Fiscal Note

State of Alaska
2024 Legislative Session

Bill Version: HB 142
Fiscal Note Number:
() Publish Date:

Identifier: HB142-DOR-TAX-02-23-24
Title: STATE SALES AND USE TAX
Sponsor: CARPENTER
Requester: (H) Ways & Means

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2025 Appropriation Requested	Included in Governor's FY2025 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2025**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**
Personal Services	4,061.2		8,122.3	8,122.3	8,122.3	8,122.3	8,122.3
Travel	75.0		62.5	25.0	25.0	25.0	25.0
Services	1,860.9		1,900.9	2,389.9	2,389.9	8,389.9	2,389.9
Commodities	1,705.8		545.4	27.4	76.7	76.7	76.7
Capital Outlay	18.0						
Grants & Benefits							
Miscellaneous							
Total Operating	**7,720.9**	**0.0**	**10,631.1**	**10,564.6**	**10,613.9**	**16,613.9**	**10,613.9**

Fund Source (Operating Only)

1004 Gen Fund (UGF)	7,720.9		10,631.1	10,564.6	10,613.9	16,613.9	10,613.9
Total	**7,720.9**	**0.0**	**10,631.1**	**10,564.6**	**10,613.9**	**16,613.9**	**10,613.9**

Positions

Full-time	74.0		74.0	74.0	74.0	74.0	74.0
Part-time							
Temporary							

Change in Revenues

1004 Gen Fund (UGF)	565,400.0		1,147,800.0	1,182,200.0	1,217,700.0	1,254,200.0	1,291,900.0
Total	**565,400.0**	**0.0**	**1,147,800.0**	**1,182,200.0**	**1,217,700.0**	**1,254,200.0**	**1,291,900.0**

Estimated SUPPLEMENTAL (FY2024) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2025) cost: 7,520.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? No

(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/26

Why this fiscal note differs from previous version/comments:

Updated from SLA2023 to SLA2024 fiscal note template. Fiscal analysis also updated and projected through FY30.

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Division: Tax Division Date: 02/23/2024 08:15 PM
Approved By: Eric Demoulin, Administrative Services Director Date: 02/24/24
Agency: Department of Revenue

Analysis

Bill Analysis

This bill would impose a statewide sales and use tax of 2 percent on the sale or lease of tangible personal property, the sale of services, and the use of tangible personal property or services that would be subject to the tax if purchased in the state. The tax base in this bill is considered to be a “high base” tax base in that the bill does not include exemptions for business-to-business transactions, groceries, medical equipment, or medical services. This state level sales and use tax would be in addition to any applicable local taxes.

The effective date in this bill has not yet been updated for the new fiscal year. For fiscal note purposes, the analysis still assumes a January 1, 2025 effective date, but that is not a realistic date for standing up a new tax of this size. The Department of Revenue would need 12 to 18 months to stand up this new tax. This bill would require the Department to become part of the Streamlined Sales and Use Tax Agreement (SSUTA), which is a multistate agreement intended to simplify and modernize sales and use tax administration in the member states in order to substantially reduce the burden of tax compliance. The SSUTA focuses on improving sales and use tax administration systems for all sellers and for all types of commerce.

This bill provides authority for the Department to adopt regulations to administer the new tax and that section would become effective immediately.

Revenue Impact

At full implementation, revenue is estimated to be about $1.5 billion annually. That number is based on an updated model using a tax base similar to that of South Dakota. This bill would have a slightly higher base, and therefore the revenue impact could be even greater, but the difference is indeterminate as the Department has not analyzed the higher base. First collections, for purposes of this fiscal note, are assumed to occur in FY2025 and be for half of the fiscal year due to the January 1, 2025 effective date. The $565.4 million shown in this fiscal note reflects six months of revenue. Because the incidence of the tax is dependent on taxable spending by individuals, households, and businesses, the relative burden of such a tax will vary widely among these groups.

