

LEG. FINANCE - BILLS 1979 - 1980 1214

CASHB 1042 cont., thru HB 1045 1214



# RECORDS



# CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

*James O. Smith*  
Signature of Camera Operator

*3/20/90*  
Date

COMMITTEE REPORT  
SENATE

FURTHER: None

9/23/80

Date: 9/23/80

Mr. President:

The Committee on FINANCE has had CSHB 1042 (Rules)  
relating to taxes; repealing the Alaska net income tax on individuals and  
fiduciaries; providing for tax credits for political contributions and  
household and dependent care service

under consideration and (a majority of the committee) (the committee)  
reports it back with the following recommendations:

- do pass  do not pass
- do pass with attached amendments(s)  same title
- replace with CS for \_\_\_\_\_  new title
- and recommends \_\_\_\_\_
- AND attaches a "Letter of Intent"  New Fiscal Note
- reports it back *without* recommendation
- referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

Bill Smith *do pass*

John Thompson *do pass*

Steve Harbour

Bill Lee *do pass*

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

MEMBERS HAVING  
OTHER RECOMMENDATIONS:

Richard *no rec*

Bill King *no rec*

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Steve Harbour  
CHAIRMAN

Bill Smith

428

Original sponsor: State Affairs Committee

Offered: 9/23/80  
For Today's Calendar

1 IN THE HOUSE

BY THE RULES COMMITTEE

2 CS FOR HOUSE BILL NO. 1042 (Rules)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - SECOND SPECIAL SESSION

5 A BILL

6 For an Act entitled: "An Act relating to taxes; repealing the Alaska net  
7 income tax on individuals and fiduciaries; providing  
8 for tax credits for political contributions and house-  
9 hold and dependent care services; providing for refunds  
10 of 1979 individual and fiduciary income taxes; and  
11 providing for an effective date."

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

13 \* Section 1. FINDINGS. The legislature finds:

14 (1) Section 1, ch. 22, SLA 1980 afforded complete tax relief to a  
15 majority of individual taxpayers under the Alaska Net Income Tax Act and  
16 substantial tax relief to most other taxpayers by means of exemptions based  
17 on the number of years an individual reported Alaska income. On September 4,  
18 1980, the Alaska Supreme Court ruled that these exemptions violate the equal  
19 protection clause of art. I, sec. 1 of the state constitution. The effect of  
20 that decision is to reimpose the full income tax burden on all taxpayers.

21 (2) It is in the public interest to remedy the constitutional  
22 defect and provide tax relief to the public at least equal to that attempted  
23 by the exemptions in sec. 1, ch. 22, SLA 1980. This can best be accomplished  
24 by repealing the Alaska net income tax on individuals and fiduciaries.

25 (3) Because ch. 22, SLA 1980 applied to taxes due for the tax year  
26 1979, many taxpayers expected a refund of part or all of their state income  
27 tax for 1979, and many of them made plans and commitments in anticipation of  
28 the refund. The state has a moral obligation to fulfill this widely held  
29 expectation, and this obligation is best discharged by repealing the Alaska

1 net income tax on individuals and fiduciaries retroactive to January 1, 1979.

2 \* Sec. 2. AS 43.20 is amended by adding new sections to read:

3 Sec. 43.20.012. LIMITATION ON APPLICATION OF CHAPTER; CREDITS.

4 The tax imposed by this chapter does not apply to individuals or to  
5 fiduciaries. However, an individual may file a return under this chapter  
6 in order to receive a tax credit under AS 43.20.013.

7 Sec. 43.20.013. INDIVIDUAL TAX CREDITS. (a) A resident individ-  
8 ual is entitled to a tax credit not to exceed \$50 for

9 (1) a contribution made in a calendar year to a person or  
10 organization for use exclusively

11 (A) for a political campaign for a candidate for

12 (i) President or Vice President of the United  
13 States, whether or not the candidate will be voted on in a  
14 primary election in Alaska;

15 (ii) United States senator from Alaska;

16 (iii) United States representative from Alaska;

17 (iv) governor or lieutenant governor of Alaska;

18 (v) the Alaska legislature;

19 (vi) delegate to an Alaska constitutional convention;

20 (vii) electoral confirmation as a judge or justice of  
21 a court in Alaska; or

22 (viii) municipal office in Alaska; or

23 (B) by a group seeking to influence the outcome of a  
24 ballot proposition or question in Alaska; and

25 (2) dues paid in a calendar year to a nonprofit organization  
26 organized primarily for the purpose of influencing elections in Alaska.

27 (b) A resident individual is entitled to a tax credit equal to 16  
28 percent of the tax credit claimed by the individual on his federal  
29 income tax return for household and dependent care services necessary

1 for his gainful employment.

2 (c) The commissioner of revenue shall pay the amount of a tax  
3 credit allowed by this section to a resident individual who makes a  
4 return as provided in AS 43.20.012. A credit under this section shall  
5 be paid in the manner provided in AS 43.20.030(e) for the payment of  
6 refunds and payment may not be made without an appropriation for that  
7 purpose.

8 \* Sec. 3. AS 43.20.021(c) is amended to read:

9 (c) For purposes of calculating the alternative tax on capital  
10 gains provided for in the provisions of Internal Revenue Code sec. 1201,  
11 the rate is 4.5 percent for corporations [AND 4 PERCENT FOR INDIVIDUALS  
12 AND FIDUCIARIES].

13 \* Sec. 4. AS 43.20.021(d) is amended to read:

14 (d) Where a credit allowed under the Internal Revenue Code is also  
15 allowed in computing Alaska income tax, it is limited to [16 PERCENT FOR  
16 INDIVIDUALS AND FIDUCIARIES AND] 18 percent for corporations of the  
17 amount of credit determined for federal income tax purposes which is  
18 attributable to Alaska.

19 \* Sec. 5. AS 43.20.021(f) is amended to read:

20 (f) For the purpose of calculating the minimum tax on tax prefer-  
21 ences provided for in secs. 56 - 58 of the Internal Revenue Code (26  
22 U.S.C. secs. 56 - 58), the rate is [16 PERCENT FOR INDIVIDUALS AND] 18  
23 percent for corporations of the applicable minimum federal tax rate.

24 \* Sec. 6. AS 43.20.030(a) is amended to read:

25 (a) If a [EVERY INDIVIDUAL, FIDUCIARY,] partnership which has a  
26 corporation as a partner or a [AND] corporation is required to make a  
27 return under the provisions of the Internal Revenue Code, it shall at  
28 the same time file with the department a return setting out

29 (1) the amount of tax due under this chapter, less credits

1 claimed against the tax; and

2 (2) other information for the purpose of carrying out the  
3 provisions of this chapter which the department requires.

4 \* Sec. 7. REFUND OF 1979 INCOME TAXES. (a) An individual or fiduciary  
5 is entitled to a refund of his Alaska net income taxes paid or withheld under  
6 AS 43.20 for all or part of a tax year occurring after December 31, 1978 and  
7 before January 1, 1980.

8 (b) A refund under this section may be made only as provided in this  
9 section. Refunds of Alaska net income taxes paid may not be made without an  
10 appropriation for that purpose.

11 (c) The department shall establish procedures for determining the  
12 amount of and for making the refunds described in (a) of this section.

13 (d) The commissioner may adopt regulations to implement this section,  
14 and those regulations may be adopted as emergency regulations under AS 44.-  
15 62.250 and 44.62.260.

16 (e) In this section,

17 (1) "commissioner" means the commissioner of revenue;

18 (2) "department" means the Department of Revenue.

19 \* Sec. 8. The provisions of AS 43.05.280 do not apply to refunds made  
20 under sec. 7 of this Act.

21 \* Sec. 9. The following laws are repealed: AS 43.20.011(a) - (d) and  
22 (f), 43.20.015, 43.20.017, 43.20.021(c), 43.20.030(f) and (g), 43.20.031(a),  
23 (b), and (f) - (h), 43.20.033, 43.20.035, 43.20.036(d) - (i), 43.20.038,  
24 43.20.039, 43.20.040(b)(3) and (6), 43.20.045, 43.20.061, 43.20.160(e),  
25 43.20.180, 43.20.215, and secs. 6 - 11 of ch. 22 SLA 1980.

26 \* Sec. 10. Sections 2 - 6 and 9 of this Act are retroactive to January 1,  
27 1979.

28 \* Sec. 11. This Act takes effect immediately in accordance with AS 01.10.-  
29 070(c).

# STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

## DEPARTMENT OF REVENUE

465-2300

OFFICE OF THE COMMISSIONER

POUCH 5 - JUNEAU 99811

September 19, 1980

The Honorable Clem Tillion  
President of the Senate  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99811

Re: Fiscal Note for An Act suspending the Alaska Net  
Income Tax Act for individuals and fiduciaries

Dear Mr. President:

Attached please find fiscal notes related to the  
estimated revenue impact and administrative costs of the  
above-referenced legislation:

Revenue Impact - FY 81:

(A) Ch. 22, SLA 1980 Appropriation:

1979 Refund	\$ <del>89,900,000</del> <sup>88,900,000</sup>
Administrative Costs	836,500
Refundable Credits	537,000

Total Appropriation \$ 90,273,500  
(See ch. 120 SLA 1980,  
sec. 52, page 70, line 10)

(B) Additional Appropriation necessary to cover Incremental  
Cost of Total Suspension:

1979 Refund	\$ 22,100,000
Administrative Costs	-0-
Refundable Credits	505,000

\$ 22,605,000

(C) Total Appropriated Funds:

\$112,878,500

## (D) Summary of FY 81 costs:

1. Total Appropriated Funds:	\$112,878,500
2. Total Rebate of 1980 Withholding (No appropriation Necessary for these funds held in Trust by the State)	\$ 73,500,000
3. Total Revenues Foregone during FY 81 by virtue of repeal	<u>\$147,500,000</u>
TOTAL	<u>\$333,878,500</u>

Administrative Costs:

Administrative costs under Ch. 22, SLA 1980 were estimated at \$836,500. It is assumed that the original Ch. 22 appropriation remains available for use to implement the suspension or repeal and we foresee no increase in FY 81 administrative costs with the suspension program. Therefore, no additional appropriation is necessary at this time.

Three fiscal notes are attached to show the estimated effects of suspension on relevant Divisions within the Department of Revenue in FY 82. These fiscal notes assume a continuation of the Permanent Fund Dividend program, continuation of the refundable credits and suspension or repeal of AS 43.20 as of December 31, 1978. These potential reductions in funding and staff are preliminary and will be refined for inclusion in the FY 82 Detailed Budget. At that time, it should be known whether the underlying assumptions are valid.

Sincerely,

*Joseph K. Donohue*  
for Thomas K. Williams  
Commissioner of Revenue

Attachments

LEGISLATURE OF THE STATE ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. \_\_\_\_\_  
 Title An Act Suspending the Alaska Net Income Tax Act for Individuals and  
 Requested by Governor Date Fiduciaries

II. FISCAL DETAIL

Agency Affected \_\_\_\_\_  
 Program Category Affected \_\_\_\_\_  
 BRU, Program, or Subprogram(s) Affected \_\_\_\_\_  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						

TOTAL

FUNDING (Thousands of Dollars)

GENERAL FUND		112.878	1.6	2.3	2.8	
FEDERAL FUNDS						
OTHER (Specify Fund Source)						
Withholding in Trust		73.5				
		(147.5)	(206)	(266)	(338)	

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

\$90,273,500 was previously appropriated in CH. 120, SLA 1980, Sec. 52, p. 70, l. 10 to cover the costs of Chapter 22. That figure included \$88.9 million for 1979 tax refunds, \$537,000 for refundable credits and \$836,500 for administrative costs. The new FY 81 figure of \$112,878,000 includes \$111,000,000 for 1979 tax refunds (an increase of \$22.1 million), \$1,042,000 for refundable credits (an increase of \$505,000) and \$836,500 for administrative costs (no increase). Complete suspension of the income tax is estimated to cost a total of \$22,605,000 more than the graduated exemption program in FY 81 and this is the figure utilized in the appropriation bill accompanying the suspension proposal since it is assumed the original Chapter 22 appropriation remains available to implement the new bill.

The \$73.5 million figure for FY 81 consists of withholding held in trust  
 (continued)

IV. DATE \_\_\_\_\_ PREPARED BY Vincent W. Wright  
 AGENCY 5-2371  
 PHONE \_\_\_\_\_  
 Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

for the first three quarters of tax year 1980 that will be refunded in  
FY 81.

The bottom line figures represent foregone revenues due to suspension of  
the individual income tax.

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB/SB

Title An Act Suspending the Alaska Net Income Tax Act for Individuals and Fiduciaries

Requested by Governor Date 9/22/80

II. FISCAL DETAIL

Agency Affected Revenue

Program Category Affected General Government

BRU, Program, or Subprogram(s) Affected Administration and Support, Management Services

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		0	(480.2)			
200 TRAVEL		0	( 2.0)			
300 CONTRACTUAL		0	(231.2)			
400 COMMODITIES		0	( 1.0)			
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
<b>TOTAL</b>		0	(714.4)			

FUNDING (Thousands of Dollars)

GENERAL FUND		0	(714.4)			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME		0	(16/192mm)			
PART TIME		0	(10/50 mm)			
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

100 = 384.2 Salaries	3.00 = .96.2 Forms/Postage
96.0 Benefits	30.0 Machine Rental
480.2 Total Personnel Reduction	100.0 DP Chargeback
	5.0 Miscellaneous Contractual
	231.2 Total Contractual Reduction

IV. DATE 9/22/80

PREPARED BY P. A. Wall

AGENCY Revenue

PHONE 465-2313

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. House/Senate Bill No. 1

Title An Act suspending the Alaska Net Income Tax Act for individuals and  
Requested by Governor Date 9/22/80 (fiduciar

II. FISCAL DETAIL

Agency Affected \_\_\_\_\_ Revenue \_\_\_\_\_  
Program Category Affected \_\_\_\_\_ Fiscal Services \_\_\_\_\_

BRU, Program, or Subprogram(s) Affected \_\_\_\_\_ Audit Division \_\_\_\_\_

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		-0-	(162.3)			
200 TRAVEL		-0-	-0-			
300 CONTRACTUAL		-0-	(.6)			
400 COMMODITIES		-0-	(3.4)			
500 EQUIPMENT		-0-	-0-			
600 LAND & STRUCTURES		-0-	-0-			
700 GRANTS, CLAIMS, ETC.		-0-	-0-			
<b>TOTAL</b>		-0-	(166.3)			

FUNDING (Thousands of Dollars)

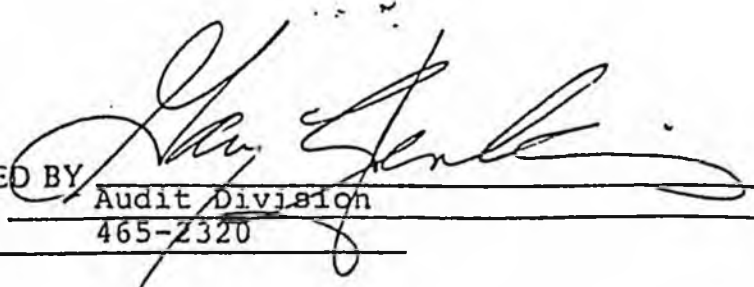
GENERAL FUND		-0-	(166.3)			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME		-0-	(6)			
PART TIME		-0-	(5)			
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached memorandum to Joseph K. Donohue dated September 19, 1980.

