"An Act relating to the Alaska income tax; and providing for an effective date."

3/11/75

COMMITTEE REPORT

HOUSE

Mr. Speaker: Date April 1, 1975

The Committee on FINANCE has had HB 212 under consideration. A Majority of the members of the Committee

(X) recommends it DO PASS

( ) recommends it DO NOT PASS

( ) recommends it DO PASS WITH ATTACHED AMENDMENT(S)

( ) recommends it BE REPLACED WITH CS FOR ______ AND THAT CS FOR ______ DO PASS

( ) "and" recommends it BE REFERRED TO THE ______ COMMITTEE

( ) reports it back WITHOUT RECOMMENDATION

( ) "other"

Members signing the Majority report:

Haugen
Ernie T [illegible]
Fanning
Cowper
[illegible]
H Malone

Members NOT concurring in the Majority report:

______ recommends:

______ recommends:

______ recommends:

______ recommends:

______ recommends:

H Malone Chairman

DONE

all -
2d page
only

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH S — JUNEAU 99801

March 17, 1975

The Honorable Hugh Malone, Chairman
House Finance Committe
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mr. Malone:

re House Bill No. 212

House Bill No. 212, an Act relating to the Alaska income tax, was introduced on February 26, 1975 and was referred to the House Commerce and Finance Committees.

For the consideration of the Finance Committee, I am enclosing a copy of a memorandum dated March 12, 1975 from Frederick P. Boetsch, Deputy Commissioner of the Department of Revenue indicating the need of a general income tax reform bill and that effect on individual taxpayers would be minimal.

If you, or any members of your Committee, have any questions on the material submitted, kindly advise the writer by telephone at 465-2397 and I will contact Mr. Boetsch for further material or testimony.

Very truly yours,

R. D. Stevenson

R. D. Stevenson
Special Assistant

RDS:rl

cc Frederick P. Boetsch
Deputy Commissioner
Department of Revenue

STATE
of ALASKA

MEMORANDUM

TO: R. D. Stevenson
Special Assistant
Department of Revenue

DATE : March 12, 1975

FROM: Frederick P. Boetsch
Deputy Commissioner for Taxation
Department of Revenue

SUBJECT: HB 212

This bill is a general income tax reform bill which is primarily aimed at providing an easier way of computing Alaska Tax Liability under the Net Income Tax Act. It clarifies several ambiguities in our current statute and defines certain terms more clearly. In addition, it provides for reporting income on a basis consistent with that used by all other income tax states and provides a credit for taxes paid to other states by resident taxpayers. Currently, some of our resident taxpayers who have income from sources outside the state are subjected to duplicate taxation. By putting our tax on a basis similar to other states and providing for a credit we will eliminate this inequity.

The change to our own rate schedule which is rounded to the nearest half per cent will mean that some taxpayers will pay a few dollars less tax and others will pay a few dollars more. On a net basis there may be a slight increase in tax revenues, but that increase is probably negligible and, in any case, we cannot measure it with any degree of accuracy. Therefore, I have to conclude the effect on Treasury would be minimal.

There are no administrative costs connected with this bill.

FPB: sp

The Legislature of the State of Alaska
FISCAL NOTE

First Session - Ninth Legislature

I. REQUEST
Bill No. 212
Title: Alaska Net Income Tax Reform
Requested by: Date:
Return Date Requested:
Agency: Revenue Program: Individual & Business Taxes

II. FISCAL DETAIL
Budget Request Unit(s) Affected: Individual and Business Taxes
A. EXPENDITURES: (Thousands of dollars)

	OBJECT	FY 75	FY 76	FY 77	FY 78	FY 79	FY 80
100	PERSONAL SERVICES						
200	TRAVEL						
300	CONTRACTUAL						
400	COMMODITIES						
500	EQUIPMENT						
600	LAND & STRUCTURES						
700	GRANTS, CLAIMS, ETC.						
	TOTAL	NONE	NONE	NONE	NONE	NONE	NONE

B. FUNDING: (Thousands of dollars)

GENERAL FUND	NONE	NONE	NONE	NONE	NONE	NONE
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	0 /	0 /	0 /	0/	0 /	0 /
MAN MONTHS (P./T.)	0 /	0 /	0 /	0/	0 /	0 /

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See memo dated March 12 attached.

