

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1484 SCOMM 55: JNT. SPEC. COMM. ON STATE TAX POLICY, 1986-1987 1784

A Comparison of Selected State Taxes

	Individual ⁽¹⁾ Income Taxes	Corporation ⁽¹⁾ Income Taxes (Max. Rates)	General Sales ⁽¹⁾ and Use Taxes	Motor Fuel ⁽¹⁾ Taxes (Gasoline)	Cigarette ⁽¹⁾ Taxes (Cents/20 Pk)	Alcoholic ⁽²⁾ Bev. Taxes (Distilled Spirits/Gal.)
Montana	X	6.75	No Tax	15.0	16.0	C.B.
Nebraska	X	6.65	X	14.7	18.0	2.75
Nevada	No Tax	No Tax	X	12.0	15.0	2.05
New Hampshire	X	8.0	No Tax	14.0	17.0	C.B.
New Jersey	X	9.0	X	8.0	25.0	2.80
New Mexico	X	7.2	X	11.0	12.0	3.94
New York	X	10.0	X	8.0	21.0	4.09
North Carolina	X	6.0	X	12.25	2.0	C.B.
North Dakota	X	10.5	X	13.0	18.0	4.05
Ohio	X	9.2	X	12.0	14.0	C.B.
Oklahoma	X	4.0	X	9.0	18.0	5.00
Oregon	X	7.5	No Tax	9.0	19.0	C.B.
Pennsylvania	X	9.5	X	12.0	18.0	C.B.
Rhode Island	X	8.0	X	13.0	23.0	2.50
South Carolina	X	6.0	X	13.0	7.0	4.91
South Dakota	No Tax	No Tax	X	13.0	15.0	3.80
Tennessee	X	6.0	X	10.0	13.0	4.00
Texas	No Tax	No Tax	X	10.0	19.5	2.40
Utah	X	5.0	X	14.0	12.0	C.B.
Vermont	X	9.0	X	13.0	17.0	C.B.
Virginia	X	6.0	X	13.72	2.5	C.B.
Washington	No Tax	No Tax	X	18.0	23.0	C.B.
West Virginia	X	7.0	X	15.35	17.0	C.B.
Wisconsin	X	7.9	X	16.0	25.0	3.25
Wyoming	No Tax	No Tax	X	8.0	8.0	C.B.

(1) Significant Features of Fiscal Federalism, Advisory Commission on Intergovernmental Relations (ACIR), March 1985.

(2) A Comparison of Selected Tax Rates, Government of the District of Columbia, June 1984.

(3) Rate is 20% of wholesale price.

C.B. Control Board State



ALASKA TAXATION -
POLICY AND STRUCTURE

A SEMINAR PRESENTED
by DEPARTMENT OF REVENUE

Prepared by:

Department of Revenue
October 1985

DEPARTMENT OF REVENUE
SEMINAR
ALASKA TAXATION - POLICY AND STRUCTURE

October 8 and 9 and October 15 and 16

TUESDAY

INTRODUCTION

(Commissioner Mary A. Nordale)

8:30 - 8:45

- A NEED TO GO BEYOND HEADLINES OF "FALLING REVENUES".
- A NEED TO UNDERSTAND TAX LAW AND TAX ADMINISTRATION

REVENUE SOURCE(S) PICTURE

(Treasury)

9:00 - 9:30

- REVENUE CLASSIFICATION OVERVIEW.
- ACCOUNTING FUND STRUCTURE OF THE STATE.

Brian Andrews
Page 1 - 10

TAX PHILOSOPHY

(Research Section)

9:45 - 10:15

- TAXATION EVALUATION
- TAXES COMMONLY LEVIED BY STATES
- TAX EXPENDITURE ANALYSIS

Mary Ellen
Frank
Page 11 - 12

TAX LAW

(Hearing Officers)

10:30 - 11:30

- CONSTITUTIONAL AND FEDERAL LAW
- STATUTORY AND OTHER REFERENCES
- PRINCIPLES OF CONFIDENTIALITY

Theresa
Hillhouse/
Diane Colvin
Page 13 - 21

TAX STRUCTURE

(Division of Audit)

- INCOME

1:30 - 2:20

CORPORATE - GENERAL
CORPORATE - PETROLEUM
MINING LICENSE TAX

Mark Graber
Page 23 - 31
Steve Kettel
Page 32

2:20 - 2:45

- GROSS RECEIPTS

2:45 - 3:00

ALASKA BUSINESS LICENSE
ELECTRIC AND TELEPHONE CO-OP
- BREAK -

Richard Brewer
Page 33 - 35

3:00 - 3:15

3:15 - 3:30

SEAFOOD MARKETING
SALMON ENHANCEMENT

Sylvia Vining
Page 36 - 39

3:30 - 4:00

FISH - CANNED SALMON
FISH - SHOREBASED
FISH - FLOATING

Emilio
HONDOIERO
Page 40 - 50

4:00 - 4:30

QUESTION AND ANSWER

WEDNESDAY

- EXCISE

8:30 - 8:50

FUEL TAX - AVIATION
FUEL TAX - HIGHWAY
FUEL TAX - MARINE
ALCOHOLIC BEVERAGES
TOBACCO
ESTATE

Tim Cottongim
Page 51 - 53

8:50 - 9:00

Sylvia Vining
Page 54 - 59

- PROPERTY

9:00 - 9:15

OIL AND GAS

Don Bullock
Page 60 - 62

- SEVERANCE

9:15 - 9:50

OIL AND GAS PRODUCTION
OIL AND GAS REGULATION
AND CONSERVATION

Gay Vann
Page 63 - 68

9:50 - 10:05

- BREAK -

10:05 - 10:20

REAGAN TAX REFORM PROPOSAL

Carl Meyer
Page 69 - 76

10:20 - 11:00

MULTISTATE INCOME TAX
a. WORLDWIDE UNITARY
b. WATER'S EDGE LIMITATION
THE UNITARY METHOD
c. SEPARATE ACCOUNTING

Monte Renfro
Page 77 - 80

11:00 - 11:30

QUESTION AND ANSWER

TAX ENFORCEMENT

(Division of Enforcement)

1:30 - 2:15

- PROCESSING RECEIVABLES
- COLLECTING DELINQUENT TAXES
- ACCOUNTS
- CRIMINAL INVESTIGATIONS
- MODERN COLLECTION TECHNIQUES
- COMPROMISE
- AMNESTY

Jim Leet
Page 81 - 95

APPEALS PROCESS

(Hearing Officers)

2:30 - 3:15

- INFORMAL CONFERENCE
- FORMAL HEARING
- LITIGATION

Theresa
Hillhouse/
Diane Colvin
Page 96 - 97

Page 3

REVENUE FORECASTING

3:30 - 4:30

(Research Section)

- DATA BASE
- DELPHI GROUP
- ECONOMETRIC MODELING
- FORECAST
 - a. UNDERSTANDING THE NUMBERS
 - b. 30% CASE

Vince
Wright
Page 98 - 116

DEPARTMENT OF REVENUE
SEMINAR
ON
TAXATION/REVENUES

Revenue Sources/Classifications

Brian C. Andrews
Comptroller, Treasury Division
September 13, 1985

I. Revenue Classification Overview

A. Originating Source

1. Revenues from taxes, licenses, and State resource sales or use would primarily be unrestricted.
2. Revenue From federal grant-in-aid programs or interagency transfers would be restricted revenues.
3. Unrestricted or restricted revenues can be classified special purpose revenues if State or Federal law prescribed special treatment of those revenues.

B. Appropriation

1. An agency has the ability to spend money even if it can't earn unrestricted revenues
2. An agency must earn restricted revenue before it can spend it.

C. Accounting of Revenues

1. Governmental, proprietary and fiduciary fund structures of the State. (Hand out)

D. Estimated Revenue Accounts

1. The FY 85 total estimated revenue of 4 Billion 248 million is comprised of unrestricted revenues of 3 billion 237 million, restricted revenues of 284.5 million, and special purpose revenues of 726 million.(Hand out)

DEPARTMENT OF REVENUE
SEMINAR
TAXATION/REVENUES

Accounting Fund Structure of the State

<u>Type</u>	<u>Short Description</u>
Governmental Funds	
General Fund	All Funds not accounted for in another fund.
Special Revenue Funds	Statutorily Created or created before statehood, i.e. Fish & Game Fund.
Debt Service Funds	Bond issue repayment funds.
Capital Project Funds	Bond issue proceeds to be used for acquisitions.
Proprietary Funds	
Enterprise Funds	Revolving loans/International Airports.
Internal Service Funds	Goods and services provided to other funds on a cost reimbursable basis.
Fiduciary Funds	
Agency Trust Funds	Funds held by the State acting as a trustee for other governments, funds, or external parties.
Expendable Trust Funds	Principal and interest will be fully disbursed in the course of operation, i.e. PERS, TRS.
Non-Expendable	Corpus to remain intact. i.e. Public School, University of Alaska.

General Fund Unrestricted Revenues

In Thousands of Current Dollars

	FY 1985 Estimate June	FY 1986 Estimate June	FY 1987 Estimate June
<u>Taxes</u>			
<u>Income</u>			
Corporate-General	41,000	41,000	41,000
Corporate-Petroleum	168,600	230,000	250,000
<u>Gross Receipts</u>			
Alaska Business License (1)	39,000	2,000	2,000
Fish-Canned Salmon	5,500	5,000	5,000
Fish-Shorebased	7,000	7,000	7,000
Fish-Floating	6,000	6,000	6,000
Seafood Marketing	1,000	1,000	1,000
Salmon Enhancement (2)	2,500	2,800	2,800
Insurance Companies - Dept of Commerce	17,500	18,000	18,000
Electric and Telephone Co-ops	1,900	1,800	1,800
Mining License Tax	300	300	300
<u>Severance</u>			
Oil & Gas Production (3)	1,366,800	1,165,000	980,200
Oil & Gas Conservation	700	700	700
<u>Property</u>			
Oil & Gas	128,300	123,000	126,200
<u>Sale/Use</u>			
Alcoholic Beverages	14,000	14,500	14,500
Fuel Taxes-Aviation (4)	8,000	8,000	8,000
Fuel Taxes-Highway (4)	24,000	22,500	22,500
Fuel Taxes-Marine (4)	4,200	4,300	4,400
Tobacco Products (5)	2,300	5,700	7,800
<u>Other</u>			
Estate	500	600	600
Total Taxes	1,839,100	1,659,200	1,499,800
<u>Licenses & Permits</u>			
Business (6)	12,000	12,800	15,600
Non-Business	16,000	16,500	17,000
Total Licenses & Permits	28,000	29,300	32,600
<u>Intergovernmental Receipts</u>			
Federal Shared Revenues (7)(8)(9)	11,500	11,500	11,500
<u>State Resource Revenue</u>			
<u>Sale/Use</u>			
Bonus Sales (7)(10)(11)	10,200	-0-	-0-
Investment Earnings	247,000	200,000	195,000
Rents (7)(10)(11)	5,500	5,500	6,000
Royalties (3)(7)	1,019,400	886,300	749,000
Sale of State Property	7,500	8,000	8,500
Gravel, Timber, etc. (12)	3,000	10,000	5,800
<u>Facilities Related Charges</u>			
Airports	1,600	1,600	1,700
Ferry System Southeast	30,000	32,500	34,000
Ferry System Southwest	3,000	4,000	4,400
Other	5,000	5,000	5,000

(Forecast to drop)

Fish = 21.8M est

Service Related Charges

Court System	4,600	4,900	5,200
Other	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
Total State Resources			
Revenues	1,342,500	1,162,800	1,019,600
Miscellaneous Revenues	<u>16,500</u> (13)	<u>10,000</u>	<u>10,000</u>
Total Unrestricted Revenues (14)	<u>3,237,600</u>	<u>2,872,800</u>	<u>2,573,500</u>

(1) The large amounts in FY 85 are the result of litigation in favor of the State on gross receipts taxes for years prior to 1979. The amounts shown for FY 86 and FY 87 do not include any estimate of proceeds from cases which are still in litigation.

(2) The FY 86 and FY 87 estimates reflect the recent approval by the Prince William Sound Aquaculture Corporation to assess a 2% salmon enhancement tax, effective upon the first opening of the 1985 commercial salmon season.

(3) The FY 85 forecast assumes the mean case. The forecasted numbers for FY 86 and FY 87 assume the 30 percent case; however, if the mean case had been utilized for FY 86 and FY 87, the production taxes would change to \$1,203.6 million and \$1,069.4 million, respectively. The royalty figures would change to \$95.2 million and \$820.28 million, respectively.

(4) Revenues from the three main categories of fuel tax are shown separately. However, under the provisions of AS 43.40.010(h), all refunds are made from the highway fuel tax account. If gross collections of highway fuel taxes remain constant, an increase in refunds for aviation and marine fuels could lower the net revenues shown for highway fuels. Also, increasing use is being made of tax credits, which can be taken in lieu of claiming a refund on certain non-taxable use of fuel (15 AAC 40.200).

(5) SLA 85, Ch. 24 raised the general fund portion of the cigarette tax from a rate of 1-1/2 mills (\$.0015) to 5-1/2 mills (\$.0055) per cigarette. The Act takes effect October 1, 1985.

(6) The FY 86 and FY 87 estimates reflect Ch. 26 and Ch. 37, SLA 1985 which increase the revenue collected for insurance and occupational licensing fees.

(7) Net Permanent Fund contribution by Ch. 18 SLA 1980.

(8) Ch. 94, SLA 1984 establishes the National Petroleum Reserve, Alaska, Special Revenue Fund, and provides for federal mineral receipts to be divided equally between the Alaska Permanent Fund and the National Petroleum Reserve Fund. FY 85 and subsequent year estimates have been lowered to reflect this change in allocation.

(9) The FY 85 estimate does not include any revenues shared (50/50 basis) with the federal government from the NPR A lease sale held July 20, 1983. Although high bids totaled \$16.7 million, leases will not be awarded until challenges of the sale by the State of Alaska are resolved. The State's share, assuming the case is resolved, will be equally divided between the General Fund and the Permanent Fund.

(10) Reflects state lease sales of \$33.8 million held May 22, 1984 (Sale 43 and 43A Beaufort Sea), \$0.8 million held September 18, 1984 (Sale 41 -Bristol Bay), and \$2.5 million held February 26, 1985 (Sale 46A - Upper Cook Inlet). Due to the timing of collections, some receipts from the May 1984 lease sale are shown as FY 85 revenue. The FY 85 figure represents the General Fund's 50 percent share with the remaining 50 percent deposited in the Permanent Fund.

(11) The Department of Natural Resources projects the following FY 86 and FY 87 state lease sales: FY 86 (Sale 45A -North Slope onshore, Sale 47 -Kuparuk Uplands, Sale 48 -Kuparuk Uplands, Sale 49 -Cook Inlet); and FY 87 (Sale 52 -Beaufort Sea, Sale 51 -Prudhoe Bay Uplands, Sale 50 -Camden Bay). However, bonus bids are impossible to anticipate prior to sales and, therefore, no estimates are provided.

(12) Estimates reflect increased construction of roads and drilling pads as projected by the Department of Natural Resources, however, some of these projects may be delayed or changed due to permit denials or environmental impact statement requests.

(13) The FY 85 estimate reflects the termination of the Alaska Resources Corporation. Corporate assets (\$6.2 million) were deposited in the General Fund per Ch. 161, SLA 1984.

(14) The state, per AS 38.05.180, will be granting incentive credits against royalties, severance taxes, and rentals to the oil companies for drilling exploratory wells. The anticipated deduction is approximately \$15.3 million which has not been subtracted from the aforementioned FY 85 figure of \$3,237.6 million. Additional credits are anticipated in subsequent years.

