Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version:	SB 5004
Fiscal Note Number:	1
(S) Publish Date:	7/11/2016

Identifier: 0516-DOR-TAX-07-08-16
Title: STATE SALES AND USE TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Governor

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2017**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Personal Services	450.0		4,600.0	8,100.0	8,100.0	8,100.0	8,100.0
Travel			50.0	100.0	100.0	100.0	100.0
Services	500.0		700.0	1,000.0	1,000.0	1,000.0	1,000.0
Commodities			50.0	100.0	100.0	100.0	100.0
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**950.0**	**0.0**	**5,400.0**	**9,300.0**	**9,300.0**	**9,300.0**	**9,300.0**

Fund Source (Operating Only)

1004 Gen Fund	950.0		5,400.0	9,300.0	9,300.0	9,300.0	9,300.0
Total	**950.0**	**0.0**	**5,400.0**	**9,300.0**	**9,300.0**	**9,300.0**	**9,300.0**

Positions

Full-time	3.0		42.0	74.0	74.0	74.0	74.0
Part-time							
Temporary							

Change in Revenues			250,000.0	500,000.0	500,000.0	500,000.0	500,000.0

Estimated SUPPLEMENTAL (FY2016) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 14,000.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/18

Why this fiscal note differs from previous version:

Initial Version

Prepared By: Ken Alper, Director Phone: (907)465-8221
Division: Tax Division Date: 07/07/2016 11:00 PM
Approved By: Jerry Burnett, Deputy Commissioner Date: 07/08/16
Agency: Department of Revenue

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

Analysis

Bill Analysis
This legislation would put into effect a 3% state sales and use tax effective January 1, 2018. This would be separate from and not impacted or reduced by any existing municipal sales and use taxes.

Municipalities would continue to collect and administer their own sales and use taxes; the state would take over statewide collection and administration in 2022. Municipalities would be able to request the state take over administration of the local tax before that date so long as the municipality has conformed it's tax base, exemptions, defintions, and sourcing rules to the state tax. Nothing in this measure would prevent municipalities from continuing existing or imposing new excise taxes on specific goods and services, such as a hotel bed tax or car rental tax.

The state would be authorized to join the Streamlined Sales and Use Tax Agreement, a national organization formed to create and administer standardized rules and definitions to reduce the burden of tax compliance for businesses.

This legislation would provide exemptions from the state sales and use tax, including:

* Sales by and to government agencies
* Sales by and to tax exempt corporations
* Dues and membership fees
* Groceries (not including ready to eat food or meals sold in restaurants)
* Wages and salaries
* Interest and dividends
* Financial services, account fees, loan fees, insurance premiums etc.
* Personal effects when brought into the state for relocation or temporary residence
* Items purchased for resale
* Real estate purchases and rentals
* Jet fuel for international flights
* Transportation of Goods moved in state as part of interstate or foreign commerce
* Health care services including drugs & medical equipment obtained on prescription
* Child care

Revenue Impact
Our midpoint initial revenue estimate is $500 million per year, with a wide range of possible results.

In 2015, the Tax Division estimated the revenue from a 3% statewide tax at $420 million, or $360 million if groceries were exempted. This was based on a bill similar to what was extensively debated by the 23rd Legislature in 2003. The current bill has fewer exemptions and correspondingly higher revenue. The most substantial change is from removing the Use Tax exemption on property used in manufacturing and natural resource extraction.

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. 0

Analysis Continued

Implementation Cost
Adding a statewide sales and use tax would be a significant effort for the Department of Revenue. The initial need will be to engage a contractor to work with Department leadership to create an implementation plan with more refined estimates of staffing, space, supply, and equipment needs. The cost estimates in this fiscal note are a first attempt to anticipate the results of this analysis. Of our FY2017 request, $500.0 will enable us to develop this plan. We are also requesting three new employees initially as the leadership team to coordinate the contract and staff recruitment.

We have recently completed implementation of the Tax Revenue Management System (TRMS), which is creating an integrated online tax application used by both taxpayers and administrators for the 24 tax types currently administered by the Division. We expect to engage FAST Enterprises, the TRMS contractor, to build a sales tax module into TRMS, with additional provisions for collection and distribution of local sales taxes.

The $14,000.0 capital request reflects an estimate for our contract with FAST to add the sales tax module as well as the Department's other short term implementation costs. This is a multi-year process and much of the actual spending will not occur until after we begin collecting revenues. The initial fast-track need will be to outreach to municipalities and work towards uniform definitions and standards. In addition to the software development, this will require a rapid and robust outreach to the business community throughout Alaska.

Prior to the effective date, the contractor and staff will begin building the tax return filing and examination modules, with their associated databases, communications, and integration with our existing imaging, accounting, and collections systems. The legislation creates a monthly tax liability with a return due on the last day of the subsequent month. Terefore, the first tax filings and receipts will be received in late February, 2018.

The department envisions a gradual ramping up of the staff needed to collect and administer the tax. The full staffing complement of 74 is taken from prior analysis on similar legislation, most significantly CSHB 293(FIN) from the 23rd legislature. We expect the new staff to be roughly split between our Juneau and Anchorage offices.

An initial analysis of the staff needs within the Tax Division to implement a statewide sales and use tax is as follows:

Title	FY17	FY18	FY19+
Audit Supervisor	1	2	3
Tax Auditor	0	12	24
Tax Technician	1	10	22
Sales Tax Specialist	1	2	3
Appeals Officer	0	2	4
Accountant	0	1	1
Accounting Technician	0	2	4
Admin Assistant	0	2	3
Analyst / Programmer	0	1	2
Imaging Operators & Office Assistants	0	8	8
Total FT	**3**	**42**	**74**