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Alaska State Legislature

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FRED ZHAROFF



POUCH V
JUNEAU, ALASKA. 99811
(907) 465-4907

Senate Committee on Resources

M E M O R A N D U M

February 26, 1985

TO: All Members
Senate Resources Committee

FROM: Staff *fh*
Senate Resources Committee

RE: SB 11 "An Act relating to the fisheries business tax."

SB 11 would establish a fisheries business tax credit for shore based fish processing facilities.

A tax credit of 50% of the tax liability under AS 43.75.015 for capital expenditures made during the year may be granted by the Department of Revenue. The tax credit would be available for a five year period from 1985 to 1989. A tax credit may be carried forward but may not be carried back.

The Department of Revenue must submit a report to each regular session of the legislature detailing the effects of the program.

The House has had similar legislation, HB 58, under consideration. HB 58 was amended and passed the House Special Committee on Fisheries and the House Resources Committee. It is now in House Finance. SB 11 is identical to HB 58 before amendments.

Municipalities which share in the fisheries business tax would not be affected by this tax credit and would continue to receive their 50% share of the tax.

The fiscal note shows \$5,000 for administration and \$7,000,000 as a potential reduction in state revenues.

Included in the packet are resolutions of support from the City of Kodiak, the Kodiak Island Borough, and the International Longshoremen's Union; an article on the problems facing fish processors; and several reports by the House Research Agency on tax credits.

fh:bh

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date

REQUEST

Bill/Resolution No: SB 11
 Title: Relating to the Fisheries
Business Tax
 Sponsor: Zharoff
 Requestor: Senate Resources Committee
 Date of Request: January 17, 1985

FISCAL DETAIL

Agency Affected: REVENUE
 Program Category Affected: _____
 BRU, Program of Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	(7000.0)	(7000.0)	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page for analysis.

Prepared By: Robert W. Elliott
 Division: Research Section

Phone: 465-2173
 Date: 1/23/85

Approved by Commissioner: [Signature]
 Agency: Revenue

Date: 1/24/85

Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

FISCAL NOTE, SB 11
Attachment

Analysis for SB 11:

The above estimates are derived from the Revenue Sources January, 1985, projections for fisheries business taxes, and provide for tax credits effective in FY 86. The estimates reflect the maximum revenue loss the State would experience if all shore-based fisheries business tax returns applied for a 50 percent tax credit, and were subsequently approved by the department. It should be noted that although the fish processors would be the primary beneficiaries of the tax credit, there exists the possibility in certain cases where, if the processors are given a 50 percent credit and the remaining 50 percent is refunded to local governments per AS 43.75.130, the State could eventually not receive any revenues from those fisheries business taxes.

Estimates are duplicated for FY 87 and not shown beyond since price/catch projections are unknown.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date 1-18-85

REQUEST

Bill/Resolution No: SB 11
 Title: Fisheries Business Tax Credit
 Sponsor: Zharoff
 Requestor: Senate Resources Committee
 Date of Request: January 17, 1985

FISCAL DETAIL

Agency Affected: Department of Revenue
 Program Category Affected: Collection and Management
 BRU, Program of Subprogram(s) Affected: Audit Division
Audit Division

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
200 TRAVEL	-0-	2.0	-0-	-0-	-0-	-0-
300 CONTRACTUAL	-0-	3.0	-0-	-0-	-0-	-0-
400 SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
500 EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
600 LANDS & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
700 GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
800 MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	-0-	5.0	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	5.0	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	5.0	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	-0-	-0-	-0-	-0-	-0-	-0-
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: Please see attached.

Prepared By: Martin J. Richard
 Division: Audit

Phone: 465-2320
 Date: January 18, 1985

Approved by Commissioner: [Signature]
 Agency: _____

Date: 1/24/85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Analysis for SB 11

Travel \$2.0 - Passage of SB 11 will require the Audit Division to draft regulations and conduct public hearings throughout the state. Our fare and per diem costs are estimated at \$2,000 for travel to Ketchikan, Anchorage and Kodiak by one Audit Division employee.

Contractual Services \$3.0 - Conducting public hearing requires the presence of a court reporter, and advertising in statewide newspapers. In addition, the bill will make it necessary for the Department to revise its tax forms to request additional information from processors, and prepare annual reports to the legislature. Programming and forms design costs are included in this request.



Official Business

Alaska State Legislature

House of Representatives

Special Committee on Fisheries

Pouch V
Juneau, Alaska 99811

Phone:
(907) 465-4924

January 26, 1985

SECTIONAL ANALYSIS OF HB 58

"An Act relating to the fisheries business tax"

Section One: Amends existing fisheries business tax statutes to replace the word "cannery" with "fisheries business."

Section Two: Establishes a program allowing a seafood processing company to claim a credit or up to half of its fisheries business tax liability. The 50 percent cap will ensure that revenue sharing to local communities will not be affected by the tax credits. To qualify for a tax credit, a seafood processor must invest in capital expenditures related to a shore-based facility in Alaska. The credits are limited to five consecutive years, and must be initiated within the 1985-1989 tax years. Thus, the tax credit program will sunset by 1994. Credits for capital investments exceeding the 50 percent cap in a single tax year may be carried forward to a subsequent tax year within the five-year limit. Buyer's of seafood facilities for which a tax credit had been claimed will not qualify for credits on those particular capital improvements. The Department of Revenue is given authority to adopt regulations for administering the program and is directed to act on applications within 60 days of receipt.

This section also provides for an annual report to the legislature on the benefits and utilization of the tax credit program.

Section Three: Provides that the tax credits will not affect revenue sharing with local communities.

Section Four: Defines "capital expenditures."

Section Five: Repeals the tax credit program June 30, 1994.

ALB 43 588

CITY OF KODIAK
RESOLUTION NUMBER 09-84

A RESOLUTION OF THE COUNCIL OF THE CITY OF KODIAK SUPPORTING USE OF THE STATE PORTION OF THE RAW FISH TAX TO PROVIDE TAX CREDITS TO SHORE-BASED FISH PROCESSORS

WHEREAS, investment capital for onshore processing facilities is recognized as a top priority in Kodiak's fishing community; and

WHEREAS, because the Kodiak King Crab season did not open in 1983, and may not open in the near future, diversification is needed; and

WHEREAS, the potential growth of Kodiak's bottomfish industry makes it especially important that this segment of the processing industry be promoted,

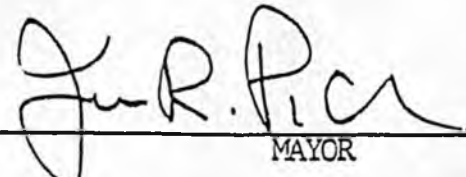
NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Kodiak, Alaska, that the Governor and the Legislature be and are hereby urged to provide raw fish tax credits against the State's fifty percent for upgrading and modernization of shore-based fish processing facilities.

BE IT FURTHER RESOLVED that copies of this resolution be forwarded to:

The Honorable Bill Sheffield, Governor of Alaska
The Honorable Stephen McAlpine, Lieutenant Governor of Alaska
All Alaska State Senators
All Alaska State Representatives
The Kodiak Island Borough
The Kodiak Area Chamber of Commerce

PASSED AND APPROVED this 9TH day of FEBRUARY, 1984.

CITY OF KODIAK


MAYOR

ATTEST:


CITY CLERK

KODIAK ISLAND BOROUGH
RESOLUTION NO. 85-20-R

A RESOLUTION OF THE KODIAK ISLAND BOROUGH ASSEMBLY SUPPORTING USE OF A PORTION OF THE RAW FISH TAX TO PROVIDE SHORE BASED FISHERIES BUSINESS TAX CREDITS.

WHEREAS, fishing is an important economic activity in the State of Alaska employing one out of every ten Alaskans, and

WHEREAS, investment capital for onshore processing facilities is recognized as a top priority in the fishing community, and

WHEREAS, loss of the King Crab fishing means diversification is needed to derive maximum benefit from Alaska's fishery resources, and

WHEREAS, the potential growth of the bottomfish industry makes it especially important that this segment of the processing industry be promoted for the economic welfare of the entire state, and

WHEREAS, tax credits would encourage the building and expansion of onshore bottomfish facilities and create a more stable job market, and

WHEREAS, Senate Bill 11 and House Bill 58 allow tax credit of not more than fifty percent of a shore-based cannery or fishery business's tax liability for capital expenditures incurred for the development of the capability of processing a developing commercial fish species.

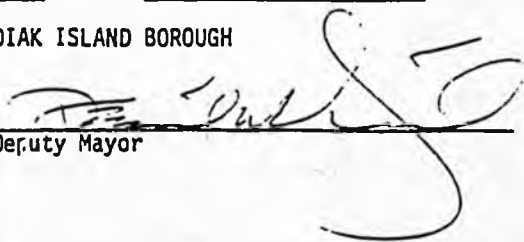
NOW, THEREFORE, BE IT RESOLVED by the Kodiak Island Borough Assembly that the Governor and the Legislature are urged to adopt Senate Bill 11 and House Bill 58 to provide tax credits to shore-based processors to develop or expand their facilities for bottomfish processing.

BE IT FURTHER RESOLVED that copies of this resolution be forwarded to:

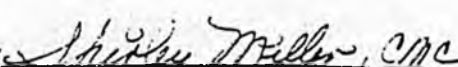
The Honorable Bill Sheffield, Governor of Alaska
The Honorable Don Bennett, President of the Senate
The Honorable Ben F. Grussendorf, Speaker, House of Representatives
The Honorable Mike Navarre, Chairman, House Labor & Commerce Committee
The Honorable Albert P. Adams, Chairman, House Finance Committee
The Honorable Jan Faiks, Co-Chairman, Senate Finance Committee
The Honorable John C. Sackett, Co-Chairman, Senate Finance Committee
The Honorable Fred F. Zharoff, State Senate
The Honorable David W. Thompson, House of Representatives
The Honorable John Pugh, Mayor, City of Kodiak
Andrew Brumbaugh, President, Kodiak Area Chamber of Commerce
Al Burch, Manager, Alaska Draggers Association
Ron Jolin, President, United Fisherman's Marketing Association
Lynn Domingo, Secretary-Treasurer, Cannery Workers Union
Chris Mitchell, Executive Director, Alaska Fisheries Development Foundation

PASSED AND APPROVED this 7th day of February, 1985.

KODIAK ISLAND BOROUGH

By 
Deputy Mayor

ATTEST:

By 
Borough Clerk

JAN 23 1985

INTERNATIONAL LOCAL 200
LONGSHOREMEN'S & WAREHOUSEMEN'S
UNION

307 SOUTH FRANKLIN STREET, JUNEAU, ALASKA 99801 • (907) 586-6642

5423

LARRY COTTER
President

JAY BROWNE
Vice President

MIKE ELLERS
Secretary-Treasurer

January 23, 1985

The Honorable Peter Goll
Alaska House of Representatives
Pouch V
Juneau, Alaska

Re: HB 58

Dear Representative:

Following discussions with Representative Cato and members of the fishing community I have decided that I am in full support of HB 58.

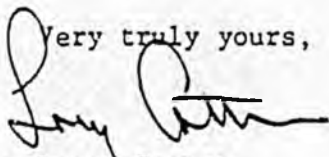
In an earlier letter to you I espoused a view that Alaska would be better off with a revamped fisheries business tax based upon a graduated scale than a tax credit approach as outlined in HB 58. However, I am now of the opinion the tax credit approach is a critical ingredient in providing Alaskan seafood processing companies a means through which their facilities can be modernized. And of course, modernization will play a crucial role in the development of a domestic bottom fish industry.

At the same time, I continue to believe a graduated fisheries business tax would provide added stimulus to seafood processing companies to engage in the processing of underutilized species. And I would strongly urge legislation along these lines be implemented.

In summation, I view these two approaches -- the tax credit for investment approach and the graduated tax approach -- as a meaningful combination of positive taxation which will yield a significant benefit to all Alaskans.

I look forward to speaking further with you on this in the future.

Very truly yours,



Larry Cotter
President

cc: The Honorable Ben Grussendorf
The Honorable Betty Cato
The Honorable Fred Zharoff




ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pcuch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

February 18, 1985

MEMORANDUM

TO: Representatives Katie Hurley and Peter Goll

FROM: Sharman Haley 
Legislative Analyst

RE: Fisheries Business Investment Tax Credit
Research Request 85-159

Nevette Bowen of Representative Hurley's staff asked about the effectiveness and equity of an investment tax credit as in HB 58 and about alternatives. I reviewed the materials from the Department of Revenue which she provided and discussed them with her and Roger Painter of Representative Goll's staff. At their request, I have prepared the following written summary of the points we discussed.

A tax credit is an expenditure of State revenue. A tax credit is a form of subsidy and should be evaluated just as carefully as any program of direct expenditure. (One writer took it a step further, arguing that any tax incentive could be reformulated as a direct expenditure program and that in most cases this would be preferable policy.) The central problem needs to be identified, the program goals and objectives clarified, and the benefits quantified if possible. This would allow policy makers to consider exactly what they are buying for how much money.

While I do not have answers for you, posing some questions may be helpful in clarifying the issues here. The present case (as explained to me) concerns weakening of the shore-based fish processing industry due to insufficient investment in plants and equipment and market competition. Why is investment low? Is this a temporary or chronic problem? Can shore-based plants compete in the long run with floating processors and Norwegian fish farmers? What stake does the State and the Alaska public have in maintaining the shore-based industry? I expect that answers to the last question include concern for employment opportunities for Alaskans, the spin-off effects on other sectors of the economy, and a healthy tax base.

Subsidies lower economic efficiency. Free market economists generally object to tax incentive subsidies because they distort market pricing and the allocation of resources, resulting in economic inefficiency and

lower aggregate output. From this point of view, it is a waste of resources, public or private, to make an investment when a higher return could be made investing elsewhere. From a regional perspective, however, the local gains in employment or other values may be worth the loss to the society as a whole since the losses may be borne largely by nonresidents.

The public benefits of additional investment are unclear. An investment tax credit increases the firm's use of capital relative to labor. Without knowing the particulars of the shore-based fish processing industry and the particular investment prospects, there is no reason to assume that an increase in investment would have a positive impact on employment. If investments were made in labor-saving equipment, for example, the impact could actually be negative. One article recommended that if employment is the policy objective, a payroll subsidy would be preferable to an investment subsidy.

Given that a significant percentage of the processing industry is owned by foreigners and nonresidents, increased profits would not infuse much income to the Alaska economy. Nor is there any significant multiplier effect from investment in equipment which must be purchased outside Alaska. An increase in income and property value would, however, expand the tax base.

If there were some risk of plant closure without subsidized investment, the benefit from an investment subsidy might be significant. Even if the risk were substantial, however, the benefits of the subsidy need to be evaluated. For example, if the problem is market competition from Norwegian fish farming, one infusion of capital is not likely to solve the processors' long-term problem.

Is underinvestment a profitability problem or a cash-flow problem? Why is the private sector not investing? The nature of the underinvestment problem needs to be identified. If, as some have alleged, the investments are financially sound but the firms nevertheless have a problem raising the cash, a loan rather than a grant might be appropriate. (For processors owned by large conglomerates, the cash-flow argument is not very convincing; they have access to capital markets through the parent firm.) A State loan could be provided in the form of a tax deferral, rather than a tax credit.

An investment tax credit will stimulate investment, but by how much? The major studies of the effectiveness of an investment tax credit yield widely varying results, and are not applicable to the Alaska shore-based fish processing industry. The principal factor limiting the effectiveness of an investment tax credit is that much of the tax credit goes to reward firms for investments they would have made anyway, and does not stimulate new investment. Studies of firms' locational

decisions, for example, clearly show that market factors are the major determinants, and that taxes are considered only marginally.

Under the current version of HB 58, firms receive full credit for investments of up to 50 percent of their five-year tax liability. We can expect that firms will claim their full tax credit entitlement, and make no new investments beyond that amount. In their normal course of business, processors must make some investments in their plants and equipment just to keep operating; many of these investments could qualify for a tax credit under HB 58. If these current investments do not exhaust the firm's tax credit entitlement, it is unimaginable that at 100 percent subsidy, the firms could not find investments qualifying for the remainder. Beyond the dollar amount of their tax credit entitlement, the processors would have to pay the full market price for facilities and equipment; they would have no new incentives to invest more.

Limiting the subsidy to 25 percent (or less) as some have proposed would give processors incentive to invest up to four times more than with the 100 percent subsidy. An example will illustrate this. A firm with an annual tax liability of \$50,000 will have a five-year tax liability of \$250,000, entitling the firm to a total tax credit of \$125,000. At 100 percent subsidy, the firm will have incentive to invest exactly \$125,000, no more, no less. At 25 percent subsidy, the \$125,000 credit entitlement will be reached if the firm invests \$500,000--four times as much. Since the firm itself pays 75 percent of the cost of the investment (ignoring the federal and State income tax credits) it will consider more carefully the investments it chooses to make. Only those investments likely to yield a return in excess of the firm's share of the costs will be made. If the firm does not have \$500,000 worth of profitable investments, it may choose not to claim the full tax credit entitlement.

Two ideas were mentioned in the literature for targeting the tax credit to subsidize new investment rather than subsidizing current investment. There was no mention that either proposal had ever been implemented, however. The first would allow a tax credit only for the amount of investment in a given year that exceeds the firm's average investment over the previous few years. The Alaska Department of Revenue commented that such an approach would impose a heavy verification burden on them. If the tax credit program were ongoing instead of time limited, the burden would ease as the department would have in their records reported investment from previous tax years. A side effect of an ongoing program however would be a tendency by firms to plan all their investment projects for one year out of every few.

Representatives Hurley and Goll
February 18, 1985
Page Four

The second proposal would be easier to verify using federal income tax reports. In this approach, only investment in excess of reported depreciation would qualify for a tax credit.

* * * *

Although this memorandum has raised more questions than it answers, I hope that you find it helpful in your deliberations. If we can provide further research assistance, please call.

SH



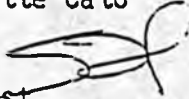
ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

November 15, 1984

MEMORANDUM

TO: Representative Bette Cato

FROM: Sharman Haley 
Legislative Analyst

RE: Legislative History of the Raw Fish Tax
Research Request 85-039

The raw fish tax, AS 43.75.010-.140, dates from statehood. The law provides for a tax on raw fish purchases by canneries, cold storages, and other processors. As of 1978, the statute levied a tax of from one to four percent of the purchase price depending on the specific fishery resource and the type of processing facility. Fishermen selling to floating processors outside State jurisdiction were also subject to the tax. Twenty percent of the tax revenues were refunded to the borough and/or first class city in which the facility was located. As you requested, a five-year history of bills affecting the raw fish tax is presented in this memorandum.

1979-1980

Thirteen bills amending the raw fish tax statutes were introduced during the Eleventh Legislature. House Bill 571 and SB 448, identical bills sponsored by Representative Hayes and Senator Kelly respectively, were omnibus tax relief bills suspending the raw fish tax as well as a host of other taxes. The bills saw little legislative action. House Bill 340, introduced by Representative Gardiner, also saw little action. The bill would have tied the reporting and enforcement of regional aquaculture assessments to processor licensing under the raw fish tax statutes. House Bill 227 would have eliminated the distinction between floating and shore-based cold storages, thereby reducing the tax rate on the floating facilities from four percent to one percent. This proposal by Representative Osterback did not move from the House Resources Committee.

House Bill 306, sponsored by the Governor, was a thorough overhaul of the raw fish tax statute. The bill:

- imposed a uniform six percent tax on all processors;
- increased revenue sharing with the local government unit to 33-1/3 percent;

- required that half of the local revenue sharing be spent on docks or other fishery enhancement projects;
- directed an additional 33-1/3 percent of the revenue to the Commercial Fishing and Agriculture Bank; and
- upgraded the bond requirements for salmon exporters.

Bills introduced by Senator Kerttula (SB 132) and Representative Brannson (HB 83) also addressed local revenue sharing, raising it to 50 or 60 percent, respectively. The Governor's bill was modified by the Senate Community and Regional Affairs Committee, grafted on to Senator Kerttula's bill number, and enacted into law as Chapter 79 SLA 1979. The legislation deleted all references to "raw fisheries products," replacing the phrase with "fisheries resources." Hence "raw fish tax" is now something of a misnomer; the statutory name is Fisheries Business Tax.

The stated purposes of the act were to:

- 1) insure that the state is able to continue its efforts toward overall fisheries-related development programs by raising additional revenue to pay for its programs;
- 2) make the imposition of the fisheries tax more uniform among fisheries businesses; and
- 3) provide funding for the development of new fisheries.

The tax rates established by Chapter 79 SLA 1979 are as shown in the table below:

	<u>Shore-based Processor</u>	<u>Floating Processor</u>
Canned Salmon	4.5%	5.0%
Developing Commercial Fish Species*	1.0%	3.0%
Other Fisheries Resources	3.0%	5.0%

*Developing commercial fish species are defined in AS 16.05.050(12) as species in a specific region for which the optimum yield harvest has not been reached, a substantial portion of the harvest has been allocated to foreign fishing, or commercial harvest of the species recently developed.

Representative Cato
November 15, 1984
Page Three

Under Chapter 79, a person who transports or sells a fisheries resource outside the jurisdiction of the State is liable for the tax which would otherwise be paid by the processor.

The legislation provided for 20 percent revenue sharing to local government, and 20 percent to the Commercial Fishing and Agriculture Bank. Second class cities were made eligible for revenue sharing as well as first class cities. The new revenue sharing formula was to begin with calendar year 1980 taxes. The legislation also increased the bonding requirements for salmon exporters to \$50,000. The bond covers not only payment of the tax to the State, but also payment to the fishermen for the salmon.

Three pieces of legislation passed in 1980 made corrective amendments to the 1979 enactment. House Bill 192 (enacted as Chapter 155 SLA 1980) corrected the starting date of the new revenue sharing formula to taxes collected for calendar year 1979. The House Judiciary Committee deleted the penalty provisions from the act so as not to duplicate the criminal code. These repealers were offered in CSHB 354, and later incorporated in SB 313 and enacted as Chapter 113 SLA 1980. The House Judiciary Committee also made a corrective amendment suggested by the code revisor deleting the definition of "year". This correction was incorporated into SB 277 and enacted as Chapter 94, SLA 1980.

A bill which was a forerunner of legislation creating the Alaska Seafood Marketing Institute was passed by the legislature in 1980 but vetoed by the governor. The original version of HB 962 provided processors with a tax credit of up to 15 percent of the fisheries business tax liability for donations to a nonprofit corporation organized to improve the quality of and to develop markets for Alaska seafood. The final version, SCSCSHB 962, established a fisheries business tax grant fund financed by appropriations from the legislature. The bill authorized grants to a nonprofit seafood marketing corporation of up to 15 percent of the fisheries business tax paid by members of the corporation in the preceding year. The governor vetoed the bill due to constitutional problems.

1981-1982

Several amendments to the fisheries business tax statutes were made by the Twelfth Legislature. Senator Eliason introduced SB 200, which would have relieved freezer boats from tax liability if the processors to which they sell were regulated by the statute. His proposal was incorporated into HB 460, which was introduced by the House Resources Committee. House Bill 460 also increased revenue sharing to local governments from 20 to 50 percent of tax revenues starting with tax year 1982. As a transitional measure, revenue sharing was pegged

Representative Cato
November 14, 1984
Page Four

at 30 percent of 1981 fisheries business taxes. After a complicated passage, SCSCSHB 460 (Fin)am S (efd am H) was enacted as Chapter 117 SLA 1981.

Other fisheries business tax legislation considered but not passed by the Twelfth Legislature included HB 422 by Representative Malone. The bill would have shifted the tax liability from fish processors to fish purchasers. Senator Mulcahy also introduced a bill, SB 523, to clarify the language defining "value" as used in calculating tax liability. Some of this clean-up was accomplished in HB 460.

