

**HB**

**169**

(7)  
Date Referred to Committee: March 5, 1997

FURTHER REFERRALS:

State Affairs  
Finance

Date of Committee Action: 3/10/98

The HEALTH, EDUCATION AND SOCIAL SERVICES Committee considered:

HB 169

HOUSE BILL NO. 169

WELFARE TO WORK TAX CREDITS

"An Act relating to welfare to work tax credits under the Alaska Net Income Tax Act; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 169 (HES)  the same title  a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept, Date)

fiscal note(s) Revenue

fiscal note(s) \_\_\_\_\_

zero fiscal note(s) HSS, Labor

zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>			✓	
<i>[Signature]</i>	✓			
<i>[Signature]</i>			✓	

CHAIR'S SIGNATURE *Car Bente*

**CS FOR HOUSE BILL NO. 169(HES)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTIETH LEGISLATURE - SECOND SESSION**

**BY THE HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE**

**Offered:**

**Referred:**

**Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act creating a welfare-to-work tax credit under the Alaska Net Income Tax  
2 Act; relating to the federal work opportunity tax credit and the federal welfare-  
3 to-work tax credit; and providing for an effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 \* Section 1. AS 23.20.030 is amended by adding a new subsection to read:

6 (d) The department shall prescribe standards for the director to administer and  
7 implement the certifications required by the director for the tax credit under  
8 AS 43.20.046.

9 \* Sec. 2. AS 43.20.036 is amended by adding a new subsection to read:

10 (k) For purposes of calculating the income tax payable under this chapter, the  
11 taxpayer may not apply as a credit against tax liability

12 (1) the work opportunity tax credit allowed as to federal taxes under  
13 26 U.S.C. 51; or

14 (2) the welfare-to-work credit allowed as to federal taxes under 26

1 U.S.C. 51A.

2 \* Sec. 3. AS 43.20 is amended by adding a new section to article 1 to read:

3 Sec. 43.20.046. Alaska welfare-to-work tax credit. (a) A taxpayer is  
4 eligible for a tax credit as provided in this section.

5 (b) A taxpayer may apply as a credit against the tax imposed by this chapter  
6 15 percent of wages paid in any tax year beginning after December 31, 1997, but  
7 before January 1, 2001, to an employee who qualifies under (d) of this section. Except  
8 as provided in (c) of this section, the credit may not exceed \$1,000 for each qualified  
9 employee.

10 (c) After claiming the credit allowed in (b) of this section, a taxpayer may  
11 claim additional credit of 15 percent of wages paid in a tax year beginning after  
12 December 31, 1997, but before January 1, 2001, to an employee who qualifies under  
13 (d) of this section if the commissioner of health and social services or the  
14 commissioner's designee certifies that the taxpayer provided on-the-job training to that  
15 employee and the training met standards for work activities under AS 47.27. The  
16 additional credit under this subsection may not exceed \$500 for each qualified  
17 employee.

18 (d) An employee qualifies for purposes of the tax credit under this section if  
19 the director of employment security appointed under AS 23.20.030(a) certifies that

20 (1) the employee meets the criteria for

21 (A) the federal work opportunity tax credit under 26 U.S.C. 51,  
22 as in effect on January 1, 1998; or

23 (B) the federal welfare-to-work credit under 26 U.S.C. 51A, as  
24 in effect on January 1, 1998; and

25 (2) either

26 (A) some or all of the activities that qualified the employee to  
27 meet the criteria described in (1) of this subsection occurred in this state; or

28 (B) at the time of hire, the employee or the employee's  
29 immediate family is receiving or is eligible for assistance under AS 47.

30 (e) A taxpayer may claim the credit under this section if the taxpayer employs  
31 the qualified employee for a total of 180 days or 400 hours after December 31, 1997.

1 regardless of whether

2 (1) the federal credits in 26 U.S.C. 51 or 26 U.S.C. 51A are no longer  
3 in effect; or

4 (2) the employee has intervening layoffs and rehires by the employer  
5 during the time that total work hours or days are being accumulated.

6 (f) An employer may not claim a credit more than once under (b) and (c) of  
7 this section for the same employee.

8 (g) A taxpayer may not claim the tax credit allowed under this section if the  
9 taxpayer is in arrears in the payment of contributions under AS 23.20 or a tax under  
10 this title. For purposes of this subsection, a taxpayer is not in arrears if the  
11 contribution or tax liability is under administrative or judicial appeal.

12 (h) An unused tax credit available under (b) or (c) of this section may be  
13 carried forward to the following two tax years.

14 \* Sec. 4. AS 23.20.030(d) and AS 43.20.046 are repealed.

15 \* Sec. 5. Sections 1 - 3 of this Act are retroactive to January 1, 1998.

16 \* Sec. 6. Sections 1 - 3 and 5 of this Act take effect immediately under AS 01.10.070(c).

17 \* Sec. 7. Section 4 of this Act takes effect December 1, 2003.

