

ALASKA LEGISLATURE

2701

HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004

1 purchase price of the tangible personal property or service.

2 **Sec. 43.44.015. Relationship to municipal levies.** (a) The rate of levy under
3 this subsection is decreased in a borough or city that levies taxes under AS 29.45.650
4 or 29.45.700 so that the total sales and use tax levied in that borough or city, including
5 the sales and use tax under this chapter, does not exceed eight percent. This decrease
6 only applies in conjunction with borough or city sales and use tax rates approved or in
7 effect on April 1, 2003.

8 (b) A municipality may not increase the rate of a municipal sales and use tax
9 above the rate in effect on April 1, 2003, if that increase would cause the total
10 combined state and municipal sales and use taxes in a municipality to exceed eight
11 percent.

12 (c) Except as provided in (d) of this section, the total combined state and
13 municipal sales and use taxes in a municipality may not exceed eight percent. In a
14 municipality

15 (1) subject to both a city sales and use tax and a borough sales and use
16 tax, if the total combined municipal sales and use tax rates exceed eight percent, the
17 borough shall be entitled to levy the borough sales and use tax at its full rate, not to
18 exceed eight percent, the city shall reduce the rate of its sales and use tax accordingly,
19 and the rate of the state sales and use tax within that municipality shall be zero;

20 (2) subject to both a city sales and use tax and a borough sales and use
21 tax, where the total combined municipal sales and use tax rates do not exceed eight
22 percent, the borough shall be entitled to levy the borough sales and use tax at its full
23 rate, the city shall be entitled to levy the city sales and use tax at its full rate, and the
24 state shall reduce the rate of the state sales and use tax within that municipality
25 accordingly;

26 (3) subject only to a borough sales and use tax or a city sales and use
27 tax, but not both, if the total combined municipal and state sales and use tax rates
28 exceed eight percent, the municipality shall be entitled to levy the municipal sales and
29 use tax at its full rate, not to exceed eight percent, and the state shall reduce the rate of
30 the state sales and use tax within that municipality accordingly.

31 (d) A municipality may levy a general sales and use tax or increase the rate of

1 an existing sales and use tax so that the combined state and municipal sales tax rate
2 exceeds eight percent if it is approved by the voters in a referendum election under
3 AS 29.45.670. The proposed total combined rate as well as the proposed municipal
4 rate must be clearly stated to the voters in the referendum question. In a municipality
5 that imposes a general sales and use tax at a rate that, combined with a three percent
6 state sales and use tax rate, exceeds eight percent, the rate of the state sales and use tax
7 imposed under this chapter shall be three percent, notwithstanding any other provision
8 of this chapter or AS 29.

9 **Sec. 43.44.020. Collection of tax.** (a) The tax described in AS 43.44.010(a)
10 is imposed on the purchaser and must be collected by the seller and paid to the
11 department by the seller as provided in AS 43.44.340. The seller holds all taxes
12 collected in trust for the state. The tax must be applied to the sales price.

13 (b) The purchaser of property subject to the tax described in AS 43.44.010(b)
14 is responsible for payment of the tax as provided in AS 43.44.340.

15 (c) The purchaser of services subject to the tax described in AS 43.44.010(c)
16 is responsible for payment of the tax as provided in AS 43.44.340.

17 **Sec. 43.44.030. Presumption of taxability; sales price and purchase price.**

18 (a) In order to prevent evasion of the sales tax or use tax and to aid in its
19 administration, it is presumed that

20 (1) all sales by a person engaging in business are subject to the sales
21 tax or use tax; and

22 (2) all property purchased or sold by any person for delivery into this
23 state is purchased or sold for a taxable use in this state.

24 (b) In a sale in which the amount of money paid does not represent the
25 purchase price of the property or service purchased, the use tax must be imposed on
26 the purchase price of the property or service purchased.

27 (c) For purposes of this section, the sales price or purchase price of property
28 must be determined as of the time of acquisition, introduction into this state, or
29 conversion to use, whichever is latest.

30 **Sec. 43.44.040. Separate statement of tax; no advertising to absorb or**
31 **refund tax.** (a) If any person collects a tax in excess of the tax imposed by

1 AS 43.44.010(a), both the tax and the excess tax must be remitted to the department.

2 (b) The sales tax must be stated separately for all sales, except for sales from
3 coin-operated or currency-operated machines.

4 (c) A person may not advertise, hold out, or state to the public or to any
5 customer that the tax imposed by AS 44.43.010(a) will be absorbed or refunded.

6 **Sec. 43.44.050. Liability of user for payment of use tax.** (a) A person in
7 this state who uses property is liable to the state for payment of the use tax if the tax is
8 payable on the purchase price of the property but has not been paid.

9 (b) The liability imposed by this section is discharged if the purchaser has paid
10 the sales or use tax to the seller for payment to the department.

11 **Sec. 43.44.060. Nexus.** To the fullest extent permitted under the Constitution
12 of the United States, a person who has nexus with the State of Alaska and whose sales
13 are not subject to the sales tax shall collect the use tax from the purchaser and pay the
14 tax collected to the department.

15 **Article 2. Exemptions.**

16 **Sec. 43.44.090. Exemption: government agencies.** (a) Sales by, sales to, or
17 uses by the United States are exempt from the sales tax and use tax.

18 (b) Sales to or uses by the state or an instrumentality of the state, as that term
19 is defined in AS 39.52.960, an Indian tribe included on the list published under 25
20 U.S.C. 479a-1, or a foreign government are exempt from the sales and use tax.

21 **Sec. 43.44.095. Exemption for corporations exempt from taxation under**
22 **26 U.S.C. 501(c)(3).** With the exception of sales governed by AS 05.15, all sales by,
23 sales to, or uses by a corporation that is exempt from taxation under 26 U.S.C.
24 501(c)(3) (Internal Revenue Code) are exempt from the sales tax and use tax.

25 **Sec. 43.44.100. Exemption for food stamps and special supplemental**
26 **nutrition program for women, infants, and children.** The sale of an item lawfully
27 purchased with food stamp program benefits issued under 7 U.S.C. 2011 - 2025 (Food
28 Stamp Act) or purchased with food instruments, food vouchers, or other type of
29 certificate issued under 42 U.S.C. 1786 (special supplemental nutrition program for
30 women, infants, and children) is exempt from the sales tax and use tax.

31 **Sec. 43.44.110. Exemption for intangibles.** The following are exempt from

1 the sales tax and use tax, even if they are construed to be tangible personal property or
2 a service:

3 (1) wages, salaries, commissions, and any other form of remuneration
4 for personal services if paid by an employer to an employee; the terms used in this
5 section have the meanings given in 26 U.S.C. 3121 (Internal Revenue Code);

6 (2) interest on money loaned or deposited;

7 (3) dividends or interest from stocks, bonds, or securities; and

8 (4) proceeds from the sale of stocks, bonds, or securities.

9 **Sec. 43.44.120. Financial services.** Financial services related to the sale or
10 purchase of financial instruments, including stocks, bonds, and securities, are exempt
11 from the sales and use tax.

12 **Sec. 43.44.140. Exemption for isolated or occasional sale or lease of**
13 **property or services.** The isolated or occasional sale or lease of property or the
14 performance of a service by a person who is not regularly engaged in or who does not
15 intend to engage in the business of selling or leasing the same or a similar property or
16 service is exempt from the sales tax and use tax. Occasional sales include sales that
17 are occasional but not continuous and that are made for the purpose of fundraising by
18 nonprofit organizations, including but not limited to youth clubs, service clubs, and
19 fraternal organizations.

20 **Sec. 43.44.150. Exemption for personal effects.** The use by an individual of
21 personal or household effects brought into the state for the establishment by the
22 individual of an initial residence in this state and the use of property brought into the
23 state by a nonresident for the nonresident's own nonbusiness use while temporarily
24 within this state is exempt from the use tax.

25 **Sec. 43.44.155. Exemption for motor vehicles, watercraft, aircraft, and**
26 **mobile homes.** The sales price or purchase price of a motor vehicle, watercraft,
27 aircraft, or mobile home in excess of \$5,000 is exempt from the sales tax and use tax.
28 For purposes of this section, "motor vehicle" has the meaning given in AS 28.40.100.

29 **Sec. 43.44.160. Exemption for the sale of property for resale.** The sale of
30 property is exempt from the sales tax and use tax if the purchaser resells the property
31 either by itself or in combination with other property in the ordinary course of

1 business and the property will be subject to the sales tax imposed by AS 43.44.010(a).

2 **Sec. 43.44.165. Exemption for the conveyance and improvement of real**
3 **property.** The sale, lease, or rental of real property, and improvements depreciated
4 under 26 U.S.C. (Internal Revenue Code) to real property, are exempt from the sales
5 and use tax.

6 **Sec. 43.44.170. Exemption for the sale of service for resale.** The sale of a
7 service for resale is exempt from the sales tax and use tax if

8 (1) the purchaser resells the service and separately states the sales price
9 of the service purchased in the charge for the service in the subsequent sale; and

10 (2) the subsequent sale is in the ordinary course of business and subject
11 to the sales tax imposed by AS 43.44.010(a).

12 **Sec. 43.44.180. Exemption for a sale to a miner or manufacturer.** (a) The
13 sale of property to a purchaser engaged in the business of mining or manufacturing is
14 exempt from the sales tax and use tax if the purchaser incorporates the property as an
15 ingredient or component part of the product in the business of mining or
16 manufacturing.

17 (b) For the purposes of this section, electrical energy or electricity used or
18 consumed by electrolytic reduction used in the reduction or refinement of ores is
19 considered a component part of the product.

20 **Sec. 43.44.190. Exemption for property held for lease.** The sale, use, lease,
21 or rental of property held for lease is exempt from the sales and use tax if the person
22 holding the property for lease, or purchasing, leasing, or renting the property for the
23 purpose of holding the property for lease

24 (1) is engaged in a business that derives more than 50 percent of its
25 receipts from leasing or selling property of the type held;

26 (2) does not use the property in any manner other than holding it for
27 lease or sale or leasing or selling it either by itself or in combination with other
28 tangible personal property in the ordinary course of business;

29 (3) does not use the property in a manner incidental to the performance
30 of a service; and

31 (4) the subsequent lease or rental is subject to the tax imposed by

1 AS 43.44.010(a).

2 **Sec. 43.44.200. Exemption for transactions subject to other taxes.** (a)
3 Motor fuel transactions subject to tax under AS 43.40 are exempt from the sales tax
4 and use tax.

5 (b) Transactions subject to tax under AS 43.52 are exempt from the sales tax
6 and use tax.

7 (c) Insurance premiums subject to tax under AS 21.09.210 are exempt from
8 the sales tax and use tax.

9 **Sec. 43.44.210. Exemption for certain intrastate transportation and**
10 **services in interstate commerce.** (a) The transport of persons or property from one
11 point within this state to another point within this state is exempt from the sales tax
12 and use tax if the persons or property, including any reasonably necessary services, are
13 being transported in interstate or foreign commerce under a single contract.

14 (b) Handling, storage, drayage, or packing of property or another accessorial
15 service on property is exempt from the sales tax and use tax if

16 (1) the property has been or will be moved in interstate or foreign
17 commerce;

18 (2) the services are performed by a local agent for a carrier or by a
19 carrier; and

20 (3) the services are performed under a single contract in relation to
21 interstate transportation services.

22 **Sec. 43.44.220. Exemption for health care.** The following are exempt from
23 the sales tax and use tax:

24 (1) health care services provided by a person licensed or certified to
25 provide those services under AS 08 or a "health care facility" as that term is defined in
26 AS 08.68.395(g)(2);

27 (2) drugs, durable medical equipment, mobility enhancing equipment,
28 and prosthetic devices obtained on prescription from a person licensed to prescribe
29 those goods under AS 08 or from a health care facility, as that term is defined in
30 AS 08.68.395(g)(2).

31 **Sec. 43.44.230. Exemption for child care services.** Child care services are

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

exempt from the sales tax and use tax.

Article 3. Collection and Payment Provisions.

Sec. 43.44.240. Tax credit for sales or use tax paid to another state. (a) A buyer liable for use tax on tangible personal property or services is entitled to a full credit for the amount of sales or use tax paid on the tangible personal property or services to another state.

(b) The credit shall be applied first against the amount of use tax levied under this chapter. Any unused portion of the credit shall then be applied against the amount of use tax levied by a municipality under AS 29.45.650 or 29.45.700.

Sec. 43.44.250. Exempt sales. All exempt sales under AS 43.44.090 - 43.44.230 must be documented in an invoice. The department shall prescribe by regulation the requirements for an invoice.

Sec. 43.44.252. Exemption certificate: form. (a) The department shall provide for a uniform exemption certificate. A purchaser shall use the certificate when purchasing goods or services for resale or for other exempt transactions.

(b) At a minimum, the certificate must provide

(1) the number of the seller's permit issued to the purchaser as provided in AS 43.44.260 or the number of the direct pay permit issued to the purchaser as provided in AS 43.44.255, as applicable;

(2) the general character of property or service sold by the purchaser in the regular course of business;

(3) the property or service purchased;

(4) the name and address of the purchaser; and

(5) a signature line for the purchaser.

Sec. 43.44.254. Exemption certificate: requirements. (a) An exemption certificate executed by a purchaser or lessee must be in the possession of the seller or lessor at the time that an exempt transaction occurs.

(b) An exemption certificate must contain the information and be in the form prescribed by the department.

(c) If the seller or lessor accepts an exemption certificate and believes in good faith that the purchaser or lessee will employ the property or service transferred in an

1 exempt manner, the properly executed exemption certificate is considered conclusive
2 evidence, as to the seller or lessor, that the sale is exempt.

3 **Sec. 43.44.255. Direct pay permit.** A direct pay permit authorizes its holder
4 to purchase tangible personal property and services without paying tax to the seller
5 and authorizes the seller to not collect any tax on a sale to the permit holder. A person
6 who purchases tangible personal property or services under a direct pay permit issued
7 under this section is liable for any sales and use tax due. The tax due must be paid by
8 the permit holder on a quarterly basis on a schedule established by the department. To
9 obtain a direct pay permit, a person must apply to the department and satisfy criteria
10 for direct pay permit holders established by the department by regulation.

11 **Sec. 43.44.260. Seller's permit.** (a) A person wishing to engage in business
12 in this state shall obtain a seller's permit before engaging in business in this state.

13 (b) Upon an applicant's compliance with this chapter, the department shall
14 issue to the applicant a numbered seller's permit. A permit is valid until revoked or
15 suspended but is not assignable. A permit is valid only for the person in whose name
16 it is issued. A copy of the permit must be conspicuously displayed at all times at the
17 place for which it is issued.

