

HOUSE FINANCE COMMITTEE

May 2, 2025

1:45 p.m.

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CALL TO ORDER

Co-Chair Schrage called the House Finance Committee meeting to order at 1:45 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Andy Josephson, Co-Chair  
Representative Calvin Schrage, Co-Chair  
Representative Jamie Allard  
Representative Jeremy Bynum  
Representative Alyse Galvin  
Representative Sara Hannan  
Representative Nellie Unangiq Jimmie  
Representative DeLena Johnson  
Representative Will Stapp  
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Bryan Butcher, Chief Executive Officer and Executive Director, Alaska Housing Finance Corporation; Senator Bill Wielechowski, Sponsor; David Dunsmore, Staff, Senator Bill Wielechowski.

PRESENT VIA TELECONFERENCE

Michael Williams, Corporate Tax Manager, Tax Division, Department of Revenue; Dale Yancey, Tax Director, Department of Revenue.

SUMMARY

CSSB 57 (FIN)

APPROP: CAPITAL/FUNDS/REAPPROP

CSSB 57(FIN) was HEARD and HELD in committee for further consideration.

SB 113 APPORTION TAXABLE INCOME; DIGITAL BUSINESS

SB 113 was REPORTED out of committee with eight "do pass" recommendations, one "no recommendation," and two "do not pass" recommendations, with one previously published fiscal impact note: FN1 (REV).

PRESENTATION: OVERVIEW AND CAPITAL REQUESTS BY ALASKA HOUSING FINANCE CORPORATION

Co-Chair Schrage reviewed the meeting agenda.

#sb57

CS FOR SENATE BILL NO. 57(FIN)

"An Act making appropriations, including capital appropriations and other appropriations; making reappropriations; making appropriations to capitalize funds; and providing for an effective date."

^PRESENTATION: OVERVIEW AND CAPITAL REQUESTS BY ALASKA HOUSING FINANCE CORPORATION

Co-Chair Schrage

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BRYAN BUTCHER, CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, introduced the PowerPoint presentation "Alaska Housing Finance Corporation Presentation to House Finance," dated May 2, 2025 (copy on file). He quickly advanced to slide 2 titled "Board of Directors," which named the members of the Alaska Housing Finance Corporation (AHFC) board. He turned to slide 3 that contained the AHFC's mission as follows: Alaska Housing Finance Corporation's mission that was to provide Alaskans access to safe, quality, affordable housing. He expounded that the corporation's prime responsibility was housing, but it had taken on other prior responsibilities through subsidiaries at the governor's or legislature's direction like the Green Bank that it recently established. He moved to slide 4 titled "AHFC 2024 Highlights:"

- FY26 dividend to the State of \$37.8 million
- Mortgage portfolio is growing, and performance is healthy.
- Delinquencies and foreclosures are historically low;
- Public Housing funds are stable;
- Rural Professional Housing leverages expiring federal funds and jumpstarts construction in rural hubs;
- Alaska Corporation for Affordable Housing invests meaningfully in new construction in Fairbanks and Valdez.

Representative Galvin appreciated how the corporation was able to help the state. She wanted context to the \$37.8 million. She asked how the number was determined and whether it was something the board decided. She also wondered if the dividend was derived from a corpus and if so, how much of the corpus was encumbered.

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Mr. Butcher responded that the dividend was determined via state statute. He explained that AHFC paid a set 75 percent of its net income on an annual basis. He furthered that the corporation was completely self-supporting; two-thirds of the budget was comprised of federal funds and one-third was AHFC receipts. The corporation sold bonds on Wall Street, the proceeds were used to buy mortgages, and its revenue was generated via the mortgage payments. Subsequent to paying its operating costs what remained was its net income. He delineated that prior to the pandemic, revenues were rising steadily but fluctuated at times because of factors like the pandemic where short term investments dropped to zero. Representative Galvin asked what the corporation's bank account amount was. Mr. Butcher would follow up with specifics. He estimated that the net value was around \$4.5 billion which included all the mortgages and the 1,600 public housing units in 16 different communities in the state that the corporation operated. He offered that AHFC generally did not bond until it needed money for more mortgages, therefore, did not "sit on" large cash balances.

Co-Chair Schrage referred to the Green Bank and asked if AHFC was affected by the federal government's withdrawing of Green Bank funding. Mr. Butcher answered in the affirmative. He communicated that he anticipated an impact

was likely and reminded the committee that the bill was funded via \$20 million in federal funds. He added that no specific programs were established yet. Currently, the Green Bank was in its initial phase and the first board meeting had not yet happened.

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Representative Allard noted the corporation's effort to grow affordable housing. She referenced bullet point regarding delinquency and foreclosures at historic lows. She relayed that the mayor of Anchorage wanted to build 1000 homes and determined that the infrastructure could not handle it. She asked if growing the market that quickly in Anchorage would destabilize the market. She guessed that the housing would likely be built in Chugiak and Eagle River. Mr. Butcher responded that it was a lofty goal. He surmised that homebuilders would not build homes if they perceived they could not sell the houses. He acknowledged that there was a lack of housing across the state and for some period of time any new homes would be a benefit. He deduced that if the population continued to dwindle, the demand for housing would decrease and the private sector market would respond accordingly. Representative Allard asked if building duplexes or triplexes could drive down the single family home market. She reiterated that 1000 homes in 10 years was a lot. She did not believe that the cost of housing was driving people to leave the state. Mr. Butcher responded that it could happen theoretically, but in the last 5 years, they had seen median house prices in Anchorage rise over 50 percent and was not affordable for most people. Increasing the housing stock would bring the prices down. He acknowledged that homeowners were concerned about housing values and would not want to lose equity. However, housing costs accelerating at that level was an unhealthier situation.

