

STATE OF ALASKA
DEPARTMENT OF REVENUE
Tax Division



Fiscal Year 2004
ANNUAL REPORT OF DIVISION OPERATIONS

On the internet at:
www.tax.state.ak.us

Frank Murkowski
Governor

William A. Corbus
Commissioner

2004

This annual report provides an overview of programs administered by the Tax Division and reports revenue collections and other information related to those programs. This report also explains the organizational structure of the division.

The information covers fiscal year 2004 which ended June 30, 2004.

2004 Annual Report of Division Operations

Table of Contents

Executive Summary

| | |
|---|---|
| Tax Division Overview..... | 1 |
| Three Year Comparison of Revenue Collections (Table 1)..... | 2 |
| General Fund Tax Collections (Chart 1)..... | 3 |
| Tax Returns Filed (Chart 2)..... | 4 |
| 2004 New Legislation..... | 5 |

Organization

| | |
|-------------------------|----|
| Key Contacts..... | 8 |
| Organization Chart..... | 9 |
| Functions..... | 10 |

Program Detail

| | |
|---|----|
| Revenue Collections Detail (Table 2)..... | 13 |
| Program Revenue and Cost Detail (Table 3)..... | 18 |
| Revenue Collected From Enforcement Activity (Table 4)..... | 19 |
| Programs | |
| Alcoholic Beverages Tax..... | 20 |
| Charitable Gaming..... | 22 |
| Conservation Surcharge on Oil..... | 25 |
| Corporation Income Tax..... | 26 |
| Corporation Tax Return Filing Activity (Chart 3)..... | 28 |
| Corporation Tax Liabilities Statistics (Table 5)..... | 29 |
| Dive Fishery Management Assessment Tax..... | 30 |
| Electric Cooperative Tax..... | 31 |
| Estate Tax..... | 32 |
| Fisheries Business Tax..... | 33 |
| Fishery Resource Landing Tax..... | 36 |
| Mining License Tax..... | 38 |
| Motor Fuel Tax..... | 40 |
| Oil and Gas Exploration, Production and Pipeline Transportation Property Taxes..... | 42 |
| Oil and Gas Production Tax..... | 43 |
| Regulatory Cost Charges..... | 45 |
| Salmon Enhancement Tax..... | 46 |
| Salmon Marketing Tax..... | 47 |
| Seafood Marketing Assessment..... | 48 |
| Telephone Cooperative Tax..... | 49 |
| Tire Fee..... | 50 |
| Tobacco Tax..... | 51 |
| Vehicle Rental Tax..... | 54 |
| Audit Program..... | 55 |
| Appeals Program..... | 56 |

Table of Contents (continued)

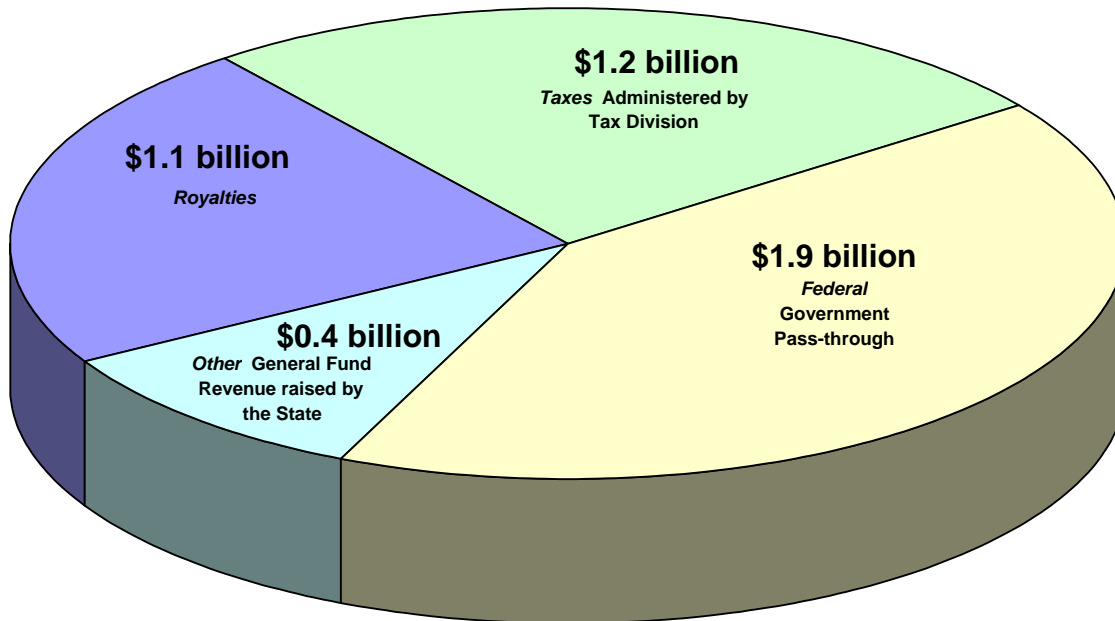
Appendices

| | |
|--|----|
| Appendix A – Historical Overview of Tax Programs | 57 |
| Appendix B – State and Federal Tax Rate Comparison | |
| Alcohol Tax Rates – Liquor..... | 60 |
| Alcohol Tax Rates – Wine..... | 61 |
| Alcohol Tax Rates – Beer..... | 62 |
| Gasoline Tax Rates | 63 |
| Aviation Fuel Tax Rates | 64 |
| Cigarette Tax Rates..... | 65 |
| Tobacco Products Tax Rates..... | 66 |
| Corporation Income Tax Rates | 67 |
| Individual Income Tax Rates | 68 |
| Sales Tax Rates..... | 69 |

TAX DIVISION OVERVIEW

The Tax Division continues to have extensive responsibility for administering the tax programs that help pay for a significant portion of state government. After federal dollars, taxes administered by the Tax Division is the next largest category of General Fund revenues, followed by oil and gas royalties and the small but all purpose “other”. See the chart below for a detail of FY 2004 General Fund revenues of \$4.6 billion dollars. (Source: October 2004 preliminary data from the Alaska State Accounting System.)

Preliminary FY 2004 General Fund Revenue Chart



Tax programs administered by the Division

Oil and Gas Taxes

- Oil and Gas Corporate Income
- Oil and Gas Production
- Oil and Gas Property
- Oil and Gas Surcharge

Excise Taxes

- Alcoholic Beverage
- Cigarette/Tobacco
- Mining License
- Motor Fuel
- Tire
- Vehicle Rental

Other Taxes

- Alaska Regulatory Commission Fees
- Electrical Coop
- Estate
- Telephone Coop

Corporate Income Taxes (Non-Oil and Gas)

- Corporate Income

Fisheries Taxes

- Dive Fisheries
- Fisheries Business
- Fisheries Resource Landing
- Salmon Enhancement
- Salmon Marketing
- Seafood Marketing

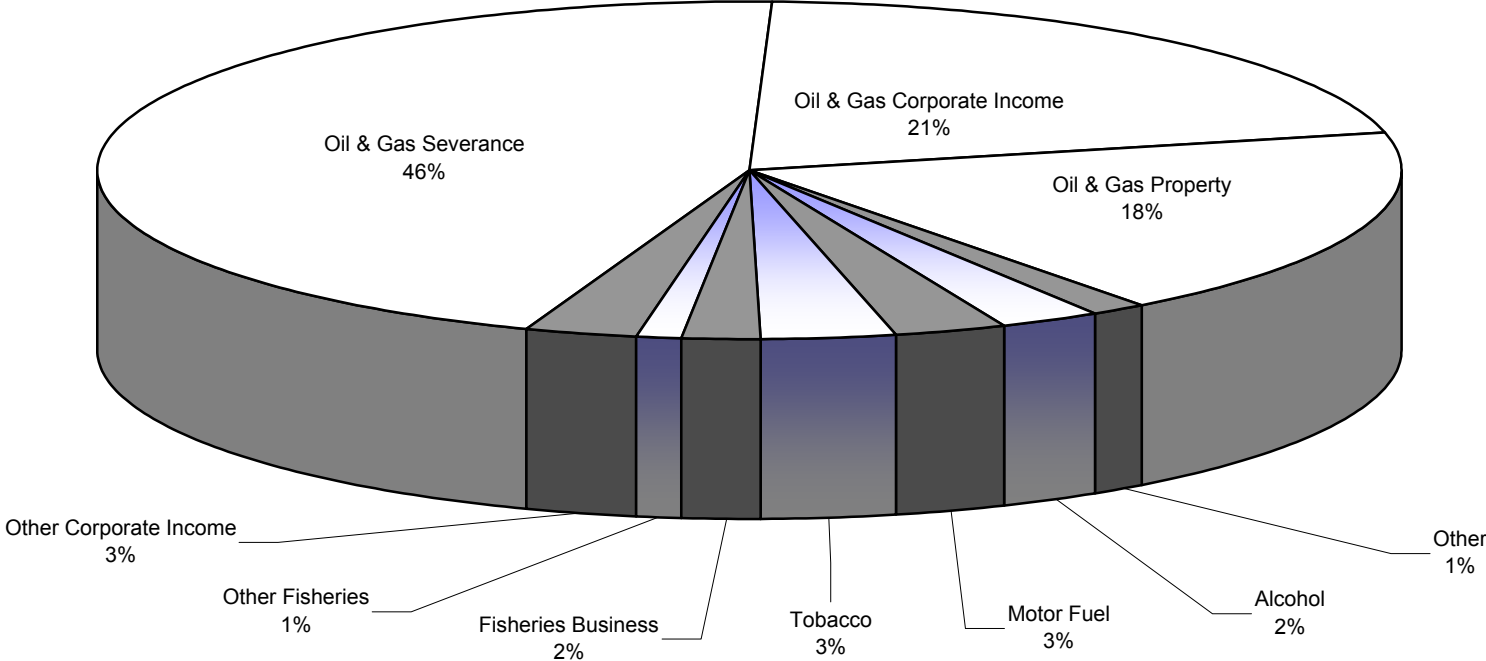
Other Programs

- Charitable Gaming
- Salmon Price Reporting
- Revenue Sources Reporting

Table 1
Three Year Comparison of Revenue Collections

| FUND SOURCE | FY 04 | % Fund Total | FY 03 | % Fund Total | FY 02 | % Fund Total |
|--|------------------------|---------------------|------------------------|---------------------|------------------------|---------------------|
| General Fund (including sub funds) | | | | | | |
| Oil and Gas | | | | | | |
| Production Tax | \$642,819,003 | 45.6% | \$589,731,934 | 49.1% | \$486,740,276 | 43.3% |
| Property ¹ | 266,210,393 | 18.8% | 268,844,716 | 22.4% | 270,354,442 | 24.1% |
| Corporate Income | 298,832,852 | 21.2% | 151,088,300 | 12.5% | 178,386,310 | 15.9% |
| Conservation Surcharge | 9,052,517 | 0.6% | 9,232,859 | 0.8% | 9,597,043 | 0.9% |
| Total Oil and Gas | 1,216,914,765 | 86.2% | 1,018,897,809 | 84.8% | 945,078,071 | 84.1% |
| Motor Fuel ² | 41,367,326 | 2.9% | 37,352,972 | 3.1% | 40,352,396 | 3.6% |
| Corporate Income - Other than Oil and Gas | 39,546,080 | 2.8% | 47,712,454 | 3.9% | 53,449,415 | 4.8% |
| Alcoholic Beverages | 32,746,144 | 2.3% | 25,360,808 | 2.1% | 12,889,256 | 1.1% |
| Fisheries Business ² | 29,244,605 | 2.1% | 26,002,713 | 2.2% | 25,292,371 | 2.3% |
| Tobacco | 15,990,447 | 1.1% | 16,287,785 | 1.4% | 15,534,977 | 1.4% |
| Fishery Resource Landing ² | 6,860,773 | 0.5% | 9,876,465 | 0.8% | 7,223,775 | 0.6% |
| RCA Regulatory Cost Charges | 5,655,595 | 0.4% | 5,839,379 | 0.5% | 5,855,577 | 0.5% |
| Seafood Marketing | 3,294,577 | 0.2% | 2,989,931 | 0.2% | 2,698,456 | 0.2% |
| Mining License | 3,224,684 | 0.2% | 351,387 | 0.0% | 466,430 | 0.0% |
| Salmon Enhancement ² | 3,033,565 | 0.2% | 2,422,051 | 0.2% | 3,701,801 | 0.3% |
| Gaming | 2,423,278 | 0.2% | 2,585,507 | 0.2% | 2,512,205 | 0.2% |
| Estate | 2,250,662 | 0.2% | 1,221,757 | 0.1% | 3,117,413 | 0.3% |
| Vehicle Rental | 2,711,572 | 0.2% | 0 | 0.0% | 0 | 0.0% |
| Telephone Cooperative ² | 2,101,198 | 0.1% | 1,836,740 | 0.2% | 1,352,643 | 0.1% |
| Salmon Marketing | 1,963,779 | 0.1% | 1,412,041 | 0.1% | 1,986,718 | 0.2% |
| Electric Cooperative ² | 1,861,290 | 0.1% | 1,817,958 | 0.2% | 1,786,712 | 0.2% |
| Tire Fee | 826,674 | 0.1% | 0 | 0.0% | 0 | 0.0% |
| Dive Fisheries | 253,503 | 0.0% | 204,738 | 0.0% | 192,110 | 0.0% |
| Total General Fund | 1,412,270,517 | 100.0% | 1,202,172,495 | 100.0% | 1,123,490,326 | 100.0% |
| ¹ Includes credit for municipal property tax paid (\$218,798,614 in FY 2004, \$220,096,442 in FY 2003 and \$220,713,351 in FY 2002) | | | | | | |
| ² Prior to sharing with municipalities or aquaculture associations | | | | | | |
| Constitutional Budget Reserve Fund (CBRF) | | | | | | |
| Oil and Gas Severance | 4,236,962 | 50.6% | 3,681,970 | 17.6% | 24,243,395 | 27.0% |
| Oil & Gas Corporate Income | 4,035,122 | 48.3% | 17,221,507 | 82.2% | 65,649,583 | 73.0% |
| Oil and Gas Property | 87,868 | 1.1% | (2,929) | 0.0% | 0 | 0.0% |
| Mining License | 0 | 0.0% | 44,867 | 0.2% | 0 | 0.0% |
| Total CBRF | 8,359,952 | 100.0% | 20,945,415 | 100.0% | 89,892,978 | 100.0% |
| School Fund | | | | | | |
| Tobacco | 32,865,726 | 100.0% | 30,606,828 | 100.0% | 30,272,141 | 100.0% |
| Cigarette License Fees | 4,740 | 0.0% | 5,520 | 0.0% | 3,220 | 0.0% |
| Total School Fund | 32,870,466 | 100.0% | 30,612,348 | 100.0% | 30,275,361 | 100.0% |
| Total All Funds | \$1,453,500,935 | 100.0% | \$1,253,730,258 | 100.0% | \$1,243,658,665 | 100.0% |

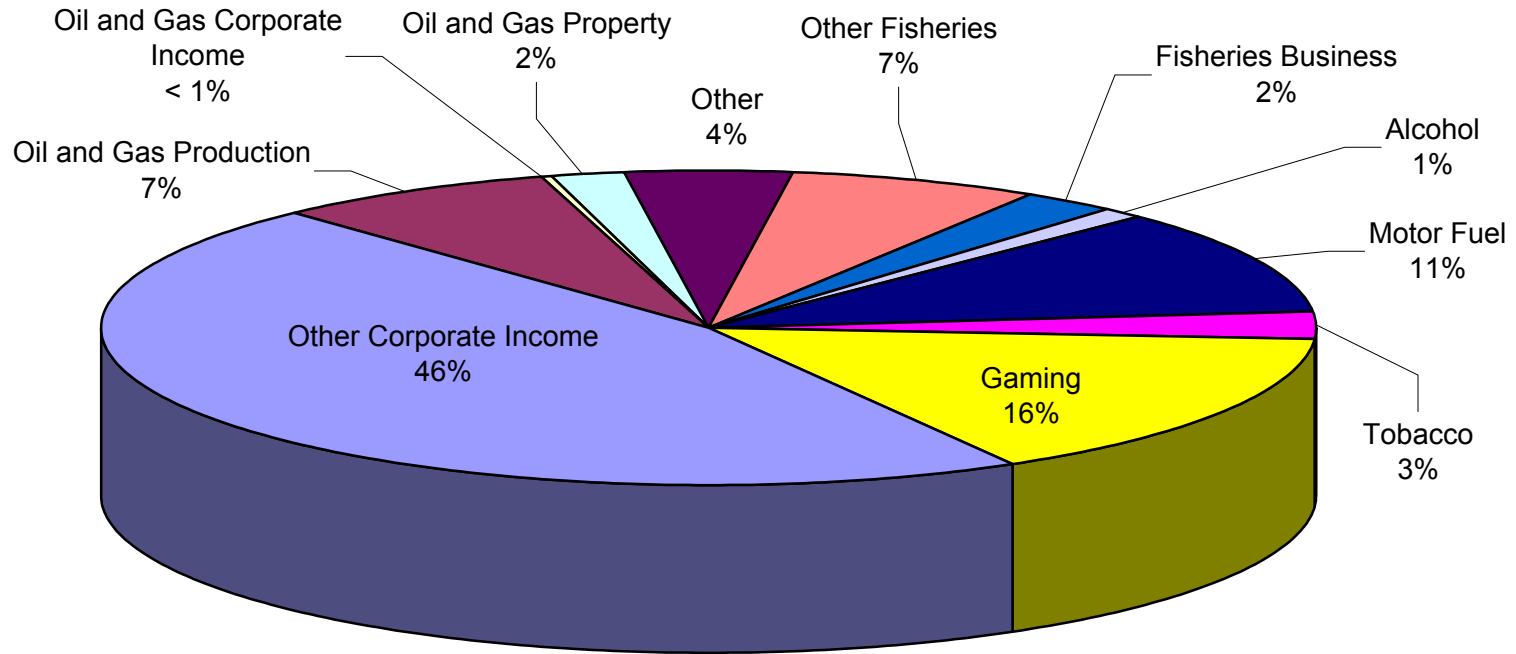
Chart I
Tax Division Collections



Total Tax Collections: \$ 1,453,500,935

Oil & Gas Severance includes the production tax and the conservation surcharge on oil and gas.
Other Fisheries includes resource landing, dive fisheries, salmon enhancement and marketing taxes, and seafood marketing assessment collections.
Other includes RCC, estate, electric and telephone cooperative, gaming, mining license tax, tire and vehicle tax.

**Chart 2
Tax Returns Filed**



(figures include original and amended returns)

| Total Tax Returns Filed: 31,461 | | | |
|---------------------------------|---------------|---------------------------------|--------------|
| Oil and Gas | | Other Fisheries | 2,165 |
| Production | 2,318 | <i>Salmon Marketing</i> | 900 |
| Corporate Income | 69 | <i>Salmon Enhancement</i> | 885 |
| Property | 687 | <i>Seafood Marketing</i> | 276 |
| | | <i>Fishery Resource Landing</i> | 62 |
| Other Corporate Income | 14,619 | <i>Dive Fisheries</i> | 42 |
| | | Fisheries Business | 782 |
| Motor Fuel | 3,401 | | |
| | | Tobacco | 862 |
| Alcohol | 291 | | |
| | | Gaming | 4,935 |

2004 NEW LEGISLATION

The 2004 legislature passed 11 bills that directly affect the Tax Division. The Governor signed the following bills into law:

HB 341 (Ch 156 SLA 2004) - Dive Fishery Management Assessment. Under prior law, qualified regional dive fishery development associations were authorized to impose management assessments at 1%, 3%, 5%, and 7% of the value of fishery resources taken in a dive gear fishery. This bill authorizes three additional rates: 2%, 4%, and 6%.

The bill took effect October 1, 2004.

HB 347 (Ch 29 SLA 2004) – Exempt Taxicabs from Vehicle Rental Tax. This bill adds taxicabs to the list of vehicles exempt from the vehicle rental tax established last year in HB 271 (Ch 105 SLA 2003) which became effective January 1, 2004.

The bill took effect May 8, 2004 and was made retroactive to January 1, 2004. In the bill, the Department of Revenue is instructed to refund any tax collected or remitted for taxicab rentals between January 1, 2004 and the effective date of the bill.

HB 366 (Ch 162 SLA 2004) – Animal Classics Charitable Gaming. This bill allows the Department of Revenue to issue permits for an animal classic game, providing the animal classic was in existence prior to November 1, 2002. An animal classic is a game of chance relating to certain actions by rodents or chickens.

The bill took effect July 25, 2004.

HB 417 (Ch 138 SLA 2004) – Alaska Natural Gas Development Authority. This bill amends the Act establishing the Alaska Natural Gas Development Authority. The amendment adds a Prudhoe Bay to Cook Inlet pipeline as an option for the Development Authority to review for economic viability.

The bill took effect July 1, 2004.

HB 419 (Ch 53 SLA 2004) – Regional Seafood Development Associations Tax. This bill authorizes qualified regional seafood development associations to hold an election to impose seafood development taxes of 0.5% to 2% of the value of fishery resources taken in a fishery. The bill establishes processes for imposition of, changes to, or termination of seafood development taxes. The bill also establishes seafood development regions and indicates upon whom tax liability falls.

The bill took effect September 7, 2004.

SB 241 (Ch 14 SLA 2004) – Appropriation: North Slope Natural Gas. This bill appropriated \$1.65 million to the Department of Revenue for work related to bringing North Slope natural gas to market. Under the Stranded Gas Development Act (SGDA) the Commissioner of Revenue is charged with negotiating a contract for stranded gas development, and the Tax Division devotes significant resources in supporting the Commissioner in his stranded gas responsibilities. Five sponsors including major pipeline companies and the largest lessees of North Slope Gas have applied for consideration under the SGDA, and active negotiations are being carried out with two of those sponsors.

The bill took effect April 9, 2004.

2004 NEW LEGISLATION

SB 273 (Ch 31 SLA 2004) – ASMI Board / Seafood Taxes & Assessments. This bill amends the size of the Alaska Seafood Marketing Institute (ASMI) board to seven governor-appointed members and sets qualifications for members. The bill directs ASMI to hold a member election, to be certified by the Director of Elections with assistance from the Commissioner of the Department of Revenue, to determine whether to retain the assessment. If the assessment is retained, a second vote will determine whether to increase the seafood marketing assessment from 0.3% to 0.5%. If the increase passes, the current 1% Salmon Marketing Tax will end. If the increase fails, the current assessment will remain and the board will increase to nine members. The bill also establishes processes for future changes to and termination of assessments as well as a minimum processing threshold for paying assessments.

The bill was signed into law May 13, 2004 with an immediate effective date.

Note: Elections were held as prescribed in law. The vote retained the Seafood Marketing assessment, increased the Seafood Marketing rate to 0.5% and eliminated the Salmon Marketing Tax effective January 1, 2005.

SB 286 (Ch 147 SLA 2004) – Direct Marketing Fisheries Business / Taxes. This bill authorized a new type of fisheries business license, the direct marketing fisheries business license. The tax rates for holders of this license are set at the shore based rate; 1% of the value of developing commercial fish species and 3% of the value of other commercial fish species. This bill also clarifies who must pay the Salmon Marketing Tax and the Salmon Enhancement Tax. When selling to a buyer who does not withhold the tax, fishermen must now pay the tax on an annual return. The Department of Revenue is directed to adopt regulations necessary to administer the new tax policies.