18 **Sec. 43.44.270. Permit application: requirements; place of business; form.**

19 (a) A person wishing to engage in business in this state shall file with the department
20 an application for a seller's permit. If the person has more than one location in which
21 the person maintains an office or other place of business, an application may include
22 multiple locations. A vending machine operator who has more than one vending
23 machine location is considered to have only one place of business for purposes of this
24 section. An applicant who does not maintain an office or other place of business and
25 who moves from place to place is considered to have only one place of business and
26 shall attach the permit to the applicant's cart, stand, truck, or other merchandising
27 device.

28 (b) Each application for a permit must be on a form or in a format prescribed
29 by the department and must set out the name under which the applicant intends to
30 transact business, the location of the applicant's place or places of business, and other
31 information that the department may require. The application must be filed by the

1 owner if the owner is a natural person, by a member or partner if the owner is an
2 association or partnership, or by a person authorized to sign the application if the
3 owner is a corporation.

4 **Sec. 43.44.280. Revocation or suspension of permit: hearing; notice;
5 appeal.** (a) Subject to the provisions of (b) of this section, the department may, for
6 reasonable cause, revoke or suspend a permit held by a person who fails to comply
7 with the provisions of this chapter.

8 (b) The department shall provide written notice and an opportunity for a
9 hearing on a proposed revocation or suspension. The hearing must be conducted
10 informally and is not subject to AS 44.62 (Administrative Procedure Act).

11 (c) If a permit is revoked, the department may not issue a new permit except
12 upon application accompanied by reasonable evidence of the intention of the applicant
13 to comply with the provisions of this chapter. The department may, as a condition for
14 the issuance of a new permit to the applicant, require security in addition to that
15 authorized by AS 43.44.370 in an amount reasonably necessary to ensure compliance
16 with this chapter.

17 (d) A person aggrieved by the department's final decision to revoke a permit
18 as provided in (a) of this section may appeal the decision to the superior court.

19 **Sec. 43.44.290. Improper use of subject of purchase obtained with
20 exemption certificate; penalty.** (a) If a purchaser who uses an exemption certificate
21 uses the subject of the purchase for a purpose other than one allowed as exempt under
22 this chapter, the use is considered a taxable sale as of the time of first use by the
23 purchaser, and the sales price is the price that the purchaser paid. If the sole
24 nonexempt use is rental while holding for sale, the purchaser shall include in the sales
25 price the amount of the rental charged. Upon subsequent sale of the property, the
26 seller shall include the entire amount of the sales price, without deduction of amounts
27 previously received as rentals.

28 (b) A person who uses an exemption certificate for property that will be used
29 for purposes other than the purpose claimed is subject to a penalty, payable to the
30 department, of \$100 or 100 percent of the tax due, whichever is greater, for each
31 transaction in which an improper use of a certificate has occurred.

1 **Sec. 43.44.300. Commingling exemption certificate goods.** If a purchaser
2 uses an exemption certificate with respect to the purchase of fungible goods and
3 commingles these goods with fungible goods that were not purchased with an
4 exemption certificate but that are so similar that the identity of the goods in the
5 commingled mass cannot be determined, sales from the mass of commingled goods
6 are considered to be sales of the goods purchased with the certificate until the quantity
7 of commingled goods sold equals the quantity of goods originally purchased under the
8 certificate.

9 **Sec. 43.44.310. Liability for payment of tax; security for retailer without**
10 **place of business; penalty.** (a) Liability for the payment of the sales tax and use tax
11 is not extinguished until the taxes have been paid to the department.

12 (b) A retailer who does not maintain an office or other place of business in this
13 state is liable for the sales tax or use tax on all property sold or leased and services
14 provided in this state in accordance with this chapter and may be required to furnish
15 adequate security as provided in AS 43.44.370 to ensure collection and payment of the
16 taxes. When authorized and except as otherwise provided in this chapter, the retailer
17 is liable for the taxes on all property sold and services provided in this state in the
18 same manner as a retailer who maintains an office or other place of business in this
19 state. The seller's permit provided for in AS 43.44.260 may be canceled at any time if
20 the department considers the security inadequate or believes that the taxes can be
21 collected more effectively in another manner.

22 (c) An agent, canvasser, or employee of a retailer doing business in this state
23 who does not possess a seller's permit issued by the department may not sell, solicit
24 orders for, or deliver property or services in Alaska. If an agent, canvasser, or
25 employee violates the provisions of this chapter, the person is subject to a fine of not
26 more than \$100, or 100 percent of the tax due, whichever is greater, for each separate
27 transaction or event.

28 **Sec. 43.44.320. Interstate and intrastate carriers as retailers.** A person
29 engaged in the business of interstate or intrastate transportation of property or
30 passengers shall register as a retailer with the department and pay the taxes imposed
31 by AS 43.44.010.

1 **Sec. 43.44.330. Method of accounting.** A person who has a seller's permit
2 shall report and pay the sales and use tax using the same method of accounting that the
3 person uses for federal tax purposes.

4 **Sec. 43.44.340. Returns: payment; authority of department.** (a) A person
5 who has a tax liability under AS 43.44.010 shall file a return on a form or in a format
6 prescribed by the department and pay the tax due monthly. The return shall be filed
7 on or before the 20th day following the end of the month for which the tax is due.
8 Each person engaged in business in this state or using property in this state that is
9 subject to taxation under AS 43.44.010 shall file a return.

10 (b) For the purposes of the sales tax or use tax, a return must be filed by

11 (1) a retailer required to collect the tax; and

12 (2) a person who

13 (A) purchases an item the storage, use, or other consumption of
14 which is subject to the sales tax or use tax; and

15 (B) has not paid the tax to a retailer required to pay the tax.

16 (c) Each return must be authenticated by the person filing the return or by the
17 person's agent authorized in writing to file the return.

18 **Sec. 43.44.345. Methods.** (a) The department shall adopt regulations
19 providing for payment of the sales and use tax based on a rounding method.

20 (b) The department may use sampling principles or methods in lieu of 100
21 percent examination of records in conducting a sales tax or use tax audit.

22 **Sec. 43.44.350. Credit for taxes paid on worthless accounts; taxes paid if**
23 **account collected.** (a) Sales taxes paid on an accrual basis by a person filing a return
24 under AS 43.44.340 on sales found to be worthless and actually deducted by the
25 person as a bad debt for federal income tax purposes may be credited on a subsequent
26 payment of the tax.

27 (b) If the accounts are subsequently collected, the sales tax must be paid on
28 the amount collected.

29 **Sec. 43.44.360. Timely filing allowance.** (a) A person filing a return under
30 AS 43.44.340 may claim an allowance for each permitted location in the amount of
31 two percent of the tax determined to be payable to the state or \$75 a month, whichever

1 is less, if the return is timely filed and the tax is timely paid.

2 (b) The allowance may be deducted on the return. The allowance may not be
3 greater than the tax determined to be payable to the state.

4 **Sec. 43.44.370. Security: limitations; sale of security deposit at auction;**
5 **bond.** (a) The department may require a retailer to deposit with the department
6 security in a form and amount that the department determines is appropriate. The
7 deposit may not be more than twice the estimated average liability for the period for
8 which the return is required to be filed or \$10,000, whichever is less. The amount of
9 security may be increased or decreased by the department, subject to the limitations
10 provided in this section.

11 (b) If necessary, the department may sell at public auction property deposited
12 as security to recover a sales tax or use tax amount required to be collected, including
13 interest and penalties. Notice of the sale must be served personally on or sent by
14 certified mail to the person who deposited the security. After the sale, any surplus
15 above the amount due that is not required as security under this section must be
16 returned to the person who deposited the security.

17 (c) In lieu of security, the department may require a retailer to file a bond
18 issued by a surety company authorized to transact business in this state to guarantee
19 solvency and responsibility.

20 (d) In addition to the other requirements of this section, the department may
21 require the corporate officers, directors, or shareholders of a corporation to provide a
22 personal guaranty and assumption of liability for the payment of the tax due under this
23 chapter.

24 **Sec. 43.44.380. Taxpayer quitting business; liability of successor.** (a) All
25 taxes payable under this chapter are due and payable immediately whenever a
26 taxpayer quits business, sells, exchanges, or otherwise disposes of the business or
27 disposes of the stock of goods. The taxpayer shall make a return and pay the taxes due
28 within 10 days after the taxpayer quits business, sells, exchanges, or otherwise
29 disposes of the business or disposes of the stock of goods.

30 (b) Except as provided in (d) of this section, a person who becomes a
31 successor in the taxpayer's business or stock of goods is liable for the full amount of

1 the tax and shall withhold from the sales price payable to the taxpayer a sum sufficient
2 to pay any tax due until the taxpayer produces either a receipt from the department
3 showing payment in full of any tax due or a statement from the department that tax is
4 not due.

5 (c) If a tax is due but has not been paid as provided in (a) of this section, the
6 successor is liable for the payment of the full amount of tax. The payment of the tax
7 by the successor is considered to be a payment on the sales price and, if the payment is
8 greater in amount than the sales price, the amount of the difference becomes a debt
9 due to the successor from the taxpayer owing the tax under (a) of this section.

10 (d) A successor is not liable for any tax due from the person from whom the
11 successor acquired a business or stock of goods if (1) the successor gives written
12 notice to the department of the acquisition; and (2) an assessment is not issued by the
13 department against the former operator of the business within six months after receipt
14 of the notice from the successor. If an assessment is issued by the department and a
15 copy of the assessment is not mailed to the successor, the successor is not liable for the
16 tax due.

17 **Sec. 43.44.390. Tax as debt.** (a) The tax imposed by this chapter and related
18 interest and penalties become a personal debt of the person required to file a return
19 from the time the liability arises, regardless of when the time for payment of the
20 liability occurs.

21 (b) If the personal representative of an estate has voluntarily distributed the
22 assets held in that capacity without reserving sufficient assets to pay the taxes, interest,
23 and penalties, the personal representative is personally liable for any deficiency, to the
24 extent permitted under AS 13.16.

25 (c) This section applies to corporate officers, directors, or shareholders
26 required by the department to personally guarantee the payment of the taxes for their
27 corporation. The officer or employee of a corporation whose duty it is to collect,
28 truthfully account for, and pay to the state the taxes imposed by this chapter and who
29 fails to pay the taxes is liable to the state for the taxes imposed by this chapter and the
30 penalty and interest due on the taxes.

31 **Sec. 43.44.400. Refunds and credits.** The department may credit or refund

1 overpayments of taxes, taxes erroneously or illegally assessed or collected, penalties
2 collected without authority, and taxes that are found unjustly assessed or excessive in
3 amount, or otherwise wrongfully collected. The department shall set limitations,
4 specify the manner in which claims for credits or refunds are made, and give notice of
5 allowance or disallowance. When a refund is allowed to a taxpayer, it shall be paid
6 out of the general fund on a warrant issued under a voucher approved by the
7 department.

8 **Article 4. General Provisions.**

9 **Sec. 43.44.500. Definitions.** In this chapter,

10 (1) "consideration" means a valuable inducement and includes, without
11 limitation, money, property, and services;

12 (2) "engaging in business" means carrying on or causing to be carried
13 on any activity with the purpose of direct or indirect benefit;

14 (3) "lease," "leasing," or "rental," regardless of whether a transaction is
15 characterized as a lease or rental under generally accepted accounting principles, 26
16 U.S.C. (Internal Revenue Code), AS 45.01 - AS 45.08, AS 45.12, AS 45.14, and
17 AS 45.29 (Uniform Commercial Code), or other provisions of federal, state, or local
18 law,

19 (A) means a transfer of possession or control of tangible
20 personal property for a fixed or indeterminate term for consideration; a lease or
21 rental may include future options to purchase or extend;

22 (B) does not include

23 (i) a transfer of possession or control of property under
24 a security agreement or deferred payment plan that requires the transfer
25 of title upon completion of the required payments;

26 (ii) a transfer of possession or control of property under
27 an agreement that requires the transfer of title upon completion of
28 required payments if payment of an option price does not exceed the
29 greater of one hundred dollars or one percent of the total required
30 payments; or

31 (iii) providing tangible personal property along with an

1 operator for a fixed or indeterminate period of time; a condition of this
2 exclusion is that the operator is necessary for the equipment to perform
3 as designed; for the purpose of this sub-subparagraph, an operator must
4 do more than maintain, inspect, or set up the tangible personal property;

5 (C) includes agreements covering motor vehicles and trailers if
6 the amount of consideration may be increased or decreased by reference to the
7 amount realized upon sale or disposition of the property as defined in 26
8 U.S.C. 7701(h)(1);

9 (4) "maintaining an office or other place of business" means

10 (A) a person's having or maintaining in this state, directly or by
11 an affiliate, an office, distribution house, sales house, warehouse, or place of
12 business; or

13 (B) an agent's operating within this state under the authority of
14 the person or its affiliate, whether the place of business or agent is located in
15 the state permanently or temporarily or whether the person or affiliate is
16 authorized to do business in the state;

17 (5) "manufacturing" means combining or processing components or
18 materials, including the processing of ores in a mill, smelter, refinery, or reduction
19 facility, to increase the value of the components or materials for sale in the ordinary
20 course of business; "manufacturing" does not include construction;

21 (6) "permit" or "seller's permit" means a seller's permit as described in
22 AS 43.44.260;

23 (7) "person" means an individual, estate, trust, receiver, cooperative
24 association, club, corporation, company, firm, partnership, joint venture, syndicate, or
25 other entity, including a gas, water, or electric utility owned or operated by a borough,
26 municipality, or other political subdivision of the state;

27 (8) "purchase price" means "sales price" and applies to the measure
28 subject to use tax;

29 (9) "sale," "selling," or "purchasing" means the transfer of property for
30 consideration or the performance of a service for consideration;

31 (10) "sales price"

1 (A) means the total amount of consideration, including cash,
2 credit, property, and services, for which personal property or services are sold,
3 leased, or rented, valued in money, whether received in money or otherwise,
4 without any deduction for the following:

5 (i) the seller's cost of the property sold;

6 (ii) the cost of materials used, labor or service cost,
7 interest, losses, costs of transportation to the seller, all taxes
8 imposed on the seller, and any other expense of the seller;

9 (iii) charges by the seller for any services necessary to
10 complete the sale, other than delivery and installation charges;

11 (iv) delivery charges;

12 (v) installation charges;

13 (vi) the value of exempt personal property given to the
14 purchaser where taxable and exempt personal property have been
15 bundled together and sold by the seller as a single product or piece of
16 merchandise;

17 (vii) credit for a trade-in, as determined by state law;

18 (B) does not include

19 (i) discounts, including cash, term, or coupons that are
20 not reimbursed by a third party that are allowed by a seller and taken by
21 a purchaser on a sale;

22 (ii) interest, financing, and carrying charges from credit
23 extended on the sale of personal property or services if the amount is
24 separately stated on the invoice, bill of sale, or similar document given
25 to the purchaser; and

26 (iii) taxes legally imposed directly on the consumer that
27 are separately stated on the invoice, bill of sale, or similar document
28 given to the purchaser;

29 (11) "sales tax" or "use tax" means the applicable tax imposed by

30 AS 43.44.010;

31 (12) "service" means an activity that is engaged in for another person

1 for consideration and that is distinguished from the sale or lease of property; "service"
2 includes (A) activities performed by a person for its members or shareholders; (B)
3 construction activities and all tangible personal property that will become an
4 ingredient or component part of a construction project; and (C) labor; professional
5 services; transportation; telephone or other communications service; entertainment,
6 including cable, subscription, or pay television or other telecommunications service;
7 the supplying of food, lodging, or other accommodations in hotels, restaurants, or
8 elsewhere; admission to exhibitions; the use of a computer, computer time, a computer
9 system, a computer program, a computer network, or any part of a computer system or
10 network; and the supplying of equipment for use; in determining what a service is, the
11 intended use, principal objective, or ultimate objective of the contracting parties is
12 irrelevant;

13 (13) "tangible personal property" means personal property that can be
14 seen, weighed, measured, felt, or touched, or that is in any other manner perceptible to
15 the senses; "tangible personal property" includes electricity, water, gas, steam, and
16 prewritten computer software;

17 (14) "tax" means the tax levied by AS 43.44.010;

18 (15) "use" or "using" includes use, consumption, or storage, other than
19 storage for resale or for use solely outside this state in the ordinary course of business.

