

HOUSE FINANCE COMMITTEE  
March 22, 2002  
9:20 AM

TAPE HFC 02 - 62, Side A  
TAPE HFC 02 - 62, Side B  
TAPE HFC 02 - 63, Side A  
TAPE HFC 02 - 63, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 9:20 AM.

MEMBERS PRESENT

Representative Eldon Mulder, Co-Chair  
Representative Bill Williams, Co-Chair  
Representative Con Bunde, Vice-Chair  
Representative Eric Croft  
Representative John Davies  
Representative Richard Foster  
Representative John Harris  
Representative Bill Hudson  
Representative Ken Lancaster  
Representative Carl Moses  
Representative Jim Whitaker

MEMBERS ABSENT

None

ALSO PRESENT

Representative Gary Stevens; Representative Peggy Wilson; Representative Ethan Berkowitz; David Teal, Director, Legislative Finance Division; Kevin Ritchie, Alaska Municipal League, Juneau; Peter Ecklund, Staff, Co-Chair Williams; Denny Dewitt, Staff, Representative Eldon Mulder; Lori Backes, Staff, Representative Whitaker; Larry Persily, Deputy Commissioner, Department of Revenue;

PRESENT VIA TELECONFERENCE

There were no teleconference testifiers.

SUMMARY

HB 20 "An Act relating to state aid to municipalities and certain other recipients, and for the village public safety officer program; relating to municipal dividends; relating to the public safety foundation program; and providing for an effective date."

CSHB 20 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with four new fiscal impact notes: (3) CED and COR.

HB 229 "An Act imposing a tax on employment; and providing for an effective date."

HB 303 "An Act relating to the levy and collection of a sales tax; and providing for an effective date."

HB 304 "An Act relating to disposition of income of the permanent fund; and providing for an effective date."

CSHB 304 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: REV #1.

#hb20

HOUSE BILL NO. 20

"An Act relating to state aid to municipalities and certain other recipients, and for the village public safety officer program; relating to municipal dividends; relating to the public safety foundation program; and providing for an effective date."

Representative Carl Moses MOVED to Rescind the Committee's action in failing to adopt Amendment 6 (Lancaster and Moses). Representative Moses WITHDREW his motion.

Representative Carl Moses MOVED to ADOPT Amendment 8: state aid to unincorporated communities:

Sec. 29.60.140. State aid to unincorporated communities. (a) Subject to (c) of this section, the [THE] department shall pay to each unincorporated community an entitlement each fiscal year to be used for a public purpose. The department with advice from the Department of Law shall determine whether there is in each unincorporated community an incorporated nonprofit entity or a Native village council that will agree to receive and spend the entitlement. If the community is located in a borough or a unified municipality, the department may pay the entitlement only to the entity that has been approved by the assembly, and the department must have written evidence of that approval. If there is more than one qualified entity in an unincorporated community in the unorganized borough, the department shall pay the money under the entitlement to the entity that the department finds most qualified to receive and spend the money. The department may not pay money under an entitlement to a Native village council unless the council waives

immunity from suit for claims arising out of activities of the council related to the entitlement. A waiver of immunity from suit under this subsection must be on a form provided by the Department of Law. If there is no qualified incorporated nonprofit entity or Native village council in an unincorporated community that is willing to receive money under an entitlement, the entitlement for that unincorporated community may not be paid. Neither this subsection nor any action taken under it enlarges or diminishes the governmental authority or jurisdiction of a Native village council. If at least \$41,472,000 is appropriated for all entitlements under AS 29.60.010 - 29.60.310 for a fiscal year, the entitlement for each unincorporated community under this subsection for that year equals \$40,000. Otherwise, the entitlement equals \$25,000.

(b) In this section "unincorporated community" means a place [IN THE UNORGANIZED BOROUGH] that is not incorporated as a city and in which 25 or more persons reside as a social unit.

