

ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE

February 12, 2002

8:05 a.m.

MEMBERS PRESENT

Representative John Coghill, Chair
Representative Jeannette James
Representative Hugh Fate
Representative Gary Stevens
Representative Peggy Wilson
Representative Harry Crawford
Representative Joe Hayes

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 303

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

- HEARD AND HELD

HOUSE BILL NO. 331

"An Act relating to appointment of persons to positions that require confirmation by the legislature; and providing for an effective date."

- BILL HEARING POSTPONED TO 2/19/02

HOUSE BILL NO. 248

"An Act relating to retirement contributions and benefits under the public employees' retirement system of certain juvenile detention employees and juvenile correctional institution employees."

- BILL HEARING POSTPONED TO 2/19/02

HOUSE JOINT RESOLUTION NO. 31

Relating to requesting the United States Congress to propose an amendment to the Constitution of the United States that would

address emergency appointments to and powers of the United States Senate.

- BILL HEARING POSTPONED TO 2/19/02

PREVIOUS ACTION

BILL: HB 303

SHORT TITLE: STATEWIDE SALES TAX

SPONSOR(S): REPRESENTATIVE(S) WHITAKER

Jrn-Date	Jrn-Page		Action
01/14/02	1954	(H)	PREFILE RELEASED 1/4/02
01/14/02	1954	(H)	READ THE FIRST TIME - REFERRALS
01/14/02	1954	(H)	STA, FIN
01/16/02	1992	(H)	COSPONSOR(S): FATE
02/04/02	2152	(H)	COSPONSOR(S): LANCASTER
02/12/02		(H)	STA AT 8:00 AM BUTROVICH 205

WITNESS REGISTER

REPRESENTATIVE JIM WHITAKER
Alaska State Legislature
Capitol Building, Room 411
Juneau, Alaska 99801
POSITION STATEMENT: Sponsor of HB 303.

LARRY PERSILY, Deputy Commissioner
Office of the Commissioner
Department of Revenue
P.O. Box 110400
Juneau, Alaska 99811-0400
POSITION STATEMENT: Answered questions relating to HB 303.

ACTION NARRATIVE

TAPE 02-8, SIDE A
Number 0022

CHAIR JOHN COGHILL called the House State Affairs Standing Committee meeting to order at 8:05 a.m. Representatives Coghill, James, Fate, Stevens, Wilson, Crawford, and Hayes were present at the call to order.

HB 303-STATEWIDE SALES TAX

CHAIR COGHILL announced that the committee would hear HOUSE BILL NO. 303, "An Act relating to the levy and collection of a sales tax; and providing for an effective date."

Number 0167

REPRESENTATIVE JIM WHITAKER, Alaska State Legislature, sponsor of HB 303, offered a PowerPoint presentation in order to provide a context for the bill. He referred to the concept of mixing two unmixable substances, in this case, economics and politics. He said although there are inherent challenges, knowledge available to legislators allows them to look into the future somewhat. This "crystal ball" reveals that there is a \$2.3 billion budget deficit over the next two fiscal years; that the Constitutional Budget Reserve (CBR) no longer can sufficiently deal with budget deficits of this magnitude; and that cutting the full amount isn't realistic.

REPRESENTATIVE WHITAKER remarked that several years of cutting have shown how tough it is. Every dollar cut has a life attached to it, he said, if not in a life-threatening respect, then with regard to lifestyle. He reminded members that the legislature has the responsibility of balancing the budget.

Number 0315

REPRESENTATIVE WHITAKER addressed two options: do nothing or take a "planned approach." Both have economic and political consequences, he said, but a planned approach is "amazingly straightforward and somewhat commonsensical." He highlighted four components: cost control, a broad-based tax, some usage of the earnings of the permanent fund, and economic growth. Regarding the first, he said it is imperative that the legislature, in striving for a long-term budget plan, provide for a cost-control function. Second, he indicated a broad-based tax is specifically what HB 303 addresses, but he stressed the need to understand how it fits into a long-term plan.

REPRESENTATIVE WHITAKER discussed the third component, the need to use the earnings of the permanent fund in some regard; he said the legislative record leaves no room for doubt that "the intent of the permanent fund was to deal with the situation that we have today." As for the fourth component, he emphasized that the basis for any long-term plan is economic growth. "It doesn't matter how much we tax," he explained. "If our economy cannot withstand the impact of tax, we've done ourselves and the people we serve no favors."

Number 0433

REPRESENTATIVE WHITAKER addressed the "do nothing" approach, including the economics and politics surrounding it. This approach, in effect, uses the state's savings accounts: the CBR, the Earnings Reserve Account (ERA), and the permanent fund. He emphasized his belief that in the public mind, there is no differentiation between the ERA and the permanent fund itself, and that using the first appears, to the public, to be using the second as well [because it affects the size of the permanent fund dividend (PFD)].

REPRESENTATIVE WHITAKER brought attention to the CBR and pointed out that in FY 03 [fiscal year 2003], which is this year's budget cycle, there is a budget deficit of \$1.2 billion; it is projected that next year, at a minimum, the budget deficit will be \$1.1 billion. He noted that at the end of FY 04, going into FY 05, there will be approximately \$280 million available through the CBR - not enough to balance the budget, particularly given a billion-dollar deficit.

REPRESENTATIVE WHITAKER explained that at that point, the ERA [would be targeted] next. He emphasized that if the plan is to do nothing this legislative session, a significant portion of the funds in the ERA will be utilized in FY 05. He said, "The perception is unavoidable. At that point, we are spending the permanent fund."

Number 0585

REPRESENTATIVE WHITAKER returned to the subject of mixing politics and economics, saying there is a choice: face reality now, with some political and economic discomfort, or later, with significant political and economic discomfort. "And so we move," he told members.

REPRESENTATIVE WHITAKER referred to the "economic reality of FY 03," the current budget cycle, and stressed its effect on election year 2004. He drew attention to the coming elections in 2002 and told listeners:

If we do nothing, we can say to the public, "We've given you no taxes. We did not touch the permanent fund. We spent \$1.2 [billion] from the CBR, which it was designed to be utilized as. We held government

spending in check. The result is that we've essentially maintained the status quo." ...

However, that political discussion will carry over into the economic reality of the First Session of the Twenty-Third [Alaska State] Legislature. And that economic reality is this: a budget deficit of \$1.1 billion will still be there. The CBR balance will have been reduced to \$1.2 billion. And so, on the table, of course, will be taxes and the permanent fund earnings.

And that legislative session will have a choice: they can deal with it then or they can put it off to the next year. If they so choose, the Second Session of the Twenty-Third [Alaska State] Legislature will have to deal with this economic reality: a budget deficit in excess of a billion dollars, a CBR balance now at \$280 million, and still on the table, taxes and the permanent fund earnings.

It's important to note: it's too late, because the action or inaction that we take this legislative session will have determined whether or not the earnings reserve is utilized.

Number 0723

REPRESENTATIVE WHITAKER turned attention to election year 2004. If nothing has been done, he said, there will be a billion-dollar deficit, no CBR, and the permanent fund will be "degrading at a relatively accelerated rate." The question will be asked, "Where does the money come from?" He remarked:

Political reality and economic reality become manifest in the election of 2004. "John Incumbent" can tell the voters, "I spent the CBR; I raided the permanent fund; I did not develop a plan when I had the opportunity." And Jane Candidate can say, "I told you so." And the voters should say, "Throw the rascals out."