The section directing the Department of Revenue to adopt necessary regulations took effect July 4, 2004. The regulations, as well as the other provisions of the bill, will take effect January 1, 2005.

SB 291 (Ch 11 SLA 2004) – Unstamped Cigarettes. During the 2003 legislative session, the legislature passed a bill requiring that all cigarettes imported into the state after December 31, 2003 must be affixed with a tax stamp showing that the cigarette tax has been paid. That same bill included a transition period whereby businesses were allowed to sell unstamped cigarettes until March 31, 2004 if the cigarettes had been imported into the state prior to January 1, 2004. This 90-day transition period would have been adequate; however, at the same time, cigarette manufacturers significantly changed their returned goods policies and refused to take unstamped cigarettes back from retailers in the state. Therefore, the legislature passed SB 291 which extended the transition period for selling unstamped cigarettes in the state from March 31, 2004 to June 30, 2004.

The bill took effect April 2, 2004.

SB 322 (Ch 52 SLA 2004) – Salmon Enhancement Tax. This bill authorizes additional salmon enhancement tax rates, subject to elections held by qualified regional associations. In addition to the current 1%, 2% or 3% options, ten additional options are now available, ranging from 4% to 30% of the value of salmon sold or removed from the state.

The bill took effect September 7, 2004.

SB 1001 (Ch 1 FSSLA 2004) – Tobacco Tax; Licensing; Penalties. This bill increases Alaska's tax on cigarettes from \$1.00 per pack of twenty to \$1.60 on January 1, 2005, to \$1.80 on July 1, 2006, and to \$2.00 on July 1, 2007. This bill also imposes an additional tax of \$.25 per pack of twenty on cigarettes produced by manufacturers that did not sign the tobacco Master Settlement Agreement and makes changes to escrow requirements of these same manufacturers.

2004 NEW LEGISLATION

The bill increases license fees for manufacturers and retailers of cigarettes and provides additional tools to the Department of Revenue and law enforcement agencies to combat cigarette smuggling and tax evasion. The bill also allows for seizure of materials, vehicles, money, property and other assets when those assets are used in first degree misconduct involving unstamped cigarettes or stamps.

The bill also changes the cigarette shipping restrictions by allowing businesses that have a cigarette license to mail cigarettes to individuals who have signed an affidavit attesting that they are at least 19 years of age or older.

The bill was signed July 24, 2004. Changes to the cigarette shipping rules were effective immediately. Changes to escrow requirements for tobacco manufacturers took effect July 1, 2004. All other provisions of this bill will take effect January 1, 2005.

KEY DIVISION CONTACTS

Juneau Office

Alaska Department of Revenue
 Tax Division
 11th Floor, State Office Building
 PO Box 110420
 Juneau, AK 99811-0420
 907.465.2320 Voice
 907.465.2375 Fax

Anchorage Office

Alaska Department of Revenue
 Tax Division
 Robert B. Atwood Building
 550 West 7th Avenue, Suite 500
 Anchorage, AK 99501-3556
 907.269.6620 Voice
 907.269.6644 Fax

Dan E. Dickinson, Director

Anchorage Office
 907.269.6620

Larry E. Meyers, Deputy Director

Anchorage Office
 907.269.6620

Charles E. Harlamert, Chief of Operations

Juneau Office
 907.465.2320

Home Page: www.tax.state.ak.us

Individual e-mail: firstname_lastname@revenue.state.ak.us

Accounting and Collections

Mary Jane Doster-Gates,
 Supervisor
 Juneau Office
 907.465.3776

Appeals

David LeBlond, Chief of Appeals
 Anchorage Office
 907.269.6620

Audit – Excise

Johanna Bales, Audit Manager
 Anchorage Office
 907.269.6628

Audit - Income

Mark Graber, Audit Manager
 Anchorage Office
 907.269.6626

Audit – Oil & Gas Production

Bruce Kinney, Audit Manager
 Anchorage Office
 907.269.1042

Charitable Gaming

Jeff Prather, Supervisor
 Juneau Office
 907.465.3410

Examination and Compliance

Deborah Craig, Supervisor
 Juneau Office
 907.465.2370

Property Tax

Randy Hoffbeck, Petroleum
 Property Assessor
 Anchorage Office
 907.269.1029

Research

Dr. Michael Williams
 Chief Economist
 Anchorage Office
 907.269.1019

New Units in FY 2005

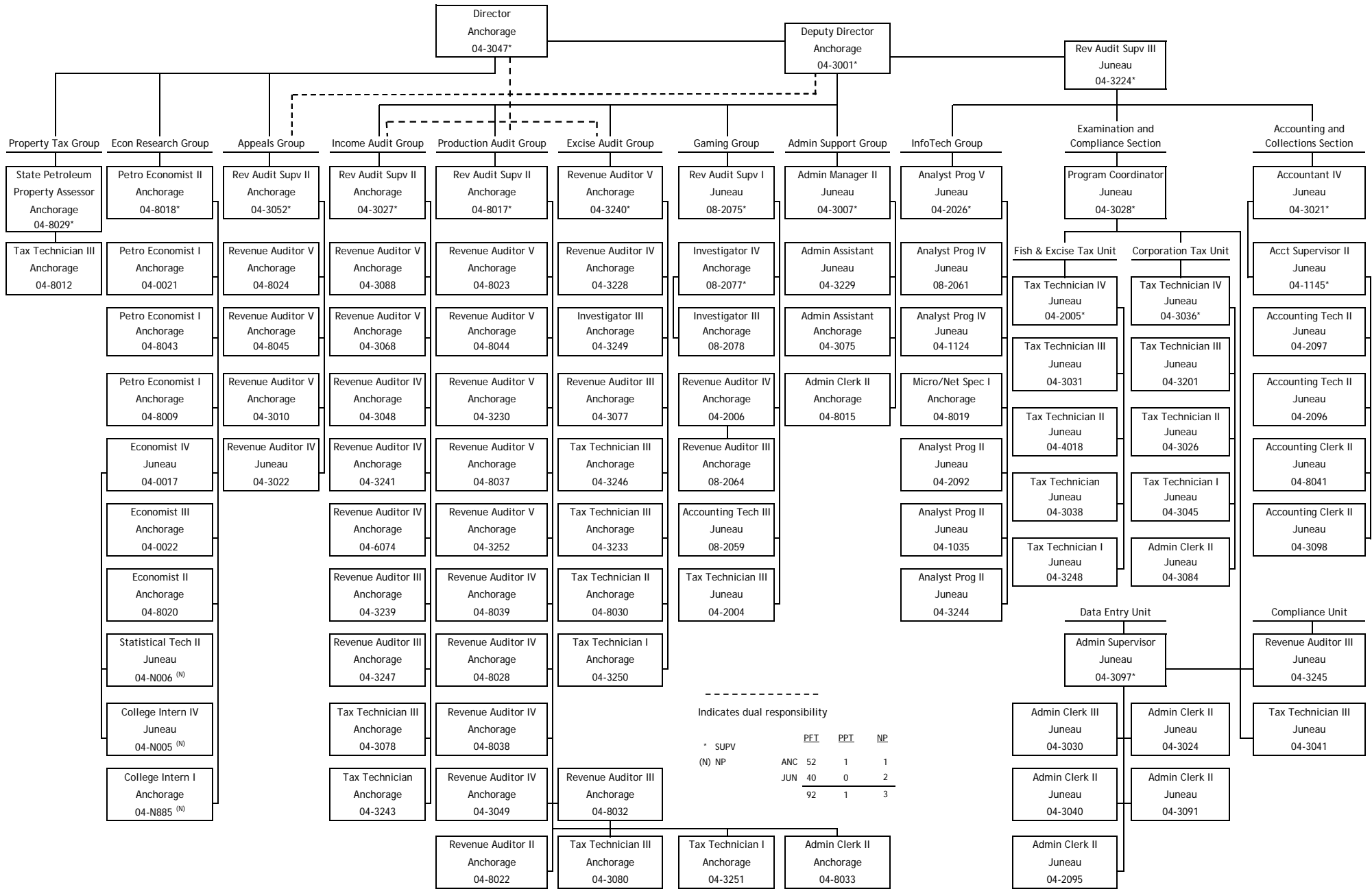
Fishery Tax and Licensing

Tim Cottongim, Supervisor
 Juneau Office
 907.465.3695

Investigations Unit

Grant Sirevog, Supervisor
 Anchorage Office
 907.269.6591

FY 2004 Tax Division Organization Chart



FUNCTIONS

During fiscal year 2004, the Tax Division was staffed by 92 full time, one permanent part time and three non perm/college intern positions, and maintained offices in Juneau and Anchorage. The Division's FY 2004 operating budget was \$7.13 million. The Division is organized according to the functional groups of **Accounting and Collections, Appeals, Audit, Economic Research, Examination and Compliance** (renamed Examination and Processing in FY 2005), **Fisheries** (new in FY 2005) **Gaming, Investigations** (new in FY 2005), **Property Tax**; and the support groups of **Administrative Support** and **Information Technology**.

OPERATIONS

Operations, staffed by 32 full time positions in Juneau and one position in Anchorage, is responsible for receipt and processing of tax returns and payments other than oil and gas severance and property taxes. The Anchorage based Oil and Gas Severance Audit Group receives oil and gas severance and property tax returns, examines and processes the payments.

Operations oversees four groups: **Accounting and Collections, Examination and Compliance, Fisheries** (new in FY 2005) and **Information Technology**.

In conjunction with provisions for the Constitutional Budget Reserve Fund, *Operations* is responsible for accounting for oil and gas settlement payments received by the state and maintains a database of settlement payments.

Accounting and Collections, staffed by six full time positions, is responsible for receiving and processing tax payments and reconciling Tax Accounting System (TAS) revenues to the state's accounting system (AKSAS).

Accounting and Collections is responsible for processing payments, which includes data capturing payment information into TAS and reconciling activity to deposit summary information. The unit also posts assessments for additional taxes and penalties into TAS.

Accounting and Collections generates management reports as a part of its reconciliation process and for identifying exception items. This section generates special management reports for Division staff upon request.

Accounting and Collections is responsible for enforcement of delinquent accounts. Enforcement activities include contacting taxpayers for payment and taking appropriate actions to collect delinquencies such as filing liens and levying assets.

Accounting and Collections is also responsible for *Shared Taxes and Reporting*.

Shared Tax is responsible for sharing taxes and fees, when applicable, to municipalities in accordance with statutory requirements. Shared Taxes accounts for revenues subject to sharing and periodically issues warrants to communities for their portion of tax collections. The amount shared is based upon where the tax or fee was derived. In FY 2004, the Tax Division shared \$21,250,726 to 123 Alaska communities.

The following taxes and fees are subject to sharing:

- Aviation Motor Fuel Tax*
- Electric Cooperative Tax*
- Fisheries Business Tax*
- Fishery Resource Landing Tax*
- Liquor License Fees*
- Telephone Cooperative Tax*

A Shared Tax Report is prepared annually, which summarizes the amounts shared with each community. The Division distributes the annual report to the public via the Internet. The report is available on the Division's website at www.tax.state.ak.us.

For fisheries business and fishery resource landing tax programs, taxes sourced from activities in the unorganized borough are subject to sharing to municipalities through an allocation program administered by Department of Commerce, Community and Economic Development (Commerce). The Tax Division transmits funds to Commerce each year for allocation. For FY 2004, the Division transmitted \$2,301,684 for additional sharing.

FUNCTIONS

Accounting and Collections is also responsible for *Reporting*. This section is responsible for summarizing and reporting of financial data and providing financial oversight and control of agency accounting functions. This section supports the Division in reporting needs which include: design and modification of accounting systems; evaluation, design and maintenance of appropriate systems of internal accounting controls over tax payments; refunds and disbursement of all tax programs including those taxes subject to sharing and pass through.

Examination and Compliance, staffed by 19 full time positions, is responsible for data entry of tax return information into the Division's Tax Accounting System (TAS), examining selected returns and issuing licenses to taxpayers. As part of the examination process, tax examiners generate assessments for additional taxes and penalties. This unit is also responsible for ensuring taxpayer compliance.

Within Examination and Compliance are two examination units responsible for different tax types: *Corporation Tax*, and *Fish and Excise Tax*.

Corporation Tax is responsible for processing and examining corporation net income tax returns. The unit also receives partnership and other information returns associated with the corporate net income tax.

Corporation Tax examines returns based on priority criteria, which include large dollar tax liabilities, large refund or credit claims and returns with exceptions.

The unit assists in updating corporation tax return forms to reflect changes in federal and Alaska tax laws. The unit maintains corporation tax return files, taxpayer correspondence and estimated payment documents.

Corporation Tax also approves clearances from state agencies that are making final payment on state contracts.

Fish and Excise Tax is responsible for processing and examining returns other than corporation returns and for licensing taxpayers.

The *Fish and Excise Tax* unit also:

Licenses fisheries businesses that process or export fisheries resources from the state. As part of the licensing function, the section accounts for cash prepayments and other forms of security submitted by processors to secure payment of their fisheries business tax liabilities.

Administers the fish processor surety bonding program. This program requires that fisheries processors and buyers secure a \$2,000, \$10,000, \$20,000, \$50,000 or \$100,000 bond, depending on their activity, as surety against future claims from employees and fishers.

Administers the fisheries and mining licensing programs, as well as examination of estate and mining license tax returns.

Compliance is responsible for securing returns from businesses and individuals required to file tax returns with the state.

Compliance compares data from external agencies, such as IRS and Alaska Department of Commerce, Community and Economic Development, against Tax Division files to identify potential taxpayers. *Compliance* also follows up on compliance leads from internal and external sources.

Information Technology is staffed by seven full time positions. The unit maintains the Division's Tax Accounting System (TAS), provides technical support for tax management issues and implements technical support systems specific to a tax environment. This unit provides a crucial technical liaison between the Alaska State Accounting System and the Tax Accounting System. This unit is also responsible for providing technical upgrades that enhance customer service to Alaska's taxpayers.

AUDIT

The audit function consists of three groups based in Anchorage. The Division staffs ***Audit - Income Group*** with 10 full time positions, ***Audit - Oil and Gas Production Group*** with 15 full time positions and ***Audit - Excise Group*** with eight full time positions.

Audit - Income Group is responsible for auditing corporate net income tax (including oil and gas corporate income taxes).

FUNCTIONS

Audit - Oil and Gas Production Group is responsible for auditing oil and gas severance taxes, property taxes, and compliance by the owners of the Trans Alaska Pipeline System with the TAPS settlement methodology in setting their tariffs.

The *Audit - Excise Group* is responsible for licensing and examination functions for Alcohol, Cigarettes and Tobacco, Motor Fuels, Tire Fee and Vehicle Rental. This unit is also responsible for audit of all excise taxes.

The audit groups represent the Division's core technical and analytical resource providing support in many functions of the Division. *Audit* plays a critical role in drafting and implementing regulations, conducts special projects, and provides support to Appeals.

APPEALS

Appeals is located in Anchorage and staffed by five full time positions. *Appeals* conducts conferences on protested assessments and issues informal conference decisions of the Department of Revenue for all programs and tax types administered by the Division.

Appeals represents the department as counsel in disputed cases before the Office of Tax Appeals and represents the Division before a Department Hearing Examiner in gaming and unclaimed property cases.

Appeals works closely with the Department of Law in these and various other matters. *Appeals* performs many special projects in a legal, technical or tax context, including drafting proposed legislation and regulations.

GAMING

Gaming is located in Juneau and Anchorage and is staffed with seven full time positions. *Gaming* is responsible for overseeing charitable gaming activities conducted in the state.

Gaming issues annual permits and licenses to non-profit organizations and operators to conduct charitable gaming activities in the state. The *Gaming* section publishes its own annual report that includes more detailed descriptions of this program.

PROPERTY TAX

The Division staffs the Oil and Gas *Property Tax* group in Anchorage with two full time positions. The unit is responsible for assessment, compliance, audit, collection, and administrative processing of property tax assessments. Many of the unit's duties are performed by municipal authorities under a Memorandum of Agreement (MOA) and by engineering and appraisal experts working under contract. The unit performs compliance and collection functions and is responsible for processing returns. The Division or taxpayers may initiate audits. Audits and appraisals conducted by the unit are typically highly specialized valuations for which the unit uses outside experts on an as needed basis.

ECONOMIC RESEARCH

Economic Research, located in Anchorage and Juneau, is staffed by seven full time positions, one non perm and two college interns. The group is responsible for monitoring and forecasting the state's General Fund revenues.

Economic Research monitors state and national economic conditions and conducts research needed to anticipate economic and business trends that affect tax revenue. The unit works with other state agencies to compile information for the *Revenue Sources Book*, a semi-annual publication that contains historical and forecasted revenue information to assist the governor and legislature in developing the state's budget.

The *Economic Research* group publishes statewide average price information (from data provided by Department of Fish and Game) for fishery resources landed in the state. Taxpayers use the average price information to calculate their fishery resource landing tax liabilities.

The *Economic Research* group prepares and presents to the legislature fiscal notes projecting the costs and revenues from proposed legislation that would affect the state fiscal system.

Table 2 - Revenue Collections Detail

| | FY 04 | FY 03 | FY 02 |
|---|-------------------------|-----------------------|-----------------------|
| OIL AND GAS TAXES | | | |
| General Fund revenue | | | |
| Severance Taxes | | | |
| Oil & Gas Production | \$ 642,819,003 | \$ 589,731,934 | \$ 486,740,276 |
| Oil & Gas Hazardous Release | 9,052,517 | 9,232,859 | 9,597,043 |
| Credits | 0 | 0 | 0 |
| Severance tax total | <u>651,871,520</u> | <u>598,964,793</u> | <u>496,337,319</u> |
| Property Tax | 266,210,393 | 268,844,716 | 270,354,442 |
| Local credits | <u>(218,798,614)</u> | <u>(220,096,442)</u> | <u>(220,713,351)</u> |
| Property tax total | <u>47,411,779</u> | <u>48,748,274</u> | <u>49,641,091</u> |
| Oil & Gas Corporate Income Tax | 299,137,852 | 151,395,925 | 178,790,762 |
| Alaska Education Credit | <u>(305,000)</u> | <u>(307,625)</u> | <u>(404,452)</u> |
| Oil & Gas Corporate Income Tax total | <u>298,832,852</u> | <u>151,088,300</u> | <u>178,386,310</u> |
| Total Oil & Gas Tax Receipts - General Fund | 998,116,151 | 798,801,367 | 724,364,720 |
| Constitutional Budget Reserve Fund - CBRF | | | |
| Oil and Gas Severance Tax | 4,236,962 | 3,681,970 | 24,243,395 |
| Oil & Gas Corporate Income Tax | 4,035,122 | 17,221,507 | 65,649,583 |
| Oil and Gas Property | 87,868 | <u>(2,929)</u> | 0 |
| Total Receipts - CBRF | 8,359,952 | 20,900,548 | 89,892,978 |
| Total Oil & Gas Receipts - All Funds | \$ 1,006,476,103 | \$ 819,701,915 | \$ 814,257,698 |
| CORPORATE NET INCOME TAX - other than oil & gas corporations | | | |
| Corporate Income Tax | 40,244,959 | 48,405,650 | 54,350,230 |
| Alaska Education Credit | <u>(693,879)</u> | <u>(693,196)</u> | <u>(900,815)</u> |
| Veteran's Memorial Fund Credit | <u>(5,000)</u> | 0 | 0 |
| Total Receipts | \$ 39,546,080 | \$ 47,712,454 | \$ 53,449,415 |
| TOBACCO | | | |
| Cigarette | \$ 42,573,286 | \$ 40,239,153 | \$ 39,760,717 |
| Tobacco Products | 6,561,826 | 6,657,704 | 6,042,653 |
| Penalties and Interest | 76,154 | 61,263 | 66,672 |
| Deductions and Stamp Discount | <u>(355,093)</u> | <u>(63,507)</u> | <u>(62,924)</u> |
| Total Receipts | 48,856,173 | 46,894,613 | 45,807,118 |
| Less Amount Transferred to School Fund | <u>(32,865,726)</u> | <u>(30,606,828)</u> | <u>(30,272,141)</u> |
| Amount Retained in General Fund | \$ 15,990,447 | \$ 16,287,785 | \$ 15,534,977 |

Table 2 - Revenue Collections Detail

| | FY 04 | FY 03 | FY 02 |
|---|----------------------|----------------------|----------------------|
| MOTOR FUEL | | | |
| Highway | \$ 30,872,676 | \$ 26,518,253 | \$ 28,723,637 |
| Marine | 5,266,275 | 5,938,976 | 5,806,527 |
| Jet Fuel | 3,950,421 | 4,067,223 | 4,863,137 |
| Aviation Gasoline | 1,227,908 | 834,042 | 771,289 |
| Total Tax | 41,317,280 | 37,358,494 | 40,164,590 |
| Penalties and Interest* | 50,046 | (5,522) | 187,806 |
| Total Receipts | 41,367,326 | 37,352,972 | 40,352,396 |
| Less Aviation Fuel Tax Shared | (164,978) | (169,600) | (158,781) |
| Amount Retained by State | \$ 41,202,348 | \$ 37,183,372 | \$ 40,193,615 |
| FISHERIES BUSINESS | | | |
| <i>Established</i> | | | |
| Shore-based | \$ 18,480,806 | \$ 17,128,133 | \$ 17,117,467 |
| Floating | 4,635,435 | 3,984,657 | 4,105,428 |
| Cannery | 3,069,518 | 2,150,977 | 3,117,556 |
| <i>Developing</i> | | | |
| Shore-based | 133,286 | 21,879 | 22,717 |
| Floating | 540 | 158 | 200 |
| Total Tax | 26,319,585 | 23,285,804 | 24,363,368 |
| Prepayments | 4,662,239 | 2,999,554 | 1,041,507 |
| Penalties and Interest | 87,197 | 30,813 | 27,756 |
| License Fees | 16,613 | 16,245 | 15,525 |
| Total Tax Before Credits | 31,085,634 | 26,332,416 | 25,448,156 |
| Less Credits | | | |
| Winn Brindle | (169,121) | (176,114) | (153,991) |
| Alaska Education Credit | (302,500) | (153,589) | (1,794) |
| Salmon Product Development and Utilization Credit | (1,369,408) | 0 | 0 |
| Total Receipts | 29,244,605 | 26,002,713 | 25,292,371 |
| Less Fisheries Tax Shared with Municipalities | | | |
| Direct to Municipalities | (12,672,941) | (10,806,426) | (11,158,745) |
| Department of Community and Economic Development | (1,725,251) | (1,362,651) | (1,396,076) |
| Amount Retained by State | \$ 14,846,413 | \$ 13,833,636 | \$ 12,737,550 |
| DEC Seafood Processor License Fees | \$ 402,050 | \$ 424,495 | \$ 400,316 |
| ALCOHOLIC BEVERAGES | | | |
| Liquor | \$ 14,138,141 | \$ 11,246,889 | \$ 6,565,654 |
| Beer | 13,654,111 | 10,695,105 | 4,977,703 |
| Wine | 4,257,955 | 3,010,269 | 1,337,547 |
| Beer Qualifying for Reduced Rate of Tax | 691,183 | 407,277 | 0 |
| Penalties, Interest and Refunds | 4,754 | 1,268 | 8,352 |
| Total Receipts | \$ 32,746,144 | 25,360,808 | 12,889,256 |
| Less Amount Transferred to Alcohol and Other Drug Abuse Treatment and Prevention Fund | (16,372,730) | (11,222,078) | - |
| Unrestricted Amount Retained in General Fund | \$ 16,373,414 | \$ 14,138,730 | \$ 12,889,256 |

