

From: bridgetlujan@gci.net

Date: February 19, 2014 at 3:47:20 PM AKST

To: ddewitt@gci.net

Subject: **HB 32 impact on federal taxes**

Hi Denny,

I am writing regarding HB 32 which would provide relief for business owners operating multiple trades under the same name, by issuing one business license from the State of Alaska Department of Commerce, rather than a separate one for each line of business. I understand there is some concern about whether the change would have an impact on the business owner's federal tax filing requirements. I am an active CPA in Alaska, and have over ten years experience preparing tax returns for a wide range of entity types. Based on my knowledge of income tax preparation, and experience with the Internal Revenue Service, I do not believe the proposed change to business licensing regulations would have any effect on the business owner's federal tax filing requirements or procedures. While it is a critical compliance function under state law, business licensing does not affect the tax return. The taxpayer is required to provide the principal business activity code (based on the North American Industry Classification System (NAICS)) for their trade or business on the applicable tax form(s); however the IRS does not have jurisdiction to monitor or regulate whether the entity is in compliance with state licensing requirements. Simply put, the federal tax forms are designed to calculate and report taxable income and tax liability, including those derived from a trade or business. The absence of a business license (specific to the trade or business income being reported) would not preclude the IRS from assessing and collecting tax from the taxpayer, nor should it influence how many tax forms or schedules are completed or filed by the taxpayer. The IRS instructions for Schedule C are fairly clear that different business activities should be reported on separate schedules C, in the case of a sole proprietor, but they are silent with regard to state compliance, including business licensing, except for a brief mention that the taxpayer may also incur state licensing fees or taxes.

I hope this information helps, please contact me if you have any questions, or if I can be of further assistance. I support this bill, as I believe it will offer welcomed administrative relief to both the taxpayer and the Department of Commerce, presumably having few licenses to administer and monitor.

Warm regards,

Bridget Lujan, CPA

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