

# Progressive income tax is essential to a fair fiscal plan for Alaska

Opinion piece published in the Anchorage Press, February 2, 2017 written by AK Common Ground board member, Janet McCabe

The sheer size of the Alaska's budget crisis makes it difficult to comprehend, let alone to solve. Many people, including myself, find it hard to picture that a million dollars is only a tiny fraction of a billion dollars. It takes a thousand million to make a billion. But today state legislators are facing a budget crisis amounting to over \$3 billion. Unless they adopt measures to solve this problem, Alaska will have difficulties paying its bills in 2018. In business terms, the state is facing an immense "cash flow" crisis. Bond rating companies have made it clear that the "cash flow" crisis will translate into a credit crisis.

For a do-it-yourself way of grasping the fiscal reality of Alaska's budget crisis you can use three yardsticks and assume each one represents \$1 billion. Then look at how close you can come to eliminating the deficit with the available revenue sources and cuts. For example, a revenue source worth \$500 million, or half a billion, moves you half way up one yardstick, but there are still two and half yardsticks to go.

Alaska's avalanche of debt resulted from the 90% drop in oil revenues during the last four years. Since the state budget was almost totally dependent on oil revenues, the effect on the budget has been catastrophic. Despite recent good news from ConocoPhillips, neither of the two factors that caused the drop in oil revenues – the worldwide oversupply of oil and consequent fall in prices, and the declining productivity of Alaska's oil fields – is likely to change enough to solve the

crisis. Legislative denial and postponement of hard choices has been widespread. But, for the sake of all of us, they must not divert from solving the problem this year, this session. We, the people, must support them as they do so.

Cuts cannot be the only solution. First and foremost, the size of feasible cuts does not approach the size of the budget crisis. Cuts are measured in millions of dollars. The deficit is three billion (three thousand million) dollars.

Further, it must be clear by now that cutting has and will harm Alaska's economy. The multiplier effects from loss of primary employment were carefully and thoroughly explained to legislators in recent presentations by Northern Economics and by UAA's Institute of Social and Economic Research. The signs of the recession generated by job loss from the petroleum industry and from state cuts can be seen all around us!

Still, based on the experience of many people, including some legislators, it is counter-intuitive to argue against cutting as a way to solve a budget problem. We can see why. When hard times hit, families do the right and responsible thing by reducing their spending. The effects are only felt within the family. Unfortunately, state spending cuts have a different type of effect and often spread hardship throughout the economy. When many people lose jobs with primary employers – petroleum producers, or the state – and cannot find other work, the collective reduction in spending harms businesses in the service sector. In turn, closures of restaurants, hair dressers, automotive sales and similar service businesses mean more people are jobless. They leave the state or try to sell their houses, and the real estate market is affected. Then local tax revenues are reduced. Municipalities must, in turn, reduce public services, and the harm spreads further.

At best, cutting is risky tinkering around the edges of Alaska's budget crisis. At worst, legislative debate on cuts threatens to delay or jeopardize their focus on the revenue

solutions that are essential this year.

It must be clear to most that a broad-based fiscal solution will be required. Legislators need to come together on basic goals such as protecting the Permanent Fund for future generations, and assuring that their solution is fair-minded.

Governor Walker and several legislative leaders started this process last year and made proposals. The most likely point of coalition is HB 365, sponsored by Representative Paul Seaton from Homer, referred to and heard by the House Finance Committee last year. This bill used fairness as the underlying concept, counterbalancing provisions for a permanent fund dividend and an income tax based on a percentage of federal tax liability. Representative Seaton recognizes that maintaining the dividend is especially important to people in rural Alaska as well as to people statewide with limited incomes. Having an income tax makes it possible to keep the permanent fund dividend which is unique and enormously beneficial to Alaska.

A progressive income tax based on federal tax liability would apply to people in higher income levels, and minimize impact on those in lower income levels. The income tax has the big advantage of capturing income earned in Alaska by non-residents (estimated at 20% of the total). Further, state income taxes are a deductible item for those who itemize a federal income tax return.

Before we struck oil, Alaska had a progressive income tax based on a percentage of federal tax liability. It is time to rejoin the rest of the country by following the time-honored national practice of taxing income progressively. Given the depth of the fiscal crisis and a basic goal of fairness to all, an income tax is essential. No fiscal plan will be sufficient to cover the current deficit, and still be fair, without a progressive income tax.

The positive side of the current fiscal crisis is the opportunity, in fact the necessity, to step off the roller coaster of dependence on oil revenue, and adopt a plan that will allow stable year-to-year budgeting independent of the ups and downs of oil revenues. Without implementing such a plan, including substantial revenue measures, Alaska will be unable to pay its bills next year. The situation calls for a sense of urgency for the future of our state, our children and our grandchildren.

Janet McCabe and her family have lived in Anchorage since 1964. Her education and experience are in community planning. She is actively involved in several non-profit organizations, including Alaska Common Ground.