

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

October 14, 2021

10:04 a.m.

**MEMBERS PRESENT**

Representative Ivy Spohnholz, Chair  
Representative Adam Wool, Vice Chair (via teleconference)  
Representative Andy Josephson  
Representative Calvin Schrage  
Representative Andi Story (via teleconference)  
Representative Mike Prax (via teleconference)  
Representative David Eastman (via teleconference)

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Kevin McCabe

**COMMITTEE CALENDAR**

HOUSE BILL NO. 141

"An Act relating to an appropriation limit; relating to the budget responsibilities of the governor; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 4005

"An Act relating to a state sales and use tax; authorizing the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement; and providing for an effective date."

- HEARD & HELD

PRESENTATION(S): Local Sales taxes in Alaska

- HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 141

SHORT TITLE: APPROPRIATION LIMIT; GOV BUDGET

SPONSOR(s) : REPRESENTATIVE(s) SPOHNHOLZ

03/20/21 (H) READ THE FIRST TIME - REFERRALS  
03/20/21 (H) W&M, FIN  
04/29/21 (H) W&M AT 11:30 AM DAVIS 106  
04/29/21 (H) Heard & Held  
04/29/21 (H) MINUTE (W&M)

BILL: HB4005

SHORT TITLE: STATE SALES AND USE TAX

SPONSOR(s) : REPRESENTATIVE(s) TARR

10/04/21 (H) READ THE FIRST TIME - REFERRALS  
10/04/21 (H) W&M, FIN

**WITNESS REGISTER**

MEGAN HOLLAND, Staff  
Representative Ivy Spohnholz  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented an explanation of changes in the committee substitute (CS), Version D, for HB 141 on behalf of Representative Spohnholz, prime sponsor.

REPRESENTATIVE GERAN TARR  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented HB 4005, as the prime sponsor.

NICOLE REYNOLDS, Deputy Director  
Tax Division  
Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions and provided information during the hearing on HB 4005.

NILS ANDREASSEN, Executive Director  
Alaska Municipal League  
Juneau, Alaska

**POSITION STATEMENT:** Presented a PowerPoint presentation on local sales taxes in Alaska.

DAN STICKEL, Chief Economist  
Tax Division  
Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions during the presentation on sales tax.

**ACTION NARRATIVE**

[10:04:58 AM](#)

**CHAIR IVY SPOHNHOLZ** called the House Special Committee on Ways and Means meeting to order at 10:04 a.m. Representatives Schrage, Josephson, Spohnholz, Wool (via teleconference), Prax (via teleconference), and Eastman (via teleconference) were present at the call to order. Representative Story (via teleconference) arrived as the meeting was in progress. Also present was Representative McCabe.

**HB 141-APPROPRIATION LIMIT; GOV BUDGET**

[10:06:00 AM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be HB 141 HOUSE BILL NO. 141, "An Act relating to an appropriation limit; relating to the budget responsibilities of the governor; and providing for an effective date."

[10:06:56 AM](#)

MEGAN HOLLAND, Staff, Representative Ivy Spohnholz, Alaska State Legislature, on behalf of Representative Spohnholz, prime sponsor, presented an explanation of changes in the proposed committee substitute (CS), Version D, for HB 141 [included in the committee packet], which read as follows [original punctuation provided]:

Section 1:

Page 1, line 7

The word "of" is added following "principal" to read "appropriations required to pay the principal of and interest on general obligation bonds." This is a grammatical edit to improve the precision of language.

Page 2, lines 18-21

New language allows exceeding the appropriation limit for capital investments and deferred maintenance of up to 10% over the limit for that fiscal year.

Section 2:

Lines 23-28

A conforming change that adds capital improvements to the requirement that the governor produce an annual report with a calculation of the appropriation limit.

Page 2 line 30 - page 3, line 2

Adds a requirement that the legislative finance division prepare a report analyzing the appropriation limit and the rate of growth every three years. The report would be submitted to finance committee chairs in each legislative body.

Section 4 of bill version G was removed and sections in version D are renumbered accordingly.

This section previously limited calculation of the revised appropriation limit and subsequent mandatory reports to appropriations that take effect during or after fiscal year 2023.

Section 4:

Lines 6-7

Establishes a "hard floor" by calculating the limit for fiscal year 2023, (\$5.771 billion), and removes the calculation for that fiscal year from transition language clarifying that spending for school bond debt and state-declared disasters will not be included.