IV. DATE September 22, 1980 PREPARED BY   
AGENCY Audit Division  
PHONE 465-2320

Original: Legislative Finance  
cc: Budget and Management  
Prime Sponsor (First Legislator Named)

# MEMORANDUM

# State of Alaska

TO: Joseph K. Donohue  
Deputy Commissioner  
Department of Revenue

DATE: September 19, 1980

FILE NO:

TELEPHONE NO:

FROM: Gary L. Jenkins  
Director  
Audit Division

SUBJECT: Fiscal Impact of  
House/Senate Bill #1

This bill would repeal the individual income tax retroactive to January 1, 1979. It is anticipated that the Department of Revenue will issue 225,000 refunds to taxpayers for 1979 and an additional 325,000 of withholding refunds for 1980. Assuming the Legislature passes this or a similar bill during the week of September 22nd, the major impact of that legislation will be felt by this division in the next nine months. This impact will coincide with the decline of normal functions which various members of my staff have performed in the past which were necessary to the ongoing operation of the individual income tax law.

In reviewing the impact of this legislation on my division, I have continued to assume that the Permanent Fund Dividend program will survive the court test and that we will be processing claims for Permanent Fund Dividends yet this year and in subsequent years.

There are three units in the Juneau office which will be primarily impacted by the individual income tax repeal. These are: Withholding Unit, Individual Tax Examination Unit, and the Taxpayer Assistance Unit. There will also be a slight impact on the staffing of the Anchorage field office. There will be no impact on our Fairbanks and Seattle field offices.

The Withholding Unit will still be required to process all third quarter withholding reports from employers, a limited number of fourth quarter withholding reports, and an annual reconciliation from all employers, which will not be received until the month of February. It is imperative that they properly process all of these reports to ensure that employers have, in fact, withheld and paid in to us the amount of Alaska withholding which they show on their final Alaska W-2 forms. Due to the significant confusion which arose when SB 394 was enacted, with many employees becoming exempt from withholding during the middle of a quarter, and the anticipated similar problems with the enactment of the repeal law which will make all employees exempt from Alaska withholding, it is expected that there will be a much higher incidence of reporting error than we have experienced in the past. This increased incidence of error will result from

Joseph K. Donohue  
September 19, 1980  
Page 2

the fact that some employers have chosen to refund some of the taxes previously withheld to the employees, yet in some cases have not corrected their payroll records to reflect those refunds. If these errors are not identified and corrected, it will result in the State of Alaska issuing refunds for 1980 withholding to employees considerably in excess of the amount actually withheld and remitted to the State of Alaska. There are approximately 13,000 employers in the State of Alaska whose accounts will have to be balanced and closed out and it is anticipated that this will easily take the staff until June 30, 1981 to accomplish.

The Individual Tax Examination Unit will be impacted primarily by the refund of the 1979 individual income tax based on the returns filed. Because of the design of the data capture system, all 1979 individual tax returns which were adjusted within the Department of Revenue will have to have their 1979 refund hand-generated. The staff will be working from a computer-generated list of returns which had changes made to them. From this list they will have to pull the return from our central audit files, review the return to determine what the actual correct amount of tax paid was, and hand-generate a refund document. This will be a very time-consuming process because it will all have to be done by hand. It is anticipated that there will be 25,000 such refunds which will have to be determined by the staff of this unit. They will also be required to deal with those problem returns where the taxpayers have separated or divorced since their 1979 return was filed and want separate checks issued rather than a single check to the joint names. This unit will further be required to handle the 1980 claims which will be filed in 1981 for refund of their withholding and/or estimated tax payments, political campaign contributions, and child care expenses on which the computations are in error. Based on previous filing experience, it is anticipated that there will be at least 10,000 returns in this category. Since processing of the problem 1979 returns will begin in early October, 1980 and will carry into at least March of 1981, it is imperative that the funds which will remain from SB 394 appropriations be made available for the processing of the refunds under this bill. During the period of February, 1981 through June, 1981 we will have our regularly authorized seasonal staff to handle the remaining 1979 returns as well as all the problem claims for 1980. It is anticipated that we will be able to finish processing all of these returns by June 30, 1981.

The Juneau Taxpayer Assistance Unit will eventually be affected by a repeal; however, during the next nine months it is expected that they will continue to have a very high

Joseph K. Donohue  
September 19, 1980  
Page 3

demand for their services because of the large number of questions which clearly will be raised by taxpayers regarding either how their 1979 refund will be processed, or their 1980 withholding/political campaign contribution/child care expense claim is to be prepared and submitted. There will also be an approximate doubling of our workload regarding returned checks which have incorrect addresses because of the large number of people who will have moved since their 1979 return was filed, or their 1980 claim was filed. It will require all the currently authorized staff to properly account for and reissue the anticipated 10,000 returned warrants which will be undeliverable. .

It is also anticipated that the demand for taxpayer assistance services will remain high in the Anchorage area through the remainder of this fiscal year in providing assistance to individuals in regard to their 1979 refunds or their 1980 claims. Again, because the impact of the 1979 refunds will begin in early October and 1980 claims will begin in mid to late January, it is anticipated that this high demand for taxpayer services will continue through June of 1981.

It is anticipated that this repeal will result in a reduction in staff in the Audit Division of eleven positions for FY 82. This is comprised of six permanent full time and five seasonal positions. These reductions will be in the various units discussed above. The total position cost for these positions is \$166,300. As I mentioned previously, we are continuing to anticipate that the Permanent Fund Dividend program will remain in effect and that the court decision upholding it will be released within the next few months. It should be noted that the position reductions do not include any positions which were authorized under the tax relief legislation. It is assumed that those positions would be terminated at the end of this fiscal year.

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB/SB1

Title An act suspending the Alaska Net Income Tax for individuals and fiduciaries

Requested by Governor Date September 22, 1980

II. FISCAL DETAIL

Agency Affected Revenue

Program Category Affected Revenue Collection & Management

BRU, Program, or Subprogram(s) Affected Enforcement

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		-0-	(191.3)			
200 TR/VEL		-0-	( 7.8)			
300 CONTRACTUAL		-0-	( 18.8)			
400 COMMODITIES		-0-	( 1.9)			
500 EQUIPMENT		-0-				
600 LAND & STRUCTURES			( 2.3)			
700 GRANTS, CLAIMS, ETC.						
TOTAL		-0-	(222.1)			

FUNDING (Thousands of Dollars)

GENERAL FUND		-0-	(222.1)			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME		-0-	( 16 )			
PART TIME		-0-				
TEMPORARY		-0-				

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached memorandum from Fred Boetsch, Director of Enforcement Division to Joe Donohue, Deputy Commissioner, Taxation, dated August 29, 1980.

IV. DATE 09/19/80

PREPARED BY Fred Boetsch, Director of Enforcement Div  
AGENCY Revenue  
PHONE (907) 465-2366

Original: Legislative Finance  
cc: Budget and Management  
Prime Sponsor (First Legislator Named)

# MEMORANDUM

State of Alaska

TO: Joe Donohue  
Deputy Commissioner  
Department of Revenue

DATE: August 29, 1980

FILE NO:

TELEPHONE NO: 465-2366

FROM: Fred Boetsch, Director *FB*  
Enforcement Division

SUBJECT: Contingency Plan for  
Income Tax Repeal

The effects of a total repeal of the Alaska income tax in this organization would depend on many variables besides the mere repeal of the tax. The first item, of course, would be the effective date of any repeal. The earlier the effective date, the sooner we would expect our individual tax workload to decline. Another variable would be the Permanent Fund Dividend Program. If this program goes into effect, we will exercise our right of offset to satisfy many old warrants and thereby reduce the inventory more rapidly. The third factor would be the extent to which old revenue agent reports from the IRS are worked in the future and the warrant load which might be generated from that source.

For purposes of this analysis therefore, I have assumed that the Permanent Fund Dividend Program would remain intact and that the people assigned to the compliance unit would work on permanent fund dividend eligibility and tax compliance investigations. I have also assumed that the repeal would be effective January 1, 1979, and that Audit would continue to work Internal Revenue Service revenue agent reports through 1978. Under those conditions the changes indicated on the attached organization chart would be fully implemented by the end of calendar year 1981 (approximately halfway through fiscal year 1982). For the most part changes would be made through attrition during the course of the next 16 months. It is my hope that layoffs would not be necessary.

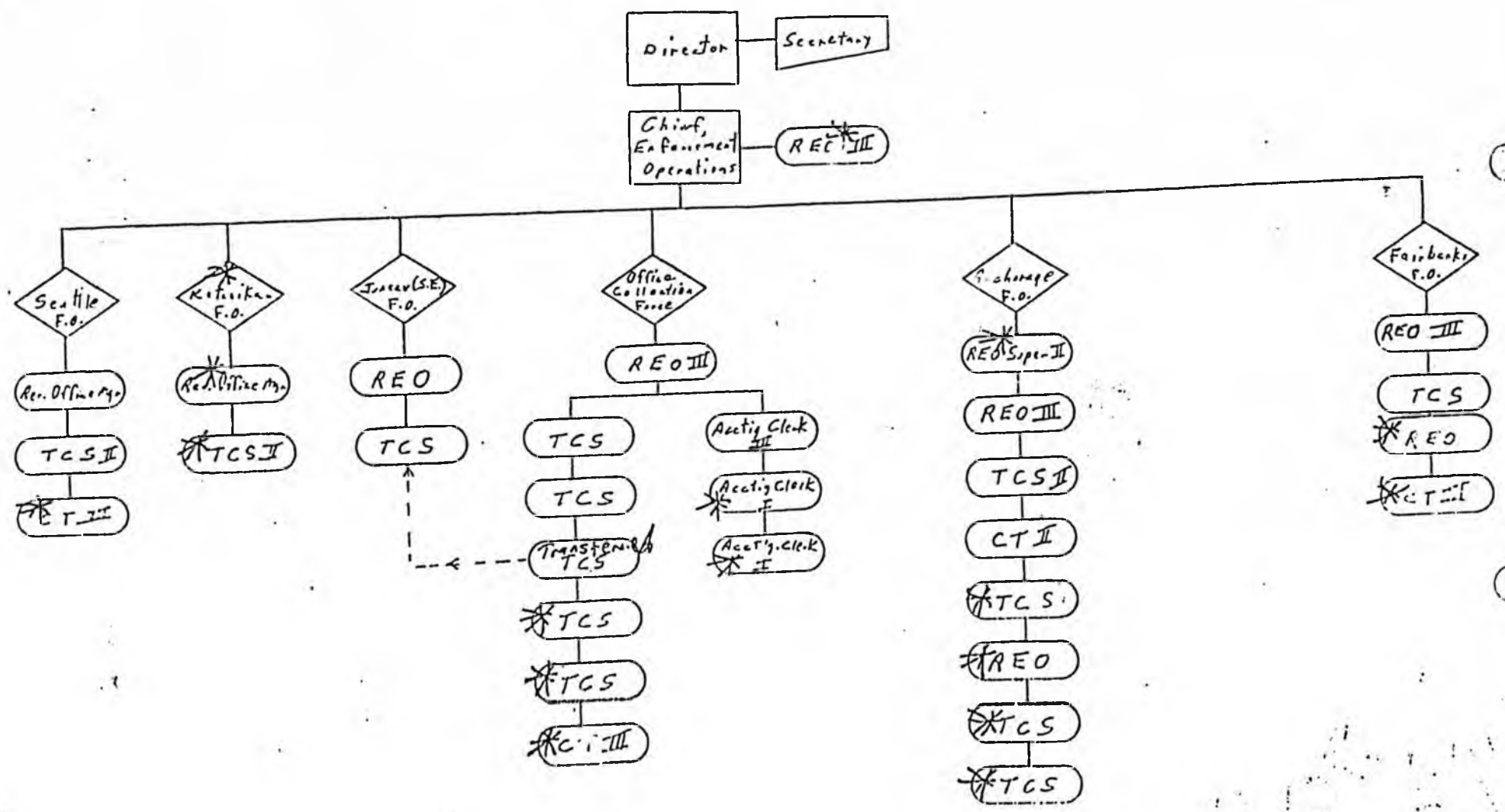
The attached chart indicates the present organization of the collection function within the Enforcement Division, including management. It does not include the permanent fund dividend and other taxes compliance unit. Those positions indicated in blue would remain after the implementation of this phase-out whereas those positions indicated in red would be deleted. Approximately 16 positions would ultimately be deleted from the collection staff and 13 positions would remain.

FB/vcy

Attachment

cc: Marilla Gemmer, Chief  
Enforcement Operations

Enforcement Division Contingency Plan



\* Positions Deleted

# STATE OF ALASKA

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION  
POUCH WF-STATE CAPITOL  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-3795

### M E M O R A N D U M

DATE: September 18, 1980

TO: Honorable Russ Meekins  
Chairman  
House Finance Committee

FROM: Milt Barker, <sup>MB</sup> Fiscal Analyst  
Legislative Finance Division

SUBJ: General Fund Balances

Table 1 (attached) projects a general fund cash balance of \$923 million at the end of this fiscal year and \$5,592 million in cash available for appropriation for FY 82 if there is no legislation repealing individual income taxes and refunding calendar 1979 tax payments and calendar 1980 withholding for individuals.

