

HB

615



# CITY OF ANCHORAGE



# ALASKA

*International*

*Polar air crossroads of the world*

POST OFFICE BOX 400  
ANCHORAGE, ALASKA  
99501

February 25, 1972

Mr. Don M. Berry  
Executive Director  
Alaska Municipal League  
204 Franklin Street  
Juneau, Alaska 99801

Dear Don:

Re: HB No. 615 - Alaska Business License Tax

One of the requirements for financial viability of a city is growth in revenue sources. HB No. 615 would "freeze" city revenue from the Alaska Business License source to the equivalent amount collected in 1976 and subject this payment to an appropriation by the Legislature. Unfortunately the city's cost of government cannot be frozen at the 1976 level in subsequent years. Therefore, city financial viability would suffer if HB No. 615 is enacted into law.

The City Administration has studied this bill and analyzed the possibility of correlating the annual payment to population. The attached analysis clearly reveals there is no correlation of the increases in the Alaska Business License revenues with population increases and assessed value of business personal property changes.

It appears that the only way to assure viable growth in this revenue source in relation to business activity would be to continue the present licensing and reporting requirements at a flat rate (say \$25.00 per year) fee and from the reports compute what the tax would have been under existing law and tax rate and compute city payments on this basis. In this way: (1) City financial viability would be retained, and (2) valuable statistics needed for State, local and private economic and other planning would be available. This is a highly important statistic for both government and private planning purposes.

It is readily apparent from the enclosed analysis that the Alaska Business License revenue is an important source to the City of Anchorage. It has grown from over \$290,000 in 1960 to well over \$900,000 in 1971. Obviously there would be a tremendously adverse financial impact on the City of Anchorage if this revenue source was "frozen" in the future. Therefore the City of Anchorage opposes passage of HB No. 615 unless it



AIRMAIL IS FASTER

Mr. Don M. Berry  
February 25, 1972  
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is amended as outlined above or by insertion of some other acceptable formula which would retain the growth in this revenue source in relationship to business activity in the City.

You may use this letter as may be appropriate to express out views on this bill.

Sincerely yours,

  
Robert E. Sharp  
City Manager

RES:ccb

Enclosure

cc: Governor of Alaska  
Members of Senate and House  
Local Government Committees  
Anchorage Area Legislators

CITY OF ANCHORAGE  
ALASKA BUSINESS LICENSE REVENUES AND POPULATION  
Percentage Increases (Decreases)

	Alaska Business License Revenues	% Increase (Decrease)	Population *Official Census	% Increase (Decrease)
1971	\$929,952	31.05	\$ 50,556	5.26
1970	709,619	21.15	48,029*	.69
1969	585,713	(6.99)	47,700	5.82
1968	629,728	(0.28)	45,076*	.23
1967	631,470	42.16	44,968	.23
1966	444,196	(11.61)	44,864	.23
1965	502,556	24.06	44,759	.23
1964	405,088	6.54	44,655	.24
1963	380,212	3.81	44,550	.23
1962	366,232	(3.65)	44,446	.23
1961	380,111	30.44	44,341	.23
1960	291,383		44,237*	

PERCENTAGE INCREASE OF CITY OF ANCHORAGE  
BUSINESS LICENSE REVENUES AND POPULATION  
From Base Year 1960

	<u>Revenue Increase</u>	<u>Population Increase</u>
1968	116.11	1.90
1970	143.53	8.57
1971	219.14	14.28

POPULATION PERCENTAGES

	<u>City of Anchorage</u>	<u>Balance of Anchorage Area</u>	<u>Balance of State</u>
1960	19.56	17.07	63.37
1968	15.87	24.10	60.03
1970	15.89	25.32	58.79

ASSESSED VALUATION OF BUSINESS PERSONAL PROPERTY TAX

	<u>Amount</u>	<u>% Yearly Increase</u>	<u>% Yearly Business License Increase</u>
1971	\$111,257,420	17.37	31.05
1970	94,788,770	29.19	21.15
1969	73,371,580	6.20	(6.99)
1968	69,082,026	1.93	(0.28)
1967	67,767,709		

Hilbrand - HB 401

↳ was increased due in the bush.

