

COMMITTEE REPORT

SENATE

FURTHER:

2/5/54

Date _____

Mr. President

The Committee on FINANCE considered SB 402

relating to exceptions from tax or credits against tax; etc.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for _____
- new title
- same title and recommends _____
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS

Chairman

Chairman recommendation

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date

REQUEST

Bill/Resolution No: SB 402
 Title: An Act relating to exemptions from tax or credits against tax
 Sponsor: Faiks
 Requestor: Senate Finance Committee
 Date of Request: February 6, 1984

FISCAL DETAIL

Agency Affected: Department of Revenue
 Program Category Affected: Collection and Management
 BRU, Program of Subprogram(s) Affected: Audit Division

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis.

Prepared By: Maureen O'Brien
 Division: Audit Division

Phone: 465-2320
 Date: February 6, 1984

Approved by Commissioner: [Signature]
 Agency: Revenue

Date: 2/7/84

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Substantially all of the Internal Revenue Code provisions which apply to Corporation Income Tax are adopted by reference in AS 43.20.021(a). Therefore, every time the Internal Revenue Code is amended, Alaska taxes are affected.

The effective date of adoption by Alaska of amendments to the Internal Revenue Code is the same as the effective date for federal purposes, with one exception. Provisions which change or modify exemptions from tax or credits against the tax are not adopted until the second January 1 following the effective date of the federal law. The purpose of this delay was to protect the Alaska Individual Income Tax from the dilutive effect of federal changes. At the time AS 43.20.021(a) was passed Congress was considering bills providing for negative income taxes, refundable credits, exemption tax credits, and other changes which would have a direct impact on Alaska revenues. The one year delay gave the Alaska legislature an opportunity to evaluate whether it should adopt the federal amendments to the credit and exemption provisions in the Internal Revenue Code.

As Alaska has repealed the individual income tax, the one year delay is no longer necessary. It in fact causes administrative problems for the taxpayers and the Department. For these reasons, AS 43.20.021(a) should be amended to provide for immediate adoption of all changes to the Internal Revenue Code.

Introduced: 2/3/84
Referred: Finance

1 IN THE SENATE

BY FAIKS

2

SENATE BILL NO. 402

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to exemptions from tax or credits
7 against tax; and providing for an effective date."

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

9 * Section 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
12 as a part of AS 43.20 [, EXCEPT THAT THOSE PROVISIONS OF THE INTERNAL
13 REVENUE CODE ADOPTED AFTER DECEMBER 31, 1975 WHICH CHANGE OR MODIFY
14 EXEMPTIONS FROM TAX OR CREDITS AGAINST TAX ARE NOT ADOPTED BY
15 REFERENCE AS A PART OF THIS CHAPTER UNTIL THE SECOND JANUARY 1 FOLLOW-
16 ING THE EFFECTIVE DATE OF THE FEDERAL LAW]. These portions of the
17 Internal Revenue Code have full force and effect under AS 43.20
18 unless excepted to or modified by other provisions of AS 43.20.

19 * Sec. 2. Section 1 of this Act is retroactive to January 1, 1984.

20 * Sec. 3. This Act takes effect immediately in accordance with AS 01.-
21 10.070(c).

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH 5
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

January 24, 1984

The Honorable Jan Faiks
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Senator Faiks:

Thank you for sending me the draft revision of AS 43.20.021(a) prepared by Mary Schamber and Hugh Williams. The Audit Division had only a few days earlier suggested a similar amendment be drafted into bill form, as we agree that this provision is no longer necessary. At this point in the session, perhaps it would be advantageous for the Department to defer introduction of this legislation to you. We would definitely support such a bill and be available, when necessary, to provide information and backup.

Please contact me if more information is needed.

