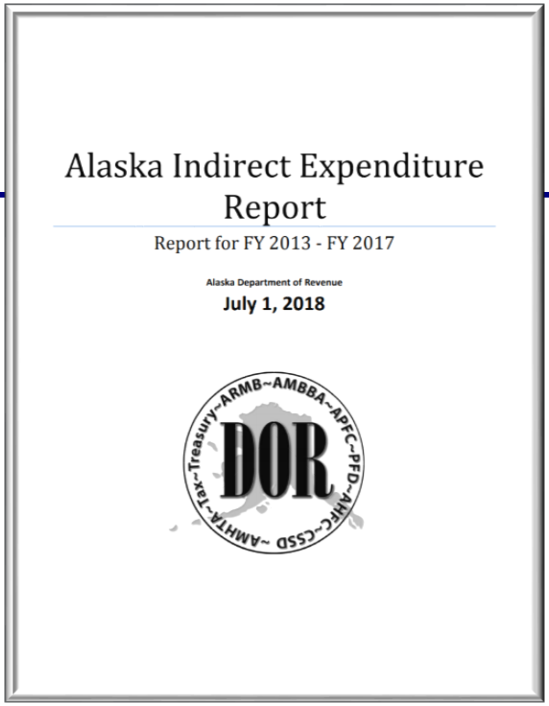

Alaska Indirect Expenditure Report

Report for FY 2013 - FY 2017

Alaska Department of Revenue

July 1, 2018

State of Alaska Department of Revenue

Overview of DOR's *Indirect Expenditure Report, Report for FY 2013 - FY 2017*

Presentation to House Miscellaneous Committee

February 8th, 2019

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Alaska Department of Revenue

Overview

- Indirect Expenditure Report Legislation Overview
- DOR Indirect Expenditure Report
- Considerations/Recommendations

*DOR = Department of Revenue

Indirect Expenditure Report Legislation Overview

Indirect Expenditure Report Overview

- Passed in 2014 and signed on July 7, 2014 (House Bill 306)
- **Requires DOR to submit a report to the Legislature biennially on July 1 detailing indirect expenditures of all agencies in the State (AS 43.05.095)**
- Requires the Legislative Finance Division to provide a report to the Legislature on the indirect expenditures of certain agencies before the start of Legislative Session following the release of DOR's biennial report

- The 1st DOR *Indirect Expenditure Report* was released the day after the bill was signed, July 8, 2014
- The 2nd DOR *Indirect Expenditure Report* was released July 1, 2016
- The 3rd DOR *Indirect Expenditure Report* was released July 1, 2018

Indirect Expenditures Defined

Indirect expenditure: Any foregone revenue by the state designed to encourage an activity to benefit the public in the form of a credit, exemption, deduction, deferral, discount, exclusion, or other differential allowance.

As defined by AS 43.05.095(d):

- An **express provision of state law** that results in foregone revenue for the state by providing:
  - A tax credit or other credit
  - An exemption, but does not include federal tax exemptions adopted by reference in AS 43.20.021
  - A discount
  - A deduction, but does not include costs incurred in the ordinary course of business that are deducted in the calculation of a tax under this title or in the calculation of a royalty or net profit share payment for a lease issued under AS 38
  - A differential allowance

DOR Indirect Expenditure Report

- Released July 1, 2018 by DOR
  - The DOR *Indirect Expenditure Report* was revised on August 14, 2018 to reflect the repeal of one indirect expenditure through HB 398 (pg. 164)

- Provides details on 260 indirect expenditures across 11 departments and agencies, including 78 provisions administered by DOR

DOR Indirect Expenditure Report

Methodology

Examples of provisions not meeting definition of “Indirect Expenditure”:

- Alaska Housing Finance Corporation (AHFC)
  - Identified one potential indirect expenditure; reduced loan rates. But, it was part of their normal operations and not “required by statute.” Statutorily, AHFC can set the rates.
- Department of Commerce, Community, and Economic Development (DCCED):
  - Has certain licensing fees, which are set by statute to cover program costs, that were reduced for residents vs. non-residents. It was determined not to be foregone revenue, because the fee differential doesn’t affect total revenue.
- University of Alaska (UA):
  - Addressed tuition waivers to employees and dependents; they are a part of the employee’s benefit package, so are not considered foregone revenue.
  - Non-resident vs. Resident tuition; UA is not discounting the resident tuition rate, rather the out-of-state student is paying a non-resident surcharge (so no foregone revenue).

Reported Information

Each department was required to report the following information:

- The name of the indirect expenditure
- A brief description
- The statutory authority
- The repeal date, if applicable
- The intent of the legislature in enacting the statute authorizing the indirect expenditure
- The public purpose served by the indirect expenditure
- The estimated revenue impact of the indirect expenditure for the previous five fiscal years (excluding the fiscal year immediately preceding the date the report is due)
- The estimated cost to administer the indirect expenditure, if applicable
- The number of beneficiaries of the indirect expenditure and who benefits

Recommendations/ Considerations

Recommendations/Considerations

- DOR identified several areas for the committee to consider:
  - Largest Indirect Expenditures
  - Indirect Expenditures that have been considered in previous legislation
  - Review of recommendations produced by the Legislative Finance Division
    - Indirect Expenditures were reviewed in both January 2015 and January 2017
  - Fee Setting Authority

