

Leg. Finance - House & Senate Finance Comte Files (1973-74) 8879

HB 171 cont. 2218

Subsection (a) which, like existing law, defines taxable income as all income derived from sources within the State is amended by the COMMITTEE SUBSTITUTE to include all income in the case of residents. In line with this change, the COMMITTEE SUBSTITUTE also deletes paragraph (3) of this subsection which limited deductions to those associated with income having its source within the State.

Concurrent with the two amendments in this subsection, Sec. 8 of the COMMITTEE SUBSTITUTE adds a new section, AS 43.20.045, which allows a resident a credit against his Alaska Income Tax for taxes paid another state. This is necessary, given the change in definition of taxable income of residents, to avoid double taxation.

The other paragraphs of subsection (a) and subsections (b), (c) and (d) contain modifications or exemptions to the Alaska Income Tax already existing in Alaska Statutes.

Section 6 contains the provision for a tax on non-resident and part-year residents based on income derived from sources within the State; this is the current approach. However, provision is also made in subsection (a) for proration of deductions and exemptions in accordance with the method stated in subsection (b). This method bases proration on the ratio of adjusted gross income from Alaskan sources to adjusted gross income from all sources; whereas, proration is currently allowed only for exemptions on the basis of the portion of the year a taxpayer is present in the State and deductions may be taken only to the extent they are connected with activity in Alaska.

The COMMITTEE SUBSTITUTE adds subsection (c) which allows certain deductions (moving expenses, sick pay, etc.) only if they are connected with income from sources within the State. These are the deductions from gross income.

Section 7 defines income from sources in the State for purposes of computing non-resident and part-year resident taxes.

In paragraph (2) of subsection (a), the COMMITTEE SUBSTITUTE inserts "of whatever nature" after "income" so that royalties, dividends, interest income, etc. are included in the computation. Mail order businesses with interest income on charge accounts are an example of the situations to be clarified by this language.

Paragraphs (1), (3), and (4) of subsection (a) of the COMMITTEE SUBSTITUTE are unchanged from existing law.

Paragraph (5) of subsection (a) of HB 171, which exists in current law, is deleted by the COMMITTEE SUBSTITUTE because it is no longer necessary with the change in definition in Section 5 of resident taxable income to include all income.

Subsection (b) is an addition to existing law that defines taxable or business situs.

The only exclusion of income is contained in paragraph (7) which removes the burden of a tax on individual holders of interest-earning deposits in the State.

Section 8 of the COMMITTEE SUBSTITUTE adds several new sections to the Statutes.

Section 43.20.045 provides that corporations receiving 50 per cent or more of their income from within Alaska will be allowed a business deduction for the salaries of nonresident officers or directors only if this income is reported and taxed in Alaska.

The COMMITTEE SUBSTITUTE includes in addition situations where 50 per cent or more of the income is apportioned to Alaska and requires in all cases that the indicated officer or director have "control" of the corporation as defined in the Internal Revenue Code. This section is aimed at such situations as "shell" corporations seeking a tax advantage in Alaska.

Sec. 43.20.051, added by the COMMITTEE SUBSTITUTE, provides that income derived from an Alaska business by a non-resident owner or partner is taxable in Alaska, closing a loophole in the present law.

Sec. 43.20.061, added by the COMMITTEE SUBSTITUTE, provides a credit for taxes paid to another state.

Sec. 43.20.065, added by the COMMITTEE SUBSTITUTE, provides for the allocation and apportionment of business income by reference to the Multistate Tax Compact (AS 43.19.010 (IV)), replacing specific mention in the Alaska Income Tax Statutes of the same provisions.

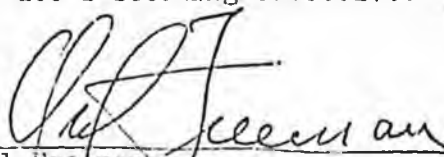
Sec. 43.20.071, added by the COMMITTEE SUBSTITUTE, is the only exception to Multistate Tax Compact allocation and apportionment and replaces AS 43.20.70, a similar provision in existing law except that it had special provisions as well for land and air carriers which now fall under the Multistate approach.

Section 9, originating with HE 171, makes it clear that the Department of Revenue can require withholding of employee tax and its payment by employers.

Section 10, originating with HB 171, re-enacts AS 43.20.190 relating to publicity and access to income tax information in substantially its original form except that paragraph (b) (2) is amended to limit the required production of income tax information to court proceedings which are initiated primarily for the enforcement of the revenue laws. The present statute would appear to permit the use of tax returns in any civil or criminal litigation. The redrafted section also clarifies the authority of the Commissioner of Revenue to exchange tax information with the Multistate Tax Commission in subsection (e).

Section 11, originating with HB 171, provides that the Department shall assess and collect penalties and liabilities in the same manner as taxes.

Sections 12 through 16, originating with HB 171, add new definitions, repeal sections made obsolescent by this act, and make provision for the act's becoming effective.


Oral Freeman
Chairman, House Finance Committee

January 31, 1973

The Honorable Tom Fink
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99801

Dear Mr. Speaker:

Pursuant to the Uniform Rules of the Legislature I am transmitting a revision incorporating major reforms in the Alaska Income Tax Act. Although the bill is principally concerned with procedural changes, there are anticipated revenue increases in some areas. In some cases these increases cannot be known with certainty because there is no identifiable prior experience factor. For those sections of the bill for which we can forecast revenue increases, the information is provided in this letter.

The proposed revision of the income tax statutes includes the adoption of a specific graduated tax based on income for residents, nonresidents and part-year residents. The specific taxes replace the present method of computing the tax as a percent of federal tax liability.

There is a popular myth that the computation of the state tax as a percentage of the federal tax is somehow simpler than a state schedule. This has not been true for many years. As many citizens have found to their discomfort, the percentage calculation now used frequently requires, in effect, a computation of the federal tax twice. Tables which allow you to simply look up a number are far simpler and substantially more likely to produce error-free returns. Under this proposal the Department of Revenue will be authorized to publish detailed tax rate tables for individuals and corporations.

These provisions do not introduce any change in the present tax rates, but we believe that the use of this system will reduce errors in the computation of taxes, and will make it easier for the taxpayer to understand the taxes levied on him. This is an important first step in implementing a reform of Alaska's revenue statutes and in minimizing our dependence on Internal Revenue Service procedures

and tables which, from a practical point of view, are more difficult to understand than a state schedule.

Provision is also made for nonresidents and part-year residents to compute their Alaska income tax by availing themselves of a pro-rated standard deduction according to that portion of their income which is taxable in Alaska. This device has not been available in the past. We believe that this provision for more simplified reporting and a greater degree of fairness will decrease the rate of non-filing on the part of nonresidents and part-year residents who receive income earned in Alaska as well as removing a discrimination which may be constitutionally suspect.

The bill also authorizes the Department of Revenue to publish tax tables for corporations. It does not change the rate of the present tax on corporations. A standard \$25,000 surtax exemption, similar to the standard deduction for individuals, is also allowed to a corporation or to an affiliated group of corporations which file tax returns in Alaska. The exemption cannot be allocated among affiliated corporations other than those doing business in Alaska.

Provision is also made for filing of consolidated returns by corporations. This section of the bill is intended to facilitate collection of taxes based upon property, payroll and income generated within Alaska and to implement Alaska's participation, authorized by the Legislature in 1970, in the multi-state tax compact. The increased effectiveness of auditing those corporations doing business in Alaska with their headquarters elsewhere is estimated to produce increased revenue between \$500,000 and \$800,000 per year without any tax increase.

Subtitles F and A of the 1964 Internal Revenue Code are adopted by reference. This change clarifies the application of certain Internal Revenue Code procedural sections in the administration of the state revenue statutes. It also eliminates the need to make reference to specific Code sections as has been the past procedure in amending the Alaska Income Tax Act.

The Honorable Tom Fink -3- January 31, 1973

The deductions and exemptions utilized in computing the taxable income of residents are unchanged. However, these sections have been rearranged to provide more consistency.

This bill also re-enacts AS 43.20.040 which currently defines taxable income from sources within the state. The section has been redrafted to provide a more precise definition of what constitutes a business situs within the state. It provides that income derived from an Alaska business by a non-resident owner or partner is taxable in Alaska, closing a loophole in the present law.

The bill further provides that corporations receiving 50 per cent or more of their income from within Alaska will be allowed a business deduction for the salaries of nonresident officers or directors only if this income is reported and taxed in Alaska.

The proposed bill also re-enacts AS 43.20.190 relating to publicity and access to income tax information in substantially its original form except that the amendment limits the required production of income tax information to court proceedings which are initiated primarily for the enforcement of the revenue laws. The present statute would appear to permit the use of tax returns in any civil or criminal litigation, and we feel that the taxpayer's right to privacy warrants a limitation of access to this information. The redrafted section on property and access also clarifies the authority of the Commissioner of Revenue to exchange tax information with the multi-state tax commission.

The remaining sections of the bill provide additional definitions of terms which were not previously defined in the revenue code and make other minor technical amendments.

Sincerely,

William A. Egan
Governor

AGO 798156

STATE OF ALASKA

WILLIAM A. EGAN, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH 5 — JUNEAU 99801

February 27, 1973

The Honorable Earl Hillstrand
Chairman, House Finance Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99801

Re: House Bill No. 171

Dear Representative Hillstrand:

House Bill No. 171 was introduced by the Rules Committee at the request of Governor William A. Egan on February 2, 1973.

The proposed legislation deals with the Alaska net income tax for individuals.

For the information of your committee, I am enclosing a copy of a memorandum from Fred Boetsch, Director, Audit Division of the Department of Revenue, explaining the purpose of the bill in its entirety.

In the event you have any questions on the material submitted, kindly advise. I will be most happy to have Fred Boetsch, Director, Audit Division, testify in your committee on the provisions of the proposed legislation.

Very truly yours,



R. D. Stevenson
Acting Commissioner

RDS: agm
Enclosure

AGO 798157

MEMORANDUM

DEPT. OF REVENUE
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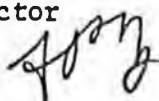
JUNEAU, ALASKA

TO: R. D. Stevenson
Acting Commissioner

DATE : February 27, 1973 LE _____

FROM: Fred Boetsch, Director
Audit Division

SUBJECT: HB 171



I have reviewed HB 171, the Governor's proposal for amendment to the Alaska Net Income Tax Act. The proposed revision of the income tax statutes includes the adoption of a specific graduated tax based on income for residents, nonresidents and part-year residents. The specific rates replace the present method of computing tax as a per cent of federal tax liability.

These provisions do not introduce any change in the present tax rates, but we believe that the use of this system will reduce errors in the computation of taxes, and will make it easier for the taxpayer to understand the taxes levied on him. This is an important first step in implementing a reform of Alaska's revenue statutes and in minimizing our dependence on Internal Revenue Service procedures and tables which, from a practical point of view, are more difficult to understand than a state schedule.

Provision is also made for nonresidents and part-year residents to compute their Alaska income tax by availing themselves of a prorated standard deduction according to that portion of their income which is taxable in Alaska. This device has not been available in the past. We believe that this provision for more simplified reporting and a greater degree of fairness will decrease the rate of nonfiling on the part of nonresidents and part-year residents who receive income earned in Alaska as well as removing a discrimination which may be constitutionally suspect.

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R. D. Stevenson
Acting Commissioner

-2-

February 27, 1973

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The remaining sections of the bill provide additional definitions of terms which were not previously defined in the revenue code and make other minor technical amendments.

FPB:mbc

AGO 798159



RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

4/26/89
Date

Introduced: 2/2/73
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE
BY REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 171

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Income Tax; and
7 providing for an effective date."

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

9 * Section 1. AS 43.20 is amended by adding a new section to read:

10 Sec. 43.20.011. TAX ON INDIVIDUALS, FIDUCIARIES, AND CORPORA-
11 TIONS. (a) There is imposed for each taxable year upon the taxable
12 income of every resident, nonresident and part-year resident indivi-
13 dual and fiduciary of the state, except those qualifying for the
14 rates in (b) or (c) of this section, taxes computed according to
15 the following table.

16 If the taxable income is:	Then the tax is:
17 Not over \$2,000	3 per cent of the taxable income
18 Over \$2,000 but not over \$4,000	\$60 plus 3.5 per cent of excess 19 over \$2,000
20 Over \$4,000 but not over \$6,000	\$130 plus 4.0 per cent of excess 21 over \$4,000
22 Over \$6,000 but not over \$8,000	\$210 plus 5.0 per cent of excess 23 over \$6,000
24 Over \$8,000 but not over \$10,000	\$310 plus 5.5 per cent of excess 25 over \$8,000
26 Over \$10,000 but not over \$12,000	\$420 plus 6.0 per cent of excess 27 over \$10,000
28 Over \$12,000 but not over \$14,000	\$540 plus 7.0 per cent of excess 29 over \$12,000

1		excess over \$100,000
2	Over \$150,000 but not over \$200,000	\$17,800 plus 14.5 per cent of
3		excess over \$150,000
4	Over \$200,000	\$25,050 plus 14.5 per cent of
5		excess over \$200,000

6 (b) There is imposed for each taxable year upon the taxable
7 income of every resident, nonresident and part-year resident married
8 individual who makes a single return jointly with his spouse (as
9 defined in section 6013 of the Internal Revenue Code) and upon every
10 resident, nonresident and part-year resident surviving spouse (as
11 defined in section 2(a) of the Internal Revenue Code) taxes computed
12 according to the following table.

