

HB

118

<TARGET><BILL>HB 118</BILL><SUBJECT>HB
118</SUBJECT><COMM>HFIN27</COMM></TARGET>

Adopted
2/14/12

27-GH1951\B
Bullock
2/2/12

CS FOR HOUSE BILL NO. 118(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to a tax credit for qualified research and development expenditures;**
2 **and providing for an 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 article 1 to read:

5 **Sec. 43.20.047. Qualified research and development tax credit.** (a) Subject
6 to the terms and conditions of this section and in addition to any other credit
7 authorized to the taxpayer by this chapter, a taxpayer may apply 20 percent of the
8 taxpayer's expenditure for qualified research and development attributable to this state
9 for the taxable year that exceeds the base amount as a credit not to exceed \$10,000,000
10 against the state tax liability imposed on the taxpayer under this chapter.

11 (b) Qualified research and development expenditures are attributable to this
12 state if the research and development is being conducted in this state or the payroll of
13 employees conducting the research and development is in this state. In this subsection,
14 payroll of an employee is in this state if compensation is paid to an employee in this

1 state and reported as paid in this state in the quarterly contribution report under
2 AS 23.20 to the Department of Labor and Workforce Development.

3 (c) If the tax credit under this section exceeds the taxpayer's tax liability after
4 other tax credits are taken under this chapter for the year in which the expenditure is
5 incurred, the excess of the tax credit over the liability may be carried forward for up to
6 seven years. If an unused credit is carried forward to a tax year from an earlier year,
7 the credit arising in the earliest year is applied first against the tax liability for the year.

8 (d) A person may not claim a credit under this section for qualified research
9 and development expenditures that were deducted in the calculation of tax liability
10 under AS 43.20.011(e) or for which any other credit, including any federal credit, has
11 been claimed under this title.

12 (e) Each year, if three or more taxpayers claim the credit authorized under this
13 section during the immediately preceding year, the department shall report the number
14 of taxpayers who claimed credits under this section in the prior year, the total
15 cumulative amount of credits granted to all taxpayers under this section for the prior
16 tax year, and the total cumulative number of employees conducting the research and
17 development for which all taxpayers claim the credit.

18 (f) In this section,

19 (1) "base amount" means the average of qualified research and
20 development expenditures attributable to this state for the three tax years immediately
21 preceding the taxable year for which the credit is being claimed;

22 (2) "qualified research and development" has the meaning given to
23 "qualified research" in 26 U.S.C. 41(d) (Internal Revenue Code), as amended, that is
24 attributable to this state.

25 * **Sec. 2.** This Act takes effect immediately under AS 01.10.070(c).

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 14, 2011

FURTHER REFERRALS:

Date of Committee Action: 2/15/12

The FINANCE Committee considered:

HB 118

HOUSE BILL NO. 118

"An Act relating to a tax credit for corporate income taxes paid for qualified research and development expenditures; and providing for an effective date."

HB 118-RESEARCH AND DEVELOPMENT TAX CREDIT

Recommends it be replaced with HCS or CS for HB 118 (FIN)
 For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

List of Abbrev for Depts.:

- ADM
- CED
- COR
- CRT
- EED
- DEC
- DFG
- GOV
- DHS
- LWF
- LAW
- LEG
- MVA
- DNR
- DPS
- REV
- DOT
- UA

NEW FISCAL NOTES				
*FN# is assigned by Chief Clerk's Office				
*FN#	List by Dept(s):	Fiscal	Indet.	Zero
	Rev		✓	
	LWF			✓

PREVIOUS FISCAL NOTES				
FN#	List by Dept(s):	Fiscal	Indet.	Zero

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
<i>Jammie Wilson</i>	T Wilson			✓	
<i>[Signature]</i>	Gara				✓
<i>[Signature]</i>	MEMBER				✓
<i>[Signature]</i>	NEUMAN	✓			
<i>[Signature]</i>	COSTELLO	✓			
<i>[Signature]</i>	Edgmon			✓	
<i>[Signature]</i>	DOUGAN				✓
Chair: <i>[Signature]</i>	Stoffer			✓	
Chair: <i>[Signature]</i>	Dreans			✓	

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB118(L&C)
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) HB118CS(L&C)-DOLWD-UI-2-3-12 Dept. Affected Labor and Workforce Development
 Title Research and Development Tax Credit Appropriation Employment Security
 Allocation Unemployment Insurance
 Sponsor Rules by Request of the Governor
 Requester House Finance OMB Component Number 2276

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13	FY14	FY15	FY16	FY17	FY18
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES							

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Not applicable, initial version.

Prepared by Paul E. Dick, Director
 Division Employment Security Division
 Approved by Click Bishop, Commissioner
Department of Labor and Workforce Development

Phone 465-5933
 Date/Time 2/3/12 2:17PM
 Date 2/3/2012

FISCAL NOTE

**STATE OF ALASKA
2012 LEGISLATIVE SESSION**

BILL NO. CSHB118(L&C)

Analysis

The proposed legislation requires that expenditures attributable to payroll of employees for research and development conducted in Alaska must be reported as paid in Alaska in quarterly unemployment insurance (UI) contribution reports submitted to the Department of Labor and Workforce Development under AS 23.20, in order to qualify for a tax credit under this bill. Department of Revenue auditors would request UI contribution reports from taxpayers in the course of an audit to ascertain that payroll costs claimed for a tax credit under this bill qualify for the credit.

There is no fiscal impact to the department as a result of this legislation.

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

cost # codes

Bill Version

CSHB 118

Fiscal Note Number

Publish Date

Identifier (file name)

CSHB118-DOR-TAX-12-14-11

Dept. Affected

Revenue

Title

Research & Development Tax Credit

Appropriation

Taxation and Treasury

Allocation

Tax Division

Sponsor

Governor

Requester

House Finance

OMB Component Number

2476

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES							
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF						
1005	GF/Prgm (DGF)						
1037	GF/MH (UGF)						
1178	temp code (UGF)						
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES	0.0	***	***	***	***	***	***
---------------------------	------------	------------	------------	------------	------------	------------	------------

Estimated SUPPLEMENTAL (FY12) operating costs _____ (separate supplemental appropriation required;
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs _____ (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Updated for new legislative session.

Prepared by Johanna Bales, Deputy Director
 Division Tax
 Approved by Jerry Burnett, Director - Administrative Services Division
Department of Revenue

Phone (907) 269-6628
 Date/Time 12/12/11 1:00 PM
 Date 12/14/2011

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB 118

Analysis

Bill Language:

This bill would allow a credit against corporate income tax of up to \$10,000,000 of 20% of qualified research and development expenditures that exceed the base amount incurred by a taxpayer for research and development conducted in Alaska. The base amount is the average qualified research and development expenditures attributable to Alaska for the three tax years immediately preceding the tax year for which the credit is claimed. For purposes of this bill, "qualified research and development" means qualified research as defined by the Internal Revenue Code. If the tax credit allowed exceeds the taxpayer's tax liability, the excess tax credit would be allowed to be carried forward for up to seven years.

This bill also provides that the department is required to complete an annual report disclosing the number of taxpayers receiving the credit, the total cumulative amount of credits granted to all taxpayers and the total cumulative number of employees conducting research and development in the state.

Revenues:

The department is unable to determine the amount of research and development credits which may be claimed by taxpayers as the department currently has no information about the amount of research and development conducted in the state. Therefore, the department has no basis with which to formulate an estimated effect on revenues.

Expenditures:

The department can implement the provisions of the bill with existing resources.

CS FOR HOUSE BILL NO. 118(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to a tax credit for qualified research and development expenditures;**
2 **and providing for an 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 article 1 to read:

5 **Sec. 43.20.047. Qualified research and development tax credit.** (a) Subject
6 to the terms and conditions of this section and in addition to any other credit
7 authorized to the taxpayer by this chapter, a taxpayer may apply 20 percent of the
8 taxpayer's expenditure for qualified research and development attributable to this state
9 for the taxable year that exceeds the base amount as a credit not to exceed \$10,000,000
10 against the state tax liability imposed on the taxpayer under this chapter.

11 (b) Qualified research and development expenditures are attributable to this
12 state if the research and development is being conducted in this state or the payroll of
13 employees conducting the research and development is in this state. In this subsection,
14 payroll of an employee is in this state if compensation is paid to an employee in this

1 state and reported as paid in this state in the quarterly contribution report under
2 AS 23.20 to the Department of Labor and Workforce Development.

