

ALASKA LEGISLATURE COMMITTEE FILES 2001-2002 8672

10442 HOUSE STATE AFFAIRS

## Travel industry braces for new profit obstacles

The New York Times

NEW YORK—A little more than 20 years ago, Valerie Ann Wilson used family money to open a travel agency.

It was a gamble for Wilson, now 59, who had two young daughters and had not been working.

The bet more than paid off. The agency, Valerie Wilson Travel, has grown into a New York business with nearly 300 employees, including Wilson's two daughters, Jennifer Wilson-Buttigieg, 34, and Kimberly Wilson Wetty, 31. Last year, the agency had \$260 million in sales. And on Sept. 10, this was looking to be one of the agency's best years ever.

Then, on Sept. 11, two planes smashed into the World Trade Center, another hit the Pentagon and another crashed in a field in Pennsylvania. Matters were made worse by the looming recession and the November crash of Flight 587 in Belle Harbor, Queens.

Now some forecasters are warning that waves of failures, bankruptcies and layoffs are about to sweep through the industry.

"There were definitely signs even before the government said that it was a recession, but we thought we would be fairly insulated," said Wilson-Buttigieg, the executive vice president who has been managing the agency since her mother had a heart attack earlier this year. "I don't think anyone realized the ramifications of how Sept. 11 would affect corporate and leisure travel and how long it might be before we recover."

Wilson-Buttigieg said it would be hard to pick a business that has been hit harder by the events of the last few months. The American Society of Travel Agents estimates that its members lost \$1.36 billion just in the four weeks after the attack because of the drop in bookings for flights, hotel rooms, rental cars and cruises.

But even before Sept. 11, agencies had begun to feel the effect of large cuts made by corporations in their travel and entertainment budgets because of the slowing economy.

In addition, the airline industry cut commissions to travel agencies in August to \$20 per domestic flight, from \$50.

After the attack, Wilson decided against trying to recoup that lost revenue immediately at the cost of the consumer.

There may be more people flying again, but business at most Manhattan agencies, which may well be the hardest hit in the country, is down anywhere from 40 to 65 percent, according to the agencies. Hundreds of employees have been laid off at Manhattan agencies alone, agency officials said, and many smaller operations, with high fixed costs and little room for revenue growth, seem on the verge of going out of business.

"Other parts of the country are rebounding a lot faster than big cities, and I think other big cities are coming back quicker than New York," said Andy Pesky, the president of ProTravel-Zenith Group. The high-end company, is based on Madison Avenue and has offices in Milan, London, Beverly Hills, Calif., and elsewhere in the United States and Europe. "The phones are ringing," Pesky said, "but people are more likely to be calling to cancel a trip than make a reservation."

Sweeping changes in the airline business changed the lives of travel agents well before Sept. 11.

The most fundamental shift came in the mid-1990s, when the airline industry decided it was going to gradually reduce the commissions it paid travel agents for bringing in customers. Before the most recent reductions — to flat fees of \$50 per ticket, then \$20 per ticket — commissions on domestic flights had dropped to 8 percent from 10 percent in 1995.

Another major change in the industry has been a wave of mergers of small companies. The Internet also undercut agents by offering discounted tickets that could be bought in bulk.

# Alaska State Legislature

HOUSE OF REPRESENTATIVES



REPRESENTATIVE FRAN ULMER

August 29, 1991

The Honorable Walter J. Hickel  
Governor, State of Alaska  
P.O. Box A  
Juneau, Alaska 99811-0101

Dear Governor Hickel:

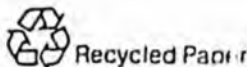
I am writing to bring to your attention the disastrous effects on travel agencies in Juneau and other Alaska communities if your administration goes forward with its plan to consolidate all state travel into a contract with a single agency. While such a plan might save the state one or two percent of the cost of airline tickets, that savings is more than offset by the certain bankruptcies of many small travel agencies in Alaska and the ensuing loss of jobs and revenue in local communities.

Approximately half of Alaska's 112 travel agencies rely on the state for a portion of their business. The typical agency outside of Anchorage has an average gross sales volume of \$2-4 million and shows a net profit of only \$15,000-\$40,000 annually. Given the 10% fixed gross margin of the industry (from the 10% commission), a typical small agency operates on a net margin of 1-2%. This means that if sales decline by 15%-20% the business is no longer able to break even, much less show a profit.

Here in Juneau at least two agencies depend on the state for more than half of their volume of sales, and one other transacts 40% of its business with the state. In most small towns in Alaska the situation is the same; the majority of the agencies rely on the state for at least 25% of their business. The proposed consolidation of state travel would bring many of the 50 small agencies doing business with the state below their break-even points and would undoubtedly force many into bankruptcy. The net result of the state's actions would be to force more than 35 currently profitable travel agencies out of business.

I urge you to review specific figures regarding airline price structuring and the cost of doing business for travel agencies. I believe you will find potential savings relatively small and the

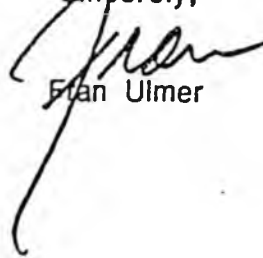
District 4B — Juneau  
P.O. Box V • Juneau, Alaska 99811-3100 • (907) 465-4947



Governor Walter J. Hickel  
August 29, 1991  
Page 2

impact on individual agencies large. While I applaud your efforts to find efficiencies, it is no benefit to Alaskans to pinch pennies while taking away their jobs. For the sake of economically healthy communities in Alaska, look to the airlines and other large vendors for savings on state travel costs.

Sincerely,



Fran Ulmer

cc: Nancy Bear Usera  
Millett Keller  
Shelby Stastny

# Travel Agency Services Briefing Paper

Kim Garner

Amber -  
If you have  
any questions,  
please call  
me - Kim  
465-3435

Statement of the Problem:

State agencies cannot purchase travel agency services in some communities without paying fees. Payment of fees requires competitive bidding.

Discussion:

In October, airlines cut travel agent commissions from 8% to 5%. This 37.5% reduction was another step in a continuing trend that is putting severe economic pressure on travel agents. Many responded by initiating fees for their services.

State government has a long history of relying on the private sector for professional travel services. Because no public funds were spent for these services, each state office was able to use the travel agent of their choice and strong loyalties developed.

When fees were introduced for these services, the issue of competitive procurement arose. The State of Alaska spends over \$16 million a year on airline tickets; a fee as low as 1% results in \$160,000 spent for services. Likewise a fee of 5% would result in \$800,000 being spent for travel agent services. State law requires formal competitive bids for purchases of this size. Such a process would result in all state travel purchases being made from the limited number of successful bidders.

Actions Taken to Date:

In November, after receiving the recommendation of Administrative Solutions Team, we sent letters to 170 travel agents across the state asking if they would waive service fees for state purchases. Many have responded that they are willing to do so. These travel agencies have been posted to a Department of Administration, Division of Finance web site for use by state agencies in making travel purchases. Most communities where the state purchases travel have at least one travel agency listed, and urban areas have several. This approach has allowed us to avoid competitively bidding travel agency services in these communities and the ensuing impact that bidding would have on travel agencies that were not successful bidders.

Unfortunately, there are a few key communities where there are no travel agencies willing to waive service fees for state purchases. At this time, we are contemplating conducting competitive bids in Bethel, Cordova, Haines, Kotzebue, Nome, Petersburg and Wrangell. This would provide state employees in these locations the ability to obtain professional travel services locally while paying the lowest service fee possible. It would not preclude purchases using a 1-800 number or over the internet, two options that are becoming increasingly common, especially for routine commercial travel within Alaska.

The Administrative Solutions Team is currently reviewing the proposed locations as well as a draft "Request for Quotes" document. The criteria outlined in the RFQ requires the

Final  
in Draft / Travel

travel agency to be licensed and bonded by the Airline Reporting Committee (ARC) and to maintain an office in the community. Feedback from state agencies on the draft document is expected by January 14<sup>th</sup>, and procurements could proceed before the end of January.

2600

Recommended Action:

Proceed with competitive bids in the proposed communities. Solicit every travel agency in each community. Contract awards would be mandatory for state travel purchases in that location when the services of a travel agent are used.



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### Authorized Travel Agency Sources

- [Anchorage and Southcentral Region](#)
- [Fairbanks and Interior/Northern Region](#)
- [Juneau and Southeast Region](#)
- [Kodiak and Southwest Region](#)
- [Seattle, WA and lower 48](#)

Recent developments in the travel industry have resulted in more travel agencies charging the traveler a fee for their services. According to [AS 39.20.140](#), which prohibits payments in excess of the lowest cost fare for state travel, the State of Alaska is not able to pay service fees for travel agent services without formally seeking competition.

To assist state agencies in their travel purchases, the Division of Finance has compiled a list of travel agencies that do not charge service fees for state travel.

TRAVEL AGENCY	CONTACT INFORMATION	
<b>ANCHORAGE (and Southcentral Region)</b>		
<b>Alaska's Out &amp; About Travel</b>	17050 N. Eagle River Lp. Rd., Eagle River, Alaska 99577	(907) 694-6900 (907) 694-6940/Fax
<b>Arctic Travel</b>	423 E. 5th Avenue Anchorage, Alaska 99501	(907) 272-6789 (907) 272-6787/Fax
<b>AST Travel</b>	3858 Lake Street, Ste. 21 Homer, Alaska 99603	(907) 235-7131 (907) 235-7187/Fax
<b>Beyond Travel</b>	3213 Minnesota, Suite C Anchorage, Alaska 99503	(907) 277-5026 (907) 272-7597/Fax
<b>Cordova Travel Services</b> <small>(See Section 12 of the Contract Award Manual for fee structure)</small>	P.O. Box 118 Cordova, Alaska 99574	(907) 424-7102 (907) 424-7101/Fax
<b>Cruise Holidays of Anchorage</b>	1301 E. Dowling Rd., Suite 110 Anchorage, Alaska 99518	(907) 563-7447 (800) 566-SHIP (907) 563-7449/Fax
<b>Homer Travel Services</b>	90 Sterling Highway No. 10 Homer, Alaska 99603	(907) 235-7751 (907) 235-5223/Fax
<b>Navigant / World Express Travel</b> <small>(See Section 12 of the Contract Award Manual for fee structure)</small>	300 4th Ave. Seward, Alaska 99664	(907) 224-5554 (800) 478-5267/Toll Free (907) 224-5403/Fax

<b>New World Travel, Inc.</b>	1200 W. Northern Lights Blvd., Suite D Anchorage, Alaska 99503-3613	(907) 276-7071 (800) 478-7071/Toll Free (907) 276-8082/Fax
<b>One Stop Travel</b>	Non Stop Air Service 3301 C Street, Suite 105 Anchorage, Alaska 99508	(907) 565-7867 (907) 565-7888/Fax
	Sears Mall 600 E. Northern Lights Anchorage, Alaska 99503	(907) 278-7875
	Muldoon 7731 E. Northern Lights Blvd., Ste 291 Anchorage, Alaska 99504	(907) 333-2292
	Northway Mall 3101 Penland Pkwy, G29 Anchorage, Alaska 99508	(907) 278-7880
	5th Ave. Mall 320 W. 5th Ave. #302 Anchorage, Alaska 99501	(907) 278-7006
	Dimond Mall Location 800 E. Dimond Blvd., Ste 123 Anchorage, Alaska 99515	(907) 522-7874
	Palmer 1150 S. Colony #5 Palmer, Alaska 99654	(907) 746-7867
	Soldotna Branch 131 C Warehouse Ave. Soldotna, Alaska 99669	(907) 262-4400
	Kenai 11312 Kenai Spur Hwy Ste 3 Kenai, Alaska 99611	(907) 283-4344
	Eagle River 11901 Business Blvd. Ste 103 Eagle River, Alaska 99577	(907) 694-7867
	Wasilla Branch 500 Main Street Wasilla, Alaska 99654	(907) 376-6000
<b>Quality Travel Service, Inc.</b> (Fees waived only on e-tickets)	3710 Woodland Drive, Suite 1500 Anchorage, Alaska 99517	(907) 243-2200 (800) 478-2201/Toll Free within AK (800) 822-9456/Toll Free outside AK (907) 243-2299/Fax
<b>Travel Post</b>	1443 W. Northern Lights Blvd., Suite #S Anchorage, Alaska 99503	(907) 258-6156 (907) 258-6157/Fax
<b>Travel Services, Inc.</b>	535 W. Evergreen, Suite A12 Palmer, Alaska 99645	(907) 745-2148 (800) 478-2148/Toll Free (907) 745-6051/Fax
<b>US Travel</b> (To avoid STR fee use only CTA or credit card)	1415 East Tudor Road Anchorage, Alaska 99507	(907) 561-2434 (800) 828-3755/Toll Free (907) 786-0180/Fax
	100 Meals Avenue Valdez, Alaska 99686	(907) 835-8373 (800) 358-1624/Toll Free (907) 835-8372/Fax
	1590 Financial Drive Wasilla, Alaska 99654	(907) 561-2434 (800) 828-3755/Toll Free (907) 786-0180/Fax

**FAIRBANKS (and Interior Region)**

<b>Allegro Travel</b>	Regency Court Mall 59 College Road, Suite 204 Fairbanks, Alaska 99701	(907) 456-7797 (877) 456-7797/Toll Free (907) 456-7001/Fax
<b>Northern Lights Travel</b>	505 Old Steese Hwy., Suite 117 Fairbanks, Alaska 99701	(907) 451-7111 (800) 478-7048/Toll Free (907) 451-8701/Fax
<b>One Stop Travel</b>	Fairbanks Branch 3627 Airport Way, Ste 11A Fairbanks, Alaska 99701	(907) 455-7867
<b>Progressive World Travel, Inc.</b>	1922 Peger Road Fairbanks, Alaska 99709	(907) 479-9767 (907) 474-0101/Fax
<b>Santa's Travel World</b>	133 Santa Claus Lane North Pole, Alaska 99705	(907) 488-6193 (907) 488-7474/Fax
<b>Sunshine Travel</b>	1200 Noble Street Fairbanks, Alaska 99701	(907) 451-1992 (907) 451-1993/Fax
<b>The Travel Cafe, Inc.</b>	3206 Airport Road Fairbanks, Alaska 99709	(907) 456-8785 (888) 770-8785/Toll Free (907) 456-8788/Fax
<b>US Travel</b> (To avoid STR fee, use only CTA or credit card)	P.O. Box 357 Barrow, Alaska 99723	(907) 852-2313 (800) 478-2313/Toll Free (907) 852-2316/Fax
	1211 Cushman Street Fairbanks, Alaska 99701	(907) 456-8355 (800) 557-7641/Toll Free (907) 456-8420/Fax
	Prudhoe Bay Hotel Prudhoe Bay, Alaska 99734	(907) 659-2502 (800) 828-6031/Toll Free (907) 659-2514/Fax
<b>Vagabond Travel</b>	805 Airport Road, Suite 2 Fairbanks, Alaska 99701	(907) 452-3636 (800) 770-3636/Toll Free (907) 452-3639/Fax
<b>Sweetwater Travel</b>	119 N. Cushman Street, Suite 103 Fairbanks, Alaska 99701	(907) 451-8100 (907) 452-2154/Fax

