CS FOR HOUSE BILL NO. 293(W&M)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

Offered: 5/12/03
Referred: Finance

Sponsor(s): HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

A BILL

FOR AN ACT ENTITLED

"An Act relating to a state sales and use tax; relating to taxes levied by cities and boroughs; providing authority to the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement; increasing the motor fuel tax and repealing the special tax rates on blended fuels; and providing for an effective date."

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

* **Section 1.** AS 28.10.021(a) is amended to read:

(a) The owner of a vehicle subject to registration shall apply for registration under this chapter by properly completing the form prescribed by the commissioner under AS 28.05.041. Before the issuance of a certificate of registration by the department, the owner shall

(1) pay all registration fees and taxes required under this chapter**,** [AND] federal heavy vehicle use taxes required under 26 U.S.C. 4481 (Internal Revenue Code of 1954)**, and the sales or use tax levied under AS 43.44.010**;

(2) unless the owner qualifies as a self-insurer under AS 28.20.400 or

is exempted from obtaining liability insurance under AS 28.22.011, certify to the department the existence of a motor vehicle liability policy that complies with AS 28.22.011 for the vehicle being registered; in this paragraph, "certify" means to indicate by check-off on the vehicle registration form prescribed by the department the existence of a policy of insurance, if a policy is required at that time, and the intention to continue the policy or obtain a policy as required by this subsection; and

(3) comply with other applicable statutes and regulations.

* **Sec. 2.** AS 28.10.021(a) is amended to read:

(a) The owner of a vehicle subject to registration shall apply for registration under this chapter by properly completing the form prescribed by the commissioner under AS 28.05.041. Before the issuance of a certificate of registration by the department, the owner shall

(1) pay all registration fees and taxes required under this chapter **<u>and</u>** [,] federal heavy vehicle use taxes required under 26 U.S.C. 4481 (Internal Revenue Code of 1954) [, AND THE SALES OR USE TAX LEVIED UNDER AS 43.44.010];

(2) unless the owner qualifies as a self-insurer under AS 28.20.400 or is exempted from obtaining liability insurance under AS 28.22.011, certify to the department the existence of a motor vehicle liability policy that complies with AS 28.22.011 for the vehicle being registered; in this paragraph, "certify" means to indicate by check-off on the vehicle registration form prescribed by the department the existence of a policy of insurance, if a policy is required at that time, and the intention to continue the policy or obtain a policy as required by this subsection; and

(3) comply with other applicable statutes and regulations.

* **Sec. 3.** AS 29.10.200(51) is amended to read:

(51) **<u>AS 29.45.650</u>** [AS 29.45.650(c), (d), (e), AND (f)] (sales and use tax);

* **Sec. 4.** AS 29.10.200(51) is amended to read:

(51) **<u>AS 29.45.650(c), (d), (e), and (f)</u>** [AS 29.45.650] (sales and use tax);

* **Sec. 5.** AS 29.10.200(52) is amended to read:

(52) **<u>AS 29.45.700</u>** [AS 29.45.700(d)] (sales and use tax);

* **Sec. 6.** AS 29.10.200(52) is amended to read:

(52) **AS 29.45.700(d)** [AS 29.45.700] (sales and use tax);

* **Sec. 7.** AS 29.10.200 is amended by adding a new paragraph to read:

(64) AS 29.45.720 (specific taxes on tangible personal property and services).

* **Sec. 8.** AS 29.35.110(a) is amended to read:

(a) Borough revenues received through taxes **levied** [COLLECTED] on an areawide basis by the borough may be expended on general administrative costs and on areawide functions only. Borough revenues received through taxes **levied** [COLLECTED] on a nonareawide basis may be expended on general administrative costs and functions that render service only to the area outside all cities in the borough.

* **Sec. 9.** AS 29.35.110(a) is amended to read:

(a) Borough revenues received through taxes **collected** [LEVIED] on an areawide basis by the borough may be expended on general administrative costs and on areawide functions only. Borough revenues received through taxes **collected** [LEVIED] on a nonareawide basis may be expended on general administrative costs and functions that render service only to the area outside all cities in the borough.

* **Sec. 10.** AS 29.35.170 is amended to read:

Sec. 29.35.170. Assessment and collection of taxes. (a) A borough shall assess [AND COLLECT] property [, SALES, AND USE] taxes **and collect taxes, other than general sales and use taxes,** that are levied in its boundaries, subject to AS 29.45.

(b) Taxes**, other than general sales and use taxes,** levied by a city shall be collected by a borough and returned in full to the levying city. This subsection applies to home rule and general law municipalities.

* **Sec. 11.** AS 29.35.170 is amended to read:

Sec. 29.35.170. Assessment and collection of taxes. (a) A borough shall assess **and collect** property **, sales, and use** taxes [AND COLLECT TAXES, OTHER THAN GENERAL SALES AND USE TAXES,] that are levied in its boundaries, subject to AS 29.45.

(b) Taxes [, OTHER THAN GENERAL SALES AND USE TAXES,] levied by a city shall be collected by a borough and returned in full to the levying city. This subsection applies to home rule and general law municipalities.

*** Sec. 12.** AS 29.45.650 is repealed and reenacted to read:

Sec. 29.45.650. General sales and use tax. (a) Except as provided in AS 04.21.010(c) and AS 29.45.750, a borough may levy a general sales tax on the sale and rental of tangible or intangible property and on services provided in the borough.

(b) A borough levying a general sales tax may also by ordinance levy a use tax on the storage, use, or consumption of tangible personal property and on the use of services in the borough. The use tax rate must equal the sales tax rate, and the use tax shall be levied only on purchasers.

(c) A tax authorized under this section shall be administered and collected by the state under AS 43.44. The exemptions to a tax authorized under this section shall be identical to those provided in AS 43.44.

(d) After December 31, 2007, a municipality may not levy a sales and use tax on the sale or use of tangible personal property or the sale of services exceeding six percent.

(e) After December 31, 2009, a municipality may not levy a sales and use tax on the sale or use of tangible personal property or the sale of services exceeding five percent.

*** Sec. 13.** AS 29.45.650 is repealed and reenacted to read:

Sec. 29.45.650. Sales and use tax. (a) Except as provided in AS 04.21.010(c), AS 29.45.750, and in (f) and (g) of this section, a borough may levy and collect a sales tax on sales, rents, and on services provided in the borough. The sales tax may apply to any or all of these sources. Exemptions may be granted by ordinance.

(b) A borough levying a sales tax may also by ordinance levy a use tax on the storage, use, or consumption of tangible personal property in the borough. The use tax rate must equal the sales tax rate and the use tax shall be levied only on buyers.

(c) A person who furnishes proof, in the form required by the borough tax collector, that the person has paid a sales tax on the source on which a use tax is levied by the borough is required to pay the use tax only to the extent of the difference between the amount of the sales tax paid and the amount of the use tax levied by the borough. This subsection applies to a sales tax levied in any taxing jurisdiction whether inside or outside the state.

(d) If the assembly charges interest on sales taxes not paid when due, the rate of interest may not exceed 15 percent a year on the delinquent taxes and shall be charged from the due date until paid in full. This subsection applies to home rule and general law municipalities.

(e) A borough may provide for the creation, recording, and notice of a lien on real or personal property to secure the payment of a sales and use tax, and the interest, penalties, and administration costs in the event of delinquency. When recorded, the sales tax lien has priority over all other liens except (1) liens for property taxes and special assessments; (2) liens that were perfected before the recording of the sales tax lien for amounts actually advanced before the recording of the sales tax lien; (3) mechanics' and materialmen's liens for which claims of lien under AS 34.35.070 or notices of right to lien under AS 34.35.064 have been recorded before the recording of the sales tax lien. This subsection applies to home rule and general law municipalities.

(f) A borough may not levy and collect a sales tax on a purchase made with (1) food coupons, food stamps, or other type of allotment issued under 7 U.S.C. 2011 - 2036 (Food Stamp Program); or (2) food instruments, food vouchers, or other type of certificate issued under 42 U.S.C. 1786 (Special Supplemental Food Program for Women, Infants, and Children). For purposes of this subsection, the value of a food stamp allotment paid in the form of a wage subsidy as authorized under AS 47.25.975(b) is not considered to be an allotment issued under 7 U.S.C. 2011 - 2036 (Food Stamp Program). This subsection applies to home rule and general law municipalities.

(g) A borough may not levy or collect a sales tax on sales, rents, and services, or a use tax on the storage, use, or consumption of personal property on the following activities:

(1) the sale, lease, rental, storage, consumption, or distribution in this state of or the provision of services relating to an orbital space facility, space

propulsion system, or space vehicle, satellite, or station of any kind possessing space flight capacity, including the components of them;

(2) the sale, lease, rental, storage, consumption, or use of tangible personal property placed on or used aboard an orbital space facility, space propulsion system, or space vehicle, satellite, or station of any kind, regardless of whether the tangible personal property is returned to this state for subsequent use, storage, or consumption; an exemption under this paragraph is not affected by the failure of a launch to occur, or the destruction of a launch vehicle or a component of a launch vehicle.

* **Sec. 14.** AS 29.45.660(a) is amended to read:

(a) If the borough levies [AND COLLECTS] only a **<u>general</u>** sales tax and use tax, the assembly shall provide a notice substantially in the form set out in AS 29.45.020. In providing notice under this subsection, the assembly shall substitute for the millage equivalency its estimate of the equivalent sales tax rate for each of the categories of financial assistance set out in AS 29.45.020. Notice shall be provided

(1) by publishing in a newspaper of general circulation in the borough a copy of the notice once each week for a period of three successive weeks, with publication to occur not later than 45 days after the final adoption of the borough's budget; or

(2) if there is no newspaper of general circulation in the borough, by posting a copy of the notice for at least 20 days in at least two public places in the borough, with posting to occur not later than 45 days after the final adoption of the borough's budget.

* **Sec. 15.** AS 29.45.660(a) is amended to read:

(a) If the borough levies **<u>and collects</u>** only a [GENERAL] sales tax and use tax, the assembly shall provide a notice substantially in the form set out in AS 29.45.020. In providing notice under this subsection, the assembly shall substitute for the millage equivalency its estimate of the equivalent sales tax rate for each of the categories of financial assistance set out in AS 29.45.020. Notice shall be provided

(1) by publishing in a newspaper of general circulation in the borough a copy of the notice once each week for a period of three successive weeks, with

publication to occur not later than 45 days after the final adoption of the borough's budget; or

(2) if there is no newspaper of general circulation in the borough, by posting a copy of the notice for at least 20 days in at least two public places in the borough, with posting to occur not later than 45 days after the final adoption of the borough's budget.

* **Sec. 16.** AS 29.45.700 is repealed and reenacted to read:

Sec. 29.45.700. Power of levy. A city may levy a sales and use tax in the manner provided for boroughs under AS 29.45.650.

* **Sec. 17.** AS 29.45.700 is repealed and reenacted to read:

Sec. 29.45.700. Power of levy. (a) A city in a borough that levies and collects areawide sales and use taxes may levy sales and use taxes on all sources taxed by the borough in the manner provided for boroughs. Except as provided in (d) of this section, the assembly may by ordinance authorize a city to levy and collect sales and use taxes on other sources.

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

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

(d) A city that levies and collects sales and use taxes under (a) of this section may not levy and collect a sales tax on a purchase made with (1) food coupons, food stamps, or other types of allotments issued under 7 U.S.C. 2011 - 2036 (Food Stamp Program); or (2) food instruments, food vouchers, or other type of certificate issued under 42 U.S.C. 1786 (Special Supplemental Food Program for Women, Infants, and Children). For purposes of this subsection, the value of a food stamp allotment paid in the form of a wage subsidy as authorized under AS 47.25.975(b) is not considered to be an allotment issued under 7 U.S.C. 2011 - 2036 (Food Stamp Program). This subsection applies to home rule and general law municipalities.

* **Sec. 18.** AS 29.45 is amended by adding a new section to read:

Article 5B. Specific Taxes on Tangible Personal Property and Services.

Sec. 29.45.720. Specific taxes on tangible personal property and services. Except as specifically prohibited or limited, a municipality may levy and collect specific sales or excise taxes on single categories of tangible or intangible property or services, such as bed taxes and fish taxes.

* **Sec. 19.** AS 29.45.810(a) is amended to read:

(a) A party to a contract approved by the legislature as a result of submission of a proposed contract developed under AS 43.82 or as a result of acts by the legislature in implementing the purposes of AS 43.82, and the property, gas, products, and activities associated with the approved qualified project that is subject to the contract, are exempt, as specified in the contract, from all taxes identified in the contract that would be levied [AND COLLECTED] by a municipality under state law as a consequence of the participation by the party in the approved qualified project.

* **Sec. 20.** AS 29.45.810(a) is amended to read:

(a) A party to a contract approved by the legislature as a result of submission of a proposed contract developed under AS 43.82 or as a result of acts by the legislature in implementing the purposes of AS 43.82, and the property, gas, products, and activities associated with the approved qualified project that is subject to the contract, are exempt, as specified in the contract, from all taxes identified in the contract that would be levied **<u>and collected</u>** by a municipality under state law as a consequence of the participation by the party in the approved qualified project.

* **Sec. 21.** AS 43.40.010(a) is amended to read:

(a) There is levied a tax of **<u>20</u>** [EIGHT] cents a gallon on all motor fuel sold or otherwise transferred within the state, except that

(1) the tax on aviation gasoline is four and seven-tenths cents a gallon;

(2) the tax on motor fuel used in and on watercraft of all descriptions is five cents a gallon; **<u>and</u>**

(3) the tax on all aviation fuel other than gasoline is three and two-tenths cents a gallon [; AND

(4) THE TAX RATE ON MOTOR FUEL THAT IS BLENDED WITH ALCOHOL IS THE SAME TAX RATE A GALLON AS OTHER MOTOR FUEL; HOWEVER,

(A) IN AN AREA AND DURING THE MONTHS IN WHICH FUEL CONTAINING ALCOHOL IS REQUIRED TO BE SOLD, TRANSFERRED, OR USED IN AN EFFORT TO ATTAIN AIR QUALITY STANDARDS FOR CARBON MONOXIDE AS REQUIRED BY FEDERAL OR STATE LAW OR REGULATION, THE TAX RATE ON MOTOR FUEL THAT IS BLENDED WITH ALCOHOL IS SIX CENTS A GALLON LESS THAN THE TAX ON OTHER MOTOR FUEL NOT DESCRIBED IN (1) - (3) OF THIS SUBSECTION;

(B) NOTWITHSTANDING (A) OF THIS PARAGRAPH, THROUGH JUNE 30, 2004, THE TAX ON MOTOR FUEL SOLD OR OTHERWISE TRANSFERRED WITHIN THE STATE IS EIGHT CENTS A GALLON LESS THAN THE TAX ON OTHER MOTOR FUEL NOT DESCRIBED IN (1) - (3) OF THIS SUBSECTION IF THE MOTOR FUEL

(i) IS AT LEAST 10 PERCENT ALCOHOL BY VOLUME, HAS BEEN PRODUCED FROM THE PROCESSING OF LIGNOCELLULOSE DERIVED FROM WOOD, AND WAS PRODUCED IN A FACILITY THAT PROCESSES LIGNOCELLULOSE FROM WOOD, BUT THIS REDUCTION IN THE RATE OF TAX APPLIES TO MOTOR FUEL SOLD OR TRANSFERRED THAT CONTAINS ALCOHOL THAT WAS PRODUCED ONLY DURING THE FIRST FIVE YEARS OF THE FACILITY'S PROCESSING OF LIGNOCELLULOSE FROM WOOD; OR

(ii) IS AT LEAST 10 PERCENT ALCOHOL BY VOLUME, HAS BEEN PRODUCED FROM THE PROCESSING OF WASTE SEAFOOD, AND WAS PRODUCED IN A FACILITY THAT PROCESSES ALCOHOL FROM WASTE SEAFOOD, BUT THIS REDUCTION IN THE RATE OF TAX APPLIES TO MOTOR FUEL SOLD OR TRANSFERRED THAT CONTAINS ALCOHOL THAT WAS PRODUCED ONLY DURING THE FIRST FIVE YEARS OF THE FACILITY'S PROCESSING OF ALCOHOL FROM

WASTE SEAFOOD].

* **Sec. 22.** AS 43.40.010(a) is amended to read:

(a) There is levied a tax of <u>**eight**</u> [20] cents a gallon on all motor fuel sold or otherwise transferred within the state, except that

(1) the tax on aviation gasoline is four and seven-tenths cents a gallon;

(2) the tax on motor fuel used in and on watercraft of all descriptions is five cents a gallon; [AND]

(3) the tax on all aviation fuel other than gasoline is three and two-tenths cents a gallon<u>**; and**</u>

<u>**(4) the tax rate on motor fuel that is blended with alcohol is the same tax rate a gallon as other motor fuel; however, in an area and during the months in which fuel containing alcohol is required to be sold, transferred, or used in an effort to attain air quality standards for carbon monoxide as required by federal or state law or regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon less than the tax on other motor fuel not described in (1) - (3) of this subsection**</u>.

* **Sec. 23.** AS 43.40.010(b) is amended to read:

(b) There is levied a tax of <u>**20**</u> [EIGHT] cents a gallon on all motor fuel consumed by a user, except that

(1) the tax on aviation gasoline consumed is four and seven-tenths cents a gallon;

(2) the tax on motor fuel used in and on watercraft of all descriptions is five cents a gallon; <u>**and**</u>

(3) the tax on all aviation fuel other than gasoline is three and two-tenths cents a gallon [; AND

(4) THE TAX RATE ON MOTOR FUEL THAT IS BLENDED WITH ALCOHOL IS THE SAME TAX RATE A GALLON AS OTHER MOTOR FUEL; HOWEVER,

(A) IN AN AREA AND DURING THE MONTHS IN WHICH FUEL CONTAINING ALCOHOL IS REQUIRED TO BE SOLD, TRANSFERRED, OR USED IN AN EFFORT TO ATTAIN AIR QUALITY

STANDARDS FOR CARBON MONOXIDE AS REQUIRED BY FEDERAL OR STATE LAW OR REGULATION, THE TAX RATE ON MOTOR FUEL THAT IS BLENDED WITH ALCOHOL IS SIX CENTS A GALLON LESS THAN THE TAX ON OTHER MOTOR FUEL NOT DESCRIBED IN (1) - (3) OF THIS SUBSECTION;

(B) NOTWITHSTANDING (A) OF THIS PARAGRAPH, THROUGH JUNE 30, 2004, THE TAX ON MOTOR FUEL CONSUMED BY A USER WITHIN THE STATE IS EIGHT CENTS A GALLON LESS THAN THE TAX ON OTHER MOTOR FUEL NOT DESCRIBED IN (1) - (3) OF THIS SUBSECTION IF THE MOTOR FUEL

(i) IS AT LEAST 10 PERCENT ALCOHOL BY VOLUME, HAS BEEN PRODUCED FROM THE PROCESSING OF LIGNOCELLULOSE DERIVED FROM WOOD, AND WAS PRODUCED IN A FACILITY THAT PROCESSES LIGNOCELLULOSE FROM WOOD, BUT THIS REDUCTION IN THE RATE OF TAX APPLIES TO MOTOR FUEL CONSUMED BY A USER THAT CONTAINS ALCOHOL THAT WAS PRODUCED ONLY DURING THE FIRST FIVE YEARS OF THE FACILITY'S PROCESSING OF LIGNOCELLULOSE FROM WOOD; OR

(ii) IS AT LEAST 10 PERCENT ALCOHOL BY VOLUME, HAS BEEN PRODUCED FROM THE PROCESSING OF WASTE SEAFOOD, AND WAS PRODUCED IN A FACILITY THAT PROCESSES ALCOHOL FROM WASTE SEAFOOD, BUT THIS REDUCTION IN THE RATE OF TAX APPLIES TO MOTOR FUEL CONSUMED BY A USER THAT CONTAINS ALCOHOL THAT WAS PRODUCED ONLY DURING THE FIRST FIVE YEARS OF THE FACILITY'S PROCESSING OF ALCOHOL FROM WASTE SEAFOOD].

* **Sec. 24.** AS 43.40.010(b) is amended to read:

(b) There is levied a tax of **eight** [20] cents a gallon on all motor fuel consumed by a user except that

(1) the tax on aviation gasoline consumed is four and seven-tenths cents a gallon;

(2) the tax on motor fuel used in and on watercraft of all descriptions is five cents a gallon; [AND]

(3) the tax on all aviation fuel other than gasoline is three and two-tenths cents a gallon **; and**

(4) the tax rate on motor fuel that is blended with alcohol is the same tax rate a gallon as other motor fuel; however, in an area and during the months in which fuel containing alcohol is required to be sold, transferred, or used in an effort to attain air quality standards for carbon monoxide as required by federal or state law or regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon less than the tax on other motor fuel not described in (1) - (3) of this subsection.

* **Sec. 25.** AS 43.40.010(g) is amended to read:

(g) The proceeds of the revenue from the tax on all motor fuels, except as provided in (e), (f)**, (j), and (m)** [AND (j)] of this section, shall be deposited in a special highway fuel tax account in the state general fund. The legislature may appropriate funds from it for expenditure by the Department of Transportation and Public Facilities directly or as matched with available federal-aid highway money for maintenance of highways, construction of highway projects and ferries included in the program provided for in AS 19.10.150, including approaches, appurtenances and related facilities and acquisition of rights-of-way or easements, and other highway costs including surveys, administration, and related matters. All departments of the state government authorized to spend funds collected from taxes imposed by this chapter shall perform, when feasible, all construction or reconstruction projects by contract after the projects have been advertised for competitive bids, except that, when feasible, arrangements shall be made with political subdivisions to carry out the construction or reconstruction projects. If it is not feasible for the work to be performed by state engineering forces, the commissioner of transportation and public facilities may contract on a professional basis with private engineering firms for road design, bridge design, and services in connection with surveys. If more than one private engineering firm is available for the work the contracts shall be entered into on a negotiated basis.

* **Sec. 26.** AS 43.40.010(g) is amended to read:

(g) The proceeds of the revenue from the tax on all motor fuels, except as provided in (e), (f), **and (j)** [(j) AND (m)] of this section, shall be deposited in a special highway fuel tax account in the state general fund. The legislature may appropriate funds from it for expenditure by the Department of Transportation and Public Facilities directly or as matched with available federal-aid highway money for maintenance of highways, construction of highway projects and ferries included in the program provided for in AS 19.10.150, including approaches, appurtenances and related facilities and acquisition of rights-of-way or easements, and other highway costs including surveys, administration, and related matters. All departments of the state government authorized to spend funds collected from taxes imposed by this chapter shall perform, when feasible, all construction or reconstruction projects by contract after the projects have been advertised for competitive bids, except that, when feasible, arrangements shall be made with political subdivisions to carry out the construction or reconstruction projects. If it is not feasible for the work to be performed by state engineering forces, the commissioner of transportation and public facilities may contract on a professional basis with private engineering firms for road design, bridge design, and services in connection with surveys. If more than one private engineering firm is available for the work the contracts shall be entered into on a negotiated basis.

