

# FISCAL NOTE

**STATE OF ALASKA**  
**2012 LEGISLATIVE SESSION**

cost ≠ codes

Bill Version HB 252  
 Fiscal Note Number 1  
 Publish Date \_\_\_\_\_

Identifier (file name)	HB252-DOR-TAX-02-20-12	Dept. Affected	Revenue
Title	Income Tax Exemption	Appropriation	Taxation and Treasury
Sponsor	Representative Costello	Allocation	Tax Division
Requester	House Labor & Commerce	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	FY13	FY14	FY15	FY16
Personal Services	325.5			325.5	325.5	325.5	325.5
Travel							
Services	14.1		14.1	14.1	14.1	14.1	14.1
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
<b>TOTAL OPERATING</b>	<b>339.6</b>	<b>0.0</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>

FUND SOURCE							
(Thousands of Dollars)							
1002	Federal Receipts						
1003	GF Match						
1004	GF	339.6	339.6	339.6	339.6	339.6	339.6
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
<b>TOTAL</b>	<b>339.6</b>	<b>0.0</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>

POSITIONS							
Full-time	3		3	3	3	3	3
Part-time							
Temporary							

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

**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 fiscal note.

Prepared by	Johanna Bales, Deputy Director	Phone (907) 269-6628
Division	Tax	Date/Time 2/17/2012 6:30 p.m.
Approved by	Alicia Egan, Legislative Liaison	Date 2/20/2012
	Department of Revenue	

## FISCAL NOTE

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**BILL NO.** HB 252

### 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, or restaurant. Taxpayers engaged in businesses such as construction, manufacturing, transportation, retail, wholesale, and utilities 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 as many as 1,000 tax returns or more each year to ascertain if a corporation meets the federal guidelines. The Department expects it will need three additional Corporate Income Tax Auditors II to ensure the proper administration of this legislation.