

SB

86

SFIN

FILE

SB 86

was referred to the
Senate Finance
Committee

No hearing was held
on this bill

hearings were scheduled 4/3/03, 4/4/03
+ 4/29/03

L. LS0623VQ
Kurtz
4/22/03

CS FOR SENATE BILL NO. 86()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act amending the rate of interest on delinquent taxes when the amount of the tax
2 delinquency is less than \$100,000, which amendment also has the effect of changing the
3 interest rate payable on overpayment of taxes."

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

5 * Section 1. AS 43.05.225 is amended to read:

6 Sec. 43.05.225. Interest. Unless otherwise provided,

7 (1) when a tax levied in this title becomes delinquent and the amount
8 of the delinquency

9 (A) is less than \$100,000, it bears interest in a calendar
10 quarter at the rate of five percentage points above the annual rate charged
11 member banks for advances by the 12th Federal Reserve District as of the
12 first day of that calendar quarter, or at the annual rate of eight percent,
13 whichever is greater, compounded quarterly as of the last day of that
14 quarter:

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(B) is \$100,000 or more, it bears interest in a calendar quarter at the rate of five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first day of that calendar quarter, or at the annual rate of 11 percent, whichever is greater, compounded quarterly as of the last day of that quarter;

(2) the interest rate is 12 percent a year for

(A) delinquent fees payable under AS 05.15.095(c);

(B) [REPEALED AND

(C)] unclaimed property that is not timely paid or delivered, as allowed by AS 34.45.470(a).

23-LS0623VH
Kurtz
3/31/03

CS FOR SENATE BILL NO. 86()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): SENATE FINANCE COMMITTEE

A BILL
FOR AN ACT ENTITLED

1 "An Act relating to the rate of interest on delinquent taxes."

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

3 * Section 1. AS 43.05.225 is amended to read:

4 **Sec. 43.05.225. Interest.** Unless otherwise provided,

5 (1) when a tax levied under AS 43.20.072, AS 43.55, or AS 43.56 [IN
6 THIS TITLE] becomes delinquent, it bears interest in a calendar quarter at the rate of
7 five percentage points above the annual rate charged member banks for advances by
8 the 12th Federal Reserve District as of the first day of that calendar quarter, or at the
9 annual rate of 11 percent, whichever is greater, compounded quarterly as of the last
10 day of that quarter;

11 (2) when a tax levied in this title other than a tax described in (1)
12 of this section becomes delinquent, it bears interest in a calendar quarter at the
13 rate of five percentage points above the annual rate charged member banks for
14 advances by the 12th Federal Reserve District as of the first day of that calendar
15 quarter, compounded quarterly as of the last day of that quarter;

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(3) the interest rate is 12 percent a year for

(A) delinquent fees payable under AS 05.15.095(c);

(B) [REPEALED

(C)] unclaimed property that is not timely paid or delivered, as allowed by AS 34.45.470(a).

* Sec. 2. AS 43.05.280(a) is amended to read:

(a) Interest shall be allowed and paid on an overpayment of a tax under this title at the rate and in the manner provided in AS 43.05.225 [AS 43.05.225(1)].

* Sec. 3. AS 43.31.141 is amended to read:

Sec. 43.31.141. When tax due, extension and interest. The tax imposed by this chapter is due and payable 15 months after the decedent's death and shall be paid by the executor to the department. If the department finds that the payment on the due date of tax or any part of the tax would impose undue hardship upon the estate, the department may extend the time for payment of any part, but no extension may be for more than one year and the aggregate of extensions with respect to an estate may not exceed five years from the due date. In that case, the amount in respect of which the extension is granted shall be paid on or before the date of the expiration of the period of the extension unless a further extension is granted. If the time for the payment is extended, there shall be collected, as part of this amount, interest on the tax as provid. 1 in AS 43.05.225 [AS 43.05.225(1)] from the due date of the tax to the date the tax is paid.



