



City & Borough of Sitka

Administration Office

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Memorandum

January 17, 2012

To: Mayor and Assembly Members
From: Jim Dinley, Municipal Administrator
Subject: Sales Tax Changes

To prepare a balanced FY13 General Fund budget, I need the Assembly approval to modify the current sales tax policy and timely legal support.

I trust all have had the opportunity to read the proposed changes to the Sales Tax code. I know there will be "discussions" on certain exemptions but there are other sales tax changes that could be agreed upon or deleted with a minimum of discussion. Once approved these exemptions could be implemented upon passage without waiting for the more contentious exemptions being agreed upon.

I would like to have an agenda item for the "easy ones" and separate agenda(s) items for the expected contentious exemptions.

In addition, I believe there are exemptions that do not require changes. They are: A, B,C,E, H, K, Q, and S, X, AA

These exemptions should be eliminated; L, R, T,

These exemptions should be approved as recommended by the underlined changes: D,F,G,I,J,M,O,P,U,V,W,Z,AB

These exemptions --N and Y---should be separate agenda items. Rational being should one or the other exemptions pass then implementation is not delayed pending approval of the other.


Item N --- Raise the "cap" on Sales and Rent of Tangible Personal Property. This would help offset the loss of the Rural Schools / Roads monies. The School District televised meeting noted that with the loss of the Rural Schools / Roads money they will take the five hundred thousand dollars out of their reserve funds.

Should Item Y pass the Assembly and the Federal Government subsequently pass later this year some variation of the Rural Schools / Roads , the Assembly would have the option as to how

this money would be distributed to a CBS infrastructure fund and the School District reserve account.

Should the Assembly not favorably consider the three hundred dollar rebate to seniors an option to consider would be to retain the over 65 no tax policy on "consumable" grocery items, utilities, and fuel oil purchases while taxing non-consumables grocery store items and all other sales.

Memo

To: Jim Dinley, Municipal Administrator 
From: Jay Sweeney, Finance Director
Date: 12/19/2011
Re: Discussion Items For January 24 Assembly Meeting In Regards to Mechanics of the Sales Tax Cap

Jim,

As we discussed this morning, we have not been able to receive legal review of the proposed ordinance modifying the sales tax cap before the agenda deadline for the January 24th meeting. It would still be productive, however, to have an Assembly discussion item on the matter, in order to gauge Assembly intent and support on aspects of the proposed changes.

The essence of the matter is that we will be proposing changes to Section 4.09.100 N of the Sitka General Code (the \$1,000 sales tax cap) for the purpose of generating additional sales tax revenue. To frame the discussion there are several key issues for the Assembly to consider.

Exempt sales under this exemption fall into several broad categories. The wording of any modification needs to be well written in order to ensure that no unintended consequences occur, such as making sales taxable that the Assembly wishes to be exempt. These broad categories include:

- 1) Retail merchandise sales of items with individual selling prices over \$1,000 each, and, aggregate merchandise sales of over \$1,000 per sales invoice.
- 2) Sales of services with individual selling prices per service unit in excess of \$1,000.
- 3) Rentals in excess of \$1,000.

The main types of sales that would be affected by any change here will be rentals, charters, high end retail merchandise sales, and construction jobs.

The key issues that the Assembly needs to weigh in on are as follows:

- 1) What dollar amount should we raise the cap to, \$3,000 or to Juneau's cap of \$7,500?
- 2) Are we to modify the code to change the existing policy from total per sales invoice to amount per individual item sold?
- 3) Are we to put restrictions on the packaging of the sale of services provided over multiple days into one single sales item? An example would be a week-long adventure package for multiple people sold as one item for one sales price (e.g., an Alaska adventure package for 10 people sold for \$30,000).
- 4) Are we to make any special allowances for construction jobs?

- 5) Are we to delay the implementation date of any decisions until after upcoming summer season, due to the fact that many reservations have already been made with adventure service providers?

There are potentially two alternative approaches to consider in answering the above questions. The first is the historical route we have taken, which is to set the cap low but spell out specific exceptions. An alternative approach is that taken by Juneau, which I have included for reference. In Juneau, the cap is set at \$7,500 per transaction, but the language is broad and does not spell out special allowances and exceptions.

The theory behind Juneau's approach is that, by setting the cap high enough, that there is no need to spell out invoice versus sales item, packaging of services into single amounts, etc. The higher cap simply includes the vast majority of all transactions in a broader sense.

Regards,

Jay Sweeney

Juneau

That part of a selling price of a single item that exceeds \$7,500.00. For purposes of this subsection, a single item is:

- (a) An item sold in a single sale consisting of integrated and interdependent component parts affixed or fitted to one another in such a manner as to produce a functional whole. Optional accessories, including goods, services, and contracts for services, if used or essential for the operation of the item, shall be considered part of the functional whole; or
- (b) A single delivery of fuel oil in excess of 50,000 gallons delivered by marine transportation to a single customer.

(22)

That portion of the selling price of a single service that exceeds \$7,500. For the purposes of this subsection, a single service is an interrelated and interdependent function necessary to perform a specified action. If a single service is performed over a period exceeding one month, the selling price must be apportioned to a monthly or invoice basis, whichever is more frequent, proportionate to the service performed, except for

- (a) a commission paid to an agent for negotiating the sale of real property, or
- (b) a written contingent fee agreement award or settlement.