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Alaska Business Entities and How They May be Taxed Under State and Federal Law

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You asked for information relating to the types of entities allowed under state law, and how those entities may be taxed.

Entities and corporate structures are creatures of state law and may be defined differently from state to state. The Department of Commerce, Community, and Economic Development, Division of Corporations, Business, and Professional Licensing (CBPL) is responsible for business licensing and corporate registration.¹

In Alaska, there are two classes of businesses: unincorporated and incorporated. Unincorporated businesses include sole proprietorship and partnerships. Incorporated entities include corporations, limited liability companies (LLCs), limited partnerships (LPs), and limited liability partnerships (LLPs). CBPL's [Entity Type FAQ's](#) provide additional details. Although there has been a great deal of discussion in recent years about "C-corporations" and "S-Corporations," these designations exist in Internal Revenue Service (IRS) Code and are available as designations in certain other states. They are not, however, recognized explicitly in Alaska law.

At the outset, we note that federal tax law is complex, and this report does not attempt to address nuances that may exist under particular circumstances. Only those corporations that are subject to tax as an entity are taxed under Alaska's corporate income tax (CIT), codified at [AS 43.20.011](#); entities whose income and losses are reported on individual income tax returns of its members or partners are not subject to tax in Alaska, because the individual income tax was repealed in 1980. The attached table provides additional detail.

Sole Proprietorships: These are businesses owned and operated by one person; the income of the business is reported on the owner's individual income tax return. *Not subject to CIT.*

¹ Excluded from this report are the following corporate entities: Business and Industrial Development Corporations (BIDCO) (AS 10, Chapters 10 and 13), cooperative corporations (AS 10.15), nonprofit corporations (AS 10.20), electric and telephone cooperative corporations (AS 10.25), cemetery associations and nonprofit cemetery corporations (AS 10.30), religious corporations (AS 10.40), and professional corporations (these are corporations that provide services requiring a professional license to provide, AS 10.45).

Partnerships: While partnerships can vary in form, they are pass-through entities, meaning that the entity does not pay tax on its income, but its profits and losses are reported by its partners on their individual income tax returns. *Not subject to CIT.*

Corporations: According to the IRS, corporations must meet certain criteria to be taxed as such, one of which is a “*business form under a federal or state law that refers to it as a corporation.*” For taxation purposes, the corporation itself files returns and pays any levies directly to the taxing authority. As such, the *Alaska CIT generally applies to entities formed under AS 10.06.*

However, if the corporation meets the requirements of an *S-Corporation*, it may also operate as a pass-through entity whereby business revenues and losses are reported on the individual income tax returns of shareholders. S-Corps are defined as a small business corporation registered domestically with fewer than 100 shareholders, none of whom may be nonresident aliens, and does not offer more than one class of stock. Further, an S-Corp may not function as certain types of financial institutions, insurance companies, or domestic international sales corporations. *According to the IRS*, this allows S-Corps to “avoid double taxation on the corporate income.” *Alaska corporations that elect to file as S-Corps are not subject to CIT.*

Limited Liability Companies:² In Alaska, an LLC must have at least one member and their liability is generally limited to the extent of their financial contributions to the entity. Depending on the number of its members and its elections, it could be treated as a corporation, a partnership, or as part of the LLC’s owner’s tax return.

- **Single-member LLCs:** An LLC with only one member is generally treated as an entity disregarded as separate from its owner,³ meaning that the owner reports profits and losses on their individual income tax return. *LLCs filing as “disregarded entities” are not subject to CIT.*
- **Two or More Members:** LLC’s with two or more members are treated as a partnership for purposes of federal taxes, which means that income and losses are reported by members and *not subject to CIT.*

However, LLC’s of any size may elect to be treated as a corporation under federal filing rules. Those that make this election would be subject to Alaska’s CIT.

We hope this is helpful. If you have questions or need additional information, please let us know.

² “Limited liability” generally refers to the protection provided to the owners these entities. Laws governing their formation indemnify and otherwise protect owners from liabilities of the entity. Therefore, should business operations result in bankruptcy, litigation, or other legal actions, typically only the assets of the entity are considered. If an entity’s liability is not limited, an owner/shareholder who invests in the enterprise could face liability on all personal assets. Partnerships may also be structured in a way to limit liability.

³ Also referred to as a “disregarded entity.”

General Rules Relating to Taxation of Businesses and Corporate Entities in Alaska

	Sole Proprietorship	Business Corporation	Limited Liability Companies (LLCs)	
Alaska Statute	AS 43.70.020 (Business license)	AS 10.06	AS 10.50	
Description	An unincorporated business owned and operated by one individual with no distinction between owner and the business; a sole proprietorship has no separate legal existence.	A traditional corporation with a legal existence separate from its shareholders; the entity is controlled by a board and its shareholders are generally protected from the corporation's actions, debts, and liabilities.	An entity that enjoys a separate legal existence from its members; must have at least one member. Members' liability is limited to the extent of their financial contributions to the entity.	
Name Requirements	None	Must contain "corporation," "company," "incorporated," "limited," or an abbreviation of those words (AS 10.06.105)	Must contain "limited liability company," or the abbreviation "LLC," "limited" may be abbreviated as "Ltd." and "company" may be abbreviated as "Co." (AS 10.50.020)	
Taxation under Federal Law	Income of the sole proprietorship reported on the owner's individual income tax; liability based on the individual's income bracket.	The corporation is taxed on its income and its shareholders also pay income tax on distributions received from the corporation.	Single Member	Two or More Members
			Treated as a "disregarded entity," meaning that it is taxed on the owner's individual tax return, unless it elects to be treated as a corporation.	Classified as a partnership, each partner reports income on individual tax returns, unless it affirmatively elects to be treated as a corporation.
Subject to Alaska Corporate Income Tax?	No	Generally, yes. However, if the corporation meets the requirements of an S-Corp, it may elect to pass-through its profits and losses to shareholders and, thus, avoid state tax.	Maybe; if the entity elects to be treated as a corporation, then its income may be taxed under the CIT.	Maybe; if the entity elects to be treated as a corporation, then its income may be taxed under the CIT.

General Rules Relating to Taxation of Businesses and Corporate Entities in Alaska			
	General Partnership	Limited Partnership	Limited Liability Partnership
Alaska Statute	AS 32.06	AS 32.11	AS 32.06.911 - .925
Description	Consists of two or more people (can include an entity), who share ownership, but does not have a formal corporate status. Partners are liable together and individually for the partnership's debts and liabilities. May be formed with or without a formal agreement.	A partnership consisting of general and limited partners. General partners control the management and are liable for the debts and liabilities of the partnership. Limited partners are limited to the extent of their investment.	Entity has a separate legal existence; partners liability may be limited to the extent of their financial contribution and all partners may participate in the management of the entity. Partners may include an entity.
Name Requirements	None	Must contain the words "limited partnership" without abbreviation (AS 32.11.810)	Must end with "Registered Limited Liability Partnership," "Limited Liability Partnership," "RLLP," or "LLP" (AS 32.06.912)
Taxation under Federal Law	Generally, a partnership does not pay tax on its income; instead, profits and losses pass through to its partners. Income of the partnership is reported on the partners' individual income tax returns.		
Subject to Alaska Corporate Income Tax?	No	No	No