

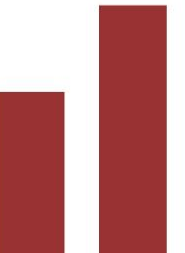
Project Anchorage

Presentation to Alaska Children's Trust

October 30, 2024

Kamolika Das & Rita Jefferson

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Overview

- About ITEP
- ITEP's Work in Alaska
- Progressive, Regressive, or Proportional?
- Why are Sales Taxes Regressive?
- Who Pays? in Alaska vs. National Average
- Property/Sales & Excise/Income Taxes in Alaska
- Sales Tax vs. Income Tax
- Sales Tax Holidays/Exemptions/Credits
- Other Options & Commissions
- Recommendations

About ITEP



March 30, 2023

ITEP Launches Local Tax Team

NEWS RELEASE

The Institute on Taxation and Economic Policy

- Non-profit, non-partisan research organization
- Federal, state, and local tax policy analysis

Mission:

- Ensure elected officials, media, and the general public have access to accurate, timely, and straightforward information to understand the effects of current and proposed tax policies with an emphasis on tax incidence analysis.

ITEP's Work in Alaska

Distributional Analyses of Revenue Options for Alaska

Institute on Taxation & Economic Policy
April 2016

Aidan Russell Davis
Carl Davis
Matthew Gardner

About The Institute on Taxation & Economic Policy

The Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization that works on federal, state, and local tax policy issues. ITEP's mission is to ensure that elected officials, the media, and the general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies. ITEP's work focuses particularly on issues of tax fairness and sustainability.

This study was made possible by a grant from the Rasmuson Foundation.

2016

Comparing the Distributional Impact of Revenue Options in Alaska

Institute on Taxation & Economic Policy
April 2017

Carl Davis
Aidan Russell Davis

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2017

Assessing the Distributional Consequences of Alaska's House Bill 115 (Version L)

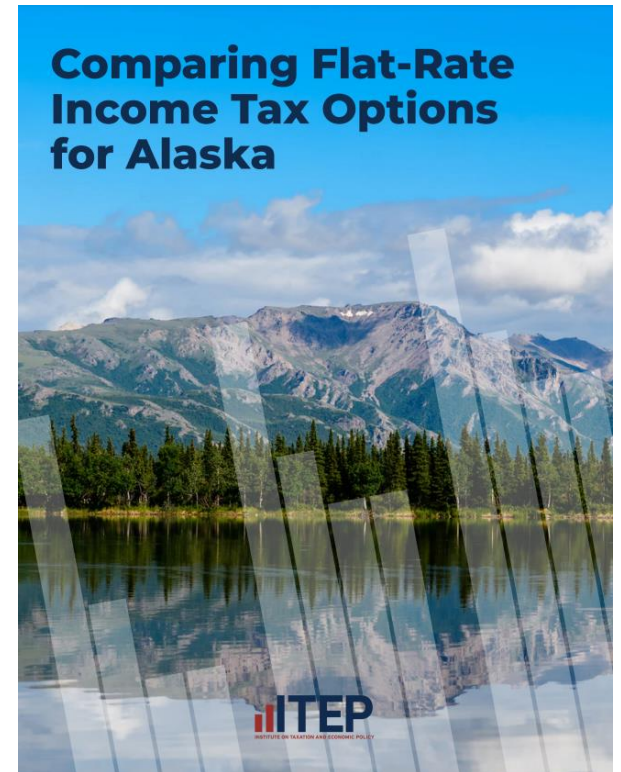
Institute on Taxation & Economic Policy
March 2017

Carl Davis

About The Institute on Taxation & Economic Policy

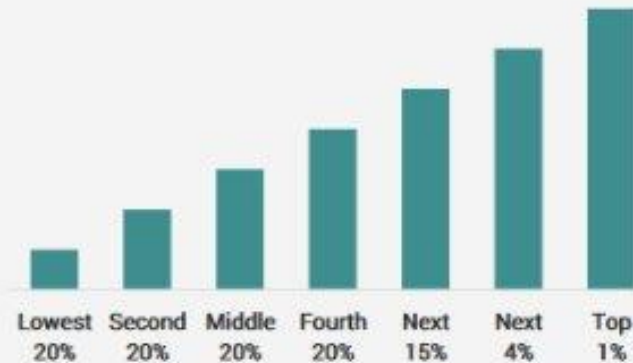
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2017