Number 0799

REPRESENTATIVE WHITAKER concluded by saying the knowledge that the "crystal ball" has provided is that politics and economics don't mix. Therefore, the choice legislators face now is to do

the right thing or to do nothing - which is tantamount to the wrong thing. He stated:

Our choice is to implement a fiscal policy as part of a comprehensive plan to balance the budget, while minimizing the negative impact on the state's savings accounts, or to not deal with the problem and accept the consequences of breaking the public trust, having not fulfilled our responsibilities.

Number 0825

REPRESENTATIVE WHITAKER informed members that in the foregoing context, HB 303 represents a statewide sales tax for consideration, as a part of a long-term, sustainable budget plan. He asked that the committee begin the discussion and "honestly and publicly deal with ... this looming problem now."

Number 0867

REPRESENTATIVE WHITAKER advised the committee that he'd originally proposed a 6 percent seasonal tax for five months a year. As models were refined and more information was obtained, however, it became clear that it may neither do what was intended nor be "politically palatable."

REPRESENTATIVE WHITAKER announced that he wouldn't oppose a 2 percent year-round tax, with a 4 percent seasonal tax, which would give an effective return equal to a 3 percent year-round tax. Assuming a \$10 billion base, which he said is a very conservative assumption, it will generate between \$250 million and \$350 million a year. The cost to do that, as shown in the fiscal note, is approximately \$4 million.

Number 0946

REPRESENTATIVE WHITAKER said the intention behind a sales tax is to provide a tax that everybody pays. If somebody pays, he said, everybody pays. Acknowledging that some call it regressive [when people with lower incomes pay more tax in proportion to their incomes], he said, "I suppose any tax is regressive, and as we search for the perfect tax, it's probably the one we have right now - that's the one we don't pay."

Number 0974

REPRESENTATIVE STEVENS sought clarification about how this would work and how it would be collected. He expressed concern about communities that already have a sales tax.

REPRESENTATIVE WHITAKER answered:

My thoughts are somewhat limited on that subject. I think that it's fair to say that that is a challenge that's inherent to a sales tax, and I'm confident that if we work our way through the committee process, we'll find a solution that is amicable. I do not have one.

Again, to those who have a concern with this particular type of tax, if it's not the perfect tax - which we know it's not, that being the tax that none of us pay - then we can make it better, and the administration associated with it can be made better.

And so I'm looking for ideas. Rather than ... me attempt to impose a solution on ... something that I know is a challenge and a problem, I think it's more appropriate that those who would have to deal with it would come back to us and suggest manners in which we do deal with it.

CHAIR COGHILL suggested the House State Affairs Standing Committee is a good place to have that discussion.

Number 1046

REPRESENTATIVE WILSON agreed that some areas of the state would be in big trouble because of local sales tax. For example, in her community [Wrangell] the sales tax is 7 percent and property taxes are high. She strongly suggested, therefore, that legislators realize how devastating this [state sales tax] would be to areas that already are in trouble or where taxes have been instituted already in order to provide services. She cautioned members to ensure there are some exemptions for such areas.

REPRESENTATIVE WHITAKER responded:

In search of that very difficult goal, the perfect tax, there isn't one. And I recognize the challenges that communities who have existing property taxes will face. The sidebar that I give to that concern is this: communities that currently have a property tax

will pay relatively to the rest of the state no more than they currently do.

By way of example, your community, at 7 percent, obviously pays 7 percent more for goods that are applicable to the ... sales tax than do other areas. Given the imposition of a statewide sales tax, that relative number would not change. They would still pay 7 percent more than other areas. And while I understand that that is not the perfect answer, we won't find the perfect answer, because there is no perfect tax.

Number 1150

REPRESENTATIVE JAMES commended Representative Whitaker for the excellent PowerPoint presentation. She then noted that for the past ten years, she has been telling people that there will have to be a broad-based tax, that some of the earnings of the [permanent] fund will have to be used, and that "we will also have to continue to find efficiencies in government." She added, "Those sound good when you put them out there, but defining them, it's difficult."

REPRESENTATIVE JAMES offered that personally, she is totally opposed to a sales tax, for lots of reasons. She said her background with accounting and preparing taxes has given her a perspective different from that of other people. She added, however, "I will admit that when you ask the people in the state what we should do, they all prefer a sales tax." She offered her belief that there is a perception with a sales tax that "the other guy pays." Furthermore, it is paid only a few cents at a time, is easy to pay, and doesn't require filing a return. On the other hand, [a sales tax] is more difficult for a businessperson.

REPRESENTATIVE JAMES said her first concern is that a person paying a tax should be responsible for paying it, rather than having someone else collect it. She clarified that she doesn't disagree, however, with withholding tax for income tax purposes, because it is an expedient way for people to pay before the amount becomes too large.

REPRESENTATIVE JAMES said if she were to support a sales tax at all, there must be no exemptions; she believes exemptions would jeopardize businesspeople in an audit situation, for example, because of the need to maintain records properly and provide

documentation regarding sales that weren't subject to tax. When there was a sales tax in Fairbanks, she recalled, "lots of people paid lots of money for penalties and interest because of making errors - not intentionally, but accidentally - because of the things that were exempt."

REPRESENTATIVE JAMES also conveyed her preference, if there is a [sales] tax, of having it be the same all year, rather than being seasonal. The latter appears to be a direct attempt to collect sales tax from visitors to the state, she explained. She suggested visitors would be willing to pay what residents pay, but wouldn't want it raised while they are visiting. Furthermore, [a seasonal sales tax] might forestall sales of larger items during that time period, creating an imbalance during the year for businesspeople because suddenly, when the tax is lowered or eliminated, "everybody comes in to buy." She expressed concern about [problems with] management of inventory and accounting functions, which she suggested would be detrimental to the state.

Number 1325

REPRESENTATIVE JAMES, noting that people in some communities already pay a heavy percentage of tax, stated, "There's no way that I believe we could fairly give them an exemption of any kind for the tax they collect. And so that makes it pretty heavy for them."

REPRESENTATIVE JAMES said she is always open to discussion, however, regarding trying to make it work in order to avoid these kinds of consequences. She then suggested that a small percentage of sales tax all year long, with no exemptions, would be easy to manage. She expressed concern about the difficulty of forcing communities to change their laws so exemptions would be the same statewide.

REPRESENTATIVE JAMES indicated she agreed with Representative Whitaker's PowerPoint presentation. She cautioned about the need to have "backbone" regarding this issue, and to address the right course for Alaska, rather than worrying about the next election. She expressed appreciation that Representative Whitaker had come forward with this issue and emphasized the need to discuss various options, regardless of whether they are included in the final action taken by the legislature.

REPRESENTATIVE JAMES concluded by saying that when a sales tax is added to the cost of things people buy, it immediately adds

to the cost of living in the state. If one were added now, it certainly would be included in the Consumer Price Index (CPI), which is [used as a basis] for wages and benefits; she offered her belief that it would be a "huge rise in the cost ... of doing business in the state." She added, "Even though we supposedly get the money to cover that cost, we're not covering the hole that we're currently in, I don't believe."

Number 1469

CHAIR COGHILL indicated it wasn't his intention to move the bill from committee that day, but if there were suggested amendments, there could be a proposed committee substitute (CS).

