



# HB 118 Presentation Alaska State Legislature

April 4, 2012



**ALASKA**  
DEPARTMENT OF  
COMMERCE,  
COMMUNITY,  
AND ECONOMIC  
DEVELOPMENT



***The growth of our science and education will be enriched by new knowledge of our universe and environment, by new techniques of learning and mapping and observation, by new tools and computers for industry, medicine, the home as well as the school.***



## Federal R&D Tax Credit

- Established in 1981
- Reauthorized 14 times
- Authorized through 2011 – Legislation has been introduced (HR 1693) to make the R&D Tax Credit permanent

*“Permanently extend the Research and Experimentation Tax Credit in order to help companies create good jobs in America now while increasing future productivity and growth.”*

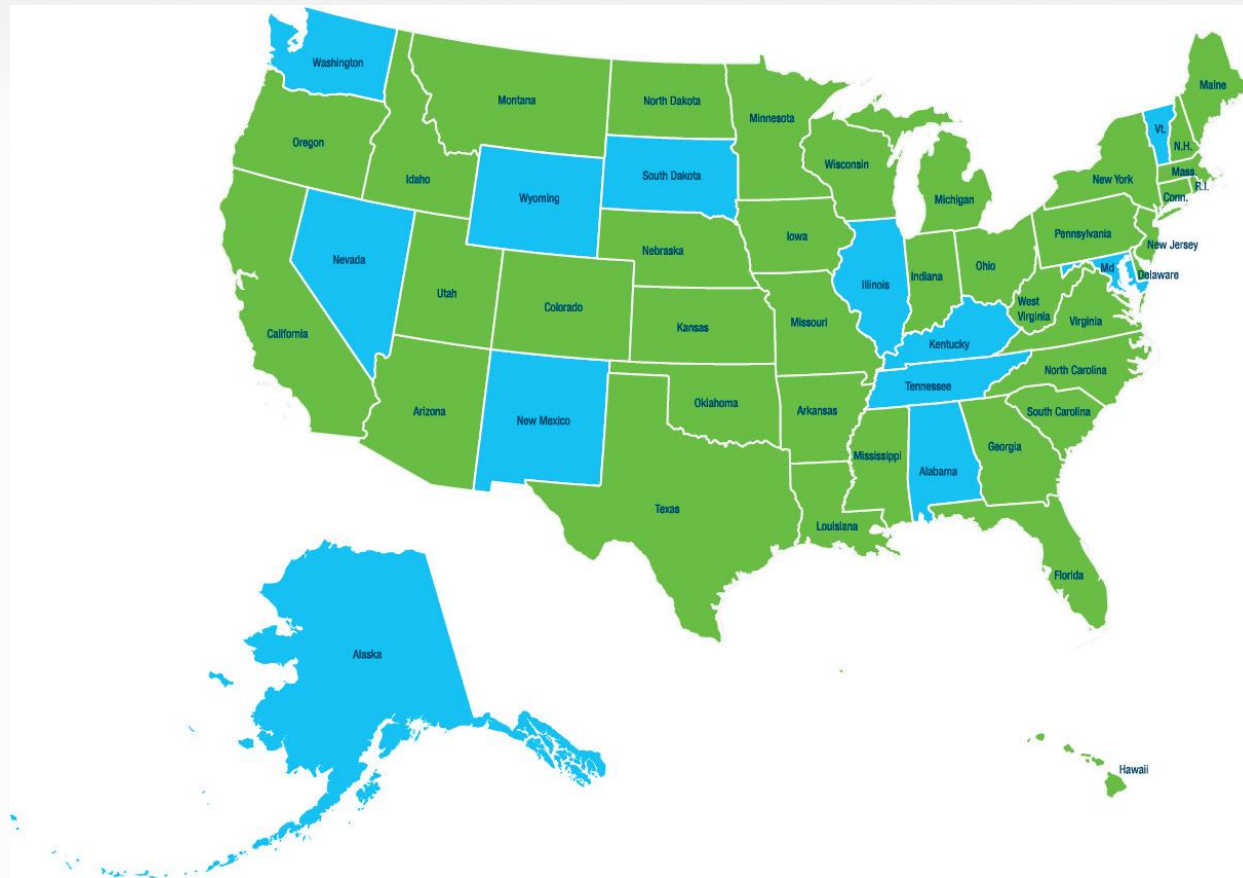


# HB 118 R&DTax Credit



## States with an R&D Tax Credit

*38 U.S. states currently have some form of R&D tax credit or incentive.*



# HB 118 R&DTax Credit



This legislation will allow Alaska corporations to receive a 20% tax credit, not to exceed \$10 million per taxpayer, per tax year. The research and development activities, or the payroll of the employees, must take place in Alaska.

