State of Alaska
Revenue Options Discussion

House Ways and Means Committee
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Governor
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Agenda

1. Defining the Problem

2. Revenue Options Under Consideration by Legislature (Bills Introduced)

3. Other Potential Revenue Options

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Defining the Problem

With a 50/50 PFD: FY2022 deficit: $1.0B (~$700M at current prices)

Strong PF Earnings indicate future increases to POMV Revenue Even with Lower Assumptions of Future Earnings

- FY2022 (Actual): $3,069.3
- FY2023 (Actual): $3,352.6
- FY2024 (Estimated @ 6.2% Earnings): $3,586.6

Added revenues or budget reductions in the order of $500M

Revenue Options In Brief: Legislature Consideration

Current Legislative Bills				
Bill #	**Tax Type**	**Brief Explanation**	**Estimated First Full Year Revenue**	**Implementation Cost**
SB 106	Pass-Through Oil & Gas Tax Corporate Income Tax	Income from oil & gas activity in excess of $4.0 million taxed at the current corporate income tax rate	$46 Million	$0.8 Capital
HB 130	Corporate Income Tax Revisions	Removes CARES Act Carry-Back provision; Add Pas-Through Oil & Gas Corporate Income Tax	$142 Million	$0.9 Capital
HB 104	Motor Fuel Tax	Double Motor Fuel Tax Rates, Create Electric Vehicle Fee, Provide Commercial Fishing Credit	$36 Million	N/A
HB 110	E-Cig Tax	Expands tobacco products tax to vaping and e-cigarettes	$2 Million	N/A
HB 3006	Sales Tax	2% Sales Tax with exemptions for food, medical, financial services, Business to Business transactions	$300 Million	$6.0 Capital; ~$8.5 Annual Ops
HB 3007	Per Barrel Credit (Oil & Gas Production Tax)	Changes maximum per-barrel taxable credit from $8.00/bbl to $4.00/bbl	$174 Million	N/A
SB 13	Petroleum Property Tax	Petroleum Property Tax increase from 20 mils to 30.0 mils	$272 Million	N/A

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***Figures assume spring forecast, Revenues may differ at current prices.**

Revenue Options In Brief: Other Potential Options

Bill #	Tax Type	Brief Explanation	Estimated First Full Year Revenue	Implementation Cost
N/A	Highly Digitized Business Tax (Corporate Income Tax)	Modernize CIT statutes - highly digitized businesses	$70-90 Million (Preliminary)	In Development
N/A	Pass-Through Oil & Gas Tax Corporate Income Tax	Require Oil & Gas pass-through entities to pay Corporate Income Tax (CIT)	$43 Million	$0.8 Capital
N/A	Carbon Offsets	Generate revenues by monetizing our carbon offsets through development of new program	$1-25 Million (Preliminary)	In Development
N/A	Sales Tax	Implement a broad-based sales tax at 2%	$640 Million	$6.0 Capital; ~$8.5 Annual Ops
N/A	Per Barrel Credit (Oil & Gas Production Tax)	Changes maximum per-barrel taxable credit from $8.00/bbl to $5.00/bbl	$94 Million	N/A
N/A	Gaming Expansion	Establish legalized gambling in our State: Internet gaming, lottery, and casinos	$144 Million	$2.3 Capital; ~$4.5 Annual Ops
N/A	Federal Offsets	Use of Federal Funds for revenue replacement (remaining CSLRF)	~$500 million	N/A
N/A	Bridge Funding	Draw from the ERA as a Bridge/Transition fund	Various Proposals	N/A

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Revenue Options for Consideration

Revenue Options - Current Legislative Bills Under Consideration

A. Pass-Through Oil and Gas Tax Corporate Income Tax (SB 106 – Sen Wielechowski)

B. Corporate Income Tax Revisions (HB 130 – Rep Wool)

C. Motor Fuel Tax (HB 104 – Rep Josephson)

D. E-Cig Tax (HB 110 – Rep Hannan)

E. Sales & Use Tax (HB 3006 – Rep Tarr)

F. Per Barrel Credit (HB 3007 – Ways and Means)

G. Petroleum Property Tax (SB 13 – Sen Begich)

A: Pass-Through Oil and Gas Tax Revisions (SB 106 – Sen Wielechowski)

Description: This bill extends Alaska's existing corporate income tax for oil and gas corporations to apply to pass-through entities with qualified taxable income over $4 million that are engaged in oil and gas exploration or production in Alaska. For purposes of this bill, a pass-through entity is a sole proprietorship, partnership, and S-Corporation, but the definition does not include LLCs with a single owner that are treated for federal income tax purposes as disregarded entities. The bill defines "qualified taxable income" to mean income from the production of oil or gas from a lease or property in the state or from the transportation of oil or gas by pipeline in the state.

