



# Alaska Longline

FISHERMEN'S ASSOCIATION

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Representative Louise Stutes  
Chair, House Special Committee on Fisheries  
Alaska State Legislature  
State Capitol  
Juneau, AK 99811-1182  
Email: Rep.Louise.Stutes@akleg.gov

February 22, 2016

## **Comments on HB 251/SB 135 OPPOSE AS WRITTEN**

Dear Representative Stutes and members of the Committee,

The Alaska Longline Fishermen's Association (ALFA) OPPOSES HB 251. We believe the bill reflects a poor understanding of existing fishery taxes and confounds rather than improves what is an overly burdensome and disproportionately levied tax structure. Instead of advancing this bill, we ask that you take time to understand shortcomings in the existing fisheries tax structure, address these shortcomings, and then reassess fiscal needs prior to applying damaging tax increases. We would point out that while HB251 portends to increase fish taxes by 1%, the actual tax increase imposed on Alaska's fishing businesses is 33%.

ALFA's membership is composed of small boat fishing operations that longline for halibut, sablefish, and rockfish. Many of our members also troll, seine, gillnet or tender salmon. Our organization is based in Sitka, Alaska and most of our members live and operate out of Alaska's coastal communities. Most of our members deliver to shore-based processors, and a few also direct-market some of their catch. The hook and line fisheries central to our membership provide important employment for Alaska residents and produce a high quality/high value product.

ALFA recognizes Alaska faces a fiscal crisis and that all industries, agencies and residents will pay more for State services in upcoming years. We believe lawmakers should tackle the fiscal crisis in a reasoned and comprehensive manner, identifying significant sources of revenue first (e.g., income tax or drawing off the permanent fund), then developing a comprehensive approach for industry taxes to fill additional needs. The fiscal plan should be guided by a commitment to raising necessary revenue while minimizing impacts to Alaskans; Alaska should look first to tax dollars that are currently leaving the state. In our view, the worst strategy Alaska lawmakers could adopt would be to generate piecemeal legislation that cripples Alaska's small businesses, fails to capture returns on dollars currently leaving the state, and does this without achieving major fiscal goals. In our view, HB 251 potentially represents exactly this latter disastrous strategy.

Although we believe this bill should be voted down until the administration/legislature develop a comprehensive fiscal plan, we ask that the Fisheries Committee use this opportunity to review and revise the fisheries landing and business taxes, and do so with a commitment to streamlining reporting requirements and eliminating inequities while minimizing impacts to Alaska's fishing businesses.

We would call to your attention a number of fisheries tax issues that should be addressed. These include: 1) inconsistent tax basis depending on product delivery form and whether a boat is fishing within or outside State waters; 2) inaccurate costs basis for some species (e.g., flatfish); 3) untaxed portion of catch that is currently marketed as fish meal; and 4) the CFEC annual permit fee ceiling that allows some high production fishing operations to pay the same annual fee as much smaller businesses. No doubt this is not an exhaustive list; it is simply a list of fish tax inequities that have been brought to our attention to date.

#### Tax basis

Taxes currently imposed on the fishing industry have a different basis depending on the product form and whether the vessel is fishing inside or outside state waters. The current policy in state waters, which bases fees on monetary return from delivered catch, actually disincentivizes value-added, on-board labor that produce the highest value product. For example the labor a salmon troller dedicates to carefully bleeding and cleaning a silver salmon results in this fisherman paying more tax on a silver salmon than a gillnet fisherman who simply delivers the same fish "round"—or uncleaned. In other words, the current structure taxes the labor onboard a vessel that goes into producing added value, while value added after deliver to a processing plant is not taxed. As a result, fisheries that are labor intensive, high value and Alaska-based, such as the longline halibut and sablefish fisheries or the troll salmon fishery, pay a disproportionate share of the tax burden. Additionally, fisheries occurring beyond state waters pay taxes based on a standard price regardless of actual ex-vessel price received. As the data provided to the Fisheries Committee by ALFA member Rhonda Hubbard of Kruzof Fisheries substantiates, the standardized prices for high volume/low value fisheries such as flatfish are often unrealistically low.

ALFA suggest the committee review and revise the tax policy for state fisheries. We recommend a consistent approach for fish harvested both inside and outside state waters, and we urge the Committee to consider establishing a minimum or floor fee that is based on pounds harvested, rather than finished value. Based on data provided to the Committee, this revision to the tax basis would increase returns to the state and remove existing penalties to value added onboard procedures.

#### Under-reporting and untaxed product

Second, large volumes of commercially harvested fish are currently either minimally taxed or not taxed because product values are under-reported by certain user groups or no assigned value is provided by the processor. Yellowfin sole is a prime example of apparent under-reporting: the state applies a tax base value of 2 cents per pounds while NMFS reports yellowfin sole value at 16 cents per pound. Fishmeal is an example of the latter category; the processor eventually captures value from fishmeal but that value is never taxed or captured by the State.

#### Ceiling on annual permit fees


Third, the arbitrary ceiling on annual Commercial Fishing Entry Commission permit fees allows

operators in some high volume/high value fisheries to pay far less, relative to income earned from the fishery, than other vessel operators. By way of background: CFEC fees are established to reasonably reflect the different rates of economic return expected for the fisheries, however current statutes and regulations set a CFEC fee ceiling of \$3,000. As a result, some fishing operations are generating far more income relative to permit fees paid than other more modest operations. Although removing this ceiling will generate millions instead of the billions of dollars Alaska needs to address the existing fiscal crisis, this inequity should be corrected.

In closing, ALFA opposes HB 251 as currently drafted. Prior to increasing taxes on Alaska's fishermen, we believe the State needs to create a comprehensive fiscal plan that identifies revenue sources that substantially address the current budget crisis and do so with minimal impact to Alaska residents and small businesses. We also believe the administration and the legislature need to recognize and correct the unnecessary complexity and significant inequities in the existing tax structure. Correcting these inequities will require improved communication between the fishing industry, CFEC, ADFG and the Department of Revenue. While this may demand additional time, the outcome will be a fisheries tax structure that is less burdensome while generating more revenue than the \$18-20 million projected by HB 251. And, when considered in the context of the billions needed to address Alaska's fiscal crisis, the time invested in creating a comprehensive fiscal plan that includes reformed fishing taxes instead of poorly crafted legislation that cripples Alaska's fishing industry will be time well spent.

Thank you for your time and attention.

Sincerely,



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