\* Sec. 4. AS 29.60.140 is amended by adding a new subsection to read:

(c) The department may pay an entitlement under (a) of this section for an unincorporated community in a borough only to a qualified entity that provides at least three of the following services within the community:

- (1) fire protection;
- (2) emergency medical;
- (3) water and sewer;
- (4) solid waste management;
- (5) public road or ice road maintenance;
- (6) public health;
- (7) search and rescue.

Co-Chair Williams OBJECTED for the purpose of discussion.

Representative Lancaster explained that the amendment would allow the funds to go to the borough or organized area outside of the small community that is organizing; otherwise it is identical to Amendment 6.

KEVIN RITCHIE, ALASKA MUNICIPAL LEAGUE, JUNEAU provided information on the amendment. He noted that the Alaska Municipal League did not request the amendment but has assisted in its drafting. He explained that only unorganized communities in the unorganized borough receive capital-matching grants. If a borough were formed to incorporate surrounding small [unorganized] communities they would give up their capital matching grants. The borough would receive a small grant, but it would not be as much as they currently receive as small communities. The amendment would remove a disincentive for communities to organize. The same capital

matching money would be provided to small communities whether or not they are in a borough. The amendment would be an incentive to incorporation. Currently, if there were 10 small villages that wanted to form a borough they would have to give up their capital-matching grants of \$25 thousand dollars each when they became part of a borough. The borough would receive a grant but it would be much smaller than the combined amount of the separate grants.

Representative Croft concluded that the amendment would compliment Amendment 2 (adopted by the committee on 3/20/02) and would encourage incorporation.

Vice-Chair Bunde agreed that the amendment would provide encouragement for incorporation. He observed that he would support the amendment with the expectation that it would lead to the creation of local revenue stream that would allow communities to remain incorporated. He suggested that future legislatures would need to address the issue if it does not lead local communities toward self-sustaining revenues.

Mr. Ritchie explained that each unorganized community receives between \$3 - \$4 thousand dollars in revenue sharing. There would be between 20 - 30 communities affected by the legislation. They would have to provide three or more of the following services:

- (1) fire protection;
- (2) emergency medical;
- (3) water and sewer;
- (4) solid waste management;
- (5) public road or ice road maintenance;
- (6) public health;
- (7) search and rescue.

If there were 20 or 30 communities the total cost of revenue sharing would be approximately \$100 thousand dollars. Mr. Ritchie observed that each of these 20 - 30 communities would receive \$25 thousand dollars from the capital matching grant program. The capital-matching grant combines the municipal and unincorporated portions. The amendment would add 20 -30 communities to the unincorporated portion, which would prorate the amount down.

There being NO OBJECTION, Amendment 8 was adopted.

Representative Foster MOVED to report CSHB 20 (FIN) out of Committee with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSHB 20 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with four new fiscal impact notes: (3) CED and COR.

#hb304

HOUSE BILL NO. 304

"An Act relating to disposition of income of the permanent fund; and providing for an effective date."

Co-Chair Williams observed that a proposed committee substitute, work draft 22-LS1207\L, 3/21/02 changed the split ratio to 40/40/20.

PETER ECKLUND, STAFF, CO-CHAIR WILLIAMS explained that the proposed committee substitute uses the endowment principle and percent of market value payment method for the Permanent Fund. He explained that 7 percent of the value of the Permanent Fund would be taken in FY03, 6 percent in FY04, and 5 percent thereafter. An education fund of 40 percent would be created in the General Fund. An infrastructure account would be created and receive 20 percent of the funds. Dividends would be paid from the remaining 40 percent. He emphasized that deferred maintenance needs of the state of Alaska are over one billion dollars.

