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RECEIVED MAR 7 1988

March 2, 1988

The Honorable Cliff Davidson
Alaska State Legislature
P. O. Box V
Juneau, AK. 99811

Dear Representative Davidson:

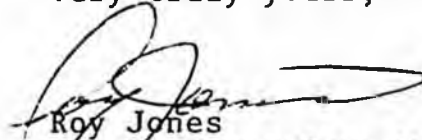
We have reviewed your proposed legislation represented by House Bill No. 408.

As a shore based fishery, we pay a fair share of fish tax and as such, feel that every processor in the state should share this burden.

This company realizes that the share of tax that is returned to the communities is a very important source of revenue in order to keep them solvent (especially with the depressed position we are now experiencing).

John Cabot Company would like to have it on record that we fully support your bill and grateful to see that you have taken the concerns of Alaska and the Alaskan people seriously.

Very truly yours,



Roy Jones
Alaska Operations Manager

RJ:sc

cc: Representative Adelheid Hermann
Representative Lyman Hoffman
Representative Mike Navarre

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX 5
JUNEAU, ALASKA 99811-0400
PHONE: (907) 465-2300

January 28, 1988

The Honorable Cliff Davidson
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Davidson:

Per your request we have reviewed your proposed legislation implementing the Fisheries Business Tax on resources processed outside our taxing jurisdiction and transported into our taxing jurisdiction. Before we get into the specifics of the bill language I would like to bring out a few points that I believe should be addressed.

1. The incidence or taxable event under current statutes AS.43.75 on fisheries resource is on the processing of that resource. Under your proposed legislation included in that event would be the resource processed at sea, Economic Enhancement Zone (E.E.Z.), and brought into our state waters. The shore-based fish processors currently pay anywhere from 1% to 4.5% on resources they process. Floating processors are currently paying only about 20% of the total tax collected under 43.75. However, it is estimated that over 500 vessels processed and transshipped over 1,200,000 metric tons of fisheries resources last year that the state never received any tax revenue from. So, in addition to giving the floating processors an advantage of 1% to 4.5% over our shore-based facilities, they are doing the majority of the processing. This legislation would put shore-based and floating facilities on equal footing in this competitive market.

As you know many communities are providing support services to the fishing industry and yet are not receiving any revenues from the activity. As a result the economic gain that this industry is experiencing has turned out to be in some cases an economic drain to the communities in which it is occurring. The communities provide fresh water, waste disposal, safe harbors, fueling facilities, police protection, medical facilities, libraries, etc. and yet because the resource is processed outside and brought in they receive no shared revenues.

2. Another benefit we see that could be realized from this bill would be an increase in our compliance with our current statutes and regulations. We believe we are not collecting a significant amount of revenue that is due us. The problem is the floating processors do not report the majority of their processing that is done within our waters.

The Honorable Cliff Davidson
January 28, 1988
Page 2

Unless we literally see the processor operating within our three-mile limit, we cannot prove the processing occurred within our waters. Consequently the crab boom of late 70's and early 80's was a tremendous boost for the fishing industry from which the state realized little or no revenue.

I had an example of this problem addressed to me just last week. A Seattle based crab processor who operates a 110' vessel, just filed an amended fisheries business returns for the last five years claiming hundreds of thousands of dollars of refunds. Prior to processing these claims we called his office in Seattle and inquired why he had reduced all his poundage totals by 80%. He explained that he had been paying the tax all along thinking the rest of the vessels were doing likewise. Then his accountant questioned why he was paying our tax, when other clients fishing the same resource were not. He questioned several of the other Seattle based operators who confirmed this.

3. The total revenue raised from Fisheries Business Tax for the FY87 was \$26,605,102. This revenue was generated from a resource value on Fisheries Business Returns for 1986 amounting to \$721,000,000. We know that the value of the bottom fisheries alone is over \$1 billion dollars. We believe the total resource value passing through our state waters to be over \$1.8 billion. That means we may have a shortfall of at least \$1 billion from our tax base under current statutes. This bill would certainly increase our revenues dramatically. Increasing our base by the \$1 billion would increase our revenues by \$50 million. This revenue would be raised from a portion of the industry that is paying no state taxes, and yet competing with our own state processors, who are paying their fair share. Fifty percent of that revenue would be shared back directly to the communities that are providing the services for those activities.

