

**HB**

**232**

**HFIN**

**FILE**

HOUSE COMMITTEE REPORT

(11)

Date Referred: April 28, 1995

FURTHER REFERRALS:

Date of Committee Action: \_\_\_\_\_

The FINANCE Committee considered:

HB 232

HOUSE BILL NO. 232

ECONOMIC DEVELOPMENT TAX CREDIT

"An Act establishing an economic development tax credit; and providing for an effective date."

recommends it be replaced with the following committee substitute \_\_\_\_\_ [ ] the same title [ ] a new title

[ ] additional referral to \_\_\_\_\_ Committee [ ] attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept) APPROVES PREVIOUS: (Dept/Date)

[ ] fiscal note(s) \_\_\_\_\_ [ ] fiscal note(s) \_\_\_\_\_

[ ] zero fiscal note(s) \_\_\_\_\_ [ ] zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS	BP	DNP	NR	AM
<p>Died in Committee</p>				

CHAIR'S SIGNATURE \_\_\_\_\_

# FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. CS HB232 (STA)

Revision Date: April 12, 1995  
 Title: An Act establishing an economic development tax credit  
 Sponsor: Representative Kott  
 Requestor: House State Affairs

Department: Commerce and Economic Development  
 BRU: Alaska Industrial Export and Development Authority  
 Component: \_\_\_\_\_  
 COMPONENT SERIAL NO. 1234

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES</b>						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 95) cost: \$ \_\_\_\_\_

**POSITIONS**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary)

Prepared by: Guy Bell, Director Phone: 465-2505  
 Division: Administrative Services Date: 4/12/95  
 Approved by Commissioner: William L. Hensley Date: 4/12/95  
 Agency: Commerce and Economic Development

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Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Economic Development Tax Credit BRU: Audit Operations  
 Component: Income and Excise Audit  
 Sponsor: Rep. Kott  
 Requestor: (H) STA COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
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REVENUE FUND SOURCE: GF	*****	*****	*****	*****	*****	*****
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FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current (FY95) impact \$ 0.0

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Robert N. Bartholomew Deputy Director *Robert N. Bartholomew* Phone: 465-2320  
 Division: Income and Excise Audit Date: 4/13/95  
 Approved by Commissioner: *[Signature]* Date: 4/13/95  
 Agency: Department of Revenue

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# ALASKA DEPARTMENT OF REVENUE

Fiscal Note Analysis  
CSHB 232(STA)  
April 13, 1995  
Page 2 of 2

## FISCAL ANALYSIS

### Maximum Credit

The Alaska Industrial Development and Export Authority (AIDEA) determines the amount and duration of the credit to be awarded. A credit is not allowed for jobs that the taxpayer relocates from one site in the state to another site in the state. The credit may not exceed the lesser of 5% of the amount of gross wages payable as compensation to new employees or 25% of the tax due by the taxpayer under AS 44.88 (*see technical correction below*). The credit is in addition to all other credits that may be allowed under the corporation income tax provisions. The credit may be claimed for up to 10 consecutive taxable years after approval.

### Operating Costs

Department of Revenue is submitting a zero fiscal note for HB 232(STA) contingent on understanding that AIDEA will assume responsibilities required under Section 1, page 2, lines 4 through 15. This fiscal note is based on a limited number of projects qualifying for the credit. If it is determined through further discussion with AIDEA and the bill's sponsor that the scope of this bill will apply to numerous projects, the Department may require additional staffing to verify credits through its audit program. Department of Revenue is working with AIDEA to clarify AIDEA's responsibilities in implementing the economic development tax credit program and the scope of application that this bill will have for qualifying projects.

### State Revenue Impact

Department of Revenue is unable to determine revenue impacts of this bill because it is not feasible to estimate the magnitude of projects eligible for credits under this bill and volume of applications that AIDEA would receive for the credit. Initial discussions have indicated a small number of applications would qualify due to requirement for competition among two states for a new business opportunity. Discussions to refine intent of the legislation are ongoing. If this legislation in final form is applicable to most new business ventures the department may have additional policy concerns.

### Technical Correction

Page 4, lines 12 and 13 should be changed to replace "this chapter" with "AS 43.20" as there are no taxes due under AS 44.88.

PROPOSED HOUSE CS FOR HB 232( ):

Explanation of amendments to

CS for HB 232(STA):

Use Version R: Shows changes made for Versions U  
and includes changes to anticipated Version V

(note: changes in Version V shown below as 3V and 13V)

1) page 1, line 9: delete "1995" and insert "1996". This would update the bill from last year's session when it was introduced, and give AIDEA and DOR time to get the program in place.

