


**Newly Elected Officials (NEOs)
2021
Local Tax Policy in Alaska**
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Responsible Tax Policy

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Local Government in Alaska

- **Constitution of the State of Alaska**
- **Article 10 § 1**
 - "Maximum local self government"...
- **Current local governments:**
 - 19 Boroughs, 146 Cities

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WHAT TAXES PROVIDE



Public Safety



Public Works



Schools

A MEANS FOR LOCAL GOVERNMENT TO PAY FOR PUBLIC SERVICES

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

- Public services support and encourage commerce.
- Public safety protects investments and reduces operating costs.
- Schools attract and retain residents.
- Roads and transportation support commerce.

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What is Public Policy & Tax Policy?

- **Public policy: What do you* want to do?**
- **Tax policy: How are you* going to pay for it?**

*subject to terms and conditions

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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!
- **Income effect:** Increasing taxes makes people poorer, less able to buy things.
- **Substitution effect:** Taxing alcohol makes people less likely to buy alcohol.
 - Important nuance: How much less likely?

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Tax Policy Considerations

- 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?

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Who Pays the Tax?

- Don't tax me, don't tax thee, tax the guy behind the tree.



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Who Pays the Tax - Basics

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- **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.

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Who Pays the Tax - Advanced

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Tax Incidence Analysis!

- **Property Tax**
 - Paid by property owners, **renters, and customers**, 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 **and seller**, based on price.
- **Excise tax**
 - Wholesale level sales, paid by seller **and customers**, based on number of units sold.

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Reliability of Tax Revenue

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- **Property Tax**
 - Buoyant tax adjustable based on tax rate.
- **Sales Tax**
 - May change based on economy dependent on amount of actual sales each year.
- **Excise Tax**
 - May change based on economy and quantity or price of goods sold each year.

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Cost of Tax Administration

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- **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.

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Budgets and Taxes

How They Work

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

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Budgets and Taxes (Cont.)

- **Balanced Budget** – A budget in which revenues equals or exceeds expenditures.
- **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 (such as games of chance, parking fines, building permits, etc.) to the municipality.

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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%)
Total Tax Revenues	\$1,735,271,030	

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

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Tax type	Boroughs	Cities
Sales	9	113
Special	17	49
Property	15	21
NONE	0	22

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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 the "Fuel Sale Transfer Tax")*
- Marijuana Tax

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

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Sales Taxes

- Allowed by AS 29.45.650-.710.
- Does not apply to food stamps.
- Does not apply to storage, use, services, etc. of "orbital space facilities".
- Does not apply to "refined fuels" unless transfer is in connection to a sale.
- Does not apply to wholesale sales or transfers of refined fuels.
- Does 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.

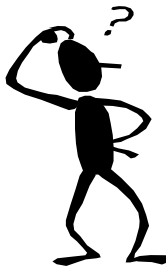
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Sales Tax (Cont.)

- 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 .
- Must hold a vote in order to institute or increase a sales tax.

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What is a tax exemption?



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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!*

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For Exemple

Let's say we need \$10,000 of property tax revenue from this town with five houses.

$10,000 / 1,550,000 = 6.45$ mills

Values	Tax (6.45)			
\$150,000	\$968			
\$200,000	\$1,290			
\$300,000	\$1,935			
\$400,000	\$2,580			
\$500,000	\$3,225			
\$1,550,000	\$10,000			

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For Exemple

Now let's give people a residential exemption of \$50,000.

We still need our \$10,000 of revenue – but we have a smaller base to tax now.

$10,000 / \$1,300,000 = 7.7$ mills

Values	Tax (6.45)	New val	Tax (7.7)	
\$150,000	\$968	\$100,000	\$769	
\$200,000	\$1,290	\$150,000	\$1,154	
\$300,000	\$1,935	\$250,000	\$1,923	
\$400,000	\$2,580	\$350,000	\$2,692	
\$500,000	\$3,225	\$450,000	\$3,462	
\$1,550,000	\$10,000	\$1,300,000	\$10,000	

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For Example

- Some helped, some hurt.
- The person with the \$400,000 house got \$50,000 exempted, but still saw taxes increase!
- Don't look at exemptions as tax reductions: look at them as redistributions of burden.

