

# Municipal Taxation

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# Tax Authority

Articles IX and X of the Alaska Constitution and Title 29 of the Alaska Statutes establish the legal framework for municipal taxation.

- The Alaska Constitution delegates the state's taxation power to only organized cities and boroughs.
- The provision that "no tax shall be levied... except for a public purpose..." applies to municipal taxation, too.
- Home rule municipalities are granted broad powers by the Constitution, which provides that "...standards for appraisal of all property assessed by the state or its political subdivisions shall be prescribed by law..."
- General law municipalities can by law levy a tax or special assessment and impose a lien for its enforcement.
- Both home rule and general law municipalities are subject to limitations on their taxing powers by law.
- AS 29.45.010 authorizes cities, boroughs and unified municipalities to levy a property tax, which must be assessed, levied and collected as provided in AS 29.45. Authorizes implementation of sales and use taxes.
- Based on Article X, Section I of the Alaska Constitution: "...a liberal construction shall be given to the powers of local government...", it is assumed that all real and personal property is taxable unless it is specifically exempted from property taxation.





# Limitations on Taxation

Home Rule Municipalities - have all legislative powers not prohibited by law or charter. AS 29.10.200 lists all of the sections of Title 29 that act as limitations on home rule legislative powers.

General Law Boroughs - required to assess and collect property, sales, and use taxes that are approved and levied within their boundaries, subject to the provisions of Chapter 45.

All Boroughs. Taxes levied by a city within a borough must be collected by a borough and returned in full to the city levying the tax. This provision applies to home rule and general law municipalities.

All Municipalities. Specific limitations on the property taxation powers of all general law and home municipalities AS 29.45.080/90.

Further within AS 29.45.090 a municipality, or a combination of municipalities occupying the same geographic area, may not levy taxes upon value that, when combined with the value of property otherwise taxable by the municipality, exceeds the product of a sliding scale percentage of the average per-capita assessed value as determined under AS 43.56.010(c), multiplied by the number of residents of the taxing municipality.





# Limitations on Taxation

- Section 29.45.100 of the Alaska Statutes provides that limitations on the amount of property tax that may be collected apply only to taxes for operating expenses and not to taxes collected to pay for bonded indebtedness.
- Second Class Cities. A second class city may, by referendum, levy property taxes as provided for first class cities. Specific limitations on the property taxation powers of second class cities are found in AS 29.45.590. A special limitation on taxation by second class cities is that the city cannot levy property taxes exceeding 2 percent (20 mills) of the assessed value of property within the municipality in any one year. This limitation was increased from 0.5 percent (5 mills) in 1994.
- Compliance by municipalities within the taxation limitations in the state statutes is enforced through the State Assessor's Office under the powers granted by AS 29.45.103 and AS 29.45.105. Under these statutes, the Office of the State Assessor may investigate claims of errors in assessment and taxation procedures, inspect municipal records and order correction of any procedural errors discovered.



