

COMMITTEE REPORT

SENATE

4/24/75

Mr. President:

Date 4/23/75

The Committee on FINANCE has had HB 320 relating to withholding tax under consideration. A Majority of the members of the Committee

- recommends it DO PASS
- recommends it DO NOT PASS
- recommends it DO PASS WITH ATTACHED AMENDMENT(S)
- recommends it BE REPLACED WITH CS FOR \_\_\_\_\_ AND THAT  
CS FOR \_\_\_\_\_ DO PASS
- "and" recommends it BE REFERRED TO THE \_\_\_\_\_  
COMMITTEE
- reports it back WITHOUT RECOMMENDATION
- "other"

Members signing the Majority report:

<u>[Signature]</u>	<u>[Signature]</u>	<u>[Signature]</u>
<u>[Signature]</u>	<u>[Signature]</u>	<u>[Signature]</u>
<u>[Signature]</u>	<u>[Signature]</u>	<u>[Signature]</u>
<u>[Signature]</u>	<u>[Signature]</u>	<u>[Signature]</u>

Members NOT concurring in the Majority report:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

[Signature] Chairman

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH 5 — JUNEAU 99801

JAY S. HAMMOND, Governor

April 25, 1975

The Honorable Bill Ray  
Chairman  
Senate Finance Committee  
Alaska State Legislature  
State Capitol  
Juneau, Alaska

Re: House Bill No. 320

Dear Senator Ray:

House Bill No. 320, an Act relating to withholding tax was introduced in the Senate on April 24, 1975 and was referred to the Senate Finance Committee.

For the consideration of the Senate Finance Committee, I am enclosing a copy of a memorandum dated April 3, 1975 from Frederick P. Boetsch, Deputy Commissioner, Department of Revenue, to the writer advising of the necessity of the proposed legislation in order to protect the State Treasury.

For the information of the Finance Committee, I am also enclosing a schedule of withholding tax collections for the past four years. The schedule will indicate that of total gross individual income tax collection: for the fiscal year ending June 30, 1974 the withholding tax amounted to 86.64 percent of the total individual income tax collections, thus being a highly effective means of collection of taxes on wages earned in Alaska.

If you or any members of the Senate Finance Committee have any questions on the material submitted, please telephone the writer at 465-2397 and I will contact Mr. Boetsch for further material or testimony.

Very truly yours,



R. D. Stevenson  
Special Assistant

ADS:eh

cc: Frederick P. Boetsch  
Deputy Commissioner  
Department of Revenue

STATE  
of ALASKA

## MEMORANDUM

TO:  R. D. Stevenson  
Special Assistant

DATE : April 3, 1975

FROM: Frederick P. Boetsch, C.P.A. *F.P.B.* SUBJECT: Regulation of Withholding Tax Rates  
Deputy Commissioner, Taxation House Bill 320

This bill would amend AS 43.20.170 (a) which provides that the withholding rate for Alaska income tax purposes is 20.5 percent of the appropriate Federal withholding. Instead of specifying a percentage in the Statute, authority would be given to the Department of Revenue to publish an appropriate rate of withholding expressed as a percentage of the amount required to be withheld under the Federal tables. That percentage would be computed in such a manner to approximate the amount of tax due on the wages under the Alaska Net Income Tax Act. The purpose of this bill is to eliminate the necessity to alter the percentage by statutory amendment every time the Federal government changes its withholding.

Since the Alaska Net Income Tax rates are fixed, it makes sense that the Alaska withholding tax tables should also remain constant unless there are changes in the definition of taxable income. There should not, however, be a change in the Alaska withholding table every time the Federal tables change since those changes are often based on changes in the Federal rates. As a convenience to the employers, we have established a procedure whereby the employer need only take a certain percentage of the Federal withholding in order to compute the Alaska tax withheld. In order to make this work, it is necessary that the Alaska withholding rate be adjusted every time the Federal tables change. This happens so frequently that it creates an unnecessary burden to require that the law be changed every time the Federal withholding tables change.

For example, the President has signed into law a new tax measure which will cause Federal withholding tables to change in May and again in January of 1976. In order for us to maintain a constant rate of withholding it would be necessary to amend our current law, both now and again for January.

It is much simpler and more straightforward procedure to allow the Department to set the appropriate rate based on timely information received on changes in the Federal tables. This will allow us to more quickly respond to these changes and therefore protect the State Treasury from any sudden, and possibly costly, changes.

Although the withholding taxes are really a prepayment of income taxes and the income tax is due regardless of whether it is withheld, we believe that a drop in revenues could occur if House Bill 320 is not enacted. The withholding system is designed as a pay-as-you-go way of collecting income taxes. Since most people usually qualify for a refund at the end of the year, it has

also proven to be a very effective means of assuring compliance.

