LEG. FINANCE - BILLS 1977 - 1978 915

SB 136 thru SB 140

915

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

2/26/90
Date

02-519 (REV 8/79)

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
Bill/Resolution No. SENATE BILL NO. 136
Title Compensation of members of the Code Revision Commission
Requested by Senate Finance Date 2/10/77

II. FISCAL DETAIL
Agency Affected Legislative Affairs Agency
Program Category Affected General Government
Budget Request Unit(s) Affected Legislative Council

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES		19.6	19.6	19.6	19.6	19.6
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		19.6	19.6	19.6	19.6	19.6

FUNDING (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
GENERAL FUND		19.6	19.6	19.6	19.6	19.6
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
FULL TIME						
PART TIME						
TEMPORARY		3	3	3	3	3

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Legislation authorizes compensation of $150 per day for members who are not legislators or State employees. At present time, two of five members would be eligible, however it is possible that three members could qualify at any one time and fiscal note has been prepared accordingly. Regular F.Y. 1978 Budget estimates 40 days of business for each member during the year. FICA and Workmen's Compensation Benefits would also be an expense. No salary increase has been projected for future years.

Calculation:	3	Members (potential)		$18,000	
	x 40	days business	+	1,620	Benefits @9%
	120	total days		$19,620	Total
	x $ 150	daily rate			
	$18,000				

IV. DATE 2/10/77 PREPARED BY M.K. Cha[illegible]
AGENCY Legislative Affairs
PHONE 465-3850

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

33--001 (Rev. 10/76)

Introduced: 2/9/77
Referred: Finance

IN THE SENATE BY THE JUDICIARY COMMITTEE

SENATE BILL NO. 136

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the compensation of members of the Code Revision Commission."

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

* Section 1. AS 24.20.075(b) is amended to read:

(b) The commission consists of two legislators, one from each house, appointed by the presiding officer; one public member appointed by the governor; a designee of the chief justice of the supreme court; and a designee of the Alaska Bar Association appointed by the board of governors of the association. Legislative members serve at the pleasure of the presiding officer, and appointed members serve at the pleasure of the appointing authority. Members receive the standard per diem for board members, or the regular legislative per diem if they are legislators, for days spent on commission business. <u>Members who are not legislators or employees of the state are entitled to compensation of $150 per day for days spent on commission business.</u> The commission selects its chairman and vice-chairman. The director of legal services for the Legislative Affairs Agency, or his designee, serves as executive secretary for the commission.

COMMITTEE REPORT

2/9/77

SENATE

______________________ Date

Mr. President:

The Committee on FINANCE has had SB 136

compensation of members of the Code Revision Commission

under consideration. A majority of the members of the Committee

/_7 recommends it do pass

/_7 recommends it do not pass

/_7 recommends it do pass with attached amendment(s)

/_7 recommends it be replaced with CS for ______________ and that

CS for ______________ do pass

/_7 (and) recommends it be referred to the ______________

committee

/_7 reports it back without recommendation

/_7 AND attaches a report of its intent

/_7 (other) ______________

MEMBERS SIGNING THE MAJORITY REPORT:

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

______________ recommends: ______________

______________ recommends: ______________

______________ recommends: ______________

____
Chairman

S 60

16

Introduced: 2/9/77
Referred: Finance

IN THE SENATE BY THE JUDICIARY COMMITTEE

SENATE BILL NO. 136

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the compensation of members of the Code Revision Commission."

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

* Section 1. AS 24.20.075(b) is amended to read:

(b) The commission consists of two legislators, one from each house, appointed by the presiding officer; one public member appointed by the governor; a designee of the chief justice of the supreme court; and a designee of the Alaska Bar Association appointed by the board of governors of the association. Legislative members serve at the pleasure of the presiding officer, and appointed members serve at the pleasure of the appointing authority. Members receive the standard per diem for board members, or the regular legislative per diem if they are legislators, for days spent on commission business. Members who are not legislators or employees of the state are entitled to compensation of $150 per day for days spent on commission business. The commission selects its chairman and vice-chairman. The director of legal services for the Legislative Affairs Agency, or his designee, serves as executive secretary for the commission.

COMMITTEE COPY

ALASKA STATE LEGISLATURE

TENTH.. Legislature FIRST.. Session

SENATE BILL.......... NO. 136...

By THE JUDICIARY COMMITTEE...

"An Act relating to the compensation of members of the Code Revision Commission."

Code Revision Commission

Introduced in the Senate 2/9/.........., 19 77....

HISTORY IN THE SENATE

19 77 Read first time and referred to Committee on

2 9 Finance

Reported back with recommendation that

Read second time and

Read third time and

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reconsideration

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed
Signed by President
Sent to House

SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19 Read first time and referred to Committee on

Reported back with recommendation that

Read second time and

Read third time and

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reconsideration

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed
Signed by Speaker
Returned to Senate

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

19 Received from House

Reported correctly enrolled

Sent to Governor

.... By Governor

Filed with Lt. Governor

Chapter No. ....

31-001

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

2/26/90
Date

Introduced: 2/9/77
Referred: Finance

IN THE SENATE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

SENATE BILL NO. 138

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to tobacco taxation; and providing for an effective date."

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

* Section 1. AS 43.50.090(a) is amended to read:

(a) There is levied an excise tax of two and one-half mills on each cigarette imported or acquired in the state. Each licensee shall, at the time of filing the return required by sec. 80 of this chapter, pay to the department the excise for the calendar month covered by the return, deducting <u>three</u> [ONE] per cent of the total tax due, which he shall retain to cover his expense of accounting and filing returns. Cigarettes upon which the excise is imposed are not again subject to the excise when acquired by another person.

* Sec. 2. AS 43.50.190(a) is amended to read:

(a) There is levied an excise tax of <u>three and three-quarters</u> [ONE AND ONE-HALF] mills on each cigarette imported or acquired in this state.

* Sec. 3. This Act takes effect July 1, 1977.

TE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH S – JUNEAU 99811

February 18, 1977

The Honorable John Butrovich
Alaska State Senate
State Capital
Room 525
Juneau, AK 99801

Dear Senator Butrovich:

I received a request from your staff member, Margaret Polly, to evaluate Senate Bill No. 138 in terms of its potential revenue effects. I have done this on the basis of a historical comparison of actual revenues to what would have been collected had SB 138 been enacted. The information, is enclosed for your review.

If you have any questions, please don't hesitate to call.

Sincerely,

Vincent Wright

Vincent Wright
Chief of Research

VW:js
Enclosure

Analysis of SB 138 as Proposed

The bill proposes to make two changes in the present Tobacco Tax Law:

1. An increase in the deduction allowed the licensed dealer to cover his cost of imposing and transmitting the tax due. This would result in a reduction of the school fund revenues.

2. An increase in the rate imposed for general fund purposes from one and one-half mills to three and three-quarters mills. This would increase the rate from the present 3 cents per package of 20 cigarettes to 7.5 cents per package (compared with the 5 cents per package levied for the school fund).

The potential revenue impact of the proposed changes was determined by indicating the change in revenue collections which would have been experienced had the changes been in effect during the fiscal years 1970 through 1976.

FISCAL YEAR	ACTUAL SCHOOL FUND PORTION COLLECTED UNDER EXISTING LAW ($000)	REDUCTION IN SCHOOL FUND COLLECTIONS IF PROPOSAL ENACTED ($000)	TOTAL SCHOOL FUND COLLECTIONS IF PROPOSAL ENACTED ($000)	ACTUAL GENERAL FUND PORTION COLLECTED UNDER EXISTING LAW ($000)	INCREASE IN GENERAL FUND COLLECTIONS IF PROPOSAL ENACTED ($000)	TOTAL GENERAL FUND PORTION IF PROPOSAL ENACTED ($000)
1970	1694.5	34.2	1660.3	1016.7	1525.1	2541.8
1971	1854.7	37.4	1817.3	1112.8	1669.2	2782.0
1972	2015.3	40.8	1974.5	1209.2	1813.0	3022.2
1973	2028.3	41.0	1987.3	1216.1	1824.2	3040.3
1974	2143.7	43.4	2100.3	1285.2	1929.3	3215.4
1975	2521.1	51.0	2470.1	1511.6	2267.4	3779.0
1976	2883.7	58.2	2825.5	1733.6	2600.4	4334.0

COMMITTEE REPORT

SENATE

2/9/77

______________________________ Date

Mr. President:

The Committee on FINANCE has had SB 138 relating to tobacco taxation under consideration. A majority of the members of the Committee

/_7 recommends it do pass

/_7 recommends it do not pass

/_7 recommends it do pass with attached amendment(s)

/_7 recommends it be replaced with CS for ____________ and that CS for ____________ do pass

/_7 (and) recommends it be referred to the ____________ committee

/_7 reports it back without recommendation

/_7 AND attaches a report of its intent

/_7 (other) ____________

MEMBERS SIGNING THE MAJORITY REPORT:

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

____________ recommends: ____________

____________ recommends: ____________

____________ recommends: ____________

____________ Chairman

138

Introduced: 2/9/77
Referred: Finance

IN THE SENATE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

SENATE BILL NO. 138

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to tobacco taxation; and providing for an effective date."

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

* Section 1. AS 43.50.090(a) is amended to read:

(a) There is levied an excise tax of two and one-half mills on each cigarette imported or acquired in the state. Each licensee shall, at the time of filing the return required by sec. 80 of this chapter, pay to the department the excise for the calendar month covered by the return, deducting <u>three</u> [ONE] per cent of the total tax due, which he shall retain to cover his expense of accounting and filing returns. Cigarettes upon which the excise is imposed are not again subject to the excise when acquired by another person.

* Sec. 2. AS 43.50.190(a) is amended to read:

(a) There is levied an excise tax of <u>three and three-quarters</u> [ONE AND ONE-HALF] mills on each cigarette imported or acquired in this state.

* Sec. 3. This Act takes effect July 1, 1977.

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No.

Title Act relating to tobacco taxation

Requested by the Governor Date January 26, 1977

II. FISCAL DETAIL

Agency Affected Revenue

Program Category Affected General Government

Budget Request Unit(s) Affected Audit

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

No additional costs are associated with this Act.

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
Bill/Resolution No.
Title Act relating to tobacco taxation
Requested by the Governor Date January 26, 1977

II. FISCAL DETAIL
Agency Affected Revenue
Program Category Affected General Government
Budget Request Unit(s) Affected Audit

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

No additional costs are associated with this Act.

IV. DATE January 26, 1977 PREPARED BY [signature]
AGENCY John Messenger - Revenue
PHONE 465-2301

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

33-001 (Rev. 10/76)

128

February 9, 1977

The Honorable John L. Rader
President of the Senate
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. President:

Under the authority of art. III, sec. 18 of the Alaska Constitution, and in acc dance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill to increase the tax rates in the Cigarette Tax Act. The cigarette tax rate would be increased to bring Alaska's rate up to the national average of the tax rates of all other states.

Sincerely,

Jay S. Hammond
Governor

ALASKA STATE LEGISLATURE

TENTH... Legislature FIRST... Session

SENATE .... BILL........ NO. .138...

By ..THE .RULES .COMMITTEE. BY...
REQUEST OF THE GOVERNOR

"An Act relating to tobacco taxation; and providing for an effective date."

tobacco taxation

Introduced in the Senate ..2/9/..., 19..77

31-001

HISTORY IN THE SENATE

19 77		
		Read first time and referred to Committee on
2	9	FINANCE
		Reported back with recommendation that
		Read second time and
		Read third time and

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reconsideration

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed
Signed by President
Sent to House

SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19

Read first time and referred to Committee on

Reported back with recommendation that

Read second time and

Read third time and

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reconsideration

PASS	Effective Date
Yeas	Yeas
Nays	Nays
Absent	Absent
Excused	Excused

Reported correctly engrossed
Signed by Speaker
Returned to Senate

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

19

Received from House

Reported correctly enrolled

Sent to Governor

.... By Governor

Filed with Lt. Governor

Chapter No. ....

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

2/26/90
Date

AMENDMENT #1

OFFERED IN THE SENATE ~~HOUSE~~: BY: RODEY

TO: ________ HOUSE BILL No. ________

SENATE BILL No. 140

PAGE: 1 LINE: 20

Line 20: After "AS 43.20.021." insert "AS 43.20 is amended by adding a new section to read: Sec. 43.20.215. REPARATION FOR LATE PAYMENT OF REFUNDS. Five per cent shall be added to the tax refund for each 30-day period or fraction of the period during which the department fails to issue a refund to which a taxpayer is entitled under this title, unless it is shown the failure is due to a reasonable cause and not wilful neglect. The additional amount paid to a paxpayer under this section may not exceed 25 per cent of the refund due. (The department shall prescribe by regulation circumstances which constitute reasonable cause for purposes of this section.")

Renumber Sections accordingly —

(Ray's amend. delete last sentence)

adopted

Introduced: 2/9/77
Referred: Finance

BY COLLETTA, POLAND, HUBER, CROFT, SUMNER AND BRADLEY

IN THE SENATE

SENATE BILL NO. 140

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to tax credits under the Alaska Net Income Tax Act; and providing for an effective date."

