

State of Alaska FY2008 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 and distribute revenues
- Inform stakeholders
- Participate in Governor's new revenue and investment initiatives

End Results	Strategies to Achieve Results
<p>A: Maximize compliance with current tax and gaming statutes.</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: Increase 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 measure for how effective we are in processing tax returns and return information.</p> <p><u>Target #1:</u> Issue 100% 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 measure for how effective we are in regulating gaming.</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>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: Unclaimed property owners in Alaska will be united with their property.</p> <p><u>Target #1:</u> Pay 15% more claims each year. <u>Measure #1:</u> Number of claims paid each year as compared to prior year.</p>	<p>B1: Place primary focus on locating owners of most recently reported properties.</p> <p><u>Target #1:</u> Unclaimed Property will initiate search of at least 50 owners per month. <u>Measure #1:</u> Number of owner searches performed per year.</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 program revenues Publish well-used and statutorily required publications and website materials Assist governor and legislature in developing new sources of revenue and increasing existing sources Respond to revenue related legislation

FY2008 Resources Allocated to Achieve Results							
<p>FY2008 Component Budget: \$13,096,500</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;">121</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;">122</td> </tr> </table>	Full time	121	Part time	1	Total	122
Full time	121						
Part time	1						
Total	122						

Performance Measure Detail

A: Result - Maximize compliance with current tax and gaming statutes.

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

Fiscal Year	% of Taxes Collected
FY 2002	96.6%
FY 2003	98.5%
FY 2004	99.7%
FY 2005	98.6%
FY 2006	96.0%
FY 2007	Forecast: 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 FY2005, 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 FY2005. 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 FY2005. We missed the target using the averages over the last five years as well as applying FY2005 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 FY2005. 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 FY2007 or FY2008.

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

Fiscal Year	# of Cases
FY 2002	9
FY 2003	13
FY 2004	7
FY 2005	14
FY 2006	5
FY 2007	Forecast: 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. Not included in the new audit count are 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 FY2005, 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 in FY2006. The Tax Division continued to experience high vacancy among the professional audit staff, which resulted in a job classification study in FY2006.

We view twenty new audit subjects annually as an appropriate target and this remains our goal for FY2007.

A2: Strategy - Increase 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

Fiscal Year	# of New Filers
FY 2004	38
FY 2005	45
FY 2006	900*
FY 2007	Forecast: 300

*Internet tobacco tax compliance project yielded 700 new taxpayers in FY2006.

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 FY2005. In FY2006, an Internet tobacco tax compliance project yielded 700 new taxpayers. 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 measure for how effective we are in processing tax returns and return information.

Target #1: Issue 100% 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

Fiscal Year	% of Refunds Issued
FY 2002	76.35%
FY 2003	64.02%
FY 2004	79.46%
FY 2005	78.63%
FY 2006	90.0%
FY 2007	Forecast: 100.0%

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 efficient; 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 were implemented and some increased staffing levels occurred in FY2006. In FY2006 we reached the previous target of 90% of tax refunds issued within the statutory period. We anticipate reaching our current target of 100% issuance of tax refunds within 90 days of claim in FY2007.

A4: Strategy - Use permit application process as a measure 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

Fiscal Year	% of Applications
FY 2002	70%
FY 2003	70%
FY 2004	39%
FY 2005	36%
FY 2006	35%
FY 2007	Forecast: 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.

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.

Change in Audit Hours over Prior Year

Fiscal Year	# of Hours
FY 2005	(363)
FY 2006	(1,741)
FY 2007	Forecast: (1,065)

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.

The FY2005 and FY2006 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. We project that it will be very difficult to meet this performance target in FY2007.

The Division has stepped up recruiting efforts nationally and have met market base pay for professional audit staff. This will reverse the trend and we expect an increase in audit hours in FY2008.

B: Result - Unclaimed property owners in Alaska will be united with their property.

Target #1: Pay 15% more claims each year.

Measure #1: Number of claims paid each year as compared to prior year.