Number 1513

REPRESENTATIVE CRAWFORD told Representative Whitaker he applauded his courage for bringing the bill forward. He referred to mention of "nonstore retailers" and said electronic-shopping and mail-order businesses, to his understanding, would be exempt under HB 303. He suggested it would tend to change markets. For example, someone may not tend to buy a motorcycle or snow machine from an Alaskan dealer, but may buy it over the Internet. He asked Representative Whitaker what might be done to ameliorate that.

CHAIR COGHILL requested that Representative Whitaker explain some of the conclusions he'd drawn in formulating the list of exceptions.

Number 1560

REPRESENTATIVE WHITAKER first responded to Representative Crawford's concern, offering his understanding that because it involves interstate commerce, taxing Internet commerce is beyond the [state legislature's] purview; it is a subject for Congress and is being discussed currently.

REPRESENTATIVE WHITAKER noted that he'd had many discussions with Representative James on this issue; he said he agrees with much of what she has said. He stated that if there is a better solution than he has presented, he would be an avid supporter of it. He remarked that no legislator would take pride in sponsoring a tax bill.

Number 1605

REPRESENTATIVE WHITAKER turned attention to exemptions in HB 303. Regarding accommodations and food services, he said almost every Alaskan community has a so-called bed tax; he believes it is difficult to put a tax on something that already has been taxed. Regarding utilities, he explained, the concern is that utilities are a component of the basic cost of living; taxing them, as Representative James had mentioned, would increase the basic cost of living. Regarding funeral and crematory services, he simply said he didn't want a tax on those.

REPRESENTATIVE WHITAKER continued explaining exemptions. Regarding the retail trade, he said only beer, wine, and liquor sales are exempt; noting that there was a liquor tax [bill] before the House, he said he didn't believe it was appropriate, while that was under discussion, to deal with it again here. Regarding electronic shopping, highlighted by Representative Crawford, he said, "There's a problem with it, but it's beyond our ability to deal with." Regarding vending-machine operators, he expressed concern that every vending machine in the state would have to be retooled or replaced in order to get a sales tax on a 75-cent sale; the utility of doing that, as opposed to the revenue from it, is probably out of balance, he suggested.

Number 1745

REPRESENTATIVE WHITAKER continued with exemptions, turning attention to health care and social services. He said, "Look, we're all human. And as humans, it's pretty tough to tell someone, 'You're sick, and we're going to tax you for that.'" Regarding education, he pointed out the difficulty of telling people who struggle to educate themselves or their children, "Well, that's wonderful, and we encourage you to do that by taxing you on it." He added, "Can't do it."

REPRESENTATIVE WHITAKER noted that the only exemption regarding arts and entertainment is for museums, historical sites, and similar institutions. Art galleries aren't included, he pointed out; as a retailer, he himself wouldn't be exempt. He emphasized the importance of maintaining some cultural amenities that aren't taxed. "Again, that old rascalion, humanity, gets in the way of progress," he added. Regarding construction, he said he doesn't want every construction contract in the state to be taxed; he expressed concern about slowing the economy and concluded, "Basic stepping-stones to economic growth, I have a very difficult time suggesting that we tax."

REPRESENTATIVE WHITAKER continued with exemptions, noting that there isn't a significant manufacturing base in Alaska. Therefore, those things that are manufactured to sell on a wholesale basis need to maintain viability in the marketplace. He said it is important to recognize the "delicate price sensitivity," and a tax on that particular grouping of industries could be detrimental to the economy.

CHAIR COGHILL requested confirmation that [manufactured products] at the retail level would be [taxable].

REPRESENTATIVE WHITAKER affirmed that. He clarified that "nearly the entire category of wholesale is exempted." He cautioned, "We need to grow our economy, and if we're taxing at the wholesale level and then taxing at the retail level, we're not imposing a 3 percent or a 4 percent tax; we're imposing a 6 percent or an 8 percent tax."

Number 1880

REPRESENTATIVE WHITAKER continued with exemptions. Regarding "lessors of real estate," he said those are people who pay rent. "I have a very difficult time suggesting that we charge a tax on folks who struggle to make the monthly rental payment," he explained. Regarding mining, he said it's the same situation as for manufacturing and wholesale. "Basic industries, if we tax it, we begin to do damage to our economy," he said.

REPRESENTATIVE WHITAKER addressed whether making exemptions opens up the possibility of being accused of protecting a special interest. He said:

If someone wants to make that accusation, bring it on. ... My only intention is that we not inhibit economic growth, and that we not ... be particularly burdensome on individuals as they try to improve themselves or as they try to educate themselves, as they try to pay rent, as they try to live a basic life.

Number 1935

REPRESENTATIVE FATE commended Representative Whitaker and suggested the PowerPoint presentation should be shown to the public. He surmised that if it were shown enough times, people would realize it is the Earnings Reserve Account, rather than the [corpus of the] permanent fund, that would be used.

REPRESENTATIVE FATE emphasized that this bill is set in the context of other policy discussions that the committee will have, such as income taxes or use of the permanent fund; the committee will need to compare proposals afterwards. Voicing the hope that the result will be "the most fair tax that we can levy on the people of the state of Alaska," he remarked that he believes a sales tax could be a fair tax.

REPRESENTATIVE FATE said it is a policy issue - not taxing to do "social engineering," but solely to fill the fiscal gap. If future fiscal gaps "literally crash the economy in this state," there would be no PFD, which in itself stimulates Alaska's economy; when that PFD disappears, he surmised, so might the economy. He suggested looking at what these taxes will do to the economy in the future. He added that any tax must have a counterpoint, which is that the government must be responsible and stop some of the spending. He said he applauds Representative Whitaker for bringing these issues to light.

Number 2084

CHAIR COGHILL called an at-ease at 8:45 a.m. He called the meeting back to order at 8:46 a.m.

Number 2096

REPRESENTATIVE HAYES commended Representative Whitaker for his presentation as well. Mentioning out-of-state workers who work in Alaska and then leave, he asked how Representative Whitaker envisions "capturing dollars from those folks." He cited workers on the North Slope as an example.

REPRESENTATIVE WHITAKER answered that it would be through a sales-tax vehicle. He added:

The only manner in which revenue can be captured from so-called out-of-state workers is through the process of them buying a good or a service that is taxable. If they choose not to purchase anything, then once again they have avoided paying taxes in the state of Alaska and have reaped the benefits of being employed here. Again, I'm searching for that perfect tax with all the answers and doing no harm - haven't found it ye. I'm still looking, and looking for ideas.

Number 2146

REPRESENTATIVE JAMES responded to Representative Hayes's question:

When I've listened to the people all over the state, ... what I hear them saying is they want more things, but they want to pay for nothing. And if anyone pays, they want someone else to pay. And so, they would ask us to design it so just those people who come here and work and don't spend any money here and go home pay, and you know we can't do that. And, of course, that underlines the reason that I prefer an income tax over a sales tax.

I don't know how many of you know here that four years ago I filed an income-tax [bill], and I didn't get it out of [the House State Affairs Standing Committee]. So ... I've been there on this issue of filling this gap for a long time, and I'm kind of getting "slapped around the face" now for "now, suddenly, supporting a tax of any kind."

REPRESENTATIVE JAMES then addressed Representative Whitaker's exemptions. She suggested that sales tax could be put on vending machines, which is done elsewhere. Instead of paying 75 cents, the buyer would pay 80 cents, for example. She conveyed her personal preference, if there were to be a sales tax, of taxing vending-machine sales as well.