3 (c) If the tax credit under this section exceeds the taxpayer's tax liability after
4 other tax credits are taken under this chapter for the year in which the expenditure is
5 incurred, the excess of the tax credit over the liability may be carried forward for up to
6 seven years. If an unused credit is carried forward to a tax year from an earlier year,
7 the credit arising in the earliest year is applied first against the tax liability for the year.

8 (d) A person may not claim a credit under this section for qualified research
9 and development expenditures that were deducted in the calculation of tax liability
10 under AS 43.20.011(e) or for which any other credit, including any federal credit, has
11 been claimed under this title.

12 (e) Each year, if three or more taxpayers claim the credit authorized under this
13 section during the immediately preceding year, the department shall report to the
14 legislature the number of taxpayers who claimed credits under this section in the prior
15 year, the total cumulative amount of credits granted to all taxpayers under this section
16 for the prior tax year, a description of the research and development projects for which
17 the credit was granted, and the total cumulative number of employees conducting the
18 research and development for which all taxpayers claim the credit.

19 (f) In this section,

20 (1) "base amount" means the average of qualified research and
21 development expenditures attributable to this state for the three tax years immediately
22 preceding the taxable year for which the credit is being claimed;

23 (2) "qualified research and development" has the meaning given to
24 "qualified research" in 26 U.S.C. 41(d) (Internal Revenue Code), as amended, that is
25 attributable to this state.

26 * **Sec. 2.** This Act takes effect immediately under AS 01.10.070(c).

Alaska State Legislature
HOUSE FINANCE COMMITTEE

Agenda
1:30 PM

Monday, February 13, 2012

HB 246 NAMING CERTAIN BRIDGES

NEW CS WORKDRAFT 27-LS0921\B

Amendment #1 ?

New Fiscal Note (DOT) \$

HB 248 AL WRIGHT AIRPORT AT MINTO

HB 249 KOYUKUK STATION VETERANS' AIRPORT

HB 118 RESEARCH & DEVELOPMENT TAX CREDIT

NEW FISCAL NOTE (LWF) ZERO

NEW UPDATED FISCAL NOTE (REV) replaces #1

NEW CS WORKDRAFT 27-GH1951\B

AMENDMENT #1 GARA

RJ
AF
TAD

ADD
BUSINESS
MAY

2012 HOUSE FINANCE COMMITTEE VOTE SHEET

DATE: 2/13/12

Amendment: 3

MEMBER	Favor	Oppose
REP. GUTTENBERG	✓	
REP. JOULE		
REP. NEUMAN		✓
REP. WILSON		✓
REP. COSTELLO		✓
REP. DOOGAN	✓	
REP. EDGMON		✓
REP. FAIRCLOUGH		
REP. GARA	✓	
REP. STOLTZE	✓	
REP. THOMAS		✓

YEA 4

NAY 5

Failed
5/4

27-GH1951\B.2
Bullock
2/6/12

AMENDMENT # 3

OFFERED IN THE HOUSE

BY REPRESENTATIVE GARA

TO: CSHB 118(FIN), Draft Version "B"

1 Page 2, following line 17:

2 Insert a new subsection to read:

3 "(f) The total amount of the credit authorized under this section for all
4 taxpayers may not exceed \$50,000,000 in a calendar year. The department may adopt
5 regulations that provide the standards and procedures to allocate^{prorate} the amount of credit
6 available to each taxpayer when the total amount of tax credits claimed by all
7 taxpayers under this section for a calendar year exceeds \$50,000,000."

8
9 Reletter the following subsection accordingly.

Amended
to replace
"allocate" with
"pro-rotate"

2012 HOUSE FINANCE COMMITTEE VOTE SHEET

DATE: 2/13/12

Amendment: 2

MEMBER	Favor	Oppose
REP. JOULE		
REP. NEUMAN		✓
REP. WILSON		✓
REP. COSTELLO		✓
REP. DOOGAN		✓
REP. EDGMON		✓
REP. FAIRCLOUGH		
REP. GARA	✓	
REP. GUTTENBERG	✓	
REP. THOMAS		✓
REP. STOLTZE		✓

YEA 2

NAY 7

Failed
7/2

27-GH1951\B.1
Bullock
2/6/12

AMENDMENT #2

OFFERED IN THE HOUSE

BY REPRESENTATIVE GARA

TO: CSHB 118(FIN), Draft Version "B"

- 1 Page 2, line 10, following "AS 43.20.011(e)":
- 2 Insert "or AS 43.55,"

AMENDMENT

#12

OFFERED IN THE HOUSE

BY REPRESENTATIVE GARA

TO: CSHB 118(FIN), Draft Version "B"

1 Page 1, line 9:

2 Delete "the taxable year"

3 Insert "a taxable year ending before January 1, 2017,"

4

5 Page 2, line 13, following "report":

6 Insert "to the legislature"

7

8 Page 2, line 16, following "year,"

9 Insert "a description of the research and development projects for which the credit was
10 granted,"

11

12 Page 2, following line 24:

13 Insert a new bill section to read:

14 "** Sec. 2. AS 43.20.047 is repealed January 1, 2017."

15

16 Renumber the following bill section accordingly.

1a b

1a

~~type attached~~

1b

~~Carry forward 7 yrs.~~
2024

2012 HOUSE FINANCE COMMITTEE VOTE SHEET

DATE: _____

Amendment: 1A Amend

TO
Am.
passed

MEMBER	Favor	Oppose
REP. WILSON	✓	
REP. COSTELLO	✓	
REP. DOOGAN		✓
REP. EDGMON		✓
REP. FAIRCLOUGH		
REP. GARA		✓
REP. GUTTENBERG		✓
REP. JOULE		
REP. NEUMAN		✓
REP. THOMAS	✓	
REP. STOLTZE	✓	

YEA _____

NAY _____

2012 HOUSE FINANCE COMMITTEE VOTE SHEET

DATE: _____

w/d

Amendment: 1b

MEMBER

Favor

Oppose

MEMBER	Favor	Oppose
REP. NEUMAN		
REP. WILSON		
REP. COSTELLO		
REP. DOOGAN		
REP. EDGMON		
REP. FAIRCLOUGH		
REP. GARA		
REP. GUTTENBERG		
REP. JOULE		
REP. STOLTZE		
REP. THOMAS		

YEA _____

NAY _____

2012 HOUSE FINANCE COMMITTEE VOTE SHEET

DATE: 2/13/12

Amendment: 1A
Adopted

MEMBER

Favor

Oppose

REP. COSTELLO		
REP. DOOGAN	✓	
REP. EDGMON	✓	
REP. FAIRCLOUGH		
REP. GARA	✓	
REP. GUTTENBERG	✓	
REP. JOULE		
REP. NEUMAN		✓
REP. WILSON		✓
REP. STOLTZE	✓	
REP. THOMAS		✓

YEA _____

NAY _____

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE GARA

TO: CSHB 118(FIN), Draft Version "B"

1 Page 1, line 9:

2 Delete "the taxable year"

3 Insert "a taxable year ending before January 1, 2017,"

4

5 Page 2, line 13, following "report":

6 Insert "to the legislature"

7

8 Page 2, line 16, following "year,":

9 Insert "a description of the research and development projects for which the credit was
10 granted,"

11

12 Page 2, following line 24:

13 Insert a new bill section to read:

14 **** Sec. 2. AS 43.20.047 is repealed January 1, 2017.**

15

16 Renumber the following bill section accordingly.

1B
w/D

1A
Adopted

1B
w/P

not

AMENDMENT #4

OFFERED IN THE HOUSE

BY REPRESENTATIVE GARA

TO: CSHB 118(FIN), Draft Version "B"

- 1 Page 1, line 9:
- 2 Delete "the taxable year"
- 3 Insert "a taxable year ending before January 1, 2017,"
- 4
- 5 Page 2, line 13, following "report":
- 6 Insert "to the legislature"
- 7
- 8 Page 2, line 16, following "year,":
- 9 Insert "a description of the research and development projects for which the credit was
- 10 granted,"
- 11
- 12 Page 2, following line 24:
- 13 Insert a new bill section to read:
- 14 "*** Sec. 2.** AS 43.20.047 is repealed January 1, 2017."
- 15
- 16 Renumber the following bill section accordingly.