Representative Johnson voiced that younger people were being priced out of the market and some could not save for a down payment. She wondered how the market could be addressed and what could AHFC do to help solve the problem. Mr. Butcher responded that there were a few things AHFC was working on. He mentioned that a bill was adopted in the prior year that allowed it to reduce the amount of a mortgage from 95 percent up to 97 percent allowing a lower down payment. He shared that often a young buyer could afford the mortgage payment but had difficulty affording

the downpayment. The program made AHFC on par with the federal Fannie Mae and Freddie Mac [government-sponsored enterprises]. In addition, the corporation started working to create more affordable housing and formed another subsidiary called the "Alaska Corporation for Affordable Housing" based on a communities need while not impacting the local private sector housing.

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Representative Allard asked Mr. Butcher to define the difference between affordable housing and low income housing. Mr. Butcher responded that those with lower incomes and seniors on fixed income could not afford a house. Therefore, some type of subsidy was needed. He noted the corporation administered low income tax credits via the Internal Revenue Service (IRS) and certain grant programs to lower costs to a level that a lower income Alaskans could afford, which was typically set at 60 percent of a community's median income depending on the program. He mentioned workforce housing and the factors that had increased housing costs. He announced that "Alaska was worse than anywhere else." He offered that there was a lack of housing across the country. The cost of housing had increased more than salaries had. He pointed to another program included in last year's Capital Budget that appropriated \$4 million to AHFC to work with various agencies that had land to free up for workforce housing. He indicated that the program was in its infancy, and he hoped to report on its successes in the following session. The market was no longer taking care of itself and programs like the one he described were necessary.

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Representative Allard commented about the effects of illegal aliens and open borders exacerbating the situation.

Representative Galvin cited the bullet point regarding "Rural Professional Housing leverages expiring federal funds and jumpstarts construction in rural hubs;" She asked how much of the federal funds were set to expire and whether it would hinder completion of any projects. Mr. Butcher responded that the dollars had come from the Emergency Rental Assistance (ERA) funds for rent relief. The assistance was limited to 15 months during the

pandemic. The corporation could use the unexpended funds for other things like affordable housing. The deadline for obligating the money was the end of September 2025. He added that any money Alaska did not expend would be sent to another state. Representative Galvin hoped Alaska could use all its funds and appreciated that AHFC were doing its best to expend all of it in Alaska.

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Mr. Butcher examined to slide 5 titled "AHFC Operations:"

300 employees statewide:

- Public Housing in 16 communities
  - Federal funding supports approximately 1,600 units and more than 6,000 Vouchers
- Collaboration with 14 Regional Housing Authorities
- Alaska's Housing Finance Agency
- Administrator of federal Housing Tax Credits & grant programs
- Residential Energy Focus

Mr. Butcher commented that AHFC was helping communities with affordable housing that were not familiar with the system and how to obtain it. He noted about half its operations dealt with public housing and the other half with mortgage, finance, etc. In 1993, AHFC merged with the prior Alaska State Housing Authority and the outcome was "phenomenally successful" and very efficient. The corporation accomplished "a lot more" than any other state due to the merger.

Representative Hannan if any of the 300 employees were staffing the 14 regional housing authorities. Mr. Butcher responded that they were separate entities, and its employees were for its public housing and apartment voucher programs. He noted that there was often a "stigma" associated with living in public housing and the voucher program helped alleviate that.

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Representative Hannan asked if anyone using the voucher could rent from one of the regional housing authorities. Mr. Butcher replied in the affirmative and added that there was flexibility. The corporation ensured that there were no life, health, or safety issues with the rental units.

Representative Allard commented that the legislature had "something moving forward" to make Alaska Industrial Development and Export Authority (AIDEA) a financial institution to offer mortgages. Mr. Butcher responded that he had worked with AIDEA, and they could already finance commercial housing, comprising of anything over 4 units. He stated that the focus of the bill was to prioritize utilizing the authority. He was unsure of the details but felt that any additional funding for housing was a good thing.

Mr. Butcher continued with slide 5 and briefly mentioned some aspects of its energy programs.

Mr. Butcher continued to slide 6 titled "AHFC Financial Performance:"

- Cumulative dividends to the State total \$2.246 billion.
- AHFC's dividend reflects 75% of adjusted change in net position.
- FY24 mortgage and loan purchases total \$606.9 million.
- AHFC is highly rated by credit agencies
- Moody's upgrade in April 2025

Mr. Butcher expounded that he had seen AHFC's part of the market go up considerably from 12 percent to 20 percent to 50 percent of all mortgages in the state; by federal law, AHFC could offer a lower interest rate and were highly rated by credit agencies at AA+.

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Mr. Butcher continued to slide 7 titled "Mortgage Portfolio:"

Statewide Mortgages

- 15,607 active loans
- Delinquencies and Foreclosures at historic lows

Mr. Butcher highlighted that the mortgage portfolio had increased to \$3.6 billion, and the average interest rate was 4.54 percent which was increasing to the 5.5 to 6.5 percent range and kept people in their existing homes that had a mortgage with a much lower interest rate. He reiterated that 30 day delinquencies were at 2.58 percent

with foreclosures at one-tenth of one percent. He attributed it to responsible Alaskans and underwriters.

Representative Bynum asked if the fees were built into the interest rate. Mr. Butcher would follow up with the answer.

Mr. Butcher continued on slide 8 titled "Public Housing:"

Public Housing remains a star performer for HUD

- 1,600 units owned and maintained
- 6,000 vouchers
- Set-aside voucher programs for
- Youth aging out of foster care
- Survivors of domestic violence & sexual assault
- Veterans (VASH)
- Homeless Alaskans

(Stabilization & Recovery)

Mr. Butcher related that he had talked a lot on the topic. He pointed to voucher programs for targeted areas where there was an uptick in people entering homelessness, a program for victims of domestic violence and sexual assault, a program for homeless veterans, youth aged out of foster care, and homeless Alaskans. He noted that the veteran voucher program was partnered with the Alaska Veteran Administration and was highly successful.

