

SENATE FINANCE COMMITTEE  
February 21, 2013  
10:02 a.m.

10:02:50 AM

CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 10:02 a.m.

MEMBERS PRESENT

Senator Kevin Meyer, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Kevin Meyer, Co-Chair  
Senator Anna Fairclough, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Senator Cathy Giessel; Vern Jones, Chief Procurement Officer, Department of Administration.

PRESENT VIA TELECONFERENCE

Johanna Bales, Deputy Director, Tax Division, Department of Revenue; Dave Glenn, Self, Palmer; Mike Koskovitch, Self, Wasilla.

SUMMARY

SB 7 CORPORATE INCOME TAX

SB 7 was HEARD and HELD in committee for further consideration.

SB 12 PUBLIC PROCUREMENT

SB 12 was HEARD and HELD in committee for further consideration.

Co-Chair Meyer apologized for the delay in starting the meeting and explained that he had been in a meeting with Senator Lisa Murkowski.

#sb7

SENATE BILL NO. 7

"An Act relating to the computation of the tax on the taxable income of a corporation derived from sources within the state."

10:04:09 AM

SENATOR CATHY GIESSEL, introduced SB 7 and stated that the legislation adjusted the corporate income tax in Alaska to align with the consumer price index. She related that the last time the corporate tax brackets were set was in 1981. She discussed a research document in members' packets that contained a chart, which laid out the current income tax brackets and what the bill would alter them to. Currently, the ten tax brackets moved up in increments of \$10,000 each. The brackets began at \$10,000 of taxable income for a corporation, which was for a C corporation. The highest tax bracket, which had a 9.4 percent tax, was reached at \$90,000 of income. The adjustment for inflation would make the highest tax bracket achieved at \$222,000. She shared that the bill made an adjustment for inflation and would create a significant benefit for Alaska's small and medium sized businesses; these businesses included C corporations in a variety of industries. She discussed the fiscal note attached to the bill.

Co-Chair Meyer inquired if there were nine tax brackets. Senator Giessel responded that there were ten tax brackets. Co-Chair Meyer queried how the current tax brackets were arrived at. Senator Giessel responded that in 1981, the tax brackets were adjusted and that in the supporting documents there was a document from Legislative Research Services (copy on file); the third page of the document contained the current tax brackets. She related that the top chart represented the current brackets and that the bottom chart reflected what the brackets would look like if the bill passed. She noted that nearly 14,000 of the state's

corporations were making less than \$10,000 in taxable income and would fall into the lowest tax bracket. She pointed out that the \$90,000 taxable income bracket, which paid 9.4 percent, was paid by around 559 filers. In the second chart, which showed the proposed tax brackets, the number of filers shifted and more people appeared in the lower to medium income brackets. She offered that the bill would leave more money in the hands of small and medium sized business owners and would allow the expansion of businesses, additional hires, etc. She explained that the adjustment would not affect the very large companies and that if the bill passed, \$222,000 or more in income would be the highest tax bracket; these filers would continue to pay the 9.4 percent.

Co-Chair Meyer noted there was an attachment that showed the other states and how they did their income tax; He noted that the other states seemed to vary on how it dealt with the issue. Senator Giessel responded that the document was an interesting summary and that there were a "plurality" of states that had a 6 percent tax. She believed that there were four states that had a higher corporate income tax than Alaska; Minnesota, Illinois, Pennsylvania, and the District of Columbia all had a top bracket that was higher than a 9.4 percent.

[10:09:53 AM](#)

Co-Chair Meyer observed that Ms. Bales should speak to the fiscal note and offered that it was concerning when there was less revenue coming to the state; however, he acknowledged that the state might be spending the same amount attempting to collect a "small amount" from the small businesses.

Senator Olson queried what the definitions of small and medium sized corporations were. Senator Giessel replied that although there was no specific definition, a company that was making \$74,000 of taxable income was not a large business. She related that C corporations could be transportation and construction companies. Senator Olson pointed out that he knew the difference between a C and an S corporation. He offered that if there were no specific definitions for small and medium corporations, they were being defined by corporate income. He opined that there could be a very large corporation that was losing money and would be eligible under the bill. Senator Giessel replied

that she was using generic terms such as small and medium sized businesses. She stated that her district had some small local businesses, some of which were C corporations and reiterated that the bill affected small, local businesses. She added that Senator Olson's questions would be best answered by Ms. Bales.