Restricted Revenues

In Thousands of Current Dollars

	FY 1985 Estimate <u>June</u>	FY 1986 Estimate <u>June</u>	FY 1987 Estimate <u>June</u>
<u>Federal Grants-in-Aid</u>			
I. Education	47,500	54,300	55,400
II. Social Services	103,600	114,400	115,900
III. Health	6,000	6,000	6,000
IV. Natural Resources	14,700	20,300	23,300
V. Public Protection	9,300	9,700	9,700
VI. Administration of Justice	600	600	600
VII. Development	4,000	3,700	3,200
VIII. Transportation	70,000	73,500	77,000
IX. General Government	<u>100</u>	<u>100</u>	<u>100</u>
Total Federal Grants-in-Aid	<u>255,800</u>	<u>282,600</u>	<u>291,200</u>
<u>Other Grants-in-Aid</u>			
I. Education	1,500	1,400	1,400
II. Social Services	5,400	3,100	3,300
III. Health	100	100	100
IV. Natural Resources	500	700	500
V. Public Protection	1,500	2,200	2,000
VI. Administration of Justice	100	200	200
VII. Development	6,200	8,300	8,700
VIII. Transportation	700	900	900
IX. General Government	<u>2,700</u>	<u>3,000</u>	<u>3,100</u>
Total Other Grants-in-Aid	<u>18,700</u>	<u>19,900</u>	<u>20,200</u>
Miscellaneous Restricted Revenue-All Categories	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Total Restricted Revenue 1/	<u>284,500</u>	<u>312,500</u>	<u>321,400</u>
Total Unrestricted Revenue	<u>3,237,600</u>	<u>2,872,800</u>	<u>2,573,500</u>
Total General Fund Revenue	<u>3,522,100</u>	<u>3,185,300</u>	<u>2,894,900</u>

1/ Restricted Revenue figures may not agree with those shown in the Governor's budget due to categorical differences between the budget and accounting system.

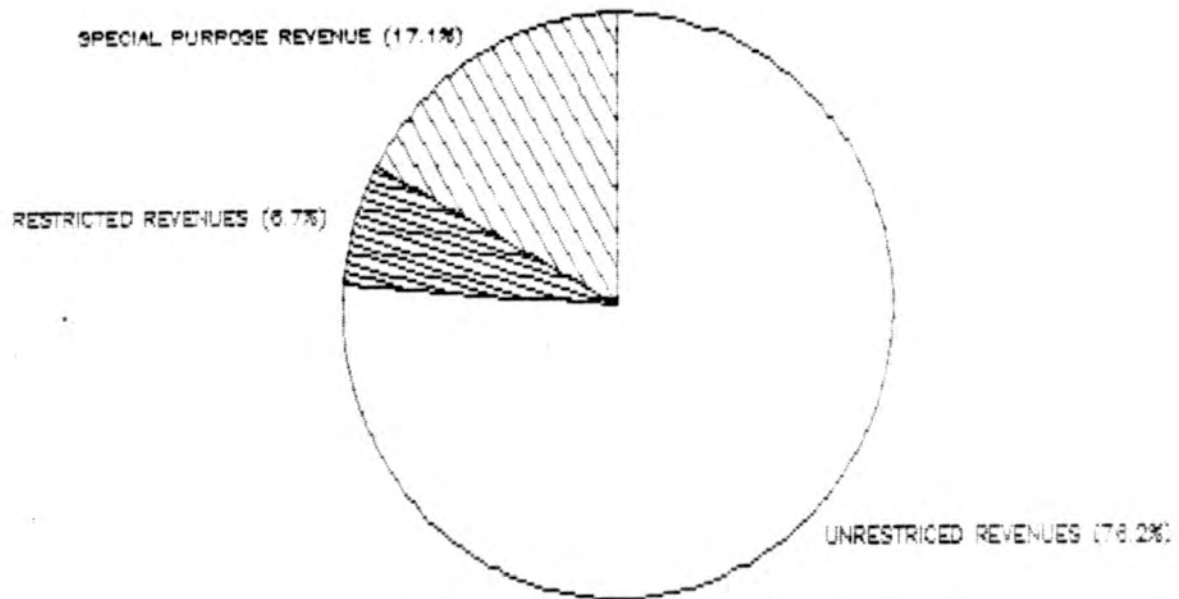
Special Funds

In Thousands of Current Dollars

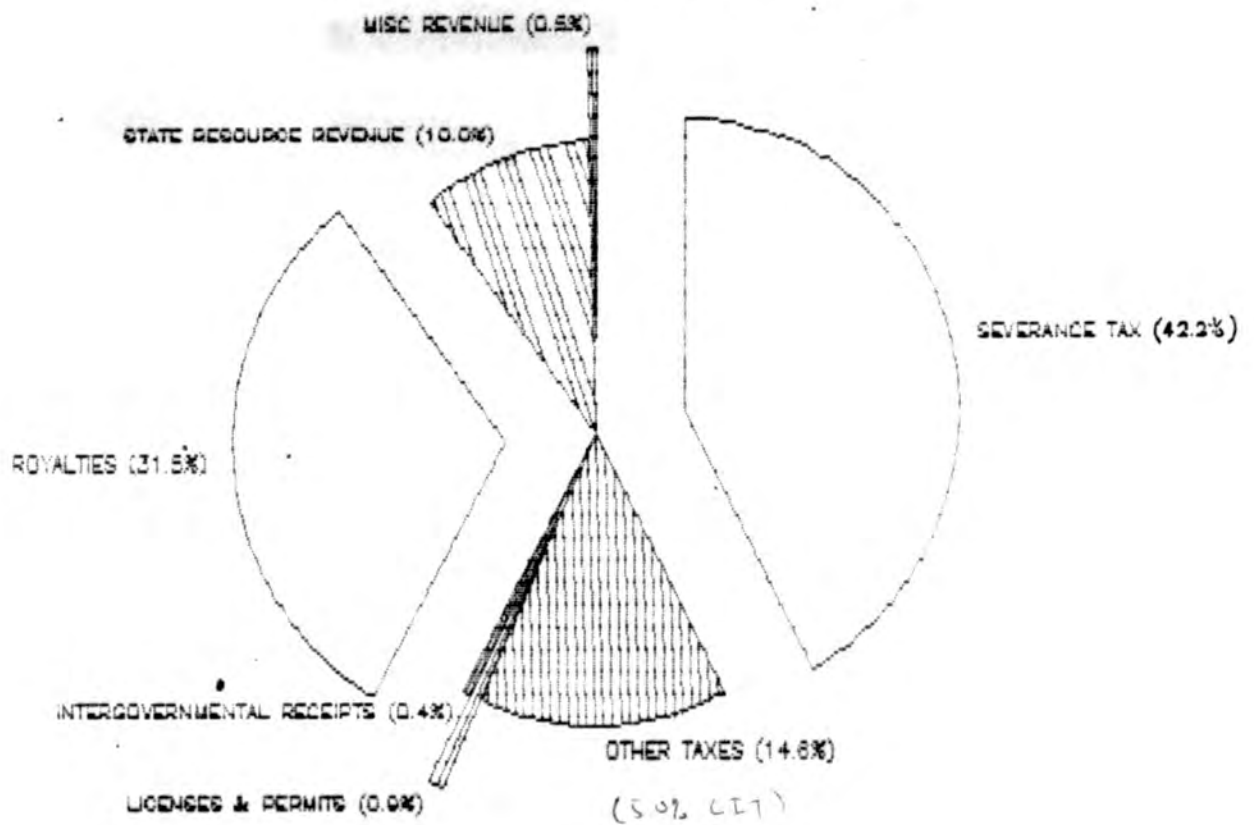
	FY 1985 Estimate <u>June</u>	FY 1986 Estimate <u>June</u>	FY 1987 Estimate <u>June</u>
<u>Enterprise Funds</u>			
Agriculture Loan Fund	1,400	1,400	1,400
Alternative Technology and Energy Loan Fund	500	600	600
Bulk Fuel Loan Fund	-0-	-0-	-0- 7
Child Care Facility Loan Fund	-0-	-0-	-0-
Commercial Fish Loan Fund	3,100	3,600	4,000
Fisheries Enhancement Loan Fund	-0-	-0-	-0-
Fisheries Product Loan Fund	-0-	-0-	-0-
Historical District Loan Fund	-0-	-0-	-0-
International Airport Revenue Fund	41,800	44,000	45,900
Medical Malpractice Loan Fund	-0-	-0-	-0-
Mining Loan Fund	1,100	1,100	1,100
Power Project Loan Fund	1,200	1,300	1,300 7
Residential Energy Conservation Loan Fund	300	200	200
Scholarship Loan Fund	1,600	2,000	2,500
Small Business Loan Fund	2,600	2,900	2,600
Tourism Loan Fund	300	300	200
World War II Veterans Loan Fund	<u>1,000</u>	<u>1,000</u>	<u>900</u>
Total Enterprise Funds	<u>54,900</u>	<u>58,400</u>	<u>60,700</u>
<u>Special Revenue Funds</u>			
Alaska Permanent Fund (1)	668 654,200	299,600	254,000 ←
Revenue Sharing Fund	-0-	-0-	-0-
NPR-A Special Revenue Fund	5,500	5,500	5,500
Fish and Game Fund	7,300	7,600	7,900
Marine Coastal Damage Fund	-0-	-0-	-0-
School Fund	3,500	3,500	3,700
Training & Building Fund	<u>600</u>	<u>600</u>	<u>600</u>
Total Special Revenue Funds	<u>671,100</u>	<u>316,800</u>	<u>271,700</u>
Total Special Funds	<u>726,000</u>	<u>375,200</u>	<u>332,400</u>

(1) The FY 85 figures includes the final \$300 million of the \$1.8 billion appropriated to the Alaska Permanent Fund per Ch. 61 SLA 1981 and Ch. 101 SLA 1982. This obligation has now been fully satisfied.

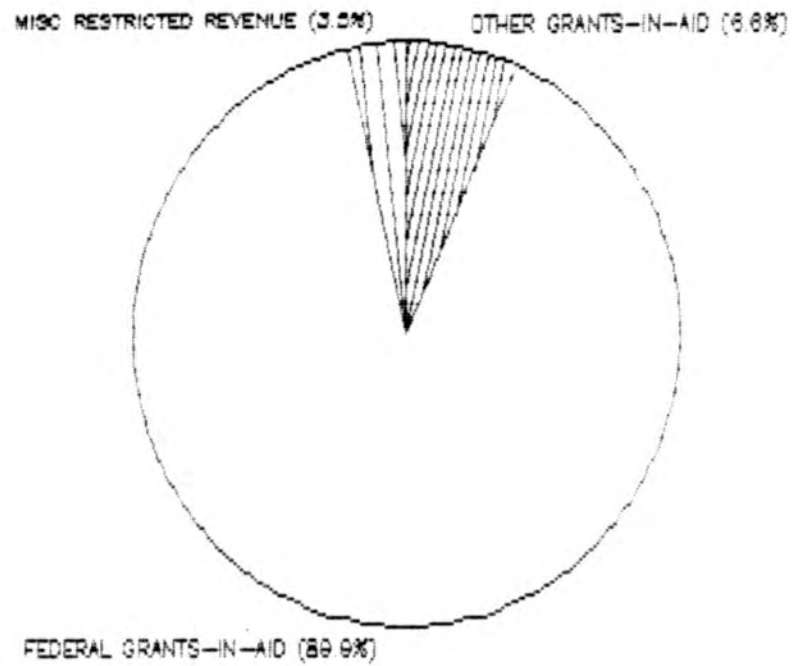
STATE OF ALASKA REVENUES
FY JUNE 1985 ESTIMATE



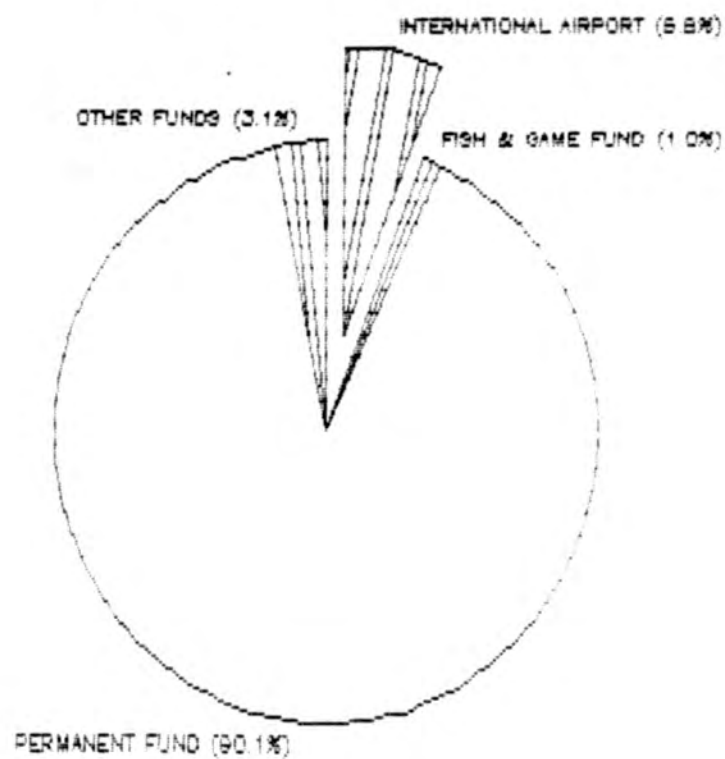
GENERAL FUND UNRESTRICTED REVENUES



RESTRICTED REVENUES



SPECIAL PURPOSE REVENUE



TAXATION/REVENUE SEMINAR

OUTLINE

By Mary Ellen Frank

1. Taxation Evaluation
 - a. Evaluation of groups in taxation process
 - 1) Individuals (Workers, Consumers, Stockholders, etc.)
 - a) Income Distribution (Table 1)
 - b) Income Sources by Income Group (Table 2)
 - c) Income Uses by Income Group (Table 3)
 - 2) Firms
 - 3) Governments
 - a) Deductibility of one governments taxes against another
 - b) Typical taxes by layer of government
 - b) Evaluation of Tax Incidence and Shifting
 - c) Issues
 - 1) Economic Efficiency
 - 2) Equity and Fairness (Table 4)
 - 3) Elasticity
 - 4) Administrative Efficiency
 - 5) Political Feasibility and Justification
2. Taxes Commonly Levied by States
 - a. Types and Rates (Table 5)
 - b. Percent Total Revenue by Type (Table 6)

TAXATION REVENUE/SEMINAR

Page 2

3. Tax Expenditure Analysis

a. Definition

b. Rationale for Tax Expenditures

1) Federal Conformity

2) Removal of Inequities

3) Ease of Administration

4) Tax Reduction

a) Encourage Certain Business Activity

b) Relieve Social Hardship

c. Evaluation of Fiscal Impact

TAXATION/REVENUE SEMINAR

OUTLINE
by Hearing Examiner Section

TAX LAW.

1. Constitutional and Federal Law.

a. Alaska Constitution.

i. Art. 9, sec. 1. Taxing Power.

ii. Art. 9, sec. 2. Non-discrimination.

iii. Art. 9, sec. 3. Assessment standards.

iv. Art. 9, sec. 4. Exemptions (state, political subdivisions, non-profit religious, charitable, cemetery and educational purposes, and other exemptions prescribed by law).

v. Art. 9, sec. 5. Interests in government property.

vi. Art. 9, sec. 6. Public purpose.

b. Commerce and Due Process Clauses, U.S. Constitution.

i. Commerce clause prohibits states from inhibiting or placing an undue burden on interstate commerce.

ii. Due process clause prevents states from imposing a tax where the relationship of the taxing state with the taxed event is insufficient to sustain the tax. "Nexus"

A. Event taxed must bear a rational relation to the taxing state.

B. Opportunities, benefits or protection must be conferred or afforded by taxing authority before tax may be imposed.

iii. Nexus, or a definite link or minimum connection between the activity within the state and the tax, is required.

c. Public Law 86-272.

i. Forbids a state from imposing an income tax on income derived within a state from interstate commerce if the only business activity within the state is solicitation of orders for sales of tangible personal property.

