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# SENATE FINANCE COMMITTEE REPORT

~~RETURNED TO FINANCE~~  
RETURNED TO FINANCE  
DATE: 4/27/90

DATE TURNED INTO OFFICE: 4/29/90

The Finance Committee considered SB 74

"An Act amending and extending the fisheries business tax credit; relating to fisheries business tax refunds to municipalities; and providing for an effective date."

and recommended:

<input checked="" type="checkbox"/>	replace with <u>2dcs</u> <u>SB 74 (Fix)</u>	<input type="checkbox"/>	same title
<input type="checkbox"/>	or adopt _____ CS _____	<input checked="" type="checkbox"/>	new title
<input type="checkbox"/>	attached amendment(s)	<input type="checkbox"/>	technical title change (HB only)
<input type="checkbox"/>	_____ letter of intent adopted		

do pass

do not pass

no recommendation

individual recommendations

further referral to \_\_\_\_\_

**ATTACHES NEW FISCAL NOTE(S):**

Dept/Date:

fiscal note(s) \_\_\_\_\_

DOR <15,000,000> FY 92 revenue  
<16,000,000> FY 93 & FY 94 revenue

zero fiscal note(s) DOR 4/29/90

FY 91

**APPROVES PREVIOUS:**

Dept/Date:

fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

appropriation-no fiscal note

**SIGNING DO PASS:**

\_\_\_\_\_  
\_\_\_\_\_  
*Paul J. Shaffer*  
\_\_\_\_\_  
\_\_\_\_\_

**OTHER RECOMMENDATIONS:**

*Frank* NO REE  
*Frank* DO NOT PASS  
*Rich Kelly* (NO REE)  
\_\_\_\_\_  
\_\_\_\_\_

R/O SFC 4-29-90

STATE OF ALASKA  
1990 LEGISLATIVE SESSION

BILL VERSION: 2d CS SB 74 (Fin)

PUBLISH DATE: \_\_\_\_\_

FISCAL NOTE

REQUEST:

Revision Date: April 29, 1990 Amended  
Title: Fisheries Business Tax Credit

Agency Affected: Revenue  
BRU: Income & Excise Audit

Sponsor: Zharoff, Et al.  
Requestor: Finance

Components: Operating

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	0	0	0	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>		<15,000>	<16,000>	<16,000>		

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
<b>TOTAL</b>	0	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: (Attach a separate page if necessary)

Prepared By: Steven E. Kettel *Steven E. Kettel* Phone: (907) 465-2320  
Division: Income and Excise Audit Date: April 29, 1990

Approved by Commissioner: Hugh Malone *Hugh Malone* Date: April 29, 1990  
Agency: Department of Revenue

Distribution (by preparer):

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

2d CS SB 74 (Fin)  
Prepared by:  
Steven E. Kettel  
April 29, 1990

Analysis

- \* Bill does not require municipal participation in program
- \* Potential revenue impact of 15-16 million per year

For the above reasons the Department opposes this legislation

*R/D SFC 4-29-90*

*4/29/90*

*See pages 1,445*

6-0416R  
Chenoweth  
4/29/90

Original Sponsor(s): SEN. ZHAROFF, Sturgulewski, Kerttula

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 2d CS FOR SENATE BILL NO. 74 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing a fisheries business tax credit;  
7 and providing for an effective date."

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

9 \* Section 1. AS 43.75 is amended by adding new sections to read:

10 Sec. 43.75.037. FISHERIES BUSINESS TAX CREDIT. (a) A fisheries  
11 business is entitled to a credit of not more than 50 percent of the  
12 business tax liability under AS 43.75.015 for capital expenditures  
13 made during the tax year if an application qualifying for the credit  
14 is approved by the department in advance of the capital expenditure  
15 and before January 1, 1993. A fisheries business may claim a credit  
16 under this subsection for a maximum period of two consecutive years  
17 and may claim the credit if activity for which the claim of the credit  
18 is made occurs during the two-year period. An applicant for the  
19 credit may elect to begin the two-year period with tax year 1991 or  
20 1992. A tax credit under this subsection may not be approved for more  
21 than 50 percent of a capital expenditure, ~~plus any increase required~~

22 *Refers to paragraph that was deleted.*

~~under (b) of this section~~ For purposes of this section, a capital  
23 expenditure qualifies for a tax credit if the expenditure

24 (1) increases product diversity or production efficiency  
25 and capacity, or improves product quality, at a shore-based fisheries  
26 business facility in the state; or

27 (2) contributes to the development of a cooperative seafood  
28 industrial park in the state.

29 (b) The portion of a capital expenditure that is eligible for a

1 credit under this section but is claimed during a single tax year may  
2 not be carried back to a prior tax year but is available for the  
3 computation as a credit under this section for a subsequent tax year  
4 within the two-year period elected under (a) of this section.

5 (c) A fisheries business is entitled to a credit of not more  
6 than five percent of the business tax liability under AS 43.75.015 for  
7 contributions to the A. W. "Winn" Brindle memorial scholarship account  
8 (AS 14.43.250) that are made during the tax year or during the period  
9 in which the taxpayer may file the return and pay the tax for the tax  
10 year under AS 43.75.030. A fisheries business may claim a credit  
11 under this subsection for the 1991 or 1992 tax years. A tax credit  
12 under this subsection may not be approved for more than 100 percent of  
13 a scholarship contribution.

14 (d) The total tax credits that may be claimed under this section  
15 for a tax year for capital expenditures and scholarship contributions  
16 combined may not exceed 50 percent of the taxpayer's business tax  
17 liability under AS 43.75.015 for the tax year.

18 (e) The department may not approve a tax credit under this  
19 section if

20 (1) the property for which the capital expenditure was made  
21 was the subject of a previous capital expenditure by another taxpayer  
22 for whom a corresponding tax credit under former AS 43.75.032 or this  
23 section has been approved;

24 (2) the property for which the capital expenditure was made  
25 was sold or transferred between fisheries businesses having substan-  
26 tial common ownership; or

27 (3) the fisheries business claiming the credit is in ar-  
28 rears in the payment of a fisheries business tax under AS 43.75.015;  
29 for purposes of this paragraph, a taxpayer is not in arrears if the

1 payment is under administrative or judicial appeal.

2 (f) The department shall prepare an application form for a  
3 credit under this section.

4 (g) The department shall approve or disapprove an application  
5 for a credit under this section not later than 60 days after receiving  
6 the application.

7 (h) In this section

8 (1) "cooperative" has the meaning given in AS 10.15.595;

9 (2) "seafood industrial park" means a seafood processing  
10 center with facilities to land, handle, and process or to ship or  
11 transship to any location all marketable species of seafood; a seafood  
12 industrial park may contain commercial facilities to support the  
13 activities of the park, and the labor force and vessels that operate  
14 at or from the park.

15 Sec. 43.75.039. TAX CREDIT REPORT. Not later than the 15th  
16 legislative day of each regular legislative session the Department of  
17 Revenue, in conjunction with the Department of Commerce and Economic  
18 Development, shall submit to the legislature a report on the fisheries  
19 business tax credit program under AS 43.75.037. The report shall  
20 describe the expenditures for which a credit was approved during the  
21 previous tax year and, if possible, the increase in employment and  
22 processing capacity by the fisheries businesses for which the credit  
23 was approved.

24 \* Sec. 2. AS 43.75.037 is repealed and reenacted to read:

25 Sec. 43.75.037. TAX CREDIT FOR SCHOLARSHIP CONTRIBUTIONS. (a)  
26 A fisheries business is entitled to a credit of not more than five  
27 percent of the business tax liability under AS 47.75.015 for contribu-  
28 tions to the A.W. "Winn" Brindle memorial scholarship account (AS 14.-  
29 43.250) that are made during the tax year or during the period in

1 which the taxpayer may file the return and pay the tax for the tax  
2 year under AS 43.75.030. A tax credit under this section may not be  
3 approved for more than 100 percent of a scholarship contribution.

4 (b) The department may not approve a tax credit under this  
5 section if the fisheries business claiming the credit is in arrears in  
6 the payment of a fisheries business tax under AS 43.75.015; for pur-  
7 poses of this subsection, a taxpayer is not in arrears if the payment  
8 is under administrative or judicial appeal.

9 (c) The department shall prepare an application form for a  
10 credit under this section.

11 (d) The department shall approve or disapprove an application  
12 for a credit under this section not later than 60 days after receiving  
13 the application.

14 \* Sec. 3. AS 43.75.130(b) is amended to read:

15 (b) For purposes of this section, tax revenue collected under  
16 AS 43.75.015 from a person entitled to a credit under former AS 43.-  
17 75.032 or under AS 43.75.037 shall be calculated as if the person's  
18 tax had been collected without applying the credit.

