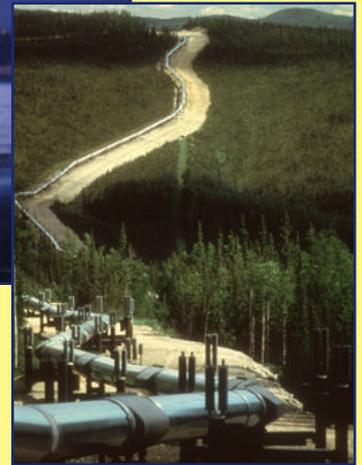
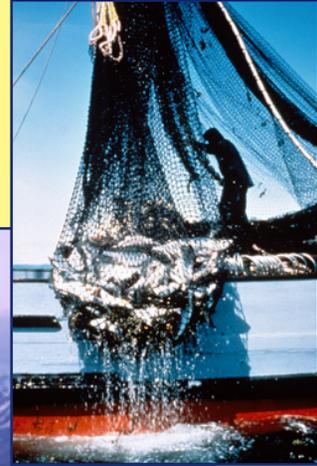


2006



Alaska Tax Division
DEPARTMENT OF REVENUE

Annual Report

Alaska Tax Division 2006 Annual Report



This annual report covers the 2006 fiscal year – July 1, 2005 to June 30, 2006.

This report provides an overview of programs administered by the Tax Division and reports revenue collections and other information related to those programs.

The figures in this Tax Division Annual Report differ slightly from those of the Revenue Sources Book (www.tax.state.ak.us) due to timing issues. Some amounts which should have been recorded in the following fiscal year were recorded in FY 2006 in the state accounting system.

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Tax Division Overview

The Tax Division administers programs that generate significant General Fund revenue used for funding much of state government.

Programs Administered by the Tax Division

Oil and Gas Taxes

- Corporate Income
- Conservation Surcharge
- Production
- Property

Excise Taxes

- Alcoholic Beverages
- Mining License
- Motor Fuel
- Tire Fee
- Tobacco
- Vehicle Rental

Other Taxes

- Electric Cooperative
- Estate
- Regulatory Cost Charges
- Telephone Cooperative

Corporate Income Tax (Other than oil and gas)

Fisheries Taxes

- Dive Fishery Management
- Fisheries Business
- Fishery Resource Landing
- Salmon Enhancement
- Seafood Development
- Seafood Marketing

Other Programs

- Gaming
- Revenue Sources Reporting
- Salmon Price Reporting

Figure 1 – Three-Year Comparison of Revenue Collections

Program (All Funds)	FY 2006	% Fund	FY 2005	% Fund	FY 2004	% Fund
Oil and Gas						
Production ¹	\$1,194,317,635	51.14%	\$880,644,819	50.82%	\$647,055,965	52.40%
Corporate Income ¹	702,211,982	30.06%	529,944,518	30.58%	302,867,974	24.53%
Property ¹	54,557,701	2.34%	42,911,633	2.48%	47,499,647	3.85%
Conservation Surcharge	<u>7,758,733</u>	<u>0.33%</u>	<u>8,330,521</u>	<u>0.48%</u>	<u>9,052,517</u>	<u>0.73%</u>
Total Oil and Gas	<u>1,958,846,051</u>	<u>83.87%</u>	<u>1,461,831,491</u>	<u>84.36%</u>	<u>1,006,476,103</u>	<u>81.51%</u>
Corporate Income - Other than Oil and Gas	137,993,460	5.91%	61,625,072	3.57%	39,546,080	3.20%
Tobacco ²	65,450,975	2.80%	56,167,272	3.24%	48,860,913	3.95%
Motor Fuel ³	42,110,897	1.80%	39,564,566	2.28%	41,367,326	3.35%
Alcoholic Beverages ⁴	35,225,076	1.51%	35,516,650	2.05%	32,746,144	2.65%
Fisheries Business ³	32,487,173	1.39%	25,559,474	1.47%	29,244,605	2.37%
Mining License	18,637,996	0.80%	10,317,238	0.60%	3,224,684	0.26%
Fishery Resource Landing ³	10,478,888	0.45%	8,645,226	0.50%	6,628,541	0.54%
Vehicle Rental	7,657,116	0.33%	7,498,991	0.43%	2,711,572	0.22%
Regulatory Cost Charges	7,131,107	0.31%	6,481,427	0.37%	5,655,595	0.46%
Seafood Marketing	6,357,576	0.27%	3,523,372	0.20%	3,632,756	0.29%
Salmon Enhancement ³	4,379,249	0.19%	3,811,492	0.22%	3,033,565	0.25%
Gaming	2,409,819	0.10%	2,457,812	0.14%	2,423,278	0.20%
Electric Cooperative ³	1,971,690	0.08%	1,939,598	0.11%	1,861,290	0.15%
Telephone Cooperative ³	1,905,896	0.08%	2,029,808	0.12%	2,101,198	0.17%
Tire Fee	1,618,687	0.07%	1,578,885	0.09%	826,674	0.07%
Estate	576,261	0.02%	1,538,592	0.09%	2,250,662	0.18%
Dive Fishery Management	273,521	0.01%	411,267	0.02%	253,503	0.02%
Seafood Development	152,465	0.01%	N/A	0.00%	N/A	0.00%
Salmon Marketing	<u>48,795</u>	<u>0.00%</u>	<u>2,455,256</u>	<u>0.14%</u>	<u>1,963,779</u>	<u>0.16%</u>
Total All Funds	<u>\$2,335,712,698</u>	<u>100.00%</u>	<u>\$1,732,953,489</u>	<u>100.00%</u>	<u>\$1,234,808,268</u>	<u>100.00%</u>

¹ Includes amounts transferred to Constitutional Budget Reserve Fund. Oil and gas property tax amounts are net of credit for municipal property tax paid (\$233,512,602 in FY 2006, \$218,294,036 in FY 2005 and \$218,798,614 in FY 2004).

² Includes amounts transferred to School Fund and Tobacco Use Education and Cessation Fund.

³ Prior to sharing with municipalities or aquaculture associations.

⁴ Includes amounts transferred to the Alcohol and Other Drug Abuse Treatment and Prevention Fund.

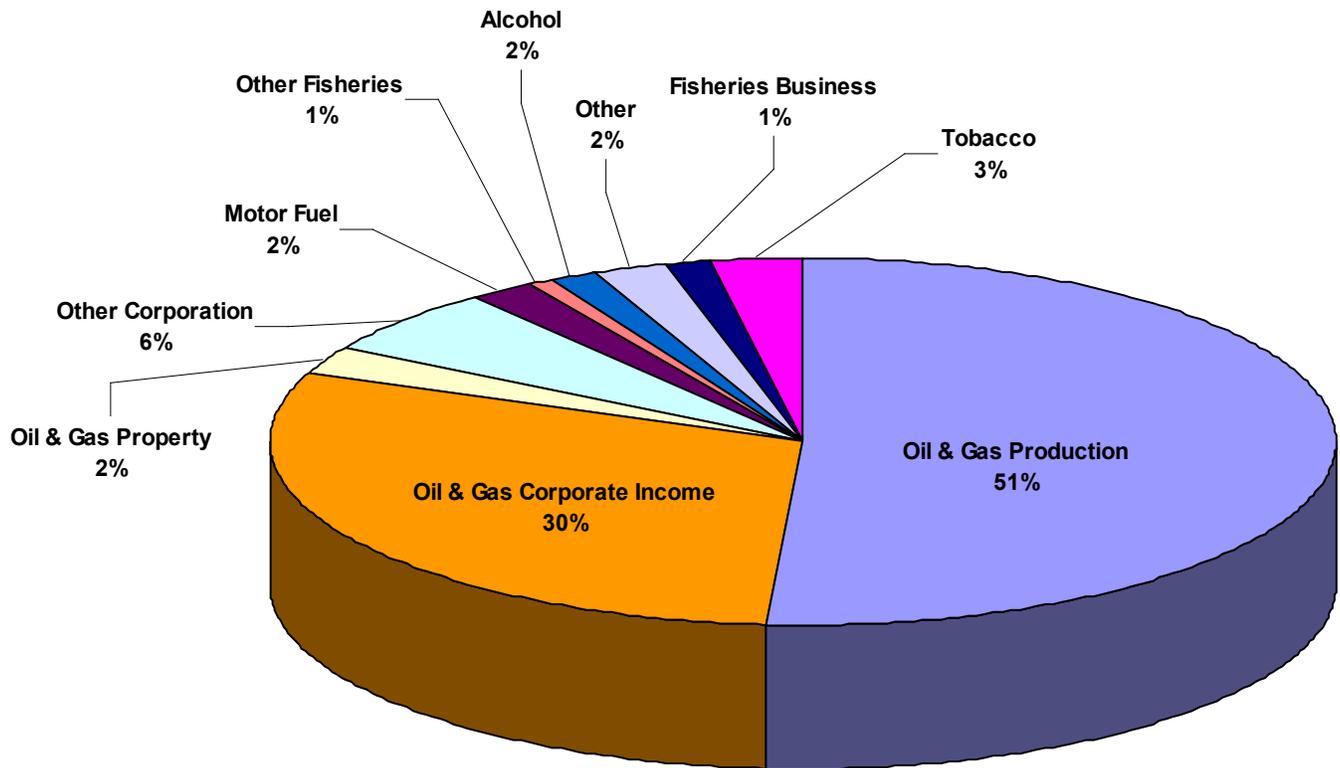
Note: The following are included in program revenue collections above. These amounts were required to be transferred to designated funds under provisions of the Alaska Constitution or Alaska Statutes.

Constitutional Budget Reserve Fund

Oil & Gas Corporate Income	\$41,140,602	94.05%	\$5,714,388	20.85%	\$4,035,122	48.27%
Oil and Gas Production	2,556,312	5.84%	21,310,000	77.77%	4,236,962	50.68%
Oil and Gas Property	50,268	0.11%	376,915	1.38%	87,868	1.05%
Mining License	<u>0</u>	<u>0.00%</u>	<u>0</u>	<u>0.00%</u>	<u>0</u>	<u>0.00%</u>
Total CBRF	<u>\$43,747,182</u>	<u>100.00%</u>	<u>\$27,401,303</u>	<u>100.00%</u>	<u>\$8,359,952</u>	<u>100.00%</u>

School Fund	\$27,391,201	100.00%	\$29,950,353	100.00%	\$32,870,466	100.00%
Tobacco Use Education and Cessation Fund	\$2,694,038	100.00%	\$1,111,100	100.00%	N/A	0.00%
Alcohol and Other Drug Abuse Treatment and Prevention Fund	\$17,612,538	100.00%	\$17,758,496	100.00%	\$16,372,730	100.00%

Figure 2
Tax Division Collections – All Funds



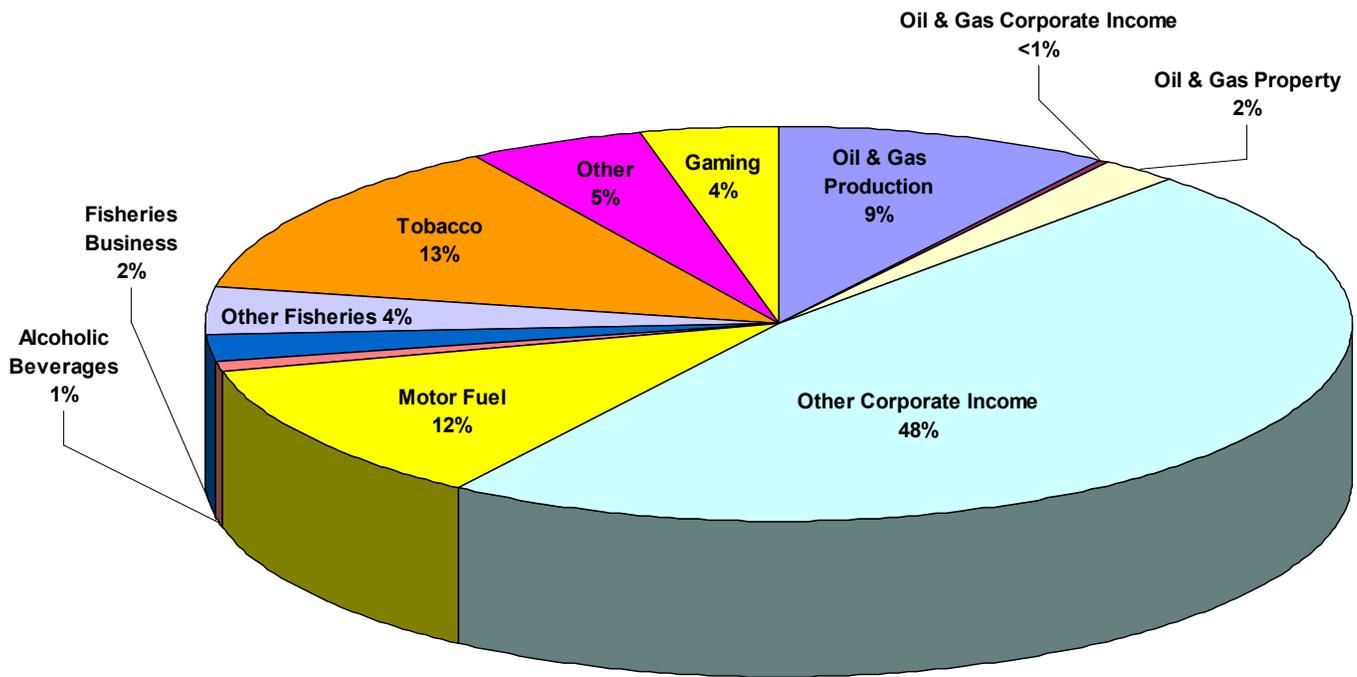
Total Tax Collections \$2,335,712,698

Oil & Gas Production includes production taxes and conservation surcharges.

Other Fisheries includes fishery resource landing, dive fishery management, salmon enhancement, salmon marketing and seafood development taxes; and seafood marketing assessments.

Other includes mining license, estate, electric cooperative, telephone cooperative and vehicle rental taxes; tire and gaming fees; and regulatory cost charges.

**Figure 3
Tax Returns Filed**



Total Tax Returns Filed 31,259

<u>Oil and Gas</u>		<u>Other Fisheries</u>		<u>Other</u>	
Oil & Gas Production	2,930	Salmon Marketing	54	Estate	17
Oil & Gas Corporate Income	70	Salmon Enhancement	719	Electric Cooperative	19
Oil & Gas Property	735	Seafood Marketing	282	Mining License	166
Other Corporate Income	14,850	Fishery Resource Landing	76	Telephone Cooperative	7
Motor Fuel	3,603	Dive Fishery Management	41	Regulatory Cost Charges	500
Alcoholic Beverages	333	Seafood Development	78	Tire Fee	390
Fisheries Business	624	Tobacco	4,067	Vehicle Rental	472
				Gaming*	1,226

*Annual financial statements

2006 New Legislation

The 2006 legislature passed four bills that directly affected the Tax Division. Governor Frank Murkowski signed the following bills into law:

SB 164 (Ch 3 SLA 2006) – Salmon Product Development Tax Credit.

This legislation extends the credit against the fisheries business tax for expenditures made to purchase and install processing equipment used predominately to produce value-added salmon products. The legislation allows a tax credit on expenditures for new equipment made in 2006, 2007 and 2008, with a three-year carryover period extending to 2011.

SB 174 (Ch 1 SLA 2006) – Passenger Vehicle Rental Tax.

This legislation authorizes exemptions for trucks rented by individuals for moving personal property and for vehicles provided to customers by automobile dealers as replacement transportation during warranty, recall or service contract repairs. This legislation took effect January 27, 2006.

