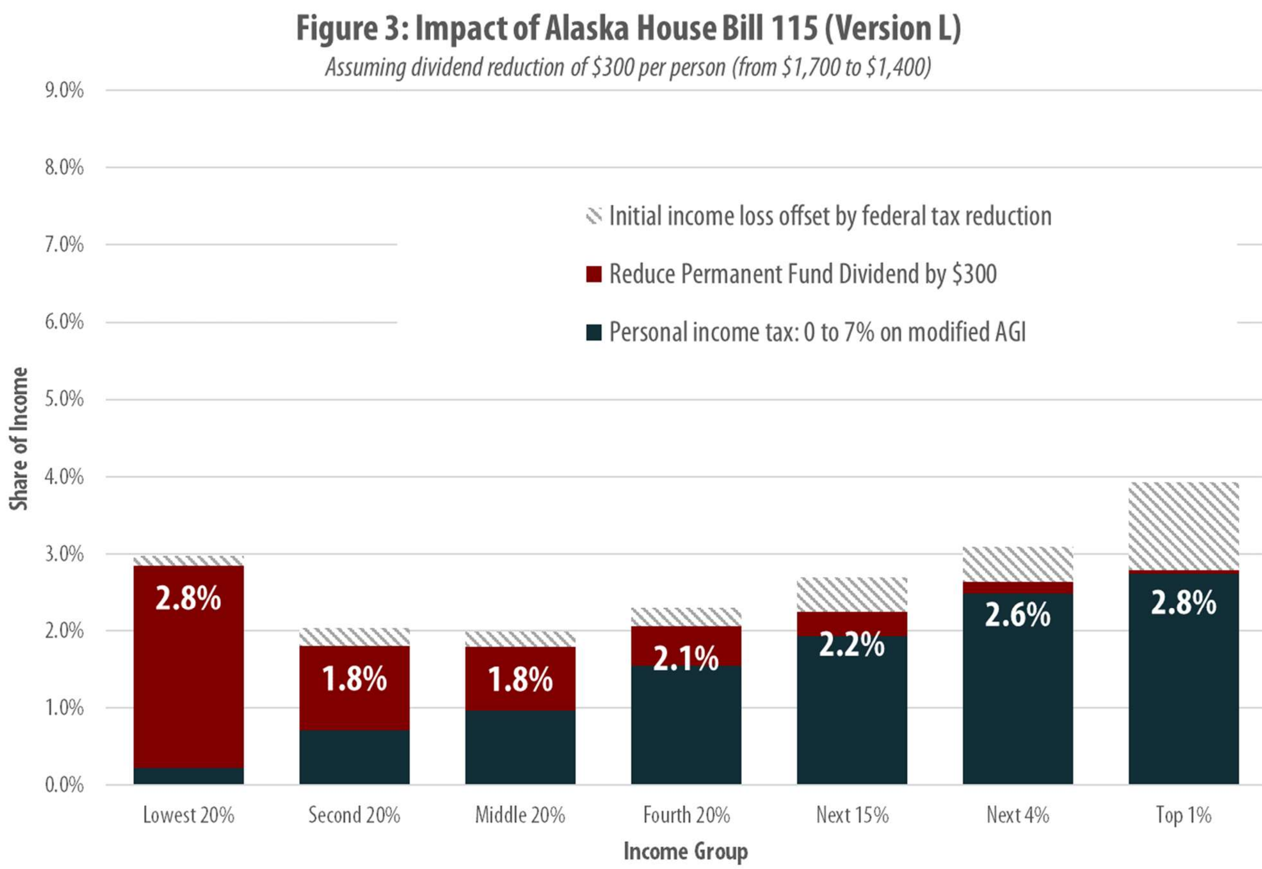
Figure 2: Impact of Alaska House Bill 115 (Version L)

Assuming dividend reduction of $950 per person (from $2,200 to $1,250)



Source: Institute on Taxation and Economic Policy, March 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of $2,200 per person.

The lopsided nature of this impact would decline over time, however, as the cuts to the PFD payout became less steep. Figure 3 shows that low-income and high-income families would have faced similar impacts (equal to approximately 2.8 percent of income) in a scenario in which the PFD was reduced by just $300 in Tax Year 2016. Middle-income families would have enjoyed a somewhat smaller impact than other Alaskans because the PFD is a less vital source of income for this group relative to low-income families, and because the graduated rate structure of the proposed income tax levies lower rates on this group relative to high-income families.



