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Official Business

Alaska State Legislature

SENATE

State Capitol
Juneau, AK 99801-1182

Senate Labor & Commerce Committee

SPONSOR STATEMENT

SENATE BILL 329

Investment Club License Exemption

The Senate Labor & Commerce Committee introduced Senate Bill 329: Investment Club License Exemption, at the request of the Alaska Regional Council, National Association of Investors Corporation.

Current Alaska law defining "business" is so broad that it is unclear whether nonprofit, educational organizations like investment clubs must apply for a business license. This bill amends AS 43.70.110 to exclude investment club members from the business license requirement.

There are over 108 investment clubs in Alaska, consisting on average of 15 individuals. These clubs are formed for the purpose of making group investments in a learning atmosphere. The monthly contributions are around \$10 to \$50 per month per student.

Investment clubs do not advertise, offer any product or service to the general public and do not have a place of business since they usually meet in members' homes.

No other state requires a business license fee, according to the National Association of Investors Corporation.

FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

BILL NO. SB 329

Revision Date: _____
 Title: An Act establishing an exemption for investment clubs from the business license requirement.
 Sponsor: Senate Labor & Commerce by request
 Requestor: Senate Labor & Commerce

Department: Commerce and Economic Development
 BRU: Occupational Licensing
 Component: Operations
 COMPONENT SERIAL NO. 1844

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES	[0.3]	[0.3]	[0.3]	[0.3]	[0.3]	[0.3]

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 98) cost: \$ 0.0

POSITIONS						
FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

SB 329 exempts investment clubs from the business license requirement. The division estimates there are very few investment clubs which actually hold a business license. This fiscal note assumes that at least six (6) licensees will fall under the new exemption, therefore reducing business license revenue by \$300 (\$50 fee x 6).

Prepared by: Jennifer Strickler, Administrative Manager
 Division: Occupational Licensing
 Approved by Commissioner: Deborah B. Sedwick
 Agency: Commerce and Economic Development

Phone: 465-2144
 Date: 2/26/98
 Date: 3/2/98

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
130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

February 10, 1998

SUBJECT: Bill draft relating to investment clubs (Work Order No. 20-LS1505A)

TO: Senator Loren Leman, Chair
Senate Labor and Commerce Committee
Attn: Annette

FROM:  Theresa Bannister
Legislative Counsel

This memo accompanies a draft of the bill you requested to exempt investment clubs from the business license requirement of AS 43.70.110.

1. Coverage of AS 43.70.110(1). It is my understanding that an investment club is primarily for educational purposes and that it does not sell any services or products to third parties. It is unclear whether the definition of "business" in AS 43.70.110(1) covers investment clubs. The definition is broad, covering, with exceptions, "all activities or acts, personal, professional, or corporate." However, this broad coverage may be qualified by the words, "engaging...in a trade, profession, or business," although this is not clear from the language in the definition. However, if this is not the case, the definition would cover any act for profit, including an individual buying stock, and this result is not consistent with the common concept of "business." Applying this criteria, an investment club does not appear to be a profession, because that usually denotes training beforehand, which does not appear to be the case here where the investment club is trying to learn about investing in stock. An investment club does not appear to be a trade or a "business" in the ordinary sense because the club does not sell its services or products to third persons.

Since an investment club attempts to increase the value of its investments, it arguably falls under the phrase, "with the object of financial or pecuniary gain, profit or benefit." However, if the primary goal of an investment club is to educate itself about investing in securities rather than to make a profit, then profit might not be considered to be the "object" of the club. In my opinion, after a quick review, the better reading of this definition is that investment clubs would not be considered businesses because they are not professions, and do not sell to third parties, and because their primary purpose is educational. However, this is not at all clear from the definition.

2. Amendment recommended. Since it is unclear whether or not AS 43.70.110(1) would be interpreted to cover investment clubs, it is safer to amend AS 43.70.110(1) to expressly

Senator Loren Leman
February 10, 1998
Page 2

exclude them than to rely on interpreting the definition. The draft expressly excludes investment clubs from the definition.

3. Other law. I have not been able to find any obvious coverage of investment clubs under Oregon or Washington law.

If I may be of further assistance, please advise.

TLB:jdr
98.072.jdr

Enclosure

**DEPARTMENT OF REVENUE
INCOME AND EXCISE AUDIT DIVISION
April 27, 1998**

SB 329 requires a technical correction to make sure certain businesses who's only activity is coin operated devices (i.e. pool tables and juke boxes). Current law as reflected in SB 329 exempts businesses from the Business License Act who have "sales through coin operated devices and gaming machines". These businesses are exempted because they currently get a separate license under AS 43.35. SB 240 which has passed the legislature this year repeals AS 43.35. Thus it is no longer appropriate to exempt these businesses from the general business license program.

The attached amendment to SB 329 has been prepared to remove the business license exemption for coin operated devices businesses.

