

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

May 10, 2003

8:50 a.m.

**MEMBERS PRESENT**

Representative Jim Whitaker, Co-Chair  
Representative Cheryll Heinze  
Representative Vic Kohring  
Representative Bruce Weyhrauch  
Representative Peggy Wilson  
Representative Max Gruenberg  
Representative Carl Moses

**MEMBERS ABSENT**

Representative Mike Hawker, Co-Chair  
Representative Norman Rokeberg

**OTHER LEGISLATORS PRESENT**

Representative Dan Ogg  
Representative Paul Seaton  
Representative Sharon Cissna

**COMMITTEE CALENDAR**

HOUSE BILL NO. 293

"An Act levying and collecting a state sales and use tax; and providing for an effective date."

- HEARD AND HELD

**PREVIOUS ACTION**

BILL: HB 293

SHORT TITLE: STATE SALES AND USE TAX

SPONSOR(S): WAYS & MEANS

Jrn-Date	Jrn-Page		Action
04/30/03	1202	(H)	READ THE FIRST TIME - REFERRALS
04/30/03	1202	(H)	W&M, FIN
05/01/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519
05/01/03		(H)	Heard & Held --

		Teleconference --
		MINUTE(W&M)
05/06/03	(H)	W&M AT 7:00 AM HOUSE FINANCE 519
05/06/03	(H)	Heard & Held MINUTE(W&M)
05/07/03	(H)	W&M AT 7:00 AM HOUSE FINANCE 519
05/07/03	(H)	Heard & Held -- Recessed to a call of the chair -- MINUTE(W&M)
05/08/03	(H)	W&M AT 7:00 AM HOUSE FINANCE 519
05/08/03	(H)	Heard & Held -- Recessed to a call of the Chair -- MINUTE(W&M)
05/09/03	(H)	W&M AT 7:00 AM HOUSE FINANCE 519
05/09/03	(H)	Heard & Held MINUTE(W&M)
05/10/03	(H)	W&M AT 8:30 AM HOUSE FINANCE 519

**WITNESS REGISTER**

LARRY PERSILY, Deputy Commissioner  
Office of the Commissioner  
Department of Revenue  
Juneau, Alaska

POSITION STATEMENT: Answered questions on HB 293.

**ACTION NARRATIVE**

**TAPE 03-27, SIDE A**

Number 0001

**CO-CHAIR JIM WHITAKER** called the House Special Committee on Ways and Means meeting to order at 8:50 a.m. Representatives Whitaker, Kohring, Weyhrauch, Wilson, Gruenberg, and Moses were present at the call to order. Representative Heinze arrived as the meeting was in progress. Representatives Ogg, Seaton, and Cissna were also in attendance

HB 293-STATE SALES AND USE TAX

CO-CHAIR WHITAKER announced that the only order of business would be the continuation of the discussion of HOUSE BILL NO.

293, "An Act levying and collecting a state sales and use tax; and providing for an effective date."

CO-CHAIR WHITAKER reminded the committee that the purpose of this committee is to deal with the state's fiscal situation. The committee has previously discussed two components of the plan/approach that the committee believes could effectively deal with providing a long-term framework of fiscal stability for the state. Those two components have manifested through HJR 9, a cost control mechanism, and HJR 26, a provision allowing for some use of the permanent fund. Both resolutions have passed from this committee, and if approved by two-thirds of both houses of the legislature, the measures will go before the voters November 2004. The legislation before the committee today, HB 293, is the third component. Although the committee substitute before the committee isn't valid, it is the only CS the committee has. Therefore, Co-Chair Whitaker requested that the committee not discuss the CS and its particulars. The purpose of today's meeting is to help Co-Chair Hawker continue to make improvements to this legislation by discussing the legislation in broad terms, he said.

Number 0442

LARRY PERSILY, Deputy Commissioner, Office of the Commissioner, Department of Revenue, offered to answer any questions and perform any research necessary to facilitate this process. He informed the committee that at this point he would say that some of the key issues with this legislation deal with transportation services, especially as related to fish. Another key issue is caps and how special municipal taxes would work [with this proposed sales tax]. Furthermore, there has been some re-thinking of some of the administrative issues. For example, although the easiest thing for businesses is quarterly payments, it presents a cash flow issue for the state and municipalities. Therefore, review of staggered quarterly payments is occurring.

Number 0804

REPRESENTATIVE WEYHRAUCH expressed his hope to be able to discuss amendments.

CO-CHAIR WHITAKER announced that specific amendments will be entertained for discussion, but not adoption. If the amendments can't be worked into the CS, all members will have the opportunity to bring forward specific amendments on Monday when he hoped HB 293 would be reported from this committee.

REPRESENTATIVE WEYHRAUCH informed everyone that one of his amendments would strip this legislation and insert three sections in which one section will specify that the state will impose a 3 percent sales and use tax in the state. Section 2 would specify that the Department [of Revenue] shall promulgate regulations implementing Section 1. Section 3 would specify that there would be no prohibition against a community already collecting a sales and use tax to continue to do so.