4. Another benefit that would be realized by the proposed legislation would be substantial increase in the budget of A.S.M.I. (Alaska Seafood Marketing Institute.) Under AS.16.51 processors who are liable for Fisheries Business Taxes also pay .03% of the value of the processed resource to the Department of Revenue. These amounts are then appropriated to A.S.M.I. as their working budget to help promote the Alaska Seafood Industry. Certainly the floating processors who have been operating in the EEZ zone have benefited from A.S.M.I. efforts and should be helping to support their mission. This legislation would do that.

5. As I am sure you are aware, this type of taxation is not new and certainly could withstand constitutional muster. The state of Washington has successfully taxed seafood products both food fish and shellfish for years with similar taxes. In fact, Washington taxes King Salmon at the rate of 5% that are taken from Alaskan Waters and landed in Washington. What this means is they are taxing an Alaskan fisheries resource that we, presently, are not able to. This legislation corrects that.

The Honorable Cliff Davidson
January 28, 1988
Page 3

As far as the specific language in the bill we have just a few comments that may aid our administration of the tax:

1. Provide for a definition of the taxable event such as:

(1) The taxable event is the first possession in Alaska by an owner.

Processing and handling of fisheries resource by a person who is not the owner is not a taxable event to the processor or handler.

2. Rather than excluding the tax on the resource that has been previously taxed, allow a credit for those taxes paid. In a situation such as Dutch Harbor that has a 1% landing tax for all resource that cross their dock, this would still allow the resource to be taxed by the state at 5% and giving a credit for the cities 1% landing tax, an example:

(2) A credit shall be allowed against the tax with respect to any tax previously paid on the same resource. To qualify, the owner must have documentation of that tax being paid.

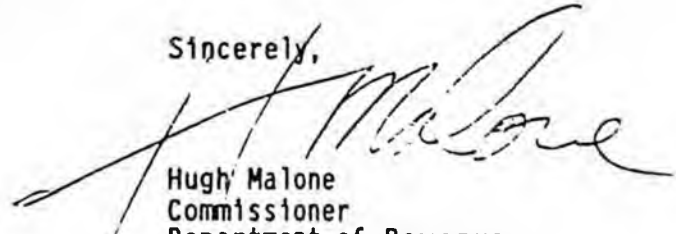
3. In the instance shore the resource may be further processed:

(3) Any further processing should be exempt from additional taxation.

These are just our initial reactions to this legislation. Upon further review and completion of fiscal notes a more detailed analysis will be completed that will provide data with specific industry statistics.

If you need any further assistance, please contact John Hansen with our Income and Excise Audit Division.

Sincerely,



Hugh Malone
Commissioner
Department of Revenue
(907) 465-2300

HM:tw
88-24

Alaska Legislative Digest

An Inside View of Alaska Policy

PUBLISHERS:
Mike Bradner / Tim Bradner

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Anchorage, AK. 99503

Helping Communities Offset Service Impacts

No. 4/88
February 5, 1988

Fish Tax: Going After The "Floaters"

Extending Alaska's raw fish tax to processed fish product moved through state waters from the federally-controlled Economic Enhancement Zone (E.E.Z.) could add \$50 million to state revenues, help coastal communities provide public services to the offshore fleet, and put Alaska shore-based processors on a more equal footing with offshore "floaters" who now largely avoid the impact of Alaska's fish tax, State Revenue Commissioner Hugh Malone says. Malone's comments were in a memorandum to Rep. Cliff Davidson of Kodiak, prime sponsor of legislation (HB-408) extending the tax to product moved through state waters.

"Shore-based fish processors currently pay anywhere from 1%-4.5% on resources they process. Floating processors are currently paying only 20% of the total tax collected under AS 43.75 (the current statute). However, it is estimated that over 500 vessels processed and transshipped over 1.2 million metric tons of fisheries resources last year that the state never received any tax revenue from. So, in addition to giving the floating processors an advantage of 1% to 4.5% over our shore-based facilities, they are doing the majority of the processing. This legislation would put shore-based and floating processors in equal footing in this competitive market."

