

## Federal Small Business Definition

Certain small corporations are exempt from Alaska corporate income tax. To qualify for the exemption, a corporation and its affiliates must be a qualified small business meeting the requirements below: A C Corporation must be engaged in an active business as described in Internal Revenue Code (IRC) Section 1202(e) as that sub-section read on January 1, 2012. This includes certain startup operations. The corporation's total assets, including assets of all affiliates, may not exceed \$50 million. This is measured at the beginning of each tax year to determine if the corporation is eligible for the exemption for that tax year. Eighty percent (determined by value) of the corporation's assets, including assets of all affiliates, must be used in the active conduct of one or more qualified trades or businesses. A "qualified trade or business" is any business except the following: • Performance of services in health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any other business where the principal asset of the business is the reputation or skill of one or more of its employees; • Banking, insurance, financing, leasing, investing, or similar business; • Farming, including timber; • Business involving production or extraction for which a depletion allowance could be claimed; • Hotel, motel, restaurant, or similar business; or, • Construction, transportation, utility, or fisheries business. Important Note: All corporations which are members of the same parent-subsidary controlled group are treated as a single corporation when determining whether a corporation is exempt as a Small Corporation. The controlled group includes any corporation connected through stock ownership with a common parent corporation if more than 50 percent of the total combined voting power of all classes of stock is owned by the parent or one or more of the corporations within the group.