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

* Section 1. Notwithstanding the language of AS 43.20.021 providing for delayed adoption by reference of provisions of the Internal Revenue Code which change or modify exemptions from tax or credits against tax, sec. 44A (26 U.S.C. sec. 44A) and amendments to sec. 37 (26. U.S.C. sec. 37) of the Internal Revenue Code is immediately adopted by reference as part of AS 43.20 and is retroactive to taxable years beginning after December 31, 1975.

* Sec. 2. The only effect of this Act is to accelerate the date of adoption of sec. 44A (26 U.S.C. sec. 44A) and the amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code as part of AS 43.20. In all other respects, sec. 44A (26 U.S.C. sec. 44A) and the amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code shall be treated in the same manner as though adopted under the provisions of AS 43.20.021.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-070(c) and terminates on the date that sec. 44A (26 U.S.C. sec. 44A) and the amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code would otherwise be adopted by reference under the provisions of AS 43.20.021(a).

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W — ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF — STATE CAPITOL

JUNEAU 99801

February 21, 1977

M E M O R A N D U M

TO: The Honorable John Sackett
Chairman, Senate Finance Committee

FROM: Milton B. Barker MB
Fiscal Analyst
Legislative Finance Division

SUBJECT: SB 140 and CSHB 182

Both SB 140 and CSHB 182 would incorporate the federal provisions for tax credits for child care expenses and the elderly into the State income tax code. Speediest enactment of these changes would occur with the Senate's passage of CSHB 182 which has already passed the House and is in Senate Finance.

Without this legislation, these tax credits will not be available on State income tax returns until tax year 1978. SB 140 and CSHB 182, which are the same except for minor wording differences, both make these credits available for tax years 1976 and 1977.

If these bills were amended to only pick up the tax credits for tax year 1977, there would be no need to expedite their passage. But as long as the retroactive availability of the credits for tax year 1976 is retained, their passage should be expedited if they are to be enacted at all. This will avoid the administrative costs to the State and the hassle to the taxpayer of filing amended returns for tax year 1976.

This situation has come about because Ch. 125, SLA 1976 provided that newly enacted provisions of the Internal Revenue Code which change or modify exemptions from tax or credits against tax would not become incorporated by reference into Alaska law until the second January following their enactment by Congress. Thus the Alaska Legislature would have two years in which to decide whether changes or modifications in federal exemptions or credits should apply for Alaska purposes. In 1976 Congress made two major changes in the tax credit area which were not incorporated into Alaska law. These two credits are as follows:

1. Congress repealed the child care itemized deduction and substituted in its place a credit equal to 20% of child care expenses up to a ceiling amount. The ceiling is $2000 in child care expenses for 1 dependent ($400 credit) or $4,000 in child care expenses for 2 or more dependents ($800 credit). In addition to making it a credit rather than a deduction, Congress eliminated the previous income limitation. Since the previous itemized deduction was repealed and its replacement is a credit, Alaska has neither the deduction or the credit until the 1978 tax year when the credit will become incorporated. Specific legislative action will be necessary to eliminate the credit permanently or to make it apply sooner.

2. Another tax credit change is the change made to the retirement income credit (IRC Section 37). This credit has been renamed a credit for the elderly since the credit is no longer restricted to retirement income. The new change broadens the base from just retirement income to all income from which the 15% credit is calculated. In addition the maximum amount of income against which the credit can apply has also been increased to $3,750 for married couples filing jointly, both of whom are over 65 and $2,500 for single persons. The ceiling was previously $1,524 per person. Unless the legislature takes specific action the old credit rules will apply until the 1978 tax year. The department recommends that the new changes be adopted for Alaska purposes.

Appended are the details of the new credits and the old deduction and credit they would replace. The credit on an Alaska return would be 16% of the federal one.

The fiscal note for either of these bills is $1,000,000, which is a loss of revenue due almost solely to the child care credit. The revenue loss from enacting the tax credit for the elderly is miniscule. This is because Alaska has fewer aged persons than average, few of these persons file income tax returns, most that do report little income, and any elderly tax credits in excess of tax liability are not refundable.

At first some Revenue officials thought the cost might be $5,000,000 to $7,000,000 assuming one-third of the returns claimed a child care credit. This was reported in the Juneau Empire of February 1, 1977. However, this was a wild guess because most taxpayers don't itemize deductions on their State returns; and, since child care expenses were formerly a deduction, Revenue had no data from which to estimate.

After checking with the Federal government, on whose tax returns more persons itemize because State taxes count as a deduction, Revenue now feels only 5% of the returns may claim a child care credit. This would be about 12,000 returns with an average credit of $83, a total of $1,000,000 annually, or $2,000,000 total for the legislation.

One factor which would tend to limit the revenue loss for child care expenses is the State program for day care assistance in Community & Regional Affairs which funds day care for middle income families on a sliding scale as well as AFDC families. Appended is my memo detailing this program.

Revenue indicates that for the average middle income family the tax credit will offer less relief than the former deduction. This is because these families are in tax brackets greater than 20%, the rate for the tax credit. The higher the tax bracket the greater the relief they had under the deduction. At an $8,000 taxable income where the bracket is roughly 20%, the deduction would have equal value to the credit. Families with incomes below $8,000 would benefit more from the credit and would in fact often have received no benefit at all from the deduction because they didn't itemize. However, in light of the State's day care assistance program the situation would be as follows:

1. Families with incomes below $6,000 would receive no benefit since day care assistance pays all their expenses.

2. Families with incomes between $6,000 and $8,000 will receive up to 80% of their child care costs through the State program, 4% from a Federal tax credit (20% of the remaining 20%), and only an additional .64% of their costs (16% of the federal credit of 4%) if this legislation is passed. These tax credits are a betterment of their position from prior years because even if they itemized, the tax break would have been less than 20% because of their tax bracket.

3. Families with incomes between $8,000 and $15,000 will receive some State child care assistance with 20% of the remaining expenses recouped on their Federal return and 3.2% on their State return if this legislation passes. If they itemized in the past they will be worse off; however, again it should be remembered that very few State returns were itemized at all.

4. Families with incomes above $15,000 will receive Federal relief of 20% of child care costs and 3.2% of those costs from the State if this legislation passes. Again, this will be revenue loss to the State and a gain to the family except for those who itemized in the past.

5. At some level, perhaps above $35,000, families would in general have itemized in the past and will on the average receive less relief for child care than they did and State revenues will increase.

Thus, on the whole, passage of SB 140 or CSHB 182 will mean a loss of revenue to the State because most people don't itemize but will take the credit. The bill provides additional relief to middle and high incomes with low incomes unaffected, and high incomes suffering a loss relative to what they had before 1976.

This relief is small in relation to that available on the Federal return and will thus have a marginal effect on family decisions to utilize child care. The effect of the changes at the Federal level on families using day care may be neutral because many more families itemize, and for them there is less incentive than in the past.

[Code Sec. 37]

"SEC. 37. CREDIT FOR THE ELDERLY.

"(a) GENERAL RULE.—In the case of an individual who has attained age 65 before the close of the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 15 percent of such individual's section 37 amount for such taxable year.

"(b) SECTION 37 AMOUNT.—For purposes of subsection (a)—

"(1) IN GENERAL.—An individual's section 37 amount for the taxable year is the applicable initial amount determined under paragraph (2), reduced as provided in paragraph (3) and in subsection (c).

"(2) INITIAL AMOUNT.—The initial amount is—

"(A) $2,500 in the case of a single individual,

"(B) $2,500 in the case of a joint return where only one spouse is eligible for the credit under subsection (a),

"(C) $3,750 in the case of a joint return where both spouses are eligible for the credit under subsection (a), or

"(D) $1,875 in the case of a married individual filing a separate return.

"(3) REDUCTION.—The reduction under this paragraph is an amount equal to the sum of the amounts received by the individual (or, in the case of a joint return, by either spouse) as a pension or annuity—

"(A) under title II of the Social Security Act,

"(B) under the Railroad Retirement Act of 1935 or 1937, or

"(C) otherwise excluded from gross income.

No reduction shall be made under this paragraph for any amount excluded from gross income under section 72 (relating to annuities), 101 (relating to life insurance proceeds), 104 (relating to compensation for injuries or sickness), 105 (relating to amounts received under accident and health plans), 120 (relating to amounts received under qualified group legal services plans), 402 (relating to taxability of beneficiary of employees' trust), 403 (relating to taxation of employee annuities), or 405 (relating to qualified bond purchase plans).

"(c) LIMITATIONS.—

"(1) ADJUSTED GROSS INCOME LIMITATION.—If the adjusted gross income of the taxpayer exceeds—

"(A) $7,500 in the case of a single individual,

"(B) $10,000 in the case of a joint return, or

"(C) $5,000 in the case of a married individual filing a separate return,

the section 37 amount shall be reduced by one-half of the excess of the adjusted gross income over $7,500, $10,000, or $5,000, as the case may be.

"(2) LIMITATION BASED ON AMOUNT OF TAX.—The amount of the credit allowed by this section for the taxable year shall not exceed the amount of the tax imposed by this chapter for such taxable year.

"(d) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) MARRIED COUPLE MUST FILE JOINT RETURN.—Except in the case of a husband and wife who live apart at all times during the taxable year, if the taxpayer is married at the close of the taxable year, the credit provided by this section shall be allowed only if the taxpayer and his spouse file a joint return for the taxable year.

"(2) MARITAL STATUS.—Marital status shall be determined under section 143.

"(3) JOINT RETURN.—The term 'joint return' means the joint return of a husband and wife made under section 6013.

"(e) ELECTION OF PRIOR LAW WITH RESPECT TO PUBLIC RETIREMENT SYSTEM INCOME.—

"(1) IN GENERAL.—In the case of a taxpayer who has not attained age 65 before the close of the taxable year (other than a married individual whose spouse has attained age 65 before the close of the taxable year), his credit (if any) under this section shall be determined under this subsection.

"(2) ONE SPOUSE AGE 65 OR OVER.—In the case of a married individual who has not attained age 65 before the close of the taxable year but whose spouse has attained such age, this paragraph shall apply for the taxable year only if both spouses elect, at such time and in such manner as the Secretary shall by regulations prescribe, to have this paragraph apply. If this paragraph applies for the taxable year, the credit (if any) of each spouse under this section shall be determined under this subsection.

"(3) COMPUTATION OF CREDIT.—In the case of an individual whose credit under this section for the taxable year is determined under this subsection, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 15 percent of the amount received by such individual as retirement income (as defined in paragraph (4) and as limited by paragraph (5)).

"(4) RETIREMENT INCOME.—For purposes of this subsection, the term 'retirement income' means—

"(A) in the case of an individual who has attained age 65 before the close of the taxable year, income from—

"(i) pensions and annuities (including, in the case of an individual who is or has been, an employee within the meaning of section 401(c)(1), distributions by a trust described in section 401(a) which is exempt from tax under section 501(a)),

"(ii) interest,

aph for any amount excluded from gross
es), 101 (relating to life insurance pro-
injuries or sickness), 105 (relating to
lans), 120 (relating to amounts received
2 (relating to taxability of beneficiary of
employee annuities), or 405 (relating to

—If the adjusted gross income of the

ividual,
rn, or
l individual filing a separate return,

e-half of the excess of the adjusted gross
se may be.

x.—The amount of the credit allowed by
ceed the amount of the tax imposed by

purposes of this section—

TURN.—Except in the case of a husband
e taxable year, if the taxpayer is married
provided by this section shall be allowed
nt return for the taxable year.

all be determined under section 143.

urn' means the joint return of a husband

TO PUBLIC RETIREMENT SYSTEM INCOME.—

payer who has not attained age 65 before
a married individual whose spouse has
able year), his credit (if any) under this
tion.

the case of a married individual who has
xable year but whose spouse has attained
e taxable year only if both spouses elect,
ecretary shall by regulations prescribe, to
h applies for the taxable year, the credit
shall be determined under this subsection.

e of an individual whose credit under this
l under this subsection, there shall be
l by this chapter for the taxable year an
received by such individual as retirement
limited by paragraph (5)).

s of this subsection, the term 'retirement

who has attained age 65 before the close

luding, in the case of an individual who is,
e meaning of section 401(c)(1), distribu-
n 401(a) which is exempt from tax under

"(iii) rents,

"(iv) dividends,

"(v) bonds described in section 405(b)(1) which are received under a qualified bond purchase plan described in section 405(a) or in a distribution from a trust described in section 401(a) which is exempt from tax under section 501(a), or retirement bonds described in section 409, and

"(vi) an individual retirement account described in section 408(a), or an individual retirement annuity described in section 408(b); or

"(B) in the case of an individual who has not attained age 65 before the close of the taxable year, income from pensions and annuities under a public retirement system (as defined in paragraph (8)(A)),

to the extent included in gross income without reference to this subsection, but only to the extent such income does not represent compensation for personal services rendered during the taxable year.

"(5) LIMITATION ON RETIREMENT INCOME.—For purposes of this subsection, the amount of retirement income shall not exceed $2,500 less—

"(A) the reduction provided by subsection (b)(3), and

"(B) in the case of any individual who has not attained age 72 before the close of the taxable year—

"(i) if such individual has not attained age 62 before the close of the taxable year, any amount of earned income (as defined in paragraph (8)(B)) in excess of $900 received by such individual in the taxable year, or

"(ii) if such individual has attained age 62 before the close of the taxable year, the sum of one-half the amount of earned income received by such individual in the taxable year in excess of $1,200 but not in excess of $1,700, and the amount of earned income so received in excess of $1,700.

