

**HB**

**138**

**Subject: Re: fiscal notes**

**Date:** Thu, 10 Feb 2000 14:26:20 -0900

**From:** Shari Kochman <shari\_kochman@gov.state.ak.us>

**Organization:** Alaska Office of the Governor

**To:** Barbara Cotting <Barbara\_Cotting@legis.state.ak.us>

thanks  
requests are in

Barbara Cotting wrote:

> *I have scheduled the following bills for hearing in House State Affairs*  
> *on Thursday, February 17, and need fiscal notes:*  
>  
> *HJR 52 Confirm Public Corp Board Managing Assets Rep. James - elections*  
>  
> *HB 138 Income Tax on Individuals and Fiduciaries Rep. Moses - revenue*  
>  
> *HB 335 State Retirement Systems and Benefits Rep. Hudson - admin*  
>  
> *Thanks.*  
>  
> *Barbara*

# FISCAL NOTE

STATE OF ALASKA  
2000 LEGISLATIVE SESSION

BILL NO. HB 138

Revision Date/Time (Note if correction)		Dept. Affected	Revenue
Title	<u>Income Tax on Individuals and Fiduciaries</u>	BRU	Revenue Operations
		Component	Income and Excise Audit
Sponsor	<u>Representative Carl Moses</u>		
Requester	<u>(H) STA</u>	Component Serial No.	<u>113</u>

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services	681.7	1,722.4	2,500.8	2,506.5	2,506.5	2,506.5
Travel	34.4	42.5	75.2	75.5	75.5	75.5
Contractual	247.8	616.1	819.9	820.9	820.9	820.9
Supplies	12.8	36.5	52.5	52.6	52.6	52.6
Equipment	180.0	187.5	120.0			
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>1,156.7</b>	<b>2,605.0</b>	<b>3,568.4</b>	<b>3,455.5</b>	<b>3,455.5</b>	<b>3,455.5</b>

<b>CAPITAL EXPENDITURES*</b>	<b>1,942.0</b>	<b>2,217.0</b>	<b>1,226.0</b>			
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<b>CHANGE IN REVENUES ( )</b>	**	**	**	**	**	**
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	3,098.7	4,822.0	4,794.4	3,455.5	3,455.5	3,455.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>3,098.7</b>	<b>4,822.0</b>	<b>4,794.4</b>	<b>3,455.5</b>	<b>3,455.5</b>	<b>3,455.5</b>

Estimate of current year (FY00) cost: 0.0

**POSITIONS**

Full-time	24	25	41	41	41	41
Part-time						
Temporary		46	46	46	46	-46

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

\* Because of the level of uncertainty most contractor estimates of capital expenditures would include contingency allowances of between 100 and 300 percent. We have, however, not included any contingency allowances here (see capital expenditure narrative).

\*\* The following two reasons make estimating revenue particularly difficult with this bill: (1) The IRS Statistics of Income data is broken out by adjusted gross income categories not federal tax liability, and (2) there is no method currently available to match property tax and personal income tax liabilities. Consequently, some very broad assumptions are necessary. One of these assumptions is that all single and joint filers with more than \$100,000 in adjusted gross income are subject to the higher tax threshold. Another is that the percentage of homeowners (67.2% from the U.S. Census Bureau) can be used as a proxy for all individuals that qualify for the property tax credit (see revenue analysis).

Prepared by	<u>Brett Fried, Economist &amp; Carl Moyer, Chief of Appeals</u>	Phone	<u>465.3682</u>
Division	<u>Income and Excise Audit</u>	Date/Time	<u>February 16, 2000</u>
Approved by		Date	<u>February 16, 2000</u>
Commissioner	<u>Wilson L. Condon</u>		
Agency	<u>Department of Revenue</u>		

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## **Bill Analysis**

Section 1 amends AS 43.20.011 to add a new subsection to impose an income tax on individuals and fiduciaries. The tax is imposed on "taxable income" but is determined as a percentage of the federal income tax liability. The term "federal income tax liability" is not defined. Consideration should be given to defining this term to make it clear, for example, whether it applies to the federal income tax before or after federal credits, other taxes, and payments. Consideration should also be given to whether the reference to "taxable income" is necessary since the tax is not upon taxable income but rather is based upon a percentage of the federal tax.

The tax upon a resident individual is based upon 100% of the federal tax. The tax on nonresident and part-year resident individuals, and fiduciaries, is that percentage of the federal tax that the taxable income from sources in the state bears to taxable income from all sources. The department is concerned with the use of "taxable income" to determine this percentage because taxable income is net of deductions and exemptions and that complicates the computation. The use of gross income to determine the percentage would be a much more straightforward approach.

