

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSSB 137(STA)
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Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Employment Tax for Education BRU Revenue Operations
 Component Tax Division
 Sponsor Senator Gary Stevens
 Requester Senate Finance Committee Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	618.8	618.8	618.8	618.8	618.8	618.8
Travel	28.0	14.0	14.0	14.0	14.0	14.0
Contractual	175.5	175.5	175.5	175.5	175.5	175.5
Supplies	12.0	12.0	12.0	12.0	12.0	12.0
Equipment	190.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	1,024.3	820.3	820.3	820.3	820.3	820.3

CAPITAL EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009

CHANGE IN REVENUES ()	39,000.0	39,000.0	39,000.0	39,000.0	39,000.0	39,000.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,024.3	820.3	820.3	820.3	820.3	820.3
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	1,024.3	820.3	820.3	820.3	820.3	820.3

Estimate of any current year (FY2003) cost: 900.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	10	10	10	10	10	10
Part-time						
Temporary	10	10	10	10	10	10

ANALYSIS: (Attach a separate page if necessary)

See attached pages for revenue and operating expense explanations, and discussion of this legislation.

Prepared by: Chuck Harlamert, Chief of Operations Phone 465-4773
 Division Tax Division Date/Time 4/7/03 4:01 PM
 Approved by: Larry Persily, Deputy Commissioner Date 4/7/2003
 Agency Department of Revenue

Revenues

The Department estimates the new program could generate as much as \$39 million a year in state revenue in a full fiscal year starting in Fiscal 2004. This estimate is based not on the number of jobs in Alaska, but on the number of different individuals who hold those jobs during the year and the number of individuals who are self-employed in the state. As the Senate State Affairs CS includes a July 1, 2003 effective date for the new tax, the state would realize the full revenues in the program's first year of operation.

Annual Operating Expenditures

The Department of Revenue estimates it will receive 75,000 returns/reports/payments from businesses and self-employed individuals during the year, plus an estimated 12,000 refund claims.

We project it will require 10 full-time and 10 temporary workers to administer the new revenue program:

- 1 Revenue Auditor V
- 1 Revenue Auditor III
- 1 Analyst/Programmer II
- 1 Tax Technician III
- 2 Tax Technicians II
- 2 Accounting Technicians II
- 2 Administrative Clerks II
- 10 temporary data entry / mail / clerks during the busiest period for returns
(each working about four months)

The Department would use data imaging and electronic filing as much as possible to reduce the program's fiscal cost to the state and the cost to businesses.

Start-up Expenses

The Department requests \$900,000 in supplemental funds for Fiscal 2003, with a June 30, 2004 lapse date, because of the urgent need to immediately start preparations for the new tax program to take effective July 1, 2003. The money would be used for a large-scale imaging system, electronic filing and software to accommodate data files for businesses and an estimated 390,000 individuals each year, and a web-based system to allow businesses and self-employed individuals to file paperless returns.

The Department will need to move quickly in order to have the tax system in place in just two months and therefore will need to contract for much of the work with private companies. However, not all of the set-up and systems work will be completed by July 1, 2003, and we would use the balance to complete the work during Fiscal 2004.

The funding will cover the following anticipated activities:

- Employer information pamphlets
- Informational inserts with paychecks
- Workplace posters
- Household mail-outs
- Public service announcements
- General and targeted self-employment mail-outs
- Toll-free help desk

Suggested Changes

Sec. 43.45.011(b) – For purposes of this section, “compensation” includes wages, salaries, commissions, tips [and] any other form of remuneration paid for personal services, and gross receipts from a trade or business. ***(This would clarify that self-employed people who sell goods are subject to the tax, not just self-employed people in a service business.)***

Sec. 43.45.021 - Collection and payment of tax. (a) An employer shall deduct and withhold the lesser of 10% of the employees’ gross compensation or \$50 of the tax from the employee’s salary or other compensation on [EACH OF] the first [TWO] regular payroll[S] in which [AFTER] the employee’s total compensation paid by the employer during the tax year [HAS] exceeds[ED] \$1,000 and from subsequent payrolls until the tax due under this chapter is fully withheld. ***(These changes would spread the impact on low-income taxpayers and avoid the risk of withholding 100% of a paycheck.)***

(b) An employer shall file a return on a form prescribed by the department and remit [SEND] the tax withheld to the department on or before the fifteenth day of the month following the earlier of the last day of

- (1) each calendar quarter during which tax was required to be withheld; or
- (2) any month where on the last day of that month the employer has withheld but not paid \$500 or more of tax.

[MONTH IN WHICH THE TAX WAS WITHHELD FROM THE EMPLOYEE] ***(These suggestions would reduce the filing frequency for small employers.)***

Sec. 43.45.041 - Refund Claims by Individuals. An individual who has paid tax or from whom tax was withheld by an employer in excess of \$100 during a tax year may claim a refund from the department. The claim must be made on a form or in a manner proscribed by the department on or before December 31 of the calendar year immediately following the tax year. For purposes of interest payable under AS 43.05.280 only, the claim shall be treated as a return the due date of which is the later of the date the claim was filed with the department or the date on which the last payment of the tax was received by the department. ***(This new section, we believe, is the most effective manner to deal with overpayments.)***

New Section for a transition rule. Notwithstanding AS 43.54.021(b)(2) the due date for filing a return and paying the tax with respect to amounts withheld during the first three months during which the tax is in effect shall be the fifteenth day of the fourth month during which the tax is in effect. ***(This transition rule will give the department and taxpayers more time to prepare for the tax, simplify initial filing, and improve customer service during the start-up phase.)***

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Sectional Review

Section 1 amends AS 43 by adding a new chapter to impose an education tax.

AS 43.45.011 provides that the tax is \$100 a year on each individual 19 years of age or older who is employed or self-employed in the state and who receives compensation in excess of \$1,000 during the tax year.

AS 43.45.021 provides that an employer is to deduct \$50 from each employee's wages in each of the first two regular payrolls of the tax year, or the first two payrolls following employment. The employer must then remit the tax deducted to the department. No deduction may be made if the employee can prove to the employer that the \$100 tax has previously been paid. The department is to provide a return form for the employer to remit the tax.

A self-employed individual who has not had the full tax withheld during the tax year must file a return and pay the tax before the end of the tax year.

AS 43.45.031 holds an employer liable for the tax it is required to withhold and remit.

AS 43.45.041 provides that the tax shall be deposited into the general fund, accounted for separately, and may be appropriated by the legislature for education. The deposit and appropriation is not intended to create a dedicated fund.

AS 43.45.051 defines the tax year and the period beginning July 1 and ending June 30.

Section 2 provides that the tax takes effect on July 1, 2003.