

Property Tax Relief Project Overview

Presentation to the
Property Tax Relief Task Force
July 25, 2007

Anchorage Chamber of
Commerce
Task Force
Aug 8, 2007

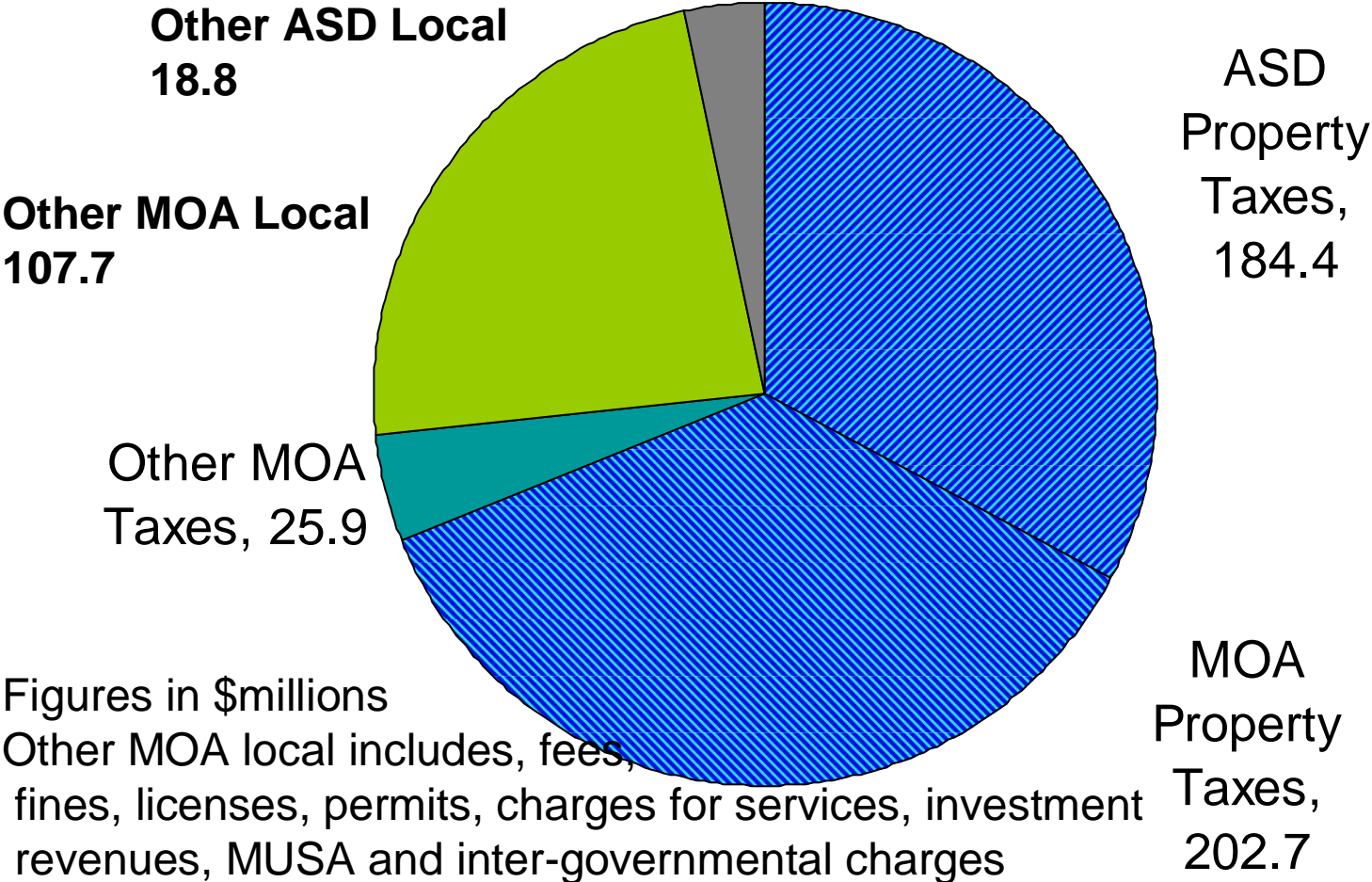
Mission:

By Sept. 4, 2007 bring forth a recommendation for significant and lasting property tax relief to Anchorage's citizens and businesses, including a workable, broad-based, alternative revenue mechanism for the Municipality of Anchorage and the Anchorage School District to fund that relief.

