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Research Brief

TO: Representative Shelley Hughes
FROM: Susan Haymes, Legislative Analyst
DATE: February 5, 2013
RE: Alaska Corporate Income Tax Revenues
LRS Report 13.197

You wished to know the estimated revenue the state would receive if the current taxable income brackets were increased by an inflation rate of 2.47 measured by the change in the U.S Consumer Price Index from 1981 to 2011 as proposed in House Bill 68.

Alaska levies a corporate income tax on corporations doing business in the state.[1] The Alaska corporate income tax is graduated—that is, the rate of taxation increases incrementally with the amount of taxable income reported. Current law, which has been in effect since 1981, provides ten tax rates based on ten levels of taxable income, with incomes of $90,000 or more taxed at the highest rate of 9.4 percent (AS 43.20.011[e]). The taxable income for Alaska purposes is the company's federal taxable income (gross minus allowable deductions) with certain modifications. Corporations that do business inside and outside of Alaska apportion a percentage of their total income to Alaska by using a formula that involves an average of property, payroll, and sales.[2] Table 1 shows the current Alaska corporate income tax rate schedule. The graduated tax rate includes a base tax plus an additional percentage as shown below.[3]

Table 1: Current Alaska Corporate Income Tax Rate Schedule

Taxable Income	Base Tax		Tax Rate
Less than $10,000	$0	plus	1% of the taxable income
At least $10,000, but less than $20,000	$100	plus	2% of the taxable income over $10,000
At least $20,000, but less than $30,000	$300	plus	3% of the taxable income over $20,000
At least $30,000, but less than $40,000	$600	plus	4% of the taxable income over $30,000
At least $40,000, but less than $50,000	$1,000	plus	5% of the taxable income over $40,000
At least $50,000, but less than $60,000	$1,500	plus	6% of the taxable income over $50,000
At least $60,000, but less than $70,000	$2,100	plus	7% of the taxable income over $60,000
At least $70,000, but less than $80,000	$2,800	plus	8% of the taxable income over $70,000
At least $80,000, but less than $90,000	$3,600	plus	9% of the taxable income over $80,000
$90,000 or more	$4,500	plus	9.4% of the taxable income over $90,000

Source: AS 43.20.011(e).

Under this rate structure, a corporation with $550,000 in taxable income, for example, would pay $47,740 in corporate tax to the state, while a company with taxable income of $45,000 would pay $1,250.[4]

[1] S-Corporations and limited liability companies (LLCs) that file federally as partnerships are generally exempt from state corporate income tax.

[2] According to the Alaska Department of Revenue's Tax Division, oil and gas corporations calculate taxable income using a modified apportionment formula of property, sales, and extraction.

[3] The tax base is calculated by adding up the amount of tax due under lower income brackets. For example, for a company with $45,000 in taxable income, the first $10,000 is taxed at one percent ($100), the second $10,000 at two percent ($200), the third at three percent ($300), and the fourth $10,000 at four percent ($400), making a base tax of $1,000. The remaining $5,000 is taxed at five percent ($250), so the company would pay a total income tax of $1,250.

[4] A corporation netting $550,000 in taxable income would pay the highest tax rate of 9.4 percent: $4,500 + ($460,000 x .094) = $47,740. The company with taxable income of $45,000 would pay at the 5 percent tax rate: $1,000 + ($5,000 x .05) = $1,250.

Taxable Income Brackets Multiplied by Inflation Rate as Proposed in SB 7

Table 2 shows the second hypothetical tax schedule, which still includes ten tax brackets, but multiplies the current taxable income brackets by the inflation rate as measured by the change in the U.S. Consumer Price Index (CPI) from 1981 to 2011.[5] Under this schedule, a corporation netting $550,000 would pay $41,912, which is almost $6,000 less than what would be owed under the current system. A company with taxable income of $45,000 paying $1,250 under the current structure would pay only $650 under the proposed schedule.

Table 2: Alaska Corporate Income Tax Schedule as Proposed in SB 7

Taxable Income	Base Tax		Tax Rate
Less than $25,000	$0	plus	1% of the taxable amount over $0
At least $25,000, but less than $49,000	$250	plus	2% of the taxable amount over $25,000
At least $49,000, but less than $74,000	$730	plus	3% of the taxable amount over $49,000
At least $74,000, but less than $99,000	$1,480	plus	4% of the taxable amount over $74,000
At least $99,000, but less than $124,000	$2,480	plus	5% of the taxable amount over $99,000
At least $124,000, but less than $148,000	$3,730	plus	6% of the taxable amount over $124,000
At least $148,000, but less than $173,000	$5,170	plus	7% of the taxable amount over $148,000
At least $173,000, but less than $198,000	$6,920	plus	8% of the taxable amount over $173,000
At least $198,000, but less than $222,000	$8,920	plus	9% of the taxable amount over $198,000
$222,000 or more	$11,080	plus	9.4% of the taxable amount over $222,000

Notes: The corporate income tax schedule proposed in SB 7 reflects the current tax schedule multiplied by the change in the U.S. Consumer Price Index, which is 224.939 (2011 CPI)/90.9 (1981 CPI) = 2.47. The base tax is calculated by adding the amount of tax due under the lower income brackets.