13	If the taxable income is:	Then the tax is:
14	Not over \$4,000	3 per cent of the taxable income
15	Over \$4,000 but not over \$8,000	\$120 plus 3.5 per cent of excess
16		over \$4,000
17	Over \$8,000 but not over \$12,000	\$260 plus 4.0 per cent of excess
18		over \$8,000
19	Over \$12,000 but not over \$16,000	\$420 plus 5.0 per cent of excess
20		over \$12,000
21	Over \$16,000 but not over \$20,000	\$620 plus 5.5 per cent of excess
22		over \$16,000
23	Over \$20,000 but not over \$24,000	\$840 plus 6.0 per cent of excess
24		over \$20,000
25	Over \$24,000 but not over \$28,000	\$1,080 plus 7.0 per cent of
26		excess over \$24,000
27	Over \$28,000 but not over \$32,000	\$1,360 plus 7.5 per cent of
28		excess over \$28,000
29	Over \$32,000 but not over \$36,000	\$1,660 plus 8.0 per cent of

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Introduced: 2/2/73
Referred: Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE
BY REQUEST OF THE GOVERNOR

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4 EIGHTH LEGISLATURE - FIRST SESSION

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28 Over \$12,000 but not over \$14,000	\$540 plus 7.0 per cent of excess 29 over \$12,000

1	Over \$14,000 but not over \$16,000	\$680 plus 7.5 per cent of excess
2		over \$14,000
3	Over \$16,000 but not over \$18,000	\$830 plus 8.0 per cent of excess
4		over \$16,000
5	Over \$18,000 but not over \$20,000	\$990 plus 8.5 per cent of excess
6		over \$18,000
7	Over \$20,000 but not over \$22,000	\$1,160 plus 9.0 per cent of
8		excess over \$20,000
9	Over \$22,000 but not over \$26,000	\$1,340 plus 9.5 per cent of
10		excess over \$22,000
11	Over \$26,000 but not over \$32,000	\$1,720 plus 10.0 per cent of
12		excess over \$26,000
13	Over \$32,000 but not over \$38,000	\$2,320 plus 10.5 per cent of
14		excess over \$32,000
15	Over \$38,000 but not over \$44,000	\$2,950 plus 11.0 per cent of
16		excess over \$38,000
17	Over \$44,000 but not over \$50,000	\$3,610 plus 11.5 per cent of
18		excess over \$44,000
19	Over \$50,000 but not over \$60,000	\$4,300 plus 12.0 per cent of
20		excess over \$50,000
21	Over \$60,000 but not over \$70,000	\$5,500 plus 12.5 per cent of
22		excess over \$60,000
23	Over \$70,000 but not over \$80,000	\$6,750 plus 13.0 per cent of
24		excess over \$70,000
25	Over \$80,000 but not over \$90,000	\$8,050 plus 13.5 per cent of
26		excess over \$80,000
27	Over \$90,000 but not over \$100,000	\$9,400 plus 14.0 per cent of
28		excess over \$90,000
29	Over \$100,000 but not over \$150,000	\$10,800 plus 14.0 per cent of

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	excess over \$100,000
Over \$150,000 but not over \$200,000	\$17,800 plus 14.5 per cent of excess over \$150,000
Over \$200,000	\$25,050 plus 14.5 per cent of excess over \$200,000

(b) There is imposed for each taxable year upon the taxable income of every resident, nonresident and part-year resident married individual who makes a single return jointly with his spouse (as defined in section 6013 of the Internal Revenue Code) and upon every resident, nonresident and part-year resident surviving spouse (as defined in section 2(a) of the Internal Revenue Code) taxes computed according to the following table.

If the taxable income is:	Then the tax is:
Not over \$4,000	3 per cent of the taxable income
Over \$4,000 but not over \$8,000	\$120 plus 3.5 per cent of excess over \$4,000
Over \$8,000 but not over \$12,000	\$260 plus 4.0 per cent of excess over \$8,000
Over \$12,000 but not over \$16,000	\$420 plus 5.0 per cent of excess over \$12,000
Over \$16,000 but not over \$20,000	\$620 plus 5.5 per cent of excess over \$16,000
Over \$20,000 but not over \$24,000	\$840 plus 6.0 per cent of excess over \$20,000
Over \$24,000 but not over \$28,000	\$1,080 plus 7.0 per cent of excess over \$24,000
Over \$28,000 but not over \$32,000	\$1,360 plus 7.5 per cent of excess over \$28,000
Over \$32,000 but not over \$36,000	\$1,660 plus 8.0 per cent of

1		excess over \$32,000
2	Over \$36,000 but not over \$40,000	\$1,980 plus 8.5 per cent of
3		excess over \$36,000
4	Over \$40,000 but not over \$44,000	\$2,320 plus 9.0 per cent of
5		excess over \$40,000
6	Over \$44,000 but not over \$52,000	\$2,680 plus 9.5 per cent of
7		excess over \$44,000
8	Over \$52,000 but not over \$64,000	\$3,440 plus 10.0 per cent of
9		excess over \$52,000
10	Over \$64,000 but not over \$76,000	\$4,640 plus 10.5 per cent of
11		excess over \$64,000
12	Over \$76,000 but not over \$88,000	\$5,900 plus 11.0 per cent of
13		excess over \$76,000
14	Over \$88,000 but not over \$100,000	\$7,220 plus 11.5 per cent of
15		excess over \$88,000
16	Over \$100,000 but not over \$120,000	\$8,600 plus 12.0 per cent of
17		excess over \$100,000
18	Over \$120,000 but not over \$140,000	\$11,000 plus 12.5 per cent of
19		excess over \$120,000
20	Over \$140,000 but not over \$160,000	\$13,500 plus 13.0 per cent of
21		excess over \$140,000
22	Over \$160,000 but not over \$180,000	\$16,100 plus 13.5 per cent of
23		excess over \$160,000
24	Over \$180,000 but not over \$200,000	\$18,800 plus 14.0 per cent of
25		excess over \$180,000
26	Over \$200,000 but not over \$300,000	\$21,600 plus 14.0 per cent of
27		excess over \$200,000
28	Over \$300,000 but not over \$400,000	\$35,600 plus 14.5 per cent of
29		excess over \$300,000

1 Over \$400,000 \$50,100 plus 14.5 per cent of
2 excess over \$400,000

3 (c) There is imposed for each taxable year upon the taxable
4 income of every resident, nonresident and part-year resident head
5 of a household (as defined in Section 2(b) of the Internal Revenue
6 Code), taxes computed according to the following table.

7 If the taxable income is:	Then the tax is:
8 Not over \$2,000	3 per cent of the taxable income
9 Over \$2,000 but not over \$4,000	\$60 plus 3.5 per cent of excess 10 over \$2,000
11 Over \$4,000 but not over \$6,000	\$130 plus 4.0 per cent of excess 12 over \$4,000
13 Over \$6,000 but not over \$8,000	\$210 plus 4.5 per cent of excess 14 over \$6,000
15 Over \$8,000 but not over \$10,000	\$300 plus 5.0 per cent of excess 16 over \$8,000
17 Over \$10,000 but not over \$12,000	\$400 plus 5.5 per cent of excess 18 over \$10,000
19 Over \$12,000 but not over \$14,000	\$510 plus 6.0 per cent of excess 20 over \$12,000
21 Over \$14,000 but not over \$16,000	\$630 plus 6.5 per cent of excess 22 over \$14,000
23 Over \$16,000 but not over \$18,000	\$760 plus 7.0 per cent of excess 24 over \$16,000
25 Over \$18,000 but not over \$20,000	\$900 plus 7.0 per cent of excess 26 over \$18,000
27 Over \$20,000 but not over \$22,000	\$1,040 plus 7.5 per cent of 28 excess over \$20,000
29 Over \$22,000 but not over \$24,000	\$1,190 plus 8.0 per cent of

1		excess over \$22,000
2	Over \$24,000 but not over \$28,000	\$1,350 plus 8.5 per cent of
3		excess over \$24,000
4	Over \$28,000 but not over \$32,000	\$1,690 plus 9.0 per cent of excess
5		over \$28,000
6	Over \$32,000 but not over \$38,000	\$2,050 plus 9.5 per cent of
7		excess over \$32,000
8	Over \$38,000 but not over \$44,000	\$2,430 plus 10.0 per cent of
9		excess over \$38,000
10	Over \$44,000 but not over \$50,000	\$3,030 plus 10.5 per cent of
11		excess over \$44,000
12	Over \$50,000 but not over \$60,000	\$3,660 plus 11.0 per cent of
13		excess over \$50,000
14	Over \$60,000 but not over \$70,000	\$4,760 plus 11.5 per cent of
15		excess over \$60,000
16	Over \$70,000 but not over \$80,000	\$5,910 plus 12.0 per cent of
17		excess over \$70,000
18	Over \$80,000 but not over \$90,000	\$7,110 plus 12.5 per cent of
19		excess over \$80,000
20	Over \$90,000 but not over \$100,000	\$8,360 plus 13.0 per cent of
21		excess over \$90,000
22	Over \$100,000 but not over \$150,000	\$9,660 plus 13.5 per cent of
23		excess over \$100,000
24	Over \$150,000 but not over \$200,000	\$16,410 plus 14.0 per cent of
25		excess over \$150,000
26	Over \$200,000 but not over \$300,000	\$23,410 plus 14.5 per cent of
27		excess over \$200,000
28	Over \$300,000	\$37,910 plus 14.5 per cent of
29		excess over \$300,000

1 (d) The department shall compute and publish the Alaska income
2 tax liability for resident taxpayers at the midpoint of each bracket
3 of adjusted gross income (as defined in Section 62 of the Internal
4 Revenue Code) modified as required by sec. 31 of this chapter in
5 \$25 steps below \$3,000 and \$50 steps to \$20,000 rounding the
6 calculations to the nearest dollar. Resident taxpayers electing
7 to take the standard deductions may file returns based upon and
8 pay taxes according to tables established under this section.

9 (e) There is imposed for each taxable year upon the entire
10 taxable income of every corporation derived from sources within
11 the state a tax consisting of a normal tax equal to 5.4 per cent
12 of taxable income, and a surtax which is equal to 4.0 per cent of
13 taxable income. For purposes of this chapter the surtax exemption
14 for a taxable year is \$25,000 for each non-affiliated corporation.
15 For affiliated corporations this exemption shall be apportioned in
16 its entirety only among corporations subject to the tax imposed by
17 this section.

18 (f) An affiliated group of corporations may elect to file or
19 the commissioner of revenue may require a filing of a consolidated
20 or combined return for the taxable year in place of separate returns.
21 For purposes of calculating the amount of tax payable under this
22 section by the affiliated group or by the commissioner of revenue,
23 Internal Revenue Code sections 1501, 1502, 1503, 1504, 1505, 1551
24 and 1552 and the regulations relating to these sections as amended,
25 apply. The provisions of this section apply to an election made
26 for any taxable year ending on or after the effective date of this
27 section.

28 * Sec. 2. AS 43.20 is amended by adding a new section to read:

29 Sec. 43.20.021. INTERNAL REVENUE CODE ADOPTED BY REFERENCE.

1 (a) Subtitle F and Chapter 1 of Subtitle A of the 1954 Internal
2 Revenue Code, Public Law 591, Eighty-third Congress, Second Session,
3 as amended are adopted by reference as a part of this chapter. These
4 portions of the Internal Revenue Code have full force and effect
5 under this chapter unless excepted to or modified by other provisions
6 of this chapter.

7 (b) The penalty tax provided for in the provisions of Internal
8 Revenue Code Sections 1561-1563 is 1 per cent.

9 (c) For purposes of calculating the federal tax payable on
10 personal holding companies provided for in the provisions of Internal
11 Revenue Code Section 541 the rate is 12.6 per cent.

12 (d) Where a credit allowed under the Internal Revenue Code is
13 also allowed in computing Alaska Income Tax it is limited to 16 per
14 cent of the amount of the credit determined for federal income tax
15 purposes for individuals and 18 per cent for corporations.

16 * Sec. 3. AS 43.20.030(a) is amended to read:

17 (a) Every individual, fiduciary, partnership, corporation, and
18 bank required to make a return under the provisions of the Internal
19 Revenue Code shall at the same time file with the department a
20 return setting out (1) the amount of tax and the balance of tax due
21 or overpayment of tax as reported on returns made to the United
22 States Internal Revenue Service [COLLECTOR OF INTERNAL REVENUE];
23 (2) the amount of tax due under this chapter, less credits claimed
24 against the tax; and (3) other information for the purpose of
25 carrying out the provisions of this chapter which the department
26 requires.

27 * Sec. 4. AS 43.20.030(d) is amended to read:

28 (d) A taxpayer, upon request by the department, shall furnish
29 to the department a true and correct copy of the tax return which he

1 has filed with the United States Internal Revenue Service [COLLECTOR
2 OF INTERNAL REVENUE]. Every taxpayer shall notify the department in
3 writing of any alteration in, or modification of, his federal income
4 tax return and of a recomputation of tax or determination of
5 deficiency (whether with or without assessment). A full statement
6 of the facts shall accompany this notice. The notice shall be filed
7 within 60 days [20 DAYS] after the modification, recomputation, or
8 determination of deficiency, and the taxpayer shall pay the additional
9 tax or penalty under this chapter.

10 * Sec. 5. AS 43.20 is amended by adding a new section to read:

11 Sec. 43.20.031. TAXABLE INCOME OF RESIDENTS; DEDUCTIONS;
12 EXEMPTIONS. (a) The taxable income of a resident of the state is
13 his entire taxable income derived from sources within the state
14 with the following modifications:

15 (1) A taxpayer whose income includes a cost-of-living
16 allowance which is exempt from federal income tax shall determine
17 and include that amount as part of his income as if the cost-of-
18 living allowance were not exempt.

19 (2) The benefits allowed to taxpayers under Internal
20 Revenue Code Sections 1301 - 1307, as amended, are allowed only
21 to taxpayers who have been residents of the state for the full
22 base period as well as for the computation year as defined in
23 these sections. The commissioner shall prescribe regulations
24 governing benefits under these sections allowable to spouses
25 eligible to file a joint Alaska return for the computation year
26 when one spouse has not been a resident of Alaska for the full
27 base period.

28 (3) Deductions claimed shall be allowed only if and to
29 the extent that they are connected with income which arises from

1 sources within the state, or property having a situs for taxation
2 within the state.

3 (b) The following exemptions are allowed in computing taxable
4 income under this section.

5 (1) Service pay received by members of the Armed Forces of
6 the United States or auxiliary branches of the Armed Forces.

7 (2) Annuities received under the United States Civil
8 Service retirement system from the United States Civil Service
9 retirement and disability fund.

10 (3) Income of a person derived from the sale of halibut
11 taken from waters outside the territorial limits of the state and
12 regulated by an international body or treaty organization provided:

13 (A) the person selling halibut in the state which
14 is taken from outside the territorial limits of the state
15 executes and submits to the department within 30 days after
16 the sale an exemption certificate on a form approved by the
17 department and the attorney general; a separate certificate
18 shall be submitted for each sale;

19 (B) a person who wilfully makes and subscribes to
20 a certificate referred to in (b)(3)(A) of this section which
21 is not true and correct as to every material fact is punishable
22 by a fine of not more than \$10,000, or by imprisonment for not
23 more than five years, or by both.

24 (c) In computing the tax under this chapter, the taxpayer is
25 not entitled to deduct from the adjusted gross income the taxes
26 payable to the state under this chapter.

27 (d) Banks and savings and loan associations chartered by the
28 federal government or the state are exempt from income tax under
29 this chapter.

1 * Sec. 6. AS 43.20 is amended by adding a new section to read:

2 Sec. 43.20.035. COMPUTATION OF TAXABLE INCOME OF NONRESIDENTS
3 AND PART-YEAR RESIDENTS. (a) The taxable income of nonresidents
4 or part-year residents of this state is taxable income as determined
5 pursuant to sec. 31 of this chapter when attributable to sources within
6 the state as provided in sec. 40 of this chapter with the following
7 adjustments:

8 (1) A nonresident or part-year resident who claims the
9 standard deduction as defined in Internal Revenue Code Section 141
10 is allowed the deduction in the proportion provided in (b) of this
11 section.

12 (2) A nonresident or part-year resident is entitled
13 to claim the personal exemptions as defined in Internal Revenue Code
14 Section 151 in the proportion provided in (b) of this section.

15 (3) A nonresident or part-year resident who itemizes
16 deductions is allowed a deduction for those items deductible under
17 the Internal Revenue Code in the proportion provided in (b) of this
18 section.

