

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: CSSB 83(FIN)
Fiscal Note Number: 1
(S) Publish Date: 3/28/13

Identifier: SB083-DOR-TAX-03-21-13
Title: INTEREST ON CORPORATION INCOME TAX
Sponsor: MICCICHE
Requester: (S) 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
OPERATING EXPENDITURES	FY 2014	FY 2014					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues		***	***	***	***	***	***
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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? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Initial version.

Prepared By:	Johanna Bales, Deputy Director	Phone:	(907)269-6628
Division:	Tax	Date:	03/25/2013 04:00 PM
Approved By:	Alicia Egan, Legislative Liaison	Date:	03/21/13
	Department of Revenue		

FISCAL NOTE ANALYSIS #1

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. CSSB 83(FIN)

Analysis

Bill Language:

This bill would allow Alaska corporations that are required to report income from long-term contracts using the percentage of completion method, to calculate the additional tax due, on this income, using the current federal interest rates, instead of the current Alaska interest rates. Alaska's interest rate is significantly higher than the current federal rate and this bill would result in a tax savings to those companies that have income from long-term contracts. This bill would primarily affect those corporations engaged in the construction business.

Revenues:

There is a provision within the Internal Revenue Code that requires corporations to use the percentage of completion method to report income from long-term contracts. As part of this requirement, corporations must calculate interest on the difference between actual income received and estimated income reported. The interest is then included as an additional tax or a reduction in tax (if the estimated income is higher than actual income) on their corporate tax return. Since Alaska adopts the Internal Revenue Code, this provision is applicable to Alaska corporate income taxpayers as well. However, Alaska law requires that we substitute Alaska's interest rate in place of the federal interest rate. Over the past 22 years, Alaska's interest rate has been significantly higher than the federal interest rate. Currently, Alaska's interest rate is 11% and the federal interest rate under 26 U.S.C. 460 (Internal Revenue Code) is only 2%. This provision proposes to change Alaska's law and allow the use of the lower federal interest rate when calculating this additional tax due.

There are some corporations in Alaska that are subject to this provision. However, since we do not currently have an automated system from which we can pull this specific information, it is difficult for us to determine the full fiscal impact of this provision. However, the division conducted a manual review of tax returns filed by approximately 100 construction companies for calendar years 2010 and 2011. Based on this review, the division discovered that more than 50% of these companies filed S Corporation tax returns and, therefore, were exempt from Alaska corporate income tax. Of the remaining corporations, the division found that only a few had ever reported additional income tax due to the federal provision described above. Of those that had reported additional tax, the division found the difference in the tax due calculated using Alaska's interest rate and calculated using the federal corporate interest rate was less than \$50,000 in the last two calendar years. Although it is possible that there are other corporations subject to this provision that were not identified during the manual review, we believe that the effect of this bill on Alaska's corporate income tax revenues will be minimal.

Expenditures:

The department can implement the provisions of this bill using existing resources.