

H

B

G

9

7



Alaska State Legislature

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

Date: April 11, 1986

To: Senator DeVries
Chair
Senate Community and Regional Affairs Committee

From: Rep. Max Gruenberg, Jr. *Max*
Chair
House HESS Committee

Re: HB 697: "An Act prohibiting municipal sales tax on purchases made with food stamps"

Attached please find back-up material for HB 697, which was introduced by the HESS Committee at the request of the Department of Health and Social Services. The Food Security Act of 1985 requires each state to have in place by October 1, 1986, a law prohibiting sales tax on food stamp purchases.

I would ask your assistance in promptly scheduling this bill so that our food stamp program is not endangered.

Thank you very much.

DHSS position paper attached

POSITION PAPER

HOUSE BILL NO. 697

"An Act prohibiting municipal sales tax on purchases made with food stamps; and providing for an effective date."

BACKGROUND

On December 23, 1985, the Food Security Act of 1985 (Public Law 99-198) was enacted. Title XV, Subtitle A, of this Act modifies the Food Stamp Act of 1977. One area that requires immediate attention of the Alaska State Legislature concerns charging tax on items purchased with food stamps.

Section 1505 states that, as of October 1, 1986, the Food Stamp Program cannot be administered in states where tax is charged on purchases made with food stamps. An extension of up to one year (October 1, 1987) may be granted if the state can justify, to the satisfaction of the Secretary of the United States Department of Agriculture, that more time is needed to implement this change. The Act says that an extension may be given if the state demonstrates that implementation by October 1, 1986, would have an adverse and disruptive effect on the administration of the Food Stamp Program or would not provide adequate time for retail stores to implement changes in sales tax policy.

PURPOSE OF FEDERAL AMENDMENT

This amendment to the Food Stamp Act provides equity of food purchasing power between persons participating in the Food Stamp Program and living in areas where taxes are levied on food items and food stamp households residing in areas where food items are not subject to taxation. There are 20 states that charge either state or local sales tax on food purchases. According to Congressman Leon Panetta, Chairman of the Subcommittee on Domestic Marketing, Consumer Relations and Nutrition, "This (Amendment) would put an end to what is, in effect, a transfer of revenues from the Federal Government to State and local government at the expense of low-income households."

IMPACT

If this proposal is enacted, the impact varies from none to moderate.

There will be no impact on the Department of Health & Social Services, Division of Public Assistance (the agency administering the Food Stamp Program) at the Central Office, Regional or District Office levels.

There will be a small positive impact on those Food Stamp Program participants who reside in areas that levy taxes on items that may be bought with food stamps. If a municipality has a four percent sales tax and a food stamp household living in that community spends \$78 worth of food stamps, prior to the enactment and implementation of this legislation, the household would have spent \$3 of their food stamps paying tax on their purchases. This bill allows those low income households to use all their food stamps on food items.

The degree of negative impact municipalities that levy taxes on these certain items will experience depends on the percentage of taxation levied and the number of Food Stamp Program participants that shop in the municipality. According to a study conducted last year by the Department of Community and Regional Affairs, it was estimated that in 1984, \$300,000 in revenues were generated by purchases made with food stamps.

The grocery stores in areas levying taxes will, undoubtedly, be impacted the most by this bill. Each store will need to make alterations to their accounting/bookkeeping systems. Computerized cash registers will have to be reprogrammed to take this change into account. In stores where automation does not exist, hand methods of calculating this change will have to be established.

If this proposed legislation is not passed, every group mentioned above will be negatively impacted.

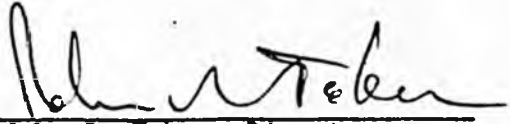
On the average, 26,826 people, or 8,942 households participate in the Food Stamp Program each month in Alaska. These people will suffer irreparable harm, physically as well as economically, through the loss of their food purchasing power. Many households have no money to buy food; food stamps are their only tender at the grocery store.