HB 118 Presentation Alaska State Legislature

February 6, 2012

ALASKA
DEPARTMENT OF
COMMERCE,
COMMUNITY,
AND ECONOMIC
DEVELOPMENT

HB 118 Research & Development Tax Credit

Federal R&D Tax Credit

- Established in 1981
- Reauthorized 14 times
- Authorized through 2011 – Legislation has been introduced (HR 1693) to make the R&D Tax Credit permanent

“Permanently extend the Research and Experimentation Tax Credit in order to help companies create good jobs in America now while increasing future productivity and growth.”

HB 118 Research & Development Tax Credit

This legislation would allow Alaska corporations to receive a 20% tax credit, not to exceed \$10 million per taxpayer, per tax year. The research and development activities, or the payroll of the employees, must take place in Alaska.

To qualify, research and development activities must meet the following:

1. The purpose is discovering information technological in nature; AND
2. The application of which is intended to be useful in the development of a new or improved component of the taxpayer; AND
3. Substantially all of the activities constitute a process of experimentation; AND
4. The experimentation is for a qualifying activity or purpose.

HB 118 Research & Development Tax Credit

What Qualifies:

- Developing new or improved products, processes, or formulas
- Developing prototypes or models
- Building or improving manufacturing facilities
- Developing or improving software technologies
- Certification testing
- Developing or applying for patents

What Doesn't Qualify:

- Exploration activity to ascertain the existence, location, extent, or quality of any ore or mineral deposit
- Duplicating an existing business component
- Surveys and studies such as market research, advertising, and routine data collection
- Research in the social sciences, arts, or humanities
- Anything for style, taste, cosmetic, or seasonal reasons

HB 118 Research & Development Tax Credit

- 1. Fisheries: Seafood Processing Waste Disposal**
 - EPA restricting processing effluent
 - Research needed to reduce sediment piles through process innovation, increased protein and by-product utilization
 - Tax credits means research conducted in AK, plus jobs, vendor payments, increased experience, and capacity building in process and product innovation
- 2. Minerals: Rare Earth Deposit Processing**
 - Need customized process for milling and recovery to use deposits to fullest potential
 - More than 240 processes may be required to reach all components in a deposit
- 3. Timber: Use in Architectural and Building Industries**
 - To be specified for many building and architectural uses, species must have technical standards set for each product form

HB 118 Research & Development Tax Credit

States with an R&D Tax Credit

38 U.S. states currently have some form of R&D tax credit or incentive.



HB 118 Research & Development Tax Credit

ALASKA
DEPARTMENT OF
COMMERCE,
COMMUNITY,
AND ECONOMIC
DEVELOPMENT



Comments and Questions

AMENDMENT #2

OFFERED IN THE HOUSE
TO: CSHB 118(L&C)

BY REPRESENTATIVE GARA

1 Page 1, line 7:

2 Delete "20"

3 Insert "five"

4

5 Page 1, line 8, following "expenditure":

6 Insert "incurred before January 1, 2015,"

7

8 Page 2, lines 10 - 11:

9 Delete "for which any other credit, including any federal credit, has been apportioned
10 to this state and claimed under AS 43.20.021"

11 Insert "that were the basis for a credit claimed under AS 43.55. The credit under this
12 section may be taken in conjunction with a federal tax credit for an expenditure that is the
13 basis for the credit under this section."

14

15 Page 2, following line 17:

16 Insert new subsections to read:

17 "(f) At the time a taxpayer is required to file a return or report under this
18 chapter that claims the credit under this section, the taxpayer shall file a statement
19 describing the research and development activity for which the expenditures were
20 incurred and how the research and development contributed to the profitability of the
21 taxpayer's business activity.

22 (g) The total amount of credits for all taxpayers that may be authorized by the
23 department for a calendar year may not exceed \$100,000,000. If credits claimed under

1 this section by all taxpayers exceed \$100,000,000, the department shall prorate the
2 amount of credit each taxpayer may claim. A taxpayer that has an unused credit
3 remaining after proration under this subsection may carry the unused credit forward
4 under (c) of this section, subject to the limitation in this subsection for a subsequent
5 year."

6

7 Reletter the following subsection accordingly.

AMENDMENT #1

OFFERED IN THE HOUSE
TO: CSHB 118(L&C)

BY REPRESENTATIVE GARA

1 Page 1, lines 1 - 2:

2 Delete "a tax credit for corporate income taxes paid for qualified research and
3 development expenditures"

4 Insert "tax benefits for research and development by certain new businesses"
5

6 Page 1, line 7, following the second occurrence of "taxpayer":

7 Insert "that began business in the state after December 31, 2011,"
8

9 Page 1, line 8, following "expenditure":

10 Insert "incurred before January 1, 2015,"
11

12 Page 2, line 10, following "AS 43.20.011(e)":

13 Insert "that were the basis for a tax credit taken under AS 43.55"
14

15 Page 2, following line 17:

16 Insert new subsections to read:

17 "(f) At the time a taxpayer is required to file a return or report under this
18 chapter that claims the credit under this section, the taxpayer shall file a statement
19 describing

20 (1) when the taxpayer's business that conducted the research and
21 development began doing business in the state;

22 (2) the products and services provided by that part of the taxpayer's
23 business that was engaged in research and development;

- 1 (3) the number of employees employed by the taxpayer's business;
- 2 (4) the extent to which the tax credit under this section was a factor in
- 3 the establishment of the taxpayer's research and development business activity; and
- 4 (5) the total amount of property taxes paid to a municipality in the state
- 5 for property other than property taxable under AS 43.56 for the calendar year for
- 6 which the expenditures for a credit under this section were incurred.

7 (g) The total amount of credits for all taxpayers that may be authorized by the

8 department for a calendar year may not exceed \$50,000,000. If credits claimed under

9 this section by all taxpayers exceed \$50,000,000, the department shall prorate the

10 amount of credit each taxpayer may claim. A taxpayer that has an unused credit

11 remaining after proration under this subsection may carry the unused credit forward

12 under (c) of this section, subject to the limitation in this subsection for a subsequent

13 year.

14 (h) A taxpayer claiming under the credit under this section against the tax

15 levied by AS 43.20.011(e) may apply to the department for reimbursement of the

16 property taxes paid to a municipality in the state that were levied on property that is

17 not taxable under AS 43.56. The department may reimburse a taxpayer making an

18 application under this subsection for the total taxes paid to municipalities in the state

19 in an amount not to exceed \$2,000,000 for any one calendar year. The department may

20 adopt regulations specifying the information that must be presented in an application

21 under this subsection.

22 (i) The department shall combine and report the information reported by all

23 taxpayers under (f) of this section in a manner consistent with the limitations in

24 AS 43.05.230(e)."

25

26 Reletter the following subsection accordingly.

27

28 Page 2, line 25:

29 Delete all material and insert:

30 "* **Sec. 2.** AS 43.20.047 is repealed January 1, 2015.

31 * **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2 TRANSITION FOLLOWING REPEAL OF AS 43.20.047. Notwithstanding the
3 repeal of AS 43.20.047 by sec. 2 of this Act,

4 (1) a taxpayer may claim the credit under AS 43.20.047 and apply for
5 reimbursement of municipal property taxes after December 31, 2014, to the extent that the
6 credit and reimbursement are based on research and development conducted after
7 December 31, 2011, and before January 1, 2015; and

8 (2) the Department of Revenue may audit the eligibility and amount of credit
9 claimed under AS 43.20.047 within the period of limitation for making an assessment for the
10 amount of tax due that is levied by AS 43.20.011(e).

11 * **Sec. 4.** This Act takes effect immediately under AS 01.10.070(c)."

STATE CAPITOL
PO Box 110001
Juneau, Alaska 99811-0001
907-465-3500
fax: 907-465-3532



550 West 7th Avenue #1700
Anchorage, Alaska 99501
907-269-7450
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www.Gov.Alaska.Gov
Governor@Alaska.Gov

Governor Sean Parnell
STATE OF ALASKA

January 21, 2011

The Honorable Mike Chenault
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Chenault,

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill establishing a tax credit against Alaska income taxes for qualified research and development conducted by corporate taxpayers.

