

FISCAL NOTE

STATE OF ALASKA cost # codes
2012 LEGISLATIVE SESSION

Bill Version CSHB 252(FIN)
Fiscal Note Number 2
Publish Date 3/14/12 (H)

Identifier (file name)	HB252-DOR-TAX-02-29-12	Dept. Affected	Revenue
Title		Appropriation	Taxation and Treasury
	Income Tax Exemption	Allocation	Tax Division
Sponsor	Representative Costello		
Requester	House Finance	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				
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services	108.5		108.5	108.5	108.5	108.5	108.5
Travel							
Services	4.7		4.7	4.7	4.7	4.7	4.7
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	113.2	0.0	113.2	113.2	113.2	113.2	113.2

FUND SOURCE (Thousands of Dollars)							
1002	Federal Receipts						
1003	GF Match						
1004	GF	113.2	113.2	113.2	113.2	113.2	113.2
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		113.2	0.0	113.2	113.2	113.2	113.2

POSITIONS							
Full-time	1		1	1	1	1	1
Part-time							
Temporary							

CHANGE IN REVENUES	***	***	***	***	***	***	***
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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)

New language adds new categories of businesses that do not qualify for the exemption.

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Phone (907) 269-6628
Date/Time 2/29/2012 10:30 a.m.
Date 2/29/2012

Analysis**Bill Language:**

This bill would exempt corporations from the corporate income tax if they are determined to be a "qualified small business" as that term is defined in Section 1202 of the Internal Revenue Code (IRC) as that section read on January 1, 2012. Under IRC Section 1202, a "qualified small business" is a corporation with no more than \$50 million in aggregate assets and is engaged in a "qualified trade or business". A "qualified trade or business" is any business *other than* personal services, banking, finance, insurance, farming, oil and gas, mining, hotel, motel, restaurant, construction, transportation, fisheries or utilities. Taxpayers engaged in businesses such as manufacturing, retail, wholesale, biotechnical and software development would qualify for the exemption. Taxpayers must also use at least 80% of their assets in the active conduct of the "qualified trade or business."

Revenues:

It is difficult to determine exactly how many companies would qualify for the exemption as, although DOR is able to identify those taxpayers with \$50 million or less in aggregate assets and the primary industry in which they are engaged, DOR cannot ascertain whether 80% or more of the corporation's assets are being used in the conduct of a qualified trade or business.

Expenditures:

This bill will exempt corporations from Alaska's corporate income tax based on certain criteria identified in IRC Section 1202. IRC Section 1202 is an individual income tax provision which allows individuals who invest in "qualified small businesses" to exclude 50% of the gain on the sale of stock from their individual income tax. IRC Section 1202 does not exempt "qualified small businesses" from federal corporate income tax. Therefore, corporations which believe they are exempt from Alaska corporate income tax would still be required to file an Alaska corporate income tax return along with a statement claiming this exemption. This bill would require the Department of Revenue to make independent determinations as to whether corporations, which believe they meet the requirements of IRC Section 1202 and are exempt from Alaska corporate income tax, are, in fact, exempt. The Department will be required to review a substantial number of tax returns each year to ascertain if a corporation meets the federal guidelines. The Department expects it will need one additional Corporate Income Tax Auditor II to ensure the proper administration of this legislation.