



This Week in State Tax (TWIST)

October 6, 2025



Alaska: Governor vetoes market-based sourcing and “highly digitized business” apportionment legislation

Governor Dunleavy has vetoed S.B. 113, state legislation that would have shifted the state to a market-based sourcing regime, standardized statutory language related to apportioning income, and created a new carve out requiring certain “highly digitized businesses” to apportion income to the state using a single sales factor sourcing method. Due to the veto, Alaska will continue to determine its share of a taxpayer’s business income for corporation income tax purposes under an equally-weighted three-factor apportionment fraction, with the sales factor using a greater costs of performance sourcing method for determining which sales other than tangible personal property (i.e., services) are performed within Alaska. [For details on S.B. 113 as passed by the legislature, see our [TWIST of June 2, 2025](#).]

In striking down the legislation, Governor Dunleavy cited concerns about whether the bill considered a “comprehensive fiscal approach.” The Governor specifically addressed the provision of S.B. 113 creating a single sales-factor sourcing requirement for highly digitized businesses, stating that it would have created a potential constitutional issue in that the provision “singles out” a particular category of taxpayers and subjects them to less favorable tax policies. The Governor also stated that the bill may have violated the federal Internet Tax Freedom Act, which bars states from applying discriminatory taxes on e-commerce. For questions about [S.B. 113](#) or Governor Dunleavy’s [Veto Message](#) please contact [Jonathan Edmonds](#).

Learn about us:



[kpmg.com](https://www.kpmg.com)

The following information is not intended to be “written advice concerning one or more federal tax matters” subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

© 2025 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS011027-1AG