

AB 821

MEMORANDUM

State of Alaska

TO: R. D. Stevenson
Assistant to the Commissioner
Department of Revenue

DATE: February 20, 1976

FILE NO:

TELEPHONE NO:

FROM: Darrell D. Knox ~~DK~~
Deputy Director
Audit Division

SUBJECT: House Bill 821

After reviewing House Bill 821, Renter Credit, it has been noticed that several audit areas would be effected to properly administer the credit. The first area which should be noted is that the Individual Income Tax Return package would have to be expanded in two areas: (1) specific instructions would have to be given to taxpayers to explain the questions and exceptions of House Bill 821, and (2) a separate schedule would have to be added to the package to properly arrive at the correct credit. The renter schedule would have to note the months taxpayers lived in Alaska (43.20.032(b)(2)), which would also cause problems for matching separate returns as they are usually not filed or processed at the same time. The renter schedule would have to ask specific questions to determine qualifications and calculations of tax credit (43.20.032(d)). It should also be noted that to properly audit this credit, senior citizen property tax exemption and public assistance grant data must be maintained and matched to returns. This type of data would be difficult to verify and audit.

House Bill 821 does allow for spouses to claim credit which would be most difficult to audit due to the method of processing (43.20.032(b)(c)). Section 43.20.032(i) would require a complicated arrangement of the tax refund or payment section on the face of the tax return. It should be noted that if the desire to simplify tax returns is considered, this bill would create certain complications which are noted above.

Other areas which the bill does not address itself to are: (1) effective date and (2) the inclusion or exclusion of residents who purchase a mobile home but rent space in a trailer court, etc. In Alaska there are a considerable number of residents who reside in this manner.

Loss to the Treasury

It is estimated that approximately 30% of Alaska residents rent their residences, and that all renters in Alaska have adjusted gross income of \$8,000 or above due to base wages earned.

Estimated cost to properly administer the bill:

1. Forms cost per year	\$1,800
2. Tax Examiner position to review credit claimed	\$16,600
3. Additional auditor time required because of miscalculations of proper tax liability. One Revenue Auditor 1 half-time	<u>\$12,000</u>
TOTAL COST PER YEAR	<u>\$30,400</u>

COMPUTATION ON LOSS TO TREASURY

	<u>Estimated Returns Filed</u>		<u>Percent Claiming Renter Credit</u>		<u>Credit Claimed</u>		<u>Administrative Costs (A)</u>		<u>Total Cost</u>
FY 77	220,000	x	30%	x	\$45	+	\$30,400	=	\$3,000,400
FY 78	242,000	x	30%	x	\$45	+	\$33,400	=	\$3,300,400
FY 79	266,200	x	30%	x	\$45	+	\$36,800	=	\$3,630,500
FY 80	292,800	x	30%	x	\$45	+	\$40,500	=	\$3,993,300
FY 81	322,100	x	30%	x	\$45	+	\$44,500	=	\$4,392,850
Total Revenue Loss & Administrative Cost to Treasury									<u>\$18,317,450</u>

(A) - Inflation of 10% per year assumed.

If I can be of any further assistance in this matter, please feel free to contact me.

DDK/bjm

Attachment

THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE

Second Session - Ninth Legislature

I. REQUEST

Bill No. House Bill 821
 Title: Act relating to a renter credit granted under Alaska Net Income Tax
 Requested by: McKinnon Date: 2-17-76
 Return Date Requested: 2-23-76
 Agency: Revenue Program: Audit Division

II. FISCAL DETAIL

Budget Request Unit(s) Affected: Audit Division

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100 PERSONAL SERVICES		28.6	31.5	34.6	38.1	41.9
200 TRAVEL						
300 CONTRACTUAL		1.8	1.9	2.2	2.4	2.6
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	N/A	30.4	33.4	36.8	40.5	44.5