US Const.
Art I
Sec 3
Cl 8

141 Am

15 USC 381-384

A. Orders solicited by seller's own employees must be sent outside the state for approval or rejection and orders, if approved, must be filled by shipment or delivery from a point outside the state.

B. Seller may also solicit where solicitation is directed toward obtaining orders in the name of or for the benefit of a prospective customer.

C. Sales through independent contractors also permitted without incurring liability for taxation.

11. Interpretation of statutory terms "solicitation" and "delivery" common subject of litigation.

2. Statutory and Other References.

a. Alaska statutes (Title 43) and regulations (Title 15).

b. Internal Revenue Code and Treasury regulations adopted by reference through AS 43.20.021(a) and AS 43.20.300.

c. Formal Hearing Decisions.

d. Revenue Rulings.

e. Court decisions.

3. Principles of Confidentiality.

a. Disclosure restricted to certain persons, materials and purposes. (AS 9.25.100, AS 43.05.230, AS 43.20.021).

b. Statutory provisions applicable to all Department of Revenue personnel.

c. Consequence of unauthorized disclosure:

1. Criminal - Fine or imprisonment or both.

11. Civil - Personal action against employee.

d. Statutory terms.

1. Tax information - tax return, return information, applications, refund claims, schedules, etc..

11. Confidential information - all Department of Revenue tax information.

111. Disclosure - making known any tax information orally, in writing or through action.

e. Authorized Disclosure.

i. Authorized by statute.

ii. Written request for return by an authorized person.

iii. Information requested by authorized persons - taxpayer, third party in the presence of taxpayer, and third party by written authorization.

iv. Joint return releasable to either spouse.

v. Corporate return releasable to persons, employees, and officers designated by corporation.

vi. Partnership return releasable to either partner.

f. Business license information releasable to public, but application information not appearing on license is confidential.

g. Returns and monthly statements confidential.

h. Tax information may be released to other Agencies and Departments.

i. Child Support Enforcement Agency

ii. Multistate Tax Commission

iii. Commercial Fisheries Entry Commission

iv. Attorney General

v. Employment Security Division

vi. Law Enforcement Agencies

vii. Internal Revenue Service

1. Guidelines for releasing tax information to taxpayers - identification, written request.

CONSTITUTION OF ALASKA

Article IX Finance and Taxation

Section 1. Taxing Power. The power of taxation shall never be surrendered. This power shall not be suspended or contracted away, except as provided in this article.

Section 2. Nondiscrimination. The lands and other property belonging to citizens of the United States residing without the State shall never be taxed at a higher rate than the lands and other property belonging to the residents of the State.

Section 3. Assessment Standards. Standards for appraisal of all property assessed by the State or its political subdivisions shall be prescribed by law.

Section 4. Exemptions. The real and personal property of the State or its political subdivisions shall be exempt from taxation under conditions and exceptions which may be provided by law. All, or any portion of, property used exclusively for non-profit religious, charitable, cemetery, or educational purposes, as defined by law, shall be exempt from taxation. Other exemptions of like or different kind may be granted by general law. All valid existing exemptions shall be retained until otherwise provided by law.

Section 5. Interests in Government Property. Private leaseholds, contracts, or interests in land or property owned or held by the United States, the State, or its political subdivisions, shall be taxable to the extent of the interests.

Section 6. Public Purpose. No tax shall be levied, or appropriation of public money made, or public property transferred, nor shall the public credit be used, except for a public purpose.

Section 7. Dedicated Funds

(Alex)

Section 15. Alaska Permanent Fund

(a) Except as provided in subsection (b), the amendments made by this Act [to sections 375 to 378 of this title] shall take effect thirty days after the date of its enactment [Aug. 9, 1955].

(b) The provisions of section 2(a) of the Act of October 19, 1949, as amended by this Act [section 376(a) of this title], insofar as it requires the filing of memoranda or copies of invoices with the appropriate tax administrator for shipments of cigarettes into the District of Columbia, Alaska, Hawaii, and the Commonwealth of Puerto Rico, shall apply in respect of memoranda or copies of invoices covering shipments made during calendar months beginning after the month in which this Act is enacted [August 1955]."

ADMISSION OF ALASKA AND HAWAII TO STATEHOOD

Alaska was admitted into the Union on Jan. 3, 1959, upon the issuance of Proc. No. 3269, Jan. 3, 1959, 24 F.R. 81, 73 Stat. c16, and Hawaii was admitted into the Union on Aug. 21, 1959, upon the issuance of Proc. No. 3309, Aug. 21, 1959, 24 F.R. 6868, 73 Stat. c74. For Alaska Statehood Law, see Pub. L. 85-508, July 7, 1958, 72 Stat. 339, set out as a note preceding section 21 of Title 48, Territories and Insular Possessions. For Hawaii Statehood Law, see Pub. L. 86-3, Mar. 18, 1959, 73 Stat. 4, set out as a note preceding section 491 of Title 48.

§ 376. Reports to State tobacco tax administrator; contents; presumptive evidence

(a) Any person who sells or transfers for profit cigarettes in interstate commerce, whereby such cigarettes are shipped into a State taxing the sale or use of cigarettes, to other than a distributor licensed by or located in such State, or who advertises or offers cigarettes for such a sale or transfer and shipment, shall—

(1) first file with the tobacco tax administrator of the State into which such shipment is made or in which such advertisement or offer is disseminated a statement setting forth his name and trade name (if any), and the address of his principal place of business and of any other place of business; and

(2) not later than the 10th day of each calendar month, file with the tobacco tax administrator of the State into which such shipment is made, a memorandum or a copy of the invoice covering each and every shipment of cigarettes made during the previous calendar month into such State; the memorandum or invoice in each case to include the name and address of the person to whom the shipment was made, the brand, and the quantity thereof.

(b) The fact that any person ships or delivers for shipment any cigarettes shall, if such shipment is into a State in which such person has filed a statement with the tobacco tax administrator under subsection (a)(1) of this section, be presumptive evidence (1) that such cigarettes were sold, or transferred for profit, by such person, and (2) that such sale or transfer was to other than a distributor licensed by or located in such State.

(Oct. 19, 1949, ch. 699, § 2, 63 Stat. 884; Aug. 15, 1953, ch. 512, title II, § 201(a), 67 Stat. 617; Aug. 9, 1955, ch. 695, § 1, 69 Stat. 627.)

AMENDMENTS

1955—Act Aug. 9, 1955, designated existing provisions of this title as amended provisions therein requiring a statement of name, trade name, address and place of business by persons who sell or

transfer for profit cigarettes in interstate commerce or by persons who advertise or offer cigarettes for such sale or transfer, and added subsec. (b).

1953—Act Aug. 15, 1953, required that the memorandum or copy of invoice be filed with, rather than forwarded to, the tobacco tax administrator.

EFFECTIVE DATE OF 1955 AMENDMENT

For effective date of amendment by act Aug. 9, 1955, see section 2 of act Aug. 9, 1955, set out as a note under section 375 of this title.

EFFECTIVE DATE OF 1953 AMENDMENT

Section 201(b) of act Aug. 15, 1953, provided that the amendment to this section "shall apply only in respect of memoranda or copies of invoices covering shipments made during the calendar month in which this Act is enacted [August 15, 1953] and subsequent calendar months."

§ 377. Penalties

Whoever violates any provision of this chapter shall be guilty of a misdemeanor and shall be fined not more than \$1,000, or imprisoned not more than 6 months, or both.

(Oct. 19, 1949, ch. 699, § 3, 63 Stat. 885; Aug. 9, 1955, ch. 695, § 1, 69 Stat. 628.)

AMENDMENTS

1955—Act Aug. 9, 1955, substituted "any provision of this chapter" for "the provisions of this chapter".

EFFECTIVE DATE OF 1955 AMENDMENT

Amendment by act Aug. 9, 1955, effective 30 days after Aug. 9, 1955, see section 2 of act Aug. 9, 1955, set out as a note under section 375 of this title.

§ 378. Jurisdiction to prevent and restrain violations

The United States district courts shall have jurisdiction to prevent and restrain violations of this chapter.

(Oct. 19, 1949, ch. 699, § 4, as added Aug. 9, 1955, ch. 695, § 1, 69 Stat. 628.)

EFFECTIVE DATE

Section effective 30 days after Aug. 9, 1955, see section 2 of act Aug. 9, 1955, set out as a note under section 375 of this title.

CHAPTER 10B—STATE TAXATION OF INCOME FROM INTERSTATE COMMERCE

SUBCHAPTER I—NET INCOME TAXES

Sec.

381. Imposition of net income tax.

(a) Minimum standards.

(b) Domestic corporations; persons domiciled in or residents of a State.

(c) Sales or solicitation of orders for sales by independent contractors.

(d) Definitions.

382. Assessment of net income taxes; limitations; collections.

383. Definition.

384. Separability of provisions.

SUBCHAPTER II—DISCRIMINATORY TAXES

391. Tax on or with respect to generation or transmission of electricity.

SUBCHAPTER I—NET INCOME TAXES

§ 381. Imposition of net income tax

(a) Minimum standards

No State, or political subdivision thereof, shall have power to impose, for any taxable

year ending after September 14, 1959, a net income tax on the income derived within such State by any person from interstate commerce if the only business activities within such State by or on behalf of such person during such taxable year are either, or both, of the following:

(1) the solicitation of orders by such person, or his representative, in such State for sales of tangible personal property, which orders are sent outside the State for approval or rejection, and, if approved, are filled by shipment or delivery from a point outside the State; and

(2) the solicitation of orders by such person, or his representative, in such State in the name of or for the benefit of a prospective customer of such person, if orders by such customer to such person to enable such customer to fill orders resulting from such solicitation are orders described in paragraph (1).

(b) Domestic corporations; persons domiciled in or residents of a State

The provisions of subsection (a) of this section shall not apply to the imposition of a net income tax by any State, or political subdivision thereof, with respect to—

(1) any corporation which is incorporated under the laws of such State; or

(2) any individual who, under the laws of such State, is domiciled in, or a resident of, such State.

(c) Sales or solicitation of orders for sales by independent contractors

For purposes of subsection (a) of this section, a person shall not be considered to have engaged in business activities within a State during any taxable year merely by reason of sales in such State, or the solicitation of orders for sales in such State, of tangible personal property on behalf of such person by one or more independent contractors, or by reason of the maintenance of an office in such State by one or more independent contractors whose activities on behalf of such person in such State consist solely of making sales, or soliciting orders for sales, of tangible personal property.

(d) Definitions

For purposes of this section—

(1) the term "independent contractor" means a commission agent, broker, or other independent contractor who is engaged in selling, or soliciting orders for the sale of, tangible personal property for more than one principal and who holds himself out as such in the regular course of his business activities; and

(2) the term "representative" does not include an independent contractor.

(Pub. L. 86-272, title I, § 101, Sept. 14, 1959, 73 Stat. 555.)

STUDY AND REPORT BY CONGRESSIONAL COMMITTEES OF STATE TAXATION FROM INTERSTATE COMMERCE

Title II of Pub. L. 86-272, as amended by Pub. L. 87-17, Apr. 7, 1961, 75 Stat. 41; Pub. L. 87-435, Apr. 21, 1962, 76 Stat. 55; Pub. L. 88-42, June 21, 1963, 77 Stat. 67; Pub. L. 88-286, Mar. 18, 1964, 78 Stat. 166, and repealed by Pub. L. 94-433, title XXXI, § 2121(a), Oct. 4, 1976, 90 Stat. 1914, provided for a study by the Committee on the Judiciary of the House of Representatives and the Committee on Finance of the United States Senate, acting separately or jointly, or any duly

authorized subcommittee thereof, of all matters pertaining to the taxation of interstate commerce by the States, territories, and possessions of the United States, the District of Columbia, and the Commonwealth of Puerto Rico, or any political or taxing subdivision of the foregoing, and for a report together with their proposals for legislation on or before June 30, 1965.

SECTION REFERRED TO IN OTHER SECTIONS

This section is referred to in section 382 of this title.

§ 382. Assessment of net income taxes; limitations; collection

(a) No State, or political subdivision thereof, shall have power to assess, after September 14, 1959, any net income tax which was imposed by such State or political subdivision, as the case may be, for any taxable year ending on or before such date, on the income derived within such State by any person from interstate commerce, if the imposition of such tax for a taxable year ending after such date is prohibited by section 381 of this title.

(b) The provisions of subsection (a) of this section shall not be construed—

(1) to invalidate the collection, on or before September 14, 1959, of any net income tax imposed for a taxable year ending on or before such date, or

(2) to prohibit the collection, after September 14, 1959, of any net income tax which was assessed on or before such date for a taxable year ending on or before such date.

(Pub. L. 86-272, title I, § 102, Sept. 14, 1959, 73 Stat. 556.)

§ 383. Definition

For purposes of this chapter, the term "net income tax" means any tax imposed on, or measured by, net income.

(Pub. L. 86-272, title I, § 103, Sept. 14, 1959, 73 Stat. 556.)

§ 384. Separability of provisions

If any provision of this chapter or the application of such provision to any person or circumstance is held invalid, the remainder of this chapter or the application of such provision to persons or circumstances other than those to which it is held invalid, shall not be affected thereby.

(Pub. L. 86-272, title I, § 104, Sept. 14, 1959, 73 Stat. 556.)

SUBCHAPTER II—DISCRIMINATORY TAXES

§ 391. Tax on or with respect to generation or transmission of electricity

No State, or political subdivision thereof, may impose or assess a tax on or with respect to the generation or transmission of electricity which discriminates against out-of-State manufacturers, producers, wholesalers, retailers, or consumers of that electricity. For purposes of this section a tax is discriminatory if it results, either directly or indirectly, in a greater tax burden on electricity which is generated and transmitted in interstate commerce than on

ALASKA STATUTE

§ 09.25.100

CODE OF CIVIL PROCEDURE

§ 09.25.120

have to the money, instrument, or property, or he waives it. If the objection is to the amount of money, the terms of the instrument, or the amount or kind of property, he shall specify the amount, terms, or kind which he requires, or is precluded from objecting later. This section shall not be construed to modify or change in any manner corresponding provisions of the Uniform Commercial Code (AS 45.05). (§ 3.20 ch 101 SLA 1962)

It is not necessary to tender cash. constitute a proper tender. *Ward v. Ward v. Miller*, 13 Alaska 752 (1952). *Miller*, 13 Alaska 752 (1952).
And a check, unobjected to, would

Sec. 09.25.100. Disposition of tax information. Information in the possession of the department of revenue which discloses the particulars of the business or affairs of a taxpayer or other person is not a matter of public record, except for purposes of investigation and law enforcement. The information shall be kept confidential except when its production is required in an official investigation or court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports and items, or prohibit the publication of tax lists showing the names of taxpayers who are delinquent and relevant information which may assist in the collection of delinquent taxes. (§ 3.21 ch 101 SLA 1962)

Sec. 09.25.110. Inspection and copies of public records. Unless specifically provided otherwise the books, records, papers, files, accounts, writings, and transactions of all agencies and departments are public records and are open to inspection by the public under reasonable rules during regular office hours. The public officer having the custody of public records shall give on request and payment of costs a certified copy of the public record. (§ 3.22 ch 101 SLA 1962)

Cross references.—See Civ. R. 14-(b)(4). As to management and preservation of public records, see AS 40.21.

It is "specifically provided otherwise" by AS 12.45.050.—With respect to the right of inspection and copying records under this section, it is "specifically provided otherwise," so far as police records are concerned, by the terms of AS 12.45.050, thus meeting the express exception to this section. *Howard v. Jackson*, 7 Alas. L.J. No. 3, p. 431 (March 12, 1969).

Stated in *State v. Coon*, 2 Alas. L.J. No. 1, p. 3 (Jan. 1964).

