

COMMITTEE REPORT

SENATE

FURTHER:

2/23/83

Date: 2/23/83

Mr. President:

The Committee on FINANCE has had SB 53

Authorizing municipalities to exempt business inventories from taxation; eff. date

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

- do pass  do not pass
- do pass with attached amendments(s)
- replace with CS for \_\_\_\_\_  same title  
 new title
- and recommends \_\_\_\_\_
- AND attaches a "Letter of Intent"  New Fiscal Note
- reports it back without recommendation
- referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

MEMBERS HAVING  
OTHER RECOMMENDATIONS:

Joe Jacobson

Bob [unclear]

[unclear]

Joe [unclear]

W. Fischer

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

[Signature]

CHAIRMAN

COMMITTEE REPORT

SENATE

FURTHER: FINANCE

.1/18/83

Date: 2-22-83

Mr. President:

The Committee on Community & Regional Aff. has had SENATE BILL NO. 53

"An Act authorizing municipalities to exempt business inventories from taxation; eff. date."

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

- [x] do pass [ ] do not pass
[ ] do pass with attached amendments(s)
[ ] replace with CS for [ ] same title [ ] new title
and recommends
[ ] AND attaches a "Letter of Intent" [ ] New Fiscal Note
[ ] reports it back without recommendation
[ ] referred to the Committee

MEMBERS SIGNING DO PASS

1 Don Gilman
1 Rick ...

MEMBERS HAVING OTHER RECOMMENDATIONS:

[Empty lines for other recommendations]

1 Ferguson (DO PASS)
CHAIRMAN

Introduced: 1/18/83  
Referred: Community and Regional  
Affairs and Finance

1 IN THE SENATE

BY MULCAHY AND KELLY

2

SENATE BILL NO. 53

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act authorizing municipalities to exempt business inventories from taxation; and providing for an effective date."

7

8

9

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

10

\* Section 1. AS 29.53.025(b) is amended by adding a new paragraph to read:

11

12

(3) exempt business inventories from taxation.

13

\* Sec. 2. AS 29.45.050(b) is amended by adding a new paragraph to read:

14

(4) exempt business inventories from taxation.

15

\* Sec. 3. Section 1 of this Act is repealed.

16

\* Sec. 4. Sections 2 and 3 of this Act take effect on the effective date of a version of an Act revising AS 29 passed by the Thirteenth Legislature and enacted into law.

17

18

19

\* Sec. 5. Section 1 of this Act takes effect immediately in accordance with AS 01.10.070(c).

20



National Federation of  
Independent Business

SB 53

3/23/83

EFFECT OF EXEMPTING BUSINESS INVENTORIES FROM  
MUNICIPAL TAXATION

	<u>Value of 1 mil</u>	<u>\$ of Bus. Inv. Tax</u>	<u>Portion of 1 mil</u>
Anchorage	\$ 7,981,000	\$ 2,441,200	.3059
Fairbanks		-0-	-0-
City/Borough of Juneau	839,000	233,654	.2785
Ketchikan-Borough	574,129	30,119	.0525
-City	289,426	112,248	.3878

# 1983 ALASKA STATE BALLOT



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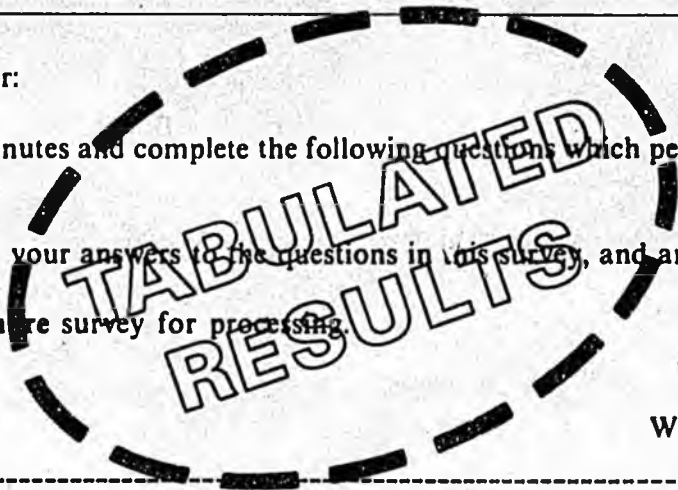
Dear NFIB Member:

Please take a few minutes and complete the following questions which pertain to small business issues in your state.

