

HB

320

HB 320

Tape No.

Date

23

4/4

26

4/11

"An Act relating to withholding tax; and providing for an effective date."

COMMITTEE REPORT

3/20/75

HOUSE

Mr. Speaker:

Date _____

The Committee on Commerce has had HB 320

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:

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Members NOT concurring in the Majority report:

_____	recommends: _____
_____	recommends: _____
_____	recommends: _____
_____	recommends: _____
_____	recommends: _____

_____ Chairman

STATE
of ALASKA

MEMORANDUM

File

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:ch