

**Sponsor Statement for HB 233 & HB 258**

**Sales and Use Tax**

**Change Business License Fee to Receipts Tax**

**HB 233: An Act relating to the levying and collecting of sales and use tax; and providing for an effective date.**

**HB 258: An Act converting the business license fee to a business license tax; adding, as an element of that tax, computation of the tax based on the taxpayer's gross receipts; establishing adjustments to that tax; and transferring administration of the levy to the Department of Revenue; and providing for an effective date.**

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We Alaskans are somewhat the victims of our own prosperity. We have seen our economy flourish and have all enjoyed the good things that came with prosperity. Despite much debate we have been unwilling to accept the responsibility of balancing our budget without spending down our reserves.

Many people don't believe we have a problem because in balancing a budget with savings there appears to be no crisis. Unfortunately, if we don't act now we will be operating under crisis management. So, our need to consider ways to provide more state funds is very real. In recent years, the legislature has made considerable progress in cutting back government spending, putting our capital improvements on hold, and making do with what we have. Many cuts have merely delayed the inevitable; however deferring maintenance is not a solution. We need to invest in our future, and investing takes revenue.

There are several alternatives for raising revenue -- among them is a sales tax, and another is a gross receipts tax. For purposes of discussion, I have introduced HB 233 a sales tax bill, and HB 258 a "gross receipts" tax bill as another alternative. Many people, myself included, didn't know we actually had a gross receipts tax on the books from 1949 through 1979. It was repealed along with the income tax.

The sales tax I am proposing in HB 233 is a minimal one set at 2% and capped at \$2,000. This tax may produce between \$200 -300 million per year (using 1998 estimates of sales). HB 233, the sales tax proposal, exempts from taxes certain non-profit organizations, churches, federal, state and local government, other federal and state required exemptions, medical services and drugs or medical supplies, casual sales, goods purchased for resale in a business or wholesale sales to those businesses, insurance premiums and freight and shipping services. The purpose is to collect a sales tax only from the final consumer of a service or good.

However, a sales tax alone would not provide sufficient funds to fill our current or future budget gaps; but, in combination with other alternatives, it could contribute considerably toward that goal. The gross receipts tax I am proposing is, in its most simple form, a tax at every level of sale. It has many of the exemptions mentioned in HB 233 and is also proposed at 2%.

Because the sales tax is added on to the price of the product at the time of sale, it is highly visible to the consumer. On the other hand, the gross receipts tax would be invisible to the consumer because it would be levied on the seller's total revenue stream as reported to the Department of Revenue. This would be much easier to calculate and verify.

The gross receipts tax would also have a cap of \$2,000 per sale to which the tax would be applied. Because it would be a completely separate calculation, the gross receipts tax would not be confused with or interfere with municipalities' or boroughs' collection of sales taxes.

Under either of these tax scenarios tourists and visitors would also contribute substantially to supporting our state's budget, revenue that the state would not have otherwise. The revenue generated by either tax would be deposited into the General Fund to help pay for the many services state government must provide.