

Corporate Income Taxes and Economic Growth

House Ways and Means Committee

Corporate Income Tax

Alaska levies a corporate income tax (CIT) on certain corporations doing business in the state under AS 43.19 and 43.20. Corporate tax rates are graduated, with a maximum rate of 9.4% applying to Alaska taxable income above \$222,000. S-corporations and limited liability companies (LLCs) that file federally as partnerships are generally exempt from Alaska's corporate income tax.

A non-oil and gas corporation computes its tax liability based on the federal taxable income of its water's edge combined report (a measure of income earned in the United States), with Alaska adjustments – for example, Alaska tax code allows special treatment for certain dividends and royalties received from foreign corporations.

U.S. income is apportioned to Alaska based on three factors – sales, property, and payroll. Alaska taxable income is determined by applying the apportionment factor to the corporation's modified federal taxable income. CIT for oil and gas corporations is calculated differently and reported separately in Chapter 6.

Generally, a corporation is subject to tax on its current-year Alaska taxable income and any net operating losses may be carried-forward indefinitely to offset future tax liabilities. However, as part of the federal CARES Act passed in 2020, corporations could “carry back” net operating losses from tax years 2018, 2019, and 2020 up to five years and receive refunds for previous federal taxes paid. Alaska adopts most provisions of the federal corporate income tax code by reference, including the provision allowing the five-year carry back for net operating losses from tax years 2018, 2019, and 2020. Thus, this carry back provision applied to Alaska corporate income tax as well. For tax years 2021 and beyond, corporations are once again only able to carry forward net operating losses.



	FY22	FY23	FY24
21 Corporate Income Tax	112.2	105.0	125.0

Millions of Dollars

	History	Forecast	
	FY 2022	FY 2023	FY 2024
Unrestricted Investment Revenue			
Investment Revenue			
1 Permanent Fund	3,069.3	3,360.6	3,526.1
2 Investments	-59.1	35.0	74.5
3 Total Unrestricted Investment Revenue	3,010.2	3,395.6	3,600.6
Unrestricted Petroleum Revenue			
Petroleum Taxes			
4 Petroleum Property Tax	122.4	116.3	114.0
5 Petroleum Corporate Income Tax	297.5	390.0	320.0
6 Oil and Gas Production Tax	1,801.6	1,610.4	1,228.7
7 Subtotal Petroleum Taxes	2,221.5	2,116.7	1,662.8
Royalties (including Bonuses, Rents, and Interest)			
8 Mineral Bonuses and Rents	12.6	13.7	15.4
9 Oil and Gas Royalties	1,257.2	1,249.7	1,183.4
10 Interest	-10.5	0.0	0.0
11 Subtotal Royalties	1,259.3	1,263.5	1,198.8
12 Total Unrestricted Petroleum Revenue	3,480.9	3,380.1	2,861.5



Current Law: AS 43.20.11 (e)

If the taxable income is

Then the tax is:

Less than \$10,000

1 percent of the taxable income

\$10,000 but less than \$20,000

\$100 plus 2 percent of the taxable income over \$10,000

\$20,000 but less than \$30,000

\$300 plus 3 percent of the taxable income over \$20,000

\$30,000 but less than \$40,000

\$600 plus 4 percent of the taxable income over \$30,000

\$40,000 but less than \$50,000

\$1,000 plus 5 percent of the taxable income over \$40,000

\$50,000 but less than \$60,000

\$1,500 plus 6 percent of the taxable income over \$50,000

\$60,000 but less than \$70,000

\$2,100 plus 7 percent of the taxable income over \$60,000

\$70,000 but less than \$80,000

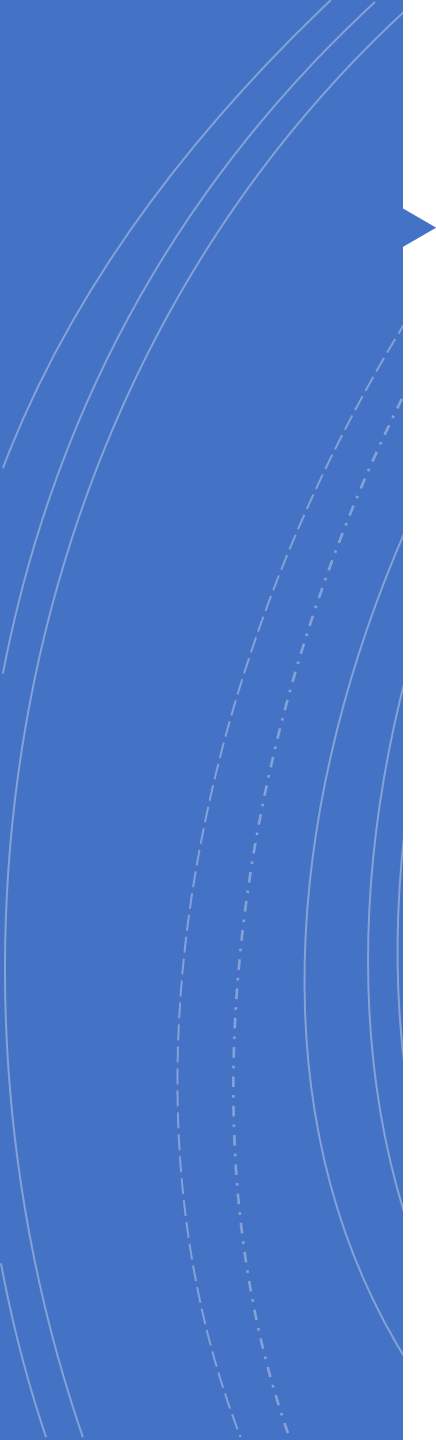
\$2,800 plus 8 percent of the taxable income over \$70,000

\$80,000 but less than \$90,000

\$3,600 plus 9 percent of the taxable income over \$80,000

\$90,000 or more

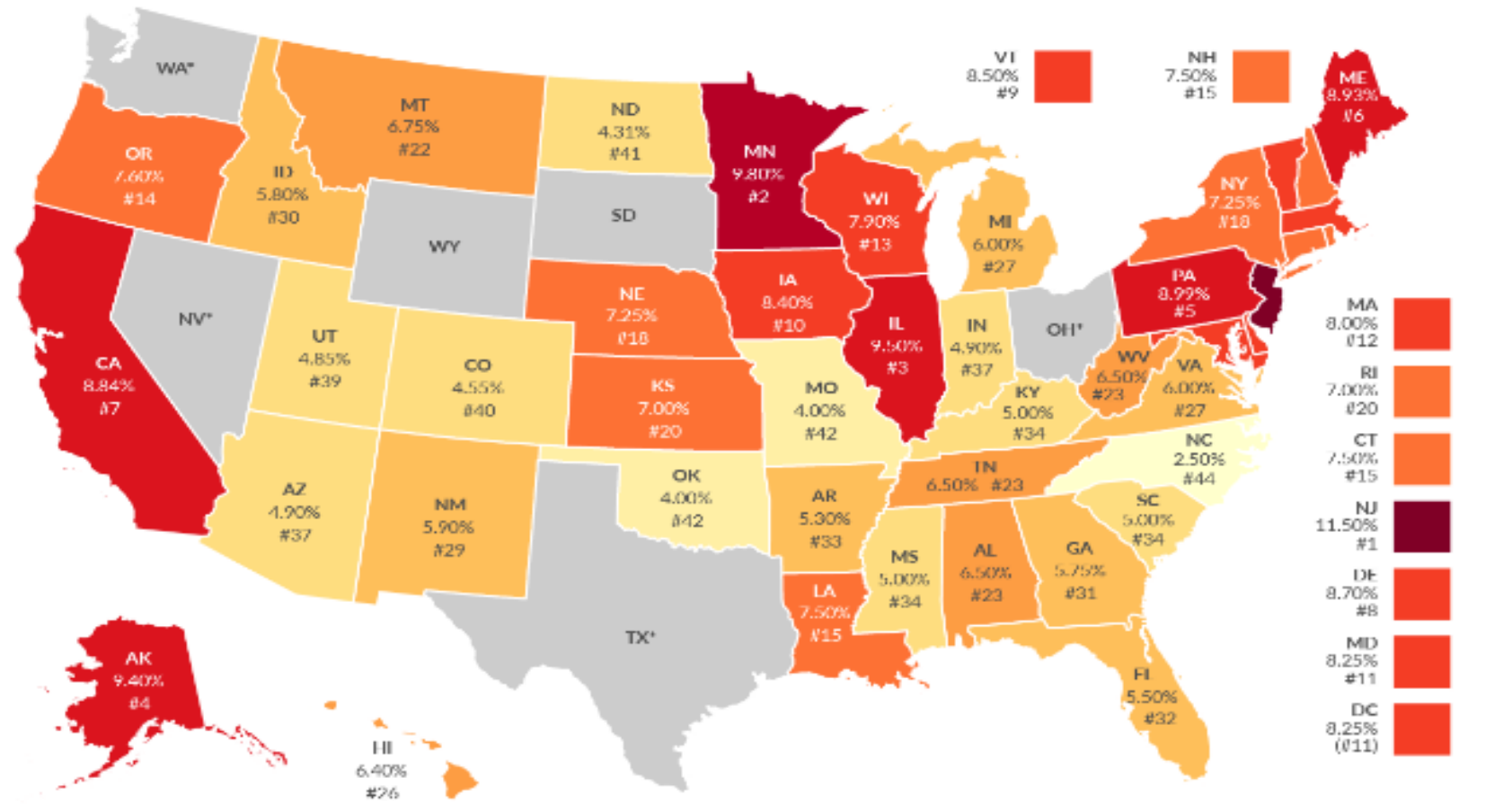
\$4,500 plus 9.4 percent of the taxable income over \$90,000



Alaska currently has the fourth highest tax rate and the highest graduation of rates in the nation. Only New Jersey, Minnesota and Illinois have higher rates. This bill would reduce Alaska's rates to a single 2% rate and the lowest rate in the nation for states with corporate taxes—for now. North Carolina currently has the lowest CIT rate at 2.5. They will phase out its tax by 2030.

