

House Bill 152

Education Tax

**Representative Alyse Galvin
House State Affairs Committee
April 24, 2025**

HB 152 Introduction - Agenda

- ▶ **High Level Overview of HB 152 – The Education Tax**
 - ▶ Why an Education Tax bill is Needed
 - ▶ What it Does and What it Doesn't Do
- ▶ **Why a Broad-based Tax Should be Considered**
 - ▶ A Broad-Based Revenue Source Should Be Part of a Sustainable Fiscal Plan
 - ▶ An Income Tax is the best choice for a Broad-Based Revenue Source
- ▶ **Income Tax Structures in General**
 - ▶ What income can be included
 - ▶ What are the options for structuring an income tax
 - ▶ Fiscal Impact of various income tax options
- ▶ **HB 152 – An Education Tax - Details**
 - ▶ Structure and Technical Provisions
 - ▶ Implementation and Costs
 - ▶ Sectional Analysis
- ▶ **Question and Answers**

Why an Education Tax Should Be Considered

- ▶ Alaska's public education funding needs (and our long-term structural budget deficit) should no longer be addressed solely by draws from savings and/or PFD cuts.
- ▶ A broad-based revenue source should be considered as part of a sustainable fiscal plan for education
- ▶ A broad-based revenue source will provide a stabilizing source of revenue, not dependent on volatile oil prices or an annual political fight, and it will grow with our economy.
- ▶ An education income tax has benefits over other broad-based tax options, such as a sales tax.

What the Education Tax Bill Addresses



1 .
**Underpaid teachers,
underfunded
education**



2 .
**Limited funds for
extracurriculars**



3 .
**Lack of funds to
address
deferred maintenance
backlog**

What HB152 – The Education Tax - Does Do

- ▶ Proposed \$150 head tax on all other Alaska wage and income earners
- ▶ Proposes a 4% income tax on high earning Alaskans (only applies to income above \$150,000 per year for single filers; \$300,000 for joint filers)
- ▶ Provides a legislative vehicle to discuss the merits of
 - ▶ A broad-based tax to raise revenue rather than more cuts to the PFD;
 - ▶ An income tax rather than a sales tax;
 - ▶ The options (levers) that can be adjusted with an income tax to best fit the Alaska economy and state revenue needs.
- ▶ Can function as a component of a sustainable fiscal plan for education, as a broad-based stabilizer of our currently unpredictable revenue stream based on oil prices.

What HB152 Does Not Do

- ▶ Raise any revenue for the FY26 Budget year.
- ▶ Solve Alaska's fiscal crisis on its own.
- ▶ Significantly burden Alaska's economy.

Why a Broad-Based Revenue Source

- ▶ Stabilizing our volatile revenue streams
- ▶ Provides Shared Responsibility
 - ▶ Provides Alaskans with a sense of ownership of our government
 - ▶ Shares Burden with Non-Residents who enjoy our services and infrastructure
- ▶ Grows with the Economy
 - ▶ Automatically scales as the economy grows

When Examining the Options There is Agreement that a Broad-Based Revenue Source is Needed

FISCAL POLICY WORKING GROUP FINAL REPORT



32nd ALASKA LEGISLATURE

NEW REVENUES

The FPWG recommends the legislature consider additional annual revenues, working towards revenues on the order of \$500-\$775 million, as a part of a comprehensive solution.

