

SB

137

SENATE COMMITTEE REPORT First Committee of Referral

DATE: 3/12/03

FURTHER: Finance

Date of 5-Day Notice: 3/27/03
(in accordance with Uniform Rule 23)

DATE TURNED IN TO OFFICE: 4/4/03

State Affairs Committee considered SENATE BILL NO. 137

SB 137 EMPLOYMENT TAX FOR EDUCATION

"An Act imposing a tax on employment; 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 _____ Committee

Senate Bill:

same title

new title

House Bill:

same title

technical title

new: SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Harold Alexander</i>	✓			
<i>Frank...</i>			✓	
<i>[Signature]</i>			✓	
CHAIR: <i>[Signature]</i>	✓			

23-LS0771S
Kurtz
4/2/03

CS FOR SENATE BILL NO. 137()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): SENATOR GARY STEVENS

A BILL

FOR AN ACT ENTITLED

1 "An Act imposing a tax on employment; and providing for an effective date."

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 * Section 1. AS 43 is amended by adding a new chapter to read:

4 Chapter 45. Education Tax.

5 Sec. 43.45.011. Tax imposed. There is imposed a tax of \$100 a year on each
6 individual 19 years of age or older who, during the entire tax year, receives
7 compensation greater than \$1,000 in the state.

8 (b) For purposes of this section, "compensation" includes wages, salaries,
9 commissions, tips, and any other form of remuneration paid for personal services.

10 (c) The tax imposed under this section does not apply to compensation exempt
11 from the tax under federal law.

12 Sec. 43.45.021. Collection of tax. (a) An employer shall deduct and
13 withhold \$50 of the tax from the employee's salary or other compensation on each of
14 the first two regular payrolls after the employee's total compensation paid by the
15 employer during the tax year has exceeded \$1,000. An employer shall file a return on

1 a form prescribed by the department and send the tax withheld to the department on or
2 before the fifteenth day of the month following the month in which the tax was
3 withheld from the employee.

4 (b) A deduction of the tax may not be made in the salary or other
5 compensation of an individual who provides proof to the employer that

6 (1) the tax imposed under AS 43.45.011 for that tax year has already
7 been withheld by another employer; or

8 (2) the individual was not 19 years of age or older for the entire tax
9 year.

10 (c) An individual who has not had the full tax withheld by an employer must
11 file a return on a form prescribed by the department and remit the tax due under this
12 section by June 30 of the tax year.

13 **Sec. 43.45.031. Liability of employer.** An employer who pays compensation
14 is liable for the tax required to be withheld from an employee under this section unless
15 the employer can demonstrate that the employer relied on proof provided by the
16 employee that

17 (1) the tax imposed under AS 43.45.011 had already been withheld by
18 another employer; or

19 (2) the individual was not 19 years of age or older for the entire tax
20 year.

21 **Sec. 43.45.041. Disposition of tax proceeds.** (a) The tax collected by the
22 department under AS 43.45.021 shall be deposited into the general fund and accounted
23 for separately.

24 (b) The legislature may appropriate the estimated amounts to be collected and
25 separately accounted for under (a) of this section for education.

26 (c) The deposit required and appropriation authorized by this section are not
27 intended to create a dedication in violation of art. IX, sec. 7, Constitution of the State
28 of Alaska.

29 **Sec. 43.45.051. Definition.** In this chapter, "tax year" means the period
30 beginning on July 1 and ending on June 30 of the following calendar year.

31 * **Sec. 2.** This Act takes effect July 1, 2003.

LEGAL SERVICES

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

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

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 2, 2003

SUBJECT: Sectional Summary of CSSB 137() (Work Order No. 23-0771\5)

TO: Senator Gary Stevens
Attn: Doug Letch

FROM: Kathryn L. Kurtz *KK*
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1. Creates a new chapter in title 43 imposing a tax on employment.

Sec. 43.45.011 imposes a tax of \$100 per year on each individual 19 years or older and employed in the state who receives compensation greater than \$1,000.

Sec. 43.45.021 requires employers to withhold the tax from an employee's first two paychecks after total compensation paid to that employee during the tax year exceeds \$1,000. Requires the employer to file returns and send the tax money to the department of revenue monthly. Prohibits the withholding of tax from an employee who has already had the tax withheld by another employer, or who is not 19 years of age or older for the entire tax year. Requires individuals subject to the tax who have not had the tax withheld by an employer to file a return.

