Alaska: Governor proposes an unusual payroll tax to address oil revenue shortfall

David M. Kall | Thursday, November 2, 2017

Nearly 85 percent of Alaska's budget is made up of revenues from oil and gas industry activities. Tourism and fishing are the next most important sectors, followed by timber, mining, and agriculture.

Because of the state's disproportionate dependence on oil production, the fluctuations in world pricing have had a substantial impact on Alaska's economy. A macrotrends chart reveals that in 2001, 2008, 2014, and 2015, crude oil prices were especially depressed, at -25 percent, -53 percent, -45 percent, and -30 percent, respectively. For 2016, the price swung dramatically into the black, to a positive 45 percent. As of Oct. 31, 2017, that figure has recovered some, to a positive 0.71 percent. Also as of this last day in October, the West Texas Intermediate price of crude oil was $54.10 per barrel.

This has taken its toll in the Last Frontier. On Jan. 1, 2017, Alaska Business published its outlook for 2017, based on opinions from a variety of stakeholders in government and business. The "common theme [was] an optimistic outlook as long as there is proper legislative action taken and diversification of the economy." While Gov. Bill Walker acknowledged the $3.4 billion deficit, "rapidly diminishing savings," and economic instability, some remained positive - sort of - like one official from the *Juneau Economic Development Council. He forecasted a "*mostly sunny" 2017, but "with a threat of severe rain."

Even so, the Tax Foundation's 2018 State Business Tax Climate Index, released in October, ranks Alaska at No. 3 overall, behind only Wyoming and South Dakota. The absence of a major tax is a common factor among those highly ranked states, and Alaska has neither an income tax nor a state sales tax. It does have a "particularly burdensome corporate income tax" with the top rate, of ten brackets, of 9.4 percent. This puts it behind only Iowa, with a 12 percent top rate, Pennsylvania, with a 9.99 percent flat rate, and Minnesota, with a 9.8 percent flat rate. This top rate and the ten brackets were less important to the overall rank than the lack of two major taxes. (The Index notes that "Alaska localities are allowed to levy sales taxes; the weighted statewide average of these taxes is 1.76 percent.)

Gov. Walker's payroll tax proposal

Alaska's legislature returned to work last week, for their fourth special legislative session. One of the two goals of this special session is to vote on the governor's proposed payroll tax. The other is to vote on SB 54, which makes revisions to the 2016 criminal justice reform package based on the Alaska Criminal Justice Commission's recommendations.

In Gov. Walker's late September announcement of his payroll tax proposal, contained in House Bill 4001, he pointed out that the 1.5 percent tax would be capped at $2,200, and would generate between $300 million and $325 million. Fifteen percent of this would come from non-resident workers, who earned more than $2.7 billion in 2015. Even with the 1.5 percent tax, he reasoned, "Alaskans would pay the lowest taxes on a nationwide basis. No other state currently has a cap for a maximum tax rate."

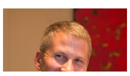
He further explained that "[w]e have cut more than 44 percent from state spending over the past four years, and drawn more than $14 billion from savings. We will continue to find efficiencies. With the downturn in oil prices, however, it's clear that we must find a new source of revenue to pay for troopers, teachers, transportation and other essential services. We must end the uncertainty for a healthy economy."

The Tax Foundation opined that a payroll tax could work if administered properly. But Alaskans who have taxable income in another state could lose the ability to claim a credit from their Alaska liability for taxes paid to the other state. In addition, an Alaska resident would not be able to claim his payroll tax liability under the federal income tax deduction for state and local taxes paid, assuming that remains in place. Nevertheless, the group asserts that the payroll tax has some economic advantages over a traditional income tax, because the latter can create a disincentive to economic growth.

In looking to precedent, there is almost none, acknowledges the Tax Foundation. Nevada is currently the only other state that imposes a payroll tax, by way of a Modified Business Tax, which is "only somewhat comparable." There, employers remit the tax, not individuals, on the aggregate gross wages of all employees above $50,000 per quarter, at a rate of 1.475 percent.

States that have municipal taxes, like Ohio, and those with local earned income taxes, as in Pennsylvania, also offer distant comparisons. San Francisco has a payroll expense tax, "Alabama localities can impose occupational taxes on gross wages," and regional payroll taxes fund some transit authorities, like in New York and Oregon. But the closest mechanism to the cap in Governor Walker's proposal is the federal social security wage cap, rendering his idea, with its state-wide, earner remitted payroll tax "unique among states."

One entity that is not at all ambiguous about the fate of the governor's proposal is Alaska's Senate majority. A JuneauEmpire piece reports that there is "'0 percent' chance the Legislature addresses deficit this year." These lawmakers "steadfastly believe that increased oil revenue, coupled with budget cuts and spending from the Permanent Fund, can erase the deficit."



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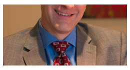
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