

# ALASKA OIL AND GAS CORPORATION NET INCOME TAX RETURN INSTRUCTIONS

## TABLE OF CONTENTS

If You Need Help ..... 1

### GENERAL INSTRUCTIONS

#### **Basic Filing Procedures**

Who Must File ..... 1  
 Which Form to Use ..... 2  
 Small Business Corporation  
     (S Corporation) ..... 2  
 Partnership ..... 2  
 Limited Liability Company (LLC) ..... 2  
 Inactive Corporation ..... 2  
 Filing a Consolidated Return ..... 2  
 Attachment of Federal Return ..... 2  
 Electronic Filing of Federal  
     Return Information ..... 2

#### **Combined Reports**

Combined Report ..... 3  
 Unitary Group or Unitary Business ..... 3  
 Allocation and Apportionment of Income ..... 3  
 Preparing a Consolidated Return ..... 3  
 Combined Affiliates Having Different  
     Accounting Period ..... 3

#### **Other General Instructions**

Return Due Date ..... 4  
 Extension of Time to File ..... 4  
 Payment Due Date ..... 4  
 Where to Send the Return ..... 4  
 Who Must Sign ..... 4  
 Paid Preparer Authorization ..... 4  
 Estimated Tax Payments ..... 4  
 Payment of Tax ..... 4  
 Electronic Funds Transfer ..... 4  
 Wire Transfer ..... 4  
 Payment by Check ..... 4  
 Alaska Interest Rates on Tax Due ..... 5  
 Amended Returns ..... 5  
 Adjustments to Federal Income  
     Tax Liability ..... 5  
 Late Filing of Return ..... 5  
 Late Payment of Tax ..... 5  
 Disclaimers ..... 5

### SPECIFIC INSTRUCTIONS Form 0405-650

Taxpayer Identification ..... 5  
 Contact Person ..... 5  
 Return Data ..... 5

#### **Schedule A - Net Income Tax Summary**

Alaska Net Operating Loss Deduction ..... 5  
 Incentive Credits ..... 5

#### **Schedule B - Taxpayer Information**

Affiliated Taxpayer Information ..... 6

#### **Schedule C - Tax Payment Record**

..... 6

#### **Schedule D - Alaska Tax Computations**

..... 6

**Schedule E - Other Taxes** ..... 6

**Schedule F - Credits** ..... 6

**Schedule G - Alaska Education Credit** ..... 6

**Schedule H - Computation of Alaska Income** ..... 6

**Schedules I - 1, I-2 & I-3 Apportionment Factor** ..... 6

**Schedule J - Alaska Capital /Section 1231  
Gains & Losses** ..... 7

**Schedule K - Alaska Charitable Contribution  
Deduction** ..... 7

**Schedule L - Alaska Dividends-Received Deduction  
(DRD)** ..... 7

Unitary Business Not Predominantly A  
Petroleum Business ..... 7

**Schedule N - Gas Exploration and Development Credit** ..... 8

### IF YOU NEED HELP

If you have questions, need additional information or require other assistance, call:

**Juneau: 907-465-2320  
Anchorage: 907-269-6620**

Mail your return and attachments to:

**ALASKA DEPARTMENT OF REVENUE  
TAX DIVISION  
PO BOX 110420  
JUNEAU ALASKA 99811-0420**

## GENERAL INSTRUCTIONS

### **BASIC FILING PROCEDURES**

#### **WHO MUST FILE**

Every corporation engaged in either oil and gas production or transportation of oil or gas via regulated pipeline and having taxable nexus with the state of Alaska must file an Alaska Oil and Gas Corporation Net Income Tax Return. Taxable nexus, sometimes referred to as “doing business” within the state, is the act of conducting business activity within the state that is not protected under Public Law 86-272. Taxable nexus may exist as a result of a corporation’s direct activity, the activity of its employees or agents, or through its interest in a partnership or limited liability company. Taxable nexus may include, but is not limited to:

1. owning or using property in the state, including leased or mobile property;
2. presence of employees in the state for business purposes;
3. making sales into the state; or
4. the generation of income from sources within the state without regard to whether there is a physical presence in the state.

In addition, Alaska requires that a corporation registered to do business in the state must file a report even if it did not have taxable nexus with Alaska during the tax year (see instructions on page 2 for "Inactive Corporation").

#### WHICH FORM TO USE

Form 0405-650 is the income tax return form for use only by those corporations that produce oil or gas in Alaska and/or transport oil or gas by regulated pipeline in Alaska. Under AS 43.20.072, these corporations must apportion their worldwide income using modified apportionment. All other corporations are subject to water's edge apportionment under AS 43.20.73 and must use Form 0405-611.