Assuming such legislation is enacted, the figures would be \$590 million at the end of FY 81 and \$5,051 million in cash available for appropriation for FY 82 based on the cost of such legislation as detailed in the attached fiscal note, namely

<u>FY 81</u>	
Appropriation of 1979 tax refund	\$111.8 million
Appropriation of 1980 withholding	73.5 million
Revenue foregone FY 81	147.5 million
	<u>\$332.8 million</u>
<u>FY 82</u>	
Revenue foregone	<u>\$206.0 million</u>
Total cost through FY 82	\$538.8 million

The estimates of petroleum revenues in this Memo are significantly less than those contained in the June 1980 "Revenue Sources" published by the Department of Revenue. The respective estimates of North Slope wellhead values are

	June 1980 "Revenue Sources"	This Memo
FY 81	\$22.55	\$19.87
FY 82	\$33.69	\$26.92

September 18, 1980

The differences in wellhead values reflect the following events or differing assumptions:

1. "Revenue Sources" assumed, based on a FERC administrative law judge's ruling on February 1, 1980, that FERC may ultimately adjust TAPS tariffs downward from those filed by the oil companies. This Memo's estimates do not take that possibility into account.
2. The recent settlement of the field costs issues in the Amerada Hess law suit was incorporated in the estimates herein. \$40 million in refunds of excessive field cost deductions from royalties taken by the oil companies prior to the settlement are assumed to be received by the State in FY 81. Based on settled costs of 42¢ per barrel escalated by the producer price index for industrial commodities, the allowable deduction for calendar 1980 would be 54¢ vs. the average of 64¢ that was being taken and which was used in the "Revenue Sources" estimates.
3. The requirement by DOE of entitlements for North Slope oil resulted in approximately a \$4 per barrel reduction in wellhead price by Sohio and Exxon in July 1980. The discount should decrease to less than \$1 by June 1981 as the controlled portion of North Slope oil on which entitlements are required declines. The elimination of this discount is assumed in this Memo to be accelerated by adoption of new DOE regulations which propose to reduce the entitlement requirements on North Slope by \$2 because of its lesser quality. See attached Fairbanks News-Miner article.
4. More conservative estimates of world oil price increases are projected here than in the earlier June "Revenue Sources" due to the growing glut of oil and the failure of this week's OPEC conference to reach agreement on prices and production. However, the underlying assumption is that agreement will be reached and production reduced so that continued price increases can be realized beginning in 1981.

enclosures

MB:bf

TABLE I  
GENERAL FUND BALANCES  
(\$ Millions)

	Available for Appropriation	Cash	Source
General Fund Balance 6/30/79	684.3	199.0	"Executive Budget FY 81"
<u>FY 80</u>			
Unrestricted Revenue (Net of Permanent, Renewable Resources, and Native Claims Funds)	2539.5	2539.5	"Revenue Sources" June 1980
Appropriations (Including Supplementals)	(1651.2)	(1651.2)	"Free Conference Committee Re- port - Capitol Budget and Sum- maries" FY 80 & FY 81
Illiquid Investments		<u>(389.0)</u>	See Table 2
General Fund Balance 6/30/80	1572.6	698.3	
<u>FY 81</u>			
Unrestricted Revenue (Net of Permanent & Renewable Resource Funds; inclusive of individual income tax liabil- ities)	3564.1	3564.1	Legislative Finance estimate
Appropriations (Net of appropriation of \$88.9 for calendar 79 tax refunds in fiscal note for SB 394)	<u>(3851.1)</u>	<u>(3339.1)</u> <sup>(1)</sup>	"Free Conference Committee Re- port - Capitol Budget and Sum- maries FY 81"
General Fund Balance 6/30/81	1285.6	923.3	
<u>FY 82</u>			
Unrestricted Revenue (Net of Permanent & Renewable Resource Funds; Inclusive of individual income tax liabil- ities)	<u>4669.0</u>	<u>4669.0</u>	Legislative Finance estimate
General Fund Balance 6/30/82 (Before 1981 session appropriations)	5954.6	5592.3	

Footnote 1. Certain appropriations to AHFC, AIDA, and for fish processing loan guarantees were made from illiquid assets.

PREPARED BY:  
Legislative Finance Division  
September 17, 1980

TABLE 2

FY 80 Illiquid Investments  
(\$ millions)

Business Loans.	\$171.0
Commercial Fish & Agriculture Bank	30.0
Security National Bank	4.5
Mobile Home Loans	20.0
Deferred Compensation Loan	3.5
Housing loans purchased from banks	155.0
Credit Unions	45.0
Principal Repayment	<u>(40.0)</u>
	\$389.0

PREPARED BY:  
Legislative Finance Division  
September 17, 1980

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. \_\_\_\_\_  
 Title An Act Relating to Income Tax Repeal and Refundable Credits  
 Requested by \_\_\_\_\_ Date \_\_\_\_\_

II. FISCAL DETAIL

Agency Affected \_\_\_\_\_  
 Program Category Affected \_\_\_\_\_  
 BRU, Program, or Subprogram(s) Affected \_\_\_\_\_  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						

TOTAL

FUNDING (Millions of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
GENERAL FUND		111.8	1.7	1.6	2.8	2.8
FEDERAL FUNDS						
OTHER (Specify Fund Source)						
Withholding in Trust		73.5				
		(147.5)	(206)	(266)	(338)	(427)

POSITIONS

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
FULL TIME						
PART TIME						
TEMPORARY						

*55.0 received in FY 80*

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

The aforementioned numbers are broken down in the following manner. (1) This fiscal year 1981 figure of \$111.8 million consists of \$111 million in 1979 tax year refunds plus .8 million for refundable credits in the form of political contributions and child care. (2) The \$73.5 million figure to be paid in FY 81 consists of withholding held in trust for the first three quarters of tax year 1980. (3) The figure of \$147 million represents the remainder of foregone income for fiscal year 1981. The sum total figure of \$185.3 million constituting items (1) and (2) must be appropriated where as the \$147.7 million foregone income does not require appropriation on the part of the Legislature. (4) The figures for FY 82 through FY 85 encompass first the refundable political contribution and child care credits and second the foregone income assuming total repeal of the individual income tax.

IV. DATE 9/15/80 PREPARED BY Vincent Wright

Original: Legislative Finance AGENCY \_\_\_\_\_  
 cc: Budget and Management PHONE 512391  
 Prime Sponsor (First Legislator Named)

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. \_\_\_\_\_  
Title An Act Relating to Income Tax Repeal and Refundable Credits  
Requested by \_\_\_\_\_ Date \_\_\_\_\_

II. FISCAL DETAIL

Agency Affected \_\_\_\_\_  
Program Category Affected \_\_\_\_\_  
BRU, Program, or Subprogram(s) Affected \_\_\_\_\_  
(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL						

FUNDING (Thousands of Dollars)  
Millions

GENERAL FUND		30.5	1.7	1.6	2.8	2.8
FEDERAL FUNDS						
OTHER (Specify Fund Source)						
General Fund Uncollected Tax		(26.2)	(30)	(41)	(54)	(70)

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

The approach outlined on the first page represents the impact of complete suspension of the individual income tax. The effect of the incremental approach, which is simply another way of looking at the impact, reveals the numbers indicated above. These numbers must be read in conjunction with those in Fiscal Note FCCS for SB 394 dated 4-14-80 in order to ascertain the full impact.

IV. DATE 9/15/80 PREPARED BY [Signature]  
AGENCY \_\_\_\_\_  
PHONE 5-2391  
Original: Legislative Finance  
cc: Budget and Management  
Prime Sponsor (First Legislator Named)

Fairbanks News Miner

9-13-80

## DOE ruling may cut N.S. oil cost

News-Miner Bureau

WASHINGTON—The seesawing gasoline prices of major Alaskan producers could swing down a bit as the result of a change in rules on North Slope oil proposed by the Department of Energy this week.

The new rule would cut the entitlements subsidy that Standard Oil of Ohio, Atlantic Richfield and Exxon now pay other refiners by about \$2 a barrel to compensate for the poor quality of their Alaskan North Slope oil supply.

A Sohio spokesman said the company

is still studying whether the complex proposal will mean any savings for motorists in Alaska.

"I hate to raise expectations," the spokesman said. But he predicted there could be a price cut of about 3 cents a gallon after January if market conditions allow Sohio to pass the savings on to customers.

The department's entitlements program is designed to equalize the costs of various types of imported and domestic oil, but changing world prices and supplies have forced a continual reshuffling.

This latest proposal comes on top of a more sweeping change in the program last July that eliminated the entitlements benefits which kept the producers' prices low and forced them to pay into a fund for other refiners instead.

Anticipating that change, Sohio officials raised their prices 11 cents a gallon in June. But they also argued that the less valuable products refined from their heavy, high sulfur Alaskan oil made it unfair to wipe out the benefits completely.

Department spokesman Jack Vandenburg said complaints from Sohio and other Alaskan oil producers were responsible for the new proposal. He said the \$2 a barrel cut is designed to make Alaskan oil competitive in price with higher quality imported oil.

The department is also considering a measure that would grant relief for Alaskan producers who must pay high transportation costs to move North Slope oil to the Lower 48.

Hearings on DOE's proposal are scheduled for Oct. 9, with final action due after Nov. 12.

North Slope  
entitlement obligation  
currently \$10.55/barrel  
WSJ 9-15-80



# RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O Smith  
Signature of Camera Operator

3/20/90  
Date

# STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

## DEPARTMENT OF REVENUE

465-2300

OFFICE OF THE COMMISSIONER

POUCH 5 - JUNEAU 99811

September 19, 1980

The Honorable Clem Tillion  
President of the Senate  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99811

Re: Fiscal Note for An Act suspending the Alaska Net  
Income Tax Act for individuals and fiduciaries

Dear Mr. President:

Attached please find fiscal notes related to the  
estimated revenue impact and administrative costs of the  
above-referenced legislation:

Revenue Impact - FY 81:

(A) Ch. 22, SLA 1980 Appropriation:

1979 Refund	\$ <sup>88,900,000</sup> <del>89,900,000</del>
Administrative Costs	836,500
Refundable Credits	537,000

Total Appropriation \$ 90,273,500  
(See ch. 120 SLA 1980,  
sec. 52, page 70, line 10)

(B) Additional Appropriation necessary to cover Incremental  
Cost of Total Suspension:

1979 Refund	\$ 22,100,000
Administrative Costs	-0-
Refundable Credits	505,000

\$ 22,605,000

(C) Total Appropriated Funds:

\$112,878,500

## (D) Summary of FY 81 costs:

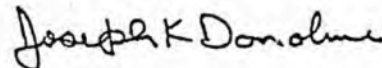
1. Total Appropriated Funds:	\$112,878,500
2. Total Rebate of 1980 Withholding (No appropriation Necessary for these funds held in Trust by the State)	\$ 73,500,000
3. Total Revenues Foregone during FY 81 by virtue of repeal	<u>\$147,500,000</u>
TOTAL	<u>\$333,878,500</u>

Administrative Costs:

Administrative costs under Ch. 22, SLA 1980 were estimated at \$836,500. It is assumed that the original Ch. 22 appropriation remains available for use to implement the suspension or repeal and we foresee no increase in FY 81 administrative costs with the suspension program. Therefore, no additional appropriation is necessary at this time.

Three fiscal notes are attached to show the estimated effects of suspension on relevant Divisions within the Department of Revenue in FY 82. These fiscal notes assume a continuation of the Permanent Fund Dividend program, continuation of the refundable credits and suspension or repeal of AS 43.20 as of December 31, 1978. These potential reductions in funding and staff are preliminary and will be refined for inclusion in the FY 82 Detailed Budget. At that time, it should be known whether the underlying assumptions are valid.

Sincerely,

for Thomas K. Williams  
Commissioner of Revenue

Attachments

LEGISLATURE OF THE STATE ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. \_\_\_\_\_  
 Title An Act Suspending the Alaska Net Income Tax Act for Individuals and  
 Requested by Governor Date Fiduciaries

II. FISCAL DETAIL

Agency Affected \_\_\_\_\_  
 Program Category Affected \_\_\_\_\_  
 BRU, Program, or Subprogram(s) Affected \_\_\_\_\_  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						

TOTAL

FUNDING (Thousands of Dollars)

GENERAL FUND		112.878	1.6	2.3	2.8	
FEDERAL FUNDS						
OTHER (Specify Fund Source)						
Withholding in Trust		73.5				
		(147.5)	(206)	(266)	(338)	

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

\$90,273,500 was previously appropriated in CH. 120, SLA 1980, Sec. 52, p. 70, l. 10 to cover the costs of Chapter 22. That figure included \$88.9 million for 1979 tax refunds, \$537,000 for refundable credits and \$836,500 for administrative costs. The new FY 81 figure of \$112,878,000 includes \$111,000,000 for 1979 tax refunds (an increase of \$22.1 million), \$1,042,000 for refundable credits (an increase of \$505,000) and \$836,500 for administrative costs (no increase). Complete suspension of the income tax is estimated to cost a total of \$22,605,000 more than the graduated exemption program in FY 81 and this is the figure utilized in the appropriation bill accompanying the suspension proposal since it is assumed the original Chapter 22 appropriation remains available to implement the new bill.

The \$73.5 million figure for FY 81 consists of withholding held in trust  
 (continued)

IV. DATE \_\_\_\_\_ PREPARED BY Vincent W. Wright  
 AGENCY 5-2391  
 PHONE \_\_\_\_\_  
 Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

for the first three quarters of tax year 1980 that will be refunded in  
FY 81.

The bottom line figures represent foregone revenues due to suspension of  
the individual income tax.

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB/SB

Title An Act Suspending the Alaska Net Income Tax Act for Individuals and Fiduciaries

Requested by Governor

Date 9/22/80

II. FISCAL DETAIL

Agency Affected Revenue

Program Category Affected General Government

BRU, Program, or Subprogram(s) Affected Administration and Support, Management Services

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		0	(480.2)			
200 TRAVEL		0	( 2.0)			
300 CONTRACTUAL		0	(231.2)			
400 COMMODITIES		0	( 1.0)			
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		0	(714.4)			

FUNDING (Thousands of Dollars)

GENERAL FUND		0	(714.4)			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME		0	(16/192mm)			
PART TIME		0	(10/50 mm)			
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

100 = 384.2 Salaries  
       96.0 Benefits  
       480.2 Total Personnel Reduction

3.00 = .96.2 Forms/Postage  
       30.0 Machine Rental  
       100.0 DP Chargeback  
       5.0 Miscellaneous Contractual  
       231.2 Total Contractual Reduction

IV. DATE 9/22/80

PREPARED BY P. A. Wall

AGENCY Revenue

PHONE 465-2313

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. House/Senate Bill No. 1

Title An Act suspending the Alaska Net Income Tax Act for individuals and  
Requested by Governor Date 9/22/80 (fiduciar

II. FISCAL DETAIL

Agency Affected \_\_\_\_\_ Revenue  
Program Category Affected \_\_\_\_\_ Fiscal Services  
BRU, Program, or Subprogram(s) Affected \_\_\_\_\_ Audit Division

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		-0-	(162.3)			
200 TRAVEL		-0-	-0-			
300 CONTRACTUAL		-0-	(.6)			
400 COMMODITIES		-0-	(3.4)			
500 EQUIPMENT		-0-	-0-			
600 LAND & STRUCTURES		-0-	-0-			
700 GRANTS, CLAIMS, ETC.		-0-	-0-			
TOTAL		-0-	(166.3)			

FUNDING (Thousands of Dollars)

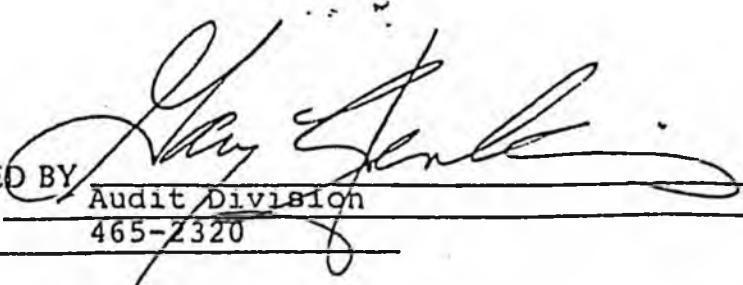
GENERAL FUND		-0-	(166.3)			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME		-0-	(6)			
PART TIME		-0-	(5)			
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached memorandum to Joseph K. Donohue dated September 19, 1980.

