Department of Revenue

Amendment Proposals and Statutory proposals

1. Budgetary- Representative Seaton-

    Tax division

2. Budgetary – Representative Seaton –

    Mental Health Trust

3. Statutory Recommendation – Representative Seaton –

    Allowable Absences

4. Statutory Recommendation – Representative Sullivan-Leonard

    PFD Paperless Applications

5. Statutory Recommendations – Representative Seaton

    Fisheries Tax Distribution

6. Statutory Recommendation – Representative Seaton

    Indirect Expenditure: Fisheries Tax Reduced Rate

7. Statutory Recommendation – Representative Seaton

    Indirect Expenditure: Education Tax Credit

8. Statutory Recommendation – Representative Seaton

    Indirect Expenditure: Commercial Passenger Vessel – Local Levies

9. Statutory Recommendation – Representative Seaton

    Indirect Expenditure: Timely Filing Credit
    Indirect Expenditure: Commercial Passenger Vessel Taxes – 72 Hour Exemption

10. Statutory Recommendation – Representative Seaton

    Indirect Expenditure: Small Brewery Reduced Rate

11. Statutory Recommendation – Representative Seaton

    Indirect Expenditure: Mining. Interim Study Group.

12. Statutory Recommendation – Representative Seaton

    Indirect Expenditure: In State Refinery Tax Credit

13. Statutory Recommendation – Representative Seaton
    Indirect Expenditure: Corporate Income Tax Credits

1

2017 SESSION OPERATING BUDGET AMENDMENT PROPOSAL

OFFERED IN: The House Finance Subcommittee – Department of Revenue

TO: HB 57

OFFERED BY: Representative Seaton

DEPARTMENT: Department of Revenue
APPROPRIATION: Taxation and Treasury
ALLOCATION: Tax Division

ADD: $246,000
(UGF) 1004
Personal Services

POSITIONS: ADD:
2 PFT positions
Corporate Tax income Auditor III

EXPLANATION: Increase the corporate income tax auditing staff to capture additional revenue that is currently foregone due to lack of staff resources. Currently the tax system is identifying audit leads that the division lacks the staff time to investigate. Estimated additional revenue of $500,000 per auditor.

②

2017 SESSION OPERATING BUDGET AMENDMENT PROPOSAL

OFFERED IN: The House Finance Subcommittee- Department of Revenue

TO: HB 59

OFFERED BY: Representative Seaton

DEPARTMENT: Department of Revenue
APPROPRIATION: Alaska Mental Health Trust Authority
ALLOCATION: Mental Health Trust Operations

ADD: $150,000
1180 A/D T&P Fd (DGF)

EXPLANATION:

This amendment in the amount of $150,000 is critical to fully fund and maintain the capacity of the Institute for Circumpolar Health Studies to continue to develop, implement and evaluate Fetal Alcohol Spectrum Disorder (FASD) prevention strategies and to continue the FASD media campaign, which has be instrumental in the dissemination of FASD prevention messaging.

UAA Institute for Circumpolar Health Studies

FAS/D Prevention
Pregnancy Test Dispenser Messaging Study

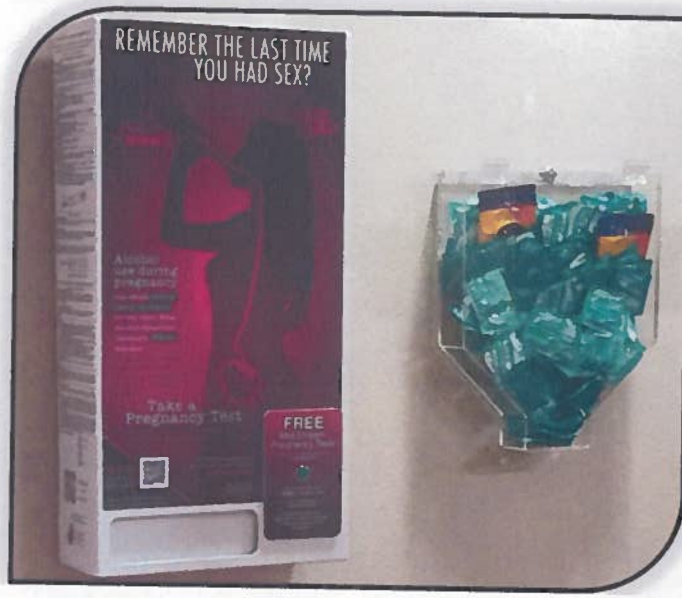
Background

Alaska has the **highest incidence rate** of Fetal Alcohol Spectrum Disorders in the United States with **over 120** diagnosed every year.[1] According to the Alaska Department of Health and Social Services, each child diagnosed with FAS/D will cost the State of Alaska **$850,000 to $4.2 million** from age 0-18. Alcohol use during pregnancy is **the leading preventable cause** of birth defects and developmental disabilities in the United States. Unfortunately, many women do not know they are pregnant when consuming alcohol. **Over half** of all pregnancies in Alaska **are unintended.**[2]

Study Hypothesis and Design

The study hypothesized that linking FAS/D education messages with pregnancy test dispensers in bars/restaurants serving alcohol would promote awareness of FAS/D risks associated with consuming alcohol while pregnant. The study was designed to conduct a rigorous evaluation of the feasibility and utility of this strategy.

- Matched Pairs design [Dispenser + Poster sites were compared to Poster only sites] in seven communities across Alaska (Anchorage/Fairbanks + Juneau; Homer/Dillingham; and Kodiak/Nome).
- Baseline and six-month follow-up survey data documenting FAS/D knowledge, attitudes, and behaviors was collected.



Dispenser + Poster Display and Associated Condom Dispenser

Results

- A significant sample size of **2,147 women** participated in the study with a follow-up response rate of 61%.
- A total of **10,825** pregnancy tests were distributed throughout the study.
- **576 women** reported they *may have been pregnant* in the last 6 months, **70%** reported consuming alcohol.
- **95 women** respondents reported they *were currently pregnant.* **18%** reported they **still** consume alcohol. The national average is 7%.[3]
- **42 women** reported **learning they were pregnant** as the *result* of taking a pregnancy test from a dispenser.
- The **pregnancy test dispenser group scored significantly higher** than the poster group, indicating *a better understanding* of the FAS/D risks and harms.

Conclusions

★ ***Data suggests combining FAS/D education messaging with a pregnancy test dispenser is an <u>effective</u> FAS/D prevention messaging strategy.***

Recommendations

1) Expand the use of pregnancy test dispensers as an FAS/D prevention messaging strategy.
2) Promote efforts addressing social norms related to alcohol use and FAS/D prevention.
3) Clarify server's right to refuse service related to providing alcohol to pregnant women.
4) Utilize the newly developed Windsor-Van Wyck FAS/D Risk Assessment Tool in other targeted venues.
5) Support follow-up longitudinal studies with the cohort of women participants (2,147).

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[1] Alaska Department of Health & Social Services (2010) FASD Fact Sheet.
[2] Kost, K. Unintended Pregnancy Rates at the State Level.
[3] Center for Disease Control BRFSS Data

3

2017 SESSION OPERATING BUDGET STATUTORY CHANGE PROPOSAL

OFFERED IN: The House Finance Subcommittee for Department of Revenue

TO: AS 43.23.008

OFFERED BY: Representative Seaton

RECOMMENDED STATUTE CHANGE:
The State Affairs Committee consider legislation repealing allowable absences from AS 43.23.008.

EXPLANATION: This year alone the state issued over 25,000 dividend checks to individuals who were out of the state for more than 180 days but who qualified under one of 17 allowable absences. However according to study done by the Permanent Fund Division, many of those that claim allowable absences never returned to the state. For those accompanying others who qualified for an allowable absence, 81% did not return to Alaska. 66% of active duty military members did not return and 64% of students. From 1996-2005, $181,790,472 was paid out to recipients with allowable absences who never returned to the state.
In addition to the amount of Permanent Fund Dividend money that is being sent out of state, 17% of all appeals through the Permanent Fund Division relate directly to allowable absences.

