



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

**DEPARTMENT OF COMMERCE, COMMUNITY,
AND ECONOMIC DEVELOPMENT**
Division of Community and Regional Affairs

NEO Newly Elected Officials 2018
Local Tax Policy in Alaska

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Responsible Tax Policy

Elected officials have a duty to know more than typical citizens.



Constitution of the State of Alaska, Article 10

– Section 1: “Maximum local self government” ...

- Boroughs 19
- Cities 146



What Taxes Provide



Public Safety



Public Works



Schools

A MEANS FOR LOCAL GOVERNMENT TO PAY FOR PUBLIC SERVICES



THRIVE AND SURVIVE

Public services support and encourage commerce

Public safety protects investments and reduces operating costs.

Schools attract and retain residents.

Roads and transportation support commerce.

Public works support LIVE, WORK AND PLAY.

Tax revenue allows a community to meet the needs of both residents and business.



What is Public Policy & Tax Policy?

- In simple terms, **policies** are courses of action adopted by a group to help guide decision making toward those actions that are most likely to achieve a desired outcome. When these policies are governmentally established and address public issues, they are called **public policies**.
- There are three parts to public policy-making:
 - 1) **issues**, 2) **players**, and 3) **the policy**
- The **issues** are things the whole community is aware of and need to be addressed by government.
- The **players** are the groups that are influential in forming a plan to address the issue.
- The **policy** is the finalized course of action decided upon by the government.
- When such policies provide direction with respect to methods and systems for funding government programs, they generally will include a **tax policy**.



How Does Your Tax Policy Affect the General Public?

Your tax policy may well dictate what people can or cannot afford to do with their money. In other words, your tax policy may change their spending habits!



What Happens to the Public with Your Tax Policy?

- **Tax policy can affect more than just where the city/borough may obtain revenue.**
- **Who pays the tax?**
- **Who is exempt from taxation?**
- **Reliability of tax revenue?**
- **Cost of collecting the tax?**
- **Impact of tax on individuals and businesses?**



Who Do We Tax?

Don't tax me.

Don't tax thee.

Tax the guy behind the tree!



People only accept change in necessity and see necessity only in crisis.

- Jean Monnet, Political Economist, 1888-1979



Who pays the tax

Property Tax

- Paid by property owners, based on the value of the property
 - Exemptions shift tax to remaining property owners
 - Exemption of personal property shifts tax to real property owners

Sales and Use Tax

- Retail level sales paid by the buyer, based on price

Excise tax

- Wholesale level sales, paid by seller, based on number of units sold



Reliability of Tax Revenue

- **Property Tax**

- Buoyant tax adjustable based on tax rate

- **Sales Tax**

- May change based on economy depending on amount of actual sales each year

- **Excise Tax**

- May change based on economy and quantity or price of goods sold each year



Cost of Tax Administration

Property Tax

- Most expensive tax to administer (property records)
 - Sales price disclosure
 - 1% to 2% of tax revenue typical

Sales Tax

- Economy from central administration
- Need for auditing

Excise Tax

- Severance tax records
- Audit for fair and correct tax administration



Budgets and Taxes: How They Work

A Budget is defined as:

- A statement of estimated revenues and expenses for a specified period of time, typically one year.**



Budgets and Taxes (Cont.)

- **Balanced Budget** – A budget in which revenues equals or exceeds expenditures (How nice!!)
- **Capital Budget** – A budget of expenditure for the acquisition of long term assets (such as buildings & equipment) showing planned expenditures and revenue sources
- **Revenue sources** include all taxes, sales, property, excise, other fees and other income, (games of chance, parking fines, building permits, etc.), to the municipality



Tax Revenue Collected by Local Governments in 2017

Sales Tax	\$ 229,203,933	(13.2%)
Special Taxes	\$ 129,254,888	(7.4%)
Local Property Tax	\$ 930,055,612	(53.5%)
Oil & Gas Property Tax	\$ 446,756,597	(25.7%)
<u>Total Tax Revenues</u>	<u>\$ 1,735,271,030</u>	



**PROPERTY TAXES MAKE UP OVER 79% OF
ALL LOCAL TAX REVENUE FOR LOCAL
GOVERNMENTS**



Types of Taxes Levied by Local Governments in Alaska

Sales Tax **104*** cities and boroughs

Special Taxes **67*** cities and boroughs

Property Taxes **15 boroughs**

12** cities in organized boroughs

9** cities in the unorganized borough

*** Municipalities that reported in 2017**

**** Eagle and Wasilla have not levied a property tax in several years, but an assessment is still completed**



Tax Alternatives

- A wide variety of revenue alternatives are available for consideration by municipalities. Some of these include:
 - Sales Tax
 - Excise Tax
 - Property Tax
 - Motor Vehicle Registration Tax
 - Bed Tax
 - Fuel Transfer Tax (some restrictions apply-Should be called "Fuel Sale Transfer Tax")
 - Gross Receipts Tax

For a more detailed look at revenue alternatives, the Division of Community & Regional Affairs does conduct a Revenue Alternative workshop



