

**SB**

**29**

<TARGET><BILL>SB 29</BILL><SUBJECT>SB  
29</SUBJECT><COMM>SSTA27</COMM></TARGET>

## SENATE COMMITTEE REPORT First Committee of Referral

DATE: 1/19/11

FURTHER: Finance

Date of 5-Day Notice: \_\_\_\_\_  
(in accordance with Uniform Rule 23)

DATE TURNED  
IN TO OFFICE: 3/13/12

State Affairs Committee considered SENATE BILL NO. 29

### SB 29-TAX EXPENDITURE REPORT

"An Act relating to the reporting and analysis of certain information relating to tax credits, deductions, exclusions, exemptions, deferrals, and other tax expenditures; and providing for an effective date."

and recommends:

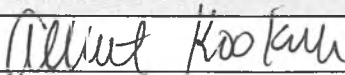
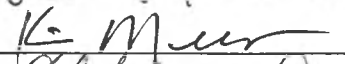
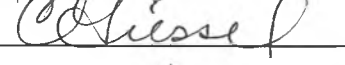

- be replaced with CS SB 29 (STA)  Same Title  New Title
- adopt previous CS SCS/CS- Forthcoming (\_\_\_\_\_)  Same Title  New Title
- attached amendment(s),
- adopt \_\_\_\_\_ Letter of Intent
- further referral to \_\_\_\_\_ Committee

Dept Abbr.	
ADM	LEG
CED	LAW
COR	LWF
CRT	MVA
EED	DNR
DEC	DPS
DFG	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
<u>Leg</u>	<u>✓</u>			
<u>Fiscal Info Forthcoming</u>				

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Koolen	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Meyer	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gicssel	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CHAIR: 	Wielechowski	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

# ALASKA STATE LEGISLATURE

## Session

State Capitol, Rm. 101  
Juneau, AK 99801  
(907) 465-2435  
Fax: (907) 465-6615

## Interim

716 W. 4<sup>th</sup> Ave, Ste. 540  
Anchorage, AK 99501  
(907) 269-0120  
Fax: (907) 269-0122

Senator\_Bill\_Wielechowski@legis.state.ak.us



**Chair**  
State Affairs Committee

**Co-chair**  
Joint Armed Services Committee

**Vice Chair**  
Resources Committee  
Judiciary Committee

**Member**  
Administrative Regulation Review

**SENATOR BILL WIELECHOWSKI**

## **SB 29: Evaluating Tax Credits** **SPONSOR STATEMENT**

“Taxpayers deserve accountability.”

-Byron Dorgan, former US Senator and Representative from North Dakota

Government programs are either funded by direct spending or indirectly through tax credits and other indirect expenditures. Direct spending is subject to annual review by the legislature with agencies and other recipients coming forward to justify their requests. This legislative oversight is vital to government efficiency and controlling government spending.

In contrast, Alaska “spends” about a billion dollars each year on tax credits, exemptions and other indirect expenditures without annually evaluating their impact. Although tax credits and other indirect expenditures are used by the legislature to accomplish specific policy goals, they are not subject to the same scrutiny as other operating and capital budget items and are not regularly evaluated for their effectiveness. Indirect tax expenditures include tax deductions, credits, exclusions, exemptions, deferrals, or other losses of state or local tax revenue due to statute.

Senate Bill 29 would help rectify this problem by increasing accountability and government review. This bill would require the Department of Revenue to regularly analyze tax expenditures and provide their analysis to the legislature and the public. The intent is to enable legislators to make more informed decisions about the efficacy of tax expenditures. Only nine states fail to publish a tax expenditure report: Alaska is one.

I ask that you support SB 29 to ensure that Alaska gets its money’s worth for the close to one billion dollars a year it indirectly spends on tax credits and other indirect expenditures.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

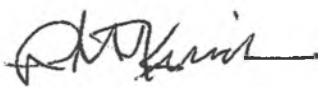
State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

February 28, 2012

**SUBJECT:** Sectional summary of SB 29 (Work Order No. 27-LS0305\A)

**TO:** Senator Bill Wielechowski  
Attn: Sam Gottstein

**FROM:** Lisa Moritz Kirsch   
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, please note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill -- the bill itself is the best statement of its contents.

**Section 1** adds a requirement that the governor consider the tax expenditure report prepared under section 3 of this bill before preparing the state budget.

**Section 2** requires that the governor's fiscal plan address any issues raised in the tax expenditure report prepared under section 3 of this bill.

**Section 3** requires that the Department of Revenue prepare a report that analyzes tax revenue losses due to tax expenditures.

**Section 4** lists the data and analysis a tax expenditure report must include; requires electronic transmittal of the report to members of the legislature and posting on the Department of Revenue website; and defines "tax expenditure."

**Section 5** provides an effective date of July 1, 2013.

LMK:ljw  
12-165.ljw

# FISCAL NOTE

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

Bill Version SB 29  
Fiscal Note Number \_\_\_\_\_  
( ) Publish Date \_\_\_\_\_

Identifier (file name) SB029-DOR-TAX-02-28-12 Dept. Affected Revenue  
Title Tax Expenditure Report Appropriation Taxation and Treasury  
Allocation Tax  
Sponsor Senator Wielechowski  
Requester Senate State Affairs Committee OMB Component Number 2476

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
<b>OPERATING EXPENDITURES</b>								
Personal Services			1,583.2	1,583.2	1,583.2	1,583.2	1,583.2	1,583.2
Travel			60.0	60.0	60.0	60.0	60.0	60.0
Services			68.0	68.0	68.0	68.0	68.0	68.0
Commodities			8.0	8.0	8.0	8.0	8.0	8.0
Capital Outlay								
Grants, Benefits								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>1,719.2</b>	<b>1,719.2</b>	<b>1,719.2</b>	<b>1,719.2</b>	<b>1,719.2</b>	<b>1,719.2</b>

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF		1,719.2	1,719.2	1,719.2	1,719.2	1,719.2	1,719.2
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
<b>TOTAL</b>		<b>0.0</b>	<b>0.0</b>	<b>1,719.2</b>	<b>1,719.2</b>	<b>1,719.2</b>	<b>1,719.2</b>	<b>1,719.2</b>

POSITIONS								
Full-time			16	16	16	16	16	16
Part-time								
Temporary								

<b>CHANGE IN REVENUES</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>
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Estimated SUPPLEMENTAL (FY12) operating costs \_\_\_\_\_ (separate supplemental appropriation required)  
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs \_\_\_\_\_ (separate capital appropriation required)  
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial version.

Prepared by Mike Redlinger, Economist/Johanna Bales, Deputy Director  
Division Tax  
Approved by Jerry Burnett, Director Administrative Services  
Department of Revenue

Phone 907-269-1021  
Date/Time 02/28/2012; 10am  
Date 2/28/2012

## FISCAL NOTE

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

BILL NO. SB 29

### Analysis

**Bill Language:**

This bill would require the Department of Revenue to annually prepare and publish a report of tax expenditures. "Tax expenditures" are defined in this bill to be any of the following: tax deduction, tax credit, exclusion, exemption, deferral, or other loss of state and local tax revenue due to either an express provision of state tax law or resulting from the overall operation of state tax law. The bill would require the Department to identify the statutory authority for the expenditure, calculate the total amount of the tax expenditure and number of taxpayers who claimed the expenditure in the prior fiscal year, and forecast the amount of each tax expenditure claimed by all taxpayers for the current fiscal year. In addition the Department would be required to use this information to determine the public and private costs of administering the expenditure, whether each statute authorizing a tax expenditure achieved its purpose, whether each statute authorizing the expenditure is the most fiscally effective means of achieving its intended purpose, and then recommend either the support of repeal or extension of the authorizing statute.

The effective date of the bill is July 1, 2013.

**Revenues:**

This bill does not affect state tax revenues.

**Expenditures:**

This bill would require the Department of Revenue to analyze each and every tax expenditure claimed by every taxpayer in every tax type administered by the Department. The Department currently administers 22 tax programs. Compiling this report annually would be a major undertaking and would require significant staff resources.

The Department would need to compile tax expenditure information manually. We receive over 15,000 tax returns each year. We estimate that eight full-time tax technician positions would be required to compile, aggregate, and categorize all tax expenditures for all taxpayers in all tax types.

Four full-time auditor positions (2 Oil & Gas Revenue Auditor III positions, 1 Corporate Income Tax Auditor III position, and 1 Tax Auditor IV position) would be required to conduct the research to identify the statutory authority and legislative intent of each statute. Since most legislation does not contain intent language, the Department would be required to scan through all hearing minutes to determine intent.

Four full-time economist positions (2 petroleum economist positions and 2 Economists III positions) would be required to determine the public and private costs of administering the tax expenditure, whether the Department of Revenue believes the statute authorizing each expenditure meets its intent, whether each statute authorizing a tax expenditure provides the most fiscally effective means of achieving that intent, and whether it results in a fair and equitable distribution of tax burden on taxpayers.

The costs for this bill include the payroll and benefits costs for the 16 new full-time positions, the interagency costs associated with these positions, the travel costs for these positions, and the computer and office supply costs. It is assumed that half of these positions would be in Juneau and half would be in Anchorage.

# FISCAL NOTE

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

Bill Version SB 29  
Fiscal Note Number \_\_\_\_\_  
( ) Publish Date \_\_\_\_\_

Identifier (file name) SB 29 LB&A - Tax Expenditure Report Dept. Affected Legislature  
Title Tax Expenditure Report Appropriation Legislative Budget & Audit  
Allocation Legislative Finance Division  
Sponsor Senator Wielechowski  
Requester Senate State Affairs Committee OMB Component Number 774

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Services	0.0	0.0	0.0	0.0	50.0	50.0	50.0	
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>50.0</b>	<b>50.0</b>	<b>50.0</b>	<b>50.0</b>

<b>FUND SOURCE</b>		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF		0.0	0.0	50.0	50.0	50.0	
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
<b>TOTAL</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>50.0</b>	<b>50.0</b>	<b>50.0</b>

<b>POSITIONS</b>								
Full-time								
Part-time								
Temporary								

<b>CHANGE IN REVENUES</b>								

Estimated **SUPPLEMENTAL (FY12) operating costs** \_\_\_\_\_ (separate supplemental appropriation required)  
(discuss reasons and fund source(s) in analysis section)

Estimated **CAPITAL (FY13) costs** \_\_\_\_\_ (separate capital appropriation required)  
(discuss reasons and fund source(s) in analysis section)

**Why this fiscal note differs from previous version (if initial version, please note as such)**

Initial Version for Legislative Finance. This bill has been revised so that the Dept. of Revenue provides Tax Expenditure Reports to Legislative Finance, which would prepare reports addressing whether tax expenditures achieved their purpose.

Prepared by David Teal  
Division Legislative Finance Division  
Approved by David Teal

Phone 465-3002  
Date/Time 3/12/2012 17:00:00 PM  
Date \_\_\_\_\_

FISCAL NOTE

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

BILL NO. SB 29

**Analysis**

This bill would require the Department of Revenue to annually prepare and publish a report of tax expenditures. The Legislative Finance Division would work with the Department of Revenue to prepare reports regarding whether selected significant tax expenditures achieved their purpose. This review would occur on a seven-year cycle.

The effective date of the bill is July 1, 2015.

This note assumes that the Department's \$34.7 million management information system will generate the required information by FY16, and that reports regarding achievement of purpose will be brief assessments of the costs of tax expenditures versus the economic impacts of the tax expenditures. The projected cost is for annual contractual services to supplement the efforts of existing staff.

