Alaska's Non-Oil Tax Revenue

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An overview with an outlook for future growth

Alaska's tax revenue grew at an average annual rate of 12 percent from fiscal year 2001[1] through fiscal year 2006. (See Exhibit 1.) This growth came from both oil taxes and non-oil taxes. From 2006 to 2011, however, oil tax revenue is projected to decline at an average rate of 2 percent a year, while non-oil tax revenue is projected to increase at an average rate of 4 percent.

This divergence means that Alaska's non-oil taxes will become a more important contributor to state revenue as time passes. Unlike most states, Alaska does not have a state sales tax or personal income tax, so what are the non-oil taxes that generate revenue in Alaska?

This article answers that question by surveying Alaska's non-oil taxes.[2] It also compares the revenue those taxes generated over the 2001 to 2006 period and revenue projections for the 2006 to 2011 period.

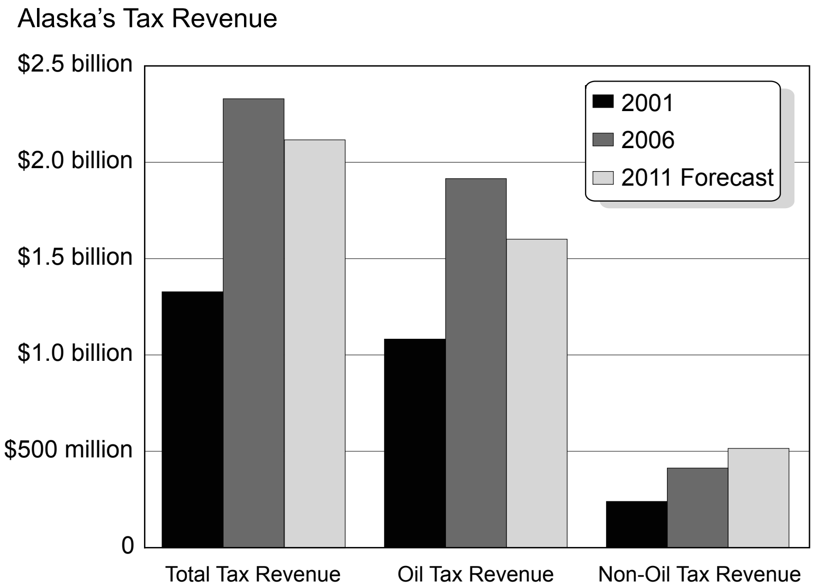
The importance of non-oil taxes should not be underestimated: by 2011, they are projected to generate $515 million, which will be more than 24 percent of Alaska's projected total tax revenue that year. (See Exhibit 2.)

The corporate income tax

The largest source of non-oil tax revenue is, and is expected to remain, the non-oil corporate income tax. (See Exhibits 3 and 4.) Alaska has two separate corporate income taxes: one specific to oil and gas corporations, and one that applies to all other corporations. Revenue from the non-oil corporate income tax grew at an average rate of 18 percent a year from 2001 through 2006 and totaled $138 million in 2006.

Despite being a non-oil corporate income tax, high oil prices were still responsible for some of this increase, as a strong oil industry and a healthy state budget benefits many sectors of the economy. However, much of the growth in non-oil corporate income taxes came from improved profitability in other basic industries, such as mining, fishing and tourism.

1 Alaska's Tax Revenue
Future declines projected[1]



[1] All references to years in this article, including in the exhibits, are to the state fiscal year, which runs from July 1 to June 30. The 2006 fiscal year is from July 1, 2005, to June 30, 2006.
Source: Alaska Department of Revenue

