Doing Business in Juneau: Paying Taxes

March 2010
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Executive Summary

Local government tax structure, licensing and permitting requirements, and administrative capacity and efficiency shape business decisions by affecting both day-to-day operations and the bottom line. In the World Bank report, “Doing Business 2009”, 181 countries are ranked on their total tax rate and the administrative burden of paying taxes, including the number of payments per year and the number of hours it takes to prepare and file returns. Those countries with low taxes and simple tax systems (low administrative burden) coupled with efficient administrations receive the highest scores. At the municipal level, these same factors, tax rates, number of payments, and ease of complying with reporting play a role in the ease of doing business.

“Doing Business in Juneau: Paying Taxes” is a white paper examining City and Borough of Juneau (CBJ) taxes from a business perspective, including specifics about each tax (e.g., rates, exemptions). It aims to put into perspective the level of taxation of the Juneau business community. The CBJ taxes both sales and a broad spectrum of real and personal property. CBJ sales tax provides the largest percent of tax revenue, contributing just over half of total tax revenue in 2008. Enacting a sales tax has allowed CBJ to shift some of the burden of paying for municipal services to the many yearly visitors to Juneau who enjoy the benefit of these services.

The remaining tax is raised from real and personal property tax. Here, the burden of taxation falls on real property. The full value of real property in Juneau is 6.5 times the full value of total personal property. In addition, CBJ taxes 98% of real property that can be taxed under state law, and because of exemptions for all non-commercial property and business inventory, and partial business personal property exemptions, CBJ taxes only 42% of all personal property. Each sales or property tax exemption decreases the tax base and tax revenue. If property taxes are reduced for any segment of property owners in Juneau, taxes need to be increased on those remaining to support the level of services expected by the community. The Assembly must weigh exemptions for any one segment of property owners against lost revenue, fairness, and administrative time to prepare and file taxes. The trend has been to reduce taxes on business property.

The second part of the white paper compares CBJ’s tax structure and tax revenue to other Alaska municipalities. Municipalities use their authority to implement a mix of property, sales and special taxes, along with various tax rates and exemptions, to raise revenue to fund desired levels of local government services. Municipalities in the State of Alaska were found to implement varied tax structures. Based on per capita tax revenue comparisons to other communities, CBJ’s per capita revenue is similar to that of other Alaska cities within boroughs with populations ranging from 10,000 to 80,000.

I. Juneau Tax Structure

Overview

Alaska Statutes (AS 29.45) authorize municipalities such as the City and Borough of Juneau to levy taxes to raise revenue for local services, including education, roads, and fire and police protection. By taxing both sales (general sales and sales on tobacco, alcohol and hotel/beds) and property, CBJ uses a broad approach to raising this revenue.

In 2008 the Juneau sales tax provided over half of all tax revenue. The sales tax in Juneau captures tax revenue from the large number of tourists who purchase goods and services. Sales tax revenue can vary greatly year-to-year depending on such things as length of legislative session, economy, tourism, size of PFD checks, degree of spending, tax rates and sales tax exemptions. The state has specific mandatory sales tax exemptions and the CBJ has several optional exemptions. These optional exemptions have come about through local ordinances.

Juneau property taxes accounted for slightly less than half the tax revenue in 2008. The yearly commercial and non-commercial property that may be assessed (or optionally partially or fully exempted) by CBJ includes the following broad categories:

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Real property

- Homes, buildings, and land

Personal property

- Business inventory – all merchandize that is to be sold
- Business personal property – machines, equipment, motor vehicles, and other property that goes into running a business
- Motor vehicles – commercial and non-commercial
- Boats/vessels – commercial and non-commercial water vessels
- Airplanes – both commercial and non-commercial

State statutes contain a limited number of mandatory property tax exemptions, including state property, nonprofit, religious, charitable, cemetery, and educational property. In addition to required State exemptions, local governments can optionally exempt additional personal property. Of the personal property listed above, the CBJ has either provided for a flat tax or exempted all or part of each category.

Through optional exemptions, CBJ’s tax structure reflects the choices the community has made over time among a mix of taxes and tax rates, including real and personal property, excise, sales, special taxes and tax exemptions. The following sections discuss the various taxes in more detail.

**CBJ Sales Tax and Special Taxes**

**Sales and Special Tax Rates**

In 2008, CBJ sales tax and special sales tax revenue combined was almost $43 million and contributed to over 52% of the total tax revenue collected in Juneau. During the past eight years, sales tax revenue has been greater than property tax revenue, although actual amounts of both have varied by a million dollars or more each year. The general sales tax on all goods and services during this period has remained constant at 5%. Furthermore, CBJ has over 30 optional sales tax exemptions. (See list of exemptions at Appendix A).

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Of the 5% sales tax, without further action, 3% will end on June 30, 2012, and 1% on September 30, 2013. These sunset provisions provide Juneau voters with the opportunity to routinely re-examine sales taxes and rates. Of the 5% sales tax, about 3% is used for general operations and 2% for capital projects; a 60/40 split.\(^5\)

In addition to the general sales tax, in 2008, CBJ had a $.30 per pack tobacco tax, 3% tax on all alcohol, and 7% tax on bed/hotel rates. The cumulative revenue of these special taxes was almost $2.6 million.\(^6\) An October 2009 ballot proposition increased the tax on a pack of cigarettes on January 2, 2010 to $1 and increased the tax on the wholesale value of other tobacco products to 45%. Based on studies in other municipalities, this increased tax will probably result in an increase in tobacco tax revenue even if it also leads to decreased tobacco product purchases. Public funds raised from the increased tobacco tax are to support health services within CBJ.