How High are Corporate Income Tax Rates in Your State?

Top Marginal Corporate Income Tax Rates as of January 1, 2023

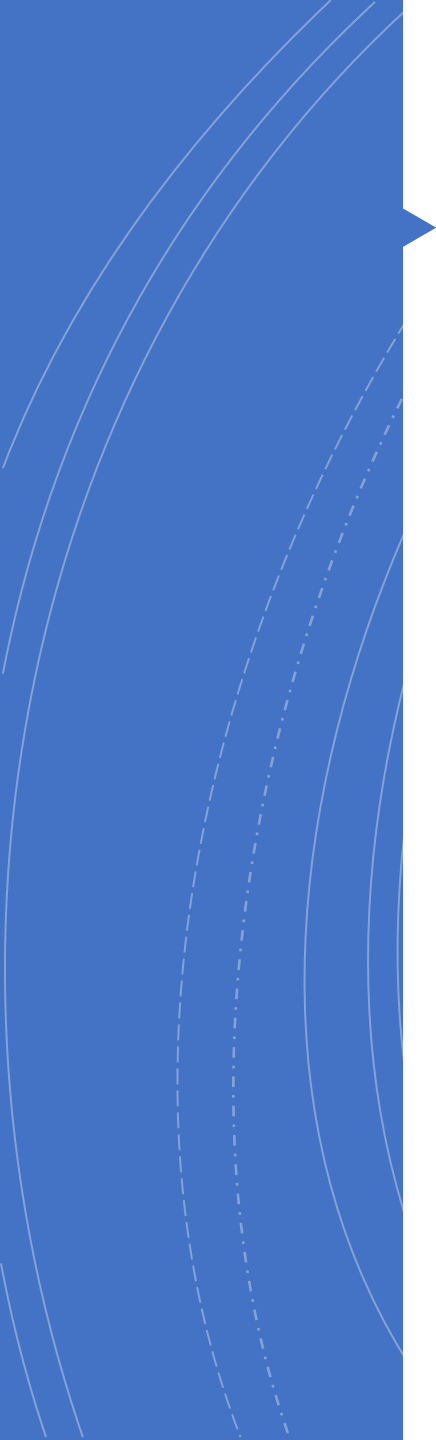


Note: In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax and special rates on financial institutions.

*Nevada, Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax with rates not strictly comparable to corporate income tax rates. Delaware, Oregon, and Tennessee have gross receipts taxes in addition to corporate income taxes, as do several states like Pennsylvania, Virginia, and West Virginia, which permit gross receipts taxes at the local (but not state) level.

Top State Marginal Corporate Income Tax Rates





Graduated corporate rates are inequitable—that is, the size of a corporation bears no necessary relation to the income levels of the owners; low-income corporations may be owned by individuals with high incomes, and high-income corporations may be owned by individuals with low incomes. A single-rate system minimizes the incentive for firms to engage in economically wasteful tax planning to mitigate the damage of higher marginal tax rates that some states levy as taxable income rises.



Proposed Law: AS 43.20.11 (e)

If the taxable income is

Then the tax is:

Less than \$25,000

Zero

\$25,000

2 percent of taxable income



Proposed Amendment does not change:

AS 43.20.014. Income Tax Education Credit.

(a) For cash contributions accepted for direct instruction, research, and educational support purposes, including library and museum acquisitions, and contributions to endowment, by an Alaska university foundation or by a nonprofit, public or private, Alaska two-year or four-year college accredited by a regional accreditation association, a taxpayer is allowed as a credit against the tax due under this chapter

(1) 50 percent of contributions of not more than \$100,000; and

(2) 100 percent of the next \$100,000 of contributions.

(b) [Repealed, Sec. 12 ch 71 SLA 1991].

(c) Each public college and university shall include in its annual operating budget request contributions received and how the contributions were used.

(d) A contribution claimed as a credit under this section may not

(1) be claimed as a credit under another provision of this title;

(2) also be allowed as a deduction under 26 U.S.C. 170 against the tax imposed by this chapter; and

(3) when combined with credits taken during the taxpayer's tax year under AS 21.89.070 , 21.89.075, AS 43.55.019 , AS 43.56.018 , AS 43.65.018, AS 43.75.018 , or AS 43.77.045 , exceed \$150,000.



Why?

Alaska's economy is lagging that of the nation. Our GDP (economic) growth over the past decade has been the worst in the country. Sixty-five thousand more people have left Alaska for, than have moved here from, other states over the decade. In our modern economy, people are mobile, and will move for employment opportunities. The House Ways and Means Committee has been tasked with improving Alaska's economy and reducing the cost of doing business in Alaska is a good place to start.

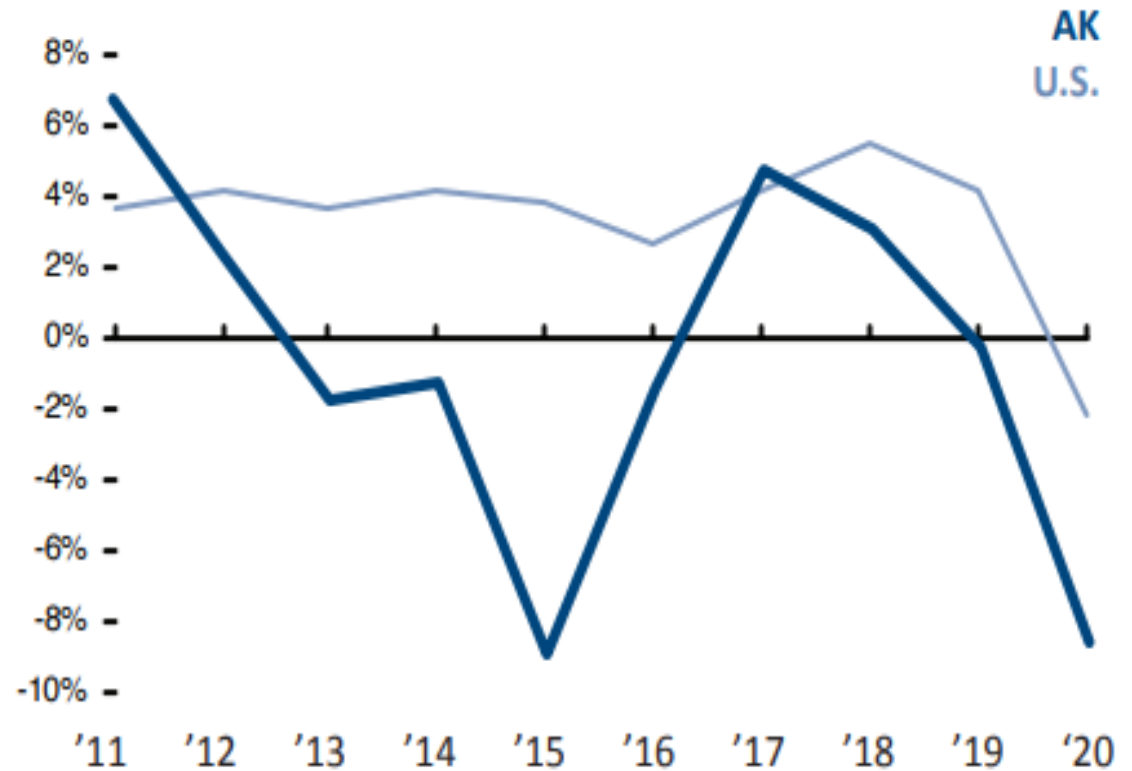
Alaska's Economic Report Card Has Failing Grades