*adopt*

AMENDMENT #1

To CS HB 169 (HES) (0-GH0082E)

Page 2, lines 13-14,

Delete "director of employment security appointed under AS 23.20.030(a)"

Insert "commissioner of the Department of Health and Social Services or the commissioner's designee"

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATF OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 409  
Juneau, Alaska 99801-2105

## MEMORANDUM

March 2, 1998

**SUBJECT:** CSHB 169(HES)(Draft version "E")

**TO:** Representative Con Bunde, Chair  
House Health, Education, and Social Services Committee  
Attn: Lynne Smith

**FROM:** Rick Glover - *RAG*  
Legislative Counsel

Enclosed is the HES CS you requested for HB 169. The CS incorporates the amendments you sent over. However, this is the first occasion we've had to review this bill, which was drafted by the Department of Law, so I have the following questions:

(1) I have substituted "AS 47.27" for the session law reference on page 2, line 14. If that citation is incorrect, could you suggest another statutory citation? We try to avoid session law references in statutes.

(2) I have changed the bill title to meet the constitution's requirement that it be descriptive of the bill's contents. I do not think the original bill title was sufficient to describe sec. 2 of the bill, which relates to two federal tax credits.

(3) I also recommend a change in the name of Alaska tax credit in sec. 3. The targeted groups that qualify for the federal work opportunity tax credit under 26 U.S.C. 51 are not all welfare recipients. I have enclosed the relevant description from federal law.

(4) I notice that AS 43.20.046(h), enacted by sec. 3 of the bill, provides for a two-year carry-over of unused credits. Is it your intent that the carry-over period extend beyond the December 2003 repealer date, or is the ability to carry-over extinguished on that date, too? I recommend clarification one way or the other. Which do you want?

(5) If the bill passes without the two-thirds majority to preserve the effective date in sec. 7, the bill will simultaneously enact and repeal AS 23.20.030(d) and 43.20.046. I recommend deleting sec. 7, modifying sec. 4 to include the December 1, 2003 date, and modifying sec. 6 to make the Act effective immediately.

RAG:glc:pl  
98-124.glc  
Enclosure

0-GH0082\E

Glover

3/2/98

## CS FOR HOUSE BILL NO. 169(HES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - SECOND SESSION

BY THE HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

Offered:

Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

## A BILL

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1           regardless of whether

2                           (1) the federal credits in 26 U.S.C. 51 or 26 U.S.C. 51A are no longer  
3           in effect; or

4                           (2) the employee has intervening layoffs and rehires by the employer  
5           during the time that total work hours or days are being accumulated.

6                   (f) An employer may not claim a credit more than once under (b) and (c) of  
7           this section for the same employee.

8                   (g) A taxpayer may not claim the tax credit allowed under this section if the  
9           taxpayer is in arrears in the payment of contributions under AS 23.20 or a tax under  
10          this title. For purposes of this subsection, a taxpayer is not in arrears if the  
11          contribution or tax liability is under administrative or judicial appeal.

12                   (h) An unused tax credit available under (b) or (c) of this section may be  
13          carried forward to the following two tax years.

14          \* **Sec. 4.** AS 23.20.030(d) and AS 43.20.046 are repealed.

15          \* **Sec. 5.** Sections 1 - 3 of this Act are retroactive to January 1, 1998.

16          \* **Sec. 6.** Sections 1 - 3 and <sup>5</sup> of this Act take effect immediately under AS 01.10.070(c).

17          \* **Sec. 7.** Section 4 of this Act takes effect December 1, 2003.

TONY KNOWLES  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

HB 169  
P.O. Box 110001  
Juneau, Alaska 99811-0001  
(907) 465-3500  
Fax (907) 465-3532

March 4, 1997

The Honorable Gail Phillips  
Speaker of the House  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

Dear Speaker Phillips:

Last year I signed into law a bill commonly referred to as welfare reform, but I called it a bill to put Alaskans to work. Today I am sending to the Legislature part two of that effort to take people off the welfare rolls and put them on the payrolls. With this bill I am launching my Alaska Business Investment Incentive Plan which will include several measures to be presented over the next two weeks.

This bill establishes the Alaska welfare to work program which offers a tax credit to corporations that hire people who receive public assistance. The tax credit will provide an incentive to corporations to hire public aid recipients which will assist in the state's effort to move people off of welfare.

This new program would offer an employer a tax credit of 15 percent of an employee's eligible wages, capped at \$1,000 per employee. Additional credit of up to \$500 may be earned if the employer provides training that qualifies as a "work activity" under last year's reform bill. To compare that with our current costs under welfare, the average public assistance payment is \$778 per month, or \$4,668 over six months--far exceeding the \$1,000 to \$1,500 tax credit proposed in this legislation.

In order for an employer to earn the credit, the employee must remain in the job for 180 days or 400 hours. The employment does not, however, have to be uninterrupted or within a year of initial hire. This ensures that employers who experience a need for a temporary layoff, or work in seasonal industries, are eligible for the tax credit.

