

Committee Report

S E N A T E

3/24/75

April 5, 1975

Date

Mr. President:

The Committee on FINANCE has had SE 304 special appropriation for computerized corporate income tax data base 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:

<u>Bill Ray</u>	<u>[Signature]</u>	<u>[Signature]</u>
<u>[Signature]</u>	<u>[Signature]</u>	<u>[Signature]</u>
<u>[Signature]</u>	<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:

Bill Ray
CHAIRMAN

The Legislature of the State of Alaska
FISCAL NOTE

First Session - Ninth Legislature

I. REQUEST
 Bill No. SB 304
 Title: Special Appropriation to Department of Revenue
 Requested by: _____ Date: 3/26/75
 Return Date Requested: _____
 Agency: Revenue Program: Administration and Support

II. FISCAL DETAIL
 Budget Request Unit(s) Affected: Administration and Support
 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	10.0	20.0				
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	10.0	20.0				

B. FUNDING: (Thousands of dollars)

GENERAL FUND	10.0	20.0				
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

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

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

See letter to Senators Huber and Representative Cowper dated March 18, 1975, memo to Randolph Berry dated December 9, 1974, and letter to Jay Hogan dated March 13, 1974, all of which are attached.

IV. ATTACHMENTS

V. DATE: March 26, 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)

March 18, 1975

The Honorable John Huber
Alaska State Senate
State Capitol
Juneau, Alaska 99801

Dear Senator Huber:

It is my understanding that you are interested in developing a data base for the study of state corporate income taxes. For your information, HCR 78 which passed last year provided for such a study. In response to that I sent a letter dated March 13, 1974 to Jay Hogan and a memorandum dated December 9, 1974 to Randolph Berry outlining the proposed means of capturing the necessary data in computer-readable form for such a study to take place. I will only emphasize here that a computerized data base is absolutely essential before any comprehensive study of the corporate income tax structure can be made. You will note that the amount of money requested between the two memorandums decreased. This is due to two factors: 1) the installation within the Department of Revenue of some Singer 1500 data capturing devices and 2) the implementation of the Federal CETA program for unemployed individuals whereby we can get the personal services of individuals paid for by Federal funds.

I still think that an on-going cost of \$18,000 to \$20,000 per year is certainly reasonable in view of the potential impact of having this data in a computerized form for more detailed analysis by our own staff as well as economists from the University of Alaska or staff analysts from the Legislature. In order to get the program off the ground an appropriation of about \$10,000 for the current fiscal year would allow us to commence the programming work necessary and an appropriation in FY 1976 of about \$20,000 would complete that programming and allow us to capture all corporate data for the last three years. An inter-agency agreement between us and the Legislative Council could also be used to provide the necessary funds. In fact, it was our understanding that this is the way the matter would be handled and therefore we did not seek an appropriation in our normal operating budget.

I am enclosing copies of my memorandum to Mr. Berry and my letter to Mr. Hogan of last year which I believe include all the pertinent information. I would be happy to discuss this matter with you, your staff and your fellow legislators at your convenience.

Best regards,

Frederick P. Boetsch, C.P.A.
Deputy Commissioner, Taxation

cc: Dr. Charles L. Schroth
Research Supervisor
Department of Revenue

March 18, 1975

The Honorable Steve Cowper
Alaska State House of Representatives
State Capitol
Juneau, Alaska 99801

Dear Mr. Cowper:

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Best regards,

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Deputy Commissioner, Taxation

cc: Dr. Charles L. Schroth
Research Supervisor
Department of Revenue

MEMORANDUM

State of Alaska

TO: Randolph Berry
 Reviser of Statutes
 Legislative Affairs Agency
 State Capitol, Room 111

DATE: December 9, 1974

FILE NO:

TELEPHONE NO:

FROM: Frederick P. Boetsch
 Director
 Audit Division

SUBJECT: Corporate Income Tax Study

We had previously discussed and agreed that the corporate income tax study could be done in-house and that it would be more desirable to do it that way than to hire a consultant since this type of study requires an on-going program of data gathering, analysis, and review. The data gathering function is, of course, fundamental to any type of intelligent analysis of income tax or any other tax, its revenue producing capabilities, and its incidence on the taxpayers upon whom it is assessed. There are a number of questions that should be asked on a continuing basis every year and over a period of years. It would also be desirable to be able to pose hypothetical questions regarding the elimination or modification of certain tax provisions.

We propose that an initial data capture be made from existing corporation tax returns which would provide us with all of the major categories of information that would be needed to answer many types of questions that have been or could be asked about the Alaska Corporation Net Income Tax. While there are some initial start up costs to provide the basic format and programming for capturing this data, on-going expenses would be, we feel, rather minimal.

