

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: CSHB 48(FIN)
 (H) Publish Date: 3/7/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
 Title Retirement Board Purchase PPT Credits RDU Taxation and Treasury
 Component Tax Division
 Sponsor Representatives Seaton, Kelly
 Requester (H) State Affairs Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	*	*	*	*	*	*
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

*This bill would authorize the Alaska Retirement Management Board (ARM) to purchase transferable tax credit certificates issued under AS 43.55.023 and AS 43.55.025 for 92 percent of the face value of the certificates. The ARM board would then sell the certificates to the Department of Revenue for the full face value of the certificates, unless the commissioner of the Department of Revenue determines that economic conditions are not acceptable for the state to purchase and pay for the certificates. The proceeds of these sales would be used by the ARM board to defray the unfunded pension liabilities for which the board is responsible.

Alaska Statutes 43.55 currently offers three clearly identifiable means of obtaining and selling tax credits for petroleum exploration activity and other capital costs relating to petroleum production.

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 Division Treasury and Tax Date/Time 2/13/07 10:00 AM
 Approved by: Jerry Burnett Date 2/14/2007
 Agency Department of Revenue

FISCAL NOTE #3

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. CSHB 48(FIN)

ANALYSIS CONTINUATION

AS 43.55.025, known as the Exploration Incentive Credit, offers tax credits for either 20% or 40% of exploration expenditures incurred before July 1, 2016. The certificates issued under this program can be carried forward or transferred. Current statutes allow these credit certificates to be sold to other taxpayers; there is no provision for the state to buy credit certificates generated under AS 43.55.025 directly from the explorer to which the credit was originally issued.

Tax credits generated under AS 43.55.023, through excess capital expenditures or net losses, can also be carried forward or transferred. Current statutes allow these credit certificates to be sold to (1) other taxpayers (AS 43.55.023(e)), or (2) to the state Department of Revenue (AS 43.55.023(f)).

Although there are qualifying criteria for the state's purchase of credit certificates at AS 43.55.023(f), there are no restrictions on the amount to be paid for the certificates (other than the maximum refund per taxpayer of \$25 million per year), and it is assumed that the state would pay full face value for the certificates. There are also no restrictions on the amount other taxpayers can pay for the certificates, although it is assumed they would pay less than face value and current statutes limit the amount transferred certificates can reduce a taxpayer's liability to 20 percent per year.

Given the three options and their qualifying criteria, it is difficult to assess which program certificate holders will favor. Were the expenditures to qualify under the EIC 40% credit program, then it is likely that would be the first choice. As of December 31, 2006, the EIC program issued credits totaling \$34.7 million dollars over the 3.5 years since the program's inception; additional applications are pending approval by the department. If all the credits issued were sold to the ARM board for 92% of the face value and resold to the Department of Revenue, the total generated for the ARM board over the period would have been approximately \$2.8 million.

Alternatively, should the expenditures qualify only for the 20% credit, then it is likely that the certificates would be transferred to the highest bidder. The highest bidder could be another taxpayer, the state Department of Revenue, or, under this bill, the ARM board.