

**ALASKA STATE LEGISLATURE**  
**HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

February 13, 2002

3:25 p.m.

**MEMBERS PRESENT**

Representative Lisa Murkowski, Chair  
Representative Andrew Halcro, Vice Chair  
Representative Kevin Meyer  
Representative Pete Kott  
Representative Norman Rokeberg  
Representative Harry Crawford  
Representative Joe Hayes

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 229

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

- MOVED CSHB 229(L&C) OUT OF COMMITTEE

HOUSE BILL NO. 258

"An Act converting the business license fee to a business license tax; adding, as an element of that tax, computation of the tax based on the taxpayer's gross receipts; establishing adjustments to that tax; and transferring administration of the levy to the Department of Revenue; and providing for an effective date."

- FAILED TO MOVE CSHB 258(L&C) OUT OF COMMITTEE

HOUSE BILL NO. 333

"An Act extending the termination date of the Regulatory Commission of Alaska; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

**PREVIOUS ACTION**

BILL: HB 229

SHORT TITLE: EDUCATION TAX ON EMPLOYMENT

SPONSOR(S) : REPRESENTATIVE(S) STEVENS

Jrn-Date	Jrn-Page		Action
04/02/01	0810	(H)	READ THE FIRST TIME - REFERRALS
04/02/01	0810	(H)	L&C, FIN
04/27/01		(H)	L&C AT 3:15 PM CAPITOL 17
04/27/01		(H)	Heard & Held
04/27/01		(H)	MINUTE(L&C)
02/11/02		(H)	L&C AT 3:15 PM CAPITOL 17
02/11/02		(H)	Tabled MINUTE(L&C)
02/13/02		(H)	L&C AT 3:15 PM CAPITOL 17

BILL: HB 258

SHORT TITLE: CHANGE BUSINESS LIC. FEE TO RECEIPTS TAX

SPONSOR(S) : REPRESENTATIVE(S) SCALZI

Jrn-Date	Jrn-Page		Action
04/25/01	1206	(H)	READ THE FIRST TIME - REFERRALS
04/25/01	1206	(H)	L&C, FIN
04/25/01	1206	(H)	REFERRED TO LABOR & COMMERCE
04/27/01		(H)	L&C AT 3:15 PM CAPITOL 17
04/27/01		(H)	Heard & Held
04/27/01		(H)	MINUTE(L&C)
02/11/02		(H)	L&C AT 3:15 PM CAPITOL 17
02/11/02		(H)	<Bill Postponed to 2/13/02>
02/13/02		(H)	L&C AT 3:15 PM CAPITOL 17

#### WITNESS REGISTER

AMY ERICKSON, Staff  
to Representative Lisa Murkowski  
Alaska State Legislature  
Capitol Building, Room 408  
Juneau, Alaska 99801

POSITION STATEMENT: Answered questions relating to CSHB  
229(L&C).

REPRESENTATIVE DREW SCALZI  
Alaska State Legislature  
Capitol Building, Room 13  
Juneau, Alaska 99801

POSITION STATEMENT: As the sponsor, presented HB 258 to the  
committee and answered questions.

NEIL SLOTNICK, Deputy Commissioner of Revenue  
Treasury Division  
Department of Revenue  
PO Box 110405

Juneau, Alaska 99811-0405  
POSITION STATEMENT: Testified that the Department of Revenue  
does not support HB 258.

BRETT FRIED, Economist III  
Tax Division  
Department of Revenue  
PO Box 110400

Juneau, Alaska 99811-0400  
POSITION STATEMENT: Answered questions related to HB 258.

EMMITT TRIMBLE  
Kachemak Board of Realtors, Inc.  
PO Box 150

Anchor Point, Alaska 99556  
POSITION STATEMENT: Testified in opposition to HB 258 as it is  
currently drafted.

KEN WARDWELL, Independent Licensed Real Estate Broker  
PO Box 844  
Anchor Point, Alaska 99556

POSITION STATEMENT: Testified in opposition to HB 258.

MIKE LOHMAN  
M. Lohman Investments, Inc.  
574 Paystreak

Wasilla, Alaska 99654  
POSITION STATEMENT: Testified in opposition to HB 258.

Gary Weber  
Wasilla Chevron  
PO Box 871216

Wasilla, Alaska 99687  
POSITION STATEMENT: Testified in opposition to HB 258.

JAMES MORGAN  
Sand Lake Automotive  
1200 West Dimond, Number 519  
Anchorage, Alaska 99515

POSITION STATEMENT: Testified in opposition to HB 258.

FRED ROSENBERG, Vice President  
Alaska Restaurant and Beverage Association (ARBA)

4450 Cordova Street, Number 200  
Anchorage, Alaska 99503

POSITION STATEMENT: Testified in opposition to HB 258.

JOSEPH HENRI

9921 Near Point Drive  
Anchorage, Alaska 99507

POSITION STATEMENT: Testified in opposition to HB 258, and offered that using the receipts of the permanent fund is a better option to try to close the fiscal gap.

ROCKY FLINT

Rocky's Marine, Inc.  
PO Box 690  
Petersburg, Alaska 99833

POSITION STATEMENT: Testified in opposition to HB 258, stating that a gross receipts tax would affect the fishing industry dramatically.

NANCY BERG

Viking Travel, Inc.  
PO Box 1435  
Petersburg, Alaska 99833

POSITION STATEMENT: Testified in opposition to HB 258 and expressed that she would be more supportive of a state income tax that gave some kind of tax credit to local residents.

BEN PHILLIPS

Tongass Marine  
PO Box 1314  
Petersburg, Alaska 99833

POSITION STATEMENT: Testified in opposition to HB 258.

KATHY HANSEN

9369 North Douglas Highway  
Juneau, Alaska 99801

POSITION STATEMENT: Testified on HB 258, and offered that she would rather have a state sales tax than a gross receipts tax.

THYES SHAUB, Lobbyist

for National Federation of Independent Business (NFIB)  
217 Second Street, Number 206  
Juneau, Alaska 99801

POSITION STATEMENT: Testified in opposition to and answered questions relating to HB 258.

PAMELA LaBOLLE, President

Alaska State Chamber of Commerce  
217 Second Street  
Juneau, Alaska 99801  
POSITION STATEMENT: Testified in opposition to HB 258.

DONNA ISAAK, Owner  
Ike's Fuel  
409 Fifth Street  
Douglas, Alaska  
POSITION STATEMENT: Testified in opposition to HB 258

RICK WITHROW  
Alsek Freight  
PO Box 210734  
Auke Bay, Alaska 99821  
POSITION STATEMENT: Testified in opposition to HB 258.

BERNIE SMITH  
Chugiak-Eagle River Chamber of Commerce  
17710 Toakoana  
Eagle River, Alaska  
POSITION STATEMENT: Testified in opposition to HB 258.

SUSAN W. SPRINGER, Owner  
Herring Bay Mercantile  
PO Box 257  
Seldovia, Alaska 99663  
POSITION STATEMENT: Testified in opposition to HB 258.

KAC'E McDOWELL, Executive Director  
Alaska Cabaret, Hotel, Restaurant and Retailers Association  
1111 East 80th Avenue, Suite 3  
Anchorage, Alaska 99518  
POSITION STATEMENT: Testified in opposition to HB 258.