The data to be captured would consist of all of the information on the Alaska Corporation Income Tax Return, page two, which indicates identifying data, type of filing and the calculation of the tax on lines one through eighteen. The data indicated on the apportionment schedule, page 3 items one through five, columns A, B, and A divided by B and page one of the Federal form 1120, lines one through 28, which is included as a part of filing of the Alaska Corporation and Income Tax Return. Capturing this data on computer tape would give us the ability to answer most of the questions to be asked about the corporations such as the amount of tax paid by industry, the amount of depreciation or depletion allowance by industry or by zip code, the total sales, the amount of income apportioned to Alaska for Multistate corporations doing business in the State, etc.

The initial cost of setting up the data capturing and analysis would run about \$25,000, this is for data capturing devices, tapes, IBM computer time and programmers. Approximately \$7,000 of that amount is devoted to programming, most of which would be for the initial set up. On an on-going basis, the cost of maintaining the system and continuing the data capture device would run about \$18,000 to \$20,000 a year. Obviously, this is a very minor cost compared with the real necessity to have accurate information upon which to make decisions regarding possible tax law changes which could have the effect of several millions of dollars on the State treasury. Without good data it is difficult, if not impossible, to make intelligent decisions and rational choices among various tax alternatives.

Randolph Berry

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December 9, 1974

I hope that this program would be the pilot program for an effort to subject all of our tax programs to this type of analysis based on comprehensive and accurate information.

FPB/bjm

cc: Charles Schroth
Research Analyst
Excise Tax Division

March 13, 1974

Jay Hogan, Director
Division of Legislative
Finance
Room 425, State Capitol
Pouch W
Juneau, AK 99801

Dear Mr. Hogan:

You have asked for comments on a proposed study of the corporate income tax structure and estimates of the cost of conducting such a study which would be incurred by the Department of Revenue as a result of its participation in the study.

First, I think that the idea of conducting such a study is excellent. As you know, our corporate and individual income taxes are tied into the federal tax structure. The theory behind such tie-in is to minimize the administrative problems involved in administering the tax act by relying on federal regulations, rulings, administrative decisions and court cases. In theory, this is a fine system. However, in practice, we often find that the tax policies pursued by Congress at the national level are sometimes inconsistent with or, in fact, even detrimental to policies which should be followed by the State. This is particularly true in the case of Alaska where we find an under-developed resource-based economy in contrast to the highly sophisticated, technological manufacturing and distributing economy of the United States as a whole. It is not surprising then, since taxes are often used by Congress as a fiscal and social tool, to find that the policies pursued by Congress when using this tool do not follow policies desirable for the State.

It is the responsibility of the State, therefore, to review such a system on a regular basis and to ascertain, where changes have taken place in the Federal Tax Code, whether those changes are desirable from the State's viewpoint. Furthermore, where economic conditions within the State have changed, it is also necessary to review the federal tax policies to see if they are consistent with the changes in the State's economy and with the goals of the State. In itself, this seems to me a sufficient basis for an on-going analysis of the State's economy in relationship to the tax structure in order to make intelligent, positive decisions about whether the system is in fact meeting the goals and objectives of State policy. I think that the corporate income tax area is probably a good place to start since, according to our figures, compliance in this area is probably more of a problem than in many of our other tax types.

March 13, 1974

As I understand the proposal, people from our department and your department would work together with a legislative committee to perform the basic study and analysis of the existing system and make recommendations on how it should be changed. These proposals would be the subject then of public hearings to be held around the State where we could, at that time, receive input from the public in general and from particular interested groups, such as the chambers of commerce and other businessmen. This approach, I think, is a good one since there is a great deal of disillusionment among the general public on the fairness of our taxing systems. Particular notariety has recently been paid to the large corporations and wealthy individuals who, in the mind of the public, aren't paying their fair share of the tax. Although it may be difficult to distill some of the complexities of the income tax system to a point where they can be publicly debated and discussed, I think this attempt should be made and that the public should be brought into the discussion at an early stage and as fully as possible. By receiving all of this input and coming up with some kind of legislation which has in it contributions from each of these sources, we have I think the best opportunity to develop a corporate structure that will be publicly acceptable and will accomplish the revenue raising and equity objectives that we might have.