The tax rate in the first year of the tax would be 5% of the first \$20,000 of federal income tax liability; or 10% of the federal income tax liability if that amount exceeds \$20,000. In other words, if the federal income tax liability exceeds \$20,000 the 5% rate on the first \$20,000 would not apply to that taxpayer. The tax rates in the second year of the tax increase to 10% and 15%, respectively, and then in the third year become 15% and 20%. The \$20,000 threshold remains unchanged in the second and third years.

The tax is determined based upon the federal filing status. Thus, individuals filing a joint return will determine the Alaska liability based upon the joint federal income tax liability and the \$20,000 threshold will apply to the joint tax liability. Spouses that file married filing separate federal income tax returns must file on the same basis for state purposes and each will be allowed the \$20,000 threshold.

Section 2 amends AS 43.20.030(a) to impose a return filing requirement upon individuals and fiduciaries. The due date for corporation net income tax returns under current law, 30 days after the federal return is required to be filed, is eliminated. The amendment does not specify a due date for either corporation or individual income tax returns. The department interprets this absence to mean that the return due date for all taxpayers is the same date that the federal tax return is due. This result is accomplished through AS 43.20.021(a) which incorporates certain provisions of federal law to the extent not otherwise modified or excepted to under Alaska law.

The amendment also adds the word "allowable" before the word 'credits' and the word "payments" before the word 'claimed' in AS 43.20.030(a)(1). Allowable credits and payments are thus allowed to be claimed by corporate and individual taxpayers against

the tax. This is consistent with the current interpretation of the provision by the department.

Section 3 amends AS 43.20.030(c), which fixes the date the tax is due to be paid, in conformity with the elimination of the return due date for corporation taxpayers under current law. In practice, there is no change in current law. Under current law and this amendment the state tax is due on the same date it is due for federal income tax purposes. This generally is the 15<sup>th</sup> day of the third month following the end of the tax year for corporations, and the 15<sup>th</sup> day of the fourth month following the end of the tax year for individuals.

Section 4 amends AS 43.20.030(d) to require all taxpayers to file a copy of the corresponding federal tax return with the state tax return. Taxpayers must also file amended state returns and pay any additional amounts due if amended federal returns are filed or if there is a final determination by the Internal Revenue Service of the federal tax liability. The amended return and payment is due within 60 days of the filing of the amended federal return or the final determination date. The final determination date is the date the federal assessment is made. This provision is consistent with the department's interpretation of current law and makes the requirements clear.

Section 5 amends AS 43.20 by adding a new section AS 43.20.032 to provide that the part of a nonresident's or part-year resident's taxable income that is attributable to Alaska is determined under AS 43.20.040. AS 43.20.040 identifies the income considered to be from an Alaska source. The new section always provides that deductions and adjustments are allowed only to the extent that they are "connected" with income from an Alaska source or situs.

Matching adjustments from gross income to arrive at federal taxable income, such as IRA deductions, medical savings account deductions, ½ of self employment tax, alimony, et cetera, as well as the various items constituting the itemized deductions, standard deduction, and personal exemptions, is likely to be very complicated and subject to disagreement. This can be avoided if gross income is used instead of taxable income in Section 1 for purposes of the apportionment factor used to determine the federal income tax liability of a nonresident, part-year resident, and fiduciary.

Section 6 amends AS 43.20.040(b) to provide that income from sources in the state includes working for salary or wages in the state, and deriving income from Subchapter S corporations, estates, and trusts. Even with these changes AS 43.20.040 remains a confusing provision. The department recommends addressing that confusion by redrafting this section as drafted in HB 91.

Section 7 amends AS 43.20.040 by adding a new subsection to provide that the income from Alaska sources is determined under AS 43.19 for individuals and fiduciaries that carry on a trade, business, or profession, other than merely the rendering of personal

services, both in Alaska and in another jurisdiction. These types of non-personal service businesses will generally use a three factor apportionment formula under AS 43.19.

Section 8 amends AS 43.20 to add a new credit section. This section first provides that amounts deducted and withheld as taxes are allowed as a credit against the tax.

A resident and part-year resident may take a credit against the Alaska tax for incomes taxes paid to other states on income from sources in the other states. The credit is limited to that part of the Alaska tax obtained by multiplying the Alaska tax by a fraction. This fraction is the percentage that the taxable income in the other state bears to total taxable income. Since only residents are taxed on income from all sources, there would appear to be no reason to provide this credit to part-year residents. Also, the use of taxable income instead of gross income in the computation adds unnecessary complexity.

An individual and a fiduciary is allowed a credit for the amount of real and personal property taxes paid under AS 29.45 to a municipality in the state. Nonresidents and part-year residents are allowed to claim this credit if they pay Alaska municipal property taxes.

Section 9 amends AS 43.20.065 to clarify that the general allocation and apportionment provisions in AS 43.19 apply only to corporate taxpayers. To the extent these provisions apply to individual taxpayers is addressed in Section 7.

Section 10 amends AS 43.20 by adding a section to deal with the withholding of wages and salaries by employers. Employers must file reports and remit the tax withheld to the department.