27-LS0305\I  
Kirsch  
3/5/12

**CS FOR SENATE BILL NO. 29(STA)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE STATE AFFAIRS COMMITTEE

Offered:

Referred:

Sponsor(s): SENATOR WIELECHOWSKI

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to the reporting and analysis of certain information relating to tax  
2 credits, deductions, exclusions, exemptions, deferrals, and other tax expenditures;  
3 relating to bills creating tax expenditures; and providing for an effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 \* **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section  
6 to read:

7 SHORT TITLE. This Act may be known as the Alaska Tax Break Transparency Act.

8 \* **Sec. 2.** AS 24.08 is amended by adding a new section to read:

9 **Sec. 24.08.038. Tax expenditure bills.** The legislature shall include a  
10 statement of the rationale and purpose of a tax expenditure in a bill creating a tax  
11 expenditure. In this section, "tax expenditure" has the meaning given in AS 43.05.090.

12 \* **Sec. 3.** AS 37.07.020(a) is amended to read:

13 (a) After considering the revenue and tax expenditure report prepared by  
14 the Department of Revenue under AS 43.05.090, the [THE] governor shall prepare

1 a budget for the succeeding fiscal year that must cover all estimated receipts, including  
2 all grants, loans, and money received from the federal government and all proposed  
3 expenditures of the state government. The budget shall be organized so that the  
4 proposed expenditures for each agency are presented separately. The budget must be  
5 accompanied by the information required under AS 37.07.050 and by the following  
6 separate bills: (1) an appropriation bill authorizing the operating and capital  
7 expenditures of the state's integrated comprehensive mental health program under  
8 AS 37.14.003(a); (2) an appropriation bill authorizing state operating expenditures  
9 other than those included in the state's integrated comprehensive mental health  
10 program; (3) an appropriation bill authorizing capital expenditures other than those  
11 included in the state's integrated comprehensive mental health program; and (4) a bill  
12 or bills covering recommendations, if any, in the budget for new or additional revenue.  
13 The budget for the succeeding fiscal year and each of the bills shall become public  
14 information on December 15 at which time the governor shall submit copies to the  
15 legislature and make copies available to the public. The bills, identical in content to  
16 the copies released on December 15, shall be delivered to the rules committee of each  
17 house before the fourth legislative day of the next regular session for introduction.

18 \* **Sec. 4.** AS 37.07.020(b) is amended to read:

19 (b) In addition to the budget and bills submitted under (a) of this section, the  
20 governor shall submit a capital improvements program covering the succeeding six  
21 fiscal years. The governor shall also submit a fiscal plan with estimates of significant  
22 sources and uses of funds for the succeeding 10 fiscal years. The fiscal plan

23 (1) must include sufficient details to identify

24 (A) significant sources of funds;

25 (B) significant uses of funds, including lump sum projections

26 of

27 (i) operating expenditures;

28 (ii) capital expenditures;

29 (iii) debt service expenditures;

30 (iv) fund capitalizations;

31 (v) appropriations of income of the Alaska permanent

1 fund (art. IX, sec. 15, Constitution of the State of Alaska), if any;

2 (2) must balance sources and uses of funds held while providing for  
3 essential state services and protecting the economic stability of the state;

4 (3) must include projected balances of significant funds held in  
5 separate accounts, including the budget reserve fund (art. IX, sec. 17, Constitution of  
6 the State of Alaska), the public education fund (AS 14.17.300), and the Alaska capital  
7 income fund (AS 37.05.565);

8 (4) must set out significant assumptions used in the projections with  
9 sufficient detail to enable the legislature to rely on the fiscal plan in understanding,  
10 evaluating, and resolving issues of state budgeting, including information that supports  
11 major areas of operating increases, such as population demographics that affect the  
12 need for particular government services;

13 **(5) must consider issues raised by the revenue and tax expenditure**  
14 **report prepared by the Department of Revenue under AS 43.05.090.**

15 \* **Sec. 5.** AS 43.05.090 is amended to read:

16 **Sec. 43.05.090. Preparation and publication of reports and statistics.** The  
17 department shall prepare and annually publish statistics of the revenues derived under  
18 the tax laws administered by it, **including an analysis of tax revenue losses due to**  
19 **tax expenditures**.

20 \* **Sec. 6.** AS 43.05.090 is amended by adding new subsections to read:

21 (b) The revenue and tax expenditure report must include

22 (1) the statutory authority for each type of tax expenditure;

23 (2) the annual sum of tax expenditures for the prior fiscal year,  
24 separately calculated for each type of expenditure, and the total number of taxpayers  
25 who benefitted from each type of expenditure;

26 (3) an estimate of tax expenditures for the current fiscal year,  
27 separately calculated for each type of expenditure;

28 (4) an estimate of the public costs of administering the tax  
29 expenditures.

30 (c) If the sum of tax expenditures of a specific type exceeds \$1,000,000 in a  
31 fiscal year, the department shall analyze the use of the tax expenditure on the

1 following schedule to determine whether the statute authorizing the tax expenditure  
2 has achieved its purpose:

3 (1) tax expenditures existing on July 1, 2015, shall be analyzed once  
4 between July 1, 2015, and June 30, 2020, and before a delayed repeal of a tax  
5 expenditure;

6 (2) a tax expenditure created after July 1, 2015, shall be analyzed after  
7 it has been in effect for seven years or, if the statute authorizing the expenditure has a  
8 delayed repeal date, one year before the effective date of the delayed repeal of the tax  
9 expenditure.

10 (d) The department shall annually transmit an electronic copy of the revenue  
11 and tax expenditure report to each member of the legislature and make the report  
12 available to the public on the department's Internet website.

13 (e) In this section, "tax expenditure" means a tax deduction, tax credit,  
14 exclusion, exemption, or other loss of state tax revenue due to either an express  
15 provision of state tax law or resulting from the overall operation of state tax law; "tax  
16 expenditure" does not include federal tax expenditures under federal law adopted by  
17 reference in AS 43.20.021.

18 \* **Sec. 7.** This Act takes effect July 1, 2015.

**CS FOR SENATE BILL NO. 29(STA)**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-SEVENTH LEGISLATURE - SECOND SESSION**

**BY THE SENATE STATE AFFAIRS COMMITTEE**

**Offered:**  
**Referred:**

**Sponsor(s): SENATOR WIELECHOWSKI**

**A BILL**  
**FOR AN ACT ENTITLED**

1 **"An Act relating to the reporting and analysis of certain information relating to tax**  
2 **credits, deductions, exclusions, exemptions, deferrals, and other tax expenditures;**  
3 **relating to bills creating tax expenditures; and providing for an effective date."**

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 \* **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section  
6 to read:

7       **SHORT TITLE.** This Act may be known as the Alaska Tax Break Transparency Act.

8 \* **Sec. 2.** AS 24.08 is amended by adding a new section to read:

9       **Sec. 24.08.038. Tax expenditure bills.** The legislature shall include a  
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2 all grants, loans, and money received from the federal government and all proposed  
3 expenditures of the state government. The budget shall be organized so that the  
4 proposed expenditures for each agency are presented separately. The budget must be  
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6 separate bills: (1) an appropriation bill authorizing the operating and capital  
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9 other than those included in the state's integrated comprehensive mental health  
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8 (4) must set out significant assumptions used in the projections with  
9 sufficient detail to enable the legislature to rely on the fiscal plan in understanding,  
10 evaluating, and resolving issues of state budgeting, including information that supports  
11 major areas of operating increases, such as population demographics that affect the  
12 need for particular government services;

13 **(5) must address any issues raised by the revenue and tax**  
14 **expenditure report prepared by the Department of Revenue under AS 43.05.090.**

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16 **Sec. 43.05.090. Preparation and publication of reports and statistics.** The  
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14 exclusion, exemption, deferral, or other loss of state or local tax revenue due to either  
15 an express provision of state tax law or resulting from the overall operation of state tax  
16 law; "tax expenditure" does not include federal tax credits under federal law adopted  
17 by reference in AS 43.20.021.

18 \* **Sec. 7.** This Act takes effect July 1, 2015.

Offered by Senator Bill Wielechowski

**Amendment E.1 to CS for SB 29, version E**

On page 1, line 14, change 2000 to 2012

On page 4, line 16, change 2000 to 2012

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**CS FOR SENATE BILL NO. 29(STA)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE STATE AFFAIRS COMMITTEE

Offered:  
Referred:

Sponsor(s): SENATOR WIELECHOWSKI

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to the reporting and analysis of certain information relating to tax  
2 credits, exclusions, exemptions, waivers, and other tax expenditures; relating to bills  
3 creating tax expenditures; and providing for an effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 \* **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section  
6 to read:

7 **SHORT TITLE.** This Act may be known as the Alaska Tax Break Transparency Act.

8 \* **Sec. 2.** AS 24.08 is amended by adding a new section to read:

9 **Sec. 24.08.038. Tax expenditure bills.** The legislature shall include a  
10 statement of the rationale and purpose of a tax expenditure in a bill creating a tax  
11 expenditure. In this section, "tax expenditure" has the meaning given in AS 43.05.090.

12 \* **Sec. 3.** AS 24.20 is amended by adding a new section to read:

13 **Sec. 24.20.232. Analysis of tax expenditures.** If the sum of tax expenditures  
14 of a specific type exceeds \$1,000,000 in fiscal year ~~2000~~ or a succeeding fiscal year,

2012

1 the legislative finance division shall analyze the use of the tax expenditure on the  
2 following schedule to determine whether the statute authorizing the tax expenditure  
3 has achieved its purpose:

4 (1) tax expenditures existing on July 1, 2015, shall be analyzed once  
5 between July 1, 2015, and June 30, 2020, and before a delayed repeal of a tax  
6 expenditure;

7 (2) a tax expenditure created after July 1, 2015, shall be analyzed after  
8 it has been in effect for seven years or, if the statute authorizing the expenditure has a  
9 delayed repeal date, one year before the effective date of the delayed repeal of the tax  
10 expenditure.

11 \* **Sec. 4.** AS 37.07.020(a) is amended to read:

12 (a) **After considering the revenue and tax expenditure report prepared by**  
13 **the Department of Revenue under AS 43.05.090, the** [THE] governor shall prepare  
14 a budget for the succeeding fiscal year that must cover all estimated receipts, including  
15 all grants, loans, and money received from the federal government and all proposed  
16 expenditures of the state government. The budget shall be organized so that the  
17 proposed expenditures for each agency are presented separately. The budget must be  
18 accompanied by the information required under AS 37.07.050 and by the following  
19 separate bills: (1) an appropriation bill authorizing the operating and capital  
20 expenditures of the state's integrated comprehensive mental health program under  
21 AS 37.14.003(a); (2) an appropriation bill authorizing state operating expenditures  
22 other than those included in the state's integrated comprehensive mental health  
23 program; (3) an appropriation bill authorizing capital expenditures other than those  
24 included in the state's integrated comprehensive mental health program; and (4) a bill  
25 or bills covering recommendations, if any, in the budget for new or additional revenue.  
26 The budget for the succeeding fiscal year and each of the bills shall become public  
27 information on December 15 at which time the governor shall submit copies to the  
28 legislature and make copies available to the public. The bills, identical in content to  
29 the copies released on December 15, shall be delivered to the rules committee of each  
30 house before the fourth legislative day of the next regular session for introduction.

