



Introduced: 1/18/83  
Referred: Community and Regional  
Affairs and Finance

1 IN THE SENATE

BY MULCAHY AND KELLY

2

SENATE BILL NO. 53

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act authorizing municipalities to exempt business  
7 inventories from taxation; and providing for an  
8 effective date."

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

10 \* Section 1. AS 29.53.025(b) is amended by adding a new paragraph to  
11 read:

12 (3) exempt business inventories from taxation.

13 \* Sec. 2. AS 29.45.050(b) is amended by adding a new paragraph to read:

14 (4) exempt business inventories from taxation.

15 \* Sec. 3. Section 1 of this Act is repealed.

16 \* Sec. 4. Sections 2 and 3 of this Act take effect on the effective  
17 date of a version of an Act revising AS 29 passed by the Thirteenth Legis-  
18 lature and enacted into law.

19 \* Sec. 5. Section 1 of this Act takes effect immediately in accordance  
20 with AS 01.10.070(c).

"LETTER OF INTENT OF SENATE

SENATE BILL NO. 53

Senate Bill 53 permits municipalities to exempt business inventories from taxation. The taxation of business inventories may be considered to be undesirable by local authorities, for several reasons. Local authorities, in their discretion may find that such taxation is inequitable, treating businesses in disparate ways only on the basis of the size and value of inventories, and not on such criteria as profitability or the demands made upon municipal services. Exemption of business inventories may also be found as a way of enhancing local business climate and attracting new businesses, and jobs, to a local community.

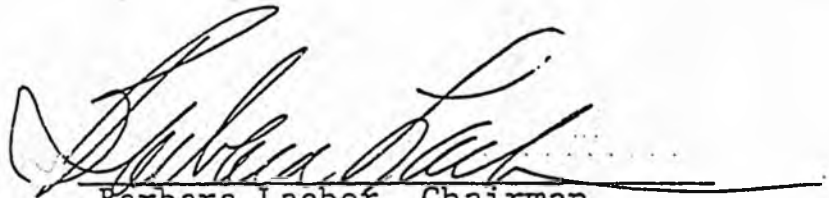
Such considerations, and others, ought to be within the right of local officials to make. Senate Bill 53 will give them that right. However, because the bill broadens municipal discretion and requires no change in municipal taxation, it is not the intention of the Senate to replace revenues which may be lost by the exemption by increased municipal assistance or state aid. Local officials exercising the authority to exempt business inventories from taxation under this bill would be well advised not to anticipate compensating revenues from the state to replace such lost local tax receipts."

Adopted in the Senate April 8, 1983.

HOUSE COMMUNITY & REGIONAL AFFAIRS COMMITTEE

SENATE BILL NO. 53

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Barbara Lacher, Chairman  
House Community & Regional Affairs Committee

STATE OF ALASKA  
PRELIMINARY STATEMENT OF FISCAL IMPACT

Bill No: SB 53 Date on Bill: 1/18/83  
 Title: Authorize Municipalities to exempt business inventories from taxation.  
 Sponsor: Mulcahy and Kelly  
 Requestor: SCRA

1. Estimated fiscal impacts on: Department of Community and Regional Affairs

a. Expenditures:

(Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86
Capital		-0-	-0-	-0-
Operating		-0-	-0-	-0-
Total		-0-	-0-	-0-

b. Revenues:

Revenue				
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2. Source of funds to offset fiscal impact of bill:

3. Assumptions: This bill allows municipal governments the option of excluding business inventories from taxation. This option will have no impact on the Department's operations. No fiscal impact.

4. Disclaimer:

This statement has not been reviewed by the OMB in the Office of the Governor. It does not represent the policy of the Sheffield Administration or the final estimate of fiscal impact.