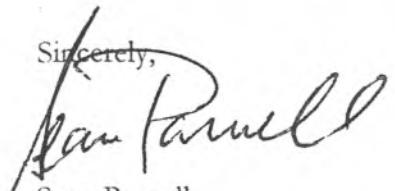
Innovation can be an expensive, intricate, and time-intensive enterprise. However, it also can spark a chain of investments in capital equipment, workers, and spillover activities into multiple economic sectors. In effect, the research and development tax credit would stimulate private-sector investment, entrepreneurial activity, and business expansion in Alaska that will bring opportunity and sustainable long-term benefits to our economy.

The credit would be 20 percent of qualified research and development expenditures that exceed the average qualified research and development expenditures as defined in 26 U.S.C 41(d) (Internal Revenue Code) for the three years immediately preceding the year in which the credit is claimed. Unused credits may be carried forward for up to seven years after the expenditure for which the credit is claimed. The bill also would impose a reporting requirement so that the Legislature and the public are aware of the fiscal impact and economic benefits of the research and development credit to the state.

The credit would induce corporations to conduct independent research in Alaska. For this reason and others, the credit is supported by the Department of Commerce, Community and Economic Development Advisory Council, which has been directed to identify means to induce investment and help increase the viability of business. Other supporters of the tax credit include Alaska businesses and chambers of commerce, as well as municipalities and economic development councils. This initiative also parallels efforts by the Anchorage Economic Development Corporation to establish relationships with corporations looking to relocate to favorable locations in Alaska.

I urge your prompt and favorable action on this matter.

Sincerely,


Sean Parnell
Governor

Enclosure

House Bill No. 118



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Office of the Commissioner

Sean Parnell, Governor
Susan K. Bell, Commissioner

CS for House Bill 118

"An Act relating to a tax credit for corporate income taxes paid for qualified research and development expenditures; and providing for an effective date."

Sectional Analysis

Section 1. Amends AS 43.20 by adding a new section:

43.20.047 – Qualified research and development tax credit

This section outlines the terms and conditions of a qualified research and development tax credit in addition to any other credit that the taxpayer may be authorized to receive under the Alaska Net Income Tax Act. A taxpayer may apply a 20% credit not to exceed \$10 million provided the following terms and conditions are met:

- Research and development expenditures are attributable to the state if it is being conducted in this state.
- If the tax credit exceeds the taxpayers liability for the year the expenditure is incurred the excess of the tax may be carried forward up to seven years.
- A person may not claim a credit for research and development expenditures that were already deducted in calculating its tax liability or for which it claimed a federal credit that has been apportioned to Alaska.

Each year the Department of Revenue shall report the number of the taxpayers who received credits under this section for the prior tax year, the total amount of the credits given to taxpayers and the number of employees conducting the research and development.

This section also defines "base amount" and "qualified research and development".

Section 2. Effective date clause

Immediate effective date

Prepared by: Crystal Koeneman
Department: CCED
Phone: 465.2503
e-mail: crystal.koeneman@alaska.gov

P.O. Box 110800, Juneau, Alaska 99811-0800
Telephone: (907) 465-2500 Fax: (907) 465-5442 Text Telephone: (907) 465-5437
Email: questions@alaska.gov Website: <http://www.commerce.alaska.gov/>



CSHB 118 (L&C)

"An Act relating to tax credits...for qualified research and development"

Explanation of Changes

Page 1 Line 12,

Inserted the language "if three or more taxpayers claim the credit authorized under this section during the immediately preceding year," and deleted "names" and replaced it with "number".

Page 2, lines 16 - 25:

Deleted "Notwithstanding AS 40.25.100 and AS 43.05.230, a taxpayer claiming the credit under this section consents to

- (1) the public disclosure of its name and status as a beneficiary of the credit;
- (2) inclusion of the amount of the credits granted to it under this section and the number of employees conducting the research and development for which it claims the credit in the cumulative total calculated by the department for reporting purposes; and
- (3) report on the impact of the credit on research and development for each year that the credit is claimed."

This language was removed since the Department of Revenue's Tax Division does not report specific tax payer names to preserve confidentiality and trust with the Division regarding tax data.



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Office of the Commissioner

Sean Parnell, Governor
Susan K. Bell, Commissioner

March 17, 2011

Representative Bill Stoltze, Co-Chair
House Finance Committee
State Capitol, Room 515
Juneau, Alaska 99801

Representative Bill Thomas, Co-Chair
House Finance Committee
State Capitol, Room 505
Juneau, Alaska 99801

Re: House Bill 118 – Research and Development Tax Credit

Dear Representatives Stoltze and Thomas,

Please accept this request for your consideration to schedule HB 118 before the House Finance Committee at your earliest convenience.

Innovation can be an expensive, intricate and time-intensive enterprise. But it also can spark a chain of investments in capital equipment, workers and spillover activities in every economic sector. In effect, the research and development tax credit would stimulate private-sector investment, entrepreneurial activity and business expansion in the state that will bring opportunity and sustainable long-term benefits to our economy.

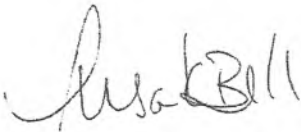
The credit is 20 percent of qualified research and development expenditures that exceed the average qualified research and development expenditures as defined in 26 U.S.C 41(d) (Internal Revenue Code) for the three years immediately preceding the year in which the credit is claimed. Unused credits may be carried forward for up to seven years after the expenditure for which the credit is claimed. In order to prevent a corporate taxpayer from claiming more than one benefit for a single expenditure, the bill also would provide that a credit could not be claimed for expenditures the corporation deducted in calculating its tax liability, or for any other credit, including any federal credits, that has been apportioned to the state and claimed under the current Alaska Net Income Tax Act.

P.O. Box 110800, Juneau, Alaska 99811-0800
Telephone: (907) 465-2500 Fax: (907) 465-5442 Text Telephone: (907) 465-5437
Email: questions@alaska.gov Website: <http://www.commerce.alaska.gov/>

The bill would also impose a reporting requirement on the Department of Revenue so the Legislature and the public are aware of the fiscal impact and economic benefits of the research and development credit to the state.

If you have any questions regarding this bill, please feel free to contact either myself at 465-2500 or Curtis Thayer, Deputy Commissioner of Commerce, Community and Economic Development at 269-8100.

Sincerely,

A handwritten signature in cursive script that reads "Susan K. Bell". The signature is written in dark ink and is positioned above the printed name and title.

Susan K. Bell
Commissioner

I.R.C. Sec. 41, Credit for Increasing Research Activities

Definition of Qualified Research:

1. The purpose is discovering information technological in nature; **AND**
2. The application of which is intended to be useful in the development of a new or improved component of the taxpayer; **AND**
3. Substantially all of the activities constitute a process of experimentation; **AND**
4. The experimentation is for a qualifying activity or purpose.

Activities that Qualify:

- Developing new or improved products, processes, or formulas
- Developing prototypes or models
- Developing or applying for patents
- Certification testing
- Developing new technology
- Environmental testing
- Developing or improving software technologies
- Building or improving manufacturing facilities
- Streamlining internal processes

Activities that Do NOT Qualify:

- Exploration activity to ascertain the existence, location, extent, or quality of any ore or mineral deposit
- Research AFTER commercial production
- Adapting an existing business component for a particular customer
- Duplicating an existing business component
- Surveys & studies such as market research, advertising, and routine data collection
- Computer software for internal use (unless its development supports an otherwise qualifying activity)
- Non-U.S. research
- Research intended to be transferred to another
- Research conducted for the benefit of and prior to commencing a new business
- Research in the social sciences, arts, or humanities
- Funded research
- Anything for style, taste, cosmetic, or seasonal reasons

Allowed Expenses for Qualified Research:

- Research expenses incurred in connection with carrying on a trade or business including:
 - In-house wages and supplies
 - Time-sharing costs for computer use
 - 65% of amounts paid to contractors in the U.S. who work on the taxpayer's behalf
 - Extraordinary utility charges
 - Depreciation and depletion on property used in connection with qualified research activities

Dept. of Revenue, February 2, 2011



MEMORANDUM

TO: Representative Stoltze, Co-Chair
Representative Thomas, Co-Chair
House Finance Committee

DATE: April 8, 2011

FROM: Susan K. Bell, Commissioner
Department of Commerce, Community
and Economic Development

RE: HB 118 – Research and Development

Susan K. Bell

Representatives Stoltze and Thomas,

Thursday afternoon I received a letter from Representatives Gara and T. Wilson asking if House Bill 118 would replace the federal laws allowing a 17% tax credit for research and development activities with a 20% Alaska tax credit.