Senator Olson inquired if tax credits were covered under the corporate income tax. Senator Giessel replied that she believed that they were, but that Ms. Bales could provide more specifics about the bill. She explained that although the bill's fiscal note was estimated to be \$3.8 million, it would likely not be that large as a result of tax credits that lowered tax liability. She pointed out that the chart in members' packets showed the number of actual filers in FY11.

Senator Olson inquired what effect the bill would have on the tax credits. Senator Giessel replied that the effect of tax credits was somewhat reflected on second chart by Legislative Research Services, which expected the same number of filers. She added that the highest bracket would still "fall into these" and lowest bracket that had less than \$25,000 of taxable income would "still be present also."

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JOHANNA BALES, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), addressed an earlier question by Co-Chair Meyer regarding the bill's fiscal note and related that the Department of Revenue (DOR) had taken a look at the last few years of corporate income tax; DOR then recalculated the tax liability based on the new brackets, which was where the \$3.8 million projection came from. She related that under the proposed legislation, the maximum tax savings to any one corporation would be \$5,828 per year. She stated that the legislation defined small tax payers as those that averaged about \$300,000 or less of taxable income per year. She pointed out that the small tax payers, as defined by the legislation, would benefit the most from the bill because they would have the higher percentage of tax savings. In response to a question by Senator Olson, she indicated that small and medium corporations were defined in terms of taxable income. She pointed out that there were some large multi-national corporations that conducted a limited amount of activity in

Alaska. She shared that some large multi-national corporations would benefit by the legislation; however, the maximum savings was around \$5,800 per year. She acknowledged that there were a lot of Alaskan businesses that were in the lower tax brackets that would benefit from the legislation. In response to a question by Senator Olson, She stated that DOR first calculated the tax liability, which was based on taxable income; once the tax liability was calculated, the credits were then deducted. She offered that the credits did not have any effect on the tax structure scheme in the bill because the credits were taken after tax liability was calculated.

Senator Olson requested confirmation that some of the large multi-national corporations such as oil companies that did business in Alaska would have a benefit from the legislation. Ms. Bales responded in the affirmative and related that DOR had conducted an analysis to determine how much savings the bill would represent to the oil and gas industry in total. She continued that historically, there had been 27 to 30 oil and gas corporations that filed taxes with DOR and that if all of those corporations received the maximum benefit from bill, the savings to the oil and gas industry would be \$157,000 of the \$3.8 million. She concluded that the oil and gas industry as a whole would benefit very slightly from the legislation.

[10:18:23 AM](#)

Senator Olson queried if there were organizations that would have state or federal tax credits jeopardized as a result of the bill. Ms. Bales responded in the negative.

Senator Dunleavy queried if the tax was based on the gross or net. Ms. Bales responded that the corporate income tax was a net tax and that the tax liability was based on the net income that was earned.

Co-Chair Meyer noted Senator Olson's concerns regarding the net tax and stated that a large corporation could benefit from the bill; however, he acknowledged the benefit would be very minimal.

Senator Olson inquired if there would be a change in the fiscal note if the brackets were consolidated and reduced in number. Ms. Bales responded that there would be some changes to the fiscal note, but expected that they would be

minor; furthermore, DOR would have to run the calculation based on how the brackets were collapsed.

Co-Chair Meyer queried how the bill's effective date affected businesses filing for their taxes. He requested an explanation of the effective date in the legislation. Ms. Bales replied that the bill would be effective immediately, but that the legislation was for tax periods that started after the effective date. She shared by example that if the bill went into effect July 1st, it would not affect a corporation that filed on a calendar year until January 1st of the following year.

Senator Olson noted that his corporations had alternating dates when the corporate income taxes were filed. He inquired when the bill would take effect for an entity that was a fiscal year filer. Ms. Bales related by example that if the bill took effect on July 1st, a fiscal year filer whose taxable fiscal year started on September 1st would file on September 1st of the same year. She added that if the legislation went into effect on July 1st, a filer whose fiscal year started April 1st would not be able to take advantage of the new rates until April 1st of the following year; the timing depended on when the fiscal year started.

[10:22:57 AM](#)

Co-Chair Meyer CLOSED public TESTIMONY on SB 7.

Co-Chair Meyer stated that he did not know if the brackets were set correctly for meeting the bill's objective and inquired if the administration had a position on the legislation. Ms. Bales replied that the administration was currently neutral on the bill.

Co-Chair Meyer stated that the committee would take a day to think about the bill before bringing it back.

[10:24:10 AM](#)

SB 7 was HEARD and HELD in committee for further consideration.

Senator Giessel stated that there would be more letters of support forthcoming in members' packets from chambers of commerce and companies across the state.