The sales tax revenue estimate is based on an estimate for sales tax provided by Chainbridge, a consultant, using their PolicyLinks model. The PolicyLinks model estimate was based on a tax base similar to South Dakota’s for tax year 2020. The estimate was scaled up to 2024 based on the increase in total U.S. retail sales.
This updated model differs from the model used last year in that it accounts for population growth and inflation. The model does not address elasticity of demand, interactions that may occur with existing city or municipal sales taxes, or impacts on the economy from implementing a state sales tax.

Implementation Costs

The initial need will be for the Department to seek assistance from a sales and use tax expert to work with Department leadership on creating an implementation plan with more refined estimates of staffing, space, supply, and equipment needs. The Department would also require expert help in drafting regulations. The FY2024 services cost includes $500.0 to enable the Department to hire an expert, develop a plan, and begin working on regulations.
The Department will also need to engage FAST Enterprises, the division's Tax Revenue Management Services (TRMS) contractor, to build a sales and use tax module into TRMS, with provisions for a seller’s permit and resale exemption certificate application module. While the needed updates to TRMS would be a multi-year process, the system would need to be ready for accepting returns and payments by the effective date. The effective date would need to be no earlier than 12 months from the date the bill becomes law for the Department to be ready to accept returns and payments. The TRMS system would require much reconfiguration to add a sales tax return module with associated databases, an examination and audit module, communications, and integration with existing imaging, accounting, and collections modules. The seller’s permit and resale exemption certificate application module would need to be completed well in advance of the effective date, to ensure sellers are registered and know their collection and remittance requirements.

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Analysis

The $7.5 million capital cost in FY2025 is an estimate for the needed contract with FAST Enterprises to add a sales and use tax module along with the seller's permit and resale certificate module. TRMS would also need to be updated for integration of sales tax revenue reporting into the State's accounting system. TRMS would need to be upgraded to FAST Enterprises current module in FY2029, which accounts for the additional $6 million in the "services" line for that year.

An additional $20.0 is included in the capital costs for FY2024 for the SSUTA petition fee.

The Department will need to immediately start hiring and training new employees to administer this new tax program. The Department estimated staffing needs based on what other states' staffing levels are for their statewide sales and use tax administration. South Dakota has a population of 882,235 and Wyoming has a population of 577,737, so in addition to having sales and use tax structures, both have comparable populations to Alaska. In 2019, South Dakota reported that they had 99 employees that primarily work on sales tax and also share duties on other tax types. In 2019, Wyoming reported that they had 60 employees that work exclusively on sales tax. Based on staffing levels reported by South Dakota and Wyoming, and scaled to Alaska population, 74 employees is a fair and reasonable estimate of what the Department will need to administer a sales and use tax in Alaska.

An initial analysis of the additional staff needs are as follows:
(1) Deputy Director
(2) Revenue Audit Supervisors
(25) Tax Auditors
(22) Tax Technicians
(2) Sales & Use Tax Specialists
(4) Revenue Appeals Officers
(1) Accountant
(4) Accounting Technicians
(2) Administrative Assistants
(2) Analysts/Programmers
(9) Imaging Operators & Office Assistants

Services costs are primarily internal core services paid to other state agencies and additional office space needed due to the substantial growth in the overall size of the Tax Division. New employees would be split between the Juneau and Anchorage offices. Due to the increase level of staffing, costs associated for additional office space, build out costs, and furnishings. Services would increase in FY2027 and forward as it is the first year of additional maintenance and support of the new TRMS modules after rollout, which would be approximately $1.0 million per year. Commodities are primarily for costs associated with additional office supplies and equipment needs for 74 new employees. Additional travel will be needed in the first two years after implementation to train new employees, for public education efforts. Travel costs in later years would be for ongoing training, audit travel, and enforcement efforts and investigations.

This fiscal note assumes that one half of the needed staff is hired in FY2025 and the remaining are hired in FY2026 for cost projection staffing purposes.