

SB 92 version S

S-Corporation Tax Structure

Senate Finance Committee
April 9, 2025
Senator Cathy Giessel

C Corporations are taxed separately from their owners, meaning they pay taxes on their profits and then the shareholders pay taxes again on any dividends they receive.

S Corporations pass their profits and losses directly to their shareholders' personal tax returns, avoiding the perceived “double taxation” seen with C Corporations. S Corporations were created in the tax code on January 1, 1958.

There are specific requirements and restrictions for an entity to qualify as an S Corporation:

- **Does not have more than 100 shareholders**
- **Does not have a shareholder who is not an individual (with the exception for various tax-exempt organizations, estates and trusts)**
- **Does not have a nonresident alien as a shareholder**
- **Does not have more than one class of stock**

(DCCED, Div of Corp, business & prof licensing)

There are **~11,700 S Corporations** registered in the Alaska. (Alaska Department of Revenue Indirect Expenditure Report 2024)

Limited Liability Companies

Limited Liability Company (LLC) were first introduced in Wyoming in 1977, but did not catch on until the 1990s. A limited liability company is a legal business entity, considered its own “person” by law, which exists separate from its members. An LLC shares the limited liability features of a corporation but has the management and tax efficiencies of a partnership. Members' liabilities are limited to their financial contributions meaning an individual members' liability is only extends to what they contribute to the LLC. Limited liability does not shield owners of the LLC from negligence liability.

LLCs have an array of tax options. For example, members may file taxes as one of the following, but not limited to:

- Single member LLC taxed as **Sole Proprietorships** (Sole Prop)
- Partners in an LLC taxed as a **Traditional Partnership** (LLP)
- LLC taxed as a **Corporation, including S Corporations or C Corporations** (S-Corp, C-Corp)

LLCs can elect to be taxed as S Corporations if they meet the requirements, but they have more flexibility in structure and management compared to traditional S Corporations. So, if an LLC opts for S Corporation status, it's taxed similarly to other S Corporations, but with the added flexibility of the LLC framework.

According to the Department of Commerce, Community and Economic Development, **as of 2024, there are 67,133 active LLCs registered in Alaska.** This number can fluctuate with new formations and dissolutions.

Alaska Linkage to Federal Code

Federal Code Linkage: Alaska generally follows federal tax rules for federal tax purposes but does not have its own state income tax code. Instead, Alaska uses federal tax rules as a basis for compliance and reporting for businesses operating within the state. This means that while there's no separate state income tax code, businesses and individuals must adhere to federal tax regulations for their federal tax filings.

Both S Corporations and LLCs enjoy similar tax treatments in Alaska due to the state's lack of a state income tax.

Individual Income Tax Repeal: Alaska originally implemented an individual income tax in 1949. However, **this income tax was repealed in 1979**. The repeal came as a result of the state's new revenue source, the Alaska Permanent Fund, which was established to manage oil revenues. The creation of the Permanent Fund reduced the need for individual income taxes.

AS 43.20.021

Current Statutes for
companies filing as
S Corporations

- “Under Alaska’s adoption of the Internal Revenue Code [AS 43.20.021], corporations that have elected S Corporation status are generally not subject to tax.
- Prior to 1980, the stakeholders’ share of income was subject to Alaska’s personal income tax.
- Since the 1980 repeal of the state’s personal income tax, the income is taxed neither at the corporate level nor at the shareholder level”

-Legislative Finance Division Indirect Expenditure Report January 2021

Nine States – No Personal Income Tax

- Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, Wyoming
- 14 states have a flat tax rate
- 27 have graduated rates similar to the federal tax system.

AS 43.20.011 (e)

Current Statute for companies filing as C Corporations

***Last amended 2013**

If the taxable income is:

Then the tax is:

Less than \$25,000 -----	0 percent of the taxable income
\$25,000 but less than \$49,000 -----	2 percent of the taxable income over \$25,000
\$49,000 but less than \$74,000 -----	\$480 plus 3 percent of the taxable income over \$49,000
\$74,000 but less than \$99,000 -----	\$1,230 plus 4 percent of the taxable income over \$74,000
\$99,000 but less than \$124,000 -----	\$2,230 plus 5 percent of the taxable income over \$99,000
\$124,000 but less than \$148,000 -----	\$3,480 plus 6 percent of the taxable income over \$124,000
\$148,000 but less than \$173,000 -----	\$4,920 plus 7 percent of the taxable income over \$148,000
\$173,000 but less than \$198,000 -----	\$6,670 plus 8 percent of the taxable income over \$173,000
\$198,000 but less than \$222,000 -----	\$8,670 plus 9 percent of the taxable income over \$198,000
\$222,000 or more -----	\$10,830 plus 9.4 percent of the taxable income over \$222,000

