

ALASKA LEGISLATURE COMMITTEE FILES 2001-2002 8672

10337 HOUSE LABOR & COMMERCE

HB

258

ALASKA STATE LEGISLATURE

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House Bill 258 Sponsor Statement

"An Act converting the business license fee to a business license tax; adding, as an element of that tax, computation of the tax based on the taxpayer's gross receipts; establishing adjustments to that tax; and transferring administration of the levy to the Department of Revenue; and providing for an effective date."

As an aspect of a revenue generating proposal, I am introducing a bill proposing a gross receipts tax for purposes of discussion. As opposed to the sales and use tax I have proposed in HB 233, the gross receipts tax is, in its most simple form, a tax on all individual sales and services up to \$2,000.

HB 258 proposes to move the business licensing function, and enforcement to the Department of Revenue and would convert the current \$25 business license fee to a business license tax of the same amount. In addition the Department of Revenue would set out the procedures for implementing and collecting a 2% tax calculated on the total gross receipts of a business.

There are some exceptions to the gross receipts tax. Gross receipts from educational, religious, and many non-profit activities, from the operation of a hospital, or a municipally owned and operated utility would be exempted. In addition, home handicraft sales up to \$500 and gross receipts on items to be shipped to a person in a foreign country; taxes on motor fuel or collected for a municipality, and various accounting write-offs would also be exempted.

Because the sales tax is added on to the price of the product at the time of sale, it is highly visible to the consumer. On the other hand, the gross receipts tax would be invisible to the consumer because it would be levied on the seller's total revenue stream as reported to the Department of Revenue. This would be much easier to calculate and verify.

The gross receipts tax would also have a cap of \$2,000 per sale to which the tax would be applied. Because it would be a completely separate calculation, the gross receipts tax would not be confused with or interfere with municipalities' or boroughs' collection of sales taxes.

An additional benefit of this form of revenue enhancement is that tourists and visitors would also contribute substantially to supporting our state's budget -- revenue that the state would not have otherwise. All revenue generated by this tax would be deposited into the General Fund to help pay for the many services state government must provide.

Analysis of a gross receipts
tax for Vermont

<http://ibert.org/VT/gross1.html>

Prepared by Richard Heaps and Arthur Woolf
Northern Economic Consulting, Inc.
March 31, 1997

A gross receipts tax in its most simple form is a tax on the total dollar value of sales resulting from any market transaction. That transaction can be the exchange of a good or service for payment at the retail level, as when someone buys an article of clothing at a store. Or it can occur when one business buys a good or service from another business.

The gross receipts tax is similar in concept to a sales tax in that it is levied as a percentage of the dollar value of the transaction. However, there are two major differences between a gross receipts tax and a sales tax.

One is that a sales tax is only levied at the point of final sale of a product, while the gross receipts tax is levied at all levels of sale.

[For this reason, a gross receipts tax is sometimes called a "turnover tax."]

That is, a sales tax is levied when a consumer or business buys a product for final use. People pay the tax when they buy any item that is taxable -- clothing, hardware, and appliances, for example. Businesses pay the sales tax on furniture, office supplies, and similar items. They do not pay the sales tax when they buy goods that are used in the manufacturing process. The gross receipts tax is levied on the total revenues or receipts of all firms, not just at the point of final sale of the product.

The second difference is that the sales tax is added on to the price of the product at the time of sale and is highly visible to the consumer. The gross receipts tax is levied on the seller's total revenue stream.

[Note the difference: a 5% sales tax on a product that sells for \$100 results in a \$5 tax that goes to the state treasury. In the case of a gross receipts tax, if the seller adds a 5% gross receipts tax to the price of a \$100 product and sells it for \$105, the tax revenue accruing to the state treasury is \$5.25 -- 5% of \$105.]

The gross receipts tax is therefore more of a hidden tax that is not

immediately apparent to the buyer of the product.

Although a gross receipts tax is sometimes discussed in the context of a tax on the entire gross state product, this is not accurate. A gross receipts tax is not the same as a tax levied on the total gross state product. Gross state product is the state analog of the gross domestic products (GDP) of the nation.

Consider the following example: A Vermont bakery that buys \$30 of flour, pays \$50 of wages and sells 100 loaves of bread to its customers for a total of \$100 has contributed \$70 to Vermont gross state product ($\$100 - \$30 = \$70$ in value added). It has gross receipts of \$100. A gross receipts tax taxes the entire \$100 of sales while a tax levied only on the gross state product contribution of the firm would tax only the \$70 of value added by the firm. Therefore a gross receipts tax has the potential for a tax revenue base that is larger than the entire gross state product.

[A tax that was levied on the total gross state product would be the equivalent of a value-added tax (VAT). The VAT is a widely used tax by national governments in Europe but is not used by the US government. The only two states in the US that use a value added tax are Michigan and New Hampshire.]

This example also illustrates one of the major problems with a gross receipts tax -- pyramiding. Pyramiding (sometimes called cascading) occurs because the tax is levied at all stages of the production process. If a miller sells \$30 of flour to a baker and the gross receipts tax is 5%, the miller pays a gross receipts tax of 5%, or \$1.50. If the entire tax was passed on to the seller, the baker pays \$31.50 for the flour. The baker then bakes bread and sells the 100 loaves of bread to its customers. If the baker now charges his customers \$101.50 for the bread, he would pay a 5% gross receipts tax (5% of \$101.50 = \$5.08). If the baker passes that tax on to his customers, his customers pay a total of \$106.58 for the 100 loaves of bread. Therefore, the additional taxes pyramid and the final price of the product is 6.58% higher than it was before the tax was levied. To the consumer, the gross receipts tax rate is actually 6.58%, not the nominal 5% rate.

Pyramiding has several negative impacts. First, it can lead firms to vertically integrate or to produce some of their inputs themselves. That is, if the baker and miller become one firm, they can jointly avoid one state of the gross receipts tax. In this example, the tax has caused the two firms to change their behavior purely because of taxes. Whenever possible, tax policy should be designed to minimize any behavioral changes on the part of businesses or individuals.

Second, pyramiding creates a disincentive for firms to locate or expand in the state if they are heavy users of purchased inputs. That usually means manufacturing firms. Take, for example, a firm that buys lumber from local loggers and produces wood furniture. The logger pays the gross receipts tax, which is embedded in the cost of wood that the furniture producer pays. The furniture producer then pays the gross receipts tax on the sale of the furniture to its customers. The customers ultimately pay a higher price for the wood furniture. If the logger sold the wood to an out-of-state processor, that out-of-state firm would have lower costs since it would not pay the tax on its sales. The gross receipts tax would therefore be particularly onerous for firms which did buy a substantial amount of purchased inputs. Service sector firms (accountants, lawyers, economic consultants), by contrast, which use few purchased inputs other than labor, are only minimally affected by pyramiding.

[Analysis of two states, Washington and Hawaii, which currently use a gross receipts tax, has been omitted here.]

[Criteria for evaluating a gross receipts tax are omitted here but incorporated into the ensuing section.]

Evaluation of a gross receipts tax
in Vermont

The tax must raise the necessary revenues

A gross receipts tax is under consideration in Vermont to become a major source of revenue to fund K-12 public education. This means the gross receipts tax must be able to raise a substantial amount of tax revenues. School property taxes in Vermont currently raise more than \$400 million for education. In addition, if the gross receipts tax was to also replace the state sales tax, it would need to raise about \$200 million more revenues.

A gross receipts tax in Vermont could be constructed which would yield a substantial share, if not all, of the revenues needed to replace school property taxes and the sales tax. If Vermont politicians have the political will to resist the numerous requests for exemptions and keep the tax base for the gross receipts defined broadly, the gross receipts tax could raise substantial sums with a tax rate ranging from 2% to 4%. This would entail taxing all items currently subject to the general sales tax, plus taxing such items as food, prescription drugs, services, and many more.

Therefore, a gross receipts tax could raise most if not all the necessary \$600 million revenues at an acceptable rate.

The overall tax structure must be equitable

Vermont currently has one of the most equitable (in terms of vertical equity) state tax structures in the nation. According to a 1996 study by Citizens for Tax Justice, Vermont's overall tax structure was one of the four least regressive state tax systems in the US.

[Who Pays? A Distributional Analysis of the Tax Systems in all 50 States, Citizens for Tax Justice and the Institution on Taxation & Economic Policy, June 1996.]

The substitution of a gross receipts tax for all or part of the school property tax and, possibly, the sales tax raises the issue of whether this would make the Vermont overall tax structure more or less progressive. We base the following analysis on the findings of the 1996 study by the Citizens for Tax Justice.

Contrary to popular opinion, the Vermont property tax is not egregiously regressive. Rather most Vermont families pay about the same percent of their income in property taxes. This percent ranges from 3.4% to 4.6% of family income for the majority of taxpayers, with no noticeable trend from lower to upper incomes. The sales tax in Vermont is regressive, ranging from 1.9% for the lowest income families to 0.4% on the highest income families. The sales tax shows a steady regressive trend from high to low incomes.

A flat rate, broadly based gross receipts tax would be regressive, but less so than the sales tax. The regressivity is mostly attributable to the fact that saving increases as incomes increase. However, because services are generally income-elastic (that is, spending on services increases as income increases), the gross receipts tax, which taxes all services, might be more progressive than the sales tax.

The interesting equity issue is whether replacing the property tax with the gross receipts tax will make the Vermont tax structure more regressive. Resolving this issue is beyond the scope of this study. However, given the estimates of the regressivity of sales taxes in Washington and Hawaii by the Citizens for Tax Justice, it is a real possibility that replacing the property tax with a gross receipts tax may make Vermont's overall tax structure more regressive.

We do not believe this would be a hard sell to the Vermont public as the property tax is probably the most hated tax in Vermont and is widely believed to be regressive in spite of the contrary evidence.

Therefore, the gross receipts tax may not represent a net gain in vertical equity in the Vermont tax structure. However, the political resistance to it on equity grounds would be minor.

The tax must be efficient

All taxes distort economic activity. Therefore, a broad-based gross receipts tax has the potential to distort a great deal of economic activity. Therefore, it must be levied at a low rate/s to minimize economic distortions. A gross receipts tax could be set at a low level in Vermont and generate substantial revenues.

The gross receipts tax which replaces the local school property tax would help alleviate property-tax-induced bias against adding to one's real estate holdings. Further, if the gross receipts tax replaces the sales tax (in effect, just lowers it from the current 5% to some lower rate), this could provide substantial relief to retail businesses in Vermont who compete with tax-free New Hampshire and tax-free mail order businesses.

Therefore, a gross receipts tax that employs a low tax rate would have minimal efficiency concerns, particularly compared to the efficiency concerns with the property tax and sales tax that the gross receipts tax would be replacing.

The tax should have a low cost for administration and compliance

A broad-based gross receipts tax with few exemptions would have a relatively low cost of administration and compliance. The administrative cost would be substantial, as almost all Vermont firms would be filing a gross receipts tax return. However, the potential revenues would be quite high, justifying the administrative cost. The state has an existing mechanism in place to collect the sales tax which could be extended to the gross receipts tax. Compliance of firms could be checked against their income tax returns.

The cost of compliance to taxpayers would also be relatively low with a gross receipts tax if few exemptions were allowed.

The tax should be exported

Vermont exports part of its sales tax and its property tax to the rest of the US. The sales tax is exported through direct sales to tourists and other visitors to the state. It is also exported by those Vermont firms that sell products outside of Vermont and pass on any sales taxes they may have paid in the price of the product.

Some of the property tax which Vermont businesses pay is exported in the same manner by those Vermont firms which pass on the property tax cost in the products which they sell outside of Vermont. Some residential property taxes are exported through the federal income tax code. Property taxes are deductible from income for tax

itemizers. We roughly estimate that of the \$230 million in residential school property taxes paid in Vermont, about \$20 million to \$30 million is exported to the rest of the US through the federal income tax deductions for property taxes.

The gross receipts tax would be exported through the sale to nonresidents of goods and services subject to the tax. This would probably be considered acceptable in the case of sales to tourists and other visitors to Vermont. However, in the case of exporters of Vermont products, a competitive issue arises. Hawaii's gross receipts tax does not apply to exporters because of this concern. Should a Vermont gross receipts tax be designed to exempt exports, obviously less exportation of the gross receipts tax would occur.

Therefore, a gross receipts tax which replaces the property tax and sales tax may result in less exportation of Vermont taxes to nonresidents.

The tax should be simple and transparent

A gross receipts tax is simple to understand as long as a single rate is used and few exemptions are allowed. However, the tax is not transparent in its entirety because of the issue of pyramiding of the tax. (Explained earlier.) For example, in Hawaii, pyramiding and taxation of intermediate sales by the General Excise Tax increases the effective tax rate from the nominal 4% to an effective rate between 4.79% and 5.42%. Therefore, the effective tax rate is 25% higher than most people think it is and the full extent of the gross receipts tax is not transparent to the public.

Therefore, while the gross receipts tax may be simple to understand, so were the sales and property taxes that it would replace. However, the gross receipts tax is much less transparent than the property tax or sales tax. The pyramiding issue is a major concern.

The tax should be a stable source of revenue

The gross receipts can be expected to raise a stable source of revenue for the State of Vermont. Whereas income and especially business income can be quite volatile year to year, total spending exhibits less instability.

The government does not set the amount of revenue to be collected with a gross receipt, sales, or income tax. Rather, it sets a tax rate and the level of economic activity determines the tax revenue actually to be collected. The property tax is different. The amount of revenue to be collected is set by a town. Only then is a rate

determined, based on the Grand List of the town. The Grand List usually grows slowly but steadily each year, which makes the property tax a very stable base on which to levy a tax. Towns then know almost with complete certainty how much revenue they will receive from any given tax rate. The property tax is the most stable revenue source that a government can use to finance its operations.

For this reason, a gross receipts tax that replaces a property tax to fund education does not represent a net gain in stability for the tax system. However, compared to most other tax sources, such as the income tax or corporate profits tax, the gross receipts tax is generally considered a stable tax. Continue the report

Vermont considerations

In this section we briefly consider some of the many issues that a gross receipts tax brings up and point to specific Vermont firms, industries, and issues that would need to be resolved if a gross receipts tax was to be considered.

A gross receipts tax is essentially an added cost of doing business for firms. The ultimate incidence of the tax, however, may not fall entirely on the business or activity that is being taxed. Tax incidence deals with the question of who ultimately pays the tax. The economic incidence of a tax is generally not the same groups or individuals as the statutory incidence of the tax.

[A classic example of this is the social security tax. The 12.4% tax rate has a statutory split of 50%: half the tax is paid by the employee and half by the employer. But the ultimate incidence of the tax falls entirely on the employee.]

Taxes cause people and firms to change their behavior. A 1% gross receipts tax would be the same as a 1% increase in the cost of doing business for a firm. That might lead firms to raise their prices by one percent; or it might cause them to reduce some input cost (especially wages or benefits) by more than one percent; or it might reduce their profits by more than one percent. Most likely, it might cause some combination of these three changes.

Without knowing more about the specifics of each firm, its competitive position, the types of products produced, where the products were sold, the cost structure of the firm, and other information, we cannot generalize about the ultimate incidence of a gross receipts tax. Nor can we generalize about the total impact on a firm's economic competitiveness. But those firms who face competitors in other states would certainly have a harder time passing on the tax to consumers than would firms which sell most of their output to Vermont residents.

One alternative, then, would be to exempt the tax from the sale of output to out-of-state buyers. This would be very important to the state's manufacturing sector, but also to large wholesaling firms such as C&S Wholesalers, which has revenues of over \$1 billion. Washington does exempt the out-of-state sales of wholesalers, but it does tax the out-of-state sales of manufacturers (such as Boeing).

[We should note here that Washington does not levy a corporate

profits tax, so businesses may not be as opposed to the gross receipts tax on out-of-state sales there as they might be in Vermont; if we had both a gross receipts tax on out-of-state sales as well as the corporate profits tax.]

If these types of firms' receipts are excluded, the base of the tax becomes narrower and its revenue-raising potential, for every percentage point of tax, becomes lower. The more of these exemptions and exclusions that are put into the tax structure -- for whatever reason -- the more the tax loses its appeal of being able to raise large amounts of revenue at low tax rates.

An equally serious issue is what to do about purchases by a Vermont firm of products sold by out-of-state firms (that is, imports into Vermont). If these are exempted from the tax, Vermont firms would be placed at a competitive disadvantage to non-Vermont firms because they would have higher costs (the additional cost of the gross receipts tax) than out-of-state firms. If out-of-state purchases were liable for the tax, Vermont firms would not be at a disadvantage and the tax revenues from the tax would be greater. The downside is that the administrative costs of the tax would be higher and more complicated for the Tax Department, as it would have to enforce the collection of a gross receipts use tax in Vermont. The state currently has this problem with the sales and use tax. Most businesses pay the use tax, but very few Vermont residents pay the use tax on goods they buy in New Hampshire or other states or by mail order. The state could probably enforce a gross receipts use tax on business, but not on residential buyers of out-of-state products.