MARTHA J. ROGERS, Owner  
Peters Creek Inn and Catering  
PO Box 671487  
Chugiak, Alaska 99567  
POSITION STATEMENT: Testified in opposition to HB 258.

DIXIE WADDELL, Owner  
Rural Discount Center  
18915 Old Glenn Highway  
Chugiak, Alaska 99567  
POSITION STATEMENT: Testified in opposition to HB 258.

JON NAUMAN, Owner  
Horse Drawn Carriage Company  
PO Box 671316  
Chugiak, Alaska 99567  
POSITION STATEMENT: Testified in opposition to HB 258.

SUSIE GORSKI, Executive Director  
Chugiak-Eagle River Chamber of Commerce  
PO Box 770353  
Eagle River, Alaska 99577  
POSITION STATEMENT: Testified in opposition to HB 258.

BURL A. ROGERS, Owner  
Burl's Aircraft Rebuild  
PO Box 671487  
Chugiak, Alaska 99567  
POSITION STATEMENT: Testified in opposition to HB 258.

DEBORAH LUPER, Director of Business Development  
Eklutna Inc.  
PO Box 771757  
Eagle River, Alaska 99577  
POSITION STATEMENT: Testified in opposition to HB 258.

DEBRA LEWIS, Realtor  
RE/MAX of Eagle River  
PO Box 772582  
Eagle River, Alaska 99577  
POSITION STATEMENT: Testified in opposition to HB 258.

AL ROMASZEWSKI, Realtor  
RE/MAX of Eagle River  
16600 Centerfield Drive  
Eagle River, Alaska 99577  
POSITION STATEMENT: Testified in opposition to HB 258.

**ACTION NARRATIVE**

TAPE 02-18, SIDE A  
Number 001

CHAIR LISA MURKOWSKI called the House Labor and Commerce Standing Committee meeting to order at 3:25 p.m. Representatives Crawford, Halcro, Hayes, Meyer, and Murkowski were present at the call to order. Representatives Rokeberg and Kott arrived as the meeting was in progress.

HB 229-EDUCATION TAX ON EMPLOYMENT

Number 032

CHAIR MURKOWSKI announced that the first order of business would be HOUSE BILL NO. 229, "An Act imposing a tax on employment; and providing for an effective date."

Number 037

REPRESENTATIVE HALCRO moved to bring HB 229 back up for committee discussion. There being no objection, HB 229 was before the committee again.

REPRESENTATIVE HALCRO moved to report HB 229, as amended, out of committee with individual recommendations and the accompanying fiscal notes.

Number 052

REPRESENTATIVE MEYER objected for the purpose of discussion. He asked if Representative Murkowski wished to have a full committee present to vote on moving the bill from committee.

CHAIR MURKOWSKI said that the committee could wait to vote, but she doesn't think that is necessary. She stated that her intent "was to get those elements that might be ... even considered to be part of a fiscal plan and part of a revenue package ... up to House Finance with as much expediency as we could." She said the testimony heard on Monday [2/11/02] was good and relatively extensive. She mentioned that two committee members that are absent were able to give their full input in the discussion on Monday. She said that this being the fact, she isn't too concerned with having the full committee present.

Number 079

REPRESENTATIVE MEYER clarified that this is the \$100 education tax.

CHAIR MURKOWSKI said that is correct.

REPRESENTATIVE MEYER said that he would maintain his opposition. He asked if there were any amendments made at the last hearing in regard to the age.

Number 088

AMY ERICKSON, Staff to Representative Lisa Murkowski, Alaska State Legislature, responded to Representative Meyer's question by stating that the committee changed the payment schedule to quarterly with the Employment Security Contribution (ESC) tax. She mentioned that the committee also "made the effective date with the passage of a personal income tax [January, 1 2003]."

CHAIR MURKOWSKI said, "I stand corrected. ... What we have ... are the amendments that were made by the committee on Monday. So this is a corrected draft." She told Representative Meyer that he was correct.

REPRESENTATIVE MEYER voiced concern over whether the two members who are absent were comfortable with the amendments that were made.

CHAIR MURKOWSKI asked if Representative Meyer maintains his objection.

REPRESENTATIVE MEYER replied in the affirmative.

Number 108

A roll call vote was taken. Representatives Hayes, Halcro, Crawford, and Murkowski voted in favor of moving HB 229, as amended, from committee. Representative Meyer voted against it. Therefore, CSHB 229(L&C) was reported out of the House Labor and Commerce Standing Committee by a vote of 4-1.

HB 258-CHANGE BUSINESS LIC. FEE TO RECEIPTS TAX

Number 125

CHAIR MURKOWSKI announced that the next order of business would be HOUSE BILL NO. 258, "An Act converting the business license fee to a business license tax; adding, as an element of that tax, computation of the tax based on the taxpayer's gross receipts; establishing adjustments to that tax; and transferring administration of the levy to the Department of Revenue; and providing for an effective date."

Number 135

REPRESENTATIVE DREW SCALZI, Alaska State Legislature, sponsor, presented HB 258 to the committee. He reported that the proposed committee substitute (CS) for HB 258 "is closer to what

was originally on the Alaska books ... from 1949 to 1979." He stated, "It was repealed at ... the same time that the income tax was repealed." Those were the two revenue generators that the state had at that time. It was substantially different in that the tax collected at that time was .5 percent up to \$100,000, and then it dropped down to .25 percent over \$100,000. He explained that for the sake of consistency, he'd chosen a 2 percent [gross receipts tax]. He asked if the committee wanted to move to adopt the proposed CS for HB 258 so that he could speak directly to it.

Number 150

REPRESENTATIVE HALCRO moved to adopt the proposed CS for HB 258, version 22-LS0920\L, Kurtz, 2/5/02, as the working document. There being no objection, Version L was before the committee.

Number 159

REPRESENTATIVE SCALZI stated that HB 258 is a little different from "the one you saw briefly last spring." [The gross receipts tax] would have a floor of \$20,000, so there would be no taxes collected on any small businesses that generated less than \$20,000. Businesses that generated between \$20,000 and \$100,000 would be taxed at the rate of 2 percent. Any business generating over \$100,000 would have a collection rate of 1 percent. He stated, "I eliminated the separating out of ticket items over \$2,000. In the original bill last spring ... the big-ticket items over \$2,000 were exempt. That appeared to be also a accounting nightmare. So this would just tax everything."

REPRESENTATIVE SCALZI described that the difference between a gross receipts tax and a regular sales tax is that there are specific exemptions that are allowed in the collection of the tax and "in the spending of an item." In other words, if somebody had a church bookstore, he/she would be exempt from a gross receipts tax. But if a preacher or somebody involved with a church purchased some lumber for the church, it would not be exempt. He explained, "It would not have an exemption card for purchases. They would for sales, but not for purchases." Representative Scalzi said the intent is to give the committee an opportunity to view a tax that could be collected statewide on sales with little "encumbered problems that you have on a sales tax on the register."

REPRESENTATIVE SCALZI explained that in each different borough or city there are problems with different exemptions in each taxing district. Some taxing districts have caps; for example, he thinks that Juneau has a \$2,000 tax cap for items. He addressed the issue of having different sales tax credits for municipalities that already have sales taxes. He said this would eliminate the argument that if a state income tax was added on the register, then those communities that are already collecting it would need to be exempted. He offered that he thinks the fairness issue is valid. He explained:

For instance, if Anchorage were to impose a 2 percent sales tax on them, but yet we eliminated the City of Soldotna because they already have a sales tax, well, that would not be fair. I mean, people in each area would not be paying their fair share to the state.