**JUNEAU (and Southeast Region)**

<b>Kruzoff Travel</b>	603 Halibut Point Road Sitka, Alaska 99835	(907) 747-5844 (800) 478-3684/Toll Free (907) 747-5846/Fax
<b>Ohana Travel</b>	3304 Ohana Court Ketchikan, Alaska 99901	(907) 225-1433 (907) 225-0753/Fax
<b>The Travel Connection</b> (See Section 12 of the Contract Award Manual for fee structure)	P.O. Box 645 Haines, Alaska 99827	(907) 766-2681 (800) 572-8006/Toll Free (907) 766-2585/Fax
<b>Tyee Travel, Inc.</b> (See Section 12 of the Contract Award Manual for fee structure)	P.O. Box 738 112 Federal Way, Suite 206 Wrangell, Alaska 99929	(907) 874-3383 (800) 942-9741/Toll Free (907) 874-2111/Fax
<b>US Travel</b> <u>More Information</u>	111 South Seward Street Juneau, Alaska 99802	(907) 463-5446 (800) 828-6117/Toll Free (907) 463-5458/Fax
(To avoid STR fee, use only CTA or credit card)	1007 Water Street Ketchikan, Alaska 99901	(907) 225-2100 (800) 348-1330/Toll Free

		(907) 225-0522/Fax
(To avoid STR fee, use only CTA or credit card)	P.O. Box 498 Metlakatla, Alaska 99926	(907) 886-4842
<b>Viking Travel, Inc.</b> (See <a href="#">Section 12</a> of the Contract Award Manual for fee structure)	P.O. Box 787 Petersburg, Alaska 99983	(907) 772-3818 (907) 772-3940/Fax

### KODIAK (and Southwest Region)

<b>Navigant / WorldExpress Travel</b> (See <a href="#">Section 12</a> of the Contract Award Manual for fee structure)	104 Main Street Dillingham, Alaska 99576	(907) 842-5193 (800) 478-5193/Toll Free (907) 842-5196/Fax
<b>Arctic Travel</b>	423 E 5th Avenue Anchorage, Alaska 99501	(907) 272-6789 (907) 272-6787/Fax
<b>New World Travel, Inc.,</b>	1200 W. Northern Lights Blvd., Suite D Anchorage, Alaska 99503-3613	(907) 276-7071 (800) 478-7071/Toll Free (907) 276-8082/Fax
<b>US Travel</b> (To avoid STR fee, use only CTA or credit card)	565 Ballyhoo Drive Dutch Harbor, Alaska 99692	(907) 581-3133 (800) 828-4538/Toll Free (907) 581-3244/Fax
	340 Mission Road Kodiak, Alaska 99615	(907) 486-3232 (800) 828-6392/Toll Free (907) 486-4272/Fax

### SEATTLE, WA (and lower 48)

<b>US Travel</b> (To avoid STR fee, use only CTA or credit card)	5470 Shilshole, Suite 600 Seattle, WA 98107	(206) 782-5513 (800) 828-5740/Toll Free (206) 782-2014/Fax
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22February02

House State Affairs  
To Representative John B. Coghill, Jr.

House Bill 300

Your statewide travel agency network must implement service fees against the State of Alaska's travel procurement. This implementation is primarily a result of the airline industries commission cuts and subsequent cuts made by related travel industry options.

We believe these fees ultimately save money. We are an unbiased travel source. The airline industry wants to remove itself from the "high rent" computer systems we have and become solely an internet commodity. At that point, price comparisons, itinerary options, and change options become extremely limited and expensive, with Dracula in control of the blood bank.

Sweetwater Travel has been a vital and successful travel agency for over fifteen years, supporting our community and state with revenues and payrolls. We would like to keep our revenue intact, and in the State of Alaska.

Thank you for your consideration of this house bill.

Sincerely,

Carol Callahan   
Marty Fisher   
Sweetwater Travel - Partners

CC: Representative Joe I. Hayes

**HB**

**303**

22-LS1206P  
Kurtz  
3/8/02

**CS FOR HOUSE BILL NO. 303(STA)**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-SECOND LEGISLATURE - SECOND SESSION**

**BY THE HOUSE STATE AFFAIRS COMMITTEE**

**Offered:**  
**Referred:**

**Sponsor(s): REPRESENTATIVES WHITAKER, Fate, Lancaster**

**A BILL**  
**FOR AN ACT ENTITLED**

1 "An Act relating to the levy and collection of a retail sales tax and to collection of  
2 municipal taxes."

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

4 \* Section 1. AS 29.45 is amended by adding a new section to read:

5 **Article 5A. Collection of Sales and Use Tax by the State.**

6 **Sec. 29.45.750. Collection of municipal sales and use tax by the state. (a)**

7 The Department of Revenue may collect a sales and use tax levied by a municipality  
8 under AS 29.45.650 or 29.45.700 and remit it to the municipality if

9 (1) requested to do so by municipal ordinance; and

10 (2) the municipality's sales and use tax ordinance is consistent with

11 AS 43.44.

12 (b) The department may negotiate with the municipality and retain a  
13 reasonable fee for services under (a) of this section.

14 \* Sec. 2. AS 43 is amended by adding a new chapter to read:



1 (12) admission to museums and historic sites.

2 **Sec. 43.44.030. Collection of retail sales tax.** (a) A seller shall add the  
3 amount of the tax levied by this chapter to the total price of goods, rentals, or services  
4 subject to the tax, and the tax shall be stated separately on any sales receipt, invoice, or  
5 other record of the sale or rental.

6 (b) A seller shall collect the tax from the purchaser and remit the tax collected  
7 to the department not later than 30 days following the last day of the month in which  
8 the tax was collected.

9 (c) A seller remitting the tax collected under this chapter to the department  
10 within 30 days after the last day of the month in which the tax was collected may  
11 retain one percent of the amount collected to cover expenses associated with collecting  
12 and remitting the tax.

13 **Sec. 43.44.040. Accounting.** The department shall deposit the proceeds of the  
14 retail sales tax levied under this chapter in the general fund of the state.

15 \* **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to  
16 read:

17 **CONDITIONAL EFFECT.** This Act takes effect only if enacted appropriations  
18 summarized by the Legislative Finance Division of the Alaska State Legislature in the general  
19 fund section of the "operating" portion of the "total authorization to spend" for fiscal year  
20 2003, calculated in the same manner as the enacted appropriations summarized in the general  
21 fund section of the "operating" portion of the "total authorization to spend" for fiscal year  
22 2002 reported in the Summary of Appropriations, 2001 Session, published by the Legislative  
23 Finance Division, do not exceed the enacted appropriations summarized in the general fund  
24 section of the "operating" portion of the "total authorization to spend" for fiscal year 2002  
25 reported in that Summary of Appropriations.

# FISCAL NOTE

**STATE OF ALASKA**  
**2002 LEGISLATIVE SESSION**

Fiscal Note Number: CSHB 303(STA)  
 Bill Version: \_\_\_\_\_  
 ( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Statewide Sales Tax BRU: Revenue Operations  
 Component: Tax Division  
 Sponsor: Representative Whitaker  
 Requester: House Finance Committee 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	2,003.1	3,162.7	3,162.7	3,162.7	3,162.7	3,162.7
Travel	46.0	40.0	40.0	40.0	40.0	40.0
Contractual	702.5	829.1	854.1	904.1	904.1	904.1
Supplies	38.0	63.0	63.0	63.0	63.0	63.0
Equipment	448.0	56.0				
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>3,237.6</b>	<b>4,150.8</b>	<b>4,119.8</b>	<b>4,169.8</b>	<b>4,169.8</b>	<b>4,169.8</b>

<b>CAPITAL EXPENDITURES</b>	<b>1,087.0</b>	<b>427.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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<b>CHANGE IN REVENUES (increase)</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF	4,324.6	4,578.3	4,119.8	4,169.8	4,169.8	4,169.8
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>4,324.6</b>	<b>4,578.3</b>	<b>4,119.8</b>	<b>4,169.8</b>	<b>4,169.8</b>	<b>4,169.8</b>

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	56	63	63	63	63	63
Part-time						
Temporary						

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

\*\* The Department of Revenue estimates the 3% year-round statewide sales tax in this legislation would generate between \$250 million and \$350 million a year in new state revenues. Uncertainties over how to interpret some of the tax exemptions in this legislation, and additional uncertainties over the effect of the provision limiting the sales tax to the first \$2,000 of a purchase or service, make it difficult to provide a better estimate of revenues.

The Department of Revenue also believes there are significant problems with this legislation, which would need to be addressed to provide a workable statewide sales tax. Specifically, the department believes the state should take over all administration and collection of municipal sales taxes in order to better manage Alaska's sales tax program for businesses statewide while also joining a nationwide effort for streamlined sales taxes to deal with the increase in mail-order and internet sales. These issues and more are explained in the attached pages.

Prepared by: Brett Fried, Economist & Chuck Harlamert, Revenue Audit Supervisor Phone 465-3682  
 Division: Tax Division Date/Time 3/19/2002 8 p.m.  
 Approved by: Larry Persily, Deputy Commissioner Date 3/19/2002  
 Agency: Department of Revenue

For distribution information, call the Governor's Legislative Office

## **CSHB303(STA) – Department of Revenue**

This legislation provides a skeletal framework for a statewide sales tax program. It is incomplete and would create significant administration problems — and considerable problems for businesses charged with collecting the tax. Among the issues:

### **Municipal Taxation Issues**

- The Department of Revenue believes the only way for a state sales tax to operate efficiently, and to avoid placing undue burdens on businesses, would be for the state to take over collection and administration of all municipal sales taxes in Alaska. This would mean a common set of laws and regulations for state and municipal sales taxes — although the rates could be different. The state then would forward to the municipalities their share of collections in each jurisdiction. This change in state law would bring Alaska into conformity with the nationwide effort to provide certainty and uniformity among sales tax laws within each state. *(See explanation of Uniform Multi-State Tax Agreement later in this fiscal note).*
- Although this legislation allows individual municipalities to opt in and have the state collect their local sales and use tax, it makes no provision for municipal taxes outside of the general sales tax, such as hotel bed tax, rental car tax, fish taxes and retail alcohol tax. Is it the intent of the legislature that the state should also take over those municipal taxes?
- The bill should contain some provisions governing joint enforcement and collection of municipal and state sales taxes. What if a community is dissatisfied with the state's enforcement and audits efforts allocated to the municipal sales tax? If the program is to operate efficiently, the state should be given autonomy for audit selection and should be the sole arbiters of tax disputes. Otherwise, businesses could be subject to two sets of enforcers with possibly differing opinions on the same tax issues.
- The language in Section 1, Lines 10 and 11, requiring that a municipal sales tax must be "consistent with AS 43.44" should refer to all of Title 43 in order to include all administrative provisions including rates of penalty and interest.
- The "reasonable fee" provision for what the state may charge municipalities for collecting the sales tax could become a point of dispute. Disputes over the state's costs could lead some municipalities to opt out of the program, creating confusion for businesses — another reason in favor of turning over all sales tax administration to the state.

### **Taxation of Services**

- The legislation should better define services and the point of taxation for services. Is it where the service is performed, or the location of the individual or business ordering the service? The bill also needs to provide rules for services delivered in interstate commerce.
- What about services between related parties? Do we want to tax services provided by BP PLC to BP Exploration Alaska?

## **CSHB303(STA) – Department of Revenue**

### Use Tax

- Although the legislation allows the state to administer and collect a municipal use tax, there is no provision for a state use tax. This encourages importing products into the state to avoid the sales tax on goods purchased in Alaska.
- If the legislature wants to include a state use tax in this bill, it would make sense to amend state law to require the payment of the use tax on motor vehicles purchased outside Alaska. This would serve to eliminate the price advantage out-of-state car and truck dealers might have over Alaska businesses that would be required to collect the sales tax.
- Every state that imposes a statewide sales tax also has a use tax. In general, a use tax is a tax on the initial use, storage or consumption of tangible personal property in the state. Enforcing use taxes is difficult, particularly with the growth of internet sales. Most states are addressing this and other sales and use tax issues by passing versions of a Model Sales and Use Tax Act. *(See explanation of Uniform Multi-State Tax Agreement later in this fiscal note).*

### Definitions of Taxable and Tax-Exempt Sales and Services

- The legislation lacks definitions needed for the administration of the tax. For example:
  - What is meant by “educational services” in the legislation’s list of tax-exempt purchases and services? College and university tuition? Any class offered by any business or self-proclaimed school, regardless of accreditation, religious affiliation or venue? Would tutoring be exempt? And what about educational computer software?
  - Petroleum products would be exempt under the legislation, but does that include aspirin, Vaseline, products made of carbon fiber and other petroleum or carbon-based products?
  - Is a commercial operation, such as a salmon bake at an old mine site, considered an “historic site” for tax-exempt status under the legislation?
  - Are club dues taxable?
  - Under this legislation, Girl Scout cookies would be taxable, as would any other sale by a nonprofit organization for fund-raising purposes.
  - It’s also possible that under this legislation the state would have collected sales tax on the sale of Arco’s assets to Phillips.
  - Is the sales tax on a vehicle lease due up front, or strung out based on the stream of lease payments?
  - Are barter exchanges subject to sales tax?

## **CSHB303(STA) – Department of Revenue**

### Resale

- There is no provision in this legislation for resale or tax-exempt certificates. Such certificates are essential for the state and businesses for the administration of tax-exempt purchases. Without a tax-exempt certificate, the business could be held liable for the taxes if the state determines the sale should have been taxed. For example, there is vast uncertainty regarding tax liability if a sale is made for resale and the product is subsequently used by the purchaser rather than incorporated into a product for taxable sale. Requiring a resale certificate would protect the business from any tax liability.
- Does the “sale for resale” exemption apply if the resale is to occur outside the state?
- Does “sale for resale” apply to items that do not become an integral part of another product (for resale), such as packaging?
- What about a new home? Under this bill, “construction services” are exempt. Does that mean homebuyers would pay sales tax to contractors on the value of the building materials originally purchased at a lumber yard as tax-exempt for resale, but not on the value of the labor?

