Annual Report 2022

Tax Division

Alaska Department of Revenue

tax.alaska.gov

Corporate Taxes

Corporate Income Tax

AS 43.19 and AS 43.20

Description

Alaska levies a corporate income tax on Alaska taxable income.

For purposes of computing taxable income, Alaska, like many states, adopts the federal Internal Revenue Code (IRC) by reference, unless excluded or modified by specific Alaska statutes.

For a corporation doing business only in Alaska, its taxable income is federal taxable income with certain Alaska modifications.

A corporation that does business both inside and outside Alaska apportions a percentage of the corporation's total income to Alaska using a formula. The Alaska percentage or "apportionment factor" is an average of three factors inside and outside the state: property, payroll and sales.

When a corporation is part of a group of corporations that operates as a unit to conduct a business, the taxpayer must apportion to Alaska a percentage of the combined incomes of all of the corporations in the "unitary" or "combined" group.

For unitary groups that are not oil and gas companies, Alaska adopts "water's edge combination." The combined group generally includes only those corporations with significant U.S. activity.

Oil and gas companies combine on a worldwide basis. Also, oil companies use a "modified" apportionment formula of property, sales, and extraction. The extraction factor is the production of oil and gas in Alaska divided by production everywhere.

Rate

Alaska taxes corporate income at graduated rates ranging from 0% to 9.4% divided over ten tax brackets.

Returns and Payments

Corporations file returns annually, with the Alaska return due 30 days after the federal tax return is due. Alaska honors the federal filing extensions. Electronic filing is required under Alaska statute.

Corporations must make quarterly estimated payments and the total tax is generally due the 15th day of the fourth month after the end of the tax year. There are no extensions to pay the tax. Estimated payments of more than $100,000 and payments accompanying a return greater than $150,000 must be made online or by wire transfer.

Exemptions

Generally, Alaska follows the IRC when determining an entity's taxable status.

Alaska adopts the flow-through federal provisions that exempt S-Corporations from tax, but not the requirement to file. Federally, S-Corporations are treated similar to partnerships and S-Corporation shareholders report their proportionate share of the corporation's earnings.

Certain small corporations are exempt from corporate income tax. These are corporations that have less than $50 million in assets and that meet certain industry requirements.

Limited Liability Companies

Alaska follows the federal tax treatment of Limited Liability Companies (LLCs). LLCs that file a federal partnership return will generally file a state partnership return if any of the partners are corporate or other pass-through entities.

Electric and telephone cooperatives pay tax under Alaska Statute 10.25 and are exempt from the corporate income tax.

Credits

Under Alaska's blanket adoption of the IRC, taxpayers can claim 18% of most federal incentive credits. Federal credits that refund other federal taxes are not allowed. Multistate taxpayers apportion their total federal incentive credits.

Alaska-specific credits include the Credit for the In-State Manufacture of Urea, Ammonia, or Gas-to-Liquid Products, and the Education Credit, Film Production Credit, LNG Storage Facility Credit, Minerals Exploration Incentive Credit, Alternative Tax Credit for Oil and Gas Exploration, Qualified Oil and Gas Service Industry Expenditure Credit, Qualified In-State Oil Refinery Infrastructure Expenditures Credit, and the Veteran Employment Credit.

For specific information concerning these credits, see the Corporate Income Tax Credits section below.

Disposition of Revenue

The Department of Revenue's Tax Division deposits most corporate net income tax collections into the General Fund. For oil and gas corporations only, the division deposits collections from assessments into the Constitutional Budget Reserve Fund.

History

1949 – The Territorial Legislature enacted the Alaska Net Income Tax Act. It is 10% of the federal income tax liability on income earned in Alaska. The tax applies to individuals and corporations.

1959 – Alaska adopted the Uniform Division of Income for Tax Purposes Act (UDITPA) within AS 43.20. This is a model statute that was developed by the states to address concerns of the U.S. Congress that states were collectively taxing more than 100% of the earnings of multistate corporations. UDITPA requires multistate corporations to apportion a percentage of their total income to the state by the apportionment formula of property payroll and sales. The standard UDITPA formula apportions 100% of the corporation's income among the states where the taxpayer does business.