Although arguments can be made against sales taxes based on fairness, administrative simplicity and exportability, the sales tax in Juneau has the benefit of providing tax revenue for Juneau from tourists and other visitors to Juneau. The sales tax revenue from their purchase of goods and services provides a stream of outside tax revenue for Juneau. An April 2009 study commissioned by the Juneau Convention and Visitor’s Bureau determined that visitors provided an estimated $8.6 million (20 percent) of the sales tax revenue in 2008.\(^7\)

At the same time, estimating annual sales tax revenue depends on several factors beyond CBJ control: length of legislative session, number of tourists, and PFD amount. This fact can result in substantial yearly sales tax revenue increases or decreases.

**Reporting and Remitting Sales and Special Taxes**

Customers pay applicable sales tax when they purchase a good or service. Businesses collect the tax revenue for CBJ. Each business must keep track of sales taxes paid, sales tax exemptions, and report and remit the collected taxes to CBJ. Since the purchaser of a good or service pays the sales tax, perhaps the greatest cost of the sales tax to

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\(^5\) Craig Duncan, Director, CBJ Finance Department, January 2010.
\(^6\) Alaska Taxable 2008, pg. 22.
\(^7\) JCVB, pg. 18.
businesses is the administrative time involved in tracking, processing, filing and remitting the sales tax to CBJ.

While forms, contact names, phone numbers, and information on remitting sales tax revenue are easily available from the CBJ web site, the actual time involved in filling out some of these forms can be lengthy depending on the size of the business and its record keeping ability. Specifically, smaller to medium sized businesses that conduct many sales may devote the most time to tracking sales tax and sales tax exemptions.

Sales tax forms are generally filed quarterly, although those businesses with no or very limited sales taxes collected in a year can file annually. Businesses that collect more than $1000 in a one-month period are required to deposit estimated sales tax by the fifteenth of the following month in addition to their quarterly filing. These varied filing requirements are fairly easy to understand and they reduce the administrative time for those businesses that collect limited sales tax revenue. This graduated system also allows CBJ to receive sales tax revenue in a timely manner. However, administrative tracking and preparation may be time intensive for certain businesses.

**CBJ Property Taxes**

Property tax consists of real property and personal property. Personal property is further divided into business inventory, business personal property, motor vehicles, boats and vessels, and aircraft. Municipalities tend to tax personal property in different ways, if at all.

In accordance with state statutes (AS 29.45), the full value\(^8\) of all real and personal property is used to determine state assistance for specific programs such as education. The State provides specific property tax exemptions and conditions for optional exemptions by municipalities. The current CBJ code (69.10) contains ten categories of optionally exempted property. The sections below discuss CBJ property taxes, optional exemptions and the value of Juneau’s optional exemptions.

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\(^8\) Full value is defined as locally assessed value plus the value of all locally exempted taxable property.
Real Property Tax: Business Real Estate

1. Real Property Tax Rate and Exemptions

The majority of commercial buildings and lands are taxed at their full value. CBJ provides optional exemptions (some partial and some for a limited time) for some commercial properties, including: community purpose, export manufacturing, rehabilitated historic property, and regional native housing authority buildings.

The CBJ Assessor’s Office values all real property in CBJ, and annually informs all property owners of the assessed value of their property. The applicable mill rate is then used to determine the tax for each real property. The 2009 mill rate on real property was 8.45 to 10.6\(^9\) depending on the location of the property: 10.6 mills if on the road system with fire service, 10.4 mills on the road system but no fire service, and 8.45 if not on the road system and no fire service.

Annual municipal mill rates are determined by a fairly simple calculation. The city government determines the budget, identifying expenditures. Then the budget process projects expected revenue from all sources other than property tax (e.g., state, federal, fees and fines, sales tax, rainy day account use). The remaining unfunded part of the budget is covered by property taxes. The CBJ Assessor’s office values all property for tax purposes and deducts the value of any property exempt from property taxes. The calculation of the mill rate is determined by dividing the unfunded part of the budget by the value of all property that can be assessed (taxed). The result is the amount of tax, in dollars, on every dollar of taxable property. The result is divided by 1000 to determine the millage rate.

2. Paying Real Property Taxes

Rather than owning their business location many businesses lease their space. These businesses do not pay real property tax to CBJ, however, the tax cost is part of their rental payments.

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\(^9\) 1 mill = $1/$1000 of assessed value, therefore, 10.6 mill equals $1060 on every $100,000 of assessed property value.
Businesses owning real property annually pay this property tax based on an assessment notice provided by the CBJ Assessor’s Offices several months in advance. Real property owners can appeal their assessments through the CBJ appeal process. CBJ provides information, forms, and contacts for appealing an assessment online at: http://www.juneau.org/financeftp/fileforms.php.

Real property taxes can be paid in person or through the mail. For many, property tax payments are part of a regular monthly mortgage payment. The mortgage lender collects the tax and pays CBJ when the full amount is due. In these instances, the time involvement of the business property owner is limited to reviewing their annual assessment and deciding whether to appeal. Those businesses where real property tax is not collected as a part of a mortgage payment have the additional step of providing payment to CBJ.

**Personal Property Taxes: Non Real Estate Business Property**

Along with real property taxes, the City and Borough of Juneau has authority to tax personal property owned by commercial and non-commercial entities. The CBJ Code includes personal property tax exemptions, flat fees and reduced taxed amounts for the various types of personal property discussed below. The 2009 value of these personal property optional exemptions was a little over $307 million\textsuperscript{10}.