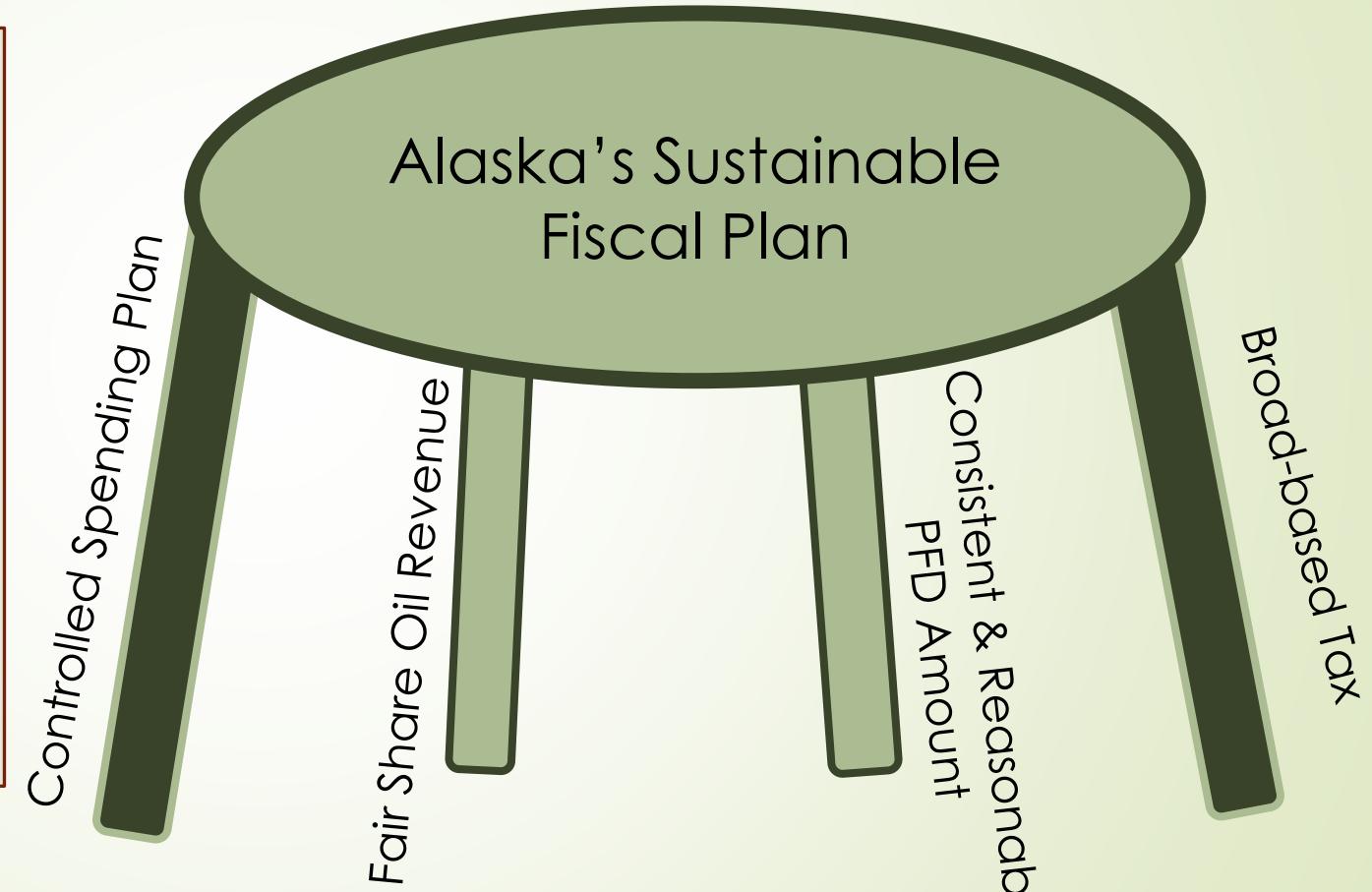
Though the FPWG was not able to make a specific recommendation for type of revenue, the FPWG generally recommends adoption of a broad-based revenue measure, in addition to other revenue measures, as a part of a comprehensive solution.