First Full Year Impact: **$46.0 million in FY 2023**
This estimate does not account for changes in behavior as a result of a tax rate change.

Costs: There are one-time programming costs of $0.8 million.

B: Corporate Income Tax Revisions (HB 130 – Rep Wool)

Description: This bill makes several revisions to the State's current corporate income tax (CIT):

1. It expands the existing corporate income tax to all oil and gas producers doing business here. Currently, only "C" corporations pay this tax on their Alaska net income.
2. As part of the CARES Act, corporations were permitted to carryback any 2018-2020 tax year losses to a prior tax year via an amended tax return. This bill decouples the state CIT from that federal provision.
3. The bill also includes several other modifications to the CIT provisions: modifies federal tax credits, eliminates the 80% deduction, and repeals stranded gas development provisions.

First Full Year Impact: $141.7 million in FY 2022
The first-year impact is primarily from the CARES Act change. The FY 2023 revenue impact is $32.6 million. This estimate does not account for changes in behavior as a result of a tax rate change.

Costs: There are one-time programming costs of $0.9 million.

C: Motor Fuel Tax (HB 104 – Rep Josephson)

Description: A tax is levied on purchases of highway and marine diesel and gasoline, aviation gas, and jet fuel. Tax rates are as follows: Highway = $0.08/gal, Marine = $0.05/gal, Aviation = $0.047/gal, Jet Fuel = $0.032/gal. Certain refined fuel sales are also subject to a $0.0095/gal Surcharge.

This bill doubles the tax rates for highway and marine fuel only. It does not increase the rates for aviation or jet fuel. This option also increases the fuel surcharge to $0.015/gal.

First Full Year Impact: $35.8 million in FY 2023
This estimate does not account for changes in behavior as a result of a tax rate change.

Costs: There are no incremental costs to implement this change.

D: E-Cigarette Tax (HB 110 – Rep Hannan)

Description: This is a parity tax bill making any vapor product, component, or solution used in electronic cigarettes subject to the excise tax on tobacco products. This change would only apply to solutions containing nicotine. Currently, these products do not fall under the definition of tobacco products and are not subject to tax at the state level.

First Full Year Impact: **$2.4 million in FY 2023**
This estimate does not account for changes in behavior as a result of a tax rate change.

Costs: There are no incremental costs to implement this change.

E: Sales Tax (HB 3006 – Rep Tarr)

Description: This bill implements a 2% statewide sales tax. Notable exemptions include: Groceries, financial services, goods for resale, real property, aviation fuel, healthcare services, pharmaceuticals, and childcare. The bill envisions the Department collecting both the state sales tax and the sales tax for the 140+ sales taxes levied locally and remitting the funds back to those municipalities. The tax base in this bill is considered to be a "mid base" tax base.

First Full Year Impact: $300 million in FY 2023
This estimate does not account for changes in behavior as a result of a tax rate change.

Costs: There are one-time programming costs of $6 million. The Department would need 74 new positions at a cost about $8.5 million per year.

F: Reduce Sliding Scale per Barrel Credit from $8.00 to $4.00 (HB 3007 – Ways and Means)

Description: This bill changes the maximum the sliding scale per barrel credit in AS 43.55.024(j) depending on Alaska North Slope (ANS) oil prices. This tax credit is available for "legacy" oil produced on the North Slope. This bill reduces the amount of the tax credit for each taxable barrel of oil from $8 to $4 when the average gross value at the point of production for the month is less than $80 a barrel. The bill scales down the tax credit amount when the average gross value at the point of production for a month is $80 or more. Under the bill, the amount of the tax credit for a taxable barrel of oil would be zero if the average gross value at the point of production for the month is $110 or more.

First Full Year Impact: $174.0 million in FY 2023

Costs: There are no incremental costs to implement this change.

G: Petroleum Property Tax (SB 13 – BEGICH)

Description: The state levies a tax at a rate of 20 mills (2%) of the assessed value. The tax paid to a municipality on oil and gas property acts as a credit toward the payment to the state, reducing state revenue by the tax levied in those municipalities. This bill increases the tax by 10 mills (1%) but does not allow the additional tax to be used as a credit for municipalities. This tax would reduce Corporate Income tax as well as Oil and Gas Production Tax because property tax payments are a deductible expenditure for those tax types.