**Business Inventory**

The City and Borough of Juneau optionally exempts all business inventories from the property tax. Inventory includes all merchandise owned by a business that is available for sale. The 2009 estimated value of business inventory in CBJ was $60,854,000.

**Business Personal Property (BPP)**

1. **Business Personal Property Tax Rate and Exemptions**

Business personal property (BPP) includes all property used or held for use by a business, such as, furniture, machinery, equipment, fixtures, computers, and tools. BPP is used for

\textsuperscript{10} Full Value Determination, City and Borough of Juneau, 2009.
income producing purposes is but not part of the real estate. In Juneau, commercial motor vehicles are subject to property tax as part of business personal property; and, commercial boats and vessels are exempt from all property taxes.

The BPP category also includes business property that was not located physically within the Borough on the first of January. For example, a business that operates only in the summer and moves its machines, equipment, or other business personal property outside of CBJ at the end of the summer, must still provide CBJ with a declaration of property and pay BPP tax if it meets the tax situs requirements as spelled out by CBJ Code (section 15.05.035) and is not otherwise exempt. CBJ taxes BPP at the same mill rate as real property.

By ordinance, CBJ has phased in an increasing dollar amount of BPP optional exemptions. On January 1, 2009, the first $80,000 of the assessed value of BPP, not otherwise exempt, was exempted from BPP. The Office of the State Assessor estimated the dollar value of this local exemption at a little over $54 million. On January 1, 2010, the BPP optional exemption increased to $100,000. After applying the exemption, the remaining BPP value is taxed at the current mill rate. For 2010, with a 10.6 mill rate, businesses with over $100,000 in taxable personal property will pay around $1000 less in BPP taxes depending on where they are located. Furthermore, those businesses with less than $100,000 in personal property will be exempt from BPP tax.

2. Paying Business Personal Property Tax

Annually in December, the CBJ assessor’s office sends out a business personal property packet and declaration forms to each business. Businesses are required to fill out the forms and return them by the end of January/beginning of February. In March, the Assessor’s office sends out Assessment Notices. Tax bills are mailed by July 1 and payments are due September 30. Information and forms are available through the CBJ Finance Department and online. The CBJ website also provides contact name and phone number of staff to assist with preparing and filing Business Personal Property forms.

The increase in the dollar amount of the BPP exemption has resulted in a decreasing number of businesses paying the business personal property tax and a decrease in taxes for those required to pay. The CBJ estimates that of the 3,364 active businesses in Juneau about 3,100 businesses will be exempt from BPP tax in 2010. CBJ estimates that about 250
active businesses have over $100,000 in business personal property and would pay BPP taxes, based on current figures.\textsuperscript{11} While all businesses must file a BPP form, the CBJ “short form” allows a business to declare they have less than $80,000 in personal property ($100,000 for 2010) and greatly reduces the time it takes to file. Businesses with BPP valued at above the exempt amount must list and report the values of all business personal property, including long term leased items and depreciation.

Educating businesses as to the exempt amount is important to reducing the administrative time businesses spend calculating BPP tax and filing. When regulations change, such as the increased exemption, an effort must be made to notify and educate businesses so that they understand the changes and how they affect their business.

**Aircraft Taxes and Payments**

The general trend in Juneau has been to reduce or eliminate CBJ property taxes on aircraft, boats and other vessels. In keeping with this general trend the approach to personal property taxes with commercial aircraft has been to provide tax relief to aircraft owners. In 2001, the CBJ assembly changed the method of taxation on commercially used fixed and rotary-wing aircraft from the business personal property tax to a flat rate. The flat rate fee schedules are based on aircraft weight and are limited to aircraft weighing less than 12,000 pounds. The flat fee covers all aircraft, except for larger air carriers such as Alaska Airlines. This results in a simpler tax calculation.

When the CBJ Property Tax Code was amended in 2001 to provide for a flat aircraft tax, the city manager stated that this was a 60% reduction in aircraft taxation.\textsuperscript{12} In 2009, the estimated dollar value of aircraft locally exempted was $10.6 million.\textsuperscript{13}

The flat fee has made calculating taxes on commercial aircraft much easier. However, recently requests to review the flat fee have been brought to the Assembly, because payment of the flat fee may no longer be advantageous to some commercial aircraft owners. Some commercial aircraft owners may benefit from having their aircraft

\textsuperscript{11} Personal communication CBJ Assessor’s office, Dec. 2009.
\textsuperscript{12} CBJ Assembly Minutes, November 23, 2001
\textsuperscript{13} Full Value Determination, City and Borough of Juneau, 2009
included as part of their business personal property tax calculation, since the exempted amount increased to $100,000 on January 1, 2010.

**Comparison of CBJ Taxed and Total Value of Property**

**Real Property**

To put property taxes in perspective, in 2009, the full value of total taxable and optionally exempted real property was over 6.5 times the full value of total personal property.\(^{14}\) In addition, CBJ taxed 98% of real property that could be taxed under state law compared to less than 42% of personal property. Thus, tax revenue from real property comprises a much greater portion of total tax revenue than personal property tax revenue. Personal property provides significantly less annual tax revenue than either commercial or non-commercial real property.

Table I: 2009 CBJ Taxed and Total Value of Taxable Real Property Values ($ millions)

<table>
<thead>
<tr>
<th>Real Property Residential*</th>
<th>Real Property Commercial**</th>
<th>Real Property Optionally Exempt</th>
<th>Total Real Property Taxed &amp; Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,116</td>
<td>$1,558</td>
<td>$53</td>
<td>$3,727</td>
</tr>
<tr>
<td>57%</td>
<td>41%</td>
<td>2%</td>
<td>100%</td>
</tr>
</tbody>
</table>

* Includes only residential (1-4 family) real property classification; est. may be low.
** Includes all other real property classifications; est. may be high.