Representatives Zharoff and Bettisworth proposed in HB 103 to repeal the fisheries business tax entirely. This bill saw no action.

1983-1984

Three pieces of legislation offered in the Thirteenth Legislature would have established a fisheries business tax credit program. None of these proposals were enacted. Senator Ferguson proposed (in SB 191) a rate reduction of one-half percent for businesses that also pay the seafood marketing assessment under AS 16.51.120. Senator Mulcahy proposed (in SB 379) to grant up to a 50 percent credit on tax liability for purchases of equipment used in processing a developing commercial fish species. The Senate Resources Committee Substitute for this bill restricted the credit to equipment for processing bottomfish.

Representative Zharoff also sponsored legislation granting a tax credit of up to 50 percent of the fish tax liability. Under his proposal, credits would have included expenditures for improvement of quality control and upgrading or modernization of processing facilities as well as expenditures for equipment used in processing developing commercial species. The House Special Committee on Fisheries' version of HB 518 generalized the credit to apply to any capital expenditure but restricted its application to shore-based canneries and limited the application of credits to no more than five consecutive years. The bill would have required the Department of Revenue to make an annual report to the legislature describing the expenditures for which the credit was granted and the attendant increases in employment or processing capacity. The bill was in House Rules Committee when the legislature adjourned.

* * * * *

I hope that this memorandum has provided you with the information you sought. If you would like more detailed information regarding any of the measures discussed above or if you have any further questions, please don't hesitate to call me.

SH



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

December 22, 1983

MEMORANDUM

TO: Representative Fred Zharoff

FROM: O. Alexander Hoke
Legislative Analyst

O. Alexander Hoke

RE: Raw Fish Tax Credit
Research Request 83-189

This memorandum addresses your questions regarding the design of a "raw fish tax" credit and the amount of tax credits that would be available to fish processors under such a system, especially for processors of developing fisheries. We also address alternatives to the tax credit suggested by officials in the Department of Revenue who reviewed your tax credit proposal.

ANALYSIS OF A RAW FISH TAX CREDIT

We understand that your proposal is to provide a tax credit of up to half of a processor's total Fisheries Business Tax liability for investments in plant and equipment which affect the quality of the fishery product or for investments in the processing of developing fisheries.

Models for a Raw Fish Tax Credit Program

There are numerous examples of investment tax credit programs in other states and in the Alaska and federal income tax systems. The tax credit programs tend to have a common approach and their implementing language is relatively straight forward. The credit is allowed against a tax liability (usually the state income tax), with the credit limited to a percentage of the investment made. In most cases, the percentage of the total investment allowed as a credit is 10 percent or less, but in a few instances, 100 percent of the investment is allowed as a credit. Presumably the more common smaller percentages are used in order to insure that the business seeking the credit is willing to place a substantial portion of their own resources into the investment, which effectively guarantees the soundness of the investments.

In most instances, the amount of the investment tax credit allowed in any tax year is limited to 50 percent of the business' total tax liability for that year. It may be assumed that this provision is designed to insure that the tax base is not severely eroded by the tax

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credit program. Most states (and the federal government) permit the business claiming a tax credit to carry forward any unused portion of tax credit claimed for one year. Some programs allow the unused portion of the tax credit to be carried back to previous tax years in order to permit a business to take full advantage of the tax credit.

As an example of how the tax credit carry forward works, assume that a processor owes \$50,000 in raw fish tax to the State of Alaska. Since an investment tax credit of up to 50 percent of the total tax liability is permitted under your proposal, the tax credit limit for the first tax year is \$25,000. Suppose that this processor invests \$100,000 in new equipment eligible for the raw fish tax credit. If 100 percent of the investment is allowed as a credit against the raw fish tax liability, a credit of \$100,000 can be claimed. However, only \$25,000 can be used as a credit for the first year, leaving a total tax of \$25,000 to be paid, and a balance of \$75,000 in unused credit to be carried forward.

In the following year, assume that \$60,000 in fisheries business tax is owed. Although \$75,000 of raw fish investment tax credit was unused in the first year, only \$30,000 (half of the \$60,000 owed) may be claimed in the second year. Consequently, \$30,000 must be paid in raw fish tax while an equal amount is claimed as a credit. Also, \$45,000 in unused investment tax credit remains to be carried forward to the next tax year.

The carry back provisions allowed under the federal investment tax credit work in much the same manner as described above, except that in order to claim the credit, the business must file amended returns for prior years under which the credit is to be claimed. In this case, the federal government refunds any over paid taxes as a result of the amended returns.

The third major element common to most tax credit programs pertains to the type of investments for which a credit can be claimed. In most cases, the nature of investments eligible in the tax credit program reflects specific policy goals. For example, Colorado targets new and expanded mining and milling business investments; Florida credits investments in facilities situated within state-designated enterprise zones; Massachusetts limits credits to investments in manufacturing, agriculture, commercial fishing, and research and development businesses; Pennsylvania permits a tax credit for corporate investments in neighborhood revitalization and job training; and Virginia provides tax credit for business investment in impoverished areas of the state.

A more complete description of the form and content of various investment tax credit programs in the states can be found in the attached research bulletin, Tax Incentives and Financing Assistance for Industrial Location.

Fisheries Business Tax: AS 43.75.015

The fisheries business tax (raw fish tax) is defined by Alaska statutes as a percentage of the "market value" or actual sale price of the fishery resource. The sale price includes other valuable considerations offered in the transaction such as fuel, supplies, or gear. The tax percentage differs for shore-based businesses (processors), floating processors, and processors of developing fisheries as shown in the table below:

Table 1
 Fisheries Business Tax Assessment
 Based on the Value of Fish Processed

<u>Fisheries Business Type</u>	<u>Percentage of Value Assessed Under the Raw Fish Tax</u>
Shore-based canned salmon	4.5%
Other salmon processors and all other shore-based fish processors	3.0%
Floating fisheries processors	5.0%
Shore-based processor of developing fishery	1.0%
Floating processor of developing fishery	3.0%

The revenue generated under the fisheries business tax is shown in the table below as provided by the Department of Revenue:

Table 2

	----- Fisheries Business Tax Revenue ----- (millions of dollars)						
<u>Processor Type</u>	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>
Canned Salmon	3.8	5.5	6.7	4.3	5.9	8.6	4.3
Shore-Based	1.9	2.3	3.3	7.6	11.0	8.7	11.5
<u>Floating</u>	<u>.5</u>	<u>.5</u>	<u>1.9</u>	<u>2.7</u>	<u>3.8</u>	<u>5.5</u>	<u>4.7</u>
Totals	6.2	8.3	11.9	14.6	20.7	22.8	20.5

Half of the fisheries business tax revenues are reserved for the local government under whose jurisdiction the fish processor is operating. Under your proposal, the revenues collected on behalf of the local government jurisdictions would continue to be transferred to that level. The remaining half of raw fish tax collected by the State could be subject to the investment tax credit for processors.

A total of 488 fisheries business licenses were issued in 1982, while only 410 fisheries business tax returns were filed for that year. This means that some businesses were conducting processing activities requiring more than one license. For example, some businesses operate both shore-based and floating processing facilities.

Because the Department of Revenue publishes tax revenues on a fiscal year basis, taxes owed for calendar 1982 (which are due by April 1, 1983) are recorded as FY83 revenues. In actual practice, tax revenue will not always be paid by the processors by the April deadline. Some processors in financial trouble are paying past due taxes on individually arranged payment schedules. As a rough approximation, however, average taxes paid by processors (shown in Table 3) can be computed by dividing total FY83 fisheries business tax revenues by total calendar 1982 business licenses issued.

Table 3
Average Raw Fish Tax Credit Allowed

<u>Processor Category</u>	<u>Total 1982 Licensed Processors</u>	<u>Fish Tax Revenues \$Millions</u>	<u>FY83 Est. Avg. Fish Taxed Owed Per Processor</u>
Shore-Based	218	\$11.5	\$52,752
Canneries	60	4.3	71,667
Floating	169	4.7	27,811

Average tax liabilities presented in Table 3 compare to Audit Division data which show that of the total of 410 raw fish tax returns for 1982, nearly one-fourth (108) of the returns reported more than \$50,000 in taxes owed.

An interesting fact about the 108 largest fish processors is that about 40 of these processors are owned by foreign companies while others are owned by Washington-based firms. Also, 15 of the fisheries businesses owing over \$50,000 in raw fish tax are making late payments according to a schedule arranged by the Department of Revenue. Presumably, the financial status of these businesses prohibits them from meeting their tax liability on time.

Processors of Developing Fisheries

There are approximately 60 shore-based processors and 60 floating processors which are taxed under the lower "developing fisheries" taxes shown in Table 1. In most cases, these businesses also process developed fisheries, which are taxed at the higher levels indicated in Table 1. A breakdown of the tax revenue raised under the developing rates of the fisheries business tax is presented below in Table 4.

Table 4

Raw Fish Tax Revenues on Developing Fisheries

<u>Processor Type</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Shore-based	\$137,090	\$192,389	\$280,002
Floating	<u>111,618</u>	<u>330,419</u>	<u>555,293</u>
Totals	\$248,708	\$522,808	\$835,295

A comparison of the calendar 1982 total raw fish taxes on developing fisheries (\$835,295) to the FY83 total of all raw fish tax revenue (\$20.5 million) shows that developing fisheries taxes constitute only about 4 percent of total revenues.

Average Tax Credit Estimation

A breakdown of fisheries business tax returns would have to be requested of the Audit Division of the Department of Revenue in order to gain a clear picture of how fish processors would be affected by a tax credit program. In lieu of such a breakdown, a rough approximation of average tax credits permitted under a 50 percent tax credit ceiling can be made by dividing total tax revenues by the total number of processors. Such approximations are made in Table 5 for two groupings of fish processors: an aggregate of all processors and a subgroup of developing fisheries processors.

Table 5

"Raw Fish Tax" Credit Estimation
 Maximum Credit Allowed Based on 1982 Data

<u>Processor Category</u>	<u>Total Licensed Processors</u>	<u>Fish Tax Revenues</u>	<u>Est. Average Fish Tax Owed Per Processor</u>	<u>Estimated Tax Credit Per Processor**</u>
Shore-Based (Total)	218	\$11,500,000	\$52,752	\$26,376
Canneries	60	4,300,000	71,667	35,933
Floating (Total)	169	4,700,000	27,811	13,905

Undeveloped Fisheries Shore-Based	60*	280,002	4,667	2,333
Undeveloped Fisheries Floating	60*	555,293	9,255	4,627

*The data shown for developing fishery processors represent a portion of the comprehensive Shore-Based and Floating categories shown immediately above in this table.

**These figures reflect the average of maximum credits allowed based on 50 percent of taxes owed.

Of course, the average credits estimated above may present a somewhat misleading picture of the spread of potential tax incentives under your proposed investment tax credit program. Large processors may claim larger credits than the averages shown above if their tax liability exceeds the average of taxes owed for all processors. Likewise, small processors may find that their allowed credits are substantially less than those indicated above, depending on their tax liability.

We have not attempted to determine whether or not tax credits in the range of \$14,000 to \$36,000 would induce fish processors to make investments in new plant and equipment. However, it seems likely that if the investment tax credit program is restricted to processors of developing fisheries only, the potential tax credits of \$2,000 to

\$4,600 would provide little incentive for upgrading processing facilities. At the very least, the impact on the processing industry for developing fisheries appears to be insignificant given the modest investments that could be made using tax credits shown in Table 5.

Revenue Leakage To Federal Government Under Tax Credit Program

A concern expressed by Maureen O'Brien, Audit Division Director for the Department of Revenue, is that a number of large processors may find that the effectiveness of a raw fish tax credit is attenuated to the extent that a portion of their tax burden is merely shifted to the federal income tax. Since taxes paid to the State of Alaska are deductible under the federal income tax, a credit against state taxes translates into higher taxable income at the federal level.

For example, assume that a major fish processor reports \$100,000 in taxable income on its federal income tax return after a deduction of \$60,000 in taxes due under the Alaska Fisheries Business Tax. If the raw fish tax credit were implemented, this processor would be eligible for a tax credit of \$30,000. This would boost the processor's federal taxable income to \$130,000, with all income over \$100,000 taxable at the maximum 46 percent rate. Consequently, the actual effect of the tax credit would be \$30,000 minus the federal income tax increase of \$13,800 (46 percent of \$30,000), leaving \$16,200 to offset the company's investment in new plant and equipment. In other words, for some large processors, every raw fish tax revenue dollar foregone by the State as a tax credit would buy 54 cents worth of new plant and equipment in the Alaska fish processing industry.

For smaller processors with taxable incomes in a lower tax bracket, this loss of State revenue to the federal income tax would not be as great. Furthermore, some investments in new equipment would qualify for the 10 percent investment tax credit and the accelerated cost recovery (depreciation) provisions of State and federal income tax law. These provisions would effectively increase the amount of raw fish tax credit that would actually be available for investment in fish processing industry improvements.

ALTERNATIVE INCENTIVES FOR FISH PROCESSING INVESTMENTS

Accelerated Cost Recovery System

Tax incentives for upgrading equipment and plant improvements are presently available to fish processors in the form of credits against a corporation's federal or State income tax liability. As a component

of the Economic Recovery Tax Act of 1981, the U.S. Congress passed legislation allowing businesses to recover (depreciate) investments in new plant and equipment at a more rapid rate than under previous tax law. Under the Accelerated Cost Recovery System, property is classed as 3-year, 5-year, 10-year and 15-year recovery property. Ten and fifteen-year property relates primarily to utility property, while three and five-year property is defined in Table 6. The State of Alaska adopts the provisions of federal tax law including the Accelerated Cost Recovery System in AS 43.20.021.

Table 6
Accelerated Cost Recovery System and Investment Tax Credit

<u>Cost Recovery Class</u>	<u>Property Description</u>	<u>Investment Tax Credit Allowed</u>
3-year	autos, light trucks, some research & devel- opment equipment	6% of investment cost
5-year	most machinery and equipment, furniture and fixtures	10% of investment cost

Investment Tax Credit

A second economic stimulus in the 1981 Recovery Tax Act is the investment tax credit. A credit is offered against federal income tax liability equal to a percentage of the total investment cost of new equipment as shown above. The credit on investments is limited to 80 percent of the first \$25,000 of federal tax liability and 90 percent of all tax owed above \$25,000. Credit in a given tax year is limited to the total income tax owed to the government, although investment tax credit can be carried back three tax years or carried forward between seven and ten tax years and applied against taxes owed. Consequently, virtually all of the credit can be used to offset past or future tax liability.

Alaska statute (AS 43.20.036 b) limits the investment tax credit by allowing credit against only the first \$20 million of qualified investment property (except pollution control equipment) for each tax year. The Alaska income tax credit allowed in any tax year is limited to 18 percent of the investment tax credit claimed for federal income tax purposes.

Energy and Rehabilitation Investment Credits

In addition to the standard tax credits allowed on investments of all new equipment, the Internal Revenue Code permits specific investment credits for energy property and rehabilitation of old facilities. These credits are listed in Table 7.

Table 7
Energy and Rehabilitation Investment Tax Credits

<u>Property Investment Class</u>	<u>Tax Credit As a Percentage of Investment</u>
Energy: Solar, wind, geothermal and ocean-thermal	15%
Energy: Small hydro-electric	11%
Energy: Biomass	10%
Rehab.: 30-year old structure	15%
Rehab.: 40-year old structure	20%
Rehab.: Certified historic structure	25%

Elective Expense Deduction

Federal tax law also permits a business to "expense" a limited portion of depreciation property each year as shown below.

<u>Tax Years</u>	<u>Expense Limit</u>
84 & 85	\$7,500
After 85	\$10,000

This provision means that property normally depreciated could be treated as a business expense and fully deducted from gross income up to the limits shown above.

Loan Programs

At present, there are five sources of loans and loan guarantees available to fish processors through State programs. Aside from conventional financing sources (banks) these sources include:

- Commercial Fishing and Agriculture Bank (CFAB)
- Alaska Resources Corporation (ARC)
- Fishery Product Revolving Loan Guarantee Fund
- Small Business Loan Program
- Alaska Industrial Development Authority

In the interest of transmitting this memorandum to you at the earliest possible date, we have not taken the time necessary to fully evaluate the loan program alternative suggested by the Department of Revenue. In a follow-up memorandum, we intend to review the provisions of existing loan programs to determine their suitability as a source of financing investments in fish processing industry. We will also examine the proposal of creating a new loan program as a source for financing improvements in the fish processing industry. We hope to be able to provide you with this additional information by the middle of January.

Inventory Control And Quality Fisheries Products

While discussing the implications of the proposed raw fish tax credit with John Mintken of the Revenue Department's Audit Division, an alternative relating to processors' inventories was suggested. Mr. Mintken proposed a State-supported inventory control system designed to stabilize the fisheries product market structure and provide additional warehousing and freezer storage capacity.

Mr. Mintken feels that a major problem for processors is uncertainty of the consumer demand for and market price of fisheries products. This uncertainty is closely tied to the volatility in total harvest of fish from one season to the next. Mr. Mintken believes that much of the reluctance to invest in new plant and equipment results from the considerable financial risk imposed by unknown fish prices, market demand, and harvest volumes. He suggests that the State could act as a warehousing/cold storage intermediary, available to purchase surplus fish products much as the federal government absorbs surplus grain production on a national level.

The State has, in fact, begun a program of this nature to support the developing grain producing business in Alaska. Last year, HB 156 created a State grain reserve program in which farmers can deposit their surplus grain in the State reserve as collateral for a loan from the

State. The loan amount is set at a level equal to the cost of producing the grain. The grain can be redeemed by the producer at any time by paying off the loan with interest. This means that the farmer is guaranteed that he can "sell" any grain that he produces, although the portion he turns over to the State reserve is essentially "sold" at the cost of producing it. If the market price for grain rises above the cost of production, the farmer can redeem his grain and sell it on the open market at a profit. If the farmer defaults on his loan, the State has "purchased" his grain at cost and is free to sell the grain at any time.

Obviously, a direct parallel can be devised for fish processors insuring them that they can "unload" any surplus fish products at a base price which guarantees no profit but at least protects them from loss.

According to Dave Bowhay, manager of Douglas Cold Storage, this practice may provide relief for processors deluged by incoming fish resources beyond their storage capacity. Mr. Bowhay feels that a serious factor limiting the quality of fisheries products results from the overloading of processing plant capacity caused by increasingly compressed fishing seasons. Additional storage capacity is uneconomical to build because the facilities are only used during a brief period of the year. As a solution to the problem, Mr. Bowhay suggests that either the fishing season be stretched out or State-operated storage facilities be built to accommodate surplus resources.

CONCLUSIONS

It appears that a raw fish tax credit program limited to half of the business' tax liability could result in an investment potential of between \$14,000 and \$36,000 per processor on the average. Of course, larger processors would be eligible for substantially more than the average. This credit coupled with investment tax credits against federal and state income tax liability may provide sufficient incentive for fish processors to upgrade their facilities.

A tax credit program restricted to developing fisheries would provide questionable investment incentives given estimated average credits of between \$2,000 and \$4,600.

Credit Eroded by Federal Income Tax. Department of Revenue auditors are concerned, however, that a significant portion of the Fisheries Business Tax revenues foregone in an investment tax credit program would be absorbed through higher federal and state income taxes.

Inability to Raise Investment Capital. A number of the processors, including about 15 of the larger processors (over \$50,000 in raw fish tax owed) are presently unable to meet their tax liability on time.

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These businesses may have difficulty obtaining the upfront financing needed to make investments which qualify for investment tax credits.

Tax Credit Benefits Foreign Processors. Another consideration regarding large processors is that about 40 of the 108 processors declaring a raw fish tax liability over \$50,000 are foreign-owned. An additional number of these processors are owned by Washington-based companies (we have no data on the exact number). Consequently, a credit against the fisheries business tax will benefit these companies along with Alaskan-owned companies. Unlike State residency requirements in many of the Alaska loan programs, an attempt to target only Alaskan processors for a raw fish tax credit would probably not meet constitutional standards.

Federal and State Income Tax Incentives. Investment incentives are presently offered in the form of investment tax credits against both State and federal income tax liability. According to auditors in the Alaska Department of Revenue, however, many of the state's fish processors (especially the smaller processors) have little or no income tax liability. Consequently, the benefits from an income tax credit would exist only to the extent that a processor has an income tax liability that could be offset by the investment credit.

We hope that this information is useful in your preparation of a fisheries business tax credit program. If you have other questions regarding this memorandum, please call us.

OAH

Attachment

See page 43 for Alaska section

Processors Look to 1985

Down So Long It Looks Like Up

FROM THE TUNA COMPANIES in Southern California to the crab plants along the Aleutian Chain, the West Coast seafood processing industry remained mired in a deep slump as 1984 came to a close, and while 1985 held scattered promise, the objective in many players' minds was mere survival.

"My short-term outlook extends to lunch," says one Alaska operator struggling to utilize high fixed-cost plants that once processed large volumes of king crab. "My long-term outlook extends to the weekend. We're shrunk back as tight as we can get."

If the country at large was mildly anxious about a slowdown in what had been vigorous economic growth, the processors were still trying to cope with a decade — the 1980s — that had offered them unrelenting pain.

Said one operator grimly trying to keep his ship afloat, "There's no such thing as making profits anymore," and the comment seemed to typify the plight of the industry as a whole. Resource dislocations, a dollar that discouraged exports while it drew a flood of product into the United States, and a hotly competitive domestic market driven exclusively by price, all figured in the processors' malaise.

■ A small load of crab ready for processing. The shortage of every species of crab has hurt many processors and forced them either to cut back operations or to look at other species.



With traditional strongholds under pressure, says an observer, "everybody's looking for the new niche, but it never appears. That means you've got to do things better just to stay in business, but you reach a point where you can't get any better." Still, he says, if the overall climate has been negative, there are positives worth noting as well. "There is lots of doom and gloom but it's not entirely so, and you've got to paint both sides of the picture."

San Diego Depression

Certainly 1984 yielded no more poignant story than that which occurred in Southern California where the tuna era came perilously close to an end. San Diego may still rank as the world's tuna capital, speculates Bumble Bee's Mike McGowan, but it is a distinction that reflects the past rather than the future. With no more canneries in the border city, fewer boats are coming to call and the tuna trend is inevitably offshore. Where is the next tuna capital, McGowan muses, perhaps Samoa, perhaps Bangkok?

It has been the flood of imported product, primarily from Thailand, that has precipitated the tuna industry's latest crisis, the one that finally overwhelmed the California plants. While most of the domestic industry anxiously sought tariff relief to stem the tide of water-packed product, Bumble Bee took the opposite tack at the behest of parent Castle & Cooke, the international trading firm.

For Castle & Cooke, that the tuna woes came hard on the heels of the Alaska king crab collapse where it had also been a major player, and as the company had closed the doors on its crab subsidiary, it was actively seeking to divest itself of Bumble Bee. Bumble Bee's future remained in doubt, with an internal management group the likely takeover candidate. The company's Hawaii plant had joined the San Diego facility in mothballs, at least temporarily, and processing operations continued only in Puerto Rico.

The San Diego fleet was also riddled with casualties despite the reappearance of an abundant resource in the Eastern Pacific as the world's largest ocean returned to normal in the wake of El Nino.

"I don't know where the industry is going," says McGowan. "I've given up crystal ball gazing."

At Terminal Island, counterpart Ed Ryan, spokesman for Starkist, notes the obvious aftereffects of the tuna industry's failure to obtain tariff relief: the closure of Starkist's mainland facility and the substantial number of

boats going out of business.

"There will be an onslaught of imports after January 1," he predicts, and estimates a final 1984 import total of between 8 million and 8.25 million standard cases, with Thailand accounting for 4 million to 4.5 million. In 1985, he says, "I figure the total will reach 9 million easy."