"(6) LIMITATION IN CASE OF MARRIED INDIVIDUALS.—In the case of a joint return, paragraph (5) shall be applied by substituting '$3,750' for '$2,500'. The $3,750 provided by the preceding sentence shall be divided between the spouses in such amounts as may be agreed on by them, except that not more than $2,500 may be assigned to either spouse.

"(7) LIMITATION IN THE CASE OF SEPARATE RETURNS.—In the case of a married individual filing a separate return, paragraph (5) shall be applied by substituting '$1,875' for '$2,500'.

"(8) DEFINITIONS.—For purposes of this subsection—

"(A) PUBLIC RETIREMENT SYSTEM DEFINED.—The term 'public retirement system' means a pension, annuity, retirement, or similar fund or system established by the United States, a State, a possession of the United States, any political subdivision of any of the foregoing, or the District of Columbia.

"(B) EARNED INCOME.—The term 'earned income' has the meaning assigned to such term by section 911(b), except that such term does not include any amount received as a pension or annuity.

"(f) NONRESIDENT ALIEN INELIGIBLE FOR CREDIT.—No credit shall be allowed under this section to any nonresident alien."

• • *Prior Law*

Code Sec. 37 before amendment:

SEC. 37. RETIREMENT INCOME.

(a) GENERAL RULE.—In the case of an individual who has received earned income before the beginning of the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount

• • *Prior Law*

equal to 17 percent, in the case of a taxable year beginning in 1964, or 15 percent, in the case of a taxable year beginning after December 31, 1964, of the amount received by such individual as retirement income (as defined in subsection (c) and as limited by subsection (d)); but this credit shall not exceed such tax reduced by the credits allowable under section 32(2) (relating to tax withheld at source on tax-free covenant bonds), section 33 (relating to foreign tax credit), and section 35 (relating to partially tax-exempt interest).

(b) INDIVIDUAL WHO HAS RECEIVED EARNED INCOME.—For purposes of subsection (a), an individual shall be considered to have received earned income if he has received, in each of any 10 calendar years before the taxable year, earned income (as defined in subsection (g)) in excess of $600. A widow or widower whose spouse had received such earned income shall be considered to have received earned income.

(c) RETIREMENT INCOME.—For purposes of subsection (a), the term "retirement income" means—

(1) in the case of an individual who has attained the age of 65 before the close of the taxable year, income from—

(A) pensions and annuities (including, in the case of an individual who is, or has been, an employee within the meaning of section 401(c)(1), distributions by a trust described in section 401(a) which is exempt from tax under section 501(a)),

(B) interest,

(C) rents,

(D) dividends,

(E) bonds described in section 405(b)(1) which are received under a qualified bond purchase plan described in section 405(a) or in a distribution from a trust described in section 401(a) which is exempt from tax under section 501(a), or retirement bonds described in section 409, and

(F) an individual retirement account described in section 408(a) or an individual retirement annuity described in section 408(b), or

(2) in the case of an individual who has not attained the age of 65 before the close of the taxable year, income from pensions and annuities under a public retirement system (as defined in subsection (f)),

to the extent included in gross income without reference to this section, but only to the extent such income does not represent compensation for personal services rendered during the taxable year.

(d) LIMITATION ON RETIREMENT INCOME.—For purposes of subsection (a), the amount of retirement income shall not exceed $1,524 less—

(1) in the case of any individual, any amount received by the individual as a pension or annuity—

(A) under title II of the Social Security Act,

(B) under the Railroad Retirement Acts of 1935 or 1937, or

(C) otherwise excluded from gross income, and

(2) in the case of any individual who has not attained age 72 before the close of the taxable year—

(A) if such individual has not attained age 62 before the close of the taxable year, any amount of earned income (as defined in subsection (g)) in excess of $900 received by such individual in the taxable year, or

(B) if such individual has attained age 62 before the close of the taxable year, the sum of (i) one-half the amount of earned income received by such individual in the taxable year in excess of $1,200 but not in excess of $1,700, and (ii) the amount of earned income so received in excess of $1,700.

Prior Law

(e) Rule for Application of Subsection (d) (1).—Subsection (d) (1) shall not apply to any amount excluded from gross income under section 72 (relating to annuities), 101 (relating to life insurance proceeds), 104 (relating to compensation for injuries or sickness), 105 (relating to amounts received under accident and health plans), 402 (relating to taxability of beneficiary of employees' trust), or 403 (relating to taxation of employee annuities).

(f) Public Retirement System Defined.—For purposes of subsection (c) (2), the term "public retirement system" means a pension, annuity, retirement, or similar fund or system established by the United States, a State, a Territory, a possession of the United States, any political subdivision of any of the foregoing, or the District of Columbia.

(g) Earned Income Defined.—For purposes of subsections (b) and (d) (2), the term "earned income" has the meaning assigned to such term in section 911 (b), except that such term does not include any amount received as a pension or annuity.

(h) Nonresident Alien Ineligible for Credit.—No credit shall be allowed under subsection (a) to any nonresident alien.

(i) Special Rules for Certain Married Couples.—

(1) Election.—A husband and wife who make a joint return for the taxable year and both of whom have attained the age of 65 before the close of the taxable year may elect (at such time and in such manner as the Secretary or his delegate by regulations prescribes) to determine the amount of the credit allowed by subsection (a) by applying the provisions of paragraph (2).

(2) Special rules.—If an election is made under paragraph (1) for the taxable year, for purposes of subsection (a)—

(A) if either spouse is an individual who has received earned income within the meaning of subsection (b), the other spouse shall be considered to be an individual who has received earned income within the meaning of such subsection; and

(B) subsection (d) shall be considered as providing that the amount of the combined retirement income of both spouses shall not exceed \$2,286, less the sum of the amounts specified in paragraphs (1) and (2) of subsection (d) for each spouse.

(j) Cross Reference.—

For disallowance of credit where tax is computed by Secretary or his delegate, see section 6014 (a).

ACT SEC. 504. CREDIT FOR CHILD CARE EXPENSES.

Act Sec. 504 (a) ALLOWANCES OF CREDIT FOR CHILD CARE EXPENSES.—

(1) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to credits allowable) is amended by inserting before section 45 the following new section:

[Code Sec. 44A]

SEC. 44A. EXPENSES FOR HOUSEHOLD AND DEPENDENT CARE SERVICES NECESSARY FOR GAINFUL EMPLOYMENT.

"(a) ALLOWANCE OF CREDIT.—In the case of an individual who maintains a household which includes as a member one or more qualifying individuals (as defined in subsection (c)(1)), there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 20 percent of the employment-related expenses (as defined in subsection (c)(2)) paid by such individual during the taxable year.

"(b) APPLICATION WITH OTHER CREDITS.—The credit allowed by subsection (a) shall not exceed the amount of the tax imposed by this chapter for the taxable year reduced by the sum of the credits allowable under—

"(1) section 33 (relating to foreign tax credit),

"(2) section 37 (relating to credit for the elderly),

"(3) section 38 (relating to investment in certain depreciable property),

"(4) section 40 (relating to expenses of work incentive programs),

"(5) section 41 (relating to contributions to candidates for public office),

"(6) section 42 (relating to general tax credit), and

"(7) section 44 (relating to purchase of new principal residence).

"(c) DEFINITIONS OF QUALIFYING INDIVIDUAL AND EMPLOYMENT-RELATED EXPENSES.—For purposes of this section—

"(1) QUALIFYING INDIVIDUAL.—The term qualifying individual' means—

"(A) a dependent of the taxpayer who is under the age of 15 and with respect to whom the taxpayer is entitled to a deduction under section 151(e), "(B) a dependent of the taxpayer who is physically or mentally incapable of caring for himself, or

"(C) the spouse of the taxpayer, if he is physically or mentally incapable of caring for himself.

"(2) EMPLOYMENT-RELATED EXPENSES.—

"(A) IN GENERAL.—The term 'employment-related expenses' means amounts paid for the following expenses, but only if such expenses are incurred to enable the taxpayer to be gainfully employed for any period for which there are 1 or more qualifying individuals with respect to the taxpayer:

"(i) expenses for household services, and

"(ii) expenses for the care of a qualifying individual.

"(B) EXCEPTION.—Employment-related expenses described in subparagraph (A) which are incurred for services outside the taxpayer's household shall be taken into account only if incurred for the care of a qualifying individual described in paragraph (1)(A).

"(d) DOLLAR LIMIT ON AMOUNT CREDITABLE.—The amount of the employment-related expenses incurred during any taxable year which may be taken into account under subsection (a) shall not exceed—

"(1) $2,000 if there is 1 qualifying individual with respect to the taxpayer for such taxable year, or

"(2) $4,000 if there are 2 or more qualifying individuals with respect to the taxpayer for such taxable year.

"(e) EARNED INCOME LIMITATION.—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, the amount of the employment-related expenses incurred during any taxable year which may be taken into account under subsection (a) shall not exceed—

"(A) in the case of an individual who is not married at the close of such year, such individual's earned income for such year, or

"(B) in the case of an individual who is married at the close of such year, the lesser of such individual's earned income or the earned income of his spouse for such year.

"(2) SPECIAL RULE FOR SPOUSE WHO IS A STUDENT INCAPABLE OF CARING FOR HIMSELF.—In the case of a spouse who is a student or a qualified individual described in subsection (c)(1)(C), for purposes of paragraph (1), such spouse shall be deemed for each month during which such spouse is a full-time student at an educational institution, or is such a qualifying individual, to be gainfully employed and to have earned income of not less than—

"(A) $166 if subsection (d)(1) applies for the taxable year, or

"(B) $333 if subsection (d)(2) applies for the taxable year.

In the case of any husband and wife, this paragraph shall apply with respect to only one spouse for any one month.

"(f) SPECIAL RULES.—For purposes of this section—

"(1) MAINTAINING HOUSEHOLD.—An individual shall be treated as maintaining a household for any period only if over half the cost of maintaining the household for such period is furnished by such individual (or, if such individual is married during such period, is furnished by such individual and his spouse).

"(2) MARRIED COUPLES MUST FILE JOINT RETURN.—If the taxpayer is married at the close of the taxable year, the credit shall be allowed under subsection (a) only if the taxpayer and his spouse file a joint return for the taxable year.

"(3) MARITAL STATUS.—An individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married.

"(4) CERTAIN MARRIED INDIVIDUALS LIVING APART.—If—

"(A) an individual who is married and who files a separate return—

"(i) maintains as his home a household which constitutes for more than one-half of the taxable year the principal place of abode of a qualifying individual, and

"(ii) furnishes over half of the cost of maintaining such household during the taxable year, and

"(B) during the last 6 months of such taxable year such individual's spouse is not a member of such household,

such individual shall not be considered as married.

"(5) SPECIAL DEPENDENCY TEST IN CASE OF DIVORCED PARENTS, ETC.—If—

"(A) a child (as defined in section 151(e)(3)) who is under the age of 15 or who is physically or mentally incapable of caring for himself receives over half of his support during the calendar year from his parents who are divorced or legally separated under a decree of divorce or separate maintenance or who are separated under a written separation agreement, and

"(B) such child is in the custody of one or both of his parents for more than one-half of the calendar year,

in the case of any taxable year beginning in such calendar year such child shall be treated as being a qualifying individual described in subparagraph (A) or (B) of subsection (c)(1), as the case may be, with respect to that parent who has custody for a longer period during such calendar year than the other parent, and shall not be treated as being a qualifying individual with respect to such other parent.

"(6) PAYMENTS TO RELATED INDIVIDUALS.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), no credit shall be allowed under subsection (a) for any amount paid by the taxpayer to an individual bearing a relationship to the taxpayer described in paragraphs (1) through (8) of section 152(a) (relating to definition of dependent) or to a dependent described in paragraph (9) of such section.

"(B) EXCEPTION.—Subparagraph (A) shall not apply to any amount paid by the taxpayer to an individual with respect to whom, for the taxable year of the taxpayer in which the service is performed, neither the taxpayer nor his spouse is entitled to a deduction under section 151(e) (relating to deduction for personal exemptions for dependents), but only if the service with respect to which such amount is paid constitutes employment within the meaning of section 3121(b).

"(7) STUDENT.—The term 'student' means an individual who during each of 5 calendar months during the taxable year is a full-time student at an educational organization.

"(8) EDUCATIONAL ORGANIZATION.—The term 'educational organization' means an educational organization described in section 170(b)(1)(A)(ii).

"(f) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this section."

(2) CLERICAL AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting before the item relating to section 42 the following new item:

"Sec. 44A. Expenses for household and dependent care services necessary for gainful employment."

[¶ 1191]

Act Sec. 504 (b) REPEAL OF DEDUCTION FOR CHILD CARE EXPENSES.—

(1) IN GENERAL.—Section 214 (relating to expenses for household and dependent care services necessary for gainful employment) is hereby repealed.