20 * Sec. 31. Section 4, ch. 100, SLA 2002, is repealed and reenacted to read:

21 Sec. 4. AS 29.45.650(a) is amended to read:

22 (a) Except as provided in AS 04.21.010(c) [AND AS 29.45.750], a borough
23 may levy a general sales tax on the sale and rental of tangible or intangible property
24 and on services provided in the borough.

25 * Sec. 32. Section 4, ch. 100, SLA 2002, as amended by sec. 31 of this Act, is repealed and
26 reenacted to read:

27 Sec. 4. AS 29.45.650(a) is amended to read:

28 (a) Except as provided in AS 04.21.010(c) [, AS 29.45.750], and in (f) and (g)
29 of this section, a borough may levy and collect a sales tax on sales, rents, and on
30 services provided in the borough. The sales tax may apply to any or all of these
31 sources. Exemptions may be granted by ordinance.

1 * **Sec. 33.** REPEAL. AS 29.10.200(64); 29.45.720; AS 43.40.010(m); AS 43.44.010,
2 43.44.015, 43.44.020, 43.44.030, 43.44.040, 43.44.050, 43.44.060, 43.44.090, 43.44.095,
3 43.44.100, 43.44.110, 43.44.120, 43.44.140, 43.44.150, 43.44.155, 43.44.160, 43.44.165,
4 43.44.170, 43.44.180, 43.44.190, 43.44.200, 43.44.210, 43.44.220, 43.44.230, 43.44.240,
5 43.44.250, 43.44.252, 43.44.254, 43.44.255, 43.44.260, 43.44.270, 43.44.280, 43.44.290,
6 43.44.300, 43.44.310, 43.44.320, 43.44.330, 43.44.340, 43.44.345, 43.44.350, 43.44.360,
7 43.44.370, 43.44.380, 43.44.390, 43.44.400, and 43.44.500 are repealed on January 1, 2012.

8 * **Sec. 34.** Sections 35, 36(b), (c), and (d), and 37 of this Act are repealed on January 1,
9 2012.

10 * **Sec. 35.** The uncodified law of the State of Alaska is amended by adding a new section to
11 read:

12 **AUTHORITY TO ENTER STREAMLINED SALES AND USE TAX**
13 **AGREEMENT.** (a) The department is authorized and directed to enter into the Streamlined
14 Sales and Use Tax Agreement with one or more states to simplify and modernize sales and
15 use tax administration in order to substantially reduce the burden of tax compliance for all
16 sellers and for all types of commerce. In furtherance of the Streamlined Sales and Use Tax
17 Agreement, the department is authorized to act jointly with other states that are members of
18 the Streamlined Sales and Use Tax Agreement to establish standards for certification of a
19 certified service provider and certified automated system and establish performance standards
20 for multistate sellers.

21 (b) The department shall adopt regulations implementing this chapter consistent with
22 the Streamlined Sales and Use Tax Agreement.

23 (c) The department is authorized to take other actions reasonably required to
24 implement the provisions set out in this section. Other actions authorized by this section
25 include the joint procurement, with other member states, of goods and services in furtherance
26 of the cooperative agreement.

27 (d) The department or the department's designee is authorized to represent this state
28 before the other states that are signatories to the Streamlined Sales and Use Tax Agreement.

29 * **Sec. 36.** The uncodified law of the State of Alaska is amended by adding a new section to
30 read:

31 **TRANSITIONAL PROVISIONS.** (a) The Department of Revenue may proceed to

1 adopt regulations necessary to implement this Act. The regulations take effect under
2 AS 44.62 (Administrative Procedure Act), but not before the effective date of the provision
3 being implemented.

4 (b) A municipality that imposes a general sales and use tax shall conform its tax base,
5 including exemptions, definitions, and sourcing rules, to AS 43.44 not later than January 1,
6 2006.

7 (c) Notwithstanding any other provision of this Act, a municipality that levies a
8 general sales and use tax on the effective date of this section may continue to collect the
9 municipality's general sales and use tax through December 31, 2007. The state shall assume
10 responsibility for administering a municipal general sales and use tax on January 1, 2008,
11 unless requested to do so earlier by a municipality that has conformed its tax base, including
12 exemptions, definitions, and sourcing rules, to AS 43.44.

13 (d) The Department of Revenue may contract with a municipality that, on the
14 effective date of this section, levies a sales and use tax to provide a field office for that
15 municipality's geographical area of the state.

16 * Sec. 37. The uncodified law of the State of Alaska is amended by adding a new section to
17 read:

18 **CONDITIONAL EFFECT.** The exemption in AS 43.44.200(b), enacted by sec. 30 of
19 this Act, takes effect only if a bill passed by the Twenty-Third Alaska State Legislature
20 providing for the levy and collection of a tax on motor vehicle rentals is enacted into law.

21 * Sec. 38. If the exemption in AS 43.44.200(b), enacted by sec. 30 of this Act, takes effect,
22 it takes effect on the day the tax referred to in sec. 38 of this Act takes effect.

23 * Sec. 39. Sections 35 and 36 of this Act take effect immediately under AS 01.10.070(c).

24 * Sec. 40. Sections 21, 23, 25, 27, and 28 of this Act take effect July 1, 2003.

25 * Sec. 41. Sections 2, 4, 6, 9, 11, 13, 15, 17, 20, 22, 24, 26, 29, 32, 33 and 34 take effect
26 January 1, 2012.

27 * Sec. 42. Except as provided in secs. 38 - 41 of this Act, this Act takes effect January 1,
28 2004.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 220
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Law
 Title "An Act relating to a state sales and use tax; . . . Increasing the motor fuel tax . . ." BRU Civil Division
 Sponsor Senate Rules Committee by Request Component Commercial
 Requester Senate Finance Committee Component No. 2211

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	247.0	247.0	247.0	247.0	247.0	247.0
Travel	1.0	1.0	1.0	1.0	1.0	1.0
Contractual	34.4	34.4	34.4	34.4	34.4	34.4
Supplies	4.6	4.6	4.6	4.6	4.6	4.6
Equipment	13.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	300.0	287.0	287.0	287.0	287.0	287.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	300.0	287.0	287.0	287.0	287.0	287.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	300.0	287.0	287.0	287.0	287.0	287.0

Estimate of any current year (FY2003) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	2	2	2	2	2	2
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill creates a statewide sales and use tax.

The Department of Law will advise the tax division on legal matters pertaining to sales and use taxes, and day-to-day administrative law questions. In addition the department will handle sales and use tax appeals on behalf of the tax division as necessary.

Based on our discussions with other states that have a statewide sales tax in place, we anticipate the services of two full-time equivalent attorney positions will be necessary to handle the new workload generated by the new tax.

Prepared by: Joan M. Kasson Phone (907) 465-5370
 Division: Attorney General's Office Date/Time 5/13/03 8:40 AM
 Approved by: Kathryn Daughhetea for Gregg D. Renkes, Attorney General Date 5/13/2003
 Agency: Department of Law

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CSHB293(W&M)
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title State Sales Tax and Use Tax BRU Revenue Operations
 Component Tax Division
 Sponsor House Ways and Means Committee
 Requester House Finance Committee Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY2008	FY 2009
Personal Services	2,496.4	3,881.5	3,881.5	3,881.5	3,881.5	3,881.5
Travel	85.0	75.0	75.0	75.0	75.0	75.0
Contractual	889.5	995.0	995.0	995.0	995.0	995.0
Supplies	76.3	92.0	92.0	92.0	92.0	92.0
Equipment	525.0	67.5	15.0	15.0	15.0	15.0
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	4,072.2	5,111.0	5,058.5	5,058.5	5,058.5	5,058.5

CAPITAL EXPENDITURES	1,900.0	400.0				
-----------------------------	----------------	--------------	--	--	--	--

CHANGE IN REVENUES ()	190,000.0	410,000.0	410,000.0	410,000.0	410,000.0	410,000.0
-------------------------------	------------------	------------------	------------------	------------------	------------------	------------------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	5,972.2	5,511.0	5,058.5	5,058.5	5,058.5	5,058.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	5,972.2	5,511.0	5,058.5	5,058.5	5,058.5	5,058.5

Estimate of any current year (FY2003) cost: 150.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	67	74	74	74	74	74
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This legislation would put into effect a 3% state sales and use tax effective Jan. 1, 2004.

This legislation also includes an increase in the state excise tax on highway motor fuel, from 8 cents a gallon to 20 cents a gallon, effective July 1, 2003.

The estimated revenue for the House Ways and Means Committee Substitute is significantly higher than for the original bill because of 1) further analysis of the limited number of exemptions under the bill, 2) inclusion of the highway motor fuel tax increase in the bill, and 3) clarification that tangible personal property purchased for oil and gas and mining exploration, development and production activities would be subject to the sales and use tax.

See Page 2 for further discussion.

Prepared by: Chuck Harlamert, Robynn Wilson and Brett Fried Phone 465-5469
 Division Tax Division Date/Time 5/12/03 9:58 PM
 Approved by: Larry Persily, Deputy Commissioner Date 5/12/2003
 Agency Department of Revenue

This legislation would:

- Increase the state's highway motor fuel tax rate from 8 cents a gallon to 20 cents a gallon, and eliminate the special rate for gasohol (motor fuel blended with alcohol), thereby taxing gasohol at the same 20 cents as all other highway motor fuel. The rate increase would take effect July 1, 2003. This legislation would not affect marine fuel, aviation gas or jet fuel taxes, and would not change the tax on off-road motor fuel (which would remain at 2 cents per gallon).
- Direct that the Legislature may appropriate 6 cents a gallon of the 12-cents-a-gallon highway motor fuel tax increase to municipalities, through the revenue-sharing formula at AS29.60.110.
- Impose a statewide sales and use tax of 3% on the sale and rents of tangible personal property and services. The tax would take effect Jan. 1, 2004.
- Set a cap on the combined state and municipal sales and use tax rate at 8%, but would allow municipalities — with a vote of the local electorate — to raise only the municipal sales and use tax rate to exceed the combined state/municipal cap.
- Provide that municipalities with a local sales and use tax in effect or approved as of April 1, 2003, may continue to receive the full amount due under the tax until Jan. 1, 2008, with the state to receive the amount remaining between the municipal rate and the 8% cap.
- The municipal share within the 8% cap would be limited to no more than 6% effective Jan. 1, 2008. Then, effective Jan. 1, 2010, municipalities would be limited to 5% within the 8% cap.
- Allow municipalities to collect and administer their own sales and use taxes for the first two years of the new state tax. Then, on Jan. 1, 2006, municipalities would need to start collecting their local sales and use tax under state rules. Then, on Jan. 1, 2008, the state would take over collection and administration of all municipal sales and use taxes.
- Require out-of-state vendors to collect the sales and use tax if the vendor is subject to the jurisdiction of the state under the U.S. Constitution.
- Limit the tax to \$5,000 of the purchase price of a motor vehicle, boat, plane or mobile home.
- Provide a mechanism for enforcement of the sales and use tax on the purchase of motor vehicles, including those purchased out of state and brought to Alaska: AS 28.10.021 would require that sales or use tax must have been paid to register a vehicle.
- 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 sales and use tax would sunset on Jan. 12, 2012.

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

- Sale for resale and sale or lease for subsequent lease.
- Ingredients or components used in manufacturing.
- Sales to federal, state and local government agencies.
- Sales to or by IRS-approved 501(c)(3) nonprofit organizations.
- Sales/services by licensed health-care providers, prescription drugs, child-care services.
- Purchases with food stamps.
- Wages, insurance premiums, dividends and interest.
- Isolated or occasional sales.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mall Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

May 12, 2003

SUBJECT: CSHB293(W&M) (Work Order No. 23-LS1064\S)

TO: Representative Jim Whitaker, Co-Chair, House Special Committee
on Ways and Means
Attn: Lori Backes

Representative Mike Hawker, Co-Chair, House Special Committee
on Ways and Means

FROM: Kathryn L. Kurtz ^{KLK}
Legislative Counsel

This morning your committee passed out a version of CSHB 293 with a sunset date of January 1, 2012.

I have prepared the \S version in final with the necessary sunset provisions, according to the Manual of Legislative Drafting (2003), page 21, using a bill section that repeals each new codified provision, and a separate bill section that "undoes" each change to current law.

The new codified provisions, including all of the state sales tax sections in AS 43.44, will be repealed effective January 1, 2012 under this draft. The potential problem with the effective dates arises in relation to the separate bill sections "undoing" each change to existing statutes--including the changes to the municipal tax statutes in AS 29, and the motor fuel tax in AS 43.40. Those provisions also take effect January 1, 2012 under this draft version of the bill, assuming the effective date clause receives the necessary two-thirds vote. If the effective date clause fails, the section changing existing statute and the section undoing the change will take effect simultaneously, the net effect being uncertain.

Also, please note that the amendment to AS 29.45.650(a) in sec. 12 permitting municipalities to tax intangibles creates a conflict with the structure of 29.45.650(c) that requires municipal exemptions to conform to state exemptions, as well as the transitional provision in sec. 36(b) of the bill that requires municipalities to conform their exemptions, definitions and sourcing rules to the state sales and use tax law.