Source: Institute on Taxation and Economic Policy, March 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of $1,700 per person.

Table B on page 11 of this report also shows the impact of a medium-term scenario where the PFD was reduced by $425 per person in Tax Year 2016 (rather than the $950 and $300 reductions depicted in Figures 2 and 3, respectively). Under this scenario, most families would have seen impacts ranging from 2.1 to 2.8 percent of income, while the bottom 20 percent of Alaskans would have seen a somewhat larger impact equal to 3.9 percent of their incomes.

OPTIONS FOR REDUCING THE IMPACT ON LOW-INCOME FAMILIES

Low-income tax credits could mitigate some of the regressive impact of a sizeable PFD reduction at a relatively low cost to Alaska's coffers.

The federal Earned Income Tax Credit (EITC), for instance, has been used to improve the financial situation of low-wage workers for over forty years. Workers below a certain income level receive a credit calculated based on a percentage of the wages they earn. Offering a similar credit at the state level is an effective strategy for mitigating the impact of regressive fiscal policies. Among the 41 states with broad-based personal income taxes, 25 offer a state-level EITC based on the federal credit.[3]

In Alaska, an EITC equal to 25 percent of the federal credit, for example, could boost the income of the state's bottom 20 percent of earners by roughly 1 percentage point (or, put another way, offset roughly 1 percentage point of income lost due to a PFD reduction). A credit of this size would reduce state revenue by approximately $25 million per year. This is a small fraction of the annual savings that could be realized by cutting the PFD payout. Every $100 cut from the PFD payout, for instance, reduces expenditures by roughly $64 million.

FEDERAL TAX IMPLICATIONS AND NONRESIDENT IMPACTS

This analysis reveals that reducing the PFD payout and implementing a personal income tax as proposed in HB 115 (Version L) would reduce Alaskans' federal tax liability by as much as $202 million per year (see Table A).

Specifically, reducing family income by cutting the PFD by $950 per person, as has been forecast for the first year of implementation, would reduce Alaskans' federal tax payments by $100 million per year.

Smaller PFD reductions would trigger smaller federal tax cuts. Table B indicates that a PFD cut of $425 per person would trigger a $45 million federal tax cut while Table C shows that a PFD cut of $300 per person would result in a federal tax cut of $32 million.

Alongside these PFD changes, the new income tax contained in HB 115 (Version L) would trigger a $102 million federal tax cut because many Alaskans would be able to deduct the cost of their state income taxes on their federal tax forms. Additionally, researchers at the University of Alaska Anchorage's Institute of Social and Economic Research (ISER) found that more than 7 percent of the revenue raised by a progressive personal income tax would be collected from nonresidents.[4] Applying this figure to ITEP's estimates of the revenue raised by the income tax in HB 115 (Version L) suggests that nearly $53 million in revenue would be raised via nonresident income tax payments.

The combined impact of federal tax cuts and income tax payments by nonresidents would be to raise as much as $255 million, or 20 percent, of the revenue in HB 115 (Version L) from sources other than Alaska residents. That figure is

[3] See ITEP's Policy Brief, "Rewarding Work Through state Earned Income Tax Credits," at http://itep.org/itep_reports/2016/09/rewarding-work-through-state-earned-income-tax-credits-2.php.
[4] Knapp, Gunnar et al., "Short-Run Economic Impacts of Alaska Fiscal Options," at http://www.iser.uaa.alaska.edu/Publications/2016_03_30-ShortrunEconomicImpactsOfAlaskaFiscalOptions.pdf.

somewhat lower in scenarios with smaller PFD reductions. Table B depicts an overall out-of-state contribution of $199 million while Table C reveals a $186 million contribution from outside of Alaska.

