

34th Alaska State Legislature

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Representative Frank Tomaszewski

House Bill 94: Marijuana: Tax/Registration: Income Tax v. A

Sponsor Statement

"An Act relating to the registration of marijuana establishments; relating to a tax exemption for qualified small businesses; relating to marijuana taxes; and providing for an effective date."

Alaska's current marijuana excise tax places an undue burden on an industry that is overwhelmingly comprised of small, Alaskan-owned businesses. Alaska's marijuana industry is currently taxed at \$50 per ounce at the wholesale level. This represents the highest effective tax on marijuana in the country. In 2022, the Governor convened the Advisory Task Force on Recreational Marijuana. The first recommendation from the task force was an adjustment to the marijuana tax structure.

Currently, the \$50 tax rate applies only to the highest-grade product. The statute applies lower rates to lower grades of the plant: immature or abnormal bud is taxed at \$25, and all other parts are taxed at \$15. There is currently no enforcement mechanism to determine which tax rate applies to different parts of the plant. As a result, marijuana tax revenue peaked at nearly \$30 million in 2022, but has declined since then. House Bill 94 eliminates the multiple tiers of taxation and establishes a single tax rate at \$12 per ounce. It also amends marijuana registration from annual to biennial, aligning the marijuana industry with the standard for other business.

Finally, House Bill 94 re-establishes the Alaska Small Business C-Corporation Income Tax Exemption that expired in 2023. This tax exemption applies to all small businesses with less than \$50 million in gross assets. Alaska does not tax small business that are organized as S-corporations or limited liability companies (LLC's). Some small businesses are organized as C-corporations and must pay Alaska's 9.4% corporate income tax (CIT), which currently has the fourth highest tax rate and the highest graduation of rates in the nation. According to the Department of Revenue, approximately 35 corporations claimed exemption with their 2022 tax return.

HB 94 would reinstate this exemption permanently, allowing for future business development in the state. Alaska should be encouraging small business development, rather than taxing current and future businesses at the highest rate levied on large corporations in the country.