Table 2 - Revenue Collections Detail

| | FY 04 | FY 03 | FY 02 |
|--|---------------------|---------------------|---------------------|
| SALMON ENHANCEMENT | | | |
| Tax by Aquacultural Region | | | |
| Southern Southeast | \$ 821,631 | \$ 560,456 | \$ 1,329,122 |
| Northern Southeast | 732,380 | 659,790 | 874,190 |
| Prince William Sound | 653,603 | 559,046 | 705,283 |
| Kodiak | 352,935 | 279,692 | 451,211 |
| Cook Inlet | 310,497 | 244,719 | 165,972 |
| Chignik | 129,765 | 109,035 | 169,673 |
| Total Tax | 3,000,811 | 2,412,738 | 3,695,451 |
| Penalties and Interest | 32,754 | 9,313 | 6,350 |
| Total Receipts | \$ 3,033,565 | \$ 2,422,051 | \$ 3,701,801 |
| FISHERY RESOURCE LANDING | | | |
| Tax Before Credits | \$ 5,091,447 | \$ 8,602,123 | \$ 6,079,681 |
| Pre-Payments | 2,409,115 | 2,779,920 | 2,411,160 |
| Penalties, Interest and Refunds | 635,352 | 96,072 | 518,814 |
| Less Credits | | | |
| CDQ Contributions | (370,141) | (396,650) | (227,505) |
| Winn Brindle | (5,000) | (5,000) | (2,500) |
| Alaska Education Credit | (900,000) | (1,200,000) | (1,555,875) |
| Total Receipts | 6,860,773 | 9,876,465 | 7,223,775 |
| Less Landing Tax Shared with Municipalities | | | |
| Direct to Municipalities | (3,781,803) | (2,628,024) | (4,313,979) |
| Department of Community and Regional Affairs | (576,433) | (321,440) | (256,648) |
| Amount to be Retained by State | \$ 2,502,537 | \$ 6,927,001 | \$ 2,653,148 |
| REGULATORY COMMISSION of ALASKA | | | |
| Telephone Utilities | 2,218,859 | 2,388,840 | 2,181,803 |
| Electric Utilities | \$ 1,795,454 | \$ 1,488,845 | \$ 1,530,750 |
| Other Utilities | 1,036,199 | 1,155,708 | 1,335,354 |
| Pipeline Carriers | 605,083 | 805,986 | 807,670 |
| Total Receipts | \$ 5,655,595 | \$ 5,839,379 | \$ 5,855,577 |
| SALMON MARKETING | | | |
| Tax | \$ 1,907,811 | \$ 1,406,087 | \$ 1,968,797 |
| Penalties and Interest | 55,968 | 5,954 | 17,921 |
| Total Receipts | \$ 1,963,779 | \$ 1,412,041 | \$ 1,986,718 |
| SEAFOOD MARKETING ASSESSMENT | | | |
| Paid by Fisheries Business taxpayers | \$ 2,799,859 | \$ 2,167,147 | \$ 2,122,361 |
| Paid by Fishery Resource Landing taxpayers | 494,718 | 822,784 | 576,095 |
| Total Receipts | \$ 3,294,577 | \$ 2,989,931 | \$ 2,698,456 |

Table 2 - Revenue Collections Detail

| | FY 04 | FY 03 | FY 02 |
|--|---------------------|---------------------|---------------------|
| MINING LICENSE | | | |
| General Fund | | | |
| Current Year Tax Before Credits | \$ 3,326,281 | \$ 383,691 | \$ 497,552 |
| Less Alaska Special Industrial Incentive Credit | | | |
| Less Mineral Exploration Incentive Credit | 0 | (29,736) | (28,282) |
| Less Alaska Education Credit | (101,597) | (2,568) | (2,840) |
| Total Receipts - General Fund | 3,224,684 | 351,387 | 466,430 |
| Constitutional Budget Reserve Fund | | | |
| Current Year Tax | 0 | 44,867 | 0 |
| Total Receipts - CBRF | 0 | 44,867 | 0 |
| Total Mining License Receipts - All Funds | \$ 3,224,684 | \$ 396,254 | \$ 466,430 |
| ESTATE | | | |
| Total Receipts | \$ 2,250,662 | \$ 1,221,757 | \$ 3,117,413 |
| CHARITABLE GAMING | | | |
| 3% Pull Tab Tax | \$ 1,887,015 | \$ 2,077,176 | \$ 2,045,124 |
| 1% Net Proceeds Fee | 386,220 | 370,524 | 325,218 |
| Licensing Fees | 150,043 | 137,807 | 141,863 |
| Total Receipts | \$ 2,423,278 | \$ 2,585,507 | \$ 2,512,205 |
| ELECTRIC COOPERATIVE | | | |
| Total Receipts | \$ 1,861,290 | \$ 1,817,958 | \$ 1,786,712 |
| Less Cooperative Taxes Shared | (1,794,011) | (1,752,988) | (1,719,948) |
| Amount Retained by State | \$ 67,279 | \$ 64,970 | \$ 66,764 |
| TELEPHONE COOPERATIVE | | | |
| Total Receipts | \$ 2,101,198 | \$ 1,836,740 | \$ 1,352,643 |
| Less Cooperative Taxes Shared | (1,981,543) | (1,709,074) | (1,283,540) |
| Amount Retained by State | \$ 119,655 | \$ 127,666 | \$ 69,103 |
| DIVE FISHERY MANAGEMENT ASSESSMENT | | | |
| Southeast Alaska - Management Area A | \$ 253,503 | \$ 204,738 | \$ 192,110 |
| Total Receipts | \$ 253,503 | \$ 204,738 | \$ 192,110 |
| CIGARETTE LICENSE FEES | | | |
| (Transferred Directly to School Fund) | | | |
| Total Receipts | \$ 4,740 | \$ 5,520 | \$ 3,220 |

Table 2 - Revenue Collections Detail

| | FY 04 | FY 03 | FY 02 |
|------------------------|---------------------|--------------|--------------|
| TIRE FEE | | | |
| Non-Studded | \$ 826,651 | | |
| Studded | 0 | | |
| Penalties and Interest | 23 | | |
| Total Receipts | \$ 826,674 | N/A | N/A |
| VEHICLE RENTAL | | | |
| Passenger Vehicle | \$ 2,623,614 | | |
| Recreational Vehicle | 87,557 | | |
| Penalties and Interest | 401 | | |
| Total Receipts | \$ 2,711,572 | N/A | N/A |

Table 3

Tax Programs Detail

Program Revenue and Cost Detail

(Sorted by Revenue)

| | 2004 Statistics | | 2004 Program | | 2004 Per FTE ² | |
|---|-----------------|------------------------|--------------------|------------------|---------------------------|--------------------|
| | Returns | Revenue | Cost ¹ | FTE ² | Revenue | Cost |
| Tax Program | | | | | | |
| Oil and Gas Severance ³ | 2,318 | \$656,108,482 | \$2,175,441 | 24.1 | \$27,224,418 | \$90,267 |
| Oil and Gas Corporate Income ⁴ | 69 | 302,867,974 | 559,364 | 7.1 | 42,657,461 | 78,784 |
| Oil and Gas Property ⁵ | 687 | 266,298,261 | 388,541 | 3.1 | 85,902,665 * | 125,336 |
| Tobacco ⁶ | 862 | 48,860,913 | 441,223 | 5.4 | 9,048,317 | 81,708 |
| Motor Fuel | 3,401 | 41,367,326 | 308,298 | 4.5 | 9,192,739 | 68,511 |
| Corporate Income (<i>non-Oil & Gas</i>) | 14,619 | 39,546,080 | 1,334,347 | 20.2 | 1,957,727 | 66,057 |
| Alcoholic Beverages ⁷ | 291 | 32,746,144 | 165,157 | 2.9 | 11,291,774 | 56,951 |
| Fisheries Business | 782 | 29,244,605 | 431,995 | 7.5 | 3,899,281 | 57,599 |
| Fishery Resource Landing | 62 | 6,860,773 | 40,330 | 0.6 | *** | *** |
| Regulatory Cost Charges | 523 | 5,655,595 | 15,969 | 0.3 | *** | *** |
| Seafood Marketing Assessments | 276 | 3,294,577 | 47,999 | 0.8 | 4,118,221 | 59,999 |
| Mining License | 144 | 3,224,684 | 12,850 | 0.2 | *** | *** |
| Salmon Enhancement | 885 | 3,033,565 | 36,324 | 0.6 | *** | *** |
| Vehicle Rental Tax | 201 | 2,711,572 | 70,273 | 1.0 | 2,711,572 | 70,273 |
| Estate | 48 | 2,250,662 | 23,990 | 0.4 | *** | *** |
| Telephone Cooperative | 9 | 2,101,198 | 1,172 | 0.0 | *** | *** |
| Salmon Marketing | 900 | 1,963,779 | 36,324 | 0.6 | *** | *** |
| Electric Cooperative | 18 | 1,861,290 | 3,515 | 0.1 | *** | *** |
| Tire Fee | 389 | 826,674 | 79,318 | 1.0 | 826,674 | 79,318 |
| Dive Fishery | 42 | 253,503 | 6,524 | 0.1 | *** | *** |
| Total Tax Programs | 26,526 | \$1,451,077,657 | \$6,178,954 | 80.5 | \$18,093,238 ** | \$76,757 ** |
| Gaming | 4,935 | \$2,423,278 | \$824,946 | 11.5 | \$210,720 | \$71,734 |
| Royalty⁸ | n/a | n/a | \$133,100 | 0.0 | | |
| Total All Programs | 31,461 | \$1,453,500,935 | \$7,137,000 | 92.0 | | |

¹ Includes total operating costs of the division.⁵ Includes CBRF receipts of \$87,868.² Full-time equivalent staff position.⁶ Includes school fund receipts (tobacco \$32,865,726 and cigarette licenses \$4,740).³ Includes CBRF receipts of \$4,236,962.⁷ Includes alcohol and other drug abuse treatment fund receipts \$16,372,730.⁴ Includes CBRF receipts of \$4,035,122.⁸ Department of Natural Resources assumed responsibility for collection of revenues for this program in FY2004 and these funds were transferred to them.

* Revenue and cost statistics are not comparable to other programs as some audit functions performed by outside contractors.

** Total revenue and cost per FTE is based on average revenue and costs for all tax programs.

*** Combined program revenues (\$27,205,049) and costs (\$179,998) require 2.9 FTE positions. Combined revenue and cost per FTE are \$9,381,051 and \$62,068 respectively.

Table 4
Revenue Collected From Enforcement Activity

(Sorted by total collections)

| Tax Type | | | | Staffing (FTE)¹ | | Per FTE¹ | |
|------------------------------|---------------------|--------------------|---------------------|-----------------------------------|-------------|----------------------------|-------------------|
| | Audit | Exam | Total | Audit | Exam | Audit | Exam |
| Corporate Income | \$4,491,444 | \$281,890 | \$4,773,334 | 3.0 | 4.3 | \$1,497,148 | \$65,556 |
| Oil and Gas Production | 4,236,962 | 0 | 4,236,962 | 11.5 | 2.1 | 368,431 | ** |
| Oil and Gas Corporate Income | 4,035,122 | 62,742 | 4,097,864 | 4.2 | 0.7 | 960,743 | ** |
| Motor Fuel | 23,806 | 846,656 | 870,462 | 0.7 | 1.0 | ** | 846,656 |
| Tobacco | 65,000 | 56,433 | 121,433 | 1.1 | 2.8 | 59,091 | 20,155 |
| Fisheries Business | 0 | 100,874 | 100,874 | 0.1 | 3.4 | ** | 29,669 |
| Oil and Gas Property | 87,868 | 0 | 87,868 | 0.0 | 1.0 | ** | ** |
| Fishery Resource Landing | 0 | 76,408 | 76,408 | 0.1 | 0.4 | ** | ** |
| Salmon Enhancement | 0 | 13,570 | 13,570 | 0.0 | 0.3 | ** | ** |
| Estate | 0 | 13,502 | 13,502 | 0.0 | 0.0 | ** | ** |
| Seafood Marketing | 0 | 8,773 | 8,773 | 0.0 | 0.4 | ** | ** |
| Salmon Marketing | 0 | 6,292 | 6,292 | 0.0 | 0.3 | ** | ** |
| Alcoholic Beverage | 0 | 1,081 | 1,081 | 0.8 | 1.0 | ** | ** |
| Charitable Gaming | 0 | 0 | 0 | 3.3 | 1.0 | ** | ** |
| Mining | 0 | 0 | 0 | 0.0 | 0.0 | ** | ** |
| Telephone/Electric Co-ops | 0 | 0 | 0 | 0.0 | 0.0 | ** | ** |
| Dive Fisheries | 0 | 0 | 0 | 0.0 | 0.1 | ** | ** |
| RCA | 0 | 0 | 0 | 0.0 | 0.0 | ** | ** |
| Tire Fee | 0 | 0 | 0 | 0.6 | 0.1 | ** | ** |
| Vehicle Rental | 0 | 0 | 0 | 0.6 | 0.1 | ** | ** |
| Total | \$12,940,202 | \$1,468,221 | \$14,408,423 | 26.0 | 19.0 | \$497,700 * | \$77,275 * |

¹ Full Time Equivalent staff position

* Total revenue and cost per FTE is based on average revenue and costs for all tax programs.

** Collections per FTE not provided since audit or exam FTE positions allocated to these programs are less than one or there were no collections allocable to FTE positions.

ALCOHOLIC BEVERAGES TAX

AS 43.60

Description

Alaska levies a tax on alcoholic beverages sold in Alaska. The Division collects alcoholic beverage taxes primarily from wholesalers and distributors.

Rates

| <i>Product</i> | <i>Current Rate Per Gallon</i> |
|---------------------------------|------------------------------------|
| Liquor (more than 21% alcohol) | \$12.80 |
| Wine (21% alcohol or less) | 2.50 |
| Beer (Malt Beverages and Cider) | 1.07 |
| Beer (Small Breweries) | 0.35 |

Returns

Taxpayers file returns and pay tax monthly. The returns and payment are due by the last day of the month following the month in which sales were made in the state.

Exemptions

Sales to facilities operated by one of the uniformed services of the United States are exempt.

Disposition of Revenue

The Division deposits all alcoholic beverage tax revenue into the General Fund. The Department of Administration separately accounts for 50% of the tax collected and deposits it into the alcohol and other drug abuse treatment and prevention fund.

History

The alcoholic beverage tax dates back to 1933 when the Legislature enacted a tax on beer and wine at a rate of 5¢ per gallon. Taxpayers filed alcoholic beverage tax returns monthly.

In 1937, the territorial legislature enacted a tax on liquor at a rate of 50¢ per gallon. At the same time, the rate for wine increased to 15¢ per gallon.

Since 1937, the legislature has made minor changes to the alcoholic beverage tax statutes. In addition, between 1937 and 1983, the legislature increased Alaska's tax rates to correspond with rate changes made by other states.

The legislature significantly increased the tax rates on all three alcoholic beverages effective October 1, 2002. However, this legislation allows breweries meeting the qualifications of 26 U.S.C. 5051(a)(2) (small breweries) to pay tax at the lower rate of 35 cents per gallon on the first 60,000 barrels of beer (malt beverages) sold in Alaska. At the same time, the legislature created the alcohol and other drug abuse treatment and prevention fund and directed that 50% of the alcoholic beverage tax be deposited into this fund for alcohol and drug abuse treatment programs.

Between 1937 and 2002, alcoholic beverage tax rates have changed as follows:

| <i>Liquor</i> | <i>Per Gallon</i> |
|---------------|-------------------|
| 1937 | \$.50 |
| 1941 | \$1.00 |
| 1945 | \$1.60 |
| 1946 | \$2.00 |
| 1947 | \$3.00 |
| 1957 | \$3.50 |
| 1961 | \$4.00 |
| 1983 | \$5.60 |
| 2002 | \$12.80 |

| <i>Wine</i> | <i>Per Gallon</i> |
|-------------|-------------------|
| 1933 | \$.05 |
| 1937 | \$.15 |
| 1947 | \$.25 |
| 1957 | \$.50 |
| 1961 | \$.60 |
| 1983 | \$.85 |
| 2002 | \$2.50 |

| <i>Beer (Malt Beverages)</i> | <i>Per Gallon</i> |
|------------------------------|-------------------|
| 1933 | \$.05 |
| 1947 | \$.10 |
| 1957 | \$.25 |
| 1983 | \$.35 |
| 2002 | \$1.07 |

| <i>Beer (Malt Beverages) Produced by Small Breweries</i> | <i>Per Gallon</i> |
|--|-------------------|
| 2002 | \$.35 |

See following page for FY 2004 Statistics.

ALCOHOLIC BEVERAGES TAX AS 43.60

FY 2004 Statistics

| | | <i>Product</i> | <i>Gallons</i> | <i>Tax Collected</i> |
|--|--------------|-----------------------------------|----------------|----------------------|
| Tax Collections – Including penalties, interest & refunds | \$32,146,144 | Liquor | 1,104,542 | \$14,138,141 |
| Number of Returns | 291 | Wine | 1,703,182 | 4,257,955 |
| Number of Taxpayers | 27 | Beer, Malt Beverages and Cider | 12,760,85 1 | 13,654,111 |
| Program Cost | \$165,157 | Beer, Small Breweries | 1,974,809 | 691,183 |
| Staffing (<i>full-time equivalent</i>) | 2.9 | Penalties, interest and refunds | | 4,754 |
| | | Total | | <u>\$32,746,144</u> |

CHARITABLE GAMING

AS 05.15

Description

Under Alaska law, municipalities and qualified non-profit organizations may conduct certain charitable gaming activities. The purpose of these activities is to derive public benefit in the form of money for the charities and revenues for the state.

To ensure that the appropriate level of public benefit is being derived, the Division performs the following: 1) issues permits to charities; 2) licenses all operators, distributors and manufacturers; 3) collects fees and taxes; 4) audits various permittees and licensees; 5) inspects gaming locations; and 6) investigates complaints.

Rate

Annual permit and license fees for games of chance and contests of skill are as follows:

Permits:

1. \$20 for an applicant that did not hold a permit during the preceding year;
2. \$20 for an applicant that had gaming gross receipts of less than \$20,000 during the preceding year;
3. \$50 for an applicant that had gaming gross receipts of \$20,000 or more but not exceeding \$100,000 during the preceding year; or
4. \$100 for an applicant that had gaming gross receipts exceeding \$100,000 during the preceding year.

Licenses:

1. \$500 for an operator license applicant;
2. \$1,000 for a distributor license applicant; or
3. \$2,500 for a manufacturer license applicant.

Reports

The Division requires the following reports:

Municipalities and Qualified Organizations issued a permit: Quarterly reports are due the 45th day following each calendar quarter in which the permittee had gross receipts of \$50,000 or more.

Permittees file annual reports on a calendar year basis, accompanied with payment of the *additional* fee, if required under AS 05.15.020(b), by March 15th of the

following year. Under this statute, if the gross receipts for the activities were \$20,000 or more, an additional fee of one percent of the net proceeds received during the preceding year is due.

Operators and Multiple-Beneficiary Permits: Quarterly reports are due on the last business day of the month following each calendar quarter. Annual reports for the calendar year are due no later than February 28 of the following year.

Operator Reports to Permittees are due monthly and must include a daily summary of activity conducted under the permit issued to the authorizing permittee and an accounting of gross receipts, expenses, and net proceeds for the month.

Manufacturers: Each pull-tab manufacturer must report by the last business day of the month on each series of pull-tabs distributed in the preceding month

Distributors: Distributors must collect a tax of 3% of an amount equal to the gross receipts less prices awarded on each series of pull-tabs distributed. Distributors must report by the last business day of each month, each pull-tab series distributed in the preceding month, and pay the taxes collected.

Exemptions

None

Disposition of Revenue

The Division deposits permit and license fees, the 1% net proceeds fee and the 3% pull-tab tax into the General Fund.

History

1960 – The legislature legalizes gaming and gives oversight for all gaming activities to the Department of Revenue.

1984 – The Department authorizes pull-tabs.

1988 – The legislature legalizes operators. Pull-tabs legalized by statute, and prize limits are increased.

CHARITABLE GAMING AS 05.15

1989 – The Governor transfers the Charitable Gaming functions to the Department of Commerce, Community and Economic Development.

1993 - The Governor transfers the Charitable Gaming functions to the Department of Revenue.

HB 168 significantly changed various aspects of the statutes governing charitable gaming in Alaska. Third party vendors were brought under statutory control which allow permittees to contract with them directly to sell pull-tabs and the Department was authorized to issue Multiple-Beneficiary Permits (MBP). MBP's enable two to six permittees to jointly conduct gaming activities. Minimum payments to charities increased from 15 percent to 30 percent of adjusted gross income for pull-tab games and require a minimum of 10 percent of adjusted gross income for all other activities.

1994 – The Department files regulations with the Lieutenant Governor that implement HB 168. Certain affected parties file suit to prevent the state from implementing the new regulations. The Alaska courts subsequently granted the request to enjoin the regulations.

1995 – The Governor appointed a fourteen member task force to make recommendations regarding the administration of charitable gaming. The task force had a broad mandate to look into all aspects of charitable gaming and to provide a report on its findings and recommendations to the Commissioner of Revenue.

The legislature legalized cruise ship gambling activities in Alaska waters during the 1995 season. The gaming statutes required cruise ships pay a fee to game in Alaska and this generated over \$500,000 in State revenue during the 1995 season. This law expired after 1995. Additionally, the legislature eliminated Monte Carlo nights.

1996 – The Department finished a comprehensive rewrite of the regulations and adopted new regulations after a series of public hearings.

The legislature created three new gaming activities: “Sled Dog Race Classic”, “Deep Freeze Classic” and “Snow Machine Classic”. The legislature also created

the McGrath Kuskokwim River Ice Classic and the Creamer’s Field Goose Classic.

The legislature prohibited the donation of net proceeds from pull-tabs and bingo activities to registered lobbyists and certain political organizations.

2001 - Effective January 1, 2002, the legislature added the Bristol Bay Native Corporation Education Foundation to the list of qualified organizations allowed to conduct “salmon classic” games of chance.

The Department proposed regulations and held public hearings in an effort to address various issues including unlicensed operators, conflicts of interest, methods of accounting, capital contributions, loans and gifts, and rules for MBPs. Comments received during the public hearings indicated unhappiness with the process and confusion with the proposed regulations.

The Alaska Supreme Court in *Botehlo v. Griffin*, 25 P3d at 693 ruled that “Alaska’s gaming laws create the effective equivalent of a charitable trust” by requiring a portion of the money spent on charitable gaming to benefit the public generally.

2002 –The Commissioner of Revenue appointed eleven members to a negotiated rule-making committee in an effort to garner input and suggestions and draft new proposed regulations. Members of the committee represented the interests of permittees, operators, MBPs, distributors, vendors, the public and the Department. The committee held nine meetings over five months to take public testimony, and draft new proposed regulations. The committee issued its final report on July 31, 2002.