19 (b) The ratio for prorating allowed by this section is the
20 taxpayer's adjusted gross income from Alaska sources divided by
21 the taxpayer's adjusted gross income from all sources. The ratio
22 shall not exceed 100 per cent. The adjusted gross income for
23 purposes of this subsection means adjusted gross income as defined
24 in Internal Revenue Code Section 62 as modified by the provisions
25 of sec. 31 of this chapter.

26 * Sec. 7. AS 43.20.040 is repealed and re-enacted to read:

27 Sec. 43.20.040. INCOME FROM SOURCES IN THE STATE. (a) Income
28 from sources in the state, for the purposes of this chapter, includes

29 (1) income from real or tangible personal property

1 located in the state;

2 (2) income from a business, trade or profession having
3 a business situs in the state and compensation for services
4 rendered in the state;

5 (3) income from stocks, bonds, notes, bank deposits and
6 other intangible personal property having a business or taxable
7 situs in the state;

8 (4) rentals and royalties for the use of, or for the
9 privilege of using in the state, patents, copyrights, secret
10 processes and formulas, good will, trademarks, trade brands,
11 franchises, and other property having a taxable or business situs
12 in the state;

13 (5) income from intangible personal property located
14 outside the state, including all interest and dividends received
15 by a resident of the state.

16 (b) For purposes of this section, a taxpayer is considered
17 as having a taxable or business situs in the state if he

18 (1) owns or operates business facilities or property in
19 the state, or

20 (2) conducts business, farming or fishing operations in
21 the state, or

22 (3) works for salary or wages in the state, or

23 (4) is a member of a partnership which transacts business
24 in the state, or

25 (5) is a stockholder of a corporation which transacts
26 business in the state and has elected to file federal returns
27 pursuant to subchapter S of the Internal Revenue Code, or

28 (6) is a person who is a beneficiary of any estate or
29 trust deriving income from sources in the state, or

1 (7) is engaged in any other activity from which income
2 is received, realized or derived in the state.

3 (c) If a corporation receives 50 per cent or more of its
4 income within the state and is taxable on that income and provides
5 a fee, salary or other compensation to its nonresident officers or
6 directors, the compensation shall be treated as income from sources
7 within the state. Whether or not any personal services have been
8 performed by nonresident officers or directors in the state, these
9 officers or directors are considered to have a business situs in this
10 state. If compensation is not reported to the state as income, the
11 corporation may not deduct as part of its expenses for the taxable
12 year any part of the compensation in computing taxable income. This
13 subsection does not prevent the commissioner of revenue from requiring
14 an apportionment under ch. 19 of this title.

15 * Sec. 8. AS 43.20.170(c)(2) is amended to read:

16 (2) shall make return of and pay to the department
17 quarterly, or at other times as the department may require [ALLOW],
18 the amount of tax levied which under the provisions of this chapter
19 he is required to deduct and withhold. Upon failure of the employer
20 to comply with the provisions of this subsection, the provisions of
21 sec. 210 of this chapter apply.

22 * Sec. 9. AS 43.20.190 is repealed and re-enacted to read:

23 Sec. 43.20.190. PUBLICITY. (a) Except in connection with
24 a proceeding involving taxes due under this title or proceedings in
25 court, and except as otherwise provided in this section, it is
26 unlawful for an officer or employee of the state to divulge or
27 make known the amount of income or the particulars set out or
28 disclosed in a report or return under this chapter.

29 (b) Neither the original tax return nor a copy of it is

1 admissible in evidence in a court unless offered

2 (1) by the taxpayer who filed the return;

3 (2) by the state in an action to which the state is a
4 party for the purpose of enforcing a tax imposed by this title;

5 (3) as otherwise authorized by the Internal Revenue Code.

6 (c) The department, upon written request, shall furnish to
7 the taxpayer a copy of his tax return upon payment of a fee of \$1
8 per page.

9 (d) The department may permit the proper officer of the United
10 States or of a state, territory or possession of the United States
11 or of the Dominion of Canada or of a province or territory of
12 Canada imposing an income tax, or his authorized representative, to
13 inspect income tax returns filed with the department, or may furnish
14 to the officer or representative a copy of an income tax return, if
15 the other jurisdiction grants substantially similar privileges to
16 the department or its representative or to counsel for the state.

17 (e) The commissioner of revenue at his discretion may furnish
18 to the Multistate Tax Commission information contained in the tax
19 returns and reports and related schedules and documents filed
20 pursuant to an audit or investigation made by the department. This
21 information may be furnished solely for tax purposes. The Multi-
22 state Tax Commission may make the information available to the tax
23 officials of other states, the District of Columbia, the United
24 States and its territories solely for tax purposes.

25 (f) Nothing in this section may be construed to prohibit the
26 publication of statistics so classified as to prevent the identifi-
27 cation of particular reports and the items of reports, or of the
28 publication of delinquent lists showing the names of taxpayers who
29 have failed to pay their taxes at the time and in the manner

1 provided by law, together with other relevant information which in
2 the option of the department may assist in the collection of
3 delinquent taxes.

4 (g) An offense against the provisions of this section is a
5 misdemeanor and is punishable by a fine of not more than \$1,000 or
6 by imprisonment for not more than six months, or by both.

7 * Sec. 10. AS 43.20.330 is amended by adding a new subsection to read:

8 (i) The penalties and liabilities provided in subsection (g)
9 shall be paid upon notice and demand by the commissioner of revenue
10 or his deputy or agent, and shall be assessed and collected in the
11 same manner as taxes. Any reference to "tax" imposed shall be
12 considered also to refer to the penalties and liabilities provided
13 by this section.

14 * Sec. 11. AS 43.20.340 is amended by adding new paragraphs to read:

15 (13) "domicile" means the place where an individual has
16 his true, fixed, permanent home and principal establishment and to
17 which place he has the intention of returning whenever he is absent
18 for a temporary or transitory purpose;

19 (14) "nonresident" means any individual who is not a
20 "resident" or "part-year resident";

21 (15) "part-year resident" means an individual who enters
22 or leaves the state during the taxable year and who has resided or
23 was domiciled within the state for a period of less than 12 months
24 during the taxable year;

25 (16) "residence" means actual physical presence within
26 the state and is determined without regard to a person's "domicile";

27 (17) "resident" means any individual or natural person who
28 during the taxable year has been domiciled in the state or has
29 resided within the state for the entire taxable year; an individual

1 does not lose his status as a resident simply by reason of attending
2 an educational institution or by serving in the Armed Forces;

3 (18) "tax home" means an individual's principal place
4 of business or employment.

5 * Sec. 12. The following laws are repealed: AS 43.20.010; 43.20.020;
6 43.20.030(b), (c) and (e); 43.20.050; 43.20.060.

7 * Sec. 13. The repeal of the laws listed in sec. 12 of this Act does
8 not affect tax liability accrued before January 1, 1973.

9 * Sec. 14. This Act is retroactive to January 1, 1973, and relates
10 only to income earned and received after December 31, 1972.

11 * Sec. 15. This Act takes effect on the day after its passage and
12 approval or on the day it becomes law without approval.

Original Sponsor: Rules Committee
by request of the Governor

Offered: 2/21/74
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 171

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska income tax; and providing
7 for an effective date."

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

9 * Section 1. AS 43.20 is amended by adding a new section to read:

10 Sec. 43.20.011. TAX ON INDIVIDUALS, FIDUCIARIES, AND CORPORATIONS.

11 (a) There is imposed for each taxable year upon the taxable income
12 of every resident, nonresident and part-year resident individual
13 and fiduciary of the state, except those qualifying for the rates
14 in (b) or (c) of this section, taxes computed according to the following
15 table.

16 If the taxable income is:

Then the tax is:

17 Not over \$2,000	3 per cent of the taxable income
18 Over \$2,000 but not over \$4,000	\$60 plus 3.5 per cent of excess 19 over \$2,000
20 Over \$4,000 but not over \$6,000	\$130 plus 4.0 per cent of excess 21 over \$4,000
22 Over \$6,000 but not over \$8,000	\$210 plus 5.0 per cent of excess 23 over \$6,000
24 Over \$8,000 but not over \$10,000	\$310 plus 5.5 per cent of excess 25 over \$8,000
26 Over \$10,000 but not over \$12,000	\$420 plus 6.0 per cent of excess 27 over \$10,000
28 Over \$12,000 but not over \$14,000	\$540 plus 7.0 per cent of excess 29 over \$12,000

1	Over \$14,000 but not over \$16,000	\$680 plus 7.5 per cent of excess
2		over \$14,000
3	Over \$16,000 but not over \$18,000	\$830 plus 8.0 per cent of excess
4		over \$16,000
5	Over \$18,000 but not over \$20,000	\$990 plus 8.5 per cent of excess
6		over \$18,000
7	Over \$20,000 but not over \$22,000	\$1,160 plus 9.0 per cent of
8		excess over \$20,000
9	Over \$22,000 but not over \$26,000	\$1,340 plus 9.5 per cent of
10		excess over \$22,000
11	Over \$26,000 but not over \$32,000	\$1,720 plus 10.0 per cent of
12		excess over \$26,000
13	Over \$32,000 but not over \$38,000	\$2,320 plus 10.5 per cent of
14		excess over \$32,000
15	Over \$38,000 but not over \$44,000	\$2,950 plus 11.0 per cent of
16		excess over \$38,000
17	Over \$44,000 but not over \$50,000	\$3,610 plus 11.5 per cent of
18		excess over \$44,000
19	Over \$50,000 but not over \$60,000	\$4,300 plus 12.0 per cent of
20		excess over \$50,000
21	Over \$60,000 but not over \$70,000	\$5,500 plus 12.5 per cent of
22		excess over \$60,000
23	Over \$70,000 but not over \$80,000	\$6,750 plus 13.0 per cent of
24		excess over \$70,000
25	Over \$80,000 but not over \$90,000	\$8,050 plus 13.5 per cent of
26		excess over \$80,000
27	Over \$90,000 but not over \$100,000	\$9,400 plus 14.0 per cent of
28		excess over \$90,000
29	Over \$100,000 but not over \$150,000	\$10,800 plus 14.0 per cent of

1		excess over \$100,000
2	Over \$150,000 but not over \$200,000	\$17,800 plus 14.5 per cent of
3		excess over \$150,000
4	Over \$200,000	\$25,050 plus 14.5 per cent of
5		excess over \$200,000

6 (b) There is imposed for each taxable year upon the taxable
7 income of every resident, nonresident and part-year resident married
8 individual who makes a single return jointly with his spouse (as
9 defined in section 6013 of the Internal Revenue Code) and upon every
10 resident, nonresident and part-year resident surviving spouse (as
11 defined in section 2(a) of the Internal Revenue Code) taxes computed
12 according to the following table.

13	If the taxable income is:	Then the tax is:
14	Not over \$4,000	3 per cent of the taxable income
15	Over \$4,000 but not over \$8,000	\$120 plus 3.5 per cent of excess
16		over \$4,000
17	Over \$8,000 but not over \$12,000	\$260 plus 4.0 per cent of excess
18		over \$8,000
19	Over \$12,000 but not over \$16,000	\$420 plus 5.0 per cent of excess
20		over \$12,000
21	Over \$16,000 but not over \$20,000	\$620 plus 5.5 per cent of excess
22		over \$16,000
23	Over \$20,000 but not over \$24,000	\$840 plus 6.0 per cent of excess
24		over \$20,000
25	Over \$24,000 but not over \$28,000	\$1,080 plus 7.0 per cent of
26		excess over \$24,000
27	Over \$28,000 but not over \$32,000	\$1,360 plus 7.5 per cent of
28		excess over \$28,000
29	Over \$32,000 but not over \$36,000	\$1,660 plus 8.0 per cent of

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1		excess over \$32,000
2	Over \$36,000 but not over \$40,000	\$1,980 plus 8.5 per cent of
3		excess over \$36,000
4	Over \$40,000 but not over \$44,000	\$2,320 plus 9.0 per cent of
5		excess over \$40,000
6	Over \$44,000 but not over \$52,000	\$2,680 plus 9.5 per cent of
7		excess over \$44,000
8	Over \$52,000 but not over \$64,000	\$3,440 plus 10.0 per cent of
9		excess over \$52,000
10	Over \$64,000 but not over \$76,000	\$4,640 plus 10.5 per cent of
11		excess over \$64,000
12	Over \$76,000 but not over \$88,000	\$5,900 plus 11.0 per cent of
13		excess over \$76,000
14	Over \$88,000 but not over \$100,000	\$7,220 plus 11.5 per cent of
15		excess over \$88,000
16	Over \$100,000 but not over \$120,000	\$8,600 plus 12.0 per cent of
17		excess over \$100,000
18	Over \$120,000 but not over \$140,000	\$11,000 plus 12.5 per cent of
19		excess over \$120,000
20	Over \$140,000 but not over \$160,000	\$13,500 plus 13.0 per cent of
21		excess over \$140,000
22	Over \$160,000 but not over \$180,000	\$16,100 plus 13.5 per cent of
23		excess over \$160,000
24	Over \$180,000 but not over \$200,000	\$18,800 plus 14.0 per cent of
25		excess over \$180,000
26	Over \$200,000 but not over \$300,000	\$21,600 plus 14.0 per cent of
27		excess over \$200,000
28	Over \$300,000 but not over \$400,000	\$35,600 plus 14.5 per cent of
29		excess over \$300,000

1 Over \$400,000 \$50,100 plus 14.5 per cent of
2 excess over \$400,000

3 (c) There is imposed for each taxable year upon the taxable
4 income of every resident, nonresident and part-year resident head
5 of a household (as defined in section 2(b) of the Internal Revenue
6 Code), taxes computed according to the following table.