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

SPONSOR STATEMENT

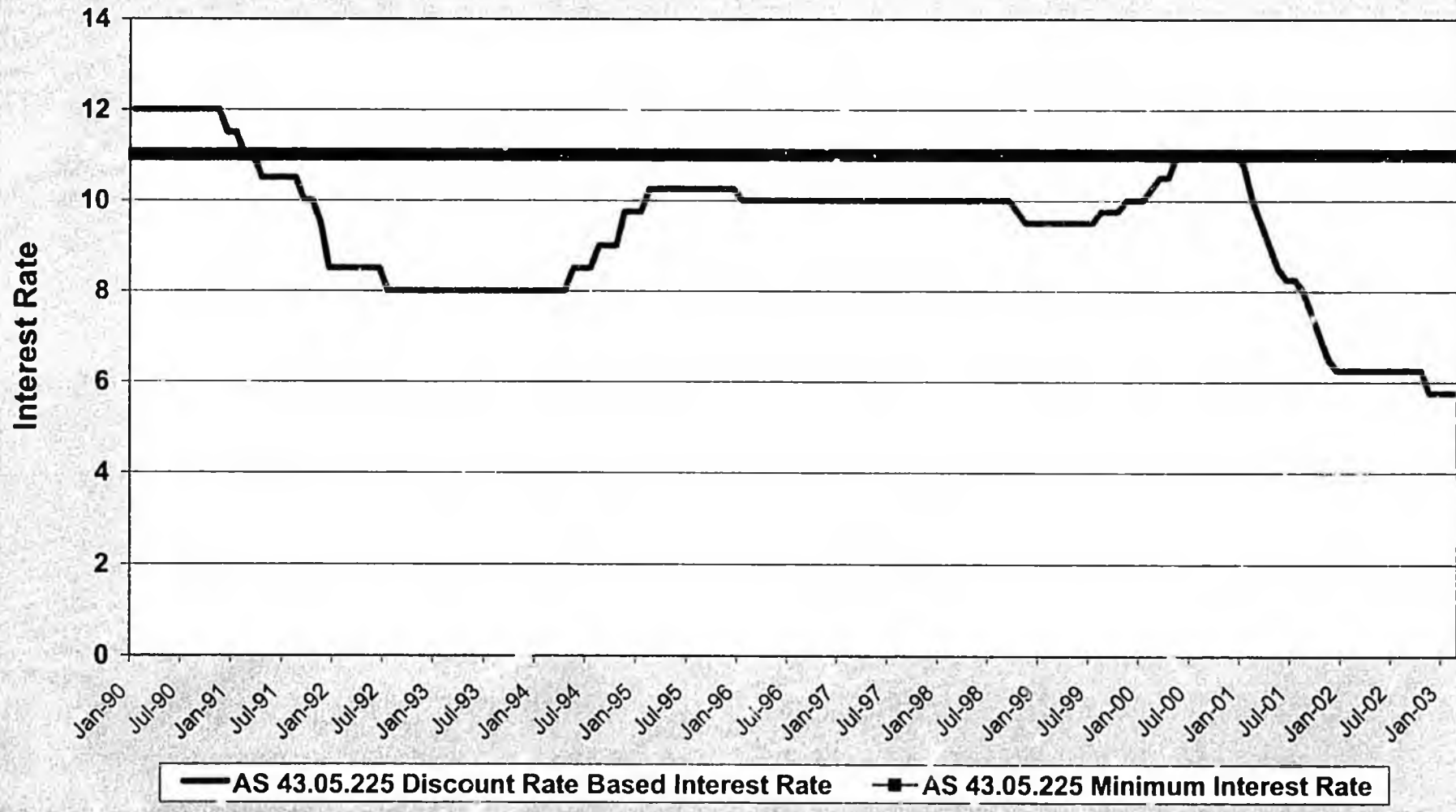
Senate Bill 86 Interest on Delinquent Taxes

Alaska's revenue and taxation laws are laid out in Title 43 of the Alaska Statutes. Section 43.05.225 sets the interest rate that the state must levy for delinquent taxes at 5 percentage points above the 12th Federal Reserve District discount rate or at the rate of 11%, whichever is greater. SB 86 eliminates the 11% minimum interest rate reference and retains the 12th District discount rate plus 5 formula as the only option for calculating interest on delinquent taxes.

Eliminating the statutory reference to a set interest rate of 11% will establish a fair method of calculating interest owed and interest due by allowing it to float with the market. Since 1991, the market driven formula of 5 percentage points above the 12th District discount rate has consistently remained below 11%. It is inappropriate to charge Alaskans 11% interest on delinquent taxes, especially since many delinquencies are a result of legitimate filing errors. In addition, the State has been forced to pay the exaggerated interest rate of 11% on refunds for overpayment of taxes.

With the passage of SB 86, the State will receive a fair and reasonable interest from delinquent taxpayers and also pay a fair and reasonable interest on refunds to taxpayers.