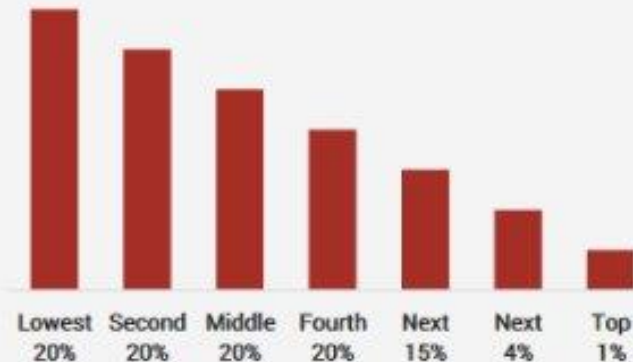
2020

Progressive, Regressive, or Proportional?



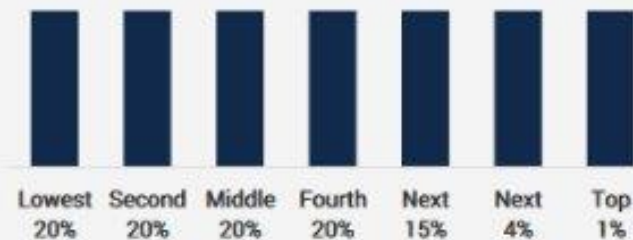
Progressive Tax

A progressive tax is one in which upper-income families pay a larger share of their incomes in tax than do those with lower incomes.



Regressive Tax

A regressive tax requires poor and middle-income families to pay a larger share of their incomes in tax than upper-income families.



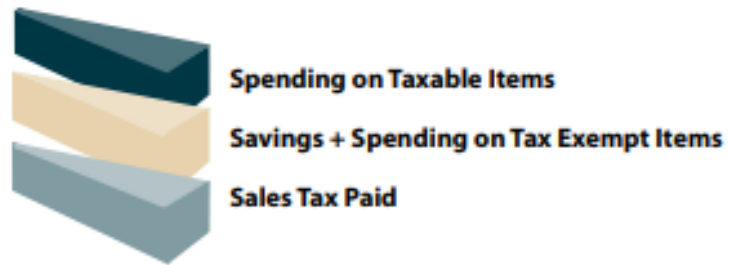
Proportional Tax

A proportional tax requires the same percentage of income from everyone, regardless of how much or how little they earn.

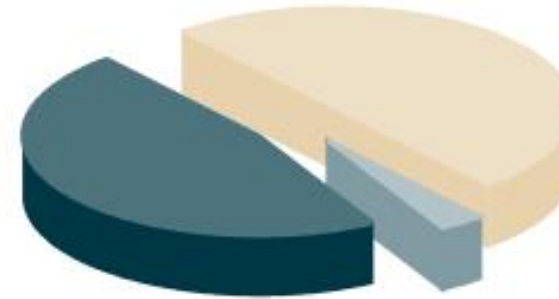
Why are Sales Taxes Regressive?

The Impact of Sales Taxes at Different Income Levels

(shown as a share of income)



Middle-Income Families



Low-Income Families



Wealthiest Families



Source: Estimates by ITEP based on Consumer Expenditure Survey Data

Who Pays? in Alaska vs. National Average (Total)

