

HB

118

<TARGET><BILL>HB 118</BILL><SUBJECT>HB
118</SUBJECT><COMM>SRES27</COMM></TARGET>



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Office of the Commissioner

Sean Parnell, Governor
Susan K. Bell, Commissioner

March 5, 2012

Senator Joe Paskvan, Co-Chair
Senate Resources Committee
State Capitol, Room 115
Juneau, AK 99801

Senator Tom Wagoner, Co-Chair
Senate Resources Committee
State Capitol, Room 427
Juneau, AK 99801

Re: House Bill 118 – Research and Development Tax Credit

Dear Senators Paskvan and Wagoner,

Please accept this request for your consideration to schedule CSHB 118 (FIN) – Research and Development Tax Credit in Senate Resources 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 have been claimed under Title 43.

The bill will 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 or Deputy Commissioner Curtis Thayer at 465-2500.

Sincerely,

A handwritten signature in cursive script that reads "Susan K. Bell".

Susan K. Bell
Commissioner



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Sean Parnell, Governor
Susan K. Bell, Commissioner

Office of the Commissioner

CS for House Bill 118 (FIN)

"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: AS 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.

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, a description of the research and development projects for which the credit was granted, 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/>



STATE OF ALASKA
DEPARTMENT OF
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Sean Parnell, Governor
Susan K. Bell, Commissioner

Office of the Commissioner

CS for House Bill 118 (FIN) – Explanation of Changes

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

Page 2, line 11, following "been":

Deleted "apportioned to this state and"

Page 2, line 11:

Deleted "AS 43.20.021"

Inserted "under this title"

Page 2, lines 12 - 13:

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

Page 2, lines 13 - 14:

Inserted "to the legislature"

Page 2, lines 16 - 17:

Inserted "a description of the research and development projects for which the credit was granted,"

Page 2, lines 16 – 25 (of the original bill):

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.

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/>

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version CSHB 118(FIN)
 Fiscal Note Number 2
 (H) Publish Date 2/17/12

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					
			FY13	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	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	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 #2

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB 118(FIN)

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 cost ≠ codes
2012 LEGISLATIVE SESSION

Bill Version CSHB 118(FIN)
 Fiscal Note Number 3
 Publish Date 2/17/12 (H)

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	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	0.0	***	***	***	***	***	***
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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 #3

STATE OF ALASKA
2012 LEGISLATIVE SESSION

BILL NO. CSHB 118(FIN)

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.



HB 118 Presentation Alaska State Legislature

April 4, 2012



ALASKA
DEPARTMENT OF
COMMERCE,
COMMUNITY,
AND ECONOMIC
DEVELOPMENT



The growth of our science and education will be enriched by new knowledge of our universe and environment, by new techniques of learning and mapping and observation, by new tools and computers for industry, medicine, the home as well as the school.

HB 118 R&DTax Credit



ALASKA
DEPARTMENT OF
COMMERCE,
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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 R&DTax Credit



ALASKA
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This legislation will 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 R&DTax Credit



ALASKA
DEPARTMENT OF
COMMERCE,
COMMUNITY,
AND ECONOMIC
DEVELOPMENT

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

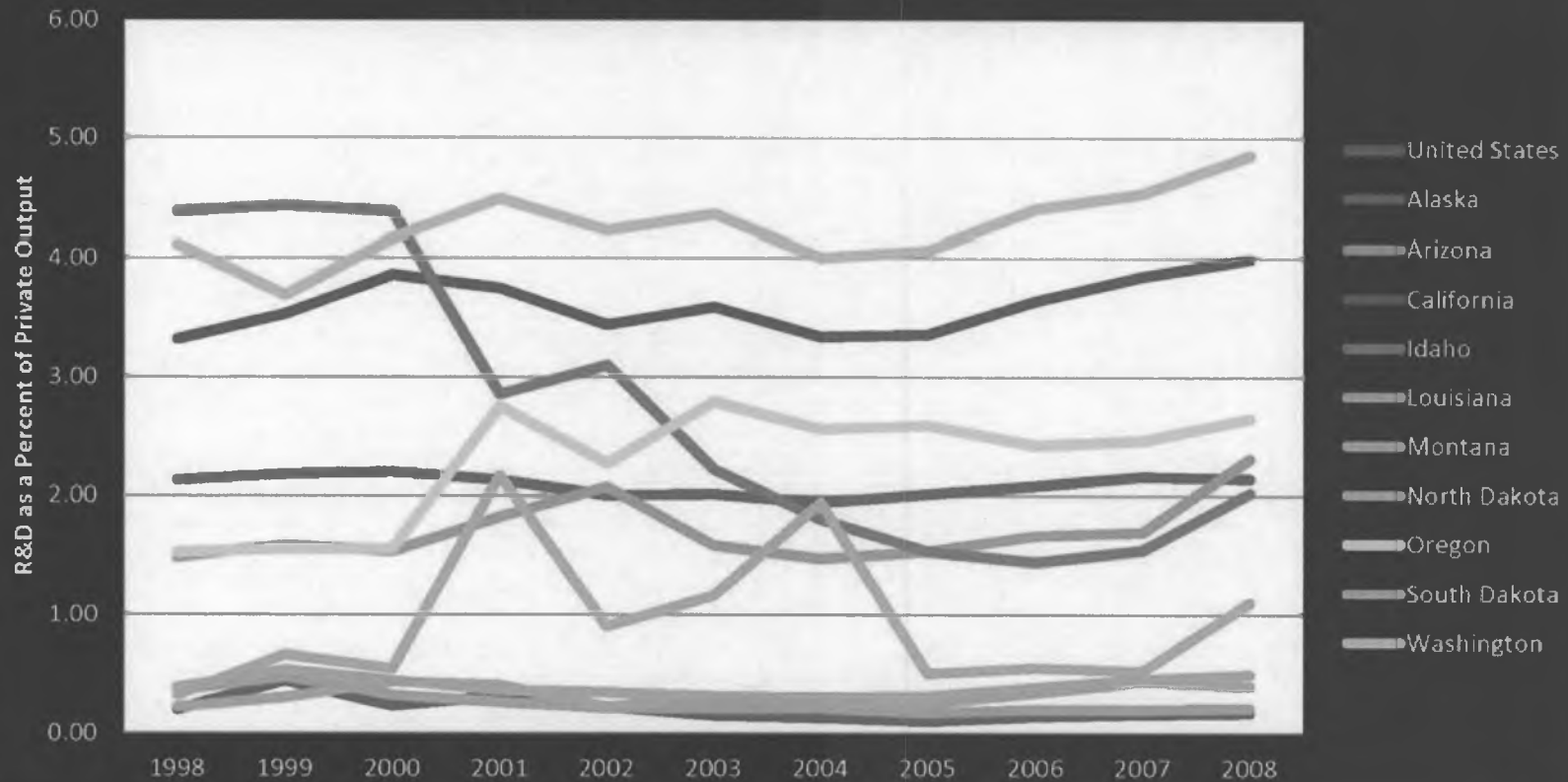
What Doesn't Qualify:

- 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 R&DTax Credit



Business-performed R&D as a percentage of private-industry output, by state: 1998–2008



HB 118 R&DTax Credit



ALASKA
DEPARTMENT OF
COMMERCE,
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DEVELOPMENT

Fisheries: Seafood Processing

- 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





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

HB 118 R&DTax Credit



ALASKA
DEPARTMENT OF
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COMMUNITY,
AND ECONOMIC
DEVELOPMENT

Timber: Use in Architectural and Building Industries

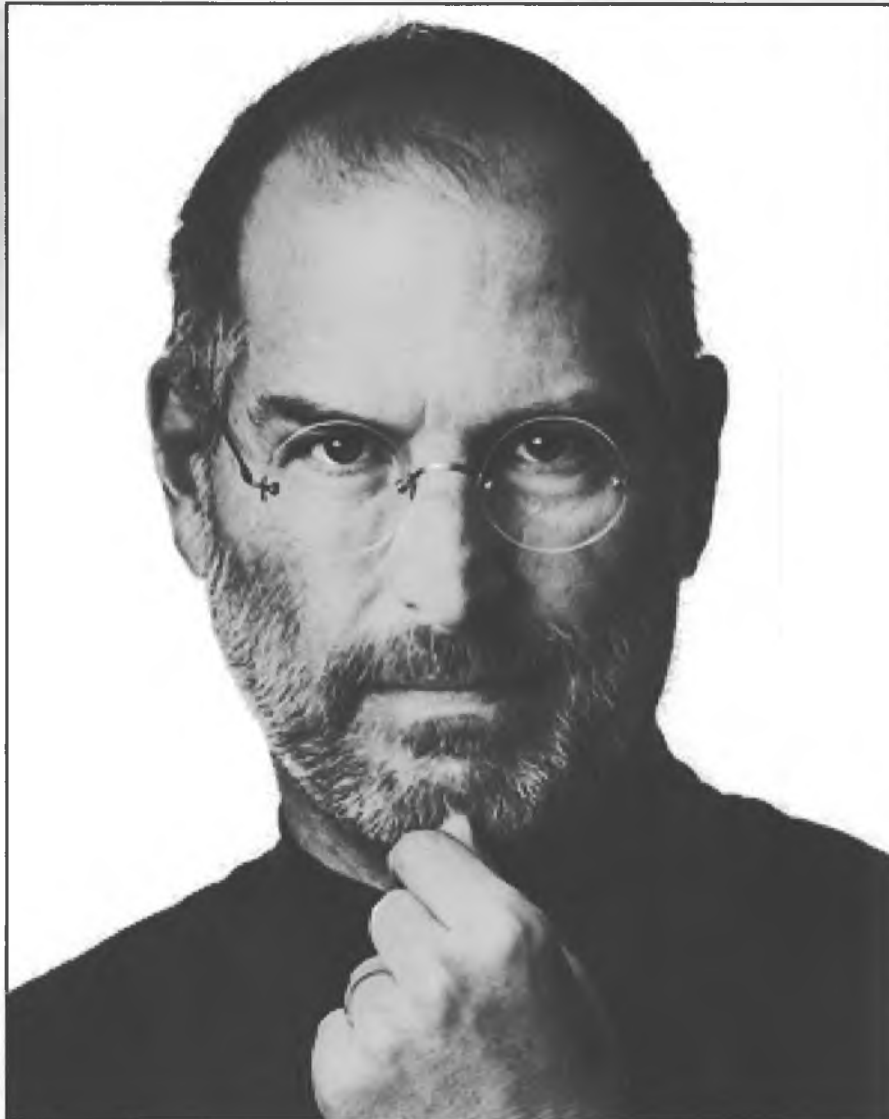
- To be specified for many building and architectural uses, species must have technical standards set for each product form