19 \* Sec. 4. Section 7, ch. 79, SLA 1986, is amended to read:

20 Sec. 7. AS 43.75.130(c) is [AND 43.75.140(9) - (11) ARE]  
21 repealed January 1, 1992.

22 \* Sec. 5. AS 43.75.039, 43.75.140(1), 43.75.140(7), 43.75.140(8), and  
23 sec. 10, ch. 79, SLA 1986, are repealed.

24 \* Sec. 6. FISHERIES BUSINESS TAX CREDIT CLAIM IN TAX YEAR <sup>OK</sup> 1993.  
25 Notwithstanding the <sup>typo</sup> ~~amendment~~ of AS 43.75.037 by sec. 2 of this Act, a  
26 taxpayer who elects to begin the two-year period for the fisheries business  
27 tax credit under AS 43.75.037 and whose project was approved by the depart-  
28 ment under AS 43.75.037 before January 1, 1993, may claim the fisheries  
29 business tax credit for tax year 1993 for capital expenditures made by the

1 taxpayer during the <sup>ok</sup> ~~1992~~ tax year.

2 \* Sec. 7. Sections 2 and 5 of this Act take effect January 1, 1994.

3 \* Sec. 8. Except for secs. 2 and 5, this Act takes effect January 1,  
4 1991.

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STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

4/28/90  
POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

MEMORANDUM

April 28, 1990

SUBJECT: Draft 2d CSSB 74 (Finance) --  
TO: Senator Fred Zharoff  
FROM: Jack Chenoweth  
Legislative Counsel 

This is a revision of yesterday's draft. In it, I have

(1) deleted material that had appeared as paragraph (3) of proposed AS 43.75.037, and provided this material as a separate amendment;

(2) clarified the manner of operation of the "new" credit--the one provided under AS 43.75.037 for expenditures made in 1990 and 1991: As this credit is drafted, a taxpayer may claim the credit for projects approved and expenditures made during a two-year period. For projects approved in 1991, in order to give the taxpayer the full two-year claim period for expenditures made, I have incorporated a new section, bill section 10, that explicitly authorizes expenditures made in 1992 for projects approved by the department by the December 31, 1991, cut-off date.

\*

I have advised you that, in my opinion, AS 43.75.037(f)--and especially (f)(1)--should be retained. This is not a new substantive provision. Rather, this section is included to clarify the manner of administration of the 25% municipal fisheries-business tax election provision. Subsection (f) should be read in conjunction with AS 43.75.037(b) and existing AS 43.75.130(c).

\*

You have also asked me to comment briefly as to the purpose of the retroactive provisions.

Senator Fred Zharoff  
Page 2  
April 28, 1990

Bill section 11 makes the technical amendment made by bill section 1 to the former credit (AS 43.75.032) retroactive to the first day that the former credit might have been claimed, January 1, 1987.

Bill section 12 makes the provisions applicable to the "new" credit (AS 43.75.037) retroactive to January 1, 1990, so that persons may claim the "new" credit for expenditures made on projects approved beginning with the first day of this calendar year.

JBC:lmb  
L10/083

A M E N D M E N T

OFFERED IN THE SENATE

BY SEN. ZHAROFF

TO: 2d CSSB 74 (Finance) -  
(Draft 6-0416P, dated 4/28/90)

Page 2, line 17, after "state;"

Delete "or"

Page 2, line 19, after "state":

Insert "; or

(3) is for construction, extension, or improvement of a utility, road, or dock to be owned by the municipality or a cooperative and the object of the expenditure will, in the judgment of the city council or borough assembly, provide substantial benefit to the municipality in which the fisheries business is located"

6-0416P  
Chenoweth  
4/28/90  
ADOPTED  
by SFC  
4/29/90

Original Sponsor(s): SEN. ZHAROFF, Sturgulewski, Kerttula

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 2d CS FOR SENATE BILL NO. 74 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act [amending the fisheries business tax credit;  
7 establishing a two-year fisheries business tax cred-  
8 it, and repealing the existing fisheries business tax  
9 credit; [relating to fisheries business tax refunds to  
10 municipalities;] and providing for an effective date."

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

12 \* Section 1. AS 43.75.032(a) is amended to read:

13 (a) A fisheries business is entitled to a credit of not more  
14 than 50 percent of the business tax liability under AS 43.75.015 for  
15 capital expenditures made during the tax year that (1) increase prod-  
16 uct diversity, or production efficiency and capacity, or improve  
17 product quality, at a shore-based fisheries business facility in the  
18 state, or (2) contribute to the development of a cooperative seafood  
19 industrial park in the state, if an application for the credit is  
20 approved by the department in advance of the capital expenditure. A  
21 fisheries business may claim a credit under this subsection for a  
22 maximum period of three consecutive years and may claim the credit if  
23 activity for which the claim of the credit is made occurs during the  
24 three-year period. An applicant for the credit may elect to begin the  
25 three-year period with any tax year from 1987 through 1989. A tax  
26 credit under this subsection may not be approved for more than 50  
27 percent of a capital expenditure, plus any increase required under (b)  
28 of this section.

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

1           Sec. 43.75.037. FISHERIES BUSINESS TAX CREDIT. (a) A fisheries  
2 business is entitled to a credit of not more than 50 percent of the  
3 business tax liability under AS 43.75.015 for capital expenditures  
4 made during the tax year if an application qualifying for the credit  
5 is approved by the department in advance of the capital expenditure  
6 and before January 1, 1992. A fisheries business may claim a credit  
7 under this subsection for a maximum period of two consecutive years  
8 and may claim the credit if activity for which the claim of the credit  
9 is made occurs during the two-year period. An applicant for the  
10 credit may elect to begin the two-year period with tax year <sup>1991</sup> ~~1990~~ or  
11 <sup>1992</sup> ~~1991~~. A tax credit under this subsection may not be approved for more  
12 than 50 percent of a capital expenditure, plus any increase required  
13 under (b) of this section. For purposes of this section, a capital  
14 expenditure qualifies for a tax credit if the expenditure

15           (1) increases product diversity or production efficiency  
16 and capacity, or improves product quality, at a shore-based fisheries  
17 business facility in the state; or

18           (2) contributes to the development of a cooperative seafood  
19 industrial park in the state.

~~20           (b) The amount of a credit under (a) of this section for a  
21 capital expenditure shall be increased by the amount by which the  
22 municipality's fisheries business tax refund is reduced under AS 43.-  
23 75.130(c). The total amount of a credit increase under this sub-  
24 section during a two-year period may not exceed 25 percent of the  
25 amount of the capital expenditure.~~

26           ~~(a)~~<sup>b</sup> The portion of a capital expenditure that is eligible for a  
27 credit under this section but is claimed during a single tax year may  
28 not be carried back to a prior tax year but is available for the  
29 computation as a credit under this section for a subsequent tax year

1 within the two-year period elected under (a) of this section.

2 ~~(d) Within 10 days after submitting an application for a credit~~  
3 ~~under (a) of this section, the applicant shall send a copy of the~~  
4 ~~application to the municipality, if any, in which the proposed capital~~  
5 ~~expenditure qualifying for a credit under (a) of this section is~~  
6 ~~located or is to be located.~~

7 ~~(e)~~<sup>c</sup> A fisheries business is entitled to a credit of not more  
8 than five percent of the business tax liability under AS 43.75.015 for  
9 contributions to the A. W. "Winn" Brindle memorial scholarship account  
10 (AS 14.43.250) that are made during the tax year or during the period  
11 in which the taxpayer may file the return and pay the tax for the tax  
12 year under AS 43.75.030. A fisheries business may claim a credit  
13 under this subsection for the 1990 or 1991 tax years. A tax credit  
14 under this subsection may not be approved for more than 100 percent of  
15 a scholarship contribution.

16 ~~(f)~~<sup>d</sup> The total tax credits that may be claimed under this section  
17 for a tax year for capital expenditures and scholarship contributions  
18 combined may not exceed

19 ~~(1) 75 percent of the taxpayer's business tax liability~~  
20 ~~under AS 43.75.015 for the tax year if a municipality adopts an ordi-~~  
21 ~~nance under AS 43.75.130(e) reducing the municipality's tax refund for~~  
22 ~~that tax year; or~~

23 ~~(2) 50 percent of the taxpayer's business tax liability~~  
24 ~~under AS 43.75.015 for the tax year, if a municipality has not adopted~~  
25 ~~an ordinance under AS 43.75.130(e) reducing the municipality's tax~~  
26 ~~refund for that tax year.~~

27 ~~(g)~~<sup>e</sup> The department may not approve a tax credit under this  
28 section if

29 (1) the property for which the capital expenditure was made

1 was the subject of a previous capital expenditure by another taxpayer  
2 for whom a corresponding tax credit under former AS 43.75.032 or this  
3 section has been approved;

4 (2) the property for which the capital expenditure was made  
5 was sold or transferred between fisheries businesses having substan-  
6 tial common ownership; or

7 (3) the fisheries business claiming the credit is in ar-  
8 rears in the payment of a fisheries business tax under AS 43.75.015;  
9 for purposes of this paragraph, a taxpayer is not in arrears if the  
10 payment is under administrative or judicial appeal.