Number 198

REPRESENTATIVE SCALZI offered that a gross sales receipt tax, where the incorporation of the tax is in the price of the product, would be able to be administered on a statewide level without any problems with exemptions or caps that are inherent in a regular 2 percent sales tax. He said, "I have no penchant for passing any of these tax measures, but being a part of the ... fiscal policy caucus, ... it's difficult to come up with concepts and have the public speak to concepts." He said that because of that problem, there wasn't enough dialogue from the public. He stated:

So this tax bill, as the other one I introduced - I believe it was House Bill 233, which is a regular 2 percent sales tax - are out there as vehicles for the public to make their comment for this committee to consider, and find out if there's anything here that's worth moving forward.

REPRESENTATIVE SCALZI said, "It was intriguing to me because it was on the books before. It's intriguing to me because it takes care of those issues that I've stated." He offered that [HB 258] should be on the table for discussion. He said he has had some input from constituents "that it is a value-added tax essentially." Every facet of sales gets taxed, and it's a multiple tax, not just a retail tax. He said [the legislature has] to be cognizant of that. He stated:

If this committee chose to do that, or make it just retail, or if they chose to make it a ... net receipts tax versus a gross receipt tax, that could be considered. Again, this is just a vehicle and I offer it for consideration.

Number 234

REPRESENTATIVE CRAWFORD voiced that his biggest fear would be the fact that sales could be taxed before there were any profits. He offered that this could drive businesses right out of business.

REPRESENTATIVE SCALZI agreed with Representative Crawford and said, "That's a good argument." The intent is to incorporate the tax into the price of the product. He gave an example of selling a sign for \$2 and said that by putting "the 2 cents on the register, I don't see any difference in knowing what my margin is and incorporating the 2 cents into the price of the product." He offered that the business owner would be responsible for collecting that tax throughout the year for the State of Alaska. He stated, "So, instead of selling this for \$2, and a 2-cent tax at the register, I would sell it for \$2.04, and I would hold that part of my gross receipts ... as a tax that I would owe to the State of Alaska."

REPRESENTATIVE SCALZI stated that he has heard arguments from stores that operate on a very slim margin, and don't have "the room to put that added value in there." Putting a 2 percent sales tax on top of any product is going to end up with the same results. He mentioned that there are two people from the Department of Revenue present to answer questions and to speak to some of the intricacies of the tax and the collection.

Number 263

REPRESENTATIVE HALCRO referred to Representative Scalzi's \$2 sign example, and said the problem with the gross receipts tax is that it "basically puts business at the top of the pyramid." He said, "There's no way you can pass through a gross receipts tax because if you sell this sign for \$2, you pay a 2 percent gross receipts tax on \$2." If a business owner tries to pass that to the customer, and raise the cost of the sign to \$2.04, he/she will pay 2 percent on \$2.04, not on \$2.

REPRESENTATIVE SCALZI replied, "That's correct."

REPRESENTATIVE HALCRO said, "I just wanted to clarify that because ... unlike a sales tax, you cannot pass that through [to] the consumer."

REPRESENTATIVE SCALZI said that is partially correct because a business can pass the 4 cents on to the consumer. He explained:

There's an inherent price that the business is going to pick up, and in this case it would be .04. So in other words, you're paying ... 2 percent on \$2.04, rather than \$2.02. But if you compute that out, it comes out to .04, which would be \$40 on \$100,000 worth of sales. That's what you can't collect. If you do the math, that's what it comes out to. So you're right that there is a percentage, ... and in this particular instance it would be .04, or \$40 on \$100,000 worth of gross, yet the business would have to absorb, but you still have the ability to collect that 2 percent on the gross. What you lose is you lose the compounded part, which is .04.

CHAIR MURKOWSKI stated that she wants to take testimony from the Department of Revenue to learn the mechanics of the tax and how it might be applied.

Number 295

NEIL SLOTNICK, Deputy Commissioner of Revenue, Treasury Division, Department of Revenue, testified before the committee, and noted that Brett Fried has accompanied him to answer questions relating to the economic analysis of HB 258. He explained that the Department of Revenue did not have a copy of the proposed committee substitute when Mr. Fried did his work, but he does have some estimate of what the original bill would have raised, and can explain some of the difficulties of the bill. He stated that a gross receipts tax would not apply, however, to sales in the state made from afar. Mr. Slotnick noted that the tax wouldn't be able to be applied to Internet sales, to catalog sales, or to any sales that didn't originate with the business that did business in Alaska.

MR. SLOTNICK reported that the Department of Revenue has submitted a fiscal note indicating what it thinks the cost of collection would be. There are some features of [HB 258] that are labor-intensive, such as the security provision for nonresident licensees. He explained that the security provisions, in [his] experience with similar provisions for fish

tax, do tend to be quite labor-intensive because there's individual consideration involved as to the amount of real estate that someone may be putting up. He said, "If they can't put up real estate, then we have to tailor specific security to them." There are also collection issues when there is a business failure. Mr. Slotnick noted another concern that the Department of Revenue has is that the businesses will be holding the gross receipts for over a year before the return is due to be filed.

Number 320

BRETT FRIED, Economist III, Tax Division, Department of Revenue, testified before the committee. He referred to the fiscal note and said, "The reason why we didn't put the revenue amounts on the front page is they're very rough estimates." The reason is because there is no data available, for instance, to address something like a cap, so that a business is not paying tax on a single item that's over \$2,000.

MR. FRIED said the Department of Revenue looked at this issue [and devised] three different scenarios. One of the scenarios is that everything essentially is included in the revenue estimate, except for what's specifically excluded in the bill. This 2 percent tax would raise \$380 million. He stated:

Somebody might have heard ... an estimate that we've made that a sales tax at 1 percent with very few exemptions would raise \$100 million. So, why does this raise so much more? ... When we're usually referring to sales tax we're talking about sort of a traditional sales tax that is mostly targeted at retail, and that includes some services. This ... would hit just about every sector in the economy.

Number 344

MR. FRIED gave an example of pyramiding, whereby a fisherman who sold fish to a manufacturer would then pay on his/her gross receipts. Then the manufacturer, when it sold the fish to the wholesaler, would pay on those gross receipts, which would include the tax that the fishermen paid. He said, "It would just go up the chain all the way: wholesaler through to retailer." If services, for instance, were not included in the tax, and transportation refining and wholesale sale of petroleum products were basically excluded because of the cap, then it would be raising around \$176 million.

Number 358

REPRESENTATIVE CRAWFORD asked, if Southeast Alaska was producing 2x4 [lumber], and was competing against 2x4s coming from the Lower 48, "wouldn't that make our products much less competitive?"

MR. FRIED replied that gross receipts taxes would need to be paid, and it would depend on if the competitors were paying [a similar] tax. He stated, "You wouldn't be as competitive as you would be if you didn't have to pay."

MR. SLOTNICK offered that he thinks, in addition, that there is a tax on the business imports. He said the manufacturing plant would have to make certain purchases [in Alaska] in which the 2 percent tax is then passed on. He explained that this economic term is known as the "pyramiding effect," where one is paying on each of the business inputs.