KLK:lmb
03-200.lmb

Enclosure

Alaska State Legislature

House Special Committee on Ways and Means

Co-Chair, Representative Jim Whitaker
State Capitol
Room 501
Juneau, AK. 99801
Phone (907) 465-3004
Fax (907) 465-2070
Contact: Lori Backes



Co-Chair, Representative Mike Lawler
State Capitol
Room 434
Juneau, AK. 99801
Phone (907) 465-4949
Fax (907) 465-4979
Contact: David Brewster

Committee Aide: Lori Backes, 465-6541

HB 293 State Sales Tax

As amended in the House Special Committee on Ways and Means, the current version:

- Levies a statewide sales and use tax at 3% effective January 1, 2004
- Caps the total amount of combined local and state sales tax at 8%. The effect on municipal sales and use tax rates shall be phased in with the municipal rate not to exceed 6% as of January 1, 2008, followed by a limit to 5% on January 1, 2010. The 8% combined cap may be exceeded by a municipality if approved by the local voters in a referendum.
- Phases in statewide authority to administer and collect sales and use tax according to the following schedule:
 1. For the first two years, municipalities may collect and enforce their own sales and use tax laws under their current ordinances,
 2. Then, on January 1, 2006, municipalities must begin enforcing and collecting local sales and use taxes under the state sales and use tax laws.
 3. Finally, on January 1, 2008, the state assumes responsibility for administering and collecting state and local sales and use taxes.
- Allows the state to contract with municipalities for tax administration field office services
- Allows municipalities to continue to levy and collect special taxes on single categories of items
- Includes an increase in the motor fuels tax to 20 cents per gallon and deposits 6 cents per gallon of those proceeds into the special highway fuel tax account to be used for increased revenue sharing to the municipalities

Committee Members:

Representative Cheryll Heinze • Representative Vic Kohring • Representative Norman Rokeberg
Representative Bruce Weyhrauch • Representative Peggy Wilson
Representative Max Gruenberg • Representative Carl Moses

Exemptions: the following sales, uses, purchasers, or categories will be exempt from the statewide tax:

- Sales to and uses by a governmental agency
- Sales and rents of real property
- IRS approved charitable organizations
- Purchases with food stamps or WIC program benefits
- Intangible items
- Isolated or occasional sales or leases
- The prices of a motor vehicle, boat, snowmobile, airplane or mobile home above \$5,000
- Sales for resale
- Services for resale
- Sales for ingredients used in mining and manufacturing
- Sale of property for lease
- Certain intrastate transportation and services in interstate commerce
- Health care services by licensed providers
- Child care services

The bill authorizes the department to enter into the Streamlined Sales and Use Tax Agreement to simplify and modernize sales and use tax administration.

The statewide sales and use tax sunsets on January 1, 2012.

Committee Members:

Representative Cheryl Heinze • Representative Vic Kohring • Representative Norman Rokeberg
Representative Bruce Weyhrauch • Representative Peggy Wilson
Representative Max Gruenberg • Representative Carl Moses

Alaska State Legislature

House Special Committee on Ways and Means

Co-Chair, Representative Jim Whitaker
State Capitol
Room 501
Juneau, AK. 99801
Phone (907) 465-3004
Fax (907) 465-2070
Contact: Lori Backes



Co-Chair, Representative Mike Hawker
State Capitol
Room 434
Juneau, AK. 99801
Phone (907) 465-4949
Fax (907) 465-4979
Contact: David Brewster

Committee Aide: Lori Backes, 465-6541

Sponsor Statement

HB 293 - State Sales and Use Tax

Among the primary charges of the House Special Committee on Ways and Means is the responsibility to propose new measures to raise additional revenues. After careful consideration of current economic and political reality of the state of Alaska, this state sales and use tax is proposed.

It is with recognition of the complexity and potential effect of such a proposal that this basic framework of a sales tax system is submitted with full expectation that it will be molded to fit the need for additional revenue in Alaska; the unique nature of Alaska's communities; and the best interests of the people of the state.

HB 293 establishes an important component to a General Revenue System aimed at stabilizing a balance between revenues and appropriations in the State budget. This measure is intended to compliment other necessary components including, but not limited to, the constitutional amendment that limits spending and appropriations, a constitutional amendment that establishes a percent of market value methodology for the Permanent Fund and attendant statute that directs the distribution method for resulting proceeds.

HB 293 adds to the General Revenue System a measure designed to fairly collect revenue on sales and use of tangible personal property and services. It is estimated that HB 293 will generate approximately \$300 million per year.

HB 293 will play an important role in closing the fiscal gap, and when combined with the other components, will provide for stability in the budget, thereby allowing the State to foster a healthy economic and quality of life environment for Alaskans.

Committee Members:

Representative Cheryll Heinze • Representative Vic Kohring • Representative Norman Rokeberg
Representative Bruce Weyhrauch • Representative Peggy Wilson
Representative Max Gruenberg • Representative Carl Moses

Comparison of State and Local Retail Sales Taxes

January, 2003

	Food Items [1] Taxable (T) Exempt (E)	State Rate	Maximum Local Rate [2]	Maximum State/Local Rate [2]
Alabama	T	4.00	7.00	11.00
Alaska	T	0.00	7.00 [3]	7.00
Arizona	E	5.60	3.00	8.60
Arkansas	T	5.125	4.750	9.875
California	E	6.00	2.50	8.50
Colorado	E	2.90	5.00	7.90
Connecticut	E	6.00	---	6.00
District of Columbia	E	5.75	---	5.75
Florida	E	6.00	1.50	7.50
Georgia	E	4.00	3.00	7.00
Hawaii	T *	4.00	---	4.00
Idaho	T *	5.00	3.00	8.00
Illinois	T **	6.25	3.00	9.25
Indiana	E	6.00	---	6.00
Iowa	E	5.00	2.00	7.00
Kansas	T *	5.30	3.00	8.30
Kentucky	E	6.00	---	6.00
Louisiana	T ** [4]	4.00	5.50	9.50
Maine	E	5.00	---	5.00
Maryland	E	5.00	---	5.00
Massachusetts	E	5.00	---	5.00
Michigan	E	6.00	---	6.00
Minnesota	E	6.50	1.00	7.50
Mississippi	T	7.00	0.25	7.25
Missouri	T	4.225	4.125	
Nebraska	E	5.50	1.50	
Nevada	E	6.50	0.75	
New Jersey	E	6.00	---	6.00
New Mexico	T	5.00	2.25	7.25
New York	E	4.00	4.50	8.50
North Carolina	E [4]	4.50	3.00	7.50
North Dakota	E	5.00	2.50	7.50
Ohio	E	5.00	2.00	7.00
Oklahoma	T	4.50	5.35	9.85
Pennsylvania	E	6.00	1.00	7.00
Rhode Island	E	7.00	---	7.00
South Carolina	T **	5.00	2.00	7.00
South Dakota	T *	4.00	2.00	6.00
Tennessee	T	7.00	2.75	9.75
Texas	E	6.25	2.00	8.25
Utah	T	4.75	2.25	7.00
Vermont	E	5.00	1.00	6.00
Virginia	T **	3.50	1.00	4.50
Washington	E	6.50	2.40	8.90
West Virginia	T	6.00	---	6.00
Wisconsin	E	5.00	0.60	5.60
Wyoming	T *	4.00	2.00	6.00

[1] Food purchased for consumption off-premises.

[2] Highest local rate known to be actually levied by at least one jurisdiction. Includes local taxes for general purposes and those earmarked for specific purposes (e.g. transit). Taxes applying only to specified sales (e.g. lodging or meals) are excluded.

[3] Alaskan cities and boroughs may levy local sales taxes from 1% to 6%.

[4] Food exempt from state tax, but subject to local taxes. In Louisiana, food will be exempt from state tax 7/1/03.

** Food taxed at lower rate.

* Income tax credit allowed to offset sales tax on food.

Source: Compiled by the Federation of Tax Administrators from various sources.

Sales and Use Taxes
The Building Blocks

Policy Issues

What is the nature of a sales and use tax?

- Tax on consumption.
- Sales tax and use tax are complementary. It is important to have the use tax in statute if the state wants to collect tax on purchases made out of state and then brought into Alaska, such as new cars and trucks.

What is important in a good sales and use tax?

- Certainty.
- Simplicity.
- Fairness.

Why is it important?

- Business development. An overly complex set of tax codes is bad for business.
- Consumer acceptance.

What makes a good sales tax?

- Affordable rate.
- Broad base.
- Understandable rules.

Technical Issues

1. What is included in the tax base, and is it properly defined? Some examples of problem areas that need workable definitions in statute.

- "Tangible personal property." Such as software? Does it depend whether the software is off the shelf, customized or downloaded from the internet?
- Intangible property. Such as copyrights or trademarks or the sale of business goodwill.
- Services. Does this include mortgage interest, bank fees or insurance?
- Real property is not taxed through sales/use tax, but is stationary machinery at a business considered personal property or real property?

2. To what extent are business inputs taxed?

- Common exemptions.
 - “Sales for resale” generally are exempt from sales taxes, but do not generally include the following:
 - Promotional items to be given away.
 - Filling material purchased by a dentist.
 - Leather purchased by a shoe repairman.
 - Manufacturing.
 - How is “manufacturing” defined? Many states require that the process “transform” one material into a different material.
 - What is the point at which production begins and ends? Are all of the components of the production process tax exempt? Most states say production begins with the withdrawal of raw materials from storage and ends when finished goods are taken to storage within the plant. The next sale of the goods then is taxable.
 - How integral to manufacturing process must an input be for it to be considered taxable?
- Use tax. Generally, the use tax is applied against:
 - Consumables.
 - Self-constructed assets.
 - Assets brought in from other states.
- Consider:
 - Direct-pay permits for businesses to remit use taxes, such as contractors and others with a significant amount of tax-exempt use of goods (such as a manufacturer or refinery). For example, raw material used at a welding shop would be tax exempt but not the paper or toner for the photocopier.

3. What issues arise with common exemptions?

- Food. Prepared food vs. groceries? Is restaurant potato salad treated the same as grocery deli potato salad and the same as prepackaged potato salad? If candy is excluded, are marshmallows considered candy? Or does it depend on the size of the marshmallows? Is food from the deli counter exempt even if the purchaser sits down and eats in the food court just as it were a restaurant?
- Medicine. What about herbal supplements? Over-the-counter drugs?
- Medical. Veterinary services? Massage therapy? Include prescription glasses? What about the drugstore magnifying glasses?
- Utilities. What about self-generated electricity? Fuel going into generators?
- Clothing. Safety gear or receiving blankets sold by a midwife? Wigs?
- Bundling. If taxable and non-taxable items are sold as a unit, how is it taxed?

4. Who should collect tax on charitable gaming? The operator of the game that sells the pull-tabs to players, or the distributor that sells the bulk pull-tabs to charities?

5. Challenges to simplicity. These are policy calls that could complicate administration, collection and enforcement of a sales and use tax.

- Sales tax holidays.
- Caps, such as a limit on the taxable amount of a single transaction. Define a single transaction? What about a 60-month car lease? Is each month's payment a transaction? What about businesses that keep an invoice open for favored customers to take advantage of the cap? And what about professional services? Does the cap apply to the law firm's entire billing for the month, or for each piece of work done for the client?
- Multiple rates.
- Differing tax bases in local jurisdictions. This raises the issue of state jurisdiction over sales and use tax exemptions and administration statewide. Is it fair to expect a statewide business to operate under 100 different tax codes?

6. How will special sale situations be handled?

- Leases: Is the tax collected upfront or on payment?
- Casual or occasional sales. Such as Girl Scout cookie sales and garage sales.
- Mergers and acquisitions. Do we really want to try collecting a sales tax on a sale such as BP's sale of ARCO assets to Phillips?
- Bartering. Can the state collect a sales tax on bartered goods?

7. Will local sales taxes be administered by the state? Will the state charge municipalities for administering and collecting their share of the taxes?

8. What administrative provisions are necessary to ensure goals of certainty and fairness?

- Registration of sellers. This would allow the state to monitor taxpayer compliance. This could also simplify the process for claiming an exemption for goods for resale.
- Can a seller file an extension for return?
- Allow or require consolidated returns?
- What accounting method is permissible?
- Are inactive sellers required to file?
- Are division-organized sellers allowed to file by division?

9. Why is use tax important? Is this fuss all about a pair of shoes bought in Seattle?
- Equal treatment of taxpayers. Is it fair for one Alaskan to avoid the tax by shopping out of state?
 - Businesses are the largest payors under a use tax.
10. What can be done about the regressivity of a sales tax?
- Taxing services, and not just goods, would help spread the tax burden across middle- and upper-income households that tend to spend more on services than low-income households.
 - Grocery credit. Perhaps a credit based on family size instead of a food exemption would achieve the same purpose, while avoiding the definition of tax-exempt food.
11. What can the nationwide Streamlined Sales Tax Project do for us?
- Provide standard definitions to make tax administration easier and more business friendly.
 - Uniform sourcing rules. This applies to determining the source of the taxable transaction, which is an important issue in interstate commerce.
 - Clear administrative provisions already articulated.
12. Is the internet sales issue important to Alaska? Yes, especially in Alaska where consumers rely heavily on catalog, phone and internet orders. But there are federal legal restrictions to taxing sales placed with out-of-state companies — which is something the Streamlined Sales Tax Project is trying to resolve so that states and municipalities can collect revenue from such sales.

Statewide Sales Tax

What Do Other States Charge?

The only states in the nation without a statewide sales tax are Alaska, Delaware, Montana, New Hampshire and Oregon. The others collect taxes that range from a low of 2.9% in Colorado to 7% in Mississippi, Tennessee and Rhode Island.

- In most states, the cities, counties, transit districts and other taxing authorities add their tax onto the state tax rate, with the states handling collection and enforcement, then disbursing the funds to the municipal agencies.
- State and city sales taxes are collected and administered separately in only a very few locations nationwide. Businesses prefer to deal with a single set of rules and a single taxing authority (reducing compliance costs to businesses).

Because of the cumulative effect of adding local sales taxes to the state tax, many states set a maximum overall rate.

- The highest combined state and municipal sales tax rate in the nation is in Alabama, with at least one community at 11%. Arkansas and Oklahoma are tied at second at 9.875%.

Most states — 28 of 45 — exempt all or some food purchases from sales taxes, with three additional states charging a lower tax rate on foods.

- All states exempt prescription medicines from sales tax.
- Fewer than 10 states exempt non-prescription medicines from sales tax.

Most states allow businesses to retain a portion of their collections as reimbursement for the expense of collecting the tax for the state.

- For those states that do allow a "discount" to businesses on their sales tax returns, the rate ranges from 0.5% of the amount collected to as much as 5% for businesses with small tax collections.
- One-third of the states set a maximum on the amount of money a business is allowed to retain.