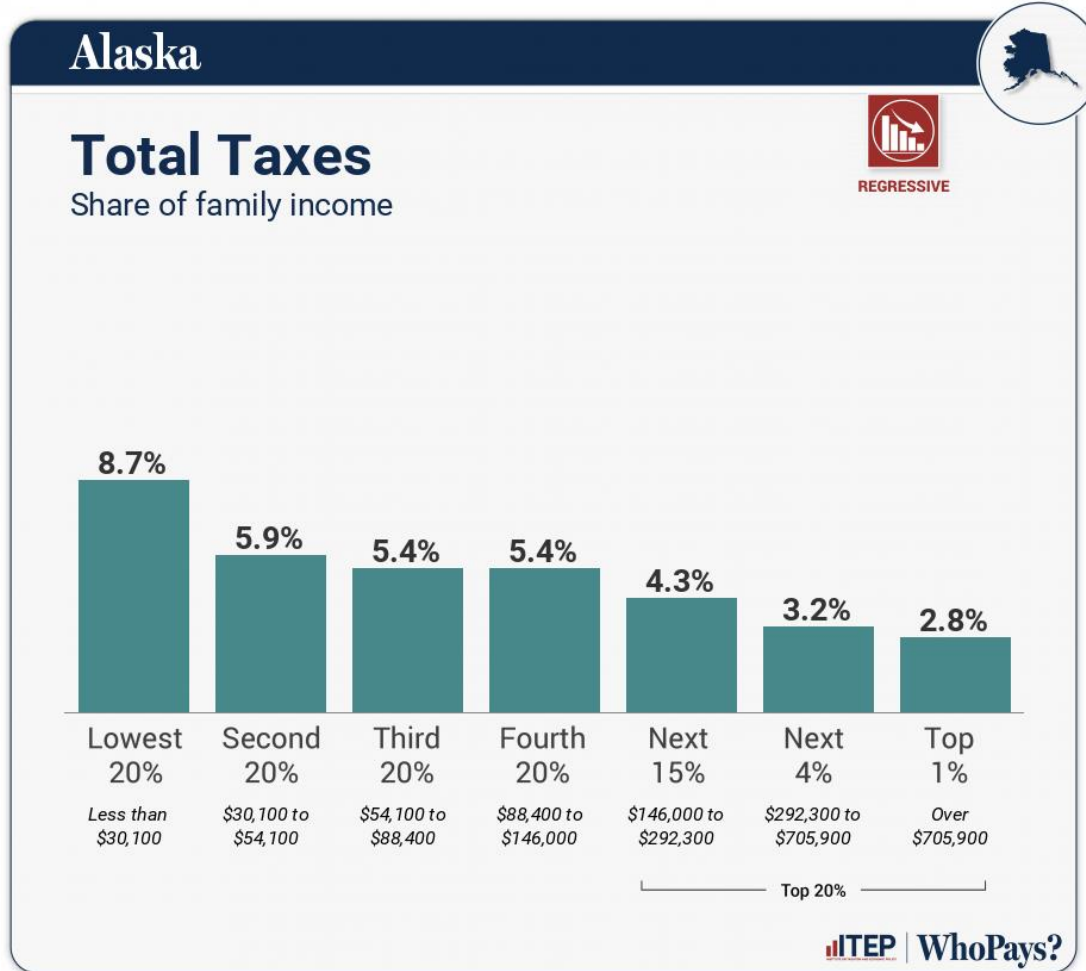
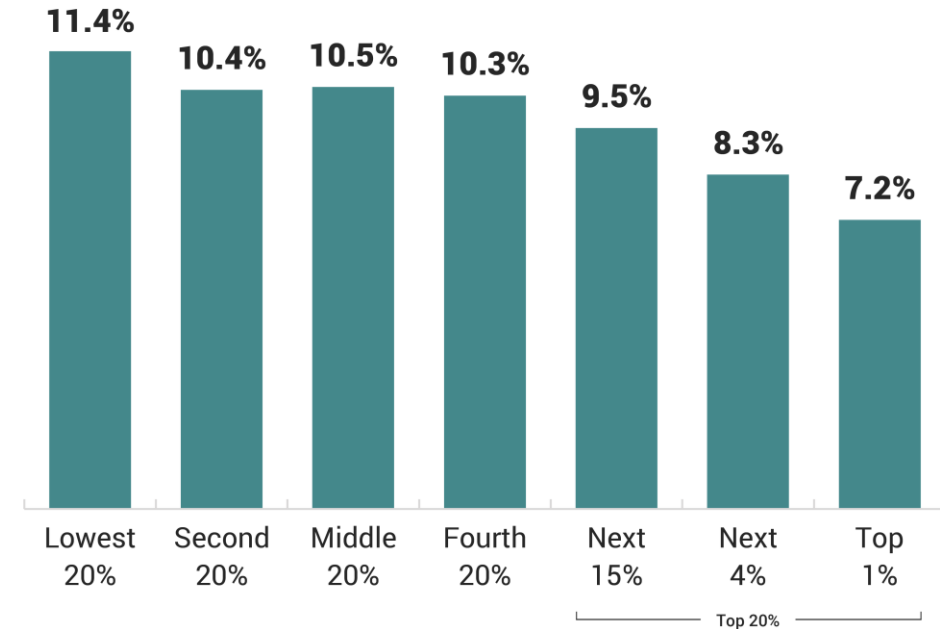


FIGURE 1

Average Effective State and Local Tax Rates in the U.S.