Malone said new state revenues would be shared with coastal municipalities providing services to the offshore floaters. "Many communities are providing support services to the fishing industry (working in the EEZ) and yet are not receiving any revenues from the activity. As a result the economic gain that this industry is experiencing has turned out to be in some cases an economic drain to the communities in which it is occurring. The communities provide fresh water, waste disposal, safe harbors, fueling facilities, police and medical facilities, and yet because the resource is processed outside (state waters) and brought in they receive no shared revenues." (Continued Pg. 8)

Fish Tax: The Facts

Alaska Fisheries Business Tax Total FY 87
Revenue: \$26.6 Million.

Resource value reported on Fisheries Business
Tax returns: \$721 Million.

Estimated resource value passing through state
waters: \$1.8 Billion.

Increased Revenues, HB-408: \$50 Million

Inside this week's Digest:

***TOURISM PLANS: The new budget, new
direction.....Page 3

***TAPS SETTLEMENT: Worth \$1.5 billion to
state.....Page 2

***BRADLEY LAKE HYDRØ: Why it's needed
now.....Page 2

***SCHOOL "DISPARITY TEST": Feds "un-
officially" not impressed with state case. Page 7

***MANDATORY RURAL BOROUGH
CRA holds HB-1 for teleconferences....Page 7

***STATUS OF BILLS: Introductions, com-
mittee action, floor action.....Page 4/5

Fish Tax: Revenue Department Likes HB-408 (Cont.)

(Continued from Page 1) The change would also increase compliance with current statutes, Malone said. "We believe we are not collecting a significant amount of revenue that is due us. The problem is that the floating processors do not report the majority of their processing that is done within our waters. Unless we literally see the processor operating within our three-mile limit, we cannot prove the processing occurred within our waters," he said. For example, the crab boom of the late 1970s and early '80s was a tremendous boost for the fishing industry from which the state realized little or no revenue. Another benefit, he noted: A substantial boost to industry contributions to Alaska Seafood Marketing Institute. Under AS 16.51, processors liable to fisheries business taxes also pay .03% of the value of the processed resource to the state, which is turned over to ASMI to promote Alaska seafood products. "Certainly, the floating processors who have been working in the EEZ have benefited from ASMI efforts and should be helping to support the mission."

Real Estate Crises - Dave Rose's "Options Paper"

The only way to really improve battered commercial and residential real estate markets in major Alaska cities is to somehow take supply off the market, because the chances of new demand (created by population influx) is unlikely for the near to medium-term. Dave Rose, Alaska Permanent Fund Corp. executive director, has put together an informal 'options' paper for legislators to consider, if the decision is made that state intervention is necessary. Rose, a veteran finance specialist who helped put together the Alaska Industrial Development Authority and the Alaska Municipal Bond Bank, isn't convinced intervention is really necessary, but if there is to be some state action, Rose wanted it done in constructive manner. What also stimulated the paper, of course, was Anchorage Mayor Tom Fink's suggestion to tap Permanent Fund earnings to finance an economic aid program. Rose thought that wasn't necessary, and wanted to show lawmakers how it could be done "on the cheap."

Two key parts of Rose's plan involve taking supply off the market, which he feels is necessary to really help the problem. One suggestion is creation of a state-chartered "stabilization bank" that would receive loans and other assets from Federal Deposit Insurance Corp. and other institutions that want to participate. The bank would issue stock in 'payment' for the assets. FDIC and the other institutions would own and control this bank, though it would function under state banking regulation. Little state money would be involved, although the state could sweeten the deal to encourage FDIC and others in by providing a small amount of startup money, in return for stock. The essential thrust, however, is to create an entity to manage the orderly, coordinated liquidation of assets over a period of time. This lessens the threat of competitive selling between the institutions, which would further undermine real estate markets. It allows FDIC and the others to "get on with life", Rose says, leaving liquidation of the assets with a management group, the bank staff.

A second major element of Rose's plan involves the state more directly, though the financial outlay would also be minimal, he thinks. This would see AIDA, or some other entity, buy up substandard properties in foreclosure at the current price for the land. The buildings would then be destroyed, with the land then resold gradually as values improved over time. This is a low-risk strategy, Rose thinks, because in many cases the land is worth more vacant than with the buildings now on them. It might take 10-15 years to sell, but the chances of the state turning a profit are very good. This could also be a trust or an endowment, reserving an income stream to education, for example.

Other parts of the plan: State and local officials should press the federal Housing and Urban Development agency to destroy Hollywood Vista and Willow Park, two low-income housing projects in poor condition. Legislative resolutions urging this would be appropriate, as well as legislative resolutions urging Alaska State Building Authority and Alaska Housing Finance Corp. to get on with new solutions to the housing surplus, like using surplus condos for student or low-income housing.

