

"An Act relating to the Alaska Net Income Tax Act; and providing for an effective date."

COMMITTEE REPORT

HOUSE

4/22/76

Mr. Speaker:

Date 4-27-76

The Committee on FINANCE has had CSFB 510 am

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 _____ 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:

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

Chairman

Original sponsor: Rules Committee
by request of the Governor

Offered: 4/19/76
Referred: Rules

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 510 am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Net Income Tax Act; and
7 providing for an effective date."

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

9 * Sec. 1. AS 43.20.021(a) is amended to read:

10 (a) Subtitle F and chapter 1 of subtitle A of the 1954 Internal
11 Revenue Code, Public Law 83-591, as amended, are adopted by reference as
12 a part of this chapter, except that those provisions of the Internal
13 Revenue Code adopted after December 31, 1975 which change or modify ex-
14 emptions from tax or credits against tax are not adopted by reference as
15 a part of this chapter until the second January 1 following the effec-
16 tive date of the federal law. These portions of the Internal Revenue
17 Code have full force and effect under this chapter unless excepted to
18 or modified by other provisions of this chapter.

19 * Sec. 2. AS 43.20.021 is amended by adding new subsections to read:

20 (e) For the purpose of calculating the maximum tax rate on earned
21 income as provided for in sec. 1348 of the Internal Revenue Code (26
22 U.S.C. sec. 1348), the rate is 9.5 per cent for individuals.

23 (f) For the purpose of calculating the minimum tax on tax prefer-
24 ences provided for in secs. 56-58 of the Internal Revenue Code (26
25 U.S.C. secs. 56-58), the rate is 16 per cent for individuals and 18 per
26 cent for corporations of the applicable minimum federal tax rate.

27 * Sec. 3. AS 43.20.031(b)(2) is repealed and re-enacted to read:

28 (2) pensions and annuities received from qualified plans
29 approved under secs. 401-415 of the Internal Revenue Code (26 U.S.C.

1 secs. 401-415) as amended;

2 * Sec. 4. AS 43.20.031(c) is amended to read:

3 (c) In computing the tax under this chapter, the taxpayer is not
4 entitled to deduct any taxes based on or measured by net income [FROM
5 THE ADJUSTED GROSS INCOME STATE INCOME TAXES].

6 * Sec. 5. Sections 1 and 3 of this Act are retroactive to January 1,
7 1976.

8 * Sec. 6. Sections 2 and 4 of this Act are retroactive to January 1, 1975
9 and apply to income earned or received after December 31, 1974.

10 * Sec. 7. This Act takes effect immediately in accordance with AS 01.10.-
11 070(c).

Introduced: 1/15/76
Referred: Finance

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE BILL NO. 510

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Net Income Tax Act; and
7 providing for an effective date."

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

9 * Section 1. AS 43.20.031(a) is amended by adding new paragraphs
10 to read:

11 (3) the benefits of nonrecognition of gain on the sale
12 or exchange of certain property under secs. 1031, 1033 and 1034
13 of the Internal Revenue Code (26 U.S.C. secs. 1031, 1033 and
14 1034) are allowed only to taxpayers who purchase or exchange the
15 property within the state.

16 (4) the exemption of interest on certain government
17 obligations under sec. 103 of the Internal Revenue Code (26
18 U.S.C. sec. 103) shall be allowed except that the interest on
19 obligations of other states and the political subdivisions of
20 those other states are not exempt from the tax imposed by this
21 chapter.

22 * Sec. 2. AS 43.20.021(a) is amended to read:

23 (a) Subtitle F and chapter 1 of subtitle A of the 1954
24 Internal Revenue Code, Public Law 83-591, as amended, are adopted
25 by reference as a part of this chapter, except that those provisions
26 of the Internal Revenue Code adopted after December 31, 1975
27 which change or modify exemptions from tax or credits against tax
28 are not adopted by reference as a part of this chapter. These
29 portions of the Internal Revenue Code have full force and effect

1 under this chapter unless excepted to or modified by other provisions
2 of this chapter.

3 * Sec. 3. AS 43.20.021 is amended by adding a new subsection to
4 read:

5 (e) For purposes of calculating the minimum tax on tax
6 preferences under sec. 56 of the Internal Revenue Code (26 U.S.C.
7 sec. 56), the rate is five per cent.

8 * Sec. 4. This Act is retroactive to January 1, 1976.

9 * Sec. 5. This Act takes effect immediately in accordance with AS
10 01.10.070(c).