HB 118 R&DTax Credit



ALASKA
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AND ECONOMIC
DEVELOPMENT



*Innovation
distinguishes
between a leader
and a follower.*

- Steve Jobs

HB 118 R&DTax Credit



ALASKA
DEPARTMENT OF
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AND ECONOMIC
DEVELOPMENT



Comments and Questions

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

RESEARCH AND DEVELOPMENT CREDIT BY STATE

FEDERAL	Two Types: Regular Research Credit (RRC) Method; 20% of qualified expenses Alternative Simplified Credit (ASC) Method; 14% of qualified expenses over 50% of average expenses in the preceding three years (See Exhibit 1 attached)
Arizona	24% of the first \$2.5 million in qualifying expenses. Qualifying expenses in excess of \$2.5 million, credit is \$600,000 plus 15% of the amount over \$2.5M. Ariz. Rev. Stat. Ann. § 43-1074.01 [Extended through 2019]
Arkansas	1. University based R&D. 33% tax credit for qualified research expenditure on contracts with AR colleges or Universities 2. In-House R&D. 20% of qualified expenditures exceeding the base year for a 3 year period. Incremental increase for next 2 years. Credit may offset 100% of state tax liability. Unused credit may be carryforward up to 9 years. 3. Strategic Value R&D. For research in an area of strategic value or projects offered by AR Science & Technology Authority. Credit is 33% of qualified expenditures. Max credit is \$50,000 per year. Unused credit may be carryforward 9 years Ark. Code Ann. § 15-4-2708
California	15% for qualified research and 24% of research payments Cal. Rev. & Tax. Cd. § 23609
Colorado	3% of increased R&D expenditures. Colo. Code Regs. 39-30-105.5
Connecticut	Three types: 25% grants to institutes of higher education. Conn. Gen. Stat. § 12-217l 20% of incremental expenditures. Unused credit carryforward up 15 years. Conn. Gen. Stat. § 12-217j 1- 6% of non-incremental expenditures. Conn. Gen. Stat. § 12-217n
Delaware	Up \$5m for qualified R&D expenses equal to 10% of R&D base amount or 50% of DE apportioned share not to exceed 50% of tax liability. Unused credit may be carried forward up 15 years. Del. Code Ann. § 2070 [Extended to tax years ending after 12/31/12]
Florida	Effective 1-1-2012. Credit to a max of \$9M not to exceed 50% of tax liability. Unused credit may be carried forward up 5 years. Fla. Stat. § 220.196
Georgia	Up to 10% of base amount not to exceed 50% of tax liability. Unused credit may be carried forward up to 10 years. Ga. Code Ann. § 48-7-40.12
Hawaii	Impose a refundable credit up to 20% on qualified expenses. Haw. Rev. Stat. § 235-110.91
Idaho	Sum of: 5% of excess payments over base amount and 5% of payments allowed under IRS code, not to exceed tax. Idaho Code § 63-3029G
Illinois	[Extended through 2015]
Indiana	Up to 10% minus 50% of qualified expenses for 3 preceding years. Ind. Code § 6-3.1-4-2.5
Iowa	6.5% of qualified expenditures. Iowa Admin. Code 701--42.11

RESEARCH AND DEVELOPMENT CREDIT BY STATE

Kansas	6.5% of expenditures exceeding amounts used in the current plus past two yrs. Only 25% of credit is used in the current year Kan. Stat. Ann. § 79-32,182
Louisiana	up 8% of state's apportioned amount, 40% if employs up to 50, 25% if alternative incremental tax credit is claimed 20% for taxpayers with 50 to 99 employees. La. Rev. Stat. Ann. § 47:6015 [Applicable to tax years beginning on or after 1-1-2011 and extended through 2019]
Maine	5% of the amount that exceed the average expense of the previous 3 yrs plus 7.5% of basic research payments Me. Rev. Stat. Ann. § 5219-K
Maryland	[Extended through 6/30/21]
Massachusetts	10% not to exceed 50% of tax liability. Limit \$25,000,000. Mass. Gen. L. § 38N
Michigan	1.9% of qualified expenses. Mich. Comp. Laws Ann. § 208.1405
Minnesota	10 %, up to the first \$2 million in eligible expenses. The credit is 2.5 percent for eligible expenses above \$2 millior Minn. Stat. § 290.068 [Extended through tax years beginning before 1/1/15]
Mississippi	\$1,000 per employee for a job requiring R&D skills. Miss. Administrative Code 35.X.03
Missouri	6.5% of qualified expenses. Mo. Rev. Stat. § 620.1039
Montana	Tax exempt for first 5 years of R&D activities. Mont. Code Ann. § 15-31-103
Nebraska	15% of federal tax credit. 35% of federal credit if conducted in colleges or universities. Neb. Rev. Stat § 77-5803
New Hampshire	Lesser of 10% of qualified expenses or \$50, 000. N.H. Admin. Rules, Rev 2406.05 .
New Jersey	50% of qualified expenses against tax liability. N.J. Admin. Code 18:7-3.23 [As of 1/1/12 limitation of 50% of tax liability was removed]
New Mexico	has a small business technology tax credit, governor is proposing a high-tech R & D credit
New York	10% of cost or other federal basis. ¶11,314
North Carolina	\$0 to \$50M - 1.25%. \$50M to \$200M - 2.25%. Over \$200M 3.5%. N.C. Gen. Stat. § 105-129.55 .
North Dakota	25% of first \$100,000. 8% of amount over \$100,000. N.D. Cent. Code § 57-38-30.5
Oklahoma	\$500 per employee engaged in R&D, computer services or data processing. Max 50 employees. Okla. Admin. Code 710:50-15-105
Ohio	Requires taxpayers to obtain a certificate before claiming the credit. Max credit \$150,000. Ohio Rev. Code Ann. § 5733.352

RESEARCH AND DEVELOPMENT CREDIT BY STATE

Oregon	5% of increase in qualified expenses . Max \$2M. Unused credit may be carried up to 5 years. Or. Rev. Stat. § 317.152 [Program extended to 1/1/16]
Pennsylvania	10% of qualified expenses. Pa. Stat. Ann. § 8703-B
Rhode Island	22.5% up to \$111,111, 16% of amounts over \$111,111. R.I. Reg. CR 03-07
South Carolina	5% of qualified expenses not to exceed 50% of tax liability. S.C. Code Ann. § 12-6-3415 .
Texas	5% of qualified expenses. Tex. Admin. Code 3.578
Utah	6.3% for basic research that exceeds base amount. Utah Code Ann. § 59-10-1012
Virginia	15% of first \$167,000 or 20% of first \$175,000 if conducted in college or universities. Va. Code Ann. § 58.1-439.12:06.
West Virginia	Credit on Depreciable property from 33 1/3 to 100%. W. Va. Code § 11-13R-4
Wisconsin	10% of qualified expenses. Wis. Stat. § 71.28 (5). [Created a "Super R&D Credit" as of 1/1/11]

House Bill 118

Research and Development Tax Credits

1. I understand that HB 118 is being heard in the Resources Committee because of issues raised in the other body and whether or not those tax credits can be applied to the oil and gas industry.

Please elaborate. What is the issue? Is it valid?

ambiguous → *better language*
22 - credits
24 - definition of credits



ALASKA STATE LEGISLATURE

SENATOR THOMAS H. WAGONER

Co-Chair: Senate Resources Committee


Member: C&RA Committee
Member: Regulatory Review

Member: LB&A Committee
Member: World Trade

Official Business

Session: January - May
State Capitol, #427
Juneau, AK 99801
Phone: 907-465-2828 Fax: 907-465-4779

Interim: May - December
145 Main Street Loop, Suite 226
Kenai, AK 99611
Phone: 907-283-7996 Fax: 907-283-8127

DATE: April 11, 2012
TO: Don Bullock, Legislative Legal
FROM: Mary Jackson 
RE: HB 118

Please provide a CS for HB 118 which accomplishes the following:

Amends the HB 118 which was before the Committee ((27-GH1951\I) by inserting Wielechowski amendment (27-GH1951\I.15) as amended below:

On page 5, line 22, Section 11 - delete "2015" and replace with "2018".

As always, thank you for your time and attention.

Also, please provide the appropriate title change resolution to accompany this revision.

HB 118 Amend

Rec'd 4-10-12
12:05 PM

ALASKA STATE LEGISLATURE

Session

State Capitol, Rm. 101
Juneau, AK 99801
(907) 465-2435
Fax: (907) 465-6615

Interim

716 W. 4th Ave, Ste. 540
Anchorage, AK 99501
(907) 269-0120
Fax: (907) 269-0122



Chair

State Affairs Committee

Co-chair

Joint Armed Services Committee

Vice Chair

Resources Committee
Judiciary Committee

Member

Administrative Regulation Review

Senator_Bill_Wielechowski@legis.state.ak.us

SENATOR BILL WIELECHOWSKI

Enabling Greater Public and Legislative Review of Tax Credits and Other Forms of Indirect State Spending

- Alaskans deserve basic information on state spending, including indirect forms of spending, such as tax credits, waivers and exemptions. This type of oversight is vital to government efficiency and controlling spending.
- Alaska “spends” about a billion dollars each year on tax credits, exemptions and other indirect expenditures without regularly evaluating their impact. This is more than the budgets of the Departments of Revenue, Natural Resources, Environmental Conservation, Law, the Court System and the Legislature combined.
- 45 other states publish this type of information. Alaska is one of only five remaining that does not.
- This amendment would do three things:
 - Require the legislature to include legislative intent language in any new tax credits or exemptions to enable future evaluation of the credit’s effectiveness.
 - Require the Department of Revenue to publish information about each tax expenditure in its annual revenue sources book. This information would include the sum of tax expenditures for the prior fiscal year and an estimate for the current fiscal year.
 - Require the Legislative Finance Division to conduct a one-time analysis of tax expenditures over \$1 million seven years after their passage to determine whether the tax expenditure is achieving its intended purpose.