REPRESENTATIVE JAMES turned attention to sales of alcohol. She said there is a big difference between a wholesale tax and a retail tax. Of the two, she stated her preference for a retail tax, in order to benefit the businessperson. "We do have retail taxes on alcohol in very many communities," she added, citing Fairbanks as an example. She said without businesspeople in the state, there would be no economy; taxing at the wholesale level, to her belief, would have a negative effect. In the particular case of alcohol, she said, that is a wholesale tax that increases the cost of the inventory for people who are in business.

REPRESENTATIVE JAMES brought attention to an issue not covered in the presentation: the role of state government in economic growth in Alaska. She explained:

In this state, ... the state owns everything. And if people want to do resource development or other things, you have to get a permit and you have to have

oversight by the state government to make sure that they're following all the rules and regulations and all of the protections for the environment and protections of the people and so forth.

And so we need to be sure that we have enough people working for the state to do that in a prompt and timely manner. I don't think we do, currently, and I think that might be contributing somewhat to the reason that we're not having any additional offers coming to town, bringing their money and investing into businesses and resource development in our state. Well, that's ... one of the issues. To say that we can create economic growth without some state spending, I think, is ... not totally correct.

REPRESENTATIVE JAMES turned attention to page 1, line 6, of HB 303, which read in part, "**Levy of sales tax; tax rate.**" She noted that [subsection (a)] goes on to say "a sales tax is levied on the sale or other transfer for consideration of goods, on rents, and on services performed for consideration in the state." She inquired about saying, instead, "a retail sales tax", which would already, then, exempt any wholesale transactions. She mentioned her own experience of standing in line where people are buying expensive items such as building materials, for example, and seeing those people use their exemptions as wholesale purchasers to buy personal items. She remarked:

I don't know how we manage that, and I'm sure we can't keep anyone from cheating. But ... we don't want to present a particular type of legislation that encourages cheating, because then ... we have this friction out in the public. And so, what we need to do, I believe, in any kind of a broad-based tax, is make it as fair and equitable as we can, to the individuals, not necessarily to the state as a whole.

REPRESENTATIVE JAMES offered final comments:

You know that if we want to be fair and equitable, the best thing to do is tax the people who make money. And that's an income tax. I can't find any other more fair tax than to tax the people who make money, rather than the people who don't make money or are buying things that they really need, that are taxable, with the limited funds they have from some other source.

Number 2358

REPRESENTATIVE WHITAKER responded:

With the exception of your last statement, I don't disagree with anything you've said. And I look forward to a friendly amendment and/or committee substitute reflecting your concerns and that we can, again, take an idea from its beginning to a better place. And I certainly have no objection to that whatsoever.

TAPE 02-8, SIDE B

REPRESENTATIVE WHITAKER reiterated his belief that the most fair and equitable tax is a sales tax, "essentially, a consumption tax." He added, "Obviously, those who consume more will pay more, but everybody will pay. And in a society and a culture - this Alaskan culture - where we all use, we should all pay. And this is the only method that I've been able to determine that will, indeed, achieve that end."

CHAIR COGHILL said that is probably what the committee will have to discuss.

Number 2337

REPRESENTATIVE STEVENS remarked that as a former city mayor and borough mayor, he knows how communities have depended on sales tax. He added, "We've sort of left that alone in the past, as an area where cities can find a way of taxation to pay for the services they provide. So this is not my favorite tax." He offered, however, that all proposals should be looked at together.

REPRESENTATIVE STEVENS called attention to the exemption on page 2, paragraph (9), which read, "that part of the selling price of a single item or the periodic selling price of a single service that exceeds \$2,000". He surmised that it applies to large-ticket items; for example, with the tax at 6 percent, the most that someone who buys a new car would pay is \$120. He pointed out that his own city [Kodiak] has a 6 percent local sales tax; it would cost an additional \$240 for a new-car purchase. He expressed concern that the impact of a seasonal sales tax would be that people would wait until November, when the tax goes away, to make purchases.

REPRESENTATIVE STEVENS commented that he has never heard of a sales tax attached to a new house. He asked whether homes are exempt from this process.

Number 2275

REPRESENTATIVE WHITAKER answered no; they would be subject to the same \$2,000 cap. With regard to the other comments by Representative Stevens, he said he has the same concerns, but is searching for that "perfect tax."

Number 2260

REPRESENTATIVE COGHILL asked Representative Whitaker whether there had been discussion, in crafting the bill, about providing exemptions for some of the local municipalities that already have chosen to tax; he recalled that perhaps 97 in Alaska have chosen to do that.

REPRESENTATIVE WHITAKER answered, "Of course. It is a significant concern, and the communities that have a sales tax have expressed that concern. I agree with them." He said that after a significant amount of thought, however, he believes if "a community imposes a sales tax today that is higher than other parts of the state, it will, relatively speaking, be no higher after a statewide tax." He reiterated that there is no perfect tax, but that there are consequences if no action ensues.

Number 2200

CHAIR COGHILL noted that some Alaskan retailers would report sales tax to both the local municipality and the state. From a bookkeeping standpoint and as a business owner, he asked Representative Whitaker whether he feels that would be much more burdensome. He said he was trying to envision it at the practical level, "as far as being a tax collector for the state."

REPRESENTATIVE WHITAKER responded that this legislation doesn't attempt to find answers to all administrative challenges. He said he didn't have those answers, and acknowledged that certainly it would be more burdensome than currently. However, he said, the aim is to deal with a larger fiscal problem, and there isn't an easy way to go.

CHAIR COGHILL said he appreciated that and then commented, "We will be asking many more people to do what we would, later on, pay in administration to do if we did an income tax, for example." He suggested those are some aspects legislators need to compare. He noted that Larry Persily [Deputy Commissioner, Department of Revenue] was present to answer questions regarding how this scenario could work on the administrative side and what sort of state revenue it could produce.

CHAIR COGHILL asked whether anyone else in the room wished to testify; there was no response. He indicated the Alaska Municipal League (AML) had provided written comments.

Number 2112

REPRESENTATIVE WILSON asked whether there would be a time for the committee to discuss various options regarding the state budget and whether it warrants adding taxes or looking at state money given to private business, for example. She asked whether this was the right time to discuss it.

CHAIR COGHILL answered in the affirmative, saying it will be part of the whole discussion. Although the House State Affairs Standing Committee is not a "budget committee" in that regard, members must deal with all of those ramifications. Referring to constitutional provisions regarding "what can go to ... private individuals with state money," he said:

It's a little more restrictive sometimes than we really think. We have gotten to grants and subsidies to a larger degree than ... I personally think we should, and I'm hoping to bring some of that balance to the discussion.

It's certainly not my position, as a committee chairman, to try to introduce competing legislation or anything like that. But I think we do have to ask the question - "What comes first? Or is ... this 'and'?" - or those types of questions. I think those are legitimate questions.

CHAIR COGHILL said at this point, he was interested in comparing the different revenues with the different styles of taxes, as well as the implementation and ramifications. Following that, specific language could be addressed. He noted that questions include at what point taxes should be implemented, the reasons

for a tax, "and what are we going to do with this government before we tax."

