

HOUSE FINANCE COMMITTEE
February 10, 2015
1:31 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 1:31 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Dan Stickel, Assistant Chief Economist, Tax Division, Department of Revenue; Mackenzie Merrill, Economist I, Tax Economic Research Group, Department of Revenue; Brodie Anderson, Staff, Representative Steve Thompson; Jerry Burnett, Deputy Commissioner, Treasury Division, Department of Revenue; David Teal, Director, Legislative Finance Division.

SUMMARY

PRESENTATION: INDIRECT EXPENDITURE REPORT DISCUSSION
RELATED TO CHAPTER 61, SLA 14

Co-Chair Thompson reviewed the agenda for the day. He read from a prepared statement:

The 28th Legislature passed legislation that requires a creation of two reports to be produced on the potential loss of foregone revenue known as "indirect expenditures" and to provide a definition of the indirect expenditures. The first report was produced by the Department of Revenue (DOR). The second report was produced by Legislative Finance building on the report provided by DOR. Each report reflects the required information laid out in the legislation.

Co-Chair Thompson introduced the presenters for the day.

^INDIRECT EXPENDITURE REPORT DISCUSSION RELATED TO CHAPTER 61, SLA 14

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DAN STICKEL, ASSISTANT CHIEF ECONOMIST, TAX DIVISION, DEPARTMENT OF REVENUE, introduced the PowerPoint presentation, "Indirect Expenditure Report Discussion Related to Chapter 61, SLA 14."

Mr. Stickel revealed slide 2: "Note." He indicated that the presentation focused on report methodology and substance, not policy issues regarding specific indirect expenditures.

MACKENZIE MERRILL, ECONOMIST I, TAX ECONOMIC RESEARCH GROUP, DEPARTMENT OF REVENUE, reviewed slide 3: "Overview":

Indirect Expenditure Report Legislation Overview

Bill provisions, DOR requirements, Legislative Finance Division requirements

Process and methodology for producing the DOR Indirect Expenditure Report

Overview of the DOR Indirect Expenditure Report

Future Plans

Ms. Merrill discussed the legislation overview in slide 5: "Indirect Expenditure Report Legislation Overview":

Passed in 2014 and signed on July 7, 2014

The first DOR Indirect Expenditure Report was released the day after the bill was signed, July 8, 2014

Requires DOR to submit a report to the Legislature biennially on July 1 detailing indirect expenditures of all agencies in the State (AS 43.05.095)

Requires the Legislative Finance Division to provide a report to the Legislature on the indirect expenditures of certain agencies before the start of Legislative Session following the release of DOR's biennial report

Modifies or implements sunset dates on certain non-oil and gas tax credits

Ms. Merrill touched on the original legislation that created the report. She noted that in statute the report was due on July 1, 2014. However, the report was not released until July 8, 2014, the day following the signing of the bill. She pointed out that the report was published every two years. The Legislative Finance Division (LFD) was required to provide an analysis of indirect expenditures of specific agencies subsequent to the report's release.

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Ms. Merrill explained slide 6: "Indirect Expenditures Defined":

Indirect expenditure: Any foregone revenue by the state designed to encourage an activity to benefit the public in the form of a credit, exemption, deduction, deferral, discount, exclusion, or other differential allowance.

As defined by AS 43.05.095(d):

A tax credit or other credit

An exemption, but does not include federal tax exemptions adopted by reference in AS43.20.021

A discount

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

A differential allowance

Ms. Merrill provided the definition of an indirect expenditure and reviewed its importance. She noted that many other states had tax expenditure reports. However, the tax expenditures were typically tied directly to tax systems. Alaska had many indirect expenditures that were not directly linked to its tax system. The Department of Revenue's (DOR) report included more variety and was much more inclusive of expenditures outside of tax credits. She cited the example of military discounts on hunting and fishing licenses.