Representative Galvin voiced that it was important work. She cited the 1,600 units that they currently had and wondered whether there were enough units to meet the needs. Mr. Butcher responded that the number had not increased in many years and their focus was on vouchers. He explained that currently there were more people with vouchers than housing available.

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Representative Galvin asked if there were 6,000 vouchers, how many people were waiting and whether AHFC had a sense of scope or scale of what was necessary. She wondered whether AHFC had a goal of a certain number of units the corporation hoped to build or assist in building. Mr. Butcher responded that family size and needs were different depending on the community. He thought that AHFC was merely "chipping away" at the need. He furthered that the Department of Housing and Urban Development had limits reflected in federal law that prevented AHFC from approving

a single person to move into a large apartment, etc. and the waiting list was significant. Representative Galvin asked him to provide more information. Mr. Butcher would provide the information.

MR. Butcher continued on slide 9 titled "Planning Department:"

Funded 8,036 units across 139 communities

- 218 properties with 1,468 units were located in rural communities.
- 157 properties were funded through Low Income Housing Tax Credits with 5,784 units.
- 33 properties with 436 units were funded in partnership with Alaska Mental Health Trust Authority through the Special Needs Housing Grant (SNHG).

MR. Butcher pointed out that the planning department played a role in trying to create affordable housing via administering the programs. He shared that they worked with many different organizations that were willing to partner with them in many communities in the state.

Representative Galvin asked how long it took to fund 8,036 units. Mr. Butcher would follow up. He guessed that it took around 35 years limited to about 100 per year.

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Mr. Butcher continued on slide 10 titled "Rural Professional Housing/Last Frontier Housing Initiative:"

2025 Rural Professional Housing Awards

- Awarded funding to build/renovate 21 rural professional housing units in Toksook Bay, Minto, Fort Yukon, Shageluk, Galena, Naknek, Tok and Noatak.

Last Frontier Housing Initiative: Western Alaska

- 24 professional and 9 low income units under construction in Bethel, Nome and Kotzebue.

Last Frontier Housing Initiative: Southeast Alaska

- 14 low income units are nearly complete in Ketchikan and 10 units are under construction in Sitka.

Representative Stapp cited the corporation's work with the Cold Climate Research Center (CCRC) in Fairbanks. He reported that the state had appropriated funds to work with CCRC to help solve the rural housing problems. He noted that there was no longer an appropriation for the program. He asked what impact on housing they foresee due to the loss of the collaboration. Mr. Butcher confirmed the longstanding collaboration with CCRC. He elucidated that AHFC did not work with them on developing housing as much as developing ways to improve housing efficiency. Historically, the CCRC had done statewide inventory studies on how many houses were needed in every community across the state, etc. The data helped instruct AHFC on the direction it needed to go in developing housing. Representative Stapp asked if the collaboration could be maintained in the future. Mr. Butcher responded in the affirmative and stated that they had other programs that both entities worked on outside the Capital Budget appropriation that Representative Stapp referenced.

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Mr. Butcher advanced to slide 11 titled "New Home Construction Rebate:"

Homebuyers building or purchasing a newly constructed home could be eligible for \$10,000 if:

- Property will be owner-occupied;
- Restricted to single-family residences, duplexes, triplexes and fourplexes where the homeowner occupies one unit;
- Foundation was completed and inspected on or after January 2, 2025;
- Meets a minimum 5-Star Plus or higher energy efficiency standard;
- Not available for developers, investment properties and non-residential buildings.

Mr. Butcher spoke to the new home construction rebate that began in January 2025 and reported that there were 100 applications so far. He anticipated increased new housing starts as a result of the program.

MR. Butcher mentioned slide 12 titled "FY25 Governor's Proposed Capital & Mental Health Budgets" that contained the list of its capital budget requests.

Mr. Butcher continued to slide 13 titled "Subsidiary Spotlight: Alaska Corporation for Affordable Housing:"

Anchorage • Loussac Place: 120 multi-family units  
• Susitna Square: 18 low-income family units  
Ridgeline Terrace: 70 mixed-income units

Fairbanks • The Meadows: 18 senior units  
• Borealis Park: 40 multi-family units  
• Opened Fall 2024 Valdez  
• 20 units  
• Expected to be completed early 2026

Mr. Butcher elaborated that AHFC developed the Alaska Corporation for Affordable Housing (ACFAH) subsidiary corporation roughly 12 years prior via legislation to expand the corporation's powers working with developers. They began in Anchorage as a testing ground. The program expanded and currently it was looking at every regional hub possible. He commented that the program was very successful and was almost entirely funded with federal funds and IRS federal tax credits. The program did not utilize any AHFC or state dollars yet enabled AHFC to begin chipping away to increase the amount of housing in communities.

Co-Chair Foster referred to a project in the Chester Creek area of Anchorage to develop housing. He wondered whether AHFC was participating in the project. Mr. Butcher responded that the parties were looking at developing the Sullivan Arena area and he had engaged in discussions with them. The corporation willingly engaged with any community that had ideas regarding developing housing. He believed that the project was promising and could deliver affordable housing as well as market rate housing. He deduced that 50 to 100 units would transform the area.

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Representative Hannan cited slide 12 and pointed to the AHFC projects in the governor's capital budget. She asked which ones were in and which were out. Mr. Butcher did not think he was the right person to ask.

Co-Chair Schrage offered to follow up with details.