7 If the taxable income is:

Then the tax is:

8 Not over \$2,000	3 per cent of the taxable income
9 Over \$2,000 but not over \$4,000	\$60 plus 3.5 per cent of excess 10 over \$2,000
11 Over \$4,000 but not over \$6,000	\$130 plus 4.0 per cent of excess 12 over \$4,000
13 Over \$6,000 but not over \$8,000	\$210 plus 4.5 per cent of excess 14 over \$6,000
15 Over \$8,000 but not over \$10,000	\$300 plus 5.0 per cent of excess 16 over \$8,000
17 Over \$10,000 but not over \$12,000	\$400 plus 5.5 per cent of excess 18 over \$10,000
19 Over \$12,000 but not over \$14,000	\$510 plus 6.0 per cent of excess 20 over \$12,000
21 Over \$14,000 but not over \$16,000	\$630 plus 6.5 per cent of excess 22 over \$14,000
23 Over \$16,000 but not over \$18,000	\$760 plus 7.0 per cent of excess 24 over \$16,000
25 Over \$18,000 but not over \$20,000	\$900 plus 7.0 per cent of excess 26 over \$18,000
27 Over \$20,000 but not over \$22,000	\$1,040 plus 7.5 per cent of 28 excess over \$20,000
29 Over \$22,000 but not over \$24,000	\$1,190 plus 8.0 per cent of

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	excess over \$22,000
Over \$24,000 but not over \$28,000	\$1,350 plus 8.5 per cent of excess over \$24,000
Over \$28,000 but not over \$32,000	\$1,690 plus 9.0 per cent of excess over \$28,000
Over \$32,000 but not over \$38,000	\$2,050 plus 9.5 per cent of excess over \$32,000
Over \$38,000 but not over \$44,000	\$2,430 plus 10.0 per cent of excess over \$38,000
Over \$44,000 but not over \$50,000	\$3,030 plus 10.5 per cent of excess over \$44,000
Over \$50,000 but not over \$60,000	\$3,660 plus 11.0 per cent of excess over \$50,000
Over \$60,000 but not over \$70,000	\$4,760 plus 11.5 per cent of excess over \$60,000
Over \$70,000 but not over \$80,000	\$5,910 plus 12.0 per cent of excess over \$70,000
Over \$80,000 but not over \$90,000	\$7,110 plus 12.5 per cent of excess over \$80,000
Over \$90,000 but not over \$100,000	\$8,360 plus 13.0 per cent of excess over \$90,000
Over \$100,000 but not over \$150,000	\$9,660 plus 13.5 per cent of excess over \$100,000
Over \$150,000 but not over \$200,000	\$16,410 plus 14.0 per cent of excess over \$150,000
Over \$200,000 but not over \$300,000	\$23,410 plus 14.5 per cent of excess over \$200,000
Over \$300,000	\$37,910 plus 14.5 per cent of excess over \$300,000

1 (d) The department shall compute and publish the Alaska income
2 tax liability for resident taxpayers at the midpoint of each bracket
3 of adjusted gross income (as defined in section 62 of the Internal
4 Revenue Code) modified as required by sec. 31 of this chapter in \$25
5 steps below \$3,000 and \$50 steps to \$20,000 rounding the calculations
6 to the nearest dollar. Resident taxpayers electing to take the standard
7 deductions may file returns based upon and pay taxes according to tables
8 established under this section.

9 (e) There is imposed for each taxable year upon the entire taxable
10 income of every corporation derived from sources within the state a tax
11 consisting of a normal tax equal to 5.4 per cent of taxable income, and
12 a surtax which is equal to 4.0 per cent of taxable income. For purposes
13 of this chapter the surtax exemption for a taxable year is \$25,000 for
14 each nonaffiliated corporation. For affiliated corporations this
15 exemption shall be apportioned in its entirety only among corporations
16 subject to the tax imposed by this section.

17 * Sec. 2. AS 43.20 is amended by adding a new section to read:

18 Sec. 43.20.021. INTERNAL REVENUE CODE ADOPTED BY REFERENCE. (a)
19 Subtitle F and chapter 1 of subtitle A of the 1954 Internal Revenue
20 Code, Public Law 591, Eighty-third Congress, Second Session, as amended,
21 are adopted by reference as a part of this chapter. These portions of
22 the Internal Revenue Code have full force and effect under this chapter
23 unless excepted to or modified by other provisions of this chapter.

24 (b) The penalty tax provided for in the provisions of Internal
25 Revenue Code sections 1561-1563 is 0.1 per cent.

26 (c) For purposes of calculating the federal tax payable on per-
27 sonal holding companies provided for in the provisions of Internal
28 Revenue Code section 541, the rate is 12.6 per cent.

29 (d) Where a credit allowed under the Internal Revenue Code is

1 also allowed in computing Alaska income tax, it is limited to 16 per
2 cent of the amount of the credit determined for federal income tax
3 purposes for individuals and 18 per cent for corporations.

4 * Sec. 3. AS 43.20.030(a) is amended to read:

5 (a) Every individual, fiduciary, partnership, corporation, and
6 bank required to make a return under the provisions of the Internal
7 Revenue Code shall at the same time file with the department a return
8 setting out (1) the amount of tax and the balance of tax due or over-
9 payment of tax as reported on returns made to the United States Internal
10 Revenue Service [COLLECTOR OF INTERNAL REVENUE]; (2) the amount of tax
11 due under this chapter, less credits claimed against the tax; and (3)
12 other information for the purpose of carrying out the provisions of
13 this chapter which the department requires.

14 * Sec. 4. AS 43.20.030(d) is amended to read:

15 (d) A taxpayer, upon request by the department, shall furnish to
16 the department a true and correct copy of the tax return which he has
17 filed with the United States Internal Revenue Service [COLLECTOR OF
18 INTERNAL REVENUE]. Every taxpayer shall notify the department in
19 writing of any alteration in, or modification of, his federal income
20 tax return and of a recomputation of tax or determination of deficiency
21 (whether with or without assessment). A full statement of the facts
22 shall accompany this notice. The notice shall be filed within 60 [20]
23 days after the modification, recomputation, or determination of defi-
24 ciency, and the taxpayer shall pay the additional tax or penalty under
25 this chapter.

26 * Sec. 5. AS 43.20 is amended by adding a new section to read:

27 Sec. 43.20.031. TAXABLE INCOME OF RESIDENTS; DEDUCTIONS; EXEMP-
28 TIONS. (a) The taxable income of a resident of the state is his entire
29 taxable income as defined in section 63 of the Internal Revenue Code

1 with the following modifications:

2 (1) A taxpayer whose income includes a cost-of-living
3 allowance which is exempt from federal income tax shall determine and
4 include that amount as part of his income as if the cost-of-living
5 allowance were not exempt.

6 (2) The benefits allowed to taxpayers under Internal Revenue
7 Code sections 1301-1307, as amended, are allowed only to taxpayers who
8 have been residents of the state for the full base period as well as
9 for the computation year as defined in these sections. The commis-
10 sioner shall prescribe regulations governing benefits under these
11 sections allowable to spouses eligible to file a joint Alaska return
12 for the computation year when one spouse has not been a resident of
13 Alaska for the full base period.

14 (b) The following exemptions are allowed in computing taxable
15 income under this section:

16 (1) service pay received by members of the armed forces of
17 the United States or auxiliary branches of the armed forces;

18 (2) annuities received under the United States Civil Service
19 retirement system from the United States Civil Service retirement and
20 disability fund;

21 (3) income of a person derived from the sale of halibut
22 taken from waters outside the territorial limits of the state and
23 regulated by an international body or treaty organization if

24 (A) the person selling halibut in the state which is
25 taken from outside the territorial limits of the state executes
26 and submits to the department within 30 days after the sale an
27 exemption certificate on a form approved by the department and
28 the attorney general; a separate certificate shall be submitted
29 for each sale;

1 (B) a person who wilfully makes and subscribes to a
2 certificate referred to in (b)(3)(A) of this section which is not
3 true and correct as to every material fact is punishable by a fine
4 of not more than \$10,000, or by imprisonment for not more than
5 five years, or by both.

6 (c) In computing the tax under this chapter, the taxpayer is not
7 entitled to deduct from the adjusted gross income the taxes payable to
8 the state under this chapter.

9 (d) Banks and savings and loan associations chartered by the
10 federal government or the state are exempt from income tax under this
11 chapter.

12 * Sec. 6. AS 43.20 is amended by adding a new section to read:

13 Sec. 43.20.035. COMPUTATION OF TAXABLE INCOME OF NONRESIDENTS AND
14 PART-YEAR RESIDENTS. (a) The taxable income of nonresidents or part-
15 year residents of this state is taxable income as determined under
16 sec. 31 of this chapter when attributable to sources in the state as
17 provided in sec. 40 of this chapter with the following adjustments:

18 (1) A nonresident or part-year resident who claims the
19 standard deduction as defined in Internal Revenue Code section 141 is
20 allowed the deduction in the proportion provided in (b) of this section

21 (2) A nonresident or part-year resident is entitled to claim
22 the personal exemptions as defined in Internal Revenue Code section 151
23 in the proportion provided in (b) of this section.

24 (3) A nonresident or part-year resident who itemizes deduc-
25 tions is allowed a deduction for those items deductible under the
26 Internal Revenue Code in the proportion provided in (b) of this section

27 (b) The ratio for prorating allowed by this section is the tax-
28 payer's adjusted gross income from Alaska sources divided by the tax-
29 payer's adjusted gross income from all sources. The ratio shall not

1 exceed 100 per cent. The adjusted gross income for purposes of this
2 subsection means adjusted gross income as defined in Internal Revenue
3 Code section 62 as modified by the provisions of sec. 31 of this
4 chapter.

5 (c) Deductions claimed which are allowed as deductions from gross
6 income in arriving at adjusted gross income under the Internal Revenue
7 Code are allowed only to the extent that they are connected with income
8 which arises from sources in the state or property having a situs for
9 taxation in the state.

10 * Sec. 7. AS 43.20.040 is repealed and re-enacted to read:

11 Sec. 43.20.040. INCOME FROM SOURCES IN THE STATE. (a) In this
12 chapter, income from sources in the state includes

13 (1) income from real or tangible personal property located
14 in the state;

15 (2) income of whatever nature from a business, trade or pro-
16 fession having a business situs in the state and compensation for
17 services rendered in the state;

18 (3) income from stocks, bonds, notes, bank deposits, and
19 other intangible personal property having a taxable or business situs
20 in the state;

21 (4) rentals and royalties for the use of or for the privi-
22 lege of using, in the state, patents, copyrights, secret processes and
23 formulas, good will, trademarks, trade brands, franchises, and other
24 property having a taxable or business situs in the state.

25 (b) In this section, income is from a source having a taxable
26 or business situs in the state if derived from

27 (1) owning or operating business facilities or property in
28 the state;

29 (2) conducting business, farming, or fishing operations in

1 the state;

2 (3) working for salary or wages in the state;

3 (4) a partnership which transacts business in the state;

4 (5) a corporation which transacts business in the state which
5 has elected to file federal returns under subchapter 5 of the Internal
6 Revenue Code;

7 (6) an estate or trust deriving income from sources in the
8 state; or

9 (7) engaging in any other activity from which income is
10 received, realized or derived in the state; however, the receipt of
11 income derived solely from interest earned on property in the state
12 does not alone establish a taxable or business situs in the state.

13 * Sec. 8. AS 43.20 is amended by adding new sections to read:

14 Sec. 43.20.045. INCOME FROM SOURCES IN THE STATE OF NONRESIDENT
15 CORPORATE OFFICERS AND DIRECTORS. (a) If a corporation earns 50 per
16 cent or more of its income in the state or apportions 50 per cent or
17 more of its income to the state and is taxable on that income and pro-
18 vides a fee, salary or other compensation to its nonresident officers
19 or directors, the compensation shall be treated as income from sources
20 in the state if the officer or director is in control of the corpora-
21 tion. Whether or not any personal services have been performed by
22 these nonresident officers or directors, they are considered to have
23 a business situs in this state.

24 (b) If compensation required to be included as income under this
25 section is not reported to the state as income, the corporation may not
26 deduct as part of its expenses for the taxable year any part of the
27 compensation in computing taxable income.

28 (c) In this section, "control" is defined according to section
29 269 of the Internal Revenue Code. The attribution rules of section

1 318(a) of the Internal Revenue Code also apply in the determination of
2 "control".

3 Sec. 43.20.051. INCOME FROM SOURCES IN THE STATE OF NONRESIDENT
4 PARTNERS. In determining the source of a nonresident partner's income,
5 no effect shall be given to a provision in the partnership agreement
6 which

7 (1) characterizes payments to the partner as being for
8 services or for the use of capital;

9 (2) allocates to the partner, as income or gain from sources
10 outside the state, a greater proportion of his distributive share of
11 partnership income or gain than the ratio of partnership income or gain
12 from sources outside the state to partnership income or gain from all
13 sources; or

14 (3) allocates to the partner a greater proportion of a
15 partnership item of loss or deduction connected to Alaska sources than
16 his proportionate share, for federal income tax purposes of partnership
17 loss or deduction generally.

18 Sec. 43.20.061. CREDIT FOR TAXES PAID ANOTHER STATE. (a) A
19 resident is allowed as a credit against the tax otherwise due under
20 this chapter the amount of income tax imposed on him for the taxable
21 year by another state or territory of the United States on income de-
22 rived from sources in the other state or territory which is also subject
23 to tax under this chapter.

24 (b) The credit allowed in (a) of this section is limited to that
25 proportion of the tax computed under this chapter (before the allowance
26 of this credit), which the taxable income from the other state or terri-
27 tory bears to the total taxable income; however, this credit may not
28 exceed the actual tax payable to the other state or territory.

29 Sec. 43.20.065. ALLOCATION AND APPORTIONMENT. A taxpayer who has

1 income from business activity which is taxable both inside and outside
2 the state or income from other sources both inside and outside the
3 state shall allocate and apportion his net income as provided in sec. 71
4 of this chapter and AS 43.19.010(IV).

5 Sec. 43.20.071. PASSENGER OR FREIGHT WATER TRANSPORTATION CARRIERS.

6 (a) All business income of water transportation carriers shall be
7 apportioned to this state by a fraction the numerator of which is the
8 property factor plus the payroll factor plus the sales factor and the
9 denominator of which is all three.

10 (b) The property factor for fixed property such as buildings and
11 land used in the business and local equipment and personal property
12 shall be determined according to AS 43.19.010(IV). The property factor
13 of water transportation shall be determined on a days-spent-in-ports
14 basis as provided in (e) of this section.

15 (c) The payroll factor for the wages and salaries of employees
16 assigned to fixed locations shall be determined according to AS 43.19.-
17 010(IV). The payroll factor of water transportation carriers and other
18 equipment used in water transportation shall be determined on a days-
19 spent-in-ports basis as provided in (e) of this section.

20 (d) The sales factor shall be determined on a days-spent-in-ports
21 basis as provided in (e) of this section.

22 (e) The property, payroll and sales factor shall be determined by
23 a ratio which the number of days spent in ports inside the state bears
24 to the total number of days spent in ports inside and outside the state.
25 The term "days spent in ports" does not include periods when ships are
26 tied up because of strikes or withheld from Alaska service for repairs,
27 or because of seasonal reduction of service. Days in port are computed
28 by dividing the total number of hours in all ports by 24.

29 * Sec. 9. AS 43.20.170(c)(2) is amended to read:

1 (2) shall make return of and pay to the department quarterly
2 or at other times as the department may require [ALLOW], the amount of
3 tax levied which under the provisions of this chapter he is required to
4 deduct and withhold; upon failure of the employer to comply with the
5 provisions of this subsection, the provisions of sec. 210 of this
6 chapter apply.

7 * Sec. 10. AS 43.20.190 is repealed and re-enacted to read:

8 Sec. 43.20.190. PUBLICITY. (a) Except in connection with a pro-
9 ceeding involving taxes due under this title or proceedings in court,
10 and except as otherwise provided in this section, it is unlawful for an
11 officer or employee of the state to divulge or make known the amount of
12 income or the particulars set out or disclosed in a report or return
13 under this chapter.