Sec. 43.45.031 makes employers liable for the tax, unless the employer can demonstrate that the employer relied on proof provided by the employee that the tax had already been withheld, or that the employee was not of an age to be subject to the tax.

Sec. 43.45.041 requires the money collected from the tax to be deposited in the general fund and accounted for separately. Permits the legislature to appropriate the proceeds for education.

Sec. 43.45.051 defines "tax year" as July 1 - June 30.

Section 2. Provides an effective date of July 1, 2004.

KLK:lmb
03-133.lmb

FROM DEPARTMENT OF REVENUE

Here are our comments designed to reduce the number of returns that need to be filed while controlling the risk associated with quarterly withholding:

1) Restate the first sentence of .021(a) to read:

An employer shall deduct and withhold \$50 of the tax from the employee's salary or other compensation on the first regular payroll in which the employee's total compensation during the tax year exceeds \$1,000 and \$50 of the tax from the employee's next regular payroll.

The existing language (version S) starts withholding in the payroll period after the period that wages exceed \$1,000. This will push the second \$50 withholding (for many employees) into the second month of the tax year and require a second return. The suggested language will reduce the number of employers who need to file a return for August. However, it will accelerate and withholding from employees.

2) Restate the second sentence of .021(a) to read:

An employer shall file a return on a form prescribed by the department and remit the tax withheld on or before the earlier of the fifteenth day of the month following each calendar quarter or the fifteenth day of the month following any other month if on the last day of that month the employer's cumulative unremitted amounts withheld total \$500 or more.

This language allows for quarterly filing by small employers and reduces the filing requirements associated with turnover throughout the year. I suspect that Ms. Kurtz will want to wordsmith these. Will you try to let us look at what she comes up with before sending it to the committee?

SESSION ADDRESS:
Alaska State Capitol
Juneau, Alaska 99801-1182
(907) 465-4925
Fax: (907) 465-3517
Toll Free: 1-800-821-4925

Senator Gary Stevens
Alaska State Legislature

INTERIM ADDRESS:
112 Mill Bay Road
Kodiak, Alaska 99615
(907) 486-4925
Fax: (907) 486-5264

Sponsor Statement-SB 137
(Revised 3/26/03)

SB 137 would impose a tax of \$100 a year on each employed individual age 19 or older, including the self-employed. Under this bill, the employer would deduct \$50 from the employee's salary on each of their first two regular payrolls after July 1 of the calendar year. A provision has been added to prevent this tax from being taken out more than once when the employee provides proof to their new employer that the tax has already been satisfied. The tax will not apply to individuals not required to file a federal income tax return under 26 U.S.C. (Internal Revenue Code).

The tax collected under AS 43.45.021 would be deposited into the state's general fund, but accounted for separately. In turn, the legislature may then appropriate the amounts collected under this section for education.

This authorization is not intended to create a dedication of funds in violation of art. IX., 7, of the Constitution of the State of Alaska.

I urge your support of this bill.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB137
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Employment Tax for Education BRU Revenue Operations
 Component Tax Division
 Sponsor Senator Gary Stevens
 Requester Senate State Affairs Committee Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	491.0	618.8	618.8	618.8	618.8	618.8
Travel	14.0	14.0	14.0	14.0	14.0	14.0
Contractual	86.8	175.5	175.5	175.5	175.5	175.5
Supplies	9.0	12.0	12.0	12.0	12.0	12.0
Equipment	190.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	790.8	820.3	820.3	820.3	820.3	820.3

CAPITAL EXPENDITURES	400.0					
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CHANGE IN REVENUES ()	33,000.0	39,000.0	39,000.0	39,000.0	39,000.0	39,000.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,190.8	820.3	820.3	820.3	820.3	820.3
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	1,190.8	820.3	820.3	820.3	820.3	820.3

Estimate of any current year (FY2003) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	10	10	10	10	10	10
Part-time						
Temporary	10	10	10	10	10	10

ANALYSIS: (Attach a separate page if necessary)

See attached pages for revenue and operating expense explanations, and discussion of this legislation.