Public hearings on the rule-making committee’s proposed regulations were held in August, 2002. The Department used the consensus of the rule-making committee, public testimony and written comments as a basis for the regulations it adopted on November 19, 2002 and regulations were effective, January 1, 2003.

Effective January 1, 2003, the legislature added the Boys and Girls Club of the Kenai Peninsula to the list of qualified organizations allowed to conduct “mercury classic” games of chance.

CHARITABLE GAMING AS 05.15

2003 – Effective January 1, 2004, the legislature allows a permittee that conducts a contest of skill and awards more than \$500,000 in prizes to the participants in that contest of skill, to exclude \$500,000 in prizes awarded to those participants from the \$1,000,000 maximum prize limitation.

2004 - Effective July 25, 2004, the legislature authorized the Department of Revenue to issue permits for a charitable animal classic game, providing the animal classic was in existence prior to November 1,

2002. An animal classic is a game of chance relating to certain activities.

FY 2004 Statistics

| | |
|--|-------------|
| Taxes and Fees Collected | \$2,423,278 |
| Number of Reports and Permit Applications | 4,935 |
| Program Cost | \$824,946 |
| Staffing (<i>full time equivalent</i>) | 11.5 |

CONSERVATION SURCHARGE ON OIL AS 43.55

Description

The Conservation Surcharge on Oil applies to all oil production within Alaska. The surcharge is a per barrel tax on oil production intended to fund the oil and hazardous substance release prevention account of the oil and hazardous substance release prevention and response fund. The Oil and Gas Production Tax (AS 43.55) and Conservation Surcharge on Oil are severance taxes.

Rate

The surcharge is currently comprised of two components: 1) a \$.03/bbl charge on all oil production excluding public royalty barrels and 2) an additional \$.02/bbl charge on all oil production whenever the balance in the state oil and hazardous substance release prevention and response fund falls below \$50 million. The balance of the fund was \$50 million or greater for all of FY 2004 so that the surcharge was \$.03/bbl for the entire fiscal year.

History

1989-- Following the grounding of the Exxon Valdez, this tax was enacted in order to provide a hazardous substance release emergency fund. A \$.05/bbl

hazardous release surcharge is imposed on oil production until the newly created hazardous substance release fund achieves a balance of \$50 million.

1994--The hazardous release surcharge is modified to the so-called "split nickel" with an ongoing charge of \$.03/bbl and an additional charge of \$.02/bbl whenever the hazardous substance release fund balance falls below \$50 million.

FY 2004 Statistics

| | |
|----------------------|-------------|
| Tax Collections | \$9,052,517 |
| Number of Returns* | 2,318 |
| Number of Taxpayers* | 15 |

* The Conservation Surcharge on Oil is reported on the same return and by the same taxpayers as is Alaska's other production tax, Oil and Gas Production Tax (AS 43.55). The Division has not segregated program cost and staffing related to each individual tax. The Division reports the total production tax cost and staffing in the discussion of Oil and Gas Production Tax.

CORPORATION INCOME TAX

AS 43.20

Description

Alaska levies the corporate net income tax on net income of corporations that have nexus and derive income from sources within Alaska. Corporations compute their tax liability based on federal taxable income with Alaska adjustments.

Alaska uses an apportionment method to determine the portion of income that is taxable in the state. Corporations other than oil and gas apportion their income to Alaska by using a three-factor formula based on sales, property and payroll. Taxpayers determine Alaska taxable income by applying the apportionment factor to the corporation's modified federal taxable income.

Multi-state oil and gas corporations apportion income on a worldwide apportionment method. Other multi-state corporations apportion income to Alaska under a "water's edge" apportionment method. A corporation engaged in business solely in Alaska computes its tax liability on 100% of its taxable income.

Rate

Corporation tax rates increase from 1% to 9.4% in \$10,000 increments of Alaska taxable income. The maximum rate of 9.4% applies to income over \$90,000.

Returns

Corporations file returns annually. Tax payments are due two and a half months from the close of the fiscal year. Taxpayers must remit tax payments over \$150,000 by wire transfer or electronic funds transfer (EFT). The payment due date may not be extended.

Tax returns are due three and a half months after the close of the fiscal year. Corporations may extend their filing due date by six months.

Example: The filing due date for calendar year corporations is April 15. Corporations may extend their filing due date to October 15. Regardless of filing date, payment is due March 15.

Corporations make quarterly estimated tax payments based on past activity and the current year's accrued

tax liability. Taxpayers must remit estimated payments over \$100,000 by wire transfer or electronic funds transfer (EFT).

Exemptions

S-corporations and LLCs are generally exempt from corporation income tax and LLCs are treated as partnerships for Alaska tax purposes. Electric and telephone cooperatives, which are required to pay cooperative taxes under AS 10.25, are also exempt.

Credits

Education - Taxpayers who make contributions for educational purposes to accredited Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 per tax year.

Minerals Exploration Incentive - Taxpayers may take a credit for 100% of eligible costs of exploration activities related to determining existence, location, extent, or quality of a locatable mineral or coal deposit. An approved minerals exploration incentive credit may not exceed \$20 million and must be applied within 15 tax years after the taking of the credit is approved. Application of the credit is limited to 50% of the lesser of the taxpayer's mining license tax liability or 50% of the taxpayer's total corporation net income tax liability.

Oil and Gas Exploration Incentive - Taxpayers may take a credit for up to 50% on state land (or 25% on non state lands) of eligible oil and gas exploration costs. An approved oil and gas exploration incentive credit may not exceed \$5 million per project and is limited to \$30 million per taxpayer. Taxpayers may apply the credit against 100% of corporation net income taxes due.

Gas Exploration and Development Tax Credit allows a corporate income credit for 10 percent of qualifying expenditures incurred in exploration and development of natural gas reserves in Alaska, except for the North Slope.

CORPORATION INCOME TAX AS 43.20

Disposition of Revenue

The Division deposits revenue derived from corporation net income taxes into the General Fund except as noted below.

For oil and gas corporations only, the Division deposits into the Constitutional Budget Reserve fund those revenues received as a result of a tax assessment issued by the Division.

History

The corporation net income tax dates back to 1949 when the territorial legislature enacted the "Alaska Net Income Tax Act". The Act imposed a flat tax of 10% of the corporation's federal income tax liability.

1957 – Tax rate was increased to 18%.

1975 – Original income tax act repealed and an income tax act based on taxable income rather than federal tax liability was enacted. The tax was equal to 5.4% of taxable income with a surtax of 4% based on federal surtax exemptions. For 1975, the federal surtax exemption was \$50,000.

1978 – Oil and gas corporations required to calculate taxable income based on a "separate accounting" method requiring the corporations to account for Alaska activity only in determining taxable income (AS 43.21).

1981 – Separate accounting (AS 43.21) was repealed and the modern corporation tax rate structure was adopted (1% - 9.4%). With repeal of AS 43.21, all corporations file returns using worldwide combined reporting and use the same tax rate structure.

1984 – The legislature adopted the special industrial incentive investment tax credit.

1987 – Alaska education credit was authorized.

1991 – Alaska's legislature enacted a bill requiring corporations, except for oil and gas corporations, to calculate taxable income based on the "water's edge" combined reporting method. Oil and gas corporations continue to use the worldwide combined reporting method. Also, the legislature increased the Alaska

education credit maximum from \$100,000 to \$150,000.

1994 – Alaska's legislature authorized the Oil and Gas Exploration Incentive Credit. The legislature limited the credit to \$30 million and provided that taxpayers may apply the credit to 100% of corporation taxes due.

1995 – Alaska's legislature authorized the minerals exploration incentive credit. The legislature limited the credit to \$20 million and taxpayers may apply it against 50% of corporation taxes due over a 15-year period.

1998 – Alaska's legislature enacted a bill exempting foreign cruise ship and airline companies from tax.

2002 – Alaska Veterans' Memorial Endowment provided credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. The tax credit expired July 1, 2003.

2002 – The Oil and Gas Exploration Incentive Credit was extended to June 30, 2007.

2003 – Legislation authorized the Gas Exploration and Development Tax Credit.

FY 2004 Statistics

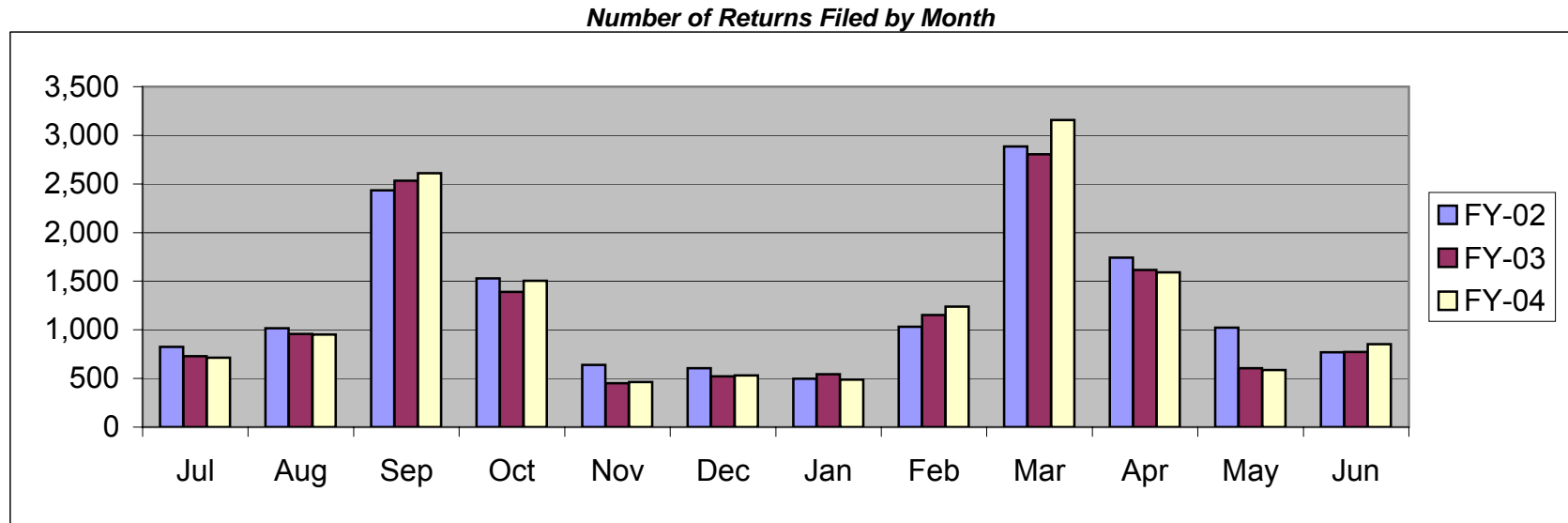
Tax Collections – Oil and Gas Corporations

| | |
|---------------------------------|---------------|
| General Fund | \$298,832,852 |
| CBRF | 4,035,122 |
| Total | 302,867,974 |
| Number of Returns | 69 |
| Number of Taxpayers | 29 |
| Program Cost | \$559,364 |
| Staffing (full-time equivalent) | 7.1 |

Tax Collections – Other Corporations

| | |
|---------------------------------|--------------|
| General Fund | \$39,546,080 |
| Number of Returns | 14,619 |
| Number of Taxpayers | 11,713 |
| Program Cost | \$1,334,347 |
| Staffing (full-time equivalent) | 20.2 |

**Chart 3
Corporations Filing Activity
For Fiscal Years 2002, 2003 and 2004**



| Fiscal Year | FY 2004 | FY 2003 | FY 2002 |
|----------------------------|---------|---------|---------|
| Total Returns Filed | 14,688 | 14,077 | 14,997 |

Detail of FY 2004 Filing Activity

| Entity Type | Original | Amended | NOL* | Incomplete | Total |
|-------------------|---------------|------------|------------|------------|---------------|
| Subchapter C | 6,423 | 843 | 333 | 0 | 7,599 |
| Subchapter S | 6,371 | 23 | 2 | 0 | 6,396 |
| Exempt | 116 | 4 | 7 | 0 | 127 |
| Homeowners Assoc. | 496 | 0 | 1 | 0 | 497 |
| Oil & Gas | 26 | 37 | 6 | 0 | 69 |
| Total | <u>13,432</u> | <u>907</u> | <u>349</u> | <u>0</u> | <u>14,688</u> |

*Net operating loss carryback

Table 5
Corporation Tax Liabilities Statistics

Tax liabilities reported on original returns filed in FY04

| Tax Liability Reported | Oil and Gas Corporations | | | Other than Oil and Gas Corporations | | | All Corporations | | |
|-------------------------------|---------------------------------|----------------------|----------------|--|---------------------|----------------|-------------------------|----------------------|----------------|
| | # Filers | Amount | % Total | # Filers | Amount | % Total | # Filers | Amount | % Total |
| Above \$1 million | 7 | \$162,656,896 | 98.65% | 7 | \$15,582,554 | 32.74% | 14 | \$178,239,450 | 83.88% |
| \$500,000 - \$1 million | 2 | 1,348,119 | 0.82% | 12 | 9,706,776 | 20.39% | 14 | \$11,054,895 | 5.20% |
| \$100,000 - \$499,999 | 3 | 768,093 | 0.47% | 51 | 12,928,761 | 27.16% | 54 | \$13,696,854 | 6.45% |
| \$50,000 - \$99,999 | 1 | 86,194 | 0.05% | 42 | 2,994,969 | 6.29% | 43 | \$3,081,163 | 1.45% |
| \$10,000 - \$49,999 | 1 | 23,300 | 0.01% | 197 | 4,568,022 | 9.60% | 198 | \$4,591,322 | 2.16% |
| \$1,000 - \$9,999 | 0 | 0 | 0.00% | 441 | 1,586,338 | 3.33% | 441 | \$1,586,338 | 0.75% |
| \$100 - \$999 | 1 | 125 | 0.00% | 488 | 207,198 | 0.44% | 489 | \$207,323 | 0.10% |
| \$1 - \$99 | 1 | 49 | 0.00% | 878 | 26,320 | 0.06% | 879 | \$26,369 | 0.01% |
| Zero Tax | 10 | 0 | 0.00% | 9,920 | 0 | 0.00% | 9,930 | \$0 | 0.00% |
| Total | 26 | \$164,882,776 | 100.00% | 12,036 | \$47,600,938 | 100.00% | 12,062 | \$212,483,714 | 100.00% |

Note: The \$212.5 million in tax liability reported on returns filed during FY04 is significantly less than corporate income tax revenue collections of \$338.3 million (Table 2, page 13, summing \$298.8 in oil and gas receipts and \$39.5 in non oil and gas receipts). Generally, corporate income taxpayers are required to make quarterly estimated payments. The return corresponding to these payments is filed during one of the two fiscal years following the year of payment. The corporate income tax receipts from estimated payments of \$338.3 million during FY04 reflect anticipated liabilities driven by historically high oil prices that will be reported on returns received during FY05 and FY06.

DIVE FISHERY MANAGEMENT ASSESSMENT TAX

AS 43.76.150

Description

Alaska levies a dive fishery management assessment on the value of fisheries resources taken using dive gear. The assessment only applies to designated management areas and species, and is taxed at a rate elected by a vote of eligible permit holders.

Rate

Southeast Alaska region commercial dive fishers elected the following rates for the Southeast Alaska administrative area (Management Area A):

| | |
|--------------|----|
| Geoduck | 5% |
| Sea Cucumber | 5% |
| Sea Urchin | 7% |

Returns

Returns are filed quarterly and due on or before the last day of the month following the calendar quarter during which the fisheries resource was sold or exported.

Disposition of Revenue

The Division deposits all revenue derived from the dive fishery management assessment into the General Fund.

Under AS 43.76.200, the legislature may appropriate dive fishery management assessment revenue to the Department of Fish and Game for the purpose of funding the regional dive fishery development association.

History

1997 - The legislature enacted the dive fishery management assessment statute effective June 1997.

1999 - The Southeast Regional Dive Fishery Association elected a dive fishery management assessment on geoducks, sea cucumbers and sea urchins harvested in the Southeast Alaska administrative area (Management Area A). The assessment, effective April 1999, set rates of 5% for geoduck and sea cucumber and 7% for sea urchin.

2004 – Under prior law, qualified regional dive fishery development associations were authorized to impose management assessments at 1%, 3%, 5% and 7% of the value of fishery resources taken in a dive gear fishery. 2004 legislation authorized three additional rates: 2%, 4% and 6%, and geoduck fishers subsequently elected to increase the geoduck assessment to 7% as of November 1, 2004.

FY 2004 Statistics

| | |
|--|-----------|
| Tax Collections | \$253,503 |
| Number of Returns | 42 |
| Number of Taxpayers | 16 |
| Program Cost | \$6,524 |
| Staffing (<i>full time equivalent</i>) | 0.1 |

ELECTRIC COOPERATIVE TAX

AS 10.25.555

Description

Alaska bases the electric cooperative tax on kilowatt-hours furnished by qualified electric cooperatives recognized under AS 10.25. The Division collects the tax from the cooperatives.

Rate

Alaska bases the electric cooperative tax on a mill rate depending on the length of time in which the cooperative has furnished electricity to consumers as follows:

| <i>Length</i> | <i>Rate Per kWh</i> |
|-------------------|----------------------------------|
| Less than 5 years | .25 mill |
| 5 years or longer | .5 mill <i>(1 mill = .1¢)</i> |

Returns

Electric cooperatives file calendar year returns that are due with payment before March 1 of the following year.

Exemptions

All electric cooperatives are subject to the cooperative tax. Taxpayers pay the electric cooperative tax in lieu of corporation income taxes.

Disposition of Revenue

The Division deposits all revenue derived from electric cooperative taxes into the General Fund. Electric cooperative taxes sourced from within municipalities are shared 100% to respective municipalities less the amount expended by the state in their collection. The State retains electric

cooperative taxes sourced from outside of municipalities.

History

The electric cooperative tax dates back to 1959 when the first Alaska legislature enacted the "Electric and Telephone Cooperative Act" to promote cooperatives around the state. The original electric cooperative tax was based on gross revenue and due by April 1 of the following year. Alaska based the tax rate on the length of time the cooperative had provided electricity to consumers.

1960 – The legislature changed the due date for paying taxes to March 1.

1980 – The legislature changed the tax base for calculating the electric cooperative tax from gross revenue to kilowatt-hours. The legislature adopted the current mill rates.

FY 2004 Statistics

| | |
|--|-------------|
| Tax Collections | \$1,861,290 |
| Number of Returns | 18 |
| Number of Taxpayers | 16 |
| Program Cost | \$3,515 |
| Staffing (<i>full time equivalent</i>) | 0.1 |

Note: Program Costs reflect the cost of the program. The amount retained by the state after sharing (Table 2, Page 16) represents these costs and unshared tax collected outside an organized borough or incorporated city.

ESTATE TAX

AS 43.31

Description

Alaska currently levies the estate tax on the transfer of an estate upon death.

Rate

The Alaska estate tax is the amount of state credit allowed on the estate's federal tax return.

Returns

Estates file returns and pay taxes within 15 months from the decedent's date of death.

The tax due date may be extended in one-year increments, not to exceed 5 years. Interest accrues on the amount of tax due during the extension period. The return due date may be extended for up to 15 years.

Exemptions

Estates under \$675,000 in 2001 and \$1 million in 2002 forward are generally exempt from paying estate taxes taking into consideration the estate tax credit (formerly the unified credit) allowed under the Internal Revenue Code.

Disposition of Revenue

The Division deposits all revenue derived from estate taxes into the General Fund.

History

The estate tax dates back to 1919 when the territorial legislature adopted a tax on inheritances and transfers of property from estates. Tax rates varied from 1% to 17.5% of the property's value.

1970 - The Alaska legislature enacted the current estate tax statutes. Estate tax statutes tie to the state credit allowed under Internal Revenue Code estate tax laws.

2001 – The federal Economic Growth and Tax Relief Reconciliation Act enacted. *As a consequence of the federal act, the state tax credit is being phased out gradually over a four year period beginning in 2002.*

FY 2004 Statistics

| | |
|--|-------------|
| Tax Collections | \$2,250,662 |
| Number of Returns | 48 |
| Number of Taxpayers | 46 |
| Number of Death Certificates Issued | 725 |
| Program Cost | \$23,990 |
| Staffing (<i>full time equivalent</i>) | 0.4 |

FISHERIES BUSINESS TAX

AS 43.75

Description

Alaska levies a fisheries business tax on fisheries businesses and persons who process or export fisheries resources from Alaska. Alaska bases the tax on the fisheries value paid to commercial fishers or fair market value when there is no arms length transaction. The Division collects fisheries business taxes primarily from licensed processors and persons who export unprocessed fish from Alaska.

Rate

Fisheries business tax rates are based on the location and type of processing activity and whether a fishery resource is classified as "established" or "developing" by the Alaska Department of Fish and Game. Rates are as follows:

Processing Activity

| <i>Established</i> | <i>Rate</i> |
|--------------------|-------------|
| Floating | 5 % |
| Salmon Cannery | 4.5 % |
| Shore-based | 3 % |
| <hr/> | |
| <i>Developing</i> | <i>Rate</i> |
| Floating | 3 % |
| Shore-based | 1 % |

Returns

Fisheries businesses file calendar year returns that are due with payment on March 31 of the following year.

After filing the calendar year return, taxpayers file returns to report post-season, bonus payments made to fishers. Returns for these payments are due with additional taxes by the last day of the month following the payment.

Exemptions

Commercial fishers who process and freeze fish on board to maintain its quality before sale to a licensed processor are exempt.

Credits

Education: Taxpayers contributing to accredited Alaska universities or colleges for educational purposes may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Scholarship Contributions: Taxpayers contributing to the A.W. "Winn" Brindle memorial scholarship account may take a tax credit for the amount of contribution not to exceed 5% of their tax liability.

Salmon Product Development and Utilization Credit (2003) allows tax credits against the fisheries business tax on salmon for expenditures promoting the development of salmon products and the utilization of salmon waste. Effective June 11, 2003 and retroactive to January 1, 2003, the bill will sunset on December 31, 2005.

Disposition of Revenue

The Division deposits all revenue derived from the fisheries business tax into the General Fund. The legislature may appropriate revenue from the tax for revenue sharing as follows:

Processing Activity Inside Municipality

The Division shares 50% of tax collected with the incorporated city or organized borough in which the processing took place. If an incorporated city is within an organized borough, the Division divides the 50% shared amount equally between the incorporated city and the organized borough.

Processing Activity Outside Municipality

The Division shares 50% of tax collected from processing activities outside an incorporated city or an organized borough through an allocation program administered by the Department of Commerce, Community and Economic Development.

History

The fisheries business tax is the oldest tax in Alaska. In 1899, the U.S. Congress adopted a "salmon case" tax to fund fisheries-related activities in pre-territorial Alaska.

The Organic Act passed in 1912 established an organized territorial government in Alaska. In 1913, the First Territorial Legislature adopted the "salmon pack" tax which applied to salmon canneries based on canned salmon (7¢ per case); and the "cold storage" tax which applied to other fisheries and was based on business receipts. Between 1913 and 1949, the legislature amended the tax several times by changing

FISHERIES BUSINESS TAX

tax rates and expanding the tax base to include different fisheries.