Of those states with a general statewide sales tax, the tax provides an average of around 30% of the state's overall general fund revenues.

How Many Alaska Cities and Boroughs Already Have a Sales Tax?

About one-third of Alaskans live in a community — a city or a borough — with a municipal sales tax. The rates for those 200,000-plus Alaskans range from:

- A low of 1% in Tenakee and White Mountain.
- To a high of 7% in Wrangell, with a 6% rate in Petersburg, Cordova, Kodiak and Kotzebue.

The 97 cities and boroughs with a sales tax collected about \$125 million in Fiscal Year 2001, for an average of more than \$600 per capita.

Each municipality has its own list of tax exemptions, limits and rules, such as a cap on the maximum amount of a single purchase subject to a sales tax (to ease the burden on purchasers of big-ticket items such as cars). There is no uniformity across the state. In this aspect, merchants likely would appreciate a state-governed sales tax program, with one set of rules statewide.

The Alaska Municipal League has gone on record opposing a statewide sales tax. The league's members see the sales tax as historically the domain of municipalities in Alaska and do not want to lose control over the tax revenue or administration. Alaska communities with an existing sales tax also fear the economic damage that could be inflicted upon their cities and boroughs if the state were to impose a statewide sales tax on top of municipal taxes.

- For example, Wrangell and Petersburg, at 7% and 6%, respectively, believe merchants in their communities would lose a significant amount of business to out-of-state suppliers if residents were charged an 8%, 9% or 10% combined state/municipal tax.

Most municipalities allow for some form of exemption for senior citizens, though the process varies from city to city.

- For example, Juneau issues tax-exempt cards to seniors and then requires businesses to keep a log of all tax-exempt purchases. Wrangell uses a different approach. It issues seniors a \$250-a-year sales tax rebate, rather than requiring businesses to keep a log and enforce the exemption.

Assuming the state controlled collection of the tax, the most efficient method for distributing the local tax back to cities and boroughs would be to determine the local share of the tax revenue — for example, if Sitka had a 5% rate and the state had a 3% rate — and then compute the local share of total collections and send out the check.

How Much Would the State Raise from a Sales Tax?

The Department of Revenue estimates the state would collect approximately:

- \$110 million a year for every 1% in a statewide sales tax on retail goods and services sold in Alaska, assuming no exemptions.
- \$75 million a year if foods and medical goods and services were exempted.

Additional exemptions would reduce the tax burden on some residents and, consequently, reduce revenues to the state. Exemptions also could complicate administration of the tax. And, if the state exempted any goods or services already subject to municipal sales taxes, and then imposed its exemptions on municipalities, some cities and boroughs could see a drop in their tax revenues.

Is a Seasonal Sales Tax a Good Idea?

This is hard to judge, but it appears from Juneau's sales tax records that sales are not as heavily weighted to the summer season as many people might expect. Permanent Fund dividends and the Christmas shopping season appear to help keep the volume of sales from leaning too heavily toward a summer surge.

Based solely on Juneau's records, it appears a six-month seasonal tax might not generate much more than 50% to 55% of the year's taxable revenues. And it could be less if local residents shifted their purchases to the no-tax season.

A seasonal sales tax, while intended to grab more tax revenues from summer visitors, could actually harm local businesses, particularly big-ticket merchants that depend on local sales. For example, would a heavy seasonal sales tax deter residents from making purchases locally during the summer season? Would it hurt car dealers, appliance and furniture stores and electronic shops? Would the sales return each fall?

Who Would Pay the Tax?

A sales tax is generally considered to be regressive, meaning that lower-income people, who spend a greater proportion of their income on local goods, would pay a larger share of their income in sales taxes when compared to higher-income people. Exemptions for medical care and other necessities would reduce but not eliminate this imbalance. And the state could use a credit system to somewhat reimburse lower-income households for taxes paid on food. Taxing all services also would help to lessen the proportion of the tax burden on lower-income households, as middle- and upper-income households generally purchase services more than households on limited income.

It's hard to say how much of the sales tax would be paid by visitors from out of state, although the Department of Revenue believes it would be in the range of 10% of total tax revenues for a tax in place for the entire year. Visitors spend heavily on gifts, food, lodging and tours, although federal law prohibits a state sales tax on air transportation.

What is the Nationwide Streamlined Sales and Use Tax Agreement?

Businesses nationwide and other states are working hard to win nationwide adoption of a Streamlined Sales and Use Tax Agreement.

"It is the purpose of this agreement to simplify and modernize sales and use tax administration in the member states in order to substantially reduce the burden of tax compliance."

One of the key reasons for the push is to address the loss of state and municipal sales tax revenues to mail order and Internet commerce. The growth of mail order and Internet sales is costing states and municipalities billions of dollars a year in lost sales taxes. The retail industry has made it clear it wants to see a set of uniform sales tax rules nationwide as a condition of working with the states to collect taxes on interstate commerce. Alaska would not be in compliance with the nationwide effort if it adopted a state sales tax without the same exemptions and rules for municipal taxes statewide.

The agreement, which has been adopted by more than 20 states, requires:

"States to administer any and all sales and use taxes levied by local jurisdictions within the state so that sellers collecting and remitting these taxes will not have to register or file returns with, remit funds to, or be subject to independent audits from local taxing jurisdictions."

What Other Issues Should be Considered?

In addition to questions of local control, joining the nationwide streamlined sales tax campaign, and the risk of economic damage to communities that already have a heavy sales tax burden, other issues for the state to consider include:

- Taxable vs. non-taxable sales. Food (prepared vs. unprepared), medicines (prescription vs. non-prescription), medical care (licensed care only or all care), sales by nonprofit organizations, and sales at vending machines are among the obvious issues.
- Senior citizen tax exemption. No exemption, or exempt all purchases by seniors, or issue an annual rebate check? If purchases are exempt, should such tax-exempt purchases be limited?
- An exemption for purchases and/or sales by nonprofit organizations.
- Expectation for audits and enforcement. A stronger enforcement and audit program would add to the costs but would produce higher revenues to the state.

One other major issue to consider is the essential need for a "use tax" as part of any sales tax. Most states collect a use tax under the same set of statutes as their sales tax. This helps cover sales by nationwide retailers with a nexus (presence) in individual states, and allows the taxation of goods brought into the state. It is a matter of fairness. For example, it would allow taxation of office equipment brought into Alaska the same as a photocopier purchased in the state.

How Much Would it Cost the State to Administer a Sales Tax?

The Department of Revenue estimates it would cost approximately \$5 million a year to administer a statewide sales tax program, depending on the complexity of the tax, the number of exemptions, and the attention to enforcement and audits. The cost of sales tax programs nationwide average around 2% of collections. At \$5 million a year, Alaska would be within that range with a reasonable sales tax that raised \$250 million per year

In addition to annual costs, there would be a first-year expense of approximately \$2 million to set up the tax program, including programming, offices, public and taxpayer educational programs, publications and tax forms, and a web-based filing system.



Streamlined Sales Tax Project

Executive Summary

March 2003

Steering Committee

Diane Hardt
Co-Chair
Wisconsin

Scott Peterson
Co-Chair
South Dakota

Carol Fischer
Missouri

Harold Fox
New Jersey

Bruce Johnson
Utah

Eleanor Kim
Texas

Tom Kimmett
Pennsylvania

Charlotte Quarles
Kentucky

Marshall Stranburg
Florida

The Streamlined Sales Tax Project is an effort created by state governments, with input from local governments and the private sector, to simplify and modernize sales and use tax collection and administration. The Project's proposals include tax law simplifications, more efficient administrative procedures, and emerging technologies to substantially reduce the burden of tax collection. The Project's proposals are focused on improving sales and use tax administration systems for both Main Street and remote sellers for all types of commerce.

Thirty-nine states and the District of Columbia are involved in the Project. Thirty-six states and the District of Columbia are voting participants in the Project because their legislators have enacted enabling legislation or their governors have issued executive orders or similar authorizations. Three states are non-voting participants in the work of the Project because they do not have the formal commitment of the state executive or legislative branches, but are still participating. Forty-five states and the District of Columbia impose a sales and use tax.

The Project was organized in March 2000. The Project is conducting its work through a steering committee with co-chairs, four work groups, and a number of sub-groups. Project participants are generally state revenue department administrators but there are also representatives of state legislatures and local governments. Businesses — including national retailers, trade associations, manufacturers, direct marketers, telecommunications companies, leasing companies, technology companies, printers, accounting firms, and others — have actively participated in the Project by offering expertise and input, reviewing proposals, suggesting language, and testifying at public hearings.

The goal of the Streamlined Sales Tax Project is to provide states with a Streamlined Sales Tax System that includes the following key features:

- **Uniform definitions within tax laws.** Legislatures still choose what is taxable or exempt in their state. However, participating states will agree to use the common definitions for key items in the tax base and will not deviate from these definitions. As states move from their current definitions to the Project's definitions, a certain amount of impact on state revenues is inevitable. However, it is the intent of the Project to provide states with the ability to closely mirror their existing tax bases through common definitions.

- **Rate simplification.** States will be allowed one state rate and a second state rate in limited circumstances (food and drugs). Each local jurisdiction will be allowed one local rate. A state or local government may not choose to tax telecommunications services, for example, at one rate and all other items of tangible personal property or taxable services at another rate. State and local governments will accept responsibility for notice of rate and boundary changes at restricted times.
- **State level tax administration of all state and local sales and use taxes.** Businesses will no longer file tax returns with each local government within which it conducts business in a state. Each state will provide a central point of administration for all state and local sales and use taxes and the distribution of the local taxes to the local governments. A state and its local governments will use common tax bases.
- **Uniform sourcing rules.** The states will have uniform and simple rules for how they will source transactions to state and local governments. The uniform rules will be destination/delivery based and uniform for tangible personal property, digital property, and services.
- **Simplified exemption administration for use- and entity-based exemptions.** Sellers are relieved of the "good faith" requirements that exist in current law and will not be liable for uncollected tax. Purchasers will be responsible for paying the tax, interest and penalties for claiming incorrect exemptions. States will have a uniform exemption certificate in paper and electronic form.
- **Uniform audit procedures.** Sellers who participate in one of the certified Streamlined Sales Tax System technology models will either not be audited or will have limited scope audits, depending on the technology model used. The states may conduct joint audits of large multi-state businesses.
- **State funding of the system.** To reduce the financial burdens on sellers, states will assume responsibility for funding some of the technology models. The states are also participating in a joint business – government study of the costs of collection on sellers.

The Project proposes that states change their sales and use tax laws to conform with the simplifications as proposed by the Project. Thus, the simplifications would apply to all sellers. Sellers who do not have a physical presence or "nexus" are not required to collect sales and use taxes unless Congress chooses to require collection from all sellers for all types of commerce. Sellers without a physical presence can volunteer to collect under the proposed simplifications. Registration by sellers to voluntarily collect sales and use taxes will not infer that the business must pay business activity taxes, such as the corporate franchise or income tax.

The Streamlined Sales Tax System will provide sellers the opportunity to use one of three technology models. A seller may use Model 1 where a Certified Service Provider, compensated by the states, will perform all of the seller's sales tax functions. A seller may use Model 2, a Certified Automated System, to perform only the tax calculation function. A larger seller with nationwide sales that has developed its own proprietary sales tax software may use Model 3 and have its own system certified by the states collectively. However, some sellers may choose to continue to use their current systems and still enjoy the benefits of the Project's simplifications.

The Streamlined Sales Tax Project envisions two components to the legislation necessary to accomplish the Project's goals. First, states would adopt enabling legislation referred to as the Uniform Sales and Use Tax Administration Act ("Act"). The Act allows the state to enter into an agreement with one or more states to simplify and modernize sales and use tax administration in order to reduce the burden of tax compliance for all sellers and all types of commerce. The Act does not require any amendments to a state's sales and use tax law.

Secondly, states would amend or modify their sales and use tax laws to achieve the simplifications and uniformity required by the participating states working together. The Project refers to this legislation as the Streamlined Sales and Use Tax Agreement ("Agreement"). Some states will require only minor changes to current law to implement the requirements of the Agreement. Other states with more complicated sales tax laws may require significant changes to current law to be in accord with the Agreement.

A certificate of compliance will document each state's compliance with the provisions of the Agreement and cite applicable statutes, rules or regulations, or other authorities supporting such compliance. Public notice and comment will be provided before a state becomes part of the interstate Agreement. A state is in compliance with the Agreement if the effect of the state's laws, rules or regulations, and policies is substantially compliant with each of the requirements of the Agreement. If a state is found to be out of compliance with the Agreement, it will not be accepted into the interstate Agreement or will be sanctioned or expelled by the other participating states. In a voluntary system, sellers who are voluntarily collecting sales taxes for participating states may decide to no longer collect for the expelled state. Also, that state may not have a vote on changes in the Agreement.

A governing board will be comprised of representatives of each member state of the Agreement. Each member state is entitled to one vote on the governing board. The governing board is responsible for interpretations of the Agreement, amendments to the Agreement, and issue resolution. A State and Local Government Advisory Council and a Business and Taxpayer Advisory Council from the private sector will advise the governing board.

On November 12, 2002, thirty states and the District of Columbia approved the interstate Agreement provisions. States will move forward in 2003 and enact the conforming legislation. The Agreement will become effective when at least ten states with twenty percent of the total population of all states imposing a state sales tax have enacted the conforming legislation and are found to be in compliance with the requirements of the Agreement.

It's anticipated that states that enact the conforming legislation and are found to be in compliance with the Agreement will continue as the governing states of the interstate Agreement of the future.

The project website is www.streamlinedsalestax.org.