* **Sec. 27.** AS 43.40.010 is amended by adding a new subsection to read:

(m) An amount equal to the revenue obtained from six cents of the tax collected under (a) and (b) of this section, excluding the amounts collected under (a)(1) - (4) and (b)(1) - (4) of this section, shall be separately accounted for in the special highway fuel tax account under AS 43.40.010(g). The annual estimated balance of the amount separately accounted for may be appropriated by the legislature to the Department of Community and Economic Development for distribution to municipalities according to AS 29.60.110.

* **Sec. 28.** AS 43.40.030(a) is amended to read:

(a) Except as specified in AS 43.40.010(j), a person who uses motor fuel to operate an internal combustion engine is entitled to a refund of <u>**18**</u> [SIX] cents a gallon if

(1) the tax on the motor fuel has been paid;

(2) the motor fuel is not aviation fuel, or motor fuel used in or on watercraft; and

(3) the internal combustion engine is not used in or in conjunction with a motor vehicle licensed to be operated on public ways.

* **Sec. 29.** AS 43.40.030(a) is amended to read:

(a) Except as specified in AS 43.40.010(j), a person who uses motor fuel to operate an internal combustion engine is entitled to a refund of <u>**six**</u> [18] cents a gallon if

(1) the tax on the motor fuel has been paid;

(2) the motor fuel is not aviation fuel, or motor fuel used in or on watercraft; and

(3) the internal combustion engine is not used in or in conjunction with a motor vehicle licensed to be operated on public ways.

* **Sec. 30.** AS 43 is amended by adding a new chapter to read:

Chapter 44. Sales and Use Tax.

Article 1. Levy and Collection of the Tax.

Sec. 43.44.010. Levy of sales and use tax. (a) There is levied a sales tax on sales and rents of tangible personal property and on sales of services.

(b) For the privilege of using property in this state, there is levied a use tax on the person using property that was

(1) manufactured by the person using the property in this state; or

(2) acquired outside this state as the result of a transaction that would have been subject to the sales tax had it occurred in this state.

(c) For the privilege of using services in this state, there is levied a use tax on the person using services.

(d) The rate of levy of the sales tax levied under (a) of this section and of the use taxes levied under (b) and (c) of this section is three percent of the sales price or purchase price of the tangible personal property or service.

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

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

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

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

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

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

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

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

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

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

Sec. 43.44.030. Presumption of taxability; sales price and purchase price. (a) In order to prevent evasion of the sales tax or use tax and to aid in its administration, it is presumed that

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

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

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

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

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

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

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

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

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

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

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

Article 2. Exemptions.

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

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

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

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

Sec. 43.44.110. Exemption for intangibles. The following are exempt from the sales tax and use tax, even if they are construed to be tangible personal property or a service:

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

(2) interest on money loaned or deposited;

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

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

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

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

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

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

Sec. 43.44.160. Exemption for the sale of property for resale. The sale of property is exempt from the sales tax and use tax if the purchaser resells the property either by itself or in combination with other property in the ordinary course of business and the property will be subject to the sales tax imposed by AS 43.44.010(a).

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

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

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

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

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

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

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

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

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

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

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

AS 43.44.010(a).

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

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

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

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

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

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

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

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

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

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

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

Sec. 43.44.230. Exemption for child care services. Child care services are exempt from the sales tax and use tax.

Article 3. Collection and Payment Provisions.

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

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

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

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

(b) At a minimum, the certificate must provide

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

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

(3) the property or service purchased;

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

(5) a signature line for the purchaser.

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

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

(c) If the seller or lessor accepts an exemption certificate and believes in good faith that the purchaser or lessee will employ the property or service transferred in an exempt manner, the properly executed exemption certificate is considered conclusive evidence, as to the seller or lessor, that the sale is exempt.

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

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

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

Sec. 43.44.270. Permit application: requirements; place of business; form. (a) A person wishing to engage in business in this state shall file with the department an application for a seller's permit. If the person has more than one location in which the person maintains an office or other place of business, an application may include multiple locations. A vending machine operator who has more than one vending machine location is considered to have only one place of business for purposes of this section. An applicant who does not maintain an office or other place of business and who moves from place to place is considered to have only one place of business and shall attach the permit to the applicant's cart, stand, truck, or other merchandising device.

(b) Each application for a permit must be on a form or in a format prescribed by the department and must set out the name under which the applicant intends to transact business, the location of the applicant's place or places of business, and other information that the department may require. The application must be filed by the owner if the owner is a natural person, by a member or partner if the owner is an association or partnership, or by a person authorized to sign the application if the owner is a corporation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) a person who

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

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

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

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

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

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

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

Sec. 43.44.360. Timely filing allowance. (a) A person filing a return under AS 43.44.340 may claim an allowance for each permitted location in the amount of two percent of the tax determined to be payable to the state or $75 a month, whichever is less, if the return is timely filed and the tax is timely paid.

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

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

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

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

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

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

(b) Except as provided in (d) of this section, a person who becomes a successor in the taxpayer's business or stock of goods is liable for the full amount of the tax and shall withhold from the sales price payable to the taxpayer a sum sufficient to pay any tax due until the taxpayer produces either a receipt from the department showing payment in full of any tax due or a statement from the department that tax is not due.

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

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

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

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

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

Sec. 43.44.400. Refunds and credits. The department may credit or refund overpayments of taxes, taxes erroneously or illegally assessed or collected, penalties collected without authority, and taxes that are found unjustly assessed or excessive in amount, or otherwise wrongfully collected. The department shall set limitations, specify the manner in which claims for credits or refunds are made, and give notice of allowance or disallowance. When a refund is allowed to a taxpayer, it shall be paid out of the general fund on a warrant issued under a voucher approved by the department.

Article 4. General Provisions.

Sec. 43.44.500. Definitions. In this chapter,

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

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

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

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

(B) does not include

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

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

(iii) providing tangible personal property along with an operator for a fixed or indeterminate period of time; a condition of this exclusion is that the operator is necessary for the equipment to perform as designed; for the purpose of this sub-subparagraph, an operator must do more than maintain, inspect, or set up the tangible personal property;

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

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

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

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

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

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

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

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

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

(10) "sales price"

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

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

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

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

(iv) delivery charges;

(v) installation charges;

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

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

(B) does not include

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

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

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

(11) "sales tax" or "use tax" means the applicable tax imposed by AS 43.44.010;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TRANSITIONAL PROVISIONS. (a) The Department of Revenue may proceed to adopt regulations necessary to implement this Act. The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the effective date of the provision being implemented.

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

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

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

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

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

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

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

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

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

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

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number:	1
Bill Version:	CSHB 293(W&M)
(H) Publish Date:	5/13/03

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

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY2008	FY 2009
Personal Services	2,496.4	3,881.5	3,881.5	3,881.5	3,881.5	3,881.5
Travel	85.0	75.0	75.0	75.0	75.0	75.0
Contractual	889.5	995.0	995.0	995.0	995.0	995.0
Supplies	76.3	92.0	92.0	92.0	92.0	92.0
Equipment	525.0	67.5	15.0	15.0	15.0	15.0
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**4,072.2**	**5,111.0**	**5,058.5**	**5,058.5**	**5,058.5**	**5,058.5**
CAPITAL EXPENDITURES	**1,900.0**	**400.0**				
CHANGE IN REVENUES ( )	**190,000.0**	**410,000.0**	**410,000.0**	**410,000.0**	**410,000.0**	**410,000.0**

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 150.0

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

POSITIONS

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

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

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

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

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

See Page 2 for further discussion.

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

(Revised 9/2002 OMB)

This legislation would:

- Increase the state's highway motor fuel tax rate from 8 cents a gallon to 20 cents a gallon, and eliminate the special rate for gasohol (motor fuel blended with alcohol), thereby taxing gasohol at the same 20 cents as all other highway motor fuel. The rate increase would take effect July 1, 2003. This legislation would not affect marine fuel, aviation gas or jet fuel taxes, and would not change the tax on off-road motor fuel (which would remain at 2 cents per gallon).
- Direct that the Legislature may appropriate 6 cents a gallon of the 12-cents-a-gallon highway motor fuel tax increase to municipalities, through the revenue-sharing formula at AS29.60.110.
- Impose a statewide sales and use tax of 3% on the sale and rents of tangible personal property and services. The tax would take effect Jan. 1, 2004.
- Set a cap on the combined state and municipal sales and use tax rate at 8%, but would allow municipalities — with a vote of the local electorate — to raise only the municipal sales and use tax rate to exceed the combined state/municipal cap.
- Provide that municipalities with a local sales and use tax in effect or approved as of April 1, 2003, may continue to receive the full amount due under the tax until Jan. 1, 2008, with the state to receive the amount remaining between the municipal rate and the 8% cap.
- The municipal share within the 8% cap would be limited to no more than 6% effective Jan. 1, 2008. Then, effective Jan. 1, 2010, municipalities would be limited to 5% within the 8% cap.
- Allow municipalities to collect and administer their own sales and use taxes for the first two years of the new state tax. Then, on Jan. 1, 2006, municipalities would need to start collecting their local sales and use tax under state rules. Then, on Jan. 1, 2008, the state would take over collection and administration of all municipal sales and use taxes.
- Require out-of-state vendors to collect the sales and use tax if the vendor is subject to the jurisdiction of the state under the U.S. Constitution.
- Limit the tax to $5,000 of the purchase price of a motor vehicle, boat, plane or mobile home.
- Provide a mechanism for enforcement of the sales and use tax on the purchase of motor vehicles, including those purchased out of state and brought to Alaska: AS 28.10.021 would requires that sales or use tax must have been paid to register a vehicle.
- Nothing in this measure would prevent municipalities from continuing existing or imposing new excise taxes on specific goods and services, such as a hotel bed tax or car rental tax.
- The state sales and use tax would sunset on Jan. 12, 2012.

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

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

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSHB 293(FIN)
(H) Publish Date: 5/16/03

Revision Date/Time (Note if correction):
Title: State Sales Tax and Use Tax
Sponsor: House Ways and Means Committee
Requester: House Finance Committee

Dept. Affected: Revenue
BRU: Revenue Operations
Component: Tax Division
Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY2008	FY 2009
Personal Services	2,496.4	3,881.5	3,881.5	3,881.5	3,881.5	3,881.5
Travel	85.0	75.0	75.0	75.0	75.0	75.0
Contractual	889.5	995.0	995.0	995.0	995.0	995.0
Supplies	76.3	92.0	92.0	92.0	92.0	92.0
Equipment	525.0	67.5	15.0	15.0	15.0	15.0
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**4,072.2**	**5,111.0**	**5,058.5**	**5,058.5**	**5,058.5**	**5,058.5**
CAPITAL EXPENDITURES	**1,900.0**	**400.0**				
CHANGE IN REVENUES ( )	**163,000.0**	**341,000.0**	**341,000.0**	**341,000.0**	**341,000.0**	**341,000.0**

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 150.0

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

POSITIONS

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

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

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

This legislation also includes an increase in the state excise tax on highway motor fuel, from 8 cents a gallon to 20 cents a gallon, effective July 1, 2003, with a provision that the legislature may share with municipalities half of the increase (using the revenue sharing formula in statute). The authorization for additional revenue sharing is not reflected in this fiscal note.

See Pages 2 and 3 for further discussion.

Prepared by: Chuck Harlamert, Robynn Wilson and Brett Fried — Phone 465-5469
Division: Tax Division — Date/Time 5/16/03 8:06 AM
Approved by: Larry Persily, Deputy Commissioner — Date 5/16/2003
Agency: Department of Revenue

This legislation would:

- Increase the state's highway motor fuel tax rate from 8 cents a gallon to 20 cents a gallon. The rate increase would take effect July 1, 2003. This legislation would not affect marine fuel, aviation gas or jet fuel taxes, and would not change the tax on off-road motor fuel (which would remain at 2 cents per gallon).
- Direct that the Legislature may appropriate 6 cents a gallon of the 12-cents-a-gallon highway motor fuel tax increase to municipalities, through the revenue-sharing formula in AS29.60.
- Impose a statewide sales and use tax of 3% on the sale and rents of tangible personal property and services. The tax would take effect Jan. 1, 2004.
- Set a cap on the combined state and municipal sales and use tax rate at 8%, but would allow municipalities — as per their charter or ordinance — to raise the municipal sales and use tax rate to exceed the combined state/municipal cap.
- Provide that municipalities with a local sales and use tax in effect or approved as of April 1, 2003, may continue to receive the full amount due under the tax until Jan. 1, 2008, with the state to receive the amount remaining between the municipal rate and the 8% cap.
- The municipal share within the 8% cap would be limited to no more than 6% effective Jan. 1, 2008. Then, effective Jan. 1, 2010, municipalities would be limited to 5% within the 8% cap.
- Allow municipalities to collect and administer their own sales and use taxes for the first two years of the new state tax. Then, on Jan. 1, 2006, municipalities would need to start collecting their local sales and use tax under state rules. Then, on Jan. 1, 2008, the state would take over collection and administration of all municipal sales and use taxes.
- Require out-of-state vendors to collect the sales and use tax if the vendor is subject to the jurisdiction of the state under the U.S. Constitution.
- Limit the tax to $5,000 of the purchase price of a motor vehicle, boat, plane or mobile home.
- Provide a mechanism for enforcement of the sales and use tax on the purchase of motor vehicles, including those purchased out of state and brought to Alaska: AS 28.10.021 would requires that sales or use tax must have been paid to register a vehicle.
- Amend the interest rate the state charges on all delinquent taxes to a floating rate.
- Nothing in this measure would prevent municipalities from continuing existing or imposing new excise taxes on specific goods and services, such as a hotel bed tax or car rental tax.

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

- Sale for resale and sale or lease for subsequent lease.
- Goods and services, ingredients, components and transportation used in operations and maintenance in natural resource industries (oil and gas, mining, timber and fishing), and manufacturing. Capital assets would be taxable. For self-constructed assets, only the tangible personal property incorporated into the asset would be taxable.
- The tariff on oil and gas pipelines.
- Goods moved in state as part of interstate or foreign commerce.
- Sales to federal, state and local government agencies, and sales by government agencies —except for sale of utility services to consumers
- Sales to or by IRS-approved 501(c)(3) charitable organizations.
- Sales/services by licensed health-care providers, prescription drugs.
- Child-care services.
- Purchases with food stamps.
- All fuel subject to the state excise tax is exempt from the new sales and use tax.
- Car rentals subject to the proposed new state car rental excise tax.
- Wages, insurance premiums, dividends and interest.
- Financial services, including stock and bond brokerage fees, loan and account fees.
- Pull-tab, bingo and raffle sales.
- Isolated or occasional sales.
- Real estate is exempt, and additions to real estate (such as a new garage or home addition).

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 3
Bill Version: CSHB 293(FIN)
(H) Publish Date: 5/16/03

Revision Date/Time (Note if correction):
Title "An Act relating to a state sales and use tax; . . Increasing the motor fuel tax . . ."
Sponsor House Ways & Means Committee
Requester House Finance Committee

Dept. Affected: Law
BRU Civil Division
Component Commercial
Component No. 2211

Expenditures/Revenues (Thousands of Dollars)

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

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

CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

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

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

POSITIONS

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

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

This bill creates a statewide sales and use tax.

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

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

Prepared by: Joan M. Kasson Phone (907) 465-5370
Division Attorney General's Office Date/Time 5/12/03 11:21 AM

Approved by: Kathryn Daughhetee for Gregg D. Renkes, Attorney General Date 5/12/2003
Agency Department of Law

(Revised 9/2002 OMB)

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 321

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE WILSON

Introduced: 5/20/03
Referred: House Special Committee on Ways and Means, State Affairs, Finance

A BILL

FOR AN ACT ENTITLED

"An Act relating to taxation, including taxation of income of individuals, estates, and trusts, to application of an individual's permanent fund dividend toward the individual's income tax liability, and to a warning about taxation on commercial fishing license applications; and providing for an effective date."

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

* **Section 1.** AS 16.05.480 is amended by adding a new subsection to read:

(j) The application for a commercial fishing license must contain the following warning in boldface type: "WARNING: You are obligated to pay Alaska state income tax and federal income tax on your earnings from fishing, to the extent required by law."

* **Sec. 2.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.009. Tax on individuals, estates, and trusts. (a) There is imposed for each taxable year an income tax, computed as provided in this section, on every

(1) resident individual; and

(2) estate, trust, and nonresident and part-year resident individual with income from sources in the state.

(b) For a resident individual, the tax under this section is three percent of the individual's taxable income, or $100, whichever is greater.

(c) For an estate or a trust, or for a nonresident or part-year resident individual, the tax under this section is three percent of that portion of the taxpayer's taxable income that is attributable to sources in the state. To identify that portion of the taxpayer's taxable income, the taxpayer shall identify the percentage of the taxpayer's adjusted gross income that comes from sources in the state and apply that percentage to the taxpayer's taxable income.

(d) In this section, "taxable income" means "taxable income" as defined in 26 U.S.C. 63

(1) less any income that is exempt under other provisions of state or federal law, including longevity bonus payments under AS 47.45;

(2) plus

(A) the cost-of-living allowance that is exempt under 26 U.S.C. 912(2); and

(B) interest on bonds issued by other states and political subdivisions of other states that is exempt under 26 U.S.C.

* **Sec. 3.** AS 43.20.031(c) is amended to read:

(c) In computing the tax under this chapter, **a corporation** [THE TAXPAYER] is not entitled to deduct any taxes based on or measured by net income.

* **Sec. 4.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.032. Individual income tax returns and payment; tax cap. (a) Except as provided in (f) of this section, every individual, trust, estate, and partnership subject to tax under this chapter required to make a return of income under 26 U.S.C. (Internal Revenue Code) shall file with the department, not later than the date the federal return is required to be filed, a return setting out

(1) the amount of tax due under this chapter, less allowable credits and payment claimed against the tax; and

(2) other information that the department requires for the purpose of carrying out the provisions of this chapter.

(b) The total amount of tax imposed under AS 43.20.009 is due and payable to the department at the same time and in the same manner as the tax is payable under 26 U.S.C.

(c) A person required to file a return under this section shall file the return using the same filing status as the person uses on the person's return of income under the provisions of the Internal Revenue Code for the year.

(d) The maximum tax liability of a person filing as a single individual under AS 43.20.009 is $20,000. The maximum tax liability of a couple filing jointly under AS 43.20.009 is $30,000.

(e) The provisions of AS 43.20.030(b), 43.20.030(d), and 43.20.030(e) apply to individual income tax returns and payments under this section.

(f) An individual subject to tax under this chapter need not file a return and remit the tax if:

(1) the individual is under 19 years of age, and the individual's tax liability is zero;

(2) the individual's only income from sources in the state is from a partnership or corporation that has filed a return on that income under AS 43.20.175; or

(3) the individual's tax liability is $100 and the individual has elected, on the form provided for under AS 43.23.015(b), to have $100 of the individual's permanent fund dividend applied to the individual's income tax liability.

(g) The commissioner may by regulation provide for an incentive for accurate and timely filing of tax returns by individuals, trusts, estates, and partnerships, and for electronic filing and payment by individuals, trusts, estates, and partnerships. An incentive under this section may not exceed $25 a taxpayer.

* **Sec. 5.** AS 43.20.040 is repealed and reenacted to read:

Sec. 43.20.040. Income from sources in the state. (a) In this chapter, income from sources in the state includes

(1) compensation for personal services rendered in the state;

(2) working in the state for salary or wages;

(3) income from real or tangible personal property located in the state;

(4) income from stocks, bonds, notes, bank deposits, and other intangible personal property having a taxable or business situs in the state; however, the receipt of interest income from intangible property in the state does not alone establish a taxable or business situs in the state;

(5) rentals and royalties for the use of or for the privilege of using, in the state, patents, copyrights, secret processes and formulas, good will, marks, trade brands, franchises, and other property having a taxable or business situs in the state;

(6) income distributed from a trust established under or governed by the laws of the state, except that income of a trust established under or governed by the laws of the state that is income of a nonresident is not included if the nonresident is a resident of a state that does not impose an income tax on income to residents of this state from trusts established or governed by the laws of the nonresident's state of residence;

(7) income of a trust established under or governed by the laws of the state and income of the estate of a decedent who on the date of death was domiciled in the state;

(8) income, from a source with a taxable or business situs in the state, of

(A) a trust not established under or governed by the laws of the state; or

(B) the estate of a decedent who on the date of death was not domiciled in the state;

(9) income of whatever nature from a source with a taxable or business situs in the state.

(b) Except as provided in (a)(4) of this section, in this section, income is from a source with a taxable or business situs in the state if it is attributed to or derived from

(1) business facilities or property in the state;

(2) business, farming, or fishing activities in the state;

(3) conducting in the state the management or investment function for

intangible property;

(4) a partnership, limited liability company, estate, or trust conducting business activities in the state;

(5) a corporation transacting business activities in the state that has elected to file federal returns under subchapter S of the Internal Revenue Code;

(6) any other activity from which income is received, realized, or derived in the state.

(c) If a business, trade, or profession is carried on partly inside and partly outside the state, other than the rendering of purely personal services by an individual, the income from sources in the state shall be determined as provided in AS 43.19.

* **Sec. 6.** AS 43.20 is amended by adding a new section to article 1 to read:

Sec. 43.20.046. Individual, trust, and estate tax credits. (a) For a resident, a trust established under or governed by the laws of this state, or the estate of a decedent who on the date of death was domiciled in this state, the income tax imposed on that resident, trust, or estate by another state or territory of the United States for the taxable year, on income derived from sources in that state or territory, is allowed as a credit against the tax under this chapter.

(b) The credit under (a) of this section is determined by multiplying the tax computed under this chapter by a fraction, the numerator of which is the income derived from sources in the other state or territory and the denominator of which is income derived from all sources. However, the credit under (a) of this section may not exceed the actual tax paid to the other state or territory.

(c) An individual under 19 years of age with a tax liability of $100 under AS 43.20.009 is entitled to a credit of $100.

(d) An individual, estate, or trust is allowed only the state credits provided in this section. The total state credit allowed under this section may not exceed the tax liability for the taxable year for the individual, estate, or trust. A credit may not be carried, in whole or in part, to a different taxable year.

* **Sec. 7.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.171. Tax withholding on wages of individuals. (a) Every employer making payment of wages or salaries after December 31, 2003,

(1) shall deduct and withhold an amount of tax computed in a manner to approximate the amount of tax due on those wages or salaries under this chapter for that taxable year;

(2) shall remit the tax withheld to the department accompanied by a return on a form prescribed by the department at the times required by the department by regulation;

(3) is liable for the payment of the tax required to be deducted and withheld under this section but is not liable to any individual for the amount of the payment; and

(4) shall furnish to the employee at the time required by the department a written statement on a form prescribed by the department showing

(A) the name and taxpayer identification number of the employer;

(B) the name and social security number of the employee;

(C) the total amount of wages or salary for the taxable year; and

(D) the total amount deducted and withheld as tax for the taxable year.