11 (h) The department shall prepare an application form for a  
12 credit under this section.

13 (i) The department shall approve or disapprove an application  
14 for a credit under this section not later than 60 days after receiving  
15 the application.

16 (j) In this section

17 (1) "cooperative" has the meaning given in AS 10.15.595;

18 (2) "seafood industrial park" means a seafood processing  
19 center with facilities to land, handle, and process or to ship or  
20 transship to any location all marketable species of seafood; a seafood  
21 industrial park may contain commercial facilities to support the  
22 activities of the park, and the labor force and vessels that operate  
23 at or from the park.

24 Sec. 43.75.039. TAX CREDIT REPORT. Not later than the 15th  
25 legislative day of each regular legislative session the Department of  
26 Revenue, in conjunction with the Department of Commerce and Economic  
27 Development, shall submit to the legislature a report on the fisheries  
28 business tax credit program under AS 43.75.037. The report shall  
29 describe the expenditures for which a credit was approved during the

1 previous tax year and, if possible, the increase in employment and  
2 processing capacity by the fisheries businesses for which the credit  
3 was approved.

4 \* Sec. ~~3~~<sup>2</sup> AS 43.75.037 is repealed and reenacted to read:

5 Sec. 43.75.037. TAX CREDIT FOR SCHOLARSHIP CONTRIBUTIONS. (a)  
6 A fisheries business is entitled to a credit of not more than five  
7 percent of the business tax liability under AS 47.75.015 for contribu-  
8 tions to the A.W. "Winn" Brindle memorial scholarship account (AS 14.-  
9 43.250) that are made during the tax year or during the period in  
10 which the taxpayer may file the return and pay the tax for the tax  
11 year under AS 43.75.030. A tax credit under this section may not be  
12 approved for more than 100 percent of a scholarship contribution.

13 (b) The department may not approve a tax credit under this  
14 section if the fisheries business claiming the credit is in arrears in  
15 the payment of a fisheries business tax under AS 43.75.015; for pur-  
16 poses of this subsection, a taxpayer is not in arrears if the payment  
17 is under administrative or judicial appeal.

18 (c) The department shall prepare an application form for a  
19 credit under this section.

20 (d) The department shall approve or disapprove an application  
21 for a credit under this section not later than 60 days after receiving  
22 the application.

23 \* Sec. ~~4~~<sup>3</sup> AS 43.75.130(b) is amended to read:

24 (b) For purposes of this section, tax revenue collected under  
25 AS 43.75.015 from a person entitled to a credit under former AS 43.-  
26 75.032 or under AS 43.75.037 shall be calculated as if the person's  
27 tax had been collected without applying the credit.

28 \* Sec. ~~4~~<sup>4</sup> AS 43.75.130(b) is repealed and reenacted to read:

29 (b) For purposes of this section, tax revenue collected under

1 AS 43.75.015 from a person entitled to a credit under AS 43.75.037  
2 shall be calculated as if the person's tax had been collected without  
3 applying the credit.

4 \* Sec. 6. AS 43.75.130(c) is amended to read:

5 (c) Within 60 days after a credit is approved under AS 43.75.037  
6 [AS 43.75.032] for a capital expenditure qualifying for a credit under  
7 AS 43.75.037(a) [INVOLVING A SHORE-BASED FISHERIES BUSINESS FACILITY OR  
8 COOPERATIVE SEAFOOD INDUSTRIAL PARK LOCATED OR TO BE LOCATED IN A  
9 MUNICIPALITY], the municipality may adopt an ordinance directing the  
10 department to reduce the municipality's refund under this section over  
11 a period of not more than two [THREE] years by an amount not exceeding  
12 25 percent of the capital expenditure.

13 \* Sec. ~~7.5~~ Section 7, ch. 79, SLA 1986, is repealed and reenacted to  
14 read:

15 Sec. 7. AS 43.75.130(c), 43.75.140(1), 43.75.140(7), and 43.75.-  
16 140(8) are repealed January 1, 1992.

17 \* Sec. ~~8.6~~ AS 43.75.032, 43.75.034, and sec. 8, ch. 79, SLA 1986, are  
18 repealed.

19 \* Sec. ~~9.7~~ AS 43.75.039 and sec. 10, ch. 79, SLA 1986, are repealed.

20 \* Sec. ~~10.8~~ FISHERIES BUSINESS TAX CREDIT CLAIM IN TAX YEAR <sup>1993</sup> 1992.  
21 Notwithstanding the reenactment of AS 43.75.037 by sec. 3 of this Act, a  
22 taxpayer who elects to begin the two-year period for the fisheries business  
23 tax credit under AS 43.75.037 and whose project was approved by the depart-  
24 ment under AS 43.75.037 before January 1, <sup>1993</sup> 1992, may claim the fisheries  
25 business tax credit for capital expenditures made by the taxpayer during  
26 the <sup>1992</sup> 1991 and <sup>1993</sup> 1992 tax years.

27 \* Sec. 11. Section 1 of this Act is retroactive to January 1, 1987, and  
28 applies to tax credits claimed by a fisheries business under AS 43.75.032  
29 beginning after December 31, 1986.

1 X \* Sec. ~~12~~<sup>9</sup>. Sections 2, 4, and 6 of this Act are retroactive to  
2 January 1, 1990, and apply to tax credits claimed by a fisheries business  
3 beginning after December 31, 1989.

4 X \* Sec. ~~13~~<sup>10</sup>. Except for secs. 3, 5, and 9, this Act takes effect immedi-  
5 ately under AS 01.10.070(c).

6 X \* Sec. ~~14~~<sup>11</sup>. Sections 3, 5, and 9 of this Act take effect January 1,  
7 1992.

6-0416G ✓  
Chenoweth  
4/27/90

Original Sponsor(s): SEN. ZHAROFF, Sturgulewski, Kerttula

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 2d CS FOR SENATE BILL NO. 74 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act amending the fisheries business tax credit;  
7 establishing a two-year fisheries business tax cred-  
8 it, and repealing the existing fisheries business tax  
9 credit; relating to fisheries business tax refunds to  
10 municipalities; and providing for an effective date."

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

12 \* Section 1. AS 43.75.032(a) is amended to read:

13 (a) A fisheries business is entitled to a credit of not more  
14 than 50 percent of the business tax liability under AS 43.75.015 for  
15 capital expenditures made during the tax year that (1) increase prod-  
16 uct diversity, or production efficiency and capacity, or improve  
17 product quality, at a shore-based fisheries business facility in the  
18 state, or (2) contribute to the development of a cooperative seafood  
19 industrial park in the state, if an application for the credit is  
20 approved by the department in advance of the capital expenditure. A  
21 fisheries business may claim a credit under this subsection for a  
22 maximum period of three consecutive years and may claim the credit if  
23 activity for which the claim of the credit is made occurs during the  
24 three-year period. An applicant for the credit may elect to begin the  
25 three-year period with any tax year from 1987 through 1989. A tax  
26 credit under this subsection may not be approved for more than 50  
27 percent of a capital expenditure, plus any increase required under (b)  
28 of this section.

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

1           Sec. 43.75.037. FISHERIES BUSINESS TAX CREDIT. (a) A fisheries  
2 business is entitled to a credit of not more than 50 percent of the  
3 business tax liability under AS 43.75.015 for capital expenditures  
4 made during the tax year if an application qualifying for the credit  
5 is approved by the department in advance of the capital expenditure.  
6 A fisheries business may claim a credit under this subsection for a  
7 maximum period of two consecutive years and may claim the credit if  
8 activity for which the claim of the credit is made occurs during the  
9 two-year period. An applicant for the credit may elect to begin the  
10 two-year period with tax year 1990 or 1991. A tax credit under this  
11 subsection may not be approved for more than 50 percent of a capital  
12 expenditure, plus any increase required under (b) of this section.  
13 For purposes of this section, a capital expenditure qualifies for a  
14 tax credit if the expenditure

15           (1) increases product diversity or production efficiency  
16 and capacity, or improves product quality, at a shore-based fisheries  
17 business facility in the state;

18           (2) contributes to the development of a cooperative seafood  
19 industrial park in the state; or

20           (3) is for construction, extension, or improvement of a  
21 utility, road, or dock to be owned by the municipality or a coopera-  
22 tive and the object of the expenditure will, in the judgment of the  
23 city council or borough assembly, provide substantial benefit to the  
24 municipality in which the fisheries business is located.

25           (b) The amount of a credit under (a) of this section for a  
26 capital expenditure shall be increased by the amount by which the  
27 municipality's fisheries business tax refund is reduced under AS 43.-  
28 75.130(c). The total amount of a credit increase under this sub-  
29 section during a two-year period may not exceed 25 percent of the

1 amount of the capital expenditure.