[10:09:55 AM](#)

CHAIR SPOHNHOLZ summarized the list of changes in HB 141, Version D, as explained by Ms. Holland. Essentially, she said the proposed CS would establish a higher floor at \$5.7 billion plus a 10 percent additional spending allowance for capital projects to allow for strategic investments while maintaining a meaningful cap.

[10:11:09 AM](#)

REPRESENTATIVE JOSEPHSON moved to adopt the proposed committee substitute (CS) for HB 141, labeled 32-LS0454\D, Marx, 10/4/21, as the working document. There being no objection, Version D was before the committee.

[10:11:49 AM](#)

The committee took a brief at-ease.

[10:13:08 AM](#)

CHAIR SPOHNHOLZ explained that there were two spending caps in existence: a constitutional spending cap that allowed for \$9.8 billion in spending and a statutory spending cap that allowed for \$5.8 billion in spending. She noted that there were no enforcement or accountability measures in place, opining that the constitutional cap was too high, and the statutory cap didn't have the appropriate "feedback loops." She reported that CSHB 141(W&M) would allow reestablish the spending cap at \$5.7 billion plus 10 percent for capital investment and set future appropriation limits based on an average for the previous three fiscal years' UGF budget when adjusted by the greater of population or inflation. Further, she pointed out that the limit would exclude spending for state-declared disasters and dividends. Additionally, the bill required that the Office of the Governor calculate the appropriation limit each year and submit it with the annual budget request, which she believed to be the most important part of the legislation, as it would create an accountability measure for the administration and the legislature to consider the spending cap. She emphasized the importance of considering whether the capital budget and the permanent fund dividend (PFD) should be excluded from the spending cap and encouraged substantive discussions on these matters.

[10:16:31 AM](#)

CHAIR SPOHNHOLZ, in response to a question from Representative Josephson, said the bill, as drafted, excluded dividends. She reiterated her belief that the decision to include or exclude dividends from the spending cap was an important policy call.

[10:18:30 AM](#)

REPRESENTATIVE WOOL pointed out that the dividend was treated like a budget appropriation. He opined that such a large, fluctuating budget item should be included in the spending cap.

CHAIR SPOHNHOLZ acknowledged his position.

[10:20:07 AM](#)

REPRESENTATIVE STORY agreed with Representative Wool that the dividend should be included in the spending cap in an attempt to protect Alaska's resources. She addressed the concept of accountability and asked the sponsor to expound on that.

CHAIR SPOHNHOLZ discussed the importance of a spending cap as part of a comprehensive fiscal plan. She shared her belief that strategic investments in the Alaska Permanent Fund managing the growth of government incrementally, as opposed to rapid "booms and busts," would be good for everyone.

[10:24:58 AM](#)

REPRESENTATIVE JOSEPHSON opined that there would be bipartisan division amongst legislators on this issue.

[10:25:58 AM](#)

REPRESENTATIVE PRAX believed that if the dividend was included in the spending cap, the legislature would not be resolving the conflict regarding spending.

[10:27:36 AM](#)

CHAIR SPOHNHOLZ announced that CSHB 141(W&M) was held over.

**HB 4005-STATE SALES AND USE TAX**

[10:27:41 AM](#)

CHAIR SPOHNHOLZ announced that the next order of business would be HOUSE BILL NO. 4005, "An Act relating to a state sales and use tax; authorizing the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement; and providing for an effective date."

[10:28:15 AM](#)

REPRESENTATIVE GERAN TARR, Alaska State Legislature, prime sponsor, presented HB 4005. She summarized a PowerPoint presentation, titled, "HB 4005 Statewide Sales and Use Tax" [hard copy included in the committee packet]. Beginning on slide

2, she expressed her concern that a cut to the dividend was a regressive option that would disproportionately affect middle income families the most. She turned to slide 3, highlighting conclusions made by the Institute of Social and Economic Research (ISER) on the economic impact of PFD cuts. She proceeded to slide 4, which read as follows [original punctuation provided]:

Concepts for HB 4005

- ∪ Lessons from 2017
- ∪ Spreading burden among all who benefit from public services
- ∪ Getting comfortable with a sales tax
  - ∪ Who pays and how soon
  - ∪ Deductions
  - ∪ Management

REPRESENTATIVE TARR advanced to slide 5, which read as follows [original punctuation provided]:

Lessons from 2017

- ∪ House Majority passes 4-part Fiscal Plan
- ∪ Zero support from Senate Majority leads to failure
- ∪ Governor must support proposals forwarded by legislature

REPRESENTATIVE TARR continued to slide 6, which read as follows [original punctuation provided]:

Do you want only Alaskans to contribute to public services? No!

