

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version:	SB 5002
Fiscal Note Number:	2
(S) Publish Date:	7/11/2016

Identifier: 0514-DOR-TAX-07-08-16
 Title: OMNIBUS TAXES & CREDITS; MINING
 LICENSES
 Sponsor: RLS BY REQUEST OF THE GOVERNOR
 Requester: Governor

Department: Department of Revenue
 Appropriation: Taxation and Treasury
 Allocation: Tax Division
 OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2017 Request	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES	FY 2017	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	65,650.0		138,900.0	139,750.0	139,850.0	140,950.0	141,400.0
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Estimated SUPPLEMENTAL (FY2016) cost: 0.0 (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 200.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? yes
 If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/17

Why this fiscal note differs from previous version:

Original fiscal note for 5th special session bill. This bill incorporates elements of multiple bills that did not pass during the 2nd session and 4th special session of the 29th legislature.

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Division:	Tax Division	Date:	07/07/2016 08:00 PM
Approved By:	Jerry Burnett, Deputy Commissioner	Date:	07/08/16
Agency:	Department of Revenue		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

Analysis

Bill Analysis**Motor Fuel Tax**

Alaska has had an excise tax on motor fuel since 1945, which is charged and collected monthly. The highway tax rate was last increased in 1970; marine rate in 1977; aviation and jet fuel rates in 1994. The last major changes to the program were in 2008 when the motor fuel tax was suspended effective September 1, 2008 to August 31, 2009.

The primary change in this legislation would be to increase the tax rates of all categories of motor fuel. The tax rate for highway fuel would rise from \$0.08 to \$0.16 per gallon; for marine fuel, from \$0.05 to \$0.10 per gallon; for jet fuel, from \$0.032 to \$0.065 per gallon; and for aviation gasoline, from \$0.047 to \$0.07 per gallon. The increases take effect on July 1, 2016.

DOR estimates that increasing the motor fuel tax rates approximately double tax collections, with additional revenue of approximately \$43 million per year. Of this, approximately \$0.2 million would be shared with municipally owned airports.

Tobacco Tax

Currently, there are two separate taxes on cigarettes—the base tax of 38 mills per cigarette and the additional tax of 62 mills. Revenue from the base rate is deposited in the School Fund. Revenue from the additional tax is General Fund., other than the 8.9% of that revenue deposited into the Tobacco Use Education and Cessation Fund.

This bill would increase the additional tax on cigarettes from 62 mills to 112 mills (a tax increase of 5 cents per cigarette). This bill also increases the tax on tobacco products other than cigarettes from 75% of the wholesale value to 100%. It also creates a tax on electronic smoking products at 75% of wholesale value. Electronic cigarettes aren't currently taxed. Additional revenue is estimated between \$25 and \$30 million / year based on the cigarette and other tobacco product increases. Revenue from the e-cigarette tax is indeterminate.

Alcohol Tax

Alaska has had an excise tax on wholesale alcoholic beverages since 1933. Over the years, the tax rate has increased to account for inflation, public need, and in line with increases made in other states. The alcoholic beverage tax is charged and collected monthly.

The last major changes to the program were in 2002, during another period of large budget deficits when the taxes were raised to the current "dime a drink." In the actual statutory change made at that time, tax was set to equal 10 cents for each one ounce of distilled spirits, five ounces of wine, or 12 ounces of beer. For small craft breweries, the tax is reduced to 3.3 cents per 12 ounce portion.

The primary change in this legislation would be to double the tax rates on all forms of alcoholic beverages, to a total of 20 cents per drink portion, with the rate increased to 6.6 cents for small craft breweries. The bill maintains the current statutory formula, in which 50% of the alcoholic beverage tax is deposited into the Alcohol and Other Drug Abuse Treatment and Prevention Fund, supporting various programs within the Mental Health budget. Total additional revenue is about \$40 million / year.

Analysis Continued**Mining Tax**

Alaska levies a Mining License Tax on mining net income and royalties received in connection with mining properties and activities in Alaska. Mining licensees file annual tax returns. The mining license tax dates back to 1913 and the rate structure as it exists today was adopted in 1955. In 1951, the legislature authorized a 3 ½ year exemption for new mining operations.