Representative Hudson acknowledged the work of the chairman. He agreed with most aspects of the proposed committee substitute, with one exception. The 5 percent of market value principal originated with the Alaska Permanent Fund Corporation. The five percent payout would automatically inflation proof the fund. He observed that Governor Hammond referred to a 30/30/30 payout: inflation proofing/dividend/general government. If you take 5 percent after inflation proofing and divide it on a 50/50 basis, the result would be 35 percent to general government and 35 percent to the dividend. He explained that the five-year average shows a reducing dividend. He spoke in support of a 50/50 dividend/state split, which would keep dividends at approximately the same level. The FY04 dividend amount would only be \$35 dollars less than the current amount under Representative Hudson's proposal. He asked the Committee to consider changing the dividend amount to 50 percent on page 2, line 17. The infrastructure percentage on page 3, line 3 could be 10 to 15 percent and the education account could be 40 - 35 percent. He pointed out that the 50/50 provision has been well addressed. A 40 percent division would reduce dividends by \$300 per person.

Representative Whitaker observed that the proposed committee substitute no longer resembles the original legislation, but indicated that he would support the proposed committee substitute. He noted that the legislation has become a reformulation of the Permanent Fund. He recognized the challenges before the legislation, but stressed that action must be taken.

Representative John Davies spoke in support of the legislation. He pointed out that the provisions of the bill have been well discussed. There was discussion by the Alaska Permanent Fund Corporation and the fiscal policy group. He felt that the changes recommended by Representative Hudson would assist passage of the bill.

Representative Croft spoke in support of a 50/50 split. He noted that Alaska is the only state that has a common ownership of its resources. The public might not accept anything less than 50/50. He maintained that a 50/50 split would be fair.

Representative Lancaster stressed that the plan would protect the dividend into the future and expressed support for the 50/50 provision.

Vice-Chair Bunde summarized that "100 percent of nothing is still nothing" and pointed out that the dividend is in danger if no action is taken.

Co-Chair Mulder MOVED to ADOPT proposed committee substitute, work draft, 22-LS1207\L, Cook 3/21/02.

RECESSED:

The Committee recessed at 10:05 a.m.

RECONVENED:

The Committee reconvened at 2:40 p.m.

Representative Hudson provided members with Amendment 1 (copy on file). He explained that the amendment would pay 45 percent to dividends, 35 percent to education and 20 percent to the infrastructure or economic development account. The FY03 dividend would not change. He observed that, under the amendment, dividends would be \$100 dollars less in FY04. Dividends would still grow, at approximately \$100 less than under the status quo. In FY03, \$965 million dollars would be available for to the General Fund. Approximately \$839 million dollars would be available in FY04. By FY10 there would be approximately \$948 million dollars to offset the deficit. Inflation proofing would continue at 7 percent in FY03, 6 percent in FY04, and 5 percent in FY05 and out.

Representative Hudson MOVED to ADOPT Amendment 1: 45 percent to dividends, 35 percent to an education fund and 20 percent to the infrastructure/economic development account.

Representative John Davies questioned why 5 percent was taken out of education instead of infrastructure. Representative Hudson responded that the amendment would be a statutory allocation and pointed out that the legislature

could chose to change the ratio. He stated that he was responding to the need for deferred maintenance. He observed that there is a one billion dollar need and reiterated that it could be changed in the future. He explained that by FY10 the education fund would be more than \$600 million dollars. The intent is to find a middle ground while protecting the Permanent Fund and dividends.

Representative Croft observed that the spreadsheet's projected rate of return is 8.25 percent. He thought that the Alaska Permanent Fund Corporation's projected rate of return was 7.95 percent. He expressed support for a 50 percent payout to dividends. He stated that he would not object to the amendment because it moved the legislation closer to the 50 percent target.

There being NO OBJECTION, Amendment 1 was adopted.

Representative Croft MOVED to ADOPT Amendment 2: 35 percent to education, 50 percent to dividends, and 15 percent to infrastructure. Co-Chair Williams OBJECTED.

**TAPE HFC 02 - 62, Side B**

Representative Whitaker referred to the Constitution of the state of Alaska, Article 9, section 16. He maintained that the amendment has been ignored since it was put in place. The constitutional amendment would dedicate one-third of the expenditures of the state of Alaska to be spent on capital projects. He noted that the issues are whether an additional \$100 dollars would go to dividends or be used to build the state.