Table I provides a comparison of the value of locally taxed and optionally exempted (per State law) real property values for residential and commercial property. The value of optionally exempted real property is only 2% of the total value of real property. Taxed residential real property, 57% of the total value of real property, comprises the largest portion of real property tax revenue. The value of taxed commercial real property is about 28% less than the value of taxed residential real property.\(^{15}\)

\(^{14}\) Ibid.

\(^{15}\) Property is assessed as defined in State law. There is property that must be exempt and there is property that may be optionally exempt. CBJ must tax if there is no exemption.
**“Commercial Only” and “Mixed” Personal Property**

As Table II shows, 66% of the full value of “commercial only”\textsuperscript{16} categories of personal property (business personal property, business inventory, plus export exemption) are taxed, whereas, only 20% of the full value of mixed commercial and non-commercial\textsuperscript{17} categories of personal property (boats/vessels, aircraft, motor vehicles and community purpose property) are taxed. More than half the mixed personal property exempted is non-commercial motor vehicles\textsuperscript{18}, making the proportion of taxed commercial personal property relative to non-commercial personal property even greater.

**Table II: Comparison of 2009 Taxed and Total Values of Personal Property ($ millions)**

<table>
<thead>
<tr>
<th></th>
<th>“Commercial Only” Personal Property*</th>
<th>Mixed Personal Property**</th>
<th>Total Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxed Value</td>
<td>$210</td>
<td>$50</td>
<td>$260</td>
</tr>
<tr>
<td>Exempted Value</td>
<td>$109</td>
<td>$198</td>
<td>$307</td>
</tr>
<tr>
<td>Full Value</td>
<td>$319</td>
<td>$248</td>
<td>$567</td>
</tr>
<tr>
<td>% Taxed</td>
<td>66%</td>
<td>20%</td>
<td>46%</td>
</tr>
</tbody>
</table>

* Includes BPP, Business Inventory, Export Exemption
** Includes: Boats/Vessels, Aircraft, Motor Vehicles, Common Purpose Property

Business Personal Property

In 2009, the taxed value of business personal property ($259.5) was about 45% of the total value of personal property ($566.7). The overwhelming majority of the personal property taxed is owned by business. This demonstrates that while business personal property tax revenue provides a significant portion of all personal property tax revenue, more than half the value of all personal property has been optionally exempted by the CBJ from property taxes.

\textsuperscript{16} “Commercial only” is used to designate those categories of personal property that can be taxed and are owned only by businesses.

\textsuperscript{17} “Mixed commercial and non-commercial” is used to designate those categories of personal property that can be taxed and are owned by business or non-business entities.

\textsuperscript{18} All non-commercial personal property is either exempt from personal property taxes or has an annual flat tax (motor vehicles).
Summary: Tax Structure

In general, the CBJ assembly weighs the cost of tax preparation and filing, with tax revenue lost, fairness, and equity in deciding what mix of taxes, tax rates, and optional exemptions to use concerning personal property. Sales and special taxes are applied throughout the borough with several sales tax exemptions. The CBJ sales tax provides the largest percent of tax revenue. Increasing or decreasing sales tax rates potentially has the greatest effect on overall yearly CBJ tax revenue; however, it is also the least predictable tax revenue stream. Significantly, while individuals and businesses pay sales and special taxes on purchases within CBJ, the cost of administering and remitting these taxes is primarily borne by the business sector.

With regard to business and property taxes, the trend has been for CBJ to tax nearly all real property (business and residential), to exempt non-commercially owned personal property, and to exempt or reduce taxes on business owned personal property. CBJ has optionally exempted over one fifth of the value of business owned personal property. In addition, at the request of businesses, the assembly has simplified tax preparation for some business owned personal property, such as instituting a flat fee for commercial aircraft and reduced reporting requirements for those businesses with less than $100,000 (in 2010) of personal property.

In 2009, CBJ taxed 80.7% of real and personal property\textsuperscript{19}; the estimated total value of CBJ taxed real and personal property was $3,933.4 million and optionally exempted real and personal property was $360.5 million. Real property taxes provided significantly more tax revenue than personal property taxes, and, of real property, residential real property tax revenue was greater than commercial real property tax revenue.

\textsuperscript{19} Full Value Determination, CBJ, 2009.
II. Juneau Tax Rates and Structure Compared to Other Alaska Municipalities

The first section discusses Juneau’s fairly broad tax base from a business perspective; including, sales and special taxes, real and personal property taxes, and the value of taxed property compared to optionally exempted property. This section compares Juneau’s tax structure with those of other unified municipalities and cities within established Alaska boroughs. The section begins with a comparison of the mix of taxes and tax rates used by different municipalities and then compares the corresponding per capita tax revenue.

Comparison of Municipal Taxes and Rates

Table III compares the 2008 CBJ tax structure with those of the Municipality of Anchorage, City of Fairbanks in the Fairbanks North Star Borough, and City of Ketchikan in the Ketchikan Gateway Borough. This comparison reveals that those communities with a broader tax base that includes both sales and property taxes have lower property tax rates.

The property tax rates vary from a high of 28.487 mills for some Fairbanks residents to a low of 6.8 mills for some Ketchikan residents. Juneau has the lowest typical 2008 mill rate (10.37) of any of the combined city/borough entities. In general, communities with a sales tax, such as Juneau, have a lower property tax mill rate than communities that do not have a sales tax.