Prepared by: Chuck Harlamert, Chief of Operations Phone 465-4773
 Division Tax Division Date/Time 3/28/03 3:43 PM
 Approved by: Larry Persily, Deputy Commissioner Date 3/28/2003
 Agency Department of Revenue

Education Tax for Employment - SB137
March 28, 2003 - Page 2 of 4

Revenues

The Department estimates the new program could generate as much as \$39 million a year in state revenue in a full fiscal year (starting in Fiscal 2005, assuming the January 1, 2004 effective date in this bill). This estimate is based not on the number of jobs in Alaska, but on the number of different individuals who hold those jobs during the year and the number of individuals who are self-employed in the state.

In its first year of partial revenue, Fiscal 2004, the new program would produce an estimated \$33 million in state revenue. The Department bases this projection on the belief that most workers would pay the full \$100 fee in the first quarter of the calendar year, with their employers remitting the payments to the state prior to the end of Fiscal 2004 on June 30, 2004. A smaller number of workers in the state and self-employed individuals would pay the \$100 after June 30 (summer workers, new residents, first-job workers).

Operating Expenditures

The Department of Revenue estimates it will receive 85,000 returns/reports/payments from businesses and self-employed individuals during the year, with an estimated 12,000 refunds.

We project it will require 10 full-time and 10 temporary workers to administer the new revenue program:

- 1 Revenue Auditor V
- 1 Revenue Auditor III
- 1 Analyst/Programmer II
- 1 Tax Technician III
- 2 Tax Technicians II
- 2 Accounting Technicians II
- 2 Administrative Clerks II
- 10 temporary data entry / mail / clerks during the busiest period for returns
(each working about four months)

The Department would use data imaging and electronic filing as much as possible to reduce the program's fiscal cost to the state and the cost to businesses.

The \$400,000 capital request for the first year of the program is to pay for a large-scale imaging system, electronic filing and software to accommodate data files for businesses and an estimated 390,000 individuals each year, and a web-based system to allow businesses and self-employed individuals to file paperless returns.

Education Tax for Employment - SB137
March 28, 2003 - Page 3 of 4

Sectional Review

Section 1 amends AS 43 by adding a new chapter to impose an education tax.

AS 43.45.011 provides that the tax is \$100 a year on each individual 19 years of age or older who is employed or self-employed in the state.

AS 43.45.021 provides that an employer is to deduct \$50 from each employee's wages in each of the first two regular payrolls of the tax year, or the first two payrolls following employment. The employer must then remit the tax deducted to the department. No deduction may be made if the employee can prove to the employer that the \$100 tax has previously been paid. The department is to provide a return form for the employer to remit the tax.

AS 43.45.031 provides that an employer, upon request of the employee, shall furnish a record of the tax withheld. The department is to provide a form for this purpose.

AS 43.45.041 provides that the tax shall be deposited into the general fund, accounted for separately, and may be appropriated by the legislature for education. The deposit and appropriation is not intended to create a dedicated fund.

Section 2 provides that the tax takes effect on January 1, 2004.

Discussion

There are several issues that should be resolved for this new tax to function efficiently:

- There is no provision or deadline in this legislation for self-employed individuals to remit payment of the \$100 tax to the state.
- The legislation does not address how an employee who does not earn enough during the year to cover his or her \$100 tax liability shall pay the remainder due to the state, or if that person is only liable for the tax up to his or her maximum earnings if they do not reach \$100 in a year.
- It is possible that the \$50 required to be withheld in the first two payroll periods will exceed the actual amount of an individual's earned wages. Since the employer is only required to deduct the tax from the first two payrolls, it is unclear whether the employer must continue to withhold in subsequent payrolls or whether the employee must remit the additional tax. However, we note there is no provision in the bill for an employee to make payment of any tax owing.