Ms. Merrill turned to slide 7: "DOR Indirect Expenditure Report":

Released July 8, 2014 by DOR

Based in part on the 2013 Legislative Research report, Indirect Expenditures, Provisions in Alaska Law

Provides details on 251 indirect expenditures across 11 departments and agencies, including 78 provisions administered by DOR

A cooperative effort between the 10 other participating agencies, coordinated by DOR

Ms. Merrill commented that the department maintained some of the formatting from the 2013 Legislative Research Report, a report that also provided some ground work for departments that contributed to the DOR report. She acknowledged the collaborative efforts of the report contributors.

Ms. Merrill reviewed slide 8: "Credit Sunset Dates":

The Indirect Expenditure Report legislation modified sunset dates on certain credits:

December 31, 2016 for the Winn Brindle Scholarship tax credit and the salmon utilization tax credit

December 31, 2018 for the film production credit and the education credit

December 31, 2020 for the salmon product development

credit and the Community Development Quote (CDQ) credit

Ms. Merrill relayed that sunset dates allowed for a regular review of tax credits which was a common practice in other states that generated similar reports.

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Ms. Merrill pointed to slide 10: "Methodology - Internally":

Internally:

Work began in April 2014 with a dedicated economist and dedicated time from others, including:

Audit supervisors and staff

Accounting supervisors and staff

DOR IT

Other Economic Research Group Staff

Department of Law

Ms. Merrill presented the process and methodology that DOR used for completing the 2014 Indirect Expenditure Report. She mentioned there was a dedicated economist and time dedicated by volunteers. She emphasized that Dan Stickel had been very involved in reviewing drafts and helping to coordinate with the Department of Law (DOL).

Ms. Merrill reported on slide 11: "Methodology - Externally":

Externally:

DOR met with other departments and agencies and sent out a survey for the report

Each agency examined their operations to identify indirect expenditures and report the required information

Many departments identified additional indirect expenditures that needed to be added

Submissions from other departments and agencies are not independently verified

Ms. Merrill explained that when DOR met with the departments and agencies they laid out expectations. The Department of Revenue also sent out a survey to solicit information for the report. She reiterated that the Legislative Research Report helped to lay the ground work allowing for the department to identify additional indirect expenditures. The Department of Revenue hoped that, going forward, departments would improve on identifying indirect expenditures within their operations.

Ms. Merrill scrolled to slide 12: "Reported Information":

Each department was required to report the following information:

The name of the indirect expenditure

A brief description

The statutory authority

The repeal date, if applicable

The intent of the legislature in enacting the statute authorizing the indirect expenditure

The public purpose served by the indirect expenditure

The estimated revenue impact of the indirect expenditure for the previous five fiscal years (excluding the fiscal year immediately preceding the date the report is due)

The estimated cost to administer the indirect expenditure, if applicable

The number of beneficiaries of the indirect expenditure

Ms. Merrill commented that the list was laid out in statute. The Department of Revenue also asked agencies to provide the year in which each expenditure was enacted. She observed that there were many enacted prior to statehood.

Ms. Merrill advanced to slide 13: "Review and Coordination":

Before release, DOR methodology and report drafts were reviewed by:

Contributing agencies and departments

Legislative Finance Division

The Office of Management and Budget

The Bill Sponsor's staff

Ms. Merrill offered that DOR wanted to make sure all parties involved understood the process and methodology. Feedback was provided in the report to the extent possible given the compressed timeframe.

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Ms. Merrill explained slide 15: "Overview of DOR's Indirect Expenditure Report":

Introduction, discussing the purpose of the report, what is included in the report, and an explanation of the limitations of the report

The indirect expenditures are organized by:

Departments, alphabetically

Divisions, alphabetically

Grouped by Program Name (if applicable)

Ms. Merrill discussed the contents of the report including how the indirect expenditures were organized. She gave the example of multiple programs within the tax division of the Department of Revenue.-

Ms. Merrill talked about slide 16: "Limitations of DOR's Indirect Expenditure Report":

Due to the short time constraints:

There is some missing or unverified information
"Cost to Administer" is limited

The "Legislative Intent" section of many indirect expenditures was incomplete

In some cases "Number of Beneficiaries" required additional work to ascertain the impact of the indirect expenditure

More time was needed to carry out in-depth analysis

Ms. Merrill mentioned that looking forward DOR wanted to establish a concrete definition of "cost to administer" in order to be consistent across departments. She indicated that the department would be meeting with stakeholders to set a definition. She asserted that DOL was helpful in trying to determine legislative intent. She reported that DOR would be examining some of the expenditure history. She pointed out the need for additional time to be able to conduct a more in-depth examination. The next report was due in July 2016 which would allow for the needed time for further analysis.

