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House Bill 398
Corporate Tax: Public Utility Income Allocation

House Bill 398 (HB 398) identifies and captures potential lost revenue by eliminating an exemption for certain public utilities. In its *2015 Indirect Expenditure Report*, the Legislative Finance Division identified this indirect expenditure in the Department of Revenue and recommended its termination. During the FY18 budget process, the House Finance Subcommittee for the Department of Revenue also reviewed this indirect expenditure and recommended the House Finance Committee offer legislation to eliminate the exemption in statute.

Currently, corporate income tax statutes require all non-oil-and-gas taxpayers doing business in more than one state to apportion their income to Alaska using the three-factor apportionment formula. Adopted in 1970, the three-factor apportionment statutes made an exception to the general three-factor apportionment rule for public utilities that operated both within and outside of Alaska. In recent years, this has allowed multi-state public utilities to use an apportionment method of their own choosing. For the State of Alaska, this has created issues in the administration of the tax, as a corporation will naturally choose a method that will create the lowest possible tax obligation.

The indirect expenditure repealed in HB 398 will allow the Tax Division to use the same three-factor formula for all public utilities operating in Alaska. Due to the small number of taxpayers utilizing this exemption, the Department of Revenue is currently unable to provide an aggregate estimate of potential new revenue from its repeal, but expects an increase in the collection of funds within the Alaska corporate income tax.