



Tax on Wages and Self-Employment Earnings

SB 4001

SECTIONAL ANALYSIS

FOR THE SENATE FINANCE COMMITTEE

Section 1:

Conforming language to exempt individuals required to file under this bill from electronic filing requirement. Actual exemption language is in Section 2 at 43.45.051(f).

Section 2:

Adds a new chapter 45 in AS 43 for a payroll tax on both wages and self-employment income earned in Alaska.

43.45.011 – Imposes a tax of 1.5 percent on wages and net earnings from self-employment from sources in the state. Net operating losses are not allowed when calculating earnings from self-employment. Creates a maximum tax “cap” equal to two times the permanent fund dividend distributed in the previous calendar year. If the dividend is less than \$1,100 as adjusted for inflation, the maximum tax is \$2,200 adjusted for inflation instead.

43.45.021 – Defines sources of income in Alaska that are subject to the tax.

43.45.031 – Authorizes the DOR to adopt regulations for determining self-employment and partnership net income of multistate businesses consistent with apportionment statutes currently allowed for multistate corporations.

43.45.041 – Provides for withholding from wages and salaries by employers, with those withheld taxes periodically remitted to the state.

43.45.051 – Provides for annual returns from self-employed individuals to the DOR with taxes due on the date the federal tax return is due. Self-employed individuals are exempt from the requirement to file a return electronically, but paid preparers are not exempt from the requirement. Authorizes the DOR to adopt regulations for partnerships to elect to pay tax on the partner’s behalf and file composite tax returns.

43.45.061 – Provides that a taxpayer's tax year and method of accounting are the same as they are for federal tax purposes.

43.45.071 – The department is authorized to pay refunds of overpaid taxes. Refunds may be coordinated with refunds of employment security contributions.

43.45.081 – Anyone required federally to report a payment to a self-employed individual is required to report the same payment to the DOR.

43.45.091 – Authorizes the DOR to adopt regulations and forms. Tax collected under this bill to be deposited into the general fund. The DOR will coordinate collection and reporting of this tax with the employment security contributions by the DLWD if it will result in cost savings for the state.

43.45.101 – Adopts certain administrative and penalty sections of the internal revenue code.

43.45.111 – Authorizes the DOR to send certain confidential information to a banking institution to verify the direct deposit or correct an error of a refund.

43.45.151 – Adds definitions for specific terms used in this section.

Section 3:

The DOR may adopt regulations to implement Section 2. The regulations will take effect on or after the effective date of Section 2.

Section 4:

Immediate effective date of Section 3, so that regulations can be drafted immediately.

Section 5:

Effective date of 1/1/2019 for the rest of the bill.