



# ALASKA STATE LEGISLATURE HOUSE RULES COMMITTEE

## House Bill 280

(34-LS1349\G)

### Sponsor Statement

## Corporate Income Tax Modernization

Under the Commerce Clause of the United States Constitution, states may only tax activity that is reasonably attributed to that state. Alaska's apportionment laws for corporate multistate taxpayers were adopted by the 6<sup>th</sup> Alaska State Legislature in 1970, when they codified the Multistate Tax Compact (MTC). The apportionment formulas in the MTC were established based solely on "brick and mortar" sales. The current formula takes a store's national profits and apportions taxes based on a three-factor formula that includes sales in the state, its Alaska property, and lastly its in-state payroll. As internet sales have become prevalent, Alaskans began buying goods from companies that had no property or payroll in state. Therefore, many C-corporations avoid paying Alaska's corporate income tax, while still using Alaska's infrastructure to get their products to consumers.

House Bill 280 modernizes Alaska's corporate income tax laws to address today's economy. HB 280 ensures that the sale of real property, tangible property, services, and intangible property by out-of-state corporations is counted as Alaskan sales, and that they pay their fair share of taxes to the state. HB 280 accomplishes this by changing Alaska's apportionment methodology. HB 280 does not make changes to Alaska's corporate income tax rates or brackets.

Alaska currently uses methodology called "cost of performance" to determine the apportionment of taxes due to the state. Under the "cost of performance" methodology, a sale is considered to happen in the state where the income producing activity is performed. This creates a loophole allowing out-of-state corporations to argue that the income producing activity happens at their corporate headquarters, in another state.

HB 280 amends the Multistate Tax Compact by adopting a "market-based sourcing" methodology. Market-based sourcing provides clarity as to where the sale of goods and services actually happens for tax purposes. This change allows Alaska to collect corporate taxes at the point of sale when sales are made in the state. Market-based sourcing defines where sales occur for real property, tangible personal property, and services. Currently, 36 other states are already using some form of market-based sourcing.

HB 280 makes common sense amendments to bring Alaska's tax apportionment system into the 21<sup>st</sup> century, ensuring that Alaska collects the corporate taxes it is due.