

**ALASKA STATE LEGISLATURE  
HOUSE RULES STANDING COMMITTEE**

April 8, 2008

4:06 p.m.

**MEMBERS PRESENT**

Representative John Coghill, Chair  
Representative Anna Fairclough  
Representative Craig Johnson  
Representative Ralph Samuels  
Representative Beth Kerttula

**MEMBERS ABSENT**

Representative John Harris  
Representative David Guttenberg

**COMMITTEE CALENDAR**

HOUSE JOINT RESOLUTION NO. 41

Urging the United States Congress to repeal sec. 511 of P.L. 109-222 (Tax Increase Prevention and Reconciliation Act of 2005).

- MOVED CSHJR 41(RLS) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HJR 41

SHORT TITLE: REPEAL OF SEC. 511 OF P.L. 109-222

SPONSOR(s): RULES

04/07/08	(H)	READ THE FIRST TIME - REFERRALS
04/07/08	(H)	RLS
04/08/08	(H)	RLS AT 4:00 PM CAPITOL 120

**WITNESS REGISTER**

REPRESENTATIVE MAX GRUENBERG  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Spoke as the sponsor of HJR 41.

KIM GARNERO, Director  
Division of Finance  
Department of Administration;

Member, National Association of State Auditors, Comptrollers and Treasurers (NASACT)

Juneau, Alaska

**POSITION STATEMENT:** During hearing of HJR 41, testified that the Department of Administration is opposed to [Section 511 of the Act].

#### **ACTION NARRATIVE**

**CHAIR JOHN COGHILL** called the House Rules Standing Committee meeting to order at [4:06:11 PM](#). Representatives Coghill, Fairclough, Johnson, Samuels, and Kerttula were present at the call to order.

HJR 41-REPEAL OF SEC. 511 OF P.L. 109-222

[4:06:21 PM](#)

CHAIR COGHILL announced that the only order of business would be HOUSE JOINT RESOLUTION NO. 41, Urging the United States Congress to repeal sec. 511 of P.L. 109-222 (Tax Increase Prevention and Reconciliation Act of 2005).

[4:07:13 PM](#)

REPRESENTATIVE SAMUELS moved to adopt Version 25-LS1643\M, Bullock, 4/8/08, as the working document. There being no objection, Version M was before the committee.

[4:07:36 PM](#)

REPRESENTATIVE MAX GRUENBERG, Alaska State Legislature, speaking as the sponsor of HJR 41, explained that the difference between Version A and M is that the language on page 3, lines 15-16, of Version M was inadvertently left out of Version A. The legislation, he related, is the result of correspondence from the Fairbanks North Star Borough. As mentioned on the House Floor today, the Tax Increase Prevention and Reconciliation Act of 2005 contains Section 511, which was designed to collect taxes owed by governmental contractors. Apparently, only about 30 percent of the money owed by governmental contractors makes it to the federal treasury. Therefore, HJR 41 is designed to encourage the payment by withholding it at the source. This resolution only deals with local and state governments that pay over \$100 million annually on goods and services. As of January 1, 2011, the Act would require [local and state governments] to

withhold 3 percent of payments to nearly all vendors and contractors for federal income tax purposes. He noted that there are some exceptions. The problem, he opined, is that virtually all the material given to the joint congressional conference committee was in regard to the benefit to the federal treasury and the unfairness when people escape taxes merely by not paying them. There was little if any recognition of the problems that [Section 511 of the Act] would create for local and state governments. Although Congress was informed that there would be significant problems for local governments, it wasn't recognized by the Joint Tax Committee or the congressional conference committee. However, since that time Congress has been informed that this provision will be extremely expensive and difficult to enforce, which has resulted in the introduction of congressional legislation, SB 777 and H.R. 1023.

[4:12:14 PM](#)

KIM GARNERO, Director, Division of Finance, Department of Administration; Member, National Association of State Auditors, Comptrollers and Treasurers (NASACT), related that NASACT has been actively working in Washington, D.C., to repeal [Section 511]. In fact, NASACT passed a resolution in 2006 to work toward a fair and equitable approach in implementing [the aforementioned Act], including seeking a repeal. Most states face the same situation as Alaska in that they can't do withholding on vendor payments due to the state's existing 23-year-old accounting system. Ms. Garnero said that the [division] is looking for relief prior to 2011.

[4:13:16 PM](#)

CHAIR COGHILL inquired as to the cost of ramping up the state's accounting system should HJR 41 pass.

MS. GARNERO said that although she hasn't analyzed the impact to the state accounting system, she was sure that it would be at least a year-long project and would require at least a half of a position to deal with reconciliation.

CHAIR COGHILL related his understanding that NASACT has a resolution opposing [Section 511 of the Act].

MS. GARNERO interjected that the Department of Administration is totally opposed to [Section 511 of the Act]. In further response to Chair Coghill, Ms. Garnero explained that DOA is poised to work with the congressional delegation, but the end of

session flurry has postponed that. A letter has been drafted for Commissioner Krietzer's signature, she mentioned.

CHAIR COGHILL surmised then that HJR 41 could move forward with the aforementioned letter.

MS. GARNERO replied yes.

[4:15:10 PM](#)

REPRESENTATIVE JOHNSON inquired as to how many communities would be involved.

MS. GARNERO specified that [Section 511 of the Act] would apply to any government that spends over \$100 million on goods and services, a category in which Fairbanks and Anchorage and large school districts would likely fit into.

[4:15:48 PM](#)

REPRESENTATIVE GRUENBERG pointed out that the committee packet should include information specifying that the Fairbanks North Star Borough, the Fairbanks School District, the Anchorage School District, and the Municipality of Anchorage would all be impacted by [Section 511 of the Act]. Furthermore, the committee packet should include letters of support for the repeal of Section 511 from all of the aforementioned entities. He further said that the committee packet should also include a letter urging the repeal of Section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 from Commissioner Krietzer, DOA.

[4:16:30 PM](#)

REPRESENTATIVE SAMUELS moved to report Version 25-LS1643\M, Bullock, 4/8/08, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHJR 41(RLS) was reported from the House Rules Standing Committee.

[4:16:47 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Rules Standing Committee meeting was adjourned at [4:16:49 PM](#).