

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SB 112
 (S) Publish Date: 3/6/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Highway motor fuel tax BRU Revenue Operations
 Component Tax Division
 Sponsor Rules Committee
 Requester Governor Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	107.0	107.0	107.0	107.0	107.0	107.0
Travel	5.0	5.0	5.0	5.0	5.0	5.0
Contractual	14.0	12.0	12.0	12.0	12.0	12.0
Supplies	1.0	1.0	1.0	1.0	1.0	1.0
Equipment	5.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	132.0	125.0	125.0	125.0	125.0	125.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	37,700.0	41,160.0	41,160.0	41,160.0	41,160.0	41,160.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	132.0	125.0	125.0	125.0	125.0	125.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	132.0	125.0	125.0	125.0	125.0	125.0

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	2	2	2	2	2	2
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation would increase the state's highway motor fuel tax rate from 8 cents a gallon to 20 cents a gallon, and would eliminate the special rate for gasohol (motor fuel blended with alcohol), thereby taxing gasohol at the same 20 cents a gallon rate as all other highway motor fuel. Alaska's highway motor fuel tax rate has not changed since 1970.

The tax increase would take effect July 1, 2003. The Department of Revenue estimates the increase will generate \$41.16 million in additional state revenue for a full fiscal year, with approximately \$37.7 million in Fiscal 2004 because the state will receive the higher revenues for 11 months in the first fiscal year. (Taxes are paid one month after sales, therefore the July 2003 tax revenues will be at the June 2003 tax rate.)

See attached pages for more information on the revenue and program costs.

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 Division Tax Division Date/Time 3/3/03 2:56 PM
 Approved by: Larry Persily, Deputy Commissioner Date 3/3/2003
 Agency Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. SB 112 FN #1

ANALYSIS CONTINUATION

Bill Analysis

Sections 1 and 2 increase the tax rate on highway motor fuel from 8 cents a gallon to 20 cents a gallon for all motor fuel sold or transferred within the state. These sections also eliminate the differential tax rate for gasohol (alcohol-blended fuel), thereby imposing a 20-cent tax rate on these fuels.

Section 3 increases the off-highway refund from 6 cents a gallon to 18 cents a gallon, maintaining the effective tax rate at 2 cents a gallon.

Section 4 establishes an effective date of July 1, 2003.

Operating Expenditures

The Department of Revenue is requesting operating funds to cover the costs of a Revenue Auditor III position and a Tax Tech II position. With such a large increase in taxes due the state (an estimated \$41.6 million per year), the department anticipates increased taxpayer noncompliance.

With significantly higher levels of tax, it is possible that taxpayers will look for loopholes. Certainly, the increase in the tax rate makes the use of refunds more attractive. These include exempt fuel (e.g., fuel for heating use and governmental use), fuel conversions and off-highway refunds. These two new positions will be responsible for ensuring that all taxpayers are identified and are paying the proper amount of tax. The projected annual salary costs for these positions totals \$107,000.

The department is also requesting one-time FY 03 funding of \$5,000 for equipment and \$20,000 for start-up contractual costs. The recurring costs will be \$18,000 annually to cover travel, contractual and supplies.

Comparison to other states

For comparison purposes, even at 20 cents a gallon, Alaska's motor fuel excise tax would still be in the lower half nationwide. There would be 26 other states at 20 cents a gallon and above. The highest are Montana at 27 cents, Rhode Island at 28 cents, and Wisconsin at 27 cents.

But the above just applies to excise taxes. Many states also apply special taxes to motor fuel. Adding those in you get a total of 29 other states at 20 cents a gallon and above.

The total tax rate climbs even higher if you add in all state sales and local taxes on fuel (there are a variety of these nationwide, based on the price of the fuel or environmental or business taxes or state sales taxes). Counting everything, Illinois is at the top at 38.7 cents per gallon, followed by Hawaii at 37.94, Nevada at 34.61, Wisconsin at 31 and New York at 30.22. Alaska, at 20 cents a gallon, would be tied for 38th on the list.

ALASKA DEPARTMENT OF REVENUE
TAX DIVISION

HIGHWAY MOTOR FUEL TAX INCREASE SB 112 FN #1

Tax Rate Increase Highway	\$	0.12
Tax Rate Increase Gasohol	\$	0.18
Tax Rate Increase Off-Highway	\$	-

CURRENT

	RATE per gallon	GALLONS			REVENUE		
		GAS	DIESEL	TOTAL	GAS	DIESEL	TOTAL
Taxable Gallons*	\$0.08	216,000,000	70,000,000	286,000,000	\$17,280,000	\$5,600,000	\$22,880,000
Gasohol	\$0.02	38,000,000	0	38,000,000	\$760,000	\$0	\$760,000
Off-Highway	\$0.02	2,000,000	90,000,000	92,000,000	\$40,000	\$1,800,000	\$1,840,000
Total		256,000,000	160,000,000	416,000,000	\$18,080,000	\$7,400,000	\$25,480,000

* Values rounded and adjusted to match revenues.

PROPOSED INCREASE

	RATE per gallon	GALLONS			REVENUE		
		GAS	DIESEL	TOTAL	GAS	DIESEL	TOTAL
Taxable Gallons*	\$ 0.12	216,000,000	70,000,000	286,000,000	\$25,920,000	\$8,400,000	\$34,320,000
Gasohol	\$ 0.18	38,000,000	0	38,000,000	\$6,840,000	\$0	\$6,840,000
Off-Highway	\$ -	2,000,000	90,000,000	92,000,000	\$0	\$0	\$0
Total Increase		256,000,000	160,000,000	416,000,000	\$32,760,000	\$8,400,000	\$41,160,000

ESTIMATED TAX AFTER INCREASE

	RATE per gallon	GALLONS			REVENUE		
		GAS	DIESEL	TOTAL	GAS	DIESEL	TOTAL
Taxable Gallons	\$ 0.20	216,000,000	70,000,000	286,000,000	\$43,200,000	\$14,000,000	\$57,200,000
Taxable Gallons	\$ 0.20	38,000,000	0	38,000,000	\$7,600,000	\$0	\$7,600,000
Off-Highway	\$ 0.02	2,000,000	90,000,000	92,000,000	\$40,000	\$1,800,000	\$1,840,000
Total After Increase		256,000,000	160,000,000	416,000,000	\$50,840,000	\$15,800,000	\$66,640,000

Assumptions:

- (1) No change in consumer or business behavior as a result of the tax rate increase.
- (2) Consumption of taxable highway and diesel motor fuel remains constant at FY 2000 levels.

Note: We used FY 2000 and FY 1999 gallons adjusted to approximate FY 2000 revenues because of overpayments in FY 2001 and FY 2002 and the subsequent refunds in FY 2003.