

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

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Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title: State Seasonal Sales Tax BRU: Revenue Operations
 Component: Tax Division
 Sponsor: Representative Whitaker
 Requester: House State Affairs Committee Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	1,676.4	3,200.1	3,200.1	3,200.1	3,200.1	3,200.1
Travel	53.0	73.0	73.0	73.0	73.0	73.0
Contractual	564.8	941.4	941.4	941.4	941.4	941.4
Supplies	31.3	64.0	64.0	64.0	64.0	64.0
Equipment	617.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	2,942.5	4,278.5	4,278.5	4,278.5	4,278.5	4,278.5
CAPITAL EXPENDITURES	1,087.0	427.5	0.0	0.0	0.0	0.0
CHANGE IN REVENUES (increase)	**	**	**	**	**	**

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	4,029.5	4,706.0	4,278.5	4,278.5	4,278.5	4,278.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	4,029.5	4,706.0	4,278.5	4,278.5	4,278.5	4,278.5

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time	42	49	49	49	49	49
Part-time						
Temporary	30	30	30	30	30	30

ANALYSIS: (Attach a separate page if necessary)

** No revenue estimates are shown because of the large amount of uncertainty associated with estimating a seasonal sales tax. We have lowered our original very rough estimated revenue range from \$200 million to \$400 million down to \$200 million to \$300 million to account for the exclusion of services for resale. Please see the revenue discussion for further details.

Assumptions

- (1) No increase in mail order, direct TV or internet sales as a percent of total sales from 1997.
- (2) Non-compliance with the sales tax tax is zero.
- (3) The tax does not change consumer or business choices (e.g., stockpiling prior to tax rate increase).
- (4) No change in total sales since 1997.

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 Division: Tax Division Date/Time 02/11/2002 4 p.m.
 Approved by: Larry Persily, Deputy Commissioner Date 02/11/2002
 Agency: Department of Revenue

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REVENUE

Estimating the revenue from a proposed sales tax is fraught with potential pitfalls. These include the difficulty of obtaining current and applicable data, and identifying potential effects on consumers and businesses.

Sales

The U.S. Economic Census estimates that the total value of all sales, receipts or revenue for Alaska establishments in 1997 was over \$35 billion. This includes revenue from the following activities that are exempt under HB 303:

- (1) sales of goods and services for resale,
- (2) electricity, natural gas and water and sewer utility services,
- (3) petroleum and petroleum products,
- (4) alcoholic beverages,
- (5) health care services,
- (6) prescription drugs,
- (7) construction services,
- (8) real estate rentals and
- (9) other goods and services.

If we exclude these categories and air transportation (precluded from state taxation by federal law), and finance and insurance (insurance is potentially precluded by state law and "financial" sales are not defined"), the revised estimate is \$12 billion to \$13 billion.

Additionally, services for resale are specifically precluded but we do not have a direct method for adjusting the total taxable sales to account for this exclusion. Although some professional services (e.g., legal fees for divorces and wills) would probably be taxable, it is highly likely that a majority of the professional, scientific and technical services would be exempt. Besides, "scenic and sightseeing transportation" and "transit and ground passenger transportation", most of the transportation category would probably qualify for exclusion under the services for resale category. Some services in the remaining service categories would also be exempt. If, however, we just exclude the professional, scientific and technical services categories and relevant transportation categories, then the total taxable sales would drop to \$9 billion to \$10 billion.

The Cap

We are not aware of any direct method to estimate the reduction in revenue as a result of the exclusion from taxable sales of "that part of a single item or the periodic selling price of a single service that exceeds \$2,000." Because there is no estimate of the volume of sales or services, or the amount of each sale or service, it is very difficult to adjust revenue estimates for the \$2,000 cap. Also, because the definition of a single item is related to function and service related to time, it is not absolutely clear, for some goods and services, what constitutes a single sale or service.

One option is to exclude from our revenue estimate certain categories where \$2,000 is a relatively small percentage of each sale. The problem is that we do not have the ability to estimate how this would apply to services. If, however, we include services but exclude construction, mining, motor vehicle, RV and other sales where \$2,000 is, in general, a small percentage of each sale then the total statewide annual taxable sales would drop to \$8 billion to \$9 billion.

Another approach that is useful for lowering the incentive to purchase out-of-state goods or services is to impose a use tax. Every state that imposes a statewide sales tax also has a use tax. In general, a use tax is a tax on the initial use, storage or consumption of tangible personal property in the state. Enforcing use taxes is difficult, particularly with the growth of internet sales and, consequently, there is an ongoing effort by most sales tax states to simplify their sales and use tax collections by passing versions of a Model Sales and Use Tax Act.

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Seasonality

Because the economic census includes only annual data, there is no direct method for estimating the revenue from a seasonal sales tax. For Juneau, a city with a population less than 31,000 but an influx of cruise ship passengers of more than 660,000, sales during the months of April through September accounted for approximately half of total city-wide taxable sales in 2000. Additionally, 49 percent of total 2000 wages and salaries in Juneau were earned in the April-September period. We believe this is a good indication that a statewide, five-month seasonal sales tax (May-September) probably would not raise more than half the estimated annual revenue. These numbers are not surprising when October Permanent Fund dividend checks and Christmas sales are considered.

