

# Fiscal Note

State of Alaska  
2023 Legislative Session

Bill Version:	SB 132
Fiscal Note Number:	2
(S) Publish Date:	5/5/2023

Identifier: SB132-DOR-TAX-04-21-23  
 Title: EMPLOYMENT TAX FOR EDUCATION FACILITIES  
 Sponsor: BISHOP  
 Requester: (S) 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)

	FY2024 Appropriation Requested	Included in Governor's FY2024 Request	Out-Year Cost Estimates				
			FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>OPERATING EXPENDITURES</b>	<b>FY 2024</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>
Personal Services	938.0		938.0	938.0	938.0	938.0	938.0
Travel	5.0		5.0	2.0	2.0	2.0	2.0
Services	138.5		1,138.5	1,138.5	1,138.5	7,138.5	1,138.5
Commodities	133.8		21.8	21.8	27.1	27.1	27.1
Capital Outlay	12.0						12.0
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>1,227.3</b>	<b>0.0</b>	<b>2,103.3</b>	<b>2,100.3</b>	<b>2,105.6</b>	<b>8,105.6</b>	<b>2,117.6</b>

### Fund Source (Operating Only)

1004 Gen Fund (UGF)	1,227.3		2,103.3	2,100.3	2,105.6	8,105.6	2,117.6
<b>Total</b>	<b>1,227.3</b>	<b>0.0</b>	<b>2,103.3</b>	<b>2,100.3</b>	<b>2,105.6</b>	<b>8,105.6</b>	<b>2,117.6</b>

### Positions

Full-time	8.0		8.0	8.0	8.0	8.0	8.0
Part-time							
Temporary							

### Change in Revenues

1004 Gen Fund (UGF)	10,700.0		14,300.0	14,400.0	14,400.0	14,500.0	14,600.0
<b>Total</b>	<b>10,700.0</b>	<b>0.0</b>	<b>14,300.0</b>	<b>14,400.0</b>	<b>14,400.0</b>	<b>14,500.0</b>	<b>14,600.0</b>

**Estimated SUPPLEMENTAL (FY2023) cost:** 11,000.0 *(separate supplemental appropriation required)*

**Estimated CAPITAL (FY2024) cost:** 0.0 *(separate capital appropriation required)*

**Does the bill create or modify a new fund or account?** No  
*(Supplemental/Capital/New Fund - 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 If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/24

### Why this fiscal note differs from previous version/comments:

Not applicable, initial version.

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Division:	Tax Division	Date:	04/21/2023
Approved By:	Eric DeMoulin, Director	Date:	04/21/23
Agency:	Department of Revenue		

## FISCAL NOTE ANALYSIS

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## Analysis

**Background**

This bill would enact a tax on both wage and self-employment income. The tax would be payable by residents on income, wherever earned, and by nonresidents on income earned in Alaska. The amount of the tax is a flat \$30 per person each year. The bill would require employers to withhold \$30 from an employee's first paycheck of the year, in most cases, and remit the tax to the state. An employer would be liable for the tax, and a penalty, if it failed to withhold and remit the tax.

This bill would require self-employed individuals to file and pay the tax with the Department of Revenue (DOR) in accordance with regulations adopted by the DOR. Resident individuals with wage income entirely from sources outside the state would also be required to file and pay the tax.

There would likely not be a need for the majority of taxpayers to file a return since the tax is a very simple, flat rate with a one-time withholding in most cases. Wage earners in Alaska would simply have their \$30 withheld from their first paycheck of the year and would not need to file anything with the DOR unless they had multiple jobs and had the \$30 withheld more than once. In that case, the taxpayer would need to file for a refund claim. Self-employed individuals and residents with income from sources entirely outside the state would need to file and pay taxes with the DOR. The bill allows for the Department of Labor and Workforce Development (DOLWD) to collect or coordinate collection and reporting of the tax. However, since not all taxpayers interface with DOLWD (e.g., residents who earn all their wages outside the state) the DOR believes it is better suited to collect the tax.

This bill would tax only wages and self-employment income. Dividends, capital gains, pensions, and other forms of income would not be taxed.

**Revenue Impact**

Our estimate is based on solid wage earner data and on less solid self-employment data. As the taxpayer base, we estimate about 414,050 resident wage earners and resident self-employed individuals and about 62,100 nonresident wage earners and nonresident self-employed individuals.

The bill would take effect on January 1, 2024, meaning that FY24 revenue would be for only the second half of the fiscal year. However, since the tax is a flat amount withheld from the first paycheck of the calendar year, we are estimating FY24 revenue at 75% of the amount that would be collected in a full year.

**Implementation Cost**

The \$10 million supplemental request reflects an estimate for our contract with FAST Enterprises to develop a new module for this tax type in our Tax Revenue Management System (TRMS). The breakdown of that cost is an estimated \$8 million for development, and an extra \$2 million for an expedited rollout because of such a short timeline for programming and implementation before the effective date. This is also the reason for a supplemental request as opposed to our usual capital request--the need to expedite the development. In addition to the tax return filing and examination functions, the contractor will need to provide for the associated databases, forms, communications, and integration with our existing imaging, accounting, and collections modules. There would also be an online component to allow taxpayers to file, pay and request refunds electronically. Services would increase in FY2026 and forward as it is the first year of additional maintenance and support of the new TRMS modules after rollout, which would be approximately \$1.0 million per year.

Currently, the DOLWD 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: (1) receiving and processing individual (rather than employer aggregated) tax returns as well as direct payments from self-employed individuals, and (2) providing refunds in the event of overpayment.

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**Analysis**

Even though this bill would create a very large tax base, the tax is simple and could be administered by a relatively small group. Our initial analysis is that we would need to add 8 new employees to implement this tax.

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 additional staff within the Tax Division.