#### SMALL BUSINESS CORPORATION (S CORPORATION)

An S Corporation doing business in Alaska is required to file an Alaska return. Generally, an S Corporation subject to AS 43.20.072 will satisfy its filing requirement by filing Form 0405-650 with the S Corporation box on page one checked. Alaska does not impose a tax on pass-through items of income or loss of an S Corporation. Schedule A lines 1-20 need not be completed unless a corporate level tax is applicable. Attach a copy of pages 1 through 4 of the federal Form 1120S and Form 7004 if applicable.

Alaska imposes both the federal excess net passive income tax and the corporate level tax on built-in gains. These taxes are calculated at the highest Alaska marginal tax rate of 9.4%. However, if the corporate level tax is based on income that includes net capital gain, then the Alaska capital gain rate of 4.5% may apply. The portion of excess net passive income subject to the 4.5% rate on net capital gain may not exceed the proportionate share of net capital gain included in taxable excess passive income calculated by multiplying excess passive income by the ratio of passive net capital gain over total passive income. If corporate level taxes are imposed, attach copies of the schedules and forms calculating the federal tax and the Alaska tax calculation. Enter the corporate level taxes on Schedule E, line 7.

#### PARTNERSHIP

A partnership doing business in the state with one or more corporate partners must file an information return. To file, submit the following portions of the partnership's federal return, Form 1065:

1. A copy of the signed Form 1065, pages 1 through 4, with "Alaska" marked at the top of page one.
2. A copy of Schedule K-1 for each corporate partner.

Note: All corporate partners of partnerships engaged in oil or gas production or transportation of oil or gas via regulated pipeline in Alaska must file an Alaska Oil and Gas Corporation Net Income Tax Return.

#### LIMITED LIABILITY COMPANY (LLC)

An LLC doing business in the state must file an Alaska return consistent with its federal tax status. If the LLC is characterized as a corporation for federal income tax purposes, the LLC must file a return in accordance with the instructions applicable to corporations. An LLC with corporate member(s) that is characterized as a partnership for federal income tax purposes must follow the instructions applicable to partnerships with corporate partners. An LLC taxable as a partnership, but which has no corporate members, is not required to file a return or report.

#### FILING A CONSOLIDATED RETURN

Two or more Alaska taxpayers included in the same federal consolidated return, who are engaged in a common unitary business, must file a consolidated Alaska return. Additionally, any two or more taxpayers, engaged in a common unitary business may elect to file a consolidated return if they qualify to join in a consolidated federal return. Foreign corporations are treated as domestic corporations for purposes of determining eligibility to file a consolidated Alaska return.

If any two taxpayers engaged in a common unitary business join in filing a consolidated Alaska return, all eligible taxpayers of the common unitary business must be included in the consolidated return.

#### ATTACHMENT OF FEDERAL RETURN

A corporation must provide a complete copy of the signed federal income tax return (Form 1120, 1120S, etc.) which includes the corporation(s) filing the Alaska return. The copy must be of the return actually filed with the Internal Revenue Service for the same taxable year. If the federal return of the taxpayer was part of a consolidated return, submit a copy of the consolidated federal return in which the taxpayer was included. Affiliated taxpayers electing to file an Alaska consolidated return must include a complete copy of each federal income tax return of those corporations filing the Alaska return. **A pro forma return will not fulfill this requirement. Failure to provide the required federal return(s) will result in the Alaska return being deemed incomplete.**

**Note:** If the federal return exceeds 50 pages, a corporation may submit the following portions of the required federal return in lieu of the entire federal return:

1. A copy of pages 1 through 5 of federal Form 1120, or pages 1 through 4 of Form 1120S or Form 1120F, etc. for the tax year as filed with the IRS. Attach copies of schedules and attachments filed in response to questions 3 and 5 of Form 1120, Schedule K. If Form 1120 is electronically filed attach a copy of the signed Form 8453C as filed with the IRS.
2. Schedule D and supporting schedules.
3. Credits: If claimed on the Alaska return, include copies of Form 3800, along with applicable supporting federal forms and schedules for each credit reported on Form 3800.
4. Extension: Form 7004 if applicable.
5. Where a consolidated federal return is filed, attach copies of the schedules prepared for the computation of consolidated taxable income. The schedules must show the separate taxable incomes for each member of the federal consolidated group with the consolidating eliminations and adjustments made to arrive at consolidated taxable income.
6. Form 2220 and supporting schedules.
7. Form 4797 and supporting schedules.
8. If 1120 is electronically filed, attach a copy of the signed 8453C as filed with the IRS.

