

# Fiscal Note

State of Alaska  
2023 Legislative Session

Bill Version: HB 185  
Fiscal Note Number: \_\_\_\_\_  
( ) Publish Date: \_\_\_\_\_

Identifier: HB185-DOR-TAX-05-12-23  
Title: INCOME TAX EQUAL TO DIVIDEND  
Sponsor: FIELDS  
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)

	FY2024 Appropriation Requested	Included in Governor's FY2024 Request	Out-Year Cost Estimates					
			FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
<b>OPERATING EXPENDITURES</b>								
Personal Services			866.6	7,286.7	7,286.7	7,286.7	7,286.7	7,286.7
Travel			50.0	75.0	20.0	20.0	20.0	20.0
Services			500.0	3,361.5	3,425.5	3,487.3	9,550.9	
Commodities				2,167.4	27.0	27.0	73.7	
Capital Outlay				18.0			6.0	
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>1,416.6</b>	<b>12,908.6</b>	<b>10,759.2</b>	<b>10,821.0</b>	<b>16,937.3</b>	

**Fund Source (Operating Only)**

1004 Gen Fund (UGF)			1,416.6	12,908.6	10,759.2	10,821.0	16,937.3
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>1,416.6</b>	<b>12,908.6</b>	<b>10,759.2</b>	<b>10,821.0</b>	<b>16,937.3</b>

**Positions**

Full-time			5.0	70.0	70.0	70.0	70.0
Part-time							
Temporary							

**Change in Revenues**

None					***	***	***
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>***</b>	<b>***</b>	<b>***</b>

**Estimated SUPPLEMENTAL (FY2023) cost:** 0.0 *(separate supplemental appropriation required)*

**Estimated CAPITAL (FY2024) 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If yes, by what date are the regulations to be adopted, amended or repealed? 09/30/26

**Why this fiscal note differs from previous version/comments:**

Not applicable, initial version.

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Division: Tax Division	Date: 05/12/2023
Approved By: Eric DeMoulin, Director	Date: 05/12/23
Agency: Department of Revenue	

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2023 LEGISLATIVE SESSION

BILL NO. HB 185

Analysis

**Bill Analysis**

This bill creates a new broad-based income tax that would apply to resident and nonresident individuals, 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 141,000 resident and approximately 7,000 nonresident individuals that will be subject to the tax. These estimates are very rough. The tax is equal to the amount of the annual Permanent Fund Dividend (PFD). Individual taxpayers with less than \$75,000 federal adjusted gross income and two individuals with less than \$150,000 jointly filed federal adjusted gross income are exempt from this tax.

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 bill has a tax due date of December 31 of each year in proposed AS 43.23.280(b) as well as a tax filing and payment obligation in proposed AS 43.23.300(b) & (c) to align with the individual's filing and payment due dates for their federal income tax return to the Internal Revenue Service (IRS). For this fiscal note, we assume the tax is due the same as the IRS due dates (typically April 15 of the following year).

The effective date of the bill would be January 1, 2026.

**Revenue Impact**

The revenue estimate is indeterminate as it is unknown what the amount of the annual PFD will be each year and into the future.

In order to give a range of possible outcomes, we have modelled the fiscal impact using three different PFD distribution calculations:

1. Statutory Dividend
2. 50-50 Split of POMV between PFD and General Fund
3. 25-75 Split of POMV between PFD and General Fund

Note: POMV is the Percent of Market Value which is the current framework for using a portion of the Permanent Fund earnings to support government operations and the annual PFD.

Estimated Revenue Impacts (\$ Millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
1. Statutory Dividend	\$ -	\$ -	\$ 559.8	\$ 587.6	\$ 671.6
2. 50/50 Split of POMV Between PFD and General Fund	\$ -	\$ -	\$ 465.8	\$ 470.3	\$ 485.6
3. 25/75 Split of POMV Between PFD and General Fund	\$ -	\$ -	\$ 231.0	\$ 232.5	\$ 240.0

**Implementation Cost**

The initial need will be for the Department to seek assistance from an income tax expert to work with Department leadership on creating an implementation plan with more refined estimates of staffing, space, supply, and equipment needs. The Department would also require expert help in drafting regulations. The FY2025 services cost includes \$500,000 to enable the Department to hire an expert, develop a plan, and begin working on regulations.

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
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BILL NO. HB 185

### Analysis

The cost and time required to implement a new broad-based tax is directly related to its complexity. This bill provides a very long lead time for the Department to plan, staff, program, and implement. The Department expects to engage FAST Enterprises, our 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.

After initial implementation, continued maintenance and support by FAST for the individual income tax module is estimated to be \$1.5 million starting in FY2026 and beyond. Continued maintenance and support by FAST for the FIVS module is estimated to be \$0.5 million starting in FY2026 and beyond.

Adding a fully functional income tax module would be a multi-year process. The initial need would be to build and implement a system, which would need to be in operation by October 1, 2026. The Department would also need to adopt regulations by September 30, 2026. 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 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 our existing imaging, accounting, and collections systems. The legislation creates an annual tax, meaning that the first tax returns would be filed in January 2027, with a filing due date of April 15, 2027. Taxpayers who request and receive extensions would have filing deadlines in October 2027. The Department estimates that this bill would generate approximately 148,000 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 that meet the minimum taxable income threshold requirements in the bill, multiplied by 5% to adjust for estimated nonresident returns.

As part of the Department's research into the potential costs to administer this tax, we 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 our 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.

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

STATE OF ALASKA  
2023 LEGISLATIVE SESSION

BILL NO. HB 185

**Analysis**

Due to the long lead time, we would not need to be fully staffed until the beginning of FY2026, or July 1, 2026. We would want to hire the lead and specialist positions earlier to work with our computer vendor and regulatory consultants. We have projected a need for 5 positions initially in FY2025 and then to be fully staffed of 70 positions in FY2026.

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