14 (b) Neither the original tax return nor a copy of it is admissible
15 in evidence in a court unless offered

16 (1) by the taxpayer who filed the return;

17 (2) by the state in an action to which the state is a party
18 for the purpose of enforcing a tax imposed by this title;

19 (3) as otherwise authorized by the Internal Revenue Code.

20 (c) The department, upon written request, shall furnish to the
21 taxpayer a copy of his tax return upon payment of a fee of \$1 a page.

22 (d) The department may permit the proper officer of the United
23 States or of a state, territory or possession of the United States or
24 of the Dominion of Canada or of a province or territory of Canada
25 imposing an income tax, or his authorized representative, to inspect
26 income tax returns filed with the department, or may furnish to the
27 officer or representative a copy of an income tax return, if the other
28 jurisdiction grants substantially similar privileges to the department
29 or its representative or to counsel for the state.

1 (e) The commissioner of revenue at his discretion may furnish to
2 the Multistate Tax Commission information contained in the tax returns
3 and reports and related schedules and documents filed under an audit or
4 investigation made by the department. This information may be furnished
5 solely for tax purposes. The Multistate Tax Commission may make the
6 information available to the tax officials of other states, the District
7 of Columbia, the United States and its territories solely for tax pur-
8 poses.

9 (f) Nothing in this section may be construed to prohibit the
10 publication of statistics so classified as to prevent the identification
11 of particular reports and the items of reports, or of the publication
12 of delinquent lists showing the names of taxpayers who have failed to
13 pay their taxes at the time and in the manner provided by law, together
14 with other relevant information which in the option of the department
15 may assist in the collection of delinquent taxes.

16 (g) An offense against the provisions of this section is a mis-
17 demeanor and is punishable by a fine of not more than \$1,000, or by
18 imprisonment for not more than six months, or by both.

19 * Sec. 11. AS 43.20.330 is amended by adding a new subsection to read:

20 (i) The penalties and liabilities provided in (g) of this section
21 shall be paid upon notice and demand by the commissioner of revenue or
22 his deputy or agent and shall be assessed and collected in the same
23 manner as taxes. A reference to "tax" imposed shall be considered also
24 to refer to the penalties and liabilities provided by this section.

25 * Sec. 12. AS 43.20.340 is amended by adding new paragraphs to read:

26 (13) "domicile" means the place where an individual has his
27 true, fixed, permanent home and principal establishment and to which
28 place he has the intention of returning whenever he is absent for a
29 temporary or transitory purpose;

1 (14) "nonresident" means an individual who is not a "resident"
2 or "part-year resident";

3 (15) "part-year resident" means an individual who enters or
4 leaves the state during the taxable year and who has resided or was
5 domiciled in the state for a period of less than 12 months during the
6 taxable year;

7 (16) "residence" means actual physical presence in the state
8 and is determined without regard to a person's "domicile";

9 (17) "resident" means an individual or natural person who
10 during the taxable year has been domiciled in the state or has resided
11 in the state for the entire taxable year; an individual does not lose
12 his status as a resident simply by reason of attending an educational
13 institution or by serving in the armed forces;

14 (18) "tax home" means an individual's principal place of
15 business or employment.

16 * Sec. 13. The following laws are repealed: AS 43.20.010; 43.20.020;
17 43.20.030(b), (c) and (e); 43.20.050; 43.20.060; 43.20.070; 43.20.080;
18 43.20.090; 43.20.100; 43.20.110; 43.20.120; 43.20.130; and 43.20.140.

19 * Sec. 14. The repeal of the laws listed in sec. 12 of this Act does
20 not affect tax liabilities accrued before January 1, 1974.

21 * Sec. 15. This Act is retroactive to January 1, 1974, and relates only
22 to income earned and received after December 31, 1973.

23 * Sec. 16. This Act takes effect on the day after its passage and approval
24 or on the day it becomes law without approval.
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29

"HOUSE FINANCE COMMITTEE REPORT

HB
171

ON

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 171

The House Finance Committee has had HOUSE BILL 171 under consideration and recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE BILL 171. The principal provisions of HOUSE BILL 171 and the changes incorporated in the COMMITTEE SUBSTITUTE FOR HOUSE BILL 171 are as follows:

Section 1 revises the State's income tax statutes by adopting a specific graduated tax based on income. The specific tax replaces the present method of computing the tax as a per cent of federal tax liability.

Subsections (a), (b), and (c) contain the tax schedules for individuals, married and surviving spouses, and heads of households respectively.

Subsection (d) requires the Department of Revenue to publish detailed tax tables for use by taxpayers electing the standard deduction.

Subsection (e) translates the federal corporate tax rates into a State rate, again saving the taxpayer from computing the State tax as a per cent of federal tax liability.

Subsection (f) which allows affiliated corporations to file consolidated returns has been deleted from the COMMITTEE SUBSTITUTE because Chapter 16, SLA 1973 contains the same provision.

Section 2: Subsection (a) adopts Subtitle F (the federal administrative procedures) and Chapter 1 of Subtitle A (the federal income tax structure) of the 1954 Internal Revenue Code by reference. Existing law adopts only Chapter 1 of Subtitle A by reference. The reference in Alaska Statutes to specific Code sections on administrative procedure has led to ambiguities where the Alaska Statutes have failed to be amended in step with changes in the Code.

Subsection (b), and (c) translate the federal penalty tax and personal holding company tax into equivalent State rates.

Subsection (d) provides for credits to the Alaska Income Tax at 16 per cent for individuals and 18 per cent for corporations of the federal tax credit. This is the effect of existing law which applies these rates to the entire federal tax liability.

Sections 3 and 4 clarify references to the federal tax return. Section 4 extends from 20 to 60 days the period allowed for notifying the State of any modification (proposed or assessed) in a taxpayer's federal tax liability.

Section 5: This section and section 6 are the result of splitting the statutory provisions for taxpayers into two parts--one for residents and one for non-residents and part-year residents.

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Subsection (a) which, like existing law, defines taxable income as all income derived from sources within the State is amended by the COMMITTEE SUBSTITUTE to include all income in the case of residents. In line with this change, the COMMITTEE SUBSTITUTE also deletes paragraph (3) of this subsection which limited deductions to those associated with income having its source within the State.

Concurrent with the two amendments in this subsection, Sec. 8 of the COMMITTEE SUBSTITUTE adds a new section, AS 43.20.045, which allows a resident a credit against his Alaska Income Tax for taxes paid another state. This is necessary, given the change in definition of taxable income of residents, to avoid double taxation.

The other paragraphs of subsection (a) and subsections (b), (c) and (d) contain modifications or exemptions to the Alaska Income Tax already existing in Alaska Statutes.

Section 6 contains the provision for a tax on non-resident and part-year residents based on income derived from sources within the State; this is the current approach. However, provision is also made in subsection (a) for proration of deductions and exemptions in accordance with the method stated in subsection (b). This method bases proration on the ratio of adjusted gross income from Alaskan sources to adjusted gross income from all sources; whereas, proration is currently allowed only for exemptions on the basis of the portion of the year a taxpayer is present in the State and deductions may be taken only to the extent they are connected with activity in Alaska.

The COMMITTEE SUBSTITUTE adds subsection (c) which allows certain deductions (moving expenses, sick pay, etc.) only if they are connected with income from sources within the State. These are the deductions from gross income.

Section 7 defines income from sources in the State for purposes of computing non-resident and part-year resident taxes.

In paragraph (2) of subsection (a), the COMMITTEE SUBSTITUTE inserts "of whatever nature" after "income" so that royalties, dividends, interest income, etc. are included in the computation. Mail order businesses with interest income on charge accounts are an example of the situations to be clarified by this language.

Paragraphs (1), (3), and (4) of subsection (a) of the COMMITTEE SUBSTITUTE are unchanged from existing law.

Paragraph (5) of subsection (a) of HB 171, which exists in current law, is deleted by the COMMITTEE SUBSTITUTE because it is no longer necessary with the change in definition in Section 5 of resident taxable income to include all income.

Subsection (b) is an addition to existing law that defines taxable or business situs.

The only exclusion of income is contained in paragraph (7) which removes the burden of a tax on individual holders of interest-earning deposits in the State.

Section 8 of the COMMITTEE SUBSTITUTE adds several new sections to the Statutes.

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171

Section 43.20.045 provides that corporations receiving 50 per cent or more of their income from within Alaska will be allowed a business deduction for the salaries of nonresident officers or directors only if this income is reported and taxed in Alaska.

The COMMITTEE SUBSTITUTE includes in addition situations where 50 per cent or more of the income is apportioned to Alaska and requires in all cases that the indicated officer or director have "control" of the corporation as defined in the Internal Revenue Code. This section is aimed at such situations as "shell" corporations seeking a tax advantage in Alaska.

Sec. 43.20.051, added by the COMMITTEE SUBSTITUTE, provides that income derived from an Alaska business by a non-resident owner or partner is taxable in Alaska, closing a loophole in the present law.

Sec. 43.20.061, added by the COMMITTEE SUBSTITUTE, provides a credit for taxes paid to another state.

Sec. 43.20.065, added by the COMMITTEE SUBSTITUTE, provides for the allocation and apportionment of business income by reference to the Multistate Tax Compact (AS 43.19.010 (IV)), replacing specific mention in the Alaska Income Tax Statutes of the same provisions.

Sec. 43.20.071, added by the COMMITTEE SUBSTITUTE, is the only exception to Multistate Tax Compact allocation and apportionment and replaces AS 43.20.70, a similar provision in existing law except that it had special provisions as well for land and air carriage which now fall under the Multistate approach.

Section 9, originating with HB 171, makes it clear that the Department of Revenue can require withholding of employee tax and its payment by employers.

Section 10, originating with HB 171, re-enacts AS 43.20.190 relating to publicity and access to income tax information in substantially its original form except that paragraph (b) (2) is amended to limit the required production of income tax information to court proceedings which are initiated primarily for the enforcement of the revenue laws. The present statute would appear to permit the use of tax returns in any civil or criminal litigation. The redrafted section also clarifies the authority of the Commissioner of Revenue to exchange tax information with the Multistate Tax Commission in subsection (e).

Section 11, originating with HB 171, provides that the Department shall assess and collect penalties and liabilities in the same manner as taxes.

Sections 12 through 16, originating with HB 171, add new definitions, repeal sections made obsolete by this act, and make provision for the act's becoming effective.

STATE
of ALASKA

MEMORANDUM

TO: R. D. Stevenson
Commissioner
Department of Revenue

DATE : February 7, 1974

FROM: Frederick P. Boetsch
Director
Audit Division *FPB*

SUBJECT: HB 171

At your request I have reviewed our research on House Bill 171 which makes several changes to the Alaska Net Income Tax Act. I am attaching a projection of the effect of Section 43.20.011(a) through (c) (the new rate schedules) on single persons and married persons filing joint returns at various taxable income levels between \$4,000 and \$200,000. You will note that in the lower to middle income brackets there is a slight decrease in the tax liability and in the higher brackets there is a slight increase. Within each bracket, however, the change may be more or less than indicated on the attached projection. The reason there is a slight change from the current law is that we did not translate the federal rates from 1963 directly at the 16% rate, but rounded to the nearest full or half percent in order to make the computation easier for the taxpayer. The basic purpose of these new tables, of course, is to allow a taxpayer to calculate his Alaska tax liability directly from a rate schedule, rather than having to compute at the 1963 rates and then convert by 16% to the Alaska liability. We have found that there's been a great deal of confusion and large error rate in the series of computations now required. We feel that this new rate schedule will simplify the calculation for the taxpayer and decrease the number of errors.

I'm also attaching a list of several amendments which we propose to House Bill 171. These amendments have been derived as a result of changes that have taken place in our statutes and the Internal Revenue Code since HB 171 was originally introduced and also represent further refinements to the bill as a result of additional research we have undertaken since that time. Most of these refinements would clarify provisions in our existing statutes which are currently either ambiguous or where the law is silent and should speak out so as to avoid misinterpretation. The effect of these changes should be to apportion more income to the state in cases where individuals or businesses are doing business in several states or working in several states. The definition of what constitutes income and how to attribute it to Alaska and to other states in which the individual or business has income are defined more specifically and explicitly. This will avoid errors on the part of the taxpayer in trying to apply the law to the facts surrounding his situation and should improve compliance in these cases substantially. It will also provide for more equitable situation for Alaska taxpayers who might be subject to double taxation by providing for credits for resident Alaskans who may have income from other states and whose income from those other states may be taxable by such other states.

I therefore recommend that these proposed amendments be made to HB 171 in order to provide for better compliance, improved revenues and greater equity.

FPB:jf

Attachment

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STATE
of ALASKA

MEMORANDUM

TO: R. D. Stevenson
Acting Commissioner

DATE : February 27, 1973

FROM: Fred Boetsch, Director
Audit Division

SUBJECT: HB 171

FB

I have reviewed HB 171, the Governor's proposal for amendment to the Alaska Net Income Tax Act. The proposed revision of the income tax statutes includes the adoption of a specific graduated tax based on income for residents, nonresidents and part-year residents. The specific rates replace the present method of computing tax as a per cent of federal tax liability.

These provisions do not introduce any change in the present tax rates, but we believe that the use of this system will reduce errors in the computation of taxes, and will make it easier for the taxpayer to understand the taxes levied on him. This is an important first step in implementing a reform of Alaska's revenue statutes and in minimizing our dependence on Internal Revenue Service procedures and tables which, from a practical point of view, are more difficult to understand than a state schedule.

Provision is also made for nonresidents and part-year residents to compute their Alaska income tax by availing themselves of a prorated standard deduction according to that portion of their income which is taxable in Alaska. This device has not been available in the past. We believe that this provision for more simplified reporting and a greater degree of fairness will decrease the rate of nonfiling on the part of nonresidents and part-year residents who receive income earned in Alaska as well as removing a discrimination which may be constitutionally suspect.

The bill also authorizes the Department of Revenue to publish tax tables for corporations. It does not change the rate of the present tax on corporations. A standard \$25,000 surtax exemption, similar to the standard deduction for individuals, is also allowed to a corporation or to an affiliated group of corporations which file tax returns in Alaska. The exemption cannot be allocated among affiliated corporations other than those doing business in Alaska.

Provision is also made for filing of consolidated returns by corporations. This section of the bill is intended to facilitate collection of taxes based upon property, payroll and income generated within Alaska and to implement Alaska's participation, authorized by the Legislature in 1970, in the Multistate Tax Compact.

Subtitles F and A of the 1964 Internal Revenue Code are adopted by reference. This change clarifies the application of certain Internal Revenue Code

*alys l, Feb
at 6:15 Nday*

R. D. Stevenson
Acting Commissioner

-2-

February 27, 1973

procedural sections in the administration of the state revenue statutes. It also eliminates the need to make reference to specific Code sections as has been the past procedure in amending the Alaska Income Tax Act.

The deductions and exceptions utilized in computing the taxable income of residents are unchanged. However, these sections have been rearranged to provide more consistency.