31 \* **Sec. 5.** AS 37.07.020(b) is amended to read:

1 (b) In addition to the budget and bills submitted under (a) of this section, the  
2 governor shall submit a capital improvements program covering the succeeding six  
3 fiscal years. The governor shall also submit a fiscal plan with estimates of significant  
4 sources and uses of funds for the succeeding 10 fiscal years. The fiscal plan

5 (1) must include sufficient details to identify

6 (A) significant sources of funds;

7 (B) significant uses of funds, including lump sum projections

8 of

9 (i) operating expenditures;

10 (ii) capital expenditures;

11 (iii) debt service expenditures;

12 (iv) fund capitalizations;

13 (v) appropriations of income of the Alaska permanent  
14 fund (art. IX, sec. 15, Constitution of the State of Alaska), if any;

15 (2) must balance sources and uses of funds held while providing for  
16 essential state services and protecting the economic stability of the state;

17 (3) must include projected balances of significant funds held in  
18 separate accounts, including the budget reserve fund (art. IX, sec. 17, Constitution of  
19 the State of Alaska), the public education fund (AS 14.17.300), and the Alaska capital  
20 income fund (AS 37.05.565);

21 (4) must set out significant assumptions used in the projections with  
22 sufficient detail to enable the legislature to rely on the fiscal plan in understanding,  
23 evaluating, and resolving issues of state budgeting, including information that supports  
24 major areas of operating increases, such as population demographics that affect the  
25 need for particular government services;

26 **(5) must consider issues raised by the revenue and tax expenditure**  
27 **report prepared by the Department of Revenue under AS 43.05.090.**

28 \* **Sec. 6.** AS 43.05.090 is amended to read:

29 **Sec. 43.05.090. Preparation and publication of reports and statistics.** The  
30 department shall prepare and annually publish statistics of the revenues derived under  
31 the tax laws administered by it, **including an analysis of tax revenue losses due to**

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tax expenditures.

\* **Sec. 7.** AS 43.05.090 is amended by adding new subsections to read:

(b) The revenue and tax expenditure report must include

(1) the statutory authority for each type of tax expenditure;

(2) the annual sum of tax expenditures for the prior fiscal year, separately calculated for each type of expenditure, and the total number of taxpayers who benefitted from each type of expenditure;

(3) an estimate of tax expenditures for the current fiscal year, separately calculated for each type of expenditure;

(4) an estimate of the public costs of administering the tax expenditures.

(c) The department shall annually transmit an electronic copy of the revenue and tax expenditure report to each member of the legislature and make the report available to the public on the department's Internet website.

(d) The department shall notify the legislative finance division when the sum of tax expenditures of a specific type has exceeded \$1,000,000 in fiscal year ~~2000~~ <sup>2012</sup> or a succeeding fiscal year and provide the legislative finance division with the nonconfidential or, subject to the division's execution of a confidentiality agreement, confidential information necessary to complete the analysis under AS 24.20.232.

(e) In this section, "tax expenditure" means a tax credit, exclusion, exemption, waiver, or other loss of state tax revenue due to an express provision of state tax law; "tax expenditure" does not include federal tax expenditures under federal law adopted by reference in AS 43.20.021 or tax deductions incurred in the ordinary course of trade or business.

\* **Sec. 8.** Sections 1 and 2 of this Act take effect immediately under AS 01.10.070(c).

\* **Sec. 9.** Sections 3 - 7 of this Act take effect July 1, 2015.

## Alaska Appendix

### Key Alaska Subsidy Programs

Program	Recent Annual Cost	Online Recipient Disclosure	Recipient Disclosure Score*
<b>Alaska's Clear and Equitable Share/ Oil and Gas Production Tax Credits</b> - an expensive series of tax credits available to companies engaged in oil exploration and drilling	\$550 million (2009)	none	0/100
<b>Commercial Fishing Revolving Loan Program</b> - grants disguised as loans for commercial fishermen	\$2 million (2009)	none	0/100
<b>Development Finance Program</b> - an expensive program whereby government builds and owns infrastructure for the private sector then leases it back to them	\$364 million (2009)	<a href="#">source</a>	69/100
<b>Film Industry Tax Credit</b> - a tax credit covering up to 30 percent of film production costs; may be sold or transferred to other corporations	\$244,547 (2009)	<a href="#">source</a>	49/100
<b>Average of Disclosure Scores for All Programs</b>			<b>30</b>

\*See next page for scoring details

<b>Show Us the Subsidies: Scoring Details for Alaska Programs</b>		<i>Maximum possible score for category</i>	Alaska's Clear and Equitable Share/ Oil and Gas Production Tax Credits	Commercial Fishing Revolving Loan Program	Development Finance Program	Film Industry Tax Credit
<i>Score criteria</i>						
Subsidy Value	Not disclosed (0 pts)	40	0	0	40	40
	Either amount approved OR actual amount disbursed/claimed (30 pts)					
	BOTH amount approved AND actual amount disbursed/claimed (40 pts)					
Location of subsidized facility	Not disclosed (0 pts)	15	0	0	5	0
	ONLY locality (city/county/other political jurisdiction) (5 pts)					
	Locality AND street address (15 pts)					
Jobs/ training outcomes	Not disclosed (0 pts)	15 (if BOTH promised and actual reported)	0	0	10	0
	Number of jobs or training slots promised/projected (5 pts)					
	Actual number of jobs created/retained or trainings completed (10 pts)					
Wage rates/ payroll outcomes	Not disclosed (0 pts)	15 (if BOTH promised and actual reported)	0	0	0	0
	Wage rates/payroll promised/projected (5 pts)					
	Actual wage rates/payroll (10 pts)					
Available year(s) of recipient data	Earlier than 2005 only or unknown (0 pts)	5 (at least 1 year from '05-'08 AND '09-'10)	0	0	5	5
	2005, 2006, 2007 and/or 2008 only (2 pts)					
	2009 and/or 2010 only (3 pts)					
Searchability of recipient list	Unsearchable (0 pts)	5	0	0	2	2
	CTRL-F searchable in HTML or PDF (2 pts)					
	Search engine or downloadable spreadsheet (5 pts)					
Ease of access	Source difficult to find (0 pts)	5	0	0	2	2
	Listed in annual report or other obvious location (2 pts)					
	Separate, clear disclosure site (5 pts)					
<b>Total before extra credit</b>		<b>100</b>	<b>0</b>	<b>0</b>	<b>64</b>	<b>49</b>
<i>Extra credit categories</i>		<i>Maximum possible</i>				
Program is most costly among those reviewed (7 pts); second most costly (5 pts)		7	0	0	5	0
Copies of approved applications or signed agreements available on website		4	0	0	0	0
Compliance or performance reports available on website		4	0	0	0	0
Wage data disaggregated		4	0	0	0	0
Data contained in open government website providing wider fiscal data		2	0	0	0	0
Recipient Dun's or Employer Identification Number (EIN) provided		2	0	0	0	0
Recipient NAICS industry code provided		2	0	0	0	0
Total extra credit		25	0	0	5	0
<b>TOTAL AFTER EXTRA CREDIT</b>		<b>125</b>	<b>0</b>	<b>0</b>	<b>69</b>	<b>49</b>

\*See next page for notes on scoring

## **Alaska Program Scoring Notes**

### **Alaska's Clear and Equitable Share/ Oil and Gas Production Tax Credits**

*Program Information:* <http://www.dog.dnr.state.ak.us/oil/programs/incentives/incentives.htm>

There is no online recipient disclosure for this program.

### **Commercial Fishing Revolving Loan Program**

*Program Information:* <http://www.dced.state.ak.us/investments/tvpqi.cfm>

There is no online recipient disclosure for this program.

### **Development Finance Program**

*Program Information:* <http://www.aidea.org/programsdevfin.html>

*Online Disclosure:* <http://www.aidea.org/projects.html>

Detailed disclosure can be found by clicking on hyperlinks to project fact sheets. Points are awarded for inclusion of both the amount of subsidy disbursed and approved, and actual job creation figures.

### **Film Industry Tax Credit**

*Program Information:* <http://www.film.alaska.gov/incentive-program.htm>

*Online Disclosure:* <http://www.film.alaska.gov/pdf/2010-Report-to-Legislature-Final.pdf>

Alaska earned points for disclosing both the amount approved (labeled in the document as "pre-qualified") and the actual amounts utilized.

<u>Tax Credits</u>	<u>Applicable Tax Type</u>	<u>&gt; \$1 million</u>
Exploration incentive credit	Oil & Gas Production	Yes
Qualified capital expenditure credit	Oil & Gas Production	Yes
Carried forward annual loss credit	Oil & Gas Production	Yes
Small producer/new area development credit	Oil & Gas Production	Yes
Transitional investment expenditure credit	Oil & Gas Production	Yes
Alternative credit for exploration	Oil & Gas Production	Yes
Cook Inlet jack-up rig credit	Oil & Gas Production	Yes
Property taxes paid to municipalities on oil and gas property	Oil & Gas Property Tax	Yes
Gas exploration and development credit	Corporate Income Tax	Yes
Gas storage facility credit	Corporate Income Tax	Yes
Film production tax credit	Corporate Income Tax	Yes
Minerals exploration incentive credit	Corp, Mining, Royalty Corp, Mining, Fish, Oil & Gas	Yes
Education tax credit	Production & Property	
Winn Brindle memorial education credit	Fishery	No
Salmon product development credit	Fishery	Yes
Community development quota credit	Fishery	No
Other taxes credit	Fishery	No
Timely filing credit	Motor Fuel Tax	No
Tax remittance credit	Tire Fee	No
Cigarette tax stamp discount	Cigarette Tax	Yes
Tax remittance credit	Other tobacco products tax	No
<u>Tax Exemptions</u>		
Reduced rate of tax for small breweries	Alcoholic Beverage	Yes
Credit for port taxes paid to Juneau & Ketchikan S-Corporations	Commerical Passenger Vessel Corporate Income Tax	Yes
New mining operations exempt for 3.5 years	Mining license tax	Yes
First \$40,000 in net income	Mining license tax	?
Fuel used for heating	Motor Fuel Tax	Yes
Fuel used in foreign flights	Motor Fuel Tax	Yes
Fuel used by charitable institutions	Motor Fuel Tax	No
Bunker fuel	Motor Fuel Tax	No
Oil and gas produced for use on a lease or property for drilling, production, or repressuring	Oil & Gas Production	Yes
Oil and gas reserves	Oil & Gas Property Tax	Yes
Oil and gas leases	Oil & Gas Property Tax	Yes
Intangible drilling and exploration expenditures	Oil & Gas Property Tax	Yes
Oil and gas pipeline transportation systems owned by a public utility	Oil & Gas Property Tax Salmon Enhancement Tax &	Yes
Salmon harvested under a special harvest area permit	Seafood Development Tax	No
Processors and fishermen who produce less than \$50,000 worth of seafood products	Seafood Marketing Assessment	No

Trucks with gross vehicle weight greater than 8,500 pounds	Vehicle Rental Tax	?
Taxi cabs	Vehicle Rental Tax	?
Rental trucks to move personal property	Vehicle Rental Tax	?
Vehicle rented while warranty work is done on private vehicle	Vehicle Rental Tax	?
Estates valued under \$1.5 million	Estate Tax	?
Interest earned on federal govt. bonds	Corporate Income Tax	Yes

Tax Deferrals

I need to still research this. There could be a few.



