

HOUSE BILL NO. 12  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
SEVENTEENTH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVES MOYER, Brown, Koponen, Ellis

Introduced: 1/21/91

Referred: International Trade and Tourism, Labor and Commerce, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the water's edge method of calculating income taxes for certain  
2 corporations other than corporations engaged in the production of oil or gas from a lease  
3 or property in the state or in the transportation of oil or gas by regulated pipeline in  
4 the state; and providing for an effective date."

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

6 \* Section 1. It is the purpose of this Act to promote investment and trade opportunities in the state.

7 \* Sec. 2. AS 43.20 is amended by adding a new section to read:

8           Sec. 43.20.073. AFFILIATED GROUPS. (a) A corporation that is a member of an  
9           affiliated group shall file a return using the water's edge combined reporting method. A return  
10           under this section must include the following corporations if the corporations are part of a unitary  
11           business with the filing corporation:

12                     (1) an affiliated corporation that is eligible to be included in a federal consolidated  
13           return under 26 U.S.C. 1501 - 1505 (Internal Revenue Code) if the corporation's property,

- 1 payroll, and sales factors in the United States average
- 2 (A) 20 percent or more; or
- 3 (B) under 20 percent, if the corporation does not meet the requirements
- 4 of 26 U.S.C. 861(c);
- 5 (2) a domestic international sales corporation; in this paragraph, "domestic
- 6 international sales corporation" has the meaning given in 26 U.S.C. 992(a);
- 7 (3) a foreign sales corporation; in this paragraph, "foreign sales corporation" has
- 8 the meaning given to the term "FSC" in 26 U.S.C. 922(a);
- 9 (4) a corporation, regardless of the place where the corporation was incorporated,
- 10 if the corporation's property, payroll, and sales factors in the United States average 20 percent
- 11 or more;
- 12 (5) a corporation that is incorporated in or does business in a country that does
- 13 not impose an income tax, or that imposes an income tax at a rate lower than 90 percent of the
- 14 United States income tax rate on the income tax base of the corporation in the United States, if
- 15 (A) 50 percent or more of the sales, purchases, or payments of income or
- 16 expenses, exclusive of payments for intangible property, of the corporation are made
- 17 directly or indirectly to one or more members of a group of corporations filing under the
- 18 water's edge combined reporting method;
- 19 (B) the corporation does not conduct significant economic activity.
- 20 (b) When computing taxable income for a corporation under (a) of this section, the
- 21 following amounts shall be excluded:
- 22 (1) 80 percent of dividend income received from foreign corporations;
- 23 (2) an amount treated as a dividend under 26 U.S.C. 78;
- 24 (3) 80 percent of the royalties accrued or received from a foreign corporation.
- 25 (c) In (b)(1) and (3) of this section, a payment is considered to be received from a
- 26 corporation that is part of the unitary business if the payment is received
- 27 (1) by a member of an affiliated group included in a water's edge combined
- 28 report filed under this section; and
- 29 (2) from a corporation in which the recipient owns 50 percent or more of the
- 30 stock of the corporation.
- 31 (d) Dividends and royalties taxable to a corporation using the water's edge combined

1 reporting method are in lieu of an expense attribution for income excluded under (b) of this  
2 section.

3 (e) The department may require a corporation that files under (a) of this section to file  
4 a worldwide combined report instead, if the corporation or an affiliated corporation

5 (1) fails to comply with regulations adopted under this chapter, including domestic  
6 disclosure spread sheet filing requirements; or

7 (2) does not provide information that is requested by the department that is  
8 necessary for the department to audit the taxpayer's corporate return in a reasonable period of  
9 time.

10 (f) This section does not apply to taxpayers subject to AS 43.20.072 engaged in

11 (1) the production of oil or gas from a lease or property in the state; or

12 (2) the transportation of oil or gas by regulated pipeline in the state.

13 (g) In this section,

14 (1) "affiliated corporation" means a member of an affiliated group to which the  
15 taxpayer filing a return under (a) of this section belongs;

16 (2) "affiliated group" means a group of two or more corporations in which 50  
17 percent or more of the voting stock of each member of the group is directly or indirectly owned  
18 by one or more corporate or noncorporate common owners, or by one or more of the members  
19 of the group;

20 (3) "foreign corporation" means a corporation created or organized outside of the  
21 United States, the District of Columbia, the Commonwealth of Puerto Rico, or a possession of  
22 the United States;

23 (4) "water's edge combined reporting method" means a reporting method in which  
24 the only corporations besides the taxpayer that may be included in the return are the corporations  
25 listed in (a) of this section.

26 \* Sec. 3. This Act applies to tax years beginning after December 31, 1991.

27 \* Sec. 4. This Act takes effect immediately under AS 01.10.070(c).