IV. ATTACHMENTS

V. DATE: March 13, 1975 PREPARED BY: Frederick P. Boetsch

Frederick P. Boetsch, CPA
Deputy Commissioner for Taxation

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

02-001B

STATE
of ALASKA

MEMORANDUM

TO: R. D. Stevenson
Special Assistant
Department of Revenue

DATE : March 12, 1975

FROM: Frederick P. Boetsch FPB
Deputy Commissioner for Taxation
Department of Revenue

SUBJECT: HB 212

This bill is a general income tax reform bill which is primarily aimed at providing an easier way of computing Alaska Tax Liability under the Net Income Tax Act. It clarifies several ambiguities in our current statute and defines certain terms more clearly. In addition, it provides for reporting income on a basis consistent with that used by all other income tax states and provides a credit for taxes paid to other states by resident taxpayers. Currently, some of our resident taxpayers who have income from sources outside the state are sub[illegible] duplicate taxation. By putting our tax on a basis similar to other states and providing for a credit we will eliminate this inequity.

The change to our own rate schedule which is rounded to the nearest half per cent will mean that some taxpayers will pay a few dollars less tax and others will pay a few dollars more. On a net basis there may be a slight increase in tax revenues, but that increase is probably negligible and, in any case, we cannot measure it with any degree of accuracy. Therefore, I have to conclude the effect on Treasury would be minimal.

There are no administrative costs connected with this bill.

FPB: sp

ERNST & ERNST

1616 W. 6TH AVENUE

ANCHORAGE, ALASKA 99501

December 12, 1974

Mr. Frederick P. Boetsch
Director, Audit Division
State of Alaska, Department of Revenue
Pouch SA
Juneau, Alaska 99801

Dear Fred:

Upon receipt of the proposed tax law changes, I submitted copies of the draft to members of the State Tax Committee of the Alaska Society of CPA's.

Through disucssion and letters, I will summarize for you our questions which have arisen from the review.

I will quote from the letter I received from Mr. Pat Head of Thomas, Head and Greisen, as I feel this letter covers all of the questions.

"First, in the draft which relates to the administration of the State Tax - the typographical errors should be corrected. In Sec.43:05:240 Taxpayer Remedies - (a) What starts the running of the sixty (60) day period - i.e., the date of the deficiency letter from the State, the post-mark date or the date of receipt? Also, what stops the running of the period. Further, in reading this section, can the taxpayer go direct to the Superior Court without going through the lower appeal procedures?

I would think that the Department of Revenue would also clarify in this administrative draft what starts the running of the period for notification to the State of any change made by the Internal Revenue Service. What I would like to see is that upon receiving notice of any deficiency, notice be given to the State and if the taxpayer intends to fight the issue, he notify the State that a deficiency has been proposed, but that the taxpayer is not in agreement with the deficiency and intends to fight the issue. He will therefore agree to notify the State upon final disposition of the case and pay any deficiency then.

In regards to the second draft, again the typographical errors should be corrected. My comments by Section follow:

1. 43:20:0;;(a)(b) and (c) - no provision is made for maximum tax on earned income.

2. 43:20:02;(d) - the credit available for individuals has been lowered from 16% to 15%.

3. 43:20:031(d) - why are banks and savings and loan associations exempt from State income tax?

The proposed law change does not consider other areas of disagreement, particularly taxability of a resident having interest income from sale of real property located outside of the State. Whether interest and taxes on property located outside State is deductible if paid from Alaska income. Why a non-resident whose only income is from dividends from a company whose business situs is in Alaska should file an Alaskan income tax return, etc."

Upon my review of these facts, it appears as though you have included all of the items which the taxation committee discussed earlier this year. It is my feeling that should these tax changes be made, it would help to correct many of the administrative deficiencies with which we are now confronted.

A member of my committee would be more than willing to testify on any major tax legislation.

If we or I may be of any further assistance, please contact me.