REPRESENTATIVE WEYHRAUCH remarked that HB 293 is complex and is difficult for the public to understand, and it's even more difficult to interpret what the department has presented to the committee in order to sell this tax to the public. Therefore, the above suggestion proposes a simple sales tax plan as a matter of policy. This suggestion would achieve the administration's goal, fill a fiscal measure, and insulate the legislature from the hoards of lobbyists [lobbying] for exemptions.

CO-CHAIR WHITAKER agreed that Representative Weyhrauch's suggestion is a "good, clean" approach. However, he expressed concern that the complex discussions that have been occurring regarding HB 293 are the same discussions that the department would have to enter into if Representative Weyhrauch's suggestion was adopted.

Number 1118

REPRESENTATIVE OGG remarked that he liked the simplicity of the 3 percent. However, he surmised that Representative Weyhrauch's suggestion would establish a state bureaucracy that would collect a sales tax statewide while at the same time have municipalities collecting a sales tax within their jurisdiction. Therefore, businesses would have to collect a city sales tax and a state sales tax and thus send money two different ways under two different enforcement entities. The aforementioned is clearer in HB 293 than in Representative Weyhrauch's suggestion.

REPRESENTATIVE WEYHRAUCH remarked that there is no doubt that HB 293 will require a bureaucratic increase. The shift in the amendment wouldn't do anything that HB 293 doesn't already do. "You're going to have a complex bill that is going to have to be administered, interpreted, and applied by the bureaucracy," he said. This committee is taking the role of an administrative official by going through all the policy choices, which is what would happen if the bureaucracy was faced with the process of

implementing statute that is extremely complex and new. He noted that under his proposal the bureaucracy would still have to impose all the federal exemptions that presently exist. Representative Weyhrauch stated, "I just think that we have such a huge task in front of us in implementing the statewide sales tax policy that we don't have the tools, the time, or the equipment nor do we have the wherewithal to say no to every bureaucrat or every lobbyist that's going to come in here and want their special deal worked out." Therefore, he emphasized the need to establish a strong policy and instruct the state to implement it.

Number 1545

REPRESENTATIVE WILSON asked if [Representative Weyhrauch's amendment] is basically saying that the bureaucrats have to decide the exemptions and the legislature would set a goal for them to meet.

REPRESENTATIVE WEYHRAUCH explained that the 3 percent sales and use tax would specify that the state wants 3 percent on sales and use services in the state. Such a proposal merely implements a revenue collection procedure as part of the general revenue scheme that helps fill the fiscal gap. He characterized the sales and use tax as an approach. No dollar value would be established, it's merely a matter of collection, he said.

REPRESENTATIVE WILSON pointed out that the [bureaucrats] could create enough exemptions that collections could be small, and therefore she said they would need some sort of guidance.

Number 1748

REPRESENTATIVE HEINZE commented that she liked the goal of Representative Weyhrauch's amendment. However, legislators are elected by the public to implement policy and his suggestion would place their job on the [department's] shoulders. She emphasized that she is here for her constituents.

REPRESENTATIVE GRUENBERG said this sales tax is equivalent to writing an income tax code. To do such in a couple of days, without taking it to the people to find out what they want, without carefully studying each section of the legislation, and without a true tax academic, isn't good public policy. Representative Gruenberg stated that he wanted to solve the state's fiscal crisis, and therefore a variety of legislation must be reviewed. He stressed the need to take a plan to the

people and to have experts lay out the ramifications of such a tax. Each section of HB 293 will have an economic impact on the state. With regard to his suggestion yesterday regarding imposing the tax on the goods that move outside Alaska, Representative Gruenberg said that he didn't want to make Alaska less competitive in the market place. He encouraged this committee to do what it should while not rushing to judgment.

Number 2149

REPRESENTATIVE WEYHRAUCH remarked that HB 293 will live or die in regard to its political weight in the legislature. Furthermore, Representative Weyhrauch stressed that he became a legislator to make some decisions. "The time is now," he stressed. Representative Weyhrauch said that he is willing to make hard and tough decisions, but the revenue system in this state has to be fixed. Moreover, legislation that develops revenues and resources have to be passed. Therefore, he is offering amendments to be voted up or down.

REPRESENTATIVE WILSON agreed that the legislature has to make some tough decisions now, if possible. She indicated that without some action this year, next year will be horrible. However, she reiterated her need to fight for her constituents in order to make it the least painful for them.

Number 2431

REPRESENTATIVE SEATON pointed out that most of the testimony and input he has heard has been from municipalities and cities. The beauty of Representative Weyhrauch's proposal is that the state will have the 3 percent sales tax without interfering with the caps or exemptions in the municipalities. Representative Weyhrauch's proposal cures many problems, he said.

Number 2729

CO-CHAIR WHITAKER directed the committee discussion to the merits of a seasonal sales tax for which the percentage would fluctuate.

REPRESENTATIVE WEYHRAUCH commented that the concept of a seasonal sales tax is great because of the fluctuation of people coming into Alaska in the summer. However, he indicated that the layer of complexity with a seasonal sales tax is of concern. Representative Weyhrauch said, "So, I'm opposed to this seasonal sales tax." Furthermore, he expressed his dislike of people

making purchasing decisions based on the weather. He also expressed the need for there to be a connection between consumption and use and the people.

