



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE

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February 23, 2017

The Honorable Neal Foster and the Honorable Paul Seaton
Alaska State Representatives
Co-chairs, House Finance Committee
State Capitol Rooms 410 and 505
Juneau, AK 99801

Dear Co-Chairs Foster and Seaton:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue during our presentation to the House Finance Committee on February 1, 2017 regarding the Indirect Expenditure Report. Please see questions in italics and our responses immediately below the questions.

- 1. Provide a history of annual cruise passenger counts, and tax revenues, since the 2010 legislative change to the tax?*

Please see the attached document 'History of cruise passengers and taxes' for passenger count and tax revenue charts.

Below is a short history of the 2010 legislative changes that are denoted in the referenced charts:

Notes on 2010 legislative changes to Commercial Passenger Vessel Tax

During the 2010 session, the Alaska Legislature made numerous changes to the Commercial Passenger Vessel Tax, in Senate Bill 312. Following is a brief summary:

- Reduced the tax from \$46 to \$34.50 per passenger.
- Added a credit for municipal cruise ship taxes that were in place before December 17, 2007. The two relevant taxes were in Juneau (\$8 per passenger) and Ketchikan (\$7 per passenger).
- Increased the maximum number of ports eligible for municipal sharing of cruise ship taxes from 5 to 7.
- Abolished the Regional Cruise Ship Impact Fund.
- Imposed the "72-hour rule", meaning that cruise ships are only subject to the per-passenger tax if they remain in Alaska waters for at least 72 hours. Some ships avoid this by going outside the state's 3-mile limit in between ports. This explains the drop in the percentage of total cruise visitors that are taxable passengers, following the 2010 changes.

The changes enacted by Senate Bill 312 took effect for the 2011 cruise ship season. The line between 2010 and 2011 on the graphs for cruise passengers represents when these changes took effect. On the graph for total revenue collected, which shows revenue by fiscal year, the line is through the "2011" value since the change took effect halfway through fiscal year 2011.

2. *Provide a list of indirect expenditures with “unknown” revenue impact that could be released if confidentiality was waived.*

Following is a list of indirect expenditures administered by the Department of Revenue, for which information is not released for at least one year in the “Indirect Expenditure Report” due to confidentiality.

- Department of Revenue – Corporate Income Tax – Oil and Gas Service Industry Expenditures Credit
 - FY2011 – Credit not in effect
 - FY2012 – Credit not in effect
 - FY2013 – Credit not in effect
 - FY2014 – Confidential due to small number of recipients (less than 4 companies)
 - FY2015 – Data incomplete
- Department of Revenue – Multiple Tax Programs – Minerals Exploration Credit
 - FY2011 - \$949,466
 - FY2012 - \$5,873,944
 - FY2013 - \$5,975,341
 - FY2014 – Confidential due to small number of recipients (fewer than 4 companies)
 - FY2015 – Data incomplete
- Department of Revenue – Oil and Gas Production Tax – Alternative Credit for Exploration
 - FY2011 - \$19,000,000
 - FY2012 - \$57,000,000
 - FY2013 - \$11,000,000
 - FY2014 - \$60,000,000
 - FY2015 – Between \$42,000,000 and \$50,000,000 (presented as range to protect confidentiality due to small number of recipients)
- Department of Revenue – Oil and Gas Production Tax – Frontier Basin Credit
 - FY2011 – Credit not in effect
 - FY2012 – Credit not in effect
 - FY2013 - \$0
 - FY2014 – Reported with Alternative Credit for Exploration (confidential due to small number of recipients)
 - FY2015 – Reported with Alternative Credit for Exploration (confidential due to small number of recipients)
- Department of Revenue – Oil and Gas Production Tax – Per-Taxable-Barrel Credit for GVR-eligible Production
 - FY2011 – Credit not in effect
 - FY2012 – Credit not in effect
 - FY2013 – Credit not in effect
 - FY2014 – Due to Confidentiality, the Per-Taxable-Barrel credits are combined
 - FY2015 – Due to Confidentiality, the Per-Taxable-Barrel credits are combined

