

Memorandum

TO: Jay Sweeney, Interim Municipal Administrator
Mayor Mim McConnell and Members of the Assembly

FROM: Randy Hughes, Assessing Director

SUBJECT: Amendments to the Property Tax Provisions at SGC Chapter 4.12
Entitled "Property Tax"

DATE: July 9th 2013

The proposed changes to SGC 4.12 are intended to improve the efficiency and quality of business personal property assessments and more accurately define the duties of the assessor.

Improving the personal property program is an ongoing process. In 2011 the department implemented new depreciation tables, instructions and examples of taxable personal property. As a result, business property valuations have significantly increased.

One area of concern is the amount of personal property returns that are not submitted and businesses that have never filed. For 2013 only 431 (85%) of the business personal property and 1099 (55%) of the personal property returns that were mailed to taxpayers were returned. Currently the City has 504 business personal property accounts compared to 1667 active sales tax accounts.

The proposed exemption provides the greatest benefit to small businesses. This ordinance changes the assessment and taxation of business personal property by making the first \$25,000 of property value exempt. Using the numbers from 2013, the \$25,000 exemption level would have reduced the number of taxable accounts by over 76%, but decreased the taxable BPP base by less than 10%. The average tax bill for each of the 384 exempted accounts would have been \$32.95.

The amount for the exemption level was established with the intent of maintaining 90% of the BPP taxable base. Arguments could be easily made to increase or decrease this amount. For instance a \$10,000 level exemption would reduce the taxable accounts by over 64% and only reduce the taxable base 5.5%. Going the other direction, a \$100,000 level exemption would reduce the taxable accounts by over 90% and still retain over 80% of the taxable BPP base

A complete table of the exemption levels and results as follows:

| <u>BPP EXEMPTION</u> | <u>2013 BPP VALUE</u> | <u>BILLING COUNT</u> | <u>COUNT CHANGE</u> | <u>VALUE CHANGE</u> | <u>REVENUE</u> | <u>LOST REVENUE</u> |
|--------------------------|---------------------------|--------------------------|-------------------------|-------------------------|----------------|-------------------------|
| \$0 | \$53,337,326 | 504 | 0.0% | 0.0% | \$320,024 | \$0 |
| \$10,000 | \$50,425,424 | 181 | 64.1% | 5.5% | \$302,553 | \$17,471 |
| \$15,000 | \$49,600,490 | 152 | 69.8% | 7.0% | \$297,603 | \$22,421 |
| \$20,000 | \$48,880,830 | 135 | 73.2% | 8.4% | \$293,285 | \$26,739 |
| \$25,000 | \$48,253,516 | 120 | 76.2% | 9.5% | \$289,521 | \$30,503 |
| \$30,000 | \$47,683,501 | 106 | 79.0% | 10.6% | \$286,101 | \$33,923 |
| \$50,000 | \$45,963,133 | 72 | 85.7% | 13.8% | \$275,779 | \$44,245 |
| \$75,000 | \$44,402,128 | 54 | 89.3% | 16.8% | \$266,413 | \$53,611 |
| \$100,000 | \$42,748,473 | 44 | 91.3% | 19.9% | \$256,491 | \$63,533 |

Many jurisdictions throughout the state have adopted a partial business personal property exemption with levels ranging from \$20,000 to \$100,000.

- Ketchikan \$25,000
- Juneau \$100,000
- Kenai \$100,000
- Kodiak \$20,000
- Anchorage \$25,000

The Municipality of Anchorage enacted their partial exemption for the 2005 tax year. In the following years, the number of accounts decreased by over 50% and yet the value of the BPP tax base actually increased more than 20% since the department was then able to properly monitor the program.

More recently, the City of Ketchikan adopted their partial exemption for 2012 and is experiencing similar results. For 2013 the taxable accounts show a reduction of over 66% and an increase in the BPP tax base of 27%.

The City and Borough of Sitka Assessor has a duty to produce a Business Personal Property roll that is equitable and relevant to actual market value. Given the current level of staffing and technology, producing such a BPP roll has been difficult. The adoption of such an exemption would be a major step forward in alleviating this situation.