CO-CHAIR WHITAKER, upon hearing no disagreement with Representative Weyhrauch's comments on the seasonal sales tax, announced that those thoughts could be relayed to Co-Chair Hawker for the next CS.

Number 2935

REPRESENTATIVE HEINZE related that across the state she is hearing from her colleagues and constituents that they want an income tax rather than a sales tax. "Can we not discuss that," she asked.

CO-CHAIR WHITAKER said that he wanted to give as much leeway as possible. However, he suggested completing the discussion on the 3 percent flat sales tax as opposed to the seasonal sales tax before entering into a discussion on the option of an income tax.

REPRESENTATIVE GRUENBERG inquired as to the ramifications of both the flat 3 percent sales tax versus the seasonal sales tax. Which tax will make more money for the state, he asked.

MR. PERSILY predicted that the seasonal sales tax would probably make a little more money for the state because there would be a higher rate during a period of the year when there's more economic activity. However, in the context of a \$400-\$700 million budget gap, the difference in the two proposals wouldn't be so significant. He estimated that there would be a \$10-\$20 million difference between the 3 percent sales tax and the seasonal sales tax.

REPRESENTATIVE GRUENBERG inquired as to how much Alaskan residents will pay as opposed to non-Alaskan residents under the two different proposals.

MR. PERSILY answered that for a general sales and use sales tax, the department estimates that nonresidents would pay about 10 percent with a reasonable margin of error. Under the seasonal tax proposal, the 10 percent paid by nonresidents would increase to 12 percent of the annual total. Mr. Persily specified that the nonresident portion on the seasonal tax wouldn't double or even increase above 15 percent of the total. He pointed out that although there is more economic activity in the summer

months from nonresidents, items such as airplane tickets and cruise ship travel can't have a sales tax. Therefore, the additional revenue from nonresidents would come from hotels, restaurants, and [retail purchases].

MR. PERSILY, in further response to Representative Gruenberg, informed the committee that the original concept of a 3 percent sales tax with some reasonable exemptions, a broader definition of manufacturing, and no tax on the equipment used in oil and gas production was estimated to generate \$330 million. The CS, with its tight definition of manufacturing that would impose the sales and use tax on oil and gas equipment, would generate closer to \$400 million. Under the original concept that would generate \$330 million. Therefore, a nonresident estimate of 10 percent would result in a contribution of \$33 million [from nonresidents] while a 14 percent nonresident [estimate] would result in a contribution of about \$45 million or so.

REPRESENTATIVE HEINZE noted that often people say that the tourism dollars don't go into the general fund. However, with this tax, tourism dollars would be directly deposited into the general fund.

MR. PERSILY clarified that all sales tax collections would be deposited into the general fund regardless of who paid it. Therefore, a sales tax would collect some general tax from some nonresidents.

REPRESENTATIVE HEINZE surmised then that the tourism [industry] can say that it's putting money in the general fund.

MR. PERSILY remarked, "It just means they'd come to you and ask for more appropriations for tourism marketing."

REPRESENTATIVE HEINZE said that she looks to Mr. Persily to answer questions, however she realized that she doesn't know much about him.

MR. PERSILY informed the committee that he has been in Alaska 27 years and has run his own [newspaper] business two different times. He noted that the newspaper [business] brought him to Alaska. He mentioned that he has lived in Wrangell and Juneau, and has worked for the Anchorage Times. About six years ago he moved to the Department of Revenue. He also noted that he did a stint as an investigator with the State Ombudsman's Office.

MR. PERSILY explained that he works with the department's research and analysis section, economists, and the tax division. He informed the committee that during his six years with the department he has attended seminars and training classes on streamlined sales tax, sales tax, and income tax as well as helping draft and write the revenue forecast for six years. Furthermore, he has worked with the legislature on tax programs for six years. Mr. Persily said he wouldn't try to pass himself off as an expert, but he felt knowledgeable to assist the legislature as it creates a tax policy.

Number 3918

REPRESENTATIVE WEYHRAUCH highlighted that the state will spend money on this program through the enforcement, collection, and administration of it as well as any overhead costs that arise.

MR. PERSILY stated that [the department] has done a lot of analysis regarding the cost of collection.

REPRESENTATIVE GRUENBERG related his understanding that a seasonal tax would generate about \$10 million more than a flat 3 percent tax. He also understood Mr. Persily to say that nonresidents would pay about 2 percent. Representative Gruenberg said that information doesn't logically follow because under the seasonal tax, Alaskans would pay more, which he interpreted to mean they purchase more in the summer. However, Representative Gruenberg thought exactly the opposite might be true. For example, winter clothing costs more. Representative Gruenberg related his thought that a \$10 million difference would be made up by tourists.