Prepared By: Richard Rainery  
 Division: Commissioner's Office

Phone: 465-4703  
 Date: \_\_\_\_\_

Approved by Commissioner: \_\_\_\_\_  
 Department: Department of Community and Regional Affairs

Date: \_\_\_\_\_

5. Distribution:

- Original to Legislative Finance
- Copy to OMB
- Copy to Sponsor
- Copy to Requestor

2/8/83

The following individuals are expected to testify on SB  
53:

Senator Bob Mulcahy, prime sponsor

"LETTER OF INTENT OF SENATE

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Such considerations, and others, ought to be within the right of local officials to make. Senate Bill 53 will give them that right. However, because the bill broadens municipal discretion and requires no change in municipal taxation, it is not the intention of the Senate to replace revenues which may be lost by the exemption by increased municipal assistance or state aid. Local officials exercising the authority to exempt business inventories from taxation under this bill would be well advised not to anticipate compensating revenues from the state to replace such lost local tax receipts."

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Introduced: 1/18/83  
Referred: Community and Regional  
Affairs and Finance

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17 date of a version of an Act revising AS 29 passed by the Thirteenth Legis-  
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19 \* Sec. 5. Section 1 of this Act takes effect immediately in accordance  
20 with AS 01.10.070(c).

CITY OF KODIAK  
RESOLUTION 57-81

A RESOLUTION OF THE COUNCIL OF THE CITY OF KODIAK SEEKING A CHANGE IN THE ALASKA STATUTES TITLE 29, CHAPTER 53. MUNICIPAL ASSESSMENT AND TAXATION, SECTION 29.53.025 OPTIONAL EXEMPTIONS AND EXCLUSIONS.

WHEREAS, it is the intent of the Kodiak City Council to seek to allow the exemption of commercial and business inventories from personal property taxation, through the initiation of legislation by local representatives, to Alaska Statutes Title 29, Chapter 53, Municipal Assessment and Taxation; and

WHEREAS, more specifically, the intended change would be an addition of the following words to Section 29.53.025 Optional exemptions and exclusions. (b)(2) "(E) all commercial and business inventories."

NOW, THEREFORE, BE IT RESOLVED by the Kodiak City Council as follows:

Section 1. Senator Mulcahy and Representative Zharoff initiate the appropriate legislative action, which, if approved, would exempt commercial and business inventories from personal property taxation.

PASSED AND APPROVED this 28 day of December, 1981.

CITY OF KODIAK

Alvin Binsley  
MAYOR

ATTEST:

Nancy E. Helbert  
CITY CLERK

KODIAK ISLAND BOROUGH  
RESOLUTION NO. 83-19-R

A RESOLUTION OF THE KODIAK ISLAND BOROUGH ASSEMBLY REAFFIRMING  
SUPPORT TO EXEMPT BUSINESS INVENTORIES FROM PERSONAL PROPERTY TAXES.

WHEREAS, it is the intent of the Kodiak Island Borough Assembly to  
to allow the exemption of business inventories from personal property taxation  
through the initiation of legislation to amend Alaska Statute 29, Chapter 53,  
Municipal Assessment and Taxation, and

WHEREAS, Senate Bill No. 53 introduced in the legislature of the  
State of Alaska, Thirteen Legislature, First Session, is a bill entitled  
"An Act Authorizing Municipalities to Exempt Business Inventories from Taxation;  
and Providing for an Effective Date.", and

WHEREAS, the Kodiak Island Borough did by Resolution No. 82-1-R  
pass a resolution seeking to change municipal assessment and taxation thereby  
exempting all business inventories, and

WHEREAS, the Kodiak Retailers Association has requested the Borough  
to initiate through legislation by local representatives the exemption of all  
commercial and business inventories.

NOW, THEREFORE, BE IT RESOLVED by the Kodiak Island Borough Assembly  
that they again reaffirm their support to exempt business inventories from  
personal property taxes.

BE IT FURTHER RESOLVED that the Assembly does hereby express its  
support for Senate Bill No. 53 introduced by Senators Mulcahy and Kelly and  
further request that a companion House Bill be introduced thereby exempting  
business inventories from taxation.

PASSED AND APPROVED this 3rd day of February, 1983  
by the Borough Assembly.