#### ELECTRONIC FILING OF FEDERAL RETURN INFORMATION

Federal tax return information can be filed in digital file format. Digital documents are accepted in .pdf or .tif format only on the following media: CDs, DVDs, or thumb drives. All media must be physically labeled with Taxpayer Name, EIN and Tax Year. If

multiple discs or thumb drives are used, they must be sequentially numbered. The federal tax return information should start with pages 1-5 of the federal tax return filed with the IRS, we will not accept pro-forma returns.

**We do not accept digital or electronically filed Alaska returns at this time.**

**COMBINED REPORTS**

**COMBINED REPORT**

Whenever two or more corporations are engaged in a unitary business conducted within and outside Alaska, the members of the unitary group that are Alaska taxpayers must apportion the combined income of the group to measure their Alaska taxable income. Taxpayers using the combined method of reporting are urged to obtain a copy of Alaska's Guide to Returns Based on a Combined Report. You can obtain this guide directly from our web site at : [www.alaska.gov](http://www.alaska.gov)

**UNITARY GROUP OR UNITARY BUSINESS**

A business is unitary if the entities involved are under common direction (formal or informal) and activities within and without the state are contributory and complementary in nature, such that profits of the group are inextricably related. Tests of unitary determination include functional integration, centralized management, and economies of scale.

Determination of whether the activities constitute a unitary trade or business depends on the facts of each case. The following factors are considered to be indications of a unitary trade or business, and the presence of any of these factors creates a presumption that the activities constitute a single trade or business.

- 1) **Same type of business.** Corporations are generally engaged in a unitary trade or business when the activities are in the same general line of business. For example, corporations that operate a chain of retail grocery stores are almost always engaged in a unitary business.
- 2) **Steps in a vertical process.** Corporations are engaged in a unitary trade or business when engaged in different steps in a vertically structured enterprise. For example, corporations that explore for and mine copper ores, concentrate, smelt and refine the copper ores, and fabricate the refined copper into consumer products are engaged in a unitary trade or business regardless of the fact that the various steps in the process are operated substantially independently of each other and with only general supervision from the executive offices.
- 3) **Strong centralized management.** Corporations that might otherwise be considered as engaged in more than one trade or business are engaged in one unitary trade or business when there is strong centralized management. Some indications of strong centralized management are:

- (a) the existence of centralized departments that perform the normal functions that a truly independent business would perform for itself, such as accounting, personnel, insurance, legal, purchasing, advertising or financing; or
- (b) centralized executive officers who are involved in planning, operations or coordination.

**ALLOCATION AND APPORTIONMENT OF INCOME**

A taxpayer with business income attributable to sources within and outside Alaska must apportion such income. To calculate the apportionment factor, use the appropriate Schedule I - Apportionment Factor.

**Apportionment** refers to the division of business income among states by the use of an apportionment formula.

**Allocation** refers to the assignment of non-business income to a particular state.

Alaska applies both the transactional and functional tests of **business income**. Income resulting from transactions or activities that are within the regular course of the taxpayer's trade or business are business income. Income from tangible or intangible property is business income, if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business. Income meeting either the functional or the transactional test is business income. Income from transactions or activity that is unusual or infrequent is not non-business income solely because of the unusual or infrequent nature of the income, activity, or transaction.

**Non-business income** is all income other than business income.

**PREPARING A CONSOLIDATED RETURN**

Two or more Alaska taxpayers in the same affiliated group may elect to, or be required to, file a consolidated Alaska return (see "FILING A CONSOLIDATED RETURN" on page 2). The Alaska Department of Revenue offers Alaska's Guide to Returns Based on a Combined Report. The guide includes examples of filing a consolidated Alaska return for taxpayers using the combined method of reporting.

Alaska consolidated returns resemble, but do not mirror, the federal consolidated return. In an Alaska consolidated return the federal consolidation rules are applied very narrowly to construct the Alaska consolidated items; namely capital gain net income, charitable contributions, the dividends received deduction, income tax, credits, and other taxes. The federal consolidated return rules do not govern the building of combined income. Each taxpayer is required to determine its taxable income using the worldwide combined method of reporting. The taxable incomes of each taxpayer are then consolidated to comprise the consolidated Alaska return.

The worldwide combines group for each taxpayer within the consolidated group is determined by reference to the individual taxpayer. Taxpayers joining in a consolidate return usually have a common worldwide combined group. However, consolidated taxpayers may have distinct combined groups. Separate combined reports are required for each unique combined group represented in the consolidated return. Unique worldwide combined groups will exist for each distinct unitary business represented in the consolidated return.

