

Fiscal Note

State of Alaska
2026 Legislative Session

Bill Version: HB 350
 Fiscal Note Number: _____
 () Publish Date: _____

Identifier: HB350-DOR-TAX-3-6-26
 Title: QUALIFIED ENTITY INCOME TAX
 Sponsor: FIELDS
 Requester: (H) Labor & Commerce

Department: Department of Revenue
 Appropriation: Taxation and Treasury
 Allocation: Tax Division
 OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2027	Included in	Out-Year Cost Estimates					
	Appropriation Requested	Governor's FY2027 Request	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
OPERATING EXPENDITURES	FY 2027	FY 2027						
Personal Services	155.9		155.9	155.9	155.9	155.9	155.9	155.9
Travel	6.0		6.0	6.0	6.0	6.0	6.0	6.0
Services	13.9		13.9	13.9	13.9	13.9	13.9	13.9
Commodities	4.0						4.0	
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	179.8	0.0	175.8	175.8	175.8	175.8	179.8	175.8

Fund Source (Operating Only)

1004 Gen Fund (UGF)	179.8		175.8	175.8	175.8	179.8	175.8
Total	179.8	0.0	175.8	175.8	175.8	179.8	175.8

Positions

Full-time	1.0		1.0	1.0	1.0	1.0	1.0
Part-time							
Temporary							

Change in Revenues

None	***		***	***	***	***	***
Total	***	0.0	***	***	***	***	***

Estimated SUPPLEMENTAL (FY2026) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2027) cost: 500.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? No
(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? **Yes**
 If yes, by what date are the regulations to be adopted, amended or repealed? **01/01/26**

Why this fiscal note differs from previous version/comments:

Not applicable, initial version.

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Division: <u>Tax Division</u>	Date: <u>03/06/2026 01:00 PM</u>
Approved By: <u>Janelle Earls, Acting Commissioner</u>	Date: <u>03/06/26</u>
Agency: <u>Department of Revenue</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2026 LEGISLATIVE SESSION

BILL NO. HB 350

Analysis

Background

Under current law, only C-Corporations doing business in the state are subject to corporate income tax under AS 43.20. This bill proposes taxing all pass-through entities including sole proprietorships, partnerships, limited liability companies, and S-corporations with taxable income over \$25,000,000 at a 9.4 percent tax rate on all taxable income over \$25,000,000.

The bill provides authority for the Department of Revenue, Tax Division ("Department") to adopt regulations and establishes a retroactive effective date of January 1, 2026.

Revenue Impact

The revenue impact of this legislation is highly uncertain, as the Department does not have detailed financial information for the companies that would be impacted. Furthermore, the revenue impact would likely be concentrated in a small number of companies as very few have taxable income over \$25,000,000. Alaska taxable income is derived from federal taxable income which includes allowable federal deductions, to which Alaska-specific additions and subtractions are applied. Then, if the company operates both inside and outside Alaska, the net income is apportioned to Alaska using the three-factor formula (property, payroll, and sales).

For oil and gas pass-through entities, the Department used a fairly simple approach given the uncertainty. First, under the fall 2025 revenue forecast, the share of oil and gas production estimated to be attributable to passthrough entities was calculated for each fiscal year. Second, the corporate income tax forecast was scaled up to assume that pass-through entities would pay corporate income tax at a similar rate as C-Corporations based on production. The total revenue impact from oil and gas pass-through entities is estimated to be between \$0 - \$100 million.

For non-petroleum pass-through entities, there is an even greater degree of uncertainty regarding the potential tax base. With the \$25 million threshold, the potential number of taxpayers is likely very small or even zero. The Department has previously analyzed Alaska pass-through entities using tax year 2022 Internal Revenue Service (IRS) data and assuming a lower taxable income threshold. That prior analysis generated an estimated \$10 million revenue impact within a range of uncertainty. Given the higher taxable income threshold under this bill, that \$10 million likely represents a maximum incremental contribution from non-petroleum entities.

The total revenue impact of the bill is expected to be in the \$0 - \$110 million range.

Implementation Cost

The Tax Division would need to add one position, a Corporate Income Tax Auditor 3, to administer the tax on new entities. Even though the expected taxpayer base is small, this change would create additional workload which could not be absorbed. Services costs are primarily internal core services paid to other state agencies for the additional employee, and there would also be ongoing costs for travel and training. There is also a one-time cost for issuing business supplies and equipment.

Additionally, this legislation would require the Department to make significant changes to its Tax Revenue Management System. The \$500,000 capital cost reflects an estimate for the Division's contract with FAST Enterprises to make the necessary changes in a short amount of time. The contractor would need to provide changes for the associated databases, forms, communications, and integration with the Division's existing imaging, accounting, and collections modules. There would also need to be changes to Revenue Online, the online program that allows taxpayers to file, pay, and request refunds electronically. The Department would also need to make significant amendments to existing regulations to fully implement the changes. The Department believes the work on regulations can be performed with existing resources and support from the Department of Law.