

# **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.

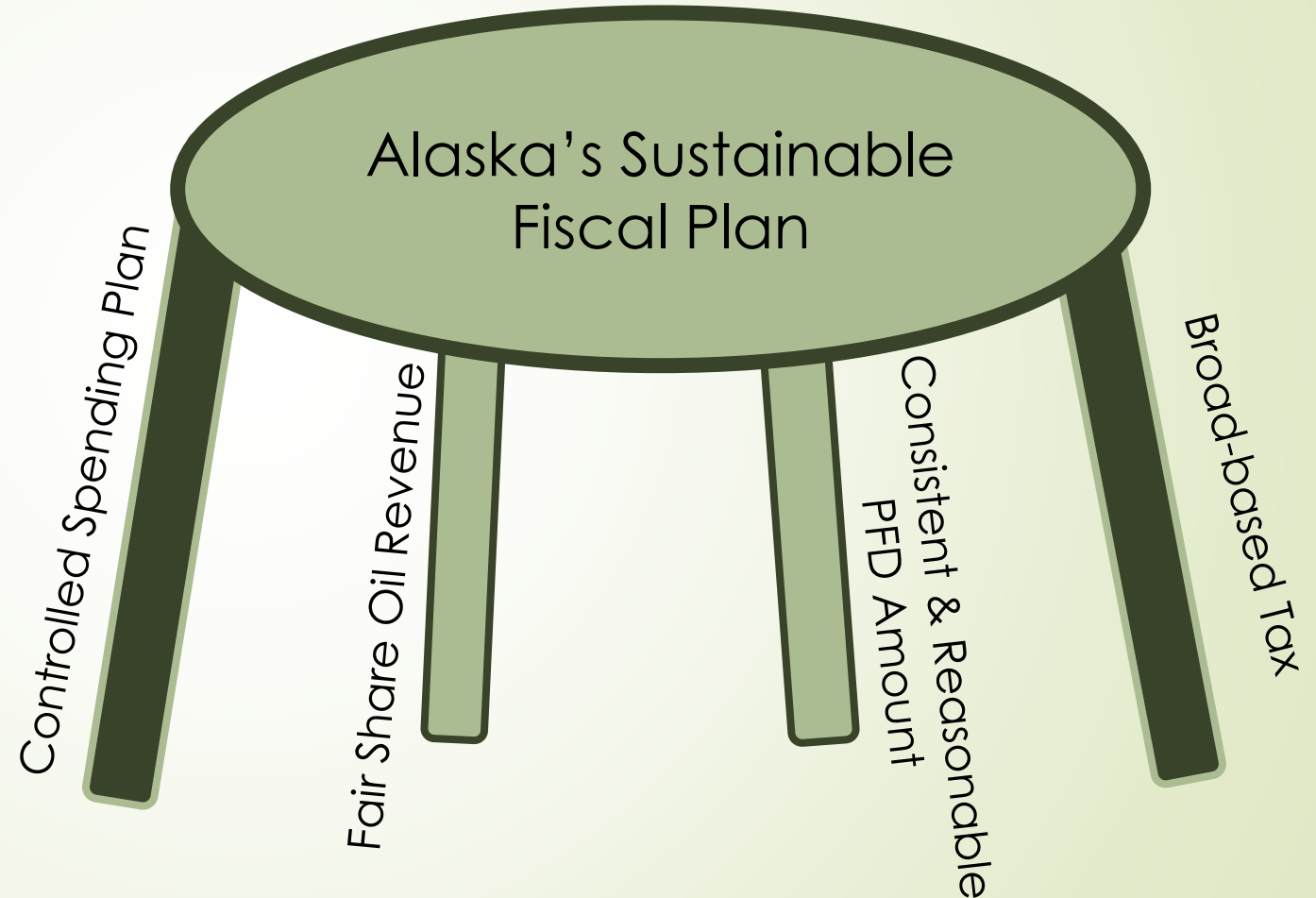


# Sustainable Alaska Fiscal Plan – A Four-Legged Stool

## 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

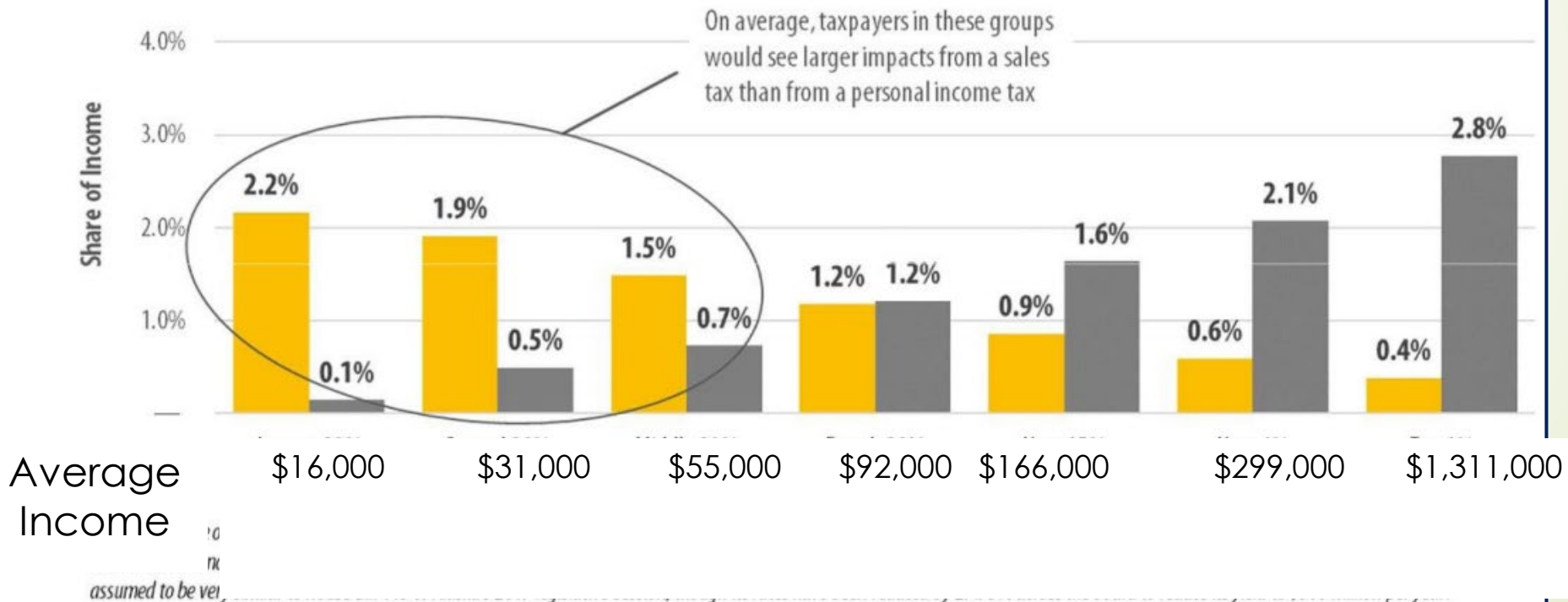
There are several reasons an income tax should be preferable in Alaska

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.

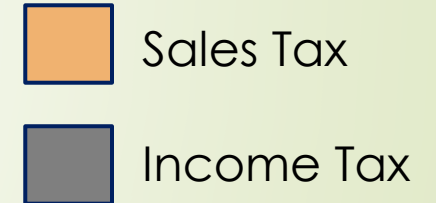
# Revenue Options: Sales Tax vs Income Tax