This bill also re-enacts AS 43.20.040 which currently defines taxable income from sources within the state. The section has been redrafted to provide a more precise definition of what constitutes a business situs within the state. It provides that income derived from an Alaska business by a nonresident owner or partner is taxable in Alaska, closing a loophole in the present law.

The bill further provides that corporations receiving 50 per cent or more of their income from within Alaska will be allowed a business deduction for the salaries of nonresident officers or directors only if this income is reported and taxed in Alaska.

The proposed bill also re-enacts AS 43.20.190 relating to publicity and access to income tax information in substantially its original form except that the amendment limits the required production of income tax information to court proceedings which are initiated primarily for the enforcement of the revenue laws. The present statute would appear to permit the use of tax returns in any civil or criminal litigation, and we feel that the taxpayer's right to privacy warrants a limitation of access to this information. The redrafted section on property and access also clarifies the authority of the Commissioner of Revenue to exchange tax information with the Multistate Tax Commission.

The remaining sections of the bill provide additional definitions of terms which were not previously defined in the revenue code and make other minor technical amendments.

FPB:mbe

HB 171
Alaska Net Income Tax Act
Effect of New Rate Schedule on Tax Liability

Taxable Income	<u>Single Person</u>		more or (Less) Tax	<u>Married Filing Joint Return</u>		More or (Less) Tax
	<u>Current Law</u>	<u>HB 171</u>		<u>Current Law</u>	<u>HB 171</u>	
4,000	134	130	(4)	128	120	(8)
8,000	314	310	(4)	269	260	(9)
12,000	544	540	(4)	435	420	(15)
16,000	832	830	(2)	627	620	(7)
20,000	1,162	1,160	(2)	845	840	(5)
24,000	1,530	1,530	-0-	1,088	1,080	(8)
28,000	1,917	1,920	3	1,363	1,360	(3)
32,000	2,314	2,320	6	1,664	1,660	(4)
36,000	2,730	2,740	10	1,984	1,980	(4)
40,000	3,158	3,170	12	2,323	2,320	(3)
44,000	3,600	3,610	10	2,682	2,680	(2)
52,000	4,531	4,540	9	3,437	3,440	3
64,000	5,990	6,000	10	4,627	4,640	13
76,000	7,517	7,530	13	5,875	5,900	25
88,000	9,110	9,130	20	7,200	7,220	20
100,000	10,771	10,800	29	8,582	8,600	18
120,000	13,619	13,600	(19)	10,982	11,000	18
140,000	16,467	16,400	(67)	13,478	13,500	22
160,000	19,331	19,250	(81)	16,070	16,100	30
180,000	22,211	22,150	(61)	18,758	18,800	42
200,000	25,091	22,050	(41)	21,542	21,600	58

su 18

AMENDMENT

OFFERED IN THE HOUSE

BY:

TO: HOUSE BILL NO. 171

Page 7 Lines 18 - 27

Delete all of subsection (f).

Page 9 Lines 13 - 14

Delete the following: "derived from sources within the state with the following modifications:" and insert the following in its place "as defined in Section 63 of the Internal Revenue Code with the following modifications:".

Page 9 Lines 28 - 29 and Page 10 Lines 1 - 2

Delete all of paragraph (3).

Page 11 Between Lines 25 - 26

Insert the following:

"(c) Deductions claimed which are allowed as deductions from gross income in arriving at adjusted gross income under the Internal Revenue Code are allowed only to the extent that they are connected with income which arises from sources within the state, or property having a situs for taxation within the state".

Page 12 Line 2 - 4

Delete paragraph (2) and insert a new paragraph to read "(2) income of whatever nature from a business, trade or profession having a business situs in the state and compensation for services rendered in the state."

Page 12 Lines 13 - 15

Delete paragraph (5).

Page 13 Lines 3 - 14

Delete subsection (c) and insert the following in its place: "* Sec. 8. AS 43.20 is amended by adding a new section to read:

Sec. 43.20.045. INCOME FROM SOURCES IN THE STATE OF NONRESIDENT CORPORATE OFFICERS AND DIRECTORS. (a) If a

corporation earns 50 per cent or more of its income in the state or apportions 50 per cent or more of its income to the state and is taxable on that income and provides a fee, salary or other compensation to its nonresident officers or directors, the compensation shall be treated as income from sources within the state if the officer or director is in control of the corporation. Whether or not any personal services have been performed by these nonresident officers or directors they are considered to have a business situs in this state.

(b) If compensation required to be included as income under this section is not reported to the state as income, the corporation may not deduct as part of its expenses for the taxable year any part of the compensation in computing taxable income.

(c) For purposes of this section 'control' is defined according to section 269 of the Internal Revenue Code. The attribution rules of section 318(a) of the Internal Revenue Code also apply in the determination of 'control'."

Page 13 Between Lines 14 - 15

Insert the following: "# Sec. 9. AS 43.20 is amended by adding a new section to read:

Sec. 43.20.051. INCOME FROM SOURCES IN THE STATE OF NONRESIDENT PARTNERS. In determining the source of a nonresident partner's income, no effect shall be given to a provision in the partnership agreement which

(1) characterize payments to the partner as being for services or for the use of capital, or

(2) allocates to the partner, as income or gain from sources outside the state, a greater proportion of his distributive share of partnership income or gain than the ratio of partnership income or gain from sources outside the state to partnership income or gain from all sources, or

(3) allocates to the partner a greater proportion of a partnership item of loss or deduction connected to Alaska sources than his proportionate share, for federal income tax purposes of partnership loss or deduction generally.

Sec. 43.20.061. CREDIT FOR TAXES PAID ANOTHER STATE. (a)

A resident is allowed as a credit against the tax otherwise due under this chapter the amount of any income tax imposed on him for the taxable year by another state or territory of the United States on income derived from sources in the other state or territory which is also subject to tax under this chapter.

(b) The credit allowed by (a) of this section is limited to that proportion of the tax computed under this chapter (before the allowance of this credit), which the taxable income from the other state or territory bears to the total taxable income; however, this credit may not exceed the actual tax payable to the other state or territory.

Sec. 43.20.065. ALLOCATION AND APPORTIONMENT. A taxpayer who has income from business activity which is taxable both inside and outside the state or income from other sources both inside and outside this state shall allocate and apportion his net income as provided ⁱⁿ sec. 71 of this chapter and AS 43.19.010(IV).

Sec. 43.20.071. PASSENGER OR FREIGHT WATER TRANSPORTATION CARRIERS. (a) All business income of water transportation carriers shall be apportioned to this state by a fraction the numerator of which is the property factor plus the payroll factor plus the sales factor and the denominator of which is all three.

(b) The property factor for fixed property such as buildings and land used in the business and local equipment and personal property shall be determined according to AS 43.19.010(IV). The property factor of water transportation shall be determined on a days spent in ports bases as provided in (c) of this section.

(c) The payroll factor for the wages and salaries of employees assigned to fixed locations shall be determined according to AS 43.19.010(IV). The payroll factor of water transportation carriers and other equipment used in water transportation shall be determined on a days spent in ports basis as provided in (e) of this section.

(d) The sales factor shall be determined on a days spent in ports basis as provided in (e) of this section.

(e) The property, payroll and sales factor shall be determined by a ratio which the number of days spent in ports inside the state bears to the total number of days spent in ports inside and outside the state. The term "days spent in ports" does not include periods when ships are tied up because of strikes or withheld from Alaska service for repairs, or because of seasonal reduction of service. Days in port are computed by dividing the total number of hours in all ports by 24."

Renumber bill sections accordingly.

Page 16 Line 5 - 10

Delete * Sections 12, 13 and insert the following:

"* Sec. 14. The following laws are repealed: AS 43.20.010; 43.20.020; 43.20.030(b), (c) and (e); 43.20.050; 43.20.060; 43.20.070; 43.20.080; 43.20.090; 43.20.100; 43.20.110; 43.20.120; 43.20.130; 43.20.140.

* Sec. 15. The repeal of the laws listed in Sec. 12 of this Act does not affect tax liabilities accrued before January 1, 1974.

* Sec. 16. This Act is retroactive to January 1, 1974, and relates only to income earned and received after December 31, 1973.

* Sec. 17. This Act takes effect on the day after its passage and approval or on the day it becomes law without approval."

COMMITTEE REPORT

SENATE

3/13/74

Mr. President:

Date _____

The Committee on FINANCE has had CSHB 171 relating to the Alaska Income Tax under consideration. A Majority of the members of the Committee

- () recommends it DO PASS
- () recommends it DO NOT PASS
- () recommends it DO PASS WITH ATTACHED AMENDMENT(S)
- () recommends it BE REPLACED WITH CS FOR _____ AND THAT CS FOR _____ DO PASS
- () "and" recommends it BE REFERRED TO THE _____ COMMITTEE
- () reports it back WITHOUT RECOMMENDATION
- () "other"

Members signing the Majority report:

Members NOT concurring in the Majority report:

_____ recommends:
 _____ recommends:
 _____ recommends:
 _____ recommends:
 _____ recommends:

_____ Chairman

Bayler

Original Sponsor: Rules Committee
by request of the Governor

Offered: 2/21/74
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 171

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska income tax; and providing
7 for an effective date."

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

9 * Section 1. AS 43.20 is amended by adding a new section to read:

10 Sec. 43.20.011. TAX ON INDIVIDUALS, FIDUCIARIES, AND CORPORATIONS.

11 (a) There is imposed for each taxable year upon the taxable income
12 of every resident, nonresident and part-year resident individual
13 and fiduciary of the state, except those qualifying for the rates
14 in (b) or (c) of this section, taxes computed according to the following
15 table.

16 If the taxable income is:	Then the tax is:
17 Not over \$2,000	3 per cent of the taxable income
18 Over \$2,000 but not over \$4,000	\$60 plus 3.5 per cent of excess 19 over \$2,000
20 Over \$4,000 but not over \$6,000	\$130 plus 4.0 per cent of excess 21 over \$4,000
22 Over \$6,000 but not over \$8,000	\$210 plus 5.0 per cent of excess 23 over \$6,000
24 Over \$8,000 but not over \$10,000	\$310 plus 5.5 per cent of excess 25 over \$8,000
26 Over \$10,000 but not over \$12,000	\$420 plus 6.0 per cent of excess 27 over \$10,000
28 Over \$12,000 but not over \$14,000	\$540 plus 7.0 per cent of excess 29 over \$12,000

1	Over \$14,000 but not over \$16,000	\$680 plus 7.5 per cent of excess
2		over \$14,000
3	Over \$16,000 but not over \$18,000	\$830 plus 8.0 per cent of excess
4		over \$16,000
5	Over \$18,000 but not over \$20,000	\$990 plus 8.5 per cent of excess
6		over \$18,000
7	Over \$20,000 but not over \$22,000	\$1,160 plus 9.0 per cent of
8		excess over \$20,000
9	Over \$22,000 but not over \$26,000	\$1,340 plus 9.5 per cent of
10		excess over \$22,000
11	Over \$26,000 but not over \$32,000	\$1,720 plus 10.0 per cent of
12		excess over \$26,000
13	Over \$32,000 but not over \$38,000	\$2,320 plus 10.5 per cent of
14		excess over \$32,000
15	Over \$38,000 but not over \$44,000	\$2,950 plus 11.0 per cent of
16		excess over \$38,000
17	Over \$44,000 but not over \$50,000	\$3,610 plus 11.5 per cent of
18		excess over \$44,000
19	Over \$50,000 but not over \$60,000	\$4,300 plus 12.0 per cent of
20		excess over \$50,000
21	Over \$60,000 but not over \$70,000	\$5,500 plus 12.5 per cent of
22		excess over \$60,000
23	Over \$70,000 but not over \$80,000	\$6,750 plus 13.0 per cent of
24		excess over \$70,000
25	Over \$80,000 but not over \$90,000	\$8,050 plus 13.5 per cent of
26		excess over \$80,000
27	Over \$90,000 but not over \$100,000	\$9,400 plus 14.0 per cent of
28		excess over \$90,000
29	Over \$100,000 but not over \$150,000	\$10,800 plus 14.0 per cent of

	excess over \$100,000
Over \$150,000 but not over \$200,000	\$17,800 plus 14.5 per cent of excess over \$150,000
Over \$200,000	\$25,050 plus 14.5 per cent of excess over \$200,000

(b) There is imposed for each taxable year upon the taxable income of every resident, nonresident and part-year resident married individual who makes a single return jointly with his spouse (as defined in section 6013 of the Internal Revenue Code) and upon every resident, nonresident and part-year resident surviving spouse (as defined in section 2(a) of the Internal Revenue Code) taxes computed according to the following table.

If the taxable income is:	Then the tax is:
Not over \$4,000	3 per cent of the taxable income
Over \$4,000 but not over \$8,000	\$120 plus 3.5 per cent of excess over \$4,000
Over \$8,000 but not over \$12,000	\$260 plus 4.0 per cent of excess over \$8,000
Over \$12,000 but not over \$16,000	\$420 plus 5.0 per cent of excess over \$12,000
Over \$16,000 but not over \$20,000	\$620 plus 5.5 per cent of excess over \$16,000
Over \$20,000 but not over \$24,000	\$840 plus 6.0 per cent of excess over \$20,000
Over \$24,000 but not over \$28,000	\$1,080 plus 7.0 per cent of excess over \$24,000
Over \$28,000 but not over \$32,000	\$1,360 plus 7.5 per cent of excess over \$28,000
Over \$32,000 but not over \$36,000	\$1,660 plus 8.0 per cent of

1		excess over \$32,000
2	Over \$36,000 but not over \$40,000	\$1,980 plus 8.5 per cent of
3		excess over \$36,000
4	Over \$40,000 but not over \$44,000	\$2,320 plus 9.0 per cent of
5		excess over \$40,000
6	Over \$44,000 but not over \$52,000	\$2,680 plus 9.5 per cent of
7		excess over \$44,000
8	Over \$52,000 but not over \$64,000	\$3,440 plus 10.0 per cent of
9		excess over \$52,000
10	Over \$64,000 but not over \$76,000	\$4,640 plus 10.5 per cent of
11		excess over \$64,000
12	Over \$76,000 but not over \$88,000	\$5,900 plus 11.0 per cent of
13		excess over \$76,000
14	Over \$88,000 but not over \$100,000	\$7,220 plus 11.5 per cent of
15		excess over \$88,000
16	Over \$100,000 but not over \$120,000	\$8,600 plus 12.0 per cent of
17		excess over \$100,000
18	Over \$120,000 but not over \$140,000	\$11,000 plus 12.5 per cent of
19		excess over \$120,000
20	Over \$140,000 but not over \$160,000	\$13,500 plus 13.0 per cent of
21		excess over \$140,000
22	Over \$160,000 but not over \$180,000	\$16,100 plus 13.5 per cent of
23		excess over \$160,000
24	Over \$180,000 but not over \$200,000	\$18,800 plus 14.0 per cent of
25		excess over \$180,000
26	Over \$200,000 but not over \$300,000	\$21,600 plus 14.0 per cent of
27		excess over \$200,000
28	Over \$300,000 but not over \$400,000	\$35,600 plus 14.5 per cent of
29		excess over \$300,000

1 Over \$400,000 \$50,100 plus 14.5 per cent of
2 excess over \$400,000

3 (c) There is imposed for each taxable year upon the taxable
4 income of every resident, nonresident and part-year resident head
5 of a household (as defined in section 2(b) of the Internal Revenue
6 Code), taxes computed according to the following table.

