

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3008 SCOMM 134: HOUSE SPECIAL COMMITTEE ON WAYS & MEANS 2003-04

Sales Tax vs. Income Tax vs. Budget Cuts vs. Dividends

PROGRESSIVITY vs. REGRESSIVITY

Supporters of a sliding-scale income tax say it is progressive, in that it assigns a higher rate to higher-income households. A flat tax is not progressive, unless it is assessed on federal tax liability, in which case it picks up the progressivity of the federal tax tables.

Supporters of a sales tax say it is fair in that it taxes everyone at the same rate, but opponents of a sales tax say it is regressive because low-income households spend a greater proportion of their income on essentials than higher-income households.

Opponents of reducing the dividend argue it would be regressive, in that all would suffer the same economic loss — regardless of their income. Low-income Alaskans have come to depend on the dividend for a significant portion of their annual household income. Supporters, however, argue everyone should help pay for public services, and that reducing the dividend is one way to ensure all Alaskans contribute to the solution.

WHAT IS LEAST PAINFUL TO THE ECONOMY?

There are no recent studies on precisely what would be least harmful to the state's economy: state budget cuts, new taxes, or reducing the dividend. However, thoughtful consideration produces some generally accepted assumptions:

- More of the Permanent Fund dividend leaves the state faster than state operating expenses or wages earned by Alaska, and therefore reduced dividends would be less harmful to the overall economy.

Because Alaskans save or invest a greater proportion of their dividends than their wages, and because Alaskans spend a greater proportion of their dividends than their wages on big-ticket purchases manufactured out of state and on travel, we believe that reducing dividends would take less money out of the Alaska economy than a personal income tax or sales tax.

- If, for example, the state wanted \$300 million a year, either from a personal income tax or a sales tax, we believe a sales tax would raise more money from out-of-state residents but the income tax, overall, would be less costly to the Alaska economy.

A \$300 million sales tax might collect about \$30 million from out-of-state residents (visitors and workers), while a \$300 million income tax would collect perhaps \$20 million from out-of-state workers and also would reduce Alaskans' federal income tax payments by an estimated \$45 million. The net cost to Alaskans of a sales tax would be \$280 million vs. \$235 million for the income tax.

- Although a sales tax would raise more money overall from non-residents, an income tax would collect more revenue from higher-income non-residents working in Alaska. A non-resident with \$60,000 a year in taxable Alaska wages would pay \$1,800 if the state imposed a flat 3% income tax. That same non-resident worker would have to spend \$60,000 a year after all state and federal taxes — more than his or her entire paycheck — for the state to collect \$1,800 a year in sales taxes at a 3% rate.

ECONOMIC EFFECTS

Economists classify a tax as "efficient" when it has little or no effect on economic behavior. For example, taxes are inefficient when they influence consumer buying decisions or manufacturers' production decisions. Likewise, taxes are more efficient than government spending cuts if they do less damage to the state's economy.

The size of the tax rate may also influence economic behavior. A personal income tax certainly could influence a person's economic decisions by lowering take-home pay, thereby affecting spending and working decisions. The amount of a sales tax also can make a difference in spending decisions. For example, a person who normally buys goods locally may continue to do so at a low sales tax rate. However, a high tax rate may cause the person to purchase the same product on the Internet or by mail order. The Alaska economy would suffer because the expenditure is made out-of-state and the money would not circulate in the local economy.

A recent report in *State Tax Notes* addresses the issue of taxes vs. budget cuts. It was prepared by Peter Orszag, senior fellow in tax and fiscal policy at the Brookings Institution, and Joseph Stiglitz, Columbia University economics professor and winner of the 2001 Nobel Prize in economics.

The report said analysis suggests tax increases may be less harmful to the economy than spending reductions because some of the tax increase would result in reduced saving rather than reduced consumption. And since much of an individual's savings do not move around the state's economy (the multiplier effect) the same as wages or purchases, a reduction in savings would be less harmful than government budget cuts.

For example, if individual taxes increase by \$1, consumption may fall by 90 cents and savings may fall by 10 cents. Some types of government spending reductions, however, would reduce demand in the economy on a dollar-for-dollar basis, and therefore would be more harmful to the economy than a tax increase.

The report continued:

"For states interested in the impact only on their own economy rather than the national economy, the arguments made above are even stronger. In particular, the government spending that would be reduced if direct spending programs are cut is often concentrated among local businesses. ... By contrast, the spending by individuals and businesses that would be affected by tax increases often is less concentrated among local producers — since part of the decline in purchases that would occur if taxes were raised would be a decline in the purchase of goods produced out of state.

"In addition, higher-income families appear to consume relatively more goods and services produced in other regions of the country than lower-income families do. ... A tax increase concentrated on higher-income families thus is likely to have a smaller adverse impact on the state economy than other budget-balancing alternatives."

AK Dept of Revenue / Tax Division

To: Dan Dickinson
Larry Meyers
Chuck Harlamert
Carl Meyer

From: Mike Williams

Date: September 26, 2003

Re: Projected Revenue for potential Tax on Investment Income

The table below summarizes the potential revenue from an Alaska tax on investment income. Investment income under this scenario is taxable interest, dividends, and net capital gains as defined in the Internal Revenue Code.

Exemption amount Per person	Revenue per 1% pt tax rate	Estimated # of Returns
0	8,900,000	333,000
1000	5,500,000	100,000
1250	5,000,000	100,000
1500	4,750,000	55,000
2000	4,250,000	28,000

Tax Base: New Hampshire and Tennessee impose a tax on interest and dividends. Neither taxes capital gains. Tennessee's tax on interest income only applies to interest on bonds. New Hampshire taxes interest to the Constitutional limit, but exempts most interest from instate banks, credit unions, and municipal bonds. In Alaska, interest and dividends combined total about \$540 million per year from 1999 to 2001. Capital gains have fluctuated with the market: from \$665 million in 1999, to \$790 million in 2000, then plunging to \$342 million in 2001. Fluctuations in the market aside, any proposed Alaska tax on investment income would not generate much revenue without the capital gains component.

Exemptions: NH exempts the first \$2,400 (\$4,800 for married filing joint). TN exempts \$1,250 per person (\$2,500 for married filing joint). TN has additional exemptions for 65+ and the blind. Alaska's potential revenue base is limited, given its small population. However, IRS statistics show significant interest income (average per return) for returns with less than \$50,000. This may be attributed to some saving their PFD, as well as a large retirement population. For this reason, an exemption for anything less than \$1,000 per person does not produce a significant decrease in the number of returns the Department might receive; it only reduces revenue. At \$2,000 per person, the revenue base is mostly returns with gross income over \$100,000. Therefore, increasing the exemption beyond \$2,000 will only reduce revenue, without significantly reducing the number of returns filed.

Nexus / Source: NH & TN get around this by taxing resident income only. The Constitutional standard for intangible income is fuzzy at best. The State has a right to tax income derived from sources within Alaska, including distributions from Alaska corporations or interest secured by Alaska property. I have insufficient data to quantify administering and enforcing this right.

Other Issues: Any investment income tax proposal should also consider the following points.

- ANCSA §21 (Alaska Native Claims Settlement Act) prohibits the State from taxing any ANCSA distribution in direct settlement of a claim, i.e., capital gains from the sale of ANCSA property. However, the State may tax any income generated from the investment of ANCSA property.
- Cannot tax obligations of the U.S. government and income from non-resident members of the military.
- Both NH & TN exempt tax on income from regulated investment companies, unit investment trusts, and business trusts. May warrant further research into IRC regarding tax status of these entities.
- Distributions from S-Corporations and LLCs. Should the definition of investment income include distributions from these entities? The table above does not include revenue from this source. Both NH & TN tax S-Corp distributions, and distributions from any other entity with corporate characteristics.
- Estimated payments or withholding. Will we want to require estimated payments for tax above a certain threshold? Without some provision to pay or withhold, the money only comes in once a year (if at all).
- Filing requirements. If investment income is below the exemption amount, then no filing requirement. This holds true in both NH & TN. Otherwise, filing date is same as federal (April 15).

**Department of Revenue
Comparative Analysis HB 470
Alaska State Individual Income Tax Proposals**

	Child under age 14	Teenager with summer job	Single parent earning \$1+ hour	Single taxpayer - renting	Retiree with Soc. Sec. Income	Single income family - renting	Dual income family with \$150k mortgage	Dual income family with \$225k mortgage	Dual income family with \$300k mortgage	Dual income family with \$600k mortgage
Wages	50	2,700	22,880	65,000	32,500	65,000	130,000	260,000	520,000	
Interest Income		150		400		400	2,000	10,000	20,000	
Taxable Pension				5,000	10,000					
Gross Social Security				12,000						
AKPFD	1,100	1,100	1,100	1,100	1,100	2,200	2,200	2,200	2,200	2,200
children file separate to report PFD										
Dependents			1			2	2	2	2	2
Child Care Expenses			3,000			6,000	6,000	6,000	6,000	6,000
Real Estate Tax						3,100	4,650	6,200	12,400	
Mortgage Interest						11,500	17,250	23,000	46,000	
Charitable Contributions						1,000	3,000	10,000	25,000	
Federal Return Values										
Adjusted Gross Income	1,150	3,950	23,980	66,500	22,100	34,700	67,600	134,200	272,200	542,200
Taxable Income	400	1,250	10,880	58,700	13,350	13,000	39,800	97,100	220,800	446,600
Tax Before Credits	40	125	1,088	11,491	1,656	1,303	5,274	17,895	54,310	131,517
Tax After Credits	40	125	(1,721)	11,491	1,656	(697)	2,074	16,695	53,110	130,317
Alaska Income Tax										
If fed tax before fed credits	6	19	163	1,724	248	195	791	2,684	10,862	26,303
Property tax credit	-	-	-	-	-	-	791	2,684	6,200	12,400
AK tax net of AK credit	6	19	163	1,724	248	195	-	-	4,662	13,903
If fed tax after fed credits	6	19	-	1,724	248	-	311	2,504	10,622	26,063
Property tax credit	-	-	-	-	-	-	311	2,504	6,200	12,400
AK tax net of AK credit	6	19	-	1,724	248	-	-	-	4,422	13,663

Assumptions:

- 1) All family examples assume two children. Dual income family examples assume child care expense of \$3,000 per child.
- 2) All results are based on AKPFD and federal tax law and rates in effect for 2003.
- 3) Analysis does not include the effect of a federal itemized deduction for the Alaska tax.
- 4) Analysis does not phase out deductions or exemptions at top end, as amounts were immaterial to presentation.

Income Tax on Individuals and Fiduciaries

HB 470

February 23, 2004

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Year 1

HB 470 INCOME TAX MODEL - INCOME TAX WITH PROPERTY TAX CREDIT

FY 2005 Revenue

\$132,486,849	Revenue before credits. From 2001 IRS data.
(\$790,799)	Less: Non-resident revenues
\$131,696,050	Tax before credits
68.00%	Home ownership % from US Census Bureau
\$89,553,314	Potential Tax on homeowners
(\$412,243,808)	Potential Property Tax Credit
\$0	Tax raised from Alaska homeowners
\$42,142,736	Tax raised from Alaska non-homeowners
(\$5,190,720)	Non-homeowner portion of credit for tax paid to other states
\$36,952,016	Tax raised from residents
\$790,799	Tax raised from nonresidents
\$790,799	Total tax raised from nonresidents.
\$37,742,815	TOTAL TAX RAISED AFTER CREDITS (Calendar year)
\$18,871,408	Assume tax takes effect Jan. 1, 2005 (half year of withholding)

Insufficient data to determine who paid personal property taxes.

Insufficient data to determine who paid taxes to other states. Credit tied to homeowner percentage. Homeowner credit for taxes paid to other states not included since property tax credit offsets any revenue from property owners.

Year 2

HB 470 INCOME TAX MODEL - INCOME TAX WITH PROPERTY TAX CREDIT

FY 2006 Revenue

\$239,507,547	Revenue before credits. From 2001 IRS data.
<u>(\$1,581,597)</u>	Less: Non-resident revenues
\$237,925,950	Tax before credits
68.00%	Home ownership % from US Census Bureau
<u>\$161,789,646</u>	Potential Tax on homeowners
<u>(\$412,243,808)</u>	Potential Property Tax Credit
\$0	Tax raised from Alaska homeowners
\$76,136,304	Tax raised from Alaska non-homeowners
<u>(\$5,190,720)</u>	Non-homeowner portion of credit for tax paid to other states
<u>\$70,945,584</u>	Tax raised from residents
<u>\$1,581,597</u>	Tax raised from nonresidents
<u>\$1,581,597</u>	Total tax raised from nonresidents.
<u>\$72,527,181</u>	TOTAL TAX RAISED AFTER CREDITS (Calendar year)
<u>\$55,134,999</u>	1/2 year at 5%-10% rate and 1/2 year at 10%-15% rate

Insufficient data to determine who paid personal property taxes.

Insufficient data to determine who paid taxes to other states. Credit tied to homeowner percentage. Homeowner credit for taxes paid to other states not included since property tax credit offsets any revenue from property owners.

Income Tax on Individuals and Fiduciaries

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Year 3

HB 470 INCOME TAX MODEL - INCOME TAX WITH PROPERTY TAX CREDIT

FY 2007 Revenue

\$346,528,245	Revenue before credits. From 2001 IRS data.
<u>(\$2,372,395)</u>	Less: Non-resident revenues
\$344,155,850	Tax before credits
68.00%	Home ownership % from US Census Bureau
<u>\$234,025,978</u>	Potential Tax on homeowners
<u>(\$412,243,808)</u>	Potential Property Tax Credit
\$0	Tax raised from Alaska homeowners
\$110,129,872	Tax raised from Alaska non-homeowners
<u>(\$5,190,720)</u>	Non-homeowner portion of credit for tax paid to other states
<u>\$104,939,152</u>	Tax raised from residents

<u>\$2,372,395</u>	Tax raised from nonresidents
<u>\$2,372,395</u>	Total tax raised from nonresidents.

<u>\$107,311,547</u>	TOTAL TAX RAISED AFTER CREDITS (Calendar year)
<u>\$89,919,364</u>	FY 2007 with 1/2 year at 10%-15% and 1/2 year at 15%-20%

Insufficient data to determine who paid personal property taxes.

Insufficient data to determine who paid taxes to other states. Credit tied to homeowner percentage. Homeowner credit for taxes paid to other states not included since property tax credit offsets any revenue from property owners.

IRS SOI Data (2001 Tax Yr)

% of Adjusted Gross Income

DRAFT

Target Revenue

Nonresident Business Inc. Tax Est.

Model Target Revenue

Rate on AGI below bracket amount

Bracket amount

AK Credit (Y or N)

Credit on Rts or Person.

\$	350,000,000
\$	-
\$	350,000,000
	none
\$	-
	n
	t

<<<Enter the revenue you expect from Non-resident business income

<<< none = flat

>>>> If 'Y' enter >>>>

Individual AK credit \$ -

>>>> T for Person Based Credit

AGI range (000)	< \$20	\$20 < \$30	\$30 < 50	\$50 < 75	\$75 < 100	>= \$100	Total
Federal Tax Returns	134,676	39,926	57,399	46,166	26,653	28,241	333,061
Joint Returns Above	9,466	9,523	21,619	29,539	22,041	24,824	117,012
Taxpayers	144,142	49,449	79,018	75,705	48,694	53,065	450,073
# of Credits	144,142	49,449	79,018	75,705	48,694	53,065	450,073
Federal Adjusted Gross Income	913,599,000	991,767,000	2,254,111,000	2,840,734,000	2,298,259,000	4,865,891,000	14,164,361,000
Recon to AKDOL gross wages	5,854,284		21,995,015	1,463,420	12,487,449		41,800,168
Alaska Tax Base	919,453,284	991,767,000	2,276,106,015	2,842,197,420	2,310,746,449	4,865,891,000	14,206,161,168
Amount over Bracket		0	0	0	0	0	
Tax Generated (Base x Rate)	23,441,586	25,285,234	58,029,631	72,462,208	58,912,793	124,056,549	362,188,000
Credits	0	0	0	0	0	0	0
Credit: taxes pd to other states	(266,000)	(338,000)	(1,191,000)	(2,232,000)	(2,232,000)	(5,929,000)	(12,188,000)
Revenue (Tax - Credits)	23,175,586	24,947,234	56,838,631	70,230,208	56,680,793	118,127,549	350,000,000
Flat Rate	2.55%	2.55%	2.55%	2.55%	2.55%	2.55%	
Flat Rate		2.55%	2.55%	2.55%	2.55%	2.55%	
Average Effective AK Tax Rate	2.52%	2.52%	2.50%	2.47%	2.45%	2.43%	
% of revenue from group	6.62%	7.13%	16.24%	20.07%	16.19%	33.75%	

LEGAL SERVICES

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

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Juneau, Alaska 99801-1182
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MEMORANDUM

February 24, 2004

SUBJECT: S-Corporations, LLCs, and the Individual Income Tax (HB 470)

TO: Representative Carl Moses
Attn: Tim Benintendi

FROM: Kathryn Kurtz 
Legislative Counsel

You asked about the treatment of S corporations and limited liability companies (LLCs) under HB 470.

Corporate Income Taxes

An S corporation is a corporation that has elected to file federal returns under 26 U.S.C. 1361 - 1379 (Internal Revenue Code, Subtitle A, Chapter 1, Subchapter S). S corporations and some LLCs are required to file Alaska state corporate income tax returns.

According to the Department of Revenue's corporate income tax return instructions,

An S Corporation doing business in Alaska is required to file an Alaska return. . . . Alaska does not impose a tax on the S Corporation for pass-through items of income or loss. . . . Alaska imposes both the federal excess net passive income tax and the corporate level tax on built-in gains.

And:

An LLC doing business in the state must file an Alaska return consistent with its federal tax status. If the LLC is characterized as a corporation for federal income tax purposes, the LLC must file a return in accordance with the instructions applicable to corporations. An LLC with corporate member(s), that is characterized as a partnership for federal income tax purposes, must follow the instructions applicable to partnerships with corporate partners. An LLC taxable as a partnership, but which has no corporate members, is not required to file a return or report.

Form 04-611 Alaska Corporation Net Income Tax Return Instructions.

Representative Carl Moses
February 24, 2004
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So, some income received by S corporations may be subject to the corporate income tax, but much of it is simply passed through to shareholders. Similarly, income received by an LLC may be subject to the corporate income tax, depending on the federal tax status elected by the LLC. If the LLC elects to be taxed as a partnership, the income is simply passed through to the members.

