

PROPOSED CHANGES IN BOROUGH SALES TAX AND PROPERTY TAX CODES

Mayor's Office, Kenai Peninsula Borough – June 20, 2016

Why the changes

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- Ensure tax responsibility is shared fairly between sales and property taxes, and all property owners
- Reliance on property taxes has been growing, and is projected to widen its lead over sales taxes
- Borough's Fiscal Year 2018 general tax levy is projected to increase from 4.5 mills to 5 mills
- Prepare for state cuts to schools and local services
- Update code; add efficiencies for public/borough

Raise sales tax cap to \$1,000

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- Sales tax would stop charging at \$1,000 per transaction; current borough limit is \$500
- Ordinance would exempt residential rent from tax
- Voter approval required to raise the cap (Oct. 4)
- Ordinance includes inflation adjustment in tax limit every 5 years, subject to assembly vote each time
- By Fiscal 2018, net gain from higher tax cap and rent exemption is estimated at \$2.9 million a year

Tax cap unchanged since 1965

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- The \$500 limit unchanged since borough voters adopted the first sales tax ordinance in 1965
- If adjusted for inflation, \$500 in 1965 would have the same buying power as more than \$3,000 today
- Tax limit is intended to prevent a loss of sales and loss of jobs to businesses outside the borough
- Proposed increase to \$1,000 at low end statewide
- Seward and Kenai get to make their own decisions

Sales tax caps around Alaska

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❑ North Pole	\$200	❑ Sitka	\$3,000
❑ Wasilla	\$500	❑ Bethel	\$10,000
❑ City of Kodiak	\$750	❑ Haines Borough	\$10,000
❑ Palmer	\$1,000	❑ Juneau	\$12,000
❑ Ketchikan Borough	\$1,000	❑ Kotzebue	No limit; \$1,000 limit on boats, cars, trucks, ATVs, snowmachines
❑ Petersburg	\$1,200	❑ Nome	No limit; \$1,500 limit on cars, trucks, ATVs and snowmachines
❑ Dillingham	\$2,000		
❑ Cordova	\$3,000		

