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COMMITTEE REPORT

SENATE

FURTHER: FINANCE

1/13/83

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

Mr. President:

The Committee on Community & Regional Aff. has had SENATE BILL NO. 62

"An Act authorizing municipalities to exempt business inventories from taxation; eff. date."

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass  do not pass
- do pass with attached amendments(s)
- replace with CS for \_\_\_\_\_  same title
- and recommends \_\_\_\_\_  new title
- AND attaches a "Letter of Intent"  New Fiscal Note
- reports it back without recommendation
- referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

*[Handwritten Signature]*  
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MEMBERS HAVING  
OTHER RECOMMENDATIONS:

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CHAIRMAN

**DEPT. OF COMMUNITY & REGIONAL AFFAIRS**

OFFICE OF THE COMMISSIONER

POUCH B  
JUNEAU, ALASKA 99811  
PHONE: (907) 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.



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 *RR* Phone: 465-4703  
 Division: Commissioner's Office Date: \_\_\_\_\_  
 Approved by Commissioner: *[Signature]* Date: \_\_\_\_\_  
 Department: Department of Community and Regional Affairs

5. Distribution:  
 Original to Legislative Finance  
 Copy to OMB  
 Copy to Sponsor  
 Copy to Requestor

2/8/83

2. Payments-in-Lieu: The League endorses the position whereby the state would pay to the local governments a payment-in-lieu of ad valorem taxes for the state-owned property as well as payments for its share of the cost of improvements and services which benefit such property.

3. Right To Tax: The League opposes any further effort on the part of the state to levy a property tax which would infringe upon the rights of local governments to levy the same rate of tax as levied on other property within the taxing jurisdiction.

4. Business Inventories: The League supports legislation which would provide for the optional exemption of business inventories from property tax.

5. Interest Rate Limit: The League supports legislation to remove the limits established by AS 29.53.180 and AS 29.53.415(d) on the penalty and interest rate for delinquent property and sales tax payments.

#### D. FORMATION OF NEW MUNICIPALITIES

1. The League supports legislation to provide adequate funds to assist in the study of the feasibility of forming new municipalities and in the formation of newly organized municipalities.

#### E. PUBLIC EMPLOYEES RETIREMENT

1. The League urges that in any legislation passed which increases benefits under the Public Employees Retirement System and Teachers Retirement System, the increased cost be borne by contributions from the employees. The League urges the Legislature to recognize the effect on participating municipal employers if any amendments are made to PERS and TRS.

#### F. LOCAL HOSPITAL USE

1. Utilization of Local Health Facilities: The League urges the state and federal agencies responsible for health care to utilize the local health facilities and to transport patients to regional centers only when necessary services are not available.

2. Increased State Funding: The League strongly supports increased state funding of hospital construction costs and of special hospital and health facility construction and operating costs.

3. Separate Funding For Hospitals: The League strongly supports funding of hospital and health facility grants outside the municipal revenue sharing program.

*Alaska Municipal League  
Policy Statement*

1983

# KODIAK ISLAND BOROUGH

Telephones 486-5736 - 486-5737 — Box 1246

KODIAK, ALASKA 99615

January 12, 1982

The Honorable Bob Mulcahy  
The State Senate  
Pouch V  
Juneau, Alaska 99811

Re: Resolution No. 82-1-R - Commercial and Business Inventories

Dear Bob:

Please be advised that the Kodiak Island Borough Assembly at their regular meeting on January 6, 1982 unanimously adopted Resolution No. 82-1-R entitled "A Resolution of the Kodiak Island Borough Assembly Seeking A Change in the Alaska Statute 29, Chapter 53, Municipal Assessment and Taxation, Section 29.53.025 Optional exemptions and Exclusions" with the intent to allow the option to exempt commercial and business inventories from personal property taxation. It is my understanding that the City Council of Kodiak has recently adopted a similar resolution. Both elected bodies in joint work sessions have indicated that this is of an extreme high priority to them.

I would further like to note that the Alaska Municipal League Policy Statement dated 1982 states on page 3 under local taxes item 4 "Business Inventory: The League supports legislation which would provide for the optional exemption of business inventories from property tax".

Therefore, at this time I wish to respectfully request your assistance in the successful adoption of the above change to Alaskan law. If any further information or materials are required in this regard, please contact me immediately.

Sincerely,

*Phil C. Shealy*  
Phil C. Shealy  
Borough Manager

CC Bill Bivin, City Manager

Enclosure

mdd

*1982 Resolution by  
Kodiak Borough in  
favor of exemption  
- See next page -*

KODIAK ISLAND BOROUGH  
RESOLUTION NO. 82-1-R

A RESOLUTION OF THE KODIAK ISLAND BOROUGH ASSEMBLY SEEKING A CHANGE IN THE ALASKA STATUTE TITLE 29, CHAPTER 53, MUNICIPAL ASSESSMENT AND TAXATION, SECTION 29.53.025 OPTIONAL EXEMPTIONS AND EXCLUSIONS.

WHEREAS, it is the intent of the Kodiak Island Borough Assembly 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 Statute 29, Chapter 53, Municipal Assessment and Taxation; and

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

NOW, THEREFORE, BE IT RESOLVED by the Kodiak Island Borough Assembly that legislation initiated which, if approved, would allow exemption of commercial and business inventories from personal property taxation.

BE IT FURTHER RESOLVED by the Kodiak Island Borough Assembly that the Borough administration be directed to send this resolution to Senator Mulcahy and Representatives Zharoff and Sutcliffe and implore their assistance in the successful adoption of this legislation.

PASSED AND APPROVED this 6th day of January, 1982 by  
the Borough Assembly:

KODIAK ISLAND BOROUGH

By *R. W. Henderson*  
Borough Mayor

ATTEST:

By *Shirley J. Miller, CMC*  
Borough Clerk



December 30, 1981

Honorable Bob Mulcahy  
Senator  
P.O. Box 246  
Kodiak, AK 99615

Dear Senator Mulcahy:

On December 28, 1981 the Kodiak City Council passed Resolution 57-81.

The resolution requests that you introduce legislation into the Senate which would allow for the optional exemption and exclusion of commercial and business inventories from property taxation.

Your help in introducing and sponsoring such legislation would be greatly appreciated.

Sincerely,

CITY OF KODIAK

WILLIAM C. BIVIN  
City Manager

WCB/csh

*1981 Resolution in favor  
of exemption by City  
of Kodiak - see next page*

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

Alan J. Beasley  
MAYOR

ATTEST:

Nancy E. Gilbert  
CITY CLERK

CITY OF KODIAK  
RESOLUTION NUMBER 06-83

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 an exemption of commercial and business inventories from personal property taxation, through the initiation of legislation by local representatives, to amend 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 Council of the City of Kodiak, Alaska, that Senator Mulcahy and Representative Zharoff are requested to initiate the appropriate legislative action, which, if approved, would exempt commercial and business inventories from personal property taxation.

BE IT FURTHER RESOLVED that this resolution be communicated to the following people:

The Honorable Bill Sheffield, Governor of Alaska

The Honorable Stephen McAlpine, Lieutenant Governor of Alaska

The Honorable Bob Mulcahy, Alaska State Senator

The Honorable Fred Zharoff, Alaska Representative

PASSED AND APPROVED this 27<sup>th</sup> day of January, 1983.

CITY OF KODIAK

Alan Beardsley  
MAYOR

1983 Resolution in  
support of bill by  
City of Kodiak

ATTEST:

Marcella Dalke  
CITY CLERK

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.

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