1V) page 2, lines 6-7, proposed change in new draft V : delete the phrase "and in addition to any other credit authorized to the taxpayer by this chapter." This was removed to avoid the inconsistency that it had with page 2, lines 2-3.

2) Page 1, line 14 delete the number "10" ; insert the number "5". An attempt was made to strike a balance between the need for providing tax credit incentives for new businesses in the state, and at the same time taking care not to deplete the state's revenue stream too much by doing so. It was therefore decided that 5 years would be a better length of time than 10 years.

3) page 2, line 2--Insert after the word "other" but before the word "tax" the word "state". This change was to meet several concerns expressed. First, Rep. Elton in Committee hearings on the bill last year wanted to know if the giving of a tax credit by a municipality would therefore exclude a company from receiving a tax credit under this bill. Since several municipalities, including Juneau and Anchorage, already give municipal tax credits, it was decided that we did not want to exclude a company from receiving a municipal as well as a state tax credit. Second, this language prevents other companies who are already receiving state tax credits under other programs from "double-dipping" so to speak. Thus, the extensive tax credits already being received by many larger companies in the oil, gas, mining, timber, and fishing industries would prevent them from obtaining additional benefits under this bill, unless they chose to forego the other benefits in favor of this one.

3a) page 2, lines 20-21: Delete the phrase "for the taxable years specified in the taxpayer's tax credit agreement and may not be applied retrospectively." Insert in its place the following:

"(1) by a person who has

(A) an anticipated gross payroll of at least \$1,000,000 during the 12-month period preceding the submission of the credit application; or

(B) a capital investment in the state of at least \$5,000,000 at the time of submission of the tax credit application; and"

This was inserted to set a lower threshold for when a tax credit could kick in and a company could be considered eligible.

3V) page 2, lines 20-21: in place of the above changes on 3a) above, make the following changes:

"(1) by a person who has  
(A) anticipated gross payroll increase of at least \$1,000,000 during the 12-month following the award of the tax credit; or  
(B) an anticipated capital investment in the state of at least \$5,000,000 following the award of the tax credit; and"

This further change will be made to make it clear that the increases only apply after the tax credit is made.

3b) page 2, line 26: delete the phrase "shall negotiate with the applicant." This is to eliminate any flexible determination by AIDEA or DOR and thus to avoid lawsuits.

3c) page 2, line 27: delete the word ""may" and insert the word "shall." This is to eliminate any flexible determination, and make the agreement mandatory on the part of the state once the application is received and if the conditions are met.

4) page 3, line 9, after the word "state;" insert the word "or"; then on line 12, insert a period after the word "applicant" and delete the word "or." These are technical changes to conform these lines to the deletion of (C) which immediately follows.

5) page 3, lines 13-16: Delete all of (C). It was felt that this language was too broad for the narrow purposes AIDEA and DOR wished, since it was open to interpretation which could be challenged in court. Consequently, it was deleted; which means that only (A) and (B) apply to determining eligibility for the tax credit.

6) page 3, lines 24-32; and page 4, lines 1-6: Delete these lines, that is, delete all of subsection (e); and reletter accordingly (including a reletter of a reference on page 5, line 9 to (g) which becomes (f), as does the (g) on page 3, line 20. The intention here is to leave no room for negotiation of the credit amount, since this has been fixed automatically as the lesser of two choices on page 44, lines 9-13. Again, this change was made to leave no room for doubt or possible lawsuit due to some choice AIDEA has made. The two choices listed in the bill are on page 4, lines 9-13, and are either (1) 5% of the gross wages payable as compensation for new employees, or (2) 25% of the tax due and payable by the taxpayer under this chapter.

7) page 4, lines 7-8: Delete the phrase "The membership shall determine the amount and duration of a tax credit awarded under this section." By deleting this phrase, the determination is again not up to AIDEA or DOR; the effect of this change is that both the amount and duration of the credit is now defined in the bill instead. Also, on line 8 delete the phrase "amount may not exceed" and insert the phrase "shall be." The effect of this change would be twofold: first, by deleting the word amount, we are eliminating the term "credit amount" from both the definition section of the bill (section i), and secondly, we are making the credit determination be the lesser of the two following items listed as (1) and (2), thus again removing any determination or flexibility from AIDEA or DOR.