State and local taxes paid by residents to their home states, as a share of income, for non-senior residents



Source: Institute on Taxation and Economic Policy (ITEP)

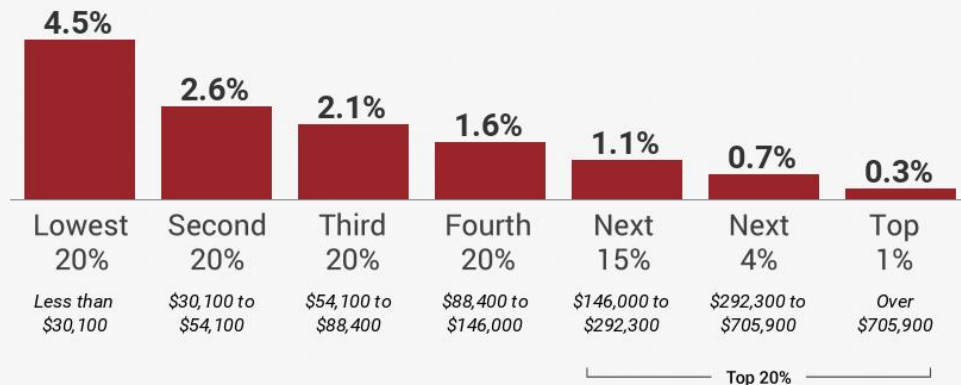
Who Pays? in Alaska vs. National Average (Sales)

Alaska



Sales & Excise Taxes

Share of family income



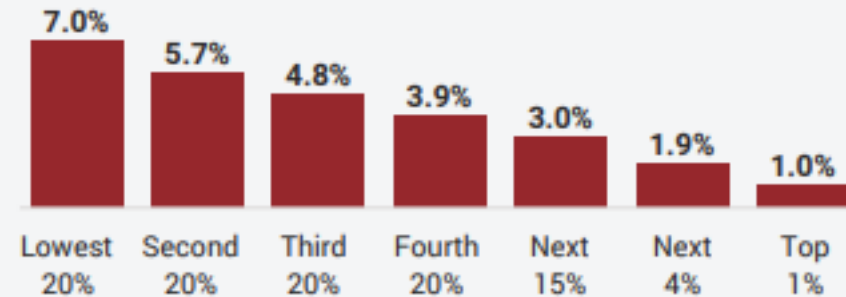
ITEP | WhoPays?