Figure 4: Lowest Personal Income Taxes in the Nation in 2015*		
Rank (1 = lowest)	State	Effective Tax Rate (tax / income)
1	North Dakota	1.19%
2	Arizona	1.45%
3	Louisiana	1.46%
4 (proposed)	Alaska (HB115 Ver. L)	1.66%
4	Kansas	1.70%
5	New Mexico	1.72%
6	Mississippi	1.73%
7	Ohio	1.77%
8	Oklahoma	1.80%
9	Pennsylvania	1.84%
10	Alabama	1.84%

* This figure omits narrow taxes on investment income levied in New Hampshire and Tennessee. See Table D on page 13 for additional information.

Source: Institute on Taxation and Economic Policy (ITEP)

COMPARING INCOME TAXES ACROSS STATES

The personal income tax proposed in HB 115 (Version L) would be low by national standards. As seen in Figure 4, it would rank as the fourth lowest in the nation among states with broad-based personal income taxes. The tax would amount to less than 1.7 percent of Alaskans' overall personal income, though low- and middle-income families could expect to pay less than this amount while high-income families could expect to pay more. A full summary of state income tax revenue relative to personal income is available in Table D on page 13.

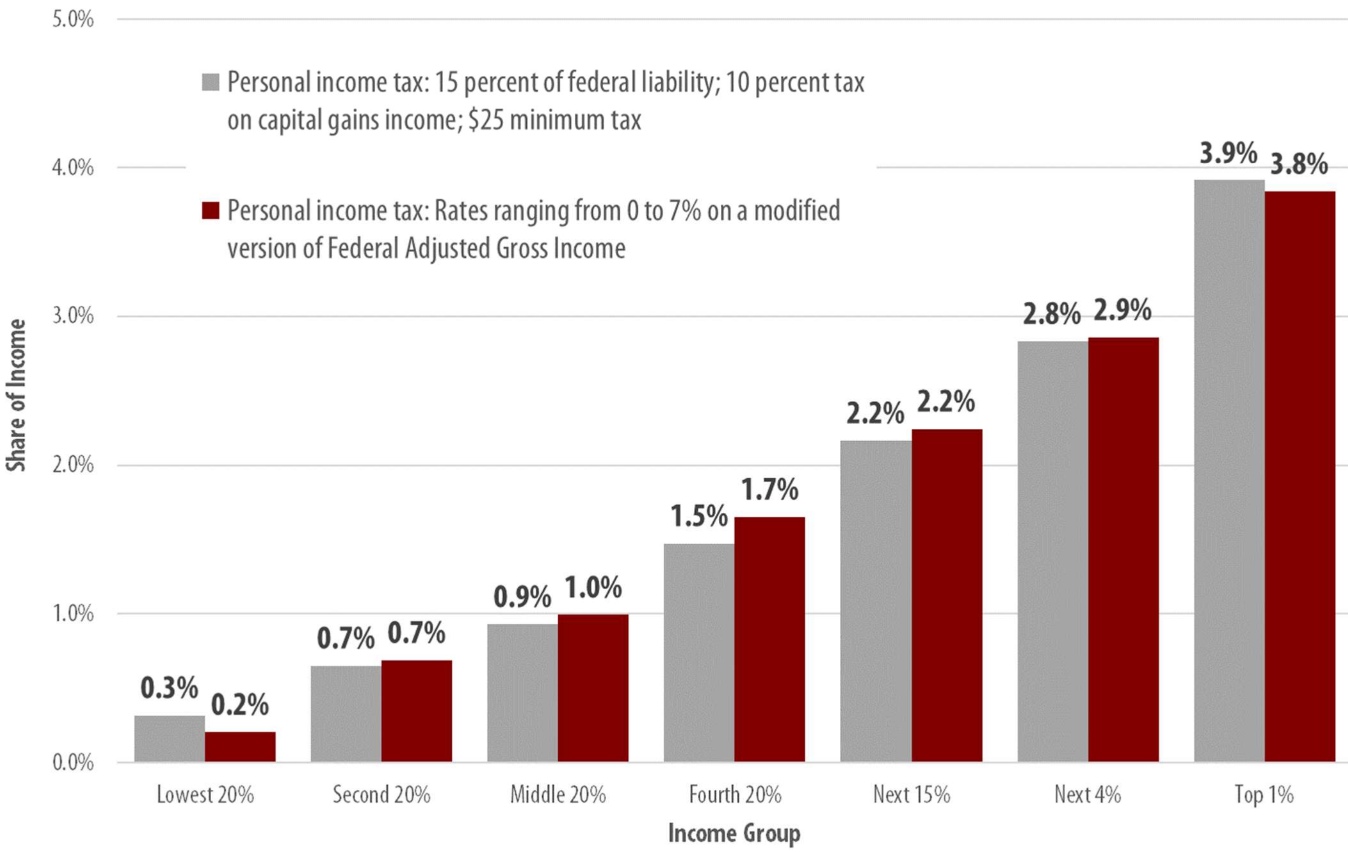
COMPARING ALTERNATIVE INCOME TAX PROPOSALS IN ALASKA

As originally proposed, HB 115 included a personal income tax equal to 15 percent of each Alaskans' federal income tax liability, plus a 10 percent levy on capital gains income and a $25 minimum tax on Alaskans required to file a federal tax return. While the new income tax proposal unveiled in Version L on March 23 appears significantly different on its face, its effect on Alaskans at varying income levels is remarkably similar to the original proposal.

Figure 5 shows that on net, most groups would see no meaningful change in their average tax payment under this modification to the proposed personal income tax. At the bottom of the income distribution, tax payments would fall slightly because of the generous exemptions contained in the new proposal. At the top of the income distribution, income tax payments would also decline very slightly on average, though the impact on specific households would vary according to the types of income they receive. While the top tax rate on ordinary income would rise under this change (from 5.94 to 7 percent), the top tax rate on capital gains income would fall (from 13 to 7 percent).