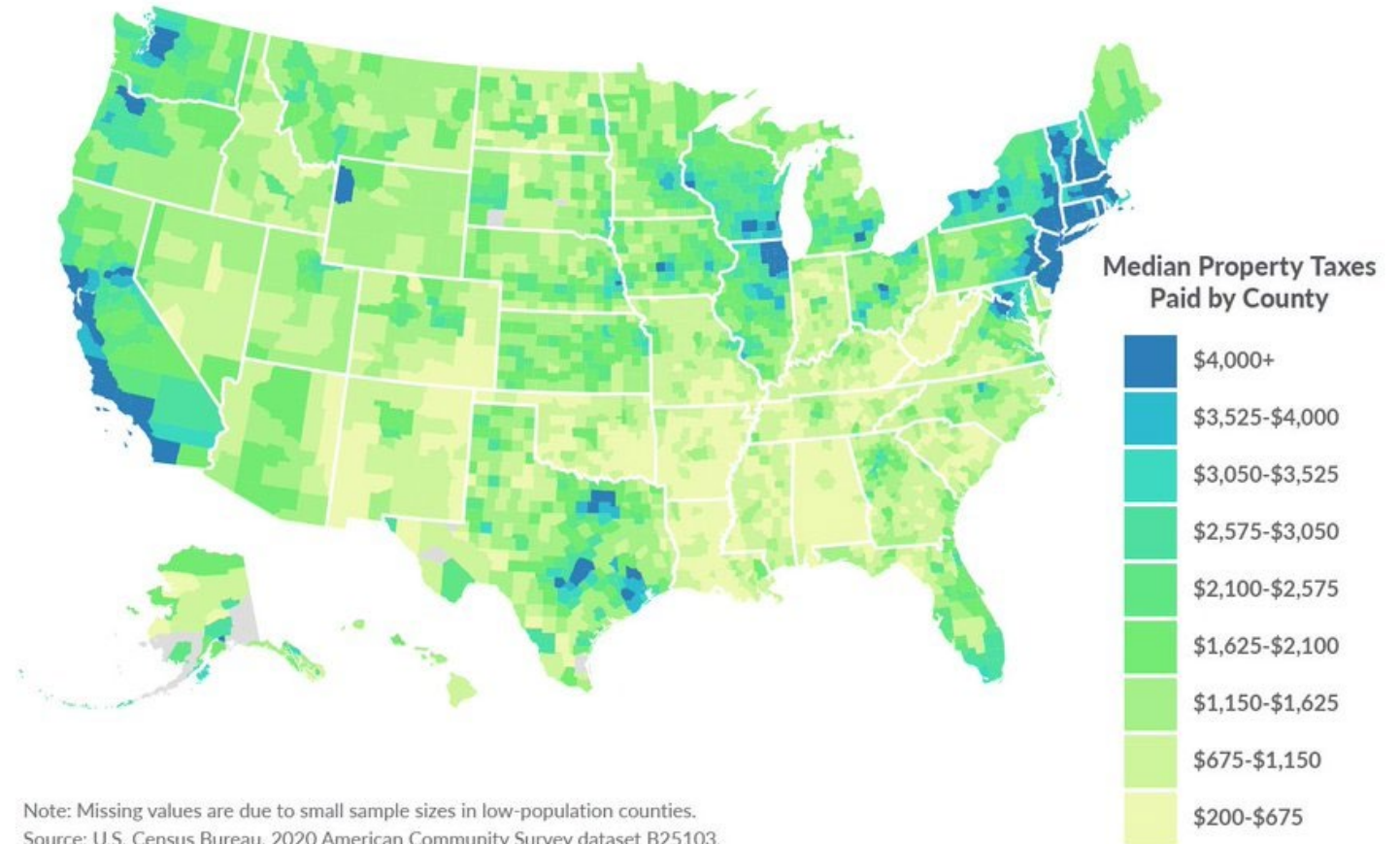


# Property Tax

- 24 of 165 taxing jurisdictions with property tax
  - 15% of communities
- Nine of those who don't tax personal property – limit to real property
- Property tax doesn't apply to 60,000 residents but majority of communities

## Where Do People Pay the Most in Property Taxes?

Median Property Taxes Paid by County, 2020 (5-year Estimate)





# Property Taxation - Limitations

All real and personal property is taxable unless it is exempted from property taxation.

Municipal property tax required exemptions are specified in AS 29.45.030.

- Examples: household furniture and personal effects of members of a household, natural resources in place, and property used exclusively for nonprofit religious, charitable, cemetery, hospital, or educational purposes.

Under AS 29.45.090, no municipality may levy taxes exceeding 3 percent (30 mills) of the assessed value of property within the municipality during a year. This tax limitation has been interpreted by the Alaska Supreme Court to apply only to property.

Property owned by Alaska Native Claims Settlement Act (ANCSA) Native corporations is also exempt from municipal property tax unless the property is leased or developed.