B. FUNDING: (Thousands of dollars)

GENERAL FUND	N/A	30.4	33.4	36.8	40.5	44.5
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	1.5/	1.5/	1.5/	1.5/	1.5/	1.5/
MAN MONTHS (P./T.)	18/	18/	18/	18/	18/	18/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

N/A

IV. ATTACHMENTS

See memo attached dated February 20, 1976

V. DATE: 2-20-76 PREPARED BY: Dannell J. Kups

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

JAY S. HAMMOND, GOVERNOR

POUCH S - JUNEAU 99811

March 30, 1976

The Honorable Bob Bradley
Chairman
House Commerce Committee
Alaska State Legislature
State Capitol Building
Juneau, Alaska

Re: Proposed Draft for CS for House Bill No. 821

Dear Mr. Bradley:

House Bill No. 821, an Act relating to a renter credit granted under the Alaska Net Income Tax, was introduced in the House on February 17, 1976 and was referred to the House Commerce and Finance Committee.

A fiscal note on the proposed legislation prepared by Darrell D. Knox, Deputy Director, Audit Division under the date of February 20, 1976 was furnished the House Commerce Committee.

According to the House Journal of March 22, 1976 a hearing was held on March 23, 1976 by the House Commerce Committee on March 23, 1976. A draft Committee Substitute was furnished to the Audit Division of the Department of Revenue for review.

For the consideration of the House Commerce Committee, I am enclosing a copy of a Fiscal Note and accompanying memorandum prepared by Darrell D. Knox, Deputy Director, Audit Division along with a copy of the draft for a Committee Substitute for House Bill No. 821.

If you or any members of the House Commerce Committee have any questions on the material submitted, please contact the writer by telephone at 465-2397 and I will contact Mr. Knox for further information or testimony at a hearing.

Very truly yours,



R. D. Stevenson
Special Assistant

Enclosure

The Honorable Bob Bradley

-2-

March 30, 1976

cc: Mark Kumbe
House State Affairs Committee
for The Honorable Joseph McKinnon
Sponsor, House Bill No. 821

Darrell D. Knox
Deputy Director
Audit Division
Department of Revenue

THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE

Second Session - Ninth Legislature

I. REQUEST

Bill No. CS for House Bill 821 (Draft)

Title: An Act relating to a renter credit granted to Lower Alaska Net Income Tax

Requested by: _____ Date: _____

Return Date Requested: _____

Agency: Revenue Program: Audit

II. FISCAL DETAIL

Budget Request Unit(s) Affected: Audit Division

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES	N/A	28.6	31.5	34.6	38.1	41.9
200 TRAVEL						
300 CONTRACTUAL		.6	.6	.7	.7	.8
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	N/A	29.2	32.1	35.3	38.8	42.7

B. FUNDING: (Thousands of dollars)

GENERAL FUND	N/A	29.2	32.1	35.3	38.8	42.7
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	/	1.5/	1.5/	1.5/	1.5/	1.5/
MAN MONTHS (P./T.)	/	18 /	18 /	18 /	18 /	18 /

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

N/A

MEMORANDUM

State of Alaska

TO: R. D. Stevenson
Special Assistant

DATE: March 30, 1976

FILE NO:

TELEPHONE NO:

FROM: Darrell D. Knox *DK*
Deputy Director
Audit Division

SUBJECT: Draft CS for HB 821

After reviewing the draft CS for HB 821, Renter Credit, it has been noticed that certain audit areas would be affected to properly administer the credit. The first area which would be affected is the Individual Income Tax Return package which would have to be expanded in the area of specific instructions to properly explain the provisions of HB 821.

Second, section 43.20.032(b) and (c) would require the matching of returns or the reviewing of taxpayer residence which would be difficult to properly audit. This is due to two reasons; (1) separate returns are usually not filed or processed at the same time and (2) specific residences would have to be audited as a great number of individuals in Alaska use a Post Office Box which does not lend itself to a proper verification of legal residence.

Loss to the Treasury

It is estimated that approximately 30 percent of Alaska residents rent their residences.

