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I. REQUEST

Bill/Resolution No: SCSCSSSHB 258(SA)  
 Title: Special Investment Tax Credit  
 Sponsor: Hayes & Szymanski  
 Requestor: Senate State Affairs

II. FISCAL DETAIL

Agency Affected: Revenue  
 Program Category Affected: Coll. & Mgmt  
 BRU, Program of Subprogram(s) Affected: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 COMMODITIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS, ETC.	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-

CAPITAL	-	-	-	-	-	-
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REVENUE	-	-	-	-	-	-
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FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER (Specify Source)	-	-	-	-	-	-

POSITIONS:

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

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

IV. ANALYSIS: Attach a separate page for any Analysis.

Prepared By: Vincent D. Wright  
 Division: Revenue - Research

Phone: 465-2173  
 Date: 6/13/83

Approved by Commissioner: *A*  
 Department: Revenue

Date: 6/14/83

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#### IV. Analysis of SCSCSSHB 258 (SA)

The incorporation of this expanded credit in effect would reduce state taxes as a deductible item at the federal level and thus increase the federal tax take.

The impact of this bill is negative to the state in terms of lost revenues. Since the bill is intended for new facilities, the effect cannot be assessed until they are completed and in operation.

# ALASKA STATE LEGISLATURE

SENATE STATE AFFAIRS COMMITTEE

POUCH V, JUNEAU 99811

SENATOR VIC FISCHER, CHAIRMAN

(907) 465-4954



June 14, 1983  
3:00 p.m.

Butrovich Room  
Capitol Bldg.

## Members Present

Senator Vic Fischer, Chair  
Senator Rodey  
Senator Sturgulewski  
Senator Kelly

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HB 258, Investment tax credit

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Senator Vic Fischer explained the provisions of the original bill, the CS adopted by the Senate Resources Committee, and the draft CS prepared for the State Affairs Committee. He explained that the main change in the draft CS was the provision that the tax credit would not be automatic but that the taxpayer would have to apply to the Department of Revenue and demonstrate both that the project would be economically advantageous to the state and not viable without the applied-for credit. He further explained two changes between the draft circulated the day before and the one before the committee-- a clearer definition of gas processing project and a requirement that the commissioner of Revenue report on tax credits in his annual report.

Commissioner Robert Heath, Department of Revenue, testified that his department had been involved in all versions of the bill and had consistently favored the tax incentive concept and consistently opposed unnecessary subsidy to industry. He said that, while the new section was a "little uncomfortable," the department favored its project-by-project approach.

Senator Sturgulewski questioned Commissioner Heath about how the review process would be applied.

Senator Sturgulewski asked whether the Administration favored the bill. Commissioner Heath responded that, while he had not talked directly to the governor, he had talked to others in the Governor's Office and they supported the new CS.

Senator Fischer explained that the purpose of the CS was to provide tax incentives where needed but to screen out windfalls. He noted that, for example, sand and gravel mining was excluded.

Senator Sturgulewski asked whether the federal law was absolutely

clear about what kinds of things the credits applied to, and Commissioner Heath said that it was.

Senator Fischer asked for a motion to move the bill, noting that it was a House priority.

The committee took a short break.

Senator Sturgulewski asked that the bill be held until Thursday, and the committee agreed.

The meeting adjourned at 3:20.

*Wong Lad*

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SENATE STATE AFFAIRS COMMITTEE

SENATOR VIC FISCHER, CHAIRMAN

POUCH V, JUNEAU 99811

(907) 465-4954



June 13, 1983

TO: Senate State Affairs Committee Members  
FROM: Senator Vic Fischer, Chairman  
RE: HB 258

Attached find a draft CS for HB 258, the investment tax credit bill.

Also attached is a sectional analysis of the draft bill.

This bill will be heard by the State Affairs Committee on Tuesday, June 14.

The principal differences between the Resources CS and the attached draft CS are that in the draft CS

- \* the credits must be applied for and will only be approved if the applicant taxpayer proves that the project would be economically advantageous to the state and viable only if the credits were granted
- \* the credits are up to 100% of the federal credit
- \* the credits are only applicable to tax liabilities attributable to the income from the project in which the investments are put into use
- \* the credits do not apply to the mining of sand and gravel, unless such mining is ancillary to a qualified project
- \* the credits for new projects, mining as well as gas processing, are repealed Jan. 1, 1993, although previous credits may be carried forward.

This Act provides for the establishment of special investment tax credits for the development of gas processing and non-petroleum mineral development projects. The following is a section by section analysis.