KODIAK ISLAND BOROUGH

By Rand Herntson  
Borough Mayor

ATTEST:

By Shirley Miller, CMC  
Borough Clerk

# Alaska State Legislature



Barbara Lacher, Chairman  
Mae Tischer, Vice-Chairman  
Randy Phillips  
Milo Fritz  
Don Clocksin  
Jack McBride  
Mike Szymanski

Room 104  
State Capitol  
Juneau, Alaska 99811

Pouch V  
Juneau, Alaska 99811

## House of Representatives Committee on Community & Regional Affairs

TO: Committee on Community and Regional Affairs  
FROM: STAFF  
RE: SB 53

SB 53 provides municipalities with the option to exempt business inventories from municipal taxation.

AS 29.53.025 is specific as to what categories of property a municipality may exempt from Taxation. Business inventories are not included as a optional item for exemption.

ALASKA'S INVENTORY TAX

Donald R. Magnusson

The inventory tax is the most unfair and inequitable business tax in Alaska today. This tax has been condemned repeatedly by the Federal Advisory Commission on Intergovernmental Relations and by innumerable state level legislative and administrative studies. Many of their conclusions are well known and we think it is unnecessary to dwell on them at length, but we do think they should be stated briefly for the record. The inventory tax is unfair in that it bears no relation to profit or loss, placing a heavy burden on one segment of the business community which is not shared, either by private citizens or by other segments of the business and professional community. The business or profession that does not hold merchandise for resale, but who may deal with services, professional or otherwise, pays no similar tax. In fact, the merchant who attempts to compete efficiently by stocking more sizes to serve the hard-to-fit, who has more inventory and less turnover, ends up paying more inventory tax -- even if there is no profit with which to pay it.

Taxes on the same amount of inventory vary widely because of different local tax rates and different methods used by taxpayers in determining "fair market value", with some taxpayers paying a tax on maximum value while others pay on a much lower amount. Inventory taxes are, by universal admission, almost impossible to administer fairly, even by the most conscientious tax assessor.



Inventory taxes discourage the warehousing of goods within the State and can cause serious disruptions in the flow of goods, higher prices (such as freight) and more inconvenience to the consumer. In Alaska, this is a matter of critical concern.

When seeking to attract new industry, nontax states openly advertise that they have no inventory tax.

Attached is a list of the forty (40) states, plus the District of Columbia, that have acted to repeal or substantially reduce the inventory tax. Note that twenty-seven (27) states, plus the District, have completely repealed it or are in process of completely phasing it out. (Note also, in this connection, that on March 14, 1979 the Illinois Supreme Court declared the personal property tax abolished as of January 1, 1979 irrespective of whether or not the legislature acts to implement its prior constitutional mandate.)

Most of these actions have occurred during the past dozen years and there is every indication that the trend will continue. No state that has repealed its inventory tax has ever reimposed it. The evidence shows just the opposite. States that have abolished the tax are reporting increased business activity and more jobs created from improvement in the state's business climate. State and local tax revenues have increased due to improved sales tax and income tax collections. Increases in the number of jobs lowers welfare and unemployment insurance costs. The repealed inventory

tax increases the efficiency of city and town administration by permitting greater attention to appraisal of real property and other items of personal property that remain subject to tax.

And, most importantly, a repealed inventory tax removes the pyramiding of inventory tax costs through the various trade levels which are reflected in the price of consumer goods.

In summary, the inventory tax is unfair, unwieldy and unworkable, and has been recognized as such by most states which seek to attract and retain a wide variety of business and industry. If a tax falls unfairly upon a limited few, and if its enforcement is irregular and compliance strained, then the tax should be abolished and a better system substituted in its place. The tax on inventories should be repealed.