27-LS1473VA
Bullock
3/22/12

SENATE CONCURRENT RESOLUTION NO.
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY

Introduced:
Referred:

A RESOLUTION

1 **Suspending Rules 24(c), 35, 41(b), and 42(e), Uniform Rules of the Alaska State**
2 **Legislature, concerning House Bill No. 118, relating to a tax credit for qualified research**
3 **and development expenditures.**

4 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 That under Rule 54, Uniform Rules of the Alaska State Legislature, the provisions of
6 Rules 24(c), 35, 41(b), and 42(e), Uniform Rules of the Alaska State Legislature, regarding
7 changes to the title of a bill, are suspended in consideration of House Bill No. 118, relating to
8 a tax credit for qualified research and development expenditures.

A M E N D M E N T

OFFERED IN THE SENATE
TO: CSHB 118(FIN)

BY SENATOR WIELECHOWSKI

1 Page 1, line 1, following "Act":

2 Insert "relating to the reporting and analysis of certain information relating to tax
3 credits, exclusions, exemptions, waivers, and other tax expenditures; relating to bills
4 creating tax expenditures; relating to confidentiality and use of tax information;"

5

6 Page 1, following line 3:

7 Insert new bill sections to read:

8 "* **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
9 to read:

10 SHORT TITLE. Sections 1 - 9 of this Act may be known as the Alaska Tax Break
11 Transparency Act.

12 * **Sec. 2.** AS 24.08 is amended by adding a new section to read:

13 **Sec. 24.08.038. Tax expenditure bills.** The legislature shall include a
14 statement of the rationale and purpose of a tax expenditure in a bill creating a tax
15 expenditure. In this section, "tax expenditure" has the meaning given in AS 43.05.090.

16 * **Sec. 3.** AS 24.20 is amended by adding a new section to read:

17 **Sec. 24.20.232. Analysis of tax expenditures.** If the sum of tax expenditures
18 of a specific type exceeds \$1,000,000 in fiscal year 2012 or a succeeding fiscal year,
19 the legislative finance division shall analyze the use of the tax expenditure on the
20 following schedule to determine whether the statute authorizing the tax expenditure
21 has achieved its purpose:

22 (1) tax expenditures existing on July 1, 2015, shall be analyzed once
23 between July 1, 2015, and June 30, 2020, and before a delayed repeal of a tax

1 expenditure;

2 (2) a tax expenditure created after July 1, 2015, shall be analyzed after
3 it has been in effect for seven years or, if the statute authorizing the expenditure has a
4 delayed repeal date, one year before the effective date of the delayed repeal of the tax
5 expenditure.

6 * **Sec. 4.** AS 37.07.020(a) is amended to read:

7 (a) **After considering the revenue and tax expenditure report prepared by**
8 **the Department of Revenue under AS 43.05.090, the** [THE] governor shall prepare
9 a budget for the succeeding fiscal year that must cover all estimated receipts, including
10 all grants, loans, and money received from the federal government and all proposed
11 expenditures of the state government. The budget shall be organized so that the
12 proposed expenditures for each agency are presented separately. The budget must be
13 accompanied by the information required under AS 37.07.050 and by the following
14 separate bills: (1) an appropriation bill authorizing the operating and capital
15 expenditures of the state's integrated comprehensive mental health program under
16 AS 37.14.003(a); (2) an appropriation bill authorizing state operating expenditures
17 other than those included in the state's integrated comprehensive mental health
18 program; (3) an appropriation bill authorizing capital expenditures other than those
19 included in the state's integrated comprehensive mental health program; and (4) a bill
20 or bills covering recommendations, if any, in the budget for new or additional revenue.
21 The budget for the succeeding fiscal year and each of the bills shall become public
22 information on December 15 at which time the governor shall submit copies to the
23 legislature and make copies available to the public. The bills, identical in content to
24 the copies released on December 15, shall be delivered to the rules committee of each
25 house before the fourth legislative day of the next regular session for introduction.

26 * **Sec. 5.** AS 37.07.020(b) is amended to read:

27 (b) In addition to the budget and bills submitted under (a) of this section, the
28 governor shall submit a capital improvements program covering the succeeding six
29 fiscal years. The governor shall also submit a fiscal plan with estimates of significant
30 sources and uses of funds for the succeeding 10 fiscal years. The fiscal plan

31 (1) must include sufficient details to identify

- 1 (A) significant sources of funds;
 2 (B) significant uses of funds, including lump sum projections
 3 of
- 4 (i) operating expenditures;
 - 5 (ii) capital expenditures;
 - 6 (iii) debt service expenditures;
 - 7 (iv) fund capitalizations;
 - 8 (v) appropriations of income of the Alaska permanent
 9 fund (art. IX, sec. 15, Constitution of the State of Alaska), if any;
- 10 (2) must balance sources and uses of funds held while providing for
 11 essential state services and protecting the economic stability of the state;
- 12 (3) must include projected balances of significant funds held in
 13 separate accounts, including the budget reserve fund (art. IX, sec. 17, Constitution of
 14 the State of Alaska), the public education fund (AS 14.17.300), and the Alaska capital
 15 income fund (AS 37.05.565);
- 16 (4) must set out significant assumptions used in the projections with
 17 sufficient detail to enable the legislature to rely on the fiscal plan in understanding,
 18 evaluating, and resolving issues of state budgeting, including information that supports
 19 major areas of operating increases, such as population demographics that affect the
 20 need for particular government services;
- 21 **(5) must consider issues raised by the revenue and tax expenditure**
 22 **report prepared by the Department of Revenue under AS 43.05.090.**

23 * **Sec. 6.** AS 40.25.100(a) is amended to read:

- 24 (a) Information in the possession of the Department of Revenue that discloses
 25 the particulars of the business or affairs of a taxpayer or other person is not a matter of
 26 public record, except as provided in AS 43.05.230(i) **and 43.05.090(d)** or for purposes
 27 of investigation and law enforcement. The information shall be kept confidential
 28 except when its production is required in an official investigation, administrative
 29 adjudication under AS 43.05.405 - 43.05.499, or court proceeding. These restrictions
 30 do not prohibit the publication of statistics presented in a manner that prevents the
 31 identification of particular reports and items, prohibit the publication of tax lists

1 showing the names of taxpayers who are delinquent and relevant information that may
 2 assist in the collection of delinquent taxes, or prohibit the publication of records,
 3 proceedings, and decisions under AS 43.05.405 - 43.05.499.

4 * Sec. 7. AS 43.05.090 is amended to read:

5 **Sec. 43.05.090. Preparation and publication of reports and statistics.** The
 6 department shall prepare and annually publish statistics of the revenues derived under
 7 the tax laws administered by it, **including an analysis of tax revenue losses due to**
 8 **tax expenditures**.

9 * Sec. 8. AS 43.05.090 is amended by adding new subsections to read:

10 (b) The revenue and tax expenditure report must include

11 (1) the statutory authority for each type of tax expenditure;

12 (2) the annual sum of tax expenditures for the prior fiscal year,
 13 separately calculated for each type of expenditure, and the total number of taxpayers
 14 who benefitted from each type of expenditure;

15 (3) an estimate of tax expenditures for the current fiscal year,
 16 separately calculated for each type of expenditure;

17 (4) an estimate of the public costs of administering the tax
 18 expenditures.

19 (c) The department shall annually transmit an electronic copy of the revenue
 20 and tax expenditure report to each member of the legislature and make the report
 21 available to the public on the department's Internet website.

22 (d) The department shall notify the legislative finance division when the sum
 23 of tax expenditures of a specific type has exceeded \$1,000,000 in fiscal year 2012 or a
 24 succeeding fiscal year and provide the legislative finance division with the
 25 nonconfidential or, subject to the division's execution of a confidentiality agreement,
 26 confidential information necessary to complete the analysis under AS 24.20.232.

27 (e) In this section, "tax expenditure" means a tax credit, exclusion, exemption,
 28 waiver, or other loss of state tax revenue due to an express provision of state tax law;
 29 "tax expenditure" does not include federal tax expenditures under federal law adopted
 30 by reference in AS 43.20.021 or tax deductions incurred in the ordinary course of
 31 trade or business.

1 * **Sec. 9.** AS 43.05.230(a) is amended to read:

2 (a) It is unlawful for a current or former officer, employee, or agent of the
3 state to divulge the amount of income or the particulars set out or disclosed in a report
4 or return made under this title, except

5 (1) in connection with official investigations or proceedings of the
6 department, whether judicial or administrative, involving taxes due under this title;

7 (2) in connection with official investigations or proceedings of the
8 child support enforcement agency, whether judicial or administrative, involving child
9 support obligations imposed or imposable under AS 25 or AS 47;

10 (3) as provided in AS 38.05.036 pertaining to audit functions of the
11 Department of Natural Resources;

12 (4) as provided in AS 43.05.090(d):

13 (5) as provided in AS 43.05.405 - 43.05.499; and

14 (6) [(5)] as otherwise provided in this section or AS 43.55.890."
15

16 Page 1, line 4:

17 Delete "Section 1"

18 Insert "Sec. 10"

19

20 Page 2, line 26:

21 Delete all material and insert:

22 "**Sec. 11.** Sections 3 - 9 of this Act take effect July 1, 2015.

23 * **Sec. 12.** Except as provided in sec. 11 of this Act, this Act takes effect immediately under

24 AS 01.10.070(c)."

*Friendly
Amend
BW:
2018 NoBST.*



1100 West Ewing Street
Seattle, WA 98119

March 28, 2012

Honorable Gary Stevens
United States Senator
State Capitol Room 111
Juneau AK, 99801

Dear Senator Stevens:

I am writing you today to express my support for HB 118 – Research and Development Tax Credit. The effect of diversifying seafood resources, above all other efforts, has had the largest positive impact on value, job opportunities and opening new markets for Alaska seafood around the world.

Research and Development is one of the highest risk aspects of our business yet one area that has kept our business strong and growing through tough economic times. The opportunity to accelerate the development of new products and processes through a Public/Private partnership will continue to keep Alaska seafood competitive and gaining new consumers around the world.