**COMBINED AFFILIATES HAVING DIFFERENT ACCOUNTING PERIODS**

The income of all affiliates included in a combined report must be determined on the basis of the same accounting period. Generally, the accounting period used in the return should be that of the common parent. Where no common parent exists, the income of the combined affiliates should be determined on the basis of the taxpayer's annual accounting period.

Generally, when it is necessary to convert an affiliate to the annual accounting period of the taxpayer, an interim closing of the books should be made for the members whose accounting period differs from the common parent and/or taxpayer. If no substantial misstatement of income results, a pro-rata conversion may be used.

## OTHER GENERAL INSTRUCTIONS

### RETURN DUE DATE

The Alaska return must be filed within thirty (30) days of the date on which the corporation's federal income tax return is required to be filed. Thus, the due date is not necessarily the 15th day of the month following the federal due date.

### EXTENSION OF TIME TO FILE

A federal extension automatically extends the Alaska filing due date to thirty (30) days after the federal extended due date. AS 43.20.030(a). Be sure to attach a copy of your federal extension to your Alaska return. An extension of time to file is not an extension of time to pay.

### PAYMENT DUE DATE

Full payment of the Alaska tax must be made on or before the 15th day of the third month after the close of the tax year. See instructions for payment of tax below.

### WHERE TO SEND RETURN

Mail the return with attachments to:

ALASKA DEPARTMENT OF REVENUE  
TAX DIVISION  
PO BOX 110420  
JUNEAU AK 99811-0420

### WHO MUST SIGN

The return must be signed by an authorized officer of the corporation.

### PAID PREPARER AUTHORIZATION

If the corporation wants to allow the Department of Revenue (DOR) to discuss its tax return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the preparer whose signature appears at the bottom of the return. It does not apply to the firm.

If the "Yes" box is checked the corporation is authorizing the DOR to call the paid preparer to answer any questions that arise during the processing of the return. The corporation is also authorizing the paid preparer to:

1. Call the DOR for information about the processing of the return or the status of any related refund or payment(s), and
2. Respond to certain DOR notices about math errors, offsets, and return preparation.

The corporation is not authorizing the paid preparer to receive any refund check, bind the corporation to anything (including any additional tax liability), or otherwise represent the corporation before DOR.

If the corporation wants to revoke the authorization, it must file a Form 0405-775 Power of Attorney.

### ESTIMATED TAX PAYMENTS

Payment of estimated tax is required as provided under Internal Revenue Code Section 6655. A corporation failing to pay the proper estimated tax when due will be subject to an underpayment penalty for the period of underpayment. If estimated tax was underpaid, complete and attach Form 0405-708 Underpayment of Estimated Tax by Corporations.

### PAYMENT OF TAX

Tax payments can be made by Electronic Funds Transfer (EFT), wire transfer or check.

When an estimated tax payment is \$100,000 or greater, or a payment with a return is \$150,000 or greater, payment must be made by EFT or wire transfer, see 15 AAC 05.310.

### ELECTRONIC FUNDS TRANSFER

Pay your taxes online electronically by using the Online Tax Information System (OTIS) Payment Center at [www.tax.alaska.gov](http://www.tax.alaska.gov). OTIS accommodates Automated Clearing House (ACH) debit payments. OTIS does not accept ACH credit or credit card transactions. You must be registered in My Alaska to make your payment using OTIS.

You must be an existing taxpayer with the Tax Division to pay electronically using OTIS. If you are a first-time taxpayer, contact the Tax Division at 907-465-2320 or visit [www.tax.alaska.gov](http://www.tax.alaska.gov) for information.

**If your bank account has a debit block, your online payment request will be rejected by your bank. Rejected payments may result in late payment penalties and/or interest.** If you think your bank account has a debit block, contact your bank before making an online payment to register the State of Alaska as an authorized ACH debit originator. The company ID for the Alaska Department of Revenue is 0000902050.

### WIRE TRANSFER

If you are paying by wire transfer, you are required to notify the State of Alaska, Treasury Division by 2:00 p.m. the business day prior to the wire transfer settlement date. Use fax number 907-465-4019 or email to [cashmgmt@alaska.gov](mailto:cashmgmt@alaska.gov). The notice must include the taxpayer name, Employer Identification Number (EIN), tax type, tax year, total payment amount, settlement date and the state agency the funds are for. If the payment covers multiple tax types or tax years, specify the amount applicable to each.

### PAYMENT BY CHECK

Make checks payable to the **State of Alaska**. Note that if your total payment exceeds \$100,000, you are required to pay by EFT or wire transfer.