GDP Growth

WORST IN THE NATION

State Gross Domestic Product
Cumulative Growth 2010-2020

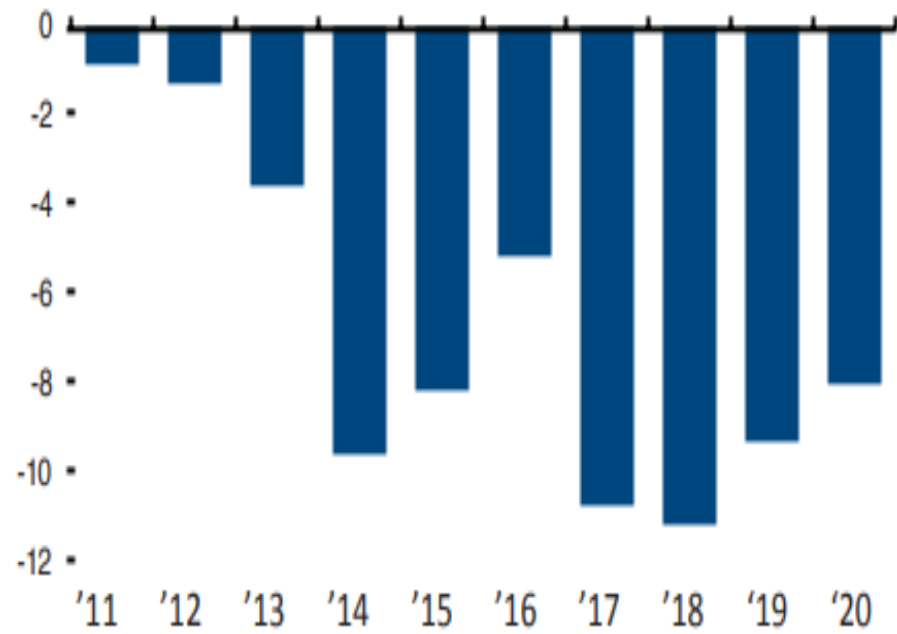
-6.58% Rank: 50



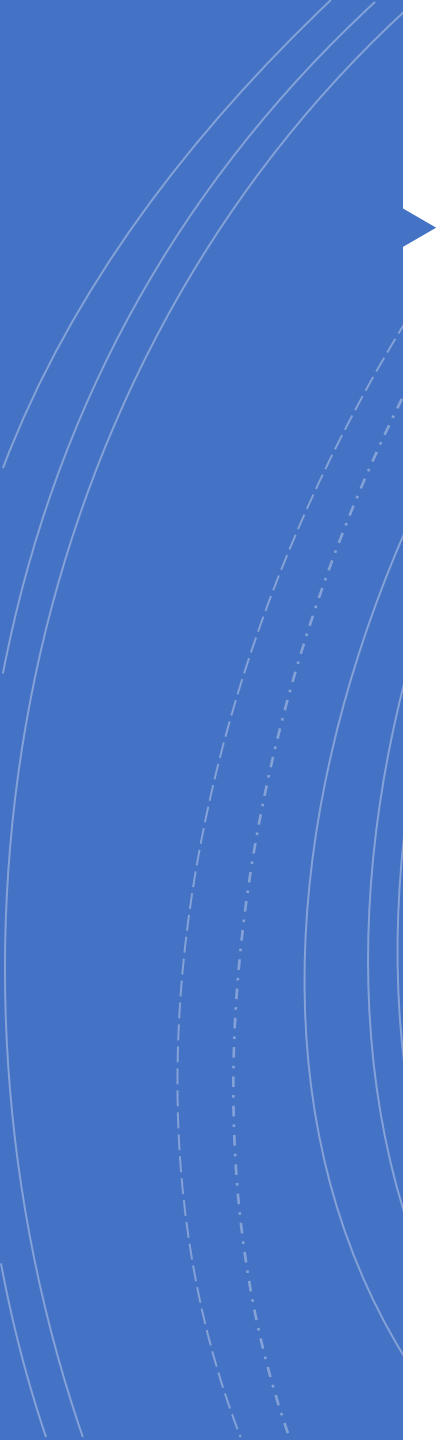


Absolute Domestic Migration

Cumulative 2011-2020 -67,868 Rank: 34
(in thousands)



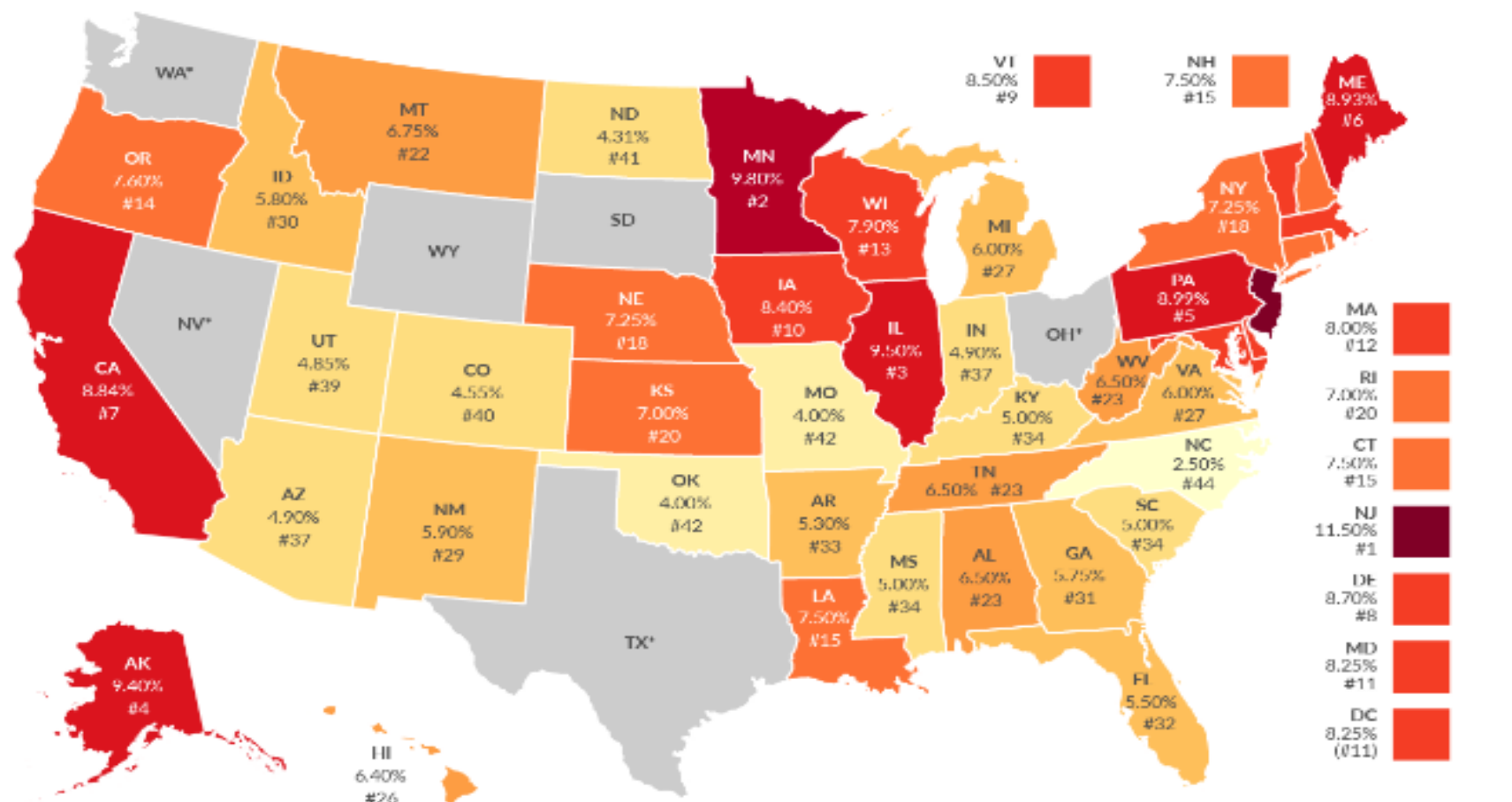
People are leaving Alaska for other states



Corporate income taxes are levied in 44 states, and twenty-nine states have single-rate corporate tax systems. While often thought of as a major tax type, states' corporate income taxes accounted for an average of just over seven percent of state tax collections and four percent of state general revenue in fiscal year 2021. And while these figures are not high, they represent a substantial increase over prior years, and are among the reasons corporations decide where to conduct business. **Corporate income taxes accounted for 2.26 percent of general revenue in FY 2020.**

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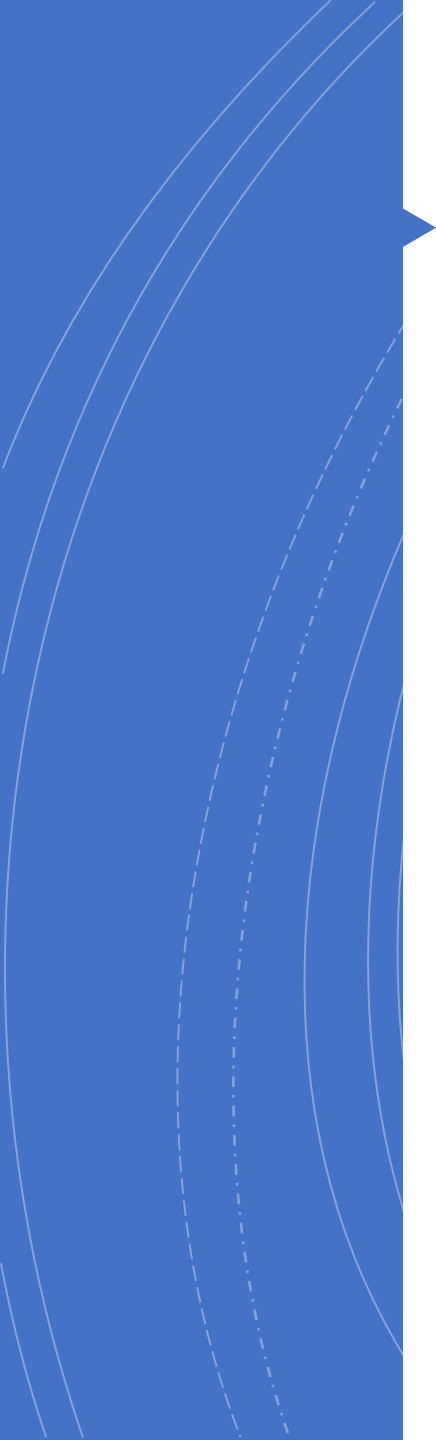




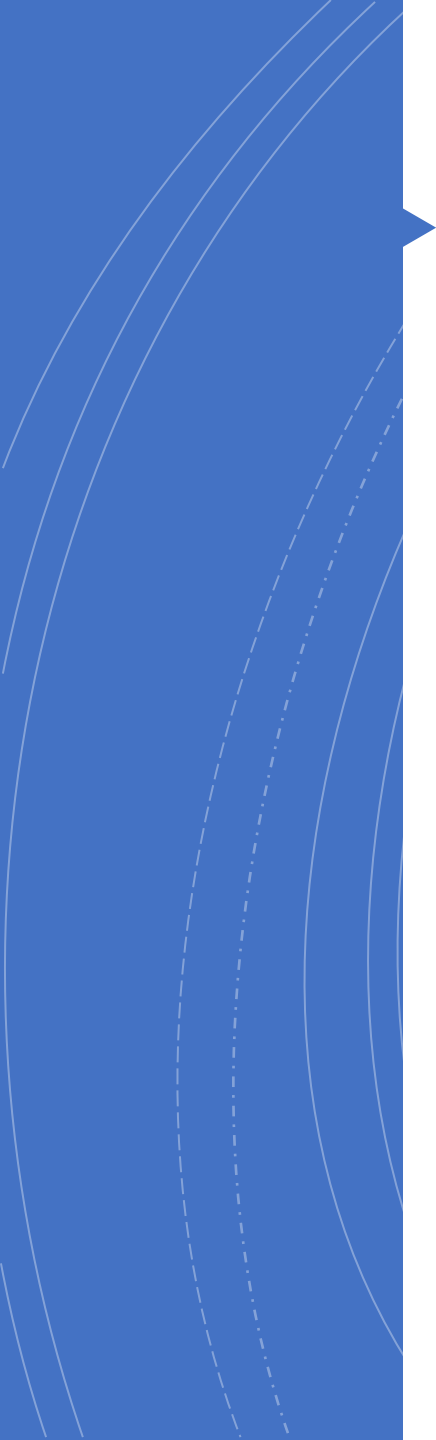
People pay all taxes. When the government levies a tax on a corporation, the corporation is more like a tax collector than a taxpayer. The burden of the tax ultimately falls on people—the owners, customers, or workers of the corporation.