- Section 1. The legislature finds that the development of gas processing facilities and development of non-petroleum minerals is in the statewide public interest. The special investment credits are found to be necessary to encourage the development.
- Section 2. This section provides that the special investment tax credits are not limited to 18 percent of the amount of credit determined for federal income tax purposes.
- Section 3. The amount of qualified investment for the special investment tax credits is limited to the first \$250 million put into use in the state for each taxable year. The taxpayer must opt to take advantage of the special credits or the general investment tax credit but cannot use both.
- Section 4. This section contains 4 new subsections to be added to AS 43.20.036 and contains the authority for the special credits, the conditions under which they may be granted and how the credits are to be applied to tax liability.

(j) Subject to (1), this subsection allows for a credit up to 100% of the federal investment tax credit on qualified investment put into use in gas processing projects.

(k) Subject to (1), this subsection allows for a credit up to 100% of the federal investment tax credit on qualified investment put into use in non-petroleum mineral development projects other than sand and gravel.

(1) This subsection requires a project by project determination by the commissioner of revenue that a proposed project should be granted the special investment tax credits. The Department of Revenue would be required to adopt regulations that establish the criteria for the granting or denial of the special investment tax credits. A taxpayer applying for the special credits would

present evidence at a public hearing to support the application. The taxpayer has the burden of proving the economic advantage of the project to the state and that the project would only be viable if the credits were granted by the commissioner. Following the hearing, the commissioner would determine the rate of the federal credit to be allowed. The commissioner is also authorized to monitor the project for which the special investment credits have been authorized and may withdraw or adjust the terms of the authorization if the project does not substantially conform to the application. The taxpayer has a right to an administrative appeal to protest the withdrawal or adjustment of the authorization. Following the appeal, the commissioner's decision would be final unless reversed or modified by the courts.

(m) The special investment tax credits could only be applied to tax liabilities attributable to the income from the project in which the qualified investments have been put into use. The taxpayer can apply the credits to the first \$1 million of tax and to half of the tax liability greater than \$1 million. Unused credits can be carried forward and used under the carryforward provisions of the Internal Revenue Code which presently provide for a 15 year carryforward.

Section 5. The special credits for qualified investments would be repealed January 1, 1993. Carryforwards could be used after the repeal but investment credits on qualified investments made after December 31, 1992 would be limited to 18% of the Federal credit on the first \$20,000,000 of qualified investment.

Section 6. The Act would take effect January 1, 1984. This provides sufficient time for the department of revenue to adopt the regulations necessary for the operation of the Act.

STATE OF ALASKA  
FISCAL NOTE

Revision Date 6/13/83

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700 GRANTS, CLAIMS, ETC.	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	-	-	-	-	-	-

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AMENDMENT **1**

SCS for CS for SS for HB 258 (SA)

page 4, line 12, after "section." insert:

In demonstrating that the proposed project would provide an economic advantage to the state, the taxpayer must show that the investment would significantly diversify the local or state economy and that there exists within an area reasonably proximate to the site of the proposed project for which the investment is to be made at least three of the following:

(1) a high level of unemployment; (2) an underutilized mineral, other than oil or gas; (3) an established infrastructure suitable for supporting the proposed project; (4) access to ice free ports; (5) substantial uncommitted reserves of natural gas.

This amendment helps further define the criteria that the commissioner of Revenue must consider in deciding whether or not to grant the tax credit.

AMENDMENT **2**

SCS for CS for SS for HB 258 (SA)

page 5, lines 12-20

Delete subsection (m) and insert in its place:

(m) The credit per taxable year allowed by (j) and (k) of this section shall not exceed (1) 100 percent of the initial \$1,000,000 of liability for tax attributable to income earned from the projects subject to the credits in (j) or (k) of this section, plus (2) 50 percent of the liability for tax in excess of \$1,000,000 attributable to income earned from the projects subject to the credits in (j) or (k) of this section. Any unused portion of the credit shall be subject to the carry-forward provisions contained in 26 U.S.C. 46(b)(3)(Internal Revenue Code).

This amendment rewrites subsection (m) in a clearer, less confusing manner. The meaning remains the same.

6/16

VIC--

The two amendments are in the back of each member's folder. I've marked on your copy of the bill (in orange) where they fit. I haven't had a chance to discuss the amendments with Revenue yet, but will try to before the meeting. We had discussed the criteria one earlier and Don Bullock felt OK about it at that time. The other is, of course, just a wording change.

Gravo tells me CIRI does not intend to testify or offer anything.

*ML*