1949 – The territorial legislature restructured the fisheries business tax to be based on value of the fisheries rather than volumes (case or business receipts). The new "raw fish" tax applied to salmon (4%), crab and clams (2%), and other fishery products (1%) processed in canneries.

1951 – The territorial legislature enacted a fishery business license requirement with a \$25 license fee, a tax on floating processors at 4% of value and increased the tax rate for salmon canneries to 6%.

1962 – The legislature adopted provisions for sharing taxes (10%) and requiring calendar year returns for all businesses.

1967 – The tax rate on salmon canneries was amended to 3% and provisions were adopted requiring security for a fishery business license under certain conditions.

1979 – The legislature adopted the modern tax structure with different tax rates for established and developing species, as well as increasing the shared tax percentage to 20%.

1981 – The shared tax percentage was increased to 50%.

1986 – The legislature authorized a fisheries business tax credit of up to 50% of fisheries business taxes for capital expenditures associated with constructing and improving shore-side processing operations. The tax credit program was effective for 1987 through 1989 with a carryforward provision through 1991. Taxpayers claimed approximately \$47.5 million of credits under this program. The legislature also enacted the Winn Brindle scholarship credit allowing a credit of up to 5% of fisheries business taxes due.

1987 – The legislature enacted the Alaska education tax credit program allowing a tax credit on educational contributions of up to \$100,000 against fisheries business taxes due.

1990 – The legislature enacted provisions for a civil penalty for processing without a license. The

Division may progressively assess penalties in increments of up to \$5,000 for each infraction to a maximum of \$25,000 for the fifth and subsequent assessments. The legislature also enacted a provision that authorized sharing 50% of taxes sourced from processing activities in the unorganized borough, effective July 1992.

1991 – The legislature restructured the Alaska education credit and increased the maximum amount to \$150,000.

1993 – Under executive order effective July 1, 1993, the Governor transferred the fish processor surety bonding program from the Department of Labor and Workforce Development to Department of Revenue.

1995 – The legislature reduced the amount of surety bonding for small processors from \$10,000 to \$2,000.

2001 – The legislature modified the tax payment security requirements necessary to obtain a fisheries business tax license. The legislature expanded the existing requirement for a whole-salmon exporter to include any exporter of any unprocessed fisheries resource. Under the bill, exporters of unprocessed fish can obtain a fisheries business license by posting a \$50,000 surety bond. Additionally, the bill requires quarterly payment of estimated fishery resource landing taxes.

2002 – Alaska Veterans' Memorial Endowment provided credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. The tax credit expired July 1, 2003.

2003 - Salmon Product Development/Utilization Credit allows tax credits against the fisheries business tax for expenditures promoting the development of salmon products and the utilization of salmon waste. The amount of the tax credit cannot exceed 50% of the taxpayer's fisheries business liability for processing of salmon during the tax year.

Effective June 11, 2003 and retroactive to January 1, 2003, the bill will sunset on December 31, 2005. Unused credits earned may be carried forward for three years.

FISHERIES BUSINESS TAX

2003 – Legislation allowed for monthly payment of the fisheries taxes in lieu of existing forms of security or prepayment as a prerequisite to licensure. Fisheries businesses who elect this option must post a \$50,000 bond or demonstrate \$100,000 equity in real property within the state. Effective September 8, 2003

2004 – Legislation authorized a new Direct Marketing Fisheries Business License and tax structure set at the shore based rate of 1% of the value of developing fish species and 3% of the value of established fish species. The provisions of the bill will take effect January 1, 2005.

FY 2004 Statistics

| Fisheries License and Business Tax | |
|---|--------------|
| License Fees and Tax Collection | |
| <i>Including penalties and interest.</i> | |
| <i>Less Win Brindle, Alaska Education and Salmon Product Development and Utilization Credits.</i> | \$29,244,605 |
| Number of Returns | 782 |
| Number of Taxpayers | 525 |
| Fisheries Business License Information | |
| Shore-based Licenses Issued | 174 |
| Floating Licenses Issued | 332 |
| Exporter Licenses Issued | 76 |
| Total Licenses Issued | 582 |
| Program Cost | \$431,995 |
| Staffing (<i>full time equivalent</i>) | 7.5 |

FISHERY RESOURCE LANDING TAX

AS 43.77

Description

Alaska levies the fishery resource landing tax on fishery resources *processed outside* and *first* landed in Alaska, based on the unprocessed value of the resource. The unprocessed value is determined by multiplying a statewide average price per pound (derived from Alaska Department of Fish and Game data) by the unprocessed weight.

Alaska collects the fishery resource landing tax primarily from factory trawlers and floating processors that process fishery resources outside of the state's 3-mile limit and bring their products into Alaska for transshipment.

Rate

Tax rates are based on whether the resource is classified as "established" or "developing" by the Alaska Department of Fish and Game as follows:

| <i>Classification</i> | <i>Rate</i> |
|-----------------------|-------------|
| Established | 3% |
| Developing | 1% |

Returns

Taxpayers file returns and pay tax on a calendar year basis with a due date of March 31 of the following year. Taxpayers generally make quarterly estimated tax payments which are due on the last day of each calendar quarter.

The Division grants an automatic extension to file the landing return if it does not provide statewide average prices to taxpayers at least 30 days prior to the due date. If the extension applies, the due date is the last day of the month following the month in which the Division issues statewide average prices. The Division extended the due date for calendar year 2003 returns to June 30, 2004.

Exemptions

Unprocessed fishery resources landed in the state are exempt from the fishery resource landing tax, although they may be subject to the fisheries business tax.

Credits

Education - Taxpayers contributing to Alaska universities or colleges for educational purposes may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Scholarship Contributions - Taxpayers contributing to the A.W. "Winn" Brindle memorial scholarship account may take a tax credit for the amount of contributions not to exceed 5% of their tax liability.

CDQ - Taxpayers harvesting a fishery resource under a community development quota (CDQ) may claim a credit of up to 45.45% of fishery resource landing taxes for contributions to Alaska nonprofit corporations that are dedicated to fisheries industry-related expenditures.

Other Taxes - Taxes paid to another jurisdiction on fishery resources may be claimed as a credit against the fishery resource landing tax. The credit, equal to the amount of taxes paid in the other jurisdiction, may not exceed the fishery resource landing tax.

Disposition of Revenue

The Division deposits all revenue from the fishery resource landing tax into the General Fund. The legislature may appropriate revenue from the tax for revenue sharing as described below.

Landings Inside Municipality

The Division shares 50% of taxes (3%) from landings within a municipality with the respective municipalities in which landings occurred. If a municipality is within a borough, the Division divides the 50% shared amount between the municipality and borough.

Landings Outside Municipality

The Division shares 50% of the taxes from landings outside a municipality (unorganized borough) through an allocation program administered by the Alaska Department of Commerce, Community and Economic Development.

History

The legislature enacted the fishery resource landing tax in 1993, effective January 1994. Department of

FISHERY RESOURCE LANDING TAX

AS 43.77

Revenue adopted regulations regarding administration of the tax effective April 1994.

1994 – The American Factory Trawler Association (AFTA) filed litigation challenging the constitutionality of the landing tax.

1995 – The Alaska Supreme Court rejected AFTA's request based on AFTA's failure to exhaust administrative remedies with the Department of Revenue.

1996 – The landing tax was restructured to mirror the fisheries business tax program. The legislature revised the tax rate to 3% for established species and 1% for developing species. The 0.3% portion of the previous 3.3% tax rate was incorporated into seafood marketing assessment statutes. The legislature also amended the landing tax statutes to provide for tax credits for education and Winn Brindle scholarship contributions. All changes were retroactive to January 1994, the inception date of the landing tax.

1997 – AFTA dismissed its challenge to the landing tax and in June the state issued a formal hearing decision upholding the constitutionality of the tax. Shared tax amounts from calendar year 1994 and 1995 returns, previously held in escrow, were released to municipalities.

1999 – The American Fisheries Act (P.L. 105-277) required a fishery cooperative to execute a contract with each cooperative member that obligated the member to make a payment to the state for pollock harvested in the Alaska pollock fishery that is not landed in Alaska. AS 43.77.015 required that those payments be treated as if they were landing taxes.

2001 – Effective calendar year 2002, HB154 required quarterly payment of estimated fishery resource landing taxes.

2002 – Alaska Veterans' Memorial Endowment provided credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. The tax credit expired July 1, 2003.

FY 2004 Statistics

| | |
|--|-------------|
| Tax Collections | |
| <i>Including penalties, interest and refunds</i> | |
| <i>Less CDQ contributions, Winn Brindle</i> | \$6,860,773 |
| <i>Credit and Alaska Education Credit</i> | |
| Number of Returns | 62 |
| Number of Taxpayers | 42 |
| | |
| Program Cost | \$40,330 |
| Staffing (<i>full time equivalent</i>) | 0.6 |

MINING LICENSE TAX

AS 43.65

Description

The mining license tax is levied on mining net income and royalties received in connection with mining properties and activities in Alaska. The Division collects mining license taxes primarily from businesses engaged in coal and hard rock mining.

Rate

| <i>Mining Net Income</i> | <i>Rate</i> |
|--------------------------|--------------------------------|
| \$0 - 40,000 | No Tax |
| \$40,001 - \$50,000 | \$1,200 plus 3% over \$40,000 |
| \$50,001 - \$100,000 | \$1,500 plus 5% over \$50,000 |
| Over \$100,000 | \$4,000 plus 7% over \$100,000 |

Returns

Mining licensees file annual returns based on the mining business' fiscal year. Calendar year returns and payment of tax are due April 30; fiscal year returns and payment are due before the first day of the fifth month after the close of the fiscal year.

Exemptions

Except for sand and gravel operations, new mining operations are exempt from the mining license tax for a period of 3½ years after production begins.

Credits

Education - Taxpayers who make contributions for educational purposes to accredited Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Minerals Exploration Incentive - Taxpayers may take a credit for eligible costs of exploration activities related to determining existence, location, extent, or quality of a locatable mineral or coal deposit. An approved exploration incentive credit may not exceed \$20 million and must be applied within 15 tax years after the credit is approved. Application of the credit is limited to 50% of the lesser of the person's mining license tax liability related to the mining operation or 50% of the person's total mining license tax liability.

Disposition of Revenue

The Division deposits all revenue derived from the mining license tax into the General Fund with the exception of payments received after a tax

assessment. The Division deposits these amounts into the Constitutional Budget Reserve Fund (CBRF).

History

The mining license tax dates back to 1913 and the legislature restructured it several times over the years. The original mining license tax, enacted in 1913, imposed a 0.5% tax on mining net income over \$5,000. There was no tax on net income less than \$5,000.

1915 – The territorial legislature increased the tax rate to 1%. The tax-free net income base remained at \$5,000.

1927 – The tax-free net income base was increased to \$10,000 and a three-tier tax rate structure was adopted with rates ranging from 1% to 1.75% for net income over \$1 million.

1935 – The territorial legislature restructured the tax to an eight-tier tax structure with rates ranging from 0.75% to 4% for net income over \$1 million. The legislature decreased tax-free net income to \$5,000.

1937 – The tax-free net income base was eliminated and all net income was subject to tax. A nine-tier tax structure as adopted with tax rates ranging from 0.75% to 8% for net income over \$1 million.

1947 – The mining license tax was restructured by reinstating the tax-free net income base (\$1,000) and restructuring the tax rates to a five-tier structure with rates ranging from 4% to 8% for net income over \$100,000.

1951 – The 3½ year exemption was enacted whereby new mining operations are exempt from mining tax for a period of 3½ years from the date of production.

1953 – The tax-free net income base was increased to \$10,000 and rates changed to range from 3% to 7% for net income over \$100,000.

1955 – The rate structure as it exists today was adopted.

1987 – The Alaska education tax credit program was enacted allowing for a tax credit up to \$100,000.

1991 – The Alaska education credit was restructured and the maximum amount was increased to \$150,000.

1995 – The legislature authorized the minerals exploration incentive credit. The credit is limited to

MINING LICENSE TAX

\$20 million and taxpayers may apply the credit against 50% of mining license liabilities over a 15-year period.

2002 – Alaska Veterans’ Memorial Endowment, SB 267, provides credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans’ Memorial Endowment Fund. The tax credit expired on July 1, 2003.

FY 2004 Statistics

| | |
|---|-------------|
| Tax Collections | |
| General Fund (GF) | |
| <i>Less the Alaska Special Interest Incentive, Mineral Exploration Incentive and Alaska Education Credits</i> | |
| CBRF | -0- |
| Total of GF and CBRF | \$3,224,684 |
| Number of Returns | 144 |
| Number of Taxpayers | 136 |
| Program Cost | \$12,850 |
| Staffing (<i>full time equivalent</i>) | 0.2 |

MOTOR FUEL TAX

AS 43.40

Description

Alaska levies the motor fuel tax on motor fuel sold, transferred or used within Alaska. The Division collects motor fuel taxes primarily from wholesalers and distributors who hold "qualified dealer" licenses issued by the Division.

Rates

| | <i>Per Gallon Rate</i> |
|-------------------|------------------------|
| Highway | 8¢ |
| Marine | 5¢ |
| Aviation Gasoline | 4.7¢ |
| Jet Fuel | 3.2¢ |

Returns

Taxpayers file returns and make payment monthly. There are four separate returns possible depending on fuel type. Returns can be filed for diesel, gasoline, aviation and/or gasohol.

The due date is the last day of the month following the month of sale or taxable use. Taxpayers can deduct 1% of the tax due, limited to a maximum of \$100 per return, as a timely filing credit.

Refunds

Consumers may claim a refund for the full tax rate if the consumer used the fuel for exempt purposes; or for the difference between the tax rate and 2¢ per gallon if the consumer used the fuel off-highway.

Resellers, usually retailers, may claim a refund for the full tax if the reseller paid the tax, and then sold the fuel for exempt use and did not collect the tax.

Exemptions

In addition to sales between qualified dealers, the following sales and use are exempt from motor fuel tax:

- Heating*
- Federal, state and local government agencies*
- Foreign flights (jet fuel)*
- Exports*
- Power plants/utilities*
- Charitable institutions*
- Gasohol (only fuel containing at least 10% alcohol derived from wood or seafood waste)*
- Bunker fuel (residual fuel oil known as #6 fuel oil)*

Disposition of Revenue

The Division deposits nearly all revenue derived from motor fuel taxes into the General Fund. Revenue from each category of fuel is accounted for separately in the Division's tax accounting system. For example, proceeds from tax on motor fuel used in boats and watercraft are deposited in a special watercraft fuel tax account and proceeds from tax on motor fuel used in highway vehicles are deposited in a special highway fuel tax account within the General Fund.

The Division shares with the respective municipalities sixty percent of taxes attributable to aviation fuel sales at municipally owned or operated airports. All other proceeds of the taxes on aviation fuel are paid into a special aviation fuel tax account.

History

The motor fuel tax dates back to 1945 when the legislature imposed a tax of 1¢ per gallon on all motor fuel. Over time, the legislature enacted separate tax rates for each of the fuel categories as they exist today. Motor fuel tax rates have changed as follows:

| <i>Highway</i> | <i>Per Gallon</i> |
|----------------|-------------------|
| 1945 | 1¢ |
| 1947 | 2¢ |
| 1955 | 5¢ |
| 1960 | 7¢ |
| 1961 | 8¢ |
| 1964 | 7¢ |
| 1970 | 8¢ |

| <i>Gasohol</i> | <i>Per Gallon</i> |
|--|-------------------|
| 1997 | 8¢/2¢ |
| <i>(2¢ November through February where required)</i> | |

| <i>Marine</i> | <i>Per Gallon</i> |
|---------------|-------------------|
| 1945 | 1¢ |
| 1947 | 2¢ |
| 1955 | 5¢ |
| 1957 | 2¢ |
| 1960 | 3¢ |
| 1971 | 4¢ |
| 1977 | 5¢ |

MOTOR FUEL TAX

| <i>Aviation Gasoline</i> | <i>Per Gallon</i> |
|--------------------------|-------------------|
| 1945 | 1¢ |
| 1947 | 2¢ |
| 1955 | 3¢ |
| 1968 | 4¢ |
| 1994 | 4.7¢ |

| <i>Jet Fuel</i> | <i>Per Gallon</i> |
|-----------------|-------------------|
| 1957 | 1.5¢ |
| 1968 | 2.5¢ |
| 1994 | 3.2¢ |

1994 – The legislature enacted a tax decrease for bunker fuel. The tax rate decreases from 5¢ to 1¢ per gallon on bunker fuel sales exceeding 4.1 million gallons. This tax decrease sunsetted on June 30, 1998.

1997 – The gasohol exemption was repealed. The legislature enacted a provision that reduces the tax on gasohol from 8¢ to 2¢ per gallon in areas and at times when the use of gasohol is required. However, gasohol has not been required since the winter of 2002-2003. Therefore, gasohol is currently taxed at the full tax rate of 8¢. In certain circumstances, gasohol that is blended with at least 10% alcohol derived from wood or seafood waste is fully exempt.

The legislature expanded the foreign flight exemption to include flights originating from foreign countries in addition to the existing exemption for flights with a foreign destination. This legislation included a permanent exemption for bunker fuel (residual fuel oil known as #6 fuel oil) which nullified the 1994 bunker fuel tax rate reduction.

1998 - The legislature authorized taxpayers to take a “bad debt” credit for sales deemed to be worthless and for sales to persons who file bankruptcy.

2003 – Motor Fuel Tax: Government Agency Refunds. This legislation makes it easier for the state to issue motor fuel excise tax refunds for credit card purchases made by federal, state, and local government agencies.

FY 2004 Statistics

| | |
|--|--------------|
| Tax Collections | \$41,367,326 |
| <i>Including penalties and interest</i> | |
| Number of Returns | 3,401 |
| Number of Taxpayers | 255 |
| | |
| Program Cost | \$308,298 |
| Staffing (<i>full time equivalent</i>) | 4.5 |

**OIL AND GAS EXPLORATION, PRODUCTION AND
PIPELINE TRANSPORTATION PROPERTY TAXES
AS 43.56**

Description

Each year Alaska levies the oil and gas property tax on the value of taxable exploration, production, and pipeline transportation property located within the state. The Division has established procedures for the three distinct classes of property.

Exploration Property is valued at the estimated price which the property would bring in an open market and under the then prevailing market conditions in a sale between a willing seller and a willing buyer, both conversant with the property and with prevailing general price levels.

Production Property value is determined on the basis of replacement cost of similar new property, less depreciation based on the economic life of the proven reserves.

Pipeline Transportation Property is generally valued based on its economic value relative to the reserves feeding into the pipeline.

Rate

The State tax rate is 20 mills, or 2%, of the assessed value.

Returns

Taxpayers file annual returns reporting taxable property as of January 1 of the assessment year. Returns are due on or before January 15. Payment is due on or before June 30.

Exemptions

Oil and gas reserves, oil or gas leases, and the lease or rights to explore or produce oil or gas are exempt, as are intangible drilling and exploration expenditures. Certain aircraft, motor vehicles, communication facilities, and buildings may be exempt even though they are associated with oil or gas exploration, production, or pipeline transportation. Oil or gas pipeline transportation systems owned and operated by a public utility are exempt.

Credits

Municipal property taxes paid. Taxpayers receive a credit against state oil and gas property tax for property taxes paid to municipalities on taxable property. The credit is limited to the amount of state tax otherwise due.

Oil or Gas Property Education Credit. Taxpayers who make contributions for educational purposes to Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Disposition of Revenue

The Division deposits in the General Fund all net revenue derived from oil and gas property taxes except as noted below.

The Division deposits revenues received pursuant to a resolution of a dispute with taxpayers into the CBRF.

History

The legislature enacted this tax in 1973 during the first special session of the eighth legislature. The State assists local governments by assessing property subject to the tax, insuring uniform treatment of all taxable property.

FY 2004 Statistics

| | |
|--|----------------------|
| Property Tax Billed | \$266,210,393 |
| CBRF | 87,868 |
| Less Municipal Tax Credit | <u>(218,798,614)</u> |
| Net Tax Due to State | 47,499,647 |
| Number of Returns | 687 |
| Number of Taxpayers | 104 |
| Program Costs | \$388,541 |
| Staffing (<i>full time equivalent</i>) | 3.1 |

OIL AND GAS PRODUCTION TAX

AS 43.55

Description

Alaska imposes the production tax on all oil and gas produced in Alaska. The Oil and Gas Production Tax and the Conservation Surcharge on Oil are severance taxes.

Rate

The rate of taxation for oil varies depending on the vintage of the field and is further subject to the economic limit factor (ELF). The ELF varies depending on field size and well productivity.

The severance tax rate on oil is 12.25% of production value as determined at the point of production, for the first 5 years of production and 15% thereafter. There is a minimum tax of \$0.80/bbl.

Both the percent of value and the cents per barrel tax rates are subject to the ELF. The effective tax rate is the appropriate tax rate multiplied by the ELF.

The ELF formula results in lower tax rates for smaller, low productive fields and higher tax rates for larger highly productive fields. The formula is difficult to characterize in a simple way because it is based on a fraction that is calculated using fractional exponents and is unique for every combination of field size and well productivity. A field that produces 300 bbl/day per well or less has an ELF of zero i.e. no severance taxes are assessed.

In Fiscal Year 2004, four of Alaska's North Slope 24 producing fields had an ELF higher than 0.1:

| <i>Field</i> | <i>ELF</i> | <i>FY04 Tax Rate</i> |
|--------------|------------|--------------------------|
| Prudhoe | .8503 | 12.75 % |
| North Star | .8471 | 10.38 % |
| Alpine | .8421 | 10.32 % |
| Kuparuk | .1650 | 2.47 % |
| Pt. McIntyre | .0983 | 1.47 % |
| Borealis | .0757 | 0.93 % |
| Tarn | .0518 | 0.78 % |

The 4 largest fields account for 98% of all production tax revenues.

The severance tax rate on gas is 10% of production value. There is a minimum tax of \$0.064/mcf. The gas severance tax rate is also subject to an ELF based on daily gas production per well.

Returns

Returns are filed monthly and due with payment of taxes on or before the 20th day of the month following the month of production.

Exemptions

The tax is levied on all production except for public (government) royalty production.

Credits

Education - Taxpayers who make contributions for educational purposes to accredited Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 per tax year.

Oil and Gas Exploration Incentive – There are two exploration credits available to the producers. The first “Oil and Gas Exploration Incentive” is approved by the commissioner of Department of Natural Resources, and the second “Oil and Gas Exploration Tax Credit” is approved by the Department of Revenue. A producer may claim either one, but not both.

Taxpayers may take a credit for up to 50% on state land (or 25% on non state lands) of oil and gas exploration costs approved by the commissioner of Natural Resources. An approved oil and gas exploration incentive credit may not exceed \$5 million per project and is limited to \$30 million per taxpayer. Taxpayers may apply the credit against 100% of oil and gas production taxes.

Oil and Gas Exploration Tax Credit - Explorers may take a credit against their production taxes of (1) 20% of allowable expenses for exploration wells drilled more than 3 miles from a preexisting well, (2) 20% of allowable expenses for exploration wells drilled more than 25 miles from the boundary of a unit or (3) 40% of allowable expenses for certain seismic work and for exploration wells that meet both condition (1) and (2). Once approved, the credit or any remaining portion of it

OIL AND GAS PRODUCTION TAX

can be either carried forward month to month until fully applied, or sold to another taxpayer.