Why?

- Diversity of revenues will strengthen Anchorage's fiscal position
- Second broad based tax
 - Keeps current caps in place
 - Broader base = lower rate for both taxes
 - Michigan where the SBT “single business tax” is being replaced with an income tax and a modified gross receipts tax – two taxes on two bases with lower rates.

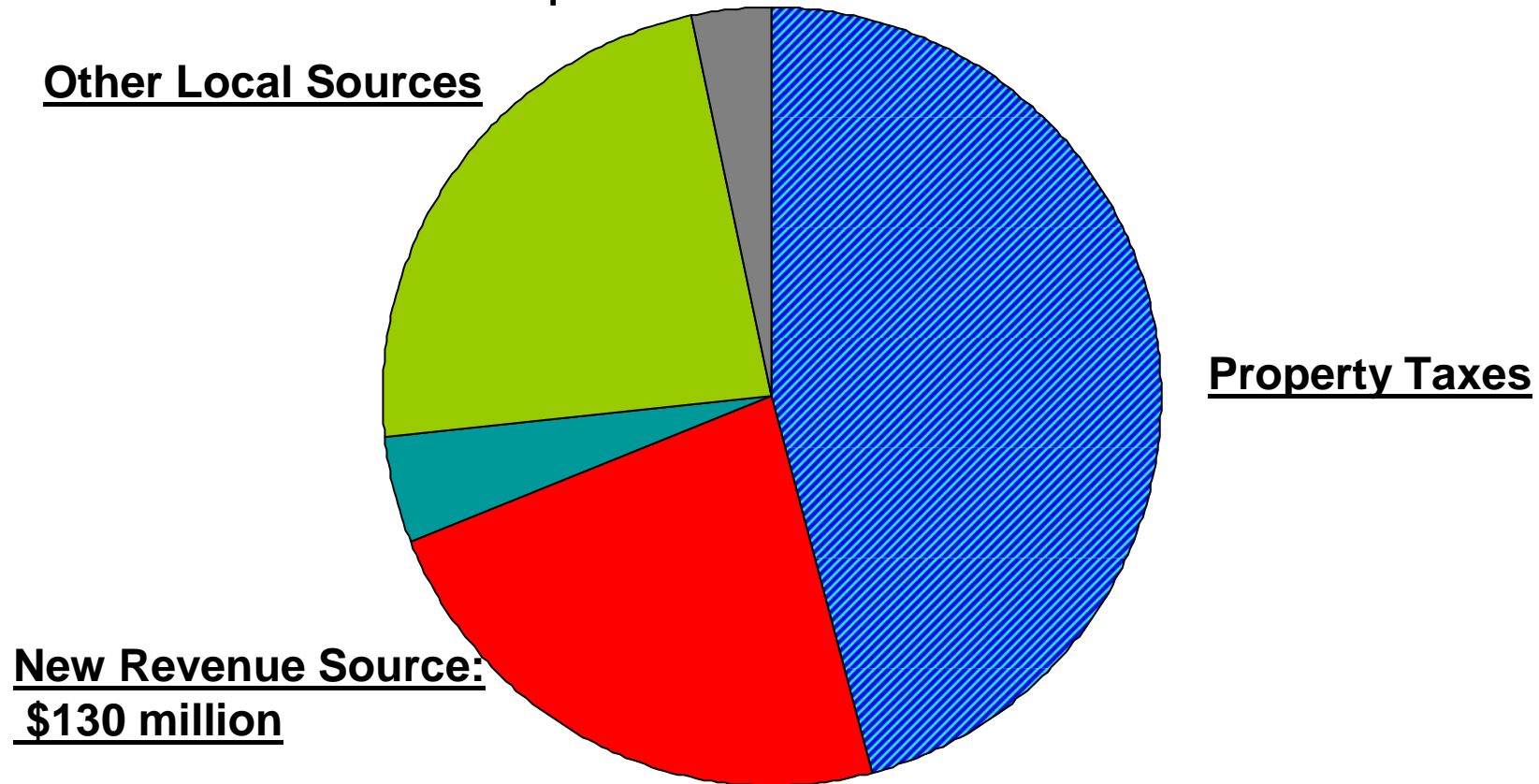
2006 Anchorage Combined Local Revenues - \$562.8 million



