

POSSIBLE MOTION

I MOVE TO approve Ordinance 2017-03 on
second and final reading.

MEMORANDUM

To: Mayor Hunter and Members of the Assembly
Mark Gorman, Municipal Administrator

From: Jay Sweeney, Chief Finance and Administrative Officer

Date: January 17, 2017

Subject: Prospective Revenue from Increase of Sales Tax Cap

Mayor Hunter and Members of the Assembly,

I anticipate that a question will be asked as to how much additional sales tax revenue would result from an increase in the taxable transaction limit to \$12,000.

A precise estimate is difficult to provide, as data does not exist regarding how many sales over the taxable transaction limit fall within sales price bands.

For example, the current taxable transaction limit is \$3,000. Merchants are not required to report their sales over this amount in transaction bands, such as between \$3,000 and \$4,000, over \$10,000, etc., as requiring this level of extra reporting would be onerous and burdensome on merchants.

We do know, however, that if the taxable transaction limit was eliminated completely, approximately \$2,287,000 in additional sales tax per year would be generated, assuming the current exemption scheme and no loss of business.

Rather than being a straight line function, sales transaction totals follow a logarithmic function sloping curve. With each successively higher transaction price, the number of transactions that occur at that price decline at a logarithmic rate.

Given this, the best answer is a general estimate of a potential range of additional tax revenues. I would estimate that raising the transaction limit to \$12,000 would generate between \$1,000,000 and \$1,500,000 in additional tax revenues.

The category of business least affected by the \$12,000 cap would be construction, as many construction contracts far exceed \$12,000. The total amount of exempt construction sales in FY16 was \$10,376,194, resulting in \$570,691 in taxes being forgone (at 5.5%). It is also important to note that exemption P, sale for resale, means that much of this commerce goes untaxed.

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2017-03

AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA AMENDING SITKA GENERAL CODE CHAPTER 4.09 "SALES TAX" AT SECTION 4.09.100 "EXEMPTIONS" AT (N) "OVER THREE THOUSAND DOLLARS ON SALES AND RENTS OF TANGIBLE PERSONAL PROPERTY AND ON SALES OF SERVICES, AND OVER THREE THOUSAND DOLLARS IN RENT OR LEASE OF REAL PROPERTY ON A MONTHLY BASIS"

1. CLASSIFICATION. This ordinance is of a permanent nature and is intended to be a part of the Sitka General Code of the City and Borough of Sitka, Alaska.

2. SEVERABILITY. If any provision of this ordinance or any application thereof to any person or circumstance is held invalid, the remainder of this ordinance and application thereof to any person and circumstances shall not be affected thereby.

3. PURPOSE. The purpose of this ordinance is to amend the sales tax cap exemption detailed in Sitka General Code 4.09.100(N) by increasing the cap from three thousand dollars to twelve thousand dollars.

4. ENACTMENT. NOW, THEREFORE, BE IT ENACTED by the Assembly of the City and Borough of Sitka that the Sitka General Code Title 4 Chapter 4.09 "Sales Tax" is amended as follows (new language underlined; deleted language stricken):

Chapter 4.09
SALES TAX

4.09.100 Exemptions.

The following sales are exempt from taxation:

N. Over ~~Three~~ Twelve Thousand Dollars on Sales and Rents of Tangible Personal Property and on Sales of Services, and Over ~~Three~~ Twelve Thousand Dollars in Rent or Lease of Real Property on a Monthly Basis. That portion of a selling price for a single piece of equipment or tangible personal property or sale unit in excess of ~~three~~ Twelve thousand dollars is exempt. A single sale unit is:

- 1. Any retail merchandise sale where the selling price is totaled on one invoice or any sales slip, although this exemption does not apply if any portion of the invoice or sales slip refers to more than one business day;

