Corporate Sales Tax Modernization

HOUSE BILL 280

Apportion Taxable Income; Digital Business

By: The House Rules Committee

Presented in House Finance Friday, February 13, 2026

WHAT ARE ALASKA'S APPORTIONMENT LAWS?

- The 6th Alaska State Legislature codified the Multistate Tax Compact (MTC) in 1970 when all businesses were brick and mortar. The Legislature has not made any amendments to this statutory language in *AS 43.19* since codification.
- The MTC's function is to uniformly and properly determine a State's corporate income tax for C-corporations operating in multiple states, determining what portion of their income can be taxed by each state.
- Under the Commerce Clause of the U.S. Constitution, states may only tax activity that is reasonably attributed to that state. This is determined in Alaska by the traditional three-factor apportionment formula.
- The current traditional apportionment formula in Alaska is based on three-factors:
  - The percentage of a taxpayer's sales that are made in the state
  - The percentage of a taxpayer's property located in the state
  - The percentage of a taxpayer's payroll that is made in the state

The Traditional Three-Factor Corporate Tax Apportionment Formula

$$Share\ of\ Total\ Corporate\ Income\ Apportioned = \left[\frac{\frac{AK\ Property}{Total\ Property} + \frac{AK\ Sales}{Total\ Sales} + \frac{AK\ Payroll}{Total\ Payroll}}{3}\right] \times Total\ Income$$

WHY ARE ALASKA'S APPORTIONMENT LAWS ANTIQUATED?

- The traditional tax apportionment formula was written for C-corporations with a physical business presence in the State.
- Due to the advent of the modern digital economy, a corporation can operate totally online in multiple states.
- C-corporations now make sales to Alaskans through our broadband infrastructure and deliver goods through Alaska's our roads, ports and airports.
- These online corporations no longer have property or payroll in Alaska and can even argue that the costs for online sales to Alaska occur at its corporate headquarters.
- Therefore, Alaska's current three-factor appropriation formula is antiquated, costing the State valuable tax income from outside C-corporations that could be attributed to Alaska.
- HB 280 makes common sense reforms to make sure that these sales are properly taxed in Alaska.

HOUSE BILL 280 MAKES TWO REFORMS TO BRING ALASKA'S APPORTIONMENT SYSTEM INTO THE 21ST CENTURY

Amends the Multistate Tax Compact language in AS 43.19 by adopting Market-Based Sourcing to Ensure Alaskan Sales are Properly Apportioned to the State

Amends AS43.20 to create an apportionment method for "highly digitalized businesses" based on a single factor, the sales factor

HB 280 makes no changes to corporate income tax rates or brackets

HB 280 REPLACES "COST OF PERFORMANCE" WITH A "MARKET-BASED" METHODOLOGY

Alaska currently uses a methodology called "cost of performance" to determine whether sales happen in Alaska

- Under "cost of performance", a sale is considered to happen in Alaska when the "income producing activity is performed in state"
- This allows out-of-state corporations to argue that online sales to Alaskan happen at its corporate headquarters in another state

Under "market-based sourcing" a sale occurs in Alaska when:

- For real property, when the property is located in the state
- For tangible personal property, when the property is located in the state
- For services, when the service is delivered to the state
- For intangible property, when it is used in the state

Currently 36 other states are already using some form of market-based sourcing

SINGLE SALES FACTOR FOR HIGHLY DIGITIZED BUSINESSES ONLY

For highly digitalized businesses only, the sales factor would be the only factor used for corporate tax apportionment.

$$Share\ of\ Total\ Corporate\ Income\ Apportioned = \left[\frac{AK\ Sales}{Total\ Sales}\right] \times Total\ Income$$

The traditional three-factor formula will still be used for brick-and mortar businesses

When is a business considered highly digitized?

A business is considered highly digitalized if 50% or more of its Alaskan sales are:

- Tangible property purchased through the internet
- Intangible property delivered electronically
- Services delivered electronically
- Services related to computers, electronic transmission, or internet technology

At least 37 other states already use a single sales factor for some industries

WHY SUPPORT OF HB280 IMPORTANT?

- The State of Alaska faces persistent budget challenges and desperately needs a fiscal plan to stabilize state services and to provide the certainty our constituents deserve; HB 280 is a small but critical part of that plan.
- HB 280 is expected to generate between $25 million to $65 million annually for the State of Alaska.
- These reforms will have little, or no, effect on Alaskan consumers, since most online businesses use universal pricing.