8) page 4, line 20: delete all of (3), renumber remaining numbers in the sequence. In response to requests from AIDEA and DOR, we have attempted to delete language in several places in the bill that would require the AIDEA or DOR to make determination of eligibility for the program or for the amount of benefits, and instead fix the requirements in statute. This would have the effect of minimizing the amount of time for determination that would be required by AIDEA and DOR, and also reduce the number of potential appeals and lawsuits that might result from any flexible standards being determined and applied by AIDEA and DOR.

9) page 4, line 22: Delete the phrase "as the term of the tax credit;" and insert in its place the phrase "the credit is utilized." Since we reduced the maximum length of eligibility for the tax credit program from 10 years to 5 years on page 1 of the bill, this would then mean that the maximum amount of time required for a company to remain operating in the state would be two times that, or  $5 \times 2 = 10$  years. Of course, a company can choose to opt out of the tax credits before the five years are up; in which case this requirement is reduced to something less than 10 years.

10) page 4, lines 23-25: delete all of (5); renumber remaining numbers, including a change on page 4, line 31 referencing (6), which now becomes (4) with all of the new renumbered subsections. It was felt that instead of being too broad, this requirement was too specific, and AIDEA and DOR would need some flexibility to develop differing methods depending on the circumstances.

11) page 4, lines 28-29: delete all of lines 28 and 29 after the word "employee". These lines were deleted as being too broad in scope, and in any case the departments involved would do what they deemed necessary to meet the intent of this bill.

12) page 4, line 31: delete the phrase "the appropriate" and insert the word "any"; drop "agencies" and insert the word "agency". A technical change in line with the comments in 8) above, since AIDEA and DOR would decide which agency or agencies were appropriate to obtain information from.

13) page 5, lines 6-7: delete all of (9). Again, to meet concerns that flexible determinations by AIDEA and DOR would take time and be vulnerable to lawsuits, this requirement was deleted.

In its place was inserted the following phrase:

"(7) a requirement that the taxpayer shall expand the taxpayer's gross payroll in the state by at least \$1,000,000 or shall have at least \$5,000,000 in capital investment in the state;"

This would have the effect of placing the minimum threshold in the agreement that is to be signed by the applicant and the state. Once this is signed, if the applicant violates this requirement or any other requirement listed in the agreement, the Commissioner shall cancel the credit, as per the statement on page 2, lines 4-8 subsection (c).

13V) page 5, lines 6-7: Amend (7) shown above to read as follows;

"(7) a requirement that the taxpayer shall expand the taxpayer's gross payroll in the state by at least \$1,000,000 or shall make at least \$5,000,000 in capital investment in the state in the 12 months following the granting of the tax credit."

This would make it clear that the threshold amounts put in the above agreement would only apply to payroll and/or capital investment put into the state after the agreement was signed.

14) page 5, lines 19-20: delete all the information in (1); renumber remaining subsections accordingly. Because this amount is fixed in the bill as being only one of two possibilities (either 5% of gross wages or 25% of the tax due from the applicant, whichever is lesser), it was felt that this definition could be deleted, as it made reference to the "credit amount agreed to" and would imply some sort of flexible determination by the authority (which includes AIDEA and/or DOR).

15) page 6, line 15: delete "1996" and insert "1997". A technical change to update the bill from last year.

9-LS0323\W  
Chenoweth  
3/15/96

**CS FOR HOUSE BILL NO. 232( )**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**NINETEENTH LEGISLATURE - SECOND SESSION**

**BY**

**Offered:**  
**Referred:**

**Sponsor(s): REPRESENTATIVE KOTT**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act establishing an economic development tax credit; and providing for an  
2 effective date."

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

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

5       Sec. 43.20.043. **ECONOMIC DEVELOPMENT TAX CREDIT.** (a) Subject to  
6 the conditions set out in this section, a taxpayer may apply as a credit against the state  
7 tax liability that may be imposed on the taxpayer under this chapter for a taxable year  
8 after December 31, 1996, the amount approved as a credit by the Alaska Industrial  
9 Development and Export Authority under AS 44.88.088 for that taxable year.

10       (b) The credit allowed by this section may not

11               (1) exceed the amount approved as a credit by the Alaska Industrial  
12 Development and Export Authority under AS 44.88.088;

13               (2) be awarded for more than five consecutive taxable years after  
14 approval; and

15               (3) be used in a tax year by a taxpayer in conjunction with any other

1 state tax credit program.