• • *Prior Law*

Code Sec. 214 before repeal:

SEC. 214. EXPENSES FOR HOUSEHOLD AND DEPENDENT CARE SERVICES NECESSARY FOR GAINFUL EMPLOYMENT.

(a) ALLOWANCE OF DEDUCTION.—In the case of an individual who maintains a household which includes as a member one or more qualifying individuals (as defined in subsection (b)(1)), there shall be allowed as a deduction the employment-related expenses (as defined in subsection (b)(2)) paid by him during the taxable year.

(b) DEFINITIONS, ETC.—For purposes of this section—

(1) QUALIFYING INDIVIDUAL.—The term "qualifying individual" means—

(A) a dependent of the taxpayer who is under the age of 15 and with respect to whom the taxpayer is entitled to a deduction under section 151(e),

(B) a dependent of the taxpayer who is physically or mentally incapable of caring for himself, or

(C) the spouse of the taxpayer, if he is physically or mentally incapable of caring for himself.

(2) EMPLOYMENT-RELATED EXPENSES.—The term "employment-related expenses" means amount paid for the following expenses, but only if such expenses are incurred to enable the taxpayer to be gainfully employed:

(A) expenses for household services, and

(B) expenses for the care of a qualifying individual.

(3) MAINTAINING A HOUSEHOLD.—An individual shall be treated as maintaining a household for any period only if over half of the cost of maintaining the household during such period is furnished by such individual (or if such individual is married during such period, is furnished by such individual and his spouse).

(c) LIMITATIONS ON AMOUNTS DEDUCTIBLE.—

(1) IN GENERAL.—A deduction shall be allowed under subsection (a) for employment-related expenses incurred during any month only to the extent such expenses do not exceed $400.

(2) EXPENSES MUST BE FOR SERVICES IN THE HOUSEHOLD.—

(A) IN GENERAL.—Except as provided in subparagraph (B), a deduction shall be allowed under subsection (a) for employment-related expenses only if they are incurred for services in the taxpayer's household.

(B) EXCEPTION.—Employment-related expenses described in subsection (b)(2)(B) which are incurred for services outside the taxpayer's household shall be taken into account only if incurred for the care of a qualifying individual described in subsection (b)(1)(A) and only to the extent such expenses incurred during any month do not exceed—

(i) $200, in the case of one such individual,

(ii) $300, in the case of two such individuals, and

(iii) $400, in the case of three or more such individuals.

(d) INCOME LIMITATION.—If the adjusted gross income of the taxpayer exceeds $35,000 for the taxable year during which the expenses are incurred, the amount of the employment-related expenses incurred during any month of such year which may be taken into account under this section shall (after the application of subsections (c)(5) and (e)) be further reduced by that portion of one-half of the excess of the adjusted gross income over $35,000 which is properly allocable to such month. For purposes of the preceding sentence, if the taxpayer

Prior Law

is married during any period of the taxable year, there shall be taken into account the combined adjusted gross income of the taxpayer a .d his spouse for such period.

(e) SPECIAL RULES.—For purposes of this section—

(1) MARRIED COUPLES MUST FILE JOINT RETURN.--If the taxpayer is married at the close of the taxable year, the deduction provided by subsection (a) shall be allowed only if the taxpayer and his spouse file a single return jointly for the taxable year.

(2) GAINFUL EMPLOYMENT REQUIREMENT.—If the taxpayer is married for any period during the taxable year, there shall be taken into account employment-related expenses incurred during any month of such period only if—

(A) both spouses are gainfully employed on a substantially full-time basis, or

(B) the spouse is a qualifying individual described in subsection (b)(1)(C).

(3) CERTAIN MARRIED INDIVIDUALS LIVING APART.—An individual who for the taxable year would be treated as not married under section 143(b) if paragraph (1) of such section referred to any dependent, shall be treated as not married for such taxable year.

(4) PAYMENTS TO RELATED INDIVIDUALS.—No deduction shall be allowed under subsection (a) for any amount paid by the taxpayer to an individual bearing a relationship to the taxpayer described in paragraphs (1) through (8) of section 152(a) (relating to definition of dependent) or to a dependent described in paragraph (9) of such section.

(5) REDUCTION FOR CERTAIN PAYMENTS.—In the case of employment-related expenses incurred during any taxable year solely with respect to a qualifying individual (other than an individual who is also described in subsection (b)(1)(A)), the amount of such expenses which may be taken into account for purposes of this section shall (before the application of subsection (c)) be reduced—

(A) if such individual is described in subsection (b)(1)(B), by the amount by which the sum of—

(i) such individual's adjusted gross income for such taxable year, and

(ii) the disability payments received by such individual during such year,

exceeds $750, or

(B) in the case of a qualifying individual described in subsection (b)(1)(C), by the amount of disability payments received by such individual during the taxable year.

For purposes of this paragraph, the term "disability payment" means a payment (other than a gift) which is made on account of the physical or mental condition of an individual and which is not included in gross income.

(f) REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this section.

02-001B

STATE
of ALASKA

MEMORANDUM

TO: The Honorable Clem Tillion
Senate Finance Committee

DATE: February 17, 1977

FROM: Milt Barker, Fiscal Analyst
Legislative Finance

SUBJECT: Senate Bill 140

At your request, I am attaching the schedule of State support for child care according to income that is available under the Community and Regional Affairs program. The income levels indicated are take home pay less $1,000 for each child in excess of one in day care.

Group I represents AFDC recipients, whose day care is funded through this program in almost all areas of the State. Through the Department of Health and Social Services, a small amount of day care is funded for AFDC recipients in areas where Community and Regional Affairs does not have contracts with local organizations and for AFDC recipients in the WIN program.

FY 78 Governor's request for these programs are as follows:

C & R A Child Care	$1,565,200
H & S S Day Care	122,800
WIN Day Care	183,400
Total	$1,871,400

Enc.

MB:bf

INDEX FACTOR		(BASE)	103.75	107.50	115.00	118.75	126.25	130.00	133.75
	INCOME GROUP Not Adjusted	Anchorage Juneau Ketchikan	Petersburg Wrangell Sitka, Palmer	Kodiak, Homer Seward, Kenai Hoonah	Fairbanks College Cordova	Valdez	Nome Dillingham	Bethel Emmonak	Healy Clear Tanana
	INCOME GROUP I	0	0	0	0	0	0	0	0
State	100 %								
Parent	0 %	5,999	6,224	6,449	6,899	7,124	7,574	7,799	8,024
	INCOME GROUP II	6,000	6,225	6,450	6,900	7,125	7,575	7,800	8,025
State	80 - 100 %								
Parent	20 - 0%	7,999	8,299	8,599	9,199	9,499	10,099	10,399	10,699
	INCOME GROUP III	8,000	8,300	8,600	9,200	9,500	10,100	10,400	10,700
State	60 - 80 %								
Parent	40 - 20 %	10,999	11,411	11,824	12,649	13,061	13,886	14,299	14,711
	INCOME GROUP IV	11,000	11,412	11,825	12,650	13,062	13,887	14,300	14,712
State	40 - 60 %								
Parent	40 - 60 %	12,999	13,486	13,974	14,949	15,436	16,411	16,899	17,386
	INCOME GROUP V	13,000	13,487	13,975	14,950	15,437	16,412	16,900	17,387
State	20 - 40 %								
Parent	80 - 60 %	14,999	15,561	16,124	17,249	17,811	18,936	19,499	20,061

Exhibit 1

Good News And Bad In Store For Parents Of Day Care Kids

Parents who annually deduct a portion of their day care payments from state and federal income tax statements have two surprises in store for them this year. And, as the saying goes, it's good news and bad news.

The good news is the new federal law that allows day care payments to be taken as a credit off the top of income tax payments rather than as a mere deduction among other itemized deductions. The bad news is that the state can't follow suit and may be $7 million richer because of it.

In 1976 when Congress passed legislation granting income tax credits as incentives for housing construction the Alaska Legislature, estimating these credits could be too costly to the state, passed a law mandating federal credits wouldn't be available to Alaska taxpayers filing state income tax returns until two years after the credits are enacted.

Until 1976 the state automatically piggybacked on federal income tax regulations, said state auditor Gary Jenkins.

Last year child care payments were considered deductions and parents could, under a complicated and restrictive formula, include these payments under itemized deductions.

However, Congress has passed an amendment allowing child care costs to be deducted as a direct credit from income tax payments. A parent with one child, for example, can deduct 20 per cent of his child care costs up to $400 maximum.

Since the state does not follow federal credits, child care payments can neither be deducted nor considered credits on state income tax returns until Jan. 1, 1978.

Jenkins said his staff is now researching the impact of the loss of child care credits. He said his "hip-pocket guess' is that the state would lose an estimated $5 to $7 million should the credit be allowed and, conversely, will save that much should the credit not be permitted.

Juneau Rep. Jim Duncan said today he is preparing legislation which would allow the federal credit for day care on Alaskan income tax returns. Other legislators also reportedly are looking into the dilemma.

Jenkins said legislation amending the credit law could face severe "logistics problems" as it could take months for a bill to clear the legislature and by then many Alaskans will already have filed income tax returns.

However, Duncan said parents could file amended returns with the child care credit and he said he planned to make the legislation retroactive to last year's child care costs.

Juneau Empire
Feb 1, 1977

HB 182

Rec'd
FEB 0 8 1977
SB

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

STATE OFFICE BUILDING / POUCH SA – JUNEAU 99811

February 8, 1977

The Honorable Hugh Malone
Speaker of the House of Representatives
State of Alaska
Pouch 5
Juneau, AK 99811

Dear Mr. Malone:

It has just come to my attention that House Bill 182 has been introduced which would make the child care credit provision of the Internal Revenue Code effective for Alaska purposes retroactive to January 1, 1976. Please be advised that the Administration supports this Bill and urges its quick passage. Failure to pass the Bill quickly would result in a large number of taxpayers having to go through the added effort of filing an amended tax return to claim the credit.

Further, I recommend that the Bill be amended to incorporate the amendments to Internal Revenue Code Section 37 which were also included in the Tax Reform Act of 1976. This amendment made some minor changes in the retirement income credit available to the elderly.

If any of my staff can provide you with additional information on this subject, please feel free to contact me.

Sincerely,

Sterling Gallagher

Sterling Gallagher
Commissioner

SG:GLJ:mh

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH S – JUNEAU 99811

January 26, 1977

The Honorable John Sackett
Chairman, Senate Finance Committee
Alaska State Legislature

The Honorable Steve Cowper
Chairman House Finance Committee
Alaska State Legislature

Dear Senator Sackett and Representative Cowper:

I have included in this letter an itemization of changes in the federal income tax code which are not incorporated by reference into the Alaska income tax statutes (AS 43.20). I bring these items to your attention in order that the legislature may make policy determinations on their inclusion or continued exclusion.

In Section 1, Chapter 125 SLA 1976, the income tax statute was amended to provide that newly enacted provisions of the Internal Revenue Code which change or modify exemptions from tax or credits against tax would not become incorporated by reference into Alaska law until the second January following their enactment by Congress. Thus the Alaska Legislature would have two years in which to decide whether changes or modifications in federal exemptions or credits should apply for Alaska purposes. In 1976 Congress made two major changes in the tax credit area which were not incorporated into Alaska law. These two credits are as follows:

1. Congress repealed the child care itemized deduction and substituted in its place a credit equal to 20% of child care expenses up to a ceiling amount. The ceiling is $2000 in child care expenses for 1 dependent ($400 credit) or $4,000 in child care expenses for 2 or more dependents ($800 credit). In addition to making it a credit rather than a deduction, Congress eliminated the previous income limitation. Since the previous itemized deduction was repealed and its replacement is a credit, Alaska has neither the deduction or the credit until the 1978 tax year when the credit will become incorporated. Specific legislative action will be necessary to eliminate the credit permanently or to make it apply sooner.

2. Another tax credit change is the change made to the retirement income credit (IRC Section 37). This credit has been renamed a credit for the elderly since the credit

is no longer restricted to retirement income. The new change broadens the base from just retirement income to all income from which the 15 per credit is calculated. In addition the maximum amount of income against which the credit can apply has also been increased to $3,750 for married couples filing jointly both of whom are over 65 and $2,500 for single persons. The ceiling was previously $1,524 per person. Unless the legislature takes specific action the old credit rules will apply until the 1978 tax year. The department recommends that the new changes be adopted for Alaska purposes.

In addition to federal credits and exemptions which are not automatically incorporated by reference, federal changes in federal tax rates and federal tax tables are not incorporated by reference since Alaska has adopted its own separate rate schedule. A change was made in the calculation of the 1976 federal tax tables. The new federal law replaced the optional tax tables based on adjusted gross income with new tables based on taxable income. Previously taxpayers who had under $20,000 in adjusted gross income and did not itemize their deductions could go straight to the tax tables to find the amount of tax without further calculations to determine the dollar amount of exemptions or standard deduction. The tables automatically calculated the exemptions and standard deduction. With the change to taxable income the taxpayer will have to compute his or her standard deduction and exemptions prior to going to the tax table. Since Alaska law bases its tax tables on adjusted gross income the federal change will not apply. The department recommends that tax tables for Alaska income tax purposes remain based upon adjusted gross income rather than upon taxable income because it simplifies the tax calculation for the taxpayer.

