

# Review of Tax Options for Alaska Presentation to Commonwealth North Fiscal Study Group

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Department of Revenue – Tax Division

May 29, 2020



## Agenda

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1. FY 2019 Tax Revenue Collections
2. Most Recent New Tax Revenue Sources
3. Changes to Existing Tax Revenue Sources
4. New Tax Revenue Sources
5. Summary of Options
6. Reference Materials



## FY 2019 Revenue Collections by Tax Division

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- ❑ Includes all Revenues collected by the Tax Division.
- ❑ Includes all amounts before any sharing with local governments.
- ❑ Includes all amounts before any sharing with other State Agencies.
- ❑ Includes all amounts before any distributions to designated/dedicated funds (i.e. Alcohol & Other Drug Abuse Treatment and Prevention Fund, Marijuana Education Treatment Fund).
- ❑ Property tax revenues are net of the credits for local government property taxes paid to local municipalities.



## FY 2019 Revenue Collections by Tax Division

Tax Program	FY2019 Collections	% Total Revenues
Oil & Gas Production Tax & Surcharges	761,523,224	48.5%
Corporate Income Tax	332,520,459	21.2%
Oil and Gas Property Tax	121,500,545	7.7%
Fisheries Taxes & Assessments (all)	78,823,938	5.0%
Tobacco Taxes	59,677,134	3.8%
Mining License Tax	47,962,981	3.1%
Motor Fuel Tax	45,703,285	2.9%
Alcoholic Beverages	40,778,419	2.6%
Cruise Ship (Vessel & Gambling) Taxes	33,024,453	2.1%
Marijuana	19,082,542	1.2%
Vehicle Rental	11,392,345	0.7%
Regulatory Cost Charges	10,718,554	0.7%
Utility Cooperatives	4,518,032	0.3%
Gaming	2,557,983	0.2%
Tire Fee	1,339,233	0.1%
<b>Total</b>	<b>\$1,571,123,127</b>	<b>100.0%</b>



## Revenue Ideas

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Index of tax options that have been studied over the past several years:

- Includes tax legislation from past several years.
- Includes ideas from prior Administrations' requests
- Updated analyses last fall in order to be prepared for questions during the 2020 Legislative Session.
- Not representative of the views of the current Administration.



# Most Recent Tax Revenue Sources

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## Recently Added Revenue Source: Marijuana Tax

**Description:** A tax on marijuana sold in Alaska. The tax is between \$15 and \$50 per ounce of marijuana depending on the part of the plant sold. The tax was passed by ballot measure on 11/4/2014.

### **FY 2019 Tax Collections: \$19.1 million Total**

Collections are split between the General Fund, the Recidivism Reduction Fund, and the Marijuana Education Treatment Fund.

**Costs:** Initial costs <\$0.1 million

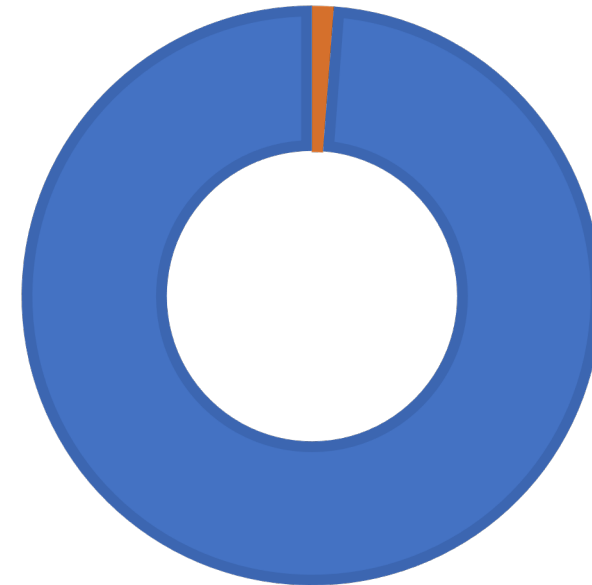
There was no funding with the ballot initiative. We secured less than \$100,000 and had to use existing resources.