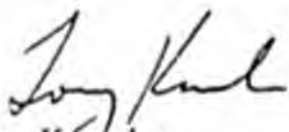
TRANSMITTAL LETTER

The Honorable Gail Phillips  
March 4, 1997  
Page 2

The Alaska Welfare to Work program mirrors the federal work opportunity tax credit program and should operate seamlessly with that national effort so the Department of Labor can easily administer both programs and avoid confusion for employers. Unlike the federal program, though, the Alaska credit would only apply to the hiring of people in Alaska. Because that's the whole point of this program--hiring Alaskans--this bill also eliminates a current provision in state law that allows out-of-state corporations to take a credit on their Alaska income tax for hiring someone on public assistance in Los Angeles, or Detroit, or anywhere in the other 49 states. That federal credit is actually relatively small compared to the credit in this proposal. Corporations hiring Alaskans stand to gain much more under the Welfare to Work plan than they would lose in applying the federal credit to Alaska corporate income tax.

Jobs are the answer to reducing our welfare rolls. To the extent this new program can encourage the private sector to help people work their way off public assistance, we are all better served. Let's continue the work we began last year by passing this bill and getting Alaskans to work.

Sincerely,



Tony Knowles  
Governor

## WELFARE TO WORK TAX CREDIT

- Tax credit against corporate income tax at 15% of wages and capped at \$1,000 per employee with an additional \$500 available for training the employee.
- Eligibility:
  - Employee must be on the job for 180 days or 400 hours, although not necessarily uninterrupted employment or within one year (to accommodate seasonal employment and temporary layoffs).
  - Employee must have been on public assistance for at least 9 months or fit one of the other requirements listed below. (Note: this is due to effort to mirror federal program.)
- Mirrors federal "work opportunity tax credit" program to enable one application process -- keeping it simple for employers and the state. That means maintaining the same list of eligible people beyond public assistance recipients which include:
  - Disabled persons receiving vocational rehabilitation
  - Veterans on public assistance (for 3 mos. instead of 9 mos.)
  - Ex-felons in low income families
- Replaces the federal work opportunity tax credit (formerly known as targeted jobs credit) with the Alaska-specific tax credit.
  - In-state corporations will stand to benefit much more with state credit compared to what they would lose in federal credit applied to state taxes.
  - Employer would still be able to take the federal tax credit on federal tax return.
  - Emphasis is to hire Alaskans and not give companies that pay taxes in Alaska a break for hiring someone in an out-of-state location.
- Takes effect January 1, 1997 and sunsets December 31, 1999 -- applying to 1997, 1998 and 1999 tax years with a two-year carry-forward.

### **Estimated Annual Fiscal Impact:**

880 employees @ \$1,500 credit each:

Total credit = \$1,320,000\*

- Revenue loss would be offset by \$262,533 the state would no longer offer under federal credit. (See attachment)

Lead Agency: DHSS

## Work Opportunity Tax Credit (WOTC) Fact Sheet

### What is the WOTC Program?

The WOTC program is a tax credit program offered to employers as an incentive to hire people of seven target groups who face significant barriers to employment. The WOTC program was created by the Small Business Job Protection Act (Public Law 104-188) and authorizes the program for one year starting October 1, 1996.

### Who does WOTC Help?

WOTC helps both the employer and targeted job seekers. The employer saves as the tax credit helps defray payroll expenses. A job seeker who qualifies for one of the seven targeted groups gains an advantage in the job market.

### How Much is the Tax Credit?

Employers can receive a tax credit of 35% of first \$6,000 in "qualified 1st-year wages" for a maximum credit of \$2,100.

For Summer Youth participants, the tax credit is 25% of first \$3,000 in "qualified 1st year wages" paid during the 90-day working period of May 1 - Sept 15 AND whose principal place of abode is within an empowerment zone or enterprise community. Maximum credit is \$1,050.

### What are Qualified Wages?

Wages considered as qualified for a tax credit are the first year wages paid or incurred to target group individuals who begin work for the employer after September 30, 1996 and before October 1, 1997 (May 1 - Sept 15, 1997 for summer youth). Wages cannot be taken into account for any individual unless that individual is employed at least 180 days (20 days for Summer Youth), or has completed 400 hours (120 hrs for Summer Youth) of work.

### Who are the Targeted Groups?

- a. AFDC Recipient - a member of a family that has received assistance from Aid to Families with Dependent Children (AFDC) or a successor program for at least a 9-month period within the last 18 months.
- b. Food Stamp Recipient - a member of a family that has received food stamps for the last 6 months, OR received food stamps for at least 3 of the last 5 months, BUT is no longer eligible to receive them, AND, is at least 18 but not age 25 on the hiring date.
- c. Veteran - a veteran and member of a family that received:
  - Assistance from AFDC or successor program for at least a 9-month period within the last 21 months, OR
  - Food stamps for at least a 3-month period within the last 15 months.
- d. Vocational Rehabilitation Recipient - Individual with disability and has received or is receiving vocational rehabilitation from a rehabilitation agency approved by the state or the Department of Veterans Affairs.
- e. Ex-felon - a person convicted of a felony AND within the past year was either convicted or released from prison AND during the last 6 months was a member of a low-income family. (Income must be 70% or less of Lower Living Standard Income Level (LLSIL)).
- f. High Risk Youth - a person age 18 through 24 and has principal abode in an empowerment or enterprise zone. (Alaska has NO designated empowerment or enterprise zones).
- g. Summer Youth - a person age 16 but not 18 on hiring date and has principal abode in an empowerment or enterprise zone. (Alaska has NO designated empowerment or enterprise zones).

