

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: SB312
 (S) Publish Date: 5/6/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Enterprise Zones BRU Revenue Operations
 Component Tax Division
 Sponsor Senate State Affairs
 Requester Community and Regional Affairs Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	***	***	***	***	***	***
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation, which is meant to promote economic development through the use of so-called "enterprise zones," would grant income tax credits to businesses that construct/operate new business facilities in an enterprise zone. The Department cannot estimate the cost to the state of the tax credits because it has no way of estimating how many businesses might participate in the program. The program would grant taxpayers a credit of 15% of the qualifying investment and a \$500 credit for each new employee at the facility. Under that formula, for example, a \$2 million investment employing 25 workers would be eligible for up to a \$312,500 tax credit its first full year.

It should be noted that taxpayers, under this legislation, would not be allowed to carry over any unused tax credits for subsequent years, and therefore might not be able to fully use the credits granted by this bill. Also, only C Corporations pay corporate income tax in Alaska, and any S Corporations, partnerships, limited liability companies or sole proprietorships would be excluded from the tax credit provisions of this legislation.

Prepared by: Larry Persily, Deputy Commissioner Phone 465-5469
 Division: Department of Revenue Date/Time 4/29/02 7:14 PM
 Approved by: Larry Persily, Deputy Commissioner Date 4/29/2002
 Agency: Department of Revenue

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BILL NO. SB312 #2

ANALYSIS CONTINUATION

Section 1 amends AS 44.33 to add new sections pertaining to enterprise zones. The governor may designate up to four zones each year from a list provided by the Department of Community and Economic Development. A designation is effective for 20 years. A borough, unified municipality or city if the city is not within a borough may apply to have a qualifying geographical area designated as an enterprise zone, and a municipality may not have more than three zones at the same time. The municipality may offer certain incentives within the zones.

Section 2 amends AS 44.33 to add new sections that provide that the Department of Community and Economic Development will prioritize the list of applications submitted to the governor according to the degree of economic distress, potential for economic development and neighborhood stabilization, and feasibility of local incentives. The Department of Community and Economic Development may also recommend incentives within the enterprise zones including reductions in state permit or user fees, credits on or exemptions from state income taxes, and sales or leases of state realty to private persons.

Section 3 amends AS 29.45.050 to provide that a municipality may exempt property from the local property tax, or provide a credit against the property tax, for property located within an enterprise zone.

Section 4 amends AS 43.20.021(d) to provide that enterprise zone tax credits are not reduced by that section.

Section 5 amends AS 43.20 to add new sections providing for an enterprise zone investment tax credit against the corporation net income tax. The credit amount is 15% of the investment, which is the purchase price or the net rental rate paid, in such items as land, factories, mills, warehouses, other buildings, machinery, equipment, and other tangible personal property, all of which are used exclusively within an enterprise zone. The credit is reduced by 1/12th for each month in the tax year in which the taxpayer did not operate the facility for that entire month. The part of the credit disallowed is not available as a credit in any subsequent tax year. If the investment replaces another facility of the taxpayer or a related person, the credit is reduced by the average annual investment in the former facility for the three preceding tax years.

A \$500 credit is provided for each new employee who works in the enterprise zone. This credit is only available in the first full income tax year (generally the tax year succeeding the tax year in which the investment was made) after the establishment of a new business facility.

Based upon our interpretation of the bill, it is further assumed that:

1. The total credits available in the tax year are limited to the amount of the Alaska income tax liability; the credit not being in the nature of a refundable credit;
2. Any unused credit is lost if not used within the tax year in which it is generated; there is no carryforward;
3. Self-constructed property by a taxpayer in an enterprise zone, since such property is neither purchased nor rented, does not qualify as an investment for which the credit would apply;
4. Property purchased in the tax year and first used outside the enterprise zone before being brought into and used exclusively in the enterprise zone, or property first used in the enterprise zone and subsequently removed, would qualify for the credit but the credit would be reduced by 1/12 for each month the property was not used exclusively within the enterprise zone;
5. The taxpayer makes the determination whether an investment "replaces" existing property (in which the credit is reduced) or is in addition to or otherwise does not replace existing property (in which the credit is not reduced);
6. With respect to transactions between related persons, the amount of the investment from which the credit will be computed is the stated sale price or the rental paid without regard to fair market value (the related party provision in the bill applies only to the situation where an investment replaces existing property and then it only calls for a reduction based upon the average annual investment for the 3 years prior to the related party transaction); and,
7. An individual is not controlled by a wholly owned corporation taxpayer and therefore the related person rules will not apply to the individual and the wholly owned corporate taxpayer.

Section 7 amends the uncodified law by adding a new section to provide that the corporation income tax provisions become effective for tax years beginning on or after January 1, 2003.