

State of Alaska
Department of Revenue
Administrative Services Division



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February 25, 2011

Honorable Lindsey Holmes
Member, House Labor and Commerce Committee
State Capitol Room 405
Juneau, AK 99801

Dear Representative Holmes,

The following are responses to the questions you asked regarding HB118 the Research and Development Tax Credit bill introduced by the Governor.

Question: Would a taxpayer be able to take a research and development tax credit for expenses that they also used to calculate a tax credit in another tax program?

Answer: Yes. As the current bill is written, taxpayers could potentially get an oil and gas credit and an R&D credit for the same expenses.

Question: Can the Department of Revenue expand the fiscal note and evaluate what Research and Development [tax] credits companies are currently taking?

Answer: We are able to identify federal R&D credits taken on some tax returns. However, it is not possible to determine if the R&D work was conducted in Alaska. This bill would only allow a credit for those expenses incurred in Alaska.

Question: What do other states do in terms of limiting the amount of their Research and Development [tax] credit?

Answer: As stated in the last hearing, there doesn't appear to be a standard method for calculating R&D credits amongst the states. For example:

- **Arizona** allows a 22% credit on the first \$2.5 million in qualifying expenses plus 13% of qualifying expenses in excess of \$2.5 million that exceed the base amount. The base amount is calculated following federal guidelines. There is no limit on the amount of credit that can be taken and an unused credit can be carried forward for 15 years.
- **Illinois** allows a credit of 6.5% of all increased R&D expenses over the prior 3-year average, with no credit limit. Any unused credit can be carried forward to future tax years.
- **Mississippi** allows a credit of a flat \$1,000 for each employee whose job requires R&D skills.
- **Oregon** allows a credit of 5% of increased R&D expenses over the base amount as calculated under federal law or a credit of 5% of the expenses that exceed 10% of Oregon sales. The maximum credit allowed is \$2,000,000 and any unused credit can be carried forward for 5 years.
- **Texas** allows a credit of 5% of qualified expenses over the base amount as calculated under federal law. Unused credit may be carried forward.

- **Vermont** allows a credit of 30% of qualified expenses over the base amount as calculated under federal law. Unused credit may be carried forward for 10 years.

This information was gathered by Johanna Bales, Deputy Director of the Tax Division. If you have other questions regarding the Research and Development Tax Credit legislation, please feel free to contact me at 465-2312 or Johanna directly at 269-6628.

Sincerely,

Ginger Blaisdell
Director, Administrative Services Division

Cc: Representative Olson, Chair, House Labor and Commerce Committee