The Alaska Tax Division provided an approximate tax liability for non-oil and gas corporations for each fiscal year (FY) 2009-2011 as calculated under the current and proposed tax schedules.[6] The calculations are based on the tax liability as reported on the original tax returns filed in the respective fiscal year, which means amended returns or changes made to the returns after each fiscal year may not be included in this report. In order to calculate the estimated tax revenue under the hypothetical system, the Division maintained the same specific credits and other adjustments for each taxpayer, so the count of the number of taxpayers at each level of liability is not exact, but, rather, an estimate of what might happen under such a system. Table 3 shows the amount of non-oil and gas industry corporate tax revenues collected under the current tax schedule and an estimate of the amount that would have been collected using the proposed tax schedule for FY 2009-2011 for each taxable income bracket.

Under the proposed tax structure, the state would have received about $3 to $4 million less each year. The Tax Division estimates the state would have received approximately $3.8 million less in FY2009, $4.1 million less in FY2010, and $3.3 million less in FY2011. Under the proposed structure, a higher percentage of companies fall under the three lowest tax brackets; overall, however, the tax liability would be more evenly distributed through the middle tax brackets than it is under the current tax structure.

[5] To calculate the change in the U.S. consumer price Index from 1981 to 2011, we used figures from the Alaska Department of Labor and Workforce Development. The average U.S. CPI for 1981 (the year the current tax rates were enacted) was 90.9, and the average U.S. CPI for 2011 was 224.939. The 2011 CPI divided by the 1981 CPI is 2.47. To determine the proposed taxable income brackets, we multiplied the current taxable income brackets by 2.47, which changes each bracket by an increment of $25,000.

[6] We note that the proposed changes to the tax schedule would also apply to oil and gas corporations; however, the impact would be slight.

Table 3: A Comparison of Non-Oil and Gas Corporate Income Tax Revenue under the Current and Proposed Tax Schedules, FY2009 - FY2011						
Current Tax Schedule						
Tax Brackets	**FY 2009**		**FY 2010**		**FY2011**	
	# of Filers	**Tax Liability**	**# of Filers**	**Tax Liability**	**# of Filers**	**Tax Liability**
Less than $10,000	12,249	$1,277,867	13,974	$1,460,941	13,743	$333,252
$10,000 - $19,999	266	$52,854	212	$69,928	230	$86,819
$20,000 - $29,999	164	$90,062	139	$71,440	125	$93,497
$30,000 - $39,999	112	$100,994	99	$86,695	105	$87,300
$40,000 - $49,999	104	$150,178	99	$129,439	76	$99,413
$50,000 - $59,999	79	$135,626	74	$134,057	60	$113,098
$60,000 - $69,999	67	$166,779	44	$117,877	57	$140,025
$70,000 - $79,999	53	$166,274	54	$173,730	34	$107,563
$80,000 - $89,999	41	$170,760	38	$142,379	33	$177,537
$90,000 or more	659	$133,957,185	596	$127,104,944	559	$102,110,492
TOTAL	13,794	$136,268,579	15,329	$129,491,430	15,022	$103,348,996
Proposed Tax Schedule						
Tax Brackets	**FY 2009**		**FY 2010**		**FY2011**	
	# of Filers	**Tax Liability**	**# of Filers**	**Tax Liability**	**# of Filers**	**Tax Liability**
Less than $25,000	12,602	$1,318,774	14,277	$955,392	14,046	$454,198
$25,000 - $48,999	286	$176,860	230	$132,431	221	$115,508
$49,000 - $73,999	177	$200,819	150	$171,443	147	$168,389
$74,000 - $98,999	99	$195,813	102	$197,138	78	$204,004
$99,000 - $123,999	80	$211,362	46	$130,828	52	$152,406
$124,000 - $147,999	51	$210,051	39	$162,862	51	$211,959
$148,000 - $172,999	42	$242,534	40	$229,352	24	$134,947
$173,000 - $197,999	25	$167,037	36	$267,382	21	$150,979
$198,000 - $221,999	26	$215,694	24	$203,060	26	$250,922
$222,000 or more	406	$129,512,391	385	$122,920,177	356	$98,239,047
TOTAL	13,794	$132,451,335	15,329	$125,370,065	15,022	$100,082,359
DIFFERENCE IN LIABILITY	**$3,817,244**		**$4,121,365**		**$3,266,637**	

Notes: The amounts reflect tax liabilities reported on the taxpayers' original returns for corporations other than oil and gas. Liabilities may differ from revenue remitted by the taxpayer during the fiscal year due to timing differences resulting from estimated tax payments, credits and final payment of taxes reported. The proposed corporate tax schedule is the current taxable income brackets multiplied by a factor of 2.47, which is the inflation rate measured by the change in the Consumer Price Index from 1981 to 2011. The tax base is calculated by adding up the amount of tax due under the lower income brackets. In order to produce the estimated tax liability under the proposed system, the Division assumed taxpayer specific credits and other adjustments would be constant, so the count of the number of taxpayers at each level of liability is not exact, but an estimate of what might happen under such a system.

Source: Johanna Bales, Deputy Director, Tax Division, Department of Revenue, 907.269.6628.

Table 4 compares the tax liability under the current and proposed tax schedules at five different taxable income levels.

Table 4: Tax Liability under Current and Proposed Tax Schedules, at Selected Taxable Income Levels		
Taxable Income	**Current**	**Proposed**
$18,000	$260	$180
$45,000	$1,250	$650
$140,000	$9,200	$4,690
$310,000	$25,180	$19,352
$550,000	$47,740	$41,912

Notes: The proposed tax structure reflects the current tax schedule multiplied by 2.47, which is the change in the U.S. Consumer Price Index from 1981 to 2011.

We hope this is helpful. If you have questions or need additional information, please let us know.