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Ms. Merrill slide 18: "Future Plans":

Reaching out to the University of Alaska and the Alaska Railroad for inclusion in future reports

Reaching out to the Office of Management and Budget, the Legislative Finance Division, and the Bill Sponsor concerning the next Indirect Expenditure Report in 2016

Refining definitions of "Cost of Administration" and "Legislative Intent" by working with stakeholders

Integrating DOR Indirect Expenditure Report reporting with the new Tax Revenue Management System

Compiling feedback and suggestions which may be incorporated into the next report in summer 2016

Ms. Merrill informed the committee that DOR was looking to include additional departments and agencies in the next report. She relayed that DOR would be conducting a dry run of indirect expenditure reporting in the state's new tax revenue management system to ensure that any needed information could be extracted from it. She stressed that DOR welcomed any feedback or suggestions to make the report a useful and effective document.

Co-Chair Neuman asked Mr. Stickel for his view of the recommendations made in the indirect expenditures report. Specifically, he wanted Mr. Stickel's take on potential economic impacts on Alaskan communities. Mr. Stickel asked if Co-Chair Neuman was referring to the recommendations for each indirect expenditure.

Co-Chair Neuman responded in the affirmative and referenced Mr. Stickel's comments in the comment section of the report. Mr. Stickel replied that DOR's report stated the facts including a list of indirect expenditures and their corresponding revenue impacts. The Legislative Finance Division analyzed some of the indirect expenditures and made recommendations to keep, modify, or eliminate them.

Co-Chair Neuman clarified that Mr. Stickel looked at the expenditures then categorized them. Mr. Stickel explained that DOR had not made any recommendations about the indirect expenditures.

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Representative Guttenberg asked about unverified information from agencies and departments. He wondered if Mr. Stickel would go back to verify information at a later time. Ms. Merrill responded that DOR assumed they were looking at the best information possible. In future reports DOR wanted to be a resource if a department was having issues finding information or needed clarification.

Representative Guttenberg asked how unverified information would be dealt with in the future. Mr. Stickel responded that DOR would be looking at things like "cost to

administer." He would make sure that each of the agencies was using the same for what they were reporting to DOR.

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Vice-Chair Saddler asked if it would be easy to integrate the Indirect Expenditure Report into the tax reporting management system (TRMS). Mr. Stickel responded that he anticipated a straight forward integration. He pointed out that the report requirement legislation passed while the revenue management system project was already underway. He also stated that the reports had to be set up in the system in order to generate information. The department would be setting up reports in the upcoming summer.

Vice-Chair Saddler understood that it was the first indirect expenditure review required. He asked Mr. Stickel to discuss the most surprising thing uncovered in the process. Mr. Stickel responded that the most interesting item was the significant number of indirect expenditures. He acknowledged that there were many indirect expenditures.

Representative Edgmon asked if the Indirect Expenditure Report had any role in reviewing state agency performance. He continued that many programs were not tied to a particular department that might be able to be incorporated into the review process in the future.

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BRODIE ANDERSON, STAFF, REPRESENTATIVE STEVE THOMPSON, began his presentation of the Legislative Finance Report Overview and a summary of findings. He pointed to the goldenrod book entitled, "Indirect Expenditure Report." He read from a prepared statement:

Like mentioned previously in the DOR presentations, once an agency's report is finished it is provided to the Legislature and the Legislative Finance Division. At the start of every new Legislature, every two years, the Legislative Finance Division delivers a report analyzing the Department of Revenue's indirect expenditure report from the specific agencies to the chair of the finance committee in each house. The first review was completed for 2015 for the 29th Legislature and included the following:

Department of Commerce, Community, and Economic
Development,

Department of Fish and Game,

Department of Health and Social Services

Department of Labor and Workforce Development,

Department of Revenue

The next report will come out in 2017 for the 30th
Legislature and that will include:

Alaska Court System

Department of Administration

Department of Education and Early Development

Department of Environmental Conservation

Department of Natural Resources

Department of Transportation and Public
Facilities

Finally in 2019 for the 31st Legislature the report
will review:

All remaining agencies

Subsequent reviews of each agency will occur every six
years from the previous review so the departments
reviewed in the current year in the 2015 Indirect
Expenditure Report will cycle for review by
Legislative Finance Division in 2021 for the 32nd
Legislature.