STATE OF ALASKA

DEPARTMENT OF REVENUE

PERMANENT FUND DIVIDEND DIVISION

FRANK MURKOWSKI, GOVERNOR

State Office Building
PO Box 110460
Juneau, AK 99811-0460
Telephone : 907-465-2323
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December 9, 2005

The Honorable Bruce Weyhrauch
Alaska State House of Representatives
Alaska State Capitol
Juneau, AK 99801-1182

File
state affairs
HB273

Dear Representative Weyhrauch:

In last session's hearings on HB 273, PFD Delayed Payments, I committed the division to an updated study of the return rates for PFD recipients who are absent from the state for more than 180 days.

The new study is enclosed. It was designed to be statistically valid at the 95% confidence level. The bottom line indicates that approximately $18 million dollars is paid each year to individuals who are absent from the state and never return.

I would be happy to meet with you or your staff to go over the study in detail.

Sincerely,

Sharon Barton

Sharon Barton
Director

cc: Representative Paul Seaton, Chair
House State Affairs Committee
Tom Boutin, Deputy Commissioner
Jerry Burnett, Administrative Services Director

Enclosure

Permanent Fund Dividend
HB 273
2005 Absentee Return Study
Methodology & Summary

Using a 1996 statistically valid applicant sample (95% confidence level and interval level of five) of individuals in four allowable absence categories who were absent from the state for more than 180 days, the division determined the percent of individuals who did not return to Alaska by 2005.

The respective percentages by category were applied to all individuals in each absence category for the years 1996-2005 to project the total cost of dividends paid to individuals who would not return to Alaska.

A ten year period is used for the study because Alaskans may only continue to receive the PFD for ten years while allowably absent from the state.

The "did not return" percentages for the sample are as follows:

Accompanying	81%
Students	64%
Active Military	66%
Medical	40%

Applying these percentages to each year 1996-2005 indicates that a total of $181,790,472 was paid over the ten year period to individuals who have not or will not return to the state, an average of $18.2 million each year.

Permanent Fund Dividend
2005 Projection
Individuals absent for more than 180 days who will not return over a ten year period

Absence Category/Year	Individuals Absent	% did not return in sample	Calculated total did not return	Dividend Amount	Total paid
Accompanied					
1996	4,105	0.81	3,325	$9,427	$31,344,781
1997	4,127	0.81	3,343	$1,297	$4,334,165
1998	4,248	0.81	3,441	$1,541	$5,301,983
1999	5,335	0.81	4,321	$1,770	$7,648,098
2000	7,011	0.81	5,679	$1,964	$11,152,584
2001	7,680	0.81	6,221	$1,850	$11,510,222
2002	7,525	0.81	6,095	$1,541	$9,391,317
2003	7,633	0.81	6,183	$1,108	$6,847,744
2004	7,506	0.81	6,080	$920	$5,592,498
2005	6,864	0.81	5,560	$846	$4,703,625
Total	62,034		50,248		$97,827,018
Students					
1996	4,142	0.64	2,651	$1,131	$2,997,297
1997	4,446	0.64	2,845	$1,297	$3,689,227
1998	4,773	0.64	3,055	$1,541	$4,706,957
1999	5,085	0.64	3,254	$1,770	$5,759,767
2000	5,443	0.64	3,484	$1,964	$6,841,146
2001	5,611	0.64	3,591	$1,850	$6,644,429
2002	5,659	0.64	3,622	$1,541	$5,580,263
2003	5,534	0.64	3,542	$1,108	$3,922,712
2004	5,200	0.64	3,328	$920	$3,061,228
2005	4,873	0.64	3,119	$846	$2,638,437
Total	50,766		32,490		$45,841,462
Active Duty					
1996	2,601	0.66	1,717	$1,131	$1,940,993
1997	2,813	0.66	1,857	$1,297	$2,407,130
1998	2,992	0.66	1,975	$1,541	$3,042,807
1999	3,437	0.66	2,268	$1,770	$4,014,740
2000	4,308	0.66	2,843	$1,964	$5,583,804
2001	4,805	0.66	3,171	$1,850	$5,867,793
2002	4,684	0.66	3,091	$1,541	$4,763,167
2003	4,901	0.66	3,235	$1,108	$3,582,580
2004	4,826	0.86	3,185	$920	$2,929,838
2005	4,920	0.66	3,247	$846	$2,747,131
Total	40,287		26,589	$13,966	$36,879,983
Medical					
1996	144	0.4	58	$1,131	$65,127
1997	138	0.4	55	$1,297	$71,569
1998	131	0.4	52	$1,541	$80,742
1999	134	0.4	54	$1,770	$94,863
2000	221	0.4	88	$1,964	$173,605
2001	261	0.4	104	$1,850	$193,169
2002	285	0.4	114	$1,541	$175,647
2003	299	0.4	120	$1,108	$132,464
2004	349	0.4	140	$920	$128,410
2005	374	0.4	150	$845	$126,412
Total	2,336		934	$13,965	$1,242,009
Total - All Categories/Ten years					$181,790,472

(4)

2017 SESSION OPERATING BUDGET STATUTORY CHANGE PROPOSAL

OFFERED IN: The House Finance Subcommittee/Department of Revenue

TO: HB 57 / HB 59

OFFERED BY: Representative Colleen Sullivan-Leonard

RECOMMENDED STATUTE CHANGE:
That the State Affairs Committee consider legislation to transition to a completely paperless environment for the Permanent Fund Dividend Application with option for Alaskans who opt for a paper application be assessed no filing fee.

EXPLANATION: This change would streamline the application process and would *not* cause undue hardship for those without the financial means to have a computer and/or internet service at home. Local libraries, senior centers, local LIOs and other public facilities offer free use of computers and internet for those who are not fortunate enough to have a computer. According to the DOR, a savings of approximately \$120,705.57 would be found in the reduction of printing and postage and, overall "workload would be significantly reduced allowing for limited seasonal staffing. The eight seasonal positions employed by the division collectively account for roughly \$239K in personal services." This amount would also be reduced in a significant amount.

(5)

2017 SESSION OPERATING BUDGET STATUTORY CHANGE PROPOSAL

OFFERED IN: The House Finance Subcommittee for Department of Revenue

TO: AS 43.75

OFFERED BY: Representative Seaton

RECOMMENDED STATUTE CHANGE:
The House Fisheries committee consider legislation to reconsider the amount of Fisheries Business Taxes and Fisheries Resource Landing Taxes that are redistributed from the state to local governments under AS 43.75.130, and to direct the revenue from that change to the Alaska Department of Fish and Game.

EXPLANATION:

Currently 50% of revenues from fisheries taxes collected under AS 43.75 are paid from the state to local governments based on where the taxes are collected. $28 million is distributed to communities annually. However management of these fisheries for sustainable harvest is the responsibility of the State Department of Fish and Game. To ensure continued sustainable harvests of those fisheries that generate that revenue, it may be appropriate to consider redirecting a portion of this state revenue from the local municipalities to the direct management of the resource.