## **Percent of FY2019 Tax Revenues: 1%**

### **MARIJUANA TAX**

- % from Marijuana Tax
- Total FY2019 Tax Revenues



## Recently Added Revenue Source: Refined Fuel Surcharge

**Description:** A tax surcharge of \$0.0095 a gallon on refined fuel sold, transferred, or used in Alaska. The tax was enacted effective 7/1/2015 by HB 158.

**FY 2019 Tax Collections: \$6.3 million Total**

These funds are normally used to support the Spill Prevention and Response Division.

**Costs:** Initial costs <\$0.1 million

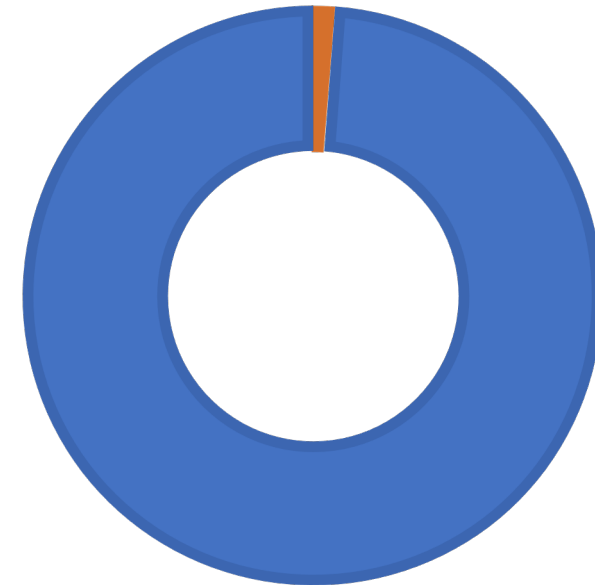
Implementing this tax change did not noticeably increase annual administration costs.



**Percent of FY2019 Tax Revenues: 0.4%**

### REFINED FUEL SURCHARGE

- % from Refined Fuel Surcharge
- Total FY2019 Tax Revenues





# Changes to Existing Non-Petroleum Revenue Sources

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# Changes to Existing Non-Petroleum Revenue Sources

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## **Increase Existing Non-Petroleum Corporate Income Tax**

Increase the tax levied on Alaska taxable income of C-corporations. A one percent increase to each tax bracket could raise an additional \$14 million in non-petroleum corporate income tax revenues.

**Percent of FY2019 Tax Revenues: 1%**

## **Increase Existing Alcoholic Beverage Tax**

Increase the per-gallon tax with four rates based on different products: distilled spirits, wine, beer, and beer brewed in qualifying small breweries. An increase to each tax equivalent to five cents per drink could generate an increase of roughly \$19 million per year in tax revenue.

**Percent of FY2019 Tax Revenues: 1%**

## **Increase Existing Commercial Passenger Vessel Tax**

Increase the tax levied on commercial passenger vessels that have at least 250 berths, provide overnight accommodations and spend more than 72 hours in Alaska waters over the course of one voyage. An increase in the commercial passenger vessel tax rate of ten dollars per passenger to \$44.50 per passenger could generate an increase of approximately \$7 million in annual revenues.

**Percent of FY2019 Tax Revenues: 0.4%**



*Disclaimer: Revenue estimates do not account for changes in behavior as a result of tax changes or administration costs*

## Changes to Existing Non-Petroleum Revenue Sources

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### **Increase Existing Large Passenger Vessel Gambling Tax**

Increase the tax levied on operators of gaming or gambling activities on large passenger vessels in the state. A ten percent increase in the large passenger vessel gambling tax rate could generate an increase of approximately \$3 million in annual revenues.

**Percent of FY2019 Tax Revenues: 0.2%**

### **Increase Existing Fisheries Business Tax**

Increase the tax levied on businesses that process fisheries resources, or export unprocessed fishery resources from Alaska. A one percent increase to the fisheries business tax could generate an increase of roughly \$16 million per year in revenue.