Sustainable Alaska Fiscal Plan – A Four-Legged Stool

Balancing the Budget

Components of a Sustainable Fiscal Plan:

- Stable Spending
- Fair Oil Share
- Reasonable PFD Amount
- Broad-based Tax



Broad-based Tax Options: Income Tax vs. Sales Tax

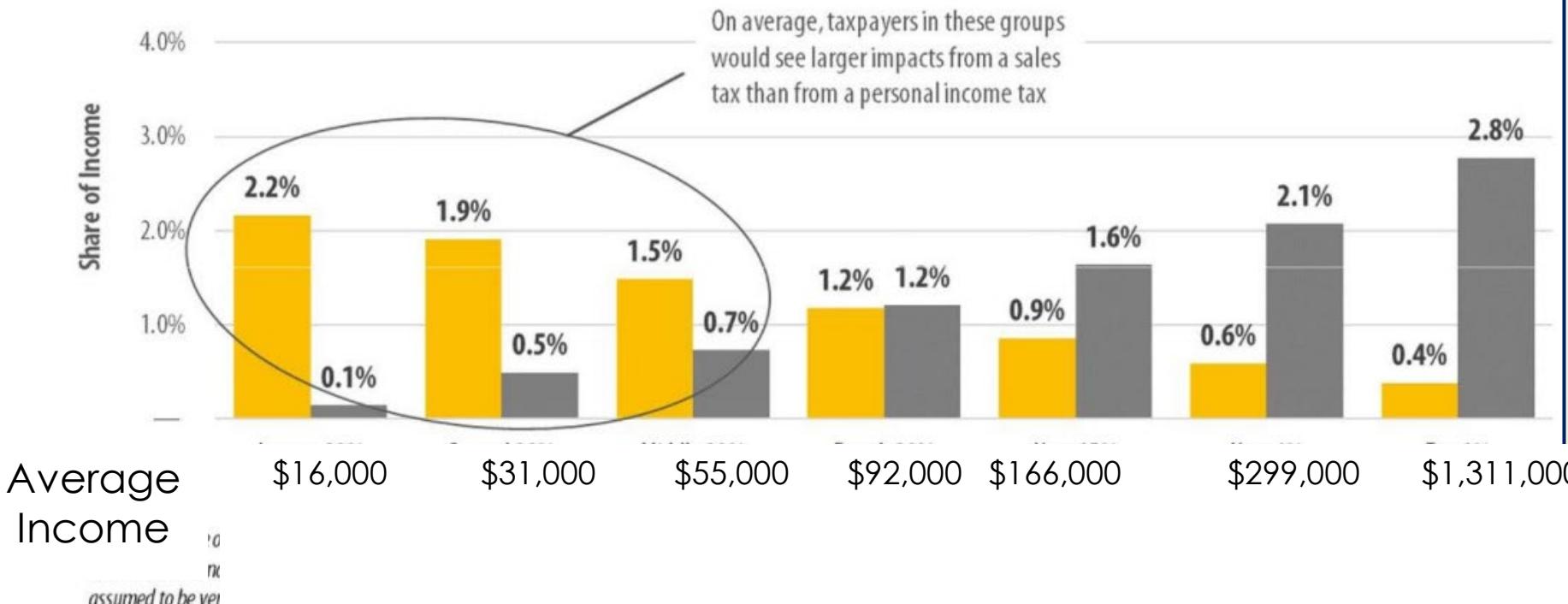
There are several reasons an income tax should be preferable in Alaska

1. Sales taxes are more regressive than income taxes – hitting poorer families hardest
2. Sales taxes create complications with the over 100 municipalities with current local sales taxes.
3. Regional price disparities would disproportionately hurt rural residents if a statewide sales tax is put in place.
4. The burden on non-residents is different:
 - a. Income tax: *Visiting Workers* – tax on wages and earnings generally just shifting the income tax obligation away from their resident state;
 - b. Sales tax: *Tourists* - placing a competitive disadvantage on tourist industry's marketing efforts.