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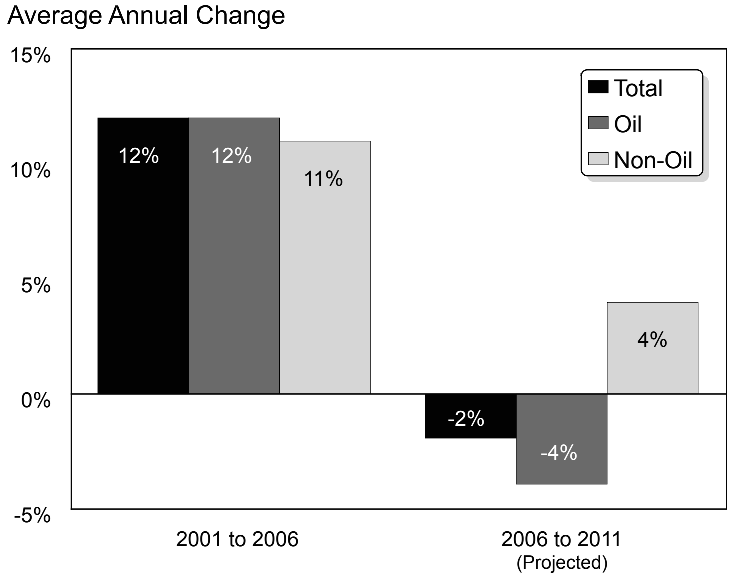
[2] Information in this article is based on the Alaska Department of Revenue's spring 2007 revenue forecast. Fiscal year 2007 data were not released when this article went to print. The Department of Revenue's *Revenue Sources Book - Fall 2007*, which is set to be released in early December, will include fiscal year 2007 data and revised revenue forecasts.

Non-Oil Revenue Expected to Grow **2**
Oil revenue projected to decline



Source: Alaska Department of Revenue

A statewide ballot measure approved by voters in August 2006 expanded the corporate income tax to include the operations of large commercial passenger vessels. As a result, an increase in tourism industry tax revenue is expected. Overall, collections from this tax are projected to peak in 2007 and then decline, with the result being little change in revenue during the 2006 through 2011 period.

Non-oil corporate income tax is available for general appropriation by the Alaska Legislature, unlike some tax revenue that is restricted in how it can be used by either law or customary practice.

The tobacco products tax

The second largest source of tax revenue was from cigarettes and other tobacco products, totaling $65.5 million in 2006.

The largest share comes from cigarette taxes, which generated $57.9 million in 2006 and grew at an average annual rate of 7 percent from 2001 through 2006. The increase was largely due to a 2005 tax rate increase: in January 2005, the rate jumped from $1 a pack to $1.60 a pack. Rates were raised again in July 2006 to $1.80 a pack and then in July 2007 to $2 a pack.

While tax rates went up, consumption fell from 41 million packs in 2001 to 36 million packs in 2006. Over the 2006 through 2011 period, further consumption declines will likely offset the 2006 and 2007 rate increases. As a result, the 2011 revenue projections are slightly lower than the $57.9 million collected in 2006.

Customary appropriation dedicates a portion of the cigarette tax revenue to cessation and education programs, and constitutional mandate earmarks a separate portion of the tax revenue for school construction and maintenance.

Alaska also taxes other tobacco products such as cigars, chewing tobacco and loose-leaf tobacco. The tax rate on these products is 75 percent of the wholesale value. In recent years, the wholesale value has increased because of higher prices instituted by the major manufacturers.

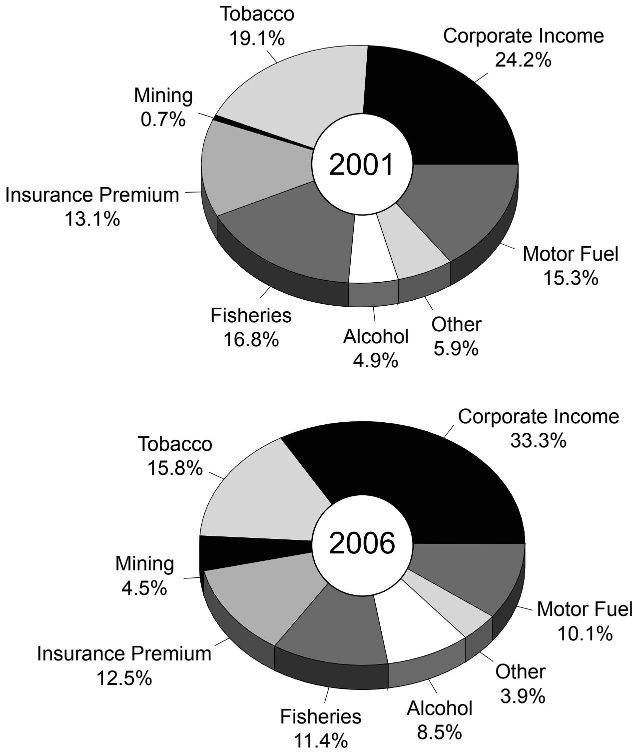
Revenue from tobacco products other than cigarettes rose at an average annual rate of 7 percent from 2001 through 2006 and totaled $7.6 million in 2006. The revenue is projected to grow at an average of 5 percent a year from 2006 through 2011. Tax revenue from tobacco products other than cigarettes is available for general appropriation.

