

State of Alaska FY2006 Governor's Operating Budget

Department of Revenue Tax Division Component Budget Summary

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
- Participate in Governor's new revenue and investment initiatives.

| End Results | Strategies to Achieve Results |
|--|---|
| <p>A: Optimal administration of current tax and gaming programs.</p> <p><u>Target #1:</u> Percentage of taxes collected compared to taxes due between 92% and 98%. <u>Measure #1:</u> Percentage of taxes collected compared to the taxes due.</p> | <p>A1: Increase audit coverage (audit activities improve compliance and revenue).</p> <p><u>Target #1:</u> Open 20 new audit cases (taxpayers that have not been audited by us in the prior five years). <u>Measure #1:</u> Number of new audits opened.</p> <p>A2: Increased voluntary compliance from identifying non-filers.</p> <p><u>Target #1:</u> Find 30 non-filers through compliance work. <u>Measure #1:</u> Number of non-filers brought into compliance.</p> <p>A3: Use refund requests as a proxy for how effective we are in processing tax returns and return information.</p> <p><u>Target #1:</u> Issue 90% of tax refunds within statutory 90-day interest free (grace) period. <u>Measure #1:</u> Percentage of refunds issued within 90 days of claim.</p> <p>A4: Use permit application process as a proxy for how effective we are in regulating gaming.</p> <p><u>Target #1:</u> 10% reduction in application follow up due to missing and incomplete forms. <u>Measure #1:</u> Percentage of gaming applications received needing additional follow-up with applicant compared to total applications received.</p> <p>A5: Increase number of audit hours.</p> |

| | |
|--|---|
| | <p>Target #1: 3,000 hour increase in audit hours over prior year. Measure #1: Increase in audit hours over prior year.</p> |
| End Results | Strategies to Achieve Results |
| <p>B: 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 #1:</u> 100% of general fund spending from sustainable sources projected over the next budget cycle, 5 budget cycles and 15 budget cycles. <u>Measure #1:</u> Percentage of general fund spending from sustainable sources.</p> | <p>B1: Continue to be a good source of information and the first place to go for general fiscal or oil and gas revenue information by continuously improving both our published data projects and our responses to inquiries.</p> <p><u>Target #1:</u> 95% of responses record a satisfaction level of 4 or better. <u>Measure #1:</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 • 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 |

| FY2006 Resources Allocated to Achieve Results | | | | | | | |
|--|---|-----------|----|-----------|---|--------------|------------|
| <p>FY2006 Component Budget: \$9,118,000</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;">99</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;">100</td> </tr> </table> | Full time | 99 | Part time | 1 | Total | 100 |
| Full time | 99 | | | | | | |
| Part time | 1 | | | | | | |
| Total | 100 | | | | | | |

Performance Measure Detail

A: Result - Optimal administration of current tax and gaming programs.

Target #1: Percentage of taxes collected compared to taxes due between 92% and 98%.
Measure #1: Percentage of taxes collected compared to the taxes due.

Percentage of Taxes Collected Compared to Taxes Due:

| Year | YTD |
|------|---------------|
| 2002 | 96.6% |
| 2003 | 98.5% |
| 2004 | 99.7% |
| 2005 | Target: 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 2004, the Tax Division collected \$1,213.6 million out of \$1,217.5 million voluntarily reported or assessed by the department.

A1: Strategy - Increase audit coverage (audit activities improve compliance and revenue).

Target #1: Open 20 new audit cases (taxpayers that have not been audited by us in the prior five years).

Measure #1: Number of new audits opened.

Number of New Audit Cases Opened

| Year | YTD |
|------|------------|
| 2002 | 9 |
| 2003 | 13 |
| 2004 | 7 |
| 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 types 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. A year ago we anticipated that tobacco would be a growth area for audits in FY2004, but the tobacco group's efforts were focused on legislative issues during half the year. This goal remains in FY2005

A2: Strategy - Increased voluntary compliance from identifying non-filers.

Target #1: Find 30 non-filers through compliance work.

Measure #1: Number of non-filers brought into compliance.

New filers through compliance

| Year | YTD |
|------|-----|
| 2004 | 38 |

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.

A3: Strategy - Use refund requests as a proxy for how effective we are in processing tax returns and return information.

Target #1: Issue 90% of tax refunds within statutory 90-day interest free (grace) period.

