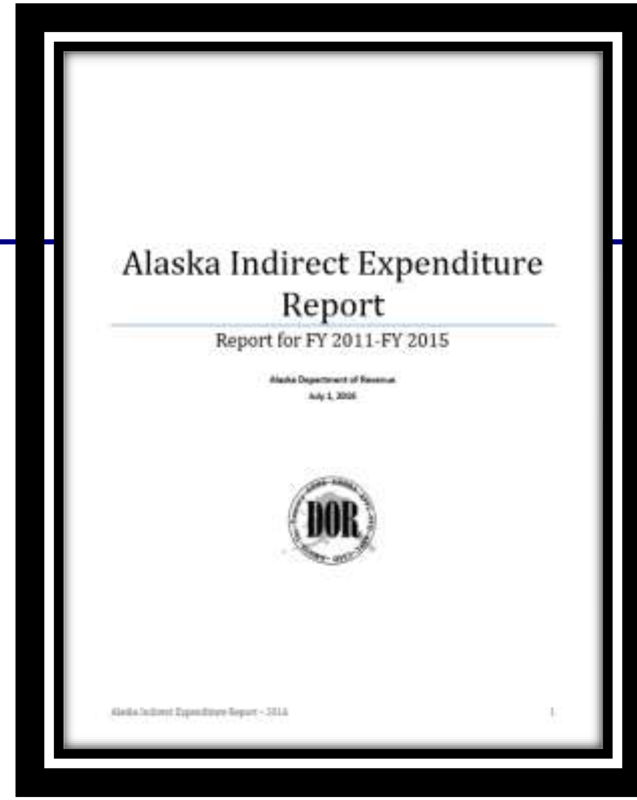
State of Alaska
Department of Revenue


Alaska Indirect Expenditure Report

Report for FY 2011-FY 2015

Overview of DOR's *Indirect Expenditure Report, Preliminary Report for FY 2011-FY 2015*

Presentation to House State Affairs

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Overview

- Indirect Expenditure Report Legislation Overview
  - Bill provisions, DOR* requirements, Legislative Finance Division requirements
- DOR Indirect Expenditure Report
  - Process and methodology for producing the DOR *Indirect Expenditure Report*
  - Overview of the DOR *Indirect Expenditure Report*
  - Future Plans
- Recommendations/Considerations

*DOR = Department of Revenue

Indirect Expenditure Report Legislation Overview

Indirect Expenditure Report Overview

- Passed in 2014 and signed on July 7, 2014 (House Bill 306)
- **Requires DOR to submit a report to the Legislature biennially on July 1 detailing indirect expenditures of all agencies in the State (AS 43.05.095)**
- Requires the Legislative Finance Division to provide a report to the Legislature on the indirect expenditures of certain agencies before the start of Legislative Session following the release of DOR's biennial report

- The first DOR *Indirect Expenditure Report* was released the day after the bill was signed, July 8, 2014
- The second DOR *Indirect Expenditure Report* was released July 1, 2016
- The next DOR *Indirect Expenditure Report* will be released July 1, 2018

Indirect Expenditures Defined

Indirect expenditure: Any foregone revenue by the state designed to encourage an activity to benefit the public in the form of a credit, exemption, deduction, deferral, discount, exclusion, or other differential allowance.

As defined by AS 43.05.095(d):

- An **express provision of state law** that results in foregone revenue for the state by providing:
  - A tax credit or other credit
  - An exemption, but does not include federal tax exemptions adopted by reference in AS 43.20.021
  - A discount
  - A deduction, but does not include costs incurred in the ordinary course of business that are deducted in the calculation of a tax under this title or in the calculation of a royalty or net profit share payment for a lease issued under AS 38
  - A differential allowance

DOR Indirect Expenditure Report

- Released July 1, 2016 by DOR
- Provides details on 231 indirect expenditures across 11 departments and agencies, including 78 provisions administered by DOR
- A cooperative effort between 10 departments and other participating agencies, coordinated by DOR
- Followed process established in 2014, with improved presentation and some refinements

DOR Indirect Expenditure Report

Methodology- Internally

- Surveyed all Tax Division workgroups and all divisions within DOR to ensure complete list
- Developed tax database reports to generate DOR data for the Indirect Expenditure Report
- Developed consistent definition for “Fiscal Year” given that tax types are mostly on a monthly, quarterly, or calendar year basis
  - Necessary because of time lag in receiving information for certain tax types (corporate, mining, et cetera)
  - Production tax not impacted by this issue, since we receive detailed monthly data for production tax.

Methodology- Internally

- Internally: Addressing Fiscal Year Issue, cont.
  - Determined that the Fiscal Year includes any tax periods beginning during the fiscal year, using the “tax period beginning” date
    - For example: FY* 2015 corporate tax data will include any returns for periods beginning July 2014 – June 2015 (primarily 2015 calendar-year returns)
    - Similar to how federal tax data is reported by the Internal Revenue Service
  - Because of new parameters, some FY 2015 DOR data was “unavailable” at time of publication
    - Some fiscal year filer returns are not received until spring 2017
    - For example, a corporate tax return beginning June 2015, with extension, would be due in March, 2017

*FY = Fiscal Year

Externally:

- DOR met with other departments and agencies and sent out a survey for the report
- Each agency examined their operations to identify indirect expenditures and report the required information
- A few departments identified provisions that did not actually meet the definition of an "indirect expenditure"
  - Submissions from other departments and agencies are not independently verified

Methodology- Externally cont.