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City _____ State _____

Zip Code _____

A suggestion by Rose that is bound to be controversial would see moratoriums on loans for new construction by AHFC and AIDA for a period of time, perhaps with a mechanism where local governments could petition for exceptions in communities without large stocks of surplus commercial and residential property. Municipalities should also take responsibility themselves, Rose says, by imposing their own moratoriums in different ways, to encourage faster absorption of the surplus.

ALEUTIANS EAST BOROUGH

SERVING THE COMMUNITIES OF

■ KING COVE ■ SAND POINT ■ AKUTAN ■ COLD BAY ■ FALSE PASS ■ NELSON LAGOON

March 15, 1988

Honorable Cliff Davidson
Alaska State Representative
P.O. Box V
Juneau, Alaska 99811

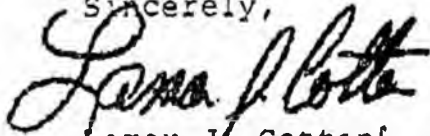
RE: HB 408

Dear Representative Davidson:

The correspondence serves as a letter of support for HB 408. This legislation will, in effect, help create a balance with respect to offshore and onshore processing. There seems to be a definite trend toward floaters that once operate in Alaska waters now are statin that they are operating further than three miles out and therefore exempt from both local and State taxes. Moreover, too often processors that are operating outside still use Alaska port and harbor facilities without paying any type of local tax. This legislation clearly addresses this issue. It is our opinion that this is not an additional tax on Alaska fisheries but merely one that fairly and uniformly places a tax on all processing activities around the State of Alaska.

As an entity that expects to foresee an increase of processing in the near future, this legislation will help both local and State government better deal with the fish processing industry and clearly assist in establishing better data for State as well as the industry.

Sincerely,



Lamar J. Cotten
Borough Administrator
1007 W. 3rd., Suite 201
Anchorage, Alaska 99501

CITY OF KING COVE

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

March 14, 1988

The Honorable Cliff Davidson
Alaska State Representative
P.O. Box V
Juneau, Alaska 99811

RE: HB 408

Dear Representative Davidson:

The City of King Cove supports the adoption of the Committee Substitute for HB 408, an act relating to the fisheries business tax. This support reflects the City's interest to have offshore processors that process and harvest fish resources off Alaska's coast pay their fair share of the cost to effectively manage and support the fishing industry. This cost now disproportionately falls on onshore based processors and Alaska resident fishermen.

We believe that HB 408 will result in significant new revenues for the State and will have minimal negative impact on the amount of offshore processing/fishing activity or on vessel traffic to/from Alaska's coastal communities. Specifically, HB 408 can be a key component of a State fisheries policy that helps accomplish the following goals:

- o Assists in raising the revenues the State needs to effectively manage the fishing industry and provide essential onshore infrastructure to support this industry. The City believes this tax would conservatively raise \$30 million dollars in new tax revenues. Although the State cannot dedicate its revenues, these tax revenues should make it easier for the State to implement a desperately needed domestic observer program and provide funds to assist communities to construct harbors, docks, and other onshore improvements.

- o Provide greater parity between the tax burden placed on onshore processors and offshore processors. The City believes the State should adopt and implement tax policies that encourage onshore processing. Onshore processing provides greater opportunities for the development of community economies.

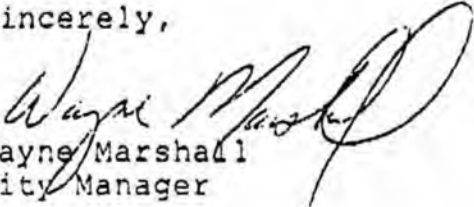
- o Greatly enhance the "tools" the Department of Revenue can use to enforce existing taxes on the offshore processing industry, as well as enforce this new tax. At present, all

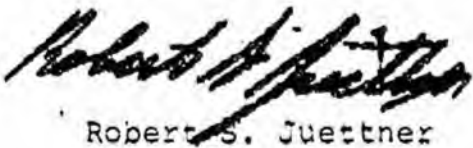
too many offshore processors simply do not pay the State Fisheries Business Tax; they cheat the State and local communities out of tax revenues which they should receive. Many processors avoid existing State taxes by claiming that they were operating in federal, not State waters, and thus do not owe a tax. This bill will eliminate this problem and make this fish product subject to State taxation.

o The State can obtain taxation on some fish species that are caught/processed off Alaska's shores and which are presently only taxed by the State of Washington. The City believes Alaska, not Washington, should benefit from tax revenues levied on these fish species.