Measure #1: Percentage of refunds issued within 90 days of claim.

Percentage of Refunds Issued Within 90 Days of Claim

| Year | YTD |
|------|----------------|
| 2002 | 76.35% |
| 2003 | 64.02% |
| 2004 | YTD: 79.46% |
| 2005 | Target: 90.00% |

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.

A4: Strategy - Use permit application process as a proxy for how effective we are in regulating gaming.

Target #1: 10% reduction in application follow up due to missing and incomplete forms.

Measure #1: Percentage of gaming applications received needing additional follow-up with applicant compared to total applications received.

A5: Strategy - Increase number of audit hours.

Target #1: 3,000 hour increase in audit hours over prior year.

Measure #1: Increase in audit hours over prior year.

B: 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 #1: 100% of general fund spending from sustainable sources projected over the next budget cycle, 5 budget cycles and 15 budget cycles.

Measure #1: Percentage of general fund spending from sustainable sources.

Percentage of GF Spending from Sustainable Sources (through next budget cycle)

| Year | 1 Year | 5 Years | 15 Years | YTD |
|------|--------------|---------|----------|-----|
| 2003 | 73% | NA | NA | 0 |
| 2004 | 68% | 66% | 57% | 0 |
| 2005 | 85% | 70% | 63% | 0 |
| 2006 | Target: 100% | 100% | 100% | 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 85% of the current spending level. Closing the gap will present a significant challenge to the State over the coming years. Most of the short term increase stems from oil prices that were higher than expected.

B1: Strategy - Continue to be a good source of information and the first place to go for general fiscal or oil and gas revenue information by continuously improving both our published data projects and our responses to inquiries.

Target #1: 95% of responses record a satisfaction level of 4 or better.

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

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.
- Continuing to keep our systems up to the demands placed on them by users.

Significant Changes in Results to be Delivered in FY2006

- The Tax Division will undertake a major effort to revitalize its corporate audit program, with a target of an additional \$5 million a year in tax revenues by year 5 of the program. Activities to achieve this goal include: hire and train auditors; engage experts to identify strategies and opportunities for targeting non-Alaskan corporations; reestablish compliance program to identify and correct non-filers; and fill positions in the Oil and Gas Production tax and Fisheries tax enforcement currently supported by audit staff.
- One of the major changes is recognition over the next several years that developing new revenue initiatives is as critical (and time consuming) a part of its mission as is administering the core programs it has now.
- Continuing to broaden the tax base, and expand its relationship with Department of Public Safety and the role of the Division's own investigators as it fully implements two new excise programs (tire and rental car) and a major restructuring of the tobacco program.

Major Component Accomplishments in 2004

Governor's Gasline priority: we built a model of the proposed project that allows the testing of many scenarios. Participated in negotiations with four stranded gas applicants. Worked closely with the Municipal Advisory Group to incorporate local tax issues into a Stranded Gas Act (SGA) payment in lieu of taxes (PILT).

Continued to assist the legislature and the governor in dealing with the fiscal gap and other legislation, providing information and testimony on issues including fisheries taxes, sales taxes, individual income tax, corporate income tax, transient accommodations taxes, tobacco taxes, tourism taxes, gambling, charitable gaming and corporate income tax incentives.

Completed TOPS (Tax Online Payment System) a web based system which allows taxpayers to make payments electronically to the Tax Division.

We started an analysis of our oil and gas production taxes, and whether they can be a tool for increasing oil and gas investment and production in the state.

We participated in the reopened negotiations on the Trans Alaska Pipeline Tariff.

Completed second year of three year test of units of production methodology on North Slope production assets with industry and municipalities satisfied with the results so far.

Stayed current in property tax audits generating a million dollars in audit revenues.

Implemented new regulations pertaining to value of oil, transportation costs and an Oil and Gas Exploration Tax Credit. Taxpayers are now filing using these regulations.

Stayed current in our production tax audits.

Worked closely with and under the direction of the Department of Law to complete Alyeska and pipeline carrier audits.

Maintained a viable corporate income tax audit presence.

Completed two regulation projects dealing with the gas exploration and development credit and transition rules for oil and gas taxpayers.

Restructuring of data entry work group for enhanced coordination, integration of like services and more efficient paper process flow.