Another significant issue that should be considered before implementing a gross receipts tax is simply that a gross receipts tax that generated a large amount of revenue would mean a new tax environment in the state. Businesses and individuals react to the current tax environment -- whatever it is -- by adjusting their behavior in response to the tax structure. Any new tax, especially a major new tax that would generate large amounts of revenue, would mean that businesses and individuals would have to adjust their behavior. This creates short-term dislocations and disruptions to the way they do business and engage in economic activities. Thus, any major tax law change has negative consequences simply because it is a change. This obviously has to be balanced against any potential benefits that the new tax, once in place, would bring to an economy.

Conclusions and
recommendations

A gross receipts tax has several advantages. It can bring in large amounts of revenue at a low tax rate. Because it can tax at a low rate, it minimizes economic distortions. The gross receipts tax does

lead to distortions and negative economic consequences -- as does any tax. A pure gross receipts tax is in conflict with several principles of taxation. Washington's model minimizes these problems by having a very low gross receipts tax rate, but that tax brings in a relatively small amount of money compared to Hawaii's. A pure broad-based gross receipts tax in Vermont could have these advantages but it suffers from all the disadvantages inherent in any gross receipts tax.

A close alternative tax to the gross receipts tax is a very broad-based sales tax. This has many of the advantages of a broad-based gross receipts tax without its disadvantages. We think that the Hawaii model is an intriguing one to explore. Although Hawaii's tax is considered a gross receipts tax, because of the way it is structured and the rates that are levied, it is really a very broad retail sales tax. If Vermont adopted a 3% tax using the same base as Hawaii, with minimal exemptions, Vermont could eliminate its sales tax and cut all education property taxes on businesses and residences by two-thirds. Or Vermont could adopt a 4% gross receipts tax and completely eliminate all education property taxes on residences and businesses and also replace the existing sales tax.

One of the most important elements of either the gross receipts or broad-based sales tax is to set the base as broad as possible in order to set the rate as low as possible. This means that the legislature would have to resist the temptation to grant exemptions no matter how appealing the exemption may appear to be. The benefits of these broad-based taxes are captured and the disadvantages avoided only if the legislature can do this.

If Vermont adopted something similar to Hawaii's tax, Vermont would be essentially implementing a broad-based sales tax at a rate one or two points lower than the current rate. This would have obvious advantages for the retail economy along the Connecticut River. It would also benefit all Vermont merchants by making them more competitive with untaxed mail order and catalog merchants. The regressivity of the tax on food and other purchases could be easily ameliorated by the use of expanding the existing income tax credits the state uses. Because Vermont already has two different types of tax credits, the administrative costs of simply expanding them would be close to zero.

Sponsors of this study are: Associated Industries of Vermont, Greater Burlington Industrial Corporation, Lake Champlain Chamber of Commerce, National Federation of Independent Business/Vermont, Vermont Association of Realtors, Vermont Bankers Association, Inc., Vermont Chamber of Commerce, Vermont Ski Areas Association.

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 258
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title: Change Business License Fee to Receipts Tax BRU: Revenue Operations
 Component: Tax Division
 Sponsor: Representative Scalzi
 Requester: House Labor and Commerce Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ()	**	**	**	**	**	**

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	*	*	*	*	*	*
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY2001) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS:

* We estimate recurring annual costs of approximately \$3 million per fiscal year starting in FY2002. These annual costs assume operating efficiencies resulting from an estimated capital outlay of \$1 million in FY2002 for technology infrastructure (tax collection software and new hardware).

** Please see attached page for revenue analysis.

Prepared by: Chuck Harlamert and Brett Fried Phone 465-3682 or 465-4773
 Division: Tax Division Date/Time 4/26/01 1:00 PM
 Approved by: Larry Persily, Deputy Commissioner Date April 26, 2001
 Agency: Department of Revenue

For distribution information, call the Governor's Legislative Office

Department of Revenue Fiscal Note and Bill Analysis HB 258 – April 26, 2001

REVENUE ANALYSIS

The U.S. Economic Census estimates that the total value of all sales, receipts or revenue for Alaska establishments in 1997 was approximately \$35 billion. This includes the production, transportation and refining of oil and gas. Additionally, it includes revenue from utilities, for-profit hospitals and social services. If we exclude these categories (as instructed in this legislation), the revised estimate is \$22 billion.

However, this estimate includes gross receipts from single sales over \$2,000, and this legislation would exclude from the gross receipts tax the value of single sales over \$2,000. Because there is no estimate of the number or size of such sales, it is very difficult to adjust for "single items that exceed \$2,000." We could exclude certain categories where \$2,000 is a relatively small percentage of each sale. The problem is that we do not have the ability to estimate how this would apply to services. For example, although the Economic Census' estimate for legal service receipts is approximately \$250 million, there is no way of knowing how many of the "sales of each single legal service" exceeded the \$2,000 cap. If, however, we do not adjust services but exclude sales categories where under-\$2,000 is, in general, a small percentage of each sale (e.g., motor vehicle, RV, construction and mining), then the revised estimate would be approximately \$16 billion. This translates to a very rough estimate of approximately \$320 million for a 2% gross receipts tax.

Because the definition of sales is related to function, we assume that if a seafood manufacturer sold 1,000 cases of 48 cans to an independent broker, this would translate to 48,000 single sales. Thus, the entire shipment would qualify under the cap. There is, of course, the potential for pyramiding. For example, if a fisherman delivers fish to an Alaska cannery, the gross receipts tax would apply when the fish was sold to the cannery, when the same fish was sold in cans to an Alaska wholesaler, when the fish was sold to an Alaska retailer, and finally when the fish was sold to Alaska consumers. The final sale would include taxes from four different transactions where the amount includes the tax from the previous transaction.

We are also make the following additional assumptions in our revenue analysis:

- (1) No increase in mail order or internet sales as a percent of total sales from 1997.
- (2) That non-compliance with the gross receipts tax would be zero.
- (3) The tax does not change consumer or business choices.
- (4) No change in Alaska gross receipts since 1997.

prepared by Chuck Harlamert and Brett Fried, Tax Division

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 258
 () Publish Date: _____

Revision Date/Time (Note if correction): 04/27/2001 1:20p.m. Dept Affected: DCED
 Title: An Act converting...business license fee to a tax; BRU: Occupational Licensing
...and transferring administration...to the Dept of Revenue;... Component: Occupational Licensing
 Sponsor: Representative Scalzi
 Requester: House Labor and Commerce Component Number: 2360

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	0.0	(183.3)	0.0	0.0	0.0	0.0
Travel		(1.5)				
Contractual		(76.6)				
Supplies		(0.5)				
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	(261.9)	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
CHANGE IN REVENUES (1005)		(2,000.0)				

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts		(520.0)				
1037 GF/Mental Health						
1156 Receipt Supported Services		25E.1				
TOTAL	0.0	(261.9)	0.0	0.0	0.0	0.0

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal: X

POSITIONS

Full-time		-5				
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 258 proposes to move the Alaska Business Licensing Program to the Department of Revenue. The expenditures shown above represent direct and indirect costs funded by the Business Licensing Program within DCED/Division of Occupational Licensing. A detailed explanation of the expenses is attached.

This fiscal note is based on the FY 2001 budget and FY 2000 expenditures and will need to be updated next year to reflect more current figures.

Prepared by: Jennifer Strickler, Administrative Manager Phone (907) 465-2144
 Division: Occupational Licensing Date/Time 04/27/2001 1:20p.m.
 Approved by: Commissioner Deborah B. Sedwick Date 4/27/2001
 Agency: Dept. of Community and Economic Development

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ANALYSIS: (continued)

HB 258: An Act converting...business license tax;...and transferring administration...to the Dept of Revenue;...

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Personal Services:

The Business Licensing Program provides full funding for five support positions totaling \$183.3 (\$194.3 minus 5.67% vacancy factor) in the following locations -

2 - Anchorage: Administrative Clerk II, and Administrative Clerk III

2 - Juneau: Administrative Clerk II, and Administrative Clerk III

1 - Fairbanks: Administrative Clerk III

The above expenses would be moved with the program.

Additionally, the program funds percentages of several positions within the Division of Occupational Licensing for other services (i.e., general clerical and management support) totaling \$135.6. Currently, the funding source for these expenses is general fund/program receipts from business licensing fees. Transfer of the program to the Department of Revenue will require this funding to be changed to Receipt Supported Services funded by licensing fees of occupational and professional licensing programs.

Travel:

The \$1.5 is based on the FY 2001 authorized budget for visiting field offices in Anchorage and Fairbanks. These travel expenses would be moved with the program.

Contractual:

The \$76.6 is based on FY 2000 expenses charged to the business licensing program for communications, printing, and other contractual activities. An annual large expense is preparation of the license renewal packets mailed to licensees whose licenses expire on December 31 of each year. These expenses would be moved with the program.

The transfer of the business licensing program out of the Division of Occupational Licensing will require a funding source change of \$122.5 to Receipt Supported Services funded by licensing fees of occupational and professional licensing programs. All programs in the Division of Occupational Licensing are assessed a percentage of indirect costs; and business licensing has been responsible for 15% of those costs.

Supplies:

The \$.5 is based on the FY 2001 authorized budget. These expenses would be moved with the program.

REVENUE:

Each year the program generates approximately \$2,000.0 in licensing and tobacco endorsement fees, although only a small portion is authorized to be spent for program operations.

Transferring the program to the Department of Revenue will require \$258.1 GF/PR authorization currently funded by the business licensing program to switch to Receipt Supported Services. This will require an increase to occupational and professional licensing fees to support this funding source change.



Alaska State Legislature

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HB 258 – Gross Receipts Tax Highlights

- A gross receipts tax is a tax on the gross receipts of all business activities carried out in the state. Specifically: it is a tax from sales of goods, wares and merchandise manufactured, processed or originating in the state, whether the receipts are in the form of money, credits, or other valuable consideration received from engaging in or conducting a business, without deducting the cost of the property sold, the cost of the materials used, labor or service cost, interest paid, taxes, losses, amounts paid or assigned to subcontractors, gross commissions of individuals who work as agents on commission, or any other expense.
- Alaska had a gross receipts tax in place until 1978 when it was withdrawn -- at about the same time that the individual income tax was withdrawn.
- All revenue generated under HB 258 would be deposited into the General Fund. According to the Department of Revenue revenue from this gross receipts tax proposal would raise between \$300 & \$310 Million.

In HB 258 –

- A gross receipts tax of 2 % tax would be imposed on all individual sales and services up to \$2,000 per individual sale.
- The business licensing function would be moved to the Department of Revenue helping the department track gross receipts tax reporting and payment.
- Enforcement procedures & penalties for failure to pay gross receipts taxes are set out.
- The \$25 business license fee is converted to a business license tax.
- Implementation details are to be set up by regulation through the Dept. of Revenue
- Sales and Services Exemptions to the tax:
 - Educational
 - Religious
 - Many non-profit activities
 - Hospital charges
 - Municipally owned and operated utilities
 - Home handcraft sales up to \$500
 - Items shipped outside the country
 - Oil & Gas production
 - Taxes on motor fuel or collected for a municipality
 - Some accounting write-offs
 - Gross receipts of single items over \$2,000

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Advantages of a Gross Receipts tax as opposed to a Sales Tax:

- A gross receipts tax is invisible to the consumer.
- Because it would be calculated separately from the point of sale, it would not interfere with municipalities' or boroughs' collection of sales taxes.
- Tourists and visitors would also contribute substantially to supporting our state's budget.
- Because the gross receipts tax is on all levels of sales instead of just at the final point of sale, the gross receipts tax would produce more tax revenue. 2% Sales tax on \$100 = \$2.00; Gross receipts tax on \$102 (when the gross receipts tax is included in the price of the item) would result in \$2.04 in gross receipts tax revenue.

Disadvantages of a Gross Receipts tax:

- Because the gross receipts tax is levied at all stages of the production process, it *pyramids* the taxes by charging on wholesale purchases, costs of goods sold at purchase and again at final sale. *Pyramiding* can have several negative effects such as leading firms to vertically integrate or to produce some of their inputs themselves. It also creates a disincentive to firms looking to locate in the state if they are purchasers of a lot of inputs.
- Methods of exempting the various entities might be cumbersome and hard to track.

LEGAL SERVICES

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

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

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

MEMORANDUM

January 18, 2002

SUBJECT: Sectional Summary of Business License Tax
(HB 258, Work Order No. 22-LS0920/J)

TO: Representative Drew Scalzi
Attn: Judi Jordan

FROM: Kathryn L. Kurtz *KK*
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

* **Section 1.** Amends the Alaska Small Loans Act to conform to changes made later in the bill to the Alaska Business License Act.

* **Sec. 2.** Removes a reference to the Alaska Business License Act from the chapter on centralized licensing.

* **Sec. 3.** Removes a reference to the Alaska Business License Act from the chapter on centralized licensing.

* **Sec. 4.** Removes references to the Alaska Business License Act and engaging in business from the chapter on centralized licensing.

* **Sec. 5.** Removes a reference to the Alaska Business License Act from the definition of license in the chapter on centralized licensing.

* **Sec. 6.** Changes a reference in the Electric and Telephone Cooperative Act from business license fee to business license tax.

* **Sec. 7.** Provides that the court shall forward the record of a person with a business license endorsement to sell tobacco who is convicted of selling or giving tobacco to a minor to the Department of Revenue instead of the Department of Community and Economic Development.

Representative Drew Scalzi
January 18, 2002
Page 2

- * Sec. 8. Changes a reference to the Commissioner of Community and Economic Development to the Commissioner of Revenue in a statute permitting suspension or revocation of the business license of a fish buyer or processor.
- * Sec. 9. Removes references to the Commissioners of Revenue and Community and Economic Development in a statute providing that the information contained in certain business licenses is public information.
- * Sec. 10. Changes the phrase "license fee" in the section on applying for a business license to "tax."
- * Sec. 11. Adds new subsections to the section on applying for a business license explaining when the business license tax shall be paid.
- * Sec. 12. Changes a reference from "license fee" to "tax," and specifies that the tax consists of \$25 per year plus an amount to be determined under AS 43.70.030(c) (see section 14, below), less any professional license fees paid under the centralized licensing statute.
- * Sec. 13. Provides that the gross receipts of a mail order office in the state shall include receipts from all orders taken at the office regardless whether delivery of the goods ordered is made through that office.
- * Sec. 14. Levies an annual business license tax of two percent of gross receipts in addition to the \$25 due under AS 43.70.030(a).
- * Sec. 15. Levies a tax of two percent of net income on banks, trust companies, and savings and loans in place of the tax levied in AS 43.70.030.
- * Sec. 16. Requires that nonresidents not holding adequate property in the state to secure collection of the business license tax post a security bond.
- * Sec. 17. Exempts certain gross receipts from the business license tax.
- * Sec. 18. Adds definitions of "gross receipts," "income year," and "tax" to the business license statute.
- * Sec. 19. Adds definitions of "commissioner" and "department" to the title on revenue and taxation.
- * Sec. 20. Repeals the listed sections.
- * Sec. 21. Provides an effective date of January 1, 2003.



Alaska State Legislature

Official Business

REPRESENTATIVE DREW SCALZI
State Capitol
Juneau, Alaska 99801-1182

(907) 465-2689; (800) 665-2689
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Representative_Drew_Scalzi@legis.state.ak.us

House Bill 258 Sponsor Statement

"An Act converting the business license fee to a business license tax; adding, as an element of that tax, computation of the tax based on the taxpayer's gross receipts; establishing adjustments to that tax; and transferring administration of the levy to the Department of Revenue; and providing for an effective date."

As an aspect of a revenue generating proposal, I am introducing a bill proposing a gross receipts tax for purposes of discussion. As opposed to the sales and use tax I have proposed in HB 233, the gross receipts tax is, in its most simple form, a tax on all individual sales and services up to \$2,000.

HB 258 proposes to move the business licensing function and enforcement to the Department of Revenue and would convert the current \$25 business license fee to a business license tax of the same amount. In addition the Department of Revenue would set out the procedures for implementing and collecting a 2% tax calculated on the total gross receipts of a business.

There are some exceptions to the gross receipts tax. Gross receipts from: educational, religious, and many non-profit activities, from the operation of a hospital, or a municipally owned and operated utility would be exempted. In addition, home handicraft sales up to \$500 and gross receipts on items to be shipped to a person in a foreign country; taxes on motor fuel or collected for a municipality, and various accounting write-offs would be exempted.

Because the sales tax is added on to the price of the product at the time of sale, it is highly visible to the consumer. On the other hand, the gross receipts tax would be invisible to the consumer because it would be levied on the seller's total revenue stream as reported to the Department of Revenue. This would be much easier to calculate and verify.

The gross receipts tax would also have a cap of \$2,000 per sale to which the tax would be applied. Because it would be a completely separate calculation, the gross receipts tax would not be confused with or interfere with municipalities' or boroughs' collection of sales taxes.

An additional benefit of this form of revenue enhancement is that tourists and visitors would also contribute substantially to supporting our state's budget -- revenue that the state would not have otherwise. All revenue generated by this tax would be deposited into the General Fund to help pay for the many services state government must provide.

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 258
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title: Change Business License Fee to Receipts Tax BRU: Revenue Operations
Sponsor: Representative Scalzi Component: Tax Division
Requester: House Labor and Commerce Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING

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

CHANGE IN REVENUES ()	**	**	**	**	**	**
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS:

* We estimate recurring annual costs of approximately \$3 million per fiscal year starting in FY2002. These annual costs assume operating efficiencies resulting from an estimated capital outlay of \$1 million in FY2002 for technology infrastructure (tax collection software and new hardware).