# FALL 2010

## REVENUE SOURCES BOOK



## 3. The Role of Credits in Public Policy

### Overview of Credits

Tax credits are a critical component of the state's overall tax structure. Tax credits are intended to encourage businesses to invest in various activities in the state such as oil and gas exploration and development, education, and film production. They are also used to implement public policy. This chapter provides an overview of the role that tax credits play in the state's tax system. Also presented is a complete listing of the tax credits currently available under state tax law and the amount of credits that have been granted in each of the past three years.

Sound tax policy involves moving beyond the "collection" of taxes into understanding the business perspective of the state's taxpayers, including what stimulates additional investment or brings new entrants into Alaska markets. The Tax Division regularly seeks input from taxpayers, legislators, the administration, and the public to gauge the impact of current and proposed tax policy on different industries. The Tax Division works toward developing collaborative relationships with tax-

payers and staying informed in order to respond to the changing needs of the various industries in Alaska. The division regularly monitors the impact of the state's tax systems on industry as well as on the state budget. The division also conducts research on potential broad-based taxes such as sales and income taxes, and makes recommendations to the administration and the legislature on how a proposed tax might be structured and implemented. Officials with the division actively participate in discussions about tax effectiveness as well as decisions to suspend or lower taxes, which has happened with the motor fuel tax and the recently amended cruise ship taxes.

Although tax policy does not drive all business decisions, the state's tax structure, including incentives like tax credits, are integral to making decisions. The proper balance between taxes and incentives may enhance the economic viability of projects and influence the plans of Alaska businesses. Incentives can take many forms, including credits that can be directly applied against tax

liabilities. Tax credits are among the most common methods of incentivizing business activity.

The Tax Division also understands the value of information regarding world markets. Since the state is competing globally for market dollars, understanding the impacts of changing world economies provides insight into refinements that may help keep the state's fiscal systems competitive.

The Tax Division stays informed about the state's industries in a variety of ways. In addition to continuously analyzing data reported by taxpayers, the division subscribes to various publications and organizations that are industry specific. The economic research group monitors oil, gas and mining activity throughout the world through daily, weekly and monthly publications. The division also stays current on state and local issues by attending industry events, such as the recent forum on offshore drilling and development sponsored by the Department of Interior, Bureau of Ocean Energy Management, held in Anchor-

age, meeting with other state agencies, and working and communicating with organizations like the Alaska Oil and Gas Association, the Resource Development Council for Alaska, Commonwealth North, and the Alaska Seafood Marketing Institute. State officials have had the opportunity to tour domestic and international industry facilities and learn about their operations through presentations and discussions. These activities are considered a fundamental part of the job of taxing and regulating industries in the state.

The Tax Division currently administers 21 different tax programs along with 16 tax credit programs. Most of the tax credit programs encourage spending and give tax credit for specific items or services designated by the program. A credit may be applicable to one tax type only, or it may be applicable to one of several tax types. The Education Tax Credit, for example, provides taxpayers credit for contributions to Alaska-based vocational education programs, accredited universities or colleges, or to the Alaska Fire Standards Council. A taxpayer is limited in the amount of credit they may receive, but the credit may be applied to any of the following tax types: the Alaska Corporate Income Tax, the Fisheries Business Tax, the Fishery Resource Landing Tax, the Insurance Premium Tax, the Mining License Tax, the Oil and Gas Production Tax, or the Oil and Gas Property Tax.

Some credit programs are very specific in how credits are earned and to which tax programs they apply. An example of such a credit is the new Oil and Gas Production Tax credit for exploration expenditures related to the first three wells drilled by the first jack-up rig in Cook Inlet. This credit may be applied against a production tax liability, transferred, or purchased by the state up to

maximum dollar amounts specified in statute. If these exploration projects result in sustained production of oil or gas, then 50 percent of the amount of the credit received shall be repaid to the state over a 10-year period. The repayment provisions for this credit are unique. There are however, other credits that require that the benefit of any tax credit be incorporated in calculating, for example, a tariff for a pipeline or other asset that is regulated by the Federal Energy Regulatory Commission (FERC) or the Regulatory Commission of Alaska (RCA).

Most credit programs limit the dollar amount of credit available or only allow a certain percentage of expenditures to be the basis for the credit. Some credit programs have expiration dates and some programs have already expired, even though the credits themselves may be carried forward indefinitely. Some credits are transferable and some are redeemable for cash from the state treasury. Each credit program has its own rules and applications, tailored to the needs of the taxpayers under each program or to incentivize certain behaviors. We describe each individual tax credit program, categorized by tax type, in detail below.

## Credits Applicable to the Oil and Gas Production Tax

### Exploration Incentive Credit

**Statutory Reference:** AS 38.05.180(i)

**Year of Implementation:** 1978

**Credit Applied to:** Production tax, royalty

**Transferability:** Not transferable

**Expiration Date:** None

The exploration incentive credit authorized at AS 38.05.180(i) is among the earliest of oil and gas tax credits to be written into Alaska law. Implemented in 1978, this credit, which is available against either royalties or production tax, is included as a term of an oil and gas lease. Credit is earned for exploratory drilling on state land, and is based on the region where the drilling takes place and the depth of the well. Credit may also be received for geophysical work that is done two seasons immediately preceding an announced lease sale for the area where the work is performed. Maximum credit is 50 percent of the costs of the drilling or the geophysical work, not to exceed 50 percent of the tax or royalty obligation to which it is applied.

Department of Natural Resources records indicate that the last reported credit used under this program was in 1994. The department reports no activity in the program since that date.

### Qualified Capital Expenditure Credit

**Statutory Reference:** AS 43.55.023(a) and (l)

**Year of Implementation:** .023(a) – 2006; .023(l) – 2010

**Credit Applied to:** Production Tax

**Transferability:** Transferable

**Expiration Date:** None

The qualified capital expenditure credit was passed as part of the Petroleum Profits Tax (PPT) in 2006, and was retained in the ACES tax and

expanded during the 2010 legislative session. The original credit under AS 43.55.023(a) provides a 20% credit for qualified capital expenditures for oil and gas operations. The credits can be applied against production tax liabilities, transferred to another company or purchased by the state.

In 2010, the legislature passed AS 43.55.023(l), which allows credit of 40 percent of qualified well lease expenditures incurred south of 68 degrees North latitude for oil or gas operations. These credits can be applied against production tax liabilities, transferred to another company or purchased by the state.

### Carried-Forward Annual Loss Credit

**Statutory Reference:** AS 43.55.023(b)

**Year of Implementation:** 2006

**Credit Applied to:** Production Tax

**Transferability:** Transferable

**Expiration Date:** None

The credit for a carried-forward annual loss was part of the Petroleum Profits Tax passed in 2006. The percentage of allowable credit was increased by ACES from 20 percent to 25 percent. Like the qualified capital expenditure credit, carried-forward loss credits do not expire and may be transferred or purchased by the state, or applied to production tax liabilities.

### Small Producer / New Area Development Credit

**Statutory Reference:** AS 43.55.024

**Year of Implementation:** 2006

**Credit Applied to:** Production Tax

**Transferability:** Not Transferable

**Expiration Date:** December 31, 2016 or ninth calendar year after producer first has oil or gas produced before May 1, 2016

With the passage of the Petroleum Profits Tax in 2006 came two credits under AS 43.55.024. One is a credit for up to \$12 million for companies producing less than 100,000 barrels of oil equivalent per day anywhere in the state. The other is a credit for up to \$6 million for companies producing less than 100,000 barrels of oil equivalent in areas other than the North Slope and Cook Inlet. These credits may only be used against production tax liabilities; they are not transferable and cannot be carried forward.

### Alternative Credit for Exploration

**Statutory Reference:** AS 43.55.025(a) (1) – (4)

**Year of Implementation:** 2003

**Credit Applied to:** Production Tax

**Transferability:** Transferable

**Expiration Date:** Work must be performed before July 1, 2016

The Alternative Credit for Exploration, also called the "Exploration Incentive Credit," was implemented in 2003. It originally provided a credit of 20 or 30 percent for certain expenditures for oil and gas exploration. To further incentivize exploration activity, the ACES legislation increased the credit under the Alternative Credit for Exploration

to 30 or 40 percent of eligible exploration expenditures.

Credits issued under this program may be applied against tax liabilities, transferred, or purchased by the state.

### Cook Inlet Jack-Up Rig Credit

**Statutory Reference:** AS 43.55.025(a) (5) and (l)

**Year of Implementation:** 2010

**Credit Applied to:** Production Tax

**Transferability:** Transferable

**Expiration Date:** Work must be performed before July 1, 2016

AS 43.55.025(a)(5) was passed by the legislature in 2010 to incentivize investment in a jack-up rig for use in Cook Inlet. The credit is available to the first three unaffiliated persons that drill an offshore exploration well for oil or gas in Cook Inlet. Credit under this program will be granted for the lesser of 100 percent of exploration expenditures or \$25 million to the first person who drills a qualifying well under the program. Credit for the lesser of 90 percent of exploration expenditures or \$22.5 million is available to the second person, and credit for the lesser of 80 percent of exploration expenditures or \$20 million is available to the third person who drills a qualifying well under the program.

Credit under this program may be granted in the form of a cash reimbursement from the state or it may be applied against tax liabilities. If the drilling under this program results in sustained production of oil or gas, 50

percent of the amount of the credit received shall be repaid to the state over a 10-year period.

## Credits Applicable to the Corporate Income Tax

### Internal Revenue Code Credits Adopted by Reference

**Statutory Reference:** AS 43.20.021

**Year of Implementation:** 1975

**Credit Applied to:** Corporate Income Tax

**Transferability:** Not transferable

**Expiration Date:** None

AS 43.20.021 adopts the Internal Revenue Code (IRC) for Alaska state corporate income tax liabilities, except where modified by provisions of state statute. The Internal Revenue Code authorizes tax credits, and by adopting the IRC, the state also authorizes those tax credits. Generally where a credit is allowed under the IRC, Alaska law limits its application to state corporate income tax to 18 percent of the credit amount apportioned to Alaska. The number and details of credit programs under the IRC are too voluminous to report here.

### Gas Exploration and Development Credit

**Statutory Reference:** AS 43.20.043

**Year of Implementation:** 2003

**Credit Applied to:** Corporate Income Tax

**Transferability:** Not transferable

**Expiration Date:** January 1, 2016

This credit was enacted in 2003, but the credit program was expanded and extended in 2010. Credit under this program, which is applicable against the Alaska oil and gas corporate income tax, may be earned through exploratory gas drilling in areas of the state south of 68 degrees North latitude. Beginning in 2010, credit of 25 percent of qualified capital investments and 25 percent of annual costs incurred for qualified services are eligible for credit, not to exceed 75 percent of a company's corporate income tax liability before the application of other tax credits. Credits under this program may be carried forward for up to 5 years.

### Gas Storage Facility Credit

**Statutory Reference:** AS 43.20.046

**Year of Implementation:** 2010

**Credit Applied to:** Corporate Income Tax

**Transferability:** Not transferable

**Expiration Date:** January 1, 2016

The legislature enacted this credit in 2010 to encourage the commercial operation of gas storage facilities by allowing a credit against the state corporate income tax in the amount of \$1.50 for each 1,000 cubic feet of qualified, certified working gas storage capacity. The total amount of credit for a single gas storage facility may not exceed the lesser of \$15 million or 25% of the costs incurred to establish the facility. This tax credit may be applied in addition to any of the other corporate income tax credits available to taxpayers and it may be refunded by the state.

