

Seasonal Sales Tax Information 2023

*Frequently Asked
Questions*

City of Ketchikan



Consumer's Sales Tax is defined in the Ketchikan Municipal Code Title 3, Chapter 3.04

This chapter refers to the rules that merchants/sellers of goods and services shall follow as well as the rates that are currently in effect through March 31, 2023.

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Frequently Asked Questions

Question: *What are the new rates and the date rates go into effect?*

Answer: [Ordinance No. 22-1949.pdf](#) Refers to the new rates that are effective starting April 1, 2023.

Current rate under Section 3.04.020 subsection (a) is four percent (4.0%) from January 1 through March 31, 2023.

Amended rate per Ordinance 22-1949 Section 3.04.020 subsection (a) is five and one-half percent (5.5%) from April 1 through September 30 and three percent (3.0%) from October 1 through March 31.

Please keep in mind the Ketchikan Gateway Borough Sales Tax is 2.5%. The combined sales tax rate through March 31, 2023 is 6.5% (4.0% City plus 2.5% Borough). The combined sales tax April 1 through September 30 is 8.0% (5.5% City plus 2.5% Borough). The combined sales tax rate October 1 through March 31 is 5.5% (3.0% City plus 2.5% Borough).

The sales tax rate for Residential Rents was amended per Ordinance 23-1966 – Section 3.04.020 subsection (b) a sales rate of three (3.0%) is assessed and levied on residential rents.

Question: *Can I apply an average annual tax of 6.75%?*

Answer: No, the Ketchikan Municipal Code does not allow an average rate to be applied to taxable sales. In addition to this the average rate only works if the tax rate and the rate of the service(s) remains unchanged throughout the year or the time period in which the average is calculated. If the seller's price changes or the tax rate is amended, the average rate changes along with the tax that should be collected and renders an average rate useless.

Question: *If I am billing in March for April rent what tax rate do I charge?*

Answer: The tax rate in effect for month the service/rent is provided is the correct tax rate that shall be applied to service/rent. For 2023, the effective tax rate for services/rentals provided within the City limits beginning April 1, 2023 is 8.0% (5.5% City and 2.5% Borough). **Please note, the residential rent sales tax rate was amended per Ordinance 23-1966. The City sales tax rate for residential rents only is 3.0% effective April 1, 2023. The combined rate for City and Borough is 5.5% starting April 1, 2023. The rate shall be applied year round.**

Question: *What rate do I charge for Special Orders?*

Answer: The seller should charge the applicable tax rate at the time the order is billed to the customer. If the seller bills the customer on March 31 the seller would apply the March 31 tax

rate. If the seller bills the customer when the supplies arrive the effective tax rate shall be applied when the customer is billed and in this case when the supplies arrive. This permits some flexibility for the seller as long as the seller is reporting the revenue for sale/service and the applicable tax in the same period.

Question: *If I haven't collected the tax won't this change the tax if it is collected in a different quarter?*

Answer: Collecting the tax is completely separate from determining the applicable tax rate to apply to a service. The tax is applied 1) at the point of sale (the customer buys the product and walks out of the store with the product), 2) for the month of rental (the effective rate is month the apartment/equipment/land is rented), 3) for services provided by the hour (the hours worked and billed for March are tax at the March tax rate, the hours worked and billed for April are taxed at the April rate), 4) for a contract based on a bid (a bid is considered one sale and should be taxed at the time the bid is billed). Please consult with Ketchikan Gateway Borough regarding questions you may have with respect to reporting and collecting taxes.

Question: *If I entered into a contract in 2022 for a three year term and the sales tax rate referenced in the contract is 6.5%, can I pay the 6.5% in April 2023 since it in a previously negotiated contract?*

Answer: No, the April 2023 tax rate is 8.0% for sales within in the City limits. It is suggested that the contractor work with their customers to change the language in their contracts to refer to the "effective tax rate" rather than the specific rate.

