

# Current C Corporation Tax Structure Compared to Current S Corporation Tax Structure:

## Proposed Changes to S Corporation Tax Structure in SB 92

**C Corporations** are taxed separately from their owners, meaning they pay taxes on their profits and then the shareholders pay taxes again on any dividends they receive.

**S Corporations** pass their profits and losses directly to their shareholders' personal tax returns, avoiding the perceived "double taxation" seen with C Corporations. S Corporations were created in the tax code on January 1, 1958.

There are specific requirements and restrictions for an entity to qualify as an S Corporation:

- **Does not have more than 100 shareholders**
- **Does not have a shareholder who is not an individual (with the exception for various tax-exempt organizations, estates and trusts)**
- **Does not have a nonresident alien as a shareholder**
- **Does not have more than one class of stock**

(DCCED, Div of Corp, business & prof licensing)

There are ~**11,700 S Corporations** registered in the Alaska. (Alaska Department of Revenue Indirect Expenditure Report 2024)

## Limited Liability Companies

**Limited Liability Company (LLC)** were first introduced in Wyoming in 1977, but did not catch on until the 1990s. A limited liability company is a legal business entity, considered its own “person” by law, which exists separate from its members. An LLC shares the limited liability features of a corporation but has the management and tax efficiencies of a partnership. Members' liabilities are limited to their financial contributions meaning an individual members' liability is only extends to what they contribute to the LLC. Limited liability does not shield owners of the LLC from negligence liability.

**LLCs have an array of tax options.** For example, members may file taxes as one of the following, but not limited to:

- Single member LLC taxed as **Sole Proprietorships (Sole Prop)**
- Partners in an LLC taxed as a **Traditional Partnership (LLP)**
- LLC taxed as a **Corporation, including S Corporations or C Corporations (S-Corp, C-Corp)**

**LLCs can elect to be taxed as S Corporations** if they meet the requirements, but they have more flexibility in structure and management compared to traditional S Corporations. So, if an LLC opts for S Corporation status, it's taxed similarly to other S Corporations, but with the added flexibility of the LLC framework.

According to the Department of Commerce, Community and Economic Development, **as of 2024, there are 67,133 active LLCs registered in Alaska.** This number can fluctuate with new formations and dissolutions.

## Alaska Linkage to Federal Code

**Federal Code Linkage:** Alaska generally follows federal tax rules for federal tax purposes but does not have its own state income tax code. Instead, Alaska uses federal tax rules as a basis for compliance and reporting for businesses operating within the state. This means that while there's no separate state income tax code, businesses and individuals must adhere to federal tax regulations for their federal tax filings.

**Both S Corporations and LLCs** enjoy similar tax treatments in Alaska due to the state's lack of a state income tax.

**Individual Income Tax Repeal:** Alaska originally implemented an individual income tax in 1949. However, **this income tax was repealed in 1979**. The repeal came as a result of the state's new revenue source, the Alaska Permanent Fund, which was established to manage oil revenues and provide annual dividends to Alaskans. The creation of the Permanent Fund reduced the need for individual income taxes.

## AS 43.20.021

Current Statutes for  
companies filing as  
S Corporations

- “Under Alaska’s adoption of the Internal Revenue Code [AS 43.20.021], corporations that have elected S Corporation status are generally not subject to tax.
- Prior to 1980, the stakeholders’ share of income was subject to Alaska’s personal income tax.
- Since the 1980 repeal of the state’s personal income tax, the income is taxed neither at the corporate level nor at the shareholder level”

-Legislative Finance Division Indirect Expenditure Report January 2021

**AS 43.20.011 (e)**

**Current Statute for  
companies filing as  
C Corporations**

**\*Last amended 2013**

If the taxable income is:

Then the tax is:

Less than \$25,000 -----	0 percent of the taxable income
\$25,000 but less than \$49,000 -----	2 percent of the taxable income over \$25,000
\$49,000 but less than \$74,000 -----	\$480 plus 3 percent of the taxable income over \$49,000
\$74,000 but less than \$99,000 -----	\$1,230 plus 4 percent of the taxable income over \$74,000
\$99,000 but less than \$124,000 -----	\$2,230 plus 5 percent of the taxable income over \$99,000
\$124,000 but less than \$148,000 -----	\$3,480 plus 6 percent of the taxable income over \$124,000
\$148,000 but less than \$173,000 -----	\$4,920 plus 7 percent of the taxable income over \$148,000
\$173,000 but less than \$198,000 -----	\$6,670 plus 8 percent of the taxable income over \$173,000
\$198,000 but less than \$222,000 -----	\$8,670 plus 9 percent of the taxable income over \$198,000
\$222,000 or more -----	\$10,830 plus 9.4 percent of the taxable income over \$222,000

**SB 92 Changes  
Proposed changes  
for companies filing  
as S Corporations**

**\*No change to C  
Corporation tax  
structure**

If the taxable income is:

Then the tax is:

Less than \$25,000 -----	0 percent of the taxable income
\$25,000 but less than \$49,000 -----	0 percent of the taxable income over \$25,000
\$49,000 but less than \$74,000 -----	\$0 plus 0 percent of the taxable income over \$49,000
\$74,000 but less than \$99,000 -----	\$0 plus 0 percent of the taxable income over \$74,000
\$99,000 but less than \$124,000 -----	\$0 plus 0 percent of the taxable income over \$99,000
\$124,000 but less than \$148,000 -----	\$0 plus 0 percent of the taxable income over \$124,000
\$148,000 but less than \$173,000 -----	\$0 plus 0 percent of the taxable income over \$148,000
\$173,000 but less than \$198,000 -----	\$0 plus 0 percent of the taxable income over \$173,000
\$198,000 but less than \$5,000,000 -----	\$0 plus 0 percent of the taxable income over \$198,000
<b>\$5,000,000 or more -----</b>	<b>\$0 plus 9.4 percent of the taxable income over \$5,000,000</b>

# Questions?