(b) The department shall publish the rates of withholding required by this section.

* **Sec. 8.** AS 43.20 is amended by adding a new section to read:

Sec. 43.20.175. Tax withholding by pass-through entities. (a) A partnership that pays or credits amounts to a nonresident on account of the partner's distributive share of income from sources in the state shall withhold the tax owed by the individual under AS 43.20.009.

(b) A corporation for which an election under 26 U.S.C. 1362(a) (Internal Revenue Code) is in effect for the tax year that pays or credits income from sources in the state to a nonresident shall withhold the tax owed by the nonresident under AS 43.20.009.

(c) A partnership or corporation required to withhold tax under (a) or (b) of this section is liable to the department for payment of that tax.

(d) A partnership or corporation required to withhold tax under (a) or (b) of this section shall file a return of the income on a form prescribed by the department and pay the tax to the department.

(e) For purposes of this section, "partnership" means a person that is taxable as a partnership for purposes of 26 U.S.C. (Internal Revenue Code).

* **Sec. 9.** AS 43.20.340 is amended by adding new paragraphs to read:

(12) "individual" means a natural person, married or unmarried, adult or minor, subject to payment of income tax under 26 U.S.C. (Internal Revenue Code);

(13) "nonresident" means an individual who is not a resident or part-year resident;

(14) "resident" means an individual who, for the entire taxable year, was domiciled in the state or resided in the state.

* **Sec. 10.** AS 43.23.015(b) is amended to read:

(b) The department shall prescribe and furnish an application form for claiming a permanent fund dividend. The application must include notice of the penalties provided for under AS 43.23.035 and contain a statement of eligibility and a certification of residency. **The application must allow an applicant to elect to have $100 of the dividend retained by the department and applied to the individual's state income tax liability.**

* **Sec. 11.** AS 43.05.085; AS 43.20.012, and 43.20.013 are repealed.

* **Sec. 12.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITIONAL PROVISIONS: REGULATIONS. The commissioner of the Department of Revenue shall adopt regulations to implement the provisions of this Act.

* **Sec. 13.** Section 12 of this Act takes effect immediately under AS 01.10.070(c).

* **Sec. 14.** Except as provided in sec. 13 of this Act, this Act takes effect January 1, 2004.

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DEPARTMENT OF THE TREASURY

Publication 600-A - Main Contents

Table of Contents

How To Use the Table

To figure your general sales tax deduction using the Optional Local Sales Tax Table for Certain Alaska Boroughs and Cities, follow Steps 1 through 4 and complete the worksheet on page 2.

CAUTION

If your filing status is married filing separately, both you and your spouse elect to deduct sales taxes, and your spouse elects to use the optional sales tax tables (for any state or for certain Alaska boroughs and cities), you also must use the tables to figure your general sales tax deduction.

Step 1. Read down the "At least – But less than" columns in the Optional Local Sales Tax Table for Certain Alaska Boroughs and Cities and find the line that includes your 2004 total available income. Total available income is the amount shown on your Form 1040, line 37, plus any nontaxable items, such as the following.

- Tax-exempt interest.
- Veterans' benefits.
- Nontaxable combat pay.
- Workers' compensation.
- Nontaxable part of social security and railroad retirement benefits.
- Nontaxable part of IRA, pension, or annuity distributions. Do not include rollovers.
- Public assistance payments.

Note. If your filing status is married filing separately, use your own total available income. Follow the above instructions, beginning with the amount shown on your Form 1040, line 37.

Step 2. Go to the column that includes the total number of exemptions you claimed on your Form 1040, line 6d. Enter the amount from that column on line 1 of the worksheet.

Step 3. Enter on line 2 of the worksheet the local general sales tax rate imposed by the Alaska borough and city where you lived in 2004. When entering the tax rate, omit the percentage symbol. For example, if your city imposed a 4% sales tax, enter 4 on line 2.

If the general sales tax rate changed for your locality during 2004, use the average rate for the year. Figure the average rate by prorating each of the rates based on the number of days each rate was in effect. The sum of the prorated rates is the average rate for the year.

If you lived in more than one locality during 2004, prorate your local general sales taxes based on the number of days you resided in the locality for which you are determining the local sales tax deduction. Use a separate worksheet for each locality.

Step 4. Enter on line 4 of the worksheet any local general sales taxes paid on the following specified items.

- A motor vehicle (including a car, motorcycle, motor home, recreational vehicle, sport utility vehicle, truck, van, and off-road vehicle). Also include any local general sales taxes paid for a leased motor vehicle. If the sales tax rate on these items is higher than the general sales tax rate, only include the amount of tax you would have paid at the general sales tax rate.
- An aircraft, boat, home (including mobile and prefabricated), or home building materials, but only if the tax rate was the same as the general sales tax rate.

Do not include sales taxes paid on items used in your trade or business.

Local General Sales Tax Deduction Worksheet
(Using the Optional Local Sales Tax Table for Certain Alaska Boroughs and Cities) (Keep for Your Records)

1.	Local general sales taxes. See *Steps 1 and 2* on page 1	1.	
2.	Local general sales tax rate. Omit percentages when entering the tax rate. See *Step 3* above	2.	
3.	Multiply line 1 by line 2	3.	
4.	Local general sales taxes paid on specified items, if any. See *Step 4* above	4.	
5.	**Deduction for general sales taxes.** Add lines 3 and 4. Enter the result here and on Schedule A (Form 1040), line 5, and be sure to check box b on that line.	5.	

Note. If you elect to deduct general sales taxes, you cannot deduct your state and local income taxes.

← important proviso

Optional Local Sales Tax Table for Certain Alaska Boroughs and Cities (Based on a Local Sales Tax Rate of 1 Percent)

Income		Exemptions					
At least	But less than	1	2	3	4	5	Over 5
$0	$20,000	69	83	94	102	108	118
20,000	30,000	93	113	127	137	146	159
30,000	40,000	110	133	149	162	173	188
40,000	50,000	125	151	169	183	195	212
50,000	60,000	139	167	187	203	216	235
60,000	70,000	151	182	203	220	235	255
70,000	80,000	162	196	219	237	252	274
80,000	90,000	173	208	233	252	268	291
90,000	100,000	183	221	246	267	284	308

100,000	120,000	197	237	264	286	304	330
120,000	140,000	215	258	288	312	332	360
140,000	160,000	231	278	310	335	357	387
160,000	180,000	247	297	331	358	380	413
180,000	200,000	262	314	350	379	403	437
200,000	or more	328	393	438	474	503	545

CAUTION

Use this table for your 2004 tax return only. Do not use it to figure your 2005 deduction.

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Home

Sales and Use Tax

Alaska Department of Revenue
Robynn J. Wilson, CPA 4/1/05

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Sales tax theory

4/1/05 2

Arguments in favor of a sales tax

- Reliable and stable source of revenue
- Encourages saving and investment; does not penalize income production
- Public acceptance
  - Simple and convenient payment
  - Low rates

4/1/05 3

Arguments against a sales tax

- Generally thought to be regressive
- Cost of compliance for vendors

4/1/05 4

Sales tax genesis

- Tax on consumption
- First implemented during the Great Depression

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A "good" sales tax: (an oxymoron?)

- Broad base, low rate
- Balance between simplicity and certainty
- Low cost of compliance

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Taxpayers want:

- Fairness
- Simplicity
- Certainty

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Who cares about simplification?

- AT&T
- Safeway
- Fred Meyers
- Costco
- Wal-Mart
- Alaska Commercial

4/1/05 8

Who cares about certainty?

- Fed-Ex
- Phillips
- Tesoro
- BP
- Exxon
- UPS

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Sales tax administration

- What is taxed?
- Who is the taxpayer?
- Why is "where" an issue?
- Exemptions

4/1/05 10

Scope of a sales tax

What it covers

- Tangible personal property
- Services

What it doesn't cover

- Intangible personal property
- Real estate

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The consumer as a taxpayer

- The seller must collect sales tax for all over-the-counter sales in the state
- If the sale occurs outside the state, the consumer must report Use Tax

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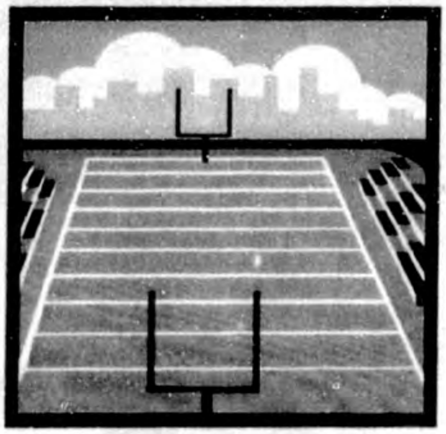
Use Tax



It's about fairness

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Use Tax

- Complementary to sales tax and is imposed when no sales tax has been collected
- Generally imposed on the "storage, use or other consumption" of taxable property or services
- Collection responsibilities of out of state vendors

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Nexus

- Jurisdiction to tax requires "nexus" or "some definite link, some minimum connection" between the taxing jurisdiction and the person, object or activity that is being taxed.

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Nexus standards

Sales tax	Income tax
▪ Physical presence required	▪ Physical presence not required

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What are reasons for exemptions?

- May be mandated by federal law
- Regressivity cure
- Social engineering
- State to state competition
- Substitutable products
- Eliminate pyramiding

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However: states do tax business inputs

- Revenue loss
- Hidden tax
- Public perception

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Challenging Areas

- Construction inventory
- Industrial exemption

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Construction inventory

- In most states, contractors are deemed to be the consumers of tangible personal property incorporated into the real estate for improvements or repairs
- Contractors are treated as retailers when materials are separately stated on their customer invoices.

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Industrial exemptions

Common approaches:

- sale for resale
- manufacturing—used "directly" in "manufacturing" process

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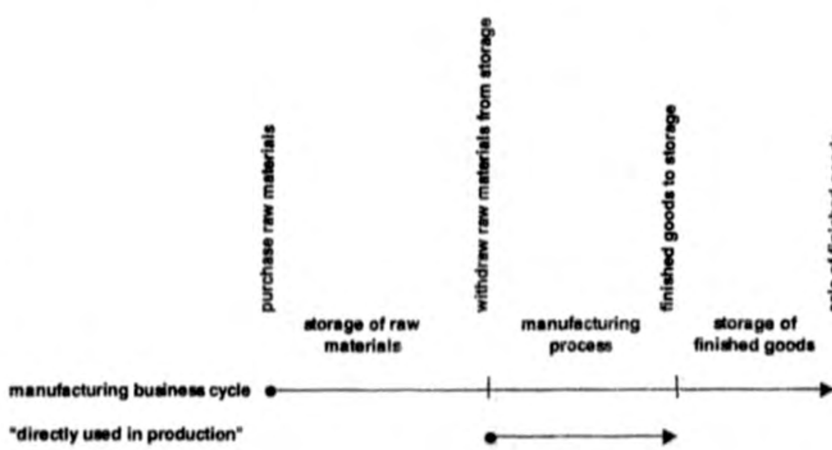
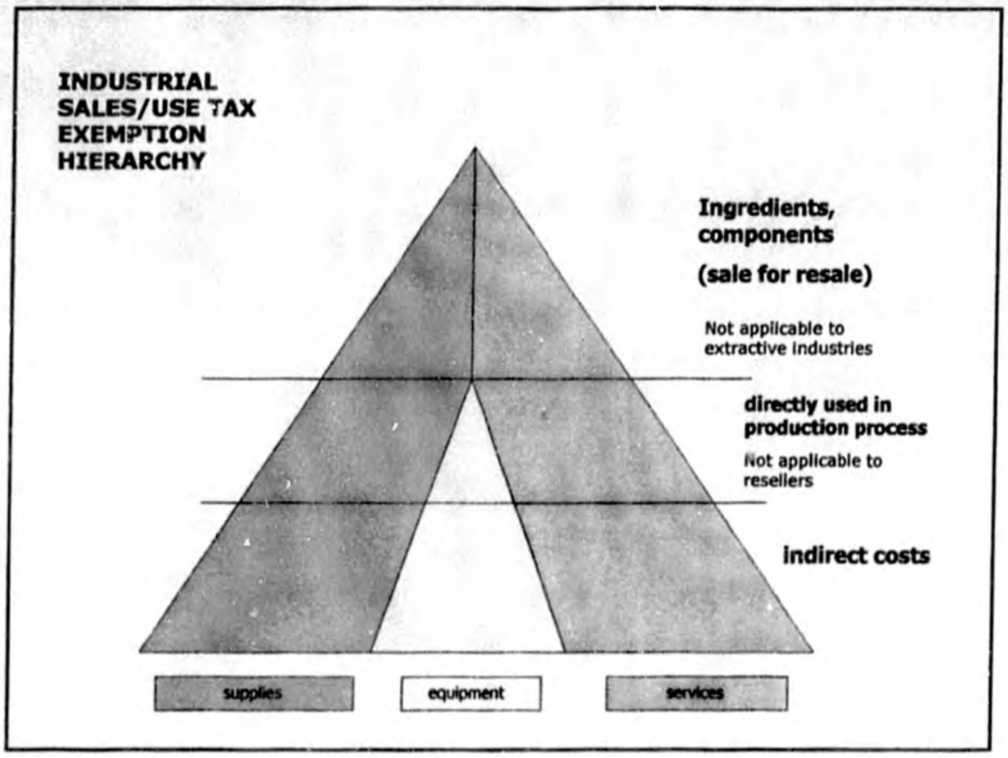
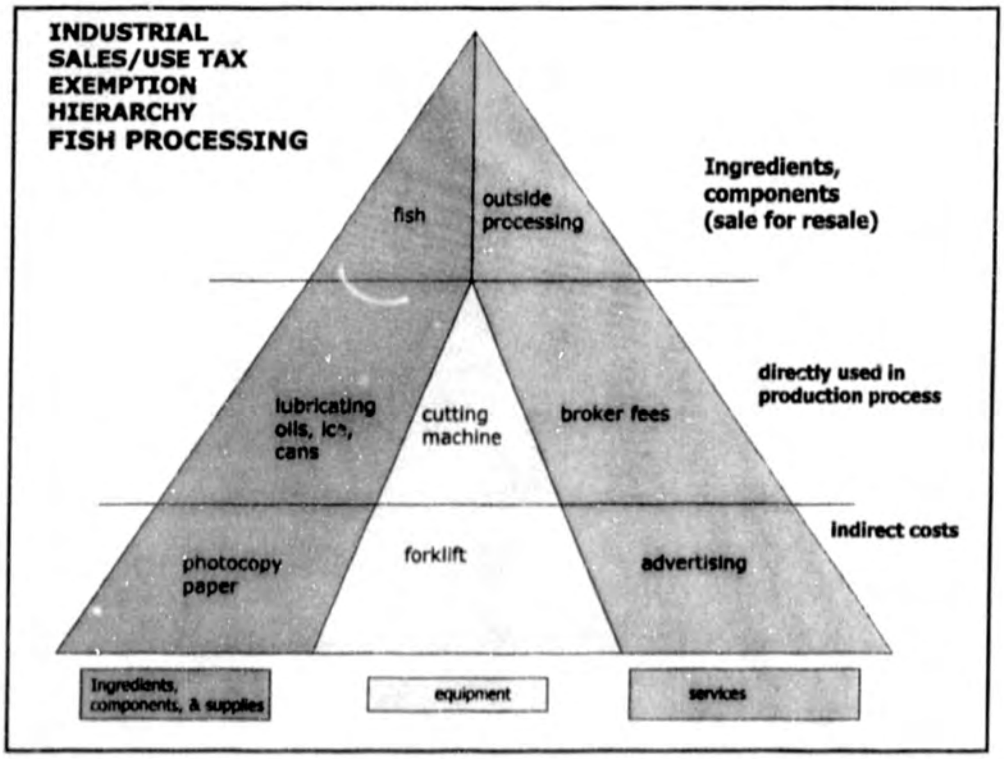
Manufacturing process




INDUSTRIAL
SALES/USE TAX
EXEMPTION
HIERARCHY
Ingredients,
components
(sale for resale)
Not applicable to
extractive industries
directly used in
production process
Not applicable to
resellers
indirect costs
supplies
equipment
services


INDUSTRIAL
SALES/USE TAX
EXEMPTION
HIERARCHY
FISH PROCESSING
fish
outside
processing
Ingredients,
components
(sale for resale)
lubricating
oils, ice,
cans
cutting
machine
broker fees
directly used in
production process
indirect costs
photocopy
paper
forklift
advertising
Ingredients,
components, & supplies
equipment
services

Industry examples
Manufacturing & Resellers

	manufacturing	resellers	
	bakery	grocery store	attorney
supplies (sale for resale)	flour	meat, canned goods, bread, flour	contract attorneys; process server fees *
directly used in production process	oven, repair of oven, electrcity to run oven	n/a	n/a
indirect costs	paper bags for freshly baked goods; storage shelves	shelves, advertising	telephone book advertising; fax machine

* if separately itemized on client invoice

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Industry examples
Extractive industries

		extractive industries	
	oil & gas E & P company	mining	fishing
supplies (sale for resale)	n/a	n/a	n/a
directly used in production process	"Christmas Tree", drilling mud	front-end loader, dredge, lubricating oils, arsenic	fishing boat, nets, bait
indirect costs	seismic studies, road making, crew housing, surveys; attorney fees; photocopy machine; paper	equipment used for reclamation; bookkeeping;	crew food, fuel

E & P = exploration & production

Current Issues

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E-commerce

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E-commerce

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Internet Tax Nondiscrimination Act

- Extended moratorium until 11/1/07
- Moratorium on
  - Taxes on internet **access**
    - Taxes in place before 10/1/98 grandfathered
- Did NOT affect duties of remote seller to collect use tax

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Internet Sales Issues

- Taxes on access fees
- What is included in "access fees" ?
- Duties of remote sellers to collect use taxes
- Agency nexus
- Digitally delivered products

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Streamlined Sales Tax Project (SSTP)

- Who: A group of state governments, with input from local governments and the private sector
- Purpose: to design, test and implement a sales and use tax system that radically simplifies sales and use taxes.

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SSTP key provisions

- Rate simplification
- Uniform sourcing rule
- Uniform definitions
- State-level administration of local taxes

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SSTP current status

- 19 states have passed legislation to make their tax compliant
- Governing Board is evaluating those state systems
- SSTP is expected to by operational late 2005
- Voluntary remote collection

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Pertinent Points

- Broad base, low rate
- Clarity = certainty
- Build the sales tax model for the future
- Take advantage of the SSTP

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Survey on Rounding on State Tax Returns
(Based on Results of Outside Survey)

December 2004

STATE	***Does your state require or permit dropping cents from certain tax returns?***		***What tax returns do you currently permit require whole dollar reporting?***	***Does your state allow whole dollar reporting on tax withholding tables?***
	permit	***require***		
Alaska	Yes		Corporate, Motor Fuel, Excise	N/A - No individual income tax
Arizona		Yes	Individual, and Corporate Income tax	We have no tables since our withholding is a percentage of the actual federal withholding, but we do not prohibit it
Arkansas		Yes	Individual, corporate income & Sales and Use Tax	No
California - Franchise Tax Board (Income Tax)	Yes		Individual	No
California - Equalization Tax Board (Property Tax)	Yes - all property statements and related forms	Yes - Tangible Property List	Permit - all property statements and related forms; Require - Tangible Property List	N/A

California - Equalization Tax Board (Sales & Use, Special)		Yes	All returns used by the Sales and Use Tax Department	N/A
Connecticut		Yes	All taxes except sales & use and withholding	No

Delaware	Yes	Yes	Required: Individual and Business; Optional: Withholding	Withholding Tables are calculated to the penny
District of Columbia	Yes		All individual & business returns; Monthly/annual sales & Use returns and Annual property return are dollars/cents (due to legislative oversight	No - received large numbers of complaints when tried
Idaho		Yes	We permit on all Idaho tax returns. We have only Implemented on individual and business income tax forms to date	Yes

Illinois	Yes - permitted for income tax since 1984	Yes - required for sales tax	Sales (mandate); Permit (individual)	Yes
Indiana	Yes		Individual, corporate, trust, estate, sales/use, withholding, food and beverage, county innkeepers	No
Iowa	Yes - Individual & Corporate Income Tax	Yes - Required for sales and withholding tax	Currently, individual and corporation; 2005 for sales and withholding (currently permitted)	Yes
Kansas		Yes	Individual and corporate income tax; privilege tax; rounding not allowed on sales & excise tax (trust fund tax)	No

Kentucky	Yes (Withholding, Sales and Corporate)	Yes - Income	Individual Income Taxes only	No
Louisiana		Yes	Individual and corporate income, corporation franchise, sales/use, hazardous waste, dealer's motor fuels, gift, oilfield restoration fees, withholding	The tax tables are not rounded to whole dollars; tax returns remitting the withholding tax require rounding
Maine	Yes	Yes - required on certain scanned returns (Business, Withholding & Information)	All tax returns - individual, corporate, sales, excise, etc.	No

Maryland (electronic)		Yes - all financial fields on E-filed personal returns are rounded to the nearest whole dollar amount	All electronic - personal/individual	Left Blank
Maryland (paper)	Yes		All	Yes
Massachusetts	Yes (income fiduciary, grantors/owners share of a grantor type trust	Yes (Corporate & Bank, Insurance Forms)	Permit (income, fiduciary, grantors/owners share of a grantor trust) Require (corporate, bank, insurance forms)	No

Minnesota		Yes	Encourage TP's to use rounded numbers; Required rounding on individual income tax (M-1) and property tax (M-1PR). Sales and Use taxes and withholding are required to round as they are required to be e-filed	Amounts are rounded in the withholding tables; ask employers to round but they don't always comply with the request
Mississippi		Yes- we require dropping cents on all of the major taxes	Almost all - our major taxes are income and sales	Yes - the amounts in our tables are whole dollar amounts
Missouri		Yes	Individual, corporate, franchise, withholding & fuel; no to Sales, Cigarettes/OTP	Yes
Montana	Yes		Individual income and other tax returns	Yes
Nevada	No	No - Computer system not able to handle rounding; also would need to amend law;		

New Hampshire	Yes		1987 - interest & dividend tax, business profit tax; 1998 - meals and rentals	No income tax so no withholding table
New Jersey	Yes		All tax returns	Published with dollars and cents but rounding is permitted
New Mexico	Yes		Personal Income tax, Corporate income tax, & pass through entity form	No
New York	Yes		All returns	No
North Carolina		Yes	Individual income, corporate, withholding required; sales tax not rounded	Yes

North Dakota	Yes		Income and tax amounts for corporate income tax, individual income tax and withholding tax	Yes; publish withholding tables in whole dollars; Our "percentage of wages method" tax rate tables are published with cents but employers are allowed to round
Oklahoma		Yes	Corporate and individual income tax returns; rounding on all tax forms	Yes
Oregon		Yes	All income tax, corporation and fiduciary (Oregon does not have a sales tax)	Tax Withholding tables show only whole dollar amounts
Pennsylvania	Yes (Individual Income Tax)	Yes (Corporation Tax)	Individual & Corporate	PA is a flat tax state and no tables are required; employers are not permitted to round when remitting tax withheld

Rhode Island	Yes		Individual and all Business Taxes	No
Texas		No; Sales tax rule (3.286) prohibits rounding		
Utah	Yes - Permit on Sales and Corporation Income Tax	Yes - Require on Income & Fiduciary Tax	Individual, sales & use (online only), corporate, partnership and fiduciary	No. Withholding tax return allows for cents to be reported
Vermont	Yes		Individual and Corporate	Yes
Virginia		Yes	Permit on all returns; Required on individual filings (returns, estimated payments, extension payments etc.	Yes - all our withholding tables round all amounts to the nearest dollar except our daily payroll table

Washington	Yes		We do not have an income tax	NA
West Virginia		Yes	Permitted since 1986 on income tax. Required since 1-1-01 on personal income tax, consumer sales and service returns; direct pay permit, corporation income tax, business franchise tax, use tax, & withholding returns	Yes

RESULTS OF WHOLE DOLLAR REPORTING SURVEY WITH STATE TAXING AGENCIES (v.2)

As of December 9, 2004, 37 states and the District of Columbia responded to the IRS survey. That represents a 75% response rate.

