

3-29-82

H B 866

HOUSE LABOR & COMMERCE  
STANDING COMMITTEE  
March 29, 1982  
1:14 p.m.

Members Present: Rep. Martin, Chairman  
Rep. Bylsma, Vice Chairman  
Rep. Randolph  
Rep. Rogers

Members Absent: Rep. Gardiner

COMMITTEE CALENDAR

HB 866 An Act establishing a special investment tax credit; and providing for an effective date.

WITNESS REGISTER

R.R. Kesel, Director  
Division of Audit  
Department of Revenue  
Juneau, Alaska 99811  
465-2320  
Position Statement: Opposed bill.

Phil Holdsworth  
Alaska Miners Association  
Juneau, Alaska  
586-1383  
Position Statement: Suggested amendment to bill.

George Krusz, President  
Alaska State Chamber of Commerce  
Juneau, Alaska  
586-2323  
Position Statement: Supported principle of bill, but felt it discriminatory.

Roy Huhndorf, president  
Cook Inlet Region, Inc.  
Anchorage, Alaska  
274-8638  
Position Statement: Strongly supported concept of bill; encouraged adoption.

Lance W. Anderson  
Vice President of Finance  
Cook Inlet Region, Inc.  
Anchorage, Alaska  
274-8638  
Position Statement: Recommended bill be passed.

R.A. Bradley  
LAA Legal Services  
Pouch Y  
Juneau, Alaska 99811  
465-3867

Position Statement: Answered questions about legality of bill.

PREVIOUS ACTION

HB 866

See minutes of 3/10/82.

Statutory Reference: AS 43.20.036

Action Taken: Rep. Randolph moved to report bill out of committee. He withdrew that motion. There was discussion. Rep. Randolph again moved to report bill out of committee. There being no objection, the motion passed. Bill was reported out with individual recommendations.

ACTION NARRATIVE

Tape #47  
Recording  
Number 000

The meeting was called to order by Chairman Martin at 1:14 p.m. Members present were: Representatives Martin, Bylsma, Rogers, and Randolph. Rep. Gardiner was absent. Rep. Rogers left immediately after the call to order. HB 866 was before the committee.

Number 009

R.R. Kesel, Director of Audit, Department of Revenue, opposed the bill. He said it does not accomplish its intended purpose. He addressed three hypothetical situations to illustrate his point of view. He said the bill would benefit only those companies with large incomes, and would be costly to the state.

Number 072

Phil Holdsworth, Alaska Miners Association, suggested an amendment to prevent transferral of tax credits. He said he understands the Department of Revenue's concerns. He said a more reasonable percentage would still be beneficial to the Alaska mining industry. Rep. Martin asked Holdsworth questions about the proposed amendment.

Number 105

George Krusz, president of the Alaska State

Chamber of Commerce, supported the principal of the bill, but felt it was conceptually discriminatory because it excludes a number of industries. He proposed an amendment which would allow all industries to take advantage. He said he was sympathetic to the Department of Revenue's concerns. (Krusz passed out his proposed amendment to the committee; this is available for inspection.) There was discussion.

Number 141

Roy Huhndorf, president of Cook Inlet Region, Inc., strongly supported the concept of the bill. He said it could help strengthen and broaden the economy. He said the state should adopt the bill to encourage diversification of the economy. He said the tax credit policy would encourage early development of natural resources on native-owned land. He felt it would also make investment by third parties in native-owned resources more attractive. He said more money would be invested in the state's economy, and that more year round and diverse employment opportunities would be created, which would help the economy. There was discussion. Rep. Martin felt this singled out special corporations. Huhndorf thought those industries were selected for their potential large development, which would provide jobs and a revenue base. He felt the size of the tax credit and the transferability were both important in creating this economic base. Huhndorf said limiting this to Alaska would inhibit the bill somewhat. He said he would like to see the general concept embodied in a bill.

Number 265

Lance W. Anderson, vice president of Finance, Cook Inlet Region, Inc., rebutted the 3/9/82 written testimony offered by Stevens of the Department of Revenue. He felt the fiscal impact figures were incorrect, and presented his own figures to back his position. He recommended the bill be passed. Rep. Martin asked what the impact would be this year. Anderson said it would be minor. He said it would not affect smaller operations, but that it is vital to larger projects. Anderson said the impact would be several years down the line. The impact today is in determining the feasibility of projects. He said it enhances marginal investments.

