

*Distributed by Senator Wielechowski  
Re: SB 33 Amendment  
Disclosure of Information*

**David Dunsmore**

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**From:** Conor Bell  
**Sent:** Thursday, February 3, 2022 5:05 PM  
**To:** 'David.Dunsmore@akleg.gov'  
**Subject:** Credit Reporting

*SFIN 2/7/22*

Hi David,

You asked what LFD recommends with regards to reporting for the Salmon and Herring Product Development Credit. We recommend having DOR provide the annual number of filer recipients and value of credits claimed separately for salmon and herring.

So it would be four data points for each year:

1. # of Salmon credit recipients
2. Value of Salmon credits
3. # of Herring credit recipients
4. Value of Herring credits

This amount of info would be enough for us to further assess effectiveness. DOR is worried about confidentiality, so any amendment should specify that this information has to be provided even if there are only one or two filers. Let me know if you have any questions.

Conor

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# Indirect Expenditure Report

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**January 2019**

*Legislative Finance Division*

[www.legfin.akleg.gov](http://www.legfin.akleg.gov)

# Revenue

**Applicable Program**  
Fisheries Business Tax

**Indirect Expenditure Name**  
Salmon and Herring Product Development  
Credit

## Department of Revenue Submission per AS 43.05.095

**(1) Description of Provision**

A non-transferable credit for eligible capital expenditures to expand value-added processing of Alaska salmon and herring. The credit is 50% of qualified investments up to 50% of tax liability incurred for processing salmon and herring during the tax year. The credit may be carried forward for three years. Herring was added to the credit in 2014.

**(2) Type**

Credit

**(3) Authorizing Statute, Regulation or Other Authority**

AS 43.75.035

**(4) Year Enacted**

2003, last amended 2014

**(5) Sunset or Repeal Date**

Sunset on 12/31/2020

**(6) Legislative Intent**

The Legislature intended to encourage the development of value-added salmon and herring products in Alaska and to increase the value of Alaskan fisheries.

**(7) Public Purpose**

To encourage the production of value-added seafood products in Alaska and increase the value of Alaskan fisheries.

**(8) Estimated Revenue Impact**

FY 2013 - \$1,832,081

FY 2014 - \$-397,376

FY 2015 - \$945,621

FY 2016 - \$3,939,376

FY 2017 - \$3,255,429

Note: The FY 2014 number is negative as a result of adjustments to prior year credits.

**(9) Cost to Administer**

No additional cost; is administered with current resources.

**(10) Number of Beneficiaries / Who Benefits**

Approximately 15 processors .

## Legislative Finance Analysis per AS 24.20.235

**(1) Estimate of Annual Revenue Foregone by the State**

Estimated to be \$3-4 million annually

**(2) Estimate of Annual Monetary Benefit to Recipients**

Approximately \$127,000 per processor

## Revenue

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### **Legislative Finance Analysis per AS 24.20.235**

**(3) Legislative Intent Met?**

Unclear

**(4) Should it be Continued, Modified or Terminated?**

See following pages.

# Revenue

## Salmon and Herring Product Development Tax Credit

Recommend modification to enable better data collection. In 2014, the legislature modified the credit to allow the credit to be used for herring equipment. This analysis will separately analyze the effectiveness of the credit for salmon and herring.