## Alaska's WOTC Instructions for Employer

1. Carefully interview prospective employees to determine WOTC eligibility before making any offers to hire.
2. Collect sufficient documentation to demonstrate the job applicant's WOTC eligibility.
  - a. Client service providers, such as Public Assistance, will provide job applicants with ETA Form 9062, "Conditional Certification" identifying them as a member of a WOTC target group. Job applicants will give this form to potential employers.
  - b. If the job applicant does not have a completed ETA Form 9062 from the service provider, the employer must then have the applicant complete ETA-Form 9061, Individual Characteristics Form and provide documentation validating their membership of a targeted group. *These forms are available from the WOTC Coordinator (see address below) or from local Alaska Employment Service Offices.*
    - 1) If item 10a or 10b of Form 9061 is checked Yes, then the employer must have the applicant provide documentation to validate their status as a veteran.
    - 2) If item 12 of Form 9061 is checked Yes, then have the applicant provide documentation to validate that they are at least 18 and less than 25 years old.
    - 3) If item 15 is checked Yes, then have the applicant provide documentation to validate when and where they received vocational rehabilitation services.
  - c. Employers will submit Form 9061 and validating documentation along with Form 8850.
3. WOTC Pre-Screening Notice and Certification Request, Form 8850
  - a. Have the job applicant complete their portion of the WOTC Pre-Screening Notice and Certification Request, Form 8850, before or on the date of the job offer. *Make sure the applicant signs the form.*
  - b. Complete the employer section. *Make sure it is signed.*
  - c. A notarized copy of power of attorney must be submitted to the Alaska WOTC Coordinator if a third party is signing for the employer. Certification will not be issued without it.
4. Mail the completed Form 8850, Form 9061 or Form 9062, (AND copies of validating documentation if 9062 is NOT provided by a Service Provider) to:

Alaska Employment Service      Tele: (907) 465 - 5925 or 1849  
WOTC Coordinator                Fax: (907) 465 - 5788  
P.O. Box 25509  
Juneau, Alaska 99802-5509

The Pre-screening Notice and Request for Certification, Form 8850 must be postmarked within 21-days of the date the applicant starts work.

Sorry, IRS has clearly stated that we may not accept a FAX copy of the Form 8850.

5. The WOTC Pre-Screening Notice and Certification Request, Form 8850, serves as the request for certification. A separate letter requesting certification is not required. A certification determination will be mailed to the employer after an eligibility verification is performed. You may obtain Form 8850 from:

IRS Internet site: <http://www.irs.ultres.gov> or IRS tele #: 1-800-829-3678

6. Alaska's WOTC Program Unit will issue a Certification to the employer for their tax credit.

December 31, 1998

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Welfare To Work BRU: Revenue Operations  
 Component: Income and Excise Audit  
 Sponsor: Rules Committee  
 Requestor: Governor COMPONENT SERIAL NO. 113

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CAPITAL EXPENDITURES</b>						
<b>CHANGE IN REVENUES ( GF )</b>	<b>(1,057.5)</b>	<b>(1,057.5)</b>	<b>(1,057.5)</b>	<b>(1,057.5)</b>	<b>(1,057.5)</b>	<b>262.5</b>

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY97) cost \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Brett Fried Phone: (907) 465-3682  
 Division: Income and Excise Audit Date: March 4, 1997  
 Approved by Commissioner: Wilson L. London Date: March 4, 1997  
 Agency: Revenue

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

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**Alaska Department of Revenue**  
***Income and Excise Audit Division***

Welfare To Work

March 4, 1997

0-GH0082.A

Page 2 of 5

**DRAFT BILL ANALYSIS**

**Section 1** directs the Department of Labor to prescribe standards for the director of the Division of Employment Security to administer and implement certifications for the work opportunity tax credit requirements under AS 43.20.044. These requirements are further discussed in section 3.

**Section 2** disallows taxpayers from applying the apportioned portion of their federal work opportunity tax credit against their corporate tax liability. Currently, qualifying taxpayers can apply a portion of the federal work opportunity credit against their Alaska corporation tax liability, whether or not the activity giving rise to the federal credit occurred in Alaska. See p. 5.

**Section 3** details the eligibility and allowable credit amounts. A taxpayer may apply 15% of the wages of employees who qualify (up to a maximum of \$1000 per employee) as a credit against their corporate tax liability. An additional \$500 is available if the employer meets training requirements determined by the director of employment security. To qualify for the Alaska work opportunity tax credit, the employee must meet the requirements of the federal work opportunity credit (26 U.S.C. 51) and some or all of these requirements must have been realized in Alaska or the employee or immediate family must be receiving or eligible for benefits under AS 47. The taxpayer may not claim a credit on a particular employee more than once and must employ the employee for a total of 180 days or 400 hours (these hours or days do not have to be taken consecutively) after December 31, 1996. The Alaska work opportunity credit continues to remain in effect even if the federal work opportunity credit is no longer in effect.