- ∪ Everyone who use benefits from public services should have a way to contribute
- ∪ Population of Alaska (733,000) is a medium size city in lower 48
- ∪ Denver, Seattle, San Francisco, Indianapolis, Charlotte, Columbus, Jacksonville, Fort Worth, and Austin are all around or more than our entire population of 733,000
- ∪ Very large state (2.5 times the size of Texas, the next largest state and Texas, California, and Montana combined are all smaller than Alaska)

- ∪ 20% of workforce is out of state residents and 2.26 million visitors (2019)

REPRESENTATIVE TARR continued to slide 7, which read as follows [original punctuation provided]:

#### Getting Comfortable with a Sales Tax

- ∪ 45 other states have statewide sales and use tax
  - ∪ 21 with Democratic Governors
  - ∪ 24 with Republican Governors
- ∪ Alaskans spend more on domestic travel than residents of any other state
  - ∪ Hawaii - 4% GET plus legislature authorized counties to collect surcharge
  - ∪ City and County of Honolulu: 0.5% effective January 1, 2007 to December 31, 2030
  - ∪ HONOLULU (KHON2) - Counties are poised to increase hotel room taxes up to 3%. It is a move that affects not just visitors, but also many Hawaii residents. Tourism experts said Hawaii hotels already add 15% in taxes to the hotel room rates. That will soon go up to 18%. (Jul 8, 2021)

[10:37:57 AM](#)

REPRESENTATIVE SPOHNHOLZ was unsure how domestic travel related to the sales tax proposal.

REPRESENTATIVE TARR pointed out that when Alaskans travel to other places, they are contributing to those economies. Similarly, she argued that visitors to Alaska should be contributing to Alaska's economy. She resumed the presentation on slide 8, which provided a table of who would be affected by various tax proposals, how much they would pay, and how soon revenue would be collected. She addressed exemptions on slides 9-10, which read as follows [original punctuation provided]:

#### Exemptions

- ∪ Don't want to disproportionately burden rural communities and lowincome (sic) families
- ∪ Exempt basic essentials
  - ∪ Food from grocery store



- o Medicine, including medical services, drugs, durable medical equipment, mobility enhancing equipment, and prosthetic devices
- o Child care services
- o Feminine hygiene products (No Period tax!)

Exemptions

- o Some deductions must be included
  - o State can't tax feds
  - o State or an instrumentality of the state
- o Others included could be considered or expanded
  - o Financial services
  - o Non-profits (now just 501(c)(3) (there are 29 501(c) categories)

REPRESENTATIVE TARR proceeded to slide 11, which read as follows [original punctuation provided]:

Management (new version)

- o Municipalities and Boroughs levy the tax, collects it and remits to state
- o Exemptions for local sales and use tax can be different from state
- o Needs to be reauthorized every 7 years

[10:48:03 AM](#)

REPRESENTATIVE TARR advanced to slide 12, which read as follows [original punctuation provided]:

One part of a seven-part Fiscal Plan

REVENUE GENERATION:

- o HJR 7: The constitutional amendment protecting the Permanent Fund by changing to the percent of market value (POMV) management, limiting the annual draw to 5%, and saying there shall be a dividend as provided by law (introduced by Governor Dunleavy on February 18, 2021).
- o HB 73: Legislation that establishes a 50/50 split between government expenditures and dividends for the annual draw (introduced by Governor Dunleavy on February 18, 2021).

o HB 104: Legislation that increases the base tax rate per gallon for four separate motor fuels (8 cents for highway, 5 cents for marine, 4.7 cents for aviation, and 3.2 cents for jet, introduced by Representative Josephson on February 19, 2021).

o HB 130: Legislation that closes tax loopholes in Alaska's corporate income tax structure (introduced by Representative Wool on March 10, 2021).

NEW LEGISLATION:

o HB 4004: Legislation that increases the minimum tax on oil and gas from 4% to 6%, suspends all other components of the oil and gas tax until December 31, 2024, (introduced by Representative Tarr on August 30, 2021).

o HB 4005: Legislation establishing a sales tax which exempts food for groceries, heating oil, health care services (including services at a health care facility, drugs, durable medical equipment, mobility enhancing equipment, and prosthetic devices, childcare services, feminine hygiene products), among other exemptions (introduced by Representative Tarr on August 30, 2021).