Original sponsor: Rules Committee
by request of the Governor

Offered: 4/19/76
Referred: Rules

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 510

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Net Income Tax Act; and
7 providing for an effective date."

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

9 * Section 1. AS 43.20.031(a) is amended by adding a new paragraph to read:

10 (3) the exclusion from gross income of interest on certain
11 government obligations under sec. 103 of the Internal Revenue Code (26
12 U.S.C. sec. 103) shall be allowed except that the interest on obligations
13 of the District of Columbia, other states, territories, and possessions
14 of the United States, and the political subdivisions of those other
15 states, territories and possessions of the United States are not exempt
16 from the tax imposed by this chapter.

17 * Sec. 2. AS 43.20.021(a) is amended to read:

18 (a) Subtitle F and chapter 1 of subtitle A of the 1954 Internal
19 Revenue Code, Public Law 83-591, as amended, are adopted by reference as
20 a part of this chapter, except that those provisions of the Internal
21 Revenue Code adopted after December 31, 1975 which change or modify ex-
22 emptions from tax or credits against tax are not adopted by reference as
23 a part of this chapter until the second January 1 following the effec-
24 tive date of the federal law. These portions of the Internal Revenue
25 Code have full force and effect under this chapter unless excepted to
26 or modified by other provisions of this chapter.

27 * Sec. 3. AS 43.20.021 is amended by adding new subsections to read:

28 (e) For the purpose of calculating the maximum tax rate on earned
29 income as provided for in sec. 1348 of the Internal Revenue Code (26

1 U.S.C. sec. 1348), the rate is 9.5 per cent for individuals.

2 (f) For the purpose of calculating the minimum tax on tax prefer-
3 ences provided for in secs. 56-58 of the Internal Revenue Code (26
4 U.S.C. secs. 56-58), the rate is 16 per cent for individuals and 18 per
5 cent for corporations of the applicable minimum federal tax rate.

6 * Sec. 4. AS 43.20.031(b)(2) is repealed and re-enacted to read:

7 (2) pensions and annuities received from qualified plans
8 approved under secs. 401-415 of the Internal Revenue Code (26 U.S.C.
9 secs. 401-415) as amended;

10 * Sec. 5. AS 43.20.031(c) is amended to read:

11 (c) In computing the tax under this chapter, the taxpayer is not
12 entitled to deduct any taxes based on or measured by net income [FROM
13 THE ADJUSTED GROSS INCOME STATE INCOME TAXES].

14 * Sec. 6. Sections 1, 2 and 4 of this Act are retroactive to January 1,
15 1976.

16 * Sec. 7. Sections 3 and 5 of this Act are retroactive to January 1, 1975
17 and apply to income earned or received after December 31, 1974.

18 * Sec. 8. This Act takes effect immediately in accordance with AS 01.10.-
19 070(c).

MEMORANDUM

State of Alaska


TO: Senate Finance Committee
Alaska State Legislature
State Capitol Building

DATE: April 7, 1976

FILE NO:

TELEPHONE NO:

FROM: Gary L. Jenkins
Director
Audit Division



SUBJECT: Proposed Amended SB 510

In response to your request, attached is a schedule of the amount of tax billed for 1972, 1973 and 1974 because of our disallowance of the maximum tax rate. As you can see the total tax billed was \$252,500 plus interest of \$26,500. If Section 4 of the proposed amendment to SB 510 were enacted, then this amount of tax would have to be refunded.

I would suggest a further change in the bill in light of the committee's expressed concern of keeping our rates, whenever possible, at a consistent percentage of the federal. I suggest Section 3(f) be modified to read "the rate is 16 percent for individual and 18 percent for corporations of the current federal minimum tax rate." This way if Congress raises the federal minimum tax rate, our rate would automatically follow along with that change.

GLJ:Lc

STATISTICAL REPORT
MAXIMUM TAX DEFICIENCY ASSESSMENTS

For: Calendar Years 1972, 1973, 1974

		<u>DEFICIENCY ASSESSMENT</u>	<u>INTEREST</u>
	(Adj. Count)		
1972	(57)	\$ 72,792	\$ 10,787
1973	(53)	84,317	9,443
1974	(104)	<u>95,395</u>	<u>6,224</u>
	<u>(214)</u>	<u>\$ 252,504</u>	<u>\$ 26,454</u>
1972	TOTAL	\$ 83,579	
1973	"	93,760	
1974	"	<u>101,619</u>	
		<u>\$ 278,958</u>	

Figures were rounded in columnar totals (attached) to nearest dollar.