**Section 4** repeals AS 23.20.030 (section 1 of this bill) and AS 32.20.044 (section 3 of this bill) at the future effective date in section 7.

**Section 5** makes section 1-3 of this Act retroactive to January 1, 1997.

**Section 6** establishes an immediate effective date for sections 1-3 and 5 of this Act.

**Section 7** establishes a sunset provision of January 1, 2002 for sections 1 and 3 of this Act.

**Alaska Department of Revenue**  
***Income and Excise Audit Division***

Welfare To Work  
March 4, 1997  
0-GH0082.A  
Page 3 of 5

**Operating Expenditures**

The Department of Revenue is not requesting any additional funds for meeting its obligations under this Act.

**Revenue Collected**

The attached spreadsheet details revenue reductions from credits taken under this bill.

**Alaska Department of Revenue**  
**Income and Excise Audit Division**  
*Projected Revenue Decreases from Implementation of Welfare to Work Proposal*

Welfare To Work  
 March 4, 1997  
 0-GH0082.A  
 Page 4 of 5

**Assumptions:** Employers will hire 880 qualifying employees who all receive the \$1,000 maximum credit for hiring and the \$500 credit for training (i.e. total credit is \$1,500). Congress extends the federal work opportunity credit in its current form. Assumes percentage change in number of employees hired off of welfare is proportional to percentage change in incentive.

	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03*
Alaska Welfare to Work Credits	(\$1,320,000)	(\$1,320,000)	(\$1,320,000)	(\$1,320,000)	(\$1,320,000)	\$0
Savings from Fed. Work Opport. Credits	<u>\$262,533</u>	<u>\$262,533</u>	<u>\$262,533</u>	<u>\$262,533</u>	<u>\$262,533</u>	<u>\$262,533</u>
<b>Total Alaska Welfare to Work Credits</b>	<b><u>(\$1,057,467)</u></b>	<b><u>(\$1,057,467)</u></b>	<b><u>(\$1,057,467)</u></b>	<b><u>(\$1,057,467)</u></b>	<b><u>(\$1,057,467)</u></b>	<b><u>\$262,533</u></b>

\* Sunsets after 3 years with a 2 year carry forward.

**DEPARTMENT OF REVENUE**  
**Work Opportunity Credit Illustration**  
**March 4, 1997**

Fiscal Note Analysis  
 Page 5 of 5.

The Federal Tax Code currently offers a "Work Opportunity Tax Credit," which is a successor to the old Targeted Jobs Tax Credit.

Alaska currently permits a corporate income taxpayer to claim, as a credit on its Alaska tax return, a portion (18%) of the federal income tax credit.<sup>1</sup> Multistate taxpayers must, of course, apportion their net income amongst the states in which they do business.

The following table shows the Alaska tax effects to a multistate business with (for example) one quarter of its activities in Alaska, and an all-Alaska business when that business hires one qualified person in Alaska. It should be noted that the credit taken by a multistate corporation is the same even if the qualified employee is in Detroit or Texas instead of Alaska. It then shows the effect under the proposed legislation.

	Multistate Corporations	Alaska Corporations
<b><u>Overview of Current Federal Credit</u></b>		
• Credit claimed on federal return for hiring one worker (regardless of in or out of state hire)	\$2,100	\$2,100
• Apportionment Factor (% of business in Alaska)	.25	1.0
• Portion of credit allowed under Alaska Tax Statute	.18	.18
	\$95	\$378
<b><u>Proposed Alaska Work Opportunity Credit</u></b>		
• Eligible credit from hiring one qualified worker in Alaska (including training)	<u>\$1,500</u>	<u>\$1,500</u>

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<sup>1</sup>Alaska is the only state that does this. No other state incorporates federal credits as a part of state taxes.

**FISCAL NOTE**

**STATE OF ALASKA**  
**1997 LEGISLATIVE SESSION**

Bill Version: HB 169  
 (H) Publish Date: 3/5/97

Revision Date: \_\_\_\_\_  
 Title: Welfare to Work  
 Sponsor: Rules Committee  
 Requestor: Tony Knowles, Governor

Dept. Affected: Health and Social Services  
 BRU: Public Assistance  
 Component: ATAP  
 COMPONENT SERIAL NO. 220  
 See also (SN#): \_\_\_\_\_

**Expenditures/Revenues:**

(Thousands of Dollars)

OPERATING	FY98	FY99	FY00	FY01	FY02	FY03
PERSONAL SERVICES	*					
TRAVEL	*					
CONTRACTUAL	*					
SUPPLIES	*					
EQUIPMENT	*					
LAND & STRUCTURES	*					
GRANTS, CLAIMS	*					
MISCELLANEOUS	*					
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>	*					
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<b>CHANGES IN REVENUES</b>	*					
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**FUND SOURCE**

(Thousands of Dollars)

1002 Federal Receipts	*					
1003 OF Match	*					
1004 GF	*					
1005 GF/Program Receipts	*					
1037 GF/Mental Health	*					
Other (please specify)	*					
<b>TOTAL</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**POSITIONS:**

FULL-TIME	*					
PART-TIME	*					
TEMPORARY	*					

Estimate of any current year (FY97) cost: 90.0

**ANALYSIS:** (Attach a separate page if necessary)

This bill provides incentives for corporations to hire, to provide on-the-job training, and to retain eligible public assistance recipients who may have limited work experience or face other challenges to finding and keeping gainful employment. This tax credit program is expected to help both employers and job seekers. For the employer, the tax credit helps defray payroll expenses and helps qualified job seekers gain an advantage in the job market.