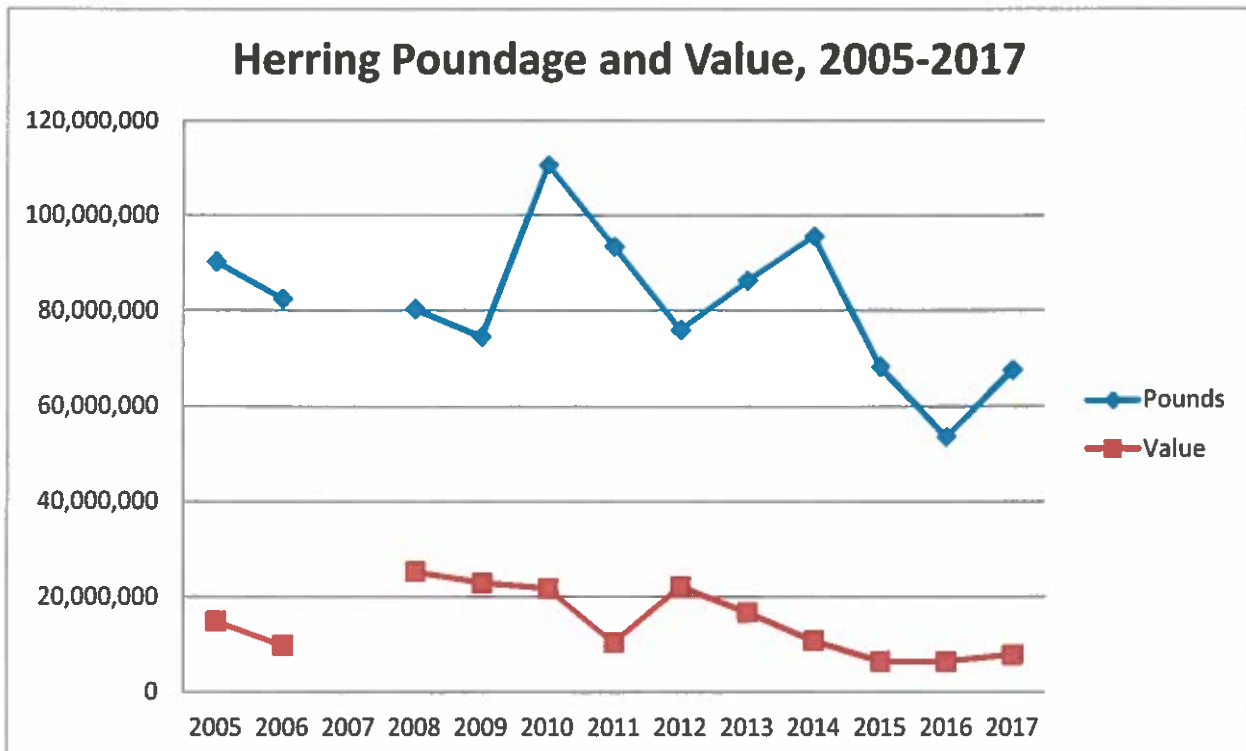
The legislative finance division recommends modifying confidentiality rules to enable publication of more complete data on credit usage for all credits. Release of some information should be allowed as a condition of receiving tax credits.

## Herring

The Department of Revenue is unable to disclose the amount of the credit that has been used for herring because of confidentiality - too few processors are using the credit to report the amounts.. Without knowing this information, it is impossible to evaluate whether the credit has been cost effective.

When the credit was expanded to herring, the rationale was to create a stronger market for herring. The bill sponsor and industry groups testified that the herring sac roe fishery created significant waste from the male fish, which were discarded. The credit would allow for the purchase of canning equipment that could utilize this waste stream as a commercial product.

Herring poundage and value has decreased since 2014, however. The graph below illustrates the change in poundage and value since 2005 (note, data is unavailable for 2007). Based on this data, the credit does not appear to have successfully improved the market for herring - the value of the fishery has continued its decline that began before 2014.



