

Kenai Peninsula Borough

Finance Department

MEMORANDUM

TO: Members, Kenai Peninsula Borough Assembly

THRU: Kelly Cooper, Assembly President ^{KC}
Hal Smalley, Assembly Vice-President ^{(HS) for H. S.}

FROM: Brandi Harbaugh, Finance Director ^{BH}
Sean Kelley, Deputy Borough Attorney ^{SK}

DATE: January 9, 2020

RE: Ordinance 2020-03, Amending KPB 5.18 Sales Tax Code and Enacting KPB 5.19 – Uniform Remote Seller Sales Tax Code (Cooper, Smalley)

In order to implement a single-level statewide sales tax administration, numerous local taxing jurisdictions within Alaska banded together to establish an intergovernmental entity known as the Alaska Remote Seller Sales Tax Commission (the "Commission"). This ordinance represents the culmination of a process that began in June of 2019 and is the last step before municipal tax collected by remote sellers can be remitted to the borough through the Commission.

The recent decision by the United States Supreme Court in *South Dakota v. Wayfair* ("Wayfair") allows for the amendment of the sales tax code to account for remote sellers who do not have a physical presence in the borough, but do have a taxable connection with the borough. Remote sellers who make a substantial number of deliveries into or have large gross revenues from Alaska benefit extensively from the Alaska market, affecting the economy generally, as well as local infrastructure. The *Wayfair* decision provides guidance that includes the defensibility of a single-level statewide administration of remote sales tax collection and remittance so long as the law is not retroactive in its application and provides a safe harbor to sellers who have limited sales or transactions in Alaska.

There are currently 23 municipalities in Alaska that are members of the Commission. The function and powers of the Commission are set forth in the Alaska Intergovernmental Remote Seller Sales Tax Agreement (the "Agreement"), a cooperative agreement between Commission members.

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On November 5, 2019, the assembly unanimously passed Resolution 2019-056 authorizing the borough to become a member of the Commission and authorizing the mayor to sign the Agreement on behalf of the borough. Five of the incorporated cities within the borough are members of the Commission. In addition, representatives from the borough, the City of Soldotna, and the City of Kenai also comprise three of the seven Board of Director seats on the Commission.

Under the terms of the Agreement, in order to maintain membership in the Commission, local governments must enact the uniform Remote Seller Sales Tax Code ("Uniform Code") as adopted by the Commission's Board of Directors. The Board of Directors adopted the Uniform Code at its meeting on January 6, 2020. The Uniform Code will govern the collection and remittance of municipal sales tax applicable to remote or internet-based sales. The purpose of the Uniform Code is to comply with guidance in *Wayfair* by providing a statewide threshold criteria, streamlined single-level tax administration for remote sellers, and no retroactive application. The Uniform Code will provide for streamlined remote sales tax collection and remittance process which is necessary to avoid claims that local municipal tax unduly burdens interstate sellers.

This ordinance will adopt the Uniform Code, amend current borough sales tax code for consistency, and authorize the Commission to administer remote sales tax collection and remittance. In light of the *Wayfair* decision, failure to adopt a uniform, streamlined, remote seller sales tax code will jeopardize the ability of the borough and its cities to collect tax on remote sales.

Your consideration of this ordinance is appreciated.