**Percent of FY2019 Tax Revenues: 1%**

### **Increase Existing Fisheries Resource Landing Tax**

Increase the tax levied on fishery resources processed outside of Alaska, but first landed in Alaska. A one percent increase to the fisheries resource landing tax could generate an additional \$5 million in revenue annually. This estimate includes revenue before taxes are shared with municipalities. The increase in revenues could split evenly between municipalities and the state as per current revenue, or the increase could be retained fully by the state.

**Percent of FY2019 Tax Revenues: 0.3%**



*Disclaimer: Revenue estimates do not account for changes in behavior as a result of tax changes or administration costs*

# Changes to Existing Non-Petroleum Revenue Sources

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## **Increase Existing Marijuana Tax**

Increase the tax levied on marijuana sales by the cultivator to the retail store. Increasing each portion of the marijuana tax by ten dollars could generate an increase in total marijuana tax revenue of approximately \$7 million.

**Percent of FY2019 Tax Revenues: 0.4%**

## **Increase Existing Mining License Tax**

Increase the tax levied on mining net income and royalties received in connection with mining properties and activities within Alaska, primarily collected from business engaged in hard rock and coal in the state. Increasing mining license tax rates in all tax brackets by one percent could generate an increase in total mining license tax revenue of approximately \$9 million.

**Percent of FY2019 Tax Revenues: 1%**

## **Increase Existing Motor Fuel Tax**

Increase the tax levied on purchases of highway and marine diesel and gasoline, aviation gas, and jet fuel. A doubling of the tax rate of each of the four fuel taxes could generate an increase of roughly \$44.8 million per year in tax revenue. Note, aviation fuels are limited by federal law in how they can be appropriated.

**Percent of FY2019 Tax Revenues: 3%**



*Disclaimer: Revenue estimates do not account for changes in behavior as a result of tax changes or administration costs*

## Changes to Existing Non-Petroleum Revenue Sources

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### Increase Existing Tire Fee

Increase the tax levied on tires sold in Alaska for motor vehicles intended for highway use. Doubling both the new tire fee and the studded tire fee could increase tire fee revenues by approximately \$1.3 million.

Percent of FY2019 Tax Revenues: 0.1%

### Increase Existing Cigarette and Other Tobacco Products Tax

Increase the tax levied on cigarettes imported into Alaska for sale or personal consumption and on tobacco products other than cigarettes imported into Alaska for sale. A 50% cigarette tax increase to \$3.00 per pack could raise an additional \$22 million per year.

Percent of FY2019 Tax Revenues: 2%

### Increase Existing Vehicle Rental Tax

Increase the tax levied on fees and costs charged for the rental or lease of a passenger or recreational vehicle for fewer than 90 days. Doubling both the passenger and recreational vehicle rental taxes could increase revenue by approximately \$11.8 million. Most of this new revenue would come from the tax increase on passenger vehicles.

Percent of FY2019 Tax Revenues: 1%



*Disclaimer: Revenue estimates do not account for changes in behavior as a result of tax changes or administration costs*

# New Non-Petroleum Revenue Sources

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## New Revenue Source: 4% State Sales Tax (styled on Wyoming Sales & Use Tax)

**Description:** A tax levied at 4% of purchase price on the sales of goods and services to consumers and businesses, taxing a range of activities similar to that of the Wyoming Sales & Use Tax. This is a broad based tax that extends to many services and business purchases. This tax exempts groceries, prescription medicine and medical equipment, and business-to-business final sales and services.

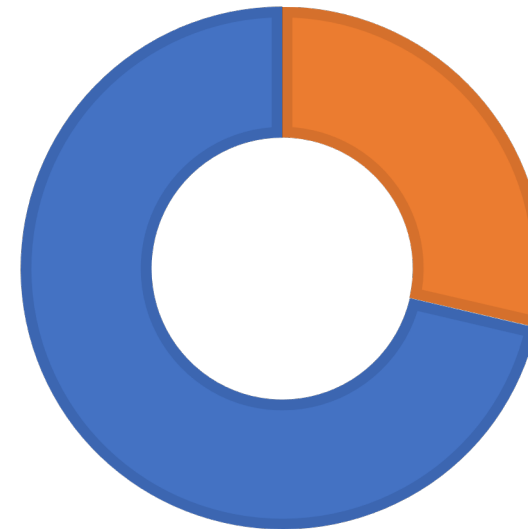
**First Full Year: \$630 million Total**

**Costs:** Implementing this tax would add \$12.3 million in annual administration costs and require an additional 74 FTE personnel.