HB 218 (Ch 92 SLA 2006) – Cost Recovery Fisheries.

This legislation authorizes nonprofit hatcheries to elect to harvest surplus salmon through a common property fishery. If a common property fishery election is approved, fishermen participating in the fishery are subject to a terminal harvest area assessment, the rate of which is established by the Department of Revenue.

HB 3001 (Ch 2 TSSLA 2006) – Oil and Gas Production Tax.

In a special session in August 2006, the legislature passed sweeping legislation by adopting the Petroleum Profits Tax that established new tax rates on oil and gas production, repealed

the Economic Limit Factor and provided credits for certain qualifying expenditures and taxpayers.

The Petroleum Profits Tax (PPT) fundamentally changed the calculation of the Oil and Gas Production tax from a tax on the gross value of the oil or gas produced less certain transportation expenses, to a tax based on the net profits from oil and gas produced in the state.

The legislature enacted changes affecting the definition of taxable oil and gas, provisions for deductions of lease operating expenses and credits for qualifying capital investments in oil and gas producing assets and carry-over losses.

The base tax rate under the legislation is 22.5% of a producer's petroleum profits in the state. The legislation is effective retroactive to April 1, 2006. Transitional provisions allow continued reporting under the old rules and a true-up due March 31, 2007.

The legislation also extended the period for qualifying exploration production tax credits under AS 43.55.025 through July 1, 2016. The tax under the PPT provisions is an annual tax with estimated payments due monthly. A provision for an additional tax of .25% (1/4 of 1 percent) applies for months in which a producer's net petroleum profits per barrel exceed \$40 a barrel in BTU equivalent barrels.

The legislation also changed the rate of the surcharge due under AS 43.55.201 from \$.02 per barrel to \$.01 per barrel and the rate under AS 43.55.300 was increased from \$.03 to \$.04 per barrel.

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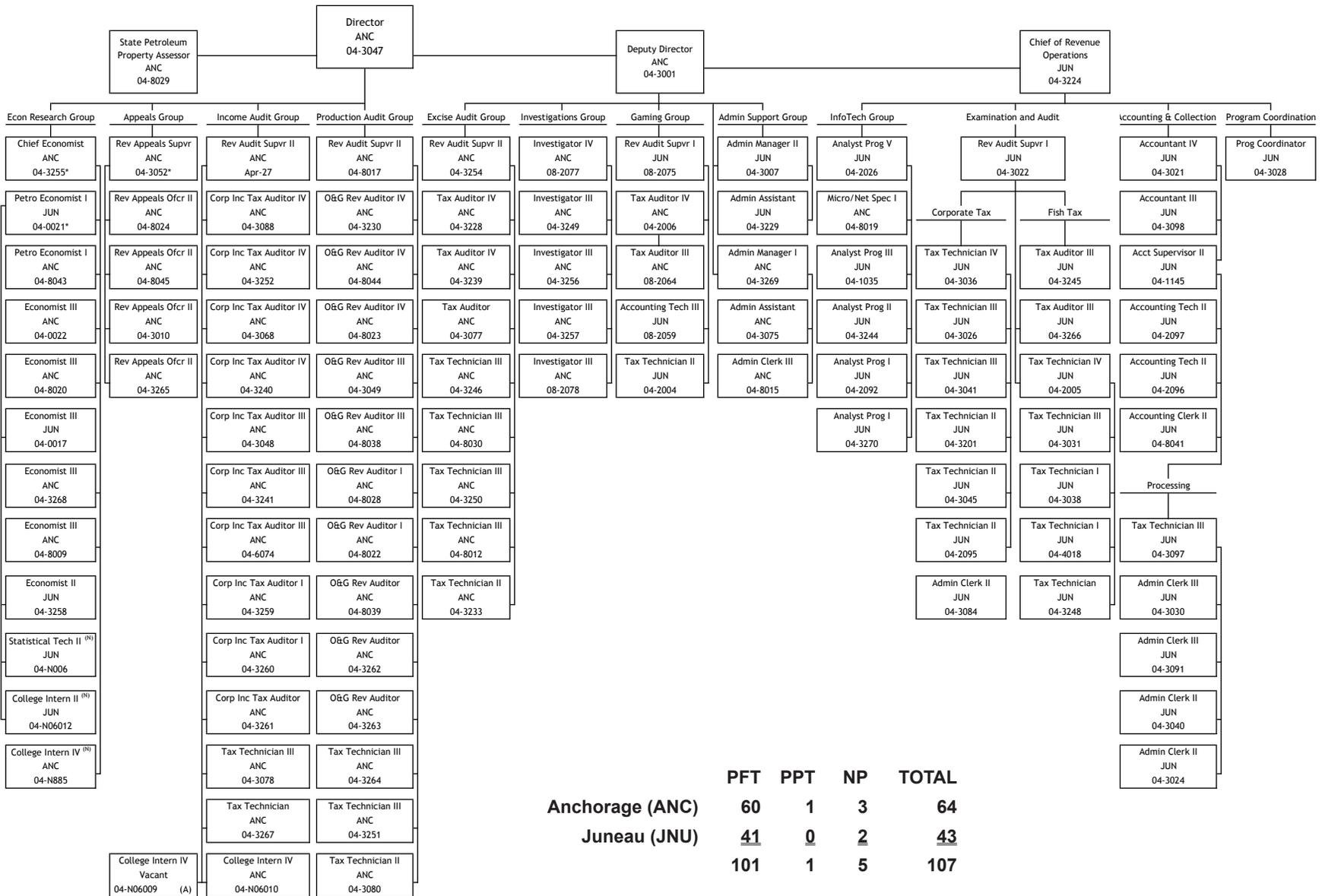
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Tax Division Organization Chart FY 2006



Division Functions

During fiscal year 2006, the Tax Division was staffed by 102 full-time and 5 non-permanent or college intern positions; and maintained offices in Juneau and Anchorage. The division's FY 2006 operating budget was \$8.9 million.

The division is organized according to the functional groups of Accounting and Collections, Processing, Appeals, three Audit Units, Economic Research, Examination and Audit, Fisheries, Gaming, Investigations, Property Tax, and the support groups of Administrative Support and Information Technology.

Operations

Operations

Operations receipts and processes all tax returns and payments, except oil and gas production and property taxes that are processed in Anchorage. Operations is comprised of Accounting and Collections, Processing, Examination and Audit, and Information Technology.

In conjunction with provisions for the Constitutional Budget Reserve Fund, Operations accounts for oil and gas settlement payments received by the state.

Accounting and Collections

Accounting and Collections processes payments and reconciles Tax Accounting System (TAS) revenues to the state's accounting system (AKSAS). The unit includes an enforcement function to collect delinquent tax accounts, taking actions such as filing liens and levying assets and wages. This unit also approves clearances from state agencies that are making final payment on state contracts.

The unit distributes taxes and fees to municipalities in accordance with statutory requirements and periodically issues warrants to communities for the statutory portion of tax collected. The amount shared is based upon where the tax or fee is derived. In FY 2006, the Tax Division distributed \$24,493,356 to 130 Alaska communities. The following taxes and fees are subject to sharing:

- Aviation Motor Fuel
- Electric Cooperative
- Fisheries Business
- Fishery Resource Landing
- Telephone Cooperative
- Alcoholic Beverage License

Taxes collected for fisheries business and resource landing activities in an unorganized borough are shared with municipalities through an allocation program administered by the Department of Commerce Community and Economic Development (DCCED). The Tax Division transmits funds to DCCED each year for allocation. For FY 2006, the division transmitted \$3,102,886 for additional sharing.

A shared tax report is prepared annually, which summarizes the amounts shared with each community. The division distributes the annual report to the public on the Internet. The report is available at www.tax.state.ak.us.

The unit summarizes and reports financial data and provides financial oversight and control of agency accounting functions.

The unit data enters tax return information into the division's databases – TAS (Tax Accounting System) and DEE (Data Entry and Examination). More than 30,000 returns are processed annually through this unit, distributed to the

The Tax Division's FY 2006 operating budget was \$8.9 million.

The Gaming group publishes an annual report that is available at www.tax.state.ak.us.

appropriate examination unit and ultimately filed or archived.

Examination and Audit

Examination and Audit is responsible for corporate and fisheries taxes. The primary function of the section is to efficiently and accurately process a high volume of tax returns.

The Examination and Audit section includes the Corporate Tax and Fisheries Tax units.

Corporate Tax receives partnership and other informational returns associated with the corporate net income tax and assists in updating corporate tax return forms to reflect changes in federal and Alaska tax laws.

The unit conducts compliance activities such as securing returns from businesses and individuals required to file tax returns, comparing internal data with information from external agencies (IRS and Alaska Department of Commerce, Community and Economic Development) to identify potential taxpayers, and following up on compliance leads from internal and external sources.

Fisheries Tax processes license requests and examines tax returns for all fisheries related taxes. The unit also licenses fisheries businesses that process or export fisheries resources from the state.

As part of the licensing function, the unit accounts for cash prepayments and other forms of security submitted by processors to secure payment of their fisheries business tax liabilities.

The unit also administers the fish processor surety bonding program as surety against future claims from employees and fishermen.

This unit examines returns for the following tax types: fisheries business, dive fishery management, fishery resource landing, salmon enhancement and seafood development; and Alaska seafood marketing assessments.

Information Technology

The Information Technology Unit maintains databases and provides technical computer support to the division.

The unit researches, coordinates, develops and implements technical upgrades that enhance customer service to Alaska's taxpayers.

Gaming

Gaming issues annual permits to not-for-profit organizations to conduct gaming activities and licenses operators to conduct gaming activities on behalf of permittees. Gaming also issues licenses to pull-tab manufacturers and distributors.

The Gaming group publishes an annual report that includes more detailed information and descriptions of the program. The report is available at www.tax.state.ak.us.

Gaming conducts compliance audits to ensure gaming activities are conducted within the scope of gaming laws.

Economic Research

Economic Research is responsible for monitoring and forecasting the state's revenues.

Economic Research monitors state and national economic conditions, national and international oil markets, and conducts research needed to anticipate economic and business trends that affect state 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 book is available at www.tax.state.ak.us.

The Economic Research group also provides monthly updates on the state’s cash flow and a comparison to the amounts projected in the Revenue Sources Book to provide the most up-to-date information.

The Economic Research group publishes average Alaska North Slope crude oil and natural gas price information. The price information, known as “prevailing value,” is one of the key variables used to determine tax liability from oil and gas production. The Economic Research group provides daily and weekly updates on prices, with a comparison of the recent data to that forecast in the Revenue Sources Book.

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.

The Economics Research group responds to requests from the legislature, administration, taxpayers and the public on a host of issues. The Economics Research group also serves as an interface for the state with the media on issues related to state revenue and oil production.

Audit

The audit groups are the division’s core technical and analytical resource that provide support for many functions in the division. Audit drafts and implements regulations, conducts special projects and provides support to Appeals.

The audit function consists of the following groups.

Income Audit - audits corporate net income tax (including oil and gas corporate income taxes).

Production Audit - receives oil and gas production and property tax returns, examines and processes the payments. This group also audits oil and gas production taxes, and compliance by the owners of the Trans Alaska Pipeline System (TAPS) with the TAPS settlement methodology in setting their tariffs.

Excise Audit - licenses mining operations, and examines and audits returns for the following tax types: alcoholic beverages, mining license, motor fuel, tire fee, tobacco and vehicle rental.

Gaming Audit - responsible for financial compliance of permittees, operators, and distributors.

Fish Audit - responsible for auditing fisheries-related tax returns including dive fishery management, fisheries business, fishery resource landing, salmon enhancement and seafood development taxes, and seafood marketing assessments.

Appeals

Appeals conducts informal conferences on protested assessments, issues informal conference decisions, and represents the division in formal hearings before the Office of Administrative Hearings. In addition, Appeals provides assistance

The Economic Research group publishes the Revenue Sources Book that is available at www.tax.state.ak.us.

for all programs and tax types administered by the division.

Property Tax

Property Tax performs compliance and collection functions and processes oil and gas property tax 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.

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.

Investigations

Investigations focuses on gaming and tobacco tax investigations by conducting field inspections. The group investigates and inspects gaming operations and tobacco distributors and retailers.

The Investigations group investigates and inspects gaming operations and tobacco distributors and retailers.

Figure 4 - Revenue Collections Detail

Listed in order of total amount of revenue collected.

TAX TYPE	FY 2006	FY 2005	FY 2004
OIL AND GAS TAXES			
General Fund revenue			
Severance Taxes			
Production	\$1,191,761,323	\$859,334,819	\$642,819,003
Conservation Surcharge	<u>7,758,733</u>	<u>8,330,521</u>	<u>9,052,517</u>
<i>Severance tax total</i>	<i>1,199,520,056</i>	<i>867,665,340</i>	<i>651,871,520</i>
Property Tax	288,020,035	260,828,754	266,210,393
Local credits	<u>(233,512,602)</u>	<u>(218,294,036)</u>	<u>(218,798,614)</u>
<i>Property tax total</i>	<i>54,507,433</i>	<i>42,534,718</i>	<i>47,411,779</i>
Corporate Income Tax	661,418,505	524,427,805	299,137,852
Alaska Education Credit	<u>(347,125)</u>	<u>(197,675)</u>	<u>(305,000)</u>
<i>Corporate Income tax total</i>	<i>661,071,380</i>	<i>524,230,130</i>	<i>298,832,852</i>
Total Receipts - General Fund	1,915,098,869	1,434,430,188	998,116,151
Constitutional Budget Reserve Fund - CBRF			
Corporate Income Tax	41,140,602	5,714,388	4,035,122
Production Tax	2,556,312	21,310,000	4,236,962
Property	<u>50,268</u>	<u>376,915</u>	<u>87,868</u>
Total Receipts - CBRF	43,747,182	27,401,303	8,359,952
Total Receipts - All Funds	<u>\$1,958,846,051</u>	<u>\$1,461,831,491</u>	<u>\$1,006,476,103</u>
CORPORATE INCOME TAX - Non Oil and Gas Corporations			
Corporate Income Tax	\$130,374,320	\$60,409,567	\$37,202,225
Penalties and Interest	8,519,784	1,754,950	3,042,734
Alaska Education Credit	(900,644)	(539,445)	(693,879)
Veteran's Memorial Fund Credit	<u>0</u>	<u>0</u>	<u>(5,000)</u>
Total Receipts	<u>\$137,993,460</u>	<u>\$61,625,072</u>	<u>\$39,546,080</u>

Figure 4 - Revenue Collections Detail

Listed in order of total amount of revenue collected.