If you, or your staff have any further questions about recent federal income tax changes please let me know.

Sincerely,

Sterling D. Gallagher

Sterling Gallagher
Commissioner

SFC

Introduced: 2/9/77
Referred: Finance

BY COLLETTA, POLAND, HUBER, CROFT, SUMNER AND BRADLEY

IN THE SENATE

SENATE BILL NO. 140

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to tax credits under the Alaska Net Income Tax Act; and providing for an effective date."

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

* Section 1. Notwithstanding the language of AS 43.20.021 providing for delayed adoption by reference of provisions of the Internal Revenue Code which change or modify exemptions from tax or credits against tax, sec. 44A (26 U.S.C. sec. 44A) and amendments to sec. 37 (26. U.S.C. sec. 37) of the Internal Revenue Code is immediately adopted by reference as part of AS 43.20 and is retroactive to taxable years beginning after December 31, 1975.

* Sec. 2. The only effect of this Act is to accelerate the date of adoption of sec. 44A (26 U.S.C. sec. 44A) and the amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code as part of AS 43.20. In all other respects, sec. 44A (26 U.S.C. sec. 44A) and the amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code shall be treated in the same manner as though adopted under the provisions of AS 43.20.021.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-070(c) and terminates on the date that sec. 44A (26 U.S.C. sec. 44A) and the amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code would otherwise be adopted by reference under the provisions of AS 43.20.021(a).

Original sponsors: Parr, Duncan, Miller, et al

Offered: 2/15/77
Referred: Rules

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 182

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to tax credits under the Alaska Net Income Tax Act; and providing for an effective date."

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

* Section 1. Notwithstanding the language of AS 43.20.021 providing for delayed adoption by reference of provisions of the Internal Revenue Code which change or modify exemptions from tax or credits against tax, sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code are immediately adopted by reference as part of AS 43.20 and are retroactive to taxable years beginning after December 31, 1975.

* Sec. 2. The only effect of this Act is to accelerate the date of adoption of sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code as part of AS 43.20. In all other respects, sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code shall be treated in the same manner as though adopted under the provisions of AS 43.20.021.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-070(c) and terminates on the date that sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code would otherwise be adopted by reference under the provisions of AS 43.20.-021(a).

[Code Sec. 37]

"SEC. 37. CREDIT FOR THE ELDERLY.

"(a) GENERAL RULE.—In the case of an individual who has attained age 65 before the close of the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 15 percent of such individual's section 37 amount for such taxable year.

"(b) SECTION 37 AMOUNT.—For purposes of subsection (a)—

"(1) IN GENERAL.—An individual's section 37 amount for the taxable year is the applicable initial amount determined under paragraph (2), reduced as provided in paragraph (3) and in subsection (c).

"(2) INITIAL AMOUNT.—The initial amount is—

"(A) $2,500 in the case of a single individual,

"(B) $2,500 in the case of a joint return where only one spouse is eligible for the credit under subsection (a),

"(C) $3,750 in the case of a joint return where both spouses are eligible for the credit under subsection (a), or

"(D) $1,875 in the case of a married individual filing a separate return.

"(3) REDUCTION.—The reduction under this paragraph is an amount equal to the sum of the amounts received by the individual (or, in the case of a joint return, by either spouse) as a pension or annuity—

"(A) under title II of the Social Security Act,

"(B) under the Railroad Retirement Act of 1935 or 1937, or

"(C) otherwise excluded from gross income.

No reduction shall be made under this paragraph for any amount excluded from gross income under section 72 (relating to annuities), 101 (relating to life insurance proceeds), 104 (relating to compensation for injuries or sickness), 105 (relating to amounts received under accident and health plans), 120 (relating to amounts received under qualified group legal services plans), 402 (relating to taxability of beneficiary of employees' trust), 403 (relating to taxation of employee annuities), or 405 (relating to qualified bond purchase plans).

"(c) LIMITATIONS.—

"(1) ADJUSTED GROSS INCOME LIMITATION.—If the adjusted gross income of the taxpayer exceeds—

"(A) $7,500 in the case of a single individual,

"(B) $10,000 in the case of a joint return, or

"(C) $5,000 in the case of a married individual filing a separate return,

the section 37 amount shall be reduced by one-half of the excess of the adjusted gross income over $7,500, $10,000, or $5,000, as the case may be.

"(2) LIMITATION BASED ON AMOUNT OF TAX.—The amount of the credit allowed by this section for the taxable year shall not exceed the amount of the tax imposed by this chapter for such taxable year.

"(d) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) MARRIED COUPLE MUST FILE JOINT RETURN.—Except in the case of a husband and wife who live apart at all times during the taxable year, if the taxpayer is married at the close of the taxable year, the credit provided by this section shall be allowed only if the taxpayer and his spouse file a joint return for the taxable year.

"(2) MARITAL STATUS.—Marital status shall be determined under section 143.

"(3) JOINT RETURN.—The term 'joint return' means the joint return of a husband and wife made under section 6013.

"(e) ELECTION OF PRIOR LAW WITH RESPECT TO PUBLIC RETIREMENT SYSTEM INCOME.—

"(1) IN GENERAL.—In the case of a taxpayer who has not attained age 65 before the close of the taxable year (other than a married individual whose spouse has attained age 65 before the close of the taxable year), his credit (if any) under this section shall be determined under this subsection.

"(2) ONE SPOUSE AGE 65 OR OVER.—In the case of a married individual who has not attained age 65 before the close of the taxable year but whose spouse has attained such age, this paragraph shall apply for the taxable year only if both spouses elect, at such time and in such manner as the Secretary shall by regulations prescribe, to have this paragraph apply. If this paragraph applies for the taxable year, the credit (if any) of each spouse under this section shall be determined under this subsection.

"(3) COMPUTATION OF CREDIT.—In the case of an individual whose credit under this section for the taxable year is determined under this subsection, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 15 percent of the amount received by such individual as retirement income (as defined in paragraph (4) and as limited by paragraph (5)).

"(4) RETIREMENT INCOME.—For purposes of this subsection, the term 'retirement income' means—

"(A) in the case of an individual who has attained age 65 before the close of the taxable year, income from—

"(i) pensions and annuities (including, in the case of an individual who is, or has been, an employee within the meaning of section 401(c)(1), distributions by a trust described in section 401(a) which is exempt from tax under section 501(a)),

"(ii) interest,

"(iii) rents,

"(iv) dividends,

"(v) bonds described in section 405(b)(1) which are received under a qualified bond purchase plan described in section 405(a) or in a distribution from a trust described in section 401(a) which is exempt from tax under section 501(a), or retirement bonds described in section 409, and

"(vi) an individual retirement account described in section 408(a), or an individual retirement annuity described in section 408(b); or

"(B) in the case of an individual who has not attained age 65 before the close of the taxable year, income from pensions and annuities under a public retirement system (as defined in paragraph (8)(A)),

to the extent included in gross income without reference to this subsection, but only to the extent such income does not represent compensation for personal services rendered during the taxable year.

"(5) Limitation on retirement income.—For purposes of this subsection, the amount of retirement income shall not exceed $2,500 less—

"(A) the reduction provided by subsection (b)(3), and

"(B) in the case of any individual who has not attained age 72 before the close of the taxable year—

"(i) if such individual has not attained age 62 before the close of the taxable year, any amount of earned income (as defined in paragraph (8)(B)) in excess of $900 received by such individual in the taxable year, or

"(ii) if such individual has attained age 62 before the close of the taxable year, the sum of one-half the amount of earned income received by such individual in the taxable year in excess of $1,200 but not in excess of $1,700, and the amount of earned income so received in excess of $1,700.

"(6) Limitation in case of married individuals.—In the case of a joint return, paragraph (5) shall be applied by substituting '$3,750' for '$2,500'. The $3,750 provided by the preceding sentence shall be divided between the spouses in such amounts as may be agreed on by them, except that not more than $2,500 may be assigned to either spouse.

"(7) Limitation in the case of separate returns.—In the case of a married individual filing a separate return, paragraph (5) shall be applied by substituting '$1,875' for '$2,500'.

"(8) Definitions.—For purposes of this subsection—

"(A) Public retirement system defined.—The term 'public retirement system' means a pension, annuity, retirement, or similar fund or system established by the United States, a State, a possession of the United States, any political subdivision of any of the foregoing, or the District of Columbia.

"(B) Earned income.—The term 'earned income' has the meaning assigned to such term by section 911(b), except that such term does not include any amount received as a pension or annuity.

"(f) Nonresident Alien Ineligible for Credit.—No credit shall be allowed under this section to any nonresident alien."

Prior Law

Code Sec. 37 before amendment:

SEC. 37. RETIREMENT INCOME.

(a) General Rule.—In the case of an individual who has received earned income before the beginning of the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount

Prior Law

equal to 17 percent, in the case of a taxable year beginning in 1964, or 15 percent, in the case of a taxable year beginning after December 31, 1964, of the amount received by such individual as retirement income (as defined in subsection (c) and as limited by subsection (d)); but this credit shall not exceed such tax reduced by the credits allowable under section 32(2) (relating to tax withheld at source on tax-free covenant bonds), section 33 (relating to foreign tax credit), and section 35 (relating to partially tax-exempt interest).

(b) INDIVIDUAL WHO HAS RECEIVED EARNED INCOME.—For purposes of subsection (a), an individual shall be considered to have received earned income if he has received, in each of any 10 calendar years before the taxable year, earned income (as defined in subsection (g)) in excess of $600. A widow or widower whose spouse had received such earned income shall be considered to have received earned income.

(c) RETIREMENT INCOME.—For purposes of subsection (a), the term "retirement income" means—

(1) in the case of an individual who has attained the age of 65 before the close of the taxable year, income from—

(A) pensions and annuities (including, in the case of an individual who is, or has been, an employee within the meaning of section 401(c)(1), distributions by a trust described in section 401(a) which is exempt from tax under section 501(a)),

(B) interest,

(C) rents,

(D) dividends,

(E) bonds described in section 405(b)(1) which are received under a qualified bond purchase plan described in section 405(a) or in a distribution from a trust described in section 401(a) which is exempt from tax under section 501(a), or retirement bonds described in section 409, and

(F) an individual retirement account described in section 408(a) or an individual retirement annuity described in section 408(b), or

(2) in the case of an individual who has not attained the age of 65 before the close of the taxable year, income from pensions and annuities under a public retirement system (as defined in subsection (f)),

to the extent included in gross income without reference to this section, but only to the extent such income does not represent compensation for personal services rendered during the taxable year.

(d) LIMITATION ON RETIREMENT INCOME.—For purposes of subsection (a), the amount of retirement income shall not exceed $1,524 less—

(1) in the case of any individual, any amount received by the individual as a pension or annuity—

(A) under title II of the Social Security Act,

(B) under the Railroad Retirement Acts of 1935 or 1937, or

(C) otherwise excluded from gross income, and

(2) in the case of any individual who has not attained age 72 before the close of the taxable year—

(A) if such individual has not attained age 62 before the close of the taxable year, any amount of earned income (as defined in subsection (g)) in excess of $900 received by such individual in the taxable year, or

(B) if such individual has attained age 62 before the close of the taxable year, the sum of (i) one-half the amount of earned income received by such individual in the taxable year in excess of $1,200 but not in excess of $1,700, and (ii) the amount of earned income so received in excess of $1,700.

Prior Law

(e) RULE FOR APPLICATION OF SUBSECTION (d) (1).—Subsection (d) (1) shall not apply to any amount excluded from gross income under section 72 (relating to annuities), 101 (relating to life insurance proceeds), 104 (relating to compensation for injuries or sickness), 105 (relating to amounts received under accident and health plans), 402 (relating to taxability of beneficiary of employees' trust), or 403 (relating to taxation of employee annuities).

(f) PUBLIC RETIREMENT SYSTEM DEFINED.—For purposes of subsection (c) (2), the term "public retirement system" means a pension, annuity, retirement, or similar fund or system established by the United States, a State, a Territory, a possession of the United States, any political subdivision of any of the foregoing, or the District of Columbia.

(g) EARNED INCOME DEFINED.—For purposes of subsections (b) and (d) (2), the term "earned income" has the meaning assigned to such term in section 911 (b), except that such term does not include any amount received as a pension or annuity.

(h) NONRESIDENT ALIEN INELIGIBLE FOR CREDIT.—No credit shall be allowed under subsection (a) to any nonresident alien.

(i) SPECIAL RULES FOR CERTAIN MARRIED COUPLES.—

(1) ELECTION.—A husband and wife who make a joint return for the taxable year and both of whom have attained the age of 65 before the close of the taxable year may elect (at such time and in such manner as the Secretary or his delegate by regulations prescribes) to determine the amount of the credit allowed by subsection (a) by applying the provisions of paragraph (2).

(2) SPECIAL RULES.—If an election is made under paragraph (1) for the taxable year, for purposes of subsection (a)—

(A) if either spouse is an individual who has received earned income within the meaning of subsection (b), the other spouse shall be considered to be an individual who has received earned income within the meaning of such subsection; and

(B) subsection (d) shall be considered as providing that the amount of the combined retirement income of both spouses shall not exceed $2,286, less the sum of the amounts specified in paragraphs (1) and (2) of subsection (d) for each spouse.