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

 	NATIONAL CONFERENCE of STATE LEGISLATURES		Home Press Room Contact/Ask NCSI Search Site map	Members Log-in	
	NCSL Profile	Policy Issues	State Legislatures	State-Federal Relations	Publications

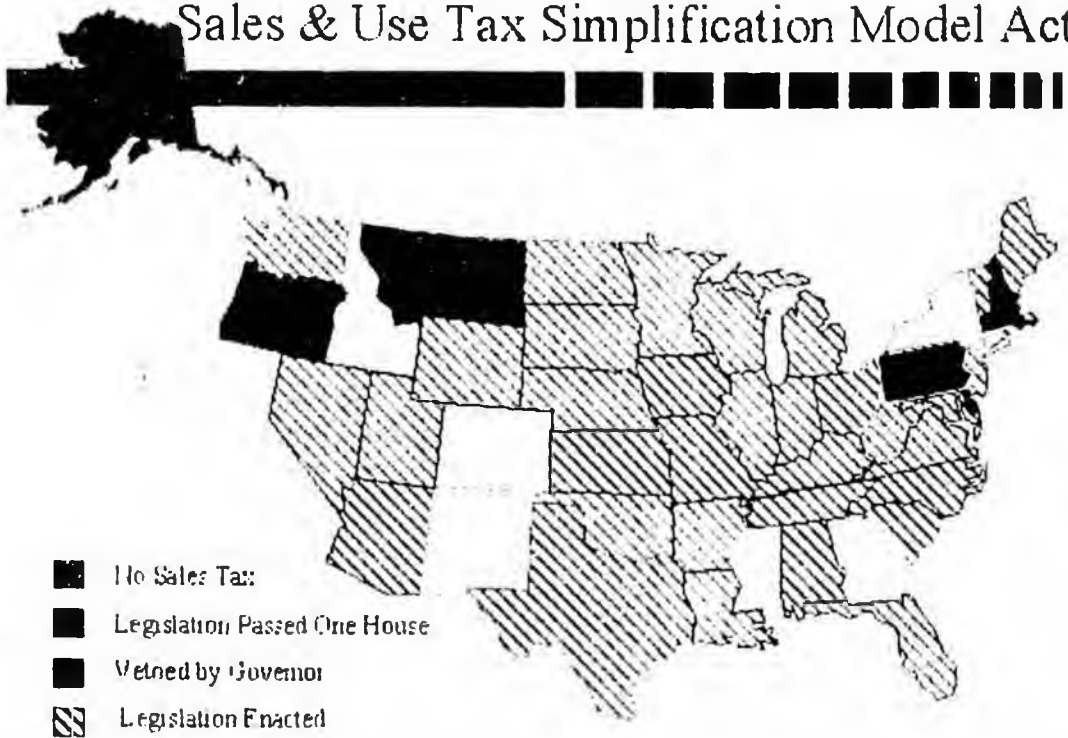
NCSL Profile	Policy Issues	State Legislatures	State-Federal Relations	Publications	Meetings
------------------------------	-------------------------------	------------------------------------	---	------------------------------	--------------------------

Login Here Register Now	To access special member content and services, legislators, legislative staff and Foundation for State Legislatures sponsors must log in. (Clear this notice.)	NCSI net Registration Help Forgotten NCSI net Password
--	---	---

Commerce and Communications Committee

State Legislative Action 2001- 2002

Sales & Use Tax Simplification Model Act



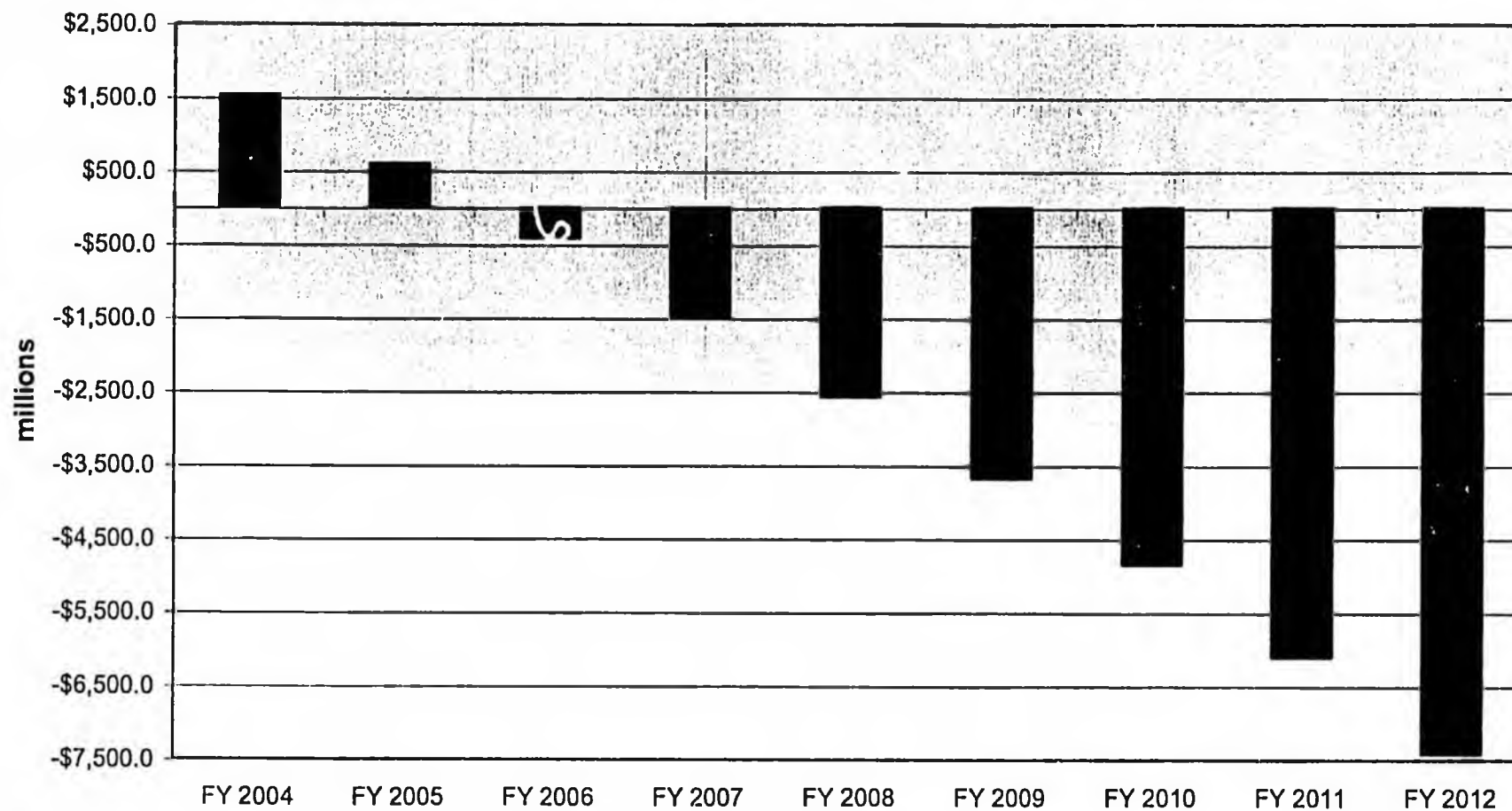
National Conference of State Legislatures
 INFO@NCSL.ORG (autoresponse directory)

Denver Office
 7700 East First Place
 Denver, CO 80230
 Tel 303-364-7700
 Fax 303-364-7800

Washington Office
 444 North Capitol Street N.W. Suite 515
 Washington, D.C. 20001
 Tel 202-624-5400
 Fax 202-737-1069

CBRF End-of-Year Balance

Assumes Status Quo Permanent Fund Distribution and No New Revenues
(Assumes House FY 2004 budget as the base, with no increase and no other new taxes)



NAME: Marie Davlin Subject/Bill No: _____

Co./Dept./Title: ANRP Phone: 6-3637

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

will leave testimony
NAME: Bon Peck Subject/Bill No: SB-220

Co./Dept./Title: A.T.I.A. Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: Judy Brady Subject/Bill No: SB 220

Co./Dept./Title: Benedict Alaska Oil & Gas Association Phone: 272 1481

Address: 121 west Firewele Zip: 99502

Do you wish to testify? Yes No Respond To Questions

NAME: Kevin Ritchie Subject/Bill No: _____

Co./Dept./Title: AK Mun. League Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

SENATE FINANCE COMMITTEE

SIGN-IN

SB 220-STATE SALES AND USE TAX

NAME: JOE SONNESHAN Subject/Bill No: CS SB 220
Co./Dept./Title: _____ Phone: 463-2624
Address: 324 Willoughby Junction Zip: 99801
Do you wish to testify? Yes No Respond To Questions

NAME: John Bitney Subject/Bill No: SB 220
Co./Dept./Title: AK State Home builders Phone: 586-3007
Address: Juneau Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

SITE: KETCHIKAN

COMMITTEE: (S)FIN

DATE: 05.14.03

SUBJECT OF MEETING: SB220

Meeting-ID#: 7346

UPDATE #: first

PLEASE SIGN IN

P R I N T YOUR NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

**DO YOU WANT
TO TESTIFY?
Y or N**

✓ Jack Shay		KGB	Y-220
Email address:			
✓ Michael Salazar		KGB	Y-220
Email address:			
✓ Roy Eckert		KGB	Y-220
Email address:			
✓ Len Laurance		Self	Y-220
Email address:			
✓ Doug Ward		Chamber of Commerce	Y-220
Email address:			
Email address:			
Email address:			

SITE: Cordova

COMMITTEE:

DATE:

SUBJECT OF MEETING:

UPDATE #:

PLEASE SIGN IN

P R I N T YOUR NAME	ADDRESS (MAILING & ZIP)	DO YOU WANT REPRESENTING	TO TESTIFY? Y or N
✓ Denny Kay Weathers <small>northerngirl@ctcak.net</small>	C/o P.O. Box 1791 Cordova, Alaska 99574		Yes
✓ Kenny Simpson <small>gmaw@pci.net</small>	7948 Highlander Drive Anchorage, AK 99518		Yes
✓ Tim Joyce <small>Email address:</small>	P.O. Box 1210 Cordova, AK	City of Cordova mayor	yes
✓ Nancy Bird <small>Email address:</small>	P.O. Box 1185 Cordova, AK 99574	City Council	Yes
<small>Email address:</small>			
<small>Email address:</small>			
<small>Email address:</small>			
<small>Email address:</small>			

SITE: Kodiak LIO

COMMITTEE: Senate Finance

DATE: 05/14/03

SUBJECT OF MEETING:

SB 220 - State Sales Tax

UPDATE: FINAL

PLEASE SIGN IN

P R I N T YOUR NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

**DO YOU WANT
TO TESTIFY?
Y or N**

P R I N T YOUR NAME	ADDRESS (MAILING & ZIP)	REPRESENTING	DO YOU WANT TO TESTIFY? Y or N
<input checked="" type="checkbox"/> Linda Freed	Kodiak, 99615	City of Kodiak Manager	Y (SB 220)
Email address:			
<input checked="" type="checkbox"/> Jake Jacobson			
Email address:			
Email address:			
Email address:			
Email address:			
Email address:			

SITE: MAT-LIO

SUBJECT OF MEETING:

SB220

COMMITTEE: SFIN

UPDATE#:

DATE: 05/14/03

PLEASE SIGN IN

P R I N T YOUR NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

**DO YOU WANT
TO TESTIFY?
Y OR N**

✓ Marci Schmidt		Self	Y
Email address:			
✓ Mary Kvalheim			Y
Email address:			
Email address:			
Email address:			
Email address:			
Email address:			

SITE: Petersburg LIO

COMMITTEE: SFIN

DATE: 5-14-03

SUBJECT OF MEETING: SFIN, SB220

State Sales Tax

UPDATE #: 

PLEASE SIGN IN

P R I N T YOUR NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

**DO YOU WANT
TO TESTIFY?
Y or N**

✓ Julie Hursey	P.O. Box 213, Psg, AK 99833	Self	Yes
Email address:			
✓ Michael Lopez	P.O. Box 1004, Psg, AK 99833	P.I.A.	Yes
Email address:			
✓ Tom Laurent	P.O. Box 137, Psg, AK 99833	Self	Yes
Email address:			
✓ Nancy Berg	P.O. Box 1435, Psg, AK 99833	Chamber of Commerce	Yes
Email address:			
✓ Rick Fleischman	1802 Balderway, Sitka, AK 99835	Self	Yes
Email address:			
Email address:			

SITE: ANCHORAGE LIO

COMMITTEE: SFIN

DATE: 5-14-03

SUBJECT OF MEETING:

SB220

UPDATE #: Pg:1

PLEASE SIGN IN

P R I N T YOUR NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

**DO YOU WANT
TO TESTIFY?**

Y or N

✓ Mary Hugues		The Alaska Club	Y-SB220
Email address:			
✓ Brad Phillips		Phillips Cruises & Tours	Y-SB220
Email address:			
✓ Richard Block		Christian Sciences Committee	Y-SB220
Email address:			
✓ Brooks Chandler		City of Dillingham	Y-SB220
Email address:			
✓ Chris Hladick		City of Unalaska	Y-SB220
Email address:			
Kelli Dindinger		AK Industry/Holiday Downtown	Travel Inn Y-SB220

**PUBLIC
TESTIMONY
SB 220**

Subject: Public Testimony before Senate Finance May 14, 2003 on SB 220

Date: Wed, 14 May 2003 13:36:41 -0800


From: "Mary K. Hughes" <mkhughes@acsalaska.net>

To: <Senator_Lyda_Green@legis.state.ak.us>, <Senator_Gary_Wilken@legis.state.ak.us>, <Senator_Con_Bunde@legis.state.ak.us>, "Sen. Ben Stevens (E-mail)" <Senator_Ben_Stevens@legis.state.ak.us>, <Senator_Robin_Taylor@legis.state.ak.us>, <Senator_Lyman_Hoffman@legis.state.ak.us>, <Senator_Donny_Olson@legis.state.ak.us>

Dear Senators Green, Wilken, Bunde, Stevens, Taylor, Hoffman and Olson:

Although I plan to testify this afternoon before the Senate Finance Committee on SB 220, the time parameters of public testimony are limiting (especially for an attorney) and thus am sending a statement via email to be included in the Committee proceedings. Thank you. I look forward to appearing before the Committee. mk

Mary K. Hughes
1592 Coffey Lane
Anchorage, AK 99501
(907) 274-6290 (voice and fax)
mkhughes@acsalaska.net

 Testimony May 14, 2003 Senate Finance.doc	<p>Name: Testimony May 14, 2003 Senate Finance.doc Type: WINWORD File (application/msword) Encoding: base64 Download Status: Not downloaded with message</p>
---	--

May 14, 2003

**Testimony of Mary K. Hughes
for The Alaska Club**

The Legislature has before it two pieces of legislation SB 220 and CSHB 293 (House W & M). Both are efforts to address Alaska's current fiscal situation by increasing state revenues.

Although it was the stated intent of the House Ways & Means Committee to forgo incorporation of exemptions within the legislation, various exemptions have already been added. Consumer expenditures for health services are currently exempt in both pieces of legislation. This exemption focuses solely on after-the-fact costs of health treatment and fails to recognize the cost-effectiveness of incentives to prevent illness and injury in the first place.

Alaska stands at a policy crossroads created by the intersection of two critical policy thoroughfares: one

May 14, 2003

traveling the path to fiscal fitness for the State; the other, to physical fitness for its citizens. The Alaska Legislature is uniquely positioned to start off each journey on the right foot by recognizing and incorporating fitness incentives into its emerging public tax policies.

From the State's fiscal perspective, this improvement will cost very little, may cost nothing, and might even promote a budget improvement. At worst, revenues lost through the deduction might prove minor and immaterial in amount. More plausibly, an increase in healthful conduct by the public could translate into a net fiscal gain for the public treasury, with reduced State expenditures for health care.