An example of new technology that Ocean Beauty has been a part of is the use of microwave sterilization to develop shelf stable ready-to-eat meals. Ocean Beauty Seafoods is a founding member of the Microwave Consortium that includes Washington State University, U.S. Army-NATICK, Hormel, AmeriQual, General Mills, and Nestlé, among others. This group was formed in 2002 with the goal of commercializing a microwave process for the preparation of shelf stable meals. The US military has invested in this project with a goal of improving the eating quality of MRE's (meals ready to eat), as food quality has a direct impact on troop morale. We see the technology as a way to reduce energy costs when compared to traditional retorts to cook salmon and incorporate more "user friendly" packaging vs. canned product.

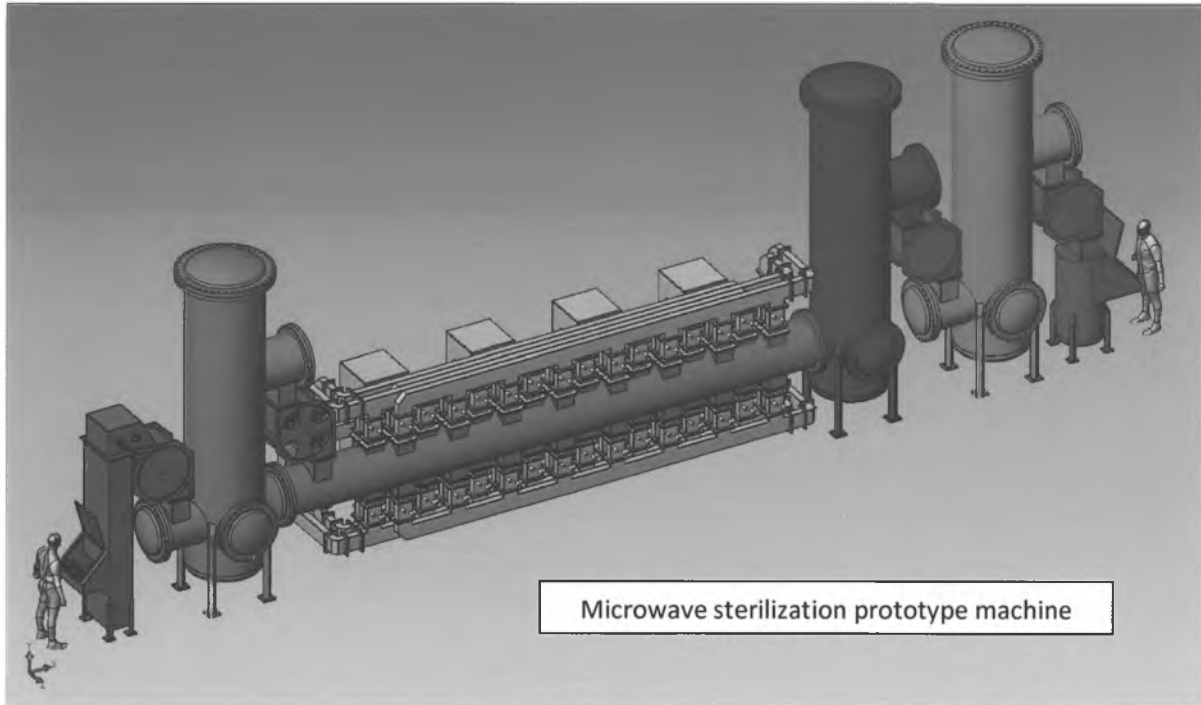
This has been a very involved technical process and one that Ocean Beauty would have never started on our own, yet if successful it could change the landscape for ready-to-eat seafood from Alaska.

I hope you can lend your support for HB 118 and help push our industry forward as we look for that next great "Product of Alaska".

Best Regards,

Mark Palmer

President – CEO Ocean Beauty Seafoods



Voting Members

Bill O'Leary Alaska Railroad Corporation
Bob Heinrich ConocoPhillips
Bruce Bustamante Princess Tours
Chris Brown AT&T Alaska
Chris Stephens Bond Stephens & Johnson, Inc.
Claire Fitzpatrick BP Exploration Alaska, Inc.
Dale Pitman ExxonMobil Corporation
Dale Shaw FedEx Express
David Hamilton Alaska USA Federal Credit Union
Dennis Mitchell Lynden International
Greg Kessler Totem Ocean Trailer Express
Greg Pearce GC
Jack Sheppard Walsh Sheppard
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Lan Wilson The Wilson Agency, LLC
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Mark Likand Northern Air Cargo
Michael Prozerak kpb architects
Michael Wyszchen Alaska Communications
Mike Devlin Evergreen Films, Inc.
Raquel Edeken Hotel Captain Cook
Scott Hansen Carpenters Local 1281
Sophie Minich CIRI
Stewart Osgood DOWL HKM
Suzanne Cherot Birch, Horton, Bitner & Cherot
Terry Bailey CH2M Hill
Timothy Vig USKH, Inc.

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Sen. Johnny Ellis Alaska State Legislature
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Elisha Baker University of Alaska Anchorage
George Yakalis AWWU
Jim Pusey Municipal Light & Power
Julie Soupe Anchorage Convention & Visitors Bureau
Larry Cash RIM Architects
Mary K. Hughes Past Chairman of the AEDC Board
Susie Gorski Chugach-Eagle River Chamber of Commerce
Tennys Owens Arbiq, Ltd.
Wanetta Ayers Office of Econ. Dev. State of Alaska
William Dann Professional Growth Systems

March 22, 2012

Governor Sean Parnell
State Capitol, Third Floor
Juneau, AK 99801

Re: HB 118

Dear Governor Parnell:

I write to you today to offer Anchorage Economic Development Corporation's support for the passage of HB 118, "An Act relating to a tax credit for qualified research and development expenditures." Focused on promoting investment in intellectual property and high growth types of businesses, HB 118 will be an important step in the broader effort to further diversify the Alaska economy.

Your proposal to create a 20 percent tax credit for research and development in Alaska has the potential to spur new investment and growth from Alaska's innovators and entrepreneurs. Through AEDC's extensive national outreach and economic research, we have found that this type of incentive is key to fostering economic growth in tomorrow's high value industry sectors.

House Bill 118 will encourage new growth and improve the economic diversity of Alaska. This type of incentive is good for the long term economic growth of Alaska and the Anchorage Economic Development Corporation encourages the legislature to support the passage of this bill.

Sincerely,



Bill Popp
President and CEO
Anchorage Economic Development Corporation



AEDC
Anchorage Economic
Development Corporation

Voting Members

- Anand Vadapalli** Alaska Communications
- Bill O'Leary** Alaska Railroad Corporation
- Bob Heinrich** ConocoPhillips
- Bruce Bustanante** Fisheries Tools
- Bruce Lamoureux** Medicine Alaska Medical Center
- Chris Brown** AEDC Alaska
- Chris Stephens** Bond Stephens & Johnson Inc
- Clare Fitzpatrick** BP Exploration Alaska Inc
- Connie Carter** Pezack Express
- Dale Pittman** ExxonMobil Corporation
- David Hamilton** Alaska USA Federal Credit Union
- Demus Mitchell** Epsilon International
- Ed Herndon** Saseguchi Alaska Corporation
- Greg Kessler** Tatem Ocean Inlet Express
- Greg Pearce** GC
- Joseph Evehart** Wells Fargo Bank NA
- Lynn Rust Henderson** Blue Cross Blue Shield of Alaska
- Lon Wilson** The Wilson Agency LLC
- Mark Liland** Northwest Air Cargo
- Marla Wellington** Continental Airlines
- Michael Prozevalik** KPB Architects
- Mike Devlin** Evergreen Farms, Inc
- Pat Walsh** Walsh Sheppard
- Scott Hansen** Alaska Regional Regional Council of Carpenters
- Sophie Minich** CIRD
- Stephanie Holthaus** Airtaxi Logistics
- Stewart Osgood** DOWL HRM
- Suzanne Cherat** Birch, Heston, Bitter & Cherat
- Terry Bailey** CH2M Hill
- Tim Vig** US Fish & Wildlife Service

Ex-Officio Members – Legislators

- Rep. Craig Johnson** Alaska State Legislature
- Rep. Lindsey Holmes** Alaska State Legislature
- Sen. Johnny Ellis** Alaska State Legislature
- Sen. Lesli McCaule** Alaska State Legislature

Ex-Officio Members – Municipality

- Mayor Dan Sullivan** Municipality of Anchorage
- Assemb. Bill Stora** Municipality of Anchorage
- Assemb. Ernie Hall** Municipality of Anchorage

Ex-Officio Members –

Appointed by the Board

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- Brian Nerland** FryBank Alaska
- Carol Comeau** Anchorage School District
- Chris Anderson** AIDEA
- Eksha Baker** University of Alaska Anchorage
- George Vakalis** AIA/AVU
- Jim Posey** Municipal Light & Power
- John Parrati** Ted Stevens Anchorage International Airport
- Julie Saupe** Anchorage Convention & Visitors Bureau
- Larry Cash** RIM Architects
- Mary K. Hughes** Past Chairman of the AEDC Board
- Tenyns Owens** Artique, Ltd
- Wanetta Ayers** Office of Eron Dine' State of Alaska
- William Dann** Professional Growth Systems

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

GUGGENHEIM

GUGGENHEIM PARTNERS
ASSET MANAGEMENT, LLC
100 WILSHIRE BOULEVARD, SUITE 500
SANTA MONICA, CALIFORNIA 90401
310 576 1270 OFFICE
310 576 1271 FACSIMILE

Senator Thomas Wagoner
Senator Joe Paskvan
Senate Finance Committee Co-chairs

Alaska State Capitol
Juneau, Alaska 99801-1182

March 28, 2012

Dear Senators Wagoner and Paskvan,

As a recent visitor to and fond admirer of the great State of Alaska, I write this letter to inform you of my support for House Bill 118, which provides tax credits for qualified research and development projects in the state. The expansion of Alaska's R&D capabilities is an important step toward encouraging private-sector investment, economic diversification and entrepreneurial innovation.

Earlier this month, I had the honor of speaking to the Alaska World Affairs Council in Anchorage and I talked at length about the wealth of resources and investment opportunities in the state. However, what really seemed to resonate with the audience was a frank discussion of Alaska's deficiencies in R&D, patent awards and science/engineering education.

