

State of Alaska
FY2005 Governor's Operating Budget

Department of Revenue
Tax Division
Component Budget Summary

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Component: Tax Division

Contribution to Department's Mission

The mission of the Tax Division is to collect taxes, inform stakeholders and regulate charitable gaming.

Core Services

- Facilitate voluntary compliance
- Enforce tax and gaming statutes
- Account for revenues
- Inform stakeholders

End Results	Strategies to Achieve Results
<p>(1) Optimize tax collections.</p> <p><u>Target:</u> Percentage of taxes collected compared to taxes due between 92% and 98%.</p> <p><u>Measure:</u> Percentage of taxes collected compared to the taxes due.</p> <p>(2) State has sustainable fiscal system in that (1) general fund revenues at average long-run energy prices are equal to general fund expenditures and (2) there is a mechanism to cushion short-term deviation from long range energy price.</p> <p><u>Target:</u> 100% of general fund revenues from sustainable sources projected over the next budget cycle, 5 budget cycles and 15 budget cycles.</p> <p><u>Measure:</u> Percentage of general fund revenues from sustainable sources.</p> <p>(3) The State provides the best possible information on the revenue system, the revenue outlook and revenue policy analysis for executive and legislative branches as well as its citizens.</p>	<p>(1) Increase audit coverage (audit activities improve compliance and revenue).</p> <p><u>Target:</u> Open 20 new audit cases (taxpayers that have not been audited by us in the prior five years).</p> <p><u>Measure:</u> Number of new audits opened.</p> <p>(2) Increased voluntary compliance from identifying non-filers.</p> <p><u>Target:</u> Find 30 non-filers through compliance work.</p> <p><u>Measure:</u> Number of non-filers brought into compliance.</p> <p>(3) Use refund requests as a proxy for how effective we are in processing tax returns and return information.</p> <p><u>Target:</u> Issue 99% of tax refunds within statutory 90-day interest free (grace) period.</p> <p><u>Measure:</u> Percentage of refunds issued within 90 days of claim.</p> <p>(4) Use permit application process as a proxy for how effective we are in regulating gaming.</p> <p><u>Target:</u> 10% reduction in application follow up due to missing and incomplete forms.</p> <p><u>Measure:</u> Percentage of gaming applications received needing additional follow-up with applicant compared to total applications received.</p> <p>(5) Continue to be a good source of information and the first place to go about general fiscal or oil and gas revenue information by continuously improving both our published data projects and our responses to inquiries.</p>

End Results	Strategies to Achieve Results
	<p><u>Target:</u> 95% responded with a satisfaction of 4 or better.</p> <p><u>Measure:</u> Survey of published data users with a satisfaction scale from 1 to 5.</p>

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> • Enforce tax compliance through audit • Focus activity examination on high risk returns and errors • Streamline examination process • Employ IRS data and examination resources to identify non-filers • Implement performance tracking and process monitoring tools • Develop checklists and visual aids to assist in preparing a complete and accurate gaming application the first time • Provide training workshops in key areas 	<ul style="list-style-type: none"> • Encourage voluntary compliance by informing taxpayers of resources that allow them to fully comply • Account for all revenues • Publish well-used and statutorily required publications and website materials • Assist Governor and legislature in developing new sources of revenue and improving existing sources • Respond to revenue related legislation • Develop a survey for identifying who accesses information on the Tax Division website or through our publications.

FY2005 Resources Allocated to Achieve Results							
<p>FY2005 Component Budget: \$7,137,500</p>	<p>Personnel:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Full time</td> <td style="text-align: right;">85</td> </tr> <tr> <td style="padding-left: 20px;">Part time</td> <td style="text-align: right;">1</td> </tr> <tr> <td style="padding-left: 20px;">Total</td> <td style="text-align: right; border-top: 1px solid black;">86</td> </tr> </table>	Full time	85	Part time	1	Total	86
Full time	85						
Part time	1						
Total	86						

Performance Measure Detail

(1) Result: Optimize tax collections.

Target: Percentage of taxes collected compared to taxes due between 92% and 98%.

Measure: Percentage of taxes collected compared to the taxes due.