MR. PERSILY pointed out that there is only one research person in the Tax Division. Therefore, there isn't an exhaustive set of answers. However, the department's best guess is that a seasonal tax would probably gain \$10-\$20 million each year in additional revenue. The nonresidents could increase from 10 percent to 12-15 percent, and therefore a nonresident increase of 2 percent would amount to \$6 million or so and 5 percent would result in an additional \$15 million and thus nonresidents could pay \$6-\$15 million more. The total additional revenue could be \$10-\$20 [million]. Mr. Persily noted that there is some increased spending by residents during those six [summer] months.

REPRESENTATIVE GRUENBERG highlighted that people often talk in terms of nonresidents paying more. However, upon further

contemplation, [the general public] is really going to question whether they will have to pay more. Representative Gruenberg related his understanding that under the seasonal proposal, Alaskan residents will pay more.

MR. PERSILY reiterated that it's the department's best guess that residents pay a little more in the summer than in [the winter months]. Therefore, it's true that residents would pay a bit more in sales tax [under the seasonal tax proposal], but in the context of the \$330 million it will be a very small amount. He acknowledged that it could be due to the increased economic activity by residents in the summer.

REPRESENTATIVE WILSON commented that she believes Mr. Persily is very capable of advising the legislature in this situation. Representative Wilson informed the committee that when he was a reporter he followed the legislature closely. Furthermore, Mr. Persily accompanied legislators during the statewide tour of the fiscal policy caucus. Mr. Persily is very good at what he does, she said.

Number 4507

REPRESENTATIVE OGG turned to the seasonal sales tax in terms of communities that have an existing sales tax of say 6 percent. He pointed out that in the summertime, the state cherry picks out of that community's share of the sales tax because over time that 4 percent would come off the cap. Therefore, a 6 percent sales tax with the additional 2 percent seasonal state sales tax would, in the winter, result in [the community] obtaining its full 6 percent while in the summer [the community] would only obtain 4 percent of the local sales tax and that 2 percent would go to the state. He pointed out that in the coastal communities many expenditures revolve around the fishing season when people are purchasing large amounts of groceries to take to their fish camp. Perhaps these [residents] are purchasing gear during the summer [when, due to use, things need to be replaced]. With the aforementioned in mind, he suggested that the 3 percent sales tax across the board [would be appropriate] because it would be consistent for the local community and the state.

REPRESENTATIVE HEINZE commented that there are a lot of businesses related to tourism that come to Alaska.

**TAPE 03-27, SIDE B**

REPRESENTATIVE HEINZE continued, "I find this, it just seems backwards."

MR. PERSILY said in reviewing the seasonal sales tax one must keep in mind that there aren't numbers from Anchorage and Fairbanks because those communities don't have a [local] sales tax. In reviewing the communities that do have a year round sales tax, there is increased activity in the summer months. However, permanent fund dividend spending and Christmas spending come close to balancing it out; the increased summer spending isn't an overwhelming increase that one may have initially assumed.

REPRESENTATIVE HEINZE recalled Mr. Persily's comment that the difference wouldn't be significant, perhaps \$10-\$20 million more. However, that is significant.

MR. PERSILY clarified that he meant that it wasn't significant in comparison to the \$300 million or so total and a \$600-\$700 million gap. He agreed that in the context of requests for funds, [\$10-\$20 million] is real money.

Number 4531

CO-CHAIR WHITAKER highlighted the importance in remembering that a seasonal tax is a base tax that is increased in the summer; the seasonal tax is year round, the rate merely changes. The best educated guess Mr. Persily can provide the committee is a range of possibility not a range of probability. Co-Chair Whitaker acknowledged that if tens of thousands or hundreds of thousands of dollars were spent to uncover the range of probabilities rather than possibilities, the number might be a little closer than Mr. Persily's best guess, but probably not.

MR. PERSILY clarified that his best guess regarding the differential between the seasonal tax and the 3 percent flat tax is \$10-\$20 million additional [revenue from the seasonal tax], depending upon the exemptions.

CO-CHAIR WHITAKER inquired as to the committee's stance on the conceptual proposal, the seasonal tax versus the 3 percent flat tax.

REPRESENTATIVE HEINZE stated her preference for the seasonal sales tax.

REPRESENTATIVE WILSON expressed the need for the committee to know its goal. She related that the governor's goal is to obtain the most funds from the tourists. If that's the goal, then the seasonal tax is what could be done. However, she said she didn't like the seasonal sales tax because her constituents say it will be a nightmare to implement. She said that the 3 percent sales tax would be easier to implement.

REPRESENTATIVE HEINZE related that she is on this committee to close the fiscal gap.

CO-CHAIR WHITAKER agreed that closing the fiscal gap is the goal of the committee.

Number 3928

REPRESENTATIVE OGG said that there are several goals, the main being to close the fiscal gap. Still, [closing the fiscal gap] needs to be fair to the citizens of Alaska as well as simple. However, the seasonal sales tax isn't simple, he remarked. Representative Ogg announced that he favors an income tax, it's simple. He also announced that he favors Representative Weyhrauch's year round 3 percent sales tax.

REPRESENTATIVE GRUENBERG turned to tourists and pointed out that tourists don't have a choice of when to come to Alaska. However, Alaskans, to some extent, have a choice when to buy. Representative Gruenberg suggested that under the seasonal tax, people will time their purchases to take advantage of the lower tax rate. With a seasonal tax, merchants' selling habits and Alaskans' buying habits will adjust.