Revenue Options: Sales Tax vs Income Tax

Retrogressive: Sales tax tends to disproportionately impact lower income households

Comparing a \$500m Alaska sales tax to a \$500m Alaska personal income tax

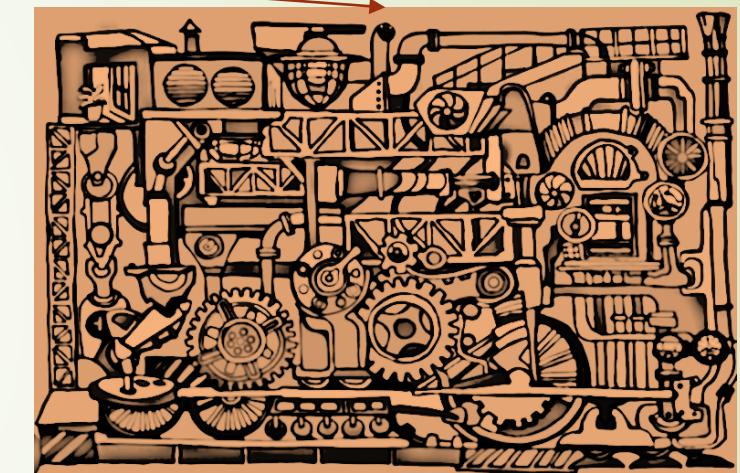
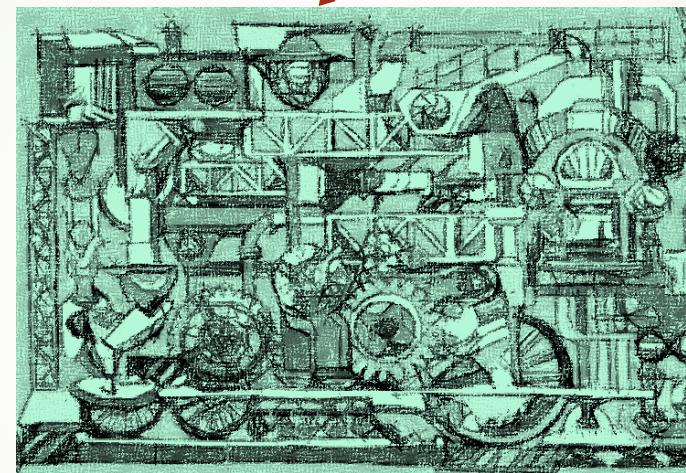
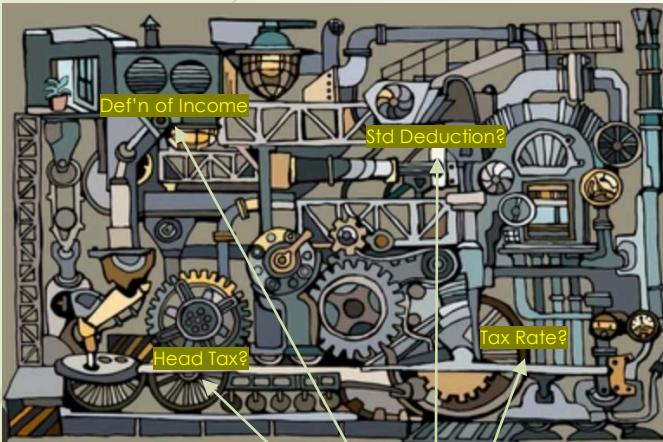