13112 -
MEMORANDUM

State of Alaska

TO: Senator Bill Ray
Chairman, House Finance Committee
State of Alaska

DATE: March 24, 1976

FILE NO:

TELEPHONE NO:

FROM: Gary L. Jenkins
Director
Audit Division

SUBJECT: Requested Addition
to SB 510

During a recent hearing on SB 510, I requested the committee to consider including in the bill as an additional section, an amendment to AS 43.20 which would clarify a wording error in HB 212 which was enacted last year. The requested change that I gave to the committee was in a very poor format, for which I apologize. The draft language should have read:

*Sec. 4 AS 43.20.031(c) is amended to read:

(c) In computing the tax under this chapter, the taxpayer is not entitled to deduct [FROM THE ADJUSTED GROSS INCOME STATE INCOME TAXES] any taxes based on or measured by net income.

If possible, it would be advantageous to have the above amendment effective January 1, 1975 so as to preclude any confusion on the part of taxpayers as to whether this is a change in the law which would be interpreted differently than the current language. Our interpretation will be the same, the amendment is merely to clarify the language, primarily for multi-state taxpayers.

If you have any further questions regarding this amendment or HB 510, feel free to contact me.

GLJ:lc

cc: R. D. Stevenson
Frederick P. Boetsch

JAN 15 1976

SB 510

The Honorable Chancy Croft
President of the Senate
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. President:

In accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill relating to the Alaska income tax.

The bill, in section 1, would amend current rules regarding nonrecognition of gains on certain sales and exchanges. For Alaska income tax purposes, an individual is allowed, through the incorporation of sec. 1034 of the Internal Revenue Code, to defer the gain on the sale of a principal residence if the taxpayer purchases a new residence at a price which exceeds the sales price of the old residence. The amount of the gain deferred results in a downward adjustment of the basis of the new residence and the gain will ultimately be taxable when the new residence is sold in the future. If a taxpayer moves out of the State and defers the gain on the sale of his residence in Alaska, it is unlikely that he will subsequently report the deferred gain at some time in the future when he sells the new residence outside the State. Therefore, the bill which I am submitting will limit the deferral of gains to situations where a new residence is purchased within the State.

Also for Alaska income tax purposes, a taxpayer is, through the incorporation of sec. 1031 of the Internal Revenue Code, able to defer the gain on the exchange of property held for use in a trade or business or for investment if the property is exchanged for property of a like kind. In addition, a taxpayer may, through the incorporation of sec. 1033 of the Internal Revenue Code, defer the gain on property which is involuntarily converted into other property similar in use because of theft or condemnation. In both situations the deferral of the gain results in an adjustment in the basis of the new property acquired and the gain may ultimately be taxable when the new property is sold in the future. If the new property acquired is outside the State it is again unlikely that the taxpayer will subsequently report the gain to Alaska when he sells the property outside the State. Accordingly, this bill will remedy the enforcement problem on the reporting of gains in these situations.

The bill also limits the tax exemption for interest on government obligations to only those obligations of the State and the political subdivisions of the State. This change would still retain the added State tax incentive for investment in bonds of the State and municipalities of this State without subsidizing the investment in bonds of other states and the municipalities of other states. There appears to be no reason to provide a State tax incentive for investment in the bonds of other states and municipalities of other states.

Section 2 of the bill amends AS 43.20.021 which currently incorporates the provisions of the Internal Revenue Code into AS 43.20 automatically. The bill provides that the legislature would have to specifically approve changes in federal tax exemptions and credits before they would become effective for Alaska income tax purposes. It is important that changes in the federal income tax structure which have major State revenue impact like tax exemptions and credits be evaluated by the legislature before they are made applicable in our State tax system.

In addition, section 3 of the bill sets a specific State tax rate for the federal minimum tax on tax preferences. Presently, the State incorporates the full federal tax rate of 10 per cent on tax preference items without any adjustment. The bill would set a specific rate for Alaska income tax purposes comparable to that of other states.

Sincerely,

Jay S. Hammond
Governor

THE LEGISLATURE OF THE STATE OF ALASKA
FISCAL NOTE

Second Session - Ninth Legislature

I. REQUEST
 Bill No. Senate Bill No. 510
 Title: Alaska Net Income Tax Act
 Requested by: Senate Finance Committee Date: 1/16/76
 Return Date Requested: 1/21/76
 Agency: Revenue Program: Audit

II. FISCAL DETAIL
 Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
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						
FEDERAL FUNDS						
OTHER						

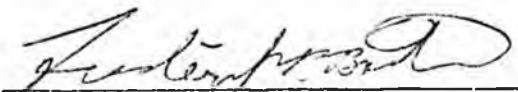
C. POSITIONS:

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

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

IV. ATTACHMENTS

See memorandum dated January 12, 1976 from Frederick P. Boetsch,
 Deputy Commissioner to Sterling Gallagher, Commissioner of Revenue.