IV. DATE September 22, 1980 PREPARED BY   
AGENCY Audit Division  
PHONE 465-2320

Original: Legislative Finance  
cc: Budget and Management  
Prime Sponsor (First Legislator Named)

# MEMORANDUM

# State of Alaska

TO: Joseph K. Donohue  
Deputy Commissioner  
Department of Revenue

DATE: September 19, 1980

FILE NO:

TELEPHONE NO:

FROM: Gary L. Jenkins  
Director  
Audit Division

SUBJECT: Fiscal Impact of  
House/Senate Bill #1

This bill would repeal the individual income tax retroactive to January 1, 1979. It is anticipated that the Department of Revenue will issue 225,000 refunds to taxpayers for 1979 and an additional 325,000 of withholding refunds for 1980. Assuming the Legislature passes this or a similar bill during the week of September 22nd, the major impact of that legislation will be felt by this division in the next nine months. This impact will coincide with the decline of normal functions which various members of my staff have performed in the past which were necessary to the ongoing operation of the individual income tax law.

In reviewing the impact of this legislation on my division, I have continued to assume that the Permanent Fund Dividend program will survive the court test and that we will be processing claims for Permanent Fund Dividends yet this year and in subsequent years.

There are three units in the Juneau office which will be primarily impacted by the individual income tax repeal. These are: Withholding Unit, Individual Tax Examination Unit, and the Taxpayer Assistance Unit. There will also be a slight impact on the staffing of the Anchorage field office. There will be no impact on our Fairbanks and Seattle field offices.

The Withholding Unit will still be required to process all third quarter withholding reports from employers, a limited number of fourth quarter withholding reports, and an annual reconciliation from all employers, which will not be received until the month of February. It is imperative that they properly process all of these reports to ensure that employers have, in fact, withheld and paid in to us the amount of Alaska withholding which they show on their final Alaska W-2 forms. Due to the significant confusion which arose when SB 394 was enacted, with many employees becoming exempt from withholding during the middle of a quarter, and the anticipated similar problems with the enactment of the repeal law which will make all employees exempt from Alaska withholding, it is expected that there will be a much higher incidence of reporting error than we have experienced in the past. This increased incidence of error will result from

Joseph K. Donohue  
September 19, 1980  
Page 2

the fact that some employers have chosen to refund some of the taxes previously withheld to the employees, yet in some cases have not corrected their payroll records to reflect those refunds. If these errors are not identified and corrected, it will result in the State of Alaska issuing refunds for 1980 withholding to employees considerably in excess of the amount actually withheld and remitted to the State of Alaska. There are approximately 13,000 employers in the State of Alaska whose accounts will have to be balanced and closed out and it is anticipated that this will easily take the staff until June 30, 1981 to accomplish.

The Individual Tax Examination Unit will be impacted primarily by the refund of the 1979 individual income tax based on the returns filed. Because of the design of the data capture system, all 1979 individual tax returns which were adjusted within the Department of Revenue will have to have their 1979 refund hand-generated. The staff will be working from a computer-generated list of returns which had changes made to them. From this list they will have to pull the return from our central audit files, review the return to determine what the actual correct amount of tax paid was, and hand-generate a refund document. This will be a very time-consuming process because it will all have to be done by hand. It is anticipated that there will be 25,000 such refunds which will have to be determined by the staff of this unit. They will also be required to deal with those problem returns where the taxpayers have separated or divorced since their 1979 return was filed and want separate checks issued rather than a single check to the joint names. This unit will further be required to handle the 1980 claims which will be filed in 1981 for refund of their withholding and/or estimated tax payments, political campaign contributions, and child care expenses on which the computations are in error. Based on previous filing experience, it is anticipated that there will be at least 10,000 returns in this category. Since processing of the problem 1979 returns will begin in early October, 1980 and will carry into at least March of 1981, it is imperative that the funds which will remain from SB 394 appropriations be made available for the processing of the refunds under this bill. During the period of February, 1981 through June, 1981 we will have our regularly authorized seasonal staff to handle the remaining 1979 returns as well as all the problem claims for 1980. It is anticipated that we will be able to finish processing all of these returns by June 30, 1981.

The Juneau Taxpayer Assistance Unit will eventually be affected by a repeal; however, during the next nine months it is expected that they will continue to have a very high

Joseph K. Donohue  
September 19, 1980  
Page 3

demand for their services because of the large number of questions which clearly will be raised by taxpayers regarding either how their 1979 refund will be processed, or their 1980 withholding/political campaign contribution/child care expense claim is to be prepared and submitted. There will also be an approximate doubling of our workload regarding returned checks which have incorrect addresses because of the large number of people who will have moved since their 1979 return was filed, or their 1980 claim was filed. It will require all the currently authorized staff to properly account for and reissue the anticipated 10,000 returned warrants which will be undeliverable.

It is also anticipated that the demand for taxpayer assistance services will remain high in the Anchorage area through the remainder of this fiscal year in providing assistance to individuals in regard to their 1979 refunds or their 1980 claims. Again, because the impact of the 1979 refunds will begin in early October and 1980 claims will begin in mid to late January, it is anticipated that this high demand for taxpayer services will continue through June of 1981.

It is anticipated that this repeal will result in a reduction in staff in the Audit Division of eleven positions for FY 82. This is comprised of six permanent full time and five seasonal positions. These reductions will be in the various units discussed above. The total position cost for these positions is \$166,300. As I mentioned previously, we are continuing to anticipate that the Permanent Fund Dividend program will remain in effect and that the court decision upholding it will be released within the next few months. It should be noted that the position reductions do not include any positions which were authorized under the tax relief legislation. It is assumed that those positions would be terminated at the end of this fiscal year.

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB/SB1

Title An act suspending the Alaska Net Income Tax for individuals and fiduciaries

Requested by Governor

Date September 22, 1980

II. FISCAL DETAIL

Agency Affected Revenue

Program Category Affected Revenue Collection & Management

BRU, Program, or Subprogram(s) Affected Enforcement

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		-0-	(191.3)			
200 TRAVEL		-0-	( 7.8)			
300 CONTRACTUAL		-0-	( 18.8)			
400 COMMODITIES		-0-	( 1.9)			
500 EQUIPMENT		-0-				
600 LAND & STRUCTURES			( 2.3)			
700 GRANTS, CLAIMS, ETC.						
TOTAL		-0-	(222.1)			

FUNDING (Thousands of Dollars)

GENERAL FUND		-0-	(222.1)			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME		-0-	( 16 )			
PART TIME		-0-				
TEMPORARY		-0-				

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached memorandum from Fred Boetsch, Director of Enforcement Division to Joe Donohue, Deputy Commissioner, Taxation, dated August 29, 1980.

IV. DATE 09/19/80

PREPARED BY Fred Boetsch, Director of Enforcement Division

AGENCY Revenue

PHONE (907) 465-2366

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

# MEMORANDUM

State of Alaska

TO: Joe Donohue  
Deputy Commissioner  
Department of Revenue

DATE: August 29, 1980

FILE NO:

TELEPHONE NO: 465-2366

FROM: Fred Boetsch, Director  
Enforcement Division *FB*

SUBJECT: Contingency Plan for  
Income Tax Repeal

The effects of a total repeal of the Alaska income tax in this organization would depend on many variables besides the mere repeal of the tax. The first item, of course, would be the effective date of any repeal. The earlier the effective date, the sooner we would expect our individual tax workload to decline. Another variable would be the Permanent Fund Dividend Program. If this program goes into effect, we will exercise our right of offset to satisfy many old warrants and thereby reduce the inventory more rapidly. The third factor would be the extent to which old revenue agent reports from the IRS are worked in the future and the warrant load which might be generated from that source.

For purposes of this analysis therefore, I have assumed that the Permanent Fund Dividend Program would remain intact and that the people assigned to the compliance unit would work on permanent fund dividend eligibility and tax compliance investigations. I have also assumed that the repeal would be effective January 1, 1979, and that Audit would continue to work Internal Revenue Service revenue agent reports through 1978. Under those conditions the changes indicated on the attached organization chart would be fully implemented by the end of calendar year 1981 (approximately halfway through fiscal year 1982). For the most part changes would be made through attrition during the course of the next 16 months. It is my hope that layoffs would not be necessary.

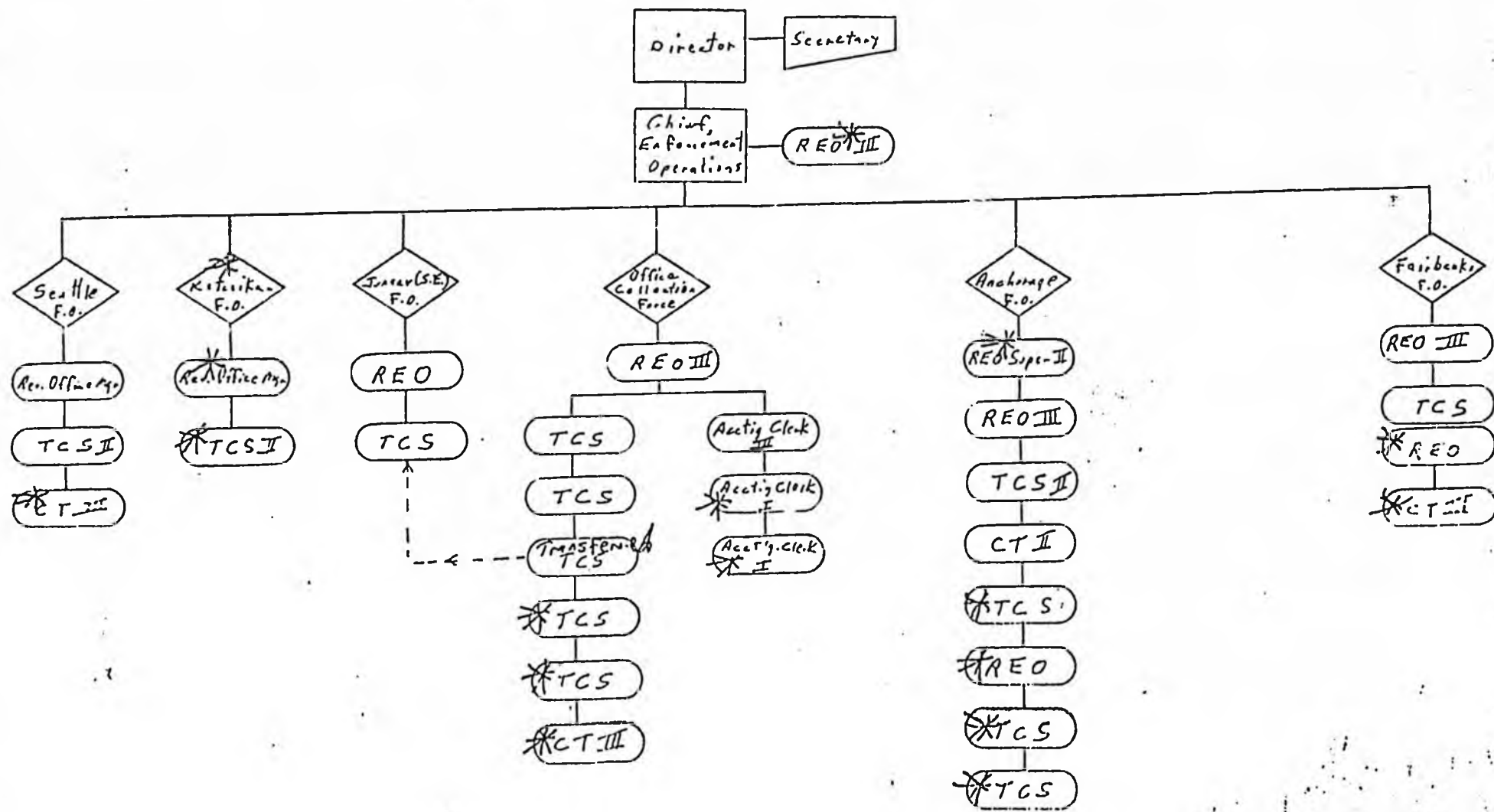
The attached chart indicates the present organization of the collection function within the Enforcement Division, including management. It does not include the permanent fund dividend and other taxes compliance unit. Those positions indicated in blue would remain after the implementation of this phase-out whereas those positions indicated in red would be deleted. Approximately 16 positions would ultimately be deleted from the collection staff and 13 positions would remain.

FB/vcy

Attachment

cc: Marilla Gemmer, Chief  
Enforcement Operations

Enforcement Division Contingency Plan



\* Positions Deleted

Introduced: 9/22/80  
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 1043

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - SECOND SPECIAL SESSION

5 A BILL

6 For an Act entitled: "An Act suspending the Alaska Net Income Tax Act for  
7 individuals and fiduciaries; and providing for an ef-  
8 fective date."

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

10 \* Section 1. The legislature finds:

11 (a) Section 1, ch. 22, SLA 1980 afforded complete tax relief to a ma-  
12 jority of individual taxpayers under the Alaska Net Income Tax Act and sub-  
13 stantial relief to most others by means of a series of exemptions based on  
14 the number of years an individual had Alaska income and reported it to the  
15 state. On September 4, 1980, the Alaska Supreme Court ruled that these ex-  
16 emptions violate the equal protection clause of Art. I, sec. 1 of the Alas-  
17 ka State Constitution. The practical effect of that decision is to re-im-  
18 pose the full income tax burden on all taxpayers.

19 (b) It is in the public interest to remedy this constitutional defect  
20 while still providing tax relief to the public at least equal to that at-  
21 tempted by the series of exemptions in sec. 1, ch. 22, SLA 1980. This can  
22 best be accomplished by eliminating the entire income tax burden for all  
23 individuals and fiduciaries until at least 1990.

24 (c) Because ch. 22, SLA 1980 applied to taxes due for the tax year  
25 1979, a great number of taxpayers expected a refund of part or all of their  
26 state income tax for 1979, and many made plans and commitments in anticipa-  
27 tion of their refunds. The state has a moral obligation to fulfill this  
28 widely held expectation, and this obligation is best discharged by provid-  
29 ing for suspension of the net income tax for individuals and fiduciaries

*Allen* COMMITTEE COPY

-1-

HB 1043

1 retroactive to January 1, 1979.

2 \* Sec. 2. AS 43.05.010 is amended by adding a new subsection to read:

3 (b) On January 15, 1989, and on January 15 of each year thereaf-  
4 ter the commissioner of revenue shall certify to the governor and the  
5 legislature the total expenditures from the general fund of the state  
6 for the fiscal year ending on June 30 of the immediately preceding  
7 year and the amount of sustainable revenues received by the state dur-  
8 ing that fiscal year. In this subsection, "sustainable revenues" are  
9 all revenues, including all income earned from the permanent fund (art.  
10 IX, sec. 15, Alaska State Constitution), received by the state except  
11 (1) mineral lease rentals, royalties, royalty sale proceeds, federal  
12 mineral revenue sharing payments and bonuses; (2) income taxes under  
13 AS 43.21; (3) production taxes under AS 43.55; (4) property taxes un-  
14 der AS 43.56; (5) oil and gas regulation and conservation taxes under  
15 AS 43.57; and (6) mining license taxes under AS 43.65.