Table 2
2016 Shared Amounts by Municipality by Tax and License Type

	Total	Aviation Fuel	* CPV Excise	Electric Cooperative	Fisheries Business	Fishery Landing ***	Liquor License	Telephone Cooperative
Municipality								
Anchorage	$1,406,832	$18,158	$54,110	$642,208	$122,012	$0	$388,100	$182,244
Juneau	4,934,856	84,672	4,460,365	0	$312,519	0	77,300	0
Sitka	1,137,579	0	218,350	0	$879,793	14,311	25,125	0
Skagway	4,043,845	0	4,028,545	0	$0	0	15,300	0
Wrangell	280,608	0	38,845	0	233,563	0	8,200	0
Total Municipalities	11,803,720	102,830	8,800,215	642,208	1,547,887	14,311	514,025	182,244
Borough								
Aleutians East	1,641,745	0	0	0	1,606,523	35,222	0	0
Bristol Bay	1,072,691	0	0	9,990	1,004,436	0	625	57,640
Denali	47,702	0	0	17,555	0	0	0	30,147
Fairbanks North Star	429,444	0	0	429,248	196	0	0	0
Haines	339,555	0	206,430	567	121,208	0	11,350	0
Kenai Peninsula	1,172,433	0	474,225	152,672	541,757	0	0	3,779
Ketchikan Gateway	2,365,736	24,915	2,141,633	0	199,188	0	0	0
Kodiak Island	1,299,763	0	30,255	16,987	1,197,033	55,488	0	0
Lake and Peninsula	69,855	0	0	403	69,452	0	0	0
Matanuska-Susitna	757,743	0	0	200,342	181	0	0	557,220
North Slope	411,125	0	0	0	0	0	0	411,125
Northwest Arctic	0	0	0	0	0	0	0	0
Petersburg**	344,548	0	0	0	336,848	0	7,700	0
Yakutat	221,225	0	0	0	198,800	15,925	6,500	0
Total Boroughs	10,173,565	24,915	2,852,543	827,764	5,275,622	106,635	26,175	1,059,911

Table 2
2016 Shared Amounts by Municipality by Tax and License Type

City	Total	Aviation Fuel	* CPV Excise	Electric Cooperative	Fisheries Business	Fishery Landing ***	Liquor License	Telephone Cooperative
Adak	150,945	0	0	0	44,636	103,209	3,100	0
Akhiok	0	0	0	0	0	0	0	0
Akutan	973,202	0	0	0	973,202	0	0	0
Alakanuk	1,019	0	0	1,019	0	0	0	0
Aleknagik	4,325	0	0	464	67	0	0	3,794
Ambler	4,751	0	0	643	0	0	0	4,108
Anderson	3,456	0	0	874	0	0	0	2,582
Angoon	786	0	0	786	0	0	0	0
Anvik	198	0	0	198	0	0	0	0
Atka	85,463	0	0	0	31,852	53,611	0	0
Barrow	24,994	0	0	24,994	0	0	0	0
Bethel	23,825	0	0	19,925	0	0	3,900	0
Brevig Mission	534	0	0	534	0	0	0	0
Buckland	5,225	0	0	0	0	0	0	5,225
Chefornak	0	0	0	0	0	0	0	0
Chevak	1,185	0	0	1,185	0	0	0	0
Chignik	33,372	0	0	0	33,372	0	0	0
Chuathbaluk	117	0	0	117	0	0	0	0
Clark's Point	292	0	0	0	0	0	0	292
Coffman Cove	869	0	0	0	869	0	0	0
Cordova	953,216	0	0	13,527	709,305	4,330	11,950	214,104
Craig	155,245	0	0	0	150,045	0	5,200	0
Deering	3,431	0	0	0	0	0	0	3,431
Delta Junction	7,185	0	0	7,185	0	0	0	0
Dillingham	237,389	0	0	8,185	167,849	0	4,000	57,355
Eek	419	0	0	419	0	0	0	0
Egegik	29,930	0	0	0	29,930	0	0	0
Ekwok	205	0	0	205	0	0	0	0
Elim	598	0	0	598	0	0	0	0
Emmonak	19,434	0	0	1,890	17,544	0	0	0
Fairbanks	203,489	0	0	113,289	0	0	90,200	0
False Pass	25,814	0	0	0	25,814	0	0	0
Fort Yukon	0	0	0	0	0	0	0	0
Galena	2,500	0	0	0	0	0	2,500	0
Gambell	885	0	0	885	0	0	0	0
Goodnews Bay	320	0	0	320	0	0	0	0

Table 2
2016 Shared Amounts by Municipality by Tax and License Type

	Total	Aviation Fuel	* CPV Excise	Electric Cooperative	Fisheries Business	Fishery Landing ***	Liquor License	Telephone Cooperative
Grayling	276	0	0	276	0	0	0	0
Gustavus	540	0	0	0	540	0	0	0
Holy Cross	286	0	0	286	0	0	0	0
Homer	97,139	0	27,055	24,878	20,456	0	24,750	0
Hoonah	816,764	0	722,575	2,128	87,436	0	4,625	0
Hooper Bay	1,545	0	0	1,545	0	0	0	0
Houston	24,707	0	0	6,455	96	0	3,850	14,306
Huslia	489	0	0	489	0	0	0	0
Hydaburg	149	0	0	0	149	0	0	0
Kachemak	1,194	0	0	1,194	0	0	0	0
Kake	1,012	0	0	1,012	0	0	0	0
Kaltag	291	0	0	291	0	0	0	0
Kasaan	0	0	0	0	0	0	0	0
Kenai	221,229	7,249	0	32,165	161,515	0	20,300	0
Ketchikan	2,385,068	0	2,141,633	0	199,435	0	44,000	0
Kiana	5,703	0	0	749	0	0	0	4,954
King Cove	388,874	0	0	0	386,374	0	2,500	0
Kivalina	5,503	0	0	571	0	0	0	4,932
Klukwan	0	0	0	0	0	0	0	0
Klawock	3,171	0	0	0	1,671	0	1,500	0
Kobuk	2,838	0	0	284	0	0	0	2,554
Kodiak	685,304	7,663	30,255	45,637	525,670	52,979	23,100	0
Kotlik	937	0	0	937	0	0	0	0
Kotzebue	74,479	0	0	9,920	0	0	1,500	63,059
Koyuk	595	0	0	595	0	0	0	0
Larsen Bay	37,570	0	0	0	37,570	0	0	0
Lower Kalskag	261	0	0	261	0	0	0	0
Manokotak	1,734	0	0	0	0	0	0	1,734
Marshall	715	0	0	715	0	0	0	0
Mekoryuk	415	0	0	415	0	0	0	0
Mountain Village	4,330	0	0	1,351	2,979	0	0	0
Nenana	2,475	0	0	2,475	0	0	0	0

Table 2
2016 Shared Amounts by Municipality by Tax and License Type

	Total	Aviation Fuel	* CPV Excise	Electric Cooperative	Fisheries Business	Fishery Landing ***	Liquor License	Telephone Cooperative
New Stuyahok	649	0	0	649	0	0	0	0
Newhalen	434	0	0	434	0	0	0	0
Nightmute	303	0	0	303	0	0	0	0
Nome	20,600	0	0	0	0	0	20,600	0
Nondalton	398	0	0	398	0	0	0	0
Noorvik	7,035	0	0	942	0	0	0	6,093
North Pole	26,518	0	0	18,422	196	0	7,900	0
Nulato	459	0	0	459	0	0	0	0
Nunapitchuk	591	0	0	591	0	0	0	0
Old Harbor	2,896	0	0	381	6	2,509	0	0
Ouzinkie	0	0	0	0	0	0	0	0
Palmer	173,348	1,276	0	23,627	0	0	14,800	133,645
Pilot Station	857	0	0	857	0	0	0	0
Pelican	473	0	0	0	473	0	0	0
Petersburg**	0	0	0	0	0	0	0	0
Pilot Point	0	0	0	0	0	0	0	0
Platinum	16,174	0	0	0	16,174	0	0	0
Port Lions	524	0	0	524	0	0	0	0
Port Alexander	238	0	0	0	238	0	0	0
Port Heiden	6,149	0	0	0	6,149	0	0	0
Quinhagak	1,043	0	0	1,043	0	0	0	0
Russian Mission	469	0	0	469	0	0	0	0
Saint George	0	0	0	0	0	0	0	0
Saint Mary's	1,056	0	0	1,056	0	0	0	0
Saint Michael	843	0	0	843	0	0	0	0
Saint Paul	896,427	0	0	0	879,802	16,625	0	0
Sand Point	238,143	0	0	0	200,421	35,222	2,500	0
Savoonga	1,040	0	0	1,040	0	0	0	0
Scammon Bay	785	0	0	785	0	0	0	0
Selawik	8,325	0	0	1,312	0	0	0	7,013
Seldovia	5,080	0	0	1,080	0	0	4,000	0
Seward	744,055	0	447,170	0	280,935	0	15,950	0
Shageluk	175	0	0	175	0	0	0	0
Shaktoolik	501	0	0	501	0	0	0	0
Shishmaref	804	0	0	804	0	0	0	0
Shungnak	4,026	0	0	443	0	0	0	3,583