Participated in multi agency development of simplified forms for Direct Market fishers.

Contributed testimony and fiscal analysis for revisions to cigarette tax stamp legislation

Enhanced availability and generic tax type search for forms on the division web site

Cross trained technical staff to focus resources during peak taxpayer filings

Worked with a contractor to enhance existing broad based revenue models and to build an economic model for the state

Analyzed all 2003 MBP gaming reports for compliance with expense limitations, net proceeds payment, and agreement between annual reports and CPA reviews.

Developed a 2004 application checklist which reduced follow-up gaming inquiries by 39% when compared to the previous year.

The Gaming Group investigators assisted the Department of Public Safety in seizure of illegal gambling equipment and supplies, and assisted the FBI with investigation involving two charitable organizations.

The Gaming Group maintained an investigative presence in pull-tab stores and bingo halls while assuming additional responsibilities in the Tax Division's tobacco program.

The Gaming Group provided speakers on request to national, state and local organizations to inform them of Alaska gaming law and procedure.

Integrated Tire Fee and Vehicle Rental Tax programs into existing data entry, examination and accounting subsystems.

Created a reporting tool to allow management to monitor tax returns with refunds to assist with timely issuance of the refunds.

Established programs drafted and adopted regulation for two new tax types; Vehicle Rental Tax and Tire Fee. Developed tax forms for these new programs and has also contacted and educated potential taxpayers regarding the new tax types.

Established a new program to sell cigarette tax stamps to the cigarette licensees. This new program consisted of contracting with a cigarette stamp manufacturer to make cigarette tax stamps and developing new forms for licensees to use when purchasing cigarette tax stamps from the Department of Revenue.

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

| | FY2004 Actuals | FY2005 Management Plan | FY2006 Governor |
|---|----------------|---------------------------|-----------------|
| Non-Formula Program: | | | |
| Component Expenditures: | | | |
| 71000 Personal Services | 5,622.2 | 5,997.0 | 7,252.9 |
| 72000 Travel | 126.9 | 178.1 | 187.1 |
| 73000 Services | 1,251.8 | 906.8 | 1,589.5 |
| 74000 Commodities | 107.9 | 47.6 | 83.6 |
| 75000 Capital Outlay | 28.2 | 4.9 | 4.9 |
| 77000 Grants, Benefits | 0.0 | 0.0 | 0.0 |
| 78000 Miscellaneous | 0.0 | 0.0 | 0.0 |
| Expenditure Totals | 7,137.0 | 7,134.4 | 9,118.0 |
| Funding Sources: | | | |
| 1004 General Fund Receipts | 6,155.4 | 5,263.5 | 7,205.7 |
| 1005 General Fund/Program Receipts | 548.3 | 512.2 | 529.0 |
| 1007 Inter-Agency Receipts | 50.0 | 177.7 | 104.0 |
| 1061 Capital Improvement Project Receipts | 86.5 | 13.7 | 90.0 |
| 1105 Alaska Permanent Fund Corporation Receipts | 296.8 | 67.3 | 69.0 |
| 1175 Business License Receipts | 0.0 | 1,100.0 | 1,120.3 |
| Funding Totals | 7,137.0 | 7,134.4 | 9,118.0 |

Estimated Revenue Collections

| Description | Master Revenue Account | FY2004 Actuals | FY2005 Management Plan | FY2006 Governor |
|---|------------------------------|-------------------|------------------------------|--------------------|
| Unrestricted Revenues | | | | |
| General Fund Program Receipts | 51060 | 1,875.0 | 1,910.8 | 1,894.0 |
| Unrestricted Total | | 1,875.0 | 1,910.8 | 1,894.0 |
| Restricted Revenues | | | | |
| Interagency Receipts | 51015 | 50.0 | 177.7 | 104.0 |
| General Fund Program Receipts | 51060 | 548.3 | 512.2 | 529.0 |
| Business License Receipts | 51173 | 0.0 | 1,100.0 | 1,120.3 |
| Capital Improvement Project Receipts | 51200 | 86.5 | 13.7 | 90.0 |
| Permanent Fund Earnings Reserve Account | 51373 | 296.8 | 67.3 | 69.0 |
| Restricted Total | | 981.6 | 1,870.9 | 1,912.3 |
| Total Estimated Revenues | | 2,856.6 | 3,781.7 | 3,806.3 |

