

HOUSE FINANCE COMMITTEE
February 28, 2014
9:26 a.m.

9:26:42 AM

RECONVENED: CONTINUATION OF RECESSED MEETING ON 2/27/14.

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:26 a.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative David Guttenberg
Representative Lindsey Holmes
Representative Cathy Munoz
Representative Tammie Wilson

MEMBERS ABSENT

Representative Les Gara
Representative Steve Thompson

ALSO PRESENT

Anna Kim, Tax Division, Department of Revenue.

PRESENT VIA TELECONFERENCE

Johanna Bales, Deputy Director, Tax Division, Department of Revenue.

SUMMARY

HB 204 SALMON & HERRING PRODUCT DEV'T TAX CREDIT

CSSSHB 204(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published indeterminate fiscal note: FN1 (REV).

#hb204

HOUSE BILL NO. 204

"An Act relating to a product development tax credit for certain salmon and herring products; and providing for an effective date."

9:27:21 AM

REPRESENTATIVE ALAN AUSTERMAN, SPONSOR, discussed various fish can sizes. The small can of red salmon was \$6.99. Other competing products of the same size included a Bumblebee can costing \$0.88 and an Atlantic salmon can costing \$3.99. He spoke to the importance of reducing the salmon can size to allow it to compete in the marketplace. He detailed that it would take money and the refitting of can machines to handle the smaller size.

9:29:04 AM

Vice-Chair Neuman pointed to page 2, line 5 of the legislation. He thought the addition of herring would enable a company that had received credits for purchasing salmon equipment in the past to purchase new equipment with the credit.

ANNA KIM, TAX DIVISION, DEPARTMENT OF REVENUE, replied that recipients would receive a tax credit for salmon and herring combined; a double credit was not provided. She pointed to a December 31, 2020 date.

Co-Chair Austerman asked for clarification. He discussed that if a business added herring to its canning and salmon processing it would need a new piece of equipment to handle the filleting of herring. He understood the concern, but did not believe the replacement of all other equipment would qualify. He asked for verification that the bill would not allow a business to replace all other equipment.

Ms. Kim replied in the affirmative.

Vice-Chair Neuman appreciated the clarification. He spoke about recapturing product value. He discussed that it would make sense for a business owner to use the maximum amount of credits available for equipment per year. He elaborated that a savvy business owner would eventually pay no

corporate taxes and would replace equipment (e.g. freezers) that was available for the credit. He asked if it was the way the bill would work. Ms. Kim answered that it could work that way; however, the recapture provision was included for instances when business plans did not work as intended.

[9:32:47 AM](#)

Vice-Chair Neuman addressed the potential development of powdered fish products. He noted that a significant amount of money was spent on research to develop machines to process the new products. He wondered what would happen if the machines were unsuccessful in producing the product. He asked whether a business could continue to receive the credits on new equipment to try to make new products.

Ms. Kim replied that it depended on whether the business was operating under the bill's provisions. She detailed that the purpose was to incentivize new developments and to provide flexibility for the changing market. A business may need to go back to the drawing board. She communicated that as long as a business was fulfilling the intent contained within the bill it would continue to receive the tax credit.

JOHANNA BALES, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), augmented prior testimony. She shared that taxpayers could receive credit for investing in equipment that was part of a value added process. She believed it seemed highly unlikely a company would continue to invest its own money (the credit covered up to 50 percent of the equipment cost). The department believed the risk was low for taxpayers to continue investing in equipment where 50 percent of their money was also on the line.

[9:35:51 AM](#)

Representative Wilson wondered whether the fishing industry was being over taxed. She asked about tax credits versus a reduction in taxes to the industry.

Co-Chair Austerman replied that the industry was not over taxed. He believed that industry was probably undertaxed when it came to state taxes. He thought that providing incentives was appropriate for the economic development and

expansion of industries in the state. He spoke to the encouragement of reinvestment in Alaska and various industries including timber, minerals, and oil. He stated that if the goal was for an industry to expand, many times it was necessary to help. He noted that all other industries in the state paled in comparison to the gas and oil industry; however, no one hesitated to think about providing a tax credit or a zero tax base to some of the major industries such as Cook Inlet. He believed it was important to continue the incentive programs to create jobs. He stressed that the bill only applied to the process and money spent in Alaska.

Co-Chair Stoltze added his support for the industry in Alaska. He pointed to competitive forces that pushed industry out of Alaska for processing including higher labor and fuel costs. He surmised that if a company only went off what was best economically it would ship the product frozen to China for processing. He noted that the industry did not provide substantial support to the state's general fund; however, it was a large employer. He opined that if incentives were not offered companies would make different economic decisions to relocate to other jurisdictions. There were a multitude of other competitive costs; everything was more expensive in Alaska. He had learned more about the commercial fishing industry during his time on the House Finance Committee. He noted that other fishing bills seldom reached the committee.

[9:39:34 AM](#)

Representative Munoz asked about issues that had led to the decline in permit activity in the herring fishery. She referenced page 5 of a Department of Commerce, Community and Economic Development presentation titled "Alaska North to Opportunity: HB 204" (copy on file). She asked what the impact of further herring commercialization would be on roe and other fisheries given that herring was at the base of the food chain.