Furthermore, of the communities with a sales tax, Juneau has the lowest (5%). Although Ketchikan Gateway Borough has a sales tax of only 2.5%, this sales tax must be added to the City of Ketchikan sales taxes of 3.5%. Thus the combined city and borough sales tax for Ketchikan is 6%. CBJ tax structure and rates appear to be similar to those of other Alaska municipalities delivering a similar level of services.

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21 Unified municipality tax rates (Anchorage, CBJ) should be compared to the combined tax rate for those cities and a boroughs that are not unified (Fairbanks, Ketchikan) because the services they deliver are most similar.
Table III: 2008 Alaska Community, Population and Tax Structure

<table>
<thead>
<tr>
<th>Community</th>
<th>Pop.</th>
<th>Typical Property Tax*</th>
<th>Property Tax Range**</th>
<th>Sales Tax</th>
<th>Special Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipality of Anchorage</td>
<td>284,000</td>
<td>14.89 mills</td>
<td>7.31 - 15.04 mills</td>
<td>None</td>
<td>12% Bed Tax; 8% Car Rental Tax; $1.39 per Pack of Cigarettes</td>
</tr>
<tr>
<td>City of Fairbanks</td>
<td>31,600</td>
<td>17.278 mills: 4.288 mills (City), 11.39 mills (Borough)</td>
<td>12.39 – 28.487 mills</td>
<td>None</td>
<td>8% Tobacco Tax (Borough); 5% Alcohol Tax (Borough); 8% Tobacco Distribution Excise Tax (Borough)</td>
</tr>
<tr>
<td>City and Borough of Juneau</td>
<td>30,300</td>
<td>10.37 mills</td>
<td>7.43 - 10.37 mills</td>
<td>5%</td>
<td>7% Bed Tax; 3% Alcohol Tax; $.30/Pack Tobacco Tax</td>
</tr>
<tr>
<td>City of Ketchikan</td>
<td>7,728</td>
<td>12.9 mills: 6.1 mills (City), 6.8 mills (Borough)</td>
<td>6.8 – 12.9 mills</td>
<td>6%; 3.5% (City); 2.5% (Borough)</td>
<td>7% Bed Tax; 4% Bed Tax (Borough)</td>
</tr>
</tbody>
</table>

* Typical Property Tax for homes and businesses on the road system with fire protection.
** Mill Rate Ranges reflect rates charged by municipalities for different service areas, such as roaded/non-roaded, fire coverage/no fire coverage.

**Business Sales Tax Administration Costs**

Neither Fairbanks nor Anchorage has a general sales tax, thus the administrative burden on Juneau and Ketchikan businesses that must track, prepare and file sales taxes on a regular basis is greater. The administrative costs for businesses in municipalities with a sales tax may affect businesses and certainly affect their bottom line. To obtain a more accurate picture of the administrative time involved in preparing sales taxes and any other affects on business, a survey of small, medium and larger businesses in Juneau could be undertaken. This survey could also be given to accountants and those businesses that prepare tax forms for local businesses. For comparative purposes, this survey could be given to Ketchikan and other communities with a general sales tax.

In all communities listed in Table III, those businesses that sell alcohol and tobacco or rent rooms have to track, prepare and file special sales taxes. As with general sales tax administration, a survey would best inform the discussion of the administrative costs and other affects on business of these special taxes.
Comparison of Property Tax Exemptions

Alaska Statutes (AS 29.45) permit the assessment and taxation of real and personal property. Property in Alaska is required to be valued for tax purposes at the fair market value. Municipalities can choose to exempt categories of property from taxation. However, municipalities must report the value of taxable property (including exemptions) to the state. This value is used as the basis for any potential revenue sharing and other state programs, such as required local education funding.

Table IV: 2008 Business Property Tax and Exemptions Authorized by Boroughs

<table>
<thead>
<tr>
<th>Business Real Property</th>
<th>Anchorage</th>
<th>Fairbanks</th>
<th>Juneau</th>
<th>Kenai</th>
<th>Ketchikan</th>
<th>Mat-Su</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Inventory</td>
<td>Full Value</td>
<td>Exempt</td>
<td>Exempt</td>
<td>Exempt</td>
<td>Exempt</td>
<td>Full Value 1st $250K exempt</td>
</tr>
<tr>
<td>Business Personal Property</td>
<td>Full Value</td>
<td>Exempt</td>
<td>Full Value 1st $60K exempt***</td>
<td>Full Value 1st $100K exempt****</td>
<td>Full Value</td>
<td>Exempt</td>
</tr>
<tr>
<td>Boats &amp; Vessels</td>
<td>Full Value**</td>
<td>Exempt</td>
<td>Exempt</td>
<td>Flat Fee</td>
<td>Flat Fee</td>
<td>Exempt</td>
</tr>
<tr>
<td>Non Jet Aircraft</td>
<td>Flat Fee</td>
<td>Exempt</td>
<td>Flat Fee***</td>
<td>Flat Fee</td>
<td>Full Value</td>
<td>Flat Fee</td>
</tr>
</tbody>
</table>

* The 1st $20K exemption applies to BPP including business inventory; vehicles with license plates are taxed through state registration process.
** Full Value for all vessels and boats that stay in Anchorage
*** $80K in 2009, increasing to $100K in 2010
**** For crafts weighing under 12,500 pounds, there is a flat fee. For crafts weighing over 12,500 the fee is based on value.
***** 1st $100 K exempt from borough mill rate, however, not exempt from Kenai, Seward, Soldovia mill rates (2009 KPB mill rate was 9, City of Kenai mill rate was 4)

Table IV reveals a striking similarity in the lack of real property tax exemptions for businesses in each municipality. State statutes limit optional exemptions for real property.