Representative John Davies interpreted Article 9, section 16 to mean not more than one-third of the state's budget would go to infrastructure. He observed that the 1999 ballot initiative indicated that the public wants to protect dividends. He emphasized that it is easy for the public to understand a 50/50 split.

Representative Whitaker spoke against the amendment.

A roll call vote was taken on the motion.

IN FAVOR: Croft, Davies, Foster, Moses  
OPPOSED: Bunde, Harris, Hudson, Lancaster, Whitaker,  
Williams, Mulder

The MOTION FAILED (4-7).

Representative Foster MOVED to report CSHB 304 (FIN) out of Committee with the accompanying fiscal note. Representative John Davies OBJECTED for the purpose of discussion. He noted that he still supports a 50/50 split.

Representative Foster WITHDREW his motion to move CSHB 304 (FIN)

Co-Chair Mulder MOVED to ADOPT Amendment 3: "The legislation may appropriate to the dividend fund the additional amount needed so that the total amount of the 2002 dividend is \$1,540. He explained that the intention is to keep the FY02 dividend at it's current level. There being NO OBJECTION, it was so ordered.

Co-Chair Mulder MOVED to report CSHB 304 (FIN) out of Committee with the accompanying fiscal note. Representative John Davies and Representative Croft OBJECTED.

Representative Croft stressed that there are structural problems with the manner that the dividend and earnings are calculated. He maintained that dividend creep has to stop. He did not think that the proposal would be successful without substantial sideboards, new revenues and a more clear and fair distribution.

Representative Hudson spoke in support of the amended legislation. He maintained that the Permanent Fund was intended to meet the demand for state support when oil revenues declined. He stressed that the plan was balanced.

Representative Whitaker spoke in support of the legislation, but emphasized that it cannot stand-alone. He pointed out that [the 1999 ballot initiative to use a portion of the Permanent Fund] was not supported.

Representative John Davies pointed out that the amount available for the education fund would be diminished in FY 05, but would start to grow again. He stressed that there would need to be an \$80 million dollar increase in general funds to maintain full funding for education when the fund dips.

Co-Chair Williams stressed that the legislation is a tool and that the intent is to fully fund education.

Vice-Chair Bunde maintained that education has never been reduced, although he acknowledged that it had not been increased.

A roll call vote was taken on the motion to move the bill from Committee.

IN FAVOR: Bunde, Foster, Harris, Hudson, Lancaster,  
Whitaker, Williams, Mulder  
OPPOSED: Croft, Davies, Moses

The MOTION PASSED (8-3).

CSHB 304 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: REV #1.

#hb229

HOUSE BILL NO. 229

"An Act imposing a tax on employment; and providing for an effective date."

Co-Chair Mulder stated that it would be appropriate for Representative Croft to add his name to the legislation and allow Representative Stevens to withdraw his name. Representative Croft agreed.

Representative Croft provided members with proposed committee substitute, work draft 22-LS0842\L, 2/22/02 (copy on file). He explained that the committee substitute would provide the income tax recommended by the fiscal policy caucus, an alcohol tax at 10-cents a drink, a cruise ship head tax and a motor fuel tax.

Representative Croft MOVED to AMENDED the proposed committee substitute by removing the cruise head tax portion of the bill. There being NO OBJECTION, it was so ordered.

Co-Chair Mulder indicated that the original sponsor would like to remove their name from the legislation as amended. Representative Croft stated that he would takeover the sponsorship of the legislation in whatever manner was deemed appropriate.

Representative Croft spoke in support of the legislation. He explained that the legislation as amended would provide a 4 percent of taxable income tax. The proposal is a compromise between a flat tax and a more progressive tax based on a portion of tax liability. A taxable income tax would allow deductions. The motor fuel tax portion of the bill would allow a mechanism to fund deferred maintenance.

Representative Hudson requested that a spreadsheet be created to show the approximate amounts to be earned by the different elements. Representative Whitaker pointed out that a new fiscal note would be appropriate.

Co-Chair Mulder explained that the intent would be to take action on the legislation on Monday after review.