Section 11 amends AS 43.20.200(b) to replace the word "notice" with 'amended return' in conformity with the changes made in Section 4.

Section 12 amends AS 43.20.340 to define fiduciary, individual, nonresident, and resident, and to amend the definition of a part-year resident.

Fiduciary is broadly defined to include as a taxpayer not only the person acting in a fiduciary capacity, but also the entity for whom the person is acting. This suggests that there are two layers of tax upon a 'fiduciary'. However, as a practical matter the individual fiduciary will be subject to tax only as an individual.

An individual is a natural person, including a minor, who has an obligation to pay a federal income tax.

A nonresident is an individual who is not a resident or part-year resident.

A part-year resident is an individual who becomes a resident or loses the status of a resident during the tax year.

A resident is defined as a state resident for purposes of AS 43.23.095. Pursuant to this provision, "state resident" means an individual who is physically present in the state with the intent to remain indefinitely in the state under the requirements of AS 01.10.055 or, if the individual is not physically present in the state, intends to return to the state and remain indefinitely in the state under the requirements of AS 01.10.055. AS 01.10.055 establishes the rules for state residency as follows:

- A person establishes residency in the state by being physically present in the state with the intent to remain in the state indefinitely and to make a home in the state.
- A person demonstrates that intent:
  - by maintaining a principal place of abode in the state for at least 30 days or for a longer period if a longer period is required by law or regulation; and
  - by providing other proof of intent as may be required by law or regulation, which may include proof that the person is not claiming residency outside the state or obtaining benefits under a claim of residency outside the state.
- A person who establishes residency in the state remains a resident during an absence from the state unless during the absence the person establishes or claims residency in another state, territory or country, or performs other acts or is absent under circumstances that are inconsistent with the intent required to remain a resident of this state.

This definition of resident is more narrow than the prevailing definition. It will likely exclude more individuals than it will include. Since residents are taxed on income from all sources, and others are only taxed on Alaska sourced income, there could be a benefit to individuals to take some act that will destroy the residency under AS 01.10.055 and trade the PFD for a tax benefit.

Section 13 repeals AS 43.05.085, AS 43.20.012, AS 43.20.013, which are provisions pertaining to individual tax credits having no effect under current law. It also repeals AS 47.45.120(a) to make the longevity bonus taxable.

### **Operating Expenditures**

A separate unit of the Income and Excise Audit Tax Division will be created to administer the taxation of income of individuals and fiduciaries.

In general, the unit would be responsible for educating taxpayers about the tax, and receiving and processing tax returns and payments. The current Income and Excise Audit Division processes approximately 30,000 returns and reports for 16 programs. These programs are small in comparison to the processing of the 300,000 tax returns and 64,000 employer quarterly reports expected each year under the new tax bill. The new unit would be more specialized with respect to high volume processing and enforcement. There are two systems necessary to implement the taxation of individuals and fiduciaries:

- ✓ individual and fiduciaries system

- ✓ employer withholding system

## Staffing

The Individual Income Tax unit would include the following sections:

- Taxpayer Service
- Data Entry
- Accounting & Cash Management
- Compliance
- Appeals
- Programming

We would staff the unit with 41 permanent positions and 46 temporary positions. We would utilize the temporary positions for data entry, mail handling, and taxpayer service. Temporary personnel would work five months a year in data entry, or three months in mail handling and taxpayer service. We have planned two shifts a day to maximize client (taxpayer) service and to minimize equipment costs.

We calculated the staffing costs included in this fiscal note by patterning the new unit after the existing structure of the Income and Excise Audit Division with the addition of a Taxpayer Service Section and the augmentation of the Collection Section. We adjusted staffing for differences in the number of documents processed. We planned staffing utilizing the lowest staff grades possible.

We have checked the proposed staffing level for reasonableness by comparison to the states of Montana and North Dakota. We selected these states for comparability in population base and complexity of the income tax. We compared staffing requirements to the Permanent Fund Dividend Division for reasonableness and for the contingency that we would combine mail room and data entry operations to gain economies of scale.

We have planned staffing based on the first dates that particular staff is needed. For example, collection staffing would not be funded until FY 02, audit staffing funded in FY 01. One appeals position would be funded in FY 00 to draft regulations, policies, and procedures. The second appeals position would be funded in FY 02.

## Capital Expenditures

Start-up costs are difficult to quantify because the last state to build a new system was Connecticut in 1991. At the time, the best available technology was main-frame technology; their start-up costs were \$7.6 million in the first year of implementation of the tax. We would not choose a main-frame system because of its lack of flexibility. Most states are moving toward client-server technology. Wyoming has more recently studied (but not ultimately imposed) a personal income tax. Their start-up costs were estimated at \$3.8 million, based on a client-server environment. This included imaging equipment (to store the document), but did not include Optical Character Recognition

software, which would take the place of data-entry. These estimates were rough and were not detailed.

