

# Fiscal Note

State of Alaska  
2018 Legislative Session

Bill Version:	SCS CSHB 233(FIN)
Fiscal Note Number:	2
(S) Publish Date:	5/8/2018

Identifier: DOR-TAX-5-07-18  
 Title: EXTEND EDUCATION TAX CREDITS  
 Sponsor: TUCK  
 Requester: Senate Finance Committee

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)

	FY2019	Included in	Out-Year Cost Estimates					
	Appropriation Requested	Governor's FY2019 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
<b>OPERATING EXPENDITURES</b>	<b>FY 2019</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Fund Source (Operating Only)**

None								
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time								
Part-time								
Temporary								

**Change in Revenues**

1250 UGF Rev (UGF)	(3,175.0)		(6,350.0)	(5,885.0)	(5,420.0)	(5,420.0)	(5,420.0)
<b>Total</b>	<b>(3,175.0)</b>	<b>0.0</b>	<b>(6,350.0)</b>	<b>(5,885.0)</b>	<b>(5,420.0)</b>	<b>(5,420.0)</b>	<b>(5,420.0)</b>

**Estimated SUPPLEMENTAL (FY2018) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2019) cost:** 0.0 *(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 If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/19

**Why this fiscal note differs from previous version/comments:**

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 Agency: Department of Revenue

Phone: (907)465-8221  
 Date: 05/07/2018 11:00 AM  
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REPORTED OUT OF  
SFC 05/07/2018

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2018 LEGISLATIVE SESSION

## Analysis

The Education Tax Credit has been in existence since 1987, and has been extended multiple times. The credit is based on a percentage of donations to eligible organizations, and can be used to reduce tax liability against any one of seven different taxes: insurance premium tax, corporate income tax, mining license tax, fisheries business tax, fisheries resource landing tax, oil and gas production tax, and oil and gas property tax. Eligible organizations include schools as well as vocational education and certain cultural and pre-school programs. The credit is claimed by a taxpayer when they file their tax return; there is no pre-approval process.

HB233 makes multiple changes to uncodified law. First, it extends the overall program from the current statutory sunset of January 1, 2019, to January 1, 2025. Additionally, a number of eligible recipient categories are scheduled to sunset on January 1, 2021. These sunsets are also extended to January 1, 2025. Because the credit exists in seven different statutes, these require multiple concurrent changes.

The bill also changes the rate at which credits are earned. The credit rate was increased in 2010, and is currently \$250,000 out of the first \$300,000 of a donation (up to 83%) with a per-company cap of \$5 million. The proposed committee substitute steps this down in two phases. For the years 2019-2020, the first \$100,000 in donations from a company receives a 50% tax credit. Donations between \$100,000 and \$300,000 receive a 75% credit, and donations above \$300,000 receive 50%. Beginning in 2021, the credit is reduced to 50% of all donations. Additionally, in 2019 the annual per-company credit cap is reduced from \$5 million to \$1 million. For 2019-20, this cap is met with \$1.9 million in donations; beginning in 2021 the cap is met with \$2 million in donations.

The committee substitute incorporates two small changes to eligible categories that were made in the House: removing the eligibility for intercollegiate sports tournament, which had previously been removed from four of the seven taxes, and adding "national" accreditation to the previous "regional" accreditation requirement for universities and colleges. This later change expands eligibility to a handful of small Christian colleges in Alaska, and has an indeterminate impact on the overall cost of the program. This version also allows equipment donations in addition to direct cash. DOR will be expected to write regulations in order to properly confirm the value of such in-kind contributions. The impact of this in-kind change is indeterminate.

The fiscal impact of this bill will be through reduced revenue, due to companies continuing to use the program past the current 1/1/19 sunset. Although the actual amount to be claimed cannot be predicted, for purposes of this analysis we used the average amount claimed for the past three calendar years. According to the DOR annual report to the legislature, the following amounts were claimed:

2015: \$7.43 million

2016: \$6.81 million

2017: \$6.29 million

The average of these, **\$6.84 million**, was used as the estimated impact for earlier versions of this bill which included a simple sunset extension. Based on late filings and additional information available to the Tax Division, this number has been revised to a baseline three year average of **\$7.57 million**.

Assuming an unchanged donation profile in future years, the reduction to the credit rates in 2019-20 would reduce the total credits claimed under this version of the bill to **\$6.35 million**. Beginning in 2021 the impact is **\$5.42 million**. Although the fiscal note shows "negative" revenue, this is compared to the status quo which would be a full sunset on 1/1/19. Alternatively, this could be viewed as a reduction in revenue impact of **\$1.22 - \$2.15 million**. In other words, this bill represents additional revenue versus a so-called clean extension. For FY2019 and FY2021, the impacts are split due to changes occurring in the middle of fiscal years. Continuing this program is not expected to add administrative costs to the Department of Revenue.