REPRESENTATIVE WEYHRAUCH stressed that this seasonal proposal is going to be a tool for balancing the budget on people in the State of Alaska. He suggested that when more money is necessary the dates of the seasons will be changed to capture additional money. He further stressed the need to have a set sales tax.

REPRESENTATIVE HEINZE noted her partial agreement, and expressed the hope that the legislature is "bigger than that." She related her belief that if the public was presented with [the seasonal tax] and switching the forms from winter to summer and knew that \$10-\$20 million could be used to fund public school buses or the university, they would step up to the plate.

REPRESENTATIVE WILSON commented, "And I can understand someone from Anchorage saying that just because she doesn't have to

worry about all the sales tax and all the ramifications in her town already." She reiterated her belief that the 3 percent year round sales tax is simpler and healthier for the communities in Southeast Alaska.

Number 3360

REPRESENTATIVE KOHRING announced that he doesn't support either proposal. He noted his agreement with the comments regarding the fact that the sales tax would be punitive on those communities that already have a sales tax. He maintained that spending reductions should be reviewed and he offered to suggest where the cuts could be achieved. In regard to what should be done to close the fiscal gap, Representative Kohring said: "Tourism, fisheries, agriculture, public television, radio, (indisc.), AIDEA [Alaska Industrial Development and Export Authority], we can give the administration unallocated cuts. We can say you cut \$100 million, we'll cut \$100 million, let's ... approach this from a partnership perspective."

CO-CHAIR WHITAKER said that the message he is going to take to Co-Chair Hawker is that there is a slight leaning toward a simplification of the approach. Co-Chair Whitaker noted that he is more in favor of a flat 3 percent tax.

Number 3020

REPRESENTATIVE MOSES remarked, "I think we're barking up the wrong tree." Although there is a need to do something about the fiscal gap, it has been proven that "this" should be the last method. If revenue sharing is cut while local governments continue to face mandates [by the state], then [the statewide sales tax] is the worst thing that could be done to the local governments at this time. For some municipalities, the sales tax is the only method available to raise revenue. Representative Moses suggested that the committee wake up and realize what is being done to the local governments, especially when the legislature encourages the formation of local governments as a method of solving some of the problems in the Bush. He emphasized that the state has other ways to raise revenue that the municipalities don't. Therefore, if methods to raise revenue at the local level are taken away, then other methods to raise revenue should be made available. However, it appears that the [legislature] doesn't have the "guts" to use some of those methods to raise revenue, whether it is the income tax or resource tax or permanent fund money. Representative Moses concluded, "The time is long overdue and now we try to

undermine our local governments. And I think it's absolutely wrong."

Number 2804

CO-CHAIR WHITAKER announced that the committee could discuss the income tax versus a sales tax for the next 10 minutes.

REPRESENTATIVE HEINZE reiterated that her constituents prefer an income tax, which she views as fairer to those at the lower income levels.

REPRESENTATIVE WILSON stated her belief that a [statewide] sales tax is the wrong way to go while an income tax is fairer. With an income tax, the economic impact on the state would be less than under a [statewide] sales tax. Furthermore, an income tax can be deducted from the federal income tax and thus the federal government would be paying part of it. Moreover, nonresidents would pay a larger portion than under the [statewide] sales tax. She informed the committee that under an income tax nonresidents would pay from 22-25 percent as opposed to the 7-10 percent under a [statewide] sales tax. Also, [an income tax] would be easier for the people of Alaska. Representative Wilson referred to separate studies from the University of Alaska Institute of Social and Economic Research and the Alaska Department of Revenue. The university study specified that a sales tax paid by nonresidents [generated] 7 percent [of the total revenue generated by that sales tax] while under the income tax nonresidents contributed 25 percent. The departmental study relates that nonresident portions under the sales tax would be about 10 percent while under the income tax [nonresident portions] would be about 22 percent. Furthermore, an income tax would have less bureaucracy at the state level. If an income tax was implemented, Representative Wilson suggested that it be adjusted to one's federal adjusted income. The local option of a sales tax is important to communities, and a [statewide] sales tax wouldn't promote economic development. The income tax is easier and allows more money at the local level to fund services at the local level. The burden of a [statewide] sales tax is felt more by lower income people than an income tax under which a percentage is paid based on the individual's income. Representative Wilson highlighted that the Alaska Municipal League is opposed to the [statewide] sales tax and therefore the majority of the cities are opposed. Furthermore, an income tax is fairer for senior citizens. Representative Wilson said a [statewide] sales tax isn't fair to everyone in the state and legislators, although they certainly represent their districts,

must also think of the state as a whole. Representative Wilson concluded by saying that an income tax is the easiest, most popular, and cheapest choice and thus it's the right choice.

Number 2208

REPRESENTATIVE OGG indicated that he agrees with Representative Wilson's comments. Representative Ogg recalled that most of the testimony the committee has heard has been in opposition to the [statewide] sales tax. Only the metropolitan areas have said that they want the sales tax while the other communities want an income tax. Representative Ogg announced that he favors an income tax, although he recognized that the legislature works by majority.

