

ALASKA STATE LEGISLATURE HOUSE FINANCE COMMITTEE

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Sponsor Statement CS HB 115 Education Funding Act

Alaska has a \$2.7 billion budget deficit. This deficit is caused by the precipitous drop in the price of oil and requires consideration of both state budget reductions and additional revenues. The price per barrel breakeven point for a balanced budget is still over \$100 per barrel, despite nearly \$3 billion in cuts over the last several years. As we continue to cut the budget and reduce state services we must ask ourselves, *what kind of Alaska do we want to live in?* The Education Funding Act reinstates a modest, progressive income tax and designates the revenue to the public education fund to help support this essential state service. While an income tax will not, and should not, fill the whole deficit, it is an important part of a larger fiscal plan to ensure that the impact across Alaskans of all income groups is fair and balanced.

A sustainable budget should be protected from the volatility that is the ups and downs of resource revenue. By relying too heavily on one source over the past 30 years our budget has seen rapid growth followed by heavy cuts when oil prices are low, and such uncertainty is passed on to the private state economy as a whole. Diversifying our income sources will help protect Alaska from the pitfalls of fluctuating oil revenue.

Alaska had an individual income tax in the past. In 1949 the territorial legislature enacted one in just 11 days, to strengthen our treasury and prove that Alaskans were ready for the responsibilities of statehood. In 1975 the tax was based on a state-modified version of federal adjusted gross income with rates between 3 – 14.5%. Alaskans contributed to state services through the income tax for 31 years, until a dramatic spike in oil revenues led to its repeal.

Alaskans currently have the lowest tax burden in the nation and the state lacks a sales, income, or property tax. HB 115 would reinstitute a personal income tax based on federal adjusted gross income, with rates from 2.5-7%. Deductions include the PFD and a \$4000 personal exemption, as well as Alaskan municipal bonds. Residents can choose to apply some or all of their PFD to taxes due, receiving any overpayment as a refund. A progressive income tax is a way for all working Alaskans and nonresidents working in our state to contribute to the services we benefit from every day. Through a broad-based tax, Alaskans will now have a direct stake in the state government spending responsibly.

The income tax would raise an estimated \$687 million annually once fully implemented. Non-residents will pay approximately \$80 million of that, and many Alaskans will be able to deduct their state income taxes from their federal tax liability. As a part of the fiscal solution, HB 115 diversifies state revenue sources which as a part of a whole fiscal plan will maintain the constitutionally required health, public safety, and educational core services that preserve our quality of life.