Table 2
2016 Shared Amounts by Municipality by Tax and License Type

	Total	Aviation Fuel	* CPV Excise	Electric Cooperative	Fisheries Business	Fishery Landing ***	Liquor License	Telephone Cooperative
Soldotna	**47,999**	1,262	0	26,151	586	0	20,000	0
Stebbins	**730**	0	0	730	0	0	0	0
Tanana	**0**	0	0	0	0	0	0	0
Teller	**383**	0	0	383	0	0	0	0
Tenakee Springs	**0**	0	0	0	0	0	0	0
Togiak	**106,112**	0	0	1,424	30,639	74,049	0	0
Toksook Bay	**827**	0	0	827	0	0	0	0
Unalakleet	**2,072**	0	0	2,072	0	0	0	0
Unalaska	**11,820,247**	0	8,155	0	4,018,888	7,776,504	16,700	0
Upper Kalskag	**395**	0	0	395	0	0	0	0
Valdez	**505,392**	0	0	29,854	290,247	0	15,050	170,241
Wales	**277**	0	0	277	0	0	0	0
Wasilla	**254,732**	1,165	0	46,855	84	0	28,400	178,228
Whittier	**809,009**	0	721,325	3,638	78,446	0	5,600	0
Total Cities	**23,428,804**	**18,615**	**4,098,168**	**501,615**	**9,411,660**	**8,119,038**	**398,475**	**881,233**
Grand Total	**$45,406,089**	**$146,360**	**$15,750,926**	**$1,971,587**	**$16,235,169**	**$8,239,984**	**$938,675**	**2,123,388**
Number of Communities Shared With	**125**	**8**	**16**	**88**	**54**	**13**	**36**	**28**

* Commercial Passenger Vessel

** Petersburg Borough, a non-unified home borough, was incorporated on January 13, 2013.

*** FY16 includes adjustments from prior year undersharing.

6

2017 SESSION OPERATING BUDGET STATUTORY CHANGE PROPOSAL

OFFERED IN: The House Finance Subcommittee – Department of Revenue

TO: AS43.75.015(b)(d), AS43.77.010(1)

OFFERED BY: Representative Seaton

RECOMMENDED STATUTE CHANGE:

The House Finance Subcommittee for the Department of Revenue recommends that the Fisheries Committee consider a bill that would repeal or amend the following indirect expenditures.

Fisheries Business Tax – Reduced Tax Rate for Small Fish Processors

Fisheries Business Tax – Reduced Fisheries Business Tax Rate for Developing Fisheries

Fisheries Resource Landing Tax - Reduced Fishery Resource Landing Tax Rate for Developing Fisheries

EXPLANATION: Explain the purpose/impact of the proposed statutory change.

Recommend revisiting the reduced rate to evaluate its effectiveness. Metrics should be established and reported to the legislature to determine the effectiveness of this credit.

Revenue

Applicable Program
Fisheries Business Tax

Indirect Expenditure Name
Reduced Tax Rate for Small Fish Processors

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Fishers processing on vessels 65 feet or less are subject to a 3% tax rate instead of the regular floating rate of 5%.

(2) Authorizing Statute Regulation or Other Authority
AS 43.75.015 (d), AS 43.75.020 (c)

(3) Year Enacted
2004

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The Legislature adopted the reduced rate provision to encourage direct marketing and the production of value-added products.

(6) Public Purpose
To support small business development and direct marketers.

(7) Estimated Revenue Impact
FY 2009 - $80,928
FY 2010 - $51,704
FY 2011 - $70,314
FY 2012 - $75,549
FY 2013 - $72,503
Note: the revenue impact given is pre-credit and includes both the state and municipal share. It is based on fishing year data; actual tax payments may differ from this estimate.

(8) Cost to Administer

(9) Number of Beneficiaries
88-111

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$72,503

(2) Estimate of Annual Benefit to Recipients
Indeterminate

(3) Legislative Intent Met?
Likely

(4) Should it be Continued, Modified or Terminated?
Recommend revisiting the reduced rate to evaluate its effectiveness at supporting small processors. Metrics should be established and reported to the legislature to determine the effectiveness of this credit.

Revenue

Applicable Program
Fisheries Business Tax

Indirect Expenditure Name
Reduced Fisheries Business Tax Rate for Developing Fisheries

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Fish species classified as "developing" are subject to tax rates of 1% for on-shore processors and 3% for floating processors instead of the regular rates of 3% and 5%, respectively. "Developing" species are annually designated by the commissioner of the department of fish and game under AS 16.05.050(a)(10).

(2) Authorizing Statute Regulation or Other Authority
AS 43.75.015(b)

(3) Year Enacted
1979, amended 1981

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The Legislature intended to encourage the development of new fisheries.

(6) Public Purpose
To encourage the development of new fisheries.

(7) Estimated Revenue Impact
FY 2009 - $99,279
FY 2010 - $123,870
FY 2011 - $105,675
FY 2012 - $133,873
FY 2013 - $102,010
Note: the revenue impact given is pre-credit and includes both the state and municipal share. It is based on fishing year data; actual tax payments may differ from this estimate.

(8) Cost to Administer

(9) Number of Beneficiaries
24-31

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$102,010

(2) Estimate of Annual Benefit to Recipients
Indeterminate

(3) Legislative Intent Met?
Likely

(4) Should it be Continued, Modified or Terminated?
Recommend revisiting the reduced rate to evaluate its effectiveness at developing new fisheries. Metrics should be established and reported to the legislature to determine the effectiveness of this credit.

Revenue

Applicable Program
Fisheries Resource Landing Tax

Indirect Expenditure Name
Reduced Fishery Resource Landing Tax Rate for Developing Fisheries

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Fish species classified as "developing" are subject to a tax rate of 1% rather than the regular rate of 3%. "Developing" species are annually designated by the commissioner of the department of fish and game under AS 16.05.050(a)(10).

(2) Authorizing Statute Regulation or Other Authority
AS 43.77.010(1)

(3) Year Enacted
1996

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The Legislature adopted the reduced rate provision to parallel a similar provision in the Fisheries Business Tax.

(6) Public Purpose
To encourage the development of new fisheries.

(7) Estimated Revenue Impact
FY 2009 - $239,079
FY 2010 - $200,790
FY 2011 - $279,138
FY 2012 - $264,781
FY 2013 - $351,339
Note: the revenue impact given is pre-credit and includes both the state and municipal share. It is based on fishing year data; actual tax payments may differ from this estimate.

(8) Cost to Administer

(9) Number of Beneficiaries
44-61

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$351,339

(2) Estimate of Annual Benefit to Recipients
Indeterminate

(3) Legislative Intent Met?
Likely

(4) Should it be Continued, Modified or Terminated?
Recommend reconsideration of the reduced rate to evaluate its effectiveness at developing new fisheries. Metrics should be established and reported to the legislature to determine the effectiveness of this credit.

7

2017 SESSION OPERATING BUDGET STATUTORY CHANGE PROPOSAL

OFFERED IN: The House Finance Subcommittee - Revenue

TO: AS43.20.014, AS43.55.019, AS43.56.018, and AS43.77.045

OFFERED BY: Representative Seaton

RECOMMENDED STATUTE CHANGE:

The House Finance Subcommittee for the Department of Revenue recommends that the House Education Committee consider a review of the terms of the Education Credit, and to consider reducing the terms of the Education Credit not to exceed 50% of the annual contribution.

