

SCOMM

142:20

Bill Summary

HB 262

“An Act relating to the taxation of income”

HB 262 would impose a state income tax on individuals and fiduciaries (estates and trusts) only if State expenses exceed revenues. The rate of tax increases as the gap between revenues and expenses increases. The Department of Revenue calculates the tax rate annually, based on the criteria outlined in Section 1 of the bill if there is a fiscal gap. The department notifies the legislature and the governor of the tax rate within 60 days after the beginning of the fiscal year. The tax rate remains in effect until the Department determines that an adjustment should be made.

This measure is a component of a long-range fiscal plan for the State of Alaska, and speaks to the apparent need for additional state revenues only in one instance – when expenses exceed revenues. Section 1 of the bill includes residents, nonresidents, and part year residents as income tax payers. The income tax rate will be the same for all wage earners in Alaska, thus transient workers will contribute to the coffers of the State of Alaska and share the tax burden with residents of Alaska, if the tax is imposed.

The bill does not preclude use of any other revenue source to close any future fiscal gap, and it will be the full responsibility of the legislature to adopt a balanced budget, or else the people will pay an income tax.

HB 262 – An Act Relating to Taxation of Income

Sectional Analysis

Introduction:

HB 262 would re-impose a state income tax on individuals and fiduciaries (estates and trusts) only in certain instances. A state income tax was last on the books in Alaska in 1980. HB 262 reflects the elements of HB 470 (introduced in 2004) except for Section 1.

The core of the bill reinstitutes the individual income tax if there is a negative fiscal gap, makes the tax a percentage of a taxpayer's federal income tax liability (form 1040, line 60), and sets up a graduated scale of taxation depending on the size of the State's fiscal gap. The bill also provides requirements for completing filing and employer responsibilities, makes provision for amended filings, and identifies those credits available to the taxpayer.

The major tax credit of interest to Alaskans would be the tax credit authorized for real and personal property taxes paid to a municipality if the tax is imposed. This credit impacts the greater potential for revenue under this measure, but is designed to soften the effect of the contingent income tax on working families.

Bill Section 1: Adds to AS 43.20.011, a provision for the taxation of income of every resident, nonresident, and part year resident, individual and fiduciary in the state. It apportions the tax liability of a non-resident, part year resident, or fiduciary, as a percentage of their federal income tax liability that is their taxable income from sources within Alaska only. However, tax would be paid only if the State's expenses exceed revenues. The tax would only be imposed if the gap were as follows:

<u>Gap (millions \$)</u>	<u>Tax Rate (%)</u>
≤ 20	0.5
20-80	1.0
80-100	2.0
100-300	3.0
300-600	5.0
600-800	8.0
≥800	10.0

This section further requires the use of one's federal filing status as that which would be used in determining the state income tax liability.

Bill Section 2: Directs individuals and fiduciaries to file state income tax returns with the

Department of Revenue, the same as corporations and others required to file under 26 U.S.C., the Internal Revenue Code. Provides for allowable credits and payments against the state tax liability.

Bill Section 3: Makes the state income tax liability due and payable at the same time and in the same manner as one's federal income tax liability.

Bill Section 4: Requires the taxpayer to file with the state tax return, a copy of one's federal tax return for the same tax year. It also provides for the filing of an amended return within sixty days following a final determination of the taxpayer's federal tax liability if such should be in question.

Bill Section 5: Adds a new section to AS 43.20 that determines income sources within the state, which would be used in calculating the tax liabilities of non-residents, part-year residents, or fiduciaries. For purposes of calculating taxable income attributable to sources from within the state, this section also provides that deductions and adjustments are allowed only to the extent they are connected with income that arises from sources within the state.

Bill Section 6: Adds salaries or wages, and estate or trust income, to the list of income sources considered as being from within the state.

Bill Section 7: Provides for the Multi-state Tax Compact, AS 43.19, as the authority in determining what income is taxable from entities, which do business both partly inside and partly outside of the state.

Bill Section 8: Establishes credits against the state income tax liability, beginning with the amount of payroll tax withheld. It further establishes a credit for resident and part-year resident taxpayers for income taxes imposed by other U.S. states or territories, on income that is also subject to tax in Alaska. This credit, though, is limited to the proportion of the tax calculated under Alaska statute that relates to the percentage the taxable income from the other jurisdiction bears to the taxpayer's total taxable income. The credit may not exceed actual taxes paid to the other jurisdiction.

A significant tax credit authorized under this section allows a tax deduction for real and personal property taxes paid to a municipality in this state.

Bill Section 9: Provides for corporate taxpayers to allocate and apportion their net income as provided in the Multi-state Tax Compact, on income taxable both inside and outside the state, or on income from other sources both inside and outside Alaska.