Potential Benefits:

- The reduction in the number of accounts would obviously translate to a significant reduction in the amount of labor and expense required in preparing the business personal tax roll. While business personal filings would still be

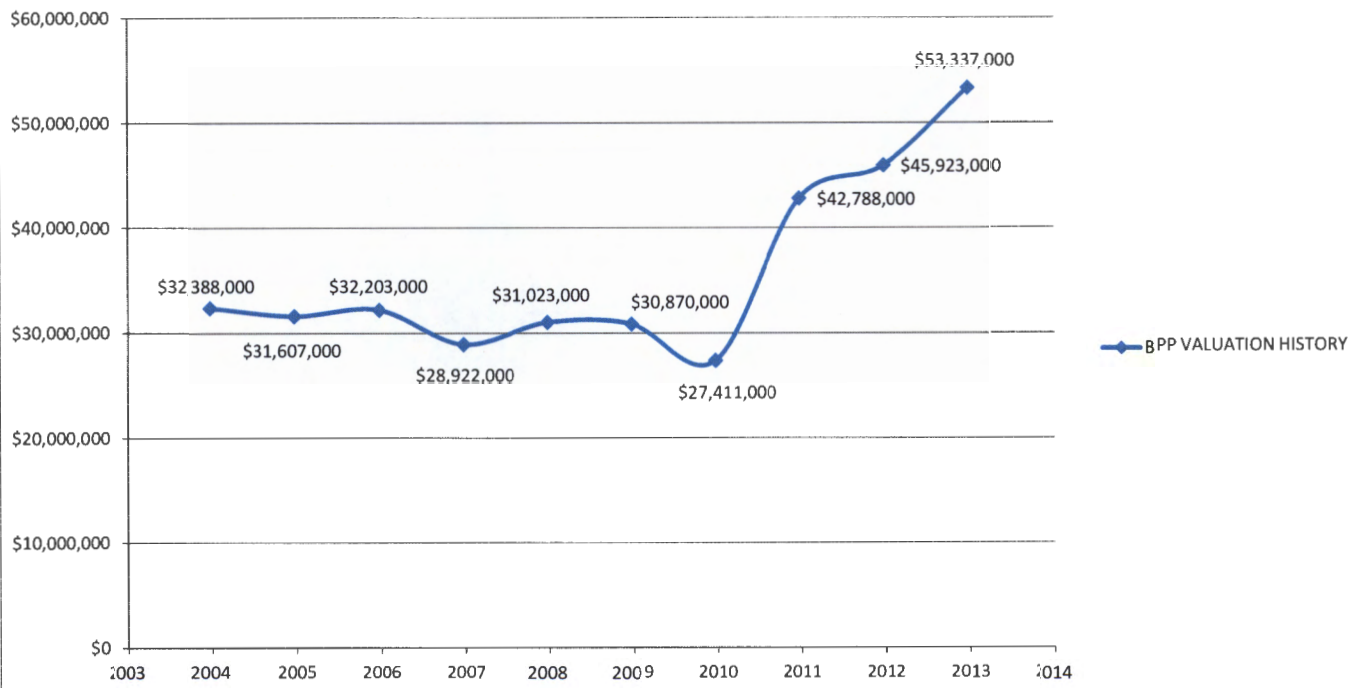
required, the number of accounts that would actually generate a taxable value assessment and tax billing would be greatly reduced. Processing time, postage, labor, materials and other expenses would all be reduced.

- Probably the most significant benefit is that state-wide experience has shown that personal property staff spends an inordinate amount of time on small value accounts. Low value accounts are typically the accounts with the highest level of failures to report. These accounts must then be “force filed”, which simply means that staff must prepare an estimate for the business as the business owner has failed to submit a report themselves. Obviously, this requires considerably more staff time and generates a much higher degree of inquiries and appeals when that assessment is issued.
- The perception that personal property taxes are detrimental to business start-ups would also be addressed. The typical small business start-ups begin with a relatively small investment. Using a partial property tax exemption, such new businesses would have no personal property tax bill or at least a small one. The amount of the actual bill would be dependent upon what level of exemption is chosen. And, since all businesses would receive the benefit of the exemption amount, even those businesses who would still pay the tax, receive the benefit of the same exemption.
- The financial impact to business personal property tax revenues would be minimal. Again, the size of the financial impact would be dependent upon the exemption level chosen. However, the majority of revenues would be retained while achieving the reductions in expenses and providing a property tax reduction to the commercial community.

