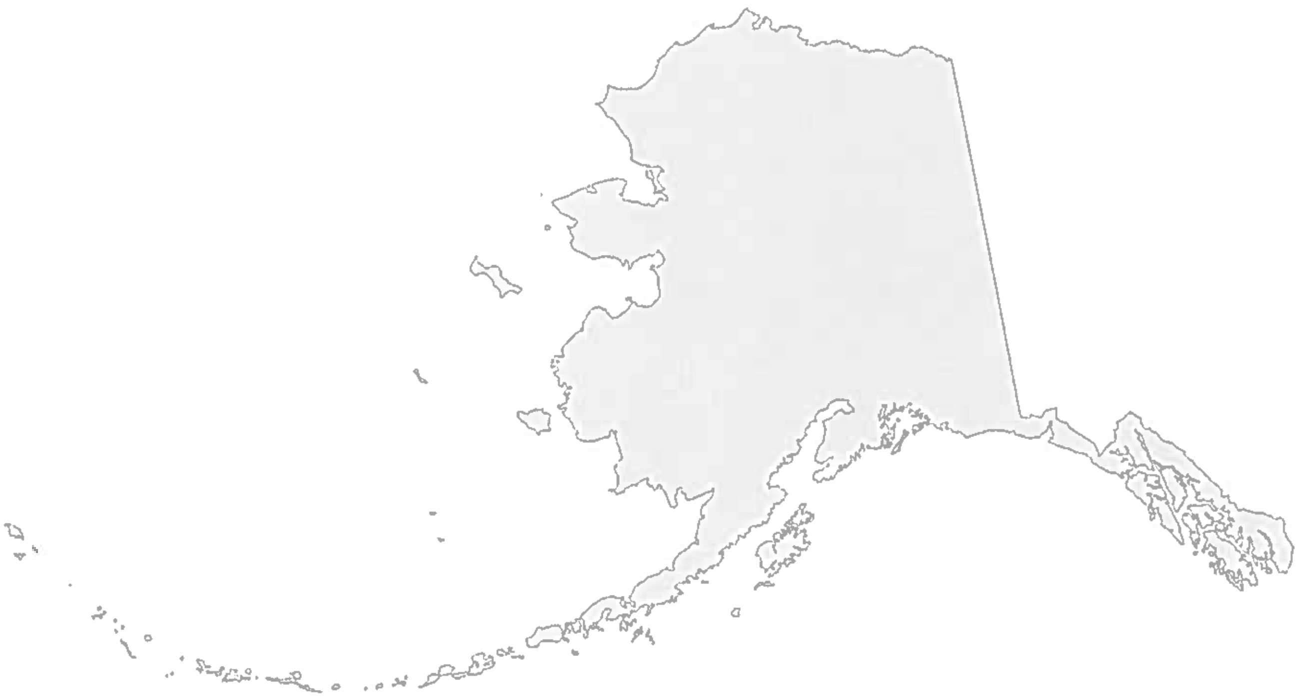
Excerpts provided by Rep. Wool

Indirect Expenditure Report



January 2021

Legislative Finance Division

www.legfin.akleg.gov

Introduction

HB 306 (Ch. 61, SLA 14) requires that the Department of Revenue (DOR) and Legislative Finance Division (LFD) prepare biennial reports to the legislature on indirect expenditures. AS 43.05.095 defines an indirect expenditure as an express provision of state law that results in foregone revenue for the state by providing:

1. a tax credit or other credit;
2. an exemption, but does not include federal tax exemptions adopted by reference in AS 43.20.021;
3. a discount;
4. 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; or
5. a differential allowance.

This is the fourth round of reports; DOR's reports were released in 2014, 2016, 2018, and 2020 and Legislative Finance released reports in 2015, 2017, and 2019. The Legislative Finance Division's report builds on the DOR report and is due to the legislature on the first day of the 2021 legislative session. While DOR's report covers all agencies each biennium, AS 24.20.235 limits the Legislative Finance report to a few agencies each biennium.

The 2021 Legislative Finance report, covers the following departments, which were originally covered in the 2015 report:

1. Commerce, Community and Economic Development;
2. Fish and Game;
3. Health and Social Services;
4. Labor and Workforce Development; and
5. Revenue.

For the 2023 report, Legislative Finance will cover the following departments, which were initially covered in the 2017 report:

6. Administration;
7. Alaska Court System (Judiciary);
8. Education and Early Development, including the Alaska Student Loan Corporation and Alaska Commission on Postsecondary Education;
9. Environmental Conservation;
10. Natural Resources; and
11. Transportation.

Legislative Finance's 2019 and 2025 reports are designated to cover all agencies not reviewed in other years. However, none of the remaining agencies (such as the University of Alaska and the Alaska Railroad) have participated in the Indirect Expenditure reporting process up to this point. Therefore, Legislative Finance's 2019 report exclusively highlighted five provisions set to expire, all of which have now expired.

There is only one provision is set to expire between January 1, 2021 and June 30, 2023. The Alternative Credit for Exploration is scheduled to sunset on December 31, 2021. This report provides a detailed analysis of the credit.