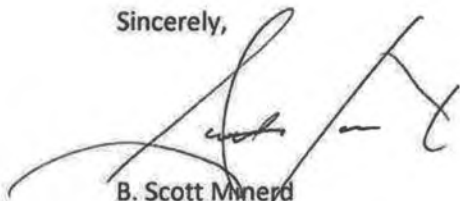
Research and development as a percent of the state's total economic output is almost zero – 0.7% compared to an average of 2.6% for the U.S. overall. The number of patents awarded per 1,000 individuals is about 10% of the overall U.S. average. And the percent of graduate students preparing for science and engineering careers (per 1,000 individuals) is similarly far smaller than the rest of the United States.

These are critical issues that must be addressed as Alaska's economy evolves from a dependence on natural resource extraction to a more dynamic, faster-growing base of industries, including technology, health care and transportation. Throughout its storied history, Alaska has benefited greatly from its vast natural resources. Now is the time to encourage, develop and invest in the state's human capital by fostering private-sector R&D – establishing the technical expertise and manpower that will be crucial to the state's future economic growth.

As you may recall, the Guggenheim family also has a storied history in Alaska, building the Kennecott Copper Mine and the Trans-Alaska Railway, as well as other major infrastructure projects. The Guggenheim family helped create a foundation for the state to grow. You should expect, encourage and incentivize the same approach from private companies doing business in Alaska today.

I urge you and your esteemed colleagues in the Senate to support the passage of HB 118. Thank you for your attention to this issue and please feel free to call me directly if you have any questions or require further information.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Scott Miner". The signature is stylized with a large initial "B" and a long horizontal stroke.

B. Scott Miner

Chief Investment Officer
Guggenheim Partners, LLC



Fairbanks North Star Borough

Office of the Mayor

809 Pioneer Road

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

JOHN NILES WANAMAKER
2964 WENTWORTH STREET
ANCHORAGE, AK 99508

PH. 907.830.3000
John@WanaWorld.com
www.alaskaventurepartners.com

22 February, 2011

Dear Governor Parnell:

I am writing today in support of your 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. Your 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

Cordially:



John Niles Wanamaker

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

Revd 4-3-12 WAF

PSPA
PACIFIC SEAFOOD PROCESSORS ASSOCIATION
Est. 1914

March 23, 2012

Honorable Sean Parnell
Governor, State of Alaska
PO Box 110001
Juneau, Alaska 99811-0001

Dear Governor Parnell,

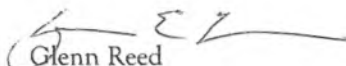
The Pacific Seafood Processors Association (PSPA) supports your effort, through HB 118, to promote research and development in Alaska.

PSPA has been in existence continuously since 1914, and our member companies have invested billions of dollars in building and expanding seafood processing infrastructure in Alaska. Seafood processors have also invested over the years in new and modern equipment that has helped our industry adapt to changing markets and to produce value added products from Alaska's abundant fisheries resources. PSPA members take a long-term and optimistic view of the future of the seafood business, and we expect to continue to be a keystone resource development industry in Alaska long into the future.

Ours is a high-cost environment in which to operate, and margins are small. Alaska's seafood industry operates within a global, dynamic, and competitive commodity driven business setting that is defined by high volumes and low margins. Through research and development, processors are able meet challenges and explore new opportunities to enhance the value of seafood and improve the stability and profitability of our businesses. Your concept of a research and development tax credit offers the opportunity for seafood processors to make additional investments in Alaska. .

We appreciate your recognition of the costs of doing business in a challenging environment, and we thank you for encouraging innovation in Alaska through HB 118.

Sincerely,


Glenn Reed
President

1900 West Emerson Place, Suite 205, Seattle, WA 98119
Phone: (206) 281-1667 : Fax: (206) 283-2387
Web: www.pspafish.net

R&D tax credits bring promise of sustainable growth

Posted: Saturday, March 3, 2012 8:59 pm

Alaska's economy is often likened to a three-legged stool. For decades, the petroleum industry, federal government spending, and the combined economic boost of all other basic sectors have essentially supported the state's economy.

In recent years, we have seen those legs become a bit wobbly. Government spending is way down, relative to what it used to be, and it is clear the days of federal largesse are behind us. While revenue from the extraction and sale of our oil and gas resources has remained mostly stable, production is on a steady downward trajectory.

For these reasons, it is more important than ever for the state to shore up its foundations by diversifying its economy and strengthening its existing economic sectors.

Economic diversification, however, does not happen in a vacuum. It requires an atmosphere conducive to innovation, which can be an expensive, intricate and time-intensive enterprise. Innovation also can spark a chain of investments in capital equipment, workers and spillover activities in every economic sector.

So, Alaskans should be encouraged by the news that the state House on Friday approved legislation that would establish a tax credit for home-grown research and development. House Bill 118, now on its way to the Senate for consideration, is part of a suite of economic development legislation proposed by Gov. Sean Parnell. The bill offers a 20 percent tax credit on qualified research and development expenditures.

Its purpose is to incentivize companies to conduct independent research and development activities that will, in turn, stimulate private-sector investment, entrepreneurial activity, and business expansion in Alaska. These are things that bring jobs and economic opportunity to Alaskans, while providing sustainable long-term benefits to our economy.

Alaska is already poised to be a leader in cold climate housing research and the processing of in-demand rare earth minerals. The potential in other areas is staggering.

For example, the state sits on more than 50 percent of all U.S. coal reserves. Meanwhile, promising cutting-edge technologies for cleaning coal and increasing its efficiency are being fine-tuned and deployed in China and elsewhere overseas. Imagine the potential for jobs, clean, affordable energy and expansion of Alaska's economic base if those technologies could be developed further here?

This is the kind of potential HB 118 holds. We hope the Senate sees the same value in the legislation that the House did and gives it speedy approval.

How the Mat-Su delegation voted:

- Rep. Eric Feige, yes
- Rep. Carl Gatto, not present
- Rep. Wes Keller, yes
- Rep. Mark Neuman, not present
- Rep. Bill Stoltze, yes



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.

Koeneman, Crystal A (CED)

From: Koeneman, Crystal A (CED)
Sent: Tuesday, March 27, 2012 4:56 PM
To: Koeneman, Crystal A (CED)
Subject: FW: HB118 Benefits

Dear Senator Paskvan,

I am a business and tax attorney in the law firm of Manley & Brautigam PC in Anchorage. Although I have lived in Alaska for over 20 years I have practiced tax law throughout the country for well over 30 years working directly for or representing high tech, manufacturing, and other companies in Seattle, Silicon Valley, and in other venues. Manley & Brautigam currently represents many Alaskan small business owners and frequently works with startups. Some portion of that work is research and development where some expenses of the entity would qualify for the federal R&D tax credit. As such, it is possible that those same expenditures would also qualify for State R&D Tax Credits under HB118 if that bill were to move forward – which could spur those entities to target more of their activities to Alaska rather than elsewhere. The HB118 Research and Development Tax Credit is a necessary addition to the State's incentive and pro-business arsenal and will clearly foster economic development in the State of Alaska. We strongly support its passage.

Alaska is one of the few States that does not have in place a research and development tax credit. The federal Government Accounting Office through the Office of Management and Budget has studied the federal R&D Tax Credit and found that it does stimulate innovation and entrepreneurship. So too would a State tax credit and these are exactly the activities and energy that Alaska needs to further diversify our economy. The bill appears well drafted in that major corporations, from outside, that already use the federal R&D Tax Credit, would get only additional credits from the State program for Alaska specific expenditures and then only those credits above what are already claimed and apportioned to Alaska. Use of the base period requires new and additional investment and research annually and means that only the additional expenditures will qualify for credit treatment and thereby ensures impetus for growth in the sector. This is truly an Alaska Tax Credit!

We strongly support the passage of HB118. I would be more than happy to discuss the bill and its potential impact with you or your staff.

Thanks, Steve

F. Steven Mahoney
Manley and Brautigam P.C.
845 K Street
Anchorage, AK 99501

Telephone: (907) 334-5600
Cell: (907) 223-5096
Facsimile: (907) 334-9958
E-Mail Address: steve@mb.law.pro

RES



ALASKA GROWTH CAPITAL
An ASRC Company

March 15, 2012

RECEIVED

MAR 23 2012

The Honorable Joe Paskvan
Co-Chair, Senate Resources Committee
Alaska State Legislature
State Capitol Room 115
Juneau, Alaska 99801

Re: HB118, "An Act relating to a tax credit for qualified research and development expenditures; and providing for an effective date."

Dear Senator Paskvan:

I am writing on behalf of Alaska Growth Capital (AGC) to express support for HB118. This bill creates a tax-credit for research and development conducted in Alaska. We at Alaska Growth Capital are certain this bill will directly and positively impact job creation and economic development in Alaska.

Alaska Growth Capital has been active in the tax-credits business since 2004, and has lent over \$300 million in the Alaska economy since 2000. In our experience, tax-credits provide needed incentives for projects that otherwise would not have been undertaken. These projects "on the tipping point" provide much needed entrepreneurialism that injects capital into the local economy through wages, purchases and taxes. Without credits, infrastructure is not developed, investment not made, and jobs go elsewhere.

Research and Development has two additional long-term benefits: specialization and money multiplication. Geographic areas have unique demands on the products and services sold inside. Research and development that tailors products and services to local conditions provide the local consumers with a superior product that can spur entirely new industries. One major example of this is the Cold Climate House in Anaktuvuk Pass; this house has the potential to revolutionize the way houses are built in Arctic climates and brings with it potential for jobs and lowered costs for homeowners.

The second long-term benefit is money multiplication. Research and Development conducted in Alaska will produce products and services whose owners are in

Alaska. That means when Alaskans use a specialized product with roots in Alaska, their dollars are spent here circulated here and create jobs here, rather than going outside and contributing to what economists call "capital leakage." Diversified and stable economies are supported by Research and Development's long-term impacts. The infrastructure needed to conduct R & D in Alaska will begin to be constructed, and the quality of life for all Alaskans will improve with more economic opportunity.

Alaska Growth Capital supports H.B. 118 because of the alignment with our corporate mission, to support economic development in Alaska.

I respectfully request that you schedule hearings on this piece of legislation and offer your support. I am happy to answer any questions; should you or your committee have any, please contact me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'H. Short', with a long horizontal flourish extending to the right.