ALR and C.J.S. references.—Finding of draft board as evidence of physical condition of one registered. 16 ALR 247.

Admissibility of report of public officer or employee on cause of or responsibility for injury to person or damage to property. 153 ALR 163.

32 C.J.S. Evidence §§ 649 to 675.

Sec. 09.25.120. Inspection and copying of public records. Every person has a right to inspect a public writing or record in the state, including public writings and records in recorders' offices except (1) records of vital statistics and adoption proceedings which shall be treated in the manner required by AS 18.50.010—

ALASKA STATUTE

Sec. 43.05.230. Disclosure of tax returns and reports. (a) Except in connection with official investigations or proceedings of the department, whether judicial or administrative, involving taxes due under this title, except in connection with official investigations or proceedings of the child support enforcement agency, whether judicial or administrative, involving child support obligations imposed or imposable under AS 25 or 47, and except as otherwise provided in this section, it is unlawful for a current or former officer, employee or agent of the state to divulge the amount of income or the particulars set out or disclosed in a report or return made under this title. (§ 2 ch 113 SLA 1980)

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

(c) The department may permit the proper officer of the United States or of a state, territory or possession of the United States or of the Dominion of Canada or of a province or territory of Canada, or his authorized representative, to inspect tax returns or reports filed with the department, or may furnish to the officer or representative a copy of the tax return, if the other jurisdiction grants substantially similar privileges to the department or its representative or to counsel for the state; and if the department determines that the other jurisdiction provides adequate safeguards for the confidentiality of the returns and reports, and that the returns and reports will be used for tax purposes only. The department may also permit the employment security division of the Alaska Department of Labor to inspect tax returns or reports filed with the department or may furnish a copy of the tax returns for tax purposes only.

(d) The commissioner of revenue at his discretion may furnish to the Multistate Tax Commission or other authorized agent information contained in the tax returns, reports, related schedules and documents filed under an audit or investigation of a multistate business made by the department. This information may be furnished for tax purposes only. The Multistate Tax Commission or other authorized agent may make the information available to the tax officials of other states, the District of Columbia, the United States and its territories for tax purposes only.

(e) Nothing in this section prohibits the publication of statistics so classified as to prevent the identification of particular returns or reports or the publication of delinquent lists showing the names of taxpayers who have failed to pay their taxes at the time and in the manner provided by law, together with other relevant information which in the opinion of the department may assist in the collection of delinquent taxes.

(f) A wilful violation of the provisions of this section is punishable by a fine of not more than \$5,000, or by imprisonment for not more than two years, or by both. (§ 2 ch 166 SLA 1976; am § 32 ch 126 SLA 1977)

(g) The information contained in a license issued by the commissioner of revenue under AS 43.50, AS 43.60, AS 43.65, AS 43.70, and AS 43.75 is public information. (§ 3 ch. 113 SLA 1980)

ALASKA STATUTE

Effective date. — Section 8, ch. 144, SLA 1978, makes this section effective January 1, 1979.

Editor's note. — Section 6, ch. 144, SLA 1978, effective January 1, 1979, provides: "TRANSITIONAL RULES FOR REVENUE SHARING UNDER THIS ACT. The revenue raised under AS 43.70 which relates to the 1978 calendar year (including the \$25 license fee due March 1, 1978 and the fees on the total gross receipts for 1978 which accompany returns filed in 1979 under AS 43.

70.030(d) is the source of revenue to be shared in 1979 in accordance with AS 43.70.080. The increase in the corporate income tax which goes into effect in 1979 is the source of revenue to be shared with the municipalities under AS 43.20.016 in 1980 and subsequent years. This Act does not entitle any organized borough or any city of any class to revenue under both AS 43.70.080 and AS 43.20.016, for the same period of time."

Sec. 43.20.017. Individual tax exemptions.
Repealed by § 9 ch 2 SSSLA 1980.

Sec. 43.20.020. Exemptions.
Repealed by § 13 ch 70 SLA 1975.

Editor's note. — The repealed section derived from § 5E, ch. 115, SLA 1949; added by § 1, ch. 132, SLA 1951; § 3, ch. 175, SLA

1959; § 1, ch. 202, SLA 1968; § 1, ch. 214, SLA 1968.

Sec. 43.20.021. Internal Revenue Code adopted by reference. (a) Subtitle F and chapter 1 of subtitle A of the 1954 Internal Revenue Code, Public Law 83-591, as amended, are adopted by reference as a part of this chapter, except that those provisions of the Internal Revenue Code adopted after December 31, 1975 which change or modify exemptions from tax or credits against tax are not adopted by reference as a part of this chapter until the second January 1 following the effective date of the federal law. These portions of the Internal Revenue Code have full force and effect under this chapter unless excepted to or modified by other provisions of this chapter.

(b) For purposes of calculating the federal tax payable on personal holding companies provided for in the provisions of Internal Revenue Code § 541, the rate is 12.6 percent.

(c) For purposes of calculating the alternative tax on capital gains provided for in the provisions of Internal Revenue Code § 1201, the rate is 4.5 percent for corporations. (am § 3 ch 2 SSSLA 1980)

(d) Where a credit allowed under the Internal Revenue Code is also allowed in computing Alaska income tax, it is limited to 18 percent for corporations of the amount of credit determined for federal income tax purposes which is attributable to Alaska. (§ 12 ch 113 SLA 1980; am § 4 ch 2 SSSLA 1980)

DIVISION OF AUDIT
INSTRUCTION SCHEDULE (PREPARED AUGUST 8, 1985)
TAX SEMINAR
OCTOBER 8TH AND 9TH AND OCTOBER 15TH AND 16TH

TUESDAY

TAX STRUCTURE

- INCOME

1:30 - 2:20	CORPORATE - GENERAL	Mark Graber
	CORPORATE - PETROLEUM	
2:20 - 2:45	MINING LICENSE TAX	Steve Kettel

- GROSS RECEIPTS

2:45 - 3:00	ALASKA BUSINESS LICENSE	Richard Brewer
	ELECTRIC AND TELEPHONE CO-OP	
3:00 - 3:15	- BREAK -	
3:15 - 3:30	SEAFOOD MARKETING	Sylvia Vining
	SALMON ENCHANCEMENT	
3:30 - 4:00	FISH - CANNED SALMON	Emilio Hondolero
	FISH - SHOREBASED	
	FISH - FLOATING	
4:00 - 4:30	QUESTION AND ANSWER	

WEDNESDAY

- EXCISE

8:30 - 8:50	FUEL TAX - AVIATION	Tim Cottongim
	FUEL TAX - HIGHWAY	
	FUEL TAX - MARINE	
8:50 - 9:00	ALCOHOLIC BEVERAGES	Sylvia Vining
	TOBACCO	
	ESTATE	

- PROPERTY

9:00 - 9:15	OIL AND GAS	Don Bullock
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- SEVERANCE

9:15 - 9:50	OIL AND GAS PRODUCTION	Gay Vann
	OIL AND GAS REGULATION	
	AND CONSERVATION	
9:50 - 10:05	- BREAK -	
10:05 - 10:20	REAGAN TAX REFORM PROPOSAL	Carl Meyer
10:20 - 11:00	MULTISTATE INCOME TAX	Monte Renfro
	a. WORLDWIDE UNITARY	
	b. WATER'S EDGE LIMITATION	
	THE UNITARY METHOD	
	c. SEPARATE ACCOUNTING	
11:00 - 11:30	QUESTION AND ANSWER	

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPIC: Corporate - General
and Petroleum

PRESENTER: Mark Graber
Appeals Officer
Division of Audit

I Introduction

A. Approximately 10% of state revenue comes from corporate income tax

B. Total revenues in 1984 were about \$300 million

II Status - General Application

A. AS 43.20.011 - Imposes a tax on the entire taxable income of every corporation derived from sources within the state.

B. Tax rates are progressive from 1% to 9.4%

C. AS 43.20.021 - Adopts the Internal Revenue Code with certain exceptions unless modified by other provisions of Alaska law.

D. Modifications to Internal Revenue Code:

1. No deduction for income taxes

2. No foreign tax credit

3. Special rules for investment tax credit

a) \$20 million qualified property limit

b) must be placed in service in Alaska

*Multistate
Tax Compact
19 States*

III Multistate Taxpayers

A. "Multistate Taxpayers" are those taxpayers who derive income from sources within and without Alaska

B. Alaska has adopted the multistate tax compact at AS 43.19

C. 43.19 requires a multistate taxpayer to apportion income based upon a formula of payroll, property and sales within Alaska. See handout for illustration.

IV Oil Companies

A. In 1981 the legislature enacted AS 43.20.072 which provides special apportionment rules for oil and gas producers and pipeline companies.

B. Only a very small amount of oil and gas is sold in Alaska and payroll is a minor input in generating oil and gas income. Therefore, 43.20.072 provides for the following apportionment factors:

C. Pipeline Companies

Worldwide Pipeline Income X $\frac{\text{Alaska Tariffs Everywhere Tariffs}}{\text{Alaska Property Everywhere Property}}$ = Alaska Pipeline Income

2

D. Oil & Gas Producers

$$\text{Worldwide Oil \& Gas Income} \times \frac{\text{Alaska Property Everywhere Property}}{\text{Alaska Extraction Everywhere Extraction}} = \text{Alaska Oil \& Gas Production Income}$$

2

E. Companies with Oil & Gas Production and Pipelines

$$\text{Worldwide Pipeline \& Production Income} \times \frac{\text{Alaska Property Everywhere Property}}{\text{Alaska Extraction Everywhere Extraction} + \text{AK Tariffs Everywhere Tariffs}}$$

3

= Alaska Pipeline and Production Income

modifications Also for:

*Airlines
Transportation Co's*

i.e. $\frac{\text{Time in AK}}{\text{Time Everywhere}}$

STATE INCOME TAXATION OF MULTISTATE AND
MULTINATIONAL CORPORATIONS

When a taxpayer earns income derived from or attributable to sources both within and without Alaska, the state must use some method of determining the income attributable to the activity within this state. Generally, Alaska accomplishes this determination of income through the use of methods which are referred to as allocation and apportionment. Each of these terms refers to an accounting method which may be used to attribute income or loss to the individual states in which a corporation is doing business or deriving income.

Allocation is the term generally used to describe the direct assignment of income or expense unrelated to the corporation's regular business to the state within which the income or expense has its source. This is commonly called the separate accounting method.

Apportionment is a term which is generally used to describe the formula division of net income or loss from the corporation's regular business among the various states within which a portion of its business is conducted.

Separate Accounting

At first glance, one might think that it would be proper to use separate accounting whereby you would compute the revenue and expenses in each state, thus arriving at a separate net income from each state. However, the use of separate accounting in most instances will not accurately reflect the income from each state.

In a simple illustration of the use of separate accounting, our example assumes that a corporation headquartered in California is engaged in fishing operations, has its processing plant in Alaska and its sales division in Washington. See page 3A. It shows that, despite the fact that the corporation earned a net profit of \$3,700,000 from its business activities everywhere, separate accounting attributes a net loss to its headquarters operation, a net loss to its processing facility and a sizeable net income to its sales outlet in Washington, a state with no corporate net income tax. Is Alaska entitled to tax any of the income from the entire operation? It is difficult to imagine that the processing activities performed in Alaska produced no income for the corporation, yet, by the use of separate accounting, the Alaska business would reflect a net loss.

If either Alaska or California were to contest this result, each would, short of using the formula apportionment method, be

required to demonstrate that transactions between the divisions were not at "arm's length"; that is, that they reached a different result than would be realized if the divisions were not related to one another. Normally, "arm's length" audits are impossible to successfully defend, because the question of what constitutes an "arm's length" price for the sale of sometimes unique goods and services is usually a question of individual judgement which cannot be definitively established by either the corporation or the state. At its best, this is a very costly and time-consuming audit problem since the Internal Revenue Service is not concerned with inter-division transactions which shift a corporation's profits between states. The IRS is only concerned with "arm's length" adjustments of international, not interstate, transactions. And even the IRS admits that its program to monitor international "arm's length" pricing is understaffed and inadequate.

Separate Accounting Attribution of Income

<u>Alaska</u>	
Sales	5,000,000 (a)
Processing Cost	(3,500,000)
Admin. Cost	(1,750,000)(b)
Net (Loss)	<u>(250,000)</u>

<u>California</u>	
Admin. Fees:	
Processing - AK	1,750,000 (b)
Sales - WA	500,000 (b)
Expenses	<u>(2,300,000)</u>
Net (Loss)	<u>(50,000)</u>



<u>Washington</u>	
Sales	10,000,000
Cost of Merchandise	(5,000,000) (a)
Admin. Cost	(500,000) (b)
Selling Expense	<u>(500,000)</u>
Net Income	<u>4,000,000</u>



(a) (b) Intercompany Transactions

Formula Apportionment

The solution to the problem presented in our separate accounting analysis lies in the use of the formula apportionment method. (See page 5A) This method attributes net income of an integrated business enterprise based upon the comparative extent of its activities in each state. This instate activity is measured as a percentage of the corporation's use of capital, labor and the marketplace within the state, because these factors are generally recognized as the key elements necessary to the production of income.

Our illustration of the results reached for the same corporation using the formula apportionment method shows that, based upon its percentage of property, payroll and sales activity in each state, the corporation would attribute 33% of its net income to Alaska and 26% and 41% respectively to California and Washington.

Since the corporation's business operation as a whole was profitable, and because its activities in each of the three states contributed to or were dependent upon each other to achieve this result, measurement of the corporation's activities using each state's percentage of property, payroll and sales produces a reasonably defensible and clearly determinable method of attributing the corporation's net income

among the states. In fact, decisions of the U.S. Supreme Court dating back as far as 1941 have held that formula apportionment is a proper method of attributing the income of an integrated business among the states in which it operates, even if the business is operating as multiple related corporations.

Apportionment of Income by per AS 43.20 & 43.19

Assume factors as follows:

	<u>AK</u>	<u>CA</u>	<u>WA</u>	<u>Total</u>
Property	\$6M	\$3M	\$1M	\$10M
Payroll	1M	1.2M	.3M	2.5M
Sales	-	-	10M	10M

Apportionment:

Alaska				
Property	6M/10M = 60%	)	100% / 3 = 33% (Alaska Factor)	
Payroll	1M/2.5M = 40%	)		
Sales	-0-	)		
California				
Property	3M/10M = 30%	)	78% / 3 = 26% (California factor)	
Payroll	1.2M/2.5M = 48%	)		
Sales	-0-	)		
Washington				
Property	1M/10M = 10%	)	122% / 3 = 41% (Washington Factor)	
Payroll	.3M/2.5M = 12%	)		
Sales	10M/10M = 100%	)		

Net Income of Unitary Business:

\$3,700,000 x 33% = 1,221,000 = Alaska Source Income
\$3,700,000 x 26% = 962,000 = California Source Income
\$3,700,000 x 41% = 1,517,000 = Washington Source Income

100% = 3,700,000 = Total Income

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPIC: Mining License Tax

PRESENTER: Steven E. Kettel
Chief, Audit Services
Division of Audit

I. Brief History of Mining and Taxation in Alaska.

- A. The Mining License Tax was initiated by the Territory's First Legislature in 1913 as Chapter 52.
- B. Chapter 74 of the Laws of Alaska, 1935 increased the rate of taxation.
- C. The discovery of platinum at Goodnews Bay resulted in substantial production.
- D. Gold mines were shut down by federal order in 1942 in support of the war effort.
- E. Chapter 64 of the Laws of Alaska, 1947 raised tax rates.
- F. 1951 law change provided 3 1/2 year exemption from tax.

162 Law
1st \$40,000
Exempt

II. Description of Mining Tax Law

- A. AS 43.65.010 levies the tax.
- B. A free, annual license must be obtained from the department.
- C. The department will issue a certificate of exemption to operators who qualify for the 3 1/2 year exemption.
- D. Operators must file a return before May 1 following the end of the tax year, or by the last day of the fourth month following the end of the fiscal year.
- E. Detailed explanation of the tax rates.
- F. Computation of net income subject to tax.