REPRESENTATIVE HALCRO offered that when that happens, in the end the consumer pays far more for the end product because it's been taxed on every level.

MR. FRIED stated, "It would depend on how far up the chain it is." For instance, if that fish was sold directly to the consumer, then it would just be taxed once. But if that fish went through a manufacturing process - it was wholesaled - and then sold to retail, then there would be much more tax associated with that product.

Number 376

REPRESENTATIVE KOTT asked how many other states have a taxing scheme similar to the one being discussed.

MR. FRIED responded that he doesn't know the number of states that have this specific taxing scheme, but he can find that out. He said that in terms of the number of services - if services are included under [HB 258] - the states that tax services as widely are Hawaii and New Mexico. That is essentially a gross receipts tax.

REPRESENTATIVE KOTT voiced that there are very few states that have this kind of a scheme. He said he suspects that if he did the necessary research, he would find out that the general state of [these states'] economies during the last decade probably

didn't show much growth. He said, "If New Mexico is one of those, I know for a fact, having lived there. ... I'm just wondering what the net effect would be on the economy in the state if we implemented this kind of a scheme."

MR. FRIED replied that it is hard to know.

REPRESENTATIVE KOTT asked if the administration is supportive of this [taxing scheme].

Number 393

MR. SLOTNICK offered that the Department of Revenue very much appreciates working with Representative Scalzi, but said, "We're not as fond of the bill. ... We do not support this bill."

REPRESENTATIVE MEYER reiterated what Representative Scalzi had mentioned, which was that [Alaska] used to have a gross receipts tax in place, and he asked why [Alaska] got rid of it, and when.

MR. SLOTNICK stated that he thinks it was repealed in 1978.

REPRESENTATIVE MEYER asked, "Was there justification?"

REPRESENTATIVE SCALZI said, "The issue was that you need ... an income tax to verify the gross receipts in the business." When the income tax was repealed, [the gross receipts tax] was repealed also.

REPRESENTATIVE MEYER asked if the income tax was repealed at that same time [as the gross receipts tax] in 1978.

REPRESENTATIVE SCALZI replied that he believes that is correct.

Number 429

EMMITT TRIMBLE, Kachemak Board of Realtors, Inc., testified via teleconference. He stated that the board of directors [for the Kachemak Board of Realtors] met yesterday and there was unanimous opposition to the proposed committee substitute as drafted. The Board of Directors passed a resolution that will be forwarded in opposition to [HB 258]. He explained:

Some of the concerns are that there's an assumption that you can pass along these costs into your price structure and charge more. And maybe some business can do that; most businesses can't easily do that. If

the state wants the money, and it's going to be really a sales tax, let's call it a sales tax. And that has no effect [on] the impression that the consumer has about the business raising their prices. Obviously, the disadvantages of the pyramiding are there. ...

I see it as being discriminatory against the smaller [business], which receives gross receipts under \$100,000, versus some larger -- for example, a retail store in Homer versus [a big retail] store up in Kenai, Soldotna, or Anchorage. [On the] majority of their sales they would be paying 1 percent. [The] majority of the sales that the small business [makes] is really the backbone of the economy. ...

Speaking to a point that was raised earlier regarding profitability and having a tax based on gross receipts, many businesses, and all of us have probably had to do with starting a business - and sometimes it's three or four years before a business is profitable - and so a 2 percent tax on gross receipts is really devastating to a business that's just starting out.

Number 453

KEN WARDWELL, Independent Licensed Real Estate Broker, testified via teleconference in opposition to HB 258. He stated, "It seems like the multiple taxation of the dollars created by increased value are a product that we're trying to build in the State of Alaska - that it makes us noncompetitive with any products that we would be getting from Outside." It would also seem that there would be a flight to try to buy goods and products from outside of the state on the [Internet]. He offered that this is already happening "in any state," but [Alaska] doesn't need to put itself in an unfavorable competitive position relative to competitors outside of [the state].

Number 467

MIKE LOHMAN, M. Lohman Investments, Inc., testified via teleconference in opposition to HB 258, and noted that he also owns a commercial-building rental business. He stated his opposition to HB 258, or any other form of gross receipts tax against businesses. He noted that he'd spoken with many other business owners who could not believe "that anyone would propose

such a tax." He said, "One to 2 percent doesn't sound like much until you convert it to your net [profit]." He stated that this is an "extremely discriminatory" tax because only business owners pay it, and the lower one's operating margin is, the greater the percentage of tax paid on the net [profit] will be.

MR. LOHMAN reiterated, as someone already had pointed out, that even if one didn't make any money, he/she would essentially still have to pay a tax. He explained:

[Some] business owners work on profit margins of 8 percent before federal taxes. Your tax would cost that owner 24 percent of his net - for businesses up to \$100,000, and 12 percent for those over \$100,000. How would you like your paycheck reduced by 24 percent? This tax is one of the best ways to put Alaska's economy into a tailspin and should be easily recognized by anyone with any business sense. Businesses have no way of taxing increased costs onto the consumer. Many businesses will go out of business.

MR. LOHMAN explained that [Alaskan] businesses have to compete with the Lower 48, for example, Internet and catalog sales. He offered that if prices increase in Alaska, businesses will close, jobs will be lost, and unemployment will increase. He noted that unemployment is funded by those who still work. He stated, "Anyone voting in favor of this bill doesn't care about Alaska or its economy. Maybe you should pass a bill requiring anyone proposing a tax in Alaska [to] complete a course in economics and pass successfully."

Number 490

GARY WEBER, Wasilla Chevron, testified via teleconference and noted that he went into business in 1976 when there was a "gross revenue tax." He stated, "We called it a grossly unfair tax back then." He said that each of the three years that he paid the tax he had to go to the bank and borrow money because it was a new business. He mentioned that of his \$11,000 net profit, he was paying \$5,500 in the state revenue tax, which was 50 percent of his net profit. Now, 22 years later, his gross is \$5,600,000, versus \$2,100,000 in 1979. He mentioned that the gross revenue tax would take 64 percent of his net profit. He stated:

I'm working on a 1.6 [percent] profit margin. And I'm not ready to start paying out 64 percent of my profit, which will keep me from doing any capital improvements. ... It'd just make it impossible to even do any major maintenance in my business. ... It's an unfair tax and I adamantly oppose it.

Number 515

JAMES MORGAN, Sand Lake Automotive, testified via teleconference in opposition to HB 258. He expressed that it is an unfair tax because there is no consideration to the [business owner]. It's definitely a backdoor sales tax. He stated his support for having taxes on sales because "it gets everybody." Businesses not making any profit would still have to pay the tax.

MR. MORGAN said [business owners] may not be able to pass that [tax] on to the consumer because "it's just in competition itself." He explained that a business owner might want to "put that 2 percent on there," but then customers will go to the competitor, and the business ends up "eating that sales tax." He asked, "Are taxes really necessary? We don't know that for sure." He voiced that moving the Capitol would save money for the state.

Number 538

CHAIR MURKOWSKI said she appreciates hearing those ideas on how to deal with the fiscal gap. She noted to those waiting to testify to take this as an opportunity to speak about any form of new revenue that one would find acceptable.