National Average



Sales & Excise Taxes

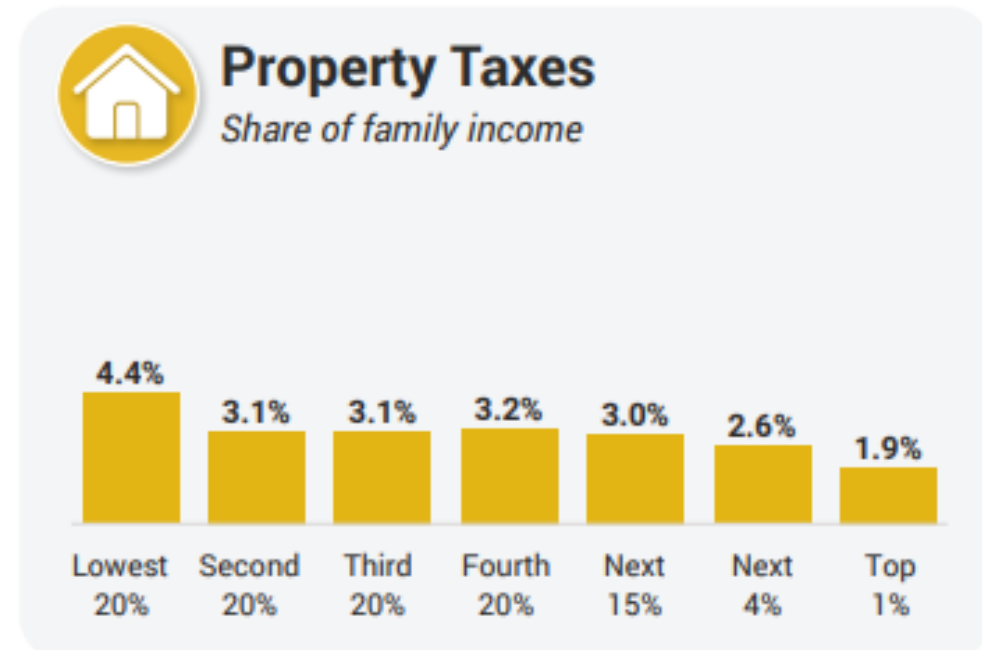
Share of family income



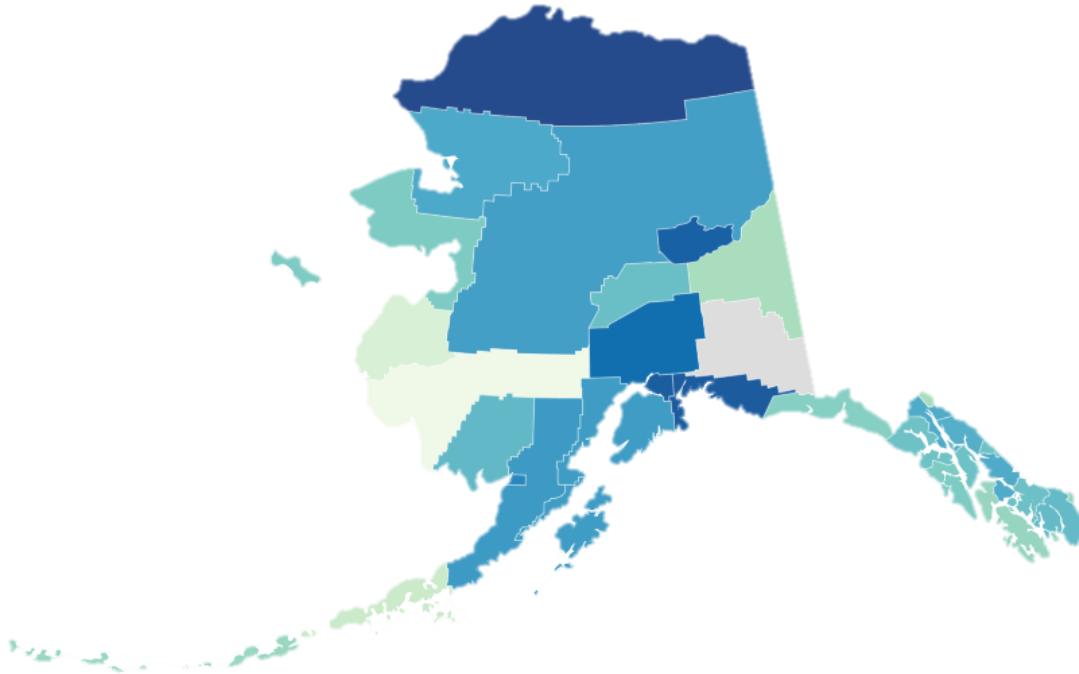
Who Pays? in Alaska vs. National Average (Property)