** Please see attached page for revenue analysis.

Prepared by: Chuck Harlamert and Brett Fried
Division: Tax Division
Approved by: Larry Persily, Deputy Commissioner
Agency: Department of Revenue

Phone 465-3682 or 465-4773
Date/Time 4/26/01 1:00 PM
Date April 26, 2001

For distribution information, call the Governor's Legislative Office

Department of Revenue Fiscal Note and Bill Analysis
HB 258 – April 26, 2001

REVENUE ANALYSIS

The U.S. Economic Census estimates that the total value of all sales, receipts or revenue for Alaska establishments in 1997 was approximately \$35 billion. This includes the production, transportation and refining of oil and gas. Additionally, it includes revenue from utilities, for-profit hospitals and social services. If we exclude these categories (as instructed in this legislation), the revised estimate is \$22 billion.

However, this estimate includes gross receipts from single sales over \$2,000, and this legislation would exclude from the gross receipts tax the value of single sales over \$2,000. Because there is no estimate of the number or size of such sales, it is very difficult to adjust for "single items that exceed \$2,000." We could exclude certain categories where \$2,000 is a relatively small percentage of each sale. The problem is that we do not have the ability to estimate how this would apply to services. For example, although the Economic Census' estimate for legal service receipts is approximately \$250 million, there is no way of knowing how many of the "sales of each single legal service" exceeded the \$2,000 cap. If, however, we do not adjust services but exclude sales categories where under-\$2,000 is, in general, a small percentage of each sale (e.g., motor vehicle, RV, construction and mining), then the revised estimate would be approximately \$16 billion. This translates to a very rough estimate of approximately \$320 million for a 2% gross receipts tax.

Because the definition of sales is related to function, we assume that if a seafood manufacturer sold 1,000 cases of 48 cans to an independent broker, this would translate to 48,000 single sales. Thus, the entire shipment would qualify under the cap. There is, of course, the potential for pyramiding. For example, if a fisherman delivers fish to an Alaska cannery, the gross receipts tax would apply when the fish was sold to the cannery, when the same fish was sold in cans to an Alaska wholesaler, when the fish was sold to an Alaska retailer, and finally when the fish was sold to Alaska consumers. The final sale would include taxes from four different transactions where the amount includes the tax from the previous transaction.

We are also make the following additional assumptions in our revenue analysis:

- (1) No increase in mail order or internet sales as a percent of total sales from 1997.
- (2) That non-compliance with the gross receipts tax would be zero.
- (3) The tax does not change consumer or business choices.
- (4) No change in Alaska gross receipts since 1997.

prepared by Chuck Harlamert and Brett Fried, Tax Division

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 258
() Publish Date: _____

Revision Date/Time (Note if correction): 04/27/2001 1:20p.m. Dept. Affected: DCED
Title: An Act converting...business license fee to a tax; BRU: Occupational Licensing
...and transferring administration...to the Dept of Revenue;... Component: Occupational Licensing
Sponsor: Representative Scalzi
Requester: House Labor and Commerce Component Number: 2360

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	0.0	(183.3)	0.0	0.0	0.0	0.0
Travel		(1.5)				
Contractual		(76.6)				
Supplies		(0.5)				
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	(261.3)	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (1005)		(2,000.0)				
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts		(520.0)				
1037 GF/Mental Health						
1156 Receipt Supported Services		258.1				
TOTAL	0.0	(261.9)	0.0	0.0	0.0	0.0

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal: X

POSITIONS

Full-time		-5				
Part-time						
Temporary						

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

HB 258 proposes to move the Alaska Business Licensing Program to the Department of Revenue. The expenditures shown above represent direct and indirect costs funded by the Business Licensing Program within DCED/Division of Occupational Licensing. A detailed explanation of the expenses is attached.

This fiscal note is based on the FY 2001 budget and FY 2000 expenditures and will need to be updated next year to reflect more current figures.

Prepared by: Jennifer Strickler, Administrative Manager Phone (907) 465-2144
Division: Occupational Licensing Date/Time 04/27/2001 1:20p.m.
Approved by: Commissioner Deborah B. Sedwick Date 4/27/2001
Agency: Dept. of Community and Economic Development

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ANALYSIS: (continued)

HB 258: An Act converting...business license tax;...and transferring administration...to the Dept of Revenue;...

Page 2 of 2

Personal Services:

The Business Licensing Program provides full funding for five support positions totaling \$183.3 (\$194.3 minus 5.67% vacancy factor) in the following locations -

2 - Anchorage: Administrative Clerk II, and Administrative Clerk III

2 - Juneau: Administrative Clerk II, and Administrative Clerk III

1 - Fairbanks: Administrative Clerk III

The above expenses would be moved with the program.

Additionally, the program funds percentages of several positions within the Division of Occupational Licensing for other services (i.e., general clerical and management support) totaling \$135.6. Currently, the funding source for these expenses is general fund/program receipts from business licensing fees. Transfer of the program to the Department of Revenue will require this funding to be changed to Receipt Supported Services funded by licensing fees of occupational and professional licensing programs.

Travel:

The \$1.5 is based on the FY 2001 authorized budget for visiting field offices in Anchorage and Fairbanks. These travel expenses would be moved with the program.

Contractual:

The \$76.6 is based on FY 2000 expenses charged to the business licensing program for communications, printing, and other contractual activities. An annual large expense is preparation of the license renewal packets mailed to licensees whose licenses expire on December 31 of each year. These expenses would be moved with the program.

The transfer of the business licensing program out of the Division of Occupational Licensing will require a funding source change of \$122.5 to Receipt Supported Services funded by licensing fees of occupational and professional licensing programs. All programs in the Division of Occupational Licensing are assessed a percentage of indirect costs; and business licensing has been responsible for 15% of those costs.

Supplies:

The \$5 is based on the FY 2001 authorized budget. These expenses would be moved with the program.

REVENUE:

Each year the program generates approximately \$2,000.0 in licensing and tobacco endorsement fees, although only a small portion is authorized to be spent for program operations.

Transferring the program to the Department of Revenue will require \$258.1 GF/PR authorization currently funded by the business licensing program to switch to Receipt Supported Services. This will require an increase to occupational and professional licensing fees to support this funding source change.

Analysis of a gross receipts
tax for Vermont

<http://ibert.org/VT/gross1.html>

Prepared by Richard Heaps and Arthur Woolf
Northern Economic Consulting, Inc.
March 31, 1997

A gross receipts tax in its most simple form is a tax on the total dollar value of sales resulting from any market transaction. That transaction can be the exchange of a good or service for payment at the retail level, as when someone buys an article of clothing at a store. Or it can occur when one business buys a good or service from another business.

The gross receipts tax is similar in concept to a sales tax in that it is levied as a percentage of the dollar value of the transaction. However, there are two major differences between a gross receipts tax and a sales tax.

One is that a sales tax is only levied at the point of final sale of a product, while the gross receipts tax is levied at all levels of sale.

[For this reason, a gross receipts tax is sometimes called a "turnover tax."]

That is, a sales tax is levied when a consumer or business buys a product for final use. People pay the tax when they buy any item that is taxable -- clothing, hardware, and appliances, for example. Businesses pay the sales tax on furniture, office supplies, and similar items. They do not pay the sales tax when they buy goods that are used in the manufacturing process. The gross receipts tax is levied on the total revenues or receipts of all firms, not just at the point of final sale of the product.

The second difference is that the sales tax is added on to the price of the product at the time of sale and is highly visible to the consumer. The gross receipts tax is levied on the seller's total revenue stream.

[Note the difference: a 5% sales tax on a product that sells for \$100 results in a \$5 tax that goes to the state treasury. In the case of a gross receipts tax, if the seller adds a 5% gross receipts tax to the price of a \$100 product and sells it for \$105, the tax revenue accruing to the state treasury is \$5.25 -- 5% of \$105.]

The gross receipts tax is therefore more of a hidden tax that is not

immediately apparent to the buyer of the product.

Although a gross receipts tax is sometimes discussed in the context of a tax on the entire gross state product, this is not accurate. A gross receipts tax is not the same as a tax levied on the total gross state product. Gross state product is the state analog of the gross domestic products (GDP) of the nation.

Consider the following example: A Vermont bakery that buys \$30 of flour, pays \$50 of wages and sells 100 loaves of bread to its customers for a total of \$100 has contributed \$70 to Vermont gross state product ($\$100 - \$30 = \$70$ in value added). It has gross receipts of \$100. A gross receipts tax taxes the entire \$100 of sales while a tax levied only on the gross state product contribution of the firm would tax only the \$70 of value added by the firm. Therefore a gross receipts tax has the potential for a tax revenue base that is larger than the entire gross state product.

[A tax that was levied on the total gross state product would be the equivalent of a value-added tax (VAT). The VAT is a widely used tax by national governments in Europe but is not used by the US government. The only two states in the US that use a value added tax are Michigan and New Hampshire.]

This example also illustrates one of the major problems with a gross receipts tax -- pyramiding. Pyramiding (sometimes called cascading) occurs because the tax is levied at all stages of the production process. If a miller sells \$30 of flour to a baker and the gross receipts tax is 5%, the miller pays a gross receipts tax of 5%, or \$1.50. If the entire tax was passed on to the seller, the baker pays \$31.50 for the flour. The baker then bakes bread and sells the 100 loaves of bread to its customers. If the baker now charges his customers \$101.50 for the bread, he would pay a 5% gross receipts tax (5% of \$101.50 = \$5.08). If the baker passes that tax on to his customers, his customers pay a total of \$106.58 for the 100 loaves of bread. Therefore, the additional taxes pyramid and the final price of the product is 6.58% higher than it was before the tax was levied. To the consumer, the gross receipts tax rate is actually 6.58%, not the nominal 5% rate.

Pyramiding has several negative impacts. First, it can lead firms to vertically integrate or to produce some of their inputs themselves. That is, if the baker and miller become one firm, they can jointly avoid one state of the gross receipts tax. In this example, the tax has caused the two firms to change their behavior purely because of taxes. Whenever possible, tax policy should be designed to minimize any behavioral changes on the part of businesses or individuals.

Second, pyramiding creates a disincentive for firms to locate or expand in the state if they are heavy users of purchased inputs. That usually means manufacturing firms. Take, for example, a firm that buys lumber from local loggers and produces wood furniture. The logger pays the gross receipts tax, which is embedded in the cost of wood that the furniture producer pays. The furniture producer then pays the gross receipts tax on the sale of the furniture to its customers. The customers ultimately pay a higher price for the wood furniture. If the logger sold the wood to an out-of-state processor, that out-of-state firm would have lower costs since it would not pay the tax on its sales. The gross receipts tax would therefore be particularly onerous for firms which did buy a substantial amount of purchased inputs. Service sector firms (accountants, lawyers, economic consultants), by contrast, which use few purchased inputs other than labor, are only minimally affected by pyramiding.

[Analysis of two states, Washington and Hawaii, which currently use a gross receipts tax, has been omitted here.]

[Criteria for evaluating a gross receipts tax are omitted here but incorporated into the ensuing section.]

Evaluation of a gross receipts tax
in Vermont

The tax must raise the necessary revenues

A gross receipts tax is under consideration in Vermont to become a major source of revenue to fund K-12 public education. This means the gross receipts tax must be able to raise a substantial amount of tax revenues. School property taxes in Vermont currently raise more than \$400 million for education. In addition, if the gross receipts tax was to also replace the state sales tax, it would need to raise about \$200 million more revenues.

A gross receipts tax in Vermont could be constructed which would yield a substantial share, if not all, of the revenues needed to replace school property taxes and the sales tax. If Vermont politicians have the political will to resist the numerous requests for exemptions and keep the tax base for the gross receipts defined broadly, the gross receipts tax could raise substantial sums with a tax rate ranging from 2% to 4%. This would entail taxing all items currently subject to the general sales tax, plus taxing such items as food, prescription drugs, services, and many more.

Therefore, a gross receipts tax could raise most if not all the necessary \$600 million revenues at an acceptable rate.

The overall tax structure must be equitable

Vermont currently has one of the most equitable (in terms of vertical equity) state tax structures in the nation. According to a 1996 study by Citizens for Tax Justice, Vermont's overall tax structure was one of the four least regressive state tax systems in the US.

[Who Pays? A Distributional Analysis of the Tax Systems in all 50 States, Citizens for Tax Justice and the Institution on Taxation & Economic Policy, June 1996.]

The substitution of a gross receipts tax for all or part of the school property tax and, possibly, the sales tax raises the issue of whether this would make the Vermont overall tax structure more or less progressive. We base the following analysis on the findings of the 1996 study by the Citizens for Tax Justice.

Contrary to popular opinion, the Vermont property tax is not egregiously regressive. Rather most Vermont families pay about the same percent of their income in property taxes. This percent ranges from 3.4% to 4.6% of family income for the majority of taxpayers, with no noticeable trend from lower to upper incomes. The sales tax in Vermont is regressive, ranging from 1.9% for the lowest income families to 0.4% on the highest income families. The sales tax shows a steady regressive trend from high to low incomes.

A flat rate, broadly based gross receipts tax would be regressive, but less so than the sales tax. The regressivity is mostly attributable to the fact that saving increases as incomes increase. However, because services are generally income-elastic (that is, spending on services increases as income increases), the gross receipts tax, which taxes all services, might be more progressive than the sales tax.

The interesting equity issue is whether replacing the property tax with the gross receipts tax will make the Vermont tax structure more regressive. Resolving this issue is beyond the scope of this study. However, given the estimates of the regressivity of sales taxes in Washington and Hawaii by the Citizens for Tax Justice, it is a real possibility that replacing the property tax with a gross receipts tax may make Vermont's overall tax structure more regressive.

We do not believe this would be a hard sell to the Vermont public as the property tax is probably the most hated tax in Vermont and is widely believed to be regressive in spite of the contrary evidence.

Therefore, the gross receipts tax may not represent a net gain in vertical equity in the Vermont tax structure. However, the political resistance to it on equity grounds would be minor.

The tax must be efficient

All taxes distort economic activity. Therefore, a broad-based gross receipts tax has the potential to distort a great deal of economic activity. Therefore, it must be levied at a low rate/s to minimize economic distortions. A gross receipts tax could be set at a low level in Vermont and generate substantial revenues.

The gross receipts tax which replaces the local school property tax would help alleviate property-tax-induced bias against adding to one's real estate holdings. Further, if the gross receipts tax replaces the sales tax (in effect, just lowers it from the current 5% to some lower rate), this could provide substantial relief to retail businesses in Vermont who compete with tax-free New Hampshire and tax-free mail order businesses.

Therefore, a gross receipts tax that employs a low tax rate would have minimal efficiency concerns, particularly compared to the efficiency concerns with the property tax and sales tax that the gross receipts tax would be replacing.

The tax should have a low cost for administration and compliance

A broad-based gross receipts tax with few exemptions would have a relatively low cost of administration and compliance. The administrative cost would be substantial, as almost all Vermont firms would be filing a gross receipts tax return. However, the potential revenues would be quite high, justifying the administrative cost. The state has an existing mechanism in place to collect the sales tax which could be extended to the gross receipts tax. Compliance of firms could be checked against their income tax returns.

The cost of compliance to taxpayers would also be relatively low with a gross receipts tax if few exemptions were allowed.

The tax should be exported

Vermont exports part of its sales tax and its property tax to the rest of the US. The sales tax is exported through direct sales to tourists and other visitors to the state. It is also exported by those Vermont firms that sell products outside of Vermont and pass on any sales taxes they may have paid in the price of the product.

Some of the property tax which Vermont businesses pay is exported in the same manner by those Vermont firms which pass on the property tax cost in the products which they sell outside of Vermont. Some residential property taxes are exported through the federal income tax code. Property taxes are deductible from income for tax

itemizers. We roughly estimate that of the \$230 million in residential school property taxes paid in Vermont, about \$20 million to \$30 million is exported to the rest of the US through the federal income tax deductions for property taxes.

The gross receipts tax would be exported through the sale to nonresidents of goods and services subject to the tax. This would probably be considered acceptable in the case of sales to tourists and other visitors to Vermont. However, in the case of exporters of Vermont products, a competitive issue arises. Hawaii's gross receipts tax does not apply to exporters because of this concern. Should a Vermont gross receipts tax be designed to exempt exports, obviously less exportation of the gross receipts tax would occur.

Therefore, a gross receipts tax which replaces the property tax and sales tax may result in less exportation of Vermont taxes to nonresidents.

The tax should be simple and transparent

A gross receipts tax is simple to understand as long as a single rate is used and few exemptions are allowed. However, the tax is not transparent in its entirety because of the issue of pyramiding of the tax. (Explained earlier.) For example, in Hawaii, pyramiding and taxation of intermediate sales by the General Excise Tax increases the effective tax rate from the nominal 4% to an effective rate between 4.79% and 5.42%. Therefore, the effective tax rate is 25% higher than most people think it is and the full extent of the gross receipts tax is not transparent to the public.

Therefore, while the gross receipts tax may be simple to understand, so were the sales and property taxes that it would replace. However, the gross receipts tax is much less transparent than the property tax or sales tax. The pyramiding issue is a major concern.

