

HOUSE FINANCE COMMITTEE

March 11, 2014

8:36 a.m.

8:36:53 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 8:36 a.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Lindsey Holmes
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Johanna Bales, Deputy Director, Tax Division, Department of Revenue.

SUMMARY

HB 112 REPEAL FILM PRODUCTION TAX CREDIT

HB 112 was REPORTED out of committee with "no recommendation" and with one new zero impact fiscal note from the Department of Commerce, Community and Economic Development and one fiscal impact note from the Department of Revenue.

#hb112

HOUSE BILL NO. 112

"An Act repealing the film production tax credit; providing for an effective date by repealing the effective dates of secs. 31 - 33, ch. 51, SLA 2012; and providing for an effective date."

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Co-Chair Stoltze asked if there were any amendments to the bill.

Representative Costello discussed the zero fiscal note from the Department of Commerce, Community and Economic Development (DCCED) and the fiscal impact note from the Department of Revenue (DOR).

Co-Chair Stoltze noted that there had been approximately \$40 million in credits redeemed and \$60 million in credits encumbrance; the total was \$200 million.

Vice-Chair Neuman MOVED to REPORT HB 112 out of committee with individual recommendations and the accompanying fiscal notes.

Co-Chair Stoltze OBJECTED for discussion.

Representative Gara pointed to the \$40 million used. He wondered if there was an annual limit.

JOHANNA BALES, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, responded that the limitation was by amount for a period of time. The first \$100 million in the program was through the end of June 2013, and the additional \$200 million was for the period running through 2023.

Representative Wilson wondered why the tax credits were allowed to be sold versus the industry using them. Ms. Bales replied that the producers receiving the tax credits were typically not tax payers. They were not subject to any of the eight different tax types, of which the credit could be taken against. In order for the producer to receive anything, they would need to transfer the credit to tax payer.

Representative Wilson asked how the legislature or public find out where the tax credits were used. Ms. Bales responded that the department tracked where the credits were used. She stated that when a tax payer purchases a tax

credit the receive a certificate which must be attached to the tax return filing against the tax type that would be claimed under the credit. She agreed to provide the information in the aggregate.

Representative Wilson asked if the public saw the detail of who utilizes the credits. Ms. Bales replied that she could provide the tax types the credits were taken against, but not the name of the tax payer.

Co-Chair Stoltze assumed that there was anonymity. Ms. Bales replied that there were confidentiality statutes that prohibited DOR from distributing that information.

Representative Thompson corrected the fiscal note.

Representative Costello restated the fiscal note from DOR showed that the fiscal impact for FY 15 was \$338,400, no fiscal impact in FY 16 and FY 17, and a savings to the state in FY 18 forward of \$304,800.

[8:43:58 AM](#)

Representative Costello wondered about information on the amount of money that went to salaries for Alaskans. Ms. Bales replied that no tax credits had been issued under the new program. The prior program had been overseen and administered by DCCED. The department was working to decipher the amount of wages that were paid directly to Alaskans.

Co-Chair Stoltze asked if there were any industry pronouncements to hire Alaskans. Ms. Bales replied that the department did receive information from some of the production companies, when they were seeking Alaska talent. She stated that she did not have any information regarding what the companies had done to promote hiring Alaskans.

Representative Costello remarked that the amount of the tax credit would equal the amount of money that was paid to Alaskans, because that was how the legislature drafted the bill. She stressed that the number would be equal to the salaries that were going to Alaskans.

Representative Munoz asked about clarification on outstanding credits. Ms. Bales replied that \$42 million had

been redeemed of \$86 million rewarded. She stated that \$8 billion had been prequalified under the new program, and applications were currently being examined, and could be prequalified before July 1, 2014.

Co-Chair Stoltze surmised that it was just higher than \$100 million. Ms. Bales agreed.

Representative Munoz asked if the \$200 million was repealed, which would have carried forward to 2023. Ms. Bales replied that the amount would be slightly less \$200 million in potentially increased revenue if the program was repealed.

Representative Wilson asked about residency requirements. She understood that one had to be present in Alaska for 30 days. Ms. Bales replied in the affirmative. Below the line wages would need to meet the Permanent Fund Dividend residency requirements.

Representative Gara understood that there was a total \$300 million allocation for the program over ten years, with \$42 million since the program's inception. Apart from the \$200 million leftover through 2023, he understood that there was a certain amount that was encumbered. He queried a range of estimates that the state would pay for pending applications at the top and bottom end. Ms. Bales replied that the department had approved \$86 million in credits, meaning that the companies had received a transferable tax credit certificate. Of those, \$42 million had been used against taxes. The department had preapproved another \$8 million, which meant that a company had stated that they had estimated expenses for a proposed production. She stated that there were several current applications that had not been prequalified for production. She announced that approximately \$100 million had been actually approved.

[8:50:45 AM](#)

Representative Guttenberg asked for clarification on the prequalified number. Ms. Bales replied that the number was \$8 million.

