Fiscal Note

State of Alaska
2024 Legislative Session

Bill Version: HB 156
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Identifier: HB156-DOR-TAX-02-23-24
Title: INCOME TAX
Sponsor: GALVIN
Requester: (H) Ways and Means

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2025 Appropriation Requested	Included in Governor's FY2025 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2025**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**
Personal Services	3,783.8		7,567.6	7,567.6	7,567.6	7,567.6	7,567.6
Travel	75.0		50.0	20.0	20.0	20.0	20.0
Services	1,881.5		4,131.5	3,380.5	3,440.9	9,503.2	3,567.3
Commodities	1,677.4		517.0	27.0	73.7	73.7	73.7
Capital Outlay	18.0						18.0
Grants & Benefits							
Miscellaneous							
Total Operating	**7,435.7**	**0.0**	**12,266.1**	**10,995.1**	**11,102.2**	**17,164.5**	**11,246.6**

Fund Source (Operating Only)

1004 Gen Fund (UGF)	7,435.7		12,266.1	10,995.1	11,102.2	17,164.5	11,246.6
Total	**7,435.7**	**0.0**	**12,266.1**	**10,995.1**	**11,102.2**	**17,164.5**	**11,246.6**

Positions

Full-time	70.0		70.0	70.0	70.0	70.0	70.0
Part-time							
Temporary							

Change in Revenues

1004 Gen Fund (UGF)	60,000.0		125,000.0	125,000.0	130,000.0	135,000.0	135,000.0
Total	**60,000.0**	**0.0**	**125,000.0**	**125,000.0**	**130,000.0**	**135,000.0**	**135,000.0**

Estimated SUPPLEMENTAL (FY2024) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2025) cost: 9,500.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? No

(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 12/31/25

Why this fiscal note differs from previous version/comments:

Updated from SLA2023 to SLA2024 fiscal note template. We also updated our fiscal analysis. The economic growth factor and population growth factor have been adjusted as follows: (1) The population growth factor adjustment to 2024 has decreased 1.70% to 1.12%. This change reflects the use of Department of Labor population projections and actuals. (2) The economic growth factor adjustment to 2024 has increased from 20.39% to 22.29%. This change reflects the most recent Wages and Salaries values from the St. Louis FRED. An average of the wages and salaries for each quarter falling within a calendar year were used. Lastly, we updated personal services costs for FY2025 rates.

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Division: Tax Division — Date: 01/18/2024 04:30 PM
Approved By: Eric DeMoulin, Administrative Services Director — Date: 02/23/24
Agency: Department of Revenue

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Analysis

Bill Analysis
This bill creates a new broad-based income tax that would apply to resident and nonresident individuals, trusts, and estates, including partners or shareholders of partnerships or S-Corporations, who derive income from, or where income is connected with, a source in Alaska. The Department of Revenue, Tax Division ("Department") estimates that there will be approximately 414,050 resident taxpayers and approximately 62,100 nonresident taxpayers. These estimates are very rough. The tax rate would be 2 percent of the taxpayer's taxable income over $200.0. Taxable income would be computed as a taxpayer's federal adjusted gross income ("AGI") less the amount of that year's Permanent Fund Dividend (PFD), less a standard deduction. There would also be an additional tax of $20 per person for anyone who has wages or self-employment income in the state.

Taxes paid to other states, based on income derived in those states, would be allowed as a credit against this tax. The bill would exclude from the definition of Alaska taxable income a PFD received by the taxpayer. The bill would also allow an individual eligible for a PFD to direct the Department to hold all or a part of the amount of the PFD to pay the tax due under this bill. The effective date of the bill would be January 1, 2025.

Lastly, the bill would allow for an exception to the requirement that taxpayers file reports and returns electronically, which would cause an additional administrative burden on the Department.

Revenue Impact
In the first full year after implementation, the division estimate that revenue would be approximately $125 million. Assuming that AGI is earned evenly across the fiscal year, revenue in FY2025 would be approximately $60 million, representing a half-year of revenue due to a mid-fiscal-year effective date. Depending on the amount of estimated payments, it is possible that some of the revenue projected for FY2025 could be shifted into FY2026. As the impact is proportionate to each household's income, actual impact by household will vary widely. Any impact will be partially mitigated, as state individual income taxes are deductible from federal taxes. Thus, Alaskans who itemize their federal taxes would reduce their federal tax liability by the amount of their state tax multiplied by their marginal federal tax rate.

The Department's individual income tax revenue model is based on aggregated federal income data for Alaska residents. It is assumed that income from nonresidents will increase Alaska AGI by approximately 5 percent. This 5 percent adjustment is an estimate of the net nonresident earnings (nonresident income in Alaska less Alaska resident income taxed elsewhere) developed through consultation with the Alaska Department of Labor and influenced by Bureau of Economic Analysis "adjustment for residence" historical values. The model does not address long term population growth, inflation, or impacts on the economy from implementing an income tax.