**Checks must be submitted with the appropriate return or payment voucher. Payment vouchers can be found on the OTIS Payment Center or use Form 0405-711 which must show name, address, tax year and EIN.**

Mail check with return or payment voucher to:

ALASKA DEPARTMENT OF REVENUE  
TAX DIVISION  
PO BOX 110420  
JUNEAU AK 99811-0420



## ALASKA INTEREST RATES ON TAX DUE

Refer to interest rates posted at [www.tax.alaska.gov](http://www.tax.alaska.gov)

## AMENDED RETURNS

A corporation may amend a prior year return by using Form 0405-611X. If the federal return was also amended, a complete copy must be attached. An amended Alaska return is required if the federal return is amended, or is adjusted by the IRS.

## ADJUSTMENTS TO FEDERAL INCOME TAX LIABILITY

A corporation is required to report any alteration in, or modification of, the taxpayer's federal income tax return and of a re-computation of tax or determination of deficiency, whether with or without assessment. The amended return must be filed with full payment of any additional Alaska tax within 60 days after the final determination of the federal adjustment to avoid assessment of penalty for failure to file or pay. If the date that the adjustment is finalized is later than the date on federal Form 4549 or 4549A, the reason must be satisfactorily explained in order to avoid assessment of the penalty for failure to file or pay. An alteration to the taxpayer's federal income tax return includes any alteration to the return of any member of the combined group of the taxpayer.

**Note:** The taxpayer's obligation to report and pay additional tax resulting from adjustments to federal income tax liability is not affected by the expiration of the statute of limitations period for the taxpayer's original Alaska Oil and Gas Corporation Net Income Tax Return.

## LATE FILING OF RETURN

A corporation that does not file its return by the due date, including extension, is subject to a failure to file penalty of 5% of the unpaid tax for each 30 day period or portion of a period the return is late, up to a maximum of 25%.

## LATE PAYMENT OF TAX

A corporation that does not pay the full amount of tax due within 2-1/2 months after the close of the tax year is subject to a failure to pay penalty of 5% of the unpaid tax for each 30 day period or portion of a period the payment is late, up to a maximum of 25%. If during any period or portion of a period, both the failure to file and failure to pay penalties are applicable, only the failure to file penalty is imposed.

## DISCLAIMERS

When this form was drafted, the current year federal tax forms were not finalized. Therefore, references to lines and schedules on federal forms may not be accurate. Nothing in these instructions or associated forms should be read to conflict with Alaska statutes or regulations.

## SPECIFIC INSTRUCTIONS

### STANDARD FORM 0405-650 TAXPAYER IDENTIFICATION

Enter the name and federal EIN of the taxpayer. If this is a consolidated Alaska return, enter the name and federal EIN of one taxpayer included in the consolidated filing. If the common parent of the federal consolidated group is an Alaska taxpayer included in this return, use its name and EIN. Otherwise select the taxpayer corporation with the largest Alaska presence. Continue to use that name and EIN for subsequent tax periods until the taxpayer leaves the Alaska consolidated group or the common parent becomes an Alaska taxpayer. If this taxpayer or consolidated group has previously filed under the name and EIN of a non-nexus common parent, change the designated taxpayer according to these instructions and complete Schedule B, question 4.

## CONTACT PERSON

Provide the name and telephone number of an individual to whom correspondence regarding this return should be directed. This must be an officer or employee authorized to receive confidential tax information. Generally, we cannot discuss tax matters with an outside party unless we have a Power of Attorney (see Paid Preparer Authorization on page 4).

## RETURN DATA

Complete each question in the boxes as follows:

**Question #1:** A federal extension automatically extends the Alaska filing due date. If a federal extension is in effect for the taxpayer(s), check "yes" here and attach a copy of Form 7004 to the return.

**Question #2:** Check "yes" if this is a consolidated return, and complete Schedule B, question #1. Do not check "yes" if this is a return of a single Alaska taxpayer that is included in a consolidated federal return.

## SCHEDULE A - NET INCOME TAX SUMMARY

**Line 2, Alaska Net Operating Loss Deduction:** Enter the taxpayer's Alaska net operating loss carry-forward. Do not enter the federal net operating loss deduction. The Alaska net operating loss deduction may differ from the federal net operating loss as a result of state adjustments to federal taxable income, differences between the federal consolidated group and the worldwide combined group, and the amount of income or loss apportioned to other states. Attach a schedule showing, by year, when the net operating loss was generated and applied.

In general, the application of an Alaska net operating loss is governed by applicable Internal Revenue Code provisions.