Hugh Short, President/CEO
Alaska Growth Capital



Kijani

RECEIVED

APR 02 2012

Senator Joe Paskvan
State Capitol, Rm 115
Juneau, AK 99801-1182
Date 3/25/12

Kijani
1130 SE Spring St
Pullman, WA, 66163
T 509-339-5066
kj35102@gmail.com

Dear Senator

I am writing to you to support actions by the State of Alaska to enable and encourage technology commercialization out of Alaska's university system. In particular, I support HB 118, which is the Governor's bill to establish a research and development tax credit in Alaska. This credit would parallel the federal tax credit, which, I understand, is similar to 38 other states.

I have been involved in management of technology transfer from public institutions for the last 13 years. I spent 6 years at Virginia Tech as assistant director and 7 years leading the effort at Washington State University. At WSU I successfully lead the licensing of well over 100 technologies and the start-up of 14 companies.

I have now formed a consulting company called Kijani, we help universities and businesses work together to take technologies from the lab to commerce. Successful transfer through start-up's and licensing to support existing Alaska companies will result in local, high paying job creation. We work with large and small companies and research institutions around the world.

Kijani
1130 SE Spring St
Pullman, WA, 66163
T 509-339-5066
kj35102@gmail.com

In early March I was fortunate to be invited to the University of Alaska Fairbanks to assess intellectual property in agriculture. I was most impressed by the enthusiasm of the faculty and administration and the quality of several of the opportunities. Although I have not looked in detail, I understand there are some significant engineering research programs that are likely to be fertile ground for commercial opportunity.

It may help if I explain a particular example of a technology commercialization out of WSU that has been a success. About 13 years ago a researcher at WSU started to develop a new method of sterilizing food using microwave assisted thermal sterilization (MATS). This new method reduced the heating time for a canning like process from 1 hr to a few minutes. The research was initially funded only by the army - the army wanted better tasting rations for the troops. Over several iterations, many large food companies, including Ocean Beauty Seafoods, became involved in the development of a product that will revolutionize food processing. Imagine shelf stable salmon that is more like freshly cooked than the highly processed canned product! While at WSU I helped set the industrial research consortium that funded industrial development of the MATS machine, found an entrepreneur (through an entrepreneur in residence program) to form a development and manufacturing company for MATS. I also was instrumental in setting up set up the start-up by introducing lawyers and other support professionals, helping draft a business plan and serving as a founding board member.

Please do not hesitate to contact me if you would like to learn more about the potential benefits of university technology commercialization to the State of Alaska.

Sincerely

A handwritten signature in black ink that reads "Keith Jones." The signature is written in a cursive style with a large, stylized "K" and "J".

Kijani
1130 SE Spring St
Pullman, WA, 66163
T 509-339-5066
kj35102@gmail.com

Keith Jones PhD
Founding Partner



ucore.
RARE METALS

March 23, 2012

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

Re: House Bill 118 / Senate Bill 64

Dear Governor Parnell,

I am writing in support of House Bill 118 and Senate Bill 64 and your efforts to encourage more research and development in the State of Alaska.

Research and development can be an expensive and time consuming undertaking. However, it can result in both immediate and longer term economic benefits in the form of high tech jobs, capital investment and associated expenditure, as well as spin-off business activities that can result from this research.

A program that encourages corporate investment in research and development in the State of Alaska can result in economic opportunities that may not otherwise accrue to the State. This direct investment and the resulting longer term opportunities can both grow and diversify the Alaskan economy.

The proposed program of tax credits clearly demonstrates that Alaska values innovation, and recognises the advantage it can provide to the State. We fully support your efforts to enact House Bill 118 / Senate Bill 64 and thank you for your leadership with respect to this initiative. Please let us know if there are any further supportive actions we can take to ensure that this important prospective legislation becomes reality.

Sincerely,

James McKenzie
President & CEO
Ucore Rare Metals Inc.
OTCQX: UURAF

454 Voyageur Way, Hammonds Plains, Nova Scotia B4B 2A7

(902) 482-5214 phone ▪ (902) 492-0197 fax ▪ www.ucore.com ▪ TSX.V: UCU ▪ OTCQX: UURAF

March 26, 2012

Twenty-Seventh Legislature of the State of Alaska – Second Session

Subject: House Bill 118 – Research & Development Tax Credit

Dear Senator Paskvan:

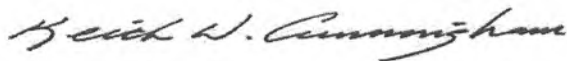
I am writing to express my support for House Bill 118.

As an owner of a small Alaskan business, I am actively involved in technology-based research and development. A tax credit for research and development will benefit my business, and more importantly, incentivize my innovation.

A significant research project my business is working on right now is for the US Air Force. This is to produce a better volcanic ash plume forecasting tool. As you are aware, there are 100 active volcanoes in Alaska. Without notice, a volcano may erupt and airborne ash can quickly close airspace. Nearly all aviation from North America to Asia transits Alaskan airspace resulting in significant commerce for the Anchorage and Fairbanks airports. This improved forecasting tool will be key to minimizing economic losses due to diverted air travel.

House Bill 118 would greatly assist my small business in developing and protecting the intellectual properties being researched.

Thank you for your consideration. Please contact me should you have any questions..



Keith W. Cunningham, PhD
President – Mobile Mapping Corporation
PO Box 751801
Fairbanks, AK 99775
kwc@mobile-map.com



April 2, 2012

The Honorable Senator Joe Paskvan
Alaska State Legislature
Alaska Capitol Room #115
Juneau, AK 99801

Re: House Bill 118 Research and Development Tax Credit

Senator Paskvan:

House Bill 118 is a unique approach to increasing the investment in research and development in Alaska. GCI has invested over \$1 Billion in the last 15 years to create Alaska's largest telecommunications network and has recently invested millions in expanding our network to remote and rural areas of the State. The business of telecommunications is constantly changing with the development of new technologies that provide new opportunities. As you know, most new technology is developed outside of Alaska and very little research and development is occurring in Alaska today.

HB 118 should be looked at as a tool to encourage further research and development in Alaska by Alaskans. Increased research and development will help expand our economic opportunities in the future and lead to a more diverse and sustainable future economy.

I encourage you to look at HB 118 to help stimulate an increase in research and development in Alaska.

Sincerely,

A handwritten signature in black ink, appearing to read "Krag Johnsen", with a long horizontal line extending to the right.

Krag Johnsen
Director, Rural Broadband Development
GCI

From: "Allan Johnston" <Allan.Johnston@wedbush.com>
Date: February 25, 2011 1:22:41 PM AKST
To: <[Senator Catherine Giessel@legis.state.ak.us](mailto: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.

Fenster, Dru J (CED)

From: Tustumena Smokehouse [tustumenasmokehouse@alaska.net]
Sent: Friday, March 23, 2012 12:39 PM
To: Fenster, Dru J (CED)
Subject: HB 118

TUSTUMENA SMOKEHOUSE



E-Mail: tustumenasmokehouse@alaska.net
49190 Tote Road-Soldotna, AK 99669—Phone: (907)-260-3401-Fax (907)-260-3402

Senator Joe Paskvan
Co-Chair
Senate Resources Committee
Capital Room 117
Juneau, Alaska 99801

Re: HB 118

Dear Joe Paskvan:

I am Fred West, owner/operator of Tustumena Smokehouse in Soldotna Alaska. As an Entrepreneur and business owner for over 18 years I highly support HB 118.

Working on a new product consumes countless hours of testing and formulating. The product itself and the ingredients used require many purchases. The biggest struggle an entrepreneur has is financial. The costs of ingredients, packaging, freight and marketing and labor are the major battle one faces. It's extremely discouraging to be hindered financially.

I am writing this letter to fully support initiative HB 118, this bill will allow those who have a desire and determination to bring in new ideas and products to the people of Alaska.

I thank you for considering and taking action on HB 118 on behalf of all Alaska's entrepreneurs.

Sincerely,
Fred West



COLD CLIMATE HOUSING RESEARCH CENTER

CCHRC

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Bill Semple
Lauri Strauss, AIA

Senator Joe Paskvan
State Capitol Room 115
Juneau, AK 99801

March 26th, 2012

Dear Senator Paskvan,

The purpose of this letter is to ask you to support HB 118, a bill creating a new tax credit for qualified research and development. As you know, UAF, Cold Climate Housing Research Center, and Fairbanks economic development partners have been working to strengthen our ability to attract research investment and this bill strengthens our ability to do just that.

For example, CCHRC is working to develop geopolymer cement as a local and superior alternative to imported Portland cement. CCHRC is already working with Aurora Energy and Usibelli on this research and will partner with many more private companies before the development is complete.

HB 118 would provide additional incentive for private companies to join this effort, thereby helping this important commercialization effort to be realized. Please consider this request for your support and feel free to contact me anytime if you have questions about this or any other topic.

Best Regards,


Jack Hébert
President & CEO
Cold Climate Housing Research Center



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Office of the Commissioner

Sean Parnell, Governor
Susan K. Bell, Commissioner

January 26, 2011

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

Re: House Bill 118 – Research and Development Tax Credit

Dear Representative Olson,

Please accept this request for your consideration to schedule HB 118 before the House Labor & Commerce 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.

The bill also 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".

Susan K. Bell
Commissioner

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/>

Jake...here is a quick response to your questions.

The goals of the legislation are to:

- 1- Level the competitive playing field in Alaska. Forty other states have recognized the stimulative value of incentivizing home-grown research.
- 2- Bring opportunity to Alaskans by stimulating private-sector investment, entrepreneurial activity and business expansion

States that routinely score high in business polls know the value of this kind of credit.

Virginia, for example, has been at or near the top of Forbes' "Best States for Business" rankings for the last 10 years. The state recently broadened its R&D credit program.

North Carolina, which has been named by Site Selection magazine as the state with the best business climate in nine of the last 10 years, has had an R&D credit since 2004 and renewed it in 2009 for another five years. It is credited with contributing to business expansion that has added 1250 jobs.

North Dakota is also highly ranked in business climate polls. It has arguably the strongest economy in the country and is the only state to post economic growth during the recession. Part of North Dakota's success is the most aggressive R&D tax credit in the nation.

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. We are hoping that this legislation will help the University system team up with Alaska entrepreneurs and small businesses which has the potential to significantly boost economic development in Alaska.

**Crystal Koeneman, Special Assistant
Commerce, Community & Economic Development**

From: Jake Hamburg [mailto:Jake_Hamburg@legis.state.ak.us]
Sent: Wednesday, March 02, 2011 12:55 PM
To: Koeneman, Crystal A (CED)
Subject: SB 64 Initial Questions

Hi Crystal,

Thank you for your patience as we review SB 64 – R&D Tax Credits. As I continue to do research on this topic I find myself needing some guidance/clarification.

