

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: CSSB 112(FIN)
 (S) Publish Date: 3/1/06

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Tax on REAA Residents RDU Tax and Treasury
 Component Tax
 Sponsor Senators Bunde, Wilken, Wagoner
 Requester (S) FIN Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
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						
TOTAL OPERATING	527.7	906.4	927.5	927.5	927.5	927.5

CAPITAL EXPENDITURES	167.0	75.0				
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CHANGE IN REVENUES ()	9,215.7	10,187.4	10,187.4	10,187.4	10,187.4	10,187.4
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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)						
TOTAL	527.7	906.4	927.5	927.5	927.5	927.5

Estimate of any current year (FY2006) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2007 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)

Cost Projection

We project filing volumes under this 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, the REAA tax returns would be less complex than the average tax return we process at this time. The administrative challenges of this tax are the need to enforce a tax based on place or residence and subject to exclusions, and the need to validate refund claims against withholding and issue the refunds timely.

Prepared by: Paul E. Dick, Chief of Revenue Operations Phone 465-4773
 Division Tax Division Date/Time 3/1/06 7:29 AM
 Approved by: Jerry Burnett Date 3/1/2006
 Agency Department of Revenue

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ANALYSIS CONTINUATION

Fully implemented program staffing represents permanent positions as follows:

Revenue Audit Supervisor (Range 22) - Program Manager
 Revenue Auditor IV (Range 20) - Audit and compliance
 Revenue Auditor IV (Range 20) - Audit and compliance
 Tax Technician IV (Range 16) - Supervisor of examination and customer service
 Tax Technician III (Range 14) - Examination and customer service
 Tax Technician III (Range 14) - Examination and customer service
 Tax Technician II (Range 12) - Examination and customer service
 Tax Technician II (Range 12) - Examination and customer service
 Accounting Technician II (Range 14) - Accounting and collections
 Accounting Clerk (Range 12) - Cash processing and billing
 Administrative Clerk II (Range 8) - Mail processing and data entry

In addition, we will require five temporary Administrative Clerk II positions to process mail and data enter returns during peak filing periods of January through 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 expenditures if this assumption is not correct.

Revenue

For the revenue estimate we used the total 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 pre-organized borough adult contribution of \$467.99. This bill imposes a tax "on an individual who is 21 years of age but not more than 64 years of age [...] who resides in a regional educational attendance area (REAA)." However, 18 first-class and home-rule cities fall within the REAA 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 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 come from the Department of Labor and Workforce Development.

In addition to the exemption for seniors age 65 and older, 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 5213 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 the 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.

This bill has an effective date of January 1, 2006. Taxpayers have until January 15 of the following calendar year to file their taxes. In the first fiscal year (FY 2007), we assume we will receive employer withholding. Here we are assuming that all employers withhold the entire required amount for all employees who reside in the unorganized borough but outside of first-class or home-rule cities and remit this amount to the Department of Revenue by the end of the calendar year. We used a 2003 Alaska Department of Labor estimate of workers over 21 years of age (19,692) who reside within the unorganized borough but outside first-class and home-rule cities to derive the FY 2007 revenue estimate of \$9.2 million. Our FY 2007 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 2008 and coming years. Also, our FY 2008 revenue estimate 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 have also 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. 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 the bill. The Alaska Department of Labor does not break out nonresidents 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 total nonresident workers within the unorganized borough, we obtained a rough estimate that about 4,000 residents would be subject to the tax. This would raise about \$1.9 million in revenue that currently is not reflected in the fiscal note.