

ALASKA  
MUNICIPAL  
LEAGUE

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# AMSTP

Sales Tax in Alaska

Exemption  
Certificates

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# Sales Tax in Alaska

# Outline

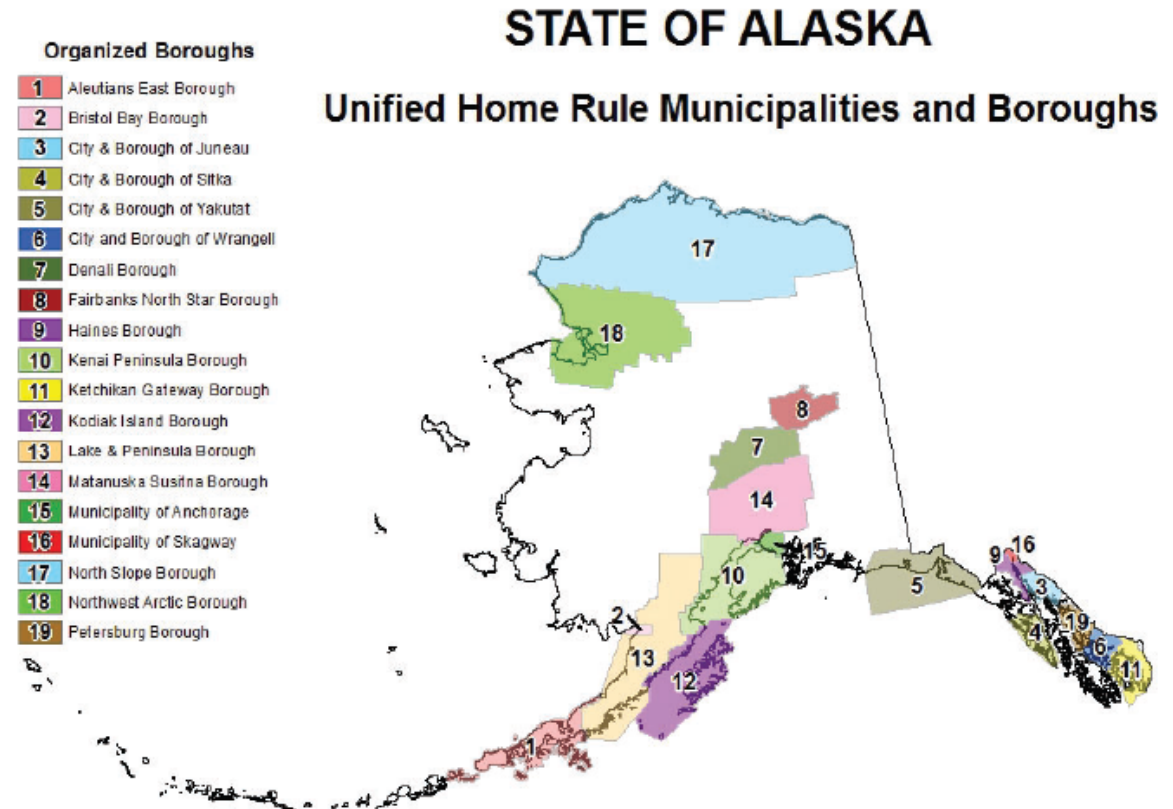
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- Government Authority
- Sales Tax Regulations in Municipal Code
- Sales Tax Exemptions
- Sales Tax Exemption Certificates
- Resale
- Resale Scenario: Business → Business
- Resale Scenario: Drop Shipper
- Resale Scenario: Marketplace Facilitator Seller
- Resale Scenario: Subcontractor

# Government Authority

Alaska state law provides for 4 classes of borough and 3 classes of city governments:

- Home Rule Borough
  - Unified home rule borough (3 boroughs)
  - Non-unified home rule borough (8 boroughs)
- General Law Borough
  - First class borough (1 borough)
  - Second class borough (7 boroughs)
- Home Rule City (11 cities)
- General Law City
  - First class city (18 cities)
  - Second class city (115 cities)



# Government Authority – Alaska Taxes

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- Alcohol
- Gaming/Bingo
- Tobacco
- Commercial Passenger Vessel (“head tax”)
- Corporate Income
- Electric Cooperative
- Raw Fish
- Marijuana
- Mineral
- Motor Fuel
- Oil & Gas Production & Property
- Property
- Timber
- Ore/Coal/Gravel/Sand/Rock
- [Sales](#)
- Transient Accommodations (“bed tax”)
- Car Rental
- Fuel/Gasoline
- Fireworks