The most significant change in moving from the original proposal to this new structure would be to limit the vulnerability of the tax to changes in federal tax law. Under the tax as originally proposed, most changes in federal tax liability would impact Alaska's income tax revenues. This means that virtually every change in federal exclusions, adjustments, exemptions, deductions, tax rates, or credits would have impacted Alaska's revenue collections. This new proposal, by contrast, is only linked to a basic federal definition of income (Federal Adjusted Gross Income, or FAGI) and is thus likely to be much more stable even under a potentially significant overhaul of the federal tax code.

Figure 5: Comparison of Income Tax Proposals in Alaska House Bill 115



Source: Institute on Taxation and Economic Policy, March 2017. Modeled in a Tax Year 2016 economy, assuming a Permanent Fund Dividend payout of $1,250 per person.

CONCLUSION

House Bill 115 (Version L) would make a significant contribution toward closing Alaska's budget gap in a manner that, in the long-term, is relatively consistent in its impact on Alaskans at every income level. It does this by balancing regressive cuts to the PFD payout with a modest, progressive personal income tax. The bill also raises significant revenues from sources outside of Alaska, both via income taxes collected from non-resident workers and by bringing federal dollars into the state in the form of federal income tax cuts for Alaska residents.

In the short-term, however, the PFD reductions contained in this bill would impact low-income families more heavily than other Alaska families. One option for mitigating this outcome would be to offer a refundable Earned Income Tax Credit (EITC) patterned after the federal EITC.

APPENDIX A: DETAILED RESULTS

Table A: Impact of Alaska HB 115 (Version L), Assuming PFD is Cut by $950 per person

All Alaska Residents, 2016 income levels

2016 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $25,000	$25,000 – $40,000	$40,000 – $73,000	$73,000 – $115,000	$115,000 – $228,000	$228,000 – $566,000	$566,000 – Or More
Average Income in Group	$ 16,000	$ 31,000	$ 55,000	$ 92,000	$ 166,000	$ 299,000	$ 1,311,000

Combined impact of state personal income tax, PFD reduction, and resulting federal income tax cut

Impact as a % of Income	8.6%	4.1%	3.5%	3.2%	2.9%	2.9%	2.9%
Average Dollar Impact	+1,358	+1,292	+1,935	+2,894	+4,852	+8,797	+37,969
Share of Total In-State Impact	9%	9%	14%	19%	25%	12%	13%

Additional Detail

Total State Revenue Gain	+1,293,000,000	Impact on Alaskans	+1,038,300,000	Impacted Shifted Out of State	+254,700,000
Resulting Federal Tax Cut	–202,200,000	Share of Impact on Alaskans	80%	Share of Imact Out of State	20%
Revenue Raised from Nonresidents	+52,500,000				