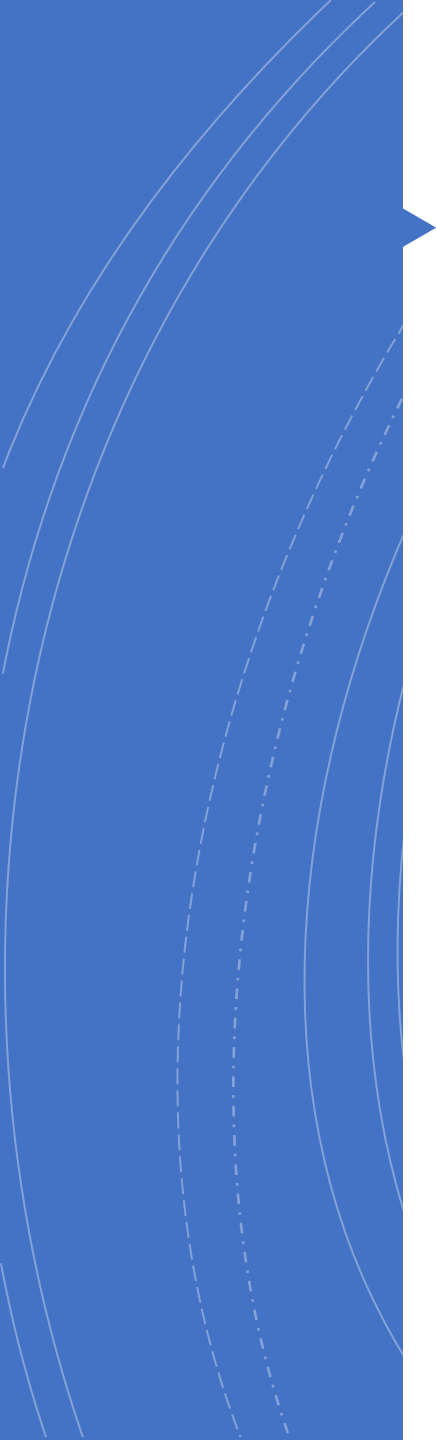
The corporate income tax is popular in part because it appears to be paid by rich corporations. Yet those who bear the ultimate burden of the tax—the customers and workers of corporations—are often not rich. If the true incidence of the corporate tax were more widely known, this tax might be less popular among voters.



A low, flat-rate corporate tax will significantly level the playing field between C-corps and S-corps and limited liability companies. Low corporate tax rates have been proven to increase productivity which leads to improved economic output for the state.

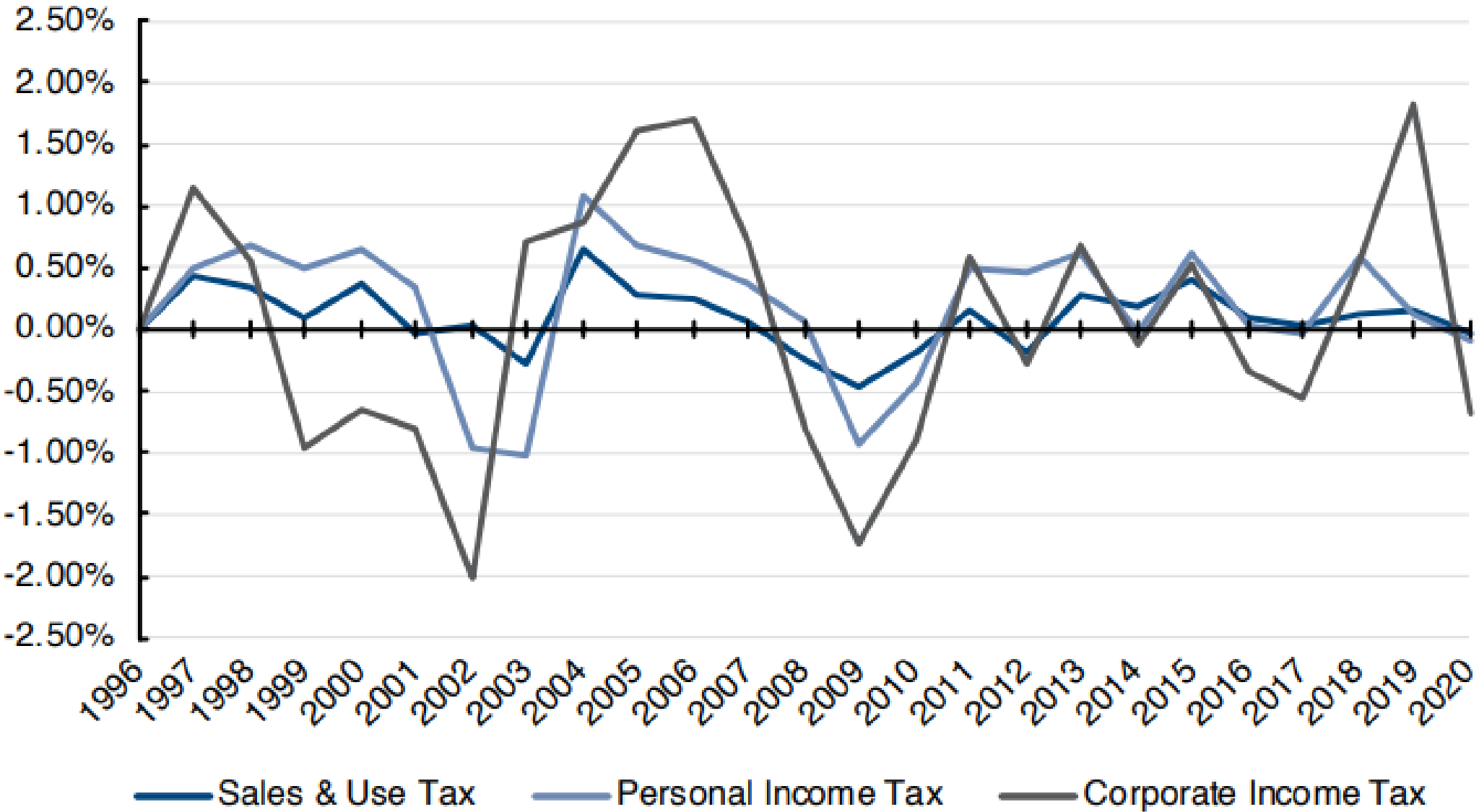


As time goes on, the corporate income tax will mean that a business hires fewer workers and/or moves the business out of the state because the income tax has made doing business in the state prohibitively high. As businesses leave the state, income tax revenue decreases in the years that follow. This makes revenue volatility for income taxes relatively high compared to that of sales and use taxes.



Corporate income taxes are volatile, as they are taxes on production. When corporate income taxes get high enough, the business will produce less in that state. This is because the business, as opposed to the customers, are the less elastic side of the market. Customers, the more elastic side of the market, may decide to no longer buy from the business at the higher price. Elasticity also increases the more time passes after a price change.