- The federal credit of 17% is allowed against federal tax liability, not Alaska tax liability. Current Alaska law allows a taxpayer to take only 18% of the federal credit against their Alaska tax liability. This bill would allow an Alaskan corporation with tax liability the opportunity to apply the 20% credit if expenses qualified and the incurred in Alaska.

For example, if a taxpayer has \$100,000 of qualified research expenses, a taxpayer is allowed a federal credit against their federal tax liability of \$17,000. However, under current Alaska law, the taxpayer may only take a credit of \$3,060 against their Alaska tax liability and only if all of the research expenses were apportioned to Alaska. Under this bill, the taxpayer could take a credit of \$20,000 against their Alaska tax liability, significantly enhancing the appeal of conducting research in Alaska.

The letter also asked what the impact would be of a 5% stackable state credit on top of the federal credit, totaling 22% and saving the State 15% that is already being paid for by the federal government.

- Allowing a 5% credit in addition to the flow through of the federal credit is not a viable alternative in terms of what this bill is trying to achieve. The goal of House Bill 118 is to entice taxpayers to conduct their research activity in Alaska and provide them an enhanced credit for doing so.

The letter also restated questions asked in committee, which will be included in our reply to the full committee.



MEMORANDUM

TO: Representative Stoltze, Co-Chair
Representative Thomas, Co-Chair
House Finance Committee

DATE: April 8, 2011

FROM: Susan K. Bell, Commissioner
Department of Commerce, Community,
and Economic Development

RE: HB 118 – Research and Development

Representatives Stoltze and Thomas,

Several questions were asked during the House Finance Committee hearing on HB 118 – Research and Development. The questions and answers are as follows:

Why is there the seven-year carry forward?

- Other states allow the credit to be carried forward between five and 15 years, some states allow the credit to be carried forward until completely exhausted regardless of how long it takes. We believe seven years is an attractive amount of time for potential investors, recognizing that it commonly takes several years before corporations see increased revenue or net income from the R&D investments they've made.

- Also, other Alaska programs tax credits can be carried forward for as little as three years up to 15 years and, in some cases, credits can be carried forward until exhausted. Some examples of Alaska credits and carry forward provisions are:

- Film credit – Three years
- Salmon product development credit – Three years
- Minerals exploration credit – 15 years
- Gas exploration and development tax credit – Five years
- Production tax credits (.023(a) and (b)) – indefinite (until exhausted)
- Tax credit for oil and gas exploration (.025) – either refundable or can be indefinite

Should there be a cap on the tax credit limit?

- It is very difficult to put a cap on the entire program. We would have to have a preapproval process, similar to what we do with the film credit, and we believe this would limit the appeal of the credit program. Our goal is to attract new investment and innovation, which in turn we would hope would increase the competitive position, profitability, and taxes paid by Alaskan corporations.

- We want to point that several limiting factors are in place in the current bill:

- We have a limited number of corporate taxpayers.
- Taxpayers cannot claim this credit unless they have tax liability.
- The credit is applied only to investment made above the baseline, determined as an average of qualified expenditures over the three prior years.

- In addition, taxpayers would have to have at least \$50 million in increased R&D expenses before reaching the maximum credit. Other states, such as Arizona, Illinois, Texas and Vermont, have no cap on their credit.

Does this credit affect the fish tax and community revenue sharing?

- DOR shares the fisheries business tax, not the corporate income tax, with communities. The R&D credit would not be applied against the fisheries business tax; as a result community revenue sharing is not affected by this bill.

If the credit is claimed by an oil/gas development corporation under the R & D credit, can we prevent it from being claimed in other incentives?

- As currently written, there is a remote possibility that some expenses could qualify under the production tax and the R & D credit. We have suggested language that eliminates this chance.

Is this tax credit stackable with other state or federal credits?

- Taxpayers cannot claim both the federal tax credit and the state tax credit against their Alaska tax liability. In terms of Alaska corporate income tax, this credit is not stackable. The Administration is proposing changes that would ensure that the credits are not stackable in other state tax credit programs.

Why is this credit necessary if there is already a federal tax credit?

- The federal credit of 17% is allowed against federal tax liability, not Alaska tax liability. Current Alaska law allows a taxpayer to take only 18% of the federal credit against their Alaska tax liability. This bill would allow an Alaskan corporation with tax liability the opportunity to apply the 20% credit if expenses qualified and were incurred in Alaska.
- For example, if a taxpayer has \$100,000 of qualified research expenses, a taxpayer is allowed a federal credit against their federal tax liability of \$17,000. However, under current Alaska law, the taxpayer may only take a credit of \$3,060 against their Alaska tax liability and only if all of the research expenses were apportioned to Alaska. Under this bill, the taxpayer could take a credit of \$20,000 against their Alaska tax liability, significantly enhancing the appeal of conducting research in Alaska.

Is there a federal definition for "research" and for "development" or a single definition for "research and development?"

- "Qualified research and development" under this bill is defined as "qualified research" under the federal internal revenue code. There is not a separate definition for "research" or for "development".

Should we define research and development further in the bill instead of just referring to the federal definition in 26 USC 41(d)?

- Under Alaska corporate income tax statutes, Alaska adopts the federal internal revenue code, except for provisions in conflict with specific Alaska statutes. By adopting the federal internal revenue code, we can rely on audits conducted by the Internal Revenue Service and both the State and taxpayers can rely on federal tax court decisions interpreting the definition of qualified research. If we had our own definition of "research and development," we could no longer rely on those resources. By adopting our own definition, we would also be departing from longstanding practice of "piggybacking" federal tax laws. The effect would also make the program much more difficult to administer and it would create greater challenges for taxpayers to comply..

State of Alaska
Department of Revenue
Administrative Services Division



SEAN PARNELL, GOVERNOR
333 Willoughby Avenue, 11th Floor
P.O. Box 110410
Juneau, Alaska 99811-0405
Phone: (907) 465-2300
Fax: (907) 465-2394

February 25, 2011

Honorable Lindsey Holmes
Member, House Labor and Commerce Committee
State Capitol Room 405
Juneau, AK 99801

Dear Representative Holmes,

The following are responses to the questions you asked regarding HB118 the Research and Development Tax Credit bill introduced by the Governor.

Question: Would a taxpayer be able to take a research and development tax credit for expenses that they also used to calculate a tax credit in another tax program?

Answer: Yes. As the current bill is written, taxpayers could potentially get an oil and gas credit and an R&D credit for the same expenses.

Question: Can the Department of Revenue expand the fiscal note and evaluate what Research and Development [tax] credits companies are currently taking?

Answer: We are able to identify federal R&D credits taken on some tax returns. However, it is not possible to determine if the R&D work was conducted in Alaska. This bill would only allow a credit for those expenses incurred in Alaska.

Question: What do other states do in terms of limiting the amount of their Research and Development [tax] credit?

Answer: As stated in the last hearing, there doesn't appear to be a standard method for calculating R&D credits amongst the states. For example:

- **Arizona** allows a 22% credit on the first \$2.5 million in qualifying expenses plus 13% of qualifying expenses in excess of \$2.5 million that exceed the base amount. The base amount is calculated following federal guidelines. There is no limit on the amount of credit that can be taken and an unused credit can be carried forward for 15 years.
- **Illinois** allows a credit of 6.5% of all increased R&D expenses over the prior 3-year average, with no credit limit. Any unused credit can be carried forward to future tax years.
- **Mississippi** allows a credit of a flat \$1,000 for each employee whose job requires R&D skills.
- **Oregon** allows a credit of 5% of increased R&D expenses over the base amount as calculated under federal law or a credit of 5% of the expenses that exceed 10% of Oregon sales. The maximum credit allowed is \$2,000,000 and any unused credit can be carried forward for 5 years.
- **Texas** allows a credit of 5% of qualified expenses over the base amount as calculated under federal law. Unused credit may be carried forward.