REPRESENTATIVE GRUENBERG specified that he isn't taking a position on the income tax, but he is taking a position on fairness. Representative Gruenberg echoed previous comments that it's not fair to only consider one alternative. There needs to be a broad approach with hearings and the official consideration of various types of legislation. By only allowing a couple of pieces of legislation on the table and not encouraging people to express their views on all the alternatives suggests that the [legislature's] mind is closed to certain alternatives.

REPRESENTATIVE KOHRING remarked that an income tax merely penalizes the producers of society. He said he didn't believe an income tax would truly aid the economy and encourage economic growth. He indicated that raising taxes, particularly an income tax, takes money out of the private sector and redirects it toward government programs. Furthermore, Representative Kohring said he was philosophically concerned with placing [tax receipts] in the general fund and doling it out to various special interest groups.

Number 1845

REPRESENTATIVE SEATON noted his agreement with Representative Wilson. He reiterated that under an income tax 20 percent of it is paid by the federal government because it can be written off on the federal tax. Furthermore, 17.8 percent of those employed in Alaska are nonresidents and [under an income tax] those people would pay the tax, which wouldn't include fishermen who are paid on 1099s. Furthermore, an income tax seems to be cheaper to collect and there wouldn't be the enforcement problems that exist under a [statewide] sales tax.

Representative Seaton pointed out that the [statewide sales tax] would be an additional burden on businesses that wouldn't exist under the income tax. Representative Seaton also pointed out that his district almost unanimously would prefer an income tax.

Number 1648

REPRESENTATIVE HEINZE suggested that the committee think about the fact that [not imposing] the seasonal tax would mean walking away from \$20 million. With regard to the income tax, Representative Heinze inquired as to the number of nonresident workers there are and how much would be generated if those nonresident workers were taxed.

MR. PERSILY said that the department's numbers are a little less than those of the university. One reason for confusion is that when the Department of Labor & Workforce Development (DLWD) reports nonresident hire each year, many of those people classified as nonresidents are new residents. The DLWD reviews the dividend application list and thus many of those it counts as new residents are really residents who haven't lived here long enough to qualify for a dividend. The Department of Revenue would estimate that 6-7 percent of the total wages earned in Alaska are wages earned by nonresidents, which could be recouped under an income tax. In response to Representative Heinze, he confirmed that the above percentage includes workers on the North Slope. That 6-7 percent would amount to about \$600-\$700 million of the \$9-\$10 billion in total wages earned.

MR. PERSILY returned to the question of how much would be earned from a seasonal sales tax versus a flat year round tax. He pointed out that the assumptions in that model assumed no elasticity, no change in buying habits. The model merely looked at the current activity and applied a sales tax to it. He acknowledged that the great unknown is how any tax will impact an individual's purchasing and spending habits.

The committee took an at-ease from 10:13 a.m. to 10:23 a.m.

Number 1241

REPRESENTATIVE SEATON related his understanding that the figures Mr. Persily has been discussing in relation to an income tax are based on employees, which don't include the 1099 self-employed fishermen who aren't registered as employees in the state.

MR. PERSILY clarified that he is talking in terms of wages that are reported. "That is correct," he said.

REPRESENTATIVE SEATON highlighted that if the income was attached through a 1099 mechanism, then the [wages] number would change.

Number 1142

REPRESENTATIVE GRUENBERG announced that upon more reflection he has reconsidered his position and would be more in favor of a flat year round tax.

REPRESENTATIVE HEINZE announced that she would also like to change her support to the [year round] flat tax.

REPRESENTATIVE WEYHRAUCH returned to the issue of the income tax and said that legislators deal with the form and substance. He further said that the substance of the problem is diminished by dismissing the form of the tax. As a policy-making body, the legislature shouldn't diminish the substance of the issue by simply dismissing the tax because it may be unpopular. Therefore, the income tax must be on the table for discussion.

CO-CHAIR WHITAKER noted that he understands the view of many members of the legislature. The discussion with regard to the sales tax in no way impedes any member from introducing an income tax bill, which he assumed would be referred to this committee. Upon such a referral, the committee could have a specific discussion on the merits of a specific piece of legislation. Co-Chair Whitaker said that he wanted to return to the sales tax legislation and Representative Weyhrauch's point regarding the implementation of regulations.

Number 0824

REPRESENTATIVE WEYHRAUCH reiterated his suggestion to gut the CS and replace it with three sections. Section 1 would simply be the imposition of the sales tax, Section 2 would specify that the department would implement Section 1 through regulations in one year, and Section 3 would specify that nothing in this legislation prohibits a municipality from imposing and collecting its own sales and use tax. Representative Weyhrauch explained that under HB 293 the bureaucracy is coming to the legislature and requesting the implementation of the regulations in the form of statute with all the morass. What started as a sales tax exemption bill is going to be "Christmas treed" by

every lobbyist and interest group in the state. The aforementioned shouldn't be ignored. To that end, Representative Weyhrauch noted that he has prepared an amendment that included the Municipality of Juneau's exemptions as well as every profession governed under Title VIII because that's what is going to happen. The aforementioned is an affront because the administration has already set the standard. Therefore, he clarified that he wanted to, as a policy matter, specify that the legislature has set the policy for a tax and then the [department] would bring forward the tax in regulation, and if that tax doesn't comport with the legislature's intent a statute would be passed to make it clear. Nothing is taken away from the legislature, as a policy matter to deal with a sales tax implemented by the executive branch. The bureaucratic discussion would be transferred from this branch of government to the bureaucracy where it began.