Large Indirect Expenditures

- Oil & Gas Tax Credits (FY17 = $686 million)
- Mining License Tax – Depletion Deduction (FY16 = $29 million)
- Insurance: all programs – Deduction from premiums written for claims paid (DCCED*) (FY17 = $18 million)
- Royalty Modification – Oooguruk Unit (FY17 = $18 million)
- Sport Fishing, Hunting & Trapping Senior Discount (FY17 = $14 million)
- Commercial Passenger Vessel Taxes – Tax Reduction for Local Levies (FY17 = $13 million)
- Motor Fuel Tax – Foreign Flight Exemption (FY17 = $8.8 million)
- Discounted Interest Rates - SRF Municipal Loans (FY17 = $6.3 million)
- Insurance: all programs – Lower Tax Rate (DCCED*) (FY17 = $5 million)
- Multiple Tax Programs – Film Production Credit (FY17 = $5 million; credit phasing out under current law)
- Permanent Registration for 8-Year-Old Vehicles (FY17 = $4.6 million)

*DCCED = Department of Commerce, Community, and Economic Development.
Note: This list only includes indirect expenditures with a quantified revenue impact.

2015-2016 Session

- The following indirect expenditures were addressed in a proposed bill:
  - Tobacco Products Tax
    - Gives a four-tenths of one percent deduction to cover the expense of account and filing the return for the tobacco tax
    - FY 2015 revenue impact of $54,053
  - Cigarette Tax
    - Gives a discount of up to $50,000 as compensation for affixing stamps to packs of cigarettes
    - FY 2015 revenue impact of $360,326
  - Motor Fuel Tax
    - Gives a timely filing credits of 1% of the total monthly tax due to a maximum of $100
    - FY 2015 revenue impact of $62,590
  - Large Passenger Vessel Gambling Tax Deduction
    - Allows a deduction of federal and municipal taxes paid from gambling gross income
    - Revenue impact is unknown

2017-2018 Session

- The following indirect expenditures were addressed in a proposed bill:
  - Federal Tax Credits
    - Under Alaska's adoption of the Internal Revenue Code, taxpayers can claim most federal incentive credits
    - FY 2014 revenue impact of $1,578,843 (FY 2016: $1,936,758)
  - Foreign Royalty Exclusion
    - Excludes 80% of foreign royalties from apportionable income
    - FY 2014 revenue impact of $1,408,557 (FY 2016: $1,382,229)
  - Reduced Tax Rate on Capital Gains
    - 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%
    - FY 2014 revenue impact of $1,551,095 (FY 2016: $1,802,151)
  - Exemption from tax under Stranded Gas Development Act
    - 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 tax
    - Revenue impact is $0; no beneficiaries because there is no contract

2017-2018 Session

- The following indirect expenditures were addressed in a proposed bill:
  - State Identification Cards for Senior Citizens
    - Waives identification card fees for applicants that are 60 years or older
    - FY 2017 revenue impact of $198,630
  - Motor Vehicle License Plates and Registrations Fees for Amateur Radio Users
    - Waives registration fees for certain amateur radio users
    - FY 2017 revenue impact of $4,400
  - Motor Vehicle License Plates and Registrations Fees for Municipal Governments and Charitable Organizations
    - Discounts vehicle registration fees from $100 to $10 for vehicles owned by municipal governments, charitable or non-profit organizations, church/religious organizations and Alaska Tribal Village Councils
    - FY 2017 revenue impact of $532,125
  - Permanent Registration for 8-Year-Old Vehicles
    - Allows permanent registration for vehicles 8 years or older in unorganized boroughs or in communities that have passed an ordinance to allow permanent registration
    - FY 2017 revenue impact of $4,664,100

House Bill 398 from 2017-2018

- The following indirect expenditure was eliminated in a passed bill:
  - Utilities Exempted from Water's Edge Combination Reporting
    - Income from public utilities including telephone services is exempt from water's edge combination reporting requirements. These companies can instead pay tax only on Alaska net income, based on separate-entity reporting
    - Revenue impact is unknown because relevant information is not collected
  - HB 398 fiscal note:

    "Within the last 10 years some public utilities have started using their own methods of allocating and apportioning income to Alaska. These methods are less than favorable to Alaska… we are unable to provide an estimate of the additional potential revenue due to confidentiality concerns. However, we estimate that there will be a material amount of additional revenue collected, between $100,000 and $5,000,000, if this legislation were to pass."

Recommendations from Legislative Finance

- There are recommendations made by Legislative Finance Division in both their 2015 & 2017 Indirect Expenditure Reports

- 2015 Report
  - Recommended 17 indirect expenditures be terminated
  - Recommended 33 indirect expenditures be reconsidered
  - Recommended 24 indirect expenditures be reviewed
  - Recommended 37 indirect expenditures be continued

- 2017 Report
  - Recommended 2 indirect expenditures be terminated
  - Recommended 13 indirect expenditures be reconsidered
  - Recommended 3 indirect expenditures be reviewed
  - Recommended 48 indirect expenditures be continued

Fee Setting Authority

- Legislature has granted fee setting authority to certain agencies, for example:
  - Department of Transportation and Public Facilities
    - Alaska Marine Highway (AMHS): foregone revenue related to AMHS discounts amounted to over $4.7 million in FY 2015
  - University of Alaska
    - Scholarship awarding authority
    - Western Undergraduate Exchange
    - Senior Citizen Tuition Waiver
- Discounts offered by agencies with fee setting authority may not qualify as “indirect expenditures” since they are not an “express provision of state law”
- Office of Management and Budget (OMB) produces *Annual Fee Report*
    - Details department and agency fees, including name and purpose
    - Details authorizing statute or regulation and the amount of the fee.

THANK YOU

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