Individual Income Taxes

HB 470 would impose an income tax based on a percentage of federal income tax liability. The income taxed would include income individuals and fiduciaries receive from subchapter S corporations and LLCs, including income that was not subject to the corporate income tax.

KLK:med
04-226.med

STATE INDIVIDUAL INCOME TAXES

(Tax rates for tax year 2003 - as of January 1, 2003)

State	---Tax Rates---		# of Brackets	---Income Brackets---		---Personal Exemption---			Federal Tax Ded.
	Low	High		Low	High	Single	Married	Child.	
ALABAMA	2.0	- 5.0	3	500	(b) - 3,000 (b)	1,500	3,000	300	*
ALASKA	No State Income Tax								
ARIZONA	2.87	- 5.04	5	10,000	(b) - 150,000 (b)	2,100	4,200	2,300	
ARKANSAS (a)	1.0	- 6.5 (e)	6	2,999	- 25,000	20 (c)	40 (c)	20 (c)	(c)
CALIFORNIA (a)	1.0	- 9.3	6	5,834 (b)	- 38,291 (b)	80 (c)	160 (c)	251 (c)	(c)
COLORADO	4.63		1	-----Flat rate-----		-----None-----			
CONNECTICUT	3.0	- 4.5	2	10,000 (b)	- 10,000 (b)	12,500 (f)	24,000 (f)	0	
DELAWARE	2.2	- 5.95	7	5,000	- 60,000	110 (c)	220 (c)	110 (c)	(c)
FLORIDA	No State Income Tax								
GEORGIA	1.0	- 6.0	6	750 (g)	- 7,000 (g)	2,700	5,400	2,700	
HAWAII	1.4	- 8.25	8	2,000 (b)	- 40,000 (b)	1,040	2,080	1,040	
IDAHO	1.6	- 7.8	8	1,087 (h)	- 21,730 (h)	3,000 (d)	6,000 (d)	3,000 (d)	
ILLINOIS	3.0		1	-----Flat rate-----		2,000	4,000	2,000	
INDIANA	3.4		1	-----Flat rate-----		1,000	2,000	1,000	
IOWA (a)	0.36	- 8.98	9	1,211	- 54,495	40 (c)	80 (c)	40 (c)	*
KANSAS	3.5	- 6.45	3	15,000 (b)	- 30,000 (b)	2,250	4,500	2,250	
KENTUCKY	2.0	- 6.0	5	3,000	- 8,000	20 (c)	40 (c)	20 (c)	(c)
LOUISIANA	2.0	- 6.0	3	10,000 (b)	- 50,000 (b)	4,500 (i)	9,000 (i)	1,000 (i)	*
MAINE (a)	2.0	- 8.5	4	4,200 (b)	- 16,700 (b)	4,700	7,850	1,000	
MARYLAND	2.0	- 4.75	4	1,000	- 3,000	2,400	4,800	2,400	
MASSACHUSETTS	5.3		1	-----Flat rate-----		3,300	6,600	1,000	
MICHIGAN (a)	4.0	(j)	1	-----Flat rate-----		3,000	6,000	3,000	
MINNESOTA (a)	5.35	- 7.85	3	18,710 (k)	- 61,461 (k)	3,000 (d)	6,000 (d)	3,000 (d)	
MISSISSIPPI	3.0	- 5.0	3	5,000	- 10,000	6,000	12,000	1,500	
MISSOURI	1.5	- 6.0	10	1,000	- 9,000	2,100	4,200	2,100	* (s)
MONTANA (a)	2.0	- 11.0	10	2,200	- 75,400	1,720	3,440	1,720	*
NEBRASKA (a)	2.56	- 6.84	4	7,400 (l)	- 26,500 (l)	94 (c)	188 (c)	94 (c)	(c)
NEVADA	No State Income Tax								
NEW HAMPSHIRE	State Income Tax is Limited to Dividends and Interest Income Only.								
NEW JERSEY	1.4	- 6.37	6	20,000 (m)	- 75,000 (m)	1,000	2,000	1,500	
NEW MEXICO	1.7	- 8.2	7	5,500 (n)	- 65,000 (n)	3,000 (d)	6,000 (d)	3,000 (d)	
NEW YORK	4.0	- 6.85	5	8,000 (b)	- 20,000 (b)	0	0	1,000	
NORTH CAROLINA									
(o)	6.0	- 8.25	4	12,750 (o)	- 120,000 (o)	3,000 (d)	6,000 (d)	3,000 (d)	
NORTH DAKOTA	2.1	- 5.54 (p)	5	27,050 (p)	- 297,350 (p)	3,000 (d)	6,000 (d)	3,000 (d)	(p)
OHIO (a)	0.743	- 7.5 (q)	9	5,000	- 200,000	1,200 (q)	2,400 (q)	1,200 (q)	
OKLAHOMA	0.5	- 7.0 (r)	8	1,000	- 10,000	1,000	2,000	1,000	* (r)
OREGON (a)	5.0	- 9.0	3	2,500 (b)	- 6,250 (b)	145 (c)	290 (c)	145 (c)	* (s)
PENNSYLVANIA	2.8		1	-----Flat rate-----		-----None-----			
RHODE ISLAND	25.0% Federal tax liability (t)								
SOUTH CAROLINA									
(a)	2.5	- 7.0	6	2,400	- 12,000	3,000 (d)	6,000 (d)	3,000 (d)	
SOUTH DAKOTA	No State Income Tax								
TENNESSEE	State Income Tax is Limited to Dividends and Interest Income Only.								
TEXAS	No State Income Tax								
UTAH (a)	2.30	- 7.0	6	863 (b)	- 4,313 (b)	2,250 (d)	4,500 (d)	2,250 (d)	* (u)
VERMONT	3.6	- 9.5	5	27,950 (v)	307,050 (v)	3,000 (d)	6,000 (d)	3,000 (d)	
VIRGINIA	2.0	- 5.75	4	3,000	- 17,000	800	1,600	800	
WASHINGTON	No State Income Tax								
WEST VIRGINIA	3.0	- 6.5	5	10,000	- 60,000	2,000	4,000	2,000	
WISCONSIN	4.6	- 6.75 (w)	4	8,280	- 124,200	700	1,400	400	
WYOMING	No State Income Tax								
DIST. OF COLUMBIA	4.5	- 8.7 (x)	3	10,000	- 40,000	1,370	2,740	1,370	

Source: The Federation of Tax Administrators from various sources.

- (a) Eight states have statutory provision for automatic adjustment of tax brackets, personal exemption or standard deductions to the rate of inflation. Arkansas, Michigan, Nebraska and Ohio indexes the personal exemption amounts only.
- (b) For joint returns, the taxes are twice the tax imposed on half the income.
- (c) tax credits.
- (d) These states allow personal exemption or standard deductions as provided in the IRC. Utah allows a personal exemption equal to three-fourths the federal exemptions.
- (e) A special tax table is available for low income taxpayers reducing their tax payments.
- (f) Combined personal exemptions and standard deduction. An additional tax credit is allowed ranging from 75% to 0% based on state adjusted gross income. Exemption amounts are phased out for higher income taxpayers until they are eliminated for households earning over \$54,500.
- (g) The tax brackets reported are for single individuals. For married households filing separately, the same rates apply to income brackets ranging from \$500 to \$5,000; and the income brackets range from \$1,000 to \$10,000 for joint filers.
- (h) For joint returns, the tax is twice the tax imposed on half the income. A \$10 filing tax is charge for each return and a \$15 credit is allowed for each exemption.
- (i) Combined personal exemption and standard deduction.
- (j) Tax rate scheduled to decrease to 3.9% for tax years after 2003.
- (k) The tax brackets reported are for single individual. For married couples filing jointly, the same rates apply for income under \$27,350 to over \$108,661.
- (l) The tax brackets reported are for single individual. For married couples filing jointly, the same rates apply for income under \$4,000 to over \$46,750.
- (m) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under \$20,000 to over \$150,000.
- (n) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under \$8,000 to over \$100,000. Married households filing separately pay the tax imposed on half the income.
- (o) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$21,250 to \$200,000. Lower exemption amounts allowed for high income taxpayers. Tax rate scheduled to decrease after tax year 2003.
- (p) Rates reported are for short form filers. Long form filers rates range from 2.67% for income under \$3,000 to 12% over \$50,000. Long form filers only can deduct federal income taxes. An additional \$300 personal exemption is allowed for joint returns or unmarried head of households.
- (q) Plus an additional \$20 per exemption tax credit. Rate reported are for tax year 2002, the 2003 rates will not be determined until July, 2003.
- (r) The rate range reported is for single persons not deducting federal income tax. For married persons filing jointly, the same rates apply to income brackets ranging from \$2,000 to \$21,000. Separate schedules, with rates ranging from 0.5% to 10%, apply to taxpayers deducting federal income taxes.
- (s) Deduction is limited to \$10,000 for joint returns and \$5,000 for individuals in Missouri and to \$5,000 in Oregon.
- (t) Federal Tax Liability prior to the enactment of Economic Growth and Tax Relief Act of 2001.
- (u) One half of the federal income taxes are deductible.
- (v) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under \$46,700 to over \$307,050.
- (w) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$11,040 to \$165,600. An additional \$250 exemption is provided for each taxpayer or spouse age 65 or over.
- (x) Tax rate decreases are scheduled for tax years 2004.

From: "Patti Blattmachr" <djblatt@alaskatrust.com>
To: <paulr@alaska.net>
Sent: Wednesday, February 25, 2004 7:45 AM
Attach: header.htm
Subject: Taxation Memo.doc



MEMORANDUM

TO: To Whom it May Concern
FROM: Douglas Blattmachr
DATE: February 25, 2004
RE: Taxation of Trusts & Estates

It is imperative that if Alaska does implement a state income tax, that it exclude trusts and estates set-up by non-residents from an income tax. Alaska has, over the past six years, modified its trust laws to encourage individuals outside of Alaska to set up trusts in Alaska. Alaska Trust Company alone has set up approximately 1000 trusts from individuals outside Alaska. One of the important reasons non-residents are using Alaska is that Alaska does not impose an income tax on trust income. If Alaska were to impose an income tax on trust income, Alaska would lose all of the trusts that have been set up by non-residents. It must be understood other states such as Delaware, Utah and Nevada have similar laws as Alaska and do not impose an income tax on foreign trusts and therefore Alaska would lose these trusts.

This would have a significant economic impact to Alaska and would cause revenue loss more than any income tax would provide. Alaska Trust Company has nine full-time positions and will be expanding in the near future. It is making a profit, and therefore will be paying state corporate income tax. Alaska Trust Company currently has an excess of \$25,000,000 on deposit with local banking institutions. It has banking transactions in the \$100s of millions with local banks. We have had an excess of \$50,000,000 in deposits. In addition, because of Alaska's favorable trust laws, additional life insurance has been issued in Alaska, which has generated significant premium tax for the state of Alaska. Our estimates are that life insurance trusts and partnerships using Alaska Trust Company have generated, over \$2,000,000 of premium tax for the state of Alaska. Again, implementing an income tax on these entities would eliminate this additional revenue to the state of Alaska.

Non-resident clients and their advisors are using Alaska for a variety of different reasons. This has caused an increase in business for attorneys, CPAs, life insurance agents, and stockbrokers, etc. Obviously, expanding Alaska's financial service industry is a great diversification for Alaska's

2/25/04

economy. The imposition of an income tax on foreign trusts, etc. would eliminate, and I mean eliminate, receiving business from non-residents. This is such an important issue that New York state is in the process of eliminating its income tax on trusts because it is losing significant business to states that don't impose an income tax. It is important to realize that Alaska would not gain any tax revenue on taxing Foreign Trust & Estates because the Trust & Estates would transfer to another state such as Delaware, Utah, South Dakota, Nevada, etc., which do not tax non-resident Trust & Estates. The transfer of trusts to a different state is very easy.

Alaska has become the premium trust jurisdiction in the U.S. Let's keep it that way.



***Tax Reform in Alaska:
An AARP Survey of Residents Age 18+***

Highlights

- At least eight in ten people in Alaska believe that it is important the state maintain current levels of funding for education and human services and programs.
- A majority of Alaskans support the state finding ways to generate revenue for services, with those age 35 years and older more likely to strongly support these efforts.
- Half of all Alaskans think that the cost of human services and programs should be shared between the individual and the state government.
- Alaskans of all ages and income levels are equally likely to strongly oppose a state-wide sales tax, as well as strongly oppose this initiative because of the burden it may place on lower-income families.
- Half of all Alaskans support a state-wide income tax.
- A majority of Alaskans oppose ending the Alaska Permanent Fund Dividend checks even if it means increasing sales taxes or imposing a new state income tax. However, about one-third of all Alaskans may be very willing, and another quarter are somewhat willing, to accept a \$100 reduction in their checks as option to help maintain human services and balance the state budget.
- Half of all Alaskans strongly support increasing the cigarette tax and the beer and alcohol tax in order to avoid cuts in funding for education and human services.



February 17, 2004

To: The Honorable Frank Murkowski, Governor of Alaska
The Honorable Loren Leman, Lieutenant Governor of Alaska
Members of the Alaska Senate
Members of the Alaska House of Representatives

Elizabeth Lucas

From: Elizabeth Lucas, President
AARP Alaska
2880 Fritz Cove Road
Juneau, Alaska 99801
(907) 789-9655
cellpd@gci.net

Marguerite Stetson

Marguerite Stetson
AARP State Coordinator for Advocacy
3009 Northwood Street
Anchorage, Alaska 99517
(907) 245-5259
ffmas@aurora.uaf.edu

Subject: AARP Commissioned Survey on Tax Options

We are enclosing a copy of the results of a survey of Alaskans over age 18 to solicit their recommendations on how to resolve our fiscal gap and generate additional revenue for our State.

We recognize that you are receiving input from a variety of organizations and individuals. This survey is not representative of AARP members but we feel it is a representative sample of Alaskans over age 18, those who are most likely to be paying some form of taxes.

We hope you and your staff will be able to take a few minutes to review the results and add them to your deliberations about how to resolve our fiscal situation. Please be assured that AARP stands ready to assist you as you deal with this issue.

Should you have any questions about our position, please feel free to contact Marie Darlin, Coordinator of the AARP Capital City Task Force (907- 586-3637); Patrick Luby, AARP Legislative Representative (907-762-3314); or one of us.

CC: Marie Darlin
Patrick Luby

Dr. Carl S. Benson, PhD
1551 Farmers Loop
Fairbanks, Alaska 99709
10 December 2000

Senator Gary Wilken
1851 Fox Ave.
Fairbanks, Alaska 99701

Dear Gary,

Thanks for your letter of 28 November 2000, in which you asked for information on a long-range fiscal plan that makes sense. Here are my responses to your three questions:

1. What is your definition of a long-range fiscal plan?

A long-range fiscal plan provides renewable sources of funding for essential services of state government.

2. What is the ultimate goal(s) of a long-range fiscal plan?

The ultimate goal is to provide stability for both operating and capital budgets. It is not in the best interest of the state to have its funding of state functions tied to the price of a single commodity.

(a) Operating Budget:

Alaska's operating budget has been cut to dangerous levels. As I stated in my campaign: "If a foreign power had done to Alaska what our Legislative Leadership has done, we would consider it an act of war."

(b) Capital Budget:

Alaska's work force and contractors depend on stability in the state capital budget from year to year in order to maintain competence and quality. The state has many pressing needs and it has the labor available to deal with them. But when the amount of work to be done in a given year exceeds local capability, we bring in too many workers from outside. On the other hand in a lean year we let projects go unfunded, lay off local workers and, by deferring maintenance, cause costs to increase.

3. What components should be included in a long-range fiscal plan?

An essential component is to reinstate the state income tax. I realize that some Republicans are opposed to this in a "knee-jerk" way but I respectfully request that it be considered as a key ingredient in a long-range fiscal plan.

I have outlined an argument for reinstating the state income tax at a simple percentage of the federal tax, as it was before. Although Republican leaders have said *absolutely no* to reinstating our income tax, it cannot be removed from the table before we analyze the condition of the state's budget. Everything should be considered and the income tax could play an important part of the long-range plan which we obviously need.

The first step is to analyze the pros and cons of an income tax as opposed to a state sales tax.

A state-wide sales tax would be hardest on rural areas and poor people; costs are already higher in rural areas. Decisions on sales taxes should be left to local governments, along with property taxes. Some communities already have sales tax and the mix of sales tax and property tax is best left to local communities. This was essentially decided when the state-wide property tax was voted down. A state-wide sales tax will not be considered further here. At the state level an income tax is more appropriate for several reasons.

Let us consider the problem in more detail:

1. It was stated that it makes no sense for the legislature to send out a dividend and then take it back with the income tax. But this statement makes no sense; the amount of the dividend is far greater than the amount to be raised by a tax. Last year the Dividend was \$1,200 million and the expected tax revenue is estimated at about \$300 million, that is only one quarter of the Dividend. Also, an income tax would not come only from the unearned money of the Dividend alone but from all of the \$10 billion in wages and salaries earned in Alaska by residents and non-residents.

2. People for whom the Dividend means the most would pay the least in income tax, many would pay only a few hundred dollars.

3. People for whom the Dividend means the least would pay the most in income tax, but:

(a) their dividend would pay most or all of it, and

(b) what they pay would be deductible from their Federal income tax; this would keep more Alaskan money in Alaska, which is the state they say they love.

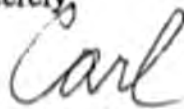
4. About ten percent of Alaska's \$10 billion in total wages and salaries is earned by non-residents (\$930 million in 1999). This money is taken out of Alaska by non-residents who make no contribution to paying for state services. An income tax on this would contribute about 30 million dollars to our state's general fund. Even in a wealthy state like Alaska this is significant.

5. The income tax would give us a base of about \$300 million from which to operate. If we matched it two-for-one with money from the earnings reserve account we would basically eliminate our "budget gap." This money would be from what some refer to the "surplus earnings," i.e., the annual earnings in excess of what is needed for dividends and inflation proofing. By tying it to the amount raised by the income tax we would put a limit on it which some people feel is important.

6. Finally, the income tax could help reinvigorate the concept of citizenship in Alaska. People have no stake in the state government now because they do not contribute to it. Instead, they wait for an annual check from the state and have begun to look on it as an entitlement. We are attracting people to move here because we have no taxes and we give away free money. Although the dividend program is unique in the United States, it can be enhanced by combining it with our income tax so that people can again say: "I am a citizen and a tax payer."