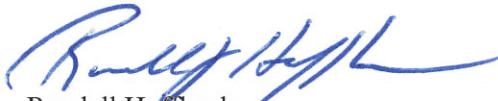
- Department of Revenue – Oil and Gas Production Tax – Qualified Capital Expenditure Credit
 - FY2011 - \$761,000,000
 - FY2012 - \$613,000,000
 - FY2013 - \$854,000,000
 - FY2014 - \$862,000,000
 - FY2015 – Between \$587,000,000 and \$607,000,000 (presented as range to protect confidentiality)
- Department of Revenue – Oil and Gas Production Tax – Small Producer Credit
 - FY2011 - \$52,000,000
 - FY2012 - \$53,000,000
 - FY2013 - \$58,000,000
 - FY2014 - \$58,000,000
 - FY2015 – Between \$40,000,000 and \$50,000,000 (presented as range to protect confidentiality, currently less than 15 companies)
- Department of Revenue – Oil and Gas Production Tax – Transitional Investment Expenditure Credit
 - FY2011 – Confidential due to small number of recipients
 - FY2012 – Confidential due to small number of recipients
 - FY2013 – Confidential due to small number of recipients
 - FY2014 - \$0
 - FY2015 - \$0

3. *Provide the balance of outstanding film tax credits.*

According to Tax Division records, the amount of film credits outstanding at the end of fiscal year 2016 was approximately \$14.2 million.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,



Randall Hoffbeck
Commissioner

Title: Commercial Passenger Vessel Tax: Passengers, Revenue, and Impact of Credit for Municipal Taxes

Preparer: Will Bishop, Economist, (907) 269-1025 or william.bishop@alaska.gov

Purpose: To show the total number of cruise passengers (estimated by the Alaska Visitor Statistics Program), the revenue generated by the Commercial Passenger Vessel Tax, and the impact of the deduction for municipal cruise ship taxes, for each relevant year in the CPVT's history.

Data Source: Alaska Visitor Statistics Program, Revenue Sources Books, and CPVT returns in the Tax Revenue Management System and the legacy Tax Division database.

Key Assumptions:

History:

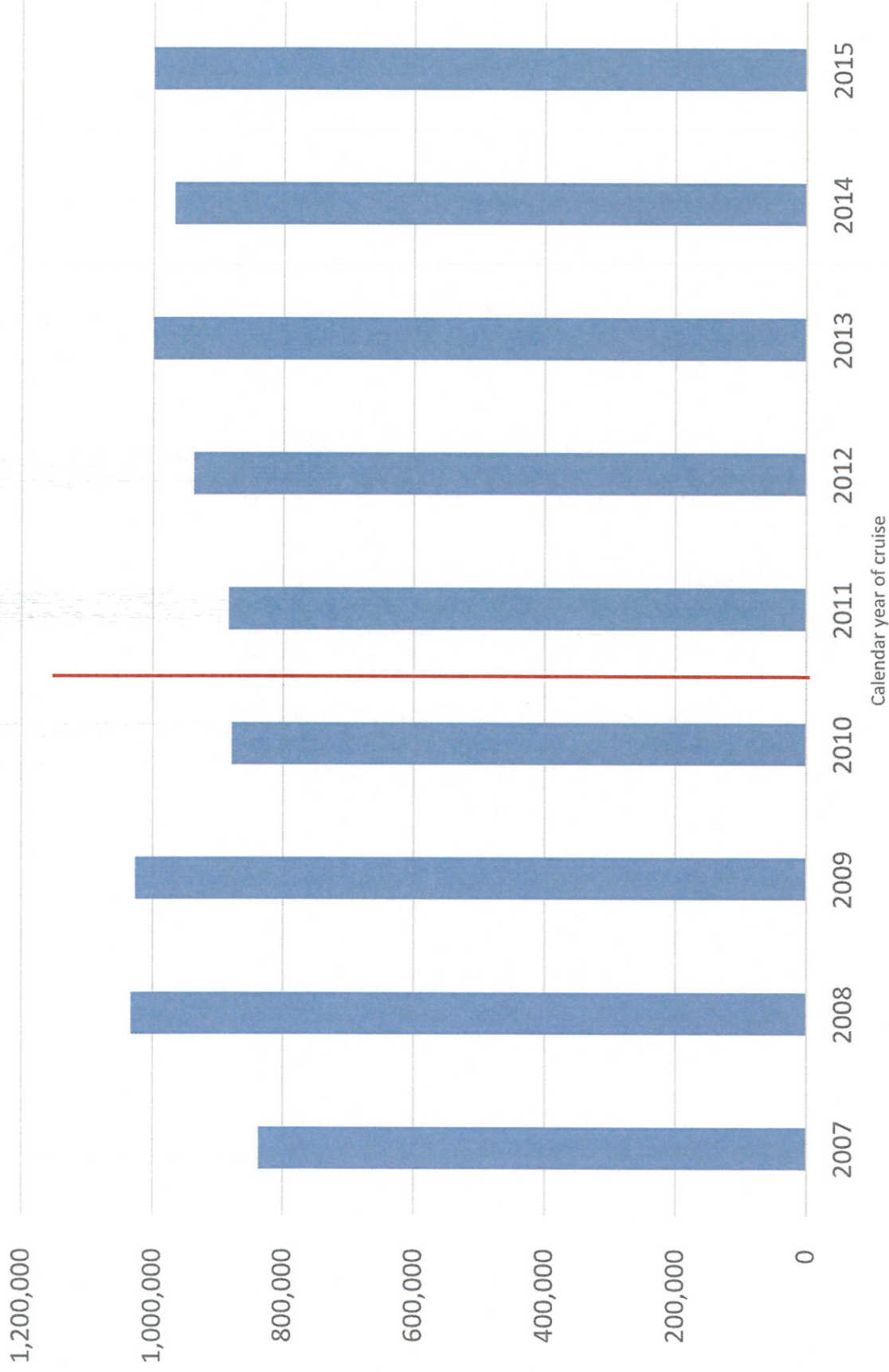
Disclaimer:

The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.

The information contained in this workbook may be privileged, confidential or otherwise protected from disclosure. If you are not the intended recipient, any use, dissemination, disclosure, distribution or copying is strictly prohibited.