III. Current Developments

- A. The DOR, in conjunction with the Department of Natural Resources has been developing mining license tax regulations.
- B. Details of the additional explanation provided of the law.
- C. The key challenge in the near future will be in dealing with the world class size mines soon to begin operation.

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Alaska Business
License &
Electric & Telephone
Co-Op

PRESENTER: Richard D. Brewer, CPA
Chief of Audit Operations
Division of Audit

Statutes: AS 43.70.020 - .040, .080 - .090, .110 - .120
Regulations: 15 AAC 70.210, 70.230

I. Introduction - Present law is a vestige of the past license fee.

- A. For the privilege of engaging in a business in the State of Alaska.
- B. Covers all operations for a particular line of business e.g. roadhouses have multiple operations, but require only one license; a drug store within a hotel would require two licenses i.e. functional integration would govern.
- C. Renewal application and initial fee payment is due not later than January 31 at each year. Amt. = \$25.00.
- D. License is not transferable or assignable.
 - a. 10 day notification requirement for a new owner or lessee.

II. History - Effective January 1, 1979 substantial modification.

- A. Only \$25.00 license fee kept intact.
- B. Application of 7% rate of net income to all banks and financial institutions.
- C. Bank provision repealed effective January 1, 1984.

Banks under business license tax
T-bills income unfavourable otherwise
i.e. Corp. income tax
So, est bank tax liability will be halved

Q: Liabilities to banks for refunds?
w/ unfavourable Ruling

Burlington Northern
✓
non tax
Business
License
Tax Act

CORRECTION

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

among the states. In fact, decisions of the U.S. Supreme Court dating back as far as 1941 have held that formula apportionment is a proper method of attributing the income of an integrated business among the states in which it operates, even if the business is operating as multiple related corporations.

(WA has no ^{corp.} income tax)

Does have gross receipts tax

Apportionment of Income by per AS 43.20 & 43.19

Assume factors as follows:

	<u>AK</u>	<u>CA</u>	<u>WA</u>	<u>Total</u>
Property	\$6M	\$3M	\$1M	\$10M
Payroll	1M	1.2M	.3M	2.5M
Sales	-	-	10M	10M

Apportionment:

	Alaska	
Property	6M/10M = 60%	) 100% / 3 = 33% (Alaska Factor)
Payroll	1M/2.5M = 40%	
Sales	-0-	

	California	
Property	3M/10M = 30%	) 78% / 3 = 26% (California factor)
Payroll	1.2M/2.5M = 48%	
Sales	-0-	

	Washington	
Property	1M/10M = 10%	) 122% / 3 = 41% (Washington Factor)
Payroll	.3M/2.5M = 12%	
Sales	10M/10M = 100%	

Net Income of Unitary Business:

\$3,700,000 x 33% = 1,221,000 = Alaska Source Income
\$3,700,000 x 26% = 962,000 = California Source Income
\$3,700,000 x 41% = 1,517,000 = Washington Source Income

100% = 3,700,000 = Total Income

Borax
 Greens Creek - Nevada
 Kennecott Copper
 Diamond - AK - Beluga - Coal
 Usibelli Coal 84 Mining tax
 Gerdner's Bay - Platinum Returns
 Red Dog 260
 183 = 155

Tax Payers '83 '84
 23 26 Businesses

Tax Paid	
83	84 %
Coal 42%	37%
Gold 11%	8%
Sand + Gravel 47%	55%

H/B 258 ITC on 1st 250M = 17.2M
 1999 Sunset apply to corp

Q: ~~Dept. Resources expended on mining tax~~
~~240 Regs hearings, etc.~~

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPIC: Mining License Tax

PRESENTER: Steven E. Kettel
Chief, Audit Services
Division of Audit

I. Brief History of Mining and Taxation in Alaska.

- A. The Mining License Tax was initiated by the Territory's First Legislature in 1913 as Chapter 52.
- B. Chapter 74 of the Laws of Alaska, 1935 increased the rate of taxation.
- C. The discovery of platinum at Goodnews Bay resulted in substantial production.
- D. Gold mines were shut down by federal order in 1942 in support of the war effort.
- E. Chapter 64 of the Laws of Alaska, 1947 raised tax rates.
- F. 1951 law change provided 3 1/2 year exemption from tax.

162 Law
1st \$40,000
Exempt

II. Description of Mining Tax Law

- A. AS 43.65.010 levies the tax.
- B. A free, annual license must be obtained from the department.
- C. The department will issue a certificate of exemption to operators who qualify for the 3 1/2 year exemption.
- D. Operators must file a return before May 1 following the end of the tax year, or by the last day of the fourth month following the end of the fiscal year.
- E. Detailed explanation of the tax rates.
- F. Computation of net income subject to tax.

III. Current Developments

- A. The DOR, in conjunction with the Department of Natural Resources has been developing mining license tax regulations.
- B. Details of the additional explanation provided of the law.
- C. The key challenge in the near future will be in dealing with the world class size mines soon to begin operation.

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Alaska Business
License &
Electric & Telephone
Co-Op

PRESENTER: Richard D. Brewer, CPA
Chief of Audit Operations
Division of Audit

Statutes: AS 43.70.020 - .040, .080 - .090, .110 - .120
Regulations: 15 AAC 70.210, 70.230

I. Introduction - Present law is a vestige of the past license fee.

- A. For the privilege of engaging in a business in the State of Alaska.
- B. Covers all operations for a particular line of business e.g. roadhouses have multiple operations, but require only one license; a drug store within a hotel would require two licenses i.e. functional integration would govern.
- C. Renewal application and initial fee payment is due not later than January 31 at each year. Amt. = \$25.00.
- D. License is not transferable or assignable.
 - a. 10 day notification requirement for a new owner or lessee.

II. History - Effective January 1, 1979 substantial modification.

- A. Only \$25.00 license fee kept intact.
- B. Application of 7% rate of net income to all banks and financial institutions.
- C. Bank provision repealed effective January 1, 1984.

Banks under business license tax
T-bills income unfaxable otherwise
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So, est bank tax liability will be halved

Q: Liabilities to banks for refunds?
w/ unfavorable Ruling

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Mon from
Business
License
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ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Alaska Business
License &
Electric & Telephone
Co-Op

PRESENTER: Richard D. Brewer, CPA
Chief of Audit Operations
Division of Audit

Statutes: AS 10.25.010 - 10.25.650
Regulations: 17 AAC 15.301, 3AAC 16.060

I. Introduction

- A. Conversion into a cooperative for an existing corporation supplying electric energy or telephone service requires a two-thirds majority.
- B. Organized under Title 10.

II. Taxation.

- A. Initial fee (\$25.00) under the Alaska Business License Act.
- B. Prior to March 1, shall pay to the State a percentage of gross revenue earned during the preceding calendar year.
 - 1. In lieu of any State and local ad valorem, income, and excise tax.
 - 2. Rates.
 - a. one percent of gross revenue for cooperatives that have furnished electricity or telephone service for less than five years as of December 31 of the prior year.
 - b. Two percent having served consumers for five years as of December 31 of the prior year.
 - 3. Gross revenue.
 - a. for electric cooperatives gross revenues include that derived from sales to consumers exclusive of revenue from the sale or transmission of electricity energy and power to or on behalf of another distributor.
 - b. for telephone cooperatives gross revenues include all revenues earned from local and toll services.

Retail Sales of Electricity, only.

II. Continued.

C. Sharing of revenues.

1. Proceeds less costs of administration to be refunded to local taxing authorities by legislative action.
2. Taxes collected outside a taxing authority shall be retained and deposited into the general fund.

D. Inventory and fixtures incidental to furnishing of central station electric service including appliance stores or departments is not exempt from ad valorem taxes.

III. Current developments.

A. Section 1, Chapter 136, SLA 1982 expanded the allowable functions of a telephone cooperative to include "related telecommunications service to its members."

1. Does this include cable television service?
2. If so, and there is nothing to the contrary, are cable television receipts subject to the cooperative's gross revenue tax?
3. Definition - "Service where there is the transmission and reception of messages, impressions, pictures, and signals by means of electricity, electromagnetic waves, and any other kind of energy, face variations, or impulses, whether conveyed by cable, wire, radiated through space or transmitted through other media within a specific area or between designated points.
(AS 10.25.640)

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Salmon Enhancement
Seafood Marketing

PRESENTER: Sylvia Vining
Anchorage Audit Group
Division of Audit

Alaska Statute 43.76
Salmon Enhancement Tax

- I. Imposition of this tax became effective April 1, 1981.
- A. The Salmon Enhancement Tax replaced the aquaculture tax previously levied on limited entry permit holder by the Department of Fish and Game.
 - B. Tax is voted on by qualified regional associations.
 - C. Currently there are ~~three~~⁴ such qualified regions:
 - i. Cook Inlet - 2%
 - ii. Northern Southeast - 3%
 - iii. Southern Southeast - 3%
 - iv. Prince William Sound ^{2%}
 - D. Tax is based on "value" which is defined as the actual cash price paid plus other consideration (such as fuel, meals, and repairs).
 - E. Salmon roe is taxed only if sold separately from the carcass.
 - F. Payments for previous years currently received are also taxable.
- II. Reporting and Paying the Tax
- A. The limited entry permit holder is liable for the tax.
 - i. He must report and pay the tax if salmon are caught in a qualifying region and sold outside that region.
 - ii. He is liable for the tax for salmon sold inside a qualified region. However, the buyer of such salmon is charged with the collection of the tax and the filing of the report.
 - B. Reports and tax are due the last day of the month following the month in which salmon were removed or sold.
 - C. Buyers and fishermen are also required to file an annual report to reconcile the monthly reports at year end.
 - i. Annual report ^{and payment} is due March 1 of the following year.
 - ii. No extensions allowed for either filing the report or paying the tax.

III. Records

- A. Buyers should maintain the following records:
 - i. Fish and Game tickets for salmon acquired
 - ii. Daily records for each transaction to show
 - a. person from whom acquired
 - b. that person's limited entry permit number
 - c. pounds and value by species of salmon
 - d. amount of tax collected
 - e. the region in which the salmon were caught
- B. Limited entry permit holders should maintain:
 - i. Fish and Game tickets for salmon sold or transferred outside of a qualified region
 - ii. Daily records for each transaction to show
 - a. person to whom sold
 - b. pounds and value by species of salmon
 - c. the region in which the salmon were caught

IV. Revenue

- A. Revenue collected is deposited in the General Fund.
- B. Legislature then appropriates monies to provide financing for qualified regional associations.
- C. Monies may be used to stock lakes and build hatcheries.
- D. Amount of revenue collected for the twelve months ending June 30, 1984, totalled \$2,223,516.

ADFG

Alaska Statute 16.51
Seafood Marketing Assessment

I. Origin of Tax

- A. Eligible seafood processors vote on the assessment as provided by this chapter.
- B. Initially a graduated tax, the tax is now levied at the rate of .2 percent (.002) of the total value paid for the seafood products.
- C. The tax is levied only on processors whose value paid for seafood products during a year is at least \$50,000.

II. Returns

- A. Even if no assessment is due, a return must be filed.
- B. A return must be filed and the tax due paid by March 31 of the year following the year in which the assessment applies.
- C. An extension for filing may be obtained by filing Form 04-577 which is available from the Department of Revenue. There is no extension for payment of the tax.
- D. If additional payments are made currently for fisheries resources purchased in a previous year and after filing the report, Form 04-586, Seafood Marketing Assessment Report of Bonus or Other Additional Payments, must be filed.
 - i. This report and the applicable tax is due by the last day of the month following the month the payment is made.
 - ii. If the Form 04-577, the annual report, has not been filed, additional payments currently made should be included.

III. Administration and Enforcement

- A. This tax is a voluntary tax and is governed by the Department of Fish and Game.
- B. However, administration and enforcement of the tax is covered by the same statute applicable to other taxes administered by the Department of Revenue.

IV. Revenue

- A. Revenue collected for the twelve month period ending June 30, 1984, totalled \$1,124,215.
- B. The revenue is deposited in the General Fund.
- C. The legislature appropriates funds for the following:
 - i. programs of education, research, advertising, and sales promotion
 - ii. promotion of all seafood processed for sale
 - iii. development of market-oriented quality specifications for Alaska seafoods
 - iv. preparation of market research and product development plans for the promotion of all seafood

V. Alaska Seafood Marketing Institute (ASMI)

- A. ASMI is a public corporation of the state.
- B. ASMI's job is to promote and develop the seafood industry in Alaska.
- C. Programs and information available from ASMI is quite extensive.
- D. Further information on ASMI is available from

Alaska Seafood Marketing Institute
526 Main Street
Juneau, Alaska 99801
(907) 586-2902

18 member board processors & fishermen + 1 (un-)

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Fish: Canned Salmon,
Shorebased, Floating

PRESENTER: Emilio P. Hondolero
Supervisor
Fisheries & Mining Tax
Unit
Division of Audit

I. Introduction

- A. Brief History - From initial "flat tax" on canned salmon and freezerships through "raw fish tax" and the current statutes.
- B. Revenues currently generated by the Alaska Fisheries Business Tax.
- C. Shared revenues and their importance to boroughs and municipalities.

II. Definitions

- A. What is a fisheries business? - Examples of fisheries businesses with separation of processors and exporters from primary buyers.
AS 43.75.100 & 140(3), 15 AAC 75.300(1)
- B. The importance of fair market value and ex-vessel price in determining fisheries business tax.
- C. Processing as defined for purposes of determining fish tax.
AS 43.75.140

III. Alaska Fisheries Business Return Tax AS 43.75.015

- A. Currently there are five different tax rates on fisheries resources.
- B. The rates are broken down into two major categories, established fisheries and developing fisheries.
- C. More than one set of criteria is used to determine whether a fisheries resource is developing and qualifies for lower tax rate.

IV. Liability for Payment

- A. A liability for the fisheries business tax exists when a person, partnership, corporation or joint venture processes a fisheries resource for subsequent sale, or transports an unprocessed fisheries resource out of the state of Alaska's jurisdiction for subsequent sale or processing.

- B. Liability when more than one processor is involved.
 - 1. The tax liability is with the initial processor.
 - 2. A liability exists for fisheries by-products when they are purchased separately from the carcass.
- C. A custom processor is a fish processor who is not the legal owner of the fish.
- D. The custom processor is liable for the fisheries business tax when he processes fish for an unlicensed fisheries business.
- E. A fisherman who performs limited processing in order to preserve the quality of the raw fisheries resource may qualify for an exclusion from the fisheries business return tax.
- F. Bonus payments made to the fisherman based on the wholesale price of the raw fisheries resource or the wholesale price of the finished product are subject to the fisheries tax.

- V. All licensed fisheries businesses are required to file a fisheries business tax return and pay the tax on or before April 1 after the close of the calendar year.

A GUIDE TO ALASKA FISHERIES BUSINESS TAX

Authority: Alaska Statutes Title 43, Chapter 75

October, 1985

Fisheries & Mining Tax Unit
Audit Division
Alaska Department of Revenue
Pouch SA
Juneau, Alaska 99811-0400
(907) 465-2371

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I. WHAT IS A FISHERIES BUSINESS?

A person, partnership, corporation or joint venture who processes or custom processes a fisheries product or fisheries resource in any way in the state of Alaska for subsequent sale is a fisheries business. A person, partnership, corporation or joint venture who transports an unprocessed fisheries resource out of the state of Alaska's jurisdiction for subsequent sale or processing is also a fisheries business. Persons or businesses who may come under this category include, but are not limited to:

1. Canneries;
2. Cold Storages;
3. Commercial fishermen who process their catch;
4. Custom Processors;
5. Fish buyers, processors, or fishermen who transport unprocessed products out of the taxing jurisdiction of Alaska;
6. Freezerships;
7. Processing Plants; or
8. Restaurants, supermarkets and meat markets that buy unprocessed resources directly from fishermen and process them for sale to the public.