Question: *a) If a construction company starts a month long job on March 25th will they have to invoice for two different quarters? b) How do they apply the cap in two different changing quarters?*

Answer: First and foremost, the City cannot give any advice on how a company should bill for their services. a) It depends on the unit being billed. If the company bills based on an hour then the company should apply the tax that was applicable when the hours/services were provided, this is different than a bid amount since bids encompass a total fee. If the company bills based on a bid and the bill is invoiced during March (reported as taxable revenue in March) then the March tax rate should be applied. b) The application of the single unit sales tax cap has not changed, please refer to Ketchikan Municipal Code (KMC) for the definition of a single unit sale. The link to the KMC is provided above.

Question: *Will a company ever get audited?*

Answer: The City can authorize the review of the books or accounts of a merchant/seller at any time, per section 3.04.070 of the KMC, link provided above.

Question: *Can a company fudge the numbers?*

Answer: A Company can schedule jobs to occur during a certain time period, the tax rate that is effective during that time period should apply. Ketchikan is a small town so certain activities are visible and can be corroborated with the financial reporting during the same time period. If Company "A" has had consistent revenue over the last 5 years and starts to show that they have little to no revenue April-September activities may be flagged, which may result in audits. We do anticipate some fluctuation since Ketchikan residents can change their spending habits but we would expect certain industries/business categories and their revenues to follow similar patterns as they have in the past.

Question: *I am a tour vendor that has pre-sold tickets at the 4% rate since our software system only allows one rate, what rate do I charge for pre-sold tours?*

Answer: The effective sales tax rate for a tour is the date the tour/service takes place. If a tour is scheduled for June the rate of 8.0% is the effective rate (5.5% City and 2.5% Borough). If a tour is scheduled for October the effective rate in October is 5.5% (3.0% City and 2.5% Borough).

Additional information:

The Ketchikan Gateway Borough is responsible for processing sales tax reports and the collections of taxes. They have expressed their desire to work with merchants/sellers one on one regarding the transition to a seasonal sales tax. Each vendor can differ in how they handle their accounting so working with the Borough Revenue & Collections department may be best if you have additional questions. Included with this document and on the next page is a copy of the Ketchikan Gateway Borough's Code Review Letter.

If you would like to submit additional questions please e-mail info@city.ketchikan.ak.us .

NEWSLETTER



SALES TAX CLARIFICATIONS AND GUIDANCE

In an effort to give businesses a better understanding of Borough sales tax code, improve fairness of the tax system, and increase voluntary compliance with tax obligations, we are offering several clarifications regarding common errors made in application of Borough sales tax code.

1. Taxability of Tours/Excursions

Any service that **either commences or terminates** - or in which the services take place in any part within the Borough is subject to sales tax. But in an effort to avoid double-taxation, a credit can be applied up to the amount of tax the vendor has paid tax on the same service This applies to KGB Code 4.50.060 Multijurisdictional services.

“(a) All services which either **commence or terminate** within the borough shall be subject to sales tax, except as otherwise provided in this chapter.

(b) Sightseeing charter services and shore excursions by land or water either sold within the borough or begin or terminate within the borough are subject to sales tax”

2. What Counts as a Sale? (Fishing Charters, Adventure Charters, or Tours):

The single unit exemption as applied to fishing charters, adventure charters, tours, or any other “package” excursion, every “**individual**” in the tour counts as a single unit sale. See, KGBC 4.50.020 below. This means sales tax would be collected on each individual person, up to \$2,000. A 4-person package tour for \$2,500 (per person price \$625) does not qualify for a single unit sale exemption. A 1-person packaged tour for \$2,500 would qualify as a single unit sale, and should be taxed up to \$2,000, with \$500 claimed as the exemption.

Another note: regarding vendors that are located outside of Ketchikan (other companies that sell tours on your behalf) the portion of the payment you receive **is subject to sales tax**, since the tours either “commence or terminate” within the borough.