The following states do not have income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. Two of these states responded either as a "negative" or provided information about other types of taxes they have (i.e. sales, corporation, etc.)

Of the states who responded to the survey, 66% (25) either require all (15) or part (10) of their taxes to be rounded.

29% (11) permit taxes do be rounded but do not require it.

5% (2) do not require or permit taxes to be rounded (Texas & Nevada).

55% (21) had no difficulty with the public in adjusting to whole dollar reporting. 16% (6) reported "very little" difficulty with the public in adjusting to whole dollar reporting. 13% (5) did report difficulty with the public in adjusting to whole dollar reporting. 11% (4) either had no information, the change was too new to measure, or other changes were made at the same time rounding was implemented. 2 states (5%) reported no rounding efforts have begun.

47% (18) reported cost savings. 26% (10) reported no cost savings. 18% (7) reported no information available and 3% (1) reported "too new to measure". It should be noted that very few who reported cost savings had quantifiable results. 2 states (5%) reported no rounding efforts have begun. (Adds to 99% due to "rounding").

Several states reported resistance to rounding on trust fund taxes from taxpayers and payroll service providers.

Verbatim survey responses are captured in an accompanying EXCEL spreadsheet. There are some responses that were edited due to length. All responses are on file with Patricia.A.Hammond@irs.gov and can be furnished upon request.

2002 State & Local Revenue

	--Total Own Source Revenue--			--Total Tax Collections--		
	($ million)	Per Capita	Rank	($ million)	Per Capita	Rank
Alabama	17,478	3,930	43	9,719	2,185	51
Alaska	5,420	8,644	1	2,070	3,301	17
Arizona	19,805	3,860	47	14,420	2,810	31
Arkansas	9,614	3,597	50	6,461	2,417	47
California	178,394	5,267	9	120,424	3,555	10
Colorado	21,772	5,062	11	13,900	3,232	18
Connecticut	18,766	5,510	7	15,125	4,441	3
Delaware	4,641	5,920	5	2,687	3,427	14
District of Columbia	4,082	7,137	2	3,228	5,643	1
Florida	71,707	4,487	27	44,840	2,806	32
Georgia	35,002	4,276	34	24,058	2,939	27
Hawaii	5,881	4,852	16	4,240	3,498	11
Idaho	5,204	4,022	39	3,291	2,543	44
Illinois	56,382	4,540	25	41,570	3,347	15
Indiana	26,080	4,289	33	16,987	2,794	34
Iowa	13,245	4,527	26	8,330	2,847	29
Kansas	11,537	4,292	32	7,975	2,967	26
Kentucky	15,817	3,913	45	10,781	2,667	40
Louisiana	19,563	4,377	31	12,182	2,726	35
Maine	6,176	4,844	17	4,541	3,562	9
Maryland	26,391	4,983	12	19,874	3,753	6
Massachusetts	32,826	5,170	10	23,895	3,764	5
Michigan	45,398	4,568	21	30,644	3,084	24
Minnesota	27,105	5,510	6	18,456	3,752	7
Mississippi	10,667	3,750	48	6,524	2,293	49
Missouri	21,733	3,884	46	15,123	2,703	36
Montana	3,532	3,915	44	2,135	2,367	48
Nebraska	7,848	4,587	20	5,316	3,107	23
Nevada	9,785	4,897	14	6,433	3,220	20
New Hampshire	5,110	4,134	38	3,599	2,912	28
New Jersey	46,307	5,504	8	34,629	4,116	4
New Mexico	7,744	4,257	35	4,878	2,681	39
New York	119,356	6,290	3	88,878	4,684	2
North Carolina	33,924	4,215	36	22,576	2,805	33
North Dakota	2,838	4,420	30	1,729	2,693	38
Ohio	51,704	4,554	23	36,165	3,186	21
Oklahoma	13,648	3,955	41	8,782	2,545	43
Oregon	15,187	4,439	28	9,003	2,632	41
Pennsylvania	55,935	4,555	22	37,627	3,064	25
Rhode Island	4,870	4,647	18	3,622	3,456	13
South Carolina	15,907	3,965	40	9,752	2,431	46
South Dakota	2,752	3,645	49	1,841	2,439	45
Tennessee	19,880	3,494	51	12,974	2,281	50
Texas	86,214	4,135	37	58,981	2,829	30
Utah	9,886	4,427	29	6,026	2,699	37
Vermont	2,770	4,549	24	1,965	3,227	19
Virginia	32,791	4,632	19	22,131	3,126	22
Washington	29,303	4,972	13	19,514	3,311	16
West Virginia	7,112	3,934	42	4,641	2,567	42

Wisconsin	26,100	4,866	15	18,610	3,469	12
Wyoming	3,050	6,173	4	1,818	3,681	8
U.S. Total	**1,324,241**	**4,706**		**904,971**	**3,216**	

Source: U.S. Bureau of the Census.

2002 State & Local Revenue as a Percentage of Personal Income

	--Total Own Source Revenue--			--Total Tax Collections--		
	($ million)	% Personal Income	Rank	($ million)	% Personal Income	Rank
Alabama	17,478	15.8	20	9,719	8.8	49
Alaska	5,420	26.9	1	2,070	10.3	28
Arizona	19,805	14.3	39	14,420	10.4	22
Arkansas	9,614	15.4	27	6,461	10.4	24
California	178,394	15.7	22	120,424	10.6	17
Colorado	21,772	14.3	40	13,900	9.1	47
Connecticut	18,766	12.7	50	15,125	10.3	27
Delaware	4,641	18.3	3	2,687	10.6	18
District of Columbia	4,082	15.9	16	3,228	12.6	3
Florida	71,707	15.0	36	44,840	9.4	45
Georgia	35,002	14.5	38	24,058	10.0	35
Hawaii	5,881	16.8	12	4,240	12.1	4
Idaho	5,204	15.7	21	3,291	9.9	36
Illinois	56,382	13.8	45	41,570	10.2	30
Indiana	26,080	15.5	26	16,987	10.1	32
Iowa	13,245	16.6	14	8,330	10.5	20
Kansas	11,537	14.9	37	7,975	10.3	26
Kentucky	15,817	15.6	24	10,781	10.6	16
Louisiana	19,563	17.7	4	12,182	11.0	13
Maine	6,176	17.6	5	4,541	12.9	2
Maryland	26,391	13.8	46	19,874	10.4	23
Massachusetts	32,826	13.2	48	23,895	9.6	41
Michigan	45,398	15.2	29	30,644	10.2	29
Minnesota	27,105	16.7	13	18,456	11.3	7
Mississippi	10,667	17.0	11	6,524	10.4	25
Missouri	21,733	13.8	44	15,123	9.6	39
Montana	3,532	15.9	19	2,135	9.6	42
Nebraska	7,848	15.9	17	5,316	10.8	14
Nevada	9,785	15.1	31	6,433	9.9	37
New Hampshire	5,110	12.0	51	3,599	8.4	50
New Jersey	46,307	13.9	42	34,629	10.4	21
New Mexico	7,744	17.6	7	4,878	11.1	11
New York	119,356	17.6	6	88,878	13.1	1
North Carolina	33,924	15.0	35	22,576	10.0	34
North Dakota	2,838	17.2	9	1,729	10.5	19
Ohio	51,704	15.9	18	36,165	11.1	9
Oklahoma	13 648	15.1	30	8,782	9.7	38
Oregon	15,187	15.4	28	9,003	9.1	46
Pennsylvania	55,935	15.0	34	37,627	10.1	31
Rhode Island	4,870	15.1	32	3,622	11.2	8
South Carolina	15,907	15.6	23	9,752	9.6	40
South Dakota	2,752	13.5	47	1,841	9.0	48
Tennessee	19,880	12.9	49	12,974	8.4	51
Texas	86,214	13.9	43	58,981	9.5	43
Utah	9,886	17.6	8	6,026	10.7	15
Vermont	2,770	15.6	25	1,965	11.0	12
Virginia	32,791	14.0	41	22,131	9.5	44

Washington	29,303	15.1	33	19,514	10.0	33
West Virginia	7,112	17.0	10	4,641	11.1	10
Wisconsin	26,100	16.5	15	18,610	11.7	6
Wyoming	3,050	20.3	2	1,818	12.1	5
U.S. Total	**1,324,241**	**15.2**		**904,971**	**10.4**	

Source: U.S. Bureau of the Census and Bureau of Economic Analysis.

2002 State & Local Own Source Revenue

	---State---		---Local---	
	($ million)	% of Total	($ million)	% of Total
Alabama	9,711	55.6	7,767	44.4
Alaska	3,866	71.3	1,553	28.7
Arizona	10,600	53.5	9,205	46.5
Arkansas	7,104	73.9	2,510	26.1
California	97,620	54.7	80,774	45.3
Colorado	10,009	46.0	11,764	54.0
Connecticut	11,613	61.9	7,153	38.1
Delaware	3,711	80.0	930	20.0
District of Columbia	--	--	4,082	100.0
Florida	33,854	47.2	37,853	52.8
Georgia	17,503	50.0	17,499	50.0
Hawaii	4,675	79.5	1,206	20.5
Idaho	3,045	58.5	2,160	41.5
Illinois	28,905	51.3	27,477	48.7
Indiana	13,983	53.6	12,097	46.4
Iowa	7,581	57.2	5,664	42.8
Kansas	6,187	53.6	5,350	46.4
Kentucky	10,689	67.6	5,129	32.4
Louisiana	11,610	59.3	7,953	40.7
Maine	3,770	61.0	2,406	39.0
Maryland	14,456	54.8	11,935	45.2
Massachusetts	21,045	64.1	11,781	35.9
Michigan	29,379	64.7	16,019	35.3
Minnesota	16,483	60.8	10,622	39.2
Mississippi	6,509	61.0	4,158	39.0
Missouri	11,835	54.5	9,898	45.5
Montana	2,294	65.0	1,237	35.0
Nebraska	4,164	53.1	3,684	46.9
Nevada	4,829	49.4	4,956	50.6
New Hampshire	3,001	58.7	2,109	41.3
New Jersey	25,220	54.5	21,087	45.5
New Mexico	5,623	72.6	2,121	27.4
New York	55,167	46.2	64,189	53.8
North Carolina	19,771	58.3	14,153	41.7
North Dakota	1,825	64.3	1,013	35.7
Ohio	27,578	53.3	24,127	46.7
Oklahoma	8,641	63.3	5,007	36.7
Oregon	8,594	56.6	6,593	43.4
Pennsylvania	32,811	58.7	23,124	41.3
Rhode Island	3,116	64.0	1,754	36.0
South Carolina	9,042	56.8	6,864	43.2
South Dakota	1,541	56.0	1,211	44.0
Tennessee	10,303	51.8	9,576	48.2
Texas	40,796	47.3	45,418	52.7
Utah	6,345	64.2	3,542	35.8
Vermont	2,142	77.3	628	22.7
Virginia	19,312	58.9	13,480	41.1
Washington	16,427	56.1	12,877	43.9
West Virginia	5,153	72.5	1,959	27.5

Wisconsin	15,843	60.7	10,256	39.3
Wyoming	1,599	52.4	1,450	47.6
U.S. Total	**726,882**	**54.9**	**597,359**	**45.1**

Source: U.S. Bureau of the Census.

2002 State & Local Tax Collection by Source

(Percentage of Total)

	Property	Sales	Selective Sales	Individual Income	Corporate Income	Other
Alabama	15.2	30.5	18.8	21.9	3.3	10.3
Alaska	40.1	5.9	9.1	n.a.	13.0	31.9
Arizona	29.5	40.1	9.0	14.5	2.4	4.5
Arkansas	15.5	39.3	12.4	24.2	2.7	5.8
California	25.1	26.0	8.5	27.4	4.4	8.5
Colorado	29.9	29.	8.4	25.0	1.5	5.4
Connecticut	39.6	20.1	9.7	24.4	1.0	5.1
Delaware	14.9	n.a.	12.1	28.4	9.4	35.2
District of Columbia	24.9	17.3	11.7	29.4	6.5	10.2
Florida	35.1	33.5	17.6	n.a.	2.7	11.0
Georgia	27.6	31.1	7.9	27.0	2.4	4.0
Hawaii	14.5	38.0	14.9	26.2	1.2	5.1
Idaho	29.1	24.2	10.3	25.6	2.3	8.4
Illinois	38.2	18.1	15.3	18.0	3.3	7.1
Indiana	35.2	22.4	10.1	24.3	4.2	3.9
Iowa	34.5	24.2	10.4	21.8	1.1	8.0
Kansas	31.7	28.8	9.7	23.3	1.5	5.1
Kentucky	18.3	21.4	15.1	32.4	2.8	9.9
Louisiana	15.9	39.7	17.3	14.7	2.2	10.2
Maine	42.1	18.4	8.9	23.6	1.7	5.2
Maryland	27.2	13.5	11.5	38.5	1.8	7.5
Massachusetts	36.5	15.5	7.0	33.1	3.4	4.5
Michigan	32.0	25.4	8.0	21.5	6.7	6.4
Minnesota	28.3	20.5	11.6	29.5	2.9	7.3
Mississippi	25.2	35.9	14.0	15.1	3.0	6.8
Missouri	25.7	28.1	11.9	26.0	2.0	6.4
Montana	39.9	n.a.	17.5	24.2	3.2	15.1
Nebraska	32.9	24.2	10.0	21.7	2.0	9.2
Nevada	26.5	34.5	25.2	n.a.	n.a.	13.8
New Hampshire	60.3	n.a.	16.8	2.0	10.5	10.4
New Jersey	46.3	17.3	8.1	19.8	3.2	5.2
New Mexico	15.5	36.2	11.4	20.2	2.5	14.2
New York	30.2	18.7	6.6	34.0	5.7	4.8
North Carolina	24.0	21.7	13.0	32.2	3.0	6.1
North Dakota	30.8	22.8	17.0	11.5	2.9	14.9
Ohio	29.4	21.3	8.5	32.6	2.1	6.1
Oklahoma	16.9	29.6	9.6	26.0	2.0	15.9
Oregon	34.9	n.a.	9.9	40.8	2.2	12.3
Pennsylvania	29.0	19.9	10.1	25.3	3.2	12.5
Rhode Island	40.4	20.2	12.0	22.7	0.8	4.0
South Carolina	31.8	25.0	10.1	24.1	1.6	7.4
South Dakota	36.3	36.5	14.0	n.a.	2.2	11.0
Tennessee	26.6	45.0	12.5	1.1	3.9	10.9
Texas	41.6	31.1	17.5	0.0	n.a.	9.9
Utah	23.6	32.7	10.8	26.6	1.8	4.5
Vermont	41.9	10.9	18.2	20.8	1.9	6.3
Virginia	30.3	16.2	13.4	30.3	1.4	8.4
Washington	29.7	47.3	14.1	n.a.	n.a.	9.0

West Virginia	19.4	20.7	21.9	22.3	4.7	10.9
Wisconsin	34.7	21.0	9.6	26.7	2.4	5.5
Wyoming	38.1	31.9	6.1	n.a.	n.a.	23.9
U.S. Total	**30.8**	**24.6**	**11.2**	**22.4**	**3.1**	**7.8**

Source: U.S. Bureau of the Census.
--- tax not levied at state level.

Comparison of State and Local Retail Sales Taxes

January 2004

	Food Items [1] Taxable (T) Exempt (E)	State Rate	Maximum Local Rate [2]	Maximum State/Local Rate [2]
Alabama	T	4.00	7.00	11.00
Alaska	T	---	7.00 [3]	7.00
Arizona	E	5.60	4.50	10.10
Arkansas	T	5.125	5.50	10.625
California	E	6.00	2.75	8.75
Colorado	E	2.90	7.00	9.90
Connecticut	E	6.00	---	6.00
District of Columbia	E	5.75	---	5.75
Florida	E	6.00	1.50	7.50
Georgia	E [4]	4.00	3.00	7.00
Hawaii	T*	4.00	---	4.00
Idaho	T*	6.00	3.00	9.00
Illinois	T**	6.25	3.00	9.25
Indiana	E	6.00	---	6.00
Iowa	E	5.00	2.00	7.00
Kansas	T*	5.30	3.00	8.30
Kentucky	E	6.00	---	6.00
Louisiana	E [4]	4.00	6.25	10.25
Maine	E	5.00	---	5.00
Maryland	E	5.00	---	5.00
Massachusetts	E	5.00	---	5.00
Michigan	E	6.00	---	6.00
Minnesota	E	6.50	1.00	7.50
Mississippi	T	7.00	0.25	7.25
Missouri	T **	4.225	4.5	8.725
Nebraska	E	5.50	1.50	7.00
Nevada	E	6.50	1.00	7.50
New Jersey	E	6.00	---	6.00
New Mexico	T	5.00	2.25	7.25
New York	E	4.25	4.50	8.75
North Carolina	E [4]	4.50	3.00	7.50
North Dakota	E	5.00	2.50	7.50
Ohio	E	6.00	2.00	8.00
Oklahoma	T	4.50	6.00	10.50
Pennsylvania	E	6.00	1.00	7.00

Rhode Island	E	7.00	---	7.00
South Carolina	T**	5.00	2.00	7.00
South Dakota	T*	4.00	2.00	6.00
Tennessee	T	7.00	2.75	9.75
Texas	E	6.25	2.00	8.25
Utah	T	4.75	2.25	7.00
Vermont	E	6.00	1.00	7.00
Virginia	T**	3.50	1.00	4.50
Washington	E	6.50	2.40	8.90
West Virginia	T	6.00	---	6.00
Wisconsin	E	5.00	0.60	5.60
Wyoming	T*	4.00	2.00	6.00

[1] Food purchased for consumption off-premises.
[2] Highest local rate known to be actually levied by at least one jurisdiction. Includes local taxes for general purposes and those earmarked for specific purposes (e.g. transit). Taxes applying only to specified sales (e.g. lodging or meals) are excluded.
[3] Alaskan cities and boroughs may levy local sales taxes from 1% to 6%.
[4] Food exempt from state tax, but subject to local taxes.
* Income tax credit allowed to offset sales tax on food.
** Food taxed at lower rate.
Source: Compiled by the Federation of Tax Administrators from various sources.

State Sales Tax Rates

January 1, 2005

State	Tax Rates	Food	Prescription Drugs	Non-prescription Drugs
		--------------------Exemptions--------------------		
ALABAMA	4		*	
ALASKA	none			
ARIZONA	5.6	*	*	
ARKANSAS	6		*	
CALIFORNIA (3)	7.25 (2)	*	*	
COLORADO	2.9	*	*	
CONNECTICUT	6	*	*	*
DELAWARE	none			
FLORIDA	6	*	*	*
GEORGIA	4	* (4)	*	
HAWAII	4		*	
IDAHO	6		*	
ILLINOIS (2)	6.25	1%	1%	1%
INDIANA	6	*	*	
IOWA	5	*	*	
KANSAS	5.3		*	
KENTUCKY	6	*	*	
LOUISIANA	4	* (4)	*	
MAINE	5	*	*	
MARYLAND	5	*	*	*
MASSACHUSETTS	5	*	*	
MICHIGAN	6	*	*	
MINNESOTA	6.5	*	*	*
MISSISSIPPI	7		*	
MISSOURI	4.225	1.225	*	
MONTANA	none			
NEBRASKA	5.5	*	*	
NEVADA	6.5	*	*	
NEW HAMPSHIRE	none			
NEW JERSEY	6	*	*	*
NEW MEXICO	5	*	*	
NEW YORK	4.25	*	*	*
NORTH CAROLINA (6)	4.5	* (4)	*	
NORTH DAKOTA	5	*	*	
OHIO	6	*	*	
OKLAHOMA	4.5		*	
OREGON	none			
PENNSYLVANIA	6	*	*	*
RHODE ISLAND	7	*	*	*
SOUTH CAROLINA	5		*	
SOUTH DAKOTA	4		*	
TENNESSEE	7	6%	*	
TEXAS	6.25	*	*	*
UTAH	4.75		*	

VERMONT	6	*	*	*
VIRGINIA	5 (2)	4.0% (5)	*	*
WASHINGTON	6.5	*	*	
WEST VIRGINIA	6		*	
WISCONSIN	5	*	*	
WYOMING (3)	4		*	
DIST. OF COLUMBIA	5.75	*	*	*

* - indicates exempt from tax, blank indicates subject to general sales tax rate.
Source: Compiled by FTA from various sources.
(1) Some state tax food, but allow an (income) tax credit to compensate poor households. They are:HI, ID, KS, SD, and WY.
(2) Includes statewide local tax of 1.25% in California and 1.0% in Virginia.
(3) Tax rate may be adjusted annually according to a formula based on balances in the unappropriated general fund and the school foundation fund.
(4) Food sales are subject to local sales taxes.
(5) Tax rate on food is scheduled to decrease to 3.5% on 1/1/05. Statewide local tax is included
(6) Tax Rate scheduled to decrease to 4% after 6/30/2005.