Personal income tax: Rates ranging from 0 to 7% on a modified version of Federal Adjusted Gross Income

Tax Paid as a % of Income	0.2%	0.7%	1.0%	1.7%	2.2%	2.9%	3.8%
Average Tax Paid	+32	+217	+543	+1,514	+3,727	+8,548	+50,348
Share of Total In-State Tax Paid	0%	2%	6%	16%	30%	18%	27%

Additional Detail

Total State Revenue Gain	+686,500,000	Impact on Alaskans	+532,100,000	Impacted Shifted Out of State	+154,400,000
Resulting Federal Tax Cut	–101,900,000	Share of Impact on Alaskans	78%	Share of Imact Out of State	22%
Revenue Raised from Nonresidents	+52,500,000				

Reduction in Permanent Fund Dividend: Assuming a drop of $950 per person (from $2,200 to $1,250)

Dividend Reduction as a % of Income	8.7%	4.2%	3.0%	2.0%	1.4%	0.7%	0.3%
Average Impact of Dividend Reduction	+1,368	+1,313	+1,654	+1,807	+2,279	+2,011	+3,314
Share of Impact from Dividend Reduction	15%	16%	21%	21%	20%	5%	2%

Additional Detail

Total State Revenue Gain	+606,600,000	Impact on Alaskans	+506,200,000	Impacted Shifted Out of State	+100,300,000
Resulting Federal Tax Cut	–100,300,000	Share of Impact on Alaskans	83%	Share of Imact Out of State	17%
Revenue Raised from Nonresidents	N/A				

Federal personal income tax cut

Tax Cut as a % of Income	-0.3%	-0.8%	-0.5%	-0.5%	-0.7%	-0.6%	-1.2%
Average Tax Cut	–42	–238	–261	–427	–1,154	–1,762	–15,693
Share of Total Tax Cut	1%	8%	9%	14%	29%	12%	26%

Additional Detail

Federal Tax Cut	–202,200,000

SOURCE: Institute on Taxation and Economic Policy, March 2017.

Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of $2,200 per person as projected by the Alaska Legislative Finance Division for Fiscal Year 2018.

Table B: Impact of Alaska HB 115 (Version L), Assuming PFD is Cut by $425 Per Person

All Alaska Residents, 2016 income levels

2016 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $25,000	$25,000 – $39,000	$39,000 – $72,000	$72,000 – $115,000	$115,000 – $227,000	$227,000 – $567,000	$567,000 – Or More
Average Income in Group	$ 16,000	$ 31,000	$ 54,000	$ 91,000	$ 165,000	$ 299,000	$ 1,314,000

Combined impact of state personal income tax, PFD reduction, and resulting federal income tax cut

Impact as a % of Income	3.9%	2.3%	2.1%	2.3%	2.4%	2.7%	2.8%
Average Dollar Impact	+623	+711	+1,155	+2,071	+3,940	+8,049	+36,959
Share of Total In-State Impact	6%	6%	11%	19%	27%	15%	17%

Additional Detail

Total State Revenue Gain	+957,800,000	Impact on Alaskans	+758,800,000	Impacted Shifted Out of State	+199,000,000
Resulting Federal Tax Cut	–146,500,000	Share of Impact on Alaskans	79%	Share of Imact Out of State	21%
Revenue Raised from Nonresidents	+52,500,000				

Personal income tax: Rates ranging from 0 to 7% on a modified version of Federal Adjusted Gross Income

Tax Paid as a % of Income	0.2%	0.7%	1.0%	1.7%	2.3%	2.9%	3.8%
Average Tax Paid	+36	+224	+551	+1,521	+3,740	+8,581	+50,494
Share of Total In-State Tax Paid	0%	2%	6%	16%	30%	18%	27%

Additional Detail

Total State Revenue Gain	+686,500,000	Impact on Alaskans	+532,000,000	Impacted Shifted Out of State	+154,400,000
Resulting Federal Tax Cut	–101,900,000	Share of Impact on Alaskans	78%	Share of Imact Out of State	22%
Revenue Raised from Nonresidents	+52,500,000				

Reduction in Permanent Fund Dividend: Assuming a drop of $425 per person (from $1,700 to $1,275)