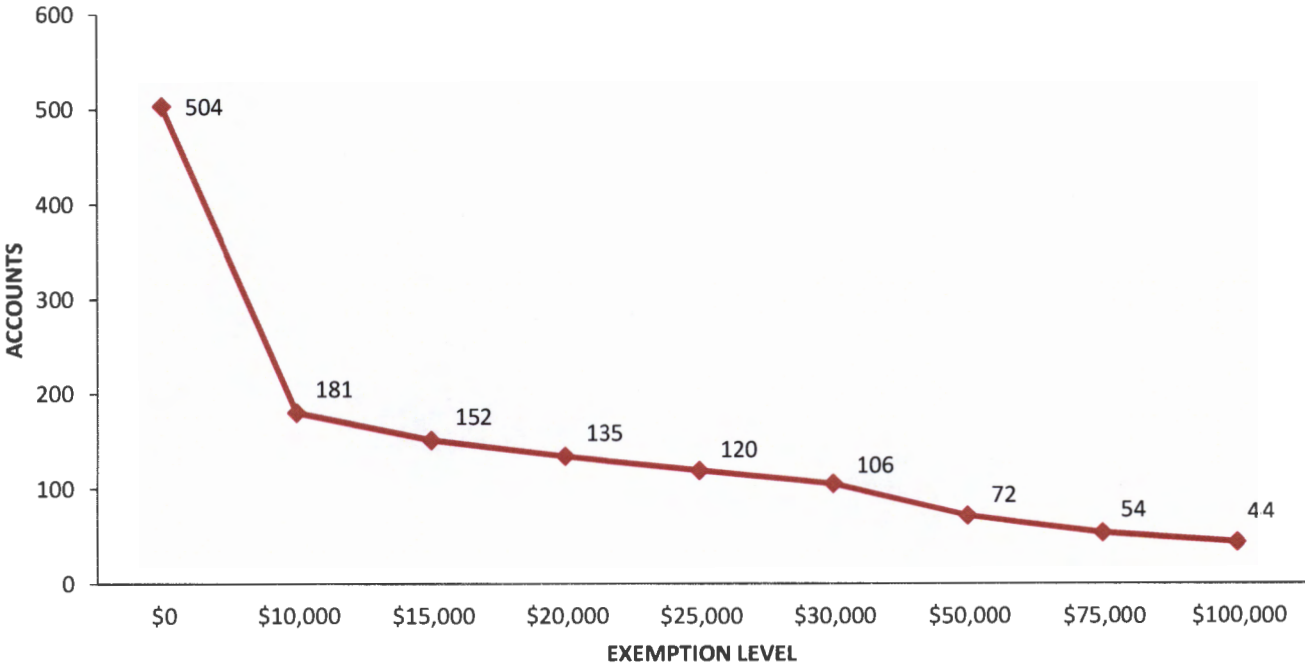
Implementation Procedures:

- The Assessor’s Office would like to propose a fresh start for all personal property accounts by granting amnesty for any fees, penalties and interest associated with previously unreported assets. The amnesty period is limited to the 2014 reporting period, and only those assets self-declared by the taxpayer.
- New return forms are to be created. It is our intent to have the business property return also available online in Excel format that could be completed electronically and filed via e-mail. The form automatically calculates depreciation and auto-fills the totals to reduce the workload of business personal filers.
- Explanation letter and forms to be sent out to all active sales tax account owners and current business property account taxpayers.
- Multiple public service announcements to make the public aware of the filing requirements for 2014.