↳ was actually increased tax <sup>amount</sup> in early 90's

↳ Case HB 615 1990 oil wang for each property  
 since oil will be maximized  
for the state

HB 615 - 2 state used to reimburse  
oil property

Case HB 615 1990 oil wang for each property  
 since oil will be maximized  
 $\rightarrow \frac{1}{st}$

VB. EBK total price  
for the state to be paid  
for the oil property

# STATE OF ALASKA

WILLIAM A. EGAN, GOVERNOR

## DEPARTMENT OF REVENUE

POUCH SA — JUNEAU 99801

February 23, 1972

Representative Mike Miller  
Local Government Committee  
House of Representatives  
Juneau, Alaska 99801

Subject: HB 615 - An Act suspending collection of the Alaska Business License Tax.

Section 1 provides that AS 43.70 shall not be operative commencing January 1, 1977 and continuing so long as the Legislature annually appropriates to the Department of Administration for distribution to the organized boroughs and cities an amount equal to the total tax collected under the Act for the calendar year 1976.

If the intent of HB 615 is to distribute collections made during 1976, an estimated reduction to the Treasury would amount to \$8,049,000 based on present estimates. As the bill is now written "all monies" are to be distributed; a substantial increase over the present 60% - 40% distribution, which projection would share approximately \$3,700,100 in 1977. We suggest we be allowed to collect 1976 gross receipts tax due February 28, 1977 as a basis for the per capita sharing; further that the Local Affairs Agency be designated as the sharing authority as they are responsible for other per capita revenue sharing.

Administrative Problems: The possibility that the Business License Act may again become effective makes it necessary that the Department of Revenue maintain a current roster of active businesses. This could be accomplished by requiring all firms to obtain the annual \$25.00 business license. The authority for which should be incorporated in HB 615, such fee not subject to any sharing formula. The business growth of the State, providing economic statistics necessary to many governmental agencies and others, cannot be provided without some form of annual reporting.

The law should provide that all license returns and taxes due for the years prior to the effective date of the legislation are valid and that the Department of Revenue is empowered to collect all delinquent accounts including any that may be disclosed as a result of audit investigation. It is estimated that the full audit staff would have to be maintained for at least a two year period to complete the audit examination of business license returns through 1976 and conduct audit examinations for prior year deficiencies prior to closing out the gross receipts tax portion of the Alaska Business License Act.

Following this two year period it is estimated that a 40% reduction in the existing staff could be implemented and the remaining staff could maintain the census of the business community which would be necessary should the Act again become operative.

A more complete fiscal note will be prepared for the Committee, when it is known what, if any, of these measures are incorporated in the legislation.

The writer remains at your disposal should any further question arise.

Respectfully yours,

A handwritten signature in cursive script, appearing to read "L. P. Carroll".

L. P. Carroll, Chief  
Business License Division

LPC: fd

## ALASKA BUSINESS LICENSE TAX

## REVIEW AND ANALYSIS

I. INTRODUCTION

The basis for the levy and assessment of the Alaska Business License Tax is cited in A.S. 43.70.010 through 43.70.120. These statutes outline the gross receipts which are exempt from the tax, describe the procedures to be followed for application for a business license, explain the steps involved in the levy and computation of the license fee, provide for a review and determination of the license tax, establish the framework for appeals, penalties, security, disposal of money received, rules and regulations, penal provisions, as well as offering a definition of the terminology used in the Act and establishing a short title. Of particular interest are the provisions outlined in Section 43.70.030 (Levy and Computation of License Fees) and Section 43.70.080 (Disposal of Money). The first section cited above establishes the rates to be charged on gross receipts covered by the Act; a synopsis of this section is offered in Schedule I below. The second section reads as follows:

"All money collected by the department (of Revenue) under this chapter shall be deposited in the general fund. The Department of Revenue shall refund to an organized borough, city of any class, incorporated or independent school district, or public utility districts, 60% of the money collected in the local government." (Quotations ours)

## SCHEDULE I

## ALASKA BUSINESS LICENSE TAX RATES

The initial license fee for businesses is \$25.00 per year. Additional rates on gross receipts are:

\$20,000 to \$100,000	$\frac{1}{2}$ of 1 percent
\$100,000 and over	$\frac{3}{4}$ of 1 percent

A 2% rate is levied on the net income of banks, trust companies and savings and loan associations.