REPRESENTATIVE WEYHRAUCH said the legislature doesn't have the tools, the inclination, the intelligence, or the ability to deal with this complex issue in this short period of time. Therefore, as a policy matter his proposal would express the need to implement it. Right now, Representative Weyhrauch said he can't explain this to a professor or his children and if it can't be explained to his children, it isn't worth it as a policy matter. The people of the state have to be able to understand it, he stressed.

Number 0357

CO-CHAIR WHITAKER identified that there seems to be different issues that aren't separable: the implementation of sales tax through regulation and the affect that will have on municipalities.

REPRESENTATIVE WEYHRAUCH explained that for those communities that have already implemented a sales and use tax scheme, his [statewide] sales tax proposal would be layered on top of that and nothing would prohibit those municipalities from imposing or collecting the local sales tax.

Number 0220

REPRESENTATIVE OGG remarked that a local sales tax with a regulatory sales tax, as proposed by Representative Weyhrauch, don't mesh. He inquired as to what a merchant would do.

REPRESENTATIVE WEYHRAUCH said that the merchant would need to obtain an opinion letter from the [public servants].

REPRESENTATIVE WILSON echoed her earlier comments that she is present to ensure that her constituents are taken care of in the scope of something that is fair for everyone. The legislature does that when legislators are concerned about their districts.

**TAPE 03-28, SIDE A**

REPRESENTATIVE WILSON highlighted that legislators know their districts and think in terms of impacts and benefits to their districts as well as the state while public servants think in terms of the state [as a whole].

Number 0132

REPRESENTATIVE GRUENBERG said the question of "who decides" is one of the issues, specifically in relation to the exemptions. Representative Gruenberg recalled that in 1985-1986, the federal government required states to establish child support guidelines and a task force was established by Alaska's governor. Representative Gruenberg noted that he, as a legislator, sat on the task force. Ultimately, the legislature was unable to deal with the problem and by default the Alaska Supreme Court promulgated Civil Rule 90.3. The legislature passed the responsibility to another branch of government and has never seized control of that issue again. If the legislature ducks this issue of the sales tax and passes the responsibility to the public servants, the legislature will never regain control of that issue either, he predicted. Representative Gruenberg emphasized that the issue has to be decided and if this legislature doesn't have the fortitude to do so, perhaps others should be sitting in the legislature. Representative Gruenberg said that he didn't want to give up the legislature's authority and responsibility per the constitution.

REPRESENTATIVE HEINZE commented on the need for more experts. She related that she believes she was elected to obtain the best knowledge in order to make the best decisions possible. Therefore, she doesn't view passing this responsibility to public servants [as appropriate].

Number 0544

REPRESENTATIVE SEATON returned to the issue of how Representative Weyhrauch's proposal could mesh in those

communities that already have a local sales tax. He said this is done all the time when fish are sold. He explained that there is a fish ticket and 2 percent of the sale is deducted for the aquaculture tax and 1 percent of the sale is deducted for the Alaska Seafood Marketing Institute (ASMI) tax, and the processor takes a 3 percent raw fish tax. An existing municipality that has exemptions and caps already includes those items in their calculations and forms, which would remain the same under Representative Weyhrauch's proposal, and then the calculation and forms would specify 3 percent of the total sales. He opined that it's not that difficult. Furthermore, most of the businesses in the state don't collect sales tax now. A problem does arise if there is the desire to have a unified collection system in which everything is melded into one [system] and broken apart later.

CO-CHAIR WHITAKER announced his understanding with regard to the implementation of a sales tax through regulation or legislation that it appears the committee has reached some consensus regarding the need to do this through the legislative process. Therefore, he specified that the next issue at hand will be with regard to how municipalities that already have a sales tax would be impacted by a [statewide] sales tax.

REPRESENTATIVE WEYHRAUCH remarked that the [statewide] sales tax is simply overlaid on what a community already does in terms of the local community's collection and exemptions. If the state specifies that municipalities can't exempt certain items, then there may be upheaval in those local communities that may get the entire reason for having the sales and use tax in their own local community. As a state policy matter, he said he didn't believe the legislature should dictate what exemptions should exist in local communities that already have a sales and use tax.

CO-CHAIR WHITAKER surmised then that Representative Weyhrauch is suggesting that there be no meshing of the two taxes and no override of state policy with regard to exemptions relative to existing local exemptions.

Number 1152

REPRESENTATIVE WILSON inquired as to how a local sales tax with exemptions and the statewide sales tax would work at the cash register.