The income tax should be looked at and thought about. It needs more than a knee-jerk reaction. In 1948 Alaska set up the territorial income tax and became a proud Territory with resources available to serve its citizens. Before that, it was essentially at the control of outside interests, primarily fishing and mining run from New York and Seattle. Today another industry dominates Alaska and we need to exercise the same degree of independence now that we did in 1948. I will be glad to discuss this with you further.

Sincerely,



Dr. Carl S. Benson, PhD

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ORIGINAL
COPIES

**Lake and Peninsula Borough**

P.O. Box 495
King Salmon, Alaska 99613

Telephone: (907) 246-3421

Fax: (907) 246-6602



February 16, 2001

Representative Carl Moses
State Capital Building
Room 500 / Mail Stop 3100
Juneau, AK. 99801-1182

SUBJECT: State Income Tax

Dear Carl:

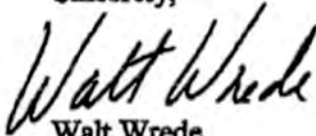
I am writing to let you know that the Lake and Peninsula Borough fully supports your efforts to institute a State Income Tax. The Borough Assembly considered this question at length during its regular meeting on January 16, 2001. At that time, the Assembly voted unanimously to endorse an income tax. It also instructed me to inform the Legislature, the Governor, and the general public of the position it has taken. Although the members expressed reservations about recommending new taxes, they all agreed that this step was necessary to insure long term social and economic stability.

The Assembly voted to support an income tax for a number of reasons which include:

1. It believes that a long range fiscal plan for the State would be prudent and urges the Legislature and the Administration to work together to adopt one. The reality is that revenue enhancement and diversification must be part of this plan. Long term financial stability is necessary if we are going to insure that that our economy continues to grow and that our residents receive the basic public services necessary for the quality of life they deserve. Our Assembly members were born and raised in Alaska and they intend to stay here. They care deeply about how our schools, public facilities, infrastructure, and economy will look 20 years from now.
2. An income tax is preferable to a general sales tax because it is less regressive and it does not impinge upon the traditional taxing authority of municipalities.
3. An income tax is the best vehicle to enable workers that are employed here but reside outside to make a contribution to infrastructure and basic public services in Alaska.
4. An income tax could be structured so that taxes paid can be deducted from one's Federal income tax obligation. This would insure that the new tax has a minimal impact upon Alaskans.

In closing, the Borough appreciates your efforts the past few years to institute a State Income Tax. We recognize that this has been a lonely effort and that the environment in Juneau has not been conducive to reasonable debate and forward thinking. However, we believe you should be commended for the leadership you have shown and for having the courage to "get out in front" on this politically difficult issue. Please let us know if there is anything the Borough can do to assist you in this effort.

Sincerely,



Walt Wrede
Borough Manager

c.

Governor Tony Knowles
House and Senate Finance Committees

SCOMM

134:11



Official Business

Alaska State Legislature

HOUSE OF REPRESENTATIVES

State Capitol
Juneau, AK 99801-1182

Representative John Harris

Representative Max Gruenberg

SPONSOR STATEMENT

HB 493

Adoption of State Fiscal Plan

House Bill 493 would require the legislature to adopt and annually revise a fiscal plan to balance state revenues and expenditures for the succeeding five fiscal years. The state's current budgetary system encourages legislators and the governor to focus only on the fiscal year immediately ahead. This bill would mandate a more comprehensive approach to fiscal planning by requiring the legislature to project revenues and expenditures five years into the future. This would allow legislators to anticipate and plan for budgetary shortfalls before they reach crisis proportions.

The fiscal plan must include: (1) the means to foster a stable economy that encourages economic growth; (2) procedures to improve governmental efficiency and cost-savings; (3) policies that protect the permanent fund while using earnings to maintain a strong dividend program and legislative flexibility to determine the use of the remaining earnings; (4) means to raise revenues while maintaining a stable tax environment; and (5) provisions to maintain the integrity of the budget reserve fund.

This bill addresses a critical issue facing Alaska and will institutionalize appropriate long-range fiscal planning as part of the legislative process.

121 W. Fireweed Lane, Suite 250
Anchorage, Alaska 99503

October 29, 2003

Representative Michael Hawker
716 W 4th Ave
Anchorage, AK 99501-2133

Dear Representative Hawker:

The undersigned business, civic and trade associations, representing hundreds of Alaskan companies and organizations, and tens of thousands of Alaskan workers, urge the Legislature to work with the Administration during the upcoming session to develop a comprehensive, long-range fiscal plan for the state.

While the ultimate decisions regarding Alaska's revenues and expenditures rest with you and your colleagues in the Legislature, the undersigned associations commit to fully participate in the debate, and pledge to help resolve this issue in a manner that will do the most good for the greatest number of Alaskans over the long term.

Details of any prospective plan will no doubt be both practically and politically difficult to develop. Nonetheless, we believe the following general steps must be taken:

1) Budget Discipline

Alaska must adjust to the reality of lower revenues just as a family or business would — by controlling spending. Reasonable spending controls should be incorporated into any long-term fiscal plan. However, our organizations do not believe it possible or wise to correct the entire fiscal imbalance through budget cuts alone.

2) New Uses of Permanent Fund Earnings

We believe appropriating a portion of the earnings from the Permanent Fund to help support state services is a legitimate use of those funds. Furthermore, we strongly support the creation of a "percent of market value" structure for the Permanent Fund. Using some of the Permanent Fund earnings for state government should not preclude the Alaska Permanent Fund Dividend program from continuing and growing.

3) Institution of a Broad-Based Tax

Spending controls and new uses of Permanent Fund earnings may not be enough to close the state's fiscal gap over time. In light of this fact, we believe it is appropriate for the Legislature to consider the implementation of a broad-based, statewide tax. Any discussion of statewide taxes should include a thorough, public analysis of an income tax, a sales tax and any other broad-based taxes.

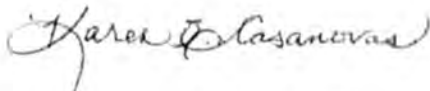
The fiscal challenges facing Alaska are not new and the tools available to address the problem have been well defined. However, without a sound fiscal management plan there is a growing risk to the state's economic health with every passing year. In fact, uncertainty regarding Alaska's

fiscal regime has been mentioned as a primary disincentive to private investment in the state. Fortunately, at this time, Alaska has a wide array of potential options to address this challenge.

Each of the steps outlined above encompasses a multitude of variations. In creating a fiscal package, we encourage the Legislature to incorporate elements from all three general recommendations beginning with spending controls, moving to new uses of the Permanent Fund earnings and finishing with a new broad-based tax, if necessary.

We are eager to support you in a responsible, committed effort to address this issue during the next legislative session. With leadership and courage from the Legislature, a long-term fiscal plan for Alaska can become a reality. The challenge of addressing our state's fiscal imbalance is daunting, but the successful creation of a sound management plan will provide long-term economic benefits to Alaska. Failing to address this challenge now risks irreparable harm to future generations of Alaskans.

Sincerely,



Karen Casanovas, Executive Director
Alaska Air Carriers Association



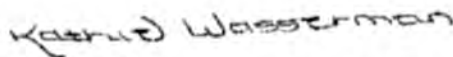
Dave Tyler, President
Alaska Fire Chiefs Association



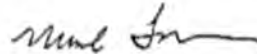
R.B. Stiles, President
Alaska Coal Association



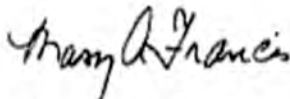
Dean Baugh, President
Alaska Government Finance Officers
Association



Mayor Kathie Wasserman, President
Alaska Conference of Mayors



Mike Tavella, Chairman
Alaska Hi-Tech Business Council



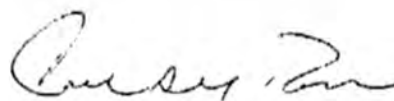
Mary Francis, Executive Director
Alaska Council of School Administrators



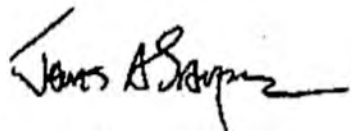
Steve Borell, Executive Director
Alaska Miners Association



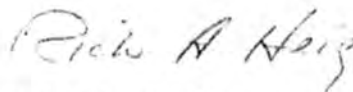
Fay Von Gemmingen, President
Alaska Municipal League



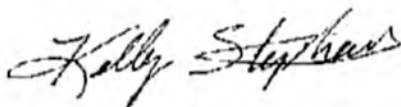
Carl Rose, President
Association of Alaska School Boards



James A. Sampson, President
Alaska State AFL-CIO



Rich Heig, President
Council of Alaska Producers



Kelly Stephens, President
Alaska State Home Building Association



George Lochner, President
Eagle River and Chugiak Chamber of
Commerce



Larry Houle, General Manager
Alaska Support Industry Alliance



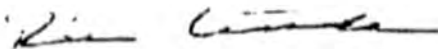
Lance Miller, Executive Director
Juneau Economic Development Corporation



Stacy Schubert, President
Anchorage Chamber of Commerce

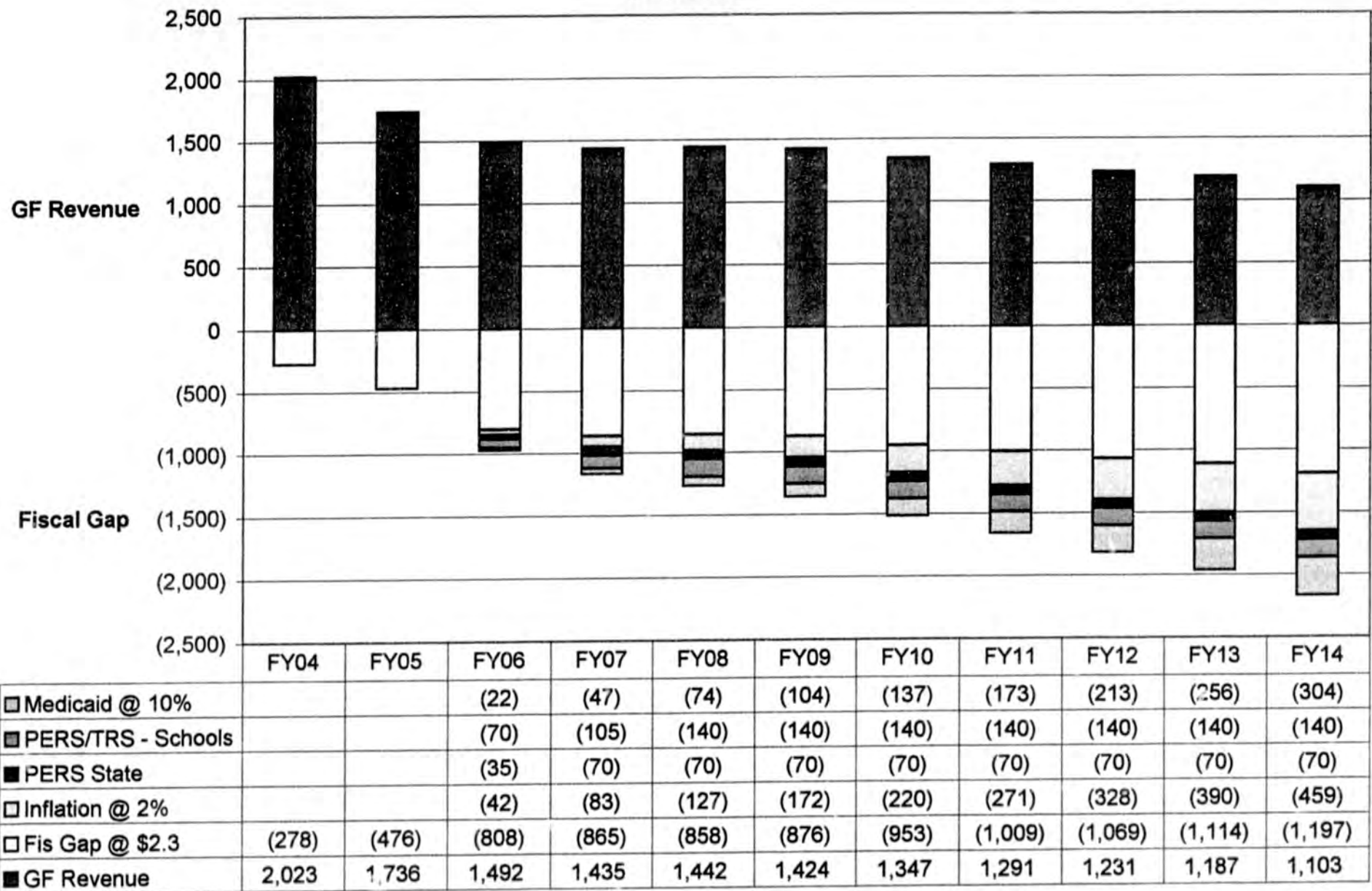


John Shively, President
Resource Development Council
for Alaska, Inc.

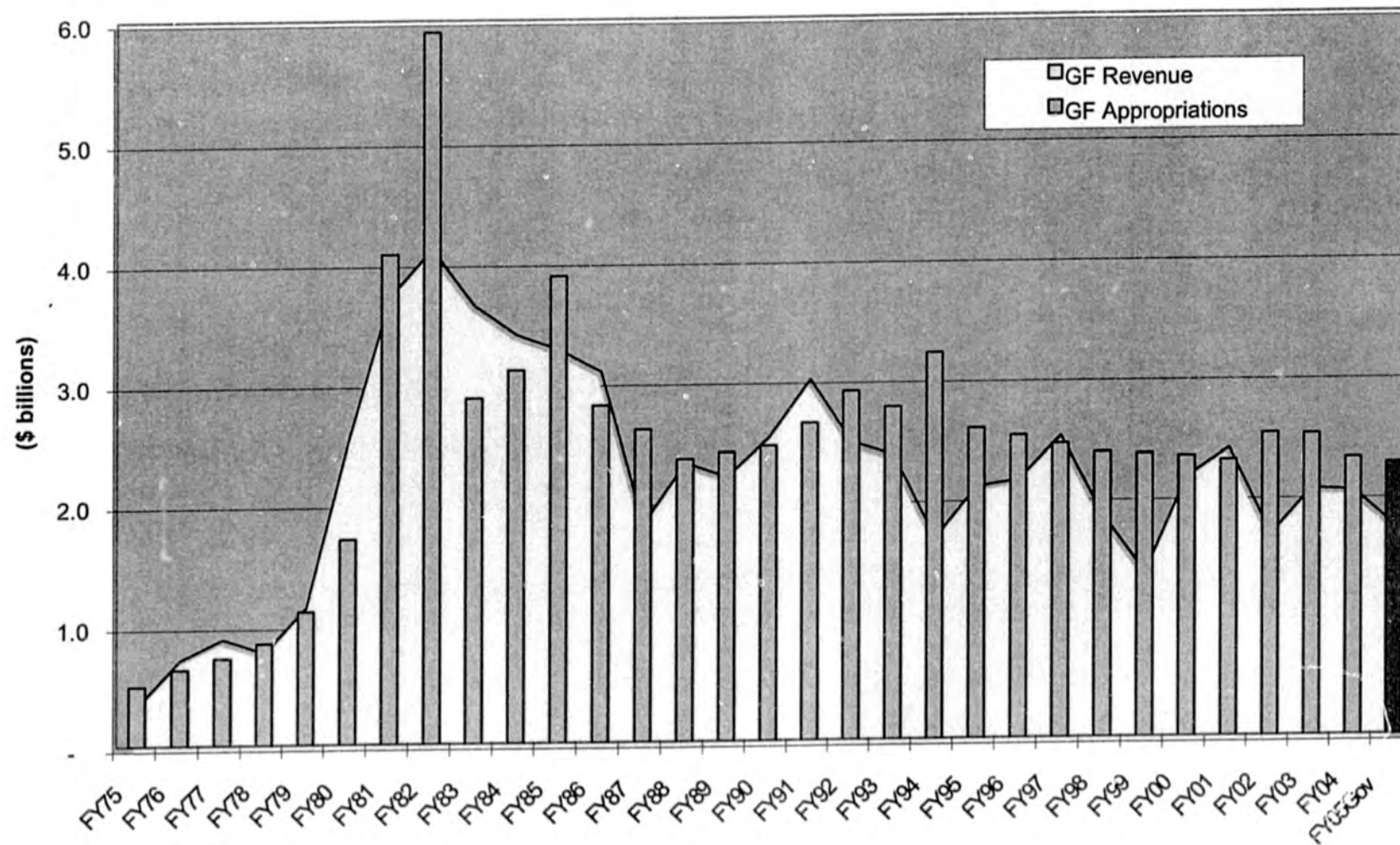


Richard Cattnach, Executive Director
Associated General Contractors of Alaska

**Alaska's
Growing Fiscal Gap
(millions)**



General Fund Revenue vs. General Fund Appropriations



Note - Revenue projections are as of DOR's Fall 2003 Revenue Forecast.