To qualify, research and development activities must meet the following:

1. The purpose is discovering information technological in nature; AND
2. The application of which is intended to be useful in the development of a new or improved component of the taxpayer; AND
3. Substantially all of the activities constitute a process of experimentation; AND
4. The experimentation is for a qualifying activity or purpose.

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## **What Qualifies:**

- Developing new or improved products, processes, or formulas
- Developing prototypes or models
- Building or improving manufacturing facilities
- Developing or improving software technologies
- Certification testing
- Developing or applying for patents

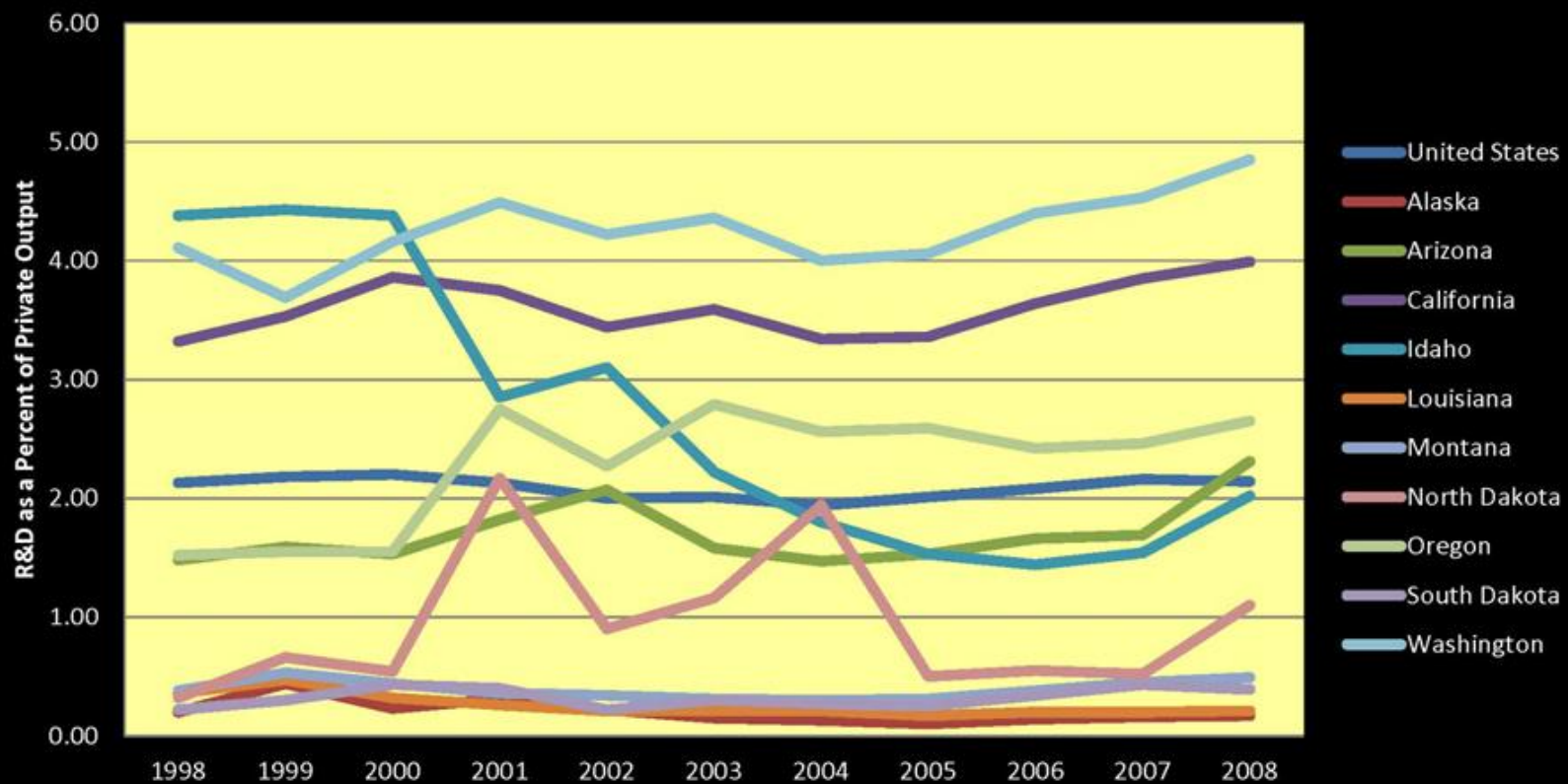
## **What Doesn't Qualify:**

- Exploration activity to ascertain the existence, location, extent, or quality of any ore or mineral deposit
- Duplicating an existing business component
- Surveys and studies such as market research, advertising, and routine data collection
- Research in the social sciences, arts, or humanities
- Anything for style, taste, cosmetic, or seasonal reasons

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**Business-performed R&D as a percentage of private-industry output, by state: 1998–2008**