## II. HISTORICAL BACKGROUND (1)

In 1899 Congress established a system of Federal license taxes upon specified lines of business in Alaska. Subsequent to the passage of the Organic Act of Alaska, in 1912, by which such laws were retained, the Territorial Legislature passed an Act imposing a license tax on certain other lines of business. The amount of the license varied with the type of business. On some it was a flat rate, while on others it was based on gross receipts. In 1949 the Legislature established an entirely new business license system whereby a uniform tax was imposed. The new business tax became effective following the repeal by Congress of the special Federal taxes on business in Alaska.

In 1955 the Act was amended to extend the time for paying the tax from January 31, to the last day of February; permitted extensions for payment from March 31, to April 30; and added a provision to penalize taxpayers who have willfully neglected to file a return or pay the tax due. This penalty is computed at the rate of 5 percent per month of the tax due with a maximum of 25% plus the legal rate of interest.

In 1957 the Act was amended by redefining and clarifying the definition of gross receipts and expressly exempted the gross receipts of companies paying the oil and gas properties production tax and provided that although certain undertakings are exempt from the tax, they are nevertheless required to pay the initial fee of \$25.

In 1959, although not as an amendment to the business license act, non-profit electric and telephone membership cooperatives were required to obtain a business license and pay a gross revenue tax.

In 1960 the Act was amended to specify more clearly the return which National and State banks are required to file under the Act.

(1) Source: "Review of the Alaska Tax Structure" by Peat, Marwick, Mitchell & Co.

## III. ECONOMIC IMPACT

In order to objectively assess the fiscal impact generated by the Alaska Business license tax upon its recipients, namely the State of Alaska and its political subdivisions, it is advisable to analyze the effects of

these receipts as they apply individually to each of these two bodies:

A. State of Alaska.

For F.Y. 1969-70 gross receipts prior to distribution accrued to the State from the Alaska Business License Tax totalled \$5,060,522. This amount represents 6.81% of total revenues from taxes and 3.03% of total state revenues exclusive of the income received from the North Slope lease sale. The significance of these percentages, however, decreases considerably if only the net proceeds from the tax are taken into consideration. Of the \$5,060,522 received, \$1,177,710.62 (23.23%) were applied toward costs incurred in handling, processing, and distributing the receipts, and \$2,342,739.45 (46.29%) were returned on a pro-rata basis to the various political subdivisions, leaving a balance of \$1,540,072 (30.48%) which was ultimately deposited as revenue in the State general fund. If this latter figure of \$1,540,072 is brought into consideration and is related to total tax receipts and total state revenues, the percentages then decrease to 2.07% (from 6.81%) and .92% (from 3.03%) respectively. It can then be stated that, in effect, the Alaska Business License Tax presently accounts for less than one percent of total state revenues.

B. Political Subdivisions.

Since the enactment of the State Aid to Municipalities, the impact of the rebate of the Business License Tax receipts upon the finances of political subdivisions has lost much of its significance. At one time, proceeds from this tax accounted for a relevant portion of local resources. However, in light of the much more comprehensive and expanded plan of support to local governments adopted by the Sixth State Legislature, the role of the Business License Tax has been relegated to that of a nuisance tax which is becoming increasingly cumbersome and expensive to administer. The impact of this tax, expressed as a percentage of total estimated operating revenues for three selected boroughs and cities within the State, is shown in Schedule II below. This schedule also indicates the amount of State support received pursuant to the implementation of the State Aid to Municipalities Act.