Sincerely,



Robert D. Heath
Commissioner of Revenue

RDH:MO:m11

STATE OF ALASKA
DEPARTMENT OF REVENUE

M E M O R A N D U M

TO: Marcy Rehfeld
Commissioner's Office

FROM: Maureen O'Brien *MO*
Director, Audit Division

DATE: February 2, 1984

RE: Amendment to AS 43.20.021(a)

Substantially all of the Internal Revenue Code provisions which apply to Corporation Income Tax are adopted by reference in AS 43.20.021(a). Therefore, every time the Internal Revenue Code is amended, Alaska taxes are affected.

The effective date of adoption by Alaska of amendments to the Internal Revenue Code is the same as the effective date for federal purposes, with one exception. Provisions which change or modify exemptions from tax or credits against the tax are not adopted until the second January 1 following the effective date of the federal law. The purpose of this delay was to protect the Alaska Individual Income Tax from the dilutive effect of federal changes. At the time AS 43.20.021(a) was passed Congress was considering bills providing for negative income taxes, refundable credits, exemption tax credits, and other changes which would have a direct impact on Alaska revenues. The one year delay gave the Alaska legislature an opportunity to evaluate whether it should adopt the federal amendments to the credit and exemption provisions in the Internal Revenue Code.

As Alaska has repealed the individual income tax, the one year delay is no longer necessary. It in fact causes administrative problems for the taxpayers and the Department. For these reasons, AS 43.20.021(a) should be amended to provide for immediate adoption of all changes to the Internal Revenue Code.

MO/gb

Alaska State Legislature

OFFICIAL BUSINESS

CHAIRMAN
RULES COMMITTEE



Senate

JAN FAIKS
POUCH V
CAPITOL BUILDING
JUNEAU, ALASKA 99811

MEMORANDUM

TO: All Members
Senate Finance Committee

FROM: Senator Jan Faiks

RE: Senate Bill 402

DATE: March 23, 1984

Senate Bill 402 would amend Title 43 of our Alaska Statutes. Chapters of the Internal Revenue Code are adopted by reference into the statutes. Those provisions which modify exemptions from tax or credits from tax are not automatically adopted. They are adopted the second January 1st following the effective date of the federal law. The purpose of this lag was to give the Legislature and the Administration at least one legislative session to decide if they want to incorporate this provision of the federal law into state law. This delay affects only to corporate income tax, since Alaska has repealed the state personal income tax.

In 1975 when the current statute was adopted, Alaska was almost totally dependent on the personal income tax as a source of revenue. At this time the federal government was in the process of enacting various tax credits for child care, home ownership, various energy credits as well as the personal exemption which would affect the personal income tax. There are very few credits that affect the corporate income tax. Present law allows for the immediate adoption of deductions but not credits. This system requires corporations to keep two separate sets of records—one for federal purposes and one for state purposes. The immediate adoption of all changes to the Internal Revenue Code would alleviate a lot of administrative problems for taxpayers and the Department of Revenue as well. The repeal would have no significant revenue impact on the state and would significantly decrease the burden of record keeping on the taxpayer. Since the enactment of the present statute, there has not been one time that the IRS provision was not automatically adopted, and only one time that it was accelerated.

An example of this is the jobs credit program enacted by Congress in 1977 and 1978. The credit required a reduction in the deduction of salary expenses equal to one half the tax

credit. The purpose at the federal level was to increase the tax which was then more than offset by the credit to encourage businesses to hire certain groups of employees. Since Alaska adopted the deduction immediately but not the credit, the effect was to reduce the deduction Alaskan businesses could take and not allow them the credit that was intended to offset the reduction in the deduction. For Alaska tax purposes, a special ruling was required (Alaska Tax Ruling #80-3) to prevent Alaskans from being taxed on income that didn't exist. By the time the IRS provision was adopted by the State, the federal program had been discontinued.

The bill is supported by Certified Public Accountants around the State and by the Department of Revenue as well. Maureen O'Brien, Director of the Audit Division in the Department of Revenue, will testify on the bill and Leroy Funk, a local CPA, will also be present to testify on Tuesday March 27th.