16 \* Sec. 3. AS 43.20.011 is amended by adding new subsections to read:

17 (g) The provisions in AS 43.20.015 - 43.20.170 relating to tax-  
18 payers, except those in AS 43.20.030(f) and (g), 43.20.031(f), and 43.-  
19 20.036(i), do not apply to individuals and fiduciaries for tax years  
20 beginning after December 31, 1978.

21 (h) For purposes of AS 43.20.030(f) and (g), 43.20.031(f) and  
22 43.20.036(i), an individual who is a resident of the state is a taxpay-  
23 er with a tax liability of zero. Upon application to the department,  
24 a resident individual is entitled to receive an amount equal to the  
25 tax credit allowed to him under AS 43.20.031(f) and under AS 43.20.-  
26 036(i). Payments under AS 43.20.030(f) and (g) may not be made without  
27 an appropriation for that purpose.

28 (i) AS 43.20.011(a) - (d) and (f) are suspended for tax years  
29 beginning after December 31, 1978. The taxes levied in AS 43.20.011(a)

1 - (d) and (f) are reinstated and imposed for tax years beginning on  
2 January 1 of the year immediately following the year in which a certi-  
3 fication by the commissioner of revenue under AS 43.05.010(b) shows  
4 total expenditures from the general fund of the state in excess of the  
5 amount of sustainable revenues received by the state.

6 \* Sec. 4. AS 43.20.030(a) is amended to read:

7 (a) Every [INDIVIDUAL, FIDUCIARY,] partnership and corporation  
8 required to make a return under the provisions of the Internal Revenue  
9 Code shall at the same time file with the department a return setting  
10 out

11 (1) the amount of tax due under this chapter, less credits  
12 claimed against the tax; and

13 (2) other information for the purpose of carrying out the  
14 provisions of this chapter which the department requires.

15 \* Sec. 5. AS 43.20.030(a) is amended to read:

16 (a) Every individual, fiduciary, partnership and corporation re-  
17 quired to make a return under the provisions of the Internal Revenue  
18 Code shall at the same time file with the department a return setting  
19 out

20 (1) the amount of tax due under this chapter, less credits  
21 claimed against the tax; and

22 (2) other information for the purpose of carrying out the  
23 provisions of this chapter which the department requires.

24 \* Sec. 6. AS 43.20.170(a) is amended to read:

25 (a) Every employer making payment of wages or salaries shall de-  
26 duct and withhold an amount of tax computed in a manner to approximate  
27 the amount of tax due on those wages under this chapter for that year.  
28 The department shall publish the rate of withholding required by this  
29 section which shall [, EXCEPT AS PROVIDED IN (f) OF THIS SECTION,] be

1 expressed as a percentage of the amount required to be withheld under  
2 sec. 3402 of the Internal Revenue Code of 1954. Every employer making  
3 a deduction and a withholding shall furnish to the employee upon re-  
4 quest a record of the amount of tax withheld from the employee on a  
5 form prescribed by the department.

6 \* Sec. 7. (a) A calendar-year taxpayer is entitled to a refund of the  
7 Alaska net income tax paid for tax year 1979. The department shall use its  
8 tax files for 1979 as the basis for issuing the refunds and shall avoid re-  
9 quiring additional applications from taxpayers for those refunds to the ex-  
10 tent practicable.

11 (b) A fiscal-year taxpayer is entitled to a proportionate refund of  
12 the Alaska net income tax paid for a tax year ending in calendar year 1979,  
13 based on the number of days in that tax year after December 31, 1978, di-  
14 vided by 365. If a fiscal-year taxpayer has paid income tax and filed with  
15 the department a year-end return for a tax year ending in calendar year  
16 1980, the department shall also refund the amount of income tax paid by the  
17 taxpayer for that tax year. The department shall establish procedures for  
18 making these refunds in a manner which avoids requiring additional applica-  
19 tions from taxpayers to the extent practicable.

20 (c) Refunds under (a) and (b) of this section may not be made without  
21 an appropriation for that purpose.

22 (d) A taxpayer is entitled to a refund of withholding payments and  
23 other estimated taxes paid on or after January 1, 1980, under the Alaska  
24 Net Income Tax Act for a tax year for which a year-end return has not been  
25 filed with the department, but a refund may be claimed and paid only as  
26 provided in this section.

27 (e) In order to receive a refund of withholding payments under (d) of  
28 this section, a taxpayer must file a claim with the department on a form  
29 prescribed by the department, together with a copy of each of the taxpayer's

1 federal wage and withholding statements (Form W-2) for 1980. In order to  
2 receive a refund of estimated taxes under (d) of this section, a taxpayer  
3 must file a claim with the department on a form prescribed by the depart-  
4 ment, together with such additional materials as the department may by reg-  
5 ulation require.

6 (f) The department shall prescribe and make available to the public  
7 all forms for claiming refunds of withholding and estimated taxes under (d)  
8 of this section no later than December 31, 1980. A taxpayer may not file a  
9 claim with the department for a refund under (d) of this section after  
10 April 15, 1981. The department shall begin processing each claim for a re-  
11 fund under (d) of this section as soon as it receives the claim.

12 (g) The department may adopt regulations to implement this section,  
13 and those regulations may be adopted as emergency regulations under AS 44.-  
14 62.250 and 44.62.260.

15 (h) In this section,

16 (1) "calendar-year taxpayer" means a taxpayer whose tax year co-  
17 incides with the calendar year;

18 (2) "department" means the Department of Revenue;

19 (3) "fiscal-year taxpayer" means a taxpayer whose tax year does  
20 not coincide with the calendar year;

21 (4) "income tax" means the tax levied under the Alaska Net In-  
22 come Tax Act; and

23 (5) "taxpayer" means an individual or fiduciary.

24 \* Sec. 8. The provisions of AS 43.05.280 and AS 43.20.215 do not apply  
25 to refunds made under sec. 7 of this Act.

26 \* Sec. 9. AS 43.20.017, 43.20.160(e), 43.20.170(f) and secs. 6 - 9, ch.  
27 22, SLA 1980 are repealed.

28 \* Sec. 10. AS 43.05.010(b) and AS 43.20.011(g), (h), and (i) are re-  
29 pealed.

COMMITTEE COPY

1 \* Sec. 11. AS 43.20.011(1), enacted in sec. 3 of this Act, is retroac-  
2 tive to January 1, 1979.

3 \* Sec. 12. Secs. 5 and 10 of this Act are effective on January 1 of the  
4 year immediately following the year in which a certification by the commis-  
5 sioner of revenue under AS 43.05.010(b), enacted in sec. 2 of this Act,  
6 shows total expenditures from the general fund of the state in excess of  
7 the amount of sustainable revenues received by the state.

8 \* Sec. 13. This Act takes effect immediately in accordance with AS 01.-  
9 10.070(c).

10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29

# STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

## DEPARTMENT OF REVENUE

465-2300

OFFICE OF THE COMMISSIONER

POUCH 5 - JUNEAU 99811

September 19, 1980

The Honorable Terry Gardiner  
Speaker of the House  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99811

HB 104

Re: Fiscal Note for An Act suspending the  
Income Tax Act for individuals and fid

Dear Mr. Speaker:

Attached please find fiscal notes related to the  
estimated revenue impact and administrative costs of the  
above-referenced legislation:

Revenue Impact - FY 81:

(A) Ch. 22, SLA 1980 Appropriation:

1979 Refund	\$ 89,900,000	
Administrative Costs	836,500	
Refundable Credits	537,000	
Total Appropriation		\$ 90,273,500
(See ch. 120 SLA 1980, sec. 52, page 70, line 10)		

(B) Additional Appropriation necessary to cover Incremental  
Cost of Total Suspension:

1979 Refund	\$ 22,100,000	
Administrative Costs	-0-	
Refundable Credits	505,000	
		<u>\$ 22,605,000</u>

(C) Total Appropriated Funds: \$112,878,500

The Honorable Terry Gardiner

September 19, 1980  
Page Two

(D) Summary of FY 81 costs:

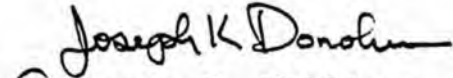
1. Total Appropriated Funds:	\$112,878,500
2. Total Rebate of 1980 Withholding (No appropriation Necessary for these funds held in Trust by the State)	\$ 73,500,000
3. Total Revenues Foregone during FY 81 by virtue of repeal	<u>\$147,500,000</u>
TOTAL	<u>\$333,878,500</u>

Administrative Costs:

Administrative costs under Ch. 22, SLA 1980 were estimated at \$836,500. It is assumed that the original Ch. 22 appropriation remains available for use to implement the suspension or repeal and we foresee no increase in FY 81 administrative costs with the suspension program. Therefore, no additional appropriation is necessary at this time.

Three fiscal notes are attached to show the estimated effects of suspension on relevant Divisions within the Department of Revenue in FY 82. These fiscal notes assume a continuation of the Permanent Fund Dividend program, continuation of the refundable credits and suspension or repeal of AS 43.20 as of December 31, 1978. These potential reductions in funding and staff are preliminary and will be refined for inclusion in the FY 82 Detailed Budget. At that time, it should be known whether the underlying assumptions are valid.

Sincerely,

  
Thomas K. Williams  
Commissioner of Revenue

Attachments

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HR 1043  
Title An Act Suspending the Alaska Net Income Tax Act for Individuals and  
Requested by Governor Date Fiduciaries

II. FISCAL DETAIL

Agency Affected \_\_\_\_\_  
Program Category Affected \_\_\_\_\_  
BRU, Program, or Subprogram(s) Affected \_\_\_\_\_  
(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL						

FUNDING (Thousands of Dollars)

GENERAL FUND		112.878	1.6	2.3	2.8	
FEDERAL FUNDS						
OTHER (Specify Fund Source)						
Withholding in Trust		73.5				
		(147.5)	(206)	(266)	(338)	

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

\$90,273,500 was previously appropriated in Ch. 120, SLA 1980, Sec. 52, p. 70, l. 10 to cover the costs of Chapter 22. That figure included \$88.9 million for 1979 tax refunds, \$537,000 for refundable credits and \$336,500 for administrative costs. The new FY 81 figure of \$112,878,000 includes \$111,000,000 for 1979 tax refunds (an increase of \$22.1 million), \$1,042,000 for refundable credits (an increase of \$505,000) and \$836,500 for administrative costs (no increase). Complete suspension of the income tax is estimated to cost a total of \$22,605,000 more than the graduated exemption program in FY 81 and this is the figure utilized in the appropriation bill accompanying the suspension proposal since it is assumed the original Chapter 22 appropriation remains available to implement the new bill.

The \$73.5 million figure for FY 81 consists of withholding held in trust  
(continued)

IV. DATE \_\_\_\_\_ PREPARED BY Vincent B. Wright  
AGENCY 5-2271  
PHONE \_\_\_\_\_  
Original: Legislative Finance  
cc: Budget and Management  
Prime Sponsor (First Legislator Named)

for the first three quarters of tax year 1980 that will be refunded in  
FY 81.

The bottom line figures represent foregone revenues due to suspension of  
the individual income tax.

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB/SBI  
 Title An act suspending the Alaska Net Income Tax for individuals and fiduciaries  
 Requested by Governor Date September 22, 1980

II. FISCAL DETAIL

Agency Affected Revenue  
 Program Category Affected Revenue Collection & Management  
 BRU, Program, or Subprogram(s) Affected Enforcement

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		-0-	(191.3)			
200 TRAVEL		-0-	( 7.8)			
300 CONTRACTUAL		-0-	( 18.8)			
400 COMMODITIES		-0-	( 1.9)			
500 EQUIPMENT		-0-				
600 LAND & STRUCTURES			( 2.3)			
700 GRANTS, CLAIMS, ETC.						
TOTAL		-0-	(222.1)			

FUNDING (Thousands of Dollars)

GENERAL FUND		-0-	(222.1)			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME		-0-	( 16 )			
PART TIME		-0-				
TEMPORARY		-0-				

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached memorandum from Fred Boetsch, Director of Enforcement Division to Joe Donohue, Deputy Commissioner, Taxation, dated August 29, 1980.

IV. DATE 09/19/80

PREPARED BY Fred Boetsch, Director of Enforcement Division  
 AGENCY Revenue  
 PHONE (907) 465-2366

Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

# MEMORANDUM

# State of Alaska

TO: Joe Donohue  
Deputy Commissioner  
Department of Revenue

DATE: August 29, 1980

FILE NO:

TELEPHONE NO: 465-2366

FROM: Fred Boetsch, Director  
Enforcement Division *FJB*

SUBJECT: Contingency Plan for  
Income Tax Repeal

The effects of a total repeal of the Alaska income tax in this organization would depend on many variables besides the mere repeal of the tax. The first item, of course, would be the effective date of any repeal. The earlier the effective date, the sooner we would expect our individual tax workload to decline. Another variable would be the Permanent Fund Dividend Program. If this program goes into effect, we will exercise our right of offset to satisfy many old warrants and thereby reduce the inventory more rapidly. The third factor would be the extent to which old revenue agent reports from the IRS are worked in the future and the warrant load which might be generated from that source.

For purposes of this analysis therefore, I have assumed that the Permanent Fund Dividend Program would remain intact and that the people assigned to the compliance unit would work on permanent fund dividend eligibility and tax compliance investigations. I have also assumed that the repeal would be effective January 1, 1979, and that Audit would continue to work Internal Revenue Service revenue agent reports through 1978. Under those conditions the changes indicated on the attached organization chart would be fully implemented by the end of calendar year 1981 (approximately halfway through fiscal year 1982). For the most part changes would be made through attrition during the course of the next 16 months. It is my hope that layoffs would not be necessary.