The State will lose approximately \$4.5 million annually, in Federal matching funds because, besides providing all the food stamps issued in Alaska, the U.S. Department of Agriculture also provides 50 percent of the administrative costs for running the Food Stamp Program. Staff will be cut in The Division of Public Assistance's Central Office, Regional Offices and District Offices, since the Department will be losing one of the major programs administered by that Division.

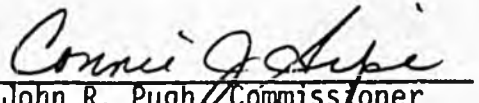
Grocers would be greatly impacted if the Food Stamp Program no longer existed in Alaska. It is projected that \$25,000,000 in food stamps will be issued to Alaskans during 1986 and the majority of that amount is spent at groceries in Alaska. Without that revenue and no food program to replace the Federal program, many grocers would suffer severe economic hardship.

RECOMMENDATION

The Department of Health and Social Services strongly recommends the passage of this bill. Although passage of this bill appears to cause a decline in revenue to certain municipalities and a revision in bookkeeping/accounting methods for grocery stores in these municipalities, loss of the Food Stamp Program in Alaska would hurt one out of every 20 Alaskans, cause far greater revenue declines at all levels, and remove a major revenue source for Alaska's grocers, wholesalers, and shippers.

Recommended by: 
John R. Taber, Director
Division of Public Assistance

Date: 3-18-86

Approved by: 
for John R. Pugh, Commissioner
Department of Health &
Social Services

Date: 3-20-86

ices are essential to ensure the long-term agricultural viability and profitability of farms and ranches in the United States;

(2) agricultural research and technology transfer activities of the Secretary (including activities of the Extension Service, the Agricultural Research Service, and the Cooperative State Research Service), State cooperative extension services, land-grant and other colleges and universities, and State agricultural experiment stations—

(A) have contributed greatly to innovation in agriculture; and

(B) have a continuing role to play in improving agricultural productivity;

(3) the annual irretrievable loss of billions of tons of precious topsoil through wind and water erosion reduces agricultural productivity;

(4) many farmers and ranchers are highly dependent on machines and energy resources for agricultural production;

(5) public funding of a properly planned and balanced agricultural research program is essential to improving efficiency in agricultural production and conservation practices; and

(6) expanded agricultural research and extension efforts are needed to assist farmers and ranchers to—

(A) improve agricultural productivity; and

(B) implement soil, water, and energy conservation practices.

PURPOSES

Sec. 1463. It is the purpose of this subtitle to—

(1) facilitate and promote scientific investigation in order to—

(A) enhance agricultural productivity;

(B) maintain the productivity of land;

(C) reduce soil erosion and loss of water and plant nutrients; and

(D) conserve energy and natural resources; and

(2) facilitate the conduct of research projects in order to study agricultural production systems that—

(A) are located, to the extent practicable, in areas that possess various soil, climatic, and physical characteristics;

(B) have been, and will continue to be, managed using farm production practices that rely on—

(i) items purchased for the production of an agricultural commodity; and

(ii) a variety of conservation practices; and

(C) are subjected to a change from the practices described in subparagraph (B)(i) to the practices described in subparagraph (B)(ii).

INFORMATION STUDY

Sec. 1464. (a) Subject to section 1468, the Secretary shall inventory and classify by subject matter all studies, reports, and other materials developed by any person or governmental agency with the participation or financial assistance of the Secretary, that could be used to promote the purposes of this subtitle.

(b) In carrying out subsection (a), the Secretary shall—

(1) identify, assess, and classify existing information and research reports that will further the purposes of this subtitle, including information and research relating to legume-crop rotation, the use of green manure, animal manures, and municipal wastes in agricultural production, soil acidity, liming in relation to nutrient release, intercropping, the role of organic matter in soil productivity and erosion control, the effect of topsoil loss on soil productivity, and biological methods of weed, disease, and insect control;

(2) identify which of such reports provide useful information and make such reports available to farmers and ranchers; and

(3) identify gaps in such information and carry out a research program to fill such gaps.

