Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version:	CSHB 306(FIN)
Fiscal Note Number:	7
(H) Publish Date:	3/24/14

Identifier: HB306CS(FIN)-DOR-TAX-03-21-14
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: (H) Finance

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Personal Services	377.4		261.4	261.4	116.0	116.0	116.0
Travel	5.0		5.0	5.0	5.0	5.0	5.0
Services	16.1		12.3	12.3	3.8	3.8	3.8
Commodities	1.5		1.5	1.5	0.5	0.5	0.5
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**400.0**	**0.0**	**280.2**	**280.2**	**125.3**	**125.3**	**125.3**

Fund Source (Operating Only)

1004 Gen Fund	400.0		280.2	280.2	125.3	125.3	125.3
Total	**400.0**	**0.0**	**280.2**	**280.2**	**125.3**	**125.3**	**125.3**

Positions

Full-time	1.0		1.0	1.0	1.0	1.0	1.0
Part-time							
Temporary	3.0		2.0	2.0			

Change in Revenues	***		***	***	***	***	***

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? various

Why this fiscal note differs from previous version:

Updated for changes in CS.

Prepared By:	Matt Fonder, Director	Phone:	(907)269-6620
Division:	Tax	Date:	03/21/2014 11:00 AM
Approved By:	Angela M. Rodell, Commissioner	Date:	03/21/14
Agency:	Department of Revenue		

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSHB 306(FIN)

Analysis

Bill Language:
This bill would impact the Department of Revenue in two ways: First, it would repeal several existing tax credit programs; and second, it would institute a requirement for the department to create a new bi-annual report related to indirect expenditures.

<u>This bill repeals several tax credit programs:</u>
-The veterans employment, Winn Brindle scholarship, salmon utilization, and film production tax credits would be repealed effective 12/31/2016.
-The education tax credit which is allowed against 8 different tax types would be repealed effective 12/31/2018.
-The salmon product development and community development quota (CDQ) tax credits would be repealed effective 12/31/2020.

This bill provides transition language whereby any tax credits accrued before the effective dates identified above may be claimed in the year they are accrued or carried forward if allowed under existing provisions in each credit program.

<u>Bi-Annual Report:</u>
Beginning on July 1, 2014, this bill would require the Department to publish a new "Indirect Expenditure Report" providing detailed analysis of every "indirect expenditure" in the state. The report is due every other year. Indirect expenditures are broadly defined as tax credits, exemptions, deductions (not including deductions incurred in the normal course of a trade or business), discounts, exclusions, or other differential allowances that result in foregone revenue for the state. For each indirect expenditure made by the state, the Department would be required to identify: the name of the indirect expenditure, a brief description of the indirect expenditure, the statutory authority for the indirect expenditure, the date the indirect expenditure is set to sunset if applicable, the intent of the legislature in authorizing the indirect expenditure, the public purpose, estimate the annual revenue impact of the indirect expenditure for the past five years, estimate the cost to administer the indirect expenditure, and report the number of beneficiaries of the indirect expenditure. With the 5-year look-back for the revenue affects, the initial report would require a significant amount of data gathering and reporting. After the first report, the bi-annual reporting would require less effort, as the analysis done for the first report could be carried forward; for example, identifying the statutory authority and legislative intent in a subsequent year could be obtained from the first report.

There is no specific effective date for the expenditure reporting provisions within this bill. However, the bill indicates that the first report from the department is due no later than July 1, 2014. The Department recently began implementation of a new revenue management system. The system will not be fully implemented until the summer of 2016. Although some of the data needed to fulfill the reporting requirements of this legislation will reside in an automated system, the majority of the data would be extracted through manual processes. The July 1, 2014 due date for the first report is going to be very difficult to meet in any meaningful fashion.

Revenues:
The revenue impact of this bill is indeterminate. This bill would repeal several tax credit programs beginning on 12/31/2016 through 12/31/2020. In FY 2013, taxpayers claimed $7.2 million in education tax credits, $0.2 million in Winn Brindle scholarship credits, $1.8 million in salmon product development tax credits, $0 in veterans employment tax credits (this is a new program in 2013 for which we have no current data), $0 in salmon utilization tax credits, $0.5 million in Community Development Quota tax credits, and there are currently $32.5 million in film production tax credits issued and outstanding with an additional $60 million expected to be awarded within the next two fiscal years.

For FY 2015, revenue may be reduced if companies claim more credits due to the impending repeal. For FY 2017 and beyond, there would likely be indeterminate increases in revenue due to the elimination of the credit programs; however some of the credits can be carried forward to offset future tax liabilities.

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STATE OF ALASKA BILL NO. CSHB 306(FIN)
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Analysis Continued

Revenues (cont.):
For the film production tax credit, a total of $300 million was authorized for the program. For any credits pre-approved before the repeal date, those credits could be awarded for up to three years after repeal, and carried forward for an additional six years.

Expenditures:
This bill would require the Department of Revenue to analyze each and every indirect expenditure in the state. The Department currently administers 22 tax programs, and would also be required to analyze numerous programs in other state agencies. The initial compilation of this report would be a major undertaking and would require significant resources.

We anticipate needing at least 4 new positions in FY 2015 to undertake the initial analysis required of all indirect expenditures incurred by the Department of Revenue and all other state agencies; two Economist IIIs positions, one Tax Technician III position, and a College Intern IV. The new positions would be hired in FY 2015, to perform the significant research and work that would be needed in advance of the first report (which is required on the first day of FY 2015). Once the initial report is complete, we then anticipate that we will need to retain three positions for the next two years until the Tax Division's new revenue management system is fully implemented; one Economist III, one Tax Technician III, and a College Intern IV. In all future years, DOR believes it can prepare this report with a single Economist III. The costs shown include the payroll and benefits for the new positions, the interagency costs associated with these positions, the travel costs for these positions, and the computer and office supply costs. We anticipate the Economists IIIs and College Intern positions would be in Juneau and the Tax Technician position would be in Anchorage.

Although this legislation would repeal the film production tax credit program, because credits pre-approved before the repeal date would be allowed to be awarded up to three years after repeal, and carried forward for an additional six years, the film program and staffing would need to be maintained throughout the time horizon of this fiscal note. The repeal of the other tax credit programs would not result in a decrease in program costs to the department.

Regulations:
Regulations adopted by the department for the repealed tax credit programs would be repealed at various times following the expiration of time limits for claiming or carrying forward the relevant credits (i.e. in 2016 and beyond).