Representative Guttenberg asked how many productions that made up. Ms. Bales replied that there were 29 productions.

Representative Gara began as mildly supportive of the program. He believed the program should be maintained. The state's economy was not diverse. The Native corporations had become a driving force, so did not have a broad based economy. The program did not cost the state a lot of money. It equated to approximately \$20 million per year. The state had increased the amount of money going to local hire, and it had a side effect of benefitting the state's tourism economy. The flaw in all of the state's tax credits was that companies only paid a corporate tax when they were a C corporation. He discussed the loophole in the corporate tax program. He believed the committee would have to look at the issue in the future.

[8:56:07 AM](#)

Representative Gara continued discussing taxes in Alaska. He believed the bill helped move the economy forward. He pointed to past testimony that the program had created many desirable jobs for Alaskans. He reiterated that the state did not have many ways to diversify the economy. If a person was not interested in the oil industry or the health field there were other jobs offered. He restated that the program cost approximately \$20 million per year; a cap had been put on the amount intentionally. He discussed that Senator Johnny Ellis had been the prime sponsor of the program. He pointed to locations films ad been produced in the past; films were now filmed in Alaska due to the credit program. The program brought jobs to rural Alaska. He did not believe getting rid of the program was necessary. He spoke in support of the program.

Vice-Chair Neuman spoke against the program. He pointed to an audit of the program (copy on file). He read from the audit. He spoke to the fiscal impact of the bill. He stated that \$21 million of investment brought in \$1 million to the state. He pointed to difficult fiscal times and spoke about reductions in the operating budget. He wondered where the state would come up with the money. He acknowledged that some money went to Alaskans. He supported the bill.

[9:02:15 AM](#)

Representative Costello spoke against the program. She treated the program like capital project. As the legislature weighed whether it wanted to spend money, and stressed the efforts the state had the responsibility to

spend money on. She voted to move the bill from committee. She believed the full legislature should have a voice on the issue.

Representative Thompson went back and forth on the issue. He felt like there was an effect happening as a result of the program; however, he looked at the state's budget. He wondered if repealing the program would reduce the number of employed persons in Alaska. He had not made up his mind on the issue.

9:05:16 AM

Representative Munoz spoke from the perspective of a small business owner. She did not believe it made sense to pull back completely on the program. She pointed to television programs and advertising; she believed the program was providing Alaska with media benefits. She recalled a John Sales film that had been filmed in the state years earlier. She wanted to see the program continue. She acknowledged that it may need to be ramped back. She spoke against the bill.

Representative Guttenberg spoke in support of the program. He believed repealing the program would be pulling the rug out from underneath a new industry that did not have the feet to be self-sustaining at the time. He stressed that it was important to optimize what the state had. He reiterated that the industry was gaining momentum. He spoke to the development of talent. He pointed to an Alaskan who had just received an academy award for work done outside of Alaska. He stressed the importance of bringing those people home.

9:12:33 AM

Representative Gara referred to a Legislative Budget and Audit (LB&A) study, and believed the study was done prior to 2012. Co-Chair Stoltze agreed.

Representative Holmes noted that the numbers reflected the old program. There were not updated numbers. She liked to see talent developed locally. She was struggling with the issue. She would like to support tourism, small businesses and other industry, but noted that the credits issued may have a negative impact on state funds.

Co-Chair Austerman spoke to his encouragement of how to expand the state's economic base. Until the state figured out what its tax base and tax structure would look like, it would be difficult to measure the success of the program. He stated that \$20 million per year provided no comparison to the oil industry. He believed the state needed to continue to pursue developing new industries in the state. He pointed to other legislation taking a look at how tax credits benefited the state. He did not oppose moving the bill from committee but could not support it on the floor.

Representative Wilson would not stop the bill; however, she was concerned about data collection in the state related to taxes. She noted it was not the fault of the industry. She read from the audit. She stated that \$20 million per year was significant. She was concerned about whether the program was beneficial to the state because of the way it portrayed the state. She stated that small miners felt they were regulated more because some of the shows made it look like they were not adequately regulated. She pointed to another bill in committee related to tax credits, and emphasized that the companies were out of state. She agreed that Alaska should focus developing our talents, but reminded about that when oil taxes were changed the subcontracting jobs moved out of state. She stated that it was important to pressure the companies making the movies to know where the credits were going.

[9:20:32 AM](#)

Co-Chair Stoltze remarked that the tax credits were subsidies. He felt that the program would only work with an income tax, but he would not support an income tax. He stressed that a tax credit would only work within an actual tax structure. He stressed that any dollar put into the program was money that was taken away from savings.

Co-Chair Stoltze WITHDREW his OBJECTION.

There being NO further OBJECTION HB 112 was REPORTED out of committee with "no recommendation" and with one new zero impact fiscal note from the Department of Commerce, Community and Economic Development and one fiscal impact note from the Department of Revenue.

Co-Chair Austerman discussed the agenda for the afternoon meeting.

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ADJOURNMENT

9:24:07 AM

The meeting was adjourned at 9:24 a.m.