**Line 8, Incentive Credits:** Include on line 8 the following Alaska specific incentive credits if applicable:

**Exploration Incentive Credit (Minerals):** Enter the credit allowable under AS 27.30 against your corporate net income tax from Form 0405-665. The credit may not exceed the lesser of 50% of the following:

- corporation tax liability
- total mining license tax liability
- mining license tax liability related to production from the mining operation at which the mining exploration activity occurred.

**Oil and Gas Exploration Incentive Credit:** Enter the amount of credit extended under AS 41.09.010(a) to be applied against your corporate income tax, limited to your Total Tax from line 7 less any Exploration Incentive Credit (Minerals). Attach a copy of your credit extension(s) from the Commissioner of Natural Resources and specify the application of credit(s) to any other approved applications under AS 41.09.010(b).

**Gas Exploration and Development Credit:** Enter the amount of credit claimed under AS 43.20.043 from Schedule N. See 15 AAC 20.530 for rules concerning qualifying property, timely election and limitations.

**Film Production Tax Credit:** Enter the amount of credit allowable based on credit certificate issued to the taxpayer by the Department of Revenue. A copy of the certificate must be attached to the Alaska tax return.

**Lines 14 - 17, Penalties and Interest:** Refer to the Other General Instructions on page 4.

**Line 19. Overpayment credited to estimated tax.** This is a binding election and the overpayment cannot be re-applied at a later date. See federal Treas. Reg. 301.6402 - 3(a) & (d), and Rev. Rul. 99-40.

#### **SCHEDULE B - TAXPAYER INFORMATION**

**Question #1, Alaska Taxpayer Information:** This schedule must be completed if the taxpayer is a member of an affiliated group. List each member of the affiliated group that had taxable nexus with Alaska during the year.

**Do not list affiliated corporations that are not Alaska taxpayers.** Only corporations represented in the apportionment factor numerator should be identified as included in the return. Report all affiliates having nexus with Alaska whether or not the affiliate is included in this return or is a member of the same unitary group as the taxpayer. List the taxpayer shown on page one as taxpayer number 1. Sequentially number each listed taxpayer corporation.

#### **SCHEDULE C - TAX PAYMENT RECORD**

Enter the dates and amounts of estimated tax payments made for the tax year. If a payment was made under a name and EIN different from the taxpayer shown on page one, identify the payer by entering in the margin to the right of the payment amount the taxpayer number corresponding to the payer from Schedule B, question #1. Total payments must equal Schedule A, line 11.

#### **SCHEDULE D - ALASKA TAX COMPUTATION**

Enter any net capital gain from Schedule J, line 18 on Schedule D line 2.

**S Corporations:** Do not report built-in gains or excess net passive income taxes on Schedule D. Corporate-level taxes of S Corporations are now reported on Schedule E.

#### **SCHEDULE E - OTHER TAXES**

**Lines 1 and 2, Alternative Minimum Tax (AMT), and Credit for prior year minimum tax:** Include on lines 1 and 2 the amount of the federal tax or credit that is applicable to Alaska. If the taxpayer does not file a federal consolidated return, or if the federal consolidated return group is wholly included in the combined group, enter in column A the federal tax from Form 4626 and/or credit from federal Schedule J.

If the federal consolidated return includes companies not included in the combined group, then the federal AMT and credit for prior year minimum tax must be attributed based only upon those companies included in the combined group. Refer to Alaska regulation 15 AAC 20.135. Attach schedule(s) showing the computation.

**Line 2:** The credit for prior year minimum tax paid may not exceed the cumulative Alaska alternative minimum tax previously paid to Alaska since the 1987 tax year, net of prior years' alternative minimum tax credit. Attach a schedule showing prior years AMT paid and credits applied since 1987.

#### **SCHEDULE F – CREDITS**

**Lines 1(c) and 5:** Alaska allows the federal investment credit only to the extent attributable to Alaska property. See AS 43.20.036(b). Subtract the total federal investment credit on line 1(b) and enter the portion of the federal investment credit attributable to Alaska property, multiplied by 18%, on line 5.

**Lines 1(d), 1(e) and 1(f):** Alaska does not allow credits for backup withholding, credit for employer social security and medicare taxes paid on certain employee tips, the trans-Alaska pipeline liability fund credit, and credits from an electing large partnership (Part 1 of Federal Form 3800).

#### **SCHEDULE G – ALASKA EDUCATION CREDIT**

Subject to the limitations below, a taxpayer is allowed a credit for cash contributions accepted for direct instruction, research, and educational support purposes including library and museum acquisitions. Contributions accepted for endowment purposes are also eligible for the credit. The contribution must be given to a regionally accredited, non-profit, two or four-year Alaska college or university, or to a vocational education program or training school.

