Seasonal Sales Tax Discussion Points and Recommendations from Assemblymembers Hughes-Skandijs, Smith and Steininger

1. Define Seasons:

Tax changes can be made effective on any date however tax is reported and remitted by businesses quarterly. Seasons set outside of standard quarters would likely pose administrative challenges for businesses.

Recommend two tax seasons: Winter - October 1 to March 31 (Q4 & Q1) and Summer - April 1 to September 30 (Q2 & Q3)

2. Implementation Date:

Can be implemented on any date after certification of election.

Recommend January 1 implementation to align with quarter start and provide time for businesses to implement. Also, with recommendation on item 4, would initiate the new seasonal sales tax with a tax reduction and have minimal impact on FY26 tax collections.

3. Exemptions

Adding tax exemptions for items primarily purchased by locals enhances a seasonal tax policy's shift of revenue collection from locals to summer visitors. Several exemption categories were discussed:

Food – **Recommend** exempting food under the same definition as SNAP eligibility. https://www.fns.usda.gov/snap/eligible-food-items Many businesses already track which items meet SNAP eligibility, aligning to SNAP rules reduces implementation burden. Represents about $5m in annual collections.

Utilities – **Recommend** exempting utilities. There are several categories of utilities exemptions that could be implemented:

> City Owned Water and Wastewater – Can be easily differentiated between residential and commercial. Approximately $800k in total annual collections (both residential and commercial).

Privately Owned – Includes electric, heating oil, wood pellets, and trash. Hard to differentiate between residential and commercial, some utility providers may not currently collect data on customer type. Approximately $4.2m in total annual revenue (both residential and commercial).

4. Tax Rates

Current 5% sales tax includes a 1% permanent tax for general government, 3% temporary tax for general government and capital improvements (expires June 30, 2027), and 1% temporary tax for capital projects and community priorities (expires Sept 30, 2028).

A seasonal tax could be structured as a permanent tax or a temporary tax with voter reconsideration every 5 years, similar to existing temporary taxes.

Recommend replacing the current 1% permanent and 3% temporary with a permanent seasonal structure. **Recommend** preserving current temporary 1% year-round tax to allow voters regular input on capital and community priorities.

A smaller difference between the summer and winter tax rates minimizes the tax burden shift between year-round residents and summer visitors. A larger gap between tax rates results in a greater shift towards summer visitors. Implementing rates relatively similar to other SE ports of call reduces the likelihood of shifts in purchasing behavior. Tax rates expressed as either whole numbers or half percentages simplifies tax calculations for businesses and consumers.

Recommend a winter tax rate of 3.5% and summer tax rate of 7.5% (inclusive of 1% temporary tax). This, alongside the food and utilities exemptions, will shift an estimated $26.1m from year-round residents to summer visitors. An approximately $815 per resident tax reduction.

Sales Tax Rates of Other Southeast Ports of Call:

- City of Ketchikan (includes 2.5% year-round Ketchikan Gateway Borough sales tax): 8% (April-September) and 5.5% (October-March)
- Hoonah: 6.5% year-round
- Sitka: 6% (April 1-Sept 30) and 5% (October 1-March 31)
- Skagway: 5% (April-September) and 3% (October-March)