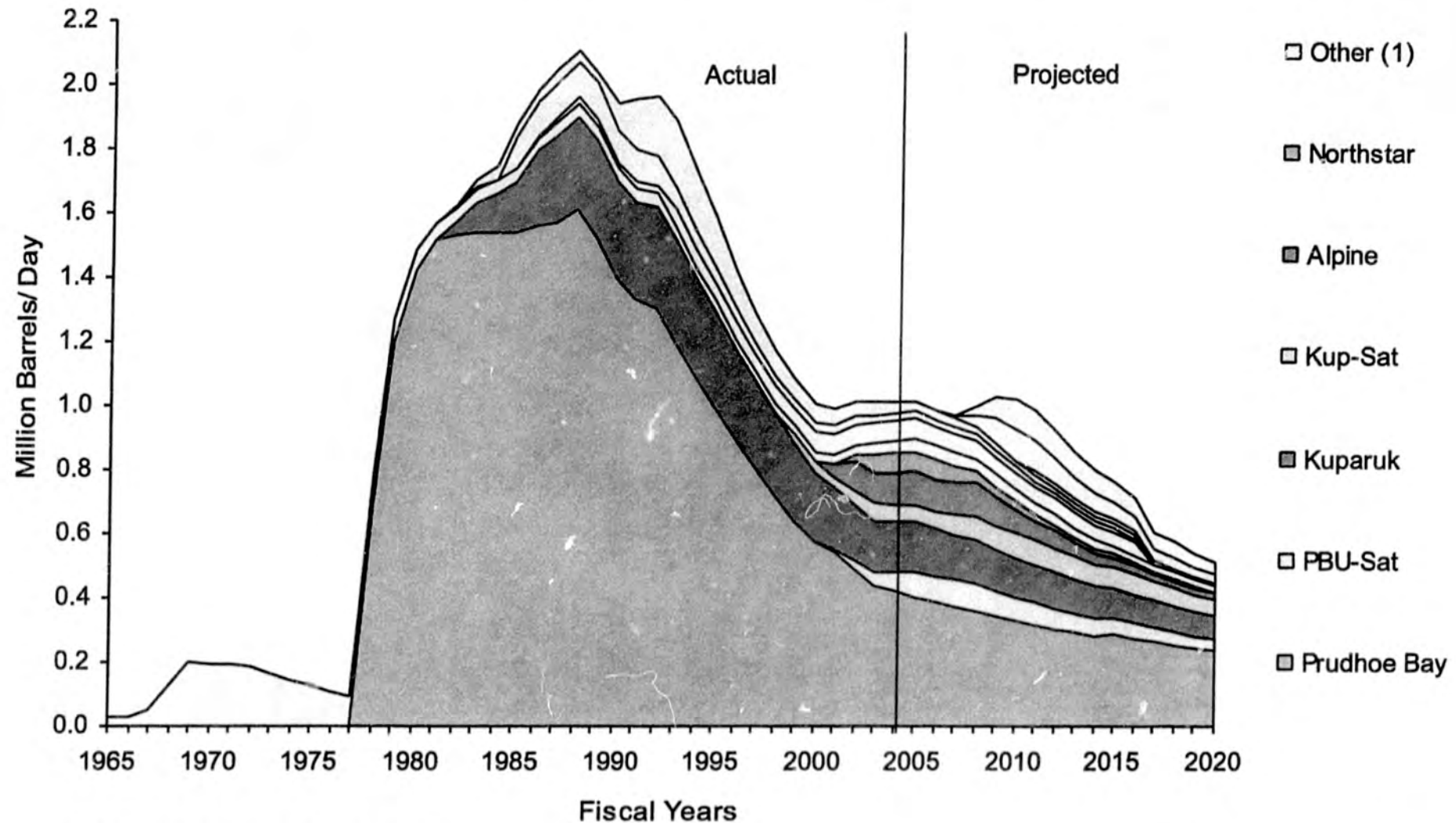
House Ways and Means Committee Alaska House of Representatives

February 25, 2004

**Dan E. Dickinson, Director
Alaska Department of Revenue, Tax Division**



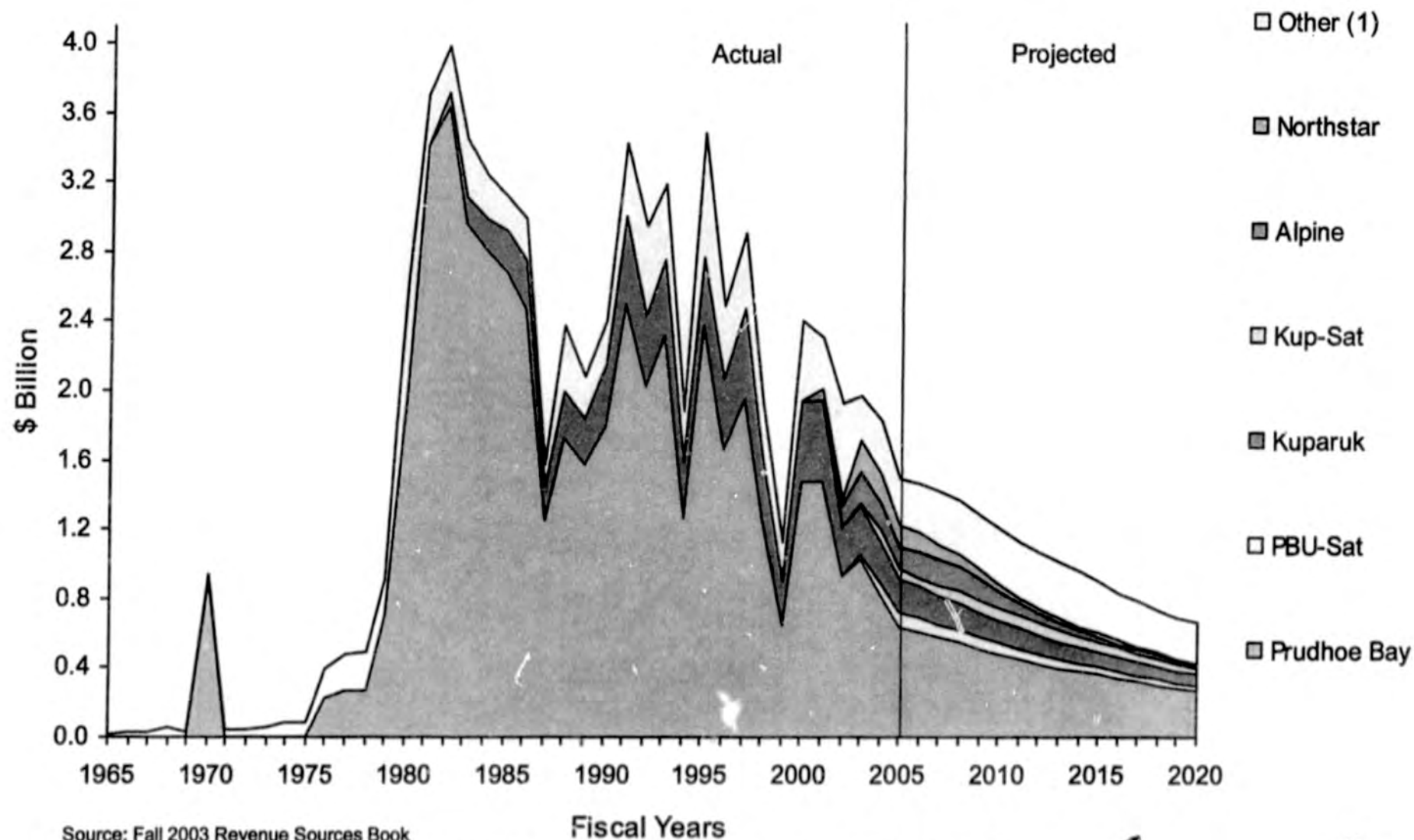
Alaska Oil Production, 1965 - 2020



Source: Fall 2003 Revenue Sources Book

(1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

Alaska Oil Revenue, 1965 – 2020

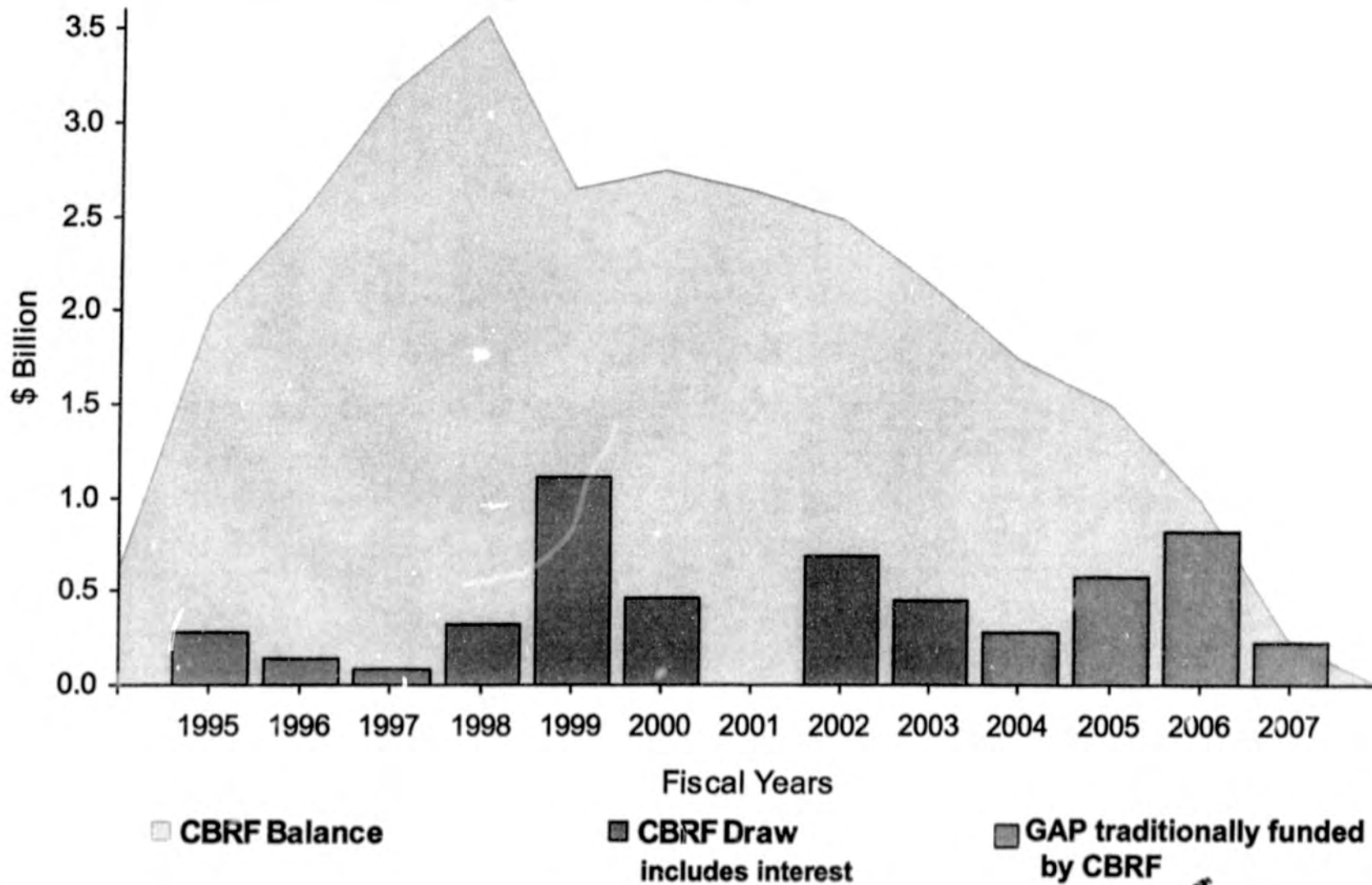


Source: Fall 2003 Revenue Sources Book

(1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

(2) Actual and projected state petroleum revenue (General Fund, Permanent Fund, deposits to the CBRF, Public School Fund and NPRA) from all fields including lease bonuses and TAPS taxes.

CBRF Balances and Draws, 1995 – 2007



Source: Actual, Department of Revenue, Treasury Division; Projected FY 2004: OMB, 11-21-03, FY 2005-2006: DOR Driver Model

When Will the CBRF be Gone?

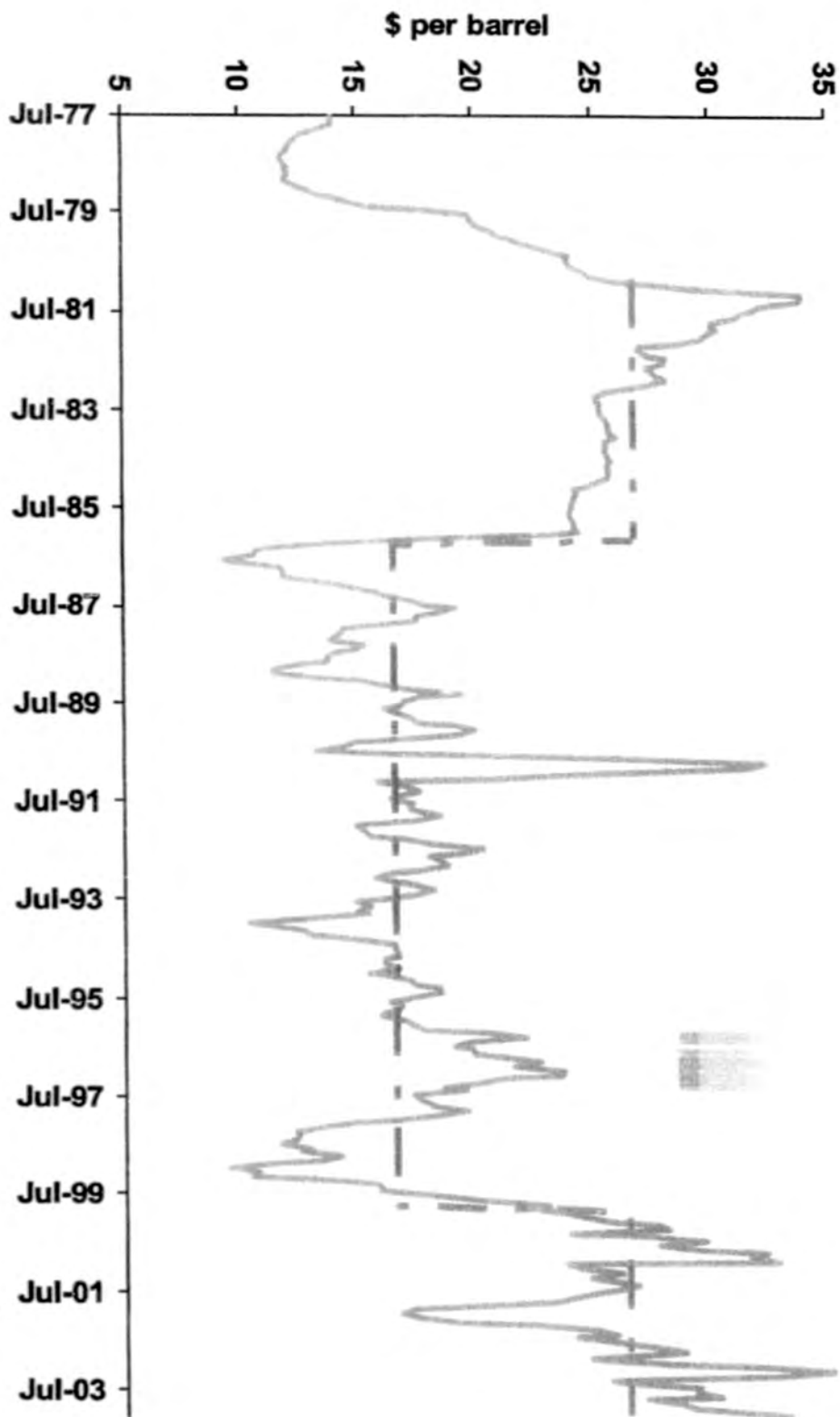
-based on Fall 2003 DOR Revenue Sources Book and Fiscal Driver Model for CBRF Performance-

State Spending and Oil Price Variables

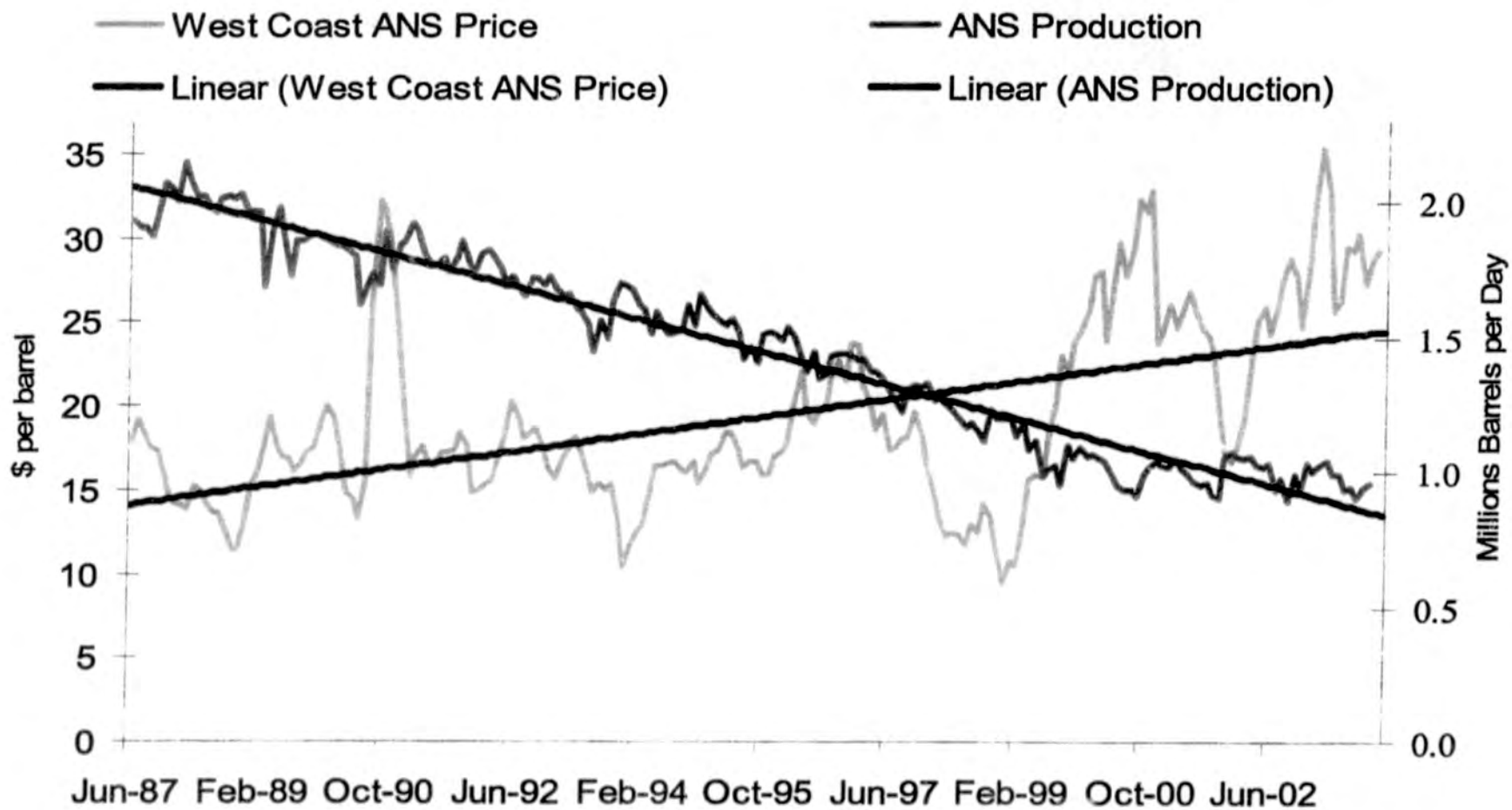
Annual State Budget	\$18/bbl	\$22/bbl	Forecast	\$25/bbl	\$28/bbl	\$30/bbl
\$2.2 billion	Oct-06	Aug-07	Nov-07	Nov-08	Nov-10	May-12
\$2.3 billion	Jun-06	Feb-07	May-07	Dec-07	Jun-09	Dec-10
\$2.4 billion	Mar-06	Sep-06	Nov-06	Apr-07	May-08	Jul-09
\$2.5 billion	Dec-05	May-06	Jul-06	Oct-06	Jul-07	May-08

(1) FY 2004 price for all scenarios is \$27.70 per barrel. Oil price selected in table above is for FY 2005 and beyond.