Sales Taxes

- **Allowed by AS 29.45.650-710**
- **Do not apply to food stamps**
- **Do not apply to storage, use, services, etc. of “orbital space facilities”**
- **Do not apply to “refined fuels” unless transfer is in connection to a sale**
- **Do not apply to wholesale sales or transfers of refined fuels**
- **Do not apply to a construction contract or sub-contract on a state construction project**
- **A city or borough may provide for a real or personal property lien for non-payment of sales taxes**

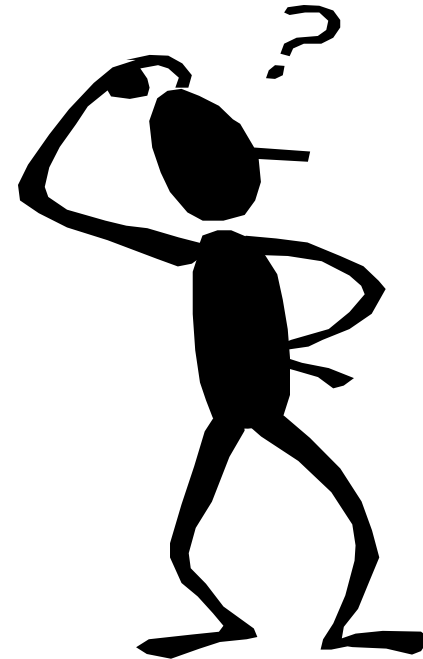


Sales Taxes (cont.)

- **No longer a statutory limit on amount of sales tax**
- **May have seasonal sales taxes (higher rate during summer vs. lower rate in winter)**
- **May be multi-dimensional – Higher bed tax rate, tobacco tax rate etc., than a general sales tax rate**
- **Alcohol tax does not have to match “general sales tax” rate (but you do have to have a sales tax of some kind)**
- **Exemptions may be granted by local ordinance**



What is a tax exemption?



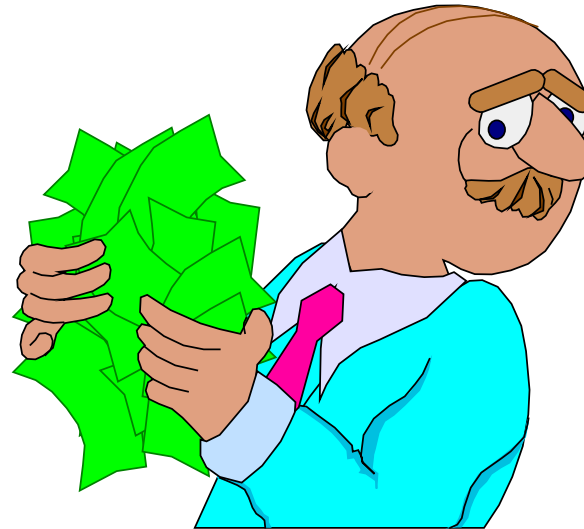


An exemption is a forgiveness of taxes – It **DOES NOT** do away with the need for the revenue- In other words, **someone else** will end up paying more!

But, I don't want to pay!!



But, I don't want to have to pay your taxes too!





