

**State of Alaska**  
**FY2007 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 and administer taxes and regulate charitable gaming.

**Core Services**

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

End Results	Strategies to Achieve Results
<p><b>A: Optimal administration of current tax and gaming programs.</b></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><b>A1: Increase audit coverage (audit activities improve compliance and revenue).</b></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><b>A2: Increased voluntary compliance from identifying non-filers.</b></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><b>A3: Use refund requests as a proxy for how effective we are in processing tax returns and return information.</b></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><b>A4: Use permit application process as a proxy for how effective we are in regulating gaming.</b></p> <p><u>Target #1:</u> Reduce the percent of gaming applications that require follow up due to missing and incomplete forms to no more than 35% of all applicants.  <u>Measure #1:</u> Percentage of gaming applications received needing additional follow-up.</p> <p><b>A5: Increase number of audit hours.</b></p> <p><u>Target #1:</u> 3,000 hour increase in audit hours over prior</p>

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

**Major Activities to Advance Strategies**

- 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
- 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

**FY2007 Resources Allocated to Achieve Results**

**FY2007 Component Budget: \$9,553,500**

**Personnel:**

Full time	98
Part time	1
<b>Total</b>	<b>99</b>

**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.

**Taxes Collected Compared to Taxes Due**

Year	Percentage
2002	96.6%
2003	98.5%
2004	99.7%
2005	98.6%
2006	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 2005, the Tax Division collected \$1,522.1 million out of \$1,544.4 million voluntarily reported or assessed by the department.

The Division performed outside of our target range again in 2005. The results reflect increased assessments offset by proportionately larger increases in overall collections resulting from higher oil prices. Rising oil revenue does not fully account for missing the target in 2005. We missed the target using the averages over the last five years as well as applying 2005 assessment collections to average voluntary collections over the past five years.

Current collections on assessments reflect both current and past audit activity. These results are reflective of

the historical decline in the Division's audit effort that continued through 2005. Sustained success in this and other enforcement related performance measures can only follow increased enforcement efforts. While a single assessment may temporarily push the Division into our target range we do not foresee sustainable performance within the target range during 2007 or 2008.

### 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	# of Cases
2002	9
2003	13
2004	7
2005	14
2006	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. In 2005, the increase in the number of audits occurred within seven tax programs led by new Corporate Net Income Tax audits. Not included in the new audit count are seven audits of exploration tax credit claims by existing taxpayers. These audits do not meet our definition of "new audits" although they represent new and expanded audit effort by the division. Despite improvement in 2005, the division failed to reach our goal of twenty new audit cases as a result of continued redirection of audit resources to major revenue and development projects. We view twenty new audit subjects annually as an appropriate target. This goal remains in 2006.

### 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	# of New Filers
2004	38
2005	45
2006	Target: 30

**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. New tax programs accounted for 16 of the 45 taxpayers brought into compliance during 2005. We maintain our target of 30 non-filers as an appropriate goal for our mix of maturing and established programs.

### 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.

#### Refunds Issued Within 90 Days of Claim

Year	% of Refunds
2002	76.35%
2003	64.02%
2004	79.46%
2005	78.63%
2006	Target: 90.0%

**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.

Our analysis of refund processing performance points to systems and staffing issues as the primary factors in meeting this target. Fully staffed programs supported by new systems met our target. Established programs with leaner staffing models and/or outdated systems failed to meet the target. System improvements are underway as are reallocations of personnel within the Division. In 2006 we anticipate reaching the target in all programs except the corporate income tax which, because of its dominance, will cause us to fall short of target overall in 2006. We expect to meet the 90% target for all programs in 2007.

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

**Target #1:** Reduce the percent of gaming applications that require follow up due to missing and incomplete forms to no more than 35% of all applicants.

**Measure #1:** Percentage of gaming applications received needing additional follow-up.

#### Gaming Applications that Require Follow-up

Year	% of Applications
2002	70%
2003	70%
2004	39%
2005	36%
2006	Target: 35%

**Analysis of results and challenges:** 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 has created 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.

