



Alaska Department of Revenue Tax Division

**FY2019 Governor's Proposed Budget
Presentation to House Finance Revenue Subcommittee
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Tax Division

What we do:

The official mission of the Tax Division is to collect taxes, inform stakeholders, and regulate charitable gaming.

In practical terms, this also means we regulate, administer and audit Alaska's various taxes, and we forecast and report revenues.

The Tax Division also provides substantial analytical services in response to questions from Legislators and other agencies and supports the commissioner and administration in development of fiscal policy.

Tax Division Highlights

Implementing 2016-17 Legislation

- HB111 (2017) and HB247 (2016):
Oil and Gas tax credit reform
 - Major regulatory processes
 - Substantial reprogramming of tax management system
- HB375 (2016): Mandatory electronic tax filing
 - Outreach to taxpayers
 - Regulations development
 - Forms and process for those seeking waiver due to technological inability
 - We have seen a dramatic decrease in paper filing

Tax Division Highlights

Other Highlights

- Supported Governor's 2017 fiscal plan and revenue bill efforts with extensive analysis and testimony
- Steady month to month growth in marijuana tax collection
 - Collections to date \$6.3 million (74% in cash)
 - Secure cash depository in Anchorage parking garage
 - Absorbed into existing operations with no staff added
- Continuing to absorb substantial staff reduction and combination of functions
- Fast-tracked preliminary Fall 2017 revenue forecast in advance of October special session

Tax Division Staff

- Two offices in Juneau (SOB 11th Floor) and Anchorage (Atwood Building 5th Floor)
 - **108 Full Time Permanent Employees in FY18 Budget**
 - 67 in Anchorage, including most of the management and audit staff for the oil and gas, corporate, property, and excise groups
 - 41 in Juneau, providing much of the support staff to the direct tax groups as well as the bulk of the fish and gaming tax groups
 - 45 Tax Auditors and audit supervisors
 - 32 Other Professional staff (economists, programmers, managers, investigators, and appeals officers)
 - 31 Paraprofessional and Technical staff (tax technicians, administrative, and other)
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Cuts from FY14 to FY18 (\$thousands)