The Legislative Finance Division Indirect Expenditure
Report is required to provide the following
information and answer specific questions:

An estimate of the revenue foregone by the state
because of the indirect expenditure;

An estimate of the monetary benefit of the indirect expenditure to the recipients of the benefit of the indirect expenditure;

A determination of whether the legislative intent of the expenditure is being met;

A recommendation as to whether each indirect expenditure should be continued, modified, or terminated, and a basis for the recommendation;

The expected effect on the economy of the state if the state recommendation is executed;

An explanation of the methodology and assumptions used in preparing the report.

The Legislative Finance Division Report Summary:

The report's introduction provides an explanation of the methodology and the assumptions used to make the recommendations presented

On the second page of the introduction which is not identified with page numbers.

The actual indirect expenditure report begins on page 3.

The Page layout for each indirect expenditure:

Above the divider line reflects the Department of Revenue submission of the indirect expenditure.

Below the line are answers to questions the Legislative Finance Division is required to provide.

Legislative Finance Division's recommendations can be grouped in the following way:

Termination the indirect expenditure

Reconsideration the indirect expenditure

Review the indirect expenditure

Continue the indirect expenditure

The final recommendations which is not a recommendation

Indirect expenditure listed might not actually be an indirect expenditure by the definition

Or no recommendation due to recent legislative activities

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Mr. Anderson continued reading from a prepared statement:

The report recommends a total of 17 terminations to certain indirect expenditures:

Two in Commerce Community and Economic Development

Small Loan Company Exemption

Citing it is obsolete and ineffective

Page 3

Property Tax Equivalency Payment (Renters rebate)

Citing it is not meeting legislative intent due to the lack of appropriations since 2000 so the program may be obsolete

Page 9

Three termination recommendations are in Fish and Game

All of terminations are in the Commercial Fisheries Entry Commission.

Termination recommended based on low usage and small benefit.

The largest share of termination recommendations, a total of 12, are found in the Department of Revenue

The recommendations include oil & gas tax, state royalty exploration credits, corporate income tax, exemptions, fees, rates, and exclusions, tobacco tax and discounts, motor fuel tax, commercial vessel tax, and the tire tax.

It is difficult to assign a direct dollar amount to the potential savings since there is not a true dollar-to-dollar translation between what the state forgoes versus what the state might collect.

Potential loss of foregone revenue is \$446 thousand.

Not including five unknown costs estimates

One indeterminate

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Mr. Anderson further read from a prepared statement:

One of the potential terminations, the cigarette tax - tax stamp discount found on page 142 of the Indirect Expenditure Report. Below is a sample of portions of a termination:

Department of Revenue Submission per AS 43.05.095

(1) Description of Provision

Gives a discount of up to \$50,000 as compensation for affixing stamps to packs of cigarettes.

(5) Legislative Intent

To provide a discount to compensate taxpayers for the cost of affixing stamps to each pack.

Legislative Finance Analysis per AS 24.20.235

(1) Estimate of Annual Foregone Revenue is about \$313,192

(2) Estimate of Annual Benefit to Recipients \$24,092

(3) Legislative Intent Met: Yes`

(4) Should it be Continued, Modified or Terminated? Recommend termination. The cost of affixing stamps to packs of cigarettes should be considered a cost of selling cigarettes in Alaska.

Mr. Anderson continued reading from a prepared statement:

Another group of potential terminations is early filing discounts. The policy discussion might be whether or not the state continues to provide early filing discounts versus a penalty for filing late.