Our previous target was for a year-over-year 10% reduction in the percentage of applications needing follow-up. That target suffers from the law of diminishing returns and failed to recognize the turnover of volunteers representing permitted organizations across the state.

#### 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.

#### Increase in Audit Hours

Year	# of Hours
2005	(363)
2006	Target: 3,000

**Analysis of results and challenges:** Although voluntary compliance remains our best tool for effective tax collection, that voluntary effort is enhanced by an audit presence, and therefore we need to increase our audit numbers.

Audit programs are being impacted by two events. The first is a loss of senior auditors. Due to difficulties in competing with private industry and the federal government we cannot even find qualified junior auditors to replace them one for one, let alone replace the experience and knowledge and efficiency that comes from using senior auditors. The second is the diversion of senior auditors for the development of new legislative proposals, research and analysis on issues important to management and the administration. Auditor diversion is unlikely to subside because senior auditors typically represent the best available on-demand resource to meet critical needs.

The 2005 results reflect auditor attrition, continued diversion of auditors, and unsuccessful recruitment. We have developed a comprehensive training plan for corporate tax auditors in coordination with current recruitment efforts under the new class specifications. Preliminary corporate auditor recruitment efforts under these new class specifications have not proven successful to date. We project that it will be very difficult to meet this performance target in 2006.

### Key Component Challenges

- Maintaining the integrity of core programs in the face of resource demands from major revenue and investment initiatives.
- Contributing to efforts to start large-scale natural gas development in-state and commercialization of North Slope natural gas reserves in particular.
- Recruiting, training, and retaining professional staff.

### Significant Changes in Results to be Delivered in FY2007

- The Tax Division will continue efforts 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.
- Develop the capability to hire, train, and retain high quality professional staff, particularly corporate auditors.
- Restore functionality of core programs and services and insulate core services from erosion by major initiatives. Core services include: audits, accounting and collections, and compliance programs.

### Major Component Accomplishments in 2005

Continued to provide critical resources in support of the Governor's gasoline negotiations.

Continued to assist the legislature and the governor in dealing with fiscal issues 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 an economic model of state-wide broad based revenue options. Working to build a state-wide economic model for key economic variables such as the price of oil.

Completed class study for the Revenue Audit series resulting in three distinct categories of auditors: Corporate Income Tax Auditors responsible for the Alaska corporate net income tax; Oil and Gas Revenue Auditors responsible for production tax and royalties; and Tax Auditors responsible for other taxes and assessments. The objectives of the study were to evaluate compensation, differentiate audit specialties, and enhance recruiting success.

Established the Corporate Income Tax Auditor training program designed to develop the technical abilities of inexperienced hires.

Completed gaming regulations governing Calcutta pools and Crane Classics pursuant to recent legislation.

Established performance baselines and target production levels for return processing and corporate examinations. Realized significant year over year productivity gains: return processing productivity increased by more than 30%; corporate examination productivity increased 400%. Productivity reporting system for most other examination programs is nearing completion.

Completed comprehensive desk manuals for all return processing functions. Improved and formalized examiner training programs covering penalties, interest, and licensing.

Completed three successful compliance projects (corporate income, tobacco, and estate taxes).

Continued the consolidation of return processing applications into one of two integrated processing applications and initiated feasibility study on further consolidation of major systems.

Implemented three new tax programs (regional seafood marketing, tire, and rental car), the Direct Marketing Fisheries Business License, and a major restructuring of cigarette and tobacco tax program.