TAX TYPE	FY 2006	FY 2005	FY 2004
TOBACCO			
Cigarette	\$58,251,891	\$48,755,317	\$42,573,286
Tobacco Products	7,614,005	7,774,876	6,561,826
Penalties and Interest	176,380	99,802	76,154
Cigarette License Fees	\$6,255	\$7,455	\$4,740
Deductions and Stamp Discounts	<u>(597,556)</u>	<u>(470,178)</u>	<u>(355,093)</u>
Total Receipts	65,450,975	56,167,272	48,860,913
Transfers			
School Fund*	(27,391,201)	(29,950,353)	(32,870,466)
Tobacco Use Education and Cessation Fund	<u>(2,694,038)</u>	<u>(1,111,100)</u>	<u>N/A</u>
Amount Retained in General Fund	<u>\$35,365,736</u>	<u>\$25,105,819</u>	<u>\$15,990,447</u>
<i>*All cigarette license fees are included in this amount.</i>			
MOTOR FUEL			
Highway	\$30,871,634	\$29,918,920	\$30,872,676
Marine	5,487,931	4,718,509	5,266,275
Jet	5,039,832	4,193,390	4,391,412
Aviation	<u>710,663</u>	<u>729,827</u>	<u>786,917</u>
Total Tax	42,110,060	39,560,646	41,317,280
Penalties and Interest	<u>837</u>	<u>3,920</u>	<u>50,046</u>
Total Receipts	42,110,897	39,564,566	41,367,326
Aviation Tax Shared	<u>(129,337)</u>	<u>(150,708)</u>	<u>(164,978)</u>
Amount Retained by State	<u>\$41,981,560</u>	<u>\$39,413,858</u>	<u>\$41,202,348</u>
ALCOHOLIC BEVERAGES			
Liquor	\$16,642,283	\$16,034,366	\$14,138,141
Beer	13,155,523	14,115,672	13,654,111
Wine	4,616,542	4,594,941	4,257,955
Beer (small breweries)	810,080	770,757	691,183
Penalties, Interest and Refunds	<u>648</u>	<u>914</u>	<u>4,754</u>
Total Receipts	\$35,225,076	\$35,516,650	\$32,746,144
Amount transferred to Alcohol and Other Drug Abuse Treatment and Prevention Fund	<u>(17,612,538)</u>	<u>(17,758,496)</u>	<u>(16,372,730)</u>
Amount Retained in General Fund	<u>\$17,612,538</u>	<u>\$17,758,154</u>	<u>\$16,373,414</u>

Figure 4 - Revenue Collections Detail

Listed in order of total amount of revenue collected.

TAX TYPE	FY 2006	FY 2005	FY 2004
FISHERIES BUSINESS			
Established			
Shore-based	\$22,489,848	\$17,934,554	\$18,480,806
Floating	5,583,427	4,430,655	4,635,435
Cannery	4,115,868	3,573,861	3,069,518
Developing			
Shore-based	8,553	2,246	133,286
Floating	<u>6,117</u>	<u>521</u>	<u>540</u>
Total Tax	32,203,813	25,941,837	26,319,585
Prepayments	3,735,334	2,199,514	4,662,239
Penalties and Interest	24,450	153,357	87,197
License Fees	15,001	14,724	16,613
Less Credits			
A.W. "Winn" Brindle	(132,909)	(135,700)	(169,121)
Alaska Education	(300,000)	(300,000)	(302,500)
Salmon Product Development and Utilization	<u>(3,058,516)</u>	<u>(2,314,258)</u>	<u>(1,369,408)</u>
Total Receipts	<u>32,487,173</u>	<u>25,559,474</u>	<u>29,244,605</u>
Fisheries Business Tax Shared			
Direct to Municipalities	(15,268,647)	(13,485,788)	(12,672,941)
DCCED* Municipal Allocation	<u>(1,867,596)</u>	<u>(1,738,224)</u>	<u>(1,725,251)</u>
Amount Retained by State	<u>\$15,350,930</u>	<u>\$10,335,462</u>	<u>\$14,846,413</u>
DEC Seafood Processor License Fees	<u>\$540,723</u>	<u>\$400,670</u>	<u>\$402,050</u>
* Department of Commerce, Community and Economic Development			
MINING LICENSE			
Tax Before Credits	\$18,759,872	\$10,467,238	\$3,326,281
Less Credits			
Alaska Special Industrial Incentive	0	0	0
Mineral Exploration Incentive	0	0	0
Alaska Education	<u>(121,876)</u>	<u>(150,000)</u>	<u>(101,597)</u>
Total Receipts	<u>\$18,637,996</u>	<u>\$10,317,238</u>	<u>\$3,224,684</u>

Figure 4 - Revenue Collections Detail

Listed in order of total amount of revenue collected.

TAX TYPE	FY 2006	FY 2005	FY 2004
FISHERY RESOURCE LANDING			
Tax Before Credits	\$11,315,026	\$9,520,641	\$7,230,715
Penalties, Interest and Refunds	549,781	406,971	672,967
Less Credits			
Alaska Education	(1,200,000)	(1,050,000)	(900,000)
CDQ Contributions	(185,919)	(232,386)	(370,141)
A.W. "Winn" Brindle	<u>0</u>	<u>0</u>	<u>(5,000)</u>
Total Receipts	10,478,888	8,645,226	6,628,541
Landing Tax Shared			
Direct to Municipalities	(4,508,020)	(3,624,314)	(3,781,803)
DCCED* Municipal Allocation	<u>(1,235,290)</u>	<u>(604,767)</u>	<u>(576,433)</u>
Amount to be Retained by State	<u>\$4,735,578</u>	<u>\$4,416,145</u>	<u>\$2,270,305</u>
* Department of Commerce, Community and Economic Development			
VEHICLE RENTAL			
Passenger Vehicle	\$7,246,318	\$7,147,231	\$2,623,614
Recreational Vehicle	346,439	327,811	87,557
Penalties and Interest	<u>64,359</u>	<u>23,949</u>	<u>401</u>
Total Receipts	<u>\$7,657,116</u>	<u>\$7,498,991</u>	<u>\$2,711,572</u>
REGULATORY COST CHARGES			
Electric	\$2,161,642	\$1,967,201	\$1,795,454
Local Exchange Telephone	1,973,630	1,908,458	1,627,739
Water & Wastewater	705,229	540,456	527,476
Pipeline Carriers	688,810	655,590	605,083
Interexchange Telephone	649,821	538,209	591,120
Natural Gas	605,596	575,678	193,575
Refuse	311,299	253,218	251,389
Regulated Cable	30,797	37,161	39,503
District Heat	<u>4,283</u>	<u>5,456</u>	<u>24,256</u>
Total Receipts	<u>\$7,131,107</u>	<u>\$6,481,427</u>	<u>\$5,655,595</u>

Figure 4 - Revenue Collections Detail

Listed in order of total amount of revenue collected.

TAX TYPE	FY 2006	FY 2005	FY 2004
SEAFOOD MARKETING ASSESSMENT			
Paid by fisheries business taxpayers	\$5,363,911	\$2,494,591	\$2,905,806
Paid by fishery resource landing taxpayers	<u>993,665</u>	<u>1,028,781</u>	<u>726,950</u>
Total Receipts	<u>\$6,357,576</u>	<u>\$3,523,372</u>	<u>\$3,632,756</u>
<i>Note: The seafood marketing assessment rate increased from .3% to .5% effective January 1, 2005.</i>			
SALMON ENHANCEMENT			
Tax by Aquacultural Region			
Southern Southeast	\$1,052,179	\$915,005	\$821,631
Northern Southeast	1,138,883	1,230,090	732,380
Prince William Sound	878,906	590,840	653,603
Kodiak	528,003	483,596	352,935
Cook Inlet	647,610	496,670	310,497
Chignik	<u>126,036</u>	<u>70,860</u>	<u>129,765</u>
Total Tax	4,371,617	3,787,061	3,000,811
Penalties and Interest	<u>7,632</u>	<u>24,431</u>	<u>32,754</u>
Total Receipts	<u>\$4,379,249</u>	<u>\$3,811,492</u>	<u>\$3,033,565</u>
GAMING			
Pull-Tab Tax	\$1,980,234	\$1,944,158	\$1,887,015
Net Proceeds Fee	289,201	357,176	386,220
License and Permit Fees	<u>140,384</u>	<u>156,478</u>	<u>150,043</u>
Total Receipts	<u>\$2,409,819</u>	<u>\$2,457,812</u>	<u>\$2,423,278</u>
ELECTRIC COOPERATIVE			
Total Receipts	\$1,971,690	\$1,939,598	\$1,861,290
Taxes shared	<u>(1,893,770)</u>	<u>(1,868,400)</u>	<u>(1,794,011)</u>
Amount Retained by state	<u>\$77,920</u>	<u>\$71,198</u>	<u>\$67,279</u>

Figure 4 - Revenue Collections Detail

Listed in order of total amount of revenue collected.

TAX TYPE	FY 2006	FY 2005	FY 2004
TELEPHONE COOPERATIVE			
Total Receipts	\$1,905,896	\$2,029,808	\$2,101,198
Taxes shared	(1,804,506)	(1,926,187)	(1,981,543)
Amount Retained by state	<u>\$101,390</u>	<u>\$103,621</u>	<u>\$119,655</u>
TIRE FEE			
Non-Studded	\$1,146,502	\$1,136,589	\$826,651
Studded	446,771	436,440	0
Penalties and Interest	<u>25,414</u>	<u>5,856</u>	<u>23</u>
Total Receipts	<u>\$1,618,687</u>	<u>\$1,578,885</u>	<u>\$826,674</u>
ESTATE			
Total Receipts	<u>\$576,261</u>	<u>\$1,538,592</u>	<u>\$2,250,662</u>
DIVE FISHERY MANAGEMENT ASSESSMENT			
Southeast Alaska - Management Area A	<u>\$273,521</u>	<u>\$411,267</u>	<u>\$253,503</u>
Total Receipts	<u>\$273,521</u>	<u>\$411,267</u>	<u>\$253,503</u>
SEAFOOD DEVELOPMENT			
Tax by Development Region			
Prince William Sound	<u>\$152,465</u>	N/A	N/A
Total Receipts	<u>\$152,465</u>	N/A	N/A
SALMON MARKETING			
Tax	\$44,676	\$2,442,826	\$1,907,811
Penalties and Interest	<u>4,119</u>	<u>12,430</u>	<u>55,968</u>
Total Receipts	<u>\$48,795</u>	<u>\$2,455,256</u>	<u>\$1,963,779</u>

Note: The salmon marketing tax was repealed effective January 1, 2005.

Figure 5
Program Revenue and Cost Detail

Sorted by Revenue

Program	FY 2006 Statistics		FY 2006 Program		FY 2006 Per FTE ²	
	Returns	Revenue	Cost ¹	FTE ²	Revenue	Cost
Oil and Gas Severance ³	2,930	\$1,202,076,368	\$2,378,960	22.9	\$52,492,418	103,885
Oil and Gas Corporate Income ⁴	70	702,211,982	631,203	7.8	90,027,177	80,923
Oil and Gas Property ⁵	735	54,557,701	849,667	2.4	22,732,375	354,028
Corporate Income - Other than Oil and Gas	14,850	137,993,460	2,135,599	22.3	6,188,048	95,767
Tobacco ⁶	4,067	65,450,975	734,275	9.3	7,037,739	78,954
Motor Fuel	3,603	42,110,897	273,063	5.4	7,798,314	50,567
Alcoholic Beverages ⁷	333	35,225,076	135,519	3.0	11,741,692	45,173
Fisheries Business	624	32,487,173	524,706	10.3	3,154,094	50,942
Mining License	166	18,637,996	10,373	0.2	See note 8	See note 8
Fishery Resource Landing	76	10,478,888	162,589	1.4	7,484,920	116,135
Vehicle Rental	472	7,657,116	152,349	1.5	5,104,744	101,566
Regulatory Cost Charges	500	7,131,107	18,995	0.4	See note 8	See note 8
Seafood Marketing	282	6,357,576	58,301	1.0	6,357,576	58,301
Salmon Enhancement	719	4,379,249	33,786	0.9	See note 8	See note 8
Gaming	1,226	2,409,819	834,353	10.5	229,507	79,462
Electric Cooperative	19	1,971,690	3,970	0.1	See note 8	See note 8
Telephone Cooperative	7	1,905,896	3,969	0.1	See note 8	See note 8
Tire Fee	390	1,618,687	32,435	0.9	See note 8	See note 8
Estate	17	576,261	14,074	0.3	See note 8	See note 8
Dive Fishery Management	41	273,521	4,712	0.1	See note 8	See note 8
Seafood Development	78	152,465	4,229	0.1	See note 8	See note 8
Salmon Marketing	54	48,795	1,966	0.1	See note 8	See note 8
Total All Programs	<u>31,259</u>	<u>\$2,335,712,698</u>	<u>\$8,999,093</u>	<u>101.0</u>	<u>\$23,125,868⁹</u>	<u>\$89,099⁹</u>

¹ Includes total operating costs of the division.

² Full-time equivalent staff position.

³ Includes Constitutional Budget Reserve Fund receipts of \$2,556,312.

⁴ Includes Constitutional Budget Reserve Fund receipts of \$41,140,602.

⁵ Includes Constitutional Budget Reserve Fund receipts of \$50,268. Revenue and cost statistics are not comparable to other programs as some audit functions are performed by outside contractors.

⁶ Includes amounts transferred to Tobacco Use Education and Cessation Fund and School Fund.

⁷ Includes Alcohol and Other Drug Abuse Treatment and Prevention Fund receipts \$17,612,538.

⁸ Combined program revenues (\$36,695,667) and costs (\$121,509) required 3.2 FTE. Combined revenue and cost per FTE are \$11,467,396 and \$37,972 respectively.

⁹ Reflects total revenue and total cost divided by total FTEs.

Figure 6 Revenue Collected from Enforcement Activity

Sorted by total collections

Program	Audit	Exam	Total	Staffing (FTE) ¹		Per FTE ¹	
				Audit	Exam	Audit	Exam
Oil and Gas Corporate Income	\$40,084,686	\$126,658	\$40,211,344	4.0	2.0	\$10,021,172	\$63,329
Corporate Income	10,479,243	1,848,975	12,328,218	6.8	6.0	1,541,065	308,163
Oil and Gas Production	2,556,167	145	2,556,312	11.0	2.8	232,379	52
Fisheries Business	602,444	336,712	939,156	2.5	3.5	240,978	96,203
Fishery Resource Landing	0	664,025	664,025	0.0	0.5	See note 2	See note 2
Tobacco	52,755	357,835	410,590	2.0	2.1	26,378	170,398
Estate	150,416	50,725	201,141	0.2	0.0	See note 2	See note 2
Motor Fuel	0	78,380	78,380	1.0	1.0	See note 2	78,380
Oil and Gas Property	50,268	0	50,268	0.0	0.2	See note 2	See note 2
Salmon Enhancement	0	17,908	17,908	0.5	0.3	See note 2	See note 2
Tire Fee	0	9,359	9,359	0.0	0.2	See note 2	See note 2
Seafood Marketing	0	8,530	8,530	0.0	0.4	See note 2	See note 2
Vehicle Rental	0	4,858	4,858	0.5	0.3	See note 2	See note 2
Gaming	0	772	772	3.0	1.0	See note 2	772
Alcoholic Beverage	0	111	111	0.5	1.4	See note 2	79
Dive Fishery Management	0	94	94	0.0	0.0	See note 2	See note 2
Regulatory Cost Charges	0	27	27	0.0	0.0	See note 2	See note 2
Salmon Marketing	0	251	0	0.0	0.3	See note 2	See note 2
Mining License	0	0	0	0.0	0.0	See note 2	See note 2
Telephone/Electric Cooperative	0	0	0	0.0	0.0	See note 2	See note 2
Total	<u>\$53,975,979</u>	<u>\$3,505,365</u>	<u>\$57,481,093</u>	<u>32.0</u>	<u>22.0</u>	\$1,686,749³	\$159,334³

¹ Full Time Equivalent staff position.

² Collections per FTE not provided because audit or exam FTE positions allocated to these programs are less than one or there were no collections allocated to FTE positions.

³ Reflects total audit and total exam divided by respective total FTEs.

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

Alcoholic Beverages Tax AS 43.60

50¢ per gallon. At the same time, the rate for wine increased to 15¢ per gallon.

Description

Alaska levies a tax on alcoholic beverages sold in Alaska. The tax is collected primarily from wholesalers and distributors of alcoholic beverages.

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.

Rates

Product	Rate Per Gallon
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

2002 – 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 percent of the alcoholic beverage tax be deposited into this fund for alcohol and drug abuse treatment programs.

Returns

Taxpayers file returns and pay tax monthly. The returns and payment are due by the last day of the month following the month of sale.