FIGURE 2 | STATE TAX REVENUE VOLATILITY, 1996-2020



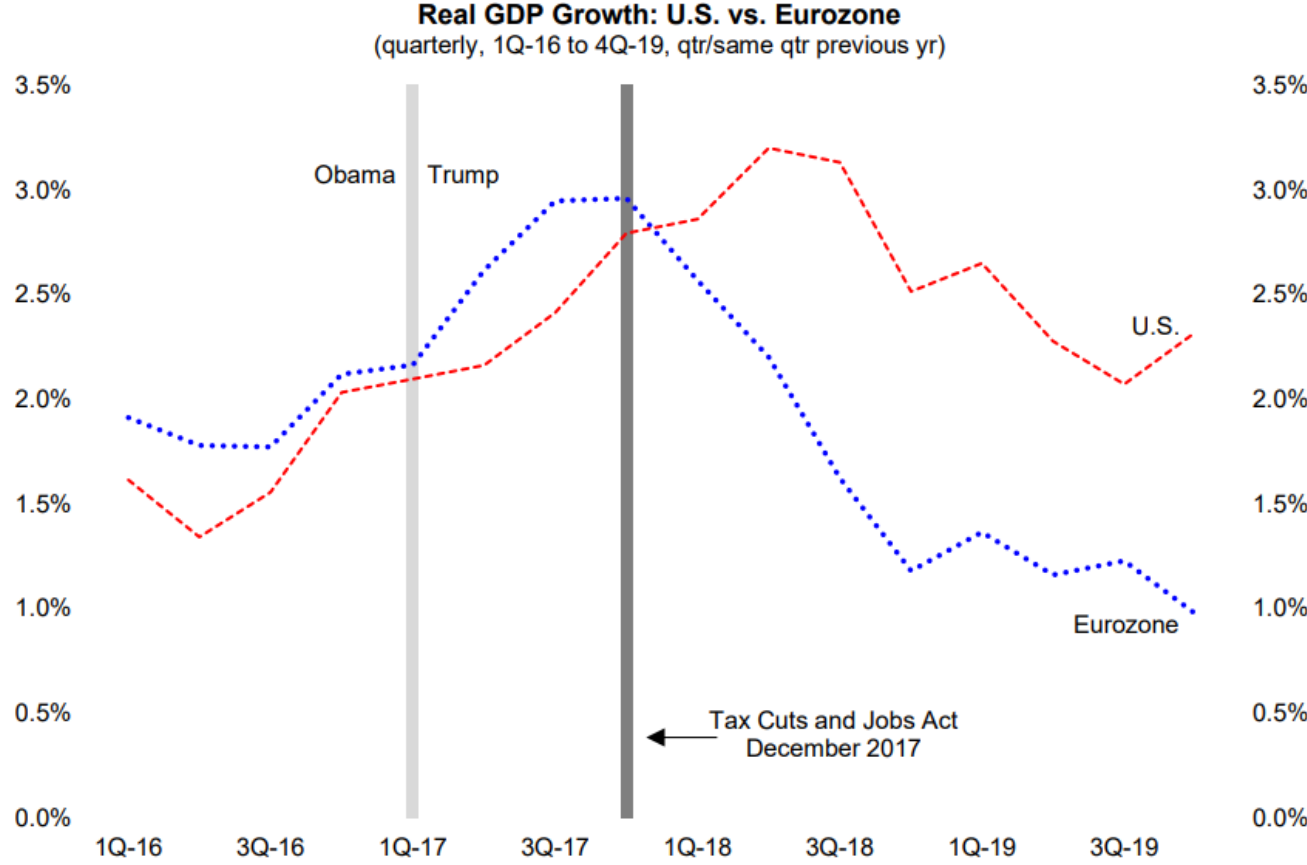


Economically competitive states, like North Carolina, have been reducing rates, flattening brackets, or phasing out their corporate taxes. South Dakota has no corporate tax.

Why? Taxes have economic consequences!

Taxes Have Consequences

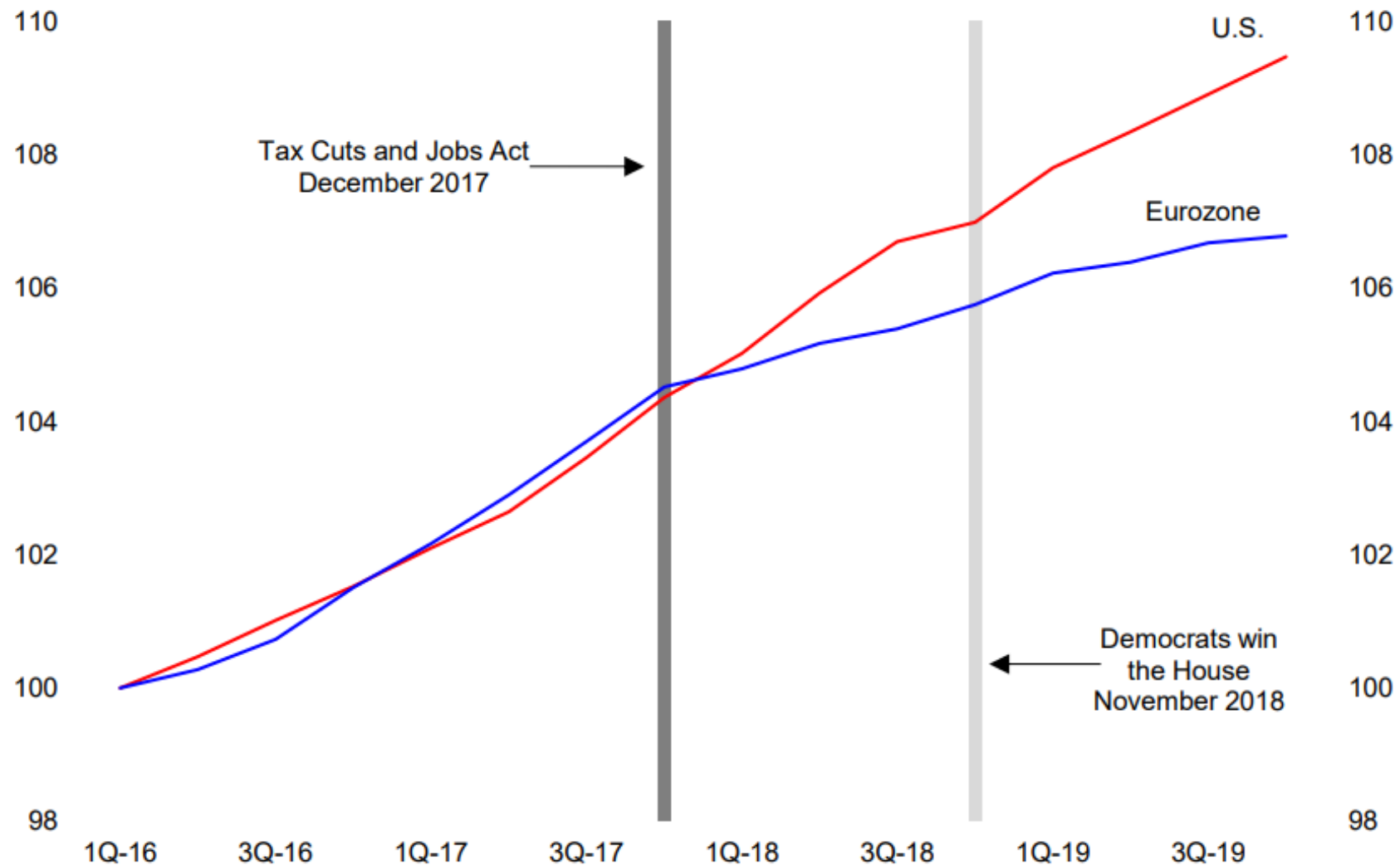
i.) In the two years following Trump's tax cuts, relative to the two years preceding Trump's tax cuts:



Source: Eurostat, Bureau of Economic Analysis

Real GDP: U.S. vs. Eurozone
(quarterly, 1Q-16 to 4Q-19, indexed: 1Q-16=100)

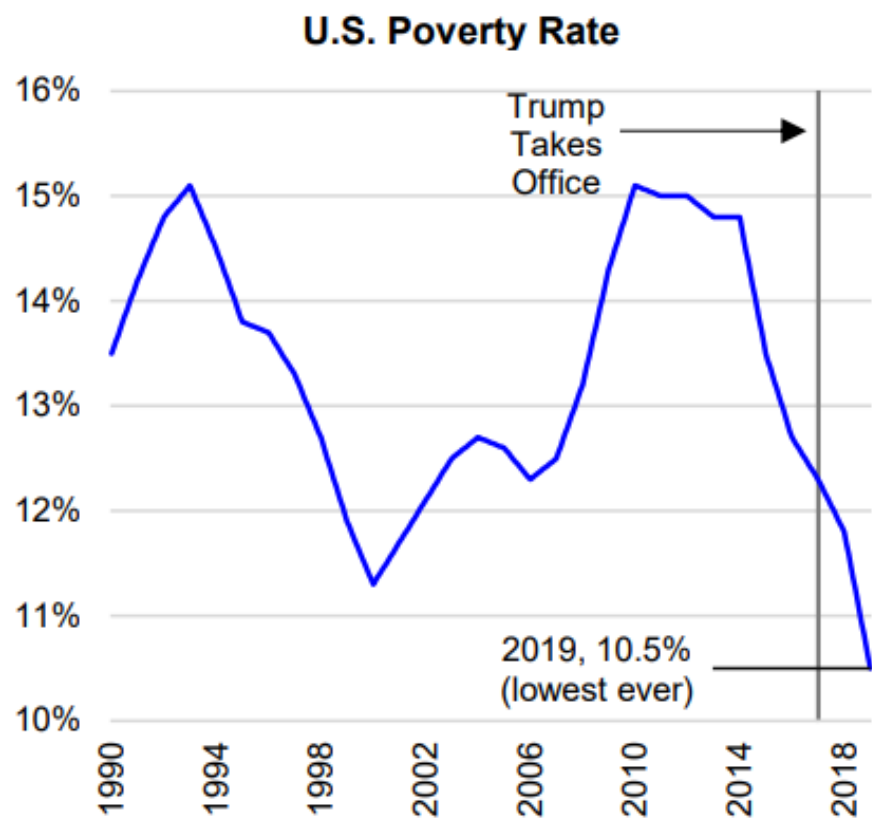
Real GDP: U.S. vs. Eurozone (quarterly, 1Q-16 to 4Q-19, indexed: 1Q-16=100)