EXPLANATION: Explain the purpose/impact of the proposed statutory change.

Currently the credit is available for up to 50% of the annual contribution for the first $100.0, up to 100% of the next $200.0, and 50% of annual contributions beyond $300.0. The subcommittee recommends reducing the credit to no more than 50% of the contribution, regardless of the amount of the contribution.

This is a non-transferable credit applicable to the Corporate Income Tax, Fisheries Business Tax, Fishery Resource Landing Tax, Insurance Premium Tax, Title Insurance Premium Tax, Mining License Tax, Oil and Gas Production Tax, and the Oil and Gas Property Tax.

In calendar year 2015, taxpayers claimed credits for $11.2 million of contributions and received $7.4 million in credits. This amounts to the state bearing the cost of 66% of these contributions. In addition, some taxpayers may be able to deduct some donations from their federal taxes as charitable contributions. AS 43.20.014(d)(2) prohibits corporate income taxpayers from taking both credits, but other tax types do not have this provision.

The structure of the credit allows for an extremely generous benefit to taxpayers. A taxpayer making a $300,000 charitable contribution would receive a credit for $250,000 from the state - 83% of the value of the contribution. Coupled with a federal deduction, the entire cost of the donation may be borne by the state and federal government, rather than the taxpayer. That is not an incentive to donate, it is a transfer from government to these organizations. The 100% bracket in the credit should be eliminated, making the credit a flat 50% for any level of donation. In addition, the credit for tax types other than the corporate income tax should be modified to prohibit taxpayers from taking both the state and federal credits for the same activity.

Revenue

Applicable Program
Multiple Tax Programs

Indirect Expenditure Name
Education Credit

Department of Revenue Submission per AS 43.05.095

(1) Description of Provision
A non-transferable credit applicable to the Corporate Income Tax, Fisheries Business Tax, Fishery Resource Landing Tax, Insurance Premium Tax, Title Insurance Premium Tax, Mining License Tax, Oil and Gas Production Tax, and the Oil and Gas Property Tax. The credit is available for up to 50% of annual contributions up to $100,000, 100% of the next $200,000, and 50% of annual contributions beyond $300,000. The credit for any one taxpayer cannot exceed $5,000,000 annually across all eligible tax types. The credit is for contributions to qualified education purposes given in AS 43.20.014(a).

(2) Type
Credit

(3) Authorizing Statute, Regulation or Other Authority
AS 21.20.014, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, AS 43.77.045

(4) Year Enacted
1987, last amended 2014

(5) Sunset or Repeal Date
01-01-21

(6) Legislative Intent
The Legislature intended to encourage private businesses to make charitable contributions to support Alaskan schools.

(7) Public Purpose
To encourage private businesses that pay tax to contribute to Alaska educational institutions and facilities.

(8) Estimated Revenue Impact
FY 2011 - $2,909,066
FY 2012 - $3,375,825
FY 2013 - $7,188,502
FY 2014 - $7,498,403
FY 2015 - $7,430,524 (preliminary number based on incomplete data)

(9) Cost to Administer
No additional cost; is administered with current resources.

(10) Number of Beneficiaries / Who Benefits
Approximately 25-35 companies.

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$7,498,403

(2) Estimate of Annual Monetary Benefit to Recipients
$249,947

Revenue

Applicable Program
Multiple Tax Programs

Indirect Expenditure Name
Education Credit

Legislative Finance Analysis per AS 24.20.235

(3) Legislative Intent Met?
Yes

(4) Should it be Continued, Modified or Terminated?
Recommend modification. In calendar year 2015, taxpayers claimed credits for $11.2 million of contributions and received $7.4 million in credits. This amounts to the state bearing the cost of 66% of these contributions.

In addition, some taxpayers may be able to deduct some donations from their federal taxes as charitable contributions. AS 43.20.014(d)(2) prohibits corporate income taxpayers from taking both credits, but other tax types do not have this provision.

The structure of the credit allows for an extremely generous benefit to taxpayers. A taxpayer making a $300,000 charitable contribution would receive a credit for $250,000 from the state - 83% of the value of the contribution. Coupled with a federal deduction, the entire cost of the donation may be borne by the state and federal government, rather than the taxpayer. That is not an incentive to donate, it is a transfer from government to these organizations.

The 100% bracket in the credit should be eliminated, making the credit a flat 50% for any level of donation. In addition, the credit for tax types other than the corporate income tax should be modified to prohibit taxpayers from taking both the state and federal credits for the same activity.

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2017 SESSION OPERATING BUDGET STATUTORY CHANGE PROPOSAL

OFFERED IN: The House Finance Subcommittee Department of Revenue

TO: AS 43.52.255

OFFERED BY: Representative Seaton

RECOMMENDED STATUTE CHANGE:

The House Finance Subcommittee for the Department of Revenue recommends that the State Affairs Committee consider a bill that would repeal the following Indirect Expenditure (IE): **Commercial Passenger Vessel Taxes – Tax Reduction for Local Levies** Authorized under AS 43.52.255

EXPLANATION:
The intent of this program is to reduce the passenger fee to limit the total tax burden on passenger vessels. The program allows passenger vessel companies to deduct the local passenger fee from the state's passenger fee.

The recommendation is that passenger vehicle companies will no longer be allowed to deduct from their taxes the amount that communities (such as Juneau and Ketchikan) are able to charge independent of the state tax.

The result of this program as is results in foregone revenue to the state of more than $13.5 million annually.

Revenue

Applicable Program
Commercial Passenger Vessel Taxes

Indirect Expenditure Name
Tax Reduction for Local Levies

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
The cost of local passenger fees is deducted from the state's passenger fee.

(2) Authorizing Statute Regulation or Other Authority
AS 43.52.255

(3) Year Enacted
2010

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The Legislature intended to reduce the passenger fee to limit the total tax burden on passenger vessels.

(6) Public Purpose
To encourage cruise ship activity in Alaska by limiting the total tax burden.

(7) Estimated Revenue Impact
FY 2009 - Reduction not in effect
FY 2010 - Reduction not in effect
FY 2011 - $11,846,936
FY 2012 - $12,170,756
FY 2013 - $13,559,558

(8) Cost to Administer

(9) Number of Beneficiaries
Unknown

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$13,559,558

(2) Estimate of Annual Benefit to Recipients
In FY 2013, the benefit to Juneau was $7.3 million and the benefit to Ketchikan was $6.2 million.

(3) Legislative Intent Met?
Yes, to the extent that the head tax for most voyages is capped at $34.50.

(4) Should it be Continued, Modified or Terminated?
Recommend reconsideration. Allowing Juneau and Ketchikan to retain the local tax proceeds and receive the $5 port of call payment leaves the state with as little as $4.50 per passenger to spread among other ports of call. If this "grandfathered" tax reduction is retained, Juneau's and Ketchikan's eligibility for port of call payments should be reconsidered. If the deduction is eliminated, Juneau and Ketchikan would be on the same basis as other communities--they would have to determine whether the market will bear additional taxation.

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2017 SESSION OPERATING BUDGET STATUTORY CHANGE PROPOSAL

OFFERED IN: The House Finance Subcommittee - Revenue

TO: AS43.40.010(c), AS43.98.025(d), AS43.52.295(4)

OFFERED BY: Representative Seaton

RECOMMENDED STATUTE CHANGE:

The House Finance Subcommittee for the Department of Revenue recommends that the House Transportation Committee consider a bill(s) that would repeal or amend the following Indirect Expenditures (IE).

Motor Fuel Tax -Timely Filing Discount

Tire Fee - Timely Filing Credit

Commercial Passenger Vessel Taxes -72 Hour Threshold Voyage Exemption

EXPLANATION: Explain the purpose/impact of the proposed statutory change.