It supports welfare to work initiatives by providing additional employment opportunities for welfare recipients. It will also help DPA meet federally mandated minimum work participation requirements, and reduce the likelihood of stiff fiscal penalties for failure to meet those requirements.

Prepared by: Jim Nordlund, Director Phone: 465-2680  
 Division: Public Assistance Date: 01/10/97  
 Approved by Commissioner: Karen Perdue, Commissioner Date: 1/10/97  
 Agency: Department of Health & Social Services

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**ANALYSIS (cont.):**

Senate Bill 98, which established the new Alaska Temporary Assistance Program (ATAP), requires that all non-exempt recipients be in a work activity within two years. We calculate this to mean that approximately 7,000 Alaskans presently on public assistance will have to be engaged in work activities before July 1, 1999. The incentive provided to employers by this bill will help us to meet this tremendous challenge.

The work requirement provisions of ATAP are reinforced by the federal welfare reform law, Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (P.L. 104-193), which requires states to meet mandatory work requirements.

The family assistance block grant for states that fail to meet the work participation requirements will be reduced by up to five percent. The penalty increases two percent per year for subsequent failures in immediately succeeding years, to a maximum of 21 percent. Failure to meet the federally mandated work requirements could result in an initial reduction in Alaska's family assistance block grant of approximately \$3 million. If imposed, the maximum penalty could result in a loss of over \$13 million in block grant funds.

The Division of Public Assistance cannot determine this bill's full impact on the Alaska Temporary Assistance Program (ATAP) at this time. We anticipate that DHSS will have no costs associated with a tax credit program. We presume that it will result in the closure or reduction of benefits of some public assistance cases due to increased earned income and, therefore, generate some program savings. To the extent this bill accelerates people leaving welfare it can be expected to result in an average annual savings of approximately \$9,600 for each family leaving welfare for employment with a qualifying corporation. Data, however, is not available to estimate the number of public assistance recipients who could be employed by qualifying corporations. Therefore, the Division has not estimated the fiscal impact of this bill.

# FISCAL NOTE

Bill Version: HB 169  
 (H) Publish Date: 3/5/97

**STATE OF ALASKA  
 1997 LEGISLATIVE SESSION**

Revision Date: \_\_\_\_\_  
 Title: Welfare to Work Tax Credits  
 Sponsor: Rules by Request of Governor  
 Requestor: Governor

Department Affected: Labor  
 BRU: Employment Security  
 Component: \_\_\_\_\_  
Employment/Unemployment Services  
 COMPONENT SERIAL NO. 1807

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL						
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CHANGE IN REVENUE FUND SOURCE #						
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**FUNDING:** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF Program Receipt						
1006 GF MHTIA						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY97) impact: \$ None

**ANALYSIS:** (Attach a separate page if necessary)

(See Attached)

Prepared by: Rebecca Nance, Director Phone: 465-2711  
 Division: Employment Security Division Date: 2/14/97  
 Approved by Commissioner: Tom Cashen, Commissioner  
 Agency: Department of Labor Date: 2/14/97

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## WELFARE TO WORK TAX CREDITS

This bill establishes an Alaska welfare to work corporate income tax credit of 15 percent of qualifying first year wages paid to targeted welfare recipients and other social services recipients. The credit ceiling is \$1000, with an additional \$500 allowed if the employer provides on the job training. The standards for the Alaska credit mirror those for the federal work opportunity tax credit, except for the credit amount, the additional training credit provision, and the requirement that the qualifying circumstances must occur in Alaska.

Certifications for the Alaska welfare to work credit can be processed in tandem with the certifications for the federal work opportunity tax credit. Staff costs are federally funded, so the Alaska certifications under this bill will have negligible personal services impact. The federal procedures do not include a training certification, but ESD intends to make the additional Alaska training credit automatic if the appropriate social service agency certifies that the employer has provided training which meets the standards in the bill. The training certification should therefore not add any significant work load.

**NOTE:** The federal work opportunity credit will expire on September 30, 1997. If the federal program is not re-authorized, there will be a personal services impact from FY98 forward of approximately one full time equivalent position, to replace lost federal funds.

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Welfare to Work Tax Credits BRU: Revenue Operations  
 Component: Income and Excise Audit  
 Sponsor: (H) RLS  
 Requestor: (H) HESS COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	-883.00	-883.00	282.50	282.50	282.50	282.50

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1001 CBRF						
1048 University of AK receipts						
Other						
TOTAL						

Estimate of any current year cost \$ \_\_\_\_\_

POSITIONS:

FULL-TIME					
PART-TIME					
TEMPORARY					

ANALYSIS: (Attach a separate page if necessary)

The revenue analysis assumes that the bill will be retroactive to January 1, 1998 (not January 1, 1997)  
 Please see attached analysis for further information.