Bill Section 10: Establishes tax collection procedures, including deduction and withholding features and instructions to employers regarding tax payments and other information due the state. This section also describes the employer reporting responsibilities to the employee, annually by January 31st, or thirty days after termination,

of wages / compensation, and withholding/deductions. Employer penalties are also referenced as those in AS 43.05.220 (d).

This section also establishes the authority for governmental entities to deduct and withhold from employees, as well as return deductions and withholdings to those officers of the entities appropriately designated to perform these functions. The terms "employee," "employer," and "wages" are defined by the Internal Revenue Code under 26 U.S.C.

Bill Section 11: Imposes the same time limitations on the assessment and collection of taxes by the state, and the same exceptions, as is found in the Internal Revenue Code, 26 U.S.C. 6501- 6503. When additional tax is due from changes made to a federal income tax return, the period of limitation begins from the date that one files an amended return. If no amended return is filed, the additional tax due may be assessed at any time.

Bill Section 12: Defines the terms "bank," "corporation," "fiduciary," "fiscal year," "individual," "Internal Revenue Code," "resident," "non-resident," "part-year resident," "person," "taxable year," "taxpayer," and "trade or business."

Bill Section 13: Identifies necessary repealers.

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number:

Bill Version:

HB 262

() Publish Date:

Revision Date/Time (Note if correction):

Title Income Tax

Dept. Affected:

Revenue 04

RDU

Tax and Treasury

Component

Tax

Sponsor Ways & Means

Requester (H) W& M

Component No.

2476

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	*	*	*	*	*	*
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FUND SOURCE

(Thousands of Dollars)

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

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

*See page 2

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Agency: Department of Revenue

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Date/Time 4/14/05 4:32 PM

Date 4/14/2005

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. HB 262

ANALYSIS CONTINUATION

Revenue Analysis

The proposed bill would create an income tax on individuals and fiduciaries, based on a percentage of the individual's entire federal income tax liability. The proposed tax rate varies, based on the how much state expenditures exceeds state revenues in the preceeding fiscal year.

The proposed bill would allow property tax paid to a municipality as a credit against the income tax, as well as taxes paid to other states on income earned in those states.

The proposed bill provides for withholding on income at the source, and creates a duty of the employer to remit taxes to the state.

Estimating revenue is particularly difficult with this bill because of the variable nature of the tax and the bill language does not define what "entire federal tax liability" means. Also, on a per-individual basis there is no method currently available to match property tax and personal income tax liabilities. Consequently, we used data from the Internal Revenue Service to estimate property tax credits by income group, and made assumptions about home ownership statewide using US Census Bureau data. The following table provides the range of revenue possible (net of credits) at the rates given:

Rate	Half year	Full year
• 0.5%:	\$ 1.5 million	\$3.3 million
• 1.0%:	\$ 3.0 million	\$ 6.0 million
• 2.0%:	\$ 7.0 million	\$14.0 million
• 3.0%:	\$10.0 million	\$20.0 million
• 5.0%:	\$16.0 million	\$32.0 million
• 8.0%:	\$26.0 million	\$52.0 million
• 10.0%:	\$30.0 million	\$65.0 million

Cost Discussion

The department has previously estimated the operating costs of a statewide income tax at approximately \$8 million per year with initial capital costs ranging between \$7 and \$8 million. These estimates however were for a stable program and do not reflect the needs and financial considerations associated with a contingent tax program such as proposed in this bill. Turning a program of this size on and off year to year will produce significant inefficiencies compared to a stable program and will impair service levels. The program will require the department to maintain operating infrastructure and professional and technical staff during periods when the tax is dormant and ramp up to full operating capacity when the tax is triggered. We project that the program will demand a significant capital investment to facilitate intermittent processing by temporary staff with minimal training requirements.

Our rough cost estimates call for \$15-\$20 million in capital spending with dormant period operating costs of \$5-\$6 million increasing to \$7-\$8 million during fiscal years beginning in any calendar year in which the tax is imposed. For example, were the tax in effect for calendar year 2006, the active program budget level of \$7-\$8 million would be necessary for FY07.

This program would be the first state income tax program established during the internet age and, because the program is intermittent, will necessarily rely on internet and other technologies to be successful. It is important that the bill reflect these needs and opportunities by providing the department with the authority to provide incentives for payment, filing, and reporting methods that facilitate efficient tax administration. It may also be necessary to authorize the imposition of electronic filing mandates for paid tax preparers.

General

At present, no other state uses federal tax liability as a basis for calculating income tax. In context of the national debate for income tax simplification, this bill confounds the concepts of simplicity, stability, and predictability.