CSSB 57(FIN) was HEARD and HELD in committee for further consideration.

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RECONVENED

Co-Chair Foster took over chairing for the meeting.

#sb113

SENATE BILL NO. 113

"An Act relating to the Multistate Tax Compact; relating to apportionment of income to the state; relating to highly digitized businesses subject to the Alaska Net Income Tax Act; and providing for an effective date."

Co-Chair Foster discussed the agenda.

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SENATOR BILL WIELECHOWSKI, SPONSOR, offered a brief history of how the corporate income tax structure was developed. Historically, the state's economy was based on "brick and mortar" transactions. The store was located in, and workers, and the sale of goods and services occurred in Alaska. A national store like Sears and Roebuck Company could write off their out of state expenses against its Alaskan profits. Therefore, Alaska and many other states developed an "apportionment" system. Alaska's current corporate income tax system took the store's national profits and apportioned Alaska's profits based on the three-factor formula: one was the portion of the sales, two factored in property, and the third was the Alaska payroll. The corporate income rate was calculated based off the three-factor formula for C corporations. He explained what happened when internet sales started in the state. Alaskans began buying from companies with no property and no payroll in the state. Therefore, the state's corporate income taxes were dramatically reduced. In addition, for the sale of highly digitized services many companies avoided paying Alaska corporate income taxes because the "sale" electronically occurred in another state. However, highly digitized companies relied on state infrastructure. He

pointed out that when an internet sale occurred in Alaska, the company was often using the state's funded broadband, the item was transported via state funded airports or ports and was further shipped through state funded roads or marine highway, etc. The highly digitized corporation paid little or likely nothing to the state. He expounded that the bill fixed the inequity by adopting market-based sourcing for calculating the portion of a taxpayer's sales that were subject to Alaska's corporate income tax and adopted a single sales factor for calculating the taxable income of highly digitized businesses. Market based sourcing meant that the point of sale occurred where the service was received. He illustrated that companies like Facebook, Netflix, and Google had no payroll or property in Alaska. If an individual purchased a Netflix subscription, Netflix claimed that the sale had occurred at its headquarters in Los Gatos, California or server farm in Texas. The bill focused on where the service was delivered; in Alaska based on a single sales factor using the percentage of sales that occurred in the state. He noted that telecommunications companies were carved out of the bill due to the significant infrastructure they sustained in the state. The next provision in SB 113 defined "highly digitized businesses." A business would be considered highly digitized if fifty percent or more of its Alaska sales were done on the internet or were internet related services. He stressed that it was based on the amount of sales in Alaska. He clarified that the provisions did not necessarily create new taxes for the businesses making the sales to Alaskan consumers because they were already paying a corporate income tax to another state for its Alaskan sales instead of to Alaska. He furthered that the United States (U.S.) Supreme Court had ruled that if every state had the same tax system, companies could not be taxed in multiple states for the same transaction, resulting in a tax shift from other states to Alaska with little or no tax increase for the corporation. He emphasized that the bill leveled the playing field and actually removed a "disincentive" for those out-of-state companies to do business in Alaska. He stressed that the bill did not raise the corporate income tax rates, did not raise taxes on Alaskan businesses, nor consumers. He reported that 37 states employed the single sales factor. He declared that studies had shown that online companies did not set their rates based on corporate income tax and the single sales factor had no impact on consumer prices. The standard Netflix monthly fee was \$17.99 per month and was the same

price in Alaska as it was in Minnesota, that had the highest corporate income tax in the country. The best-selling snow shovel on Amazon sold for \$41.64 in Alaska with zero corporate income tax and cost the same in Minnesota. He concluded that corporate income taxes were spread out over worldwide costs.

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DAVID DUNSMORE, STAFF, SENATOR BILL WIELECHOWSKI, introduced the PowerPoint presentation "SB 113; Corporate Income Tax Modernization" dated May 2, 2025 (copy on file). He began on slide 2 titled: "SB 113 makes two reforms to bring Alaska's tax apportionment system into the 21<sup>st</sup> century."

- Market-based sourcing to ensure Alaskan sales are properly apportioned to the state
- Single sales factor for highly digitized businesses
- SB 113 makes no changes to corporate income tax rates or brackets.

Mr. Dunsmore turned to slide 4 describing "What Is Tax Apportionment?"

Under the Commerce Clause of the U.S. Constitution, states may only tax activity that is reasonably attributable to that state.

For taxpayers who operate in multiple states, it is necessary to determine what portion of their income can be taxed by each state.

To avoid taxpayers having to do separate accounting in each state, states have adopted mathematical formulas to determine tax apportionment.

Mr. Dunsmore continued to slide 5 titled "The U.S. Supreme Court Has Ruled That States Must Use "Fair Apportionment" To Determine What Is Taxable By Their State, Requiring The System Be Internally And Externally Consistent:"

Internal consistency: If all states used the same system, there would be no double taxation.

External consistency: That the value taxed is "fairly attributable" to the state.

Oklahoma Tax Comm'n v. Jefferson Lines, Inc., 514 U.S. 175 (1995)

Mr. Dunsmore continued to slide 6 titled "Traditionally States Have Used An Equally Weighted Three-Factor Formula For Tax Apportionment:"

Sales Factor

The percentage of a taxpayer's sales that are made in the state

Property Factor

The percentage of a taxpayer's property that is located in the state

Payroll Factor

The percentage of a taxpayer's payroll that is made in the state

He moved to slide 7 titled "The Traditional Three-Factor Corporate Tax Apportionment Formula." The slide illustrated the mathematical formula.

Mr. Dunsmore discussed to slide 8 titled "Alaska Is A Member Of The Multistate Tax Compact:"

This is an advisory compact with 14 other states and the District of Columbia that promotes uniformity in tax apportionment and filing procedures.

