

NEW SUSTAINABLE

ALASKA

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Pulling Together to Build Our Future

Fish Tax

HB251

Bill Title

“An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to fisheries business tax and fishery resource landing tax; relating to refunds to local governments; and providing for an effective date.”

Fish Business Tax Overview

- Paid by persons or business who **process fish in Alaska** or **export fish from Alaska**
- Charged on price for raw resource or fair market value

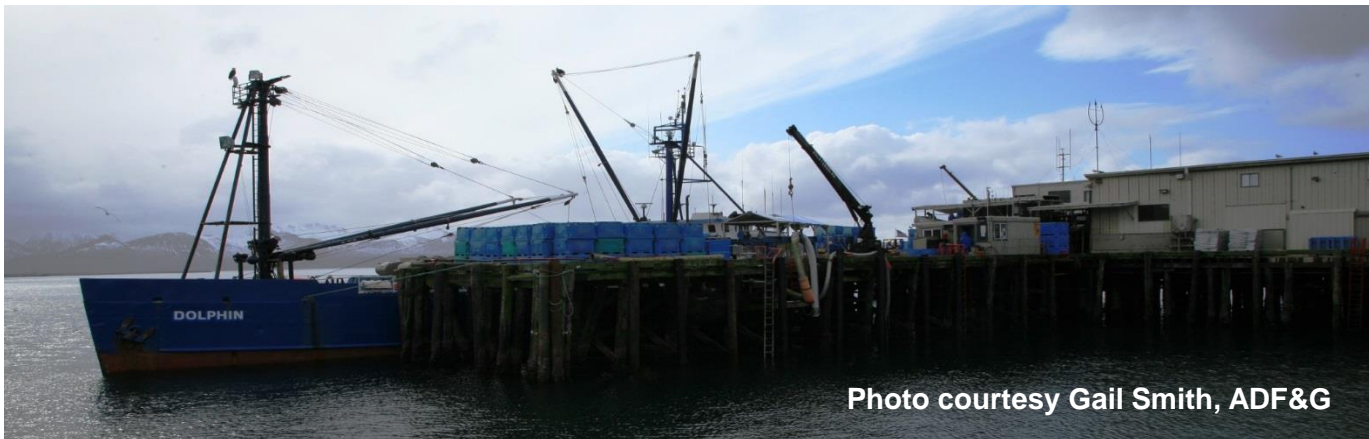


Photo courtesy Gail Smith, ADF&G

Fish Business Tax History

- Territorial “salmon pack tax” in 1913
 - Tax base expanded to include other fish between 1913 and 1949
- Fish business license required in 1951
- Municipal sharing began in 1962
 - Increased from 10% to 50% over time

Fish Business Tax History (Continued)

- Current tax structure began in 2004
 - Shore-based facility:
 - 1% for developing species
 - 3% for established species
 - Floating facility:
 - 3% for developing
 - 5% for established
 - Salmon cannery: 4.5%
- Direct Marketing License holders pay shore-based rates

Fish Landing Tax Overview

- Levied on **unprocessed value** of a fishery resource **first landed in Alaska, but processed outside**
 - Value calculated using Statewide Average Price (SWAP)
- Mainly factory trawlers and floating processors
- 50% municipal sharing, like Business Tax



Photo courtesy Alaska Seafood

Fish Landing Tax History

- Effective 1994
- Initially 3.3% of the unprocessed value
- Now:
 - 1% for developing species
 - 3% for established species
- Exception: **pollock** subject to Landing Tax even if not landed in Alaska
 - Due to 1999 American Fisheries Act

Distribution of Fish Tax Revenue

⑩ Fish Tax Revenue

```
graph TD; A[⑩ Fish Tax Revenue] -- 50% --> B[⑩ Communities and Boroughs]; A -- 50% --> C[⑩ General Fund Credits];
```

50%

⑩ Communities
and Boroughs

50%

⑩ General Fund
⑩ Credits

Fish Business Tax Revenue

Business Tax (\$ millions)	FY 2015	FY 2014	FY 2013
Total collections	44.4	53.0	45.1
Municipal share	23.1	26.5	25.0
Retained by state	21.3	26.5	20.0

- State share normally smaller than municipal share because of credits

Fish Landing Tax Revenue

Landing Tax (\$ millions)	FY 2015	FY 2014	FY 2013
Total collections	8.4	12.6	13.4
Municipal share	3.2	5.4	7.8
Retained by state	5.1	7.1	5.5

Fish Tax Proposal

- Increases Fisheries Business Tax and Fishery Resource Landing Tax by 1% for established species

Business Tax	Current Rate	Proposed Rate
Established		
Floating	5%	6%
Salmon Cannery	4.5%	5.5%
Shore-based	3%	4%
Developing		
Floating	3%	4%
Shore-based	1%	1%

Fish Tax Proposal (Continued)