CHAIR COGHILL referred to a sales tax as a broad-based, consumption-based tax and said:

In reviewing some of the e-mails that I've gotten, a lot of people feel very strongly that this is the way to do it. Once again, it taxes what you consume, and it has kind of a limiting factor in excessive spending, if you will. It actually increases the very thing that we want, and that is frugality, and still allows for the free movement of commerce.

On the other hand, when we get to an income tax, it actually taxes a thing that we want to increase, and puts downward pressure, and that is the ability to produce. ... Those are the two principles of operation that we have to deal with.

Number 1975

LARRY PERSILY, Deputy Commissioner, Office of the Commissioner, Department of Revenue, came forward to testify. He complimented Representative Whitaker on his presentation and thorough understanding of the issues and facts.

MR. PERSILY offered background information. The only states without a statewide sales tax are Alaska, Delaware, Montana, New Hampshire, and Oregon, he told members. Taxes range from a low of 2.9 percent, in Colorado, to 7 percent, in Mississippi and Rhode Island. The cities, counties, transit districts, and other taxing authorities in all of the states add their sales tax onto the state tax rate; the state then handles collection, enforcement, audits, and distribution back to the municipalities of their shares. He said:

We have found very few locations where the municipalities have their own sales tax collections and sales tax laws separate from the state; obviously, it's a more cumbersome process. It doesn't mean it can't be done, but we've found only a few - a couple in Louisiana where cities have their own, separate [process].

MR. PERSILY reported that when state and municipal/county tax rates are combined, the highest he'd found was a district in

Oklahoma, at 9.78 percent; in addition, a couple in Louisiana were at 9.5 percent.

MR. PERSILY noted that 27 out of the 45 states with a sales tax exempt some or all food purchases. Regarding collection of taxes, he reported:

27 of 45 states allow the businesses to retain a portion of their collections as reimbursement for the administrative costs, because, as Representative James points out, we are asking businesses to function as our tax collector if they have to keep the books, run the risk of enforcement or audit issues, remit the money. ... That ranges from .5 percent to as much as 5 percent on small businesses or small tax collections. Generally, it's a sliding scale.

REPRESENTATIVE CRAWFORD asked, "When you say .5 percent or 5 percent, are you talking about the total amount ... of tax raised?"

MR. PERSILY responded that if a business were sending in a \$10,000 tax payment to the state, and if it were allowed a 2 percent commission, the business would keep 2 percent of that \$10,000 - 2 percent of the tax collected.

Number 1862

REPRESENTATIVE CRAWFORD offered his understanding that under HB 303, the retailer can keep 1 percent of the amount raised. He asked, "Are you talking about actually 20 percent of the tax, or are you talking about 1 percent of the total?"

MR. PERSILY replied, "I would believe it's 1 percent of the tax, not 20 percent. So it's not the 1 percent on a dollar purchase, but 1 percent of the tax that was collected, and that would fit in with, generally, the rule of thumb on that."

Number 1811

REPRESENTATIVE STEVENS asked whether, in other states, there is a charge for the effort that has gone into collecting a local sales tax that is passed along to local municipalities.

MR. PERSILY answered:

It's a little different because in Alaska, for years, ... the state has allowed municipalities to treat sales tax as their own, and they have set up sales tax operations. I think, historically, in other states, it started as a state function. So certainly it would be a question.

Here, if you had a sales tax, and if you wanted to standardize it with one set of rules for the entire state - which is what we'd recommend - and then if you collected the municipal share so businesses only have to do one tax return and remitted that municipal share back to the municipality, if the municipalities no longer needed a sales tax office and thus were saving money, it would seem reasonable for the state to take a cut, just like businesses take a cut of what they send in for the collection fee. But, of course, that's a policy call. ... But if the cities are saving money by not having to collect it, then you could argue that they should share some of that expense with the state.

CHAIR COGHILL mentioned looking at "how could we do an alignment," and suggested in that regard, there would need to be a study regarding the "97 different taxes."

Number 1739

REPRESENTATIVE STEVENS surmised that other states charge local communities for collecting their portions of the sales tax.

MR. PERSILY responded:

I'm not sure there's anything similar to Alaska, because the local municipalities did not have a sales tax office already set up. They just piggybacked on the state tax. So, they didn't have any ongoing expenses.

CHAIR COGHILL remarked, "So, the principle of operation would be, 'What do we have to do to find commonality and alignment.'"

Number 1718

REPRESENTATIVE WILSON asked Mr. Persily whether there is a possibility, because municipalities already have something in place, that they may choose to retain what they receive now,

send the extra amount to the state, and keep that percentage for themselves, rather than have the state collect it all and give [the municipal portion] back.

MR. PERSILY answered:

You could do that, but I think then you get back to what's easiest for the business. If you have a statewide business and some of [the] tax returns go to cities, some of the tax returns go to the state, I think you would find businesspeople sitting here saying, "Gee, don't make life hard on us; it's hard enough."

CHAIR COGHILL said that is a good point.

MR. PERSILY continued:

Certainly, every state but Alaska has broad-based taxes. On average, [of] the states that have a sales tax, about 32 percent of their overall general fund revenues come from sales tax.

In other states, this historically has been a large source of income, and that's why ... in the 1990s, when the nation's economy was doing very well, [many] states did very well; they had surpluses, and they were raising spending, because they were sharing in that economic boom or increase, depending on your state, because of the broad-based tax, the sales tax.

Getting back to Alaska, as has been pointed out, we've got 97 cities and boroughs that already have a sales tax. In fiscal year 01, they collected about \$125 million; that's about \$600 per capita in those communities with a sales tax. Those 97 communities have more than 200,000 residents. It ranges from a low of 1 percent in Tenakee and White Mountain -- as Representative Wilson pointed out, Wrangell is the highest in the state, at 7 percent; Kodiak, Kotzebue, Cordova, Petersburg are all at 6 [percent]; and then you move down to 5 [percent] after that.

MR. PERSILY reported that each Alaskan municipality has its own list of exemptions, limits, and rules. In Wrangell, for example, the cap on purchases \$1,000; a consumer pays tax on the first \$1,000. In Juneau, he said, the cap is \$7,500; last time

he looked, Juneau had 38 exemptions, some very broad and some very specific, including an exemption for lobbyists. He continued:

As has been pointed out, the Department of Revenue also is concerned that if you put a state sales tax on top of municipal taxes that are 5, 6, or 7 percent, you begin to do what you don't want to do, and that's affect economic activity and economic behavior in the state; we share that concern.

Number 1581

MR. PERSILY discussed a state sales tax in relation to senior citizens. Some communities exempt senior citizens from paying sales tax, he noted, and there are different ways it can be done. In Juneau, for example, a senior citizen signs up with the city and receives a card; he or she presents that card to a merchant, who must look at the card, keep a log, and turn the log in to the city, if asked to show that these were exempt purchases. He remarked:

Obviously, that's a problem for merchants; it's very cumbersome. And since I'm not mayor of Juneau and I'm not running for mayor of Juneau, I can say that there have been concerns in the past of some seniors' bending the rules, because once you have that card and you go in to buy a washer or dryer, you don't have to sign an affidavit saying it's for you or your daughter. But at 5 percent, it's a significant savings.

Wrangell does it a little differently. They have computed what an average senior citizen would spend on taxable purchases, and in Wrangell, seniors get \$250 back. They pay sales tax, but they get a rebate back from the city - at least I don't believe that's changed. And so, that way the merchants are not in the position of enforcing the senior-sales-tax exemption, if you want to go that way.