2 (c) The portion of a capital expenditure that is eligible for a  
3 credit under this section but is claimed during a single tax year may  
4 not be carried back to a prior tax year but is available for the  
5 computation as a credit under this section for a subsequent tax year  
6 within the two-year period elected under (a) of this section.

7 (d) Within 10 days after submitting an application for a credit  
8 under (a) of this section, the applicant shall send a copy of the  
9 application to the municipality, if any, in which the proposed capital  
10 expenditure qualifying for a credit under (a) of this section is  
11 located or is to be located.

12 (e) A fisheries business is entitled to a credit of not more  
13 than five percent of the business tax liability under AS 43.75.015 for  
14 contributions to the A. W. "Winn" Brindle memorial scholarship account  
15 (AS 14.43.250) that are made during the tax year or during the period  
16 in which the taxpayer may file the return and pay the tax for the tax  
17 year under AS 43.75.030. A fisheries business may claim a credit  
18 under this subsection for the 1990 or 1991 tax years. A tax credit  
19 under this subsection may not be approved for more than 100 percent of  
20 a scholarship contribution.

21 (f) The total tax credits that may be claimed under this section  
22 for a tax year for capital expenditures and scholarship contributions  
23 combined may not exceed

24 (1) 75 percent of the taxpayer's business tax liability  
25 under AS 43.75.015 for the tax year if a municipality adopts an ordi-  
26 nance under AS 43.75.130(c) reducing the municipality's tax refund for  
27 that tax year; or

28 (2) 50 percent of the taxpayer's business tax liability  
29 under AS 43.75.015 for the tax year if a municipality has not adopted

1 an ordinance under AS 43.75.130(c) reducing the municipality's tax  
2 refund for that tax year.

3 (g) The department may not approve a tax credit under this  
4 section if

5 (1) the property for which the capital expenditure was made  
6 was the subject of a previous capital expenditure by another taxpayer  
7 for whom a corresponding tax credit under this section has been ap-  
8 proved;

9 (2) the property for which the capital expenditure was made  
10 was sold or transferred between fisheries businesses having substan-  
11 tial common ownership; or

12 (3) the fisheries business claiming the credit is in ar-  
13 rears in the payment of a fisheries business tax under AS 43.75.015;  
14 for purposes of this paragraph, a taxpayer is not in arrears if the  
15 payment is under administrative or judicial appeal.

16 (h) The department shall prepare an application form for a  
17 credit under this section.

18 (i) The department shall approve or disapprove an application  
19 for a credit under this section not later than 60 days after receiving  
20 the application.

21 (j) In this section

22 (1) "cooperative" has the meaning given in AS 10.15.595;

23 (2) "seafood industrial park" means a seafood processing  
24 center with facilities to land, handle, and process or to ship or  
25 transship to any location all marketable species of seafood; a seafood  
26 industrial park may contain commercial facilities to support the  
27 activities of the park, and the labor force and vessels that operate  
28 at or from the park.

29 Sec. 43.75.039. TAX CREDIT REPORT. Not later than the 15th

1 legislative day of each regular legislative session the Department of  
2 Revenue, in conjunction with the Department of Commerce and Economic  
3 Development, shall submit to the legislature a report on the fisheries  
4 business tax credit program under AS 43.75.037. The report shall  
5 describe the expenditures for which a credit was approved during the  
6 previous tax year and, if possible, the increase in employment and  
7 processing capacity by the fisheries businesses for which the credit  
8 was approved.

9 \* Sec. 3. AS 43.75.037 is repealed and reenacted to read:

10 Sec. 43.75.037. TAX CREDIT FOR SCHOLARSHIP CONTRIBUTIONS. (a)  
11 A fisheries business is entitled to a credit of not more than five  
12 percent of the business tax liability under AS 47.75.015 for contribu-  
13 tions to the A.W. "Winn" Brindle memorial scholarship account (AS 14.-  
14 43.250) that are made during the tax year or during the period in  
15 which the taxpayer may file the return and pay the tax for the tax  
16 year under AS 43.75.030. A tax credit under this section may not be  
17 approved for more than 100 percent of a scholarship contribution.

18 (b) The department may not approve a tax credit under this  
19 section if the fisheries business claiming the credit is in arrears in  
20 the payment of a fisheries business tax under AS 43.75.015; for pur-  
21 poses of this subsection, a taxpayer is not in arrears if the payment  
22 is under administrative or judicial appeal.

23 (c) The department shall prepare an application form for a  
24 credit under this section.

25 (d) The department shall approve or disapprove an application  
26 for a credit under this section not later than 60 days after receiving  
27 the application.

28 \* Sec. 4. AS 43.75.130(b) is amended to read:

29 (b) For purposes of this section, tax revenue collected under

1 AS 43.75.015 from a person entitled to a credit under former AS 43.-  
2 75.032 or under AS 43.75.037 shall be calculated as if the person's  
3 tax had been collected without applying the credit.

4 \* Sec. 5. AS 43.75.130(b) is repealed and reenacted to read:

5 (b) For purposes of this section, tax revenue collected under  
6 AS 43.75.015 from a person entitled to a credit under AS 43.75.037  
7 shall be calculated as if the person's tax had been collected without  
8 applying the credit.

9 \* Sec. 6. AS 43.75.130(c) is amended to read:

10 (c) Within 60 days after a credit is approved under AS 43.75.037  
11 [AS 43.75.032] for a capital expenditure qualifying for a credit under  
12 AS 43.75.037(a) [INVOLVING A SHORE-BASED FISHERIES BUSINESS FACILITY OR  
13 COOPERATIVE SEAFOOD INDUSTRIAL PARK LOCATED OR TO BE LOCATED IN A  
14 MUNICIPALITY], the municipality may adopt an ordinance directing the  
15 department to reduce the municipality's refund under this section over  
16 a period of not more than two [THREE] years by an amount not exceeding  
17 25 percent of the capital expenditure.

18 \* Sec. 7. Section 7, ch. 79, SLA 1986, is repealed and reenacted to  
19 read:

20 Sec. 7. AS 43.75.130(c), 43.75.140(1), 43.75.140(7), and 43.75.-  
21 140(8) are repealed January 1, 1992.

22 \* Sec. 8. AS 43.75.032, 43.75.034, and sec. 8, ch. 79, SLA 1986, are  
23 repealed.

24 \* Sec. 9. AS 43.75.039 and sec. 10, ch. 79, SLA 1986, are repealed.

25 \* Sec. 10. Section 1 of this Act is retroactive to January 1, 1987, and  
26 applies to tax credits claimed by a fisheries business under AS 43.75.032  
27 beginning after December 31, 1986.

28 \* Sec. 11. Sections 2, 4, and 6 of this Act are retroactive to  
29 January 1, 1990, and apply to tax credits claimed by a fisheries business

1 beginning after December 31, 1989.

2 \* Sec. 12. Except for secs. 3, 5, and 9, this Act takes effect immedi-  
3 ately under AS 01.10.070(c).

4 \* Sec. 13. Sections 3, 5, and 9 of this Act take effect January 1,  
5 1992.

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# SENATE FINANCE COMMITTEE REPORT

DATE: 2/26/90

FURTHER:

DATE TURNED INTO OFFICE: 4/5/90

The Finance Committee considered

SB 74

"An Act amending and extending the fisheries business tax credit; relating to fisheries business tax refunds to municipalities; and providing for an effective date."

and recommended:

~~replace~~ with \_\_\_\_\_ CS SB 74 (Res)  
 or adopt \_\_\_\_\_ CS \_\_\_\_\_  
 attached amendment(s)  
 \_\_\_\_\_ letter of intent adopted

same title  
 new title  
 technical title change (HB only)

do pass

do not pass

no recommendation

individual recommendations

further referral to \_\_\_\_\_

ATTACHES NEW FISCAL NOTE(S):

fiscal note(s) DOR 3/5/90  
(15,000,000) revenue

zero fiscal note(s) \_\_\_\_\_

appropriation-no fiscal note

SIGNING DO PASS:

\_\_\_\_\_

And E. Z...

