Fiscal Note

State of Alaska
2021 Legislative Session

Bill Version: HB 4005
Fiscal Note Number:
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Identifier: HB4005-DOR-TAX-10-07-21
Title: STATE SALES AND USE TAX
Sponsor: TARR
Requester: House Ways & 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)

	FY2022 Appropriation Requested	Included in Governor's FY2022 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2022**	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
Personal Services	3,715.2		7,430.4	7,430.4	7,430.4	7,430.4	7,430.4
Travel	75.0		62.5				
Services	990.7		1,703.4	1,703.4	1,703.4	1,703.4	1,703.4
Commodities	117.4		117.4	7.4	7.4	7.4	7.4
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**4,898.3**	**0.0**	**9,313.7**	**9,141.2**	**9,141.2**	**9,141.2**	**9,141.2**

Fund Source (Operating Only)

1004 Gen Fund (UGF)	4,898.3		9,313.7	9,141.2	9,141.2	9,141.2	9,141.2
Total	**4,898.3**	**0.0**	**9,313.7**	**9,141.2**	**9,141.2**	**9,141.2**	**9,141.2**

Positions

Full-time	74.0		74.0	74.0	74.0	74.0	74.0
Part-time							
Temporary							

Change in Revenues

1004 Gen Fund (UGF)			300,000.0	300,000.0	300,000.0	300,000.0	300,000.0
Total	**0.0**	**0.0**	**300,000.0**	**300,000.0**	**300,000.0**	**300,000.0**	**300,000.0**

Estimated SUPPLEMENTAL (FY2021) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2022) cost: 6,000.0 *(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If yes, by what date are the regulations to be adopted, amended or repealed? 06/30/22

Why this fiscal note differs from previous version/comments:

Not applicable, initial version.

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Division: Tax Division — Date: 10/07/2021
Approved By: Eric Demoulin, Administrative Services Director — Date: 10/08/21
Agency: Department of Revenue

STATE OF ALASKA
2021 LEGISLATIVE SESSION

BILL NO. HB 4005

Analysis

Bill Analysis
This bill would impose a statewide sales and use tax of 2% on the sale or lease of tangible personal property, the sale of services, and the use of tangible personal property or services that would be subject to the tax if purchased in the state. The tax base in this bill is considered to be a “mid base” tax base in that the bill includes exemptions for groceries, medical, certain fuel, as well as many others. This state level sales and use tax would be in addition to any applicable local taxes.

The Department of Revenue (Department) would administer and collect the new tax under AS 43.44 beginning July 1, 2022. This bill would require the Department to become part of the Streamlined Sales and Use Tax Agreement (SSUTA), which is a multistate agreement intended to simplify and modernize sales and use tax administration in the member states in order to substantially reduce the burden of tax compliance. The Agreement focuses on improving sales and use tax administration systems for all sellers and for all types of commerce.

This bill provides authority for the Department to adopt regulations and it establishes an effective date of July 1, 2022. The new sales and use tax would automatically sunset on July 1, 2029.

Revenue Impact
At full implementation, revenue is estimated to be about $300 million annually. First collections would occur in FY2023 due to the July 1, 2022, effective date. Because the incidence of the tax is dependent on taxable spending by individuals, households, and businesses, the relative burden of such a tax will vary widely among these groups.

The Tax Division’s sales tax revenue model is based on Alaska Economic Census data collected in 2012 and scaled to the value of the 2017 dollar using the consumer price index (CPI) and household median income (HMI), and US e-commerce spending data from 2017 scaled to Alaska also using the CPI and HMI. The model does not address elasticity of demand, population growth, inflation, interactions that may occur with existing city or municipal sales taxes, or impacts on the economy from implementing a state sales tax.

Implementation Costs
The cost and time required to implement a new statewide tax is directly related to its complexity. For a more robust tax such as the one envisioned in this bill, a minimum 12-month implementation process should be expected. This bill includes an effective date of July 1, 2022, which would give the Department approximately 9 months to fully implement.

The initial need will be for the Department to seek assistance from a sales and use 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 FY2022 services cost includes $500,000 to enable the Department to hire an expert, develop a plan, and begin working on regulations.

The Department will also need to engage FAST Enterprises, our Tax Revenue Management Services (TRMS) contractor, to build a sales and use tax module into TRMS, with provisions for a seller’s permit and resale exemption certificate application module. While the needed updates to TRMS would be a multi-year process, the system would need to be ready for accepting returns and payments by July 1, 2022. The TRMS system would require much reconfiguration to add a sales tax return module with associated databases, an examination and audit module, communications, and integration with existing imaging, accounting, and collections modules. The seller’s permit and resale exemption certificate application module would need to be completed well in advance of July 1, 2022, to ensure sellers are registered and know their collection and remittance requirements. The $6.0 million capital cost in FY2022 is an estimate for the needed contract with FAST Enterprises to add a sales and use tax module along with the seller's permit and resale certificate module. TRMS would also need to be updated for integration of sales tax revenue reporting into the State's accounting system.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2021 LEGISLATIVE SESSION

BILL NO. HB 4005

Analysis

The Department will need to immediately start hiring and training new employees to administer this new tax program. The Department estimated staffing needs based on what other states' staffing levels are for their statewide sales and use tax administration. South Dakota has a population of 882,235 and Wyoming has a population of 577,737, so in addition to having sales and use tax structures, both have comparable populations to Alaska. In 2019, South Dakota reported that they have 99 employees that primarily work on sales tax and also share duties on other tax types. In 2019, Wyoming reported that they have 60 employees that work exclusively on sales tax. Based on staffing levels reported by South Dakota and Wyoming, and scaled to Alaska population, 74 employees is a fair and reasonable estimate of what the Department will need to administer a sales and use tax in Alaska.

An initial analysis of the additional staff needs are as follows:
(1) Deputy Director
(2) Revenue Audit Supervisors
(25) Tax Auditors
(22) Tax Technicians
(2) Sales & Use Tax Specialists
(4) Revenue Appeals Officers
(1) Accountant
(4) Accounting Technicians
(2) Administrative Assistants
(2) Analysts/Programmers
(9) Imaging Operators & Office Assistants

Services costs in FY2022 are primarily internal core services paid to other state agencies and additional office space needed due to the substantial growth in the overall size of the Tax Division. New employees would be split between the Juneau and Anchorage offices. Services increase in FY2023 and forward as it is the first year of additional maintenance and support of the new TRMS modules after rollout, which would be approximately $1.0 million per year. Commodities are primarily for costs associated with additional office supplies and equipment needs for 74 new employees. Additional travel will be needed to train new employees, for public education efforts, and for audits.

This fiscal note assumes that one half of the needed staff is hired in FY2022 and the remaining are hired in FY2023 for cost projection purposes. This fiscal note assumes a "go live" date of July 1, 2022. If the actual go live date is earlier, the costs to implement TRMS will increase substantially.