## Statutory and Regulatory Authority

AS 04.11*	Alcoholic Beverages – Licensing
AS 09.50	Code of Civil Procedure – Actions Where State a Party
AS 10.25*	Electric and Telephone Cooperative Act
AS 16.51	Alaska Seafood Marketing Institute
AS 38.05	Alaska Land Act
AS 43.05	Administration of Revenue Laws
AS 43.10	Enforcement and Collection of Taxes
AS 43.19	Multi-state Tax Compact
AS 43.20	Alaska Net Income Tax Act
AS 43.21	Oil and Gas Corporate Income Tax
AS 43.31	Estate Tax Law of Alaska
AS 43.40*	Motor Fuel Tax
AS 43.50	Tobacco Taxes and Sales
AS 43.52	Vehicle Rental Taxes
AS 43.55	Oil and Gas Production Taxes and Oil Surcharge
AS 43.56	Oil and Gas Exploration, Production, and Pipeline Transportation Property Taxes
AS 43.57	Oil and Gas Conservation Tax
AS 43.60	Excise Tax on Alcoholic Beverages
AS 43.65	Mining License Tax
AS 43.75*	Fisheries Business License and Taxes
AS 43.76	Fisheries Taxes and Assessments
AS 43.77*	Fishery Resource Landing Tax
AS 43.80	Salmon Price Reports
AS 43.82	Alaska Stranded Gas Development Act
AS 43.98	Miscellaneous Provisions
AS 42.05	Alaska Public Utilities Regulatory Act
AS 42.06	Pipeline Act
15 AAC 05	Administration of Revenue Laws
15 AAC 10	Enforcement

15 AAC 19 Multi-state Tax Compact  
15 AAC 20 Alaska Net Income Tax  
15 AAC 40 Motor Fuel Tax  
15 AAC 50 Cigarette Tax  
15 AAC 52 Vehicle Rental Tax  
15 AAC 55 Oil and Gas Properties Production Tax  
15 AAC 56 Oil and Gas Exploration, Production and Pipeline Transportation Property Tax  
15 AAC 60 Excise Tax on Alcoholic Beverages  
15 AAC 65 Mining License Tax  
15 AAC 75 Fisheries Business Tax  
15 AAC 76 Salmon Enhancement Tax  
15 AAC 77 Fishery Resource Landing Tax  
15 AAC 80 Salmon Prices  
15 AAC 98 Tire Fees  
15 AAC 116 Fish and Game Licensing and Seafood Marketing Assessment  
15 AAC 160 Authorized Games of Chance and Skill  
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*

	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	5,991.0	7,240.8	7,662.3
72000 Travel	219.8	187.1	187.1
73000 Services	1,154.5	1,589.5	1,615.6
74000 Commodities	131.8	83.6	83.6
75000 Capital Outlay	0.0	4.9	4.9
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>7,497.1</b>	<b>9,105.9</b>	<b>9,553.5</b>
<b>Funding Sources:</b>			
1004 General Fund Receipts	5,669.1	7,154.0	7,508.1
1005 General Fund/Program Receipts	515.3	546.9	575.1
1007 Inter-Agency Receipts	50.0	87.0	87.0
1061 Capital Improvement Project Receipts	90.6	110.0	115.0
1105 Alaska Permanent Fund Corporation Receipts	67.5	70.7	74.1
1175 Business License and Corporation Filing Fees and Taxes	1,104.6	1,137.3	1,194.2
<b>Funding Totals</b>	<b>7,497.1</b>	<b>9,105.9</b>	<b>9,553.5</b>

**Estimated Revenue Collections**

Description	Master Revenue Account	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
<b>Unrestricted Revenues</b>				
General Fund Program Receipts	51060	1,942.5	1,900.0	1,900.0
<b>Unrestricted Total</b>		<b>1,942.5</b>	<b>1,900.0</b>	<b>1,900.0</b>
<b>Restricted Revenues</b>				
Interagency Receipts	51015	50.0	87.0	87.0
General Fund Program Receipts	51060	515.3	546.9	575.1
Business License Receipts	51173	1,104.6	1,137.3	1,194.2
Capital Improvement Project Receipts	51200	90.6	110.0	115.0
Permanent Fund Earnings Reserve Account	51373	67.5	70.7	74.1
<b>Restricted Total</b>		<b>1,828.0</b>	<b>1,951.9</b>	<b>2,045.4</b>
<b>Total Estimated Revenues</b>		<b>3,770.5</b>	<b>3,851.9</b>	<b>3,945.4</b>