RESEARCH PROJECTS

Sec. 1465. (a) Subject to section 1468, in cooperation with Federal and State research agencies and agricultural producers, the Secretary shall conduct such research projects as are needed to obtain data, draw conclusions, and demonstrate technologies necessary to promote the purposes of this subtitle.

(b) In carrying out subsection (a), the Secretary shall conduct projects and studies in areas that are broadly representative of United States agricultural production, including production on small farms.

(c) In carrying out subsection (a), the Secretary may conduct research projects involving crops, soils, production methods, and weed, insect, and disease pests on individual fields or other areas of land.

(d) In the case of a research project conducted under this section that involves the planting of a sequence of crops, the Secretary shall conduct such project for a term of—

(1) at least 5 years; and

(2) to the extent practicable, 17 to 15 years.

(e) In coordination with the Extension Service and State cooperative extension services, the Secretary shall take such steps as are necessary to ensure that farmers and ranchers are aware of projects conducted under this section.

(2) The Secretary shall ensure that such projects are open for public observation at specified times.

(f) Subject to paragraph (2), the Secretary may indemnify an operator of a project conducted under this section for damage incurred or undue losses sustained as a result of a rigid requirement of research or demonstration under such project that is not experienced in normal farming operations.

(2) An indemnity payment under paragraph (f) shall be subject to any agreement before a project grantee and operator entered into prior to the initiation of such project.

COORDINATION

Sec. 1466. The Secretary shall—

(1) establish a panel of experts consisting of representatives of the Agricultural Research Service, Cooperative State Research Service, Soil Conservation Service, Extension Service, State cooperative extension services, State agricultural experiment stations, and other specialists in agricultural research and technology transfer; and

(2) ensure that a research project under this subtitle is designed after taking into consideration the views of such panel.

REPORTS

Sec. 1467. The Secretary shall submit to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate—

(1) not later than 180 days after the effective date of this subtitle, a report describing the design of research projects established in accordance with sections 1465 and 1466;

(2) not later than 15 months after the effective date of this subtitle, a report describing the results of the program carried out under section 1465; and

(3) not later than April 1, 1987, and each April 1 thereafter, a report describing the progress of projects conducted under this subtitle, including—

(A) a summary and analysis of data collected under such projects; and

(B) recommendations based on such data for new basic or applied research.

AGREEMENTS

Sec. 1468. The Secretary may carry out sections 1464 and 1465 through agreements

with land-grant colleges or universities, other universities, State agricultural experiment stations, nonprofit organizations, or Federal or State governmental entities, that have demonstrated appropriate expertise in agricultural research and technology transfer.

DISSEMINATION OF DATA

Sec. 1469. The Secretary shall—

(1) make available through the Extension Service and State cooperative extension services—

(A) the information and research reports identified under section 1464; and

(B) the information and conclusions resulting from any research project conducted under section 1465; and

(2) otherwise take such steps as are necessary to ensure that such material is made available to the public.

AUTHORIZATION FOR APPROPRIATIONS

Sec. 1470. There are authorized to be appropriated such sums as may be necessary to carry out this subtitle, to remain available until expended.

EFFECTIVE DATE

Sec. 1471. This subtitle shall become effective on October 1, 1985.

TITLE XV—FOOD STAMP AND RELATED PROVISIONS

SubTitle A—Food Stamp Provisions

PUBLICLY OPERATED COMMUNITY MENTAL HEALTH CENTERS

Sec. 1501. (a) Section 3 of the Food Stamp Act of 1977 (7 U.S.C. 2012) is amended by—

(1) in subsection (f), striking out "which" and all that follows through "providing" and inserting in lieu thereof ", or a publicly operated community mental health center, under part B of title XIX of the Public Health Service Act (42 U.S.C. 300r et seq.) to provide"; and

(2) inserting ", or a publicly operated community mental health center," after "private nonprofit institution" in the last sentence of subsection (k).

