Alaska State Legislature
House Rules Committee
Representative Louise Stutes, Chair

House Bill 280
(34-LS1349\A)
Corporate Income Tax Modernization
Sponsor Statement

House Bill 280 modernizes Alaska's corporate income tax laws to address today's digital economy. HB 280 ensures that corporate taxes paid by out-of-state C-corporations selling products online are collected by the State of Alaska. HB 280 makes two changes to Alaska's apportionment system, "Market-Based Sourcing" and a "Single Sales Factor" for on-line businesses. HB 280 does not make changes to Alaska's corporate income tax rates or brackets. Additionally, these reforms will have little, or no effect on Alaskan consumers or Alaska's brick and mortar businesses.

Alaska's apportionment laws for corporate multistate taxpayers were adopted by the 6th Alaska State Legislature in 1970, when they codified the Multistate Tax Compact (MTC). The apportionment formulas in the MTC were established based solely on "brick and mortar" sales. The current formula takes a store's national profits and apportions Alaska's taxes based on a three-factor formula that includes sales in the state, its Alaska property, and lastly in-state payroll. As internet sales have become prevalent, Alaskans began buying goods from companies that had no property or payroll in state. Therefore, many C-corporations with highly digitalized services avoided paying Alaska's corporate income tax, while still using Alaska's infrastructure to get their products to consumers.

Market-Based Sourcing

The first change made by HB 280 is to use "market-based sourcing," clarifying that sales of goods and services delivered to Alaskan consumers are properly considered to be under Alaska's corporate tax laws. Currently, the source of a sale is determined using a methodology called "cost of performance" that allows out-of-state corporations to argue that on-line sales occur in the state where its corporation is based and they are not subject to Alaska's corporate income tax. Under "market-based sourcing", sales of tangible property, intangible property, or services will be an Alaskan sale if they are used or delivered to a location in the state.

Single Sales Factor for Online Businesses

The second change is to amend the three-factor apportionment formula for out-of-state corporations to a "single sales factor". The single sales factor will apply to corporations that make at least 50 percent of their sales through electronic means or sales of services related to computer or Internet technologies. The traditional three-factor formula will be maintained for brick-and-mortar businesses. This change ensures that income earned in Alaska is subject to Alaska's corporate income tax.

HB 280 makes common sense amendments to bring Alaska's tax apportionment system into the 21st century, ensuring that Alaska collects taxes it is due from online sales.