Ryan sees more pitfalls ahead for the industry in 1985, although he anticipates that his own company will be "somewhat better off because we took the gulp on Terminal Island in '84 and got rid of the dead loss situation."

Right now, he says, the big concern is for the boats, and he cites the possibility of strikes and tie-ups in view of prices driven down by the imports. In the market, however, he predicts strong sales activity with an early lenten season, and with the values that exist.

"There's no question that people are buying a lot of tuna," he says. "Prices of \$.59 and \$.69 a can move a lot of fish."

Santa Barbara Bullishness

Up north in Santa Barbara, Seafood Specialties spokesman Mike Wagner cites a far-different experience. "1984 was a good year, an excellent year," he says, and lists three causal factors.

First has been swordfish, with the gillnet fleet "racking them in" and sale prices holding well. And, according to Wagner, the fishermen are "really competitive now in terms of taking care of the fish. The product is gorgeous."

He describes angel shark as the second factor behind his bullishness. After working at it for many years, he says, he's now able to place angel shark all over the country, and this onetime incidental nuisance has become a moneymaker.

The third positive, he says, has been the combination of "lots of little things."

"During the winters of 1982 and 1983, we really got hit hard . . . we just survived," he says, "but during the winter of 1984, we're pulling out of debt." El Nino brought tropical species with it, he says, fish like yellowfin tuna, yellowtail, opa and luvar. "They've given us something to sell along with the standard snapper, sole and shark."

It's not like life is all roses, however. "My biggest complaint," says Wagner, "is that the industry is really changing fast now and you've got to stay up or you're out of business."

He cites the appearance of lots of little "peddler trucks" on the California scene, low overhead operations that outbid the traditional processors for fish, then undersell them in the marketplace. To fight the trend, he says, traditional processors have to get more competitive, but that's "hard to do when you're sitting on facilities that can handle big loads."

"I'm scaling down," he says. "I've had to turn down big loads from guys I want to buy from, but I have to compete with the peddlars."

Another change that has affected the industry is the growing importance of air freight, according to Wagner. The airlines want the business, he says, and they're cheaper than trucks.

"I can ship a container to Seattle [by air] for \$53," he says. "That's a real positive."

Monterey Malaise

The optimism fades to the north. Monterey Seafood's Phil Tringale says simply, "1984 stunk." El Nino devastated the bay's squid resource, and it hasn't come back.

What about the future? The biologists aren't optimistic about next year's squid prospects, says Tringale, and that promises to prolong the pain for Monterey processors and the bay's lampara fleet.

Fortunately, he says, there was a good run of mackerel which went into cans and helped pay the bills, but mackerel "isn't a moneymaker."

What to do when your bread and butter disappears? "We're diversifying," Tringale says.

Santa Rosa Regret

At Point St. George Fisheries in Santa Rosa, Les Amundsen shares the uncharitable view of 1984. "It has been a very poor year so far," he says. "Every fishery has been disappointing."

"In salmon, they wouldn't let us catch or buy when they were there. Shrimp — we got a little production at the end of the year, but the market is terrible because of the Norwegian imports. We don't know if we can move what we put up."

"Bottomfish is the same old story. It's never a moneymaker, it just helps cover overhead." Black cod came on late and turned out to be a good market, he continues, but it started out very poorly.

The Dungeness crab situation was muddled, according to Amundsen. The coast had just settled on a price, but production was spotty and the meat market was weak in view of all the available substitutes — artificial

product, Korean snow crab, Chilean product. The whole-crab market had been firm for both frozen and fresh product, he says, then the Alaskans started trying to move their brine frozen inventories and the market softened.

"It's quite a gamble," he says of the Dungeness season. "The processors are very cautious. There's so many boats and so much gear, it's going to hit us all at once."

Crescent City Survival

In Crescent City, Eureka Fisheries' Ken Butler looks for improved Dungeness production in 1985, but admits that not all fishermen share his view. Few companies are in a position to freeze much crab and gamble on the market, he says, although Eureka will put up frozen product.

"I'm optimistic," he says. "I'd like to think there will be more product although it's just a gut feeling."

He cites an improving picture for groundfish at year end, with an aggressive market "when we have fish." And, the company has maintained its interest in whiting, he says, and has discovered "a little bit more interest, a little bit more excitement" in the market with product moving to the East Coast and the Midwest for the first time.

The big surprise in 1984 was the appearance of more shrimp at the end of the season, according to Butler. "We got a real spurt, and it was nice size, too. We had only 55,000 pounds up to August 26, and we ended up with over 500,000. Of course, we still have the inventory. We can't compete with the Norwegians."

What has to happen for a successful 1985? "I'd like to see the companies make money so the fishermen can make money," Butler says. "We've been hammered for four years."

"I'm as gloomy as the weather right now," he continues, looking out at an inclement California day. That provokes a comment on the approach of Dungeness operations: "This place looks like a little Dutch Harbor now. There are probably over 200 boats here, and 40,000 or 50,000 pots."

Seattle Surprises

In Seattle, Icicle's Mark Sandvik says 1984 "brought some good things, although the overall climate has been negative. We're an export oriented industry, and the strong dollar presents real problems."

Nonetheless, he cites a surprisingly aggressive Japanese presence in 1984,

and a European market that was more active than anticipated. There was big Alaskan salmon production, without correspondingly high yields in British Columbia and along the Lower 48 coast, he says.

"From our standpoint, production went well and sales were better than anticipated volume-wise, although margins were squeezed for us and for the fishermen. There are two ways to go in a climate like this. You can raise prices or squeeze costs, but the strong dollar has taken away the upside, so we're squeezing."

As for 1985, Sandvik doesn't see major changes. "We keep looking for the dollar to weaken, for the king crab to come back and for canned salmon to pick up," he says.

If Sandvik represents the point of view of a big Alaska processor, Ted Otness of Alaska Fresh speaks for a smaller company that was once entirely dependent on crab. "Right now," he says, "my attitude is that the golden nugget won't materialize so we have to be very cautious. We don't have the luxury of being careless. We keep our eyes open for opportunities and try to capitalize when we see them."

"We've gone from a winter company to a summer company. We used to do king crab primarily, but now we're into salmon, halibut, Dungeness and black cod. The crab problems have made us a much broader company. Maybe it's a good thing, and we're in it for the long term.

"Of course, it's no fun. We much more enjoyed being crab processors."

At Seawest Industries of Edmonds, Washington, Darryl Pedersen is a processor for whom the crab collapse has produced an unwelcome degree of financial stress. "The industry hasn't been able to adjust to current economics, especially in shellfish," he says. "Costs are too high, without enough volume. The fishermen are desperate and they have to demand too high a price."

"The processor winds up taking the financial risk up front, which consistently hasn't worked. We speculate and the market continually dies on us. The export opportunities are nil, and not only can't we export but the strong dollar forces others to export from their countries into this one."

What hurts, he says, is having high fixed-cost facilities operating at 20 percent of capacity when "nobody has been able to cut operating costs by 80 percent." The market has become fractured and values have changed, according to Pedersen, who says, "Price is the only consideration now."

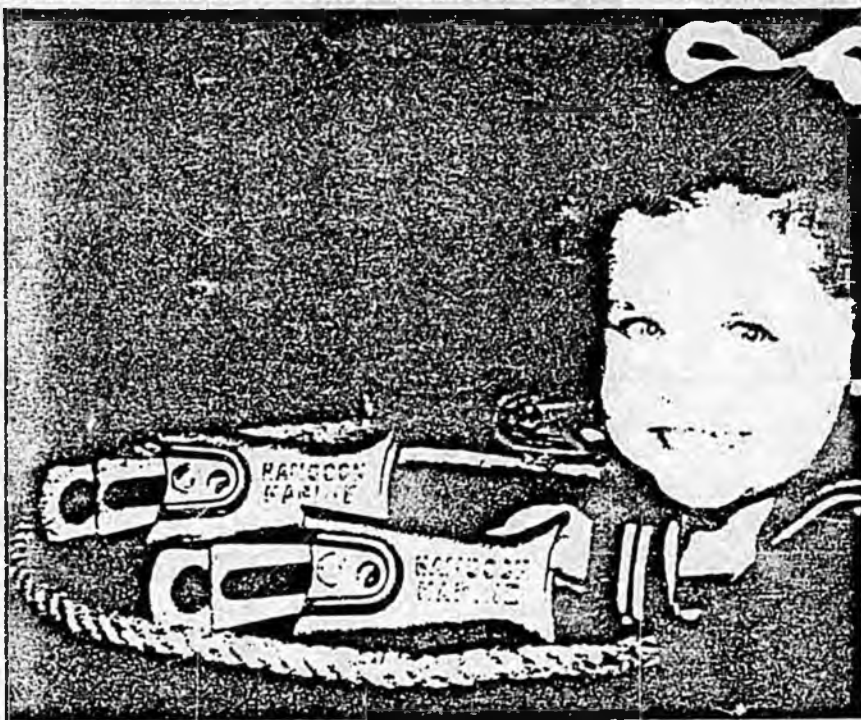
Fishermen and processors are losing money, and the consumer is convinced he's paying too much.

Alaska Alternative

For the operators of catcher-processors, 1984 has been a transition year, according to Trans-Pacific's Mike Nordby. In crab, this mode of operation has largely replaced the shorebased industry in Alaska, and while the production declines have been severe, he says, there is also less competition in the marketplace for the companies whose vessels can pursue the remain-

ing stocks.

And, according to Nordby, there are signs that the main production area of bygone years — Bristol Bay — will again yield a harvestable stock in 1985. In the marketplace he says, after two years of steady price increases that constricted sales opportunities, prices have fallen sharply as failing shore-based companies have sold off their inventories. That development has its downside, he says, but the upside is increased demand not only at the restaurant level but among supermarkets that turned their backs on



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ASPI
CHAIRMAN

■ Crates of just-canned salmon. Tuna packers could only wish that their industry was as robust as the salmon industry in 1984.

king crab several years ago.

Throughout this transition period, he says, "catcher-processors have established themselves as the dominant force in production and the most stable force in the market. We've withstood the resource declines, and now we look forward to rebuilding stocks and a market that shows renewed interest in the product."

The growing fleet of catcher-processors also supports the growing production of North Pacific whitefish, and Nordby describes more transitions under way in this segment of the industry. The market has been hit with "tremendous oversupplies" of fillet products, he says, with surging Canadian imports and the strong dollar at work, along with weakness in the European fillet and saltfish markets that has provoked all North Atlantic producers to target upon the U.S. consumer.

On the local scene, he comments, there has been an increase in Alaskan whitefish production as more players have entered the game, along with a



FRED THOMAS

■ Cannery workers pack salmon. The Alaska salmon industry was one bright spot for processors in 1984, and should continue that way in 1985.

decline in Pacific cod abundance that has necessitated a shift in emphasis to Alaskan pollock, a resource that is vast but virtually unknown to the American consumer.

Canadian Calculation

Life is little simpler for Canadian processors today, says Peter Browne of Quality Fish in Vancouver. "Our biggest problem is the strength of the U.S. dollar," he says, with the Canadian dollar pegged to its U.S. counterpart and other currencies weak.

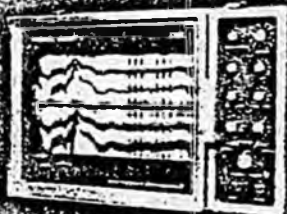
"Our problem is exactly the same as that of U.S. processors," he continues — the difficulty of exporting into Europe, Japan and other countries. "Of course," he says, "in salmon, the U.S. has an advantage because Alaska supplies 50 percent of the world's salmon while we supply 13 percent so their unit costs are lower. As for 1985, I can't speculate on currency values, although I hope the U.S. dollar weakens, and falling interest rates should help."

And so the bright spots are few and far between for processors along the entire coast. The name of the game is to cut costs, diversify and hope, and life can only get better for those who've been able to hang on.

by John Sabella

PF

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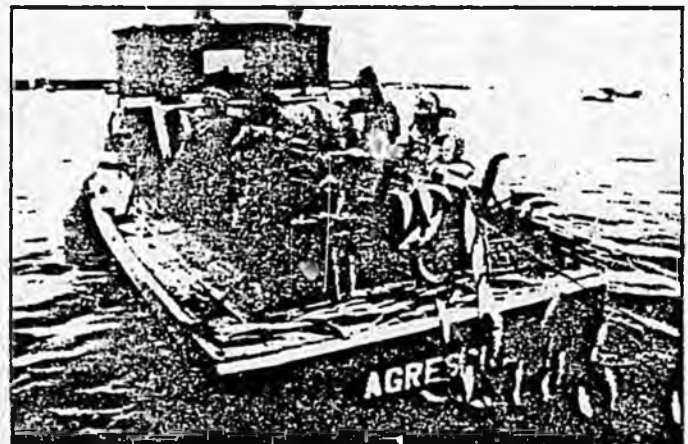
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May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

SENATE RESOURCES COMMITTEE, 2/27/85, 1:35
" " 3/22/85, 1:35

House Special Committee on Fisheries 1/29/85, 8:30am
" " " " 2/5/85, 8:30am
" " " " 2/7/85, 8:30am

SB 11



SENATOR FRED F. ZHAROFF
ALASKA STATE LEGISLATURE

P. O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259
DURING SESSION:
POUCH V, JUNEAU, ALASKA 99811 • (907) 485-3473 • 485-3474 • 465-3844 (Labor and Commerce Comr...itee)

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

TO: Senator Arliss Sturgulewski
Chairman - Committee on Resources

FROM: Senator Fred F. Zharoff

DATE: March 27, 1985

RE: Senate Bill 11, "An Act relating to the fisheries business tax; and providing for an effective date."

A number of concerns were expressed at the March 22 (last Friday) Resources Committee meeting regarding Senate Bill 11. My staff has worked with your staff and other interested parties in writing a committee substitute that attempts to resolve the concerns expressed by the committee members.

- (1) The scope of the use of the tax credit has been narrowed. Page 1, Lines 26 and 27.
- (2) Approval must be granted by the Department of Revenue before a capital expenditure can be used to qualify for the credit. Page 1, Lines 28 and 29. Page 2, Line 1.
- (3) Incentive is given for processors to get into the program and to diversify their equipment for maximum fisheries production. Page 2, Lines 3-5.
- (4) Processors who are delinquent in their tax payments cannot receive the credit. Page 2, Lines 17-19.
- (5) Departmental regulations are minimized. The Department of Revenue's initial task is to prepare the credit application form. Page 2, Lines 20 and 21.
- (6) For the benefit of the department, clarifying definitions have been added. Page 3, 16-23.
- (7) Fiscal note applies to after January 1, 1986. Effective date clause, Page 3, Line 26.

Amendments to CSSB 11 (Resources)

1. p. 2, line 17: Change person to fisheries business
2. p. 3, line 24; Add:

(12) A "tax delinquency" under this chapter is defined as one where the fisheries business tax is past due except for assessments which are in administrative or judicial appeal arising from an administrative action.

Fisheries

1 CPH306 Port Heiden

2 CPL107 Port Lions

3 CIQ193 Quinhagak 63150

4 CIR225 Ruby

5 CRM305 Russian Mission

6 Saint George 107079

7 CSM472 Saint Marvs 3450

8 CIS192 Saint Michael

9 CSP331 Saint Paul

10 CSP978 Sand Point 757162

11 CIS106 Savoonga

12 CIS583 Saxman

13 CIS191 Scammon Bay

14 CIS058 Selawik

15 CIS624 Seldovia 625

16 CIS366 Seward 9504044

17 CIS190 Shageluk

18 CIS189 Shaktoolik

19 CSP522 Sheldon Point

20 CIS105 Shishmaref

21 CIS188 Shungnak* Held Per. P.E.B.

22 CIS396 Skagway

23 CIS564 Soldotna 1250

24 CIS187 Stebbins

25 CIT855 Tanana

26 CIT473 Teller

27 CIS272 Tenakee Springs

28 CIB301 Thorne Bay 1250

29 CIT854 Toqiak 5770128

30 CTB223 Toksook Bay

31 CIT305 Tuluksak 1250

32 CIT186 Tununak 1250

33 CIU258 Unalakleet 3750

34 CIU215 Unalaska 30396621

35 CIU198 Upper Kalskag

36 CIV 401 Valdez 2329996

37 CIW222 Wainwright

38 CIW185 Wales

39 CIW159 Wasilla

40

11291355

COLUMN - WRITE

Fisheries

1 CWM304 White Mountain

2 CIW474 Whittier

3 CIW559 Wrangell

4 CIY479 Yakutat

162115

294888

3201608

Total Page 5

3658611

Total Page 4

55816211

Total Page 3

104481847

Total Page 2

95668935

Total Page 1

360301593

Grand Total

619927197

COLUMN - WRITE

RAW FISH SHARES

FY80 Thru FY84

COLUMN WRITE

Fiscal Yr.	Gross Receipts	Penalty/Interest NSF checks Refunds	Posted to State #	Net	% Shared	Amount Shared	Retained by state
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2							
3							
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* Posted State means those amounts the state refunded because processors indicated they were outside all cities and boroughs during processing.

Totals: 98,653,878.73 531,058.63 21,482,724.96 73,139,585.14 21,358,921.40 48,781,150.74

FY80: 14,716,893.39 37,989.75 2,995,418.44 11,683,485.00 20% 2,336,697.00 9,346,788.00

FY81: 21,032,183.83 174,521.31 4,460,222.52 16,397,280.00 30% 4,879,476.00 13,117,904.00

FY82: 23,014,131.52 51,446.17 4,026,922.01 18,935,493.34 30% 5,680,648.00 13,254,845.34

FY83: 20,109,021.70 125,322.55 6,859,016.29 13,121,682.81 50% 6,562,341.43 6,559,341.43

FY84: 11,181,148.29 141,578.85 6,641,022.50 12,398,543.94 50% 6,199,271.57 6,199,271.57

Original sponsor: Zharoff

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 11 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the fisheries business tax; and
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.75.015(a) is amended to read:

10 (a) A person engaged in a fisheries business is liable for and
11 shall pay the tax levied by this section on the value of each of the
12 following fisheries resources processed during the year at the rate
13 set out after each:

14 (1) salmon canned at a shore-based fisheries business
15 [CANNERY] - four and one-half percent;

16 (2) salmon processed by a shore-based fisheries business,
17 except salmon for which the tax is due under (1) of this subsection,
18 and all other fisheries resources processed by a shore-based fisheries
19 business - three percent;

20 (3) fisheries resources processed by a floating fisheries
21 business - five percent.

22 * Sec. 2. AS 43.75 is amended by adding new sections to read:

23 Sec. 43.75.018. FISHERIES BUSINESS TAX CREDIT. (a) A fisheries
24 business is entitled to a credit of not more than 50 percent of the
25 business tax liability under AS 43.75.015 for capital expenditures
26 made during the tax year to increase product diversity, promote pro-
27 duction efficiency and capacity, or improve product quality at a
28 shore-based fisheries business facility in the state if an application
29 for the credit is approved by the department in advance of the capital

1 expenditure.

2 (b) A fisheries business may claim a credit under (a) of this
3 section for a maximum period of three consecutive years. An applicant
4 for the credit may elect to begin the three-year period with any tax
5 year from 1986 through 1990.

6 (c) The portion of a capital expenditure that exceeds the amount
7 eligible for a credit under (a) of this section during a single tax
8 year may not be carried back to a prior taxable year, but may be
9 claimed as a credit under (a) of this section for a subsequent tax
10 year within the three-year period elected under (b) of this section.
11 Tax credits may not be approved for more than 100 percent of a capital
12 expenditure.

13 (d) The department may not approve a tax credit under (a) of
14 this section if (1) the property for which the capital expenditure was
15 made was the subject of a previous capital expenditure by another
16 taxpayer for whom a corresponding tax credit under (a) of this section
17 has been approved; or (2) a person who claims a tax credit under (a)
18 of this section is delinquent in the payment of a fisheries business
19 tax under AS 43.75.015.

20 (e) The department shall prepare an application form for a
21 credit under (a) of this section.

22 (f) The department shall approve or disapprove an application
23 for a credit under this section within 60 days after receiving the
24 application.

25 Sec. 43.75.019. TAX CREDIT REPORT. Not later than the 60th
26 legislative day of each regular legislative session the Department of
27 Revenue, in conjunction with the Department of Commerce and Economic
28 Development, shall submit to the legislature a report on the fisheries
29 business tax credit program under AS 43.75.018. The report shall

1 describe the expenditures for which a credit was claimed during the
2 previous tax year and, if possible, the increase in employment and
3 processing capacity by the fisheries businesses for whom the credit
4 was approved. Reporting under this section shall begin with the first
5 regular session of the Fifteenth Alaska Legislature.

6 * Sec. 3. AS 43.75.130 is amended by adding a new subsection to read:

7 (b) For purposes of this section, tax revenue collected under
8 AS 43.75.015 from a person entitled to a credit under AS 43.75.018
9 shall be calculated as if the person's tax had been collected without
10 applying the credit.

11 * Sec. 4. AS 43.75.140 is amended by adding new paragraphs to read:

12 (9) "capital expenditures" includes the price paid for
13 equipment and the costs of improvements made to depreciable property,
14 but does not include expenditures that are deducted entirely for
15 federal income tax purposes in the year in which they accrued or were
16 paid; in this paragraph, "depreciable property" has the meaning that
17 shall be given to it by the commissioner of commerce and economic
18 development;

19 (10) "product diversity" means the processing of nonradi-
20 tional fish or other seafood species or products;

21 (11) "product quality" means the handling of fish or other
22 seafood species or products in order to increase product sales or
23 value.

24 * Sec. 5. AS 43.75.018, 43.75.019, 43.75.130(b), and 43.75.140(9) are
25 repealed June 30, 1994.

26 * Sec. 6. This Act takes effect January 1, 1986.
27
28
29

SENATE AMENDMENT

/

By Zharoff

To: _____ SENATE BILL No. _____

To: _____ HOUSE BILL No. SCS CSHB 58

PAGE: 2 LINE: 17

Delete "exceeds the amount" and insert "is"

PAGE: 2 LINE: 18

After ~~section~~ "section" insert "but is not claimed"

PAGE: 2 LINE: 19

Delete "may be claimed as" and insert "is available for the computation of"

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

*distributed
by Senator
Zharoff
SCS CSHB-58*

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99801
907 465 3800

MEMORANDUM

May 10, 1986

SUBJECT: Amendment to fisheries tax credit bill
(SCS CSHB 58(Fin))

TO: Senator Fred Zharoff

FROM: Edward H. Hein *EHA*
Legislative Counsel

Enclosed is an amendment to SCS CSHB 58 (Fin) that I discussed with your assistant, Karl Ohls. The amendment would clear up an ambiguity in the carry-over provision on page 2, lines 17 - 21. Both the Revisor of Statutes, in my office, and Steve Kettel of the audit division of the Department of Revenue, pointed out the ambiguity -- one which would invite a lawsuit later on.

Subsection (c), as it currently reads, is unclear about exactly what may be carried over to a subsequent tax year. The amendment makes clear that any portion of an expenditure that is eligible for credit, but which can't all be used in a single tax year, is available for use in subsequent tax years within the three-year period allowed. But the carry-over provision does not allow the taxpayer to increase the percentage of tax liability available for credit, nor does it permit the taxpayer to exceed the percentage of a capital expenditure that is eligible for credit. It simply allows the taxpayer to spread out the credit over a three-year period, rather than having to lose eligible credit because the taxpayer does not have enough tax liability to take the full amount in a single tax year.