The next block of recommendations come under two recommendations; either reconsider or review. Reconsider is more directed towards a critique of the actual expenditure and the review is directed towards the policy discussions and overall structure of where the fee or indirect expenditure is located.

Reconsideration. The report recommends a total of 33 indirect expenditures be reconsidered:

- 1) Fourteen are in Commerce Community and Economic Development:
 - a) Corporation filings and reporting recommendations found on pages 13 through 18. The recommendation was for reconsideration of the entire fee structure to determine if Alaska's fee structure is effective and competitive with other states.
 - b) Property tax exemption which has not been funded since 1997.
- 2) There is one reconsideration for each of the indirect expenditures found in the Department of Fish and Game and in the Department of Health and Social Services.
- 3) Department of Labor has four recommendations of reconsideration.
 - a) Workers compensation, Alaska Vocational Technical Education Center (AVTEC), and Occupational Safety and Health Administration (OSHA) programs.
- 4) There are 13 recommendations in the Department of Revenue for reconsideration:

- a) Some of the highlighted reconsiderations are corporation income tax fee and structure regarding their effectiveness.
- b) The state's motor fuel tax was recommended for reconsideration.

5) There are \$42 million of indirect expenditures that were recommended for reconsideration.

Co-Chair Thompson used the indirect expenditure report as a tool. Once he saw so many of the corporation income tax fees and filings he submitted a request to the Legislative Research department to conduct a project that compared Alaska's corporate income tax structure to other states' in the nation.

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Mr. Brodie continued reporting from a prepared testimony:

Review. The report recommends a total of 24 indirect expenditures be reviewed:

- 1) The bulk of the recommended reviews suggested involve the Department of Fish and Game licensing fees:
 - a) Some of the highlighted reconsiderations include a corporation income tax fee and the structure regarding their effectiveness.
 - b) Insufficient funds to cover the annual operating and capital costs
- 2) Total indirect expenditure that was recommended for review is roughly \$72 million.

Continuation. The report recommends a total of 37 indirect expenditures be allowed to continue:

- 1) Many of the reason way they recommended continuation is because they are currently meeting legislative intent and have a measurable benefit to the recipients.
- 2) Required for compliance in federal law or a necessary component of state operation

No recommendation. The report has a total of 20 indirect expenditures that have no recommendation:

- 1) The majority of the no recommendations are because of recent legislative activity regarding that expenditure
 - a) Includes the majority of the Oil & Gas Production Tax
- 2) Many of the tax credits that had sunsets established or changed through the legislation that created the Indirect Expenditure report

Mr. Anderson continued reading from a prepared statement:

Removal from the Report. There are three indirect expenditures that the Legislative Finance Division thought did not fit the indirect expenditure definition.

No action. Two indirect expenditure either expired or are slated to expire and require no action since they are not being utilized.

Action needed. One Indirect expenditure will need passage of legislation to extend a sunset or the credit will expire in 2016:

- 1) Winn Bridle Scholarship listed on page 180.

What is next:

- 1) Major legislation to repeal some of the indirect expenditures that are recommended for termination.
- 2) Further legislative research to review tax rates, exemptions, fees, discounts for effectiveness within a certain department. In expectation a change in policy through legislation or practices within departments can reduce some of the indirect expenditures that are costing more than the perceived benefit.
- 3) Discussions of the overall direction of state indirect expenditure policy, potentially limiting the creation of new indirect expenditures.

- 4) Individual legislation to address specific indirect expenditures like the cigarette tax stamp or property tax exemption.

Representative Wilson wondered if the terminations could be dealt with in one piece of legislation. Mr. Anderson responded that the decision would be up to the legislature. He commented that some terminations would fit well into an omnibus bill and others would not.

Representative Wilson was not looking for a policy. She did not know if, for example, terminations within the Department of Commerce, Community and Economic Development (DCCED) had to be kept separate from other agency related terminations. She wondered if the cause for termination had anything to do with dividing terminations into different pieces of legislation. Mr. Anderson responded that he would provide additional information to the chair of the committee.

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Co-Chair Neuman offered that he had worked on another project in which he had requested LFD review fiscal notes from the previous ten years. He believed that it was good public policy to work with the departments to see what laws could be removed from the books. In the current fiscal climate he wanted to closely examine which statutes were no longer needed but continued to add to the state's operating costs.

