Remote Sales Tax Collection in Alaska Benefits Alaska **January 2020**

Benefits to Local Governments

- Maintain taxing authority
- Maintain rate and exemptions
- Delegated administration to AML avoids additional or duplicative costs
- Entirely up to local government
  - Opt-in = you take advantage of Wayfair
  - Opt-out = residents don't pay sales tax
- Levels the playing field for local business – increases local economic activity
- Increased revenue for education, public safety, roads and public works
- Increases ability to respond to State cost-shifting or cuts
- Replaces revenue eroded with decrease to Community Assistance over the years

Benefits to Business

- Levels the playing field – increases local purchase potential by ensuring that local retailers aren't penalized for collecting a tax they are required to, while remote retailers have an unfair advantage in not
- These aren't new taxes – these are taxes that local residents are already paying, collected by local businesses, but not collected by remote retailers
- Keeps tax rates stable – instead of increasing taxes, applying the existing tax to remote sellers ensures that local tax rates stay stable
- Maintains current local exemptions – necessary for local control
- Local revenues improve communities – enables greater investment in local infrastructure, which supports economic activity
- On par with other states – businesses across the U.S. are complying, so Alaska is expecting similar compliance by those businesses that make sales into or within Alaska
  - This is very quickly become common practice
- Strengthens local governments – greater capacity within local governments leads to greater efficiencies
- Local taxpayers, local budgets – residents help shape annual budgets, informed by economic development

Benefits to Alaskans

- Protects residents outside boundaries – right now Alaska hasn't set up any rules of the road when it comes to remote commerce, and without a tax look up map Alaska residents may be getting taxed where they aren't supposed to
- Consistent with activities in majority of U.S. – this puts Alaska on track with the activities of other states that are benefiting from this opportunity.
- Simplifies exemptions – single point of entry and delivery for exemption certificates

Remote Sales Tax Collection: FAQ for Local Governments **January 2020**

Intergovernmental Agreement

- Commits the local government to participate in the Commission
- Agrees to delegate to the Commission collection of remote sales tax
- Agrees to AML administration
- Action – pass a resolution authorizing signature to the Agreement

Alaska Remote Seller Sales Tax Commission

- Local government appoints a representative
- Annual meeting and notice of all meetings
- Governed by Bylaws
- Board of seven
    - Oversees administration
    - Approves annual budget
    - Development of the Remote Sales Tax Code

Alaska Remote Seller Sales Tax Code

- Applies the local jurisdiction's tax rate, cap and exemptions to remote sales
    - Out of state sales – if the retailer does not have a physical presence in Alaska, they are expected to comply. The Commission anticipates that this applies to between 2,500 and 3,500 retailers.
    - In-state sales – if the retailer sells into your community, collection of sales tax is expected
- Standardizes compliance – reporting, penalties, audits, late filing rules, etc.
- Criteria Threshold (otherwise known as economic nexus)
    - $100,000 in statewide, annual gross sales; and/or
    - 200 transactions annually, in Alaska
- Hold Harmless provision
    - All retailers who use the Commission's software aren't liable for inaccurate information contained therein
- Remote vs. Physical
    - If the retailer has only a physical presence, remit to the local government
    - If the retailer has a physical presence but also remote sales, continue remitting local taxes to the local government and remote taxes to the Commission
    - If the retailer is a marketplace facilitator, remit to the Commission
    - If the retailer is a marketplace facilitator that provides services (i.e., lodging), remit to the local government
- Late filings
    - Late filing fee is paid to the Commission for administrative action
    - Interest owed on taxes collected accrues to the local government
    - Penalty of 5% a month accrues to the local government
- Common definitions

Remote Sales Tax Collection: FAQ for Businesses and Local Governments **January 2020**

When does this take effect?

- The Commission has developed software that will be ready as of January 31, 2020. Upon adoption of the Remote Sales Tax Code by a local government, retailers will be notified that they should begin collection, and have 30 days to comply. As additional local governments adopt the Code, compliance will occur on a rolling basis. Assuming that the first local government adopts the Code in late January, early February, the Commission expects reporting and remittance as soon as March/April.