Prepared by: Brett Fried Phone: 465-3682  
 Division: Income and Excise Audit Date: February 20, 1998  
 Approved by Commissioner: Wilson L. Condon Date: February 20, 1998  
 Agency: Revenue

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**Alaska Department of Revenue**  
***Income and Excise Audit Division***

Welfare To Work Tax Credits  
February 20, 1998  
HB 169  
Page 2 of 5

**DRAFT BILL ANALYSIS**

**Section 1** directs the Department of Labor to prescribe standards for the director of the Division of Employment Security to administer and implement certification for the work opportunity tax credit requirements under AS 43.20.044. These requirements are further discussed in section 3.

**Section 2** disallows taxpayers from applying the apportioned portion of their federal work opportunity tax credit against their corporate tax liability. Currently, qualifying taxpayers can apply a portion of the federal work opportunity credit against their Alaska corporation tax liability, whether or not the activity giving rise to the federal credit occurred in Alaska. See p. 5.

**Section 3** details the eligibility and allowable credit amounts. A taxpayers may apply 15% of the wages of employees who qualify (up to a maximum of \$1000 per employee) as a credit against their corporate tax liability. An additional \$500 is available if the employer meets training requirements determined by the director of employment security. To qualify for the Alaska work opportunity tax credit, the employee must meet the requirements of the federal work opportunity credit (26 U.S.C. 51) and some or all of these requirements must have been realized in Alaska or the employee or immediate family must be receiving or eligible for benefits under AS 47. The taxpayer may not claim a credit on a particular employee more than once and must employ the employee for a total of 180 days or 400 hours (these hours or days do not have to be taken consecutively) after December 31, 1996 but before January 1, 2000. An unused tax credit can be carried forward to the following two tax years. The Alaska work opportunity credit continues to remain in effect even if the federal work opportunity credit is no longer in effect.

**Section 4** repeals AS 23.20.030 (section 1 of this bill) and AS 32.20.044 (section 3 of this bill) at the future effective date in section 7.

**Section 5** makes section 1-3 of this Act retroactive to January 1, 1997. We assume that this will be changed to January 1, 1998 in our revenue projections.

**Section 6** establishes an immediate effective date for sections 1-3 and 5 of this Act.

**Alaska Department of Revenue**  
***Income and Excise Audit Division***

Welfare To Work-Tax Credits  
February 20, 1998  
HB 169  
Page 3 of 5

**Section 7** establishes a sunset provision of December 1, 2002 for sections 1 and 3 of this Act.

**Operating Expenditures**

The Department of Revenue is not requesting any additional funds for meeting its obligations under this Act.

**Revenue Collected**

The attached spreadsheet details revenue reductions from credits taken under this bill.

**Alaska Department of Revenue**  
**Income and Exclse Audit Division**  
*Projected Revenue Decreases from Implementation of Welfare to Work Proposal*

Welfare To Work Tax Credits  
 February 20, 1998  
 HB 169  
 Page 4 of 5

**Assumptions:** Employers will hire 837 qualifying employees who all receive the \$1,000 maximum credit for hiring and the \$500 credit for training (i.e. total credit is \$1,500). Assumes percentage change in number of employees hired off of welfare is proportional to percentage change in incentive.

	FY 98	FY 00	FY 01	FY 02	FY 03	FY 04
Alaska Welfare to Work Credits	(\$1,255,500)	(\$1,255,500)	\$0	\$0	\$0	\$0
Savings from Fed. Work Opport. Credits	<u>\$262,533</u>	<u>\$262,533</u>	<u>\$262,533</u>	<u>\$262,533</u>	<u>\$262,533</u>	<u>\$262,533</u>
<b>Total Alaska Welfare to Work Credits</b>	<u><b>(\$992,967)</b></u>	<u><b>(\$992,967)</b></u>	<u><b>\$262,533</b></u>	<u><b>\$262,533</b></u>	<u><b>\$262,533</b></u>	<u><b>\$262,533</b></u>

\* Sunsets after 3 years starting in FY 98. Because of the assumption that employers use their credit maximum, there is no revenue loss due to the two year carry forward provision. Additionally, because of assumption that this Act will be retroactive to January 1, 1996, the revenue loss in FY 99 does not reflect revenue loss due to amended 1997 returns.

**DEPARTMENT OF REVENUE**  
**Work Opportunity Credit Illustration**  
**February 20, 1998**

Fiscal Note Analysis  
 Page 5 of 5.

The Federal Tax Code currently offers a "Work Opportunity Tax Credit," which is a successor to the old Targeted Jobs Tax Credit.

Alaska currently permits a corporate income taxpayer to claim, as a credit on its Alaska tax return, a portion (18%) of the federal income tax credit.<sup>1</sup> Multistate taxpayers must, of course, apportion their net income amongst the states in which they do business.

The following table shows the Alaska tax effects to a multistate business with (for example) one quarter of its activities in Alaska, and an all-Alaska business when that business hires one qualified person in Alaska. It should be noted that the credit taken by a multistate corporation is the same even if the qualified employee is in Detroit or Texas instead of Alaska. It then shows the effect under the proposed legislation.

