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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						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES (GF)	(1,057.5)	(1,057.5)	(1,057.5)	(1,057.5)	(1,057.5)	262.5

FUND SOURCE (Thousands of Dollars)

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

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Brett Fried Phone: (907) 465-3882
 Division: Income and Excise Audit Date: March 4, 1997
 Approved by Commissioner: Wilson L. Condon Date: March 4, 1997
 Agency: Revenue

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46-116
#1

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

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

Bill #1

Alaska Department of Revenue
Income and Excise Audit Division

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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
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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.

	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03*</u>
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	\$262,533	\$262,533	\$262,533	\$262,533	\$262,533	\$262,533
Total Alaska Welfare to Work Credits	<u>(\$1,057,467)</u>	<u>(\$1,057,467)</u>	<u>(\$1,057,467)</u>	<u>(\$1,057,467)</u>	<u>(\$1,057,467)</u>	<u>\$262,533</u>

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

4-116
#1

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.¹ 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
<u>Overview of Current Federal Credit</u>		
• 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
	-----	-----
Credit taken from Alaska Tax Liability	<u>\$ 95</u>	<u>\$378</u>
 <u>Proposed Alaska Work Opportunity Credit</u>		
• Eligible credit from hiring one qualified worker in Alaska (including training)	<u>\$1,500</u>	<u>\$1,500</u>

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

FISCAL NOTE

No. 2

STATE OF ALASKA
1997 LEGISLATIVE SESSION

Bill Version: SB 116

(S) Publish Date: 3-5-97

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						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
---------	--	--	--	--	--	--

CHANGE IN REVENUE FUND SOURCE #						
------------------------------------	--	--	--	--	--	--

FUNDING:

(Thousands of Dollars)

FUNDING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

POSITIONS	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
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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Bill #2

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.

FISCAL NOTE

No. 3

STATE OF ALASKA
1997 LEGISLATIVE SESSION

Bill Version: SB116

(S) Publish Date: 3-5-97

Revision Date: _____

Dept. Affected: Health and Social Services

Title: Welfare to Work

BRU: Public Assistance

Component: ATAP

Sponsor: Rules Committee

COMPONENT SERIAL NO. 220

Requestor: Tony Knowles, Governor

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	•					
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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 GF	•					
1005 GF/Program Receipts	•					
1037 GF/Mental Health	•					
Other (please specify)	•					
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME	•					
PART-TIME	•					
TEMPORARY	•					

Estimate of any current year (FY97) 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 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
 Approved by Commissioner: Karen Peters, Commissioner
 Agency: Department of Health & Social Services

Phone: 465-2680

Date: 01/10/97

Date: 1/10/97

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ANALYSIS (cont.):

Senate Bill 93, 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.

SENATE COMMITTEE REPORT

DATE: 4/15/97

FURTHER: Finance

DATE TURNED IN TO OFFICE: 4/25/97

Health, Education and Social Services Committee considered SENATE BILL NO. 116

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

and recommends:

- be replaced with _____ CS _____
- adopt previous _____ CS _____
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical change
 - new: SCR# _____

SIGNING/DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>J. Drew D. Ripman</i>	✓	<i>Dylan Green</i>	✓		
<i>[Signature]</i>	✓				
<i>[Signature]</i>					
<i>[Signature]</i>	✓				
<i>[Signature]</i>					
CHAIR: <i>[Signature]</i>	✓	CHAIR:			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
Revenue	3/4/97		(1057)
Labor	2/14/97	✓	
Health + Social Services	1/10/97		indisc

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

TONY KNOWLES
GOVERNOR

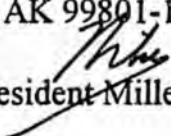


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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 4, 1997

The Honorable Mike Miller
Senate President
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182


Dear President Miller:

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.

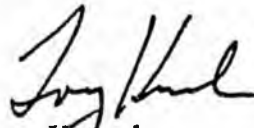
In order for an employer to earn the credit, the employee must remain in the job for 180 days or 400 hours. The employment does not, however, have to be uninterrupted or within a year of initial hire. This ensures that employers who experience a need for a temporary layoff, or work in seasonal industries,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

The Honorable Mike Miller
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