From ITEP's 2017 Study

- Sales Tax
- Income Tax

State Income Tax – Many Models and Options

1. Choose a Model



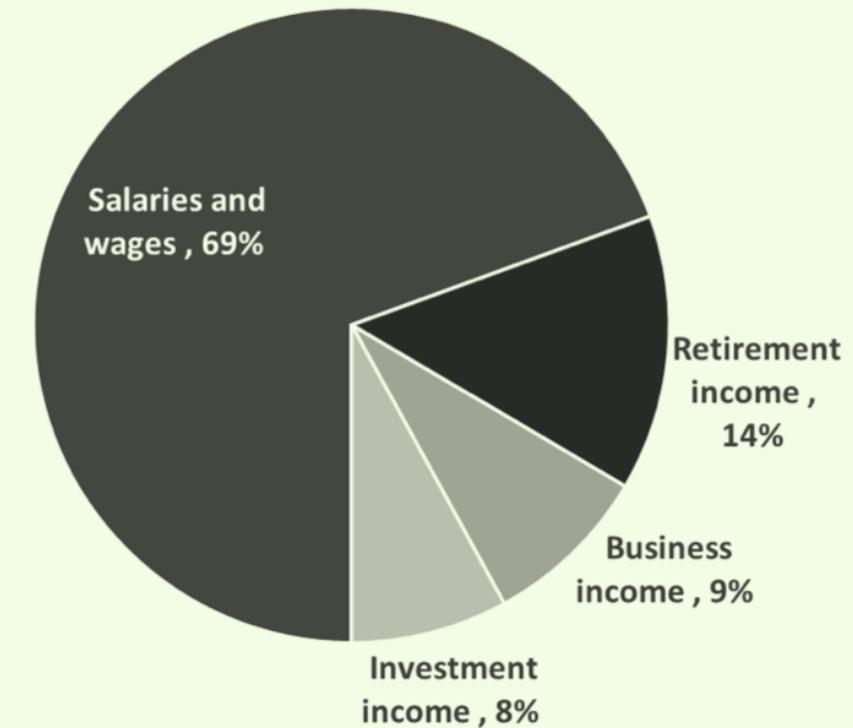
2. Tweak the Gears

Income – What Could Be Included?

- ▶ Wages, salaries
- ▶ Retirement income
 - ▶ IRA, pension, annuities, Social Security
- ▶ Business income
 - ▶ Sole proprietorship, Partnerships (LLC, Limited partnerships, S-corporations)
- ▶ Investment income
 - ▶ Capital gains, Dividends, Interest
- ▶ Other
 - ▶ PFD (excluded from tax), Unemployment, Farm

Major Sources of Personal Income in Alaska, 2018

Federal Adjusted Gross Income



Source: ITEP analysis of IRS Historic Table 2, Tax Year 2018

Let's Simplify – Build off the Federal Tax

Federal Tax Calculation

All Income

- Less Federal Adjustments

= Adjusted Gross Income

- Less Federal Exclusions

= Federal Taxable Income

X Times Federal Tax Rate

= Federal Taxes Due

Options for identifying the income that will be subject to a state income tax

Option 1: Adjusted Gross Income

Option 2: Federal Taxable Income

Option 3: Federal Taxes Due

Income Tax – Structural Options (What We Chose)

- What Income is Taxed?
 - Option 1: Federal Adjusted Gross Income (AGI), with **adjustments***
 - Option 2: Federal Taxable Income (TI), with **adjustments***
 - Option 3: Federal Tax Obligation
- Standard Deduction? (Yes or No)
- Flat Tax Rate or Graduated Tax Rate
- Include a Head Tax? (Yes or No)

**adjustments are made to exclude income that is exempt from State taxation, and can add back income that is excluded from federal income tax but eligible for State taxation*

HB152 – Current Structure

Flat rate 4% tax based on federal “Adjusted Gross Income” (AGI) standard deduction on income above \$150,000, plus \$150 per person head tax



Income Tax - Technical Provisions

- Tax paid by nonresidents on income earned in the state
- Tax is paid by Alaska residents on all their income regardless of where earned
 - A credit is given for income taxes paid to other states for income earned in that state (so no double taxing of income)
- Tax also applies to income earned by trusts and estates, not on their asset value
- Detailed provisions to establish what income is “from a source in the state”
- Employer withholding from wages with periodic payments from employers to the state
- Employers send employees annual wage statement similar to the federal W-2
- Annual tax returns due same day as federal return
- Department of Revenue to establish regulations to provide further details
- Income tax exempted from general DOR requirement to file electronically