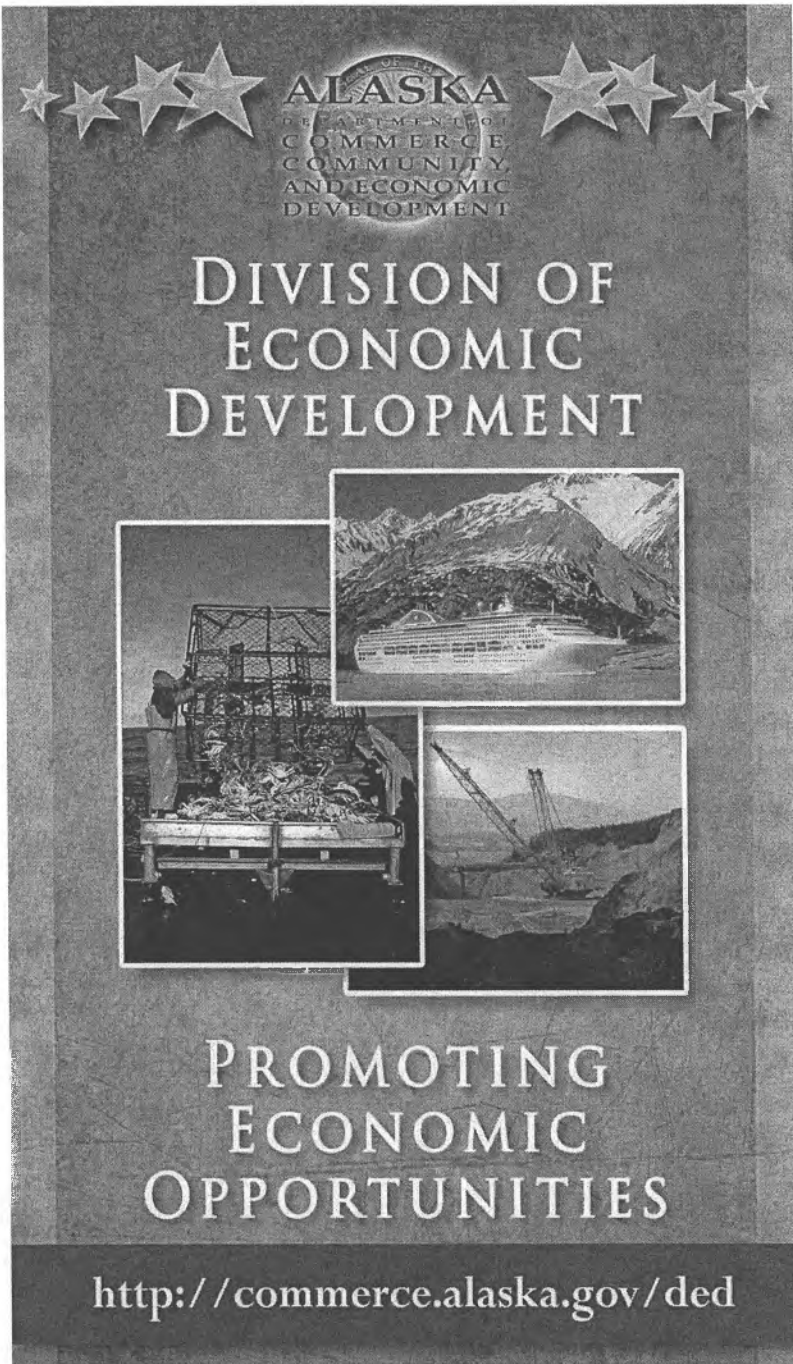
- **Vermont** allows a credit of 30% of qualified expenses over the base amount as calculated under federal law. Unused credit may be carried forward for 10 years.

This information was gathered by Johanna Bales, Deputy Director of the Tax Division. If you have other questions regarding the Research and Development Tax Credit legislation, please feel free to contact me at 465-2312 or Johanna directly at 269-6628.

Sincerely,

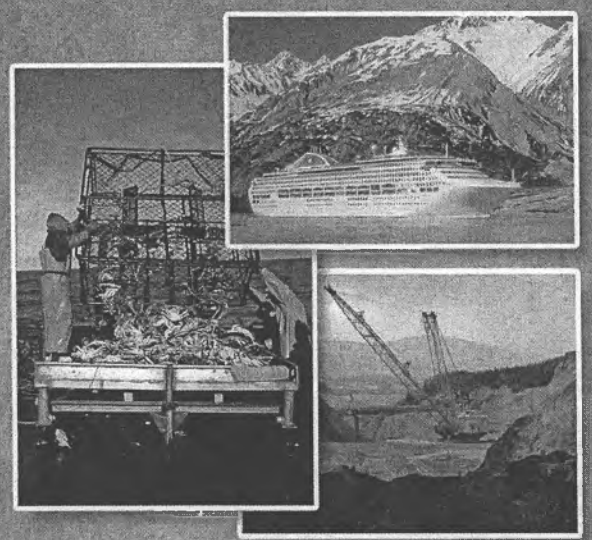
Ginger Blaisdell
Director, Administrative Services Division

Cc: Representative Olson, Chair, House Labor and Commerce Committee



ALASKA
DEPARTMENT OF
COMMERCE,
COMMUNITY,
AND ECONOMIC
DEVELOPMENT

DIVISION OF
ECONOMIC
DEVELOPMENT



PROMOTING
ECONOMIC
OPPORTUNITIES

<http://commerce.alaska.gov/ded>

House Bill 118

Research and Development Tax Credit

House
Labor & Commerce Committee

Friday, February 18, 2011

HB 118: Research and Development Tax Credit

Federal R&D Tax Credit

- *Established in 1981*
- *Reauthorized 14 times*
- *Authorized through 2011*

“permanently extend the Research and Experimentation Tax Credit in order to help companies create good jobs in America now while increasing future productivity and growth.”

HB 118 : Research and Development Tax Credit

Four-Part-Test – I.R.C.

Technological in Nature - must fundamentally rely on the principles of physics, biology, chemistry, mathematics, and computer science.

Level of Technological Uncertainty - activities have an associated level of uncertainty related to the development or improvement of a product or process.

Process of Experimentation –incorporates a process of theoretical and physical evaluation designed to evaluate one or more alternatives.

Permitted Purpose –requires that the goal of the activity is to improve the fit, form, or function of a product or process for a business component.

HB 118 : Research and Development Tax Credit

The Innovation Agenda

America COMPETES Act strengthens the capacity of the U.S. Economic Development Administration (EDA) to elevate regional innovation cluster development as a key driver of future jobs growth and ***accelerate the commercialization of new technologies, products, processes, and services.***

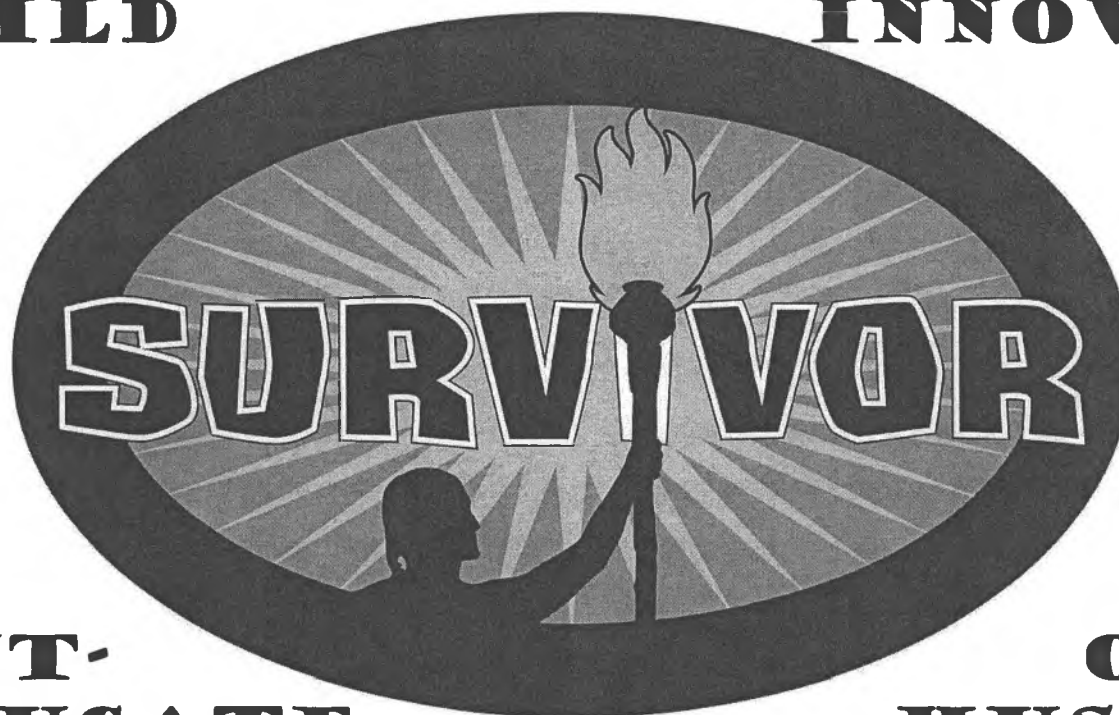
It also formally establishes EDA's Office of Innovation and Entrepreneurship at the Department of Commerce to ***foster innovation and the commercialization of new technologies, products, processes, and services with the goal of promoting productivity and economic growth in the United States.***