1. Julia... No Rec

APPROVES PREVIOUS:

fiscal note(s) \_\_\_\_\_ Dept/Date: \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

OTHER RECOMMENDATIONS:

Jim Duncan - No Rec.  
Frank - DO NOT PASS  
Peace - do not pass  
Sam Gray - No Rec.  
Mike Kelly NO RE

2. \_\_\_\_\_

Co-Chairs: signatures and Recommendations

R/O SFC 4-5-90

STATE OF ALASKA  
1990 LEGISLATIVE SESSION

BILL VERSION: CSSB 74 (Res)

PUBLISH DATE: \_\_\_\_\_

FISCAL NOTE

MAR 7 1990

REQUEST:

Revision Date: \_\_\_\_\_  
Title: Fisheries Business Tax Credit  
Refunds to Municipalities  
Sponsor: Zharoff, Et al.  
Requestor: Finance

Agency Affected: Revenue  
BRU: Income & Excise Audit

Components: Operating

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	0	0	0	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	<15,000>	<16,000>	<16,000>	<16,000>	<16,000>	<16,000>

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
<b>TOTAL</b>	0	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: (Attach a separate page if necessary)

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

Phone: (907) 465-2320  
Date: March 5, 1990

Approved by Commissioner: Hugh Malone  
Agency: Department of Revenue

Date: March 5, 1990

Distribution (by preparer):

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

Prepared by:  
Steven E. Kettel  
March 5, 1990  
Page 2 of 2

### BILL ANALYSIS

This bill repeals and reenacts a new section to replace the current fisheries tax credit statute. This bill would have a dual fiscal impact to the State as follows:

1. Extends the current fisheries tax credit program as provided by AS 43.75.032 by 4 years. This bill extends the time period for making capital expenditures, which expired December 31, 1989, by 6 years to December 31, 1995. Concomitantly, this bill also extends the time period for claiming credits, which is currently due to expire with tax year 1991, by 4 years through tax year 1995.

2. Expands the allowability of expenditures eligible for fisheries tax credits. This bill would allow fisheries businesses to claim credits for construction, extension, or improvement of a utility, road or dock to be owned by a municipality. This subsection, AS 43.75.032(a)(3), omits any provision for the department to use its discretion in approving such expenditures, but provides for the municipality or cooperative to use its "judgment" in determining whether expenditures would qualify for the credits.

Additionally, this bill removes the current provision for prior approval of expenditures to qualify for tax credits. Without this requirement, more expenditures will likely be claimed because taxpayers may in their discretion believe that the expenditure is indeed eligible for the credit program.

The Department opposes this draft legislation for the following reasons.

1. This legislation will have a significant impact on general fund revenues. The department estimated that general fund revenues will decrease by as much as \$64 million over the additional four year period the fisheries tax credit program is extended under this legislation.

The expansion of the scope of expenditures coupled with the deletion of the provision to require approval by the department prior to expenditures will increase the total amount of credits to be applied and carried forward against fisheries taxes that would otherwise be collected.

2. The department believes that the current fisheries credit program has fully served its purpose to benefit the industry by allowing them to establish new shore based processing plants and improve existing facilities. Now that the industry has made significant investment to increase production and efficiency, it is capable of successfully competing in the marketplace without additional fisheries tax credits provided by this legislation.

The department also contends that with the growing market for Alaska fisheries products, many of the expenditures incurred to date would have been made regardless of the current tax credit program. The department believes that extension of the fisheries tax credit program will not induce additional capital expenditures which otherwise may be made.

Original Sponsor(s): SEN. ZHAROFF, Sturgulewski, Kerttula

1 IN THE SENATE BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 74 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act amending and extending the fisheries business  
7 tax credit; relating to fisheries business tax re-  
8 funds to municipalities; and providing for an effec-  
9 tive date."

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

11 \* Section 1. AS 43.75.032(a) is repealed and reenacted to read:

12 (a) A fisheries business is entitled to a credit of not more  
13 than 50 percent of the business tax liability under AS 43.75.015 for  
14 capital expenditures made during the tax year if an application quali-  
15 fying for the credit is approved by the department in advance of the  
16 capital expenditure. A fisheries business may claim a credit under  
17 this subsection for a maximum period of five consecutive years and may  
18 claim the credit if activity for which the claim of the credit is made  
19 occurs during the five-year period. An applicant for the credit may  
20 elect to begin the five-year period with any tax year from 1987  
21 through 1991. A tax credit under this subsection may not be approved  
22 for more than 50 percent of a capital expenditure, plus any increase  
23 required under (b) of this section. For purposes of this section, a  
24 capital expenditure qualifies for a tax credit if the expenditure

25 (1) increases product diversity or production efficiency  
26 and capacity, or improves product quality, at a shore-based fisheries  
27 business facility in the state;

28 (2) contributes to the development of a cooperative seafood  
29 industrial park in the state; or

09-2-4 545 019

1 (3) is for construction, extension, or improvement of a  
2 utility, road, or dock to be owned by the municipality or a coopera-  
3 tive and the object of the expenditure will, in the judgment of the  
4 city council or borough assembly, provide substantial benefit to the  
5 municipality in which the fisheries business is located.

6 \* Sec. 2. AS 43.75.032(b) is amended to read:

7 (b) The amount of a credit under (a) of this section for a  
8 capital expenditure qualifying for a credit under (a) of this section  
9 [INVOLVING A SHORE-BASED FISHERIES BUSINESS FACILITY OR COOPERATIVE  
10 SEAFOOD INDUSTRIAL PARK LOCATED OR TO BE LOCATED IN A MUNICIPALITY]  
11 shall be increased by the amount by which the municipality's fisheries  
12 business tax refund is reduced under AS 43.75.130(c). The total  
13 amount of a credit increase under this subsection during a five-year  
14 [THREE-YEAR] period may not exceed 25 percent of the amount of the  
15 capital expenditure.

16 \* Sec. 3. AS 43.75.032(c) is amended to read:

17 (c) The portion of a capital expenditure that is eligible for a  
18 credit under this section but is claimed during a single tax year may  
19 not be carried back to a prior tax year but is available for the  
20 computation as a credit under this section for a subsequent tax year  
21 within the five-year [THREE-YEAR] period elected under (a) of this  
22 section.

23 \* Sec. 4. AS 43.75.032(d) is repealed and reenacted to read:

24 (d) Within 10 days after submitting an application for a credit  
25 under (a) of this section, the applicant shall send a copy of the  
26 application to the municipality, if any, in which the proposed capital  
27 expenditure qualifying for a credit under (a) of this section is  
28 located or is to be located.

29 \* Sec. 5. AS 43.75.032(f) is amended to read:

1 (f) The total tax credits that may be claimed under this section  
2 for a tax year for capital expenditures and scholarship contributions  
3 combined may not exceed

4 (1) 75 percent of the taxpayer's business tax liability  
5 under AS 43.75.015 for the tax year if a municipality adopts an ordi-  
6 nance under AS 43.75.130(c) reducing the municipality's tax refund for  
7 that tax year; or

8 (2) 50 percent of the taxpayer's business tax liability  
9 under AS 43.75.015 for the [THAT] tax year if a municipality has not  
10 adopted an ordinance under AS 43.75.130(c) reducing the municipality's  
11 tax refund for that tax year.

12 \* Sec. 6. AS 43.75.130(c) is amended to read:

13 (c) Within 60 days after a credit is approved under AS 43.75.032  
14 for a capital expenditure qualifying for a credit under AS 43.75.-  
15 032(a) [INVOLVING A SHORE-BASED FISHERIES BUSINESS FACILITY OR COOPER-  
16 ATIVE SEAFOOD INDUSTRIAL PARK LOCATED OR TO BE LOCATED IN A MUNICIPAL-  
17 ITY, THE MUNICIPALITY] may adopt an ordinance direct the department to  
18 reduce the municipality's refund under this section over a period of  
19 not more than five [THREE] years by an amount not exceeding 25 percent  
20 of the capital expenditure.

21 \* Sec. 7. Section 7, ch. 79, SLA 1986, is repealed and reenacted to  
22 read:

23 Sec. 7. AS 43.75.130(c), 43.75.140(1), 43.75.140(7), and 43.75.-  
24 140(8) are repealed January 1, 1996.

25 \* Sec. 8. Section 8, ch. 79, SLA 1986, is amended to read:

26 Sec. 8. AS 43.75.034 is repealed February 15, 1996 [1992].

27 \* Sec. 9. Section 10, ch. 79, SLA 1986, is amended to read:

28 Sec. 10. Section 3 of this Act takes effect January 1, 1996  
29 [1992].

1       \* Sec. 10. APPLICABILITY TO EXISTING CREDITS. (a) The provisions of  
2 this Act apply to extend from three years to five years a tax credit claim-  
3 ed by a fisheries business under AS 43.75.032 and 43.75.130 for a tax year  
4 beginning after December 31, 1986, and before the effective date of this  
5 Act.

6       (b) Notwithstanding the time limitation for adoption of an ordinance  
7 imposed by AS 43.75.130(c), a municipality that, on or before the effective  
8 date of this Act, has adopted an ordinance directing the Department of  
9 Revenue to reduce the municipality's fisheries tax refund under AS 43.75.-  
10 130(c) for a period of not more than three years may amend the ordinance  
11 and direct the Department of Revenue to reduce that refund for a period of  
12 not more than five years.

13       \* Sec. 11. Sections 1 - 6 of this Act are retroactive to January 1,  
14 1987.

15       \* Sec. 12. This Act takes effect immediately under AS 01.10.070(c).