EHH:mkr
m5/099



MAR 4 1985

February 28, 1985

The Honorable Arliss Sturgulewski
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Re: SB 11 An Act Relating to the Fisheries Business Tax

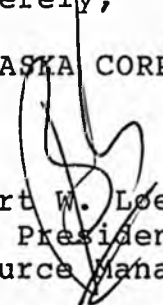
Dear Senator Sturgulewski:

Please find enclosed a copy of Sealaska testimony in support of SB 11 - An Act Relating to the Fisheries Business Tax. We urge your support of this legislation. If we can be of assistance in terms of information or in any other way, please call upon us.

Thanking you for this consideration.

Sincerely,

SEALASKA CORPORATION


Robert W. Loescher
Vice President
Resource Management

RWL:mt

cc: Commissioner Mary A. Nordale
Commissioner Loren H. Lounsbury
Commissioner Emil Notti
Governor Bill Sheffield
Byron I. Mallott
Rick Lauber
Victor Horgan, Sr.

TESTIMONY

OF

ROBERT W. LOESCHER

VICE PRESIDENT, RESOURCE MANAGEMENT

SEALASKA CORPORATION

BEFORE THE SENATE RESOURCES COMMITTEE

SB 11 - AN ACT RELATING TO THE FISHERIES BUSINESS TAX

FEBRUARY 27, 1985

MY NAME IS ROBERT W. LOESCHER, VICE PRESIDENT OF RESOURCE MANAGEMENT FOR SEALASKA CORPORATION. I AM HERE TO TESTIFY IN FAVOR OF SB 11. SEALASKA CORPORATION IS AN ALASKA-BASED REGIONAL NATIVE CORPORATION CREATED UNDER THE ALASKA NATIVE CLAIMS SETTLEMENT ACT. SEALASKA'S WHOLLY-OWNED SUBSIDIARY OCEAN BEAUTY SEAFOODS, INC. (OBSI) IS A GROUP OF SEAFOOD PROCESSING AND MARKETING COMPANIES WITH OPERATIONS IN ALASKA, WASHINGTON AND OREGON. OBSI HAS PROCESSING PLANTS AT EGEGIK (BRISTOL BAY), KODIAK, CORDOVA, YAKUTAT, PETERSBURG AND KETCHIKAN. ADDITIONALLY, OBSI HAS BUYING ARRANGEMENTS AT DRY BAY, DILLINGHAM, EGEGIK BEACH AND JUNEAU.

THE SEAFOOD INDUSTRY IN ALASKA IS A FINANCIALLY DEPRESSED INDUSTRY. THIS CONDITION EXISTS FOR A MULTITUDE OF REASONS RANGING FROM INTERNATIONAL MONETARY ISSUES AND HIGH INTEREST RATES, THAT ARE OUTSIDE OF OUR CONTROL, TO GOVERNMENTAL PROGRAMS

WITHIN ALASKA WHICH HAVE CREATED AN ADVERSE BUSINESS ENVIRONMENT FOR SHORE-BASED PROCESSORS. SB 11 WOULD BE BENEFICIAL TO SEALASKA AND OUR SUBSIDIARY, OBSI, SINCE THE FISH TAX IS A SIGNIFICANT COST IN OUR OVERALL OVERHEAD.

THE FISHERIES BUSINESS TAX CREDIT WOULD ENHANCE THE SEALASKA-OBSI STRATEGIC PLAN FOR CAPITAL INVESTMENTS FOR IMPROVING OUR FACILITIES AND ADDITION OF NEW FISH PROCESSING TECHNIQUES AS WELL AS NEW PRODUCT LINES. ADDITIONALLY, THE BUSINESS TAX CREDIT WOULD BE AN INCENTIVE FOR INFRASTRUCTURE EXPANSION AND IMPROVEMENT AT THOSE AREAS WHERE WE HAVE BUYING ARRANGEMENTS. THE FISHERIES BUSINESS TAX CREDIT PROVIDES AN EXCELLENT OPPORTUNITY FOR THE STATE OF ALASKA TO ASSIST SHORE-BASED ALASKA PROCESSORS AND WILL ALSO BENEFIT LOCAL COMMUNITIES WHO DEPEND UPON OUR PROCESSORS FOR JOBS.

THE DEPARTMENT OF COMMERCE IS PROPOSING AN AMENDMENT TO THIS BILL, AND ITS COMPANION BILL IN THE HOUSE (HB 58), WHICH WOULD LIMIT THE FISHERIES BUSINESS TAX CREDIT TO "CAPITAL EXPENDITURES...TO INCREASE PRODUCT DIVERSITY, PROMOTE PRODUCTION EFFICIENCY AND CAPACITY OR IMPROVE PRODUCT QUALITY." SEALASKA CORPORATION DOES NOT SUPPORT THE DEPARTMENT OF COMMERCE AMENDMENT. THE NARROW LANGUAGE PROPOSED BY THE DEPARTMENT OF COMMERCE WOULD, FOR EXAMPLE, PREVENT PROCESSORS FROM RECEIVING BUSINESS TAX CREDITS FOR INSTALLATION OF IMPROVED ENVIRONMENTAL PROTECTION EQUIPMENT OR OTHER IMPROVEMENTS DIRECTLY RELATED TO IMPROVING THE OVERALL FACILITY OR PLANT EFFICIENCY BUT WHICH MAY

NOT, IN AN ABSOLUTE MANNER, BE DIRECTLY RELATED TO PRODUCT
DIVERSITY, INCREASED CAPACITY OR PRODUCT QUALITY. FOR THESE
REASONS, SEALASKA URGES THIS COMMITTEE TO RETAIN THE BROADER
LANGUAGE OF THE ORIGINAL BILL.

5B 11

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF



POUCH V
JUNEAU, ALASKA. 99811
(907) 465-4907

Senate Committee on Resources

March 20, 1985

Mary A. Nordale, Commissioner
Department of Revenue
Pouch S, Mail Stop 0400
Juneau, AK 99811

Dear Commissioner Nordale: *Mary*

The Senate Resources Committee is holding hearings on SB 11, An Act relating to the fisheries business tax, on Friday, March 22, and we are in need of some data on fish processors in Alaska. We would like to know the number of fish processors in Alaska, both resident and non-resident, the amount of money generated by the fisheries tax, the amount of fish tax collected by Alaskan owned processors and the amount of fish tax collected by non-resident processors.

Thank you for your assistance.

Sincerely yours,

Handwritten signature of Arliss Sturgulewski.

Senator Arliss Sturgulewski
Chairman, Senate Resources Committee

fh:bh

APR 08 1985



KENAI PENINSULA BOROUGH

BOX 850 • SOLDOTNA, ALASKA 99669
PHONE 262-4441

STAN THOMPSON
MAYOR

April 3, 1985

Senate Natural Resources Committee
Senator Arliss Sturgulewski, Chairman
Pouch V
Juneau, AK 99811

Dear Senator Sturgulewski,

Enclosed for your information is Kenai Peninsula Borough Resolution #85-51. This resolution was adopted at the Kenai Peninsula Borough regular assembly meeting on April 2, 1985, and sent to you as per the request of the administration and assembly.

Thank you for your time and concern.

Very truly yours,

Joanne Brindley,
Borough Clerk

Introduced by: Legislative
Affairs Committee

Date: April 2, 1985

Vote: Unanimous

Action: Adopted

KENAI PENINSULA BOROUGH

RESOLUTION 85-51

EXPRESSING SUPPORT FOR THE CONCEPT AS EXPRESSED IN SENATE BILL 11 AND HOUSE BILL 58 WHICH PROVIDE FOR A FISHERIES BUSINESS TAX CREDIT FOR CAPITAL EXPENDITURES RELATED TO FISHERIES BUSINESS FACILITIES.

WHEREAS, SB 11 and HB 58 have been introduced proposing a tax credit for capital expenditures of the commercial fisheries industry; and

WHEREAS, the commercial fisheries contribute substantially to the borough economy and employ large numbers of borough residents; and

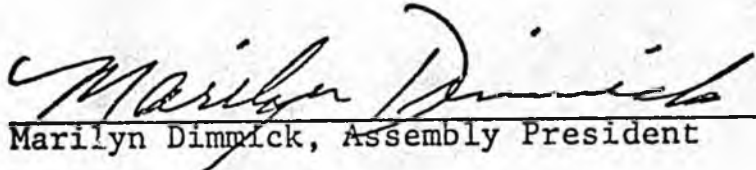
WHEREAS, the assembly believes that the proposed tax credit program would provide a healthy incentive to maintenance of a strong commercial fisheries industry within the borough;

NOW THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

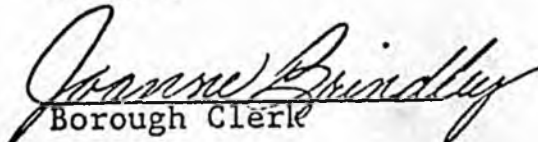
Section 1. That the assembly hereby expresses its support for SB 11 and HB 58 and their proposed fisheries business tax credit.

Section 2. That the clerk is directed to provide copies of this resolution to Governor Bill Sheffield, the Senate Natural Resources Committee, the Senate Finance Committee, Senate President Don Bennett, Speaker of the House Ben Grussendorf, Senators Paul Fisher, Jalmar Kerttula, Edna DeVries and John Sackett, and to Representatives Mike Navarre, Andre Marrou, Bette Cato, Mike Szymanski and Kay Wallis.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH ON THIS 2nd DAY OF April, 1985.


Marilyn Dimmick, Assembly President

ATTEST:


Borough Clerk

Offered: 3/28/85
Referred: Finance

Original sponsor: Zharoff

1 IN THE SENATE BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 11 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the fisheries business tax; and
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.75.015(a) is amended to read:

10 (a) A person engaged in a fisheries business is liable for and
11 shall pay the tax levied by this section on the value of each of the
12 following fisheries resources processed during the year at the rate
13 set out after each:

14 (1) salmon canned at a shore-based fisheries business
15 [CANNERY] - four and one-half percent;

16 (2) salmon processed by a shore-based fisheries business,
17 except salmon for which the tax is due under (1) of this subsection,
18 and all other fisheries resources processed by a shore-based fisheries
19 business - three percent;

20 (3) fisheries resources processed by a floating fisheries
21 business - five percent.

22 * Sec. 2. AS 43.75 is amended by adding new sections to read:

23 Sec. 43.75.018. FISHERIES BUSINESS TAX CREDIT. (a) A fisheries
24 business is entitled to a credit of not more than 50 percent of the
25 business tax liability under AS 43.75.015 for capital expenditures
26 made during the tax year to increase product diversity, promote pro-
27 duction efficiency and capacity, or improve product quality at a
28 shore-based fisheries business facility in the state if an application
29 for the credit is approved by the department in advance of the capital

1 expenditure.

2 (b) A fisheries business may claim a credit under (a) of this
3 section for a maximum period of three consecutive years. An applicant
4 for the credit may elect to begin the three-year period with any tax
5 year from 1986 through 1990.

6 (c) The portion of a capital expenditure that exceeds the amount
7 eligible for a credit under (a) of this section during a single tax
8 year may not be carried back to a prior taxable year, but may be
9 claimed as a credit under (a) of this section for a subsequent tax
10 year within the three-year period elected under (b) of this section.
11 Tax credits may not be approved for more than 100 percent of a capital
12 expenditure.

13 (d) The department may not approve a tax credit under (a) of
14 this section if (1) the property for which the capital expenditure was
15 made was the subject of a previous capital expenditure by another
16 taxpayer for whom a corresponding tax credit under (a) of this section
17 has been approved; or (2) a fisheries business claims a tax credit
18 under (a) of this section and the payment of a fisheries business tax
19 under AS 43.75.015 by the fisheries business is past due; a payment is
20 not past due if the payment of a fisheries business tax under AS 43.-
21 75.015 is in administrative or judicial appeal.

22 (e) The department shall prepare an application form for a
23 credit under (a) of this section.

24 (f) The department shall approve or disapprove an application
25 for a credit under this section within 60 days after receiving the
26 application.

27 Sec. 43.75.019. TAX CREDIT REPORT. Not later than the 60th
28 legislative day of each regular legislative session the Department of
29 Revenue, in conjunction with the Department of Commerce and Economic

1 Development, shall submit to the legislature a report on the fisheries
2 business tax credit program under AS 43.75.018. The report shall
3 describe the expenditures for which a credit was claimed during the
4 previous tax year and, if possible, the increase in employment and
5 processing capacity by the fisheries businesses for whom the credit
6 was approved. Reporting under this section shall begin with the first
7 regular session of the Fifteenth Alaska Legislature.

8 * Sec. 3. AS 43.75.130 is amended by adding a new subsection to read:

9 (b) For purposes of this section, tax revenue collected under
10 AS 43.75.015 from a person entitled to a credit under AS 43.75.018
11 shall be calculated as if the person's tax had been collected without
12 applying the credit.

13 * Sec. 4. AS 43.75.140 is amended by adding new paragraphs to read:

14 (9) "capital expenditures" includes the price paid for
15 equipment and the costs of improvements made to depreciable property,
16 but does not include expenditures that are deducted entirely for
17 federal income tax purposes in the year in which they accrued or were
18 paid; in this paragraph, "depreciable property" has the meaning that
19 shall be given to it by the commissioner of commerce and economic
20 development;

21 (10) "product diversity" means the processing of nonradi-
22 tional fish or other seafood species or products;

23 (11) "product quality" means the handling of fish or other
24 seafood species or products in order to increase product sales or
25 value.

26 * Sec. 5. AS 43.75.018, 43.75.019, 43.75.130(b), and 43.75.140(9),
27 (10), and (11) are repealed June 30, 1994.

28 * Sec. 6. This Act takes effect January 1, 1986.

COMMITTEE REPORT
SENATE

FURTHER:

FINANCE

1/14/85

Date

3/27/85

Mr. President

The Committee on RESOURCES considered SB 11
relating to the fisheries business tax.

and (a majority of the committee) (~~the committee~~) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for SB 11 (RES)
- new title
- same title and recommends _____
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS

[Signature]
[Signature]
[Signature]

[Signature]

[Signature]
Chairman

Do Pass
Chairman recommendation

51311

City of Sand Point

P.O. Box 177
Sand Point, Alaska 99661
(907) 383-2696

CITY OF SAND POINT RESOLUTION # 85-15

A RESOLUTION SUPPORTING THE USE OF THE STATE PORTION OF THE RAW FISH TAX TO PROVIDE TAX CREDIT TO SHORE-BASED FISH PROCESSORS

WHEREAS, investment capital for onshore processing facilities is recognized as a critical component in Sand Point's fishing community; and

WHEREAS, the future onshore processing, facilities are critical to the growth of Sand Point; and

WHEREAS, the potential growth of the areas bottomfish industry makes it especially important that this segment of the processing industry be promoted,

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Sand Point, Alaska, that the Governor and the Legislature be and are hereby urged to provide raw fish tax credits against the State's fifty percent for upgrading and modernization of shore-based fish processing facilities.

BE IT FURTHER RESOLVED that copies of this resolution be forwarded to:

The Honorable Bill Sheffield, Governor of Alaska
The Honorable Stephan McAlpine, Lieutenant Governor of Alaska
State Senators and State Representatives

PASSED AND APPROVED THIS 19th DAY OF February, 1985

CITY OF SAND POINT

Jack R. Foster Sr.
Mayor

ATTEST:

Debra K. Dushkin
City Clerk

SB 11

CITY OF KING COVE

P. O. Box 37 • King Cove, Alaska 99612 • (907) 497-2340

RESOLUTION #85-10

A RESOLUTION SUPPORTING THE USE OF THE STATE PORTION OF THE RAW FISH TAX TO PROVIDE TAX CREDIT TO SHORE-BASED FISH PROCESSORS

WHEREAS, investment capital for onshore processing facilities is recognized as a critical component in King Cove's fishing community; and

WHEREAS, the future onshore processing facilities are critical to the growth of King Cove; and

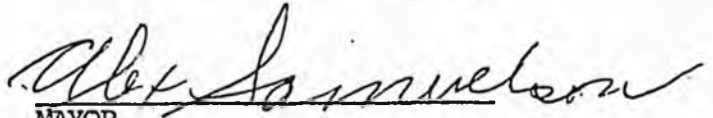
WHEREAS, the potential growth of the area's bottomfish industry makes it especially important that this segment of the processing industry be promoted,

NOW THEREFORE BE IT RESOLVED by the Council of the City of King Cove, Alaska, that the Governor and the Legislature be and are hereby urged to provide raw fish tax credits against the State's fifty percent for upgrading and modernization of shore-based fish processing facilities.

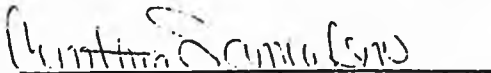
BE IT FURTHER RESOLVED that copies of this resolution be forwarded to:

The Honorable Bill Sheffield, Governor of Alaska
The Honorable Stephan McAlpine, Lieutenant Governor of Alaska
State Senators and State Representatives

PASSED AND APPROVED THIS 27th DAY OF February, 1985.


MAYOR

ATTEST:


CITY CLERK

SB 11 and HB 58: "An Act relating to the fisheries business tax."

The Department of Commerce and Economic Development has reviewed both the Senate (SB 11) and House (HB 58) versions of proposed amendments to AS 43.75.015-130, which would entitle a fisheries business to a credit of not more than 50 percent of the business tax liability under AS 43.75.015 for capital expenditures. As amended in the House Special Committee on Fisheries, CSHB 58 would require that to be eligible, capital expenditures would need to increase product diversity, promote production efficiency and capacity, or improve product quality as defined by the commissioner of the Department of Commerce and Economic Development.

The department supports the Fisheries Business Tax Credit concept as expressed in CSHB 58. The amendments by the House Special Committee on Fisheries to HB 58 provide a more concise definition of eligible capital expenditures to encourage investments in production facilities for groundfish, equipment necessary to meet quality control guidelines, engage in the manufacture of value-added products, and improve production facilities. We would recommend that those same amendments be made to SB 11.

Alaska's seafood industry has a significant impact on the economy of Alaska. It is the State's largest private sector employer, providing on a monthly average some 15,000 jobs with peak employment as high as 45,000. Every 100 jobs in the processing sector induces 28 jobs in other sectors of the economy, while every \$100 of new processing sector earnings stimulates an additional \$84 in the economy. Although the problem of "leakage" is often cited as a problem, the tax credit concept is designed to encourage the kinds of investments (i.e., value added processing) that will lead to its reduction.

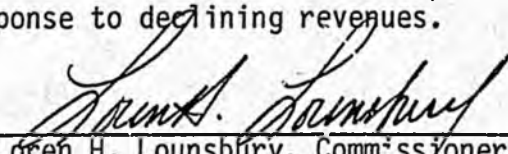
Both the private sector and State are facing any number of opportunities and challenges as we work to stimulate growth and diversity in the seafood industry. The opportunities are significant. The Magnuson Fisheries Conservation and Management Act, and renegotiations of the International North Pacific Fisheries Commission Conventions have dramatically increased our ability to more effectively manage our resources. Seafood consumption trends such as the exponential growth in sales of shellfish analogs made from surimi (\$200 million in 1984) and the increasing consumer awareness of the health benefits associated with eating seafood suggest a bright future in the U.S. marketplace. The situation, however, is not without challenges for the industry and the State. Our seafood companies operate in an international marketplace that bears no resemblance to the "free market" discussed by economists. Almost without exception our international competitors jealously guard local markets while simultaneously subsidizing exports to the U.S. So, for example, while Alaskan companies cannot legally export surimi to Japan, Japanese firms have almost unrestricted access to the growing surimi based products market.

Fisheries Business Tax Credit
Page Two

Canadian firms facing depressed prices can sell their cod products to the Canadian government who will store them at no cost until prices firm up, at which time they are resold to the producer at the original price. If prices remain soft, the product is "dumped," often in the U.S. market. However, subsidized competition is by no means the only challenge we face.

Most other states, lacking the blessings of our oil revenues, are actively seeking investment in new and existing industries. Processing operations such as those which produce surimi based products rely on a frozen intermediate product and do not have to locate immediately adjacent to the fishery. Of the three new such plants recently built or under construction, none are in Alaska. In Washington state, a municipality issued Industrial Development Bonds to finance a shellfish analog plant that will use surimi made from Alaska pollock. To encourage investment, 36 other states use tax incentives and concessions; between 1979 and 1982 fully 1/3 of those states expanded their incentive programs. While it may be difficult to define the success of such programs from a theoretical point of view, it is clear that a majority of our competitors for investment dollars have decided they are a sound economic development tool.

The importance of the seafood industry to Alaska will again be highlighted in the future as our communities are no longer able to substitute state spending for economic stability and diversification. The investment opportunity represented by the Fisheries Business Tax Credit concept can be an important part of the State's response to declining revenues.


Loren H. Lounsbury, Commissioner

Date: 3/20/85

5B11

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*****
*
* DELIVER TO: KARLYN BLACK
*
*
* ORIGINAL
* SENT: 02/27/85 TIME: 13:40
* FROM LIOKOD
* SUBJECT: SEN. RES. T/C 2/27
* PRINT DATE: 02/27/85 TIME: 13:47
*
*****

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MESSAGE #3

TO: KARLA BLACK
FR: LORNA IN KODIAK

- TO TESTIFY:
- 4. TIM BLOTT *OK*
 - 5. DAVE WOODRUFF *OK*
 - 6. OSCAR DYSON *OK*
 - 7. HAROLD POWELL *OK*
 - 8. JOHN SEVIER *OK*

EOM

*
* DELIVER TO: KARLYN BLACK *
* *
* *
* ORIGINAL *
* SENT: 02/27/85 TIME: 13:47 *
* FROM: LIOVAL *
* SUBJECT: T-C SB 11 *
* PRINT DATE: 02/27/85 TIME: 13:48 *
* *

Maldez

EMAIL #1

DIC.

✓ TO TESTIFY
1. SANDRA CESARINI, SEA HAWK SEAFOODS

*
* DELIVER TO: KARLYN BLACK *
* *
* *
* ORIGINAL *
* SENT: 02/27/85 TIME: 13:33 *
* FROM: LIKOD *
* SUBJECT: SEN. RES. T/C *
* PRINT DATE: 02/27/85 TIME: 13:47 *
* *

MESSAGE #2

TO: KARLA IN JUNEAU
FR: LORNA IN KODIAK

TO TESTIFY:
2. KEN ALLREAD *o/c*
3. RAY SPAGNOLA *o/c*

TO OBSERVE:
2. JAY E. STINSON
3. MAGGIE TUCK

ALL OUR PARTICIPANTS ARE HERE TO SPEAK OR LISTEN TO TESTIMONY ON
SB 11.

EOM

*
* DELIVER TO: KARLYN BLACK *
* *
* *
* ORIGINAL *
* SENT: 02/27/85 TIME: 13:27 *
* FROM: LORI LANDSTROM *
* SUBJECT: SEN.RES. TC 2/27 *
* PRINT DATE: 02/27/85 TIME: 13:48 *
* *

TO: JUNEAU TC/
FROM: SRI GORDON

PARTICIPANT LIST FOR 2/27 TC

TO TESTIFY:

- ✓ 1. LOTTIE EDELMAN-FISHERMANS PACKING *OK*
- 2. R.L. SCHMIDT-FISHERMANS PACKING *OK.*

NOTE: PARTICIPANTS HAVE A TIME CONSTRAINT. / THANK YOU

*
* DELIVER TO: KARLYN BLACK *
* *
* *
* ORIGINAL *
* SENT: 02/27/85 TIME: 13:25 *
* FROM: LIOKOD *
* SUBJECT: SEN. RES. T/C *
* PRINT DATE: 02/27/85 TIME: 13:48 *
* *

MESSAGE #1

TO KARLA BLACK

FROM KODIAK

HERE TO PARTICIPATE: *OK.*

✓ 1. SLIM JORGENSEN

HEM TO DISTRICT

1. IRENE POWELL



UNITED FISHERMEN OF ALASKA

319 Seward Street, Suite #10
Juneau, Alaska 99801-1188
(907) 586-2820

Cass M. Parsons
Executive Director

UFA TESTIMONY
SENATE BILL 11

As you have heard over the past few months, processors on the West Coast of United States and in Alaska are suffering extreme financial difficulties. Scarce resources of crab and shrimp, usually big money makers in the Alaskan processing industry, a strong dollar that discourages exports while encouraging imports from other nations, and a slow down of canned salmon sales, have all combined to bring Alaska's processors close to the brink. Several have toppled in and declared bankruptcy.