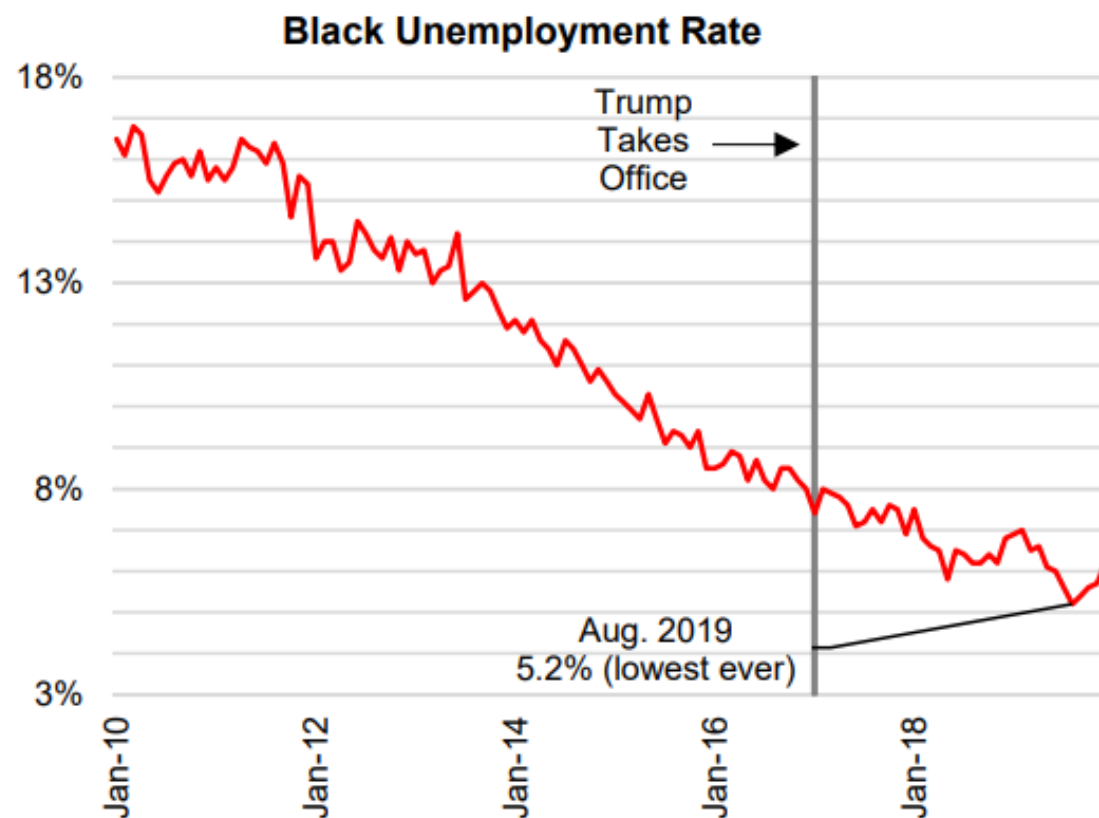
Source: Eurostat, Bureau of Economic Analysis

Taxes Have Consequences

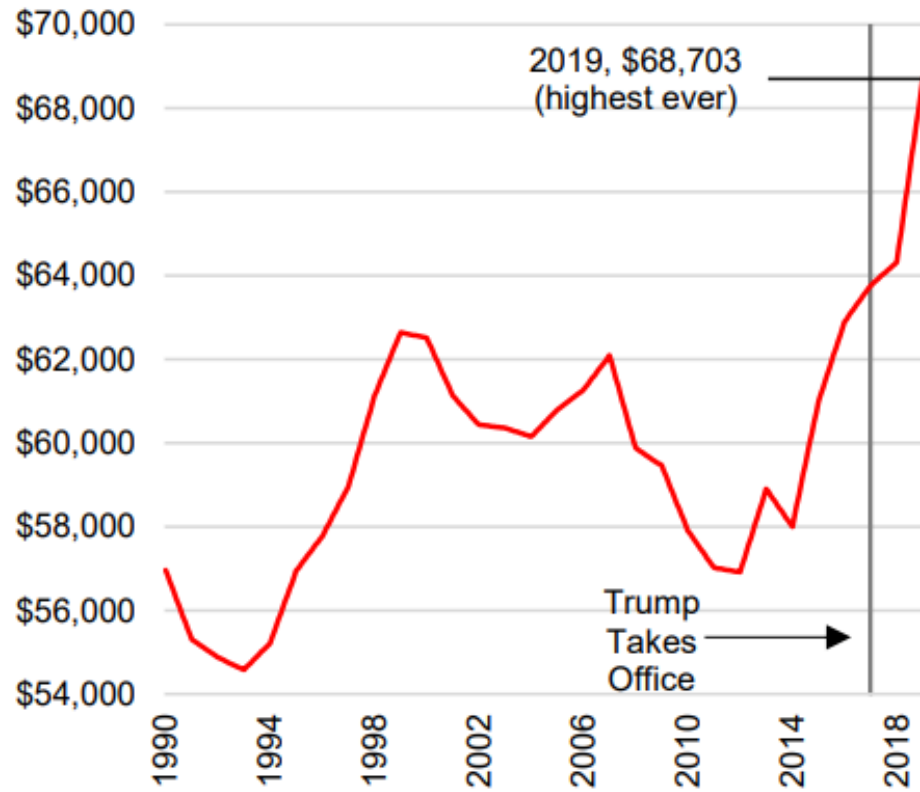
ii.) U.S. Poverty Rate, U.S. Real Median Income, and U.S. Unemployment Rate



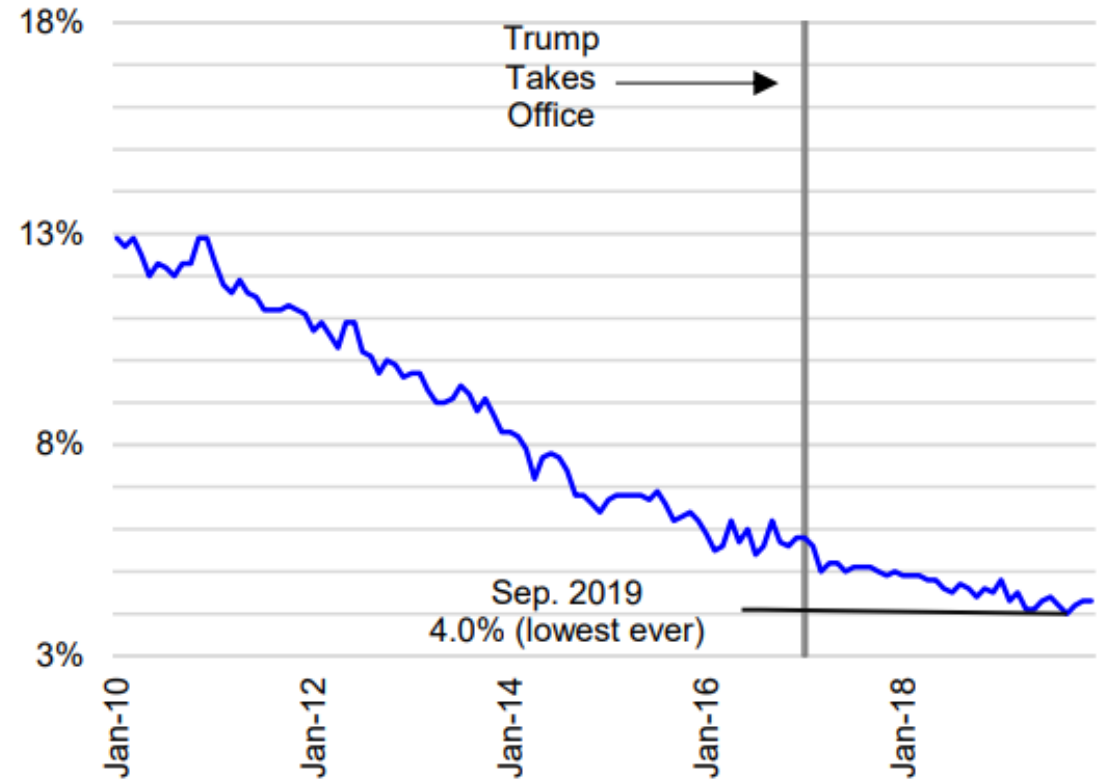
iii.) U.S. Unemployment Rates for Disadvantaged Groups