Number 544

FRED ROSENBERG, Vice President, Alaska Restaurant and Beverage Association (ARBA), testified via teleconference in opposition to HB 258. He noted that the tax would result in a severe negative economic impact. A lot of restaurants, particularly the fast-food businesses and some of the larger restaurants, have very tight [profit] margins. It's not unusual for a business to operate between a 3 and 7 percent net profit. If someone were operating on a 5 percent net profit, that would mean 20 percent of the net profit would go to this tax at 1 percent. If a business were operating on a 4 percent net profit, 25 percent of the net profit would be paid to this tax. He stated that this would be "a very inequitable tax and a very inappropriate tax."

MR. ROSENBERG stated that a business's costs associate directly with income. If a business raises its prices, which is difficult to do, the business will pay more in expenses in other areas, such as liability insurance. Mr. Rosenberg explained that since he is in a franchise restaurant business, he pays royalties, advertising, and marketing fees to a franchisor, which are based on the gross revenue. He stated:

So, you can see a lot of business would be taxed in a lot of areas that haven't been considered today, and I'm not sure have been considered at all. I do feel it's an unfair tax. I don't think it's an appropriate way to tax. It's not invisible to the consumer, ... but ultimately this would prove to be very inflationary, and the consumer is the one who's going to suffer the most.

Number 565

JOSEPH HENRI testified via teleconference. He mentioned he was the chair of the municipal league legislative committee in 1970. Every town that was a member of that group, the Alaska Municipal League, was against this [form of] tax. He offered that this tax was opposed back then for the same reasons that have been mentioned in previous testimony today. [A gross receipts tax] leads to a lot of bankruptcy. Mr. Henri said he appreciates Representative Scalzi's effort to try to close the fiscal gap, but "that this is the worst vehicle."

MR. HENRI stated that he believes only two or three states have a gross receipts tax, and Alaska is unique because it does have a permanent fund dividend (PFD). He believes up to 100 percent of the receipts of the PFD should be available to close the fiscal gap. He said while he served on the Board of Regents he "asked everybody" whether they would be willing to have a personal income tax "to help pay for some of these things." He reported, "Everyone said they would." He expressed that when these people were asked if they would be willing to reduce or rescind the dividend, they replied that they would because education is more important than getting free money from the state.

Number 589

MR. HENRI said he hopes [HB 258] doesn't pass, but he does "appreciate [Representative Murkowski's] work and Representative Scalzi's work trying to close the fiscal gap."

TAPE 02-18, SIDE B  
Number 590

ROCKY FLINT, Rocky's Marine, Inc., testified via teleconference. He said most of what he wished to address had been covered already. He offered that although he isn't personally involved in a fishing business, he thinks [the gross receipts tax] would affect the fishing industry dramatically because the industry is vastly different than it was when [the gross receipts] tax was in effect previously. He voiced that he thinks it would be devastating if fish products had "any kind of pyramid tax effect before they get to [a] market." He stated, "I also think this is ... a hidden tax. ... There's no real oversight. ... If you're going to have income tax, well, then, you're going to get people right in the wallet and they're going to know." [Indisc.--testimony cut in and out due to bad phone reception.]

Number 574

NANCY BERG, Viking Travel, Inc., testified via teleconference in opposition to HB 258. She said she agreed with the points already brought up in testimony [in opposition to HB 258]. In [Petersburg], with a fishing industry struggling, there have been small businesses closing every year. She stated that one of the reasons that people live in Petersburg is the quality of life in a small community with lots of services. She said, "I don't want to walk through our town and see a ghost town in the retail business." Ms. Berg offered that it's very difficult for people to compete with the Internet and catalog sales, and the quality of life in Petersburg would really suffer if more businesses were lost.

MS. BERG mentioned she would be more in favor of a state income tax that gave some form of a tax credit to local residents who live and work [in Alaska]. The people who are purchasing products through the Internet or catalog sales would be taxed, whereas now they aren't.

Number 562

BEN PHILLIPS, Tongass Marine, testified via teleconference in opposition to HB 258, and said he is a new business owner in Petersburg and "that kind of scares me." After reviewing the

books for the last ten years of the business that he took over, he found the gross sales were about \$1,000,000. The average profit for the business over the last ten years was \$30,000. He explained that he then figured out "what we pay Uncle Sam." He stated, "I looked at 2 percent of one million dollars, which is \$20,000, and I put those together and my business no longer makes money. So, I think this thing stinks."

Number 551

KATHY HANSEN, representing herself, testified before the committee, and stated that she and her husband own three businesses. Under HB 259, all three of those businesses would close. She explained that she and her husband are commercial fishermen and also do some dock sales, which is very minimal compared to the overall amount of fish that they catch. She offered that most years the dock sales are under \$500. She stated, "I would no longer do dock sales, definitely, under this kind of scenario. You could not afford to pay on all of your other fishing income at the same time."

MS. HANSEN described that her second business is a gear-supply business for commercial fishermen. She informed the committee:

The only reason that that gear supply works is two things: I basically charge the same price as the Seattle gear companies. The two additional costs that they have is the shipping - which they get cheaper because we're able to ... ship a whole bunch at one time, rather than individual items - and sales tax. My profit margin is probably under 5 percent on the majority of that stuff. To pay a gross receipts sales tax on nets that cost a couple thousand dollars, there would be no reason to do it, and it's not a cost that you could pass on to the consumer because they can call up, make the phone call to Seattle, and just have it shipped up to them direct.

MS. HANSEN next addressed some possible alternatives to a gross receipts tax. She said, "I even hate to say it, but it really is coming down to this legislature needs to pass a state income tax." She mentioned that she has been talking to a lot of fishermen who are saying that same thing. She pointed out that one fisherman made the comment that with a state income tax, people are going to be more likely to watch how [the legislature is] spending that money and actually engage more with the

legislature regarding finances. She thought this was a valid point.

Number 525

CHAIR MURKOWSKI said, "I appreciate how uncomfortable you are saying that you would support [a state income tax], and I think most of us around here would definitely concur." She offered that she thinks [the legislature is] recognizing that the reason it's talking about these very difficult subjects is because "the time has come, and many of us feel that the time came a while ago, and we need to move on it."

REPRESENTATIVE MEYER asked Ms. Hansen if she prefers the state income tax to capping the permanent fund dividend (PFD) at a certain level.

MS. HANSEN replied that she hasn't given much thought to the PFD. She explained that she likes the state income tax because there are a lot of business that conduct business in the state of Alaska, for example, commercial fishing, and [then leave the state]. She offered another idea of raising the business license fee to raise a little more revenue, and said that "the \$25 business license is incredibly cheap."

MS. HANSEN commented that she understands how difficult the fiscal situation is to work on, and that it needs to be done in an overall package. She said this makes the process even harder because if [the legislature] "piecemeals ... these little taxes, ... it's really hard for a businessperson to ... get a handle on it." She asked, "How do you put all of the pieces together, and then how does it affect everything? I don't know."

Number 498

THYES SHAUB, Lobbyist for National Federation of Independent Business (NFIB), testified before the committee, noting that she was "the one that send the fax alert out last Thursday." She said she has been lobbying for NFIB for a number of years, and has sent out fax alerts before, but never received a response as she did to [HB 258]. She explained that her phone number was on the "fax alert" and she was able to speak with "all these people, and it actually was very educational for me." She stated she thinks that a lot of people's first reaction to HB 258 is in regard to the 2 percent gross [receipts]. She further explained:

As was mentioned by the Department of Revenue, the pyramiding effect really adds on to your rent. I've heard from property managers who ... have to pay on their ... gross income. The property manager has to pay on his income; he collected it. ... Those are two different businesses. So on that rent alone, then, you have to increase your rents to the business. Small businesses oftentimes don't have in-house bookkeepers. They hire a bookkeeping service, so they're going to pay a little more there. They hire a janitorial service. You start adding ... this little 2 percent more on all those things, and it adds up to a much higher expense, ... and ... it takes off of your profit.