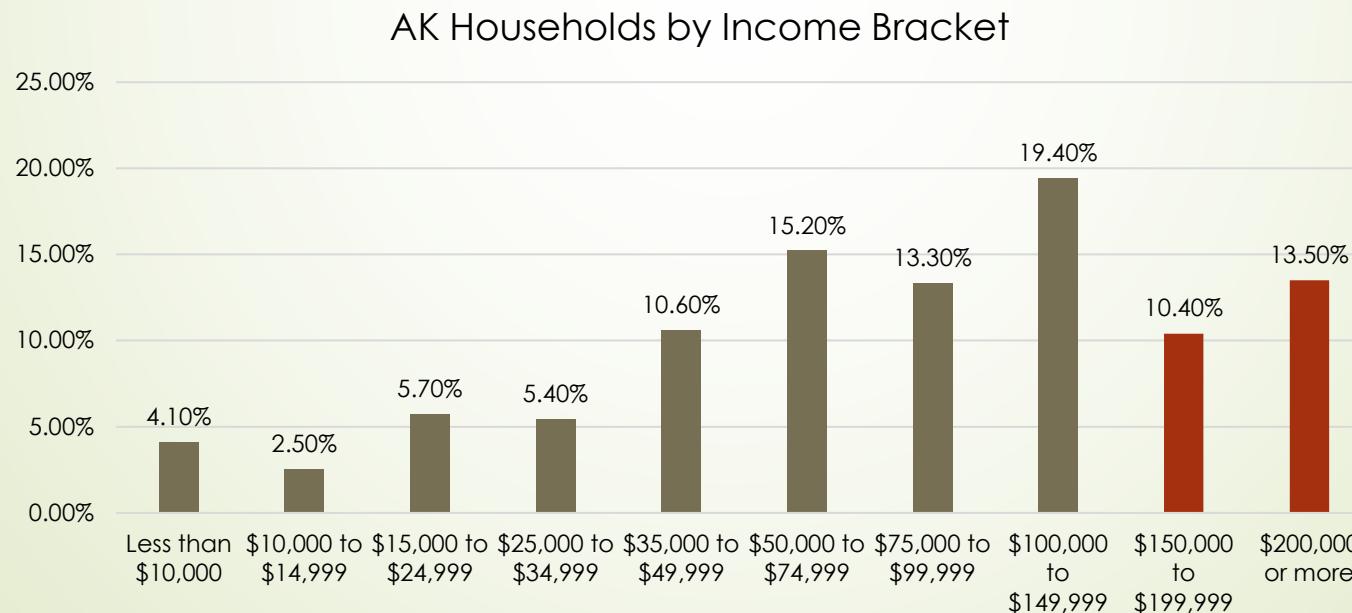
Most state income tax payments are deductible from federal taxes for those who itemize; thus a portion of taxes paid will be saved due to reduced payments to the IRS

HB152 – DOR Implementation and Costs

- Bill as written has an effective date of January 1, 2026
- Major implementation effort for the Department of Revenue:
 - Software procurement / programming of system into Tax Revenue Management System / working with national tax software vendors such as TurboTax
 - Forms development, staff recruitment, public education
- Likely the withholding system will be set up first, so employers are able to begin withholding next year
 - Burden on employers will be minimal, as they already report SSN and other employee data to DOL
- First annual returns will be due in early 2027
- Previous fiscal notes for similar bills in the past include an initial capital cost of \$9.5 million, plus 70 additional staff at an annual cost of about \$10.5 million / year (~91.5% net revenue)

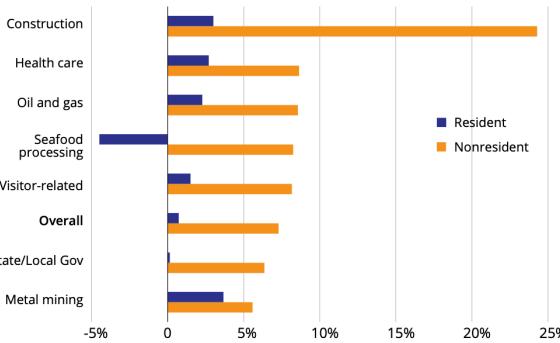
HB152 – Minimizing paperwork burden on Alaskans