In our case, with a large transient population, the withholding system is essential to obtain good compliance with our income tax law. If a transient worker wound up owing a tax at year's end it is less likely that he would file a return than if he has a refund. Therefore, it is necessary that we be able to set the withholding tax at a rate that would result in either a small refund or small amount of tax owing at year end.

We have not estimated the effect on Treasury since we do not know how much compliance would be reduced by reduced withholding. Collections from the withholding system would drop by between \$5 million and \$6 million per year. This would be offset to some extent by payments with tax returns filed after year end.

There are no administrative costs connected with this bill.

FPB: eh

WITHHOLDING - INDIVIDUAL INCOME TAX  
1971 - 1972 - 1973 - 1974

	Collections 1971	Collections 1972	Dollar Increase Over 1971	Per Cent Increase Over 1971	Collections 1972	Collections 1973	Dollar Increase Over 1972	Per Cent Increase Over 1972	Collections 1973	Collections 1974	Dollar Increase Over 1973	Per Cent Increase Over 1973
Qtr Ending March 31	\$ 7,382,549.19	\$ 9,613,815.32	\$ 2,231,266.13	30.22%	\$ 9,613,815.32	\$10,496,745.19	\$ 882,929.87	9.18%	\$10,496,745.19	\$12,782,401.73	\$ 2,285,656.54	21.77%
Qtr Ending June 30	8,731,847.58	11,027,906.62	2,296,059.04	26.30	11,027,906.62	12,336,146.78	1,308,240.16	11.86	12,336,146.78	15,555,406.59	3,219,259.81	26.34
Qtr Ending Sept. 30	10,927,368.46	13,130,136.55	2,202,768.09	20.16	13,130,136.55	14,220,907.94	1,090,771.39	8.31	14,220,907.94	17,667,611.55	3,446,703.61	24.24
Qtr Ending Dec. 31	8,516,947.46	11,398,006.73	2,881,059.27	33.83	11,398,006.73	12,671,889.28	1,273,882.55	11.19	12,671,889.28	23,694,160.76	11,022,271.48	86.99
<b>Totals</b>	<b>\$35,558,712.69</b>	<b>\$45,169,865.22</b>	<b>\$ 9,611,152.53</b>	<b>27.03%</b>	<b>\$45,169,865.22</b>	<b>\$49,725,609.19</b>	<b>\$ 4,555,832.97</b>	<b>10.09%</b>	<b>\$49,725,609.19</b>	<b>\$75,699,580.66</b>	<b>\$25,973,971.47</b>	<b>52.23%</b>

	1971 Collections	% of Total	1972 Collections	% of Total	1973 Collections	% of Total	1974 Collections	% of Total
Qtr Ending March 31	\$ 7,382,549.19	20.76%	\$ 9,613,815.32	21.28%	\$10,496,745.19	21.11%	\$12,782,401.73	16.89%
Qtr Ending June 30	8,731,847.58	24.56	11,027,906.62	24.42	12,336,146.78	24.81	15,555,406.59	20.55
Qtr Ending Sept. 30	10,927,368.46	30.73	13,130,136.55	29.07	14,220,907.94	28.60	23,667,611.58	31.26
Qtr Ending Dec. 31	8,516,947.46	23.95	11,398,006.73	25.23	12,671,889.28	25.48	23,694,160.76	31.30
<b>Totals</b>	<b>\$35,558,712.69</b>	<b>100.00%</b>	<b>\$45,169,865.22</b>	<b>100.00%</b>	<b>\$49,725,609.19</b>	<b>100.00%</b>	<b>\$75,699,580.66</b>	<b>100.00%</b>

Analysis Individual Income  
Tax FY 6-30-74

	Amount	% of Total
Estimated Tax Payments	\$ 2,972,187.54	4.84%
Payments with Returns	5,231,117.79	8.52
Sub-Total	\$ 8,203,305.33	13.36%
Withholding Tax-Employers	53,199,870.26	66.64
<b>Total Gross Collections</b>	<b>\$61,403,175.59</b>	<b>100.00%</b>
Total Gross Collections	\$61,403,175.59	80.10%
Less: Refunds	12,218,197.45	19.90
<b>Net Collections</b>	<b>\$49,184,978.14</b>	<b>100.00%</b>

Introduced: 3/20/75  
Referred: Commerce

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 320

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to withholding tax; and providing  
7 for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 43.20.170(a) is repealed and re-enacted to read:

10 (a) Every employer making payment of wages or salaries shall  
11 deduct and withhold an amount of tax computed in such a manner to  
12 approximate the amount of tax due on those wages under this chapter  
13 for that year. The department shall publish the rate of withholding  
14 required by this section which shall be expressed as a percentage  
15 of the amount required to be withheld under sec. 3402 of the Internal  
16 Revenue Code of 1954. Every employer making a deduction and a with-  
17 holding shall furnish to the employee upon request a record of the  
18 amount of tax withheld from the employee on a form prescribed by  
19 the department.

20 \* Sec. 2. This Act takes effect July 1, 1975.  
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