### Film Production Credit

**Statutory Reference:** AS 43.98.030

**Year of Implementation:** 2008

**Credit Applied to:** Corporate Income Tax

**Transferability:** Transferable

**Expiration Date:** The earlier of July 1, 2013 or the date that an aggregated total of \$100 million in credits have been issued

The Film Production Credit is a credit available to companies that produce films in Alaska and spend at least \$100,000 in eligible expenditures in a 24-month period. Credit against the state's corporate income tax is allowed in varying percentages for eligible film production expenditures, starting with a base credit rate of 30 percent of expenditures. An additional 10 percent credit is available for wages paid to Alaska residents; an additional 2 percent credit is available for expenditures made in a rural area; and an additional 2 percent credit is available for expenditures made in the state between October 1 and March 30. The credit program has a maximum budget of \$100 million and expires upon exhausting the budget or July 1, 2013, whichever is earlier.

## Credits Applicable to Multiple Tax Programs

### Education Tax Credit

**Statutory Reference:** AS 21.89.070; AS 21.89.075; AS 43.20.014; AS 43.55.019; AS 43.56.018; AS 43.65.018; AS 43.75.018; AS 43.77.045

**Year of Implementation:** 1987

**Credit Applied to:** Corporate Income Tax, Production Tax, Property Tax, Mining License Tax, Fisheries Business Tax, Fishery Resource Landing Tax, Insurance Premium Tax

**Transferability:** Not Transferable

**Expiration Date:** None, although current rates of credit change on January 1, 2014

The Education Tax Credit allows credit for contributions for programs or facilities made to accredited Alaska universities or colleges and vocational educational programs, or, under AS 21.89.075, to the Alaska Fire Standards Council. Credit is allowed at the rate of 50% of the first \$100,000 and 100% of the second \$100,000 in contributions made to a qualifying institution. Credits received by any taxpayer may not exceed \$150,000 annually across all eligible tax types. Beginning January 1, 2011, credit is available at the rate of up to 50 percent of annual contributions up to \$100,000, 100 percent of the next \$200,000 in contributions, and 50 percent of contributions higher than \$300,000 annually. Credits received by any taxpayer may not exceed \$5 million annually across all eligible tax types. On January 1, 2014, the maximum credit allowed reverts back to the limit set prior to January 1, 2011 or \$150,000.

### Minerals Exploration Incentive Credit

**Statutory Reference:** AS 27.30.030; AS 43.20.044

**Year of Implementation:** 1995

**Credit Applied to:** Corporate Income Tax, Mining License Tax, Mining

Royalty

**Transferability:** Not Transferable

**Expiration Date:** None

The Minerals Exploration Incentive Credit is available to companies for expenditures on exploration activities such as surveying, drilling exploration wells, surface trenching, etc. for the purpose of mineral development in the state. The credit pays 100 percent of allowable expenditures up to a maximum of \$20 million per year. The credit is limited to: (1) for the Mining License Tax – the lesser of 50 percent of tax liability at the mining operation where the exploration occurred or 50 percent of the taxpayer's total Mining License Tax for the year; (2) for Corporate Income Tax – the lesser of 50 percent of the Mining License Tax liability at the mining operation where the exploration occurred or the total Corporate Income Tax liability; (3) for mineral royalty – 50 percent of royalty liability from the mining operation where the exploration activity occurred. The credit may be carried forward, but must be used within 15 years.

### Scholarship Contributions (“Winn Brindle”) Credit

**Statutory Reference:** AS 43.75.032, AS 43.77.035

**Year of Implementation:** 1986

**Credit Applied to:** Fisheries Business Tax, Fishery Resource Landing Tax

**Transferability:** Not Transferable

**Expiration Date:** None

Credit under this program is available for 100 percent of contributions to the A.W. “Winn” Brindle memorial educa-

tion loan account established under AS 14.43.250. A taxpayer may receive credit of up to 5 percent of his/her tax liability through contributions under this program.

## Credits Applicable to Fisheries Taxes

### Salmon Product Development Credit

**Statutory Reference:** AS 43.75.035

**Year of Implementation:** 2003

**Credit Applied to:** Fisheries Business Tax

**Transferability:** Not Transferable

**Expiration Date:** Last date an item may be placed into service is December 31, 2015

The Salmon Product Development Credit is a credit available for capital expenditures made to expand value-added processing of Alaska salmon. Credit is available for 50 percent of qualified expenditures up to 50 percent of the company's tax liability for the Fisheries Business Tax. The credit may be carried forward for three years.

### Community Development Quota (CDQ) Credit

**Statutory Reference:** AS 43.77.040

**Year of Implementation:** 1993

**Credit Applied to:** Fishery Resource Landing Tax

**Transferability:** Not Transferable

**Expiration Date:** None

The Community Development Quota (CDQ) Credit is a credit available to

fisheries taxpayers who make contributions to Alaska nonprofit corporations to be used for purposes such as scholarships and training for fisheries businesses, and facilities for fisheries transport or processing, etc. Under this program, taxpayers receive credit for 100 percent of qualified contributions up to a maximum of 45.45 percent of the taxpayer's tax liability on fishery resources harvested under a CDQ.

### **Other Taxes Credit**

**Statutory Reference:** AS 43.77.030

**Year of Implementation:** 1993

**Credit Applied to:** Fishery Resource Landing Tax

**Transferability:** Not Transferable

**Expiration Date:** None

In order to avoid double taxation on fisheries resources, credit is provided to taxpayers for payments made to other jurisdictions for taxes that are equivalent in nature to the Fishery Resource Landing Tax. The maximum credit under this program is the taxpayer's Alaska tax liability under the Fishery Resource Landing Tax.

A summary table showing all tax credits in current law, as well as the credits granted under each program for each of the past three years is shown on the following pages.

## Summary of Alaska Tax Credits in Current Law

Description of Credit	Credit Rate and Maximum Credit	Amount of Credit Claimed (in \$millions)		
		FY 2008	FY 2009	FY 2010
<b>Credits Applicable to the Oil and Gas Production Tax (see Note A)</b>				
<b>Exploration Incentive Credit, AS 38.05.180(f)</b> A non-transferable credit for the cost of drilling or seismic work performed under a limited time period established by the Commissioner of the Department of Natural Resources.	Up to 50% of the cost of drilling or seismic work, not to exceed 50% of the tax liability to which it is being applied. This credit may also be applied against the state royalty.	\$0	\$0	\$0
<b>Qualified Capital Expenditure Credit, AS 43.55.023(a) and (f)</b> A transferable tax credit for qualified oil and gas capital expenditures in the state. Taken in lieu of exploration incentive credits under AS 43.55.025 and gas exploration credits under AS 43.20.043.	Credit is 20% of eligible expenditures, or 40% for well related expenses outside the North Slope. For credits earned for North Slope capital expenditures under AS 43.55.023 (a), no more than half the credit may be applied in a single calendar year.	\$336	\$391	\$585
<b>Carried-Forward Annual Loss Credit, AS 43.55.023(b)</b> A transferable credit for a carried-forward annual loss, as defined as a producer or explorer's adjusted lease expenditures that are not deductible in calculating production tax values for the calendar year.	Credit is 25% of the carried-forward annual loss. If a transferable credit certificate is applied for North Slope losses, not more than half may be taken in one year.	Totals included in Qualified Capital Expenditure Credits above		
<b>Small Producer / New Area Development Credit, AS 43.55.024(a) and (c)</b> A non-transferable credit for oil and gas produced by small producers, defined as having average taxable oil and gas production of less than 100,000 BTU equivalent barrels per day, or for oil or gas produced on leases outside Cook Inlet and below 68 degrees North latitude, providing the producer has a positive tax liability on that production before the application of other credits. Credit is available until the later of 2016 or 9 years after first commercial production of oil and gas on the properties for which the credit applies.	Credit is 100% of tax liability for eligible oil and gas production. The credit is capped at \$12,000,000 annually under the small producer credit for producers with no more than 50,000 BTU equivalent barrels per day. The credit then phases out, reaching zero for producers with 100,000 or more BTU equivalent barrels per day.  Under the new area development credit, credit is available up to \$6,000,000 per company annually.	\$38	\$21	\$34
<b>Alternative Credit for Exploration, AS 43.55.025</b> A transferable credit for expenditures for certain oil and gas exploration activities. Expires 7/1/2016.	Outside of Cook inlet, credit is 40% for seismic costs outside an existing unit, 30% for drilling costs greater than 25 miles from an existing unit, 30% for pre-approved new targets greater than 3 miles from an existing well, and 40% for pre-approved new targets greater than 3 miles from a well and greater than 25 miles from an existing unit. For Cook Inlet, credit is 40% for seismic costs outside an existing unit, 30% for drilling costs greater than 10 miles from an existing unit, 30% for pre-approved new targets, and 40% for drilling costs that are greater than 10 miles from an existing unit and pre-approved new targets.	\$95	\$18	\$41

**Note A:** Credits under these programs are calculated and tracked on a calendar year basis. Totals represent CY 2007, 2008, and 2009, respectively.

(continued on next two pages)

## Summary of Alaska Tax Credits in Current Law

Description of Credit	Credit Rate and Maximum Credit	Amount of Credit Claimed (In \$millions)		
		FY 2008	FY 2009	FY 2010
<p><b><u>Cook Inlet Jack-Up Rig Credit, AS 43.55.025(a)(5) and (d)</u></b>            A credit for exploration expenses for the first three wells drilled by the first jack-up rig brought in to Cook Inlet. Expenses only for drilling of wells from a jack-up rig for wells that test pre-Tertiary; all three wells must be drilled by unaffiliated parties.</p>	Credit is 100% of costs for the first well up to \$25 million, 90% of costs for the second well up to \$22.5 million, and 80% of costs for the third well up to \$20 million. If exploration well is brought into production, operator shall repay 50% of the credit over ten years following production start-up.	Credit program began in 2010		
<b><i>Credits Applicable to the Corporate Income Tax</i></b>				
<p><b><u>Internal Revenue Code Credits Adopted by Reference, AS 43.20.021</u></b>            Under Alaska's blanket adoption of the IRC, taxpayers can claim all federal incentive credits. Federal credits that refund other federal taxes are not allowed. Multistate taxpayers apportion their total federal incentive credits.</p>	For most credits, credit is limited to 18% of the amount of the credit determined for federal income tax purposes which is attributable to Alaska.	Not tracked		
<p><b><u>Gas Exploration and Development Credit, AS 43.20.043</u></b>            A non-transferable credit for qualified expenditures for exploration and development of non-North Slope natural gas reserves.</p>	Credit is 25% of qualified expenditures for investment after January 1, 2010; investments in existing units qualify. Credit is capped at 75% of tax liability as calculated before applying other credits.	Cannot be reported due to taxpayer confidentiality		
<p><b><u>Gas Storage Facility Credit, AS 43.20.046</u></b>            A credit for the costs incurred to establish a gas storage facility. Does not apply to gas storage related to a gas sales pipeline on the North Slope. Facility shall operate as a public utility regulated by the Alaska RCA with open access for 3rd parties. Effective for facilities placed into service between January 1, 2011 and December 31, 2015.</p>	Credit is \$1.50 per thousand cubic feet of "working gas" storage capacity as determined by AOGCC. Maximum credit is the lesser of \$15 million or 25% of costs incurred to establish the facility.	Credit program began in 2010		
<p><b><u>Film Production Credit, AS 43.98.030</u></b>            A transferable credit for expenditures on eligible film production activities in Alaska. Producer must spend at least \$100,000 in a consecutive 24-month period to qualify. Expires the earlier of 7/1/2013 or once \$100 million of credits have been approved.</p>	Credit is 30% of eligible film production expenditures, plus an additional 10% credit for wages paid to Alaska residents, plus an additional 2% credit for filming in a rural area, plus an additional 2% credit for filming between October 1 and March 30. Program is capped at \$100 million for all projects.	\$0	\$0	<\$1
<b><i>Credits Applicable to Multiple Tax Programs</i></b>				
<p><b><u>Education Credit, AS 21.89.070 and .075, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, AS 43.77.045 - Applicable to Corporate Income Tax, Fisheries Business Tax, Fishery Resource Landings Tax, Insurance Premium Tax, Mining License Tax, Oil and Gas Production Tax, Oil and Gas Property Tax</u></b>            A non-transferable credit for contributions to vocational educational programs or accredited Alaska universities or colleges for educational purposes or facilities; under AS 21.89.075 contributions to the Alaska Fire Standards Council also qualify.</p>	Credit is 50% of annual contributions up to \$100,000, 100% of the next \$200,000 and 50% of annual contributions beyond \$300,000. The credit cannot exceed \$5,000,000 annually across all eligible tax types. The credit at these rates is effective from January 1, 2011 until December 31, 2013, at which point the maximum credit for any taxpayer is \$150,000 per year.	\$3	\$2	\$2