To qualify the work must have been performed between July 1, 2003 and July 1, 2007. However the credits cannot be applied until after July 1, 2004 (i.e. in FY 2005).

Disposition of Revenue

All revenue derived from the Oil and Gas Production Tax is deposited in the General Fund except that payments received as a consequence of an assessment are deposited in the Constitutional Budget Reserve Fund (CBRF).

History

1955 – The legislature enacts an oil and gas production tax of 1% of production value.

1967 – A 1% disaster production tax is enacted to provide relief after the Fairbanks flood.

1968 – The legislature increases oil and gas production tax from 1% to 3% of production value.

1970 – The legislature repeals the disaster oil and gas production tax. The legislature changes the oil production tax to a graduated tax with rates of 3% on the first 300 barrels per day per well, 5% on the next 700 barrels per day per well, 6% on the next 1500 barrels per day and 8% on production exceeding 2500 barrels per day per well.

1972 – The legislature establishes a minimum oil production tax based on “cents per barrel” equivalent to percent of value tax on oil with wellhead value of \$2.65 per barrel.

1973 – The legislature revises the “stairstep” rate schedule to lower production levels. The legislature indexes the cents per barrel minimum to the wholesale price index for crude oil published by the US Bureau of Labor Statistics.

1977 – The legislature raises the nominal gas production tax rate to 10%. The legislature raises the nominal oil production tax rate to 12.25% and adopts the oil and gas economic limit factors.

1981 – As part of legislation that repealed the separate accounting oil and gas corporation income

tax, the nominal tax rate on oil produced prior to 1981 was raised to 15% and fields coming into production after 1981 are taxed at 12.25% for five years after which the rate increases to 15%. The oil economic limit factor is now subject to a rounding rule so that if the calculated factor is greater than or equal to 0.7 during the first 10 years of production, the factor is set to 1.0.

1989 – The legislature changes the economic limit factor for oil production taxes to include a field size factor in the formula, fixes the production at the economic limit (not rebuttable) at 300 barrels per well per day, and drops the rounding rule. The legislature fixes production at the economic limit for gas production at 3000 mcf per well per day.

2002 - Alaska Veterans’ Memorial Endowment, SB 267, provides credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans’ Memorial Endowment Fund. The tax credit expired on July 1, 2003.

2003 – To encourage drilling for oil and gas within the state, AS 43.55.025 provided a new tax credit for exploration costs. The minimum credit is 20% and the maximum 40% for qualified expenditures.

FY 2004 Statistics

| | |
|---------------------------------------|---------------|
| Tax Collections - Production Tax only | |
| General Fund | \$642,819,003 |
| CBRF | \$4,236,962 |
| Total of GF and CBRF | \$647,055,965 |

| | |
|---------------------|-------|
| Number of Returns | 2,318 |
| Number of Taxpayers | 15 |

| | |
|--|-------------|
| Severance Taxes* | |
| Program Cost | \$2,175,441 |
| Staffing (<i>full time equivalent</i>) | 24.1 |

* The Oil and Gas Production Tax is reported on the same return and by the same taxpayers as Alaska’s other production tax, Conservation Surcharge on Oil (AS 43.55). We have not segregated program cost and staffing related to each individual tax. Production tax program cost and staffing represent the resources committed to both levies.

REGULATORY COST CHARGES

AS 42.05 (Utilities) and AS 42.06 (Pipeline)

Description

Regulatory cost charges (RCC) are user fees levied on utilities to fund the Regulatory Commission of Alaska's (RCA) costs of regulating utilities and pipeline carriers in Alaska. Regulated utilities pass charges to consumers, collect, and remit the charges to the Division.

Rate

For FY04, the following rates applied:

| | |
|--------------------|---------------|
| Electric Utilities | \$.000392/kWh |
|--------------------|---------------|

*The following are based on a
percentage of total revenues*

| | |
|--------------------------------|---------|
| <hr/> | |
| Telephone Utilities | |
| Local Exchange | 1.290 % |
| Inter Exchange | 1.297 % |
| Pipeline Carriers | 0.491 % |
| Natural Gas Utilities | 0.106 % |
| Refuse Utilities | 0.807 % |
| Water and Wastewater Utilities | 0.867 % |
| Cable Utilities | 1.601 % |
| District Heat Utilities | 1.304 % |

Rates are effective October 1 through September 30 and are based on the costs the RCA incurs when working on matters that pertain to a specific utility or pipeline carrier.

Returns

Quarterly returns and payment of RCCs are due on the 30th day following the calendar quarter. Utilities and carriers are required to file a copy of their returns with RCA.

Exemptions

Utilities not regulated by RCA are exempt from the RCC program.

Disposition of Revenue

The Division deposits all revenue derived from the RCC program into the General Fund. The legislature

may make appropriations from the General Fund to fund RCA based on regulatory cost charges collected.

History

The Alaska legislature enacted the RCC program in 1992 to cover RCA's costs of regulating utilities. The RCC legislation provided for a sunset date of December 1994. Rates went into effect through regulations, which became effective November 1992.

1994 – The RCC program sunsetted December 1994, as provided under the 1992 legislation that authorized the regulatory cost charges.

In the fall of 1994, RCA promulgated regulations which established RCC rates for FY95 on an annualized basis. The regulations took effect December 1994.

1995 – The legislature reauthorized the RCC program which became effective June 1995. Effective October 1995, RCA adopted regulations to reestablish quarterly payments.

1999 – The legislature required that separate RCC rates be calculated for each regulated utility and changed the methodology for calculating rates.

FY 2004 Statistics

| | |
|---|-------------|
| Total RCC Collections | |
| <i>Electric, Telephone, Pipeline Carriers and other utilities</i> | \$5,655,595 |
| Number of Returns | 523 |
| Number of Taxpayers | 123 |
| Program Cost | \$15,969 |
| Staffing (<i>full time equivalent</i>) | 0.3 |

SALMON ENHANCEMENT TAX

AS 43.76

Description

The salmon enhancement tax is an elective tax levied on salmon sold in or exported from established aquaculture regions in Alaska. Commercial fishers in each region elect to pay a 2% or 3% tax based on the value of salmon sold in or exported from that region.

Fishers pay salmon enhancement taxes to buyers at the time of sale or to the Division for salmon exported from the region. Buyers remit taxes collected from fishers to the Division.

Rate

Commercial fishers elected tax rates for the following regional aquaculture associations:

| <i>Region</i> | <i>Rate</i> | <i>Effective</i> |
|----------------------|-------------|------------------|
| Southern Southeast | 3 % | 1981 |
| Northern Southeast | 3 % | 1981 |
| Cook Inlet | 2 % | 1981 |
| Prince William Sound | 2 % | 1985 |
| Kodiak | 2 % | 1988 |
| Chignik | 2 % | 1991 |

Returns

Buyers file returns and pay tax monthly. The due date is the last day of the month following the month of purchase or export.

Buyers file returns for payments made to fishers after the close of the fishing season. Returns for these payments are due with additional taxes by the last day of the month following the payment.

Exemptions

Salmon harvested under a special harvest area permit (typically, salmon harvested by salmon hatcheries) is exempt from the salmon enhancement tax.

Disposition of Revenue

The Division deposits all salmon enhancement tax revenue into the General Fund.

Under AS 43.76.025(c), the legislature may appropriate salmon enhancement tax revenue to

provide financing for qualified regional aquaculture associations

History

The legislature adopted the Salmon Enhancement Act in 1980. The Act established statutes authorizing a 2% or 3% tax, upon election by commercial fishers within established aquaculture regions, on salmon transferred to buyers in Alaska. Commercial fishers in Southern and Northern Southeast aquaculture regions elected a 3% tax and Cook Inlet region elected a 2% tax.

1981 – The legislature amended the Act to subject salmon exported from Alaska to the tax.

1985 – Commercial fishers in the Prince William Sound aquaculture region elected a 2% tax.

1989 – The legislature amended statutes to allow for a 1% tax. Commercial fishers in the Kodiak aquaculture region elected a 2% tax.

1991 – Commercial fishers in the Chignik aquaculture region elected a 2% tax.

2004 – The legislature authorized additional salmon enhancement tax rates, subject to permit holder elections held by qualified regional associations. In addition to the current 1%, 2% or 3% options, ten additional options were made available, ranging from 4% to 30%. This bill also clarifies who must pay the Salmon Marketing Tax and the Salmon Enhancement Tax. When selling to a buyer who does not withhold the tax, fishermen must pay the tax on an annual return. The bill takes effect January 1, 2005.

FY 2004 Statistics

| | |
|--|-------------|
| Tax Collections | \$3,033,565 |
| <i>Including interest and penalties</i> | |
| Number of Returns | 885 |
| Number of Taxpayers | 195 |
| | |
| Program Cost | \$36,324 |
| Staffing (<i>full time equivalent</i>) | 0.6 |

SALMON MARKETING TAX

AS 43.76

Description

Alaska levies the salmon marketing tax on all salmon sold in or exported from Alaska. Commercial fishers pay salmon marketing taxes to buyers based on value of the salmon at the time of sale or fair market value when there is no arms length transaction. Taxpayers pay tax directly to the Division for salmon exported from the state. Buyers remit taxes collected from fishers to the Division.

Rate

The salmon marketing tax rate is 1% and is based on the value of the salmon.

Returns

Taxpayers file returns and pay tax monthly. The due date is the last day of the month following the month of purchase or export.

Exemptions

Salmon harvested under a special harvest area permit (typically, salmon harvested by salmon hatcheries) are exempt from the salmon marketing tax.

Disposition of Revenue

The Division deposits the salmon marketing tax into the General Fund.

AS 43.76.120(d), the legislature may appropriate salmon marketing tax revenue to the Alaska Seafood

Marketing Institute (ASMI) for the purpose of supporting its salmon marketing program.

History

1993 - The legislature enacted a 1% salmon marketing tax to fund salmon marketing administered by ASMI to sunset June 30, 1998.

1998 - The legislature extended the sunset date to June 30, 2003.

2002 - The legislature extended the sunset date to June 30, 2008.

2004 – Legislation prescribed an election to determine the rates and retention of marketing assessments. Note: The election was held in the Fall of 2004 resulting in an increase to the Seafood Marketing Assessment rate to 0.5% and eliminating the Salmon Marketing Tax effective January 1, 2005.

FY 2004 Statistics

| | |
|--|-------------|
| Tax Collections | \$1,963,779 |
| <i>Including interest and penalties</i> | |
| Number of Returns | 900 |
| Number of Taxpayers | 197 |
| Program Cost | \$36,324 |
| Staffing (<i>full time equivalent</i>) | 0.6 |

SEAFOOD MARKETING ASSESSMENT

AS 16.51.120

Description

Alaska levies the seafood marketing assessment on seafood products made in Alaska. Alaska also levies the assessment on unprocessed fisheries product exported from Alaska. The Division generally collects the tax from fisheries processors or landing taxpayers.

Rate

The seafood marketing assessment is 0.3% of the value of seafood products produced in Alaska.

Returns

Taxpayers file calendar year returns that are due with payment of the assessment on March 31 of the following year.

Taxpayers file returns for post-season (bonus) payments made to fishermen after the filing of the calendar year return. Returns for these payments are due with additional assessments by the last day of the month following the payments.

Exemptions

Processors and fishermen who produce less than \$50,000 of seafood products during a calendar year are exempt from the assessment.

Disposition of Revenue

The Division deposits all seafood marketing assessments into the General Fund.

History

1981 - The legislature enacted an elective seafood marketing assessment of 0.1%, 0.2% or 0.3% (elected by large processors in Alaska). In 1981, processors elected a 0.3% assessment to take effect in calendar year 1982.

1996 - The legislature amended seafood marketing assessment statutes to include fishery resources landed in Alaska. The legislation was retroactive to January 1994.

1994 - Prior to FY 96, revenue collected from the 0.3% portion of the original 3.3% landing tax rate was accounted for in a separate account designated as (landing tax) seafood marketing assessments.

2004 - ASMI Board / Seafood Taxes & Assessments bill amends the size of the Alaska Seafood Marketing Institute (ASMI) board to seven governor-appointed members and sets qualifications for members. The bill directs ASMI to hold elections and determine whether to retain the assessment. If the assessment is retained, a second vote will determine whether to increase the seafood marketing assessment from 0.3% to 0.5%. If the increase passes, the current 1% Salmon Marketing Tax will end. If the increase fails, the current assessment will remain and the board will increase to nine members. The bill also establishes processes for future changes to and termination of assessments as well as a minimum processing threshold for paying assessments.

Note: Elections were held as prescribed in law. The vote retained the Seafood Marketing assessment, increased the Seafood Marketing rate to 0.5% and eliminated the Salmon Marketing Tax effective January 1, 2005.

FY 2004 Statistics

| | |
|--|-------------|
| Assessment Collections | \$3,294,577 |
| Number of Returns | 276 |
| Number of Taxpayers | 211 |
| Program Cost | \$47,999 |
| Staffing (<i>full time equivalent</i>) | .08 |

TELEPHONE COOPERATIVE TAX
AS 10.25.550

Description

Alaska levies the telephone cooperative tax on gross revenue of qualified telephone cooperatives under AS 10.25. The Division collects taxes from cooperatives.

Rate

The telephone cooperative tax rate is based on the length of time in which the cooperative has furnished telephone service to consumers as follows:

| <i>Length</i> | <i>% of Revenue</i> |
|-------------------|---------------------|
| Less than 5 years | 1% |
| 5 years or longer | 2% |

Returns

Telephone cooperatives file calendar year returns which are due with payment before March 1 of the following year.

Exemptions

All telephone cooperatives are subject to the cooperative tax. Cooperatives pay the telephone cooperative tax instead of corporate net income tax.

Disposition of Revenue

The Division deposits revenue from the telephone cooperative tax into the General Fund.

Telephone cooperative taxes sourced from within municipalities are shared 100% to respective

municipalities less the amount expended by the state in their collection.

The state retains telephone cooperative taxes sourced from outside of municipalities.

History

1959 – The Legislature enacted the telephone cooperative tax as part of the "Electric and Telephone Cooperative Act" which was adopted to promote cooperatives around the state. The due date for filing telephone cooperative tax returns was April 1 of the following year.

1960 – The due date for filing returns was changed to March 1.

FY 2004 Statistics

| | |
|--|-------------|
| Tax Collections | \$2,101,198 |
| Number of Returns | 9 |
| Number of Taxpayers | 7 |
| Program Cost | \$1,172 |
| Staffing (<i>full time equivalent</i>) | < 0.1 |

Note: Program Costs reflect the cost of the program. The amount retained by the state after sharing (Table 2, Page 16) represents these costs and unshared tax collected outside an organized borough or incorporated city.

TIRE FEE AS 43.98.025

Description

Effective September 26, 2003, Alaska began levying a tire fee on all new tires sold in Alaska. The fee applies to retail sales in Alaska of each new tire for motor vehicles designed for highway use. Effective July 1, 2004, an additional tire fee is imposed on the sale of tires with metal studs or spikes weighing more than 1.1 grams each (“heavy studs”). The studded tire fee also applies to the installation of heavy studs in a new or used tire. The Tax Division collects tire fees primarily from tire dealerships.

Rate

The fee for the sale of all new tires is \$2.50 per tire, whether the tire is studded or not. The studded tire fee is \$5.00 per tire.

Returns

Taxpayers are required to file returns and remit the fee quarterly. The returns and payment are due 30 days following the calendar quarter in which the taxpayer made the sales. The first returns were due October 30, 2003.

Taxpayers may retain 5% of the amount collected, limited to a maximum of \$900 per quarter, to cover expenses associated with collecting and remitting the fees.

Exemptions

Fees imposed by AS 43.98.025 do not apply to the following tires and services if the purchaser provides the tire seller with a certificate of use:

- *Tires sold to federal, state, or local government agencies for official use*
- *Tires for resale*

The \$2.50 tire fee also does not apply to used tires and certain replacements of defective tires.

Disposition of Revenue

The Division deposits all revenue from the tire fee into the General Fund.

History

The law imposing the tire fee was passed in May 2003 and is comprised of two components.

The first part of the law imposes a \$2.50 fee on all new tires sold in Alaska for motor vehicles designed for highway use and became effective September 26, 2003. The first quarterly returns were due October 30, 2003.

The second part of the law imposes an additional \$5.00 fee per tire on all new tires with heavy studs and to the installation of heavy studs in new or used tires. This part of the law is effective July 1, 2004.

Both fees are imposed at the retail level.

FY 2004 Statistics

| | |
|--|-----------|
| Tax Collections | \$826,674 |
| Number of Returns | 389 |
| Number of Taxpayers | 131 |
| | |
| Program Cost | \$79,318 |
| Staffing (<i>full-time equivalent</i>) | 1.0 |

TOBACCO TAX

AS 43.50

Description

Alaska levies a tax on cigarettes and other tobacco products. The cigarette tax is levied on cigarettes imported into the state for sale or personal consumption. The tobacco products tax is levied on other tobacco products (other than cigarettes) imported into the state for sale. The Division collects tobacco taxes primarily from licensed wholesalers, distributors, and retailers

Rates

The tax rate on cigarettes is 50 mills (5 cents) per cigarette, or \$1 per pack of 20 cigarettes. Beginning January 1, 2004, the cigarette tax must be paid by purchasing cigarette tax stamps. A cigarette tax stamp must be affixed to the bottom of every pack of cigarettes imported into Alaska for sale or personal consumption as proof that the cigarette tax has been paid.

The tax rate on Other Tobacco Products, which include tobacco products other than cigarettes such as cigars and chewing tobacco, is 75% of the wholesale price. The wholesale price is the established price at which a manufacturer sells tobacco products to a distributor. Beginning January 1, 2004, the Tax Division may adjust the wholesale price upon which tax was calculated if the wholesale price was not established in an arms-length transaction.

Legislation passed during a special legislative session in June 2004 will increase the cigarette tax rate to 80 mills (8 cents) per cigarette, or \$1.60 per pack of 20 cigarettes effective January 1, 2005. This same legislation includes additional cigarette tax increases of 10 mills (1 cent) per cigarette on July 1, 2006 and July 1, 2007. In addition, effective January 1, 2005, there is an additional tax of \$.25 per pack of twenty cigarettes on cigarette brands that are manufactured by manufacturers that did not sign the tobacco Master Settlement Agreement (NPM cigarettes). There was no increase in the other tobacco products tax rate.

Returns

Taxpayers must pay the cigarette tax by purchasing cigarette tax stamps. The other tobacco products tax is paid at the time a tax return is filed. Tax returns are required to be filed on a monthly basis and are due the

last day of the month following the month that cigarette tax stamps were purchased or other tobacco products were imported into the state for sale. Beginning January 1, 2004, taxpayers who purchase cigarette tax stamps are entitled to a stamp discount of 3% on the first \$1,000,000 and 2% on the second \$1,000,000 of cigarette tax stamps purchased in a calendar year. The total stamp discount in each calendar year may not exceed \$50,000. Taxpayers who import other tobacco products for sale may deduct 0.4% of the other tobacco products tax due to cover expenses of accounting and filing returns. Taxpayers could also deduct 0.4% of the cigarette tax due for tax periods prior to January 2004. There is no limit on this deduction.

Exemptions

Sales to authorized military personnel by a military exchange, commissary, or ship store; and sales by an Indian reservation business located within an Indian reservation to members of the reservation are not subject to the tax.

Disposition of Revenue

The Division deposits cigarette tax revenue as follows:

| | |
|--------------|----------------|
| School Fund | 38 mills (76%) |
| General Fund | 12 mills (24%) |

The Division deposits all tobacco products tax revenue into the General Fund.

The Division deposits all cigarette and tobacco products license fees into the School Fund.

The legislature dedicated all revenue deposited into the School Fund for rehabilitation, construction, repair and associated insurance costs of state school facilities.

The entire amount of the tax increases, including the additional \$.25 per pack tax on NPM cigarettes, passed during the special legislative session will be deposited in the General Fund. In addition, beginning January 1, 2005, the legislature may appropriate 8.9% of the receipts deposited in the General Fund to the Tobacco Use Education and Cessation Fund for tobacco cessation programs.

TOBACCO TAX

History

The tobacco tax dates to 1949 when the legislature enacted a tax of 3 cents per pack on cigarettes and 2 cents per ounce on tobacco. There were no exemptions provided in the tax legislation.

1951 – The legislature increased the cigarette tax to 5 cents per pack.

1955 – The legislature eliminated the tobacco products tax and, although the cigarette tax rate remained at 5 cents, the legislature converted the rate to a mill rate per cigarette (2.5 mills per cigarette). The legislature enacted a 1% deduction provision to cover accounting expenses.

1961 – The legislature increased the cigarette tax to 4 mills per cigarette (8 cents per pack). The legislature dedicated revenue from the additional 3 cents to the General Fund.

1977 – The legislature exempted military sales from the cigarette tax.

1983 – The Department of Revenue adopted regulations exempting sales of cigarettes to Indians within an Indian reservation from the cigarette tax.

1985 – The legislature increased the cigarette tax to 8 mills per cigarette (16 cents per pack).

1988 – The legislature enacted the tobacco products tax imposing a tax of 25% of the product wholesale price. The legislature authorized taxpayers to deduct 1% of the tax to cover accounting expenses.

1989 – The legislature increased the cigarette tax rate to 14.5 mills (29 cents per pack of 20).

1997 – Effective October 1, 1997, the legislature increased the cigarette tax rate to 50 mills or \$1 per pack of 20; and the tobacco products tax rate was increased to 75% of wholesale price. The legislature reduced the deduction percentage to cover accounting expenses from 1% to 0.4%.

2001 – Effective July 1, 2001, the Department of Revenue gained new tools to enforce the nationwide Master Settlement Agreement signed by the major cigarette producers and states. It allows the department to share information with other states and entities that may aid in the enforcement of the agreement. It also prohibits tobacco products licensees from importing

and selling cigarettes in Alaska made by nonparticipating manufacturers that fail to comply with the agreement.

2003 – Legislation effective June 17, 2003 requires all cigarette manufacturers to certify to the Division that they are either a signatory to the tobacco Master Settlement Agreement (MSA) or in compliance with Alaska Statute 45.53. The Division is required to post on its website a list of the compliant cigarette manufacturers and their brands. Only those brands of cigarettes included in the list may be sold in Alaska.

2004 – Effective January 1, 2004, the cigarette tax must be paid through the use of cigarette tax stamps. An Alaska cigarette tax stamp must be affixed to each cigarette pack prior to sale, distribution or consumption. Cigarettes found in the state that do not bear a cigarette tax stamp are contraband and subject to immediate seizure by the Department of Revenue or any other law enforcement agency in the state. Additionally, the sale of cigarettes at less than cost is prohibited.

During a special legislative session in June 2004, the legislature passed new legislation that will do the following:

- Effective January 1, 2005, the cigarette tax will increase by 30 mills to 8 cents per cigarette or \$1.60 per pack of twenty cigarettes. An additional tax of 12.5 mills or 25 cents per pack of twenty cigarettes will be assessed on cigarettes imported into the state for sale or personal consumption if the cigarettes were manufactured by a nonparticipating manufacturer (NPM). A nonparticipating manufacturer is a manufacturer that did not sign the tobacco Master Settlement Agreement. Revenue from the entire cigarette tax increase and the additional tax on NPM product will be deposited in the General Fund.
- Effective January 1, 2005, 8.9% of cigarette tax revenue deposited in the General Fund will be deposited into the Tobacco Use Education and Cessation Fund.
- Effective July 1, 2006, the cigarette tax will increase by 10 mills to 9 cents per cigarette or \$1.80 per pack of twenty cigarettes. The

TOBACCO TAX

revenue from this increase will be deposited in the General Fund.

or \$2.00 per pack of twenty cigarettes. The revenue from this increase will be deposited in the General Fund.