1970 – Alaska enacted the Multistate Tax Compact in AS 43.19, and becomes one of the early members of the Multistate Tax Commission. The compact incorporates the standard three-factor apportionment formula of UDITPA. A main purpose of the compact and the commission is to promote the enactment of UDITPA, and the uniform application of UDITPA apportionment formula by the states. Uniform application of UDITPA promotes the full reporting of income by taxpayers and avoids the taxation of the same income by more than one state.

1975 – The Alaska Legislature repealed the original tax and makes major revisions. Alaska enacts its own tax rates rather than basing the tax on the federal tax liability. Alaska adopts the federal Internal Revenue Code (IRC) by reference, unless excluded or modified by other Alaska statutes. The tax rate was 5.4% of Alaska taxable income with a surtax of 4% based on federal surtax exemptions. For 1975, the surtax exemption is $50,000.

1978 – The Legislature found that the standard three-factor apportionment formula did not fairly reflect Alaska income for oil and gas corporations. Alaska enacted AS 43.21, and requires oil and gas companies to calculate Alaska taxable income using separate accounting. The oil and gas companies challenge AS 43.21.

1980 – The Legislature repealed the parts of AS 43.20 that impose the individual income tax and retains the exemption for S-Corporations.

1981 – In an effort to stem the growing amount of disputed oil and gas income taxes and related litigation, the Legislature sought a compromise tax method. The Legislature repealed separate accounting under AS 43.21, and enacted AS 43.20.072 (later renumbered AS 43.20.144), the current "modified" apportionment formula for oil and gas corporations. The modified formula dropped the payroll factor and added the "extraction factor." The Legislature also enacted the current graduated tax rate structure with a maximum rate of 9.4%.

1987 – The Legislature enacted the Alaska Education Credit.

1991 – The Legislature enacted “water’s edge combination” with AS 43.20.073. Water’s edge apportionment does not apply to oil and gas taxpayers, who continue to report on a worldwide combined basis.

1998 – The Department of Revenue won the Overseas Shipping Group Bulk Ships, Inc., case. The Alaska Supreme Court held that AS 43.20 does not adopt the IRC Section 883 by reference. Federally, Section 883 exempts foreign corporations that operate ships and aircraft from the tax to avoid double taxation. The Court said that formulary apportionment in AS 43.19 also avoided double taxation and therefore AS 43.19 is an exception to Section 883. During the next session, the Legislature specifically adopted Section 883 and granted explicit tax exemption to the foreign corporations operating cargo ships, cruise ships, and aircraft in Alaska.

2006 – A voter initiative that subjects cruise ship operators to Alaska corporate income tax passed in August 2006. Prior to the initiative, cruise ship operators were exempt from taxation through the department’s adoption of IRC Section 883.

2008 – The Legislature amended the Education Credit provisions to include cash contributions accepted for secondary-level vocational courses and programs by a school district in Alaska, and by a state-operated vocational technical education and training school.

– The Legislature authorized tax credits for qualified film production expenditures incurred in Alaska. The Film Production Tax Credits may be sold, transferred, exchanged, or conveyed, and must be used within three years after being granted by the Alaska Department of Commerce, Community and Economic Development. The maximum of credits claimed by all taxpayers over the life of the credit program may not exceed $100 million.

2010 – The Legislature amended the Education Credit by increasing the maximum credit allowed from $150,000 to $5 million effective January 1, 2011. In addition, the Legislature expands contributions eligible for the credit to include contributions made for construction and maintenance of facilities by state-operated vocational education schools and two- or four-year colleges. The increase in the credit from $150,000 to $5 million expires December 31, 2013. On January 1, 2014, the maximum credit allowed will revert to $150,000.

– The Legislature expanded the Gas Exploration and Development Credit, increasing it from 10% to 25% effective January 1, 2010. The utilization limit was raised from 50% to 75% of the tax liability. The credit sunsets on December 31, 2015.

– The Legislature authorized tax credits for expenditures to establish gas storage in Alaska. The available credit is $1.50 per 1,000 cubic feet of gas storage capacity, with a maximum credit available of $15 million or 25% of costs incurred to establish the facility. This is a refundable tax credit.