Regressive: Sales tax tends to disproportionately impact lower income households

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



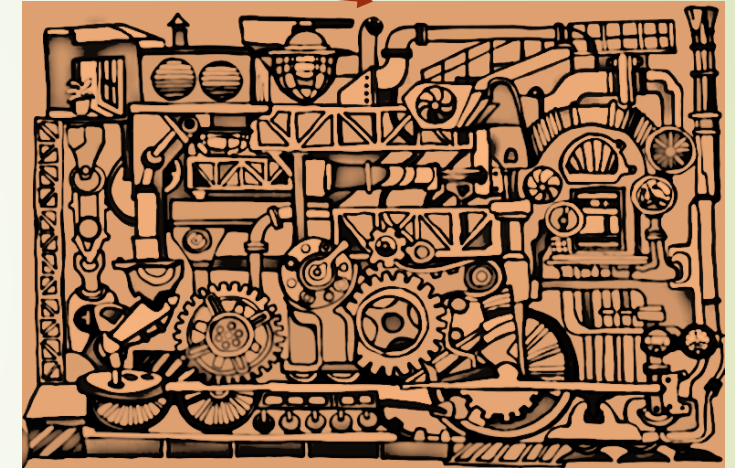
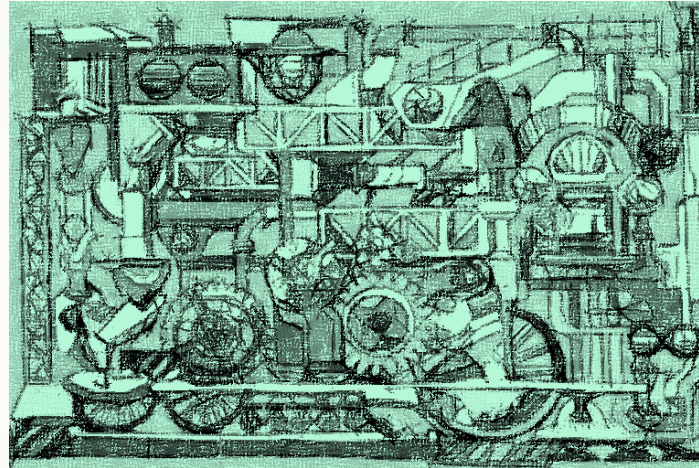
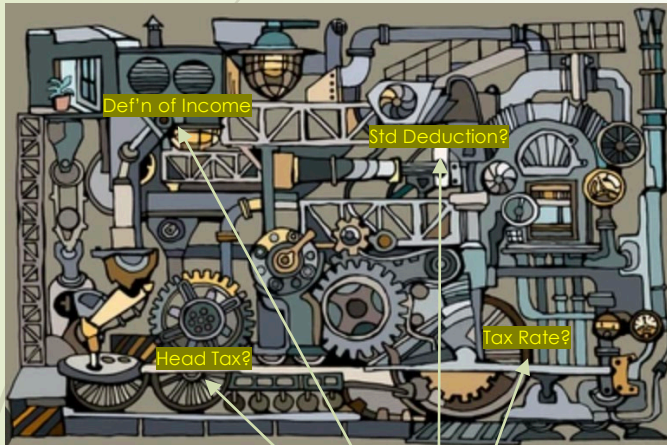
From ITEP's 2017 Study