All taxable real and personal property within a municipality is included in its Full Value Determination, which is a key element in the calculation of state aid to schools.





# It's all about the Base

Alaska is the only state in the United States where a large part of the land mass of the state is not subject to a property tax.

- DCRA – Local Taxation and Assessment

Total Land Base: 365.5 million

Federal: 222 million

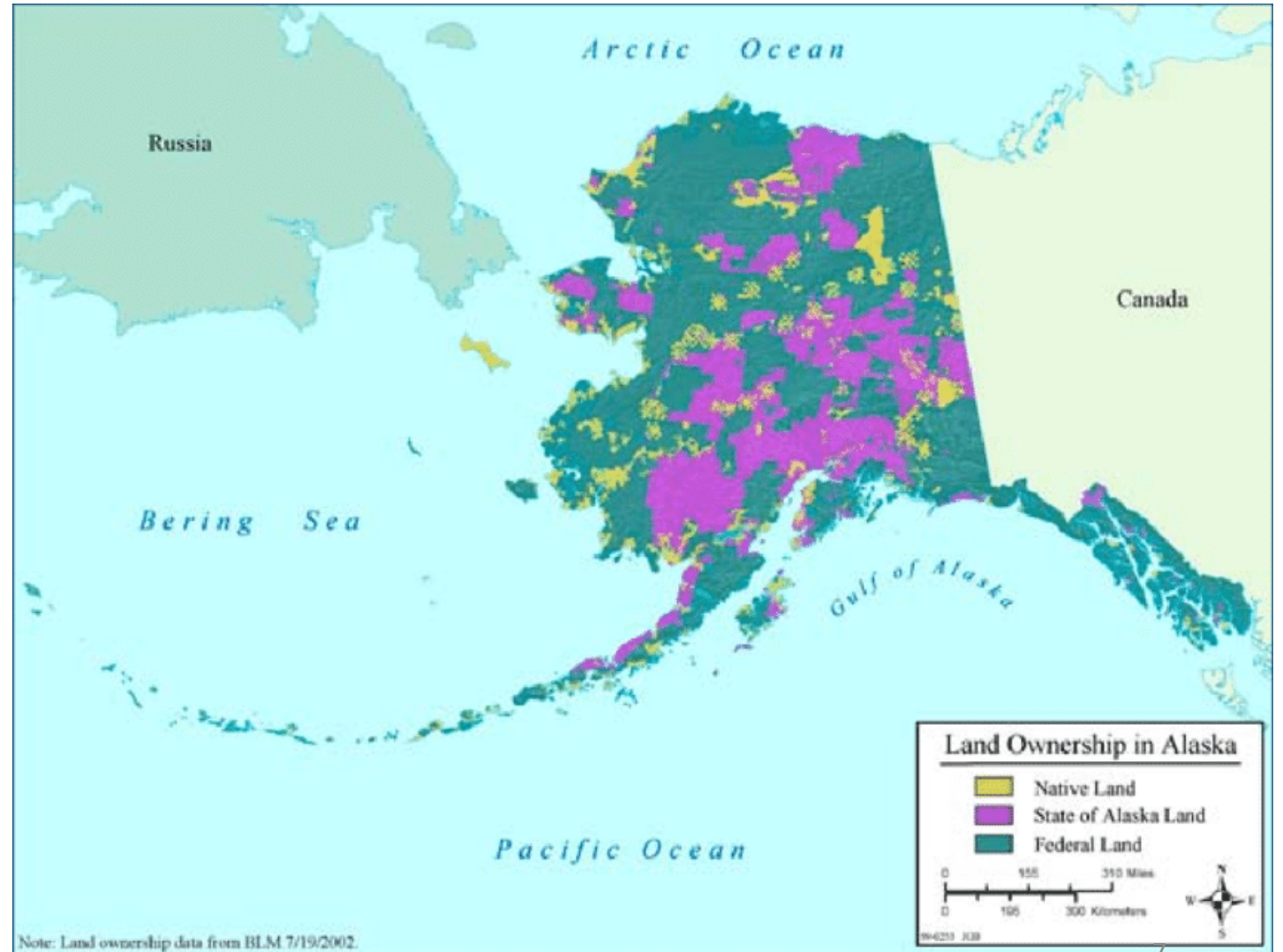
State: 97.9 million acres

ANC: 44 million acres

Available Taxable Land Base:

**.9 million**

**(1%, compared to 42 states w/ > 50%)**





# Effective Mill Rate and Tax Base Reduction

- Effective mill rate ranges from 5.62 (Skagway) to 20 (Valdez)
- Average effective mill rate is 11.12
- 2.65 of that is State property tax for public education
- 8.47 effective mill rate available for local decision making
- Applied to total assessed value of \$108 billion
  - Less the mandatory State exemptions: \$7.2 billion
    - % of tax base exempted = 6.49%
  - Less the optional Local exemptions: \$18 billion
    - % of tax base exempted = 18.3%





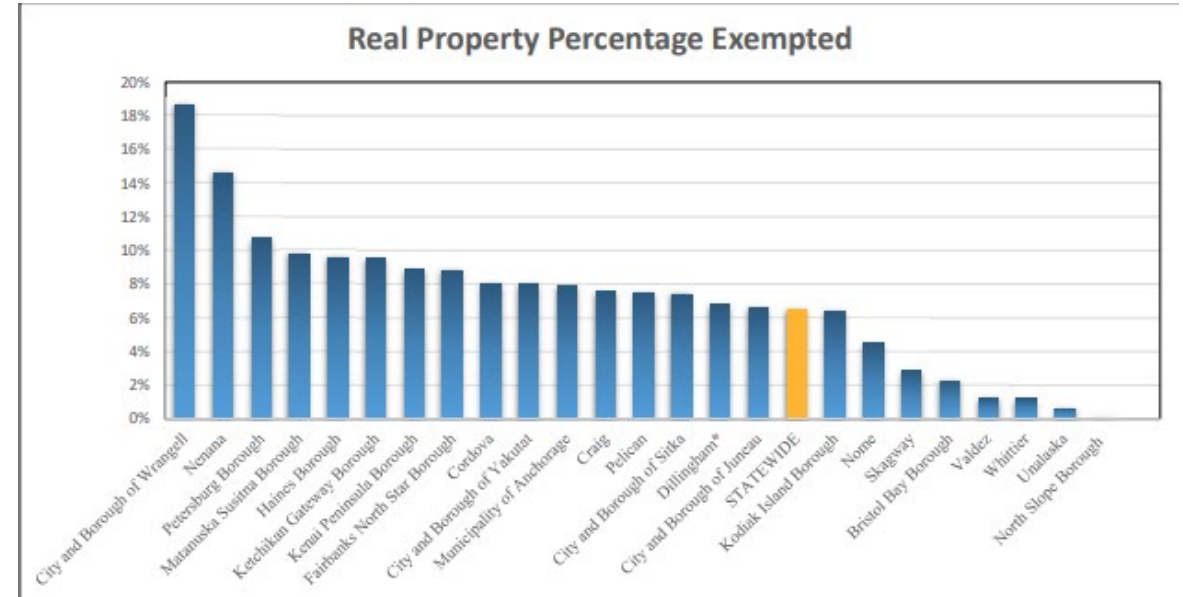
# Mandatory Exemption

- Value of State's Mandatory Exemption = \$103 million
- Required in law to be reimbursed by the State, and not done since FY97
- 2012 value was \$56 million – doubling in 10 years

AML has advocated for

- Reimbursement according to statute

AARP (national) – “Property tax relief should be equitable, cost-effective, and targeted to homeowners with low and moderate incomes burdened by their property tax bill.”