Estimated cost of properly administer the bill:

1. Forms cost per year	\$ 600
2. Tax Examiner II position to review credit claimed	16,600
3. Additinal auditor time required to properly audit credit claimed	<u>12,000</u>
TOTAL COST PER YEAR	<u>\$29,200</u>

COMPUTATION ON LOSS TO TREASURY

<u>FY</u>	<u>Credit Cost</u>	<u>Administrative Cost</u>	<u>Total Cost</u>
78	\$2,144,550 +	\$29,200	= \$2,173,750
79	\$2,359,050 +	\$32,100	= \$2,391,150
80	\$2,594,700 +	\$35,300	= \$2,630,000
81	\$2,855,100 +	\$38,800	= \$2,893,900
82	<u>\$3,139,950 +</u>	<u>\$42,700</u>	= <u>\$3,182,650</u>

Total Revenue Loss and
 Admin. Cost to Treasury \$13,093,350 + \$178,100 = \$13,271,450

Details of the breakdown by adjusted gross income for the above data,
 available upon request.

The original HB 821 is revised to reflect the recent information on Adjusted
 Gross Income. Fiscal years are also changed to reflect effective date of
 January 1, 1977.

<u>FY</u>	<u>Credit Cost</u>		<u>Administrative Cost</u>		<u>Total Cost</u>
78	\$2,685,900	+	\$30,400	=	\$2,716,300
79	\$2,955,300	+	\$33,400	=	\$2,988,700
80	\$3,250,500	+	\$36,800	=	\$3,287,300
81	\$3,575,250	+	\$40,500	=	\$3,615,750
82	<u>\$3,932,250</u>	+	<u>\$44,500</u>	=	<u>\$3,976,750</u>

Total Revenue Loss and
 Admin. Cost to Treasury \$16,399,200 + \$185,600 = \$16,584,800

If I can be of any further assistance in this matter, please contact me.

DDK:lc

Send copy of Fiscal
NOTE TO State Affairs
Mike Kimbe

CS HOUSE BILL NO. 821

*Section 1. AS 43.20 is amended by adding a new section to read:

Sec. 43.20.032. RENTER CREDIT. (a) For the purpose of calculating the tax payable under this chapter, a qualified renter shall be allowed a credit against the tax, in the amount indicated on the following table:

If adjusted gross income is:	The credit is:
less than \$7,000	\$45
\$7,000 - 9,999	40
10,000 - 12,999	35
13,000 - 15,999	30
16,000 - 19,999	25
20,000 and up	0

(b) Except as provided in (c) of this section, a husband and wife shall receive but one credit under this section.

? - If the husband and wife file separate returns, the credit may be taken by either, or equally divided between them.

2 (c) If a husband and wife each maintained a separate place of residence and resided in this state during the entire taxable year, each spouse will be allowed the full credit.

(d) For purposes of this section,

(1) "qualified renter" means an individual who

(A) on March 1 of the taxable year was a resident of this state, as defined in sec. 340 of this chapter; renting and occupying premises in this state which constituted his principal place of residence; and

(B) did not purchase and move into property purchased for use as principal residence during the taxable year;

(2) "qualified renter" does not include

(A) an individual who, on March 1 of the taxable year, rented and occupied premises which were exempt from property taxes;

(B) an individual whose principal place of residence is with any other person who claimed the individual as a dependent for income tax purposes.

(e) The credit allowed a mobile home owner who rents the space upon which the mobile home is situated is one-half the credit otherwise allowable under (a) of this section.

(f) Every person claiming the credit provided in this section shall, as part of the claim, and under the penalty of perjury, furnish all the information the Department of Revenue prescribes on a form supplied by the department.

(g) The credit provided in this section shall be claimed on returns as defined in sec. 30 of this chapter.

(h) For purposes of this section, "premises" means as it is defined in sec. 34.03.360(10).

*Sec. 2. This Act takes effect January 1, 1977.

Testified HB 821
Gary Jenkins, Dir of
Audit, Dept of Revenue
2-23-76