

Alaska State Legislature

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Alaska State Capitol
Room 121
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CS for Senate Bill 92(RES)

Sponsor Statement (version S)

Corp. Income Tax; Oil & Gas Entities

"An Act establishing an income tax on certain entities producing or transporting oil or gas in the state; and providing for an effective date."

In 1958 Congress established the S Corporation (S-Corp) tax classification of the IRS tax code to benefit small businesses. The S-Corp tax category bypasses income taxes on the entity, enabling the tax liability to “pass through” and apply only against the earnings of the individual shareholders. This creates a gap in Alaska, since we repealed our state income tax in 1980, creating a situation where only the C-Corporations pay a tax and the S-Corporations do not.

Senate Bill 92 would update Alaska’s state tax code to require oil and gas S-Corp entities to pay tax at the same rate that C-Corps are required to by law. The new S-Corp 9.4% tax would apply only to entities making over \$5 million in profits from oil and gas production or pipeline transportation, and only on their profits above \$5 million.

The state’s 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.” SB 92 would fix the state tax code to require S-Corp entities working in Alaska’s oil and gas industries to pay tax at the same rate as C-Corps.

This update to the state’s oil and gas tax structure aligns with Alaska’s Constitution (Article VIII, Section 2) to assure the maximum benefit to our residents from our abundant valuable resources. SB 92 follows that mandate and creates balance within Alaska’s tax structure.