Dividend Reduction as a % of Income	3.9%	1.9%	1.4%	0.9%	0.6%	0.3%	0.1%
Average Impact of Dividend Reduction	+616	+586	+737	+804	+1,022	+898	+1,482
Share of Impact from Dividend Reduction	16%	15%	20%	21%	20%	5%	2%

Additional Detail

Total State Revenue Gain	+271,400,000	Impact on Alaskans	+226,800,000	Impacted Shifted Out of State	+44,600,000
Resulting Federal Tax Cut	–44,600,000	Share of Impact on Alaskans	84%	Share of Imact Out of State	16%
Revenue Raised from Nonresidents	N/A				

Federal personal income tax cut

Tax Cut as a % of Income	-0.2%	-0.3%	-0.2%	-0.3%	-0.5%	-0.5%	-1.1%
Average Tax Cut	–29	–99	–133	–254	–822	–1,430	–15,017
Share of Total Tax Cut	1%	4%	6%	12%	28%	13%	35%

Additional Detail

Federal Tax Cut	–146,500,000

SOURCE: Institute on Taxation and Economic Policy, March 2017.
Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of $1,700 per person as projected by the Alaska Legislative Finance Division for Fiscal Year 2022.

Table C: Impact of Alaska HB 115 (Version L), Assuming PFD is Cut by $300 Per Person

All Alaska Residents, 2016 income levels

2016 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $25,000	$25,000 – $39,000	$39,000 – $72,000	$72,000 – $115,000	$115,000 – $227,000	$227,000 – $567,000	$567,000 – Or More
Average Income in Group	$ 16,000	$ 31,000	$ 54,000	$ 91,000	$ 165,000	$ 299,000	$ 1,314,000

Combined impact of state personal income tax, PFD reduction, and resulting federal income tax cut

Impact as a % of Income	2.8%	1.8%	1.8%	2.1%	2.2%	2.6%	2.8%
Average Dollar Impact	+451	+565	+969	+1,876	+3,717	+7,868	+36,671
Share of Total In-State Impact	4%	5%	10%	19%	28%	16%	18%

Additional Detail

Total State Revenue Gain	+878,000,000	Impact on Alaskans	+691,600,000	Impacted Shifted Out of State	+186,400,000
Resulting Federal Tax Cut	–133,900,000	Share of Impact on Alaskans	79%	Share of Imact Out of State	21%
Revenue Raised from Nonresidents	+52,500,000				

Personal income tax: Rates ranging from 0 to 7% on a modified version of Federal Adjusted Gross Income

Tax Paid as a % of Income	0.2%	0.7%	1.0%	1.7%	2.3%	2.9%	3.8%
Average Tax Paid	+36	+224	+551	+1,521	+3,740	+8,581	+50,494
Share of Total In-State Tax Paid	0%	2%	6%	16%	30%	18%	27%

Additional Detail

Total State Revenue Gain	+686,500,000	Impact on Alaskans	+532,000,000	Impacted Shifted Out of State	+154,400,000
Resulting Federal Tax Cut	–101,900,000	Share of Impact on Alaskans	78%	Share of Imact Out of State	22%
Revenue Raised from Nonresidents	+52,500,000				

Reduction in Permanent Fund Dividend: Assuming a drop of $300 per person (from $1,700 to $1,400)

Dividend Reduction as a % of Income	2.8%	1.3%	1.0%	0.6%	0.4%	0.2%	0.1%
Average Impact of Dividend Reduction	+435	+414	+521	+568	+722	+635	+1,048
Share of Impact from Dividend Reduction	16%	15%	20%	21%	20%	5%	2%

Additional Detail

Total State Revenue Gain	+191,500,000	Impact on Alaskans	+159,600,000	Impacted Shifted Out of State	+32,000,000
Resulting Federal Tax Cut	–32,000,000	Share of Impact on Alaskans	83%	Share of Imact Out of State	17%
Revenue Raised from Nonresidents	N/A				

Federal personal income tax cut

Tax Cut as a % of Income	-0.1%	-0.2%	-0.2%	-0.2%	-0.5%	-0.5%	-1.1%
Average Tax Cut	–21	–73	–103	–213	–745	–1,348	–14,870
Share of Total Tax Cut	1%	4%	5%	11%	28%	14%	37%

Additional Detail

Federal Tax Cut	–133,900,000

SOURCE: Institute on Taxation and Economic Policy, March 2017.
Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of $1,700 per person as projected by the Alaska Legislative Finance Division for Fiscal Year 2026.

