

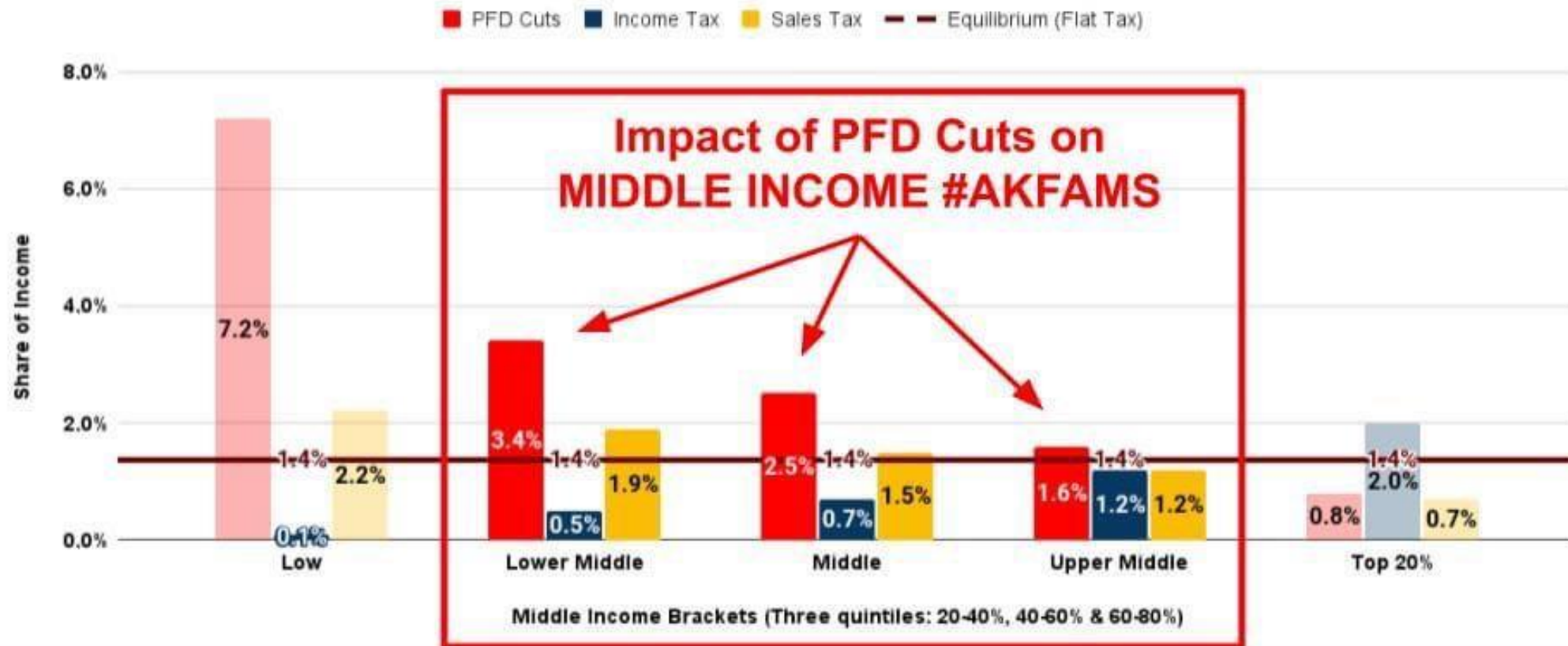
REP. GERAN TARR

# HB 4005 Statewide Sales and Use Tax

# Context

## Comparative Impact on MIDDLE INCOME ALASKA FAMILIES of Raising \$500 Million Per Year thru PFD Cuts, Income Tax or Sales Tax

(Source: 2017 ITEP, "Comparing the Distributional Impact of Revenue Options in Alaska")



