

SENATE FINANCE COMMITTEE

April 8, 2015

1:36 p.m.

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CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 1:36 p.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Peter Micciche, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

German Baquero, Legislative Intern, Senator John Coghill; Lori Wing-Heier, Director, Division of Insurance, Department of Commerce, Community and Economic Development, Juneau; Senator Bill Stoltze, Sponsor; Jerry Burnett, Deputy Commissioner, Treasury Division, Department of Revenue.

SUMMARY

SB 15 LIFE INSURANCE POLICY PREMIUM TAX

SSSB 15 was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN1 (CED).

SB 26 BUDGET: CAPITAL

SB 26 was SCHEDULED but not HEARD.

SB 39 REPEAL FILM PRODUCTION TAX CREDIT

CSSB 39 (L&C) was REPORTED out of committee with a "do pass" recommendation and with a previously published indeterminate fiscal note: FN1 (REV).

#sb15

SENATE BILL NO. 15

"An Act relating to the tax on policy year premiums for life insurance policies; relating to single and group life insurance policies; and relating to other types of insurance policies that insure the life of one or more individuals."

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GERMAN BAQUERO, LEGISLATIVE INTERN, SENATOR JOHN COGHILL, presented SB 15. He explained that the bill was a tax cut on the premiums for life insurance policies. He pointed out that in Section 1, the rate of tax on policies over \$100,000 would be changed from 0.1 percent to 0.08 percent. He explained that the other feature of the legislation was an applicability date set for December 31st, 2015. He furthered that the bill was developed in conjunction with members of the insurance industry and the trust industry in Alaska as an effort to maintain the competitive edge the state had in the insurance market across the United States. He mentioned the state of South Dakota, which currently taxed policies over \$100,000 at 0.08 percent. He asserted that the legislation was a means of attracting future life insurance policies to be held in the state, thereby bringing more revenue to the state.

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LORI WING-HEIER, DIRECTOR, DIVISION OF INSURANCE, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, JUNEAU, affirmed that SSSB 15 would reduce the premium tax on life insurance premiums over \$100,000. She disclosed that the industry believed that the legislation would increase the revenues paid to the state by making insurance in Alaska more competitive as compared to other states. She commented that the state of South Dakota had passed a similar piece of legislation in 2010; thereby increasing the number of companies writing life insurance from 29 to 32 and increasing premiums from \$97 million to \$120 million in four years.

Co-Chair MacKinnon stated that she was not convinced of the merit of the legislation, and asked Ms. Wing-Heier to justify the lowering of premium tax rates. Ms. Wing-Heier related that the state was attempting to be competitive with two other states (South Dakota and Connecticut) that had also lowered their tax rates on premiums. She heard from brokers that such a change would make Alaska an attractive market for setting up trusts and financing for retirements for residents as well as those outside of the state.

Senator Dunleavy asked if Ms. Wing-Heier anticipated the potential for job creation in the industry as a result of the legislation. Ms. Wing-Heier anticipated an increase in individuals hired in the insurance industry.

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Co-Chair MacKinnon asked Senator Dunleavy to address the fiscal note.

Senator Dunleavy discussed the bill's fiscal note, which had zero fiscal impact, and read from the narrative section (copy on file):

SB15 would reduce the premium taxes collected by the Division on individual insurance policies with a written premium exceeding \$100,000.00 from 0.1% to 0.08%. The reduction in tax is expected to increase competition, potentially resulting in additional policies issued in the state.

The reduction in tax is expected to have a negligible fiscal impact on the Division, as the amount of premium that is subject to this tax is very small. The potential increase as a result of additional premium sales is expected to negate any reduction in revenues, if not increase the tax revenues beyond what they previously.

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Senator Dunleavy MOVED to REPORT SSSB 15 out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SSSB 15 was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN1 (CED).

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AT EASE

[1:47:15 PM](#)

RECONVENED

#sb39

SENATE BILL NO. 39

"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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SENATOR BILL STOLTZE, SPONSOR, stated that SB 39 would repeal the film subsidy (tax credit) program currently operated by the state. He thought the program had benefitted certain groups of Alaskans and certain communities, but had serious concerns regarding the return on investment. He commented that there were many ways to stimulate the economy more effectively, and thought it was imperative for the state to use its money on constitutionally mandated items such as education, basic transportation and public safety infrastructure, prison system reformation, public health, and retirement systems.

Senator Olson related that he had questions for the Department of Revenue (DOR) regarding the bill.

Senator Olson noted that the film tax credit affected people in his region, and asked if the governor had suspended the program.