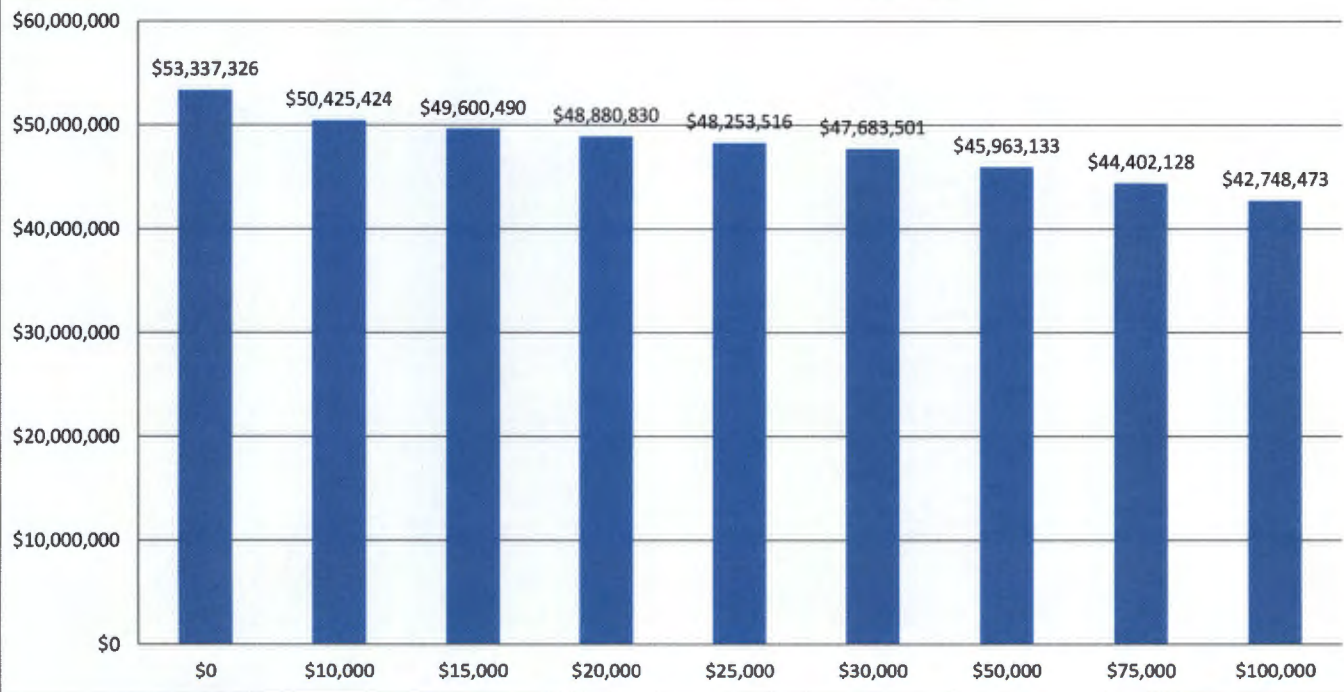
BUSINESS PROPERTY VALUATION HISTORY



NUMBER OF TAXABLE ACCOUNTS



TAXABLE VALUE BY EXEMPTION LEVEL



ANTICIPATED REVENUE BY EXEMPTION LEVEL





CITY AND BOROUGH OF SITKA

Assessor's Office, 100 Lincoln St., Room 106, Sitka, AK 99835

Phone: 907-747-1822 Fax: 907-747-6138 Email: ruth@cityofsitka.com

Business Property Return is also available for electronic filing (Excel) at www.cityofsitka.com

2014 - BUSINESS PROPERTY RETURN

THIS FORM IS TO BE FILED ON OR BEFORE FEBRUARY 15th 2014.

| | |
|------------------|---|
| Account Number: | Type of Business: |
| Owner Name: | Business Name & Subsidiary/Alias (If Applicable): |
| Mailing Address: | Location/Address of Property: |

| Person to Contact Concerning This Report | |
|--|---------|
| Name: | Title: |
| Phone: | E-Mail: |

Instructions for filing Business Property Return: This return should be used for any retail, wholesale, industrial, hotel, service, professional or other enterprises. Commercially used aircraft are to be declared on this return. Property that is temporarily out of the City & Borough of Sitka on January 1st is taxable. Licensed vehicles, boats, float houses and personal aircraft are not to be declared on this form. Include a leased equipment listing, so that the lessor may be contacted.

Fair market value should be given for each category of assets listed. IRS depreciation is not acceptable. Depreciation table instructions and examples of machinery and equipment year life tables can be found on pages 9 through 12. Note separately any assets sold or discarded during the preceding year. All returns are subject to the Assessor's Office review and/or revision. Incomplete forms may be returned to taxpayer.

ITEMIZATION IS REQUIRED; A PRINTOUT OF ASSETS MAY BE ATTACHED TO THIS FORM.

| | |
|--|---|
| Who must file? Every person, association, corporation or firm (regardless of residency) who owns or controls business property which is not specifically exempt in the City & Borough of Sitka. | What must be listed? All business property located in the City & Borough of Sitka that was in the control of, or use by, the taxpayer on January 1. This includes assets owned, leased by, loaned to, or borrowed by the taxpayer. |
| How Do I File? Complete this report by reviewing steps 1 through 8 on the BP Summary page. The electronic form will self calculate depreciation and market value for assets. | Can't make the February 15 filing deadline? Upon formal request by the taxpayer prior to the February 15 deadline, the Assessor may grant an extension of up to 29 days. |
| The Assessor's Office will declare a value for returns not received by the due date and the property assessment will be based upon the Assessor's declared value. | |

SGC 4.12.055. Failure to file return - Fee - Penalty.