STATE SALES TAX RATES AND VENDOR DISCOUNTS

(January 1, 2005)

	STATE		VENDOR	
ALABAMA	4.0%	39	5.0%-2.0% (1)	
	------------	------------	-------------	
	------------	--N/A------	-------------	
ALASKA	-	--------	---	
ARIZONA	5.6%	23	1.0%	$10,000/year (max)
ARKANSAS	6.0%	9	2.0%	$1,000/month (max)
CALIFORNIA (3)	6.0%	9	None	
COLORADO	2.9%	46	2.33% (4)	
CONNECTICUT	6.0%	9	None	
	------------	------------	-------------	
	------------	--N/A------	-------------	
DELAWARE	-	--------	---	
FLORIDA	6.0%	9	2.5%	$30/report (max)
GEORGIA	4.0%	39	3.0%-0.5% (1)	
HAWAII	4.0%	39	None	
IDAHO	6.0%	9	None (5)	
ILLINOIS	6.25%	7	1.75%	$5/year (min)
INDIANA (2)	6.0%	9	0.83%	
IOWA	5.0%	26	None	
KANSAS	5.3%	25	None	
KENTUCKY	6.0%	9	1.75%- 1.0% (1)	
LOUISIANA	4.0%	39	1.1%	
MAINE	5.0%	26	None (5)	
MARYLAND (9)	5.0%	26	0.6%- 0.45% (1)	
MASSACHUSETTS	5.0%	26	None	
MICHIGAN	6.0%	9	0.5% (6)	$6/month (min)
MINNESOTA	6.5%	4	None	
MISSISSIPPI	7.0%	1	2.0%	$50/month (max)
MISSOURI	4.225%	37	2.0%	
	------------	------------	-------------	
	------------	--N/A------	-------------	
MONTANA	-	--------	---	
NEBRASKA	5.5%	24	2.5%	$75/month (max)
NEVADA	6.5%	4	0.5%	
	------------	------------	-------------	
	------------	--N/A------	-------------	
NEW HAMPSHIRE	-	--------	---	
NEW JERSEY	6.0%	9	None	
NEW MEXICO	5.0%	26	None	
NEW YORK	4.25%	37	3.5%	$150/quarter (max)
NORTH CAROLINA (11)	4.5%	35	None	
NORTH DAKOTA	5.0%	26	1.5%	$255/quarter (max)
OHIO	6.0%	9	0.9% (9)	
OKLAHOMA	4.5%	35	1.25% (10)	$3,300/month (max)
	------------	------------	-------------	
	------------	--N/A------	-------------	
OREGON	-	--------	---	
PENNSYLVANIA	6.0%	9	1.0%	
RHODE ISLAND	7.0%	1	None	
SOUTH CAROLINA	5.0%	26	3.0%-2.0% (1)	$3,100/year (max)
SOUTH DAKOTA	4.0%	39	None	
TENNESSEE	7.0%	1	None	
TEXAS	6.25%	7	0.5% (7)	
UTAH	4.75%	34	1.5%	
VERMONT	6.0%	9	None (5)	
			4.0%-2.0%	

VIRGINIA (3)	4.0%	39	(8)	
WASHINGTON	6.5%	4	None	
WEST VIRGINIA	6.0%	9	None	
WISCONSIN	5.0%	26	0.5%	$10/period (min)
WYOMING	4.0%	39	None	
DIST. OF COLUMBIA	5.75%	22	1.0%	$5,000/month (max)
U. S. MEDIAN	5.6%		1.8%-1.4% (1)	27 states allow vendor discounts

(1) In some states, the vendors' discount varies by the amount paid. In AL and SC, the larger discounts apply to the first $100. In GA, the larger discount applies to the first $3,000. In KY, the larger discounts apply to the first $1,000, while MD applies the larger discount to annual collections of $6,000. The lower discounts apply to the remaining collections above these amounts.
(2) Utilities are not permitted to take discount.
(3) Rate does not include a statewide local rate of 1.25% in CA and 1.0% in VA.
(4) Vendor discount is scheduled to increase to 3.33% after 6/30/05. Vendor discount applies to the state taxes collected. Discount for local option sales tax varies from 0% to 3.33%.
(5) Vendors are allowed to keep any excess collections prescribed under the bracket system.
(6) Vendor discount only applies to the first 4.0% of the tax. A 0.75% discount if paid by the 7th of the month.
(7) An additional discount of 1.25% applies for early payment.
(8) Discount varies; 4% of the first $62,500, 3% of the amount to $208,000, and 2% of the remainder. Applies to the first 3% of the tax
(9) In MD, vendor discount rate will increase to 1.2% and 0.9% on 7/1/06. Discount will decrease to 0.75% on 7/1/05 in OH.
(10) Venders are allowed a 2.25% dicount if they file and pay electronically.
(11) Tax rate scheduled to decrease to 4% after 6/30/2005.

STATE REVENUE REPORT

Fiscal Studies Program
The Nelson A. Rockefeller Institute of Government

December 2004
No. 58

State Tax Revenue on Upward Track

Nicholas W. Jenny

HIGHLIGHTS

- State tax revenue in the July-September 2004 quarter grew 8.6 percent compared to the same period in 2003.
- After adjusting for tax law changes and inflation, real underlying state tax revenue increased by 4.3 percent.
- Newly implemented changes in state tax laws generated a $500 million net increase in state revenue.
- Personal income tax revenue grew 8.2 percent.
- Sales tax revenue grew 5.9 percent.
- Corporate income tax revenue grew a very strong 21.7 percent.

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Figure 1. Year-Over-Year Change in Total Tax Collections, 1991-2004

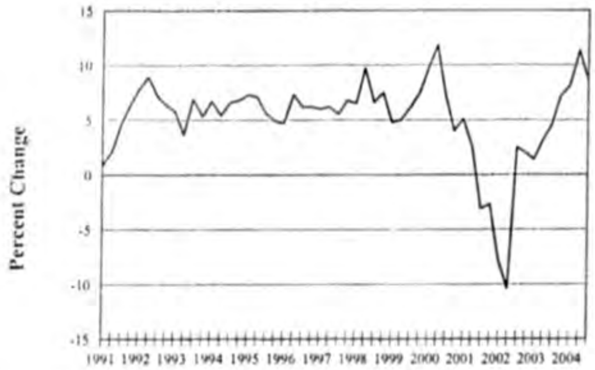

Figure 2. Year-Over-Year Change in Real Adjusted Tax Revenue, 1991-2004

Table 1. Year-Over-Year Change in Quarterly State Tax Revenue, Adjusting for Legislated Tax Changes and Inflation

	Total Nominal Increase	*Adjusted Nominal Increase*	*Inflation Rate*	*Real Increase*
1998				
Jan.-Mar.	6.5	7.0	1.8	5.1
April-June	9.7	11.4	1.8	9.4
July-Sept.	6.6	7.1	1.8	5.2
Oct.-Dec.	7.5	8.0	1.5	6.4
1999				
Jan.-Mar.	4.8	6.5	1.9	4.5
April-June	5.0	8.0	2.7	5.2
July-Sept.	6.1	6.7	3.2	3.4
Oct.-Dec.	7.4	8.4	3.7	4.5
2000				
Jan.-Mar.	9.7	10.4	4.4	5.7
April-June	11.4	11.8	4.3	7.2
July-Sept.	7.1	7.7	4.3	3.3
Oct.-Dec.	4.0	5.0	4.3	0.7
2001				
Jan.-Mar.	5.1	6.3	4.0	2.2
April-June	2.5	4.2	3.4	0.8
July-Sept.	(3.1)	(2.4)	2.3	(4.6)
Oct.-Dec.	(2.7)	(2.2)	1.2	(3.4)
2002				
Jan.-Mar.	(7.8)	(8.2)	0.5	(8.7)
April-June	(10.6)	(12.1)	0.8	(12.8)
July-Sept.	2.5	0.7	1.3	(0.6)
Oct.-Dec.	1.9	0.3	2.0	(1.7)
2003				
Jan.-Mar.	1.4	(1.0)	4.2	(5.0)
April-June	3.2	0.4	3.0	(2.5)
July-Sept.	4.5	2.6	2.8	(0.2)
Oct.-Dec.	7.3	4.9	2.3	2.5
2004				
Jan.-Mar.	8.1	7.0	1.5	5.4
April-June	11.2	9.0	3.2	5.6
July-Sept.	8.6	8.2	3.7	4.3

Note: Inflation is measured by the BEA State and Local Government Implicit Price Deflator.
Please call the Fiscal Studies Program for pre-1998 data.

Table 2. Year-Over-Year Change in Quarterly State Tax Revenue by Major Tax

	PIT	*CIT*	*Sales*	*Total*
1998				
Jan.-Mar.	9.3	2.3	5.6	6.5
April-June	19.5	(2.1)	5.3	9.7
July-Sept.	8.9	(0.2)	5.9	6.6
Oct.-Dec.	9.5	5.2	5.5	7.5
1999				
Jan-Mar.	6.6	(2.6)	6.1	4.8
April-June	6.0	(2.1)	7.3	5.0
July-Sept.	7.6	1.4	6.7	6.1
Oct.-Dec.	9.1	3.8	7.3	7.4
2000				
Jan.-Mar.	13.6	8.0	8.2	9.7
April-June	18.8	4.2	7.3	11.4
July-Sept.	11.0	5.7	4.7	7.1
Oct.-Dec.	5.7	(7.7)	4.1	4.0
2001				
Jan.-Mar.	8.6	(9.1)	3.3	5.1
April-June	5.6	(13.7)	0.5	2.6
July-Sept.	(3.4)	(25.5)	0.0	(3.1)
Oct.-Dec.	(2.7)	(31.8)	1.0	(2.7)
2002				
Jan.-Mar.	(14.3)	(16.1)	(1.0)	(7.8)
April-June	(22.3)	(11.7)	1.5	(10.4)
July-Sept.	(1.6)	4.8	3.8	2.5
Oct.-Dec.	(0.7)	22.4	0.7	1.9
2003				
Jan.-Mar.	(3.1)	9.6	1.9	1.4
April-June	(0.7)	17.8	2.9	3.2
July-Sept.	5.1	8.4	3.7	4.5
Oct.-Dec.	6.6	11.1	6.6	7.3
2004				
Jan.-Mar.	8.7	15.7	8.3	8.1
April-June	15.6	13.6	7.1	11.2
July-Sept.	8.2	21.7	5.9	8.6

Note: Please call the Fiscal Studies Program for pre-1998 data.

Introduction

State tax revenue increased 8.6 percent in the July-September quarter of 2004 compared to the same quarter the year before. Without the contribution of net enacted tax increases, this growth would have been 8.2 percent. If we also take into account the effects of inflation, real adjusted state tax revenue grew 4.3 percent. This is the fourth straight quarter of real adjusted growth, after nine straight quarters of decline. State tax collections are now growing strongly. (See Table 1.) All three major state taxes — personal income tax, corporate income tax, and sales tax — showed significant growth this quarter.

Tax Revenue Change

Table 1 shows tax revenue changes for the last 27 quarters before and after adjusting for legislated tax changes and inflation. Figure 1 shows the pattern of growth or decline in state tax collections from 1991 to the present. Growth in state tax collections was slightly slower in the July-September quarter than in the prior quarter, possibly because many states received a small windfall with their April personal income tax returns. Tax increases contributed to state tax revenue growth, but the contribution is getting smaller as fewer states have enacted new tax increases affecting this quarter. Figure 2 shows the pattern of growth in state tax revenue adjusted for inflation and enacted tax increases from 1991 to the present. States have now had four quarters of real adjusted growth.

Table 2 shows the last 27 quarters of change in state collections of the major state tax sources. Personal income tax revenue growth slowed a bit in the July-September quarter, but is still quite strong. Corporate income tax growth remains strong. Sales tax growth was slower than the previous three quarters, but is still positive.

Every region experienced revenue growth in the July-September quarter. (See Table 3.) The Southwest region had the strongest growth at 11.6 percent, with the Far West right behind at 11 percent growth. The slowest growth was in the Plains states at 4.5 percent.

The Mid-Atlantic states had most of the net legislated tax increases this quarter. (See Figure 3.) The other regions had relatively small tax increases or cuts that had little effect on tax revenue growth. Figure 4 shows state revenue growth adjusted for legislated revenue changes. Figure 5 shows the change in the major taxes over the last four quarters.

Table 4 shows the overall effect of legislated tax changes and processing variations. In all, states implemented net tax hikes generating $500 million in the July-September 2004 quarter. Table 5 shows the percentage change in each state's total tax revenue adjusted for legislated tax changes and inflation.

Personal Income Tax

Personal income tax revenue grew 8.2 percent in the July-September quarter compared to the same quarter the year before. This was a considerable decline from the 15.6 percent growth of the previous quarter, which was boosted by strong payments with returns. This was, however, the fifth straight quarter of growth after two years of decline. The strongest growth was in the Mid-Atlantic region at 11.9 percent, aided by significant legislated personal income tax increases in New Jersey, New York and Pennsylvania. The weakest growth was in the Great Lakes region at 4.7 percent. Growth was widespread, affecting all of the 39 states that reported their personal income tax except for Michigan — which had a 1.1 percent decline. Maryland had the strongest growth with a 29.1 percent increase. Nine other states had double-digit increases.[1]

The July-September quarter is probably the least important of the four quarters for personal income tax collections. Final settlements are not a significant factor in this quarter. Only the third estimated tax payment is due this quarter. Withholding is mostly influenced by salaries and wages, since bonuses are usually not paid until December or January. So it is in the July-September quarter that the underlying trends affecting the general economy tend to be most obvious.

Withholding

Withholding is a good indicator of the current strength of personal income tax revenue because it comes largely from current wages and because it is much less volatile than estimated payments or final

Figure 3
Percent Change in Tax Revenue by Region, Adjusted for Legislated Changes July-September, 2003 to 2004

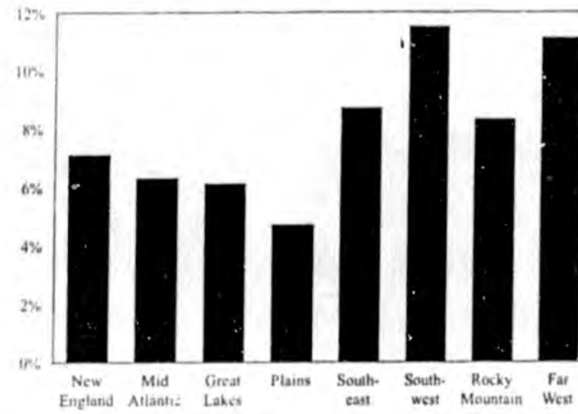

Figure 4
Change in Quarterly Tax Revenue by State, Adjusted for Legislated Changes, July-September, 2003 to 2004

Figure 5
Change in Quarterly Tax Revenue by Tax, Last Four Quarters

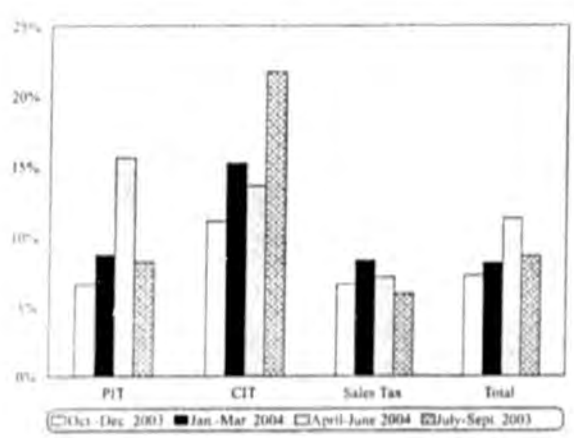

Table 3. Change in Quarterly Tax Revenue by State, July-September, 2003 to 2004

	PIT	*CIT*	*Sales*	*Total*
United States	**8.2%**	**21.7%**	**5.9%**	**8.6%**
New England	**8.7**	**5.1**	**2.8**	**7.4**
Connecticut	ND	ND	ND	ND
Maine	9.2	56.7	(0.5)	17.5
Massachusetts	8.3	(2.3)	3.7	5.8
New Hampshire	NA	4.5*	NA	8.6*
Rhode Island	12.3*	27.3*	4.5	9.1*
Vermont	7.8	68.3*	(8.3)	8.4
Mid-Atlantic	**11.9**	**6.0**	**5.1**	**8.8**
Delaware	4.9	30.5	NA	11.6
Maryland	29.1*	122.5*	6.8	25.5*
New Jersey	17.2	(3.7)*	4.9	7.7*
New York	7.7	(4.0)*	6.6*	6.8*
Pennsylvania	14.8*	0.4	2.9	8.2*
Great Lakes	**4.7**	**18.0**	**6.4**	**6.3**
Illinois	3.1*	42.6*	6.0	7.9
Indiana	8.5	37.8	6.4	8.2
Michigan	(1.1)	0.6	3.1	2.0
Ohio	8.0	15.0*	12.1	8.9
Wisconsin	7.3	24.6	1.9	6.8
Plains	**3.5**	**24.8**	**3.9**	**4.5**
Iowa	7.5	29.6	5.3¶	8.8¶
Kansas	2.5	45.7	0.1	3.1
Minnesota	1.6	34.5	1.5	2.0
Missouri	2.5	(7.6)	4.1	2.7
Nebraska	8.4	28.6	10.5	12.0
North Dakota	8.2	12.5	16.9	12.5
South Dakota	NA	NA	6.1	6.2
Southeast	**7.9**	**32.6**	**6.3**	**8.7**
Alabama	2.9	(6.9)	9.7	7.0*
Arkansas	8.3	4.8*	7.0*	7.0*
Florida	NA	75.0	8.3¶	12.7¶
Georgia	11.3	64.8	14.0	14.0
Kentucky	5.4	49.2	4.1	6.8
Louisiana	10.5	233.0	0.4¶	8.7
Mississippi	5.4	(27.3)	3.0	1.9
North Carolina	4.9	49.4	0.5	6.3
South Carolina	5.1	6.3	4.6	5.0
Tennessee	NA	(4.8)	3.5	2.7
Virginia	11.7	8.1	7.3	10.5*
West Virginia	5.7*	25.9	2.4	10.1
Southwest	**8.9**	**40.7**	**6.3**	**11.6**
Arizona	11.7	46.8	9.7	14.2
New Mexico	ND	ND	ND	ND
Oklahoma	5.9	19.4	7.6	6.6
Texas	NA	NA	5.5	11.9
Rocky Mountain	**7.2**	**37.1**	**7.5**	**8.3**
Colorado	6.4	29.5	5.1	6.5
Idaho	6.0	38.7	10.1	9.2
Montana	12.7	62.9	NA	12.9
Utah	7.5	42.2	8.6	8.7
Wyoming	NA	NA	9.5	16.1
Far West	**9.3**	**28.9**	**6.1**	**11.0**
Alaska	NA	38.7	NA	31.9
California	9.3	29.6	5.4	9.9
Hawaii	18.8	84.1	9.7¶	15.5
Nevada	NA	NA	17.0	26.2
Oregon	6.9	7.1	NA	6.8
Washington	NA	NA	3.3	11.5

See p. 5 for notes

Table 4. Change in Quarterly Tax Revenue, Adjusting for Legislated Tax Changes

	PIT	*Sales*	*Total*
1998			
Jan.-Mar.	10.0	6.5	7.0
April-June	23.3	5.9	11.4
July-Sept.	9.3	6.4	7.1
Oct.-Dec.	10.2	5.9	6.9
1999			
Jan.-Mar.	9.9	6.2	6.5
April-June	12.4	7.3	8.0
July-Sept.	8.3	6.9	6.5
Oct.-Dec.	11.0	7.5	8.4
2000			
Jan.-Mar.	13.8	8.8	10.4
April-June	18.6	7.8	11.8
July-Sept.	11.6	5.6	7.7
Oct.-Dec.	6.5	5.0	5.0
2001			
Jan.-Mar.	10.1	3.7	6.3
April-June	7.9	0.6	4.2
July-Sept.	(2.8)	0.4	(2.4)
Oct.-Dec.	(2.1)	1.2	(2.3)
2002			
Jan.-Mar.	(14.5)	(2.4)	(8.4)
April-June	(22.5)	0.1	(11.9)
July-Sept.	(2.1)	2.7	0.7
Oct.-Dec.	(1.6)	0.7	0.3
2003			
Jan.-Mar.	(4.4)	1.0	(1.0)
April-June	(2.0)	1.3	0.4
July-Sept.	3.9	1.9	2.6
Oct.-Dec.	5.3	4.2	4.9
2004			
Jan.-Mar.	7.7	6.8	7.0
April-June	12.6	6.4	9.0
July-Sept.	7.5	5.7	8.2

Note: The corporate income tax is not included in this table. The quarterly effect of legislation on this tax's revenue is especially uncertain. (See Technical Notes, page 15.)
For pre-1998 data, call the Fiscal Studies Program.

settlements. Table 6 shows that withholding for the July-September 2004 quarter increased 6.7 percent over the same quarter the year before. Enacted changes in withholding boosted collections by about six-tenths of a percent this quarter. This was somewhat faster growth than the previous quarter, and would seem to indicate that underlying personal income tax growth remains steady.