Very truly yours,

Joseph E. Whitlock

Joseph E. Whitlock
Chairman, Alaska State Taxation Committee
Alaska Society of CPA's

HB 212

February 25, 1975

The Honorable Mike Bradner
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

In accordance with AS 24.30.060(b) and the Uniform Rules of the Legislature, I am submitting a bill revising the Alaska net income tax.

The bill provides a graduated tax schedule at the present Alaska income tax rates. Presently, rates are calculated as a percentage of the 1963 federal rates. This change will provide Alaska taxpayers an easier method of computing their taxes since they will only have to use one rate schedule instead of having to apply a two-stage tax calculation.

The bill also provides that residents will be taxed on income from all sources, thereby putting the Alaska return on the same basis as the federal returns. Presently, there exists an unintended tax "loophole" for residents who invest in business and property outside the State. Residents' income from property and business located outside the State is now exempt from Alaska income tax. This bill would close this loophole. As a necessary complement to this provision, the bill also provides a tax credit for taxes paid to other states on income which is taxable both in Alaska and the other state. Presently, Alaska residents may be double taxed on some of their income. This bill would correct this inequity. The bill also adds definitions of "domicile" and "residence".

The bill also allows non-resident taxpayers to take the standard deduction and exemption credits in the proportion that his Alaska income bears to his total income. Presently, non-residents are not allowed to take the standard deduction but must itemize his deductions and is only allowed exemption credits in the proportion of the number of months residing in Alaska. This bill would provide a more equitable and more easily administered system.

The bill also contains certain amendments to the law clarifying when income is from a source within the State. Also provided is a clarification as to the provisions of the Internal Revenue Code which are specifically incorporated.

Sincerely,

Jay S. Hammond
Governor

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

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 212

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - FIRST SESSION

A BILL

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

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

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

Sec. 43.20.011. TAX ON INDIVIDUALS, FIDUCIARIES, AND CORPORATIONS. (a) There is imposed for each taxable year upon the taxable income of every resident, nonresident and part-year resident individual and fiduciary of the state, except those qualifying for the rates in (b) or (c) of this section, taxes computed according to the following table.

If the taxable income is:	Then the tax is:
Not over $2,000	3 per cent of the taxable income
Over $2,000 but not over $4,000	$60 plus 3.5 per cent of excess over $2,000
Over $4,000 but not over $6,000	$130 plus 4.0 per cent of excess over $4,000
Over $6,000 but not over $8,000	$210 plus 5.0 per cent of excess over $6,000
Over $8,000 but not over $10,000	$310 plus 5.5 per cent of excess over $8,000
Over $10,000 but not over $12,000	$420 plus 6.0 per cent of excess over $10,000
Over $12,000 but not over $14,000	$540 plus 7.0 per cent of ex-

	cess over $12,000
Over $14,000 but not over $16,000	$680 plus 7.5 per cent of excess over $14,000
Over $16,000 but not over $18,000	$830 plus 8.0 per cent of excess over $16,000
Over $18,000 but not over $20,000	$990 plus 8.5 per cent of excess over $18,000
Over $20,000 but not over $22,000	$1,160 plus 9.0 per cent of excess over $20,000
Over $22,000 but not over $26,000	$1,340 plus 9.5 per cent of excess over $22,000
Over $26,000 but not over $32,000	$1,720 plus 10.0 per cent of excess over $26,000
Over $32,000 but not over $38,000	$2,320 plus 10.5 per cent of excess over $32,000
Over $38,000 but not over $44,000	$2,950 plus 11.0 per cent of excess over $38,000
Over $44,000 but not over $50,000	$3,610 plus 11.5 per cent of excess over $44,000
Over $50,000 but not over $60,000	$4,300 plus 12.0 per cent of excess over $50,000
Over $60,000 but not over $70,000	$5,500 plus 12.5 per cent of excess over $60,000
Over $70,000 but not over $80,000	$6,750 plus 13.0 per cent of excess over $70,000
Over $80,000 but not over $90,000	$8,050 plus 13.5 per cent of excess over $80,000
Over $90,000 but not over $100,000	$9,400 plus 14.0 per cent of excess over $90,000