First Full Year Impact: $272.1 million in FY 2022 (Designated to specific purposes)

Using the Spring ANS price forecast, the estimate is that this could increase production tax revenue by $228 to $272 million per year from FY 2022 to FY 2027. The range is due to forecasted changes in production, oil prices, and anticipated company spending during this period.

Costs: There are no incremental costs to implement this change.

Other Revenue Options -

Revenue Options

A. Modernize Corporation Income Tax (CIT) statutes to better reflect business activity of highly digitized businesses
B. Require Oil & Gas pass-through entities to pay CIT
C. Generate revenues/Reduce Expenses by monetizing our carbon offsets
D. Implement a 2% broad-based sales tax
E. Modify maximum sliding scale per barrel credit from $8.00 to $5.00.
F. Establish legalized gambling in our State: Internet gaming, sports betting, lottery, and casinos
G. Use of Federal Funds for revenue replacement
H. Draw from the ERA as a Bridge/Transition fund

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A: Digital Business Corporate Income Tax

Description: The digital revolution has changed our economic reality. This option is to modernize the Corporate Income Tax (CIT) statutes by adding a new apportionment methodology that is specific to e-commerce. The new apportionment methodology is intended to incorporate all types of e-commerce to include revenues generated from on-line purchases, TV streaming, online advertising, consumer data sales, music, video, software as a service, app purchases, etc. An apportionment methodology that is based on a single factor: US sales apportioned to Alaska based on Alaska sales will capture these lost revenues.

New Revenue Estimation: The preliminary estimate is that this could **generate $70 to $90 million of annual revenues** to the State.

Costs: Implementation costs have not been evaluated yet and are considered **TBD**. The system will need to be updated and will likely require one additional auditor to educate taxpayers.

B: Expand Corporate Income Tax to Oil and Gas Pass-through Entities

Description: This option proposes to tax oil and gas pass-through entities at the same rate as the current Corporate Income Tax on C-Corporations. This option defines "entities" to mean partnerships, S-Corporations, LLCs with a single owner that is treated as a disregarded entity, and other unincorporated entities. This option would apply to any business who files a return, claim for credit or report under AS 43.55 (oil and gas production tax).

First Full Year Impact: $43 million in FY 2022 (Spring Forecast)

Using our July 2021 ANS price update as the basis, the estimate is that this could increase corporate income revenue by $47 to $61 million per year from FY 2022 to FY 2030. The FY 2022 estimate includes retroactive application to 1/1/2021. The range is due to forecasted changes in production, oil prices, and anticipated company profitability this period.

Costs: There are one-time programming costs of $0.8 million.

C: Carbon Offset Revenue Generation

Description: A newly emerging revenue opportunity is a Carbon Offset Program. This can be related to cap-and-trade systems in other jurisdictions, or to company or individual voluntary carbon reductions. Under this proposal, Alaska would place select SOA lands, i.e., forest land, into a carbon offset program in lieu of development and receive revenue from companies or individuals in exchange for associated carbon offset credits. Tax credit certificate holders will have an option to exchange the value of certificates for carbon offsets and can manage monetization of the offsets anywhere in the world.

New Revenue Estimation: The very preliminary estimate is that this could **generate $1.3 to $25 million of annual revenues** to the State. DOR and DNR are currently evaluating the details of the program that include lands, inventory of carbon offset, value of the carbon and the amount of Alaska carbon offsets the global market can absorb.

Costs: Implementation and annual administration costs have not been evaluated yet and are considered **TBD**.

C: Carbon Offset Revenue Generation

Benefits of Carbon Offset Revenue Program

A. Enables select Alaska lands to be placed into global registry programs where carbon offsets can be monetized and generate revenues

B. Establishes a program that enables the SOA to communicate responsible development and management of our lands to public, especially banks that prohibit investment in Alaska Arctic oil and gas projects.

C. Provides a carbon offset valuation of oil/gas tax certificates that positions holders of the credits to obtain the offset value instead of payment of SOA liability. Holders may then monetize in a manner that meets its ESG policies, offsets carbon taxes that may be required in other jurisdictions, or offsets to be carbon neutral.

D: State Sales Tax (styled on South Dakota Sales & Use Tax)

Description: A tax on purchase price on the sales of goods and services to consumers and businesses, taxing a range of activities similar to that of the South Dakota Sales & Use Tax. This is a very broad-based tax that extends to a wide range of services and business inputs. There are few exemptions, which includes prescriptions and medical equipment.

First Full Year Impact: **$320 million per 1% levied in FY 2023**

Costs: There are one-time programming costs of $6 million. The Department would need 74 new positions at a cost about $8.5 million per year.