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## Fisheries: Seafood Processing

- EPA restricting processing effluent
- Research needed to reduce sediment piles through process innovation, increased protein and by-product utilization
- Tax credits means research conducted in AK, plus jobs, vendor payments, increased experience, and capacity building in process and product innovation







## Minerals: Rare Earth Deposit Processing

- Need customized process for milling and recovery to use deposits to fullest potential
- More than 240 processes may be required to reach all components in a deposit

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## **Timber: Use in Architectural and Building Industries**

- To be specified for many building and architectural uses, species must have technical standards set for each product form



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## **Oil & Gas FAQs:**

**Q.** Will corporations engaged in oil and gas production be eligible for the R&D credit?

**A.** Yes. Oil and gas corporations will be treated the same as all other taxpayers and may take a credit against their Alaska corporate income tax for R&D expenses incurred in Alaska.

**Q.** Can oil and gas companies take a credit against their oil and gas production tax for R&D expenses?

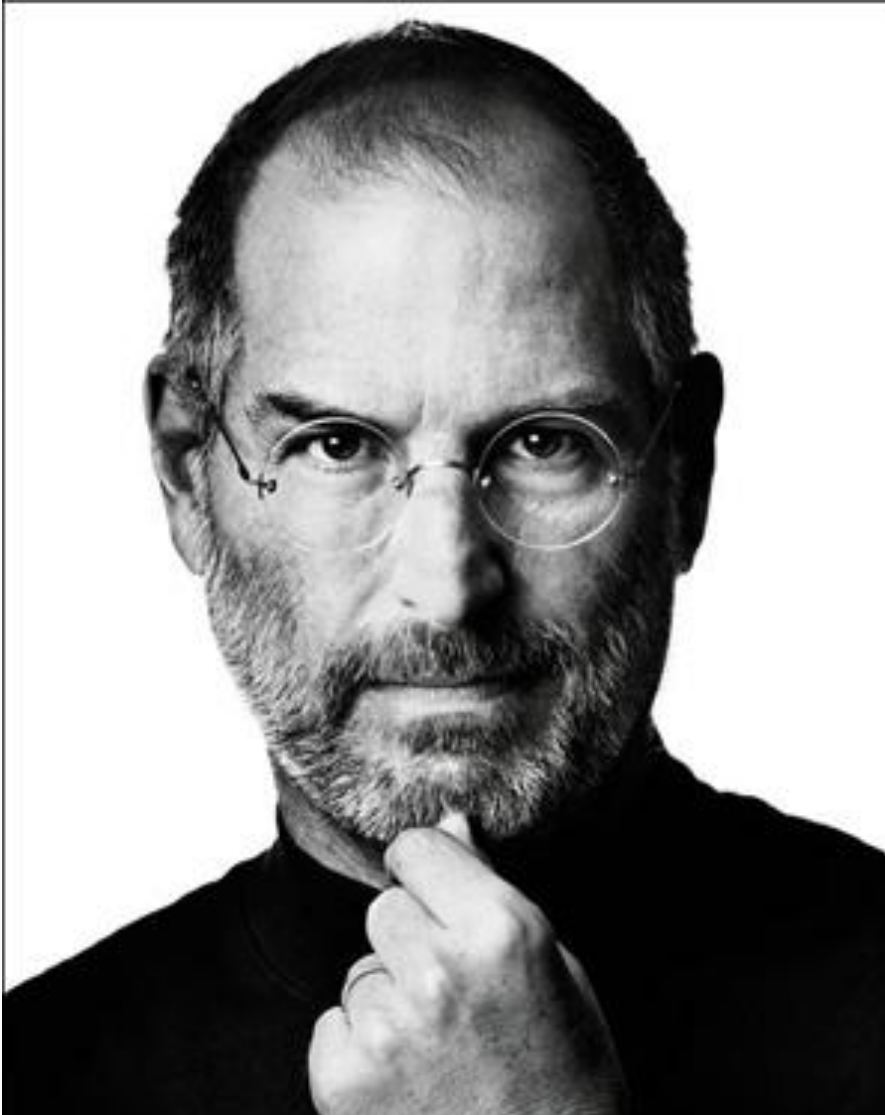
**A.** No. The Alaska R&D tax credit would only be allowed against corporate income tax. It would not be allowed as a credit against taxes due in any other tax program.

**Q.** Can oil and gas companies deduct research and development expenditures in the calculation of their oil and gas net profits tax?

**A.** No. R&D expenses are not qualified lease expenditures under the applicable statutes and regulations governing production tax, and therefore, are not deductible. Specifically, 15 AAC 55.260(g) states that "designing" does not include the types of activities ordinarily considered R&D.



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*Innovation  
distinguishes  
between a leader  
and a follower.*

*- Steve Jobs*



## Comments and Questions