Estimated Payments

The highest-income taxpayers generally pay most estimated tax payments (also known as declarations) on their non-wage income. This income often comes from investments, especially capital

Table 5. Percent Change in Quarterly Total Tax Revenue by State, Adjusted for Legislation and Inflation, July to September 2003 to 2004

United States	4.3%
New England	3.3
Connecticut	ND
Maine	12.7
Massachusetts	2.0
New Hampshire	3.8
Rhode Island	2.5
Vermont	4.1
Mid-Atlantic	2.5
Delaware	7.6
Maryland	19.8
New Jersey	(2.5)
New York	1.9
Pennsylvania	1.1
Great Lakes	2.3
Illinois	3.3
Indiana	4.3
Michigan	(1.3)
Ohio	5.0
Wisconsin	3.0
Plains	1.0
Iowa	6.5
Kansas	(0.6)
Minnesota	(1.6)
Missouri	(1.1)
Nebraska	8.0
North Dakota	8.5
South Dakota	2.8
Southeast	4.8
Alabama	1.5
Arkansas	0.2
Florida	10.6
Georgia	9.7
Kentucky	3.0
Louisiana	4.9
Mississippi	(1.8)
North Carolina	2.6
South Carolina	1.8
Tennessee	(1.0)
Virginia	5.4
West Virginia	6.1
Southwest	7.5
Arizona	10.1
New Mexico	ND
Oklahoma	2.8
Texas	7.9
Rocky Mountain	4.4
Colorado	2.7
Idaho	5.3
Montana	8.9
Utah	4.7
Wyoming	12.4
Far West	7.1
Alaska	27.2
California	6.0
Hawaii	12.1
Nevada	21.7
Oregon	3.6
Washington	8.1

Inflation measured by BEA State and Local Government Implicit Price Deflator

Table 6. Change in Personal Income Tax Withholding by State, Last Four Quarters

	2003	2004		
	Oct.-Dec.	Jan-Mar.	Apr.-June	July-Sept
United States	**6.1%**	**9.4%**	**5.6%**	**6.7%**
New England	**5.1**	**8.0**	**5.1**	**5.2**
Connecticut	10.1	14.9	2.7	ND
Maine	4.4	6.5	9.8	3.7
Massachusetts	2.9•	4.9	5.4	4.7
Rhode Island	6.2	10.6	5.7	11.5•
Vermont	8.2	7.3	5.3	7.4
Mid-Atlantic	**11.8**	**17.8**	**3.9**	**11.4**
Delaware	5.9	8.6	8.7	4.3
Maryland[1]	23.3•	27.5•	(14.0)¶	38.1•
New Jersey	15.2	10.0	0.0	7.8•
New York	9.2•	19.0•	7.4•	4.4
Pennsylvania	3.2	10.1	13.6•	14.4•
Great Lakes	**1.5**	**4.4**	**3.9**	**4.1**
Illinois	ND	6.7	3.3	2.8•
Indiana	3.8	4.5	5.9	5.3
Michigan	(1.7)¶	0.5¶	1.0¶	1.1
Ohio	2.0	5.0	5.2	5.2
Wisconsin	3.1	5.1	5.0	8.1
Plains	**2.3**	**6.1**	**5.8**	**2.6**
Iowa	6.2	8.4	8.0	5.5
Kansas	3.4	4.3	6.8	4.2
Minnesota	1.0	4.8	6.6	0.5
Missouri	0.4	7.8	2.6	1.8
Nebraska	4.7•	4.6•	6.5•	5.5
North Dakota	9.1	4.9	5.7	9.3
Southeast	**5.4**	**6.8**	**8.4**	**6.6**
Alabama	7.5	2.7	8.6	4.6
Arkansas	4.8	5.8	8.5	5.7
Georgia	2.9	12.3	16.7	7.6
Kentucky	2.2	4.6	ND	ND
Louisiana	18.7•	6.8•	9.1•	5.6
Mississippi	(6.6)	5.0	5.2	5.5
North Carolina	6.3	7.2	4.6	4.6
South Carolina	3.1	4.5	3.6	4.4
Virginia	8.1	9.1	6.7	10.1
West Virginia	2.9	0.5	5.8	5.7•
Southwest	**3.2**	**4.9**	**2.5**	**6.6**
Arizona	1.0	4.8	(0.9)	9.2
New Mexico	6.3¶	(2.8)¶	3.2¶	ND
Oklahoma	4.4	8.3	4.0	4.1
Rocky Mountain	**2.2**	**4.8**	**5.5**	**5.5**
Colorado	0.2	3.8	5.1	5.3
Idaho	3.1	7.9	8.0	5.9
Montana	13.8	3.3	6.1	7.5
Utah	3.0	5.8	5.1	5.1
Far West	**6.4**	**8.5**	**7.1**	**6.0**
California	6.8	8.7	7.2	6.1
Hawaii	5.2¶	3.9¶	6.3¶	6.4
Oregon	4.6	7.9	6.2	5.2

Note: Nine states — Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming — have no personal income tax and are therefore not shown in this table.

See page 5 for notes.

gains realized in the stock market. A strong stock market should eventually translate into capital gains and higher estimated tax payments.

In the 36 states for which we have data, estimated tax payments in September (the third quarterly payment) increased 14.3 percent. This was probably inflated somewhat by tax increases in a few states, including an increase in the top personal income tax rate in New Jersey, where most taxpayers who make estimated payments pay the top rate. The median increase in the states' September payments was 10.5 percent. Cumulatively, the first three quarterly estimated payments in 2004 increased 18.9 percent over the year before; median growth was 13.5 percent. Since final payments often mirror the strength and direction of estimated payments, this would seem to be a good sign for April 2005. The decline to the third payment growth from the previous two payments may or may not be significant. We will know more when we get the results of the final estimated payment that comes in December and January.

General Sales Tax

Sales tax revenue in the July-September 2004 quarter increased 5.9 percent over the same quarter the year before. Sales tax revenue growth has been slowing for the last two quarters, but remains relatively strong.

Key to Interpreting Tables

All percent change tables are based on year-over-year changes.

1 indicates data through August only.

• indicates legislation or processing/accounting changes significantly increased tax receipts (by one percentage point or more).

¶ indicates legislation or processing/accounting changes significantly decreased tax receipts.

NA indicates not applicable.

ND indicates no data.

Historical Tables (Tables 1, 2 and 4) have been shortened to provide data only back to 1998. For data through 1991 call the Fiscal Studies Program.

Figure 6
Change in Non-Farm Employment
July-September 2003 to 2004

Table 7. Estimated Payments/Declarations (change year-over-year)		
State	*April to September 2003 to 2004*	*September 2003 to 2004*
Average (Mean)	**18.9%**	**14.3%**
Median	**13.5**	**10.5**
Alabama	9.2	(24.2)
Arizona	89.4	544.4
Arkansas	26.8	18.7
California	16.7	14.8
Colorado	17.6	14.3
Delaware	13.5	14.9
Georgia	10.5	24.2
Hawaii	40.6	27.9
Illinois	13.9	8.0
Indiana	3.9	8.3
Iowa	10.9	16.6
Kansas	11.5	8.4
Louisiana	49.7	61.1
Maine	10.9	6.4
Maryland	20.2	21.6
Massachusetts	15.2	10.6
Michigan	1.4	(1.2)
Minnesota	35.6	12.1
Mississippi	(87.1)	(91.9)
Missouri	7.3	6.6
Montana	20.6	26.4
Nebraska	15.3	10.4
New Jersey	ND	30.9
New York	40.9	14.9
North Carolina	8.6	8.1
North Dakota	11.0	4.4
Ohio	7.5	7.6
Oklahoma	15.1	5.4
Oregon	(19.5)	9.7
Pennsylvania	20.5	18.5
Rhode Island	17.6	4.9
South Carolina	16.0	14.9
Vermont	8.1	2.1
Virginia	12.5	13.6
West Virginia	6.8	7.7
Wisconsin	12.2	2.2

Sales tax revenue grew fastest in the Rocky Mountain region with 7.5 percent growth. The weakest growth was in the New England region, where sales tax revenue increased 2.8 percent. Six states had double-digit growth in sales tax revenue.[2] Two states — Maine and Vermont — had sales tax revenue declines.

Corporate Income Tax

Corporate income tax revenue grew 21.7 percent in the July-September quarter, up from the previous quarter's 13.6 percent. Corporate income tax revenue has had double-digit growth for six of the last eight quarters.

Underlying Reasons for Trends

These revenue changes result from three kinds of underlying forces: differences in state economies, how these differences affect each state's tax system, and recently legislated tax changes.

State Economies

The national economy is now experiencing sustained growth, though still with some areas of continued weakness. The Bureau of Economic Analysis' (BEA's) preliminary estimate for the real Gross Domestic Product (GDP) showed growth of 3.9 percent for the third quarter of 2004.[3] The national unemployment rate was 5.5 percent for the third quarter, down from the post-recession high of 6.1 percent the year before.[4]

The difficulty with assessing state economies in a report such as this is a general lack of timely state indicators. Data on non-farm employment, tracked by the Bureau of Labor Statistics (BLS), are the only broad-based, timely, high-quality state-level economic indicators available. Yet, these data are far from ideal indicators of revenue growth. For one thing, most taxes are based upon nominal

Table 8. Year-Over-Year Percentage Change In Non-Farm Employment by State, Last Four Quarters

	2003	*2004*		
	Oct.-Dec.	*Jan.-Mar.*	*Apr.-June*	*July-Sept.*
United States	**(0.2)%**	**0.2%**	**1.0%**	**1.3%**
Sum of States	**(0.1)**	**0.5**	**0.8**	**1.0**
New England	**(0.9)**	**(0.4)**	**(0.1)**	**0.2**
Connecticut	(1.0)	(0.6)	(0.1)	0.2
Maine	0.4	0.6	0.8	0.8
Massachusetts	(1.8)	(1.1)	(0.7)	(0.3)
New Hampshire	0.5	1.1	1.5	1.6
Rhode Island	1.0	1.5	0.7	0.9
Vermont	0.2	0.7	0.9	0.6
Mid Atlantic	**(0.2)**	**0.3**	**0.8**	**1.1**
Delaware	0.2	1.1	1.4	1.6
Maryland	0.6	0.9	1.4	1.8
New Jersey	0.6	1.2	1.5	1.6
New York	(0.6)	0.1	0.6	0.8
Pennsylvania	(0.7)	(0.4)	0.2	0.8
Great Lakes	**(0.9)**	**(0.2)**	**(0.1)**	**0.1**
Illinois	(0.8)	(0.3)	(0.2)	0.2
Indiana	(0.1)	0.7	0.5	0.5
Michigan	(1.6)	(1.1)	(0.9)	(1.0)
Ohio	(1.1)	(0.3)	(0.5)	(0.4)
Wisconsin	(0.3)	1.1	1.4	1.8
Plains	**(0.2)**	**0.3**	**0.8**	**0.9**
Iowa	0.0	0.7	0.6	0.6
Kansas	(1.1)	0.0	0.5	1.2
Minnesota	0.0	0.5	1.0	0.7
Missouri	(0.5)	0.2	1.1	1.4
Nebraska	(0.1)	(0.3)	0.2	0.5
North Dakota	1.0	1.0	0.3	0.3
South Dakota	0.4	0.9	1.0	0.8
Southeast	**0.5**	**1.0**	**1.3**	**1.3**
Alabama	(0.5)	0.2	0.2	0.5
Arkansas	0.2	0.3	0.7	0.8
Florida	1.8	1.9	2.3	2.0
Georgia	0.1	0.6	1.1	0.9
Kentucky	(0.1)	0.7	0.3	0.7
Louisiana	0.6	0.3	0.0	0.2
Mississippi	0.3	0.4	0.8	0.9
North Carolina	(0.4)	0.5	1.0	1.2
South Carolina	0.6	0.8	1.1	1.3
Tennessee	0.3	1.1	0.8	0.6
Virginia	0.6	2.2	2.5	2.4
West Virginia	(1.1)	(0.3)	(0.1)	0.9
Southwest	**(0.2)**	**0.4**	**1.1**	**1.4**
Arizona	1.5	2.2	2.4	2.4
New Mexico	1.4	1.3	2.0	2.1
Oklahoma	(2.1)	(1.0)	0.5	1.5
Texas	(0.4)	0.2	0.8	1.1
Rocky Mountain	**(0.2)**	**0.4**	**1.2**	**1.7**
Colorado	(1.1)	(0.6)	0.7	0.9
Idaho	0.1	1.3	2.2	2.7
Montana	0.7	1.3	1.2	1.6
Utah	0.6	1.3	1.6	2.7
Wyoming	1.8	2.1	1.9	1.8
Far West	**0.1**	**0.7**	**1.2**	**1.4**
Alaska	1.4	1.6	1.0	1.3
California	(0.2)	0.4	0.7	0.9
Hawaii	1.6	1.8	2.3	2.7
Nevada	3.9	4.2	4.5	4.5
Oregon	(0.3)	0.4	2.2	2.5
Washington	0.5	1.1	1.9	2.0

Source: Bureau of Labor Statistics

measures such as income, wages, and profits, rather than employment. Unfortunately, state-level data on these nominal measures — when they are available at all — usually are reported too late to be of much use in analyzing recent revenue collections.

Table 8 shows year-over-year employment growth for the nation and for each state during the last four quarters using BLS data. Figure 6 maps the change in third quarter 2004 employment compared to the same period in 2003. By this measure, employment in the July-September 2004 quarter grew 1.3 percent compared to the year before. This is the third quarter of growth in national employment numbers, after nine straight quarters of decline. The growth is gathering steam, and has now extended to every region of the country.

Employment growth was strongest in the Rocky Mountain region at 1.7 percent. Employment has finally shown growth in the Great Lakes and New England regions, though the growth was only 0.1 percent and 0.2 percent, respectively.

Employment grew in 47 states, up from 44 in the previous quarter. Like last quarter, twenty-four states had employment growth of one percent or more, led by Nevada with a strong 4.5 percent growth. Michigan continues to have the worst employment decline at one percent this quarter.

Overall, the employment picture has moved into solid growth over the first three quarters of 2004. The states with the strongest growth are concentrated in the southern and western regions of the country, the pattern seen before the recent recession, and consistent with the overall pattern of population growth. There seem to be ever fewer problem areas where employment is still declining.

Nature of the Tax System

Even if economic growth affected all regions and states to exactly the same degree and at exactly the same time, the impact on state revenue would still vary because states' tax systems react differently to similar economic situations. States that rely heavily on the personal income tax will tend to see stronger growth in good times, since they benefit from growth in income earned by the highest income individuals, the income that is taxed most heavily. This is most evident in states with more progressive income tax structures. The sales tax is also very responsive to economic conditions, but is historically less elastic than the personal income tax, dropping more slowly in bad times and increasing more slowly in good times. The states that rely heavily on corporate income taxes or severance taxes often see wild swings in revenue that are not necessarily related to general economic conditions. (Severance taxes are taxes on the removal of natural resources, such as oil and natural gas.)

Because high-end incomes are based more heavily upon volatile sources such as stock options and capital gains, growth in personal income tax revenue was far more subject to dramatic fluctuations than it would be if it were based entirely on wages and salaries. In the recent recession, we saw the downside of this volatility. While initially the market downturn affected relatively few wage earners, it turned gains into losses for investors, thus sharply contracting a hitherto rich source of revenue almost overnight. Meanwhile, stock options became both less common and less lucrative. The recession lasted only eight months, but it had significant aftereffects as the loss of investment capital manifested itself in weak employment numbers, which in turn depressed withholding. However, now the stock market recovery seems to be leading to stronger growth again.

States have also learned more about how sales tax revenue responds to an economic slowdown. There has been some fear that as states have removed more stable elements of consumption, such as groceries and clothing from their bases, their sales taxes were more subject to plunges as state residents became nervous about spending on optional and big-ticket items. Most state sales taxes also do not capture spending on services well. In the latest economic downturn, however, the sales tax generally maintained slow growth. It is now growing as the general economic conditions improve, though less rapidly than the personal income or corporate income taxes.

Oil has been a wild card in state tax revenue in recent years. When the price of oil increases, oil-producing states such as Alaska, Oklahoma, and Wyoming benefit. Conversely, when the price falls, these states' revenue tends to follow suit. This dynamic often operates largely independently of the general economy.

Tax Law Changes Affecting This Quarter

The final element affecting trends in tax revenue growth is changes in states' tax laws. When states boost or depress their revenue growth with tax increases or cuts, it can be difficult to draw any conclusions about their current fiscal condition from nominal collections data. That is why this report attempts to note where such changes have significantly affected each state's revenue growth. We also occasionally note when receipts' processing changes have had a major impact on revenue growth, even though these are not due to enacted legislation, as it helps the reader to understand that the apparent growth or decline is not necessarily indicative of underlying trends.

During the July-September 2004 quarter, enacted tax changes and processing variations increased state revenue by an estimated net of $500 million, compared to the same period in 2003. There now have been net enacted state tax increases for the last eleven straight quarters.

Enacted tax changes increased personal income tax collections by a net of about $300 million. New Jersey raised its top personal income tax rate, most of the effects of this increase will not be seen until the final estimated tax payment and final settlements, but it probably boosted revenue by about $100 million this quarter. A higher flat tax rate in Pennsylvania raised over $150 million more in revenue.

New York re-instituted its sales tax on clothing, boosting collections by about $100 million. Florida had a one-week holiday from its sales tax on clothing and school supplies, and a one-month reduction in its motor fuels tax, which altogether reduced revenue by almost $100 million. There were also many other smaller tax increases and cuts.

Conclusions

July-September 2004 was the first quarter of fiscal year 2005 for most states. As such it is a strong beginning to the fiscal year, and is building on what turned out to be a strong prior fiscal year for state revenues. Legislated tax increases are still adding to collections, but to a lesser degree than in the two previous years. Most revenue growth is from economic factors. States can now face with confidence the budget cycle that is just starting.

Endnotes

1 Arizona, Georgia, Hawaii, Louisiana, Montana, New Jersey, Pennsylvania, Rhode Island, and Virginia.

2 Georgia, Idaho, Nebraska, Nevada, North Dakota, and Ohio.

3 United States Department of Commerce, Bureau of Economic Analysis News Release, November 30, 2004.

4 United States Department of Labor, Bureau of Labor Statistics, *Labor Force Statistics From the Current Population Survey*, www.bls.gov.

Technical Notes

This report is based on information collected from state officials, most often in state revenue departments, but in some cases from state budget offices and legislative staff. This is the latest in a series of such reports published by the Rockefeller Institute's Fiscal Studies Program (formerly the Center for the Study of the States).

In most states, revenue reported is for the general fund only, but in several states a broader measure of revenue is used. The most important category of excluded revenues in most states is motor fuel taxes. Taxes on health-care providers to fund Medicaid programs are excluded as well.

California: Non-general fund revenue from a sales tax increase dedicated to local governments is included.

Michigan: The Single Business Tax, a type of value-added tax, is treated here as a corporation income tax.

Missouri: The total taxes are the sum of the three major taxes.

Several caveats are important. First, tax collections during a period as brief as three months are subject to influences that may make their interpretation difficult. For example, a single payment from a large corporation can have a significant effect on corporate tax revenues.

Second, estimates of tax adjustments are imprecise. Typically the adjustments reflect tax legislation, however they occasionally reflect other atypical changes in revenue. Unfortunately, we cannot speak with every state in every quarter. We discuss tax legislation carefully with the states that have the largest changes, but for states with smaller changes we rely upon our analysis of published sources and upon our earlier conversations with estimators.

Third, revenue estimators cannot predict the quarter-by-quarter impact of certain legislated changes with any confidence. This is true of almost all corporate tax changes, which generally are reflected in highly volatile quarterly estimated tax payments; to a lesser extent it is true of personal income tax changes that are not implemented through withholding.

Finally, many other non-economic factors affect year-over-year tax revenue growth: changes in payment patterns, large refunds or audits, and administrative changes frequently have significant impacts on tax revenue. It is not possible for us to adjust for all of these factors.

This report contains third calendar quarter revenue data for 48 states. Connecticut and New Mexico had not provided their data as of the publication of this report.

Table 9
State Tax Revenue, July to September, 2003 and 2004 (In Millions of Dollars)

	2003				2004			
	Personal Income	*Corporate Income*	*Sales*	*Total*	*Personal Income*	*Corporate Income*	*Sales*	*Total*
United States	**$43,789**	**$6,191**	**$43,741**	**$110,491**	**$47,380**	**$7,532**	**$46,301**	**$120,045**
New England	**2,560**	**320**	**1,413**	**5,312**	**2,781**	**337**	**1,453**	**5,707**
Connecticut	ND	ND	ND	ND	ND	ND	ND	ND
Maine	221	21	179	500	242	33	178	587
Massachusetts	2,021	247	961	3,799	2,189	242	997	4,017
New Hampshire	NA	33	NA	297	NA	35	NA	323
Rhode Island	209	11	217	496	234	14	227	541
Vermont	108	8	56	220	117	14	52	239
Mid Atlantic	**9,463**	**1,417**	**6,007**	**19,927**	**10,585**	**1,502**	**6,313**	**21,677**
Delaware	184	15	NA	403	193	20	NA	449
Maryland	818	96	465	1,536	1,056	215	496	1,927
New Jersey	1,120	381	1,048	3,026	1,313	367	1,100	3,259
New York	5,688	608	2,523	10,242	6,124	584	2,689	10,936
Pennsylvania	1,653	316	1,971	4,721	1,899	318	2,028	5,106
Great Lakes	**7,100**	**924**	**7,220**	**17,870**	**7,431**	**1,090**	**7,683**	**18,992**
Illinois	1,812	197	1,587	4,321	1,869	281	1,683	4,661
Indiana	904	114	1,173	2,470	981	157	1,247	2,672
Michigan	1,606	459	1,984	5,286	1,588	462	2,046	5,389
Ohio	1,767	17	1,800	3,870	1,909	19	2,017	4,216
Wisconsin	1,011	137	677	1,924	1,084	171	690	2,055
Plains	**3,819**	**357**	**3,027**	**7,849**	**3,952**	**446**	**3,145**	**8,200**
Iowa	571	38	443	1,113	613	50	466	1,210
Kansas	457	36	476	1,061	469	53	476	1,094
Minnesota	1,425	162	956	2,892	1,448	217	970	2,950
Missouri	1,009	77	645	1,730	1,034	71	671	1,777
Nebraska	308	33	280	665	334	43	309	745
North Dakota	49	11	91	205	53	13	107	231
South Dakota	NA	NA	137	183	NA	NA	145	194
Southeast	**8,618**	**1,105**	**11,140**	**24,813**	**9,301**	**1,465**	**11,838**	**26,966**
Alabama	574	67	438	1,504	591	62	481	1,610
Arkansas	426	62	462	1,025	461	65	494	1,096
Florida	NA	189	3,663	4,727	NA	331	3,968	5,327
Georgia	1,563	74	1,114	3,014	1,741	122	1,270	3,437
Kentucky	704	79	725	1,683	742	118	754	1,798
Louisiana	478	19	542	1,392	528	62	544	1,513
Mississippi	284	71	534	1,204	299	52	550	1,227
North Carolina	1,855	188	1,111	3,348	1,947	280	1,117	3,561
South Carolina	727	40	361	1,250	764	43	377	1,313
Tennessee	NA	155	1,448	2,196	NA	148	1,498	2,255
Virginia	1,760	113	489	2,724	1,967	122	524	3,009
West Virginia	247	48	255	745	261	61	261	821
Southwest	**1,124**	**145**	**5,514**	**9,921**	**1,225**	**203**	**5,861**	**11,070**
Arizona	579	112	800	1,592	647	165	877	1,817
New Mexico	ND	ND	ND	ND	ND	ND	ND	ND
Oklahoma	546	32	375	1,192	578	39	404	1,271
Texas	NA	NA	4,339	7,136	NA	NA	4,580	7,983
Rocky Mountain	**1,555**	**138**	**1,173**	**3,266**	**1,666**	**189**	**1,261**	**3,538**
Colorado	830	68	490	1,428	883	87	515	1,520
Idaho	201	24	270	588	213	33	298	642
Montana	139	12	NA	236	156	19	NA	267
Utah	385	35	375	938	414	50	408	1,020
Wyoming	NA	NA	38	77	NA	NA	41	89
Far West	**9,550**	**1,785**	**8,247**	**21,534**	**10,440**	**2,300**	**8,747**	**23,896**
Alaska	NA	11	NA	271	NA	15	NA	357
California	8,231	1,682	5,563	16,190	8,997	2,180	5,862	17,798
Hawaii	274	8	473	819	326	15	519	946
Nevada	NA	NA	597	725	NA	NA	698	915
Oregon	1,045	84	NA	1,169	1,117	90	NA	1,248
Washington	NA	NA	1,614	2,360	NA	NA	1,668	2,632

See p. 5 for notes.