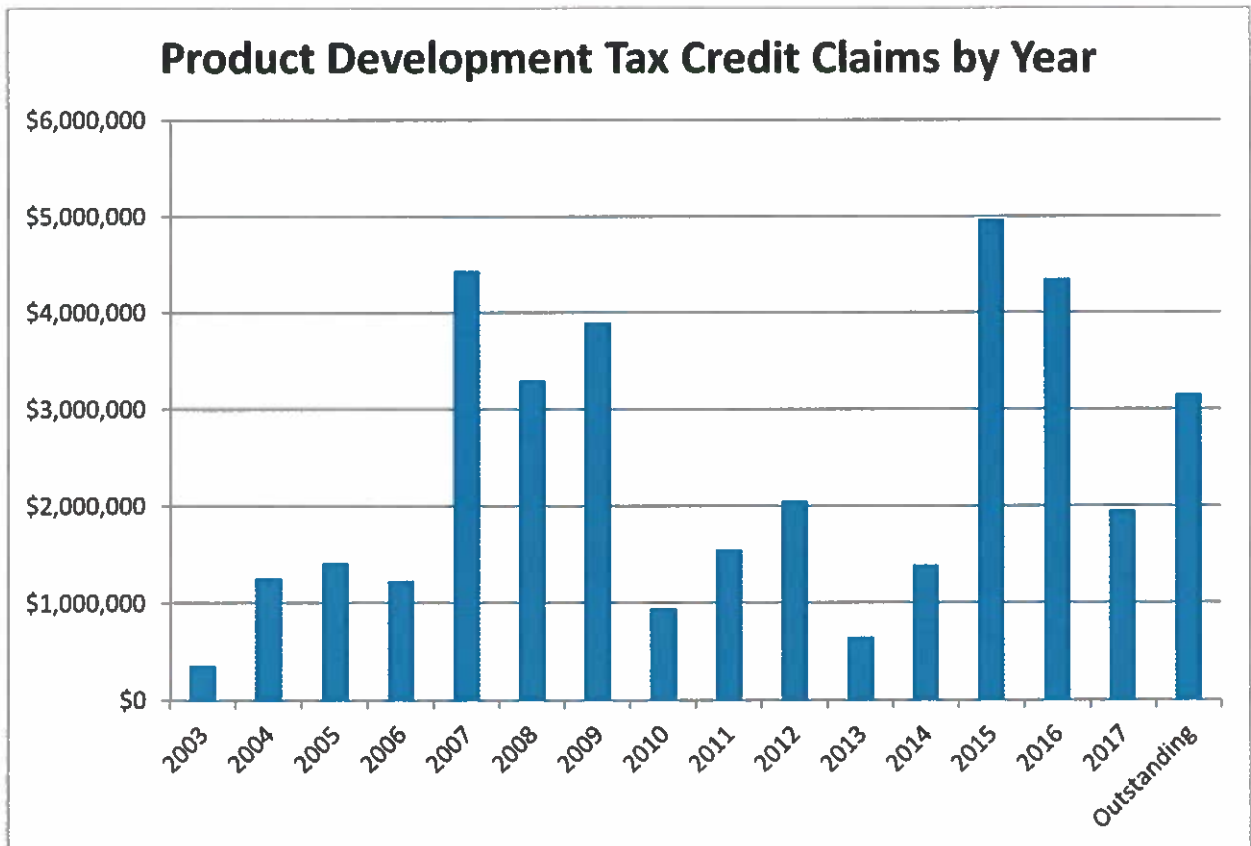
## Revenue

Without data about the credit usage, LFD is unable to make a recommendation as to whether this credit should be continued or not. Therefore, LFD recommends changing confidentiality rules to allow data regarding the usage of the credit – and all credits – to be disclosed. Without this information, it is impossible for the legislature to make an informed decision on this credit.

