

COMMITTEE REPORT

4/2/75

HOUSE

Mr. Speaker:

Date April 5, 1975

The Committee on FINANCE has had HB 208

under consideration. A Majority of the members of the Committee

recommends it DO PASS

recommends it DO NOT PASS

recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR HB 208 AND THAT

Finance
CS FOR HB 208 DO PASS

"and" recommends it BE REFERRED TO THE _____
COMMITTEE

reports it back WITHOUT RECOMMENDATION

"other"

Members signing the Majority report:

<u>[Signature]</u>	<u>[Signature]</u>	_____
<u>[Signature]</u>	<u>[Signature]</u>	_____
<u>[Signature]</u>	_____	_____

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

[Signature] Chairman

MEMORANDUM

LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

POUCH Y — STATE CAPITOL
JUNEAU, ALASKA 99811

TO:

Felt

DATE:

Apr 9, 1975

FROM:

Bill Deane

SUBJECT:

Fin CS for HB 205

*The sites in the section added (i.e. 7, 8 & 43.20 (56)) are
not in USCS presently because they relate to current changes
because the committee needs the bill file so today I have
not been able to check the sites*

MEMORANDUM

TO:

R. D. Stevenson
Special Assistant
Department of Revenue

DATE : March 10, 1975

FROM:

Frederick P. Boetsch
Deputy Commissioner for Taxation
Department of Revenue

SUBJECT: HB 208

I have reviewed HB 208 which eliminates Foreign Tax credits from reference in the Alaska Net Income Tax Act, limits the application of Investment Credit to \$100,000 of equipment purchased and placed in use each year, deletes the tax shelter provided for Domestic International Sales Corporations, and eliminates percentage depletion as a deduction for income tax purposes.

The Foreign Tax Credit is allowed by the Federal Government to offset duplicate taxation on the same income. This is due to the fact that the Federal Government taxes world-wide income of domestic corporations. However, when applied to the state income tax return, the credit amounts to a double reduction of state taxes. Any corporation which reports to us on a world-wide basis apportions its income to Alaska using the three factor formula (Sales, Property, and Payroll). This means that Alaska gets a share of the income related to the corporation's activities in the state. Alaska is not taxing the income earned in a foreign country - only the income earned in Alaska. Therefore, the credit is not appropriate since it bears no relation to the income taxed by Alaska. We have issued an administrative ruling to this effect but believe that a clear expression of this policy in the statutes is necessary to avoid confusion and possible litigation.

The investment credit is a tool used by the Federal Government to stimulate the purchase of equipment during a period of economic slack. It is doubtful that such stimulation is needed in our state which is currently experiencing a boom. It is apparent that the state will lose a large number of tax dollars if the credit is continued for state tax purposes.

The attached schedule indicates that we could lose almost \$20 million between now and 1980. Almost 3/4 of these benefits would go to large international firms doing business in our own state. Although this would be a loss to the Treasury and, therefore, to Alaskans, it would not increase investment by these corporations in our state. In short, we would be giving away \$15 million dollars. On the other hand, the bill provides that the small businessman would continue to receive the benefits of the credit.

Our projections are based on a normal growth rate consistent with our most recent projections of corporate tax collections exclusive of the pipeline and other effects; the investment credit directly related to equipment used in the construction of the pipeline and the line and related facilities themselves; and Alaska's share of other oil companies on a world-wide basis, but of which Alaska would receive an apportionable share. The normal investment credit rate of 16.8263% was derived from

statistics provided by the Internal Revenue Service and represents an average investment credit in relation to the net taxes paid.

The next provision seeks to disallow the filing of a return as a Domestic International Sales Corporation under Internal Revenue Code Section 991 for the purposes of meeting the Alaska Net Income Tax Act requirement. This is a provision that was enacted by Congress in 1971 to stimulate exports. Basically, it allows companies who have export sales to form a subsidiary corporation for the purpose of handling the exports. This subsidiary corporation is not subject to direct corporate taxation. Instead, 50% of the profits are taxed directly to the parent corporation and the other 50% are deferred until such time as actually distributed to the parent corporation or until such time as the parent disposes of its stock in the DISC or the election to be treated as a DISC is revoked. The idea that Congress had in mind was that this would allow us to export goods on a more competitive basis and help the national balance of payments situation.

We do not think that such an incentive is either necessary nor desirable in Alaska. There is a great deal of interest in exporting all our natural resources to foreign countries at the present time and a tax break does not seem to be necessary in order to continue or spur on the export industries. It could mean, however, that Alaska resources could be exported through the vehicle of a DISC without any income tax being paid on such exports. The DISC itself as indicated would be non-taxable. Although the parent corporation would be deemed to have received a dividend equal to 50% of the income during the tax year it is possible that the parent might be a corporation not doing business in Alaska and therefore could not be taxed on the deemed distribution. Although it is possible we could assert jurisdiction on the basis of the combination provisions of the Multistate Tax Compact we could wind up in court on the issue. Since this provision in the Internal Revenue Code does not have any advantage for Alaska and does not seem to be in the best public interest of Alaskans, we think that the easiest, simplest and most straight forward way to solve this problem would be to eliminate the possibility by deleting that Internal Revenue Code provision from our statutes.

