



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Revenue

TAX DIVISION

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Representative Neal Foster
State Capital Room 410
Juneau AK, 99801

Sent via e-mail: Representative.Neal.Foster@akleg.gov
No hard copy to follow

RE: HB 399 - Corp Tax: Remove Exemptions/Credits

Dear Representative Foster:

You asked for a bit of background and the revenue impact of the proposed legislative changes in HB 399. The proposed changes are to three different Corporate Income Tax indirect expenditures. I will address each separately below:

Reduced Tax Rate on Capital Gains

The current tax rate of corporate long-term capital gains in Alaska is 4.5% while the current maximum tax rate on corporate ordinary income is 9.4%. The preferential rate on long-term capital gains reflects how capital gains were taxed federally when Alaska's rate structure was adopted in 1970. However, congress got rid of the preferential rate on long-term capital gains for corporations through the federal Tax Reform Act of 1986. Alaska didn't follow the federal change and has kept the preferential corporate long-term capital gains rate.

Here are the estimated revenue impacts and number of beneficiaries for the past five years:

Reduced Rate on Capital Gains		
Fiscal Year	Estimated Revenue Impact	Number of Beneficiaries
2012	\$14,839,106	199
2013	\$3,532,192	245
2014	\$5,337,550	206
2015	\$3,332,243	195

2016	\$1,569,845	127
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As you can imagine the types of industries with capital gains is varied. We don't currently have an easy way to return that information so we don't have a full list. However, the industries that were the largest beneficiaries in 2016 of the preferential rates were the oil and gas and financial services industries.

Allowance of Federal Tax Credits

Currently, a corporation is allowed to claim 18% of the amount of any federal credit that it qualifies for against its Alaska Corporate Net Income Tax—regardless of where the expenses were actually incurred. For example, a corporation might qualify for a federal jobs credit for jobs it created in New York. The corporation's taxable income in Alaska would be reduced as a result of that credit.

Here are the estimated revenue impacts and the number of taxpayers that claimed federal credits for each of the past five years.

Federal Credits		
Fiscal Year	Estimated Revenue Impact	Number of Beneficiaries
2012	\$1,651,844	368
2013	\$1,802,507	477
2014	\$1,774,130	320
2015	\$2,269,290	328
2016	\$1,412,397	273

Foreign Royalty Exclusion

The Alaska Corporate Net Income Tax allows for the exclusion of 80% of foreign royalties from a taxpayer's apportionable income. The intended purpose of the legislation was to encourage foreign investment in Alaska. This exclusion has unintended consequences as a corporation can transfer certain assets—like patents—to an overseas subsidiary, pay royalties for their use, and then exclude 80% of those expenses from income.

Here are the estimated revenue impacts and the number of taxpayers that claimed the exclusion for each of the past four years.

Foreign Royalty Exclusion		
Fiscal Year	Estimated Revenue Impact	Number of Beneficiaries
2013	\$1,747,303	201
2014	\$1,887,957	265
2015	\$1,913,154	251
2016	\$1,331,450	219

Below is the list of the industries that claimed the exclusion in 2016 based on the NAICS code reported on the tax return. The industries are ordered by the value of the tax effect to each industry as a whole (Industries that had a total tax effect of less than \$500 are not included to keep the list smaller. The total of all industries with less than \$500 in tax effect was less than \$5,000):

Other General Merchandise Stores
Support Activities for Mining
Oil and Gas Extraction
Other Computer Related Services
Motor Vehicle Manufacturing
Lessors of Non-residential Buildings
Soft Drink and Ice Manufacturing
Other Miscellaneous Manufacturing
Offices of Other Holding Companies
Pharmaceutical and Medicine Manufacturing
Aerospace Product and Parts Manufacturing
Medical Equipment and Supplies Manufacturing
Other Miscellaneous Durable Goods Merchant Wholesalers
Rubber Product Manufacturing
Agriculture, Construction, and Mining Machinery Manufacturing
Couriers and Express Delivery Services
Soap, Cleaning Compound, and Toilet Preparation Manufacturing
Electronic Shopping and Mail-Order Houses

Electronic Shopping and Mail-Order Houses
Family Clothing Stores
Automotive Equipment Rental and Leasing
Drugs and Druggists' Sundries Merchant Wholesalers
Other Miscellaneous Nondurable Goods Merchant Wholesalers
Other Food Manufacturing
All Other Miscellaneous Store. Retailers
Engineering Services

Other Amusement and Recreation Industries
Paint, Coating, and Adhesive Manufacturing

Food (Health) Supplement Stores
Corporate, Subsidiary, and Regional Managing Offices
Motor Vehicle and Motor Vehicle Parts and Supplies Merchant Wholesalers
Communications Equipment. Manufacturing
Household Appliances and Electrical and Electronic Goods Merchant Wholesalers
Petrochemical Manufacturing
Engine, Turbine, and Power
Other personal care services
Electronic and precision equipment repair and maintenance
Apparel, Piece Goods, and Notions Merchant Wholesalers
Full-Service Restaurants
Cosmetics, Beauty Supplies, and Perfume Stores
Shoe Stores
Limited-Service Restaurants
Other Miscellaneous Nondurable
Electron Tube Manufacturing
Other General Purpose Machinery Manufacturing
Computer Systems Design Services
Other Electrical Equipment and Component Manufacturing
Other Direct Selling Establishments
Other Information Services
Employment Services
Commercial and Service Industry Machinery Manufacturing

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I hope you find this information useful. Please feel free to contact me if you have any further questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Brandon Spanos", with a long horizontal flourish extending to the right.

Brandon Spanos