AMENDMENT

OFFERED IN THE HOUSE

BY _____

TO: CSSB 329 (JUD) am

1 Page 1, line 14:

2 Delete all material.

3 Page 2, line 1:

4 Delete "(6)"

5 Insert "(5)"

6 Page 2, line 2:

7 Delete "(7)"

8 Insert "(6)"

9 Page 2, line 4:

10 Delete "(8)"

11 Insert "(7)"

Damron, Floyd/ANC

From: suep@better-investing.org
Sent: Thursday, January 22, 1998 9:25 AM
To: Damron, Floyd/ANC
Subject: Re: Help for Alaska Legislature

January 22, 1998

Mr. Floyd Damron
Co-President, Alaska Council, NAIC

Dear Mr. Damron:

There is no other state that we know of that charges a fee for a business license. Some partnerships are required to file under the Assumed Names Act in various states, but generally that is once every five years and the fee varies from \$5 up to \$25 for that entire period of time.

An investment club is a group of associates who meet together, usually monthly, to discuss the stock market and make group decisions on investing.

The definition probably does not do an investment club justice. In the 37 years that I have been with NAIC, our surveys have consistently shown that when a new investment club is formed with an average number of members, 16, that only one person has ever had any experience in investing. At the end of five years, the figures are completely reversed and 15 of the 16 members are investing on their own, in addition to their investment club. It serves to point out the educational aspect of an investment club. The club serves as an introduction to the stock market and should be considered an educational organization.

Profits for investment clubs starting out are relatively small. It is not unusual for a new investment club to only have \$5, or \$6 total income per member in the first two, or three years of operation. In many cases, the expenses (dues to NAIC, postage, materials, etc.) exceed income for a number of years.

I hope this information is helpful to you.

Sincerely,

Kenneth S. Janke
President & CEO

Sue Peterman NAIC

suep@better-investing.org
248.583.6242x303

ALASKA REGIONAL COUNCIL
NATIONAL ASSOCIATION OF INVESTORS CORPORATION
P. O. Box 141503
ANCHORAGE, ALASKA 99514-1503

JAN 15 1999

January 10, 1998

Senator Loren Leman
Chairman, Labor and Commerce Committee
Alaska State Legislature
State Capitol MS 3100
Juneau, AK 99801-1182

Dear Senator Leman:

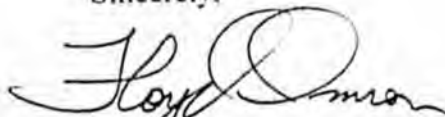
The recently formed Alaska Council of the National Association of Investors Corporation (NAIC), a not-for-profit educational organization, requests that AS 43.70.110 of the Alaska Business License Act be amended to specifically exclude individual investment clubs from the definition of "business" thus eliminating the necessity of obtaining a business license.

The over 108 investment clubs in Alaska (about 1,500 total members) are small groups of from 10 to 20 individuals who join together to learn about investing in the stock market. The members of each club meet usually once a month and pool their monthly contribution of from \$10 to \$50 per month to invest in the stock market. The members pro-rata share of any profits or losses are reported on each member's personal tax return. In essence, the members are learning about and making personal investments from the supportive atmosphere of a club.

Investment clubs do not advertise, they do not offer any product or service to the general public, they usually meet in members' homes and do not have a place of business.

According to the staff at the NAIC headquarters (248-586-6242), no other state requires investment clubs to obtain a business license. Therefore, we respectfully request that an amendment be made to the Statute to exempt individual investment clubs from buying a business license.

Sincerely,



Floyd Damron
Co-President

cc: Senator Jerry Mackie
Senator Tim Kelly
Senator Mike Miller
Senator Lyman Hoffman

Officers and Directors of the Alaska Regional Council

Michelle Tabler, Co-President

Nancy King, Vice President

Leslie Williams, Treasurer

Bill Mann, Assistant Treasurer

Ellen Schwenne, Secretary

Directors, Gina McBride, Libby McKinney, Janice Baber, Lynne Bettin, Carol
Connell, Zona Dahlmann, Carol Hatch, Tim Janneck, Roy Daw, Joni Fleetwood,
Delores Skripps, Jane Ringler, Tim Ryherd, Bonnie Whittier, Sue Jensen, Ruth
Marcy, Kathy Peterson, Shery Lovell, Yvonne Mull, Lisa May, Jean von Dohrmann,
Geri DeBoer, Susan Smith, Edwin Franklin

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NATIONAL ASSOCIATION OF INVESTORS CORPORATION
P. O. Box 141503
ANCHORAGE, ALASKA 99514-1503

JAN 15 1998

January 10, 1998

Senator Loren Lemam
Chairman, Labor and Commerce Committee
Alaska State Legislature
State Capitol MS 3100
Juneau, AK 99801-1182

Dear Senator Lemam:

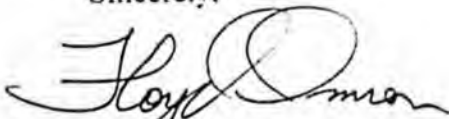
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