**Summary of Component Budget Changes
From FY2005 Management Plan to FY2006 Governor**

All dollars shown in thousands

| | <u>General Funds</u> | <u>Federal Funds</u> | <u>Other Funds</u> | <u>Total Funds</u> |
|--|----------------------|----------------------|--------------------|--------------------|
| FY2005 Management Plan | 5,775.7 | 0.0 | 1,358.7 | 7,134.4 |
| Adjustments which will continue current level of service: | | | | |
| -FY 05 Bargaining Unit Contract Terms: GGU | 38.3 | 0.0 | 5.3 | 43.6 |
| -FY06 Cost Increases for Bargaining Units and Non-Covered Employees | 143.2 | 0.0 | 17.9 | 161.1 |
| -Adjustments for Personal Services Working Reserve Rates and SBS | 0.0 | 0.0 | 1.4 | 1.4 |
| Proposed budget increases: | | | | |
| -Tobacco Tax Enforcement | 778.9 | 0.0 | 0.0 | 778.9 |
| -Corporate Audit Program Revitalization | 998.6 | 0.0 | 0.0 | 998.6 |
| FY2006 Governor | 7,734.7 | 0.0 | 1,383.3 | 9,118.0 |

**Tax Division
Personal Services Information**

| Authorized Positions | | Personal Services Costs | | |
|----------------------|-------------|-------------------------|----------------------------------|------------------|
| <u>FY2005</u> | | | | |
| <u>Management</u> | <u>Plan</u> | <u>FY2006</u> | <u>Governor</u> | |
| Full-time | 85 | 99 | Annual Salaries | 5,387,549 |
| Part-time | 1 | 1 | COLA | 78,546 |
| Nonpermanent | 0 | 0 | Premium Pay | 0 |
| | | | Annual Benefits | 2,586,590 |
| | | | <i>Less 7.21% Vacancy Factor</i> | (580,385) |
| | | | Lump Sum Premium Pay | 0 |
| Totals | 86 | 100 | Total Personal Services | 7,472,300 |

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 | 2 | 0 | 2 |
| 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 |
| Analyst/Programmer I | 0 | 0 | 1 | 0 | 1 |
| Analyst/Programmer II | 0 | 0 | 2 | 0 | 2 |
| Analyst/Programmer V | 0 | 0 | 1 | 0 | 1 |
| Chief Economist | 1 | 0 | 0 | 0 | 1 |
| Deputy Director, Tax Division | 1 | 0 | 0 | 0 | 1 |
| Division Director | 1 | 0 | 0 | 0 | 1 |
| Economist I | 0 | 0 | 1 | 0 | 1 |
| Economist II | 1 | 0 | 0 | 0 | 1 |
| Economist III | 1 | 0 | 0 | 0 | 1 |
| Economist IV | 0 | 0 | 1 | 0 | 1 |
| Investigator III | 4 | 0 | 0 | 0 | 4 |
| Investigator IV | 1 | 0 | 0 | 0 | 1 |
| Micro/Network Spec I | 1 | 0 | 0 | 0 | 1 |
| Petroleum Economist I | 4 | 0 | 0 | 0 | 4 |
| Prog Coordinator | 0 | 0 | 1 | 0 | 1 |
| Revenue Audit Supvr I | 0 | 0 | 1 | 0 | 1 |
| Revenue Audit Supvr II | 4 | 0 | 0 | 0 | 4 |
| Revenue Audit Supvr III | 0 | 0 | 1 | 0 | 1 |
| Revenue Auditor II | 1 | 0 | 0 | 0 | 1 |
| Revenue Auditor III | 8 | 0 | 2 | 0 | 10 |
| Revenue Auditor IV | 9 | 0 | 1 | 0 | 10 |
| Revenue Auditor V | 11 | 0 | 0 | 0 | 11 |
| State Petro Prop Assess | 1 | 0 | 0 | 0 | 1 |
| Tax Technician I | 0 | 0 | 3 | 0 | 3 |
| Tax Technician II | 3 | 0 | 5 | 0 | 8 |
| Tax Technician III | 6 | 0 | 2 | 0 | 8 |
| Tax Technician IV | 0 | 0 | 2 | 0 | 2 |
| Totals | 60 | 0 | 40 | 0 | 100 |