About The Nelson A. Rockefeller Institute of Government's Fiscal Studies Program

The Nelson A. Rockefeller Institute of Government, the public policy research arm of the State University of New York, was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism and the management and finances of both state and local governments in major areas of domestic public affairs.

The Institute's Fiscal Studies Program, originally called the Center for the Study of the States, was established in May 1990 in response to the growing importance of state governments in the American federal system. Despite the ever-growing role of the states, there is a dearth of high-quality, practical, independent research about state and local programs and finances.

The mission of the Fiscal Studies Program is to help fill this important gap. The Program conducts research on trends affecting all 50 states and serves as a national resource for public officials, the media, public affairs experts, researchers, and others. Donald J. Boyd, who has spent two decades analyzing state and local fiscal issues, is director of Fiscal Studies.

This report was written by Nicholas W. Jenny, a senior policy analyst with the Program. Michael Cooper, the Rockefeller Institute's Director of Publications, did the layout and design of this report, with assistance from Michele Charbonneau. Michael Ogborn assisted with the collection of data for this report. Barbara Stubblebine edited the report.

You can contact the Fiscal Studies Program at The Nelson A Rockefeller Institute of Government, 411 State Street, Albany, NY 12203-1003, (518) 443-5285 (phone), (518) 443-5274 (fax), fiscal@rockinst.org (e-mail).

Fiscal Studies Program
The Nelson A. Rockefeller Institute of Government
State University of New York
411 State Street
Albany, New York 12203-1003

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State Sales Tax

Issue Primer

Contents

Alaska Municipal League

March, 2004

Executive Summary

1. **Many states have state sales tax, but at statehood Alaska gave sales tax authority to its communities because:** (See pages 4-5)

   - Alaska's constitution designed the strongest communities in the U.S., **but without a major revenue source, local control guarantees are meaningless.** Most mid-size to larger communities, like Juneau, Ketchikan, Kodiak, Kenai, etc. must have access to both a property and sales tax to provide needed services and infrastructure now and in the future.

   - Alaska's vast rural areas lack a property tax base because much of the land is federal or state owned. Therefore, **sales tax is the only viable local option to avoid making Alaska's rural communities fully dependent on the state for revenue**; (See page 9)

   - **Variations in Alaska's cost of living** are far greater than any other state, therefore a state sales tax is unfair because it requires paying higher state sales taxes depending on where an item is purchased; (See page 10)

2. **Mandating a State Sales Tax on top of voter approved local sales taxes will push additional commerce and jobs to the lower 48 states, and cut local government revenue:**

   - Out of state and internet purchases will become a greater problem for Alaska business as sales taxes increase to the highest levels in the U.S. for many communities in Alaska. **Note**: Even though the maximum sales tax rate in the U.S. is 11% in Alabama, the average sales tax rate in Alabama is 7% to 8% according to Alabama officials. (See pages 6-7 and 14-15)

   - **Additional state mandated sales tax will hurt the economic recovery of the nearly 75% of communities facing local economic downturns.** (Alaska Municipal League Municipal Fiscal Conditions Survey, March 2004).

   - Local sales tax exemptions and rules have been carefully developed since statehood in each community to encourage local commerce and industry. They are **complex and different because Alaska's communities and economies are different.** Mandated statewide "one size fits all" rules and exemptions will further hurt local economies and revenues. (See pages 16-24)

3. **A legislatively mandated state sales tax will out-compete voter approved local sales taxes – Many communities will have no revenue options for schools and other growing local needs:**

   - Voters in Alaska's communities have already set local sales tax rates as high as the economy and voters feel is appropriate. It is likely that **voters in many communities will reduce local sales taxes** because they cannot reduce the state sales tax. (See pages 6-7)

   - If the state adds a state sales tax, it is likely that **no municipality will be able to successfully ask for a voter approved sales tax increase in the future for capital projects or other local needs.**

   - **The state sales tax is likely to rise in the future.** According to the National Conference of State Legislatures, "The sales tax has been a stable state revenue source, although rate increases have been necessary to preserve its share of the state revenue mix." (See page 11)

   - Local sales and property taxes are already high – nearly One Billion Dollars in 2003. To have a balanced fiscal plan for Alaska, the State should focus on untapped revenues – use of some Permanent Fund earnings, or a state income tax. (See page 8). The average sales tax rate in the U.S. is 6.25%, **if a 4% state sales tax is added, 68 municipalities that now have sales tax would be above the national average and Wrangell would have the highest sales tax in the U.S.** (See pages 6-7, 14-15)

4. **If Alaska needs a broad-based tax, and state income tax simply beats a state sales tax:**

   - The University of Alaska estimates that a $250 million **state sales tax would cost Alaska at least an additional 2,325 jobs in the private sector**, many more than an income tax. **Use of Permanent Fund earnings under a "percent of market value approach" while maintaining a PFD would cost <u>no</u> jobs.** (See page 12)

   - 7% to 10% of a state sales tax would be paid by out of state residents, while **22% to 25% of a state income tax would be paid by out of state residents and the federal IRS** in tax deductions, according to the University of Alaska and Department of Revenue (2002). (See page 13)

   - According to the National Conference of State Legislatures, "The personal income tax is a reliable and stable source of state revenue…**The responsiveness of the income tax to economic growth also helps explain why state income tax reliance has increased over time."** (See page 11)

Alaskan Sales Tax Issues Background

- **Alaska is unique and requires unique solutions:** While many states have state sales taxes, Alaska has given sales tax authority only to its cities and boroughs because of Alaska's unique conditions. Alaska is unique because:

  - Alaska's **wide range of cost of living** across the state makes a statewide sales tax inequitable and unfair. Under a statewide sales tax, residents in different parts of Alaska would have to pay as much as three times the amount of state sales tax to purchase something as simple as a glass of milk for a child.

  - Alaska's **vast rural areas lack a sufficient property tax base** in private ownership to establish property taxes. Therefore, sales tax is the only major local revenue source for the majority of Alaska's communities.

  - Alaska's Constitution has the strongest local control provisions of any state and guarantees "maximum local self-government." **Without a major revenue source, constitutional local control guarantees are meaningless.**

  - Alaska's communities have built **very different sales tax systems that work for their specific local economy.**

  - State imposition of an additional 4% (**giving some municipalities the highest sales tax rates in the U.S.**), preemption of local sales tax exemptions, rules, and collection **will increase out of state and internet purchases and reduce local tax revenues.**

- Alaska has 94 municipalities that depend on general local sales taxes. Current local tax rates are:

	Number of Municipalities	
Sales Tax Rate	1999	2003
7 %	1	1
6 %	3	6
5% or 5.5%	11	18
4% or 4.5%	12	11
3% or 3.5%	37	30
2 %	31	25
1% or 1.5%	3	3

- According to the 2003 "Alaska Taxable", General Sales Taxes provided $132,839,856, and Special Sales Taxes (on fish, hotel beds, alcohol, tobacco, etc.) provided $43,734,035 to operate municipal services. **(Total 2003 Sales Tax = $176,537,891)**

Issues concerning the creation of a State sales tax:

- Conflicts with local sales tax exemptions: Municipalities have their own exemptions designed for the local economic needs. (See attached summary of municipal sales tax exemptions on pages 14-18) A state sales tax would require standard exemptions that would necessarily conflict with the local exemptions. If the State requires municipalities to conform to the State's exemptions, huge local revenue losses would likely occur. (Note: while current sales tax proposals have limited exemptions, it is highly likely that industry proposals will arise and put intense pressure on the legislature to expand exemptions.)

- Total State/Local Sales Taxes would be **too** high: Municipal sales taxes vary from 1% to 7%. A State general sales tax on top of local sales taxes would almost certainly require many municipalities to lower the local sales tax and raise property taxes. In many small municipalities, there is practically no local property tax base, so there is no practical revenue alternative.

- Forestall future growth in municipal sales taxes: If a State sales tax is created, it will almost certainly forestall any increase in local sales tax rates to meet capital needs or to finance unfunded state or federal mandates.

- Federal Internet Sales Tax Exemption: Some feel that if the State of Alaska took control of sales tax away from municipalities, the state could collect sales tax on out of state and internet purchases, and thereby raise additional revenue. There are two bills in Congress on this topic: One bill calls for an additional two year moratorium before any decision is made: the other calls for a permanent exemption for internet and out of state sales.

<u>A 4% State Sales Tax could take millions away from municipalities, send more local business to lower 48</u>

(Data from "Alaska Taxable" 2002-2003 DCED, Office of the State Assessor)

Summary of Sales Taxes in Alaska:

- 94 cities and boroughs have **general** sales taxes on good and services.
- 52 cities and boroughs have **special** sales taxes on hotels, alcohol, tobacco, etc.
- 114 cities and boroughs have a **general or special or both** types of sales tax.

Impact Narrative:

- **State Sales tax would be a statutory mandate, while almost all municipalities must seek voter approval for sales tax.** Local voters have already set their sales tax at the highest rate acceptable to the community and the local economy. High sales taxes hurt local businesses. Therefore, an additional mandated 4% state sales tax without voter approval would likely force communities to reduce their local sales tax rates by up to 3% to avoid excessive tax rates on local purchases.

- **State Sales Tax Exemptions would replace local exemptions specifically crafted to encourage local business.** Loss of local control of exemptions could cause significant loss of local revenue or disadvantage local businesses.

Municipality	Current Rate	With State 4%	If Munis Lose 3%
• Wrangell	7%	11%	$807,000
• Cordova	6%	10%	$1,174,000
• Kodiak	6%	10%	$3,570,000
• Kotzebue	6%	10%	$1,220,000
• **Seward***	**6%**	**10%**	**$2,197,000**
• Petersburg	6%	10%	$1,152,000
• **Dillingham**	**6%**	**10%**	**$1,030,000**
• Ketchikan City*	5.5%	9.5%	$5,951,000
• Klawock	5.5%	9.5%	$258,000
• Haines Borough	5.5%	9.5%	$1,033,000
• Homer*	5.5%	9.5%	$2,968,000
• Sitka	5%	9%	$3,826,000
• Juneau	5%	9%	$17,271,000
• Bethel	5%	9%	$2,516,000
• Soldotna*	5%	9%	$4,827,000
• Kenai*	5%	9%	$3,809,000
• **Thorne Bay**	**5%**	**9%**	**$91,000**
• Seldovia*	4%/6.5%	8%/10.5%	$73,000
• Craig	5%	9%	$786,000
• Aleknagik	5%	9%	$22,000
• Clarks Point	5%	9%	$18,000

(**Note:** Cities or boroughs in **bold increased local sales tax since 2001**)
(* Includes total City and Borough General Sales Tax Rates)

Hoonah	5%	9%	$211,000
Kake	5%	9%	$100,000
Kwethluk	5%	9%	$56,000
Unalakleet	5%	9%	$146,000
Skagway	4%	8%	$2,331,000
Alakanuk	4%	8%	$84,000
Hooper Bay	4%	8%	$190,000
Hydaburg	4%	8%	$8,500
Nenana	**4%**	**8%**	**$94,000**
Nome	4%	8%	$1,917,000
Marshall	4%	8%	$47,000
Pelican	4%	8%	$43,000
Pilot Station	4%	8%	$35,000
Port Alexander	4%	8%	$6,000
St Michael	4%	8%	$54,000
Yakutat	4%	8%	$480,000
Saxman	**3.5%**	7.5%	?
North Pole	3%	7%	$1,219,000
Palmer	3%	7%	$2,464,000
			$64,000,000

- 3% : **Adak 3%,** Ambler, **Angoon 3%,** Brevig Mission, Chevak, Deering, Diomede, Emmonak, Fort Yukon, Galena, **Gambell 3%,** King Cove, Kotlik, Larsen Bay, **Mountain Village 3%, Nondalton 3%,** Noorvik, **Nunapitchuk 3%,** Ouzinkie, Quinhagak, St Mary's, Saint Paul, Sand Point, Savoonga, Selawik, Stebbins, **Teller 3%,** Unalaska, Whittier
- 2%: Aniak, Buckland, Chefornak, Eek, Elim, False Pass, Kenai Peninsula Borough, Ketchikan Gateway Borough, Kiana, Kivalina, Koyuk, Manokotak, Mekoryuk, **Napakiak 2%,** Newhalen, Nightmute, Scammom Bay, Shaktoolik, **Shishmaref 2%,** Nunam Iqua, Shungnak, **Tanana 2%,** Togiak, Toksook Bay, Wasilla
- 1%: Tenakee Springs, **White Mountain 1%.**

(**Note:** Cities or boroughs in **bold increased local sales tax since 2001)**

(**Note**: List and figures do not include the 52 Special Sales Taxes on hotel, etc.)

Municipal Taxpayers Must Be Considered in A Balanced State Fiscal Plan

Alaskans in municipalities already pay close to $1 Billion per year in local property and sales taxes to pay for schools, public safety, roads, and other local services. Therefore, instead of state preemption of local sales tax authority, a **balanced state fiscal plan should focus on totally untapped revenue measures, e.g. the use of some Permanent Fund earning or a state income tax, not preemption of local sales tax authority.**

If the State decides to mandate a local sales tax, **local taxpayers in many municipalities would pay the highest sales tax rates in the U.S.** This will hurt both Alaskan taxpayers and Alaskan businesses that must compete with out of state and internet sales.

Major Municipal Taxes 2001 and 2003

Office of the State Assessor, "Alaska Taxable," 2001 and 2003

	2001	2003
Property tax (not include oil)	$497,339,323	$560,869,163
Oil property in municipalities	$214,758,724	$220,865,409
Municipal General Sales Tax	$125,134,493	$132,839,856
Special Sales Tax (hotel, etc.)	$ 40,728,724	$ 43,734,035
TOTAL	**$877,961,380**	**$958,308,464**

<u>Sales Tax is the only local tax option for small communities without a significant property tax base</u>

Even though all municipalities have property tax "authority," most do not have sufficient local property tax bases. Bethel, for example, is a large rural municipality:

- **Bethel would have to levy <u>a 50 mill</u> property tax,** (which is 20 mills over the current 30 mill statutory property tax limit in Alaska) to equal the revenue from its current 5% sales tax, according to estimates by the State Assessor. Bethel has a very little taxable property.

- **A property tax is not feasible in Bethel because** many residents living on federal land or in federal housing would pay nothing while their neighbors on private land would pay among the highest property rates of any city in the U.S.

Sales tax has been the key local revenue of the majority of Alaska's cities and boroughs since statehood. In almost every community, sales tax must be approved by local voters. If the state mandates state sales tax without a vote, and preempts local sales tax exemptions and rules, many cities and boroughs will have to lower or eliminate their sales taxes and become fully dependent on the state. **Without this key local revenue source communities will lose "maximum local self-government" guaranteed by our constitution.**

<u>Note 1: Many rural communities have only 10% to 25% of urban property taxes</u>

For example: (Per Capita Full Values from 2001 Alaska Taxable)

Anchorage	$69,849 per capita
Fairbanks NSB	$59,899 per capita
Bethel (5,449 pop.)	$17,000 per capita *
Emmonak (804 pop.)	$8,428 per capita

<u>**Note 2: 2001 Bethel SALES TAX Revenue** (population 5,449)</u>

General 5%	$4,194,997
Alcohol 5%	$65,686
Bed 3%	$61,960
Local Fish 5%	$80,450
Motor Vehicle Flat	$62,251
Gaming	<u>$406,711</u>
Total	**$4,875,025**

<u>* Note 3: Details on the Property Tax Estimate for Bethel</u>

"Full and true" Assessed Value estimated by Assessor in "Alaska Taxable) is $186,653,400 however, the State Assesso feels that actual taxable property based on exemptions (e.g. exemption for federally constructed housing) in most municipalities would be about 40 to 50% of that, or $93,500,000. Therefore, a 10 mill property tax would yield approximately $935,000, and **a 50 mill property tax would yield about $4,675,000.**

A State Sales Tax is Not Fair to Alaskans

Why, should a family in one part of Alaska buying milk pay far more than a family in a large city to support state government ?

A **state** sales tax is unfair because it is based on a percentage of the cost of goods and services. The cost of goods and services vary widely across the state. This makes a state sales tax regionally regressive due to differences in basic cost of living purchases.

For Comparison on a ½ Gallon of 2% milk (AC or Safeway/Carrs 3/22/04)

- Nuiqsut $6.99
- Kaktovik $6.18
- Fort Yukon $4.49
- Kotzebue $3.95
- Dillingham $3.59
- Anchorage $2.65
- Fairbanks $2.35
- Juneau $2.19

Also, for example, according to the Alaska Department of Labor "Alaska Economic Trends" in 2002 food for a family of four in Nome, Dillingham, or Bethel **cost 180% to 190% of similar purchases** in Anchorage or Fairbanks. While a family of four in Cordova pays 163%, Kodiak 143%, and Homer 138%.

On the other hand, the current **municipal** sales tax **is fair** (not regionally regressive) because everyone in the taxing area faces equal costs for goods and services.

Comparison of State Sales Tax and State Income Tax

According to the **National Conference of State Legislators** (NCSL), there are "six principles that are appropriate for evaluating individual tax sources." The excerpts below are from the NCSL's "Tax Policy Handbook for State Legislators."

State Sales Tax	State Income Tax
Reliability "The sales tax has been a stable state revenue source, although rate increases have been necessary to preserve its share of the state revenue mix."	**Reliability** "The personal income tax is a reliable and stable source of state revenue...The responsiveness of the income tax to economic growth also helps explain why state income tax reliance has increased over time."
Equity Two primary issues dominate the debate over the equity of the sales tax. The first is regressivity, in which sales taxes claim a larger share of low-income taxpayer incomes. The second issue involves whether exemptions for certain goods and services make the sales tax inequitable."	**Equity** "The personal income tax scores well on both vertical and horizontal equity...inclusion of personal income taxes in the overall mix of state taxes helps minimize the regressivity of the system."
Administration and Compliance "Much of the administrative burden is shifted to the vendor."	**Administration and Compliance** "States that link personal income tax to the federal code gain efficiency in administration and reduce compliance costs for businesses and individuals."
Interstate and International Competition "In a competitive interstate and international marketplace, States that tax business inputs may put firms at a competitive disadvantage." "(States) cannot require the out of state retailer to collect and remit sales tax..."	**Interstate and International Competition** "Since firms do not pay a personal income tax, this is more an intangible concern in the mind of senior executives than a direct cost of doing business."
Economic Neutrality "States that tax services may disproportionately burden small business because larger firms may provide services (legal, accounting) in-house." "For example, States that exempt labor repairs but tax new purchases may affect decisions about whether to fix a machine or buy a new one."	**Economic Neutrality** "State income taxes may be a factor in decisions about work effort, but they probably are not the deciding factor for most taxpayers."
Accountability "Most taxpayers are unaware of the total annual sales tax burden."	**Accountability** "The personal income tax is the most visible tax paid by individuals."
Additional Issues "...Congress repealed the federal income tax deduction for sales taxes..."	**Additional Issues** "The state income tax can be claimed as an itemized deduction ...This deduction reduces the effective state tax rate by up to 40 percent for taxpayers in the highest federal tax bracket."

Source: "Tax Policy Handbook for State Legislators" by the National Conference of State Legislatures, December 1997 pp.9-18.

Estimated Economic Impacts of Budget Balancing Options

Based on $250 million in cuts or new revenue
(University of Alaska – Institute of Social and Economic Research, 7/03)

- State Budget Cuts – **4,650 estimated job loss** due to both direct and indirect job loss. Budget cuts can double the job loss versus taxes due to direct loss of eliminated government jobs, plus secondary loss of jobs from less money spent on goods and services throughout the economy.

- State Sales Tax - **2,325 estimated job loss** due to indirect job loss only. **Taxes** have only secondary job loss because taxes mean a little less income for each household, i.e. no jobs are directly eliminated. **In addition to job loss calculated above,** community job loss would also occur from the loss of sales in Alaska due to competition with tax-free internet sales.

- State Income Tax - **1,875 estimated job loss.** Indirect job loss only, but significantly lower than state sales tax because 23% to 25% of the income tax is paid by out of state workers and IRS deductibility. Also, an income tax does not add to the cost of goods and services so there is no additional Alaska job loss dues to the incentive to purchase more goods and services over the internet of from out of state.

- Use of PF Earnings – **0 estimated job loss** If voters approve 5% POMV, maintain PFD's at $1000 (higher than estimated for next year), & use up to $600 million for state/municipal support. Use of Permanent Fund Earnings, under a POMV (Percent of Market Value) fund management system, does not take any money out of the economy so there are no direct or indirect job losses. In fact, for at least the next two years it would add money to Alaska's economy through higher PFDs.

Is a State Sales Tax or Income Tax best for Alaskans?
Who Pays?
Which best captures non-resident & out of state revenue?

According to separate studies by the University of Alaska Institute of Social and Economic Research and the Alaska Department of Revenue in 2002, a **state sales tax costs Alaskans significantly more than other major taxes.**

Here are the results:

	% paid by Non-Residents Sales Tax	**% paid by** Non-Residents + IRS deduction Income Tax
By U of A – ISER	**7%**	**25%**
By AK Dept of Revenue	**10%**	**22%**

Narrative:
While both a sales and income tax can collect tax from out of state wage earners working in Alaska, federal deductibility of state income tax benefits Alaskans. **State income tax is deductible from federal income tax**, sales tax is **not**. That means that the federal government essentially subsidizes the state income tax by allowing Alaskans to pay less federal income tax.

What does it mean? For Example, using the higher U of A estimates:

If the State needs $300 million in revenue:

- **Sales tax**: $279 million from Alaskans, **$21 million by non-residents**
- **Income tax**: $225 million from Alaskans, **$75 million by non-residents & IRS**
- **Savings to AK** $ 54 million Saved by state income tax ($86 less per Alaskan/year)

U.S State and Local Sales Taxes

Note by Alaska Municipal League: The "maximum rate" in the Federal Tax Administrators chart below is footnoted as applying to "at least one jurisdiction" is misleading. For example, Alabama is shown as having a maximum rate of **11%**, the average combined state and local sales tax is 7% to 8%. Only one county in the U.S. has a rate of 11%.

According to the **Sales Tax Clearinghouse** (**http://thestc.com/STRates.stm**):
What is the average sales tax nationally?

The **average sales tax across the nation is 6.25%**, including all county and city taxes.

Lousiana, Tennessee, and **Washington** have the dubious distinction of having the highest average sales tax rates in the nation, of 8.25% or more.	**Delaware, Montana, New Hampshire**, and **Oregon** have no sales taxes at all.

Arab, AL (Cullman County) has the highest combined rate of 11%, while many locations in AL, LA, and OK have combined rates of 9% or more. Chicago has the highest combined rate for a metropolitan area at 8.75%.