## Percent of FY2019 Tax Revenues: 40%

### 4% WY SALES TAX SCENARIO

- Estimated Revenue Increase
- Total FY2019 Tax Revenues



## New Revenue Source: 4% State Sales Tax (Broader Base)

**Description:** A tax levied at 4% of purchase price on the sales of goods and services to consumers and businesses, taxing a broad range of activities. This is a very broad based tax that extends to a wide range of services and business inputs, including groceries and medical sales, but excluding all business-to-business sales and services.

**First Full Year: \$1 billion Total**

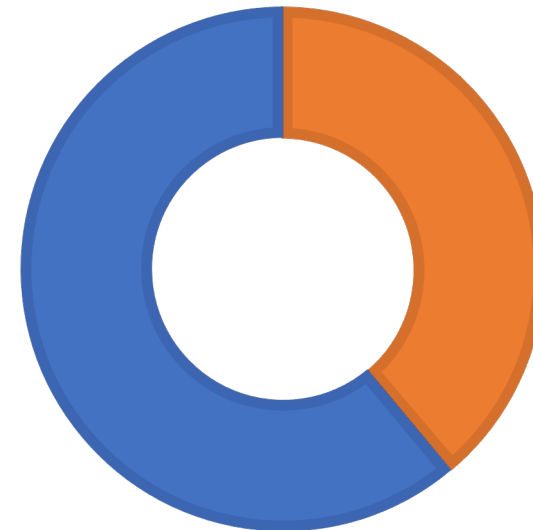
**Costs:** Implementing this tax would add \$12.3 million in annual administration costs and require an additional 74 FTE personnel.



## Percent of FY2019 Tax Revenues: 64%

### **4% BROADER BASE SALE TAX SCENARIO**

- Estimated Revenue Increase
- Total FY2019 Tax Revenues





## New Revenue Source: 4% State Sales Tax (styled on South Dakota Sales & Use Tax)

**Description:** A tax levied at 4% of purchase price on the sales of goods and services to consumers and businesses, taxing a range of activities similar to that of the South Dakota Sales & Use Tax. This is a very broad based tax that extends to a wide range of services and business inputs, only excluding prescription drugs and medical equipment, and business-to-business purchases for resale.

**First Full Year: \$1.2 billion Total**

**Costs:** Implementing this tax would add \$12.3 million in annual administration costs and require an additional 74 FTE personnel.



## Percent of FY2019 Tax Revenues: 76%

### 4% SD SALES TAX SCENARIO

- Estimated Revenue Increase
- Total FY2019 Tax Revenues



## New Revenue Source: Individual Income Tax (10% of Federal Income Tax Liability)

**Description:** A tax on the individual wages, tips and incomes earned in Alaska by individuals, levied at 10% of Federal Individual Income Tax Liability via employer withholding.

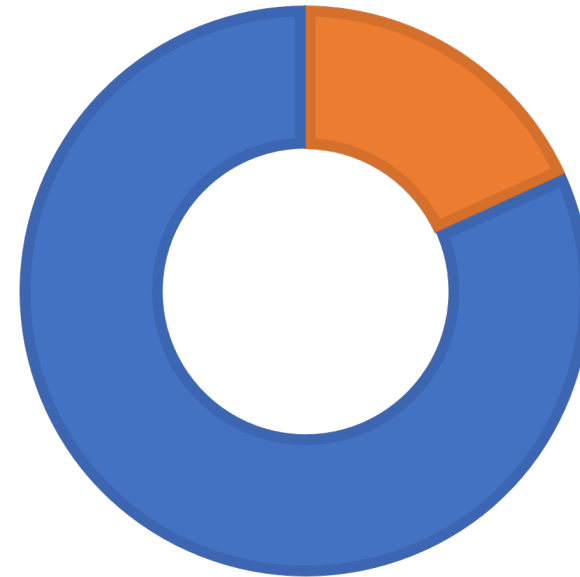
**First Full Year: \$350 million Total**

**Costs:** Implementing this tax would add \$8.4 million in annual administration costs and require an additional 45 FTE personnel.