7 If the taxable income is:

Then the tax is:

8 Not over \$2,000	3 per cent of the taxable income
9 Over \$2,000 but not over \$4,000	\$60 plus 3.5 per cent of excess 10 over \$2,000
11 Over \$4,000 but not over \$6,000	\$130 plus 4.0 per cent of excess 12 over \$4,000
13 Over \$6,000 but not over \$8,000	\$210 plus 4.5 per cent of excess 14 over \$6,000
15 Over \$8,000 but not over \$10,000	\$300 plus 5.0 per cent of excess 16 over \$8,000
17 Over \$10,000 but not over \$12,000	\$400 plus 5.5 per cent of excess 18 over \$10,000
19 Over \$12,000 but not over \$14,000	\$510 plus 6.0 per cent of excess 20 over \$12,000
21 Over \$14,000 but not over \$16,000	\$630 plus 6.5 per cent of excess 22 over \$14,000
23 Over \$16,000 but not over \$18,000	\$760 plus 7.0 per cent of excess 24 over \$16,000
25 Over \$18,000 but not over \$20,000	\$900 plus 7.0 per cent of excess 26 over \$18,000
27 Over \$20,000 but not over \$22,000	\$1,040 plus 7.5 per cent of 28 excess over \$20,000
29 Over \$22,000 but not over \$24,000	\$1,190 plus 8.0 per cent of

1		excess over \$22,000
2	Over \$24,000 but not over \$28,000	\$1,350 plus 8.5 per cent of
3		excess over \$24,000
4	Over \$28,000 but not over \$32,000	\$1,690 plus 9.0 per cent of excess
5		over \$28,000
6	Over \$32,000 but not over \$38,000	\$2,050 plus 9.5 per cent of
7		excess over \$32,000
8	Over \$38,000 but not over \$44,000	\$2,430 plus 10.0 per cent of
9		excess over \$38,000
10	Over \$44,000 but not over \$50,000	\$3,030 plus 10.5 per cent of
11		excess over \$44,000
12	Over \$50,000 but not over \$60,000	\$3,660 plus 11.0 per cent of
13		excess over \$50,000
14	Over \$60,000 but not over \$70,000	\$4,760 plus 11.5 per cent of
15		excess over \$60,000
16	Over \$70,000 but not over \$80,000	\$5,910 plus 12.0 per cent of
17		excess over \$70,000
18	Over \$80,000 but not over \$90,000	\$7,110 plus 12.5 per cent of
19		excess over \$80,000
20	Over \$90,000 but not over \$100,000	\$8,360 plus 13.0 per cent of
21		excess over \$90,000
22	Over \$100,000 but not over \$150,000	\$9,660 plus 13.5 per cent of
23		excess over \$100,000
24	Over \$150,000 but not over \$200,000	\$16,410 plus 14.0 per cent of
25		excess over \$150,000
26	Over \$200,000 but not over \$300,000	\$23,410 plus 14.5 per cent of
27		excess over \$200,000
28	Over \$300,000	\$37,910 plus 14.5 per cent of
29		excess over \$300,000

1 (d) The department shall compute and publish the Alaska income
2 tax liability for resident taxpayers at the midpoint of each bracket
3 of adjusted gross income (as defined in section 62 of the Internal
4 Revenue Code) modified as required by sec. 31 of this chapter in \$25
5 steps below \$3,000 and \$50 steps to \$20,000 rounding the calculations
6 to the nearest dollar. Resident taxpayers electing to take the standard
7 deductions may file returns based upon and pay taxes according to tables
8 established under this section.

9 (e) There is imposed for each taxable year upon the entire taxable
10 income of every corporation derived from sources within the state a tax
11 consisting of a normal tax equal to 5.4 per cent of taxable income, and
12 a surtax which is equal to 4.0 per cent of taxable income. For purposes
13 of this chapter the surtax exemption for a taxable year is \$25,000 for
14 each nonaffiliated corporation. For affiliated corporations this
15 exemption shall be apportioned in its entirety only among corporations
16 subject to the tax imposed by this section.

17 * Sec. 2. AS 43.20 is amended by adding a new section to read:

18 Sec. 43.20.021. INTERNAL REVENUE CODE ADOPTED BY REFERENCE. (a)
19 Subtitle F and chapter 1 of subtitle A of the 1954 Internal Revenue
20 Code, Public Law 591, Eighty-third Congress, Second Session, as amended,
21 are adopted by reference as a part of this chapter. These portions of
22 the Internal Revenue Code have full force and effect under this chapter
23 unless excepted to or modified by other provisions of this chapter.

24 (b) The penalty tax provided for in the provisions of Internal
25 Revenue Code sections 1561-1563 is one per cent.

26 (c) For purposes of calculating the federal tax payable on per-
27 sonal holding companies provided for in the provisions of Internal
28 Revenue Code section 541, the rate is 12.6 per cent.

29 (d) Where a credit allowed under the Internal Revenue Code is

1 also allowed in computing Alaska income tax, it is limited to 16 per
2 cent of the amount of the credit determined for federal income tax
3 purposes for individuals and 18 per cent for corporations.

4 * Sec. 3. AS 43.20 030(a) is amended to read:

5 (a) Every individual, fiduciary, partnership, corporation, and
6 bank required to make a return under the provisions of the Internal
7 Revenue Code shall at the same time file with the department a return
8 setting out (1) the amount of tax and the balance of tax due or over-
9 payment of tax as reported on returns made to the United States Internal
10 Revenue Service [COLLECTOR OF INTERNAL REVENUE]; (2) the amount of tax
11 due under this chapter, less credits claimed against the tax; and (3)
12 other information for the purpose of carrying out the provisions of
13 this chapter which the department requires.

14 * Sec. 4. AS 43.20.030(d) is amended to read:

15 (d) A taxpayer, upon request by the department, shall furnish to
16 the department a true and correct copy of the tax return which he has
17 filed with the United States Internal Revenue Service [COLLECTOR OF
18 INTERNAL REVENUE]. Every taxpayer shall notify the department in
19 writing of any alteration in, or modification of, his federal income
20 tax return and of a recomputation of tax or determination of deficiency
21 (whether with or without assessment). A full statement of the facts
22 shall accompany this notice. The notice shall be filed within 60 [20]
23 days after the modification, recomputation, or determination of defi-
24 ciency, and the taxpayer shall pay the additional tax or penalty under
25 this chapter.

26 * Sec. 5. AS 43.20 is amended by adding a new section to read:

27 Sec. 43.20.031. TAXABLE INCOME OF RESIDENTS; DEDUCTIONS; EXEMP-
28 TIONS. (a) The taxable income of a resident of the state is his entire
29 taxable income as defined in section 63 of the Internal Revenue Code

1 with the following modifications:

2 (1) A taxpayer whose income includes a cost-of-living
3 allowance which is exempt from federal income tax shall determine and
4 include that amount as part of his income as if the cost-of-living
5 allowance were not exempt.

6 (2) The benefits allowed to taxpayers under Internal Revenue
7 Code sections 1300-1307, as amended, are allowed only to taxpayers who
8 have been residents of the state for the full base period as well as
9 for the computation year as defined in these sections. The commis-
10 sioner shall prescribe regulations governing benefits under these
11 sections allowable to spouses eligible to file a joint Alaska return
12 for the computation year when one spouse has not been a resident of
13 Alaska for the full base period.

14 (b) The following exemptions are allowed in computing taxable
15 income under this section:

16 (1) service pay received by members of the armed forces of
17 the United States or auxiliary branches of the armed forces;

18 (2) annuities received under the United States Civil Service
19 retirement system from the United States Civil Service retirement and
20 disability fund;

21 (3) income of a person derived from the sale of halibut
22 taken from waters outside the territorial limits of the state and
23 regulated by an international body or treaty organization if

24 (A) the person selling halibut in the state which is
25 taken from outside the territorial limits of the state executes
26 and submits to the department within 30 days after the sale an
27 exemption certificate on a form approved by the department and
28 the attorney general; a separate certificate shall be submitted
29 for each sale;

1 (B) a person who wilfully makes and subscribes to a
2 certificate referred to in (b)(3)(A) of this section which is not
3 true and correct as to every material fact is punishable by a fine
4 of not more than \$10,000, or by imprisonment for not more than
5 five years, or by both.

6 (c) In computing the tax under this chapter, the taxpayer is not
7 entitled to deduct from the adjusted gross income the taxes payable to
8 the state under this chapter.

9 (d) Banks and savings and loan associations chartered by the
10 federal government or the state are exempt from income tax under this
11 chapter.

12 * Sec. 6. AS 43.20 is amended by adding a new section to read:

13 Sec. 43.20.035. COMPUTATION OF TAXABLE INCOME OF NONRESIDENTS AND
14 PART-YEAR RESIDENTS. (a) The taxable income of nonresidents or part-
15 year residents of this state is taxable income as determined under
16 sec. 31 of this chapter when attributable to sources in the state as
17 provided in sec. 40 of this chapter with the following adjustments:

18 (1) A nonresident or part-year resident who claims the
19 standard deduction as defined in Internal Revenue Code section 141 is
20 allowed the deduction in the proportion provided in (b) of this section.

21 (2) A nonresident or part-year resident is entitled to claim
22 the personal exemptions as defined in Internal Revenue Code section 151
23 in the proportion provided in (b) of this section.

24 (3) A nonresident or part-year resident who itemizes deduc-
25 tions is allowed a deduction for those items deductible under the
26 Internal Revenue Code in the proportion provided in (b) of this section.

27 (b) The ratio for prorating allowed by this section is the tax-
28 payer's adjusted gross income from Alaska sources divided by the tax-
29 payer's adjusted gross income from all sources. The ratio shall not

1 exceed 100 per cent. The adjusted gross income for purposes of this
2 subsection means adjusted gross income as defined in Internal Revenue
3 Code section 62 as modified by the provisions of sec. 31 of this
4 chapter.

5 (c) Deductions claimed which are allowed as deductions from gross
6 income in arriving at adjusted gross income under the Internal Revenue
7 Code are allowed only to the extent that they are connected with income
8 which arises from sources in the state or property having a situs for
9 taxation in the state.

10 * Sec. 7. AS 43.20.040 is repealed and re-enacted to read:

11 Sec. 43.20.040. INCOME FROM SOURCES IN THE STATE. (a) In this
12 chapter, income from sources in the state includes

13 (1) income from real or tangible personal property located
14 in the state;

15 (2) income of whatever nature from a business, trade or pro-
16 fession having a business situs in the state and compensation for
17 services rendered in the state;

18 (3) income from stocks, bonds, notes, bank deposits, and
19 other intangible personal property having a taxable or business situs
20 in the state;

21 (4) rentals and royalties for the use of or for the privi-
22 lege of using, in the state, patents, copyrights, secret processes and
23 formulas, good will, trademarks, trade brands, franchises, and other
24 property having a taxable or business situs in the state.

25 (b) In this section, income is from a source having a taxable
26 or business situs in the state if derived from

27 (1) owning or operating business for titles or property in
28 the state;

29 (2) conducting business, farming, or fishing operations in

1 the state;

2 (3) working for salary or wages in the state;

3 (4) a partnership which transacts business in the state;

4 (5) a corporation which transacts business in the state which
5 has elected to file federal returns under subchapter 5 of the Internal
6 Revenue Code;

7 (6) an estate or trust deriving income from sources in the
8 state; or

9 (7) engaging in any other activity from which income is
10 received, realized or derived in the state; however, the receipt of
11 income derived solely from interest earned on property in the state
12 does not alone establish a taxable or business situs in the state.

13 * Sec. 8. AS 43.20 is amended by adding new sections to read:

14 Sec. 43.20.045. INCOME FROM SOURCES IN THE STATE OF NONRESIDENT
15 CORPORATE OFFICERS AND DIRECTORS. (a) If a corporation earns 50 per
16 cent or more of its income in the state or apports 50 per cent or
17 more of its income to the state and is taxable on that income and pro-
18 vides a fee, salary or other compensation to its nonresident officers
19 or directors, the compensation shall be treated as income from sources
20 in the state if the officer or director is in control of the corpora-
21 tion. Whether or not any personal services have been performed by
22 these nonresident officers or directors, they are considered to have
23 a business situs in this state.

24 (b) If compensation required to be included as income under this
25 section is not reported to the state as income, the corporation may not
26 deduct as part of its expenses for the taxable year any part of the
27 compensation in computing taxable income.

28 (c) In this section, "control" is defined according to section
29 269 of the Internal Revenue Code. The attribution rules of section

1 318(a) of the Internal Revenue Code also apply in the determination of
2 "control".

3 Sec. 43.20.051. INCOME FROM SOURCES IN THE STATE OF NONRESIDENT
4 PARTNERS. In determining the source of a nonresident partner's income,
5 no effect shall be given to a provision in the partnership agreement
6 which

7 (1) characterizes payments to the partner as being for
8 services or for the use of capital;

9 (2) allocates to the partner, as income or gain from sources
10 outside the state, a greater proportion of his distributive share of
11 partnership income or gain than the ratio of partnership income or gain
12 from sources outside the state to partnership income or gain from all
13 sources; or

14 (3) allocates to the partner a greater proportion of a
15 partnership item of loss or deduction connected to Alaska sources than
16 his proportionate share, for federal income tax purposes of partnership
17 loss or deduction generally.

18 Sec. 43.20.061. CREDIT FOR TAXES PAID ANOTHER STATE. (a) A
19 resident is allowed as a credit against the tax otherwise due under
20 this chapter the amount of income tax imposed on him for the taxable
21 year by another state or territory of the United States on income de-
22 rived from sources in the other state or territory which is also subject
23 to tax under this chapter.

24 (b) The credit allowed in (a) of this section is limited to that
25 proportion of the tax computed under this chapter (before the allowance
26 of this credit), which the taxable income from the other state or terri-
27 tory bears to the total taxable income; however, this credit may not
28 exceed the actual tax payable to the other state or territory.

29 Sec. 43.20.065. ALLOCATION AND APPORTIONMENT. A taxpayer who has

1 income from business activity which is taxable both inside and outside
2 the state or income from other sources both inside and outside the
3 state shall allocate and apportion his net income as provided in sec. 71
4 of this chapter and AS 43.19.010(IV).

5 Sec. 43.20.071. PASSENGER OR FREIGHT WATER TRANSPORTATION CARRIERS.

6 (a) All business income of water transportation carriers shall be
7 apportioned to this state by a fraction the numerator of which is the
8 property factor plus the payroll factor plus the sales factor and the
9 denominator of which is all three.

10 (b) The property factor for fixed property such as buildings and
11 land used in the business and local equipment and personal property
12 shall be determined according to AS 43.19.010(IV). The property factor
13 of water transportation shall be determined on a days-spent-in-ports
14 basis as provided in (a) of this section.

