

**State of Alaska
FY2004 Governor's Operating Budget**

**Department of Revenue
Tax Division
Component Budget Summary**

Component: Tax Division

Contact: Dan Dickinson, Director

Tel: (907) 269-6620 **Fax:** (907) 269-6644 **E-mail:** dan_dickinson@revenue.state.ak.us

Component Mission

The mission of the Tax Division is to collect taxes consistent with statute.

Component Services Provided

- Administer 19 tax types including four special oil and gas, six fisheries and nine excise income and other tax types, providing over half of non-federal General Fund revenues. Major administrative functions include, routine paper flow, collection and accounting for revenue, audit, assessment, resolution of appeals and implementation of the tax statutes through regulation.
- Administer charitable gaming (AS 05.15) and royalty auditing (AS 38.05)
- Collect, synthesize, analyze and present information to the public and policy makers including required salmon market (AS 43.80) and revenue (AS 37.07)

Component Goals and Strategies

- Develop cross-sectional teams for new projects, incorporating Anchorage use of Juneau based technology.
- Implement Information Technology solutions.
- Continue to stay current or reduce backlog with reduced staffing for major tax types, and bring the same results to minor tax types.
- Complete Electronic Filing project for AS 43.55 taxes (by converting schedule D, the only schedule still filed manually, as we have schedules A, B and C.)
- Expand enforcement to all areas of gaming.
- Work with licensees and legislature to rationalize tobacco tax administration through use of tobacco stamps.
- Formalize research and peer review procedures.
- Issue all ICDs within one year of appeal except for Corporate Income Tax ICDs that will be issued within two years.

Key Component Issues for FY2003 – 2004

- Hiring and retaining qualified staff when the response to our efforts to fill current vacancies suggests the pool of qualified workers is declining.
- Possible implementation of a broad-based tax program in a six month time frame.
- Keep current with analysis and research pertinent to developments with commercialization of Alaska North Slope gas.
- Continue shift in emphasis from an emphasis on retroactive control through audit to prospective control through research, monitoring and regulations.

Major Component Accomplishments in 2002

- Inventory of open audits and appeals reduced to historically low levels
- Designed and implemented a new data entry and examination module for Salmon Enhancement and Salmon Marketing Tax Returns. 90% of all SMT/SET forms do not need to be manually examined thus allowing examiners to focus on other issues.
- Begin design and development of the new corporate income tax data entry and return examination module.
- Expanded the examination procedures for oil and gas corporate income tax returns.
- Participated on the Multistate Tax Commission Uniformity Committee to develop uniform regulations to define business income and a unitary business.
- Coordinated and hosted the 75th Annual Federation of Tax Administrators Tobacco Tax Section Conference. This conference drew Federal, State and Industry participants from across the nation.
- Identified approximately 600 cigarette tax non-filers and commenced a project to collect approximately \$500,000 in cigarette excise tax revenues.
- Web filing program designed and tested in-house.
- Designed short form for fisheries taxes to simplify tax return filing requirements for licensed catcher/processors.
- Designed a code-based system with visual maps to assist fisheries taxpayers in properly reporting share location information.
- Redistributed workflow within the Fish and Excise Tax Unit to increase efficiency (timeliness) in licensing and examination of tax returns. (This is on going).
- Implementation of new data entry and examination module for salmon enhancement and salmon marketing taxes which reduced number of hours necessary to examine the returns.
- Successfully established the valuation of TAPS at a constant value through tax year 2004.
- Completed the draft of the 43.56 procedural regulations.
- Reviewed all current, archived, and electronic property tax files and established a new filing system that better tracks individual property valuations, appeals, and audits.
- Completed a preliminary review of the PBU Asset Valuation Study to identify technical, cost estimation, and appraisal issues to be resolved.
- Started preliminary discussions with the municipalities and industry on alternative valuation methodologies under AS 43.56.
- Successfully defended an increase in statewide 43.56 property values.
- Established industry contacts and contacts with other state assessment offices to facilitate a better flow of information.
- Established a three year average utilization methodology for the valuation of drilling rigs which removed the last major subjective issue in the valuation of drilling rigs.
- Biggest and Best Revenue Source Book to date that included:
 - a refined comprehensive total state full revenue picture based on the most current AKSAS structure

- a reconciliation for actual collections to the State Comprehensive Financial Report,
 - an evaluation and analysis of various proposed sources of new revenue
 - a reconciliation of forecasted revenues with the state budget fiscal summary
- Reformatted and improved the management report of the ANS marketing information filed by oil and gas production tax taxpayers in schedule D.
 - Developed an electronically filed version of the information that is/was filed in schedule D of the oil and gas production tax return. This schedule is far more comprehensive than the old Schedule D and includes detailed sales disposition information starting with names and dates of tankers loaded. The much more timely oil and gas production taxpayer information on sales volumes, sales contracts and disposition schedules now allow for a very timely pre-audit reconciliation of the information that forms the basis of the netback value filing used for the oil and gas production tax.
 - Completion of the most comprehensive set of economic evaluation models to date for investigating the economics of full-scale commercialization of the ANS natural gas resource.
 - Proposed a new regulatory approach to the capital cost recovery allowance for the marine transportation deduction allowed under the oil and gas production tax that accounts for extended CCF financing allowed by MARAD.
 - Worked with the Treasury Division to improve the cashflow requirements forecast model.
 - Worked with a major taxpayer in a switch from a cumbersome “barrel tracking” methodology to “a financial month matching” methodology. This reduces the work for both the taxpayer and the audit staff.