Over $100,000 but not over $150,000	$10,800 plus 14.0 per cent of excess over $100,000
Over $150,000 but not over $200,000	$17,800 plus 14.5 per cent of excess over $150,000
Over $200,000	$25,050 plus 14.5 per cent of excess over $200,000

(b) There is imposed for each taxable year upon the taxable income of every resident, nonresident and part-year resident married individual who makes a single return jointly with his spouse (as provided in section 6013 of the Internal Revenue Code) and upon every resident, nonresident and part-year resident surviving spouse (as defined in section 2(a) of the Internal Revenue Code) taxes computed according to the following table.

If the taxable income is:	Then the tax is:
Not over $4,000	3 per cent of the taxable income
Over $4,000 but not over $8,000	$120 plus 3.5 per cent of excess over $4,000
Over $8,000 but not over $12,000	$260 plus 4.0 per cent of excess over $8,000
Over $12,000 but not over $16,000	$420 plus 5.0 per cent of excess over $12,000
Over $16,000 but not over $20,000	$620 plus 5.5 per cent of excess over $16,000
Over $20,000 but not over $24,000	$840 plus 6.0 per cent of excess over $20,000
Over $24,000 but not over $28,000	$1,080 plus 7.0 per cent of excess over $24,000
Over $28,000 but not over $32,000	$1,360 plus 7.5 per cent of ex-

	cess over $28,000
Over $32,000 but not over $36,000	$1,660 plus 8.0 per cent of excess over $32,000
Over $36,000 but not over $40,000	$1,980 plus 8.5 per cent of excess over $36,000
Over $40,000 but not over $44,000	$2,320 plus 9.0 per cent of excess over $40,000
Over $44,000 but not over $52,000	$2,680 plus 9.5 per cent of excess over $44,000
Over $52,000 but not over $64,000	$3,440 plus 10.0 per cent of excess over $52,000
Over $64,000 but not over $76,000	$4,640 plus 10.5 per cent of excess over $64,000
Over $76,000 but not over $88,000	$5,900 plus 11.0 per cent of excess over $76,000
Over $88,000 but not over $100,000	$7,220 plus 11.5 per cent of excess over $88,000
Over $100,000 but not over $120,000	$8,600 plus 12.0 per cent of excess over $100,000
Over $120,000 but not over $140,000	$11,000 plus 12.5 per cent of excess over $120,000
Over $140,000 but not over $160,000	$13,500 plus 13.0 per cent of excess over $140,000
Over $160,000 but not over $180,000	$16,100 plus 13.5 per cent of excess over $160,000
Over $180,000 but not over $200,000	$18,800 plus 14.0 per cent of excess over $180,000
Over $200,000 but not over $300,000	$21,600 plus 14.0 per cent of excess over $200,000

Over $300,000 but not over $400,000	$35,600 plus 14.5 per cent of excess over $300,000
Over $400,000	$50,100 plus 14.5 per cent of excess over $400,000

(c) There is imposed for each taxable year upon the taxable income of every resident, nonresident and part-year resident head of a household (as defined in section 2(b) of the Internal Revenue Code), taxes computed according to the following table.

If the taxable income is:	Then the tax is:
Not over $2,000	3 per cent of the taxable income
Over $2,000 but not over $4,000	$60 plus 3.5 per cent of excess over $2,000
Over $4,000 but not over $6,000	$130 plus 4.0 per cent of excess over $4,000
Over $6,000 but not over $8,000	$210 plus 4.5 per cent of excess over $6,000
Over $8,000 but not over $10,000	$300 plus 5.0 per cent of excess over $8,000
Over $10,000 but not over $12,000	$400 plus 5.5 per cent of excess over $10,000
Over $12,000 but not over $14,000	$510 plus 6.0 per cent of excess over $12,000
Over $14,000 but not over $16,000	$630 plus 6.5 per cent of excess over $14,000
Over $16,000 but not over $18,000	$760 plus 7.0 per cent of excess over $16,000
Over $18,000 but not over $20,000	$900 plus 7.0 per cent of excess over $18,000