The alcohol tax

From 2001 through 2006, alcohol tax revenue rose from $12 million to $35.2 million, mostly due to substantial increases in tax rates. State lawmakers raised the tax rates on all three categories of alcohol in 2002. The liquor tax rate went from $5.60 a gallon to $12.80 a gallon, the wine tax rate went from 85 cents a gallon to $2.50 a gallon and the beer tax rate went from 35 cents a gallon to $1.07 a gallon.

Increasing levels of consumption also contributed to higher revenue during the 2001 to 2006 period, with gains seen in all three categories. Unlike cigarette tax revenue, which is projected to be flat due to higher tax rates but decreased consumption, alcohol tax revenue is expected

3 Non-Oil Tax Revenue, 2001 and 2006
Corporate and mining tax revenues grow



Source: Alaska Department of Revenue

to increase due to continued growth in consumption. Alaska is following the national trend in both cases – lower rates of cigarette smoking and higher rates of alcohol consumption.

Projections are for average annual revenue growth of 2 percent from 2006 through 2011. Customary appropriation dedicates half the alcohol tax revenue to prevention and treatment of alcohol and drug abuse.

The insurance premium tax

Many insurance companies pay the insurance premium tax in lieu of corporate income tax. This tax is a percentage levied on insurance policies sold in Alaska. Revenue totaled $51.9 million in 2006 and increased at a 10 percent average annual rate from 2001 through 2006. Revenue is projected to grow an average of 2 percent a year from 2006 through 2011.

Most insurance premium tax revenue is available for general appropriation, although customary appropriation dedicates revenue from workers' compensation insurance taxes and services fees to workers' safety and compensation programs.

The motor fuel tax

Motor fuel taxes contributed $42.1 million in tax revenue to the state budget in 2006, after increasing at an average of 2 percent a year since 2001. Alaska's motor fuel tax rate of 8 cents a gallon is the lowest in the nation and is well below the national average of 21.6 cents a gallon.

Alaska also taxes marine motor fuel at 5 cents a gallon, aviation gasoline at 4.7 cents a gallon and jet fuel at 3.2 cents a gallon. From 2006 through 2011, projected annual growth for the motor fuel tax is 1 percent. By custom, the Legislature shares 60 percent of the revenue from taxes on aviation gasoline with the municipalities where it was sold.

Fisheries taxes and assessments

The fisheries business tax is a levy of 1 percent to 5 percent of the value of fish or seafood processed in Alaska. This tax generated $32.5 million in revenue in 2006. The revenue increased at a 1 percent average annual rate from 2001 through 2006. Fishery values have been improving and revenue is projected to grow at an average annual rate of 3 percent from 2006 through 2011. By custom, the Legislature shares half the revenue from the fisheries business tax with the municipalities where the catch was processed.

The value of fish landed in Alaska but processed outside the state is assessed a 1 percent or 3 percent fishery resource landing tax. This tax generated revenue of $10.4 million in 2006 and grew at an average annual rate of 7 percent from 2001 through 2006. Revenue from this tax is expected to grow at an average annual rate of 3 percent from 2006 to 2011. By custom, the Legislature sets aside half the fishery resource landing tax revenue for the municipalities where the catch was landed.

Alaska also collects various elective assessments on behalf of the fishing industry. The Legislature appropriates revenue from these assessments for management, marketing and fishery development programs.