July 25, 2007
 (Aug 6, 2007)

Property Tax Relief Project
 Overview

Property Tax Relief from \$130 million in New Revenues: total: \$562.8 million



Figures in \$millions

July 25, 2007
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Model of Property Tax Relief From an Alternative Tax:

| | Property Value | Mill Rate | Tax Revenue |
|---|----------------|-----------|-----------------|
| Current (2006): | \$ 26,045 | 14.82 | \$ 386.0 |
| Reform: | | | |
| Reduce Mill Rate by 33% | | 66.7% | |
| Property Taxes: New Mill Rate Applied | \$ 26,045 | 9.88 | \$ 257.3 |
| Alternative Tax | | | \$ 128.7 |
| Sum of Tax Revenues after Reform | | | \$ 386.0 |
| Figures in Millions of Dollars, "current" ties to 2006 Budget | | | |

- A Business Activity Tax appears to be a workable broad based alternative source.

What is a Business Activity Tax?

- Essentially a business license fee determined by each businesses level of activity:
 - For many businesses, gross receipts may be a good measure of business activity
 - For other firms alternative measures of activity may be more appropriate. For example
 - Oil and Gas companies that manage hydrocarbon production on the North Slope to be sold out of state,
 - Transportation companies that make sales around the word, but deliver people and or goods to Anchorage
 - Financial institutions that handle other peoples money

Why Focus on a Business Activity Tax?

- Capitalizes on Anchorage's position as a hub city
- More export of economic burden of tax (compared to property or personal taxes)
- Simpler to administer (compared to income tax)
- Preserves "The price you see is the price you pay at the cash register" (compared to sales tax)

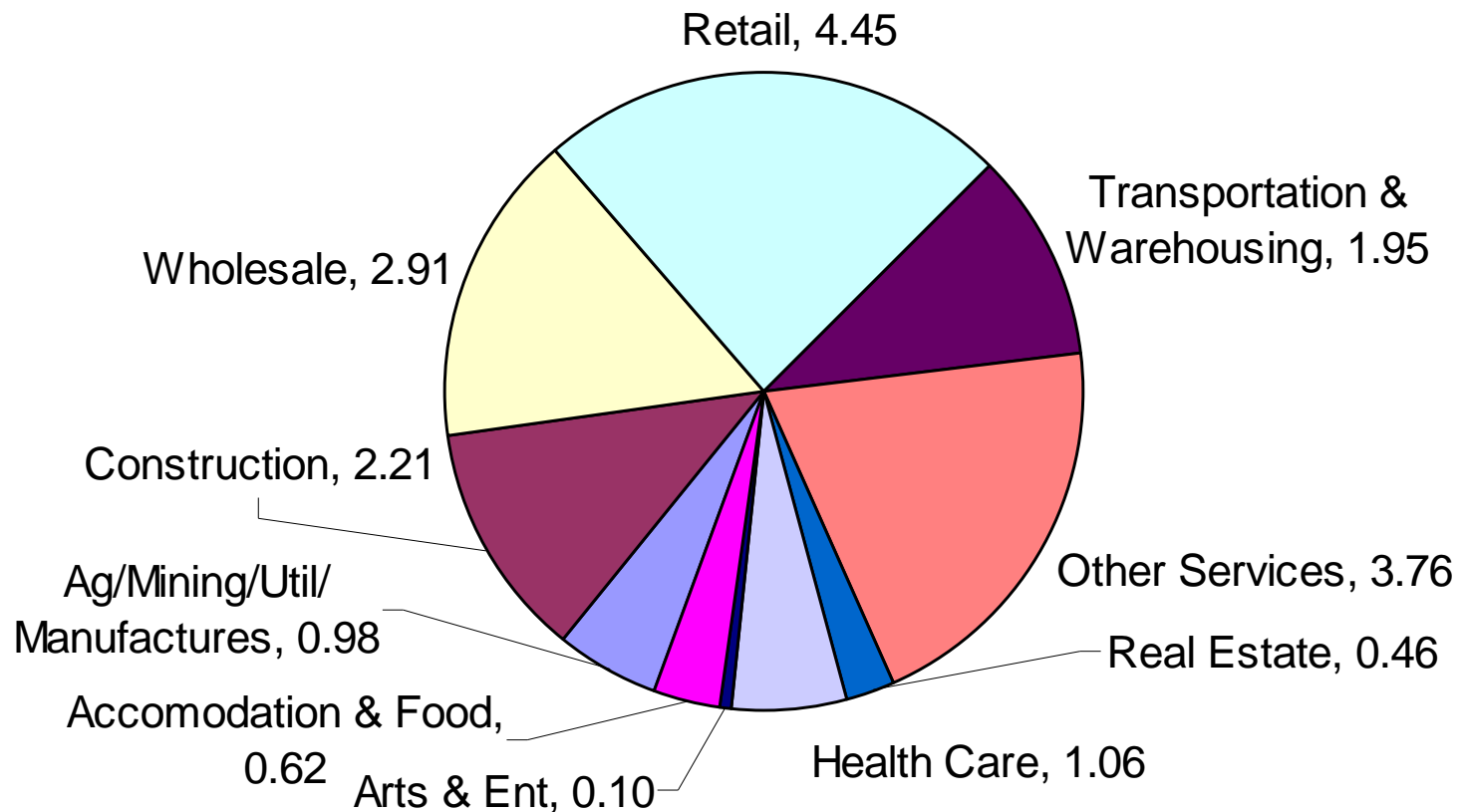
Why Focus on a Business Activity Tax?