National Average

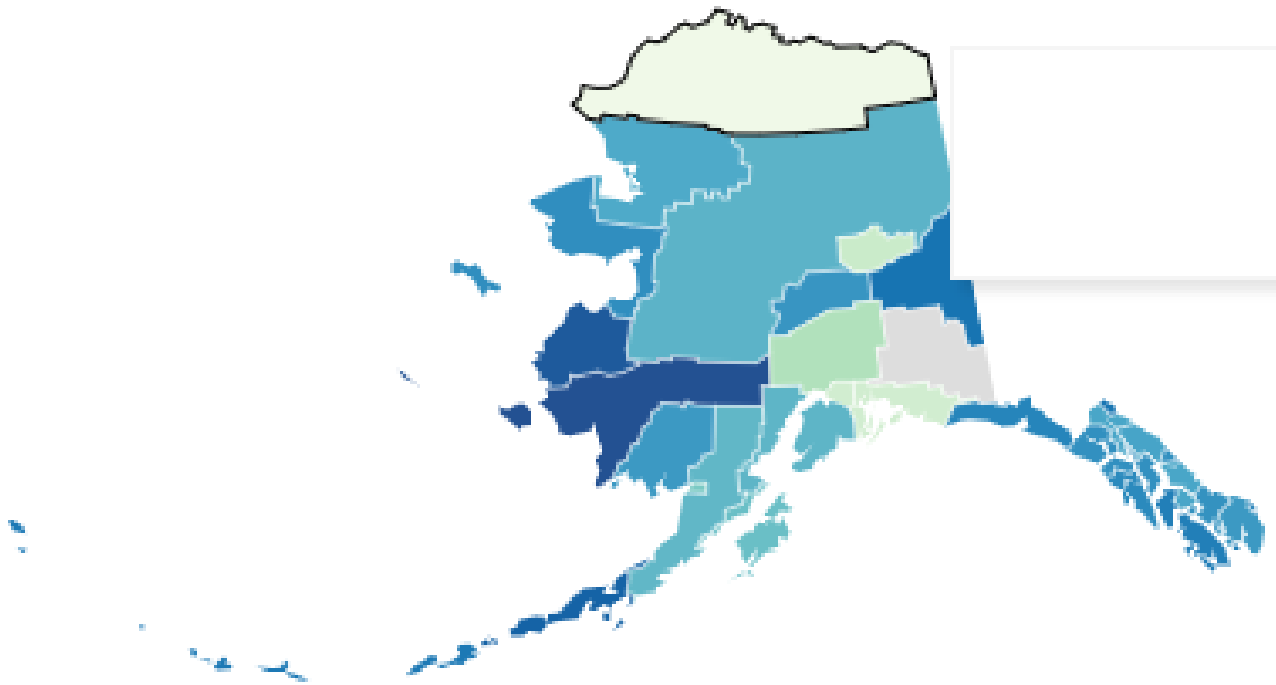


Local Property Tax as a Share of Total Tax Revenues



- Largest local tax source in 94% of the U.S.
- 78% of local tax dollars in AK, 73% nationwide
- Real estate: Residential, commercial, industrial, agriculture + tangible property

Local Sales and Excise Taxes as a Share of Total Tax Revenues



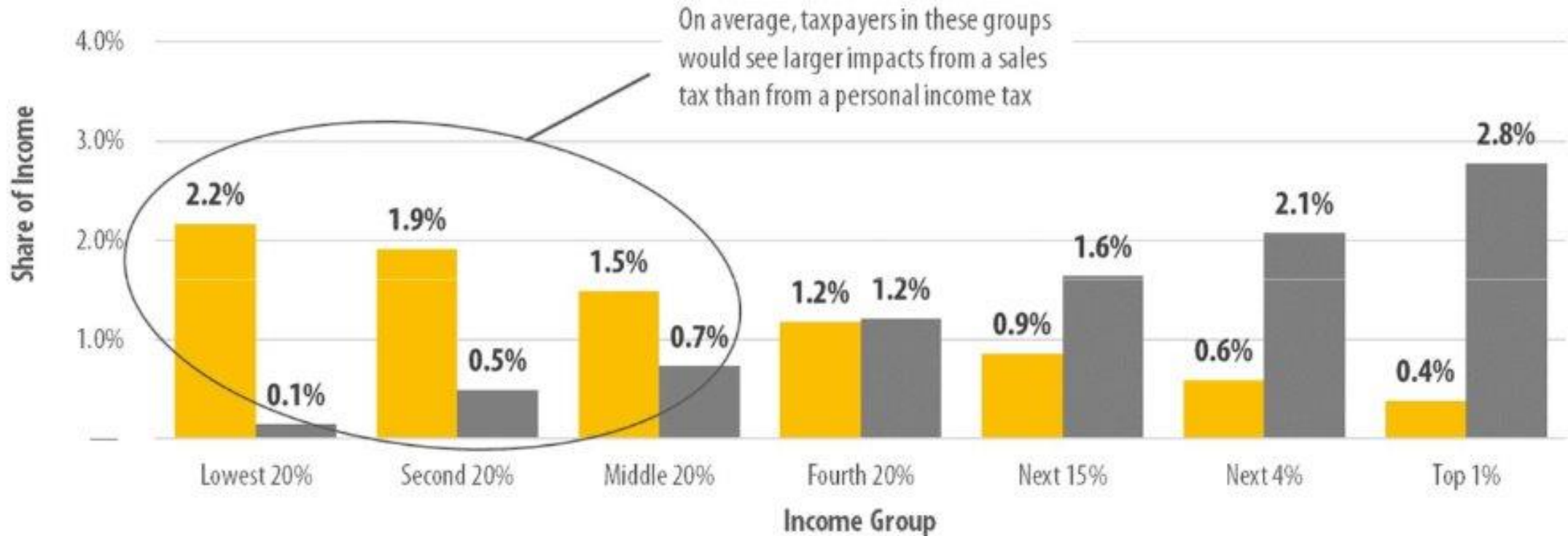
- Second-largest local tax revenue source nationwide
- 20% of local tax dollars in AK, 17% nationwide
- General sales and gross receipts taxes
- Selective taxes: Hotel, meals, utilities, tobacco, alcohol, etc.