Unfortunately, when processors have problems, fishermen have problems too. We can't get the price from processors we need to stay in business. It is my opinion that some small good will come from this in that fishermen are being forced to take a more involved approach. More of them are catching, heading, gutting and icing their own fish and selling them directly to markets. They see a greater profit and consumers see a better product. Eventually processors will be forced to upgrade their quality in order to compete with direct sales by fishermen and imports from Norway. We may even see the day when processors pay fishermen for quality.

It is also my opinion that off-shore processing is going to continue to increase in the coming years and will eventually do much of the primary seafood processing in Alaska, whether from large catcher-processors or small gillnetters trying to make an extra dollar a pound. In the meantime, however, Alaska fishermen and communities are still dependent on the on-shore plants. Until the structure of the industry is changed sufficiently so that we are no longer dependent on them, fishermen will not benefit from their departure.

Senate Bill 11 attempts to lure processors to shore, provide some relief to those processors already on-shore, and give processors an incentive to improve their shore-based facilities. The bill does not attempt to provide the processors with an incentive to diversify or improve the quality of their products, but on the other hand, tax credits alone won't ensure diversification or quality; the market place or other legislation will have to do that.

Frequently, in creating complex tax credit schemes, we are expecting too much. Tax credits are not appropriate for every problem but we do believe this bill provides an adequate solution to some of the problems facing processors. The UFA supports legislation that gives Alaskan processors some needed financial assistance and Senate Bill 11 will do that.

We would like to see processors improve the quality of Alaskan seafood and to start processing undeveloped species. Under this legislation they have the option of using their credit for these purposes. If, however, they need to buy more cost effective canning equipment, we feel they should be able to do that as well.

It is unclear what effect this legislation may have in the long term, but in the short term, this legislation may help keep a lot of processors, communities and fishermen alive.

As John Sabella states in an article on the economic slump of the processing industry, "they've been down so long it looks like up. The name of the game is to diversify and hope."

SECTIONAL ANALYSIS

SB 11 -- Establishing a Fishery Business Tax Credit

Section one: This section amends the existing statute to delete the word "cannery" and insert "fishery business".

Section two: This section sets up the fisheries business tax credit program. Under the program, a fish processor is entitled to receive a credit of not more than 50 percent of its raw fish tax liability for capital investments in shore-based facilities. The program has a consecutive five year eligibility period for each fish processor, which the processor can initiate in any year through 1989. Fish processors will be allowed to carry eligible investments forward during their five year period, but will be unable to begin a tax credit for an item which has already been credited under this program.

This section also provides for an annual report (beginning in 1987) to the legislature on the benefits and utilization of this tax credit program.

Section three: This section provides that the calculation of raw fish tax refunds to local governments will not change and will continue as if the raw fish tax credit did not exist.

Section four: Defines capital expenditure.

Section five: This section repeals the raw fish tax program in 1994, after all eligibility under the program has expired.

SPECIAL RULE FOR RECAPTURE

1. If, during any taxable year, any property for which a credit has been granted is sold, disposed of, or otherwise ceases to be utilized in an Alaska shore-based fisheries business, then the tax under this section for such taxable year shall be increased by an amount not to exceed the credit against tax actually taken according to the following schedule.

<u>If the property ceases to be used by the fisheries business within</u>	<u>The recapture percentage is:</u>
One full year after placed in service	100
The second full year after being placed in service	50
The third full year after being placed in service	25
The fourth full year after being placed in service	10

Other appropriate changes

all CAPS

AS 43.75.018 Fisheries Business Tax Credit.

(a) A fisheries business is entitled to a credit of not more than 50 percent of the business tax liability under AS 43.75.015¹ for ^{eligible} capital expenditures placed in service by a shore-based fisheries business facility in the state which increase product diversity or improve product quality. if an application for the credit is approved by the Department of Commerce.

AS 43.25.140 (a) "eligible capital expenditures includes the price paid for the equipment and the costs of improvements made to depreciable property as defined by the Commissioner of Commerce and Economic Development but does not include expenditures which are deducted entirely for federal income tax purposes in the year in which they accrued or were paid.

PLANT: 105 MARINEWAY P.O. BOX 647, KODIAK, AK (907) 486-5748
HEAD OFFICE: FISHERMEN'S TERMINAL C-3 BLDG. ROOM 131, SEATTLE, WA 98119 (206) 285-2412 TELEX: 32-1295



alaska
fresh
seafoods, Inc.

MARCH 31, 1983

DEAR SIRs,

ENCLOSED, YOU WILL FIND OUR 1982 FISHERIES TAX RETURN AND OUR 1982 SEAFOOD MARKETING ASSESMENT RETURN, ALONG WITH OUR CHECK IN THE AMOUNT OF \$174,392.89 FOR BOTH OF THE RETURNS.

LET US TAKE THIS OPPRITUNITY TO EXPLAIN OUR POSITION AS TO THE CURRENT METHOD OF TAXING THE FISHING INDUSTRY. FIRST, WE ARE A SMALL PROCESSOR AND WE HAD TO BORROW THE MONEY FOR THESE TAXES. WE ARE SURE YOU WILL AGREE OUR \$174,392.89 IS QUITE A TIDY SUM. THIS CAUSES AN EXTREME HARDSHIP ON US ESPECIALLY WITH THE STATE OF THE FISHERIES IN SUCH AN ECONOMIC DEPRESSION.

SECOND, IF THE CURRENT METHOD OF COLLECTING TAXES CONTINUES, AS IT IS, IT MAKES IT VIRTUALLY IMPOSSIBLE FOR US AS A SMALL PROCESSOR TO BE ABLE TO EXPAND INTO THE DEVELOPING FISHERIES THAT THE STATE NEEDS SO BADLY IF THE FISHING INDUSTRY IS TO SURVIVE IN ALASKA.

THIRDLY, BECAUSE OF THE BURDEN CAUSED BY THE CURRENT METHOD OF TAXING THE PROCESSORS, YOU WILL FIND FEWER PROCESSORS TO TAX EACH YEAR. THIS OF COURSE WILL LIMIT YOUR TAX BASE WHICH WILL CAUSE MORE TAXING AND FINIALLY RESULT IN THE STRANGLATION OF THE WHOLE INDUSTRY.

WE WILL OF COURSE, CONTINUE TO PAY OUR TAXES. BUT, WE WOULD LIKE TO STRONGLY RECOMMEND A RE-EVALUATION OF THE ALASKA FISHERIES BUSINESS TAX AND THE FISHERIES MARKETING ASSESMENT. HOPEFULLY, THIS WOULD BE DONE WITH THE IDEA OF LESSENING THE BURDEN ON THE FISHERIES INDUSTRY.

YOURS TRULY,

DAVID M. WOODRUFF
VICE PRESIDENT,
ALASKA FRESH SEAFOODS, INC.

CC: GOVERNOR, WILLIAM SHEFFIELD
HONORABLE BOB MULCHY
HONORABLE FRED ZAROFF

DW:jg

Mail to:
 Department of Revenue
 Audit Division
 Pouch SA
 Juneau, Alaska 99811-0400

STATE OF ALASKA
 DEPARTMENT OF REVENUE
 ALASKA FISHERIES BUSINESS RETURN
 AS 43.75.011 - 140.

ONE RETURN PER
 PLANT OR VESSEL

Name (Person, firm or corporation) ALASKA FRESH SEAFOODS, INC.		E.I.N. or S.S. Number 911043499	
Mailing Address BOX 647		Fisheries Business License No. 82-046	Tax Year 82
City, State, Zip Code KODIAK AK 99615	Daytime Telephone Number (907) 486-5749	Location of Operation KODIAK	

Enter totals from Schedule A and/or Schedule B as indicated below and multiply by the appropriate percentages.

	TOTAL VALUE		TAX DUE		OFFICE USE ONLY
1. Canned Salmon - Shore-Based Business Schedule A; line 9, column (9A)	\$ 0	Multiply by 4½% (.045)	1	\$	
2. Other Shore-Based-Established Species Schedule A; line 9, column (9B)	\$5,164.037	Multiply by 3% (.03)	2	\$154,942.92	
3. Floating Business-Established Species Schedule A; line 9, column (9C)	\$ 0	Multiply by 5% (.05)	3	\$	
4. Shore-Based - Developing Species Schedule B; line 7, column (7A)	\$760.037	Multiply by 1% (.01)	4	\$ 7,600.37	
5. Floating Business-Developing Species Schedule B, line 7, column (7B)	\$ 0	Multiply by 3% (.03)	5	\$	
6. TOTAL TAX (Add Tax Due column, lines 1 through 5)			6	\$162,543.29	
7. Enter amount of any prepayments of estimated tax (\$25.00 license fee is not a prepayment) ...			7	\$ 0	
8. Balance due or (overpayment) (Subtract line 7 from line 6)			8	\$	
9. Penalty for late filing (5% per 30 day period not to exceed 25%)			9	\$	
10. Interest (12% a year)			10	\$	
11. TOTAL DUE WITH THIS RETURN (Add lines 8 through 10)			11	\$162,543.29	

NOTICE: If the fisheries business covered by this return is a shore-based fisheries business which floats, from 04-575 Vessel Itinerary must be completed and attached to this return.

ALLOCATION OF REVENUE. Please provide the information requested below to allow for allocation of revenue to local governments. If the return is for a vessel, complete the schedule on the right, showing the amount of the taxes allocated to each location. Please see the general instructions for further information.	Vessel Location	A, B or C	% of Tax Due Allocated					Dollar Amount Allocated Per Location
			Line 1	Line 2	Line 3	Line 4	Line 5	
Name of Cannery, Plant, Vessel or Business								
Physical Location of Cannery, Plant or Business								
Check A. <input type="checkbox"/> Within incorporated city limits only B. <input type="checkbox"/> Outside city but within organized borough one: C. <input type="checkbox"/> Outside all cities or boroughs								
I declare under penalty of perjury that this return (including all accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct and complete return.			This return must be filed with your payment on or before March 31, 1983. Make your remittance payable to the: DEPARTMENT OF REVENUE Audit Division Pouch SA Juneau, Alaska 99811-0400					
Signature of Taxpayer <i>X [Signature]</i>	Date X 3-31-83							
Signature of Agent <i>[Signature]</i>	Date							

Please attach as appropriate to this return, Schedules A - G and form 04-575 Vessel Itinerary.

Office Use Only

ALASKA FISHERIES BUSINESS RETURN
SCHEDULE B. DEVELOPING COMMERCIAL FISH SPECIES

Fisheries Bus. Lic. No. 82-046

Developing commercial fish species are taxed at a lower rate than established species. Use this schedule only to report fish and shellfish species that have been designated as "developing" by the Alaska Department of Fish and Game. A list of these species is printed on the back of this schedule. To report fish species that do not appear on the list of developing species, use Schedule A. Please read the instructions and definitions on the back before completing this schedule.

DO NOT INCLUDE ESTABLISHED COMMERCIAL FISH SPECIES SEE SCHEDULE A	A. SHORE-BASED FISHERIES BUSINESS		B. FLOATING FISHERIES BUSINESS	
	Pounds	Total Value	Pounds	Total Value
1. Fisheries resources processed that were taken in company-owned or company-subsidized boats operated by employees of the fisheries business or in boats operated under lease or other arrangement. Complete a Schedule C for each column entry.		(1A) \$		(1B) \$
2. Fisheries resources processed that were purchased by your company from fishermen qualifying for exclusion from payment of the tax. Enter Total Pounds and Total Value from Schedule D in the appropriate column.		(2A) \$		(2B) \$
3. Fisheries resources processed that were purchased by your company except those resources included on line 2. Complete a Schedule C for each column entry.	261,935	(3A) \$ 760,037		(3B) \$
4. Fisheries resources that your company custom processed for someone other than a licensed fisheries business. List the name of the person/company owning the product which was custom processed. Attach Schedule E, Owner's Statement of Value, for each person/company you list.				
(a)		\$		\$
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
(h)				
(i)				
5. Fisheries resources that were custom processed for your company. List the name of the company that processed the resource. Complete a Schedule C for each column entry.				
(a)		\$		\$
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
(h)				
(i)				
6. Other fisheries resources transported outside the taxing jurisdiction of Alaska for subsequent processing or sale, or sold outside the taxing jurisdiction of Alaska. List the name of the person/company that purchased the product. Complete a Schedule C for each column entry.				
(a)		\$		\$
(b)				
(c)				
(d)				
(e)				
(f)				
7. TOTALS. Add categories 1-6. Enter (7A) on page 1 of the Return, line 4. Enter (7B) on page 1, line 5.		(7A) \$ 760,037		(7B) \$

ALASKA FISHERIES BUSINESS RETURN
SCHEDULE A. ESTABLISHED COMMERCIAL FISH SPECIES

IMPORTANT. Before completing this schedule, please read the list of Developing Commercial Fish Species printed on the back of Schedule B. Any fishery resource processed that is included on this list is taxed at a lower rate and must be reported on Schedule B.

CUSTOM PROCESSORS. Use Schedule A only to report those established commercial fish species which you custom processed for someone other than a licensed fisheries business. You are not liable for the tax on fisheries resources you custom processed for another licensed fisheries business. You must, however, report on Schedule F those resources that you custom processed for another licensed fisheries business.

GENERAL INSTRUCTIONS

Before completing this form, please read carefully each category as described on lines 1-7. This will help you determine which categories apply to your fisheries business.

Make your entries in column A only for salmon canned at a shore-based cannery. For fisheries resources other than canned salmon which were processed at a shore-based fisheries business, make your entries in column B. For fisheries resources processed on a floating fisheries business, make your entries in column C.

If this return is for a shore-based fisheries business which floats, form 04-575 Vessel Itinerary must be completed. Make your entries as a shore-based business only if the vessel was anchored in one spot and did not move from that anchorage for any reason during the entire calendar year.

DEFINITIONS OF VALUE - 15 AAC 75.300

VALUE means the actual price paid for the fisheries resource by the fisheries business, including indirect consideration such as fuel, supplies, or gear, whether paid at the time of purchase of the

fisheries resource or tendered as a deferred, delayed, or advance payment, except that VALUE means the market value of the fisheries resource if the fisheries resource is taken in company-owned or company-subsidized boats operated by employees of the fisheries business or in boats which are operated under lease or other arrangement.

MARKET VALUE means the prevailing value paid for fisheries resources of like kind and quality by fisheries businesses in the same market area to fishermen who own their vessels.

If you CUSTOM PROCESSED a fisheries resource for someone other than a licensed fisheries business, you are liable for payment of the tax. List the VALUE of the resource as reported to you on the Owner's Statement of Value, Schedule E.

NOTE: Each entry you make in a Total Value column must be supported by a schedule C, D or E as appropriate that shows, in addition to other items, the species that are included in that entry. For lines 1, 3, 5, 6 and 7, complete a Schedule C for each entry. For line 2, attach a Schedule D for each entry. For line 4, attach a Schedule E for each entry.

DO NOT INCLUDE DEVELOPING COMMERCIAL FISH SPECIES SEE SCHEDULE B	A. SALMON CANNED AT A SHORE-BASED CANNERY		B. SHORE-BASED FISHERIES BUSINESS (DO NOT INCLUDE SALMON CANNED AT A SHORE-BASED CANNERY)		C. FLOATING FISHERIES BUSINESS	
	Pounds	Total Value	Pounds	Total Value	Pounds	Total Value
1. Fisheries resources processed that were taken in company-owned or company-subsidized boats operated by employees of the fisheries business or in boats operated under lease or other arrangement. Complete a Schedule C for each column entry.		(1A) \$		(1B) \$		(1C) \$
2. Fisheries resources processed that were purchased by your company from fishermen qualifying for exclusion from payment of the tax. Enter Total Pounds and Total Value from Schedule D in the appropriate column(s).		(2A) \$		(2B) \$		(2C) \$
3. Fisheries resources processed that were purchased by your company except those resources included on line 2. Complete a Schedule C for each column entry.		(3A) \$	3,437,088	(3B) \$5,164,764		(3C) \$
SUBTOTALS. Add lines 1-3 in each column. Enter sub-totals on the back of this Schedule A, line 8.		(A) \$		(B) \$5,164,764		(C) \$

ALASKA FISHERIES BUSINESS RETURN
 SCHEDULE C. FISHERIES RESOURCES PROCESSED
 BY SPECIES

Fisheries Bus. Lic. No. 82-046

Complete as many Schedules C as necessary to support the appropriate Total Value column entries made on Schedules A and B. For Schedule A, separate Schedules C are required for lines 1, 3, 5, 6 and 7. For Schedule B, separate Schedules C are required for lines 1, 3, 5 and 6.

For example, if you canned King, Coho and Chum Salmon as a shore-based cannery, and all of the salmon were purchased fresh at the dock, you correctly made an entry on Schedule A at line 3, column A. That entry would be supported by this Schedule, showing detailed information about each of the three species of salmon you processed.

For line category entries made on Schedule A, line 5, or Schedule B, line 5, you must provide a separate Schedule C for each person or company that custom processed for your company.

For line category entries made on Schedule A, lines 6 and 7, or Schedule B, line 6, you must provide a separate Schedule C for each person or

company that purchased the resource which was transported unprocessed out of Alaska's taxing jurisdiction.

For example, if you transported unprocessed fisheries resources out of Alaska's taxing jurisdiction and sold them to companies A and B, company A's name would appear in the box requesting "Name of Person or Company" in the first schedule below. The information for the species which were purchased by company A would then appear in the corresponding spaces. The next schedule would then be completed for the resources sold to company B.

NOTE FOR SCHEDULE B ENTRIES: Herring, shrimp, and certain species of crab are considered to be developing species only in certain areas. Additionally, shrimp are "developing species" in some areas only when caught with pot gear. For these species only, you must list the area where caught. For shrimp, you must also list the type of gear used.

THIS FORM CONTAINS FIVE SCHEDULES C. USE ADDITIONAL PAGES AS NECESSARY.

First complete the boxes immediately below by transferring information directly from Schedule A or Schedule B. For each species included in the totals you enter below, provide the information requested in the boxes to the right.

This Schedule supports the entry made at:		
SCHEDULE	LINE	COLUMN
A	3	B
Name of Person or Company (for Schedule A, lines 5, 6 or 7 only, and Schedule B, lines 5 or 6 only)		
TOTAL POUNDS (From Schedule A or B entry)		
3,437,088 lbs		
TOTAL VALUE (From Schedule A or B entry)		
\$5,164,764		

SPECIES OF FISHERIES RESOURCE	AREA WHERE CAUGHT AND TYPE OF GEAR AS APPLICABLE TO SCHEDULE B	TOTAL POUNDS OF THAT SPECIES	AVERAGE VALUE PER POUND	TOTAL VALUE FOR THAT SPECIES
KING CRAB		811,979	3.504	2,845,520
DUNGENESS CRAB		732,377	.749	547,791
TANNER CRAB		716,915	1.62	1,161,540
KING SALMON		476	.666	317
RED SALMON		202,492	.938	189,987
PINK SALMON		191,300	.259	49,500
CHUM SALMON		578,024	.438	253,020
COHO SALMON		195,841	.559	109,458
HALIBUT		7,684	.99	7,631

First complete the boxes immediately below by transferring information directly from Schedule A or Schedule B. For each species included in the totals you enter below, provide the information requested in the boxes to the right.

This Schedule supports the entry made at:		
SCHEDULE	LINE	COLUMN
B	3	A
Name of Person or Company (for Schedule A, lines 5, 6 or 7 only, and Schedule B, lines 5 or 6 only)		
TOTAL POUNDS (From Schedule A or B entry)		
261,935 lbs		
TOTAL VALUE (From Schedule A or B entry)		
\$760,037		

SPECIES OF FISHERIES RESOURCE	AREA WHERE CAUGHT AND TYPE OF GEAR AS APPLICABLE TO SCHEDULE B	TOTAL POUNDS OF THAT SPECIES	AVERAGE VALUE PER POUND	TOTAL VALUE FOR THAT SPECIES
SCALLOPS		237,922	3.147	748,741
BLACK COD		1,900	.95	1,805
PACIFIC COD		18,400	.304	5,592
CLAMS		3,713	1.05	3,899

January 27, 1984

Mr. Kenneth M. Allread, General Manager
Western Alaska Fisheries, Inc.
P.O. Box 2367
Kodiak, AK 99615

Dear Ken:

I want to acknowledge receipt, and thank you for your phone call and letter in regard to a bottom fish, or white fish, tax credit bill.

I appreciate the information that you have forwarded to me. It will be most helpful to us as we move forward with this.

Enclosed, please find the bill introduced by Fred in the House, and myself on the Senate side. There is, as you can see, some difference, and this is basically some strategy. I will of course, share your letter with Fred.

Esther joins me in sending our warmest personal regards.

Sincerely,

Senator Bob Mulcahy

BM/hp

Enclosure

WESTERN ALASKA FISHERIES, INC.

P.O. BOX 2367

KODIAK, ALASKA 99615

PHONE (907) 486-4112

TELEX 25-288

January 19, 1984

Senator Bob Mulcahy
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Senator Mulcahy,

After our phone conversation on Wednesday I did some more thinking. I believe that 1984 will be a critical year for Alaska and more important for me, Kodiak's entry into Bottomfish processing. I would urge you to support a Fish Tax bill that would allow a tax credit for 1984.

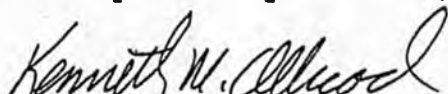
At the present time we are planning to install a Baader Codfish fileting machine. In fact we have Board approval at this time. This line could be operational in March 1984, but if there is no chance for a tax credit in 1984 it will most likely be delayed.

Our present budget for 1984 calls for processing 1,000,000 lbs of Codfish in 1984 with direct labor dollars of \$56,000.00. In 1985, 5,000,000 lbs of Codfish with direct labor \$262,500.00 and 1986, 8,000,000 lbs and \$420,000.00. We also expect to pay to the fishermen in 1984 - \$190,000.00, 1985 - \$1,000,000.00, and 1986 - \$1,680,000.00. This would all be new money to Kodiak and Alaska. It should create the year-round jobs that will raise the quality of our processing workers - much more professional labor for all species. When you compare our 1983 direct labor dollars of \$750,000.00 you can see that Bottomfish would result in a much expanded payroll. If this was to be multiplied by 8 or 10 plants it would mean big dollars to Kodiak and Alaska.

If Western Alaska Fisheries puts in the equipment in 1984 at a capital cost of around \$200,000.00 without a tax credit, and the 1984 test runs are disappointing, we could lose our Corporate support in 1985 even with the tax credit.

I would also like to stress again that if the State sells or leases the Gibson Cove plant at less than fair market value, restriction should be placed on that plant to only process under-developed species.