SB 92 Changes

Proposed changes
for companies filing
as S Corporations

If the taxable income is:

Then the tax is:

Less than \$25,000 ----- 0 percent of the taxable income

\$25,000 but less than \$49,000 ----- 0 percent of the taxable income over \$25,000

\$49,000 but less than \$74,000 ----- \$0 plus 0 percent of the taxable income over \$49,000

\$74,000 but less than \$99,000 ----- \$0 plus 0 percent of the taxable income over \$74,000

\$99,000 but less than \$124,000 ----- \$0 plus 0 percent of the taxable income over \$99,000

\$124,000 but less than \$148,000 ----- \$0 plus 0 percent of the taxable income over \$124,000

\$148,000 but less than \$173,000 ----- \$0 plus 0 percent of the taxable income over \$148,000

\$173,000 but less than \$198,000 ----- \$0 plus 0 percent of the taxable income over \$173,000

\$198,000 but less than \$5,000,000 ----- \$0 plus 0 percent of the taxable income over \$198,000

\$5,000,000 or more ----- \$0 plus 9.4 percent of the taxable income over \$5,000,000

The Nonpartisan Legislative Finance Division Recommends Closing this Loophole

Indirect Expenditure Report



January 2021

Legislative Finance Division
www.legfin.akleg.gov

“Should it be Continued, Modified, or Terminated?”

“Recommend termination. "S" corporations are exempt from the federal corporate income tax because income from these corporations is taxed under the personal income tax. Without a state personal income tax, these corporations receive the legal benefits of incorporation without any state tax liability.”

-Indirect Expenditure Report, January 2021, Page 144

The Department of Revenue Presented this Concern to the Legislative Fiscal Policy Working Group in 2021

Existing Revenue: Expand Corporate Income Tax to Oil and Gas Pass-through Entities

Description: This option proposes to tax oil and gas pass-through entities at the same rate as the current Corporate Income Tax on C-Corporations. This option defines “entities” to mean sole proprietorships, partnerships, and S-Corporations. This option would apply to any business who files a return, claim for credit or report under AS 43.55 (oil and gas production tax).

First Full Year Impact: \$67.1 million in FY 2022

Using our July 2021 ANS price update as the basis, the estimate is that this could increase corporate income revenue by \$47 to \$61 million per year from FY 2022 to FY 2030. The FY 2022 estimate includes retroactive application to 1/1/2021. The range is due to forecasted changes in production, oil prices, and anticipated company profitability this period.

Costs: There are no incremental costs to implement this change.

OIL & GAS PASS-THROUGH ENTITIES CORPORATE INCOME TAX

- Estimated Revenue Increase
- Total FY2020 Tax Revenues



Source: “Comprehensive Fiscal Policy Plan for Alaska”
presented by Commissioner Lucinda Mahoney August 10, 2021

Spring 2025 Revenue Forecast

Alaska Department of Revenue | Tax Division | tax.alaska.gov

Chapter 2

2

Unrestricted General Fund Revenue By type and source

		Millions of Dollars		
		History	Forecast	
		FY 2024	FY 2025	FY 2026
Unrestricted Investment Revenue				
Investment Revenue				
1	Permanent Fund	3,526.1	3,657.3	3,798.9
2	Investments	148.0	119.1	83.6
3	Total Unrestricted Investment Revenue	3,674.1	3,776.4	3,882.5
Unrestricted Petroleum Revenue				
Petroleum Taxes				
4	Petroleum Property Tax	130.8	141.1	141.6
5	Petroleum Corporate Income Tax	210.6	190.0	230.0
6	Oil and Gas Production Tax	974.6	557.9	417.0
7	Subtotal Petroleum Taxes	1,316.0	889.0	788.7

SB 92 tax structure: Alaska Income Tax

	C-Corps	S-Corps
Alaska taxable income	\$1,000,000,000	\$995,000,000*
Tax owed	\$93,990,150	\$93,530,000**

**SB 92 exempts the first \$5,000,000 from taxation*

*** Tax rate is 9.4% on all taxable income over \$5,000,000*

John Letourneau, CPA, Thomas, Head and Greisen

Hilcorp investment locations

Source: Hilcorp website

State	State & Local Taxes Paid	BOEPD - Net Daily Production	Gross Acres Under Production	Producing Wells	Employees and Full-Time Contractors
NM & CO (San Juan Basin)	\$191+ Million	120,000+	2,000,000+	11,700+	500+
Louisiana	\$87+ Million`	21,000+	328,000+	485+	250+
Texas	\$70.1+ Million	31,000+	944,000+	4,100+	970+
Wyoming	\$39 Million	18,000+	474,000+	1,500+	90+
Pennsylvania & Ohio	\$2+ Million	24,000+	68,000+	165+	25+
Alaska	N/A	135,000+	950,000+	1,700+	1500+

Questions?