

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version:	HB 4001
Fiscal Note Number:	1
(H) Publish Date:	10/23/2017

Identifier: DOR-TAX-09-21-17
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)

	FY2018	Included in	Out-Year Cost Estimates					
	Appropriation Requested	Governor's FY2018 Request	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OPERATING EXPENDITURES	FY 2018	FY 2018						
Personal Services	530.0		2,100.0	4,200.0	4,200.0	4,200.0	4,200.0	4,200.0
Travel	20.0		20.0	20.0	20.0	20.0	20.0	20.0
Services	400.0		500.0	900.0	900.0	900.0	900.0	900.0
Commodities	50.0		80.0	80.0	80.0	80.0	80.0	80.0
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	1,000.0	0.0	2,700.0	5,200.0	5,200.0	5,200.0	5,200.0	5,200.0

Fund Source (Operating Only)

1004 Gen Fund (UGF)	1,000.0		2,700.0	5,200.0	5,200.0	5,200.0	5,200.0	5,200.0
Total	1,000.0	0.0	2,700.0	5,200.0	5,200.0	5,200.0	5,200.0	5,200.0

Positions

Full-time	5.0		20.0	40.0	40.0	40.0	40.0	40.0
Part-time								
Temporary								

Change in Revenues

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

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If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/19

Why this fiscal note differs from previous version:

Not applicable; initial version.

The funds shown in the "FY18 Appropriation Requested" column will be a FY18 supplemental request.
The funds shown in the Estimated Capital cost row will be FY19 funds.

Prepared By:	Ken Alper, Director	Phone:	(907)465-8221
Division:	Tax Division	Date:	09/21/2017 12:00 PM
Approved By:	Commissioner Sheldon Fisher	Date:	09/21/17
Agency:	Department of Revenue		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 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, meaning that the tax for calendar year 2019 would 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. Impact could be partially mitigated because this will likely qualify as a state income tax for federal tax purposes, meaning it would be deductible on Schedule A of form 1040. Therefore, Alaskans who itemize could be able to reduce their federal taxable income by the amount of their state tax.

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), 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.

Among the supplemental 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. We will also contract for more advanced data services in order to more accurately forecast future revenues.

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. In addition to the software development, this will require integration with national accounting and tax software vendors in order to update programs such as TurboTax and QuickBooks to incorporate Alaska. In addition to the tax return filing and examination modules, the contractor will have to provide for the associated databases, forms, communications, and integration with our existing imaging, accounting, and collections systems.

FISCAL NOTE ANALYSIS

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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 three major functions that do not exist within the Employment Security Tax. These are: receiving and processing individual (rather than employer aggregated) tax returns, receiving direct payment from self-employed individuals, and providing 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. The staffing need is substantially less than what would be expected for a full income tax for two major reasons. First, the complex task of apportioning income among multiple states is greatly simplified by the bill structure. And second, 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 less than 2.5 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	1	3	8
Tax Technician	1	5	10
Tax Specialist	1	1	2
Appeals Officer	0	1	2
Accounting Technician	0	1	2
Admin Assistant	0	1	1
Analyst / Programmer	1	1	2
Imaging Operators & Office Assistants	0	6	12
Total FT	5	20	40