

Fiscal Note

State of Alaska
2019 Legislative Session

Bill Version: SB 50
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB050-DOR-TAX-4-16-2019
Title: EMPLOYMENT TAX FOR EDUCATION
FACILITIES
Sponsor: BISHOP
Requester: (S) Labor & Commerce

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2020 Appropriation Requested	Included in Governor's FY2020 Request	Out-Year Cost Estimates				
			FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
OPERATING EXPENDITURES	FY 2020	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Personal Services	717.5		717.5	717.5	717.5	717.5	717.5
Travel	5.0		5.0	5.0	5.0	5.0	5.0
Services	40.0		40.0	40.0	40.0	40.0	40.0
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	762.5	0.0	762.5	762.5	762.5	762.5	762.5

Fund Source (Operating Only)

1004 Gen Fund (UGF)	762.5		762.5	762.5	762.5	762.5	762.5
Total	762.5	0.0	762.5	762.5	762.5	762.5	762.5

Positions

Full-time	8.0		8.0	8.0	8.0	8.0	8.0
Part-time							
Temporary							

Change in Revenues

1004 Gen Fund (UGF)	9,281.0		13,289.0	13,377.0	13,462.0	13,544.0	13,624.0
Total	9,281.0	0.0	13,289.0	13,377.0	13,462.0	13,544.0	13,624.0

Estimated SUPPLEMENTAL (FY2019) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2020) cost: 8,000.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? No
(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 07/01/20

Why this fiscal note differs from previous version/comments:

Updated page one to add estimated capital costs to match implementation cost analysis on page two. This version is based on the 2-13-19 Governor's FY2020 request.

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Division:	Tax Division	Date:	04/15/2019 03:00 PM
Approved By:	Brad Ewing, Administrative Services Director	Date:	04/16/19
Agency:	Office of Management and Budget		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2019 LEGISLATIVE SESSION

BILL NO. SB 50

Analysis

Bill Analysis

This bill would enact a tax on both wages and self-employment income. The tax would be payable by residents on income, wherever earned, and by nonresidents on income earned in Alaska. The amount of the tax is a flat \$30 per person per year. The bill would require employers to withhold \$30 from an employee's first paycheck of the year, in most cases, and remit the tax to the state. An employer would be liable for the tax, and a penalty, if it failed to withhold from an employee.

This bill would require self-employed individuals to file and pay the tax with the Department of Revenue (DOR) in accordance with regulations adopted by the DOR. Resident individuals with wage income entirely from sources outside the state would also be required to file and pay the tax.

There would likely not be a need for the majority of taxpayers to file a return since the tax is a very simple, flat rate with a one-time withholding in most cases. Wage earners in Alaska would simply have their \$30 withheld from their first paycheck of the year and would not need to file anything with the DOR unless they had a second job and had the \$30 withheld twice. In that case, they would need to file for a refund claim. Self-employed individuals and residents with income from sources entirely outside the state would need to file and pay taxes with the DOR. There could either be an interface between Department of Labor and Workforce Development (DOLWD) and DOR created with all reporting and refunds handled by the DOR, or DOLWD could administer the entire program for wage earners with income from sources in the state--including reporting and refunds of overpayments. These details would need to be decided after a cost/benefit analysis.

This bill would tax only wages and self-employment income. Dividends, capital gains, pensions, and other forms of income would not be taxed.

Revenue Impact

Our estimate is based on solid wage earner data and on less solid self-employment data. We estimate about 407,000 wage earners (resident and non-resident) and 28,000 self-employed earners as the taxpayer base. The self-employed earner number is less certain because we had to make assumptions based on the available data.

The bill would take effect on January 1, 2020, meaning that FY20 revenue would be for only the second half of the fiscal year. However, since the tax is a flat amount withheld from the first paycheck of the calendar year, we are estimating FY20 revenue at 75% of the amount that would be collected in a full year.

Implementation Cost

The \$8 million capital request reflects an estimate for our contract with FAST Enterprises to develop a new module for this tax type in our Tax Revenue Management System (TRMS). In addition to the tax return filing and examination functions, the contractor will need to provide for the associated databases, forms, communications, and integration with our existing imaging, accounting, and collections modules. There would also be an online component to allow taxpayers to file, pay and request refunds electronically.

Currently, the DOLWD administers the Employment Security Tax, which establishes a relationship for data and tax collection with most employers in Alaska. It is possible that some efficiencies could be achieved by linking these databases. However, the proposed legislation adds at least two major functions that do not exist within the Employment Security Tax. These are: (1) receiving and processing individual (rather than employer aggregated) tax returns as well as direct payments from self-employed individuals, and (2) providing refunds in the event of overpayment.

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Analysis

In past Legislatures, the DOR has asked for 30 new positions to administer a similar tax. This bill differs from past head tax bills in a significant way that would allow the DOR to administer it with far fewer staff. Past bills were bracketed, and the tax was based on net income. Since the tax was based on net income, a tax return would have been required from each and every taxpayer in order to calculate the correct tax due. We estimate there would be about 435,000 taxpayers. The tax was also greater in past bills which meant there would have been more of an incentive for taxpayers to attempt to evade the tax by not reporting all of their income, or by over reporting deductions and expenses. Since this draft bill, SB50, doesn't require tax returns from the majority of the affected taxpayers (in-state wage earners) we estimate that the DOR would only receive about 28,000 tax returns a year. The tax rate is relatively small which means there is not a great incentive to evade the tax. Therefore, the DOR would need relatively few staff to administer the tax. We need to stress, however, that if the structure were to change to a tax based on income, the DOR would need a much higher number of staff to administer it.

Our initial analysis is that we would need to add 8 new employees to implement this tax. The positions would be as follows:

- (1) Revenue Audit Supervisor
- (2) Tax Technicians
- (1) Auditor
- (1) Accounting Technician
- (1) Analyst Programmer
- (2) Imaging Operators

Additional travel is largely for public education efforts, as well as the need to train new staff on the tax management system. Cost for Services reflects primarily internal "core services" paid to other state agencies, due to additional staff within the Tax Division.