HB 118 : Research and Development Tax Credit

The Innovation Agenda

**OUT-
BUILD**

**OUT-
INNOVATE**



**OUT-
EDUCATE**

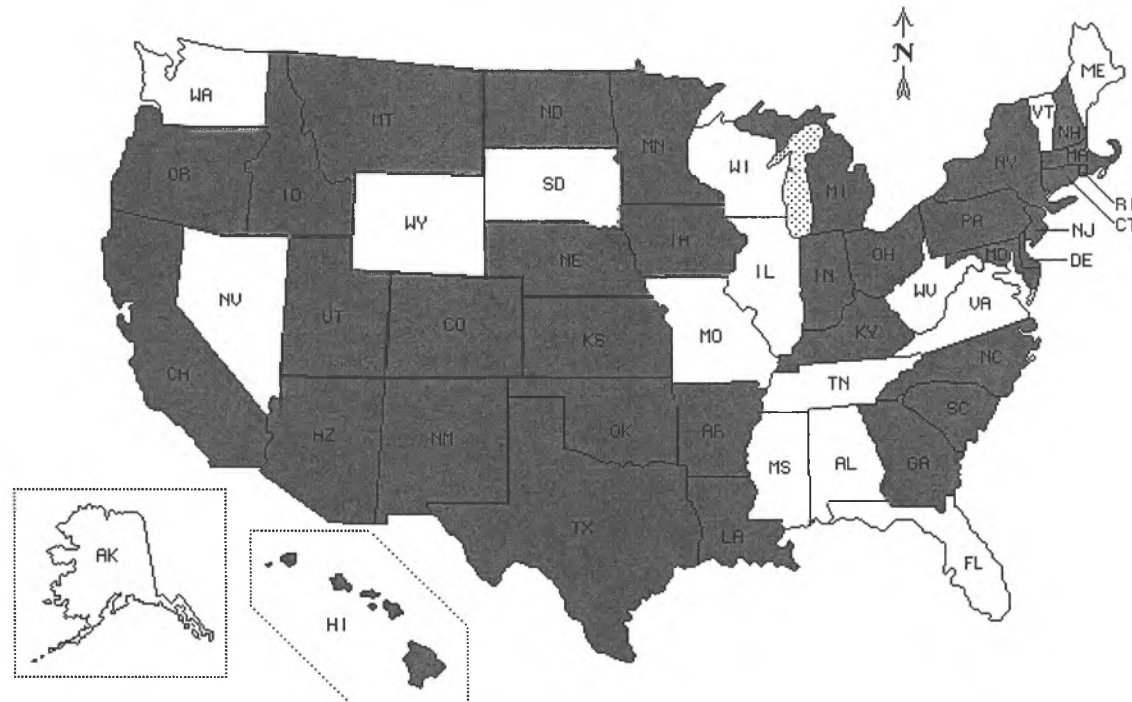
**OUT-
HUSTLE**

Prepared by the Department of Commerce, Community and Economic Development

HB 118 : Research and Development Tax Credit

States with an R&D Tax Credit

34 U.S. states currently have some form of R&D tax credit or incentive



MACART38.P13

Prepared by the Department of Commerce, Community and Economic Development

HB 118 : Research and Development Tax Credit

HB 118: R&D Tax Credit

Creates a new tax credit for qualified research and development for a 20% credit not to exceed \$10 million per tax payer per tax year for the three years immediately preceding the year in which the credit is claimed.



My Turn: R&D tax credit will boost economy, UAF

Thursday, February 24, 2011

Story last updated at 2/24/2011 - 5:11 pm

My Turn: R&D tax credit will boost economy, UAF
By Brian Rogers | UAF CHANCELLOR

On Jan. 24, Gov. Sean Parnell submitted a bill to establish a 20 percent tax credit for qualified research and development conducted by private businesses in Alaska. If approved, this credit could help stimulate private-sector investment, entrepreneurial activity and business expansion in Alaska that would bring opportunity and sustainable long-term benefits to the state.

In introducing the legislation, the governor said, "Innovation can be an expensive, intricate and time-intensive enterprise. However, it can also spark a chain of investments in capital equipment [and] workers, and spillover activities into multiple economic sectors."

The governor is correct. Innovation can be an expensive, intricate and time-intensive enterprise, but it is definitely worthwhile. The University of Alaska Fairbanks, the state's leading research university, is a partner with Alaska's private sector to use innovation to diversify the state's economy.

UAF has long recognized the value of partnering the knowledge and expertise of our researchers with the needs of communities and private businesses across the state. We have robust research programs that lead to technology development in areas directly related to the needs of the state's economy, including energy, engineering, geophysics, petroleum and mining, health sciences and agriculture.

Some specific examples of these partnerships include:

- UAF, the Alaska Berry Growers and Alaska Blue are examining plant propagation and the nutraceutical properties of blueberries and other berries.
- The UAF School of Natural Resources and Agricultural Sciences is collaborating with the Homegrown Market in Fairbanks to make locally grown reindeer meat available for purchase.
- The UAF College of Liberal Arts and Denali — The Alaska Gas Pipeline are working together to provide training for Alaskans interested in working on the pipeline as archeological technicians.
- The Cooperative Extension Service Thorne Bay program is working with island sawmill operators to turn wood waste into wood fuel to heat the local school and government facilities.
- The Alaska Center for Energy and Power, several utilities, landowners and communities are quantifying resources and assessing options for geothermal development in several areas of the state. They are also investigating a variety of other private and public energy research and development projects.

- The College of Engineering and Mines is conducting applied research in technology to find minerals, extract them and return the land and water to Alaskan's high standards.
- The UAF School of Management is sponsoring the third Arctic Innovation Competition this year, spotlighting innovation by Alaska's entrepreneurs.
- UAF's Community and Technical College provides a wide variety of applied business courses for Alaska entrepreneurs and small businesses.
- The Economic Opportunity Task Force, created by Fairbanks Economic Development Corporation, works with UAF research faculty members to identify technologies and processes that are ready for transfer to the private sector.

UAF's newly created Office of Intellectual Property and Commercialization will augment these efforts and facilitate new partnerships. Under the leadership of associate vice chancellor Dan White, the office will work with partners to commercialize the intellectual property and technology created by UAF's research and development efforts. This work will offer a strong compliment to the governor's endeavor.

In most states, a healthy private research and development sector works in tandem with university research. That hasn't been the case in Alaska; there has been very little private research and development here. The research and development tax credit can change this dynamic. We have seen the film industry tax credit make a difference in the state. This new credit can have a similar effect. It is not just about the opportunity for corporations to conduct independent research in Alaska. Independent research and development can create a ripple effect that benefits more than just the businesses involved.

This is one of the reasons why the Department of Commerce, Community and Economic Development Advisory Council, various Alaska businesses and chambers of commerce, as well as municipalities and economic development councils, support the governor's legislation. It's the reason we support it as well.

The governor's proposed research and development tax credit has the potential to significantly boost economic development in Alaska. UAF is ready to be a partner in that endeavor.

- Rogers is the chancellor of the University of Alaska Fairbanks.