The tax should be a stable source of revenue

The gross receipts can be expected to raise a stable source of revenue for the State of Vermont. Whereas income and especially business income can be quite volatile year to year, total spending exhibits less instability.

The government does not set the amount of revenue to be collected with a gross receipt, sales, or income tax. Rather, it sets a tax rate and the level of economic activity determines the tax revenue actually to be collected. The property tax is different. The amount of revenue to be collected is set by a town. Only then is a rate

determined, based on the Grand List of the town. The Grand List usually grows slowly but steadily each year, which makes the property tax a very stable base on which to levy a tax. Towns then know almost with complete certainty how much revenue they will receive from any given tax rate. The property tax is the most stable revenue source that a government can use to finance its operations.

For this reason, a gross receipts tax that replaces a property tax to fund education does not represent a net gain in stability for the tax system. However, compared to most other tax sources, such as the income tax or corporate profits tax, the gross receipts tax is generally considered a stable tax. Continue the report

Vermont considerations

In this section we briefly consider some of the many issues that a gross receipts tax brings up and point to specific Vermont firms, industries, and issues that would need to be resolved if a gross receipts tax was to be considered.

A gross receipts tax is essentially an added cost of doing business for firms. The ultimate incidence of the tax, however, may not fall entirely on the business or activity that is being taxed. Tax incidence deals with the question of who ultimately pays the tax. The economic incidence of a tax is generally not the same groups or individuals as the statutory incidence of the tax.

[A classic example of this is the social security tax. The 12.4% tax rate has a statutory split of 50%: half the tax is paid by the employee and half by the employer. But the ultimate incidence of the tax falls entirely on the employee.]

Taxes cause people and firms to change their behavior. A 1% gross receipts tax would be the same as a 1% increase in the cost of doing business for a firm. That might lead firms to raise their prices by one percent; or it might cause them to reduce some input cost (especially wages or benefits) by more than one percent; or it might reduce their profits by more than one percent. Most likely, it might cause some combination of these three changes.

Without knowing more about the specifics of each firm, its competitive position, the types of products produced, where the products were sold, the cost structure of the firm, and other information, we cannot generalize about the ultimate incidence of a gross receipts tax. Nor can we generalize about the total impact on a firm's economic competitiveness. But those firms who face competitors in other states would certainly have a harder time passing on the tax to consumers than would firms which sell most of their output to Vermont residents.

One alternative, then, would be to exempt the tax from the sale of output to out-of-state buyers. This would be very important to the state's manufacturing sector, but also to large wholesaling firms such as C&S Wholesalers, which has revenues of over \$1 billion. Washington does exempt the out-of-state sales of wholesalers, but it does tax the out-of-state sales of manufacturers (such as Boeing).

[We should note here that Washington does not levy a corporate

profits tax, so businesses may not be as opposed to the gross receipts tax on out-of-state sales there as they might be in Vermont if we had both a gross receipts tax on out-of-state sales as well as the corporate profits tax.]

If these types of firms' receipts are excluded, the base of the tax becomes narrower and its revenue-raising potential, for every percentage point of tax, becomes lower. The more of these exemptions and exclusions that are put into the tax structure -- for whatever reason -- the more the tax loses its appeal of being able to raise large amounts of revenue at low tax rates.

An equally serious issue is what to do about purchases by a Vermont firm of products sold by out-of-state firms (that is, imports into Vermont). If these are exempted from the tax, Vermont firms would be placed at a competitive disadvantage to non-Vermont firms because they would have higher costs (the additional cost of the gross receipts tax) than out-of-state firms. If out-of-state purchases were liable for the tax, Vermont firms would not be at a disadvantage and the tax revenues from the tax would be greater. The downside is that the administrative costs of the tax would be higher and more complicated for the Tax Department, as it would have to enforce the collection of a gross receipts use tax in Vermont. The state currently has this problem with the sales and use tax. Most businesses pay the use tax, but very few Vermont residents pay the use tax on goods they buy in New Hampshire or other states or by mail order. The state could probably enforce a gross receipts use tax on business, but not on residential buyers of out-of-state products.

Another significant issue that should be considered before implementing a gross receipts tax is simply that a gross receipts tax that generated a large amount of revenue would mean a new tax environment in the state. Businesses and individuals react to the current tax environment -- whatever it is -- by adjusting their behavior in response to the tax structure. Any new tax, especially a major new tax that would generate large amounts of revenue, would mean that businesses and individuals would have to adjust their behavior. This creates short-term dislocations and disruptions to the way they do business and engage in economic activities. Thus, any major tax law change has negative consequences simply because it is a change. This obviously has to be balanced against any potential benefits that the new tax, once in place, would bring to an economy.

Conclusions and
recommendations

A gross receipts tax has several advantages. It can bring in large amounts of revenue at a low tax rate. Because it can tax at a low rate, it minimizes economic distortions. The gross receipts tax does

lead to distortions and negative economic consequences -- as does any tax. A pure gross receipts tax is in conflict with several principles of taxation. Washington's model minimizes these problems by having a very low gross receipts tax rate, but that tax brings in a relatively small amount of money compared to Hawaii's. A pure broad-based gross receipts tax in Vermont could have these advantages but it suffers from all the disadvantages inherent in any gross receipts tax.

A close alternative tax to the gross receipts tax is a very broad-based sales tax. This has many of the advantages of a broad-based gross receipts tax without its disadvantages. We think that the Hawaii model is an intriguing one to explore. Although Hawaii's tax is considered a gross receipts tax, because of the way it is structured and the rates that are levied, it is really a very broad retail sales tax. If Vermont adopted a 3% tax using the same base as Hawaii, with minimal exemptions, Vermont could eliminate its sales tax and cut all education property taxes on businesses and residences by two-thirds. Or Vermont could adopt a 4% gross receipts tax and completely eliminate all education property taxes on residences and businesses and also replace the existing sales tax.

One of the most important elements of either the gross receipts or broad-based sales tax is to set the base as broad as possible in order to set the rate as low as possible. This means that the legislature would have to resist the temptation to grant exemptions no matter how appealing the exemption may appear to be. The benefits of these broad-based taxes are captured and the disadvantages avoided only if the legislature can do this.

If Vermont adopted something similar to Hawaii's tax, Vermont would be essentially implementing a broad-based sales tax at a rate one or two points lower than the current rate. This would have obvious advantages for the retail economy along the Connecticut River. It would also benefit all Vermont merchants by making them more competitive with untaxed mail order and catalog merchants. The regressivity of the tax on food and other purchases could be easily ameliorated by the use of expanding the existing income tax credits the state uses. Because Vermont already has two different types of tax credits, the administrative costs of simply expanding them would be close to zero.

Sponsors of this study are: Associated Industries of Vermont, Greater Burlington Industrial Corporation, Lake Champlain Chamber of Commerce, National Federation of Independent Business/Vermont, Vermont Association of Realtors, Vermont Bankers Association, Inc., Vermont Chamber of Commerce, Vermont Ski Areas Association.

Subject: Re: House Bill 258

Date: Fri, 27 Apr 2001 14:36:23 -0700

From: "Marjy M. Wood, CTC, ACC" <Marjy@alaskavacations.com>

To: <peggyann@gei.net>, <Representative_Kevin_Meyer@legis.state.ak.us>, <Representative__Pete_Kott@legis.state.ak.us>, <Representative_Norm_Rokeberg@legis.state.ak.us>, <Representative_Lisa_Murkowski@legis.state.ak.us>, <Representative_Drew_Scalzi@legis.state.ak.us>, <Representative_Harry_Crawford@legis.state.ak.us>, <Representative_Joe_Hayes@legis.state.ak.us>, <Representative_Andrew_Halcro@legis.state.ak.us>, <Representative_Bill_Hudson@legis.state.ak.us>, Representative_Peggy_Wilson@legis.state.ak.us

House Bill 258 must not go any further.

I feel that any attempt to tax GROSS RECEIPTS should never be allowed. If this bill were to go into effect, this business would file bankruptcy as our yearly profit and loss sheet would show you we would have never survived the last 18 years as a travel agency simply doesn't retain enough of the gross sale to possibly maintain as a viable business if it had to pay a tax on the gross sale. With nearly every airline ticket sale offering a paltry 5% commission (on the base fare only, which is usually about 85-90% of the total) up to a cap of \$25.00 for one way and \$50.00 for round trip travel, you can clearly see how taxing travel agencies on a \$2400.00 ticket would force agencies out of business. In this example, we earn \$50.00 and pay \$48.00 in taxes. Who can survive making \$2.00 per transaction in an industry where cost per transaction are between \$20-25.00? And, if we tried to pass it on to the customer, they would simply purchase their tickets on line or from a business from out of state.

Aside from that, any small business should not be taxed on gross sales. Most small businesses operate of small margins and this tax would also destroy them.

No taxation without public input.

Stop HB258 now.

Marjy M. Wood
President
Tycc Travel, Inc.
Wrangell

At 02:17 PM 04/27/2001 -0800, PeggyAnn McConnochie wrote:

I am deeply disturbed by what I have read of **HB 258**. This bill, which would assess a 2% gross receipts tax on all retail sales and services under \$2000, is an attempt to institute a hidden sales tax that would unfairly and unduly burden private business (especially the hundreds of small business throughout Alaska) **without any public notice and without public input**. And, according to HB 258, Banks, trust companies and Savings and Loan Associations would be taxed at 2% of their net income.

THIS IS A BAD IDEA! You should not fund the operating budget on the

backs of small business owners!

I urge you to stop this legislation in its tracks. Any legislation that proposes to significantly affect the private business community, especially small business, **MUST** have the benefit of public input.

I am urging all concerned small business owners throughout Alaska to call, e-mail or fax you as soon as possible and urge you to stop **HB 258**.

PeggyAnn McConnochie, Broker
ach, inc.

(alaska coastal homes, inc.)

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and general facilitation for businesses,
corporations and non-profits.

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E-mail: peggyann@gci.net

Web Site: www.achconsulting.com

Check out our web sites!

www.alaskavacations.com. www.akcruises.com

AND www.tyectravel.com ;)

Subject: 2% Gross Receipts Tax

Date: Fri, 27 Apr 2001 15:57:03 -0800

From: "Ron Flint" <ron@nuggetoutfitter.com>

To: "Rep. Hudson" <Representative_Bill_Hudson@legis.state.ak.us>,
"Rep. Scalzi" <Representative_Drew_Scalzi@legis.state.ak.us>,
"Rep. Hayes" <Representative_Joe_Hayes@legis.state.ak.us>,
"Rep. Crawford" <Representative_Harry_Crawford@legis.state.ak.us>,
"Rep. Rokeberg" <Representative_Norm_Rokeberg@legis.state.ak.us>,
"Rep. Knott" <Representative_Pete_Knott@legis.state.ak.us>,
"Rep. Meyer" <Representative_Kevin_Meyer@legis.state.ak.us>,
"Rep. Murkowski" <Representative_Lisa_Murkowski@legis.state.ak.us>,
"Rep. Halcro" <Representative_Andrew_Halcro@legis.state.ak.us>

Dear House Labor and Commerce Committee Memeber,

Am am writing to voice my objection to HB 258. I am a retailer in Juneau that faces lots

of competition, both in-state and out of state. An additional 2% tax on purchases made in my

store would help drive people and their purchases to mail order and the internet.

7% would more than pay for the shipping on many purchases. And that is exactly what

customers will be thinking about when weighing the advantages/disadvantages of purchasing

locally. Fewer purchases locally mean fewer jobs for locals.

2% on purchases in Anchorage is one thing. It is another thing entirely in other areas of

state.

If this bill is in fact moving on as short notice as I am being led to believe, I have to

voice my displeasure with that aspect as well.

To my way of thinking, this is a tax that comes after an income tax of some form or another

has been reinstated.

Thanks for your time, Ron Flint



Subject: House Bill 258

Date: Fri, 27 Apr 2001 14:17:27 -0800

From: "PeggyAnn McConnochie" <peggyann@gci.net>

To: <Representative_Kevin_Meyer@legis.state.ak.us>,
<Representative__Pete_Kott@legis.state.ak.us>,
<Representative_Norm_Rokeberg@legis.state.ak.us>,
<Representative_Lisa_Murkowski@legis.state.ak.us>,
<Representative_Drew_Scalzi@legis.state.ak.us>,
<Representative_Harry_Crawford@legis.state.ak.us>,
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<Representative_Bill_Hudson@legis.state.ak.us>

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I urge you to stop this legislation in its tracks. Any legislation that proposes to significantly affect the private business community, especially small business, **MUST** have the benefit of public input.

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Alaska State Legislature

Official Business

REPRESENTATIVE DREW SCALZI
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FAX: (907) 465-3472

Representative_Drew_Scalzi@legis.state.ak.us

CS HB 258 Sponsor Statement

"An Act converting the business license fee to a business license tax; adding, as an element of that tax, computation of the tax based on the taxpayer's gross receipts; establishing adjustments to that tax; and transferring administration of the levy to the Department of Revenue; and providing for an effective date."

As an aspect of a revenue-generating proposal, I am introducing a bill proposing a gross receipts tax for purposes of discussion. In contrast to a sales and use tax, the gross receipts tax proposed in this CS is, in its most simple form, a 2 percent tax on all sales and services of a business that are between \$20,000 and \$100,000 annually -- with those annual gross receipts in excess of \$100,000 being taxed at a lower rate of 1 percent. Businesses with gross receipts under \$20,000 would not be required to pay the gross receipts tax proposed in this committee substitute.

As in the original version of HB 258, the CS for HB 258 that I am asking the committee to consider today proposes to move the business licensing function and enforcement to the Department of Revenue and would convert the current \$25 business license fee to a business license tax of the same amount. In addition the Department of Revenue would set out the procedures for implementing and collecting the gross receipts tax.

In addition to the gross receipts exemption for sales totaling less than \$20,000 annually, there are some other exemptions to the requirement to pay a gross receipts tax -- such as the gross receipts from educational, religious, and many non-profit activities; those from the operation of a hospital, or a municipally owned and operated utility and from operation of a utility by an incorporated utility district, nonprofit association, or nonprofit cooperative. In addition, taxes on motor fuel or collected for a municipality, and various accounting write-offs would be exempted.

Because a sales tax is added on to the price of the product at the time of sale, it is highly visible to the consumer. On the other hand, the gross receipts tax would be invisible to the consumer because it would be levied on the seller's total revenue stream as reported to the Department of Revenue. This would be much easier to calculate and verify.

As the CS is currently written, there would be no upper limit on the gross receipts to be included for this tax. Because it would be a completely separate calculation, the gross receipts tax would not be confused with or interfere with municipalities' or boroughs' collection of sales taxes. As in the original version of HB 258, this CS would have an additional benefit to this form of revenue enhancement, and that is that tourists and visitors would also contribute substantially to supporting our state's budget -- revenue that the state would not have otherwise. All revenue generated by this tax would be deposited into the General Fund to help pay for the many services state government must provide.



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Representative_Drew_Scalzi@legis.state.ak.us

CS HB 258 – Gross Receipts Tax Highlights

- A gross receipts tax is a tax on the gross receipts of all business activities carried out in the state. Specifically: it is a tax from sales of goods, wares and merchandise manufactured, processed or originating in the state, whether the receipts are in the form of money, credits, or other valuable consideration received from engaging in or conducting a business, without deducting the cost of the property sold, the cost of the materials used, labor or service cost, interest paid, taxes, losses, amounts paid or assigned to subcontractors, gross commissions of individuals who work as agents on commission, or any other expense.
- Alaska had a gross receipts tax in place until 1978 when it was withdrawn -- at about the same time that the individual income tax was withdrawn.
- All revenue generated under CS HB 258 would be deposited into the General Fund.

In CS HB 258 –

- A gross receipts tax of 2 % is imposed annually on gross receipts from sales and services totaling over \$20,000 to \$100,000 and then 1% for all gross receipts over \$100,000.
- The business licensing function is moved to the Department of Revenue helping the department track gross receipts tax reporting and payment.
- Enforcement procedures & penalties for failure to pay gross receipts taxes are set out.
- The \$25 business license fee is converted to a business license tax.
- Implementation details are to be set up by regulation through the Dept. of Revenue
- Sales and Services Exemptions to the tax:
 - Educational
 - Religious
 - Many non-profit activities
 - Hospital charges
 - Municipally owned and operated utilities
 - Oil & Gas production
 - Taxes on motor fuel or collected for a municipality
 - Some accounting write-offs

Advantages of a Gross Receipts tax as opposed to a Sales Tax:

- A gross receipts tax is invisible to the consumer.
- Because it would be calculated separately from the point of sale, it would not interfere with municipalities' or boroughs' collection of sales taxes.
- Tourists and visitors would also contribute substantially to supporting our state's budget.
- Because the gross receipts tax is on all levels of sales instead of just at the final point of sale to the consumer, the gross receipts tax would produce more tax revenue. 2% Sales tax on \$100 = \$2.00; Gross receipts tax on \$102 (when the gross receipts tax is included in the price of the item) would result in \$2.04 in gross receipts tax revenue.

Disadvantages of a Gross Receipts tax:

- Because the gross receipts tax is levied at all stages of the production process, it *pyramids* the tax by charging on wholesale purchases for use in products or services for final sale and again at final sale.
- *Pyramiding* can have several negative effects such as leading firms to vertically integrate or to produce some of their inputs themselves.
- It also may create a disincentive to firms looking to locate in the state if they are purchasers of a lot of inputs.