2011 – The Legislature enacted legislation extending the date that the $5 million annual Education Credit limit expired from December 31, 2013, to December 31, 2020. It is then scheduled to return to $150,000. In addition, the Legislature expanded contributions eligible for the credit to include contributions made after June 30, 2011, to annual intercollegiate sports tournaments, Alaska Native cultural or heritage programs for public school staff and students, and a facility in the state that qualifies as a coastal ecosystem learning center under the Coastal American Partnership.

– The Legislature enacted the Veteran Employment Tax Credit, providing a credit of $3,000 for hiring a disabled veteran, or $2,000 for hiring a veteran who is not disabled.

– The Legislature enacted the LNG (Liquefied Natural Gas) Storage Facility Tax Credit, granting a credit for costs incurred to establish an LNG storage facility in Alaska. The available credit is equal to 50% of the costs incurred, not to exceed $15 million. This is a refundable tax credit.

2013 – The Legislature passed Senate Bill 7 that relates to the taxable corporate income and the ability of certain film productions to receive tax credits. In addition, tax brackets for corporations under AS 43.20.011 are amended.

– The Legislature passed SB 83 that retroactively exempts income received by regional aquaculture associations, and income received by salmon hatchery permit holders from the sale of salmon, salmon eggs or from a cost recovery fishery from corporate income tax beginning June 30, 2007, by amending AS 43.20.012.

– The Legislature passed legislation exempting certain small corporations from the corporate income tax for tax years beginning after December 31, 2012. Corporations that have assets less than $50 million and that meet certain other asset and industry requirements are exempt from paying corporate income tax.

– The Legislature passed SB 21, which provides a credit for qualified oil and gas service industry expenditures for tax years after December 31, 2013.

2014 – The Legislature passed House Bill 278 (CH 15 SLA 14) that further expands qualifying Education Tax Credits to include cash contributions to a public or private nonprofit elementary or secondary school in the state, a nonprofit regional training center recognized by the Alaska Department of Labor and Workforce Development, or an apprenticeship program in the state that is registered with the U.S. Department of Labor under 29 U.S.C. 50-50b for direct instruction, research and educational support purposes.

In addition, tax credits are available for cash contributions accepted for a facility by a public or private nonprofit elementary or secondary school in the state, funding for a scholarship awarded by a nonprofit organization to a dual-credit student for certain educational expenses, for a residential school in the state approved by the Alaska Department of Education and Early Development, or certain qualified childhood early learning and development programs.

Tax credits are also available for cash contributions for science, technology, engineering and math (STEM) programs by a nonprofit agency or school district for school staff and for students in grades kindergarten through 12 in the state and for the operation of a nonprofit organization dedicated to providing educational opportunities that foster public service leadership for future generations of residents of the state.

– The Legislature passed HB 287 enacting the Qualified In-State Oil Refinery Infrastructure Expenditures Tax Credit that grants a credit of the lesser of 40% of qualified infrastructure expenditures incurred in the state during the year, or $10 million for each in-state refinery incurring qualified expenditures for tax years beginning after December 31, 2014, and before January 1, 2020.

2015 – The Legislature passed SB 39, repealing the film production incentive program. The repeal was effective July 1, 2015; all film projects that have previously received a written Notice of Qualification and meet statutory requirements are honored.

2017 – The Legislature passed HB 111, which allows a taxpayer to apply as a credit against the taxpayer's corporate income tax under AS 43.20 the Alternative Tax Credit for Oil and Gas Exploration earned by the taxpayer under AS 43.55.025 for exploration expenditures incurred for work performed on or after July 1, 2016.

2018 – The Legislature passed HB 398. For tax years beginning on or after January 1, 2019, public utilities will allocate and apportion income in the same manner as other corporations, notwithstanding Section 2, Article IV of AS 43.19 (Multistate Tax Compact).

– The Legislature passed House Bill 233, which amended the Corporate Income Tax Education Credit in AS 43.20.014 (in conjunction with corresponding amendments to parallel Education Credits provided in other titles and chapters).