Number 1525

MR. PERSILY turned attention to what is paid by out-of-state visitors and said:

On a year-round sales tax, we would estimate that ... about 10 percent of the revenue would come from nonresidents, either nonresident workers for their time in Alaska or visitors. ... Obviously, it would be somewhat higher during the summer.

MR. PERSILY, regarding a seasonal sales tax, reported:

We've looked at a seasonal sales tax. ... We were a little surprised. We used Juneau as an example, since I can't think of a town in Alaska that is more dependent on [a] summer tourism economy, with 670,000 cruise ship visitors and 100,000 independent visitors. Interestingly, if you look at six months in Juneau - April through September, those middle two quarters versus the other two quarters - it's pretty evenly split. In terms of taxable sales reported to the city, it's about 50-50.

And as we thought about it some more and talk to tax authorities, you realize that the permanent fund dividend and Christmas sales are a significant amount. That isn't to say that if you do a seasonal sales tax in those middle six months, probably the nonresident purchases are higher than the year-round average of 10 percent.

Number 1473

CHAIR COGHILL brought up the idea of having a year-round sales tax but having a "bump-up" during the summertime. He asked Mr. Persily whether he'd pondered that.

MR. PERSILY replied:

Ponder it - I guess, sitting around the office, talking with economists and others. And the concern we have with any differential is, you affect spending decisions. Certainly, if you're making a big-ticket ... purchase and the sales tax goes up, you might, as other people have said, put off your purchase until October, when the tax goes off. Depending how much you need that item, depending how much you want to buy it at that moment, you might just decide to shop out of state, which is what we don't want.

And there's no way of knowing for sure how much business would be postponed, which poses problems with inventory and staffing and management for your local merchants. We don't know how much business would be postponed versus how much business you would lose during that period. What is the threshold at which people change spending decisions?

For example, again, to take Wrangell at 7 percent, I would maintain that if you put a 3 percent tax on top of that - so if you told people in Wrangell you had 10 percent - that would significantly affect spending decisions, that a great deal of that town's economy would go out of state, because "at 10 percent, I can afford the freight to ship it in." So where is that pain threshold on a seasonal tax - 1 percent? Probably not. But it's hard to know where it is.

MR. PERSILY agreed with Representative James that the legislature doesn't want to construct anything that would be a disincentive to businesses to locate in Alaska. He noted the effort underway among states, the streamlined sales-tax-and-use agreement, to standardize sales tax. He remarked that as there are more Internet, mail-order, and 800-number [purchases], businesses are asking, "Please, make it easier on us; have one set of rules." He continued:

And that's why, if you went to a statewide sales tax in Alaska, we would recommend you change Title 29 and take over control of the sales tax, so you'd have one set of rules for businesses to follow, to make it as easy as possible for them to follow the law and remit the correct amount, [and to] make it as easy as possible for them to do business in your state, because you want them to come to your state and set up a shop.

On one other point, in terms of Internet, phone, [and] mail-order sales, if Alaska had a sales tax, we would collect it, for example, on Eddie Bauer, because they have a physical presence in the state. Under federal law, if the merchant has a physical presence in your state, even if the order is placed over the Internet or by phone to an out-of-state location, you can collect the sales tax. So if Alaska had a sales tax, we would collect it on Eddie Bauer Internet sales. We would not collect it on Lands' End Internet sales,

because they don't have a physical presence, but you're going to want them to set up business shops in their state. You would probably want to subscribe to the streamlined sales-tax-and-use agreement that other states are signing up to.

Number 1320

REPRESENTATIVE JAMES recounted that when she lived in Washington State years ago, there was a sales-and-use tax. If a person bought a vehicle in Oregon [where there was no sales tax], before licensing it the person had to pay the [Washington] sales tax, and there was no exemption.

REPRESENTATIVE JAMES further recalled that the owner of a farm equipment dealership in Washington had put the sales tax in a different account whenever she received a payment in order to be able to pay the thousands of dollars owed monthly. Representative James said although large businesses wouldn't have a real problem with that, the numerous smaller businesses in Alaska are a concern of hers "because it's like an entrapment, I think."

Number 1236

MR. PERSILY responded:

Both good points. ... There are obviously parts in this bill that we really do like and are ... good. Addressing that, this legislation calls for payments to be made every month. There are some cities where the payments are due from the merchants quarterly, and you're right: that poses a problem. If you're a small, marginal business, that money's in your checking account; it's not due to the city for 60 days, but your rent is due, you pay the rent, and you hope to find some more cash 60 days out for the city tax bill. You don't find it and you're in trouble.

MR. PERSILY reported that in most states with a sales tax, it is called a sales-and-use tax. Technically, if a person who lives in a state with a sales-and-use tax buys something in another state and brings it home for use, that person owes the sales tax because of using or consuming it in the state of domicile. He continued:

Other than vehicles, which you enforce when you go to register it and the state will say, "Well, if you don't pay sales tax, you've got to pay it now or we won't register the car," ... use tax is very difficult to enforce.

There are some states that have a voluntary-payment line on their income tax return, and it basically says, "How much did you spend in other states on goods? ... Add it up, multiply it by the state sales tax, and send us the money." As you can imagine, the compliance with the voluntary use tax is somewhat slim - other than vehicles.

REPRESENTATIVE JAMES remarked that in Washington there was a "pretty good 'gotcha' program on that." She noted that it included boats and other high-ticket items, some of which weren't necessarily licensed. "People were afraid not to, the penalty was so steep," she added.

Number 1148

REPRESENTATIVE WILSON said she hadn't thought about a few aspects, including the difference between Eddie Bauer and Lands' End. Many people might switch from one to another just because there wouldn't be a sales tax. She suggested the need to really consider negative effects for businesses, such as the fact that a business like Eddie Bauer, which has a physical presence in Alaska, could be encouraged to leave Alaska [if a tax made it cheaper to buy from out-of-state competition].

REPRESENTATIVE WILSON inquired about the change to Title 29 mentioned by Mr. Persily.

MR. PERSILY explained that Title 29 is the statute that gives municipalities their taxing powers.

Number 1081

REPRESENTATIVE STEVENS noted that [an Alaskan] in Washington State doesn't have to pay sales tax on items such as clothing purchased there and brought to Alaska. He asked how it works in Alaska, noting that many Russians come through Anchorage, for example, and Canadians may come across the border in Southeast Alaska. He asked whether it may be a disincentive to nonresidents. He then asked Mr. Persily whether he has found

that most states allow a forgiveness or an exemption if someone is taking "nonconsumables" back to his or her home community.

MR. PERSILY answered:

Some states do, but I guess we're in a different position than many states. Other states that have a stable economic plan want the visitors because the visitors spend money in the businesses; the businesses and the employees pay corporate and individual income tax. There's a way for the state to recoup a share of the economic activity in Washington.

In Alaska, because we're hurting for cash, we want the visitors, but we don't want to exempt them from sales or income tax; we want them to pay. So we could exempt - you know, "Show your Washington driver's license and all the gifts you buy are exempt" - but that would seem to be contrary to what we need and want to do. We want them to pay something.

I don't know if it would be a disincentive. ... If someone spent a lot of money coming here on a vacation, would they buy fewer gifts to take back because there's a sales tax? I don't think so, since most of them are used to paying a sales tax in their own state.

Number 0985

REPRESENTATIVE FATE asked how many states have sales tax.

