ALASKA STATE LEGISLATURE

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Session: January – April
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HB130: The Corporate Tax Fairness Act
Sponsor Statement

House Bill 130 is designed to close loopholes and ensure fairness in Alaska's corporate income tax structure. The bill resolves three important issues.

First, it expands the jurisdiction of Alaska's existing corporate income tax to all oil and gas producers doing business here. Currently, only "C" corporations pay this tax on their Alaska profits. This is increasingly concerning as new, smaller companies begin producing. The Department of Revenue has estimated that 30% of Alaska's current oil production is by companies who are organized as something other than C-corporations and thus exempt from our current tax structure. This is costing Alaska an estimated $25 to $30 million per year in lost tax revenue, potentially much higher should oil prices recover. With the passage of HB130, all oil and gas producers will pay the same rate of tax based on their Alaska-derived profits.

Second, it resolves a new issue that has arisen with the passage of the federal CARES Act coronavirus relief bill. Typically, a corporation who experiences an operating loss can carry that loss forward to reduce their future year taxes. The CARES Act allows corporations to carry any 2018-2020 losses backwards to a prior tax year. Because Alaska law incorporates most provisions of the IRS tax code, that same item applies to Alaska's tax. In practice, this means that Alaska will be paying retroactive tax refunds to corporate taxpayers, for a forecasted total of $162 million between FY2021 and FY2022. HB130 severs this link to the federal tax code for this specific issue, preventing Alaska from having to pay these refunds during our historic budget crisis.

Finally, it closes two small but important loopholes that were identified in the state's "Indirect Expenditures Report." It restricts the ability of corporations to claim federal tax credits for work that has nothing to do with Alaska, and removes the ability to deduct foreign royalties from a company's income calculation. These provisions provide no policy benefits and give an unneeded tax break to several hundred companies. Together, they are estimated to cost the state $3.5 to $5 million per year..

Together, the three items will earn or save Alaska close to $200 million next year, and take an important step towards a comprehensive fiscal plan.

Thank you for your consideration of HB130.

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