Representative Harris MOVED to AMEND on page 12, line 11: increase existing taxes on alcohol by 50 percent.

Representative Croft OBJECTED. He observed that under the committee substitute the alcohol tax increase would be approximately .10 cents a drink. A fifty percent increase

would only increase the tax by about a cent and a half per drink. He noted that the tax has not been increased for a long time and would not come close to addressing the needs of the state.

Co-Chair Mulder clarified that there would be 50 percent increase over the current taxation in all three categories.

Representative John Davies reiterated that the increase would be less than .02 cents a drink.

Representative Croft stressed that most items have increased beyond 50 percent since 1960. The increase beginning in 2002 would not come near to the pre inflation cost.

Representative Harris WITHDREW his motion to amend the alcohol tax to 50 percent.

HB 229 was heard and HELD in Committee for further consideration.

#hb303

HOUSE BILL NO. 303

"An Act relating to the levy and collection of a sales tax; and providing for an effective date."

Co-Chair Mulder MOVED to ADOPT proposed committee substitute work draft, 22LS1206\T, Kurtz, 3/22/02 (copy on file). There being NO OBJECTION, it was so ordered.

DENNY DEWITT, STAFF, REPRESENTATIVE ELDON MULDER reviewed the committee substitute. He noted that the legislation would bring a sales tax before the Committee. He reviewed the primary issues discussed by the subcommittee. The first issue was preemption. The legislation would preempt local government from charging a different sales tax from the state. Local governments could add a local tax using the guidelines of the bill, which would be collected by the state at no charge to the municipality. There would one type of sales tax, one set of exemptions, and local governments could decide if they wanted to add a percentage to the state tax. Businesses that collect the tax and remit it to the state appropriately, within the appropriate timeframe, would keep one percent of the amount collected as a fee for the collection process.

Representative Davies summarized that the legislation would require any local entity to use the exemption structure contained in the bill.

Mr. DeWitt noted that local options for special taxes in Title 29 would not be affected: including bed taxes.

Mr. DeWitt reviewed the legislation by section. Section 1 assists boroughs with their taxes. Establishes the initial sales tax and eliminates the collection portion, which would shift to the state. Sections 2 and 3 confirm privacy at the state level. Section 4 is the assessment and collection of taxation. Section 5 allows a borough to levy a general sales tax on goods and services consistent with the state. Section 6 allows cities the same opportunity. Section 7 begins the collection of the sales tax and authorizes the state to collect on behalf of the municipality. Section 8 begins the sales and use tax. This provision is needed in order to access the use tax through Internet sales. The use tax follows the sales tax and is consistent. There are several areas that would need technical amendments to be recommended by the Department of Revenue.

Mr. DeWitt reviewed technical amendments. On page 3, line 3: delete "in the state." He noted the state already has the ability to levy the tax. Subsections (b) and (c) are rewritten to replace "tangible personal property" with "goods or use of real property". He explained that language would provide consistency.

Mr. DeWitt noted that subsection (2) on page 3, line 26 - 27 would be amended: "real property" and "and transportation" would be removed. "Property" on line 27 would be changed to "goods".

LORI BACKES, STAFF, REPRESENTATIVE WHITAKER, explained that the intent is to allow an exemption for services that are performed in the act of creating a component of a product for resale.

**TAPE HFC 02 - 63, Side A**

Representative Lancaster clarified that plumbing installed in a house being built would not be taxed because the house would be taxed when sold. Representative Hudson questioned if house components would be subject to the sales tax. Co-Chair Mulder explained that only the finished product would be taxed. Mr. DeWitt noted that there is a specific section regarding construction.

Mr. DeWitt reviewed exemptions under section 43.44.020 and observed that they attempted to include all educational institutions were included.