Number 371

Rep. Randolph asked the ratio of tax credit to investment required. Anderson said it was 10% of the qualified investor (tangible personal property). There was discussion. Anderson said he felt there was no constitutionality question. There was discussion of the legality of the bill. Anderson said he would provide a legal opinion.

Number 431

Rep. Randolph said he thought the bill was good, and that it should be moved. He moved to report the bill out of committee. Rep. Martin felt the proposed amendments should be considered first. Rep. Randolph withdrew his motion.

Number 454

Rep. Martin asked P.A. Bradley, LAA Legal Services, if there were legal questions with the bill. Bradley said he was not asked to achieve a purpose in drafting the bill, so he did not know if the goal was achieved. He thought there were no constitutional problems, as tax laws are different.

Number 478

Rep. Martin asked for motions on the amendments so legal opinion could be obtained. He explained the Chamber of Commerce's amendment to delete reference to specific industries. Anderson said he opposed the amendment. He said the reason for the bill is to encourage long-term development of four base industries in Alaska. He said the fiscal impact of the amendment would be detrimental to passage of the bill. Anderson said of the second proposed amendment, regarding sale of credits, that the federal decision to allow sale of investment tax credits is excellent philosophy. He said the same situation exists in Alaska, that the state needs to encourage investment. He recommended neither amendment be included in the bill. Rep. Randolph agreed, due to the shortness of the session. Krusz agreed with Randolph, that if the amendments would kill the bill, he withdrew their proposed amendments and supported the bill. Kesel said he was led to believe much of the mining industry investment would be subject to investment tax credit. He read a definition of "qualified investment". There was discussion of qualified investments.

Number 698

Rep. Randolph moved to report the bill out of committee. There being no objection, the motion passed. Bill was reported out with individual recommendations. Rep. Martin recommended the Department of Revenue do a better tax evaluation, and said the committee would have the other amendments evaluated.

Number 725

There being no further business to come before the committee, the meeting was adjourned at 1:59 p.m.

SIGN-IN SHEET

HB 866

Name (please print)	Address	Representing	Testify? (YES or NO)	Phone Number
R R Kesel	Sob	Rev. Dept. - opposes Bill	Yes	465-2370
R A. BRADLEY	605 Cawit Bldg	—	Unknown	
Phil Holdsworth.	Juneau	Alaska Miners Assoc.	Yes	386-1383
Don King	Juneau	Ak State C. U. C	Yes	586-2323
Mary Hutchinson	Anchorage	Cook Inlet Region	Yes	274-8638
LANCE ANDERSON	ANCHORAGE	Cook Inlet Region	YES	274-8638
<p>Very important to know what is Sec 38 says. Get definition off top of Mr. Kesel.</p>				

LABOR & COMMERCE COMMITTEE  
DAILY COMMITTEE HEARING

Date: 3/27/82

Place: \_\_\_\_\_

<u>Members</u>	<u>Present</u>	<u>Absent</u>	<u>Time Arrived</u>	<u>Time Left</u>
Rep. B. Bylsma, V. Chair	_____ ✓ _____	_____	1:07	
Rep. D. Randolph	_____ ✓ _____	_____	1:30 <del>1:14</del>	
Rep. B. Rogers	_____ ✓ _____	_____	1:14	
Rep. T. Gardiner	_____	_____ ✓ _____		
Rep. T. Martin, Chair	_____ ✓ _____	_____	12:55	

Subject Matter:

House Bill No. 866 \_\_\_\_\_

Senate Bill No. \_\_\_\_\_

Special Orders:

Absent:  
Hardiner

3/29/82  
H. Labor & Commerce

HB 866 Tape # 47

1: 14

000

Call to order; Rep. Rogers left imm. after call to order.

HB 866

009

Kesel Dir of Audit  
R.R. Kessell, Dept. Revenue - opposed bill; doesn't accomplish intended purpose. Addressed 3 hypothetical sites to illustrate his point of view. Wd benefit only those companies with large incomes; wd be costly to the state.

