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VIA EMAIL

Representative Ivy Spohnholz, Chair
Alaska House Ways & Means Committee

Re: Comments on H.B. 3006

Dear Chair Spohnholz and Members of the Committee:

I am writing on behalf of the Council On State Taxation (COST) to provide comments on H.B. 3006, which would impose a state sales and use tax and authorize the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement (SSUTA). If Alaska wishes to adopt state sales tax, we support the State joining the SSUTA; however, the state should not subject business inputs to taxation.

About COST

COST is a nonprofit trade association based in Washington, D.C. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of approximately 500 major corporations engaged in interstate and international business, many of which directly do business in Alaska. COST's objective is to preserve and promote equitable and nondiscriminatory state and local taxation of multijurisdictional business entities.

Central Administration & SSUTA Membership Promotes Sound Tax Policy

COST has long advocated for sound tax policy through simplification and uniformity of state and local sales and use tax systems. As part of its efforts, COST has advocated for the central administration of the states' local sales taxes and supports states joining the SSUTA, which standardizes sales and use taxes to reduce administrative and compliance burdens for all sellers through the following:

- Single, state-level administration for all sales and use tax collections
- Uniformity in the state and local tax bases
- Uniformity of major tax base definitions
- Central electronic registration system
- Simplification of state and local tax rates
- Uniform sourcing rules for all taxable transactions
- Certified Service Providers to assist sellers in collecting and remitting the tax
- Simplified exemption administration
- Simplified tax returns
- Simplification of tax remittances
- Protection of consumer privacy

For all the reasons outlined above, we strongly support Alaska becoming a SSUTA member state if it seeks to enact a state sales and use tax.¹

COST's Position on Sales Taxation of Business Inputs

The COST Board of Directors has adopted a formal policy statement on sales taxation of business inputs. COST's policy position is:

Imposing sales taxes on business inputs violates several tax policy principles and causes significant economic distortions. Taxing business inputs raises production costs and places businesses within a State at a competitive disadvantage to businesses not burdened by such taxes. Taxes on business inputs, including taxes on services purchased by businesses, must be avoided.²

As noted in COST's policy position above, the imposition of sales tax on business inputs violates several tax policy principles—economic growth, equality, simplicity, and efficiency. In addition, imposing sales tax on business inputs causes economic distortion that results from pyramiding.³ Pyramiding occurs where a tax is imposed at multiple levels, such that the effective tax rate exceeds the retail sales tax rate. This forces companies to either pass cost increases to consumers or reduce their economic activity in the State to remain competitive with other producers who do not bear the burden of such taxes. The result of these choices is that the economic burden of taxes on business inputs inevitably shifts to labor in the State (through lower wages and employment) or consumers (through higher prices). With H.B. 3006 proposing to broadly subject services to tax, it is critical that business inputs are exempt from the tax to avoid running afoul of these sound tax policy principles.

Conclusion

If Alaska wishes to impose a state sales tax, we support the State's efforts to invoke central administration of the state and local jurisdictions' sales and use tax along with joining the SSUTA. We also strongly recommend that H.B. 3006 be amended to include a clear exemption for business inputs, including services purchased by businesses.

Respectfully,



Erica S. Kenney

cc: COST Board of Directors
Douglas L. Lindholm, COST President & Executive Director

¹ The State should also use the NCSL model for marketplace facilitators and sellers, which includes a small seller threshold; model available at:

https://www.ncsl.org/Portals/1/Documents/Taskforces/SALT_Model_Marketplace_Facilitator_Legislation.pdf?ver=2020-01-30-122035-320×tamp=1580412048938.

² COST's policy statement on sales taxation of business inputs is available at: <https://cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-policy-positions/sales-taxation-of-business-inputs.pdf>

³ A detailed study addressing the impact of states' taxing business inputs is available at: https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/1903-3073001_cost-ey-sales-tax-on-business-inputs-study_final-5-16.pdf.