Values	Tax (6.45)	New value	Tax (7.7)	Change in taxes
\$150,000	\$968	\$100,000	\$769	-\$198
\$200,000	\$1,290	\$150,000	\$1,154	-\$136
\$300,000	\$1,935	\$250,000	\$1,923	-\$12
\$400,000	\$2,580	\$350,000	\$2,692	+\$112
\$500,000	\$3,225	\$450,000	\$3,462	+\$237
\$1,550,000	\$10,000	\$1,300,000	\$10,000	

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Exemptions (Cont.)

- **Sales taxes** – Other than what has been discussed, other exemptions are totally up to local discretion (be careful of other state and federal laws though).
- **Property taxes** – Two types of exemptions.
 - **Mandatory** – Specific exemptions required by law.
 - **Optional** – List of exemptions municipality may authorize by local ordinances; some require voter approval.

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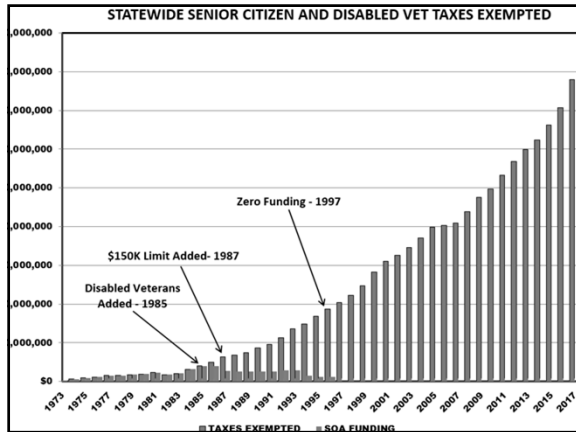
Required Property Tax Exemptions AS 29.45.030

- **Municipal, state property**
- **Property Used EXCLUSIVELY for Non-Profit:**
 - Religious purposes
 - Charitable purposes
 - Cemetery purposes
 - Hospital purposes
 - Educational purposes
- **Homes of Senior Citizens and Disabled Veterans – up to \$150,000**

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**Required Property Tax Exemptions
(Cont.)**

- Household furniture and personal items.
- Money on deposit.
- ANCSA property (Alaska Native Claims Settlement Act).
 - Unless developed or leased to third parties.
- Natural resources in place.
- Residences of ministers, priests, etc.
- Residences of teachers of a parochial schools if owned by the religious organization.

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**Optional Property Tax Exemptions
AS 29.45.050**

- Up to \$50K residential exemption.
- Historic sites & monuments.
- All of or any category of personal property.
- Profit of a non-profit organization used for community purposes.
- The value that exceeds \$150,000 of assessed value of homes of senior citizens & disabled veterans' homes.
- Certain economic development property.
- Certain "deteriorated" property; so, designated by the governing body.

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The Property Tax: Cons

- Property taxes 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.

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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.
 - Under COVID, values have stayed steady so far...unlike sales tax.
- 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.

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The Property Tax: Pros

- Collection costs are less 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.

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Requirements for a Fair & Equitable Property Tax

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

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Property Tax Mill Rates

- Mill Rates are determined by dividing the Budget by the TOTAL Taxable Assessed Value.
- If the budget stays the same and the Assessed Values increase, the mill rate should decrease.
- A mill is 1/1000 of \$1 – A 10 mill tax equals a 10-cent tax for every \$100 of assessed value or \$1 for every \$1,000 of assessed value – a mill is .001.

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Calculating the Mill Rate

$$\frac{\text{Property Tax Levy: The Budget Revenue from Property Taxes}}{\text{Divided by Total Assessed Value*}} = \text{Mill Rate}$$

**Total Assessed Value means the value of all property AFTER all exemptions have been deducted. A Very Important Point!!*

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Here's What it Looks Like:

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

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

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Increase ONLY the Assessed Value, and....

Budget Amount	\$150,000		
		Divided by	= .006 or 6 mills
Total Assessed Value	\$25,000,000		

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!!!

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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.
- There are several revenue alternatives (taxes) available.
- 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!

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