ALASKA STATE LEGISLATURE

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House Bill 37: Sponsor Statement

House Bill 37 resolves Alaska's fiscal challenges and balances the budget. For six years, facing severely declining revenues and massive budget shortfalls, Alaska has managed to delay a permanent fiscal solution through budget cuts and drawing down over $16 billion in savings. Now, these savings are gone and there is limited room for additional cuts without substantially harming core state functions.

Alaska is the only state without a broad-based tax on its residents and Alaskans pay the lowest overall state and local taxes in the U.S. Forty-five states have a state sales tax, and forty-three have some form of an income tax. Since 1980 we have been uniquely fortunate, with ample oil and gas revenues able to fund ongoing government operations, endow various savings funds, and build the Permanent Fund so that it can now play a substantial role in our state's revenue.

Since its recent peak in 2012, oil revenue has been down as much as 90%. Even with major new projects our revenue forecasts still show ongoing deficits. Nobody wants to implement a tax on Alaskans, but we are out of time and out of options.

As we take this step towards new revenue, it is essential to also resolve the issue of the dividend. For the Alaskan people to trust and accept a new tax, we must ensure that any new revenues are used for essential services and are not used to simply transfer these funds to others through increased PFDs. HB37 does both things.

HB37 adds a flat rate 2.5% income tax based on federal Adjusted Gross Income. There is a "standard deduction" of non-taxable income that is tied to the federal tax code, which reduces the burden on the lowest income Alaskans. The tax will raise about $550 million per year, with nonresident workers paying about 10% of the total. The bill also establishes a new formula for the Permanent Fund Dividend, which would be funded by 10% of the annual "Percent of Market Value" draw from the Permanent Fund, plus 30% of the state's oil and gas royalties received in the previous year. This would provide, initially, a dividend of about $1,150 that would steadily grow in years to come. Alaskans, as part of the PFD application process, would be able to assign some or all of their dividend towards the tax.

This would mean, in practice, that most Alaskans would not pay any tax out of pocket. For example, a family of 4 making $100,000/ year would retain about $2,800 in PFDs after paying the tax. If the same family made $200,000 their tax and dividends would roughly balance each other; their tax obligation would be about $300 less than their dividends.

It is time to have an honest conversation about how Alaska will fund its operations into the future. HB37 can be the key component to get us there. Thank you for your consideration.

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