

Fiscal Note

State of Alaska
2025 Legislative Session

Bill Version: HB 152
Fiscal Note Number: _____
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Identifier: HB152-DOR-TAX-4-18-25
Title: EDUCATION TAX
Sponsor: GALVIN
Requester: (H) STA

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below.

(Thousands of Dollars)

	FY2026 Appropriation Requested	Included in Governor's FY2026 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	FY 2026	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Personal Services	3,842.2		7,684.4	7,684.4	7,684.4	7,684.4	7,684.4
Travel	75.0		50.0	20.0	20.0	20.0	20.0
Services	1,881.5		4,131.5	3,380.5	3,440.9	9,503.2	3,567.3
Commodities	2,167.4		27.0	27.0	73.7	73.7	73.7
Capital Outlay	18.0						18.0
Grants & Benefits							
Miscellaneous							
Total Operating	7,984.1	0.0	11,892.9	11,111.9	11,219.0	17,281.3	11,363.4

Fund Source (Operating Only)

1004 Gen Fund (UGF)	7,984.1		11,892.9	11,111.9	11,219.0	17,281.3	11,363.4
Total	7,984.1	0.0	11,892.9	11,111.9	11,219.0	17,281.3	11,363.4

Positions

Full-time	70.0		70.0	70.0	70.0	70.0	70.0
Part-time							
Temporary							

Change in Revenues

None	***		***	***	***	***	***
Total	***	0.0	***	***	***	***	***

Estimated SUPPLEMENTAL (FY2025) cost: 0.0 (separate supplemental appropriation required)

Estimated CAPITAL (FY2026) cost: 9,500.0 (separate capital appropriation required)

Does the bill create or modify a new fund or account? Yes
(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/26

Why this fiscal note differs from previous version/comments:

Not applicable, initial version.

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Agency: Department of Revenue
Phone: (907)269-1033
Date: 04/18/2025
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FISCAL NOTE ANALYSIS

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Analysis

Background – Corporate Income Tax

Alaska first imposed a personal income tax in 1949. At that time, the rate was 10 percent of the taxpayer's federal income tax liability. Both residents and nonresidents were taxed. Between 1949 and 1961, the income tax increased from 10 percent to 16 percent. In 1975, the state switched to a graduated tax rate structure where the income tax rate ranged from three percent to 14.5 percent. In 1980, the personal income tax was repealed after the oil boom. Alaska has not had a personal income tax since.

This bill creates a new income tax that would apply to resident and nonresident individuals, trusts, and estates, including partners or shareholders of partnerships or S Corporations, who derive income from, or where income is connected with, a source in Alaska. The tax rate would be a flat four percent for individual filers on their taxable income over \$150,000. The tax rate would be a flat four percent for joint filers on their taxable income over \$300,000. There would also be an additional tax of \$150 per person for anyone who has wages or self-employment income in the state.

Lastly, the bill would allow for an exception to the requirement that taxpayers file reports and returns electronically, which would cause an additional administrative burden on the Department.

The bill provides authority for the Department of Revenue, Tax Division ("Department") to adopt regulations and establishes an effective date of January 1, 2026.

Revenue Impact

The revenue impact of this legislation is highly uncertain, as the Department does not have detailed financial information for all the residents and non-residents of Alaska that would be impacted. For this reason, the bill has an indeterminate fiscal impact.

However, to provide one possible scenario for potential revenue impacts for this legislation, the Department utilized a personal income tax model using IRS statistics of income data for Alaska and an additional non-resident estimate. The \$150 per person tax is based on an analysis carried out in 2023 in collaboration with the Department of Labor and Workforce Development, and updated with the most recent data available. That analysis combines data from various sources for resident and non-resident non-federal workers, federal non-military workers, and estimated self-employed workers. It is assumed that 75 percent of the annual tax will be collected in January-June and the remaining 25 percent in July-December.

The total estimated revenue impact from this bill is estimated to be between \$300 million and \$350 million per year at full implementation.

