

HB

5004

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NEW SUSTAINABLE

ALASKA

PLAN



Pulling Together to Build Our Future

Governor's Special Session Sales Tax HB5004

**Presentation to House Finance Committee
July 12, 2016**

Sales and Use Tax Proposal

"An Act establishing a state sales and use tax; relating to taxes levied by cities and boroughs; providing authority to the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement; and providing for an effective date."

Sales and Use Tax Proposal

What Does it Do?

- Creates Sales and Use Tax at 3% of sales price of tangible personal property and services
- Creates certain exemptions—detailed later
- Requires sellers to collect and remit tax to state
- Requires state to administer municipal sales and use taxes in 2022 (or earlier) and remit proceeds to municipalities
 - Municipalities would continue to administer their special purpose (alcohol, hotel, etc.) sales taxes
- Creates “timely filing allowance” for sellers who file timely (1% of amount due)
- Permits state to join “Streamlined” state agreement

Sales and Use Tax Proposal

How Much Does it Raise?

- \$250 million in FY18, \$500 million in FY19¹
- After 2019 tied to inflation

Who Will Pay the Tax?

- Consumers, including visitors and non-resident workers (ISER report estimated 15% of commodities and 10% of services purchased by non-residents)
- Use Tax collected on goods brought into the state
- State sales taxes are deductible from federal income tax, for those who itemize

¹ This is the midpoint of a wide confidence interval--\$300 to \$800 million.

Sales and Use Tax Proposal

What is a Use Tax?

- A use tax is imposed on consumers (including businesses) of tangible personal property or services that are used in the state
- The tax applies to anything that would have had a sales tax applied if it had been sold in the state, including:
 - purchases from out-of-state vendors that are not required to collect tax on their sales
 - products manufactured in the state and used by the entity who manufactured them
- The sales tax and the use tax are “mutually exclusive”

Sales and Use Tax Proposal

Why have a Use Tax?

- Constitutionally required if a state has a sales tax
- Levels the playing field

How Would Internet Sales Be Affected?

- If seller has physical presence in Alaska (e.g., property or staff), seller would be required to collect and remit tax
- If seller has no physical presence, seller not required to collect tax
- If internet seller doesn't collect tax, buyer required to report sale on "use tax" return. Some states seeking to require seller to report lists of shipments into state for enforcement

Sales and Use Tax Proposal

Who Would File Returns?

- Any seller required to collect the tax
- Users where no sales tax was collected at time of sale

How Would the Rate Compare to Other States?

- 45 states currently have a sales and use tax
- Among states with a sales and use tax, Alaska's rate would be second lowest
 - Colorado currently has lowest rate at 2.9%
 - California currently has highest at 7.5%
- Average local sales tax rate is 1.78%
 - Combined 4.78% average rate would also be 2nd lowest

Sales and Use Tax Proposal

What are the Proposed Exemptions?

- Groceries (not including restaurant or ready-to-eat food)
- Health care services including drugs & medical equipment
- Child care
- Items purchased for resale
- Sales by and to government agencies & charitable corps
- Wages, salaries, commissions, and tips
- Union dues and membership fees
- Interest and dividends
- Financial services & insurance premiums
- Personal effects (when relocating)
- Jet fuel for international flights
- Real estate sales and rentals

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Thank You!

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Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version:	HB 5004
Fiscal Note Number:	1
(H) 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					
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES								
Personal Services	450.0		4,600.0	8,100.0	8,100.0	8,100.0	8,100.0	8,100.0
Travel			50.0	100.0	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	1,000.0
Commodities			50.0	100.0	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	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	9,300.0
Total	950.0	0.0	5,400.0	9,300.0	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	74.0
Part-time								
Temporary								

Change in Revenues			250,000.0	500,000.0	500,000.0	500,000.0	500,000.0	500,000.0
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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 its tax base, exemptions, definitions, 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.

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. Therefore, 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

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Governor Bill Walker
STATE OF ALASKA

July 8, 2016

The Honorable Speaker Chenault
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Chenault:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to the establishment of a statewide sales and use tax.

This bill would levy a statewide tax of three percent on sales and rents of tangible personal property and on sales of services beginning January 1, 2018. It is critical that a sales tax include a use tax in order to avoid purchases made out of state from being used in this state without paying the tax. Therefore this bill also would levy a tax on the privilege of using tangible personal property acquired on or after January 1, 2018, and either manufactured by the person using the property in this state, or acquired outside this state as the result of a transaction that would have been subject to sales tax in this state.

This bill addresses important components of a workable, fair, and revenue-generating sales tax. First, the bill addresses the needs of municipalities, some of which also impose sales or sales and use taxes by continuing to allow municipalities to collect and enforce their current sales and use taxes through December 31, 2021. After that, the State will assume responsibility for administering a municipal general sales and use tax. Municipalities will receive their share of the tax levied by the municipality. Administration of the statewide sales tax by the Department of Revenue will result in a more efficient and less costly system to administer for both the State and municipalities. Municipalities would continue to be able to levy and collect specific sales or excise taxes on single items of tangible or intangible personal property or services such as bed taxes, car rental taxes, liquor, cigarette, motor fuel, and fish taxes. Further, in order to allow for efficient administration, the tax base, including exemptions, definitions, and sourcing rules shall be identical between the statewide sales and use tax and a general sales and use tax administered by a municipality.

Additionally, my proposal would exempt certain transactions from the statewide tax, including government sales (including sales or use by the federal, state, or municipal body), union dues, intangibles (such as wages, salaries, tips, or commissions), financial services, groceries, isolated or occasional sales, sales for resale, and real property. My proposed exemptions are reasonable and

The Honorable Mike Chenault
Transmittal Sales Tax
July 8, 2016
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target particular activities or sales for exemption, based on fundamental policy concerns of reducing the tax burden on those least able to pay.

Further, the bill allows for a number of technical provisions needed for a sales and use tax, such as exemption certificates, direct pay permits, sellers' permits and remedies for improper use of a purchase obtained with an exemption certificate.

Last, the bill would be effective January 1, 2018, to allow adequate time for preparation and education about the sales and use tax.

The bill also would provide the Department of Revenue with authority to enter the Streamlined Sales and Use Tax Agreement, an agreement approved by the Streamlined Sales and Use Tax Governing Board, Inc., with the goal of simplifying and modernizing sales and use tax administration in order to reduce the burden of tax compliance for sellers. By considering the Streamlined Sales and Use Tax Agreement, and its usefulness to our state, the Department of Revenue may consider a regulatory action best designed to meet our state's needs.

We must take meaningful and responsible action to close our fiscal gap and put in place revenue measures not tied to volatile natural resource commodity prices. Restructuring the Permanent Fund alone will not close the deficit. A broad-based tax is essential to a comprehensive fiscal plan, and this bill is a step in that direction. It is also an alternative option for the Legislature to consider in lieu of the proposed income tax. I am confident this legislature will see the benefits of comprehensive, broad-based, low-rate statewide sales and use tax and look forward to your prompt and favorable action on this measure. Further, this comprehensive broad-based tax is not targeted at only one group or industry. Instead, we will all contribute together to keep our state on a solid financial footing.

Sincerely,



Bill Walker
Governor

Enclosure