City and Borough of Juneau
Tax Exemption Review Committee
Thursday, August 28, 2014 - 5:00 p.m.
City Hall, Room 224

I. Call to Order – Roll Call

II. Approval of Minutes – August 14, 2014 (pg. 2)

III. Sales Tax Compliance & Audit Program Overview (pg. 5)

IV. Revenue Estimates from Increasing the Individual Sales $7,500 Exemption CAP (pg.8)

V. Tiered Income Level Matrix (example) for Property Tax Hardship Exemption (pg. 9)

VI. Information Items:
   ● Provide feedback from discussion with other municipalities and vendors on removing the Out of Borough Sales exemption

VII. Next Meeting Date
   ● September 04, 2014
   ● Need to establish meeting dates for Oct. & Nov.

VIII. Adjournment

Future Agenda Items
1. Overview of Property Tax Exemptions (Sept. 4, 2014)
2. Evaluate Potential for Additional Payment in Lieu of Property Taxes (PILT) Opportunities
3. Background on Aviation Jet Fuel Taxation & Related Federal Laws
I. Call to Order
The meeting was called to order at 5:00 p.m. by Mary Becker, Chair.

Committee Members Present: Mary Becker; Jesse Kiehl; Kate Troll; and Jerry Nankervis

Other Assembly members Present: Mayor Sanford

Staff Present: Finance Director Bob Bartholomew, City Manager Kim Kiefer, Deputy Manager Rob Steedle, Sales Tax Administrator Clinton Singletary, Assistant City Attorney Chris Orman, Print Shop Operator Glen Fairchild

II. Approval of Minutes – The minutes for the August 7, 2014 were approved as written

III. Government Exempt Sales by Industry Category
Bob Bartholomew gave an update on government exempt sales by industry category. These are exemptions granted at the Local, State, and/or Federal Level. Construction is the industry with the largest dollar amount of exempt sales.

Jesse Kiehl and Jerry Nankervis followed up with questions regarding construction contracts that do not fall under building permits and whether they are reported twice. Mr. Bartholomew responded they are not reported twice but the construction contractors could report exemptions in other categories (e.g. using Government exemption versus Construction) and might not consistently use the same exemption for their construction projects.

Kate Troll wanted to know whether or not local government exemptions can be changed by local governments or mandated by statute. Mr. Bartholomew did not have an immediate answer and planned to look into it.

IV. Household Income Overview
In addition to the $150,000 property value exemption that the State mandates, CBJ also provides a hardship exemption. Mr. Bartholomew presented a chart that shows median family income and 120% of median family income which is the current cut off point to receive the hardship exemption, as well as the poverty level and Mat-Su Borough’s income cut off point for a hardship exemption. CBJ computes the income threshold for the hardship exemption by adding the income of everyone in the household together based on their tax returns. The Mat-Su Borough is the only other municipality that offers a hardship exemption in addition to the State mandated exemption. The income threshold to receive a hardship exemption in the Mat-Su borough is four times the
poverty rate. In addition to the threshold, a homeowner cannot own more than one parcel of land and cannot have a net worth exceeding $250,000 including the principal residence.

The discussion on property tax exemptions continued, and Mr. Bartholomew pointed out that the CBJ property tax hardship exemptions results in about $200,000 of lost revenue. Looking at the sales tax, if we used the same hardship income levels as we do for the property tax hardship, we expect a lot more seniors would apply for this than currently file for the property tax exemption.

V. Consumer Price Index Trend
Mr. Bartholomew stated the last time the single sales transaction CAP was adjusted was back in 1991. He then explained the US and AK CPI had increased over that time by 66% and 65%, respectively. If the single item CAP was raised by this amount the CAP would currently be about $12,400. If a 50% adjustment for inflation was calculated, the CAP would be $11,250. Mr. Bartholomew also mentioned the good cooperation they are getting from the business community when requesting information to research exemptions.

It was also noted from the CBJ law department that CBJ does have a lot of control over the sales tax code and can modify what sales categories are eligible for the CAP. Mr. Bartholomew stated that it is important when considering any changes to evaluate the ease of administration for both the vendor community and CBJ.

