

MEMORANDUM



DATE: November 2, 2022

TO: Assembly Finance Committee

FROM: Jeff Rogers, Finance Director

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SUBJECT: Allowing Very Small Businesses to File Sales Taxes Annually

CBJ 69.05.070 requires that all businesses file sales tax returns Quarterly or Monthly. The vast majority of filers file Quarterly. Only filers with no taxable sales (either fully exempt businesses, or inactive businesses) may file Annually. The owners of very small businesses generally find Quarterly sales tax filing to be a significant administrative burden. A “very small business” is in the eye of the beholder, but I am generally referring to sole proprietorships that are not someone’s principal source of income. These are often “side businesses” like visual arts, crafts, personal or professional services, etc. that someone conducts in their spare time, in addition to the primary livelihood.

I propose that CBJ allow businesses that remit less than \$1,000 in sales tax each year (the sales tax due on \$20,000 in taxable sales) to file Annually rather than Quarterly. Juneau has approximately 1,800 registered businesses in this category, each remitting less than \$1,000 of sales tax annually. CBJ has approximately 4,500 total filers, so those 1,800 very small businesses represent 40% of all filers. And yet, those 1,800 very small businesses generate less than \$300,000 of total combined sales tax each year (just 0.5% of CBJ’s total sales taxes collected). Hence, very small businesses represent 40% of all sales tax filers but generate just 0.5% of all sales taxes collected.

There are pros and cons to this proposal:

- Pros:
 - Substantially less administrative burden on very small business
 - Less demand on CBJ Sales Tax Office staff
- Cons:
 - Very small business will need to opt into Quarterly or Annual filing based on their own projected sales, which may be unknown or incorrectly forecast
 - Very small businesses may spend the accrued sales tax revenue during the course of the year and may not have the funds available when it’s time to file and remit the taxes
 - Businesses change (move, change owners, dissolve, etc.) and Annual filing will result in less contact with the Sales Tax Office, which may result in less accurate information about business ownership and status
 - Annual filing may be more challenging for some business owners because the infrequency may cause them to get “out of practice” with the sales tax filing process
 - The aforementioned challenges may lead to an increase in delinquencies and to challenges in CBJ collecting taxes that were paid by residents

In spite of these challenges, I concur that the requirement to file Quarterly is burdensome on very small businesses. The effort required for Quarterly filing—both from the business owners and from CBJ staff—is not commensurate with the municipal revenue received.

If the Assembly Finance Committee is supportive of allowing businesses with less than \$20,000 taxable sales annually to file Annually rather than Quarterly, I request that it direct staff to draft an ordinance to that effect. Such an ordinance would be introduced and brought back to the Assembly Finance Committee for further review.