### \$2,000 Cap on the Taxable Transaction

- If a lawyer submits interim bills under \$2,000 each for a large, ongoing case, would all of the bills be fully taxable under this legislation, even if the total cost of services provided on the case exceeded \$2,000? And what if the lawyer submitted only one bill for the entire project — would the \$2,000 limit apply, even if the work stretched out over several months?
- The same problem would arise in furniture and large appliance purchases. If the transaction include several items totaling far in excess of \$2,000, could the business and consumer take advantage of the \$2,000 cap by writing up the items on a single invoice and calling it a “set”?

### Uniform Multi-State Tax Agreement

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

One of the major reasons for the push is to address the issue of lost state and municipal sales tax revenues to mail-order and internet commerce. The retail industry has made it clear that it wants to see a set of uniform sales tax rules nationwide as a condition of working with the states to collect sales taxes on interstate commerce. The growth of mail-order and internet sales is costing states and municipalities billions of dollars a year in lost sales tax revenues.

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

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

## **CSHB303(STA) – Department of Revenue**

### **Enforcement and Audit Issues**

- There is no authority under this legislation for the department to use sampling in its audits of taxpayers. Sampling would make the audit process easier for the department and the taxpayer.
- There is no requirement for sellers to register with the state. Without such a provision, the state would be unable to track businesses responsible to collect and remit the sales tax — making it easier for businesses, particularly at-home or part-time businesses to avoid the tax.

### **Revenue Estimate**

How the department arrived at its estimate of \$250 million to \$350 million:

- The U.S. Economic Census estimates that the total value of all sales, receipts or revenue for Alaska establishments in 1997 was more than \$35 billion. We excluded the mining and wholesale sectors as a result of the exemption of goods and services for resale. Professional, scientific and technical services and most transportation services were also excluded for this same reason.
- If we adjust for the remaining exemptions, and exclude finance and insurance (insurance is potentially precluded by state law and “financial” sales are not defined in this legislation), and assume that petroleum products is more narrowly defined as fuel, then we arrive at a rough estimate of \$9 billion in taxable sales.
- Clearly, some goods and services excluded here would probably not be exempt under this bill, but some goods and services included in our estimate would probably be exempt.
- One reason this estimate is so rough is that the exemptions are so broadly defined.

The difficulty in estimating the effect of the \$2,000 cap are:

- We are not aware of any direct method to estimate the reduction in revenue as a result of the exclusion of “that part of a single item or the periodic selling price of a single service that exceeds \$2,000” from taxable sales. 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.
- We can offer a couple of examples of Alaska municipalities with a cap. The City of Kodiak limits sales tax to the first \$500 of the sales price. In 2001, retail sales, rentals and services in Kodiak totaled \$279 million. Exemptions for sales, rental or services in excess of \$500 per item totaled \$54 million, or 19% of total sales. That compares to Juneau, where the limit is \$7,500, or 2% of taxable sales in 2001. We believe the \$2,000 limit of CSHB303(STA) would fall somewhere between Juneau's 2% and Kodiak's 19% exemption of taxable sales.

## **CSHB303(STA) – Department of Revenue**

### **Proposed Sales Tax Bills**

The Department of Revenue has at least two draft sales tax bills it could share with interested legislators — one was prepared by a consultant three years ago, and one was prepared by a Tax Division staff member. The department also could obtain tax statutes from other states and information from national tax administrator organizations to assist the legislature.

The department could meet with legislators and staff at any time to discuss the details of drafting a workable, comprehensive statewide sales tax.

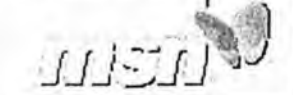
### **Operating and Capital Budget Request**

- Operating expenditure projections are based on the assumption that the tax is imposed on January 1, 2003.
- The projections do not include the cost of collecting municipal sales taxes.

The cost projections assume:

- The new sales tax section would take over space in the State Office Building in Juneau currently occupied by the Permanent Fund Dividend Division and would take over space in the Atwood Building in Anchorage currently occupied by the Alcoholic Beverage Control Board. These moves would allow the new sales tax section to share premises (and staff) with the department's Tax Division. The estimated cost of relocating the Dividend Division and ABC Board are a combined one-time relocation expense of approximately \$325,000 and an annual operating budget increase of perhaps \$200,000 a year (due to the higher rents of private property as opposed to state-owned buildings).
- The sales tax section also would staff small field offices in Fairbanks and one other community (to be determined).

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Reply-To : "" &lt;akreg@gci.net&gt;

To : "Rynnieva &amp; Del" &lt;rynnieva@hotmail.com&gt;

Subject : TAX ALERT !!!

Date : Sat, 9 Feb 2002 22:49:35 -0900

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ALASKANS FOR RESPONSIBLE GOVERNMENT  
AKREG@GCI.NET

Are you concerned about Alaska's \$7.126 BILLION dollar Bloated Budget and the move by the Knowles/Ulmer Administration to reach into your pockets for another \$400 MILLION?

If so - you need to take action NOW!

Representative John Coghill, Chairman of the House State Affairs Committee, has called for hearings next week on 5 TAX bills. Rep. Coghill is NOT in favor of levying taxes - he is holding these hearings to bring attention to the issue of taxation.

You need to email Rep. Coghill with your views on Alaska's budget. He will pass your opinion on to the other members of his committee and the other members of the legislature. Rep. Coghill's email is:

[Representative\\_John\\_Coghill@legis.state.ak.us](mailto:Representative_John_Coghill@legis.state.ak.us)

The State Affairs Committee will be considering the following House Bills:

Tuesday - February 12th 8:00 a.m. - Room 205 - Butrovich Room

HB 303 By Representatives Whitaker, Fate, Lancaster  
Relating to Levy and Collection of Sales Tax

Thursday - February 14th (Happy Valentines Day) - 8:00 a.m. - Room 205

HB 10 By Representative Moses  
Relating to Taxation of Income

SSHB 199 By Representatives Hudson, Scalzi  
Relating to Taxation, Including Taxation of  
Income

Saturday - February 16th 10:00 a.m. - Room 205

HB 69 By Representative Rokeberg  
Relating to Income of the Permanent Fund

HB 304 By Representative Whitaker, Fate  
Relating to Disposition of the Permanent Fund

If you are concerned about Alaska's ballooning budget - then you need to let Rep. Coghill know your views - Don't wait - email NOW!

The following is a brief breakdown of Alaska's Budget.....

FY02 (millions)	
7,126.2	TOTAL STATE SPENDING
2,417.1	General Fund
2,097.9	Federal Funds
743.8	Statutorily Restricted
71.4	Dedicated
87.1	Trust
1,708.9	Permanent Funds
2,417.1	General Fund Budget
927.2	Core Government
750.7	Local Schools
338.8	Grants/Formula Programs
195.5	University
114.0	Capital Projects
29.7	Local Government Assistance
61.2	Debt Service & Fund Capitalizations
1,543.9	Projected Existing General Fund Revenues
873.2	Projected Fiscal Gap
4,570.3	Cash Reserves

ALL OF THE LEGISLATORS EMAIL ADDRESSES CAN BE FOUND AT  
THE END OF THIS EMAIL.....

The following are comments from Alaskans about Alaska's fiscal problems

I would like to state, on behalf of the two voters in this household, that we are adamantly against an income tax, especially a progressive tax of any kind. That is too socialist for us. We would wholeheartedly support a sales tax, as it is a fair and equal way to tax consumption by the populace and raise revenue. Before any taxes take place, some strong arm budget cuts need to be made. Granted, budget cuts may be unpopular with some people, but they must be made and someone needs to step up to the line and get them done.

Thank you,

I Have never written legislators or testified concerning state budget matters, but my resistance has been overcome by the posturing and lack of courage to take actions necessary to put the State on a sound fiscal course. I am copying all members of the legislature, so those characterizations may or may not fit any particular recipient of this message. Even if it fits, my intention is not so much to offend as it is to voice a challenge to be forthright in addressing the budget. For anyone who has not read "Profiles in Courage" by Jack Kennedy, I commend it to you, as it enables the reader to see that doing what is right is far and

away better than doing what is popular.

I have heard the "gap" figured at around \$1 billion this year. I will forego commenting on the need to control spending, the need to create motivation at the agency and employee level to actively question how functions can be prioritized and accomplished at lesser cost (i.e., the type of motivation and response the private sector employs of necessity as it has no power to tax others), and the availability of other funding sources. Rather, I wish to challenge the legislature to address the wisdom as well as the moral and economic propriety of continuing the PFD giveaway in unabated fashion in perpetuity. I can already hear minds calculating the votes (99 constituents against touching "my" PFD for each 1 willing to give up a portion of the giveaway for the sake of fiscal solvency). Recognizing the politics involved, I have little hope that the legislature will act, but am making my comments despite the odds.

The Permanent Fund was not created for the purpose of enabling the state to hand out \$1,700 checks every year to every toddler, every mailbox bashing bored teenager, every Seattle retiree who decided to move to Alaska to be near children (or fish), every snow birding millionaire, or every member of my family. Rather, the Fund was created to provide a savings account in which revenues excess to current needs would accumulate and grow until such time as they could be tapped to cover necessary budget components for which declining oil revenues proved insufficient. Lest you think I am proposing an invasion of the Fund or a depletion of its principal, I am not. Nor am I proposing that inflation proofing end. Contributions to the Fund, and inflation proofing can continue unabated until such time as the fiscal demands are even greater than at present.

What I find unconscionable is the insistence that the State maintain the public circuses (unlimited PFD's) lest the voters revolt. Many, and possibly most citizens of Alaska were not born here, but came of their own free will because they thought it in their best interest to do so, just as others move to Seattle, Florida, Texas, or anywhere else seeking a better job, climate, life, etc. We do not need to pay everyone for moving to, or remaining in Alaska.

I have three children who receive PFD's every year. Make no mistake, it's nice to get the money. Like most others, it goes to Costco (headquartered outside Alaska with most shareholders outside Alaska) or Alaska Airlines (Seattle), or Charles Schwab (with no meaningful benefit to Alaska) or a condo rental in Hawaii. Some small portion no doubt trickles down within the state, in theory helping to create a few more jobs (which add nothing to the State revenue base and only add more mouths at the PFD trough). It's unfortunate that the majority of people (whether in Alaska or elsewhere) seem to evaluate right and wrong, fair and unfair, largely in reliance on the impact to their personal wallet. It is equally unfortunate when elected representatives are unwilling to explain the facts of life and risk non-retention.

This year the State will take in a stream of revenues. Of those revenues, roughly \$1 billion will then be mailed out to every resident, irrespective of any need-based considerations, irrespective of any deliberate policy determination that the benefits merit such an expenditure, and irrespective of the fact that roughly \$200-300 million of those State revenues will be needlessly siphoned off to the U.S. Treasury in the form of income taxes.

The budget gap could be closed in a heartbeat if the State would close down the PFD bribe system (we pay you, you let us save some current revenue for future needs instead of wasting it all each year). The budget gap could be reduced to a modest problem if we even capped PFD's at, say \$500 (still enough of a bribe to keep folks going to the public circus). Or, if the shock is too much to bear, cap it at a tolerable level with step down decreases over 3-5 years to wean people from the trough.

Unfortunately, the political current seems to be flowing in the direction of imposing income taxes. The target, seen all too often in political spheres, is to divide the population and put the burdens on the lesser number of voters in order to ensure continued favor with the greater number of voters. As Alaskans who would like to see ANWR developed, we know what that feels like (congressional members who are adamant in opposing oil and gas development because they can count the votes in their district). Its too bad we are so quick to parrot that approach to decision making. Instead of dealing with runaway PFD outflows, an income tax will, sooner or later, be imposed. Those who drag themselves out of bed, bleary-eyed, and trudge off to work each day to earn a living, will have their pockets tapped so the State can simply give the money to others (toddlers, unemployed teens, millionaire retirees, etc.).

If the State needed an income tax in order to pay for health care, to address the scourge of poverty for those who due to circumstances are unable to have decent housing, nutrition, clothing, etc., to build out sewer and water infrastructure where it is lacking, I would be the first to step up and gladly pay an income tax (or donate to charities absent an income tax). If the State needed an income tax to create or continue any program which, on its merits, was deemed necessary, I might disagree on a case by case basis, but would defer to the collective judgment. Where I draw the line, and urge the legislature to draw the line, is when an income tax is not imposed to carry out any government function at all, but simply to redistribute income from those who earn it to those who do not (with a hefty slice going to Uncle Sam).

Is there a valid economic reason to impose an income tax and keep paying \$1 billion out in PFD's each year? No. Is there a state government need which will not be otherwise met? No. Is there a need-based rationale to take income from those who earned it and simply give everyone a check (Marx would love the concept)? No. Is there any other state government in the United States, or any national government on the face of the planet which taxes income for the sole purpose of redistributing it on a non-need based, non-program based approach? No.

There is no budget gap. The State takes in enough revenue to fund the expense side. Where we get into red ink is only after taking \$200-300 million of State revenue each year to send (indirectly) to the U.S. Treasury, and sending another \$700-1,000 million of State revenue to every person who meets minimum residency requirements and has a pulse. If the legislature is looking for a way to reduce the PFD burden without cutting PFD's, perhaps an income tax is the way to go. Those who work hard and create jobs for others will eventually move out of state (fewer PFD obligations). Of course, they might be offset by the inflow of others who want to take their vacated spot at the public trough. Thanks for reading this, and may your conscience be your guide.  
JUST SOLVE THE PROBLEM

If our deficit is \$1B. Cut spending. Why is it that all elected representative, whether state or federal, refuse to understand this when they are spending someone else's money?

If it's your personal finances, what do you do when your income drops? You cut your spending. Why is this so hard to understand, when it relates to government?

A Plan That Would Work:

1. Cut Permanent Fund Dividend payments to everyone in the state. Initiating a State Income Tax in Alaska, while giving away money to all citizens of the state is ludicrous! We as citizens of the state DO NOT DESERVE a Permanent Fund Dividend, when the states' expenses are almost twice as much as it's revenues. In fact we don't deserve a PFD under any circumstances. The only reason our

representatives haven't voted to repeal it is because they would be unpopular and all they want is to get re-elected-NOT do what is right for the state!

2. Initiate a 5% State sales tax-it is the only fair tax, and we get tourists to pay also. Everyone pays, unlike an income tax where only those that work pay.

3. Cut State Spending to balance the budget this and every year, regardless the impact on state services. I don't have the actual volume that #1 & #2 above will pull into the treasury-but you do. Whatever the amount, cut an adequate amount from spending to balance the budget, without pulling it from reserves. Yes, it will hurt many people, but if we don't have the money-we don't have the money.

Think about why state revenues are down-production is down, and it will continue to decline at a rate of 5%---it isn't coming back. The only way to get revenue back to previously high levels is to produce ANWR.

It's ludicrous to think that the legislature is willing to spend \$12MM on promoting tourism, when you're only willing to spend \$1MM on promoting ANWR. The budget can't be balanced with tourism unless you tax each tourist thousands of dollars to come to Alaska!