Local Income Tax as a Share of Total Tax Revenues



- Present in 1 in 5 local areas nationally
- Typically a locality's second-largest tax source after property, displacing sales tax
- Types: Individual income, business income, payroll taxes

Comparing a \$500M Alaska sales tax to a \$500M Alaska personal income tax (2020 \$)



Source: Institute on Taxation and Economic Policy, April 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$2,200 per person. In the sales tax scenario the rate is 3% and includes exemptions for purchases of groceries, health care, prescription drugs, shelter, and child care. In the personal income tax scenario, the tax is assumed to be very similar to House Bill 115 of Alaska's 2017 legislative session, though its rates have been reduced by 27.75% across the board to reduce its yield to \$500 million per year.

Sales Tax Exemptions

- Exemptions are poorly targeted. The poorest 40% of taxpayers typically receive only about 25% of the benefit from exempting groceries. The rest goes to wealthier taxpayers who can more easily afford to pay the sales tax on groceries.
- Because they aren't targeted, exemptions are very costly. Exempting groceries, for example, has the potential to reduce the revenue yield of each penny of sales tax by nearly 20%. This requires that lawmakers increase tax rates in order to offset the reduction in the tax base.
- Sales tax exemptions will not greatly reduce necessary expenses for SNAP and WIC beneficiaries

Sales Tax Credits

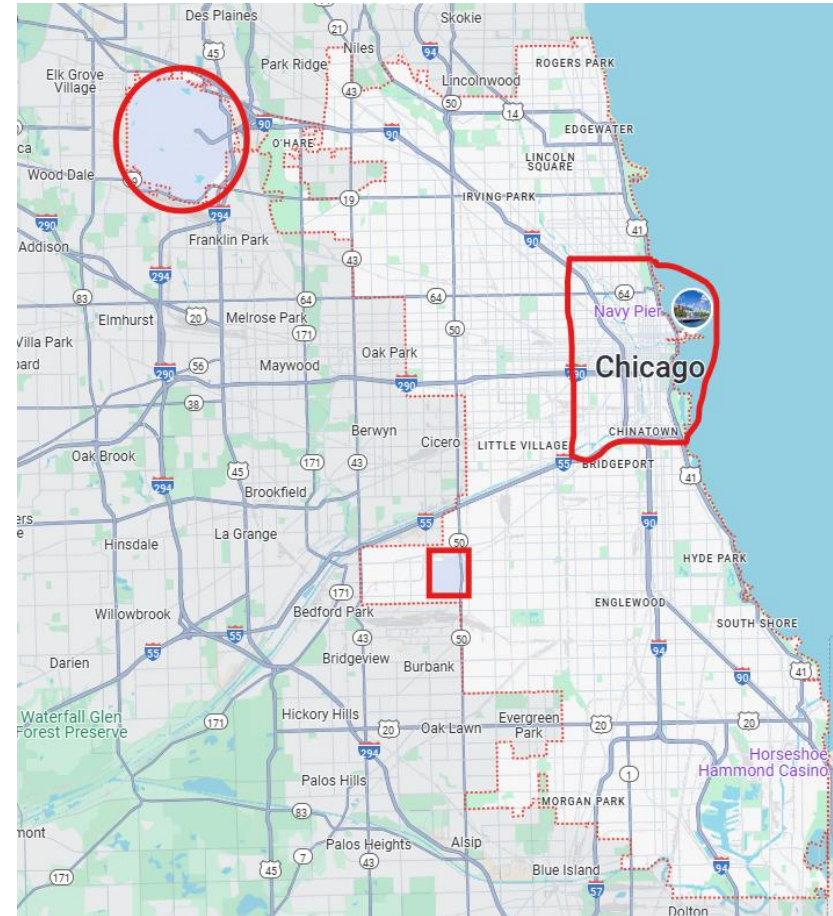
- Some states and localities use cards for credits but they are typically administered through the income tax
 - New Mexico's "Low-Income Comprehensive Tax Rebate" offers a card for qualifying residents
 - Texas and Illinois have card programs to offset food costs
- Administering sales tax credits will be more difficult without an income tax and requires more funding for outreach
 - The Washington Working Families Tax Credit issues tax refunds but applicants must file separately; take-up is **~45%**
- Advocates should also pursue Property Tax Circuit Breakers

