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HOUSE  
COMMITTEE REPORT

(7)

Date referred: 2/17/86

FURTHER REFERRALS: FINANCE

DATE: March 21, 1988

HEALTH, EDUCATION AND  
The SOCIAL SERVICES Committee has considered HB 688

"An Act allowing tax credits for contributions to educational institutions."

and recommends:

- do pass
- do not pass
- do pass with attached amendment(s)
- no recommendation
- replace with C.S. HB 688 (HESS)  same title
- new title

and recommends do pass

further referral to the \_\_\_\_\_ Committee

- and attaches:
- letter of intent
  - first fiscal note
  - new fiscal note
  - zero fiscal note w/ analysis

SIGNING DO PASS:

SIGNING OTHER RECOMMENDATIONS:

David W. Shoups

John F. Kosman

W. G. Shumaker

Edwin L. Taylor

Katie Hurley

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John F. Kosman co-chair  
Chairman

W. G. Shumaker Co-Ch.

STATE OF ALASKA 1986 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

REQUEST

Bill/Resolution No: CS HB 688  
Title: An Act Allowing Tax Credits for Contributions to Educational Institutions  
Sponsor: Gruenberg  
Requestor: HESS  
Date of Request: 3/18/86

FISCAL DETAIL

Agency Affected: Revenue  
BRU: \_\_\_\_\_  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	(See attached)-	-	-	-

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: Attach a separate page if necessary

Prepared By: Mary Ellen Frank/<sup>MEF</sup>Bob Elliott<sup>BE</sup> Phone: 465-2173  
Division: Revenue/Research Date: 3/20/86  
Approved by Commissioner: *[Signature]* Date: 3/20/86  
Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):

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

It is impossible to give exact figures on what the revenue loss to the State would be under CSHB 688 because, although the incentive can be analyzed (below), the degree of response to the tax measure isn't possible to gauge. The committee substitute adds language designed to prevent corporations from using the same contribution as a deduction or credit against multiple tax liabilities, thereby preventing double deduction or credit. However, a corporation can split its contribution budget among qualifying educational institutions and still have deductions or credits against multiple tax liabilities.

1. The State could lose as much as (based on March 1986 revenue forecast, in millions of dollars with only half of FY87 included given the committee substitute effective date of CY87):

TAX TYPE	FY 87	FY 88
Corporate Income Tax	100.0	190.0
Estate Tax	.3	.6
Production Tax	335.3	533.0
Oil & Gas Property Tax	44.5	81.0
Mining Tax	.2	.3
Fisheries Tax	9.6	19.2
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TOTAL	489.9	824.1

2. Companies are regarded as an aggregate here. Companies that do not make charitable contributions now will have no economic incentives\* to change that. Companies that have contribution budgets will have incentive to channel them toward qualifying institutions as they will have a economic incentive\*. \*Economic incentive here means having net income retained after contribution, see simplified example attached.

3. Non-educational tax deductible organizations will tend to lose contributions from companies because corporations will have a net gain in retained income by redirecting their contribution budgets to qualifying Alaska educational institutions.

4. Non-Alaskan tax deductible organizations including educational institutions will tend to lose contributions as corporations operating in Alaska will retain a greater amount of net income by redirecting their contributions to qualifying Alaska educational institutions.

5. The Federal Government will tend to gain tax revenue on aggregate. Companies that make contributions will have less deduction (against income taxes) and individuals will have less credit (against estate taxes) and, therefore, both will have greater Federal taxable income. Companies not already making contributions would have more deductions if they chose to make them but, as noted before, there would be no economic incentive (see 2.) to do so. See simplified example attached.

6. The State will lose tax revenue but may also have less demand for existing revenues if educational institutions are funded by private corporations.

7. There will be less ability for the State to estimate revenues and control budgets with these tax credits.

SIMPLIFIED EXAMPLE  
CSHB 688  
(thousands of dollars)

ASSUMPTIONS

1. Federal Taxable Income \$1 billion (before contribution)
2. State Taxable Income (10% apportionment) \$100 million
3. Contribution to UA \$25 million
4. AS 43.55 Tax Liability \$50 million