BUDGET REDUCTIONS:

o Address five major public health and public safety crisis of child abuse, domestic violence, sexual assault, mental health, and substance misuse

REPRESENTATIVE TARR advanced to slide 13, which read as follows [original punctuation provided]:

Impact to Alaskans - 2% general sales and use tax

In terms of the impact to Alaskans, here are some estimates -

PFD \$2350 per person (50/50 plan)

Fuel Tax - \$32 for every 10,000 miles driven in a car with 25 mpg

Sales Tax - \$200 for every \$10,000 in spending on taxable items

Total = \$2118 after paying taxes

Double the tax burden -

PFD \$2350 per person (50/50 plan)

Fuel Tax - \$64 for every 20,000 miles driven in a car with 25 mpg  
Sales Tax - \$400 for every \$20,000 in spending on taxable items  
Total = \$1886 after paying taxes

Hypothetical family of four is better off by \$4,450 with sales tax, does not children

REPRESENTATIVE TARR concluded on slide 14, which read as follows [original punctuation provided]:

Other Considerations

- o Is state management necessary?
  - o Lessons learned since 2015 and online sales tax - Nils Andreassen of AML to speak to this issue
- o Should all 501(c) organizations be exempt?
  - o 29 different categories- did not change in this version
    - o Volunteer fire departments (could be (c) (3) or (c) (4))
    - o Veteran organizations (c) (23)

[10:53:06 AM](#)

REPRESENTATIVE JOSEPHSON asked why the legislature should invest energy into this proposal given the likelihood that the governor would veto it. He further noted that the legislation lacked a companion bill in the Senate.

REPRESENTATIVE TARR suggested that several senators had indicated interest in this proposal; however, she was unsure whether a companion bill would be introduced. She conveyed that she had asked the governor to indicate his willingness to support a sales tax, adding that she wished such a statement had been made by the administration.

REPRESENTATIVE JOSEPHSON expressed his concern that the legislation was being proposed as part of a seven-part plan. He was unclear on how that could be accomplished.

REPRESENTATIVE TARR relayed that recently, people seemed to be more willing to consider proposals that that they may not align

with. She said, "[We're] just getting to a place where we just need to do something."

[11:00:59 AM](#)

REPRESENTATIVE TARR, in response to a question from Representative Prax, said her intention was that businesses would not pay sales tax when purchasing something they would be selling. She continued to explain that businesses would obtain a seller's permit.

[11:04:04 AM](#)

REPRESENTATIVE WOOL expressed his concerns with the proposal and asked for specifics on what kind of items and services would be taxed. He pointed out that prices in rural Alaska were already high and opined that the addition of a sales tax would be extremely regressive. He recalled a slide from a prior presentation on HB 37 that highlighted data from ISER and ITEP, indicating that those who make less than \$100,000 per year would pay more on a sales tax than an income tax. He noted that 81 percent of Alaskans make less than \$100,000 annually. He maintained his concern about the regressivity of the proposal. He discussed the impact of dividend cuts and wondered how the bill sponsor would acquiesce to the various exemptions that many groups would lobby for.

REPRESENTATIVE TARR acknowledged his concerns. She discussed the impacts that government shutdowns have on state employees. She reiterated that the state could bring in \$300 million in new revenue while keeping food, medicine, and heating oil exempt. She suggested adding essential items for children, such as diapers, to the list of exemptions.

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CHAIR SPOHNHOLZ, directing her question to Ms. Reynolds, asked whether this proposal could truly be implemented by July 1, 2022, as suggested in the sponsor's presentation.

[11:17:01 AM](#)

NICOLE REYNOLDS, Deputy Director, Tax Division, Department of Revenue, expected a bill such as this to take at least 12 months to implement.

CHAIR SPOHNHOLZ, referring to the fiscal note, asked whether the local tax collections reduced the implementation cost and by how much.

MS. REYNOLDS said that change in the legislation did not affect the fiscal note.

[11:18:11 AM](#)

REPRESENTATIVE JOSEPHSON recalled that Representative Tarr had implied that if HB 4005 had been law, it would have improved the political impasse that occurred last summer. He asked her to elaborate on that thought.