Solving this problem will not be easy or pleasant. But you weren't elected to get paid and not do what is right-we want solutions. In business if you don't perform-you get fired.

If you don't perform we will do everything we can to elect someone else. We don't want excuses we want you to do what is right. And yes, you might not get re-elected if you do solve the problem-but you will know that you did something you can be proud of the rest of your life. You will also know that those before you didn't have the guts to do the right thing, but you did.

A concerned citizen;

I am an Anchorage resident. I have been following the legislature's debate of the State's fiscal gap closely, as I hope other Alaskans have. I believe the answer is very simple. You can not spend what you do not have. The state must do as all citizens and businesses do when we are in financial straits. We cut back. I have heard very little from anyone in the legislature about cutting payroll, non-essential services and travel expenditures. Perhaps you should threaten to take our Permanent Fund Dividends away from us too. Scare tactics work good when you are trying to divert the public from the real issue, which is the State is overspending. The citizens are not getting their moneys worth. There is too much governmental waste.

Why not start with trimming the fat first? Why is it that the State has the largest number of employment ads consistently when I look at the Anchorage Daily News classifieds? Not only does the State have the most ads, but the wages are higher than any other private sector counterpart. Can anyone please tell me what the annual payroll expenditure is for the State of Alaska? How much money would a 10% reduction be equal to? Maybe not enough to fill the so-called gap, but, hey it's a start. Then perhaps we could reduce each department budget by 20%. What kind of figure would that be?

I think you should put a panel of 12 residents together, give them red pens and let them have a look at the budget.

I was talking to an Anchorage proprietor last week whose business was

directly and negatively affected by the events of September 11. The first thing he did was to cut the salary of the officers of the business. He knows that in order to meet the necessary obligations of his business, he had to make cuts. But that business is doing what it takes to survive one more year.

I obviously have the time to e-mail every senator, 1 gislator and representative. Believe me, if nothing is done to reduce the State budget before new taxes are enacted, I will have the time to talk to the constituents in your districts. I have a feeling that I am not the only hard working Alaskan that views our budget (overspending) gap this way. The answer is not to take more money from the residents, but to live within your means, which is what the residents have not choice but to do. Thank you for your time.

Sincerely,

LEGISLATIVE EMAIL ADDRESSES:

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<Senator\_Kim\_Elton@legis.state.ak.us>,  
<Senator\_Robin\_Taylor@legis.state.ak.us>,  
<Senator\_John\_Cowdery@legis.state.ak.us>,  
<Senator\_Lyda\_Green@legis.state.ak.us>,  
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<Representative\_Bill\_Hudson@legis.state.ak.us>,  
<Representative\_Vic\_Kohring@legis.state.ak.us>,  
<Representative\_Lesil\_McGuire@legis.state.ak.us>,  
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<[Representative\\_Reggie\\_Joule@legis.state.ak.us](mailto:Representative_Reggie_Joule@legis.state.ak.us)>,  
<[Representative\\_Pete\\_Kott@legis.state.ak.us](mailto:Representative_Pete_Kott@legis.state.ak.us)>,  
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<[Representative\\_Carl\\_Moses@legis.state.ak.us](mailto:Representative_Carl_Moses@legis.state.ak.us)>,  
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GetNetWise



# Alaska State Legislature

Please enter into the record my testimony to the House State Affairs  
committee name  
Committee on HB 303 State Seasonal Sales Tax, dated February 12, 2002  
bill # / subject

Please do NOT seriously consider any new funding source (TAXES) until all public funds given to private businesses, individuals, and special interest groups have been completely eliminated.

Last week alone the Alaska Legislature considered bills with a price tag of almost one BILLION dollars, the majority of which provide funding for special interest groups or non-essential state government spending.

This week Legislative spending bills, with fiscal notes attached, being considered contain a total of at least \$114 MILLION dollars in non-essential state government spending. This money would be much better utilized elsewhere, or better yet, put away for future funding of essential services.

A \$7.5 BILLION dollar budget amounts to our state government spending over \$12,000.00 for every man, woman, and child in Alaska. At this rate, spending for a family of six amounts to over \$72,000.00! For each working person, this level of spending amounts to over \$26,000 each. That's a lot of tax money folks! I want to know how many average working people will be able to afford living here once the pipeline goes dry?

Taxes are NOT the answer, at this time, to our State budget woes; cutting non-essential spending IS. Please use our public funds for constitutionally mandated government services such as schools, roads, public health & safety ONLY. When you finally get to that point, you may talk to me about taxes, but NOT before then.

Thank you.

Signed: Mike McBride  
Testifier

Self  
Representing (optional)

P O Box 6 Kenai, Alaska 99611-0006  
Address

907 776 5444  
Phone number

ALASKA DEPARTMENT OF REVENUE DRAFT

page 2 of 3.

**Alaska SALES TAX Interactive**

Sales Tax Rate: 3%  
 Total Exemptions Selected (page 3): 54  
 TOTAL Sales Tax Revenue Generated: \$447,076

Insert your SALES TAX rate. Then, go to "exemptions input page tab" and choose your sales tax exemptions.

Please see assumptions below.

Sales Tax Revenue	Exemptions	Percent of Alaska Sales Tax Revenue
Accommodations & Food Services \$ 31,964	0	7.15%
Retail Trade \$ 184,815	2	41.34%
Health Care & Social Assistance <sup>2</sup> \$ -	15	0.00%
Education <sup>2</sup> \$ -	3	0.00%
Professional, Scientific & Technical Services \$ 28,376	0	6.35%
Administrative Support & Waste Management & Remediation \$ 17,765	0	3.97%
Arts, Entertainment & Recreation <sup>2</sup> \$ 5,048	0	1.13%
Wholesale \$ -	15	0.00%
Real Estate & Rental & Leasing \$ 8,898	1	1.99%
Information \$ 31,158	0	6.97%
Mining \$ -	3	0.00%
Utilities \$ -	1	0.00%
Construction \$ -	3	0.00%
Manufacturing \$ -	10	0.00%
Transportation & Warehousing \$ 100,406	0	22.46%
Finance & Insurance \$ 29,281	0	6.55%
Other Services (except Public Administration) \$ 9,160	1	2.05%
Management of Companies/Enterprises \$ 205	0	0.05%

Sector	Estimated sales, receipts or revenue 1997 (\$1000) <sup>1</sup>	SALES TAX Revenue (\$1000)	Percent of Alaska Sales Tax Revenue
Accommodations & Food Services	\$ 1,065,459	\$ 31,964	7.15%
Retail Trade	\$ 6,160,508	\$ 184,815	41.34%
Health Care & Social Assistance <sup>2</sup>	\$ -	\$ -	0.00%
Education <sup>2</sup>	\$ -	\$ -	0.00%
Professional, Scientific & Technical Services	\$ 945,873	\$ 28,376	6.35%
Administrative Support & Waste Management & Remediation	\$ 592,161	\$ 17,765	3.97%
Arts, Entertainment & Recreation <sup>2</sup>	\$ 168,275	\$ 5,048	1.13%
Wholesale	\$ -	\$ -	0.00%
Real Estate & Rental & Leasing	\$ 296,593	\$ 8,898	1.99%
Information	\$ 1,038,594	\$ 31,158	6.97%
Mining	\$ -	\$ -	0.00%
Utilities	\$ -	\$ -	0.00%
Construction	\$ -	\$ -	0.00%
Manufacturing	\$ -	\$ -	0.00%
Transportation & Warehousing	\$ 3,346,867	\$ 100,406	22.46%
Finance & Insurance <sup>3</sup>	\$ 976,040	\$ 29,281	6.55%
Other Services (except Public Administration)	\$ 305,343	\$ 9,160	2.05%
Management of Companies/Enterprises	\$ 6,844	\$ 205	0.05%
	14,902,557	\$ 447,076	100.0%

<sup>1</sup> Only includes sales, revenue or receipts from employers with paid employees. Nonemployers account for roughly 3% of business activity. Auxiliaries, excluding corporate subsidiaries and regional managing offices, are also not included for confidentiality reasons.

<sup>2</sup> Only includes firms subject to the federal income tax.

<sup>3</sup> Only includes credit intermediation & related activities and agencies brokerages & and other insurance related activities

**ASSUMPTIONS:**

- (1) No increases or decreases in revenue with changes in the economy and/or population after 1997.
- (2) No increase in mail order, direct TV or internet sales as a percent of total value of sales from 1997.
- (3) Non-compliance with the sales and use tax is zero.
- (4) Changes in the sales tax rate do not result in changes in consumer or business choices (e.g., increase in out-of-state purchases).
- (5) Exemptions are not legislatively prohibited.
- (6) Industry classifications correspond closely to the good or service.

Source: U.S. Department of Commerce, Bureau of Census: "1997 Economic Census"

# ALASKA STATE HOUSE OF REPRESENTATIVES

Interim Address:  
119 N. Cushman, Suite 211  
Fairbanks, AK 99701  
(907)-456-5081  
Fax# (907)-456-8245



Session Contact:  
(907)-465-3719  
FAX# (907)-465-3258  
State Capitol  
Room 102

## REPRESENTATIVE JOHN COGHILL

Date: March 7, 2002

To: Kathryn Kurtz, Leg Legal

From: Rynnieva Moss, Legislative Aide

A handwritten signature in cursive script, appearing to read "Rynnieva".

Re: Work Order #LS1206

---

The House State Affairs Committee adopted Version O of CSHB 303(STA) this morning with the attached conceptual amendment. Representative Coghill would like a new committee substitute with the attached amendment inserted. Please feel free to clean up the language if needed.

Thanks.

AMENDMENT #3

OFFERED IN THE HOUSE STATE AFFAIRS

BY REPRESENTATIVE COGHILL

TO: CSHB 303(STA) Version O

1 Page 1, Line 6:

2 After the words "use tax by the state."

3 Insert:

4 (a)

5

6 Page 1, line 10:

7 Insert:

8 (b) a municipality requesting the Department of Revenue to collect taxes under (a) of  
9 this section shall have a municipal sales tax ordinance consistent with AS 43.44.

10 (c) the Department of Revenue may retain a reasonable fee as negotiated with the  
11 municipality for taxes collected under (a) of this section.

22-LS1206\P  
Kurtz  
3/8/02

**CS FOR HOUSE BILL NO. 303(STA)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-SECOND LEGISLATURE - SECOND SESSION**

**BY THE HOUSE STATE AFFAIRS COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): REPRESENTATIVES WHITAKER, Fate, Lancaster**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to the levy and collection of a retail sales tax and to collection of  
2 municipal taxes."

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

4 \* **Section 1.** AS 29.45 is amended by adding a new section to read:

5 **Article 5A. Collection of Sales and Use Tax by the State.**

6 **Sec. 29.45.750. Collection of municipal sales and use tax by the state. (a)**

7 The Department of Revenue may collect a sales and use tax levied by a municipality  
8 under AS 29.45.650 or 29.45.700 and remit it to the municipality if

9 (1) requested to do so by municipal ordinance; and

10 (2) the municipality's sales and use tax ordinance is consistent with

11 AS 43.44.

12 (b) The department may negotiate with the municipality and retain a  
13 reasonable fee for services under (a) of this section.

14 \* **Sec. 2.** AS 43 is amended by adding a new chapter to read:

1 Chapter 44. Retail Sales Tax.

2 Sec. 43.44.010. Levy of retail sales tax; tax rate. (a) A retail sales tax is  
3 levied on the retail sale or other transfer for consideration of goods, on rents, and on  
4 services performed for consideration in the state.

5 (b) The rate of the tax is three percent of the price of goods sold or otherwise  
6 transferred, rents, and the value of services performed.

7 Sec. 43.44.020. Exemptions. The tax levied under AS 43.44.010 does not  
8 apply to

9 (1) goods sold, rents, or services performed that are

10 (A) explicitly exempted from taxation under another provision  
11 of state law; or

12 (B) exempt from taxation under federal law, including sales to  
13 the federal government, and purchases made with

14 (i) food coupons, food stamps, or other types of  
15 certificates issued under 7 U.S.C. 2011 - 2036 (Food Stamp Act); and

16 (ii) food instruments, food vouchers, or other types of  
17 certificates issued under 42 U.S.C. 1786 (special supplemental nutrition  
18 program for women, infants, and children);

19 (2) sales of goods or services for resale;

20 (3) electricity, natural gas, and water and sewer utility services;

21 (4) funeral, cemetery, and crematory goods and services;

22 (5) health care services provided by a person licensed or certified to  
23 provide those services under AS 08;

24 (6) prescription drugs, devices, and supplies prescribed by a person  
25 licensed to prescribe those goods under AS 08;

26 (7) that part of the selling price of a single item or the periodic selling  
27 price of a single service that exceeds \$2,000;

28 (8) educational services;

29 (9) petroleum and petroleum products;

30 (10) real estate rentals;

31 (11) construction services;

1 (12) admission to museums and historic sites.

2 **Sec. 43.44.030. Collection of retail sales tax.** (a) A seller shall add the  
3 amount of the tax levied by this chapter to the total price of goods, rentals, or services  
4 subject to the tax, and the tax shall be stated separately on any sales receipt, invoice, or  
5 other record of the sale or rental.

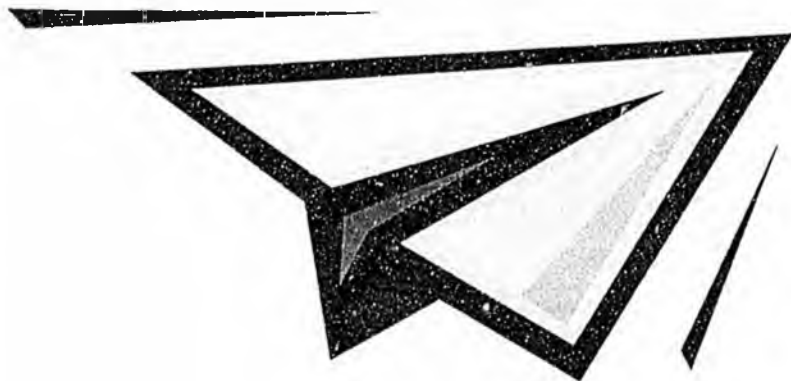
6 (b) A seller shall collect the tax from the purchaser and remit the tax collected  
7 to the department not later than 30 days following the last day of the month in which  
8 the tax was collected.

9 (c) A seller remitting the tax collected under this chapter to the department  
10 within 30 days after the last day of the month in which the tax was collected may  
11 retain one percent of the amount collected to cover expenses associated with collecting  
12 and remitting the tax.

13 **Sec. 43.44.040. Accounting.** The department shall deposit the proceeds of the  
14 retail sales tax levied under this chapter in the general fund of the state.