## Percent of FY2019 Tax Revenues: 22%

**10% INDIVIDUAL INCOME TAX  
(FEDERAL TAX LIABILITY BASE)**

- Estimated Revenue Increase
- Total FY2019 Tax Revenues



## New Revenue Source: Individual Income Tax (10% Capital Gains Surtax)

**Description:** A tax on realized capital gains. Capital gains treatment only applies to “capital assets” such as stocks, bonds, jewelry, coin collections, and real estate property.

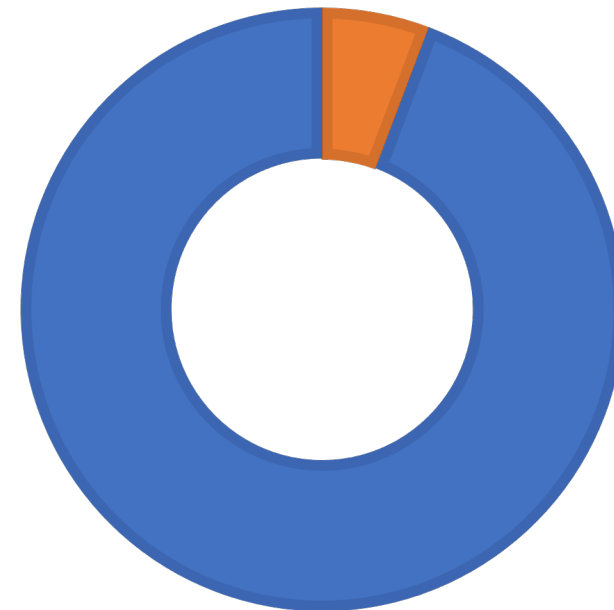
**First Full Year:** \$96 million Total

**Costs:** Annual administration costs and additional FTE personnel are indeterminate at this time.

## Percent of FY2019 Tax Revenues: 6%

### 10% INDIVIDUAL INCOME TAX (CAPITAL GAINS SURTAX)

- Estimated Revenue Increase
- Total FY2019 Tax Revenues



## New Revenue Source: Income Tax (S-Corporations)

**Description:** A tax on S-Corporations (a form of passthrough entity under federal law) doing business in Alaska, levied in using the same tax rate structure as the existing statewide corporate income tax currently levied on C-Corporations.

**First Full Year: \$80 million Total**

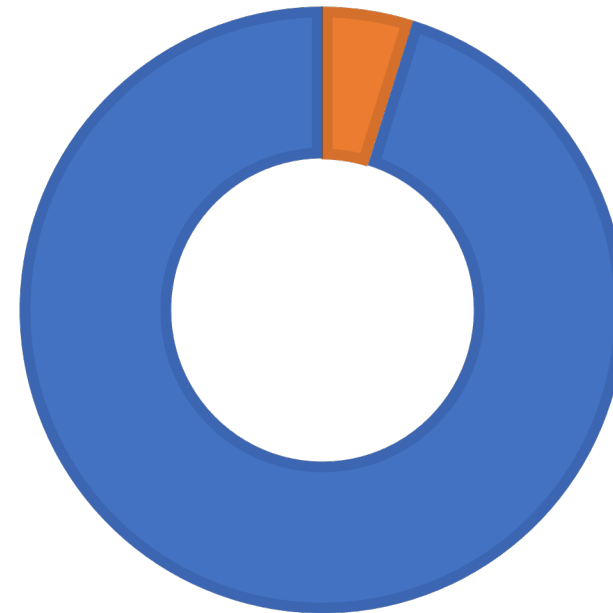
**Costs:** Implementing this tax would add \$3 million in annual administration costs and require an additional 20 FTE personnel.