22-LS0920\L
Kurtz
2/5/02

CS FOR HOUSE BILL NO. 258()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES SCALZI, Hudson

A BILL

FOR AN ACT ENTITLED

1 "An Act converting the business license fee to a business license tax; adding, as an element
2 of that tax, computation of the tax based on the taxpayer's gross receipts; establishing
3 adjustments to that tax; and transferring administration of the levy to the Department of
4 Revenue; and providing for an effective date."

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

6 * Section 1. AS 06.20.030(c) is amended to read:

7 (c) The license fee required by this section is in place of the tax [FEE] under
8 AS 43.70 (Alaska Business License Act).

9 * Sec. 2. AS 08.01.087(a) is amended to read:

10 (a) The department may, upon its own motion, conduct investigations to
11 (1) determine whether a person has violated a provision of this chapter or
12 a regulation adopted under it, [OR A PROVISION OF AS 43.70,] or a provision of this
13 title or regulation adopted under this title dealing with an occupation or board listed in
14 AS 08.01.010; or

1 (2) secure information useful in the administration of this chapter.

2 * Sec. 3. AS 08.01.087(b) is amended to read:

3 (b) If it appears to the commissioner that a person has engaged in or is about to
4 engage in an act or practice in violation of a provision of this chapter or a regulation
5 adopted under it, [OR A PROVISION OF AS 43.70,] or a provision of this title or
6 regulation adopted under this title dealing with an occupation or board listed in
7 AS 08.01.010, the commissioner may, if the commissioner considers it in the public
8 interest, and after notification of a proposed order or action by telephone, telegraph, or
9 facsimile to all board members, if a board regulates the act or practice involved, unless a
10 majority of the members of the board object within 10 days,

11 (1) issue an order directing the person to stop the act or practice;
12 however, reasonable notice of and an opportunity for a hearing must first be given to the
13 person, except that the commissioner may issue a temporary order before a hearing is
14 held; a temporary order remains in effect until a final order affirming, modifying, or
15 reversing the temporary order is issued or until 15 days after the person receives the
16 notice and has not requested a hearing by that time; a temporary order becomes final if
17 the person to whom the notice is addressed does not request a hearing within 15 days
18 after receiving the notice; the commissioner or the commissioner's designee shall be the
19 hearing officer at the hearing and shall issue a final order within 10 days after the
20 hearing;

21 (2) bring an action in the superior court to enjoin the acts or practices and
22 to enforce compliance with this chapter, a regulation adopted under it, an order issued
23 under it, or with a provision of this title or regulation adopted under this title dealing with
24 business licenses or an occupation or board listed in AS 08.01.010;

25 (3) examine or have examined the books and records of a person whose
26 business activities require a business license or licensure by a board listed in
27 AS 08.01.010, or whose occupation is listed in AS 08.01.010; the commissioner may
28 require the person to pay the reasonable costs of the examination; and

29 (4) issue subpoenas for the attendance of witnesses, and the production
30 of books, records, and other documents.

31 * Sec. 4. AS 08.01.102 is amended to read:

1 **Sec. 08.01.102. Citation for unlicensed practice or activity.** The department
2 may issue a citation for a violation of a license requirement under this chapter [OR
3 AS 43.70] if there is probable cause to believe a person has practiced a profession [OR
4 ENGAGED IN BUSINESS] for which a license is required without holding the license.
5 Each day a violation continues after a citation for the violation has been issued
6 constitutes a separate violation.

7 * **Sec. 5.** AS 08.01.110(4) is amended to read:

8 (4) "license" means [A BUSINESS LICENSE OR] a license, certificate,
9 permit, or registration or similar evidence of authority issued for an occupation by the
10 department or by one of the boards listed in AS 08.01.010;

11 * **Sec. 6.** AS 10.25.540(a) is amended to read:

12 (a) Cooperatives under this chapter shall apply for a business license and pay the
13 tax [INITIAL LICENSE FEE] as provided by AS 43.70 ([THE] Alaska Business
14 License Act [(AS 43.70)], as amended.

15 * **Sec. 7.** AS 11.76.100(e) is amended to read:

16 (e) The court shall forward a record of each person convicted under this section
17 who holds a business license endorsement under AS 43.70.075, or who is an employee or
18 agent of a person who holds a license endorsement under AS 43.70.075 to the
19 Department of Revenue [COMMUNITY AND ECONOMIC DEVELOPMENT].

20 * **Sec. 8.** AS 16.10.265(d) is amended to read:

21 (d) The commissioner of revenue [COMMUNITY AND ECONOMIC
22 DEVELOPMENT] may suspend or revoke a business license issued under AS 43.70.020
23 and [THE COMMISSIONER OF REVENUE] may suspend or revoke a license to
24 engage in the business of processing or buying raw fish if the licensee or an officer,
25 director, or employee in a policy-making position of the licensee has been convicted of
26 three offenses under this section. Proceedings to suspend or revoke a license are
27 governed by AS 44.62 (Administrative Procedure Act).

28 * **Sec. 9.** AS 43.05.230(g) is amended to read:

29 (g) The information contained in a license issued by the commissioner [OF
30 REVENUE OR THE COMMISSIONER OF COMMUNITY AND ECONOMIC
31 DEVELOPMENT] under AS 43.50, AS 43.60, AS 43.65, AS 43.70, and AS 43.75 is

1 public information.

2 * Sec. 10. AS 43.70.020(a) is amended to read:

3 (a) For the privilege of engaging in a business in the state, a person shall first
4 apply, upon forms prescribed by the commissioner, and obtain a license, and pay the tax
5 [LICENSE FEE] provided for in AS 43.70.030. A license issued to a firm for a
6 particular line of business covers all its operations in the state in the line of business
7 regardless of the number of its establishments. A license issued under this subsection
8 must include

9 (1) the name and address of the licensee;

10 (2) the line of business to be conducted;

11 (3) the dates for which the license is issued; and

12 (4) the business name to be used by the licensee.

13 * Sec. 11. AS 43.70.020 is amended by adding new subsections to read:

14 (e) An applicant for a business license under this chapter shall submit the
15 application and pay an initial tax. The initial tax of \$25 applies to all of the provisions of
16 this section and shall accompany the application. The balance is due and payable on
17 December 31 of each year and shall be paid before the first day of the following March,
18 except that the department may extend the time until the following April 30 upon
19 application showing that the extension is necessary to enable the applicant to ascertain
20 the amount due.

21 (f) A business license issued under this section expires on December 31 of the
22 calendar year for which it is issued.

23 * Sec. 12. AS 43.70.030(a) is amended to read:

24 (a) The tax [LICENSE FEE] for each business to obtain a license under this
25 chapter is \$25 per year plus an amount determined under (e) of this section, less the
26 amount of any license fees paid under AS 08.

27 * Sec. 13. AS 43.70.030(c) is amended to read:

28 (c) The license for the privilege of taking orders through use of catalogs and by
29 mail order offices in the state is the same as set out in this chapter for business generally,
30 and the gross receipts of the business of the offices include all orders taken at the
31 offices regardless of whether delivery of merchandise is made through the offices.

1 * Sec. 14. AS 43.70.030 is amended by adding a new subsection to read:

2 (e) In addition to the \$25 due under (a) of this section, a person shall pay a tax on
3 the gross receipts in excess of \$20,000 from the business during the year for which the
4 license is issued. The tax is computed as follows:

5	If the gross receipts are	Then the tax is:
6	more than \$20,000 and not more	two percent of gross receipts
7	than \$100,000	in excess of \$20,000
8	more than \$100,000	\$1,600 plus one percent of gross
9		receipts over \$100,000

10 * Sec. 15. AS 43.70 is amended by adding a new section to read:

11 Sec. 43.70.032. Alternative payment due from certain financial institutions.

12 (a) In place of the tax due under AS 43.70.030, the tax for each national bank and state
13 bank, trust company, and savings and loan association is two percent of its net income.
14 In this subsection, "net income" means the taxable income of each taxpayer before net
15 operating loss deduction and special deductions, computed as required under 26 U.S.C.,
16 and includes all other income, including the income from federal, state, or municipal
17 obligations.

18 (b) Each of the taxpayers described in (a) of this section required to make a
19 return under the provisions of 26 U.S.C. shall at the same time file with the department

20 (1) a return setting out the amount of tax due under this chapter and other
21 information for the purpose of carrying out the provisions of this chapter that the
22 department requires;

23 (2) a true and correct copy of the tax return that the taxpayer has filed
24 with the Internal Revenue Service, and shall notify the department in writing of any
25 alteration in or modification of the taxpayer's federal income tax return and of a
26 recomputation of tax or determination of deficiency.

27 * Sec. 16. AS 43.70 is amended by adding a new section to read:

28 Sec. 43.70.074. Security. A nonresident person who starts to perform a
29 construction contract or subcontract or other line of business in the state and is not known
30 by the department to be the holder of adequate property in the state to secure collection of
31 the license money that will probably accrue under this chapter by virtue of the business

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Central Microfilm Services
Department of Education & Early Development
State of Alaska

1 * Sec. 14. AS 43.70.030 is amended by adding a new subsection to read:

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4 license is issued. The tax is computed as follows:

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20 (1) a return setting out the amount of tax due under this chapter and other
21 information for the purpose of carrying out the provisions of this chapter that the
22 department requires;

23 (2) a true and correct copy of the tax return that the taxpayer has filed
24 with the Internal Revenue Service, and shall notify the department in writing of any
25 alteration in or modification of the taxpayer's federal income tax return and of a
26 recomputation of tax or determination of deficiency.

27 * Sec. 16. AS 43.70 is amended by adding a new section to read:

28 Sec. 43.70.074. Security. A nonresident person who starts to perform a
29 construction contract or subcontract or other line of business in the state and is not known
30 by the department to be the holder of adequate property in the state to secure collection of
31 the license money that will probably accrue under this chapter by virtue of the business

1 shall, in or with the application, state under oath the extent of lienable real and personal
2 property against which the tax may be collected, and other information with respect to
3 description, location, and value of the property that the department prescribes. If the
4 value of the property is not equal to three times the amount of the tax for which the
5 applicant will probably be liable to the state, the department may not issue the license
6 until the applicant files a surety bond approved by the attorney general in a penal sum
7 equal to twice the probable amount of the tax for which the applicant will be liable,
8 conditioned upon payment of the tax in full when due, and with interest if not paid before
9 delinquency. The department may waive the bond requirement if the applicant posts
10 other security in the form of collateral acceptable to the department.

11 * Sec. 17. AS 43.70 is amended by adding a new section to read:

12 Sec. 43.70.101. Exemptions. (a) The following gross receipts are exempt from
13 taxation under this chapter:

14 (1) gross receipts from educational, religious, benevolent, fraternal, or
15 charitable activities, where the entire amount of the receipts is held or expended for these
16 activities, except receipts that are the result of a continuous engaging in a business or
17 occupation otherwise subject to this chapter;

18 (2) gross receipts from the operation of a hospital;

19 (3) gross receipts from a municipally owned and operated utility and
20 from operation of a utility by an incorporated utility district, nonprofit association, or
21 nonprofit cooperative;

22 (4) gross receipts subject to the tax imposed by AS 43.55;

23 (5) gross receipts from the taxes imposed by the state upon the sale of
24 motor fuel;

25 (6) gross receipts from a consumers' sales tax collected by a taxpayer for
26 a political subdivision of this state; in this paragraph, "consumer" means the person who,
27 in the ordinary common meaning of the term, ultimately uses goods, and diminishes or
28 destroys their utility;

29 (7) an amount representing cash discounts allowed and taken on sales,
30 and sales refunds, either in cash or by credit, uncollectible accounts written off, and
31 payments received in final liquidation of accounts included in the gross receipts of a

1 previous return made by the person.

2 (b) The exemption from taxation of certain gross receipts as provided in (a) of
3 this section does not exempt a person from payment of the \$25 due under
4 AS 43.70.030(a).

5 * Sec. 18. AS 43.70.110 is amended by adding new paragraphs to read:

6 (5) "gross receipts" means receipts from sources in the state and receipts
7 from sales, wherever made, of goods, wares, and merchandise manufactured,
8 processed or originating in the state, whether the receipts are in the form of money,
9 credits, or other valuable consideration received from engaging in or conducting a
10 business, without deducting the cost of the property sold, the cost of the materials
11 used, labor or service cost, interest paid, taxes, losses, amounts paid or assigned to
12 subcontractors, or any other expense; and, in the case of an individual who represents
13 firms taxed under this chapter on volume of business done who works as an agent on
14 commission instead of as an employee, the gross commission of that individual;

15 (6) "income year" means calendar year or, if a person carries on business
16 during only a part of the income year, the period within the income year during which the
17 person carries on business;

18 (7) "tax" means the business license tax imposed under this chapter.

19 * Sec. 19. AS 43.99.950 is amended to read:

20 Sec. 43.99.950. Definitions. In [EXCEPT IN AS 43.70, IN] this title,

21 (1) "commissioner" means the commissioner of revenue; and

22 (2) "department" means the Department of Revenue.

23 * Sec. 20. AS 08.01.010(8), 08.01.050(a)(21), 08.01.065(d); AS 43.70.110(2), and
24 43.70.110(3) are repealed.

25 * Sec. 21. This Act takes effect January 1, 2003.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 258
 () Publish Date: _____

Revision Date/Time (Note If correction): _____ Dept. Affected: Revenue
 Title: Change Business License Fee BRU: Revenue Operations
to Receipts Tax Component: Tax Division
 Sponsor: Representative Scalzi
 Requester: House Labor & Commerce Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	1,628.7	2,700.5	2,700.5	2,700.5	2,700.5	2,700.5
Travel	23.3	68.0	68.0	68.0	68.0	68.0
Contractual	552.5	791.1	791.1	791.1	791.1	791.1
Supplies	34.3	55.0	55.0	55.0	55.0	55.0
Equipment	482.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	2,720.8	3,614.6	3,614.6	3,614.6	3,614.6	3,614.6

CAPITAL EXPENDITURES	1,152.3					
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CHANGE IN REVENUES (increase)		**	**	**	**	**
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	3,873.1	3,614.6	3,614.6	3,614.6	3,614.6	3,614.6
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	3,873.1	3,614.6	3,614.6	3,614.6	3,614.6	3,614.6

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

POSITIONS

Full-time	38	49	49	49	49	49
Part-time						
Temporary	12	12	12	12	12	12

ANALYSIS: (Attach a separate page if necessary)

** Because we are unsure of what will be included in the tax base, we have provided three different rough estimates of revenues -- contingent on different scenarios (please see revenue discussion on Page 2). However, we have not increased our revenue estimates for the \$25 per business payment or reduced our revenue estimates for the credit for license fees paid under AS 08.

Assumptions

- (1) No increase in mail order, direct TV or internet sales as a percent of total value from 1997.
- (2) Non-compliance with the gross receipts tax is zero.
- (3) The tax does not change consumer or business choices.
- (4) No change in total sales since 1997.

Prepared by: Chuck Harlamert, Revenue Audit Supv., and Brett Fried, Economist
 Division: Tax Division

Phone: 465-4773 or 465-3682
 Date/Time: 02/12/2002 3 p.m.

Approved by: Larry Persily, Deputy Commissioner
 Agency: Department of Revenue

Date: 02/12/2002

For distribution information, call the Governor's Legislative Office

HB 258

Change Business License Fee to Receipts Tax

February 12, 2002

Page 2 of 3

REVENUE

Estimating the revenue from a proposed gross receipts (or sales) tax is fraught with potential pitfalls. These include the difficulty of obtaining current and applicable data, and identifying potential effects on consumers and businesses.

Sales

The U.S. Economic Census estimates that the total value of all sales, receipts or revenue for Alaska establishments in 1997 was over \$35 billion. This includes revenue from the following activities that are exempt under HB 258: (1) oil and gas production, (2) revenue from certain utilities, (3) for-profit hospitals and (4) education activities.

If we exclude these categories, then the revised estimate is \$25 billion to \$26 billion. Additionally, although services are included under the exemptions section of this Act, they are not explicitly included in the definition of gross receipts. Thus, it is not clear if services are taxable under HB 258. If services are excluded, then the tax base would be reduced by approximately \$7 billion.

The Cap

We are not aware of any direct method to estimate the receipts from single sales or "the periodic selling price of a single service" over \$2,000. Because there is no estimate of the volume of sales or services, or the amount of each sale or service, it is very difficult to adjust revenue estimates for the \$2,000 cap. Also, because the definition of a single item is related to function and service related to time, it is not absolutely clear, for some goods and services, what constitutes a single sale or service. For example, if transportation of petroleum is considered a service and invoiced on a monthly basis, and refinery and wholesale sales of petroleum are made in large volumes, then very little tax would be raised from these sources. If petroleum transportation and sale is excluded then the tax base would be reduced by an additional \$3.4 billion.

One option is to exclude certain categories where \$2,000 is a relatively small percentage of each sale. The problem is that we do not have the ability to estimate how this would apply to services. For example, although the Economic Census estimates that legal services receipts in 1997 are approximately \$250 million and physician's services \$321 million, there is no way of knowing how many of the "sales of each single legal or medical service" exceeded the \$2,000 cap.