15 \* **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to  
16 read:

17 **CONDITIONAL EFFECT.** This Act takes effect only if enacted appropriations  
18 summarized by the Legislative Finance Division of the Alaska State Legislature in the general  
19 fund section of the "operating" portion of the "total authorization to spend" for fiscal year  
20 2003, calculated in the same manner as the enacted appropriations summarized in the general  
21 fund section of the "operating" portion of the "total authorization to spend" for fiscal year  
22 2002 reported in the Summary of Appropriations, 2001 Session, published by the Legislative  
23 Finance Division, do not exceed the enacted appropriations summarized in the general fund  
24 section of the "operating" portion of the "total authorization to spend" for fiscal year 2002  
25 reported in that Summary of Appropriations.



PAPER AIRPLANE  
FROM THE DESK OF  
**RYNNIEVA MOSS**

*House State Affairs  
Committee Aide*

DATE	March 7, 2002
------	---------------

NAME	Lori Roland
------	-------------

SUBJECT	Amendment to CSHB 303(STA).O
---------	------------------------------

Lori.

Here is the conceptual amendment. Legal will have the flexibility to change the verbage as I have already done to make the amendment make sense.



<p><i>Rynnieva_Moss@legis.state.ak.us</i> Juneau 465-4963 1-877-465-3719 1-907-465-3258</p>
---

N u m b e r  o f  p a g e s  2
--

AMENDMENT #3

OFFERED IN THE HOUSE STATE AFFAIRS

BY REPRESENTATIVE COGHILL

TO: CSHB 303(STA) Version O

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9 this section shall have a municipal sales tax ordinance consistent with AS 43.44.

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11 municipality for taxes collected under (a) of this section.

Re: clarification

**Subject: Re: clarification**

**Date:** Tue, 05 Mar 2002 11:34:55 -0900

**From:** Rynniva Moss <Rynniva\_Moss@legis.state.ak.us>

**Organization:** Alaska State Legislature

**To:** Yvonne Davis <Yvonne\_Davis@Legis.state.ak.us>

Version L would become effective if one of the concurrent resolutions indicated was passed by a two-thirds vote of the legislature and approved on the ballot by the voters. Leg Legal says this has constitutional issues because (A) a two-thirds voters is a stricter requirement than the majority vote on a tax bill and (B) having a contingency on the approval of the voters is an unauthorized delegation of legislative powers to the voters.

Version O makes the contingency of effectiveness dependent on the legislature passing by a majority vote an enacted operating budget which has zero growth for the general fund spending level from last year's enacted budget.

Yvonne Davis wrote:

> Hi Rynniva,

>

> Please bear with me, but can you tell me, in a nutshell, what the  
> difference is again between the two work drafts you gave me re: HB 303  
> so I can relay the correct message to Gary.

>

> Thanks for all your help!

>

> Yvonne

22-LS1206\O  
Kurtz  
3/4/02

**CS FOR HOUSE BILL NO. 303(STA)**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-SECOND LEGISLATURE - SECOND SESSION**

**BY THE HOUSE STATE AFFAIRS COMMITTEE**

**Offered:**  
**Referred:**

**Sponsor(s): REPRESENTATIVES WHITAKER, Fate, Lancaster**

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10 (i) food coupons, food stamps, or other types of  
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12 (ii) food instruments, food vouchers, or other types of  
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14 program for women, infants, and children);

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19 provide those services under AS 08;

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1 other record of the sale or rental.

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19 Finance Division, do not exceed the enacted appropriations summarized in the general fund  
20 section of the "operating" portion of the "total authorization to spend" for fiscal year 2002  
21 reported in that Summary of Appropriations.

Sectional for CSHB 303(STA)

1. Provides municipal option for having the Alaska Department of Revenue collect sales taxes for the municipality and remitting them to the municipality.
2. Levies a 3 percent year-round sales tax on goods, rents, and services performed in the State of Alaska.
3. Provides for exemptions that no longer include vending machines but does include those goods sold, rents, or services performed that are exempted from taxation under federal law or state law, as well as, resale items, utilities, alcoholic beverage, health care services, prescription drugs, a \$2,000 value of sale limit, educational services, petroleum and petroleum products, real estate rental, construction services, and admission to museums and historic sites.
4. This provides for the seller of the goods or service to be the tax collector and requires them to submit the collected taxes within 30 days of the last day of the month of collection.
5. Provides that the tax collector can retain one percent for collecting the taxes.
6. Has a conditional effect on the passage by the legislature of a proposed amendment to the Constitution relating to an appropriation limit and spending limit;

AND a proposition for a spending limit or spending limit being approved by the voters.

# 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

February 25, 2002

**SUBJECT:** Voter Approval of Tax Legislation (Work Order No. 22-LS1597)

**TO:** Representative John Coghill  
Attn: Rynnieva Moss

**FROM:** Tamara Brandt Cook  
Director 

You have asked whether it is possible for the legislature to make the enactment of a tax bill contingent upon voter approval. The question has not been considered by a court in this state, but it is possible that a provision of a bill which makes the Act effective only if approved by the voters would be held unconstitutional because such a referendum is not specifically authorized by the state constitution. Section 1 of Article II of the Constitution of the State of Alaska provides that the legislative power of the state is vested in the legislature. Laws may be enacted in Alaska in two ways: by the legislature acting under the power vested in it by Article II and by the people acting under the power of initiative and referendum as established in Article XI. Section 11 of Article XII provides:

SECTION 11. As used in this constitution, the terms "by law" and "by the legislature", or variations of these terms, are used interchangeably when related to law-making powers. Unless clearly inapplicable, the law-making powers assigned to the legislature may be exercised by the people through the initiative, subject to the limitations of Article XI.

The constitution provides the method for proposing an initiative or referendum in sections 1, 2 and 3 of Article XI:

SECTION 1. The people may propose and enact laws by the initiative, and approve or reject acts of the legislature by the referendum. (Emphasis added)

SECTION 2. An initiative or referendum is proposed by an application containing the bill to be initiated or the act to be referred. The application shall be signed by not less than one hundred qualified voters as sponsors, and shall be filed with the lieutenant governor. If he finds it in proper form he shall so certify. Denial of certification shall be subject to judicial review.

SECTION 3. After certification of the application, a petition containing a summary of the subject matter shall be prepared by the lieutenant governor for circulation by the sponsors. If signed by qualified voters, equal in number to ten per cent of those who voted in the preceding general election and resident in at least two-thirds of the election districts of the State, it may be filed with the lieutenant governor.

Since the constitution reserves the power of initiative and referendum to the people, the legislature may not usurp that power. A court might well hold that the method for exercising the power of initiative and referendum set out in those sections is exclusive.

Except for section 6 of Article XI, which allows the legislature to amend initiatives and forbids repeal of an initiative for a two-year period, the legislature is given no role by the constitution in the direct legislative process of initiative and referendum. On the other hand, the Constitution specifically authorizes the legislature to refer certain kinds of questions to the voters. For example, section 1 of Article XIII allows a constitutional amendment to be proposed to the people by a two-thirds vote in each house of the legislature. Section 8 of Article IX requires state debts to be authorized by law and ratified by the voters. The very specificity of these provisions suggests that, except where expressly authorized to do so, the legislature may not refer an item to the voters for binding approval.

In U.S. v. Northern Commercial Co., 6 Alaska 94 (1918), the legislature provided that an act be submitted to a referendum vote of the people. The court struck the act down, holding that neither the organic law creating the legislature, nor any other act of Congress authorized the submission of such an act to the popular vote. In People v. Barnett, 176 N.E. 108 (Ill. 1931), the court struck down a statute on similar grounds. The court concluded that the legislature alone has the power, duty, and responsibility to legislate.

Under the constitution of the State of Alaska I think it likely that the courts would hold that neither the governor nor the legislature is authorized to submit an act to the popular vote for binding effect. This conclusion is bolstered by the fact that the delegates to the Alaska Constitutional Convention considered and rejected a proposal that would have authorized bills to be referred to the voters.

Section 21 of Committee Proposal 5, dated December 14, 1955, stated:

SECTION 21. Any bill failing of passage by the legislature may be submitted to referendum by order of the governor either in its original form or with such amendments which were considered by the legislature, as he may designate. Any bill which, having passed the legislature, is returned thereto by the governor with objections, and, upon reconsideration is not approved by the majorities required by this constitution, may be submitted to referendum by a majority of all the

Representative John Coghill

February 25, 2002

Page 3

members sitting as one body. Bills thus submitted to referendum shall be voted on at the next succeeding regular election occurring at least sixty days after action is taken to submit them, unless the legislature shall provide for their submission at an earlier date. This section shall not apply to bills containing appropriations, raising or earmarking revenues, nor to local or special bills.

This section on legislative referendum was considered by the delegates as a body on January 11, 1956, recorded at pages 1737, 1777-1778, Minutes of the Daily Proceedings, Alaska Constitutional Convention. In explaining the intent of Section 21, Committee Proposal 5, Delegate McCutcheon stated at page 1777 of the Proceedings:

MCCUTCHEON: The terminology is taken directly out of the model constitution. The point is that at the time our Committee was drafting this particular section, or considering it I should say, there was some doubt in my mind, and I think in the minds of others on our Committee, that there may not be an initiative device in the constitution. With the initiative device, this certainly may be stricken in toto. You do have initiative protection. This device was placed in the legislative article in the event that there was no initiative. It was a device that was designed to get good legislation out before public opinion to react on, but since there is an initiative device, the public can take any bill that is offered in the legislature and put it as an initiative measure.

Based on Delegate McCutcheon's statement, Delegate Gray moved to delete Section 21, stating at page 1778:

Taking Mr. McCutcheon's suggestion and word, that if this article is unnecessary, if it is already cured by initiative, why I'll make a motion to strike Section 21 because it is superfluous.

Delegate Gray's motion carried, indicating that the Alaska Constitution does not allow the governor or the legislature to refer legislation to a popular vote for binding effect.

Based on the foregoing, it is my opinion that, except for the areas in which the Constitution expressly authorizes submission of questions to the voters, the legislature itself may not constitutionally avoid its responsibility and the requirements of section 2 of Article XI of the Constitution by placing questions on the ballot for a binding decision of the voters. The attorney general has reached the opposite conclusion and is of the opinion that the Alaska Supreme Court would follow the "minority rule" and uphold such a delegation of legislative power to the people. (Attorney General Opinion J66-479-82 (Feb. 9, 1982) and Attorney General Opinion J66-545-82 (April 23, 1982)) The attorney general has also recently cautioned that the types of statutes that may be delegated are limited and do not include subjects, like appropriations, that are not available under the power of initiative and referendum. (Letter, March 18, 1998 from James L. Baldwin)

Representative John Coghill

February 25, 2002

Page 4

While there may be a difference of opinion as to the outcome of litigation on this question, there appears to be little doubt that the question is an open one in this state and any legislation providing for a binding vote of the people will be subject to legal challenge. Having said that, it must also be observed that a law has been submitted to the voters for a binding vote, and, so far as I can tell, that action was never challenged. (Ch. 211, SLA 1968, voter registration)

The legislature has by law also submitted several questions to the voters for advisory votes, as distinct from binding votes, most recently in 1999. (Ch. 1, FSS 1999, long-term fiscal plan) Another interesting example is Chapter 99, SLA 1985 which set up alternatives to the then existing longevity bonus program. In section 1 of the bill the longevity bonus program was limited to people who turned 65 before a certain date and eliminated for the rest of the population. In sections 2 - 18 the longevity bonus program was changed to an annuity program tied to the permanent fund dividend program. Alternative effective dates were provided for, with section 1 to take effect only if the legislature repealed in a later Act sections 2 - 18 and sections 2 - 18 to take effect only if section 1 was repealed. In section 22 of the bill the lieutenant governor was directed to place an advisory question before the voters asking whether the annuity program should be enacted. Note that, regardless of the outcome of the vote, the annuity program could become effective only through the enactment of a bill making it effective. The people did approve the annuity program and (until 1993 when the legislation phasing out the longevity bonus program was enacted) a bill was introduced every session to make that annuity program effective. Once the bill even passed the legislature, but was vetoed by Governor Cowper. Chapter 99, SLA 1985 is still "on the books" as an enactment that has never taken effect nor been repealed.

TBC:med

02-205.med



217 Second Street, Suite 200 ■ Juneau, Alaska 99801 ■ Tel (907)586-1325, Fax (907)-463-5480

February 11, 2002

Representative John Coghill, Chair  
House State Affairs  
State Capitol  
Juneau, AK 99811

Dear Representative Coghill:

Thank you for the opportunity to comment on HB 303, relating to a state sales tax. The Alaska Municipal League and the Alaska Conference of Mayors have set the implementation of an Alaska long-range fiscal plan as the top legislative priority for municipalities. As part of this commitment, the AML/ACoM are working with the Governor and Legislature to help inform the public of the need to adopt a plan and will work to support a sensible plan.

We believe it is reasonable to have a major statewide tax. All states, except Alaska, have either a personal income tax, state sales tax, or both. Economists note that for future economic growth, a state revenue structure must be "connected" to its economy through a major tax that allows the state to grow while paying for the additional services that are required by economic growth. Such services include schools, transportation, development services, public safety, and other public infrastructure.

The *2002 AML Policy Statement* supports consideration of a state income tax as opposed to a state sales tax because:

- ◆ Ninety-seven Alaskan communities currently collect sales tax to help pay for public services. Realistically, an additional 6 percent state sales tax would force many communities to stop collecting sales tax, which could mean an approximate \$120 million loss of local revenue. Six percent state sales tax **would create an 11-13 percent combined sales tax rate** in Wrangell, Cordova, Juneau, Dillingham, Kodiak, Sitka, Petersburg, Bethel, Unalakleet, Kotzebue, Kwethluk, Aleknagik, Craig, Clark's Point, Hoonah, Kake, and Klawock.
- ◆ A State sales tax would displace local exemptions designed to be sensitive to the local economy, and create a policy problem for the Legislature to design exemptions that work in each community;
- ◆ A State sales tax would push more resident purchases to other states through internet and catalogue sales (internet purchases are now tax free).
- ◆ Sales tax is the only major local revenue possible in communities without local property tax bases.

- ◆ According to the National Conference of State Legislatures, the personal income tax is most equitable and most responsive to changes in the economy.

Enclosed is a more in-depth analysis of local sales taxes from the "Alaska Taxable." The AML and ACoM applaud your efforts to look at ways to solve the state fiscal crisis and we appreciate the opportunity to help you evaluate alternative revenue sources. If you have any questions about this or any other municipal issue, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin Ritchie", with a long horizontal flourish extending to the right.