Education Tax for Employment - SB137

March 28, 2003

Page 4 of 4

- It is unclear from this legislation how the Department should treat an individual who is 18 years old on January 1 of the year but then turns 19 years old later in the year. Would that individual then be liable for the tax on the first payrolls after his or her 19th birthday?
- It would be preferable to refer to "compensation" rather than "employed" or "self-employed" in this legislation, and to define compensation as "wages, salaries, commissions, tips, self-employment income as that term is defined in 26 U.S.C. 1402 Internal Revenue Code." This would help eliminate any dispute over taxable income.
- The provision requiring employers to remit the tax to the state by the last day of the month following the calendar quarter in which the money was withheld from employee wages would mean an employer withholding most of the taxes in January each year could use that money and not remit it to the state until the end of April. This could place collected tax at risk when a taxpayer becomes insolvent or leaves the state.
- An individual working two jobs at the beginning of the year will have both employers withhold \$50 in tax in the first payroll period. Since the two jobs cover the same time period, the employee will not be able to prove to either employer that the tax has already been paid. The employee would then need to quickly establish in the second payroll period that the entire tax has already been paid so that neither employer needs to withhold any further tax.
- The bill as written would appear to apply to United States military personnel on active duty in the state but who retain a legal residence in another state. The Soldiers' and Sailors' Civil Relief Act of 1940 (50 U.S.C.) precludes the application of the tax to these individuals.
- There is no compelling reason why the department needs to provide a form for an employer to furnish to an employee showing the amount of tax withheld. The payroll check issued to the employee should show all amounts withheld from compensation and that should be a sufficient record of withholding.
- The bill provides that the tax liability is that of the individual, and the employer only has the obligation to deduct the tax and remit it to the department. The tax liability is not that of the employer as the employer is not the taxpayer. If the employer fails to meet the remittance obligation, or fails to do so timely, the state may proceed under AS 43.05.220 to collect the amount required to be deducted and remitted, but there does not appear to be any civil penalty or interest provisions that would apply to the employer.

WORK DRAFT

WORK DRAFT

WORK DRAFT

23-LS0771V

Kurtz

4/1/03

CS FOR SENATE BILL NO. 137()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

**Offered:
Referred:**

Sponsor(s): SENATOR GARY STEVENS

A BILL

FOR AN ACT ENTITLED

1 **"An Act imposing a tax on employment; and providing for an effective date."**

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

3 *** Section 1.** AS 43 is amended by adding a new chapter to read:

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6 individual 19 years of age or older who, during the entire tax year, receives
7 compensation greater than \$1,000 from an employer in the state.

8 (b) For purposes of this section, "compensation" includes wages, salaries,
9 commissions, tips, and any other form of remuneration paid for personal services.

10 (c) The tax imposed under this section does not apply to compensation exempt
11 from tax under federal law.

12 **Sec. 43.45.021. Collection of tax.** (a) An employer shall deduct and
13 withhold \$50 of the tax from the employee's salary or other compensation on each of
14 the first two regular payrolls after July 1 of each calendar year or, in the case of an
15 employee who begins work and is provided a salary or compensation on a later

WORK DRAFT

WORK DRAFT

23-LS0771V

1 payroll, on each of the first two payrolls after the employee begins employment. An
2 employer shall file a return on a form prescribed by the department and send the tax
3 withheld to the department on or before the fifteenth day of the month following the
4 month in which the tax was withheld from the employee.

5 (b) A deduction of the tax may not be made in the salary or other
6 compensation of an individual who provides proof to the employer that

7 (1) the tax imposed under AS 43.45.011 has already been withheld by
8 another employer; or

9 (2) the individual was not 19 years of age or older for the entire tax
10 year.

11 (c) An individual who has not had the full tax withheld by an employer must
12 file a return on a form prescribed by the department and remit the tax due under this
13 section by June 30 of the tax year.

14 **Sec. 43.45.031. Liability of employer.** An employer who pays compensation
15 that is not exempt from taxation under federal law is liable for the tax required to be
16 withheld from an employee under this section unless the employer can demonstrate
17 that the employer relied on proof provided by the employee that

18 (1) the tax imposed under AS 43.45.011 had already been withheld by
19 another employer; or

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23 department under AS 43.45.021 shall be deposited into the general fund and accounted
24 for separately.

25 (b) The legislature may appropriate the estimated amounts to be collected and
26 separately accounted for under (a) of this section for education.

27 (c) The deposit required and appropriation authorized by this section are not
28 intended to create a dedication in violation of art. IX, sec. 7, Constitution of the State
29 of Alaska.

30 * Sec. 2. This Act takes effect July 1, 2003.

23-LS0771\Q
Kurtz
4/1/03

CS FOR SENATE BILL NO. 137()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

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6 individual 19 years of age or older who, during the entire tax year, receives
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27 intended to create a dedication in violation of art. IX, sec. 7, Constitution of the State
28 of Alaska.

29 **Sec. 43.45.051. Definition.** In this chapter, "tax year" means the period
30 beginning on July 1 and ending on June 30 of the following calendar year.

31 * **Sec. 2.** This Act takes effect July 1, 2003.

