

# FISCAL NOTE

STATE OF ALASKA cost # codes  
 2012 LEGISLATIVE SESSION

Bill Version CSHB 252(L&C)  
 Fiscal Note Number 1  
 Publish Date 2/24/12 (H)

Identifier (file name) HB252-DOR-TAX-02-20-12 Dept. Affected Revenue  
 Title Income Tax Exemption Appropriation Taxation and Treasury  
 Sponsor Representative Costello Allocation Tax Division  
 Requester House Labor & Commerce OMB Component Number 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
<b>OPERATING EXPENDITURES</b>								
Personal Services	325.5		325.5	325.5	325.5	325.5	325.5	325.5
Travel								
Services	14.1		14.1	14.1	14.1	14.1	14.1	14.1
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>339.6</b>	<b>0.0</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>

**FUND SOURCE** (Thousands of Dollars)

	FY13	FY13	FY14	FY15	FY16	FY17	FY18
1002 Federal Receipts							
1003 GF Match							
1004 GF	339.6		339.6	339.6	339.6	339.6	339.6
1005 GF/Prgm (DGF)							
1037 GF/MH (UGF)							
1178 temp code (UGF)							
<b>TOTAL</b>	<b>339.6</b>	<b>0.0</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>

**POSITIONS**

	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Full-time	3		3	3	3	3	3
Part-time							
Temporary							

**CHANGE IN REVENUES**

	FY13	FY13	FY14	FY15	FY16	FY17	FY18
	***	***	***	***	***	***	***

Estimated SUPPLEMENTAL (FY12) operating costs \_\_\_\_\_ (separate supplemental appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs \_\_\_\_\_ (separate capital appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

**Why this fiscal note differs from previous version (if initial version, please note as such)**

Initial fiscal note.

Prepared by Johanna Bales, Deputy Director  
 Division Tax  
 Approved by Alicia Egan, Legislative Liaison  
Department of Revenue

Phone (907) 269-6628  
 Date/Time 2/17/2012 6:30 p.m.  
 Date 2/20/2012

**Analysis****Bill Language:**

This bill would exempt corporations from the corporate income tax if they are determined to be a "qualified small business" as that term is defined in Section 1202 of the Internal Revenue Code (IRC) as that section read on January 1, 2012. Under IRC Section 1202, a "qualified small business" is a corporation with no more than \$50 million in aggregate assets and is engaged in a "qualified trade or business". A "qualified trade or business" is any business *other than* personal services, banking, finance, insurance, farming, oil and gas, mining, hotel, motel, or restaurant. Taxpayers engaged in businesses such as construction, manufacturing, transportation, retail, wholesale, and utilities would qualify for the exemption. Taxpayers must also use at least 80% of their assets in the active conduct of the "qualified trade or business."

**Revenues:**

It is difficult to determine exactly how many companies would qualify for the exemption as, although DOR is able to identify those taxpayers with \$50 million or less in aggregate assets and the primary industry in which they are engaged, DOR cannot ascertain whether 80% or more of the corporation's assets are being used in the conduct of a qualified trade or business.

**Expenditures:**

This bill will exempt corporations from Alaska's corporate income tax based on certain criteria identified in IRC Section 1202. IRC Section 1202 is an individual income tax provision which allows individuals who invest in "qualified small businesses" to exclude 50% of the gain on the sale of stock from their individual income tax. IRC Section 1202 does not exempt "qualified small businesses" from federal corporate income tax. Therefore, corporations which believe they are exempt from Alaska corporate income tax would still be required to file an Alaska corporate income tax return along with a statement claiming this exemption. This bill would require the Department of Revenue to make independent determinations as to whether corporations, which believe they meet the requirements of IRC Section 1202 and are exempt from Alaska corporate income tax, are, in fact, exempt. The Department will be required to review as many as 1,000 tax returns or more each year to ascertain if a corporation meets the federal guidelines. The Department expects it will need three additional Corporate Income Tax Auditors II to ensure the proper administration of this legislation.