Percentage of Taxes Collected Compared to Taxes Due:

Year	%				YTD Total
2002	96.6				
2003	98.5				
2004	96.0				
2005	96.0				

Analysis of results and challenges: At the margin, this percentage is driven primarily by the Tax Division's resolution of large and complex oil and gas income and production tax cases. Too high a percentage indicates that the division is not assessing difficult taxpayers or issues where the State is likely to collect less than 100%. Too low a figure indicates that the State is being overly aggressive with taxpayers and then settling too easily. A balanced result indicates a balanced approach. In 2003, the Tax Division collected \$1,017.6 million out of \$1,033.3 million voluntarily reported or assessed by the department.

(2) Result: State has sustainable fiscal system in that (1) general fund revenues at average long-run energy prices are equal to general fund expenditures and (2) there is a mechanism to cushion short-term deviation from long range energy price.

Target: 100% of general fund revenues from sustainable sources projected over the next budget cycle, 5 budget cycles and 15 budget cycles.

Measure: Percentage of general fund revenues from sustainable sources.

Through Next Budget Cycle

Year	2004	2009	2014	YTD Total
2003	73%	NA	NA	0
2004	68%	66%	57%	0
2005	68%	95%	91%	0

Analysis of results and challenges: The state's general fund budget should reflect a balance between recurring revenues and annual spending. At \$2.3 billion in general fund spending, the tables above demonstrate that current sustainable revenues are projected to be 57% to 65% of the current spending level. Closing the gap will present a significant challenge to the State over the coming years.

(3) Result: The State provides the best possible information on the revenue system, the revenue outlook and revenue policy analysis for executive and legislative branches as well as its citizens.

(1) Strategy: Increase audit coverage (audit activities improve compliance and revenue).

Target: Open 20 new audit cases (taxpayers that have not been audited by us in the prior five years).

Measure: Number of new audits opened.

Number of New Audit Cases Opened

Year	# of Audits			YTD Total
2002	9			
2003	13			
2004	YTD: 6			
2005	Target: 20			

Analysis of results and challenges: The Tax Division maintains 100% coverage in oil and gas income and production taxes (and new oil and gas audit subjects are not included in this measure). An audit presence in each of the other tax type improves long-term voluntary compliance as well as generates new audit revenues. Furthermore, once established, audit generated revenues tend to recur as taxpayers modify their reporting to become consistent with the audit findings. As the Division administers new taxes and fees on tires and rental cars, and higher taxes on alcohol and cigarettes it needs to expand its audit coverage in those areas. In 2003, the increase in the number of audits was primarily in the alcohol area. In 2004 and 2005, it will come primarily in the other three areas. Twenty new audit subjects annually appears to be an appropriate increase.

(2) Strategy: Increased voluntary compliance from identifying non-filers.

Target: Find 30 non-filers through compliance work.

Measure: Number of non-filers brought into compliance.

Analysis of results and challenges: The Tax Division encourages voluntary compliance as the most effective tool for collecting tax revenues. An important aspect of voluntary compliance is for taxpayers to believe that they are paying about the same amount in taxes as other similarly situated taxpayers. Seeking out and finding new taxpayers and bringing them into compliance assists revenue both in long-term voluntary compliance as well as bringing in the revenues from the new taxpayers. The division does not believe there are any major oil and gas taxpayers not filing, but we are going after the tax types that constitute the other 20% of its revenue responsibilities.

This target and measure does not include federal or multi-state compliance programs in which we currently participate.

(3) Strategy: Use refund requests as a proxy for how effective we are in processing tax returns and return information.

Target: Issue 99% of tax refunds within statutory 90-day interest free (grace) period.

Measure: Percentage of refunds issued within 90 days of claim.

