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ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

May 1, 1985

MEMORANDUM

TO: Representative Dave Thompson

ATTN: Bob Thomas

FROM: Nancy Pease *Nancy Pease*
Legislative Analyst

RE: Alternatives to Taxation
Research Request 85-217 (Additional Information)

In response to my memorandum of April 2, you asked the following questions pertaining to business license revenues in Alaska:

- the number of resident and out-of-state businesses licensed in Alaska;
- whether other states issue general business licenses, and, if so, the license fee;
- an explanation of revenues other than license fees collected in the business license account; and
- the amount of revenue generated by State corporate income tax.

Resident and Out-of-State Businesses Licensed in Alaska

In early 1985, the Alaska Department of Revenue had 63,124 active business licenses on file. This number includes all current business licenses as well as licenses which have lapsed within the year and are eligible for renewal.¹ The number of current (renewed) business licenses is 54,236.

¹According to Paul Engleman of the Office of Enterprise of the Department of Revenue, over three-quarters of the business licenses which lapse are renewed within one year of their expiration; thus the Department of Revenue considers to be active business licenses which have lapsed within the year.

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According to Paul Engleman of the State's Department of Revenue, the State's licensing procedure does not require that business owners declare their enterprises to be Alaskan or non-Alaskan. Mr. Engleman suggested that the zip codes of businesses' mailing addresses give a rough indication of the number and percentage of out-of-state and resident businesses operating in Alaska. (Using this means of distinction, multi-state businesses which have an office or mailing address in Alaska are counted as Alaska businesses.) Of all active business licenses, 4.6 percent (2,797) are issued to persons at out-of-state addresses. Of all current (renewed) business licenses, five percent (2,585) are issued to persons at out-of-state addresses.

Business License Fees

In Alaska, all businesses are required to obtain a general business license for an annual fee of \$25. None of the four other states surveyed (Washington, Oregon, California and Idaho) issue an annual general business license. These states do license some specialty tradesmen and professionals to assure standards of performance. License fees vary depending on the occupation.

In California, cities and counties issue general business licenses, setting their license fees locally. In Idaho, the state licenses corporations, charging a one-time fee of \$60 for profit-making corporations and \$20 for nonprofit corporations. In addition, Idaho charges corporations an annual franchise tax. Unincorporated businesses are not licensed by the State of Idaho but are licensed by cities and counties.

Alaska Business License Revenues

As I have noted in conversations with your aide, the business license revenues reported by the Department of Revenue for FY 84 are inflated by bank taxes and litigation awards in favor of the State. In my memorandum of April 2, 1985, I reported that the State had collected approximately \$30.7 million in business license fees. Of this total, only \$1.4 million accrued from collection of \$25 general business license fees.

In FY 84, Alaska collected business license revenue from the following sources:

\$ 10.8 million NCNTAX PORTION--Special business licenses and permits
\$ 19.9 million TAX PORTION--Alaska business license account including:

- \$14.0 million in litigation in favor of the State on Gross Receipts taxes for years prior to 1979;
- \$ 4.4 million from bank taxes collected under AS 43.70, the Business Licenses Tax Act, which exempted banks from corporate income tax. Effective June 9, 1984, Ch 93, SLA 1984 allows banks to be taxed under the Corporate Income Tax Act, AS 43.20. As a result, there will be a shift in revenues from the Alaska Business License account to the Corporate General Income Tax account beginning in in FY 85; and
- \$ 1.4 million in general business license fees.

\$ 30.7 million total business license revenues.

According to Mary Ellen Frank of the Revenue Research Division, the State will collect approximately \$1.4 million in general business license fees in FY 85, and an additional \$600,000 from litigation on gross receipts for prior years, for total business license revenues of \$2.0 million in FY 85.

Corporate Income Tax

Alaska levies a general corporate income tax on all profit-making corporations doing business in Alaska. For multi-state corporations, the tax is imposed on the entire taxable income derived from sources within Alaska. The income derived within Alaska is estimated by a method called formula apportionment which considers the corporations' sales, payroll and properties in Alaska as a percent of its out-of-state holdings and operations. The formula apportionment for oil and gas corporations differs from the formula apportionment used for other corporations; the oil and gas corporate income tax is collected and reported separately from other corporate income tax. The State collected \$265 million from oil and gas corporate income taxes in FY 84, and \$39.5 million in general corporate income tax. According to a

²Revenue Sources FY 84 - FY 87, Alaska Department of Revenue, January 1985, pp 4, 30 and 31.

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spokesperson for the Division of Audit, the State generally collects 90 percent of all corporate income tax from oil and gas corporations.

* * *

I hope this information is helpful. If we can be of further assistance, please let us know.

NP

Alaska State Legislature

DISTRICT 27:

AKHIOK
CHIGNIK
CHIGNIK LAGOON
CHIGNIK LAKE
CHINIAK
IVANOF BAY
KARLUK
KODIAK
LARSEN BAY
OLD HARBOR
OUZINKIE
PERRYVILLE
PORT LIONS
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DT: May 2, 1985

TO: Rep. Mike Navarre, Chairman
House Labor and Commerce Committee

FR: Rep. David Thompson

RE: HB 404, increasing Alaska business license tax

House Bill 404 is a straight-forward revenue enhancement measure changing the fee charged for annual general business license taxes from \$25 to \$100 each.

In early 1985 the Alaska Department of Revenue had 63,124 active business licenses on file. This number includes all current business licenses as well as licenses which have lapsed within the year and are eligible for renewal. At the current fee of \$25, the revenue generated from general business license fees is approximately \$1.4 million. With an increase to \$100 each, this annual revenue generation method will provide approximately \$5.6 million annually for an increase of \$4.2 million dollars per year over what is currently generated.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: HB 404
 Title: AN ACT INCREASING THE ANNUAL BUSINESS LICENSE TAX
 Sponsor: REP. THOMPSON
 Requestor: HOUSE LABOR & COMMERCE
 Date of Request: 4/26/85

FISCAL DETAIL

Agency Affected: REVENUE
 Program Category Affected: GENERAL GOV.
 BRU, Program or Subprogram(s) Affected: PUBLIC SERVICES OPERATING

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE						
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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: Sally Smith Phone: 465-2392
 Division: public services Date: 5/2/85

Approved by Commissioner: [Signature] Date: 5/3/85
 Agency: Department of Revenue

Distribution (by Agency preparing Fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

7/1/84

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST

Bill/Resolution No: HB 404
 Title: An Act Increasing the Annual Business License Tax
 Sponsor: Thompson
 Requestor: Labor & Commerce; Finance
 Date of Request: 4/29/85

Revision Date

FISCAL DETAIL

Agency Affected: Revenue
 Program Category Affected: _____
 BRU, Program of Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	2,400	4,800	4,800	4,800	4,800

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: Attach a separate page for analysis.

1. With the January 1, 1986 effective date the higher rate would be in effect for one-half of FY 86.
2. Assumes 64,000 licenses issued each year over period covered by fiscal note.
3. The revenue impact of the legislation is \$75 per license.

Prepared By: David Tonkovich ^{DT}
 Division: Revenue - Research Section

Phone: 465-2173

Date: 4/30/85

Approved by Commissioner: Mary H. Sturdale
 Agency: Revenue

Date: 5/3/85

Distribution (by Agency preparing fiscal note):

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- Requestor
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- Impacted Agency(ies)



RECORDS CERTIFICATION



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Date