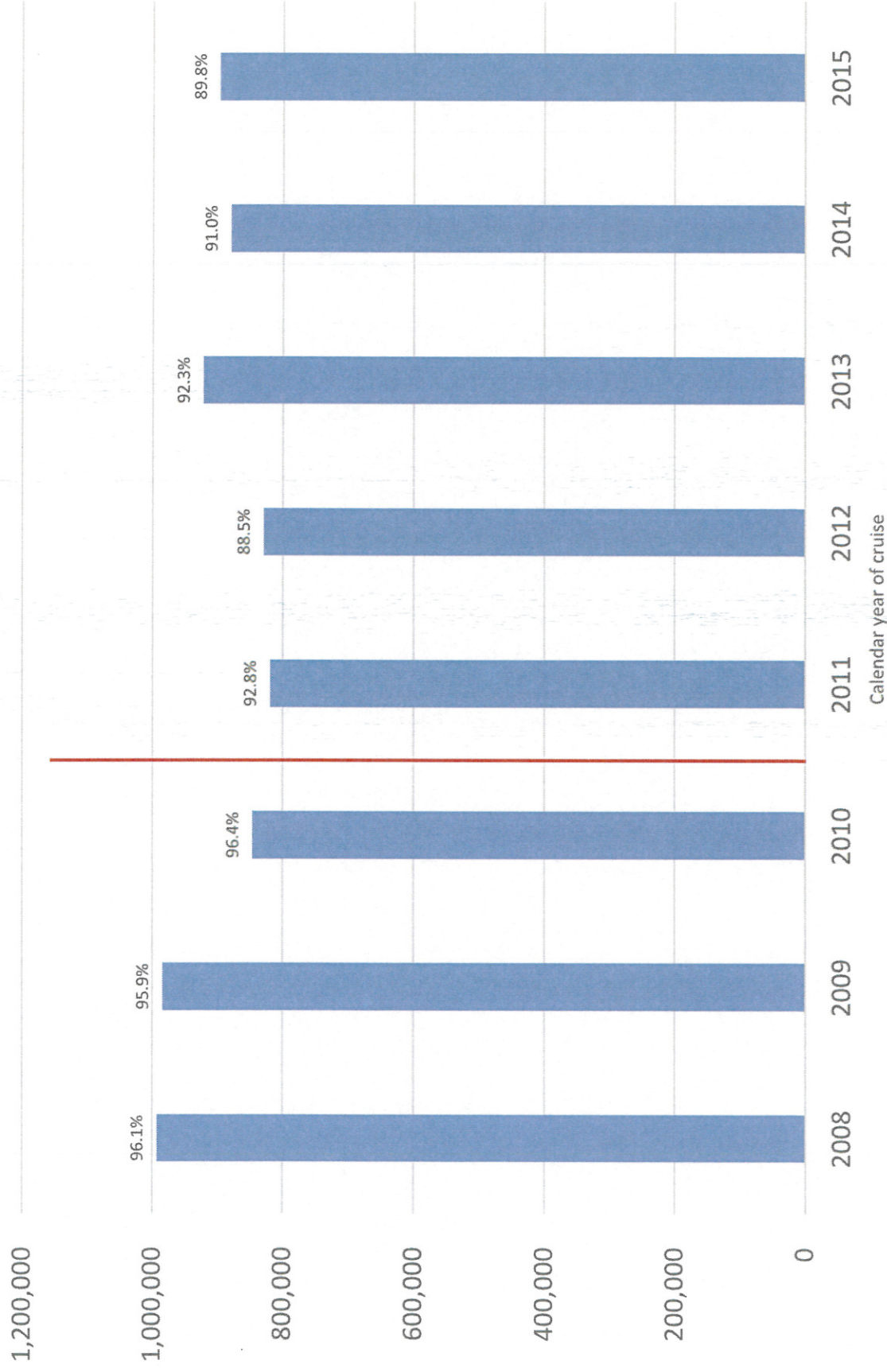
Cruise passengers according to Alaska Visitor Statistics Program