The Commissioner of Revenue represents Alaska on the commission that governs the compact.

The 6th Alaska State Legislature codified the compact in Alaska Statutes in 1970 as AS 43.19.010 which establishes Alaska's tax apportionment laws.

The Legislature has not made any amendments to this statutory language since then.

Mr. Dunsmore continued to slide 9 titled "The current apportionment formula was designed for a brick-and-mortar world:"

In the modern digital economy a corporation can target advertising to Alaska, sell a product through Alaska's broadband infrastructure, and ship it through Alaska's roads, ports and airports without having any property or payroll in Alaska.

SB 113 makes common sense reforms to ensure these sales are properly apportioned to Alaska

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Mr. Dunsmore continued to the title slide 10 "Market-Based Sourcing" and slide 11 titled "Currently Alaska Uses A Methodology Called "Cost Of Performance" To Determine Whether Sales Happened In Alaska:"

Under cost of performance, a sale is considered to happen in Alaska when "the income producing activity is performed in this state."

This means that out-of-state corporations can argue that online sales to Alaskans do not take place in Alaska.

SB 113 replaces cost of performance with a "market-based" methodology where sales will be considered to happen in Alaska when the market for the sales is in Alaska.

Mr. Dunsmore highlighted to slide 12 that detailed, "Under Market-Based Sourcing A Sale Occurs In Alaska When:"

- For sales of real property when the property is located in the state
- For tangible personal property, when the property is located in the state
- For services when the service is delivered in the state
- For intangible property when it is used in the state

Mr. Dunsmore illuminated slide 13 titled "At least 36 other states already use some form of market-based sourcing," which listed the states.

Mr. Dunsmore continued to slide 15 that mathematically represented the "Single Sales Factor for Highly Digitized Businesses." He pointed to the calculation on the slide:

The Share of Total Corporate Income Apportioned was divided by statewide sales and total sales.

For highly digitized businesses only, the sales factor would be the only factor used for tax apportionment.

Mr. Dunsmore continued to slide 16 titled "A Business Would Be Considered Highly Digitized If 50 Percent Or More Of Its Alaska Sales Are Of:"

- Intangible property delivered electronically
- Services delivered electronically
- Services related to computers, electronic transmission, or internet technology
- Tangible property purchased through the internet

Mr. Dunsmore spoke to slide 17 titled "The Three-Factor Formula Will Still Be Used For Brick-And-Mortar Businesses," which depicted the mathematical three-factor formula.

Mr. Dunsmore underlined slide 18:

Alaska has previously adopted a different apportionment formula for the oil and gas industry, because the Legislature found that the traditional formula did not fairly reflect their Alaska income.

Similarly, it is appropriate to use a different formula for highly digitized businesses, because the current formula does not fairly reflect Alaska sales.

Mr. Dunsmore moved to slide 19 titled "The Current Three-Factor Formula Is A Disincentive To High-Tech Businesses Opening Alaska Facilities:"

Having payroll and property in Alaska can significantly increase an online business' Alaska taxes.

Adopting a single sales factor for this industry will remove this disincentive and level the playing field between out-of-state and Alaska businesses.

Mr. Dunsmore continued to slide 20 titled "At Least 37 Other States Already Use A Single Sales Factor For At Least Some Industries Other States," which listed the states.

Mr. Dunsmore continued to slide 21 titled " These Reforms Would Have Little Or No Impact On Alaskan Consumers:"

Online businesses generally set their prices at the national or global level.

Both market-based sourcing and single sales factor are common features of tax apportionment systems across the country.

This bill does not change the tax rates or brackets at all, merely the formula for determining what income is taxable in Alaska.

Mr. Dunsmore concluded the presentation.

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Co-Chair Foster appreciated Mr. Dunsmore brevity and his efficient delivery of the presentation.

Representative Stapp deduced that a company based in Minnesota with a high rate of corporate income tax using apportionment would actually pay less taxes under the bill because Minnesota's high apportionment tax rate would now be shared with Alaskans lower apportionment tax rate. He surmised that the company would pay less taxes overall. He asked for comments. Mr. Dunsmore replied that it was hard to answer not having a specific case but believed that the scenario was likely. Representative Stapp felt that "it was complicated on the surface" but emphasized that the taxes were already being paid to the company's domiciled state that collected 100 percent of the tax. He thought that the tax was not different than what Alaska already did for oil and gas taxes, that were apportioned based on their Alaskan profits. He suggested reading the multi-state compact where it describes the different ways states had accomplished apportionment. He appreciated the work on the bill and thought modernizing the state's corporate tax structure was beneficial.

Co-Chair Foster requested a discussion of the bill's fiscal note.

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MICHAEL WILLIAMS, CORPORATE TAX MANAGER, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), deferred the answer to his colleague.

DALE YANCEY, TAX DIRECTOR, DEPARTMENT OF REVENUE, (via teleconference), reviewed the published fiscal impact note (FN1(REV) from the Department of Revenue (DOR). He explained that the fiscal note revenue change was indeterminate because the highly digital companies were currently paying very little or no tax in the state. Therefore, the department did not have information to produce a highly specific fiscal note. However, the division deduced that a range of \$25 million to \$65 million would be raised via the tax. In addition, two new positions were added to the expenditure line due to necessary audits that ensured the new tax was implemented correctly.

