

**SB**

**116**

TONY KNOWLES  
GOVERNOR

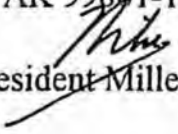


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STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

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.

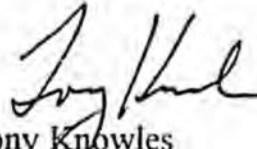
In order for an employer to earn the credit, the employee must remain in the job for 180 days or 400 hours. The employment does not, however, have to be uninterrupted or within a year of initial hire. This ensures that employers who experience a need for a temporary layoff, or work in seasonal industries,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

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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,



Handwritten signature of Tony Knowles in cursive script.

Tony Knowles  
Governor

## 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.

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

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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.

**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*

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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.

	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>	<u><b>(\$1,057,467)</b></u>	<u><b>(\$1,057,467)</b></u>	<u><b>(\$1,057,467)</b></u>	<u><b>(\$1,057,467)</b></u>	<u><b>(\$1,057,467)</b></u>	<u><b>\$262,533</b></u>

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

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

Fiscal Note Analysis  
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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.

	<b>Multistate Corporations</b>	<b>Alaska Corporations</b>
<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
	_____	_____
Credit taken from Alaska Tax Liability	<u>\$95</u>	<u>\$378</u>
 <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.