Over $20,000 but not over $22,000	$1,040 plus 7.5 per cent of excess over $20,000
Over $22,000 but not over $24,000	$1,190 plus 8.0 per cent of excess over $22,000
Over $24,000 but not over $28,000	$1,350 plus 8.5 per cent of excess over $24,000
Over $28,000 but not over $32,000	$1,690 plus 9.0 per cent of excess over $28,000
Over $32,000 but not over $38,000	$2,050 plus 9.5 per cent of excess over $32,000
Over $38,000 but not over $44,000	$2,430 plus 10.0 per cent of excess over $38,000
Over $44,000 but not over $50,000	$3,030 plus 10.5 per cent of excess over $44,000
Over $50,000 but not over $60,000	$3,660 plus 11.0 per cent of excess over $50,000
Over $60,000 but not over $70,000	$4,760 plus 11.5 per cent of excess over $60,000
Over $70,000 but not over $80,000	$5,910 plus 12.0 per cent of excess over $70,000
Over $80,000 but not over $90,000	$7,110 plus 12.5 per cent of excess over $80,000
Over $90,000 but not over $100,000	$8,360 plus 13.0 per cent of excess over $90,000
Over $100,000 but not over $150,000	$9,660 plus 13.5 per cent of excess over $100,000
Over $150,000 but not over $200,000	$16,410 plus 14.0 per cent of excess over $150,000
Over $200,000 but not over $300,000	$23,410 plus 14.5 per cent of

	excess over $200,000
Over $300,000	$37,910 plus 14.5 per cent of excess over $300,000

(d) The department shall compute and publish the Alaska income tax liability for resident taxpayers at the midpoint of each bracket of adjusted gross income (as defined in sec. 62 of the Internal Revenue Code) modified as required by sec. 31 of this chapter in $25 steps below $3,000 and $50 steps to $20,000 rounding the calculations to the nearest dollar. Resident taxpayers electing to take the standard deductions may file returns based upon, and pay taxes according to, tables established under this section.

(e) There is imposed for each taxable year upon the entire taxable income of every corporation derived from sources within the state a tax consisting of a normal tax equal to 5.4 per cent of taxable income, and a surtax which is equal to 4.0 per cent of taxable income. For purposes of this chapter the surtax exemption for a taxable year follows secs. 1561 and 1563 of the Internal Revenue Code.

* Sec. 2. AS 43.20 is amended by adding a new section to read:

Sec. 43.20.021. INTERNAL REVENUE CODE ADOPTED BY REFERENCE. (a) Subtitle F and chapter 1 of subtitle A of the 1954 Internal Revenue Code, Public Law 83-591, as amended, are adopted by reference as a part of this chapter. These portions of the Internal Revenue Code have full force and effect under this chapter unless excepted to or modified by other provisions of this chapter.

(b) For purposes of calculating the federal tax payable on personal holding companies provided for in the provisions of Internal Revenue Code section 541, the rate is 12.6 per cent.

(c) For purposes of calculating the alternative tax on capital gains provided for in the provisions of Internal Revenue Code section

1201, the rate is 4.5 per cent for corporations and 4 per cent for individuals and fiduciaries.

(d) Where a credit allowed under the Internal Revenue Code is also allowed in computing Alaska income tax, it is limited to 16 per cent of the amount of the credit determined for federal income tax purposes for individuals and 18 per cent for corporations.

* Sec. 3. AS 43.20.030 is repealed and re-enacted to read:

Sec. 43.20.030. RETURNS AND PAYMENT OF TAXES. (a) Every individual, fiduciary, partnership and corporation required to make a return under the provisions of the Internal Revenue Code shall at the same time file with the department a return setting out

(1) the amount of tax due under this chapter, less credits claimed against the tax; and

(2) other information for the purpose of carrying out the provisions of this chapter which the department requires.

(b) The return shall either be on oath or contain a written declaration that it is made under penalty of perjury, and the department shall prescribe forms accordingly.