VI. Out of Borough Sales Discussion (Item added to agenda) -
Mr. Bartholomew discussed information regarding out-of-borough sales. He stated that form his perspective it is important to know if the sales going out of the borough were going to the final consumer or for resale. Basic tax policy is to not tax the sale of a good or service twice. Visitors who come into town to buy goods are taxed, but those who purchase products over the phone or internet are not taxed if the goods are shipped to the customer. If Juneau were to change their out-of-borough exemptions, CBJ would be different than other SE Alaska communities. This change would need further analysis.

VII. Committee Member Questions & Comments
Mr. Kiehl discussed the hardship exemption and whether it should be adjusted. As currently structured, is it simply helping the citizens with way above median home values versus what was intended? He asked how many people are currently getting this exemption, and the answer was 104 senior citizen households.
Mr. Nankervis raised the idea of creating an education program or making classes available, to the business community, to help train them in CBJ tax filing. Mr. Singletary responded that about 10 yrs. ago something similar was done with very little interest or response. He will consider ways for providing additional training.

VIII. **Next Meeting Date** – Thursday August 28, 2014

IX. **Adjournment** – The meeting was adjourned at 6:01 p.m.
City & Borough of Juneau  
Tax Exemption Review Committee  
August 28, 2014  

Sales Tax Compliance & Audit Program Overview  

Background:  
The CBJ Sales Tax office is given authority to examine a merchant’s records under CBJ 69.05.090(b). Also under this section, a merchant is required to keep supporting documentation for three years after the date of filing a return.  

CBJ 69.05.100 gives the CBJ Sales Tax office authority to prepare assessments against a merchant in the event of non-compliance with submitting returns, or in the event of inaccurate reporting.  

Overview:  
Under the above code authorization, the CBJ Sales Tax office (STO) has implemented both compliance and an audit program. The STO currently has 4 positions: the Sales Tax Administrator, 2 Accounting Technicians and the Sales Tax Compliance Accountant whose primary focus is on issues of compliance and auditing merchant records. However, all STO staff engage in compliance work at various levels.  

Beginning in 2011 until early 2013, STO resources were focused on the successful implementation of the new system, Govern. As a result, the audit program was minimized and only the essential compliance processes were still in place. Since early 2013, the audit program has been building, although staffing changes over the last year have resulted in the audit program still not being fully functional due to training demands.  

Compliance Program:  
The STO compliance program attempts to detect and resolve questionable issues before they become actual problems. In theory, a strong compliance program will result in a higher occurrence of audits having minimal issues.  

It can be difficult to always quantify a revenue gain with compliance projects. However, compliance efforts can sometimes result in substantial revenue gains. For example, a compliance project resulting from non-filer review for an equipment leasing company resulted in over $500k in revenue in 2012. In addition, an ongoing compliance project focusing on tour brokers / operators has so far brought in approximately $25k in revenue with more expected.  

Below are some of the more standard compliance processes the STO performs on a regular basis:
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Sales Tax Compliance & Audit Program Overview

• **Merchant Registration**
The STO compliance program begins with merchant registration. The STO uses numerous sources such as State of AK licensing, local media, word of mouth, etc. to gain information on possible new merchants. Registration notices are sent quarterly to prospective merchants. Further research and contact is performed as needed and could lead to the STO force-registering the merchant.

• **Return Review**
Sales tax returns submitted by the merchants are also reviewed at the time of processing by STO staff. The primary items reviewed at this step are possible questionable exemptions being claimed by the merchant. If these are encountered, the merchant is contacted by STO staff to determine if the exemption is being claimed in accordance with CBJ code.

• **Non-Filer Process**
Merchants failing to submit sales tax returns are notified monthly of their unfiled returns. The list of merchants w/ unfiled returns is published quarterly in the Juneau Empire. This has shown to be a great motivator for many merchants. Continual failure to file will result in the preparation of an assessment against the merchant under the authority of CBJ 69.05.100.

