

City of Kodiak

Sales Tax Discussions – Phase II

Sales Tax Discussions – Phase II

- **Business Licenses**
 - **Permitting** – incorporated into the Business License process and clearly defining “Casual and Isolated” sales for the purpose of the general sales tax exemption
 - **Outline of the Business License process**
 - **Timeline of events to occur**
 - **Direction from Council on proceeding**

Casual and Isolated Sales

- Exempt in the City of Kodiak Code
- No clear definition exists with the City Code
- City Code Exemption states
 - Casual and isolated sales and rentals of personal property, and services not rendered in the regular course of business of the seller
 - Casual and isolated – infrequent? How many?
 - B&Bs can be personal property – are these excludable?
 - What is considered ordinary course of business?
- Miscommunications can occur related to this Sales Tax exemption
 - i.e. My profession = CPA, my hobby = photographer
 - The IRS would consider this taxable income
- If side businesses are considered IRS income taxable, then why not sales taxable?

Casual and Isolated Sales Defined

- Direction requested from City Attorney's office
 - Casual and Isolated Definition could include the following:
 - The following sales are deemed to be casual or isolated sales by persons who
 - do not hold themselves out to the public as engaged in business, and
 - have not leased or rented the property in their business operations:
 - A garage sale, rummage sale, or similar sale of used household goods when sold by the owner in his capacity as owner and not in the capacity of a retail merchant.
 - Estate sales if held at the location of the home and not including other personal property from other sources.
 - Individuals selling property owned and previously used as non business personal property such as cars, boats and aircraft.

Business Licenses Process

- All businesses will be required to hold and display a City of Kodiak Business License on Jan 1, 2017
- The only exemptions would be federal and local government agencies
- Nonprofits would be required to hold a business license – annual applications required at no cost and proof of 501c status
- Draft of new Chapter for municipal code included with presentation – currently being reviewed by City Attorney
- Specific lines of business based on the IRS NAICS System would be required to pay a tax deposit with the annual application fee of \$50
- Option to waive \$50 application fee for all existing sales tax filers for first year of implementation. However, complete applications would still be required
- City Finance Department will mail applications by December 1 to be due by January 31 of each year.
- Half year considerations given for new businesses in Kodiak that occur mid-year.

Business License Process continued

- All person(s) offering items to sell – including bazaars, cruise ship tables, etc. would be required to obtain and display a business license.
 - Special events licenses are not currently included as any business operating in a special event (i.e. Crab Festival) would already be required to obtain and display a business license.
 - Any and all permits would still be required, along with a business license. Business licenses would not eliminate the need for any permit currently in effect under the City of Kodiak municipal code. (i.e. Taxi Cabs)
-
- Business License Application
 - Business License example

Timeline of Events

- Draft ordinances regarding Code changes to have prepared by September 11 regularly scheduled meeting. These changes would tentatively become effective mid-November
 - Code changes would include: (1) adding clarifying language to the Casual and Isolated sales general exemption; (2) Chapter in the KCC regarding business licenses
- Once ordinances become effective, Finance Department would send out business license applications in early December 2016 to be due January 31, 2017. First year application fees for businesses currently registered for sales tax would be waived for calendar year 2017 for FEES ONLY.

Council Direction Requested

- Proceed with adding the clarifying language to Casual and Isolated Sales
 - Any changes, additions, deletions to be considered
- Proceed with drafting ordinances related to the new chapter for Business Licenses
 - Any changes, additions, deletions to be considered
- Proceed with waiving first year application fees