See "Notes on 2010 legislative act" for further explanation



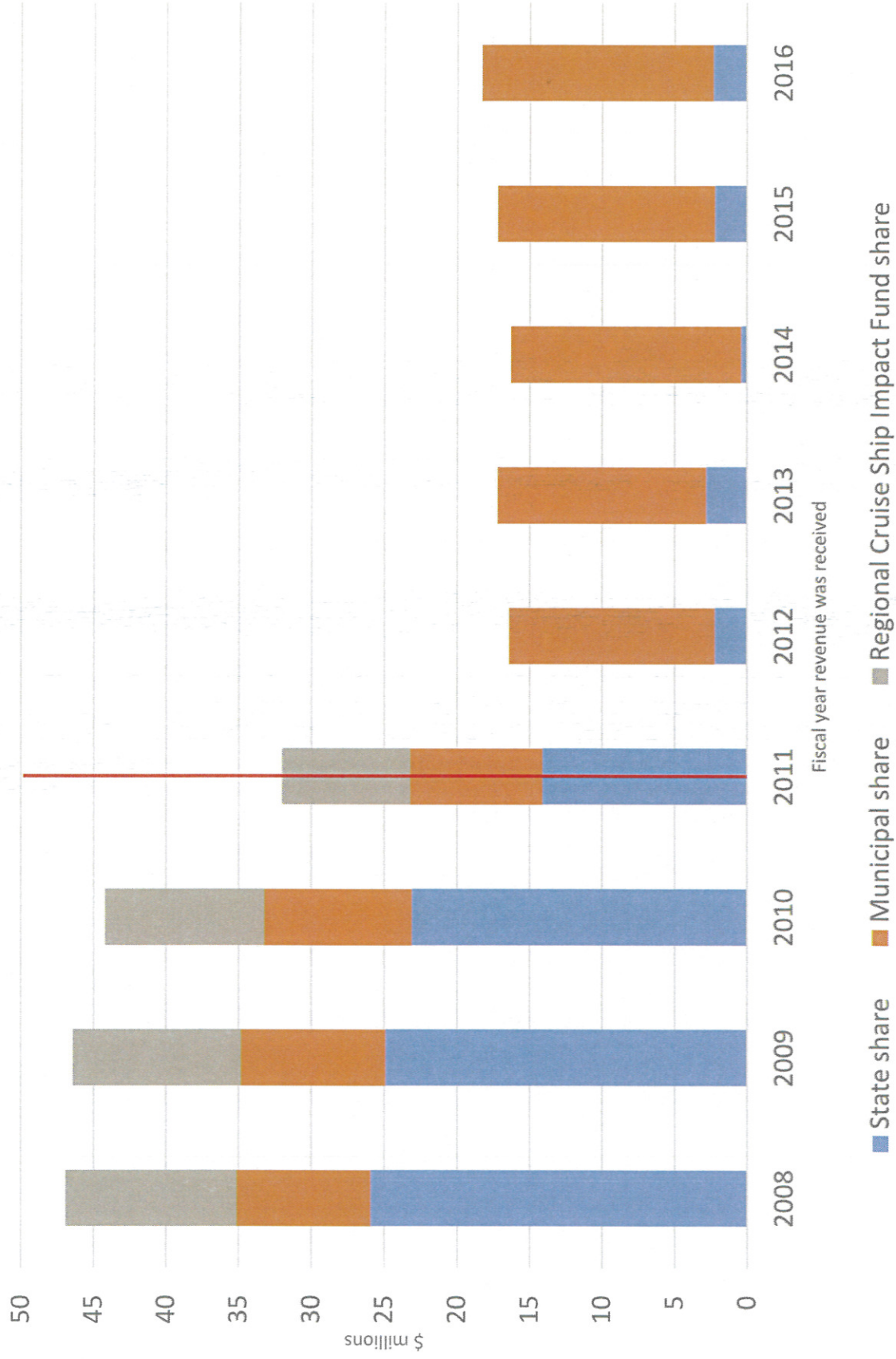
Taxable cruise passengers (Tax Division data) and percentage taxable