MS. SHAUB said, "Some businesses can't add on the extra, others can." If a business is in a market situation that is so competitive, such as competing against Internet sales, it can't [afford to pass the 2 percent to the consumer]. She noted that she did include [in the members' packets] the NFIB statement of opposition [to HB 258]. She next addressed the NFIB ballot results, which were focused on balancing the budget. She explained that the strongest response was in opposition to a gross receipts tax. Although NFIB members collectively didn't like any of [the options], there wasn't a 50 percent majority that voted in favor of any [one option]. When members called Ms. Shaub this week, she reported that she'd asked them what they thought could be a solution, other than a gross receipts tax. She stated, "I would say about half of them mentioned income tax, and about half of them mentioned earnings of the permanent fund. Sales tax was actually less popular."

MS. SHAUB offered that it's not surprising when people are asked to vote on taxes that they usually vote no, but when asked to help solve a problem, they will offer some examples of what might work.

CHAIR MURKOWSKI asked Ms. Shaub how many survey responses she'd received.

MS. SHAUB explained that NFIB's requirement is 10 percent of the members. She stated, "It goes out to 2,500 members, so probably 250." The responses are received by the NFIB headquarters and the results are then forwarded to Ms. Shaub.

Number 455

PAMELA LaBOLLE, President, Alaska State Chamber of Commerce, testified before the committee in opposition to HB 258. She said [HB 258] puts Alaskan business at a disadvantage. She commented on the slim profit margin that some businesses operate on. She stated, "I know there's a misconception ... in the public that ... [if] a business has a larger percentage of profit that it [will do] better. House Bill 258 puts businesses on the brink of making no money at all." She noted, "Of all the taxes that have been mentioned, this ... one ... isn't the greatest."

Number 434

DONNA ISAAK, Owner, Ike's Fuel, testified before the committee in opposition to HB 258, and explained that she and her husband have been in the heating-oil business in Juneau since 1966, and were affected by the gross receipts tax then. She stated, "We really had to struggle to stay in business. Our predecessor only had about 200 customers, and so our profit margin back then -- our \$400 price of fuel is 18 cents a gallon. Of course, after the fuel crisis in 1973, that really spiked up."

MS. ISAAK referred to a memo that she'd forwarded to the committee members, which indicated that her business was able to support more community activities and nonprofit organizations after the tax was repealed. She explained that she and her husband wanted to put money back into the community, for instance, by supporting many high school activities. As she'd indicated in the memo, her business's support of these activities could end if the gross receipt tax were adopted. [Referring to her business's contribution] she said, "Ours would be somewhere in the neighborhood of \$85,000 to \$100,000 annually. That's a big chunk."

Number 419

MS. ISAAK said, "A lot of that money is going ... back into the community." She suggested the only other alternative would be to raise the price of oil per gallon because she is in the retail business. She explained:

I can tell you right now, I will have had a colder winter this year than we did last. ... Many more of our customers had to resort to using the state energy assistance program. So, that money is coming right back out of the state when we raise our prices. We have seen a big increase, and I think it's primarily,

partly due to the colder winter, but I think that it's just the price of fuel is so high.

Now, ... the market ... goes up and down, and it's on its way back up because the oil technicians have said that they're going to cut production. And the minute they do that, then the big oil companies start up. So, ... [it's] 20 cents a gallon less than last year, but yet still those customers are having to use the state energy assistance program's money.

MS. ISAAK emphasized that she wouldn't want to stop supporting community activities after being in business 36 years. She said she opposes HB 258 because her customers will have to pay more.

MS. ISAAK stated:

My daughter-in-law had just started her own business. She was a travel agent for 11 years for her aunt, and she did just a whopping business from her home. Everybody likes her so much, she did over \$1,500,000 this year, and she's really trying. This is her first, and she said that will do it for her. ... She'll have to go out of business. And so I just think it's going to be irreparable damage to many, many businesses.

Number 396

MS. ISAAK said she was fortunate because she "was so tight with every little penny" after she and her husband bought the business. She explained that they started with \$600 in savings and really struggled. She wanted to make sure that they never would have to borrow any money to pay [a gross receipts] tax. She offered that she probably wouldn't have to borrow now, but the consumer is going to pay.

Number 383

RICK WITHROW, Alsek Freight, testified in opposition to HB 258. He offered that a lot of people are overlooking the permanent fund, and there is a lot of talk about an income tax. He said, "I could easily see the permanent fund being what your income tax is." He offered that it is ridiculous to have an income tax and then [receive] a permanent fund that's exactly the same amount or less. He said he would rather forfeit his permanent fund than pay any tax. He stated:

This is probably the richest state in the Union: \$30 billion in the bank, or more. And people want to pay ... [an] income tax, or any tax? That's ridiculous. I don't believe in handing the permanent fund over to this state because I know how quickly it could be spent. ... I could see it being used to pay for times like this. That's what it was set up for, was for times like this. The only people that are going to be hurt by using the permanent fund are people who don't work, or people who rely on that check all by itself. I'll work. I don't need the check, and I don't need the tax.

Number 365

REPRESENTATIVE KOTT asked Mr. Withrow about his occupation.

MR. WITHROW replied that he is a professional mariner and a general laborer.

UNIDENTIFIED SPEAKER asked, "Can I just add one thing to mine too? ... We would much prefer you taking our permanent fund rather than a tax. ... That's just much more paperwork."

Number 359

BERNIE SMITH, Chugiak-Eagle River Chamber of Commerce, testified before the committee in opposition to HB 258. He said that Eagle River and Chugiak basically just have small businesses. He offered that it isn't a large community, even though it is a part of the municipality. He has been told by some businesses that they will go out of business if HB 258 goes into effect. This is not a good bill for taxes. He said that since he doesn't have the ability, through the chamber, to comment on other taxes, he will not comment on that issue. He said, "Personally, I like a lot of other different ones that we have here." He said HB 258 would harm the key development of [Alaska's] society, which is small businesses.

Number 342

REPRESENTATIVE HAYES asked Mr. Smith if he had any personal ideas that [the legislature could use to address the fiscal gap].

MR. SMITH responded, "I work for the state. I hadn't been in the private industry all my life, except for the last two years." He said that as an individual he thinks that the permanent fund is a opportunity to be used, because that's what it was meant to be when it was set up. The only problem with the permanent fund is that it hurts the people who depend on it and have no other income. He offered that it also doesn't capture [money from] the "people that come [to Alaska], that use our facilities, use our services, and leave without paying."

Number 323

SUSAN W. SPRINGER, Owner, Herring Bay Mercantile, testified via teleconference in opposition to HB 258. She said, "In this time of a softer national economy, and reluctance of people to travel to Alaska, the last thing ... small rural businesses need is another increase in the cost of doing business." She offered that this will make those rural businesses less competitive, and there will be "enough challenges in the next few years just to keep our noses above the waterline." She stated that she supports the efforts of the fiscal policy caucus in trying to craft a long-range fiscal plan for Alaska, but doesn't support HB 258. She asked [the legislature] to instead draft "a well thought out and comprehensive plan that includes budget cuts, as well as taxes."