2 (c) If the commissioner determines that a taxpayer who has received a credit  
3 under this section is not complying with all requirements of the tax credit agreement or  
4 all of the provisions of this section and AS 44.88.088, the commissioner shall, after  
5 giving the taxpayer an opportunity to explain the noncompliance, cancel the credit and  
6 may begin an enforcement action against the taxpayer under AS 43.10.

7 (d) On or before March 31 each year, the commissioner shall submit a report to  
8 the Alaska Industrial Development and Export Authority on the tax credits allowed under  
9 the tax credit program authorized by this section. The report must include information  
10 on the number of agreements that were entered into under AS 44.88.088 during the  
11 preceding calendar year for which a credit is allowed under this section and the sum of  
12 the credits allowed under this section.

13 \* Sec. 2. AS 44.88 is amended by adding a new section to article 3 to read:

14 Sec. 44.88.088. ECONOMIC DEVELOPMENT TAX CREDIT. (a) The  
15 membership of the authority may make economic development tax credit awards under  
16 this section to foster job creation or to expand value-added manufacturing or processing  
17 industries in the state. The credit may only be claimed

18 (1) by a person who has

19 (A) an anticipated increase in gross payroll of at least \$1,000,000  
20 in the state during the 12-month period following award of the tax credit; or

21 (B) an anticipated additional capital investment in the state of at  
22 least \$5,000,000 following the award of the tax credit; and

23 (2) for the taxable years specified in the taxpayer's tax credit agreement  
24 and may not be applied retrospectively.

25 (b) A person that proposes a project to create new jobs or to expand value-added  
26 manufacturing or processing industries in the state may apply to the authority to enter  
27 into an agreement for a tax credit under this section. The authority shall prescribe the  
28 form of the application.

29 (c) After receipt of an application, the authority shall enter into an agreement  
30 with the applicant for a credit under this section if the membership of the authority  
31 determines that

32 (1) the applicant's project satisfies at least one of the following:

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(A) the authority

(i) verifies that at least one other state is being considered for the project;

(ii) determines, using best available data, that the projected costs for the applicant's project in this state would exceed the costs of the project in the competing state, taking into account the probable effect of the competing state's incentive programs based on state, local, private, and federal funds available to the competing state; and

(iii) finds that receiving the tax credit is a beneficial factor in the applicant's decision to proceed with the project and not receiving the tax credit will result in the applicant not creating new jobs in the state; or

(B) the applicant's project will, upon completion, provide a net increase of at least 25 percent in the number of new employees employed by the applicant;

(2) awarding the tax credit will result in a net increase in jobs, in value-added manufacturing or processing industries, or in a net fiscal gain to this state, as certified by the office of management and budget, using the best available data; and

(3) the credit is not prohibited by (f) of this section.

(d) A person is not entitled to claim the credit provided by this section for jobs that the person relocates from one site in the state to another site in the state. Determinations under this subsection shall be made by the membership of the authority.

(e) The credit is the lesser of

(1) the amount of the credit approved under (c) of this section, which credit amount may not exceed five percent of the amount of gross wages payable as compensation for new employees; or

(2) 25 percent of the tax due and payable by the taxpayer under AS 43.20.

(f) The membership of the authority shall enter into an agreement with an applicant that is awarded a credit under this section. The agreement must include

(1) a detailed description of the project that is the subject of the

1 agreement;

2 (2) the duration of the tax credit and the first taxable year for which the  
3 credit may be claimed;

4 (3) a requirement that the taxpayer shall maintain operations at the  
5 project location for at least two times the number of years during which the credit is  
6 used;

7 (4) a requirement that the taxpayer shall annually report to the authority  
8 the number of new employees who are performing jobs not previously performed by an  
9 employee;

10 (5) a requirement that the membership of the authority is authorized to  
11 verify with any state agency the amounts reported under (4) of this subsection and after  
12 doing so shall issue a certificate of verification to the taxpayer stating that the amounts  
13 have been verified;

14 (6) a requirement that the taxpayer shall provide written notification to  
15 the authority and the membership of the authority not more than 30 days after the  
16 taxpayer makes or receives a proposal that would transfer the taxpayer's state tax liability  
17 obligations to a successor taxpayer; and

18 (7) a requirement that the taxpayer shall expand the taxpayer's gross  
19 payroll in the state by at least \$1,000,000 or shall make at least \$5,000,000 in capital  
20 investment in the state.

21 (g) A taxpayer claiming a credit under this section shall submit to the department  
22 a copy of the certificate of verification under (f) of this section for the taxable year.  
23 However, failure to submit a copy of the certificate does not invalidate a claim for a  
24 credit.