- (1) goods sold, real property sold, rents, or services performed that are
  - (A) explicitly exempted from taxation under another provision of state law; or
  - (B) exempt from taxation under federal law, including sales to the federal government, and purchases made with

(i) food coupons, food stamps, or other types of certificates issued under 7 U.S.C. 2011 - 2036 (Food Stamp Act); and  
(ii) food instruments, food vouchers, or other types of certificates issued under 42 U.S.C. 1786 (special supplemental nutrition program for women, infants, and children);

(2) sales of goods, real property, or services for resale, including the sale and transportation of property that are used in connection with or will become an ingredient or component part of goods manufactured, processed, or fabricated for resale;

(3) electricity, natural gas, water and sewer utility services, and fuel for heating or electrical generation;

(4) funeral, cemetery, and crematory goods and services;

(5) health care services provided by a person licensed or certified to provide those services under AS 08, by a public home care provider as that term is defined in AS 47.05.017(c), by a health care facility operating under a certificate of need issued under AS 18.07, by a hospital licensed under AS 18.20, or by an assisted living home licensed under AS 47.33;

(6) prescription drugs, devices, and supplies prescribed by a person licensed to prescribe those goods under AS 08;

(7) interest earned or paid by banks, savings and loan associations, credit unions, and investment banks, and the following sales and services provided by banks, brokerage firms, savings and loan associations, credit unions, and investment banks:

(A) services associated with any deposit accounts, including service fees, insufficient funds fees, and attachment fees;

(B) fees for the purchase of bank checks, money orders, traveler's checks, and similar products for payment;

(C) loan fees and points associated with loan transactions;

(D) pass-through charges on loan transactions that include sales tax;

(E) services associated with the sale, exchange, or transfer of currency, stocks, bonds, and other securities;

(8) sales by federal, state, or local government entities;

(9) wages, salaries, commissions, and any other form of remuneration paid to employees for personal services;

(10) educational services provided by a non-exempt or exempt religious or other private school reporting to the commissioner of education and early development under AS 14.45.030 or 14.45.110(b) or by a postsecondary educational institution authorized to operate under AS 14.48;

(11) refined petroleum products taxed under AS 43.40;

(12) real estate rentals of 30 consecutive days or more;

(13) construction services;

(14) admission to museums and historic sites;

(15) sales made to an entity described in 26 U.S.C. 501(c)(3) (Internal Revenue Code) and exempt from federal income tax under 26 U.S.C. 501(a);

(16) sales made by an entity described in 26 U.S.C. 501(c)(3) (Internal Revenue Code) and exempt from federal income tax under 26 U.S.C. 501(a) if the income from the sale is exempt from federal income taxation;

(17) casual and isolated sales or rentals by a seller who does not regularly engage in the business of selling goods or services, or making rentals, but only if (A) the total sales do not exceed \$1,000 a year and the sales of goods do not occur for more than 14 days in a calendar year; or (B) the sales of goods are made by a licensed business to sell business equipment used in the business and not held as inventory;

(18) sales of insurance and bonds of guaranty and fidelity, and commissions on those sales.

Mr. Dewitt recommended that brokerage firms be added to the subsection 7 exemptions. He also recommended that subsections (A) - (E) include a subsection (F): interest earned and paid. It was the intent of the subcommittee that subsection (8) refer to sales and purchases. In subsection (10) definitions were used to recognize all schools that could generally be brought under the rubric, in terms of K-12. Postsecondary schools operate under AS 14.48. Refined petroleum products that are currently taxed would not be subject to the sales tax, such as aviation and marine fuel taxes. Short-term hotel rentals would be exempted. They would be available to be taxed on a bed tax basis with local governments.

Representative John Davies questioned how the provision would affect contracts with tour groups, which block off hotel rooms for a season. Mr. Dewitt thought that they would be under the less than 30-day provision, since they are eventually rented to individuals. Co-Chair Mulder acknowledged that it is the intent of the subcommittee to include blocks of rooms under the 30-day provision.

Mr. Dewitt observed that subsection (15) applies to sales made to a non-profit entity. Subsection (16) applies to sales made by the non-profit entity, which would apply to the sale of Girl Scout cookies and other fund raising activities. The purchase and sale of Girl Scout cookies and other fund raising items by churches and other non-profits would be exempted.