(b) Section 10 of such Act (7 U.S.C. 2019) is amended by inserting "publicly operated community mental health centers or" after "purchased, and".

DETERMINATION OF FOOD SALES VOLUME

Sec. 1502. Section 3(k) of the Food Stamp Act of 1977 (7 U.S.C. 2012(k)) is amended by inserting after "food sales volume" in clause (1) the following: ", as determined by visual inspection, sales records, purchase records, or other inventory or accounting record-keeping methods that are customary or reasonable in the retail food industry."

TERTIARY FOOD PLAN

Sec. 1503. The first sentence of section 3(o) of the Food Stamp Act of 1977 (7 U.S.C. 2012(o)) is amended by striking out "fifty-four" and inserting in lieu thereof "fifty".

DEFINITIONS OF THE DISABLED

Sec. 1504. Section 3(r) of the Food Stamp Act of 1977 (7 U.S.C. 2012(r)) is amended by—

(1) inserting before the semicolon at the end of paragraph (2) the following: ", federally or State administered supplemental benefits of the type described in section 1616(a) of the Social Security Act if the Secretary determines that such benefits are conditioned on meeting the disability or blindness criteria used under title XVI of the Social Security Act, or federally or State administered supplemental benefits of the type described in section 212(a) of Public Law 93-86 (42 U.S.C. 1382 note)";

(2) inserting before the semicolon at the end of paragraph (3) the following: "or receives disability retirement benefits from a governmental agency because of a disability";

considered permanent under section 221(f) of the Social Security Act (42 U.S.C. 421(f));

(3) inserting "or non-service-connected" after "service-connected" in paragraph (1)(A);

(4) striking out "or" at the end of paragraph (5);

(5) striking out the period at the end of paragraph (6) and inserting in lieu thereof "or"; and

(6) adding at the end thereof the following: "(7) is an individual receiving an annuity under section 2(a)(1)(iv) or 2(a)(1)(v) of the Railroad Retirement Act of 1974 (45 U.S.C. 231(a)(1)(iv) or 231(a)(1)(v)), if the individual's service as an employee under the Railroad Retirement Act of 1974, after December 31, 1938, had been included in the term 'employment' as defined in the Social Security Act, and if an application for disability benefits had been filed."

STATE AND LOCAL SALES TAXES

SEC. 1505. (a) Section 4(a) of the Food Stamp Act of 1977 (7 U.S.C. 2013(a)) is amended by inserting before the period at the end of the first sentence the following: "except that a State may not participate in the food stamp program if the Secretary determines that State or local sales taxes are collected within that State on purchases of food made with coupons issued under this Act."

(b)(1) Except as provided in paragraph (2), the amendment made by subsection (a) shall take effect with respect to a State beginning on the first day of the fiscal year that commences in the calendar year during which the first regular session of the legislature of such State is convened following the date of enactment of this Act.

(2) Upon a showing by a State, to the satisfaction of the Secretary, that the application of paragraph (1), without regard to this paragraph, would have an adverse and disruptive effect on the administration of the food stamp program in such State or would provide inadequate time for retail stores to implement changes in sales tax policy required as a result of the amendment made by subsection (a), the Secretary may delay the effective date of subsection (a) with respect to such State to a date not later than October 1, 1987.

RELATION OF FOOD STAMP AND COMMODITY DISTRIBUTION PROGRAMS

SEC. 1506. Section 4(b) of the Food Stamp Act of 1977 (7 U.S.C. 2013(b)) is amended by—

- (1) striking out the first sentence; and
- (2) striking out "also" in the second sentence.