SCHEDULE II	Tot. Est.	Bus. License	State Aid		
	<u>Revenues</u>	<u>Tax Receipts</u>	<u>%</u>	<u>Receipts</u> (2)	<u>%</u>
Greater Anch. Borough <sup>(1)</sup>	13,794,288	414,425	3.0	1,213,942	8.8
North Star Borough	16,955,737	135,472	.8	203,734	1.2
Kenai Pen. Borough	3,440,000	176,641	5.1	78,700	2.3
City of Anchorage	12,335,455	725,801	5.9	1,552,680	12.6
City of Fairbanks	5,989,820	264,500	4.4	547,400	9.1
City of Kenai	574,610	52,909	9.2	160,650	27.9

(1) Includes all service areas.

(2) Exclusive of Business License tax receipts.

As it can be readily seen from an analysis of the percentages shown above, in all but one instance receipts from State Aid to Municipalities could more than adequately replace, rather than supplement, proceeds from Business License Tax, thus providing an extent of relief to local taxpayers. This, incidentally, is one of the purposes which motivated enactment of the State Aid to Municipalities legislation.

#### IV. GENERAL OBSERVATIONS

Generally, whenever the repeal of an existing tax is suggested, the automatic question is: "What can then be done to replace this source of revenue?" There are three approaches that can be offered as answers to this question:

- (1) Reduce the level of spending.
- (2) Levy a tax of a different nature.
- (3) Seek new sources of income within the governmental framework.

Obviously, in light of the expanding economy within the State of Alaska, the first suggestion offered above does not appear to be reasonable. Nor would it be palatable to many legislators to shift the tax burden from one category of taxpayers to another by enacting a new tax in order to replace an existing one, regardless of how unfair or impractical the existing one may be. Therefore, only the third suggestion becomes worthy of consideration. In the past year, earnings on investment funds generated by the September 1969 North Slope Oil Lease Sale totalled \$38,115,501 through June 30, 1970. This wealth was not available or envisioned when the Alaska Business License Tax was originally enacted; the very nature of the investment program assures a continuous flow of revenues which could very readily replace the rather marginal income which accrues to the State from the Business License Tax.

Obviously, it can be argued that governments, historically, have always had the ability to spend up to their ultimate sources of revenues, but the logic of this argument, in light of sound fiscal practices, leaves much to be desired. Another alternative worthy of consideration is the repeal of the existing State tax and the enactment of a law to empower political subdivisions to levy a similar tax within their boundaries subject to voters' approval. The advantages of this approach over the existing one would be:

- (1) All revenues derived from such a tax would accrue in their entirety back to the political subdivision levying the tax without any split of revenues with the State.
- (2) This tax would be more responsive to the needs of the local communities since it would be enacted only when the need arose.
- (3) The cost of administering such a tax on a percentage basis would not be nearly as high as the cost of administering a State-wide tax, since tax channels are already available in each of the political subdivisions.

The validity and propriety of the Alaska Business License Tax are, in themselves, questionable. Since the tax is levied on gross receipts rather than net profits, it becomes an added burden for the business which shows a loss at the end of the year. The tax rates, because of their regressive nature, discriminate against the small businesses and favor larger enterprises. Banks and similar financial institutions receive preferential treatment over all other business by having the tax applied against net profits rather than gross income. Although, in the case of bank and other financial institutions, the rate is higher, no tax liability is incurred if the institution is faced with a loss. As indicated above, the tax is not easy to administer and a substantial share of its proceeds (23.23%) are applied to defray administrative costs, notwithstanding the fact that provisions for cost recoveries are not specified in the Act. As indicated in Section I above, the Department of Revenue is required to refund to organized boroughs, cities of any class, incorporated or independent school districts, or public utility districts, 60% of the money collected in the local government. In F.Y. 1970-71, only 46.29% of total receipts were returned to those areas where the taxes were levied.