# Context

## ISER conclusions ...

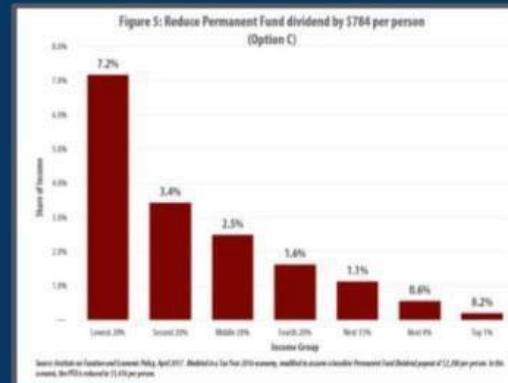


*“The impact of the PFD cut falls almost exclusively on residents, and it is highly regressive, so it **has the largest adverse impact on the economy per dollar of revenues raised.**” -- Short-Run Economic Impact of Alaska Fiscal Options (May 2016)*

*“A cut in PFDs would be **by far the costliest measure for Alaska families.**” -- How Much Might Closing the State Budget Gap Cost Alaska Families? (Feb 2017)*

## Comparing the Distributional Impact of Revenue Options in Alaska

Institute of Taxation and Economic Policy  
April, 2017



*“Reductions in the PFD are steeply regressive, having a far larger impact on families with lower incomes. Figure 5 demonstrates that while a \$784 cut to the PFD payout could free up approximately \$500 million for Alaska’s budget, **that gain would come at a high cost for Alaska’s most vulnerable residents.** Low-income families could expect to see their incomes cut by 7.2 percent under this change while the impact on middle-income families would amount to 2.5 percent and high-income Alaskans would see impacts well below 1 percent of their incomes.*

*“... the impact on the bottom 20 percent of earners (at 7.2 percent of income) is nearly ten times as large as the impact faced by the top 20 percent (at 0.8 percent of income).”*

# Concepts for HB 4005

- ▶ Lessons from 2017
- ▶ Spreading burden among all who benefit from public services
- ▶ Getting comfortable with a sales tax
  - ▶ Who pays and how soon
  - ▶ Deductions
  - ▶ Management

# Lessons from 2017

- ▶ House Majority passes 4-part Fiscal Plan
- ▶ Zero support from Senate Majority leads to failure
- ▶ Governor must support proposals forwarded by legislature

# Do you want only Alaskans to contribute to public services? No!

- ▶ Everyone who use benefits from public services should have a way to contribute
- ▶ Population of Alaska (733,000) is a medium size city in lower 48
- ▶ Denver, Seattle, San Francisco, Indianapolis, Charlotte, Columbus, Jacksonville, Fort Worth, and Austin are all around or more than our entire population of 733,000
- ▶ Very large state (2.5 times the size of Texas, the next largest state and Texas, California, and Montana combined are all smaller than Alaska)
- ▶ 20% of workforce is out of state residents and 2.26 million visitors (2019)



# Getting Comfortable with a Sales Tax

- ▶ 45 other states have statewide sales and use tax
  - ▶ 21 with Democratic Governors
  - ▶ 24 with Republican Governors
- ▶ Alaskans spend more on domestic travel than residents of any other state
  - ▶ Hawaii – 4% GET plus legislature authorized counties to collect surcharge
  - ▶ City and County of Honolulu: 0.5% effective January 1, 2007 to December 31, 2030
  - ▶ HONOLULU (KHON2) — Counties are poised to increase hotel room taxes up to 3%. It is a move that affects not just visitors, but also many Hawaii residents. Tourism experts said Hawaii hotels already add 15% in taxes to the hotel room rates. That will soon go **up to 18%**. (Jul 8, 2021)

# Who Pays, How Soon

ITEM	WHO PAYS				HOW MUCH	HOW SOON
	Alaskans	Out of State Workers	Tourists	Businesses/Oil Companies		
Oil Tax				X	2% increase in minimum tax to total up to \$200 million	Could be adjusted immediately or on calendar year - Jan. 1, 2022
Income Tax	X	X			Several proposals	Likely earliest would be Jan. 1, 2022 and revenue by July 1, 2023
<b>Sales Tax</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>\$300 Million</b>	<b>Likely July 1, 2022</b>
Fuel Tax	X	X	X	X	\$60 million total, individually 10,000 miles/year with 25 mpg car would be \$32	Immediately Adjust
Corporate Income Tax				X	At least \$30 million if loophole closed	Immediately
Cigarette Vape Tax	X	X	X		Small Dollar Amount	Immediately
Alcohol Tax	X	X	X		Small Dollar Amount	
Gambling	X	X	X			Has to be legal first
Permanent Fund	X				5% POMV Split with Dividend	New law this year, constitutional amendments Fall 2022