*Alaska*  
**MUNICIPAL**  
*League*

TELEPHONE  
(907) 586-1325  
FAX 461-5480

217 SECOND STREET, SUITE 200  
JUNEAU, ALASKA 99801

April 2, 1990

MEMORANDUM

TO: Senator Rick Uehling, Co-Chair  
Senator John Binkley, Co-Chair  
Members, Senate Finance Committee

FROM: Scott A. Burgess, Executive Director 

SUBJECT: CSSB 74 (Resources) - Extending the Fisheries Business Tax Credit

The Alaska Municipal League (AML) supports CSSB 74 (Resources), amending and extending the Fisheries Business Tax Credit program. The CS also allows the credits to be applied to cooperative or municipal utility construction related to on-shore fisheries development.

The AML supports legislation extending the Fisheries Business Tax Credit program, which enables on-shore fish processors to receive credit for capital improvements to fish processing plants. The AML also supports the application of the fisheries business tax credit to cooperative or municipal utility construction related to on-shore fisheries development. The AML supports allowing such credits for five years, rather than two, and that the expiration date be extended to 1996. These provisions are contained in the Resources Committee Substitute.

The initial legislation establishing the Fisheries Business Tax Credit program allowed tax credits for capital improvements to on-shore fish processing plants for only three years and established January 1, 1992 as the expiration date for the program. Many on-shore processors have been able to upgrade and expand their processing facilities by taking advantage of the program, thus aiding economic development in many of Alaska's coastal communities. Municipalities in coastal areas support an extension of the program to allow for five years of credit for capital improvements and a later expiration date to enable the on-shore fish processing industry to capitalize on the increase in bottomfish and other fisheries development. While the Administration has opposed extending the credit program because of the impact on state revenues, any loss is temporary and is justified in terms of economic development and long term increases in fish processing and revenues.

Again, the AML supports CSSB 74 (Resources). Thank you.



STEVE COWPER, GOVERNOR

**DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT**

P. O. BOX D  
JUNEAU, ALASKA 99811-0800  
PHONE: (907) 465-2500

OFFICE OF THE COMMISSIONER

**FISHERIES BUSINESS TAX CREDIT STUDY**

**EXECUTIVE SUMMARY**

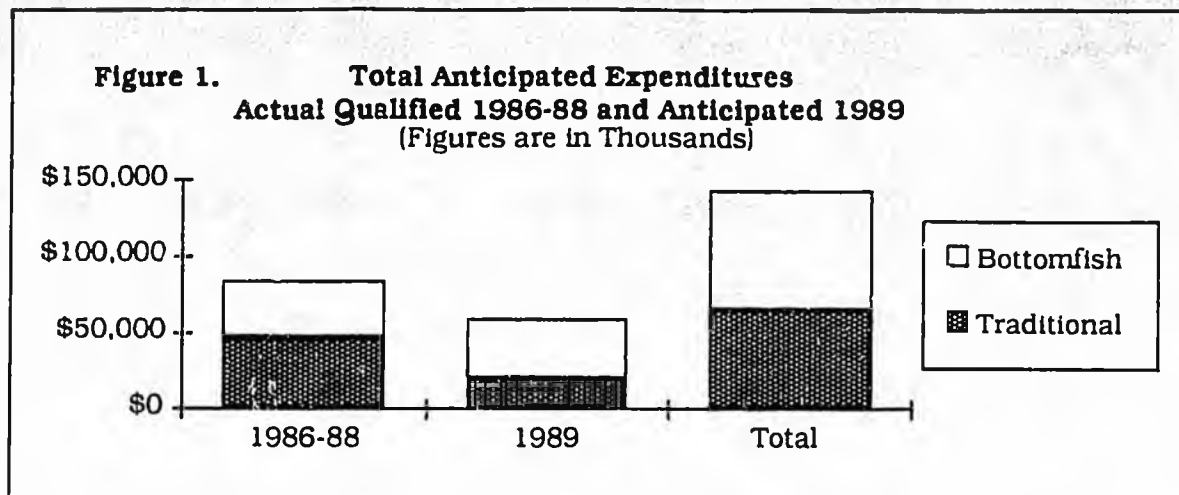
**Purpose.** This report addresses the effects of the Fisheries Business Tax Credit Program, and its stimulus to investments and employment. An attempt is also made to address several questions of interest: what types of investments are being made, where, and by what types of companies; what have the costs to the state been; and how much more will the existing program cost.

**The tax credit program.** The program offers a tax credit for capital expenditures that increase processing capacity, product quality, and value-added production. Credits are limited to 50% of a firm's tax liability and to 50% of qualified expenditures. It is scheduled to run for five years (1986-1991), with regulations defining 1986-1989 as the three year period during which qualifying expenditures must be made. Companies can elect to start their three year window of eligibility at any time during that period. Thus all projects must have been preapproved and substantially completed at this time. Credits can now be carried forward by companies who started their eligibility period in 1988 or 1989.

**Expenditures.** There is no uniform correlation between actual qualifying expenditures as reported on tax forms, expenditures preapproved by the Department of Revenue, total expenditures actually made and tax credits taken. Generally, actual qualifying expenditures are a minimum figure for total investment. For most firms, the limiting factor was 50% of their tax liability, not 50% of the qualifying expenditures. Overall, credits are expected to total about 35% of qualifying expenditures.

Actual qualifying expenditures reported on tax forms during the period 1986-1988 totaled \$83.4 million. The Department of Revenue has preapproved expenditures of about \$92.0 million for 1989, the last year that expenditures could be made and still qualify for credit. Since fisheries tax returns for 1989 are not due until March 31st, the actual dollar amounts will not be known for several months.

Using the experience of the previous two years, actual expenditures reported for credit will be approximately \$60 million, 65% of the amount preapproved. Total reported, qualifying expenditures are expected to total over \$140 million, but this is a minimum number for actual investment, as some



companies only report enough expenditure to match their tax liability, and some expenditures are disqualified for items such as bunkhouses, which are essential parts of the operations.

**Increase in Shorebased Plant Value.** Current estimates put the total insured or assessed value of seafood processing plants and equipment in Alaska at \$800 million to \$1 billion (Alaska Seafood Industry Study, 3/89). Estimated qualifying expenditures made during the past three years represent an increase of more than 15% of the total value of all active processing facilities in the state.

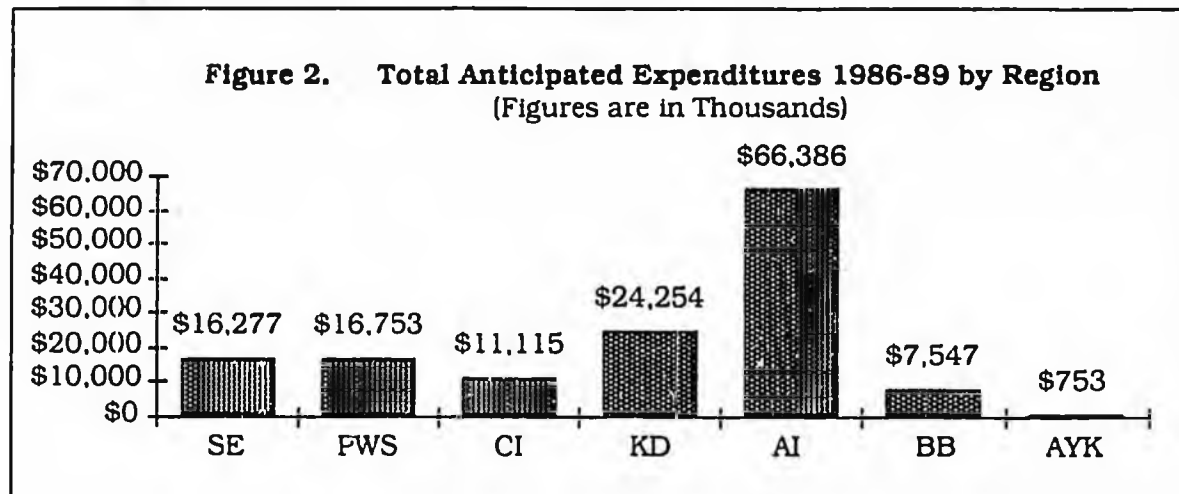
**Number of participants.** Sixty-seven firms representing 96 Alaska processing facilities have or intend to participate in the fisheries tax credit program. Expenditures actually qualifying for credit during the 1986-1988 period were made at 76 plants. Applications for expenditures during 1989 at an additional 13 facilities have been approved by the Department of Revenue. Credits only were taken on taxes generated by 7 facilities (and applied to expenditures at other plants owned by the same firm).