Statutory Authority: AS 43.75.100 and 140(3)

Regulatory Authority: 15 AAC 75.300(1)

II. WHAT IS PROCESSING?

Processing is any activity which modifies the physical condition of a fisheries resource. This activity includes but is not limited to butchering, freezing, salting, cooking, canning, beheading (except for shrimp), dehydrating or smoking. Processing does not include the activity performed by the fisherman to preserve the fish, such as gutting, gilling, sliming or icing.

Statutory Authority: AS 43.75.140(3)

Regulatory Authority: 15 AAC 75.300(2), (4) and (5)

III. WHAT REQUIREMENTS OF THE STATE MUST BE MET BEFORE ENGAGING IN A FISHERIES BUSINESS?

There are numerous permits and licenses that may be required. Listed here are only those requirements of the Departments of Revenue, Labor, and Fish & Game.

A. Department of Revenue

1. Before engaging or attempting to engage in a fisheries business, a person or company shall first apply for and obtain an Alaska Fisheries Business License for each location of operation. The application must be accompanied by a twenty-five dollar license fee plus security for estimated

fish taxes. To determine the estimated tax you must first indicate the total pounds and value of fisheries resources you expect to:

- a. process;
 - b. have custom processed; or
 - c. transport unprocessed out of the taxing jurisdiction of Alaska.
2. Once a total value is determined, this must be multiplied by the applicable tax rate which will give you the amount of your estimated fish taxes. This must then be secured by one of the following three methods:
- a. Secure a Fisheries Business Tax Bond form 04-062 from an insurance company or bonding company in an amount of twice the estimated taxes. At the discretion of the Commissioner, the Department of Revenue also accepts as collateral, certificates of deposit, letters of credit, money market certificates, or Federal Treasury Bonds, any of which must be in the favor of the State of Alaska, in an amount equal to twice the total estimated tax, and have a term of at least 18 months.
 - b. Prepay the total estimated tax (make a check payable to the Department of Revenue for the amount of the total estimated fisheries business tax only).
 - c. Provide proof of real property in the state of Alaska, owned by the applicant, the lienable value of which is at least three times the total estimated tax. A copy of the property deed or title and current property tax assessment notice, market appraisal, or some other independent legal valuation must accompany the application. In addition, if there are any liens on said property, the applicant must provide third party documentation on these amounts as well.
 - d. If the applicant purchases salmon for export in the round, the amount of security must be \$50,000 using one of the three methods as described above.

NOTE: Nonresidents must file a nonresident affidavit form 04-654 on or before June 2 of each license year. Any applicable taxes (other than fisheries taxes) which may be due must also be secured at this time.

Statutory Authority: AS 43.75.011, 020, 055 and 100
Regulatory Authority: 15 AAC 75.100

B. Department of Labor

All fish processors and primary fish buyers must obtain a license and a \$10,000 bond prior to starting operations for each calendar year, and must keep the bond current while working within the state of Alaska. A separate security is required for each opera-

tional location which requires a separate license. The bond is to cover any unpaid wages or unpaid fish purchases and will remain in force for two years. The law permits firms to satisfy the bonding requirement by posting a surety bond, cash deposit, or lienable real property. Waivers of this requirement may be obtained if the applicant harvests his own product and does not hire employees. The Department of Labor will notify the Department of Revenue when this requirement has been met or waived.

C. Department of Fish and Game

An Intent to Operate form must be completed and submitted by those persons or companies who expect to purchase, and/or process fisheries resources. There is no fee to be submitted. This form requires that you indicate type of operation, species of resources you expect to purchase or process, and management area in which you will be operating. The Intent to Operate form will be approved only if all the requirements of the Departments of Labor and Revenue are met. When all requirements are met and it is determined that the Intent to Operate form is complete, the Department of Fish & Game (ADF&G) will issue fish tickets and processor codes. The fish tickets are used by ADF&G to manage specific fisheries resources and provide statistical information which is used by a wide variety of governmental agencies and the public. The processor code is an identification code similar to a vehicle registration or vessel registration number.

IV. WHAT ARE THE TAX RATES?

There are different tax rates which are dependent upon the type of processing facility and the type of resource processed. These rates are as follows:

Established Commercial Fisheries		
Salmon canned at a shore-based facility		4.5%
Shore-based		3.0%
Floating		5.0%
Developing Commercial Fisheries		
Shore-based		1.0%
Floating		3.0%

Statutory Authority: AS 43.75.015 and 100

V. WHAT IS A DEVELOPING COMMERCIAL FISHERY?

The 1979 legislative session allowed for a reduced tax rate to be paid on developing fisheries resources. This reduced tax rate was established to encourage fisheries businesses to purchase or catch and process fisheries resources that were underutilized in the waters of the state of Alaska.

The Department of Fish and Game establishes the developing commercial fisheries list. This list is used by the Department of Revenue to determine tax liability. If a fisheries business claims a fisheries resource on the Alaska Fisheries Business Return as a developing fishery, the tax rate is two percent less in each case.

Statutory Authority: AS 43.75.015(b) and 140(2)

VI. WHAT IS "VALUE" OR "MARKET VALUE"?

The processor must pay the tax based on the value or market value of the fisheries resource purchased or caught. If the fisheries resource is purchased from a fisherman, the value is established by the actual price paid plus other consideration offered to the fisherman for catching the fish. Other consideration includes fuel, meals, repairs or other items that are offered to the fisherman as compensation for the resource. If the product is caught in a company-owned boat, then the value is established by the current market value of the resource. Market value generally means industry standard for the price paid in a general locality at the time the resource or other similar products are caught.

Statutory Authority: AS 43.75.140(7)

Regulatory Authority: 15 AAC 75.300(3) and (6)

VII. WHO IS LIABLE TO REPORT AND PAY THE ALASKA FISHERIES BUSINESS TAX?

Any person, partnership, corporation or joint venture who obtained an Alaska Fisheries Business License must file the Alaska Fisheries Business Return indicating their activities for the previous calendar year. If you did not obtain an Alaska Fisheries Business License but operated as a fisheries business, you still must file the return. Examples of those required to file a return include but are not limited to:

1. Canneries;
2. Cold Storages;
3. Commercial fishermen who process their catch;
4. Custom Processors;
5. Fish buyers, processors, or fishermen who transport unprocessed products out of the taxing jurisdiction of Alaska;
6. Freezerships;
7. Processing Plants; or
8. Restaurants, supermarkets and meat markets that buy unprocessed resources directly from fishermen and process them for sale to the public.

Statutory Authority: AS 43.75.015, 030, 100 and 110

VIII. WHAT INFORMATION IS REQUIRED TO BE REPORTED ON THE ALASKA FISHERIES BUSINESS RETURN?

1. Name of the taxpayer;
2. Mailing address;
3. Federal employer identification number (EIN), or social security number (SSN);
4. Fisheries business license number;
5. Year for which tax return is reporting;
6. Location of operation;
7. Value of fisheries resources processed during the license year, by category of fisheries business, pounds, price per pound, and by species;
8. Names of developing commercial fisheries processed during the year;
9. Name of fisheries business which first actually and physically processed the fisheries resources or which sold or processed the fisheries resources outside the taxing jurisdiction of Alaska;
10. For a fisheries business which operates a floating vessel, the name of the vessel, the date of arrival of the vessel in Alaska, subsequent movement of the vessel from one location to another, the reason for the movement of the vessel, and the date of departure of the vessel from Alaska for any reason;
11. Tax computation.

Statutory Authority: AS 43.75.030 and 110

Regulatory Authority: 15 AAC 75.010

IX. WHEN IS THE ALASKA FISHERIES BUSINESS TAX RETURN AND PAYMENT OF TAX DUE?

The return and payment are due on or before March 31 of the year following the previous calendar year activities.

Statutory Authority: AS 43.75.030(b) and (d)

Regulatory Authority: 15 AAC 75.010

X. HOW IS THE TAX DETERMINED WHEN A FISHERIES RESOURCE IS TRANSPORTED UNPROCESSED OUT OF ALASKA'S TAXING JURISDICTION BY AN ALASKAN FISHERIES BUSINESS?

Alaska Statute 43.75.100 states that the fisheries business which transports an unprocessed fisheries resource out of Alaska's taxing jurisdiction must pay the Fisheries Business Tax. The tax is based on the floating fisheries business tax rates unless the fisheries business transporting the resource out of Alaska's taxing jurisdiction can substantiate that the resource was processed or sold at a shore-based facility located out of Alaska's taxing jurisdiction.

The purpose of this law is to ensure that the unprocessed fisheries resource is properly taxed by the State of Alaska. The tax is charged

to the person, corporation, partnership or joint venture who legally owns the resource when it leaves Alaska's taxing jurisdiction.

Statutory Authority: AS 43.75.100
Regulatory Authority: 15 AAC 75.100

XI. WHEN IS THE PROCESSING OF ROE AND OTHER FISHERIES BY-PRODUCTS SEPARATELY TAXABLE FROM THE FISH CARCASS?

If roe and other fish by-products are processed by the same fisheries business which purchases the resource in the round and also processes the carcass, the processing of the roe and by-products are not separately taxed. If the roe and fish by-products are separated from the carcass and transferred or sold to another person who subsequently processes the roe and by-products, then the roe and by-products are taxed. It is the transfer of the roe or other fishery by-products to another fisheries business which creates separate taxation of the roe and other fish by-products.

Statutory Authority: AS 43.75.015 and 140(4)
Regulatory Authority: 15 AAC 75.030 and 300(2)

XII. WHEN IS A CUSTOM PROCESSOR SUBJECT TO THE FISHERIES BUSINESS TAX?

A custom processor is liable for the tax unless he custom processes a fisheries resource for someone who has been licensed under AS 43.75 as a fisheries business.

Statutory Authority: AS 43.75.015(c)
Regulatory Authority: 15 AAC 75.030, 040 and 050

XIII. ARE ADDITIONAL PAYMENTS TO FISHERMEN TAXABLE UNDER THE FISHERIES BUSINESS TAX?

Tax on additional payments made to fishermen for fisheries resources purchased in the previous year are taxable under AS 43.75. If your company makes additional payments to fishermen after you have filed your fisheries business return, then you must complete and submit form 04-585, Fisheries Business Tax Report of Bonus or Additional Payments. The report and payment of tax are due no later than the last day of the month following the month the payments were made. If you make additional payments to fishermen before filing your Fisheries Business Return, then you should include those payments as part of the values reported on your return.

Statutory Authority: AS 43.75.015, 030 and 140(7)
Regulatory Authority: 15 AAC 75.010(7) and 15 AAC 75.300(6)

XIV. HOW DO YOU OBTAIN AN EXTENSION OF TIME TO FILE THE FISHERIES BUSINESS TAX RETURN?

An Application for Extension of Time to File (form 04-576) must be completed and submitted to the Department of Revenue by March 16. Since an extension of time to file does not grant an extension of time to pay, the applicant must pay the estimated tax amount with the extension application form. A period of 30 to 180 days may be granted for filing the Fisheries Business Tax Return.

Statutory Authority: AS 43.75.030(c)

Regulatory Authority: 15 AAC 75.020

XV. WHO DO I CONTACT FOR FURTHER INFORMATION REGARDING THIS GUIDE?

The following is a list of State agencies which you may wish to contact:

Mel Hondolero
Department of Revenue
Fisheries & Mining Tax Unit
Pouch SA
Juneau, Alaska 99811
(907) 465-2371

Dan Anderson
Department of Revenue
Tax Security & Business License Unit
Pouch SA
Juneau, Alaska 99811
(907) 465-2329

Eric Anderson
Department of Fish & Game
Computer Services
Box 3-2000
Juneau, Alaska 99811
(907) 465-4150

James O'Conner
Department of Labor
Wage & Hour Division
Box 630
Juneau, Alaska 99811
(907) 465-4839

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Fuel Tax: Aviation,
Highway, Marine

PRESENTER: Tim Cottongim
Corporate Income Tax
Return Examination Unit
Division of Audit

I) Pertinent statutes and regulations:

AS 43.40.010 - 43.40.100
15 AAC 40.010 - 40.900

II) Use tax:

The motor fuel tax is a use tax. The actual tax, or lack of,
is determined once the final purpose or use has been established.

III) Tax rates:

A) Gasoline used in aircraft - 4¢ per gallon

B) Other fuel used in aircraft - 2.5¢ per gallon

C) Fuel used in or on watercraft - 5¢ per gallon

E) Fuel used in an internal combustion engine, other than marine
and aviation engines - 8¢ per gallon

IV) Who pays the tax to the State?

Final users that have used fuel in the State in which the taxes
were not previously paid, and Qualified Dealers.

V) Qualified Dealers:

A qualified dealer is an entity that has met the requirements
established under 15 AAC 40.040 - 40.050, whose application has
been approved by the Department, and who has been issued a
Qualified Dealers license.

VI) When and how taxes are paid:

- A) Taxes are to be paid to the State (monthly) by the last day of the month following the month the motor fuel was sold, transferred or used.
- B) A tax return with supporting schedule(s) must also be filed along with the tax remittance. Users must only file for the month(s) they actually use the fuel. Qualified Dealers must file each and every month, regardless of whether any sales were made or not, taxable or non-taxable.

VII) Non-taxable or exempt sales:

- A) Fuel that is tax exempt is listed under AS 43.40.100 and 15 AAC 40.020.
- B) All tax exempt sales except those listed under 15 AAC 40.020(b)(4), (6), (13), (15) and (16) must be supported by a Certificate of Use form. The Certificate of Use is required annually, and should be filled out at the first sale of each calendar year.

VIII) Refunds:

A) Final User:

- 1) Anyone using fuel in a tax-exempt manner, in which the tax was charged, is entitled to a refund of the tax [see AS 43.40.100(2)(A)-(L) and 15 AAC 40.020(b)(1)-(18)].
- 2) If a user is charged an 8¢ tax, uses the fuel in an internal combustion engine, and the internal combustion engine is unlicensed and not used in or on watercraft, the user is entitled to a 6¢ refund.
- 3) A claim for refund by a final user must be filed within one year of the date of purchase, as indicated on the invoice, and must be filed on forms prescribed by the Department.

B) Reseller:

- 1) Anyone who resells fuel on which the tax was previously paid, is entitled to a refund, if they resell the fuel at a lesser tax.
- 2) A claim for refund by a reseller must be filed within one year of the date of the sale as indicated on the invoice issued by the claimant. The claim must be filed on forms prescribed by the Department.

IX) Where the taxes go:

A) Aviation Fuel:

- 1) Revenue Sharing: 60% of the aviation fuel taxes collected are to be shared on a semi-annual basis to municipalities that either own and operate or lease and operate an airport facility. The amount of revenue shared shall be in proportion to that which was earned at the municipal airport. 60% of the amounts derived from information returns received are shared in January and July of each year. Returns received from July through December are the basis for January's sharing, and returns received from January through June are the basis for July's sharing.
- 2) Proceeds: All other proceeds are paid into the aviation fuel tax account in the general fund.

B) Marine Fuel:

- 1) Proceeds: the marine fuel taxes collected are deposited in the watercraft fuel tax account in the general fund.

C) Highway Fuel:

- 1) Proceeds: the highway fuel taxes collected are deposited into the highway fuel tax account in the general fund.

D) Refunds:

- 1) All refund claims on the motor fuel taxes are paid from the highway fuel tax account in the general fund.

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Alcoholic Beverage
Tobacco
Estate

PRESENTER: Sylvia Vining
Anchorage Audit Group
Division of Audit

Alaska Statute 43.60 Effective July 9, 1983

Excise Tax on Alcoholic Beverages

I. Alcoholic Beverages

- A. Liquor tax is levied on every person who sells or consigns liquor shipments into the state.
- B. The tax on malt beverages is 35¢ per gallon or each fraction of a gallon.
- C. For wine and other beverages with an alcoholic content of 21% or less by volume, the tax is 85¢ per gallon or fraction of a gallon.
- D. When the alcoholic content of a beverage exceeds 21% by volume, the tax is \$5.60 per gallon.