# Exemptions

- ▶ Don't want to disproportionately burden rural communities and low-income families
- ▶ Exempt basic essentials
  - ▶ Food from grocery store
  - ▶ Medicine, including medical services, drugs, durable medical equipment, mobility enhancing equipment, and prosthetic devices
  - ▶ Child care services
  - ▶ Feminine hygiene products (No Period tax!)

# Exemptions

- ▶ Some deductions must be included
  - ▶ State can't tax feds
  - ▶ State or an instrumentality of the state
- ▶ Others included could be considered or expanded
  - ▶ Financial services
  - ▶ Non-profits (now just 501 (c)(3) (there are 29 501 (c) categories)

# Management (new version)

- ▶ Municipalities and Boroughs levy the tax, collect it and remit to state
- ▶ Exemptions for local sales and use tax can be different from state
- ▶ Needs to be reauthorized every 7 years

# One part of a seven-part Fiscal Plan

## REVENUE GENERATION:

- ▶ HJR 7: The constitutional amendment protecting the Permanent Fund by changing to the percent of market value (POMV) management, limiting the annual draw to 5%, and saying there shall be a dividend as provided by law (introduced by Governor Dunleavy on February 18, 2021).
- ▶ HB 73: Legislation that establishes a 50/50 split between government expenditures and dividends for the annual draw (introduced by Governor Dunleavy on February 18, 2021).
- ▶ HB 104: Legislation that increases the base tax rate per gallon for four separate motor fuels (8 cents for highway, 5 cents for marine, 4.7 cents for aviation, and 3.2 cents for jet, introduced by Representative Josephson on February 19, 2021).
- ▶ HB 130: Legislation that closes tax loopholes in Alaska's corporate income tax structure (introduced by Representative Wool on March 10, 2021).

## NEW LEGISLATION:

- ▶ HB 4004: Legislation that increases the minimum tax on oil and gas from 4% to 6%, suspends all other components of the oil and gas tax until December 31, 2024, (introduced by Representative Tarr on August 30, 2021).
- ▶ HB 4005: Legislation establishing a sales tax which exempts food for groceries, heating oil, health care services (including services at a health care facility, drugs, durable medical equipment, mobility enhancing equipment, and prosthetic devices, childcare services, feminine hygiene products), among other exemptions (introduced by Representative Tarr on August 30, 2021).

## BUDGET REDUCTIONS:

- ▶ Address five major public health and public safety crisis of child abuse, domestic violence, sexual assault, mental health, and substance misuse

# Impact to Alaskans – 2% general sales and use tax

In terms of the impact to Alaskans, here are some estimates –

PFD	\$2350 per person (50/50 plan)
Fuel Tax	- \$32 for every 10,000 miles driven in a car with 25 mpg
Sales Tax	- <u>\$200 for every \$10,000 in spending on taxable items</u>
Total = \$2118 after paying taxes	

Double the tax burden -

PFD	\$2350 per person (50/50 plan)
Fuel Tax	- \$64 for every 20,000 miles driven in a car with 25 mpg
Sales Tax	- <u>\$400 for every \$20,000 in spending on taxable items</u>
Total = \$1886 after paying taxes	

**Hypothetical family of four is better off by \$4,450 with sales tax, does not children**

# Other Considerations

- ▶ Is state management necessary?
  - ▶ Lessons learned since 2015 and online sales tax – Nils Andreassen of AML to speak to this issue
- ▶ Should all 501 (c) organizations be exempt?
  - ▶ 29 different categories- did not change in this version
    - ▶ Volunteer fire departments (could be (c)(3) or (c)(4))
    - ▶ Veteran organizations (c)(23)



**Thank  
You!**