Federation of Tax Administrators - Comparison of State and Local Retail Sales Taxes January 2004

****Added below** in states with the highest maximum sales tax rates are the actual total **sales tax rates for 12 counties in each state listed in the "Sales Tax Clearinghouse" site.**

	Food Items [1] Taxable (T) Exempt (E)	State Rate	Maximum Local Rate [2]	Maximum State/Local Rate [2]
Alabama	T	4.00	7.00	11.00 **(2 at 7%, 9 at 8%, 1 at 8.5%)
Alaska	T	---	7.00 [3]	7.00
Arizona	E	5.60	4.50	10.10 **(2 at 7.1% to 7.8%, 10 at 8.1% to 8.8%)
Arkansas	T	5.125	5.50	10.625 **(4 at 8% to 8.7%, 4 at 9%, 1 at 10%, 1at 10.5%, 1at 10.75%)
California	E	6.00	2.75	8.75
Colorado	E	2.90	7.00	9.90 **(11 at 3.15% to 7.5%, 1 at 8.15%)
Connecticut	E	6.00	---	6.00
District of Columbia	E	5.75	---	5.75
Florida	E	6.00	1.50	7.50
Georgia	E	4.00	3.00	7.00
Hawaii	T*	4.00	---	4.00
Idaho	T*	6.00	3.00	9.00
Illinois	T**	6.25	3.00	9.25

Indiana	E	6.00	---	6.00
Iowa	E	5.00	2.00	7.00
Kansas	T*	5.30	3.00	8.30
Kentucky	E	6.00	---	6.00
Louisiana	E [4]	4.00	6.25	10.25
				**(7 at 7.5% to 8%, 5 at 8.5% to 9%)
Maine	E	5.00	---	5.00
Maryland	E	5.00	---	5.00
Massachusetts	E	5.00	---	5.00
Michigan	E	6.00	---	6.00
Minnesota	E	6.50	1.00	7.50
Mississippi	T	7.00	0.25	7.25
Missouri	T **	4.225	4.5	8.725
Nebraska	E	5.50	1.50	7.00
Nevada	E	6.50	1.00	7.50
New Jersey	E	6.00	---	6.00
New Mexico	T	5.00	2.25	7.25
New York	E	4.25	4.50	8.75
				**(9 at 7%, 2 at 7.5%, 1 at 8.65%)
North Carolina	E [4]	4.50	3.00	7.50
North Dakota	E	5.00	2.50	7.50
Ohio	E	6.00	2.00	8.00
Oklahoma	T	4.50	6.00	10.50
				**(9 at 7% to 8.5%, 3 at 8.85% to 9%)
Pennsylvania	E	6.00	1.00	7.00
Rhode Island	E	7.00	---	7.00
South Carolina	T**	5.00	2.00	7.00
South Dakota	T*	4.00	2.00	6.00
Tennessee	T	7.00	2.75	9.75
Texas	E	6.25	2.00	8.25
Utah	T	4.75	2.25	7.00
Vermont	E	6.00	1.00	7.00
Virginia	T**	3.50	1.00	4.50
Washington	E	6.50	2.40	8.90
West Virginia	T	6.00	---	6.00
Wisconsin	E	5.00	1.00	6.00
Wyoming	T*	4.00	2.00	6.00

****Added above** in states with the highest maximum sales tax rates are the actual total **sales tax rates for 12 counties in each state listed in the "Sales Tax Clearinghouse" site.**

[1] Food purchased for consumption off-premises.
[2] Highest local rate known to be actually levied by at least one jurisdiction. Includes local taxes for general purposes and those earmarked for specific purposes (e.g. transit). Taxes applying only to specified sales (e.g. lodging or meals) are excluded.
[3] Alaskan cities and boroughs may levy local sales taxes from 1% to 6%. (**AML NOTE: incorrect**)
[4] Food exempt from state tax, but subject to local taxes.
* Income tax credit allowed to offset sales tax on food.
** Food taxed at lower rate.
Source: Compiled by the Federation of Tax Administrators from various sources.

Municipal Sales Tax Exemptions Definitions (1999)

- **Causal Sales** A casual and isolated sale not made in the regular course of business is exempt

- **Dues and Fees** Dues and fees paid to clubs, labor unions and fraternal organizations are exempt.

- **Gov't Prohibitions** A sale which the municipality is prohibited from taxing under the Constitution and laws of the Untied States or the Constitution of the state of Alaska is exempt

- **Gov't Agency** A sale directly to the United States government, the state of Alaska and its political subdivisions, the city and borough, or any departments thereof, is exempt. A sale made to a contractor to be utilized in the manufacture and production of property for sale to an agency of any of the above governments under a cost plus contract is taxable as the contractor is deemed the consumer. A sale to a government contractor, which does not become a physical part of the property being constructed for any of the above governments is taxable.

- **Funeral** Sale of cemetery plots, caskets, funeral and burial related items and services by a funeral home.

- **Medical** Medical, dental, hospital, and veterinary services are exempt. The sales of hearing aides and medicinal preparations when prescribed by a licensed practitioner are exempt. Medical, dental, hospital, and veterinary services do not include services rendered by chiropodists, barbers, cosmeticians, masseurs, nor do they include the clipping, grooming or boarding of animals.

- **Newspapers & Pubs.** The sale of daily newspapers to a consumer is exempt

- **Nonprofits Charitable Org.** Sales made by nonprofit charitable organizations which do not have paid employees and which do not keep normal business hours are exempt.

- **Student Transportation** The service of transporting students to and from a school in vehicles is exempt.

- **Food Stamps** Sales of goods made with food coupons, food stamps, or other type of certificate issued under the Food Stamp Act or Special Supplemental Food Program for Women, Infants, and Children.

- **Food at Schools** The sale of food and beverages to the public in high school or college cafeterias or lunchrooms which are operated primarily for teachers and students and not for profit is exempt.

- **Residential Rentals** Residential rentals other than rentals to transients who occupy or rent a suite, room or rooms in a hotel-motel for fewer than thirty consecutive days for the purpose of habitation.

- **Utilities** Sales of electricity, water/sewer, or services provided by the city.

- **Child Care** The sale of child care services is exempt.

- **Freight & Wharfage** Freight and wharfage charges, whether arising out of foreign, interstate or intrastate commerce, are exempt. Warehouse and storage services are taxable.

- **Insurance** The sale of insurance policies, guaranty bonds and fidelity bonds are exempt.

- **Banking Services** Services associated with any deposit accounts, including service fees, NSF fees, fees for the purchase of bank checks, money orders, travelers checks, loan fees, pass-through charges on loan transactions, services associated with the sale, exchange or transfer of currency, stocks, bonds and other securities.

- **Manufacturing. and Contracting** A sale to a manufacturer or contractor is exempt if the article becomes a physical part of a manufactured product or structure which when sold is subject to this tax. A " physical part of a manufactured product or structure" means that the article must be easily and readily identifiable in the manufactured article or the structure, as the case may be.

- **Catalog Sales** Sales of goods resulting from orders received from outside a city by mail, telephone or other similar public communication where delivery of the property ordered is made outside the city by mail or common carrier.

- **Games of Skill & Chance** Sales of lottery tickets and other forms of games of skill and chance

- **Other** Salaries, Veteran's Org., Drugs, Travel and Adventure Services, Arts & Crafts, lobbying, ATV's, Boats, Counseling, Animal Food, Advertising, Jet Fuel, Printing Services outside of city, Personal Property, Video Games, etc.

Municipal Sales Taxes And Exemptions (Compiled in 1999)

Municipalities	Mun. of Anchorage	Fairbanks NS Borough	City of Fairbanks	City of North Pole	Mat-Su Borough	City of Palmer	City of Wasilla	City of Houston	Kenai Borough	City of Kenai	City of Soldotna	City of Homer	City of Seward	City of Seldovia	C/B of Juneau
pulation	258,782	83,928	31,601	1,619	55,747	4,318	5,134	939	48,815	7,058	4,134	4,155	3,040	281	30,684
ecial Sales Taxes:															
Bed Tax	8%	8%	8%		5%	5%	5%	5%					4%		7%
Raw Fish															
Liquor			5%												3%
Tobacco	15%		8%	8%											6%
Other															
eneral Sales Tax				3%		3%	2%		2%	3%	3%	3.5%	3%	3%	5%
emptions:										Same as Kenai Peninsula Borough					
niors (age)				65											65
lesTax Cap (amt)						$500									
ısual Sales				x		x			x						x
ıes & Fees				x		x			x						x
ov't Prohibitions						x			x						x
ov't Agencies				x		x			x						x
neral						x			x						x
edical				x		x			x						x
ewspapers & Pubs.				x		x			x						x
onprofits						x			x						x
udent Trans.						x									x
od Stamps, WIC				x		x			x						
od at Schools				x		x			x						x
s. Rentals				x											x
ilities						x									
ild Care															x
eight & wharfage									x						
surance				x											x
nking Services				x					x						x
anufacturing															
talog Sales															x
le of Real Property															
al Estate Fees				x		x									
nstruction									x						
sale Items									x						
holesale Items															x
els															
ts & Crafts															
ngo															
ll Tabs															
her				x		x			x						x

Municipal Sales Taxes And Exemptions (Compiled in 1999)

Municipalities	Ketchikan Borough	City of Ketchikan	City of Saxman	Kodiak Borough	Kodiak	Ouzinkie	North Slope Borough	Wainwright	C/B of Sitka	Northwest Arctic Borough	Kotzebue	Haines Borough	City of Haines	AleutiansEast Boro.	Sand Point
Population	14,231	8,460	379	13,848	6,589	252	9,389	543	8,779	6,844	2,964	2,476	1,463	2,199	830
Special Sales Taxes:															
Bed Tax	4%	6%	4%	5%	5%				4%		6%				
Raw Fish														2%	2%
Liquor											6%				
Tobacco															
Other				.925 sever.		0.93%			x						
General Sales Tax	**2%**	**3.5%**	**3.5%**		**6%**	**3%**		**3%**	**5%**		**6%**	**1.50%**	**4.00%**		**3%**
Exemptions:															
Seniors (age)	65	65	65		65	65			65		65				
SalesTax Cap (amt)		$1,000			$500							$5,000	$5,000		
Casual Sales	x	x			x	x			x		x	x	x		x
Dues & Fees	x	x			x				x			x	x		
Gov't Prohibitions	x	x	x		x				x		x	x	x		x
Gov't Agencies	x	x	x		x	x			x		x	x	x		x
Funeral	x	x			x				x		x	x	x		x
Medical	x	x			x				x		x	x	x		x
Newspapers & Pubs.	x				x				x		x				
Nonprofits	x	x	x		x				x		x	x	x		x
Student Trans.	x	x							x			x	x		
Food Stamps	x	x							x		x	x	x		x
Food at Schools	x	x			x				x		x	x	x		
Res. Rentals		x										x			x
Utilities					x	x						x	x		
Child Care		x			x				x			x	x		x
Freight & wharfage									x						
Insurance		x			x							x	x		x
Banking Services					x							x	x		x
Manufacturing									x						
Catalog Sales												x	x		x
Sale of Real Property											x	x	x		x
Real Estate Fees															
Construction									x		x	x	x		
Resale Items															
Wholesale Items															
Fuels															
Arts & Crafts															
Bingo		x	x		x										
Pull Tabs		x	x		x										
Other	x	x		x	x							x	x		

Municipal Sales Taxes And Exemptions (Compiled in 1999)

Municipalities	King Cove	False Pass	Lake & Pen Borough	Chignik	Denali Borough	Bristol Bay Borough	Yakutat Borough	Bethel	Unalaska	Nome	Petersburg	Wrangell	Dillingham
opulation	703	58	1,867	121	1,864	1,297	810	5,463	4,285	3,706	3,398	2,589	2,332
pecial Sales Taxes:													
Bed Tax			6%		7%	6%	4%		5%			$4. per night	
Raw Fish	2%	2%	2%	1%		3%			2%				
Liquor								5%					
Tobacco													
Other				x									
;eneral Sales Tax	**3%**	**2%**					**4%**	**5%**	**3%**	**4%**	**6%**	**7%**	
xemptions:													
eniors (age)											65	65	
alesTax Cap (amt)								>$3,000		$1,500	$1,000	>$1,000	>$2,000
'asual Sales		x					x	x	x		x	x	x
'ues & Fees							x	x	x	x		x	x
;ov't Prohibitions							x	x	x	x		x	x
;ov't Agencies		x					x	x	x	x		x	x
uneral		x					x				x	x	x
1edical		x					x	x	x	x	x	x	x
lewspapers & Pubs.		x					x		x	x		x	x
lonprofits		x					x		x	x	x	x	x
tudent Trans.							x	x				x	x
ood Stamps							x	x		x	x	x	x
ood at Schools							x	x	x				x
es. Rentals		x					x	x		x	x		
'tilities									x		x		
'hild Care							x				x	x	
reight & wharfage							x	x	x		x	x	x
ısurance		x						x	x		x		x
anking Services								x		x			
1anufacturing									x			x	
'atalog Sales								x			x		
ale of Real Property		x								x			x
eal Estate Fees													
'onstruction							x	x	x	x			
esale Items									x		x		
Vholesale Items													x
uels													
rts & Crafts													
ingo												x	
ull Tabs												x	
'ther		x			x		x	x	x	x	x		x

Municipal Sales Taxes And Exemptions (Compiled in 1999)

Municipalities	Craig	Cordova	Hoonah	Emmonak	Togiak	Unalakleet	Saint Paul	Chevak	Alakanuk	Gambell	Klawock	Thorne Bay	Pilot Station	Fort Yukon	Kotlik	Scammon Bay	Nenana	
Population	2,145	1,909	896	838	801	784	761	741	671	670	659	597	558	553	552	450	435	4
Special Sales Taxes:																		
Bed Tax						10%												
Raw Fish					2%													
Liquor						5%												
Tobacco																		
Other																		
General Sales Tax	5%	6%	5%	3%	2%	5%	3%	3%	4%	3%	5.50%	3%	2%	3%	3%	2%	3%	2
Exemptions:																		
Seniors (age)	60	65	65	65		65		65	65		60	60		55		65		
SalesTax Cap (amt)	<$150.00		<$125.00	$1,000	$1,000						$4,000	$10,000		<$125				
Casual Sales	x	x	x	x		x	x	x	x	x	x		x	x	x	x	x	
Dues & Fees	x	x	x	x				x	x	x	x	x		x			x	
Gov't Prohibitions	x	x	x	x		x	x	x	x	x	x	x		x	x	x	x	
Gov't Agencies	x	x	x	x		x	x	x		x	x	x		x	x		x	
Funeral	x		x	x		x				x	x	x		x			x	
Medical	x		x	x		x		x	x	x		x			x		x	
Newspapers & Pubs.	x		x			x		x	x		x	x		x	x		x	
Nonprofits	x	x		x		x		x	x	x	x	x	x	x		x	x	
Student Trans.	x		x					x	x		x			x			x	
Food Stamps	x	x				x												
Food at Schools	x	x	x	x		x	x	x	x	x		x		x	x	x	x	
Res. Rentals								x	x	x							x	
Utilities				x				x	x	x	x	x	x			x		
Child Care	x	x	x	x								x						
Freight & wharfage	x	x					x	x	x			x						
Insurance		x	x	x				x		x	x			x			x	
Banking Services			x															
Manufacturing	x							x	x									
Catalog Sales			x	x				x	x	x	x		x			x		
Sale of Real Property						x						x		x			x	
Real Estate Fees																		
Construction	x	x	x			x				x						x		
Resale Items	x	x							x			x						
Wholesale Items				x			x		x		x	x					x	
Fuels								x	x									
Arts & Crafts				x		x		x	x									
Bingo																		
Pull Tabs																		
Other	x	x	x				x	x	x	x	x	x	x	x		x	x	

Municipal Sales Taxes And Exemptions (Compiled in 1999)

Municipalities	Saint Michael	Tanana	Ambler	Elim	Marshall	Aleknagik	Newhalen	White Mountain	Pelican	Egegik	Port Alexander
'opulation	362	317	315	306	300	259	191	188	149	132	90
;pecial Sales Taxes:											
Bed Tax						5%			6%		6%
Raw Fish							2%			3%	
Liquor											
Tobacco											
Other											
;eneral Sales Tax	**4%**	**2%**	**3%**	**2%**	**4%**	**5%**	**2%**	**1%**	**4%**	**1%**	**2%**
:xemptions:											
eniors (age)											
alesTax Cap (amt)											
:asual Sales	x	x				x	x	x		x	x
)ues & Fees		x	x	x				x			
;ov't Prohibitions		x		x	x	x		x		x	x
;ov't Agencies	x	x		x		x	x	x		x	
'uneral		x		x		x	x				
4edical	x	x		x			x	x			
4ewspapers & Pubs.	x	x		x		x	x				
4onprofits	x	x	x	x	x	x	x	x		x	x
itudent Trans.		x									
'ood Stamps							x		x		
'ood at Schools	x	x		x			x	x	x		
tes. Rentals			x	x	x		x	x		x	
Jtilities				x		x	x	x			
:hild Care		x									
'reight & wharfage											x
nsurance		x		x		x	x	x			
3anking Services			x		x			x			
4anufacturing		x						x			
:atalog Sales				x				x			
iale of Real Property		x	x		x	x	x				
teal Estate Fees											
:onstruction				x							
tesale Items									x		
Vholesale Items	x	x	x		x			x			x
uels							x				
Arts & Crafts											
3ingo											
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Fed's Chief Gives Consumption Tax Cautious Backing

By EDMUND L. ANDREWS

WASHINGTON, March 3 - Alan Greenspan, the Federal Reserve chairman, cautiously endorsed a shift in the nation's tax system on Thursday from one that primarily taxes what people earn to one that taxes what they spend.

Testifying before a presidential advisory panel on overhauling the tax code, Mr. Greenspan steered away from sweeping plans to replace the income tax with a national sales tax.

But he supported what many of President Bush's advisers see as a backdoor version of a consumption tax: expanding the role of tax-free savings accounts so that people could shield their income from taxes until they actually spend it.

"Many economists believe that a consumption tax would be best from the perspective of promoting economic growth - particularly if one were designing a system from scratch - because a consumption tax is likely to favor saving and capital formation," Mr. Greenspan said.

But the Fed chairman warned that shifting to a new system would raise difficult "transition issues," and he cautioned against "going for purity" in any kind of tax overhaul.

President Bush, struggling to sell a reluctant Congress on his ideas for partly privatizing Social Security, said he would wait to see what the panel proposes at the end of July.

"I've told the American people I want to work to simplify the tax code to make it easier to understand so that people are spending less time filing paper," Mr. Bush said Thursday afternoon. "I'm looking forward to what the commission has to say."

But many lawmakers in his own party would like to combine Mr. Bush's goals for Social Security with his goal of transforming the tax code. Republican analysts say the two efforts could dovetail in Congress around the idea of private retirement accounts.

The centerpiece of Mr. Bush's Social Security plan is to let people divert part of their payroll taxes to individual investment accounts. Similarly, the kind of "consumed income tax" implied by Mr. Greenspan would be based on a major expansion of tax-free savings accounts like Individual Retirement Accounts. People could put in as much money as they wanted, withdraw it any time and not pay any tax on the investment.

Supporters say that kind of a system might resemble a traditional income tax. But by letting people shield savings and investment income, supporters say, the system could in practice leave only a tax on consumption.

The president's advisory panel, which is bipartisan, is to develop at least one recommendation that alters the basic structure of today's income tax, though the expectation is it will produce more than one proposal. Its recommendations are to be submitted by July 31 to the Treasury Department, which will then devise its own recommendation and present it to Mr. Bush.

Mr. Bush has refused to endorse a particular approach to tax overhaul, but White House officials have made it clear they favor some sort of consumption tax.

The Economic Report of the President, published last month, argued that consumption taxes could increase personal savings by as much as 43 percent in the first year and ultimately lead to higher output and higher wages.

"By removing the tax on the return to savings and investment, a consumption tax would increase savings and investment," the report contended. "With a larger stock of capital, workers would be more productive and output and wages would rise."

Representative Bill Thomas, the California Republican who is chairman of the Ways and Means Committee, has argued since early January that tax overhaul and Social Security should be part of the same agenda. John B. Breaux, the former Democratic senator from Louisiana who is co-chairman of the advisory panel, said recently that he saw merit in combining the issues as well.

"I just think they want to deal with these simultaneously," said Bruce Bartlett, a senior fellow at the National Center for Policy Analysis, a conservative research group. "It opens up a lot of options for them to put together a package. That's what I've been hearing for weeks. The problem is the president - he doesn't want to do it."

In contrast to the partisan divide over Social Security, where Congressional Democrats are almost uniformly opposed to Mr. Bush's plans, the issue of tax overhaul has attracted some Democrats.

Representative Steny H. Hoyer of Maryland, the House Democratic whip, vowed on Thursday to "make progress" on tax overhaul this year and echoed Mr. Bush's rhetoric about the need to make the system "simpler" and "fairer."

But Mr. Hoyer and many other Democrats say they oppose any form of a consumption tax, contending that it would primarily benefit the wealthy, who would escape taxes on investment income.

Some Democrats are also furious with Mr. Greenspan, who they say contributed to the record budget deficits incurred under President Bush by condoning the tax cuts he pushed.

"I'm not a big Greenspan fan," said Senator Harry Reid of Nevada, the Senate Democratic leader, in an interview with CNN on Thursday. "I think he's one of the biggest political hacks we have in Washington."

Mr. Greenspan tried to avoid specific recommendations about taxes, but told the panel that a consumption tax could raise savings and still place more of the tax burden on higher-income households.

A report by the Treasury Department in 2002, though, concluded that almost any form of consumption tax or flat tax would shift some taxes from upper-income to middle-income households.

Mr. Bush also faces a potential contradiction between his own goals. In initiating the advisory panel, Mr. Bush insisted that any new system would have to protect tax breaks for homeowners, the biggest of which is the deduction for mortgage interest.

But William Gale, a senior fellow at the Brookings Institution, a Democratic-leaning research group, said that the mortgage-interest deduction would allow rampant tax avoidance in a system where people did not have to pay taxes on their savings.

"If interest income isn't being taxed and interest payments are deductible, you and I could just lend each other $1 million," Mr. Gale said. "Neither of us could be taxed on our income, and both of us could deduct the interest payments."

James A. Baker III, who was treasury secretary when President Ronald Reagan pushed through a tax overhaul in 1986, warned the panel of the political minefields.

Mr. Baker noted that the Reagan administration originally proposed a sharp limit on the mortgage-interest deduction to reduce tax rates as much as possible.

But that provoked a storm of protest from the real estate, construction and home-finance industries. Only by capitulating, Mr. Baker said, was it possible to pass a bill that sharply lowered tax rates and eliminated scores of special tax breaks.

"This is a political exercise as much as it is an economic exercise," Mr. Baker noted. "A basic recognition of political reality will help you shape recommendations that can survive the legislative process."