



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Office of the Commissioner

Sean Parnell, Governor
Susan K. Bell, Commissioner

March 5, 2012

Senator Joe Paskvan, Co-Chair
Senate Resources Committee
State Capitol, Room 115
Juneau, AK 99801

Senator Tom Wagoner, Co-Chair
Senate Resources Committee
State Capitol, Room 427
Juneau, AK 99801

Re: House Bill 118 – Research and Development Tax Credit

Dear Senators Paskvan and Wagoner,

Please accept this request for your consideration to schedule CSHB 118 (FIN) – Research and Development Tax Credit in Senate Resources at your earliest convenience.

Innovation can be an expensive, intricate, and time-intensive enterprise. But it also can spark a chain of investments in capital equipment, workers, and spillover activities in every economic sector. In effect, the research and development tax credit would stimulate private-sector investment, entrepreneurial activity, and business expansion in the state that will bring opportunity and sustainable long-term benefits to our economy.

The credit is 20 percent of qualified research and development expenditures that exceed the average qualified research and development expenditures as defined in 26 U.S.C 41(d) (Internal Revenue Code) for the three years immediately preceding the year in which the credit is claimed. Unused credits may be carried forward for up to seven years after the expenditure for which the credit is claimed. In order to prevent a corporate taxpayer from claiming more than one benefit for a single expenditure, the bill also would provide that a credit could not be claimed for expenditures the corporation deducted in calculating its tax liability, or for any other credit, including any federal credits, that have been claimed under Title 43.

The bill will also impose a reporting requirement on the Department of Revenue so the Legislature and the public are aware of the fiscal impact and economic benefits of the research and development credit to the state.

If you have any questions regarding this bill, please feel free to contact either myself or Deputy Commissioner Curtis Thayer at 465-2500.

Sincerely,

A handwritten signature in cursive script that reads "Susan K. Bell".

Susan K. Bell
Commissioner



CS for House Bill 118 (FIN)

"An Act relating to a tax credit for corporate income taxes paid for qualified research and development expenditures; and providing for an effective date."

Sectional Analysis

Section 1. Amends AS 43.20 by adding a new section: AS 43.20.047 – Qualified research and development tax credit.

This section outlines the terms and conditions of a qualified research and development tax credit in addition to any other credit that the taxpayer may be authorized to receive under the Alaska Net Income Tax Act. A taxpayer may apply a 20% credit not to exceed \$10 million provided the following terms and conditions are met:

- Research and development expenditures are attributable to the state if it is being conducted in this state.
- If the tax credit exceeds the taxpayers liability for the year the expenditure is incurred the excess of the tax may be carried forward up to seven years.
- A person may not claim a credit for research and development expenditures that were already deducted in calculating its tax liability or for which it claimed a federal credit.

Each year the Department of Revenue shall report the number of the taxpayers who received credits under this section for the prior tax year, the total amount of the credits given to taxpayers, a description of the research and development projects for which the credit was granted, and the number of employees conducting the research and development.

This section also defines “base amount” and “qualified research and development”.

Section 2. Effective date clause

Immediate effective date

Prepared by: Crystal Koeneman
Department: CCED
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CS for House Bill 118 (FIN) – Explanation of Changes

"An Act relating to a tax credit for corporate income taxes paid for qualified research and development expenditures; and providing for an effective date."

Page 2, line 11, following "been":

Deleted "apportioned to this state and"

Page 2, line 11:

Deleted "AS 43.20.021"

Inserted "under this title"

Page 2, lines 12 - 13:

Inserted "if three or more taxpayers claim the credit authorized under this section during the immediate preceding year," and deleted "names" and replaced it with "number".

Page 2, lines 13 - 14:

Inserted "to the legislature"

Page 2, lines 16 - 17:

Inserted "a description of the research and development projects for which the credit was granted,"

Page 2, lines 16 – 25 (of the original bill):

Deleted "Notwithstanding AS 40.25.100 and AS 43.05.230, a taxpayer claiming the credit under this section consents to

- (1) the public disclosure of its name and status as a beneficiary of the credit;
- (2) inclusion of the amount of the credits granted to it under this section and the number of employees conducting the research and development for which it claims the credit in the cumulative total calculated by the department for reporting purposes; and
- (3) report on the impact of the credit on research and development for each year that the credit is claimed.

Prepared by: Crystal Koeneman
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FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB 118(FIN)
Fiscal Note Number 2
(H) Publish Date 2/17/12

Identifier (file name) HB118CS(L&C)-DOLWD-UI-2-3-12 Dept. Affected Labor and Workforce Development
Title Research and Development Tax Credit Appropriation Employment Security
Allocation Unemployment Insurance
Sponsor Rules by Request of the Governor
Requester House Finance OMB Component Number 2276

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							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

POSITIONS							
Full-time							
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)

Not applicable, initial version.