Estimated change in tax revenues

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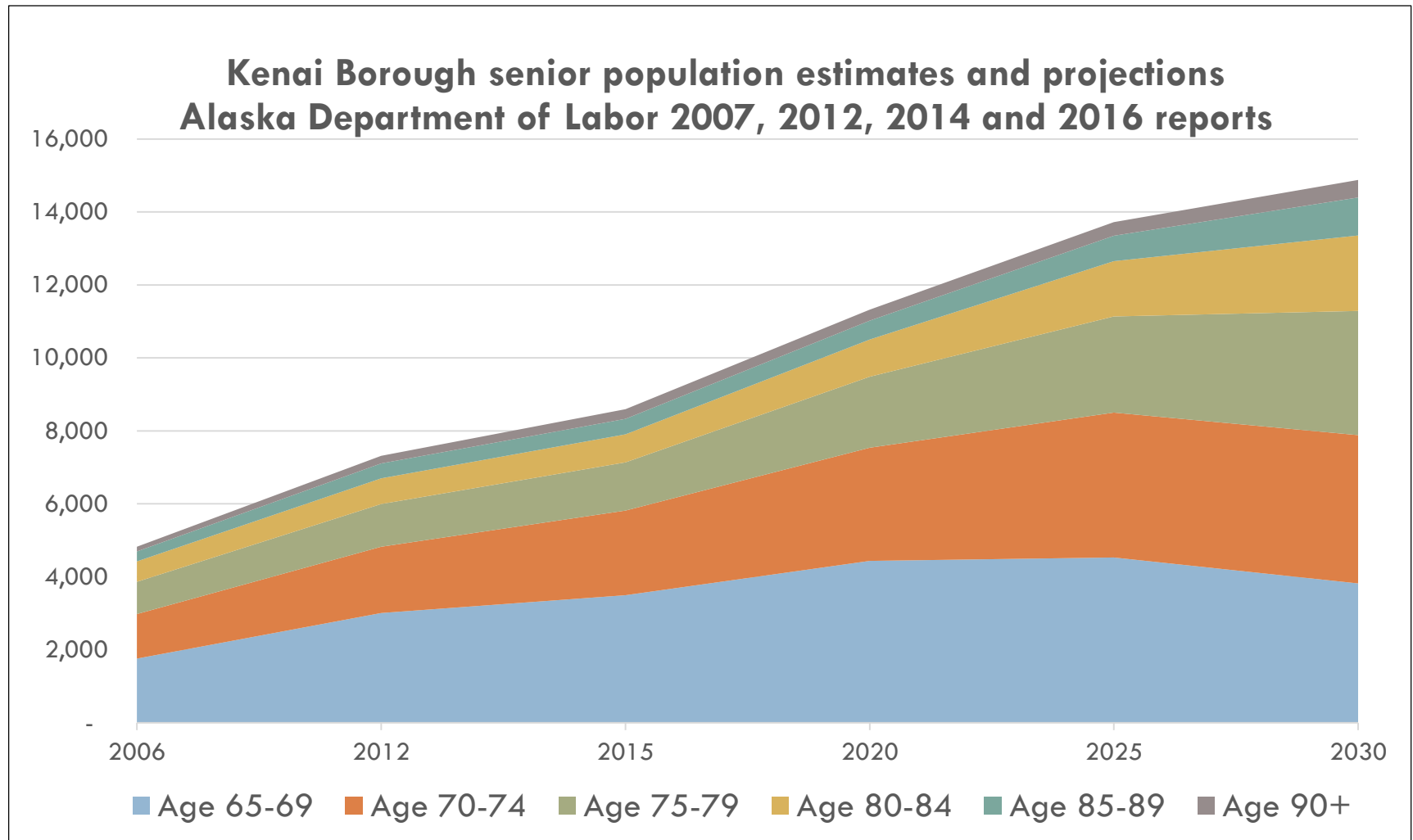
- Kenai Borough: Plus \$3.6 million from \$1,000 cap, minus \$700,000 from residential rent exemption
- Soldotna: Plus \$235,000, minus \$120,000
- Kenai: Plus \$423,000, minus \$157,000
- Homer: Plus \$358,000, minus \$231,000
- Seward: Plus \$203,000, minus \$77,000
- Seldovia: Plus \$5,600 and minus \$1,000