# State Income Tax – Many Models and Options

## 1. Choose a Model



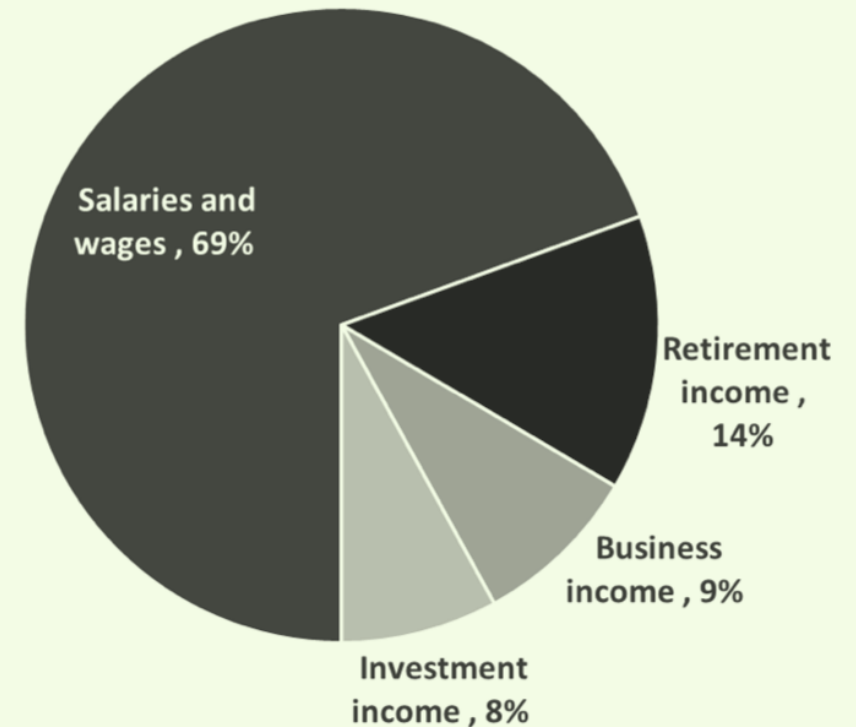
## 2. Tweak the Gears

# 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

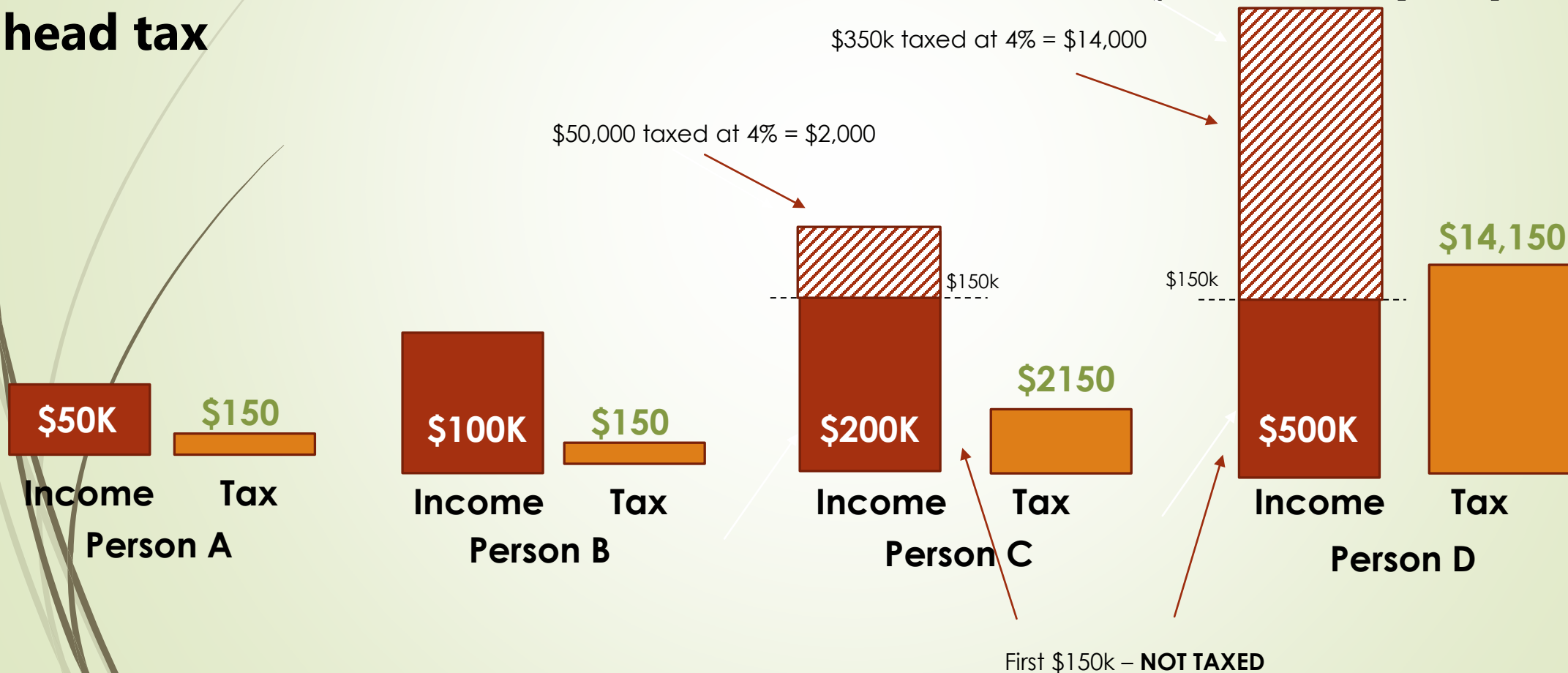
# Income Tax – Structural Options (What We Chose)