On the other hand, municipalities differ greatly in their taxation or optional exemption of the different categories of business owned personal property. Fairbanks optionally exempts all business owned personal property while the CBJ, similar to Kenai, Anchorage,

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Mat-Su and Ketchikan, optionally exempts some categories of business owned personal property, but not all.

Juneau optionally exempts or reduces taxes on more categories of business owned property than Anchorage, Kenai or Ketchikan. Anchorage taxes business owned property the most fully, including all business inventory except the first $20,000, all business personal property, and assesses a flat fee on commercial boats. All of these categories of business property are either optionally exempted or have a tax reduction in Juneau.

Therefore, Juneau’s taxation is similar to that of other Alaska municipalities with the exception of Fairbanks. When compared to Anchorage, CBJ taxes fewer categories of business owned property and at a lower mill rate (10.37 compared to 14.89 in 2008). In addition, businesses in Juneau may benefit from the lower mill rate in Juneau than the mill rate in the City of Fairbanks, which is almost 7 mills greater.

**Comparison of Locally Assessed and Full Value Real and Personal Property**

Optional property exemptions, such as those discussed above, reduce the amount of property that a municipality taxes. The ratio of locally assessed (the amount taxed) real and personal property to the total value of real and personal property is expressed as a percentage in Table V. This table demonstrates how broadly or narrowly property taxes are applied in each of the municipalities. The greater the ratio of taxed property to total value of property the more broadly the mill rate is applied. The mill rates of each municipality are included for comparison purposes.

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Typical Mill Rate</th>
<th>Percent Locally Assessed Real Property</th>
<th>Percent Locally Assessed Personal Property</th>
<th>Percent Locally Assessed Total Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anchorage</td>
<td>14.89</td>
<td>91%</td>
<td>62%</td>
<td>88%</td>
</tr>
<tr>
<td>Fairbanks/FNSB</td>
<td>17.28</td>
<td>88%</td>
<td>0</td>
<td>76%</td>
</tr>
<tr>
<td>CBJ</td>
<td>10.37</td>
<td>96%</td>
<td>47%</td>
<td>90%</td>
</tr>
<tr>
<td>Ketchikan/KGB</td>
<td>12.9</td>
<td>89%</td>
<td>36%</td>
<td>82%</td>
</tr>
</tbody>
</table>

As this table shows, Fairbanks, the community with the lowest ratio because there is no tax on business owned personal property (and no sales tax) uses the highest property mill rate to raise the tax revenue needed to support local government services. As noted in
the discussion above, residential and business real properties are taxed at nearly full value, thus Fairbanks businesses pay the highest mill rate on real property of these Alaska communities.

Juneau, with a combination of the highest ratio and a sales tax, has the lowest mill rate applied to business owned real and personal property. This difference suggests some trade offs for businesses when it comes to administering sales taxes and paying taxes on property. A survey might assist with developing a clearer idea of where business interests lie in that trade off; changes in property taxes would also affect residential real property owners. A municipality’s population, tax-base, exemption decisions, oil and gas production, sales tax, and level of delivered services all play a part in determining the local mill rate.

**Comparison of Percentage of Property Tax Revenue Paid by Business**

Tax revenue and assessed value information from Alaska Taxable 2008\(^23\) provide useful data for estimating the percentage of municipal tax revenue that comes from commercial and industrial real property\(^24\) and from business personal property. This model assumes that the percentage of the assessed value of commercial real and personal property to total real and personal property is roughly equivalent to the percent of tax revenue.

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Commercial &amp; Industrial Real Prop</th>
<th>Business Personal Property</th>
<th>Commercial &amp; Industrial Real and Personal Property</th>
<th>Typical Mill Rate(^25)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipality of Anchorage</td>
<td>21%</td>
<td>8%</td>
<td>29%</td>
<td>14.89</td>
</tr>
<tr>
<td>City of Fairbanks</td>
<td>49%</td>
<td>0%</td>
<td>49%</td>
<td>17.28</td>
</tr>
<tr>
<td>City &amp; Borough of Juneau</td>
<td>21%</td>
<td>7%</td>
<td>28%</td>
<td>10.37</td>
</tr>
<tr>
<td>City of Ketchikan</td>
<td>38%</td>
<td>7%</td>
<td>45%</td>
<td>12.9</td>
</tr>
<tr>
<td>City of Kenai</td>
<td>26%</td>
<td>7%</td>
<td>32%</td>
<td>9.9</td>
</tr>
</tbody>
</table>

\(^{23}\) Table VII was developed with information from Alaska Taxable 2008, Tables 3, 6A, 7B and 7C.

\(^{24}\) These figures do not include other possible business real property such as apartments, condominiums and mobile homes due to the difficulty in determining what percent of such real property owned by homeowners, rather than businesses, is rental property.

\(^{25}\) Typical mill rates, actual mill rates vary depending on municipal services provided.
Table VI uses 2008 total assessed real and personal property values to estimate the business share of property tax revenue from commercial and industrial property and business personal property in several Alaska communities. The percent of property taxes paid by business in these two communities is roughly equivalent to their percent of total real and personal property value. The property tax revenue percentages provided in Table VI may be slightly higher or lower due to the actual millage rate paid by individual businesses based on their location and the municipal services they receive. Most commercial and industrial businesses are located in areas that receive all municipal services and therefore, pay the corresponding mill rate.