D: State Sales Tax (styled on Wyoming Sales & Use Tax)

Description: A tax on the purchase price on the sales of goods and services to consumers and businesses, taxing a range of activities similar to that of the Wyoming Sales & Use Tax. This is a broad-based tax that extends to many, but not all, services and business purchases. Exemptions include groceries, prescriptions, and medical equipment

First Full Year Impact: **$150 million per 1% Levied in FY 2023**

Costs: There are one-time programming costs of $6 million. The Department would need 74 new positions at a cost about $8.5 million per year.

D: State Sales Tax (a note on exemptions)

Is It Taxed or Exempted?	South Dakota	Wyoming
Clothing	TAXED	TAXED
Groceries	TAXED	EXEMPT
Prepared (Cooked) Food	TAXED	TAXED
Prescription Drugs / Medical Equipment	EXEMPT	EXEMPT
Over the Counter Drugs / Medical Equipment	TAXED	TAXED
Gas / Heating Oil / Electricity	TAXED	TAXED
Business-to-Business Final Purchases	TAXED	TAXED
Business-to Business Purchases for Resale	EXEMPT	EXEMPT
Business-to-Business Services	TAXED	EXEMPT
Services to Consumers	TAXED	TAXED
Oilfield Services	TAXED	*VARIES*

E: Reduce Sliding Scale per Barrel Tax Credit from $8.00 to $5.00

Description: This option enables an adjustment to the production tax value for the sliding scale per barrel credit in AS 43.55.024(j). This credit ranges from $0 to $8 per barrel depending on Alaska North Slope (ANS) oil prices. This tax credit is available for "legacy" oil produced on the North Slope. The option reduces the amount of the tax credit for each taxable barrel of oil from $8 to $5 when the average gross value at the point of production for the month is less than $80 a barrel. The bill scales down the tax credit amount when the average gross value at the point of production for a month is $80 or more. Under the bill, the amount of the tax credit for a taxable barrel of oil would be zero if the average gross value at the point of production for the month is $120 or more.

First Full Year Impact: $94 million in FY 2023 (Spring Forecast)

Using our July 2021 ANS price update as the basis, the estimate is that this could increase production tax revenue by $110 to $440 million per year from FY 2022 to FY 2030. The range is due to forecasted changes in production, oil prices, and anticipated company spending during this period.

Costs: There are no incremental costs to implement this change.

F: Gaming: Casinos, Lotteries, Internet gaming

Description: Establish the Alaska Gaming Corporation which would have broad authority to determine the structure, management, and games of the corporation. Games could potentially include single- and multi-jurisdiction draw games, instant tickets, sports betting, keno, video lottery terminals, and casinos.

First Full Year Impact in FY 2023:
State Lottery and Internet Gambling: **$68.8 million**

First Full Year Impact in FY 2025:
Casinos and Video Gaming Terminals: **$75.3 million**
All Gaming Options: **$144.1 million**

Costs: There are one-time programming costs of $0.3 million. The Department would need four additional positions at a cost about $0.5 million per year. These are for Departmental costs only. Additionally, the Alaska Gaming Corporation would require approximately $4.0 million annually with $2 million in start-up costs.

G: Use of Federal Offsets for Revenue Replacement

The American Rescue Plan Act's (ARPA) Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) provided $350 billion for eligible state, local, territorial, and Tribal governments to respond to the COVID-19 emergency and bring back jobs. The State of Alaska was allocated $1.011 billion from this source. The following is a list of allowable uses

- Support urgent COVID-19 response efforts to continue to decrease spread of the virus and bring the pandemic under control
- Replace lost revenue for eligible state governments
- Support immediate economic stabilization for households and businesses
- Address systemic public health and economic challenges that have contributed to the inequal impact of the pandemic

Currently, the legislature has allocated approximately half (~$500M) of their allotment, electing to use $250.0M for revenue replacement in FY2022.

A portion of the remaining ~$500M in funds could be used to offset general fund spending and provide one-time fiscal relief

H: Bridge Fund Usage

- A one time draw from the Permanent fund to ensure the Fund is permanently protected in the Constitution.
- Permanent Fund Earnings ~$18.6 billion
- Buys valuable time for measures to be implemented
- Malan Rietveld - Director of the Investment Institute:
  - Ensuring the long-term sustainability of an endowment is far more important than an over-draw in any one particular year
- Other endowments are considering one-time increases in draws to capitalize on exceptional market performance:
  - Harvard's $42 billion endowment increased from 5% to 7.5% on one-time basis
    - https://www.thecrimson.com/article/2021/5/3/draw-further-endowment-fy22/
    - https://www.nytimes.com/2020/06/02/arts/endowments-coronavirus.html

Questions?