A very large fishing industry is happening immediately off Alaska's coast and the State and its communities are receiving only a fraction of the direct benefit from this industry. HB 408 is a reasonable approach the State can use to capture some of this value. The City supports HB 408, and believes this is an appropriate step for the State to take.

Sincerely,


Wayne Marshall
City Manager


Robert S. Juettner
City Administrator

1007 W. 3rd., Suite 201
Anchorage, Alaska 99501
274-7555

cc: Senator Fred Zharoff

AMENDED BY THE LEGISLATURE OF
THE STATE OF WASHINGTON

RECEIVED

Effective July 28, 1985

JAN 15 1988

DEPARTMENT OF REVENUE
STATE OF ALASKA, JUNEAU

Chapter 82.27 RCW

TAX OF FOOD FISH AND SHELLFISH

82.27.010 Definitions. As used in this chapter, the following terms have the meanings indicated unless the context clearly requires otherwise.

(1) "Enhanced food fish" includes all species of food fish, shellfish, and anadromous game fish, including byproducts and parts thereof, originating within the territorial and adjacent waters of Washington and salmon originating from within the territorial and adjacent waters of Oregon, Washington, and British Columbia, and all troll-caught Chinook salmon originating from within the territorial and adjacent waters of southeast Alaska. As used in this subsection, "adjacent" waters of Oregon, Washington, and Alaska are those comprising the United States fish conservation zone; "adjacent" waters of British Columbia are those comprising the Canadian two hundred mile exclusive economic zone; and "southeast Alaska" means that portion of Alaska south and east of Cape Suckling to the Canadian border. For purposes of this chapter, point of origination is established by a document which identifies the product and state or province in which it originates, including, but not limited to fish tickets, bills of lading, invoices, or other documentation required to be kept by governmental agencies.

(2) "Commercial" means related to or connected with buying, selling, bartering, or processing.

(3) "Possession" means the control of enhanced food fish by the owner and includes both actual and constructive possession. Constructive possession occurs when the person has legal ownership but not actual possession of the enhanced food fish.

(4) "Anadromous game fish" means steelhead trout and anadromous cutthroat trout and dolly varden char and includes byproducts and also parts of anadromous game fish, whether fresh, frozen, canned, or otherwise.

(5) "Landed" means the act of physically placing enhanced food fish (a) on a tender in the territorial waters of Washington; or (b) on any land within or without the state of Washington including wharves, piers, or any extensions therefrom. [Ch 413, Laws of 1985, § 1.]

82.27.020 Excise Tax Imposed — Deduction — Measure of Tax — Rates. (1) In addition to all other taxes, licenses, or fees provided by law there is established an excise tax on the commercial possession of enhanced food fish as provided in this chapter. The tax is levied upon and shall be collected from the owner of the enhanced food fish whose possession constitutes the taxable event. The taxable event is the first possession in Washington by an owner. Processing and handling of enhanced food fish by a person who is not the owner is not a taxable event to the processor or handler.

(2) A person in possession of enhanced food fish and liable to [for] this tax may deduct from the price paid to the person from which the enhanced food fish (except oysters) are purchased an amount equal to a tax at one-half the rate levied in this section upon these products.

(3) The measure of the tax is the value of the enhanced food fish at the point of landing.

(4) The tax shall be equal to the measure of the tax multiplied by the rates for enhanced food fish as follows:

(a) Chinook, coho, and chum salmon and anadromous game fish: Five percent.

(b) Pink and sockeye salmon: Three percent.

(c) Other food fish and shellfish, except oysters: Two percent.

(d) Oysters: Seven one-hundredths of one percent.

(5) An additional tax is imposed equal to the rate specified in RCW 82.02.030 multiplied by the tax payable under subsection (4) of this section. [Ch 413, Laws of 1985, § 2.]