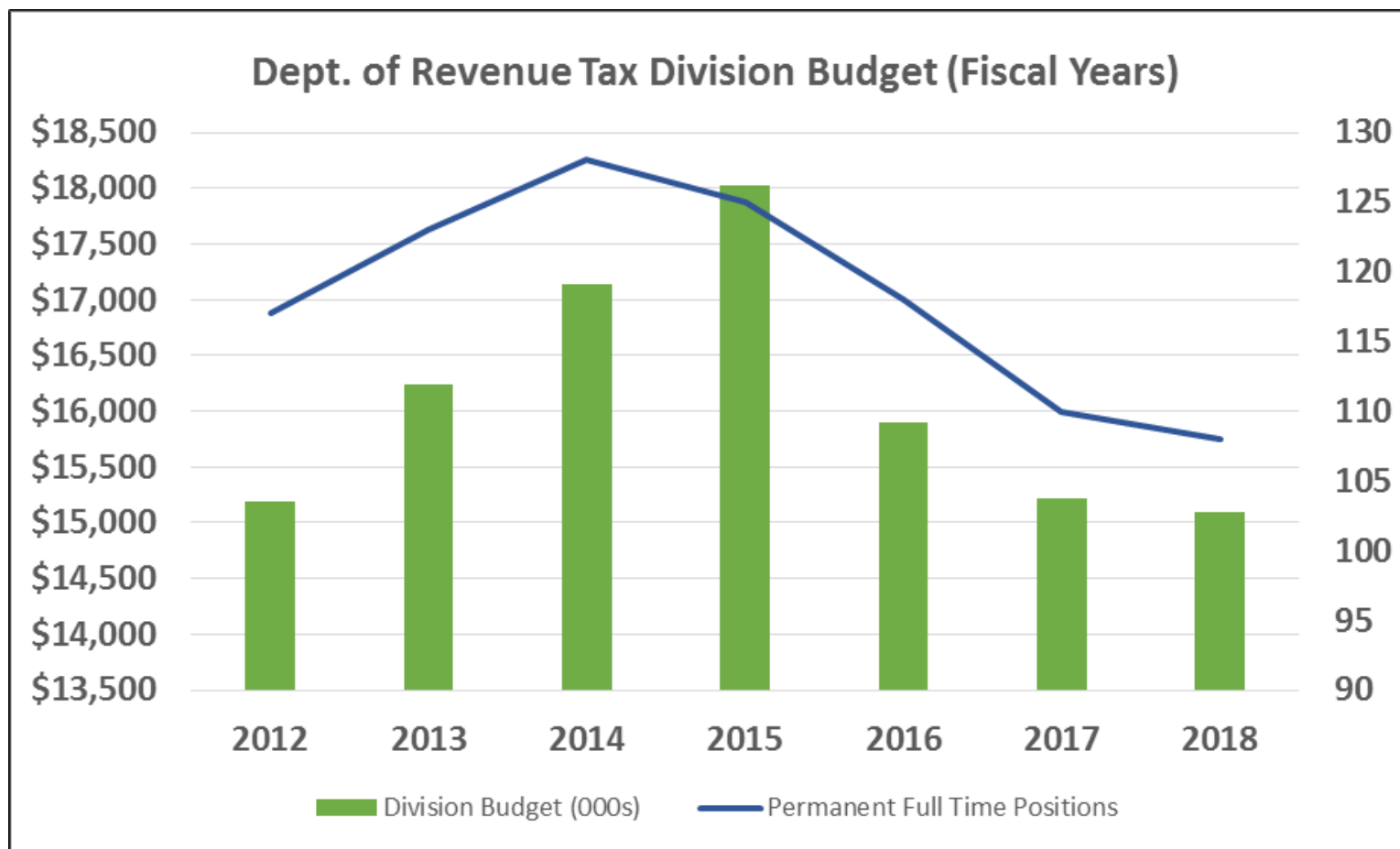
- FY14 Budget, 128 Full Time Positions, \$17,132.5
- FY15 Budget, 125 Full Time Positions, \$18,023.0
- FY16 Budget, 118 Full Time Positions, \$15,900.7
- FY17 Budget, 110 Full Time Positions, \$15,224.2
- FY18 Budget, 108 Full Time Positions, \$15,093.5
(incl. 2 auditors added by House)
- Reduction from peak: \$2,929.5 (16%)

Tax Division Budget

Proposed Governor's FY19 Budget

- FY19 Gov's Budget, 107 Positions, \$15,133.5
 - 1 eliminated; 5 IT staff may also be transferred to DOA
- 19 Fewer Actual Employees than we had on 12/1/14
 - Audit staff down 2%; Admin staff down 44%
- 88% of budget is funded by UGF
- 85% of our budget is personnel costs

Summary- Tax Division Budget and Staff



Vacancy Rates, Actual Spend

(amounts in \$thousands)

Vacancy Rate

Fiscal Year	2014	2015	2016	2017	2018
Budgeted F/T Positions	128	125	118	110	108
Cost of All Positions	\$15,364.2	\$15,352.8	\$14,616.1	\$13,797.0	\$13,640.9
Vacancy Rate	4.61%	4.20%	7.00%	7.00%	6.42%
Actual Personnel Budget	\$14,656.3	\$14,717.6	\$13,596.1	\$12,831.2	\$12,767.1
Effective Positions Funded	122.1	119.8	109.7	102.3	101.1

Budget vs. Actual Spend

Fiscal Year	2014	2015	2016	2017	2018
Management Plan Budget	\$17,132.5	\$18,023.0	\$15,900.7	\$15,224.2	\$15,093.5
Actual Spend	\$17,627.7	\$17,183.0	\$15,491.5	\$14,244.4	n/a
Unspent (Overage)	(\$495.2)	\$840.0	\$409.2	\$979.8	