Representative Allard voiced that she had many questions, but thought she had a firm position on the bill regardless of answers. She asked if Senator Wielechowski knew where Amazon was located. Senator Wielechowski responded that it was not Alaska. Representative Allard shared that Alaska was a remote state and many citizens relied on products from out-of-state. She acknowledged that Amazon was located in Seattle, Washington. She stated that there was no personal or corporate tax in Washington. She ascertained that any products from Amazon would be taxed and that would be passed on to the Alaskan consumer. She had other concerns that SB 113 would substantially hurt the school district in Wrangel, Alaska. She did not favor implementing taxes while the state lacked a spending cap. In addition, she noted that there were "3 parts to sales" and "sales" was not defined on page 3, lines 18 through 22. She also felt that the bill would impact banks that might do business outside of Alaska, like Wells Fargo due to "interest rates, fees, services, charges, and gross receipts from investments and trading activities." She asked for comment.

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Senator Wielechowski responded that SB 113 "was not his bill" or idea, it was proposed by Governor Dunleavy to the Fiscal Policy Working Group, and he could not take credit for it. He relayed that the governor did not support taxes on Alaskans and therefore, would not support a bill that imposed taxes on Alaskans. He did not believe the bill

increased taxes on Alaskans. He addressed the Amazon example. He thought that Amazon already paid a very small corporate income tax to Alaska. He pointed out that 36 states had market based sourcing and 37 states had highly digitized taxes and no one saw Amazon pulling out of other states like Minnesota with the highest corporate income tax rate. He reiterated that Amazon did not have a cost differential on products it was selling in Alaska versus other states. He offered to provide more information that showed no impact on consumer prices. He noted that the issue brought up by the Wrangell School District was due to misunderstanding what the bill actually did. In addition, he related that he attempted to work with Wells Fargo, but the administration had shared that the proposed fix was unworkable. He offered that he received a letter from "our attorneys" and from the Multi State Tax Commission, Bruce Fort, Senior Counsel and read: "this modernization would reduce litigation and the need to engage in frequent settlements for less than the appropriate tax amount to avoid that litigation." He believed that the bill was a modernization effort and provided some level of certainty to the banks. He stressed that there was "no intention to raise costs or fees on anyone."

Representative Allard believed that the bill was hiding the tax on Alaskans, and no one wanted to say it. She named some highly digitized corporations and believed that it would be a tax passed on to consumers. She mentioned wireless cell towers and fiber optic switching facilities and thought that an additional tax would be passed on to the consumer. Senator Wielechowski answered that "it was not a new tax" and was already being paid to other states. He emphasized that Alaskans were paying the cost via the company using state resources and Alaskan consumers were picking up the tab. He believed that it was unfair to Alaska's brick and mortar companies. The costs were "taking money out of Alaskans pockets" because the out-of-state corporations were not paying their share. He stressed that the bill fixed the problem and Alaskans were already paying the costs for the Out-of-state companies who were paying taxes to other states. He reiterated that it was very unfair.

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Mr. Dunsmore referenced cell towers and fiber optic infrastructure that was addressed in the bill on page 24,

line 8, that excluded telecommunication utilities from the definition of a highly digitized business.

Co-Chair Foster ascertained that a company like Amazon would likely pass on any cost from SB 113 through a price increase. However, he did not foresee Amazon adding a tax on Alaskan consumers, it would be complex, and it would not make sense. He asked Senator Wielechowski if he was aware of any other ways Amazon could increase prices. Senator Wielechowski responded that the 36 states that already adopted the same tax structure did not experience a corporate tax increase reflected in consumer prices. He elucidated that the tax had a complex formula and Amazon's costs "were spread out among every consumer in the world." He reiterated that Alaskans were paying for the taxes the other 36 states were collecting by not implementing the tax in Alaska.

Representative Allard referred to a letter by CTIA (copy on file) that was sent to Senator Olsen. [Secretary Note: The letter was included in a public testimony packet posted to BASIS and included in the member's bill file.] She noted that the letter stated communication for wireless services would be impacted by SB 113. Senator Wielechowski directed attention to the bill on page 24, lines 5 through 8, where it stated that the section did not apply to the utility furnishing telecommunication services. He added that he was asked by the telecommunication companies to add the exemption. He believed that it was fair to exempt them.

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Representative Bynum voiced that how the tax on Amazon would impact Alaska was a question of debate. He reported that he had done some research and discovered that it had a significant corporate presence in California, New York, and both states had a corporate income tax and high population. Texas lacked a corporate income tax but had a gross receipts tax and franchise tax that Amazon paid. Washington did not have a corporate income tax but had a business and occupation tax (B&O) on gross receipts. He noted that other states that had a corporate income tax where Amazon had a significant presence in. He initially had a concern regarding a cost impact on Alaska, but Amazon was already paying the tax to many other large states. He shared that he had told his constituents that no cost would ever go up for highly digitized services for companies like Netflix

etc., who built taxes into their overall pricing structure. He did not think that the tax would impact Alaska specifically and any price increase would be due to rising costs impacting their pricing models to do business on their platforms in the overall "scheme of things." He asked for comment. Senator Wielechowski appreciated his comments and thought Representative Bynum stated his understanding with eloquence.

Mr. Dunsmore added that the same question was asked in the Senate. He did additional extensive research to discover whether there was any evidence of differential pricing based on an apportionment corporate income tax and found none. He found that a few online vendors had experimented with differential pricing based on zip code and not based on tax rates; it was based on higher income zip codes. He stressed that he did not find any evidence that corporate tax rates had an effect on consumer pricing.

Representative Bynum shared that he had his staff perform research on how many companies in Alaska were filing corporate taxes and he discovered the number was 22,000. He wondered if the bill would impact current brick and mortar stores like Home Depot or Costco that were also moving into the digital space. Mr. Dunsmore answered that the definition for highly digitized business was based on more than half of the Alaska sales done online. However, the bill contained clarifying language that if the main way a customer interacted with the business was not online it would not be considered an online sale. As businesses transitioned to a hybrid model it would be determined business by business. He indicated that concerning a business in Alaska's overall tax burden, it should not result in higher taxes due to a single formula tax factor that was "agnostic" regarding where the business was physically located. The three factor formula could be a disincentive for online businesses to locate in Alaska because of any property and payroll.