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

Exemptions

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

Liquor	Per Gallon
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

Disposition of Revenue

The division deposits all alcoholic beverage tax revenue into the General Fund. The Department of Administration separately accounts for 50 percent 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

Fifty percent of taxes on alcoholic beverages is available to fund alcohol and drug abuse treatment programs.

Wine	Per Gallon	Beer (Malt Beverages)	Per Gallon
1933	\$.05	1933	\$.05
1937	\$.15	1947	\$.10
1947	\$.25	1957	\$.25
1957	\$.50	1983	\$.35
1961	\$.60	2002	\$1.07
1983	\$.85		
2002	\$2.50		
		Beer (Small Breweries)	Per Gallon
		2002	\$.35

FY 2006 Statistics

Product	Gallons	Tax Collected
Liquor	1,300,178	\$16,642,283
Beer, Malt Beverage & Cider	12,294,881	13,155,523
Wine	1,846,617	4,616,542
Beer, Small Brewery	2,314,514	810,080
Penalties, Interest and Refunds		<u>648</u>
Total Tax Collected		\$35,255,076
Transferred to Alcohol and Other Drug Abuse Treatment and Prevention Fund		<u>(17,612,538)</u>
Total Tax Collections – General Fund		<u>\$17,612,538</u>
Number of Returns		333
Number of Taxpayers		32
Program Cost		\$135,519
Staffing (full-time equivalent)		3.0

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 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 2006 so that the surcharge was \$.03/bbl for the entire fiscal year. The legislature changed these rates in the Petroleum Profits

Tax legislation passed during special session. The rate under AS 43.55.201 was reduced from \$.02 per barrel to \$.01 per barrel. The rate under AS 43.55.301 was increased to \$.04 per barrel from \$.03 per barrel.

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.

2006 - Ongoing charge increased from \$.03 to \$.04 per barrel and the additional charge was decreased from \$.02 to \$.01 per barrel.

The Conservation Surcharge on Oil provides funding for a hazardous substance release emergency fund.

FY 2006 Statistics

Tax Collections	\$7,758,733
Number of Returns*	2,930
Number of Taxpayers*	13

** 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.*

**Corporate Income Tax
AS 43.20**

Description

Alaska levies a corporate income tax on Alaska taxable income.

For purposes of computing taxable income, Alaska like many states, adopts the federal Internal Revenue Code (IRC) by reference, unless excepted to or modified by specific Alaska statutes.

For a corporation doing business only in Alaska, its taxable income is federal taxable income with certain Alaska modifications.

A corporation that does business both inside and outside Alaska apportions income to Alaska using a formula. The formula apportions a percentage of the corporation's total income to Alaska. The Alaska percentage or "apportionment factor" is an average of three fractions based upon property, payroll and sales, inside and outside the state.

When a corporation is part of a group of corporations that operate as a unit in the conduct a single business, the separate corporations are treated as divisions of a single corporation. The taxpayer must apportion to Alaska a percentage of the combined incomes of all of the corporations in the "unitary" or "combined" group.

For unitary groups that are not oil and gas companies, Alaska adopts "water's edge combination". The combined group includes only those corporations with significant U.S. activity.

Oil and gas companies combine on a worldwide basis. Also, oil companies use a "modified" apportionment formula of property, sales and extraction. The extraction

factor is the production of oil and gas in Alaska divided by production everywhere.

Rate

Alaska taxes corporate income at graduated rates ranging from 1 percent to 9.4 percent.

Credits

Under Alaska's blanket adoption of the IRC, taxpayers can claim all federal incentive credits. Federal credits that refund other federal taxes are not allowed. Multistate taxpayers apportion their total federal incentive credits.

Alaska specific credits include:

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

Minerals Exploration Incentive - Taxpayers may claim a credit for 100 percent of 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 the lesser of 50 percent of the mining license tax liability or 50 percent of the corporate tax liability.

Oil and Gas Exploration Incentive – Taxpayers may take a credit for up to 50 percent on state land (or 25 percent 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

Corporate income is taxed at graduated rates ranging from 1 percent to 9.4 percent.

per taxpayer. Taxpayers may apply the credit against 100 percent of corporation net income taxes due.

Gas Exploration and Development Tax Credit – Taxpayers may take 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.

Exemptions

Generally, Alaska follows the IRC when determining an entities taxable status.

Alaska adopts the flow-through federal provisions that exempt S-Corporations from tax.

Federally, S-Corporations are treated as partnerships and S-Corporation shareholders report their proportionate share of the corporation's earnings.

Alaska treats Limited Liability Companies (LLCs) as partnerships if they file as partnerships federally. Electric and telephone cooperatives pay tax under AS 10.25 and are exempt from the corporate income tax.

Returns and Payments

Corporations file returns annually, with the return due three and one-half months after the close of the tax year, one month after the federal tax return is due. Alaska honors the federal filing extensions.

Corporations must make quarterly estimated payments and the total tax is due two and one-half months from the end of the tax year. There are no extensions to pay the tax. Estimated payments of more than \$100,000 and payments accompanying a return greater than \$150,000 must be made online through the Tax

Online Payment System (TOPS) or by wire transfer.

Disposition of Revenue

The Division deposits most corporate net income tax collections into the General Fund. For oil and gas corporations only, the Division deposits collections from audit assessments into the Constitutional Budget Reserve Fund.

History

1949 - The territorial legislature enacts the Alaska Net Income Tax Act. It is 10 percent of the federal income tax liability on income earned in Alaska. The tax applies to individuals and corporations.

1959 - Alaska adopts the Uniform Division of Income for Tax Purposes Act (UDITPA) within AS 43.20. This is a model statute that developed by the states to address concerns of the U.S. Congress that collectively, the states were taxing more than 100% of the earnings of multistate corporations. UDITPA requires multistate corporations to apportion a percentage of their total income to the state by the apportionment formula of property payroll and sales. The standard UDITPA formula apportions 100% of the corporation's income among the states where the taxpayer does business, no more, no less.

1970 - Alaska enacts the Multistate Tax Compact in AS 43.19, and becomes one of the early members of the Multistate Tax Commission. The Compact incorporates the standard three-factor apportionment formula of UDITPA. A main purpose of the Compact and the Commission is to promote the enactment of UDITPA, and the uniform application of UDITPA apportionment formula by the states. Uniform application of UDITPA promotes the full reporting of income by taxpayers and avoids

the taxation of the same income by more than one state.

1975 - The legislature repeals the original tax and makes major revisions. Alaska enacts its own tax rates rather than basing the tax on the federal tax liability. Alaska adopts the federal Internal Revenue Code by reference, unless excepted to, or modified by other Alaska statutes. The tax rate was 5.4% of Alaska taxable income with a surtax of 4 percent based on federal surtax exemptions. For 1975, the surtax exemption was \$50,000.

1978 - The legislature finds that the standard three-factor apportionment formula does not fairly reflect Alaska income for oil and gas corporations. Alaska enacts AS 43.21 and requires oil and gas companies to calculate Alaska taxable income using separate accounting. The oil and gas companies challenge AS 43.21.

1980 - The legislature repeals the parts of AS 43.20 that impose the individual income tax and retains the exemption for S-Corporations.

1981 - In an effort to stem the growing amount of disputed oil and gas income taxes and related litigation, the legislature seeks a compromise tax method. The legislature repeals separate accounting under AS 43.21, and enacts AS 43.20.072, the current "modified" apportionment formula for oil and gas corporations. The modified formula drops the payroll factor and adds the "extraction factor". The legislature also enacts the current graduated tax rate structure with a maximum rate of 9.4%.

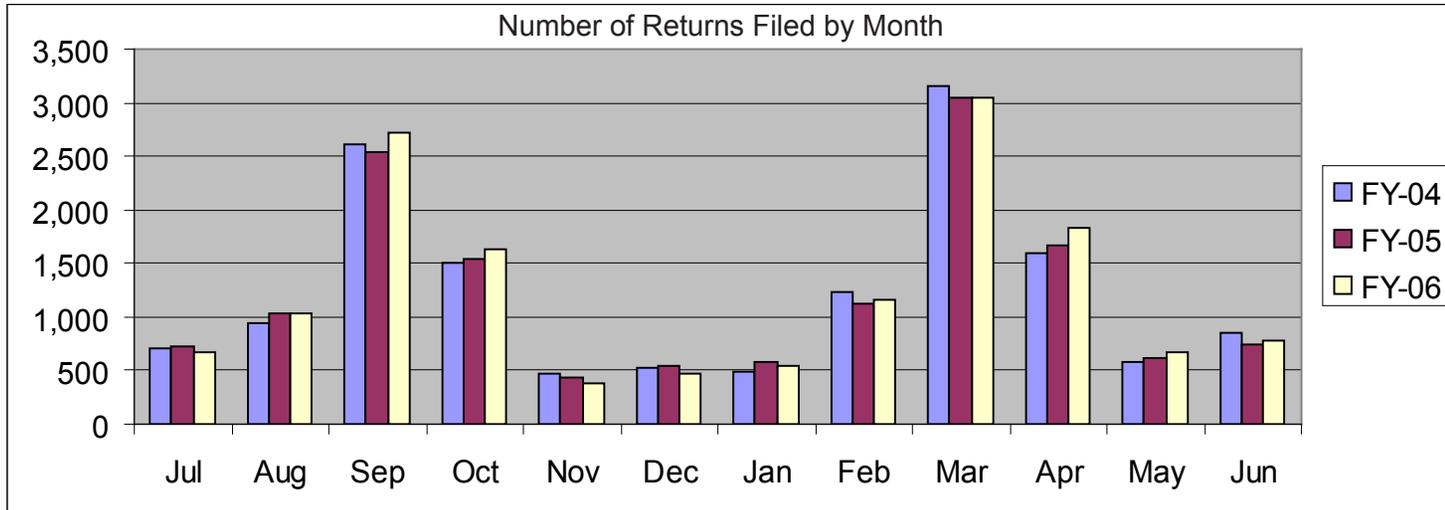
1987 - The legislature enacts the Alaska Education Credit.

1991 - The legislature enacts water's edge apportionment with AS 43.20.073. AS 43.20.073 does not apply to oil and gas taxpayers, who continue to report on a worldwide basis.

1998 - The Department of Revenue wins the OSG Bulkships case. The Alaska Supreme Court holds that AS 43.20 does not adopt Internal Revenue Code Section 883 by reference. Federally, Sec. 883 exempts from tax foreign corporations that operate ships and aircraft, and avoids double taxation. The Court says that formulary apportionment in AS 43.19 also avoids double taxation and therefore AS 43.19 is an exception to Sec. 883. During the next session, the legislature specifically adopts Sec. 883 and grants explicit tax exemption to the foreign corporations operating cargo ships, cruise ships, and aircraft in Alaska.

2006 - A voter initiative passes to remove cruise ship operators from the Sec. 883 exemption and makes them taxable.

Figure 7
Corporations Filing Activity for Fiscal Years 2004, 2005 and 2006



Fiscal Year	FY 2006	FY 2005	FY 2004
Total Returns Filed	14,920	14,567	14,688

Detail of FY 2006 Filing Activity

Entity Type	Original	Amended	NOL*	Total
Subchapter C	6,537	656	168	7,361
Subchapter S	6,600	45	1	6,646
Exempt	105	3	1	109
Homeowners Assoc.	536	0	0	536
Oil & Gas	23	45	2	70
Incomplete Returns ¹	88	89	21	198
Total	<u>13,889</u>	<u>838</u>	<u>193</u>	<u>14,920</u>

*Net operating loss carryback

¹All Subchapter C

Figure 8
Corporation Tax Liabilities Statistics – Original Returns

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	9	\$422,301,155	99.55%	14	\$26,209,040	41.93%	23	\$448,510,195	92.15%
\$500,000 - \$1 million	2	1,517,398	0.36%	9	7,110,976	11.38%	11	\$8,628,374	1.77%
\$100,000 - \$499,999	1	265,842	0.06%	83	17,233,016	27.57%	84	\$17,498,858	3.60%
\$50,000 - \$99,999	1	91,515	0.02%	63	4,386,836	7.02%	64	\$4,478,351	0.92%
\$10,000 - \$49,999	1	25,422	0.01%	229	5,560,587	8.89%	230	\$5,586,009	1.15%
\$1,000 - \$9,999	1	6,409	0.00%	493	1,778,389	2.84%	494	\$1,784,798	0.37%
\$100 - \$999	2	1,683	0.00%	546	209,469	0.34%	548	\$211,152	0.04%
\$1 - \$99	0	0	0.00%	915	25,746	0.04%	915	\$25,746	0.01%
Zero Tax	<u>6</u>	<u>0</u>	<u>0.00%</u>	<u>11,514</u>	<u>0</u>	<u>0.00%</u>	<u>11,520</u>	<u>\$ 0</u>	<u>0.00%</u>
Total	23	<u>\$424,209,424</u>	<u>100.00%</u>	<u>13,866</u>	<u>\$62,514,059</u>	<u>100.00%</u>	<u>13,889</u>	<u>\$486,723,483</u>	<u>100.00%</u>

Note: Amounts reflect tax liabilities reported on the taxpayer original returns only. Liabilities may differ from amounts remitted by the taxpayer during the fiscal year due to timing differences resulting from estimated tax payments, credits and final payment of taxes reported.

Dive Fishery Management Assessment Tax AS 43.76.150

Description

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

Rate

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

Geoduck	7%
Sea Cucumber	5%
Sea Urchin	7%

Returns

Buyers file returns and pay tax quarterly. The due date is the last day of the month following the calendar quarter of purchase.

Buyers file returns for bonus payments made to fishermen 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.

Fishermen selling to unlicensed buyers or exporting from the region file returns and pay taxes annually. The due date is March 31 following the year of sale or export.

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 percent for geoduck and sea cucumber and 7 percent for sea urchin.

2004 – The legislature authorized three additional rates: 2 percent, 4 percent and 6 percent. Geoduck fishermen subsequently elected to increase the geoduck assessment to 7 percent as of November 1, 2004.

2005 - The legislature authorized an annual filing due date of March 31 for dive fishermen who export or sell to unlicensed buyers, effective January 1, 2005.

All revenue from the dive fishery management assessment is deposited into the General Fund.

FY 2006 Statistics

Tax Collections	\$273,521
Number of Returns	41
Number of Taxpayers	21
Program Cost	\$4,712
Staffing (full time equivalent)	0.1

**Electric Cooperative Tax
AS 10.25.555**

Description

Alaska levies an electric cooperative tax on kilowatt-hours furnished by qualified electric cooperatives recognized under AS 10.25.

Rate

The electric cooperative tax is based on a rate per kilowatt hour (kWh) and on the length of time the cooperative has furnished electricity to consumers as follows.

Length	Rate Per kWh
Less than 5 years	.25 mill
5 years or longer	.5 mill (1 mill = .1¢)

Returns

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

Exemptions

All qualified electric cooperatives are subject to the cooperative tax. Cooperatives pay the electric cooperative tax in lieu of corporate net income tax.

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 percent 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

1959 – The legislature enacted the electric 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 electric cooperative tax returns was April 1 of the following year.

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.

Electric Cooperatives pay the electric cooperative tax in lieu of corporate net income tax.

FY 2006 Statistics

Tax Collections	\$1,971,690
Number of Returns	19
Number of Taxpayers	19
Program Cost	\$970
Staffing (full time equivalent)	0.1

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

**Estate Tax
AS 43.31**

Description

Alaska levies an 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

State returns are required only for estates of decedents whose date of death was before January 1, 2005, and the estate has a federal filing requirement. Estates of decedents whose date of death is January 1, 2005 or later are not required to file a report.

Estate returns and tax payments are due 15 months from the decedent's date of death.