ANS West Coast Price, July 1977 – January 2004

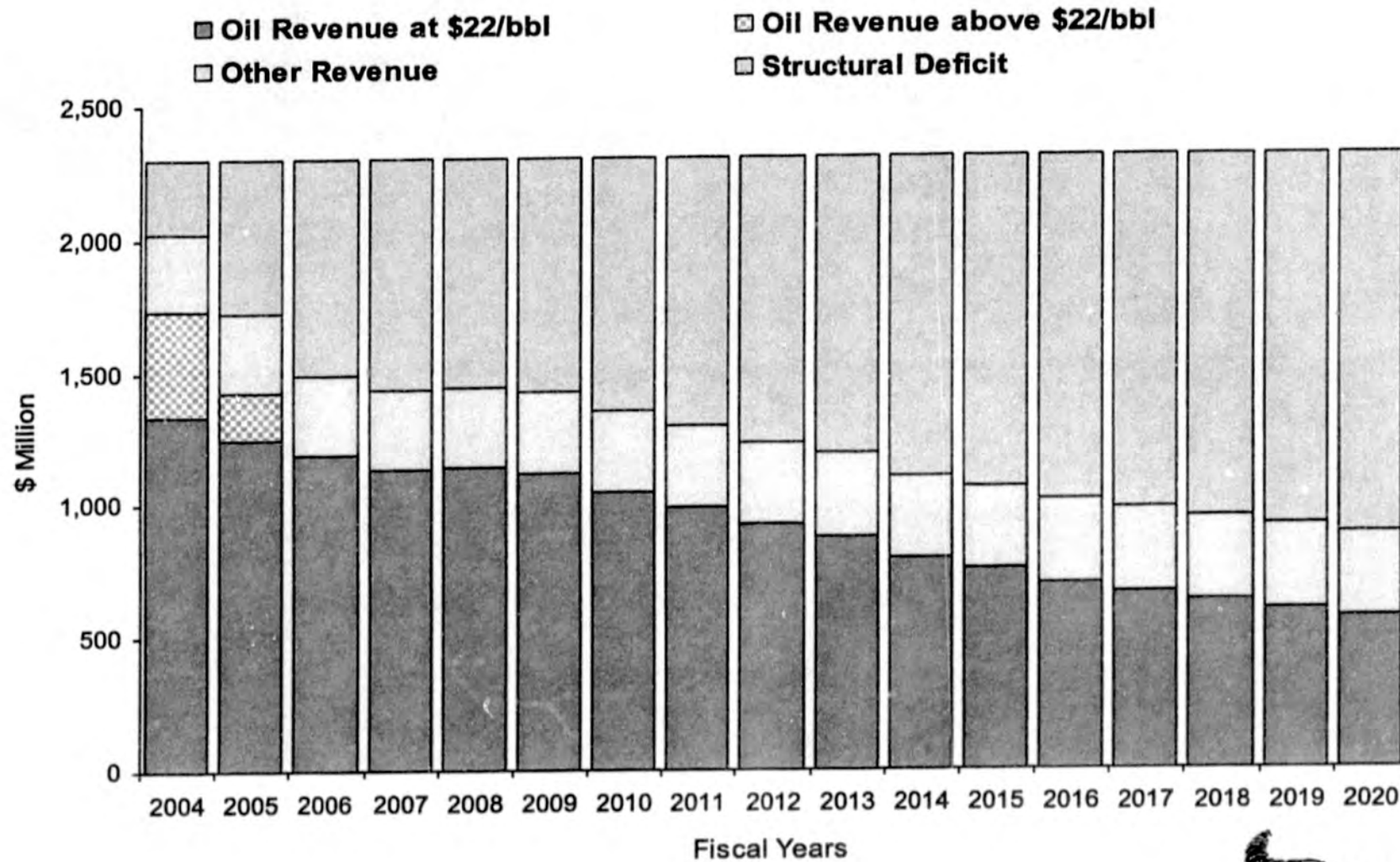


ANS West Coast Price and Oil Production



General Fund Budget Projections in Current Law (\$ Million)

-based on flat \$2.3 billion budget-



Big Picture General Fund Finance: FY 2004 – 2020

@ \$22/ barrel Oil

No Extraordinary Resource Developments

- **oil and gas royalties and taxes** = \$1 billion/ year
- **non-oil and gas**
 - corporate taxes, sin taxes,
user fees, licenses, permits = \$300 million/ year
- **deficit (with constant spending
at FY 2003 rate)** = \$1 billion/ year

\$1 Billion Revenue Scenario

- \$200 million **Income Tax**
- \$200 million **State Sales Tax**
- \$200 million **Permanent Fund Earnings**
- \$200 million **Corporate Tax**
- \$200 million **Miscellaneous Revenue Enhancements**
(sin taxes, statewide property taxes,
user fees, etc.)

\$200 Million Income Tax

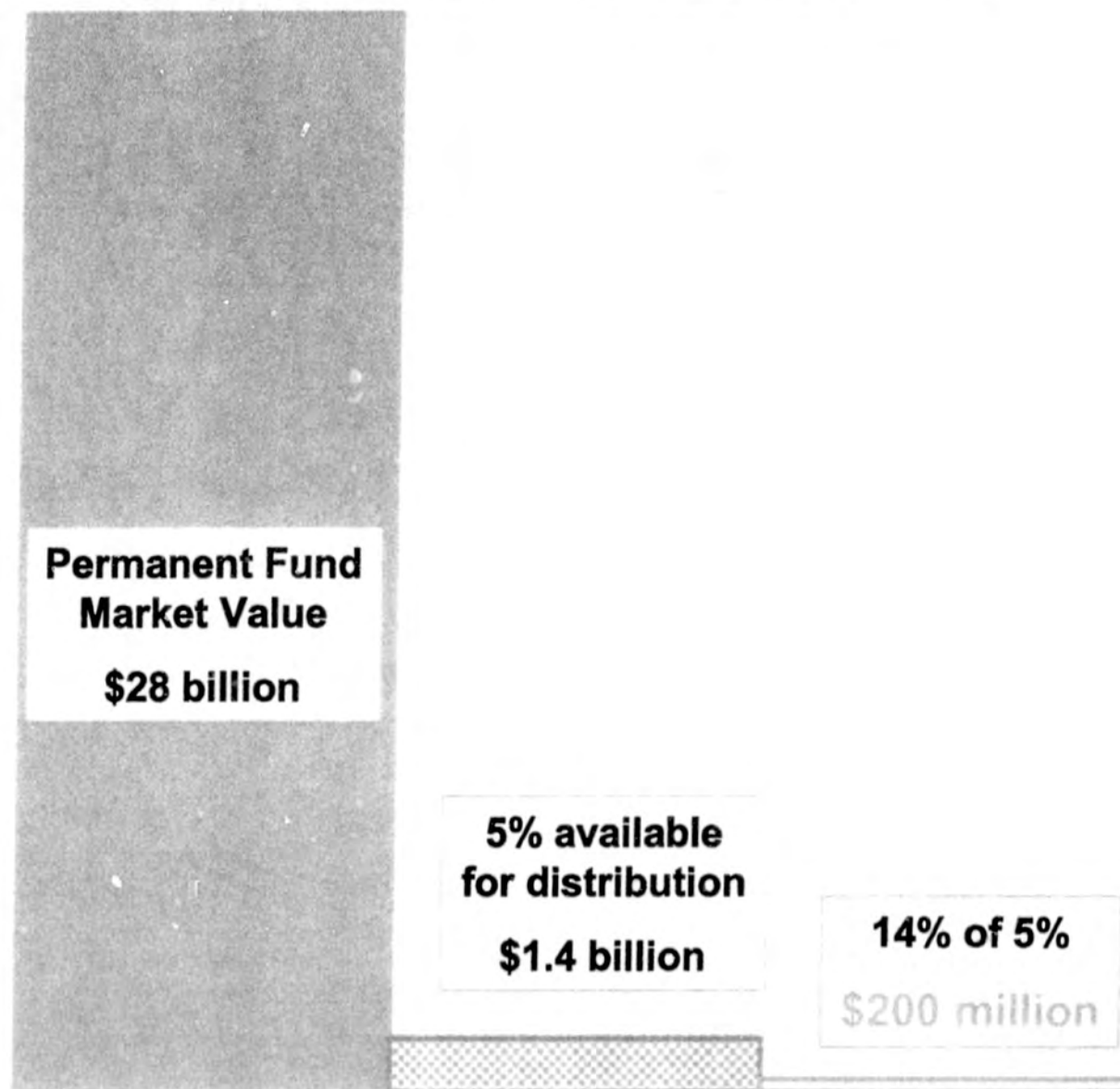
- **1.5% flat tax of AGI**
 - **3/4 from wages and salaries**
 - **1/4 from subchapter S corporations, sole proprietorships, partnerships and unearned income**
 - AGI > \$100 thousand incurs 33% of tax
- **10% federal tax liability builds in progressivity**
 - AGI > \$100 thousand bears 50% of tax
- **boost tax to 3% on AGI**
 - **and allow a \$650 credit for property tax paid**
 - AGI > \$100 thousand incurs 55% of tax
 - **and cap tax liability at amount of dividend**
 - AGI > \$100 thousand incurs 24% of tax



\$200 Million State Sales Tax

- **add on to local taxes where already exist**
- **1.8% including food and most services**
- **3% excluding food and most services**
- **SSTP – “single entity” could move towards collecting tax on internet and mail order sales for state and localities**

\$200 Million Permanent Fund Draw

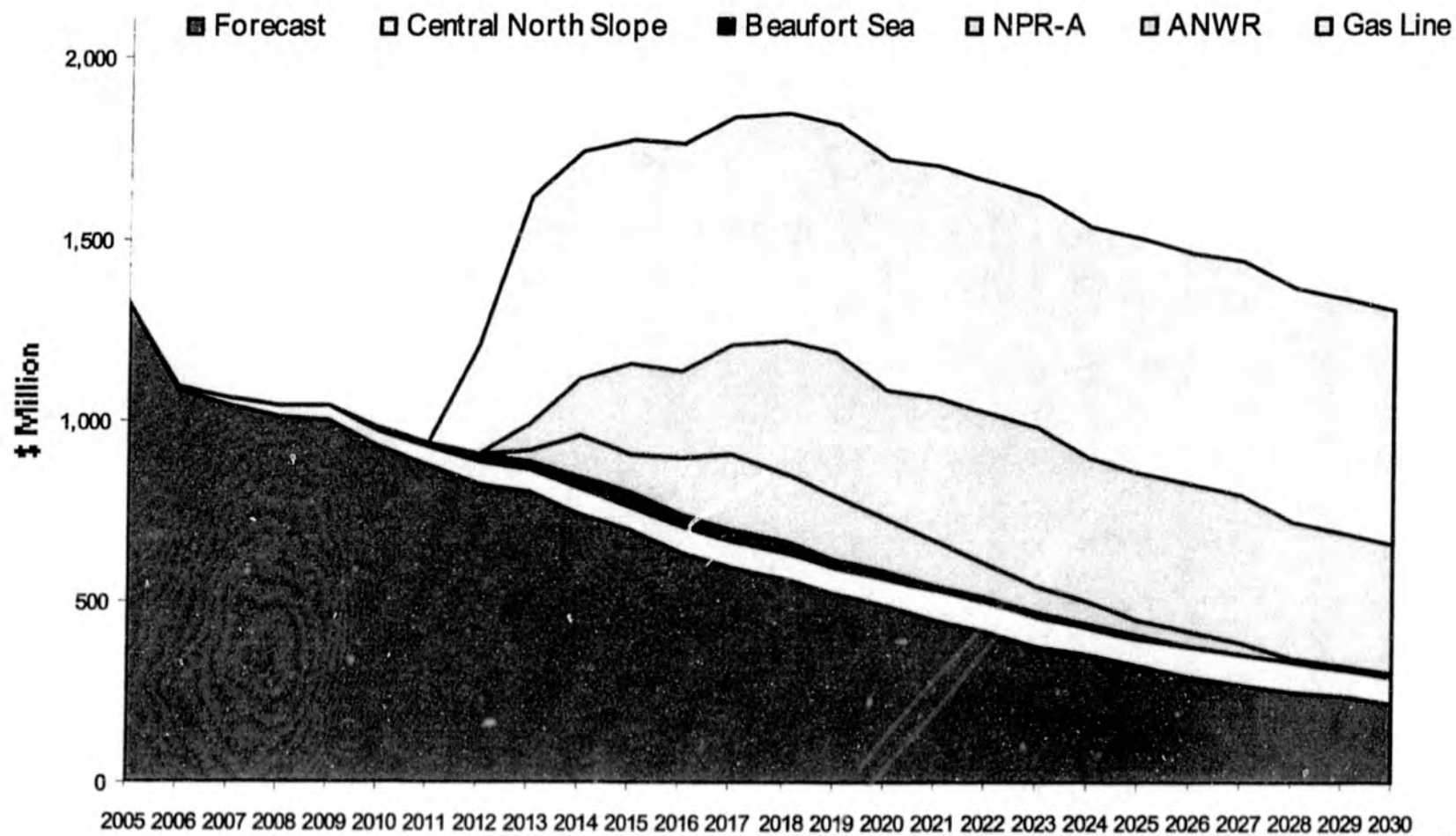


\$200 Million Corporate Income Tax

- **reforms to NOLs, capital gains, federal tax credits**
- **cruise ship head tax on all cruise ships instead of corporate income tax on foreign cruise ship companies**
(allow credit for income taxes paid by domestic firms)
- **change oil and gas production tax to tax on expatriated profits**
 - **when prices are high and reinvestment low, high state take**
 - **when prices low and/or reinvestment high, taxes below current levels**
- **examine our corporate income tax structure including apportionment factors** **(few states retain three equal factors)**
- **18 other states tax S-corps at corporate level and at individual-owner level**

Possible Increases to State's Oil Revenue

-from future oil and gas exploration and gas line-



SCOMM

134:12

FRANK H. MURKOWSKI
GOVERNOR

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STATE OF ALASKA
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March 16, 2004

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

Dear Speaker Kott:

Under the authority of article III, section 18, of the Alaska Constitution, I am transmitting a bill that would impose a five percent sales and use tax on tourism and other services in our state. This tax would apply to a broad range of activities, such as: taxes on items sold or used on cruise ships, shore side activities, transient accommodations, and guided tours. The tax would raise approximately \$19 million in FY 05 and \$49 million for the state's general fund on an annual basis thereafter.

In many regards, this proposal represents a modest "user-pay" approach. The state would be partially reimbursed for costs of providing a wide variety of services related to the travel industry. The Office of Management and Budget recently completed an informal survey of state agencies to determine the amount of tourism related expenditures in their respective FY 04 budgets. The resulting list of costs potentially attributable to the cruise industry totaled \$116 million, some of which is currently offset by other "user-pay" revenues.

Some local communities have benefited over the years as passengers and crewmembers purchased goods and services in communities and paid local sales, use, and "head" taxes. At the same time local communities were taxing the cruise ship industry, passenger traffic increased dramatically. For example, cruise ship passenger traffic to Ketchikan increased from 321,780 passengers in 1993 to an expected 830,000 passengers in 2004. The increase in passenger traffic occurred despite the effects of the SARS epidemic, global terrorism, and moderate economic growth, a record 9.52 million passengers cruised worldwide in 2003 -- a 10.2 percent increase over 2002. Cruise lines anticipate another record year in 2004, with approximately 10.6 million guests.

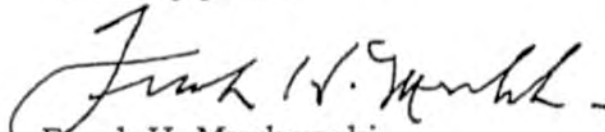
Given the growth of the industry and the fact Alaska is such a unique and wonderful destination for cruise ship companies and their passengers, I am convinced Alaska can recover part of its costs through reasonable taxes without appreciably affecting the growth of the Alaska cruise ship industry.

The Honorable Pete Kott
March 16, 2004
Page 2

Alaska will always welcome its guests. However, Alaska should join 48 of the other 49 states and such countries as Jamaica and the Bahamas that raise revenue from transient accommodation through some form of tax or fee. This is only fair. Alaska residents have been paying, and will continue to pay, such taxes when travelling or cruising within these states or abroad.

I urge your support for this bill.

Sincerely yours,


Frank H. Murkowski
Governor

Enclosure

CS FOR HOUSE BILL NO. 537
"AN ACT RELATING TO TOURISM TAX"

SECTIONAL ANALYSIS
OFFICE OF THE ATTORNEY GENERAL

Section 1: adds a new chapter to Title 43 with several subsections.

010. Levies a sales tax on the sale of tourism services in the state, and for any tourism service used in the state not subject to the sales tax, a use tax.

020. establishes the tax rate at 5%

.030 requires sellers or providers of tourism services to register with the department.

.040 establishes the procedures by which a tourism service that takes place both in and out of the state are allocated between Alaska where they are taxable, and outside of Alaska, where they are not.

.050 sets forth that a seller of tourism services in the state has the obligation to collect the tax, and that the commercial provider shall collect the tax, if the seller did not. This provision further details the conditions under which the collector of the tax must remit them to the department, including the incentives the department can use to encourage electronic filing.

.060 requires the proceeds from the tax to be deposited in the general fund.

.990 defines terms including "commercial provider" and "tourism service"

Section 2: establishes that the tax will apply to all services that are both used after January 1, 2005 and sold after the effective date of the act.

Section 3: has the act take effect immediately.

MEMORANDUM

STATE OF ALASKA

Department of Revenue
Tax Division

550 W. 7th Avenue, Suite 500
Anchorage, AK 99501

Date: March 24, 2004

Visitor Industry Package - HB 537

Alaskans often travel outside, and when we do, we pay our share of the infrastructure costs through many devices.

- 45 states have statewide sales taxes (see table 1).
- 48 states have either a statewide accommodations tax or a statewide sales tax that applies to lodging (see table 1a).
- 18 states have statewide taxes on accommodations (see table 2).
- 2 states (South Dakota and Arkansas) have explicit statewide taxes on tourist attractions.
- Many nations, and other ports or cities have head taxes, transit taxes, arrival taxes or departures taxes, or other forms of asking cruising passengers to share in infrastructure costs (see tables 3 & 4).