I am unable to predict the effects on Treasury since we do not have any historical background on these corporations.

The percentage depletion allowed by the Internal Revenue Code is also eliminated. While there is great controversy raging in Congress on whether this allowance should continue for oil and gas (a bill to eliminate it recently passed the House), there really is no such question in Alaska. Industry is eager to develop our resources and continue exploration here. What we are doing, in effect, by continuing to allow percentage depletion on Alaska Income Tax returns is helping to subsidize exploration in other parts of the world. The revenue losses are substantial as is indicated by the attached schedule.

This Bill, then would eliminate many of the tax loopholes or potential loopholes which are presently on our statutes. These loopholes represent poor tax policy from Alaska's viewpoint and cause a considerable drain on the State Treasury. This drain will grow much larger unless we plug it now.

HOUSE BILL 208
 POTENTIAL REVENUE EFFECTS
 (\$000 Omitted)

Provision	<u>FY 76</u>	<u>FY 77</u>	<u>FY 78</u>	<u>FY 79</u>	<u>FY 80</u>
Elimination of Foreign Tax Credit	917	1,001	1,433	1,825	1,889
Limitation on Investment Credit	2,403	2,187	6,552	4,286	4,408
Elimination of Percentage Depletion	<u>3,000</u>	<u>3,437</u>	<u>15,038</u>	<u>17,072</u>	<u>18,352</u>
Total Potential Revenue Effect	<u>6,320</u>	<u>6,625</u>	<u>23,023</u>	<u>23,183</u>	<u>24,649</u>

Note: Effect of Domestic International Sales Corporations not included since data are not available as to the number or extent of activity of potential DISC's. Theoretically, all exports from the State could qualify for this tax shelter.

A M E N D M E N T

OFFERED IN THE HOUSE

BY:

TO: HOUSE BILL NO. 208

PAGE 1, BETWEEN LINES 28 - 29

Insert the following:

(e) For purposes of this chapter, the taxpayer may not apply for a refund of 1974 individual income taxes under Internal Revenue Code sec. 6428 (26 U.S.C. sec. 6428).

(f) For purposes of calculating the income tax payable under this chapter, the taxpayer may not apply as a credit against his tax liability the credit for personal exemptions under Internal Revenue Code sec. 42 (26 U.S.C. sec. 42).

(g) For purposes of calculating the income tax payable under this chapter, the taxpayer may not apply as a credit against his tax liability the credit for earned income under Internal Revenue Code sec. 43 (26 U.S.C. sec. 43).

(h) For purposes of calculating the tax payable under this chapter, the taxpayer may not apply as a credit against his tax liability the credit for purchase of new principal residence under Internal Revenue Code sec. 44 (26 U.S.C. sec. 44).

Introduced: 2/26/75
Referred: Commerce and
Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 208

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska net income tax deductions
7 and credits; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.20 is amended by adding a new section to read:

10 Sec. 43.20.036. FEDERAL TAX DEDUCTIONS AND CREDITS. (a) For
11 purposes of calculating the income tax payable under this chapter,
12 the taxpayer may not apply as a credit against his tax liability the
13 foreign tax credit allowed as to federal taxes under Internal Revenue
14 Code sec. 33 (26 U.S.C. sec. 33).

15 (b) For purposes of calculating the income tax payable under
16 this chapter, the taxpayer may apply as a credit against his tax liability
17 the job development investment credit allowed as to federal taxes
18 under Internal Revenue Code sec. 50 upon only the first \$100,000 of
19 qualified investment put into use for each taxable year (26 U.S.C.
20 sec. 50).

21 (c) For purposes of calculating the income tax payable under
22 this chapter, the taxpayer may not apply as an exemption from his tax
23 liability the tax exemption for domestic international sales corporation
24 under Internal Revenue Code sec. 991 (26 U.S.C. sec. 991).

25 (d) For purposes of calculating the income tax payable under
26 this chapter, the taxpayer may not apply as a deduction from his tax
27 liability the deduction for depletion under Internal Revenue Code sec.
28 613 (26 U.S.C. sec. 613).

29 * Sec. 2. This Act is retroactive to January 1, 1975, and relates only

1 to income earned and received after December 31, 1974.

2 * Sec. 3 This Act takes effect immediately in accordance with AS 01.-
3 10.070(c).

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