Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: HB 36
Fiscal Note Number:
() Publish Date:

Identifier: HB036-DOR-TAX-03-24-17
Title: TAX: INCOME FROM NON C CORP ENTITIES
Sponsor: GARA
Requester: (H) Labor & Commerce

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018 Appropriation Requested	Included in Governor's FY2018 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2018**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
Personal Services			2,350.0	2,350.0	2,350.0	2,350.0	2,350.0
Travel							
Services			500.0	500.0	500.0	500.0	500.0
Commodities			50.0	50.0	50.0	50.0	50.0
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**0.0**	**0.0**	**2,900.0**	**2,900.0**	**2,900.0**	**2,900.0**	**2,900.0**

Fund Source (Operating Only)

1004 Gen Fund (UGF)			2,900.0	2,900.0	2,900.0	2,900.0	2,900.0
Total	**0.0**	**0.0**	**2,900.0**	**2,900.0**	**2,900.0**	**2,900.0**	**2,900.0**

Positions

Full-time			20.0	20.0	20.0	20.0	20.0
Part-time							
Temporary							

Change in Revenues

None			***	***	***	***	***
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 10,000.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/19

Why this fiscal note differs from previous version:

Not applicable; initial version.

Prepared By:	Ken Alper, Director	Phone:	(907)465-8221
Division:	Tax Division	Date:	03/24/2017 05:00 PM
Approved By:	Jerry Burnett, Deputy Commissioner	Date:	03/24/17
Agency:	Department of Revenue		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. HB 36

Analysis

Bill Language
This bill would make several changes to income taxation in Alaska. This bill would expand the reach of the existing corporate income tax structure. The current corporate rate structure would apply to all business entities engaged in qualifying oil and gas activity that are not individuals or public corporations. Additionally, this bill would create a new income tax with a different rate structure that applies to most business entities not engaged in qualifying oil and gas activity. These would include sole proprietorships, partnerships, limited liability companies, type-S corporations, and other entities not engaged in qualifying oil and gas activity. For businesses subject to this new tax, there is a zero rate for the first $250,000 of Alaska taxable income, with the top rate of 9.4 percent applying to Alaska taxable income over $1 million.

Currently, there are about 18,000 corporate income tax filers, of which about half are actual C-corporations that are currently subject to the Alaska corporate income tax. The other half are type-S corporations who file an information only return. These 9,000 S-Corps would be subject to this new tax. Additionally, according to the licensing database from the Department of Commerce, Community, and Economic Development, there are over 63,000 companies registered to do business in Alaska. Most likely the great bulk of these additional 45,000 companies (63,000 - 18,000) would have to file a tax return. Many of these are sole proprietors, and it is assumed that a great majority would fall below the $250,000 minimum income threshold to owe a tax. The number of entities that would owe tax under this bill is unknown.

This bill would also repeal two exclusions in the existing corporate income tax: the exemption for qualifying small businesses and an exemption for certain income received by a qualified regional association or nonprofit hatchery from the sale of salmon eggs. This bill would take effect December 31, 2018. For tax purposes, we are assuming that 2018 income would not be impacted by this change, meaning the first estimated tax payments would be received after the first quarter of 2019.

Revenues
There would be an indeterminate positive revenue impact from this bill. The impact is indeterminate for several reasons, with the primary reason being that the Department does not collect information about income from qualifying entities upon which to base a revenue estimate. However, for comparison purposes, corporate income tax revenue from C-corporations is forecast ranging from $260 million in FY 2019 to $251 million in FY 2023 for oil and gas, and from $143 million in FY 2019 to $160 million in FY 2023 for non-oil and gas corporations. The additional revenue from this bill would likely be some fraction of those amounts.

Expenditures
The department believes it will need eight additional corporate income tax auditors, four additional tax technicians, plus eight other support staff to handle the increased work as a result of this legislation. This number would be reduced if sole proprietors and other zero-tax entities had a more abbreviated filing requirement. Services costs mostly include duplicated internal services including funds to support additional tax appeals before the Office of Administrative Hearings. In addition, it will require a substantial capital expense to update and program the Department's Tax Revenue Management System to add a major new tax, with associated programming, forms development, and testing, as well as to allow for processing of significantly more tax returns and payments.

Regulations
This bill would establish a new tax type and extend an existing tax type to additional business entities. Substantial regulations would be needed to properly define and apportion income from a source within the state.
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(Revised 1/11/17 OMB/LFD)