# What is a Sales Tax?



Sales tax is a pass-through tax that Sellers collect from Buyers at the point of sale



Sales tax is a percentage of the retail purchase price



Sellers collect sales tax from Buyers and report / remit a filing to the Taxing Authority



Sellers should list all gross sales, including exempt sales

# Government Authority – Sales Tax

- 165 incorporated municipalities in Alaska (out of 321 communities)
- 107 municipalities institute a sales tax per:
  - Alaska Constitution Articles IX and X
  - Alaska Statutes [AS 29.45.650-710]

Borough Power	Unified & Home Rule Borough	First Class Borough	Second Class Borough
<b>Sales Tax</b>	The rate of levy may be limited by charter; voter approval required to levy sales tax	No limit exists on the rate of levy; however, voter approval is required to levy sales taxes	Same as for a First-Class borough

City Power	Home Rule City	First Class City	Second Class City
<b>Sales Tax</b>	The rate of levy may be limited by charter; requirements for voter approval may also be set by charter	There is no limit on the rate of levy sales taxes; however, voter approval is required	Same as for a First-Class City

# Government Authority – Sales Tax



4 Boroughs implement sales tax

Haines, Kenai Peninsula, Ketchikan Gateway, Petersburg



4 “City and Boroughs” implement sales tax

Juneau, Sitka, Wrangell, Yakutat



1 Municipality

Skagway



98 Cities

Two taxes (one city, one borough) for multiple taxing cities in taxing boroughs = nested jurisdictions



Alaska Remote Seller Sales Tax Commission (ARSSTC)

Tax authority is vested to ARSSTC for only remote sales via resolution or ordinance by taxing jurisdiction

# Government Authority – Where to Register and File

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## Physical Presence

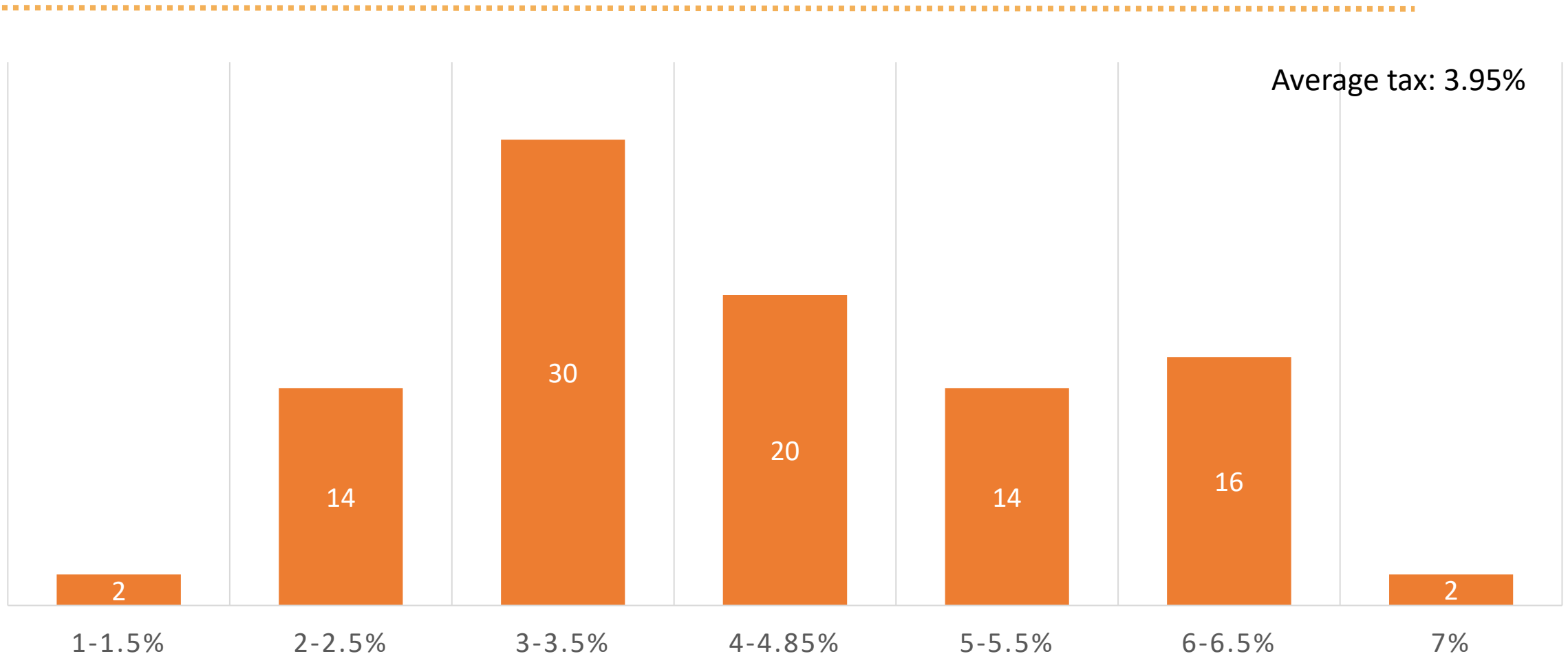
- Office, warehouse, storefront, inventory, service or sales agent, rental or lease
- Must register and maintain State of Alaska business license
- **Must register with local taxing authority** and follow rules for collecting, reporting and remitting sales tax