We estimate that the costs will be approximately \$5.4 million spread out over the first three years of implementation. Wostmann and Associates, Inc. based this estimate on the list of tasks to be performed by the system (see attached task list). Because we had such a short time frame to analyze costs and a true needs analysis was not performed, most experts would recommend a contingency allowance of 100-300 percent. These estimates do not include such a contingency allowance recognizing that budgets are reviewed and can be corrected on an annual basis.

The estimated cost is significantly affected by the short time-frame for implementation. Projects of this magnitude, of such a critical nature, normally are designed, implemented, tested, and brought on-line in 18 months.

### **System Tasks**

The computer hardware and software (the system) are necessary to process income tax returns, employer reports, and payments. We will use the system for the following tasks:

- credit withholding payments to employer and individual taxpayer accounts
- record employer quarterly reports including individual taxpayers to which the reports relate (names social security numbers, and amounts for each taxpayer.)
- credit estimated tax payments and payments received with individual income tax returns
- record individual income tax return information
- cross-match employer withholding to withholding claimed by individual taxpayers
- cross-match income tax filings with Internal Revenue Service data tapes to check validity of tax returns filed and to identify non-filers
- link to Permanent Fund Division data to establish taxpayer name, address, and social security data-base and to identify income tax non-filers who did not file a federal income tax return
- cross-match employer quarterly report filings with Department of Labor to identify non-filers
- record and cross-match Form 1099-equivalent to identify non-filers

- generate routine billings for tax, interest, and penalties due
- generate subsequent demand letters in the event of non-payment
- generate liens and levies upon determination by enforcement personnel
- provide access to taxpayers for electronic filing
- link to Child Support Enforcement Division for seizure of income tax refunds for application to delinquent child support obligations
- link to Permanent Fund Dividend Division and possibly Child Support Division data to provide an opportunity for taxpayers to choose to apply available money toward their income tax