Examples of provisions not meeting definition of “Indirect Expenditure”:

- Alaska Housing Finance Corporation (AHFC)
  - Identified one potential indirect expenditure; reduced loan rates. But, it was part of their normal operations and not “required by statute.” Statutorily, AHFC can set the rates.
- Department of Commerce, Community, and Economic Development (DCCED):
  - Has certain licensing fees, which are set by statute to cover program costs, that were reduced for residents vs. non-residents. It was determined not be foregone revenue, because the fee differential doesn’t affect total revenue.
- University of Alaska (UA):
  - Addressed tuition waivers to employees and dependents; they are a part of the employee’s benefit package, so are not considered foregone revenue.
  - Non-resident vs. Resident tuition; UA is not discounting the resident tuition rate, rather the out-of-state student is paying a non-resident surcharge (so no foregone revenue).

Reported Information

Each department was required to report the following information:

- The name of the indirect expenditure
- A brief description
- The statutory authority
- The repeal date, if applicable
- The intent of the legislature in enacting the statute authorizing the indirect expenditure
- The public purpose served by the indirect expenditure
- The estimated revenue impact of the indirect expenditure for the previous five fiscal years (excluding the fiscal year immediately preceding the date the report is due)
- The estimated cost to administer the indirect expenditure, if applicable
- The number of beneficiaries of the indirect expenditure and who benefits

- Introduction, discussing the purpose of the report, what is included in the report, and an explanation of the limitations of the report
- The indirect expenditures are organized by:
  - Departments, alphabetically
    - Divisions, alphabetically
      - Grouped by Program Name (if applicable)

Future Plans

- Reaching out to the Office of Management and Budget and the Legislative Finance Division concerning the next *Indirect Expenditure Report*
- Compiling feedback and suggestions which may be incorporated into the next report in Summer 2018
- Discussion with agencies of their ability to provide more information for certain indirect expenditures

Recommendations/ Considerations

Recommendations/Considerations

- In 2017, DOR was asked to provide the finance committees with recommendations regarding indirect expenditures
- DOR identified several areas for the committees to consider:
  - House Bill 155 from 2015-2016
  - Largest indirect expenditures overall
  - Largest indirect expenditures by department
  - Review of recommendations produced by the Legislative Finance Division
    - Indirect Expenditures were reviewed in both January 2015 and January 2017
  - Fee Setting Authority

House Bill 155 from 2015-2016

- The following indirect expenditures were addressed in a proposed bill:
  - Tobacco Products Tax
    - Gives a four-tenths of one percent deduction to cover the expense of account and filing the return for the tobacco tax
    - FY 2015 revenue impact of $54,053
  - Cigarette Tax
    - Gives a discount of up to $50,000 as compensation for affixing stamps to packs of cigarettes
    - FY 2015 revenue impact of $360,326
  - Motor Fuel Tax
    - Gives a timely filing credits of 1% of the total monthly tax due to a maximum of $100
    - FY 2015 revenue impact of $62,590
  - Large Passenger Vessel Gambling Tax Deduction
    - Allows a deduction of federal and municipal taxes paid from gambling gross income
    - Revenue impact is unknown

Largest Indirect Expenditures

- Oil & Gas Tax Credits (FY16 = $598 million)
- Mining License Tax – Depletion Deduction (FY14 = $32 million)
- Insurance: all programs – Lower Tax Rate (DCCED*) (FY15 = $13 million)
- Insurance: all programs – Deduction from premiums written for claims paid (DCCED*) (FY15 = $13 million)
- Commercial Passenger Vessel Taxes – Tax Reduction for Local Levies (FY15 = $13 million)
- Multiple Tax Programs – Film Production Credit (FY15 = $9 million; credit phasing out under current law)
- Motor Fuel Tax – Foreign Flight Exemption (FY15 = $8.6 million)
- Sport Fishing, Hunting & Trapping Senior Discount (FY15 = $6.8 million)

*DCCED = Department of Commerce, Community, and Economic Development.
Note: This list only includes those indirect expenditures with a quantified revenue impact.

Recommendations from Legislative Finance

- There are recommendations made by Legislative Finance Division in both their 2015 & 2017 Indirect Expenditure Reports

- 2015 Report
  - Recommended 17 indirect expenditures be terminated
  - Recommended 33 indirect expenditures be reconsidered
  - Recommended 24 indirect expenditures be reviewed
  - Recommended 37 indirect expenditures be continued

- 2017 Report
  - Recommended 2 indirect expenditures be terminated
  - Recommended 13 indirect expenditures be reconsidered
  - Recommended 3 indirect expenditures be reviewed
  - Recommended 48 indirect expenditures be continued

Fee Setting Authority

- Legislature has granted fee setting authority to certain agencies, for example:
  - Department of Transportation and Public Facilities
    - Alaska Marine Highway (AMHS): foregone revenue related to AMHS discounts amounted to over $4.7 million in FY 2015
  - University of Alaska
    - Scholarship awarding authority
    - Western Undergraduate Exchange
    - Senior Citizen Tuition Waiver
  - A comprehensive review would likely identify other examples
- Discounts offered by agencies with fee setting authority may not qualify as "indirect expenditures" since they are not an "express provision of state law"

THANK YOU

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