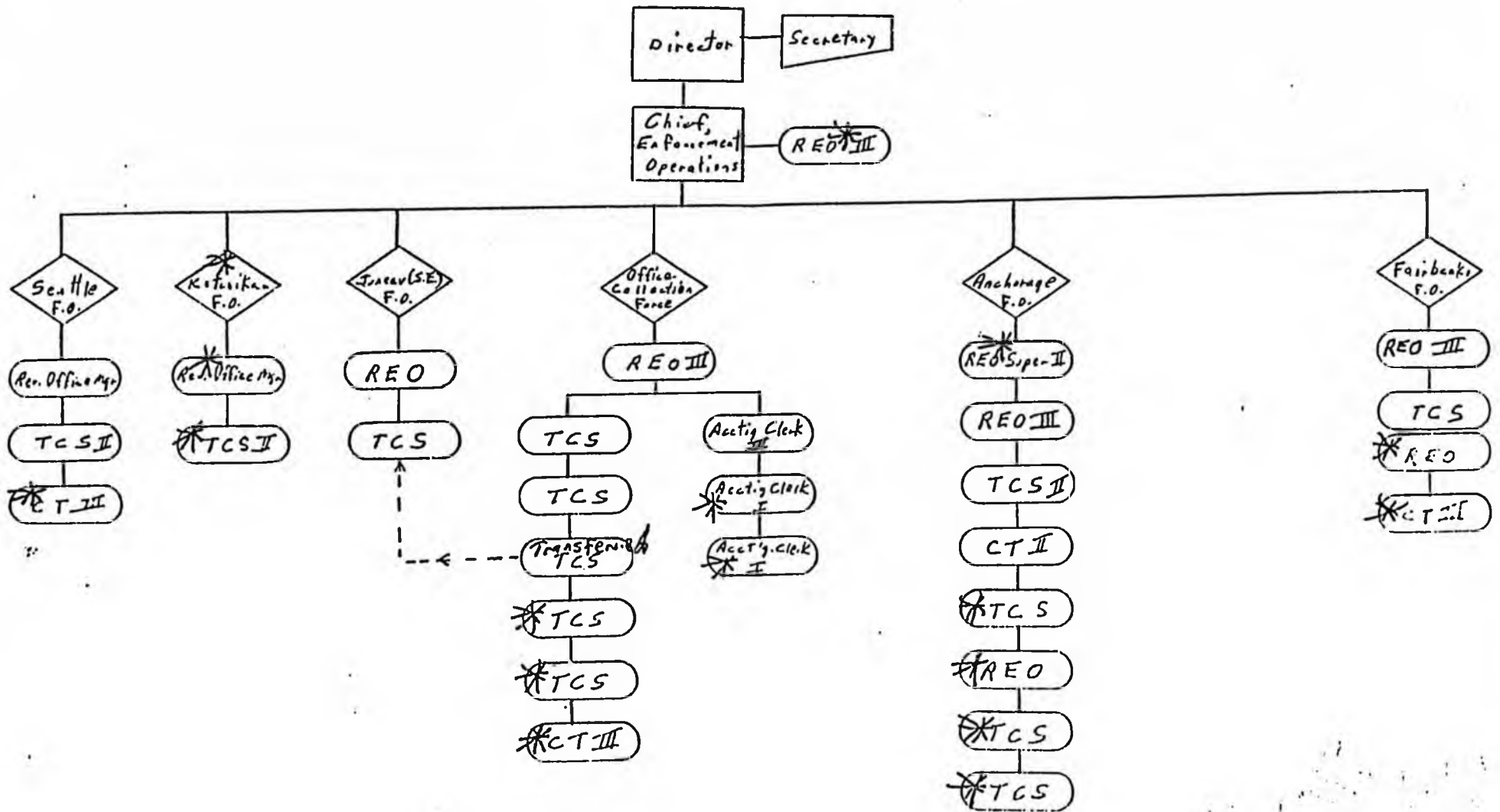
The attached chart indicates the present organization of the collection function within the Enforcement Division, including management. It does not include the permanent fund dividend and other taxes compliance unit. Those positions indicated in blue would remain after the implementation of this phase-out whereas those positions indicated in red would be deleted. Approximately 16 positions would ultimately be deleted from the collection staff and 13 positions would remain.

FB/vcy

Attachment

cc: Marilla Gemmer, Chief  
Enforcement Operations

Enforcement Division Contingency Plan



\* Positions Deleted

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. House/Senate Bill No. 1

Title An Act suspending the Alaska Net Income Tax Act for individuals and  
Requested by Governor Date 9/22/80 (fiduciaries)

II. FISCAL DETAIL

Agency Affected \_\_\_\_\_ Revenue \_\_\_\_\_  
Program Category Affected \_\_\_\_\_ Fiscal Services \_\_\_\_\_  
BRU, Program, or Subprogram(s) Affected \_\_\_\_\_ Audit Division \_\_\_\_\_

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		-0-	(162.3)			
200 TRAVEL		-0-	-0-			
300 CONTRACTUAL		-0-	(.6)			
400 COMMODITIES		-0-	(3.4)			
500 EQUIPMENT		-0-	-0-			
600 LAND & STRUCTURES		-0-	-0-			
700 GRANTS, CLAIMS, ETC.		-0-	-0-			
TOTAL		-0-	(166.3)			

FUNDING (Thousands of Dollars)

GENERAL FUND		-0-	(166.3)			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

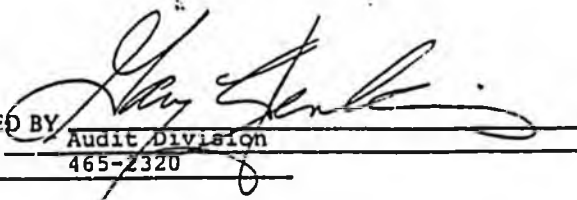
POSITIONS

FULL TIME		-0-	(6)			
PART TIME		-0-	(5)			
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached memorandum to Joseph K. Donohue dated September 19, 1980.

IV. DATE September 22, 1980

PREPARED BY   
AGENCY Audit Division  
PHONE 465-2320

Original: Legislative Finance  
cc: Budget and Management  
Prime Sponsor (First Legislator Named)

# MEMORANDUM

# State of Alaska

TO: Joseph K. Donohue  
Deputy Commissioner  
Department of Revenue

DATE: September 19, 1980

FILE NO:

TELEPHONE NO:

FROM: Gary L. Jenkins  
Director  
Audit Division

SUBJECT: Fiscal Impact of  
House/Senate Bill #1

This bill would repeal the individual income tax retroactive to January 1, 1979. It is anticipated that the Department of Revenue will issue 225,000 refunds to taxpayers for 1979 and an additional 325,000 of withholding refunds for 1980. Assuming the Legislature passes this or a similar bill during the week of September 22nd, the major impact of that legislation will be felt by this division in the next nine months. This impact will coincide with the decline of normal functions which various members of my staff have performed in the past which were necessary to the ongoing operation of the individual income tax law.

In reviewing the impact of this legislation on my division, I have continued to assume that the Permanent Fund Dividend program will survive the court test and that we will be processing claims for Permanent Fund Dividends yet this year and in subsequent years.

There are three units in the Juneau office which will be primarily impacted by the individual income tax repeal. These are: Withholding Unit, Individual Tax Examination Unit, and the Taxpayer Assistance Unit. There will also be a slight impact on the staffing of the Anchorage field office. There will be no impact on our Fairbanks and Seattle field offices.

The Withholding Unit will still be required to process all third quarter withholding reports from employers, a limited number of fourth quarter withholding reports, and an annual reconciliation from all employers, which will not be received until the month of February. It is imperative that they properly process all of these reports to ensure that employers have, in fact, withheld and paid in to us the amount of Alaska withholding which they show on their final Alaska W-2 forms. Due to the significant confusion which arose when SB 394 was enacted, with many employees becoming exempt from withholding during the middle of a quarter, and the anticipated similar problems with the enactment of the repeal law which will make all employees exempt from Alaska withholding, it is expected that there will be a much higher incidence of reporting error than we have experienced in the past. This increased incidence of error will result from

Joseph K. Donohue  
September 19, 1980  
Page 2

the fact that some employers have chosen to refund some of the taxes previously withheld to the employees, yet in some cases have not corrected their payroll records to reflect those refunds. If these errors are not identified and corrected, it will result in the State of Alaska issuing refunds for 1980 withholding to employees considerably in excess of the amount actually withheld and remitted to the State of Alaska. There are approximately 13,000 employers in the State of Alaska whose accounts will have to be balanced and closed out and it is anticipated that this will easily take the staff until June 30, 1981 to accomplish.

The Individual Tax Examination Unit will be impacted primarily by the refund of the 1979 individual income tax based on the returns filed. Because of the design of the data capture system, all 1979 individual tax returns which were adjusted within the Department of Revenue will have to have their 1979 refund hand-generated. The staff will be working from a computer-generated list of returns which had changes made to them. From this list they will have to pull the return from our central audit files, review the return to determine what the actual correct amount of tax paid was, and hand-generate a refund document. This will be a very time-consuming process because it will all have to be done by hand. It is anticipated that there will be 25,000 such refunds which will have to be determined by the staff of this unit. They will also be required to deal with those problem returns where the taxpayers have separated or divorced since their 1979 return was filed and want separate checks issued rather than a single check to the joint names. This unit will further be required to handle the 1980 claims which will be filed in 1981 for refund of their withholding and/or estimated tax payments, political campaign contributions, and child care expenses on which the computations are in error. Based on previous filing experience, it is anticipated that there will be at least 10,000 returns in this category. Since processing of the problem 1979 returns will begin in early October, 1980 and will carry into at least March of 1981, it is imperative that the funds which will remain from SB 394 appropriations be made available for the processing of the refunds under this bill. During the period of February, 1981 through June, 1981 we will have our regularly authorized seasonal staff to handle the remaining 1979 returns as well as all the problem claims for 1980. It is anticipated that we will be able to finish processing all of these returns by June 30, 1981.

The Juneau Taxpayer Assistance Unit will eventually be affected by a repeal; however, during the next nine months it is expected that they will continue to have a very high

Joseph K. Donohue  
September 19, 1980  
Page 3

demand for their services because of the large number of questions which clearly will be raised by taxpayers regarding either how their 1979 refund will be processed, or their 1980 withholding/political campaign contribution/child care expense claim is to be prepared and submitted. There will also be an approximate doubling of our workload regarding returned checks which have incorrect addresses because of the large number of people who will have moved since their 1979 return was filed, or their 1980 claim was filed. It will require all the currently authorized staff to properly account for and reissue the anticipated 10,000 returned warrants which will be undeliverable.

It is also anticipated that the demand for taxpayer assistance services will remain high in the Anchorage area through the remainder of this fiscal year in providing assistance to individuals in regard to their 1979 refunds or their 1980 claims. Again, because the impact of the 1979 refunds will begin in early October and 1980 claims will begin in mid to late January, it is anticipated that this high demand for taxpayer services will continue through June of 1981.

It is anticipated that this repeal will result in a reduction in staff in the Audit Division of eleven positions for FY 82. This is comprised of six permanent full time and five seasonal positions. These reductions will be in the various units discussed above. The total position cost for these positions is \$166,300. As I mentioned previously, we are continuing to anticipate that the Permanent Fund Dividend program will remain in effect and that the court decision upholding it will be released within the next few months. It should be noted that the position reductions do not include any positions which were authorized under the tax relief legislation. It is assumed that those positions would be terminated at the end of this fiscal year.

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bili/Resolution No. HB/SB  
 Title An Act Suspending the Alaska Net Income Tax Act for Individuals and Fiduciaries  
 Requested by Governor Date 9/22/80

II. FISCAL DETAIL

Agency Affected Revenue  
 Program Category Affected General Government  
 BRU, Program, or Subprogram(s) Affected Administration and Support, Management Services  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		0	(480.2)			
200 TRAVEL		0	( 2.0)			
300 CONTRACTUAL		0	(231.2)			
400 COMMODITIES		0	( 1.0)			
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
<b>TOTAL</b>		0	(714.4)			

FUNDING (Thousands of Dollars)

GENERAL FUND		0	(714.4)			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME		0	(16/192mm)			
PART TIME		0	(10/50 mm)			
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

100 = 384.2 Salaries	3.00 = 96.2 Forms/Postage
96.0 Benefits	30.0 Machine Rental
480.2 Total Personnel Reduction	100.0 DP Chargeback
	5.0 Miscellaneous Contractual
	231.2 Total Contractual Reduction

IV. DATE 9/22/80

PREPARED BY P. A. Wall

AGENCY Revenue

PHONE 465-2313

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

Introduced: 9/22/80  
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 1043

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - SECOND SPECIAL SESSION

5 A BILL

6 For an Act entitled: "An Act suspending the Alaska Net Income Tax Act for  
7 individuals and fiduciaries; and providing for an ef-  
8 fective date."

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

10 \* Section 1. The legislature finds:

11 (a) Section 1, ch. 22, SLA 1980 afforded complete tax relief to a ma-  
12 jority of individual taxpayers under the Alaska Net Income Tax Act and sub-  
13 stantial relief to most others by means of a series of exemptions based on  
14 the number of years an individual had Alaska income and reported it to the  
15 state. On September 4, 1980, the Alaska Supreme Court ruled that these ex-  
16 emptions violate the equal protection clause of Art. I, sec. 1 of the Alas-  
17 ka State Constitution. The practical effect of that decision is to re-im-  
18 pose the full income tax burden on all taxpayers.

19 (b) It is in the public interest to remedy this constitutional defect  
20 while still providing tax relief to the public at least equal to that at-  
21 tempted by the series of exemptions in sec. 1, ch. 22, SLA 1980. This can  
22 best be accomplished by eliminating the entire income tax burden for all  
23 individuals and fiduciaries until at least 1990.

24 (c) Because ch. 22, SLA 1980 applied to taxes due for the tax year  
25 1979, a great number of taxpayers expected a refund of part or all of their  
26 state income tax for 1979, and many made plans and commitments in anticipa-  
27 tion of their refunds. The state has a moral obligation to fulfill this  
28 widely held expectation, and this obligation is best discharged by provid-  
29 ing for suspension of the net income tax for individuals and fiduciaries

*ellen* COMMITTEE COPY

-1-

HB 1043

1 retroactive to January 1, 1979.

2 \* Sec. 2. AS 43.05.010 is amended by adding a new subsection to read:

3 (b) On January 15, 1989, and on January 15 of each year thereaf-  
4 ter the commissioner of revenue shall certify to the governor and the  
5 legislature the total expenditures from the general fund of the state  
6 for the fiscal year ending on June 30 of the immediately preceding  
7 year and the amount of sustainable revenues received by the state dur-  
8 ing that fiscal year. In this subsection, "sustainable revenues" are  
9 all revenues, including all income earned from the permanent fund (art.  
10 IX, sec. 15, Alaska State Constitution), received by the state except  
11 (1) mineral lease rentals, royalties, royalty sale proceeds, federal  
12 mineral revenue sharing payments and bonuses; (2) income taxes under  
13 AS 43.21; (3) production taxes under AS 43.55; (4) property taxes un-  
14 der AS 43.56; (5) oil and gas regulation and conservation taxes under  
15 AS 43.57; and (6) mining license taxes under AS 43.65.

16 \* Sec. 3. AS 43.20.011 is amended by adding new subsections to read:

17 (g) The provisions in AS 43.20.015 - 43.20.170 relating to tax-  
18 payers, except those in AS 43.20.030(f) and (g), 43.20.031(f), and 43.-  
19 20.036(i), do not apply to individuals and fiduciaries for tax years  
20 beginning after December 31, 1978.

21 (h) For purposes of AS 43.20.030(f) and (g), 43.20.031(f) and  
22 43.20.036(i), an individual who is a resident of the state is a taxpay-  
23 er with a tax liability of zero. Upon application to the department,  
24 a resident individual is entitled to receive an amount equal to the  
25 tax credit allowed to him under AS 43.20.031(f) and under AS 43.20.-  
26 036(i). Payments under AS 43.20.030(f) and (g) may not be made without  
27 an appropriation for that purpose.

28 (i) AS 43.20.011(a) - (d) and (f) are suspended for tax years  
29 beginning after December 31, 1978. The taxes levied in AS 43.20.011(a)

1 - (d) and (f) are reinstated and imposed for tax years beginning on  
2 January 1 of the year immediately following the year in which a certi-  
3 fication by the commissioner of revenue under AS 43.05.010(b) shows  
4 total expenditures from the general fund of the state in excess of the  
5 amount of sustainable revenues received by the state.