**Percent of FY2019 Tax Revenues: 5%**

### **S-CORPORATION INCOME TAX**

- Estimated Revenue Increase
- Total FY2019 Tax Revenues



## New Revenue Source: \$30 Payroll Tax (SB 50)

**Description:** A tax on wages earned by residents and nonresidents within the state, or self-employment income. Tax is the first \$30 earned per worker in each year.

**First Full Year: \$13.5 million Total**

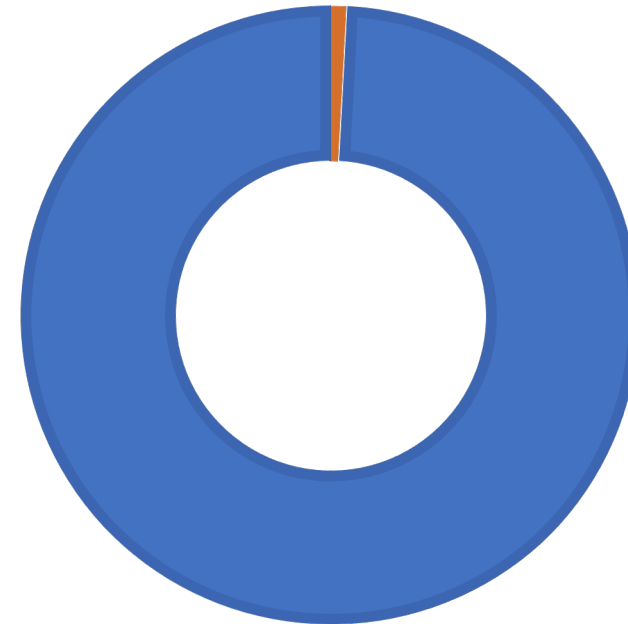
**Costs:** This tax would have an initial implementation cost of approximately \$11 million, add \$0.8 million in annual administration costs and require an additional 8 FTE personnel. DOR is exploring ways to reduce this cost.



## Percent of FY2019 Tax Revenues: 1%

### SB 50 HEAD TAX

- Estimated Revenue Increase
- Total FY2019 Tax Revenues



## New Revenue Source: State Property Tax

**Description:** A tax on all in-state property assessed at Full Value Determination per AS 43.56, levied at 0.1% of assessed value.

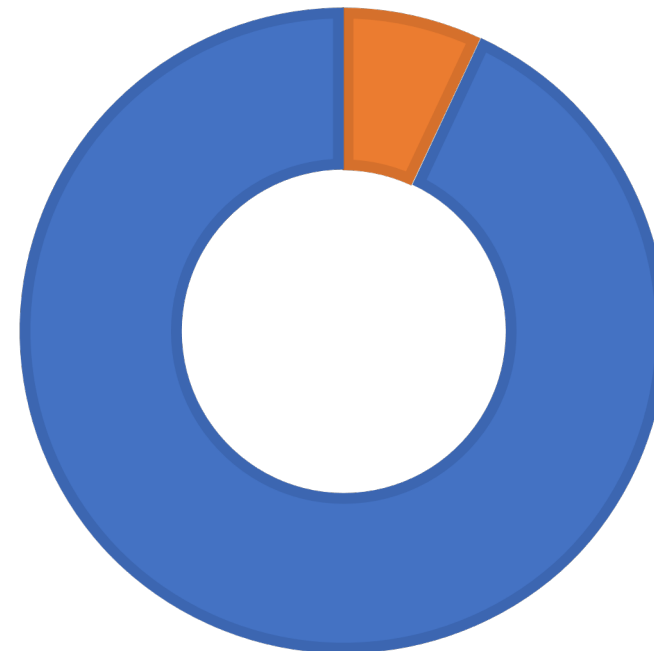
**First Full Year: \$117.5 million Total**