# What property exemptions look like in practice

- Exemptions shift tax burden to other taxpayers
- Important to understand in context of budget process
- Property tax rate determined post-budget – how to pay for priorities and obligations
- Lower rate can be applied at higher value or higher base
- Higher rate at lower value or reduced base
- Tax bill can vary based on total available value on base
- Currently no difference between residential, industrial, and commercial in Alaska
- State can offset rate through reimbursement of mandatory exemptions or circuit breaker program

Property Type	2022 Assessment Value
Commercial	\$1,641,477,077
Residential	\$3,984,000,486
Vacant Land	\$240,594,734
	\$5,866,072,297

Exemption Type	Prev. Year	Amount	# of exempts
AHFC	2022	\$0	7
ANCSA-Tribal Land	2022	\$0	13
Borough	2022	\$67,200	624
Cemetery	2022	\$847,824	6
Charitable-Non Profit	2022	\$10,047,978	76
Community Purpose	2022	\$16,655,009	14
Disabled Veteran	2022	\$9,331,500	63
Disaster Relief	2022	\$193,400	4
Education-Non Profit	2022	\$5,389,622	5
Farm	2022	\$895,000	7
Federal	2022	\$0	43
Hardship	2022		0
Hospital-Non Profit	2022	\$10,293,150	9
Low Income Housing	2022	\$51,909,373	69
Native Regional Housing	2022	\$0	8
Native Restricted Deed	2022	\$0	31
NRHA Admin	2022	\$0	4
NRHA Housing	2022	\$0	2
NRHA Land	2022	\$0	1
NRHA Res Contract	2022	\$14,729,600	39
Religious Non-Profit	2022	\$4,775,895	62
Senior Citizen	2022	\$362,447,141	2,524
State	2022	\$58,400	213
Subdivision Deferral	2022	\$9,499,673	24
Tribal Fee Land	2022	\$0	7
Utility Cooperative	2022	\$0	1
VFW/AM Legion	2022	\$0	1
Totals:	2022	\$497,140,765	3,857

Total Real Property	2022	\$5,368,931,532
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# Sales Tax

- Alaska Statutes 29.45.650 - 29.45.710 authorizes the levy of sales and use taxes.
- The statutes give broad authority to municipalities to levy taxes on sales, rents and services provided within the municipality.
- Few limitations placed upon municipalities in regards to levying a sales tax.
  - Orbital space facilities are exempt from the levy of sales tax and
  - Alcohol may not be taxed unless other items are similarly taxed.
  - Municipality may not levy a sales tax on a construction contract awarded to a contractor or subcontractor that has been awarded by a state agency or on a subcontract awarded in connection with a project funded under the construction contract.
  - Other exemptions may be granted by a local ordinance.
- A general law municipality that levies a sales tax may also levy a use tax on the storage, use or consumption of tangible personal property; however, the use tax rate must be equal to the rate of the sales tax and may only be levied on buyers.
- These limitations do not apply to home rule municipalities. By statute, there are no limits on the rate of levy for sales or use taxes for either type of municipality; however, if interest is charged on unpaid sales taxes, the interest may not exceed 15%.

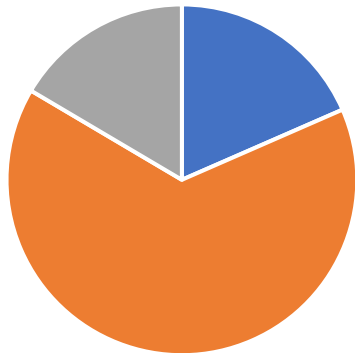




# Sales Tax

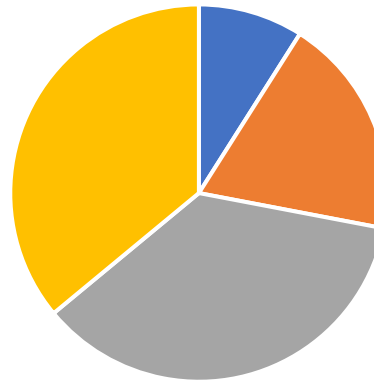
- Data for 100 municipalities for 2022, 106 is standard number
- No sales tax applies to 600,260 residents
- Average Rate of 3.8% - highest of 7%
- Six seasonal
- Implied tax base of \$7.6 billion (notwithstanding effect of exemptions)