MS. SPRINGER offered:

I am only one voice, but I can speak in support of Representative Moses' and Mulder's bill to cap permanent fund dividends in order to create a new and alternate source of funding [for] community services. I supported Governor Hickel's community permanent fund concept when I first heard about it at an AML [Alaska Municipal League] convention a few years ago. Representative Moses and Mulder's plan strikes me as being in keeping with that concept. Please give it your consideration when it comes before you and make it, and not bills like this, be [a] centerpiece of your long-range fiscal plan.

Number 289

CHAIR MURKOWSKI offered that if HB 258 was passed to the next committee of referral, it would be considered as part of "a bigger plan."

Number 281

KAC'E McDOWELL, Executive Director, Alaska Cabaret, Hotel, Restaurant and Retailers Association, testified via teleconference in opposition to HB 258. She said, "I think all has been said, and I have nothing much more to add to it."

Number 272

MARTHA J. ROGERS, Owner, Peters Creek Inn and Catering, testified via teleconference in opposition to HB 258. She said HB 258 would put her bed and breakfast out of business, which she has operated for six years. She offered that it has been difficult enough competing with the new hotel chains that are coming into the city. She explained that all of the profits, which right now are very small, are going back into making the business a better place for people to stay.

Number 255

DIXIE WADDELL, Owner, Rural Discount Center, testified via teleconference in opposition to HB 258. She explained that although she [employs] just a few people, she still feels "like we're important to the community, and I think that this is something that would be disastrous to us." She addressed the impact that the pyramiding effect would have on small businesses.

Number 231

JON NAUMAN, Owner, Horse Drawn Carriage Company, testified via teleconference in opposition to HB 258. He offered that from an operational viewpoint it would be a nightmare to try to collect additional fees to cover the additional taxes. He said his costs have been going up regularly, and he has been in operation for about 20 years. A couple of times he raised his rates and found it is better to keep the rates down to cater to a larger population. He argued that a personal income tax is probably the way to go, but he doesn't like that option either.

REPRESENTATIVE KOTT asked Mr. Nauman what he thought about the utilization of the PFD versus an income tax.

MR. NAUMAN replied that he is "torn" on that issue because Alaskans are very fortunate to have the PFD. He explained that he would like to see "some percentage of that be ... taken out for the state and the rest comes ... to the people who are

getting the check." He emphasized that the PFD is "a real boost" for the entire state.

Number 196

SUSIE GORSKI, Executive Director, Chugiak-Eagle River Chamber of Commerce, testified via teleconference. She informed the committee, "Our phones have been ringing off the hook for about the last three days, and I promise you, there was not one call in the affirmative for this particular piece of legislation." She mentioned that [the Chugiak-Eagle River Chamber of Commerce] empathizes with the efforts of the legislature in trying to solve the fiscal problem. She stated, "We believe first and foremost that the economic viability of the private sector has [to come first]."

MS. GORSKI argued that the most important point [of this issue] is that industry and commerce provide the backbone upon which all government funding runs. Businesses will be facing additional taxes that could easily cost jobs and affect their stability. She said, "I find this [particularly] egregious in tough times when expenses exceed revenue." She urged the committee to look for other alternatives, which might be a combination of "some of the other types of revenue alternatives that have been presented [today in testimony]."

Number 164

BURL A. ROGERS, Owner, Burl's Aircraft Rebuild, testified via teleconference in opposition to HB 258. He explained that he was affected by the old gross receipts tax; one "unfortunate year," things didn't go quite right and his business suffered a \$7,000 to \$8,000 loss. He said, "I still got to pony up about \$500 - \$600, which I really didn't have."

MR. ROGERS stated that he currently is engaged in a aircraft manufacturing facility. He emphasized that the costs associated with aircraft are "absolutely horrendous." He has been in business for 21 months, and any profits he has made have been reinvested in the business to buy more materials, more engineering, and more production equipment. He stated, "[House Bill 258] would be the straw to break the camel's back." He voiced:

There is no way that I would even consider taking what I have invested so far and pushing it to the point where I'd just be working for the state to give them a

tax. ... If you think 2 percent isn't very much, we could drop the legislators' per diem by 2 percent and then start dropping all the state employees' pay by 2 percent, starting with the executive branch, and then maybe cap the dividend.

Number 131

DEBORAH LUPER, Director of Business Development, Eklutna Inc., testified via teleconference. She said, "I believe that [HB 258] would put such a damper on Alaska business that it could very well impede future economic growth." She mentioned that while it is wise to bring up a discussion on this topic, it scares her that [HB 258] was introduced and could conceivably gain a life of its own and pass the legislature, even if the sponsor really has no intent of that happening.

MS. LUPER offered that she is fairly familiar with the challenges that are put before the homebuilders. The homebuilders would also pay a great deal of tax because most homebuilders use a large number of subcontractors. That 2 percent tax would be added on to a house many times. She referred to a statistic that showed approximately 60 percent of those who live in Anchorage cannot afford to buy a home. She informed the committee that this figure was taken when home prices were significantly less than they are now. She emphasized that [a gross receipts tax] would "shut more people into the rent world."

MS. LUPER offered that [HB 258] would require onerous record keeping on the part of the business. Not only would it require extra bookkeeping, but also a business would most likely have to purchase software specifically catering to this sort of tax in order to calculate [the tax] on every transaction. Not only are [businesses] going to see a decrease in the bottom line, but expenses will increase as well. She offered that it is a "wise move" to require the department to prioritize its spending.

Number 078

DEBRA LEWIS, Realtor, RE/MAX of Eagle River, testified via teleconference in opposition to HB 258. She offered that she is in agreement with pretty much all the previous testimony. She argued that with the current state of the economy across the nation, the [Alaska State] Legislature would be putting [Alaska's] economy in a situation in which it "could spiral down." Referring to alternative sources of revenue, she offered

that the permanent fund should be looked at, and also budget cuts.

Number 064

AL ROMASZEWSKI, Realtor, RE/MAX of Eagle River, testified via teleconference in opposition to HB 258. He stated his concern that HB 258 is really regressive. Not only does it devastate startup businesses, but all businesses. He offered that in Alaska most, if not all, businesses are "small mom and pops" that operate "just by the ... the skin of their teeth." He argued that these business owners are operating their respective businesses because "they're proud of their business, they're supporting themselves, and they're not on a public dole." If HB 258 is allowed to pass, he said that "will drive the nail into the coffin." The results of HB 258 passing could be that businesses will go under and more people will be on the public dole, which doesn't help the state economy.

MR. ROMASZEWSKI suggested as an idea to "maybe not [utilize] one thing or two things, but a variety of items." He offered that budget cuts, reduction in government, and a form of an income tax and sales tax to capture some of the money that's leaving Alaska and going to the Lower 48 might be good options. He offered that there might be a need to adjust the permanent fund [dividend] also. He reemphasized that the legislature needs to look at a combination of options. He stated:

Somebody mentioned that they would hope that this bill is left to die. I don't think we can afford to leave it to die. I think we need to sink it before it sinks our economy.

Number 006

CHAIR MURKOWSKI asked if there were any additional people waiting to testify. She then closed public testimony on HB 258.