## TAXATION OF BUSINESS INVENTORIES

Alabama	Inventory tax repealed by constitutional amendment effective 10/1/78.
Arizona	State constitution exempts all inventories effective 1964.
California	Inventories taxed at .5% of value effective 7/1/78.
Colorado	95% exemption on inventories effective 1973.
Connecticut	Inventory tax phases out by 1982.
Delaware	Exempts all personal property, including inventories, effective 1953.
District of Columbia	Inventories exempt effective 1974.
Florida	90% exemption for inventories of finished goods, 99% exemption for goods in process and raw materials, effective 1978.
Hawaii	Exempts all personal property, including inventories, effective 1947.
Idaho	Inventories exempt effective 1971.
Illinois	An approved constitutional amendment to exempt all personal property, including inventories, effective 1/1/79, has yet to be implemented by the legislature.
Indiana	35% exemption on inventories plus 20% property tax credit.
Iowa	Annually increases personal property credits until total exemption is reached, probably in 1986.
Maine	Inventories exempt effective 1977.
Maryland	Local option phase-out of inventory tax is in progress, each county having different effective date.
Massachusetts	All personal property, including inventories, is exempt unless taxpayer is subject to the corporate excise tax.
Michigan	Inventories exempt effective 1976.
Minnesota	Inventories exempt effective 1967.
Mississippi	Exempts manufactured products in hands of manufacturer, effective 1942.
Montana	93% exemption on inventories effective 1975.

Nebraska - Inventories exempt effective 1979..

Nevada . 1978 constitutional amendment phases out the inventory tax over four years and authorizes the legislature to exempt all other personal property.

New Hampshire Exempts all personal property, including inventories, effective 1970.

New Jersey Inventories exempt effective 1966.

New Mexico Inventories exempt effective 1974.

New York Exempts all personal property, including inventories, effective 1917.

North Carolina Partially exempts manufacturers' inventories effective 1/1/80.

North Dakota Exempts all personal property, including inventories, effective 1970.

Ohio Phasing in an inventory tax exemption of 65%.

Oregon - Inventories exempt effective 1980.

Pennsylvania Exempts all personal property, including inventories, effective 1939.

Rhode Island . Exempts manufacturers' inventories effective 1966..

South Carolina Exempts manufacturers' inventories effective 1962.

South Dakota, Inventories exempt effective 1979.

Tennessee Inventories exempt effective 1972.

Utah Inventories exempt effective 1973.

Vermont Inventories exempt on local option basis.

Virginia Inventories exempt in all counties that impose license tax.

Washington Inventory tax phase-out, with full exemption in 1983.

Wisconsin Inventory tax phase-out, with full exemption in 1981.

Wyoming Inventories exempt effective 1972.

Municipalities that are allowed to exempt business inventories because of "grand father" rights.