• **Onsite Compliance Efforts**
Field compliance visits are regularly performed during the tourist season focusing on downtown seasonal businesses. Goals include ensuring registration, proper collection of sales tax, and making STO staff available to answer any questions the merchant might have. It is not uncommon for downtown merchants to submit returns & payments to office staff while in the field. Future plans for this compliance effort include expanding to visit non-downtown merchants periodically to field any questions they might have.

**Audit Program**
The audit program does allow us to track the tax dollar recovery for the program. Audits are performed by the Sales Tax Compliance Accountant. The STO performs two types of audits: Questionnaire Audits and Full Audits.

Audit selection is done by the Sales Tax Administrator and is based on multiple variables such as history of the merchant, exemptions claimed, and overall sales trends for the merchant. The STO also occasionally receives tips from individuals or other merchants which can trigger a future audit.

In addition to the audit objective of bringing in revenue that might not have been remitted to CBJ, there is also an educational aspect. Many times the merchant is simply not interpreting the sales tax code correctly. If the merchant can gain a better understanding of the sales tax code during the course of the audit, future reporting by the merchant should be more accurate.
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Sales Tax Compliance & Audit Program Overview

- **Questionnaire Audit**
  Questionnaire audits are small scale audits, normally focusing on a specific exemption claimed by the merchant. During a questionnaire audit, the merchant is requested to provide all the documentation in support of the selected exemption. These audits are usually completed without a visit to the merchant with the requested documentation provided either via email or regular mail.

  Total sales reported are not the focus of these audits, but the STO reserves the right to expand the audit to a full audit of all exemptions and total sales if the need is found. Due to their limited nature, the dollar effect of these audits is typically smaller than that of a full audit.

- **Full Audit**
  Full audits examine a merchant’s gross sales and all exempted sales. A merchant must provide any and all documentation that supports their reported figures. Documents that are normally examined consist of return worksheets, QuickBooks reports, sales journals, copies of receipts, bank statements and income tax returns.

  Full audits usually include an initial visit to the merchant’s place of business to conduct an audit interview and obtain documentation, with the remainder of the audit being performed in the STO.

**Audit Program Recent Results**
The following table summarizes the audit findings from 2012 to current. As mentioned earlier, the number of audits performed over this period is lower than would be expected if ideal staffing conditions had been experienced.

<table>
<thead>
<tr>
<th>Type of Audit</th>
<th># Audits Performed</th>
<th>Total Revenue Gain</th>
<th>Avg Gain per Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questionnaire Audit</td>
<td>6</td>
<td>$46,433.96</td>
<td>$7,739.00</td>
</tr>
<tr>
<td>Full Audit</td>
<td>14</td>
<td>$244,445.30</td>
<td>$17,460.38</td>
</tr>
</tbody>
</table>

We anticipate being up to full audit capacity of the current position during 2014. The Sales Tax Administrator and Finance Director have begun discussions on the ability and benefits of adding additional audit resources, once we are up to full speed. We are not prepared to make a recommendation at this time.
Estimated Effect of increasing the $7,500 "CAP" on the individual sale of goods or services. This would increase the amount of a large sales transaction subject to the 5% sales tax.

Revenue estimates based on 2013 data.