Property claims paid per year

Fiscal Year	# of Claims Paid	% Change from Prior Year
FY 2002	2,265	N/A
FY 2003	2,706	19.47%
FY 2004	1,780	-34.22%
FY 2005	4,061	128.15%
FY 2006	4,649	14%
FY 2007		Forecast: 15%

Analysis of results and challenges: Claims filed can fluctuate significantly due to factors beyond our control. Claims initiated through contact with property owners will not always result in a claim being paid in the same fiscal year.

B1: Strategy - Place primary focus on locating owners of most recently reported properties.

Target #1: Unclaimed Property will initiate search of at least 50 owners per month.

Measure #1: Number of owner searches performed per year.

Owner Searches Performed by UCP

Fiscal Year	# of Searches
FY 2004	300
FY 2005	600
FY 2006	300
FY 2007	Forecast: 300

Analysis of results and challenges: The Unclaimed Property (UCP) staff conducts searches for property owners by selecting recently reported properties from the division's database and using online tools to locate the owners. The target is to search for 50 owners each month, however when there are fluctuations in staffing and/or workload the UCP places a priority on responding to claims requests from property owners which involves verifying claims and processing payments. As a result of UCP's workload prioritization, the target was not met in FY2006.

This approach of searching for owners is being updated in favor of the more effective method of conducting outreach to educate potential property owners of the existence of the program's website, with a searchable database and instructions for filing a claim. This performance measure will be revised accordingly.

Key Component Challenges

- Recruiting, training, and retaining professional staff.
- Developing regulations for the Petroleum Production Tax and implementing PPT reporting systems.
- Developing and implementing three cruise ship taxes plus revenue sharing.
- 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.

Significant Changes in Results to be Delivered in FY2008

- The Tax Division will conduct more audits as a result of continued efforts to revitalize its audit programs, with full professional staffing and auditor training. As audit groups are fully staffed, resultant taxpayer compliance will increase tax dollars collected.
- The Tax Division will 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 2006

- Completed economic analysis and provided information on two major citizen tax initiatives: the cruise ship initiative and the gas reserves tax initiative.
- Provided economic analysis and testimony related to the Petroleum Production Tax (PPT) legislation during three legislative sessions during 2006. HB 3001 was passed in the Second Special Legislative Session and the division is currently holding public workshops to further the writing of the PPT regulations.
- Continued to provide critical resources in support of the Governor's gas line negotiations.
- Continued to assist the Legislature and the Governor in dealing with fiscal issues and other legislation, providing information and testimony on incentive credits for heavy oil, issues including fisheries taxes, corporate income tax, gambling, charitable gaming and corporate income tax incentives.
- Successfully completed 160 analysis requests, a total of 2,000 staff hours by the economic team.
- Initiated aggressive national recruitments for the auditor series position: Corporate Income Tax Auditors responsible for the Alaska corporate net income tax; Oil and Gas Revenue Auditors responsible for production tax; and Tax Auditors responsible for other taxes and assessments. The Division recruited and trained three corporate income tax auditors and three production tax auditors during calendar year 2006.
- Completed two successful compliance projects (tobacco, and fisheries taxes).

Statutory and Regulatory Authority

AS 04.11*	Alcoholic Beverages – Licensing
AS 05	Charitable Gaming
AS 05.16	Cruise Ship Gambling
AS 10.25*	Electric and Telephone Cooperative Act
AS 16.51	Alaska Seafood Marketing Institute
AS 34	Unclaimed Property
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 43.31	Estate Tax Law of Alaska
AS 43.40*	Motor Fuel Tax
AS 43.50	Tobacco Taxes and Sales
AS 43.52	Cruise Ship Tax
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

26 U.S.C. 38 Internal Revenue Code

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

* Statutes provide for sharing taxes and fees

Contact Information

Contact: Jerry Burnett, Director, Administrative Services
Phone: (907) 465-2312
Fax: (907) 465-1685
E-mail: jerry_burnett@revenue.state.ak.us