Sales Tax Holidays

- Nineteen states had sales tax holidays on the books in 2023, down from 20 the previous year.
- These suspensions will cost states and localities nearly \$1.6 billion in lost revenue in 2023, up from an estimated \$1 billion just a year before.
- Sales tax holidays are poorly targeted and too temporary to meaningfully change the regressive nature of a state's tax system.
- Overall, the benefits of sales tax holidays are minimal while their downsides are significant.
- Source: <https://itep.org/sales-tax-holiday-2023-ineffective-alternative-to-real-sales-tax-reform/>

Other Options to Tax Tourists

- Restaurant taxes
 - Florida
 - Chicago has an additional restaurant tax on restaurants within a boundary in tourist-heavy parts of the city
- Tourist fees
 - Venice, Italy charges "daytrippers" a daily fee in season



Examples of Local Tax Commissions & Workgroups

City of Seattle Revenue Stabilization Workgroup Completes Work, Issues Report with Options to Address Seattle's Revenue Gap

by [Jamie Housen](#) on August 9, 2023

2022-2023

DC Tax Revision Commission

Appointed by the DC Council and the Mayor, we are an independent body that will provide recommendations for improving the DC tax code.

The City of Salem (the City) is facing a significant revenue shortfall. The City convened a Revenue Task Force of community members to explore new revenue sources and adjustments to fees to sustain City services. The Revenue Task Force developed a set of revenue options, presented in this packet. The City Council will use this input in their ongoing deliberations about the City's current and future budget.

The revenue options contained in this packet are grouped by timeline:

Timeline	Recommended Options
Near-Term Options: Revenue options that are within City authority and that could potentially generate revenue for the City within 1-2 years of initiation.	A. Business License Fees B. Franchise Fee Increase C. Urban Renewal – Increase Frozen Base
Medium-Term Options: Revenue options that are within City authority and that could potentially generate revenue for the City within 2-5 years of initiation.	D. Local Option Property Tax Levy E. Personal Income Tax
Long-Term Options: Revenue options that would require significant changes to state law or city policy, or action on the part of other governmental agencies.	F. Payment in Lieu of Taxes (County, State, Federal) G. Intergovernmental Agreements & Entities H. Tax Reform/Restructuring

Recommendations

- Request information from local entities that are either exploring revenue-raising ideas or have adopted sales tax credits/exemptions
- Consider advocating for state policy changes that will a) progressively raise state tax revenue and enable better state-local revenue sharing and b) strengthen local taxing authorities
- Advocate for a lower percentage of sales tax revenue offsetting property tax revenue
- Explore feasibility of taxing online purchases to broaden the sales tax base and ultimately lower the sales tax rate (especially since the local sales tax could lead to more online purchases)