We are interested in your answers to the questions in this survey, and any comments you may have.

Please return the entire survey for processing.

Thank you.



Wilson S. Johnson, President

## TAXES/FISCAL

### 1. QUESTION

Should the portion of the Alaska Employment Security Tax paid by the employee be increased?

Favor	Oppose	Undecided	
<u>82%</u>	<u>14%</u>	<u>4%</u>	11
1	2	3	

#### BACKGROUND

Alaska statute mandates employers to pay the majority of the cost for the Alaska Employment Security Tax. Since 1981, the employer has paid an average of 82%, the employee an average 18%. It has been proposed that the law be amended so that the employee pays a greater portion of the tax—up to 50%.

Proponents argue that there is already a heavy burden on small businesses to pay a going wage to employees. For every \$100 of wages paid, an employer must pay \$5 or more for the Employment Security Tax, workmen's compensation and other benefits. Frequently these costs cannot be passed through to customers or clients, so the small business must take it out of profit which are often minimal. Since employees receive the benefits from the program, it is argued that they should contribute a greater portion of the cost.

Opponents argue that the Employment Security Tax is one of many costs employers should expect to pay when a worker is hired.

### 2. QUESTION

Should the state provide funding for a new program to provide small business loans at moderate (12%) interest rates to stimulate small business development throughout the state?

Favor	Oppose	Undecided	
<u>67%</u>	<u>25%</u>	<u>8%</u>	12
1	2	3	

#### BACKGROUND

Over the years, the Alaska Legislature has created many loan programs for various purposes.

A small business loan program was administered by the Division of Business Loans in the Department of Commerce and Economic Development until July 1, 1981, when that funding was terminated. The Small Enterprise Fund was then created within the Alaska Industrial Development Authority to make loans to small business, provided the loan was guaranteed by the federal Small Business Administration. The law also required the business to apply for a loan through a local bank.

Those in favor of a new, separate small business program argue that the program under the Alaska Industrial Development Authority is not effective for businesses who need to borrow less than \$100,000 since 1) the largest bank in the state refuses to process such loans; 2) those applying for loans are discouraged by numerous forms and requirements necessary for a Small

Business Administration guarantee; 3) those banks which do process the applications discourage loans for less than \$100,000 since the loan fee does not adequately compensate for processing the loan; 4) interest rates under this program have always exceeded 16%—not much less than normal bank rates and thus of little assistance to small business; 5) small businesses often need only loans of \$25,000 to \$50,000.

Others argue that the current program adequately meets the needs of small businesses even though there are some problems. They point out that several loans have been made for amounts less than \$100,000 during the past year.

### 3. QUESTION

Assuming a new, small business loan program is created, should the program be administered by local banks rather than a state agency such as the Division of Business Loans?

Favor	Oppose	Undecided	
<u>71%</u>	<u>21%</u>	<u>8%</u>	13
1	2	3	

#### BACKGROUND

Some supporters of a state loan program for small businesses question the most efficient and effective way to administer the program. Some claim that local banks are most knowledgeable. They further state that administration by local banks would also

prevent the addition of more state employees to operate the program.

Those opposing the concept of administration by the banks argue that many banks are as bureaucratic as state government in processing loans. Also, the Division of Business Loans has made loans for several years and does have the expertise to operate the program effectively. Further, the fees paid to banks by the state could pay for additional positions for the state's administration of the program. It is also pointed out that programs administered by banks tend to ignore the needs of rural communities where banking services are not adequate.

#### 4. QUESTION

Should business inventories be exempted from local property taxes?

Favor	Oppose	Undecided	
<u>88%</u> 1	<u>9%</u> 2	<u>3%</u> 3	14

#### BACKGROUND

Many states and local communities in other states, exempt business inventories from property taxes. Those arguing for the exemption claim that taxing business inventories discourages business growth. It also discriminates against businesses which maintain inventories. Often, a business doesn't own the inventory, a bank holds the financing loan. Thus, a company pays interest to finance the inventory and must also pay tax on that inventory.

