Indirect Expenditure Report

January 2019

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 third round of reports; DOR's reports were released in 2014, 2016, and 2018, and Legislative Finance released reports in 2015 and 2017. The Legislative Finance Division's report builds on the DOR report and is due to the legislature on the first day of the 2019 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.

For the 2015 report Legislative Finance covered the following departments, which will be revisited in the 2021 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 2017 report, Legislative Finance covered the following departments, which will be revisited in the 2023:

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 report is designated to cover all agencies not reviewed in 2015 or 2017. 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, there are no agencies to review. If legislators wish to see the report cover these agencies, the statutory definition of indirect expenditures may need to be revisited.

Legislative Finance has elected to provide updated reviews of the five provisions that are set to sunset in 2019 or 2020. Of these reviews, LFD opted to conduct a more in-depth analysis of the Salmon and Herring Product Development Tax Credit. This review was not required by statute, but could be useful to legislators.

In the 2021 report, LFD will be required to analyze the same group of provisions as in the 2015 report. Many of the provisions will not require further analysis, so that report could include more in-depth review of some provisions. The process set up in 2014 could be altered to create a process for these reviews. In some states, the equivalent of Alaska's Legislative Budget and Audit committee designates a few provisions for review each year. In others, the reviewing agency itself sets a schedule for in-depth reviews. In either case, the process is aimed at allowing time for thorough reviews of a few provisions. As all provisions have now been at least superficially reviewed, a more detailed look at certain provisions would likely yield more useful information going forward.

Summary of Recommendations

Department	**Applicable Program**	**Indirect Expenditure Name**	**Recommendation**
Health and Social Services	SHARP II	Health Care Professions Loan Repayment and Incentive	Allow to sunset
Revenue	Corporate Income Tax	In-State Refinery Tax Credit	Allow to sunset
Revenue	Corporate Income Tax	LNG Storage Facility Credit	Allow to sunset
Revenue	Fisheries Business Tax	Salmon and Herring Product Development Credit	Continue, with modifications
Revenue	Fisheries Resource Landing Tax	Community Development Quota Credit	Continue, remove sunset

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Revenue

Applicable Program
Fisheries Resource Landing Tax

Indirect Expenditure Name
Community Development Quota Credit

Department of Revenue Submission per AS 43.05.095

(1) Description of Provision
A non-transferable credit for contributions to an Alaska nonprofit corporation that is dedicated to fisheries industry-related expenditures. The credit is available only for fishery resources harvested under a community development quota (CDQ). The credit is 100% of contribution amount up to a maximum of 45.45% of tax liability on fishery resources harvested under a CDQ.

(2) Type
Credit

(3) Authorizing Statute, Regulation or Other Authority
AS 43.77.040

(4) Year Enacted
1993, last amended 2014

(5) Sunset or Repeal Date
Sunset on 12/31/2020

(6) Legislative Intent
The Legislature intended to provide a tax credit to encourage CDQ programs to contribute to nonprofits that provide jobs and training in Western Alaska.

(7) Public Purpose
To provide jobs and training in Western Alaska.

(8) Estimated Revenue Impact
FY 2013 - $490,371
FY 2014 - $411,144
FY 2015 - $571,581
FY 2016 - $556,529
FY 2017 - $738,168

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

(10) Number of Beneficiaries / Who Benefits
Between 10 and 20 corporations.

Legislative Finance Analysis per AS 24.20.235

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

(2) Estimate of Annual Monetary Benefit to Recipients
$36,867

Revenue

Applicable Program
Fisheries Resource Landing Tax

Indirect Expenditure Name
Community Development Quota Credit

Legislative Finance Analysis per AS 24.20.235

(3) Legislative Intent Met?

Yes

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

Recommend continuation. Per AS 43.77.050, the credit is taken against the muncipal share of the tax, not the state share. Therefore, no revenue is foregone by the state. Instead, this credit redirects revenue from municipalities to CDQ groups. A sunset provision is unnecessary for this provision from the State's standpoint since no revenue is foregone by the State. However, municipalities that are impacted may prefer to keep the sunset in place.