



**Important Notice Regarding Changes to Alaska's Corporate Income Tax
February 6, 2013**

Effective for tax periods beginning after 12/31/2012, certain small corporations are exempt from Alaska corporate income tax. To qualify for the exemption, the corporation and its affiliates⁽¹⁾ must be a qualified Small Business as defined below:

1. Eighty percent (determined by value) of the corporation's assets, including assets of all affiliates, must be used in the active conduct of one or more qualified trades or businesses. A "qualified trade or business" is any business *except* the following:
 - Performance of services in health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any other business where the principal asset of the business is the reputation or skill of one or more of its employees
 - Banking, insurance, financing, leasing, investing, or similar business
 - Farming including timber
 - Business involving production or extraction for which a depletion allowance could be claimed
 - Hotel, motel, restaurant, or similar business
 - Construction, transportation, utility, or fisheries business
2. The corporation's total assets, including assets of all affiliates, may not exceed \$50 million. This includes cash and the adjusted basis of other assets. This is measured at the beginning of each tax year to determine if the corporation is eligible for the exemption for that taxable year.
3. The corporation must be engaged in an active business as described in 26 U.S.C. 1202 (Internal Revenue Code) as that subsection read on January 1, 2012. This includes certain start-up operations.

A corporation that is exempt under AS 43.20.012(a)(3) must still file a corporate income tax return with the State of Alaska. The Form 611 and Form 611SF will include a check-box to indicate that the corporation is exempt. Special forms will also be required to show that the corporation meets the industry, asset, and active business requirements. A copy of pages 1-5 of the corporation's federal income tax return (Form 1120), as actually filed with the Internal Revenue Service, will be required to claim the exemption, along with Form 8453, if the federal return is electronically filed.

For additional information and questions, please contact Robynn Wilson at 907-269-6634.

⁽¹⁾All corporations which are members of the same parent-subsidary controlled group are treated as a single corporation when determining whether a corporation is exempt from Alaska's income tax under this provision. The controlled group includes any corporation connected through stock ownership with a common parent corporation if more than 50 percent of the total combined voting power of all classes of stock is owned by the parent or one or more of the corporations within the group.