Senior property tax exemption

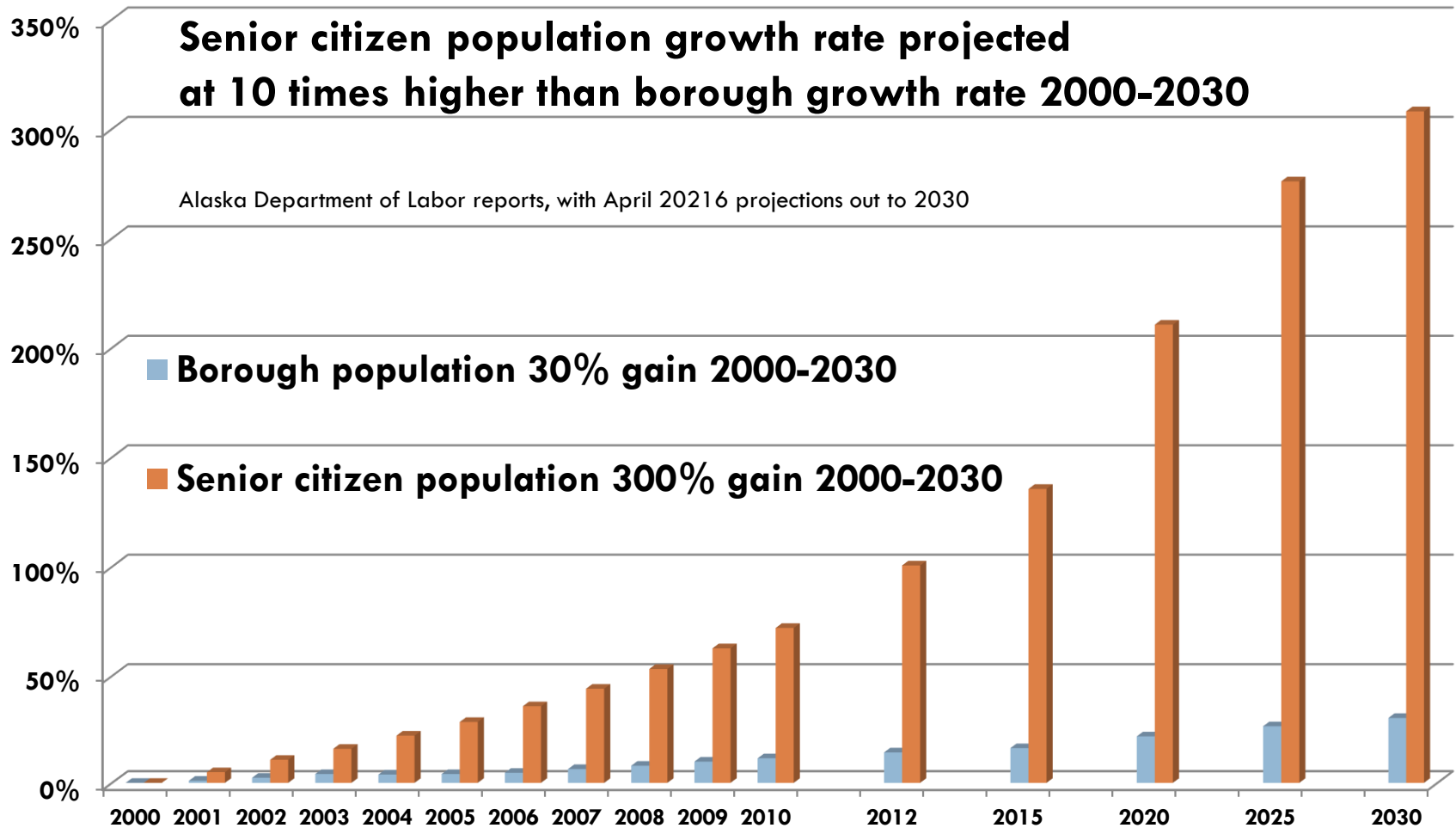
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- Senior citizens exempt from borough property taxes on \$300,000 in assessed value, plus \$50,000 residential exemption allowed for all homeowners
- State requires \$150,000 senior exemption
- Additional \$150,000 optional under state law; borough adopted, but not any cities in the borough
- North Slope only other \$150,000 option in state
- Growing senior population shifts tax load to others