The State already recognizes the basic cause-and-effect relationship between diminished public health and increased public expenditure. In consequence, it previously

May 14, 2003

inaugurated the *Healthy Alaskans 2000 Program* to target health issues in Alaska and to formulate governmental policies that would improve health and thereby reduce health care expenditures.¹ Public tax policy offers a new constructive tool - tax incentives - for concurrently achieving the goals of improved public health and reduced public expenditure.

We would suggest the following amendment:

Sec. 43.44.220. Exemption for health care. The following are exempt from the sales tax and use tax:

(1) health care services provided by a person licensed or certified to provide those services under AS 08 or a "health care facility" as that term is defined in AS 08.68.395(g)(2) **and health club fees;**

(2) drugs, durable medical equipment, mobility enhancing equipment, and prosthetic devices obtained on prescription from a person licensed to prescribe those goods under AS 08 or from a health care facility, as that term is defined in AS 08.68.395(g)(2).

¹ The State is continuing this effort with the *Healthy Alaskans 2010* program.

May 14, 2003

The relationship between tax incentives and health care cost conservation is being acknowledged and actively explored at the federal level. Secretary of Health and Human Services Tommy Thompson has recently pointed out that it costs \$270 billion a year – the amount of the entire Medicare budget – to treat many preventable conditions. Accordingly, he is “considering tax breaks for people who stay in shape”. In the context of sales, amusement and admission taxes, a clear majority of the states imposing such taxes (28 of 45) exempt health clubs.

The benefits of spurring private sector efforts through worksite physical activity and fitness programs have long been acknowledged.² This proposal builds upon that precedent in order to serve multiple State interests:

² See, e.g., Department of Health 2010 at 22-26: “Worksite physical activity and fitness programs provide a mechanism for reaching large numbers of adults and have at least short-term effectiveness in increasing the physical activity and fitness of program participants.”

May 14, 2003

improved fiscal performance, improved public health, and improved Alaskan lifestyle. Given the critical health care needs of the State, and the still-nascent condition of state tax policy, the creation and implementation of a program for physical fitness exemptions is both innovative and timely. Alaska and Alaskans will both be better off for its adoption.

Mary K. Hughes
(907) 274-6290
mkhughes@acsalaska.net

Opinion

(Published: May 16, 2003)

Sales tax questions

Time is too short; special session on broad-based tax is needed

When the Legislature first started seriously considering a sales tax late last month, the concept sounded so simple. When you're at the cash register, the state adds a couple of percent to the amount of the sale; the merchant sends the money to the state, and that's that.

As the Legislature has learned in the past week, however, it's not so simple. There are a host of complications to consider and questions to be resolved.

Should necessities like food be covered? Prescription drugs? How about visits to the doctor? Hospital bills? Legal fees? Purchases of stocks or bonds? Buying a home? Your monthly rent payment? If the state makes some exemptions, what happens if they are different from existing exemptions in local sales taxes?

Do you have to collect tax

when you sell a used car to someone else? How about collecting the tax at garage sales?

How do you stop people from dodging the sales tax by mail order or Internet shopping? How do you stop them from going out of state to buy big-ticket items like cars or boats or RVs or airplanes? Is it fair to charge the full tax rate on milk and diapers while capping the amount of tax collected from expensive purchases like luxury automobiles?

Can a state sales tax be made more fair in rural Alaska? In the Bush, almost every item costs substantially more than in cities, so the rural customer is forced to pay more tax on an identical purchase. If the sales tax is charged on freight bills, the burden on rural Alaska grows even worse.

To cut down on tax dodging, the measure under discussion covers either the sale or the use of an item. You might be able to avoid the tax when you buy something -- say, a mail order computer -- but you're supposed to pay the tax when you get it home and use it. How can that be enforced without widespread government snooping? Without firm enforcement, how can you stop tax dodging?

The tax that legislators are discussing also covers the sale of services. When you hire a housekeeper, she's supposed to charge you sales tax. When a major oil company hires a company to drill a well, the driller is supposed to collect sales tax. Every construction project in Alaska will be subject to tax. What will that do to the business climate in the state? Tens of thousands of Alaskans have business licenses. Will each one have to become a tax collector for the state?

After all those complications, an income tax begins to look a lot simpler. The state could charge a certain percentage of the federal income tax each Alaskan pays every year. Everything could fit on a one-page form.

Whether or not legislators treat the income tax as a serious alternative to the ever more complicated sales tax, one thing is clear. The six remaining days of the legislative session are not enough to work out all the complications and produce a coherent, fair version of a state sales tax.

That doesn't mean lawmakers can put the subject off until next January, however. Even with oil prices well above historic levels, lawmakers draw hundreds of millions of dollars from the Constitutional Budget Reserve each year

to balance the budget. The CBR is supposed to be insurance against huge drops in oil prices. As the reserve shrinks below \$2 billion, one bout of low oil prices will put the state on the precipice of fiscal and economic disaster. Even if Alaska gets lucky and oil prices stay high, the reserve will still disappear in less than three years.

Gov. Frank Murkowski and many of his fellow Republican legislators have come to realize that burning up the state's emergency reserve funds is dangerous. They have come to realize that fiscal responsibility requires some kind of broad-based statewide tax. To figure out what tax will work best and carefully craft it will require better information, better consultation with the public, more open deliberations and more focus on this, the most important decision facing Alaska's lawmakers today. The only way to produce a responsible decision is to stop the rush, to collect more data and analysis, and to hold a special legislative session later this summer.

Lawmakers should take some time to gather information, flesh out more details and listen to public reaction. By about July, they should reconvene, and they should stay at work until they have agreed on a responsible, well-understood way of raising revenue. And they should consider all the options -- carefully.

Provided by Alan Judson

SB 220



[Click here to return to the original story](#)

Some legislators are penny-wise, pound-foolish

Letter to the editor

Friday, May 16, 2003

Rep. Mike Hawker, an Anchorage Republican, seems to be operating under a misapprehension about the purely economic value of treating substance abuse. ("Funds cut for substance abuse programs," May 14).

It sounds like Hawker agrees, in principle, to alleviating the recognizable suffering of the horrors of substance abuse, but objects to funding these programs at too high a level because "the brutal political reality is every penny that we spend on these programs comes from some Alaskan's pocket."

This semester I learned from a professor at Georgetown University Law Center, Peter J. Cohen (M.D., J.D.), that many otherwise educated people have similar misapprehensions. Although Mr. Hawker is correct that every penny spent fighting substance abuse can be considered as being taken from the pocket of some Alaskan, the proper question (for a purely economically minded person who cares little about the value of human suffering) is "what kind of rewards come from treatment programs?" For example, what if scientific reports show these programs (many of which admittedly treat drug addictions more like diabetes than smallpox) actually save taxpayers' money?

According to a National Institutes of Medicine (NIM) report on heroin and cocaine treatment programs: "The result is unambiguous: Every dollar invested in treatment yields two and up to four dollars, and sometimes more, in societal benefits."

Other legislators, such as Rep. Jim Holm, a Fairbanks Republican, might still say, "but we should teach people with addictions to take personal responsibility for their disease." So what are the costs for the Holm approach to not treat addiction at all? The 1995 NIM report indicated that untreated addiction costs \$43,200. How about incarceration? It costs \$39,600. The costs of various treatment options: \$12,467, \$3,500 and \$2,722.

An investigation of the costs and benefits of these treatment programs will uncover the brutal reality that every penny we fail to spend on these programs not only results in further human misery but in another two pennies coming from some Alaskan's pocket. I'm a young Alaskan. I would like to both keep my two pennies as well as alleviate people suffering from a disease. So please, legislators, do some investigation before making short-term budget cuts that will have long-term negative repercussions.

Aaron M. Clemens
Juneau

No bonds for new school

Letter to the editor

Friday, May 16, 2003

The approval of additional bonds for the construction of a new high school is an unwise idea for several reasons.

The original approval (October 1999) included renovation of Juneau-Douglas High School. JDHS is crowded; however, there are no new classrooms added under the proposals.

The state of Alaska projections indicate a lower growth in the student population of Juneau than the school district projections. Do we need a school larger than the one currently funded?

The current design calls for a core area for 1,500 students and classroom space for about 800 students. "As the student population grows, more classrooms can be added cost-effectively." This seems like a wise way to manage a possible need for more classrooms in the future.

Enrollment figures for the school district for the past five years show a decrease in the number of students:

1998 5,718

1999 5,652

2000 5,486

2001 5,460

2002 5,497 (This is larger than the prior year, but is still below the 1999 enrollment figure).

The initial, increased, annual cost to the school district (net of state funding) is about \$247,000 for the current school planned and about \$359,000 for the larger school proposed. At the present time, the city funds the school district to the maximum extent allowed by law.

The revised plans for the new high school include a "commercial kitchen large enough to support lunch programs at additional schools (which may require some separately funded modifications at those schools)". How much will these modifications cost? How will they be paid?

The state's financial future is uncertain.

Will the state be able to continue debt reimbursement as it has in the past? If not, and the new bonds are approved, Juneau citizens would be responsible for full payment of the debt on the bonds.

Are the citizens of Juneau receptive to a possible sales tax and the increased property taxes related to this increased bond issue?

The quotations above are from the Voter Information available on the city Web site.

We want good education for our children. We need to realize that we can achieve this under the funding approved by the voters in 1999. The additional bonds are not needed to achieve this objective.

Sara H. Willson
Auke Bay

CITY OF UNALASKA

P.O. BOX 610
UNALASKA, ALASKA 99685-0610
(907) 581-1251 FAX (907) 581-1417



SENT VIA FAX (907) 465-2187 UNALASKA, ALASKA

May 15, 2003

Senate Finance Committee
Room 520, Capital Building
Juneau, AK 99801

Re: SB 220, State Sales and Use Tax

Dear Senate Finance Committee Members:

My name is Aimée Kniazowski and I'm the Assistant City Manager for the City of Unalaska. I testified on behalf of the City of Unalaska at the Senate Finance Committee hearing on SB 220 last evening, May 14th. Per your request, I'm also submitting my written testimony.

The City of Unalaska has two major areas of concern on the proposed statewide sales tax legislation; the financial impact due of lost revenue through exemptions, and collection and remittance concerns. I also want to address the importance of consistency in definitions, policies, and guidelines that are essential for any successful implementation of a state sales and use tax.

While the bill allows for a phased implementation of the state sales tax, it will eventually have a financial impact on Unalaska due to the exemption of sales tax on marine fuel sales. As you know, the State currently taxes marine fuel at 5 cents per gallon. In 2002, vendors in Unalaska sold 71 million gallons of marine fuel, which provided more than 60% of the state's total Marine Fuel Tax revenues in FY02. In addition to the existing state tax, the City taxes these sales at 3%. If Unalaska isn't able to collect sales tax on marine fuel due to the exemption in the proposed bill, and assuming we would sell 70 million gallons a year, we estimate the revenue loss to be approximately \$3million after the two-year phase in period. While Unalaska is a prosperous community, we simply cannot absorb a financial loss of this size.

The unintended consequence of this bill is that local governments whose citizens have agreed to tax themselves in order to provide services will be faced with mandated revenue reductions in order to comply with a new state sales tax.

We encourage the Senate to reconsider this exemption by amending the bill to allow municipalities to collect sales tax on marine fuel.

Letter to Senate Finance Committee

Re: SB 220

May 15, 2003

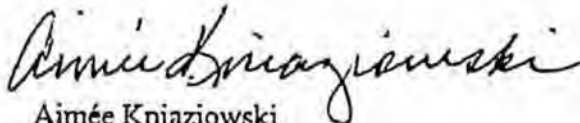
Page 2

The second point of concern we have is that, if the State collects both local and state sales tax, we will likely face delays in receiving local sales tax revenue payments. Unalaska currently collects an average of over \$430,000 per month in sales tax. Our cash flow could be drastically impacted if the State remits our share on an annual basis as it does our share of the Fisheries Resource Landing Tax and Fisheries Business Tax. While we recognize that this is an administrative issue that would be addressed by the Department of Revenue, we recommend the Committee amend the bill to allow the State to contract with municipal governments who already have tax collection procedures in place.

As is true in other rural Alaskan communities, Unalaska relies heavily on goods purchased from locations outside the state, especially catalog and Internet suppliers. Unalaska supports the state's goal of maintaining consistency with definitions, policies, and guidelines, as mentioned in Section 35 of the bill, which outlines the authority to enter streamlined sales and use tax agreements with other states. One of the reasons Internet commerce has been exempted from sales and use taxes is because of the near impossibility for businesses to comply with all local sales tax ordinances. There are thousands of counties/boroughs and cities each with their own definitions and exemptions. Some courts have agreed the diversity of sales and use tax regulations makes compliance nearly impossible for national and international businesses. We encourage the legislature to recognize that the collection of sales and use taxes is reliant on a unified system.

Thank you for the opportunity to express the City's views and concerns.

Sincerely,
CITY OF UNALASKA



Aimée Kniaziowski
Assistant City Manager

Cc: Senator Lyman Hoffman
Representative Carl Moses
Chris Hladick, Unalaska City Manager
Mayor Fitch and Unalaska City Council Members
Ray Gillespie, Lobbyist

Greater Ketchikan Chamber of Commerce

P.O. Box 5957
Ketchikan, Alaska 99901
ph. 907.225.3184
fax 907.225.3187



May 15, 2003

Senator Lyda Green State Capitol Room 516
Senator Gary Wilkin State Capitol Room 518
Co-Chairs Senate Finance Committee
Juneau, AK 99801-1182

RE: Senate Bill No. 220: An Act Relating to a State Sales and Use Tax

Dear Senator:

Yesterday I testified before the Senate Finance Committee regarding SB No. 220. Time constraints caused me to cut my oral comments short, so I am providing you written testimony so that you may add my full testimony to the record.

As written SB 220 will institute an 8% tax (5% municipal, 3% state) in Ketchikan on the full value of all goods and services that commerce requires in the daily course of business. Currently, Ketchikan and Southeast suppliers face strong competition from Puget Sound businesses that now enjoy tax exemptions for Alaska consumers. Modifying this narrowly defined exemption to a general exemption for sale or purchase of services, equipment acquisition and equipment rental in excess of \$5,000 will minimize the erosion of the regional competitive advantage for Alaska's businesses, particularly in Southeast.

An example of an emerging Southeast Alaska industry that would suffer by further erosion of regional competitive advantage is large volume ship repair and maintenance as conducted at the Ketchikan and Wrangle shipyards. Currently, Southeast Alaska shipyards compete with Puget Sound shipyards where the sales tax structure is designed to attract Alaska owned vessels to Washington State shipyards. Also, the majority of Southeast Alaska shipyard's customers currently homeport their vessels in Washington State establishing the cost of travel to Alaska as disadvantage even before a new Alaska sales tax is imposed. The impact of an 8% sales tax on large volume vessel repair or maintenance contracts will compound the competitive disadvantage to Southeast Alaska shipyards for a majority of their customers.