(c) The total amount of tax imposed by this chapter is due and payable to the department at the same time and in the same manner as the tax payable to the United States Internal Revenue Service.

(d) A taxpayer, upon request by the department, shall furnish to the department a true and correct copy of the tax return which he has filed with the United States Internal Revenue Service. Every taxpayer shall notify the department in writing of any alteration in, or modification of, his federal income tax return and of a recomputation of tax or determination of deficiency (whether with or without assessment). A full statement of the facts shall accompany this notice. The notice shall be filed within 60 days after the final determination of the modification, recomputation or deficiency, and the taxpayer shall pay the additional tax or penalty under this chapter. For purposes of this section, a final determination shall mean the time that an amended federal return is filed or a notice of deficiency or an assessment is mailed to the taxpayer by the Internal Revenue Service, except that in no event will there be a final determination for purposes of this section until the taxpayer has exhausted his rights of appeal under federal law.

(e) The department may credit or refund overpayments of taxes, taxes erroneously or illegally assessed or collected, penalties collected without authority, and taxes that are found unjustly assessed or excessive in amount, or otherwise wrongfully collected. The department shall set limitations, specify the manner in which claims for credits or refunds are made, and give notice of allowance or disallowance. When a refund is allowed to a taxpayer, it shall be paid out of the general fund on a warrant issued under a voucher approved by the department.

* Sec. 5. AS 43.20 is amended by adding a new section to read:

Sec. 43.20.031. TAXABLE INCOME OF RESIDENTS; DEDUCTIONS; EXEMPTIONS. (a) The taxable income of a resident of the state is his entire taxable income as defined in section 63 of the Internal Revenue Code with the following modifications:

(1) a taxpayer whose income includes a cost-of-living allowance which is exempt from federal income tax shall determine and include that amount as part of his income as if the cost-of-living allowance were not exempt;

(2) the benefits allowed to taxpayers under Internal Revenue Code sections 1301-1307, as amended, are allowed only to taxpayers who have been residents of the state for the full base

period as well as for the computation year as defined in these sections; the commissioner shall adopt regulations governing benefits under these sections of federal law allowable to spouses eligible to file a joint Alaska return for the computation year when one spouse has not been a resident of Alaska for the full base period.

(b) The following exemptions are allowed in computing taxable income under this section:

(1) service pay received by members of the armed forces of the United States or auxiliary branches of the armed forces;

(2) annuities received under the United States Civil Service retirement system from the United States Civil Service retirement and disability fund;

(3) income of a person derived from the sale of halibut taken from waters outside the territorial limits of the state and regulated by an international body or treaty organization if the person selling halibut in the state which is taken from outside the territorial limits of the state executes and submits to the department within 30 days after each sale a separate exemption certificate on a form approved by the department and the attorney general.

(c) In computing the tax under this chapter, the taxpayer is not entitled to deduct from the adjusted gross income state income taxes.

(d) Banks and savings and loan associations chartered by the federal government or the state are exempt from income tax under this chapter.

(e) An affiliated group of corporations may make or the commissioner may require them to make a consolidated or combined return for the taxable year in place of separate returns. For purposes of calculating the amount of tax payable by the group under a consolidated filing, Internal Revenue Code secs. 1501 - 1552, as amended, apply.

(f) A natural person is entitled to a tax credit not to exceed $50 for the amount of political campaign contributions made within the tax year, including but not limited to a contribution or gift to a person or organization for use exclusively for political campaigns or dues to a nonprofit organization organized primarily for the purpose of influencing elections. The credit allowed by this subsection is in place of the credit allowed by sec. 41 of the Internal Revenue Code and the deduction allowed by sec. 218 of the Internal Revenue Code for contribution to candidates for public office.

(g) A person who wilfully makes and subscribes to a certificate referred to in (b)(3) of this section which is not true and correct as to every material fact is punishable by a fine of not more than $10,000, or by imprisonment for not more than five years, or by both.