Thankyou for your time,


Kenneth M Allread
General Manager

Ms. Sandi Cesarini, Sea hawk Seafoods, Valdez telephoned my office and wished the following information and comments dealing with issues raised at the Special Committee on Fisheries teleconference to be given to committee members:

1. Several floating processors have expressed concerns that HB 58 only provides a tax credit for shore based processors, however floating processors presently have advantages and credits not available to shore based processors.

a. Under the Federal Income Tax system floating processors are eligible to defer 50% of their tax liability. They must provide a plan for capital improvement expenditures to the Department of Internal Revenue to enable them to deduct this tax deferrment off their income for the year. In other words they may take the credit up front which provides them with a real capital advantage over shore based processors. This tax deferred money is also eligible for a partial investment credit.

b. The fact that floating processors are able to move their processing plant provides them with a definite advantage over shore based processors. With fish runs varying each year the floating processors are almost assured of continual "good" catches as they are able to move to where the fish are being caught. A shore based processor on the other hand is limited to one area, if there is a poor catch in that area the shore based processor suffers.

c. While shore based processors remain on land in one area they also contribute to the local economy through payment of property taxes, municipal rates (water & sewer), electricity and they also provide a great deal of the employment in the community.

2. In answer to the suggestion of eliminating the raw fish tax completely Ms. Cesarini feels:

a. This would severely hurt the cities in which the shore based processors live. Ms. Cesarini states that the shore based processors do not wish to gain at the expenses of the communities in which they live.

b. If the raw fish tax was eliminated the end result would be that the shore based processors would have this extra money. HOWEVER, this additional money would now be taxable by the federal government as income received. The tax rate for many shore based processors is high and this additional income would be taxed at this rate (estimated 42%)

Ms. Cesarini feels that the processors would benefit more by being eligible to receive a tax credit up to 50% of their business tax liability for capital improvement expenditures. As HB 58 allows processors to carry this tax credit forward within the five year period this would benefit shore based processors considerably more than the elimination of the fish tax.

3. In answer to the suggestion of a 25% tax credit.

Several shore based processors have expressed their feelings of this idea. They believed the intent of HB 58 was to introduce a bill that would relieve the pressure on the fish processing industry. A 25% tax credit would not be sufficient to make any measurable impacts on the already suffering industry. HB 58 proposes to offer assistance to shore based processors for the next 5 years to enable them to improve and expand their operations. Due to the pressures the industry is currently experiencing many processors cannot make the improvements necessary to upgrade their facilities which is necessary if they are to survive and the pressures on the industry are to be relieved.

Processors feel if this was the intent and purpose of the bill, why start to put limits on it.



PATTY L. LaPIERRE
TAX EXAMINER
FISHERIES BUSINESS TAX

STATE OF ALASKA
Department of Revenue
Eleventh Floor
State Office Building

Pouch SA
Juneau, Alaska 99811
(907) 465-2371

EVERYTHING YOU ALWAYS WANTED TO KNOW
ABOUT FISHERIES BUSINESS TAX

ALASKA STATUTES
CHAPTER 75

Patty LaPierre
Supervisor, Fisheries and
Mining Tax Unit
Audit Division
Alaska Department of Revenue
Telephone: (907)465-2371

Joe Donohue
Deputy Commissioner - Taxation
Alaska Department of Revenue

EVERYTHING YOU ALWAYS WANTED TO KNOW ABOUT FISHERIES BUSINESS TAX

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Question: I. Who or what is liable for the Fisheries Business Tax?

Answer: As seen by the following examples, a fisheries business covers many situations:

- (a) Under AS 43.75 140(3), a person who processes (processing discussed later) a fishery resource in any way in the State of Alaska for subsequent sale is a fisheries business. The person does not have to own the product which was processed. He must only have processed the resource for the first time, except in the situation under AS 43.75.017 (processing of a product purchased from a fisherman qualifying for an exclusion from payment of the tax - full discussion in a later section). (In this situation the processor is the second processor but still liable for the tax.) If you accept this as literal, you will see that no matter how small the operation, a processor is a processor and is therefore a Fisheries Business and must obtain the Fisheries Business License, file a return and pay the tax if any is due.
- (b) Under Section 100, a fisheries business is a person transporting unprocessed fisheries resources outside of Alaska's taxing jurisdiction. One of the major problems here is who is responsible. The person owning the product when it leaves the State is the fisheries business. If the freight is FOB, Seattle, the ownership of the product does not pass until it leaves Alaska. If the freight is FOB, Juneau, ownership transfers before leaving the State. So, whoever owns the product as it leaves Alaska taxing jurisdiction is the one responsible for the Fisheries Business License and all the attending requirements.

In conclusion, the above are considered to be Fisheries Businesses, they are all required to obtain an Alaska Fisheries Business License, file a return and pay any tax that may be due.

Law: AS 43.75.140(3) "Fisheries business" means a person who engages in processing fisheries resources for sale by freezing, cooking, salting, or other method and includes but is not limited to canneries, cold storages, freezer ships, and processing plants.

15 AAC 75.300(4) "Custom processor" means a fisheries business which does not own the fisheries resources it is processing.

AS 43.75.100(a) A person taking, purchasing, or otherwise acquiring a fishery resource covered by AS 43.75.011 - 43.75.140 which has not been subject to the tax imposed in AS 43.75.015 is subject to the tax levied in AS 43.75.015 on the value of the fishery resource if the person

- (1) transports the fishery resource to a point outside the taxing jurisdiction of the state for subsequent processing or sale outside the taxing jurisdiction of the state,
- (2) sells the fishery resource outside the taxing jurisdiction of the state, or
- (3) has the fishery resource processed by a fisheries business in the state.

Question: II. What is processing and what isn't?

Answer: The following definitions have, in my opinion, cleared up "What is processing?" We even have those situations covered which refer to "not processed". The question which still remains is "Is beheading considered processing?" Using the regulations as my reference the answer must be: Yes. If a person beheads a fishery resource (other than decapitating shrimp) he is processing the resource.

Law: 15 AAC 75.300(1) "Processing" means any activity which modifies the physical condition of a fisheries resource, including butchering, freezing, salting, cooking, canning, dehydrating, or smoking; however, "processing" does not include decapitating shrimp and gutting, gilling sliming, or icing a fisheries resource solely for the purpose of maintaining the quality of the fresh resource;

15 AAC 75.300(3) "Processing fisheries resources for sale" means the series of activities which are performed in preparing the fisheries resources for subsequent sale, regardless of whether the processor owns the fisheries resources and, regardless of whether the processor is the seller in the subsequent sale of the fisheries resources.

Question: III. Custom Processing - Who is liable and what must be reported?

Answer:

If a fisheries business custom processes for another licensed fisheries business the owner of the product will be liable for reporting and paying any tax due. If a fisheries business custom processes for someone other than a licensed fisheries business the custom processor will be liable for reporting and paying any tax due.

Law:

AS 43.75.015(c) A person engaging or attempting to engage in a fisheries business who first actually and physically processes the fishery resource, or a person who purchases a fishery resource that is frozen from a person excluded by AS 43.75.017 from liability for the tax, is liable for and shall pay to the department the entire tax imposed by this section. In determining this tax liability, the person may deduct from the value of the fishery resource processed, the value of fishery resources that are canned or processed for other fisheries businesses. A person taking the deduction authorized by this subsection shall report all information relating to the deduction in accordance with regulations issued by the department.

15 AAC 75.030 LIABILITY FOR TAX. (a) The person engaging in a fisheries business who first actually and physically processes a fisheries resource is liable for and shall pay to the department the entire tax imposed under AS 43.75.015. If two or more persons perform separate steps in the processing of the same fisheries resource, the first person who performs a processing step is liable for and shall pay the tax. This section applies to the period June 1, 1979 through December 31, 1980.

(b) After December 31, 1980, the person engaging in a fisheries business who first actually and physically processes a fisheries resource or who has a fisheries resource processed by a fisheries business inside the state, for the person who purchases a fisheries resource that is frozen from a person excluded by AS 43.75.017 from liability for the tax, is liable for and shall pay to the department the entire tax imposed under AS 43.75.015. In determining the tax liability, the person who first actually and physically processed a fisheries resource may deduct from the value of the fisheries resource processed the value of a fisheries resource processed for another fisheries business. If a person custom processes a fisheries resource for another fisheries business, the custom processor is not liable for the tax, but if he custom processed for someone other than another fisheries business, the custom processor must pay the tax.

15 AAC 75.040. STATEMENT OF VALUE; RECORDS. (a) For periods before January 1, 1981, the department will, in its discretion, require a person contracting with a custom processor for fisheries resource processing to furnish the custom processor for fisheries resource processing to furnish the custom processor or the department with a statement of value for the resource processed by the custom processor. The statement of value must report the species of fisheries resources processed, the total pounds of each species, and the actual value by species, as determined in accordance with AS 43.75.140(7) and 15 AAC 75.300(5).

(b) The custom processor is liable for an additional tax assessment, if any, unless the custom processor obtains from the owner of the fisheries resource an assumption of liability for an incorrect statement of value.

(c) After December 31, 1980, the department will, in its discretion, require a person, other than a fisheries business, who contracts with a custom processor for fisheries resource processing to furnish the custom processor or the department with a statement of value for the resource processed by the custom processor. The statement of value must report the species, and the actual value by species, as determined in accordance with AS 43.75.140(7) and 15 AAC 75.300(5).

(d) The custom processor who processes a fisheries resource for a non-fisheries business is liable for an additional tax assessment, if any, unless the custom processor obtains from the owner of the fisheries resource an assumption of liability for an incorrect statement of value.

(e) The records of the owner of the fisheries resource shall be open to audit for purposes of verifying the values reported under (b) and (c) of this section. The owner's records shall be subject to the same statute of limitations as the records of a fisheries business.

15 AAC 75.050. STATEMENT TO BE PROVIDED BY CUSTOM PROCESSORS.

After December 31, 1980, a person claiming a deduction under 15 AAC 75.030 for a fisheries resource processed for another fisheries business shall include in his return a schedule, using the form provided by the department, which shows the following information:

(1) name, address, and fisheries business license number of each fisheries business for whom processing is done, and

(2) pounds of fisheries resource processed for the fisheries business, by species.

Question: IV. Who must obtain the Alaska Fisheries Business License and file the Fisheries Business Return?

Answer: All Fisheries Businesses, this includes "but is not limited to" fishermen claiming the exclusion under AS 43.75.017, custom processors, people transporting unprocessed product out of Alaska taxing jurisdiction, supermarkets, restaurants, and processors must obtain an Alaska Fisheries Business License and file the Fisheries Business Return. To date there are no exceptions to this requirement.

Question: V. How do you obtain an Alaska Fisheries Business License?

Answer: The application (Form 04-573 10/82) at first glance may look confusing, but that's only if you've never done one before or if you're doing this by yourself. Actually, if the steps listed below are followed the process is nearly painless. In addition, we do have instructions on page three of the application so my instructions will center on areas most asked by applicants.

1) Begin on page 2 (the back)

A) Numbers run at the top of the columns as follows:

1. This column covers all entries for products to be processed by the processor that will result in taxes being due for the license year.
2. This column covers only Salmon to be exported from Alaska which upon its departure has retained everything it had in the water except life. (It may have been frozen.) An entry here requires the addition of a \$50,000 Bond or a legal description of real property in the state of Alaska owned by the applicant worth at least \$50,000 attached to the application. This security is a requirement under AS 43.75.055 which covers payment of any taxes which may be due and also for payment to fishermen.

3. This column covers any unprocessed product which will be transported out of Alaska's taxing jurisdiction for sale or processing. Entries made in column 2 should not be included here.
- 4-6. These columns are self explanatory.
7. This column covers fishermen claiming the exclusion under AS 43.75.017 which states - A person is not liable for the fisheries business tax under AS 43.75.015 when the fishery resource is frozen aboard a fishing vessel if
- (1) the vessel is operated as a commercial fishing vessel under a valid commercial fishing license,
 - (2) the fishery resource is not processed beyond heading, gutting or cleaning, freezing and glazing,
 - (3) the fishery resource was caught by the vessel, and
 - (4) the fishery resource is sold by the person claiming an exclusion from the tax to a fisheries business licensed under AS 75.011 - 43.75.140 (§ 7 ch 117 SLA 1981).

If a fisherman qualifies for this exclusion, all entries must be made under column 7 which will show no tax due.

- B) To the left side of the application are five categories running down which will decide the applicable tax rate.
- A. Entries made on this line cover total estimated pounds and value of all salmon to be canned at a shore-based cannery at a tax rate of 4-1/2 percent.

Note: WHAT IS VALUE?

If you purchase, value is the total price paid to the fisherman. Example: The salmon was worth \$2.00; \$1.50 cash was paid and \$.50 was used towards supplies. The total value of the salmon was \$2.00, not \$1.50.

If you catch and process, the value is the ex-vessel price of the resource or the price which would have been paid if purchased from another fisherman.

Do not use a value based on processed product. This is in all cases a raw fish tax basis.

- B. Entries made on this line cover all processing to be done at a shore-based fishery for established fish species except salmon which will be canned. Floating vessels may make entries on this line and be licensed as a shore-based fishery if they intend to be at one location without moving for any reason for the entire calendar year of operation. In this instance, a Vessel Itinerary must be completed and attached to the Alaska Fisheries Business return for the year claiming this lower tax status. Please be aware, that any movement disqualifies the vessel for the lower tax rate of three percent.
- C. Entries made on this line cover all processing to be done on a floating vessel for established fish species at a tax rate of five percent.
- D & E. Before making entries on D or E, check the last page of the application packet which lists the fishery resources which qualify as developing. This list covers developing species by 1) area, 2) species, and 3) gear type. The species being claimed as developing must appear on this list or it does not qualify. Any entries made on these two lines must be supported by entries at the bottom of the page which will note what is being claimed. If an entry is not made which clearly shows what is being claimed, the entry made on D or E will be moved to B or C with the resulting increase in tax rate. D entries cover shore-based operations and E entries cover floating.
- 2) Having made the applicable entries for pounds and value, multiply the value by the appropriate percentage and add all column 6 entries, enter this total on 8 (on the back) and 7 on the front. This figure shows the estimated taxes which must be secured in one of three ways:

- a) purchase a Fisheries Business Tax Bond for 04-062 from an insurance company worth twice the estimated tax, or a letter of credit, certificate of deposit, money market certificate, Federal Treasury Bonds and other various negotiable instruments
- b) prepay the total estimated tax (no "prepayment" forms are available), or
- c) use lienable real property owned by the applicant in the State of Alaska worth at least 3 times the estimated tax. Remember, the property must be owned by the applicant. A stockholder of a corporation may not offer personal property for the corporation's use, and a partnership or joint venture application using property owned only by one applicant is not acceptable as full security. The property used would only cover the portion of that partner's liability and would not cover the remaining portion. (enter this information on lines 15-22 on the back page of the application)

- 3) Under 8, check the security of your choice. If using "a", attach a Fisheries Business Tax Bond to the application; if using "b", attach a check; if using "c", complete lines 15 - 22.
- 4) The Department of Labor has a \$10,000 security requirement which must be met before a license will be issued by the Department of Revenue. This security covers wage claims and payment to fishermen. Waivers of this requirement may be obtained if the processor does not hire employees and processes his own product. In any circumstance, the Department of Labor will notify the Department of Revenue when the requirement has been met or waived.

The security may be met by one of two ways:

- (a) a \$10,000 Bond purchased through an insurance company on Form 07-6059, or
- (b) complete a property lien on Form 07-6057.

These forms should be sent to the Department of Labor and not the Department of Revenue.

- 5) A non-resident has an additional requirement which must be met before being licensed. A Non-Resident Affidavit, Form 04-654 (10/80) must be completed and any taxes which may show as being due must be secured.
- 6) The rest of the fisheries business application should be self-explanatory and offer little in the way of confusion. Use #11 as a last minute check as an incomplete application will extend the length of time before receiving a license. If a license application has been sent to the Department of Revenue and nothing happens in two weeks, follow up by calling 465-2329. There is a good chance that something was missing and the application is incomplete.
- 7) Please contact the Tax Security and Licensing Sections at the Alaska Department of Revenue, Pouch SA, Juneau, Alaska 99811-0400, or Phone (907) 465-2329.

Law:

AS 43.75.011. Fisheries business license. A person engaging or attempting to engage in a fisheries business shall first apply for and obtain a license as provided in AS 43.75.020.

AS 43.75.020. Application for license. (a) Application for a license shall be filed with the Department of Revenue and accompanied by an initial fee of \$25. A separate initial fee is required for each plant specified in the application covered by the license. The application shall contain the name of the applicant, the line of business to be licensed, place of business, and other facts which the department prescribes. The applicant shall state that he agrees to pay the license tax, and that he will make a return and pay the tax at the time provided by law.

(b) Upon receipt of the application in proper form accompanied by the initial fee the department shall issue the license.

AS 43.75.055. Security for collection of taxes. Each applicant for a license under AS 43.75.011. -- 43.75.140 shall, in or with his application, state under oath the amount of each of the products which he expects to produce during the license year. The applicant shall further state the extent of lienable real property owned by the applicant in the state

against which the tax may be collected and other information with respect to description, location and value of the property which the department prescribes. If the lienable value of the property is not equal to three times the amount of the tax for which the applicant will probably be liable under this section the department may not issue the license until the applicant files with the department a surety bond approved by the attorney general in a penal sum equal to twice the probable amount of the tax for which the applicant will be liable, conditioned upon payment of the tax in full when due, with interest if not paid before delinquency. However, if the applicant purchases salmon for export from Alaska in the round, the amount of the bond is \$50,000 unless the applicant is the owner of lienable real property in the state of a value of at least \$50,000, and the bond must be conditioned upon payment of the tax in full when due. The department may waive the bond requirement if the applicant posts other security in the form of collateral acceptable to the department or prepays the estimated tax.

Question: VI. What is the Developing Commercial Fish Species List?

Answer: The Commissioner of Fish and Game has compiled a list per the requirement of the 1979 Legislature. This list was developed in an effort to encourage the development of the list species through special tax incentives. This list is developing by species, by area and by gear type. If a fisheries business claims a fishery resource on the Alaska Fisheries Business Return as a developing species the tax rate is two percent less in each case (for shore-based and floating) than would have been applied against the value of the product:

Established Fisheries	
Shore-based	3%
Floating	5%

Developing Fish Species	
Shore-based	1%
Floating	3%

Question: VII. What does qualifying for an exclusion under AS 43.75.017 entail?

Answer: This exclusion for payment of tax under the following statute is strictly that - an exclusion from payment of the tax. A fisherman qualifying for the exclusion must still

obtain the Alaska Fisheries Business License and submit page 1 of Fisheries Business Return with Schedule G filled out and attached. (Schedule G must be complete with all required information.) If the steps for qualification of the exclusion are not followed, the fisherman will be billed for any taxes which may be due.

Law: AS 43.75.017 A person is not liable for the fisheries business tax under AS 43.75.015 when the fishery resource is frozen aboard a fishing vessel if

- (1) the vessel is operated as a commercial fishing vessel under a valid commercial fishing license,
- (2) the fishery resource is not processed beyond heading, gutting or cleaning, freezing and glazing,
- (3) the fishery resource was caught by the vessel, and
- (4) the fishery resource is sold by the person claiming an exclusion from the tax to a fisheries business licensed under AS 75.011 - 43.75.140 (§ 7 ch 117 SLA 1981).

Question: VIII. When is roe processing a taxable event?

Answer: Only as shown by the following excerpts from the Law:

Law: AS 43.75.140(4) "Fishery resource" means fin fish, shellfish and fish by-products, including but not limited to salmon, halibut, herring, flounder, crab, clam, cod, shrimp, and pollock.

15 AAC 75.300(2) "Fisheries resource" means fin fish and shellfish, including but not limited to salmon, halibut, herring, flounder, crab, clam, cod, shrimp, and pollock. Fish by-products, such as roe, entrails, and carcasses, are separate fisheries resources if they are transferred to another person for processing.

Question: IX. How do you complete a Fisheries Business Return?

Answer: The 1981 and 1982 Fisheries Business Return Packets look difficult because of the mass of schedules. Thankfully, the instructions are very clear and I have had limited questions from taxpayers. I do encourage the industry to contact my unit for any questions they may have with the return.

04-574 The Return, page 1

Enter here all totals from Schedules A - B.

04-574A Schedule A

Entries made here are for taxable events for established fish species.

04-574B Schedule B

Entries made here are for taxable events for developing commercial fish species.

04-574C Schedule C

Species breakdown for line entries made on Schedules A and B - one section per line entry.

04-574D Schedule D

Enter purchases made from fishermen claiming an exclusion from payment of the tax under AS 43.75.017. This schedule replaces Schedule C for entries made on line 2 of Schedules A and B.

04-574E Owner's Statement of Value

Used in place of Schedule C for entries made on line 4 of Schedules A and B by custom processors. For tax year 1981, this schedule will be completed after the custom processing has taken place. From 1982 forward, this statement should be used as the custom processing occurs, to be later attached, completed, to the Fisheries Business Return.

04-574F Schedule F

Any custom processing done for other licensed fisheries businesses must be entered on this schedule as it is deductible from the tax liability. This schedule is an informational form and does not support any line entries made anywhere else on the return.

04-574G Schedule G

This report must be filed by fishermen claiming the exclusion under AS 43.75.017. All five criteria listed on the schedule must be met and the form completed or the fisherman would not qualify for an exemption. Page 1 of the return must be completed with the fisherman's signature at the bottom certifying under penalty of perjury that all statements are true, etc. Some confusion has surfaced regarding the requirements for fishermen and this should clear it up.

04-575 Vessel Itinerary

1982 Forward

Any floating vessel claiming the lower shore-based tax status must complete and attach this statement to the Fisheries Business Return. If this statement is not attached or is incomplete, an adjustment will be made to the return increasing the tax rate to the higher floating rate of tax. If the vessel is not claiming the shore-based tax rate, an Itinerary need not be completed.

1981 Back

Any floating vessel claiming the lower shore-based tax status must complete and attach this statement to the Fisheries Business Return. If the vessel was moved for drydocking a complete statement must be attached indicating date of departure, length of time vessel was being repaired and date of return. Any additional time spent away from the processing location that does not apply toward drydock repairs will disqualify the vessel for shore-based status. If this statement is not attached or is incomplete, an adjustment will be made to the return increasing the tax rate to the higher floating rate of tax.

Question: X. How do you obtain an extension of time to file?

Answer: Complete and submit the application for extension of time to file form # 04-576 (10/82)

Law: AS 43.75.030(c) The department may prescribe regulations for the granting of a reasonable extension of time for filing and may grant an extension of time for filing.

15 AAC 75.020 EXTENSION OF TIME FOR FILING RETURNS.

- (a) Upon a showing of good cause, the department will, in its discretion, grant a reasonable extension of time, not to exceed 180 days in the aggregate, for filing a return or report required by AS 43.75. An extension of time for filing a return or report does not extend the time for the payment of the tax or part of the tax.
- (b) The application for an extension of time for filing the return or report must be in writing and addressed to the Department of Revenue and must contain a full statement of the causes for the delay. It must be filed no later than 15 calendar days before the date the return is due.
- (c) If an extension of time for filing the return or report is granted, the return must be filed before the expiration of the period of extension.
- (d) If an application for extension is denied, the return or report must be filed within 10 calendar days after the date the notice of denial is mailed by the department or 10 calendar days after the due date, whichever is later.

15 AAC 75.025. (a) If the amount of tax due the department can not be precisely calculated at the time the return is due, the taxpayer shall either

- (1) file for and obtain an extension under section 20 of this chapter, or
- (2) file a return under section 10 of this chapter.

In the latter case, an estimated payment must be corrected by an amended return showing actual liability and accompanied by payment of the balance, if any, and filed no later than 180 days after the initial return. In both cases, the taxpayer shall use the best available information and shall submit the payment based on a good faith estimate. The estimated payment must be submitted along with supporting records and documents showing how the estimate was determined.

(b) If the taxpayer's estimated liability for the assessment is less than 90 percent of the actual liability, then the processor is subject to the penalty provisions under AS 43.05.220.

Question: XI. Is there an extension of time to pay?

Answer: Payment must be made on or before March 31. There are no provisions in the law for extending the time for payment.