23-LS0771VH
Kurtz
3/17/03

CS FOR SENATE BILL NO. 137()

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION**

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6 individual 19 years of age or older and employed, including self-employed, in the
7 state, except an individual who is not required to file a federal income tax return under
8 26 U.S.C. (Internal Revenue Code).

9 **Sec. 43.45.021. Collection of tax.** (a) An employer shall deduct and
10 withhold \$50 of the tax from the employee's salary or other compensation on each of
11 the first two regular payrolls after July 1 of each calendar year or, in the case of an
12 employee who begins work and is provided a salary or compensation on a later
13 payroll, on each of the first two payrolls after employment. A deduction of the tax
14 may not be made in the salary or other compensation of a person who provides proof
15 to the employer that the tax imposed under AS 43.45.011 has been paid. An employer

1 shall send the tax withheld to the department on or before the last day of the month
2 following the calendar quarter in which the tax was withheld from the employee.

3 (b) The department shall provide a return form for the tax withheld under this
4 section.

5 **Sec. 43.45.031. Record of withholding.** An employer who withholds tax
6 under AS 43.45.021 shall furnish to the employee upon request a record of the amount
7 of tax withheld from the employee. The department shall provide a form for that
8 purpose.

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10 department under AS 43.45.021 shall be deposited into the general fund and accounted
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LEGAL SERVICES

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

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

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 26, 2003

SUBJECT: Employment Tax - SB 137 (Work Order No. 23-LS0771\H)

TO: Senator Gary Stevens
Attn: Doug Letch

FROM: Kathryn L. Kurtz *KLK*
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1. Creates a new chapter in title 43 imposing a tax on employment.

Sec. 43.45.011 imposes a tax of \$100 per year on each individual 19 years or older and employed in the state, except an individual not required to file a federal return.

Sec. 43.45.021 requires employers to withhold the tax from an employee's first two paychecks after July 1 of each year, unless the employee can prove that the employee has already paid the tax. Requires the employer to file returns and send the tax money to the department of revenue quarterly. Requires the department of revenue to provide a tax return form.

Sec. 43.45.031 requires an employer to provide proof of withholding to an employee on request, and requires the department of revenue to provide a proof of withholding form.

Sec. 43.45.041 requires the money collected from the tax to be deposited in the general fund and accounted for separately. Permits the legislature to appropriate the proceeds for education.

Section 2. Provides an effective date of July 1, 2004.

KLK:lmb
03-102.lmb

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CSSB137(STA)
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Employment Tax for Education BRU Revenue Operations
 Component Tax Division
 Sponsor Senator Gary Stevens
 Requester Senate Finance Committee Component No. 2476

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Grants & Claims						
Miscellaneous						
TOTAL OPERATING	1,024.3	820.3	820.3	820.3	820.3	820.3

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	39,000.0	39,000.0	39,000.0	39,000.0	39,000.0	39,000.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,024.3	820.3	820.3	820.3	820.3	820.3
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	1,024.3	820.3	820.3	820.3	820.3	820.3

Estimate of any current year (FY2003) cost: 900.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	10	10	10	10	10	10
Part-time						
Temporary	10	10	10	10	10	10

ANALYSIS: (Attach a separate page if necessary)

See attached pages for revenue and operating expense explanations, and discussion of this legislation.

Prepared by: Chuck Harlamert, Chief of Operations Phone 465-4773
 Division Tax Division Date/Time 4/7/03 4:01 PM
 Approved by: Larry Persily, Deputy Commissioner Date 4/7/2003
 Agency Department of Revenue

Revenues

The Department estimates the new program could generate as much as \$39 million a year in state revenue in a full fiscal year starting in Fiscal 2004. This estimate is based not on the number of jobs in Alaska, but on the number of different individuals who hold those jobs during the year and the number of individuals who are self-employed in the state. As the Senate State Affairs CS includes a July 1, 2003 effective date for the new tax, the state would realize the full revenues in the program's first year of operation.

Annual Operating Expenditures

The Department of Revenue estimates it will receive 75,000 returns/reports/payments from businesses and self-employed individuals during the year, plus an estimated 12,000 refund claims.

We project it will require 10 full-time and 10 temporary workers to administer the new revenue program:

- 1 Revenue Auditor V
- 1 Revenue Auditor III
- 1 Analyst/Programmer II
- 1 Tax Technician III
- 2 Tax Technicians II
- 2 Accounting Technicians II
- 2 Administrative Clerks II
- 10 temporary data entry / mail / clerks during the busiest period for returns
(each working about four months)

The Department would use data imaging and electronic filing as much as possible to reduce the program's fiscal cost to the state and the cost to businesses.