CATEGORICAL ELIGIBILITY

SEC. 1507. (a)(1) Section 5(a) of the Food Stamp Act of 1977 (7 U.S.C. 2014) is amended by inserting after the first sentence the following: "Notwithstanding any other provisions of this Act except sections 6(b), 6(d)(2), and 6(g) and the third sentence of section 3(f), and during the period beginning on the date of the enactment of the Food Security Act of 1985 and ending on September 30, 1989, households in which each member receives benefits under a State plan approved under part A of title IV of the Social Security Act, supplemental security income benefits under title XVI of the Social Security Act, or aid to the aged, blind, or disabled under title I, X, XIV, or XVI of the Social Security Act, shall be eligible to participate in the food stamp program."

(2) During the period beginning on the date of the enactment of this Act and ending on September 30, 1989, section 5(j) of the Food Stamp Act of 1977 (7 U.S.C. 2014(j)) shall not apply.

(b) Section 11(f) of the Food Stamp Act of 1977 (7 U.S.C. 2020(f)) is amended by adding

at the end thereof the following: "No household shall have its application to participate in the food stamp program denied nor its benefits under the food stamp program terminated solely on the basis that its application to participate has been denied or its benefits have been terminated under any of the programs carried out under the statutes specified in the second sentence of section 5(a) and without a separate determination by the State agency that the household fails to satisfy the eligibility requirements for participation in the food stamp program."

(c) Not later than 2 years after the date of the enactment of this Act, the Secretary shall—

(1) evaluate the implementation of the second sentence of section 5(a) of the Food Stamp Act of 1977, as amended by subsection (a) of this section; and

(2) submit to the Committee on Agriculture, Nutrition, and Forestry of the Senate and the Committee on Agriculture of the House of Representatives a report summarizing the results of such evaluation.

THIRD PARTY PAYMENTS

SEC. 1508. Section 5 of the Food Stamp Act of 1977 (7 U.S.C. 2014) is amended by—

(1) inserting "except as provided in subsection (k)," after "household," in subsection (d)(1); and

(2) adding at the end thereof the following new subsection:

"(k)(1) For purposes of subsection (d)(1), except as provided in paragraph (2), assistance provided to a third party on behalf of a household by a State or local government shall be considered money payable directly to the household if the assistance is provided in lieu of—

- "(A) a regular benefit payable to the household for living expenses under a State plan for aid to families with dependent children approved under part A of title IV of the Social Security Act (42 U.S.C. 601 et seq.); or
- "(B) a benefit payable to the household for living expenses under—

"(i) a State or local general assistance program; or

"(ii) another basic assistance program comparable to general assistance (as determined by the Secretary).

"(2) Paragraph (1) shall not apply to—

- "(A) medical assistance;
- "(B) child care assistance;
- "(C) energy assistance;
- "(D) assistance provided by a State or local housing authority; or
- "(E) emergency and special assistance, to the extent excluded in regulations prescribed by the Secretary."

EXCLUDED INCOME

SEC. 1509. (a) Section 6(d) of the Food Stamp Act of 1977 (7 U.S.C. 2014(d)), as amended by section 1508, is amended by—

(1) inserting "and except as provided in subsection (k)," after the comma at the end of clause (1);

(2) in clause (3)—

(A) striking out "higher education" and inserting in lieu thereof "secondary education"; and

(B) adding at the end thereof "and to the extent loans include any origination fees and insurance premiums,"

(3) inserting "no portion of any non-Federal educational loan on which payment is deferred, grant, scholarship, fellowship, veterans' benefits, and the like that are provided for living expenses, and no portion of any Federal educational loan on which payment is deferred, grant, scholarship, fellowship, veterans' benefits, and the like to the extent it provides income assistance beyond that used for tuition and mandatory school fees," in the proviso to clause (5) after "child care expenses,"

"4) inserting", but household income that otherwise is included under this subsection shall be reduced by the extent that the cost of producing self-employment income exceeds the income derived from self-employment as a farmer" before the comma in clause (9);

(5) inserting "except as otherwise provided in subsection (k) of this section" after "food stamp program" in clause (18).