Rate Review



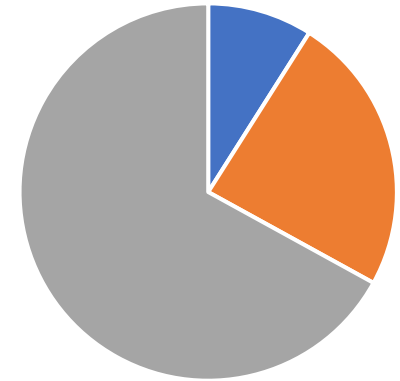
■ Above 5% ■ 3-5% ■ Under 3%

Sales Tax Collection



■ Above \$10 million ■ \$1 - 10 million ■ \$100k - \$1 million ■ Under \$100k

Sales Tax Per Capita



■ Above \$2,000 ■ \$1-2,000 ■ Under \$1,000



# Sales Tax

## Rate stability – over 20 years:

- 57 communities stayed same
- 20 increased by 1%
- 16 had increases of between 1.5% and 4%

## 28 increased in early 2000s because of lost Community Revenue Sharing

- Compared to 15 in last decade

## As a portion of overall revenue:

- 14 communities above 50%
- 33 communities between 20 and 50%
- 20 communities between 10 and 20%
- 32 communities under 10%





# Wayfair

- Eliminated requirement for physical presence
- Establish economic nexus instead
- Require streamlined, statewide, single level
- AML worked with local governments to establish the Alaska Remote Seller Sales Tax Commission
- Uniform Code with consistent definitions
- Online portal for single registration and filing
- Applies to communities that sign intergovernmental agreement
- AML administers collection

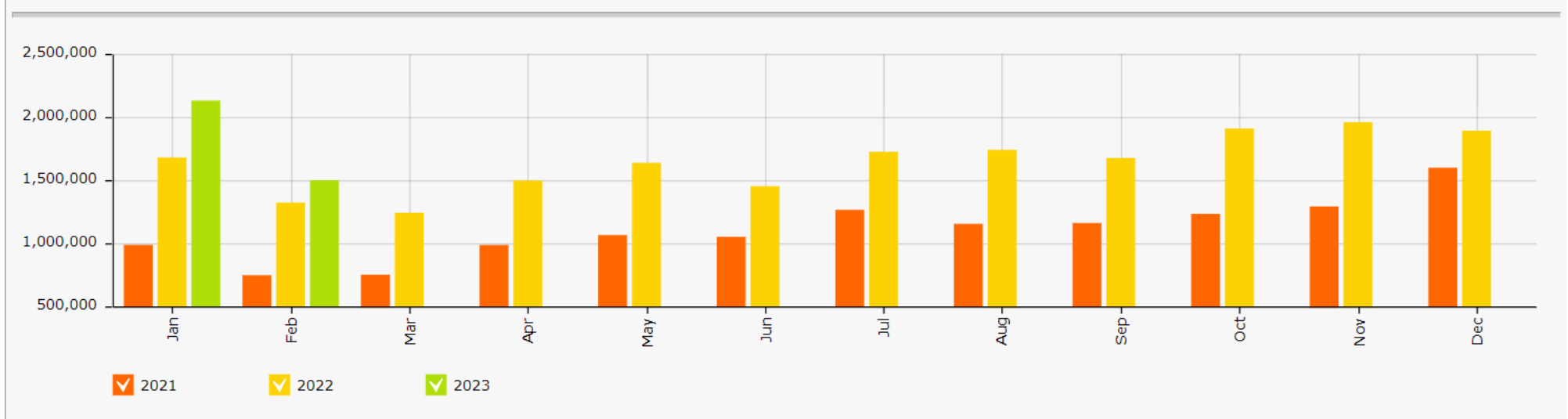




# Collection Experience

- 46 participating communities, grown over four year period
- 3,000 registered sellers

