

Fiscal Note

State of Alaska
2018 Legislative Session

Bill Version:	HB 281
Fiscal Note Number:	2
(H) Publish Date:	1/16/2018

Identifier: DOR-TAX-01-13-18
Title: EMPLOYMENT TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Governor

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)

	FY2019	Included in	Out-Year Cost Estimates					
	Appropriation Requested	Governor's FY2019 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
OPERATING EXPENDITURES	FY 2019	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	
Personal Services	1,600.0		3,200.0	3,200.0	2,200.0	700.0		
Travel	20.0		20.0	20.0	20.0	20.0		
Services	400.0		700.0	700.0	500.0	200.0		
Commodities	80.0		80.0	80.0	80.0	80.0		
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	2,100.0	0.0	4,000.0	4,000.0	2,800.0	1,000.0	0.0	

Fund Source (Operating Only)

1004 Gen Fund (UGF)	2,100.0		4,000.0	4,000.0	2,800.0	1,000.0		
Total	2,100.0	0.0	4,000.0	4,000.0	2,800.0	1,000.0	0.0	

Positions

Full-time	15.0		30.0	30.0	20.0	5.0		
Part-time								
Temporary								

Change in Revenues

1250 UGF Rev (UGF)	160,000.0		320,000.0	320,000.0				
Total	160,000.0	0.0	320,000.0	320,000.0	0.0	0.0	0.0	

Estimated SUPPLEMENTAL (FY2018) cost: 250.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2019) cost: 4,000.0 (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If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/19

Why this fiscal note differs from previous version/comments:

Initial version

Prepared By: Ken Alper, Director
Division: Tax Division
Approved By: Ken Alper
Agency: Tax Division

Phone: (907)465-8221
Date: 01/11/2018 05:00 PM
Date: 01/13/2018

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2018 LEGISLATIVE SESSION

Analysis

Bill Analysis

The bill establishes a payroll tax on both wages and self-employment income earned in Alaska.

It applies equally to both residents and non-residents. The amount of tax is equal to one and one half percent (1 1/2%), with a maximum tax "cap" equal to two times the permanent fund dividend distributed in the previous calendar year. If the dividend is less than \$1,100 as adjusted for inflation, the maximum cap is \$2,200 instead.

The tax will be withheld by employers and remitted to the state. Employers of contract employees who are required to report this to the federal government, will be required to send comparable information to the state. Self-employed individuals shall report and pay directly to the state.

The Department of Revenue is given broad powers to administer the tax, including drafting regulations, determining what business income is from a source in the state and thus subject to the tax, collecting withholding taxes, and paying tax refunds. Portions of the Internal Revenue Code are adopted by reference.

Revenue Impact

The Tax Division has modified their existing income tax revenue model to estimate the approximate number of taxpayers and their associated tax burden. The bill would take effect on January 1, 2019. Wage employees will have their tax remitted periodically by their employers; for self employed individuals the tax return for calendar year 2019 will be due in early 2020.

At full implementation in FY2020, revenue will be about \$320 million / year. Revenue in FY2019 will be half that number, \$160 million, based on the tax taking effect in the middle of the fiscal year.

This bill is the companion of the Alaska Economic Recovery Act, an bill containing appropriations for priority capital and deferred maintenance projects. The appropriation is contingent on passage of this tax bill.

The tax sunsets on 7/1/21, so estimated revenue drops to zero beginning in FY2022.

Implementation Cost

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

With the \$250.0 in supplemental funds requested for FY2018, the Department intends 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. We will also contract for more advanced data services in order to more accurately forecast future revenues.

The \$4,000.0 capital request reflects an estimate for the contract with FAST to add a new tax module as well as the Department's other short term implementation costs. In an effort to reduce the cost, we will not be developing certain system features including audit, billing, and collections. Additionally, we will offer only limited filing, payment, and appeals options, provide simpler accounting, disbursement, and refund processes, and develop fewer interfaces with other systems, refunds, reports, and automatic letters. This estimate is substantially reduced from what would be in a permanent tax; if this were later extended, these features would likely need to be developed at additional cost. In addition to the software development, we will require integration with national accounting and tax software vendors in order to

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BILL NO. 0

Analysis

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 databases. However, the proposed legislation adds at least two major functions that do not exist within the Employment Security Tax. These are: receiving and processing individual (rather than employer aggregated) tax returns as well as direct payments from self-employed individuals, and providing refunds in the event of overpayment. Also, the EST does not include the over 20,000 employees of the state of Alaska.

The department envisions a gradual ramping up of the staff needed to collect and administer the tax. At full implementation, we will have about 30 additional staff. We expect the new staff to be roughly split between our Juneau and Anchorage offices. The staffing need is substantially less than what would be expected for a full income tax for three major reasons. First, the complex task of apportioning income among multiple states is greatly simplified by the bill structure. Second, the reliance on direct employer remittances greatly reduces the number of filers and documents to be processed. And third, the size of the tax cap reduces the expected need for complex audits of high income individuals.

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 the substantial growth in the overall size of the tax division staff. Commodities are primarily subscription data services; the Tax Division anticipates needing to procure additional data to better forecast revenue from individual Alaskan and nonresident worker taxpayers.

The department anticipates that taxpayers will file online at approximately the rate currently achieved by the Permanent Fund Dividend Division. If a substantially larger portion choose to submit paper returns, the staffing needs would increase accordingly.

Throughout the six-year period covered by this fiscal note, we anticipate total implementation costs, operating plus capital, to be just over 2 percent of additional state revenue.

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

Title	FY19	FY20-21	FY22	FY23
Audit Supervisor	1	1	1	1
Tax Auditor	2	4	2	0
Tax Technician	5	8	5	1
Tax Specialist	1	2	1	1
Appeals Officer	0	2	2	1
Accounting Technician	2	2	2	0
Admin Assistant	0	1	1	0
Analyst / Programmer	2	2	2	1
Imaging Operators & Office Assistants	2	8	4	0
Total FT	15	30	20	5