# STATE OF ALASKA

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The writer remains at your disposal should any further question arise.

Respectfully yours,

  
L. P. Carroll, Chief  
Business License Division

LPC:fd

ALASKA RETAIL ASSOCIATION, INC.

POSITION STATEMENT  
on  
ALASKA BUSINESS LICENSE ACT

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THE GENERAL PRINCIPAL OF TAXATION MEASURED BY GROSS RECEIPTS OF A BUSINESS OR PROFESSION HAS ONE BASIC ADVANTAGE IN THAT RELATIVELY LOW RATES WILL PRODUCE SUBSTANTIALLY HIGH YIELDS TO THE GOVERNMENTAL ENTITY IMPOSING THE TAX. ALSO, AS A GENERAL RULE, THE LOW RATES MINIMIZE THE INCENTIVE ON THE PART OF THE TAXPAYER TO RESIST OR EVADE THE TAX.

THE ALASKA GROSS BUSINESS LICENSE TAX, AS IT IS PRESENTLY ASSESSED, HOWEVER, HAS CERTAIN BUILT-IN INEQUITIES. OUR METHOD UNIFORMLY APPLIES THE TAX TO ALL TYPES OF BUSINESS WITHOUT REGARD TO NORMAL RATIOS OF PROFITS TO GROSS RECEIPTS. AS AN EXAMPLE -- A HIGH VOLUME GROCERY STORE, WHICH ALWAYS HAS A VERY LOW PERCENTAGE OF PROFIT, IS TAXED AT THE SAME RATE AS A JEWELRY STORE WHICH USUALLY HAS A MUCH HIGHER PROFIT PERCENTAGE IN RELATION TO GROSS SALES. JUST WITHIN THE RETAIL INDUSTRY, MANY SIMILAR EXAMPLES MAY BE FOUND. WHEN WE CONSIDER ALL THE OTHER VARYING AREAS OF THE BUSINESS COMMUNITY, SUCH AS AGRICULTURE, CONSTRUCTION, MANUFACTURING, FINANCE, AND PROFESSIONAL SERVICES, WE CAN SEE THAT APPLYING AN OVER-ALL RATE ON ALL TYPES OF GROSS RECEIPTS WILL RESULT IN MANY UNFAIR SITUATIONS.

THERE ARE SEVERAL POSSIBLE SOLUTIONS WHICH COULD GO QUITE FAR IN ELIMINATING THE INEQUITIES INVOLVED IN OUR GROSS LICENSE TAX SYSTEM.

1. IF THE STATE IS TO RETAIN A GROSS BUSINESS LICENSE TAX SYSTEM, IT MAY BE THAT A RATE STRUCTURE COULD BE DESIGNED TO TAKE INTO CONSIDERATION THE VARIOUS DIFFERENCES IN RATIOS OF NORMAL PROFITS TO GROSS RECEIPTS. IN OTHER WORDS, A HIGH VOLUME BUSINESS LIKE A GROCERY STORE COULD BE TAXED AT A LOWER RATE THAN A BUSINESS WHICH PRODUCES A RELATIVELY LOW VOLUME BUT MAINTAINS A RELATIVELY HIGH RATE OF PROFIT.

2. ANOTHER POSSIBILITY, WHICH COULD REPLACE OUR PRESENT SYSTEM, WOULD BE THE "GROSS MARGIN" OR "VALUE ADDED" TAX. THE BASE OF THE "GROSS MARGIN - VALUE ADDED" TAX IS THE GROSS VOLUME OF SALES MINUS ALL EXPENDITURES FOR GOODS AND SERVICES PURCHASED FROM OTHER FIRMS (SUCH AS THE WHOLESALE PROCUREMENT COST OF INVENTORY, ETC.). THUS, THE TAX WOULD BE COMPUTED ON THE GROSS PROFIT OF A BUSINESS. THIS WOULD BE MORE FAIR THAN OUR PRESENT SYSTEM IN THAT THERE WOULD BE AN AUTOMATIC DIFFERENTIAL AMONG THE VARIOUS TYPES OF BUSINESSES IN ARRIVING AT A TAX BASE. (EXAMPLES: A GROCERY STORE MIGHT HAVE A "GROSS MARGIN" OF 15%; A DEPARTMENT STORE, 30%; A JEWELRY STORE, 50%, ETC.)