Kevin Ritchie

Executive Director

Enclosure

cc: Representative Jim Whitaker  
House State Affairs Committee

## Talking Points

### Sales Tax vs. Income Tax

(Alaska Municipal League 1/02)

#### Sales Tax in Alaska:

- ◆ **Sales tax has always been controlled by local voters and is a key municipal revenue in Alaska.** Sales tax is the only feasible major revenue in municipalities without significant taxable land:
  - **97 out of 161 cities and boroughs depend on general sales taxes.** (19 more municipalities have a “special” sales tax on beds, fish, etc.)
  - **Municipal General Sales tax rates are from 1% to 7%:**
    - 6 to 7% in 5 municipalities;
    - 3% to 5.5% in 62 municipalities;
    - 1% to 2.5% in 30 municipalities. (Note: actual rates paid by residents are higher in cases where both a city and borough tax is paid.)
  - **Total general and special municipal sales tax revenue in 2000 was \$164.1 million** (State “Alaska Taxable” report).
  
- ◆ **The AML and Conference of Mayors do not support a State sales tax because it would conflict with local sales taxes and reduce local control and local revenues. Depending on the State rate, the State sales tax could displace \$25 to \$120 million of municipal revenue making more communities dependent on the state for financial help.**
  
- ◆ **A state sales tax would not be sensitive to local economic conditions and conflict with local exemptions and regulations.** Sales tax exemptions are carefully crafted in each community to be sensitive to the local economy.
  
- ◆ **Higher combined state and local sales tax would push more purchases to other states over the internet and mail-order.** Also, sales tax revenue is generally decreasing across the U.S. because of growing non-taxable purchases of goods over the internet instead of from local stores.

#### Sales Tax vs. Personal Income Tax as the major State Tax

According to the National Conference of State Legislatures publication “Tax Policy Handbook for State Legislators,”

- ◆ **Equity:** “The personal income tax scores well on both vertical and horizontal equity. The personal income tax is the only state tax that is progressive by design...” (P.10) “Sales taxes are regressive. Taxpayers with lower incomes tend to spend a higher proportion of their income on consumption” (P. 14).
  
- ◆ **Responsiveness to economy:** “The responsiveness of the income tax to economic growth also helps explain why state income tax reliance has increased over time. Consumption taxes, particularly excise taxes (sales taxes) tend to grow more slowly than the economy. Lawmakers must pass rate increases just to ensure that consumption tax revenues keep pace with economic growth” (page 10).

TABLE 1

## 2000 Municipalities: Class, Populations and Tax Types

Municipality	Type of Municipality	Population	Property Tax	Sales Tax	Special Tax
Akhiok	Second Class City	109	No*	No	No
Akiak	Second Class City	316	No	No	No
Akutan	Second Class City	408	No	No	1% Raw Fish Tax
Alakanuk	Second Class City	671	No	4%	No
Aleknagik	Second Class City	259	No	5%	No
Alutians East Borough	Second Class Borough	2,199	No	No	2% Raw Fish Tax
Allakaket	Second Class City	192	No	No	No
Ambler	Second Class City	315	No	3%	No
Anaktuvuk Pass	Second Class City	308	No*	No	No
Municipality of Anchorage	Unified Home Rule	258,782	Yes	No	8% Bed Tax; 15% Tobacco Tax/Aircraft
Anderson	Second Class City	524	No	No	8% Utility Tax
Angoon	Second Class City	587	No	No	No
Aniak	Second Class City	576	No	2%	No
Anvik	Second Class City	100	No	No	No
Atka	Second Class City	115	No	No	1% Raw Fish Tax/10% Bed Tax
Atkasuk	Second Class City	259	No*	No	No
Barrow	First Class City	4,397	No*	No	No
Bethel	Second Class City	5,463	No	5%	3% Bed/5%/Alcohol/Fish/MVRT/Gaming/Fuel
Bettles	Second Class City	25	No	No	\$.02/gal. Fuel Transfer Tax
Brevig Mission	Second Class City	274	No	3%	No
Bristol Bay Borough	Second Class Borough	1,297	Yes	No	3% Raw Fish Tax; 6% Bed Tax
Buckland	Second Class City	408	No	2%	No
Chefomak	Second Class City	423	No	2%	No
Chevak	Second Class City	741	No	3%	No
Chignik	Second Class City	121	No	No	1%salmon/2% other seafood
Chuathbaluk	Second Class City	112	No	No	No
Clarks Point	Second Class City	63	No	5%	No
Coffman Cove	Second Class City	255	No	No	No
Cold Bay	Second Class City	103	No	No	.02/gal. Fuel Tax/\$.01 gal Fuel Transfer Fee
Cordova	Home Rule City	2,571	Yes	6%	6% Bed Tax/6% Vehicle Rental Tax
Craig	First Class City	2,145	Yes	5%	6% Liquor Tax/Raw fish tax
Deering	Second Class City	156	No	3%	No
Delta Junction	Second Class City	884	No	No	No
Denali Borough	Home Rule Borough	1,864	No	No	Sev. Tax \$.05/yd; Bed Tax 7%
Dillingham	First Class City	2,332	Yes	5%	9% Bed Tax / 9% Liquor Tax/5% Gaming
Diomedes	Second Class City	176	No	3%	No
Eagle	Second Class City	168	Yes	No	No
Eek	Second Class City	309	No	2%	No
Egegik	Second Class City	132	No	No	1% Raw Fish Tax
Ekvok	Second Class City	120	No	No	No
Elim	Second Class City	306	No	2%	No
Emmonak	Second Class City	838	No	3%	No
Fairbanks	Home Rule City	31,601	Yes	No	8% Bed Tax/ 5% Alcohol Tax/ 8% Tobacco Tax
Fairbanks North Star Borough	Second Class Borough	83,928	Yes	No	8% Bed Tax
False Pass	Second Class City	58	No	2%	2% Raw Fish Tax
Fort Yukon	Second Class City	553	No	3%	No
Galena	First Class City	544	No	3%	No
Gambell	Second Class City	670	No	3%	No
Golovin	Second Class City	142	No	No	No
Goodnews Bay	Second Class City	256	No	No	No
Grayling	Second Class City	195	No	No	No
Haines	First Class City	1,463	Yes	4%	No
Haines Borough	Third Class Borough	2,476	Yes	1.50%	2% Bed Tax
Holy Cross	Second Class City	277	No	No	No
Homer	First Class City	4,155	Yes	3.50%	No

Note: Municipal populations are from the State Revenue Sharing Program

\*Indicates that City does not levy property tax, but Borough in which City is located does

TABLE 1

## 2000 Municipalities: Class, Populations and Tax Types - continued

Municipality	Type of Municipality	Population	Property Tax	Sales Tax	Special Tax
Hoonah	First Class City	896	No	5%	No
Hooper Bay	Second Class City	1,039	No	4%	No
Houston	Second Class City	939	Yes	No	No
Hughes	Second Class City	72	No	No	No
Huslla	Second Class City	248	No	No	No
Hydaburg	First Class City	405	No	4.50%	No
Juneau, City & Borough of	Unified Home Rule	30,684	Yes	5%	7% Bed Tax/ 3% Liquor Tax/ 6% Tobacco Tax
Kachemak	Second Class City	419	Yes	No	No
Kake	First Class City	783	No	5%	No
Kaktovik	Second Class City	255	No*	No	No
Kaltag	Second Class City	250	No	No	No
Kasaan	Second Class City	41	No	No	No
Kenai	Home Rule City	7,058	Yes	3%	No
Kenai Peninsula Borough	Second Class Borough	48,815	Yes	2%	No
Ketchikan	Home Rule City	8,460	Yes	3.50%	6% Bed Tax
Ketchikan Gateway Borough	Second Class Borough	14,231	Yes	2%	4% Bed Tax
Kiana	Second Class City	402	No	2%	No
King Cove	First Class City	703	No	3%	No
Kivalina	Second Class City	349	No	2%	No
Klawock	First Class City	659	No	5.50%	6% Bed Tax
Kobuk	Second Class City	102	No	No	No
Kodiak	Home Rule City	6,859	Yes	6%	5% Bed Tax
Kodiak Island Borough	Second Class Borough	13,848	Yes	No	9.25 mill Severance Tax/5% Bed Tax
Kotlik	Second Class City	552	No	3%	No
Kotzebue	Second Class City	2,964	No	6%	6% Bed Tax/ 6% Alcohol Tax
Koyuk	Second Class City	296	No	2%	No
Koyukuk	Second Class City	130	No	No	No
Kupreanof	Second Class City	24	No	No	No
Kwethluk	Second Class City	667	No	5%	No
Lake & Peninsula Borough	Home Rule Borough	1,867	No	No	2% Raw Fish Tax/Guide Fees/6% Bed Tax
Larsen Bay	Second Class City	127	No*	3%	No
Lower Kalskag	Second Class City	286	No	No	No
Manokotak	Second Class City	396	No	2%	No
Marshall	Second Class City	300	No	4%	No
Matanuska-Susitna Borough	Second Class Borough	55,747	Yes	No	5% Bed Tax
McGrath	Second Class City	441	No	No	No
Mekoryuk	Second Class City	192	No	2%	No
Mellakalla	Federal Law	1,568	No	No	No
Mountain Village	Second Class City	793	No	3%	No
Napakiak	Second Class City	373	No	2%	No
Napaskiak	Second Class City	391	No	No	No
Nenana	Home Rule City	435	Yes	3%	No
New Stuyahok	Second Class City	454	No	No	No
Newhalen	Second Class City	191	No	No	No
Nighmute	Second Class City	222	No	2%	No
Nikolai	Second Class City	103	No	No	No
Nome	First Class City	3,706	Yes	4%	4% Bed Tax
Nondalton	Second Class City	227	No	3%	No
Noorvik	Second Class City	598	No	3%	No
North Pole	Home Rule City	1,619	Yes	3%	No
North Slope Borough	Home Rule Borough	9,389	Yes	No	No
Northwest Arctic Borough	Home Rule Borough	6,844	No	No	No
Nuiqsut	Second Class City	459	No*	No	No

Note: Municipal populations are from the State Revenue Sharing Program

\* Indicates that City does not levy property tax, but Borough in which City is located does

**TABLE 1**  
**2000 Municipalities: Class, Populations and Tax Types - continued**

Municipality	Type of Municipality	Population	Property Tax	Sales Tax	Special Tax
Nulato	Second Class City	353	No	No	No
Nunapitchuk	Second Class City	479	No	2%	No
Old Harbor	Second Class City	297	No*	3%	No
Ouzinkie	Second Class City	252	No*	3%	No
Palmer	Home Rule City	4,318	Yes	3%	No
Pelican	First Class City	149	Yes	4%	6% Bed Tax
Petersburg	Home Rule City	3,398	Yes	6%	4% Bed Tax
Pilot Point	Second Class City	102	No	No	3% Raw Fish Tax
Pilot Station	Second Class City	558	No	4%	No
Platinum	Second Class City	41	No	No	No
Point Hope	Second Class City	787	No*	No	No
Port Alexander	Second Class City	90	No	4%	6% Bed Tax
Port Heiden	Second Class City	126	No	No	No
Port Lions	Second Class City	242	No*	No	No
Quinhagak	Second Class City	612	No	3%	No
Ruby	Second Class City	204	No	No	No
Russian Mission	Second Class City	295	No	No	No
St. George	Second Class City	173	No	No	3% Raw Fish Tax/ 3% Fuel Transfer Tax
St. Mary's	First Class City	494	No	3%	No
St. Michael	Second Class City	362	No	4%	No
Saint Paul	Second Class City	761	No	3%	3% Fish Tax
Sand Point	First Class City	830	No	3%	2% Raw Fish Tax
Savoonga	Second Class City	632	No	3%	No
Saxman	Second Class City	379	No*	3.50%	No
Scammon Bay	Second Class City	450	No	2%	No
Selawik	Second Class City	746	No	3%	No
Seldovia	First Class City	281	Yes	3%	No
Seward	Home Rule City	3,040	Yes	3%	4% Bed Tax
Shageluk	Second Class City	152	No	No	No
Shaktolik	Second Class City	226	No	2%	No
Sheldon Point (Nunam Iqaa)	Second Class City	161	No	2%	No
Shishmaref	Second Class City	538	No	2%	No
Shungnak	Second Class City	257	No	2%	No
Sitka, City & Borough of	Unified Home Rule	8,779	Yes	5%	6% Bed Tax/ \$ 02/gal Fuel Tax
Skagway	First Class City	814	Yes	4%	8% Bed Tax
Soldotna	First Class City	4,134	Yes	3%	No
Stebbins	Second Class City	548	No	3%	No
Tanana	First Class City	317	No	2%	No
Teller	Second Class City	262	No	3%	No
Tenakee Springs	Second Class City	101	No	1%	6% Bed Tax
Thorne Bay	Second Class City	597	No	3%	No
Togiak	Second Class City	801	No	2%	2% Raw Fish Tax
Toksook Bay	Second Class City	515	No	2%	2% Fishery Business Tax
Unalakleet	Second Class City	784	No	5%	5% Bed Tax/5% Alcohol Tax
Unalaska	First Class City	4,285	Yes	2%	2% Raw Fish Tax/ 5% Bed Tax/1% cap projects sales tax
Upper Kalskag	Second Class City	268	No	No	No
Valdez	Home Rule City	4,155	Yes	No	6% Bed Tax
Wainwright	Second Class City	543	No*	3%	No
Wales	Second Class City	177	No	2%	No
Wasilla	First Class City	5,134	Yes	2%	No
White Mountain	Second Class City	188	No	1%	No
Whittier	Second Class City	306	Yes	3%	Railroad Shuttle tax/Pass. Train Bus. Tax
Wrangell	Home Rule City	2,589	Yes	7%	\$4 per night Bed Tax
Yakutat, City & Borough of	Home Rule Borough	810	Yes	4%	1% Raw Fish Tax/4% Bed & Car Rent Tx

Note: Municipal populations are from the State Revenue Sharing Program

\*Indicates that City does not levy property tax, but Borough in which City is located does

97 Municipalities levy a General Sales Tax - Rates range from 1% to 7%

116 Municipalities levy either a General Sales Tax, Special Tax (bed tax, fish tax, etc.) or a combination of the two

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22-LS1206F  
Kurtz  
2/14/02

**CS FOR HOUSE BILL NO. 303( )**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-SECOND LEGISLATURE - SECOND SESSION**

**BY**

**Offered:**  
**Referred:**

**Sponsor(s): REPRESENTATIVES WHITAKER, Fate, Lancaster**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to the levy and collection of a retail sales tax and to collection of**  
2 **municipal taxes; and providing for an effective date."**

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

4 **\* Section 1. AS 29.45 is amended by adding a new section to read:**

5 **Article 5A. Collection of Sales and Use Tax by the State.**

6 **Sec. 29.45.750. Collection of municipal sales and use tax by the state. The**  
7 **Department of Revenue may collect a sales and use tax levied by a municipality under**  
8 **AS 29.45.650 or 29.45.700 and remit it to the municipality if requested to do so by**  
9 **municipal ordinance.**

10 **\* Sec. 2. AS 43 is amended by adding a new chapter to read:**

11 **Chapter 44. Retail Sales Tax.**

12 **Sec. 43.44.010. Levy of retail sales tax; tax rate. (a) A retail sales tax is**  
13 **levied on the retail sale or other transfer for consideration of goods, on rents, and on**  
14 **services performed for consideration in the state.**

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(b) The rate of the tax is three percent of the price of goods sold or otherwise transferred, rents, and the value of services performed.