(b) Section 5(k) of such Act, as added by section 1508, is amended by adding at the end thereof the following new paragraph:

"(3) For purposes of subsection (d)(1), educational loans on which payment is deferred, grants, scholarships, fellowships, veterans' educational benefits, and the like that are provided to a third party on behalf of a household for living expenses shall be treated as money payable directly to the household."

(c) Section 5 of the Food Stamp Act of 1977 (7 U.S.C. 2014), as amended by section 1508, is amended by adding at the end thereof the following new subsection:

"(l) Notwithstanding section 162(b) of the Job Training Partnership Act (29 U.S.C. 1552(b)), earnings to individuals participating in on-the-job training programs under section 206(5) of the Job Training Partnership Act shall be considered earned income for purposes of the food stamp program, except for dependents less than 18 years of age."

CHILD SUPPORT PAYMENTS

SEC. 1510. Section 5 of the Food Stamp Act of 1977 (7 U.S.C. 2014), as amended by sections 1508 and 1509—

(1) in subsection (d) by—

(A) striking out "and" at the end of clause (1); and

(B) inserting before the period at the end thereof the following: "and (13) at the option of a State agency and subject to subsection (m), child support payments that are excluded under section 602(a)(8)(A)(v) of the Social Security Act (42 U.S.C. 602(a)(8)(A)(v))"; and

(2) adding at the end thereof the following new subsection:

"(m) If a State agency excludes payments from income for purposes of the food stamp program under subsection (d)(13), such State agency shall pay to the Federal Government, in a manner prescribed by the Secretary, the cost of any additional benefits provided to households in such State that arise under such program as the result of such exclusion."

DEDUCTIONS FROM INCOME

SEC. 1511. Section 5(e) of the Food Stamp Act of 1977 (7 U.S.C. 2014(e)) is amended by—

(1) in the second sentence, striking out "homeownership component" and inserting in lieu thereof "homeowners' costs and maintenance and repair component";

(2) effective May 1, 1986, in the third sentence, striking out "18" and inserting in lieu thereof "20";

(3) effective May 1, 1986, amending the fourth sentence by—

(A) amending the proviso to clause (2) to read as follows: "Provided, That the amount of such excess shelter expense deduction shall not exceed \$147 a month in the forty-eight contiguous States and the District of Columbia, and shall not exceed, in Alaska, Hawaii, Guam, and the Virgin Islands of the United States, \$256, \$210, \$179, and \$109 a month, respectively, adjusted on October 1, 1986, and on each October 1 thereafter, to the nearest lower dollar increment to reflect changes in the shelter (exclusive of homeowners' costs and maintenance and repair component of shelter costs), fuel, and utilities components of housing costs in

STATE OF ALASKA 1986 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : HB No. 697
 Title : Prohibiting Municipal sales tax on purchases made with food stamps.
 Sponsor : Health, Ed. and Soc. Svcs. Comm.
 Requestor : _____
 Date of Request : 3/18/86

FISCAL DETAIL

Agency Affected : Health & Social Services
 BRU : Public Assistance/Administration
 Components : Eligibility Determination

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	-0-	-0-	-0-	-0-	-0-	-0-
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
LAND & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING : (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	-0-	-0-	-0-	-0-	-0-	-0-
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS : Attach a separate page if necessary

This measure provides a positive impact on those Food Stamp Program participants who reside in areas that levy taxes by allowing those low income households to use all their food stamps on food items. It does not establish any program or function which would impact the Division of Public Assistance.

