



# House Bill 350

Qualified Entity Income Tax

Representative Zack Fields, March 9, 2026  
House Labor & Commerce Committee



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## What is a qualified entity?



- Businesses exempt from federal income taxes:
  - Sole proprietorships
  - Partnerships
  - LLCs
  - S-Corporations
- Those with a taxable income greater than \$25 million in a calendar year would be subject to a 9.4% income tax



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## Legislative History



- In 1958, Congress created the S-corporation tax classification to support small businesses by allowing income to “pass through” the entity and to be taxed only at the shareholder level.
- Since Alaska repealed its individual income tax in 1980, this has created a gap where C-corporations pay the state corporate income tax while very large non-C corporation businesses with comparable profits do not.

# How does Alaska compare with other states without a Personal Income Tax?

State	Personal income tax?	Main business-level tax on income/receipts	C-corp treatment	S-corp treatment	Key C vs S policy difference
Alaska	No	Corporate income tax on net income	Subject to graduated corporate income tax (0%–9.4% top rate above 222,000 dollars of taxable income).	Generally recognized as pass-through; exempt from regular corporate income tax “to the same extent” as federal S-corps, so no entity-level income tax and no PIT on owners (with targeted exceptions under recent oil & gas proposals).	Strongly favors S-corps over C-corps for state income tax.
Florida	No	Corporate income tax on net income	Pays Florida corporate income tax on taxable net income.	Federal S-status recognized; S-corp not subject to regular Florida corporate tax, and there is no PIT on shareholders’ pass-through income.	Strongly favors S-corps over C-corps for state income tax.
Nevada	No	Commerce Tax (gross-receipts-style tax)	Subject to Commerce Tax on Nevada gross receipts above statutory threshold, regardless of net income.	Subject to the same Commerce Tax rules as C-corps; federal S-status does not matter for this tax.	Neutral: C-corps and S-corps treated identically for state business tax.
South Dakota	No	None on business income/receipts	No general corporate income or gross-receipts tax on business income.	Same as C-corp; no income/receipts-based business tax.	Neutral: no state-level business income tax; federal choice only.
Texas	No	Franchise “margin” tax	Pays franchise tax on taxable margin (e.g., total revenue minus cost of goods sold, compensation, or a fixed percentage), at statutory rates; no PIT on shareholders.	Also a “taxable entity” for franchise tax; S-corps and C-corps compute and pay margin tax under the same rules.	Neutral: same entity-level tax on C- and S-corps; federal S-status irrelevant for state margin tax.

***Alaska & Florida are the only two states in the country without a personal income tax that do not tax S-Corps***

State	Personal income tax?	Main business-level tax on income/receipts	C-corp treatment	S-corp treatment	Key C vs S policy difference
Washington	No (limited CG tax)	Business & Occupation (B&O) gross-receipts tax	Pays B&O tax on Washington-sourced gross receipts at activity-based rates, regardless of profitability.	Pays B&O tax on the same basis as C-corps; classification as S-corp has no effect on B&O liability.	Neutral: S-corps and C-corps treated identically for B&O tax.
Wyoming	No	None on business income/receipts	No general corporate income or gross-receipts tax on business income.	Same as C-corp; no income/receipts-based business tax.	Neutral: no state-level business income tax; federal choice only.
New Hampshire	No broad PIT (I&D phasing out)	Business Profits Tax (BPT) + Business Enterprise Tax (BET)	C-corps are “business organizations” subject to BPT on net profits and BET on the enterprise base (compensation, interest, dividends).	S-corps are also “business organizations” for BPT/BET and must file BPT returns; New Hampshire treats them as corporations for profits tax, with pass-through income not subject to a broad wage-based PIT.	Neutral-to-slightly-C-oriented: S-corps taxed like C-corps at entity level; historic I&D tax captured some distributions but is being eliminated.
Tennessee	No broad PIT	Excise tax (net earnings) + franchise tax (net worth/property)	C-corps pay excise tax on net earnings and franchise tax on net worth or property; owners face no broad PIT on wages/business income.	S-corp election is not recognized for excise/franchise taxes; S-corps pay the same excise and franchise taxes as C-corps at the entity level.	Neutral: S-corps effectively taxed as C-corps for state business taxes.



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## Key Takeaways



- This bill closes the “loophole” for S-Corps and other passthrough entities that are otherwise exempt from federal income tax
- The bill directs the Department of Revenue to aggregate income across related entities and to include unitary business income in determining whether an entity exceeds the \$25 million threshold, ensuring that large business groups cannot avoid the tax simply by splitting income across multiple affiliates.
- This targeted reform improves the fairness & sustainability of Alaska’s revenue structure without broad-based tax increases on households or small businesses



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# Questions?