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October 13, 2021

VIA EMAIL

Representative Ivy Spohnholz, Chair
Alaska House Ways & Means Committee

Re: Comments on H.B. 4005

Dear Chair Spohnholz and Members of the Committee:

We are writing on behalf of the Council On State Taxation (COST) to provide comments on H.B. 4005, which would impose a state sales and use tax and authorize the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement (SSUTA). If Alaska chooses to adopt a statewide sales tax, we strongly encourage the State to do so through conformity to SSUTA; however, without an amendment to the bill to provide for central administration of both the state and local sales taxes, the legislation fails to comply with SSUTA.¹ In addition, given the chance to design an optimal sales tax, Alaska should take steps to avoid subjecting business inputs to taxation to ensure the tax falls on final consumption, and to prevent pyramiding of the tax owed by the ultimate consumer.

About COST

COST is a nonprofit trade association based in Washington, D.C. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of approximately 500 major corporations engaged in interstate and international business, many of which directly do business in Alaska. COST's objective is to preserve and promote equitable and nondiscriminatory state and local taxation of multijurisdictional business entities.

Central Administration & SSUTA Membership Promotes Sound Tax Policy

COST has long advocated for sound tax policy through simplification and uniformity of state and local sales and use tax systems. As part of its efforts, COST has advocated for the central administration of the states' local sales taxes and supports states joining the SSUTA, which standardizes sales and use taxes to reduce administrative and compliance burdens for all sellers by implementing the following:

- Single, state-level administration for all sales and use tax collections
- Uniformity in the state and local tax bases
- Uniformity of major tax base definitions
- Central electronic registration system
- Simplification of state and local tax rates

¹ Other changes are also needed, but this is a significant issue. See Section 301 of [SSUTA](#).

- Uniform sourcing rules for all taxable transactions
- Certified Service Providers to assist sellers in collecting and remitting the tax
- Simplified exemption administration
 - Simplified sales tax returns
 - Simplification of tax remittances
 - Protection of consumer privacy

For the reasons outlined above, we strongly support Alaska's full membership in SSUTA if it seeks to enact a statewide sales and use tax.² However, we wish to highlight that the change in H.B. 3006 (introduced during the prior special session) that removes state administration of local sales and use taxes from the current version takes Alaska out of compliance with SSUTA. To ensure SSUTA compliance, Alaska must include provisions requiring central administration of the State's local sales and use taxes (which can be by any statewide governmental entity that, if deemed necessary, includes local government engagement).

COST's Position on Sales Taxation of Business Inputs

The COST Board of Directors has adopted a formal policy statement on sales taxation of business inputs. COST's policy position is:

Imposing sales taxes on business inputs violates several tax policy principles and causes significant economic distortions. Taxing business inputs raises production costs and places businesses within a State at a competitive disadvantage to businesses not burdened by such taxes. Taxes on business inputs, including taxes on services purchased by businesses, must be avoided.³

As noted in COST's policy position, the imposition of a sales tax on business inputs violates several tax policy principles—economic growth, equality, simplicity, and efficiency. In addition, imposing sales tax on business inputs causes economic distortion that results from pyramiding.⁴ Pyramiding occurs where a tax is imposed at multiple levels, such that the effective tax rate exceeds the retail sales tax rate. This forces companies to either pass cost increases to consumers or reduce their economic activity in the State to remain competitive with other producers who do not bear the burden of such taxes. The result of these choices is that the economic burden of taxes on business inputs inevitably shifts to labor in the State (through lower wages and employment) or consumers (through higher prices). With H.B. 4005 proposing to broadly subject services to tax, it is critical that business inputs are exempt from the tax to avoid running afoul of these sound tax policy principles.

² The State should also use the NCSL model for marketplace facilitators and sellers, which includes a small seller threshold; model available at: https://www.ncsl.org/Portals/1/Documents/Taskforces/SALT_Model_Marketplace_Facilitator_Legislation.pdf?ver=2020-01-30-122035-320×tamp=1580412048938.

³ COST's policy statement on sales taxation of business inputs is available at: <https://cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-policy-positions/sales-taxation-of-business-inputs.pdf>

⁴ A detailed study addressing the impact of states' taxing business inputs is available at: https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/1903-3073001_cost-ey-sales-tax-on-business-inputs-study_final-5-16.pdf.

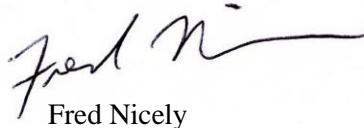
Conclusion

If Alaska wishes to impose a statewide sales tax, Alaska should require central administration of the State and local jurisdictions' sales and use taxes to comply with SSUTA (similar to H.B. 3006), which would facilitate compliance for both in-state sellers and out-of-state sellers. We also strongly recommend an amendment to H.B. 4005 that provides a clear exemption for business inputs, including services purchased by businesses.

Respectfully,



Erica S. Kenney



Fred Nicely

cc: COST Board of Directors
Douglas L. Lindholm, COST President & Executive Director