- Effective July 1, 2007, the cigarette tax will increase by 10 mills to 10 cents per cigarette

FY 2004 Statistics

| Tax Collections by Fund | |
|--|---------------------|
| General Fund | \$15,990,447 |
| School Fund | 32,865,726 |
| Total Tax Collections by Fund | \$48,856,173 |
| Tax Collections by Product | |
| Cigarettes | \$42,573,286 |
| Other Tobacco Products | 6,561,826 |
| Subtotal | \$49,135,112 |
| Accounting Expense Deduction | (22,936) |
| Tax Stamp Discount | (332,157) |
| Penalties & Interest | 76,154 |
| Total Collections by Product | \$48,856,173 |
| Cigarettes sold or imported into the state - (individual cigarettes) as reported on returns* | |
| Taxable Cigarettes | 851,465,720 |
| Military and Indian Exempt Sales | 6,072,900 |
| Credits for Returns | 8,639,634 |
| Total Cigarettes | 866,178,254 |
| *Does not include cigarettes for which tax stamps were purchased, but were not yet sold or imported into the state | |
| Other Tobacco Products (value) as reported on returns | |
| Taxable Products | \$8,749,101 |
| Military and Indian Exempt Sales | 107,065 |
| Credits for Returns | 201,226 |
| Total Other Tobacco Products | \$9,057,392 |
| License Fee Collections | 4,740 |
| Number of Returns | 862 |
| Number of Taxpayers | 102 |
| Program Cost | \$441,223 |
| Staffing (full time equivalent) | 5.4 |

VEHICLE RENTAL TAX

AS 43.52

Description

The State of Alaska levies an excise tax on costs and fees charged for the lease or rental of a passenger or recreational vehicle if the lease or rental period does not exceed 90 consecutive days. The tax is levied upon the individual renting the vehicle and collected by the rental/lease agency.

Rate

| <i>Type of Vehicle</i> | <i>Rate</i> |
|------------------------|-------------|
| Passenger | 10% |
| Recreational | 3% |

Passenger Vehicle means a motor vehicle (self-propelled, but not by animal or human power) that is driven or moved on a highway or other public right-of-way in the state. Passenger vehicles do not include commercial vehicles, emergency or fire equipment, farm vehicles or recreational vehicles.

Recreational Vehicle means a motor vehicle or trailer for recreational dwelling purposes, a motor home or other vehicle with a motor home body style, a one-piece camper vehicle or any other self-propelled vehicle with living quarters.

Returns

Rental/lease agencies file tax returns and remit the collected vehicle rental taxes quarterly. The returns and payments are due the last day of the month following the end of the calendar quarter in which the rental/lease agencies collected the tax.

Exemptions

Vehicle rental tax does not apply to rentals or leases to federal, state, or local government agencies or employees on official business. The rental agency

must obtain a completed Government Use Exemption Certificate from the renter that specifies the nature of the exemption and contains a signed certification by the renter that the lease or rental is authorized by the government agency and will be used for official use only.

The vehicle rental tax also does not apply to a lease or rental that contains a term exceeding 90 consecutive days or to the rental of taxicabs by taxicab drivers.

Disposition of Revenue

The Division deposits all revenue from the vehicle rental tax into a special vehicle rental account in the General Fund. The legislature may appropriate the actual balance of the vehicle rental tax account for tourism development and marketing.

History

2003 – The legislature enacted the vehicle rental tax on August 20, 2003. The tax was effective January 1, 2004.

2004 – The legislature exempted the rental of taxicabs by taxicab drivers from the vehicle rental tax. Effective May 8, 2004 and retroactive to January 1, 2004, the Department was instructed to refund any tax collected or remitted for taxi cab rentals between January 1 and May 8, 2004.

FY 2004 Statistics

| | |
|--|-------------|
| Tax Collections | \$2,711,572 |
| Number of Returns | 201 |
| Number of Taxpayers | 122 |
| Program Cost | \$70,273 |
| Staffing (<i>full-time equivalent</i>) | 1 |

AUDIT FUNCTION

Description

The audit unit historically consisted of two groups differentiated by tax types. Effective FY04, the Division reorganized the audit function and formed a third audit group, the excise tax audit group.

The **income tax audit group** is responsible for corporate income taxes, including oil and gas corporation net income tax audits.

The **oil and gas production tax audit group** is responsible for the oil and gas production tax audits.

The newly formed **excise tax audit group** is responsible for excise tax audits.

The audit groups with oil and gas responsibilities maintain 100% audit coverage of Alaska largest taxpayers in the oil and gas industry.

FY 2004 Statistics
Income Tax Audit Group - Receipts

| Tax Type | Audit Collections | Total Tax Collections |
|-------------------------|--------------------------|------------------------------|
| Corporate Net Income | | |
| Oil and Gas Corp Income | \$4,035,122 | \$302,867,974 |
| Other Corporations | 4,491,444 | 39,546,080 |
| Total | \$8,526,566 | \$342,414,054 |

Oil and Gas Production Audit Group - Receipts

| Tax Type | Audit Collections | Total Tax Collections |
|----------------------------|--------------------------|------------------------------|
| Oil and Gas Production Tax | \$4,236,962 | \$656,108,482 |
| Oil and Gas Property | 87,868 | 266,298,261 |
| Total | \$4,324,830 | \$922,406,743 |

Excise Tax Audit Group - Receipts

| Tax Type | Audit Collections | Total Tax Collections |
|-----------------|--------------------------|------------------------------|
| Excise Tax | \$88,806 | \$188,680,138 |
| Total | \$88,806 | \$188,680,138 |

| Totals | Total Audit Collections | Total Tax Collections |
|---------------|--------------------------------|------------------------------|
| | \$12,940,202* | \$1,453,500,935** |

* Does not include receipts or refunds resulting from litigation.

** Includes all General Fund, credits, CBRF and School Funds.

APPEALS FUNCTION

Description

Appeals staff continued to work independently and in cooperation with the Department of Law to expedite and resolve issues related to audit and compliance actions. While oil and gas cases retained a priority due to the revenue and important issues involved, gaming cases also were a top priority as the Division continued to deal with compliance issues in the gaming industry.

FY 2004 Statistics

| | Tax Periods* | Taxpayer Count |
|---------------------|--------------|----------------|
| Beginning Inventory | 156 | 47 |
| Plus New Cases | 180 | 73 |
| Less Closed Cases | (102) | (47) |
| Ending Inventory | 234 | 73 |

*Tax periods correspond to periodic tax return filing requirements of taxpayers. One taxpayer may have several tax periods in appeals at the same time.

Appendix A
Historical Overview of Tax Programs

| Tax Type | Legal Reference | First Enacted | Original Tax | Current Tax Structure | Latest Change |
|---------------------------------------|------------------------|----------------------|---|---|---|
| Alcoholic Beverages | AS 43.60 | 1933 | Wine 5 cents/gallon Beer 5 cents/gallon | Product Current Rate Per Gallon Liquor \$12.80 Wine 2.50 Beer (Malt Beverage) and Cider 1.07 Beer (Small Breweries) 0.35 | Effective 10/1/2002, tax rates increase for alcoholic beverages as referenced under "Current Tax Structure". [Beer manufactured by breweries that meet the qualification of 26 U.S.C. 5051(a)(2) is taxed at the rate of \$.35/gallon on the first 60,000 barrels sold in Alaska]. |
| Games of Chance and Contests of Skill | AS 05.15 | 1960 | | \$20 annual permit fee for new and renewal permittees. \$50 renewal permit fee for permittees with \$20,000 to \$100,000 in gross receipts. \$100 renewal permit fee for permittees with over \$100,000 in gross receipts. \$500 annual operator license fee. \$1,000 annual distributor fee. \$2,500 annual manufacturer license fee. 3% tax of an amount equal to the gross receipts less prizes awarded on each series of pull tabs distributed. | 2004 - HB 366 authorizes permits for charitable animal classics, which are games of chance relating to certain actions by rodents or chickens. |
| Conservation Surcharge on Oil | AS 43.55 | 1989 | 5¢/bbl | 3¢/bbl increasing to 5¢/bbl when fund balance drops below \$50m | 1994 - tax rate split based on fund balance. |
| Corporate Net Income | AS 43.20 | 1949 | 10% of federal income tax liability | 1% to 9.4% of net income | 2003 - oil and gas CIT exploration/development credit initiated. |
| Dive Fishery Management Assessment | AS 43.76.150 | 1997 | Voluntary tax of 1, 3, 5, or 7% of value | SE AK Management Area A Geoduck = 5% Sea Cucumber = 5% Sea Urchin = 7% | 2004 - HB 341 added a three additional rates: 2, 4 and 6%. |
| Electric Cooperative | AS 10.25.555 | 1959 | 1% of gross revenue if operating < 5 years; 2% of gross revenue if operating ≥ 5 years | 1/4 mill (\$.00025) per kWh if < 5 years; 1/2 mill (\$.0005) per kWh if ≥ 5 years | 1980 - tax base on kWh rather than gross revenue. |
| Estate | AS 43.31 | 1919 | (Inheritance Tax) Based on value of property | State tax credit on federal estate tax return | 1991 - interest on delinquent tax subject to compound interest under AS 43.05.225. Beginning FY 2003, the state estate tax will phase out as a consequence of changes in federal law. |
| Fisheries Business | AS 43.75 | 1913 | 7¢ per case of canned salmon; Other -- dollar amount based on revenue | Floating - 5% ¹ and 3% ² of value Shore-based - 3% ¹ and 1% ² of value Cannery - 4.5% of value Direct Market - 3% ¹ and 1% ² of value | 2004 – Direct Marketing Fisheries Business / Taxes - authorized new direct marketing fisheries business license with tax rates set at 1% of the value of developing commercial fish species and 3% of the value of other commercial fish species. Section directing DOR to adopt regulations took effect July 4, 2004. Regs and other bill provisions will take effect January 1, 2005. |
| Fishery Resource Landing | AS 43.77 | 1993 | 3.3% of unprocessed value | 3% of value ¹ 1% of value ² | 2001 - quarterly payment of estimated fishery resource landing taxes is required. |

1 Established species 2 Developing species

Appendix A
Historical Overview of Tax Programs

| Tax Type | Legal Reference | First Enacted | Original Tax | Current Tax Structure | Latest Change |
|-------------------------------|--|----------------------|--|--|---|
| Motor Fuel | AS 43.40 | 1945 | 1¢ per gallon on all fuels | Highway - 8¢/gallon Marine - 5¢/gallon Aviation Gas - 4.7¢/gallon Jet Fuel - 3.2¢/gallon | 2001 - regulations adopted introduced new and clarified existing policy for interpreting the statutes. |
| Oil & Gas Property | AS 43.56 | 1973 | 20 mills on full and true value | 20 mills on full and true value | 1996 - oil and gas property education tax credit was enacted. |
| Oil & Gas Production Tax | AS 43.55 | 1955 | 1% of production value | 12.25% of production value during first five years of production, 15% thereafter | 2003 - oil and gas tax credit enacted. |
| Regulatory Cost Charge (APUC) | AS 42.05.253 (Utilities) AS 42.06.285 (Pipelines) | 1992 | Electric Utilities: \$.000626/kWh Other Utilities: .653% gross revenue Pipelines: .653% gross revenue | Electric Utilities: \$.000280/kWh Other Utilities: .568% gross revenue Pipelines: .568% gross revenue | 1998 - rates increased by regulation. |
| Salmon Enhancement | AS 43.76 | 1980 | Voluntary tax of 1%, 2% or 3% of value as elected by fishers in an aquaculture region | Southern Southeast - 3% Northern Southeast - 3% Cook Inlet - 2% Pr. William Sound - 2% Kodiak - 2% Chignik - 2% | 2004 - SB 286 clarified the incidence of the tax; when selling to a buyer who does not withhold the tax, fishermen must now pay the tax on an annual return. SB 322 added ten additional rate options ranging from 4 to 30% |
| Salmon Marketing | AS 43.76 | 1993 | 1% of value of salmon statewide | 1% of value of salmon statewide. | Repealed effective January 1, 2005 |
| Seafood Marketing | AS 16.51.120 | 1981 | Voluntary assessment of .1%, .2% or .3% of value as elected by processors | 0.3% of value of fishery resources produced in Alaska Rate set at 0.5% effective January 1, 2005. | 2004 - SB 273 directed a member election of the Alaska Seafood Marketing Institute (ASMI). Fall election determined retention of Seafood Marketing Assessment and increased the rate to 0.5%. |
| Telephone Cooperative | AS 10.25.550 | 1959 | 1% of gross revenue if operating < 5 years; 2% of gross revenue if operating ≥ 5 years or longer | 1% of gross revenue if operating < 5 years; 2% of gross revenue if operating ≥ 5 years or longer | N/A |
| Tire Fee | AS 43.98 | 2003 | \$2.50 per new tire for highway-use motor vehicles Additional \$5.00 per tire with studs or spikes over 1.1 grams | \$2.50 per new tire for highway-use motor vehicles Additional \$5.00 per tire with studs or spikes over 1.1 grams | N/A |
| Tobacco | AS 43.50 | 1949 | Cigarettes - 3¢ per pack of 20; Tobacco - 2¢ per ounce | 50 mills/cigarette (\$1 per pack of 20) 75% of wholesale price | 2004 - SB 1001 scheduled increases in the tax to \$1.60 per pack on Jan. 1, 2005, to \$1.80 per pack on July 1, 2006, and to \$2.00 on July 1, 2007. An additional tax of \$.25 per pack is imposed on manufacturers that did not sign the Master Settlement Agreement. |
| Vehicle Rental Tax | AS 43.52 | 2004 | 10% on passenger vehicle rentals of 90 days or less 3% on recreational vehicle rentals of 90 days or less | 10% on passenger vehicle rentals of 90 days or less 3% on recreational vehicle rentals of 90 days or less | 2004 - HB 347 added taxicabs to the list of vehicles exempt from the Vehicle Rental Tax. |

Appendix A
Historical Overview of Tax Programs

| Tax Type | Legal Reference | First Enacted | Original Tax | Current Tax Structure | Latest Change |
|------------------------------|------------------------|----------------------|---|------------------------------|--|
| Repealed Tax Programs | | | | | |
| Business License | AS 43.70 | 1949 | \$25 license fee plus .5% of gross receipts > \$20,000 plus .25% of gross receipts > \$50,000 | Repealed | Tax repealed effective January 1, 1979 |
| Oil & Gas Conservation | AS 43.57 | 1955 | 5 mills per barrel of oil or 50,000 cubic feet of natural gas | Repealed | Tax repealed effective July 1, 1999 |
| Coin-operated Devices | AS 43.35 | 1941 | 12.5% of gross receipts on coin-operated machines | Repealed | Tax repealed effective January 1, 1999 |
| Individual Income | AS 43.20 | 1949 | 10% of federal income tax liability | Repealed | Tax repealed retroactive to 1979 |
| School | AS 43.45 | 1919 | \$5 tax on each male person | Repealed | Tax repealed retroactive to 1980 |

Appendix B
Comparison of Alcohol Tax Rates - Liquor
January 2004

Since many states charge a sales tax as well as an alcohol tax, Alaska's total tax on alcohol is not actually the highest among the states.

| State | Rate (\$ per gallon) | Rank* | State | Rate (\$ per gallon) | Rank* |
|---------------|--------------------------------|--------------|----------------|--------------------------------|--------------|
| Alabama | Footnote 1 | N/A | Montana | Footnote 1 | N/A |
| ALASKA | 12.80 | 1 | Nebraska | 3.75 | 16 |
| Arizona | 3.00 | 21 | Nevada | 3.60 | 18 |
| Arkansas | 2.50 | 24 | New Hampshire | Footnote 1 | N/A |
| California | 3.30 | 19 | New Jersey | 4.40 | 10 |
| Colorado | 2.28 | 29 | New Mexico | 6.06 | 4 |
| Connecticut | 4.50 | 8 | New York | 6.44 | 3 |
| Delaware | 3.75 | 15 | North Carolina | Footnote 1 | N/A |
| Florida | 6.50 | 2 | North Dakota | 2.50 | 24 |
| Georgia | 3.79 | 14 | Ohio | Footnote 1 | N/A |
| Hawaii | 5.92 | 5 | Oklahoma | 5.56 | 6 |
| Idaho | Footnote 1 | N/A | Oregon | Footnote 1 | N/A |
| Illinois | 4.50 | 8 | Pennsylvania | Footnote 1 | N/A |
| Indiana | 2.68 | 23 | Rhode Island | 3.75 | 16 |
| Iowa | Footnote 1 | N/A | South Carolina | 2.72 | 22 |
| Kansas | 2.50 | 24 | South Dakota | 3.93 | 13 |
| Kentucky | 1.92 | 31 | Tennessee | 4.40 | 10 |
| Louisiana | 2.50 | 24 | Texas | 2.40 | 28 |
| Maine | Footnote 1 | N/A | Utah | Footnote 1 | N/A |
| Maryland | 1.50 | 32 | Vermont | Footnote 1 | N/A |
| Massachusetts | 4.05 | 12 | Virginia | Footnote 1 | N/A |
| Michigan | Footnote 1 | N/A | Washington | Footnote 1 | N/A |
| Minnesota | 5.03 | 7 | West Virginia | Footnote 1 | N/A |
| Mississippi | Footnote 1 | N/A | Wisconsin | 3.25 | 20 |
| Missouri | 2.00 | 30 | Wyoming | Footnote 1 | N/A |

1 - Sales are through state stores. Revenue is generated from various taxes, fees and net profits.

* Out of 32 states which levy a per gallon tax, highest to lowest.

N/A - Not Applicable

SOURCE: *Federation of Tax Administrators*

Appendix B
Comparison of Alcohol Tax Rates - Wine
January 2004

Since many states charge a sales tax as well as an alcohol tax, Alaska's total tax on alcohol is not actually the highest among the states.

| State | Rate (\$ per gallon) | Rank* | State | Rate (\$ per gallon) | Rank* |
|---------------|-------------------------|----------|----------------|-------------------------|-------|
| Alabama | 1.70 | 4 | Montana | 1.06 | 10 |
| ALASKA | 2.50 | 1 | Nebraska | .95 | 13 |
| Arizona | .84 | 17 | Nevada | .70 | 22 |
| Arkansas | .75 | 19 | New Hampshire | Footnote 1 | N/A |
| California | .20 | 43 | New Jersey | .70 | 22 |
| Colorado | .32 | 38 | New Mexico | 1.70 | 4 |
| Connecticut | .60 | 25 | New York | .19 | 45 |
| Delaware | .97 | 12 | North Carolina | .79 | 18 |
| Florida | 2.25 | 2 | North Dakota | .50 | 31 |
| Georgia | 1.51 | 6 | Ohio | .32 | 38 |
| Hawaii | 1.36 | 8 | Oklahoma | .72 | 21 |
| Idaho | .45 | 34 | Oregon | .67 | 24 |
| Illinois | .73 | 20 | Pennsylvania | Footnote 1 | N/A |
| Indiana | .47 | 33 | Rhode Island | .60 | 25 |
| Iowa | 1.75 | 3 | South Carolina | .90 | 15 |
| Kansas | .30 | 40 | South Dakota | .93 | 14 |
| Kentucky | .50 | 31 | Tennessee | 1.21 | 9 |
| Louisiana | .11 | 46 | Texas | .20 | 43 |
| Maine | .60 | 25 | Utah | Footnote 1 | N/A |
| Maryland | .40 | 35 | Vermont | .55 | 28 |
| Massachusetts | .55 | 28 | Virginia | 1.51 | 6 |
| Michigan | .51 | 30 | Washington | .87 | 16 |
| Minnesota | .30 | 40 | West Virginia | 1.00 | 11 |
| Mississippi | .35 | 37 | Wisconsin | .25 | 42 |
| Missouri | .36 | 36 | Wyoming | Footnote 1 | N/A |

1 - Sales are through state stores. Revenue is generated from various taxes, fees and net profits.

* Out of 46 states which impose a per gallon tax, highest to lowest.

