

HOUSE BILL NO. 36

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTIETH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE GARA

Introduced: 1/18/17

Referred: Labor and Commerce, Finance

A BILL

FOR AN ACT ENTITLED

1 **"An Act bearing the short title of the 'Corporate Tax Loophole Elimination Act';**
2 **establishing a tax on the income attributable to a shareholder, member, or owner of a**
3 **qualified entity; relating to exemptions from the tax on corporations; repealing tax**
4 **credits applied against the tax on certain individuals; and providing for an effective**
5 **date."**

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
8 to read:

9 SHORT TITLE. This Act may be known as the Corporate Tax Loophole Elimination
10 Act.

11 * **Sec. 2.** AS 43.20.012(a) is amended to read:

12 (a) The tax imposed by this chapter does not

13 [(1)] apply to **a public corporation, as defined in AS 45.77.020** [AN

1 INDIVIDUAL;

2 (2) APPLY TO A FIDUCIARY;

3 (3) FOR A TAX YEAR BEGINNING AFTER DECEMBER 31, 2012,
4 APPLY TO AN ALASKA CORPORATION THAT IS A QUALIFIED SMALL
5 BUSINESS AND THAT MEETS THE ACTIVE BUSINESS REQUIREMENT IN 26
6 U.S.C. 1202(e) AS THAT SUBSECTION READ ON JANUARY 1, 2012; OR

7 (4) FOR A TAX YEAR BEGINNING AFTER JUNE 30, 2007,
8 APPLY TO THE INCOME RECEIVED BY A REGIONAL ASSOCIATION
9 QUALIFIED UNDER AS 16.10.380 OR NONPROFIT CORPORATION HOLDING
10 A HATCHERY PERMIT UNDER AS 16.10.400 FROM THE SALE OF SALMON
11 OR SALMON EGGS UNDER AS 16.10.450 OR FROM A COST RECOVERY
12 FISHERY UNDER AS 16.10.455].

13 * **Sec. 3.** AS 43.20 is amended by adding a new section to read:

14 **Sec. 43.20.019. Tax on income of a qualified entity.** (a) Except as provided
15 in (c) of this section, a shareholder, member, or owner of a qualified entity shall pay a
16 tax on the qualified entity's net income attributable to the shareholder, member, or
17 owner, as follows:

| 18 If the taxable income is | Then the tax is: |
|--|---|
| 19 Less than \$200,000 | zero |
| 20 \$200,000 but less than \$500,000 | 5 percent of the taxable income over 21 \$200,000 |
| 22 \$500,000 but less than \$1,000,000 | \$15,000 plus 7.5 percent of the taxable 23 income over \$500,000 |
| 24 \$1,000,000 or more | \$52,500 plus 9.4 percent of the taxable 25 income over \$1,000,000. |

26 (b) The net income attributable to the shareholder, member, or owner is the
27 shareholder's, member's, or owner's pro rata share of the qualified entity's taxable net
28 income, as calculated for federal individual income tax purposes, less the
29 shareholder's, member's, or owner's pro rata share of a credit usable by a qualified
30 entity under this chapter.

31 (c) If a tax is imposed on the income of an individual under another section of

1 state law, the individual is eligible to receive a credit against that tax in the amount of
 2 tax paid under this section on income that is also subject to tax under the other section
 3 of state law. A credit earned under this section may not reduce an individual's tax
 4 liability under the other section of state law to below zero.

5 (d) The net income attributable to a shareholder, member, or owner of the
 6 following entities is exempt from the tax imposed under this section:

7 (1) a nonprofit corporation qualifying for exemption from taxation
 8 under 26 U.S.C. 501(c)(3) or (4); and

9 (2) a corporation established under 43 U.S.C. 1601 et seq. (Alaska
 10 Native Claims Settlement Act).

11 (e) In this section, "qualified entity" means a sole proprietorship, partnership,
 12 limited liability company, or entity that has elected to file federal returns under 26
 13 U.S.C. 1361 - 1379 (Internal Revenue Code).

14 * **Sec. 4.** AS 43.05.085; AS 43.20.012(b), 43.20.012(c), 43.20.012(d), and 43.20.013 are
 15 repealed.

16 * **Sec. 5.** The uncodified law of the State of Alaska is amended by adding a new section to
 17 read:

18 **APPLICABILITY.** AS 43.20.019, added by sec. 3 of this Act, applies to a
 19 shareholder, member, or owner of a qualified entity filing a return for a taxable year
 20 commencing after the effective date of this Act. In this section, "qualified entity" has the
 21 meaning given in AS 43.20.019.

22 * **Sec. 6.** This Act takes effect December 31, 2017.