Law: 15 AAC 75.020(a) Upon a showing of good cause, the department will, in its discretion, grant a reasonable extension of time, not to exceed 180 days in the aggregate, for filing a return or report required by AS 43.75. An extension of time for filing a return or report does not extend the time for the payment of the tax or part of the tax.

Question: XII. What is value or market value?

Answer: If the product is purchased, the value is the actual price paid including any considerations tendered in addition to the actual price paid. If the product was caught, the value would be the price which the fisherman would have paid another fisherman for the same product, or the market value, or ex-vessel price.

Law: AS 43.75.140(7) "Value" means the actual price paid for the fisheries resource by the fisheries business including indirect consideration such as fuel, supplies, or gear, whether paid at the time of purchase of the fisheries resource or tendered as a deferred or delayed payment, except that "value" means the market value of the fishery resource if the taking of the fishery resource is done in company-owned or company-subsidized boats operated by employees of the fisheries business or in boats which are operated under lease or other arrangement.

15 AAC 75.300(5) "Value" means the actual price paid for the fisheries resource by the fisheries business, including indirect consideration such as fuel, supplies, or gear, whether paid at the time of purchase of the fisheries resource or tendered as a deferred, delayed, or advance payment, except that "value" means the market value of the fisheries resource if the fisheries resource is taken in company-owned or company-subsidized boats operated by employees of the fisheries business or in boats which are operated under lease or other arrangement.

15 AAC 75.300(6) "Market value" means, the prevailing value paid for fisheries resources of like kind and quality by fisheries businesses in the same market area to fishermen who own their own vessels.

Question: XIII. When is the Alaska Fisheries Business Return payment due?

Answer: The return and payment are due at the same time. If a return with payment (if applicable) is received on April 1, having been filed for the previous calendar year activities, the return and applicable payment are late and liable for penalty and interest assessments.

Law: AS 43.75.030(b) The return shall be made on the basis of the calendar year to the Department of Revenue at Juneau before April 1 after the close of the calendar year.

AS 43.75.030(d) The tax shall be paid before April 1 after the close of the calendar year.

January 28, 1985

TO: Senator Arliss Sturgulewski
Chairman - Resources Committee

FROM: Senator Fred F. Zharoff

RE: SB 11

I would like to request a hearing, at your earliest possible convenience, on Senate Bill No. 11, "An Act relating to the fisheries business tax". There has been a great deal of interest in my district and from the fishing industry in this legislation. Please contact Karl Ohls on my staff for backup information.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

December 22, 1983

MEMORANDUM

TO: Representative Fred Zharoff

FROM: O. Alexander Hoke
Legislative Analyst

O. Alexander Hoke

RE: Raw Fish Tax Credit
Research Request 83-189

This memorandum addresses your questions regarding the design of a "raw fish tax" credit and the amount of tax credits that would be available to fish processors under such a system, especially for processors of developing fisheries. We also address alternatives to the tax credit suggested by officials in the Department of Revenue who reviewed your tax credit proposal.

ANALYSIS OF A RAW FISH TAX CREDIT

We understand that your proposal is to provide a tax credit of up to half of a processor's total Fisheries Business Tax liability for investments in plant and equipment which affect the quality of the fishery product or for investments in the processing of developing fisheries.

Models for a Raw Fish Tax Credit Program

There are numerous examples of investment tax credit programs in other states and in the Alaska and federal income tax systems. The tax credit programs tend to have a common approach and their implementing language is relatively straight forward. The credit is allowed against a tax liability (usually the state income tax), with the credit limited to a percentage of the investment made. In most cases, the percentage of the total investment allowed as a credit is 10 percent or less, but in a few instances, 100 percent of the investment is allowed as a credit. Presumably the more common smaller percentages are used in order to insure that the business seeking the credit is willing to place a substantial portion of their own resources into the investment, which effectively guarantees the soundness of the investments.

In most instances, the amount of the investment tax credit allowed in any tax year is limited to 50 percent of the business' total tax liability for that year. It may be assumed that this provision is designed to insure that the tax base is not severely eroded by the tax

Representative Zharoff
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credit program. Most states (and the federal government) permit the business claiming a tax credit to carry forward any unused portion of tax credit claimed for one year. Some programs allow the unused portion of the tax credit to be carried back to previous tax years in order to permit a business to take full advantage of the tax credit.

As an example of how the tax credit carry forward works, assume that a processor owes \$50,000 in raw fish tax to the State of Alaska. Since an investment tax credit of up to 50 percent of the total tax liability is permitted under your proposal, the tax credit limit for the first tax year is \$25,000. Suppose that this processor invests \$100,000 in new equipment eligible for the raw fish tax credit. If 100 percent of the investment is allowed as a credit against the raw fish tax liability, a credit of \$100,000 can be claimed. However, only \$25,000 can be used as a credit for the first year, leaving a total tax of \$25,000 to be paid, and a balance of \$75,000 in unused credit to be carried forward.

In the following year, assume that \$60,000 in fisheries business tax is owed. Although \$75,000 of raw fish investment tax credit was unused in the first year, only \$30,000 (half of the \$60,000 owed) may be claimed in the second year. Consequently, \$30,000 must be paid in raw fish tax while an equal amount is claimed as a credit. Also, \$45,000 in unused investment tax credit remains to be carried forward to the next tax year.

The carry back provisions allowed under the federal investment tax credit work in much the same manner as described above, except that in order to claim the credit, the business must file amended returns for prior years under which the credit is to be claimed. In this case, the federal government refunds any over paid taxes as a result of the amended returns.

The third major element common to most tax credit programs pertains to the type of investments for which a credit can be claimed. In most cases, the nature of investments eligible in the tax credit program reflects specific policy goals. For example, Colorado targets new and expanded mining and milling business investments; Florida credits investments in facilities situated within state-designated enterprise zones; Massachusetts limits credits to investments in manufacturing, agriculture, commercial fishing, and research and development businesses; Pennsylvania permits a tax credit for corporate investments in neighborhood revitalization and job training; and Virginia provides tax credit for business investment in impoverished areas of the state.

A more complete description of the form and content of various investment tax credit programs in the states can be found in the attached research bulletin, Tax Incentives and Financing Assistance for Industrial Location.

Fisheries Business Tax: AS 43.75.015

The fisheries business tax (raw fish tax) is defined by Alaska statutes as a percentage of the "market value" or actual sale price of the fishery resource. The sale price includes other valuable considerations offered in the transaction such as fuel, supplies, or gear. The tax percentage differs for shore-based businesses (processors), floating processors, and processors of developing fisheries as shown in the table below:

Table 1
 Fisheries Business Tax Assessment
 Based on the Value of Fish Processed

<u>Fisheries Business Type</u>	<u>Percentage of Value Assessed Under the Raw Fish Tax</u>
Shore-based canned salmon	4.5%
Other salmon processors and all other shore-based fish processors	3.0%
Floating fisheries processors	5.0%
Shore-based processor of developing fishery	1.0%
Floating processor of developing fishery	3.0%

The revenue generated under the fisheries business tax is shown in the table below as provided by the Department of Revenue:

Table 2

----- Fisheries Business Tax Revenue -----
 (millions of dollars)

<u>Processor Type</u>	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>
Canned Salmon	3.8	5.5	6.7	4.3	5.9	8.6	4.3
Shore-Based	1.9	2.3	3.3	7.6	11.0	8.7	11.5
<u>Floating</u>	<u>.5</u>	<u>.5</u>	<u>1.9</u>	<u>2.7</u>	<u>3.8</u>	<u>5.5</u>	<u>4.7</u>
Totals	6.2	8.3	11.9	14.6	20.7	22.8	20.5

Half of the fisheries business tax revenues are reserved for the local government under whose jurisdiction the fish processor is operating. Under your proposal, the revenues collected on behalf of the local government jurisdictions would continue to be transferred to that level. The remaining half of raw fish tax collected by the State could be subject to the investment tax credit for processors.

A total of 488 fisheries business licenses were issued in 1982, while only 410 fisheries business tax returns were filed for that year. This means that some businesses were conducting processing activities requiring more than one license. For example, some businesses operate both shore-based and floating processing facilities.

Because the Department of Revenue publishes tax revenues on a fiscal year basis, taxes owed for calendar 1982 (which are due by April 1, 1983) are recorded as FY83 revenues. In actual practice, tax revenue will not always be paid by the processors by the April deadline. Some processors in financial trouble are paying past due taxes on individually arranged payment schedules. As a rough approximation, however, average taxes paid by processors (shown in Table 3) can be computed by dividing total FY83 fisheries business tax revenues by total calendar 1982 business licenses issued.

Table 3
Average Raw Fish Tax Credit Allowed

<u>Processor Category</u>	<u>Total 1982 Licensed Processors</u>	<u>Fish Tax Revenues \$Millions</u>	<u>FY83 Est. Avg. Fish Taxed Owed Per Processor</u>
Shore-Based	218	\$11.5	\$52,752
Canneries	60	4.3	71,667
Floating	169	4.7	27,811

Average tax liabilities presented in Table 3 compare to Audit Division data which show that of the total of 410 raw fish tax returns for 1982, nearly one-fourth (108) of the returns reported more than \$50,000 in taxes owed.

An interesting fact about the 108 largest fish processors is that about 40 of these processors are owned by foreign companies while others are owned by Washington-based firms. Also, 15 of the fisheries businesses owing over \$50,000 in raw fish tax are making late payments according to a schedule arranged by the Department of Revenue. Presumably, the financial status of these businesses prohibits them from meeting their tax liability on time.

Processors of Developing Fisheries

There are approximately 60 shore-based processors and 60 floating processors which are taxed under the lower "developing fisheries" taxes shown in Table 1. In most cases, these businesses also process developed fisheries, which are taxed at the higher levels indicated in Table 1. A breakdown of the tax revenue raised under the developing rates of the fisheries business tax is presented below in Table 4.

Table 4

Raw Fish Tax Revenues on Developing Fisheries

<u>Processor Type</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Shore-based	\$137,090	\$192,389	\$280,002
Floating	<u>111,618</u>	<u>330,419</u>	<u>555,293</u>
Totals	\$248,708	\$522,808	\$835,295

A comparison of the calendar 1982 total raw fish taxes on developing fisheries (\$835,295) to the FY83 total of all raw fish tax revenue (\$20.5 million) shows that developing fisheries taxes constitute only about 4 percent of total revenues.

Average Tax Credit Estimation

A breakdown of fisheries business tax returns would have to be requested of the Audit Division of the Department of Revenue in order to gain a clear picture of how fish processors would be affected by a tax credit program. In lieu of such a breakdown, a rough approximation of average tax credits permitted under a 50 percent tax credit ceiling can be made by dividing total tax revenues by the total number of processors. Such approximations are made in Table 5 for two groupings of fish processors: an aggregate of all processors and a subgroup of developing fisheries processors.

Table 5

"Raw Fish Tax" Credit Estimation
 Maximum Credit Allowed Based on 1982 Data

<u>Processor Category</u>	<u>Total Licensed Processors</u>	<u>Fish Tax Revenues</u>	<u>Est. Average Fish Tax Owed Per Processor</u>	<u>Estimated Tax Credit Per Processor**</u>
Shore-Based (Total)	218	\$11,500,000	\$52,752	\$26,376
Canneries	60	4,300,000	71,667	35,833
Floating (Total)	169	4,700,000	27,811	13,905

Undeveloped Fisheries Shore-Based	60*	280,002	4,667	2,333
Undeveloped Fisheries Floating	60*	555,293	9,255	4,627

*The data shown for developing fishery processors represent a portion of the comprehensive Shore-Based and Floating categories shown immediately above in this table.

**These figures reflect the average of maximum credits allowed based on 50 percent of taxes owed.

Of course, the average credits estimated above may present a somewhat misleading picture of the spread of potential tax incentives under your proposed investment tax credit program. Large processors may claim larger credits than the averages shown above if their tax liability exceeds the average of taxes owed for all processors. Likewise, small processors may find that their allowed credits are substantially less than those indicated above, depending on their tax liability.

We have not attempted to determine whether or not tax credits in the range of \$14,000 to \$36,000 would induce fish processors to make investments in new plant and equipment. However, it seems likely that if the investment tax credit program is restricted to processors of developing fisheries only, the potential tax credits of \$2,000 to

\$4,600 would provide little incentive for upgrading processing facilities. At the very least, the impact on the processing industry for developing fisheries appears to be insignificant given the modest investments that could be made using tax credits shown in Table 5.

Revenue Leakage To Federal Government Under Tax Credit Program

A concern expressed by Maureen O'Brien, Audit Division Director for the Department of Revenue, is that a number of large processors may find that the effectiveness of a raw fish tax credit is attenuated to the extent that a portion of their tax burden is merely shifted to the federal income tax. Since taxes paid to the State of Alaska are deductible under the federal income tax, a credit against state taxes translates into higher taxable income at the federal level.

For example, assume that a major fish processor reports \$100,000 in taxable income on its federal income tax return after a deduction of \$60,000 in taxes due under the Alaska Fisheries Business Tax. If the raw fish tax credit were implemented, this processor would be eligible for a tax credit of \$30,000. This would boost the processor's federal taxable income to \$130,000, with all income over \$100,000 taxable at the maximum 46 percent rate. Consequently, the actual effect of the tax credit would be \$30,000 minus the federal income tax increase of \$13,800 (46 percent of \$30,000), leaving \$16,200 to offset the company's investment in new plant and equipment. In other words, for some large processors, every raw fish tax revenue dollar foregone by the State as a tax credit would buy 54 cents worth of new plant and equipment in the Alaska fish processing industry.

For smaller processors with taxable incomes in a lower tax bracket, this loss of State revenue to the federal income tax would not be as great. Furthermore, some investments in new equipment would qualify for the 10 percent investment tax credit and the accelerated cost recovery (depreciation) provisions of State and federal income tax law. These provisions would effectively increase the amount of raw fish tax credit that would actually be available for investment in fish processing industry improvements.

ALTERNATIVE INCENTIVES FOR FISH PROCESSING INVESTMENTS

Accelerated Cost Recovery System

Tax incentives for upgrading equipment and plant improvements are presently available to fish processors in the form of credits against a corporation's federal or State income tax liability. As a component

of the Economic Recovery Tax Act of 1981, the U.S. Congress passed legislation allowing businesses to recover (depreciate) investments in new plant and equipment at a more rapid rate than under previous tax law. Under the Accelerated Cost Recovery System, property is classed as 3-year, 5-year, 10-year and 15-year recovery property. Ten and fifteen-year property relates primarily to utility property, while three and five-year property is defined in Table 6. The State of Alaska adopts the provisions of federal tax law including the Accelerated Cost Recovery System in AS 43.20.021.

Table 6
Accelerated Cost Recovery System and Investment Tax Credit

<u>Cost Recovery Class</u>	<u>Property Description</u>	<u>Investment Tax Credit Allowed</u>
3-year	autos, light trucks, some research & development equipment	6% of investment cost
5-year	most machinery and equipment, furniture and fixtures	10% of investment cost

Investment Tax Credit

A second economic stimulus in the 1981 Recovery Tax Act is the investment tax credit. A credit is offered against federal income tax liability equal to a percentage of the total investment cost of new equipment as shown above. The credit on investments is limited to 80 percent of the first \$25,000 of federal tax liability and 90 percent of all tax owed above \$25,000. Credit in a given tax year is limited to the total income tax owed to the government, although investment tax credit can be carried back three tax years or carried forward between seven and ten tax years and applied against taxes owed. Consequently, virtually all of the credit can be used to offset past or future tax liability.

Alaska statute (AS 43.20.036 b) limits the investment tax credit by allowing credit against only the first \$20 million of qualified investment property (except pollution control equipment) for each tax year. The Alaska income tax credit allowed in any tax year is limited to 18 percent of the investment tax credit claimed for federal income tax purposes.

Energy and Rehabilitation Investment Credits

In addition to the standard tax credits allowed on investments of all new equipment, the Internal Revenue Code permits specific investment credits for energy property and rehabilitation of old facilities. These credits are listed in Table 7.

Table 7
Energy and Rehabilitation Investment Tax Credits

<u>Property Investment Class</u>	<u>Tax Credit As a Percentage of Investment</u>
Energy: Solar, wind, geothermal and ocean-thermal	15%
Energy: Small hydro-electric	11%
Energy: Biomass	10%
Rehab.: 30-year old structure	15%
Rehab.: 40-year old structure	20%
Rehab.: Certified historic structure	25%

Elective Expense Deduction

Federal tax law also permits a business to "expense" a limited portion of depreciation property each year as shown below.

<u>Tax Years</u>	<u>Expense Limit</u>
84 & 85	\$7,500
After 85	\$10,000

This provision means that property normally depreciated could be treated as a business expense and fully deducted from gross income up to the limits shown above.

Loan Programs

At present, there are five sources of loans and loan guarantees available to fish processors through State programs. Aside from conventional financing sources (banks) these sources include:

- Commercial Fishing and Agriculture Bank (CFAB)
- Alaska Resources Corporation (ARC)
- Fishery Product Revolving Loan Guarantee Fund
- Small Business Loan Program
- Alaska Industrial Development Authority

In the interest of transmitting this memorandum to you at the earliest possible date, we have not taken the time necessary to fully evaluate the loan program alternative suggested by the Department of Revenue. In a follow-up memorandum, we intend to review the provisions of existing loan programs to determine their suitability as a source of financing investments in fish processing industry. We will also examine the proposal of creating a new loan program as a source for financing improvements in the fish processing industry. We hope to be able to provide you with this additional information by the middle of January.

Inventory Control And Quality Fisheries Products

While discussing the implications of the proposed raw fish tax credit with John Mintken, of the Revenue Department's Audit Division, an alternative relating to processors' inventories was suggested. Mr. Mintken proposed a State-supported inventory control system designed to stabilize the fisheries product market structure and provide additional warehousing and freezer storage capacity.

Mr. Mintken feels that a major problem for processors is uncertainty of the consumer demand for and market price of fisheries products. This uncertainty is closely tied to the volatility in total harvest of fish from one season to the next. Mr. Mintken believes that much of the reluctance to invest in new plant and equipment results from the considerable financial risk imposed by unknown fish prices, market demand, and harvest volumes. He suggests that the State could act as a warehousing/cold storage intermediary, available to purchase surplus fish products much as the federal government absorbs surplus grain production on a national level.

The State has, in fact, begun a program of this nature to support the developing grain producing business in Alaska. Last year, HB 156 created a State grain reserve program in which farmers can deposit their surplus grain in the State reserve as collateral for a loan from the

State. The loan amount is set at a level equal to the cost of producing the grain. The grain can be redeemed by the producer at any time by paying off the loan with interest. This means that the farmer is guaranteed that he can "sell" any grain that he produces, although the portion he turns over to the State reserve is essentially "sold" at the cost of producing it. If the market price for grain rises above the cost of production, the farmer can redeem his grain and sell it on the open market at a profit. If the farmer defaults on his loan, the State has "purchased" his grain at cost and is free to sell the grain at any time.

Obviously, a direct parallel can be devised for fish processors insuring them that they can "unload" any surplus fish products at a base price which guarantees no profit but at least protects them from loss.

According to Dave Bowhay, manager of Douglas Cold Storage, this practice may provide relief for processors deluged by incoming fish resources beyond their storage capacity. Mr. Bowhay feels that a serious factor limiting the quality of fisheries products results from the overloading of processing plant capacity caused by increasingly compressed fishing seasons. Additional storage capacity is uneconomical to build because the facilities are only used during a brief period of the year. As a solution to the problem, Mr. Bowhay suggests that either the fishing season be stretched out or State-operated storage facilities be built to accommodate surplus resources.

CONCLUSIONS

It appears that a raw fish tax credit program limited to half of the business' tax liability could result in an investment potential of between \$14,000 and \$36,000 per processor on the average. Of course, larger processors would be eligible for substantially more than the average. This credit coupled with investment tax credits against federal and state income tax liability may provide sufficient incentive for fish processors to upgrade their facilities.

A tax credit program restricted to developing fisheries would provide questionable investment incentives given estimated average credits of between \$2,000 and \$4,600.

Credit Eroded by Federal Income Tax. Department of Revenue auditors are concerned, however, that a significant portion of the Fisheries Business Tax revenues foregone in an investment tax credit program would be absorbed through higher federal and state income taxes.

Inability to Raise Investment Capital. A number of the processors, including about 15 of the larger processors (over \$50,000 in raw fish tax owed) are presently unable to meet their tax liability on time.

Representative Zharoff
December 22, 1983
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These businesses may have difficulty obtaining the upfront financing needed to make investments which qualify for investment tax credits.

Tax Credit Benefits Foreign Processors. Another consideration regarding large processors is that about 40 of the 108 processors declaring a raw fish tax liability over \$50,000 are foreign-owned. An additional number of these processors are owned by Washington-based companies (we have no data on the exact number). Consequently, a credit against the fisheries business tax will benefit these companies along with Alaskan-owned companies. Unlike State residency requirements in many of the Alaska loan programs, an attempt to target only Alaskan processors for a raw fish tax credit would probably not meet constitutional standards.

Federal and State Income Tax Incentives. Investment incentives are presently offered in the form of investment tax credits against both State and federal income tax liability. According to auditors in the Alaska Department of Revenue, however, many of the state's fish processors (especially the smaller processors) have little or no income tax liability. Consequently, the benefits from an income tax credit would exist only to the extent that a processor has an income tax liability that could be offset by the investment credit.

We hope that this information is useful in your preparation of a fisheries business tax credit program. If you have other questions regarding this memorandum, please call us.

OAH

Attachment



Official Business

Alaska State Legislature

House of Representatives

Special Committee on Fisheries

Pouch V
Juneau, Alaska 99811

Phone:
(907) 465-4924

M E M O R A N D U M

February 6, 1985

TO: Members
Special Committee on Fisheries

FROM: Representative Peter Goll
Chairman

SUBJECT: Proposed Amendment to HB 58

The Office of Commercial Fisheries Development in the Department of Commerce and Economic Development has suggested that the committee might want to consider the following amendment to HB 58.

Add the following language to line 15, page 2, of the committee work draft:

has been approved or if the property is the subject of a sale or transfer between fisheries businesses having substantially common ownership.

This amendment is aimed at preventing companies from selling equipment or property to subsidiaries from taking advantage of the tax credit program.

PROPOSED COMMITTEE SUBSTITUTE

HB 58

Pg 1

21 * Sec. 2. AS 43.75 is amended by adding new sections to read:

22 Sec. 43.75.018 FISHERIES BUSINESS TAX CREDIT. (a) A fisheries
23 business is entitled to a credit of not more than 50 percent of the
24 business tax liability under AS 43.75.015 for eligible capital
expenditures

25 related to increasing production efficiency and capacity,
increasing product diversity, and improving product quality at
(TO) a shore-based fisheries business facility in the state made
26 during the tax year if an application for the credit is approved by
27 the department.

pg 3

8 (9) "eligible capital expenditures" includes the price paid for
the
9 equipment and the costs of improvements made to depreciable property
defined
~~designated~~ by the Commissioner of Commerce and Economic Development
10 but does not include expenditures that are deducted entirely for
11 federal income tax purposes in the year in which they accrued or were
12 paid.

TO: Senator Fred F. Zharoff
and SB 11 file

FROM: Karl Ohls

DATE: February 10, 1985

RE: House Special Committee on Fisheries' work last week on HB 58, the
fisheries business tax credit.

SUMMARY OF TELECONFERENCE AND HEARING, 2/5

Paul Christiansen - Icicle Seafoods (Petersburg):

Bill will enable us to make quality improvements. General support.

Melody Jordon - Seward Fisheries (Icicle Seafoods/Seward):

Reiterate Christiansen's comments.

Irving and Eileen Tormala - Crusader Seafoods (Kodiak):

We have a floating processor. Bill does not provide for floating processors. Certainly would like to improve quality of product on board the boat.