Many Alaskan communities already ask visitors to contribute to their civic costs.

- 95 have a sales tax (see table 5).
- 38 have an accommodations tax (see table 6).
- 26 have both a sales and an accommodations tax (see table 6a).
- 2 have cruise ship passenger taxes (see table 7).

Alaska welcomes its visitors with open arms, and recognizes the important role the visitor industry plays in the state's economy. However, the state now has few methods of recapturing the costs caused by those visitors. This proposal will levy a five percent across the board tax on visitor services including:

- Accommodations
- Guided Activity (including scenic and sightseeing transportation and certain specific recreational activities)
- Cruising

Accommodations

A 5% tax on the estimated 300 million dollars a year in spending on land-based accommodations would generate about 15 million dollars a year. When a visitor visits a lodge or bed and breakfast and pays a single fee for both food and lodging, that entire sales price is taxable. However, a visitor paying a separate invoice for meals at a hotel that includes a restaurant would not pay a tax on that meal.

Alaska Department of Revenue –Tax Division

Guided Activity

We divide guided activity into smaller categories, but the key notion is that tourist activities that are accompanied or provided by a local provider – a driver, a ship captain, a tour leader – are taxed.

Scenic and sightseeing transportation on land, air, and water will include cruise ships, buses, trolleys, taxis, railroads, snowmobiles, carriages, aircraft, helicopters, and many other kinds of transportation, but does not include common carrier transportation from one destination to another.

Recreational activities accompanied by, led by or on behalf of, or directed by a commercial provider include horseback riding, climbing, camping, dog sledding, boating, fishing or hunting, as well as many others.

A 5% tax on the estimated 227 million dollars in spending on guided activities would generate about 11 million dollars a year.

Cruise Ships

Although cruising is in fact covered by the two activity categories mentioned above, it is worth examination on its own. At a 5% tax, we estimate that cruising will account for an additional 23 million dollars in annual revenues.

While certain legal issues have been raised in connection with cruise ship taxation, we believe this tax will stand up to any court challenge. A broad tax that captures many activities beyond cruise ships is more defensible than a narrow tax targeted at only cruising.

Alaska Department of Revenue –Tax Division

Table 1. State Sales Tax Rates

State	State Rate	Maximum Local Rate [1]	Maximum State/Local Rate [1]	State	State Rate	Maximum Local Rate [1]	Maximum State/Local Rate [1]
1. Alabama	4.00%	7.00%	11.00%	24. Nebraska	5.50%	1.50%	7.00%
2. Arizona	5.60%	4.50%	10.10%	25. Nevada	6.50%	1.00%	7.50%
3. Arkansas	5.13%	5.50%	10.63%	26. New Jersey	6.00%	N/A	6.00%
4. California*	6.00%	2.75%	8.75%	27. New Mexico	5.00%	2.25%	7.25%
5. Colorado	2.90%	7.00%	9.90%	28. New York	4.25%	4.50%	8.75%
6. Connecticut	6.00%	N/A	6.00%	29. North Carolina	4.50%	3.00%	7.50%
7. Florida	6.00%	1.50%	7.50%	30. North Dakota	5.00%	2.50%	7.50%
8. Georgia	4.00%	3.00%	7.00%	31. Ohio	6.00%	2.00%	8.00%
9. Hawaii	4.00%	N/A	4.00%	32. Oklahoma	4.50%	6.00%	10.50%
10. Idaho	6.00%	3.00%	9.00%	33. Pennsylvania	6.00%	1.00%	7.00%
11. Illinois	6.25%	3.00%	9.25%	34. Rhode Island	7.00%	N/A	7.00%
12. Indiana	6.00%	N/A	6.00%	35. South Carolina	5.00%	2.00%	7.00%
13. Iowa	5.00%	2.00%	7.00%	36. South Dakota	4.00%	2.00%	6.00%
14. Kansas	5.30%	3.00%	8.30%	37. Tennessee	7.00%	2.75%	9.75%
15. Kentucky	6.00%	N/A	6.00%	38. Texas	6.25%	2.00%	8.25%
16. Louisiana	4.00%	6.25%	10.25%	39. Utah	4.75%	2.25%	7.00%
17. Maine	5.00%	N/A	5.00%	40. Vermont	6.00%	1.00%	7.00%
18. Maryland	5.00%	N/A	5.00%	41. Virginia	3.50%	1.00%	4.50%
19. Massachusetts	5.00%	N/A	5.00%	42. Washington	6.50%	2.40%	8.90%
20. Michigan	6.00%	N/A	6.00%	43. West Virginia	6.00%	N/A	6.00%
21. Minnesota	6.50%	1.00%	7.50%	44. Wisconsin	5.00%	1.00%	6.00%
22. Mississippi	7.00%	0.25%	7.25%	45. Wyoming	4.00%	2.00%	6.00%
23. Missouri	4.23%	4.50%	8.73%				

[1] 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.
Source: The Federation of Tax Administrators -- January 2004

Alaska Department of Revenue -Tax Division

Table 1a. Statewide Sales Tax Rates on Accommodations

State	State Rate	State	State Rate
1. Alabama*	4.00%	25. Nebraska*	6.50%
2. Arizona*	5.50%	26. Nevada*	1.00%
3. Arkansas*	7.13%	27. New Hampshire*	8.00%
4. Colorado	2.90%	28. New Jersey	6.00%
5. Connecticut*	12.00%	29. New Mexico	5.00%
6. Delaware*	8.00%	30. New York	4.25%
7. Florida	6.00%	31. North Carolina	4.50%
8. Georgia	4.00%	32. North Dakota	5.00%
9. Hawaii*	7.25%	33. Ohio	6.00%
10. Idaho*	8.00%	34. Oklahoma	4.50%
11. Illinois*	6.00%	35. Oregon*	1.00%
12. Indiana	6.00%	36. Pennsylvania	6.00%
13. Iowa	5.00%	37. Rhode Island*	12.00%
14. Kansas	5.30%	38. South Carolina	5.00%
15. Kentucky	6.00%	39. South Dakota*	5.00%
16. Louisiana	4.00%	40. Tennessee	7.00%
17. Maine*	7.00%	41. Texas*	6.00%
18. Maryland	5.00%	42. Utah	4.75%
19. Massachusetts	5.00%	43. Vermont*	9.00%
20. Michigan	6.00%	44. Virginia	3.50%
21. Minnesota	6.50%	45. Washington	6.50%
22. Mississippi	7.00%	46. West Virginia	6.00%
23. Missouri	4.23%	47. Wisconsin	5.00%
24. Montana*	7.00%	48. Wyoming	4.00%

* These states have a separate accommodations tax that either applies in addition to or instead of the sales tax rate. The listed rate is the total statewide tax on accommodations.

Sources: Statewide sales tax rates from the Federation of Tax Administrators -- January 2004. Statewide accommodations tax rates from sources shown on Table 2.

Alaska Department of Revenue -Tax Division

Table 2. Statewide Transient Accommodations Tax Rates

State	Lodging Taxes (%)		Sales Taxes (%)		Sales Tax Applies		Total (%)
	Statewide	Local Highest	Statewide	Local Highest	Statewide Lodging	Local Lodging	Lodging Highest
Alabama ¹	4	7	4	6	no	no	11
Arizona ²	5.5	6.57	5.6	3	no	no	12.07
Arkansas ³	2	none	5.13	3	yes	yes	10.13
Connecticut ⁴	12	none	6	none	no	n/a	12
Delaware ⁵	8	2	none	none	n/a	n/a	10
Hawaii ⁶	7.25	none	4	none	yes	n/a	11.25
Idaho ⁷	2	4	6	3	yes	no	12
Illinois ⁸	6	8.5	6.25	3	no	no	14.5
Maine ⁹	7	none	5	none	no	no	7
Montana ¹⁰	7	3	none	none	n/a	n/a	10
Nebraska ¹¹	1	4	5.5	1.5	yes	yes	12
Nevada ¹²	1	11	6.5	1.0	no	no	12
New Hampshire ¹³	8	2	none	none	n/a	n/a	10
Oregon ¹⁴	1	12.45	none	none	n/a	n/a	13.45
Rhode Island ¹⁵	5	none	7	none	yes	n/a	12
South Dakota ¹⁶	1	3	4	2	yes	no	8
Texas ¹⁷	6	11	6.25	2	no	no	17
Vermont ¹⁸	9	1	5	1	no	no	10

¹ Alabama Department of Revenue (334.242.1380). Maximum county lodging tax rates of 5% in the Mountain Lakes Area and maximum city lodging rate of 2%.

² The Arizona Department of Revenue (602.716.6927). The local rate used here is for Phoenix (county 4.8% and city 1.77%) Statewide and local sales taxes do not apply.

³ Arkansas Department of Finance and Administration (504.682.7140). Local and statewide sales tax applies to lodging and there is an additional 2% "tourism tax" that applies to "tourist attractions, rent accommodations of less than a month, watercraft rental, boat motors and related marine equipment, life jackets and cushions, water skis, and oars and paddles."

⁴ The Connecticut Department of Revenue Services (860.266.6829). Statewide sales tax does not apply.

⁵ Delaware Department of Finance Division of Revenue (302.577.8455). Maximum city tax rate of 2%.

⁶ Hawaii Department of Taxation (808.587.1440). Statewide sales tax rate does apply to lodging.

⁷ Idaho Tax Commission (208.972.7660). Accommodations are subject to the 6 percent state sales tax plus a 2% statewide Travel and Convention Tax. Additionally, in Boise there is a 4% Auditorium District Tax.

⁸ Illinois Department of Revenue (312.814.5232). Lodging tax rate of 6% on 94% of gross receipts, plus in Chicago there is a 2.5% Metropolitan Pier and Exposition Authority Tax, a 4% city tax and a 2% Sports Facilities Authority Tax.

⁹ Maine Revenue Service - Sales, Fuel and Special Tax Division (207.624.9693). Maine has a higher sales tax on hotels (7%), liquor (7%), prepared food (7%) and vehicle rentals (10%) then it does on other tangible personal property (5%).

¹⁰ Montana Department of Revenue (406.444.2031). Montana has a 4% statewide lodging facility use tax, and a local resort tax with a maximum rate of 3%. In addition, there is a statewide 3% sales tax that was enacted by the 2003 legislature on rental vehicles and accommodations.

¹¹ Nebraska Department of Revenue (402.471.5729). Nebraska has a 1% statewide lodging tax, a 2% maximum local lodging county tax if the population is less than 300,000 and 4% for larger counties. The statewide and local sales taxes do apply.

¹² Nevada Legislative Council Bureau (Russell Guindon, 775.684.6821). Nevada has a 1% statewide accommodations tax and county taxes that range from 5% to 11%.

¹³ New Hampshire Department of Revenue Administration (603.271.6121). New Hampshire has a statewide 8% tax on lodging with a maximum tax rate of 2% for local lodging taxes.

¹⁴ Oregon Department of Revenue (503.945.8113). The highest local lodging tax is in Troutdale (city 6.95% and county 5.5%).

¹⁵ Rhode Island Division of Taxation (401.222.2950). The statewide hotel tax of 5% is in addition to the 7% statewide sales tax.

¹⁶ South Dakota Department of Revenue and Regulation (605.773.3311). South Dakota has a 1% "Tourism Tax" on hotels and lodging establishments, campgrounds, recreational equipment rentals, recreational services, spectator events, visitor attractions and visitor intensive businesses. With the exception of visitor-intensive businesses (June-September), the tax applies for the full year. In addition, the 4% statewide sales tax and local bed tax on lodging of 3% do apply.

¹⁷ Texas State Comptroller's Office (512.936.6269). Apparently, Houston has the highest local rate with 6% statewide, 7% city, 2% county and 2% special district taxes. Statewide and local sales taxes do not apply.

¹⁸ Vermont Department of Taxes (802.828.2551). Vermont has a 9% tax on "rooms" with a local option "rooms" tax of 1%. Statewide and local sales taxes do not apply.

Alaska Department of Revenue –Tax Division

Table 3. Cruise Ship Port Fees in Selected U.S. Ports

City/Port	Passenger Fees	Selected Port Fees	
		Docking	Other
CALIFORNIA			
Los Angeles	\$9.35 for passengers embarking/debarking, no charge for in-transit passengers	\$72-\$10,340	
San Diego	\$5 for passengers embarking/disembarking, \$4 for in-transit passengers	\$3.72/foot for 688 foot vessel	
FLORIDA			
Port Canaveral	\$1.30-\$5.05 depends on length of trip	\$2.10-\$9/foot	\$185-\$740/movement based on ship length and day of week
Port Everglades	\$6.20/each embark/disembark & in transit, multi-day cruises; \$1.41/each embark/disembark & in-transit, daily cruise (minimum 25 cruises/month)	\$0.167/GRT, multi-day cruises; \$0.077/GRT, daily cruise (minimum 25/month)	\$215-\$273/day harbormaster rate; \$226-\$490/movement line handler rate (tie ups)
Tampa Port Authority	\$5.75 embark/disembark & in-transit	\$4.36-\$7.982/foot length overall (LOA)	\$0.35/foot LOA harbormaster fees, \$250/service for line handling (+OT & holiday rates)
HAWAII			
Ports of Hawaii	\$2.50 embark/disembark	\$25-\$2,857/day/arbor, based on LOA and harbor	\$25-\$637.50 (based on overall length), port entry fee/harbor
MASSACHUSETTS			
Cruiseport Boston	\$8.50	\$2/foot, minimum \$1,200	
TEXAS			
Port of Galveston	\$4/passenger in-transit, \$4.25 for embark/disembark	\$1.91-\$9.74/foot	
Port of Houston	\$4/passenger for embark/disembark	\$5.60-\$10.62/foot based on LOA	harbor fee \$385/visit, wharf cleaning fee \$207/visit, line handling done by others
WASHINGTON			
Port of Seattle	\$5.50-\$6.00 embark/disembark for homeport vessels, \$6.00 embark/disembark, \$6.00 for in-transit	\$153-\$14,077/day based on LOA (90% of regular dockage fees)	

Alaska Department of Revenue –Tax Division

Table 4. Summary of Head Taxes in Caribbean Region, 2003

Destination	Head Tax (\$)	Incentives
Antigua/Barbuda	7.50	Incentives to \$6
Aruba	3.50	Incentives to \$2
Bahamas	15	Incentives to \$7.50, 2 nd port is free
Barbados	6	
Belize	5	
Bermuda ¹ -	60	Arrival Tax, regardless of length of stay
-	14	Per night May through August
-	10	Per night, September through April
Bonaire	0	
British Virgin Islands	7	Incentives to \$2
Cayman Islands -	11.22	Seasonal
	9.27	Year-round
Costa Rica	2.50	
Curacao	3.50	Incentives to \$1.75
Dominica	5	Incentives to \$3
Dominican Republic	1	
Grenada	4.50	
Guadeloupe - Pointe-a-Pitre	1.85	
Jamaica - Ocho Rios	15	Incentives to \$8.50
- Montego Bay	13	Incentives to \$8.50
Martinique	0	
Mexico - Cozumel	3.85	
Nicaragua	2	
Panama	4.50	Rebates to \$12
Puerto Rico - San Juan	10.30	Incentives to \$8.50
St. Kitts	5	Incentives to \$3.50
St. Lucia	6.50	Incentives to \$6
St. Marten	5	
St. Vincent and the Grenadines	6	
Trinidad & Tobago	5	
U.S. Virgin Islands - St. Thomas	7.50	Fixed until 2006
- St. Croix	0	Fixed until 2006
Port Canaveral	5.05	In-transit
Port Everglades	6.62	In-transit
Key West	8	
Miami	7.25	In-transit
Palm Beach	4	In-transit
Tampa	5.75	In-transit

Source: Florida Caribbean Cruise Association

Alaska Department of Revenue –Tax Division

Table 5. 2003 Municipal Sales Tax Rates and Revenues		
Municipality	Sales Tax	Revenues
1. Adak	3%	\$570,978
2. Aleknagik	5%	\$106,606
3. Ambler	3%	\$20,600
4. Angoon	3%	\$100,471
5. Aniak	2%	\$48,847
6. Bethel	5%	\$4,603,797
7. Brevig Mission	3%	\$29,146
8. Buckland	2%	\$24,231
9. Chefnak	2%	\$5,840
10. Chevak	3%	\$83,738
11. Clarks Point	5%	\$5,895
12. Cordova	6%	\$2,124,800
13. Craig	5%	\$1,231,647
14. Deering	3%	\$10,128
15. Dillingham	6%	\$1,838,724
16. Diomede	3%	\$13,198
17. Eek	2%	\$21,400
18. Elim	2%	\$37,073
19. Emmonak	3%	\$122,902
20. False Pass	2%	\$82,598
21. Fort Yukon	3%	\$99,279
22. Galena	3%	\$150,000
23. Gambell	3%	\$65,989
24. Haines Borough	5.5%	\$1,899,249
25. Homer	3.50%	\$3,978,578
26. Hoonah	5%	\$374,101
27. Hooper Bay	4%	\$160,299
28. Hydaburg	4%	\$11,273
29. Juneau, City & Borough of	5%	\$29,739,796
30. Kake	5%	\$142,142
31. Kenai	3%	\$3,953,561
32. Kenai Peninsula Borough	2%	\$14,370,582
33. Ketchikan	3.5%	\$7,364,065
34. Ketchikan Gateway Borough	2%	\$4,832,084
35. Kiana	2%	\$24,937
36. King Cove	3%	\$926,188
37. Kivalina	2%	\$19,184
38. Klawock	5.5%	\$457,237
39. Kodiak	6%	\$7,003,452
40. Kotlik	3%	\$80,658
41. Kotzebue	6%	\$2,405,615
42. Koyuk	2%	\$28,948
43. Kwethluk	5%	\$91,607
44. Larsen Bay	3%	\$6,317
45. Manokotak	2%	\$24,807
46. Marshall	4%	\$52,845
47. Mekoryuk	2%	\$7,616
48. Mountain Village	3%	\$82,776