These programs need to be reviewed to determine if they continue to meet the intent for which they were founded. As an example, the committee can consider a late filing fee in lieu of timely filing for the Timely Filing Discount.

Revenue

Applicable Program
Motor Fuel Tax

Indirect Expenditure Name
Timely filing discount

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Gives a timely filing credit of 1% of the total monthly tax due to a maximum of $100.

(2) Authorizing Statute Regulation or Other Authority
AS 43.40.010 (c)

(3) Year Enacted
1951, last amended 1997

(4) Sunset or Repeal Date
None

(5) Legislative Intent
To encourage timely filing of motor fuel tax returns and provide an allowance to cover the accounting expense of filing timely monthly tax returns.

(6) Public Purpose
To encourage timely filing of tax returns.

(7) Estimated Revenue Impact
FY 2009 - $57,090
FY 2010 - $56,375
FY 2011 - $65,752
FY 2012 - $65,636
FY 2013 - $66,738

(8) Cost to Administer

(9) Number of Beneficiaries
81

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$66,738

(2) Estimate of Annual Benefit to Recipients
$100

(3) Legislative Intent Met?
Yes

(4) Should it be Continued, Modified or Terminated?
Recommend termination. Instead of a break for timely filing, recommend a penalty for late filing. Other state tax payers do not receive a discount for timely tax filing.

Revenue

Applicable Program
Tire Fee

Indirect Expenditure Name
Timely filing credit

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Sellers that remit the fees collected to the department within 30 days after the last day of the preceding calendar quarter may retain five percent of the amount collected, not to exceed $900 a quarter.

(2) Authorizing Statute Regulation or Other Authority
AS 43.98.025 (d)

(3) Year Enacted
2003

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The discount was intended to encourage timely remittance of taxes and to cover the cost of collecting the fee and filing the return.

(6) Public Purpose
To encourage timely filing of tax returns.

(7) Estimated Revenue Impact
FY 2009 - $77,712
FY 2010 - $75,845
FY 2011 - $74,985
FY 2012 - $71,427
FY 2013 - $65,684

(8) Cost to Administer

(9) Number of Beneficiaries
Unknown

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$65,684

(2) Estimate of Annual Benefit to Recipients
Indeterminate

(3) Legislative Intent Met?
Yes

(4) Should it be Continued, Modified or Terminated?
Recommend Termination. Instead of a break for timely filing, recommend a penalty for late filing. Other state tax payers do not receive a discount for timely tax filing.

Revenue

Applicable Program
Commercial Passenger Vessel Taxes

Indirect Expenditure Name
72 Hour Threshold Voyage Exemption

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Voyages on the state's marine waters 72 hours or less are excluded from the tax.

(2) Authorizing Statute Regulation or Other Authority
AS 43.52.295(4)

(3) Year Enacted
2010

(4) Sunset or Repeal Date
None

(5) Legislative Intent
To clarify the definition of "voyage" for purposes of the tax.

(6) Public Purpose
To encourage cruise ship activity in Alaska.

(7) Estimated Revenue Impact
FY 2009 - Exemption not in effect
FY 2010 - Exemption not in effect
FY 2011 - $1,414,500
FY 2012 - Unknown. Only voyages that exceed 72 hours are required to report.
FY 2013 - Unknown. Only voyages that exceed 72 hours are required to report.

(8) Cost to Administer

(9) Number of Beneficiaries
Unknown

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
Indeterminate

(2) Estimate of Annual Benefit to Recipients
Indeterminate

(3) Legislative Intent Met?
Unclear

(4) Should it be Continued, Modified or Terminated?
Recommend reconsideration. This exemption defines a voyage in Alaska. However, it has altered commercial passenger vessel behavior and created a loophole that reduces potential revenue to the state and municipalities.

2017 SESSION OPERATING BUDGET STATUTORY CHANGE PROPOSAL

OFFERED IN: The House Finance Subcommittee – Department of Revenue

TO: AS43.60.010(c)

OFFERED BY: Representative Seaton

RECOMMENDED STATUTE CHANGE:

The House Finance Subcommittee for the Department of Revenue recommends that the Labor and Commerce Committee consider a bill that would repeal or amend the following indirect expenditure.

Alcoholic Beverage Tax – Small Brewery Reduced Rate

EXPLANATION: Explain the purpose/impact of the proposed statutory change.

This reduced tax rate for small breweries was established in 2002 and results in loss revenue to the state of $2.6 million annually. The intent was to foster the development of breweries and brewpubs in Alaska. Recommend review of the level of the exemption to ensure that the intent of the program is being met.

Revenue

Applicable Program
Alcoholic Beverages Tax

Indirect Expenditure Name
Small Brewery Reduced Rate

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Brewers who have qualified with the federal government per 26 U.S.C. 5051(a)(2) and have been approved fiscally by DOR, pay a reduced rate of tax of 35 cents per us gallon on beer and malt beverages instead of the full tax rate of $1.07 per us gallon.

(2) Authorizing Statute Regulation or Other Authority
AS 43.60.010 (c)

(3) Year Enacted
2002

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The intent was to foster the development of breweries and brewpubs in Alaska.

(6) Public Purpose
To support in-state small breweries and brewpubs.

(7) Estimated Revenue Impact
FY 2009 - $1,745,356
FY 2010 - $2,045,142
FY 2011 - $2,278,933
FY 2012 - $2,451,673
FY 2013 - $2,602,999

(8) Cost to Administer
None

(9) Number of Beneficiaries
39

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$2,602,999

(2) Estimate of Annual Benefit to Recipients
$66,744

(3) Legislative Intent Met?
Yes

(4) Should it be Continued, Modified or Terminated?
Recommend continuation based on meeting legislative intent. However, the rate could be revisited.

2017 SESSION OPERATING BUDGET STATUTORY CHANGE PROPOSAL

OFFERED IN: The House Finance Subcommittee – Department of Revenue

TO: AS 27.30.030, AS43.20.044, AS43.62.010(a)(c)(e)

OFFERED BY: Representative Seaton

RECOMMENDED STATUTE CHANGE:

The House Finance Subcommittee for the Department of Revenue recommends that the House Resources Committee convene a study group during the interim to review and make recommendations as to whether or not the following indirect expenditures should be terminated, modified, or continued, along with the basis for such recommendations.

Corporate Mining Tax, Mining License Tax, Mineral Production Royalty - Minerals Exploration Credit

Mining License Tax - Small Miner Exemption

Mining License Tax - 3.5 Year Exemption

Mining License Tax - Depletion Deduction

EXPLANATION: Explain the purpose/impact of the proposed statutory change.

These credits were established at least 20 years ago, and some were established before statehood. It is no longer clear the effectiveness of these exemptions or if they meet the intent for which they were established.

Revenue

Applicable Program
Corporate Income Tax, Mining License Tax, Mineral Production Royalty

Indirect Expenditure Name
Minerals Exploration Credit

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
A non-transferable credit for eligible costs of non-petroleum mineral or coal exploration activities and must be used within 15 years. The credit is 100% of allowable exploration costs with a maximum of $20 million. The credit is limited to 50% of liability for the applicable tax type.

(2) Authorizing Statute Regulation or Other Authority
AS 27.30.030, AS 43.20.044

(3) Year Enacted
1995

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The Legislature intended to offer an incentive to encourage mineral exploration in Alaska.

(6) Public Purpose
To encourage mineral exploration.

(7) Estimated Revenue Impact
FY 2009 - $699
FY 2010 - $0
FY 2011 - $949,466
FY 2012 - $5,873,944
FY 2013 - $5,975,341

(8) Cost to Administer

(9) Number of Beneficiaries
Fewer than 4

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$5,975,341

(2) Estimate of Annual Benefit to Recipients
Assuming three tax payers, the benefit would be approximately $2 million each.

(3) Legislative Intent Met?
Unclear. While significant exploration is occurring, it is unclear that this credit is directly tied to new mining production.