The primary change in this legislation would be to increase the highest tax rate from 7% to 9% of the amount of net taxable income over \$100,000 and to reduce the exemption from paying tax from 3 ½ years to 2 years after production begins for new mining operations. The tax brackets for income levels below \$100,000 are unchanged. Because of the annual tax structure, the state will not see the impact of the increase until the returns that are filed after the first full year after the effective date. Therefore, this tax change shows no fiscal impact until FY 2018. Additional revenue is about \$7 million / year.

Fisheries Taxes

The Fisheries Business Tax is generally paid by seafood processors, although it is also paid by fisherman if they market and sell their fish directly. The rate varies from 1% to 5% depending on the location and type of processing and the condition of the fishery (onshore / offshore; canning / other processing; developing / mature fishery.) The Fisheries Landing Tax is generally paid by offshore processors, usually working in federal fisheries, who bring their product through Alaska ports.

These are the only two fisheries taxes that generate unrestricted general funds; any others are dedicated special purpose levies. Currently both these taxes are split 50/50 with the municipality in which the activity takes place.

This legislation would increase the tax rates for all established fishery categories within both the Fisheries Business Tax (FBT) and the Fisheries Landing Tax (FLT). The tax rates for developing fisheries are unchanged. This legislation would also alter the municipal sharing formula so that the state receives the first 1% of the value of each fishery, for both Fisheries Business Tax and Fisheries Landing Tax, before any funds are shared with municipalities. The tax changes result in additional revenue to the state of about \$18 million / year.

The bill also removes the "cap" on the formula which establishes the annual fee for a limited entry permit from the Commercial Fisheries Entry Commission, which currently cannot be more than \$3,000. This removal is estimated to raise an additional \$2 million in annual revenue.

Implementation Cost

This legislation would require the Department of Revenue to update its Tax Revenue Management System (TRMS) and Revenue Online (ROL) which allows a taxpayer to file their return online, for reach of the tax types impacted in this legislation. The update would consist of reprogramming both systems, updating the return rules in TRMS and testing both systems thoroughly to verify that they function as expected. We would also need to update the current tax return forms. The capital fiscal note figure of \$200.0 in FY17 is to cover the costs of having our contractor update the systems for the impacted (existing) taxes. We do not anticipate any continuing costs or additional staff needs.

Analysis Continued

Revenue Detail

This legislation has an effective date of January 1, 2017 for most sections. This differs from similar legislation that was considered during the regular session and 4th special session, which had an effective date of July 1, 2016. The impact of this change is limited to FY17 revenue, for which our forecasted revenue increases are reduced by half.

Revenue from Omnibus Special Session Tax Bill						
	FY17	FY18	FY19	FY20	FY21	FY22
Component						
Motor Fuel	21,400.0	42,800.0	42,800.0	42,800.0	42,800.0	42,800.0
Tobacco	14,550.0	28,400.0	27,750.0	27,250.0	26,850.0	26,400.0
Alcohol	20,000.0	40,900.0	41,800.0	42,800.0	43,700.0	44,700.0
Mining	-	7,000.0	7,200.0	6,400.0	6,600.0	6,000.0
Fisheries- Tax	8,700.0	17,800.0	18,200.0	18,600.0	19,000.0	19,500.0
Fisheries- CFEC	1,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0
Total Additional Revenue	65,650.0	138,900.0	139,750.0	139,850.0	140,950.0	141,400.0
Revenue by Fund						
Unrestricted General Fund	54,500.0	116,150.0	116,650.0	116,350.0	117,000.0	117,050.0
Alcohol and other Drug Abuse Treatment & Prevention	10,000.0	20,450.0	20,900.0	21,400.0	21,850.0	22,350.0
Tobacco Use Education and Cessation	1,050.0	2,100.0	2,000.0	1,900.0	1,900.0	1,800.0
Aviation Shared Taxes	100.0	200.0	200.0	200.0	200.0	200.0
Total Additional Revenue	65,650.0	138,900.0	139,750.0	139,850.0	140,950.0	141,400.0