# Alaska Department of Revenue
## Tax Division

**FY18 Governor's Proposed Budget**

**Presentation to House Finance Revenue Subcommittee**

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# Tax Division

*What we do:*

*The official mission of the Tax Division is to collect taxes, inform stakeholders, and regulate charitable gaming.*

*In practical terms, this also means we regulate, administer and audit Alaska's various taxes, and we forecast and report revenues.*

*The Tax Division also provides substantial analytical services in response to questions from Legislators and other agencies and supports the commissioner and administration in development of fiscal policy.*

# Tax Division Highlights

**One major highlight of the last year is completion of the implementation of the Tax Revenue Management System**

- TRMS project was funded by a FY12 capital appropriation of $34.7 million. TRMS replacing over 15 individual proprietary software systems that we developed and maintained over many years
- Final Phase (Fish, Gaming, Electric Coops) of the TRMS rollout on February 22, 2016. Support services through FY18 funded in the current contract
- Provided Dept. of Law with online charitable gaming registration via TRMS- went live July 2016

# *Tax Division Highlights*

## Implementing 2016 Legislation

- HB247- Oil and Gas tax credit reform
  - Major regulatory process
  - Substantial reprogramming of tax management system
- HB375- Mandatory electronic tax filing
  - Outreach to taxpayers
  - Regulations development
  - Forms and process for those seeking waiver due to technological inability

# *Tax Division Highlights*

## Other Highlights

- Supported Governor’s 2016 fiscal plan and revenue bill efforts with extensive analysis and testimony
- Began receiving tax payments for marijuana in November, 2016. Total collections to date $237,000
- Created a secure location and method for marijuana taxpayers to make payments in cash.
  - Cash depository in Anchorage parking garage built for about $60,000. Cost is about 2% of what it cost other state to prepare for marijuana cash collection
  - Minimal impact on Division resources with no positions added
- Collected $723,262,708 in FY16 from all activities
- Continuing to absorb substantial staff reduction and combination of functions

# *Tax Division Staff*

- Two offices in Juneau (SOB 11th Floor) and Anchorage (Atwood Building 5th Floor)
- **110 Full Time Permanent Employees in FY17 Budget**
  - 68 in Anchorage, including most of the management and audit staff for the oil and gas, corporate, property, and excise groups
  - 42 in Juneau, providing much of the support staff to the direct tax groups as well as the bulk of the fish and gaming tax groups
- 44 Tax Auditors and audit supervisors
- 30 Other Professional staff (economists, programmers, managers, investigators, and appeals officers)
- 36 Paraprofessional and Technical staff (tax technicians, administrative, and other)

# *Tax Division Staff*

- **Cuts from FY15 to FY17**
  - FY15 Budget, 130 Full Time Perm PCNs
  - FY16 Budget, 118 Full Time Perm PCNs
    - 12 eliminated (4 auditors including 2 in Film group)
  - FY17 Budget, 110 Full Time Perm PCNs
    - 8 eliminated (net change 0 auditors)
- **Cuts Proposed in Gov’s FY18 Budget**
  - FY18 Gov’s Budget, 102 PCNs
    - 2 eliminated; 6 transferred to other agencies
  - Today- 23 Fewer Actual Employees than we had on 12/1/14 (95 from 113)
    - Audit staff down 9%; Admin staff down 33%