Table D: State Personal Income Tax Revenue as a Share of Personal Income in States with Broad-Based Personal Income Taxes

2015, dollar amounts in thousands

Rank (1 = lowest)	State	Effective Tax Rate (tax / income)	State Personal Income Tax Revenue	Personal Income
1	**North Dakota**	**1.19%**	$504,394	$42,349,688
2	**Arizona**	**1.45%**	$3,868,234	$267,361,132
3	**Louisiana**	**1.46%**	$2,922,499	$200,594,438
4 (proposed)	Alaska (HB115 Ver. L)*	1.66%	$681,006	$40,907,753
4	**Kansas**	**1.70%**	$2,335,804	$137,316,497
5	**New Mexico**	**1.72%**	$1,358,702	$79,104,093
6	**Mississippi**	**1.73%**	$1,798,699	$104,045,259
7	**Ohio**	**1.77%**	$8,950,232	$505,950,314
8	**Oklahoma**	**1.80%**	$3,209,442	$178,250,475
9	**Pennsylvania**	**1.84%**	$11,735,689	$636,857,158
10	**Alabama**	**1.84%**	$3,407,750	$184,784,917
11	**South Carolina**	**2.03%**	$3,802,638	$187,532,342
12	**Michigan**	**2.14%**	$9,102,052	$424,807,490
13	**Illinois**	**2.26%**	$14,618,090	$646,789,116
14	**Arkansas**	**2.30%**	$2,616,250	$113,923,539
15	**Colorado**	**2.32%**	$6,444,569	$277,731,754
16	**Missouri**	**2.33%**	$5,989,938	$257,338,334
17	**Rhode Island**	**2.33%**	$1,232,997	$52,833,501
18	**Idaho**	**2.38%**	$1,512,792	$63,535,406
19	**Vermont**	**2.39%**	$725,778	$30,417,564
20	**Georgia**	**2.43%**	$10,005,670	$411,721,423
21	**Kentucky**	**2.44%**	$4,163,071	$170,755,826
22	**Nebraska**	**2.47%**	$2,274,572	$92,048,473
23	**Iowa**	**2.48%**	$3,552,504	$143,393,977
--	Average**	2.52%	--	--
24	**New Jersey**	**2.52%**	$13,554,005	$537,026,391
25	**Maryland**	**2.53%**	$8,522,346	$336,187,435
26	**Indiana**	**2.70%**	$7,484,492	$277,628,668
27	**Wisconsin**	**2.74%**	$7,250,974	$264,987,588
28	**Virginia**	**2.76%**	$12,028,939	$436,349,531
29	**Montana**	**2.78%**	$1,199,097	$43,186,928
30	**Utah**	**2.79%**	$3,289,634	$117,763,901
31	**West Virginia**	**2.85%**	$1,930,571	$67,787,227
32	**North Carolina**	**2.86%**	$11,698,235	$409,338,338
33	**Maine**	**2.88%**	$1,639,310	$56,893,803
34	**Hawaii**	**2.97%**	$2,053,370	$69,129,101
35	**Delaware**	**3.34%**	$1,502,783	$45,057,962
36	**Connecticut**	**3.38%**	$8,331,153	$246,709,339
37	**Massachusetts**	**3.47%**	$14,740,007	$425,352,524
38	**Minnesota**	**3.81%**	$10,646,465	$279,262,704
39	**California**	**3.84%**	$80,716,563	$2,103,669,473
40	**New York**	**4.09%**	$47,556,159	$1,161,414,144
41	**Oregon**	**4.35%**	$7,682,176	$176,401,260

* Alaska income tax revenue estimate is based on an ITEP analysis finding that the updated personal income tax proposed in HB115 (Version L), based on Federal Adjusted Gross Income with rates ranging from 0 to 7 percent, would have raised $686.5 million if implemented in Tax Year 2016. This was adjusted to TY2015 levels by assuming a growth rate of 0.81 percent. Alaska's actual 2015 personal income of nearly $41.5 billion was reduced by $553.0 million to approximate the impact of HB115 (Version L) in reducing the Permanent Fund Dividend (assuming a reduction from $2,072 to $1,250 per person in 2015).