Monthly Totals - Year over Year



- Statewide Sales Tax Totals FY21: \$240 million (of Total Revenue \$2.5 billion)
- Remote Sales Tax Collected 2022: \$20 million or 8% (about equal to alcohol tax)
- Community level difference: 5 to 20% of physical collection





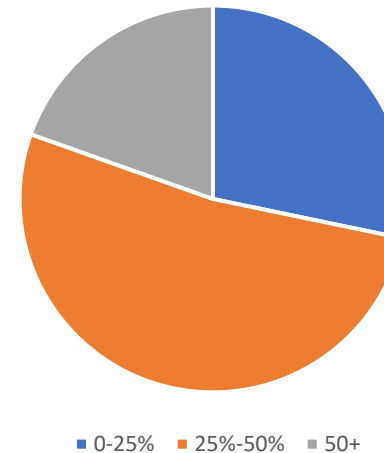
# Online Sales Gross and Exemption

- 2021 - \$556 million in gross sales; \$207 million exempt (37.28%)
- 2022 - \$865 million in gross sales; \$363 million exempt (41.97%)

## Exemptions categories (2022):

1. Resale is 29% of exemption
2. Other
3. Government
4. Cap
5. Nonprofit

Exemption Rate by Community





# And while we're talking about Sales Tax...

- State sales tax considerations should:
  - Protect local collection of sales tax
  - Ensure local control of rates and exemptions
  - Work within system of current governance and activity
- Recommend not building off of old bills
- Consider new systems of collection, including role of technology
- Consider local tax burden and distributional analysis





# Excise Taxes

- Allowed under liberal construction of local government powers in Constitution.
- Extends to severance tax, a type of excise tax (performance of an act, in this case severing of natural resources from the place in which they are located).
- There is no distinction here between home rule and general law, nor is it subject to voter ratification.





# Excise Taxes - Bed and Rental

## *Ad Valorem (%) or Flat*

- Bed Taxes
  - 49 communities
  - 4-12% tax rate
  - \$31 million
- Rental Car Taxes
  - Two communities
  - 8% rate
  - \$7.3 million

## Future Considerations

- Short Term Rentals
- Marketplace Facilitators
- Peer-to-Peer Sharing
- Ultimately about shifting local tax burden to non-residents, and ensuring local services and infrastructure in place to support a visitor industry
  - Non-specific community development





