

# FISCAL NOTE

**STATE OF ALASKA**  
**2004 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: SB 389  
 (S) Publish Date: 4/21/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Corp. Conversion: Limited RDU Revenue Programs & Services  
Liability Co. Component Tax Division  
 Sponsor (S) Labor & Commerce  
 Requester (S) Labor & Commerce Component No. 2476

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

Pursuant to federal income tax law, a limited liability company ("LLC") is an entity that is not automatically classified as a corporation. The default classification of a multimember business entity organized as an LLC is a partnership and the default classification of a single member business entity organized as an LLC is a disregarded entity where the owner is the taxpayer. The LLC may instead, however, elect to be taxed as a corporation in lieu of a default classification.

An LLC taxable as a corporation for federal income tax purposes is subject to the Alaska Corporation Net Income Tax in the same manner as any other corporation. An LLC with corporate member owners

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 Approved by: Steve Porter, Deputy Commissioner Date 4/19/2004  
 Agency Department of Revenue

**FISCAL NOTE #2**

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**BILL NO. SB 389**

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**ANALYSIS CONTINUATION**

that is treated as a partnership for federal income tax purposes is not itself subject to the Alaska income tax but each corporate owner would report the owner's share of the income and apportionment factors of the LLC on the owner's Alaska corporate tax return. In essence, there should be no income tax effect as long as the LLC either elects to be taxed as a corporation or the LLC is 100% owned by corporate entities, and remains so following the conversion. Since the bill provides that only subsidiary corporations may convert to an LLC the act of conversion would not have a fiscal impact on state tax revenues regardless of the federal tax characterization as either a corporation or partnership.

Current tax law provides a large incentive for business to be conducted in the state outside the regular corporate form, as partnerships, individuals, and S-Corporations are not subject to the income tax. The bill provides for a more direct method of converting a corporate subsidiary to an LLC, but does not influence the federal or state tax consequences. Since this incentive already exists, the practical effect of the bill is to enable conversions that would not occur under existing law due to non-tax reasons. Therefore, there should be no measurable revenue impact due to the legislation. It should be noted that a measurable revenue impact is possible if the conversion option were made available to non-subsubsidiary corporations.