In Juneau and Anchorage, commercial and industrial real and personal property assessed value provides roughly similar percentages of total real and personal property assessed value (approximately 29% and 28%, respectively). Businesses located in these communities contribute approximately the same percentage to property tax revenues. The remaining property tax revenue comes from residences. Businesses in the cities of Fairbanks, Kenai, and Ketchikan bear a significantly larger proportion of the real and personal property tax.

When compared to Anchorage, this information appears to support the idea that Juneau has higher assessed commercial and industrial property values, and therefore, even with a lower millage rate Juneau businesses still pay about the same percent of the property tax revenue as Anchorage businesses. However, the information provided does not support this idea in other parts of the state with higher millage rates and lower property values.

Municipal governments set the mill rate by determining the cost of government services; subtracting the funding from existing revenue streams (e.g., sales tax, federal and state support); and, based on assessed property values, determining what mill rate must be charged to provide enough revenue to operate the local government. Even though local governments do not set their mill rate based on other municipal rates, it is interesting to see how CBJ compares to other Alaska municipalities as far as business contribution to property tax revenue.
Comparison of Per Capita Tax Revenue

Per capita tax revenue provides a basis for comparing the tax revenue among communities with different populations as seen in Chart I. It is useful to determine if one municipality’s per capita tax revenue differs considerably from another municipality’s. To increase the validity of the comparison, Chart I includes both a city’s tax revenue and its corresponding borough tax revenue for those cities that are not part of a unified municipality. The communities in this chart are in descending order of population.

In 2008, Anchorage and Fairbanks, the municipalities with the largest populations, had the lowest per capita tax revenue, suggesting some economies of scale for the largest population areas. Juneau’s total per capita tax revenue was over $1000 more than either of these two more populated communities. However, Juneau’s per capita tax revenue was similar to that of medium sized communities located in boroughs that have per capita tax revenue over $2000 (suggesting a similar level of services delivered). The per capita tax revenue of the majority of smaller communities, not located in a borough and having fewer than 3000 residents, is typically lower than Juneau’s by $1000 or more. In these communities, generally the low per capita tax revenue is a function of a limited tax base and results in more limited local government services.

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26 Per capita tax revenue equals total tax revenue divided by total population. Per capita tax revenue does not equal the total taxes paid by each individual. Figures for this chart are based on Alaska Taxable 2008, Alaska Department of Commerce, Community and Development, Volume XLVIII.
Chart I shows that sales tax revenue contributed substantially to overall revenue for several communities. This tax revenue may result in lower property tax rates, including lower business property tax rates. On a per capita tax revenue basis, Juneau, Ketchikan, and Wasilla raise more tax revenue from sales tax than property tax collection. In addition, in Kenai and Palmer, sales tax revenue contributes to over one-third of the total per capita tax revenue. In all municipalities except Kenai, special taxes on bed, car rental, alcohol, and tobacco, bring in additional municipal revenue. They constitute a significantly smaller percentage of per capita tax revenue than either property or general sales taxes.

Juneau’s tax structure and its comparison to other communities in Alaska, demonstrate that tax amount and structure depends on the size of the population and the existing tax base. Municipalities with a greater number of exemptions and a narrower tax base often appear to implement a greater property tax mill rate to raise revenue to support the level of local services demanded.
III. Conclusion

This paper has shown that the burden of paying for CBJ municipal services falls first on the collective purchasers of goods and services in the community, both local and visitor. The burden of paying for municipal services falls next on residential real property owners, who provide more than half of all real property tax collected. While all non-commercially owned personal property is exempt for taxation, CBJ has also optionally exempted over one fifth of the value of business owned personal property. Thus, CBJ appears to have a favorable tax climate for business, given its choice of taxation options.

To put CBJ's tax structure into a state-wide perspective, comparisons made to other communities show that Juneau’s per capita tax revenue is similar to that of other communities within a borough that provide significant local government services, such as Ketchikan, Wasilla/Palmer, and Kenai. In addition, Juneau has been able to support services with a lower taxation mil rate on all property compared to Anchorage and Fairbanks because it has a sales tax component in its taxation mix.

**Paying Taxes Business Survey**

The degree to which Juneau taxes and tax structure presents an administrative burden to business could be best examined through a survey. To gain a clearer understanding of the costs to business of sales, special and property taxes, and to develop a tool that can be used to provide useful information over time, JEDC could develop a survey instrument to send out to the CBJ Finance Office, to accountants and other businesses that prepare taxes for Juneau’s small, medium, and large businesses, and to a sampling of small, medium and large Juneau businesses. This survey instrument could examine the following aspects of paying taxes in Juneau:

- The administrative time and cost of tracking, preparing and filing each tax a business must file (e.g., sales, special, real and property taxes).
- The number of tax forms that must be submitted yearly by a business.
- The amount of each tax rate and affect on a business.

This survey could be administered in Juneau and in comparative Alaska communities, such as Ketchikan, Anchorage, Fairbanks and Kenai (ensuring that those businesses not in a unified municipality report this information for both the borough and the city in which
they are located). Such a survey could also be administered routinely to municipalities outside Alaska for comparative purposes. This survey would provide information to compare administrative costs to businesses of each tax in each municipality and could be administered at regular intervals. The information gathered would provide a basis for comparing how the paying taxes aspect of business taxation in Juneau changes relative to prior years and to other Alaska communities. With this information CBJ, businesses and residents could be better informed regarding the effects of current taxes and tax structures, in weighing the consequences of changes to the current taxes and tax structure, and the trade offs involved in ensuring tax revenue meets the level of local government services provided.
Appendix A

City and Borough of Juneau Sales Tax Optional Exemptions

CBJ ORDINANCE 69.05.040

The list below represents a brief description of the sales, services, and rentals exempt under the City and Borough of Juneau (CBJ) Sales Tax Code. Merchants must be familiar with the full text of the code before allowing purchasers to claim exemptions. Merchants will be held responsible for complying with all sales tax ordinances and regulations. Please be advised that the exemptions listed are subject to change and that this list may not reflect recent modifications. Contact the Sales Tax Office at (907) 586-5265 for rulings on the taxability of specific transactions.