- Will reflect underlying changes in local (and national) economy:
 - Shift from goods to services.
 - Shift from investment in capital equipment to investment in human capital.

“There are whole industries today – enormously and profitable industries – that weren’t even dreamed of twenty-five years ago. The new economy has been described by many names; service, information, space age, diversified. But our tax structure remains tied to the past, to hard products and assets attached to the ground. -

Report of the Texas Tax Reform Commission (2006, pg 12) advocating property (and income) tax relief coupled with a modified gross receipts tax.

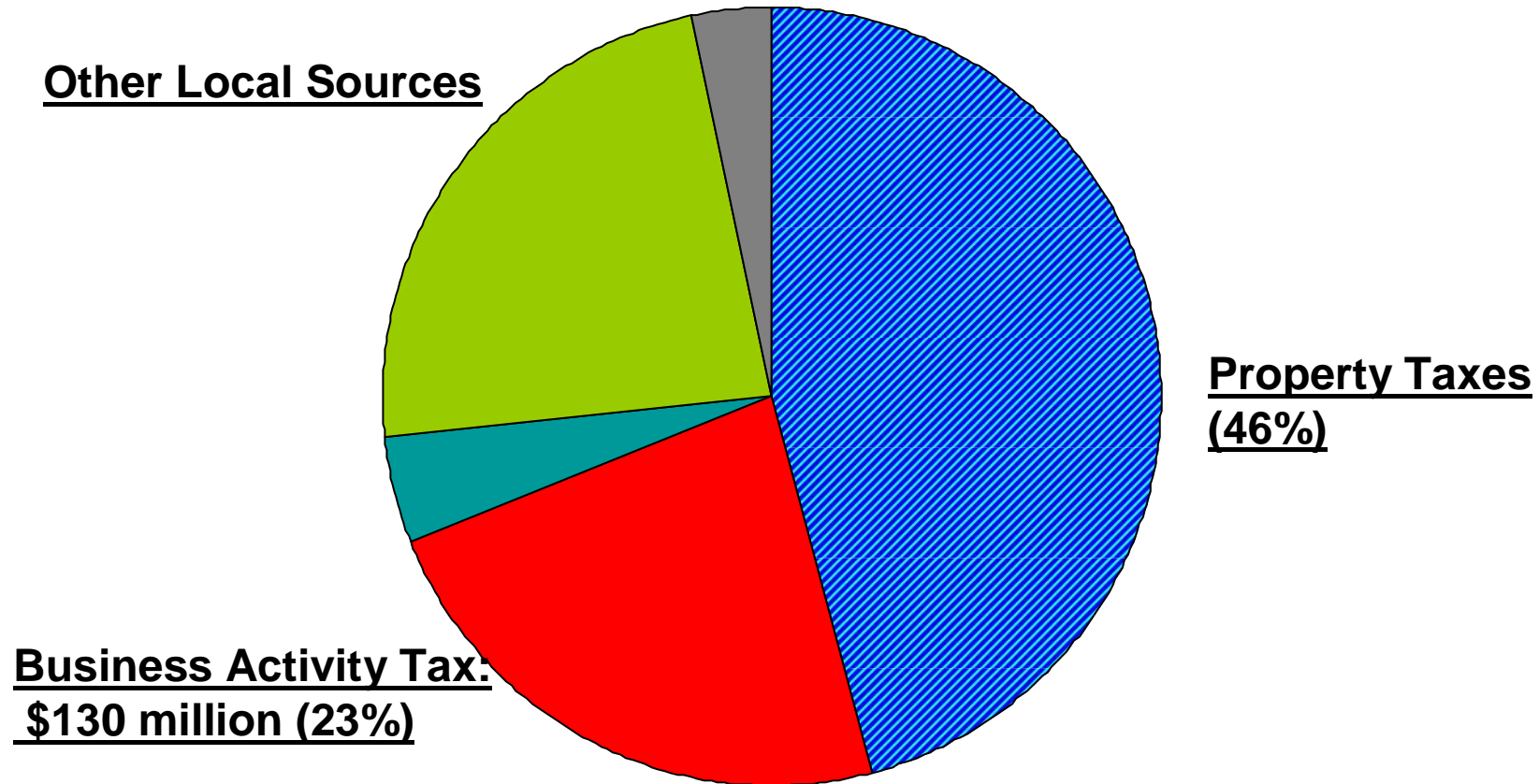
2006 Anchorage Gross Receipts of \$18.5 Billion