There are many who also believe that only those items with extended life, such as land, buildings, and equipment should be subject to property tax. To replace the revenue lost by local municipalities from the inventory tax exemption, the millage rate could be increased slightly on all remaining property, both business and residential. The exemption could be phased in to ease the impact on local governments.

Those opposed to the inventory tax exemption believe that the local government tax base should not be eroded by exempting property. Further, they argue that business inventories have traditionally been included as part of the property tax base. To recover the revenue lost from the exemption, local governments may need to increase the millage rate on residential property, and that is politically unpopular.

#### 5. QUESTION

Should the funds appropriated for the Permanent Fund Dividend Program be used for new harbors, airports and roads throughout Alaska instead of the individual grants to residents?

Favor	Oppose	Undecided	
<u>61%</u> 1	<u>31%</u> 2	<u>8%</u> 3	15

#### BACKGROUND

Many people throughout Alaska have stated that the funds appropriated to the Alaska Permanent Fund Dividend Program would be better spent constructing new or improved harbors, airports, or roads rather than in making payments to each resident of the state. These capital expenditures would improve the quality of life for residents of the state for years to come. Further, it is argued that too often the dividends are frivolously spent by recipients.

Proponents of the Permanent Fund Dividend Program argue that individual residents should determine how to spend the income from Alaska's natural resources and the best way is to make the payments directly to each person. Many who review the Legislature's annual appropriations claim that much money is also frivolously spent by the state. Further, millions of dollars are already appropriated annually for harbors, airports and roads.

#### LABOR

#### 6. QUESTION

Should all primary corporate officers be given the option of exemption from the Alaska Employment Security Act?

Favor	Oppose	Undecided	
<u>73%</u> 1	<u>19%</u> 2	<u>8%</u> 3	16

#### BACKGROUND

During this past legislative session, a law was passed permitting corporate officers who own 25% or more of a corporation's outstanding voting stock to elect exemption from the Alaska Employment Security Act, the program which provides unemployment compensation. The proponents of extending this exemption to all primary corporate officers argue that most, if not all, corporate officers never file for unemployment compensation and thus pay a tax for benefits they will never collect.

Some say allowing officers with 25% or more of a corporation's stock to elect exemption was a good change but did not go far enough. The individual election should allow each corporate officer to remain in the UC program, if so desired.

Opponents of the extended exemption say there are many individuals who pay the unemployment tax who likewise never collect benefits. Corporate officers, therefore, should not be specifically entitled to the exemption.

#### 7. QUESTION

Should the wage base for computing workmen's compensation benefits be changed from the current average weekly wage to the spendable weekly wage?

Favor	Oppose	Undecided	
<u>72%</u> 1	<u>16%</u> 2	<u>12%</u> 3	17

#### BACKGROUND

Present law provides that the computation determining an injured employee's loss of earnings be based on the average weekly wage of the employee during any one of the previous three years. Obviously, the employee will choose the year of highest wages. The result is that an employee often ends up with an income equal to or greater than the amount earned if the employee had been working. This provides little or no incentive to return to work. Using the spendable wage base reduces the employee's gross income which causes a reduction in benefits paid and thus results in lower WC premiums paid by employers.

Proponents of a change to the spendable weekly wage believe that there should be some incentive for a speedy return to work. The current system encourages the delay in that return to work.

Those opposed to changing from the current wage base argue that an employee should receive a reasonable income when unemployed due to an injury. The workers' living expenses continue, and so should their income; also, the WC benefit payments in many cases are much less than what an injured worker would currently earn if working.

#### 8. QUESTION

Should the maximum benefit paid under workmen's compensation for a permanent partial disability be increased?

Favor	Oppose	Undecided	
<u>17%</u> 1	<u>65%</u> 2	<u>18%</u> 3	18

8A. If you favor an increase, indicate what maximum percentage increase you prefer.

10%	20%	35%	Undecided	
<u>26%</u> 1	<u>26%</u> 2	<u>11%</u> 3	<u>37%</u> 4	19

#### BACKGROUND

During the last legislative session, an increase of 35% in the maximum benefit for permanent partial disability was proposed. This provision was passed by the House but subsequently defeated by a Senate committee. A permanent partial disability includes the loss of all or part of a limb or faculty, such as the sight in one eye. It is anticipated that the permanent partial disability increase will be



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