From Sen. Mulcahy  
Re. SB 53: same as HB250

TABLE II  
LOCAL ASSESSMENT POLICY

	RESIDENTIAL		GENERAL PERSONAL PROPERTY		MOTOR VEHICLES		BOATS & VESSELS		BUSINESS INVENTORY		AIRCRAFT	
	AV	EX	AV	EX	AV	EX	AV	EX	AV	EX	AV	EX
ANCHORAGE, MUNICIPALITY OF	X	-	X	-	2	-	X	-	X	-	X	-
BRISTOL BAY BOROUGH	1	-	X	-	X	-	X	-	X	-	X	-
★ FAIRBANKS NORTH STAR BOROUGH	1	-	-	X	-	X	-	X	-	X	-	X
★ HAINES BOROUGH	X	-	-	X	-	X	-	X	-	X	-	X
JUNEAU, CITY & BOROUGH	X	-	X	-	-	X	-	X	-	X	-	X
★ KENAI PENINSULA BOROUGH	1	-	X	-	X	-	X	-	-	X	-	X
KETCHIKAN GATEWAY BOROUGH	X	-	X	-	2	-	-	3	X	-	X	-
KODIAK ISLAND BOROUGH	X	-	X	-	2	-	X	-	X	-	X	-
MATANUSKA-SUSITNA BOROUGH	X	-	X	-	2	-	X	-	X	-	X	-
NORTH SLOPE BOROUGH	1	-	X	-	X	-	X	-	X	-	X	-
SITKA, CITY & BOROUGH	X	-	X	-	X	-	-	3	X	-	X	-
<u>CITIES</u>												
★ CORDOVA	X	-	-	X	-	X	-	-	X	-	-	X
★ CRAIG	X	-	-	X	-	-	X	-	-	X	-	-
DILLINGHAM	X	-	X	-	X	-	X	-	X	-	X	-
★ EAGLE	X	-	X	-	-	X	-	-	X	-	-	X
GALENA		NA		NA		NA		NA		NA		NA
HOONAI		NA		NA		NA		NA		NA		NA
HYDABURG		NA		NA		NA		NA		NA		NA
KAKE		NA		NA		NA		NA		NA		NA
KING COVE		NA		NA		NA		NA		NA		NA
KLAWOCK		NA		NA		NA		NA		NA		NA
NENANA	X	-	X	-	X	-	X	-	X	-	X	-
NOME	X	-	X	-	X	-	X	-	X	-	X	-
PELICAN	X	-	X	-	-	X	-	-	3	X	-	X
PETERSBURG	X	-	X	-	2	-	-	X	X	-	X	-
ST. MARY'S		NA		NA		NA		NA		NA		NA
★ SKAGWAY	X	-	-	X	-	X	-	-	X	-	-	X
TANANA		NA		NA		NA		NA		NA		NA
UNALASKA	X	-	X	-	-	X	-	-	X	-	X	-
VALDEZ	1	-	-	X	-	X	-	-	X	-	-	X
WRANGELL	X	-	X	-	-	X	-	-	X	-	X	-
★ YAKUTAT	X	-	-	X	-	X	-	-	X	-	-	X

1. optional residential exemption up to \$10,000 exercised (AS 29.53.025(a))
2. state collected, annual motor vehicle tax (AS 20.10.431)
3. option 5 & 15 dollar fee collected in lieu of property tax (AS 25.53.025(b)(1))

35 55

**EFFECT OF EXEMPTING BUSINESS INVENTORIES FROM  
MUNICIPAL TAXATION**

	<u>Value of 1 mil</u>	<u>\$ of Bus. Inv. Tax</u>	<u>Portion of 1 mil</u>
Anchorage	\$ 7,981,000	\$ 2,441,200	.3059
Fairbanks		-0-	-0-
City/Borough of Juneau	839,000	233,654	.2785
Ketchikan-Borough	574,129	30,119	.0525
-City	289,426	112,248	.3878

Alaska  
MUNICIPAL  
League

TELEPHONES  
607 586-1325  
586-6526

204 N. FRANKLIN ST.  
JUNEAU, ALASKA 99801

March 17, 1983

to: Senate Finance Committee  
from: Ginny Chitwood, AML Executive Director  
re: SB 53 - Business Inventory Exemption

Alaska Municipal League supports passage of SB 53, authorizing municipalities to exempt business inventories from taxation.

Municipalities would like to see increased business activity in their areas. Local officials see eliminating the property tax on business inventories as one way of encouraging economic activity.

In many cases, the business inventory property tax is merely a "nuisance" tax - a hassle for both the business person and the local official withough enough money changing hands to be worth the effort.

This bill would assist municipalities in being able to design their local tax structure to fit their local situation.

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

POUCH B  
JUNEAU, ALASKA 99811  
PHONE: 1907) 465-4700

February 8, 1983

POSITION PAPER

RE: SB 53

SPONSORS: Senators Mulcahy and Kelly

Program Effects of Bill

Provides for a local option for tax exemptions on business inventories.

Comments

The Department has supported maximizing local options as opposed to mandating such tax exemptions. This measure would allow a municipality to consider such exemptions, assuring that any decision is a local one. The Department believes that the position of the Alaska Municipal League (AML) on this bill should be an important guide post. The AML has supported such a local option for sometime now and continues to do so in their 1983 Policy Statement. One reason is that business inventory taxes often cost more to collect than they bring in; another impetus is the general encouragement of private enterprise by repealing taxes such as that on business inventories.