The tax payment 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 filing due date may be extended for up to 15 years.

Exemptions

Estates under \$1.5 million were generally exempt from paying estate taxes prior to 2005, 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 percent to 17.5 percent 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.

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.

2001 - The federal Economic Growth and Tax Relief Reconciliation Act enacted. As a consequence of the federal act, the state tax credit was phased out gradually over a four-year period. The state tax credit no longer applies to estates of decedents whose date of death is January 1, 2005 or later. However, the division may continue to collect tax from estates for years prior to January 1, 2005, as a result of returns filed, audits, or other enforcement activities.

The Estate tax was phased out by federal law - it no longer applies to estates of decedents whose date of death is January 1, 2005 or later.

FY 2006 Statistics

Tax Collections	\$576,261
Number of Returns	17
Number of Taxpayers	17
Program Cost	14,074
Staffing (full time equivalent)	0.3

Fisheries Business Tax AS 43.75

Description

Alaska levies a fisheries business tax (also known as the “raw fish tax”) on fisheries businesses and persons who process fisheries resources in or export unprocessed fisheries resources from Alaska. The tax is based on the price paid to commercial fishermen for the raw resource or fair market value when there is no arms length transaction prior to processing or export. The division collects fisheries business taxes from processors and persons who export unprocessed fishery resources 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

Established	Rate
Floating	5%
Salmon Cannery	4.5%
Shore-based	3%
Developing	Rate
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 fishermen. Returns for these payments are due with additional taxes by the last day of the month following the month of bonus payments.

Exemptions

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

Credits

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

Scholarship Contributions - Taxpayers that contribute to the A.W. “Winn” Brindle memorial scholarship account may claim a tax credit for the amount of contribution not to exceed 5 percent of their tax liability.

Salmon Product Development and Utilization Credit - Taxpayers are allowed tax credits against the fisheries business tax on salmon for expenditures promoting the development of salmon products and the utilization of salmon waste. The credit on salmon for expenditures promoting the development of salmon products was extended to December 31, 2008. The credit on salmon for expenditures promoting the utilization of salmon waste expired 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

The Fisheries Business Tax is Alaska's oldest tax, enacted in 1899.

from the tax for revenue sharing as follows:

Processing Activity Inside Municipality

The division shares 50 percent 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 percent) shareable amount equally between the incorporated city and the organized borough.

Processing Activity Outside Municipality

The division shares 50 percent 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 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 percent), crab and clams (2 percent), and other fishery products (1 percent) 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 percent of value and increased the tax rate for salmon canneries to 6 percent.

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

1967 – The tax rate on salmon canneries was amended to 3 percent 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 percent.

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

1986 – The legislature authorized a fisheries business tax credit of up to 50 percent 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 A.W. "Winn" Brindle scholarship credit allowing a credit of up to 5 percent 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 of 50 percent 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.

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 legislation, exporters of unprocessed fish can obtain a fisheries business license by posting a \$50,000 surety bond and paying their taxes monthly.

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

2003 - The legislature authorized a Salmon Product Development/ Utilization Credit that allows tax

credits against fisheries business taxes for expenditures promoting the value added processing of salmon products and the utilization of salmon waste in Alaska. The amount of the tax credit cannot exceed 50 percent 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 legislation sunsetted on December 31, 2005. Unused credits earned may be carried forward for three years.

2003 – Legislation allowed for monthly payment of the fisheries taxes in lieu of existing forms of security or prepayment as a prerequisite to being licensed. Fisheries businesses that elect the monthly payment option must post a \$50,000 bond or have \$100,000 equity in real property in the state. The provisions of this legislation took effect September 8, 2003.

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

2005 – Effective May 18, 2005, the legislature modified the surety and tax payment requirements for obtaining a fisheries business license. The legislature reduced the amount of surety bonding for small primary fish buyers from \$10,000 to \$2,000. The legislation added as a condition for obtaining a fisheries business license full payment of delinquent: taxes under AS 43, seafood marketing assessments, employment security contributions, OSHA penalties, and local fishery sales taxes.

2006 – The legislature extended the Salmon Product Development Credit for expenditures made through December 31, 2008. The Salmon Utilization Credit was not extended.

FY 2006 Statistics

Fisheries Business Tax

License Fees and Tax Collections	\$32,487,173
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Including penalties, interest and credits.

Fisheries Business Licenses Issued

Shore-based Licenses Issued	196
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Floating Licenses Issued	379
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Exporter Licenses Issued	<u>23</u>
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Total	<u>598</u>
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Number of Returns	624
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Number of Taxpayers	468
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Program Cost	\$524,706
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Staffing (full time equivalent)	10.3
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The legislature enacted the fishery resource landing tax in 1993, effective January 1994.

Fishery Resource Landing Tax
AS 43.77

Description

Alaska levies a 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. Tax rates are:

Classification	Rate
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 are required to make quarterly estimated tax payments that 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.

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 that contribute to accredited Alaska universities or colleges for educational purposes may claim a tax credit for 50 percent of the first \$100,000 and 100 percent of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Scholarship Contributions - Taxpayers that contribute to the A.W. “Winn” Brindle memorial scholarship account may claim a tax credit for the amount of contributions not to exceed 5 percent of their tax liability.

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

Other Taxes - Taxpayers that paid taxes on fishery resources to another jurisdiction may claim 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 percent of taxes 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 percent) shareable amount between the municipality and borough.

Landings Outside Municipality

The division shares 50 percent 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. The rate was 3.3 percent of the unprocessed value of the resource. The Department of 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 percent for established species and 1 percent for developing species. The 0.3 percent portion of the previous 3.3 percent tax rate was incorporated into seafood marketing assessment statutes (AS 16.51). The legislature also amended the landing tax statutes to provide for tax credits for education and

A.W. "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 – The legislature amended landing tax statutes to require quarterly payment of estimated fishery resource landing taxes, effective calendar year 2002.

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

FY 2006 Statistics

Tax Collections	\$10,478,888
<i>Including penalties, interest and credits.</i>	
Number of Returns	76
Number of Taxpayers	55
Program Cost	\$162,589
Staffing (full time equivalent)	1.4

**Gaming
AS 05.15**

Description

Under Alaska law, municipalities and qualified nonprofit organizations may conduct certain gaming activities. The purpose of these activities is to derive public benefit in the form of money for nonprofits 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 nonprofits; 2) licenses all operators, and pull-tab distributors and manufacturers; 3) collects fees and taxes; 4) audits various permittees and licensees; 5) inspects gaming locations; and 6) investigates complaints. The division also provides educational and orientation information to the public and to prospective permittees and licensees.

Rate

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

Permits

- \$20 if an applicant did not have a permit during the preceding year
- \$20 if an applicant had gaming gross receipts of less than \$20,000 during the preceding year
- \$50 if an applicant had gaming gross receipts of \$20,000 or more but not exceeding \$100,000 during the preceding year
- \$100 if an applicant had gaming gross receipts exceeding \$100,000 during the preceding year

Licenses

- \$500 for an operator license
- \$1,000 for a pull-tab distributor license

- \$2,500 for a pull-tab manufacturer license

Reports

The division requires the following reports.

- Municipalities and qualified organizations file quarterly reports that 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 1 percent of the net proceeds received during the preceding year is due.
- Operators and multiple-beneficiary permittees file quarterly reports that 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. (See below for explanation of the multiple-beneficiary permit.)
- Operators are required to submit a report to permittees monthly. The report must include a daily summary of activity conducted under the permit and an accounting of gross receipts, expenses and net proceeds for the month.
- Pull-tab manufacturers must report by the last business day of the month on each series of pull-tabs distributed in the preceding month.
- Distributors must collect a tax of 3 percent 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

Municipalities and qualified nonprofits may conduct certain gaming activities that benefit nonprofits in Alaska.

distributed in the preceding month and pay the taxes collected.

Exemptions

There are no exemptions that apply to gaming.

Disposition of Revenue

The division deposits permit and license fees, net proceeds fees and pull-tab taxes into the General Fund.

History

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

1984 – The Department authorized pull-tabs.

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

1989 – The Governor transferred gaming functions to the Department of Commerce, Community and Economic Development.

1993 - The Governor transferred 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). MBPs enable two to six permittees to conduct gaming activities jointly. Minimum payments 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.

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

1996 – The legislature authorized 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 - The legislature added the Bristol Bay Native Corporation Education Foundation to the list of qualified organizations allowed to conduct “salmon classic” games of chance, effective January 1, 2002.

The Alaska Supreme Court in *Botelho 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 gaming to benefit the public generally.

2002 - 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.

2003 – Effective January 1, 2005, 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 - The legislature authorized the Department of Revenue to issue permits for animal classic games, providing the animal classic was in existence prior to November 1, 2002, effective July 25, 2004.

2005 – The legislature authorized the Department of Revenue to issue permits for two new games of chance – "Calcutta pools" (related to amateur and professional sporting events) and a "crane classic" (the best guess of the time of arrival of the first Sandhill Crane to a particular place), effective September 5, 2005.

FY 2006 Statistics

Taxes and Fees Collected	\$2,409,819
Number of Reports and Permit Applications	4,980
Program Cost	\$834,353
Staffing (full time equivalent)	10.5

Mining License Tax AS 43.65

Description

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

Mining Net Income	Rate
\$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 that make contributions for educational purposes to accredited Alaska universities or colleges may claim a tax credit for 50 percent of the first \$100,000 and 100 percent of the next \$100,000 of contributions.

The maximum credit is \$150,000 for each tax year.

Minerals Exploration Incentive

- Taxpayers may claim 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 the lesser of 50 percent of the person's mining license tax liability related to the mining operation for which eligible mining costs were incurred or 50 percent of the person's total mining license tax liability for all mining operations.

Disposition of Revenue

The division deposits revenue from the mining license tax into the General Fund. Payments received after a tax assessment are deposited 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 percent tax on mining net income of more than \$5,000. There was no tax on net income less than \$5,000.

1915 – The territorial legislature increased the tax rate to 1 percent. 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 percent to 1.75 percent for net income of more than \$1 million.

1935 – The territorial legislature restructured the tax to an eight-tier

The Tax Division collects mining license taxes primarily from businesses engaged in coal and hard rock mining.

tax structure with rates ranging from 0.75 percent to 4 percent for net income of more than \$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 was adopted with tax rates ranging from 0.75 percent to 8 percent for net income of more than \$1 million.

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

1951 – The legislature authorized a 3½ year exemption for new mining operations. This exemption does not apply to sand and gravel mining operations.

1953 – The tax-free net income base was increased to \$10,000 and rates changed to range from 3 percent to 7 percent for net income of more than \$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 \$20 million and taxpayers may apply the credit against 50 percent of mining license liabilities over a 15-year period.

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

FY 2006 Statistics

Tax Collections (all General Fund)	\$18,637,996
Number of Returns	166
Number of Taxpayers	156
Program Cost	\$10,373
Staffing (full time equivalent)	0.2

The motor fuel tax dates back to 1945 when the legislature imposed a tax of 1¢ per gallon on all motor fuel.

**Motor Fuel Tax
AS 43.40**

Description

Alaska levies a motor fuel tax on motor fuel sold, transferred or used within Alaska. The division collects motor fuel taxes primarily from wholesalers and distributors that hold “qualified dealer” licenses issued by the division.

Rates

Fuel Type	Rate per Gallon
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: diesel, gasoline, aviation and gasohol.

The due date is the last day of the month following the month of sale or taxable use. Taxpayers may deduct 1 percent 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
- Bunker fuel (residual fuel oil or #6 fuel oil)

Disposition of Revenue

The division deposits 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 60 percent of taxes attributable to aviation fuel sales at municipally owned or operated airports. All other proceeds of the taxes on aviation fuel are deposited 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.

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. The tax decrease expired on June 30, 1998.

Highway	Rate Per Gallon
1945	1¢
1947	2¢
1955	5¢
1960	7¢
1961	8¢
1964	7¢
1970	8¢

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

Marine	Rate Per Gallon
1945	1¢
1947	2¢
1955	5¢
1957	2¢
1960	3¢
1971	4¢
1977	5¢

Aviation Gasoline	Rate Per Gallon
1945	1¢
1947	2¢
1955	3¢
1968	4¢
1994	4.7¢

Jet Fuel	Rate Per Gallon
1957	1.5¢
1968	2.5¢
1994	3.2¢

1997 – The legislature repealed the gasohol exemption. 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 and gasohol is currently taxed at the full tax rate of 8¢.

Legislation was also passed that fully exempted gasohol blended with at least 10 percent alcohol derived from wood or seafood waste. This legislation expired on June 30, 2004.

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 – The legislature enacted legislation that made it easier for the state to issue motor fuel excise tax refunds for credit card purchases made by federal, state and local government agencies.

2004 – The provision that exempted gasohol blended with at least 10 percent alcohol derived from wood or seafood waste from the motor fuel tax expired on June 30, 2004. Currently all gasohol is taxed at the rate of 8 cents per gallon.

FY 2006 Statistics**Tax Collections**

Highway	\$30,871,634
Marine Fuel	5,487,931
Jet Fuel	5,039,832
Aviation Gasoline	710,663
Penalties & Interest	<u>837</u>
Total Tax Collections	\$42,110,897
Less Aviation Fuel Tax Shared	<u>(129,337)</u>
Total Amount Retained by State	<u>\$41,981,560</u>

Motor Fuel Type**Gallons**

Highway	383,814,031
Marine Fuel	99,929,444
Jet Fuel	187,573,651
Aviation Gasoline	15,349,290

*** Gallons noted may not compute if calculated as: Gallons X Tax Rate = Tax Collected
Gallons are recorded on the tax return and calculated based on the return tax period,
whereas tax collections are calculated based on the amount received within a time period
and may include payments or refunds from a previous tax period.*

Number of Returns	3,603
Number of Taxpayers	255
Program Cost	\$273,063
Staffing (full time equivalent)	5.4

Oil and Gas Exploration, Production and Pipeline Transportation Property Taxes AS 43.56

Description

Alaska levies an oil and gas property tax on the value of taxable exploration, production and pipeline transportation property in the state. The division has established procedures for the three distinct classes of property.

- **Exploration Property** – valued on 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** – valued on the basis of replacement cost of similar new property, less depreciation based on the economic life of the proven reserves.
- **Pipeline Transportation Property** – generally valued 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 that make contributions for educational purposes to accredited Alaska universities or colleges may claim 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 revenue from oil and gas property taxes into the General Fund. Payments received after a tax assessment are deposited into the Constitutional Budget Reserve Fund (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.

Oil or gas pipeline transportation systems owned and operated by a public utility are exempt.

FY 2006 Statistics

Property Taxes Billed	\$288,020,035
Constitutional Budget Reserve Fund	50,268
Less Municipal Tax Credit	<u>(233,512,602)</u>
Net Tax Due to State	<u>\$ 54,557,701</u>
Number of Returns	735
Number of Taxpayers	116
Program Cost	\$849,667
Staffing (full time equivalent)	2.4

Oil and Gas Production Taxes
AS 43.55

Description

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

In a special session in August 2006, the Alaska Legislature passed the Petroleum Profits Tax (PPT) which fundamentally changes the calculation of the Oil and Gas Production tax from a tax on the gross value of the oil or gas produced, less certain transportation expenses, to a tax based on the net profits from oil and gas produced in the state.

The legislature enacted changes affecting the definition of taxable oil and gas, provisions for deductions of lease operating expenses and credits for qualifying capital investments in oil and gas producing assets and carry-over losses.

Additional non-transferable tax credits in amounts of \$6 million and up to \$12 million for certain qualifying small producers are also provided. Changes were made to the tax rates and the Economic Limit Factor (ELF) was repealed.