Mr. Dewitt noted that garage sales would be exempted under subsection (17), unless the gross would exceed \$1,000 dollars a year. Representative Hudson questioned if arts and craft shows at malls would be included in the exemption. Co-Chair Mulder responded that if they are a weekly event it would not be a causal sale and they would be subject to the sales tax. The provision is for causal sales: the occasional sale. Non-profits would be excluded.

Representative Lancaster questioned if a certificate would be needed to collect the tax. Ms. Backes stated that a certificate would not be required to collect the tax, but a certificate would be required for exempt groups.

Mr. Dewitt noted that Sec. 43.44.030 (a) limits the sales and use taxes levied under AS 43.44.010 to the first \$2,000 dollars of each separate sale, rent, or service transaction, or a maximum tax of \$60 dollars.

Mr. Dewitt continued his review of the legislation. Subsection (b) discusses taxation of long-term personal property leases. Subsection (c) deals with transactions involving payment of services rendered or delivered over time, such as an accountant billed on a monthly basis. Subsection (d) addresses services on account or billed on a monthly purchase. The most recently billed or monthly process would be used. Subsection (e) provides that each night's rental would be a separate transaction. Subsection (f) addresses long-term property leases, such as automobile leases.

Mr. Dewitt explained that the seller would collect the tax and remit it to the department. The seller would be allowed to keep one percent of the collections as long as they remit in a timely fashion with completed forms. Exemptions are given for coin operated devices, food and beverage at concession stands, bars, movable vendor carts, metered

sales. He observed that the intent is to add taxis that use a metering devise to the list. Taxis that charge by zone could include the tax.

Vice-Chair Bunde questioned why the total price could not include the tax. Mr. Dewitt agreed that the ticket price would include the tax.

In response to a question by Vice-Chair Bunde, Ms. Backes explained that people want to see how much the tax is and if it is included in the sales price it wouldn't show up as a separate item on the invoice or receipts.

LARRY PERSILY, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE explained that the department thinks that consumers should know how the price breaks down. Most states require that the sales tax be shown, so that businesses cannot use it as an unfair advantage.

Mr. Dewitt reviewed the use tax provision. The use tax for items brought into the state would be the same as if the item was purchased in the state.

Proceeds would be deposited into the General Fund and a certificate of exemption would be issued to those that are exempt from the sales tax. Nexus language allows the state to tax companies using Internet or mail order sales that have a presence in the state.

Mr. Dewitt noted that "or use" needed to be added to page 7, line 12. He added that language in subsection (b) would be amended in order to tighten it up. The effective date is January 1, 2003.

Representative Lancaster questioned how Sec. 43.44.070 would be implemented. Mr. Persily explained that a contractor would have to show a resale certificate to the building supply store when buying lumber. Representative Lancaster questioned how persons would know that the seller has the authority to collect the tax. Representative Whitaker clarified that the business license would give them the authority to collect the tax.

Representative Hudson asked if the state of Alaska has an agreement with Seattle regarding collection of tax from Alaskan residents. Mr. Persily explained that Seattle put the exemption in their tax code to promote business. There is no nexus. Someone from Seattle would have to pay the tax if it were implemented in Alaska.

Representative Hudson observed that there are a variety of municipal sales tax exemptions such as for senior citizens. He questioned if local exemptions would be permitted on the city sales tax assessments. Mr. Dewitt responded that they

would not. The senior citizen property tax would not be covered in the statute. The city of Juneau could issue checks to seniors that would cover the cost of their property tax. Other communities such as Wrangle utilize this provision. Representative Hudson observed that there is concern with the uniformity of state law.

Representative Whitaker spoke in support of state primacy manifested through preemption. It would allow continuity of business throughout the state of Alaska and nation. Ms. Backes added that the legislation requires the state to collect the sales tax for the municipalities, so there may be savings to the municipalities on the collection. Co-Chair Mulder clarified that business would retain 1% of the tax collected.