N/A - Not Applicable

SOURCE: *Federation of Tax Administrators*

Appendix B
Comparison of Alcohol Tax Rates -Beer
January 2004

Since many states charge a sales tax as well as an alcohol tax, Alaska's total tax on alcohol is not actually the highest among the states.

| State | Rate (\$ per gallon) | Rank | State | Rate (\$ per gallon) | Rank |
|---------------|--------------------------------|-------------|----------------|--------------------------------|-------------|
| Alabama | .53 | 4 | Montana | .14 | 36 |
| ALASKA | 1.07 | 1 | Nebraska | .31 | 14 |
| Arizona | .16 | 30 | Nevada | .16 | 30 |
| Arkansas | .23 | 20 | New Hampshire | .30 | 15 |
| California | .20 | 21 | New Jersey | .12 | 38 |
| Colorado | .08 | 44 | New Mexico | .41 | 9 |
| Connecticut | .19 | 23 | New York | .11 | 40 |
| Delaware | .16 | 30 | North Carolina | .53 | 4 |
| Florida | .48 | 6 | North Dakota | .16 | 30 |
| Georgia | .48 | 6 | Ohio | .18 | 27 |
| Hawaii | .92 | 2 | Oklahoma | .40 | 11 |
| Idaho | .15 | 34 | Oregon | .08 | 44 |
| Illinois | .185 | 26 | Pennsylvania | .08 | 44 |
| Indiana | .115 | 39 | Rhode Island | .10 | 42 |
| Iowa | .19 | 23 | South Carolina | .77 | 3 |
| Kansas | .18 | 27 | South Dakota | .27 | 16 |
| Kentucky | .08 | 44 | Tennessee | .14 | 36 |
| Louisiana | .32 | 13 | Texas | .19 | 23 |
| Maine | .35 | 12 | Utah | .41 | 9 |
| Maryland | .09 | 43 | Vermont | .265 | 17 |
| Massachusetts | .11 | 40 | Virginia | .26 | 19 |
| Michigan | .20 | 21 | Washington | .261 | 18 |
| Minnesota | .15 | 34 | West Virginia | .18 | 27 |
| Mississippi | .43 | 8 | Wisconsin | .06 | 48 |
| Missouri | .06 | 48 | Wyoming | .02 | 50 |

SOURCE: *Federation of Tax Administrators*

Appendix B
Comparison of Highway Gasoline Tax Rates
January 2004

| State | Rate (¢ per gallon) | Other Tax⁽¹⁾ (¢ per gallon) | Total (¢ per gallon) | Rank |
|------------------|--------------------------------|---|---------------------------------|-------------|
| Alabama | 16 | 2 | 18 | 37 |
| ALASKA | 8 | 0 | 8 | 50 |
| Arizona | 18 | 0 | 18 | 37 |
| Arkansas | 21.5 | 0 | 21.5 | 22 |
| California | 18 | 0 | 18 | 37 |
| Colorado | 22 | 0 | 22 | 20 |
| Connecticut | 25 | 0 | 25 | 9 |
| Delaware | 23 | 0 | 23 | 18 |
| Dist of Columbia | 20 | 0 | 20 | 27 |
| Florida | 4 | 10.3 | 14.3 | 48 |
| Georgia | 7.5 | 0 | 7.5 | 51 |
| Hawaii | 16 | 0 | 16 | 45 |
| Idaho | 25 | 1 | 26 | 6 |
| Illinois | 19 | 0.8 | 19.8 | 32 |
| Indiana | 18 | 0 | 18 | 37 |
| Iowa | 20.3 | 0 | 20.3 | 26 |
| Kansas | 24 | 0 | 24 | 13 |
| Kentucky | 15 | 1.4 | 16.4 | 44 |
| Louisiana | 20 | 0 | 20 | 27 |
| Maine | 24.6 | 0 | 24.6 | 10 |
| Maryland | 23.5 | 0 | 23.5 | 17 |
| Massachusetts | 21 | 0 | 21 | 24 |
| Michigan | 19 | 0 | 19 | 34 |
| Minnesota | 20 | 0 | 20 | 27 |
| Mississippi | 18 | 0.4 | 18.4 | 36 |
| Missouri | 17 | 0.03 | 17.03 | 42 |
| Montana | 27 | 0 | 27 | 4 |
| Nebraska | 24.8 | 0.9 | 25.7 | 7 |
| Nevada | 24 | 0 | 24 | 13 |
| New Hampshire | 18 | 1.5 | 19.5 | 33 |
| New Jersey | 10.5 | 4 | 14.5 | 47 |
| New Mexico | 17 | 1.9 | 18.9 | 35 |
| New York | 8 | 14.6 | 22.6 | 19 |
| North Carolina | 24.3 | 0.25 | 24.55 | 11 |
| North Dakota | 21 | 0 | 21 | 24 |
| Ohio | 24 | 0 | 24 | 13 |
| Oklahoma | 16 | 1 | 17 | 43 |
| Oregon | 24 | 0 | 24 | 13 |
| Pennsylvania | 12 | 14.2 | 26.2 | 5 |
| Rhode Island | 30 | 1 | 31 | 1 |
| South Carolina | 16 | 0 | 16 | 45 |
| South Dakota | 22 | 0 | 22 | 20 |
| Tennessee | 20 | 1.4 | 21.4 | 23 |
| Texas | 20 | 0 | 20 | 27 |
| Utah | 24.5 | 0 | 24.5 | 12 |
| Vermont | 19 | 1 | 20 | 27 |
| Virginia | 17.5 | 0 | 17.5 | 41 |
| Washington | 28 | 0 | 28 | 3 |
| West Virginia | 20.5 | 4.85 | 25.35 | 8 |
| Wisconsin | 28.5 | 0 | 28.5 | 2 |
| Wyoming | 13 | 1 | 14 | 49 |

⁽¹⁾ Includes state sales tax, gross receipts tax and underground storage tank taxes.

SOURCE: *Federation of Tax Administrators*

Appendix B
Comparison of Highway Aviation Fuel Tax Rates
January 2004

| State | Jet Fuel (¢ per gallon) | Rank¹ | Aviation Gas (¢ per gallon) | Rank² |
|----------------|------------------------------------|-------------------------|--|-------------------------|
| Alabama | 1.0 | 30 | 3.0 | 34 |
| ALASKA | 3.2 | 20 | 4.7 | 30 |
| Arizona | 3.05 | 21 | 5.0 | 24 |
| Arkansas | Sales Tax | N/A | Sales Tax | N/A |
| California | 2.0 | 25 | 18.0 | 5 |
| Colorado | 4.0 | 16 | 6.0 | 19 |
| Connecticut | None | N/A | None | N/A |
| Delaware | None | N/A | 23.0 | 1 |
| Florida | 6.0 | 7 | 6.0 | 19 |
| Georgia | Sales Tax | N/A | 1.0 | 37 |
| Hawaii | 1.0 | 30 | 1.0 | 37 |
| Idaho | 4.5 | 15 | 5.5 | 23 |
| Illinois | 11.0 | 1 | 11.0 | 9 |
| Indiana | 0.8 | 34 | 18.0 | 5 |
| Iowa | 3.0 | 22 | 8.0 | 13 |
| Kansas | Sales Tax | N/A | Sales Tax | N/A |
| Kentucky | Sales Tax | N/A | 16.4 | 7 |
| Louisiana | Sales Tax | N/A | 20.0 | 3 |
| Maine | 3.4 | 19 | 22.0 | 2 |
| Maryland | 7.0 | 5 | 7.0 | 16 |
| Massachusetts | 5.0 | 10 | 10.0 | 10 |
| Michigan | 3.0 | 22 | 3.0 | 34 |
| Minnesota | 5.0 | 10 | 5.0 | 24 |
| Mississippi | 5.25 | 9 | 6.4 | 18 |
| Missouri | Sales Tax | N/A | Sales Tax | N/A |
| Montana | 4.0 | 16 | 4.0 | 32 |
| Nebraska | 3.0 | 22 | 5.0 | 24 |
| Nevada | 1.0 | 30 | 1.0 | 37 |
| New Hampshire | 2.0 | 25 | 4.0 | 32 |
| New Jersey | 2.0 | 25 | 12.5 | 8 |
| New Mexico | Sales Tax | N/A | Sales Tax | N/A |
| New York | 8.0 | 3 | 8.0 | 13 |
| North Carolina | Sales Tax | N/A | Sales Tax | N/A |
| North Dakota | 8.0 | 3 | 8.0 | 13 |
| Ohio | Sales Tax | N/A | Sales Tax | N/A |
| Oklahoma | 0.08 | 35 | 0.08 | 40 |
| Oregon | 1.0 | 30 | 9.0 | 11 |
| Pennsylvania | 2.0 | 25 | 4.3 | 31 |
| Rhode Island | None | N/A | None | N/A |
| South Carolina | Sales Tax | N/A | Sales Tax | N/A |
| South Dakota | 4.0 | 16 | 6.0 | 19 |
| Tennessee | 1.4 | 29 | 1.4 | 36 |
| Texas | None | N/A | None | N/A |
| Utah | 9.0 | 2 | 9.0 | 11 |
| Vermont | None | N/A | 20.0 | 3 |
| Virginia | 5.0 | 10 | 5.0 | 24 |
| Washington | 6.5 | 6 | 6.5 | 17 |
| West Virginia | 4.85 | 14 | 4.85 | 29 |
| Wisconsin | 6.0 | 7 | 6.0 | 19 |
| Wyoming | 5.0 | 10 | 5.0 | 24 |

¹Out of 35 states with tax rates ²Out of 41 states with tax rates

SOURCE: *National Business Aircraft Association, Inc. 2003 State Aviation Tax Report*

Appendix B
Comparison of Cigarette Tax Rates
January 2004

| State | Rate (\$ per pack) | Rank | State | Rate (\$ per pack) | Rank |
|---------------|-----------------------|-----------|----------------|-----------------------|------|
| Alabama | 0.165 | 46 | Montana | 0.70 | 22 |
| ALASKA | 1.00 | 12 | Nebraska | 0.64 | 24 |
| Arizona | 1.18 | 11 | Nevada | 0.80 | 19 |
| Arkansas | 0.59 | 26 | New Hampshire | 0.52 | 33 |
| California | 0.87 | 18 | New Jersey | 2.05 | 1 |
| Colorado | 0.20 | 42 | New Mexico | 0.91 | 17 |
| Connecticut | 1.51 | 3 | New York | 1.50 | 5 |
| Delaware | 0.55 | 29 | North Carolina | 0.05 | 48 |
| Florida | 0.339 | 40 | North Dakota | 0.44 | 35 |
| Georgia | 0.37 | 37 | Ohio | 0.55 | 29 |
| Hawaii | 1.30 | 7 | Oklahoma | 0.23 | 41 |
| Idaho | 0.57 | 27 | Oregon | 1.28 | 8 |
| Illinois | 0.98 | 16 | Pennsylvania | 1.00 | 12 |
| Indiana | 0.555 | 28 | Rhode Island | 1.71 | 2 |
| Iowa | 0.36 | 38 | South Carolina | 0.07 | 47 |
| Kansas | 0.79 | 20 | South Dakota | 0.53 | 32 |
| Kentucky | 0.03 | 49 | Tennessee | 0.20 | 42 |
| Louisiana | 0.36 | 38 | Texas | 0.41 | 36 |
| Maine | 1.00 | 12 | Utah | 0.695 | 23 |
| Maryland | 1.00 | 12 | Vermont | 1.19 | 10 |
| Massachusetts | 1.51 | 3 | Virginia | 0.025 | 50 |
| Michigan | 1.25 | 9 | Washington | 1.425 | 6 |
| Minnesota | 0.48 | 34 | West Virginia | 0.55 | 29 |
| Mississippi | 0.18 | 44 | Wisconsin | 0.77 | 21 |
| Missouri | 0.17 | 45 | Wyoming | 0.60 | 25 |

SOURCE: *Federation of Tax Administrators*

Effective January 1, 2005, the Alaska cigarette tax will increase by 30 mills to 8 cents per cigarette or \$1.60 per pack of twenty cigarettes. An additional tax of 12.5 mills or 25 cents per pack of twenty cigarettes will be assessed on cigarettes imported into the state for sale or personal consumption if the cigarettes were manufactured by a manufacturer that did not sign the tobacco Master Settlement Agreement.

Similar changes are planned in other states and will impact the above rates and ratings.

Appendix B
Comparison of Tobacco Products Tax Rates
January 2004

| State | Rate | State | Rate |
|---------------|----------------------------|-------------------|------------------------------|
| Alabama | .6¢ - 4.4¢/ounce | Montana | 25.0% Wholesale Price |
| ALASKA | 75% Wholesale Price | Nebraska | 20% Wholesale Price |
| Arizona | 13.3¢/ounce | Nevada | 30% Wholesale Price |
| Arkansas | 32% Manufacturer Price | New Hampshire | 19.0% Wholesale Price |
| California | 46.76% Wholesale Price | New Jersey | 30% Wholesale Price |
| Colorado | 20% Manufacturer Price | New Mexico | 25% Product Value |
| Connecticut | 20% Wholesale Price | New York | 37% Wholesale Price |
| Delaware | 15% Wholesale Price | North Carolina | 2% Wholesale Price |
| Florida | 25% Wholesale Price | North Dakota | 28% Wholesale Price |
| Georgia | 23% Wholesale Price | Ohio | 17% Wholesale Price |
| Hawaii | 40% Wholesale Price | Oklahoma | 30% - 40% Factory List Price |
| Idaho | 40% Wholesale Price | Oregon | 65% Wholesale Price |
| Illinois | 18% Wholesale Price | Pennsylvania | N/A |
| Indiana | 15% Wholesale Price | Rhode Island | 30% Wholesale Price |
| Iowa | 22% Wholesale Price | South Carolina | 5% Manufacturer Price |
| Kansas | 10% Manufacturer Price | South Dakota | 10% Wholesale Price |
| Kentucky | N/A | Tennessee | 6.6% Wholesale Price |
| Louisiana | 33% Manufacturer Price | Texas | 35.213% Manufacturer Price |
| Maine | 62% Wholesale Price | Utah | 35% Manufacturer Price |
| Maryland | 15% Wholesale Price | Vermont | 41% Manufacturer Price |
| Massachusetts | 90% Wholesale Price | Virginia | N/A |
| Michigan | 20% Wholesale Price | Washington | 129.42% Wholesale Price |
| Minnesota | 35% Wholesale Price | West Virginia | 7% Wholesale Price |
| Mississippi | 15% Manufacturer Price | Wisconsin | 25% Manufacturer Price |
| Missouri | 10% Manufacturer Price | Wyoming | 20% Wholesale Price |

Tobacco products include chewing tobacco and snuff.

N/A - Not Applicable

SOURCE: *Federation of Tax Administrators*

Appendix B
Comparison of Corporation Income Tax Rates
2004 Tax Year

| State | Rate (%) | Tax Brackets | | Number of Brackets |
|----------------|--|-----------------|-----------------|--------------------|
| | | Lowest | Highest | |
| Alabama | 6.5 | | Flat Rate | 1 |
| ALASKA | 1.0 - 9.4 | \$10,000 | \$90,000 | 10 |
| Arizona | 6.9680 | | Flat Rate | 1 |
| Arkansas | 1.0 - 6.5 | \$3,000 | \$100,000 | 6 |
| California | 8.84 | | Flat Rate | 1 |
| Colorado | 4.63 | | Flat Rate | 1 |
| Connecticut | 7.5 | | Flat Rate | 1 |
| Delaware | 8.7 | | Flat Rate | 1 |
| Florida | 5.5 | | Flat Rate | 1 |
| Georgia | 6.0 | | Flat Rate | 1 |
| Hawaii | 4.4 - 6.4 | \$25,000 | \$100,000 | 3 |
| Idaho | 7.6 | | Flat Rate | 1 |
| Illinois | 7.3 | | Flat Rate | 1 |
| Indiana | 8.5 | | Flat Rate | 1 |
| Iowa | 6.0 - 12.0 | \$25,000 | \$250,000 | 4 |
| Kansas | 4.0 | | Flat Rate | 1 |
| Kentucky | 4.0 - 8.25 | \$25,000 | \$250,000 | 5 |
| Louisiana | 4.0 - 8.0 | \$25,000 | \$200,000 | 5 |
| Maine | 3.5 - 8.93 | \$25,000 | \$250,000 | 4 |
| Maryland | 7.0 | | Flat Rate | 1 |
| Massachusetts | 9.5 | | Flat Rate | 1 |
| Michigan | <i>Tax Based on Federal Taxable Income</i> | | | N/A |
| Minnesota | 9.8 | | Flat Rate | 1 |
| Mississippi | 3.0 - 5.0 | \$5,000 | \$10,000 | 3 |
| Missouri | 6.25 | | Flat Rate | 1 |
| Montana | 6.75 | | Flat Rate | 1 |
| Nebraska | 5.58 - 7.81 | | \$50,000 | 2 |
| Nevada | <i>No Corporation Income Tax</i> | | | N/A |
| New Hampshire | 8.5 | | Flat Rate | 1 |
| New Jersey | 9.0 | | Flat Rate | 1 |
| New Mexico | 4.8 - 7.6 | \$500,000 | \$1,000,000 | 3 |
| New York | 7.5 | | Flat Rate | 1 |
| North Carolina | 6.9 | | Flat Rate | 1 |
| North Dakota | 3.0 - 10.5 | \$3,000 | \$50,000 | 6 |
| Ohio | 5.1 - 8.5 | | \$50,000 | 2 |
| Oklahoma | 6.0 | | Flat Rate | 1 |
| Oregon | 6.6 | | Flat Rate | 1 |
| Pennsylvania | 9.99 | | Flat Rate | 1 |
| Rhode Island | 9.0 | | Flat Rate | 1 |
| South Carolina | 5.0 | | Flat Rate | 1 |
| South Dakota | <i>No Corporation Income Tax</i> | | | N/A |
| Tennessee | 6.5 | | Flat Rate | 1 |
| Texas | <i>Tax Based on Capital and Surplus</i> | | | N/A |
| Utah | 5.0 | | Flat Rate | 1 |
| Vermont | 7.0 - 9.75 | \$10,000 | \$250,000 | 4 |
| Virginia | 6.0 | | Flat Rate | 1 |
| Washington | <i>No Corporation Income Tax</i> | | | N/A |
| West Virginia | 9.0 | | Flat Rate | 1 |
| Wisconsin | 7.9 | | Flat Rate | 1 |
| Wyoming | <i>No Corporation Income Tax</i> | | | N/A |

Source: Federation of Tax Administrators

Appendix B
Comparison of Individual Income Tax Rates*
2004 Tax Year

| State | Rate (%) | Tax Brackets | | Number of Brackets |
|----------------|-------------|--|-----------|--------------------|
| | | Lowest | Highest | |
| Alabama | 2.0 - 5.0 | \$500 | \$3,000 | 3 |
| ALASKA | | No State Income Tax | | N/A |
| Arizona | 2.87 - 5.04 | \$10,000 | \$150,000 | 5 |
| Arkansas | 1.0 - 7.0 | \$3,999 | \$27,500 | 6 |
| California | 1.0 - 9.3 | \$5,962 | \$39,133 | 6 |
| Colorado | 4.63 | Flat Rate | | 1 |
| Connecticut | 3.0 - 5.0 | \$10,000 | \$10,000 | 2 |
| Delaware | 2.2 - 5.95 | \$5,000 | \$60,000 | 6 |
| Florida | | <i>No State Income Tax</i> | | N/A |
| Georgia | 1.0 - 6.0 | \$750 | \$7,000 | 6 |
| Hawaii | 1.4 - 8.25 | \$2,000 | \$40,000 | 9 |
| Idaho | 1.6 - 7.8 | \$1,104 | \$22,074 | 8 |
| Illinois | 3.0 | Flat Rate | | 1 |
| Indiana | 3.4 | Flat Rate | | 1 |
| Iowa | .36 - 8.98 | \$1,211 | \$54,495 | 9 |
| Kansas | 3.5 - 6.45 | \$15,000 | \$30,000 | 3 |
| Kentucky | 2.0 - 6.0 | \$3,000 | \$8,000 | 5 |
| Louisiana | 2.0 - 6.0 | \$12,500 | \$25,000 | 3 |
| Maine | 2.0 - 8.5 | \$4,250 | \$16,950 | 4 |
| Maryland | 2.0 - 4.75 | \$1,000 | \$3,000 | 4 |
| Massachusetts | 5.3 | Flat Rate | | 1 |
| Michigan | 4.0 | Flat Rate | | 1 |
| Minnesota | 5.35 - 7.85 | \$194,400 | \$63,860 | 3 |
| Mississippi | 3.0 - 5.0 | \$5,000 | \$10,000 | 3 |
| Missouri | 1.5 - 6.0 | \$1,000 | \$9,000 | 10 |
| Montana | 2.0 - 11.0 | \$2,199 | \$76,199 | 10 |
| Nebraska | 2.56 - 6.84 | \$2,400 | \$26,500 | 4 |
| Nevada | | <i>No State Income Tax</i> | | N/A |
| New Hampshire | | <i>Tax Limited to Dividends and Interest</i> | | N/A |
| New Jersey | 1.4 - 6.37 | \$20,000 | \$75,000 | 6 |
| New Mexico | 1.7 - 6.8 | \$5,500 | \$26,000 | 5 |
| New York | 4.0 - 7.70 | \$8,000 | \$500,000 | 7 |
| North Carolina | 6.0 - 8.25 | \$12,750 | \$120,000 | 4 |
| North Dakota | 2.1 - 5.54 | \$28,400 | \$311,950 | 5 |
| Ohio | 0.743 - 7.5 | \$5,000 | \$200,000 | 9 |
| Oklahoma | 0.5 - 7.0 | \$1,000 | \$10,000 | 8 |
| Oregon | 5.0 - 9.0 | \$2,600 | \$6,500 | 3 |
| Pennsylvania | 3.07 | Flat Rate | | 1 |
| Rhode Island | | <i>25% Federal Tax Liability</i> | | N/A |
| South Carolina | 2.5 - 7.0 | \$2,400 | \$12,300 | 6 |
| South Dakota | | <i>No State Income Tax</i> | | N/A |
| Tennessee | | <i>Tax Limited to Dividends and Interest</i> | | N/A |
| Texas | | <i>No State Income Tax</i> | | N/A |
| Utah | 2.3 - 7.0 | \$863 | \$4,313 | 6 |
| Vermont | 3.6 - 9.5 | \$29,050 | \$319,100 | 5 |
| Virginia | 2.0 - 5.75 | 3,000 | 17,000 | 4 |
| Washington | | <i>No State Income Tax</i> | | N/A |
| West Virginia | 3.0 - 6.5 | \$10,000 | \$60,000 | 5 |
| Wisconsin | 4.6 - 6.75 | \$8,610 | \$129,150 | 4 |
| Wyoming | | <i>No State Income Tax</i> | | N/A |

* Rates apply to unmarried individuals

SOURCE: Federation of Tax Administrators

Appendix B
Comparison of Sales Tax Rates
2004 Tax Year

| State | Rate (%) | Exemptions | | |
|----------------|----------|---------------------------|--------------------|-----------------------|
| | | Food | Prescription Drugs | Nonprescription Drugs |
| Alabama | 4.0 | No | Yes | No |
| ALASKA | | No State Sales Tax | | |
| Arizona | 5.6 | Yes | Yes | No |
| Arkansas | 5.125 | No | Yes | No |
| California | 7.25 | Yes | Yes | No |
| Colorado | 2.9 | Yes | Yes | No |
| Connecticut | 6.0 | Yes | Yes | Yes |
| Delaware | | <i>No State Sales Tax</i> | | |
| Florida | 6.0 | Yes | Yes | Yes |
| Georgia | 4.0 | Yes | Yes | No |
| Hawaii | 4.0 | No | Yes | No |
| Idaho | 6.0 | No | Yes | No |
| Illinois | 6.25 | 1% | 1% | 1% |
| Indiana | 6.0 | Yes | Yes | No |
| Iowa | 5.0 | Yes | Yes | No |
| Kansas | 5.3 | No | Yes | No |
| Kentucky | 6.0 | Yes | Yes | No |
| Louisiana | 4.0 | Yes | Yes | No |
| Maine | 5.0 | Yes | Yes | No |
| Maryland | 5.0 | Yes | Yes | Yes |
| Massachusetts | 5.0 | Yes | Yes | No |
| Michigan | 6.0 | Yes | Yes | No |
| Minnesota | 6.5 | Yes | Yes | Yes |
| Mississippi | 7.0 | No | Yes | No |
| Missouri | 4.225 | 1.225% | Yes | No |
| Montana | | <i>No State Sales Tax</i> | | |
| Nebraska | 5.5 | Yes | Yes | No |
| Nevada | 6.5 | Yes | Yes | No |
| New Hampshire | | <i>No State Sales Tax</i> | | |
| New Jersey | 6.0 | Yes | Yes | Yes |
| New Mexico | 5.0 | No | Yes | No |
| New York | 4.25 | Yes | Yes | Yes |
| North Carolina | 4.5 | Yes | Yes | No |
| North Dakota | 5.0 | Yes | Yes | No |
| Ohio | 6.0 | Yes | Yes | No |
| Oklahoma | 4.5 | No | Yes | No |
| Oregon | | <i>No State Sales Tax</i> | | |
| Pennsylvania | 6.0 | Yes | Yes | Yes |
| Rhode Island | 7.0 | Yes | Yes | Yes |
| South Carolina | 5.0 | No | Yes | No |
| South Dakota | 4.0 | No | Yes | No |
| Tennessee | 7.0 | 6% | Yes | No |
| Texas | 6.25 | Yes | Yes | Yes |
| Utah | 4.75 | No | Yes | No |
| Vermont | 6.0 | Yes | Yes | Yes |
| Virginia | 4.5 | 4% | Yes | Yes |
| Washington | 6.5 | Yes | Yes | No |
| West Virginia | 6.0 | No | Yes | No |
| Wisconsin | 5.0 | Yes | Yes | No |
| Wyoming | 4.0 | No | Yes | No |

Source: Federation of Tax Administrators