(continued on next page)

## Summary of Alaska Tax Credits in Current Law

Description of Credit	Credit Rate and Maximum Credit	Amount of Credit Claimed (In \$millions)		
		FY 2008	FY 2009	FY 2010
<b>Minerals Exploration Incentive Credit, AS 27.30.030, AS 43.20.044 - Applicable to Corporate Income Tax, Mining License Tax and Mineral Production Royalty</b>				
A non-transferable credit for eligible costs of mineral or coal exploration activities. Credit must be used within 15 years.	Credit is 100% of allowable exploration costs with a maximum of \$20 million. Credit is limited to: (1) for mining license tax, the lesser of 50% of the MLT liability at the mining operation at which the exploration occurred or 50% of total MLT liability; (2) for corporate income tax, the lesser of 50% of the MLT liability at the mining operation at which the exploration occurred or 50% of total CIT liability, and (3) for mineral royalty, 50% of royalty liability from the mining operation at which the exploration activity occurred.	\$0	\$0	<\$1
<b>Scholarship Contributions Credit, AS 43.75.032, AS 43.77.035 - Applicable to the Fisheries Business Tax and Fishery Resource Landing Tax</b>				
A non-transferable credit for contributions to the A.W. "Winn" Brindle memorial education loan account established under AS 14.43.250.	Credit is 100% of contribution amount up to a maximum of 5% of tax liability.	<\$1	<\$1	<\$1
<b>Credits Applicable to Fisheries Taxes</b>				
<b>Salmon Product Development Credit, AS 43.75.035</b>				
A non-transferable credit for eligible capital expenditures to expand value-added processing of Alaska salmon including ice making machines. Credit expires December 31, 2015 and may be carried forward for three years.	Credit is 50% of qualified investment up to 50% of tax liability incurred for processing of salmon during the tax year.	\$5	\$3	\$4
<b>Community Development Quota Credit, AS 43.77.040</b>				
A non-transferable credit for contributions to an Alaska nonprofit corporation that are dedicated to fisheries industry-related expenditures. Credit is available only for fishery resources harvested under a community development quota (CDQ).	Credit is 100% of contribution amount up to a maximum of 45.45% of tax liability on fishery resources harvested under a CDQ.	<\$1	\$0	<\$1
<b>Other Taxes Credit, AS 43.77.030</b>				
A non-transferable credit for taxes paid to another jurisdiction on fishery resources landed in Alaska.	Credit is 100% of taxes paid with a maximum of 100% of the Alaska tax liability on the fishery resources.	Not tracked		
<b>Total All Credits</b>		<b>\$479</b>	<b>\$436</b>	<b>\$670</b>

# Revenue Sources Book

*Alaska Department of Revenue – Tax Division*

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# FALL 2011

## Credits. E-1a

## Summary of Alaska Tax Credits in Current Law (\$ millions)

Description of Credit	Credit Rate and Maximum Credit	Amount of Credit Claimed		
		FY 2009	FY 2010	FY 2011
<b>Credits Applicable to the Oil and Gas Production Tax (see Note A)</b>				
<b>Exploration Incentive Credit, AS 38.05.180(f)</b> A non-transferable credit for the cost of drilling or seismic work performed under a limited time period established by the Commissioner of the Department of Natural Resources.	Up to 50% of the cost of drilling or seismic work, not to exceed 50% of the tax liability to which it is being applied. This credit may also be applied against the state royalty.	\$0	\$0	\$0
<b>Qualified Capital Expenditure Credit, AS 43.55.023(a) and (l)</b> A transferable tax credit for qualified oil and gas capital expenditures in the state. Taken in lieu of exploration incentive credits under AS 43.55.025 and gas exploration credits under AS 43.20.043.	Credit is 20% of eligible expenditures, or 40% for well related expenses outside the North Slope. For credits earned for North Slope capital expenditures under AS 43.55.023 (a), no more than half the credit may be applied in a single calendar year.	\$391	\$585	\$640
<b>Carried-Forward Annual Loss Credit, AS 43.55.023(b)</b> A transferable credit for a carried-forward annual loss, as defined as a producer or explorer's adjusted lease expenditures that are not deductible in calculating production tax values for the calendar year.	Credit is 25% of the carried-forward annual loss. If a transferable credit certificate is applied for North Slope losses, not more than half may be taken in one year.	Totals included in Qualified Capital Expenditure Credits above		
<b>Small Producer / New Area Development Credit, AS 43.55.024(a) and (c)</b> A non-transferable credit for oil and gas produced by small producers, defined as having average taxable oil and gas production of less than 100,000 BTU equivalent barrels per day, or for oil or gas produced on leases outside Cook Inlet and below 68 degrees North latitude, providing the producer has a positive tax liability on that production before the application of other credits. Credit is available until the later of 2016 or 9 years after first commercial production of oil and gas on the properties for which the credit applies.	Credit is 100% of tax liability for eligible oil and gas production. The credit is capped at \$12,000,000 annually under the small producer credit for producers with no more than 50,000 BTU equivalent barrels per day. The credit then phases out, reaching zero for producers with 100,000 or more BTU equivalent barrels per day.  Under the new area development credit, credit is available up to \$8,000,000 per company annually.	\$21	\$34	\$38
<b>Transitional Investment Expenditure Credit, AS 43.55.023(l)</b> A non-transferable credit for qualified oil and gas capital expenditures incurred between March 31, 2001 and April 1, 2008. Only available to companies that did not have production in commercial quantities prior to January 1, 2008. Credit may not be used after December 31, 2013.	Credit is 20% of qualified oil and gas capital expenditures incurred between March 31, 2001 and April 1, 2008, not to exceed 10% of the capital expenditures incurred between March 31, 2006 and January 1, 2008.	Cannot be reported due to taxpayer confidentiality		
<b>Alternative Credit for Exploration, AS 43.55.025</b> A transferable credit for expenditures for certain oil and gas exploration activities. Expires 7/1/2016.	Outside of Cook inlet, credit is 40% for seismic costs outside an existing unit, 30% for drilling costs greater than 25 miles from an existing unit, 30% for pre-approved new targets greater than 3 miles from an existing well, and 40% for pre-approved new targets greater than 3 miles from a well and greater than 25 miles from an existing unit. For Cook Inlet, credit is 40% for seismic costs outside an existing unit, 30% for drilling costs greater than 10 miles from an existing unit, 30% for pre-approved new targets, and 40% for drilling costs that are greater than 10 miles from an existing unit and pre-approved new targets.	\$18	\$41	\$13

Note A: Credits under these programs are calculated and tracked on a calendar year basis. Totals represent CY 2009, 2010, and 2011.

## Credits. E-1b

## Summary of Alaska Tax Credits in Current Law (\$ millions)

Description of Credit	Credit Rate and Maximum Credit	Amount of Credit Claimed		
		FY 2009	FY 2010	FY 2011
<b>Cook Inlet Jack-Up Rig Credit, AS 43.55.025(a)(5) and (l)</b>				
A credit for exploration expenses for the first three wells drilled by the first jack-up rig brought in to Cook Inlet. Expenses only for drilling of wells from a jack-up rig for wells that test pre-Tertiary; all three wells must be drilled by unaffiliated parties.	Credit is 100% of costs for the first well up to \$25 million, 90% of costs for the second well up to \$22.5 million, and 80% of costs for the third well up to \$20 million. If exploration well is brought into production, operator shall repay 50% of the credit over ten years following production start-up.	Credit program began in 2011		
<b>Credits Applicable to the Corporate Income Tax</b>				
<b>Internal Revenue Code Credits Adopted by Reference, AS 43.20.021</b>				
Under Alaska's blanket adoption of the IRC, taxpayers can claim all federal incentive credits. Federal credits that refund other federal taxes are not allowed. Multistate taxpayers apportion their total federal incentive credits.	For most credits, credit is limited to 18% of the amount of the credit determined for federal income tax purposes which is attributable to Alaska.	Not tracked		
<b>Gas Exploration and Development Credit, AS 43.20.043</b>				
A non-transferable credit for qualified expenditures for exploration and development of non-North Slope natural gas reserves.	Credit is 25% of qualified expenditures for investment after January 1, 2010; investments in existing units qualify. Credit is capped at 75% of tax liability as calculated before applying other credits.	Cannot be reported due to taxpayer confidentiality		
<b>Gas Storage Facility Credit, AS 43.20.046</b>				
A credit for the costs incurred to establish a gas storage facility. Does not apply to gas storage related to a gas sales pipeline on the North Slope. Facility shall operate as a public utility regulated by the Alaska RCA with open access for 3rd parties. Effective for facilities placed into service between January 1, 2011 and December 31, 2015.	Credit is \$1.50 per thousand cubic feet of "working gas" storage capacity as determined by AOGCC. Maximum credit is the lesser of \$15 million or 25% of costs incurred to establish the facility.	Credit program began in 2011		
<b>Film Production Credit, AS 43.98.030</b>				
A transferable credit for expenditures on eligible film production activities in Alaska. Producer must spend at least \$100,000 in a consecutive 24-month period to qualify. Expires the earlier of 7/1/2013 or once \$100 million of credits have been approved.	Credit is 30% of eligible film production expenditures, plus an additional 10% credit for wages paid to Alaska residents, plus an additional 2% credit for filming in a rural area, plus an additional 2% credit for filming between October 1 and March 30. Program is capped at \$100 million for all projects.	\$0	<\$1	<\$1
<b>Credits Applicable to Multiple Tax Programs</b>				
<b>Education Credit, AS 21.89.070 and .075, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, AS 43.77.045 - Applicable to Corporate Income Tax, Fisheries Business Tax, Fishery Resource Landing Tax, Insurance Premium Tax, Mining License Tax, Oil and Gas Production Tax, Oil and Gas Property Tax</b>				
A non-transferable credit for contributions to vocational educational programs, accredited Alaska universities or colleges for educational purposes or facilities, annual intercollegiate sports tournaments, AK Native educational programs, facilities that qualify under the Coastal American Partnership; under AS 21.89.075 contributions to the Alaska Fire Standards Council also qualify.	Credit is 50% of annual contributions up to \$100,000, 100% of the next \$200,000 and 50% of annual contributions beyond \$300,000. The credit cannot exceed \$5,000,000 annually across all eligible tax types. The credit at these rates is effective from January 1, 2011 until December 31, 2020, at which point the maximum credit for any taxpayer is \$150,000 per year.	\$2	\$2	\$3