3. Who Can Use a Senior Citizen Sales Tax Exemption Card?

A cardholding senior citizen can use the card, and there is a mechanism for another person to be authorized to use th card for the senior when the senior is physically unable to do their own shopping. Otherwise, the card can only be used by the cardholder, and can be used **only for purchases by the cardholder and his or her spouse. Not for use in any trade or business.**

How is this applied? For example, restaurant meals **consumed by the cardholder and spouse would be exempt**. However, the charges for others in the cardholder's party are nonexempt, and they must pay sales tax.

4. Final Note: As you know, the Borough collects all sales taxes including those levied by the City of Ketchikan and the City of Saxman. The City of Ketchikan will be implementing a seasonal sales tax rate beginning April 1, 2023. The new combined rate inside the City of Ketchikan from April 1 through September 30, 2023 will be 8% (5.5% City/2.5% Borough), and will reduce to a combined rate of 5.5% (3% City/2.5% Borough) effective October 1 through March 31 each year thereafter. The Borough sales tax rate remains unchanged at 2.5%. For 2023, please be sure to collect taxes at the correct rate of levy, based on the date of sale or invoice.

Sale of Goods

For sale of goods, the sale occurs when the goods are tendered. For example, in a ordinary point-of-sale (POS) transaction, the tax rate is the rate in effect at that time, and the tax is applied and collected at the time of the POS sale.

If a POS transaction will result in the goods being tendered at a later point in time, the "sale" will still be deemed as occurring when the purchase is made. An example would be an appliance purchased but delivered to the home on a later day.

Sale of Services

For sale of services, the applicable tax rate is the rate in effect when the services are rendered. This is the case regardless of whether the payment is received when services are rendered or later in response to an invoice.

Rental

For sale of rentals, the tax rate will be the rate in effect for the month of rental, even if collected in a month before or after the month of rental.

If you have any questions, please do not hesitate to contact me.

Thank you,

Claire Kelly

Revenue & Collection Supervisor

Frequently Referenced Code Provisions

KGB Code 4.50.060 Multijurisdictional services.

“(a) All services which either commence or terminate within the borough shall be subject to sales tax, except as otherwise provided in this chapter.

(b) Sightseeing charter services and shore excursions by land or water either sold within the borough or begin or terminate within the borough are subject to sales tax”

KGB Code 4.50.020 Definitions.

“Single unit sale” means the sale of a separate, single item or service which is customarily sold, advertised, contracted for sale or sold in the normal course of business as a separate and single item or unit by a single unit of measurement (i.e., per gallon, ton, hour, day, week, month, foot, sack, yard, pound, piece, group, each, box, set, package, or other common unit of measurement). A single unit sale shall include a sale by contract, quote, bid or other lump sum amount only if the sale is based on and computed as a single bid, quote, sum, or package price rather than as an accumulation, sum or aggregation of prices of separately identifiable or separable unit prices as defined above. For purposes of package tours, every individual in the tour will count as a single unit; provided, however, that residential and commercial rent shall be computed on a unit of one (1) month, not based on square footage.”

KGB Code 4.50.230 Exemptions.

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“(q) That portion of the selling price of a single unit sale in excess of two thousand dollars (\$2,000), including that part of a periodic rental price of all types of property, excluding those for residential rental, exceeding two thousand dollars (\$2,000). For residential rental properties only, this exemption shall apply to the portion of the selling price of a single unit sale exceeding one thousand dollars \$1,000. The periodic rental price is the amount owed on a monthly or more frequent period; rentals exceeding a payment period of one (1) month are computed for sales tax purposes as though payment were to be made on a monthly basis.” (Effective January 1, 2020)

KGB Code 4.50.240 Sales tax Exemption for residents 65 years of age.

“(b) No person who has duly applied for and received such a registration card may use it to obtain such tax exemption when the rents, retail purchases, and any or all of them, otherwise subject to the sales taxes, are used or consumed by any person or persons other than the person duly holding such registration card, or his or her spouse.”