1. What is the goal of this legislation? Meaning, what is the desired outcome of this public policy decision?
2. What does the department envision happening with the passage of this legislation?
3. Who or what kinds of entities is the department hoping to target with this legislation?

I know that these are basic questions, but it would be helpful to understand these questions to have a foundation to build from. Thank you for your help in answering these questions.

All the best,
Jake

Jake Hamburg
Legislative Staff

Office of Senator Joe Paskvan

1292 Sadler Way, Ste. 308

Fairbanks, AK 99701

(907) 465-3709 Office

jake.hamburg@legis.state.ak.us

Hi Crystal,

I have reviewed the other R&D credits offered by Virginia and North Carolina – two states that you referenced as being excellent examples of states that have favorable business climates. Both states provide the 20% tax credit R&D performed in conjunction with the state University and provide a lower tax credit for work not done in conjunction with the states' university (15% in Virginia and 3.25% for North Carolina). Would the department support/oppose such a change?

(As an interesting note, the North Carolina R&D credit requires that businesses provide health insurance for the full-time employees at the location & must pay at least 50% of the premiums, requires no significant environmental & natural resources violations within last 5 years, and must not have been cited for any serious OSHA violations within last 3 years.)

SB 64 as introduced does not seem to provide any incentive that could stimulate entrepreneurial activity as it provides a 20% corporate tax credit for R&D above the base amount defined as the average of qualified research and development expenditures attributable to Alaska for the three tax years immediately preceding the taxable year, a definition that would seem to exclude start-ups which have not established a history of R&D expenses. The Feds offer two alternative tax credits for start-ups to address this issue, they provide a fixed base percentage of 3% of gross and any other R&D expenditures above 3% would be eligible for tax credits for the first 5 years. OR the start up could choose to accept a 6% tax credit for R&D expenditures. What is the department's thoughts on this approach to make sure we achieve the goal of stimulating entrepreneurial activity?

Also, in conversations with people familiar with R&D at the University, they shared that the cost to file patents can be as high as \$50,000. As we know, Alaska has very few patent filings, and often it is the patent ownership that allows a small business to gain a foothold in a market. One way to encourage patent development in Alaska would be to extend this tax credit to patent costs so that R&D ventures might consider the option.

Additionally for start-ups, many of them will have little to no tax liability and so a tax credit may not be an effective incentive. Perhaps making the credit transferrable or allowing a start up to carry the credit forward for a period (3 or 5 years maybe) of time until it would be reasonable to expect an R&D venture to have a tax liability.

There are other alternative ways to define the base level. While the moving average of the firm's R&D is less costly to the state, it is really the least valuable type of credit since whatever R&D a firm chooses to do this year reduces the amount of creditable R&D in subsequent years. The most valuable type of credit to a firm is to have no base at all, also known as a "nonincremental" credit, because every dollar of qualified R&D, not just the amount over the base, is eligible for the credit.

Should we be incentivizing qualified R&D expenditures if the R&D is being conducted in this state AND the payroll of employees conducting the R&D is in this state versus only having to meet one of the two criteria?

Finally, the Feds have a provision to prevent artificial increases in expenditures commonly controlled or otherwise related entities to prevent artificial increases in R&D (gaming of the system). They have a special aggregation rule that provides that all members of the same controlled group of corporations are treated as a single taxpayer.

Senator Paskvan would be interested to know the department's thoughts and input regarding these ideas.

All the best,
Jake

Jake Hamburg
Legislative Staff
Office of Senator Joe Paskvan
1292 Sadler Way, Ste. 308
Fairbanks, AK 99701
(907) 465-3709 Office
jake.hamburg@legis.state.ak.us

Hi Joe,

I have really been digging into the Governor's Research & Development Tax Credit Bill.

First, I sent the following questions to the Department:

1. What is the goal of this legislation? Meaning, what is the desired outcome of this public policy decision?
2. What does the department envision happening with the passage of this legislation?
3. Who or what kinds of entities is the department hoping to target with this legislation?

The Governor's bill gives a 20% tax break on R&D expenses that are above the companies 'base amount' which is defined as the average of qualified research and development expenditures attributable to Alaska for the three tax years immediately preceding the taxable year for which the credit is being claimed.

The Alaska Tax Division provides the Corporate Income Tax Liabilities Statistics. They show:

Oil and Gas Corporations

Tax Liability Reported	#Filers	Amount	%Total of Total Tax collected
Above \$1 million	12	\$639,588,554	99.88%
\$500k - \$1 million	0	0	0.00%
\$100k - \$499,999	2	\$553,576	0.09%
\$50k - \$99,999	4	\$214,289	0.03%
\$10k - \$49,999	0	0	0.00%
\$1k - \$9,999	1	\$1,836	0.00%
Zero Tax	8	0	0.00%

Other than Oil and Gas Corporations

Tax Liability Reported	#Filers	Amount	%Total of Total Tax collected
Above \$1 million	22	\$79,830,140	61.65%
\$500k - \$1 million	25	\$17,573,150	13.57%
\$100k - \$499,999	93	\$18,823,860	14.54%
\$50k - \$99,999	65	\$4,661,453	3.60%
\$10k - \$49,999	278	\$6,723,028	5.19%
\$1k - \$9,999	468	\$1,649,495	1.27%
\$100 - \$999	505	\$203,773	0.16%
\$1 - \$99	917	\$26,532	0.02%
Zero Tax	0	\$0	0.00%

This seems to suggest that the companies in the top 3 brackets stand the most to gain.

What is not addressed in the Governor's bill:

1. Start up firms
 - a. The Feds and other states have a provision for start-ups which do not have a 'base amount' of R&D expenditures established. The Governor's bill does not address this
 - i. Feds have a fixed base percentage of 3% of gross, and any other R&D expenditures above 3% is eligible for tax credits for the first 5 years.

- ii. Feds offer an alternative to the fixed base for start ups, they offer to reduce the tax credit to 6%
 - b. Some possible options would be to offer a fixed base percentage to start-ups, as the Feds provide. However, looking at the above tax liability data, they may not owe any taxes anyway.
 - i. Could potentially allow the tax credits to be transferrable, so a start up could sell their credits, and would have an additional incentive
 - 1. This will increase the cost
 - ii. Could allow start ups to carry tax credits forward over a few years to a point when they could use them.
 - 1. Not sure how this would work, but could potentially be combined with further statute that requires commercialization
- 2. Artificial Increases (gaming of the system)
 - a. The Feds have a provision to prevent artificial increases in artificial expenditures among commonly controlled or otherwise related entities. They have a special aggregation rule that provides that all members of the same controlled group of corporations are treated as a single taxpayer. Under regulations prescribed by the Secretary, special rules apply for computing the credit when a major portion of a trade or business (or unit thereof) changes hands. Under these rules, qualified research expenses and gross receipts for period prior to the change of ownership of a trade or business are treated as transferred with the trade or business that gave rise to those expenses and receipts for purposes of recomputing a taxpayer's fixed-base percentage.
- 3. Commercialization
 - a. "Companies can't keep their ideas within their own walls, and when those ideas get out, others begin to copy and imitate them, meaning the original company doesn't profit fully. This credit compensates companies for that outflow of information" – excerpt from an article in *Iowa State Daily*
 - b. There is no requirement/incentive for commercialization within the Governor's bill, and so this really goes back to what I asked the Department, what is the goal of this public policy?
 - c. In our meetings at the University, the problem didn't seem to lay in the research side, but in the developing and commercializing side of things.
 - d. Further excerpt from the same article: "Opponents argue that Iowa has lost sight of the original purpose of the credit, which was to spur growth and innovation among firms that are struggling with startup costs. Instead, most of the money seems to be going to big corporations that are already making huge profits
- 4. Partnership with University
 - a. The emerging energy technology fund provided an additional incentive for working with the university. It might be worth considering a similar incentive in this legislation.

There are other alternative ways to define the base level. There are basically three different ways to define the base level.

- 1. Have no base at all. A credit with no base is referred to as a "nonincremental" credit.
 - a. Most valuable type of credit to a firm because every dollar of qualified R&D, not just the amount over the base, is eligible for the credit
- 2. Use a moving average of the firm's R&D over the past few years – ranging from one to four years. (this is the strategy used in the Governor's bill)

- a. Least valuable type of credit since whatever R*D a firm chooses to do this year reduces the amount of creditable R&D in subsequent years
3. Use recent sales times the average of the firm's R&D -to-sales ratio over some fixed, past period;

All the best,
Jake

Jake Hamburg
Legislative Staff
Office of Senator Joe Paskvan
1292 Sadler Way, Ste. 308
Fairbanks, AK 99701
(907) 465-3709 Office
jake.hamburg@legis.state.ak.us

SENATE BILL NO. 64

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - FIRST SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 1/24/11

Referred: Labor and Commerce, Finance

A BILL

FOR AN ACT ENTITLED

added

1 "An Act relating to a tax credit for corporate income taxes paid for qualified research
2 and development expenditures; 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 over the base amount as a credit not to exceed \$10 million against
10 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 apportioned to this state and claimed under AS 43.20.021.

12 (e) Each year, the department shall report the names of taxpayers who claimed
13 credits under this section in the prior year, the total cumulative amount of credits
14 granted to all taxpayers under this section for the prior tax year, and the total
15 cumulative number of employees conducting the research and development for which
16 all taxpayers claim the credit. Notwithstanding AS 40.25.100 and AS 43.05.230, a
17 taxpayer claiming the credit under this section consents to

18 (1) the public disclosure of its name and status as a beneficiary of the
19 credit;

20 (2) inclusion of the amount of the credits granted to it under this
21 section and the number of employees conducting the research and development for
22 which it claims the credit in the cumulative total calculated by the department for
23 reporting purposes; and

24 (3) report on the impact of the credit on research and development for
25 each year that the credit is claimed.

26 (f) In this section,

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

30 (2) "qualified research and development" means qualified research as
31 defined in 26 U.S.C. 41(d) (Internal Revenue Code), as amended, that is attributable to

1 this state.