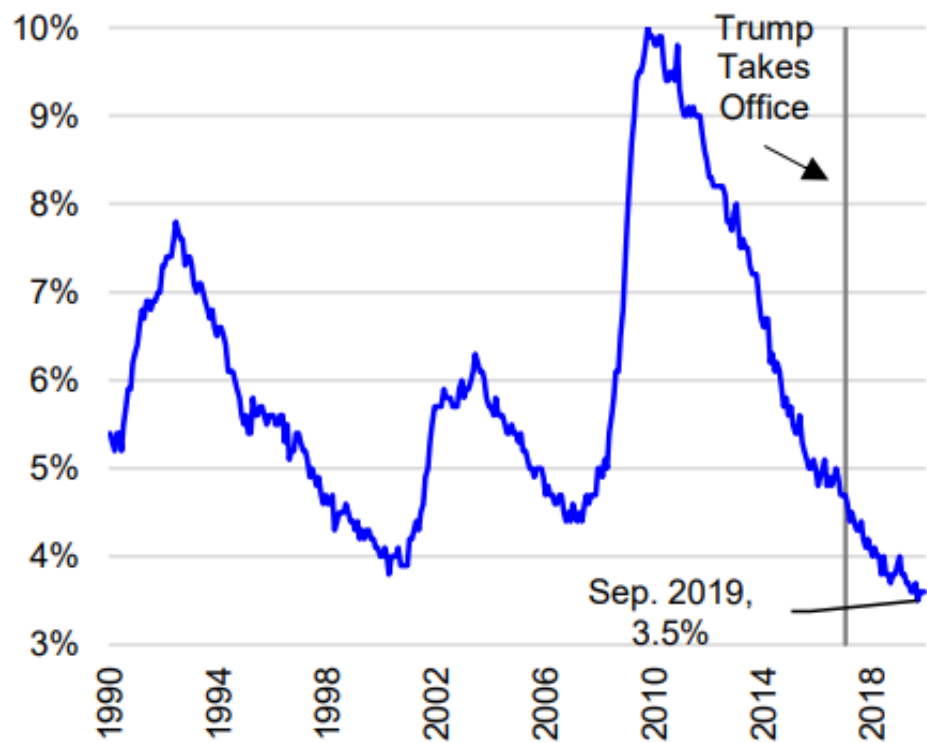
U.S. Real Median Income



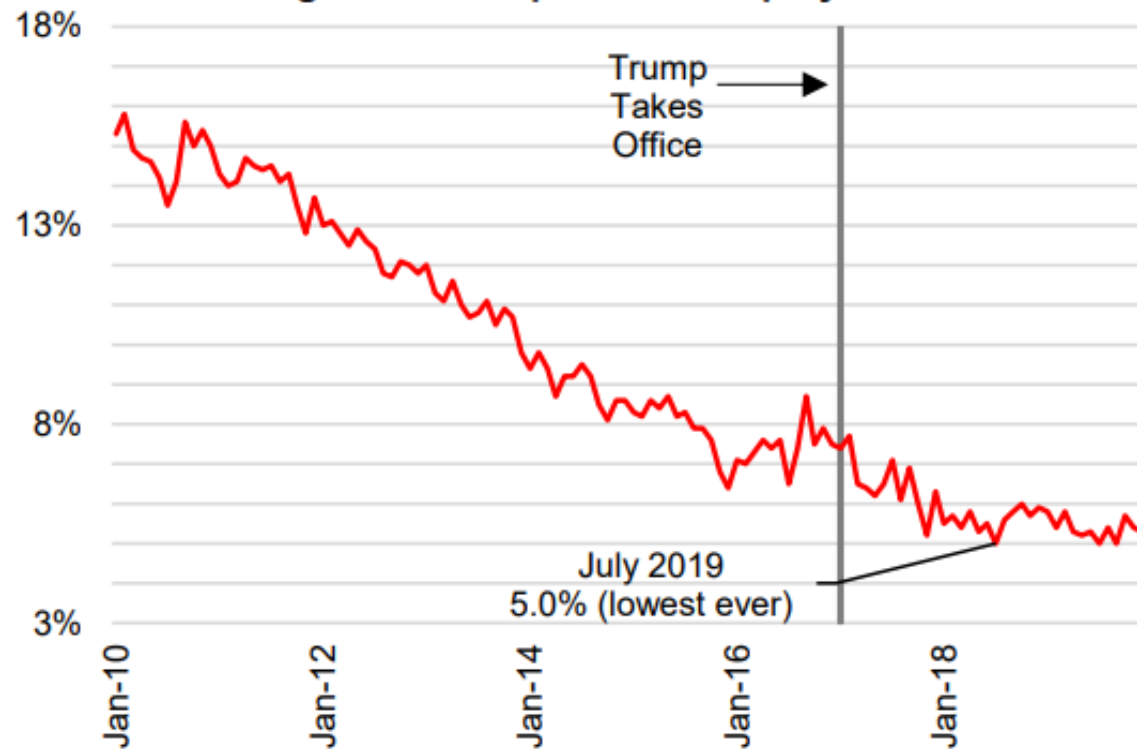
Hispanic or Latino Unemployment Rate



U.S. Unemployment Rate



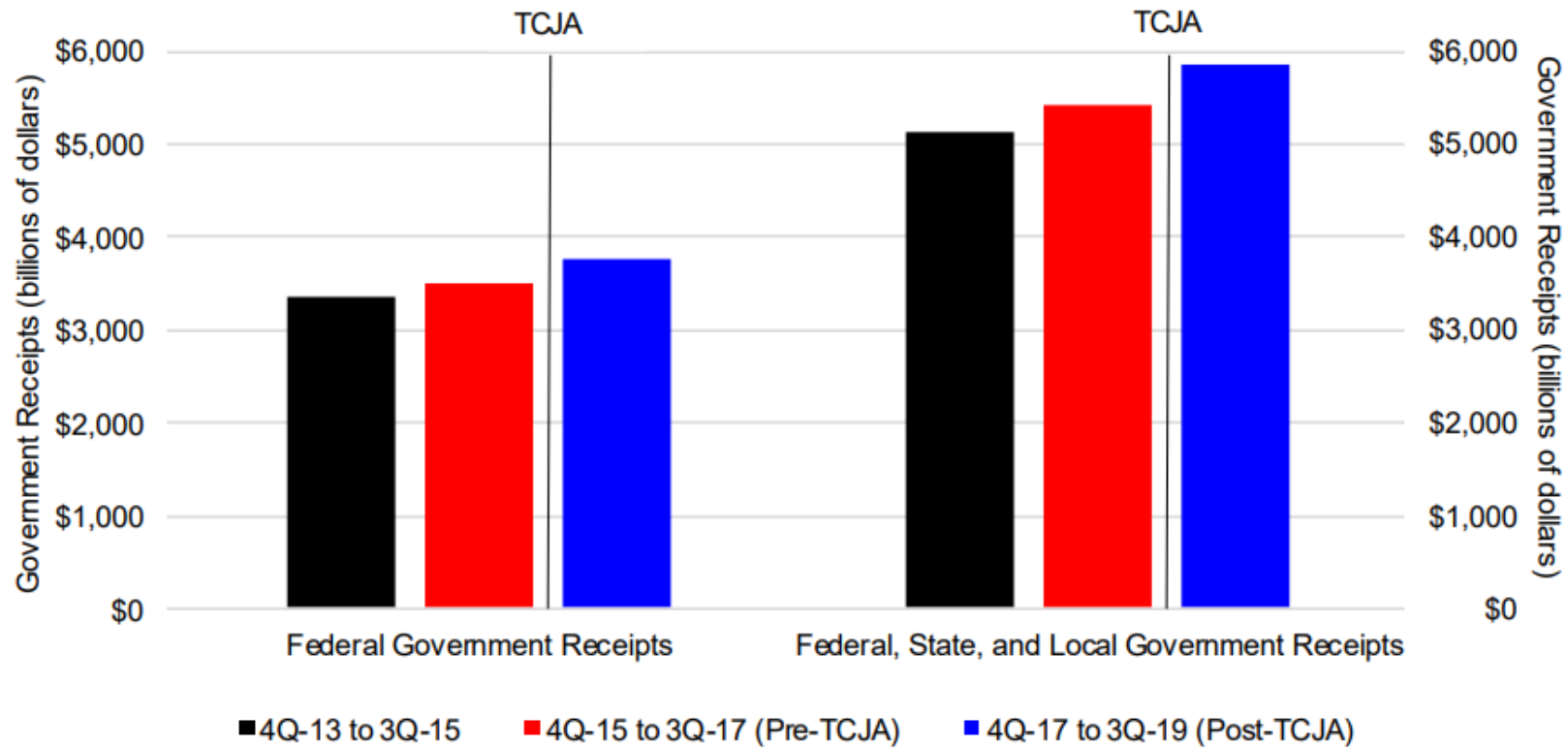
Less than High School Diploma Unemployment Rate



Taxes Have Consequences

iv.) Government Receipts

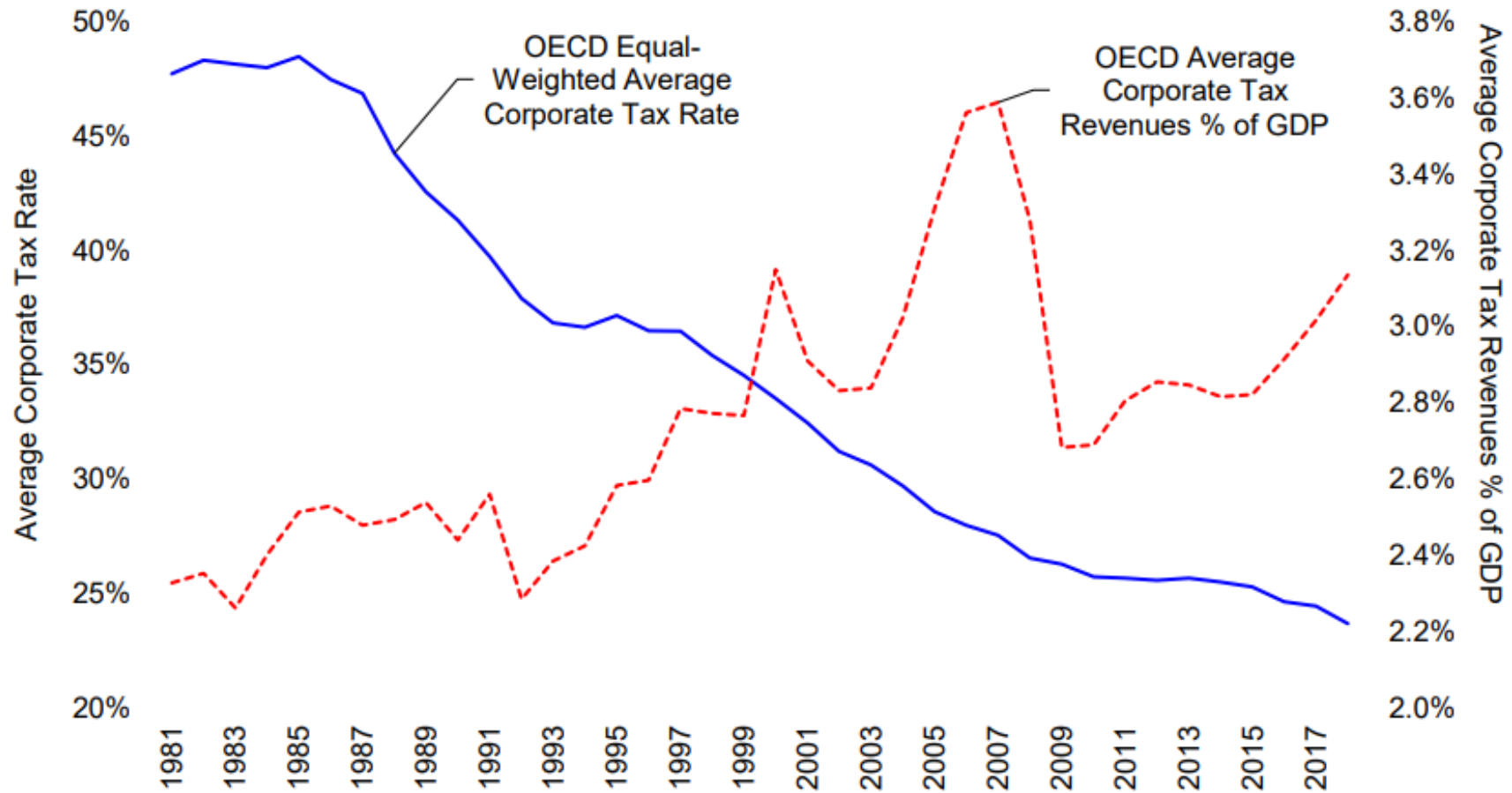
(billions, seasonally adjusted at annual rates, values = average of 8 quarters of data)



