



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Revenue

COMMISSIONER'S OFFICE

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April 30, 2024

The Honorable Bryce Edgmon
Alaska State Representative
Co-Chair, House Finance Committee
State Capitol, Room 410
Juneau, AK 99801

The Honorable Neal Foster
Alaska State Representative
Co-Chair, House Finance Committee
State Capitol, Room 511
Juneau, AK 99801

The Honorable DeLena Johnson
Alaska State Representative
Co-Chair, House Finance Committee
State Capitol, Room 505
Juneau, AK 99801

Dear Co-Chairs Edgmon, Foster, and Johnson,

The purpose of this letter is to provide a response to questions asked during the DOR presentation on its fiscal model for House Bill 119 in the House Finance Committee on April 24, 2024. Please see the question in *italics* and our response immediately below.

1. *Why not switch to a sales tax immediately rather than first reduce the tax on growers and then switch to a sales tax on January 1, 2025?*

The Department of Revenue informed the Marijuana Task Force that it would need a minimum of 12 months, and ideally 18 months, to stand up a new sales tax module in its Tax Revenue Management System (TRMS), promulgate regulations, and to do outreach to the new taxpayer base.

When HB 119 was introduced in the first regular session in 2023, the effective date of switching to a sales tax was set as July 1, 2028. This was the recommendation at the time from the Task Force. The reduction

in the tax on growers was to allow immediate tax relief to the industry. The effective date of the switch to a sales tax was eventually made through an amendment to January 1, 2025. The Department of Revenue raised concerns about the effective date at the beginning of the second regular session since it would not allow for the minimum of 12 months needed to stand up the new tax.

The Department's current fiscal note states that due to the extremely short timeline to program an entirely new tax into TRMS, we would need an additional \$1 million to expedite the process. Even with the additional \$1 million, we are not certain our contractor would be able to have the system ready to accept taxpayer registration, tax returns, and payments in the short window that would be available to them. The Department would also be hard pressed to promulgate regulations and conduct outreach to the affected taxpayer base in that short of a timeline. We strongly recommend an effective date for switching to a retail sales tax that would give the Department a minimum of 12 months to setup the new tax program. The reduction to wholesale tax rates is much easier to implement, and could take effect sooner, giving immediate tax relief to the industry; the Department has no issues with a July 1, 2024 effective date for those revisions as laid out in the current version of HB 119.

2. *A year-plus ago, we gave the Department of Revenue enough money to build a cash collection location in Juneau. Please provide us with a status update of the project.*

The Department of Revenue has not been given any money to stand up a tax room in Juneau or anywhere else. Under the previous Commissioner, the Department had made plans to stand up a cash room in Juneau, in the State Office Building. That project was planned to be funded by a combination of existing General Fund budget as well as a through a supplemental request that was made. As the Department learned more about the costs of remodeling, securing, and staffing a cash room in Juneau, the Department determined that this project was not an efficient use of state funds and canceled plans for the Juneau cash room. The supplemental budget request was withdrawn when the plans were canceled, which the legislature honored. Further, the Department could not justify standing up only one additional location and not consider other locations. We determined that it is cost prohibitive to stand up multiple locations (i.e., it would cost more than the Department collects in those locations). Currently, the Department has only one location that accepts payments in cash, which is in Anchorage where the bulk of our staff are and where the bulk of cash paying taxpayers can access the location from the road system.

We also regularly receive tax payments from marijuana taxpayers in forms other than cash (e.g., check, money order, and wire transfer). Most payments made by non-cash methods are from taxpayers who are not on the road system. It is cheaper to get a money order, for example, than to fly to Anchorage to make a payment. While the United States Postal Service has determined that it is illegal for a marijuana business to mail cash payments to Anchorage, they will allow a marijuana business to purchase money orders at the post office and mail those to Anchorage. This is the solution that we recommend to taxpayers that are not able to make payments by non-cash methods.

The Department has looked at many creative options to allow marijuana taxpayers the least expensive and simplest methods to make their payments. We were the first state, for example, to do a cash drop safe which reduces the cost of administering the processing of cash. We were the first state to arrange for cash to be mailed to a secure carrier for transport to our cash room—which the post office later put a stop to. We have had multiple meetings with industry and financial institutions to brainstorm options. We have promoted banking of marijuana businesses in Alaska and have worked with several institutions on that process. We have met with the U.S. Department of Treasury, Financial Crimes Network, and the Federal Bureau of Investigations to discuss various payment options. We have engaged the marijuana industry and investigated third-party collection options. This is not an exhaustive list, but we mention it here to show that we have done everything we can think of with our current resources to make options available to the marijuana industry for paying their taxes.

An amendment was considered in the House Labor and Commerce Committee to require the Department to have multiple cash collection sites around the State. The amendment failed to pass. However, if the amendment were to have passed, we could comply with the requirement, but we would require significant additional resources.

Also of note is that the House Labor and Commerce Committee CS changed the due date for filing and paying marijuana taxes from monthly to quarterly. This was done to ease the burden for those who stated that they would have to travel to make payments in cash. Given the growing delinquencies of marijuana taxpayers—currently at \$3.8 million—we did not think extending the due date was prudent, but it does reduce the number of required payments in a year from 12 to 4, easing the burden for those that pay in cash.

3. *Would it be possible for DOR to administrate the new retail tax using existing municipal resources?*

Since not all municipalities have a sales tax on marijuana, we would need to build the new sales tax module in our Tax Revenue Management System even if it did make sense to leverage existing municipal resources. The cost to program our system is the same regardless of how many taxpayers would use it. Beyond that, we have expended millions of dollars and years of work to modernize our tax system. The system allows us to automate many functions and provides reporting functions that we use in our Revenue Sources Book, Annual Report, and other reports that we publish to our website and provide to the Legislature.

While it might be possible to leverage some of the existing municipal resources, we believe that the leverage we would lose by not using our own system would greatly outweigh what we would gain. Further, given that there are over 200 different taxing jurisdictions in the state, we believe it would be simpler to program one system once rather than to manage and verify the correct

reprogramming of multiple municipal systems. Also, if we did use municipal systems, it would be a monumental task to make even small changes in the future since the changes would need to be made in each of the local tax systems rather than just once in our own.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,



Adam Crum
Commissioner