Representative Gara joined the committee.

Representative Edgmon asked about reporting mechanisms for the indirect expenditures and whether there were printed copies. Mr. Anderson deferred the question to DOR and LFD.

Representative Edgmon wondered about the fiscal impact associated with all of the paper transactions having to do with indirect expenditures. He supposed there was some fiscal impact having to do with the related paper transactions. Mr. Stickel confirmed that there were costs connected to the paper transactions. He indicated that DOR would be closely looking at administrative costs to be included in the 2016 report.

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Representative Kawasaki asked about the estimate of revenue foregone by the state because of indirect expenditures in HB 306. He relayed that the bill did not have deductions for costs that were incurred during the regular course of taxation, mainly in the oil and gas tax section. He wanted DOR to provide comments. Co-Chair Thompson reported that oil and gas were specifically left out of HB 306 and were not part of the review.

Representative Kawasaki asked if Co-Chair Thompson was referring to all oil and gas. Mr. Anderson responded that there was an exclusion for all indirect expenditures related to Title 38 of the Alaska Statutes, which included the oil and gas credits and expenditures.

Representative Kawasaki asked if the amount deducted was a significant number. Mr. Stickel indicated that when looking at taxes there was the issue of which deductions were part of determining the tax base versus credits and exemptions against the tax base. He commented that DOR primarily looked at credits, exemptions, and deductions that occurred after the tax base was calculated. He referred to page 3 of the department's summary, which addressed the definition of the indirect expenditures in more detail than in the presentation. He also mentioned that there was a narrative in the report that explained some of the decisions made by the department.

Representative Kawasaki relayed that he would review the narrative.

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Representative Guttenberg referred to page 97 of the Indirect Expenditure Report under revenue where it discussed exploration incentive credits. He wondered why the exploration incentive credit was not considered a direct expenditure. He furthered that the exemption for oil and gas was a direct expenditure. He restated his question.

Ms. Merrill responded with the example of the exploration incentive credit. She reported that the credit was foregone revenue in the sense that the state was trying to incentivize behavior without direct spending by the state. For example, the credit could be applied against tax liability. The intent of the credit was to encourage

geophysical work on state land so the state could manage its lands more effectively. The state was not directly giving anyone money but was reducing their tax liability. She stated that based on the definition of an indirect expenditure the credits were considered indirect.

Representative Guttenberg remarked that the exploration incentive credit had not been used since 1978 [NOTE: Per page 97 of the Indirect Expenditure Report the credit was enacted in 1978 and was last used a decade ago]. He wondered if there was a way to compare the use of the exploration incentive credit to the use of the alternative credit for exploration or if a comparison was already available. Mr. Stickel responded that the department was not ready to discuss specific policy decisions during the current presentation, but could follow up with a comparison of the two different incentives.

Representative Guttenberg replied that he would discuss a comparison with Mr. Stickel at another time.

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Representative Gara referred to page 122 of the Indirect Expenditure Report. He commented that under the state's corporate tax there was a varied tax rate depending on how much profit was made. The tax rate remained low up to a certain amount of profit and increased above a certain level of profit maxing out at approximately 9 percent for a C corporation. If a business wanted to avoid taxes it could become an S corporation. When the state used to have an income tax all the other businesses paid taxes through the owner's personal income tax. When the state terminated the income tax all of the taxation of the other forms of corporations disappeared. He opined that all a business had to do was become an S corporation to avoid paying taxes. The report suggested that the S corporation exemption be lifted. He felt the committee should consider lifting the exemption for those businesses with a profit of \$200 thousand or more. He asked Mr. Stickel for his opinion about the S corporation exemption.

Co-Chair Thompson commented that Florida was the only state that taxed S corporations. Representative Gara furthered that every state that had an income tax received its revenue through an income tax.

Mr. Anderson interjected that Representative Gara's question was an indicator that the Indirect Expenditure Report was successful in pointing out items such as the S corporation exclusion to help make better policy decisions. Representative Gara added that the termination of the S corporation exemption would affect him personally.