* Sec. 6. AS 43.20 is amended by adding a new section to read:

Sec. 43.20.035. TAXABLE INCOME OF NONRESIDENTS AND PART-YEAR RESIDENTS. (a) The taxable income of nonresidents or part-year residents of this state is taxable income as determined under sec. 31 of this chapter when attributable to sources in the state as provided in sec. 40 of this chapter with the following adjustments:

(1) a nonresident or part-year resident who claims the standard deduction as defined in Internal Revenue Code sec. 141 is allowed the deduction in the proportion provided in (b) of this section;

(2) a nonresident or part-year resident is entitled to claim the personal exemptions as defined in sec. 151 of the Internal Revenue Code in the proportion provided in (b) of this section;

(3) a nonresident or part-year resident who itemizes deductions is allowed a deduction for those items deductible under the Internal Revenue Code which arise from sources in the state.

(b) The ratio for prorating allowed by this section is the taxpayer's adjusted gross income from Alaska sources divided by the taxpayers's adjusted gross income from all sources. The ratio may not exceed 100 per cent. The adjusted gross income for purposes of this subsection means adjusted gross income as defined in sec. 62 of the Internal Revenue Code as modified by the provisions of sec. 31 of this chapter.

(c) Deductions claimed which are allowed as deductions from gross income in arriving at adjusted gross income under the Internal Revenue Code are allowed only to the extent that they are connected with income which arises from sources in the state or property having a situs for taxation in the state.

* Sec. 7. AS 43.20.040 is repealed and re-enacted to read:

Sec. 43.20.040. INCOME FROM SOURCES IN THE STATE. (a) In this chapter, income from sources in the state includes

(1) income from real or tangible personal property located in the state;

(2) income of whatever nature from a business, trade or profession having a business situs in the state and compensation for services rendered in the state;

(3) income from stocks, bonds, notes, bank deposits, and other intangible personal property having a taxable or business situs in the state;

(4) rentals and royalties for the use of or for the privilege of using, in the state, patents, copyrights, secret processes and formulas, good will, trademarks, trade brands, franchises, and other property having a taxable or business situs in the state.

(b) In this section, income is from a source having a taxable or business situs in the state if it is derived from

(1) owning or operating business facilities or property in the state;

(2) conducting business, farming, or fishing operations in the state;

(3) working for salary or wages in the state;

(4) a partnership which transacts business in the state;

(5) a corporation which transacts business in the state which has elected to file federal returns under subchapter S of the Internal Revenue Code;

(6) an estate or trust deriving income from sources in the state; or

(7) engaging in any other activity from which income is received, realized or derived in the state.

(c) The receipt of income derived solely from interest earned on property in the state does not alone establish a taxable or business situs in the state.

* Sec. 8. AS 43.20 is amended by adding new sections to read:

Sec. 43.20.051. INCOME FROM SOURCES IN THE STATE OF NONRESIDENT PARTNERS. In determining the source of a nonresident partner's income, no effect may be given to a provision in the partnership agreement which

(1) characterizes payments to the partner as being for services or for the use of capital;

(2) allocates to the partner, as income or gain from sources outside the state, a greater proportion of his distributive share of partnership income or gain than the ratio of partnership income or gain from sources outside the state to partnership income or gain from all sources; or

(3) allocates to the partner a greater proportion of a

partnership item of loss or deduction connected to Alaska sources than his proportionate share, for federal income tax purposes of partnership loss or deduction generally.

Sec. 43.20.061. CREDIT FOR TAXES PAID ANOTHER STATE. (a) A resident is allowed as a credit against the tax otherwise due under this chapter the amount of income tax imposed on him for the taxable year by another state or territory of the United States on income derived from sources in the other state or territory which is also subject to tax under this chapter.

(b) The credit allowed in (a) of this section is limited to that proportion of the tax computed under this chapter (before the allowance of this credit), which the taxable income from the other state or territory bears to the total taxable income; however, this credit may not exceed the actual tax payable to the other state or territory.

Sec. 43.20.065. ALLOCATION AND APPORTIONMENT. A taxpayer who has income from business activity which is taxable both inside and outside the state or income from other sources both inside and outside the state shall allocate and apportion his net income as provided in art. IV of the Multistate Tax Compact (AS 43.19.010), and as provided in sec. 71 of this chapter for water transportation carriers.