15 (c) The payroll factor for the wages and salaries of employees
16 assigned to fixed locations shall be determined according to AS 43.19.-
17 010(IV). The payroll factor of water transportation carriers and other
18 equipment used in water transportation shall be determined on a days-
19 spent-in-ports basis as provided in (c) of this section.

20 (d) The sales factor shall be determined on a days-spent-in-ports
21 basis as provided in (e) of this section.

22 (e) The property, payroll and sales factor shall be determined by
23 a ratio which the number of days spent in ports inside the state bears
24 to the total number of days spent in ports inside and outside the state.
25 The term "days spent in ports" does not include periods when ships are
26 tied up because of strikes or withheld from Alaska service for repairs,
27 or because of seasonal reduction of service. Days in port are computed
28 by dividing the total number of hours in all ports by 24.

29 * Sec. 9. AS 43.20.170(c)(2) is amended to read:

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1 (2) shall ~~make~~ return of and pay to the department quarterly
2 or at other times as the department may require [ALLOW], the amount of
3 tax levied which under the provisions of this chapter he is required to
4 deduct and withhold; upon failure of the employer to comply with the
5 provisions of this subsection, the provisions of sec. 210 of this
6 chapter apply.

7 * Sec. 10. AS 43.20.190 is repealed and re-enacted to read:

8 Sec. 43.20.190. PUBLICITY. (a) Except in connection with a pro-
9 ceeding involving taxes due under this title or proceedings in court,
10 and except as otherwise provided in this section, it is unlawful for an
11 officer or employee of the state to divulge or make known the amount of
12 income or the particulars set out or disclosed in a report or return
13 under this chapter.

14 (b) Neither the original tax return nor a copy of it is admissible
15 in evidence in a court unless offered

16 (1) by the taxpayer who filed the return;

17 (2) by the state in an action to which the state is a party
18 for the purpose of enforcing a tax imposed by this title;

19 (3) as otherwise authorized by the Internal Revenue Code.

20 (c) The department, upon written request, shall furnish to the
21 taxpayer a copy of his tax return upon payment of a fee of \$1 a page.

22 (d) The department may permit the proper officer of the United
23 States or of a state, territory or possession of the United States or
24 of the Dominion of Canada or of a province or territory of Canada
25 imposing an income tax, or his authorized representative, to inspect
26 income tax returns filed with the department, or may furnish to the
27 officer or representative a copy of an income tax return, if the other
28 jurisdiction grants substantially similar privileges to the department
29 or its representative or to counsel for the state.

1 (e) The commissioner of revenue at his discretion may furnish to
2 the Multistate Tax Commission information contained in the tax returns
3 and reports and related schedules and documents filed under an audit or
4 investigation made by the department. This information may be furnished
5 solely for tax purposes. The Multistate Tax Commission may make the
6 information available to the tax officials of other states, the District
7 of Columbia, the United States and its territories solely for tax pur-
8 poses.

9 (f) Nothing in this section may be construed to prohibit the
10 publication of statistics so classified as to prevent the identification
11 of particular reports and the items of reports, or of the publication
12 of delinquent lists showing the names of taxpayers who have failed to
13 pay their taxes at the time and in the manner provided by law, together
14 with other relevant information which in the option of the department
15 may assist in the collection of delinquent taxes.

16 (g) An offense against the provisions of this section is a mis-
17 demeanor and is punishable by a fine of not more than \$1,000, or by
18 imprisonment for not more than six months, or by both.

19 * Sec. 11. AS 43.20.330 is amended by adding a new subsection to read:

20 (i) The penalties and liabilities provided in (g) of this section
21 shall be paid upon notice and demand by the commissioner of revenue or
22 his deputy or agent and shall be assessed and collected in the same
23 manner as taxes. A reference to "tax" imposed shall be considered also
24 to refer to the penalties and liabilities provided by this section.

25 * Sec. 12. AS 43.20.340 is amended by adding new paragraphs to read:

26 (13) "domicile" means the place where an individual has his
27 true, fixed, permanent home and principal establishment and to which
28 place he has the intention of returning whenever he is absent for a
29 temporary or transitory purpose;

1 (14) "nonresident" means an individual who is not a "resident"
2 or "part-year resident";

3 (15) "part-year resident" means an individual who enters or
4 leaves the state during the taxable year and who has resided or was
5 domiciled in the state for a period of less than 12 months during the
6 taxable year;

7 (16) "residence" means actual physical presence in the state
8 and is determined without regard to a person's "domicile";

9 (17) "resident" means an individual or natural person who
10 during the taxable year has been domiciled in the state or has resided
11 in the state for the entire taxable year; an individual does not lose
12 his status as a resident simply by reason of attending an educational
13 institution or by serving in the armed forces;

14 (18) "tax home" means an individual's principal place of
15 business or employment.

16 * Sec. 13. The following laws are repealed: AS 43.20.010; 43.20.020;
17 43.20.030(b), (c) and (e); 43.20.050; 43.20.060; 43.20.070; 43.20.080;
18 43.20.090; 43.20.100; 43.20.110; 43.20.120; 43.20.130; and 43.20.140.

19 * Sec. 14. The repeal of the laws listed in sec. 12 of this Act does
20 not affect tax liabilities accrued before January 1, 1974.

21 * Sec. 15. This Act is retroactive to January 1, 1974, and relates only
22 to income earned and received after December 31, 1973.

23 * Sec. 16. This Act takes effect on the day after its passage and approval
24 or on the day it becomes law without approval.
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HOUSE FINANCE COMMITTEE REPORT

ON

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 171

The House Finance Committee has had HOUSE BILL 171 under consideration and recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE BILL 171. The principal provisions of HOUSE BILL 171 and the changes incorporated in the COMMITTEE SUBSTITUTE FOR HOUSE BILL 171 are as follows:

Section 1 revises the State's income tax statutes by adopting a specific graduated tax based on income. The specific tax replaces the present method of computing the tax as a per cent of federal tax liability.

Subsections (a), (b), and (c) contain the tax schedules for individuals, married and surviving spouses, and heads of households respectively.

Subsection (d) requires the Department of Revenue to publish detailed tax tables for use by taxpayers electing the standard deduction.

Subsection (e) translates the federal corporate tax rates into a State rate, again saving the taxpayer from computing the State tax as a per cent of federal tax liability.

Subsection (f) which allows affiliated corporations to file consolidated returns has been deleted from the COMMITTEE SUBSTITUTE because Chapter 16, SLA 1973 contains the same provision.

Section 2: Subsection (a) adopts Subtitle F (the federal administrative procedures) and Chapter 1 of Subtitle A (the federal income tax structure) of the 1954 Internal Revenue Code by reference. Existing law adopts only Chapter 1 of Subtitle A by reference. The reference in Alaska Statutes to specific Code sections on administrative procedure has led to ambiguities where the Alaska Statutes have failed to be amended in step with changes in the Code.

Subsection (b), and (c) translate the federal penalty tax and personal holding company tax into equivalent State rates.

Subsection (d) provides for credits to the Alaska Income Tax at 16 per cent for individuals and 18 per cent for corporations of the federal tax credit. This is the effect of existing law which applies these rates to the entire federal tax liability.

Sections 3 and 4 clarify references to the federal tax return. Section 4 extends from 20 to 60 days the period allowed for notifying the State of any modification (proposed or assessed) in a taxpayer's federal tax liability.

Section 5: This section and section 6 are the result of splitting the statutory provisions for taxpayers into two parts--one for residents and one for non-residents and part-year residents.

Subsection (a) which, like existing law, defines taxable income as all income derived from sources within the State is amended by the COMMITTEE SUBSTITUTE to include all income in the case of residents. In line with this change, the COMMITTEE SUBSTITUTE also deletes paragraph (3) of this subsection which limited deductions to those associated with income having its source within the State.

Concurrent with the two amendments in this subsection, Sec. 8 of the COMMITTEE SUBSTITUTE adds a new section, AS 43.20.045, which allows a resident a credit against his Alaska Income Tax for taxes paid another state. This is necessary, given the change in definition of taxable income of residents, to avoid double taxation.

The other paragraphs of subsection (a) and subsections (b), (c) and (d) contain modifications or exemptions to the Alaska Income Tax already existing in Alaska Statutes.

Section 6 contains the provision for a tax on non-resident and part-year residents based on income derived from sources within the State; this is the current approach. However, provision is also made in subsection (a) for proration of deductions and exemptions in accordance with the method stated in subsection (b). This method bases proration on the ratio of adjusted gross income from Alaskan sources to adjusted gross income from all sources; whereas, proration is currently allowed only for exemptions on the basis of the portion of the year a taxpayer is present in the State and deductions may be taken only to the extent they are connected with activity in Alaska.

The COMMITTEE SUBSTITUTE adds subsection (c) which allows certain deductions (moving expenses, sick pay, etc.) only if they are connected with income from sources within the State. These are the deductions from gross income.

Section 7 defines income from sources in the State for purposes of computing non-resident and part-year resident taxes.

In paragraph (2) of subsection (a), the COMMITTEE SUBSTITUTE inserts "of whatever nature" after "income" so that royalties, dividends, interest income, etc. are included in the computation. Mail order businesses with interest income on charge accounts are an example of the situations to be clarified by this language.

Paragraphs (1), (3), and (4) of subsection (a) of the COMMITTEE SUBSTITUTE are unchanged from existing law.

Paragraph (5) of subsection (a) of HB 171, which exists in current law, is deleted by the COMMITTEE SUBSTITUTE because it is no longer necessary with the change in definition in Section 5 of resident taxable income to include all income.

Subsection (b) is an addition to existing law that defines taxable or business situs.

The only exclusion of income is contained in paragraph (7) which removes the burden of a tax on individual holders of interest-earning deposits in the State.

Section 8 of the COMMITTEE SUBSTITUTE adds several new sections to the Statutes.

Section 43.20.045 provides that corporations receiving 50 per cent or more of their income from within Alaska will be allowed a business deduction for the salaries of nonresident officers or directors only if this income is reported and taxed in Alaska.

The COMMITTEE SUBSTITUTE includes in addition situations where 50 per cent or more of the income is apportioned to Alaska and requires in all cases that the indicated officer or director have "control" of the corporation as defined in the Internal Revenue Code. This section is aimed at such situations as "shell" corporations seeking a tax advantage in Alaska.

Sec. 43.20.051, added by the COMMITTEE SUBSTITUTE, provides that income derived from an Alaska business by a non-resident owner or partner is taxable in Alaska, closing a loophole in the present law.

Sec. 43.20.061, added by the COMMITTEE SUBSTITUTE, provides a credit for taxes paid to another state.

Sec. 43.20.065, added by the COMMITTEE SUBSTITUTE, provides for the allocation and apportionment of business income by reference to the Multistate Tax Compact (AS 43.19.010 (IV)), replacing specific mention in the Alaska Income Tax Statutes of the same provisions.

Sec. 43.20.071, added by the COMMITTEE SUBSTITUTE, is the only exception to Multistate Tax Compact allocation and apportionment and replaces AS 43.20.70, a similar provision in existing law except that it had special provisions as well for land and air carriers which now fall under the Multistate approach.

Section 9, originating with HB 171, makes it clear that the Department of Revenue can require withholding of employee tax and its payment by employers.

Section 10, originating with HB 171, re-enacts AS 43.20.190 relating to publicity and access to income tax information in substantially its original form except that paragraph (b) (2) is amended to limit the required production of income tax information to court proceedings which are initiated primarily for the enforcement of the revenue laws. The present statute would appear to permit the use of tax returns in any civil or criminal litigation. The redrafted section also clarifies the authority of the Commissioner of Revenue to exchange tax information with the Multistate Tax Commission in subsection (e).

Section 11, originating with HB 171, provides that the Department shall assess and collect penalties and liabilities in the same manner as taxes.

Sections 12 through 16, originating with HB 171, add new definitions, repeal sections made obsolescent by this act, and make provision for the act's becoming effective.

A handwritten signature in cursive script, appearing to read 'Oral Freeman', written over a horizontal line.

Oral Freeman
Chairman, House Finance Committee

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January 31, 1973

The Honorable Tom Fink
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99801

Dear Mr. Speaker:

Pursuant to the Uniform Rules of the Legislature I am transmitting a revision incorporating major reforms in the Alaska Income Tax Act. Although the bill is principally concerned with procedural changes, there are anticipated revenue increases in some areas. In some cases these increases cannot be known with certainty because there is no identifiable prior experience factor. For those sections of the bill for which we can forecast revenue increases, the information is provided in this letter.

The proposed revision of the income tax statutes includes the adoption of a specific graduated tax based on income for residents, nonresidents and part-year residents. The specific taxes replace the present method of computing the tax as a per cent of federal tax liability.

There is a popular myth that the computation of the state tax as a percentage of the federal tax is somehow simpler than a state schedule. This has not been true for many years. As many citizens have found to their discomfort, the percentage calculation now used frequently requires, in effect, a computation of the federal tax twice. Tables which allow you to simply look up a number are far simpler and substantially more likely to produce error-free returns. Under this proposal the Department of Revenue will be authorized to publish detailed tax rate tables for individuals and corporations.

These provisions do not introduce any change in the present tax rates, but we believe that the use of this system will reduce errors in the computation of taxes, and will make it easier for the taxpayer to understand the taxes levied on him. This is an important first step in implementing a reform of Alaska's revenue statutes and in minimizing our dependence on Internal Revenue Service procedures

and tables which, from a practical point of view, are more difficult to understand than a state schedule.

Provision is also made for nonresidents and part-year residents to compute their Alaska income tax by availing themselves of a pro-rated standard deduction according to that portion of their income which is taxable in Alaska. This device has not been available in the past. We believe that this provision for more simplified reporting and a greater degree of fairness will decrease the rate of non-filing on the part of nonresidents and part-year residents who receive income earned in Alaska as well as removing a discrimination which may be constitutionally suspect.

The bill also authorizes the Department of Revenue to publish tax tables for corporations. It does not change the rate of the present tax on corporations. A standard \$25,000 surtax exemption, similar to the standard deduction for individuals, is also allowed to a corporation or to an affiliated group of corporations which file tax returns in Alaska. The exemption cannot be allocated among affiliated corporations other than those doing business in Alaska.

Provision is also made for filing of consolidated returns by corporations. This section of the bill is intended to facilitate collection of taxes based upon property, payroll and income generated within Alaska and to implement Alaska's participation, authorized by the Legislature in 1970, in the multi-state tax compact. The increased effectiveness of auditing those corporations doing business in Alaska with their headquarters elsewhere is estimated to produce increased revenue between \$500,000 and \$800,000 per year without any tax increase.

Subtitles F and A of the 1964 Internal Revenue Code are adopted by reference. This change clarifies the application of certain Internal Revenue Code procedural sections in the administration of the state revenue statutes. It also eliminates the need to make reference to specific Code sections as has been the past procedure in amending the Alaska Income Tax Act.