



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE

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February 10, 2016

The Honorable Louise Stutes
Alaska State Representative
Chair, House Fisheries Committee
State Capitol Room 416
Juneau, AK 99801

Dear Representative Stutes:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue and the Department of Fish & Game during our presentation to the House Fisheries Committee on February 2, 2016. Please see questions in italics and our responses immediately below the questions.

1. *Who is defined as a processor? Can we see a list of taxpayers for the Fisheries Business Tax and Resource Landing Tax, and get a better understanding of exactly who is paying the tax and who isn't?*

If a fish business operator has intentions to process any fishery resource other than what they caught or their activities are limited to roe recovery from salmon caught from a vessel greater than 65 feet in length, then the activities are defined as processing. The following activities further define the undertakings of a processor:

- Prepares, processes or stores a fishery resource;
- Recovers salmon roe;
- Custom processes fishery resources from others;
- A fish business that has a fishery resource custom processed; or
- Exports an unprocessed fishery resource outside of Alaska.

Processing is defined as any activity that modifies the physical condition of the fishery resource. It should also be noted what isn't considered processing: heading, gutting, gilling or icing seafood products or decapitating fish. Processors include traditional shore-based facilities as well as at-sea processors such as catcher-processors and floating processors. Direct marketers are considered processors, but catcher-sellers are not because they sell only their own unprocessed fish. Businesses or individuals that have fish custom processed, that recover salmon roe, or that export unprocessed fish outside of Alaska are considered processors.

Only processors pay the Fisheries Business Tax and Resource Landing Tax. However, in cases where processors buy their fish from independent commercial fishermen, it is possible that some or all of the tax burden to be passed on to the fishermen, since they have little control over what price the processors will pay.

Unfortunately, DOR cannot provide a full list of taxpayers, as this would violate confidentiality.

2. *What is the origin of the separate FBT rate for salmon canneries?*

According to a report from the Alaska History and Cultural Studies organization, called *Alaska's Heritage, chapter 4-16: Fishing and Sea Hunting*: "As early as 1899, Alaska Natives appealed to the

government to protect the salmon for those who relied on it for food. They also asked for the return of some of their fishing sites that cannery operators had occupied. In 1900, Congress responded to the appeals by requiring that anyone engaged in commercial salmon fishing in Alaska establish a hatchery for sockeye salmon. Most cannery operators waited to see if the regulation would be enforced before investing money in a fish hatchery. Congress failed to provide adequate funds for enforcement. In 1906, Congress tried a different tactic to force fish conservation. It levied a tax of four cents on each case of salmon canned.”

From the very beginning of Alaska’s history there has been a separate rate for salmon canneries. From the beginning, non-residents have dominated the canning industry in Alaska. The changing tax rates over the years may have resulted from a shift from a mindset of resentment of non-residents exploiting fishery resources to a mindset of trying to help small Alaskan fishing operators.

Examples of different state salmon cannery tax rates in Alaska’s history include:

- 1913: the First Territorial Legislature adopted the initial “salmon pack tax” of \$0.07 per case and a separate “cold storage tax” for other fisheries
- 1951: the territorial legislature set the fisheries business tax on floating processors to 4% of value and salmon canneries to 6%
- 1967: the tax rate for salmon canneries was lowered to 3%
- 2004: the tax rate for salmon canneries rose to 4.5%

3. *How does the Department of Fish & Game determine what is a developing or established fishery? Can we get a list of them?*

Please see the attached list of developing fisheries.

4. *Why are charter boats not subject to the fish tax?*

There is no reason that charter sport fishing operations couldn’t be taxed if the legislature chose to tax them. Since sport fishery landings are not accounted for in the same rigorous manner as commercial catch there would need to be a new sport charter catch accounting system developed for tax assessment purposes. If the committee would like to develop legislation that would tax charter boats and similar commercial sport fish operators, DOR would be happy to provide technical assistance as needed.

5. *What is the distribution of the \$18 million in new fish tax revenue under HB 251?*

The fiscal note for HB 251 projects \$18.4 million in new revenue from the fish tax increases in FY 2017. The Department of Revenue estimates this new revenue will be broken down by species category as follows:

Category	New revenue (\$ millions)
Groundfish: Pollock	5.4
Groundfish: Non-Pollock	3.2
Black Cod	1.1
Halibut	1.1
Herring	0.1
Salmon	4.9
Shellfish	2.6
Total	18.4

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This analysis is based on projections of the distribution of taxable fish value by species, which are used in DOR's annual fish tax forecasts. For more information on the current distribution by species, please see the attached Fish Values & Poundage Report.

6. *What is the distribution of the \$140 million in budget cuts under the governor's proposal?*

Please see the attached document from OMB.

7. *Provide a list of cuts to the Department of Fish & Game.*

Please see the attached list of cuts at Fish & Game.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

Randall Hoffbeck
Commissioner

Attachments: Fish Values & Poundage Report 2014, OMB list of budget cuts, Fish & Game list of budget cuts, Fish & Game list of developing fisheries