

NEW SUSTAINABLE

ALASKA

PLAN



Pulling Together to Build Our Future

Individual Income Tax

HB 249

Presentation to the House Finance Committee

March 31, 2016

Motor Fuel Tax Increase

"An Act relating to the motor fuel tax; relating to the duties of the commissioner of revenue; relating to the disposition of revenue from the motor fuel tax; and providing for an effective date."

Motor Fuel Tax History

- Began in 1945
- Tax rates have increased over time, but structure unchanged
 - Last increase: highway 1970, marine 1977, aviation fuel 1994

Motor Fuel Tax History (Continued)

- Tax was suspended from Sept. 1, 2008, to Aug. 31, 2009
- In 2015, HB 158 added \$0.0095 surcharge on motor fuels and some other refined fuels
 - Intended for spill prevention and response fund

Motor Fuel Tax Proposal

- Increases all tax rates:

Type of fuel	Before (per gallon)	After (per gallon)
Highway	\$0.08	\$0.16
Marine	\$0.05	\$0.10
Jet fuel	\$0.032	\$0.10
Aviation gas	\$0.047	\$0.10
“Off-road use” credit	-\$0.06	-\$0.12

- Requires electronic filing
 - Provides exemption process

Relative Motor Fuel Tax Rate

- Alaska's fuel taxes are among lowest in U.S.¹
 - Highway fuel: lowest
 - Jet fuel: 35th out of 50
 - Aviation gas: 24th out of 50
- Under this bill, Alaska taxes would be:
 - Below national average (20.17 cents) for highway fuel
 - Above national average for jet/aviation fuel

¹ As of January 1, 2015. No comprehensive data for other states' marine fuel taxes. However, we believe that in most states the "marine" rate is the "highway" rate. Therefore, our "marine" rate is likely also one of the lowest in the country.

Impacts of Tax Proposal

- Gas prices at the pump would rise
- More aviation taxes to fund certificated urban and rural airports
 - Requested by aviation advisory committee as preferable to landing fee increases

Revenue Impact

- Dept. of Revenue estimates increasing the tax rate will more than double tax collections
- Additional revenue about \$49 million per year
 - \$0.2 million will be shared with municipal-owned airports
 - Remainder: general fund and special accounts for road, water transport, and aviation facilities

Revenue Impact (Continued)

- Estimates based on fall 2015 revenue forecast
- Does not account for changes in fuel demand or stockpiling

Implementation Cost

- Dept. of Revenue must update:
 - Tax Revenue Management System (TRMS)
 - Revenue Online (ROL) which allows a taxpayer to file a return and apply for a dealer license online
 - Tax return forms
- One-time implementation cost of \$50,000 to recreate tax forms and reprogram and test the tax system to accommodate the rate changes
- No additional costs to administer the tax program

Motor Fuel Tax—Changes made in Committee Substitute

- If average price of ANS crude oil is more than \$85 per barrel during the previous year—no change to current tax rates
- If average price of ANS crude oil is less than \$85 per barrel during the previous year—tax rates increase
- Motor fuel used for commercial fishing remains at 5 cents a gallon
- Tax increase sunsets after 2 years (July 1, 2018)₁₁

Closing the Budget Gap

FY16 Budget	(Millions) \$ 5,200
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FY17 Baseline Revenue (after proposed legislation)

AK Permanent Fund Protection Act (annual draw)	\$ 3,300
Revenue from existing taxes and fees	\$ 850
Earnings on Savings	<u>\$ 135</u>
	\$ 4,285

FY17 Spending Reductions

Continue Cuts	\$ 140
Reform O&G Tax Credits	\$ 400
Net Priority Investments	<u>(\$ 40)</u>
	\$ 500

Closing the Budget Gap (Continued)

<u>New Revenue Components (estimated)</u>	(Millions)
Mining (starting in FY 2018)	\$ 6
Fishing	\$ 18
Tourism	\$ 15
<i>Motor Fuel</i>	<i>\$ 49*</i>
Alcohol	\$ 40
Tobacco	\$ 29
Oil and Gas	\$ 100
Income Tax (half in FY17; first full year is FY18)	<u>\$ 200</u>
	\$ 457
Total with reductions and new revenue	\$ 5,242

* Doesn't account for lower rate on commercial fishing from CS. Rough estimate is \$2.4M decrease.

Sectional Analysis

Sec. 1. Changes the word “account” to “fund”—“watercraft fuel tax account” becomes “watercraft fuel tax fund”.

Sec. 2. Changes the per-gallon tax rates for dealers for all categories of motor fuel if the average price of ANS crude oil is less than or equal to \$85 a barrel during the previous year. The changes are as follows: highway fuel and gasohol from \$0.08 to \$0.16; marine fuel from \$0.05 to \$0.10; aviation gasoline from \$0.047 to \$0.10; and jet fuel from \$0.032 to \$0.10. If the average price of ANS crude oil is more than \$85 per barrel during the previous year then the tax rates remain at the lower levels. Motor fuel used for commercial fishing remains at 5 cents a gallon regardless of the price of ANS crude oil in the previous year.

Sec. 3. Sunsets changes in Section 2.

Sectional Analysis (Continued)

Sec. 4. Changes the per-gallon tax rates for dealers for all categories of motor fuel if the average price of ANS crude oil is less than or equal to \$85 a barrel during the previous year. The changes are as follows: highway fuel and gasohol from \$0.08 to \$0.16; marine fuel from \$0.05 to \$0.10; aviation gasoline from \$0.047 to \$0.10; and jet fuel from \$0.032 to \$0.10. If the average price of ANS crude oil is more than \$85 per barrel during the previous year then the tax rates remain at the lower levels. Motor fuel used for commercial fishing remains at 5 cents a gallon regardless of the price of ANS crude oil in the previous year.

Sec. 5. Sunsets changes in Section 4.

Sec. 6. Cleanup language: changes the word “account” to “fund”, adds the word “direct” before “capital”, and changes “airports” to “airport infrastructure”.

Secs. 7 – 10. Cleanup language similar to Section 6.

Sectional Analysis (Continued)

- Sec. 11.** Moves the subsection exempting certain motor fuel from the tax from the definitions section to the tax section.
- Sec. 12.** Updates a reference for the change in Section 11.
- Sec. 13.** Updates references for the change in Section 11.
- Sec. 14.** Changes the motor fuel refund rate for “off-road use”, when the tax has been paid, from \$0.06 to \$0.12 when the higher tax rates apply.
- Sec. 15.** Deletes language to conform with Section 14.
- Sec. 16.** Changes the word “account” to “fund”.
- Sec. 17.** Deletes language to move the subsection exempting certain motor fuel from the tax from the definitions section to the tax section at.

Sectional Analysis (Continued)

- Sec. 18.** Conforming applicability language clarifying that change to the refund rate applies to motor fuel sold after the effective date of Section 15.
- Sec. 19.** Transitional language allowing for regulations to implement the changes.
- Sec. 20.** Immediate effective date of Section 19.
- Sec. 21.** Effective date of July 1, 2018 for Sections 3, 5, and 15 (Sunset provisions)
- Sec. 22.** Effective date of July 1, 2016 for the rest of the bill.

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Contact Information

Jerry Burnett
Deputy Commissioner
Department of Revenue
Jerry.Burnett@Alaska.gov
(907) 465-3669

Marc Luiken
Commissioner
Department of Transportation
and Public Facilities
Marc.Luiken@Alaska.gov
(907) 465-3901