25 (h) Biennially, the authority shall provide for an evaluation of the tax credit  
26 program authorized by this section. The evaluation must include an assessment of the  
27 effectiveness of the program in creating new jobs in the state and of the revenue effect  
28 of the program, and may include a review of the practices and experiences of other states  
29 with similar programs. The membership of the authority shall submit a report on the  
30 evaluation to the governor and the legislature.

31 (i) In this section,

32 (1) "full-time employee" means an individual who is employed for

1 consideration for at least 35 hours each week or who renders any other standard of  
2 service generally accepted by custom or specified by contract as full-time employment;

3 (2) "new employee"

4 (A) means

5 (i) a full-time employee employed by a taxpayer in the  
6 project that is the subject of a tax credit agreement and who is first  
7 employed by the taxpayer after the taxpayer enters into the tax credit  
8 agreement;

9 (ii) notwithstanding (B)(i) of this paragraph, a new  
10 employee who performs a job that was previously performed by an  
11 employee who was treated under the agreement as a new employee and  
12 was promoted by the taxpayer to another job;

13 (B) does not include

14 (i) an employee of the taxpayer who performs a job that  
15 was previously performed by another employee if that job existed for at  
16 least six months before hiring the new employee;

17 (ii) an employee of the taxpayer who was previously  
18 employed in the state by a related member of the taxpayer and whose  
19 employment was shifted to the taxpayer after the taxpayer entered into the  
20 tax credit agreement; or

21 (iii) a child, grandchild, parent, or spouse, other than a  
22 spouse who is legally separated from the individual, of any individual  
23 who is an employee of the taxpayer and who has a direct or an indirect  
24 ownership interest of at least five percent in the profits, capital, or value  
25 of the taxpayer, as determined in accordance with 26 U.S.C. 1563.

26 \* Sec. 3. This Act takes effect January 1, 1997.

# Alaska State Legislature House of Representatives

## COMMITTEE ASSIGNMENTS:

LABOR & COMMERCE, CHAIRMAN  
MILITARY & VETERANS AFFAIRS, CHAIRMAN  
COMMUNITY & REGIONAL AFFAIRS  
RESOURCES  
INTERNATIONAL TRADE / TOURISM  
LEGISLATIVE COUNCIL



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## SPONSOR STATEMENT PROPOSED HOUSE FINANCE CS FOR HB 232 ( )

The State of Alaska is currently spending over a half billion dollars more than it generates each fiscal year. Unless corrective action is taken, this yearly deficit will grow even larger, until our reserves are exhausted. It clearly behooves the state to take responsible action before that occurs.

The purpose of the proposed CS HB 232 ( ) is to create new jobs in Alaska and to encourage more value-added manufacturing and processing. Thus, if this bill becomes law, both new and better jobs will be available to Alaskans. This will bring more money into the economy, thereby bringing more money into the state coffers.

The mechanism employed by the proposed CS is an economic development tax credit, to be applied against the state income tax. To qualify for a tax credit, applicants would need to demonstrate to AIDEA, among other things, that the project "...will result creating new jobs, or expanding value-added manufacturing or processing industries." It is intended to encourage new businesses and new investment, from either in-state or out-of-state, or even foreign investors. Its intent in part is to help Alaska diversify its economy during the coming years.

If an applicant meets all the criteria established for a tax credit, they will enter into an agreement with AIDEA. In no case can the credit exceed the lesser of the following: (1) 5% of the gross wages payable as compensation for new employees, or (2) 25% of the tax due from the applicant. The duration of the credit may not be greater than five consecutive tax years. Moreover, the agreement requires the taxpayer to continue operations for twice the number of years the credit is allowed.

The proposed CS has numerous changes in it compared to the original CS from State Affairs. For example, the number of years for receiving the credit was reduced from 10 years to 5 years, since we want to encourage new business into the state, but also must take care not to deplete the state's revenue stream too much.

Numerous changes were made based on input from the Department of Revenue and AIDEA. To maintain a zero fiscal note that came with the original bill, we set a ceiling and a floor to the bill. For the ceiling, those who are already getting a tax credit from the state would not be eligible for this credit in addition. This would eliminate many large companies in the oil



Representative Pete Kott



and gas, mining, and fisheries industries, who already are getting other state tax credits and breaks. (At the same time, an applicant could still get this bill's state tax credit and combine it with any municipal tax credit). For the floor, no company would qualify unless they were willing to commit to an increase of at least \$1,000,000 in local payroll or \$5,000,000 in capital investment in the state annually. The intention of the bill was not to focus on the high or the low end, but stimulate new business development in the middle range.

