



## **Commercial Passenger Vessel Tax HB252**

Presentation to the House Labor & Commerce Committee  
February 10, 2016

# *Commercial Passenger Vessel Excise Tax*

## *– Local Levies and Voyages*

“An Act requiring electronic submission of a tax return or report with the Department of Revenue; repealing the tax reduction for local levies for the commercial vessel passenger excise tax; amending the definition of 'voyage'; and providing for an effective date.”

# *Cruise Ship Tax History*

- Created by ballot initiative in 2006
- Last major changes in 2010:
  - Tax reduced from \$46 to \$34.50 per passenger
  - Increased number of ports that can receive \$5 per passenger sharing
  - Credit for municipal port fees added
  - Tax restricted to voyages that were in Alaskan waters for at least 72 hours

# *Cruise Ship Tax Proposal*

- Repeals credit for local head taxes
  - Local taxes are \$8 in Juneau and \$7 in Ketchikan
  - Most voyages stop in both Juneau and Ketchikan
- Amends the definition of “voyage”, restoring the tax to all trips greater than 72 hours
  - Closes loophole
- Requires electronic filing
  - Provides exemption process

## *Revenue Impact*

- Dept. of Revenue estimates increasing commercial passenger vessel tax will raise an additional \$16.6 million per year
  - \$14.8 million kept by the state
  - \$1.8 million to municipalities
  - Increase in municipal share is largely due to the change to the 72-hour rule

## *Revenue Impact (Continued)*

- Assumptions behind revenue estimates:
  - 900,000 total passengers *before* tax change
  - 12% increase due to repeal of 72-hour rule
  - \$34.50 per passenger, for total of \$34.5 million
  - 3.5 ports per voyage receive \$5 municipal share
- Assumes number of voyages and passengers will stay roughly constant

# *Implementation Cost*

- Dept. of Revenue must update:
  - Tax Revenue Management System (TRMS)
  - Revenue Online (ROL) which allows a taxpayer to file a return online
  - Tax return forms
- One-time implementation cost of \$100,000 to recreate tax forms and reprogram and test the tax system<sup>1</sup>
- No additional costs to administer the tax program

<sup>1</sup>This is slightly higher than some of the costs attached to the other excise and business tax changes because of the somewhat dedicated nature of the funds and the possible additional need to adjust certain Revenue Sharing features.

# *Closing the Budget Gap*

	(Millions)
<b>FY16 Budget</b>	<b>\$ 5,200</b>

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## **FY17 Baseline Revenue (after proposed legislation)**

AK Permanent Fund Protection Act (annual draw)	\$ 3,300
Revenue from existing taxes and fees	\$ 850
Earnings on Savings	<u>\$ 135</u>
	<b>\$ 4,285</b>

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## **FY17 Spending Reductions**

Continue Cuts	\$ 140
Reform O&G Tax Credits	\$ 400
Net Priority Investments	<u>(\$ 40)</u>
	<b>\$ 500</b>



# ***Closing the Budget Gap (Continued)***

<b><u>New Revenue Components (estimated)</u></b>	<b>(Millions)</b>
Mining (starting in FY 2018)	\$ 6
Fishing	\$ 18
<b><i>Tourism</i></b>	<b><i>\$ 15</i></b>
Motor Fuel	\$ 49
Alcohol	\$ 40
Tobacco	\$ 29
Oil and Gas	\$ 100
Income Tax (half in FY17; first full year is FY18)	<u>\$ 200</u>
	<b>\$ 457</b>
 <b>Total with reductions and new revenue</b>	 <b>\$ 5,242</b>

# *Impacts of Cruise Ship Tax Proposal*

- Voyages slightly more expensive for the passengers and/or companies

# *Sectional Analysis*

- Sec. 1.** Adds a \$25 or 1% tax penalty for failure to file electronically unless an exemption is received by the taxpayer
- Sec. 2.** Requires electronic submission of tax returns, license applications, and other documents submitted to the Department of Revenue. This changes the general tax statutes, AS 43.05, and will apply to all tax types administered by the department. Provides a process to request an exemption if a taxpayer does not have the technological capability to do so.
- Sec. 3.** Amends the definition of “voyage” to mean any trip or itinerary lasting more than 72 hours.
- Sec. 4.** Repeals the section of current law which allows for a tax reduction in the amount of certain local levies. Although merely a “repealer,” this is the most important section of the bill.

## *Sectional Analysis (Continued)*

- Sec. 5.** Transitional language allowing for regulations.
- Sec. 6.** Immediate effective date for the transitional regulatory language in Sec. 5
- Sec. 7.** Effective date of 7/1/16 for the rest of the bill changes.



# Thank You!

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