Representative Hudson discussed the local taxation process and questioned if the municipal tax amount would be limited. Mr. Persily clarified that the state would collect the amount indicated by the municipality. There is no restriction on seasonal amounts. He assumed that municipal payments would be made monthly.

Co-Chair Mulder observed that it does not make sense for small vendors to send their checks in every month. Mr. Persily observed that taxpayers that make a certain amount could be required to pay quarterly and those making more than the threshold could pay monthly. He recommended that the legislature set a threshold at \$500 - \$1,000 dollars. He cautioned that businesses in trouble might be tempted to utilize the tax sales. Penalties are already included in the tax code.

Representative Lancaster questioned how exemptions or special collections would be negotiated within the municipality or borough. Mr. Persily replied that it is the intent that municipalities with bed, fuel, alcohol, fish or other taxes, would collect, enforce and deal with those taxes on their own. The legislation applies only to general retail sales and use tax.

In response to a question by Representative Lancaster, Representative Whitaker discussed the amount of tax that would be collected. He explained that there are different models. The Department of Revenue uses a 1997 model, which is not as sophisticated as desired. The Department of Revenue model estimates between \$250 and \$400 million dollars. The Legislative Finance Division's model estimates \$198 million (consumer) dollars. He concluded that the tax would derive between \$250 and \$400 million dollars. Mr. Persily amended the Department of Revenue's estimate to \$240 - \$300 million dollars.

Representative Lancaster asked about the set-up costs. Mr. Persily estimated operating costs, after the initial set up, at \$4.9 million dollars. He stated that a fiscal note would be provided.

Representative John Davies asked the capital costs. Mr. Persily explained that the capital cost would be \$1.75 - \$2 million dollars. Much of the cost would be for computer programming. The goal would be to set something up for electronic filing.

Representative Hudson asked for product values of 1-2-3% tax ranges. Co-Chair Mulder thought that a 1% tax would generate between \$70 and \$125 million dollars. Each additional percent would generate about \$100 million dollars.

Representative Lancaster asked about bed and rent tax. Mr. Persily replied that no community would be able to collect sales tax on rent.

Representative Lancaster questioned if a special tax could be applied on a local level. Ms. Backes agreed that the intent of the legislation is to allow local taxation.

Representative Hudson observed that rent is anything over 30 days.

Representative Lancaster asked if the point of service delivery was addressed. Ms. Backes clarified that tour operators would not be tax-exempt.

Representative Carl Moses voiced concern with not including the sales tax in the price structure. Co-Chair Mulder observed that the "unfair competition clause" could apply if some businesses included the sales tax and others did not. Representative Carl Moses responded that if the tax were included, the person would be at a disadvantage. Representative Lancaster stressed that disclosure would be the issue.

Discussion ensued regarding inclusion of the tax [in the price structure]. Representative Whitaker reiterated that the limitation would be up to \$2,000 dollars. He emphasized that the legislation needs to be consistent. Co-Chair Mulder agreed. Mr. Persily added that a problem would occur if the separation of tax were not disclosed. The sales tax needs to be disclosed, which may not be practical. Representative Lancaster recommended issuing a certification with the rules and regulations. Vice-Chair Bunde asked the enforcement mechanism. Mr. Persily commented that the department would be using business licenses. He emphasized the need for sufficient budget support for audit work. Representative Lancaster noted that the fiscal note could be increased if the Committee wants more enforcement. Representative Carl

Moses observed that if the tax and sales price is included, it could be backed into the worksheet.

Representative John Davies asked if there were any reason that a price, which included the sales tax could not be reported separately in the receipt. Mr. Persily pointed out that the tax would have to be backed out for tax-exempt purchases.

**TAPE HFC 02 - 63, Side B**

Representative Carl Moses maintained that merchants need to have records of tax-exempt products sold. Vice-Chair Bunde spoke in support of allowing inclusion of the tax within a sales price.

Representative John Davies requested a spreadsheet to indicate the expected revenue by the Division of Legislative Finance. Co-Chair Mulder responded that there would be a fiscal note.

HB 303 was heard and HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 4:58 PM