(4) Should it be Continued, Modified or Terminated?
Recommend reconsideration of the mining license tax structure in its entirety. This credit was established 20 years ago and should be reexamined as to the effectiveness and benefit to the state and mining industry. This credit rewards the industry once production has started instead of directly reducing the cost of exploration. In contrast, oil and gas tax credits incentivize exploration by offsetting upfront costs.

Revenue

Applicable Program
Mining License Tax

Indirect Expenditure Name
Small Miner Exemption

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
No tax is due for if taxable income is $40,000 or less. Taxpayers with taxable income of more than $40,000 pay a tax rate of 3% on the first $40,000 of their income.

(2) Authorizing Statute Regulation or Other Authority
AS 43.65.010 (c)

(3) Year Enacted
1955

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The Legislature intended the exclusion to encourage smaller mining operations.

(6) Public Purpose
To support small mining operations and for efficiency.

(7) Estimated Revenue Impact
FY 2009 - $12,890
FY 2010 - $8,414
FY 2011 - Unknown
FY 2012 - Unknown
FY 2013 - $33,815

(8) Cost to Administer
None

(9) Number of Beneficiaries
71. Note: this does not include taxpayers who filed a loss on their return or taxpayers who did not file at all.

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$33,815

(2) Estimate of Annual Benefit to Recipients
$483

(3) Legislative Intent Met?
Unclear

(4) Should it be Continued, Modified or Terminated?
Recommend reconsideration of the mining license tax structure in its entirety. Established pre-statehood, the effectiveness of the tax and exemptions may be obsolete. Considering inflation, the $40,000 threshold may no longer be the appropriate level.

Revenue

Applicable Program
Mining License Tax

Indirect Expenditure Name
3.5-year Exemption

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
New mining operations are exempt from the Mining License Tax for the first 3.5 years after production begins.

(2) Authorizing Statute Regulation or Other Authority
AS 43.65.010 (a)

(3) Year Enacted
1951

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The Legislature intended the exclusion to encourage new mining operations.

(6) Public Purpose
To encourage new mining operations by

(7) Estimated Revenue Impact
FY 2009 - Unknown
FY 2010 - Unknown
FY 2011 - Unknown
FY 2012 - Unknown
FY 2013 - Unknown
Unknown. Those who are exempt from taxation and have been granted this 3.5 year exemption are required to file a mining license tax return under 15 AAC 65.010(a)(5) and 15 AAC 65.030, but are not required to fill out a complete return.

(8) Cost to Administer
None

(9) Number of Beneficiaries
Fewer than 5

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
Indeterminate

(2) Estimate of Annual Benefit to Recipients
Indeterminate

(3) Legislative Intent Met?
Unclear

(4) Should it be Continued, Modified or Terminated?
Recommend reconsideration of the mining license tax structure in its entirety. Established pre-statehood, the effectiveness of the tax and exemptions may be obsolete. Given the Mining License Tax is based on business profits, the legislature should evaluate whether the 3.5 year exemption is appropriate or necessary.

Applicable Program
Mining License Tax

Indirect Expenditure Name
Depletion Deduction

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
A percentage depletion deduction is allowed for certain types of mining, such as metal mining, sulfur mining and coal mining. Other types of mines must use cost depletion.

(2) Authorizing Statute Regulation or Other Authority
AS 43.65.010 (e)

(3) Year Enacted
1955

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The Legislature intended the deduction for percentage depletion to encourage resource development.

(6) Public Purpose
To encourage the development of the state's resources; to generate state revenue by efficient administration of tax.

(7) Estimated Revenue Impact
FY 2009 - Unknown
FY 2010 - Unknown
FY 2011 - Unknown
FY 2012 - Unknown
FY 2013 - Unknown

(8) Cost to Administer
None

(9) Number of Beneficiaries
Unknown

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
Indeterminate

(2) Estimate of Annual Benefit to Recipients
Indeterminate

(3) Legislative Intent Met?
Unclear

(4) Should it be Continued, Modified or Terminated?
Recommend reconsideration of the mining license tax structure in its entirety. Established pre-statehood, the effectiveness of the tax and exemptions may be obsolete. The reasons for the deduction rate differentiation between the various minerals is unclear and should be evaluated for effectiveness.

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2017 SESSION OPERATING BUDGET STATUTORY CHANGE PROPOSAL

OFFERED IN: The House Finance Subcommittee – Department of Revenue

TO: AS43.20.053

OFFERED BY: Representative Seaton

RECOMMENDED STATUTE CHANGE:

The House Finance Subcommittee for the Department of Revenue recommends that the House Resource Committee consider a bill that would establish a sunset of June 30, 2018 for the following indirect expenditure.

Corporate Income Tax - In State Refinery Tax Credit

EXPLANATION: Explain the purpose/impact of the proposed statutory change.

This provision allows a credit for qualified infrastructure expenditures for in-state oil refineries. The credit may not exceed the lesser of 40% of total qualifying expenditures or $10 million per tax year. The credit can be applied against corporate income tax liability and carried forward, or refunded by the state.

This would be 18 months earlier than the current sunset date of December 31, 2019. This could result in a savings of $30 million.

Revenue

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
In-State Refinery Tax Credit

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
A credit for qualified infrastructure expenditures for in-state oil refineries. The credit may not exceed the lesser of 40% of total qualifying expenditures or $10 million per tax year. The credit can be applied against corporate income tax liability and carried forward, or refunded by the state.

(2) Authorizing Statute Regulation or Other Authority
AS 43.20.053

(3) Year Enacted
2013

(4) Sunset or Repeal Date
12-31-19

(5) Legislative Intent
To encourage investment in infrastructure improvements and help maintain economic viability of the in-state refining industry.

(6) Public Purpose
Maintain or expand in-state refining industry jobs and related economic activity; to maintain in-state sources of refined products.

(7) Estimated Revenue Impact
FY 2009 - Credit not in effect
FY 2010 - Credit not in effect
FY 2011 - Credit not in effect
FY 2012 - Credit not in effect
FY 2013 - Credit not in effect

(8) Cost to Administer

(9) Number of Beneficiaries
None

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$0

(2) Estimate of Annual Benefit to Recipients
$0

(3) Legislative Intent Met?
Unknown at this time.

(4) Should it be Continued, Modified or Terminated?
No recommendation based on recent legislative action.

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2017 SESSION OPERATING BUDGET STATUTORY CHANGE PROPOSAL

OFFERED IN: The House Finance Subcommittee – Department of Revenue

TO: AS43.20

OFFERED BY: Representative Seaton

RECOMMENDED STATUTE CHANGE:

The House Finance Subcommittee for the Department of Revenue recommends that the House Finance Committee consider a bill that would repeal or amend the following indirect expenditure.

Corporate Income Tax– Foreign Royalty Exclusion
Authorized under AS 43.20.145 (b)

Corporate Income Tax - Utilities Exempted from Water's Edge Combination Reporting
Authorized under AS 43.19.01, Article IV Sect. 2

Corporate Income Tax - Exempt corporations from tax that are participants in contract under Stranded Gas Development Act
Authorized under AS 43.20.145 (g)

Corporate Income Tax - "S" Corporations exclusion
Authorized under AS 43.20.145 (g)

Corporate Income Tax - Reduced Tax Rate on Capital Gains
Authorized under AS43.20.021 (c)

Corporate Income Tax - Federal Tax Credits
Authorized under AS 43.20.021

EXPLANATION: Explain the purpose/impact of the proposed statutory change.

These indirect expenditures can be found in the 2015 Indirect Expenditures Report produced by the Legislative Finance Division. These IE no longer meet the legislative intent, and some are no longer used. The amount of revenue impacted by these exemptions is unknown. Recommend repeal or amend as appropriate.

Revenue

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
Federal Tax Credits

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Under Alaska's adoption of the Internal Revenue Code, taxpayers can claim most federal incentive credits. Federal credits that refund other federal taxes are not allowed. Multi-state taxpayers apportion their total federal incentive credits. For most credits, the credit is limited to 18% of the amount of the credit determined for federal tax purposes which is attributable to Alaska.