Ken Allread - Western Alaska Fisheries (Kodiak):

Kodiak plants have been on an austerity program. Would use tax credit to improve ice house, cost about \$100,000, to put in fish pump, cost about \$35,000. Also need to redo bio-dry process, give the waste fish to them in bigger chunks.

(In response to questions from Rep. John Binkley) Favor tax credit over fish tax repeal. All the improvements mentioned would be made whether fish tax credit or not.

Ray Spagnola - Ursin Seafoods and Kodiak Alaskan Fisheries (Kodiak):

Kodiak Alaskan paid in excess of \$100,000 fish tax last year and had losses of \$500,000. Not seem fair to pay fish tax when losing this kind of money. Would use tax credit to modernize plant and become more competitive.

Slim Jorgensen - Whitney-Fidalgo Seafoods (Kodiak):

Every processor in town could use tax credit. Tax credit for getting into bottomfish, expand freezing capacity, ice house. We'll spend all the money we can get. Fish tax is collected regardless of how much money you're making. You could be losing an equal amount.

Rep. Peter Goll:

What could be done to protect state from processors liquidating assets and turning credit into cash?

Jorgensen:

Don't think that's a problem. Not one person in this room who would do that. Look at their track records. Everyone's into this business for the long term. We would be looking at spending it on equipment, construction, stuff that would be built into the plant infrastructure.

Rep. John Binkley:

I'm in support of the idea of encouraging investment in plants. My proposal would be to limit tax credit to 25 percent of capital expenditure.

Jorgensen:

Probably every processor in state strapped for cash. Right now we are being mandated to make improvements.

With or without tax credit, we'll be spending plenty of our own money. Tax credit would even out the investment. I know I would have a little bit to invest each year.

(In response to question about eliminating tax completely) Coastal communities can use the revenue sharing. Not want to take it away from them.

Jerome Selby - Manager, Kodiak Island Borough:

Like to see industry get shot in the arm. Processors need credit.

Don't have figures in front of me, but borough received approximately \$700,000 from fish tax last year. Have \$6 million total budget.

John Sevier - Alaska Pacific Seafoods (Kodiak):

Tax credit would help us get into bottomfish.

Dave Woodruff - Alaska Fresh Seafoods (Kodiak):

Originally would have liked to see tax credit apply to bottomfish development only. But many plants need external repairs. Any relief you can give us, any extra money would be helpful. Support bill in any form.

(Not catch name) - Icicle Seafoods (Homer):

Tax credit help seafood industry make significant improvements.

Sandi Cesarini - SeaHawk Seafoods (Valdez):

If sell equipment purchased with tax credit before the depreciation schedule, not gain anything. Have to pay in taxes.

Royce Weller (along with Steve Kettle) - Dept. of Revenue:

No real evidence to suggest economic tax credits actually work. Concerned about loss to general fund. Maximum loss to state would be \$63 million. (?)

Bill aimed at shoreside. As reflected in Dept. of Revenue receipts, most of the investment money is going offshore.

Tax credits are helpful in the long run. Investors are concerned about the long run. Taxes are a minor consideration to investors. The market potential is the main thing.

Approximately 48 percent of the tax credit would be passed on to the federal government. 48 cents of each dollar processor received from a tax credit would go toward increase in federal tax liability. State taxes directly deductible from federal taxes. Calculation of 48 cents based on current federal tax rates. It assumes, of course, that the company is profitable.

Department of Revenue willing to work with sponsors to fashion a bill that is acceptable. Think Department of Commerce amendments are beneficial.

Alfred Owen - Kodiak Alaskan Seafoods (Kodiak):

We're a group of fishermen, 29 families in all, who bought Uganik Bay cannery. Originally bought plant to assure market for fish. Tax liability

this year is \$134,000. Could definitely use this. 'ave made improvements to plant in excess of \$200,000. Now have to can product. Could add freezing capacity. Anything we can get back from fish tax will be invested.

In recent years, fishing business not all the lucrative, such that not pay all that much federal taxes. So far, we haven't paid any. But we're looking forward to it.

Cass Parsons - United Fishermen of Alaska:

Bill is an attempt to lure processors onshore. Support legislation to give processors additional financial assistance. We feel legislation should be extended to fishermen who process their own catch. Fishermen live in and provide benefits to local communities. Would support amendment to this effect. Think Dept. of Environmental Conservation could come up with definition of small catcher-processors.

SUMMARY OF WORK SESSION, 2/10

Committee adopted two amendments (attached) proposed by Dept. of Commerce. First one defines what capital expenditures would qualify for the tax credit. Second one would prohibit companies from shifting equipment around within the units of their company. Much discussion over the meaning of the phrase, "substantially common ownership". Bill passed out of committee with this issue unresolved.

Rep. Peter Goll:

There are other issues that could be pursued -- the percentage of deduction and a recapture clause, which would require processors to pay state back for equipment, purchased with tax credit, that they sold before it depreciated.

Philosophically, have qualms about investment tax credit. On the other hand, investment onshore needs to be encouraged.

The percentage of the deduction and allowing equipment resale without penalties are two issues I hope members will consider in future hearings.

TO: Senator Fred F. Zharoff
FROM: Karl Ohls
DATE: Jan. 31, 1985
RE: Condensed summary of testimony from Jan. 29 Special Committee on Fisheries hearing on HB 58, "An Act relating to the fisheries business tax".

Summarized below are what I thought to be main points made during the testimony and discussion over HB 58 (SB 11 in the Senate).

Rep. Bette Cato:

Many processors have their backs to the wall. No way to process new species.

Rep. John Binkley:

How about giving credit on percentage of investment?

Rep. Peter Goll:

Under present bill, no risk on the part of the processor. Should be changed so some sort of investment required on part of processor.

Rep. Andre Marrou:

Like relative simplicity of bill. Like letting the businessman decide what type of capital expenditure is appropriate for business.

Rick Lauber (Pacific Seafood Processors Assoc.):

We support and are grateful for introduction of bill.

Majority of processors in state would be bankrupt if they weren't part of larger corporations. If they decide to get out of seafood industry, chaotic effect on Alaska. Small processors that don't have a parent company to support them go broke regularly.

With declining revenues, this is not seen as a time to decrease taxes. But consider that five years ago, fishing industry had its taxes increased. It was the only industry that had its taxes increased.

When took over 200-mile limit, we hoped we'd have a new fishery. But it is slow in coming. One problem is investment in facilities.

If development occurs outside three miles, no benefits to the state. The most benefit comes from shore-based plants.

In the case of developing species, suggest removal of one percent tax. Placed there because felt not have inhibiting effect on industry. Most of the developing species processing is pollock, high volume, low profit. Total tax collected \$500,000. Not a significant amount.

Trident Seafoods has spent \$22 million on new plant in Akutan. Could never hope to recover amount from tax credit. Small processors, however, could recover costs.

You may feel this is an inopportune time to talk about reducing taxes, but fishing industry is one of the oldest industries in the state. If we're going to be around to pick up the slack (after the oil runs out), we need some help.

Rep. Mike Navarre:

Mention of \$500,000 as not a significant amount is an unfortunate attitude in this state.

Rep. John Binkley:

Think idea of bill is to promote investment. Not see it like that. See it as a way to not have to pay tax. Small businessman would just go out and buy any kind of equipment to qualify for tax credit. No incentive for private operator to make investment of own money.

Rep. Peter Goll:

Concerned about overcapitalization. Equipment would be purchased whether needed or not.

Rick Lauber:

Processors not overcapitalized. Undercapitalized if anything.

Tax credit might make difference for processors deciding whether to come ashore or not. Five hundred processors registered in state. Tax credit has potential to affect about 100 of them. All pay fish tax. All pay assessment to support ASMI (except if earn less than \$50,000).

Greg Baker (Office of Commercial Fish Dev.):

(Passes out copies of proposed amendment) With change in language, Department of Commerce would support. Every 100 jobs in seafood industry creates 28 additional jobs.

The amendment speaks to some of the questions raised. It answers what an acceptable capital expenditure would be. Department of Commerce could define type of equipment.

We estimate \$3 million to capitalize surimi production in Alaska. Tax credit could not handle that, but think it will encourage investment. Our conversations with processors indicates tax credit would be a factor in making a decision.

Earl Krygier (Alaska Trollers Association):

Represent large number of small vessels. One of the fastest growing parts of the industry is catcher-processors. They catch and market their own fish. The owners are from small, local coastal communities.

Totally agree on intent of bill, but feel we are being discriminated against. Like to see amendment to allow small catcher-processors to qualify for tax credit.

POSTSCRIPT:

Teleconference on HB 58 with Kodiak, Sitka, Cordova, Valdez, Seward and Kenai scheduled for Tuesday, February 5, 8:30-9:15 a.m. Testimony will be taken afterwards in the committee room. Signed up so far are Cass Parsons of the United Fishermen of Alaska and Steven Kettel of the Department of Revenue.

House Special Committee on Fisheries will conduct work session on bill Thursday, February 7.

Rodger Painter, committee aide, told me committee would most likely amend the bill to include Baker's amendment and Binkley's ideas.

Talked to McKie Campbell, Senate Resources aide, on Jan. 31. He said committee probably will take the bill up after the House Special Committee on Fish finishes with its work, so as to avoid duplication of effort and to give the House committee an opportunity to solve any initial problems with legislation.

ATTACHMENTS:

Alaska Trollers Association statement on HB 58

Alaska Trollers Association statement on same bill last year

Greg Baker, Dept. of Commerce, proposed amendment

HOUSE BILL 58

REPRESENTATIVE BETTE CATO, HOUSE OF REPRESENTATIVES, DISTRICT 6.

I APPRECIATE THE OPPORTUNITY TO BE ABLE TO SPEAK BEFORE THIS
COMMITTEE.

HB #58 IS AN ACT RELATING TO THE FISHERIES BUSINESS TAX.

THE FISHING INDUSTRY IS THE LARGEST SINGLE PRIVATE EMPLOYER IN THE
STATE. THE ECONOMY OF MANY ALASKAN COMMUNITIES IS CLOSELY TIED TO
THIS INDUSTRY. THROUGH PAYMENT OF TAXES AND PROVIDING EMPLOYMENT
FOR MANY LOCAL RESIDENTS, WHO IN TURN SPEND THIS MONEY IN THE
COMMUNITY, THE FISHING INDUSTRY GENERATES A GREAT DEAL OF REVENUE
TO LOCAL COMMUNITIES.

THE BASIC FUNDAMENTAL OF THIS BILL IS TO ENCOURAGE LAND BASED
PROCESSORS TO IMPROVE AND EXPAND THEIR CURRENT OPERATIONS AND TO
PROVIDE AN INCENTIVE FOR OTHER PROCESSORS TO SET UP LAND BASED
PROCESSING PLANTS.

BY RECEIVING THIS CREDIT, SHORE BASED PROCESSORS WILL BE ABLE TO
UPGRADE AND EXPAND THEIR CURRENT OPERATIONS. THIS WILL HAVE A
POSITIVE IMPACT ON THE COMMUNITIES, THE FISHERMEN AND THE
PROCESSORS. THE QUALITY AND QUANTITY OF THE FISH BEING PROCESSED

WILL INCREASE AS THIS INCENTIVE PROVIDES THE MUCH NEEDED CAPITAL TO
CONSTRUCT LARGE FACILITIES, PURCHASE NEW AND UPDATED EQUIPMENT AND
GENERALLY MAKE IT POSSIBLE TO PROCESS A LARGER AMOUNT OF HIGHER
QUALITY FISH.

THIS INCREASE IN QUALITY AND QUANTITY WILL NOT ONLY INCREASE
PROFITS BUT ALSO PROVIDE MORE EMPLOYMENT FOR LOCAL RESIDENTS AND
HELP THE ECONOMY OF MANY ALASKAN COMMUNITIES.

OVER THE PAST SEVERAL YEARS THE SEAFOOD INDUSTRY HAS EXPERIENCED
PROBLEMS, SOME OF THESE SUCH AS THE FOREIGN EXCHANGE RATES, DOUBLE
DIGIT INFLATION ETC. WE DO NOT HAVE A LOT OF CONTROL OVER,
HOWEVER, IN ORDER TO PROTECT THIS VITAL INDUSTRY IMPROVEMENTS NEED
TO BE MADE. HB 58 PROVIDES PROCESSORS THE FUNDS TO MAKE THE
NECESSARY IMPROVEMENTS TO THEIR PLANTS WHICH WILL IN TURN MAKE THEM
MORE EFFICIENT, ABLE TO HANDLE LARGER QUANTITIES AND PROVIDE A
BETTER QUALITY PRODUCT THAT WILL BE VERY COMPETITIVE ON THE MARKET.
THIS BILL PROVIDES A TAX CREDIT OF NO MORE THAN 50% OF A SHORE
BASED PROCESSOR'S BUSINESS TAX LIABILITY. A FISH PROCESSOR MUST
INVEST IN CAPITAL IMPROVEMENTS TO A SHORE BASED FACILITY IN ORDER
TO QUALIFY FOR THE CREDIT. THE IMPROVEMENTS CAN BE INITIATED IN

ANY YEAR FOR FIVE CONSECUTIVE YEARS FROM 1985 TO 1989. THE PROCESSOR MUST SUBMIT THE APPLICATION TO THE DEPT. OF REVENUE FOR APPROVAL. INVESTMENT TAX CREDITS TOO LARGE TO BE CREDITED IN ONE TAX YEAR MAY BE CARRIED FORWARD.

HB 58 REQUIRES THE DEPARTMENT OF REVENUE AND THE DEPT. OF COMMERCE AND ECONOMIC DEVELOPMENT TO SUBMIT A REPORT TO THE LEGISLATURE WHICH DEMONSTRATES CAPITAL IMPROVEMENT MONEY SPENT, HOW THE EXPENDITURES INCREASED EMPLOYMENT AND/OR PROCESSING CAPACITY BY THE BUSINESSES FOR WHOM THE CREDITS WERE APPROVED.

THE FISCAL NOTE ATTACHED TO THIS BILL SHOWS THE MAXIMUM AMOUNT OF REVENUE AVAILABLE FOR TAX CREDIT TO SHORE BASED PROCESSORS AS THE DEPARTMENT DID NOT HAVE ANY WAY OF PROJECT WHAT PERCENTAGE OF PROCESSORS WILL TAKE ADVANTAGE OF THIS TAX CREDIT. HOWEVER, WHEN IT IS CONSIDERED THAT THESE CAPITAL IMPROVEMENTS WILL LEAD TO EXPANDED EFFICIENT PLANTS WHICH WILL BE ABLE TO HANDLE A GEATER VOLUME AND VARIETY OF FISH THE RETURNS FAR OUTWEIGH THE COST. OVER THE NEXT SEVERAL YEARS REVENUES WILL INCREASE AS MORE FISH ARE PROCESSED BY THE SHORE BASED PROCESSORS, THIS WILL BENEFIT THE

FISHERMEN AS IT WILL ENABLE A LARGER VARIETY OF UNDERDEVELOPED SPECIES TO BE PROCESSED. MANY PROCESSORS HAVE BEEN VERY LIMITED IN PROCESSING SOME OF THE UNDERDEVELOPED SPECIES BECAUSE THEY HAVE NOT HAD THE EQUIPMENT TO PROCESS THESE FISH. UPGRADING, AND EXPANDING THESE PLANTS IS AN ANSWER TO SOME OF THE PROBLEMS BEING EXPERIENCED BY THE SEAFOOD INDUSTRY TODAY.

THANK YOU FOR LISTENING TO ME. .

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

BILL SHEPHERD, GOVERNOR

POUCH 5
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

March 20, 1985

The Honorable Arliss Sturgulewski
Chairman
Senate Resources Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

RE: SB 11
Resource Committee Request

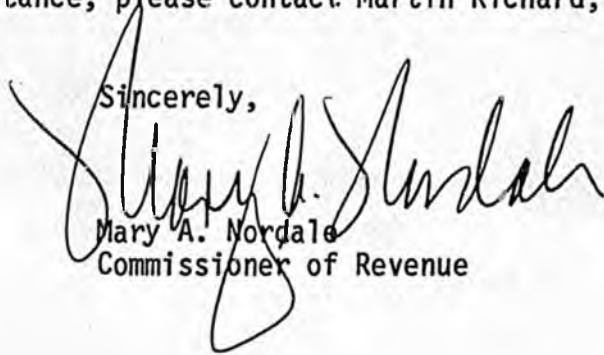
Dear Senator Sturgulewski:

In your letter to this office dated March 20, 1985 you requested statistics which reflect the number of out-of-state fisheries businesses paying the raw fish tax.

Our records indicate that 502 fisheries businesses were licensed in 1983. Of these, 217 are filing with out-of-state addresses. These 217 were assessed a total of \$15.44 million in fisheries business tax for the 1983 tax year. This represents approximately 83% of the total tax assessed for that year.

If we can be of further assistance, please contact Martin Richard, Director of Audit at 465-2320.

Sincerely,



Mary A. Nordale
Commissioner of Revenue

MAN:SEK:sp
85-40

SB 11 and HB 58: "An Act relating to the fisheries business tax."

The Department of Commerce and Economic Development has reviewed both the Senate (SB 11) and House (HB 58) versions of proposed amendments to AS 43.75.015-130, which would entitle a fisheries business to a credit of not more than 50 percent of the business tax liability under AS 43.75.015 for capital expenditures. As amended in the House Special Committee on Fisheries, CS HB 58 would require that to be eligible, capital expenditures would need to increase product diversity, promote production efficiency and capacity, or improve product quality as defined by the commissioner of the Department of Commerce and Economic Development.

The department supports the Fisheries Business Tax Credit concept as expressed in CS HB 58. The amendments by the House Special Committee on Fisheries to HB 58 provide a more concise definition of eligible capital expenditures to encourage investments in production facilities for groundfish, equipment necessary to meet quality control guidelines, engage in the manufacture of value-added products, and improve production facilities. We would recommend that those same amendments be made to SB 11.

Alaska's seafood industry has a significant impact on the economy of Alaska. It is the State's largest private sector employer, providing on a monthly average some 15,000 jobs with peak employment as high as 45,000. Every 100 jobs in the processing sector induces 28 jobs in other sectors of the economy, while every \$100 of new processing sector earnings stimulates an additional \$84 in the economy. Although the problem of "leakage" is often cited as a problem, the tax credit concept is designed to encourage the kinds of investments (i.e., value added processing) that will lead to its reduction.

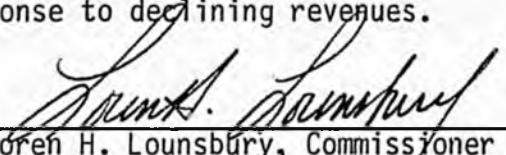
Both the private sector and State are facing any number of opportunities and challenges as we work to stimulate growth and diversity in the seafood industry. The opportunities are significant. The Magnuson Fisheries Conservation and Management Act, and renegotiations of the International North Pacific Fisheries Commission Conventions have dramatically increased our ability to more effectively manage our resources. Seafood consumption trends such as the exponential growth in sales of shellfish analogs made from surimi (\$200 million in 1984) and the increasing consumer awareness of the health benefits associated with eating seafood suggest a bright future in the U.S. marketplace. The situation, however, is not without challenges for the industry and the State. Our seafood companies operate in an international marketplace that bears no resemblance to the "free market" discussed by economists. Almost without exception our international competitors jealously guard local markets while simultaneously subsidizing exports to the U.S. So, for example, while Alaskan companies cannot legally export surimi to Japan, Japanese firms have almost unrestricted access to the growing surimi based products market.

Fisheries Business Tax Credit
Page Two

Canadian firms facing depressed prices can sell their cod products to the Canadian government who will store them at no cost until prices firm up, at which time they are resold to the producer at the original price. If prices remain soft, the product is "dumped," often in the U.S. market. However, subsidized competition is by no means the only challenge we face.

Most other states, lacking the blessings of our oil revenues, are actively seeking investment in new and existing industries. Processing operations such as those which produce surimi based products rely on a frozen intermediate product and do not have to locate immediately adjacent to the fishery. Of the three new such plants recently built or under construction, none are in Alaska. In Washington state, a municipality issued Industrial Development Bonds to finance a shellfish analog plant that will use surimi made from Alaska pollock. To encourage investment, 36 other states use tax incentives and concessions; between 1979 and 1982 fully 1/3 of those states expanded their incentive programs. While it may be difficult to define the success of such programs from a theoretical point of view, it is clear that a majority of our competitors for investment dollars have decided they are a sound economic development tool.

The importance of the seafood industry to Alaska will again be highlighted in the future as our communities are no longer able to substitute state spending for economic stability and diversification. The investment opportunity represented by the Fisheries Business Tax Credit concept can be an important part of the State's response to declining revenues.


Loren H. Lounsbury, Commissioner

Date: 3/20/85

City of Sand Point

P.O. Box 177
Sand Point, Alaska 99661
(907) 383-2696

CITY OF SAND POINT RESOLUTION # 85-15

A RESOLUTION SUPPORTING THE USE OF THE STATE PORTION OF THE RAW FISH TAX TO PROVIDE TAX CREDIT TO SHORE-BASED FISH PROCESSORS

WHEREAS, investment capital for onshore processing facilities is recognized as a critical component in Sand Point's fishing community; and

WHEREAS, the future onshore processing, facilities are critical to the growth of Sand Point; and

WHEREAS, the potential growth of the areas bottomfish industry makes it especially important that this segment of the processing industry be promoted,

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Sand Point, Alaska, that the Governor and the Legislature be and are hereby urged to provide raw fish tax credits against the State's fifty percent for upgrading and modernization of shore-based fish processing facilities.

BE IT FURTHER RESOLVED that copies of this resolution be forwarded to:

The Honorable Bill Sheffield, Governor of Alaska
The Honorable Stephan McAlpine, Lieutenant Governor of Alaska
State Senators and State Representatives

PASSED AND APPROVED THIS 19th DAY OF February, 1985

CITY OF SAND POINT

Jack R. Foster, Sr.
Mayor

ATTEST:

Debra K. Dushkin
City Clerk

CITY OF KING COVE

P. O. Box 37 • King Cove, Alaska 99612 • (907) 497-2340

RESOLUTION #85-10

A RESOLUTION SUPPORTING THE USE OF THE STATE PORTION OF THE RAW FISH TAX TO PROVIDE TAX CREDIT TO SHORE-BASED FISH PROCESSORS

WHEREAS, investment capital for onshore processing facilities is recognized as a critical component in King Cove's fishing community; and

WHEREAS, the future onshore processing facilities are critical to the growth of King Cove; and

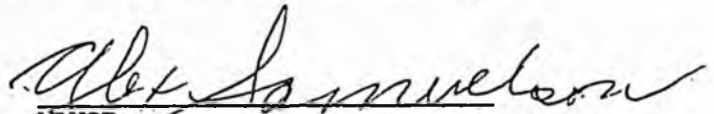
WHEREAS, the potential growth of the area's bottomfish industry makes it especially important that this segment of the processing industry be promoted,

NOW THEREFORE BE IT RESOLVED by the Council of the City of King Cove, Alaska, that the Governor and the Legislature be and are hereby urged to provide raw fish tax credits against the State's fifty percent for upgrading and modernization of shore-based fish processing facilities.

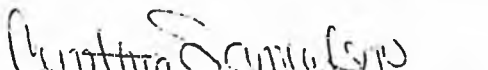
BE IT FURTHER RESOLVED that copies of this resolution be forwarded to:

The Honorable Bill Sheffield, Governor of Alaska
The Honorable Stephan McAlpine, Lieutenant Governor of Alaska
State Senators and State Representatives

PASSED AND APPROVED THIS 27th DAY OF February, 1985.


MAYOR

ATTEST:


CITY CLERK