3. MY FINAL SUGGESTED POSSIBILITY WOULD BE A TAX BASED ON THE NET PROFITS OF A BUSINESS. IN SOME RESPECTS, THIS MAY BE THE MOST FAIR AS IT WOULD RELATE DIRECTLY TO THE PROFITABILITY OF EACH INDIVIDUAL BUSINESS BEING TAXED.

AS YOU KNOW, THE RETAIL INDUSTRY AND, INDEED, THE GENERAL BUSINESS COMMUNITY FAVORS THE REPEAL OF THE ALASKA GROSS BUSINESS LICENSE TAX AT ANY TIME SUCH

REPEAL WOULD NOT CAUSE DRASTIC HARDSHIP TO THE STATE OR THE LOCAL GOVERNMENTS RECEIVING THE REVENUES. WE ALSO RECOGNIZE, HOWEVER, THAT WE SHOULD BE PAYING OUR FAIR SHARE FOR THE VARIOUS SERVICES PROVIDED BY THESE GOVERNMENTS. IN THIS CONNECTION, THE OPERATING WORD IS "FAIR." IF IT APPEARS THAT THESE REVENUES ARE NEEDED, WE WOULD SUPPORT ANY SOLUTION WHICH WOULD ADJUST THE TAX BASE SO THAT EACH BUSINESS IS PAYING ONLY ITS FAIR PORTION.

WE RECENTLY OBTAINED A REVIEW AND ANALYSIS OF THE ALASKA BUSINESS LICENSE TAX WHICH WAS COMPILED BY THE FIRM OF MARTINI & ASSOCIATES, MANAGEMENT CONSULTANTS IN ANCHORAGE. THIS REPORT COVERS THE GENERAL HISTORY OF OUR TAX AND MAKES A FEW GENERAL OBSERVATIONS WHICH MIGHT BE OF VALUE TO THE COMMITTEES IN THEIR DELIBERATIONS. I WILL ONLY COMMENT HERE ON ONE PORTION WHICH PERTAINS TO THE DISTRIBUTION OF THE TAX REVENUES AFTER COLLECTION BY THE STATE: ACCORDING TO THIS REPORT, FISCAL YEAR 1969-1970 REVENUES WERE \$5,060,522. OF THIS TOTAL, \$1,177,710.62 WERE APPLIED TOWARD ADMINISTRATIVE COSTS. THIS AMOUNTS TO (23.23%) OF THE REVENUES, WHICH APPEARS TO BE AN EXTRAORDINARILY LARGE PERCENTAGE JUST FOR HANDLING THE COLLECTION AND REDISTRIBUTION OF THE \$5,060,000. WE FIND IT DIFFICULT TO UNDERSTAND WHY IT SHOULD COST \$1,177,710 TO ADMINISTER THIS RELATIVELY SMALL AMOUNT OF REVENUE. FURTHER, IT APPEARS THAT, WHILE THE LAW APPARENTLY DOES NOT MAKE PROVISIONS FOR COST RECOVERIES BY THE STATE, THIS \$1,177,710 IS TAKEN RIGHT OFF THE TOP BEFORE DISTRIBUTION OF THE 60% BACK TO LOCAL GOVERNMENTS.

WE SUGGEST THAT THE ACTUAL COSTS TO THE STATE IN HANDLING THIS TAX BE DETERMINED. AFTER THIS IS DONE, IT MAY BE THAT, ALONG WITH SETTING UP A

MORE FAIR BASE FOR THE TAX, THAT LOWER EFFECTIVE RATES CAN BE ASSESSED,  
WITH LITTLE OR NO LOSS TO LOCAL GOVERNMENTS.

