COMMITTEE REPORT

SENATE

5/6/75

Mr. President: Date 5/17/75

The Committee on FINANCE has had CSHB 208 (Finance)
relating to the Alaska net income tax deductions and credits
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 individual RECOMMENDATIONS

( ) "other"

Members signing the Majority report:

________ ________ ________

________ ________ ________

________ ________ ________

________ ________ ________

Members NOT concurring in the Majority report:

________ recommends:

________ recommends:

________ recommends:

________ recommends:

________ recommends:

________ Chairman

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH S—JUNEAU 99801

May 6, 1975

The Honorable Bill Ray
Chairman
Senate Finance Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99811

Dear Senator Ray:

re Committee Substitute for House Bill No. 208 (Finance)

Committee Substitute for House Bill No. 208 (Finance), an Act relating to the Alaska net income tax deductions and credits was introduced in the Senate on April 9, 1975 and was referred to the Senate Commerce and Finance Committees.

For the consideration of the Senate Finance Committee, I am enclosing a copy of a memorandum from Frederick Boetsch, Deputy Commissioner dated May 5, 1975 which indicates the need for the remedial legislation in light of recent Federal changes in the Federal Tax Reduction Act of 1975 and discloses effect on the State Treasury for the fiscal years 1976-80.

If you or any members of the Senate Finance Committee have any questions on the material submitted, please telephone the writer 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

Enclosure

cc: Frederick Boetsch
Deputy Commissioner
Department of Revenue

May 1, 1975

The Honorable Jalmar Kerttula
Chairman
Senate [illegible] Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99811

Dear Senator Kerttula:

re House Bill No. 212

In response to your request, summarized below are the major provisions of House Bill 212.

The bill provides a graduated tax schedule at the present Alaska income tax rates. Presently, rates are calculated as a percentage of the 1965 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 standard deduction and 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,

Gary L. Jenkins, Director
Audit Division

GLJ:lw

cc F. P. [illegible]
R. D. Stevenson

MEMORANDUM State of Alaska

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

DATE: May 5, 1975

FILE NO:

TELEPHONE NO:

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

SUBJECT: CSHB 208 (Finance)

I have reviewed the House Finance Committee Substitute for HB 208 for purposes of determining any administrative problems caused by the amendments and to estimate the effect on Treasury.

Basically, the amendments consist of increasing the equipment which qualifies for investment credit from $100,000 to $500,000 per year and allowing the full investment credit on pollution control devices. It would also allow the use of domestic international sales corporations for all taxpayers except those engaged in the exportation of non-renewable resources.

Paragraphs (e), (f), (g) and (h) are amendments recommended by the Administration as a response to the Federal Tax Reduction Act of 1975. These amendments were recommended to the Finance Committee because of the dramatic fiscal impact they could have on the State Treasury at a time when it cannot be afforded. Also, some basic policy consideration and decisions made by Congress either do not apply to Alaska or cannot be administered equitably in Alaska.

The first of these concerns the special refunds that will be made by the Federal Government to taxpayers based on the 1974 adjusted gross income. While it could be argued that this provision of the Federal Act does not apply to Alaska, we would prefer to have an expression from the Legislature on this matter, since the amount of money involved is in excess of $25 million. Section (e) would specifically exclude from Alaska Statutes any possibility that that special refund would apply under the Alaska Income Tax.

Section (f) eliminates the special $30 credit for each exemption which at Alaska rates would amount of $4.80 for each exemption claimed on Alaska tax returns. In addition to costing the State more than $1.5 million, this special credit is a doubling up of the personal exemption and creates some problems for Alaska. Since there is no provision either in our statutes or Federal Code to require proration of this credit a nonresident could claim the credit for all his exemptions on his Alaska income tax return.

Similarly the so called negative income tax which was enacted at the Federal level and provides for refunds to individuals whose incomes are between 0 and $8,000 a year regardless of whether they pay a tax or not creates administrative problems. It appears that the nonresident taxpayer could also apply for this special credit. Therefore, under some circumstances an individual earning, for example, $4,000 in the State at a seasonal job would not have to pay any State income tax but the State would be required to rebate him $64.00. The total costs of this provision would be approximately $2 million.

The final amendment would eliminate a special credit for new houses purchased. The obvious intent of Congress with this amendment was to move some of the housing inventory in the lower 48 off of the market and stimulate the housing industry. It is very doubtful that we need to stimulate the housing industry in Alaska, since we already have a very tight housing market and sufficient stimulus exists for builders to continue to build. Also, Alaskans who purchase a new house that meets the conditions of the Federal Act will still get the $2,000 Federal credit. What we propose to eliminate here is the additional $320.00 per house that would have to be paid out of the State Treasury. We estimate that the cost of this provision is between $1.5 to $2 million.

Some of the other changes in the Federal Act would alter projections on the original House Bill 208 particularly with respect to the limitation on the investment credit and the elimination of the percentage depletion allowance. Due to the additional complexities that have been added as a result of the Federal Act, we are unable to zero on the actual affect of the elimination of the percentage depletion. However, I think we can assume that for the most part the benefits initially estimated in House Bill 208 will be eliminated due to the fact that percentage depletion on oil and gas has largely been eliminated by Federal law. Investment credit affect on the other hand will be increased from our original estimates on House Bill 208 because the investment credit has been increased from 7 to 10 percent. The table attached illustrates our estimates of the revenue effect of CSHB 208 taking into consideration the effects on these provisions of the Federal Tax Reduction Act of 1975.