MR. PERSILY said it is 45 states.

REPRESENTATIVE FATE referred to Mr. Persily's mention of an attempt to standardize the sales tax. He asked what rate that standardization is aiming towards.

MR. PERSILY explained that it isn't aiming at a rate; rather, it is aiming at a set of rules. He expanded on his answer:

A lot of it is being driven because states with sales tax are losing a significant amount of money to the Internet. And the states are concerned, so they want the ability to tax sales on the Internet. And the business community is concerned that if that finally goes through and they have to pay tax, ... they would

prefer a standardized set of rules. The rates don't bother them; that's easy enough to change in the computer software. But they would like to deal with a standardized set of rules, so you'd have one set of rules per state, not a multitude for jurisdictions, and that there's some agreement on how you would treat Internet sales.

MR. PERSILY pointed out that the agreement, which approximately 20 states have adopted, says "states to administer any and all sales-and-use taxes levied by local jurisdictions within the state so that sellers ... collecting and remitting these taxes will not have to register or file returns with, remit funds to, or be subject to independent audits from local taxing jurisdictions." He commented, "They want to deal with just the state, and not 97 different laws."

Number 0833

REPRESENTATIVE FATE said he believes that is important to know. He added:

If we're to have a sales tax in this state, I think that we should have that very clear, because we're so isolated from other states, you can't drive to your next-door neighbor and buy goods. That will force a lot of people into thinking that they will be using either the Internet or other catalog-type services. So I think it is very important for the state.

CHAIR COGHILL suggested that when Representative Whitaker returned to the witness table, the committee should discuss how to frame that.

Number 0815

REPRESENTATIVE JAMES said:

In the comparison of the administration of an income tax versus a sales tax, it's been my perception that maybe one of the most difficult parts of anything - and expensive parts - is the audit function, because I certainly wouldn't want to be having a tax just laid out there and it's not monitored, to be sure that people are complying and they're doing it properly.

There is another tax that is just a tax of the adjusted gross income on the federal tax return. ... Could you give us any kind of an indication of what the cost of administering, at the state level, would be of a sales tax under our current situation and this particular piece of legislation ... versus an income tax that would be simply ... something based on the federal tax return?

Number 0758

MR. PERSILY replied:

The fiscal note on this sales tax bill [HB 303] says that after some initial capital expenditures, you're looking at a little bit more than \$4 million a year, which is shy of 2 percent of what would be raised off of it.

The fiscal note on the governor's income tax bill - which we just submitted yesterday - after some initial startup expenses, settles out at about \$7 million a year. So an income tax would be more expensive to collect than a sales tax - 7 versus 4 [percent].

REPRESENTATIVE JAMES inquired whether it would make any difference if the percentage were applied to the adjusted gross [income on the federal tax return]. She asked whether it would be [less expensive to administer] and simpler.

MR. PERSILY answered:

Probably not significantly. ... One of the biggest expenses we see with an income tax is just processing 400-and-some thousand returns every year and, since many people would be getting refunds, getting those out quickly, and pulling aside a certain amount [of returns] for audits. ... I guess, as I think about it, the simpler the tax, the simpler the audit, so ... you might see some difference in your audit staff. But the bulk of the staff for income tax is just processing the paper and payments, and it probably wouldn't matter one way or another ... on that.

CHAIR COGHILL commented that he appreciated the fiscal note provided by Mr. Persily, "recognizing that we're wandering into a very dynamic process here."

MR. PERSILY, in response to a question by Representative Stevens, said:

With the income tax, ... with the governor's proposal that would raise \$350 million, it would be 2 percent. But it would be \$7 million whether you raise 350 [million] or 200 [million] from an income tax. You're still going to have the same number of returns, the same number of audits, the same number of employer-withholding statements to deal with. So an income tax is more labor-intensive to collect than a sales tax; you just have more returns.

CHAIR COGHILL responded, "I don't know that it's more labor-intensive; it's just that we shift the labor burden to the ... employer and to the retailer."

Number 0599

REPRESENTATIVE HAYES asked what Alaska's economic growth and general fund spending have been over the last ten years, compared to other Western states.

MR. PERSILY said he didn't have those details, but compared to other states, Alaska's economic growth has not been as robust over the past decade. Most of it has been because of increased federal spending and an increase in the PFD, rather than "what we normally would think of as economic activity." He added:

The other states, as they were growing their economies in the '90s, the states shared in that because of the broad-based tax. ... A good example is, in the late '90s, as individuals made a lot of money in the stock market on stock options and as the market was booming, we made some money with permanent fund dividends, but that income is taxable. So states with a personal income tax did very well off of it. And now, of course, they're hurting because no one's making money in the stock market and they're all writing off their losses.

CHAIR COGHILL requested a copy of the document that Mr. Persily had been reading from.

Number 0516

REPRESENTATIVE JAMES reported that a booklet she'd reviewed had compared high-tax and low-tax states; Alaska was included as a high-tax state because of income from the oil tax [and royalties]. She expressed surprise at that.

MR. PERSILY responded:

I've had that discussion with many reporters in my current position over the years. And, right, those tables just take our tax revenue divided by our number of residents. And that's misleading. What you should do is take our tax revenue [and] subtract out oil taxes and royalties. If you want to say what residents pay, you're left with alcohol, tobacco, [and] motor fuel tax, and we are a very low-tax state.

Number 0400

CHAIR COGHILL said compliance is one of the issues an administration must deal with regarding, for example, making sure employers file in a timely manner. He asked Mr. Persily to provide some idea of how an administration might see its role in accountability.

MR. PERSILY answered:

This is all new territory for us, in that we don't have any broad-based taxes. We used to have an income and excise tax division, which we - three years ago - merged into [the] oil and gas tax division. And we have less than one full-time person doing alcohol, and less than one full-time doing motor fuel, and less than one full-time doing tobacco tax. So it's pretty much starting from 0 to 60 for us.

One thing we were concerned about is being able to ... deal with businesses in a timely fashion. ... Our recommendation would be not to short-staff the office. As Representative James pointed out, businesses can get into trouble if they're behind in their taxes. And if we're behind in our work and we don't catch it until three months [later], and now they've got a \$10,000 tax bill that they can't get out from under, we haven't done anybody a good service. ...

This fiscal note proposes, if we're going to have an income tax, let's staff it a level that we can be

responsive to businesses in a timely fashion, so that we help them, rather than just blindsides them [at] some point later on in life and tell them they're in trouble and we're going to start piling on fees and penalties.

MR. PERSILY explained that although Alaska has big retailers such as Wal-Mart, "we don't expect we'll have any problem with them; they're automated." He estimated, however, that perhaps tens of thousands of small, individual businesses in Alaska will have to file tax returns - "people who have side businesses, second businesses, small retail or handicraft businesses." He added, "I don't know if 'friendly' is the word, but we want to provide a ... good level of service to them, so that we're not making it harder.

CHAIR COGHILL said he agreed wholeheartedly, adding that he was expecting to talk to the sponsor about that.

Number 0233

REPRESENTATIVE JAMES mentioned the possibility that managing 450,000 tax returns, because of technological advances, may not be labor-intensive except for the audit process.

