

**City and Borough of Juneau
Finance Department _ Sales Tax Division
September 2, 2015**

Senior Sales Tax Exemption Changes

Overview of Process

As a part of a multi-year process to develop a sustainable CBJ budget, via cost reductions, operating efficiencies and increased revenue actions, the Mayor established an assembly sub-committee "Tax Exemption Review Committee" (TERC) in June 2014. The charge of the committee was to review current tax exemptions and determine what to keep, eliminate or modify. The TERC committee held 12 meetings which included numerous sessions of public testimony.

The TERC's final recommendation were forwarded to the Assembly Finance Committee. The Finance discussed the various tax exemption proposals at 5 meetings. The final recommendations coming from all the committee work is as follows:

Summary of Final Recommendations

1. Increase the sales tax cap on sale of single item or single service from \$7,500 to \$12, 000.
2. Remove Senior sales tax exemption eligibility for non-Juneau residents.
4. Remove Senior sales tax exemption for meals purchased at restaurants/eating establishments.
 - 4(a). All seniors would be exempt on essentials (food, electricity, heating fuel and CBJ water & sewer utilities). All other purchases subject to tax unless qualifying for income based program.
 - 4(b). Seniors qualifying on an income level of 250% AK Poverty would retain the existing full exemption on all qualifying purchases.
5. Lower the property tax hardship income qualification level from 120% of median income to a 4 tiered program based on 250% of the federal poverty level of Alaska.
6. Remove Jewelry sales from items qualifying for the single item sales exemption.

Additional Information

1. See page 2 for an overview of the existing senior sales tax exemption program and the related TERC recommendations.
2. See page 4 for a summary of the estimated revenues to be collected, and the remaining amount to be exempted, from changes to the tax exemptions.

Contact Information

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**City and Borough of Juneau
Tax Exemption Review Committee
January 8, 2015**

Senior Citizen Sales Tax Exemption

Summary: Anyone 65 years of age or older who is a resident of the state is exempt from CBJ sales tax for the sales of goods, services and rentals, with the exception of sales of alcoholic beverages, that are solely for the personal use or consumption of the cardholder, the cardholder's spouse, or same-sex domestic partner. [CBJ 69.05.045]. The initial exemption was established in December 1979.

Tax Exemption Overview:

- Approx. \$57 million in sales were exempted as senior citizen sales during 2013.
- Estimated sales tax revenue exempted in 2013 was \$2.8 million.
 - Exemption Sub-categories
 - Food - \$550,000
 - Residential Electricity - \$130,000
 - Residential Heating fuel - \$235,000
 - Non-resident exemption - \$195,000

Demographics

As of 2013 the citizens 65 and above were 9.8% of the Juneau population. The Alaska Department of Labor estimates that the growth in senior population will significantly exceed the overall Juneau population growth through 2025. Current estimates are that seniors will be 15% of the population in 2020 and be over 18% by 2025.

Previous Review of the Exemption Program

- 1988 & 1989 Assembly Action – Expanded exemption to all Alaska senior residents & expanded the exemption to include the senior's spouse.
- 1999 Mayor Fiscal Policy Task Force – Recommendation to phase out the senior exemption based on concern of the growing cost. Assembly took no action on the recommendation.
- 2005 Assembly Tax Policy Subcommittee - recommend a 10 year process, beginning in 2006, evolving towards elimination of the exemption in 2016. Each year, for 10 years, the eligible age would be raised by 1 year transitioning from 65 up to 75 years old. Thus to be eligible you would have to have been 65 by January 1, 2006 and would have benefited from the exemption for 10 more years. There would have been no new seniors, below the age of 65 in 2006, qualifying for the exemption. The exemption would have completely ended in 2016.
- 2006 Senior Sales Tax Exemption Task Force – recommended: 1) removing eligibility for non-Juneau residents, 2) each year, for 10 years, the eligible age would be raised by 1 year transitioning from 65 up to 75 years old, and 3) from 2016 forward residents 75 years of age and older would qualify for the exemption. From 2006 to 2016 seniors below the age of 65 in 2006 would have to wait at least 10 years to become eligible.

Committee Recommendation

The committee is recommending 2 changes to the exemption:

1. Establish and income (needs) based program setting the household income threshold at 250% of household income (2 person household \$49,150). Seniors at or below the income level would continue to qualify for 100% of the existing sales tax exemption.
2. For all seniors with household income exceeding the income threshold to reduce to the existing exemption to cover 4 essential items (food, electricity, heating fuel and CBJ water & sewer utilities).

Program Administration

CBJ staff has reviewed the program administration issues of the proposed changes to the senior exemption. As currently proposed, two different types of senior cards would need to be issued, with certain seniors qualifying for exemption on all purchases and others receiving exemption on certain items. The proposed change would be a greater administrative burden to both merchants and CBJ staff than the existing senior program. Staff working with merchants will continue to assess how best to implement the proposed changes.

**City and Borough of Juneau
Tax Exemption Review Committee (TERC)
January 15, 2015**

Summary of Final Recommendations to CBJ Finance Committee

	Tax Revenue Raised/no Longer Exempted	Remaining Tax not Being Collected
1. Increase the sales tax cap on sale of single item or single service from \$7,500 to \$14,000.	\$750,000 - \$900,000	\$4,000,000
2. Remove Senior sales tax exemption eligibility for non-Juneau residents	\$195,000 - \$340,000	\$0
3. Remove Senior sales tax exemption for meals purchased at restaurants / eating establishments	\$50,000	\$0
4(a). All Seniors would be exempt on essentials (food, electricity and heating fuel). All other purchases subject to tax unless qualifying for income based program.	\$1,200,000	\$915,000
4(b). Seniors qualifying on an income level of 250% AK Poverty would retain the existing full exemption on all qualifying purchases.	\$0	\$640,000
5. Lower the property tax hardship income qualification level from 120% of median income to a 4 tiered program based on 250% of the federal poverty level for Alaska.	\$75,000	\$100,000