- 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**

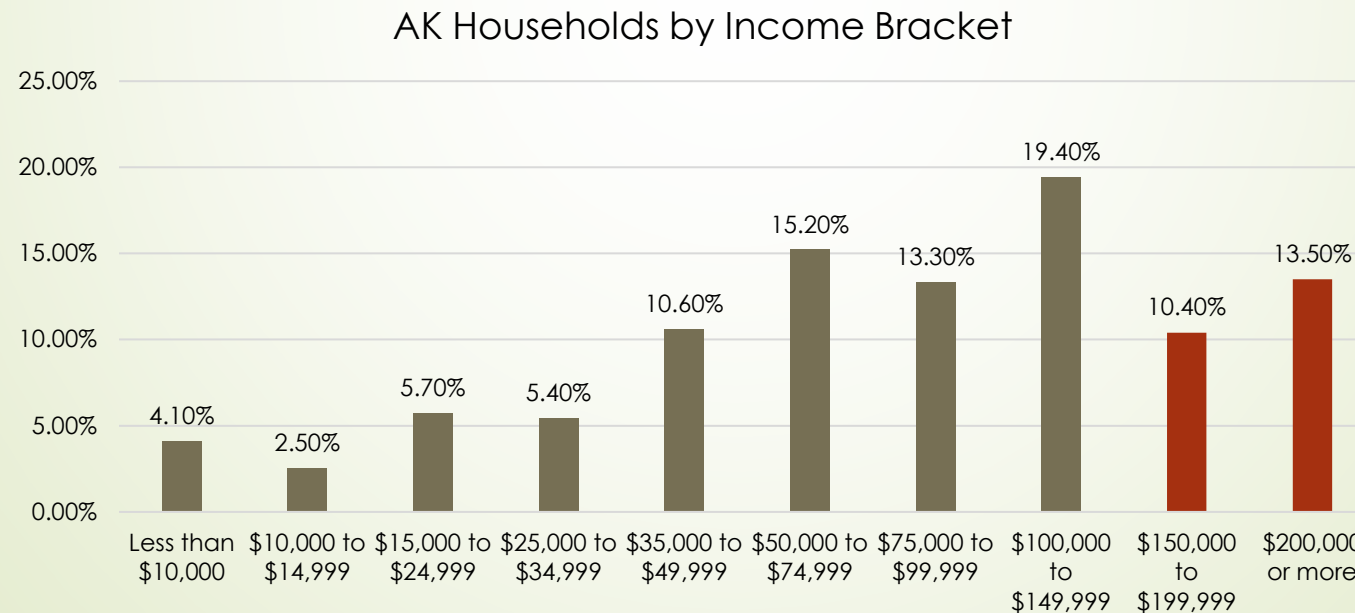
# HB152 – DOR Implementation and Costs

- 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)



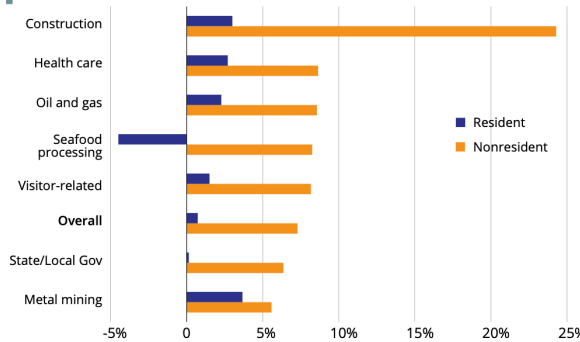
# HB152 – Minimizing paperwork burden on Alaskans