(j) CROSS REFERENCE.—

For disallowance of credit where tax is computed by Secretary or his delegate, see section 6014 (a).

ACT SEC. 504. CREDIT FOR CHILD CARE EXPENSES.

Act Sec. 504 (a) ALLOWANCES OF CREDIT FOR CHILD CARE EXPENSES.—

(1) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to credits allowable) is amended by inserting before section 45 the following new section:

[Code Sec. 44A]

"SEC. 44A. EXPENSES FOR HOUSEHOLD AND DEPENDENT CARE SERVICES NECESSARY FOR GAINFUL EMPLOYMENT.

"(a) ALLOWANCE OF CREDIT.—In the case of an individual who maintains a household which includes as a member one or more qualifying individuals (as defined in subsection (c)(1)), there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 20 percent of the employment-related expenses (as defined in subsection (c)(2)) paid by such individual during the taxable year.

"(b) APPLICATION WITH OTHER CREDITS.—The credit allowed by subsection (a) shall not exceed the amount of the tax imposed by this chapter for the taxable year reduced by the sum of the credits allowable under—

"(1) section 33 (relating to foreign tax credit),

"(2) section 37 (relating to credit for the elderly),

"(3) section 38 (relating to investment in certain depreciable property),

"(4) section 40 (relating to expenses of work incentive programs),

"(5) section 41 (relating to contributions to candidates for public office),

"(6) section 42 (relating to general tax credit), and

"(7) section 44 (relating to purchase of new principal residence).

"(c) DEFINITIONS OF QUALIFYING INDIVIDUAL AND EMPLOYMENT-RELATED EXPENSES.—For purposes of this section—

"(1) QUALIFYING INDIVIDUAL.—The term 'qualifying individual' means—

"(A) a dependent of the taxpayer who is under the age of 15 and with respect to whom the taxpayer is entitled to a deduction under section 151(e), "(B) a dependent of the taxpayer who is physically or mentally incapable of caring for himself, or

"(C) the spouse of the taxpayer, if he is physically or mentally incapable of caring for himself.

"(2) EMPLOYMENT-RELATED EXPENSES.—

"(A) IN GENERAL.—The term 'employment-related expenses' means amounts paid for the following expenses, but only if such expenses are incurred to enable the taxpayer to be gainfully employed for any period for which there are 1 or more qualifying individuals with respect to the taxpayer:

"(i) expenses for household services, and

"(ii) expenses for the care of a qualifying individual.

"(B) EXCEPTION.—Employment-related expenses described in subparagraph (A) which are incurred for services outside the taxpayer's household shall be taken into account only if incurred for the care of a qualifying individual described in paragraph (1)(A).

"(d) DOLLAR LIMIT ON AMOUNT CREDITABLE.—The amount of the employment-related expenses incurred during any taxable year which may be taken into account under subsection (a) shall not exceed—

"(1) $2,000 if there is 1 qualifying individual with respect to the taxpayer for such taxable year, or

"(2) $4,000 if there are 2 or more qualifying individuals with respect to the taxpayer for such taxable year.

"(e) EARNED INCOME LIMITATION.—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, the amount of the employment-related expenses incurred during any taxable year which may be taken into account under subsection (a) shall not exceed—

"(A) in the case of an individual who is not married at the close of such year, such individual's earned income for such year, or

"(B) in the case of an individual who is married at the close of such year, the lesser of such individual's earned income or the earned income of his spouse for such year.

"(2) SPECIAL RULE FOR SPOUSE WHO IS A STUDENT INCAPABLE OF CARING FOR HIMSELF.—In the case of a spouse who is a student or a qualified individual described in subsection (c)(1)(C), for purposes of paragraph (1), such spouse shall be deemed for each month during which such spouse is a full-time student at an educational institution, or is such a qualifying individual, to be gainfully employed and to have earned income of not less than—

"(A) $166 if subsection (d)(1) applies for the taxable year, or

"(B) $333 if subsection (d)(2) applies for the taxable year.

In the case of any husband and wife, this paragraph shall apply with respect to only one spouse for any one month.

"(f) SPECIAL RULES.—For purposes of this section—

"(1) MAINTAINING HOUSEHOLD.—An individual shall be treated as maintaining a household for any period only if over half the cost of maintaining the household for such period is furnished by such individual (or, if such individual is married during such period, is furnished by such individual and his spouse).

"(2) MARRIED COUPLES MUST FILE JOINT RETURN.—If the taxpayer is married at the close of the taxable year, the credit shall be allowed under subsection (a) only if the taxpayer and his spouse file a joint return for the taxable year.

"(3) MARITAL STATUS.—An individual legally separated from his spouse under a decree of divorce or of separate maintenance shall not be considered as married.

"(4) CERTAIN MARRIED INDIVIDUALS LIVING APART.—If—

"(A) an individual who is married and who files a separate return—

"(i) maintains as his home a household which constitutes for more than one-half of the taxable year the principal place of abode of a qualifying individual, and

"(ii) furnishes over half of the cost of maintaining such household during the taxable year, and

"(B) during the last 6 months of such taxable year such individual's spouse is not a member of such household,

such individual shall not be considered as married.

"(5) SPECIAL DEPENDENCY TEST IN CASE OF DIVORCED PARENTS, ETC.—If—

"(A) a child (as defined in section 151(e)(3)) who is under the age of 15 or who is physically or mentally incapable of caring for himself receives over half of his support during the calendar year from his parents who are divorced or legally separated under a decree of divorce or separate maintenance or who are separated under a written separation agreement, and

"(B) such child is in the custody of one or both of his parents for more than one-half of the calendar year,

in the case of any taxable year beginning in such calendar year such child shall be treated as being a qualifying individual described in subparagraph (A) or (B) of subsection (c)(1), as the case may be, with respect to that parent who has custody for a longer period during such calendar year than the other parent, and shall not be treated as being a qualifying individual with respect to such other parent.

"(6) PAYMENTS TO RELATED INDIVIDUALS.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), no credit shall be allowed under subsection (a) for any amount paid by the taxpayer to an individual bearing a relationship to the taxpayer described in paragraphs (1) through (8) of section 152(a) (relating to definition of dependent) or to a dependent described in paragraph (9) of such section.

"(B) EXCEPTION.—Subparagraph (A) shall not apply to any amount paid by the taxpayer to an individual with respect to whom, for the taxable year of the taxpayer in which the service is performed, neither the taxpayer nor his spouse is entitled to a deduction under section 151(e) (relating to deduction for personal exemptions for dependents), but only if the service with respect to which such amount is paid constitutes employment within the meaning of section 3121(b).

"(7) STUDENT.—The term 'student' means an individual who during each of 5 calendar months during the taxable year is a full-time student at an educational organization.

"(8) EDUCATIONAL ORGANIZATION.—The term 'educational organization' means an educational organization described in section 170(b)(1)(A)(ii).

"(f) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this section."

(2) CLERICAL AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting before the item relating to section [illegible] the following new item:

"Sec. 44A. Expenses for household and dependent care services necessary for gainful employment."

[¶ 1191]

Act Sec. 504 (b) REPEAL OF DEDUCTION FOR CHILD CARE EXPENSES.—

(1) IN GENERAL.—Section 214 (relating to expenses for household and dependent care services necessary for gainful employment) is hereby repealed.

Prior Law

Code Sec. 214 before repeal:

SEC. 214. EXPENSES FOR HOUSEHOLD AND DEPENDENT CARE SERVICES NECESSARY FOR GAINFUL EMPLOYMENT.

(a) ALLOWANCE OF DEDUCTION.—In the case of an individual who maintains a household which includes as a member one or more qualifying individuals (as defined in subsection (b)(1)), there shall be allowed as a deduction the employment-related expenses (as defined in subsection (b)(2)) paid by him during the taxable year.

(b) DEFINITIONS, ETC.—For purposes of this section—

(1) QUALIFYING INDIVIDUAL.—The term "qualifying individual" means—

(A) a dependent of the taxpayer who is under the age of 15 and with respect to whom the taxpayer is entitled to a deduction under section 151(e),

(B) a dependent of the taxpayer who is physically or mentally incapable of caring for himself, or

(C) the spouse of the taxpayer, if he is physically or mentally incapable of caring for himself.

(2) EMPLOYMENT-RELATED EXPENSES.—The term "employment-related expenses" means amount paid for the following expenses, but only if such expenses are incurred to enable the taxpayer to be gainfully employed:

(A) expenses for household services, and

(B) expenses for the care of a qualifying individual.

(3) MAINTAINING A HOUSEHOLD.—An individual shall be treated as maintaining a household for any period only if over half of the cost of maintaining the household during such period is furnished by such individual (or if such individual is married during such period, is furnished by such individual and his spouse).

(c) LIMITATIONS ON AMOUNTS DEDUCTIBLE.—

(1) IN GENERAL.—A deduction shall be allowed under subsection (a) for employment-related expenses incurred during any month only to the extent such expenses do not exceed $400.

(2) EXPENSES MUST BE FOR SERVICES IN THE HOUSEHOLD.—

(A) IN GENERAL.—Except as provided in subparagraph (B), a deduction shall be allowed under subsection (a) for employment-related expenses only if they are incurred for services in the taxpayer's household.

(B) EXCEPTION.—Employment-related expenses described in subsection (b)(2)(B) which are incurred for services outside the taxpayer's household shall be taken into account only if incurred for the care of a qualifying individual described in subsection (b)(1)(A) and only to the extent such expenses incurred during any month do not exceed—

(i) $200, in the case of one such individual,

(ii) $300, in the case of two such individuals, and

(iii) $400, in the case of three or more such individuals.

(d) INCOME LIMITATION.—If the adjusted gross income of the taxpayer exceeds $35,000 for the taxable year during which the expenses are incurred, the amount of the employment-related expenses incurred during any month of such year which may be taken into account under this section shall (after the application of subsections (c)(5) and (e)) be further reduced by that portion of one-half of the excess of the adjusted gross income over $35,000 which is properly allocable to such month. For purposes of the preceding sentence, if the taxpayer

Prior Law

is married during any period of the taxable year, there shall be taken into account the combined adjusted gross income of the taxpayer and his spouse for such period.

(e) SPECIAL RULES.—For purposes of this section—

(1) MARRIED COUPLES MUST FILE JOINT RETURN.—If the taxpayer is married at the close of the taxable year, the deduction provided by subsection (a) shall be allowed only if the taxpayer and his spouse file a single return jointly for the taxable year.

(2) GAINFUL EMPLOYMENT REQUIREMENT.—If the taxpayer is married for any period during the taxable year, there shall be taken into account employment-related expenses incurred during any month of such period only if—

(A) both spouses are gainfully employed on a substantially full-time basis, or

(B) the spouse is a qualifying individual described in subsection (b)(1)(C).

(3) CERTAIN MARRIED INDIVIDUALS LIVING APART.—An individual who for the taxable year would be treated as not married under section 143(b) if paragraph (1) of such section referred to any dependent, shall be treated as not married for such taxable year.

(4) PAYMENTS TO RELATED INDIVIDUALS.—No deduction shall be allowed under subsection (a) for any amount paid by the taxpayer to an individual bearing a relationship to the taxpayer described in paragraphs (1) through (8) of section 152(a) (relating to definition of dependent) or to a dependent described in paragraph (9) of such section.

(5) REDUCTION FOR CERTAIN PAYMENTS.—In the case of employment-related expenses incurred during any taxable year solely with respect to a qualifying individual (other than an individual who is also described in subsection (b)(1)(A)), the amount of such expenses which may be taken into account for purposes of this section shall (before the application of subsection (c)) be reduced—

(A) if such individual is described in subsection (b)(1)(B), by the amount by which the sum of—

(i) such individual's adjusted gross income for such taxable year, and

(ii) the disability payments received by such individual during such year,

exceeds $750, or

(B) in the case of a qualifying individual described in subsection (b)(1)(C), by the amount of disability payments received by such individual during the taxable year.

For purposes of this paragraph, the term "disability payment" means a payment (other than a gift) which is made on account of the physical or mental condition of an individual and which is not included in gross income.

(f) REGULATIONS.—The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this section.

02-001B

STATE
of ALASKA

MEMORANDUM

TO: The Honorable Clem Tillion
Senate Finance Committee

DATE: February 17, 1977

FROM: Milt Barker, Fiscal Analyst
Legislative Finance

SUBJECT: Senate Bill 140

At your request, I am attaching the schedule of State support for child care according to income that is available under the Community and Regional Affairs program. The income levels indicated are take home pay less $1,000 for each child in excess of one in day care.

Group I represents AFDC recipients, whose day care is funded through this program in almost all areas of the State. Through the Department of Health and Social Services, a small amount of day care is funded for AFDC recipients in areas where Community and Regional Affairs does not have contracts with local organizations and for AFDC recipients in the WIN program.

FY 78 Governor's request for these programs are as follows:

C & R A Child Care	$1,565,200
H & S S Day Care	122,800
WIN Day Care	183,400
Total	$1,871,400

Enc.