**Costs:** Annual administration costs and additional FTE personnel are indeterminate at this time.

## Percent of FY2019 Tax Revenues: 7%

### STATE PROPERTY TAX

- Estimated Revenue Increase
- Total FY2019 Tax Revenues



# New Revenue Source: e-Cigarettes / Vaping Products (HB 94)

**Description:** A tax on vapor products used in electronic cigarettes at the same rate as the other tobacco products.

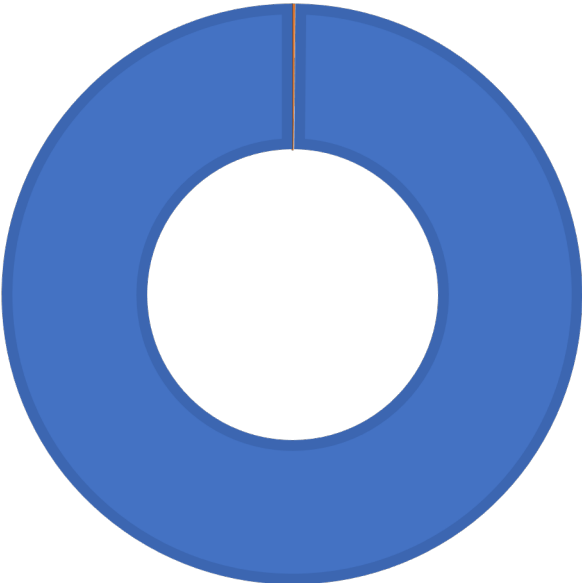
**First Full Year:** \$2.5 million Total

**Costs:** No implementation costs or incremental administration costs.

Percent of FY2019 Tax Revenues: 0.2%

### E-CIGARETTE TAX

- Estimated Revenue Increase
- Total FY2019 Tax Revenues



# New Revenue Source: Card Rooms (HB 103)

**Description:** Allowing one card room in each municipality of the state, with licensing fees and a tax on proceeds.

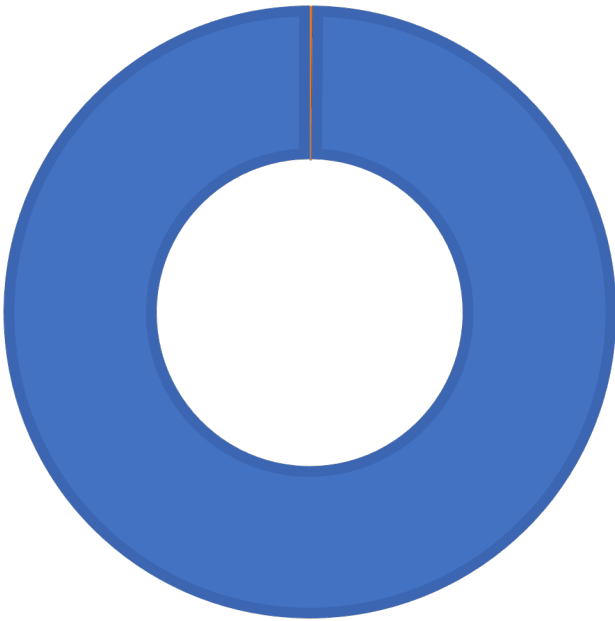
**First Full Year:** \$2.3 million Total

**Costs:** Annual administration costs and additional FTE personnel are indeterminate at this time.

**Percent of FY2019 Tax Revenues: 0.1%**

### HB 103 CARD ROOMS

- Estimated Revenue Increase
- Total FY2019 Tax Revenues





# New Revenue Source: Lotteries (HB 246/SB 188)

**Description:** Establish the Alaska Lottery Corporation, with broad authority to determine the structure, management, and games of the lottery. Games could potentially include single- and multi-jurisdiction draw games, instant tickets, sports betting, keno, and video lottery terminals (VLTs).

**First Full Year:**

Draw games only: \$5-8 million Total

Draw and Instant Games: \$35 million Total

Draw, Instant and VLT: \$135 million Total

*Amounts represent net transfer to the state after all operation costs. Amounts represent midpoints of a range of possible revenues.*