Sec. 43.20.071. PASSENGER OR FREIGHT WATER TRANSPORTATION CARRIERS. (a) All business income of water transportation carriers shall be apportioned to this state by a fraction the numerator of which is the property factor plus the payroll factor plus the sales factor and the denominator of which is the number three.

(b) The property factor for fixed property such as buildings and land used in the business and local equipment and personal property shall be determined according to art. IV of the Multistate Tax Compact (AS 43.19.010), and as provided in sec. 71 of this chapter for water transportation carriers. The property factor of water transportation property shall be determined on a days-spent-in-ports basis as provided in (e) of this section.

(c) The payroll factor for the wages and salaries of employees assigned to fixed locations shall be determined according to art. IV of the Multistate Tax Compact (AS 43.19.010), and as provided in sec. 71 of this chapter for water transportation carriers. The payroll factor for water transportation carriers and other equipment used in water transportation shall be determined on a days-spent-in-ports basis as provided in (e) of this section.

(d) The sales factor shall be determined on a days-spent-in-ports basis as provided in (e) of this section.

(e) The property, payroll and sales factor shall be determined by a ratio which the number of days spent in ports inside the state bears to the total number of days spent in ports inside and outside the state. The term "days spent in ports" does not include periods when ships are tied up because of strikes or withheld from Alaska service for repairs, or because of seasonal reduction of service. Days in port are computed by dividing the total number of hours in all ports by 24.

* Sec. 9. AS 43.20.170(c)(2) is amended to read:

(2) shall make return of and pay to the department quarterly or at other times as the department may <u>require</u> [ALLOW], the amount of tax levied which under the provisions of this chapter he is required to deduct and withhold; upon failure of the employer to comply with the provisions of this subsection, the provisions of sec. 210 of this chapter apply.

* Sec. 10. AS 43.20.200(b) is amended to read:

(b) The same period of limitation upon the assessment and collection of taxes imposed under this chapter and the same exceptions to it shall apply as provided in secs. 6501, 6502 [6502(a)], and 6503 [6503(a)] of the Internal Revenue Code of 1954. In the case of additional tax due by reason of a modification, recomputation, or determination of deficiency in a taxpayer's federal income tax return, the period of limitation on assessment commences from the date that the notice required in sec. 30(d) of this chapter is filed and if no notice is filed the tax may be assessed at any time.

* Sec. 11. AS 43.20.335 is amended by adding a new subsection to read:

(i) The penalties and liabilities provided in (g) of this section shall be paid upon notice and demand by the commissioner of revenue or his deputy or agent and shall be assessed and collected in the same manner as taxes. A reference to "tax" imposed also refers to the penalties and liabilities provided by this section.

* Sec. 12. AS 43.20.340 is amended by adding new paragraphs to read:

(13) "domicile" means the place where an individual has his true, fixed, permanent home and principal establishment and to which place he has the intention of returning whenever he is absent for a temporary or transitory purpose;

(14) "nonresident" means an individual who is not a "resident" or "part-year resident";

(15) "part-year resident" means an individual who enters or leaves the state during the taxable year and who has resided or was domiciled in the state for a period of less than 12 months during the taxable year;

(16) "residence" means actual physical presence in the state and is determined without regard to a person's "domicile";

(17) "resident" means an individual or natural person who during the taxable year has been domiciled in the state or has resided

within the state for the entire taxable year; an individual does not lose his status as a resident simply by reason of attending an educational institution or by serving in the armed forces.

* Sec. 13. The following laws are repealed: AS 43.20.010; 43.20.020; 43.20.050; 43.20.060; 43.20.070; 43.20.080; 43.20.090; 43.20.100; 43.20.110; 43.20.120; 43.20.130; and 43.20.140.

* Sec. 14. The repeal of the laws listed in sec. 13 of this Act does not affect tax liabilities accrued before January 1, 1975.

* Sec. 15. This Act is retroactive to January 1, 1975 and relates only to income earned or received after December 31, 1974.

* Sec. 16. This Act takes effect immediately in accordance with AS 01.-10.070(c).