IN SUMMARY, THE RETAIL INDUSTRY WOULD, QUITE UNDERSTANDABLY, PREFER TO  
SEE THIS OR ANY OTHER TAX REDUCED OR ELIMINATED. HOWEVER, WE ALSO  
RECOGNIZE OUR RESPONSIBILITIES AND ARE MORE THAN WILLING TO ACCEPT OUR  
FAIR SHARE OF THE BURDEN. WE DO STRONGLY FEEL THAT SOME ADJUSTMENT IN  
WHAT HAS BEEN A BASICALLY UNFAIR TAX IS NOW DUE. WE WOULD BE GLAD TO  
COOPERATE WITH THE LEGISLATURE IN ANY EFFORT TO SOLVE THIS PROBLEM.

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## ALASKA BUSINESS LICENSE TAX

### REVIEW AND ANALYSIS

#### I. INTRODUCTION

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#### SCHEDULE I

##### ALASKA BUSINESS LICENSE TAX RATES

The initial license fee for businesses is \$25.00 per year. Additional rates on gross receipts are:

\$20,000 to \$100,000	$\frac{1}{2}$ of 1 percent
\$100,000 and over	$\frac{3}{4}$ of 1 percent

A 2% rate is levied on the net income of banks, trust companies and savings and loan associations.

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## II. HISTORICAL BACKGROUND (1)

In 1899 Congress established a system of Federal license taxes upon specified lines of business in Alaska. Subsequent to the passage of the Organic Act of Alaska, in 1912, by which such laws were retained, the Territorial Legislature passed an Act imposing a license tax on certain other lines of business. The amount of the license varied with the type of business. On some it was a flat rate, while on others it was based on gross receipts. In 1949 the Legislature established an entirely new business license system whereby a uniform tax was imposed. The new business tax became effective following the repeal by Congress of the special Federal taxes on business in Alaska.

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## III. ECONOMIC IMPACT

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				(2)	
Greater Anch. Borough (1)	13,794,288	414,425	3.0	213,942	8.8
North Star Borough	16,955,737	135,472	.8	203,734	1.2
Kenai Pen. Borough	3,440,000	175,641	5.1	78,700	2.3
City of Anchorage	12,335,455	725,801	5.9	1,552,680	12.6
City of Fairbanks	5,989,820	264,500	4.4	547,400	9.1
City of Kenai	574,610	52,909	9.2	160,650	27.9

(1) Includes all service areas.

(2) Exclusive of Business License tax receipts.

As it can be readily seen from an analysis of the percentages shown above, in all but one instance receipts from State Aid to Municipalities could more than adequately replace, rather than supplement, proceeds from Business License Tax, thus providing an extent of relief to local taxpayers. This, incidentally, is one of the purposes which motivated enactment of the State Aid to Municipalities legislation.

#### IV. GENERAL OBSERVATIONS

Generally, whenever the repeal of an existing tax is suggested, the automatic question is: "What can then be done to replace this source of revenue?" There are three approaches that can be offered as answers to this question:

- (1) Reduce the level of spending.
- (2) Levy a tax of a different nature.
- (3) Seek new sources of income within the governmental framework.

Obviously, in light of the expanding economy within the State of Alaska, the first suggestion offered above does not appear to be reasonable. Nor would it be palatable to many legislators to shift the tax burden from one category of taxpayers to another by enacting a new tax in order to replace an existing one, regardless of how unfair or impractical the existing one may be. Therefore, only the third suggestion becomes worthy of consideration. In the past year, earnings on invested funds generated by the September 1969 North Slope Oil Lease Sale totalled \$38,115,501 through June 30, 1970. This wealth was not available or envisioned when the Alaska Business License Tax was originally enacted; the very nature of the investment program assures a continuous flow of revenues which could very readily replace the rather marginal income which accrues to the State from the Business License Tax.