<table>
<thead>
<tr>
<th>Industry Category</th>
<th>Est # Transactions*</th>
<th>Current Revenue w/ $7,500 Cap</th>
<th>Est. Revenue Gain** w/ $10,000 Cap</th>
<th>Est. Revenue Gain** w/ $11,500 Cap</th>
<th>Est. Revenue Gain** w/ $15,000 Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive Dealers</td>
<td>787</td>
<td>295,125</td>
<td>93,456</td>
<td>144,808</td>
<td>259,710</td>
</tr>
<tr>
<td>Contractors</td>
<td>478</td>
<td>179,250</td>
<td>56,763</td>
<td>87,952</td>
<td>157,740</td>
</tr>
<tr>
<td>Professional Services</td>
<td>435</td>
<td>163,125</td>
<td>51,656</td>
<td>80,040</td>
<td>143,550</td>
</tr>
<tr>
<td>Jewelry Stores</td>
<td>277</td>
<td>103,875</td>
<td>32,894</td>
<td>50,968</td>
<td>91,410</td>
</tr>
<tr>
<td>Real Estate</td>
<td>241</td>
<td>90,375</td>
<td>28,619</td>
<td>44,344</td>
<td>79,530</td>
</tr>
<tr>
<td>Retail Sales-Specialized</td>
<td>240</td>
<td>90,000</td>
<td>28,500</td>
<td>44,160</td>
<td>79,200</td>
</tr>
<tr>
<td>Electric, Gas &amp; Sanitary</td>
<td>225</td>
<td>84,375</td>
<td>26,719</td>
<td>41,400</td>
<td>74,250</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>206</td>
<td>77,250</td>
<td>24,463</td>
<td>37,904</td>
<td>67,980</td>
</tr>
<tr>
<td>Leasing Companies</td>
<td>108</td>
<td>40,500</td>
<td>12,825</td>
<td>19,872</td>
<td>35,640</td>
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<tr>
<td>Food Service</td>
<td>65</td>
<td>24,375</td>
<td>7,719</td>
<td>11,960</td>
<td>21,450</td>
</tr>
<tr>
<td>Automotive Repair</td>
<td>59</td>
<td>22,125</td>
<td>7,006</td>
<td>10,856</td>
<td>19,470</td>
</tr>
<tr>
<td>Other</td>
<td>42</td>
<td>15,750</td>
<td>4,988</td>
<td>7,728</td>
<td>13,860</td>
</tr>
<tr>
<td>Communication</td>
<td>18</td>
<td>6,750</td>
<td>2,138</td>
<td>3,312</td>
<td>5,940</td>
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<tr>
<td>General Retail</td>
<td>4</td>
<td>1,500</td>
<td>475</td>
<td>736</td>
<td>1,320</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3185</td>
<td>$1,194,375</td>
<td>$378,219</td>
<td>$586,040</td>
<td>$1,051,050</td>
</tr>
</tbody>
</table>

*# of transactions based on merchant responses to questionnaire. Applied response data to merchants who did not respond. Extrapolated based on sales volume levels.

**It cannot be assumed that each transaction will meet the higher cap. For example, a $9,000 sale would not meet the $10,000 cap and would only be taxed on the $9,000. These estimates attempt to reflect a shrinking number of transactions that could meet each proposed level of cap.
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Property Tax Hardship Exemption Sliding Scale

<table>
<thead>
<tr>
<th>2-Person Median Family Income*</th>
<th>Up to 90% or $68,490</th>
<th>90-100% or $76,100</th>
<th>100-110% or $83,710</th>
<th>110-120% or $91,320</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Hardship Exemption Granted</td>
<td>100%</td>
<td>75%</td>
<td>50%</td>
<td>25%</td>
<td>104</td>
</tr>
<tr>
<td># of Property Owners</td>
<td>82</td>
<td>7</td>
<td>9</td>
<td>6</td>
<td>104</td>
</tr>
<tr>
<td>Current Taxes Collected</td>
<td>$76,213.96</td>
<td>$9,976.16</td>
<td>$14,202.10</td>
<td>$10,450.90</td>
<td>$110,843.12</td>
</tr>
<tr>
<td>Current Taxes Exempted</td>
<td>$128,474.59</td>
<td>$12,746.81</td>
<td>$27,753.38</td>
<td>$7,178.28</td>
<td>$176,153.06</td>
</tr>
<tr>
<td>Sliding Scale - Additional Taxes Collected</td>
<td>$0.00</td>
<td>$3,186.70</td>
<td>$13,876.60</td>
<td>$5,383.71</td>
<td>$22,447.01</td>
</tr>
</tbody>
</table>

Note: For FY14, 104 properties owned by seniors qualified for the Property Tax Hardship Exemption. This exemption is calculated after deducting the $150,000 State-directed Senior Exemption.

* The Median Family Income for a 2-Person family is $76,100. This sliding scale is based on a percentage (e.g. 90, 100, 110%) of the 2-Person Median Family Income.