Here's How Exemptions Work

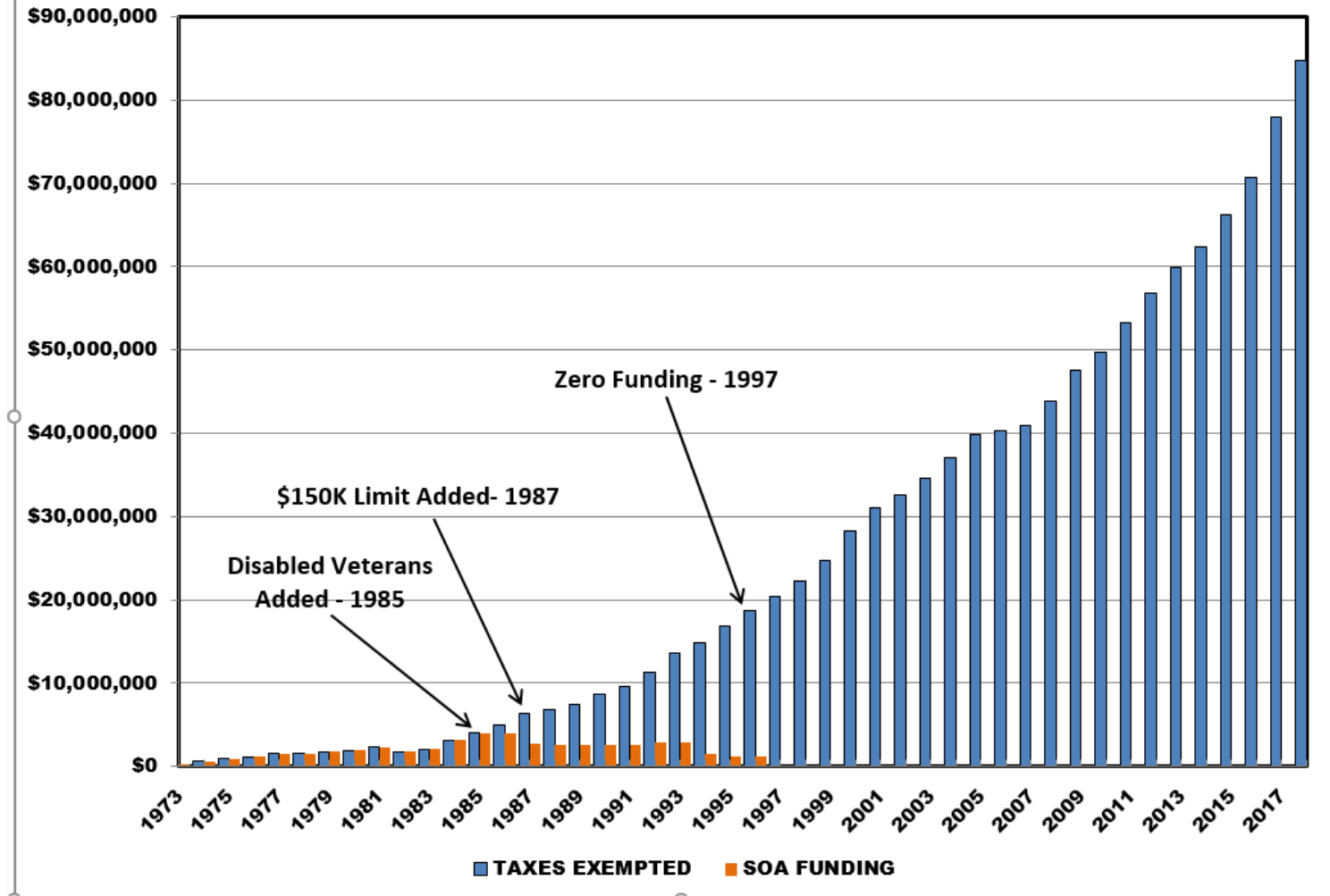
Dinner for 10 people costs \$500 or \$50 each

If we “exempt” 4 people from having to pay their share, the remaining 6 of us still have to pay the \$500.

HOWEVER, our share is now $\$500/6$ or $\$83.33$ instead of \$50 each. The need for the revenue is still there, but our individual costs have now risen **\$33.33 or **67% !!!****



STATEWIDE SENIOR CITIZEN AND DISABLED VET TAXES EXEMPTED





The Property Tax - Cons

- Property taxes ARE NOT a penalty for owning property!! They are an allocation of the cost of public services allocated based on the value of the property owned.
- Property taxes are based upon the principle that property is a measurement of wealth and that measurement is used for the basis of the tax.
- Consequently, property taxes are levied without regard to ability to pay.
- The property tax in Alaska is generally a tax on the market value of tangible assets, which is not related to the income of the property owner.



The Property Tax - Pros

- **It is a stable a reliable source of revenue.**
 - **Property value can go up or down and still generate the same amount of revenue.**
- **Property tax systems are generally more open and visible than administrative systems for other taxes.**
 - **(based on public records and recorded title)**
- **Offers an appeal system unlike most other tax systems.**
- **Taxes secured by property, therefore, taxes are difficult to evade.**





The Property Tax – Pros

- **Collection costs are less expensive than other types of taxes**
- **Property data collected can be used for more than taxes; for example, public safety and disaster recovery.**
- **Generally, people have an understanding of the system and property value.**



Requirements for a Fair & Equitable Property Tax

- **Accurate descriptions of property**
- **Market Data (disclosed sales prices)**
- **Assessment System**

LOCAL LAW REQUIRED!

NO BOROUGH OR CITY HAS SPECIFIED IN LAW!

IAAO Standards.



Here's What it Looks Like

Budget Amount	\$150,000	
	<u>Divided by</u>	
Total Assessed Value	\$15,000,000	= .01 or 10 mills

Taxes on a \$150,000 house = \$1,500
(\$150,000 X .01)



Increase ONLY the Assessed Value, and....

Budget Amount **\$150,000**

Divided by

Total Assessed Value **\$25,000,000** **= .006 or 6 mills**

Taxes on a \$150,000 house = \$900

(\$150,000 X .006)

Increasing the assessed value caused the mill rate to decrease and the tax on this house decreased \$600!!!



Conclusion:

- As a local elected official, it is your job to set local tax policy or decide not to and attempt to find other ways to pay for services
- While there are several revenue alternatives (taxes) available, few are rarely embraced by the public
- But the fact remains that you need to make a choice, not an easy one, but one made based upon the economics of your municipality and the ability of your constituents to pay for the services they want
- While it would be nice to have someone else pay for all our services, the fact is, they won't!!! But, we must pay for them, somehow, and you are one of those who are in charge of finding a way!



A Closing Thought.....

“Change is the law of life. And those who look only to the past or the present are certain to miss the future.”

- John F. Kennedy, American President (1917-1963)