REPRESENTATIVE TARR shared her belief that to the extent that new revenue solves the dividend debate, HB 4005 would be beneficial.

CHAIR SPOHNHOLZ opined that such a complex piece of legislation could take years to implement even if expedited by the department.

[11:20:37 AM](#)

REPRESENTATIVE WOOL asked whether the sponsor's constituents would have reacted differently to the proposal if they knew that those making under \$100,000 would pay more under a sales tax compared to an income tax. Additionally, he asked whether a \$1,000 increase to the PFD would offset the sales tax.

REPRESENTATIVE TARR said a dividend of over \$1000 would offset a sales tax; further, she acknowledged that her constituents preferred an income tax.

**PRESENTATION(S): Local Sales Taxes in Alaska**

[11:22:41 AM](#)

CHAIR SPOHNHOLZ announced that the final order of business would be the Local Sales Taxes in Alaska presentation.

[11:23:07 AM](#)

NILS ANDREASSEN, Executive Director, Alaska Municipal League, presented a PowerPoint on local sales taxes in Alaska titled "In Consideration of a State Sales Tax," subtitled, "Highly regressive broad-based revenue that is politically plausible but in conflict with a local tax base in the majority of

communities." He directed attention to slide 2, which highlighted the significance of state spending as a critical component of GDP. He continued to slide 3, which illustrated Alaska's economic growth. He indicated that Alaska's economy had grown significantly over time; further, that state spending had shown a smoothing effect. He suggested that reducing the budget as a means to addressing the structural deficit would impact the state's entire economy.

[11:26:56 AM](#)

CHAIR SPOHNHOLZ, referring to the graph on slide 3, asked which color represented government spending.

MR. ANDREASSEN replied the dark green on top. He proceeded to slide 4, titled "An 'appropriate' level of taxation - that which is goal-oriented," which read as follows [original punctuation provided]:

- Building tax capacity is closely linked to the process of economic development and growth. This is a broader concept of state capacity to provide for a range of capabilities that are needed for the state to function effectively.
- Tipping points (IMF): Countries that are immediately to the left of the tipping point on average grow by around 20 to 25 percent in real terms over 10 years; Countries immediately to the right of the threshold grow by more than 30 percent over 10 years
- Tax revenues above 15 percent of a country's gross domestic product (GDP) are a key ingredient for economic growth and, ultimately, poverty reduction.
- Getting to at least this 15 percent level helps countries generate sufficient domestic resources that can be invested in health, education, and infrastructure.
- States with a broad-based tax perform better

MR. ANDREASSEN indicated that taxes would not come without consequences on slide 5, which showed the impacts of different tax proposals.

[11:31:41 AM](#)

MR. ANDREASSEN presented slide 6, titled "Income Tax Considerations," which read as follows [original punctuation provided]:

- An income tax is the most "fair" way to tax Alaskans. It:
  - Can be structured as flat or progressive, falling the same on all income categories or more at higher levels.
  - Is applied to businesses and individuals, and is implemented by governments and nonprofits just like any other employer.
  - Addresses concerns about S corps or Trusts not captured by current corporate tax.
  - Captures out of state worker wages, at a roughly similar level as sales tax does of tourist dollars.
  - Is common and well-understood, and easily implementable
  
- Local governments are prohibited from implementing this kind of tax, leaving it to the State to do if any.
  
- AML developed an income tax calculator here

MR. ANDREASSEN presented slide 7, "Sales Tax Shopping Cart," which read as follows [original punctuation provided]:

- A sales tax is the most "regressive" of revenue options. It:
  - Falls disproportionately on lower income households, as a share of income, thus making it regressive.
  - Competes with current local taxation in more than 100 communities.
  - Would increase the sales tax to as much as 9% in some communities.
  - Would require the most significant administrative burden of all taxes.
  - Would not fall on expenditures of nonprofits and the government, thus not capturing as much as 15% of Alaska's economy.
  
- A sales tax is found in 45 of 50 U.S. states, thus making it one of the most common form of taxation. It

is the most common form of taxation at the local level, along with property tax.

- To see what the costs of goods would increase to with the addition of a statewide sales tax, AML produced a sales tax shopping cart.

[11:36:17 AM](#)

MR. ANDREASSEN presented slide 8, "Sales Tax Shopping Cart," which read as follows [original punctuation provided]:

A monthly shopping bill, just based on our list of 15 items, varies widely across communities.