6 \* Sec. 4. AS 43.20.030(a) is amended to read:

7 (a) Every [INDIVIDUAL, FIDUCIARY,] partnership and corporation  
8 required to make a return under the provisions of the Internal Revenue  
9 Code shall at the same time file with the department a return setting  
10 out

11 (1) the amount of tax due under this chapter, less credits  
12 claimed against the tax; and

13 (2) other information for the purpose of carrying out the  
14 provisions of this chapter which the department requires.

15 \* Sec. 5. AS 43.20.030(a) is amended to read:

16 (a) Every individual, fiduciary, partnership and corporation re-  
17 quired to make a return under the provisions of the Internal Revenue  
18 Code shall at the same time file with the department a return setting  
19 out

20 (1) the amount of tax due under this chapter, less credits  
21 claimed against the tax; and

22 (2) other information for the purpose of carrying out the  
23 provisions of this chapter which the department requires.

24 \* Sec. 6. AS 43.20.170(a) is amended to read:

25 (a) Every employer making payment of wages or salaries shall de-  
26 duct and withhold an amount of tax computed in a manner to approximate  
27 the amount of tax due on those wages under this chapter for that year.  
28 The department shall publish the rate of withholding required by this  
29 section which shall [, EXCEPT AS PROVIDED IN (F) OF THIS SECTION,] be

1           expressed as a percentage of the amount required to be withheld under  
2           sec. 3402 of the Internal Revenue Code of 1954. Every employer making  
3           a deduction and a withholding shall furnish to the employee upon re-  
4           quest a record of the amount of tax withheld from the employee on a  
5           form prescribed by the department.

6           \* Sec. 7. (a) A calendar-year taxpayer is entitled to a refund of the  
7           Alaska net income tax paid for tax year 1979. The department shall use its  
8           tax files for 1979 as the basis for issuing the refunds and shall avoid re-  
9           quiring additional applications from taxpayers for those refunds to the ex-  
10          tent practicable.

11          (b) A fiscal-year taxpayer is entitled to a proportionate refund of  
12          the Alaska net income tax paid for a tax year ending in calendar year 1979,  
13          based on the number of days in that tax year after December 31, 1978, di-  
14          vided by 365. If a fiscal-year taxpayer has paid income tax and filed with  
15          the department a year-end return for a tax year ending in calendar year  
16          1980, the department shall also refund the amount of income tax paid by the  
17          taxpayer for that tax year. The department shall establish procedures for  
18          making these refunds in a manner which avoids requiring additional applica-  
19          tions from taxpayers to the extent practicable.

20          (c) Refunds under (a) and (b) of this section may not be made without  
21          an appropriation for that purpose.

22          (d) A taxpayer is entitled to a refund of withholding payments and  
23          other estimated taxes paid on or after January 1, 1980, under the Alaska  
24          Net Income Tax Act for a tax year for which a year-end return has not been  
25          filed with the department, but a refund may be claimed and paid only as  
26          provided in this section.

27          (e) In order to receive a refund of withholding payments under (d) of  
28          this section, a taxpayer must file a claim with the department on a form  
29          prescribed by the department, together with a copy of each of the taxpayer's

1 federal wage and withholding statements (Form W-2) for 1980. In order to  
2 receive a refund of estimated taxes under (d) of this section, a taxpayer  
3 must file a claim with the department on a form prescribed by the depart-  
4 ment, together with such additional materials as the department may by reg-  
5 ulation require.

6 (f) The department shall prescribe and make available to the public  
7 all forms for claiming refunds of withholding and estimated taxes under (d)  
8 of this section no later than December 31, 1980. A taxpayer may not file a  
9 claim with the department for a refund under (d) of this section after  
10 April 15, 1981. The department shall begin processing each claim for a re-  
11 fund under (d) of this section as soon as it receives the claim.

12 (g) The department may adopt regulations to implement this section,  
13 and those regulations may be adopted as emergency regulations under AS 44.-  
14 62.250 and 44.62.260.

15 (h) In this section,

16 (1) "calendar-year taxpayer" means a taxpayer whose tax year co-  
17 incides with the calendar year;

18 (2) "department" means the Department of Revenue;

19 (3) "fiscal-year taxpayer" means a taxpayer whose tax year does  
20 not coincide with the calendar year;

21 (4) "income tax" means the tax levied under the Alaska Net In-  
22 come Tax Act; and

23 (5) "taxpayer" means an individual or fiduciary.

24 \* Sec. 8. The provisions of AS 43.05.280 and AS 43.20.215 do not apply  
25 to refunds made under sec. 7 of this Act.

26 \* Sec. 9. AS 43.20.017, 43.20.160(e), 43.20.170(f) and secs. 6 - 9, ch.  
27 22, SLA 1980 are repealed.

28 \* Sec. 10. AS 43.05.010(b) and AS 43.20.011(g), (h), and (i) are re-  
29 pealed.

1 \* Sec. 11. AS 43.20.011(1), enacted in sec. 3 of this Act, is retroac-  
2 tive to January 1, 1979.

3 \* Sec. 12. Secs. 5 and 10 of this Act are effective on January 1 of the  
4 year immediately following the year in which a certification by the commis-  
5 sioner of revenue under AS 43.05.010(b), enacted in sec. 2 of this Act,  
6 shows total expenditures from the general fund of the state in excess of  
7 the amount of sustainable revenues received by the state.

8 \* Sec. 13. This Act takes effect immediately in accordance with AS 01.-  
9 10.070(c).

10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29

# STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

## DEPARTMENT OF REVENUE

465-2300

OFFICE OF THE COMMISSIONER

POUCH 5 - JUNEAU 99811

September 19, 1980

The Honorable Terry Gardiner  
Speaker of the House  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99811

14831043

Re: Fiscal Note for An Act suspending the  
Income Tax Act for individuals and fid

Dear Mr. Speaker:

Attached please find fiscal notes related to the  
estimated revenue impact and administrative costs of the  
above-referenced legislation:

Revenue Impact - FY 81:

(A) Ch. 22, SLA 1980 Appropriation:

1979 Refund	\$ 89,900,000
Administrative Costs	836,500
Refundable Credits	537,000

Total Appropriation	\$ 90,273,500
(See ch. 120 SLA 1980, sec. 52, page 70, line 10)	

(B) Additional Appropriation necessary to cover Incremental  
Cost of Total Suspension:

1979 Refund	\$ 22,100,000
Administrative Costs	-0-
Refundable Credits	505,000

\$ 22,605,000

(C) Total Appropriated Funds: \$112,878,500

The Honorable Terry Gardiner

September 19, 1980  
Page Two

(D) Summary of FY 81 costs:

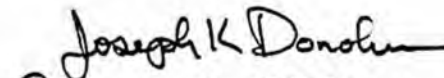
1. Total Appropriated Funds:	\$112,878,500
2. Total Rebate of 1980 Withholding (No appropriation Necessary for these funds held in Trust by the State)	\$ 73,500,000
3. Total Revenues Foregone during FY 81 by virtue of repeal	<u>\$147,500,000</u>
TOTAL	<u>\$333,878,500</u>

Administrative Costs:

Administrative costs under Ch. 22, SLA 1980 were estimated at \$836,500. It is assumed that the original Ch. 22 appropriation remains available for use to implement the suspension or repeal and we foresee no increase in FY 81 administrative costs with the suspension program. Therefore, no additional appropriation is necessary at this time.

Three fiscal notes are attached to show the estimated effects of suspension on relevant Divisions within the Department of Revenue in FY 82. These fiscal notes assume a continuation of the Permanent Fund Dividend program, continuation of the refundable credits and suspension or repeal of AS 43.20 as of December 31, 1978. These potential reductions in funding and staff are preliminary and will be refined for inclusion in the FY 82 Detailed Budget. At that time, it should be known whether the underlying assumptions are valid.

Sincerely,

  
Thomas K. Williams  
Commissioner of Revenue

Attachments

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. 1043  
 Title An Act Suspending the Alaska Net Income Tax Act for Individuals and  
 Requested by Governor Date Fiduciaries

II. FISCAL DETAIL

Agency Affected \_\_\_\_\_  
 Program Category Affected \_\_\_\_\_  
 BRU, Program, or Subprogram(s) Affected \_\_\_\_\_  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
<b>TOTAL</b>						

FUNDING (Thousands of Dollars)

GENERAL FUND		112.878	1.6	2.3	2.8	
FEDERAL FUNDS						
OTHER (Specify Fund Source)						
Withholding in Trust		73.5				
		(147.5)	(206)	(266)	(338)	

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

\$90,273,500 was previously appropriated in CH. 120, SLA 1980, Sec. 52, p. 70, 1. 10 to cover the costs of Chapter 22. That figure included \$88.9 million for 1979 tax refunds, \$537,000 for refundable credits and \$836,500 for administrative costs. The new FY 81 figure of \$112,878,000 includes \$111,000,000 for 1979 tax refunds (an increase of \$22.1 million), \$1,042,000 for refundable credits (an increase of \$505,000) and \$836,500 for administrative costs (no increase). Complete suspension of the income tax is estimated to cost a total of \$22,605,000 more than the graduated exemption program in FY 81 and this is the figure utilized in the appropriation bill accompanying the suspension proposal since it is assumed the original Chapter 22 appropriation remains available to implement the new bill.

The \$73.5 million figure for FY 81 consists of withholding held in trust  
(continued)

IV. DATE \_\_\_\_\_ PREPARED BY Vincent B. Wright  
 AGENCY 5-2271  
 PHONE \_\_\_\_\_  
 Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

for the first three quarters of tax year 1980 that will be refunded in  
FY 81.

The bottom line figures represent foregone revenues due to suspension of  
the individual income tax.

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HB/SB1  
 Title An act suspending the Alaska Net Income Tax for individuals and fiduciaries  
 Requested by Governor Date September 22, 1980

II. FISCAL DETAIL

Agency Affected Revenue  
 Program Category Affected Revenue Collection & Management  
 BRU, Program, or Subprogram(s) Affected Enforcement

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		-0-	(191.3)			
200 TRAVEL		-0-	( 7.8)			
300 CONTRACTUAL		-0-	( 18.8)			
400 COMMODITIES		-0-	( 1.9)			
500 EQUIPMENT		-0-				
600 LAND & STRUCTURES			( 2.3)			
700 GRANTS, CLAIMS, ETC.						
<b>TOTAL</b>		-0-	(222.1)			

FUNDING (Thousands of Dollars)

GENERAL FUND		-0-	(222.1)			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME		-0-	( 16 )			
PART TIME		-0-				
TEMPORARY		-0-				

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached memorandum from Fred Boatsch, Director of Enforcement Division to Joe Donohue, Deputy Commissioner, Taxation, dated August 29, 1980.

IV. DATE 09/19/80 PREPARED BY Fred Boatsch, Director of Enforcement Division  
 AGENCY Revenue  
 PHONE (907) 465-2366  
 Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

# MEMORANDUM

State of Alaska

TO: Joe Donohue  
Deputy Commissioner  
Department of Revenue

DATE: August 29, 1980

FILE NO:

TELEPHONE NO: 465-2366

FROM: Fred Boetsch, Director  
Enforcement Division *FBoetsch*

SUBJECT: Contingency Plan for  
Income Tax Repeal

The effects of a total repeal of the Alaska income tax in this organization would depend on many variables besides the mere repeal of the tax. The first item, of course, would be the effective date of any repeal. The earlier the effective date, the sooner we would expect our individual tax workload to decline. Another variable would be the Permanent Fund Dividend Program. If this program goes into effect, we will exercise our right of offset to satisfy many old warrants and thereby reduce the inventory more rapidly. The third factor would be the extent to which old revenue agent reports from the IRS are worked in the future and the warrant load which might be generated from that source.

For purposes of this analysis therefore, I have assumed that the Permanent Fund Dividend Program would remain intact and that the people assigned to the compliance unit would work on permanent fund dividend eligibility and tax compliance investigations. I have also assumed that the repeal would be effective January 1, 1979, and that Audit would continue to work Internal Revenue Service revenue agent reports through 1978. Under those conditions the changes indicated on the attached organization chart would be fully implemented by the end of calendar year 1981 (approximately halfway through fiscal year 1982). For the most part changes would be made through attrition during the course of the next 16 months. It is my hope that layoffs would not be necessary.

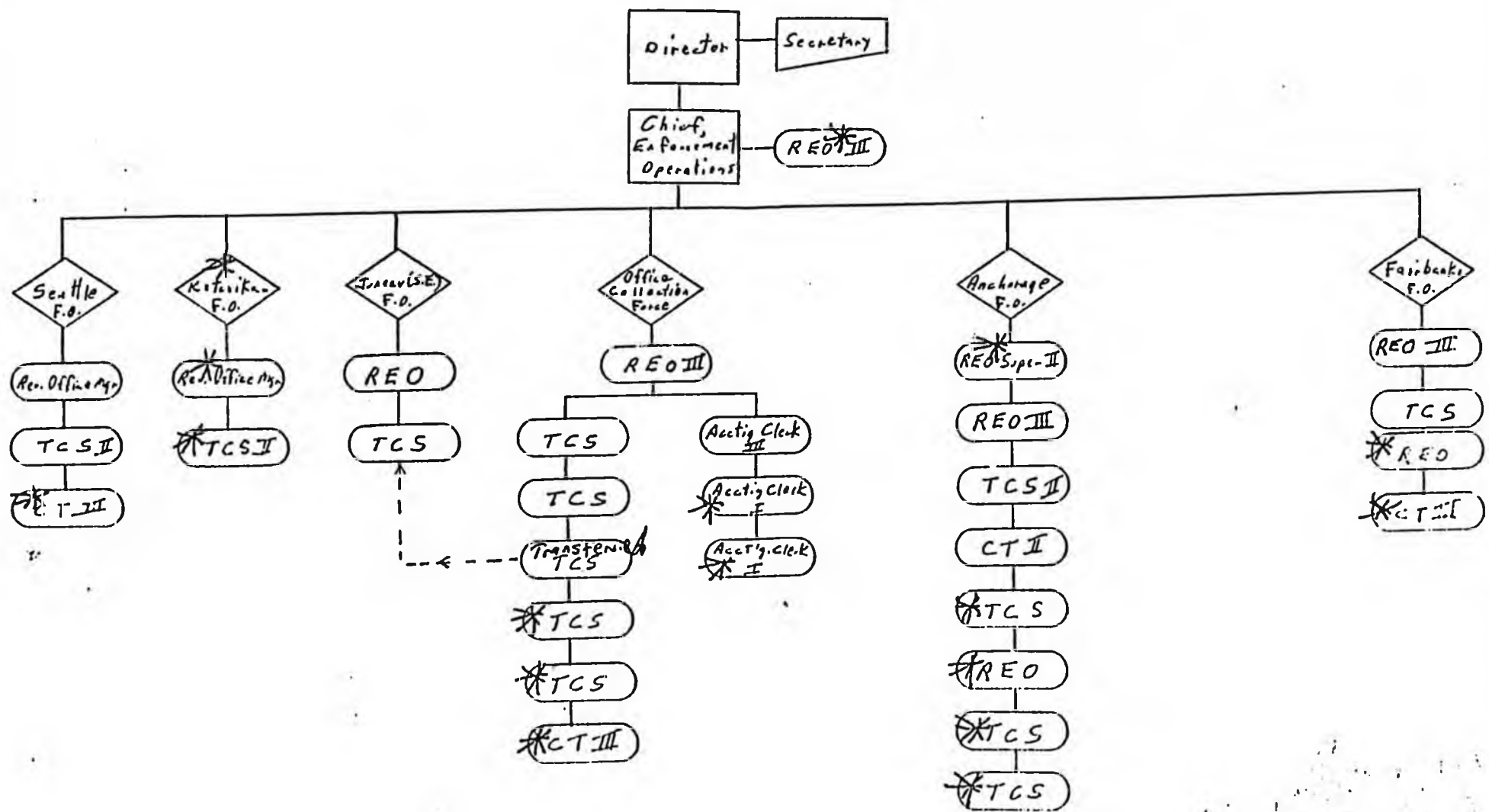
The attached chart indicates the present organization of the collection function within the Enforcement Division, including management. It does not include the permanent fund dividend and other taxes compliance unit. Those positions indicated in blue would remain after the implementation of this phase-out whereas those positions indicated in red would be deleted. Approximately 16 positions would ultimately be deleted from the collection staff and 13 positions would remain.