The Education Credit is limited to 50% of the first \$100,000 of contributions and 100% of the next \$100,000 of contributions.

The total contributions qualifying for the credit (line 1 of Schedule G) cannot be claimed as a charitable contribution deduction. Contributions claimed as a credit on this return cannot be claimed as a credit for other Alaska taxes.

#### **SCHEDULE H - COMPUTATION OF ALASKA INCOME**

**Line 1:** Taxpayers should refer to 15 AAC 20.300. Typically this line should include federal taxable income line 28 for all domestic corporations included in the combined group and the federal taxable income of foreign corporations as defined in 15 AAC 20.300(e), subject to the election at 15 AAC 20.300(f). Attach a schedule by company that details the amount entered on Line 1.

**Line 2g:** Include the federal extraterritorial income exclusion from federal Form 8873. Enter the foreign sales corporation's profit including federally exempt foreign trade income and allowing for deductions attributable to exempt foreign trade income. Also report DISC and foreign tax haven corporation net income here.

#### **SCHEDULES I-1, I-2 and I-3 APPORTIONMENT FACTOR**

Taxpayers should consult the regulations at 15 AAC 20.490 and 15 AAC 20.500 for rules concerning the modified apportionment formulas under AS 43.20.072. The appropriate formula is determined based upon the activities of the taxpayer's unitary business.

In accordance with an Attorney General's Opinion of October 20, 1999, the Department will allow taxpayers to determine the appropriate apportionment formula under AS 43.20.072 based upon the activities of the taxpayer's worldwide unitary business. For more information on this issue, consult the notice issued November 19, 1999, "Notice of Application of AS 43.19.010 Art. 4, Sec. 18(c) To Allow Factor Relief For Certain AS 43.20.072 Taxpayers". The full text of this notice can be found under "programs", "corporate income tax", "tax notices" on our web site at: [www.tax.alaska.gov](http://www.tax.alaska.gov)

Schedule I-1 must be completed if the unitary business produces oil and/or gas and also transports oil or gas by regulated pipeline(s). See 15 AAC 20.490(3).

Schedule I-2 must be completed if the unitary business is engaged only in regulated pipeline activity. See 15 AAC 20.490(1).

Schedule I-3 must be completed if the unitary business is engaged only in oil and/or gas production. See 15 AAC 20.490(2).

## **SCHEDULE J – ALASKA CAPITAL AND SECTION 1231 GAINS AND LOSSES**

Schedule J is used to calculate the taxpayer's Alaska net capital gain, capital gain net income, and ordinary net Section 1231 gain or loss. These gains and losses are measured after allocation and apportionment. Enter the taxpayer's current gains and losses, before any federal limitations, according to their character. Corporations that conduct business both within and without Alaska enter apportionable gains and losses on lines 1, 5, and 11 and enter non-business capital gain or loss on lines 6 and 12 as appropriate. Enter the portion of non-business gain or loss that is allocable to Alaska on lines 8 and 14 as appropriate. Taxpayers using the combined method of reporting should report the gains and losses of the entire combined group.

**Line 2.** The taxpayer's non-recaptured net Section 1231 losses are based upon the apportioned Section 1231 gains and losses in prior years and may not correspond to the taxpayer's federal non-recaptured net Section 1231 losses.

**Line 9.** The Alaska capital loss carryover is the taxpayer's allocated and apportioned net capital losses from prior years. Do not enter the taxpayer's federal capital loss carryover from federal Schedule D.

**Line 17.** If line 10 is a gain and line 16 is a loss, offset the loss from line 16 against the gain from line 10 and enter the result, but not less than zero.

**Line 18.** If line 16 is a gain and line 10 is a loss, offset the loss from line 10 against the gain from line 16 and enter the result, but not less than zero. This is the taxpayer's net capital gain. Enter the taxpayer's net capital gain on line 2A of Schedule D.

**Line 20.** Add lines 17, 18, and 19 and enter the result on Schedule H, line 9(a).

## **SCHEDULE K – ALASKA CHARITABLE CONTRIBUTION DEDUCTION**

The taxpayer's Alaska charitable contribution deduction may differ from its federal charitable contribution deduction as a result of allocation and apportionment, the 10% taxable income limitation, Alaska Education Credit and differences in carryover values. Schedule K is used to measure the taxpayer's Alaska charitable contribution deduction limited by its Alaska taxable income. Enter on line 1 the taxpayer's current charitable contributions before any federal deduction limitations and exclusive of any federal excess contribution carryover. Enter the taxpayer's Alaska excess contribution carryover from prior years on line 6. In line 8, include amount of Alaska net operating loss carry back utilized this year and any federal deduction under IRC Section 199 apportioned to Alaska. Take the allowable charitable contribution deduction from line 10 to Schedule H, line 9(b).

