

# Fiscal Note

State of Alaska  
2013 Legislative Session

Bill Version: HCS SB 7(FIN)  
 Fiscal Note Number: 3  
 (H) Publish Date: 4/12/13

Identifier: SB007HCS(FIN)-DOR-TAX-04-09-13  
 Title: CORPORATE INCOME TAX  
 Sponsor: GIESSEL  
 Requester: (H) FIN

Department: Department of Revenue  
 Appropriation: Taxation and Treasury  
 Allocation: Tax Division  
 OMB Component Number: 2476

**Expenditures/Revenues**

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

|                               | FY2014                  | Included in               | Out-Year Cost Estimates |                |                |                |                |
|-------------------------------|-------------------------|---------------------------|-------------------------|----------------|----------------|----------------|----------------|
|                               | Appropriation Requested | Governor's FY2014 Request | FY 2015                 | FY 2016        | FY 2017        | FY 2018        | FY 2019        |
| <b>OPERATING EXPENDITURES</b> | <b>FY 2014</b>          | <b>FY 2014</b>            | <b>FY 2015</b>          | <b>FY 2016</b> | <b>FY 2017</b> | <b>FY 2018</b> | <b>FY 2019</b> |
| Personal Services             |                         |                           |                         |                |                |                |                |
| Travel                        |                         |                           |                         |                |                |                |                |
| Services                      |                         |                           |                         |                |                |                |                |
| Commodities                   |                         |                           |                         |                |                |                |                |
| Capital Outlay                |                         |                           |                         |                |                |                |                |
| Grants & Benefits             |                         |                           |                         |                |                |                |                |
| Miscellaneous                 |                         |                           |                         |                |                |                |                |
| <b>Total Operating</b>        | <b>0.0</b>              | <b>0.0</b>                | <b>0.0</b>              | <b>0.0</b>     | <b>0.0</b>     | <b>0.0</b>     | <b>0.0</b>     |

**Fund Source (Operating Only)**

|              |            |            |            |            |            |            |            |
|--------------|------------|------------|------------|------------|------------|------------|------------|
| None         |            |            |            |            |            |            |            |
| <b>Total</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

**Positions**

|           |  |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |  |

|                           |  |  |           |           |           |           |           |
|---------------------------|--|--|-----------|-----------|-----------|-----------|-----------|
| <b>Change in Revenues</b> |  |  | (5,000.0) | (5,000.0) | (5,000.0) | (5,000.0) | (5,000.0) |
|---------------------------|--|--|-----------|-----------|-----------|-----------|-----------|

Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

**ASSOCIATED REGULATIONS**

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes  
 If yes, by what date are the regulations to be adopted, amended or repealed? 12/31/13

**Why this fiscal note differs from previous version:**

This version reflects a change to the tax brackets that provides that the tax on the first \$25,000 of taxable income of all companies is zero. The total revenue effect of this change is an estimated decrease of approximately \$300,000 in corporate income taxes each year. This version also reflects proposed changes to the film production tax credit program.

|              |                                                              |        |                     |
|--------------|--------------------------------------------------------------|--------|---------------------|
| Prepared By: | Johanna Bales, Deputy Director and Loren Crawford, Economist | Phone: | (907)269-6628       |
| Division:    | Tax Division                                                 | Date:  | 04/09/2013 10:30 PM |
| Approved By: | Alicia Egan, Legislative Liaison                             | Date:  | 04/09/13            |
|              | Department of Revenue                                        |        |                     |

FISCAL NOTE ANALYSIS #3

STATE OF ALASKA  
2013 LEGISLATIVE SESSION

BILL NO. HCS SB 7(FIN)

Analysis

**Bill Language:** This bill will adjust the current corporate income tax schedule to the following:

| If the taxable income is inclusively between: | Then the tax is:                                               |
|-----------------------------------------------|----------------------------------------------------------------|
| \$ 0 and \$ 24,999                            | zero                                                           |
| \$ 25,000 and \$ 48,999                       | 2 percent of the taxable income over \$25,000                  |
| \$ 49,000 and \$ 73,999                       | \$480 plus 3 percent of the taxable income over \$49,000       |
| \$ 74,000 and \$ 98,999                       | \$1,230 plus 4 percent of the taxable income over \$74,000     |
| \$ 99,000 and \$ 123,999                      | \$2,230 plus 5 percent of the taxable income over \$99,000     |
| \$ 124,000 and \$ 147,999                     | \$3,480 plus 6 percent of the taxable income over \$124,000    |
| \$ 148,000 and \$ 172,999                     | \$4,920 plus 7 percent of the taxable income over \$148,000    |
| \$ 173,000 and \$ 197,999                     | \$6,670 plus 8 percent of the taxable income over \$173,000    |
| \$ 198,000 and \$ 221,999                     | \$8,670 plus 9 percent of the taxable income over \$198,000    |
| \$ 222,000 or more                            | \$10,830 plus 9.4 percent of the taxable income over \$222,000 |

The change in tax schedule expands the brackets of the current progressive corporate income tax from nine \$10,000 brackets to three \$24,000 brackets and six \$25,000 brackets. This shifts some companies in a higher income tax bracket, to a lower one. This bill affects all companies subject to corporate income tax. Those companies with taxable income less than \$25,000 will benefit the most from this bill as they will see their tax liability decrease by 100%. Those companies with tax liability between \$99,000 and \$124,000 will benefit the second most from this change, seeing an estimated 52.5% decrease in their tax liability. This benefit is measured by the difference in total tax liability, calculated using current and proposed rates, for companies in this tax bracket. Those companies with taxable income over \$1,000,000 and up to \$100,000,000 will see an overall decrease in tax liability between 6% and .06%. Thus, this bill will result in a larger percentage decrease in tax liability for smaller companies.

This bill also includes transition language which will allow DOR to issue tax credits for film productions currently pre-qualified by the Department of Commerce, Community, and Economic Development under previous law and will continue to make news, weather, commercial or corporate programming, and sexually explicit film productions ineligible for a film credit when the program transitions to DOR on July 1, 2013.

**Revenues:** A study of State of Alaska corporate income tax revenues from 2009, 2010, and 2011 suggests that had the bill been implemented in those years, the decrease in corporate income tax revenue would have been \$5,522,802, \$5,446,493 and \$4,045,573, respectively, an average of \$5,000,000 per year over the three years. This represents approximately one half of a percent of total corporate income tax revenue collected during each of those years. These estimates do not take into account the effect of the small business tax exemption legislation passed during the 2012 legislative session which exempts certain small corporations from corporate income tax starting January 1, 2013. It also does not reflect the changes in the behavior of companies in reaction to tax schedule changes, nor does it account for corporate income tax credits.

There will be no change to tax revenues as a result of the changes affecting the film credit program.

**Expenditures:** We anticipate the changes to the corporate income tax structure and film credit program can be implemented in the Department of Revenue using existing staff and resources.

**Regulations:** The department will need to draft regulations to implement the changes to the film credit program as outlined in the bill. These regulations should be in effect by 12/31/2013.