Attachment

CS for HOUSE BILL 208 (FINANCE)
POTENTIAL REVENUE EFFECTS
($000 Omitted)

Provision	FY 76	FY 77	FY 78	FY 79	FY 80
Elimination of Foregin Tax Credit	917	1,001	1,433	1,825	1,889
Limitation on Investment Credit	3,364	3,062	9,173	6,000	6,171
1974 Special Refund	25,000	-0-	-0-	-0-	-0-
Personal Exemption Credit	1,700	-0-	-0-	-0-	-0-
Negative Income Tax Rebate	1,800	-0-	-0-	-0-	-0-
New House Credit	1,600	-0-	-0-	-0-	-0-
Total Potential Revenue Effect	$34,381	$4,063	$10,606	$7,825	$8,060

02-001B

STATE of ALASKA

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 interst of Alaskans, we think that the easiest, simpilest 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.

FPB:sp
Attachment

HOUSE BILL 208
POTENTIAL REVENUE EFFECTS
($000 Omitted)

Provision	FY 76	FY 77	FY 78	FY 79	FY 80
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	3,000	3,437	15,038	17,072	18,352
Total Potential Revenue Effect	6,320	6,625	23,023	23,183	24,649

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.

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

MEMORANDUM State of Alaska

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

DATE: May 5, 1975

FILE NO:

TELEPHONE NO:

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

SUBJECT: CSHB 208 (Finance)

I have reviewed the House Finance Committee Substitute for HB 208 for purposes of determining any administrative problems caused by the amendments and to estimate the effect on Treasury.

Basically, the amendments consist of increasing the equipment which qualifies for investment credit from $100,000 to $500,000 per year and allowing the full investment credit on pollution control devices. It would also allow the use of domestic international sales corporations for all taxpayers except those engaged in the exportation of non-renewable resources.

Paragraphs (e), (f), (g) and (h) are amendments recommended by the Administration as a response to the Federal Tax Reduction Act of 1975. These amendments were recommended to the Finance Committee because of the dramatic fiscal impact they could have on the State Treasury at a time when it cannot be afforded. Also, some basic policy consideration and decisions made by Congress either do not apply to Alaska or cannot be administered equitably in Alaska.

The first of these concerns the special refunds that will be made by the Federal Government to taxpayers based on the 1974 adjusted gross income. While it could be argued that this provision of the Federal Act does not apply to Alaska, we would prefer to have an expression from the Legislature on this matter, since the amount of money involved is in excess of $25 million. Section (e) would specifically exclude from Alaska Statutes any possibility that that special refund would apply under the Alaska Income Tax.

Section (f) eliminates the special $30 credit for each exemption which at Alaska rates would amount of $4.80 for each exemption claimed on Alaska tax returns. In addition to costing the State more than $1.5 million, this special credit is a doubling up of the personal exemption and creates some problems for Alaska. Since there is no provision either in our statutes or Federal Code to require proration of this credit a nonresident could claim the credit for all his exemptions on his Alaska income tax return.

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The final amendment would eliminate a special credit for new houses purchased. The obvious intent of Congress with this amendment was to move some of the housing inventory in the lower 48 off of the market and stimulate the housing industry. It is very doubtful that we need to stimulate the housing industry in Alaska, since we already have a very tight housing market and sufficient stimulus exists for builders to continue to build. Also, Alaskans who purchase a new house that meets the conditions of the Federal Act will still get the $2,000 Federal credit. What we propose to eliminate here is the additional $320.00 per house that would have to be paid out of the State Treasury. We estimate that the cost of this provision is between $1.5 to $2 million.

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New House Credit	1,600	-0-	-0-	-0-	-0-
Total Potential Revenue Effect	$34,381	$4,063	$10,606	$7,825	$8,060

Original sponsor: Rules Committee by request of the Governor

Offered: 4/9/75
Referred: Rules

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 208 (FINANCE)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska net income tax deductions and credits; 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. 43.20.036. FEDERAL TAX DEDUCTIONS AND CREDITS. (a) For purposes of calculating the income tax payable under this chapter, the taxpayer may not apply as a credit against his tax liability the foreign tax credit allowed as to federal taxes under Internal Revenue Code sec. 33 (26 U.S.C. sec. 33).

(b) For purposes of calculating the income tax payable under this chapter, the taxpayer may apply as a credit against his tax liability the job development investment credit allowed as to federal taxes under Internal Revenue Code sec. 50 upon only the first $500,000 of qualified investment put into use for each taxable year (26 U.S.C. sec. 50). This limitation does not apply to the amounts invested in equipment which meets the definition of a certified pollution control facility as defined under Internal Revenue Code sec. 169 (26 U.S.C. 159) as in effect on the effective date of this Act except that the date specified in that section does not apply.

(c) For purposes of calculating the income tax payable under this chapter, the taxpayer may apply as an exemption from his tax liability the tax exemption for domestic international sales corporations under Internal Revenue Code sec. 991 (26 U.S.C. sec. 991), except those taxpayers who are engaged in the exportation of non-renewable resources.

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

(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).

* Sec. 2. This Act is retroactive to January 1, 1975, and relates only to income earned and received after December 31, 1974.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.070(c).

Original sponsor: Rules Committee by request of the Governor

Offered: 4/9/75
Referred: Rules

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 208 (FINANCE)

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(c) For purposes of calculating the income tax payable under this chapter, the taxpayer may apply as an exemption from his tax liability the tax exemption for domestic international sales corporations under Internal Revenue Code sec. 991 (26 U.S.C. sec. 991), except those taxpayers who are engaged in the exportation of non-renewable resources.

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

(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).

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

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

IN THE HOUSE

HOUSE BILL NO. 208

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - FIRST SESSION

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