## Remote Seller

- No physical presence in community
- Conducts sales of goods or services delivered to buyer via internet
- Does not need to obtain State of Alaska business license
- **Must register with ARSSTC** if meet threshold for remote sales tax collection requirements

# Sales Tax Rates for Alaskan Communities



Data courtesy of Alaska Taxable; only have data for 98 communities

# Sales Tax Rules are Detailed in Municipal Code

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- Definitions
- Tax records are confidential
- Business license rules
  - Cost, frequency of renewal
- Sales tax rate (percentage of the total sale price)
- What it applies to
  - Retail sales of goods, services, and rents
  - Short-term accommodations (also called “bed tax” for duration less than 30 days)
  - Passenger transportation
  - Alcohol
  - Tobacco
  - Marijuana

# Sales Tax Rules are Detailed in Municipal Code

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- Seasonal differences (i.e., extra sales tax in the summer)
- Where the tax is applicable (boundaries of tax district, Special Assessment District)
- Sales tax should be separately stated on receipt
- Filing frequency and deadline
  - monthly, quarterly, annually
- States if filings need to happen even if no sales are conducted
- Late filing fees, penalties, and interest charges for delinquent filings
- Rules around recordkeeping
- Standard and investigative audit rules and appeals process
- Amended returns process
- Requirements to close business
- Timely filing discounts

# Sales Tax Rules are Detailed in Municipal Code

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- Delinquent filings
  - Authority to estimate taxes
  - Legal requirements for notifying seller of estimates
  - Hearing and appeal process
- Collections and lien process



# Sales Tax Exemptions

# Exclusion versus Exemption

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- Exclusion are not listed in municipal code
  - “All retail sales” excludes wholesale transactions
  - Most Alaska municipal tax codes state that “all goods, services, and rents are taxable”
- Exemption is specifically listed in the municipal code

# Everything is Taxable Unless Specifically Exempted

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- Municipal code will detail what kinds of transactions can be tax-exempt:
- Casual or isolated sales
- Sales tax cap (can be for item, transaction, or service)
- Product-specific exemptions
  - Federally-mandated exemptions such as:
    - Special Supplemental Food Program (food stamps, food vouchers)
    - Fuel purchased under the Energy Assistance Program
    - Sales of any flight services
  - State-mandated exemptions such as:
    - Sales related to orbital space facilities
  - Bank fees
  - Medical services and durable medical equipment

# Sales Tax Exemptions - Entities

## Government

Federal, state, local agencies

Usually no certificates are issued

## Senior Citizens

Will state age, i.e., 60yo or 65yo

May be restricted to food, rent, or utilities

Many communities issue certificates

## Reseller

Must be licensed business

Reselling product or services or incorporating product into new product

Many communities issue certificates

## Non-Profits

Usually (c)3 and (c)4 charitable, religious, education entities

Will specify "sales to" and "sales by"

Many communities issue certificates

## Construction

Tangible property consumed in the course or construction or become part of the real property

Can have subcontractors

Many communities issue certificates

# What is a Sales Tax Exemption Certificate?

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Document for a business, organization or individual to purchase taxable goods or services, tax-free



Multiple kinds of exemption certificates for different entities



Must present certificate for each purchase



Blanket exemption certificates are presented once and kept on record



Seller is responsible to check that certificate has all essential information filled out, but is not responsible for verifying all the information

# Necessary Elements of a Valid Exemption Certificate

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Registration /  
Account Number