### Salmon

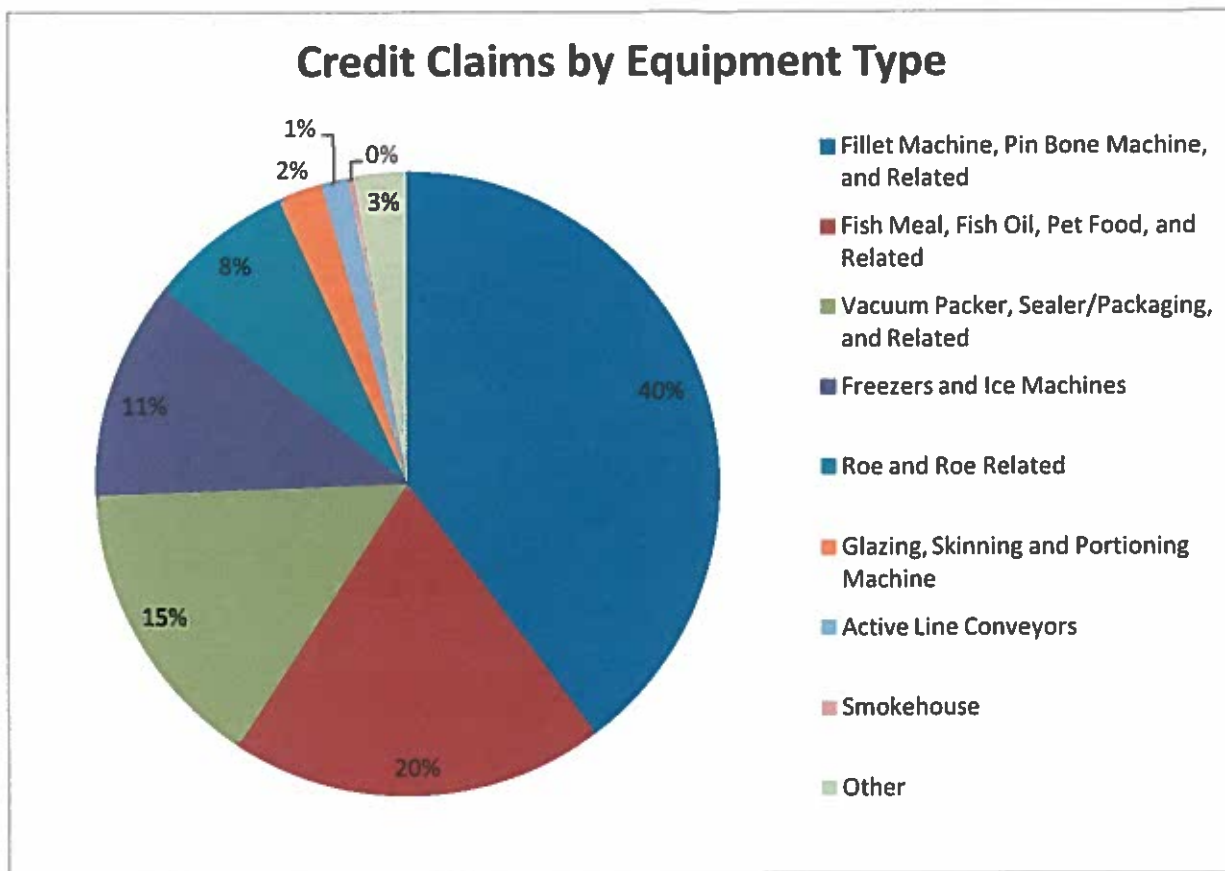
The salmon portion of the credit was heavily utilized in 2015 and 2016 after the credit was modified, but usage declined in 2017. In the five years preceding the 2014 changes, credit utilization averaged \$1.3 million per year. It then spiked to nearly \$5 million in 2015 and \$4.3 million in 2016, before falling to \$2 million in 2017. This indicates that the changes to the credit likely did result in processors investing in new equipment, as the legislature intended.

The graph below shows the credits applied by year since the credit's inception in 2003. Since 2009, credit claims have averaged 12% of the Fisheries Business Tax revenue attributable to salmon.



The credit has been utilized for a wide variety of equipment, as the following graph shows. The data covers the entire period since the credit's inception, and so it does not show trends over time. According to DOR, there are confidentiality concerns with releasing year-by-year data on how the credit is being utilized. This data would allow the legislature to see to what extent the industry is utilizing new categories as they are added.

## Revenue



In evaluating the effectiveness of a tax credit, a key question is the “but for” question: but for the credit, would the activity have occurred? In the case of this credit, has it had a significant impact on salmon prices? It is impossible to answer this question statistically in this case because the credit has been around continuously for 15 years, making it difficult to separate the impact of the credit from other effects. This is particularly difficult because each salmon species has its own price and catch fluctuations, and DOR does not have data separating usage by species.

Anecdotally, there is a reasonable case that the credit has had a significant positive impact on the salmon industry. Strong pink salmon returns in recent years have flooded the market, and canned products are crucial to maintaining value for that species. It is plausible that without the credit, processors would not have the equipment needed to provide a market for this species, and that the credit pays for itself. For example, according to the Department of Fish and Game, the 2017 pink salmon harvest accounted for \$169 million of ex-vessel value. At the 4.5% cannery tax rate, that would be revenue of \$7.6 million.

Unfortunately, we do not have the data necessary to verify or disprove this narrative. The credit’s longevity and the global nature of the salmon market make statistical analysis of this question very difficult.

In previous sunset extension bills for this credit, the legislature has added new eligible categories of expenditures in response to industry requests. For example, the 2014 extension bill added expenditures

## Revenue

relating to converting equipment to smaller can sizes. Previous extension bills added other items such as ice machines.

LFD recommends that the salmon product development tax credit be continued. For the credit to continue to be effective, it may need to be extended to new equipment types as the market changes, as had happened in previous extension bills.