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Representative Galvin shared a recent news story that consumer prices were anticipated to significantly increase in the near future. She hoped that people would not attribute price increases to the bill. She restated the fact that no price differentials were shown in any state that had implemented the tax. She asked for comment from

the sponsor. Senator Wielechowski replied that the effective date was Jan 1, 2026, and the lag time was to enable the department to establish the new tax system.

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AT EASE

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RECONVENED

Representative Galvin explained that the news was from the New York Times and read the headline: "Companies Are Serving Notice, We are Raising Prices Because of Tariffs." The article included a list of the companies that were serving notices to customers. She mentioned some names of the companies and products. Senator Wielechowski simply did not think Alaska had the kind of market impact as other states causing the tax to outweigh the outcome experienced in other states.

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Representative Stapp shared that Washington had a business and occupation tax which was 1.5 percent of all gross receipts, which was "massive" for a company like Amazon. He reiterated that 36 other states instituted the tax. Currently, an incorporated small business in Alaska paid corporate income taxes to the state. He wondered why it was acceptable to tax Alaskans selling products to those living in Alaska and not to tax out-of-state businesses who did business in Alaska. He did not want to punish Alaskans with Alaskan businesses who pay corporate income tax and allow out-of-state business operating in Alaska to go tax free. He believed it was a matter of fairness and taxes should be apportioned to the non-Alaskan businesses, which was positive for small businesses. Everyone had seen small businesses go out of business being replaced by big national chains. He postulated that if the state did not tax local businesses unfavorably, fewer would go out of business. He asked for comment by the sponsor. Senator Wielechowski responded that Representative Stapp's comments made fair points. He agreed that many people felt that it was unfair that Alaska's small and large business were

paying a tax, and outside companies were not. He reiterated that outside companies received the benefit of the state's infrastructure: broadband, bridges, roads, ports, etc. and were paying very little or no taxes and was unfair.

Representative Allard relayed that passage of HB 57 - Schools: Comm. Devices/Class Size/Funding [Chapter 5 SLA 25 - 05/20/2025] was directly correlated to the adoption of SB 113. She deduced that outside businesses might be increasing taxes on Alaskans. She asked if SB 113 did not pass whether the state would fund reading grants or Career and Technical Education (CTE). Senator Wielechowski responded in the affirmative regarding the bills correlation and added that it was his understanding was that those items she listed were dependent upon SB 113 passing.

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Representative Bynum inquired about the definition of highly digitized services based on 50 percent of sales. He asked where the number was derived. Senator Wielechowski answered that it was the same number that Governor Dunleavy proposed to the Fiscal Policy Working Group. The bill's concept was favorable to many as a way to capture revenue from outside without taxing Alaskans.

Mr. Dunsmore added that he was not aware of the 50 percent being model language and was located in Section 7, page 23, lines 23 through 24 of the bill.

Representative Galvin asked how many years since the 36 other states had implemented the tax structure and if implementation was successful. Mr. Dunsmore replied that there were two documents in the bill packet by CCH State Tax Smart Charts by CCH Answer Connect (copies on file) that showed the general trend was for increasing number of states to adopt the single sales tax.

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Representative Galvin asked about digital or social media sales. She exemplified ads on social media. She knew the bill had a carve out for telecommunications. She wondered if the carve out applied to ads.

Senator Wielechowski replied that the rationale for carving out the telecom industry was because they had substantial businesses in Alaska. The carve out would not apply to companies like Facebook, and all highly digitized companies.

Representative Hannan directed a question to the Department of Revenue. She noted her full support of the bill. She referenced the multi-state compact statute and relayed that 14 states used a different method of analyzing the broadcaster apportionment. Therefore, rather than using an audience method, they utilized a broadcaster customer location method that did not require estimation and was more precise. She asked whether DOR performed an analysis about the state's ability to get the most revenue out of the tax. She wondered whether using an audience method, versus a broadcaster customer location method made a difference in the revenue earned by the bill.

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Mr. Williams replied that DOR had not analyzed one method over another. He acknowledged that there were multiple ways to acquire the tax. He elaborated that the multi-state tax commission had a model regulation for broadcasters. The department had not adopted the model regulation. There would be any number of regulations required if the bill was adopted and the bill merely represented a "framework" and step in the right direction. The department would fine tune its method through the regulatory process.

Co-Chair Foster had a request for more clarity regarding SB 57 and if it were to fail, concerning the contingency clause on adoption of SB 113. He reported that the contingency clause allowed any bill and not specifically SB 113. He wondered whether he was correct. Senator Wielechowski responded in the affirmative.

Co-Chair Josephson asked about the fiscal note speaking to the \$25 million to \$65 million in anticipated revenue. He assumed a reliable amount of revenue would be established via experience; subsequent to implementation and a couple of fiscal years of collecting the tax. Senator Wielechowski answered in the affirmative. The taxpayer transparency laws were "opaque", and it was difficult to currently know the exact estimate. Co-Chair Josephson recalled that the amount in HB 57 was \$22 million for reading grants. He guessed

that any excess would go to the General Fund (GF). Senator Wielechowski responded in the affirmative. He elaborated that reading grants totaled \$22 million and the CTE was another \$10 million. He reminded the committee that despite the amount of revenue generated from the tax, it was all subject to appropriation since funds could not be dedicated.

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Co-Chair Josephson cited the growth in online purchasing that had increased markedly in the last decade. He deemed that the state had already forgone roughly one half billion dollars. Senator Wielechowski agreed with his conclusion. Co-Chair Josephson observed that the only Amazon warehouse he was aware of was in his district. He ascertained that under the modernized tax, the state would dispense with the property and payroll factor of the warehouse and focus on the sales factor. He guessed that the net result would likely be increased revenue.