Percentage of Refunds Issued Within 90 Days of Claim

Year	% of Refunds				YTD Total
2002	76.35%				0
2003	64.02%				0
2004	YTD: 98.36%				0
2005	Target: 99%				0

Analysis of results and challenges: The Tax Division encourages voluntary compliance as the most effective tool for collecting tax revenues. Another important aspect of voluntary compliance is for the taxpayers to believe the division is timely, effective and competent; and therefore, they are likely to suffer consequences if they are not fair in their dealings with the division. The division is using how well it processes refund requests as a proxy for how well it can process the information and money associated with returns, and then keep track of, retrieve, process and act on that information when requested. The Tax Division believes this is a good test for perceived competence with taxpayers, which in turn is reflected in voluntary compliance.

(4) Strategy: Use permit application process as a proxy for how effective we are in regulating gaming.

Target: 10% reduction in application follow up due to missing and incomplete forms.

Measure: Percentage of gaming applications received needing additional follow-up with applicant compared to total applications received.

Percentage of Applications Needing Additional Follow-up

Year	%				YTD Total
2002	70%				0
2003	70%				0
2004	70%				0
2005	Target: 73%				0

Analysis of results and challenges: As mentioned above, the Tax Division believes that voluntary compliance is tied to how competent and well organized the division is perceived to be. This measure specifically targets the gaming tax, for which the division also serves as the regulatory body. The Tax Division is creating checklists and visual aids to assist applicants for permits in preparing a complete and accurate application the first time each time. The division believes this is a good test for the perceived competence with taxpayers, which in turn is reflected in both voluntary compliance for the taxpayer and conformance with the gaming laws.

(5) Strategy: Continue to be a good source of information and the first place to go about general fiscal or oil and gas revenue information by continuously improving both our published data projects and our responses to inquiries.

Target: 95% responded with a satisfaction of 4 or better.

Measure: Survey of published data users with a satisfaction scale from 1 to 5.

Analysis of results and challenges: The Tax Division will elicit survey responses from its web users either directly or via email early in the spring of 2004. The division will examine a number of service parameters including ease of use, comprehensive coverage, timeliness, and accuracy. The division has a wide spectrum of users that includes

taxpayers, businesses, government entities, and private citizens. This survey will begin a benchmarking process not only to identify those groups being served but to begin a process to track quality of service.

Key Component Challenges

- Optimize tax collections through new initiatives while maintaining core programs with reduced resources.
- Maintaining the integrity of core programs and new initiatives while trying to recruit and retain fully qualified professional staff.
- Contributing to efforts to start large-scale natural gas development in-state and commercialization of North Slope natural gas reserves in particular.

Significant Changes in Results to be Delivered in FY2005

The division's performance measures have been significantly revamped for 2005, and it will continue the process of both implementing these measures and refining or creating new measures or "sub-measures" for each work unit.

One of the major changes is recognition over the next several years that developing new revenue initiatives is as critical (and time consuming) part of its mission as is administering the core programs it have now.

Assuming the department has the appropriate legislation in place, eliminate monthly and quarterly filing of gaming reports and revamp the gaming processes.

Major Component Accomplishments in 2003

Completed examination and review of airline regulations.

Completed an extremely complex oil and gas audit with a resulting assessment of several hundred million dollars.

Provided extensive support to the legislature in their considerations of sales tax, personal income tax, employment taxes and other revenue measures.

Drafted regulations for Gas Exploration and Incentive Credit AS 43.20.043.

Improved the motor fuel tax program by centralizing the examination and audit functions in Anchorage.

Improved Excise Tax program by dedicating staff rather than part-time assignments.

Initiated development of the corporate income and fisheries business tax data entry and examination training modules incorporating recently implemented technical improvements.

Initiated form development in concert with multiple agencies to assist in simplifying the licensing of catcher/processors in response to industry request.

Redistributed workflow within the Examination and Compliance Unit to increase efficiency and timeliness in licensing, examination of tax returns and recordkeeping resulting in the resolution of periodic file accumulation in recordkeeping.

Completed the draft of the 43.56 valuation regulations.

Established 3-year test on alternative valuation methodologies for production properties for Alaska North Slope (ANS).

Promulgated regulations for the Exploration Tax Credit and made other necessary changes to existing regulations.

Stayed current in our audits. This helps promote compliance by the taxpayers. As issues are identified, we can resolve them much quicker through the regulatory process. Particular challenge to maintain the audit schedule of major oil and gas corporate income taxpayers despite major staff reductions in corporate income tax through assignment to other

duties.