One of these assessments, the salmon enhancement tax, generated $4.4 million in 2006. The salmon enhancement tax grew an average of 4 percent a year from 2001 to 2006 and is expected to grow an average of 3 percent from 2006 to 2011. There are other assessments not included here that brought total assessment revenue to $11.2 million in 2006.

The mining license tax

The mining license tax, levied on the net income of mining operations in the state, was the fastest growing source of tax revenue from 2001 through 2006. Revenue increased from only $1.7 million in 2001 to $18.6 million in 2006. This increase amounted to an average growth rate of 61 percent per year.

Rising mineral prices have led to higher profits for Alaska's mining industry, which in turn fosters growth in collections. Continued high mineral prices mean this tax should contribute even more to the state treasury, with average annual growth of 24 percent projected from 2006 through 2011. Mining license tax revenue is available for general appropriation.

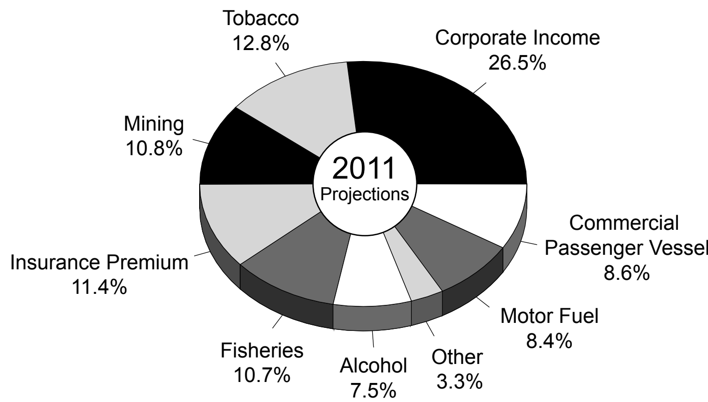
Other taxes

The vehicle rental tax took effect in 2003 with a tax rate of 10 percent of the value of passenger vehicle rentals and 3 percent of the value of recreational vehicle rentals. The vehicle rental tax generated $7.7 million in revenue in 2006 and projections are for 2 percent average annual growth over the next five years. Vehicle rental tax revenue is available for general appropriation.

The tire fee includes a tax of $2.50 on each new tire and an additional surcharge of $5 per tire for studded tires or installation of studs. The $2.50 tax and $5 surcharge were implemented in 2003 and 2004, respectively. The tire fee generated revenue of $1.6 million in 2006 and projections call for revenues to remain at about that level from 2006 through 2011. Tire fee revenue is available for general appropriation.

Charitable gaming taxes include a 3 percent pull-tab tax, a 1 percent fee on gaming net proceeds, and revenue from licenses and permits for charitable gaming. From 2001 through 2006, revenue was unchanged at $2.4 million. Projections are for no change in revenue through 2011. Charitable gaming tax revenue is available for general appropriation.

Corporate Tax to Remain Largest Slice 4
Non-oil tax revenue projections for 2011



Source: Alaska Department of Revenue

Most Non-Oil Revenue is Unrestricted 5
Non-oil tax revenue, 2006

Tax Type	Unrestricted, in millions	Restricted, in millions	Total, in millions
Corporate income	$138.0	$0.0	$138.0
Tobacco - cigarette	$27.8	$30.1	$57.9
Tobacco - other non-cigarette products	$7.6	$0.0	$7.6
Alcohol	$17.6	$17.6	$35.2
Insurance premium	$44.3	$7.6	$51.9
Motor fuel	$42.0	$0.1	$42.1
Fisheries business	$15.4	$17.1	$32.5
Fisheries landing	$4.7	$5.7	$10.4
Salmon enhancement	$0.0	$4.4	$4.4
Mining	$18.6	$0.0	$18.6
Vehicle rental	$7.7	$0.0	$7.7
Tire fee	$1.6	$0.0	$1.6
Charitable gaming	$2.4	$0.0	$2.4
Electric and telephone cooperative	$0.2	$3.7	$3.9
Estate	$0.6	$0.0	$0.6
Total, in millions	**$328.5**	**$86.3**	**$414.8**