**Table 1. Size and Number of Facilities' Expenditures by Region**

Size of Expenditure (in thousands)	South East	Prince Will	Cook Inlet	Kod/ Chig	Aleut. Is.	Bristol Bay	AYK	Total
Less than \$10.0	2		1		1			4
\$10.0 - 100.0	7	1	2			2	2	14
\$100.0 - 500.0	8	3	3	5	1	2		22
\$500.0 - 1,000.0	1		8	5	2	3	1	20
\$1,000.0 - 2,000.0	4	2	4	2	1	1		14
\$2,000.0 - 5,000.0	2	2		3	1	1		9
\$5,000.0 - 10,000.0		1		1				2
\$10,000.0 - 20,000.0					4			4
Total	24	9	18	16	10	9	3	89

**Concentration of Major Investments.** It is estimated that through 1989, 22 firms will have made investments of more than \$1 million at each of 28 plants. This category of large investments will total about \$128 million or 89 percent of the total estimated expenditures of all participating firms.

The approximate size of expenditures and number of plants involved in each area of the state are outlined in Table 1. The expenditures column represents actual expenditures reported through 1988 plus 65% of 1989 expenditures preapproved by the Department of Revenue.



**Expenditures by Region.** The statewide total of estimated expenditures over the life of the tax credit program is put at \$143 million. Expenditures in the Aleutian Islands area are estimated at \$66 million or 46% of the total. The bulk of expenditures in the Aleutian Islands area are related to the construction of four very large bottomfish plants used for the manufacture of surimi, filets and meal. See Figure 2.

Comparatively few expenditures were made in the Bristol Bay area (\$8 million) and AYK area (\$1 million).

**Credits Taken.** Reported expenditures totaled \$83 million during the 1986-1988, generating \$42 million in potential credits. Only about \$23 million in actual credits were applied, and the credit carry forward is about \$19 million. Generally, the credits taken by most major firms are limited by their tax liability and not by the size of their qualified expenditures.

**Credits Outstanding.** Theoretically, outstanding credits could equal \$66 million (half of the 1989 preapproved amount plus the amount carried forward). Estimating 65% of the preapproved amount as the actual qualifying expenditures that will be reported yields an estimated potential credit outstanding \$49 million, and a total potential credit figure of \$71 million.

The carryforward of most firms will be exhausted by 1990, so credits taken are expected to be higher 1988-1990, and lower in 1987 and 1991. Also, the record high ex-vessel prices of 1988 and the large volume of claims are likely to make that year the peak. Credits are likely to decline steadily after 1988, and to total between \$48 and \$55 million over the life of the program.

**Ownership.** Of the 89 facilities where expenditures have or will be made, on the order of 44 are owned by Alaska residents or Alaska-based corporations, 24 by foreign entities, and 21 by U.S. citizens or corporations headquartered outside of the state.

Forty-one percent of the credits actually applied through 1988 were taken by Alaskan firms, 29% by US firms, and 31% by foreign firms. Based on the tax liabilities of the companies involved, the 1989 approved expenditures and the amount of credits carried over from prior years, this ratio is not expected to change appreciably in the future.

**Value of the Tax Credit Program.** It is not possible to determine what investments in plant expansion and new equipment would have been made in the absence of a tax credit program. However, it is clear that the program is responsible for a substantially increased volume of capital investments in shorebased facilities, and probably in the ability of Alaskan and US firms to participate in shorebased bottomfish operations.

Six facilities with over \$5 million expended make up 45% of the total anticipated qualifying expenditures. Four are for new plants, with three bottomfish operations and one cannery. Two are major expansions of existing plants, both into surimi, fillet and meal production. The two Alaskan and one US firm involved all concentrated extensive tax credits from floating operations to build their plant. Principals in each firm report that the tax credit program was a major factor in their decision to invest onshore. The program was of lesser importance to the other three Japanese owned plants, who have very large fishing companies behind them, and who are constrained by law from investing in factory trawlers.

Of the total \$143 million in expected qualifying expenditures, \$79 million was spent on bottomfish facilities, and \$44 million on traditional species. The traditional species investments have considerably increased production capacity, especially refrigeration capacity, and have contributed substantially to production efficiencies.

**Increase in Employment.** It is not possible to determine the total increase of employment which was generated by plant expansions, because most were incremental expansions or improvements of existing facilities. More efficient equipment and production systems may even have resulted in the elimination of a few jobs. However, four new surimi plants alone which have already been completed or are in the final stages of construction will employ about 750 people full time. Another new facility constructed to handle more seasonal "traditional" species is expected to employ 200. Employment increases associated with firms participating in the tax credit program probably exceed 1,000 persons.

## **FISHERIES BUSINESS TAX CREDIT PROGRAM REPORT**

### **Type of investments made**

Actual qualifying expenditures as reported on 1987-1988 tax returns were analyzed in detail. These expenditures were classified as being in support of either bottomfish processing or the processing of "traditional" species such as salmon, halibut, herring, and crab. Within those two categories the following classifications were established:

**Dock/building repair or expansion:** Minor and major expansion of existing processing buildings; utilities maintenance and upgrade (water, power, communications, waste disposal, outfalls); general plant wiring, plumbing, heating and other systems maintenance and upgrade; support facilities and equipment such as office, lunch room, generator shed, shop, supplies storage space, or loading dock.

**New plant construction:** Construction of a totally new building where one did not previously exist. Construction in association with an existing plant was included in this category if it involved the construction of a new building designed to handle products not previously processed.

**Fish Handling equipment:** Equipment and closely associated structures for moving, transferring and handling fish. Expenditures in this category were heavily weighted toward fish pumps, fork lifts and cranes, and also included conveyors, pallet jacks, trucks, hoists, elevators, carts, vans, and flumes.

**Refrigeration/Ice:** Refrigeration equipment, compressor buildings, freezers, refrigerated product storage facilities, refrigerated seawater holding systems, ice manufacturing equipment, and ice storage and delivery systems.

**Salmon canning equipment** ("Traditional" category only): Equipment used specifically in traditional salmon canning operations: Holding bins, weighing systems, fillers, seamers, can forming machinery, and steam production equipment. The efficiency of traditional canning facilities was substantially increased by the installation of equipment such as automated weighing and patching systems. A number of firms added one-quarter and one-half pound canning lines, which will increase the final product value.

**Surimi/fillet equipment (bottomfish category only):** Machinery for raw product buffer storage, heading, gutting, skinning, filleting, mincing, dewatering, mixing ingredients, candling, trimming and packaging products. Meal and oil plants associated with bottomfish surimi and fillet operations were included in this classification.

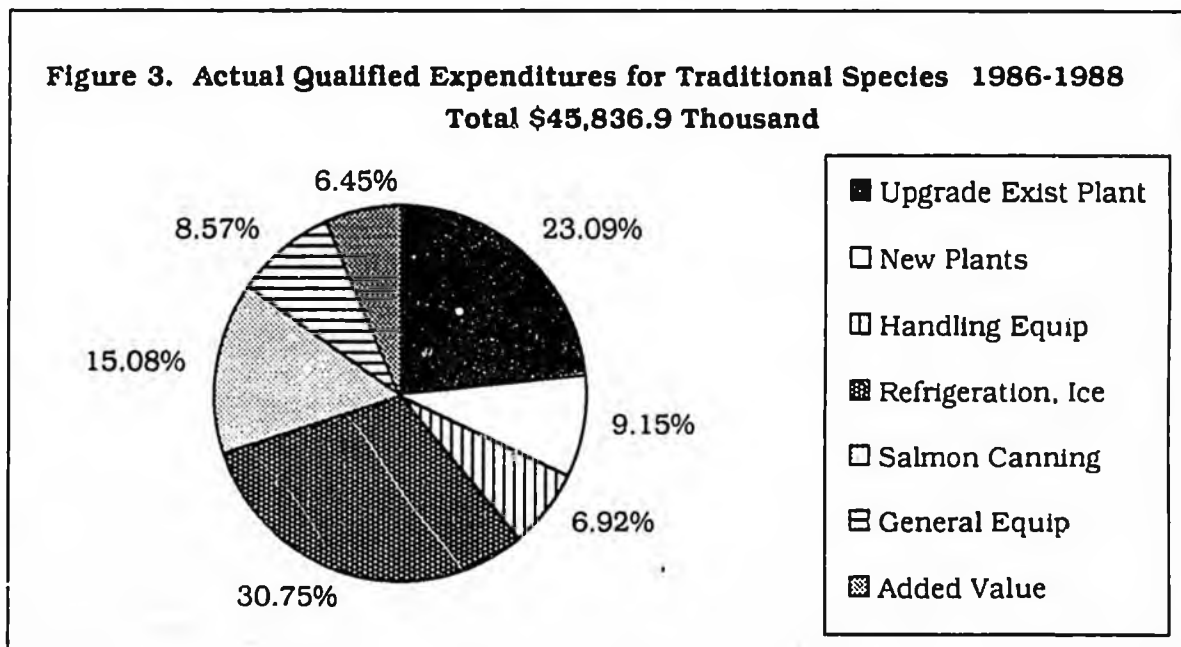
**General processing equipment:** Equipment usually associated with the processing of traditional species and products - salmon, herring, halibut, shellfish: Raw product holding and distribution systems, scales, tables, totes, headers and gutters, fish washing, glazing, strapping machines, crab cookers, herring graders, and equipment for egg processing (brine tanks, agitators).