## Credits. E-1c

## Summary of Alaska Tax Credits in Current Law (\$ millions)

Description of Credit	Credit Rate and Maximum Credit	Amount of Credit Claimed		
		FY 2009	FY 2010	FY 2011
<b>Minerals Exploration Incentive Credit, AS 27.30.030, AS 43.20.044 - Applicable to Corporate Income Tax, Mining License Tax and Mineral Production Royalty</b>				
A non-transferable credit for eligible costs of mineral or coal exploration activities. Credit must be used within 15 years.	Credit is 100% of allowable exploration costs with a maximum of \$20 million. Credit is limited to: (1) for mining license tax, the lesser of 50% of the MLT liability at the mining operation at which the exploration occurred or 50% of total MLT liability; (2) for corporate income tax, the lesser of 50% of the MLT liability at the mining operation at which the exploration occurred or 50% of total CIT liability, and (3) for mineral royalty, 50% of royalty liability from the mining operation at which the exploration activity occurred.	\$0	<\$1	<\$1
<b>Credits Applicable to Fisheries Taxes</b>				
<b>Scholarship Contributions Credit, AS 43.75.032, AS 43.77.035 - Applicable to the Fisheries Business Tax and Fishery Resource Landing Tax</b>				
A non-transferable credit for contributions to the A.W. "Winn" Brindle memorial education loan account established under AS 14.43.250.	Credit is 100% of contribution amount up to a maximum of 5% of tax liability.	<\$1	<\$1	<\$1
<b>Salmon Product Development Credit, AS 43.75.035</b>				
A non-transferable credit for eligible capital expenditures to expand value-added processing of Alaska salmon including ice-making machines. Credit expires December 31, 2015 and may be carried forward for three years.	Credit is 50% of qualified investment up to 50% of tax liability incurred for processing of salmon during the tax year.	\$3	\$4	\$2
<b>Community Development Quota Credit, AS 43.77.040</b>				
A non-transferable credit for contributions to an Alaska nonprofit corporation that are dedicated to fisheries industry-related expenditures. Credit is available only for fishery resources harvested under a community development quota (CDQ).	Credit is 100% of contribution amount up to a maximum of 45.45% of tax liability on fishery resources harvested under a CDQ.	\$0	<\$1	<\$1
<b>Other Taxes Credit, AS 43.77.030</b>				
A non-transferable credit for taxes paid to another jurisdiction on fishery resources landed in Alaska.	Credit is 100% of taxes paid with a maximum of 100% of the Alaska tax liability on the fishery resources.	Not tracked		
<b>Total All Credits</b>		<b>\$436</b>	<b>\$670</b>	<b>\$700</b>



# Fall 2011 Revenue Forecast and Tax Credit Update



*Presentation to the  
Senate Resources Committee  
January 27, 2012  
Alaska Department of Revenue*



# Production Tax Credits Update



## Credits Applied Against Production Tax Liability, by Fiscal Year (\$M)



	<u>Pre-2008</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>	<u>2012*</u>	<u>Total</u>
Capital Expenditure Credit	292	219	278	342	345	360	1,837
TIE Credits	171	73	0	0	0	0	244
Small Producer Credits	46	31	27	27	41	35	208
Exploration Credits	48	55	28	42	19	5	196
<b>Totals</b>	<u><b>557</b></u>	<u><b>378</b></u>	<u><b>333</b></u>	<u><b>412</b></u>	<u><b>405</b></u>	<u><b>400</b></u>	<u><b>2,485</b></u>

\*estimated pending final true-up



## Transferable Tax Credits Certificates Claimed by Fiscal Year (\$M)



<u>Credit Type</u>	<u>Pre- 2008</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012*</u>	<u>Total</u>
Capital Expenditure - .023(a)(1)	52.3	78.4	66.9	114.9	160.7	83.4	556.7
Capital Expenditure Exploration - .023(a)(2)	15.9	13.3	42.6	34.7	4.6	0.4	111.5
Net Operating Loss .023(b)	38.1	85.5	153.8	140.4	188.6	8.3	677.7
Well Lease Expenditure - .023(l)					9.4	23.8	33.2
Exploration -.025	<u>93.2</u>	<u>85.5</u>	<u>56.6</u>	<u>99.5</u>	<u>2.4</u>	<u>2.5</u>	<u>339.7</u>
<b>Total</b>	<u>199.6</u>	<u>325.7</u>	<u>320.0</u>	<u>389.5</u>	<u>365.7</u>	<u>118.4</u>	<u>1,718.9</u>

\* through December 2011



## Transferable Tax Credit Certificate Activity by Fiscal Year (\$M)



	<u>Pre-2008</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012*</u>	<u>Total</u>
Issued	116.0	130.8	308.0	361.3	458.0	132.9	1,507.1
Refunded	(54.6)	(54.1)	(193.1)	(250.5)	(450.2)	(273.5)	(1276.1)
Transferred/ Applied to Taxes	(52.3)	(62.7)	(46.6)	(20.0)	(7.4)	0	(189.0)
Activity by year	9.1	14.0	68.3	90.8	.3	(140.5)	
Transferable Tax Credit Certificates Outstanding	<u>13.0</u>	<u>13.1</u>	<u>91.5</u>	<u>182.3</u>	<u>182.6</u>	<u>42.0</u>	<u>42.0</u>

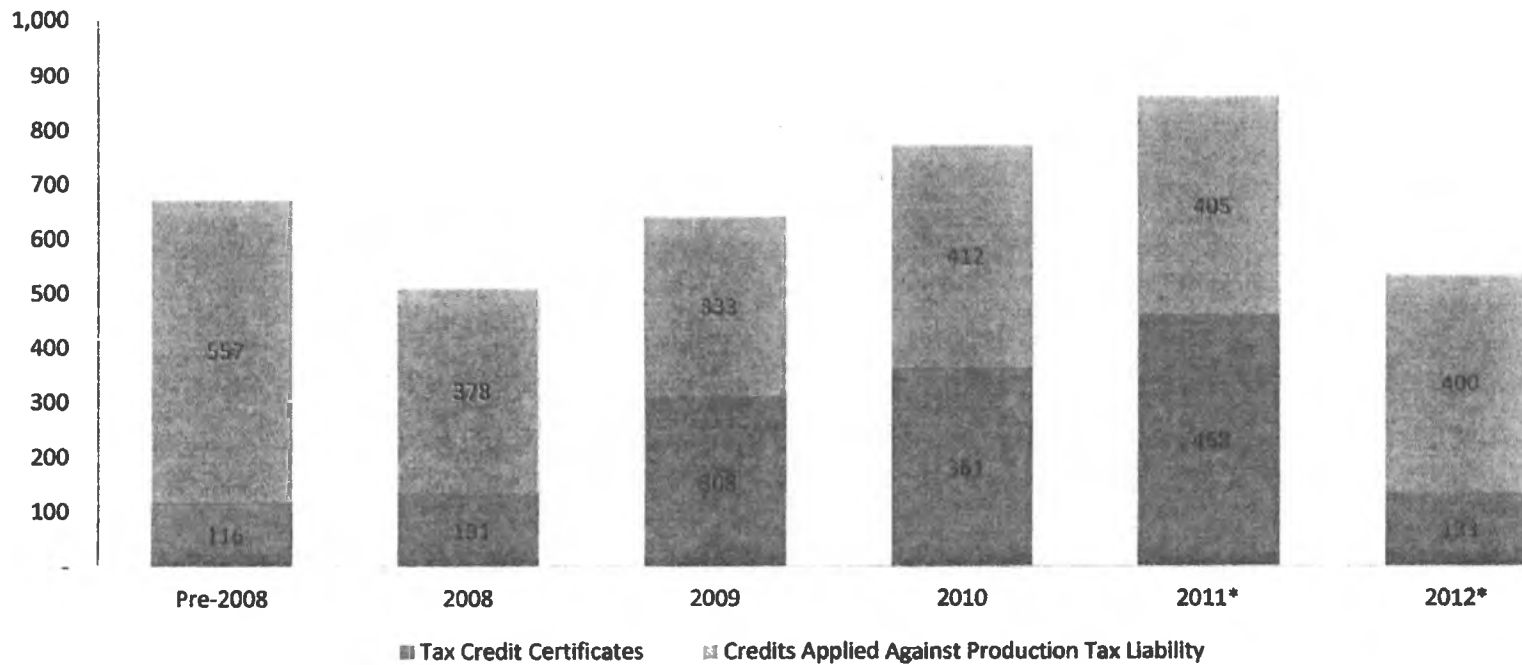
\* through December 2011



# Production Tax Credits



By Fiscal year



\* Estimates pending final true-ups



# Production Tax Credits



## Total Production Tax Credit Impact through FY 2012 (\$M)

	<u>Pre- 2008</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>	<u>2012*</u>	<u>Total</u>
Tax Credit Certificates	116	131	308	361	458	133	1,507
Credits Applied Against Production Tax Liability	557	378	333	412	405	400	2,485
Total by Year	673	509	641	773	863	533	3,992

\*Estimated pending final true-ups



# The Alaska Film Office 2012 Report to the 27th Legislature

February 15, 2012

**Qualification Process**

Production companies are required to apply for qualification for the production incentive. To determine if a production meets qualification requirements, a committee reviews the estimated Alaska budget; the script or a synopsis; projected salaries and work history of producers, directors, and actors; and the distribution plan. In addition to the qualification form and documentation, the committee evaluates any anticipated indirect benefits of the production.

A production that completes the process is issued a qualification notice (notice). The notice establishes the two-year period for production and a tax credit estimate. The notice also states the amount of an approved tax credit may vary based on actual qualified expenditures.

**Final Application Process**

After a production completes its Alaska operations, a final application and supporting documentation are submitted for review, verification, and calculation of the tax credit. In addition to the final application, productions must submit an expense report verified by an independent, Alaska Certified Public Accountant (CPA), a rough assembly of the production, and a sworn certification that the producer followed the laws of Alaska and AFO procedures.

<b>Figure Three</b>	
<b>Tax Credits Redeemed by Fiscal Year</b>	
<b>FY2011</b>	\$ (193,765.00)
<b>FY2012*</b>	\$ (2,224,995.41)

\*FY2012 data presented is year-to-date as of February 6, 2012

The department initially provided suggested guidelines for CPAs performing expense report verifications. However, based on a program review, the AFO established mandatory CPA training and Agreed Upon Procedures (AUP) that must be followed when preparing the expense report. The training and AUP became mandatory in February 2012. The AFO completed the first CPA training session on January 27, 2012 with 38 attendees.

A DCCED committee of at least three people reviews the final application and determines the approved tax credit. In the short history of the program, 94.3 percent of requested tax credits have been awarded. After committee approval, the AFO notifies the production company and Revenue of the tax credit award.

**Tax Credit Issuance and Transfer**

Revenue issues tax credit certificates to producers and manages subsequent credit transfers. The tax credit may be used by producers or transferees as a credit against corporate income taxes within three years of the original date of issuance. Revenue typically issues both tax credit and transfer requests within two business days.

Tax credit certificates are assigned unique numbers when issued. Transfers are made to taxpayers using a form provided by Revenue. As directed by the transferor, replacement certificates are either returned to the transferor or sent directly to the transferee.