** This is an unweighted average for the 41 states with broad-based personal income taxes.

Source: Analysis by the Institute on Taxation and Economic Policy (ITEP) of Calendar Year 2015 state income tax data from the U.S. Census Bureau and personal income data from the Bureau of Economic Analysis (BEA).

APPENDIX B: THE ITEP MODEL

The Institute on Taxation & Economic Policy has engaged in research on tax issues since 1980, with a focus on the distributional consequences of both current law and proposed changes. ITEP's research has often been used by other private groups in their work, and ITEP is frequently consulted by government estimators in performing their official analyses. Since 1994, ITEP has built a microsimulation model of the tax systems of the U.S. government and of all 50 states and the District of Columbia.

Microsimulation Model

The ITEP model is a tool for calculating revenue yield and incidence, by income group, of federal, state, and local taxes. It calculates revenue yield for current tax law and proposed amendments to current law. Separate incidence analyses can be done for categories of taxpayers specified by marital status, the presence of children and age.

In computing its estimates, the ITEP model relies on one of the largest databases of tax returns and supplementary data in existence, encompassing close to three quarters of a million records. To forecast revenues and incidence, the model relies on government or other widely respected economic projections.

The ITEP model's federal tax calculations are very similar to those produced by the congressional Joint Committee on Taxation, the U.S. Treasury Department and the Congressional Budget Office (although each of these four models differs in varying degrees as to how the results are presented). The ITEP model, however, adds state-by-state estimating capabilities not found in those government models.

Below is an outline of each area of the ITEP model and what its capabilities are:

The Personal Income Tax Model analyzes the revenue and incidence of current federal and state personal income taxes and amendment options including changes in:

- Rates, including special rates on capital gains,
- Inclusion or exclusion of various types of income,
- Inclusion or exclusion of all federal and state adjustments,
- Exemption amounts and a broad variety of exemption types and, if relevant, phase-out methods,
- Standard deduction amounts and a broad variety of standard deduction types and phase-outs,
- Itemized deductions and deduction phase-outs, and
- Credits, such as earned-income and child-care credits.

The Consumption Tax Model analyzes the revenue yield and incidence of current sales and excise taxes. It also has the capacity to analyze the revenue and incidence implications of a broad range of base and rate changes in general sales taxes, special sales taxes, gasoline excise taxes, and tobacco excise taxes. There are more than 250 base items available to amend in the model, reflecting, for example, sales tax base differences among states and most possible changes that might occur.

The Property Tax Model analyzes revenue yield and incidence of current state and local property taxes. It can also analyze the revenue and incidence impacts of statewide policy changes in property tax, including the effect of circuit breakers, homestead exemptions, and rate and assessment caps.

The Corporate Income Tax Model analyzes revenue yield and incidence of current corporate income tax law, possible rate changes and certain base changes.

Local taxes: The model can analyze the statewide revenue and incidence of aggregate local taxes (not, however, broken down by individual localities).

Data Sources

The ITEP model is a "microsimulation model." That is, it works on a very large stratified sample of tax returns and other data, aged to the year being analyzed. This is the same kind of tax model used by the U.S. Treasury Department, the congressional Joint Committee on Taxation and the Congressional Budget Office. The ITEP model uses the following micro-data sets and aggregate data:

Micro-Data Sets: IRS 1988 Individual Public Use Tax File, Level III Sample; IRS Individual Public Use Tax Files; Current Population Survey; Consumer Expenditure Survey; U.S. Census; American Community Survey.

Partial List of Aggregated Data Sources: Miscellaneous IRS data; Congressional Budget Office and Joint Committee on Taxation forecasts; other economic data (Moody's Economy.com, Commerce Department, WEFA); state tax department data; data on overall levels of consumption for specific goods (Commerce Department, Census of Services); state specific consumption and consumption tax data (Census data, Government Finances, data from state revenue departments); state specific property tax data (Govt. Finances, data from state revenue departments.); American Housing Survey; Census of Population Housing; and other sources.