Seller / Business  
Name



Description of  
Exempted Items  
for Resale



Valid Through  
Date

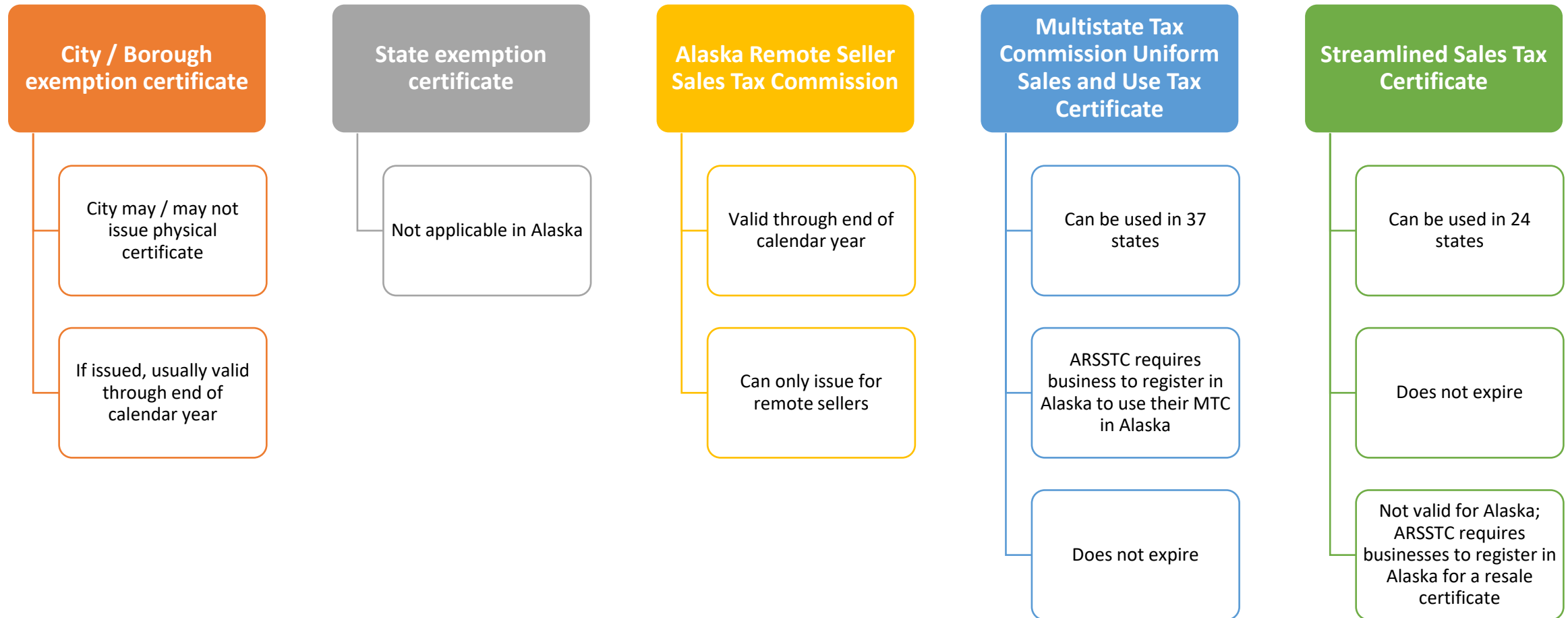


Statement property  
will be only for resale  
or incorporated into  
new materials



# Resale Exemption Certificates

# Resale Exemption Certificates – Issuers



# Resale Exemption Certificates

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Must apply for  
card with taxing  
authority



May be charged  
a fee



Usually from  
month of  
application to  
end of calendar  
year

Best Practices:  
annual  
expiration date

# Resale Exemption Certificates – Buyer Responsibilities



Maintain valid exemption certificate

Is there an expiration date?

Any changes to business name, address, or signatory?



Present certificate for any valid sales in timely manner

Can present after purchase and be reimbursed for tax paid

Products intended for resale or incorporated into new product

Not for business consumables



Responsible for any fraudulent purchases



Example: restaurant is eligible for tax exempt purchases of food stuff but not for cleaning materials

# Resale Exemption Certificates – Seller Responsibilities



Document all exempt sales

Paper or electronically

Name, date of purchase, exemption number



Present documentation upon request by taxing authority

Usually during an audit



Not responsible for buyer presenting false information

i.e., they can use their own discretion and take certificate at face value



Check with municipal code for retention schedule



Amend any returns as necessary if buyer presents exemption certificate after the sale

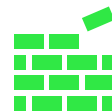
# Resale Exemption Scenario: Business – Business

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Business to Business resale is the most common resale scenario. A Seller / Retailer orders product(s) and/or services from a Supplier / Wholesaler / Manufacturer to incorporate into their own product/services retail sales.