**Sec. 43.44.020. Exemptions.** The tax levied under AS 43.44.010 does not apply to

(1) goods sold, rents, or services performed that are

(A) explicitly exempted from taxation under another provision of state law; or

(B) exempt from taxation under federal law, including sales to the federal government, and purchases made with

(i) food coupons, food stamps, or other types of certificates issued under 7 U.S.C. 2011 - 2036 (Food Stamp Act); and

(ii) food instruments, food vouchers, or other types of certificates issued under 42 U.S.C. 1786 (special supplemental nutrition program for women, infants, and children);

(2) sales of goods or services for resale;

(3) electricity, natural gas, and water and sewer utility services;

(4) funeral, cemetery, and crematory goods and services;

(5) alcoholic beverages;

(6) health care services provided by a person licensed or certified to provide those services under AS 08;

(7) prescription drugs, devices, and supplies prescribed by a person licensed to prescribe those goods under AS 08;

(8) that part of the selling price of a single item or the periodic selling price of a single service that exceeds \$2,000;

(9) educational services;

(10) petroleum and petroleum products;

(11) real estate rentals;

(12) construction services;

(13) admission to museums and historic sites.

**Sec. 43.44.030. Collection of retail sales tax.** (a) A seller shall add the amount of the tax levied by this chapter to the total price of goods, rentals, or services

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1 subject to the tax, and the tax shall be stated separately on any sales receipt, invoice, or  
2 other record of the sale or rental.

3 (b) A seller shall collect the tax from the purchaser and remit the tax collected  
4 to the department not later than 30 days following the last day of the month in which  
5 the tax was collected.

6 (c) A seller remitting the tax collected under this chapter to the department  
7 within 30 days after the last day of the month in which the tax was collected may  
8 retain one percent of the amount collected to cover expenses associated with collecting  
9 and remitting the tax.

10 **Sec. 43.44.040. Accounting.** The department shall deposit all money  
11 collected under this chapter in the general fund of the state.

12 **Sec. 43.44.090. Definition.** In this chapter "tax" means the retail sales tax  
13 levied under AS 43.44.010.

14 \* **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to  
15 read:

16 **CONDITIONAL EFFECT.** This Act takes effect only if

17 (1) the Twenty-Second Alaska State Legislature passes

18 (A) a version of Senate Joint Resolution 23, proposing amendments to  
19 the Constitution of the State of Alaska relating to an appropriation limit and a  
20 spending limit, or

21 (B) a version of House Joint Resolution 36, proposing an amendment  
22 to the Constitution of the State of Alaska limiting the rate of state individual income  
23 taxes and sales taxes; and

24 (2) at least one of the propositions for the amendments in the resolutions  
25 described in (1) of this section is approved by the voters at the 2002 general election.

26 \* **Sec. 4.** If, under sec. 3 of this Act, this Act takes effect, it takes effect on the effective  
27 date of the amendments to the Constitution of the State of Alaska relating to an appropriation  
28 limit and a spending limit proposed in a version of Senate Joint Resolution 23 or the effective  
29 date of the amendment to the Constitution of the State of Alaska limiting the rate of state  
30 individual income taxes and sales taxes proposed in a version of House Joint Resolution 36,  
31 whichever comes first.

**Facsimile Transmittal****REP. JIM WHITAKER - Alaska House District 31**

(907) 465-3004

(907) 465-2070(fax)

Capitol Room 411

Juneau, AK 99801

Date:

2/15/02

Attention:

Rymieva

From:

Lori

Number of pages (including this cover):

4

Comment(s):

RE: HB 303—

Also— I've got a call in to legal, may need to add language on pg. 3, line 3 to state that the municipal tax may be collected by the state at that time, &—

line 10, language that all money except that which is collected for municipalities ~~is~~ shall be deposited in the general fund.

I'll keep you updated.

Lori

Reply requested:  Yes  No



# Alaska State Legislature

Please enter into the record my testimony to the House State Affairs

committee name

Committee on HB 303 State Seasonal Sales Tax, dated February 12, 2002  
bill # / subject

Please do NOT seriously consider any new funding source (TAXES) until all public funds given to private businesses, individuals, and special interest groups have been completely eliminated.

Last week alone the Alaska Legislature considered bills with a price tag of almost one BILLION dollars, the majority of which provide funding for special interest groups or non-essential state government spending.

This week Legislative spending bills, with fiscal notes attached, being considered contain a total of at least \$114 MILLION dollars in non-essential state government spending. This money would be much better utilized elsewhere, or better yet, put away for future funding of essential services.

A \$7.5 BILLION dollar budget amounts to our state government spending over \$12,000.00 for every man, woman, and child in Alaska. At this rate, spending for a family of six amounts to over \$72,000.00! For each working person, this level of spending amounts to over \$26,000 each. That's a lot of tax money folks! I want to know how many average working people will be able to afford living here once the pipeline goes dry?

Taxes are NOT the answer, at this time, to our State budget woes; cutting non-essential spending IS. Please use our public funds for constitutionally mandated government services such as schools, roads, public health & safety ONLY. When you finally get to that point, you may talk to me about taxes, but NOT before then.

Thank you.

Signed: Mike McBride  
Testifier

Self

Representing (optional)

P O Box 6 Kenai, Alaska 99611-0006

Address

907 776 5444

Phone number

# FISCAL NOTE

**STATE OF ALASKA  
2002 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: HB 303  
 () Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title: State Seasonal Sales Tax BRU: Revenue Operations  
 Component: Tax Division  
 Sponsor: Representative Whitaker  
 Requester: House State Affairs Committee 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	1,676.4	3,200.1	3,200.1	3,200.1	3,200.1	3,200.1
Travel	53.0	73.0	73.0	73.0	73.0	73.0
Contractual	564.8	941.4	941.4	941.4	941.4	941.4
Supplies	31.3	64.0	64.0	64.0	64.0	64.0
Equipment	617.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>2,942.5</b>	<b>4,278.5</b>	<b>4,278.5</b>	<b>4,278.5</b>	<b>4,278.5</b>	<b>4,278.5</b>

<b>CAPITAL EXPENDITURES</b>	<b>1,087.0</b>	<b>427.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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<b>CHANGE IN REVENUES (increase)</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF	4,029.5	4,706.0	4,278.5	4,278.5	4,278.5	4,278.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>4,029.5</b>	<b>4,706.0</b>	<b>4,278.5</b>	<b>4,278.5</b>	<b>4,278.5</b>	<b>4,278.5</b>

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	42	49	49	49	49	49
Part-time						
Temporary	30	30	30	30	30	30

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

\*\* No revenue estimates are shown because of the large amount of uncertainty associated with estimating a seasonal sales tax. We have lowered our original very rough estimated revenue range from \$200 million to \$400 million down to \$200 million to \$300 million to account for the exclusion of services for resale. Please see the revenue discussion for further details.

**Assumptions**

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

Prepared by: Brett Fied, Economist, & Chuck Harlamert, Revenue Audit Supv. Phone 465-3682  
 Division: Tax Division Date/Time 02/11/2002 4 p.m.  
 Approved by: Larry Persily, Deputy Commissioner Date 02/11/2002  
 Agency: Department of Revenue

HB 303

State Seasonal Sales Tax

February 11, 2002

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**REVENUE**

Estimating the revenue from a proposed 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 303:

- (1) sales of goods and services for resale,
- (2) electricity, natural gas and water and sewer utility services,
- (3) petroleum and petroleum products,
- (4) alcoholic beverages,
- (5) health care services,
- (6) prescription drugs,
- (7) construction services,
- (8) real estate rentals and
- (9) other goods and services.

If we exclude these categories and air transportation (precluded from state taxation by federal law), and finance and insurance (insurance is potentially precluded by state law and "financial" sales are not defined"), the revised estimate is \$12 billion to \$13 billion.

Additionally, services for resale are specifically precluded but we do not have a direct method for adjusting the total taxable sales to account for this exclusion. Although some professional services (e.g., legal fees for divorces and wills) would probably be taxable, it is highly likely that a majority of the professional, scientific and technical services would be exempt. Besides, "scenic and sightseeing transportation" and "transit and ground passenger transportation", most of the transportation category would probably qualify for exclusion under the services for resale category. Some services in the remaining service categories would also be exempt. If, however, we just exclude the professional, scientific and technical services categories and relevant transportation categories, then the total taxable sales would drop to \$9 billion to \$10 billion.

**The Cap**

We are not aware of any direct method to estimate the reduction in revenue as a result of the exclusion from taxable sales of "that part of a single item or the periodic selling price of a single service that exceeds \$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.

One option is to exclude from our revenue estimate 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. 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 then the total statewide annual taxable sales would drop to \$8 billion to \$9 billion.

Another approach that is useful for lowering the incentive to purchase out-of-state goods or services is to impose a use tax. Every state that imposes a statewide sales tax also has a use tax. In general, a use tax is a tax on the initial use, storage or consumption of tangible personal property in the state. Enforcing use taxes is difficult, particularly with the growth of internet sales and, consequently, there is an ongoing effort by most sales tax states to simplify their sales and use tax collections by passing versions of a Model Sales and Use Tax Act.

**HB 303****State Seasonal Sales Tax**

February 11, 2002

Page 3 of 4

**Seasonality**

Because the economic census includes only annual data, there is no direct method for estimating the revenue from a seasonal sales tax. For Juneau, a city with a population less than 31,000 but an influx of cruise ship passengers of more than 660,000, sales during the months of April through September accounted for approximately half of total city-wide taxable sales in 2000. Additionally, 49 percent of total 2000 wages and salaries in Juneau were earned in the April-September period. We believe this is a good indication that a statewide, five-month seasonal sales tax (May-September) probably would not raise more than half the estimated annual revenue. These numbers are not surprising when October Permanent Fund dividend checks and Christmas sales are considered.

One problem with seasonality is that at a 6% sales tax rate, consumers and businesses will change their behavior to avoid having to pay the tax. Consumers will stockpile goods (particularly nonperishable goods) before the tax takes effect each spring and hold off many of their in-state purchases until the tax ends in the fall. Although the seasonal tax rate would be the same statewide, it would have the largest effect on the 97 municipalities that already levy a sales tax. Additionally, this will be a highly noticeable tax as businesses adjust (e.g., pre-rate increase sales) and consumers react to the change. However, there is no way to directly measure how much stockpiling will happen or how many consumers will turn to mail order or the Internet to avoid the sales tax. That is, there is no way to measure the level of tax avoidance (legal behavior to avoid the tax) or tax evasion (illegal behavior to avoid the tax).

**Tax Base and Revenue Estimates**

We have included a table to give some idea of the potential revenue amounts. This amount is highly speculative because of all of the reasons cited in this report. Consequently, our very rough estimate of what HB 303 will raise (@ the 6% rate) is from \$200 million to \$300 million per year.

**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 sales tax is zero.
- (3) The tax does not change consumer or business choices (e.g., stockpiling prior to rate increase).
- (4) No change in total sales since 1997.

**ADMINISTRATION COSTS**

We estimate ongoing operating costs of just under \$4.3 million annually, with just under \$2.95 million in operating costs during FY03. The seasonal nature of the bill has an adverse influence on operating costs relative to processing volume. The Department of Revenue, as well as businesses, must gear up for the tax season and will experience inefficiencies ranging from training temporary staff to suboptimal use of capital investment. In addition, the semiannual cut off points force businesses to change operations and create periods of significant compliance risk. More than a quarter of operating costs are attributable to audit and appeals functions. We estimate a capital outlay of just over \$1.5 million during FY03 and FY04.

<u>Sector</u>	<u>Sales or Receipts</u> (1,000's)	<u>Tax @ 6%</u> (1,000's)
Accommodations & Food Services <sup>1</sup>	\$ 1,065,459	\$ 31,964
Alcoholic Beverages	\$ (139,660)	\$ (4,190)
Retail Trade <sup>2</sup>	\$ 6,251,372	\$ 187,541
Automobiles, Vans, Trucks & Other	\$ (807,036)	\$ (24,211)
Recreational Vehicles, Parts & Accessories	\$ (55,065)	\$ (1,652)
Alcoholic Beverages	\$ (148,876)	\$ (4,466)
Prescription Drugs	\$ (128,453)	\$ (3,854)
Vending Machines	\$ (16,966)	\$ (509)
Professional, Scientific & Technical Services <sup>3</sup>	\$ -	\$ -
Administrative Support & Waste Management	\$ 592,161	\$ 17,765
Arts, Entertainment & Recreation <sup>4</sup>	\$ 168,275	\$ 5,048
Museums and Historic Sites	\$ (1,090)	\$ (33)
Transportation & Warehousing <sup>5</sup>	\$ 3,059,006	\$ 91,770
Air Transportation	\$ (403,116)	\$ (12,093)
Pipeline Transportation	\$ (1,300,000)	\$ (39,000)
Truck Transportation	\$ (615,860)	\$ (18,476)
Water Transportation	\$ (174,056)	\$ (5,222)
Support activities for transportation	\$ (261,445)	\$ (7,843)
Couriers and Messengers	\$ (159,023)	\$ (4,771)
Real Estate & Rental & Leasing <sup>6</sup>	\$ 543,194	\$ 16,296
Lessors of real estate	\$ (246,601)	\$ (7,398)
Information <sup>7</sup>	\$ 1,038,594	\$ 31,158
Other Services (except Public Administration) <sup>8</sup>	\$ 330,954	\$ 9,929
Other incl. death services	\$ (25,611)	\$ (768)
Management of Companies/Enterprises <sup>9</sup>	\$ 6,844	\$ 205
<b>Total</b>	<b>\$ 8,573,001</b>	<b>\$ 257,190</b>

1 Alcoholic beverages are exempt. However, no adjustment is made for exempt services for resale (see discussion on page 2 & 3).

2 Exempt categories as a result of alcoholic beverages and prescription drugs exemption and \$2,000 cap (see discussion on page 2 & 3).

3 Excluded because majority of this category would potentially be services for resale (see discussion on page 2 & 3).

4 Admissions to museums and historic sites are exempt.

5 Air transportation excluded because of federal law. Other categories excluded because of services for resale exemption.

6 Real estate rentals are exempt. However, no adjustment is made for exempt services for resale (see discussion on page 2 & 3).