Co-Chair Meyer noted that he did see some letters of support from the Juneau Chamber of Commerce and the Alaska State Chamber of Commerce.

[10:24:51 AM](#)

AT EASE

[10:25:09 AM](#)

RECONVENED

#sb12

SENATE BILL NO. 12

"An Act relating to state and public entity procurement, including the State Procurement Code, procurement preferences, contract awards, the use of small procurement provisions for certain amounts of leased space, the Alaska business license requirement for Alaska bidder and other procurement preferences, the proof of registration of construction contract bidders and offerors, the establishment and maintenance of lists of persons who want to provide supplies or services to the state, state agencies, and state instrumentalities, electronic bids and proposals, the chief procurement officer, small procurements, and writings; relating to the meaning of 'Alaska bidder'; and providing for an effective date."

[10:25:38 AM](#)

Vice-Chair Fairclough stated that SB 12 was an attempt to modify the procurement code and streamline the procurement processes. She pointed out that currently, there was some ambiguity in calculating the procurement bids. She related that the bill provided a specific point in time when an Alaska business license was required and increased the threshold under which state agencies may use an informal procurement process; the threshold was increased from \$50,000 to \$100,000 for good and services and from \$100,000 to \$200,000 for construction. The bill also increased the small procurement leased-space threshold from \$3,000 to \$7,000. She related that the legislation advanced the state into an electronic world through which electronic bids and signatures would be accepted. The bill eliminated an outdated vendor list and relocated all the preferences into

the same spot in the Alaska Statutes, as well as clarified which preferences may be stacked and which one could not be combined. The legislation eliminated the "employers with disabilities" preference, reduced the chief procurement officer's pay from a range 27 to a range 25; collectively, the changes streamlined the procurement process and provided Alaskans a way to enter and engage in Alaska state service. She concluded that the bill provided more opportunities for Alaskans, particularly in rural Alaska.

VERN JONES, CHIEF PROCUREMENT OFFICER, DEPARTMENT OF ADMINISTRATION, introduced himself for the record. He related that the bill simplified, modernized, and clarified the procurement process. He pointed out that increasing the small procurement threshold made it possible to conduct more procurements in a less formal mode, which was easier for smaller businesses, particularly in rural areas. He stated that the bill would particularly help building owners who were leasing space to the state and that the legislation simplified the preferences. Currently, the Division of Vocational Rehab was required to get verification from an individual's doctors to verify disability status; the bill would allow for the acceptance of third party qualifications from entities such as the Social Security Administration and the Veterans Administration (VA). He believed the bill was easier to understand than the current law on the state practitioner side, as well as for the businesses that were engaging with the state.

[10:30:31 AM](#)

Vice-Chair Fairclough was prepared to present a sectional analysis of the bill, but preferred to take questions afterwards in respect for those who were waiting online to testify.

DAVE GLENN, SELF, PALMER (via teleconference), testified in support of the SB 12 and related that the stated Department of Labor and Workforce Development (DLWD) did not recognize disability certification from the VA. He related a personal story about DLWD rejecting a contract that he had submitted because his paperwork had been submitted from the VA. He stated that the DLWD's stance on this issue was inconsistent with everything else the state did for disabled veterans. He shared that his VA certification was recognized for discounted license plates, free hunting

licenses, the state park and ferry systems, etc. He added that DLWD was the only department in the state that did not recognize disability certification from the VA. He recalled serving in the Vietnam War and being an "Agent Orange" victim. He expressed concerned for the troops returning from duty in Afghanistan and pointed out that he did not want to see these veterans treated like he had been when he returned home from Vietnam. He offered that veterans should not be discriminated against over a technicality, but should be afforded every opportunity to get their lives back in order. He concluded that the bill eliminated having to satisfy DLWD's requirements of a whole system of private doctors, expenses, etc.

MIKE KOSKOVITCH, SELF, WASILLA (via teleconference), spoke in support of SB 12 and related his experiences with "Agent Orange." He believed that a disability certification from the VA should satisfy any requirement by the State of Alaska. He observed that veterans should be treated with the dignity and honor that they deserved and should not have to deal with bureaucratic obstacles.

Co-Chair Meyer CLOSED public TESTIMONY on SB 12.

[10:35:27 AM](#)

SB 12 was HEARD and HELD in committee for further consideration.

Co-Chair Meyer discussed the following meeting's agenda.

[10:35:55 AM](#)

#

ADJOURNMENT

The meeting was adjourned at 10:36 a.m.