82.27.030 Exemptions. The tax imposed by RCW 82.27.020 shall not apply to: (1) Enhanced food fish originating outside the state which enters the state as (a) frozen enhanced food fish or (b) enhanced food fish packaged for retail sales; (2) the growing, processing, or dealing with food fish which are raised from eggs or fry and which are under the physical control of the grower at all times until being sold or harvested; and (3) food fish, shellfish, anadromous game fish, and byproducts or parts of food fish shipped from outside the state which enter the state, except as provided in RCW 82.27.010, provided the taxpayer must have documentation showing shipping origination of fish exempt under this subsection to qualify for exemption. Such documentation includes, but is not limited to fish tickets, bills of lading, invoices, or other documentation required to be kept by governmental agencies. [Ch 413, Laws of 1985, § 3.]

82.27.040 Credit for Taxes Paid to other taxing authority. A credit shall be allowed against the tax imposed by RCW 82.27.020 upon enhanced food fish with respect to any tax previously paid on that same enhanced food fish to any other legally established taxing authority. To qualify for a credit, the owner of the enhanced food fish must have documentation showing a tax was paid in another jurisdiction. [Ch 413, Laws of 1985, § 4.]

82.27.050 Application of excise taxes' administrative provisions and definitions. All of the provisions of chapters 82.02 and 82.32 RCW shall be applicable and have full force and effect with respect to taxes imposed under this chapter. The meaning attributed to words and phrases in chapter 82.04 RCW, insofar as applicable, shall have full force and effect with respect to taxes imposed under this chapter [1980 c 98 § 5.]

82.27.060 Payment of tax — Remittance — Returns. The taxes levied by this chapter shall be due for payment and remittance therefor shall be made on or before the fifteenth day of the month next succeeding the end of the month in which the tax accrued. The taxpayer on or before the due date shall make out a signed return, setting out such information as the department of revenue may require, including the gross measure of the tax, any deductions, credits, or exemptions claimed, and the amount of tax due for the preceding monthly period, which amount shall be transmitted to the department along with the return.

The department may relieve any taxpayer from the obligation of filing a monthly return and may require the return to cover other periods, but in no event may periodic returns be filed for a period greater than one year. [1980 c 98 § 6.]

82.27.070 Deposit of taxes. All taxes collected by the department of revenue under this chapter shall be deposited in the state general fund. [1980 c 98 § 7.]

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: "An Act relating to the
fisheries business tax."
Sponsor: Davidson, Hoffman, et. al.
Requestor: Resources

Agency Affected: Revenue
BRU: Income and Excise Audit Division
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
OPERATING						
PERSONAL SERVICES	-	79.9	79.9	79.9	79.9	79.9
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	2.0	2.0	2.0	2.0	2.0
EQUIPMENT	-	4.1	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	86.0	81.9	81.9	81.9	81.9
CAPITAL	-	-	-	-	-	-
REVENUE	-	44,325.0	44,325.0	44,325.0	44,325.0	44,325.0

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	86.0	81.9	81.9	81.9	81.9
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	86.0	81.9	81.9	81.9	81.9

POSITIONS:

FULL-TIME	-	2.0	2.0	2.0	2.0	2.0
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: (Attach a separate page if necessary)

See attached

Prepared By: Steven E. Kettel Director
Division: Income and Excise Audit Division

Phone: (907) 465-2320
Date: March 11, 1988

Approved by Commissioner: Hugh Malone
Agency: REVENUE

Date: 3/11/88

Distribution (by preparer):

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

Prepared By: Steven E. Kettel
Income and Excise Audit Division
March 11, 1988

HB 408 Analysis

Personal Services

Revenue Auditor III	\$49.3
Tax Examiner I	<u>\$30.6</u>
TOTAL	\$79.9

Supplies

Office Supplies	\$2.0
-----------------	-------

Equipment

1 Wang PC with Winchester	\$3.5
Lotus, Version 2	\$.4
Graphics	<u>\$.2</u>
TOTAL	\$4.1

Personal Services	\$79.9
Supplies	\$ 2.0
Equipment	<u>\$ 4.1</u>
FY 89 Total	\$86.0

Explanation

Implementation of HB 408 would require an auditor position to work out of our Anchorage field office. This position would coordinate with various state and federal agencies to insure compliance and perform periodic audits. Due to the increase in returns filed, an additional tax examiner would be required to process returns, aid in mailouts, taxpayer assistance and other related duties.