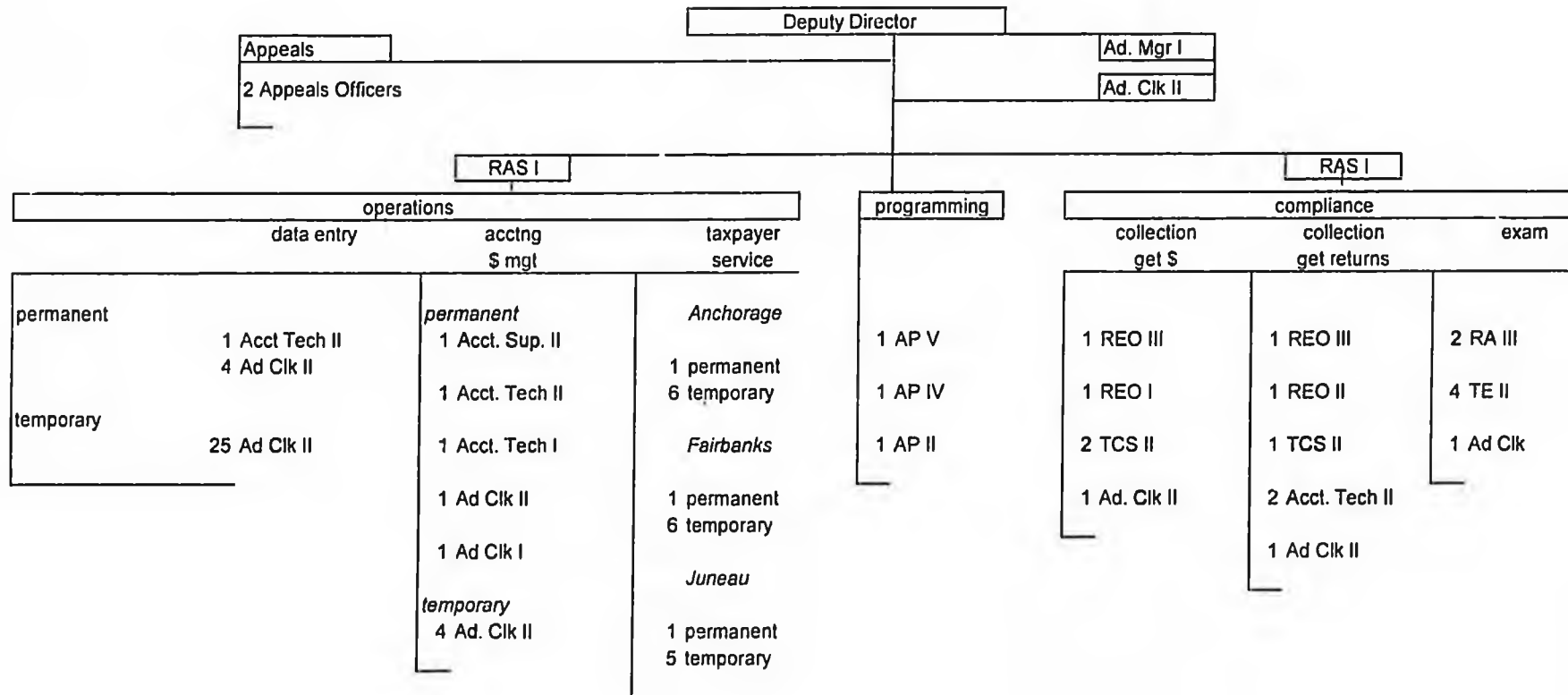
## Revenue

In the attached analysis we show rough estimates of revenue increases due to the imposition of the Alaska Income tax on Individuals and Fiduciaries. We used 1997 Internal Revenue Service data, plus the difference between wages and salaries identified by the IRS and Alaska Department of Labor to account for non-residents.

In estimating revenue, we had no way of matching property owners to their federal income tax liability. We used the percentage of Alaskans who are homeowners (from the U.S. Census Bureau) to estimate how many individuals will receive property credits. We then assumed that all homeowners would have enough property tax credit to offset their tax liability (see revenue spreadsheet). This probably understates the property tax credits to taxpayers that would pay at the higher rate (higher percentage of property owners) and overstates credits for the other taxpayers. The property tax credit includes all property taxes (real and personal), so some non-homeowners may also qualify for credits under this bill. We, also assume that all filers (including joint filers) would be subject to the higher tax rate if their adjusted gross income exceeds \$100,000. Additionally, we assume that this bill would apply to the taxable year starting January 1, 2001, not January 1, 2000.

In FY 01, we estimate that the Tax will result in \$19.6 million dollars of revenue. This is half of the total annual revenue estimate for FY 2001. Actual revenue might be larger or smaller depending on the timing of withholding, refunds and estimated payments. For FY 02, FY 03, and FY 04, we estimate an annual revenue of \$54.9 million, \$86.2 million, and \$101.9 million, respectively. For FY 05 and FY 06, we estimate \$101.9 million per year. Clearly, this does not account for inflation, growth of real income, population increases or labor market effects. We did not include any of these factors to minimize the amount of uncertainty in our revenue model. Additionally, any labor-supply effects will probably be counter balanced by income and population growth. Economists differ

on the size of labor-supply effects but in a survey of the literature done by Heckman (1993) , he found that elasticities are closer to zero than one. That is, the labor supply is not very responsive to changes in wages and income.



<u>total FTE's</u>		
permanent		41.0
temporary	21 * 3 mo. =	5.3
temporary	25 * 5 mo. =	10.4
<u>total FTE's</u>		<u>56.7 *</u>

REO = Revenue Enforcement Officer (old class)  
 ranges equal to Revenue Auditor class

TCS = Tax Collection Specialist (old class)  
 ranges equal to Tax Examiner class

Alaska Administration Costs Using Estimated Staffing Requirements (In thousands)

