

SB

133

Alaska Department of Revenue
Income and Excise Audit Division

Small Business Development Tax Credit
March 4, 1997
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DRAFT BILL ANALYSIS

Section 1 describes the purpose of this Act.

Section 2 describes which corporations qualify for the tax credit and the maximum size of the credit. A corporation must be nonaffiliated (not have any parents, children, brother or sister corporations) and have fewer than 50 employees. A corporation qualifying for the credit may claim a credit of 10% of the first \$100,000 of qualified investment in new property first placed into service in Alaska. These investments must be made in any tax year after December 31, 1996 and before January 1, 2000. Unused credit can be carried forward two years. The tax may not exceed 50% of the taxpayer's corporate tax liability. This section also describes the penalties for disposing or removing from the state equipment for which the taxpayer claimed a credit.

Section 3 repeals section 2 of this Act.

Section 4 provides that sections 1 and 2 are retroactive to January 1, 1997.

Section 5 provides for an immediate effective date for sections 1, 2 and 4.

Section 6 establishes an effective date for section 3 of January 1, 2002 unless prior to January 1, 2002 section 2 is found to violate the commerce clause of the United States Constitution.

Operating Expenditures

The Department of Revenue is not requesting any additional funds for meeting its obligations under this Act.

Revenue Collected

The attached spreadsheet details revenue reductions from credits taken under this bill.

Alaska Department of Revenue
Income and Excise Audit Division
Projected Revenue Decreases from the Small Business Tax Credit

Small Business Tax Credit

March 4, 1997

0-GB0097.A

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Assumptions - All small businesses (defined as nonaffiliated corporations with less than 50 average annual employees) opt to use all of their maximum available credit (50% of a taxpayer's corporate liability up to 10% of \$100,000 in qualifying annual expenditures). For corporations with liabilities greater than or equal to \$20,000 this maximum would be \$10,000. For corporations with less than \$20,000 in liability they will use up all of 50% of their liability.

	Number	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03*
Credits for Corp. with >\$20,000 Liab.	59	(\$590,000)	(\$590,000)	(\$590,000)	\$0	\$0	\$0
Credits for Corp. with \$10,000-20,000 Liab.	61	(\$438,265)	(\$438,265)	(\$438,265)	(\$183,000)	\$0	\$0
Credits for Corp. with \$1,000 - 9,999 Liab.	532	(\$873,912)	(\$873,912)	(\$873,912)	(\$873,912)	(\$873,912)	\$0
Credits for Corp. with \$100 - 999 Liab.	696	(\$135,758)	(\$135,758)	(\$135,758)	(\$135,758)	(\$135,758)	\$0
Credits for Corp. with \$1-\$99 Liab.	1113	(\$17,408)	(\$17,408)	(\$17,408)	(\$17,408)	(\$17,408)	\$0
Total Credits	2461	(\$2,055,343)	(\$2,055,343)	(\$2,055,343)	(\$1,210,078)	(\$1,027,078)	\$0

* Sunsets after 3 years with a 2 year carry forward

LEGAL SERVICES

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MEMORANDUM


March 24, 1997

RECEIVED
MAR 24 1997
Ans'd.....

SUBJECT: Senate Bill 133, establishing a small business development tax credit under the Alaska Net Income Tax Act -- sectional analysis (Work Order No. 0-GS0097A)

TO: Senator Lyda Green, Chair
Senate State Affairs Committee
ATTN: Shelton

FROM: Jack Chenoweth
Legislative Counsel



This measure submitted by the administration proposes a small business development tax credit under the state's Net Income Tax Act. The credit, limited in duration as to its availability, is tied to new capital investments made by qualifying businesses. As drafted, to qualify for the small business development tax credit, the small business must make the capital investment and place it into service during calendar year 1996, 1997, 1998, or 1999, but the claim of the credit may be made by the business against its taxes due beginning in tax year 1996 and as late as tax year 2001.

Bill section 1 offers a suggested statement of purpose for the measure.

Bill section 2: This is the bill's operative section. It makes provision for the following --

Subsection (a) sets the definition for business taxpayers that qualify for the credit. The credit may be claimed by a taxpayer having

a monthly average of fewer than 50 employees . . . not a member of an affiliated group

and may claim against tax liability under the Alaska Net Income Tax Act

10 percent of the first \$100,000 of qualified investment in new property first placed into service exclusively in the state

(that is, \$10,000), if the qualified investment is made after December 31, 1996, but "beginning" before January 1, 2000.

Subsection (b) sets limits on the credit: The credit "may not exceed 50 percent of the taxpayer's tax liability under [AS 43.20]" and must be claimed ahead of other credit that may be available to the taxpayer under AS 43.20.

Subsection (c) allows a portion of the tax credit that is unused in a tax year to be claimed in either or both of the succeeding two tax years.

Subsection (d) imposes a reinstatement of tax liability on a declining basis if the investment property on which the credit was previously given is subsequently disposed of or removed from the state.

Subsection (e) explains that, for purposes of the reinstatement of tax liability provision, property is not "disposed of or removed" if it is retained in the business of the taxpayer if the form of the business changes.

Subsection (f): The Alaska Net Income Tax Act is based on the federal tax code. This subsection addresses treatment of the investment property on which the credit is taken with reference to federal tax code provisions.

Subsection (g) disallows the investment credit provided under this section against any of the tax credit allowed under AS 13.

Subsection (h) spells out how, for purposes of determining the taxpayer's number of employees, the taxpayer's monthly average number of employees is to be determined.

Subsection (i) disallows the investment credit to a qualifying business that is in arrears on payments due under the Alaska Employment Security Act (unemployment payments) or under a tax levied and collected under AS 43.

Subsection (j) supplies definitions for terms used in the small business development tax credit.

Bill section 3 proposes to repeal the small business development tax credit.

Bill section 4 makes the proposed small business development tax credit retroactive to January 1, 1997, to allow credits made for qualifying investments at any time in this calendar year.

Bill section 5 gives the operative section, the statement of purpose, and the retroactive provision an immediate effective date.

Senator Lyda Green

March 24, 1997

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Bill section 6 gives the small business development tax credit's repeal provision a December 1, 2002, effective date. (This strikes me as an odd choice of date and wonder whether it should read "December 31, 2002." You may want to check with the administration.)

JBC:jdr

97-208.jdr