Alaska Department of Revenue - Tax Division

Table 5 (continued). 2003 Municipal Sales Tax Rates and Revenues

Municipality	Sales Tax	Revenues
49. Napakiak	2%	\$26,779
50. Nenana	4%	\$127,480
51. Newhalen	2%	NR
52. Nightmute	2%	\$9,687
53. Nome	4%	\$2,621,576
54. Nondalton	3%	\$692
55. Noorvik	3%	\$106,979
56. North Pole	3%	\$1,336,630
57. Nunam Iqua (Sheldon Point)	2%	\$4,185
58. Nunapitchuk	3%	\$38,238
59. Ouzinkie	3%	\$8,134
60. Palmer	3%	\$2,914,417
61. Pelican	4%	\$46,570
62. Petersburg	6%	\$2,312,188
63. Pilot Station	4%	\$78,166
64. Port Alexander	4%	\$13,475
65. Quinhagak	3%	\$70,150
66. St. Mary's	3%	\$106,347
67. St. Michael	4%	\$85,092
68. Saint Paul	3%	\$294,629
69. Sand Point	3%	\$338,881
70. Savoonga	3%	\$34,789
71. Saxman	3.50%	\$92,811
72. Scammon Bay	2%	\$26,700
73. Selawik	3%	\$74,991
74. Seldovia	2%/4.5%	\$116,133
75. Seward	3%	\$2,165,586
76. Shaktoolik	2%	\$30,000
77. Shishmaref	2%	NR
78. Shungnak	2%	\$16,910
79. Sitka, City & Borough of	5%	\$7,119,114
80. Skagway	4%	\$2,531,977
81. Soldotna	3%	\$5,232,283
82. Stebbins	3%	\$55,504
83. Tanana	2%	\$19,628
84. Teller	3%	\$18,523
85. Tenakee Springs	1%	\$6,612
86. Thorne Bay	5%	\$79,252
87. Togiak	2%	\$58,000
88. Toksook Bay	2%	\$22,365
89. Unalakleet	5%	\$253,717
90. Unalaska	3%	\$5,906,859
91. Wasilla	2%	\$6,497,070
92. White Mountain	1%	\$7,390
93. Whittier	3%	\$117,418
94. Wrangell	7%	\$1,761,568
95. Yakutat, City & Borough of	4%	\$588,561
TOTAL SALES TAX REPORTED		\$ 132,839,856
Source -- 2003 Alaska Taxable		

Alaska Department of Revenue - Tax Division

Table 6. Municipal and Alaska Ferry Transient Accommodations

Municipality	Rate (%)	Revenue (\$)	Tax Base (\$)	Tax Base (%)
1. Aleknagik*	5	6,574	131,480	0.0%
2. Angoon*	3	9,244	308,133	0.1%
3. Aniak	2	1,254	62,700	0.0%
4. Atka	10	3,957	39,570	0.0%
5. Bethel	3	77,250	2,575,000	0.9%
6. Bristol Bay Borough	10	57,244	572,440	0.2%
7. Cold Bay	8	16,536	206,700	0.1%
8. Cordova	6	54,418	906,967	0.3%
9. Denali Borough	7	1,233,331	17,619,014	6.1%
10. Dillingham	10	39,162	391,620	0.1%
11. Fairbanks	8	1,821,459	22,768,238	7.9%
12. Fairbanks North Star Bor.	8	1,305,822	16,322,775	5.6%
13. Haines Borough	4	101,683	2,542,075	0.9%
14. Juneau, City & Borough	7	940,000	13,428,571	4.6%
Kenai Peninsula Borough**	**	**	17,562,950**	6.1%
15. Ketchikan	6	273,338	4,555,633	1.6%
16. Ketchikan Gateway Bor.	4	32,771	819,275	0.3%
17. Klawock	6	29,196	486,600	0.2%
18. Kodiak	5	101,795	2,035,900	0.7%
19. Kodiak Island Borough	5	30,412	608,240	0.2%
20. Kotzebue	6	46,212	770,200	0.3%
21. Lake & Peninsula Bor.	6	117,639	1,960,650	0.7%
22. Matanuska-Susitna Bor.	5	676,780	13,535,600	4.7%
23. Municipality of Anchorage	8	11,007,248	137,590,600	47.5%
24. Nome	4	88,988	2,224,700	0.8%
25. Pelican	10	3,872	38,720	0.0%
26. Petersburg	4	33,077	826,925	0.3%
27. Port Alexander	6	1,688	28,133	0.0%
28. Port Lions	5	3,409	68,180	0.0%
29. Sand Point	7	3,194	45,629	0.0%
30. Seward	4	217,482	5,437,050	1.9%
31. Sitka, City & Borough	6	311,892	5,198,200	1.8%
32. Skagway	8	91,782	1,147,275	0.4%
33. Tenakee Springs	6	1,981	33,017	0.0%
34. Unalakleet	5	5,395	107,900	0.0%
35. Unalaska	5	125,792	2,515,840	0.9%
36. Valdez	6	256,803	4,280,050	1.5%
37. Wrangell***	***	***	***	***
38. Yakutat, City & Borough***	***	***	***	***
Alaska Ferries	N/A	N/A	4,695,000	1.6%
TOTAL BED TAX REPORTED		\$19,128,680	\$289,884,600	

*Used 2002 Alaska Taxable document for these two communities.

**Estimate of the bed tax base for the Kenai Peninsula Borough from Troy Tankersley (KPB, 2003) of \$23,000,000. KPB has a sales tax on accommodations. The KPB tax base is reduced by the Seward tax base to avoid double counting, since Seward has a separate accommodations tax.

***Wrangell is not included because it has a per night tax of \$4 and for Yakutat bed taxes were not separately reported.

Source: 2003 Alaska Taxable, the Kenai Peninsula Borough and the State Department of Transportation and Public Facilities.

Alaska Department of Revenue -Tax Division

Table 6a. Combined Sales and Bed Tax Rates

Municipality	Sales Tax	Bed Tax	Combined Rate
1. Aleknagik	5.0%	5.0%	10.0%
2. Angoon	3.0%	3.0%	6.0%
3. Aniak	2.0%	2.0%	4.0%
4. Bethel	5.0%	3.0%	8.0%
5. Cordova ¹	6.0%	6.0%	12.0%
6. Dillingham ²	6.0%	10.0%	10.0%
7. Haines Borough	5.5%	4.0%	10.0%
8. Juneau, City & Borough of ³	5.0%	7.0%	12.0%
9. Ketchikan	3.5%	6.0%	9.5%
10. Ketchikan Gateway Borough	2.0%	4.0%	6.0%
11. Klawock	5.5%	6.0%	11.5%
12. Kodiak	6.0%	5.0%	11.0%
13. Kotzebue ⁴	6.0%	6.0%	12.0%
14. Nome	4.0%	4.0%	8.0%
15. Pelican ⁵	4.0%	6.0%	10.0%
16. Petersburg	6.0%	4.0%	10.0%
17. Port Alexander	4.0%	6.0%	10.0%
18. Sand Point	3.0%	7.0%	10.0%
19. Seward	3.0%	4.0%	7.0%
20. Sitka, City & Borough of	5.0%	6.0%	11.0%
21. Skagway ⁶	4.0%	4.0%	8.0%
22. Tenakee Springs	1.0%	6.0%	7.0%
23. Unalakleet	5.0%	5.0%	10.0%
24. Unalaska	3.0%	5.0%	8.0%
25. Wrangell	7.0%	\$4/per night	**
26. Yakutat, City & Borough of	4.0%	4.0%	8.0%

** Combined rate for Wrangell unavailable because bed tax rate is a flat tax of \$4 per night.

¹Cordova's sales tax rate applies to lodging. Confirmed by telephone call to the city of Cordova (424-6200).

²In Dillingham the sales tax does not apply to lodging. Confirmed by telephone call to the city of Dillingham (842-5211).

³Juneau's sales tax rate applies to lodging. Confirmed by telephone call to the city of Juneau (Joan, 586-0362).

⁴Kotzebue's sales tax rate applies to lodging. Confirmed by telephone call to the city of Kotzebue (442-3401).

⁵According to both Betty and Carol at the city of Pelican, the bed tax is 6 percent and the sales tax is 4 percent for a combined rate of 10 percent. Alaska Taxable shows a bed tax rate of 10 percent and sales tax rate of 4 percent.

⁶Skagway's sales tax rate applies to lodging but total tax is 8 percent. Confirmed by telephone call to the city of Skagway (983-2854).

Caution: The source of the data is the 2003 Alaska Taxable document. Only those municipal codes with the highest combined sales tax and bed tax rates were checked (see footnotes).

Alaska Department of Revenue –Tax Division

Table 7. Cruise Ship Port Fees in Major Alaska Ports

City/Port	Cruise Ship		Selected Port Fees	
	Passenger Fees	Docking	Lightering	Other
Dutch Harbor		\$150-\$3,000 for vessels under 800'. \$3,000 + \$3.75/foot for each foot over 800') rates for 12-hour period		3% tax on shore tours
Haines		\$0.60 to \$2.40/foot length over all (LOA) plus surcharge of \$0.15- \$0.60/foot	\$250/day	\$100/day for passenger accommodation ladder and 4% tax on shore tours
Juneau (City)	\$5	\$0.70-\$2.56/foot	\$374/24-hour period	\$25/hour for transfer bridge, \$0.23/net ton for port dues
Ketchikan (City)	\$4 docked passenger and \$2 lightered passenger	\$0.31-\$2.42/foot/day, depends on LOA and number of days	\$280	\$1.60-\$2.70/foot LOA for port development fee, \$30- \$125 for a monthly port access pass for vehicles
Seward (ARRC)	\$4.30 "service & facility charges"	\$1.30-\$3.50/foot, \$50 minimum	\$450/day	
Sitka		\$500/ship/day for use of lightering dock		
Skagway (City)		\$1 per passenger, \$125 minimum		
Skagway (White Pass)	\$6.40	\$250/day for vessels under 300'. \$500 for vessels 301'-400', and \$2.10/foot for vessels over 401'		
Valdez			\$100-\$2,568, depending on LOA	
Whittier (ARRC)	\$4.30 "service & facility charges"	\$1.30-\$3.50/foot, \$50 minimum	\$450/day	
Wrangell		\$0.75-\$1.50/foot		7% city sales tax on all fees

Source: Legislative Research Report 00.072, February 5, 2002, Page 10. Passenger fee data updated (2004) by Department of Revenue.

Notes and Sources: "Docking and lightering rates for 24-hour period, except as noted.

Dutch Harbor- Port of Dutch Harbor Terminal Tariff, Section 2, Items 225 & 272, and Jim Severns, Director, Port of Dutch Harbor.

Haines- Dave Gross, Harbormaster.

Juneau- Joe Graham, Port Director. Table shows Juneau's 2001 fees which expired on December 31, 2001 and are being renegotiated.

Ketchikan- Ketchikan Municipal Code, Section 12.08.100-110.

Seward- Dock tariff, Alaska Railroad Corporation (ARRC), Items 80, 180, 230, and Karen Morrissey, Director of Real Estate. The Seward dock is owned by the ARRC, and fees (including passenger fees) are established by and paid to the corporation.

Skagway- Lizzie Carlson, Assistant Clerk, City of Skagway, 907.938.2854, and Curt Dodd, Chief Financial Officer, White Pass & Yukon Railroad, 907.983.2214. The City of Skagway owns 1/3 of the Alaska Marine Highway dock and charges cruise ships for docking there. Most ships dock at the dock owned by the White Pass & Yukon Railroad, and the railroad sets the fees.

Valdez- Valdez port rates, Rule 3, Items 300-310, website <http://www.glenrate.com/valdez/t0000020.htm> (accessed January 23, 2002).

Whittier- Karen Morrissey, Director of Real Estate, January 24, 2002. The dock is owned by the ARRC and, according to the corporation, cruise ships have not docked in Whittier since the early 1990s when the City implemented a passenger fee in addition to the fee imposed by the ARRC.

Wrangell- Carol Rushmore, Economic Development Director, City of Wrangell.



Holland America Line, Inc.

Government and Community Relations

Via Fax

April 1, 2004

Representative Mike Hawker
Alaska State Legislature
State Capitol (MS 3100)
Juneau, Alaska 99801-1182

Dear Representative Hawker:

I am writing you as a follow-up to the testimony I presented to the House Ways and Means Committee yesterday regarding HB 537. I appreciate the opportunity to testify and to provide this written information.

The short version of what I am going to say here is that this tax will negatively affect the growth of tourism in Alaska, reduce spending at Alaska businesses, and is structured in a way that leaves a number of unanswered questions for those of us in the cruise industry and in other sectors of the tourism industry.

I will divide my comments into four sections: Governor Murkowski's transmittal letter, the packet of information the committee had available to it yesterday morning, some general comments relating to the bill itself, and the potential negative impacts of the bill on the cruise industry.

Governor Murkowski's Transmittal Letter

There are three items in the Governor's transmittal letter that I would like to bring to your attention. The first item is the revenue projections contained in the first paragraph. Those projections indicate revenues of \$19 million in FY 2005 and \$49 million annually thereafter.

I noticed that, although the Department of Revenue provided a number of pieces of information to the committee, they did not provide the calculations for their revenue projections. This bill is fairly complicated, particularly when it comes to the cruise industry, and, therefore, without seeing the basis for the department's projections, it is impossible for us to determine the accuracy of those projections. I hope that the committee and the tourism industry will have an opportunity to review and comment on those calculations before action is taken on the legislation.

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

The next issue in the Governor's letter is the assertion that there are \$116 million of costs for state government "potentially" attributable to the cruise industry "some of which is currently offset by other 'user-pay' revenues." Such language would lead one to believe that the cruise industry drain on the general fund budget is substantial.

I do note that the list of costs was not made available to the committee, although the Governor's Office did provide the list to Rep. Gatto, and he used it while testifying in support of his bill to impose a \$100 per person head tax on cruise ship passengers.

In my view, the list of costs can best be described as being somewhere between fantasy and fabrication. Some of the services listed we or our passengers already pay for, such as the Alaska Railroad, where we are one of the railroads largest customers, or sport fish management, where our passengers purchase non-resident licenses. In other instances, such as the Anchorage and Fairbanks airports (which don't receive general fund money), our passengers provide a benefit to the state because of passenger and landing fees. Most of the large dollar items on the list such as those for the airports and railroad are capital items and therefore would be amortized over a number of years, if we weren't already paying for them, which we are.

Some items such as the St. Paul harbor have nothing to do with the cruise ship industry.

Therefore, I would advise the committee to ignore the suggestion that the cruise industry is responsible for \$116 million of state government costs.

The third and last item in the Governor's letter that I would like to call to your attention to is the statement at the bottom of the first page, which says "...without appreciably affecting the growth of the Alaska cruise ship industry." Inherent in this statement is the concept that there will be a negative impact on the cruise ship industry. I don't know how the Governor's Office defines "appreciably", but it really doesn't matter. Both they and we in the industry recognize that there will be a negative impact. We believe the impact could be substantial. I don't believe that the legislature should be supporting legislation that will reverse the growth of one of the few bright spots in the Alaska economy.

House and Ways Committee Information Packet

There are several issues relating to the information packet that I would like to discuss. The first is that, although the Department of Revenue has provided several pages of information on taxes that are collected in other jurisdictions, none of those taxing jurisdictions has a tax on cruise ship accommodations similar to the one being proposed by the department.

On page 6 of the packet the department has listed taxes and fees collected on the cruise industry in other states. It should be recognized that none of these taxes are of a statewide nature or are collected for deposit into a state's general fund. The fees are collected by local governments and port authorities and used to provide services to the cruise industry. This system is in keeping with requirements of the United States Constitution and federal law,

which restrict the use of taxes on the cruise industry to the provision of services to the industry.

I would next like to comment on page 7 of the packet, which lists taxes and fees collected by taxing jurisdictions outside the United States. First, it is important to note that these countries have different constitutions than the United States, and therefore the restriction cited in the paragraph above may not apply.

More importantly, if you look at the amounts being charged at these foreign ports, other than Bermuda, the taxes and fees are quite comparable to those charged at Alaska ports (see page 12 of the packet). In addition, a number of those ports offer incentives to the cruise lines. These incentives reduce the tax burden if the lines exceed bringing a certain number of passengers to these destinations, a regime obviously design to grow the cruise business. HB 537 provides no such incentive.

On page 12 of the packet there is a listing of fees and taxes the cruise industry pays in local communities in Alaska. There are several things worthy of note about this page, the most important of which is the cruise industry does pay for the services we receive locally. The state provides none of these services.

In addition, this page does not recognize the substantial impact out passengers have on local sales tax revenues. However, a review of sales tax revenues by quarter in these communities will show the contributions our industry is making to the general funds of these communities.

Also missing is any analysis of the property taxes that the industry pays for what we own (hotels, commercial buildings, buses, train cars) or the property owned by businesses, which serve us and/or our passengers. We also account for a substantial amount of the bed taxes collected in Anchorage, the Mat-Su Borough, the Denali Borough and Fairbanks.

The Bill (HB 537)

The bill itself is confusing. We have a number of questions about it. These questions include the following:

1. Sec. 43.51.010 levies a tax on the sale of "tourism services." Why are there references elsewhere in the bill to "goods?" See, for example, page 2, line 19; page 2, line 21, and page 5, line 24.
2. How will a provider of services collect the use tax where the sale took place outside of Alaska, probably by a travel agent?
3. Where the sale was for a single service, how would the provider know precisely how much the travel agent charged the customer/user?
4. If items are "bundled" (page 5, line 24) will airfare be taxed if it is part of a package, and, if so is that legal?
5. The tax is on the "total consideration" and includes "any fee, commission, or other consideration derived by the seller" (page 5, lines 10-13). How is the

- provider of the service going to know how much the travel agent charged?
Assuming an out of state sale, on what basis can Alaska tax the commission of a travel agent working outside of Alaska?
6. Where the sale was a package tour, how will an individual provider know how much of the total package price was for his or her particular segment of the package?
 7. Where the sale was a package tour, how will the individual provider know whether the sales tax has already been paid – perhaps by an in-state travel agent?
 8. Sec. 43.51.020 requires that the tax be “stated as a separate item on the invoice or other receipt issued by the . . . commercial provider.” (Page 2, lines 2-3.) Where the service was purchased through a travel agent, the provider of the service normally does not issue any sort of “invoice or other receipt” to the customers when they show up to take their tour. How is that supposed to work?
 9. Are there any other jurisdictions that impose sales and use taxes on the cruise industry similar to the one proposed in this legislation?
 10. How do we collect the tax when passengers purchase their ticket so that they don’t get an “Alaskan surprise” by being charged the tax on their shipboard account, a practice which would damage both our credibility with our customers and Alaska’s image as a friendly place to visit?
 11. On page 2, lines 14-18, the bill proposes a method of allocating the tax based on the proportion of “days” a cruise ship is in “Alaska”. This section raises several questions. What is a day? What happens when a ship is in Alaska for part of a day and Canada for part of a day? What is “Alaska” – Alaska waters? An Alaskan port?