Many of the other changes in the bill were to tighten up language that would limit the flexibility of AIDEA to negotiate, or make choices and determinations, or exercise judgment in determining criteria or credit amounts, or anything else. This was done at the request of AIDEA and DOR, who wanted this limiting language, and objective criteria, because it was felt that limiting language would reduce the amount of time AIDEA would have to spend on cases, and also reduce if not eliminate appeals and lawsuits.

**Sectional Analysis**  
**Proposed House Finance CS for HB 232 ( )**

**Section #1:**

Establishes an economic development tax credit for each taxable year that corporate taxpayers may apply for. The credit allowed may not exceed the amount approved by the AIDEA, be awarded for more than 5 consecutive years, or be used in conjunction with another state tax credit program.

Requires the Commissioner of the Department of C &ED to cancel the credit if any of the requirements or conditions of the agreement signed by the taxpayer are not met, and to report annually to AIDEA.

**Section #2:**

Establishes the tax credit, which can only be granted by the AIDEA Board to a corporate taxpayer who either (1) anticipates an annual gross payroll increase of at least \$1,000,000 in Alaska during the year following the awarding of the tax credit, or (2) an anticipated annual gross capital investment of at least \$5,000,000.

The tax credit claim cannot be made retroactively.

If a taxpayer makes an application, an agreement between AIDEA and the taxpayer shall be made if the project meets one of the following two criteria: (1) (a) at least one other state is being considered for the project, and (b) the costs in Alaska would exceed the cost in any competing state and (c) the tax credit is a factor in the taxpayer's decision to locate in Alaska, OR (2) the taxpayer's project will provide a net increase of at least 25% in the number of new employees employed by the applicant.

The tax credit cannot be claimed if it is prohibited by (f) of this section.

A taxpayer cannot claim the tax credit if it means moving from one job site to another in Alaska.

The credit is determined to be the lesser of the following two amounts: (1) if it is up to 5% of the amount of gross wages payable as compensation for new employees, OR (2) it is 25% of the tax due and payable by the taxpayer under AS.43.20.

AIDEA and the taxpayer shall enter into a signed agreement. This agreement must include the following:

- (1) a detailed description of the project
- (2) the duration of the tax credit and the first taxable year
- (3) the taxpayer agrees to maintain operations for twice the number of the claimed tax credit years
- (4) the taxpayer shall report annually on the number of new employee performing jobs not previous held by an employee
- (5) AIDEA may check with any other state agency to verify the claims made by the taxpayer, and will issue a certificate of verification based on its findings

(6) if the taxpayer sells their company, the new owner shall take over the liabilities of the taxpayer, and they must notify the authority within 30 days

(7) the requirement and understanding that the taxpayer shall expand their annual gross payroll by \$1,000,000 or annual their capital investment by \$5,000,000 is formally included as part of the agreement.

A taxpayer shall submit a copy of the certificate of verification for each taxable year to AIDEA.

The tax credit claim for each taxpayer shall be evaluated by AIDEA on an annual basis.

Section #2 closes with a definition subsection that defines "full time employee" as someone who is employed at least 35 hours a week. It also defines what may be claimed by the taxpayer as a new employee. The employee has to be hired after the signing of the agreement, and the taxpayer can count as new any employee who was already working for the taxpayer and then promoted to another job (with three exceptions listed).

### Section #3

The effective date is January 1, 1997

# HOUSE COMMITTEE REPORT

(7)

Date Referred: April 18, 1995

FURTHER REFERRALS:

Finance

Date of Committee Action: 4-27-95

The LABOR AND COMMERCE Committee considered:

HB 232

HOUSE BILL NO. 232

ECONOMIC DEVELOPMENT TAX CREDIT

"An Act establishing an economic development tax credit; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 232 (STA)  the same title  a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_ APPROVES PREVIOUS: (Dept/Date) \_\_\_\_\_  
 fiscal note(s) \_\_\_\_\_  fiscal note(s) Revenue

zero fiscal note(s) \_\_\_\_\_  zero fiscal note(s) CED

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Pete Kott</i>	<input checked="" type="checkbox"/>			
<i>Neil Potely</i>	<input checked="" type="checkbox"/>			
<i>Gene Kukina</i>			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<i>Brian Fortis</i>	<input checked="" type="checkbox"/>			
<i>Beverly Mason</i>			<input checked="" type="checkbox"/>	

CHAIR'S SIGNATURE

*Pete Kott*