Co-Chair Austerman answered that the initial concept related to herring had pertained to Western Alaska. He communicated that Western Alaska had much forgone harvest of salmon. He pointed to the region's remoteness and its cost of operations; it was prohibitively expensive to harvest salmon in the areas. The concept was that many potential herring fishery opportunities existed in Western

Alaska; once there was a combined herring and salmon market, the industry would invest in the region. The bill worked to provide incentive for the investment. He stated that one loan would not stand on its own. He explained that currently herring was turned into low value products; the objective was to increase the profitability and value so fisheries would grow.

Representative Munoz was concerned about the change in marketing from roe to the entire herring. She wondered about the ecological impact.

Co-Chair Austerman saw no ecological difference between the current practice and what would occur under the bill. He explained that roe had the highest value and would continue to be harvested. Currently the problem was that all male herring were discarded or frozen for bait. The incentive would be to use the entire fish, which would increase profitability. He communicated that several years earlier the legislature had provided the Alaska Seafood Marketing Institute with funds to market herring in the international marketplace. The institute had shown that there was a demand for the high protein. He shared that CDQ groups in Western Alaska had begun to enquire how they could incorporate herring products into their production. He added that the incentive had already begun to work.

Representative Munoz surmised that the goal was to utilize what was not used currently. Co-Chair Austerman replied in the affirmative.

Co-Chair Stoltze referred to Co-Chair Austerman's testimony that taxes affected any industry's behavior. He pointed to the potential reduction in state revenue and wondered if communities would absorb part of the tax loss.

Ms. Kim replied in the negative.

Co-Chair Stoltze wondered whether it was good or bad [that the communities would not share in the tax loss].

[9:43:52 AM](#)

Co-Chair Austerman was unsure. He stated that the objective was to create economic development and a tax base particularly in small communities.

Co-Chair Stoltze asked if the goal was to include the communities in the encouragement quotient. Co-Chair Austerman agreed.

Vice-Chair Neuman stated that as a woodworker he would like to see increased product development in the forestry industry. He stated that the fishery industry was huge in Alaska and was worth hundreds of millions of dollars. He referred to Co-Chair Austerman's testimony that current taxes were not where they should be. He stated that there were many industries that would like to have the opportunities. He stressed that small loggers needed help. He discussed new product development, changes in equipment and in product sizes. He emphasized that one of the largest industries paid a minimal amount in taxes to the state. He remarked that \$2 million had just been cut from the Department of Health and Social Services budget. He had questions about how the state continued to create tax breaks for industries. He wondered about the expected cost and the idea of measuring it against other industries the state may want to help. He questioned where to start and stop with incentives.

Co-Chair Stoltze believed the observation was fair. He discussed that much of the opposition to mining and timber came from the fishing industry.

Representative Guttenberg asked if the enhancement of product value would provide a return to the state. He wondered about cost recovery. Ms. Kim replied that over time the change was expected to boost the economy and to address market changes.

[9:47:01 AM](#)

Representative Guttenberg wondered if the success in developing new products would enhance the tax base. Ms. Kim referred to a handout from the department titled "Fisheries Business Tax Revenue and Tax Credits Claimed" (copy on file). She communicated that in 2013 the tax credit had been \$1.8 million [related to salmon product development]. She believed that the positive impact could not necessarily be reflected by dollars. She believed the overall benefit would be shared.

Co-Chair Stoltze made a remark about free market and capitalism.

Co-Chair Austerman highlighted that creating value for an unutilized species would help offset the credit in the future.

Representative Edgmon added that a significant portion of the bill was to take a raw seafood product and make it more market competitive. The outcome was meant to benefit fishermen in terms of contributions that went into the fisheries business tax that would in theory increase the 50 percent going back to communities and the state. He contended that a correlation existed; if the state could help the industry provide more market ready products there was a multiplier effect back to fishermen, the state, and the community. He stated that it was not possible to provide an exact number or know what the impact of the credit would be over time. He noted that the fiscal note talked about unpredictability. Since the tax credit's inception in 2003 it had stimulated economic value for the fishermen, industry, and the state.

Co-Chair Stoltze remarked that there had not been a boost to the state treasury.

Representative Edgmon noted that the discussion was not about significant dollars. He stated that the raw fisheries business tax was a separate issue.

Co-Chair Stoltze did not want to raise expectations.

Representative Edgmon believed the committee understood the significance of the raw fisheries business tax to the state.

[9:50:33 AM](#)

Co-Chair Austerman referred to the value-added portion of the waste stream. Ideally the waste stream would be converted to a high protein, human-grade value that could be used as a global food source. A phase process was expected; in the near-term the waste stream could be turned into a product such as pet food and as the marketplace and process built over time it was expected to become human-grade protein. He believed the human-grade product would provide more value to the industry and the marketplace.

Representative Costello discussed the previously published indeterminate fiscal note from the Department of Revenue; the impact to the operating budget was zero and the impact in change of revenues to the state was indeterminate.

Co-Chair Stoltze noted that the bill continued and expanded a current program.

Representative Costello MOVED to REPORT CSSSHB 204(FIN) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSSSHB 204(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published indeterminate fiscal note: FN1 (REV).

Co-Chair Stoltze discussed the schedule for the following meeting.

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ADJOURNMENT

[9:55:07 AM](#)

The meeting was adjourned at 9:55 a.m.