The base tax rate under the legislation is 22.5% of a producer's petroleum profits in the state. The legislation is effective retroactive to April 1, 2006. Transitional provisions allow continued reporting under the old rules and a true-up due March 31, 2007.

The legislation also extended the period for qualifying exploration production tax credits under AS 43.55.025 through July 1, 2016. The tax under the PPT provisions

is an annual tax with estimated payments due monthly. A provision for an additional tax of .25% (1/4 of 1 percent) applies for months in which a producer's net petroleum profits per barrel exceed \$40 a barrel in BTU equivalent barrels.

The legislation also changed the rate of the surcharge due under AS 43.55.201 from \$.02 per barrel to \$.01 per barrel and the rate under AS 43.55.300 was increased from \$.03 to \$.04 per barrel.

Rate

Under the economic limit factor (ELF) production tax system, the rate of taxation for oil varies depending on the age of the field and the ELF which varies depending on field size and well productivity.

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

On January 12, 2005 the Tax Division issued a decision to aggregate certain Prudhoe Bay area

The new Petroleum Profits Tax (PPT) is based on the net profits from oil and gas produced in the state.

oil fields for purposes of calculating the ELF. The Prudhoe Bay Initial participating area, the Aurora, the Borealis, the Midnight Sun, the Orion, the Polaris, and the Point McIntyre participating areas are the fields that were aggregated under this decision. That decision was effective for oil produced on or after February 12, 2005. The decision has been appealed by the taxpayers.

The table below reflects the aggregated Prudhoe Bay area ELF. In Fiscal Year 2006, nine of Alaska's North Slope 25 producing fields had an ELF higher than 0.1. The three largest fields account for 85 percent of all production tax revenues.

Field	ELF	FY 06 Tax Rate
Prudhoe	0.8591	12.8868%
North Star	0.7278	7.4886%
Alpine	0.8574	12.8616%
Kuparuk	0.0050	0.0751%
Tarn	0.0003	0.0049%

The severance tax rate on gas is 10 percent 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 on oil is levied on all production except for public (government) royalty production. The tax on gas is levied on all production except for public (government) royalty production and gas used in production operations

including enhanced recovery, or flared for safety purposes.

Credits

Education - Taxpayers that make contributions to accredited Alaska universities or colleges for educational purposes may claim a tax credit for 50 percent of the first \$100,000, 100 percent of the next \$100,000 of contributions with a maximum credit of \$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 percent on state land (or 25 percent 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 percent of oil and gas production taxes.

Oil and Gas Exploration Tax Credit - Explorers may take a credit against their production taxes of (1) 20 percent of allowable expenses for exploration wells drilled more than 3 miles from a preexisting well, (2) 20 percent of allowable expenses for exploration wells drilled more than 25 miles from the boundary of a unit or (3) 40 percent of allowable expenses for certain seismic work and for exploration wells that meet both condition (1) and (2). Special rules were created for Cook Inlet to reflect a more mature exploration area and allow

exploration closer than 3 miles or 25 miles, if it can be demonstrated that the exploration target constitutes a separate geological or geophysical exploration target. Once approved, the credit or any remaining portion of it 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 now July 1, 2016 under the PPT legislation. However the credits could not be applied until after July 1, 2004 (i.e. in FY 2005).

The table below reports the credits issued under the program through December 31, 2006.

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 percent of production value.

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

1968 – The legislature increases oil and gas production tax from 1 percent to 3 percent 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 percent on the first 300 barrels per day per well, 5 percent on the next 700 barrels per day per well, 6 percent on the next 1500 barrels per day and 8 percent 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.

Area	Project	Number of Projects	Credits Issued
20% Credits Issued			
Cook Inlet	Wells	1	\$ 392,293
North Slope	Wells	3	3,740,374
Other Areas	Wells	1	<u>1,614,343</u>
Total 20% credits issued		5	5,747,010
40% Credits Issued			
Cook Inlet	Seismic	1	1,084,456
Cook Inlet	Wells	0	-
North Slope	Seismic	1	8,724,323
North Slope	Wells	3	17,922,729
Other Areas	Seismic	1	<u>1,244,060</u>
Total 40% credits issued		6	28,975,568
Total credits issued (through 12/30/06)		11	<u>\$34,722,578</u>

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 percent. The legislature raises the nominal oil production tax rate to 12.25 percent 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 percent and fields coming into production after 1981 are taxed at 12.25 percent for five years after which the rate increases to 15 percent. 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 – The legislature authorized credits of up to 50 percent for contributions of not more than \$100,000 and 75 percent of the next \$100,000 in contributions made to the Alaska Veterans’ Memorial Endowment Fund. The tax credit expired 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 percent and the maximum 40 percent for qualified expenditures.

2005 - Prudhoe Bay area oil fields are aggregated for purposes of calculating the economic limit factor, effective February 1, 2005.

2005 – To expand the exploration credit enacted the previous year, the deadline was extended until July 1, 2010 for qualifying work south of the Brooks Range (i.e. non-North Slope). New rules also changed the 3 mile and 25 mile rules for the Cook Inlet allowing closer distances between potential exploration targets and existing wells and production units.

2005 – The legislature amended royalty received by the state on gas production by directing the commissioner of the Department of Natural Resources to accept the transfer price of gas as established by the Regulatory Commission of Alaska under certain conditions. The legislation also extended and amended the requirements applicable to the credit that may be claimed for certain oil and gas exploration expenses incurred in Cook Inlet against oil and gas production (severance) taxes. This legislation also amended the credit against those taxes for certain exploration expenditures from leases or properties in the state. The legislation was signed in to law July 21, 2005 with an immediate effective date.

2006 – The legislature passed sweeping legislation by adopting the Petroleum Profits Tax that established new tax rates on oil and gas production, repealed the Economic Limit Factor and provided credits for certain qualifying expenditures and taxpayers (see the discussion under “Description” above).

Note: 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. Tax collections are calculated after reduction of exploration tax credits applied against production tax obligations.

For FY 2006, there were \$4,969,719 Exploration Tax Credits claimed and applied against production tax payments otherwise due.

As a result of audit and disallowance of nonqualifying expenditures, the Tax Division disallowed \$11,561,913 of \$46,284,491 of exploration tax credits claimed by explorers since the inception of the exploration production tax credit in 2003.

FY 2006 Statistics

Tax Collections

General Fund	\$1,191,761,323
Constitutional Budget Reserve Fund	<u>2,556,312</u>
Total	<u>\$1,194,317,635</u>

Number of Returns	2,930
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Number of Taxpayers	13
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Severance Taxes Program Cost	\$2,378,960
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Staffing (full time equivalent)	22.9
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**Regulatory Cost Charges
Utilities AS 42.05.254(e)
Pipeline AS 42.06.286(c)**

Description

Alaska levies regulatory cost charges (RCC) on regulated utilities. The charges fund the Regulatory Commission of Alaska (RCA) that regulates utilities and pipeline carriers in Alaska.

Regulated utilities collect charges from consumers, and remit the collections to the Tax Division.

Rate

The following rates applied for FY 2006.

Electric Utilities – \$.000397/kWh

The following are based on a percentage of total revenues

Telephone Utilities	Rate
Local Exchange	1.641%
Inter Exchange	1.615%
Pipeline Carriers	0.512%
Natural Gas Utilities	0.300%
Refuse Utilities	0.962%
Water and Wastewater Utilities	0.990%
Cable Utilities	1.477%
District Heat Utilities	0.169%

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 the return 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 fund 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 sunset 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 FY 1995 on an annualized basis. The regulations took effect December 1994.

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

1999 – The legislature authorized separate RCC rates for each regulated utility and changed the methodology for calculating rates.

The Alaska legislature enacted the RCC program in 1992 to fund the cost of regulating utilities.

FY 2006 Statistics

Total RCC Collections	\$7,131,107
<i>Electric, Telephone, Pipeline Carriers and Other Utilities</i>	
Number of Returns	500
Number of Taxpayers	123
Program Cost	\$18,995
Staffing (full time equivalent)	0.4

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.

Fishermen pay salmon enhancement taxes to licensed buyers at the time of sale, or to the division for salmon sold to unlicensed buyers who are exporting from the region. Buyers remit taxes collected from fishermen to the division.

Rate

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

Region	Rate	Effective
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.

Buyers file returns for bonus payments made to fishermen 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.

Fishermen selling to unlicensed buyers or exporting from the region file returns and pay taxes annually. The due date is March 31 following the year of sale or export.

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 authorized a 2 percent or 3 percent tax, upon election by commercial fishermen within established aquaculture regions, on salmon transferred to buyers in Alaska. Commercial fishermen in Southern and Northern Southeast aquaculture regions elected a 3 percent tax and Cook Inlet region elected a 2 percent tax.

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

1985 – Commercial fishermen in the Prince William Sound aquaculture region elected a 2 percent tax.

1988 – Commercial fishermen in the Kodiak aquaculture region elected a 2 percent tax.

1989 – The legislature amended statutes to allow for a 1 percent tax

1991 – Commercial fishermen in the Chignik aquaculture region elected a 2 percent tax.

The salmon enhancement tax is an elective tax levied on salmon sold in or exported from established aquaculture regions.

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 percent, 2 percent or 3 percent options, 10 additional options were made available, ranging from 4 percent to 30 percent. This legislation clarified who must pay the Salmon Enhancement Tax. When a buyer does not withhold the tax, fishermen must pay the tax with an annual return. The legislation took effect January 1, 2005.

FY 2006 Statistics

Tax Collections	\$4,379,249
<i>Including interest and penalties</i>	
Number of Returns	719
Number of Taxpayers	185
Program Cost	\$33,786
Staffing (full time equivalent)	0.9

**Salmon Marketing Tax
AS 43.76**

The salmon marketing tax was repealed effective January 1, 2005. Information is provided below because the division collected residual salmon marketing taxes in FY 2006.

Description

Alaska levied a salmon marketing tax on all salmon sold in or exported from Alaska. Commercial fishermen paid salmon marketing taxes to buyers based on value of the salmon at the time of sale or fair market value when there was no arms length transaction. Taxpayers paid tax directly to the Tax Division for salmon exported from the state. Buyers remitted taxes collected from fishermen to the division.

Rate

The salmon marketing tax rate was 1 percent of the value of salmon.

Returns

Taxpayers filed returns and paid taxes monthly. The due date was 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) were 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 percent salmon marketing tax to fund salmon marketing administered by ASMI, with a sunset date of 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. The election was held in the Fall of 2004 resulting in an increase to the Seafood Marketing Assessment rate to 0.5 percent and eliminating the Salmon Marketing Tax effective January 1, 2005.

The salmon marketing tax was repealed effective January 1, 2005.

FY 2006 Statistics

Tax Collections	\$48,795
<i>Including interest and penalties</i>	
Number of Returns	54
Number of Taxpayers	25
Program Cost	\$966
Staffing (full time equivalent)	0.1

**Seafood Development Tax
AS 43.76.350**

Description

The seafood development tax is an elective tax levied on certain fishery resources using specific gear types sold in or exported from designated seafood development regions in Alaska.

Fishermen pay seafood development taxes to licensed buyers at the time of sale or to the division for resources sold to unlicensed buyers or exported from Alaska. Buyers remit taxes collected from fishermen to the division.

Rate

Commercial fishermen harvesting salmon by drift gillnet elected tax rates for the following development regions:

Region	Rate	Effective
Prince William Sound	1%	2005
Bristol Bay	1%	2006

Returns

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

Buyers file returns for bonus payments made to fishermen 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 bonus payment.

Fishermen selling to unlicensed buyers or exporting from Alaska file returns and pay taxes annually. The due date is March 31 following the year of sale or export.

Exemptions

Resources harvested under a special harvest area permit (typically, salmon harvested on behalf of salmon hatcheries) is exempt from the seafood development tax.

Disposition of Revenue

The Division deposits all seafood development tax revenue into the General Fund.

Under AS 43.76.380(d), the legislature may appropriate seafood development tax revenue to provide financing for qualified regional seafood development associations.

History

The legislature adopted the Seafood Development Tax Act in 2004. The Act authorized a tax of between ½ and 2 percent, upon election by commercial fishermen harvesting within designated regions, on fishery resources transferred to buyers in or exported from Alaska.

2005 – Commercial salmon drift gillnet fishermen in the Prince William Sound seafood development region elected a 1% tax.

2006 - Commercial salmon drift gillnet fishermen in the Bristol Bay seafood development region elected a 1% tax.

The seafood development tax is an elective tax levied on certain fishery resources using specific gear types.

FY 2006 Statistics

Tax Collections	\$152,465
<i>Including interest and penalties</i>	
Number of Returns	78
Number of Taxpayers	31
Program Cost	\$4,229
Staffing (full time equivalent)	0.1

Seafood Marketing Assessment AS 16.51.120

Description

Alaska levies a seafood marketing assessment on seafood processed or first landed in Alaska. The state also levies the assessment on unprocessed fisheries products exported from Alaska. The Tax division collects the assessment from fisheries processors and fishermen who export fish out of Alaska.

Rate

The seafood marketing assessment is 0.5 percent of the value of seafood products exported from, processed or first landed in Alaska.

Returns

Taxpayers file calendar year returns with payment by April 1 of the following year.

Taxpayers file monthly 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 bonus 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. The legislature may appropriate funds to the Alaska Seafood Marketing Institute.

History

1981 - The legislature enacted an elective seafood marketing assessment of 0.1 percent, 0.2 percent or 0.3 percent (elected by large processors in Alaska). In 1981, processors elected a 0.3 percent 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. Prior to FY 96, revenue collected from the 0.3 percent portion of the original 3.3 percent landing tax rate was accounted for in a separate account designated as (landing tax) seafood marketing assessments.

2004 - The legislature amended statutes to decrease the size of the Alaska Seafood Marketing Institute (ASMI) board to seven governor-appointed members and set qualifications for members. The legislation directed ASMI to hold elections and determine whether to retain the assessment and a second election to determine whether to increase the assessment from 0.3 percent to 0.5 percent. The legislation also established processes for future changes to and termination of assessments as well as a minimum processing threshold for paying assessments.

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

The seafood marketing assessment is levied on seafood processed or first landed in Alaska. Assessments fund the Alaska Seafood Marketing Institute.

FY 2006 Statistics

Assessment Collections	\$6,357,576
Number of Returns	282
Number of Taxpayers	246
Program Cost	\$58,301
Staffing (full time equivalent)	1.0

Telephone Cooperatives pay the telephone cooperative tax in lieu of corporate net income tax.

Telephone Cooperative Tax
AS 10.25.550

Description

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

Rate

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

Length	Percent of Revenue
Less than 5 years	1%
5 years or longer	2%

Returns

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

Exemptions

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

FY 2006 Statistics

Tax Collections	\$1,905,896
Number of Returns	7
Number of Taxpayers	7
Program Cost	\$969
Staffing (full time equivalent)	0.1

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

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 percent to respective municipalities less the amount expended by the state for collection of taxes.

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” to promote cooperatives around the state. The due date for filing telephone cooperative tax returns was April 1 of the following year.

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

**Tire Fee
AS 43.98.025**

Description

Alaska imposes a tire fee on all new tires sold in Alaska. An additional tire fee is imposed on the sale of tires with metal studs weighing more than 1.1 grams each (heavy studs). The additional tire fee also applies to the installation of heavy studs in new or used tires. The division collects tire fees primarily from tire dealerships.

Rate

A \$2.50 tire fee applies to each new tire. An additional \$5 fee applies to each studded tire (\$7.50 total tire fee for new studded tires).

Returns

Taxpayers are required to file returns and remit fees quarterly. Returns and payment are due 30 days following the calendar quarter in which the new tires were sold or studs were installed.