At the outset, of course, we should realize that there are certain restraints on our ability to tax corporate net income. I won't go into all the technicalities at this point, since I believe that that should be the subject of initial meetings on this study. Suffice it to say that there is federal overriding legislation which places limitations on a state's jurisdictional reach to impose a corporate income tax and there is legislation pending in Congress at this time which would go further in the area of taxation of interstate businesses. Furthermore, the Multistate Tax Compact, of which we are a member, and which seeks to develop a uniform means of taxation by cooperative effort among the states, is being sued by the United States Steel Corporation and others in the Federal court in the Southern District of New York. The plaintiffs seek to have the Commission disbanded on the grounds that it constitutes a compact in violation of the provisions of the U.S. Constitution which requires that compacts among states be approved by Congress. At this point in time, Congress has not acted at all in this area. Our attorney believes that the non-action of Congress implies consent since many agreements do exist between and among states that have not had Congress's official blessing. In these instances, and in our particular case, the compacts do not usurp any authority of Congress or pretend to. At any time Congress could override any of these compacts or agreements by taking positive action on it. However, we are in the situation now where we have to defend ourselves in this lawsuit.

The cost of the proposed study from the Department of Revenue's standpoint is, I think, relatively minor. We do have a research analyst in the Department at the present time who has been doing a great deal of work in putting together various types of data bases and in doing some analytical work for us in various areas. He is in the process now of hiring an assistant to help him in setting up the analytical framework. The next

March 13, 1974

thing we need to do, is develop a data base on Corporate Income Tax returns by pulling off a great deal of information from the returns. Due to the many different ways in which returns are filed with us, it is really impossible for us to merely send a return to a key punch operator and expect her to accurately abstract the correct information. Furthermore, some of these corporate returns are hundreds of pages long. Therefore, the returns themselves must be analyzed and the pertinent data abstracted by individuals who are familiar with the corporate tax returns. We envision at this time, that that information could be abstracted and placed on some sort of data coding sheets which would then be keypunched and entered into a data processing system. In order to give us a reasonable data base, it would probably be necessary to abstract this information from all of our returns for the last three years. This would involve the detailed analysis of some ten thousand corporate returns and the abstraction of pertinent data onto the coding sheets. I estimate that it would take four people about four months to pull off all of this information. I think that this work could be handled by clerical personnel on a temporary basis if they were under proper supervision. Personal Services costs therefore would run about twelve thousand dollars for these people. In addition, we would need funds for systems analysis work to set up the data processing system for capturing and recording the data and analyzing it in a meaningful manner. Also we would need programming work and keypunch. After consulting with our research analyst, we have decided that such work would probably involve no more than \$25,000 to \$30,000 in Contractual Services funds to do the necessary analysis, programming, keypunch, computer time, etc. Therefore, I think we can safely place the cost to the Department of Revenue of this program at between \$37,000 and \$42,000.

Once we have all of the pertinent data, entered into the computer file and the ability to analyze this data in several different ways, we can proceed to see what the effects of various changes in the corporate tax law might be in terms of the revenues produced and the distribution of the tax burden. I know that there are economists at the University of Alaska and I believe in the Department of Economic Development who would not only be very helpful to us in this endeavor, but who are probably eager to get into such a data base and subject it to various analytical tools that they have at their command. It is conceivable that such information could be run through existing economic models of the State of Alaska in order to determine the effects of a changing corporate tax structure on the economy and on State revenues. I think that these avenues of research should be explored in the formative stages of this study.

As I stated earlier, this study should probably be viewed as a pilot study. While it is certainly involved in an area that is very critical in terms of overall state tax policy and revenues, there is no doubt in my mind that other tax areas need to be studied in a similar manner. Certainly the individual income tax which is also tied to the federal code, the gross business tax, the fish taxes, the school tax, the whole range of excise taxes and so forth should be reviewed on an ongoing basis. This study could certainly be very beneficial to the state in setting up a research

Jay Hogan, Director

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March 13, 1974

methodology by which we can conduct such ongoing studies of our state tax structure and develop a taxing system that is responsive to the changes in our economy and our society.

I very greatly appreciate the interest that the legislature has shown in this project and will be very happy to contribute to its success in any way that I can.

Best regards,

Frederick P. Boetsch, CPA
Director
Audit Division

FPB:jf

Introduced: 3/24/75
Referred: Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE SPECIAL COMMITTEE
ON TAXATION AND REVENUE

1 IN THE SENATE

2 SENATE BILL NO. 304

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an act entitled: "An Act making a special appropriation to the Depart-
7 ment of Revenue, computerized corporate income tax
8 data base; and providing for an effective date."

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

10 * Section 1. The sum of \$30,000 is appropriated from the general fund to
11 the Department of Revenue to establish and implement a computerized corporate
12 income tax data base to provide information for analysis and study by the
13 legislature, the University of Alaska, and the department.

14 * Sec. 2. The unexpended and unobligated portion of this appropriation
15 lapses into the general fund June 30, 1976.

16 * Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-
17 070(c).

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Introduced: 3/24/75
Referred: Finance

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