- The base bill alone can be twice as much in some as others
- Local sales tax ranges from \$0 to \$94
- The State's would add between \$14 and \$33 to this
- The % range of the total bill relative to Anchorage can be as much as 111%

MR. ANDREASSEN presented slide 9, "Considerations," which read as follows [original punctuation provided]:

- Tax base - in-state and out-of-state sources
- Exemptions - what is taxed, or not?
- Distribution by income level - who does this impact across income levels?
- Distribution by geography - who does this impact across regions?
- Revenue growth - how does an income tax grow over time?
- Interaction with local taxes - what effect does this have on local tax structures?
- Economic effects - what effect does a sales tax have on the economy?

[11:41:35 AM](#)

MR. ANDREASSEN presented slide 10, which indicated that sales tax administration at the local level had no parallel at the state level; further, that remote sales tax collection could change what was possible. He moved immediately to slide 11,



"Primary form of local government tax," which read as follows [original punctuation provided]:

- 106 local governments with sales tax
- Many in place since incorporation - pre-Statehood
- Sales tax offices can employ as many as 4 individuals
- Multiples sales tax administrators with decades of experience • Local variation - rates, caps, exemptions - respond to local circumstance
- Stable - very little increase over the last 20 years
- Growth occurs as economy and population grows
- Preservation of tax base, too, as needs increase

[11:45:37 AM](#)

MR. ANDREASSEN continued to slide 12, "Single-level, streamlined, statewide administration," which displayed a screenshot of the website for the Alaska Remote Sales Tax Information Portal. He discussed the parameters of remote sales tax remittance. He turned to slide 13, which displayed a screenshot of the sales tax remittance portal, indicating that local governments had built single-level administration - a one-stop shop for registration, reporting, and payment.

[11:49:03 AM](#)

REPRESENTATIVE JOSEPHSON asked how many AML members were using remote sales tax collection and whether there was substantial foregone revenue if not.

MR. ANDREASSEN said 40 members were directly involved with remote sales tax collection effort. He continued to explain that the Wayfair case found that [businesses] must be part of the process; therefore, if others outside the process were benefiting, they were doing so only through the voluntary compliance of sellers. He conveyed that the benefits to remote sales tax collection was an estimated 5-20 percent more in sales tax revenue. He resumed his presentation on slide 14, explaining that the remote sales tax website functioned as portal for jurisdictions and sellers with complete reporting and accountability. He presented slide 15, "Remote Sales Tax Growth," which showed a graph comparing 2020 sales tax with 2021 and read as follows [original punctuation provided]:

- Grown from 14 jurisdictions in first year to 40 now;  
from 200 sellers to over 1,200

- Represents on average 7% of total sales, relatively small portion of overall budget

MR. ANDREASSEN proceeded to slide 16, which displayed a screenshot of the sales tax lookup website. He noted that different rates and exemptions could be accounted for at a jurisdictional level with this tool, providing businesses with an ease of use. Slide 17 addressed multi-jurisdictional rate and exemptions, pointing out that the current system accounted for multi-layered jurisdictional variability.

[11:56:13 AM](#)

MR. ANDREASSEN presented slide 18, "A Sales Tax of Last Resort," which was subtitled, "How to structure a state sales tax in Alaska without negatively impacting the current local option, rates, and exemptions." He moved immediately to slide 19, "Improved bill - HB 4005," which read as follows [original punctuation provided]:

- Updating 2016 bill, an iteration of previous bills
- HB4005 has removed takeover of local government decision-making and control - exemptions, code, collection
  - The starting point for the State's sales tax policy should not be the elimination of that at the local level - this is a step toward collaboration
- Reduced rate - still competes with local tax base where there's currently a tax in place
  - Increased expectation of residents that tax needs to be reduced, with greater ability perceived to be to do so at the local level
- Expanded exemptions - reduces regressivity
  - More administratively feasible to offer credit; lesser burden on sellers

MR. ANDREASSEN addressed what's missing on slide 20, which compiled portions of the uniform code that were absent from the bill. He argued that a comprehensive, successful sales tax statute would require the inclusion of this language. He advanced to slide 21, "Some options to consider," which read as follows [original punctuation provided]:

- State rate capped when combined with local rate, not to exceed national average of 7.27%; with no cap on local rate
- Align State sales tax law with Uniform Code already in place
- Join the Alaska Remote Seller Sales Tax Commission
- Provide for intergovernmental agreement either to collect on behalf of local government or to have local government collect on behalf of State
- Reinststitute Community Revenue Sharing formula prior to 50% reduction in 2015 to make up for tax base impact, accessible to communities with current sales taxes
- Implement over time, exempting collection in current sales tax jurisdictions

[12:03:42 PM](#)

MR. ANDREASSEN presented slide 22, "Intergovernmental Agreement - Colorado," which read as follows [original punctuation provided]:

- (1) The general assembly hereby finds and declares that:
  - (a) It is in the best interest of the state, local governments, and taxpayers to have sales tax collected in the most efficient and effective manner feasible;
  - (b) Sales taxes can be administered and collected most efficiently when the governmental entities that collect the taxes cooperate and share responsibilities to collect and distribute revenues from the taxes;
  - (c) The administrative burden on taxpayers is lessened when governmental entities cooperate and agree on the processes used to administer and collect sales taxes;
  - (d) Broad authority and precedent exist for governmental entities to operate more efficiently and effectively by contracting with each other to cooperate in carrying out their respective responsibilities;
  - (e) The purpose of this section is to encourage the state to work cooperatively with counties and other local governments in the administration and collection of sales taxes in the state to enhance efficiencies and procedures for the benefit of

both the department of revenue and local governments.

(2) The executive director of the department of revenue may enter into an intergovernmental agreement with any county for the purpose of enhancing the systemic efficiencies and procedures used in the collection of state and local sales taxes. Such agreement shall be entered into on behalf of and for the benefit of both the county and the department. In addition, a municipality may be included as a party to the agreement to further the same efficiencies and procedures to be enhanced by the agreement between the executive director and a county. The agreement may allow the parties to share in providing any function or service lawfully authorized to each of the parties, including the sharing of costs, information, or duties related to the collection of sales taxes within the boundaries of the county.

MR. ANDREASSEN presented slide 23, "Steps to Decision-Making," which read as follows [original punctuation provided]:

- Conduct an updated REMI analysis of macro level shocks to economy from budget reductions, PFD reductions, sales, income, and other taxes
- Regional analysis to see total tax burden relative to income or GDP
- Testimony from local government finance officers, managers, and sales tax administrators about collection and importance at local level
- Consult with legal counsel that specializes in sales tax
- Testimony from Craig Johnson at the Streamlined Sales Tax and Use Commission (SSUTA) - value, needs, benefits
- Testimony from Scott Paterson at Avalara, an original director of the SSUTA and current head of one of the CSPs (also bought TTR, our lookup and API software)
- Testimony from Erin Neer at MUNIRevs, the software vendor that built the ARSSTC registration and reporting portal
- Testimony from the State of Colorado, which has a system relatively similar to what Alaska could consider

[12:06:53 PM](#)

REPRESENTATIVE JOSEPHSON commented that there was anecdotal evidence that members of the Republican Party that served in the legislature were more inclined to agree to a sales tax than an income tax. He asked whether increases to community assistance and school bond debt reimbursement could "swing the pendulum" of AML.

MR. ANDREASSEN was unsure whether AML would be willing to give up local control and the ability to leverage local economies to meet the needs of residents.

[12:10:30 PM](#)

CHAIR SPOHNHOLZ, referring to slide 4, asked Ms. Reynolds whether the state had analyzed state revenues compared to GDP growth over time.

MS. REYNOLDS deferred to Mr. Stickel.

[12:11:15 PM](#)

DAN STICKEL, Chief Economist, Tax Division, Department of Revenue, offered to follow up with the requested information.

CHAIR SPOHNHOLZ highlighted a concern about the current government funding structure. She pointed out that the private sector relied upon the public sector to provide for services, such as roads, courts, schools, and law enforcement. She believed that understanding the relationship between the state funding structure and GDP was an important metric for the committee to comprehend.

[12:12:16 PM](#)

REPRESENTATIVE STORY pointed out that inflation had increased the cost of goods by 5 percent. She asked how the high rate of inflation impacted AML's position on a state sales tax.

MR. ANDREASSEN acknowledged that inflation would increase the cost of everything, which in turn, would have a corresponding increase on the tax.

[12:14:00 PM](#)

CHAIR SPOHNHOLZ provided closing remarks and thanked Mr. Andreassen for his presentation.

[12:16:47 PM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 12:17 p.m.