By Fiscal Year

Staffing	# Positions	Range	start date	annual costs excluding payroll **	Personal Services	Total annual costs	PERSONNEL DEPENDENT COSTS									
							FY 01		FY 02	FY 03	FY 04	FY 05	FY 06			
							equipment	operating								
<b>Permanent Full Time</b>																
Deputy Director adm	1	24	Jul-00	28.8	86.9	115.7	7.5	115.7	115.7	115.7	115.7	115.7	115.7	115.7	115.7	
Appeals--RA IV appeals	1	20	Aug-00	17.6	67.7	85.3	7.5	78.2	85.3	85.3	85.3	85.3	85.3	85.3	85.3	
Appeals--RA IV appeals	1	20	Aug-02	17.5	67.7	85.2	7.5		78.1	85.2	85.2	85.2	85.2	85.2	85.2	
RAS I operations	1	22	Aug-00	17.6	76.6	94.2	7.5	86.4	94.2	94.2	94.2	94.2	94.2	94.2	94.2	
RAS I exam	1	22	Jul-02	17.5	76.6	94.1	7.5		94.1	94.1	94.1	94.1	94.1	94.1	94.1	
RA III exam	2	18	Jul-02	43.6	118.6	162.2	15.0		162.2	162.2	162.2	162.2	162.2	162.2	162.2	
TE II exam	2	12	Apr-01	27.6	82.4	110.0	15.0	27.5	110.0	110.0	110.0	110.0	110.0	110.0	110.0	
TE II exam	2	12	Jul-02	27.6	82.4	110.0	15.0		110.0	110.0	110.0	110.0	110.0	110.0	110.0	
Ad Clk II exam	1	8	Apr-01	13.8	33.7	47.5	7.5	11.9	47.5	47.5	47.5	47.5	47.5	47.5	47.5	
REO III collection/rets	1	18	Jul-01	18.8	59.3	78.1	7.5		78.1	78.1	78.1	78.1	78.1	78.1	78.1	
REO II collection/rets	1	16	Jul-02	18.3	52.8	71.1	7.5		71.1	71.1	71.1	71.1	71.1	71.1	71.1	
TCS II collection/rets	1	12	Jul-02	13.8	41.2	55.0	7.5		55.0	55.0	55.0	55.0	55.0	55.0	55.0	
Ad Clk II collection/rets	1	8	Jul-02	13.8	33.7	47.5	7.5		47.5	47.5	47.5	47.5	47.5	47.5	47.5	
TCS II collection/\$	2	12	Jul-02	27.6	82.4	110.0	15.0		110.0	110.0	110.0	110.0	110.0	110.0	110.0	
REO III collection/\$	1	18	Jul-02	18.8	59.3	78.1	7.5		78.1	78.1	78.1	78.1	78.1	78.1	78.1	
REO I collection/\$	1	14	Jul-02	13.8	45.3	59.1	7.5		59.1	59.1	59.1	59.1	59.1	59.1	59.1	
Acct. Tech II collection/\$	2	14	Jul-02	27.6	90.6	118.2	15.0		118.2	118.2	118.2	118.2	118.2	118.2	118.2	
Ad Clk II collection/\$	1	8	Jul-02	13.8	33.7	47.5	7.5		47.5	47.5	47.5	47.5	47.5	47.5	47.5	
AP V programming	1	22	Sep-00	18.8	76.6	95.4	7.5	79.5	95.4	95.4	95.4	95.4	95.4	95.4	95.4	
AP IV programming	1	20	Sep-00	18.8	67.7	86.5	7.5	72.1	86.5	86.5	86.5	86.5	86.5	86.5	86.5	
AP II programming	1	16	Sep-00	18.8	52.8	71.6	7.5	59.7	71.6	71.6	71.6	71.6	71.6	71.6	71.6	
TE II tps	1	12	Sep-00	13.8	41.2	55.0	7.5	45.8	55.0	55.0	55.0	55.0	55.0	55.0	55.0	
TE II tps	2	12	Jan-01	27.6	82.4	110.0	15.0	55.0	110.0	110.0	110.0	110.0	110.0	110.0	110.0	
Acct. Sup. II acct/\$ mgt	1	16	Mar-01	13.8	52.8	66.6	7.5	22.2	66.6	66.6	66.6	66.6	66.6	66.6	66.6	
Acct. Tech II acct/\$ mgt	1	14	Mar-01	13.8	45.3	59.1	7.5	19.7	59.1	59.1	59.1	59.1	59.1	59.1	59.1	
Acct. Tech I acct/\$ mgt	1	12	Mar-01	13.8	41.2	55.0	7.5	18.3	55.0	55.0	55.0	55.0	55.0	55.0	55.0	
Ad Clk II acct/\$ mgt	1	8	Mar-01	13.8	33.7	47.5	7.5	15.8	47.5	47.5	47.5	47.5	47.5	47.5	47.5	
Ad Clk I acct/\$ mgt	1	7	Mar-01	13.8	32.4	46.2	7.5	15.4	46.2	46.2	46.2	46.2	46.2	46.2	46.2	
Acct. Tech II data entry	1	14	Apr-01	13.8	45.3	59.1	7.5	14.8	59.1	59.1	59.1	59.1	59.1	59.1	59.1	
Ad Clk II data entry	4	8	Apr-01	55.2	134.8	130.0	30.0	47.5	190.0	190.0	190.0	190.0	190.0	190.0	190.0	
Ad Mgr. adm	1	15	Jul-00	13.8	49.3	63.1	7.5	63.1	63.1	63.1	63.1	63.1	63.1	63.1	63.1	
Ad Clk II adm	1	8	Aug-00	13.8	33.7	47.5	7.5	43.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	
Subtotal permanent positions	41			641.3	1980.1	2621.4	307.5	892.1	1,583.4	2,614.3	2,621.4	2,621.4	2,621.4	2,621.4	2,621.4	
<b>Temporary</b>																
Ad Clk II mail/files (acctng)	4	8	2/20-5/19	15.1	33.6	48.7	15.0		48.7	48.7	48.7	48.7	48.7	48.7	48.7	
TE II tps	17	8	2/20-5/19	64.9	142.8	207.7	67.5		207.7	207.7	207.7	207.7	207.7	207.7	207.7	
Ad Clk II data entry	25	8	2/01-6/30	143.1	350.0	493.1	97.5		493.1	493.1	493.1	493.1	493.1	493.1	493.1	
	46			223.1	526.4	749.5	180.0		749.5	749.5	749.5	749.5	749.5	749.5	749.5	
<b>Equipment</b>																
								180.0	187.5	120.0						
<b>SUBTOTAL--PERSONNEL-DEPENDENT COSTS</b>							<b>87</b>	<b>864.4</b>	<b>2,506.5</b>	<b>3,370.9</b>	<b>487.5</b>	<b>1,072.1</b>	<b>2,520.4</b>	<b>3,483.8</b>	<b>3,370.9</b>	<b>3,370.9</b>
<b>Add: Common area occupancy*</b>								<b>84.6</b>		<b>84.6</b>		<b>84.6</b>		<b>84.6</b>		<b>84.6</b>
<b>TOTAL COSTS</b>								<b>949.0</b>	<b>2,506.5</b>	<b>3,455.5</b>	<b>487.5</b>	<b>1,156.7</b>	<b>2,605.0</b>	<b>3,568.4</b>	<b>3,455.5</b>	<b>3,455.5</b>
0% Personnel annual step increase assumed Implementation Team																