Comparison of the Statutory Minimum Interest Rate for Over/Under Payment of Taxes with 12th District Discount Rate + 5% (Jan 1990--Feb 2003)



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FOLLOWING
DOCUMENT(S)
ARE
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ORIGINAL
COPIES



**Marathon
Oil Company**

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P.O. Box 3128
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Telephone 713/629-6600

April 4, 2003

Bill No. 86

Testimony of Marathon Oil Company

Against Lowering the Interest-Rate on Tax Deficiencies for Some Taxpayers but Not for others

Before the SENATE FINANCE COMMITTEE

Dear Senator Wilken and members of the Finance Committee,

I am General Tax Counsel for Marathon Oil Company. Marathon would like to take this opportunity to support the passage of SB 86, as originally proposed, which would eliminate the present floor of 11% for the interest under AS 43.05.225 that accrues on unpaid taxes or underpaid taxes. Additionally, I would like to second the comments made by Mr. Tom Williams of BP regarding the proposed Committee Substitute for SB 86. Marathon also opposes the committee substitute for the reasons outlined by Mr. Williams.

Thank you for the opportunity to provide my written testimony to the Committee today.

Sincerely,

A handwritten signature in cursive script, appearing to read 'C. Zabel'.

Catherine L. Zabel
General Tax Counsel
Marathon Oil Company
(713)296-3939

**TESTIMONY
OF
BP EXPLORATION (ALASKA) INC.
AGAINST
LOWERING THE INTEREST-RATE
ON TAX DEFICIENCIES FOR
SOME TAXPAYERS BUT NOT FOR OTHERS**

BEFORE THE SENATE FINANCE COMMITTEE

April 4, 2003

Good morning, Mr. Chairman and members of the Finance Committee. My name is Tom Williams, and I am Alaska Tax Counsel for BP Exploration (Alaska) Inc. I am here today to testify on behalf of BP regarding Senate Bill No. 86.

SB 86, as originally proposed, would eliminate the present floor rate of 11% for the interest under AS 43.05.225 that accrues on unpaid or underpaid taxes. The elimination of this floor would let interest accrue on tax deficiencies at a floating rate that is five percentage points above the so-called "fed funds rate" — that is, the rate charged by the Federal Reserve to its member banks for cash advances that it makes to them.

Although the bill is not one we have actively sought, BP believes SB 86 as proposed would be fair and reasonable. The floating rate will be more than adequate to hold the State harmless with respect to the short-term earnings it could have made if the late or unpaid taxes had been paid on time. Today, for instance, with the fed funds rate at only 1¼ percent, the best the State could do as a safe short-term investment of tax receipts would be a 6-month CD (certificate of deposit) with a rate of about 1.3 percent or maybe a bit more. Clearly, the statutory floating rate of 6¼ percent today is more than enough to compensate for the loss of such puny investment earnings. Having a floor at 11% is not only overkill, it is punitive and verges on the confiscatory. If I were charging someone 11% on money I lent them, I would be violating Alaska's usury law, AS 45.45.010(a).

But the real reason why I'm here today is to testify against a proposed Committee Substitute for SB 86 which we understand your Committee has or may have before it today. Under the proposed CS, we are told, the present 11% floor would be eliminated for all taxes except the income tax on oil and gas corporations (AS 43.20.072), the oil and gas production tax or "severance tax" (AS 43.55), and the state property tax on oil and gas exploration property, production property and pipelines (AS 43.56).

We oppose this idea for two reasons. First, it's unfair. The oil and gas industry has done nothing wrong to deserve being discriminated against in this fashion. Second, it sends the wrong signal to companies looking at Alaska as a possible place to come to look for oil and gas. By discriminating against this one industry, the CS would be warning companies that they might be tolerated if they come to do business in Alaska, but not welcomed.

SENATE COMMITTEE REPORT First Committee of Referral

DATE: 2/28/03

FURTHER: Finance

Date of 5-Day Notice: 3/13/03
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 3/25/03

Labor and Commerce Committee considered SENATE BILL NO. 86

SB 86 INTEREST ON DELINQUENT TAXES

"An Act relating to the rate of interest on delinquent taxes."

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:

- same title
- new title

House Bill:

- same title
- technical title
- new: SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
REV	3/17/03	**		1

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:

	DO PASS	DO NOT PASS	NO REC	AMEND
Davis <i>Betty Davis</i>			✓	
French <i>[Signature]</i>			✓	
Seekins <i>[Signature]</i>	X			
G. Stevens <i>[Signature]</i>	X			
CHAIR: Burde <i>[Signature]</i>	✓			