In producing this revenue estimate, the existing individual income tax revenue model was adjusted to incorporate estimated impacts of the standard deduction and Permanent Fund Dividend exemptions in this bill. This revenue estimate does not evaluate potential impacts of this bill on Permanent Fund deposits, income, or transfers to the General Fund or Dividend Fund. Further, as the division understands the bill, there would likely be changes in taxpayer behavior to move from filing jointly to filing separately. The model does not assume any changes in behavior.

Implementation Cost
The cost and time required to implement a new broad-based tax is directly related to its complexity. For a more robust tax such as the one envisioned in this bill a 12-month implementation process should be expected. The Department expects to engage FAST Enterprises, the division's Tax Revenue Management System (TRMS) contractor, to build an income tax module into TRMS. The $9,500.0 capital project reflects an estimated initial implementation cost for FAST to add the income tax module and a Fast Identity Verification Services (FIVS) module.

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After initial implementation, continued maintenance and support by FAST for the individual income tax module is estimated to be $2.25 million in CY2026 and $1.5 million in CY2027 and beyond. Continued maintenance and support by FAST for the FIVS module is estimated to be $500.0 in each year.

Adding a fully functional income tax module would be a multi-year process. The initial fast-track need would be to build and implement a tax withholding system, which would need to be in operation by the effective date. The effective date of this bill will need to be updated to provide adequate time for the implementation of the system. The Department would also need to adopt regulations by December 31, 2025. Since the bill allows taxpayers to elect to apply their PFD to their tax liability, the Department would work with FAST to interface the TRMS system with the PFD Division's PFD management system in an effort to automate the PFD offset provisions of this bill. In addition to the software development, this bill would require a rapid and robust outreach to the business community throughout Alaska, and this fiscal note includes funding for travel needs. Additionally, this bill would require integration with national accounting and tax software vendors in order to update programs such as TurboTax and QuickBooks to incorporate the Alaska return.

Once the withholding system and PFD interfaces are in place, FAST and Tax Division staff would begin building the tax return filing and examination modules, with their associated databases, communications, and integration with existing imaging, accounting, and collections systems. The legislation creates an annual tax, meaning that the first tax returns would be filed in January 2026, with a filing due date of April 15, 2026. Taxpayers who request and receive extensions would have filing deadlines in October 2026. The Department estimates that this bill would generate approximately 413,850 returns. This estimate is based on the number of Alaska resident individual returns and partnership/S-Corporation returns filed in 2019 as publicly reported by the Internal Revenue Service, multiplied by 15 percent to adjust for estimated nonresident returns.

As part of the Department's research into the potential costs to administer this tax, the division spoke with tax administrators in the States of Montana and Vermont. Each have population sizes close to Alaska's and impose individual income taxes. Montana and Vermont employ approximately 102 and 60 people, respectively, to administer each state's individual income taxes. Using a simple per-capita adjustment, these numbers translate to 68 and 70 employees needed to administer an individual income tax in Alaska. Given the complexities that come with administering nonresident and pass-through corporation returns, and the sheer volume of estimated new taxpayers and returns, combined with the fact that division staff would have little to no experience in state individual income tax administration to start off with, the Department expects to need 70 people to administer an individual income tax in Alaska. The new staff would be roughly split between the Juneau and Anchorage offices. The Department would continue to look for ways to automate administration of this tax and look for efficiencies.

The division would expect to replicate the online filing percentages of the PFD Division, currently at approximately 90 percent. However, the 10 percent of paper filers will require manual handling and data entry for over 41,000 paper returns out of the 413,850 total estimated returns. In contrast, in FY2022 the Department processed approximately 1,459 paper returns out of 37,836 total returns across all tax programs the Department administered.

Additional travel is largely for public education efforts, as well as the need to train new staff on the tax management system and the new tax. Services costs reflects primarily internal core service rates paid to other state agencies, including additional lease space, due to additional staff within the Tax Division, as well as ongoing maintenance and support costs for FAST. Commodities reflect the initial outfit for new employees for office and computer furnishings.

FISCAL NOTE ANALYSIS

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Analysis

An initial analysis of the staff needs within the Tax Division to implement an individual income tax is as follows:

(1)	Deputy Director
(2)	Audit Supervisors
(2)	Income Tax Specialists
(18)	Auditors
(6)	Accounting Technicians
(3)	IT Analysts/Programmers
(4)	Appeals Officers
(15)	Tax Technicians
(17)	Imaging & Office Assistants
(2)	Administrative Assistants

(Revised 10/31/2023 OMB/LFD)