II. Monthly Statements and Payments

- A. Monthly statements and payments are required of every brewer, distiller, bottler, jobber, wholesaler, manufacturer, or other consignor.
- B. They are due on or before the last day of each calendar month for the month preceding; i.e., October's report is due in Juneau by November 30.
- C. Report includes total gallons sold and total by kind and the name and Alaska address of each buyer.
- D. Penalties for delinquencies are imposed per Alaska Statute 43.05.

Fy 83
HSM

III. Administration and Enforcement of the Tax

- A. Persons primarily responsible for payment of the tax are brewers, distillers, bottlers, jobbers, wholesalers, or manufacturers.
- B. They must post a \$25,000 surety bond with the Department of Revenue.
- C. The Department then issues them a license.
- D. Failure to pay the tax results in forfeiture of the bond and revocation of the license.
- E. The retailer or buyer is secondarily liable for the tax and if that tax has not been paid, his liquor may be seized and sold in payment of the tax.

IV. Revenue and Contacts

- A. For the twelve month period ending June 30, 1984, the net revenue collected from alcoholic beverages excise tax was \$12,984,482.
- B. Additional information may be obtained by contacting

Eloise Herrick
Pouch SA
Juneau, Alaska 99811
(907) 465-2322

Alaska Statute 43.50

Tobacco Tax

Tax is composed of two parts, which will be discussed separately.

Cigarette Tax

- I. Licenses are required of any person who sells, purchases, possesses or acquires cigarettes as a
 - A. Manufacturer: a person who makes, fashions, or produces cigarettes for sale to distributors or other persons; his cost is \$5.00.
 - B. Distributor: a person who brings in or has brought in cigarettes to the state and who sells or distributes at least 75% of those to others for resale in the state; his cost is \$50.00.
 - C. Direct-buying retailer: a person who is engaged in the sale of cigarettes at retail in the state and brings in or has brought in those cigarettes; his cost is \$25.00.
 - D. Vending-machine operator: his cost is \$25.00.
 - E. Buyer: a person who imports or acquires cigarettes for his own consumption from any source other than a manufacturer, distributor, direct-buying retailer, or retailer; his cost is \$25.00.
 - G. A separate license is required for each activity and each separate place of business, except that a person operating vending machines is considered to have only one place of business.
 - H. Licenses run from July 1 to June 30 of each year and must be renewed annually.
 - I. Additionally, a person applying for a distributor license must also provide a surety bond in the amount of \$5000 or an amount estimated to be twice the amount of the monthly tax, whichever is greater.
 - J. License fees are non-refundable and are subject to revocation. Bonds are forfeited for failure to pay the tax due.
 - K. Licenses are reissued for change of address for the same operator but are not transferable.

II. Returns are due on or before the last day of each month for the previous calendar month.

- A. Separate report is required for each place of business.
- B. Report must include the number of cigarettes manufactured, imported, or acquired in the previous month and any other information required by the Department.
- C. Additionally, wholesale distributors report the number of cigarettes sold and the number exempt from tax. - Sold to Military
- D. Purchase invoices and exempt certificates must be attached to the report.
- E. Tax is due with the report.

III. Tax Imposed

- A. The tax imposed is $2\frac{1}{2}$ mills per cigarette (5¢ a pack). - School Fund
- B. The licensee is allowed to reduce his tax by 1% to cover the cost of accounting and filing returns.
- C. The intent is to tax the person who first acquires the cigarettes in the state; once the tax is imposed, the cigarettes are not again subject to the tax.
- D. The tax is not imposed on the military services.
- E. Civil penalties under Alaska Statute 43.05 and other penalties are available for violations.
- F. The tax imposed under this section goes to the School Fund; \$3,391,142 was collected for the twelve months ending June 30, 1984.

Additional Tax

- I. ~~Currently an additional tax of 1 1/2 mills per cigarette or 3¢ a pack is imposed.~~ This goes to 4 mills (8¢ a pack) effective October 1, 1985. 5 1/2 11¢
- II. Money is deposited to General Fund; \$2,034,685 was collected for the twelve months ending June 30, 1984. If the tax at that time had been 4 mills, the revenue collected would have been \$5,425,826.

total 7.460
Dorham
or
11m total
tax

total 16¢/pack

Alaska Statute 43.31

Alaska Estate Tax

I. Tax upon Estates

- A. The tax on estates of resident decedents is based on the credit allowed under the applicable federal revenue act for taxes actually paid to other states.
- i. The credit is reduced by the smaller of the amount actually paid to the other states or
 - ii. The proportion of credit based on the location of the property.
- B. Non-resident and alien estates are taxed based on the value of real, tangible personal, and certain intangible properties located in Alaska in proportion to the value of the entire estate taxable to the United States wherever situated.

\$700,000
Cost F.I.

II. Procedures

- A. The Department of Revenue is charged with administering and enforcing the tax.
- i. It may examine books and records to ascertain accuracy.
 - ii. It will make out a return if none has been made.
- B. The executor of the estate is to notify the Department within two months of the death; this action serves as a preliminary report.
- i. Within fifteen months of the death, the executor shall file a copy of the federal estate tax return and supplemental data to compute the Alaska estate tax.
 - ii. A federal extension to file also grants state extension to file, but not to pay tax.
 - iii. State may grant extension for payment if hardship is demonstrated; interest will be assessed.
- C. If the federal government determines a deficiency in the estate tax, the executor must notify the State within 60 days.
- i. The additional tax is subject to 7% interest.
 - ii. If the executor fails to notify the State, the State may begin collection proceedings without prior assessment.

Fed Tax
Rate
Reduced
Recently

D. Receipt for Taxes

- i. The executor may file a return and request the State determine the tax and discharge him from the liability.
- ii. The State must do so within a year.
- iii. This discharge does not relieve the estate in case additional tax is later assessed unless, at that time, the estate has been sold to a bona fide purchaser.

E. The State may use the remedy of distraint on real and personal property in case of failure to pay the tax.

F. Refunds will be given if excess payment is proven.

- i. Refunds will not be made after two years from date of payment unless
- ii. A federal adjustment has been made.

III. Revenue and Contacts

A. Revenue from the estate tax for the twelve months ending June 30, 1984, totalled \$691,527 and were deposited to the General Fund.

B. Additional information may be obtained by contacting

Eloise Herrick
Pouch SA
Juneau, Alaska 99811
(907) 465-2322

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Oil & Gas Exploration, PRESENTER: Donald Bullock Jr. (J.D.)
Production & Pipeline Revenue Hearing Examiner
Transportation Property Commissioner's Office
Taxes

Statutes: AS 43.56.010 - 43.56.210
Regulations: 15 AAC 56.005 - 15 AAC 56.130

I. Introduction

- A. AS 43.56 is the only statewide property tax.
- B. Tax is imposed on real and personal property used or committed for use in the exploration for, production of or pipeline transportation of natural gas or unrefined oil.
- C. Tax rate is 20 mills and is imposed on the full and true value of the property.
- D. Municipalities may also tax the same or a portion of the same property using one of two methods set out in AS 29.
- E. Estimated Revenues for the AS 43.56 Tax:
 - \$126.4 million for FY 85
 - \$123 million for FY 86
 - \$126.2 million for FY 87

II. State Assessment of the AS 43.56 Property Tax.

- A. AS 43.56 property is assessed by the Petroleum Property Assessor in the Department of Revenue.
- B. Important dates in property tax assessment:
 - January 1: Date of valuation for property
 - March 1: Last day for mailing assessment notices
 - June 1: Last day for certifying assessment roll and mailing of tax bills
 - June 30: Last day for paying property tax bills

Oil & Gas Property Tax

Oct 173 special session
enacted

Kenai, Refinery
Not subject
but, drilling rig same

- C. Full and true value has different meanings for exploration, production and pipeline property.
- i. Full and true value for exploration property is the estimated price which the property would bring in an open market in a sale between a willing seller and a willing buyer.
 - ii. Full and true value for production and pipeline property takes into consideration the economic life of the proven reserves and the quantity of resource which may be produced.
- D. Property is physically inspected and assessments are made using industry-wide standards.
- E. A taxpayer or a municipality may appeal assessments to the Department within 20 days of the notice of assessment. Subsequent appeals are to the State Assessment Review Board and superior court.
- F. Unpaid property taxes are subject to a 10% penalty and 8% interest and create a lien against the property.

III. Municipal Taxation of AS 43.56 Property.

- A. Municipalities can tax AS 43.56 property assessed by the State only by using one of the two methods found in AS 29.53.045 (AS 29.45.080, Eff. 1/1/86).
- i. The first method allows the municipality to tax the full amount of the oil and gas property but limits revenues other than for paying bonds to \$1,500 per person residing in the municipality.
 - ii. The second method does not contain the \$1,500 per person limitation but limits the amount of property taxable under a formula which includes the number of residents in the municipality and the average per capita assessed full and true value of property in the State.
- B. Municipal levies are limited to 30 mill for operating revenues, but there is no limit for paying bonds.
- C. The rate of tax imposed by a municipality on AS 43.56 property must be the same as on locally assessed property.

Formula:

$$\frac{ADP, AV \text{ assessed value,}}{X 2.25}$$

 =
 Amount of Property Taxable

Oil & Gas Property Tax

16% NGLs
 17% NGLs
 17% NGLs
 Note: Substantive TAPS Taxing Case opposite States!

- D. Oil and gas property owners enjoy a credit for municipal taxes paid on AS 43.56 property.
- E. Increasing credits local taxes and the corresponding credits have reduced the State's share of the property tax from approximately 72% in 1979, to approximately 33% in 1985 as shown below:

Seven Year State Property Tax History

Year	State Assessed Value	Percent Increase	Gross Revenue	Local Credit	Net to State	Percent Increase to State	Percent of Gross to State
1979	11,946,447,380	7.85	238,928,947	66,609,309	172,319,637	(0.69)	72.1
1980	12,165,633,950	1.83	243,312,679	72,900,166	170,412,512	(1.11)	70.0
1981	13,170,633,280	8.26	263,412,665	121,116,160	142,296,505	(16.50)	54.0
1982	14,410,448,680	9.41	288,208,973	144,171,544	144,037,429	1.22	50.0
1983	16,059,836,120	11.45	321,196,722	170,818,425	150,378,297	4.40	46.8
1984	18,593,314,880	15.78	371,866,297	242,038,930	129,827,367	(13.67)	34.9
1985*	19,030,331,350	2.35	380,606,627	254,194,452	126,412,175	(2.63)	33.21

*Estimated

U.S. slope 18.5 mills

Oil & Gas Property Tax

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPICS: Oil and Gas Production &
Regulation and Conservation
Taxes

PRESENTER: Gay Bailey Vann, CPA
Review Staff
Division of Audit

Alaska Statute 43.57 Enacted in 1973

Tax is imposed on oil production and equals one-eighth of a cent per barrel (royalty oil exempted).

Alaska Statute 43.55 Enacted in 1955

I. Original Law.

- A. Tax equals 1% gross value at the well.
- B. Tax paid by purchaser.
- C. Quarterly filing.
- D. If oil or gas sold under circumstances where the sales price does not represent the cash price prevailing, the department may require the cash price prevailing to be used for AS 43.55 purposes.

43.55.020(f)
→

II. After numerous amendments, clarifying definitions, etc. - current law provides:

- A. Tax equals greater of cents-per-barrel (mcf) or percentage-of-value multiplied by the Economic Limit Factor (ELF).
- B. Tax paid by or on behalf of producer.
Royalty oil exempt from taxation.
- C. Monthly filing.
- D. If oil or gas sold under circumstances where sales price does not represent the prevailing value for oil or gas of like kind, character or quality in the field or area from which the product is produced, the department may require that tax to be paid upon the basis of the value of oil or gas of the same kind, quality and character prevailing during the calendar month of production for that field or area.

Prevailing
Value

Definitions and Specifics
(Restricted to oil due to time constraints)

- III. Tax - 12.25% or 15% of Gross Value at the Point of Production - (cents-per-barrel = \$5.33 per barrel floor) - multiplied by the ELF.

ELF - reduces the effective production tax rate as the amount of production from a lease declines.

- A. Monthly production rate at economic limit presumed to be 300 barrels per well day.
- B. If ELF is greater than 0.7, ELF = 1.0;
If ELF is 0.7 or less, that is the ELF.

- IV. Point of Production.

- A. Where oil is first metered or measured in a condition of pipeline quality.
- B. For Prudhoe Bay oil, point of production is Pump Station #1.

- V. Gross Value (at point of production).

- A. Prudhoe Bay vs. South 48 fields.
1. Postings.
 2. Sales at point of production.
- B. Netback methodology - Sales price (e.g. at L.A.), less marine transportation (from Valdez), less TAPS tariff equals value at PS #1 (per barrel).
- C. TAPS tariffs.
1. Dollars per barrel charge readily available.
 2. Need to track over 1.5MM barrels per day.
- D. Marine transportation.
1. Statute provides for the use of reasonable costs of transportation.

*Prudhoe Bay 15%
Kutuvik 12.5%*

*Now in
Administrative
hearings
to increase
300 bbl
PEL*

2. Regulations further define transportation costs.

- a. Voyage and port costs.
- b. Charter fees (for chartered vessels).
- c. Depreciation and IRR (for effectively owned vessels).

3. Calculation of dollar per barrel cost.

- a. Total annual vessel cost/barrel-miles (100 barrels transported 1,000 miles = 100,000 barrel-miles).
- b. Determine miles to each destination port.
- c. Determine per barrel cost for each vessel for each destination.

E. Sales price.

1. Third-party sales for cash.

2. Third-party exchanges.

- a. ANS barrel for barrel (convenience exchanges ignored).
- b. If not ANS, value of oil received (e.g. West Texas Intermediate) plus/minus any differentials.
- c. Sometimes another party receives the oil (e.g. A owes B in an exchange; B owes C in a different exchange; A delivers its ANS to C on behalf of B).

3. Combination of some or all of the above.

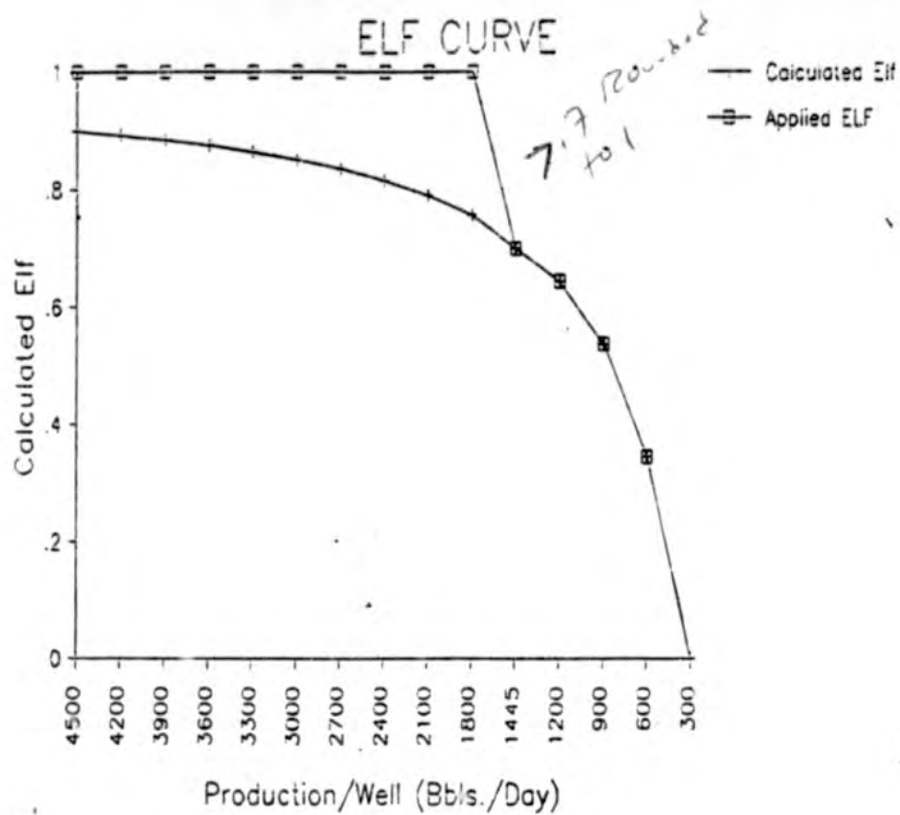
4. No third-party sale or exchange (producer refines its own ANS or sells to refining subsidiary).

