

Memo

To: Citizens Advisory Task Force

From: Jay Sweeney, Chief Financial and Administrative Officer

Date: February 8, 2016

Re: Executive Summary and Recap of Key Points Pertaining to Sales Tax exemptions

Citizens Advisory Task Force Members,

The agenda for the February 8, 2016 meeting of the Citizens Advisory Task Force provides for continued discussion of sales tax exemptions. Pertinent to that discussion are four key points. The points need to be kept in mind as the discussion progresses:

1. Sales taxation is a fluid situation and State-wide decisions could override decisions recommended by the CTF.

It is important to remember that implementation of a state-wide sales tax is a budget-balancing option being given heavy consideration within the State Legislature. Were the State Legislature to move to enact a State-wide sales tax, it would have far reaching ramifications on how Sitka taxes sales. It is possible that uniform exemption laws could be enacted State-wide. Thus, sales tax is fluid and recommendations by the CTF could be rendered moot by Legislative action.

2. Detailed research is required to determine whether some exemptions are mandated by Federal or State law.

There is no simple, easy web site to go to, or book, which lists what sales tax exemptions are mandated by federal or State law. When Sitka implemented sales tax law, it adopted most of Juneau's existing sales tax code. Thus original research was never conducted by Sitka as to what exemptions are mandated by law. As a Unified Home Rule Municipality, Sitka has leeway to implement any sales taxation law it desires as long as it not prohibited from doing so by Federal or State law. Staff has a definitive answer on 2/3rds of the existing exemptions, but some (such as newspapers and morticians) need detailed research. Such research will take time and can't be delegated; furthermore, it competes with other pressing work priorities.

3. It is important to keep in mind the differences between sales taxes, excise taxes, and value-added (VAT) taxes.

Sales taxes are levied on the final retail sale of an item. Sales tax rates must be uniform (i.e., differing rates can't be levied on different classes of items). Exemptions from sales tax are set by local Code. Sales taxes must be set through passage of a ballot proposition (unless the Charter were to be changed).

Excise taxes are levied at a point other than the final retail sale, usually at some transfer in the wholesale chain. Excise taxes can be a percentage of value; however, it is more common for excise taxes to be at a fixed value per unit of commerce (i.e., a set amount per gallon, pound, etc.). Excise taxes do not require passage of a ballot proposition; the Assembly can implement by ordinance. It may be possible to levy an excise tax on some element of commerce that is exempted from sales tax (e.g., placing an excise tax on motor vehicle fuel which is then sold to a tax-exempt customer). Excise taxes can also be levied in conjunction with sales taxes; this situation currently exists in regards to tobacco sales in Sitka.

Value-added taxes (VATs) are a form of sales tax which taxes value added to products and services at each step in a wholesale chain. At each transfer point, the value added by the transferring party is taxed. An example is sales of locally manufactured products. When the product is crafted by the first manufacturing party, no sales tax is paid on the raw ingredients. Then, the difference between the price charged to final retailers and the cost of the raw materials and labor to manufacture it (i.e., the "value added") is then taxed. The final sale is taxed at full value. A value-added tax does not need to be at the same percentage as a final sales tax.

4. Taxes Being Discussed in Regards to Fuel Are Excise Taxes, Not Sales Taxes

Retail sales of fuel are already taxed via sales tax, subject to existing exemptions that apply to all sales. Imposition of an additional tax, a fuel tax, would be an excise tax. It would be levied at some point in the wholesale chain other than the final retail sale. The tax could be based on value; however, such excise taxes are more commonly levied at some fixed value per unit. An example would be an excise tax of 10 cents a gallon on all wholesale transfers of fuel, regardless of the cost per gallon. Another example might be an excise tax of \$5.00 per ounce on all wholesale transfers of unprocessed marijuana.