Prepared by Paul E. Dick, Director
Division Employment Security Division
Approved by Click Bishop, Commissioner
Department of Labor and Workforce Development

Phone 465-5933
Date/Time 2/3/12 2:17PM
Date 2/3/2012

FISCAL NOTE #2

**STATE OF ALASKA
2012 LEGISLATIVE SESSION**

BILL NO. CSHB 118(FIN)

Analysis

The proposed legislation requires that expenditures attributable to payroll of employees for research and development conducted in Alaska must be reported as paid in Alaska in quarterly unemployment insurance (UI) contribution reports submitted to the Department of Labor and Workforce Development under AS 23.20, in order to qualify for a tax credit under this bill. Department of Revenue auditors would request UI contribution reports from taxpayers in the course of an audit to ascertain that payroll costs claimed for a tax credit under this bill qualify for the credit.

There is no fiscal impact to the department as a result of this legislation.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

cost # codes

Bill Version

CSHB 118(FIN)

Fiscal Note Number

3

Publish Date

2/17/12 (H)

Identifier (file name)

CSHB118-DOR-TAX-12-14-11

Dept. Affected

Revenue

Title

Research & Development Tax Credit

Appropriation

Taxation and Treasury

Allocation

Tax Division

Sponsor

Governor

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							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE

(Thousands of Dollars)

1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS

Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES

0.0

Estimated SUPPLEMENTAL (FY12) operating costs

(discuss reasons and fund source(s) in analysis section)

(separate supplemental appropriation required,

Estimated CAPITAL (FY13) costs

(discuss reasons and fund source(s) in analysis section)

(separate capital appropriation required,

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

Updated for new legislative session.

Prepared by

Johanna Bales, Deputy Director

Division

Tax

Approved by

Jerry Burnett, Director - Administrative Services Division

Department of Revenue

Phone (907) 269-6628

Date/Time 12/12/11 1:00 PM

Date 12/14/2011

Analysis**Bill Language:**

This bill would allow a credit against corporate income tax of up to \$10,000,000 of 20% of qualified research and development expenditures that exceed the base amount incurred by a taxpayer for research and development conducted in Alaska. The base amount is the average qualified research and development expenditures attributable to Alaska for the three tax years immediately preceding the tax year for which the credit is claimed. For purposes of this bill, "qualified research and development" means qualified research as defined by the Internal Revenue Code. If the tax credit allowed exceeds the taxpayer's tax liability, the excess tax credit would be allowed to be carried forward for up to seven years.

This bill also provides that the department is required to complete an annual report disclosing the number of taxpayers receiving the credit, the total cumulative amount of credits granted to all taxpayers and the total cumulative number of employees conducting research and development in the state.

Revenues:

The department is unable to determine the amount of research and development credits which may be claimed by taxpayers as the department currently has no information about the amount of research and development conducted in the state. Therefore, the department has no basis with which to formulate an estimated effect on revenues.

Expenditures:

The department can implement the provisions of the bill with existing resources.

CS FOR HOUSE BILL NO. 118(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered: 2/17/12

Referred: Rules

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to a tax credit for qualified research and development expenditures;**
2 **and providing for an effective date."**

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

4 * **Section 1.** AS 43.20 is amended by adding a new section to article 1 to read:

5 **Sec. 43.20.047. Qualified research and development tax credit.** (a) Subject
6 to the terms and conditions of this section and in addition to any other credit
7 authorized to the taxpayer by this chapter, a taxpayer may apply 20 percent of the
8 taxpayer's expenditure for qualified research and development attributable to this state
9 for the taxable year that exceeds the base amount as a credit not to exceed \$10,000,000
10 against the state tax liability imposed on the taxpayer under this chapter.

11 (b) Qualified research and development expenditures are attributable to this
12 state if the research and development is being conducted in this state or the payroll of
13 employees conducting the research and development is in this state. In this subsection,
14 payroll of an employee is in this state if compensation is paid to an employee in this

1 state and reported as paid in this state in the quarterly contribution report under
2 AS 23.20 to the Department of Labor and Workforce Development.

3 (c) If the tax credit under this section exceeds the taxpayer's tax liability after
4 other tax credits are taken under this chapter for the year in which the expenditure is
5 incurred, the excess of the tax credit over the liability may be carried forward for up to
6 seven years. If an unused credit is carried forward to a tax year from an earlier year,
7 the credit arising in the earliest year is applied first against the tax liability for the year.

8 (d) A person may not claim a credit under this section for qualified research
9 and development expenditures that were deducted in the calculation of tax liability
10 under AS 43.20.011(e) or for which any other credit, including any federal credit, has
11 been claimed under this title.

12 (e) Each year, if three or more taxpayers claim the credit authorized under this
13 section during the immediately preceding year, the department shall report to the
14 legislature the number of taxpayers who claimed credits under this section in the prior
15 year, the total cumulative amount of credits granted to all taxpayers under this section
16 for the prior tax year, a description of the research and development projects for which
17 the credit was granted, and the total cumulative number of employees conducting the
18 research and development for which all taxpayers claim the credit.

19 (f) In this section,

20 (1) "base amount" means the average of qualified research and
21 development expenditures attributable to this state for the three tax years immediately
22 preceding the taxable year for which the credit is being claimed;

23 (2) "qualified research and development" has the meaning given to
24 "qualified research" in 26 U.S.C. 41(d) (Internal Revenue Code), as amended, that is
25 attributable to this state.

26 * **Sec. 2.** This Act takes effect immediately under AS 01.10.070(c).