Prepared by : John R. Tabor, Director Phone : 465-3347
 Division : Division of Public Assistance Date : 3-18-86

Approved by Commissioner : Connie S. Stephens Date : 3-20-86
 Agency : Department of Health & Social Services

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

JCC

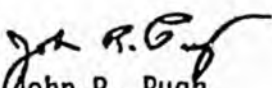
MEMORANDUM

State of Alaska

TO: Ray Gillespie
Chief of Staff
Office of the Governor

DATE: February 21, 1986

FILE NO:

FROM: 
John R. Pugh
Commissioner
Department of Health
and Social Services

TELEPHONE NO: 465-3030

SUBJECT: Need for Legislation to
Prohibit Local Sales
Taxes on Food Stamp
Purchases

Section 1505 of the Food Security Act of 1985, recently passed by Congress, has amended the Food Stamp Act to require that states participating in the Food Stamp Program may not allow local sales tax to be collected on those purchases. The attached memo from the Attorney General's office analyzes this statute and the relevant Alaska statute in more detail. Also attached is the proposed statutory amendment which would cure this problem. The state must take steps as soon as possible to get into legal compliance with the Federal Food Stamp Act, in order to guarantee continued receipt of food stamps within Alaska. The effective date of this Act is October 1, 1986, unless an extension is granted by the Secretary of Agriculture. A request for an extension cannot be based upon a lack of legislative action, but is instead restricted to very specific reasons, cited at the bottom of page two of the Attorney General's memo. In any event, with the current federal mood toward the saving of money, the risk of applying for an extension rather than introducing and moving legislation to forbid the local sales tax on food stamp purchases would not be wise.

Please note that in Alaska only, food stamp recipients are allowed to buy non-food items such as subsistence tools and supplies with their food stamps. Therefore, the legislation needs to specify no sales tax on items bought with food stamps, and not be limited to the exemption from taxation of food only.

We appreciate your attention to this matter, and will proceed as you consider best toward introduction of such legislation or to try for an extension of the effective date of the Act until October 1, 1987.

Attachments

RECEIVED

FEB 21

GOVERNOR'S OFFICE

MEMORANDUM

State of Alaska

TO: Honorable John Pugh
Commissioner
Department of Health and
Social Services

DATE: February 14, 1986

FILE NO: 66-3-86-0317

TELEPHONE NO: 465-3603

FROM: Harold M. Brown
Attorney General

SUBJECT: Sales taxes on food
stamp purchases

By: George W. Edwards *GWE*
Assistant Attorney General
Human Services - Juneau

You have asked for our evaluation of the potential impact of certain recent federal food stamp legislation on the state's food stamp program eligibility.

We believe the legislation in question could result in the termination of state participation in the federal food stamp program if certain sales tax restrictions are not implemented.

Section 1505 of the Food Security Act of 1985 (H.R. 2100) amends the Food Stamp Act at 7 U.S.C. § 2013(a) to provide that:

[A] State may not participate in the food stamp program if the Secretary determines that State or local sales taxes are collected within that State on purchases of food made with coupons issued under this Act.

Alaska boroughs and cities are currently permitted to collect sales taxes on sales, rents, and services without restriction. AS 29.45.650(a) states:

(a) A borough may levy and collect a sales tax not exceeding six percent on sales, rents, and on services provided in the borough. The sales tax may apply to any or all of these sources. Exemptions may be granted by ordinance.

AS 29.45.700 states:

(a) A city in a borough that levies and collects areawide sales and use taxes may levy sales and use taxes on all sources taxed by the borough in the manner provided for boroughs, except that the assembly may by ordinance authorize a city to levy and collect sales and use taxes on other sources.

(b) A city in a borough that does not levy and collect sales and use taxes for areawide borough functions may levy and collect sales and use taxes in the manner provided for boroughs.

(c) A city outside a borough may levy and collect sales and use taxes in the manner provided for boroughs.

A study conducted by the Department of Community and Regional Affairs last year found that Alaska's food stamp purchases during 1984 totaled \$19,788,024. The department estimated that these purchases generated approximately \$300,000 in sales tax revenues. Its conclusion was that the loss of sales tax revenues from food stamp purchases would have little effect on revenue sharing or local government operations.