Mr. Dunsmore responded that it was not possible to answer specifically. He discerned that in general it was likely that companies like Netflix or Facebook would pay more taxes since they currently pay nothing or a minute sum. Co-Chair Josephson recounted statements by Representative Allard regarding the absence of corporate income tax in Washington state causing the tax to be passed on to Alaskans. He surmised that the tax did not work that way. Amazon did not sell products only to Alaska and therefore, it was a much more significant math issue in terms of apportionment of overall sales. In addition, Alaska was not getting its Amazon products all from Washington State warehouses which also weakened Representative Allard's conclusions. Mr. Dunsmore answered that the type of large multi-national company like Amazon was why states created the apportionment laws in the first place. It has property and payroll all across the country.

Senator Wielechowski interjected that corporate income tax was very different than sales tax. Sales tax was relatively simple, but apportionment meant Amazon was apportioning expenses from across the country and world. He exemplified that when Amazon shipped products, it paid more to ship to Utqiaqvik than to Seattle or Los Angeles and wrote off the extra costs on its corporate income tax, which would continue. Therefore, it was difficult to determine the

impact. Alaska "was not the tail wagging the dog," it had a small population. There were other states that were possibly subsidizing shipping costs to Alaska, but it washes out in the end because of apportionment laws.

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Representative Allard relayed that small businesses sold products through Amazon and received 1099s from Amazon. She believed that the small businesses would be impacted. Senator Wielechowski responded that it was possible but was difficult to determine; if they were not a C corporation, they did not pay taxes. If they were already in Alaska, they were already paying some taxes. Ultimately, it depended on what type of business it was: C or S corporation, LLC, partnership, sole proprietor, etc. He was aware that only C corporations paid taxes in Alaska other than that, the answer was unknown.

Mr. Dunsmore responded that she pointed out "exactly why the single sales factor" was pro-business in bringing online business to the state. He reiterated that Amazon was likely paying very little taxes. However, he agreed that small Alaska based C corporations were currently, likely paying a much higher rate than Amazon. He stated that the reform was "pro-business."

Representative Allard was bringing it up because she had a flurry of small businesses sending her their 1099s. She read the following "if business and occupation tax for companies doing business in Washington in an attempt to get a piece of the business using fulfillment centers..." She paraphrased that it had something to do with Washington's business and occupation tax. She asked if Senator Wielechowski had information regarding the B&O tax. Senator Wielechowski replied that Representative Stapp stated that the Washington B&O tax was 1.5 percent.

Representative Tomaszewski asked if there were any specific Alaskan companies that the bill would affect. Mr. Dunsmore responded that without knowing the specifics, it was impossible to answer. Representative Tomaszewski wondered how it would affect a company like Turo or Airbnb. Mr. Dunsmore responded that both would meet the definition of a highly digitized business and the Department of Revenue would address how they would be taxed through the regulation process.

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Representative Tomaszewski asked if DOR generated a list of companies that would be impacted.

Senator Wielechowski responded that there was no list due to taxpayer confidentiality. Regarding Airbnb, he directed attention to page 9, which addressed what was included in the bill. He guessed that it might already be paying corporate income taxes to the state and would be impacted by SB 113. He deduced that if the Alaskan homeowner was not a C corporation, they would not be impacted. Representative Tomaszewski asked whether a sunset provision was considered. Senator Wielechowski answered in the affirmative. He discouraged it and added that any issues could be fixed retroactively. He was committed to fixing the bill in the next year if problems were identified, which was his preference over a sunset provision. He emphasized that it was very difficult to alter corporate income tax in Alaska. He stressed that state services needed to be paid for and believed that Alaskan companies were bearing the entire costs and out-of-state companies were paying very little. He considered the situation "fundamentally unfair."

Representative Bynum cited eBay and wondered whether a small business selling online would be impacted by SB 113. Senator Wielechowski responded that eBay would be impacted in the same way as Amazon. He guessed that to the extent it or a subsidiary was a C corporation, it was already paying taxes. The bill would establish a single sales market factor, which might increase its taxes.

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Representative Allard asked if Amazon could potentially pull out of Alaska if SB 113 was adopted and shut down the warehouse. Senator Wielechowski answered that he had not heard any comments from Amazon regarding closing the warehouse.

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AT EASE

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RECONVENED

Co-Chair Foster inquired whether there was interest in reporting the bill out of committee.

Representative Stapp believed that it was important to modernize the state's corporate tax structure especially since the state had not updated the nationwide compact since the 1970's. In addition, due to "the complexity, technology, and changing landscape" the legislature would need to revisit the discussion. Therefore, he wanted to move the bill.

Representative Stapp MOVED to report SB 113 out of Committee with individual recommendations and the accompanying fiscal note.

[4:00:25 PM](#)

Representative Allard OBJECTED. She would not stop it from leaving committee, but she thought the bill would greatly impact the rural areas of the state. She did not favor allocating funds that were not yet received. She relayed that the fiscal plan had 6 parts to it. She believed that there would be "hidden costs to Alaskans" and the "government did not want to come out full and transparent."

Representative Allard WITHDREW her objection

There being NO OBJECTION, it was so ordered.

SB 113 was REPORTED out of committee with eight "do pass" recommendations, one "no recommendation," and two "do not pass" recommendations, with one previously published fiscal impact note: FN1 (REV).

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AT EASE

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RECONVENED

Co-Chair Foster discussed future meetings.

#

ADJOURNMENT

[4:03:41 PM](#)

The meeting was adjourned at 4:03 p.m.