(A) A taxpayer who fails to file a return as provided in SGC 4.12.50A shall be subject to a fee of \$100.00 for the cost of the assessor's preparation of a valuation based on information available or obtained by the assessor for the taxable property as allowed under SGC 4.12.030 (also referred to as "forced filing"). The taxpayer shall be notified of the fee as of the date of mailing of business property and personal property assessment notices.

(B) A person or entity that knowingly makes a false affidavit to a business property or personal property return required by this section relative to the amount, location, kind or value of property subject to taxation with the intent to evade the taxation, is guilty of a violation. Upon conviction, the violator shall be subject to penalty as provided in SGC 1.12.010.



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2014 BUSINESS PROPERTY RETURN

I HEREBY DECLARE OWNERSHIP OR CONTROL OF THE FOLLOWING TAXABLE BUSINESS PROPERTY

| | | |
|-------------------------------|--|--------------------------------|
| NO CHANGE FROM PREVIOUS YEAR? | (Enter "No Change" at right, sign & date return) | NOT APPLICABLE FOR 2014 |
|-------------------------------|--|--------------------------------|

| | |
|------------------------|---|
| NO LONGER IN BUSINESS? | (Complete lines 1,2,&3 below, sign & date return) |
|------------------------|---|

1 When did your business close or cease conducting business in the City & Borough of Sitka:

2 Did you sell your business:

3 If so, who is the new owner:

ASSETS

| | ACQUISITION COST | ACCRUED DEPRECIATION | MARKET VALUE | FOR OFFICE USE ONLY |
|---|------------------|----------------------|--------------|---------------------|
| <u>Pages 3 & 4</u> OFFICE EQUIPMENT AND COMPUTERS | | | | |
| <u>Page 5</u> FURNITURE, FIXTURES AND LEASEHOLD | | | | |
| <u>Page 6</u> MACHINERY AND EQUIPMENT | | | | |
| TOTAL (RND \$100) | | | | |
| <u>Page 7</u> LEASED ASSETS | SEE PAGE 7 | | | |
| <u>Page 7</u> SOLD OR DISPOSED ASSETS | SEE PAGE 7 | | | |

AIRCRAFT & HELICOPTERS

| | | | | |
|---------------------------|--------|-----------------|--|--------------|
| <u>Page 8</u> AIRCRAFT | —————→ | | | MARKET VALUE |
| SOLD AIRCRAFT | | | | |
| TRANSFER PRICE (AIRCRAFT) | | BUYERS NAME | | |
| TRANSFER DATE | | MAILING ADDRESS | | |

SIGNATURE/TITLE OF PERSON PREPARING RETURN _____

DATE _____

Please print name(s) here so that we may correctly identify the contact person for this report if needed.

COMPUTERS & SOFTWARE

| ITEM DESCRIPTION | ACQUISITION COST | YEAR ACQUIRED | ECONOMIC LIFE | ACCRUED DEPRECIATION | MARKET VALUE |
|------------------|------------------|---------------|---------------|----------------------|--------------|
| | | | 4 | | |
| | | | 4 | | |

Page 3

OFFICE EQUIPMENT

| ITEM DESCRIPTION | ACQUISITION COST | YEAR ACQUIRED | ECONOMIC LIFE | ACCRUED DEPRECIATION | MARKET VALUE |
|------------------|------------------|---------------|---------------|----------------------|--------------|
| | | | 5 | | |
| | | | 5 | | |

Page 4

FURNITURE, FIXTURES & LEASEHOLD

| ITEM DESCRIPTION | ACQUISITION COST | YEAR ACQUIRED | ECONOMIC LIFE | ACCRUED DEPRECIATION | MARKET VALUE |
|------------------|------------------|---------------|---------------|----------------------|--------------|
| | | | 10 | | |
| | | | 10 | | |

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MACHINERY & EQUIPMENT

| ITEM DESCRIPTION | ACQUISITION COST | YEAR ACQUIRED | ECONOMIC LIFE | ACCRUED DEPRECIATION | MARKET VALUE |
|------------------|------------------|---------------|---------------|----------------------|--------------|
| | | | 10-15-20 | | |
| | | | 10-15-20 | | |