# Alaska State Legislature

Barbara Lacher, Chairman  
Mae Tischer, Vice-Chairman  
Randy Phillips  
Milo Fritz  
Don Clocksin  
Jack McBride  
Mike Szymanski



Room 104  
State Capitol  
Juneau, Alaska 99811  
Pouch V  
Juneau, Alaska 99811

## House of Representatives Committee on Community & Regional Affairs

TO: Committee on Community and Regional Affairs  
FROM: STAFF  
RE: SB 53

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*Alaska*  
**MUNICIPAL**  
*League*

TELEPHONES  
(907) 586-1325  
586-6526

204 N. FRANKLIN ST.  
JUNEAU, ALASKA 99801

May 24, 1983

To: House Finance Committee  
From: Ginny Chitwood, Executive Director *Ginny*  
Re: SB 53 - Business Inventory Exemption

The Alaska Municipal League supports passage of SB 53, authorizing municipalities to exempt business inventories from taxation.

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Re. SB 53

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	AV	EX	AV	EX	AV	EX	AV	EX	AV	EX	AV	EX
ANCHORAGE, MUNICIPALITY OF	X	-	X	-	2	-	X	-	X	-	X	-
BRISTOL BAY BOROUGH	1	-	X	-	X	-	X	-	X	-	X	-
* FAIRBANKS NORTH STAR BOROUGH	1	-	-	X	-	X	-	-	X	-	-	X
* HAINES BOROUGH	X	-	-	X	-	-	X	-	-	X	-	-
* JUNEAU, CITY & BOROUGH	X	-	X	-	-	X	-	-	X	-	X	-
* KENAI PENINSULA BOROUGH	1	-	X	-	X	-	X	-	-	X	-	-
KETCHIKAN GATEWAY BOROUGH	X	-	X	-	2	-	-	3	X	-	X	-
KODIAK ISLAND BOROUGH	X	-	X	-	2	-	X	-	X	-	X	-
MATANUSKA-SUSITNA BOROUGH	X	-	X	-	2	-	X	-	X	-	X	-
NORTH SLOPE BOROUGH	1	-	X	-	X	-	X	-	X	-	X	-
SITKA, CITY & BOROUGH	X	-	X	-	X	-	-	3	X	-	X	-
<u>CITIES</u>												
* CORDOVA	X	-	-	X	-	X	-	-	X	-	-	X
* CRAIG	X	-	-	X	-	-	X	-	-	X	-	-
DILLINGHAM	X	-	X	-	X	-	X	-	X	-	X	-
* EAGLE	X	-	X	-	-	X	-	-	X	-	-	X
GALENA		NA		NA		NA		NA		NA		NA
HOONAH		NA		NA		NA		NA		NA		NA
HYDABURG		NA		NA		NA		NA		NA		NA
KAKE		NA		NA		NA		NA		NA		NA
KING COVE		NA		NA		NA		NA		NA		NA
KLAWOCK		NA		NA		NA		NA		NA		NA
NENANA	X	-	X	-	X	-	X	-	X	-	X	-
NOME	X	-	X	-	X	-	X	-	X	-	X	-
PELICAN	X	-	X	-	-	X	-	3	X	-	X	-
PETERSBURG	X	-	X	-	2	-	-	X	X	-	X	-
ST. MARY'S		NA		NA		NA		NA		NA		NA
* SKAGWAY	X	-	-	X	-	X	-	-	X	-	-	X
TANANA		NA		NA		NA		NA		NA		NA
UNALASKA	X	-	X	-	-	X	-	-	X	-	X	-
VALDEZ	1	-	-	X	-	-	X	-	-	X	-	-
WRANGELL	X	-	X	-	-	X	-	-	X	-	X	-
* YAKUTAT	X	-	-	X	-	-	X	-	-	X	-	-

1. optional residential exemption up to \$10,000 exercised (AS 29.53.025(a))
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March 17, 1983

to: Senate Finance Committee  
from: Ginny Chitwood, AML Executive Director *GC*  
re: SB 53 - Business Inventory Exemption

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