JERRY BURNETT, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, replied that in the governor's budget for FY 16, there were no funds to operate the film tax credit program. He furthered that under the budget as passed by the House and Senate, the state would cease operating the program on July 1, 2016. Suspension of the program would result in the layoff of three existing employees. He furthered that there were approximately \$38

million potential liability in tax credits outstanding, which would be paid regardless of the passage of the bill. He specified that there was another \$172 million of authorization possible if the bill did not pass and the program continued.

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Senator Olson asked if DOR was still accepting applications for the program. Mr. Burnett stated that the program was in effect through June 30, 2015; it was still possible to submit an application, but approval was unlikely.

Senator Olson asked about the likelihood of an additional application being approved. Mr. Burnett thought the chance of an application being approved was close to zero, considering the fiscal situation.

Senator Olson pointed out that the program had a sunset date of 2018 and wondered if the legislation to suspend the program was a moot point. Mr. Burnett did not consider the bill a moot point, and thought that the legislation made a clear point to the industry that the program was decisively ended rather than merely suspended.

Senator Olson commented on the prior state income tax, and suggested that if past legislative bodies had suspended the income tax with a trigger point to reinstate the tax, it would have saved the committee a considerable amount of work. He wondered if such an idea could be applicable to the film tax credit program. Mr. Burnett was not able to speculate on the subject.

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Senator Bishop asked if there had been films scheduled for production in Alaska that had since changed plans after hearing of the legislation. Mr. Burnett had not heard of any films that had done so.

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AT EASE

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RECONVENED

Co-Chair MacKinnon asked Mr. Burnett if he could discuss the remaining balance of the funds that were set aside for the program. Mr. Burnett stated that the program was authorized with a \$200 million cap. He specified that the funds were processed as a direct reduction in tax liability to companies rather than being an appropriation, with a film company receiving a tax credit certificate which they would in turn sell to a corporate taxpayer. He surmised that of the \$200 million cap, there was \$172 million remaining in the authorization should the program continue.

1:59:00 PM

Senator Dunleavy asked if DOR had a position on the bill. Mr. Burnett relayed that the department had not taken a formal position on the bill, but considered that the legislation would provide clarity. He continued that DOR did not intend to operate the program regardless of the outcome of the bill.

Senator Dunleavy asked if Mr. Burnett if he could clarify the difference between a tax credit and a subsidy. Mr. Burnett explained that a tax credit was a reduction in tax liability that would come out before revenues were received, whereas a subsidy to a program was generally an appropriated amount of money available to pay a company for doing something. He clarified that the companies making films were not generally Alaska taxpayers, so the state was essentially just reducing its revenue.

Senator Dunleavy asked if the program behaved as a true tax credit rather than a subsidy. Mr. Burnett stated that the program behaved as a tax credit from the state's perspective.

Senator Dunleavy asked for Mr. Burnett to describe the original purpose of the program. Mr. Burnett stated that his understanding was that it was intended to build a new industry in Alaska.

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Senator Dunleavy discussed the fiscal note, which had indeterminate fiscal impact, and read from the analysis section (copy on file):

Expenditures:

The original film credit program was established in 2008 with a sunset provision of June 30, 2013. The aggregate amount of film credits available to be authorized during the original 5 year period was \$100 million. Chapter 51, SLA 12, extended the film program 10 years to June 30, 2023 and increased the aggregate amount of film credits allowed to be awarded to \$300 million. Three positions were created in the Department of Revenue to administer the program.

The Governor's FY 2016 Amended Budget removes funding for the three positions which currently administer the Film Office in the Department of Revenue, at a savings of \$346.7. The Department will absorb the responsibilities of the Film Office into the Excise Tax Group within the Tax Division. As a result of the funding changes in the Governor's budget, the repeal of the film production tax credit would result in no additional changes to personal service since the three positions currently administering the program would be eliminated from the department's budget beginning in FY 2016. This bill provides that any tax credits preapproved prior to July 1, 2015 would still be allowed under previous law. The department will need to process tax credits that were preapproved and which have 2 years to submit a final application and an additional year for the state to challenge the validity of the tax credit. We anticipate these remaining functions of the film office that are not repealed by this bill can be implemented in the Tax Division using this existing staff and resources.

Senator Dunleavy moved to report the bill from committee. [Note: The incorrect bill number was inadvertently referred to during the motion. Senator Dunleavy restated the motion at 2:06 p.m. See below for detail].

2:03:53 PM

AT EASE

2:06:17 PM

RECONVENED

Senator Dunleavy corrected himself and MOVED to REPORT CSSB 39 (L&C) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSSB 39 (L&C) was REPORTED out of committee with a "do pass" recommendation and with a previously published indeterminate fiscal note: FN1 (REV).

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ADJOURNMENT

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The meeting was adjourned at 2:07 p.m.