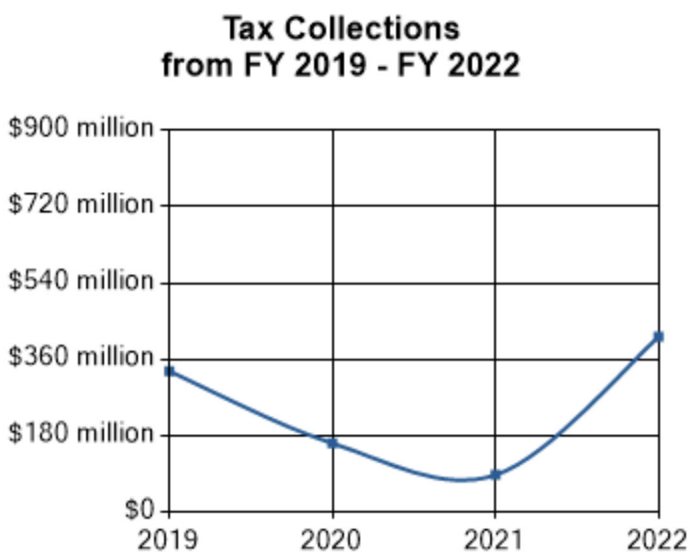
The credit amount was reduced from 100% to 75% of donations of between $100,000 and $300,000 starting January 1, 2019, and was further reduced to 50% of all contributions beginning January 1, 2021.

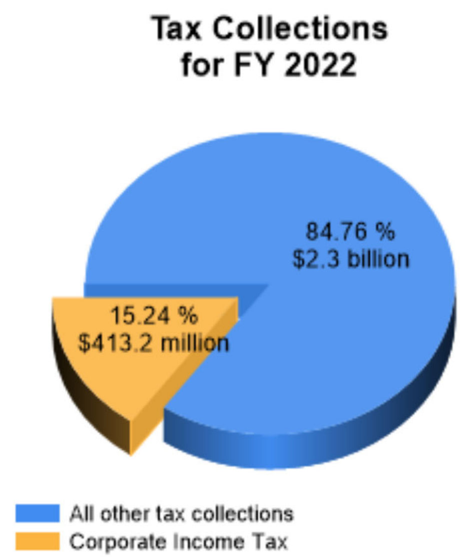
Additionally, the total Education Credit that any taxpayer may claim for all parallel Education Credits was reduced to $1 million a year from $5 million, beginning January 1, 2019. HB 233 also extended the credit to in-kind donations of equipment in addition to cash donations as of January 1, 2019.

2020 – On March 27, 2020, the federal CARES Act was signed into law. Corporations may "carry back" net operating losses incurred during tax years 2018, 2019, and 2020 up to five years and receive refunds for previous federal taxes paid. Alaska adopts most provisions of the federal corporate income tax code by reference, including the provision allowing the five-year carryback for net operating losses from tax years 2018, 2019, and 2020 and receive refunds of previous state income tax paid. For tax years 2021 and beyond, corporations will once again only be able to carry forward a net operating loss.

Collections Summary	FY 2019	FY 2020	FY 2021	FY 2022
Oil and Gas Tax	$217,295,765	$59,689,497	$(14,991,960)	$301,005,943
Oil and Gas Penalties and Interest	392,010	476,057	0	0
Oil and Gas Total Collections	**$217,687,775**	**$60,165,554**	**$(14,991,960)**	**$301,005,943**
Non-Oil and Gas Tax	112,643,719	97,312,227	97,909,239	110,002,479
Non-Oil and Gas Penalties and Interest	2,188,965	5,132,763	4,934,740	2,174,108
Non-Oil and Gas Total Collections	**$114,832,684**	**$102,444,990**	**$102,843,979**	**$112,176,588**
Total Tax [1]	**$332,520,459**	**$162,610,544**	**$87,852,019**	**$413,182,531**
General Fund	326,989,874	102,286,234	83,462,786	409,685,336
CBRF	5,530,585	60,324,310	4,389,233	3,497,195

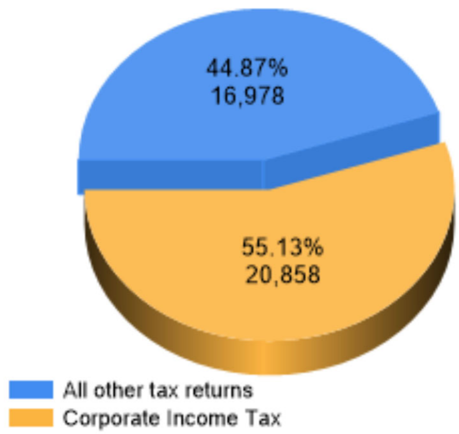
[1] Includes oil and gas and other corporate income tax.