FB/vcy

Attachment

cc: Marilla Gemmer, Chief  
Enforcement Operations

## Enforcement Division Contingency Plan



\* Positions Deleted

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. House/Senate Bill No. 1

Title An Act suspending the Alaska Net Income Tax Act for individuals and  
Requested by Governor Date 9/22/80 (fiduciaries)

II. FISCAL DETAIL

Agency Affected \_\_\_\_\_ Revenue  
Program Category Affected \_\_\_\_\_ Fiscal Services  
BRU, Program, or Subprogram(s) Affected \_\_\_\_\_ Audit Division

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		-0-	(162.3)			
200 TRAVEL		-0-	-0-			
300 CONTRACTUAL		-0-	(.6)			
400 COMMODITIES		-0-	(3.4)			
500 EQUIPMENT		-0-	-0-			
600 LAND & STRUCTURES		-0-	-0-			
700 GRANTS, CLAIMS, ETC.		-0-	-0-			
<b>TOTAL</b>		<b>-0-</b>	<b>(166.3)</b>			

FUNDING (Thousands of Dollars)

GENERAL FUND		-0-	(166.3)			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

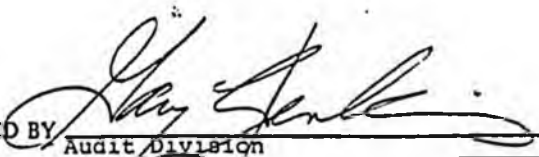
POSITIONS

FULL TIME		-0-	(6)			
PART TIME		-0-	(5)			
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached memorandum to Joseph K. Donohue dated September 19, 1980.

IV. DATE September 22, 1980

PREPARED BY   
AGENCY Audit Division  
PHONE 465-2320

Original: Legislative Finance  
cc: Budget and Management  
Prime Sponsor (First Legislator Named)

# MEMORANDUM

# State of Alaska

TO: Joseph K. Donohue  
Deputy Commissioner  
Department of Revenue

DATE: September 19, 1980

FILE NO:

TELEPHONE NO:

FROM: Gary L. Jenkins  
Director  
Audit Division

SUBJECT: Fiscal Impact of  
House/Senate Bill #1

This bill would repeal the individual income tax retroactive to January 1, 1979. It is anticipated that the Department of Revenue will issue 225,000 refunds to taxpayers for 1979 and an additional 325,000 of withholding refunds for 1980. Assuming the Legislature passes this or a similar bill during the week of September 22nd, the major impact of that legislation will be felt by this division in the next nine months. This impact will coincide with the decline of normal functions which various members of my staff have performed in the past which were necessary to the ongoing operation of the individual income tax law.

In reviewing the impact of this legislation on my division, I have continued to assume that the Permanent Fund Dividend program will survive the court test and that we will be processing claims for Permanent Fund Dividends yet this year and in subsequent years.

There are three units in the Juneau office which will be primarily impacted by the individual income tax repeal. These are: Withholding Unit, Individual Tax Examination Unit, and the Taxpayer Assistance Unit. There will also be a slight impact on the staffing of the Anchorage field office. There will be no impact on our Fairbanks and Seattle field offices.

The Withholding Unit will still be required to process all third quarter withholding reports from employers, a limited number of fourth quarter withholding reports, and an annual reconciliation from all employers, which will not be received until the month of February. It is imperative that they properly process all of these reports to ensure that employers have, in fact, withheld and paid in to us the amount of Alaska withholding which they show on their final Alaska W-2 forms. Due to the significant confusion which arose when SB 394 was enacted, with many employees becoming exempt from withholding during the middle of a quarter, and the anticipated similar problems with the enactment of the repeal law which will make all employees exempt from Alaska withholding, it is expected that there will be a much higher incidence of reporting error than we have experienced in the past. This increased incidence of error will result from

Joseph K. Donohue  
September 19, 1980  
Page 2

the fact that some employers have chosen to refund some of the taxes previously withheld to the employees, yet in some cases have not corrected their payroll records to reflect those refunds. If these errors are not identified and corrected, it will result in the State of Alaska issuing refunds for 1980 withholding to employees considerably in excess of the amount actually withheld and remitted to the State of Alaska. There are approximately 13,000 employers in the State of Alaska whose accounts will have to be balanced and closed out and it is anticipated that this will easily take the staff until June 30, 1981 to accomplish.

The Individual Tax Examination Unit will be impacted primarily by the refund of the 1979 individual income tax based on the returns filed. Because of the design of the data capture system, all 1979 individual tax returns which were adjusted within the Department of Revenue will have to have their 1979 refund hand-generated. The staff will be working from a computer-generated list of returns which had changes made to them. From this list they will have to pull the return from our central audit files, review the return to determine what the actual correct amount of tax paid was, and hand-generate a refund document. This will be a very time-consuming process because it will all have to be done by hand. It is anticipated that there will be 25,000 such refunds which will have to be determined by the staff of this unit. They will also be required to deal with those problem returns where the taxpayers have separated or divorced since their 1979 return was filed and want separate checks issued rather than a single check to the joint names. This unit will further be required to handle the 1980 claims which will be filed in 1981 for refund of their withholding and/or estimated tax payments, political campaign contributions, and child care expenses on which the computations are in error. Based on previous filing experience, it is anticipated that there will be at least 10,000 returns in this category. Since processing of the problem 1979 returns will begin in early October, 1980 and will carry into at least March of 1981, it is imperative that the funds which will remain from SB 394 appropriations be made available for the processing of the refunds under this bill. During the period of February, 1981 through June, 1981 we will have our regularly authorized seasonal staff to handle the remaining 1979 returns as well as all the problem claims for 1980. It is anticipated that we will be able to finish processing all of these returns by June 30, 1981.

The Juneau Taxpayer Assistance Unit will eventually be affected by a repeal; however, during the next nine months it is expected that they will continue to have a very high

demand for their services because of the large number of questions which clearly will be raised by taxpayers regarding either how their 1979 refund will be processed, or their 1980 withholding/political campaign contribution/child care expense claim is to be prepared and submitted. There will also be an approximate doubling of our workload regarding returned checks which have incorrect addresses because of the large number of people who will have moved since their 1979 return was filed, or their 1980 claim was filed. It will require all the currently authorized staff to properly account for and reissue the anticipated 10,000 returned warrants which will be undeliverable.

It is also anticipated that the demand for taxpayer assistance services will remain high in the Anchorage area through the remainder of this fiscal year in providing assistance to individuals in regard to their 1979 refunds or their 1980 claims. Again, because the impact of the 1979 refunds will begin in early October and 1980 claims will begin in mid to late January, it is anticipated that this high demand for taxpayer services will continue through June of 1981.

It is anticipated that this repeal will result in a reduction in staff in the Audit Division of eleven positions for FY 82. This is comprised of six permanent full time and five seasonal positions. These reductions will be in the various units discussed above. The total position cost for these positions is \$166,300. As I mentioned previously, we are continuing to anticipate that the Permanent Fund Dividend program will remain in effect and that the court decision upholding it will be released within the next few months. It should be noted that the position reductions do not include any positions which were authorized under the tax relief legislation. It is assumed that those positions would be terminated at the end of this fiscal year.

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bili/Resolution No. HB/SB  
 Title An Act Suspending the Alaska Net Income Tax Act for Individuals and Fiduciaries  
 Requested by Governor Date 9/22/80

II. FISCAL DETAIL

Agency Affected Revenue  
 Program Category Affected General Government  
 BRU, Program, or Subprogram(s) Affected Administration and Support, Management Services  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES		0	(480.2)			
200 TRAVEL		0	( 2.0)			
300 CONTRACTUAL		0	(231.2)			
400 COMMODITIES		0	( 1.0)			
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
<b>TOTAL</b>		0	(714.4)			

FUNDING (Thousands of Dollars)

GENERAL FUND		0	(714.4)			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME		0	(16/192mm)			
PART TIME		0	(10/50 mm)			
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

100 = 384.2 Salaries	3.00 = 96.2 Forms/Postage
96.0 Benefits	30.0 Machine Rental
480.2 Total Personnel Reduction	100.0 DP Chargeback
	5.0 Miscellaneous Contractual
	231.2 Total Contractual Reduction

IV. DATE 9/22/80

PREPARED BY P. A. Wall

AGENCY Revenue

PHONE 665-2313

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)



Introduced: 9/22/80  
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 1043

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - SECOND SPECIAL SESSION

5 A BILL

6 For an Act entitled: "An Act suspending the Alaska Net Income Tax Act for  
7 individuals and fiduciaries; and providing for an ef-  
8 fective date."

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

10 \* Section 1. The legislature finds:

11 (a) Section 1, ch. 22, SLA 1980 afforded complete tax relief to a ma-  
12 jority of individual taxpayers under the Alaska Net Income Tax Act and sub-  
13 stantial relief to most others by means of a series of exemptions based on  
14 the number of years an individual had Alaska income and reported it to the  
15 state. On September 4, 1980, the Alaska Supreme Court ruled that these ex-  
16 emptions violate the equal protection clause of Art. I, sec. 1 of the Alas-  
17 ka State Constitution. The practical effect of that decision is to re-im-  
18 pose the full income tax burden on all taxpayers.

19 (b) It is in the public interest to remedy this constitutional defect  
20 while still providing tax relief to the public at least equal to that at-  
21 tempted by the series of exemptions in sec. 1, ch. 22, SLA 1980. This can  
22 best be accomplished by eliminating the entire income tax burden for all  
23 individuals and fiduciaries until at least 1990.

24 (c) Because ch. 22, SLA 1980 applied to taxes due for the tax year  
25 1979, a great number of taxpayers expected a refund of part or all of their  
26 state income tax for 1979, and many made plans and commitments in anticipa-  
27 tion of their refunds. The state has a moral obligation to fulfill this  
28 widely held expectation, and this obligation is best discharged by provid-  
29 ing for suspension of the net income tax for individuals and fiduciaries

30 COMMITTEE COPY

*Handwritten:*  
Committee Copy  
Special Note

1 retroactive to January 1, 1979.

2 \* Sec. 2. AS 43.05.010 is amended by adding a new subsection to read:

3 (b) On January 15, 1989, and on January 15 of each year thereaf-  
4 ter the commissioner of revenue shall certify to the governor and the  
5 legislature the total expenditures from the general fund of the state  
6 for the fiscal year ending on June 30 of the immediately preceding  
7 year and the amount of sustainable revenues received by the state dur-  
8 ing that fiscal year. In this subsection, "sustainable revenues" are  
9 all revenues, including all income earned from the permanent fund (art.  
10 IX, sec. 15, Alaska State Constitution), received by the state except  
11 (1) mineral lease rentals, royalties, royalty sale proceeds, federal  
12 mineral revenue sharing payments and bonuses; (2) income taxes under  
13 AS 43.21; (3) production taxes under AS 43.55; (4) property taxes un-  
14 der AS 43.56; (5) oil and gas regulation and conservation taxes under  
15 AS 43.57; and (6) mining license taxes under AS 43.65.

16 \* Sec. 3. AS 43.20.011 is amended by adding new subsections to read:

17 (g) The provisions in AS 43.20.015 - 43.20.170 relating to tax-  
18 payers, except those in AS 43.20.030(f) and (g), 43.20.031(f), and 43.-  
19 20.036(i), do not apply to individuals and fiduciaries for tax years  
20 beginning after December 31, 1978.

21 (h) For purposes of AS 43.20.030(f) and (g), 43.20.031(f) and  
22 43.20.036(i), an individual who is a resident of the state is a taxpay-  
23 er with a tax liability of zero. Upon application to the department,  
24 a resident individual is entitled to receive an amount equal to the  
25 tax credit allowed to him under AS 43.20.031(f) and under AS 43.20.-  
26 036(i). Payments under AS 43.20.030(f) and (g) may not be made without  
27 an appropriation for that purpose.

28 (i) AS 43.20.011(a) - (d) and (f) are suspended for tax years  
29 beginning after December 31, 1978. The taxes levied in AS 43.20.011(a)

1 - (d) and (f) are reinstated and imposed for tax years beginning on  
2 January 1 of the year immediately following the year in which a certi-  
3 fication by the commissioner of revenue under AS 43.05.010(b) shows  
4 total expenditures from the general fund of the state in excess of the  
5 amount of sustainable revenues received by the state.

6 \* Sec. 4. AS 43.20.030(a) is amended to read:

7 (a) Every [INDIVIDUAL, FIDUCIARY,] partnership and corporation  
8 required to make a return under the provisions of the Internal Revenue  
9 Code shall at the same time file with the department a return setting  
10 out

11 (1) the amount of tax due under this chapter, less credits  
12 claimed against the tax; and

13 (2) other information for the purpose of carrying out the  
14 provisions of this chapter which the department requires.

15 \* Sec. 5. AS 43.20.030(a) is amended to read:

16 (a) Every individual, fiduciary, partnership and corporation re-  
17 quired to make a return under the provisions of the Internal Revenue  
18 Code shall at the same time file with the department a return setting  
19 out

20 (1) the amount of tax due under this chapter, less credits  
21 claimed against the tax; and

22 (2) other information for the purpose of carrying out the  
23 provisions of this chapter which the department requires.

24 \* Sec. 6. AS 43.20.170(a) is amended to read:

25 (a) Every employer making payment of wages or salaries shall de-  
26 duct and withhold an amount of tax computed in a manner to approximate  
27 the amount of tax due on those wages under this chapter for that year.  
28 The department shall publish the rate of withholding required by this  
29 section which shall [, EXCEPT AS PROVIDED IN (f) OF THIS SECTION,] be