THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

Department of Revenue

TAX DIVISION

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February 2, 2022

The Honorable Click Bishop
Alaska State Senator
Co-Chair, Senate Finance Committee
State Capitol Rooms 516
Juneau, AK 99801

The Honorable Bert Stedman
Alaska State Senator
Co-Chair, Senate Finance Committee
State Capitol Rooms 518
Juneau, AK 99801

Dear Co-Chairs Bishop and Stedman,

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue (DOR) during the Senate Bill 33 discussion during the Senate Finance Committee hearing on January 24, 2022.

1. ***Testimony from the Alaska Seafood Marketing Institute (ASMI) suggested that the Salmon & Herring Product Development Credit (PDC Credit) generated as much as $114.4 million in net revenue to the state. Why wasn't this reflected in the fiscal note?***

DOR's fiscal note only addresses the direct impact on revenue from the proposed expansion and reimplementation of the tax credit. While the tax credit likely resulted in some increase to the value of Alaska fisheries, it is impossible for DOR to separate out the impacts of the tax credit from other variables with any certainty. We agree that the net fiscal impact to the state could be less than the amount shown in the fiscal note, if the tax credit expansion and reimplementation leads to increased fishery utilization and value.

ASMI presented an analysis that evaluated the estimated increase to salmon and herring tax revenue over the time period that the development tax credit was in place. The report cited by ASMI notes:

> *"Not all changes in product composition and value are directly related to the tax credit. Multiple other factors affect investment and market value. As a result, it would not be appropriate to assign 100% of the value increase to this program. That said, product form composition is amply demonstrated to have changed during the life of this program, with a correlating increase in value. There is a strong case to be made for attributing at least some portion of this shift to the retooling that the tax credit supported."*[i]

It is likely some of the increase to product value and tax revenue was due to the credit, but it is impossible to identify the impact of the credit versus other factors with certainty.

2. ***The 2019 Legislative Finance Division Indirect Expenditure Report states that the PDC Credit might need to be expanded to new equipment types as the market changes. Does DOR have any comments on this?***

While DOR is available to provide support with fiscal notes, it does not take a position about whether to expand the credit to new equipment types.

3. ***In the 2019 Legislative Finance Division Indirect Expenditure Report, Legislative Finance recommends changing the confidentiality rules to allow data regarding usage of the PDC Credit and all credits be disclosed. Does the Department of Revenue agree with Legislative Finance about changing confidentiality rules?***

While DOR is available to provide support with fiscal notes, it does not take a position about whether to modify confidentiality rules to enable publication of additional data on credit usage for this credit or any other credit it administers.

4. ***What fish would fall under the "cod family" for tax purposes? How does black cod fit into this bill?***

Under current law, the Pacific (gray) cod is considered "cod" and subject to the Fisheries Business Tax. This species would be eligible for the expanded PDC Credit if the legislation, as currently written, were to pass.

Lingcod and Sablefish (blackcod) are not part of the scientific "cod" family. These species are considered "finfish" and subject to the Fisheries Business Tax, but would not be eligible for the expanded PDC Credit if the legislation, as currently written, were to pass.

Saffron cod and Pacific tomcod, while closely related to the scientific "cod" family, are considered "finfish" rather than "cod" and subject to the Fisheries Business Tax. However, it is unclear whether these species would be eligible for the expanded PDC Credit if the legislation, as currently written, were to pass.

5. ***Does the PDC Credit apply to vessels that are both fishing vessels and processing vessels?***

Historically, the PDC Credit could be claimed by vessels that are both fishing vessels and processing vessels (catcher-processors) and floating processors that qualified as "fisheries businesses" under AS 43.75.290(2).

6. ***How many vessels are both fishing vessels and processing vessels?***

In calendar year (CY) 2020, there were 44 catcher-processors that filed Fishery Business Tax returns.

7. ***Is the amount of investment on vessels that are both fishing vessels and processing vessels prorated for processing time vs. fishing time?***

The PDC Credit would not have been prorated between fishing time vs. processing time since, to qualify for the credit, the equipment must have been predominantly used for specific processing activity as outlined in former AS 43.75.035(j)(3). However, if the qualifying equipment was installed on a vessel, then it would have been prorated for salmon/herring processing activity occurring in-state vs. salmon/herring processing activity occurring out-of-state (AS 43.75.035(c)). Additionally, equipment installed on a vessel could have impacted the credit recapture under former AS 43.75.035(g), which provided that equipment placed on a vessel ceased to be a qualified investment when the percentage of salmon/herring processed on the vessel in Alaska fell below 50% (see former AS 43.75.035(g)(5)).

In CY 2020, there were 44 catcher-processors and 37 floating processors that filed Fishery Business Tax returns. However, only a total of 15 processors (catcher-processors, floating processors, and shore-based processors) benefitted from this credit, and claimed a total of approximately $1,400,000 in credits.

8. ***Why is there a distinction between "processed" on page 4, line 22 and "produced" on page 5, line 4 of the proposed legislation?***

The term "processed" on page 4, line 22 is referring to the action taken on a salmon, herring, pollock, or cod that results in a "value-added salmon, herring, pollock, or cod product."

The term "produced" on page 5, line 4 is used to describe what is not included in the definition of "value-added salmon, herring, pollock, or cod product." That is, subsection (6) states: "… 'value-added salmon, herring, pollock, or cod product' does not include a salmon, herring, pollock, or cod product that … (C) is produced outside of the state."

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

Sincerely,

Nicole S. Reynolds Digitally signed by Nicole S. Reynolds
Date: 2022.02.02 08:26:31 -09'00'

Nicole S. Reynolds
Deputy Director, Tax Division

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[i]McKinley Research Group, (2021, March), Response to Request on Impact of Seafood Product Development Credit. Retrieved from Supporting analysis for SB 33_final.pdf (akleg.gov).