Major contribution to Commissioner's Electronic Gaming project and to analysis of various gaming bills.

Presentations by auditors on Charitable Gaming in Alaska at the North American Gaming Regulators Association and at the Alaska Bar Association's 5th Biennial Program on "Nonprofits in 2003: What's New and What's Important".

Maintained significant Operator and Multi Beneficiary Permits compliance through enforcement efforts.

Assisted state and federal law enforcement agencies investigating illegal gambling and other gambling related crimes.

Major gaming litigation case settled, resulting in hundreds of thousands of dollars distributed to permittees.

Created checklists to expedite contact with permit and license applicants regarding incomplete information.

Created "walk-through" checklists/guidelines to achieve a complete permit/license application upon original receipt.

Created extensive list of macros (ongoing project) to expedite correspondence (various gaming issues) with permittees and licensees.

Implemented corporate income tax data entry, validation, and electronic workflow routing system that improved data entry efficiency, eliminated examination and handling of low and zero risk returns, improved internal controls, and simplified and redistributed exception processing reducing total processing costs.

Introduced beta excise tax data entry, validation, and electronic workflow routing system that will improve data entry performance, improve examination efficiency, improve internal controls, and accommodate geographic distribution of processing resources.

Evaluation of over 20 new potential revenue sources.

Implemented a new measure of oil prevailing value for production tax administration using three rather than one pricing service.

Provided input into the design of a fiscal system to enhance North Slope gas commercialization.

Provided input into background reports for use in several major bond sales and briefings of major financial rating companies.

Evaluated fiscal effects of legislative proposals to generate new revenues from taxes, fees, and gaming as well as proposals to provide new incentives to the oil industry to increase exploration and development of new oil and gas reserves.

Statutory and Regulatory Authority

AS 04.11*

AS 09.50

AS 10.25*

AS 16.51

AS 38.05

AS 43.05

AS 43.10

AS 43.19

AS 43.20

AS 43.21

AS 43.31

AS 43.40*

AS 43.50

AS 43.52

AS 43.55

AS 43.56
AS 43.57
AS 43.60
AS 43.65
AS 43.70
AS 43.75*
AS 43.76
AS 43.77*
AS 43.80
AS 43.82
AS 43.98
AS 42.05
AS 42.06
15 AAC 04.001 - 15 AAC 04.320
15 AAC 05.001 - 15 AAC 05-320
15 AAC 19.011 - 15 AAC 19.1390
15 AAC 20.010 - 15 AAC 20.390
15 AAC 20.410 - 15 AAC 20.920
15 AAC 21.001 - 15 AAC 21.9701
15 AAC 35.010 - 15 AAC 35.100
15 AAC 40.010 - 15 AAC 40.900
15 AAC 50.010 - 15 AAC 50.190
15 AAC 55.010 - 15 AAC 55.9700
15 AAC 56.005 - 15 AAC 56.130
15 AAC 60.010 - 15 AAC 60.310
15 AAC 65.010 - 15 AAC 65.990
15 AAC 75.010 - 15 AAC 75.300
15 AAC 76.010 - 15 AAC 76.290
15 AAC 77.005 - 15 AAC 77.990
15 AAC 80.010
15 AAC 116.010 - 15 AAC 116.700
15 AAC 160
26 U.S.C. 38 Internal Revenue Code

* Statutes provide for sharing taxes and fees.

Contact Information

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**Tax Division
Component Financial Summary**

All dollars shown in thousands

	FY2003 Actuals	FY2004 Authorized	FY2005 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	5,267.1	5,876.1	5,988.9
72000 Travel	177.4	198.8	189.3
73000 Contractual	1,023.9	992.4	906.8
74000 Supplies	63.5	64.9	47.6
75000 Equipment	157.7	54.9	4.9
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	6,689.6	7,187.1	7,137.5
Funding Sources:			
1002 Federal Receipts	0.4	0.0	0.0
1004 General Fund Receipts	5,755.1	6,156.1	6,367.9
1005 General Fund/Program Receipts	544.0	548.3	511.3
1007 Inter-Agency Receipts	84.7	172.6	177.4
1061 Capital Improvement Project Receipts	13.0	13.3	13.7
1105 Alaska Permanent Fund Corporation Receipts	292.4	296.8	67.2
Funding Totals	6,689.6	7,187.1	7,137.5