# Excise Taxes - Consumption

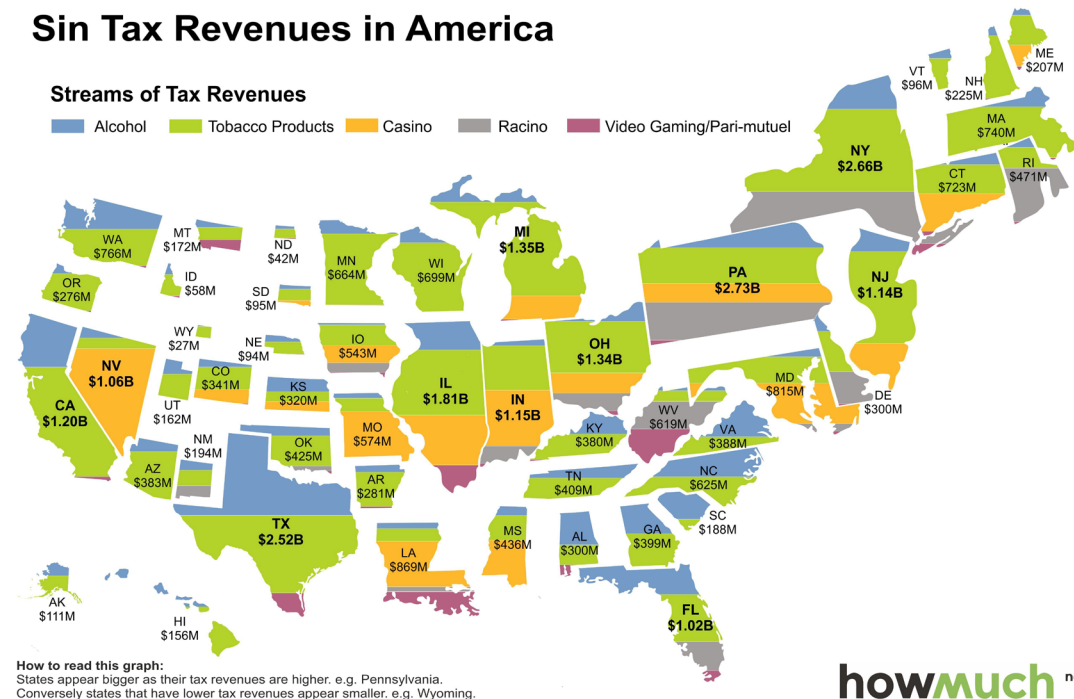
- Alcohol
  - 15 communities
  - 3-15% tax rate
  - \$19.4 million
- Tobacco
  - 29 communities
  - 3-16% tax rate
  - \$122.6 million
- Marijuana
  - 17 communities
  - 2-15% tax rate
  - \$11.2 million

## Which states have the highest sin taxes?

#1. Alaska

Updated Aug 29, 2017

### Sin Tax Revenues in America



## Marijuana 'Sin Tax' Collections Show Signs of Outpacing Alcohol



# Resource Taxes

- Raw Fish Tax
  - 16 communities
  - \$27 million
- Other Tax Revenue
  - 18 communities
  - \$27 million

	2013	2014	2015	2016	2017
Community Assistance	\$85,000,000	\$60,081,263	\$60,102,555	\$57,432,082	\$38,246,536
Fisheries Business	\$23,165,321	\$24,912,169	\$21,479,073	\$16,235,169	\$21,245,657
Commercial Passenger Vessel	\$14,384,385	\$15,858,858	\$15,051,451	\$15,750,926	\$16,023,756
Fisheries Landing	\$7,016,532	\$5,148,589	\$3,125,676	\$8,239,984	\$4,518,891
Shared Fisheries Taxes	\$2,936,147	\$2,724,174	\$1,883,294	\$1,721,670	\$2,603,302
Telephone Cooperative Tax	\$2,071,131	\$1,970,174	\$1,975,120	\$2,123,388	\$2,239,172
Electric Cooperative	\$2,037,896	\$1,960,350	\$2,001,305	\$1,971,587	\$1,936,837
Liquor License Fees	\$825,025	\$901,825	\$834,825	\$926,575	\$865,400
Aviation Motor Fuel	\$162,345	\$155,295	\$141,801	\$146,360	\$124,379

Shared taxes often held by State for six months, on average, without accruing interest on behalf of eventual beneficiaries.





# If it's all about the base, then...

- State law currently preempts municipal collection of a net income tax, but is silent on gross or payroll tax
- Difficult to administer at the local level
- At the State level, this broad-based tax has the largest available base
  - There are no limitations based on who owns the land
  - There are no limitations based on what land is developed, or its value
  - There are no exemptions for government and nonprofits
  - There are no exemptions by sales type or service





# Basic Building Blocks for Communities

- Micro level evaluation – not just what's good for State
- Evaluation of relative tax burden by community and region
- Measure what matters, and incentivize where it matters most
  - Workforce needs housing and jobs
  - Families need education and childcare
  - Residents need basic infrastructure
  - Businesses need reduced transaction costs
  - Communities need scaled up service delivery depending on composition

Local governments will shift to meet emerging needs

- Evaluate current tax burden to meet new priorities
- Reevaluate legacy efforts where incentives less necessary
- Focus on community stability and economic growth