HB 408 Analysis

Revenue Estimate

The revenue projection is based on a tax applied to the landing of processed fisheries resources in Alaskan waters. It is assumed that either by statutory language or regulations that the definition of "landing" would include transshipments that occur within Alaska's three mile limit. Based on our knowledge of the industry we estimate the annual value of Alaska fisheries resource to be \$2.5 billion. Americanization of the bottom fish industry estimated to be two billion dollars. We have been able to obtain this estimate from various state and industry sources.

Currently, the Department of Environmental Conservation (DEC) issues permits to vessels operating in the Economic Enhancement Zone (EEZ). This Seafood Permit authorizes the operation of seafood processing vessels. During 1986, DEC permitted 235 vessels to process seafood both in Alaska waters (3 mile) and the Economic Enhancement Zone. These permitted vessels do not include approximately 500 foreign flag vessels that spent 34,000 vessel days operating in the US EEZ in 1986. The exact number of these doing processing is unknown at this time. Of the 235 vessels that were permitted, 152 filed Alaska Fisheries Business returns. The methodology used to arrive at the estimate is as follows:
(Thousands of Dollars)

* A	<u>Estimated Fisheries Resource Value</u>	\$2,500,000.0
B	<u>Fisheries Resource Reported for 1986</u>	<u>\$727,000.0</u>
C	<u>Adjusted Resource Value</u>	\$1,773,000.0
D	<u>Estimated Value not landed (50%)</u>	<u>(886,500.0)</u>
E	<u>Untaxed Resources Value</u>	\$1,329,750.0
F	<u>Tax Rate</u>	<u>.05%</u>
G	<u>Estimated revenue increase</u>	\$44,325.0

This estimate is based on HB 408 as drafted. The department believes a few amendments should be made and is currently drafting suggestions to assist in the administration of the landing tax.

* Letters refer to legend on the following page.

Prepared By: Steven E. Kettel
Income and Excise Audit Division
March 11, 1988

HB 408 Analysis

Revenue Estimate LEGEND

- A Estimated Fisheries Resource Value for all fisheries resources processed both in Alaska waters and in EEZ.
- B Fisheries Resource Reported for 1986 on Alaska Fisheries Business License returns filed under AS 43.75.
- C Adjusted Resource Value. Total value less resource already reported on Alaska returns.
- D Estimated Value not landed. Under HB 408, resource that merely passes through Alaskan waters in transit or that never enters Alaskan waters would not be taxed.
- E Untaxed Resources Value. This value is the portion of resource that is currently being landed or transhipped in Alaskan waters and not being taxed under AS 43.75.
- F Tax Rate. HB 408 provides for the tax rate of 5%. This rate could be adjusted depending on the desired revenue and/or economic goals.
- G Estimated Revenue Increase. This increase is based on 50% of the resource not being taxed under HB 408 which we believe to be low.

CHAPTER 77 Fisheries Landing Tax

I. Excise Tax Imposed

- a) In addition to all other taxes, licenses, or fees provided by law, there is established an excise tax on the commercial possession of processed fisheries resource as provided in this chapter.
- b) The tax is levied upon and shall be collected from the owner of the processed fisheries resource.
- c) The taxable event is the first landing in Alaska of the processed fisheries resource. Processing and handling by a person who is not the owner is not a taxable event to the processor or handler.
- d) The measure of the tax is value of the processed fisheries resource [at the point of landing] multiplied by a tax rate of 3%. The term landing or "landed" means the act of physically placing the processed fisheries resource:
 - 1) on a vessel for transshipment [while in territorial waters] of Alaska, or
 - 2) on any land within the State of Alaska including wharves, piers, or other such facilities.

II. Exclusion from Fisheries Landing Tax

- a) The tax imposed by this chapter shall not apply to:
 - 1) Processed Fisheries Resource entering Alaska waters as cargo and merely passing through Alaska waters and not landed.
 - 2) Processed Fisheries Resources not derived from an Alaska Managed fisheries resource, and packaged for retail sales in Alaska.

III. Credit for Taxes Paid

- a) A credit shall be allowed against the tax imposed in this section with respect to any excise tax on the same fisheries resource paid to any other foreign country, state or municipal taxing authority. The credit shall be limited to 50% of the tax liability. To qualify for a credit, the department may request documentation that the tax was paid with the required return.