Estimated Revenue Collections

Description	Master Revenue Account	FY2003 Actuals	FY2004 Authorized	FY2005 Governor
Unrestricted Revenues				
General Fund Program Receipts	51060	2,041.8	0.0	0.0
Unrestricted Total		2,041.8	0.0	0.0
Restricted Revenues				
Federal Receipts	51010	0.4	0.0	0.0
Interagency Receipts	51015	84.7	172.6	177.4
General Fund Program Receipts	51060	544.0	548.3	511.3
Capital Improvement Project Receipts	51200	13.0	13.3	13.7
Restricted Total		642.1	734.2	702.4
Total Estimated Revenues		2,683.9	734.2	702.4

**Summary of Component Budget Changes
From FY2004 Authorized to FY2005 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2004 Authorized	6,704.4	0.0	482.7	7,187.1
Adjustments which will continue current level of service:				
-Reduce Fiscal Note Funding	-90.0	0.0	0.0	-90.0
-Changes to Retirement and Other Personal Services Rates	0.0	0.0	12.7	12.7
-Transfer Oil and Gas Royalty Audit Function and Auditors to DNR	0.0	0.0	-237.1	-237.1
Proposed budget decreases:				
-Reduce Frequency of Gaming Reports	-37.0	0.0	0.0	-37.0
Proposed budget increases:				
-Increase Fiscal Note Funding	51.8	0.0	0.0	51.8
-Maintain Funding for Tax Auditing Workload	250.0	0.0	0.0	250.0
FY2005 Governor	6,879.2	0.0	258.3	7,137.5

**Tax Division
Personal Services Information**

Authorized Positions		Personal Services Costs		
	FY2004 Authorized	FY2005 Governor		
Full-time	93	85	Annual Salaries	4,592,758
Part-time	3	1	Premium Pay	0
Nonpermanent	0	0	Annual Benefits	1,817,935
			<i>Less 6.58% Vacancy Factor</i>	(421,793)
			Lump Sum Premium Pay	0
Totals	96	86	Total Personal Services	5,988,900

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant IV	0	0	1	0	1
Accounting Clerk II	0	0	2	0	2
Accounting Spvr II	0	0	1	0	1
Accounting Tech II	0	0	2	0	2
Accounting Tech III	0	0	1	0	1
Administrative Assistant	1	0	1	0	2
Administrative Clerk II	1	0	5	0	6
Administrative Clerk III	0	0	1	0	1
Administrative Manager II	0	0	1	0	1
Administrative Supervisor	0	0	1	0	1
Analyst/Programmer II	0	0	3	0	3
Analyst/Programmer V	0	0	1	0	1
Deputy Director, Tax Division	1	0	0	0	1
Division Director	1	0	0	0	1
Economist I	1	0	0	0	1
Economist II	1	0	0	0	1
Economist III	0	0	1	0	1
Investigator III	2	0	0	0	2
Investigator IV	1	0	0	0	1
Micro/Network Spec I	1	0	0	0	1
Petroleum Economist I	3	0	0	0	3
Petroleum Economist II	1	0	0	0	1
Prog Coordinator	0	0	1	0	1
Revenue Audit Supvr I	0	0	1	0	1
Revenue Audit Supvr II	2	0	0	0	2
Revenue Audit Supvr III	0	0	2	0	2
Revenue Auditor I	1	0	0	0	1
Revenue Auditor III	3	0	1	0	4
Revenue Auditor IV	9	0	1	0	10
Revenue Auditor V	10	0	0	0	10
State Petro Prop Assess	1	0	0	0	1
Tax Technician I	2	0	3	0	5
Tax Technician II	2	0	1	0	3
Tax Technician III	4	0	5	0	9
Tax Technician IV	0	0	2	0	2
Totals	48	0	38	0	86