

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	SSHB 146
Fiscal Note Number:	2
(H) Publish Date:	3/27/2017

Identifier: HB146-DOR-TAX-03-17-17  
 Title: SCHOOL TAX; PFD PAYMENT FOR SCHOOL TAX  
 Sponsor: CLAMAN  
 Requester: House Education

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)

	FY2018	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2018 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<b>OPERATING EXPENDITURES</b>	<b>FY 2018</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
Personal Services	1,400.0		2,500.0	4,400.0	4,400.0	4,400.0	4,400.0
Travel							
Services	600.0		400.0	600.0	600.0	600.0	600.0
Commodities			50.0	50.0	50.0	50.0	50.0
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>2,000.0</b>	<b>0.0</b>	<b>2,950.0</b>	<b>5,050.0</b>	<b>5,050.0</b>	<b>5,050.0</b>	<b>5,050.0</b>

**Fund Source (Operating Only)**

1004 Gen Fund (UGF)	2,000.0		2,950.0	5,050.0	5,050.0	5,050.0	5,050.0
<b>Total</b>	<b>2,000.0</b>	<b>0.0</b>	<b>2,950.0</b>	<b>5,050.0</b>	<b>5,050.0</b>	<b>5,050.0</b>	<b>5,050.0</b>

**Positions**

Full-time	10.0		23.0	40.0	40.0	40.0	40.0
Part-time							
Temporary							

**Change in Revenues**

1250 UGF Rev (UGF)	270,000.0		540,000.0	540,000.0	540,000.0	540,000.0	540,000.0
<b>Total</b>	<b>270,000.0</b>	<b>0.0</b>	<b>540,000.0</b>	<b>540,000.0</b>	<b>540,000.0</b>	<b>540,000.0</b>	<b>540,000.0</b>

**Estimated SUPPLEMENTAL (FY2017) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2018) cost:** 10,000.0 *(separate capital appropriation required)*  
*(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 If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/18

**Why this fiscal note differs from previous version:**

Not applicable; initial version.

Prepared By:	Ken Alper, Director	Phone:	(907)465-8221
Division:	Tax Division	Date:	03/15/2017 11:00 PM
Approved By:	Jerry Burnett, Deputy Commissioner	Date:	03/17/17
Agency:	Department of Revenue		

## FISCAL NOTE ANALYSIS

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## Analysis

**Bill Analysis**

The bill establishes a tax on adjusted gross income. The tax is payable by both residents and nonresidents. The amount of tax is a flat amount tied to an annual income scale, and ranges from a minimum of \$100 to a maximum of \$8,500 per individual or joint taxpayer. The legislature may appropriate revenue from this tax to the Public Education Fund. Taxpayers may direct the Department of Revenue to apply some or all of their Permanent Fund Dividend towards their school tax liability.

At full implementation, revenue will be about \$540 million / year. Any impact on taxpayers would be partially mitigated because this will likely qualify as a state income tax meaning it would be deductible from federal taxes. Therefore, Alaskans who itemize would be able to reduce their federal taxable income by the amount of their state tax.

**Revenue Impact**

The Tax Division has modified their existing income tax revenue model to estimate the approximate number of taxpayers in each income category. The bill would take effect on January 1, 2018, meaning that FY18 revenue would be for only the second half of the fiscal year.

**Implementation Cost**

Adding a broad based tax would be a significant challenge to the Tax Division. We have recently completed implementation of Tax Revenue Management System (TRMS), which is creating an integrated online tax application used by both taxpayers and administrators for the 25 tax types currently administered by the Division. We expect to engage FAST Enterprises, the TRMS contractor, to build a new module for this tax into TRMS.

Among the funds requested for FY2018, the Department intends to use about \$300.0 to begin the implementation process. With this, we will engage a contractor with experience building a statewide tax structure impacting individual workers. An essential deliverable of the outside contract will be an implementation plan that includes staffing, infrastructure, and additional outreach needs. Any revised cost of implementing this tax will be brought to the legislature during the 2018 regular session.

We will also begin the outreach to Alaska's business community to prepare for wage withholding. The bill also delegates substantial regulation writing authority to the Department of Revenue to establish rules to determine the Alaska portion of adjusted gross income.

The \$10,000.0 capital request reflects an estimate for our contract with FAST to add the new tax module as well as the Department's other short-term implementation costs. This is a multi-year process and much of the actual spending will not occur until after we begin collecting revenues. The initial fast-track need will be to build and implement a tax withholding system, which will need to be in operation by January 1, 2018. In addition to the software development, this will require a rapid and robust outreach to the business community throughout Alaska, as well as integration with national accounting and tax software vendors in order to update programs such as TurboTax and QuickBooks to incorporate Alaska.

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### Analysis

Once the withholding system is in place, the contractor and staff will begin building the tax return filing and examination modules, with their associated databases, communications, and integration with our existing imaging, accounting, and collections systems. Although the legislation does not specify, the department would likely create a monthly filing requirement for employers, meaning that the first substantial receipts will be received in February 2018 and the first annual tax returns will be filed in early 2019.

Currently, the Department of Labor administers the Employment Security Tax, which establishes a relationship for data and tax collection with most employers in Alaska. It is possible that some efficiencies could be achieved by linking these taxes. However, the Department of Revenue will be required to add a major function that does not exist with the Employment Security Tax. This is the process for receiving individual tax returns with either taxes due net of withholding or refunds in the event of overpayment.

The department envisions a gradual ramping up of the staff needed to collect and administer the tax. At full implementation, we will have about 40 additional staff. We expect the new staff to be roughly split between our Juneau and Anchorage offices.

Throughout the six-year period covered by this fiscal note, we anticipate total implementation costs, operating plus capital, to be less than 1.5 percent of additional state revenue.

An initial analysis of the staff needs within the Tax Division to implement a personal income tax is as follows:

Title	FY18	FY19	FY20+
Audit Supervisor	1	1	1
Tax Auditor	4	6	10
Tax Technician	2	5	8
Tax Specialist	2	1	2
Appeals Officer	0	1	2
Accounting Technician	0	2	4
Admin Assistant	1	1	2
Analyst / Programmer	0	1	1
Imaging Operators & Office Assistants	0	5	10
<b>Total FT</b>	<b>10</b>	<b>23</b>	<b>40</b>