

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSHB 104(FSH)
 (H) Publish Date: 3/7/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Payment of Fisheries Business Tax BRU Revenue Operations
 Component Tax Division
 Sponsor Representative Stevens
 Requester House Fisheries Committee Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

| OPERATING EXPENDITURES | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Personal Services | 11.0 | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 |
| Travel | | | | | | |
| Contractual | 0.4 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Supplies | 0.3 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Equipment | 2.5 | | | | | |
| Land & Structures | | | | | | |
| Grants & Claims | | | | | | |
| Miscellaneous | | | | | | |
| TOTAL OPERATING | 14.2 | 23.2 | 23.2 | 23.2 | 23.2 | 23.2 |

| | | | | | | |
|-----------------------------|--|--|--|--|--|--|
| CAPITAL EXPENDITURES | | | | | | |
|-----------------------------|--|--|--|--|--|--|

| | | | | | | |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| CHANGE IN REVENUES () | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|

FUND SOURCE (Thousands of Dollars)

| | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| 1002 Federal Receipts | | | | | | |
| 1003 GF Match | | | | | | |
| 1004 GF | 14.2 | 23.2 | 23.2 | 23.2 | 23.2 | 23.2 |
| 1005 GF/Program Receipts | | | | | | |
| 1037 GF/Mental Health | | | | | | |
| Other (Specify Type--Do not abbreviate) | | | | | | |
| TOTAL | 14.2 | 23.2 | 23.2 | 23.2 | 23.2 | 23.2 |

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

| | | | | | | |
|-----------|-----|-----|-----|-----|-----|-----|
| Full-time | | | | | | |
| Part-time | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Temporary | | | | | | |

ANALYSIS: (Attach a separate page if necessary)

See attached discussion

Prepared by: Chuck Harlamert, Revenue Audit Supervisor
 Division: Tax Division
 Approved by: Larry Persily, Deputy Commissioner
 Agency: Department of Revenue

Phone 465-4773
 Date/Time 3/4/03 2:05 PM
 Date 3/4/2003

Bill Analysis

Current Fisheries Business Tax rules allow processors to pay the tax on or before March 31 of the year following the tax year. Complimenting this deferral is a requirement that the processor provide the department with security to ensure the ultimate payment of the tax. Thus, under existing law, Alaska forgives immediate use of tax revenue in favor of the taxpayer and, in most cases, receives reasonable assurance the tax will be paid.

Taxpayers have several security options available to them. A taxpayer can demonstrate equity in real property equal to three times its estimated tax, provide a bond for twice the estimated tax, prepay the estimated tax, establish a line of credit, or purchase a certificate of deposit in the amount of the estimated tax. All except the real property option provide the state with a high degree of certainty that the tax will be collected.

With the possible exception of real property, the other existing security options require a capital outlay or significant unrecoverable cost and therefore may represent a barrier to entry to new processors. The bill will reduce the up-front capital required to obtain a fisheries business license by providing processors the option of paying their tax monthly with a nominal bonding requirement.

Sectional Analysis

Section 1 provides for monthly payment of the Fisheries Business Tax, which is otherwise due March 31 of the following year. The intent is to coordinate AS 43.75.030 with AS 43.75-055(c), which requires monthly payments from taxpayers who elect to use the new security option. However, the language used in this section incorrectly implies that all taxpayers, including those that have not elected the alternate security option, pay on a monthly basis and true up their account the next March 31. We recommend the new language in this legislation for AS 43.75.030(d) be replaced with “except as provided for under AS 43.75.055(c)” to help clear up this confusion.

Section 2 makes the monthly payment option available to all fisheries businesses. The option is currently available only to fish brokers.

AS 43.75.055(c)(1) is modified to require electing taxpayers to file a report and pay fish taxes on or before the 15th day of the month following the month in which the tax is incurred. The requirement to file on a report prescribed by the department does not replace existing reporting requirements.

Section 3 modifies AS 43.75.055(d) to eliminate the restriction against processors using the monthly payment option. The department recommends striking what remains of AS 43.75.055(d). The department does not feel that the existing language is appropriate for security from licensed fisheries businesses in general. Fishermen are protected by surety bond under AS 44.25. The department wishes to avoid competing with fishermen for payment under this bond.

Revenue and Cost Estimates

While the new security option created by the bill can significantly reduce the amount of capital required to enter the industry, it remains the most expensive option under most circumstances. We therefore expect that only the most thinly capitalized processors will choose the new option. Acting as a counterbalance to low usage is our expectation that electing processors will, as a group, be very high risk. The department will need to carefully monitor payments from this group in order to immediately identify, and close down, processors that fail to make the monthly payments. For this purpose, and for incremental collection, licensing, and processing activity we request one half of a position at the Tax Technician II level (Range 12), with total ongoing personnel and associated costs of \$23,200 annually.

Despite increased monitoring of returns and payments, we expect to realize some level of uncollected tax as a result of the new security option. Our first indication of a problem will be three to ten days after the 15th of the month following the taxable activity. Assuming that it takes a week after receipt to verify and act on the problem, the processor will have conducted operations for seven to eight weeks before it is shut down. The \$50,000 bond is unlikely to be sufficient in many cases. We can only offer an intuitive estimate that the net losses of this provision could run \$100,000 a year -- or possibly more – depending on taxpayer delinquencies.

It also is possible that increased participation in fisheries could produce higher revenues to the state under this tax provision.