This is only one example of how the present language will erode regional competitive advantage. Many of Southeast businesses are competing against the cost of shipping goods directly to Alaskan consumers that are exempt from Washington state sales tax. The urge to buy direct, will only increase with the size of the purchase.

I urge you to consider broadening the exemption of the sales tax for sales and purchases over \$5,000 to support the regional competitive advantage of Alaska's commerce.

Sincerely,

A handwritten signature in cursive script that reads "Doug Ward".

Doug Ward, President
Ketchikan Chamber of Commerce

HFIN
SPIN
WIL
TAY

ALASKA STATE LEGISLATURE

50 Front St. Suite #203
Ketchikan, Alaska 99901



Phone: 225-9675
Fax: 225-8546

LEGISLATIVE INFORMATION OFFICE

WRITTEN TESTIMONY

NAME: GUY H. TOWNSEND
ADDRESS: 830 PETERSON ST.
KETCHIKAN, AK 99901
PHONE: 907 225-4351
EMAIL: NONE

BILL# or SUBJECT: BUDGET & LONGEVITY OF SENIORS,
COMMITTEE: ALASKA

I AM 73^{3/4} YEARS & ALASKAN SINCE 1936 & ONE
OF FEW EVACUATED FROM ^{AK TO} USA IN EARLY
WW 2 DAYS I FIND MYSELF WONDERING
HOW OUR LEADERS (YOU) ^{ARE} IN PROCESS OF
REMOVING OUR "LONGEVITY" & DIVIDENDS FROM
SENIORS OF ALASKA & SALES TAX ~~OF~~
~~PROT~~ ON ALL ITEMS. ARE YOU PEOPLE
"TOO" RICH YOU CAN'T SEE OR UNDERSTAND
MOST OF THE SENIORS ARE IN FINANCIAL
STRAIGHTS WITHOUT YOUR TRYING TO
LIVE ON OUR FEW DOLLARS - I REALIZE
YOU FEEL WE ARE HARMLESS & DYING OFF.
IT'S HARD TO BELIEVE WE HAVE VOTED
FOR SUCH A MERCILESS BUNCH OF PEOPLE,
AS YOUR EFFORTS INDICATE WITH THESE 2
MATTERS - ARE THERE ANY DECENT POLITICAL
PEOPLE LEFT IN ALASKA? PLEASE ADVISE WHERE
THE OLD PEOPLE GO AFTER THE "MANUVER"!

Guy H. Townsend
Guy H. Townsend



[Click here to return to the original story](#)

Ashamed and outraged

Thursday, May 15, 2003

Fairbanks Republican Rep. Holmes is so wrong! In case you missed it he said: "We must respect people's right to fail," and, "... if the state is not responsible for the fact that somebody abuses a substance, it is not necessarily the place of the state to bail people out."

His remarks are in support of slashing \$1.6 million from state substance-abuse programs.

I hope others are as outraged as am I. Holmes is saving nickels and dimes and costing the state millions. For every FAS/ARBD (fetal alcohol syndrome/alcohol-related birth defects) baby born the state has estimated it will cost taxpayers \$1 million. That doesn't include the suffering, injuries, abuse and death that result.

I am so very ashamed of our elected legislators making such ill-informed and stupid remarks and I'm proud of those elected legislators who see the real cost and human suffering. By the way, don't we collect millions of tax dollars on alcohol?

K.J. Metcalf
Juneau

All contents ©Copyright 1997-2003 Juneau Empire, Morris Digital Works & Morris Communications Corporation
[Contact Us](#) | [About Us](#) | [Privacy Policy](#) | [Advertising Information](#)



[Click here to return to the original story](#)

The old shell game

Thursday, May 15, 2003

The front page of Wednesday's Empire featured an article headlined "Funds cut for substance abuse program," wherein House Republicans saved \$1.6 million by upping the matching cost for grants to substance abuse programs by 150 percent. The rationalization as to how this was good for the people in need was that it freed that money to fund smaller programs that didn't require a match for their grants. It also noted (Rep. Jim Holm) that it was a personal responsibility issue aimed toward substance abusers.

This is apparently known as conservative Republican saving the taxpayer's money.

In the same article, the head of the DHSS administration clearly states that the expenditure of the money won't necessarily go to the smaller substance abuse community programs. In fact, it may be used anywhere that DHSS sees fit. Undoubtedly DHSS has many worthy places to use it but it already had a worthy place.

This is known in my world as bait and switch. The money isn't saved from the citizens pockets and doesn't reduce the overall budget. It merely goes from a clearly dedicated purpose to some other, less clearly defined and accountable paper bag where it can be spent as discretionary.

I am mentally losing the connection to both concepts of "personal responsibility" and "fiscal savings." In the real world, this used to be known as "flim-flam."

Christopher Wright
Juneau

Measure loosens lobbying limits

Critics say law tough to enforce; supporters say it helps small businesses

Thursday, May 15, 2003

By **TIMOTHY INKLEBARGER**
JUNEAU EMPIRE © 2003

A bill that would allow lobbyists to spend 10 times as many hours with lawmakers before having to register with the Alaska Public Offices Commission is expected to be voted on today in the House of Representatives.

Senate Bill 89 gives lobbyists 40 hours a month with lawmakers before having to register with APOC. Now lobbyists must register after spending more than four hours in a 30-day period.

Brooke Miles, executive director for APOC, watched Wednesday's House debate from the gallery. She said in an interview the 40-hour requirement would be too difficult to regulate.

"How do you enforce it? Are we going to get floor monitors?" she asked. "When you expand it to 40 hours it's just way too much time."

But Rep. Lesli McGuire, an Anchorage Republican, argued it is a freedom of speech issue and that small businesses are prevented from lobbying the Legislature because they do not want to be regulated by prohibitive APOC laws.

Registered lobbyists are prevented by law from holding political fundraisers, serving as campaign managers and contributing to lawmakers outside their own districts. They also must pay a \$100 registration fee and submit financial disclosure statements to APOC.

"Make no mistake - what the lobbying act is doing is forcing them to give up their First Amendment rights," McGuire said.

But Miles says the bill opens the floodgates to special interests. She said large corporations generally send only three or four professional lobbyists to the Legislature to minimize the number of employees who are subject to lobbyist laws.

"But now they would have no reason to minimize that, so they can send in teams of employees (who spend fewer than 40 hours with lawmakers) who aren't required to register, and the public will have no information about who is participating and how much time they're spending," she said.

Anchorage Democratic Rep. Les Gara offered an amendment to reduce the limit to 12 hours, but it was voted down by the House.

Another bill moving in the Legislature would more than double the amount individuals and political action committees could contribute to candidates and political parties.

Senate Bill 119 proposed by Gov. Frank Murkowski would allow individuals to contribute \$1,000 a year to candidates and political action committees, up from \$500. The bill also increases contributions to political parties from \$5,000 to \$10,000.

Political action committees could contribute \$2,000 a year to candidates and \$4,000 a year to political parties. The limit for both now is \$1,000.

The bill also would give APOC authority to issue cease and desist orders on political ads that would cause irreparable harm to a candidate or materially affect the outcome of an election.

APOC supports the proposal, noting that a clause in the bill would close a loophole in state law that allows outside interest groups to run "issue ads."

Issue ads, also known as "soft money ads," do not expressly endorse a particular candidate by name but work to discredit the candidate's opponent.

"It should really close a loophole because this would mean that they are no longer permitted," Miles said.

Senate Bill 119 was passed out of the Senate Finance Committee Wednesday and is expected to be debated by the full Senate today.

Timothy Inklebarger can be reached at timothyi@juneauempire.com.

Good afternoon, Chairmen and Committee Members.

My name is Marie Darlin and I am here today representing AARP.

Whenever AARP examines a tax proposal we use certain principles by which to measure it as reflected in our policy manual:

Equity---people in similar circumstances should face more or less the same tax burdens (horizontal equity); people with lower incomes should pay less tax as a percentage of income than higher-income people (vertical equity).

Economic neutrality---to the extent possible, taxes should not distort individuals' and businesses' decision-making; taxes should not unduly encourage behavior undertaken to avoid taxation, eg., this could include tax avoidance by internet sales or it could include older Alaskans leaving the state because they feel they can no longer afford to live here.

Administrative efficiency---taxes should require the minimum possible administrative costs; they should be easy to collect and administer.

Revenue potential---other things being equal, a tax should be "fruitful", raising as much money from its administration as possible. When taxed, we prefer broad-based taxes over narrow-based taxes.

Social and economic goals---tax incentives (credits, exemptions, deferrals, and the like) are often an efficient means of encouraging desired goals or discouraging undesirable behavior, eg., last year AARP supported the additional tax on alcohol. We would also support additional taxes on tobacco. Taxes can save eventual health costs to the state.

As you review the sales tax proposal, obviously you have a variety of issues of concern.

Taxes on consumption take a higher percentage of income from low-income people. The regressive nature of the sales tax can be modified by exempting certain necessities. Most states exempt prescription drugs and food purchased for home preparation. It is also possible to tax services more likely to be used by higher income citizens. Some states also offer sales tax credits to low-income residents.

However, as we all know, any exemption, however meritorious, narrows the tax base and so must be offset by higher taxes or additional taxes elsewhere.

Although a sales tax will be a major revenue raiser, it is regressive. AARP believes that we do need a broad base of various taxes. We don't like taxes any more than anyone else but we believe the progressive income tax is the most fair method.

Many of our members live in the cities that have no sales tax. Certainly it makes sense for a sales tax to be part of an

overall revenue producing system in those cities. Many other members live in areas that already have a substantial sales tax. We understand completely the feelings of the municipalities who fear a state sales tax will financially harm them. There is no easy answer.

We would like to support the package that you agree on and will work with our members so they understand the necessity of a sales tax. We likewise stand by to work with you when you eventually also deal with the income tax issue.

I hope you notice that AARP is not looking for senior exemptions. Our members sincerely appreciate what many municipalities have done to give tax breaks for older citizens. But we are also the largest organization of grandparents in Alaska. We are willing to pay our fair share to enjoy living here. If exemptions are desired, we feel that a young diabetic deserves a sales tax break on prescriptions as much as a grandfather with Alzheimer's. AARP believes that young families with children should be able to purchase necessary groceries without a sales tax just as their grandparents should be able to buy food. We believe our rural citizens should be able to stay warm in winter without having to pay significant sales taxes on their heating fuel...no matter how old they are.

We know you have very difficult decisions to make. Alaska is at an economic crossroads and we're all in this together, young and old alike. Thank you.



Alaska State Legislature

Please enter into the record my testimony to the Senate Finance
Committee name

Committee on SB 220, dated May 14, 2003
Bill/Subject

Please accept this testimony as strong support for the wise appropriation of a set amount of the 3% statewide sales tax ^(from tourism oriented businesses) towards tourism marketing for the State of Alaska. Alaska has fallen behind when it comes to marketing our resources. To be competitive with other destinations (who are applying far larger \$ amt's to their marketing budgets) we have to make the investment in marketing. Tourism is a large employer in our State, helps build infrastructure and hires local. Also, pays fees/taxes ^{which help} support our state government.

Tourism marketing by and for the State of Alaska is just a wise investment in the future of our State. Thank you for your time + consideration of this important issue.

Signed: [Signature] Sandra White
Testifier

Talkeetna Air Taxi - (I myself.)
Representing (Optional)

PO Box 130 Talkeetna AK 99676
Address

(907) 733-1861
Phone number



Alaska State Legislature

Please enter into the record my testimony to the Senate Finance
(committee name)

committee on SB 220 / HB 293, dated 5/14/03
(bill # / subject)

I believe THAT THE SAIE TAX
IS ON FARE to OUT LAYING AREER'S.
FOOD AND clothing should BE
EXEMPT. ALSO IF TAXES
MUST BE BROUGHT ABOUT AN
INCOME TAX IS THE MOST
FAIR WAY

Signed:

Dean Willi (Dean Willi)
Testifier

Representing (optional)

1215 River Drive
Address

(907) 835-5833
Telephone

CLIFF BURGLIN
President, Farthest North Press Club
17 Adak Street, Fairbanks, AK 99701
(907) 452-5149

May 14, 2003

House Ways & Means Committee
State of Alaska

Re: Harassment Sales Taxes and User Fees

All of the income from any sales tax or user fees would go to generations of retired bureaucrats and politicians, who do not live in Alaska. Some of these ex-state employees and politicians receive more than one check from Alaska's coffers.

The most either these taxes or users fees could possible bring in is estimated to be 300 million. No one in Murkowski's administration knows exactly how many employees would have to be hired to collect and administer this new tax that essentially takes from the poorest Alaskans to subsidize Alaska's 'three favorite charities - Exxon-Mobil, BP, and Conoco Phillips. These three corporations profits are the highest in their history, according to the Wall Street Journal.

The state does not mention the 17 billion barrels discovered in NPR4 (National Petroleum Reserve), plus the trillions of cubic feet of natural gas that is valued today at \$5.91 per thousand cubic feet.

The search for money by the state of Alaska should be as easy as looking for salt water in the Pacific Ocean. Alaska is blessed with abundant resources. Why are we still unable to get the money our government thinks it needs?

As long as the financial problems remain the same year after year, so do the obvious solutions. One is to get more land into private ownership - along with this all important property rights to minerals and oil and gas. Another solution to our continual budget shortfalls would be to lease and explore more of the state owned lands. Remember that the state has jurisdiction over more than 600 million acres of onshore and offshore lands in potentially productive oil and gas basins.

Of all the oil producing states in America, Alaska produces the most oil per acre leased, but has the smallest amount of state and Federal land leased. Texas produces slightly more oil than Alaska, but more than 250 million acres of Texas land are leased for oil and gas exploration and production, compared to Alaska's four to five million acres under lease. If Alaska had just 150 million acres leased the rental income alone would be between 200 and 500 million dollars per year. Twenty-five percent of that would go directly into Alaska's Permanent Fund to benefit all the citizens of Alaska. Billions of dollars more could, and would, be added from royalties on new discoveries.

How could Alaska lease more land? There are ways to accomplish this. Every one of the oil producing states has devised ways to encourage development on each acres of its land that has even a remote possibility of being productive. Alaska could certainly revise its leasing system by following the example of one or more of the other states.

Remember that increased state revenue from additional oil and gas leasing would be insignificant compared to the thousands of jobs that would be created or regained by a renaissance of oil and gas exploration and production. How many of you or your relatives have lost a good job on the Slope or in Cook Inlet in the last twenty years? Doesn't the next generation deserve a chance to maintain a good standard of living?

Sincerely,



Cliff Burglin

CB:kw