Source: BEA

v.) OECD Corporate Tax Rate vs. OECD Corporate Tax Revenues as a Percentage of GDP

(1981-2018, averages only include that year's member countries)

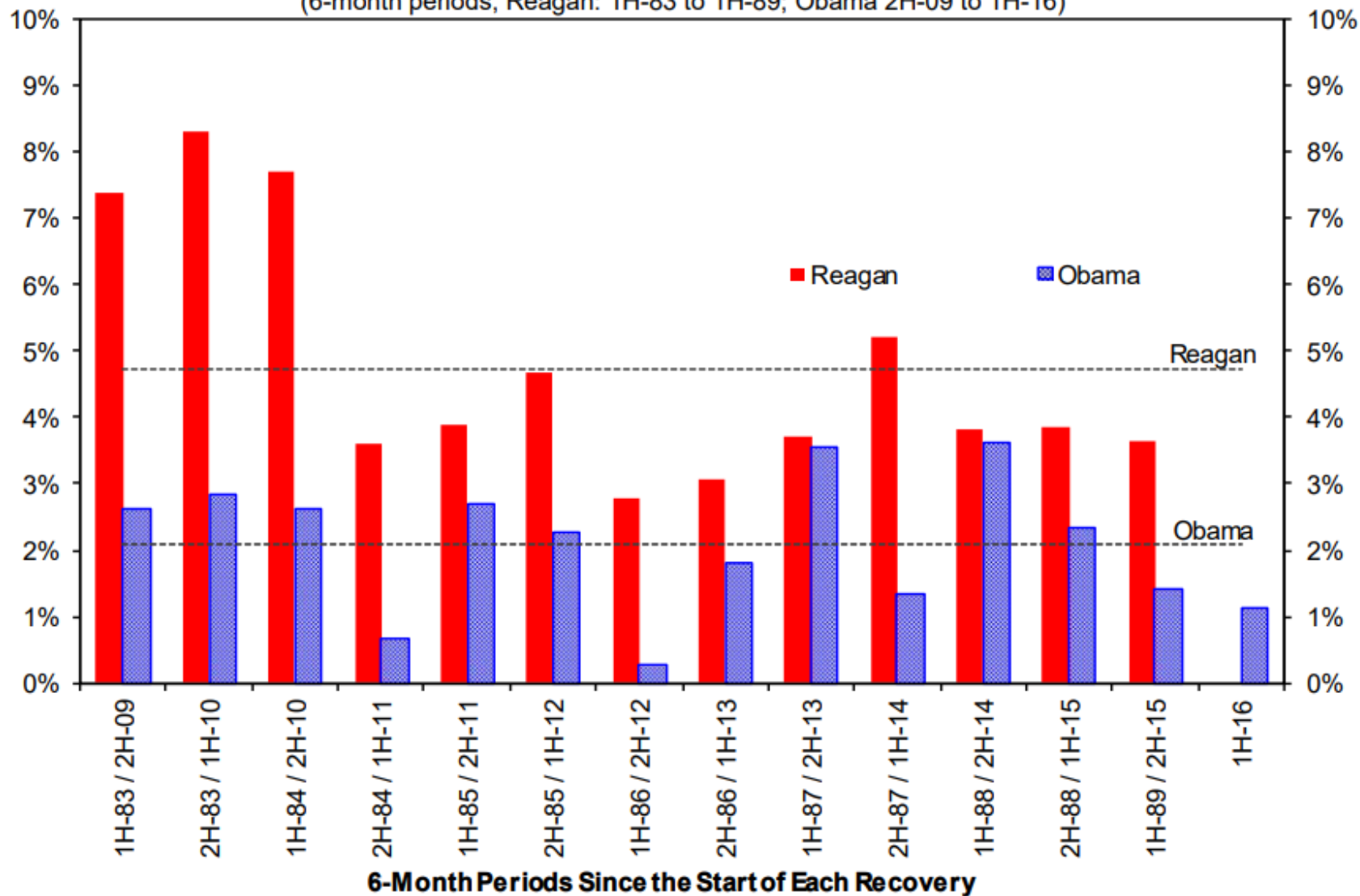


Source: OECD, Cato Institute

Figure 2

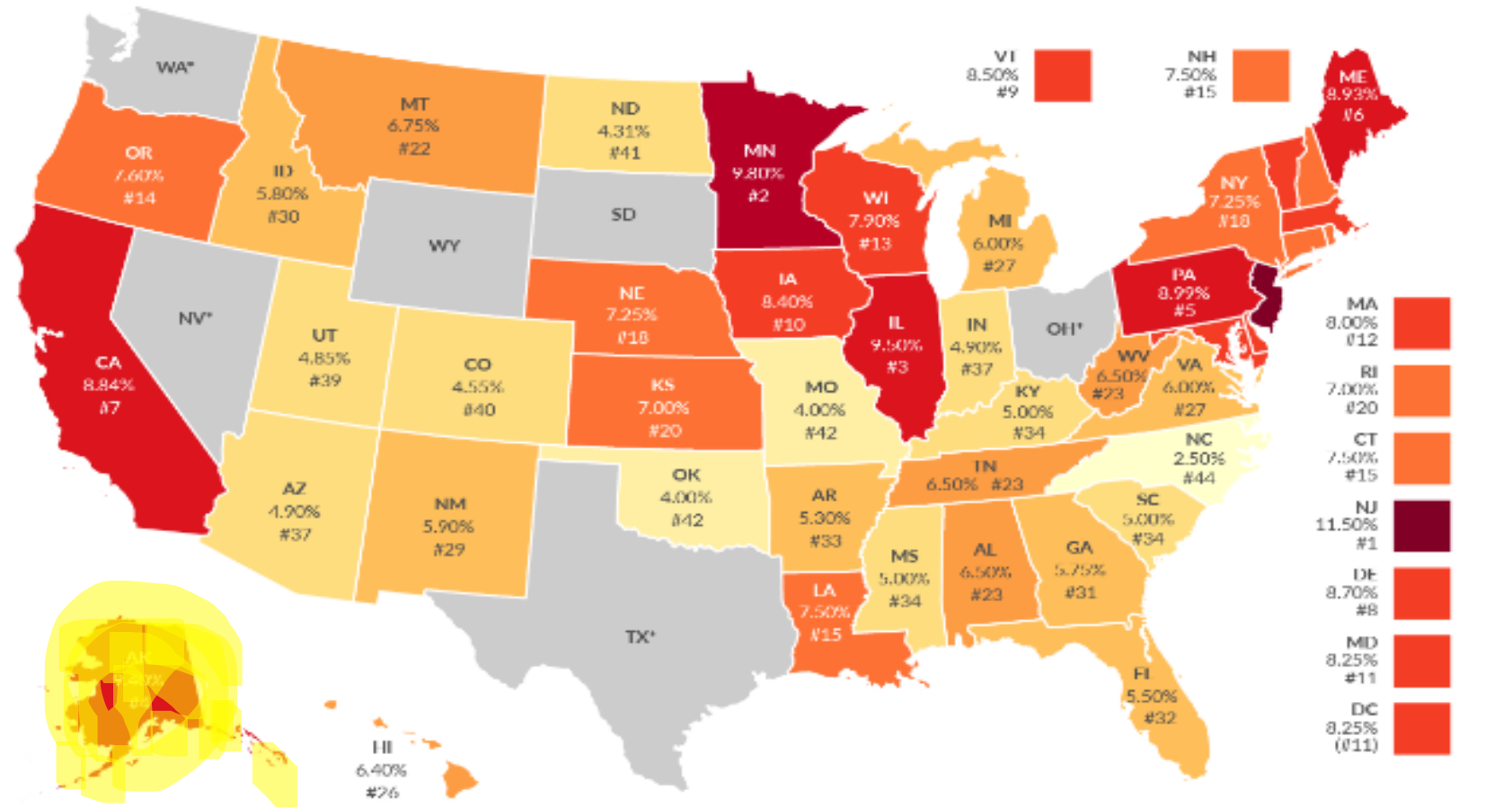
6-Month Real GDP Growth Rates (Annualized): Reagan and Obama Compared

(6-month periods, Reagan: 1H-83 to 1H-89; Obama 2H-09 to 1H-16)



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