

Impact of a Seasonal Sales Tax Increase and Food Exemption on Living Wage

Prepared by Jeff Rogers, Finance Director, for the CBJ Assembly Finance Committee

November 23, 2019

Introduction

This paper attempts to respond to questions from the CBJ Assembly Finance Committee about the impact of a seasonal sales tax rate in conjunction with a sales tax exemption on unprepared food. In particular, this paper will consider the impact of these changes on wages at various levels of income.

Assumptions

This analysis assumes:

- Number of Juneau resident households is 12,273
- Number of summer visitors is 1,300,000
- “Unprepared food” is defined by the Bureau Labor of Statistics as “food for home”
- “Other taxable items” shall be the sum of all other BLS categories of taxable expenditures
- Summer visitors pay 18% of CBJ sales tax annually (based on analysis by Bonnie Chaney 2019)
- Of the amount that summer visitors spend, only 5% is spend on “food for home”
- CBJ taxes \$1 billion in sales of goods and services to generate \$50 million in sales tax revenue

Methodology

The attached calculation estimates impact in the following steps:

1. CBJ gross taxable sales are allocated between residents and visitors using the assumptions above
2. Sales tax generated is calculated for two scenarios
 - a. Status quo scenario: 5% year-round rate with food subject to tax
 - b. Contemplated scenario: 5%/6% seasonal rate with unprepared food exempt
3. The difference between these two scenarios is calculated for residents and visitors and divided by the number of resident households and summer visitors
4. National Bureau of Labor Statistics regarding income and expenditures is localized to Juneau based on taxes actually paid
5. Sales tax and % of income/expenditure by income quartile is calculated for two scenarios
 - a. Status quo scenario: 5% year-round rate with food subject to tax
 - b. Contemplated scenario: 5%/6% seasonal rate with food-for-home exempt
6. The difference between these two scenarios is calculated

Result of Analysis: Estimated Impact

Annual Sales Tax Savings for Residents	\$	1,760,854	Annual Sales Tax Increase on Visitors	\$	1,260,000
Annual Sales Tax Savings per Resident Household	\$	143.47	Additional Sales Tax Cost per Visitor	\$	0.97

Annual Savings from 5%/6% Rate and Food Exemption	Income Level					
	Lowest Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile	All Households
Annual Sales Tax Savings per Resident Household	\$ 132.13	\$ 172.84	\$ 156.00	\$ 162.66	\$ 93.13	\$ 143.47
Annual Savings as % of Resident Household Income	0.58%	0.28%	0.14%	0.09%	0.02%	0.09%
Annual Savings as % of Resident Household Expenditure	0.25%	0.21%	0.15%	0.12%	0.04%	0.11%
Total Annual Sales Tax Savings by Residents						\$ 1,760,854