TAPE 02-19, SIDE A

Number 001

CHAIR MURKOWSKI stated that this is the first bill hearing she has participated in where there was absolutely no public support, either in verbal testimony or in "the volumes of written correspondence that [the committee] received."

Number 021

REPRESENTATIVE KOTT agreed with Representative Murkowski and said, "I can say that in ten years of being down here I've never, never had that many people testify on an issue." Testimony was heard from around the state from a large number of constituents, and not one person testified in support of [HB 258]. He stated that if HB 258 were to become part of a bigger package, he couldn't support it. He stated that he thinks HB 258 would create less prosperity, would create a taxing system that would stifle entrepreneurship, and would hinder productive behavior. He argued that Alaska is trying to grow its economy, and the testimony has been that HB 258 will have a negative impact on the economy, with people going out of business and perhaps businesses moving to another state.

Number 048

REPRESENTATIVE KOTT argued that it isn't necessary for the House Finance Committee to have to hear the same testimony because "they'll probably end up at the same verdict." He stated his opposition to moving HB 258 from committee.

Number 053

REPRESENTATIVE ROKEBERG said that as a small business owner his thoughts were directly expressed by all the witnesses and he agrees with Representative Kott. He stated, "This would be a ... retrograde disincentive to our business community throughout the state." He voiced that the House Labor and Commerce Standing Committee should not move HB 258 from committee, and that there should be a vote.

Number 077

REPRESENTATIVE HALCRO said that of all of the tools being discussed to try to fix the fiscal problem, none of which are pleasant, [a gross receipts tax] "is probably the worst of the bunch." He explained:

This is the problem with the gross receipts tax: If I make a hammer for \$13, and sell it Norm's Hardware Store for \$20, my ... profit is \$7. But I don't pay the 2 percent on the \$7, I pay the 2 percent on the \$20 that ... Norm's Hardware Store has paid me. So I'm paying 40 cents of tax on a \$7 profit, and then if Norm's Hardware Store turns around and sells it to the public for \$25, he's got to pay 50 cents. So you

basically paid 90 cents on a \$12 profit margin, which is not 2 percent, it's 7.5 percent. And ... that's without ... attempting in any way to pass the cost to the consumer. And ... even if you took that \$20 hammer and made it \$20.40, and the \$25 hammer and made it \$25.50, you still end up coming up with a 92-cent tax burden on a \$12.50 profit margin, which is still 7.5 percent, not 2 percent. ... It's just a killer for any kind of economy, whether we're enjoying a prosperous economy or we're trying to solve a billion dollar budget deficit.

Number 108

REPRESENTATIVE CRAWFORD said, "I feel that I can speak for the Democratic side of the aisle that there's no support on this side for this gross receipts tax."

Number 115

REPRESENTATIVE HAYES applauded Representative Scalzi for bringing HB 258 before the committee because the discussion was needed. He stated that he thinks it was one of the best discussions that the committee has had from folks all across the state actually addressing the fact that there really is a problem. He stated, "To hear folks say that they think that we need a combination, it was like sitting in a caucus almost, because ultimately it's going to take a combination of things to actually get us out of this situation."

Number 131

REPRESENTATIVE MEYER agreed with Representative Hayes and said, "I think it's an extremely bad bill." There is a negative effect on business, which will have a negative effect on the economy, which will have a negative effect on employment. He said there were some good ideas and suggestions brought forward today on how to approach filling the fiscal gap.

Number 141

CHAIR MURKOWSKI agreed that it was a good and healthy discussion. Although people don't like taxes any more, it may have to be one of the options [to close the fiscal gap]. She mentioned that she has "great empathy" for those people who are in the business world making a living in a small operation and

who may be very concerned that [HB 258] might move from committee. She stated:

To those people, I think we as a committee can make a statement that you can sleep better tonight, that [HB 258] is not going to be part of a package, that [HB 258] is, for all intents and purposes, something that has been taken off the table.

CHAIR MURKOWSKI stated that she has been very consistent in her correspondences in saying that "everything is on the table." She offered that she doesn't think the members of the House Finance Committee are going to come to a different conclusion than the House Labor and Commerce Standing Committee. She invited Representative Scalzi to make a statement if he would like to.

Number 171

REPRESENTATIVE SCALZI agreed with everything that the committee members had mentioned and stated, "I would obviously concur and would vote it down." He said he appreciated the House Labor and Commerce Standing Committee's hearing HB 258, and this was one way to get the people involved throughout the state. There were good suggestions made, and he felt that was positive. He stated that he has sat in "so many caucuses with our fiscal policy group where we go round and round too much, and ... haven't come to a focal point of what a good package is."

Number 186

REPRESENTATIVE KOTT offered that it is important as [Alaska] faces the fiscal situation to look "at all the tools in the tool bag." He stated:

I think we can take one of those tools and drop it out of the bag now. ... That's the importance of working these issues through the process. We can take them off the table.

Number 200

REPRESENTATIVE SCALZI informed the committee that he'd never done any lobbying in favor of [HB 258]. He said he'd thought that the House Labor and Commerce Standing Committee and the Alaska State Legislature should hear the dialog and make the decision. He thanked the committee for hearing the testimony.

Number 208

REPRESENTATIVE HALCRO said he appreciated Representative Scalzi's elevating the discussion. He then addressed those folks who are listening on teleconference, and said that he hopes that the "demise of ... House Bill 258 won't be kind of the last stop for you folks out there." He urged those people to stay involved and realize that "if it's not a gross receipts tax, there's going to be something coming down the road."

Number 213

REPRESENTATIVE ROKEBERG said, "We shouldn't kill the messenger." He offered that Representative Scalzi should be congratulated for the courage to bring [HB 258] forward for discussion. He emphasized that through his own discussions with Representative Scalzi "he's not ... a proponent of this type of a taxing method." He encouraged people to forward any unique and different types of proposals [to the legislature], for example, indexing any kind of taxes to the price of natural resources in Alaska.

Number 236

REPRESENTATIVE SCALZI said he appreciated what Representative Rokeberg mentioned about his not being a proponent of this type of taxing method, but rather "a proponent of dialog." He offered that he doesn't know whether it would be easier for the committee to vote HB 258 down, or if he should withdraw it.

REPRESENTATIVE ROKEBERG said he would prefer to have a vote on [HB 258] on the record.

CHAIR MURKOWSKI said, "Well, we can certainly just vote it down."

REPRESENTATIVE ROKEBERG suggested [to Representative Scalzi] that he can also stand up on the floor and ask that [HB 258] be withdrawn.

REPRESENTATIVE SCALZI replied, "Okay."

Number 248

REPRESENTATIVE KOTT declared that he has a conflict of interest and asked to be excused from voting. [There was objection.]

REPRESENTATIVE ROKEBERG stated that he also has a conflict of interest. [There was objection.]

Number 258

REPRESENTATIVE KOTT moved to report CSHB 258, version 22-LS0920\L, Kurtz, 2/5/02, out of committee with individual recommendations and the accompanying fiscal notes. [There was objection by numerous members.]

A roll call vote was taken. Representatives Halcro, Meyer, Kott, Rokeberg, Crawford, Hayes, and Murkowski voted against moving CSHB 258. Therefore, CSHB 258(L&C) failed to move out of the House Labor and Commerce Standing Committee by a vote of 0-7.

#### **ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 5:15 p.m.