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Start-up Expenses

The Department requests \$900,000 in supplemental funds for Fiscal 2003, with a June 30, 2004 lapse date, because of the urgent need to immediately start preparations for the new tax program to take effective July 1, 2003. The money would be used for a large-scale imaging system, electronic filing and software to accommodate data files for businesses and an estimated 390,000 individuals each year, and a web-based system to allow businesses and self-employed individuals to file paperless returns.

The Department will need to move quickly in order to have the tax system in place in just two months and therefore will need to contract for much of the work with private companies. However, not all of the set-up and systems work will be completed by July 1, 2003, and we would use the balance to complete the work during Fiscal 2004.

The funding will cover the following anticipated activities:

- Employer information pamphlets
- Informational inserts with paychecks
- Workplace posters
- Household mail-outs
- Public service announcements
- General and targeted self-employment mail-outs
- Toll-free help desk

Suggested Changes

Sec. 43.45.011(b) – For purposes of this section, "compensation" includes wages, salaries, commissions, tips [and] any other form of remuneration paid for personal services, and gross receipts from a trade or business. *(This would clarify that self-employed people who sell goods are subject to the tax, not just self-employed people in a service business.)*

Sec. 43.45.021 - Collection and payment of tax. (a) An employer shall deduct and withhold the lesser of 10% of the employees' gross compensation or \$50 of the tax from the employee's salary or other compensation on [EACH OF] the first [TWO] regular payroll[S] in which [AFTER] the employee's total compensation paid by the employer during the tax year [HAS] exceeds[ED] \$1,000 and from subsequent payrolls until the tax due under this chapter is fully withheld. *(These changes would spread the impact on low-income taxpayers and avoid the risk of withholding 100% of a paycheck.)*

(b) An employer shall file a return on a form prescribed by the department and remit [SEND] the tax withheld to the department on or before the fifteenth day of the month following the earlier of the last day of

- (1) each calendar quarter during which tax was required to be withheld; or
- (2) any month where on the last day of that month the employer has withheld but not paid \$500 or more of tax.

[MONTH IN WHICH THE TAX WAS WITHHELD FROM THE EMPLOYEE] *(These suggestions would reduce the filing frequency for small employers.)*

Sec. 43.45.041 - Refund Claims by Individuals. An individual who has paid tax or from whom tax was withheld by an employer in excess of \$100 during a tax year may claim a refund from the department. The claim must be made on a form or in a manner proscribed by the department on or before December 31 of the calendar year immediately following the tax year. For purposes of interest payable under AS 43.05.280 only, the claim shall be treated as a return the due date of which is the later of the date the claim was filed with the department or the date on which the last payment of the tax was received by the department. *(This new section, we believe, is the most effective manner to deal with overpayments.)*

New Section for a transition rule. Notwithstanding AS 43.54.021(b)(2) the due date for filing a return and paying the tax with respect to amounts withheld during the first three months during which the tax is in effect shall be the fifteenth day of the fourth month during which the tax is in effect. *(This transition rule will give the department and taxpayers more time to prepare for the tax, simplify initial filing, and improve customer service during the start-up phase.)*

Sectional Review

Section 1 amends AS 43 by adding a new chapter to impose an education tax.

AS 43.45.011 provides that the tax is \$100 a year on each individual 19 years of age or older who is employed or self-employed in the state and who receives compensation in excess of \$1,000 during the tax year.

AS 43.45.021 provides that an employer is to deduct \$50 from each employee's wages in each of the first two regular payrolls of the tax year, or the first two payrolls following employment. The employer must then remit the tax deducted to the department. No deduction may be made if the employee can prove to the employer that the \$100 tax has previously been paid. The department is to provide a return form for the employer to remit the tax.

A self-employed individual who has not had the full tax withheld during the tax year must file a return and pay the tax before the end of the tax year.

AS 43.45.031 holds an employer liable for the tax it is required to withhold and remit.

AS 43.45.041 provides that the tax shall be deposited into the general fund, accounted for separately, and may be appropriated by the legislature for education. The deposit and appropriation is not intended to create a dedicated fund.

AS 43.45.051 defines the tax year and the period beginning July 1 and ending June 30.

Section 2 provides that the tax takes effect on July 1, 2003.