These questions are not meant to be all-inclusive, as we have not had enough time to thoroughly analyze the bill. However they should be answered before the bill moves forward.

Impacts on the Cruise Industry

The cruise industry has been one of the few bright spots in the Alaska economy over the past decade. We have shown slow but steady growth in the number of people we bring to Alaska over that period.

However, there are storm clouds on the horizon. Alaska’s market share has been in an overall decline since 1996. Summer destinations in direct conflict with Alaska include the Caribbean, Mexico, Hawaii, Eastern Canada and even Europe. Because there are now homeports all along the eastern seaboard and along the coast of the Gulf of Mexico, more Americans than ever can drive to a cruise, but very few can drive to an Alaskan cruise, which is one of the reasons that Alaska is a high priced destination.

Another potential problem is that Americans are taking more but shorter vacations. The extensive use of the Internet has made our customers much more price conscious. Also more families are cruising these days.

All of these trends pose problems for Alaska, the highest priced cruise venue in North America. A tax that would amount to \$150 or more for a family will exacerbate this situation.

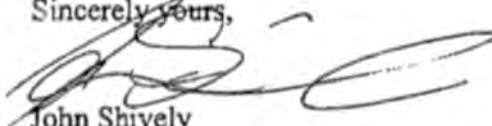
Also, because of the way this tax is structured, it will encourage the use of Canadian ports such as Prince Rupert as a substitute of some of the Alaskan ports.

Clearly the cruise industry will not go away if HB 537 is adopted. However, the growth the industry has experienced over the past decade will be decreased or reversed. In addition, people will be spending money on taxes that they could be spending to help grow jobs in the Alaska economy.

I do recognize that our state has fiscal challenges that need to be addressed. However, I am opposed to addressing them by instituting a tax that targets one sector of the economy, especially since the tax does little to solve the fiscal problems Alaska faces. Therefore I urge you to reject HB 537.

Thank you for your consideration.

Sincerely yours,



John Shively

Vice President - Government and Community Relations



Municipality of Anchorage

P.O. Box 196650 • Anchorage, Alaska 99519-6650 • Telephone: (907) 343-4431 • Fax: (907) 343-4499 <http://www.muni.org>

Mayor Mark Begich

Office of the Mayor

March 19, 2004

The Honorable Mike Hawker
Alaska State Legislature
State Capitol
Juneau, AK 99801

Dear Representative Hawker:

I write to register my strong opposition to House Bill 537, introduced yesterday by Gov. Frank Murkowski, which would impose a 5 percent statewide "tourism tax" on various visitor activities, including hotel and motel stays.

I commend the efforts of the Alaska Legislature and governor to come to grips with the budget gap facing all Alaskans. Residents of Anchorage have stepped forward to address the city's \$33 million budget gap through increased fees and reduced services, and without requesting a reinstatement of state Municipal Assistance and Revenue Sharing. Likewise, we are willing to do our part to help the state balance its books. However, this statewide tourism tax will cripple Anchorage's ability to expand its tourism industry and would effectively kill on-going efforts to build a new Alaska Convention and Civic Center in Anchorage.

As you know, a locally imposed hotel/motel tax is a key mechanism for communities to promote and expand their visitor industries. Currently Anchorage's 8 percent hotel/motel tax generates about \$11 million annually, half of which goes directly to the Anchorage Convention & Visitors Bureau to expand this vital industry which contributes \$152 million to Anchorage's economy annually. The other half of the bed tax pays for vital municipal services, such as roads, public safety and facilities maintenance.

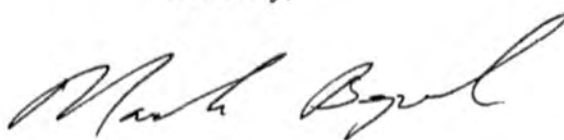
The Municipality recently issued a request for proposals to build a new Convention and Civic Center in Anchorage to be funded with an increase of approximately 4 percent in Anchorage's hotel/motel tax. Those proposals are due to the city Monday. The new center would create 700 new jobs and 800 construction jobs and generate 90,000 new room nights in our community. Without a new center, Anchorage is projected to lose an estimated \$37 million in economic impact between 2005 and 2007.

The governor's proposed statewide tourism tax would deny Anchorage and other communities across Alaska one of our few tools for economic development. It will cripple Anchorage's tourism industry by pricing our community beyond the reach of the average visitor. Today, Anchorage's 8 percent bed tax is low compared to the national average of 12.4 percent. But adding the governor's 5 percent tax to a 4 percent increase for a new convention center would mean the Anchorage bed tax would total 17 percent. This would serve as a serious disincentive for visitors to our community, and cripple our current convention sales effort. To keep Anchorage's bed tax at a competitive level with other destinations, it is unlikely Anchorage could move forward with the 4 percent needed to fund a larger center. The governor's 5 percent tax will kill the proposed new convention center and the related economic development it means for Anchorage.

Community, Security, Prosperity

TI urge you to explore other means for raising new revenues to fill the state's budget gap and to reject this ill-conceived statewide hotel/motel tax.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Begich". The signature is fluid and cursive, with the first name "Mark" and last name "Begich" clearly distinguishable.

Mark Begich
Mayor

CC: Governor Frank Murkowski
Anchorage Legislators



April 2, 2004

Dear Representative Hawker,

Thank you for affording me the opportunity to testify yesterday morning on HB537. Below is a copy of my testimony in full:

Name: Ron Peck
President of Alaska Travel Industry Association

Here to speak in opposition to HB537, because it is a targeted tax that will not benefit tourism or the state in the short or long run, and because **a 5% tourism sales tax is too high!** ATIA opposes this tax for the following reasons:

- None of the revenues will go to tourism marketing A substantial portion of any revenue derived from the visitor industry needs to be invested into tourism marketing so that our industry will grow and prosper.
- The 5% tourism tax is a targeted tax. ATIA has a long-standing position in opposition to targeted visitor industry taxes.
- A 5% tourism tax adds to the price tag for visiting Alaska. Potential travelers booking travel itineraries and/or tour packages will see a significant price increase for accommodations that might make them re-evaluate their decision to come to our state. Alaska is perceived by many as an expensive visitor destination.
- A 5% tourism tax will put many Alaska accommodation providers in the red. The primary visitor season in Alaska is short. The revenue earned during this period must carry many businesses through the entire year. Accommodation providers will see little or no return on capital. This, in turn, will discourage new tourism infrastructure development.

- Alaska visitor industry businesses will lose access to nationwide cooperative marketing programs. A 5% tourism tax will force many businesses to drop out of and/or to substantially reduce or eliminate their ability to participate in ATIA. Our association is the only organization in the state overseeing statewide tourism marketing.
- Alaska will be unable to compete with other visitor destinations. Most of Alaska's statewide tourism-marketing funding comes from the private sector. If Alaska's visitor industry businesses cannot afford to participate in these marketing programs, private sector revenues will drop, which, in turn, will reduce state matching funding. Alaska needs a more competitive marketing budget, not less.
- Alaska's visitor industry has a better solution. ATIA is working with our legislature and with a number of visitor industry organizations to create a tourism-marketing assessment. The financial impact of the assessment is considerably less than the 5% tourism tax and the proceeds of the assessment go back into tourism marketing!

March 28, 2004

Honorable Governor Frank Murkowski
State of Alaska
PO Box 110001
Juneau, AK 99811-0001

Dear Governor Murkowski:

In February 2004, the ATIA board of directors met in Juneau to discuss long-term funding and our proposed legislation. We also met with our state legislators at our annual industry fly-in to obtain support for the assessment from our elected leaders.

During the board meeting significant discussion took place to identify a context for supporting the assessment that addresses other significant concerns for your administration and all Alaskans. To that end, the ATIA board approved a motion to support

- (1) The Administration and Legislature's efforts to identify and implement a long-term fiscal plan for the state with continued focus on budget discipline; and
- (2) The appropriation of a portion of the earnings from the Permanent Fund to help support state services. Furthermore, we strongly support the creation of a "percent of market value" structure for the Permanent Fund. Using some of the Permanent Fund earnings for state government should not preclude the Alaska Permanent Fund Dividend program from continuing and growing.

ATIA, as the official statewide tourism-marketing arm for Alaska, carries a continuing obligation to its membership to promote their businesses and the industry. The assessment is the most likely means to fulfilling that mandate by making our state's tourism marketing efforts competitive with other major destinations.

The revenue generated from the assessment is significant for marketing purposes but falls short of closing the fiscal gap. It is our belief that implementing the POMV structure to the Permanent Fund, combined with sound budget discipline, will provide both you and the legislature with a meaningful way to address our state's current budget situation.

Sincerely,



Ron Peck
President & COO

RP:jf



M/V 'HERON'

Alaska Passages, Inc.

P.O. Box 213

Petersburg, Alaska 99833

(907) 772-3967

www.alaska.net/~akpassag/

voice & fax

Email: akpassag@alaska.net

March 29, 2004

Dear Chairman Hawker and Members of the House Ways and Means Committee;

I am dismayed to see the introduction of HB 537 this session. I am an owner of a small charter boat operation in Petersburg, and this bill could have devastating consequences for my business.

A five per cent tax on one of our weeklong trips for a family of six would be nearly \$950. Most of our trips are a week to ten days long. Without a cap on the amount of money taxed, this bill could put me out of business. I would ask that if this bill does go farther, you amend it to include a cap at \$50 at the most.

Here in Petersburg we pay a six percent sales tax on our trips, but the tax is capped at \$1200 so my clients are already paying \$72. Adding hundreds of dollars in taxes on top of this amount will mean our business will be unable to compete with the large cruise lines. Because of their high volume of passengers, the big cruise ships can offer discounted weeklong trips for less than what my clients would pay in taxes.

Even though the language of this bill seems directed at the cruise ship industry the big cruise ships would not be subject to this tax due to federal regulations on inter-state commerce. I think this places an undue burden of taxation on smaller Alaska businesses like mine.

Petersburg has been hit hard by the downturn in the salmon industry. Our town is starting to turn towards tourism and is encouraging independent travelers to visit Petersburg. This tax would knock small local tourism businesses to their knees by forcing them to charge taxes which would make coming to Petersburg more expensive than traveling on a big cruise ship.

I fully understand the serious nature of the budget deficit. I am not trying to dodge fiscal responsibility. My business pays corporate income tax here in Alaska, unlike the big cruise lines. I would also be willing to pay a personal income tax as well. If HB 537 goes through, I may not have an income to pay taxes on.

I ask you please to reconsider this kind of targeted tax. It would not just affect tourists. It would hurt Alaskans who own small tourism businesses and the communities we live in. It would turn more business over to the cruise ships that would not be subject to this tax.

Sincerely,
Julie Hursey
Alaska Passages Adventure Cruises

Subject: Testimony on HB 537

Date: Sun, 4 Apr 2004 14:42:10 -0800

From: Gary Mendivil <Gary_Mendivil@ci.juneau.ak.us>

To: "Representative_Mike_Hawker@legis.state.ak.us" <Representative_Mike_Hawker@legis.stat

"Representative_Bruce_Weyhrauch@legis.state.ak.us" <Representative_Bruce_Weyhrauch@

CC: "paulyn_swanson@legis.state.ak.us" <paulyn_swanson@legis.state.ak.us>

Representative Hawker, Representative Weyhrauch and members of the House Ways and Means Committee-

Thank you for the opportunity to testify on HB 537. My concern with HB537 has to do with the language in the definition section of the legislation. Some items may be open to interpretation due to the broad language used. Given the definitions included, "Guided activities" might be determined to include ski and snowboard lessons or school field trips to a ski area.

It appears that this issue can be remedied through the regulation process by the Department of Revenue. I am hoping that is the intent of the Department of Revenue.

Also, for the record it should be noted that while there is one destination ski area in Alaska, there are also at least six community ski areas and four ski areas located on military bases in the State of Alaska.

Gary Mendivil, Business Mgr.
Eaglecrest Ski Area
155 S. Seward St.
Juneau, AK 99801
907 586-5284 ph
907 586-5677 fax

www.skijuneau.com

Subject: HB537: Written testimony

Date: Thu, 01 Apr 2004 12:27:55 -0800

From: Lorene Palmer <lorene.palmer@traveljuneau.com>

To: paulyn_swanson@legis.state.ak.us

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Dear Representative Hawker and Committee Members:

Thank you for the opportunity to testify at the March 31 hearing on HB537. On behalf of the Juneau Convention & Visitors Bureau's board of directors and 275 members, I'm submitting comments in opposition to the proposed 5% tourism tax.

The tourism tax will be an additional burden on an industry that already pays its way locally and statewide through numerous taxes, fees, licenses and special permits. Beside the negative impact this tax would have on the tourism side of the industry, it will also impact all other travelers including Alaska residents, visiting friends and relatives, business travelers, and those traveling to Alaska for conventions and meetings.

The convention and meeting market is very important to Juneau. The economic impact associated with meetings and conventions is worth millions of "new" dollars and helps to diversify our local economy.

We request that the House Ways and Means Committee take the following points into consideration:

1. Juneau has a city sales tax of 5% and bed tax of 7% for a total check-out rate of

12%. The proposed 5% tourism tax will push Juneau to 17% and put us among the highest tax rates in the nation. Knoxville, Tenn. was recently sited as the highest among 30 top cities at 17.25%. A statewide sales tax pushed them into that range and they believe it has cost them business, particularly in the convention and meeting sector. The average check-out tax rate for North America is 10.5%, with top tier cities averaging between 12-14% (Source: Int'l Association of Convention & Visitors Bureaus).

2. Like many communities across the state, bed tax is a revenue source to fund a number of visitor related programs. In Juneau, the bed tax is used to fund Centennial Hall convention center operations and the Juneau Convention & Visitors Bureau. The additional 5% tax will eliminate any opportunity for us to raise our local rate. We need the flexibility to raise revenue in order to meet our local needs. Both Centennial Hall and the Bureau are facing a \$200,000 decrease in bed tax for FY05, further illustrating the need to have the ability to raise revenue locally.

3. HB537 will negatively impact our efforts to attract out-of-state conventions and meetings. Meeting planners for national associations look for destinations that are appealing to their members at a price that will encourage participation and make a profit. The stiff competition between destinations has created a 'buyer's' market for meeting planners. Communities go to great lengths to make their destination cost effective in order to attract convention business; a 17% tax on room costs for attendees will deter many meeting planners from considering Juneau as a meeting destination.

The consequence of the proposed tourism tax will be to inhibit the prosperity of our communities and businesses and it will leave a bad taste in the traveler's memory, whether they are here for business or pleasure.

We fully appreciate the difficult fiscal situation Alaska faces and the difficult task before you. We respectfully request that Alaska's guests not be asked to contribute further to solving our fiscal problems.

Lorene Palmer

President/CEO

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Subject: [Fwd: SB 537 Testimony - Dot Wilson]
Date: Thu, 01 Apr 2004 05:55:41 -0900
From: Mike Hawker <Representative_Mike_Hawker@Legis.state.ak.us>
Organization: Alaska State Legislature
To: Pauly Swanson <Pauly Swanson@legis.state.ak.us>

----- Original Message -----

Subject: SB 537 Testimony - Dot Wilson
Date: Wed, 31 Mar 2004 16:13:38 -0900
From: Dot Wilson <dotw@gsi.net>
To: Representative_Mike_Hawker@legis.state.ak.us

To: House Ways & Means Committee

March 31, 2004

Re: HB 537 – An Act Related to the Levy, Collection and Administration of Sales and Use Taxes on Tourism Services; and Providing for an Effective Date.

Thank you for the opportunity to express my opposition to HB 537. This bill effectively "punishes" the tourism industry for bringing people and dollars into the State and sharing our beautiful State with the rest of the world.

My husband and I own Coastal Helicopters here in Juneau. We are small and totally locally owned. Many people describe us as a "Mom and Pop" business. Imposition of the regulations described in this bill will place an onerous burden on a business such as ours.

The Tourism Industry was developed by citizens who are excited about the beauty of our State and who want to share it with others. It would be my guess that if you polled the tourism businesses you would find most of them are one and two-man shops have limited accounting capability and are already burdened to the maximum with taxes and regulations. It seems every facet of the government wants to take the money **WE** earn and increase **their** income.

There is a limit to how many times you can slice a pie and have everyone get a taste.

One of the reasons the tour portion of our business has been successful is that we've been able to competitively price our tours. Imposition of this State Sales taxes will not only require that we collect them and make payments to the State, but also that we do much related paperwork; file additional returns; pay an accountant up to \$250 per hour to see that we don't get fined or arrested; and stay awake even more nights during the year worrying that we got it right. It will also require us to increase our competitive pricing to meet the increased demands.

It is easy to say we "just collect" the tax from the user and send it to the State, but unfortunately it is MUCH more complicated than that. This bill is very complex and fraught with possibilities for Regulations that are far above the intent of the legislation.

The aircraft industry is already regulated by SO many government agencies, and now you want to add yet another burden on us. Soon it will be impossible for anyone except the companies owned by huge corporations to stay in business. Not because we aren't capable and worthwhile, but because Government requirements are so onerous small businesses can't live with them. The large tour companies may decide they don't want to do business in Alaska because the costs are getting so high. These companies can pull out of Alaska and continue their business; but Coastal's business IS ALASKA. We have lived here for 35 years. This business is how my husband and I support ourselves and provide full time jobs for 11 additional Juneau residents. During the summer months we hire up to 20 more employees almost all of whom are college students or retirees. If we continue to increase the cost of traveling to the State the number of tourists will decrease and small businesses such as ours will be out of business.

I have not seen the fiscal note that accompanies this legislation, but while the cost to the tourists, brokers, tour agents, and operators will be significant, the contribution to solving the State's fiscal problems will surely be minimal. The cost of implementing and enforcing the regulations **maybe** paid for by this Sales Tax, if we are really lucky. However it will have a totally negative impact on the tourism industry and will provide little or no additional funds to the State coffers above the cost of implementation.

The statement was made that the funds collected with the passage of this Sales Tax will pay for the "cost of tourism to the State." Should this bill be passed, the biggest cost to the State will be implementing and enforcing the regulations. It is my belief that the municipalities individually are responsible for maintaining their own tourism costs and there is little (if any) cost to the State at the present time..

This Legislation targets a specific industry and will have a negative impact on tourism in Alaska.

I sincerely hope you will find a more fair means of solving the State's financial problems that are and should be the responsibility of EVERYONE in Alaska – not just the tourist industry. Thank you.

Dorothy S. Wilson, Coastal Helicopters, Inc.

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