Summary of Recommendations Made	
Recommendation Type	**Count**
Continue	43
Modify	2
No Action	16
No Rec	7
Reconsider	33
Review	18
Terminate	17
Total	*136*

Recommendation Highlights

Index	Dept.	Applicable Program	Indirect Expenditure Name	Recommendation Summary
1.06-1.10	DCCED	Corporations	All	Recommend reconsideration. The legislature may want to review the entire corporate fee structure for effectiveness and to determine whether Alaska's fee structure is comparable to and competitive with fees in other states.
2.07-2.20	DFG	Sport Fishing and Hunting License	All	Recommend review of all Fish & Game license fees. While the State did increase fees in 2017, the agency continues to struggle with a low balance in the Fish and Game fund (both the Wildlife and Sportfish components) and requires UGF to maintain agency functions. Without stabilization or increased funds in the Fish and Game fund, agency operations will likely face future reductions as state access to UGF becomes more constricted.
5.01	DOR	Alcoholic Beverages Tax	Small Brewery Reduced Rate	Recommend modification. The reduced rate applies to any small brewery distributing in Alaska, not just breweries based in Alaska. Legislative intent was to aid breweries and brewpubs based in Alaska. Since the rate reduction applies to out-of-state breweries, the advantage to Alaska breweries and brewpubs is limited.
5.10, 5.13, 5.14	DOR	Corporate Income Tax	Multiple	The legislature should consider discontinuing conformity with the federal tax code, as it results in Alaska inadvertently providing tax credits for activity outside of Alaska. Termination of exemptions for "S" corporations and foreign royalties should also be considered.
5.26	DOR	Fisheries Business Tax	Salmon and Herring Product Development Credit	The credit sunset on 12/31/2020. Recommend reconsideration to determine whether to reestablish the credit. If reestablished, release of some information should be required as a condition of receiving tax credits. See the 2019 *Indirect Expenditures Report* for a detailed analysis.
5.28	DOR	Fisheries Resource Landing Tax	Community Development Quota Credit	Recommend reestablishing the credit, as it sunset on 12/31/2020. Per AS 43.77.050, the credit was taken against the municipal share of the tax, not the state share. Therefore, no revenue was foregone by the state. Instead, this credit redirected revenue from municipalities to CDQ groups. See the 2019 *Indirect Expenditures Report* for a detailed analysis.
5.30-5.31, 5:33	DOR	Mining License Tax	Multiple	Recommend reconsideration of the mining license tax structure in its entirety. Established pre-statehood, the effectiveness of the tax and exemptions may be obsolete.
5.53	DOR	Oil and Gas Production Tax	Alternative Credit for Exploration	Recommend no action, as the Alternative Credit for Exploration (ACE) will expire on 12/31/2021.

Revenue

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
Federal Tax Credits

Department of Revenue Submission per AS 43.05.095

(1) Description 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) Type
Credit

(3) Authorizing Statute, Regulation or Other Authority
AS 43.20.021

(4) Year Enacted
1975

(5) Sunset or Repeal Date
None

(6) 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.

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

(8) Estimated Revenue Impact
FY 2015 - $2,276,765
FY 2016 - $1,936,758
FY 2017 - $1,928,694
FY 2018 - $2,419,294
FY 2019 - FY 2019 incomplete.
Note: All returns with tax periods beginning in FY 2019 have not yet been received, so FY 2019 data is incomplete.

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

(10) Number of Beneficiaries / Who Benefits
Between 300 and 500 companies.

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$2,140,378

(2) Estimate of Annual Monetary Benefit to Recipients
$5,351

Revenue

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
Federal Tax Credits

Legislative Finance Analysis per AS 24.20.235

(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 credits by reference into its own tax code. Doing so results in the state of Alaska giving tax credits for activity both within and outside of the state of Alaska, for purposes determined by the federal government rather than the state. The state could equally efficiently administer the tax based on federal adjusted gross income or taxable income. The state could also selectively allow some federal credits rather than eliminating all federal credits. Due to the federal CARES Act provision allowing corporations to carry losses back to past tax years, the cost of this indirect expenditure will be significantly greater in FY 2020 and FY 2021.

Revenue

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
Foreign Royalty Exclusion

Department of Revenue Submission per AS 43.05.095

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

(2) Type
Exclusion

(3) Authorizing Statute, Regulation or Other Authority
AS 43.20.145(b)

(4) Year Enacted
1991

(5) Sunset or Repeal Date
None

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

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

(8) Estimated Revenue Impact
FY 2015 - $1,913,154
FY 2016 - $1,479,879
FY 2017 - $1,706,901
FY 2018 - $2,169,950
FY 2019 - FY 2019 incomplete.
Note: All returns with tax periods beginning in FY 2019 have not yet been received, so FY 2019 data is incomplete.

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

(10) Number of Beneficiaries / Who Benefits
Approximately 250 companies.

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Revenue Foregone by the State
$1,817,471

(2) Estimate of Annual Monetary Benefit to Recipients
$7,270

(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

Revenue

Applicable Program
Corporate Income Tax

Indirect Expenditure Name
Foreign Royalty Exclusion

Legislative Finance Analysis per AS 24.20.235

(4) Should it be Continued, Modified or Terminated? (cont.)
seen as a loophole because it allows taxpayers to reduce liability by shifting assets to offshore subsidiaries.