

# Fiscal Note

State of Alaska  
2022 Legislative Session

Bill Version: HB 37  
Fiscal Note Number: \_\_\_\_\_  
( ) Publish Date: \_\_\_\_\_

Identifier: HB37-DOA-OAH-01-11-22  
Title: INCOME TAX; PERMANENT FUND; EARNINGS  
RES.  
Sponsor: WOOL  
Requester: (H) State Affairs

Department: Department of Administration  
Appropriation: Centralized Administrative Services  
Allocation: Office of Administrative Hearings  
OMB Component Number: 2771

## Expenditures/Revenues

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

	FY2023 Appropriation Requested	Included in Governor's FY2023 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	FY 2023	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Personal Services				214.1	214.1	214.1	214.1
Travel							
Services				10.0	10.0	10.0	10.0
Commodities				10.0			
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>234.1</b>	<b>224.1</b>	<b>224.1</b>	<b>224.1</b>

## Fund Source (Operating Only)

1007 I/A Rcpts (Other)				234.1	224.1	224.1	224.1
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>234.1</b>	<b>224.1</b>	<b>224.1</b>	<b>224.1</b>

## Positions

Full-time				1.0	1.0	1.0	1.0
Part-time							
Temporary							

## Change in Revenues

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Estimated SUPPLEMENTAL (FY2022) cost:** 0.0 (separate supplemental appropriation required)

**Estimated CAPITAL (FY2023) cost:** 0.0 (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? No  
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

## Why this fiscal note differs from previous version/comments:

Updated fiscal note for the current fiscal year. And different grade and step has been used for the personal services costs to better reflect the need to have a tax qualified law judge.

Prepared By:	Becky Kruse	Phone:	(907)269-8170
Division:	Office of Administrative Hearings	Date:	01/21/2022
Approved By:	Leslie Isaacs, Administrative Services Director	Date:	01/21/2022
Agency:	Office of Management of Budget		

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2022 LEGISLATIVE SESSION

BILL NO. HB 37

### Analysis

#### Personal Income Tax Created

Section 10 of the bill establishes a personal income tax on residents and non-residents. The tax is payable by non-residents on the portion of their income derived from sources within the State. Like the federal income tax, it would be payable based on calendar year earnings.

To qualify as "from a source in the state," income is broadly defined to include both regular compensation and rents, profits, and other proceeds businesses and other assets within Alaska. Partnership income and earnings from subchapter-S corporations transacting business in Alaska will be subject to this tax. The bill provides for withholding of tax by employers. Employers must also provide annual income statements analogous to the federal W-2.

#### Implementation Cost

The Office of Administrative Hearings (OAH) functions as the state equivalent of the United States Tax Court, presently handling appeals relating to corporate income tax, oil and gas production tax, fish tax, and a variety of other taxes. Appeals from final Department of Revenue decisions on audit findings and other disputes relating to personal income tax would fall within OAH jurisdiction. The appeals would flow from the Informal Conference Decisions generated by the new appeals officers the Department of Revenue projects to employ.

Although the income tax established in this bill is simple, the experience in Alaska and other states is that such taxes generate a significant volume of appeals. Appeals can relate to domicile issues, penalties for failure to file, withholding issues, and substantive tax questions. When Alaska had an income tax in the late 1970s, it accounted for about twenty percent of the workload of three Revenue Appeals Officers (who were the equivalent in this context of present-day administrative law judges at OAH), or a total workload of 0.6 full-time positions. The state's population has increased approximately 85% since that time. This suggests that long-term appeal load from a state income tax would require at least one additional tax-qualified administrative law judge.

An appeal would not come to OAH until after the tax is implemented, tax returns are filed, and Department of Revenue conducts informal review processes. Thus the implementation cost for OAH is not immediate. We expect the volume of appeals to be highest at the inception of the tax, beginning about nine months after the first tax returns would be due and building to an early peak. The load would taper to a lower level as the public, and the businesses required to withhold state tax, become more accustomed to the personal income tax. The tapering period is beyond the horizon of this fiscal note. Thus we project one additional tax-qualified administrative law judge position starting in FY 2025. If it becomes necessary to avoid unreasonable delays in processing tax appeals, OAH will request additional funds to reduce short-term backlogs through non-permanent hires or professional services contracts.