\* Common area Includes: taxpayer lobby, mallroom, conference rooms, file space

\*\* Includes travel, contractals, supplies, and space costs. Contractals include maintenance, copier lease, data-base access charges, outside services, etc.

**HB 138 INCOME TAX MODEL - INCOME TAX WITH PROPERTY TAX CREDIT**

**FY 2001 Revenue**

\$134,300,399	Revenue before credits. From 1997 SOI data.
(\$790,799)	Less: Non-resident revenues
\$133,509,600	Tax before credits
67.20%	Statewide Home ownership % from US Census Bureau
\$89,718,451	Potential Tax on homeowners
(\$451,584,776)	Potential Property Tax Credit
\$0	Tax raised from Alaska homeowners
\$43,791,149	Tax raised from Alaska non-homeowners
(\$5,355,584)	Non-homeowner portion of credit for tax paid to other states
\$38,435,565	Tax raised from residents
\$790,799	Tax raised from nonresidents
\$790,799	Total tax raised from nonresidents.
\$39,228,364	<b>TOTAL TAX RAISED AFTER CREDITS</b>
\$18,613,182	Assume tax takes effect Jan. 1, 2001 (half year of withholding)

Insufficient data to determine who paid personal property taxes. Personal property tax combined with real property tax for this projection.

Insufficient data to determine who paid taxes to other states. Credit tied to homeowner percentage. Homeowner credit for taxes paid to other states not included since property tax credit offsets any revenue from property owners.

**HB 138 INCOME TAX MODEL - INCOME TAX WITH PROPERTY TAX CREDIT**

**FY 2002 Revenue**

\$228,187,947	Revenue before credits. From 1997 SOI data.
(\$1,501,597)	Less: Non-resident revenues
\$226,606,350	Tax before credits
67.20%	Statewide Home ownership % from US Census Bureau
\$152,279,407	Potential Tax on homeowners
(\$451,584,776)	Potential Property Tax Credit
\$0	Tax raised from Alaska homeowners
\$74,326,883	Tax raised from Alaska non-homeowners
(\$5,355,584)	Non-homeowner portion of credit for tax paid to other states
\$68,971,299	Tax raised from residents
\$1,581,597	Tax raised from nonresidents
\$1,581,597	Total tax raised from nonresidents.
\$70,552,896	<b>TOTAL TAX RAISED AFTER CREDITS</b>
\$54,889,630	1/2 year at 5%-10% rate and 1/2 year at 10%-15% rate

Insufficient data to determine who paid personal property taxes. Personal property tax combined with real property tax for this projection.

Insufficient data to determine who paid taxes to other states. Credit tied to homeowner percentage. Homeowner credit for taxes paid to other states not included since property tax credit offsets any revenue from property owners.

**HB 138 INCOME TAX MODEL - INCOME TAX WITH PROPERTY TAX CREDIT**

**FY 2003 -FY 2006 Revenue**

\$322,075,495	Revenue before credits. From 1997 SOI data.
(\$2,372,395)	Less: Non-resident revenues
\$319,703,100	Tax before credits
67.20%	Statewide Home ownership % from US Census Bureau
\$214,840,483	Potential Tax on homeowners
(\$451,584,776)	Potential Property Tax Credit
\$0	Tax raised from Alaska homeowners
\$104,862,617	Tax raised from Alaska non-homeowners
(\$5,355,584)	Non-homeowner portion of credit for tax paid to other states
\$89,507,033	Tax raised from residents
\$2,372,395	Tax raised from nonresidents
\$2,372,395	Total tax raised from nonresidents.
\$101,878,428	<b>TOTAL TAX RAISED AFTER CREDITS</b>
\$88,216,162	(FY 2004-FY2006) FY 2003 with 1/2 year at 10%-15% and 1/2 year at 15%-20%

Insufficient data to determine who paid personal property taxes. Personal property tax combined with real property tax for this projection.

Insufficient data to determine who paid taxes to other states. Credit tied to homeowner percentage. Homeowner credit for taxes paid to other states not included since property tax credit offsets any revenue from property owners.