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

Exemptions

The following tires and services are exempt if the purchaser provides the tire seller with a certificate of use:

- Tires and services sold to federal, state or local government agencies for official use.
- Tires for resale.

The \$2.50 tire fee 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 fee per tire on all new tires with heavy studs and the installation of heavy studs in new or used tires. This part of the law became effective July 1, 2004.

Both fees are imposed at the retail level.

Alaska imposes a tire fee on all new tires sold in Alaska.

FY 2006 Statistics

Fee collections on new tires	\$1,146,502
Fee collections on studded tires and stud installations	446,771
Penalties & Interest	<u>25,414</u>
Total Fee Collections	<u>\$1,618,687</u>
New Tires*	
New Tires	515,486
Less Tax Exempt	<u>(55,579)</u>
Taxable New Tires Sold	<u>459,907</u>
Studded Tires*	
Studded tires sold	89,435
Stud installations performed	7,165
Less tax exempt studded tires and stud installations	<u>(5,122)</u>
Taxable studded tires sold and stud installations performed	<u>91,478</u>
Number of Returns	390
Number of Taxpayers	108
Program Cost	\$32,435
Staffing (full-time equivalent)	0.9

* Amounts represent tires sold in FY 2006 (as recorded on tax returns), whereas fee collections reflect money received within FY 2006 and may include payments or refunds from a previous tax period.

**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

Cigarettes – See rates table below. The cigarette tax must be paid through purchase of cigarette tax stamps. A stamp must be affixed to the bottom of every pack of cigarettes imported into the state for sale or personal consumption.

Nonparticipating Manufacturer Equity Tax – An additional tax of 12.5 mills (25 cents per pack of 20 cigarettes) is levied on each cigarette imported or acquired from a manufacturer that did not sign the tobacco Master Settlement Agreement. All revenue collected from this tax is deposited in the General Fund.

Other Tobacco Products – The tax rate on Other Tobacco Products, which includes tobacco products

other than cigarettes such as cigars and chewing tobacco, is 75 percent of the wholesale price. The wholesale price is the established price at which a manufacturer sells tobacco products to a distributor. The 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 increased the cigarette tax rate to 90 mills (9 cents) per cigarette on July 1, 2006 and 100 mills (10 cents) per cigarette on July 1, 2007. In addition, as of January 1, 2005, there is an additional tax of \$.25 per pack of 20 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.

Tobacco tax revenues have increased significantly due to recent rate increases.

Cigarette Tax Rates

July 1, 2005 - June 30, 2006

	Per cigarette	Per 20
Base Rate (School Fund)	38 mills \$0.038	\$0.76
Additional Tax (General Fund)	42 mills 0.042	0.84
Total	80 mills \$0.08	\$1.60

July 1, 2006 - June 30, 2007

	Per cigarette	Per 20
Base Rate (School Fund)	38 mills \$0.038	\$0.76
Additional Tax (General Fund)	52 mills 0.052	1.04
Total	80 mills \$0.09	\$1.80

Taxpayers that purchase cigarette tax stamps are entitled to a stamp discount of 3 percent on the first \$1,000,000 and 2 percent 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 percent of the other tobacco products tax due to cover expenses of accounting and filing returns. 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

Cigarette Taxes – Revenue from the base rate is deposited in the School Fund. Revenue from the additional tax is initially deposited into the General Fund. Of the amount deposited in the General Fund, 8.9 percent of revenue is deposited into the Tobacco Use Education and Cessation Fund, a subfund of the General Fund.

The division deposits all cigarette and tobacco products license fees into the School Fund, to be used for the rehabilitation, construction, repair and associated insurance costs of state school facilities.

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 percent deduction provision to cover accounting expenses. The legislature also created the School Fund and directed all proceeds from the cigarette tax be deposited in this fund.

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 by Indian Reservation businesses to members of the reservation.

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 percent of the product wholesale price. The legislature authorized taxpayers to deduct 1 percent 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 percent of wholesale price. The legislature reduced the deduction percentage to cover accounting expenses from 1 percent to 0.4 percent.

1999 – Effective June 3, 1999, Alaska became a signatory to the nationwide tobacco Master Settlement Agreement (MSA). The MSA is an agreement between 46 states, including the State of Alaska, and certain cigarette manufacturers which have voluntarily agreed to reimburse states for costs associated with cigarette smoking. The Agreement applies only to “participating manufacturers” (those manufacturers who have agreed to participate in the settlement).

The Agreement includes language to prevent “nonparticipating manufacturers” (those manufacturers who have not agreed to participate in the settlement) from deriving short-term profits and from becoming judgment-proof before liability arises. This language requires every nonparticipating manufacturer to place funds in an escrow account for each cigarette sold in the state. Per the agreement, the state is responsible to obtain data to determine the amount required to be placed in an escrow account by each nonparticipating manufacturer.

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 – The legislature required 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 session in June 2004, the legislature passed legislation that:

- Increased the cigarette tax by 30 mills to 8 cents per cigarette or \$1.60 per pack of 20 cigarettes, effective January 1, 2005.
- Levied an additional tax of 12.5 mills or 25 cents per pack of 20 cigarettes 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 is deposited in the General Fund.
- Required 8.9 percent of cigarette tax revenue deposited in the General Fund to be deposited into the Tobacco Use Education and

- Cessation Fund, effective January 1, 2005. Amounts deposited in the fund may be appropriated by the legislature for tobacco use education and cessation programs.
- Increased the cigarette tax by 10 mills to 9 cents per cigarette or \$1.80 per pack of 20 cigarettes, effective July 1, 2006. The revenue from this increase will be deposited in the General Fund.
 - Increased the cigarette tax by 10 mills to 10 cents per cigarette or \$2.00 per pack of 20 cigarettes, effective July 1, 2007. The revenue from this increase will be deposited in the General Fund.

FY 2006 Statistics

Tax Collections

General Fund	\$35,365,736
School Fund	27,391,201
Tobacco Use Education and Cessation Fund	<u>2,694,038</u>
Total Tax Collections All Funds	<u>\$65,450,975</u>

Tax Collections by Product

Cigarettes	\$58,251,891
Other Tobacco Products	<u>7,614,005</u>
Subtotal	65,865,896
License Fee Collections	\$6,255
Penalties & Interest	176,380
Accounting Expense & Tax Stamp Deduction	<u>(597,556)</u>
Total Collections by Product	<u>\$65,450,975</u>

Cigarettes sold or imported into the state – (individual cigarettes) as reported on returns*

Total Cigarettes	759,401,352
Military and Indian Exempt Sales	(29,184,391)
Credits for Returns	<u>(6,329,560)</u>
Taxable Cigarettes	<u>723,887,401</u>

**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

Total products	\$11,224,096
Military and Indian Exempt Sales	(143,761)
Credits for Returns	<u>(387,912)</u>
Taxable Other Tobacco Products	<u>\$10,692,423</u>

Number of Returns	4,067
Number of Taxpayers	484
Program Cost	\$734,275
Staffing (full time equivalent)	9.3

**Vehicle Rental Tax
AS 43.52**

Description

Alaska levies an excise tax on fees and costs charged for the lease or rental of a passenger or recreational vehicle. The tax is levied on individuals renting vehicles and is collected by the rental/lease agency.

Rate

Vehicle Type	Rate (fees & costs)
Passenger	10%
Recreational	3%

Returns

Vehicle rental/lease agencies file tax returns and remit 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
- a lease or rental that contains a term exceeding 90 consecutive days or to the rental of taxicabs by taxicab drivers
- trucks rented by individuals for moving personal property and for

vehicles provided to customers by automobile dealers as replacement transportation during warranty, recall or service contract repairs.

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 balance in 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 became 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 division refunded any tax collected or remitted for taxi cab rentals between January 1 and May 8, 2004.

2006 – The legislature exempted trucks rented by individuals for moving personal property and for vehicles provided to customers by automobile dealers as replacement transportation during warranty, recall or service contract repairs, effective January 27, 2006.

The legislature may appropriate the balance in the vehicle rental tax account for tourism development and marketing.

FY 2006 Statistics

Passenger vehicle rental	\$7,246,318
Recreational vehicle rental	346,439
Penalties & interest	64,359
Total Tax Collections	\$7,657,116
Number of Returns	472
Number of Taxpayers	134
Program Cost	\$152,349
Staffing (full time equivalent)	1.5

Investigation Function

Description

The Investigations Group consists of four field investigators and a supervisor. The Investigations Group primarily focuses on gaming and tobacco tax investigations, conducting field inspections of gaming locations and potential charitable gaming violations, as well as cigarette distributors and retailers, and potential cigarette and tobacco violations.

Cigarette Tax Stamp Investigations

The Investigations Group ensures that all cigarettes sold in Alaska are affixed with cigarette tax stamps in accordance with AS 43.50. The investigators seize unstamped or improperly stamped cigarettes and any other tobacco products otherwise designated as contraband within the provisions of Alaska Statutes. The investigators make recommendations to suspend or revoke a cigarette excise tax license or tobacco endorsement for violations of cigarette tax stamp laws. At the time of investigation, investigators determine potential violations of cigarette minimum pricing and cigarette shipping statutes.

Investigations are initiated by complaints from citizens, requests from revenue auditors, and/or routine field inspections of premises where cigarettes are sold. During investigations, the investigators are responsible for the education of cigarette and tobacco products licensees and cigarette retailers in the area of cigarette and tobacco products excise taxes, minimum pricing and shipping restrictions.

Gaming Investigations

The Investigations Group investigates potential gaming permit or license violations and illegal gambling. Investigations are initiated by routine inspections of premises where charitable gaming activities are located, complaints from citizens of suspected gaming violations, and requests from revenue auditors. During investigations, investigators educate permittees, licensees and the public about gaming laws and regulations.

Other Investigations

The Investigations Group provides investigative support to all groups within the Tax Division and may be called upon to investigate potential violations of any of the tax types administered by the division, including tax evasion or tax fraud.

The Investigations Group may be called upon to investigate potential violations of any of the tax types administered by the division.

FY 2006 Statistics

	Gaming	Tobacco	Total
Inspections	244	710	954
Other Action	<u>78</u>	<u>14</u>	<u>92</u>
Total	322	724	1,046

Packs of Tobacco Seized 6,690

Appeals Function

Description

Appeals officers conduct informal conferences and issue informal conference decisions in taxpayer appeals of assessments for all tax types administered by the Department of Revenue. Appeals officers work with Department of Law attorneys to resolve issues related to audit and compliance actions. Appeals officers also participate with Department of Law attorneys as a team to represent the Department of Revenue in formal hearings before the Office of Administrative Hearings and to negotiate settlements of tax controversies.

Oil and gas cases and other corporate income tax cases are a priority due to the complexity of the issues and the amount of tax revenue involved. Appeals for fisheries business, fishery resource landing and tobacco tax programs continued to increase.

Appeals conducts informal conferences and issues decisions in taxpayer appeals of assessments for all tax types

FY 2006 Statistics

	Tax Periods*	Taxpayer Count
Beginning Inventory	198	78
Plus New Cases	361	193
Less Closed Cases	255	162
Ending Inventory	304	109

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

Audit Function

The income audit group is responsible for auditing corporate income taxes, including oil and gas corporate income tax returns.

The production audit group is responsible for auditing oil and gas production and property tax returns.

The excise audit group is responsible for auditing excise tax returns including alcoholic beverages, mining license, motor fuel, vehicle rental and tobacco taxes, and tire fees.

The gaming audit group is responsible for financial compliance of permittees, operators and distributors.

The fish audit group is responsible for auditing fisheries-related tax returns including fisheries business, fishery resource landing, salmon enhancement, salmon marketing and seafood development taxes, and seafood marketing assessments.

FY 2006 Statistics

	Audit Collections	Total Tax Collections
Income Audit		
Corporate Net Income		
Oil and Gas Corp Income	\$40,084,686	\$702,211,982
Other Corporations	<u>10,479,243</u>	<u>137,993,460</u>
Total	\$50,563,929	\$840,205,442
Production Audit		
Oil and Gas Production Tax	\$2,556,167	\$1,194,317,635
Oil and Gas Property	<u>50,268</u>	<u>54,557,701</u>
Total	\$2,606,435	\$1,248,875,336
Excise Audit	\$52,755	\$171,000,747
Gaming Audit	0	\$2,409,819
Fish Audit	\$602,444	\$54,177,667
Total	<u>\$53,400,185*</u>	<u>\$2,569,419,960**</u>

The audit group includes income audit, production audit, excise audit, gaming audit and fish audit.

* Does not include receipts or refunds resulting from litigation.

** Includes all General Fund, credits, Constitutional Budget Reserve Fund and School Funds.

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¢/gallon Beer 5¢/gallon	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 increased for alcoholic beverages as referenced under current tax structure.
Conservation Surcharge on Oil	AS 43.55	1989	5¢/bbl	3¢/bbl increasing to 5¢/bbl when fund balance drops below \$50m	2006 - rates changed to 1¢/bbl and 4¢/bbl.
Corporate Income	AS 43.20	1949	10% of federal income tax liability	1% to 9.4% of net income	2003 - oil and gas 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 Mgmt Area A Geoduck = 7% Sea Cucumber = 5% Sea Urchin = 7%	2005 - The legislature authorized an annual filing due date of March 31 for dive fishermen who export or sell to unlicensed buyers, effective January 1, 2005.
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	2006 – The legislature extended the Salmon Product Development Credit for expenditures made through December 31, 2008. The Salmon Utilization Credit was not extended.

¹ Established species ²Developing species

Appendix A Continued

Tax Type	Legal Reference	First Enacted	Original Tax	Current Tax Structure	Latest Change
Fishery Resource Landing	AS 43.77	1993	3.3% of unprocessed value	3% of value ¹ 1% of value ²	2002 – The legislature authorized credits of up to 50 percent for contributions of not more than \$100,000 and 75 percent of the next \$100,000 in contributions made to the Alaska Veterans' Memorial Endowment Fund. The tax credit expired July 1, 2003.
<p>¹ Established species ² Developing species</p>					
Gaming	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.	2005 - HB 61 authorized Calcutta Pools and Crane Classics
Mining License	AS 43.65	1913	5% tax on mining net income of more than \$5,000	On net income <\$40,000 no tax. >\$40,001 \$1,200 plus 3% >\$50,001 \$1,500 plus 5% >\$100,000 \$4,000 plus 7%	2002 – The legislature authorized credits of up to 50 percent for contributions of not more than \$100,000 and 75 percent of the next \$100,000 in contributions made to the Alaska Veterans' Memorial Endowment Fund. The tax credit expired July 1, 2003.
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	2004 – The provision that exempted gasohol blended with at least 10 percent alcohol derived from wood or seafood waste from the motor fuel tax expired on June 30, 2004. Currently all gasohol is taxed at the rate of 8 cents per gallon.

Appendix A Continued

Tax Type	Legal Reference	First Enacted	Original Tax	Current Tax Structure	Latest Change
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	2006 - PPT legislation enacted in special session.
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	2006 - rates increased by regulation.
Salmon Enhancement	AS 43.76	1980	Voluntary tax of 1%, 2% or 3% of value as elected by fishermen 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. Ten additional rates ranging from 4 to 30%
Seafood Development	AS 43.76.350	2005	0.5%-2%	Pr. William Sound 1% Bristol Bay 1%	2006 - Commercial salmon drift gillnet fishermen in the Bristol Bay seafood development region elected a 1% tax.
Seafood Marketing	AS 16.51.120	1981	Voluntary assessment of .1%, .2% or .3% of value as elected by processors	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	1960 – The legislature changed the due date for filing returns to March 1.
Tire Fee	AS 43.98	2003	\$2.50 per new tire for highway-use motor vehicles Additional \$5 per tire with studs over 1.1 grams	\$2.50 per new tire for highway-use motor vehicles Additional \$5 per tire with studs over 1.1 grams	No changes since tire fee enacted in 2003.

