

# FISCAL NOTE

**STATE OF ALASKA**  
**2005 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: CSSB 112 (FIN)  
 (S) Publish Date: 4/21/05

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue 04  
 Title Tax on REAA Residents RDU Treasury and Tax  
 Component Tax Division  
 Sponsor Senators Bunde and Wilken  
 Requester Senate FIN Component No. 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services	377.8	725.6	782.4	782.4	782.4	782.4
Travel	6.0	8.0	8.0	8.0	8.0	8.0
Contractual	80.9	129.8	126.1	126.1	126.1	126.1
Supplies	7.0	11.0	11.0	11.0	11.0	11.0
Equipment	56.0	32.0				
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>527.7</b>	<b>906.4</b>	<b>927.5</b>	<b>927.5</b>	<b>927.5</b>	<b>927.5</b>

<b>CAPITAL EXPENDITURES</b>	167.0	75.0				
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<b>CHANGE IN REVENUES ( )</b>	<b>9,215.7</b>	<b>10,187.4</b>	<b>10,187.4</b>	<b>10,187.4</b>	<b>10,187.4</b>	<b>10,187.4</b>
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	527.7	906.4	927.5	927.5	927.5	927.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>527.7</b>	<b>906.4</b>	<b>927.5</b>	<b>927.5</b>	<b>927.5</b>	<b>927.5</b>

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time	7	11	11	11	11	11
Part-time						
Temporary		5	5	5	5	5

**ANALYSIS:** (Attach a separate page if necessary)  
 (see attached)

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 Division Tax Division  
 Approved by: Tom Boutin  
 Agency Department of Revenue

Phone 465-2320  
 Date/Time 4/18/05 8:11 AM  
 Date 4/18/2005

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**Cost Discussion**

We project filing volumes under the bill at approximately 16,000 returns, reports, and refund claims annually. This volume represents more than a 50% increase over our current levels although, on average, REAA tax returns would be less complex than the average return we process at this time. The administrative challenges of this tax are the need to enforce a tax based on place of residence and subject to exclusions, and the need to validate refund claims against withholding and issue the refunds timely. Fully implemented program staffing represents:

Permanent Positions	Range	Function
Revenue Audit Supervisor	22	Program Manager
Revenue Auditor IV	20	Audit & Compliance
Revenue Auditor III	18	Audit & Compliance
Tax Technician IV	16	Examination & Customer Service
Tax Technician III	14	Examination & Customer Service
Tax Technician III	14	Examination & Customer Service
Tax Technician II	12	Examination & Customer Service
Tax Technician II	12	Examination & Customer Service
Accounting Technician II	14	Accounting & Collections
Accounting Clerk	12	Cash Processing & Billing
Admin Clerk II	8	Mail/File Maintenance/Data Entry

In addition we will require five temporary Admin Clerk positions for mail processing and data entry during January – April.

Capital costs represent the cost of incorporating the program into existing systems and facilitation of electronic filing. These estimates assume completion of planned system enhancements supporting this type of return. We would require an additional \$92,000 of capital expenditure if this assumption is not correct.

**Revenue**

For the revenue estimate we used the total local required contribution for boroughs in FY 2005 of \$161,743,619 divided by the 2004 organized-borough population for ages 21-64 of 345,612 for CY 2004. The result is an estimated per-organized-borough-adult contribution of \$467.99. This bill imposes a tax "on each individual who is 21 years of age but not more than 64 years of age [...] who resides in a regional educational attendance area." However, eighteen first-class and home-rule cities fall within the regional educational attendance areas and are subject to the same school contribution requirement as the organized boroughs (AS 14.17.410(b)(2)). Excluding residents of first-class and home-rule cities, the total REAA population for ages 21-64 is 27,070. The figure for the total local required contribution comes from the Alaska Department of Education and Early Development, and the population estimates comes from the Department of Labor and Workforce Development.

In addition to the exemption for seniors age 65 and over, the bill includes three other exemptions: (1) individuals who are members of families at or below federal poverty guidelines; (2) veterans with 50% or greater service-related disability; and (3) individuals who own property and pay property tax in a municipality. We estimate that 5,213 individuals will qualify for the poverty exemption, and that an additional 88 individuals will qualify for the disabled veteran exemption. Due to the lack of data and the small number of disabled veterans, we made no adjustment for disabled veterans who are also in poverty. Also, due to the lack of data, we did not adjust for the exemption for REAA residents who own property in other municipalities. After adjusting for exemptions, we estimate there will be 21,768 taxpayers who will be required to pay the tax. Our poverty exemption estimate is based on 2000 poverty estimates by place from the U.S. Census Bureau for ages 18-64. We first adjusted the poverty data to ages 21-64 using the ratio of 18-64 population to 21-64 population for each locale based on 2000 estimates from the Department of Labor. We then adjusted this to a 2004 estimate using 2000 and 2004 estimates for the 21-64 population from each locale from the Department of Labor.

The bill has an effective date of January 1, 2006. Taxpayers have until "January 15 of the calendar year following the year for which it is imposed" to file their taxes. In the first fiscal year (FY 2006) we assume we will receive the employer withholding. Here we are assuming that all employers withhold the entire required amount for all employees that reside within the unorganized borough but outside of first-class or home-rule cities and remit this amount to the Department within the first five months of 2006. We used a 2003 Alaska Department of Labor estimate of workers over 21 years of age (19,692) that reside within the unorganized borough but outside of first-class or home-rule cities to derive the FY 2006 revenue estimate of \$9.2 million. Our FY 2006 estimate includes revenue from all workers including those who qualify for exemptions because although we will refund withholding for these workers in FY 2007, we will again receive withholding from them in FY 2007 and coming years. Also, our FY 2007 of \$10.2 million assumes that we will receive returns from all adults who are subject to the tax as calculated above but have not had their taxes paid by an employer. We have not adjusted our estimates for potential noncompliance with the tax or changes in behavior due to the tax. We also have not included any potential fees, penalties, interest or unclaimed refunds in our estimates.

Because "resides" is not defined in the Bill, it is difficult to address the issue of how many nonresidents would be subject to the tax. Consequently we did not include them in our estimates on the front of this fiscal note. In addition, there may be Alaska residents who reside in organized boroughs but do not pay property taxes (renters) who "reside" for some of the year in REAAs as defined in this bill. The Alaska Department of Labor does not break out nonresident workers by place, identify them by age, income or military status. However, using the ratio of estimated resident taxpayers to 21 - 64 year-old-unorganized-borough residents multiplied by the total nonresident workers within the unorganized borough, we obtained a rough estimate that about 4,000 nonresidents could be subject to the tax. This would raise about \$1.9 million in revenue currently not reflected in the fiscal note.