IV. Filing Return and payment of tax

- a) An owner subject to the tax imposed in this chapter shall file a return with the Department, stating the value of the processed fisheries resource, and other such information as the department prescribes by regulation. The return shall be signed by the owner or an authorized agent, under penalty of perjury.
- b) The return shall be made on the quarterly basis of the calendar year.

c) The return and payment of tax shall be due on or before the last day of the month next succeeding the end of the last month in the quarter.

d) An annual return reconciling the four quarters and providing for additional payment of taxes due, if any, shall be filed on or before January 31, after the close of the calendar year.

e) Every owner engaged in a Fisheries Business in which a return is required under this chapter shall keep records, make statements under oath, file returns, and comply with all regulations which the Commissioner of Revenue may adopt.

f) When the department considers it is necessary, it may require a person, by notice served upon the person, to file a return, make such statements under oath, or keep and display to it such records as it considers sufficient to show the tax for which the person is liable. If a person fails to file a return as prescribed by law or by regulation, or makes wilfully or otherwise, a false or fraudulent return, the department shall make the return from the information which it can obtain. A return made by the department is prima facie good and sufficient for all legal purposes. (§ 3 ch 82 SLA 1949; am §§ 2,3 ch 146 SLA 1962; am §§ 5,6 ch 79 SLA 1979)

g) If a person fails to file a return or pay the tax, all permits and or licenses to operate issued by the State may be suspended or revoked.

h) The Department may adopt regulations necessary for administration of the tax imposed in this chapter.

V. Refund to local governments

a) Except as provided in "d" of this section, the commissioner of revenue shall pay

1) to each unified municipality and to each city located in the unorganized borough, 50 percent of the amount of tax revenue collected in the municipality from taxes levied under this chapter;

2) to each city located within a borough, 25 percent of the amount of tax revenue collected in the city from taxes levied under this chapter; and

3) to each borough

A) 50 percent of the amount of tax revenue collected in the area of the borough outside cities from taxes levied under this chapter; and

B) 25 percent of the amount of tax revenue collected in cities located within the borough from taxes levied under this chapter.

d) Notwithstanding the provisions of (a)(2) and (a)(3)(B) of this section, the commissioner shall pay

1) to each city that is located in a borough incorporated after June 16, 1987 the following percentages of the tax revenue collected in the city from taxes levied under this chapter;

- A) 45 percent of the taxes collected during the calendar in which the borough is incorporated;
- B) 40 percent of the taxes collected during the first calendar year after the calendar year in which the borough is incorporated;
- C) 35 percent of the taxes collected during the second calendar year after the calendar year in which the borough is incorporated; and
- D) 30 percent of the taxes collected during the third calendar year after the calendar year in which the borough is incorporated; and

2) to each borough that is incorporated after June 16, 1987, the following percentages of the tax revenue collected in the cities located within the borough from taxes levied under this chapter:

- A) 5 percent of the taxes collected during the calendar year in which the borough is incorporated;
- B) 10 percent of the taxes collected during the first calendar year after the calendar year in which the borough is incorporated;
- C) 15 percent of the taxes collected during the second calendar year after the calendar year in which the borough is incorporated; and
- D) 20 percent of the taxes collected during the third calendar year after the calendar year in which the borough is incorporated.

e) Notwithstanding the provisions of (d) of this section, a city may adopt an ordinance to transfer a portion of the funds received under (d)(1) of this section to the borough in which the city is located.

VI. Definitions

- a) "Department" means the Department of Revenue
- b) "Owner" means a person who actually owns the processed fisheries resource at time of first landing in Alaska.
- c) "Landed" means the act of physically placing processed fisheries resources on a vessel for transshipment while in territorial waters of Alaska or on any land within the State of Alaska including wharves, piers, or other such facilities.
- d) "Value" means the actual price received by the owner for the processed fisheries resource at the point of landing except that "value" means the market value of the fisheries resource if a sale is not consummated between unrelated persons at the time the resource is landed.

- e) "Processed Fisheries Resource" means fin fish, shellfish and fish by-products, including but not limited to salmon, halibut, herring, flounder, crab, clam, cod, shrimp, and pollock, that has had 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.
- f) "Alaska Waters" means inside Alaska's 3 mile territorial waters.
- g) "Commercial" means related to or connected with buying, selling, bartering, or processing.
- h) "Possession" means the control of the processed Fisheries Resource by the owner and includes both actual and constructive possession.
- i) "Tranship" means the act of physically transferring processed fisheries resources from one vessel to another inside Alaska waters.