From: "Allan Johnston" <Allan.Johnston@wedbush.com>

Date: February 25, 2011 1:22:41 PM AKST

To: <Senator_Catherine_Giessel@legis.state.ak.us>

Subject: Senate Bill 64

Senator Cathy Giessel:

I am writing today in support of Governor Sean Parnell's efforts to create innovation and investments in Alaska via House Bill 118 and Senate Bill 64. Innovation can be an expensive, intricate and time-intensive enterprise. But it also can spark a chain of investments in capital equipment, workers and spillover activities in every economic sector. The proposal to establish a 20 percent tax credit for research and development conducted by corporate taxpayers in Alaska recognizes the value of R&D and the advantage it can provide to Alaska entrepreneurs and innovators.

This kind of program has the capacity to create job opportunities for Alaskans by encouraging increased investment in Alaska's human and natural resources. If enacted, the legislation would stimulate private-sector investment, entrepreneurial activity, and business expansion in Alaska that will bring opportunity and sustainable long-term benefits to the state and its residents.

House Bill 118/Senate Bill 64 will help spur sustainable economic growth in Alaska. It is good for business, for the economy, and for Alaska families.

I encourage legislative support, with hope for its passage.

Respectfully,

Allan R Johnston
Vice President
Wedbush Morgan Securities
101 West Benson Blvd., Suite 500
Anchorage, Alaska 99503
907-273-2317

Wedbush Morgan Securities employees may not accept any orders or instructions to buy or sell securities of any kind by email. All such instructions and orders must be placed by telephone or in person with your Investment Executive. The information contained within this email is based on information available and believed to be accurate at the time it was prepared. It reflects the opinions and beliefs of the individual sender and not necessarily those of Wedbush Morgan Securities.

Lockheed Martin Corporation
2121 Crystal Drive Suite 100 Arlington, VA 22202
Telephone 703-413-5855 Facsimile 703-413-5846
E-mail: larry.duncan@lmco.com



Lawrence Duncan III
Vice President
Federal and State Government Relations & PAC Affairs

March 16, 2011

The Honorable Sean Parnell
Governor of Alaska
P.O. Box 110001
Juneau, AK 99811-0001

Dear Governor Parnell:

I am writing to express Lockheed Martin's strong support for House Bill 118 and Senate Bill 64, legislation that reflects your effort to encourage more research and development in the State of Alaska.

Lockheed Martin is heavily focused on research and development, which is critical to innovation and national security. Incentives that encourage more corporate investment in research and development will support economic growth and high-technology jobs across a wide spectrum of industries. These incentives also will support the research efforts of universities working in concert with industry on projects that will improve the lives of all Alaskans.

Forty states have adopted research and development tax credits. Your effort in the State of Alaska is an important step toward expanding and diversifying Alaska's economy. Thank you for your leadership on encouraging new research and development in Alaska.

Sincerely,

A handwritten signature in black ink, appearing to read "Lawrence Duncan III", written over a horizontal line.

Lawrence Duncan III



Representative Kurt Olson, Chair
 House Labor & Commerce
 State Capitol, Rm 24
 Juneau, Alaska 99801

February 18, 2011


Dear Representative Olson:

I write to you today in support of HB118, "An Act relating to a tax credit for corporate income taxes paid for qualified research and development expenditures; and providing for an effective date," which will encourage innovation and business expansion in Alaska.

Innovation, experimentation, research and development are all time consuming and often expensive endeavors without a guarantee of financial return. Subsequently, businesses that can benefit from these activities often do not undertake these necessary functions due to the significant economic risk associated with them. HB 118 will work to encourage these activities by mitigating some of the risk a business might otherwise incur by offering a tax credit for qualified expenditures related research and development.

Although this credit will mitigate some risk, capping it at 20% will encourage responsible research with participating companies still assuming an appropriate portion of the risk.

Half of the private sector is populated by small businesses and as many studies have shown, entrepreneurs and small businesses are the driving force for economic growth. They are also the businesses that after an economic downturn are the quickest to return to growth. This bill will support these businesses as they look to expand their product lines, develop more efficient ways of doing business and enhance their current business. This legislation will help individual businesses, the state and Alaskans by stimulating private-sector investment, entrepreneurial activity and business expansion that will result in sustainable long-term benefits to our economy.

Sincerely,

 Bill Popp
 President & CEO

Voting Members

- Anand Vadapalli *Executive Director*
- Bill O'Leary *Alaska Railroad Corporation*
- Bob Heinrich *Alaska State*
- Bruce Bustamante *Alaska State*
- Bruce Lamoureux *Alaska State*
- Chris Brown *Alaska State*
- Chris Stephens *Alaska State*
- Clare Fitzpatrick *Alaska State*
- Connie Carter *Alaska State*
- Dale Pittman *Alaska State*
- David Hamilton *Alaska State*
- Dennis Mitchell *Alaska State*
- Ed Herndon *Alaska State*
- Greg Kessler *Alaska State*
- Greg Pearce *Alaska State*
- Joseph Everhart *Alaska State*
- Lynn Rust Henderson *Alaska State*
- Lon Wilson *Alaska State*
- Mark Liland *Alaska State*
- Marla Wellington *Alaska State*
- Michael Prozeralik *Alaska State*
- Mike Deslin *Alaska State*
- Pat Walsh *Alaska State*
- Scott Hansen *Alaska State*
- Sophie Minich *Alaska State*
- Stephane Holtzhaus *Alaska State*
- Stewart Osgood *Alaska State*
- Suzanne Cherot *Alaska State*
- Terry Bailey *Alaska State*
- Tim Vig *Alaska State*

Ex-Officio Members – Legislators

- Rep. Craig Johnson *Alaska State*
- Rep. Lindsey Holmes *Alaska State*
- Sen. Johnny Ellis *Alaska State*
- Sen. Lesi McGuire *Alaska State*

Ex-Officio Members – Municipality

- Mayor Don Sullivan *Municipality of Anchorage*
- Assemb. Bill Start *Municipality of Anchorage*
- Assemb. Ernie Hall *Municipality of Anchorage*

Ex-Officio Members – Appointed by the Board

- Bill Evaris *Alaska State*
- Brian Neiland *Alaska State*
- Carol Comeau *Alaska State*
- Chris Anderson *Alaska State*
- Elisha Baker *Alaska State*
- George Vakalis *Alaska State*
- Jim Posey *Alaska State*
- John Parrott *Alaska State*
- Julie Soupe *Alaska State*
- Larry Cash *Alaska State*
- Mary K. Hughes *Alaska State*
- Tennys Owens *Alaska State*
- Wanetta Ayers *Alaska State*
- William Dann *Alaska State*



Fairbanks North Star Borough

Office of the Mayor

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P.O. Box 71267

Fairbanks, Alaska 99707-1267

907/459-1300

Fax 907/459-1102


Email mayor@co.fairbanks.ak.us

February 24, 2011

Dear Governor Parnell,

We appreciate your continued interest in developing jobs and opportunity in Alaska. The recent legislation submitted by your office, House Bill 118 and 121, creating an Alaska microloan revolving loan fund and a tax credit for qualified research and development expenditures are good examples of your continued efforts. Here at the Fairbanks North Star Borough Economic Development Division we recognize the need for this legislation and offer our support as you move this legislation forward.

Thank you,


Kathryn Dodge

Fairbanks North Star Borough Economic Development

Lockheed Martin Corporation
2121 Crystal Drive Suite 100 Arlington, VA 22202
Telephone 703-413-5855 Facsimile 703-413-5846
E-mail: larry.duncan@lmco.com



Lawrence Duncan III
Vice President
Federal and State Government Relations & PAC Affairs

March 16, 2011

The Honorable Sean Parnell
Governor of Alaska
P.O. Box 110001
Juneau, AK 99811-0001

Dear Governor Parnell:

I am writing to express Lockheed Martin's strong support for House Bill 118 and Senate Bill 64, legislation that reflects your effort to encourage more research and development in the State of Alaska.

Lockheed Martin is heavily focused on research and development, which is critical to innovation and national security. Incentives that encourage more corporate investment in research and development will support economic growth and high-technology jobs across a wide spectrum of industries. These incentives also will support the research efforts of universities working in concert with industry on projects that will improve the lives of all Alaskans.

Forty states have adopted research and development tax credits. Your effort in the State of Alaska is an important step toward expanding and diversifying Alaska's economy. Thank you for your leadership on encouraging new research and development in Alaska.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry Duncan III", written over a horizontal line.

Lawrence Duncan III