- Approximately 75% of Alaska households will have no paperwork associated with this tax
 - They will just see a \$150 reduction note on their first paycheck of the year
- The 25% who will pay the 4% tax will likely use the same tax preparation method they currently use for their federal taxes (i.e. TurboTax, CPA, etc.)
- Some taxpayers can choose to pay their income tax simply as a deduction from their PFD



Non-Resident Workers and the Education Tax

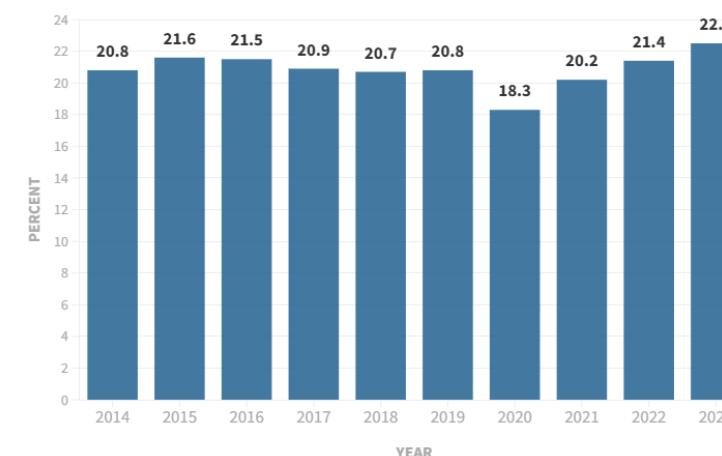
Resident, nonresident growth by industry in 2023



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Percent of Alaska nonresident workers

2014-2023



Source: Alaska Department of Labor and Workforce Development • Graphic by KEVIN POWELL / Anchorage Daily News

* A Flourish chart

- ▶ The percentage of non-resident workers has increased dramatically, from a low of 18.3% in 2020 to an all-time high of 22.5% in 2023
- ▶ In particular, the oil and gas industry has a high proportion of non-resident workers, at 37.4%. On the North Slope, the proportion is even higher, at 45%
- ▶ The oil & gas industry is the highest-paying industry in Alaska, with an average annual wage of \$181,143
 - ▶ Among the sectors, oil & gas industry workers are the most likely to pay the education income tax given the sheer amount that they are being paid
- ▶ HB 152's 4% tax rate is lower than most state income taxes and only impacts high-earners. Non-residents get credit on their resident state income tax returns.

Possible Amendments-Standard Deduction Decrease

- The \$150K deduction limits the impact of the income tax to about 25% of Alaska income earners
- Changing the standard deduction to \$75K would expand the impact to 57% of Alaska income earners

Estimated Revenue



*Keeping flat 4% tax and \$150 head tax

Possible Amendments – Reduce the Head Tax

- The \$150 per person head tax is estimated to raise approximately \$68M alone
- If the head tax were \$100 per person reduce the raised revenue to \$46M
- The current bill makes the head tax in addition to the income tax; it could mean a minimum paid only if you don't pay any income tax (i.e. your income is less than \$150K)

Estimated Revenue



*Only showing the tax revenue from the Head Tax portion of the bill.

Conclusions

- ▶ A sustainable fiscal plan to fund education in Alaska should include a broad-based tax
- ▶ An income tax is preferable to a sales tax for a variety of reasons
- ▶ HB152 can serve as a useful component to a sustainable fiscal plan
- ▶ Open to work with the House State Affairs Committee to amend HB152 to fit the preferences of the committee members

Sectional Analysis of HB 152

Sectional Analysis

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THANK YOU



Feel Free to Call or Email with Any Questions

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