V. DATE: 1/26/76 PREPARED BY: 
 FREDERICK P. BOETSCH
 Deputy Commissioner

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

MEMORANDUM

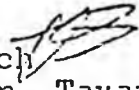
State of Alaska

TO: Sterling Gallagher
Commissioner
Department of Revenue

DATE: January 12, 1976

FILE NO:

TELEPHONE NO:

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

SUBJECT: Omnibus Income Tax Bill

This bill provides for several changes to the Alaska Net Income Tax (AS 43.20), none of which requires any additional operating expenditures. However, some of these provisions do have a modest effect on treasury. Some effects are positive, others are negative with the net effect being, perhaps, a slight gain.

However, it should be stressed that the purpose of the bill is more to promote equity, provide for greater control over what goes into the tax base and encourage more investment in Alaska rather than to increase revenues.

cc: Gary Jenkins, Director
Audit Division

MEMORANDUM

State of Alaska

TO: R. D. Stevenson
Special Assistant

DATE: April 22, 1976

FILE NO:

TELEPHONE NO:

FROM: Gary L. Jenkins
Director
Audit Division

SUBJECT: CS for Senate Bill 510 am

The Committee Substitute for Senate Bill 510 amended deleted some of the provisions and added some additional provisions to the original bill. The provisions of the original bill which are retained have been explained in previous correspondence and the explanations will not be repeated.

Section 1 of the bill has had some minor wording changes however, these have not changed the original thrust of the provisions proposed.

Section 2(e) provides for a maximum tax rate of 9.5 percent for individual income tax payers. This is a new provision in the bill, the intent of which is to establish a maximum tax rate which an individual will pay on earned income. This is predicated on the maximum tax rate which is provided for in the Internal Revenue Code. The fiscal effect of this provision would be the loss of revenue in FY 76 of an estimated \$150,000. This revenue loss would increase at the rate of 20 percent per year in the future.

Section 2(f) of the bill has been modified to decrease the minimum tax rate from the flat rate of 5 percent as proposed, to 1.6 percent for individuals and 1.8 percent for corporations. Our original proposal was made due to the fact that the minimum tax, taxes income which is normally never subject to tax. Since individuals having this kind of income are usually in the higher tax brackets (i.e.) 9.5% for individuals or are corporations which pay a tax at the rate of 9.4%, we felt the rate of approximately 50 percent of their basic rate was not necessarily unfair. Reduction of the rate from 5 percent to the 1.6 and 1.8 percentage rates could result in a loss of revenue in the amount of at least \$500,000 per year and potentially as much as one million dollars per year. It must be remembered that 90-95 percent of the taxpayers impacted by the minimum tax on preference items are corporations.

Section 3 of the bill originally came out as SB 497 but has been incorporated into this bill since it also is related to income taxes. I believe our previous correspondence on SB 497 fully explains the justification for this provision.

Section 4 of the bill was added at the request of the administration to correct a technical error in the language of the income tax law. This law was a part of the House Bill 212 which was enacted by the 1975 Legislature. This section merely clarifies the error in the language and has no fiscal impact.

There will be no additional cost of administration of the above changes to the original bill.

GLJ:lc

AMENDMENT # 2

OFFERED IN THE HOUSE:

By: McKINNON

To: CS HOUSE BILL No. _____

SENATE BILL No. 510 am

PAGE: 2

LINE: 6

INSERT new SECTION 5

* Section ~~5~~ AS 43.20.031(a) is amended by adding new paragraphs to read:

(3) the benefits of nonrecognition of gain on the sale or exchange of certain property under secs. 1031, 1033 and 1034 of the Internal Revenue Code (26 U.S.C. secs. 1031, 1033 and 1034) are allowed only to taxpayers who purchase or exchange the property within the state.

(4) the exemption of interest on certain government obligations under sec. 103 of the Internal Revenue Code (26 U.S.C. sec. 103) shall be allowed except that the interest on obligations of other states and the political subdivisions of those other states are not exempt from the tax imposed by this chapter.

RENUMBER SECTIONS ACCORDINGLY

CHANGE NEW SECTION 6 TO READ

SECTION 6. SECTIONS 1, 3, and 5 OF THIS ACT
are retroactive To January 1, 1976.