Obviously, it can be argued that governments, historically, have always had the ability to spend up to their ultimate sources of revenues, but the logic of this argument, in light of sound fiscal practices, leaves much to be desired. Another alternative worthy of consideration is the repeal of the existing State tax and the enactment of a law to empower political subdivisions to levy a similar tax within their boundaries subject to voters' approval. The advantages of this approach over the existing one would be:

- (1) All revenues derived from such a tax would accrue in their entirety back to the political subdivision levying the tax without any split of revenues with the State.
- (2) This tax would be more responsive to the needs of the local communities since it would be enacted only when the need arose.
- (3) The cost of administering such a tax on a percentage basis would not be nearly as high as the cost of administering a State-wide tax, since tax channels are already available in each of the political subdivisions.

The validity and propriety of the Alaska Business License Tax are, in themselves, questionable. Since the tax is levied on gross receipts rather than net profits, it becomes an added burden for the business which shows a loss at the end of the year. The tax rates, because of their regressive nature, discriminate against the small businesses and favor larger enterprises. Banks and similar financial institutions receive preferential treatment over all other business by having the tax applied against net profits rather than gross income. Although, in the case of bank and other financial institutions, the rate is higher, no tax liability is incurred if the institution is faced with a loss. As indicated above, the tax is not easy to administer and a substantial share of its proceeds (23.23%) are applied to defray administrative costs, notwithstanding the fact that provisions for cost recoveries are not specified in the Act. As indicated in Section I above, the Department of Revenue is required to refund to organized boroughs, cities of any class, incorporated or independent school districts, or public utility districts, 60% of the money collected in the local government. In F.Y. 1970-71, only 46.29% of total receipts were returned to those areas where the taxes were levied.

# ALASKA STATE LEGISLATURE

## PUBLIC HEARING

DOCUMENT TO BE CONSIDERED: HB 20, HB 31, HB 46, HB 85, HB 401  
HB 615, HCR 3

SPONSOR OF DOCUMENT:

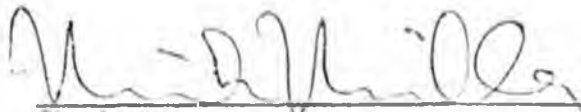
SPONSOR OF HEARING: House Local Government Committee

TIME: 7:30 P.M.

DATE: February 23, 1972

PLACE: State Capitol Building, House Conference Room

SUBJECT MATTER OF DOCUMENT: Gross Business Tax

  
Chairman

Press room copy delivered by \_\_\_\_\_ Date \_\_\_\_\_

Introduced: 2/10/72  
Referred: Local Government  
and Finance

1 IN THE HOUSE

BY THE LOCAL GOVERNMENT  
COMMITTEE

2 HOUSE BILL NO. 615

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SEVENTH LEGISLATURE -- SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act suspending collection of the Alaska Business  
7 License Tax."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. The provisions of the Alaska Business License Act (AS 43.70)  
10 shall not be operative during the period commencing January 1, 1977 and  
11 continuing for so long as the legislature annually appropriates to the  
12 Department of Administration for payment to the organized boroughs and cities  
13 an amount equal to the total tax collected by the Department of Revenue  
14 under the Alaska Business License Act for the calendar year 1976. This  
15 total amount is to be paid by the Department of Administration to the organ-  
16 ized boroughs and cities in that proportion of the total amount as the  
17 population within the boundary of each organized borough and each city  
18 bears to the total population of all organized boroughs and cities in the  
19 state. Population within the boundary of a city within an organized borough  
20 shall be counted only for the purpose of computing the share for the city  
21 and not in computing the share for the borough. If the legislature fails  
22 in a calendar year to make the appropriation described in this section,  
23 the provisions of the Alaska Business License Act shall again be operative,  
24 for that calendar year, except that the Department of Revenue shall by  
25 regulation set a date within 90 day of final adjournment of the legislature  
26 for applications for licenses, renewals of licenses, and payment of the  
27 initial fee provided in AS 43.70.020(b) for that calendar year.

28  
29

✓ Leave in \$25 per biz fee

✓

25  
2000  

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12500