Resrc Land Tax	Current Rate	Proposed Rate
Established	3%	4%
Developing	1%	1%

- 1% tax increase would be entirely state revenue, not shared with municipalities
- Municipal sharing would continue for remaining revenue
- Requires electronic filing

Distribution Under New Fish Tax Proposal

⑩ Fish Tax Revenue

```
graph TD; A["⑩ Fish Tax Revenue"] --> B["Additional 1% of value directly to General Fund"]; B -- "50%" --> C["⑩ Communities and Boroughs"]; B -- "50%" --> D["⑩ General Fund<br/>⑩ Credits"]; E["The remainder is distributed as before"]
```

Additional 1%
of value directly
to General Fund

50%

⑩ Communities
and Boroughs

The
remainder
is
distributed
as before

50%

⑩ General Fund
⑩ Credits

Relative Fish Tax Rate

- Washington is the only other state with a tax specific to fish
 - 0.09% to 5.62% of value at point of landing
 - Rate depends on species

Revenue Impact

- Dept. of Revenue estimates proposed fish tax increases would raise an additional \$18 million per year
- Estimates are based on the fall 2015 revenue forecast

Implementation Cost

- Would require the Department of Revenue to update its Tax Revenue Management System (TRMS) and Revenue Online (ROL) which allows a taxpayer to file a return online and update the current tax return forms.
- One-time implementation cost of \$100,000 to recreate tax forms and reprogram and test the tax system¹
- Do not anticipate any additional costs to administer the tax program.

¹This is slightly higher than some of the costs attached to the other excise and business tax changes because of the somewhat dedicated nature of the funds and the possible additional need to adjust certain Revenue Sharing features.

Closing the Budget Gap

FY16 Budget	(Millions) \$ 5,200
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FY17 Baseline Revenue (after proposed legislation)

AK Permanent Fund Protection Act (annual draw)	\$ 3,300
Revenue from existing taxes and fees	\$ 850
Earnings on Savings	<u>\$ 135</u>
	\$ 4,285

FY17 Spending Reductions

Continue Cuts	\$ 140
Reform O&G Tax Credits	\$ 400
Net Priority Investments	<u>(\$ 40)</u>
	\$ 500

Closing the Budget Gap (Continued)

<u>New Revenue Components (estimated)</u>	(Millions)
Mining (starting in FY 2018)	\$ 6
<i>Fishing</i>	<i>\$ 18</i>
Tourism	\$ 15
Motor Fuel	\$ 49
Alcohol	\$ 40
Tobacco	\$ 29
Oil and Gas	\$ 100
Income Tax (half in FY17; first full year is FY18)	<u>\$ 200</u>
	\$ 457
Total with reductions and new revenue	\$ 5,242

Impacts of Fish Tax Proposal

- Main impact is on commercial fishing operations
 - Not much of the tax burden likely to be passed on to buyers

Sectional Analysis

- Sec. 1.** Adds a \$25 or 1% tax penalty for failure to file electronically unless an exemption is received by the taxpayer
- Sec. 2.** Requires electronic submission of tax returns, license applications, and other documents submitted to the Department of Revenue. This changes the general tax statutes, AS 43.05, and will apply to all tax types administered by the department. Provides a process to request an exemption if a taxpayer does not have the technological capability to do so.
- Sec. 3.** Increases three different tax rates within the Fisheries Business Tax by one percent. The current rates range from three to five percent.
- Sec. 4.** Increases tax rate within the Fisheries Business Tax for developing fish species processed by a floating processor from 3 to 4 percent. Rate remains at 1 percent for developing fish species processed by a shore-based business.

Sectional Analysis (Continued)

- Sec. 5.** Increases tax rate within the Fisheries Business Tax for direct marketers from 3 to 4 percent. Rate remains at 1 percent for developing fish species sold by direct marketers.
- Sec. 6.** Conforming language related to the requirement to submit returns or reports electronically. This section deletes the requirement for taxpayers to submit their returns to the department in Juneau.
- Sec. 7.** Establishes that the revenue from the one percent tax increase is deposited in the general fund. The remaining revenue shall be shared with municipalities per the currently existing formula.
- Sec. 8.** Increases tax rate within the Fisheries Landing Tax for fish species other than developing fish species from 3 to 4 percent. Rate remains at 1 percent for developing fish species.

Sectional Analysis (Continued)

- Sec. 9.** Establishes that the revenue from the one percent tax increase is deposited in the general fund. The remaining revenue shall be shared with municipalities per the currently existing formula.
- Sec.10.** Establishes that the revenue from the one percent tax increase is deposited in the general fund. The remaining revenue shall be shared with boroughs per the currently existing formula.
- Sec. 11.** Transitional language allowing for regulations
- Sec. 12.** Section 11 above takes effect immediately.
- Sec. 13.** Effective date of 7/1/16 for the rest of the bill including the tax rate change.

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