Senior population growth

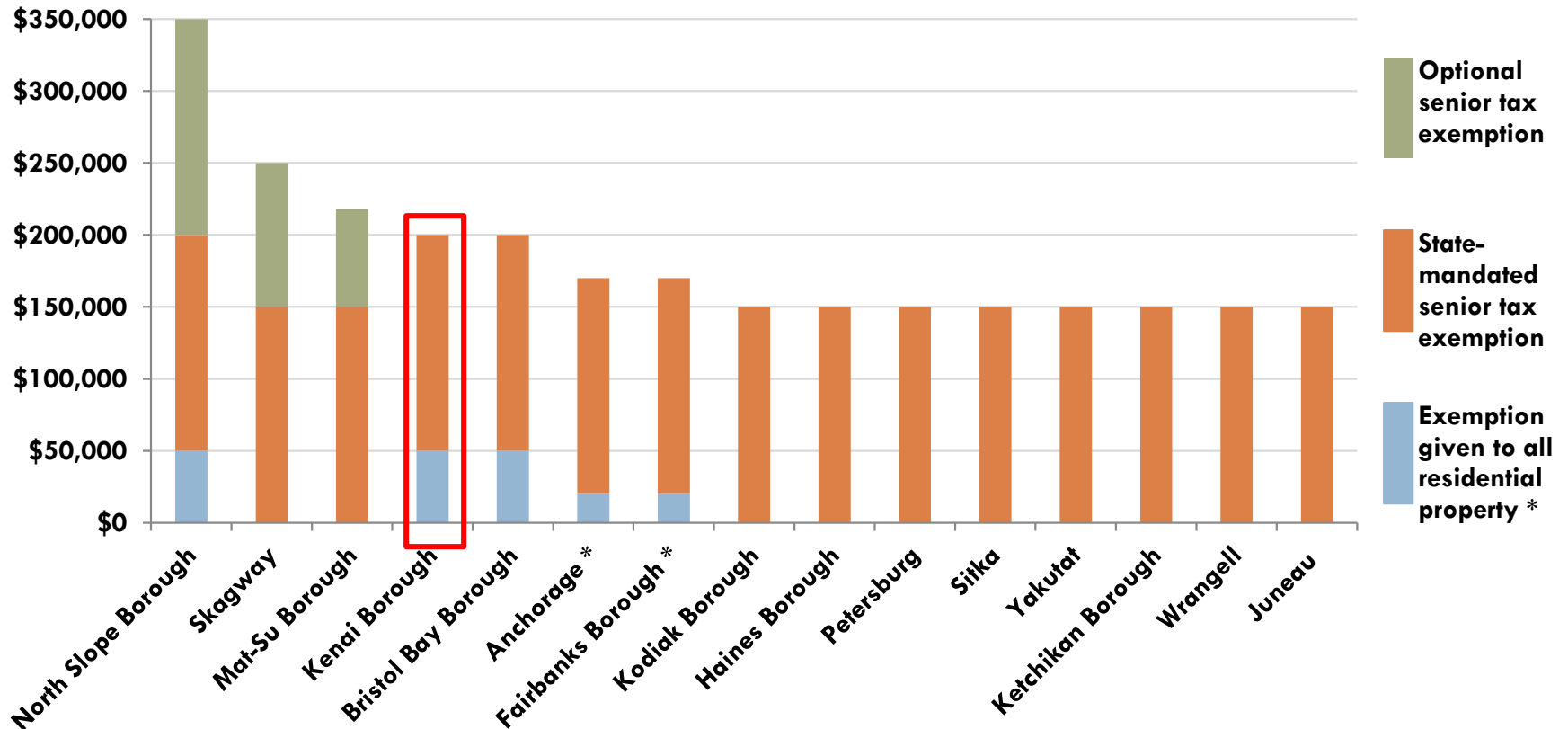


Senior population % gain



How we compare statewide

If phase-out is adopted, where the borough would stand in home tax exemption for newly eligible seniors in 2024



*Anchorage and Fairbanks exempt 10% and 20%, respectively, of residential property value up to \$20,000