One problem with seasonality is that at a 6% sales tax rate, consumers and businesses will change their behavior to avoid having to pay the tax. Consumers will stockpile goods (particularly nonperishable goods) before the tax takes effect each spring and hold off many of their in-state purchases until the tax ends in the fall. Although the seasonal tax rate would be the same statewide, it would have the largest effect on the 97 municipalities that already levy a sales tax. Additionally, this will be a highly noticeable tax as businesses adjust (e.g., pre-rate increase sales) and consumers react to the change. However, there is no way to directly measure how much stockpiling will happen or how many consumers will turn to mail order or the Internet to avoid the sales tax. That is, there is no way to measure the level of tax avoidance (legal behavior to avoid the tax) or tax evasion (illegal behavior to avoid the tax).

Tax Base and Revenue Estimates

We have included a table to give some idea of the potential revenue amounts. This amount is highly speculative because of all of the reasons cited in this report. Consequently, our very rough estimate of what HB 303 will raise (@ the 6% rate) is from \$200 million to \$300 million per year.

Assumptions

- (1) No increase in mail order, direct TV or internet sales as a percent of total value from 1997.
- (2) Non-compliance with the sales tax is zero.
- (3) The tax does not change consumer or business choices (e.g., stockpiling prior to rate increase).
- (4) No change in total sales since 1997.

ADMINISTRATION COSTS

We estimate ongoing operating costs of just under \$4.3 million annually, with just under \$2.95 million in operating costs during FY03. The seasonal nature of the bill has an adverse influence on operating costs relative to processing volume. The Department of Revenue, as well as businesses, must gear up for the tax season and will experience inefficiencies ranging from training temporary staff to suboptimal use of capital investment. In addition, the semiannual cut off points force businesses to change operations and create periods of significant compliance risk. More than a quarter of operating costs are attributable to audit and appeals functions. We estimate a capital outlay of just over \$1.5 million during FY03 and FY04.

Sector	Sales or	Tax @ 6%
	Receipts	
	(1,000's)	(1,000's)
Accommodations & Food Services ¹	\$ 1,065,459	\$ 31,964
Alcoholic Beverages	\$ (139,660)	\$ (4,190)
Retail Trade ²	\$ 6,251,372	\$ 187,541
Automobiles, Vans, Trucks & Other	\$ (807,036)	\$ (24,211)
Recreational Vehicles, Parts & Accessories	\$ (55,065)	\$ (1,652)
Alcoholic Beverages	\$ (148,876)	\$ (4,466)
Prescription Drugs	\$ (128,453)	\$ (3,854)
Vending Machines	\$ (16,966)	\$ (509)
Professional, Scientific & Technical Services ³	\$ -	\$ -
Administrative Support & Waste Management	\$ 592,161	\$ 17,765
Arts, Entertainment & Recreation ⁴	\$ 168,275	\$ 5,048
Museums and Historic Sites	\$ (1,090)	\$ (33)
Transportation & Warehousing ⁵	\$ 3,059,006	\$ 91,770
Air Transportation	\$ (403,116)	\$ (12,093)
Pipeline Transportation	\$ (1,300,000)	\$ (39,000)
Truck Transportation	\$ (615,860)	\$ (18,476)
Water Transportation	\$ (174,056)	\$ (5,222)
Support activities for transportation	\$ (261,445)	\$ (7,843)
Couriers and Messengers	\$ (159,023)	\$ (4,771)
Real Estate & Rental & Leasing ⁶	\$ 543,194	\$ 16,296
Lessors of real estate	\$ (246,601)	\$ (7,398)
Information ⁷	\$ 1,038,594	\$ 31,158
Other Services (except Public Administration) ⁸	\$ 330,954	\$ 9,929
Other incl. death services	\$ (25,611)	\$ (768)
Management of Companies/Enterprises ⁹	\$ 6,844	\$ 205
Total	\$ 8,573,001	\$ 257,190

1 Alcoholic beverages are exempt. However, no adjustment is made for exempt services for resale (see discussion on page 2 & 3).

2 Exempt categories as a result of alcoholic beverages and prescription drugs exemption and \$2,000 cap (see discussion on page 2 & 3).

3 Excluded because majority of this category would potentially be services for resale (see discussion on page 2 & 3).

4 Admissions to museums and historic sites are exempt.

5 Air transportation excluded because of federal law. Other categories excluded because of services for resale exemption.

6 Real estate rentals are exempt. However, no adjustment is made for exempt services for resale (see discussion on page 2 & 3).

7 No adjustment is made for exempt services for resale (see discussion on page 2 & 3).

8 Funeral, cemetery and crematory goods and services are exempt. However, no adjustment is made for exempt services for resale

9 However, no adjustment is made for exempt services for resale

Data Source: 1997 Economic Census