## **SCHEDULE L – ALASKA DIVIDENDS-RECEIVED DEDUCTION**

The Alaska dividends-received deduction is based upon the allocated and apportioned dividends included in Alaska taxable income and may be limited to Alaska taxable income. Taxpayers with non-business dividend income or who use the combined method of reporting must take extra care in determining their dividends-received deduction.

**Lines 8 and 9.** Enter the allocated and apportioned dividends from line 7, according to the appropriate deduction percentage in accordance with Internal Revenue Code Sections 243 – 247, in column A of line 8 and multiply across. Enter the sum of line 8(a)-(d) column C in line 9 and carry the deduction, subject to

limitation based upon Alaska taxable income (Internal Revenue Code Section 246), to Schedule H line 9(c).

## **UNITARY BUSINESS NOT PREDOMINANTLY A PETROLEUM BUSINESS**

Certain Alaska taxpayers may be subject to AS 43.20.072 by virtue of oil or gas production or pipeline activity, but also conduct a unitary business that is not predominantly a petroleum business. The rules for determination of the predominant business activity are contained at 15 AAC 20.421(c). Taxpayers whose factors related to the petroleum business are less than 50% of total factors, are required to separately report petroleum business income and other business income.

Alaska regulation 15 AAC 20.421 provides that unitary business income is calculated under AS 43.20.072 and then segregated between petroleum and other business income. Petroleum business income is apportioned using modified factors and other business income is apportioned using standard factors.

The basic reporting approach under 15 AAC.20.421 is to "consolidate" after apportionment. This approach is consistent with the rules for all other corporations as set out in Alaska's Guide to Returns Based on a Combined Report. Taxpayers required to report petroleum and other business income must separately calculate Alaska taxable income, credits and other taxes for each business segment. Only after each segment's apportioned income, credits, and other taxes have been calculated are they consolidated.

This booklet contains special schedules to facilitate the process of calculating Alaska tax when parts of the unitary business are apportioned separately. The calculations required and forms to be used are outlined below.

### **Apportionment Factor - Schedules I - 1, I-2, I-3 and I-4**

Both the modified apportionment factors under AS 43.20.072, and the standard apportionment factors under AS 43.19, must be computed using denominator values for the entire unitary group. See 15 AAC 20.421(b)(1). Taxpayers should complete the appropriate Schedule I-1, I-2, or I-3 for the petroleum business and Schedule I-4 for the other business.

### **Petroleum and Other Business Income - Schedules H**

The modified and standard apportionment factors are applied to petroleum business income and other business income respectively, to arrive at income apportioned to Alaska. Apportionable business income before Alaska items must first be calculated under AS 43.20.072 for the entire unitary group, including both the petroleum and other business segments, and adjusting for all intercompany transactions. Apportionable business income before Alaska items must then be segregated between petroleum and other business. It is expected that this division will be made on a corporate entity basis. Note: 15 AAC 20.421(b)(2), requires that general overhead and administrative expenses be apportioned as part of the other business segment. Separate Schedules H should be prepared for each business segment, through line 7. Each schedule H should be labeled "petroleum business" or "other business" as appropriate.

### **Alaska items**

Capital Gains, Charitable Contributions and Dividends-Received Deduction require special treatment. They must be calculated and apportioned separately for the petroleum business and other business.

**Schedule J - 1** is used to calculate separately apportioned capital and 1231 gains and losses.

**Schedule K - 1** is used to calculate separately apportioned charitable contribution amounts limited by the unitary group income. Line 10 of this schedule should be carried forward to Schedule M-1.

**Schedule L - 1** calculates the Alaska Dividends-Received Deduction. The total deduction is entered on Schedule M-1.

**Schedule M - 1** consolidates apportioned income and Alaska items for the petroleum and other businesses. Totals are carried forward to Schedule A for calculation of tax on a consolidated basis.

**Schedules M - 2 and M - 3** calculates credits and other taxes that must be apportioned separately by the petroleum and other business groups. Totals are carried forward to Schedule A lines 5 and 6.

**SCHEDULE N - GAS EXPLORATION AND DEVELOPMENT CREDIT**

Use Schedule N to claim the credit provided by AS 43.20.043. Complete a separate Schedule N for each qualifying gas reservoir.