EXEMPTIONS – GENERAL SALES AND LIQUOR TAX:

(01) CASUAL AND ISOLATED SALES NOT PURSUANT TO A BUSINESS LICENSE

(02) TAXATION PROHIBITED BY FEDERAL OR STATE LAWS

(03) GOODS ORDERED FROM OUTSIDE CBJ WHEN ITEMS ARE SHIPPED OUTSIDE CBJ BY COMMON CARRIER

(04) RESERVED

(05) CONSTRUCTION SERVICES AND CONSTRUCTION MATERIALS INCORPORATED IN A SITE WHEN PURCHASER HAS A CURRENT BUILDING PERMIT AND HOLDS A CURRENT CBJ BUILDER SALES TAX EXEMPTION CARD

(06) BURIAL RELATED ITEMS FUNERAL SERVICES, CEMETERY PLOTS

(07) STATE LICENSED/CERTIFIED MEDICAL SERVICES & PRESCRIPTION DRUGS/SERVICES

(08) STATE LICENSED/CERTIFIED COUNSELING SERVICES & ASSISTED LIVING SERVICES

(09) WHEELCHAIRS, HEARING AIDS AND CRUTCHES

(10) RESERVED

(11) MEMBERSHIP DUES PAID TO NONPROFIT ORGANIZATIONS WITH 501(C) STATUS FROM THE IRS

(12) NONPROFIT ORGANIZATIONS HOLDING CBJ NONPROFIT EXEMPTION CERTIFICATES

(13) GOVERNMENTS OR THEIR POLITICAL SUBDIVISIONS

(14) RESERVED
(15) RESERVED

(16) FUNDRAISING BY SCHOOLAPPROVED GROUPS AND SALES IN SCHOOL CAFETERIAS

(17) CHILD CARE, PREELEMENTARY SCHOOL AND BABYSITTING SERVICES

(18) PURCHASES FOR PERSONAL USE BY SENIOR CITIZENS WHO DISPLAY CBJ SENIOR EXEMPTION CARD AT TIME OF PURCHASE, EXCLUDING LIQUOR

(19) RESERVED

(20) RESIDENTIAL RENTALS OTHER THAN TRANSIENT ROOM RENTALS

(21) DOLLAR CAP ON THE SALE OF A SINGLE GOOD

(22) DOLLAR CAP ON THE SALE OF A SINGLE SERVICE PERFORMED WITHIN A ONE MONTH PERIOD [EXCEPTIONS]

(23) SALES TAX PAID ON LEASE/PURCHASE AGREEMENTS CREDITED ON EXERCISE OF PURCHASE OPTION

(24) TRAVEL AGENT COMMISSIONS

(25) PORTION OF LOCAL TRAVEL/ADVENTURE SERVICES SOLD OUTSIDE CBJ NOT REMITTED TO LOCAL PROVIDER

(26) SERVICES AND FEES CHARGED BY FINANCIAL INSTITUTIONS

(27) PRINTING SERVICES DESTINED OUTSIDE THE BOROUGH

(28) AVIATION FUEL AND FUEL DELIVERY SERVICES AT JUNEAU INTERNATIONAL AIRPORT

(29) NON PROFIT YOUTH RECREATION CAMPS

(30) GUBERNATORIAL INAUGURAL COMMITTEE

(31) SERVICES SOLD TO BUYER REGISTERED WITH CBJ FOR RESALE WHEN THE SERVICE IS SEPARATELY IDENTIFIED ON BILLING TO FINAL CONSUMER

(32) TANGIBLE PERSONAL PROPERTY FOR RESALE TO BUYER WITH VALID CBJ RESALE OF GOODS CERTIFICATE

(33) RESERVED

(34) RESERVED

(35) LOBBYING SERVICES

(36) SALES BY TRANSPORTATION COMPANIES OF TRANSPORT OF GOODS TO OR FROM A POINT OUTSIDE CBJ

(37) ADVERTISING SERVICES PLACED FROM OUTSIDE CBJ PLACED SIMULTANEOUSLY IN FIVE OR MORE STATES
(38) GOODS AND SERVICES PROVIDED UNDER A WARRANTY

(39) COMMERCIAL REAL PROPERTY LEASE PAYMENTS FROM A LESSEE TO A LESSOR HAVING IDENTICAL LEGAL COMPOSITION AS CERTIFIED BY A CBJ RENTAL EXEMPTION CERTIFICATE

(40) COMMISSIONS PAID TO SALES AGENTS FOR NEGOTIATING SALES OR LEASES OF TANGIBLE PERSONAL PROPERTY (DOES NOT APPLY TO REAL PROPERTY)

(41) RESERVED

(42) NONPROFIT EDUCATION TUITION FOR ELEMENTARY, MIDDLE OR HIGH SCHOOL

(43) COST OF POWER ADJUSTMENTS ON ELECTRICAL POWER

EXEMPTIONS – HOTEL/MOTEL TAX: NOTE: Senior Citizens are NOT exempt from Hotel/Motel Tax
(A) TAXATION PROHIBITED BY FEDERAL OR STATE LAWS
(B) SALES TO NONPROFIT ORGANIZATIONS HOLDING CBJ NONPROFIT EXEMPTION CERTIFICATES