Filing Information	FY 2019	FY 2020	FY 2021	FY 2022
Number of Returns	25,554	21,419	22,368	20,858
Number of Taxpayers	19,153	19,137	20,121	20,152

Returns filed for FY 2022



Corporate Income Tax Credits

Alternative Credit for Exploration – AS 43.55.025(a)(1)-(4) – Taxpayers who incur qualified exploration expenditures are eligible for this credit against oil and gas production tax. Credits earned for certain work performed on or after July 1, 2016, may be taken against corporate income tax.

The credit is 30% (20% for work performed prior to July 1, 2008) or 40%, depending on the qualifications of the exploration project. Taxpayers must obtain pre-approval from the Alaska Department of Natural Resources and submit certain data as part of the application process for exploration well projects. Credit applications under AS 43.55.025 are audited prior to issuance of the credit certificates. Certificates must be eventually issued, but the credit may also be applied to tax prior to the issuance of a certificate. The credit is transferable and eligible for state repurchase.

The credit is set to expire for Middle Earth Wells on December 31, 2021. It expired for Middle Earth Seismic on December 31, 2017, and the North Slope and Cook Inlet areas on June 30, 2016. This credit has been available since 2003 – pre-dating the oil and gas tax law revisions of 2006 and 2007. The scope of this credit is more specific than that provided for under AS 43.55.023.

Education – AS 43.20.014, 43.75.018, 43.77.045, 43.55.019, 43.56.018 and 43.65.018 – The Education Credit is a nontransferable and nonrefundable credit applicable to the corporate income tax, fisheries business tax, fishery resource landing tax, oil and gas production tax, oil and gas property tax, and mining license tax.

Taxpayers can claim a credit for contributions to Alaska universities and accredited nonprofit Alaska two- or four-year colleges for facilities, direct instruction, research and educational support purposes.

The tax credit can also be taken for donations to a school district or state-operated vocational technical education and training school for vocational education courses, programs and facilities. Donations for Alaska Native cultural or heritage programs for public school staff and students, and a facility in the state that qualifies as a coastal ecosystem learning center under the Coastal American Partnership also qualify. Contributions to the Alaska Higher Education Investment Fund established in 2012 qualify as well.

The credit was set to end December 31, 2018, but the Alaska Legislature in 2018 made changes to the law and extended the credit to December 31, 2024.

Before January 1, 2019, the credit was only for cash contributions. As of January 1, 2019, the credit will be for contributions of cash or equipment.

Before the year 2019, the credit allows the deduction of 50% of a business's annual contributions up to $100,000, 100% of the next $200,000 in donations, then 50% of donations above $300,000. A business, for example, is able to have $250,000 deducted from its taxes by paying $300,000 in donations. A business is allowed to claim up to $5 million in Education Credits per year across all eligible tax types.

As of January 1, 2019, the deduction amounts and cap will be reduced. The credit, including the contribution categories eligible for the credit, will remain the same as before 2019, with two exceptions. First, the contributions between $100,000 and $300,000 – those contributions will allow a deduction of 75% of the contribution, not 100% like before 2019. Second, a business will be allowed to claim up to $1 million in education credits per year across eligible tax types, not up to $5 million like before 2019.

On January 1, 2021, the credit was further reduced to 50% of all contributions. A business will still be allowed to claim up to $1 million in education credits per year across eligible tax types.

Qualifying Education Tax Credits include contributions by taxpayers to a public or private nonprofit elementary or secondary school in the state, a nonprofit regional training center recognized by the Alaska Department of Labor and Workforce Development, or an apprenticeship program in the state that is registered with the U.S. Department of Labor under 29 U.S.C. 50-50b for direct instruction, research and educational support purposes.

In addition, tax credits for certain taxpayers are available for contributions accepted for a facility by a public or private nonprofit elementary or secondary school in the state, for a scholarship awarded by a nonprofit organization to a dual-credit student for certain educational expenses, for a residential school in the state approved by the Alaska Department of Education and Early Development, or certain qualified childhood early learning and development programs.