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 43.35*
AS 43.40*
AS 43.50
AS 43.55
AS 43.56
AS 43.57
AS 43.60
AS 43.65
AS43.75*
AS 43.76
AS 43.77*
AS 43.80
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.

Tax Division
Component Financial Summary

All dollars in thousands

	FY2002 Actuals	FY2003 Authorized	FY2004 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	5,065.5	5,584.0	5,534.6
72000 Travel	142.0	163.8	163.8
73000 Contractual	1,359.3	928.4	883.4
74000 Supplies	75.0	52.6	52.6
75000 Equipment	135.1	9.9	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	6,776.9	6,738.7	6,639.3
Funding Sources:			
1004 General Fund Receipts	5,791.3	5,769.7	5,616.2
1005 General Fund/Program Receipts	604.5	544.0	544.0
1007 Inter-Agency Receipts	97.5	119.6	171.0
1061 Capital Improvement Project Receipts	46.5	13.0	13.1
1105 Alaska Permanent Fund Corporation Receipts	237.1	292.4	295.0
Funding Totals	6,776.9	6,738.7	6,639.3

Tax Division

Proposed Changes in Levels of Service for FY2004

The Tax Division is requesting a decrement in the amount of (\$100.0) in general funds and the elimination of two full-time positions in the FY04 budget. The Tax Division believes it can accommodate a budget reduction of this size without unreasonable reductions in public services or noticeable losses in state revenue collections. The reduction of two full-time positions would be handled through natural attrition, and through reorganizing staff and continuing a trend toward automation. This would allow the Division to preserve its essential services with an approximate staff reduction of two full-time positions. Savings are also expected in contractual, travel and supplies to reach the \$100.0 reduction in the FY04 budget.

Summary of Component Budget Changes

From FY2003 Authorized to FY2004 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2003 Authorized	6,313.7	0.0	425.0	6,738.7
Adjustments which will continue current level of service:				
-Annualize FY2003 COLA Increase for General Government and Supervisory Bargaining Units	0.0	0.0	4.0	4.0
-Reduce funding per Ch 116, SLA2002 (HB225) fiscal note for Alcohol tax enforcement	-5.0	0.0	0.0	-5.0
-Salmon Price Report Funding Change	-50.0	0.0	50.0	0.0
-\$75 per Month Health Insurance Increase for Non-covered Staff	1.5	0.0	0.1	1.6
Proposed budget decreases:				
-Unallocated Reduction	-100.0	0.0	0.0	-100.0
FY2004 Governor	6,160.2	0.0	479.1	6,639.3

Tax Division

Personal Services Information

	Authorized Positions		Personal Services Costs	
	<u>FY2003</u> <u>Authorized</u>	<u>FY2004</u> <u>Governor</u>		
Full-time	88	85	Annual Salaries	4,600,636
Part-time	1	1	Premium Pay	0
Nonpermanent	0	0	Annual Benefits	1,453,170
			<i>Less 8.58% Vacancy Factor</i>	(519,206)
			Lump Sum Premium Pay	0
Totals	89	86	Total Personal Services	5,534,600

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant IV	0	0	1	0	1
Accounting Clerk II	0	0	1	0	1
Accounting Spvr II	0	0	1	0	1
Accounting Tech I	0	0	1	0	1
Accounting Tech II	0	0	1	0	1
Accounting Tech III	0	0	3	0	3
Administrative Assistant	1	0	1	0	2
Administrative Clerk II	2	0	5	0	7
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 I	0	0	1	0	1
Analyst/Programmer II	0	0	2	0	2
Analyst/Programmer V	0	0	2	0	2
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	1	0	0	0	1
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
Project Coord	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 II	1	0	0	0	1
Revenue Auditor III	6	0	0	0	6
Revenue Auditor IV	9	0	1	0	10
Revenue Auditor V	9	0	0	0	9
State Petro Prop Assess	1	0	0	0	1
Tax Technician I	1	0	1	0	2
Tax Technician II	0	0	3	0	3
Tax Technician III	3	0	5	0	8
Tax Technician IV	0	0	2	0	2
Totals	46	0	39	0	85