MB:bf

	PRICE FACTOR	BASE	103.75	107.50	115.00	118.75	126.25	130.00	133.75
	INCOME GROUP Not Adjusted.	Anchorage Juneau Ketchikan	Petersburg Wrangell Sitka, Palmer	Kodiak, Homer Seward, Kenai Hoonah	Fairbanks College Cordova	Valdez	Nome Dillingham	Bethel Emmonak	Healy Clear Tanana
	INCOME GROUP I	0	0	0	0	0	0	0	0
State	100 %								
Parent	0 %	5,999	6,224	6,449	6,899	7,124	7,574	7,799	8,024
	INCOME GROUP II	6,000	6,225	6,450	6,900	7,125	7,575	7,800	8,025
State	80 - 100 %								
Parent	20 - 0%	7,999	8,299	8,599	9,199	9,499	10,099	10,399	10,699
	INCOME GROUP III	8,000	8,300	8,600	9,200	9,500	10,100	10,400	10,700
State	60 - 80 %								
Parent	40 - 20 %	10,999	11,411	11,824	12,649	13,061.	13, 886	14,299	14,711
	INCOME GROUP IV	11,000	11,412	11,825	12,650	13,062	13,887	14,300	14,712
State	40 - 60 %								
Parent	40 - 60 %	12,999	13,486	13,974	14,949	15,436	16,411	16,899	17,386
	INCOME GROUP V	13,000	13,487	13,975	14,950	15,437	16,412	16,900	17,387
State	20 - 40 %								
Parent	80 - 60 %	14,999	15,561	16,124	17,249	17,811	18,936	19,499	20,061

Exhibit 1

Good News And Bad In Store For Parents Of Day Care Kids

Parents who annually deduct a portion of their day care payments from state and federal income tax statements have two surprises in store for them this year. And, as the saying goes, it's good news and bad news.

The good news is the new federal law that allows day care payments to be taken as a credit off the top of income tax payments rather than as a mere deduction among other itemized deductions. The bad news is that the state can't follow suit and may be 7 million richer because of it.

In 1976 when Congress passed legislation granting income tax credits as incentives for housing construction the Alaska Legislature, estimating these credits could be too costly to the state, passed a law mandating federal credits wouldn't be available to Alaska taxpayers filing state income tax returns until two years after the credits are enacted.

Until 1976 the state automatically piggybacked on federal income tax regulations, said state auditor Gary Jenkins.

Last year child care payments were considered deductions and parents could, under a complicated and restrictive formula, include these payments under itemized deductions.

However, Congress has passed an amendment allowing child care costs to be deducted as a direct credit from income tax payments. A parent with one child, for example, can deduct 20 per cent of his child care costs up to $400 maximum.

Since the state does not follow federal credits, child care payments can neither be deducted nor considered credits on state income tax returns until Jan. 1, 1978.

Jenkins said his staff is now researching the impact of the loss of child care credits. He said his "hip-pocket guess' is that the state would lose an estimated $5 to $7 million should the credit be allowed and, conversely, will save that much should the credit not be permitted.

Juneau Rep. Jim Duncan said today he is preparing legislation which would allow the federal credit for day care on Alaskan income tax returns. Other legislators also reportedly are looking into the dilemma.

Jenkins said legislation amending the credit law could face severe "logistics problems" as it could take months for a bill to clear the legislature and by then many Alaskans will already have filed income tax returns.

However, Duncan said parents could file amended returns with the child care credit and he said he planned to make the legislation retroactive to last year's child care costs.

Juneau Empire
Feb 1, 1977

HB 182

Rec'd
FEB 08 1977

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

STATE OFFICE BUILDING / POUCH SA – JUNEAU 99811

February 8, 1977

The Honorable Hugh Malone
Speaker of the House of Representatives
State of Alaska
Pouch 5
Juneau, AK 99811

Dear Mr. Malone:

It has just come to my attention that House Bill 182 has been introduced which would make the child care credit provision of the Internal Revenue Code effective for Alaska purposes retroactive to January 1, 1976. Please be advised that the Administration supports this Bill and urges its quick passage. Failure to pass the Bill quickly would result in a large number of taxpayers having to go through the added effort of filing an amended tax return to claim the credit.

Further, I recommend that the Bill be amended to incorporate the amendments to Internal Revenue Code Section 37 which were also included in the Tax Reform Act of 1976. This amendment made some minor changes in the retirement income credit available to the elderly.

If any of my staff can provide you with additional information on this subject, please feel free to contact me.

Sincerely,

Sterling Gallagher

Sterling Gallagher
Commissioner

SG:GLJ:mh

SFC

Introduced: 2/9/77
Referred: Finance

BY COLLETTA, POLAND, HUBER, CROFT, SUMNER AND BRADLEY

IN THE SENATE

SENATE BILL NO. 140

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to tax credits under the Alaska Net Income Tax Act; and providing for an effective date."

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

* Section 1. Notwithstanding the language of AS 43.20.021 providing for delayed adoption by reference of provisions of the Internal Revenue Code which change or modify exemptions from tax or credits against tax, sec. 44A (26 U.S.C. sec. 44A) and amendments to sec. 37 (26. U.S.C. sec. 37) of the Internal Revenue Code is immediately adopted by reference as part of AS 43.20 and is retroactive to taxable years beginning after December 31, 1975.

* Sec. 2. The only effect of this Act is to accelerate the date of adoption of sec. 44A (26 U.S.C. sec. 44A) and the amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code as part of AS 43.20. In all other respects, sec. 44A (26 U.S.C. sec. 44A) and the amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code shall be treated in the same manner as though adopted under the provisions of AS 43.20.021.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-070(c) and terminates on the date that sec. 44A (26 U.S.C. sec. 44A) and the amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code would otherwise be adopted by reference under the provisions of AS 43.20.021(a).

Original sponsors: Parr, Duncan, Miller, et al

Offered: 2/15/77
Referred: Rules

IN THE HOUSE

BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 182

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to tax credits under the Alaska Net Income Tax Act; and providing for an effective date."

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

* Section 1. Notwithstanding the language of AS 43.20.021 providing for delayed adoption by reference of provisions of the Internal Revenue Code which change or modify exemptions from tax or credits against tax, sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code are immediately adopted by reference as part of AS 43.20 and are retroactive to taxable years beginning after December 31, 1975.

* Sec. 2. The only effect of this Act is to accelerate the date of adoption of sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code as part of AS 43.20. In all other respects, sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code shall be treated in the same manner as though adopted under the provisions of AS 43.20.021.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-070(c) and terminates on the date that sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code would otherwise be adopted by reference under the provisions of AS 43.20.-021(a).

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
Bill/Resolution No. Senate Bill 140
Title An Act relating to tax credits under the Alaska Net Income Tax Act
Requested by Senate Finance Committee Date 2-9-77

II. FISCAL DETAIL
Agency Affected Revenue
Program Category Affected Fiscal Services
Budget Request Unit(s) Affected Audit

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

If this bill is passed within the next month, there will be minimal effect on the Department. There will be an increasing impact with the passage of time after the one month period.

This bill will result in approximately $1,000,000 loss of revenue to the General Fund.

200,000,– 300,000 } initial

Based upon (mad.) intuition.

IV. DATE 2-9-77 PREPARED BY [signature]
AGENCY Revenue - Audit Division
PHONE 475-2320

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Name 1)

33-001 (Rev. 10/76)

COMMITTEE REPORT

SENATE

2/9/77

_______________________________Date

Mr. President:

The Committee on Finance has had SB 140 Alaska Net Income Tax Act 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
- [X] reports it back without recommendation
- [ ] AND attaches a report of its intent
- [ ] (other) ____________

MEMBERS SIGNING THE MAJORITY REPORT:

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

______________ recommends: Do Pass

______________ recommends: ______________

______________ recommends: ______________

______________ Chairman

Analysis of Child Care Expenses
Deduction vs Credit

	Initials	Date
Prepared By		
Approved By		

Assume:
Husband earned $20,000
Wife Earned 10,000
Family has 3 Children
Child care expense of $400 per month
Itemized deductions of $3,000 excluding child care expense.

Computation of Deduction

	(1)	(2)	(3)	(4)
Adjusted Gross Income				30000
Itemized deductions				7800
				22200
Exemption deduction				3750
Taxable Income				18450
Federal Tax Rate			28%	
Alaska Tax Rate			5.5%	
Federal Tax reduction due to deduction				1474
Alaska Tax reduction due to deduction				280
Total reduction in Tax				1754

Computation of Credit

Same facts as above

	(1)	(2)	(3)	(4)
Federal Tax Credit				800
Alaska Tax Credit (if Approved)				128
Total potential Credit				928
Net increase in Tax as a result of Credit w/ AK.				826
Net increase in Tax as a result of credit w/o AK.				954

(1976)

House:
Cost to the state: Child care

No $ figure from Dept - 2 figures. 1 & 6-7 m.
No good estimates of elderly (& Ch. care).

Trickle years 1976 & 1977:

Fails totally ——— Deduction —
Credit. —

Net result: benefiting low income, —

→ Opposite:

Low Line: support — without qualification.

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH S – JUNEAU 99811

January 26, 1977

The Honorable John Sackett
Chairman, Senate Finance Committee
Alaska State Legislature

The Honorable Steve Cowper
Chairman House Finance Committee
Alaska State Legislature

Dear Senator Sackett and Representative Cowper:

I have included in this letter an itemization of changes in the federal income tax code which are not incorporated by reference into the Alaska income tax statutes (AS 43.20). I bring these items to your attention in order that the legislature may make policy determinations on their inclusion or continued exclusion.

In Section 1, Chapter 125 SLA 1976, the income tax statute was amended to provide that newly enacted provisions of the Internal Revenue Code which change or modify exemptions from tax or credits against tax would not become incorporated by reference into Alaska law until the second January following their enactment by Congress. Thus the Alaska Legislature would have two years in which to decide whether changes or modifications in federal exemptions or credits should apply for Alaska purposes. In 1976 Congress made two major changes in the tax credit area which were not incorporated into Alaska law. These two credits are as follows:

1. Congress repealed the child care itemized deduction and substituted in its place a credit equal to 20% of child care expenses up to a ceiling amount. The ceiling is $2000 in child care expenses for 1 dependent ($400 credit) or $4,000 in child care expenses for 2 or more dependents ($800 credit). In addition to making it a credit rather than a deduction, Congress eliminated the previous income limitation. Since the previous itemized deduction was repealed and its replacement is a credit, Alaska has neither the deduction or the credit until the 1978 tax year when the credit will become incorporated. Specific legislative action will be necessary to eliminate the credit permanently or to make it apply sooner.

2. Another tax credit change is the change made to the retirement income credit (IRC Section 37). This credit has been renamed a credit for the elderly since the credit

is no longer restricted to retirement income. The new change broadens the base from just retirement income to all income from which the 15 per credit is calculated. In addition the maximum amount of income against which the credit can apply has also been increased to $3,750 for married couples filing jointly both of whom are over 65 and $2,500 for single persons. The ceiling was previously $1,524 per person. Unless the legislature takes specific action the old credit rules will apply until the 1978 tax year. The department recommends that the new changes be adopted for Alaska purposes.

In addition to federal credits and exemptions which are not automatically incorporated by reference, federal changes in federal tax rates and federal tax tables are not incorporated by reference since Alaska has adopted its own separate rate schedule. A change was made in the calculation of the 1976 federal tax tables. The new federal law replaced the optional tax tables based on adjusted gross income with new tables based on taxable income. Previously taxpayers who had under $20,000 in adjusted gross income and did not itemize their deductions could go straight to the tax tables to find the amount of tax without further calculations to determine the dollar amount of exemptions or standard deduction. The tables automatically calculated the exemptions and standard deduction. With the change to taxable income the taxpayer will have to compute his or her standard deduction and exemptions prior to going to the tax table. Since Alaska law bases its tax tables on adjusted gross income the federal change will not apply. The department recommends that tax tables for Alaska income tax purposes remain based upon adjusted gross income rather than upon taxable income because it simplifies the tax calculation for the taxpayer.

If you, or your staff have any further questions about recent federal income tax changes please let me know.

Sincerely,

Sterling D. Gallagher

Sterling Gallagher
Commissioner

TRANSCRIPT FROM TAPE
TESTIMONY OF JESSIE DODSON
RE: SB 140

February 17, 1977

DODSON: I am Jessie Dodson, Special Assistant to Governor Hammond, and the Administration met with the Department of Revenue and we support the concepts of this being granted, the exception, and while our prime concerns were mechanical at first, we do concur that it should go back to the 1976 date.

SACKETT: That it should go back to the 1976 date?

DODSON: Yes, for this year's filing.

SACKETT: Senator Tillion

TILLION: You are willing to swallow the million dollars or so that it will cost?

DODSON: (Reply inaudible.)

TILLIO : I don't know whether I want to.

SACKETT: Okay, I want this for the record.

DODSON: We are aware of the cost.

SACKETT: Do you have any other comments to make?

DODSON: No.

SACKETT: Are there any questions?
Senator Orsini

ORSINI: Mr. Chairman, yesterday in our discussion it was indicated that there was a possibility that it was a lot more than a million dollars, that it may be up to 5, 6, or 7 million dollars. Has that been pinned down yet? Do you know for sure that it's a million--that's a nice round number.

DODSON: I think Gary will know.

SACKETT: I think that the Department of Revenue can answer that.