Phased-in reduction

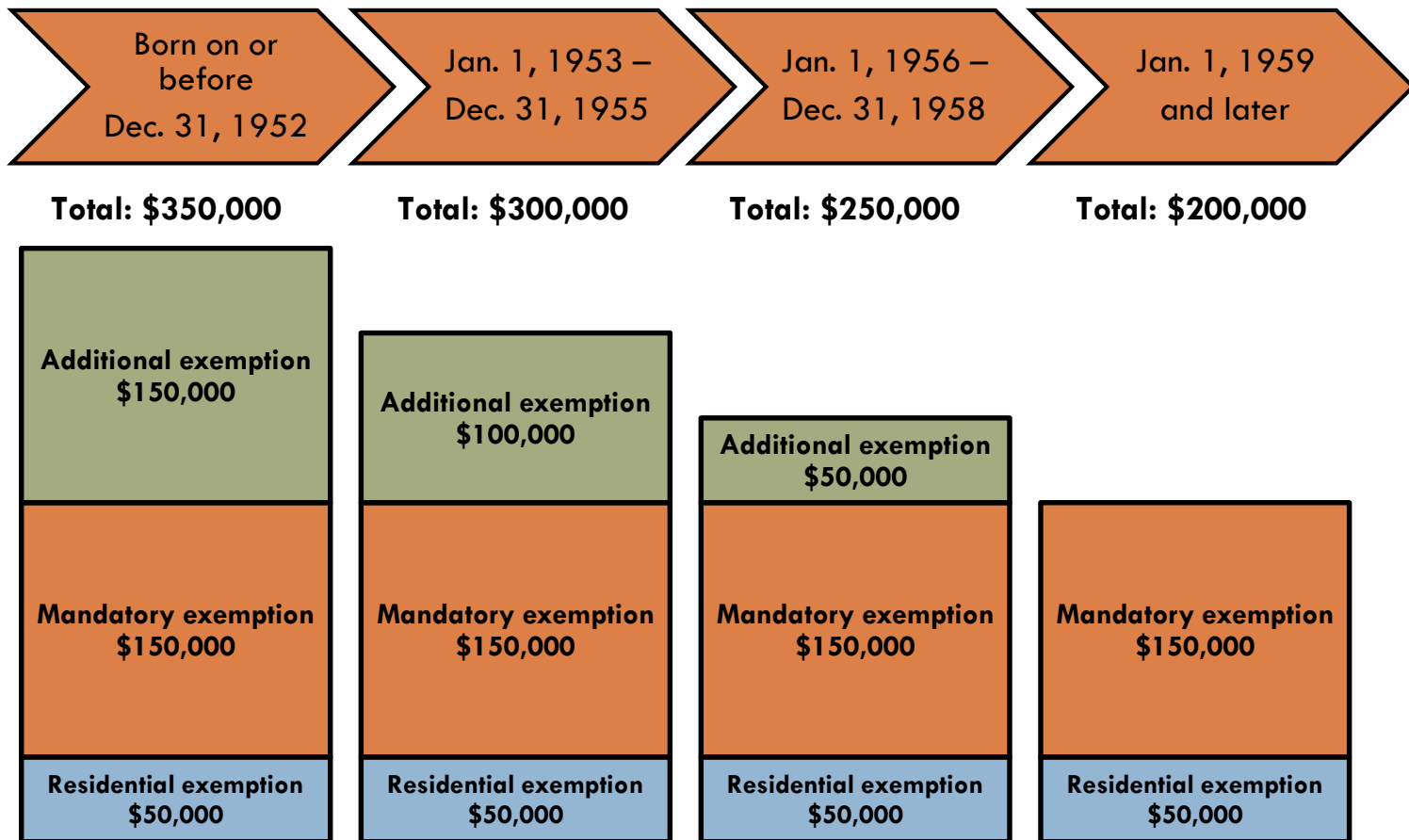
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- Ordinance structured to protect current recipients of exemption and new applicants through 2017
- Proposal would not reduce anyone's current benefit
- Reduced optional exemption would start in 2018, but only for seniors who don't reach 65 before then
- Senior tax exemption benefit would be reduced in three steps, with final change coming in 2024
- Intent is to give pre-65 residents time to prepare

Proposed phase-in schedule

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Senior citizens total property tax exemption by owner's birthday



Senior tax exemption

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- Optional \$150,000 senior exemption applies to borough and service area taxes — not city taxes
- Tax exemption change requires vote of the public
- No change in hardship exemption to protect vulnerable seniors, limiting property tax to 2% of their household's gross annual income
- Changes in borough tax receipts would be gradual, estimated at \$200,000 in 2018 and rising slowly

All other code changes

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- Sales tax and senior property tax exemption are each covered in their own borough ordinance
- A third ordinance addresses 40-plus other changes
- Changes in sales tax exemptions
- Clarifications in sales tax reporting rules
- Clearer determinations for taxable transactions
- Changes in property tax Board of Equalization
- Multiple changes to clear up administrative process

Sales tax code changes

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- Sales by nonprofits to the public would be taxable; customer is the taxpayer — not the nonprofit group
- Foods sold by stores ineligible to take food stamps (snack shops) would be subject to taxes year-round
- Vending machine foods subject to tax year-round
- Better definitions to collect sales tax on goods and services provided by businesses outside the borough
- Tax catalog orders taken in person within borough