The Seller provides a resale certificate to the Supplier to exempt sales tax or obtain wholesale pricing



Sales tax exemption only for products/services that are resold as is or incorporated into a new product/service. Cannot apply to business consumables



Buyer purchases product/service from Seller and is charged sales tax unless they provide an exemption

# Resale Exemption Scenario: Drop Shipments

Drop shipping occurs when a **Customer / Buyer** places an order with a **Seller / Retailer** and the **Seller** purchases the item from a third-party **Supplier / Manufacturer** and has the **Supplier** deliver the product to the **Customer**. The **Supplier** is referred to as a drop shipper. The **Seller** never handles the actual product.

Three roles, two transactions.



# Resale Exemption Scenario: Drop Shipments

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## Buyer / Customer

- Pays Seller and applicable sales tax or provides tax exemption certificate

## Seller / Retailer

- Collects sales tax from Buyer and files with tax authority where Buyer received product (if have nexus)
- Provides resale certificate to Drop Shipper
  - Depends on state rules
  - May be able to present certificate from home state or MTC or Streamlined resale certificate

## Drop Shipper / Supplier / Wholesaler / Manufacturer

- Delivers product to Buyer
- Does not collect sales tax from Buyer
- Reports tax exempt sale to Seller with tax authority where product is delivered (if have nexus)
- May apply for resale certificate for ship-to state or affidavit
  - Depends on state rules
  - May be able to present certificate from home state or MTC or Streamlined resale certificate

# Resale Exemption Scenario: Alaska Drop Shipments

## Alaska Buyer

- Resides in tax-free district: no tax issues for any role
- Resides in tax district that is not a member of ARSSTC: no tax issues for any role
- Resides in tax district that is a member of ARSSTC: must pay sales tax to Seller

## Seller / Retailer

- Has nexus: collects sale tax from Buyer and files with ARSSTC
- Does not have nexus: does not need to collect sales tax
- Can apply for resale certificate from ARSSTC (recommended)
- Provide ARSSTC resale certificate to Drop Shipper

## Drop Shipper / Supplier / Wholesaler / Manufacturer

- Receives ARSSTC resale certificate from Seller
- Can apply for resale certificate from ARSSTC (recommended)
- Has nexus: collects sale tax from Seller and files with ARSSTC
- Does not have nexus: does not need to collect sales tax

# Resale Exemption Scenario: Marketplace Seller

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This scenario involves a business located in Alaska whose sole business activity is the sale of goods through a marketplace such as Amazon. This is likely specific to Amazon such that marketplace sellers on other marketplaces sell through a different model.

## Details

- Marketplace seller is located in Alaska.
- Marketplace seller purchases inventory from vendors across the country.
- Marketplace seller directs vendors to ship to Amazon warehouses located in various places across the country.
- Marketplace seller needs resale certificate to provide its vendors to obtain tax exemption.

# Resale Exemption Scenario: Marketplace Seller

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## Solution

***Key point to keep in mind:*** Tax is determined based on point of delivery.

This is a mostly universal principle. As a result, tax exemption can only be obtained from the jurisdiction where the delivery occurs.

- If marketplace seller has its vendor(s) deliver to Amazon warehouse in Alaska, we can issue a remote reseller certificate of exemption.
  - This certificate does not grant exemption on deliveries to warehouses outside of Alaska.
- If the marketplace seller has its vendor(s) deliver to Amazon warehouses in other state, the seller should contact the state of delivery.
- States have generally taken the position that the presence of inventory in a warehouse creates a registration requirement with that state.
- The marketplace seller would then be able to obtain a resale certificate from that state.

# Resale Exemption Scenario: (Sub)Contractors

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This scenario involves a multi-layered transaction where a general contractor is hired for a project, with one or more subcontractors hired by the general contractor.

Typically, the questions received are surrounding the taxability of services performed by either contractor. But there may be scenarios where the taxability of goods / materials sold is questioned.

## Course of Action

- Determine the who's / what's / where's of the transaction
- **Who** – identify all the parties to the transaction: End customer, general contractor, sub-contractor(s)?
- **What** – what is being sold / purchased by each party, i.e. goods / materials or services?
- **Where** – where are each party located, where are goods / materials or services delivered to?

Once each of these questions are outlined, appropriate tax guidance can be provided.

# THANK YOU



Strengthening Local Governments

# References

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- State of Alaska Department of Revenue
- State of Alaska Department of Commerce, Community and Economic Development
- Alaska Taxable 2023
- Alaska Municipal League Alaska's Local Government Primer
- Alaska Statutes
- Avalara
- Sales Tax Institute
- TaxConnex