SCENARIO	CORPORATION TYPE			
	Corporation AAAAAAAAAA		Corporation BBBBBBBBBB	
	No contri Old law	Contri CSHB688	Contri Old law	Contri CSHB688
Fed'1 Taxable Income	1,000,000	1,000,000	1,000,000	1,000,000
State Tax Credit				
Add Back:				
43.55 credit	0	12,500	0	12,500
43.20 tax reduction	0	250	250	250
Contribution Deduction				
Subtract:				
(IRC Sec. 170)	0	-25,000	-25,000	-25,000
Adj Fed'1 Taxable Income	1,000,000	987,750	975,250	987,750
Fed'1 Tax Liability	-459,980	-454,230	-448,480	-454,230
Before Fed'1 Tax Income	1,000,000	1,000,000	1,000,000	1,000,000
Fed'1 Tax Liability	-459,980	-454,230	-448,480	-454,230
After Fed'1 Tax Income	540,020	545,770	551,520	545,770
Contribution to UA	0	-25,000	-25,000	-25,000
Aft Fed'1 Tax & Contributn	540,020	520,770	526,520	520,770

NOTE:

1. Corp. A does not have a contribution budget under existing law. If it made a contribution under CSHB688 it would:
  - A. Pay \$5,750 thou. less Federal income tax;
  - B. Have more money after taxes, \$5,750 thou;
  - C. Have \$19,250 thou. less after taxes and contribution, the net of \$5,750 thou. more after taxes less the \$25,000 thou. contribution.
2. Corp. B does have a contribution budget under existing law. If it made a contribution under CSHB688 rather than under existing law, it would:
  - A. Pay \$5,750 thou. more Federal income tax;
  - B. Have less money after taxes, \$5,750 thou;
  - C. Have \$5,750 thou. less after taxes and contribution.

SECTIONAL ANALYSIS FOR HB 688 - RELATING TO TAX CREDITS FOR CONTRIBUTIONS TO EDUCATIONAL INSTITUTIONS

The aim of the bill is to provide a new revenue stream for higher education in Alaska, while providing considerable state and federal tax benefits for individuals making contributions.

- SECTION 1 Provides that a person engaged in trade or business is allowed a credit against their tax due for 50% of their contribution to a qualified college or university.
- SECTION 2 Provides that 10% of a bequest to a qualified college or university is allowed as a credit towards estate tax.
- SECTION 3 Provides for a tax credit of 50% of the contribution to a qualified college or university for an oil and gas producer.
- SECTION 4 Provides for a tax credit of 50% of the contribution to a qualified college or university by an owner of taxable oil and gas property.
- SECTION 5 Provides for a tax credit of 50% of the contribution to a qualified college or university towards the mining business tax.
- SECTION 6 Provides for a tax credit of 50% of the contribution to a qualified college or university towards the state share of the raw fish tax.
- SECTION 7 Defines "tax revenue collected" under the raw fish tax.

CHANGES IN THE HESS COMMITTEE SUBSTITUTE:

1. Provides in each section that the contributions must be cash and must be accepted by the college or university.
2. Prevents one contribution from being charged under more than one tax credit category.
3. Section 3 was amended, at the request of the Department of Revenue, to provide that the credit may be applied against the tax liability accruing during the month the contribution was made.
4. A new section 8 was added to the bill which provides that the Act applies to contributions made after December 31, 1986.

James  
3/12/86

Original sponsors: Gruenberg, Koponen  
Ringstad, et al

1 IN THE HOUSE

BY THE HEALTH, EDUCATION AND  
SOCIAL SERVICES COMMITTEE

2 CS FOR HOUSE BILL NO. 688 (HESS)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act allowing tax credits for contributions to  
7 educational institutions."

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

9 \* Section 1. AS 43.20 is amended by adding a new section to read:

10 Sec. 43.20.014. TRADE OR BUSINESS EDUCATION CREDIT. A person  
11 engaged in a trade or business is allowed as a credit against the tax  
12 due under this chapter 50 percent of cash contributions accepted by an  
13 accredited, nonprofit, public or private, in-state, two- or four-year,  
14 college or university. The credit may not exceed the amount of tax  
15 due under this chapter. A contribution claimed as a credit under this  
16 section may not be claimed as a credit under another section.

17 \* Sec. 2. AS 43.31 is amended by adding a new section to read:

18 Sec. 43.31.014. ESTATE EDUCATION CREDIT. The estate of a per-  
19 son, who at the time of death, was a resident of this state, is al-  
20 lowed as a credit against the tax due under this chapter 10 percent of  
21 cash bequests accepted by an accredited, nonprofit, public or private,  
22 in-state, two- or four-year, college or university. The credit may  
23 not exceed the amount of tax due under this chapter. A contribution  
24 claimed as a credit under this section may not be claimed as a credit  
25 under another section.