7 No adjustment is made for exempt services for resale (see discussion on page 2 & 3).

8 Funeral, cemetery and crematory goods and services are exempt. However, no adjustment is made for exempt services for resale.

9 However, no adjustment is made for exempt services for resale.

Data Source: 1997 Economic Census

## AMENDMENTS TO HB 303

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Amend Title 29 to allow the Department of Revenue to collect state and local sales taxes but makes it a local option.

Effective date clause tied to Crofts tax limit legislation.

Insert "retail" to sales tax on page 1.

---

Jeannette James wants to tax vending machines and alcohol.

Persily wants Title 29 amended to allow for the Department of Revenue to collect both state and local sales tax then distribute the municipalities' portions to them at a cost of 1% of the total taxes collected.

James wanted a local option to piggyback with state on tax collection.

Persily also wanted Alaska to implement standardization language.

A lot of discussion about year-round vs. seasonal taxes.

Effective dates } part signing into law dependent  
- 5823 Donley  
- Croft's \* bill \* taxing limit OR

Jeannette Jones vending machine  
- Retool vending machines for seasonal  
- Alcohol

Alaska Municipal League  - Borough Mayor  


Streamline exemptions

290 year round  
tax collection at local options  
Remove vending machine exemption  
Effective Date tied to Croft's bill  
Retail sales tax



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*Steamline sales tax . org*

5 mos a year

2% year round

4% seasonal 250 to 350 million a year

Cost 3 million

some say sales tax is regressive

Wilson 7% sales tax Wrenzell (doesn't like sales tax)

Whitaker "there is no perfect tax"

James Broad based tax

Use earnings

Continue to find efficiencies

Coghill — increase production

"Don't think any of us take of ownership of a tax bill." Whitaker

"Hard to put a tax on a tax" Bed tax

✓ Fate - government must be responsible and must hold the line on the spending endeavor

✓ Hayes - <sup>howdowe</sup> capture taxes from out of staters

✓ James - wants to tax vending machines  
- alcohol

economic growth is not free

state owns everything, if a person wants to develop a state resource they have to get a permit.

not enough state spending in departments that develop state resources

✓ Stevens - concern page 2 lines 19-20

Coghill - sales tax reporting for both local & state consumption tax that encourages what we want, frugality,



Larry Perisly

w/o sales tax  
Range of sales tax 190 Colo  
720 miss RI  
Delaware Montana  
NY Oregon Alaska

Combine local and state tax collected by  
State and payment to local.

9.78% OK

9.5 LA

27 exempt some or all food purchases  
27 allow businesses to retain a portion of  
taxes for expenses in collecting taxes 5 to 5%  
of taxes collected (commission)

In states where there is a  
32% of GF revenues come from sales tax

97 city & Boroughs with sa  
FY01 125 million

1% Tenakee

7% Wrangell 1000 cap

6% Cordova, Peters, Ketchikan

5700 cap Juneau lobbyists are exempt

Some communities exempt Senior Citizens

Yearround sales tax 10% would come from  
out of staters

Apr - Sept 50-50 tourists/local

Concern with differentials - decide to shop  
out of state or how much business would  
be postponed.

A move to standardize sales tax nationwide  
by corporate America

If sales tax is implemented change Title 29

Some states require quarterly reports.

Eddie Bauer - Lands End

Bauer pays taxes because they have a  
physical presence in Alaska  
Lands End don't pay because there is  
no physical presence.

Income tax requires a % of tax returns being audited

cost of sales tax 3 million<sup>admin</sup> 2% of \$350 million  
income tax 7 million<sup>admin</sup> regardless of amount of taxes

Most of Alaska's growth in past decade was federal spending and the dividends

High tax state - because of oil tax revenue unfair tallying

Coghill  
Accountability

Wilson - effect of sales tax on cottage industry

Coghill

- ① Realignment issue with Title 29; dealing with 97 communities.
- ② Monthly payments vs quarterly reports

James

Small % with limited exemptions

Local option to participate with piggyback

Fate

4% 6.4%

Whitaker - #'s we are dealing with are 1997  
Revenue figures

James

Maybe want both so we have a fair  
and equitable tax where everyone  
pays.

Whitaker

reasonable CS will be viewed  
as friendly amendment.

<a href="#">Home</a>	<a href="#">What's New</a>	<a href="#">XML - Language</a>	<a href="#">XML Linking</a>	<a href="#">XSL - Style</a>	<a href="#">Check XML!</a>
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# *The XML Cover Pages*

## **Tax Information Group for ECommerce Requirements Standardization (TIGERS)**

*By: Robin Cover*

Last modified: January 18, 2002

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[November 15, 2001] TIGERS "is a Work Group of Task Group 2, the Government Subcommittee sub-group that works on tax standards [Tax Information Interchange (TG2)]. TIGERS has been chartered to discuss matters relating to business standards and practices surrounding national tax data formatting and transfer; it develops and maintains tax electronic technical format standards for a variety of tax filing and other related government electronic reporting or data exchange applications. Its members are exploring the use of XML in tax filing processes. Its goal is to develop XML resources relating to an XML-based tax data submission process for use by all state and federal tax authorities, based on the commitment and contributions of a variety of federal and state government personnel and the participation of a broad group of interested industry partners. The TIGERS group is a part of the American National Standards Institute's ASC (Accredited Standards Committee) X12-Government Subcommittee. The Government Subcommittee is a standing committee of ASC X12."

"A current [2001-11] TIGERS effort is to examine the possible use of eXtensible Markup Language (XML) in tax administration and its standardization. One of the emphases of TIGERS is to review opportunities for consistency in state and federal filing processes. Individual tax authorities should use available guidelines, formats, and codes for each tax application they are putting in place, and seek TIGERS guidance in implementation, strictly limiting 'customization'. This will benefit all trading partners and reduce their cost."

A report of 2001-11-07 by Dr. Glenda Hayes (MITRE) summarizes [XML Schema Activities at IRS](#). The main example outlines the current approach taken in the creation of an IRS 1120 XML schema, where "one of the main objectives is to validate numeric values, as appropriate." Using XML schemas and XSL should reduce data errors, reduce costs in the validating of returns, and support easier transitions for changes in tax forms/schedules. The benefits of using XML for IRS 1120 [US Corporate Income Tax Return] are that "1120 represents approximately 85% of the data elements for IRS; it has significant overlap with Individual Tax (1040); the design effort will reconcile duplicate data elements (e.g., string length for address); it meets external stakeholder request; represents an IS/ETA joint effort; is a scoped pilot; exploits a large base of developers; involves coordination with external groups." Three experimental approaches to tax XML Schema development were identified: (1) using XBRL [loose control]; (2) a derived EDI based/TIGERS approach, with schema patterned after EDI transaction; (3) a 'direct' approach

with tight control, patterned after the Microsoft 1040 strawman and the TIGERS Sales Tax Group. Draft schemas have been posted for public review. Next steps for IRS development are (1) community review of the 1120, 1120S, 941 schemas; the IRS has now set up a listserv for this purpose; (2) development of IRS Form 1041, 1065, and 990 XML schemas; (2) refinement of IRS XML schema, both types and general elements. [adapted from the report and TIGERS October minutes]

IRS 1120/941 eFile Transport and Packaging Proposal. By Tom Guinan (IBM Global Services). October 2001. Presented at the October 2001 TIGERS meeting. "Outlines a method for enveloping XML data designed to provide utility in securing, receiving, routing, and processing files. The intent of the exercise is to determine how best to package for transmission and subsequent processing XML-format 941s, 1120s, and other transactions -- all together, if desired. The eFile Transport and Packaging Objectives are to define standard wire format and protocol for business return submission and acknowledgements: (1) Support any return type (e.g., 1120, 941) (2) Rely on standards whenever possible [lower risk/development costs; leverage existing tools; reduce training costs]; (3) Support XML and binary data; (4) Be usable over multiple communication channels, e.g., dial-up, Internet, FTP, HTTP. The eFile Return Packaging Objectives are to specify standard mechanism for structuring return components which: (1) supports any return type; (2) is consistent with eFile Transport and Packaging; (3) simplifies XML schema definition and instance creation; (4) facilitates development of standard return processing applications; (5) provides flexibility to return storage and access..." The October 2, 2001 meeting minutes supply details. See the XML example document for this Draft XML Transmission Packaging proposal. [Cache: PDF and XML example]

#### References:

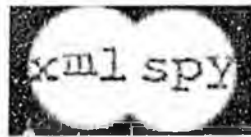
- TIGERS reference page
- Tax XML Development Resource Page
- Draft XML Schemas for Sales and Motor Fuel Tax. For review 2001-12-10. "Please review and send comments to Terry Garber, TIGERS Chair or Stuart Beagles, FTA Motor Fuel EC Uniformity Representative." cache
- IRS Form 1120 XML schemas. The package contains some 140 XML Schema (.xsd) files. Send comments to Ms Terry Garber and Xan H. Ostro. cache
- IRS Form 1120S XML schemas. Subchapter S Corporation. Some 149 XML schema files. cache
- XML Schema Activities at IRS. By Dr. Glenda Hayes (MITRE). November 7, 2001. For U.S. Department of Treasury Internal Revenue Service. cache
- Draft Minutes: ANSI ASC X12G TG2/TIGERS Meeting. Monday, October 1 - Wednesday October 3, 2001. Miami, FL, USA. cache
- TIGERS/XML Committee Assignments. Working Committees and XML/TIGERS Roster. [snapshot 2001-11-15]
- TIGERS mailing list 'tigers@lists.taxadmin.org'
- TIGERS early deliverables
- Superset XML schema model for tax filing applications, 2001-08-09. Employs ebXML structures. source
- Sales tax state-filing example of use of the Base Schema. Draft Example - Illinois Derived Schema. 2001-08-09. source
- XML Instance for Illinois sales tax state-filing example source
- "Electronic Commerce Best Practices. A Guide For Taxing Authorities." TIGERS working group. September, 2000. "In mid-2000, only one or two actual implementations of XML for tax filing can report experience. However, the level of resources being invested in XML development promises that XML will become a best practice in the near future. XML is already in use in commercial online catalog applications, and is also being used in back-end systems integration to communicate between

unlike enterprise applications. Several different organizations are working to develop a prototype DTD or schema for a tax return. The TIGERS workgroup has begun this effort, in liaison with vendors and other interested organizations. The goal is to develop XML definitions that can be provided to software developers, whether within the taxing authority or outside third parties, for use in constructing dynamic EC applications..." [[cache](#)]

- [Federation of Tax Administrators](#)
- [FTA Electronic Tax Administration](#)
- TIGERS contacts:
  - [Ms Terry Garber](#) (TIGERS Chair; SC DOR)
  - [Stan Farmer](#) (TIGERS Vice-Chair; MO DOR)
  - [Debbie Morphis](#) (Secretary; Oklahoma Tax Comm)
  - [Jonathan Lyon](#) (TIGERS Program Chair; Federation of Tax Administrators - FTA)
  - [Dr. Glenda Hayes](#) (Mitre Corporation)
  - [Xan H. Ostro](#) (IRS-ETA)
- See also [TaxML article](#) [Microsoft]
- See also "[QuickBooks Extensible Markup Language \(qbXML\)](#)"
- See also [\[SGML and\] IRS \(US Internal Revenue Service\)](#)

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Document URL: <http://xml.coverpages.org/tigers.html>.

Please send comments and corrections to: [robin@isogen.com](mailto:robin@isogen.com).

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# ALASKA STATE HOUSE OF REPRESENTATIVES

Interim Address:  
119 N. Cushman, Suite 211  
Fairbanks, AK 99701  
(907)-456-5081  
Fax# (907)-456-8245



Session Contact:  
(907)-465-3719  
FAX# (907)-465-3258  
State Capitol  
Room 102

## REPRESENTATIVE JOHN COGHILL

Date: March 14, 2002

To: Kathryn Kurtz, Leg Legal

From: Rynniva Moss, Legislative Aide *Rynniva Moss*

Re: Work Order #LS1206

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Please prepare a final on CSHB 303(STA) which is version P with no changes.

Thanks.

**CS FOR HOUSE BILL NO. 303(STA)**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-SECOND LEGISLATURE - SECOND SESSION**

**BY THE HOUSE STATE AFFAIRS COMMITTEE**

**Offered:**  
**Referred:**

**Sponsor(s): REPRESENTATIVES WHITAKER, Fate, Lancaster**

**A BILL**  
**FOR AN ACT ENTITLED**

1 **"An Act relating to the levy and collection of a retail sales tax and to collection of**  
2 **municipal taxes."**

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

4 **\* Section 1. AS 29.45 is amended by adding a new section to read:**

5 **Article 5A. Collection of Sales and Use Tax by the State.**

6 **Sec. 29.45.750. Collection of municipal sales and use tax by the state. (a)**

7 The Department of Revenue may collect a sales and use tax levied by a municipality  
8 under AS 29.45.650 or 29.45.700 and remit it to the municipality if

9 (1) requested to do so by municipal ordinance; and

10 (2) the municipality's sales and use tax ordinance is consistent with

11 AS 43.44.

12 (b) The department may negotiate with the municipality and retain a  
13 reasonable fee for services under (a) of this section.

14 **\* Sec. 2. AS 43 is amended by adding a new chapter to read:**



1 (12) admission to museums and historic sites.

2 **Sec. 43.44.030. Collection of retail sales tax.** (a) A seller shall add the  
3 amount of the tax levied by this chapter to the total price of goods, rentals, or services  
4 subject to the tax, and the tax shall be stated separately on any sales receipt, invoice, or  
5 other record of the sale or rental.

6 (b) A seller shall collect the tax from the purchaser and remit the tax collected  
7 to the department not later than 30 days following the last day of the month in which  
8 the tax was collected.

9 (c) A seller remitting the tax collected under this chapter to the department  
10 within 30 days after the last day of the month in which the tax was collected may  
11 retain one percent of the amount collected to cover expenses associated with collecting  
12 and remitting the tax.

13 **Sec. 43.44.040. Accounting.** The department shall deposit the proceeds of the  
14 retail sales tax levied under this chapter in the general fund of the state.

15 \* **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to  
16 read:

17 **CONDITIONAL EFFECT.** This Act takes effect only if enacted appropriations  
18 summarized by the Legislative Finance Division of the Alaska State Legislature in the general  
19 fund section of the "operating" portion of the "total authorization to spend" for fiscal year  
20 2003, calculated in the same manner as the enacted appropriations summarized in the general  
21 fund section of the "operating" portion of the "total authorization to spend" for fiscal year  
22 2002 reported in the Summary of Appropriations, 2001 Session, published by the Legislative  
23 Finance Division, do not exceed the enacted appropriations summarized in the general fund  
24 section of the "operating" portion of the "total authorization to spend" for fiscal year 2002  
25 reported in that Summary of Appropriations.