MR. PERSILY said that a sophisticated cash register and accounting system will be able to handle it whereas some of the smaller businesses will have to use either the two code books in their head or purchase [a new register]. Mr. Persily noted that another matter to consider is sourcing requirements, which is where the taxable transaction is located. He noted that the state and municipal codes may differ on the sourcing requirements, which will present serious administrative problems for businesses.

MR. PERSILY, in response to Co-Chair Whitaker, explained that the Streamlined Sales Tax project is a nationwide effort with the intent to simplify sales tax administration nationwide, particularly in these times of interstate commerce and Internet commerce. States, cities, and counties are finding that they are losing a lot of money through interstate commerce and thus they are looking for a collective answer. The answer is for the state and business community to come together and agree on some basic rules and go to Congress to change the law. Therefore, in the case of Alaska, if there was a statewide sales tax, the state could collect sales tax on Internet sales. In order to do the aforementioned, one must have one administration statewide because businesses don't want to deal with a separate taxing authority in every city and county.

MR. PERSILY specified that the [Streamlined Sales Tax Agreement] would require that the state have centralized administration and a set of rules and exemptions statewide, applying to all jurisdictions. Without the aforementioned, the state wouldn't participate and would relinquish the opportunity to do so.

REPRESENTATIVE HEINZE surmised that if the municipalities are allowed to collect the tax, then Alaska wouldn't be part of the Streamlined Sales Tax Agreement project.

Number 1558

REPRESENTATIVE WILSON informed the committee that [Representative Crawford] has discussed with her what occurred when the State of Louisiana decided it would collect all the taxes at the local level. In Louisiana when the local level [took back] the tax collection, 70 percent more was collected. Therefore, she ascertained that when the locals collect the tax, it will be done well because part of the money stays in the locality. Representative Wilson related that she favors allowing the local entities to collect the taxes in those areas where the local entities are already collecting local taxes.

REPRESENTATIVE SEATON specified that the committee is dealing with two different problems. One problem is that the committee is, in an extremely short period of time, trying to craft a sales tax without totally interfering with all the communities that collect sales tax. Representative Weyhrauch's suggestion takes care of the aforementioned. However, to enter into the Streamlined Sales Tax Agreement project [requires] more time [because] when one tries to coordinate exemptions and overlay caps there will be massive upheaval. The aforementioned could be eliminated under Representative Weyhrauch's suggestion.

Number 2133

REPRESENTATIVE GRUENBERG said that he understood that there are benefits to streamlining the system. He suggested that there must be some way to solve these problems and still streamline the process.

MR. PERSILY clarified that Representative Weyhrauch's suggestion wouldn't allow Alaska to join the Streamlined Sales Tax Agreement project. The purpose of the Streamlined Sales Tax Agreement project is that it's business friendly, which wouldn't be the case if a business has to program its cash registers and accounting system to maintain two sets of tax return books on the same transaction. That would be a policy call, he said.

REPRESENTATIVE GRUENBERG surmised then that the [legislature] has to decide whether to do this in a manner with which the municipalities can live or the businesses can live. He inquired as to how this dilemma can be resolved.

MR. PERSILY suggested that the best way to deal with it is to take a vote on the best piece of legislation the committee can craft. He stressed that he wasn't sure there was a solution that maintained local control over 97 communities, boroughs, and municipalities that have 97 different tax codes while imposing a statewide tax over it all rather than going to just one [tax].

Number 2356

REPRESENTATIVE OGG characterized Representative Weyhrauch's suggestion as an issue of sovereignty; sovereignty at the local level versus that at the state level. If the desire is to move to the Streamlined Sales Tax Agreement project, there can't be two entities with sovereignty over taxation. Representative Ogg posed a situation in which a young person owns a bait business.

Under [Representative Weyhrauch's suggestion], this young business person would have to determine which items are exempt under the local tax and which are exempt under the state sales tax. However, under the Streamlined Sales Tax Agreement project this young business owner would only have one set of exemptions that would apply to everything, which Representative Ogg viewed as simpler. Representative Ogg identified a second issue in regard to how one would deal with collection and those municipal tax employees. He asked if [under Streamlined Sales Tax Agreement project] the collection would be shifted to the state or would the state be allowed to contract with local municipalities with existing sales tax structures. He informed the committee that Wyoming has 10 field offices to collect the [state's] sales tax and these [local collectors] need to be there to address the problem mentioned by Representative Wilson. Therefore, Representative Ogg expressed the need to include language in the CS allowing the existing municipalities to act as agents or the field office on a contractual basis with the state. Representative Ogg opined that one sovereignty is necessary to allow [small businesses] to be good entrepreneurs.

Number 2709

CO-CHAIR WHITAKER highlighted that a single sovereignty would be advantageous, especially if the state is conforming with a streamlined national program in the future and simplifying the method by which the tax is collected and paid. He related his understanding of Representative Ogg's belief that there is a middle ground in which the local collection system could be combined with the state program being discussed.

CO-CHAIR WHITAKER announced that the committee would reconvene tomorrow at 5:00 p.m.

[HB 293 was held over.]

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 11:05 a.m.