Implementation Cost – All Tax Changes

The cost and time required to implement a new broad-based tax is directly related to its complexity. For a more robust tax such as the one envisioned in this bill a 12-month implementation process should be expected. The Department expects to engage FAST Enterprises, the Division's Tax Revenue Management System (TRMS) contractor, to build an income tax module into TRMS. The \$9,500.0 capital project reflects an estimated initial implementation cost for FAST to add the income tax module and a Fast Identity Verification Services (FIVS) module.

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After initial implementation, continued maintenance and support by FAST for the individual income tax module is estimated to be \$2.25 million in FY2027 and \$1.5 million plus three percent inflation in each year (compounded) in FY2028 and beyond. Continued maintenance and support by FAST for the FIVS module is estimated to be \$500,000 plus three percent inflation in each year (compounded) in FY2027 and beyond. The system is expected to be upgraded every four years post implementation.

Adding a fully functional income tax module would be a multi-year process. The initial fast-track need would be to build and implement a tax withholding system, which would need to be in operation by January 1, 2026. The Department would also need to adopt regulations by December 31, 2025. Since the bill allows taxpayers to elect to apply their PFD to their tax liability, the Department would work with FAST to interface the TRMS system with the PFD Division's PFD management system in an effort to automate the PFD offset provisions of this bill. In addition to the software development, this bill would require a rapid and robust outreach to the business community throughout Alaska, and this fiscal note includes funding for travel needs. Additionally, this bill would require integration with national accounting and tax software vendors in order to update programs such as TurboTax and QuickBooks to incorporate the Alaska return.

Once the withholding system and PFD interfaces are in place, FAST and Tax Division staff would begin building the tax return filing and examination modules, with their associated databases, communications, and integration with existing imaging, accounting, and collections systems. The legislation creates an annual tax, meaning that the first tax returns would be filed in January 2027, with a filing due date of April 15, 2027. Taxpayers who request and receive extensions would have filing deadlines in October 2027. The Department estimates that this bill would generate in excess of 413,850 returns. This estimate is based on the number of Alaska resident individual returns and partnership/S-Corporation returns filed in 2019 as publicly reported by the Internal Revenue Service, multiplied by 15 percent to adjust for estimated nonresident returns.

As part of the Department's research into the potential costs to administer this tax, the Department spoke with tax administrators in the states of Montana and Vermont. Each have population sizes close to Alaska's and impose individual income taxes. Montana and Vermont employ approximately 102 and 60 people, respectively, to administer each state's individual income taxes.

Given the complexities that come with administering nonresident and pass-through corporation returns, and the sheer volume of estimated new taxpayers and returns, combined with the fact that staff would have little to no experience in state individual income tax administration to start off with, the Department expects to need 70 new positions to administer an individual income tax in Alaska.

The new staff would be roughly split between the Juneau and Anchorage offices. The Department would continue to look for ways to automate administration of this tax and look for efficiencies.

The Department expects to replicate the online filing percentages of the Permanent Fund Dividend Division, currently at approximately 90 percent. However, the 10 percent of paper filers will require manual handling and data entry for over 41,000 paper returns out of the 413,850 total estimated returns.

Additional travel is largely for public education efforts, as well as the need to train new staff on the tax management system and the new tax. Services costs reflects primarily internal core service rates paid to other state agencies, including additional lease space, due to additional staff within the Tax Division, as well as ongoing maintenance and support costs for FAST. Commodities reflect the initial outfit for new employees for office and computer furnishings.

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An initial analysis of the staff needs within the Tax Division to implement an individual income tax is as follows:

- (1) Deputy Director
- (2) Audit Supervisors
- (2) Income Tax Specialists
- (18) Auditors
- (1) Accountant
- (5) Accounting Technicians
- (3) IT Analysts/Programmers
- (4) Appeals Officers
- (15) Tax Technicians
- (17) Imaging & Office Assistants
- (2) Administrative Assistants
- (70) Total New Employees