TILLION: A million is the bottom I believe isn't it? The least it could cost?

SACKETT: Senator Orsini

ORSINI: Does this indicate that the administration has changed its policy on the balanced budget percentage income from various, or relating, or ongoing projects?

DODSON: No. It's certainly not a change in policy with regard to that. I think that Gary can speak more clearly to just exactly how we intend to do it, but it is our intention that we can still make it a balanced budget.

ORSINI: Well balancing the budget is no problem, because we have plenty of income.

DODSON: Sure.

ORSINI: The problem was the percentage.

DODSON: You are referring to the 69%?

ORSINI: Right.

DODSON: No, I don't think that has changed at all.

ORSINI: We are in effect taking a million dollars or more out of the repetitive income, then shouldn't we have a like amount or increased amount out of the non-repetitive income, or else decrease our expenditures by that amount? We are changing the formula somewhere. It should appear some other place and I am wondering where else it appears.

DODSON: Well, as I said, I would rather Gary speak to that. I don't know exactly where else it appears. We have not changed our philosophy at all.

SACKETT: But you do support the bill?

DODSON: We feel that this is a proper way to go and I'm sure that when we discuss where it's going to come

TILLION: Yeah, I want to know where the money is being cut out.

DODSON: I don't know.

SACKETT: Are there any other questions of Mrs. Dodson? Senator Butrovich

BUTROVICH: I'd like to know what is your definition of elderly?

DODSON: Definition of elderly?

BUTROVICH: Yes, I was reading this memo here.

DODSON: I don't have a copy of the memo. I think it's over 65.

SACKETT: Are there any more questions of Mrs. Dodson? Thank you Mrs. Dodson.

Introduced: 2/9/77
Referred: Finance

BY COLLETTA, POLAND, HUBER, CROFT, SUMNER AND BRADLEY

IN THE SENATE

SENATE BILL NO. 140

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to tax credits under the Alaska Net Income Tax Act; and providing for an effective date."

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

* Section 1. Notwithstanding the language of AS 43.20.021 providing for delayed adoption by reference of provisions of the Internal Revenue Code which change or modify exemptions from tax or credits against tax, sec. 44A (26 U.S.C. sec. 44A) and amendments to sec. 37 (26. U.S.C. sec. 37) of the Internal Revenue Code is immediately adopted by reference as part of AS 43.20 and is retroactive to taxable years beginning after December 31, 1975.

* Sec. 2. The only effect of this Act is to accelerate the date of adoption of sec. 44A (26 U.S.C. sec. 44A) and the amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code as part of AS 43.20. In all other respects, sec. 44A (26 U.S.C. sec. 44A) and the amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code shall be treated in the same manner as though adopted under the provisions of AS 43.20.021.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.070(c) and terminates on the date that sec. 44A (26 U.S.C. sec. 44A) and the amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code would otherwise be adopted by reference under the provisions of AS 43.20.021(a).

AMENDMENT #1

OFFERED IN THE SENATE HOUSE: BY: RODEY

TO: ______ HOUSE BILL No. ______

SENATE BILL No. 140

PAGE: 1 LINE: 20

Line 20: After "AS 43.20.021." insert "AS 43.20 is amended by adding a new section to read: Sec. 43.20.215. REPARATION FOR LATE PAYMENT OF REFUNDS. Five per cent shall be added to the tax refund for each 30-day period or fraction of the period during which the department fails to issue a refund to which a taxpayer is entitled under this title, unless it is shown the failure is due to a reasonable cause and not willful neglect. The additional amount paid to a taxpayer under this section may not exceed 25 per cent of the refund due. The department shall prescribe by regulation circumstances which constitute reasonable cause for purposes of this section."

Renumber sections accordingly —

(Rep's agreement. delete last sentence)

Adopted

Original sponsors: Parr, Duncan, Miller, et al

Offered: 2/15/77
Referred: Rules

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 182 am S

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to tax credits under the Alaska Net Income Tax Act; and providing for an effective date."

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

* Section 1. Notwithstanding the language of AS 43.20.021 providing for delayed adoption by reference of provisions of the Internal Revenue Code which change or modify exemptions from tax or credits against tax, sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code are immediately adopted by reference as part of AS 43.20 and are retroactive to taxable years beginning after December 31, 1975.

* Sec. 2. The only effect of this Act is to accelerate the date of adoption of sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code as part of AS 43.20. In all other respects, sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code shall be treated in the same manner as though adopted under the provisions of AS 43.20.021.

* Sec. 3. AS 43.20 is amended by adding a new section to read:

Sec. 43.20.215. REPARATION FOR LATE PAYMENT OF REFUNDS. Five per cent shall be added to the tax refund for each 30-day period or fraction of the period during which the department fails to issue a refund to which a taxpayer is entitled under this title, unless it is shown the failure is due to a reasonable cause and not wilful neglect. The first refund period shall begin 30 days after the department has received a taxpayer's income tax return. The additional amount paid

STATE
of ALASKA

MEMORANDUM

TO: Honorable John Sackett
Chairman, Senate Finance Committee

DATE : February 10, 1977

FROM: Milt Barker, Fiscal Analyst MB
Legislative Finance Division

SUBJECT: SB 140 and HB 182

Both SB140 and HB182 would incorporate the federal provisions for a tax credit based on child care expenses into State law, while SB140 would incorporate the tax credit for the elderly as well.

The fiscal note on the two bills is the same (a loss of $1,000,000 in revenue) because the revenue loss from enacting the tax credit for the elderly is miniscule. This is because Alaska has fewer aged persons than average, few of these persons file income tax returns, those that do report very little income, and any elderly tax credits in excess of tax liability are not refundable. A description of the tax credit for the elderly, which is reduced both by pension or annuity income and earned income in excess of given levels, is appended along with a description of the former retirement income credit.

The $1,000,000 revenue loss which relates almost entirely to the child care tax credit is just Revenue's wild guess; they have no basis for estimating because few Alaskans itemize deductions -- child care expenses were formerly an allowable deduction. As a credit, more people will claim such expenses and they will claim more dollars since the provisions have been liberalized in several ways. A description of the old deduction and new credit is appended.

Revenue estimates maybe 12,000 returns which would mean $83 credits on average. However, an initial Revenue guess quoted in the papers was perhaps as much as $5,000,000 or $6,000,000.

One factor which would tend to limit the revenue loss for child care expenses is the State program for day care assistance in Community & Regional Affairs which funds day care for middle income families on a sliding scale as well as AFDC families. Thus, enactment of this credit would tend to offer greater relief to higher income families. These families, who are permitted a 20% credit of child care expenses at the federal level, would be subsidized an additional 16% of this amount at the state level, a total of 23.2% of child care expenses. However, total

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

Original sponsors: Parr, Duncan, Miller, et al

Offered: 2/15/77
Referred: Rules

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 182 am S

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to tax credits under the Alaska Net Income Tax Act; and providing for an effective date."

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

* Section 1. Notwithstanding the language of AS 43.20.021 providing for delayed adoption by reference of provisions of the Internal Revenue Code which change or modify exemptions from tax or credits against tax, sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code are immediately adopted by reference as part of AS 43.20 and are retroactive to taxable years beginning after December 31, 1975.

* Sec. 2. The only effect of this Act is to accelerate the date of adoption of sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code as part of AS 43.20. In all other respects, sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code shall be treated in the same manner as though adopted under the provisions of AS 43.20.021.

* Sec. 3. AS 43.20 is amended by adding a new section to read:

Sec. 43.20.215. REPARATION FOR LATE PAYMENT OF REFUNDS. Five per cent shall be added to the tax refund for each 30-day period or fraction of the period during which the department fails to issue a refund to which a taxpayer is entitled under this title, unless it is shown the failure is due to a reasonable cause and not wilful neglect. The first refund period shall begin 30 days after the department has received a taxpayer's income tax return. The additional amount paid to a taxpayer under this section may not exceed 25 per cent of the refund due.

* Sec. 4. This Act takes effect immediately in accordance with AS 01.10.-070(c) and terminates on the date that sec. 44A (26 U.S.C. sec. 44A) and the 1976 amendments to sec. 37 (26 U.S.C. sec. 37) of the Internal Revenue Code would otherwise be adopted by reference under the provisions of AS 43.20.-021(a).

STATE
of ALASKA

MEMORANDUM

TO: Honorable John Sackett
Chairman, Senate Finance Committee

DATE : February 10, 1977

FROM: Milt Barker, Fiscal Analyst MB
Legislative Finance Division

SUBJECT: SB 140 and HB 182

Both SB140 and HB182 would incorporate the federal provisions for a tax credit based on child care expenses into State law, while SB140 would incorporate the tax credit for the elderly as well.

The fiscal note on the two bills is the same (a loss of $1,000,000 in revenue) because the revenue loss from enacting the tax credit for the elderly is miniscule. This is because Alaska has fewer aged persons than average, few of these persons file income tax returns, those that do report very little income, and any elderly tax credits in excess of tax liability are not refundable. A description of the tax credit for the elderly, which is reduced both by pension or annuity income and earned income in excess of given levels, is appended along with a description of the former retirement income credit.

The $1,000,000 revenue loss which relates almost entirely to the child care tax credit is just Revenue's wild guess; they have no basis for estimating because few Alaskans itemize deductions -- child care expenses were formerly an allowable deduction. As a credit, more people will claim such expenses and they will claim more dollars since the provisions have been liberalized in several ways. A description of the old deduction and new credit is appended.

Revenue estimates maybe 12,000 returns which would mean $83 credits on average. However, an initial Revenue guess quoted in the papers was perhaps as much as $5,000,000 or $6,000,000.

One factor which would tend to limit the revenue loss for child care expenses is the State program for day care assistance in Community & Regional Affairs which funds day care for middle income families on a sliding scale as well as AFDC families. Thus, enactment of this credit would tend to offer greater relief to higher income families. These families, who are permitted a 20% credit of child care expenses at the federal level, would be subsidized an additional 16% of this amount at the state level, a total of 23.2% of child care expenses. However, total relief combining day care assistance with tax credits would still exhibit a somewhat progressive structure. If a more progressive structure is desired, it could be achieved by augmenting the day care assistance program rather than enacting the tax credit.

Until the State develops a tax expenditure budget which shows the amounts of revenue lost each year due to special tax provisions, greater accountability is retained by augmenting day care assistance rather than enacting a tax credit. Control is also more flexible in that program regulations and levels of funding are more easily adjusted than statutory tax provisions. On the other hand, the administrative costs of this accountability and control are largely obviated through the use of a tax credit.

If it is desired that the tax credit be available for the 1976 tax year, legislation should be enacted at once to avoid the administrative costs of amended returns. On the other hand, the necessity of filing amended returns would probably limit such claims for 1976. If the credit were not to be made effective until the 1977 tax year, there need be no rush.

MB:al

Introduced: 2/16/76
Referred: Finance

BY MILLER, COLLETTA, CROFT, FERGUSO
HUBER, RAY AND ZIEGLER

IN THE SENATE

SENATE BILL NO. 664

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the making of reparations to the taxpayer for late payment of tax refunds."

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

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

Sec. 43.20.215. REPARATION FOR LATE PAYMENT OF REFUNDS. Five per cent shall be added to the tax refund for each 30-day period or fraction of the period during which the department fails to issue a refund to which a taxpayer is entitled under this title, unless it is shown the failure is due to a reasonable cause and not wilful neglect. The additional amount paid to a taxpayer under this section may not exceed 25 per cent of the refund due. The department shall prescribe by regulation circumstances which constitute reasonable cause for purposes of this section.

THE LEGISLATURE OF THE STATE OF ALASKA

FISCAL NOTE

Second Session - Ninth Legislature

I. REQUEST

Bill No. Senate Bill 664

Title: Act relating to reparations to the taxpayer for late payment of tax refunds.

Requested by: R. D. Stevenson Date: 2-17-76

Return Date Requested: 2-18-76

Agency: Revenue Program: Audit

II. FISCAL DETAIL

Budget Request Unit(s) Affected: Administrative Services and Audit

A. EXPENDITURES: (Thousands of dollars)

	OBJECT	FY 76	FY 77	FY 78	FY 79	FY 80	FY 81
100	PERSONAL SERVICES		134.4	136.2	162.0	163.8	189.6
200	TRAVEL						
300	CONTRACTUAL		7.6	8.6	9.5	10.5	11.4
400	COMMODITIES						
500	EQUIPMENT						
600	LAND & STRUCTURES						
700	GRANTS, CLAIMS, ETC.						
	TOTAL	None	142.0	144.8	171.5	174.3	201.0

B. FUNDING: (Thousands of dollars)

GENERAL FUND	None	142.0	144.8	171.5	174.3	201.0
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	0 / 0	5 / 8	5 / 9	6 / 10	6 / 11	7 / 12
MAN MONTHS (P./T.)	0 / 0	60 / 16	60 / 18	72 / 20	72 / 22	84 / 24

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

There are many variables on how this bill might operate. Assuming it is determined that we had to insure issuance of any refund within 30 days of receipt, the above staffing would be required.

IV. ATTACHMENTS See memo dated 2-18-76 attached.

V. DATE: 2-18-76 PREPARED BY:

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

H/S 50