Unspent FY16 and FY17 amounts were capital funds, extending the life of the TRMS appropriation

Tax Division Working Sections

Division is organized by tax type and by function

➤ **Tax Types.** Each group is a mix of auditors and technicians, plus a supervisor

- Oil and Gas Production Tax- 22 staff
- Corporate Income- 18 staff
- Excise (10 different taxes)- 13 staff
- Fish Tax- 6 staff
- Charitable Gaming- 5 staff
- Petroleum Property Tax- 3 staff

67 total (50 Anchorage, 17 Juneau)

Tax Division Working Sections (contd.)

Division is organized by tax type and by function

➤ **Support Functions**

- Management and Administration- 5 staff
- Economic Research & Commercial Analysis- 8 staff
- Appeals- 5 staff
- Regulations and Special Projects- 2 staff
- Information Technology- 5 staff
- Accounting & Collections- 6 staff
- Imaging & Data Management- 6 staff
- Criminal Investigations- 4 staff

41 total (17 Anchorage, 24 Juneau)

Major Challenges for FY19 and beyond

- Audit and administer more tax types than ever before, with fewer resources
 - Absorb additional cuts; we have already eliminated nonessential travel, training, purchases
 - More emphasis on non-oil taxes
 - Protect core audit resources
- Labor intensive cash handling for marijuana tax
- Anticipated layoffs, morale issues
- Possible implementation of new revenue items
- Future maintenance costs for tax software

TRMS- Long Term Concern

Possibly the most significant change of the last five years is implementing the Tax Revenue Management System

- TRMS project was funded by a FY12 capital appropriation of \$34.7 million. TRMS replacing over 15 individual proprietary software systems that we developed and maintained over many years
- System has ongoing subscription and maintenance costs between \$1.5 and \$2 million per year, depending on the amount of tax changes
- We have been able to support this with remaining funds from the original appropriation, plus fiscal notes from the two recent oil tax credit bills
- We do not have funds identified for this after FY2019

Efficiencies: Nickels and Dimes add up

- Transferred server hosting to existing DOR infrastructure
 - Replaced outside engineering contractor for oil production forecasting with existing DNR staff
 - “Go green” initiative to replace paper mail and postage with electronic taxpayer communication
 - Replacement of receptionist with “phone tree”
 - Total travel spending down 71% from FY14 to FY18
 - Bulk purchase and online procurement for common commodities
 - Deferred hardware replacement
 - Destruction of hundreds of boxes of records that have been held beyond retention schedule (62¢ / month)
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Auditors and the New Tax Mgmt. System

DOR rolled out a new computer system for corporate income tax in 2014 (phase 1 TRMS)

- The system identifies a substantial number of new audit leads that we don't have the current staff to investigate
- New leads are nearly all non-oil and gas corporations
- Many new leads involve complicated tax issues which require dedicated and well trained staff
- Several other states have seen substantial net revenue increases via increasing their audit and examination staff
- **Based in part on this information, the legislature added two corporate income tax auditors to the Tax Division's budget in FY2018 (\$246,000 increment)**

Our new Auditors

- After creating recruiting for the two positions, the new individuals started around the first of the year
 - Currently in their training period, which includes direct case work. The targeted value for additional audit assessments for the rest of this fiscal year is \$1.5 million
 - Issues they are expected to work on include:
 - Education credits – substantiate amount and eligibility
 - Income shifting situations – companies located in tax haven countries that should be part of the combined group
 - Erroneous / overstated deductions – typically dividend deduction situations where amounts are double deducted
 - Tax exemptions – review claims for validity
 - Internal transactions used to overstate the sales factor denominator, decreasing the income apportioned to Alaska
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THANK YOU

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