Appendix A Continued

Tax Type	Legal Reference	First Enacted	Original Tax	Current Tax Structure	Latest Change
Tobacco	AS 43.50	1949	Cigarettes - 3¢ per pack of 20; Tobacco - 2¢ per ounce	90 mills/cigarette (\$1.80 per pack of 20) 75% of wholesale price	2004 - SB 1001 increases 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	2006 - exemptions for trucks for moving personal property and vehicles as replacement transportation.
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. License program transferred to DCCED by Executive Order effective July 1, 1988.
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.
Salmon Marketing	AS 43.76	1993	1% of value of salmon	1% of value of salmon	Repealed effective January 1, 2005.
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 2006

Alaska’s total tax on liquor is not actually the highest among the states because many states charge a sales tax as well as an alcohol tax.

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	11
Colorado	2.28	29	New Mexico	6.06	4
Connecticut	4.50	9	New York	6.44	3
Delaware	5.46	7	North Carolina	Footnote ¹	N/A
Florida	6.50	2	North Dakota	2.50	24
Georgia	3.79	15	Ohio	Footnote ¹	N/A
Hawaii	5.98	5	Oklahoma	5.56	6
Idaho	Footnote ¹	N/A	Oregon	Footnote ¹	N/A
Illinois	4.50	9	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	14
Kentucky	1.92	31	Tennessee	4.40	11
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	13	Virginia	Footnote ¹	N/A
Michigan	Footnote ¹	N/A	Washington	Footnote ¹	N/A
Minnesota	5.03	8	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 2006**

Alaska’s total tax on wine is not actually the highest among the states because many states charge a sales tax as well as an alcohol tax.

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	37	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	.30	38
Hawaii	1.38	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	38	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	38	West Virginia	1.00	11
Mississippi	.35	36	Wisconsin	.25	42
Missouri	.30	38	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 2006

Alaska’s total tax on beer is not actually the highest among the states because many states charge a sales tax as well as an alcohol tax.

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	.93	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	.28	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 2006

State	Rate (¢ per gallon)	Other Tax ¹ (¢ per gallon)	Total (¢ per gallon)	Rank	State	Rate (¢ per gallon)	Other Tax ¹ (¢ per gallon)	Total (¢ per gallon)	Rank
Alabama	16	2	18	38	Montana	27	0	27	7
Alaska	8	0	8	51	Nebraska	26.1	0.9	27	7
Arizona	18	0	18	38	Nevada	24	0	24	14
Arkansas	21.5	0	21.5	24	New Hampshire	18	1.625	19.625	33
California	18	0	18	38	New Jersey	10.5	4	14.5	49
Colorado	22	0	22	22	New Mexico	17	1.9	18.9	35
Connecticut	25	0	25	11	New York	8	15.9	23.9	17
Delaware	23	0	23	19	North Carolina	29.9	0.25	30.15	5
Dist of Columbia	22.5	0	22.5	21	North Dakota	23	0	23	19
Florida	4	10.9	14.9	48	Ohio	28	0	28	6
Georgia	7.5	7.8	15.3	47	Oklahoma	16	1	17	44
Hawaii	16	0	16	45	Oregon	24	0	24	14
Idaho	25	0	25	11	Pennsylvania	12	19.2	31.2	2
Illinois	19	1.1	20.1	28	Rhode Island	30	1	31	3
Indiana	18	0	18	38	South Carolina	16	0	16	45
Iowa	20.7	0	20.7	27	South Dakota	22	0	22	22
Kansas	24	0	24	14	Tennessee	20	1.4	21.4	25
Kentucky	17.1	1.4	18.5	36	Texas	20	0	20	29
Louisiana	20	0	20	29	Utah	24.5	0	24.5	13
Maine	25.9	0	25.9	10	Vermont	19	1	20	29
Maryland	23.5	0	23.5	18	Virginia	17.5	0	17.5	43
Massachusetts	21	0	21	26	Washington	31	0	31	3
Michigan	19	0	19	34	West Virginia	20.5	6.5	27	7
Minnesota	20	0	20	29	Wisconsin	29.9	3	32.9	1
Mississippi	18	0.4	18.4	37	Wyoming	13	1	14	50
Missouri	17	0.55	17.55	42					

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

Source: Federation of Tax Administrators

Appendix B
Comparison of Aviation Fuel Tax Rates
January 2006

State	Jet Fuel (¢ per gallon)	Rank ¹	Aviation Gas (¢ per gallon)	Rank ²	State	Jet Fuel (¢ per gallon)	Rank ¹	Aviation Gas (¢ per gallon)	Rank ²
Alabama	0.8	33	2.4	36	Montana	4.0	17	4.0	33
Alaska	3.2	21	4.7	31	Nebraska	3.0	23	5.0	25
Arizona	3.05	22	5.0	25	Nevada	2.0	26	1.0	38
Arkansas	Sales Tax	N/A	Sales Tax	N/A	New Hampshire	2.0	26	4.0	33
California	2.0	26	18.0	5	New Jersey	12.5	1	12.5	10
Colorado	4.0	17	6.0	21	New Mexico	Sales Tax	N/A	17.0	7
Connecticut	None	N/A	None	N/A	New York	8.0	5	8.0	15
Delaware	None	N/A	23.0	1	North Carolina	Sales Tax	N/A	Sales Tax	N/A
Florida	6.9	8	6.9	19	North Dakota	8.0	5	8.0	15
Georgia	Sales Tax	N/A	1.0	38	Ohio	Sales Tax	N/A	Sales Tax	N/A
Hawaii	1.0	31	1.0	38	Oklahoma	0.08	35	0.08	41
Idaho	4.5	16	5.5	24	Oregon	1.0	31	9.0	13
Illinois	11.0	2	11.0	11	Pennsylvania	2.0	26	4.3	32
Indiana	0.8	33	18.0	5	Rhode Island	None	N/A	None	N/A
Iowa	3.0	23	8.0	15	South Carolina	Sales Tax	N/A	Sales Tax	N/A
Kansas	Sales Tax	N/A	Sales Tax	N/A	South Dakota	4.0	17	6.0	21
Kentucky	Sales Tax	N/A	16.4	8	Tennessee	1.4	30	1.4	37
Louisiana	Sales Tax	N/A	20.0	3	Texas	None	N/A	None	N/A
Maine	3.4	20	22.0	2	Utah	9.0	4	9.0	13
Maryland	7.0	7	7.0	18	Vermont	None	N/A	20.0	3
Massachusetts	6.2	9	14.7	9	Virginia	5.0	12	5.0	25
Michigan	3.0	23	3.0	35	Washington	11.0	2	11.0	11
Minnesota	5.0	12	5.0	25	West Virginia	4.85	15	4.85	30
Mississippi	5.25	11	6.4	20	Wisconsin	6.0	10	6.0	21
Missouri	Sales Tax	N/A	Sales Tax	N/A	Wyoming	5.0	12	5.0	25

¹Out of 35 states with tax rates

²Out of 41 states with tax rates

Source: National Business Aircraft Association, Inc. 2006 State Aviation Tax Report

**Appendix B
Comparison of Cigarette Tax Rates
January 2006**

State	Rate (\$ per pack)	Rank	State	Rate (\$ per pack)	Rank
Alabama	0.425	38	Montana	1.70	6
Alaska	1.60*	7	Nebraska	0.64	29
Arizona	1.18	16	Nevada	0.80	24
Arkansas	0.59	31	New Hampshire	0.80	24
California	0.87	22	New Jersey	2.40	2
Colorado	0.84	23	New Mexico	0.91	21
Connecticut	1.51	8	New York	1.50	10
Delaware	0.55	34	North Carolina	0.30	44
Florida	0.339	43	North Dakota	0.44	37
Georgia	0.37	40	Ohio	1.25	13
Hawaii	1.40	11	Oklahoma	1.03	18
Idaho	0.57	32	Oregon	1.18	16
Illinois	0.98	20	Pennsylvania	1.35	12
Indiana	0.555	33	Rhode Island	2.46	1
Iowa	0.36	41	South Carolina	0.07	50
Kansas	0.79	26	South Dakota	0.53	36
Kentucky	0.30	44	Tennessee	0.20	47
Louisiana	0.36	41	Texas	0.41	39
Maine	2.00	4	Utah	0.695	28
Maryland	1.00	19	Vermont	1.19	15
Massachusetts	1.51	8	Virginia	0.30	44
Michigan	2.00	4	Washington	2.025	3
Minnesota	1.23	14	West Virginia	0.55	34
Mississippi	0.18	48	Wisconsin	0.77	27
Missouri	0.17	49	Wyoming	0.60	30

*Effective July 1, 2006, the rate increased to \$1.80.

Source: Federation of Tax Administrators

**Appendix B
Comparison of Tobacco Products Tax Rates
January 2006**

State	Rate	State	Rate
Alabama	.6¢ - 5.25¢/ounce	Montana	50% 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% Wholesale Price
California	46.76% Wholesale Price	New Jersey	30% Wholesale Price
Colorado	40% Manufacturer Price	New Mexico	25% Product Value
Connecticut	20% Wholesale Price	New York	37% Wholesale Price
Delaware	15% Wholesale Price	North Carolina	3% Wholesale Price
Florida	25% Wholesale Price	North Dakota	28% Wholesale Price
Georgia	10% 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	18% Wholesale Price	Rhode Island	40% Wholesale Price
Iowa	22% Wholesale Price	South Carolina	5% Manufacturer Price
Kansas	10% Wholesale Price	South Dakota	10% Wholesale Price
Kentucky	7.5% Wholesale Price	Tennessee	6.6% Wholesale Price
Louisiana	33% Manufacturer Price	Texas	35.213% Manufacturer Price
Maine	78% Wholesale Price	Utah	35% Manufacturer Price
Maryland	15% Wholesale Price	Vermont	41% Manufacturer Price
Massachusetts	90% Wholesale Price	Virginia	10% Wholesale Price
Michigan	32% Wholesale Price	Washington	75% Wholesale Price
Minnesota	70% 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 Corporate Income Tax Rates
January 2006

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	6.968		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 - 7.0	\$50,000	\$100,000	3
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	Tax Based on Federal Taxable Income			N/A
Minnesota	9.8		Flat Rate	1
Mississippi	3.0 - 5.0	\$5,000	\$10,000	3
Missouri	6.25		Flat Rate	1

Appendix B
Comparison of Corporate Income Tax Rates
January 2006
(Continued)

State	Rate (%)	Tax Brackets		Number of Brackets
		Lowest	Highest	
Montana	6.75		Flat Rate	1
Nebraska	5.58 - 7.81	\$50,000		2
Nevada	No Corporation Income Tax			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	2.6 - 7.0	\$3,000	\$30,000	5
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	No Corporation Income Tax			N/A
Tennessee	6.5		Flat Rate	1
Texas	Tax Based on Capital and Surplus			N/A
Utah	5.0		Flat Rate	1
Vermont	7.0 - 8.9	\$10,000	\$250,000	4
Virginia	6.0		Flat Rate	1
Washington	No Corporation Income Tax			N/A
West Virginia	9.0		Flat Rate	1
Wisconsin	7.9		Flat Rate	1
Wyoming	No Corporation Income Tax			N/A
Federal	15.0 - 35.0	\$22,100	\$10,000,000	4

Source: Federation of Tax Administrators

**Appendix B
Comparison of Individual Income Tax Rates*
January 2006**

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	\$3,399	\$28,500	6
California	1.0 - 9.3	\$6,319	\$41,477	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	No State Income Tax			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	\$1,159	\$23,000	8
Illinois	3.0	Flat Rate		1
Indiana	3.4	Flat Rate		1
Iowa	.36 - 8.98	\$1,269	\$57,106	9
Kansas	3.5 - 6.45	\$15,000	\$30,000	3
Kentucky	2.0 - 6.0	\$3,000	\$75,000	6
Louisiana	2.0 - 6.0	\$12,500	\$25,000	3
Maine	2.0 - 8.5	\$4,550	\$18,250	4
Maryland	2.0 - 4.75	\$1,000	\$3,000	4
Massachusetts	5.3	Flat Rate		1
Michigan	3.9	Flat Rate		1
Minnesota	5.35 - 7.85	\$20,510	\$67,360	3
Mississippi	3.0 - 5.0	\$5,000	\$10,000	3
Missouri	1.5 - 6.0	\$1,000	\$9,000	10

Appendix B
Comparison of Individual Income Tax Rates*
January 2006
(Continued)

State	Rate (%)	Tax Brackets		Number of Brackets
		Lowest	Highest	
Montana	1.0 - 6.9	\$2,300	\$13,900	7
Nebraska	2.56 - 6.84	\$2,400	\$26,500	4
Nevada	No State Income Tax			N/A
New Hampshire	Tax Limited to Dividends and Interest			N/A
New Jersey	1.4 - 8.97	\$20,000	\$500,000	6
New Mexico	1.7 - 5.3	\$5,500	\$16,000	4
New York	4.0 - 6.85	\$8,000	\$500,000	5
North Carolina	6.0 - 8.25	\$12,750	\$120,000	4
North Dakota	2.1 - 5.54	\$29,700	\$326,450	5
Ohio	0.712 - 7.185	\$5,000	\$200,000	9
Oklahoma	0.5 - 6.25	\$1,000	\$10,000	8
Oregon	5.0 - 9.0	\$2,650	\$6,550	3
Pennsylvania	3.07	Flat Rate		1
Rhode Island	25% Federal Tax Liability			N/A
South Carolina	2.5 - 7.0	\$2,570	\$12,850	6
South Dakota	No State Income Tax			N/A
Tennessee	Tax Limited to Dividends and Interest			N/A
Texas	No State Income Tax			N/A
Utah	2.3 - 7.0	\$863	\$4,313	6
Vermont	3.6 - 9.5	\$29,900	\$326,450	5
Virginia	2.0 - 5.75	3,000	17,000	4
Washington	No State Income Tax			N/A
West Virginia	3.0 - 6.5	\$10,000	\$60,000	5
Wisconsin	4.6 - 6.75	\$8,840	\$132,580	4
Wyoming	No State Income Tax			N/A

* Rates apply to unmarried individuals

Source: Federation of Tax Administrators

**Appendix B
Comparison of Sales Tax Rates
January 2006**

State	Rate (%)	State	Rate (%)
Alabama	4.0	Montana	No State Sales Tax
Alaska	No State Sales Tax	Nebraska	5.5
Arizona	5.6	Nevada	6.5
Arkansas	6.0	New Hampshire	No State Sales Tax
California	7.25	New Jersey	6.0
Colorado	2.9	New Mexico	5.0
Connecticut	6.0	New York	4.0
Delaware	No State Sales Tax	North Carolina	4.5
Florida	6.0	North Dakota	5.0
Georgia	4.0	Ohio	5.5
Hawaii	4.0	Oklahoma	4.5
Idaho	5.0	Oregon	No State Sales Tax
Illinois	6.25	Pennsylvania	6.0
Indiana	6.0	Rhode Island	7.0
Iowa	5.0	South Carolina	5.0
Kansas	5.3	South Dakota	4.0
Kentucky	6.0	Tennessee	7.0
Louisiana	4.0	Texas	6.25
Maine	5.0	Utah	4.75
Maryland	5.0	Vermont	6.0
Massachusetts	5.0	Virginia	5.0
Michigan	6.0	Washington	6.5
Minnesota	6.5	West Virginia	6.0
Mississippi	7.0	Wisconsin	5.0
Missouri	4.225	Wyoming	4.0

Source: Federation of Tax Administrators