# Tax Division Budget

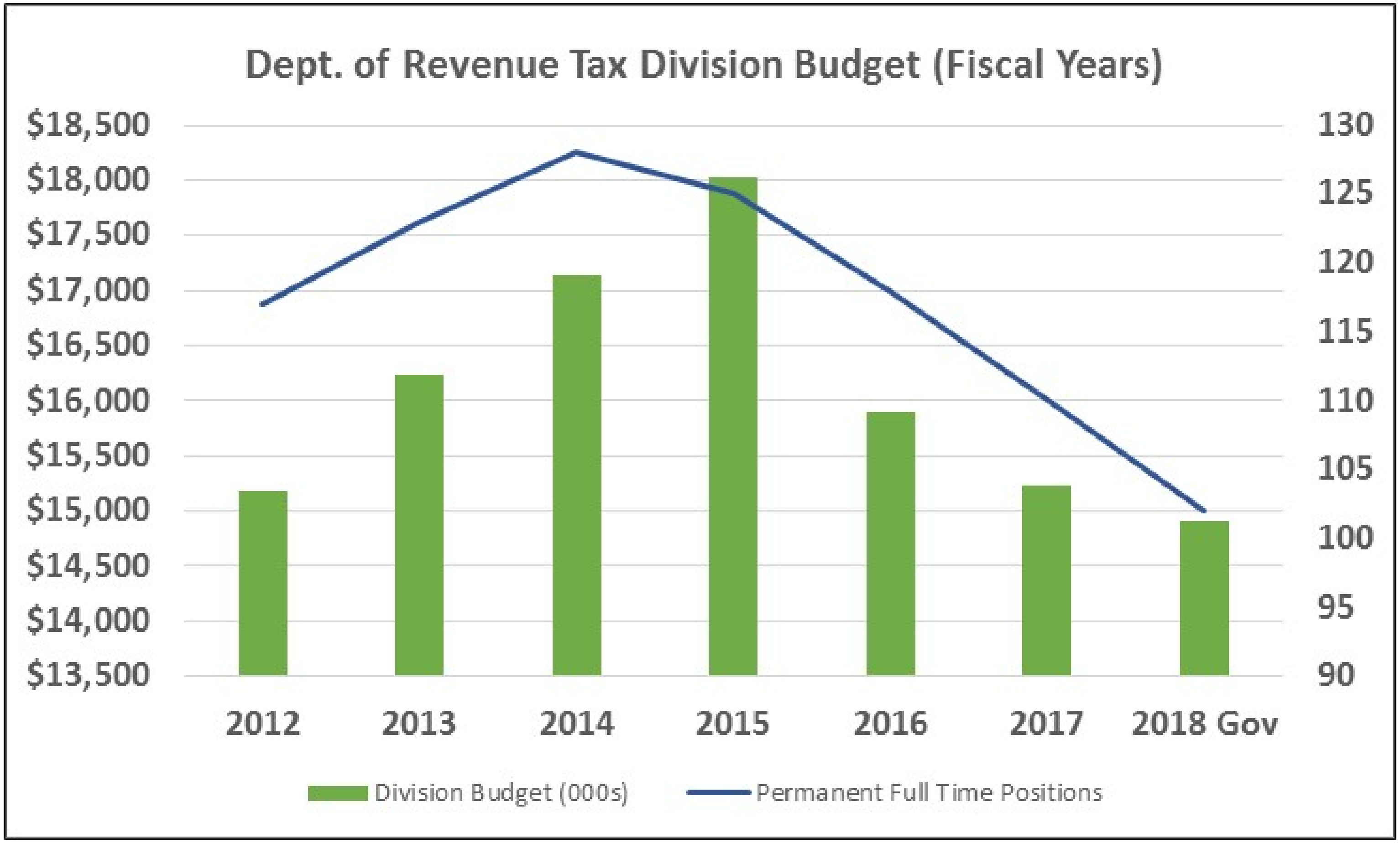
**Approved FY17 Mgt Plan Budget $15,224.2**

- Total FY16 Mgt Plan was $15,900.7
  - 1-year reduction of $676.5 (4%)
- Total FY15 Mgt Plan was $18,023.1
  - 2-year reduction of $2,798.9 (16%)

**FY18 Governor's Budget $14,909.0**

- 88% of budget is funded by UGF
- 84% of our budget is personnel costs

# *Summary- Tax Division Budget and Staff*



# *Tax Division Working Sections*

**Division is organized by tax type and by function**

- **Tax Types**. Each group is a mix of auditors and technicians, plus a supervisor
  - Oil and Gas Production Tax- 22 staff
  - Corporate Income- 16 staff
  - Excise (10 different taxes)- 14 staff
  - Fish Tax- 6 staff
  - Charitable Gaming- 5 staff
  - Petroleum Property Tax- 3 staff

  **66 total (49 Anchorage, 17 Juneau)**

# Tax Division Working Sections (contd.)

**Division is organized by tax type and by function**

- **Support Functions**
  - Management and Administration- 7 staff
  - Economic Research & Commercial Analysis- 8 staff
  - Appeals- 6 staff
  - Regulations and Special Projects- 2 staff
  - Information Technology- 5 staff
  - Accounting & Collections- 6 staff
  - Imaging & Data Management- 6 staff
  - Criminal Investigations- 4 staff