Revenue interprets "redeemed" to mean the date the tax return was filed, not the payment due date. The tax due can be reduced by the amount of the credit. The amounts shown above represent the fiscal year in which a credit was claimed on a return filed with Revenue. The average holding time for a tax credit, as of January 31, 2012, was 298 days.

The administrative duties of the film credit program consume approximately 18 percent of a full-time auditor position.



Chery Manning, producer, helps Ron Holmström, actor, don his costume for the award-winning short film, 'Change,' produced by Alaskans with a local cast and crew.

## Alaska Film Office Reports

Public Information about the Alaska Film Office and Alaska's Film Production Incentive Program.

Annual Report		Qualified Projects		Approved Tax Credits			
<h3>Alaska's Film Production Incentive Program Tax Credit Approval Information</h3>							
Credits Approved by the Alaska Film Office (as of 2/2/12):							
<b>FY12 Approved Tax Credits</b>							
Project #	Company	Production	Type	Tax Credit \$	Approval Date	Eligible Alaska Spend	Credit /Spend Info PDF
12-015	Icebreaker Films	Big Miracle (aka Everybody Loves Whales)	FF	\$9,635,706.35	2/2/12 (FY12)	\$29,469,665	32.70% PDF
12-014	St. Thomas Productions	Ice Jumpers	Doc	\$71,624.40	2/1/12 (FY12)	\$238,748	30.00% PDF
12-013	Iditarod Trail Committee	Iditarod 2011: Dream Chaser	NF-TV	\$72,568.03	1/13/12 (FY12)	\$214,788	33.79% PDF
12-012	Original Productions	Ice Road Truckers (season 5)	NF-TV	\$491,771.71	12/27/11 (FY12)	\$1,392,025	35.33% PDF
12-011	Original Productions	Deadliest Catch (season 7)	NF-TV	\$786,441.45	12/12/11 (FY12)	\$2,322,117	33.87% PDF
12-010	Stardust Brands	American Eagle Outfitters	Comm	\$46,752.44	11/28/11 (FY12)	\$152,692	30.62% PDF
12-009	Kid Play Entertainment	Young World Sleuths - Baby Geniuses 5	FF	\$1,871,717.79	10/31/11 (FY12)	\$5,743,823	32.59% PDF
12-008	Kid Play Entertainment	Tiny Detectives - Baby Geniuses 4	FF	\$1,888,885.25	10/5/11 (FY12)	\$5,815,858	32.48% PDF
12-007	Teton Gravity Research	One for the Road	FF	\$48,243.84	10/4/11 (FY12)	\$160,322	30.09% PDF
12-006	Bongo, LLC	Flying Wild Alaska (Season 1)	NF-TV	\$398,917.43	8/24/11 (FY12)	\$1,182,247	33.74% PDF

12-005	Original Productions	Hillstranded	NF-TV	\$53,437.34	8/23/11 (FY12)	\$175,681	30.42%	PDF
12-004	Wildlife HD	Alaska BluRay Collection	Doc	\$217,472.92	8/18/11 (FY12)	\$712,347	30.53%	PDF
12-003	PSG Motion Pictures	Alaska State Troopers (season 2)	NF-TV	\$93,273.73	8/8/11 (FY12)	\$304,877	30.59%	PDF
12-002b	Kid Play Entertainment	Playkids - Baby Geniuses 3	FF	\$1,802,661.01	8/4/11 (FY12)	\$6,737,717	30.47%	PDF
12-002a	ZONK! Productions	NAPA's North to Alaska	NF-TV	\$250,683.75	7/14/11 (FY12)		30.47%	PDF
12-001	ZONK! Productions	NAPA's North to Alaska	NF-TV	\$91,079.84	7/11/11 (FY12)	\$271,269	33.58%	PDF

**FY12 Tax Credits Approved (to date): \$17,821,237.29 Spend: \$54,894,176 32.46%**

**FY11 Approved Tax Credits**

Project #	Company	Production	Type	Tax Credit \$	Approval Date	Eligible Alaska Spend	Credit /Spend	PDF Info
11-007	Pontecorvo Productions, LLC	Bears of the Last Frontier	NF-TV	\$112,463.10	05/02/11 (FY11)	\$363,950	30.90%	PDF
11-006	Arctic Film Group, LLC	Untitled Arctic Project	FF	\$50,492.96	4/26/11 (FY11)	\$150,865	33.47%	PDF
11-005	BBC - Natural History unit	Frozen Planet	Doc	\$75,029.00	4/13/11 (FY11)	\$234,522	31.99%	PDF
11-004	Christmas with a Capital C, LLC	Christmas with a Capital C	FF	\$111,689.86	3/2/11 (FY11)	\$333,876	33.45%	PDF
11-003	Teton Gravity Research	Light the Wick	FF	\$51,829.41	2/17/11 (FY11)	\$166,245	31.18%	PDF
11-002	Jean Worldwide	Sarah Palin's Alaska	NF-TV	\$1,196,894.27	2/11/11 (FY11)	\$3,609,888	33.16%	PDF
11-001	Sun Never Sets Productions	Top Gear (1 episode "Alaska Tough Truck")	NF-TV	\$81,003.46	1/13/11 (FY11)	\$260,798	31.06%	PDF
10-010	Beyond Indigo Productions	Indigo (aka Ghost Vision)	FF	\$2,140,413.00	12/22/10 (FY11)	\$6,602,752	32.42%	PDF
10-009	Original Productions	Ice Road Truckers (season 4)	NF-TV	\$898,203.93	12/17/10 (FY11)	\$2,692,293	33.36%	PDF
10-008	PSG Motion Pictures	Alaska State Troopers (season 1)	NF-TV	\$30,709.30	12/8/10 (FY11)	\$100,676	30.50%	PDF

10-007	Original Productions	Deadliest Catch (season 6)	NF-TV	\$584,562.74	11/22/10 (FY11)	\$1,747,695	33.45% PDF
10-006	Rainy Pass Productions	R5 Sons (season 1)	NF-TV	\$150,442.19	11/12/10 (FY11)	\$417,743	36.01% PDF
10-005	On the Ice	On the Ice	FF	\$171,145.61	10/1/10 (FY11)	\$524,628	32.62% PDF
10-004	Diverse Bristol	Man vs. Wild (1 episode "The Last Frontier")	NF-TV	\$67,994.04	10/4/10 (FY11)	\$223,143	30.47% PDF
10-003	Original Productions	Ice Road Truckers (season 3)	NF-TV	\$393,423.75	9/27/10 (FY11)	\$1,187,933	33.12% PDF
10-002	Affinityfilms	Survive to Thrive	Doc	\$39,693.41	8/4/10 (FY11)	\$109,217	36.34% PDF
10-001	Rabbit Content	Prilosec: Fairbanks Project	Comm	\$107,277.35	7/9/10 (FY11)	\$326,664	32.84% PDF
<b>FY11 Tax Credits Approved:</b>				<b>\$6,263,267.38</b>	<b>Spend:</b>	<b>\$19,052,887</b>	<b>32.87%</b>

**FY10 Approved Tax Credits**

Project #	Company	Production	Type	Tax Credit \$	Approval Date	Eligible Alaska Spend	PDF Credit /Spend Info
09-004	Proposal Productions	The Proposal	FF	\$64,894.93	11/27/09 (FY10)	\$179,407	36.17% PDF
09-003	The Ascending Path	Disaster on K2	NF-TV	\$46,009.45	10/28/09 (FY10)	\$122,153	37.67% PDF
09-002	Kaos Entertainment	Grizzly Land	NF-TV	\$54,138.08	10/21/09 (FY10)	\$178,394	30.35% PDF
09-001	Moore Huntley Productions	Alaska: Most Extreme	NF-TV	\$79,504.07	9/11/09 (FY10)	\$233,737	34.01% PDF
<b>FY10 Tax Credits Approved:</b>				<b>\$244,546.53</b>	<b>Spend:</b>	<b>\$744,955</b>	<b>32.83%</b>

**Total Tax Credits Approved (to date): \$24,329,051.20 Spend: \$74,692,018 32.57%**

Legend: NF-TV = Non-Fiction Television | FF = Feature Film | Comm = Commercial | Doc = Documentary

(Note: the "PDF Info" is the publicly available information from the production's Tax Credit Application form.)

**Other Questions?**

Contact the Alaska Film Office: Call (907) 269-8190 or e-mail AlaskaFilm@alaska.gov




## Tax Expenditures 101

### What They Are and How They Slip Under the Radar

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What are tax expenditures?

**Tax expenditures are, quite simply, spending programs implemented through the tax code. These programs give people and businesses special tax credits, deductions, exclusions, exemptions, deferrals, and preferential rates in support of various government policies. Some of these programs help people save for retirement, buy a home, or pay for college; others encourage companies to invest in green energy technologies or build nuclear power plants; they even subsidize corporations that drill for oil or purchase real estate; and much more.**



**The government uses both tax expenditures and direct spending to support its policies. Direct spending is when the government takes taxpayer dollars and gives them to others to spend for a specific purpose. The government uses tax expenditures to accomplish the same goals as direct spending, but it transfers money by lowering taxes for an individual or company instead of giving them the money.**

**Consider this example to see the similarities between direct spending and tax expenditures: The government wants to create a program that provides \$10,000 to every individual who weatherizes his or her home. The government can deliver the subsidy in one of three ways: (1) cut a check for \$10,000, (2) create a tax expenditure like a refundable credit worth \$10,000, or (3) use a combination of direct spending and tax expenditures. In all three cases the individual who weatherizes his or her home receives \$10,000 from the government.**

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What makes tax expenditures different from other forms of government spending?

**The government uses tax expenditures and direct spending for the same purposes, but tax expenditures receive different treatment in two key ways. Most tax expenditures are not subject to the same annual appropriations process as other forms of spending. This means they are less likely to be scrutinized.**

Second, tax expenditures appear to be tax cuts instead of spending because they transfer funds to businesses and individuals through tax subsidies. It is therefore generally easier to win votes for tax expenditures than direct spending. And members of Congress often pursue their priorities through tax expenditures as a result, even if direct spending would be more effective and cost less.

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What are the consequences of this differential treatment?

The cost of tax expenditures has skyrocketed over the last 20 years partly because they are excluded from the budget process and because they masquerade as tax cuts. Tax expenditures doubled in number between fiscal years 1974 and 2004, and the estimated revenue losses associated with them tripled. The government now spends \$1.2 trillion on tax expenditures—more than half as much as it raises (\$2.2 trillion) through the tax code. Tax expenditures will make up nearly 25 percent of total government spending this year and more than double the size of the government's nonsecurity discretionary spending.

The exponential growth of these programs is particularly evident in the energy sector where more than half of all energy programs are now funded through tax expenditures. The number of energy tax expenditure line items grew from 12 to 37 between 2000 and 2007, and spending in these areas increased from \$3 billion to more than \$10 billion.

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What can be done to rein them in?

Three recently released reports from the Center for American Progress's Doing What Works project focus on the importance of treating tax expenditures like direct spending. One of these reports stresses the need to evaluate tax expenditures and subject them to the annual budget process. Another offers four questions policymakers should consider in deciding which tax expenditures to keep and which ones to cut. And the third applies these concepts to energy tax expenditures, with suggestions for how government can get energy tax expenditures under control.

But the gist of the reports is that spending programs delivered through tax expenditures should be subject to the same level of scrutiny as direct spending programs. We should make sure tax expenditures are efficiently delivering desired results. Tax expenditures that don't work or are misguided should be scrapped—just the same as ineffective spending programs.