Tax Base and Revenue Estimates

If, however, we include services but exclude construction, mining, motor vehicle, RV and other sales where \$2,000 is, in general, a small percentage of each sale, and make other relevant adjustments (see table on Page 3), then we end up with the following estimates: approximately a \$19.0 billion tax base with petroleum refining and services, \$15.6 billion with services but not petroleum, and \$8.8 billion if we exclude both. This translates to the following very rough revenue estimates for a 2% gross receipts tax: \$176 million, \$312 million and \$380 million (see table on Page 3).

Pyramiding

Pyramiding will occur under this tax. In other words, final goods that include more taxable inputs will be taxed more than other goods. For example, if a fisher delivers fish to an Alaska cannery, the gross receipts tax would apply to the sale of the fish, apply again when these same fish are sold in cans to an Alaska wholesaler, apply again when the cans are sold to an Alaska retailer and finally when the fish are sold to Alaska consumers. The final sale would include taxes from four different transactions where the amount includes the tax from the previous transaction. However, if this same fish was sold directly to the consumer it would only be taxed once.

We are also making the following additional assumptions:

- (1) No increase in mail order, direct TV or internet sales as a percent of total value from 1997.
- (2) Non-compliance with the gross receipts tax is zero.
- (3) The tax does not change consumer or business choices.
- (4) No change in gross receipts since 1997.

ADMINISTRATIVE COST

We estimate ongoing operating costs at just over \$3.6 million, with first year operating costs of about \$2.7 million. Capital expenditures are estimated at \$1.15 million. These estimates assume that the Tax Division will be responsible for obtaining, monitoring and enforcing the security provisions for approximately 7,000 non-resident licensees.

Alaska Department of Revenue

HB 258

Change Business License Fee to Receipts Tax

February 12, 2002

Page 3 of 3

Sector	Sales or Receipts (excluding petroleum & services)	Sales or Receipts (excluding petroleum)	Sales or Receipts	Tax @ 2% (excluding petroleum & services)	Tax @ 2% (excluding petroleum)	Tax @ 2%
Accommodations & Food Services		\$ 1,065,459	\$ 1,065,459	\$ -	\$ 21,309	\$ 21,309
Retail Trade ¹	\$ 6,251,372	\$ 6,251,372	\$ 6,251,372	\$ 125,027	\$ 125,027	\$ 125,027
Automobiles, Vans, Trucks & Other	\$ (807,036)	\$ (807,036)	\$ (807,036)	\$ (16,141)	\$ (16,141)	\$ (16,141)
Recreational Vehicles, Parts & Accessories	\$ (55,065)	\$ (55,065)	\$ (55,065)	\$ (1,101)	\$ (1,101)	\$ (1,101)
Health Care & Social Assistance ²		\$ 758,058	\$ 758,058	\$ -	\$ 15,161	\$ 15,161
Hospitals		\$ (106,949)	\$ (106,949)	\$ -	\$ (2,139)	\$ (2,139)
Education ³		\$ 14,990	\$ 14,990	\$ -	\$ 300	\$ 300
exempt		\$ (14,990)	\$ (14,990)	\$ -	\$ (300)	\$ (300)
Professional, Scientific & Technical Services ⁴		\$ 945,873	\$ 945,873	\$ -	\$ 18,917	\$ 18,917
Administrative Support & Waste Management		\$ 592,161	\$ 592,161	\$ -	\$ 11,843	\$ 11,843
Arts, Entertainment & Recreation		\$ 168,275	\$ 168,275	\$ -	\$ 3,366	\$ 3,366
Wholesale ⁵	\$ 2,989,820	\$ 2,989,820	\$ 2,989,820	\$ 59,796	\$ 59,796	\$ 59,796
Motor Vehicles and Parts	\$ (108,812)	\$ (108,812)	\$ (108,812)	\$ (2,176)	\$ (2,176)	\$ (2,176)
Professional and Commercial Equipment	\$ (160,651)	\$ (160,651)	\$ (160,651)	\$ (3,213)	\$ (3,213)	\$ (3,213)
Metal And Mineral (except petroleum)	\$ (30,559)	\$ (30,559)	\$ (30,559)	\$ (611)	\$ (611)	\$ (611)
Machinery, Equipment & Supplies	\$ (482,633)	\$ (482,633)	\$ (482,633)	\$ (9,653)	\$ (9,653)	\$ (9,653)
Petroleum and Petroleum Products	\$ (739,241)	\$ (739,241)	\$ (739,241)	\$ (14,785)	\$ (14,785)	\$ -
Real Estate & Rental & Leasing		\$ 543,194	\$ 543,194	\$ -	\$ 10,864	\$ 10,864
Information		\$ 1,038,594	\$ 1,038,594	\$ -	\$ 20,772	\$ 20,772
Mining ⁶	\$ 10,091,230	\$ 10,091,230	\$ 10,091,230	\$ 201,825	\$ 201,825	\$ 201,825
exempt	\$ (10,091,230)	\$ (10,091,230)	\$ (10,091,230)	\$ (201,825)	\$ (201,825)	\$ (201,825)
Utilities ⁷	\$ 598,417	\$ 598,417	\$ 598,417	\$ 11,968	\$ 11,968	\$ 11,968
exempt	\$ (598,417)	\$ (598,417)	\$ (598,417)	\$ (11,968)	\$ (11,968)	\$ (11,968)
Construction ⁸	\$ 2,406,249	\$ 2,406,249	\$ 2,406,249	\$ 48,125	\$ 48,125	\$ 48,125
exempt	\$ (2,406,249)	\$ (2,406,249)	\$ (2,406,249)	\$ (48,125)	\$ (48,125)	\$ (48,125)
Manufacturing ⁹	\$ 3,304,952	\$ 3,304,952	\$ 3,304,952	\$ 66,099	\$ 66,099	\$ 66,099
Petroleum Refining	\$ (1,279,152)	\$ (1,279,152)	\$ (1,279,152)	\$ (25,583)	\$ (25,583)	\$ -
Other Petroleum and Coal	\$ (83,410)	\$ (83,410)	\$ (83,410)	\$ (1,668)	\$ (1,668)	\$ -
Transportation & Warehousing ¹⁰	\$ -	\$ 3,059,006	\$ 3,059,006	\$ -	\$ 61,180	\$ 61,180
Air Transportation	\$ -	\$ (403,116)	\$ (403,116)	\$ -	\$ (8,062)	\$ (8,062)
Pipeline Transportation	\$ -	\$ (1,300,000)	\$ (1,300,000)	\$ -	\$ (26,000)	\$ -
Finance & Insurance ¹¹	\$ -	\$ 976,040	\$ 976,040	\$ -	\$ 19,521	\$ 19,521
exempt	\$ -	\$ (870,000)	\$ (870,000)	\$ -	\$ (17,400)	\$ (17,400)
Other Services (except Public Administration)	\$ -	\$ 330,954	\$ 330,954	\$ -	\$ 6,619	\$ 6,619
Management of Companies/Enterprises	\$ -	\$ 6,844	\$ 6,844	\$ -	\$ 137	\$ 137
Total	\$ 8,799,585	\$ 15,603,978	\$ 19,005,781	\$ 175,992	\$ 312,080	\$ 380,116

1 Exempt categories as a result of \$2,000 cap (see discussion on page 1).

2 Gross receipts from hospitals are exempt.

3 Gross receipts from educational activities are exempt.

4 Although these services may exceed the "periodic selling price" of \$2,000, they are included here (see discussion on page 1).

5 Exempt categories as a result of \$2,000 cap (see discussion on page 1). Clearly, this would depend on how a sale is defined (e.g., what are the units of sale for petroleum products).

6 Exempt categories as a result of \$2,000 cap. (see discussion on page 1) and exclusion of gross receipts subject to Alaska Oil & Gas Production taxes.

7 Gross receipts from a municipal owned and operated utility and from operation of a utility by an incorporated utility district, nonprofit association, or nonprofit cooperatives are exempt.

8 Exempt categories as a result of \$2,000 cap (see discussion on page 1).

9 Exempt categories as a result of \$2,000 cap (see discussion on page 1). However, it is unclear whether this legislation would tax petroleum products on a per barrel or some other unit basis.

10 Exempt category as a result of \$2,000 cap (see discussion on page 1) and federal preclusion of sales taxes on air travel (49 U.S.C. 400116).

11 Used 21% of estimated financial sector corporation income tax liability as a proxy for gross receipts.

Data Source: 1997 Economic Census

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 258
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
 Title An Act converting business license fee to a BRU: Occupational Licensing (117)
tax and transferring administration to the Dept. of Revenue. Component Occupational Licensing
 Sponsor Representative Scalzi
 Requester House Labor & Commerce Component No. 2360

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	(297.1)					
Travel	(11.6)					
Contractual	(58.3)					
Supplies	(5.9)					
Equipment	(4.0)					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	(376.9)	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (GFPR 1005)	(2,100.0)					
---------------------------------------	------------------	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	8.0					
1005 GF/Program Receipts	(512.9)					
1037 GF/Mental Health						
Other (**See Changes Below)	128.0					
TOTAL	(376.9)	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time	-7					
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 258 proposes to move the Alaska Business Licensing Program to the Department of Revenue. The expenditures shown above represent direct costs funded by the the Business Licensing Program within DCED/Division of Occupational Licensing. The bill does not reflect statutory changes made to the business licensing program which took effect in July 2001, a result of the new tobacco endorsement requirements. However, the financial impact of those changes are included in this fiscal note. A detailed explanation is attached. This fiscal note is based on FY 2001 expenditures and the FY 2003 operating budget request.

FUND SOURCE **Other: Consists of (139.1) Inter Agency Receipts from DH&SS for tobacco enforcement; and 267.1 Receipt Supported Services to replace business license portion of division indirect costs. (139.1) + 267.1 = \$128.0

Prepared by: Jennifer Strickler, Administrative Manager Phone (907) 465-2144
 Division Occupational Licensing Date/Time 2/13/02 10:50 AM
 Approved by: Deborah B. Sedwick, Commissioner Date 2/13/2002
 Agency Department of Community & Economic Development

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

BILL NO. HB 258

ANALYSIS CONTINUATION

ANALYSIS: (continued)

HB 258: An Act converting...business license tax;...and transferring administration...to the Dept. of Revenue;...

Page 2 of 2

Personal Services, \$297.1:

The Business Licensing Program is directly supported by seven positions totaling \$297.1 (\$316.9 minus 6.24% vacancy factor of \$19.8) in the following locations -

- 3 - Anchorage: Administrative Clerk II, Administrative Clerk III, Investigator III
- 3 - Juneau: Administrative Clerk III's
- 1 - Fairbanks: Administrative Clerk III

Changes to the business license tobacco endorsement statutes in FY02 provided funding for two of the positions listed above in the amount of \$100.5 through Inter-agency receipts from the Department of Health and Social Services.

Fund Source Change: Additionally, the program funds percentages of several positions within the Division of Occupational Licensing for other services (i.e., general clerical and management support) totaling \$157.0. Currently, the funding source for these expenses is general fund/program receipts from business licensing fees. Transfer of the program to the Department of Revenue will require this funding to be changed to Receipt Supported Services funded by licensing fees of occupational and professional licensing programs.

Travel, \$11.6:

The \$11.6 is based on FY01 expenses of \$1.6 charged to the business licensing program for visiting field offices in Anchorage and Fairbanks; and \$10.0 of Inter-agency receipts from the Department of Health and Social Services in support of the business licensing tobacco enforcement program.

Contractual, \$58.3:

The \$58.3 is based on FY01 expenses of \$38.7 charged to the business licensing program for communications, printing, and other contractual activities. An annual large expense is preparation of the license renewal packets for licensees whose licenses expire on December 31 of each year. \$19.6 of inter-agency receipts is provided from the Department of Health and Social Services in support of the business licensing tobacco enforcement program.

Fund Source Change: The transfer of the business licensing program out of the Division of Occupational Licensing will require a funding source change of \$110.1 to Receipt Supported Services funded by licensing fees from occupational and professional licensing programs. All programs in the Division of Occupational Licensing are assessed a percentage of Indirect costs; and business licensing has been responsible for 15% of those costs.

Supplies, \$5.9:

The \$5.9 is based on FY01 expenses of \$0.9; and \$5.0 of inter-agency receipts provided from the Department of Health and Social Services in support of the business licensing tobacco enforcement program.

Equipment, \$4.0:

The \$4.0 is based on FY02 inter-agency receipts provided from the Department of Health and Social Services in support of the business licensing tobacco enforcement program.

REVENUE:

Each year the program generates approximately \$2,000.0 GF/PR in licensing and tobacco endorsement fees. The new tobacco endorsement requirements estimated generating an additional \$100.0 RSS, for a total of \$2,100.0. Only a small portion is authorized for program operations. Under the new tobacco endorsement statutes, all tobacco endorsement revenues are recorded as Receipt Supported Services to fund tobacco enforcement activity.

FUND SOURCE: The program is currently funded by \$512.9 General Fund Program Receipts, and \$139.1 Inter-Agency Receipts. Transferring the program will require \$8.0 GF/PR to switch to General Funds that currently support the Athletic Commission, and \$267.1 GF/PR to switch to Receipt Supported Services. The \$267.1 will require an increase to occupational and professional licensing fees to support the funding source change. **Other Funds, \$128.0 shown on the fiscal note represents: (\$139.1) Inter-Agency Receipts + \$267.1 RSS change from General Fund Program Receipts.

Committee



ALASKA

NFIB/Alaska 2002 Ballot Results

The Alaska Chapter of the National Federation of Independent Business is comprised of 2,500 small and independent business owners. The typical NFIB/Alaska member employs five workers and rings up gross sales of about \$181,000 per year.

The legislative agenda of NFIB is determined by ballot. A majority vote of the members in response to the poll sets the policy and position on legislative issues. Ballots for the last 5 years are used to establish the full legislative agenda. Following are the ballot results for 2002.

Balancing the Budget (General issue explanation from 2002 NFIB/Alaska member ballot)

Continued declines in oil production have created a fiscal gap between state spending and state revenues. In order to balance the budget each year, lawmakers have taken money from the state's savings account, The Constitutional Budget Reserve (CBR). This year, the state spent \$625 million from the CBR account to meet the constitutional obligation to balance the budget. With oil revenue declining and Alaska's population increasing, the budget deficit is expected to be over \$1 billion by 2005. The state's saving account has approximately \$3 billion. Despite budget cutting efforts over the last 5 years, current revenue and spending projections indicate the entire CBR will be gone in 5 years. It has been said that current budget cutting alone will not solve the problem. Even if all state employees were laid off, about 39 percent of the budget deficit would still exist.

Two years ago, the legislature took a balanced budget plan to the people for a vote. It did not propose a sales tax or an income tax but it did propose the use of some of the earnings from the permanent fund. It failed with a resounding no from the voters. Many legislators went back to the drawing board to create other ideas to help balance the budget. Following are a number ballot questions based on the current proposals.

Your answers to the following questions will help formulate NFIB/Alaska's position on how to balance the state budget.

Business Gross Receipts Tax

Should state legislation be passed to institute a 2 percent gross receipts tax on businesses licenses to operate in Alaska?

3% YES 97% NO 0% Undecided

State Sales Tax

Should legislation be passed to create a 2 percent state sales tax?

28% YES 72% NO 0% Undecided

State Income Tax

Do you favor reinstating a state income tax?

20 % YES 76% NO 4% Undecided

If you answered yes, which proposal do you prefer (see background for description)

Moses Proposal	26%
Hudson Proposal	74%

School Tax

Do you support the reinstatement of a school tax of \$100 per employee per year?

35% Yes 59% No 6% Undecided

Unemployment Taxes

Do you support an increase in unemployment benefits to keep pace with other states?
(Cost increase for employers would range from \$0 to \$81 per employee per year)

19% Yes 71% No 10% Undecided

Do you support indexing future increases in unemployment benefit amounts to the state's average weekly wage?

13% Yes 74% No 13% Undecided

Distributed by Thyes Shaub
NFIB/Alaska Lobbyist



ALASKA

National Federation of Independent Business

Statement of Opposition to HB 258

Two Percent Gross Receipts Tax

February 12, 2002

The Alaska Chapter of the National Federation of Independent Business has 2,500 members, making it the largest small-business advocacy group in the state. The legislative agenda of NFIB is determined by ballot. The ballot is a poll of the membership on a series of issues. **The issue that generated the strongest response this year was the gross receipts tax with 97% voting no.**

House Bill 258 requires a business to pay a 2 percent tax on gross revenues whether or not the business made a profit.

A tax on gross receipts is particularly unfair to small businesses that are barely able to compete with larger operators now. Businesses cannot simply raise prices to offset such a tax. Small businesses charge what the market will bear for their goods and services. It is a competitive market with little room to increase prices. With current technology, competition is not just down the street. Alaskans lose business every day to out-of-state competition via the Internet, catalog sales, etc.

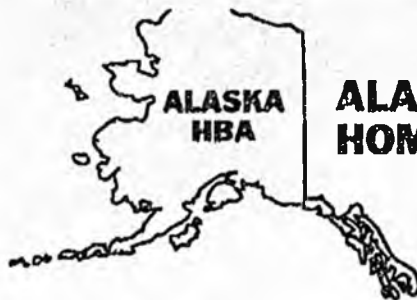
A gross receipts tax does not effect all businesses equally. High volume businesses with low profit margins such as a grocery store or manufacturer are impacted much greater than a service oriented business like an attorney or accountant.