5. Prevailing value.

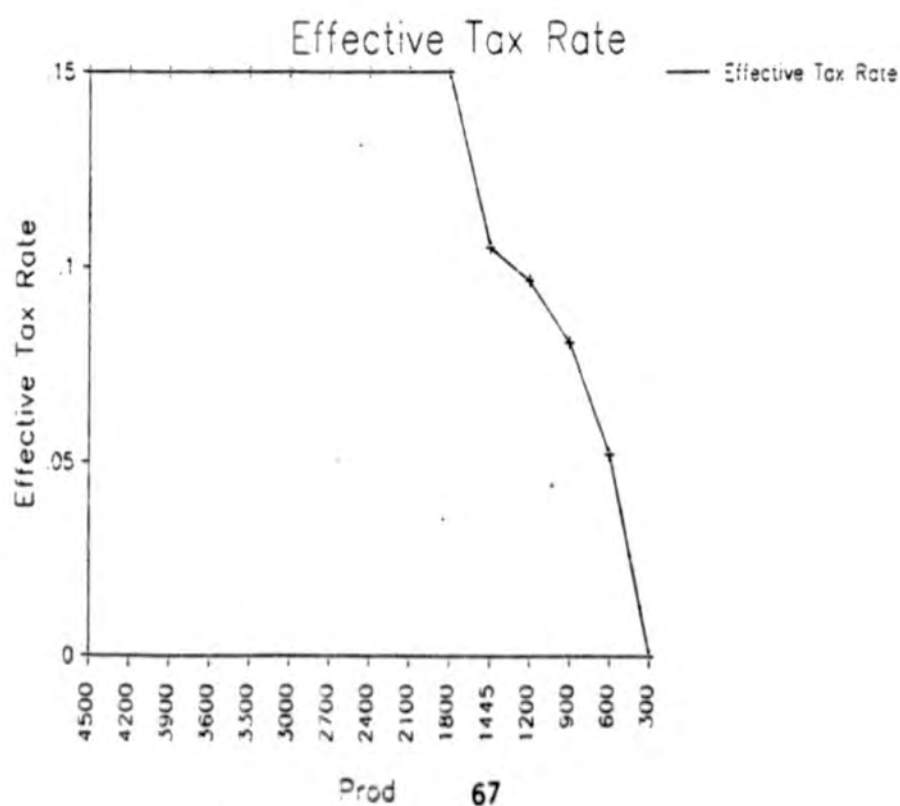
- a. Issue not restricted to non-third party sales. Due to the complex nature of third-party sales and exchanges, some benchmark is needed to assure that the sales price reported reflects the full cash value of the consideration received.
- b. 1980 regulations - market basket of foreign crudes (oils that ANS displaced). Determine acquisition cost (official government sales price plus transportation costs to refinery inlet). Netback to PS #1 using actual costs.
- c. 1981 regulations - use of third-party sales.
- d. Newest proposed regulations - volume weighted average arms-length sales price during the base period, adjusted by the Refiners' Acquisition Cost Index.

Prevailing value will be used automatically if producers reported price falls outside of set parameters.

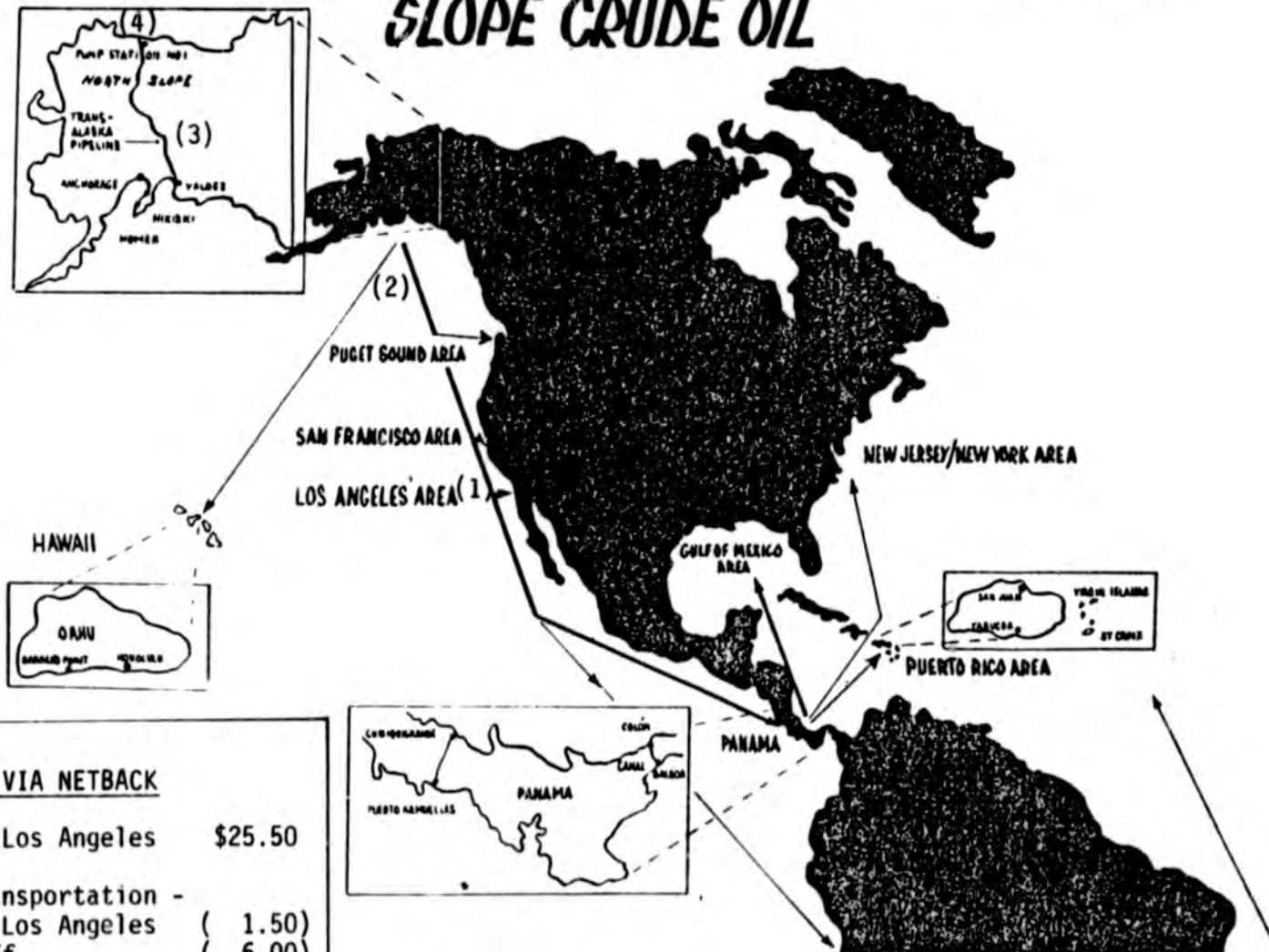
Value & (a)
"Point of Production"
i.e. Pump Station 1



300 bbl/well/day
= no tax



ILLUSTRATIONS OF TRANSPORTATION ROUTES FOR SHIPMENTS OF ALASKA NORTH SLOPE CRUDE OIL



VALUATION VIA NETBACK

(1) Sales price @ Los Angeles	\$25.50
Less:	
(2) Marine transportation - Valdez to Los Angeles	(1.50)
(3) TAPS tariff	(6.00)
(4) Value @ Pump Station #1	<u>\$18.00</u>

ALASKA TAXATION - POLICY AND STRUCTURE SEMINAR

TOPIC: The President's Tax Proposal for Fairness, Simplicity and Growth PRESENTER: Carl A. Meyer, J.D., LLM
Appeals Coordinator
Division of Audit

I. Introduction

President Reagan on May 29, 1985 submitted a proposal designed to reduce tax rates and complexity while increasing fairness and economic growth.

II. Individuals

A. Tax Rates and Brackets:

<u>Single</u>		<u>Joint</u>
(\$2,900-18,000)	15%	(\$4,000-29,000)
(18,000-42,000)	25%	(29,000-70,000)
(42,000-over)	35%	(70,000-over)

*House ways + means
Poss 4th bracket
w/ 40% rate*

B. Exemptions:

\$2,000 for self, spouse and dependents.

(1500 House ways + means)

C. Zero Bracket Amounts:

Singles	\$2,900
Joint	4,000
Head of Household	3,600

D. Two Earner Wage Deduction:

Repealed.

E. Mortgage Interest:

- Fully deductible if incurred:
 - on principle residence
 - in business
- Other interest limited to \$5,000 over investment income.

F. State and Local Income Taxes:

Not deductible,

except business under President's plan

*Q: How much given up by dropping top rate from 50% to 35%?
- Had to be made up elsewhere, like non-deductibility of state + local.*

(Markin)

G. State and Local Property & Sales Taxes:

Not deductible unless incurred in an income producing activity.

H. Charitable Contributions:

Deductible for itemizers only.

I. Medical Expenses:

Deductible above 5% of AGI.

J. Child Care Expenses:

Deduction rather than credit. (House will leave)

K. Fringe Benefits:

1. Health insurance - employer paid medical insurance premiums are taxable to employees on first \$10 per month for individual coverage and \$25 per month for family coverage.
2. Employer paid death benefits - fully taxable.
3. Group-term life insurance legal services, dependent care and educational assistance - not taxed.

L. Employee Plans:

1. IRA's - \$2,000 annual contribution for singles and \$4,000 for all marrieds allowed.
2. 401(K) - Salary deferred into plan limited to \$8,000 less the IRA contribution.

M. Wage Replacements:

1. Unemployment Compensation - Fully taxable.
2. Workman's Compensation - Fully taxable.

N. Unearned Income of Children: all unearned income of children under 14 taxed at the marginal tax rate of the parents.

O. Income shifting:

1. Trusts - Non-grantor inter-vivos trusts treated

as grantor trusts.

2. Estates - The final tax year for a decedent would continue until the end of the taxable year in which death occurs.

P. Income Averaging:

Repealed.

III. Corporations

A. Rates and Brackets:

15%; 18%; 25%; 33%

15% 18% 30% 35% - House

B. Alternative Minimum Tax (AMT):

Minimum tax repealed and replaced with 20% AMT.

C. Corporate Distributions:

1. Domestic corporations receive 10% dividends paid deduction. Deduction limited to balance in "Qualified Dividend Account".
2. No dividends paid deduction for distributions not taxed as dividends to shareholders.
3. Corporate shareholders required to include in taxable income the portion of dividends for which the payor corporation received the dividends paid deduction.
4. Foreign corporations not eligible for the deduction.
5. A compensatory withholding tax imposed on dividends paid to foreign shareholders who are not entitled to the benefits of a bilateral tax treaty.

IV. Business Income

A. Depreciation - Capital Cost Recovery System (CCRS)

1. Inflation adjustment by means of a basis adjustment. Unrecovered basis adjusted using a government price index.
2. Inflation adjustment in the year of disposition

for purposes of computing gain or loss.

3. Intangible assets indexed but not subject to CCRS.
4. Cost depletion assets indexed but not subject to CCRS.
5. Foreign property costs recovered under earlier Treasury proposal.
6. Election to expense \$5,000 in personal property retained. Current law on capitalizing or expensing retained. Safe harbor repair allowance.
7. CCRS effective for property placed in service on or after January 1, 1986.

B. Investment Credit

Repealed. *Includes State Repeal*

C. Capital Gains

Current law tax rate of 28% retained.

D. Inventories

Allows use of indexed FIFO or LIFO for tax and unindexed FIFO for financial accounting.

E. Deny Rate Reduction to Excess Depreciation

1. Excess of cumulative depreciation over amount using straight line method for earnings and profit purposes between January 1, 1980 and July 1, 1986 included in income over 3 year period.
2. Depreciation deductions of less than \$400,000 not subject to recapture.
3. Excess depreciation is reduced by NOL's carried forward from a year before 1986. Reduction does not reduce the loss.
4. Property subject to the rule would include all property placed in service on or after January 1, 1980 and before January 1, 1986.

F. Production Costs

Uniform rules for capitalizing production costs would

*Intangible Drilling Costs
deduction maintained in President's
- Rebut in House*

apply to:

1. manufacture of goods to be held in inventory or for sale to customers
2. production under long-term contracts
3. the construction or production of real or tangible personal property having a useful life beyond the taxable year
4. the growing of timber

G. Installment Obligations

The pledge of an installment obligation as security for a loan would cause a recognition of gain. For amounts borrowed in the ordinary course of business and secured by business generated installment obligations, gain is recognized to the extent the amount borrowed exceeds the basis of the obligation. In all other cases, gain is recognized to the extent of the amount borrowed multiplied by the gross profit ratio.

H. Bad Debt Reserves

Deduction allowed only at time a debt is charged off in whole or in part.

I. Energy Tax Credits

The following credits would be repealed:

1. Energy Investment Tax credits
2. Production Tax credit
3. Alcohol fuels mixtures tax exemption
4. Alcohol fuels tax exemption
5. Alcohol production credit
6. taxicabs refund
7. Conservation credit
8. Renewable energy credit

J. Percentage Depletion

Percentage depletion would be phased out over a five year period beginning on January 1, 1986 by reducing the applicable percentage depletion rates by 20% each year.

K. Windfall Profits Tax

Will phase out in 1991.

L. Intangible Drilling Costs (IDC's)

Election to expense retained but 8% of the IDC's on successful wells would constitute a tax preference for minimum tax purposes.

M. Sale of Timber

Elective sale or exchange treatment for owners of timber or contract rights to cut timber would be repealed effective January 1, 1989. The capital gain treatment would be phased out in the interim with a 30% tax rate in 1986 which would increase by one percentage point in both 1987 and 1988.

N. Merchant Marine Capital Construction Fund

Tax free contributions to capital construction funds could not be made after 1985.

Any withdrawals, except for certain qualified vessels, treated as nonqualified withdrawals (deemed to come first from the ordinary income account, then the capital gain account, and lastly out of the capital account) but no interest charge would apply to the withdrawal. Amounts remaining in fund on January 1, 1996 treated as withdrawn.

O. Entertainment, Business Meals, and Travel Expenses

- * 1. Entertainment - No deduction allowed unless includable in the income of an employee or a person not an employee. Thus, deductions for expenses associated with yachts, lodges or country clubs for the purpose of entertaining clients or customers, as well as costs of tickets to sporting and theatrical events and expenses of skyboxes, lounges, boxes, etc., would no longer be available.
2. Business Meals - Deduction of \$25 per person plus one-half the excess over \$25. Tips and tax are included. A "clear business setting" required. Food and beverages furnished on the business primarily for employees not subject to the limitation.
3. Travel - No deduction allowed for travel by ocean liner or other water transportation in excess of

the cost of otherwise available business transportation. Deductions for expenses associated with meetings held aboard cruise ships also disallowed.

P. Private Purpose Municipal Bonds

Interest taxable.

Q. Financial Institutions

1. Deduction eliminated for interest to carry tax-exempts
2. Deductions allowed only for actual losses on bad debts.
3. Credit unions taxed as banks if assets exceed \$5 million.