**Tax Division
Component Financial Summary**

All dollars shown in thousands

	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	6,283.3	7,774.7	10,511.8
72000 Travel	311.0	188.6	200.6
73000 Services	2,079.5	1,643.2	2,273.6
74000 Commodities	284.8	83.6	105.6
75000 Capital Outlay	40.5	4.9	4.9
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	8,999.1	9,695.0	13,096.5
Funding Sources:			
1004 General Fund Receipts	7,148.6	8,704.1	12,022.0
1005 General Fund/Program Receipts	546.9	714.8	780.8
1007 Inter-Agency Receipts	0.0	87.0	37.0
1061 Capital Improvement Project Receipts	95.6	115.0	175.0
1105 Alaska Permanent Fund Corporation Receipts	70.7	74.1	81.7
1175 Business License and Corporation Filing Fees and Taxes	1,137.3	0.0	0.0
Funding Totals	8,999.1	9,695.0	13,096.5

Estimated Revenue Collections

Description	Master Revenue Account	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
Unrestricted Revenues				
General Fund Program Receipts	51060	1,865.0	1,900.0	1,900.0
Unrestricted Total		1,865.0	1,900.0	1,900.0
Restricted Revenues				
Interagency Receipts	51015	0.0	87.0	37.0
General Fund Program Receipts	51060	546.9	714.8	780.8
Business License Receipts	51173	1,137.3	0.0	0.0
Capital Improvement Project Receipts	51200	95.6	115.0	175.0
Permanent Fund Earnings Reserve Account	51373	70.7	74.1	81.7
Restricted Total		1,850.5	990.9	1,074.5
Total Estimated Revenues		3,715.5	2,890.9	2,974.5

**Summary of Component Budget Changes
From FY2007 Management Plan to FY2008 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2007 Management Plan	9,418.9	0.0	276.1	9,695.0
Adjustments which will continue current level of service:				
-FY 08 Health Insurance Increases for Exempt Employees	0.4	0.0	0.0	0.4
Proposed budget increases:				
-Tax Auditor Salary Increases	490.0	0.0	0.0	490.0
-Implementation of Petroleum Production Tax	1,367.8	0.0	0.0	1,367.8
-Implementation of Cruise Ship Initiative	626.0	0.0	0.0	626.0
-Retirement and Non-covered Employee Health Insurance Increases for Division of Personnel	10.0	0.0	0.0	10.0
-FY 08 Retirement Systems Rate Increases	889.7	0.0	17.6	907.3
FY2008 Governor	12,802.8	0.0	293.7	13,096.5

**Tax Division
Personal Services Information**

Authorized Positions			Personal Services Costs	
	<u>FY2007</u> <u>Management</u> <u>Plan</u>	<u>FY2008</u> <u>Governor</u>		
Full-time	115	121	Annual Salaries	7,216,662
Part-time	1	1	Premium Pay	4,491
Nonpermanent	0	0	Annual Benefits	4,732,269
			<i>Less 12.06% Vacancy Factor</i>	(1,441,622)
			Lump Sum Premium Pay	0
Totals	116	122	Total Personal Services	10,511,800

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	3	0	3
Accounting Spvr II	0	0	1	0	1
Accounting Tech II	0	0	3	0	3
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 I	1	0	0	0	1
Administrative Manager II	0	0	1	0	1
Analyst/Programmer I	0	0	2	0	2
Analyst/Programmer III	0	0	2	0	2
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 I	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
Director	1	0	0	0	1
Economist II	0	0	1	0	1
Economist III	3	0	1	0	4
Gas Pipeline Coordinator	1	0	0	0	1
Investigator III	3	0	0	0	3
Investigator IV	2	0	0	0	2
Micro/Network Spec I	1	0	0	0	1
Oil & Gas Revenue Auditor I	2	0	0	0	2
Oil & Gas Revenue Auditor II	1	0	0	0	1
Oil & Gas Revenue Auditor III	7	0	0	0	7
Oil & Gas Revenue Auditor IV	7	0	0	0	7
Oil & Gas Revenue Specialist	1	0	0	0	1
Petroleum Economist I	2	0	1	0	3
Prog Coordinator	0	0	1	0	1
Project Coord	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

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
State Petro Prop Assess	1	0	0	0	1
Tax Auditor III	6	0	2	0	8
Tax Auditor IV	3	0	0	0	3
Tax Technician II	3	0	5	0	8
Tax Technician III	10	0	6	0	16
Tax Technician IV	0	0	2	0	2
Totals	77	0	45	0	122