**44 total (19 Anchorage, 25 Juneau)**

# *Major Challenges for FY18 and beyond*

- Audit and administer more tax types than ever before, with fewer resources
  - Absorb additional cuts; we have already eliminated nonessential travel, training, purchases
  - More emphasis on non-oil taxes
  - Protect core audit resources
- Anticipated layoffs, morale issues
- Future maintenance costs for tax software
- Possible implementation of new revenue items

# *Efficiencies: Nickels and Dimes add up*

- Transferred server hosting to existing DOR infrastructure
- Replaced outside engineering contractor for oil production forecasting with existing DNR staff
- "Go green" initiative to replace paper mail with electronic taxpayer communication
- Total travel spending down 69% from FY14 to FY16
- Bulk purchase and online procurement for common commodities
- Deferred hardware replacement
- Destruction of hundreds of boxes of records that have been held beyond retention schedule

# *Auditors and the New Tax Mgmt. System*

**DOR rolled out a new computer system for corporate income tax in 2014 (phase 1 TRMS)**

- The system identifies a substantial number of new audit leads that we don't have the current staff to investigate
- New leads are nearly all <u>non-oil and gas</u> corporations
- Many new leads involve complicated tax issues which require dedicated and well trained staff
  - o Issues of subdivided business which reduces taxable income by claiming it is not "unitary" with other parts of the business
  - o Company excludes income claimed to be earned outside regular course of business (e.g., investment income).
  - o Internal transactions used to overstate the sales factor denominator, decreasing the income apportioned to Alaska

# *Auditors and the New Tax Mgmt. System*

- Other states have added auditors for broad based taxes where more enforcement yields more revenue
- Corporate Income Tax is currently Alaska's only broad based tax
  - Corporate income tax is based on voluntary compliance
  - Currently nine auditors in the Corporate group, with historic focus on oil and gas
  - An increase in the number of auditors would likely generate additional revenue above and beyond their cost—as other states have seen
  - Likely also see an increase in voluntary compliance with increased audit risk

# Auditors- experience in other states

- Wisconsin:  2015 added 113 new tax auditors and supervisors
  - 31 of these are corporate income tax auditors
  - Estimates that “large-case corporate tax auditors” can generate up to $2.2 million each per year
- Oklahoma:  2016, Oklahoma added 53 auditors
  - Intended to help offset reductions in revenue due to oil price decline
  - Est. $505 k more in collections per year per auditor
- Minnesota:  2009 added 208 tax compliance professionals
  - Collections went up as much as $1.2 million per year for each new auditor

# *Auditors- translation to Alaska*

**Wisconsin published a report showing strong correlation between annual assessments and the years of experience an auditor had**

- As a smaller state, we should expect smaller audit assessments for national companies based on "apportionment"
- Oklahoma, with the smallest population in the sample group, raised $505,000 per added auditor
- A typical mid-career Corporate Income Tax Auditor 3 (Range 22F) makes about $90,000, or about $140,000 total budget impact

# *Indirect Expenditures: Oil and Gas Tax Credits*

**FY 2007 thru 2016, $8.0 Billion in Credits**

**North Slope**

- $4.4 billion credits against tax liability
  - Major producers; mostly 20% capital credit in ACES and per-taxable-barrel credit in SB21
- $2.3 billion repurchased credits
  - New producers and explorers developing new fields

**Non-North Slope** (Cook Inlet & Middle Earth)

- $0.1 billion credits against tax liability
  - Limited due to very low Cook Inlet tax "caps"
- $1.2 billion repurchased credits (most since 2013)

# *Indirect Expenditures: Oil and Gas Tax Credits*

**What should count as an indirect expenditure?**

- Not the $3.5 billion in repurchased credits. However one feels about them, these are a budgeted appropriation
- Most of the $4.5 billion in "credits" that offset liability are from two large credits that are an integral part of the production tax calculation

# *Indirect Expenditures: Oil and Gas Tax Credits*

## Credits against liability (over a 10 year period)

**Not really indirect expenditures**

- North Slope capital (ACES) $2,800 mil
- North Slope per-barrel (SB21) $1,100 mil

**Probably "indirect expenditures"**

- Small Producer credit $400 mil

  *(gradually phasing out through 2025)*
- Cook Inlet capital credit $100 mil

  *(repealed in 2018 per HB247)*
- Exploration credit $100 mil

  *(sunset 2017 in most of state)*

# THANK YOU

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