ALASKA PUBLIC INTEREST RESEARCH GROUP
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To: Senate Resources Committee
From: Natalie Kiley-Bergen, Energy Lead, AKPIRG
RE: Letter of Support for Senate Bill 92

Chair Giessel, Vice-Chair Wielechowski, and Members of the Committee:

The Alaska Public Interest Research Group (AKPIRG) appreciates the efforts of the Senate Resources Committee to consider Senate Bill 92 - Corp Income Tax; Oil & Gas Entities - which would revise Alaska's tax code with respect to S corporations. We support the bill, which would create corporate tax parity and help address state revenue shortfalls.

AKPIRG is a 501(c)3 nonprofit and the only non-governmental public interest and consumer advocacy organization in Alaska. We focus on nonpartisan consumer and good government issues, including energy democracy and ratepayer advocacy. We also serve as the small consumer seat on the Railbelt's Electric Reliability Organization: the Railbelt Reliability Council (RRC). These comments are AKPIRG's and do not represent the views of the RRC or its Board of Directors.

While most large companies pay a state corporate income tax, certain pass-through entities, called S corporations ("S corps"), do not pay any income taxes in Alaska due to a loophole in the state's tax code. This bill would close that loophole by imposing a tax on income over $5 million for oil and gas S corporations doing business in Alaska.

Alaska's S corp tax loophole has been in place since 1980, but it became a much bigger problem in 2020 when a major player in Alaska's oil and gas industry–BP–sold all of its Alaska assets to an S corporation. That S corporation, Hilcorp (and affiliated subsidiaries), is increasing its share of Alaska's oil and gas market each year. This transfer resulted in our state losing a significant portion of its revenue from the oil and gas industry. Alaskans are suffering as a result.

Our state is facing an acute budget deficit. The Anchorage Daily News recently reported that without additional revenue, Alaska could face a budget shortfall of over $500 million during the coming year. That revenue needs to come from somewhere. Under these conditions, the legislature must make a decision between devastating cuts to education and other social services, imposing new taxes on Alaskans, repurposing PFD dividends, or fixing tax loopholes that benefit wealthy interests outside of Alaska. The best choice for Alaska is obvious. The

Department of Revenue estimated that closing the S corp tax loophole would bring over $100 million per year through 2030–revenue that is desperately needed to fund essential state services. While Alaska struggles to address crumbling rural school infrastructure, more than $100 million is going to out-of-state billionaires and the federal government annually.

Passing SB 92 and closing the S corp tax loop hole is not only a matter of getting Alaskans' fair share from out-of-state companies extracting our resources. It's also a matter of diverting tax revenue from the federal government to the State of Alaska. S corporations can write off state income taxes on their federal tax returns. Alaska's S corp tax loophole means that S corporations pay more in income tax to the federal government than C corporations without paying anything to the state. Further, the Alaska Constitution instructs the legislature to ensure that the Alaska public gets the "maximum benefit" from the use of our natural resources. Lost revenue from the S corp tax loophole is preventing the state from doing the bare minimum to provide basic public services.

SB 92 is neither unexpected or unfair to S corporations. **S corporations pay income taxes in every state in the nation except Alaska.** Changing Alaska's tax code to reflect the national consensus is foreseeable and common sense. Additionally, affected S corporations would maintain an economic advantage in the state corporate income tax structure since the current bill language includes a $5 million tax break for S corporations. C corporations, in contrast, pay state taxes on any income over $25,000 and a 9.4% rate on income over $222,000. SB 92 would improve parity in the state's corporate tax code by reducing the unfair tax advantage that S corporations have over C corporations. Since the new tax would apply only to companies making more than $5 million in profit annually, it will not affect mom-&-pop businesses. It is only fair that S corporations pay state income taxes in exchange for the privilege of extracting resources, just like their competitors and business partners.

AKPIRG disagrees that Alaska will somehow bring in more revenue or guarantee jobs by giving an income tax break to a few large S corporations. If that theory were true, Alaska would have a booming development industry. Instead, we are facing a severe natural gas shortfall in Cook Inlet where an S corp holds the vast majority of leases and reduced oil revenue from the North Slope.[1] Further, there is no reason to assume that a large company with operations across the country would reinvest any extra profits in Alaska operations.[2] That company is just as likely to transfer the capital to projects outside of Alaska or as dividends to their billionaire shareholders.

[1] A booming development industry would reduce the impact of declining oil prices.

[2] Hilcorp is the largest privately held, independent exploration and production company in America with interests in Alabama, Alaska, Colorado, Louisiana, New Mexico, Ohio, Pennsylvania, Texas, and Wyoming. Harvest Midstream operates over 6,000 miles of pipeline across seven states and provides gathering, transportation, processing, and treatment services to customers across the country.

The legislature can guarantee that companies operating in Alaska also invest in Alaskans by imposing corporate income tax and using the revenue to fund public services. Functional public services benefit these companies in the short and long term through a well-educated and trained local workforce, attractive and livable communities for employees, and capable and well-staffed state and local government partners.

Passing SB 92 is not only in the best interest of Alaska; it is also overwhelmingly popular. According to a recent poll, the vast majority of Alaskans in every region of the state–77% on average–want Hilcorp to pay state income tax.[3] The widespread public consensus on this issue indicates a clear path forward for the legislature. We urge the legislature to pass SB 92 and Senate Resources move this legislation out of committee.

Thank you for considering our input. AKPIRG is available for further discussion on this legislation and other bills related to Alaska's public interest.

Sincerely,

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[3] See Question 27.