Fiscal Note

State of Alaska
2018 Legislative Session

Bill Version:	CSHB 399(FIN)
Fiscal Note Number:	2
(H) Publish Date:	4/16/2018

Identifier: HB 399CS(FIN)-DOR-TAX-4-13-2018
Title: CORP. TAX: REMOVE EXEMPTIONS/CREDITS
Sponsor: FINANCE
Requester: HOUSE FINANCE

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)

	FY2019 Appropriation Requested	Included in Governor's FY2019 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2019**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
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

1250 UGF Rev (UGF)	1,450.0		2,900.0	2,900.0	2,900.0	2,900.0	2,900.0
Total	**1,450.0**	**0.0**	**2,900.0**	**2,900.0**	**2,900.0**	**2,900.0**	**2,900.0**

Estimated SUPPLEMENTAL (FY2018) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2019) cost: 50.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

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If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/19

Why this fiscal note differs from previous version/comments:

This version of the bill limits federal credits to the portion earned by operations in Alaska. The previous version disallowed federal credit entirely. This note also makes a correction to the change in revenues because of repealing the capital gains statute. The recent federal tax reform act eliminated the alternative capital gains rate, therefore, this bill is not repealing the rate, but cleaning up language. The Tax Division discovered the oversight after submitting its first fiscal note (more detail on page 2).

Prepared By:	Brandon Spanos	Phone:	(907)269-6736
Division:	Tax	Date:	04/13/2018 12:00 AM
Approved By:	Mike Barnhill	Date:	04/16/18
Agency:	Department of Revenue		

REPORTED OUT OF HFC 04/16/2018

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2018 LEGISLATIVE SESSION

Analysis

This bill would make the following changes to the corporate net income tax:

1. Limits federal credits to the portion earned by Alaskan operations
2. Disallows the exclusion of foreign royalties from net income
3. Cleans up language regarding the outdated alternative capital gains rate

3. Repeals statutes that were part of the Alaska Stranded Gas Development Act. The credits had a statutory sunset date that has long since passed (the last credits were allowed to be created in 1994 and carried forward to 1999 at the latest).

The federal Tax Cuts and Jobs Act of 2017 repealed 26 U.S.C. 1201--which was the federal alternative tax on capital gains. Alaska statutes currently reference 26 U.S.C. 1201 and set a rate of 4.5 percent as the alternative tax on capital gains provided for in 26 U.S.C. 1201. Since that section of the code no longer exists, it is the Tax Division's position that the alternative tax on capital gains in Alaska no longer exists and this bill is simply cleaning up that language. This bill was drafted before the federal tax reform was passed and the intent was to repeal the preferential rate on capital gains. However, now this bill is simply removing outdated language. This bill also ensures that an Alaskan alternative rate on capital gains won't be restored if Congress were to restore the alternative tax on capital gains in the future.

Change in revenue estimates are based on a four year average (our data is the most reliable in the last four years since we rolled out our new Tax Revenue Management System). The breakdown for each proposed change is as follows:

1. Limit federal credits: $1.2 million
2. Foreign royalties: $1.7 million
3. Reduced rate on capital gains: $3.4 million (left here to preserve the fiscal impact of the federal repeal of the alternative capital gains rate)
4. Alaska Stranded Gas Development Act: $0

The revenue estimate for federal credits decreased in this version of the fiscal note by $0.6 million. The reason for the decrease is that this CS of the bill limits federal credits to the portion earned by operations in Alaska. The previous version disallowed federal credit entirely.

The tax changes would be effective beginning January 2019. The estimated change in revenues in FY19 is half of the future years' estimated changes to account for the mid-fiscal year effective date.

This legislation would require the Department of Revenue to update its Tax Revenue Management System (TRMS) and Revenue Online (ROL) which allows a taxpayer to file a return online. The update would consist of reprogramming both systems, updating the return rules in TRMS and testing both systems thoroughly to verify that they function as expected. We would also need to update the current tax return forms, make changes to certain regulations, and draft transition regulations. The supplemental fiscal note figure of $50.0 in FY19 is to cover the costs of having our contractor update the two systems. We do not anticipate any continuing costs or additional staff needs. After the implementation of the changes, this legislation would not cause any additional administrative burden on the Tax Division.