26 \* Sec. 3. AS 43.55 is amended by adding a new section to read:

27 Sec. 43.55.019. OIL OR GAS PRODUCER EDUCATION CREDIT. A pro-  
28 ducer of oil or gas is allowed as a credit against the tax due under  
29 this chapter 50 percent of cash contributions accepted by an

1 accredited, nonprofit, public or private, in-state, two- or four-year,  
2 college or university. The credit may only be applied against the tax  
3 liability accruing during the month the contribution is made. The  
4 credit may not exceed the amount of tax due under this chapter. A  
5 contribution claimed as a credit under this section may not be claimed  
6 as a credit under another section.

7 \* Sec. 4. AS 43.56 is amended by adding a new section to read:

8 Sec. 43.56.018. OIL OR GAS PROPERTY EDUCATION CREDIT. The owner  
9 of property taxable under this chapter is allowed as a credit against  
10 the tax due under this chapter 50 percent of cash contributions ac-  
11 cepted by an accredited, nonprofit, public or private, in-state, two-  
12 or four-year, college or university. The credit may not exceed the  
13 amount of tax due under this chapter. A contribution claimed as a  
14 credit under this section may not be claimed as a credit under another  
15 section.

16 \* Sec. 5. AS 43.65 is amended by adding a new section to read:

17 Sec. 43.65.018. MINING BUSINESS EDUCATION CREDIT. A person  
18 engaged in the business of mining in the state is allowed as a credit  
19 against the tax due under this chapter 50 percent of cash contribu-  
20 tions accepted by an accredited, nonprofit, public or private, in-  
21 state, two- or four-year, college or university. The credit may not  
22 exceed the amount of tax due under this chapter. A contribution  
23 claimed as a credit under this section may not be claimed as a credit  
24 under another section.

25 \* Sec. 6. AS 43.75 is amended by adding a new section to read:

26 Sec. 43.75.018. FISHERIES BUSINESS EDUCATION CREDIT. A person  
27 engaged in a fisheries business is allowed as a credit against the tax  
28 due under this chapter 50 percent of cash contributions accepted by an  
29 accredited, nonprofit, public or private, in-state, two- or four-year,

1 college or university. The credit may not exceed the amount of tax  
2 due under this chapter. A contribution claimed as a credit under this  
3 section may not be claimed as a credit under another section.

4 \* Sec. 7. AS 43.75.130 is amended by adding a new subsection to read:

5 (b) In this section, "tax revenue collected" includes the amount  
6 credited against taxes under AS 43.75.018.

7 \* Sec. 8. The provisions of this Act apply to contributions made after  
8 December 31, 1986.

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# Alaska State Legislature

Official Business

Pouch V  
State Capitol  
Juneau, Alaska 99811

Date: March 26, 1986

To: Rep. Al Adams  
Chair  
House Finance Committee

From: Rep. Max Gruenberg, Jr. *MJG*

Re: CSHB 688 (HESS): "An Act allowing tax credits for contributions to educational institutions"

I would appreciate it if you would schedule a hearing on CSHB 688 (HESS), relating to university tax credits, in the House Finance Committee as soon as it is possible.

Thank you very much.

A M E N D M E N T

Offered in the HOUSE

By Gruenberg

TO: HB 688

Page 1, line 15, following "chapter." insert:

"A contribution claimed as a credit under this chapter may not be claimed as a credit under another chapter."

Page 1, line 22, following "chapter." insert:

"A contribution claimed as a credit under this chapter may not be claimed as a credit under another chapter."

Page 1, line 28, following "chapter." insert:

"A contribution claimed as a credit under this chapter may not be claimed as a credit under another chapter."

Page 2, line 6, following "chapter." insert:

"A contribution claimed as a credit under this chapter may not be claimed as a credit under another chapter."

Page 2, line 13, following "chapter." insert:

"A contribution claimed as a credit under this chapter may not be claimed as a credit under another chapter."

Page 2, line 20, following "chapter." insert:

"A contribution claimed as a credit under this chapter may not be claimed as a credit under another chapter."

AMENDMENT

OFFERED IN THE HOUSE

BY GRUENBERG

TO: HB 688

Page 1, line 12:

delete "to" and insert accepted by

Page 1, line 20:

delete "to" and insert accepted by

Page 1, line 26:

delete "to" and insert accepted by

Page 2, line 3:

delete "to" and insert accepted by

Page 2, line 10:

delete "to" and insert accepted by

Page 2, line 17:

delete "to" and insert accepted by