Page 6

LEASED AND SOLD ASSETS

| LEASED / SOLD ITEM DESCRIPTION | LEASE (L) SOLD (S) | LESSOR / BUYER | ADDRESS |
|--------------------------------|--------------------|----------------|---------|
| | | | |
| | | | |

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AIRCRAFT AND HELICOPTERS

| REG. NUMBER | ACQUISITION COST | YEAR ACQUIRED | YEAR BUILT | MAKE / MODEL | MARKET VALUE |
|-------------|------------------|---------------|------------|--------------|--------------|
| | | | | | |
| | | | | | |

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**CITY AND BOROUGH OF SITKA ASSESSOR'S OFFICE
 JANUARY 1, 2014 BUSINESS PERSONAL PROPERTY
 VALUE TABLES**

| Computers | | Machinery and Equipment * | | | | | | | | | |
|--------------------|---------------|----------------------------------|---------------|---------------------|---------------|---------------------|---------------|---------------------|---------------|-------------|---------------|
| 4-Year Life | | 5-Year Life | | 10-Year Life | | 15-Year Life | | 20-Year Life | | | |
| Year | Factor | Year | Factor | Year | Factor | Year | Factor | Year | Factor | Year | Factor |
| 2013 | 80% | 2013 | 85% | 2013 | 92% | 2013 | 95% | 2013 | 97% | | |
| 2012 | 60% | 2012 | 69% | 2012 | 84% | 2012 | 90% | 2012 | 93% | | |
| 2011 | 40% | 2011 | 52% | 2011 | 76% | 2011 | 85% | 2011 | 90% | | |
| 2010 | 20% | 2010 | 34% | 2010 | 67% | 2010 | 79% | 2010 | 86% | | |
| Prior | 10% | 2009 | 23% | 2009 | 58% | 2009 | 73% | 2009 | 82% | | |
| | | Prior | 20% | 2008 | 49% | 2008 | 68% | 2008 | 78% | | |
| | | | | 2007 | 39% | 2007 | 62% | 2007 | 74% | | |
| | | | | 2006 | 30% | 2006 | 55% | 2006 | 70% | | |
| | | | | 2005 | 24% | 2005 | 49% | 2005 | 65% | | |
| | | | | 2004 | 21% | 2004 | 43% | 2004 | 60% | | |
| | | | | Prior | 20% | 2003 | 37% | 2003 | 55% | | |
| | | | | | | 2002 | 31% | 2002 | 50% | | |
| | | | | | | 2001 | 26% | 2001 | 45% | | |
| | | | | | | 2000 | 23% | 2000 | 40% | | |
| | | | | | | 1999 | 21% | 1999 | 35% | | |
| | | | | | | Prior | 20% | 1998 | 31% | | |
| | | | | | | | | 1997 | 27% | | |
| | | | | | | | | 1996 | 24% | | |
| | | | | | | | | 1995 | 22% | | |
| | | | | | | | | 1994 | 21% | | |
| | | | | | | | | Prior | 20% | | |

* Examples of Machinery and Equipment corresponding to the 5,10,15 and 20-year life tables can be found on our website.

IRS Depreciation Is Not Acceptable

Use this Column for Furniture & Fixtures

Calculation Instructions

Select the table to use (i.e.: 5-years, 10-years, etc). Scan down the table until you find the year you purchased the personal property.

The percentage next to the year of purchase should be used to value the personal property. For example, using the 15-year table, property acquired in 2012 at an original cost of \$5,000 would be valued at 90% of cost. The amount to be declared would be calculated as follows: **\$5,000 X 90% = \$4,500**

Note: Artwork is to be reported a original cost.

This document is updated annually. If you have any questions as to the filing of your statement, please do not hesitate to contact the Assessing Department at (907) 747-1822.



Assessing Department
City and Borough of Sitka
100 Lincoln Street, Sitka, AK 99835

DEPRECIATION SCHEDULE

| | | | | | |
|------|------|------|------|------|------|
| 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| 100% | 85% | 70% | 55% | 40% | 35% |

COMPUTER DEPRECIATION SCHEDULE

| | | | | | |
|------|------|------|------|------|------|
| 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| 100% | 75% | 60% | 45% | 30% | 20% |