(2) Authorizing Statute Regulation or Other Authority
AS 43.20.021

(3) Year Enacted
1975

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The adoption by reference of federal credits to support the efficient administration of the corporate income tax through uniformity with the federal incentive credits.

(6) Public Purpose
To generate state revenue by efficient administration of tax.

(7) Estimated Revenue Impact
FY 2009 - Unknown, not tracked
FY 2010 - Unknown, not tracked
FY 2011 - Unknown, not tracked
FY 2012 - Unknown, not tracked
FY 2013 - Unknown, not tracked

(8) Cost to Administer
None

(9) Number of Beneficiaries
Unknown

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
Unknown

(2) Estimate of Annual Benefit to Recipients
Unknown

(3) Legislative Intent Met?
No

(4) Should it be Continued, Modified or Terminated?
Recommend termination. This rationale for this provision is conformity with the federal tax code, but this conformity is not necessary for efficient administration of the corporate income tax. No other state has adopted all federal tax

Revenue

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
Reduced Tax Rate on Capital Gains

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Long term capital gains are taxed at a maximum rate of 4.5%, while other income is taxed at a maximum rate of 9.4%.

(2) Authorizing Statute Regulation or Other Authority
AS 43.20.021 (c)

(3) Year Enacted
1975

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The rate differential reflects preferential treatment of capital gains in the federal tax code when Alaska's rate structure was adopted. The intent was to allow for efficient administration of taxes by basing Alaska's taxes on the federal code.

(6) Public Purpose
To generate state revenue by efficient administration of tax.

(7) Estimated Revenue Impact
FY 2009 - Unknown
FY 2010 - Unknown
FY 2011 - Unknown
FY 2012 - Unknown
FY 2013 - Unknown

(8) Cost to Administer
None

(9) Number of Beneficiaries
Unknown

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
Unknown

(2) Estimate of Annual Benefit to Recipients
Unknown

(3) Legislative Intent Met?
No

(4) Should it be Continued, Modified or Terminated?
Recommend termination. This provision was adopted for conformity with the federal corporate income tax, which at the time had a lower rate for capital gains than other income. The federal tax code no longer treats capital gains differently from other income, so this provision is no longer necessary for conformity (it actually puts Alaska out of

Revenue

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
Reduced Tax Rate on Capital Gains

Legislative Finance Analysis per AS 24.20.235

(4) Should it be Continued, Modified or Terminated? (cont.)

conformity).

Revenue

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
"S" Corporations exclusion

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Under Alaska's adoption of the Internal Revenue Code, corporations that are designated as flow-through entities ("S" corporations) are not subject to tax on ordinary income. Prior to 1980, this income was subject to Alaska's personal income tax. Since the 1980 repeal of the state's personal income tax, S-corporations no longer pay tax on ordinary income in Alaska. S corporations pay tax on built-in gains if they were a C corporation prior to electing S status.

(2) Authorizing Statute Regulation or Other Authority
AS 43.20.021

(3) Year Enacted
1980

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The exclusion is intended to support the efficient administration of the corporate income tax through uniformity with the federal income reporting.

(6) Public Purpose
To generate state revenue by efficient administration of tax.

(7) Estimated Revenue Impact
FY 2009 - Unknown
FY 2010 - Unknown
FY 2011 - Unknown
FY 2012 - Unknown
FY 2013 - Unknown

(8) Cost to Administer
None

(9) Number of Beneficiaries
Approximately 7,500

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
Unknown

(2) Estimate of Annual Benefit to Recipients
Unknown

(3) Legislative Intent Met?
It is unclear whether the legislature intended to exclude S Corporations from tax.

(4) Should it be Continued, Modified or Terminated?
Recommend termination. "S" corporations are exempt from the federal corporate income tax because income from these corporations is taxed under the personal income tax. Without a state personal income tax, these corporations

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
"S" Corporations exclusion

Legislative Finance Analysis per AS 24.20.235

(4) Should it be Continued, Modified or Terminated? (cont.)

receive the legal benefits of incorporation without any state tax liability. The only other state with a corporate income tax and no personal income tax, Florida, does tax S corporations.

Revenue

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
Exempt corporations from tax that are participants in contract under Stranded Gas Development Act

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Corporations that are a party to a contract under the Stranded Gas Development Act are exempt from corporate income tax filing requirements, if the agreement provides for a payment in lieu of income tax.

(2) Authorizing Statute Regulation or Other Authority
AS 43.20.145 (g)

(3) Year Enacted
1998

(4) Sunset or Repeal Date
None

(5) Legislative Intent
This provision is intended to allow the state to take payment in lieu of tax under the Stranded Gas Development Act.

(6) Public Purpose
To promote the construction of a gas pipeline from the North Slope to export markets.

(7) Estimated Revenue Impact
FY 2009 - $0
FY 2010 - $0
FY 2011 - $0
FY 2012 - $0
FY 2013 - $0

(8) Cost to Administer
None

(9) Number of Beneficiaries
0

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
None

(2) Estimate of Annual Benefit to Recipients
None

(3) Legislative Intent Met?
No

(4) Should it be Continued, Modified or Terminated?
Recommended termination because the Stranded Gas Development Act is unlikely to be used in the future, rendering the exemption obsolete.

Revenue

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
Utilities Exempted from Water's Edge Combination Reporting

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Income from public utilities including telephone service is exempt from water's edge combination reporting requirements. These companies can instead pay tax only on Alaska net income.

(2) Authorizing Statute Regulation or Other Authority
AS 43.19.010, Article IV, Sect. 2

(3) Year Enacted
1970

(4) Sunset or Repeal Date
None

(5) Legislative Intent
This provision was adopted as part of the state's adoption of the multistate tax compact. The Legislature adopted the compact to promote the efficient collection of taxes.

(6) Public Purpose
To promote the efficient collection of taxes.

(7) Estimated Revenue Impact
FY 2009 - Unknown
FY 2010 - Unknown
FY 2011 - Unknown
FY 2012 - Unknown
FY 2013 - Unknown

(8) Cost to Administer
None

(9) Number of Beneficiaries
Unknown

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
Unknown

(2) Estimate of Annual Benefit to Recipients
Unknown

(3) Legislative Intent Met?
It is unclear whether the legislature intended to exempt utilities from water's edge combination reporting. It appears to have been an inadvertent result of adopting the Multistate Tax Compact.

(4) Should it be Continued, Modified or Terminated?
Recommend termination. The provision does not appear to be closely related to the legislative intent, and could be seen as a loophole because it allows taxpayers to reduce liability by shifting costs between subsidiaries.

Revenue

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
Foreign Royalty Exclusion

Department of Revenue Submission per AS 43.05.095

(1) Decription of Provision
Excludes 80% of foreign royalties from taxable income.

(2) Authorizing Statute Regulation or Other Authority
AS 43.20.145(b)

(3) Year Enacted
1991

(4) Sunset or Repeal Date
None

(5) Legislative Intent
The sponsor of the legislation stated in committee that the purpose was to encourage foreign investment in Alaska.

(6) Public Purpose
To encourage investments in Alaska from multinational corporations.

(7) Estimated Revenue Impact
FY 2009 - Unknown
FY 2010 - Unknown
FY 2011 - Unknown
FY 2012 - Unknown
FY 2013 - Unknown

(8) Cost to Administer
None

(9) Number of Beneficiaries
250 companies

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
Unknown

(2) Estimate of Annual Benefit to Recipients
Unknown

(3) Legislative Intent Met?
No

(4) Should it be Continued, Modified or Terminated?
Recommend termination. The provision does not appear to be closely related to the legislative intent, and could be seen as a loophole because it allows taxpayers to reduce liability by shifting assets to offshore subsidiaries. Minnesota recently repealed a similar provision and significantly increased corporate income tax revenue.