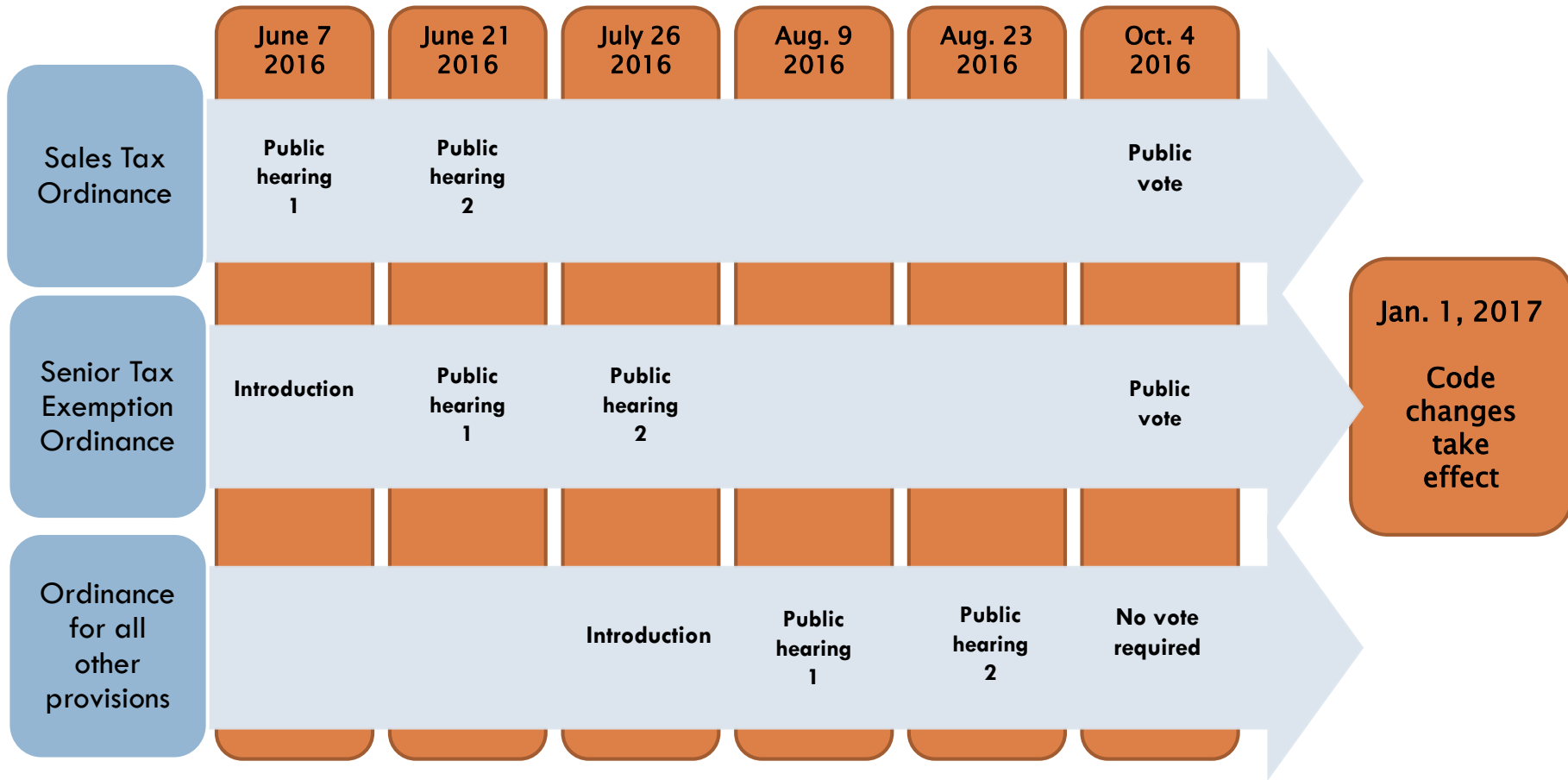
Sales tax code changes

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- Businesses with under \$2,500 a year in sales would be exempt from charging and remitting sales taxes
- Reduce tax filings by businesses without any tax due
- Clarify which city gets the sales tax on service calls
- Clarify that tax-exemption applies only to items permanently affixed to a construction project, not the equipment or supplies used on the job
- Collect tax on alcohol sold at fund-raising events

Timeline for ordinances

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For more information

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<http://www.kpb.us/mayor/sales-tax-and-property-code-revisions>