072

Holdsworth  
Phil Holdsworth, Ak Miners Assocn - suggested amendt to prevent x'fial of tax credits. Understands Dept. Revenue's concerns. More reasonable percentage wd still be beneficial to Ak mining industry.

100

Oatno-Martin - re prop'd amendt.

105

George Kreeg, Pres, Ak St Chamber of Commerce - supports principle of bill; conceptually, discriminatory because it excludes a # of industries. Prop'd amendt which wd allow all industries to take advantage. Sympathetic to Revenue's concerns. (Gave prop'd bill to comm.) Discussion.

141

Huhndorf  
Roy Huhndorf, Pres., Cook Inlet Region Inc - strongly supports concept. Can, <sup>help</sup> strengthen & broaden economy. State shd <sup>adopt</sup> this to encourage diversification of the economy. Tax credit policy will encourage early de'pt of nat resources on native-owned land. Also: makes investment by third parties in native-owned resources more attractive. More money wd be invested in state's economy. More of round & diverse empmt opp's wd be created, which wd help economy. Discussion -

184

Martin felt this singled out special corps. Huhndorf felt those industries were selected for their potential large de'pt, which wd provide jobs & revenue base.

- Handout -
- 215 Felt size of <sup>tax</sup> credit & xfr ability were both important in creating this economic base. Limiting to 2k wd inhibit bill somewhat. Wd like to see general concept embodied in bill, ~~not particularly concerned with~~
- 265 Lance W. Anderson, VP Finance, Cook Inlet Region Inc -  
rebuttal of 3/9/82 Dept Revenue written testimony by Stevens.  
Felt fiscal impact figures were incorrect. Presented figures to back his position. Recommended bill be passed.
- 343 Martin asked impact this yr; Anderson said it wd be minor. Wd <sup>not</sup> affect smaller operations, but is vital to larger projects. Impact several yrs down the line. Impact today is in determining feasibility of projects. Enhances marginal investments.
- 371 Randolph - asked ratio of tax credit to investment req'd. Anderson - 10% of qualified investment (tangible personal property). Discussion.
- 395 Martin asked his specialty; <sup>Anderson -</sup> tax mgmt. - Felt there was no constitutionality question. Discussion of legality of bill. Said he'd provide legal opinion.
- 431 Randolph felt bill was good & that it shd be moved.  
Moved to report bill out.
- 440 Martin felt auctmnts shd be considered first. Randolph wdrew motion.
- 454 Martin asked Bradley, legal Svcs, if there were legal gotas w/bill. Bradley said he was not asked to achieve a purpose, so doesn't know if goal was achieved. Thought there were no const' prob's as tax laws are different.

478 Martin asked for motions on the amendments so legal opinion  
could be obtained. Explained Chamber of Commerce amendment  
(delete ref to specific industries).

~~533~~ Amendment #1 by Chamber before the comm.

539 Anderson - oppose amendment. Reason for bill is to encourage long  
term dev't of 4 base industries in Alaska. Fiscal  
impact would be detrimental to passage.

Re second amendment - sale of credits - <sup>federal decision to</sup> allowing sale of investment  
tax credits is excellent philosophy; same set in Alaska;  
need to encourage investment. Recommended neither  
amendment be included in bill.

510 Randolph agreed, due to shortness of session.

618 Krusz - agree w/Randolph; if amendments would kill bill, withdraw  
their amendments & support bill.

632 Kessell - ~~doesn't think~~ <sup>led to</sup> believe much of mining industry investment  
would be subject to investment tax credit. Read a definition  
of qualified investment. Discussion of qualified investments.

698 Randolph moved to report bill out. No objection, motion passed, w/incl'd  
recommendations. Martin recommended Dept Revenue do better  
tax evaluation & ~~over~~ said comm would have other amendments  
evaluated.

1:59  
725

mtg adjourned.

definition of qualified investment according  
to R.R. Kessell of dept. of revenue.

U.S. Master Tax Guide, referring to what is  
Section 38 property.

"The investment credit is available only for  
expenditures on Section 38 property. Section 38  
property is either recovery property or other  
depreciable or amortizable property having a useful  
life of 3 yrs or more; that is,

- 1) tangible personal property;
- 2) other tangible property used as an integral  
part of mfg, extraction, production.