A gross receipts tax increases the cost of doing business. A large part of business overhead is purchasing goods and services from other businesses that will also be paying gross receipts taxes. Costs will go up for both the business and consumer.

Although NFIB members are not eager to see any new taxes, broad-based taxes such as a state income tax or sales tax are more fair than a tax targeted directly at business. Likewise, no one is happy to give up a portion of their permanent fund dividend but many members have said that would be preferable to new taxes.

Vote No on House Bill 258

Submitted by Thyes Shaub on behalf of NFIB/Alaska.



**ALASKA STATE
HOMEBUILDERS ASSOCIATION**

February 13, 2002

TO: Members of the House Labor & Commerce Committee

FROM: Robin Ward

A handwritten signature in black ink that reads "Robin Ward". The signature is written in a cursive, flowing style.

**Alaska State Homebuilders Association
Legislative Co-Chair**

RE: HB 258

I am writing in opposition to this legislation. It will penalize small business owners with an unfair tax, taking away 2 percent of their profit margin in a time when many businesses are struggling to survive in Alaska! Small sole proprietor's transactions are usually under \$2,000.00 each.



Picture Alaska *art gallery* & The Upstairs Boutique

448 E. Pioneer Ave

Homer, AK 99603-7621

907/235-2300 ~ FAX 907/235-2399

February 13, 2002

House Labor and Commerce
State of Alaska
Via FAX

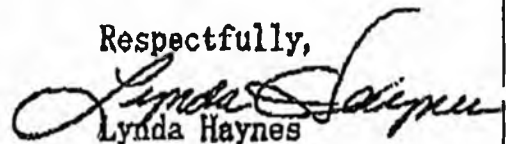
RE HB258 Amending Business License Fees to Impose 2% Tax on Gross Profits
of Alaska Businesses

The above act, if passed, would be an outrageous and discriminatory burden on Alaska's business owners. I am the sole proprietor of a retail store in Homer. My net profits do not even provide minimum wage for the hours required by me to operate my business. If my business were taxed 2% of gross profits, it would be "the straw that broke the camel's back." This Act is nothing more than an excessive income tax on one segment of Alaska's population. Small business is the backbone of Alaska's economy and should receive incentives to expand and increase employment rather than be penalized by a tax.

I would strongly recommend that the State make itself more efficient and fiscally responsible before it imposes more tax. There is a tremendous amount of waste in State spending, not on services but internally on department and agency budgets, salaries, benefits, etc. Only after the State tightens its own belt, should it seek additional funds from its citizens - and then only a tax imposed on net income of all income earners in the State uniformly.

Placing a burden on one segment of Alaska's population isn't fair. I feel as a retailer that I am forced to be the Borough's tax collector - involuntary servitude for 5% of sales tax collected which the credit card processors discount 3%. Two percent does not cover the work and liability involved in collecting the sales tax. A State sales tax would impose an additional unfair burden on this one segment of our society.

Respectfully,



Lynda Haynes

ELITE EMPLOYMENT SERVICES

1113 West Firewood, Suite 200 Anchorage, Alaska 99503 (907) 276-8367 FAX (907) 276-5172 E-mail: kron_elite@compuserve.com

February 13, 2002

TO HOUSE LABOR & COMMERCE COMMITTEE MEMBERS:

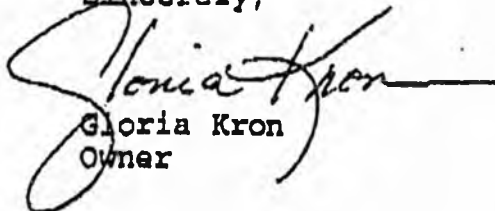
RE: HB 258 - THE BUSINESS GROSS RECEIPTS TAX

We oppose HB 258 for the following reasons:

A poll of small business owners was taken and ninety-seven percent voted in opposition to a gross receipts tax. A tax on gross receipts is particularly unfair to small businesses that are barely able to compete with larger operators now. Businesses cannot simply raise prices to offset such a tax. Small businesses charge what the market will bear for their goods and services. It is a competitive market with little room to increase prices. With current technology, competition is not just down the street. Alaskans lose business every day to out-of-state competition via the Internet, catalog sales, etc. A gross receipts tax will come out of the small businesses' pocketbook, not the consumer. A state sales tax and/or income tax are fairer than a tax targeted directly at business.

We are also against HB 229, another tax proposal to create a school tax of \$100 per employee which is scheduled in House Labor & Commerce next week.

Sincerely,



Gloria Kron
Owner

Cyndi's**Cruise and Travel**

February 13, 2002

HB 258

I am writing this in response to a bill that is going to be proposed. We are totally against this bill because it is unfair to businesses that only earn a portion of the gross sales. As most of you know, the travel industry has changed drastically. The airlines have cut our commissions down to 5% of the gross base fare without taxes and on top of that, it's capped at \$20.00. That is the most money we can make on an airline ticket. If this bill is passed, it will cause our agency to close its doors as well as most other travel agencies in Alaska. Please reconsider passing such a financially devastating bill that will ruin the small businesses of Alaska.

Sincerely,

A handwritten signature in cursive script that reads "Cyndi Isaak".

Cyndi Isaak, Owner

415-5th Street • Douglas, Alaska 99824

Phone: 907-364-3435 • Fax: 907-364-2475

e-mail: cyndi-travel@gci.net

egli air haul

INC.

TO: Rep. Lisa Murkowski, Chairman FAX: 907-465-2293
Rep. Andrew Halcro 907-465-2418
Rep. Pete Kott 907-465-2819
Rep. Kevin Meyer 907-465-3476
Rep. Norman Rokkeberg 907-465-2040
Rep. Harry Crawford 907-465-4565
Rep. Joe Hayes 907-465-2937
Hon. Tony Knowles 907-465-3532

DATE: 13 Feb 2002

SUBJECT: 2% GROSS RECEIPTS TAX ON BUSINESSES

We are strongly opposed to the gross receipts tax on business. A tax on gross receipts is particularly unfair to small businesses that are barely able to compete with larger operators now. Businesses cannot simply raise prices to offset such a tax. Small businesses charge what the market will bear for their goods and services. It is a competitive market with little room to increase prices. With current technology, competition is not just down the street. Alaskans lose business every day to out-of-state competition via the Internet, catalog sales, phone ordering, etc. A gross receipts tax will come out of the small businesses' pocket book, not the consumer's. This will serve to penalize Alaskan-owned businesses which struggle as it is to operate in the State of Alaska.

We are in the aviation business. Because of the relatively high cost that air charter customers are charged by aviation businesses for the services rendered, it would appear that businesses such as ours must be rolling in the dough. This is simply not the case. Our huge expenses in this cost-based market leave little margin for profit. Normally, businesses such as ours are doing well in a good year if we make a 5% profit margin. If the State of Alaska taxes away 2% of it, the best an operator could hope for would be 3%. (The state would be taking 4-tenths of the net profit.) I suspect one could earn nearly 3% on his investment by putting the money in a savings account at the bank instead, and try to exist on the interest it would earn. This would sure be counterproductive to promoting Alaskan business growth.

Then, in a bad year, we in aviation do well just to break even. Such a scenario would put such Alaska aviation businesses 2% in the hole just for the taxes. "But," you might say, "just raise your rates 2% to cover it." With escalating aviation insurance rates, aircraft charter rates are at the breaking point now. Last year brought a 30% increase in aviation insurance rates in Alaska, and the year prior to that we saw a 33% hike. We suffered these rate hikes in spite of our excellent safety record. Since the September 11th bombings and attendant collateral damage which must be devastating the insurance industry, we don't have an idea how big of a rate increase to anticipate this year. I fear that it will be astronomical. If this heavy load of insurance "bricks" doesn't break the back of Alaska aviation business, your proposed 2% gross receipts tax which follows, will be the final straw. You will kill Alaska business with this tax.

P.O. Box 169 • King Salmon, Alaska 99613 • 907-246-3554

I say cut government spending. I say cut government. Gov. Knowles said on the news the other night he is tired of hearing "generalities" such as this. He wants specifics. He says he wants to "see the numbers."

I'll give you a specific. Last year the Alaska State Troopers Fish & Wildlife Protection department decided to base a new Robinson R-44 helicopter here at King Salmon. This aircraft, competing directly with private enterprise already established out here, had to have cost the state \$400,000 to purchase.

The state had to hire and give INITIAL HELICOPTER PILOT TRAINING to someone to fly it. Given R-44 rates at around \$500 per hour, 50 hours of flight to train would have cost the state \$25,000 or so. And then there is the flight instruction cost at anywhere from \$50 to \$100 per hour for probably 25 flight hours and likely 50 ground instruction hours, so I would estimate the state has spent \$3,750 to \$7,500 on instruction. Let's split the difference for the sake of argument, and say it was \$5,000. That adds up to initial training costs of \$30,000.

At that point in the spending proposition you have a shaky new rotor wing trooper pilot who has a license to go out and learn how to really fly, hopefully without injury to himself and any one else within the swath of his rotor blades. This will be done practicing in the state's R-44 at the state's expense, of course. I can tell you as an expert on the subject, that you won't have a safe pilot you can do anything worth-while with until he has at least 400 hours in helicopters. So if he has logged 50 hours to complete initial training, he is going to burn up another 350 hours of engine time on the state's helicopter just getting to the point where maybe he can go do something useful and be likely to succeed in the mission. 350 hours of R-44 time is going to cost the State of Alaska as owner of the helicopter at least \$200 in direct operating cost per hour, for another \$70,000 in initial operating experience cost.

So the State of Alaska has now spent \$100,000 for training, plus the new helicopter pilot's salary, whatever that is, plus aircraft acquisition at \$400,000. This adds up to a half a million bucks plus pilot's salary, to set the show up in remote King Salmon, in direct competition with established business trying to survive out here. Now that you've spent around \$500,000 for this effect, the department will have to fund on-going recurrent training, maintenance on this extra aircraft, and keep paying this extra pilot salary.

This perennial expense added to the big cash outlay already on the table will result in the State of Alaska ALWAYS ending up SPENDING MORE MONEY on in-house Trooper helicopter flight out of King Salmon, than if they would just stick to the occasional charter of local commercial rotorcraft, which stands at the ready to accomplish whatever mission comes up. The case is now, and will remain in the future, that government always ends up spending more money doing this kind of thing itself, rather than by using the private sector for the service.

Gov. Knowles wants specifics-- here is a specific: Take this R-44 helicopter back to Anchorage, advertise it for sale, sell it, and return the money from the sale to the state fund, and cut your losses now. Use the \$300,000 or whatever the now-used helicopter sale can bring, to help close the Fiscal Gap. Cut all the extra expense involved in this specific state program, and apply it to the revenue side of the Fiscal Gap. Don't try to sell Alaska businesses some sort of underhanded

hidden tax which will be used to compete with private enterprise, as in this specific case.

Here is just one specific example of a real government cost savings/revenue capture that not only could be done, but needs to be done. I am sure that Alaska's big government is replete with such needed housecleaning. Make the cuts to big government, not to Alaska business.

To quote a famous statement, "Read my lips...No New Taxes."

Sincerely,



Sam Egli
Egli Air Haul inc.

Channel Dive Center, Inc.

8365 Old Dairy Road
Juneau, AK 99801

2dive4@ptialaska.net
www.channeldive.com

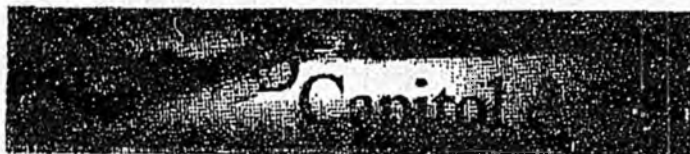
907-790-4665 Fax 907-790-4668



Date: February 13, 2002
To: Representative Lisa Murkowski, Chairman
From: John and Su Lachelt, Owners

Re: House Bill 258

We are asking you to oppose HB258, as it is unfair to small businesses in Alaska. In reality, it is closer to being a real tax of 7% - 30% of Net Proceeds for many small businesses, especially when large businesses (or out-of-state competition) prevents us from increasing our prices to absorb the tax.



*Fine Collector,
Commemorative,
Sporting and
Hunting Firearms*

www.capitolarms.com

February 13, 2002

Lisa Murkowski
Chair, House Labor and Commerce Committee
Capitol Building
Juneau, Alaska, 99801

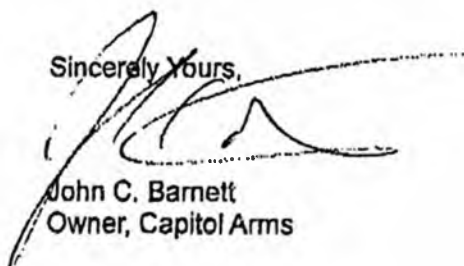
Subject: Opposed to HB 258

Dear Representative Murkowski,

I am opposed to HB 258. I have a new Internet firearms business - I primarily sell estate and consignment firearms. I have a 15-18% margin, so a 2% of gross sales tax translates to an 11% income tax. I can't raise prices and still be competitive, especially with the already high shipping costs I am faced with living in SE Alaska.

I urge you to kill this bill. It is grossly unfair to small business.

Sincerely Yours,



John C. Barnett
Owner, Capitol Arms

House Labor & Commerce Committee Members:

House Bill 258, establishing a program to institute a 2 percent gross receipts tax on businesses licensed to operate in the State of Alaska is scheduled for its first hearing on Wednesday, February 13th at 3:15 PM in the House Labor & Commerce Committee.

2% of gross sales is unfair to small businesses and in reality is closer to a real tax of 7% to 30% of Net Proceeds for many small businesses, especially when large businesses or out-of-state competition prevents them from increasing prices to absorb the tax.

I am very much oppose to this House Bill.

Thank You for your time.

**Gary Murdoch
GDM Graphics
gmurdoch@gci.net
Juneau, Alaska**



ALASKA

National Federation of Independent Business**Statement of Opposition to HB 258****Two Percent Gross Receipts Tax****February 12, 2002**

The Alaska Chapter of the National Federation of Independent Business has 2,500 members, making it the largest small-business advocacy group in the state. The legislative agenda of NFIB is determined by ballot. The ballot is a poll of the membership on a series of issues. **The issue that generated the strongest response this year was the gross receipts tax with 97% voting no.**

House Bill 258 requires a business to pay a 2 percent tax on gross revenues whether or not the business made a profit.

A tax on gross receipts is particularly unfair to small businesses that are barely able to compete with larger operators now. Businesses cannot simply raise prices to offset such a tax. Small businesses charge what the market will bear for their goods and services. It is a competitive market with little room to increase prices. With current technology, competition is not just down the street. Alaskans lose business every day to out-of-state competition via the Internet, catalog sales, etc.

A gross receipts tax does not effect all businesses equally. High volume businesses with low profit margins such as a grocery store or manufacturer are impacted much greater than a service oriented business like an attorney or accountant.

A gross receipts tax increases the cost of doing business. A large part of business overhead is purchasing goods and services from other businesses that will also be paying gross receipts taxes. Costs will go up for both the business and consumer.

Although NFIB members are not eager to see any new taxes, broad-based taxes such as a state income tax or sales tax are more fair than a tax targeted directly at business. Likewise, no one is happy to give up a portion of their permanent fund dividend but many members have said that would be preferable to new taxes.

Vote No on House Bill 258

Submitted by Thyes Shaub on behalf of NFIB/Alaska.

Floyd and Sons Inc.
Licensee
3733 Spenard Road
Anchorage, AK 99517-2676
907 276 2855
Fax 907 279 1326

Out of Town Reservations:
1-800-THRIFTY®
www.thrifty.com



Dear Representative Lisa Murkowski,

Please vote against House bill 258.

There are companies like myself that operate on a very marginal profit margin of 2-6% depending on the tourist summer volume. House bill 258 wants to tax anywhere from 25% to all of our profits. These are the funds we use for employee bonuses and capital improvements.

The whole idea of business tax seems very anti-business development. How can we encourage businesses to come into our market when we start taxing and discourage growth?

My local City started taxing Car Rental customers already and we found No change in our property taxes as promised. So I recommend that we have our house in order before charging new taxes.

If anything reduce government spending and implement a Statewide Income tax across the board no exemptions. Make every community responsible for there own Government expenses, or if a subsidy is needed subsidize all communities with the same proportion. The same dollar amount per person based on the community census. This base would be reduced if Federal aid dollar are received.

Sincerely,
Darrell Floyd

ALASKA AUTO REPAIR & SALES, INC.

1115 3rd Street
Douglas, Alaska 99824
Phone (907) 364-3400
Fax (907) 364-3416

HB 258

It has come to our attention that the first hearings are being held regarding House Bill 258 Business Gross Receipts Tax at the rate of 2%.

We are owners of a small Auto Repair Business in Douglas, Alaska. A bill like this is regressive and discriminatory. It would cause us to raise our rates to our customers the ultimate consumer and would only serve to inflate the economic environment. It is hard to compete with the large franchise corporations already and would make it harder to compete if this kind of a tax is imposed. We try to pay better than average wages not low wages as the large franchises do. This way we have been able to keep our employees and serve the customer with quality work. We would be forced to lower wages, having another negative impact on the community. We also will have to lower our contributions to community organizations & events, such as non-profit organizations, softball teams, & high school events.