MR. PERSILY replied:

We certainly looked at that. One problem we're having is, because ... of the time crunch, ... we have to assume that if there's an income or sales tax, it would take effect January 1. We'd have to have forms [and] booklets out to merchants or employers by November if they're going to start withholding, if they're going to start setting up their computers for a sales tax. I'm assuming, again, that an income tax or a sales tax doesn't pass until the last week of session. ... That doesn't give us a whole lot of time.

Ideally, we would like to make it as electronic as possible, and that may mean that the fiscal note you see today, next year changes, because we're able to come back and say, "We've tried this. We have found that 'x' number of percentage we can handle electronically. We don't need as much as we thought."

Number 0085

REPRESENTATIVE JAMES said that is her point. She surmised that it is possible to institute a sales tax more quickly than an income tax, because an income tax would have to start the first of January. Therefore, the fiscal note would apply to the first part of the budget process that the legislature is working on right now - the six months before January 1 - in order to prepare for it. She said she assumes that with extra help [the Department of Revenue] could do that. She added, "The money to pay for that, it will probably have some quarterly-return opportunities, but otherwise, it's not going to come in until the following year, come April."

MR. PERSILY responded:

We agree. ... A sales tax would be easier to administer. But we do believe we could get an income tax in place for employees to start withholding January 1st, remitting the withholding monthly. But either or both of those would be a large task, and we've already started assigning people we have to it, pulling them off other jobs, because if the legislature decides to pass one of those taxes, we don't want to come back to you next fall and say, "Gee, we sort of had some problems. Could we have 30 days more?" [Ends mid-speech because of tape change.]

TAPE 02-9, SIDE A
Number 0001

REPRESENTATIVE WILSON referred to Mr. Persily's mention of tens of thousands of small businesses and 97 cities or municipalities across Alaska that have some sort of tax now and that would need to "shift gears and think things differently." She suggested many of those business owners don't have a high level of education; currently, they only need to keep simple records, but that would change, creating a need for extensive education regarding changes. She expressed concern, indicating she isn't in favor of a sales tax.

Number 0149

MR. PERSILY clarified that "tens of thousands" was just a guess. For example, he himself has a business license for consulting work. He said he is guessing that with 630,000 [residents], probably many small business operate out of people's homes, for example, although items for resale would be exempt.

Number 0175

CHAIR COGHILL suggested that would add more importance to the business license in this application. He expressed appreciation to Mr. Persily and then invited Representative Whitaker to make final recommendations and suggestions on a proposed committee substitute (CS) or a sponsor substitute for the bill.

CHAIR COGHILL then said to Representative Whitaker it seemed it would be better to have a flat, year-round sales tax rate. He referred to Representative James's remarks about making it a retail sales tax and asked whether "usage" is something that should be added to the bill.

CHAIR COGHILL remarked that although repeal of Title 29 is possible, having some alignment with what is already happening in Alaska, as discussed by Representative Wilson [with regard to communities that collect sales tax] is important. He asked Representative Whitaker whether he could obtain or help the committee obtain a study that shows what is required to do that.

Number 0289

REPRESENTATIVE WHITAKER replied that he'd be happy to do that. He added that he would view any reasonable amendment and/or CS to be a friendly amendment.

CHAIR COGHILL proposed that the Title 29 issue is a good one to begin with. Referring to the 97 communities with an existing sales tax, he said there needs to be "an incentive in there, I think, for that community to do that, and I think ... getting a percentage of that community's sales is a good way to do it." He suggested perhaps addressing it with an amendment.

CHAIR COGHILL referred to his own experience in retail sales and suggested monthly payments would be good. Noting that daily, weekly, and monthly closeouts "were a matter of fact," he suggested a monthly sales report isn't "that far out of line."

Number 0376

REPRESENTATIVE JAMES proposed the following conditions if there is to be a sales tax: a small amount such as 2 percent; limited exemptions; and the ability for municipalities to choose whether to collect sales tax separately or to "piggyback" on the state's ability to collect, and then eventually do away with their own

local collection agency. She said there was a fourth one, but she wanted to think about how to phrase it.

Number 0480

REPRESENTATIVE FATE referred to the low tax rate, mentioned by Representative James, of 2 percent. He suggested if 1 percent were taken for administration, there still would be only a 1 percent tax.

REPRESENTATIVE JAMES replied in the negative, saying it is 1 percent of the tax, not 1 percent of the sales. She added, "It's a very small amount, I know, because ... I get that on my bed tax I collect; it's just peanuts."

REPRESENTATIVE FATE offered his estimation that a 4 percent year-round sales tax would provide approximately \$640,000.

REPRESENTATIVE WHITAKER responded that he didn't have a basis for that assumption. He explained:

We worked under one set of assumptions as we began the process. As we've tried to refine numbers, I cannot definitively agree ... with what you're saying. And we need to be a little cautious about projecting revenue. We have broad ranges, and the best numbers that I can come up with at this point are plus or minus \$50 million, one way or another. And so, we need to go into this recognizing that. The numbers we are dealing with are based upon 1997's revenue numbers, and we should proceed cautiously.

Number 0579

REPRESENTATIVE FATE emphasized the need to consider the total package, because the fiscal gap cannot be filled with a sales tax or any other tax by itself.

REPRESENTATIVE WHITAKER agreed.

Number 0631

REPRESENTATIVE JAMES suggested there could be either monthly or quarterly returns, for example, based on the total sales of a business, so smaller businesses wouldn't file as often. However, she stressed the importance of not having [a monthly report] due until the end of the following month, because of

time lags relating to bank statements and bookkeeping. She added, "That has caused an awful lot of problems in the collection of tax and the filing of the report. And it's a lot easier to file it right in the first place than it is to amend it and/or make the adjustment on the following report."

Number 0699

CHAIR COGHILL again suggested looking at both what has already happened in the 97 communities with a sales tax as well as conformity regarding exceptions. He said it seems the conformity issue will have to be dealt with anyway because of dealing with information technology (IT). In looking at Title 29 and this issue, he suggested perhaps putting something in the bill to address that. He added, "Certainly, one of the benefits to doing this is there is an immediacy that I think that we realize, that we won't in other tax issues." He indicated he'd like to see frugality as well, but said this is a good start.

Number 0799

REPRESENTATIVE JAMES remarked that she'd have liked to have asked Mr. Persily if there would be any synergies in the Department of Revenue, as far as costs, from having both a sales tax and an income tax. She requested that he get back with her regarding that.

CHAIR COGHILL said it could be brought up Thursday [February 14] as well.

REPRESENTATIVE JAMES proposed that in order to ensure fair and equitable taxes, with everybody paying a little, perhaps there should be a reasonable amount of both [a sales tax and an income tax]. She added, "I'm open to that, as long as some of the things that I ... fear with the implementation of a sales tax [are] modified ... so it is not nearly as cumbersome as I think it might be."

Number 0888

REPRESENTATIVE WHITAKER reiterated that he would look at any reasonable CS as a friendly amendment. He added, "I look forward to working with you both on conforming to a national consistency movement, as well as Title 29 issues."

CHAIR COGHILL announced that he personally was going to pursue language to address some of his own concerns, so that when there

is discussion comparing other proposals, it can be included. He indicated although there are similar bills relating to income tax, [HB 303] is unique regarding a sales tax; therefore, the committee will work with Representative Whitaker in crafting this sales tax legislation. He concluded by thanking Representative Whitaker for his excellent PowerPoint presentation. [HB 303 was held over.]

ADJOURNMENT

Number 0975

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 9:56 a.m.