Representative Gara pointed to another expenditure termination, the reduced rate for capital gains, listed on page 124. He suggested that companies could turn a profit into a capital gain through bookkeeping. The tax on income classified as a capital gain was 4.5 percent versus 9 percent on income for an S corporation. He was not sure about the particular effects of the termination and surmised that the effect could be revenue neutral.

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Representative Munoz referred to page 98 of the Indirect Expenditure Report. She reported that the tax credits under the Alaska's Clear and Equitable Share (ACES) tax system in FY 13 equated to \$772 million. She asked whether the state had further credits in FY 14. If so, she wanted to know the amount. Also, she asked for the dollar amount generated in FY 14 from the new tax credits under SB 21 [More Alaska Production Act (MAPA) passed in 2013]. She wanted to know how the two credits compared. Mr. Stickel responded that in terms of the production tax credits in total for FY 14 there were \$888 million in credits used against liability and \$593 million purchased by the state. The total for FY 14 included both the qualified capital expenditure credits as well as other production tax credits. He stated that he would be happy to follow up with additional detail.

Representative Munoz responded that the information would be helpful. She also asked if the \$593 million was used to purchase the old credits under the previous ACES system. Mr. Stickel responded that the money was primarily the qualified capital expenditure credits and net operating loss credits.

Representative Munoz asked for a comparison of the two credits and how they compare under ACES versus MAPA. Mr. Stickel commented that the department was producing a few work products that could be provided to the committee.

Co-Chair Thompson directed Mr. Stickel to provide the information to his office.

Representative Kawasaki referenced the qualified capital expenditure credit. He indicated that it was a substantial number and that it had grown more than LFD had considered. At the beginning of the current session LFD reported that the number would decline due to SB 21. He commented that the credit was primarily for investment and maintenance for the existing infrastructure. However, he purported that it did not make any suggestions or recommendations to apply the tax to Cook Inlet. He wanted to know what percentage of each of the years was applied to Cook Inlet versus the North Slope.

Mr. Stickel responded that in terms of the credits used against tax liability, it was applied primarily to the North Slope. The credits purchased by the state were divided about equally between the North Slope and non-North Slope areas. There would be more detail in the information he would provide to the committee. He reiterated that the department's report provided a list of credits for the legislature to consider.

Representative Kawasaki asked about the well lease expenditure credit and noted the specific reference to Cook Inlet and the lack of public information. He was concerned with being able to make a qualified decision as to whether legislative intent was met without having access to all of the facts. He wondered if DOR had access to the information. If so, he wanted to know how it would be conveyed to the legislature.

Mr. Stickel responded that the department had some confidentiality restraints in reporting certain credits. He suggested if there was a tax credit in which only one tax payer took the credit, the department would have to hold that information in confidence. He pointed out that DOR had made an extensive effort to ensure that the maximum level of detail regarding the credits was provided to the legislature. He reassured the committee that there would be additional detail on some of the credits provided beyond what was in the Indirect Expenditure Report.

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Representative Pruitt wondered how many people were employed by the state to administer the tax credits. He expressed his concerns about the related costs. Mr. Stickel did not have the number immediately at hand. He deferred to Mr. Burnett.

JERRY BURNETT, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, reported that the department was in the process of putting together the information for Co-Chair Thompson for the subcommittee. He indicated that the information would be available within a week.

Representative Pruitt asked Mr. Burnett about the relevance of the report. He wanted to know if the department was interested in taking the information that it gathered and giving the legislature a starting point from which to work. He believed that tax credits were not tax cuts. He asked if the department would be willing to lead the state on the issue.

Mr. Burnett responded that the department had been having several internal discussions on the subject and would be getting back to the committee. He furthered that the department was not averse to providing some leadership in certain areas.

Representative Pruitt appreciated Mr. Burnett's comments.

Co-Chair Thompson expressed his pleasure in seeing interest in the legislation and the Indirect Expenditure Report. He opined that the report would be a valuable reference. He reviewed the schedule for the following day.

ADJOURNMENT

2:34:05 PM

The meeting was adjourned at 2:34 p.m.