

## Sponsor Statement for SB 389

**“An Act relating to the conversion of certain corporations to limited liability companies; and providing for an effective date.”**

Many states allow a corporation to be converted to a limited liability company (LLC). Alaska allows every kind of business except a corporation to be converted into a LLC. [SB 389](#) amends existing law to allow subsidiary corporations owned directly or indirectly by one or more parent corporations to convert to limited liability companies (LLCs). Restricting this authority to subsidiaries ensures there is not a negative tax consequence.

Many Alaska Native Corporations (ANCs) have subsidiary companies that are active in the field of government contracting. For example, the ANCs and their subsidiaries are eligible to participate in the federal 8(a) contracting program. However, in order to participate in these programs, the ANCs have had to comply with the regulations promulgated by the Small Business Administration (SBA). Formerly, these regulations required that the ANCs establish subsidiary corporations with a great deal of separation in management from the parent.

LLCs are now much more widely accepted as a form of doing business. As a result, the SBA regulations have changed. The most efficient way for an ANC to participate in minority contracting is to use a LLC. Almost all of the subsidiaries that have been formed for minority contracting in recent years have been LLCs. However, there are still some subsidiary corporations left from the old days. These corporations could be changed into LLCs under current law by a roundabout process of liquidating the corporation and transferring its assets to a new LLC. This procedure is fraught with problems for the minority contracting subsidiaries. It means that the subsidiary must get the government agency for each of its contracts to agree to the transfer. The SBA must also approve each transfer of a government contract. This can probably be accomplished, but it is time consuming and inefficient.

The efficient way to turn these subsidiaries into LLCs is to convert them. If Alaska elects to not change its law to be comparable to that in other states, businesses will be encouraged to form new entities elsewhere. For example, the law of Colorado and of Delaware is more favorable than Alaska’s because it is possible to convert a corporation to an LLC. **Changing the law will not allow an action that cannot already be done; it will just make the procedure quicker and more efficient.**

It is our understanding that the Department of Revenue does not object to the change, so long as it does not present an adverse tax impact. Since the subsidiary corporations are consolidated with the parent for tax purposes, they do not pay a separate corporate income tax. For that reason, the wording of the amendment is designed to allow conversion only by subsidiary corporations. This means that there should be no tax impact resulting from the change.