



MEMORANDUM

TO: Representative Stoltze, Co-Chair
Representative Thomas, Co-Chair
House Finance Committee

DATE: April 8, 2011

FROM: Susan K. Bell, Commissioner
Department of Commerce, Community
and Economic Development

RE: HB 118 – Research and Development

Susan K. Bell

Representatives Stoltze and Thomas,

Thursday afternoon I received a letter from Representatives Gara and T. Wilson asking if House Bill 118 would replace the federal laws allowing a 17% tax credit for research and development activities with a 20% Alaska tax credit.

- The federal credit of 17% is allowed against federal tax liability, not Alaska tax liability. Current Alaska law allows a taxpayer to take only 18% of the federal credit against their Alaska tax liability. This bill would allow an Alaskan corporation with tax liability the opportunity to apply the 20% credit if expenses qualified and the incurred in Alaska.

For example, if a taxpayer has \$100,000 of qualified research expenses, a taxpayer is allowed a federal credit against their federal tax liability of \$17,000. However, under current Alaska law, the taxpayer may only take a credit of \$3,060 against their Alaska tax liability and only if all of the research expenses were apportioned to Alaska. Under this bill, the taxpayer could take a credit of \$20,000 against their Alaska tax liability, significantly enhancing the appeal of conducting research in Alaska.

The letter also asked what the impact would be of a 5% stackable state credit on top of the federal credit, totaling 22% and saving the State 15% that is already being paid for by the federal government.

- Allowing a 5% credit in addition to the flow through of the federal credit is not a viable alternative in terms of what this bill is trying to achieve. The goal of House Bill 118 is to entice taxpayers to conduct their research activity in Alaska and provide them an enhanced credit for doing so.

The letter also restated questions asked in committee, which will be included in our reply to the full committee.