# Alaska State Legislature

## Representative Carl E. Moses



**Member**  
**House Finance Committee**



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State Capitol Building  
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### MEMORANDUM

TO: Representative Jeannette James  
Chair, House State Affairs Committee

FROM: Representative Carl Moses (C. E. Moses)

DATE: February 4, 2000

RE: HB 138/scheduling

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This is a request to hold a committee hearing on House Bill 138: Income Tax on Individuals and Fiduciaries. House Bill 138 is intended to raise revenue for the state of Alaska through a state income tax.

I have enclosed a copy of the bill, sponsor statement and sectional analysis.

I would greatly appreciate your consideration on this request. If you have any questions, please feel free to contact my staff, Pat Walker at 465-4451.

# Alaska State Legislature

Representative Carl E. Moses



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House Finance Committee

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## Sponsor Statement for House Bill 138

### Income Tax on Individuals and Fiduciaries

House Bill 138 is intended to raise revenue for the State of Alaska. With a steadily growing fiscal gap, the time is long overdue for us, as the policy makers of this great state, to take a long hard look at our future.

House Bill 138 implements a state income tax upon the taxable income of every resident, nonresident and part-year resident individual and fiduciary in the state. The tax imposed is determined as a percentage of the taxpayer's entire federal income tax liability. The tax is introduced to the taxpayer on a gradual basis, starting at 5% under \$20,000; 10% over \$20,000 for the first year of implementation, 10%/15% the second year and finally to 15%/20% thereafter.

The tax will be levied only against income earned within the state of Alaska. HB 138 allows credits against the tax for: (a) income sources earned in other states or territories, (b) the amount of any real and personal property paid to a municipality within the state.

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## Sectional Analysis of House Bill 138

### Income Tax on Individuals and Fiduciaries

#### Section 1.- Tax on Corporations:

Adds a new subsection (g) imposes an income tax on resident, nonresident, and part-year resident individuals and fiduciaries with income from sources in the state. The tax is determined as a percentage of the federal income tax liability. The tax is introduced to the taxpayer on a gradual basis, starting at 5% under \$20,000; 10% over \$20,000 for the first year of implementation, 10%/15% the second year and finally to 15%/20% thereafter.

(h) uses same filing status as used on the federal return.

#### Section 2.- Returns and payment of taxes:

Amends current law that applies only to corporations to provide that individuals and fiduciaries are also required to file an income tax return.

#### Section 3.- Returns and payment of taxes:

Clean up amendment.

#### Section 4.- Returns and payment of taxes:

Requires a taxpayer to file a copy of their federal tax return with the state return and remit any additional tax and interest due. This section provides for how to comply at the state level with adjustments to the federal income tax returns. Defines "final determination" as referenced in this section.

#### Section 5.- NEW SECTION: Tax calculation for nonresidents and part-year residents and fiduciaries:

ADAK • AKUTAN • AMCHITKA • ATKA • ATTU • BELKOFSKI • CHERNOFSKI • CHIGNIK • CHIGNIK LAGOON • CHIGNIK LAKE • COLD BAY  
DUTCH HARBOR • EGEKIK • FALSE PASS • IGIUGIG • ILIAMNA • IVANOF BAY • KING COVE • KING SALMON • KOKHANOK • KOKHANOK BAY • LEFLOCK  
NAKNEK • NELSON LAGOON • NEWHALEN • NIKOLSKI • NONDALTON • PEDRO BAY • PERRYVILLE • PILOT POINT • PORT ALSWORTH • PORT HEIDEN  
PORT MOLLER • SAND POINT • SHEMYA • SQUAW HARBOR • SOUTH NAKNEK • ST. GEORGE ISLAND • ST. PAUL ISLAND • UGASHIK • UNALASKA • UNGA

A taxpayer's taxable income is computed only on attributable sources in the state. Allows deductions and adjustments in connection with income that arises in the state.

Section 6.- Income from sources in the state:  
Identifies Alaskan sources of income for individuals, fiduciaries, estates and trusts.

Section 7.- Income from sources in the state:  
Adds new subsection, a business whose income is partly in the state and partly out of the state, the income from sources in the state is determined under Multistate Tax Compact.

Section 8.- NEW SECTION: Credits against tax:  
Identifies state specific credits that are available to individuals and fiduciaries; tax withheld/deducted; income derived from sources in other states, (not to exceed that actual tax paid to the other state); and credit on the amount of any real or personal property taxes paid to a municipality in this state.

Section 9.- Allocation and apportionment:  
Clean up amendment.

Section 10.- NEW SECTION: Collection of income at source:  
Requires that employers withhold the state income tax from wages paid to employees at a rate determined by the department and then report and remit the tax.

Section 11.- Review and assessment:  
Clean up amendment.

Section 12.- Definitions:  
For tax purposes this section defines fiduciary, individual, resident, nonresident and clarifies part-year resident.