Since Alaska's current sales tax laws do not require that municipalities exempt food items purchased with food stamps, legislative action will be necessary to assure that the state will continue to qualify for the federal program.

Proposed legislation accompanies this memorandum. It creates an exception to existing sales tax law by prohibiting taxation of food purchases made with food stamps. You will note that it conforms to the requirements of section 1505 in not prohibiting taxation of purchases of non-food items made with food stamps. The potential for revenue loss to municipalities resulting from this legislation is minimal compared to the loss to the state's economy which would result from termination of the food stamp program.

Unless an extension is granted by the Secretary of Agriculture, section 1505 will become applicable to Alaska on October 1, 1986. This date represents the beginning of the federal fiscal year and is controlling according to the Congressional Record for December 17, 1985, at H 12398.

An extension to October 1, 1987, may be granted as set forth in section 1505(b)(2):

(2) Upon a showing by a State, to the satisfaction of the Secretary, that the application of paragraph (1), without regard to this paragraph, would have an adverse and disruptive effect on the administration of the food stamp program in such State or would provide inadequate time for retail stores to implement

Honorable John Pugh, Commissioner
Department of Health and Social Services
66-3-86-0317

February 14, 1986
Page 3

changes in sales tax policy required as a result of the amendment made by subsection (a), the Secretary may delay the effective date of subsection (a) with respect to such State to a date not later than October 1, 1987.

We are unable to address the question of how much lead time municipalities and retailers in Alaska may require to implement the sales tax changes proposed in the legislation. If a compelling case for an extension is made before the legislature by municipalities or retailers, the same argument would hopefully convince the secretary. Barring such a showing, the appropriate course of action appears to be the passage of necessary legislation with a special effective date of October 1, 1986.

Please review our proposed legislation in light of the above information and let us know how you wish to proceed.

GWE:nb

Original sponsor: Health, Education and
Social Services Committee

1 IN THE HOUSE

BY THE HEALTH, EDUCATION AND
SOCIAL SERVICES COMMITTEE

2 CS FOR HOUSE BILL NO. 697 (HESS)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act prohibiting municipal sales tax on purchases
7 made with food stamps; and providing for an effective
8 date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 29.10.200(40) is amended to read:

11 (40) AS 29.45.650(c), [AND] (d), and (f) (sales and use tax)

12 * Sec. 2. AS 29.10.200 is amended by adding a new paragraph to read:

13 (47) AS 29.45.700(a) (power of levy)

14 * Sec. 3. AS 29.45.650(a) is amended to read:

15 (a) Except as provided in (f) of this section, a [A] borough may
16 levy and collect a sales tax not exceeding six percent on sales,
17 rents, and on services provided in the borough. The sales tax may
18 apply to any or all of these sources. Exemptions may be granted by
19 ordinance.

20 * Sec. 4. AS 29.45.650 is amended by adding a new subsection to read:

21 (f) A borough may not levy and collect a sales tax on a purchase
22 made with food coupons, food stamps, or other type of certificate
23 issued under 7 U.S.C. 2011 - 2025 (Food Stamp Act). This subsection
24 applies to home rule and general law municipalities.

25 * Sec. 5. AS 29.45.700(a) is amended to read:

26 (a) A city in a borough that levies and collects areawide sales
27 and use taxes may levy sales and use taxes on all sources taxed by the
28 borough in the manner provided for boroughs. The [, EXCEPT THAT THE]
29 assembly may by ordinance authorize a city to levy and collect sales

1 and use taxes on other sources except purchases made with food cou-
2 pons, food stamps, or other type of certificate issued under 7 U.S.C.
3 2011 - 2025 (Food Stamp Act). This subsection applies to home rule
4 and general law municipalities.

5 * Sec. 6. This Act takes effect October 1, 1986.
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29