



REPRESENTATIVE ALYSE GALVIN

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and Spenard

Sponsor Statement: House Bill 152

34-LS0674\A

Education Tax

The purpose of this bill is to generate a source of revenue to assist Alaska in meeting the constitutional responsibility to provide a quality education system for all Alaskans.

Alaska has had education taxes in the past. Given our current fiscal predicament, it is time to come up with solutions that can make Alaska strong again by attracting families and keep them here. When it comes to investing in our children, we must quickly plan for a long-term solution before students across the state suffer another year of inadequate education due to insufficient funding.

Since 1980 we have been uniquely fortunate, with ample oil and gas revenues to fund ongoing government operations, build the Permanent Fund and Constitutional Budget Reserve, and endow other various savings accounts. We now have the advantage of the Permanent Fund providing enough earnings to play a substantial role in our state's annual revenue picture. However, the Permanent Fund earnings alone cannot make up for the diminishing annual revenue from oil and gas and we need to look at other measures to fill the gap between what we bring in each year and the education (and other) expenditures we must make to have a functioning economy and society.

HB 152 establishes a \$150 per person head tax for any individual who earns a wage or has self-employed net earnings. This is a tax that applies for everyone and is projected to generate approximately \$40 million to assist with funding education.

HB152 also adds a flat rate 4% income tax on an individual's income that exceeds \$150,000 per year or a couple's income that exceeds \$300,000 per year (if filing taxes jointly). For example, if an individual has \$200,000 of taxable income, they will pay \$2000 in Alaska education income taxes, representing 4% of \$50,000 (the amount over \$150,000), plus the \$150 education head tax, for a total of \$2150 in Alaska education taxes. Once again, individuals who make under \$150,000 (or joint filers who make combined under \$300,000) will only pay the \$150 per person Alaska education head tax.

Through its structure, HB 152 will close the so-called "S-Corp Loophole". By taxing individual income if over \$150,000 per person, the owners of any S-Corporation will pay the Alaska education income tax on their portion of the S-corporation's earnings. Under the current system, S-corporations do not pay Alaska's corporate income tax, and the individual owners avoid paying any state income tax on the S-Corporation's earnings.

HB 152 would treat resident and non-resident Alaska earners alike, with both paying the Alaska education tax on their Alaska earnings. This is also not unfair and would not double tax nonresident workers – if their state of residence taxes their Alaska income, they will be able to deduct the Alaska Education tax. Furthermore, the Alaska education tax of 4%, in most cases, will be lower than the state income tax they would otherwise be paying for that same Alaska income.

Alaskans, as part of the PFD application process, would be able to assign their dividend towards the Alaska education tax (which would be \$150 for most taxpayers). This would mean, in practice, that most Alaskans would not pay any tax out of pocket.

It is time to have an honest conversation about how Alaska will fund education in a fiscally responsible and sustainable manner. HB152 can be the key component to get us there.

Thank you for your consideration. Please join me in supporting House Bill 152 to adequately fund Alaska's education system.