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House of Representatives
DISTRICT 8

House Bill 109 - REDUCE CORP. NET INCOME TAX RATE

Sponsor Statement

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-eight thousand more people have left Alaska, than have moved here from other states, over the last 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. Reducing the cost of doing business in Alaska is a good place to start.

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 are among the reasons corporations decide where to conduct business.

Alaska's 9.4% corporate income tax (CIT) 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. HB109 would reduce Alaska's rates to a single 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% but will phase out its tax by 2030.

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.

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.

Corporate income taxes are also volatile, as they are taxes on production. When corporate income tax rates 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. 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 the cost of 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.

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