See "Notes on 2010 legislative act" for further explanation



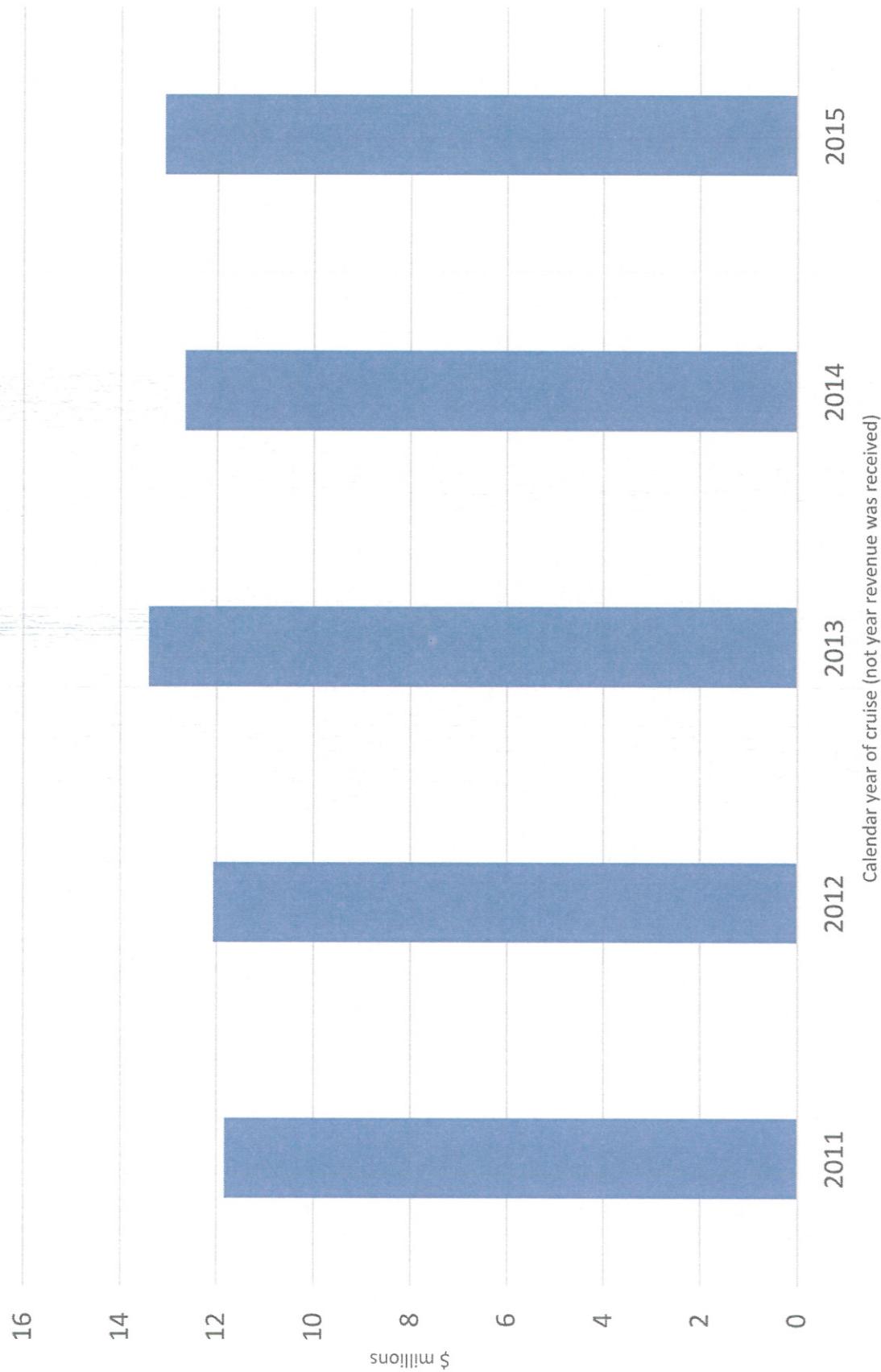
Commercial Passenger Vessel Tax Revenue

See "Notes on 2010 legislative act" for further explanation



Estimated impact of deducting Juneau and Ketchikan municipal taxes

See "Notes on 2010 legislative act" for further explanation



Notes on 2010 legislative changes to Commercial Passenger Vessel Tax

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- Reduced the tax from \$46 to \$34.50 per passenger.
- Added a credit for municipal cruise ship taxes that were in place before December 17, 2007. The two relevant taxes were in Juneau (\$8 per passenger) and Ketchikan (\$7 per passenger when docked, \$4 per passenger when tendering).
- Increased the maximum number of ports eligible for municipal sharing of cruise ship taxes from 5 to 7.
- Abolished the Regional Cruise Ship Impact Fund.
- Imposed the "72-hour rule", meaning that cruise ships are only subject to the per-passenger tax if they remain in Alaska waters for at least 72 hours. Some ships avoid this by going outside the state's 3-mile limit in between ports. This explains the drop in the percentage of total cruise visitors that are taxable passengers, following the 2010 changes.

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