- 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

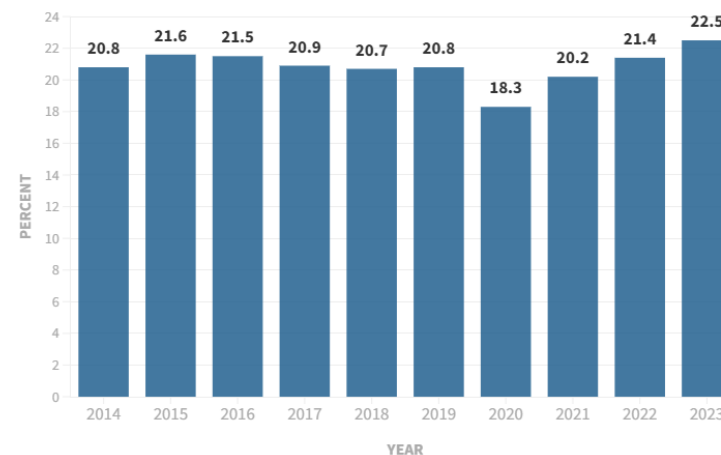
Resident, nonresident growth by industry in 2023



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

Percent of Alaska nonresident workers

2014-2023



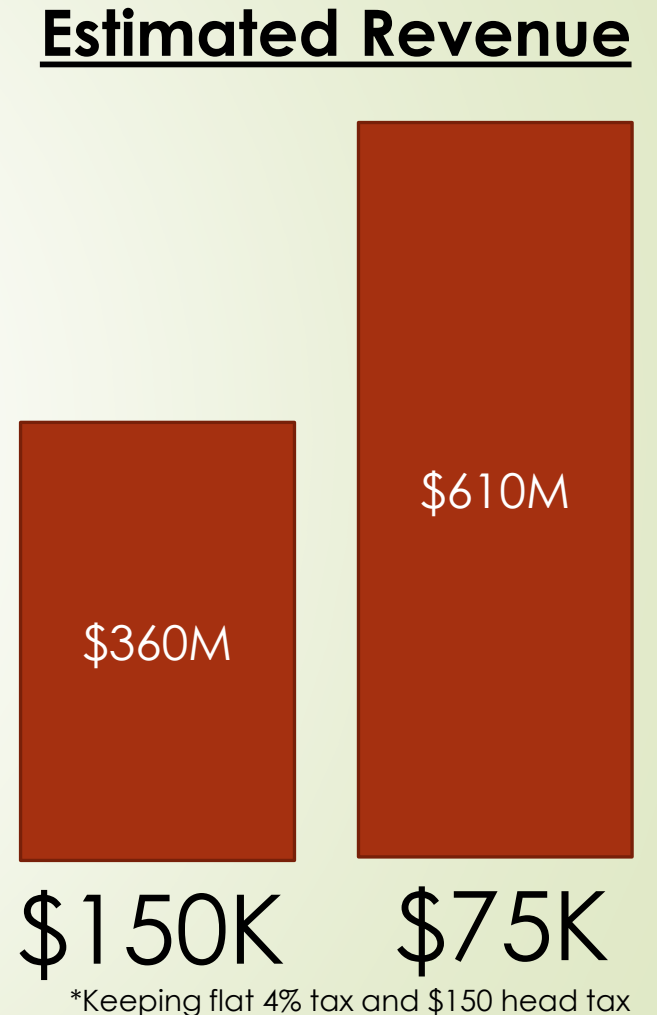
Source: Alaska Department of Labor and Workforce Development • Graphic by KEVIN POWELL / Anchorage Daily News

\* 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



# 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

Staff: David Jiang

# THANK YOU



Feel Free to Call or Email with Any Questions

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