Model of Property Tax Relief From the gross receipts portion of a Business Activity Tax:

| | | | |
|---|------------------|---------------|-------------|
| Current (2006): | \$ 26,045 | 14.82 | \$ 386.0 |
| | | | |
| Reform: | | | |
| Reduce Mill Rate by 33% | | 66.7% | |
| Property Taxes: New Mill Rate Applied | \$ 26,045 | 9.88 | \$ 257.3 |
| | Taxable Receipts | Tax Rate | Tax Revenue |
| Add Business Activity Tax | \$ 18,500 | 0.773% | \$ 143.0 |
| Less estimated costs and non payment (estimates) | | | \$ (14.3) |
| Sum of Tax Revenues after Reform | | | \$ 386.0 |
| Figures in Millions of Dollars, "current" ties to 2006 Budget | | | |
| | | | |

Property Tax Relief from \$130 in Business Activity Taxes



Figures in \$millions

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Good Idea Or Not? Effect on

- Effect on overall economy
 - On business
 - On home ownership
 - Import or export of dollars from community
- Effect on local government including education

Is this a good idea or not? Tax Dimensions:

- No Perfect tax – may not even be a good tax – just the least worst set of taxes for the situation
- Exportability
- Transparency
- Responsiveness
- Simplicity
- Equity: Who pays the tax and who bears the economic burden? Relative winners and losers in a change.

Good Idea or Not?

- Main criticisms of gross receipts tax also apply to property tax:
 - Pyramiding and cascading
 - Transparency and statutory incidence vs. economic burden
 - Not taxing income ignores ability to pay, punishes start ups and resulting tax burden can represent very different percents of income for different companies

Options, Issues & Analysis

- Property Tax Relief:
 - Transition
 - Treatment of Business Personal Property Tax

Options, Issues & Analysis

- Gross Receipts Tax Base
 - Alternative cases: Business activity/opportunities not reflected in Anchorage receipts
 - Remote sales into or from Anchorage
 - Exemption for small businesses
 - Exemption for not-for-profits or for 501(c)(3) charities
 - Exemptions for transactions already covered by a specific tax – rental cars, hotels, tobacco

Options, Issues & Analysis

- Gross Receipts Tax Administration
 - Education dedication and cap issues
 - Transition and rate
 - Enforcement and penalties
 - Web based administration (skip the paper phase)