Tax credits are also available for contributions by certain taxpayers for science, technology, engineering and math (STEM) programs by a nonprofit agency or school district for school staff and for students in grades kindergarten through 12 in the state and for the operation of a nonprofit organization dedicated to providing educational opportunities that foster public service leadership for future generations of residents of the state.

Film Production Credit – AS 43.98.030, AS 21.09.210, AS 21.66.110, AS 43.20, AS 43.55, AS 43.56, AS 43.65, AS 43.75 and AS 43.77 – The Film Production Tax Credit under the Department of Revenue was effective July 1, 2013, and the Alaska Legislature repealed it July 1, 2015. The department stopped accepting new projects on the date it was repealed. It was a transferable credit for expenditures on eligible film production activities in Alaska. The film credits have six-year expiration dates to be used against Alaska tax liabilities; therefore, the department could see credits being taken until 2023 since credits were still being awarded in 2016.

LNG Storage Facility Tax Credit – AS 43.20.047 – The LNG (Liquefied Natural Gas) Storage Facility Tax Credit is a nontransferable, refundable credit for the costs incurred to establish a storage facility for LNG. The credit is for 50% of the costs incurred, not to exceed $15 million. The credit applies to facilities with a minimum storage capacity of 25,000 gallons of LNG that are public utilities regulated by the Regulatory Commission of Alaska. A facility must have been placed into service after January 1, 2011, and start commercial operations before January 1, 2020. The credit is refundable, subject to AS 43.55.028.

Minerals Exploration Incentive – AS 27.30.030 – The credit is for 100% of eligible costs of mineral and coal exploration activities, and is applicable to the corporate income tax, mining license tax and mineral production royalty. The credit may not exceed $20 million and must be applied within 15 years after the credit is approved.

For corporate income tax, the credit is limited to the lesser of 50% of the mining license tax liability at the mining operation where the exploration occurred or 50% of the total corporate income tax liability.

For the mining license tax, the credit is limited to the lesser of 50% of the mining license tax liability at the mining operation where the exploration occurred or 50% of total mining license tax liability.

For the mineral royalty, the credit is limited to 50% of the royalty liability from the mining operation where the exploration activity occurred.

Qualified In-State Oil Refinery Infrastructure Expenditures Tax Credit – AS 43.20.053 – The In-State Refinery Tax Credit began on January 1, 2015, and is a credit for qualified infrastructure expenditures for in-state oil refineries incurred after December 31, 2014, and before January 1, 2020. The credit may not exceed 40% of total qualifying expenditures or $10 million per tax year per refinery, whichever amount is less. The credit can be applied against corporate income tax liability and carried forward for up to five years. It is also a refundable credit. The authorizing statute sunset on December 31, 2019.

Qualified Oil and Gas Service Industry Expenditure Credit – AS 43.20.049 – A taxpayer may claim a credit for 10% of qualified oil and gas service industry expenditures that are for in-state manufacture or in-state modification of oil and gas tangible personal property. The credit, which may be up to $10 million, is applied to corporate income tax liabilities. The credit is not transferable, but an unused credit may be carried forward for five years. If the taxpayer takes the credit, the taxpayer may not also deduct the expenditures.

Urea/Ammonia/Gas-to-Liquid Facility Credit – AS 43.20.052 – This credit allows an in-state company that produces urea, ammonia, or gas-to-liquids products to apply a credit to its corporate income tax based on natural gas purchased from state leases. The credit is equal to the amount of state royalty paid on natural gas purchased for the qualifying project.

The credit is not transferable or eligible for state purchase, it cannot be carried forward to future years, and it cannot be used to reduce a tax liability below zero. The credit is scheduled to be repealed on January 1, 2024.

Veteran Employment Tax Credit – AS 43.20.048 – This credit is for corporate income taxpayers who employ qualified veterans in the state. The credit is $3,000 for hiring a disabled veteran, and $2,000 for a veteran who is not disabled, for at least 1,560 hours during 12 consecutive months after the employment date. For seasonal employment, the credit is $1,000 for hiring a veteran for at least 500 hours during the three consecutive months after the employment date.