**Summary of Component Budget Changes  
From FY2006 Management Plan to FY2007 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2006 Management Plan</b>	<b>7,700.9</b>	<b>0.0</b>	<b>1,405.0</b>	<b>9,105.9</b>
<b>Adjustments which will continue current level of service:</b>				
-Transfer DOA chargeback funding to components affected by rate increases	18.4	0.0	0.0	18.4
-FY 07 Wage Increases for Bargaining Units and Non-Covered Employees	113.1	0.0	20.6	133.7
-FY 07 Health Insurance Cost Increases for Bargaining Units and Non-Covered Employees	13.5	0.0	2.9	16.4
-FY 07 Retirement Systems Cost Increase	215.3	0.0	39.2	254.5
-FY2007 Wage, Health Insurance, Retirement, and Risk Management Increases for Division of Personnel	7.5	0.0	0.0	7.5
<b>Proposed budget increases:</b>				
-Risk Management Self-Insurance Funding Increase	14.5	0.0	2.6	17.1
<b>FY2007 Governor</b>	<b>8,083.2</b>	<b>0.0</b>	<b>1,470.3</b>	<b>9,553.5</b>

**Tax Division  
Personal Services Information**

Authorized Positions		Personal Services Costs		
<u>FY2006</u>				
<u>Management</u>		<u>FY2007</u>		
<u>Plan</u>		<u>Governor</u>		
Full-time	98	98	Annual Salaries	5,265,671
Part-time	1	1	COLA	141,384
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	2,824,830
			<i>Less 6.92% Vacancy Factor</i>	(569,585)
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>99</b>	<b>99</b>	<b>Total Personal Services</b>	<b>7,662,300</b>

**Position Classification Summary**

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant III	0	0	1	0	1
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 II	0	0	2	0	2
Accounting Tech III	0	0	1	0	1
Administrative Assistant	1	0	1	0	2
Administrative Clerk II	0	0	3	0	3
Administrative Clerk III	1	0	2	0	3
Administrative Manager II	0	0	1	0	1
Analyst/Programmer II	0	0	1	0	1
Analyst/Programmer III	0	0	1	0	1
Analyst/Programmer V	0	0	1	0	1
Chief Economist	1	0	0	0	1
Chief of Revenue Operations	0	0	1	0	1
Corporate Income Tax Audit II	2	0	0	0	2
Corporate Income Tax Audit III	4	0	0	0	4
Corporate Income Tax Audit IV	4	0	0	0	4
Deputy Director, Tax Division	1	0	0	0	1
Division Director	1	0	0	0	1
Economist I	0	0	1	0	1
Economist III	4	0	1	0	5
Investigator III	4	0	0	0	4
Investigator IV	1	0	0	0	1
Micro/Network Spec I	1	0	0	0	1
Oil & Gas Revenue Auditor I	4	0	0	0	4
Oil & Gas Revenue Auditor III	3	0	0	0	3
Oil & Gas Revenue Auditor IV	3	0	0	0	3
Petroleum Economist I	1	0	1	0	2
Prog Coordinator	0	0	1	0	1
Revenue Appeals Officer II	4	0	0	0	4
Revenue Appeals Supervisor	1	0	0	0	1
Revenue Audit Supvr I	0	0	2	0	2
Revenue Audit Supvr II	3	0	0	0	3
State Petro Prop Assess	1	0	0	0	1
Tax Auditor III	2	0	2	0	4
Tax Auditor IV	3	0	0	0	3

**Position Classification Summary**

<b>Job Class Title</b>	<b>Anchorage</b>	<b>Fairbanks</b>	<b>Juneau</b>	<b>Others</b>	<b>Total</b>
Tax Technician I	1	0	4	0	5
Tax Technician II	5	0	3	0	8
Tax Technician III	4	0	4	0	8
Tax Technician IV	0	0	2	0	2
<b>Totals</b>	<b>60</b>	<b>0</b>	<b>39</b>	<b>0</b>	<b>99</b>