

ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA

Sponsor Statement

HB 36: Fair Contribution by High Profit Businesses Act

Businesses of all forms benefit from state expenditures on roads, education, and other services. Currently, however, an estimated 6,000 S-corporations, as well as other business types including Limited Liability Corporations, Professional Corporations, Partnerships, and Sole Proprietorships, pay no corporate tax in Alaska. This bill seeks to close that exemption, and recognizes that a company should not be exempted from a business tax based solely on the form the business takes.

HB 36 applies only to businesses not already subject to Alaska's corporate tax, which includes publicly traded C-Corporations and Alaska Native Entities. It applies only to corporations and other businesses (if not already covered by Alaska's corporate tax) if they earn more than \$250,000 in profits in a tax year, and then, only on the profits above \$250,000 in that year. This bill seeks to exempt smaller companies with lower profits; only high-profit businesses would pay taxes under HB 36.

In addition, this bill ensures that all oil companies are taxed in the same manner, regardless of whether they are C-corporations or S-Corporations. Under HB 36, oil companies that are not already subject to the corporate tax will be taxed at the same rate and in the same manner as the current corporate tax for oil companies that are C-corporations.

To avoid double taxation, income taxed under HB 36 will be exempted from a state individual income tax, should one be adopted. Just as under the existing corporate tax rule, any other business taxes paid by a business are deductible under HB 36.

This bill also recognizes that non-C-corporations tend to be smaller and less profitable than C-corporations. Therefore, for non-oil companies, the tax rate under this bill is lower than the tax rate under Alaska's existing corporate tax. Under the current corporate tax, a 9.4% tax on profits is charged to C-corporations on income above \$222,000, with lower rates at lower profit levels. Under HB 36, the first \$250,000 in profits is not taxed. The tax rate is 5% of profits at \$250,000 - \$500,000 in profits, and 7.5% for profits between \$500,000 and \$1 million. Only above \$1 million in profits does the top tax rate of 9.4% under the corporate tax law apply to a company's profits under HB 36.

We live in a new Alaska, where we cannot count on \$110 to \$130 per barrel oil to pay for a capital budget and state services. Profitable businesses should chip in a fair amount to help fund public services. This tax payment will be deductible from federal taxes, so in reality, a taxpayer will pay roughly one third less than the rate set by this bill. The effective top rate therefore becomes roughly 6% and not 9.4%.

Taxes that are unfair should not be passed. Highly profitable businesses that benefit from the services the state pays for should be willing to contribute towards the schools, roads, and infrastructure Alaskans need to maintain a good quality of life.