Source: Alaska Department of Revenue

6 Non-Oil Tax Revenue
2001, 2006 and projections for 2011

Tax Type	2001 Revenue, in millions	2006 Revenue, in millions	2011 Projection, in millions	Historic Growth Rate	Projected Growth Rate
Corporate income	$59.5	$138.0	$136.6	18%	-0%
Tobacco - cigarette	$41.6	$57.9	$56.3	7%	-1%
Tobacco - other non-cigarette products	$5.4	$7.6	$9.5	7%	5%
Alcohol	$12.0	$35.2	$38.6	24%	2%
Insurance premium	$32.2	$51.9	$58.6	10%	2%
Motor fuel	$37.7	$42.1	$43.4	2%	1%
Fisheries business	$30.5	$32.5	$38.2	1%	3%
Fisheries landing	$7.3	$10.4	$12.0	7%	3%
Salmon enhancement	$3.6	$4.4	$5.1	4%	3%
Mining	$1.7	$18.6	$55.4	61%	24%
Vehicle rental	$0.0	$7.7	$8.6	NA	2%
Tire fee	$0.0	$1.6	$1.6	NA	0%
Charitable gaming	$2.4	$2.4	$2.4	0%	0%
Electric and telephone cooperative	$3.3	$3.9	$4.5	3%	3%
Estate	$2.7	$0.6	$0.0	-26%	NA
Commercial passenger vessel	$0.0	$0.0	$44.1	NA	NA
Other assessments	$6.0	$0.0	$0.0	NA	NA
Total, in millions	**$245.9**	**$414.8**	**$514.9**	**11%**	**4%**

Source: Alaska Department of Revenue

Electric and telephone cooperatives pay special taxes in lieu of the corporate income tax. The electric cooperative tax levy is 0.025 cents to 0.05 cents per kilowatt-hour of electricity furnished. The telephone cooperative tax levy is 1 percent or 2 percent of revenue. Revenue from these taxes increased at a 3 percent average annual rate to $3.9 million from 2001 through 2006. The projected average annual growth from 2006 through 2011 is 3 percent. By custom, the Legislature appropriates all revenue from cooperatives to the municipalities where they are located.

Alaska's estate tax is equal to the maximum state credit allowable under federal law. Changes in federal estate tax law phased out this credit, effectively eliminating Alaska's estate tax in 2005. However, the tax continues to generate revenue because of late filings of returns for years prior to 2005.

From 2001 through 2006, estate tax revenue declined at an average rate of 26 percent a year and generated $600,000 in 2006. Projections show no revenue collections from the estate tax from 2006 through 2011. Since the changes in federal law are temporary, Alaska will begin to receive revenue again in 2012 if Congress does not revise the tax law before then.

As mentioned, Alaska voters approved a ballot measure in August 2006 that imposed new taxes on large commercial passenger vessels. In addition to corporate income taxes, the ballot measure also imposed a tax of $46 per passenger and a tax of 33 percent on income from onboard gambling activity. Total revenue from the per-passenger tax is projected to be $44.1 million in 2011. Because regulations have not yet been finalized, there are currently no estimates for revenue from the gambling tax and corporate income tax.

The same ballot measure also imposed a fee of $4 per berth to support the Ocean Ranger program, which is a fee for services and not a tax. Tax revenue from the ballot measure, except for corporate income tax collections, is restricted in use.

An increasing reliance on non-oil tax revenue

Alaska's non-oil taxes generated $414.8 million in 2006, and $328.5 million of that amount was available for general appropriation by the Legislature. (See Exhibit 5.) Non-oil taxes made up 18 percent of total tax revenue in 2006, but that percentage is projected to grow to 24 percent by 2011.

From 2006 through 2011, revenue from non-oil taxes should increase, while projections call for a decline in oil tax collections. (See Exhibits 1 and 6.) If these projections are correct, non-oil taxes will play a growing role in the future of Alaska's state revenue. In light of the current forecast predicting a decline in oil prices and falling oil output, it is worthwhile for policymakers and the public to become familiar with the non-oil taxes that already contribute significantly to the state.