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

ALASKA

DEPARTMENT OF
COMMERCE,
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Research & Development (R&D) Tax Credit

Frequently Asked Questions

Q. What is the intent of this credit?

A. The R&D credit is intended to attract corporations engaged in research and development activities to conduct those activities in Alaska. This credit is the first step in making Alaska's business climate more attractive to a wide range of industries.

Q. What is the amount of the R&D credit?

A. This legislation would allow corporations conducting R&D in Alaska to take a 20% credit of qualified expenditures exceeding the average R&D expenditures made in Alaska during the previous three years. The credit would be limited to \$10 million per taxpayer per year. If a corporation is currently conducting R&D activities in Alaska, the credit would be limited to 20% of the expenditures that increased above the 3-year average.

Q. What types of activities and expenses would qualify for the Alaska R&D credit?

A. Alaska's credit would mirror the federal research and experimentation tax credit. Activities and expenses qualifying for the federal credit under Internal Revenue Code (IRC) section 41 would qualify for the Alaska credit. Attached is a one-page overview showing the definition of the federal credit and identifying the types of activities that would and would not qualify for the Alaska credit.

Q. Would a corporation be eligible for both the federal and Alaska credit?

A. Under current Alaska corporate income tax statutes, corporations receiving a federal research and experimentation tax credit are allowed to take a credit against their Alaska corporate income tax of 18% of the federal credit apportioned to Alaska. Under HB 118, corporations would be allowed a 20% credit of the amount of qualified expenditures incurred in Alaska. Taxpayers would not be allowed both the federal credit and the Alaska credit for R&D activities conducted in Alaska; furthermore, taxpayers would not be allowed to deduct expenses used to calculate the credit in the computation of Alaska taxable income.

Q. Do other states have a research and development tax credit?

A. Yes. Thirty-eight other states offer an R&D tax credit. A review of those states' R&D credit programs indicates most states have either extended or increased their R&D credits within the past few years. For example: Arizona, Delaware, Illinois, Louisiana, Maryland, Minnesota, and Oregon all extended the

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sunset dates for their programs. Minnesota had the shortest, extending its program to tax years beginning before January 1, 2015, and Maryland the longest, extending its program through June 30, 2021. Other states like Pennsylvania and New Jersey either increased or removed the income cap altogether. Only two states, Oklahoma and Utah, reduced or placed a moratorium on their R&D credit. No state has repealed the credit.

Q. What types of industries are currently engaged in R&D?

A. The following table shows the amount of credit claimed by corporations against their federal corporate income tax in Tax Year 2008. Corporations engaged in the manufacturing sector accounted for approximately 43 percent of all corporations claiming the credit.

Table 1. Corporations Claiming Research and Experimentation Tax Credit: Tax Year 2008

Industry	Number of Returns	R&E Credits Claimed (\$1,000s)	Number of Returns as Percent of Total	Amount Claimed as Percent of Total
Manufacturing	5,420	\$ 5,758,082	43%	69%
Professional, scientific, and technical services	3,932	\$ 787,671	31%	9%
Information	1,132	\$ 944,284	9%	11%
Wholesale and retail trade	865	\$ 430,098	7%	5%
Administrative/Support & waste mgmt. services	288	\$ 22,373	2%	0%
Management of companies (holding companies)	276	\$ 62,091	2%	1%
Finance and insurance	237	\$ 142,599	2%	2%
Various services	194	\$ 43,942	2%	1%
Utilities	129	\$ 48,855	1%	1%
Agriculture, forestry, fishing (seafood), and hunting	83	\$ 5,054	1%	0%
Transportation and warehousing	58	\$ 10,593	0%	0%
Construction	56	\$ 10,278	0%	0%
Mining	36	\$ 29,997	0%	0%
Real estate, rental, and leasing	30	\$ 7,453	0%	0%
All Industries	12,736	\$ 8,303,370	100%	100%

Source: Internal Revenue Service at <http://www.irs.gov/taxstats/article/0..id=164402.00.html>

Prepared by: Departments of Commerce, Community & Economic Development and Revenue
March 16, 2012

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Q. Why is the tax credit allowed to be carried forward for seven years?

A. It is expected that most companies engaged in R&D are medium to large multi-state corporations. Most should be able to utilize the credit in the year in which it is earned. In instances where corporations do not have enough tax liability in a single year to utilize the credit, the seven-year carry forward provision allows them more opportunity to utilize the maximum credit amount. Other Alaska tax credits can all be carried forward as follows:

- 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)

Based on other Alaska tax credits, seven years appeared to be an appropriate carry forward option.

Q. Will corporations engaged in oil and gas production be eligible for the R&D credit?

A. Yes. Oil and gas corporations will be treated the same as all other taxpayers and may take a credit against their Alaska corporate income tax for R&D expenses incurred in Alaska.

Q. Can oil and gas companies take a credit against their oil and gas production tax for R&D expenses?

A. No. The Alaska R&D tax credit would only be allowed against corporate income tax. It would not be allowed as a credit against taxes due in any other tax program.

Q. Can oil and gas companies deduct research and development expenditures in the calculation of their oil and gas net profits tax?

A. No. R&D expenses are not qualified lease expenditures under the applicable statutes and regulations governing production tax, and therefore, are not deductible. Specifically, 15 AAC 55.260(g) states that "designing" does not include the types of activities ordinarily considered R&D.

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

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2011

Index Overall Rank
4.28 36

COMPETITIVE ADVANTAGES			COMPETITIVE DISADVANTAGES		
Subindex/Variable	Index	Rank	Subindex/Variable	Index	Rank
Government and fiscal policy subindex	2.78	50	Government and fiscal policy subindex	2.78	50
Average weekly payment to insured unemployed	6.02	8	State and local taxes per capita /income per capita	0.37	50
			Workers' compensation premium rates	2.88	49
			Bond rating: composite	4.53	36
			Budget deficit, % of GSP	0.34	50
			Full-time-equivalent state and local government employees per 100 residents	2.54	49
Security subindex	4.62	39	Security subindex	4.62	39
			Crime index, per 100,000 inhabitants	4.60	32
			The BGA Integrity Index	4.27	40
Infrastructure subindex	5.30	6	Infrastructure subindex	5.30	6
High-speed lines per 1000	6.31	6	Mobile Phones per 1000	4.34	38
Air passengers per capita	7.15	3	Electricity Prices per kWh	3.69	45
Average travel time to work	6.38	6	Average rent of 2 bedroom apartment	3.95	42
Human resources subindex	4.90	30	Human resources subindex	4.90	30
% of population aged 25 and over that graduated from high school	6.16	5	% of population without health insurance	4.24	37
Unemployment rate, not seasonally adjusted	5.36	19	% of population enrolled in degree-granting institutions	3.55	50
% of adults who are in the labor force	5.25	20	% of students at or above proficient in mathematics, grade 4 - public schools	4.49	33
Technology subindex	4.21	45	Technology subindex	4.21	45
Scientists and engineers as % of labor force	5.84	8	Academic Science and Engineering R&D per \$1,000 GSP	4.31	38
			NIH support to institutions per capita	4.22	45
			Patents per 100,000 inhabitants	3.82	50
			S&E degrees awarded per 100,000 inhabitants	3.56	49
			Employment in high-tech industry as % of total employment	4.53	31
Business incubation subindex	4.52	45	Business incubation subindex	4.52	45
Employer firm births per 100,000 inhabitants	5.18	20	Total deposits (Commercial banks and Savings institutions) per capita	4.60	49
Pacific Research Institute Tort Index	7.04	1	Venture capital per capita	4.44	47
			% of labor force that is represented by unions	2.71	49
			Minimum wage	4.14	42
			Cost of Labor Adjusted for Educ. Attainment	3.38	47
Openness subindex	7.00	1	Openness subindex	7.00	1
Exports per capita, dollars	6.28	5			
Incoming foreign direct investment per capita, dollars	10.00	1			
Environmental policy subindex	5.58	13	Environmental policy subindex	5.58	13
Carbon emission per 1000 sq. miles	6.00	1	Toxic release inventory, pounds per sq. miles	4.90	34
Air Quality Index	5.84	12			

BHI

State Index

**Table A1
Components of Sub-indexes for States 2011**

Sub-index	Competitiveness Indicators Index ("objective")
Government & Fiscal Policy	State and local taxes per capita /income per capita (-) Workers' compensation premium rates (-) Bond rating (composite of S&P's and Moody's, scale 1-25) (+) Budget surplus/deficit as % of Gross State Product (+) Average weekly payment to insured unemployed (-) Full-time-equivalent state and local government employees per 100 residents (-)
Security	Crime index per 100,000 inhabitants (-) % Change in crime index, 2009-2010(-) Murders index per 100,000 inhabitants (-) The BGA Integrity Index (+)
Infrastructure	Mobile Phones per 1000 (+) High-speed lines per 1000 (+) Air passengers per capita (+) Average travel time to work (-) Electricity Prices per kWh (-) Average rent of 2 bedroom apartment (-)
Human Resources	% of population without health insurance (-) % of population aged 25 and over that graduated from high school (+) Unemployment rate, not seasonally adjusted (-) % of students enrolled in degree-granting institutions per 1000 (+) % of adults in the labor force (+) Infant mortality rate in deaths per 1,000 live births (-) Total active physicians per 100,000 inhabitants (+) % of students at or above proficient in mathematics, Grade 4 public schools (+)
Technology	Academic Science and Engineering R&D per \$1,000 GSP (+) NIH support to institutions in the state, per capita (+) Patents per 100,000 inhabitants (+) Number of S&E graduate students per 100,000 residents (+) S&E degrees awarded per 100,000 residents (+) Individuals in science and engineering occupations as % of the labor force (+) Employment in high-tech industry as a % of total employment(+)
Business Incubation	Deposits in commercial banks and savings institutions, per capita (+) Venture capital investment dollars per worker (+) Employer firm births per 100,000 inhabitants (+) IPO volume, in \$ per capita (+) % of labor force that is represented by unions (-) Minimum wage (-) Pacific Research Institute's Tort Liability Index (-) Cost of labor adjusted for educational attainment (-)
Openness	Exports per capita, \$ (+) Incoming foreign direct investment per capita, \$ (+) % of population born abroad (+)
Environmental Policy	Toxic release inventory, on-site and off-site, total (new and original industries), pounds/sq. miles (-) Greenhouse Gas Emissions (million metric tons of carbon equivalent (MTCE) per 1000 Sq. Miles) (-) Air quality (% good average days) (+)