	Multistate Corporations	Alaska Corporations
<b><u>Overview of Current Federal Credit</u></b>		
• Credit claimed on federal return for hiring one worker (regardless of in or out of state hire)	\$2,400	\$2,400
• Apportionment Factor (% of business in Alaska)	.25	1.0
• Portion of credit allowed under Alaska Tax Statute	.18	.18
	_____	_____
Credit taken from Alaska Tax Liability	<u>\$ 108</u>	<u>\$432</u>

**Proposed Alaska Work Opportunity Credit**

• Eligible credit from hiring one qualified worker in Alaska (including training)	<u>\$1,500</u>	<u>\$1,500</u>
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<sup>1</sup>Alaska is the only state that does this. No other state incorporates federal credits as a part of state taxes.

# FISCAL NOTE

STATE OF ALASKA  
1997 LEGISLATIVE SESSION

BILL NO. HB 169

Revision Date: \_\_\_\_\_  
 Title: Welfare to Work Tax Credit  
 Sponsor: House Rules  
 Requestor: House HESS

Department Affected: Labor  
 BRU: Employment Security  
 Component: Employment Services

COMPONENT SERIAL NO. 2275

**EXPENDITURES/REVENUES:**

(Thousands of Dollars)

OPERATING	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL						
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CHANGE IN REVENUE FUND SOURCE #						
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**FUNDING:**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY98) impact: \$ None

**ANALYSIS:** (Attach a separate page if necessary)

This bill provides a work opportunity tax credit under the Alaska Net Income Tax Act. The Department of Labor's certifications of the Alaska work opportunity tax credit can be processed in tandem with the certifications for the federal work opportunity tax credit. Therefore, the cost of processing the certifications necessary under this bill are anticipated to be negligible.

Prepared by: Rebecca Gamez, Director Phone: 465-2711  
 Division: Employment Security Division Date: 2/20/98  
 Approved by Commissioner: Tom Cashen, Commissioner  
 Agency: Department of Labor Date: 2/20/98

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# FISCAL NOTE

STATE OF ALASKA  
1998 LEGISLATIVE SESSION

BILL NO. HB169

Revision Date: \_\_\_\_\_  
Title: Welfare to Work  
Sponsor: Rules Committee  
Requestor: House (HES)

Dept. Affected: Health and Social Services  
BRU: Public Assistance  
Component: ATAP  
COMPONENT SERIAL NO. 220  
See also (SN#): \_\_\_\_\_

**Expenditures/Revenues:**

(Thousands of Dollars)

OPERATING	FY99	FY00	FY01	FY02	FY03	FY04
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES						
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CHANGES IN REVENUES ( )						
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**FUND SOURCE**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 QF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (please specify)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of any current year (FY98) cost: 0.0

**ANALYSIS:** (Attach a separate page if necessary)

This bill provides incentives for corporations to hire, to provide on-the-job training, and to retain eligible public assistance recipients who may have limited work experience or face other challenges to finding and keeping gainful employment. This tax credit program is expected to help both employers and job seekers. For the employer, the tax credit helps defray payroll expenses and helps certain qualified job seekers gain an advantage in the job market.

It supports welfare to work initiatives by providing additional employment opportunities for welfare recipients. It will also help DPA meet federally mandated minimum work participation requirements, and reduce the likelihood of stiff fiscal penalties for failure to meet those requirements.

Prepared by: Jim Nordlund, Director  
Division: Public Assistance

Phone: 465-2680  
Date: 01/15/98

Approved by Commissioner: Karen Perdue, Commissioner  
Agency: Department of Health & Social Services

Date: 1/15/98

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**ANALYSIS (cont.):**

State welfare reform law, requires that all non-exempt recipients be in a work activity within two years. We calculate this to mean that over 5,000 Alaskans presently on public assistance will have to be engaged in work activities before July 1, 1999. The incentive provided to employers by this bill will help to meet this tremendous challenge.

The work requirement provisions of the state's Temporary Assistance program are reinforced by the federal welfare reform law, Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (P.L. 104-193), which requires states to meet mandatory work requirements.

The family assistance block grant for states that fail to meet the work participation requirements will be reduced by up to five percent. The penalty increases two percent per year for subsequent failures in immediately succeeding years, to a maximum of 21 percent. Failure to meet the federally mandated work requirements could result in an initial reduction in Alaska's family assistance block grant of approximately \$3 million. If imposed, the maximum penalty could result in a loss of over \$13 million in block grant funds.

The Division of Public Assistance cannot determine this bill's full impact on the Alaska Temporary Assistance Program (ATAP) at this time. We anticipate that DHSS will have no costs associated with a tax credit program. We presume that it will result in the closure or reduction of benefits of some public assistance cases due to increased earned income and, therefore, generate some program savings. To the extent this bill accelerates people leaving welfare it can be expected to result in an average annual savings of approximately \$9,600 for each family leaving welfare for employment with a qualifying corporation. Data, however, is not available to estimate the number of public assistance recipients who could be employed by qualifying corporations. Therefore, the Division has not estimated the fiscal impact of this bill.