**Costs:** Annual administration costs would be borne by the corporation prior to returning revenue to the state.



## Percent of FY2019 Tax Revenues: 0-9%

### LOTTERY: DRAW GAMES ONLY

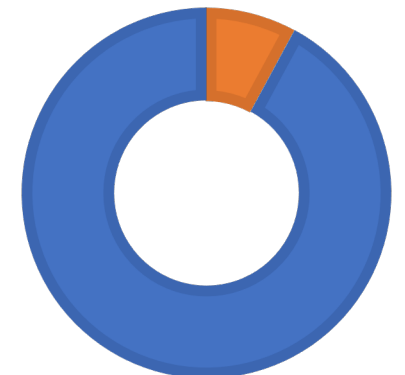
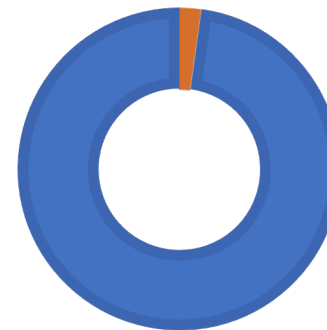
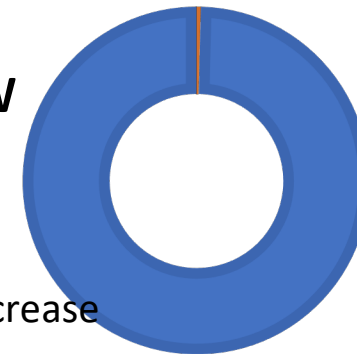
- Estimated Revenue Increase
- Total FY2019 Tax Revenues

### LOTTERY: DRAW AND INSTANT GAMES

- Estimated Revenue Increase
- Total FY2019 Tax Revenues

### LOTTERY: DRAW, INSTANT GAMES, AND VLTs

- Estimated Revenue Increase
- Total FY2019 Tax Revenues



# Revenue Options Summary

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## Existing Non-Petroleum Revenue Sources Summary

Revenue Source	Potential Revenue Increase
Non-Petroleum Corporate Income Tax	\$13,000,000
Alcoholic Beverage Tax	\$19,000,000
Commercial Passenger Vessel Tax	\$7,000,000
Large Passenger Vessel Gambling Tax	\$3,000,000
Fisheries Business Tax	\$16,000,000
Fisheries Resource Landing Tax	\$5,000,000
Marijuana Tax	\$7,000,000
Mining License Tax	\$9,000,000
Motor Fuel Tax	\$45,000,000
Tire Fee	\$1,300,000
Cigarette and Other Tobacco Products Tax	\$26,500,000
Vehicle Rental Tax	\$12,000,000



## New Revenue Sources Summary

Revenue Source	Potential Revenue Increase
4% Wyoming Sales Tax Scenario	\$630,000,000
4% Broader Base Sales Tax Scenario	\$1,000,000,000
4% South Dakota Sales Tax Scenario	\$1,200,000,000
10% Individual Income Tax (Federal Tax Liability Base)	\$350,000,000
10% Individual Income Tax (Capital Gains Surtax)	\$96,000,000
S-Corporation Income Tax	\$80,000,000
Head Tax (SB 50)	\$13,400,000
State Property Tax	\$117,500,000
eCigarette Tax (HB 94)	\$2,500,000
HB103 Card Rooms	\$2,300,000
Lottery: Draw Only	\$6,000,000
Lottery: Draw and Instant Games	\$35,000,000
Lottery: Draw, Instant Games, and Video Lottery Terminals	\$135,000,000



## Revenue Sources Summary

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- ❑ Any tax would need legislation to be adopted.
- ❑ Timeline for the Tax Division to implement after passed:
  - Broad-Based Taxes (i.e. sales tax, personal income tax) would take ~12 months
    - Program and Test Tax Revenue Management System (TRMS)
    - Write and Implement Regulations
    - Hire and Train Personnel
  - Other New Taxes (i.e. head tax, simpler taxes) would take ~ 6 months
  - Existing Taxes typically about ~ 3 to 6 months



## Reference Materials

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- ❑ 2019 Annual Report
- ❑ 2016 Revenue Sources Book, Chapter 3 “Big Decisions: How Alaska Could Tax Personal Consumption or Income
- ❑ 2015 Revenue Sources Book, Chapter 3 “Bridging the Gap Toward a Sustainable Fiscal Future”
- ❑ 2015 White Paper “Potential Fiscal and Revenue Options for the Walker-Mallott Administration”



# THANK YOU

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