

Fiscal Note

State of Alaska
2021 Legislative Session

Bill Version: HB 189
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB189-DOR-TAX-04-30-21
Title: EMPLOYMENT TAX FOR EDUCATION
Sponsor: WAYS & MEANS
Requester: (H) Ways & Means

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)

	FY2022 Appropriation Requested	Included in Governor's FY2022 Request	Out-Year Cost Estimates					
			FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
OPERATING EXPENDITURES								
Personal Services	502.6		502.6	502.6	502.6	502.6	502.6	502.6
Travel	5.0							
Services	69.5		69.5	69.5	69.5	69.5	69.5	69.5
Commodities	55.5		0.5	0.5	0.5	0.5	0.5	0.5
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	632.6	0.0	572.6	572.6	572.6	572.6	572.6	572.6

Fund Source (Operating Only)

1004 Gen Fund (UGF)	632.6		572.6	572.6	572.6	572.6	572.6	572.6
Total	632.6	0.0	572.6	572.6	572.6	572.6	572.6	572.6

Positions

Full-time	5.0		5.0	5.0	5.0	5.0	5.0	5.0
Part-time								
Temporary								

Change in Revenues

1004 Gen Fund (UGF)	48,000.0		65,000.0	65,000.0	66,000.0	66,000.0	66,000.0	66,000.0
Total	48,000.0	0.0	65,000.0	65,000.0	66,000.0	66,000.0	66,000.0	66,000.0

Estimated SUPPLEMENTAL (FY2021) cost: 0.0 (separate supplemental appropriation required)

Estimated CAPITAL (FY2022) cost: 6,000.0 (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If yes, by what date are the regulations to be adopted, amended or repealed? 12/31/21

Why this fiscal note differs from previous version/comments:

Not applicable, initial version.

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Agency: Department of Revenue
Phone: (907)269-1033
Date: 04/30/2021 01:00 PM
Date: 04/30/2021

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2021 LEGISLATIVE SESSION

BILL NO. HB 189

Analysis

Background

This proposed legislation creates a new broad-based "education tax" that would apply to resident and nonresident individuals with wages or net earnings from self-employment that are attributable to a source in the state. Although it is called an "education tax" it is a tax on individual income. It is called an education tax as the earnings are intended to be appropriated to the Public Education Fund.

The tax rate would generally follow a progressive tax rate schedule depending on the individual's wages and net earnings from self-employment. The tax ranges from a minimum of \$50 a year for those individuals earning less than \$20,000 to a \$500 tax for individuals earning over \$500,000 a year.

The tax would be withheld from employees' wages by the employer. The employer would remit the tax to the Department of Revenue (Department). The proposed legislation provides that the Department can impose a civil penalty to an employer who withholds the taxes from employees, but then fails to remit that tax to the Department. Self-employed individuals would need to remit their tax directly to the Department.

If the tax is overpaid either by the individual or on behalf of the individual, the Department shall refund the overpayment to the individual. The refunds cannot be applied for until the following calendar year in which the excess tax was paid.

Revenue Impact

At full implementation, revenue is estimated to be about \$65 to \$66 million annually. This estimate assumes about 406,000 wage earners and self-employed workers as the resident taxpayer base. This tax base, and the distribution among tax brackets, is estimated based on the 2018 "Statistics of Income" report for Alaska published by the Internal Revenue Service. It is assumed that about 81,000 non-residents will increase the tax base by approximately 20%. This 20% adjustment is based in part on estimated nonresident employees per the Alaska Department of Labor's "Nonresidents Working in Alaska" report. The tax base is expected to grow slowly over time based on expected population growth.

The FY2022 revenue estimate represents 75% of a full year of revenue given that the tax would take effect midway through the fiscal year. This is a rough estimate, attempting to account for the fact that while the tax would be withheld from an employee's first two paychecks, some employees may not have employment earnings in the first half of the calendar year, and some solely self-employed individuals pay not pay the tax until later in the year.

As the tax combines elements of a flat per-person levy and a progressive bracket structure, the impact on Alaskans by household will vary. Any impact will be partially mitigated, as state individual income taxes are deductible from federal taxes. Thus, Alaskans who itemize their federal taxes would be able to reduce their federal tax liability by the amount of their state tax multiplied by their marginal federal tax rate.

Implementation Cost

The \$6 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 individuals to file, pay, and request refunds electronically.

This estimate assumes that the Department will receive capital funding for a TRMS Update (version 12) in the FY2022 budget. If that does not occur, this estimate will need to be increased by \$5 million.

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Analysis

This proposed legislation does not require tax returns from the majority of the affected taxpayers (resident wage earners) nor does it allow for paper returns. We estimate that the majority of the program would be automated through the employer withholding process and therefore, would require minimal resources. We would need to add five new positions to implement and administer this new tax program:

- (1) Revenue Audit Supervisor
- (2) Tax Technicians
- (1) Auditor
- (1) Accounting Technician

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. Commodities reflect the initial outfit for a new employee for office and computer furnishings.