This kind of a tax will only serve as a negative impact on small businesses through out Alaska. More and more consumers shop the Internet, and have durable goods shipped in from other states so they do not have to pay local sales tax at the City & Borough levels. We should learn from the lessons they have been experiencing in recent years. We should look at different ways to keep our money in state not forcing the ultimate consumer to shop elsewhere.

We sincerely hope that you will consider the devastating effect this discriminatory tax will have on all small businesses in Alaska and urge you to let this bill die in committee.

Sincerely,


Frank Balogh, President


Victoria Godkin, Vice President & Treasurer

Alaska Data Technologies, LLC

825 W 8th Avenue Suite 201
Anchorage, Alaska 99501

Office: (907) 278-8470
Fax: (907) 276-8470
Email: @alaskadatatech.com

February 8, 2002

To: State of Alaska, House Labor and Commerce Committee Members
Lisa Murkowski, Chair
Andrew Halcro
Pete Kott
Kevin Meyer
Norman Rokeberg
Harry Crawford
Joe Hayes

From: Marshal Reed, Small Business Owner

Dear State Representatives,

I oppose the intent of "House Bill 258 establishing a program to institute a 2 percent gross receipts tax on businesses".

I do not think that my small business should pay a tax because it already pays my employees federal income tax liabilities and I pay tax on the profits. My small business operates on a very tight cash flow. To stay competitive and offer value to my customers I cannot increase my prices.

I oppose a state sales tax because that only taxes purchases, is unfair and adds to the workload of my business.

I think that the fairest way to pay for state services is to return to an income tax. Everyone who earns income from working in Alaska has used state-provided infrastructure in some way and should help pay for it.

Education and employee satisfaction are issues that are important to me. If I spend money, those are two conditions that I would address. I will add to the employed workforce of Alaska if allowed to grow at my own pace and without additional taxation on my business. The State of Alaska must ensure that the future generations of Alaskans are well educated. I have heard at the Anchorage School Board meetings that state support for schools is lacking. I think that I would support a school tax and I am interested to hear results of HB229.

Thank you for your attention,
Marshal Reed

STATEWIDE APPRAISAL SVCS.

February 7, 2002

TO: House Labor & Commerce Committee Members
The Honorable Lisa Murkowski (Chair), Andrew Halcro, Pete Kott, Kevin Meyer,
Norman Rokeberg, Harry Crawford, Joe Hayes

RE: HB 258 (Business Gross Receipts Tax)

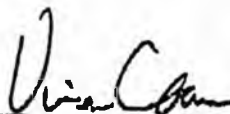
I am the owner of a small real property appraisal business in Wasilla. I strongly oppose the implementation of a gross receipts tax. Competing with larger firms is difficult, and it will not be possible for me to pass this expense through to my clients. Fees are already at market levels, and I think that this type of tax discriminates against small businesses. As technology increases, I not only compete with larger Alaskan companies, but also with "outside" firms.

I understand that additional revenues are necessary, and I support some type of sales tax. It is not possible to "slash" our way out of this problem, regardless of what the erudite legislative delegation from my area supports. If a sales tax is not set at onerous levels, it will not be overly regressive. Perhaps a vehicle ratcheted to income levels could be considered.

On a national level, small business supports an excessive share of the budget. This is true particularly as it becomes known that large organizations like Enron pay little or no taxes at all. Small business is not the segment from which to extract additional revenues. We provide employment opportunities, and the fees I charge are spent in my area.

Please bury this bill and find another way.

Respectively submitted,



Vince Coan, Owner



ALASKA INSTRUMENT COMPANY, INC.

P.O. BOX 230087 • ANCHORAGE, ALASKA 99523-0087 • (907) 561-7511

TO THE MEMEBERS OF THE HOUSE LABOR & COMMERCE COMMITTEE:

I am contacting you regarding HB258-Business Gross Tax.

I understand the need to balance the State budget and all the dynamics that go into that. And I know as soon as you try implement a tax on one segment of society, you hear from that segment.

I am an owner of a small business here in Alaska. We represent several manufacturers of process control instrumentation. We, for the most part are obligated to sell their products at manufacturer established prices. Therefore, any gross business tax implemented will have to come out of our profits; I will not be able to pass this cost on to customers.

You need to be aware that the companies I deal with could go outside to buy these products. In many cases, they are already paying the freight from the manufacturer. So for them to save 2% by going direct could possibly be worth it and then I would lose the business altogether. When you consider that we do between \$4-5M in sales per year and the majority of that coming from 3-4 customers; we could see a substantial impact on our business. It's very likely that I would have to downsize my staff from the impact of this legislation.

Dan Conrad
President
Alaska Instrument Co., Inc.
907-561-7511 Ph.
907-561-0762 Fx

danconrad@gci.net

Tanner's Service Center, Inc.
P. O. Box 240329
Douglas, Alaska 99824
(907) 364-2434; FAX (907) 364-3409
1 (800) 478-2403 (Alaska Only)

7 February 2002

To: Honorable House Representative Lisa Murkowski:
FAX 465-2293

Honorable Representative:

RE: HB 258 - The Business gross receipts tax

We would like to express our opposition to HB 258. We feel that any gross receipts tax is totally oppressive to all required to submit to such a tax.

The last two years have been difficult because of health and economic reasons. To give an idea of what this tax would do to us, we submit it would put us out of business.

Consider the past year. It began with our key employee spending a month in Virginia Mason Hospital and going through extensive surgery. Then in December our largest supplier filed bankruptcy and went out of business. (Outboard Motor Corp.)

Both of these difficulties are now corrected. Our employee is enjoying good health and Bombardier of America now supplies the Evinrude and Johnson Outboard motors which we sell and repair.


We have been able to continue through these trials even with a business loss during our fiscal year (October 2000 through Sept. 2001) of \$34,494. Our gross was \$249,492. which would have, under HB 258, cost us an additional \$4,989.84.

Even in a good year paying an additional tax of this kind is very difficult, as our 'profit' is usually in inventory rather than in cash. Our 'profit' is also what we live on. To have to take another 5 to 9.5 thousand dollars out of our business would not give us enough to live on and sustain the business; especially in the current down swing in the economy, which is also what you are struggling with.

We are both in our 50's and having to close our business and find employment else where would be difficult. Also some jobs do not offer health insurance. We currently have a very good plan but would lose it should we close the business.

We know the State is looking for more income. Businesses already pay Corp. Tax or/ Personal Business Tax. To be burdened with HB 258 seems a double tax and thus unreasonable. We respectfully request that you do not consider this source.

Sincerely,


William & Janet League

COLLINS CONSTRUCTION, INC.

February 7, 2002

COMMERCIAL GENERAL CONTRACTOR
P.O. BOX 87-1327 WASILLA, AK 99687
1151 W. NUGGET AVE. WASILLA, AK 99654
(907) 376-8299 FAX (907) 373-5468
Email: collinsj@pobox.mtaonline.net

To: Representative Lisa Murkowski Fax 465-2293
Representative Andrew Halcro 465-2418
Representative Pete Kott 465-2819
Representative Kevin Meyer 465-3476
Representative Norman Rokeberg 465-2040
Representative Harry Crawford 465-4565
Representative Joe Hayes 465-2937

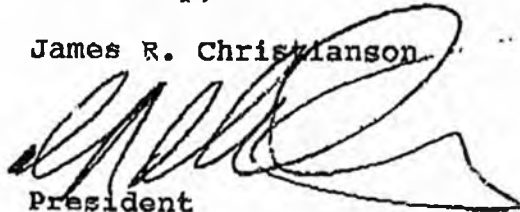
Re: HB258, Business Gross Receipts Tax

We are strongly opposed to the initiation of a 2% gross receipts tax. There are some businesses, along with ours, that at times operate on a margin of only 3% to 5%.

The State taking 2% on gross receipts is insanity. TRY SOMETHING DIFFERENT.

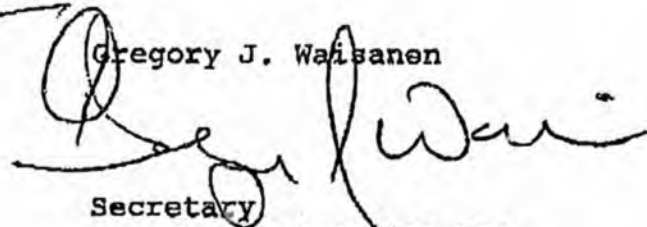
Sincerely,

James R. Christianson



President
Collins Construction Inc.

Gregory J. Waisanen



Secretary
Collins Construction Inc.

Date	4-7-02	Time	4:15	# of pages	1
To					
Cc	Collins Construction, Inc.				
Fax #	Phone # 907-376-8299				
Box	Fax # 907-373-5468				

WebWeavers

February 7, 2002

House Labor & Commerce Committee Members

Dear Representative Murkowski:

As a member of the NFIB I was made aware of House Bill 258 that if passed will institute a 2% gross receipts tax on business licensed to operate in the State of Alaska. I am strongly opposed to this bill and hope to make you aware of the impact it will have on our company.

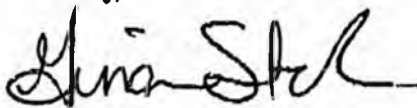
David Duplessis and myself established WebWeavers in 1997, with no more than one computer in a kitchen office. Since that time we have created jobs for over 9 Alaskans, developed internships with UAF and local high schools, and contributed to our local and state communities by offering discounts and pro-bono development to non-profits, arts organizations and many other groups that ask us to help.

In October of 2001 we were recipients of the Alaska State Chamber of Commerce Small Business of the Year Award and I was selected as one of Alaska's Top 40 under Forty by the Anchorage Chamber of Commerce and the Alaska Journal of Commerce. Despite all of these fantastic honors, we are a small business that struggles daily to make ends meet but still manages to donate our time and money to the community.

This being said, a gross receipts tax will not only impact our ability to live and our ability to continue providing jobs for hard working committed people in Alaska, but will also negatively impact our level of commitment to non-profits, schools and other worthy causes including the United Way of the Tanana Valley. I do not want to see this happen. This tax singles out those people who make jobs for others and focuses on those who are committed to working hard and striving for excellence. We cannot simply raise our prices to offset this tax and I feel that it directly targets our small business and is particularly unfair to all small businesses that are barely able to compete with larger operators today, let alone provide health insurance for those people who work for us.

It is time that we take care of hard working Alaskans, to make sure that our small businesses continue to thrive and to keep Alaska's economy strong. If a tax is necessary to meet these goals, it should be one that impacts all Alaskans across the board.

Sincerely,



Ginger Stock
Co-Owner/CFO
WebWeavers
585 University Ave. #4,
Fairbanks, AK 99709
907-478-8330

**KRON
ASSOCIATES**

COURT REPORTERS -- ACS CERTIFIED
MANAGEMENT SUPPORT

February 8, 2002

TO HOUSE LABOR & COMMERCE COMMITTEE MEMBERS:

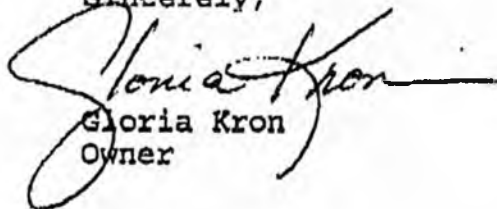
RE: HB 258 - THE BUSINESS GROSS RECEIPTS TAX

We oppose HB 258 for the following reasons:

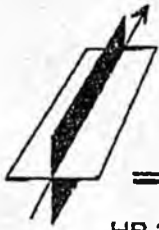
A poll of small business owners was taken and ninety-seven percent voted in opposition to a gross receipts tax. A tax on gross receipts is particularly unfair to small businesses that are barely able to compete with larger operators now. Businesses cannot simply raise prices to offset such a tax. Small businesses charge what the market will bear for their goods and services. It is a competitive market with little room to increase prices. With current technology, competition is not just down the street. Alaskans lose business every day to out-of-state competition via the Internet, catalog sales, etc. A gross receipts tax will come out of the small businesses' pocketbook, not the consumer. A state sales tax and/or income tax are fairer than a tax targeted directly at business.

We are also against HB 229, another tax proposal to create a school tax of \$100 per employee which is scheduled in House Labor & Commerce next week.

Sincerely,



Gloria Kron
Owner

**ON-LINE EXPLORATION SERVICES, INC.**11976 WILDERNESS DR.
ANCHORAGE, AK 99516-2238(907) 345-4815
(907) 345-1987 Fax

e-mail: olexplor@alaska.net

HB 258

February 11, 2002

Dear Representative Murkowski,

I am strongly opposed to House Bill 258. A gross receipts tax is blatantly unfair to small businesses that are barely able to compete now. Why do you want to put Alaskan companies out of business? A gross proceeds tax could certainly do just that.

Our business provides consulting services to minerals exploration companies in Alaska. We have been trying for years to encourage the development of mineral resources in the State which in turn would provide local employment and tax base.

We hire Alaskans, use Alaskan suppliers and support the local Alaskan communities. With high pass through costs our profits are already less than 3 percent of gross revenues. There is a limited amount of work and a number of other Alaskans are in the business. We cannot raise our prices because competitors also come from both Canada and the lower 48. This money undoubtedly leaves the State. How does this help Alaska? Please consider the many small businesses operating with small profit margins that support families and the local business economy.

Where would we come up with the money to pay such a tax? We simply can not raise prices to offset such a tax. Our only other source of revenue is our professional labor. We have actually had to decrease our professional labor rates to be more competitive, but business continues to decline because of low metal prices. This is a highly competitive market and there is no room to increase prices.

There appears to be a multiplier effect on the gross proceeds tax. I purchase an item from a local supplier who pays the 2% gross revenue tax. I then pass the expense through to my customer plus the added 2% gross proceeds tax I have to pay. This is double taxation of that item. This results in a highly inflationary increase for goods and services in Alaska. This places small businesses at a disadvantage and only helps large corporations who ship directly into the State.

Any gross tax on business is poor economics. It adversely affects business and acts as a depressant to the economy. The legislature should be looking at incentives to business in order to diversify the economy. A gross receipt tax is a direct attack on small business enterprises.

I am opposed to any form of gross proceeds tax. If you have to tax Alaskan business you might consider a net profits tax on based on profits derived within Alaska.

Sincerely,

James E. Adler
President

Subject: HB258

Date: Mon, 11 Feb 2002 07:49:41 -0900

From: "errol champion" <errol.champion@acsalaska.net>

To: <Representative_Lisa_Murkowski@legis.state.ak.us>

Members of the House Labor & Commerce Committee:

Silver Bay Logging operates the sawmill in Wrangell and produces about 30 million board feet of lumber and wood chips annually. Our business has had to curtail and reduce our selling prices several times during the past four years. It is more and more difficult to find markets for our products at a competitive price. Today, we can barely operate the sawmill at a breakeven point because of uncertain timber supply, depressed markets and competition from offshore wood processors. To face a 2% gross receipts tax as proposed in HB258 is completely unacceptable. We appreciate the need and desires to reduce the budget deficit, but this is not a good approach. It simply makes all Alaskan businesses less competitive and harder to compete in the market place. Thank you!

Errol Champion
General Manager
Silver Bay Logging, Inc.

Subject: HB 258 Gross Receipts Tax

Date: Mon, 11 Feb 2002 14:34:57 -0900

From: "Fay's" <fayvong@alaska.com>

To: <Representative_Lisa_Murkowski@legis.state.ak.us>,
<Representative_Andrew_Halcro@legis.state.ak.us>

CC: <Representative_Ethan_Berkowitz@legis.state.ak.us>, <april@anchoragechamber.org>,
<fayvong@alaska.com>, <spinel!homes@gci.net>

Dear Lisa and Andrew:

I was shocked to hear that this terrible tax has reared its ugly head again. Business owners and their accountants were dancing in the streets when it met its demise.

Let me give you real life examples of how unfair (to say the least) this tax is:

I have a client - husband and wife both own businesses. The service business is doing well but the retail business is not. Retail business gross receipts average \$700,000 per year. Net loss in year one \$51,000; year two net loss was \$113,000.

Other examples (I will leave out many zeros):

Gross receipts	Less expenses	Net
100	50	50
1000	950	50
1000	1150	(150)

I hope you get the point of my examples.

I worked for a home builder back when we had this tax. He was barely making ends meet, but still had to pay an astronomical tax. Think about home builders, car dealers, etc.

Please include my comments in the committee packet.

Thank you,

Fay Von Gemmingen, CPA

Allied Steel Construction, Inc.

Welding • Structural Fabrication

EST. 1976

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Feb 8, 2002

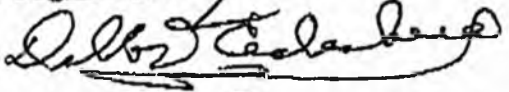
REPRESENTATIVE
LISA MURKOWSKI
CHAIRMAN

It is hard for me to believe that my state representatives would think of doing something like HB 258.

I am a small business man and I have to bid on all of my contracts. I have to compete with Seattle as they bid against me all the time.

If you think it is not that much money, you have never had to bid on a contract,

I would suggest that you think long & hard before voting for HB 258

Sincerely

DELBERT CEDBERG