What about:

- Seasonal tax rate – the software will include reference applicable rate changes throughout the year, as long as there is 30 days' notice. You will need to notify the Commission of seasonal tax rates, and the Commission will need the exact dates on an annual basis. Any tax holiday that occurs throughout the year should be noticed appropriately.
- All of our product exemptions – the Commission has established a tax variability matrix that tracks all product exemptions from all taxing jurisdictions. The exemption happens automatically within the API adopted by remote retailers or accessed via the website provided by the Commission. The Commission has adopted a common set of definitions that will assist in compliance.
- Entity-based exemptions
  - Apply to:
    - Senior exemptions – based on each local government's definition of "senior", when they apply. If applicable only to certain sales, the software will accommodate that variation.
    - Goods for wholesale - – these entities should be using their State of Alaska wholesale license in their purchase, which vendors they purchase from should recognize and apply tax-free status. Wholesale purchases will count toward establishing the criteria threshold for vendors selling into the state, even though taxes will not be collected. Sales and value of exemption will be reportable.
    - Churches, nonprofits, and governments - Churches, nonprofits, and governments – these are recognized entities that are tax-free, and vendors are expected to comply with federal law on tax-free sales to these entities. Sales and value of exemption will be reportable.
  - Process:
    - Development of an Exemption Certificate Registry (ECR)
    - ECR is an online system that buyers can access from any internet browser. ECR provides buyers with tools to find, create, and store exemption certificates for future use. An exemption certificate created through ECR can be reused from vendor to vendor.
    - Once a buyer's exemption certificates are set up in ECR, these certificates can be provided to vendors in various ways. From ECR, certificates can be emailed, downloaded, uploaded, printed, or even sent directly to vendors' exemption certificate management systems.
    - Vendors are still responsible for storing exemption certificates received through ECR.
  - Buyer's responsibility - It will be up to the buyer to upload their information, including locally produced certificate, if any, into their account on the ECR. Within the ECR, the buyer will direct that information to vendors. The buyer will go through the retailer's established process to set up an individual tax exemption within their account, including to download from the ECR the correct documentation for that retailer.

    - Any inaccurate sales tax collection should be taken up first with the vendor, then brought to the Commission's attention in case of a refund being necessary.
- Monthly filing – the default filing is monthly, consistent with national trends and best practice. Vendors will have the option to file quarterly but this must be approved by the Commission.
- Quarterly filing – notify the Commission if you would like reporting and remittance to occur on a quarterly basis. The Commission will hold any remittance occurring more frequently in trust for that distribution.
- Deliveries to post office boxes within our jurisdiction – these will be treated as taxable, based on the point of delivery
- Deliveries to addresses right outside our jurisdiction – the Commission has GIS-located all addresses in Alaska, such that these types of deliveries should not be taxable, and that all taxed sales are accurate. The software contractor has verified that boundary maps with the State DCRA, and each local government should notify the Commission upon adopting the Code of any discrepancies.

Changes to current code:

- Necessary - Exemption for remote sales will need to be removed, if applicable
- Optional – update your reporting requirements, definitions, etc. based on the remote sales tax code

What happens when the local government adopts the Code?

- Local government notifies the Commission by contacting Nils Andreassen at nils@akml.org
- The Program Manager will follow up, requesting that you complete a simple form that confirms rates, exemptions, sales tax boundaries, any changes to existing code, remittance preference, etc.
- The Program Manager will ask the local government to confirm all the settings in the software as accurate
- Upon receipt of the registration form, and confirmation that settings are correct, the Commission will notify remote sellers that they will need to comply within 30 days
- The Commission will send the local government representative log-in information for the Alaska Sales Tax Portal, where they can see all returns, and the calculations that go into remittance
- On a monthly or quarterly basis, and within 10 days of the last day of the month, the Commission will remit collected taxes to the local government
- The local government will confirm receipt and accuracy of the filing and remittance
- The local government should review filings, flag any they have questions about, and send the Program Manager questioned filings
- The Program Manager will review questioned filings and upon receipt of more than three of the same vendor, request an audit of their transactions for the applicable jurisdictions
- Amended filings, or refunds necessary, will be accounted for on a rolling basis