

ALASKA STATE LEGISLATURE



SENATE RESOURCES COMMITTEE

CSSB 92 Sponsor Statement

Senate Bill 92 works to level the playing field and ensure that all oil companies that come to Alaska to extract our mineral wealth are charged at the same rate regardless of whether they are designated as an S corporation or a C corporation. The new 9.4% tax would apply only to entities making over \$5 million in profits from oil production or pipeline transportation. Other S corporations operating in Alaska that do not work in oil production or transportation would not be included in SB 92.

In 1958 Congress established the S Corporation (S-Corp) tax classification of the IRS tax code to benefit small businesses and help them stay viable. The S-Corp tax category bypasses income taxes on the entity, enabling tax liability to “pass through” to apply only against the earnings of the individual shareholders. Alaska tax law incorporates the IRS tax code by reference, including taxation of companies. But in 1980 Alaska repealed its personal income tax. This fact results in a glaring anomaly where the state generates tax revenue from the profits of a traditional C Corporation (C-Corp), while an S-Corp that is just as profitable doing business in Alaska gets to avoid paying the state any corporate income tax.

The policy rationale and alternate taxing arrangement that led Congress to create the IRS S-Corp classification cannot be met in Alaska. With their profits left untaxed at both the corporate and shareholder level, our own nonpartisan Legislative Finance Division recommends terminating this S-Corp tax exclusion as “these corporations receive the legal benefits of incorporation without any state tax liability.” The consequence can only be viewed as an egregious loophole of our tax structure, and there is no sound policy reason not to close it. SB 92 would fix the state tax code to require non C-Corp entities making significant profits from Alaska’s oil and gas resources to pay the same tax rate as C-Corps are required to by law.

The new 9.4% tax would apply only to entities making over \$5 million in profits from oil and gas production or transportation, and only to their profits above \$5 million. Declining revenue and extreme deficits since 2014 have forced Alaska to deplete nearly all savings and prematurely resort to the earnings of the Permanent Fund. Meanwhile, Alaskans have endured severe cuts to state services and the state has forgone needed capital improvement projects. This bill would be a step towards fixing those extreme deficits.

I urge your support of SB 92. Please join me in closing this egregious and unnecessary tax loophole.