**Added value equipment** ("Traditional" category only): Equipment specifically used in the production of value added products: Skinless/boneless canned salmon, retortable pouch products, fish meal and oil not especially related to bottomfish operations, smoking, salmon fillets and fillet log products, and equipment to facilitate air fresh operations.

**Traditional Species Investments.**

During the 1986-1988 period, \$45.8 million of the \$83.4 million total reported on tax returns was invested in facilities and equipment devoted primarily to the processing of traditional species. About half of that amount was invested in the improvement and expansion of existing buildings and docks and the installation of new freezing, cold storage and ice making capacity.

Of the \$92 million in expenditures preapproved for 1989, \$29 million will be devoted to the production of traditional species. About 65% of that amount, or \$19 million, is expected to be reported as qualified expenditures on tax returns. Over the life of the program, \$65 million in qualifying, reported expenditures will be invested. Further details about traditional species expenditures are provided in Table 2 and Figure 3.



**Table 2. Actual Qualified Expenditures 1986-1988 on Traditional Species**

	Utilities, buildings	New Plants	Handling Equipment	Refrig. Ice, Freezing	Salmon Canning	General Equipment	Added Value	Total
Southeast	\$2,133.1	\$0.0	\$580.7	\$2,814.9	\$3,518.8	\$695.2	\$912.9	\$10,655.6
Prince William Sd	\$1,007.3	\$4,169.7	\$1,555.8	\$1,672.6	\$2,854.8	\$738.1	\$1,663.7	\$13,662.0
Cook Inlet	\$2,904.9	\$0.0	\$481.8	\$3,170.9	\$4.1	\$1,304.8	\$71.0	\$7,937.5
Kodiak	\$1,083.9	\$23.8	\$265.6	\$2,415.9	\$174.4	\$903.7	\$0.0	\$4,867.3
Aleutian Islands	\$2,387.7	\$0.0	\$43.5	\$129.4	\$0.0	\$0.0	\$300.0	\$2,860.6
Bristol Bay	\$1,042.8	\$0.0	\$238.3	\$3,839.8	\$357.9	\$267.9	\$0.0	\$5,746.7
Arctic-Yuk-Kusk	\$22.5	\$0.0	\$6.0	\$49.1	\$0.0	\$20.3	\$9.3	\$107.2
<b>Total</b>	<b>\$10,582.2</b>	<b>\$4,193.5</b>	<b>\$3,171.7</b>	<b>\$14,092.6</b>	<b>\$6,910.0</b>	<b>\$3,930.0</b>	<b>\$2,956.9</b>	<b>\$45,836.9</b>

**Table 3. Actual Qualified Expenditures 1986-1988 on Bottomfish**

	Utilities, buildings	New Plants	Handling Equipment	Refrig. Ice, Freezing	Surimi, Fillet	General Equipment	Total
Southeast	\$33.6	\$0.0	\$8.9	\$63.0	\$0.0	\$18.8	\$124.3
Prince Will Sd	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cook Inlet	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$14.0	\$14.0
Kodiak	\$720.8	\$1,789.0	\$388.8	\$1,775.7	\$8,417.6	\$394.9	\$13,486.8
Aleutian Islands	\$8,839.2	\$3,755.0	\$440.8	\$59.7	\$10,767.1	\$87.5	\$23,949.3
Bristol Bay	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Arc-Yuk-Kus	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Total</b>	<b>\$9,593.6</b>	<b>\$5,544.0</b>	<b>\$838.5</b>	<b>\$1,898.4</b>	<b>\$19,184.7</b>	<b>\$515.2</b>	<b>\$37,574.4</b>

**Table 4. Total Actual Qualified Expenditures 1986-88 and Estimated Qualifying Expenditures for 1989\***

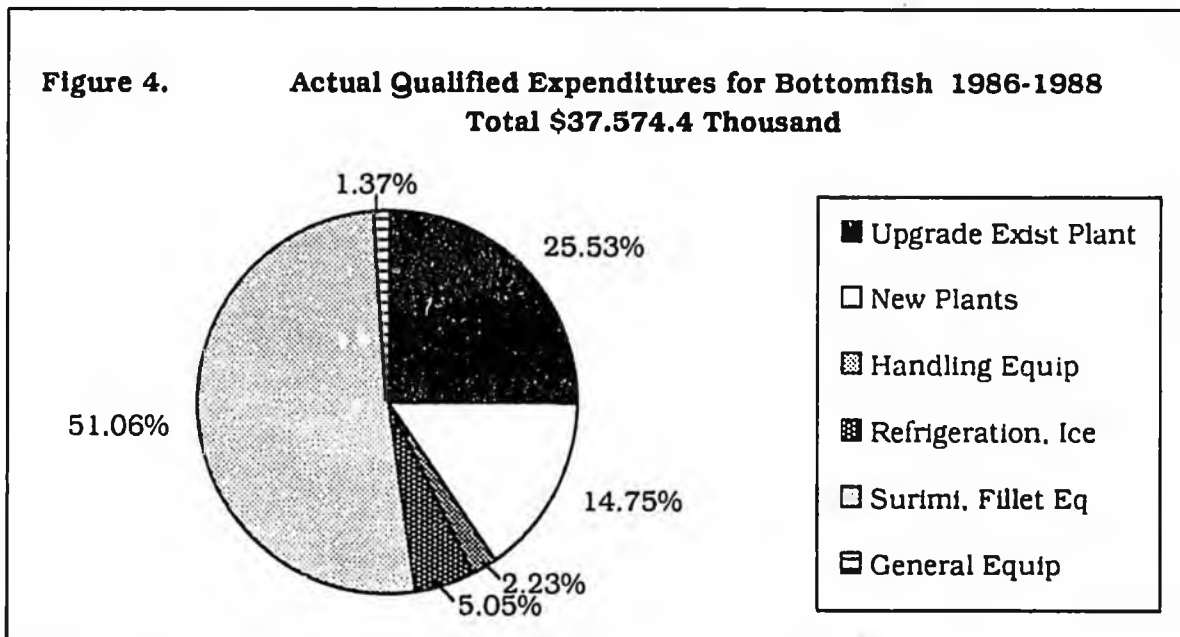
	Traditional Species			Bottomfish			Grand
	1986-88	'89 Est*	Total	1986-1988	'89 Est*	Total	Total
Southeast	\$10,655.6	\$5,224.2	\$15,879.8	\$124.3	\$272.7	\$397.0	\$16,276.8
Prince Will Sd	\$13,662.0	\$2,613.1	\$16,275.1	\$0.0	\$477.8	\$477.8	\$16,752.9
Cook Inlet	\$7,937.5	\$3,163.6	\$11,101.1	\$14.0	\$0.0	\$14.0	\$11,115.1
Kodiak	\$4,867.3	\$3,400.3	\$8,267.6	\$13,486.8	\$2,499.3	\$15,986.1	\$24,253.7
Aleutian Is.	\$2,860.6	\$1,719.9	\$4,580.5	\$23,949.3	\$37,856.3	\$61,805.6	\$66,386.1
Bristol Bay	\$5,746.7	\$1,799.9	\$7,546.6	\$0.0	\$0.0	\$0.0	\$7,546.6
Arc-Yuk-Kus	\$107.2	\$645.3	\$752.5	\$0.0	\$0.0	\$0.0	\$752.5
<b>Total</b>	<b>\$45,836.9</b>	<b>\$18,566.2</b>	<b>\$64,403.1</b>	<b>\$37,574.4</b>	<b>\$41,106.0</b>	<b>\$78,680.4</b>	<b>\$143,083.5</b>

### **Bottomfish Expenditures.**

Bottomfish investments for the 1986-88 period totalled \$37.6 million. About three-quarters of the amount was invested in new plant construction and specialized equipment for the production of fillets, surimi and meal. Preapproved 1989 expenditures total \$63 million for bottomfish. If 65% of the amounts preapproved are actually reported for credit, 1989 qualified expenditures for bottomfish would be \$41 million. (Table 3 and Figure 4.)

Combining expenditures reported in 1987 and 1988 and 65% of the amounts preapproved in 1989 indicate that during the life of the tax credit program Alaska processors will spend at least \$79 million to initiate the production of bottomfish. See Table 4.

Note that qualifying expenditures represent a minimum figure for investment. Some expenditures are disqualified, and some companies only report enough expenditures to match their anticipated tax liability. For example, one new surimi plant has preapproved expenditures under the tax credit program of about \$11 million. This amount is apparently sufficient to maximize the firm's potential credits given its expected tax liability. However, reliable information indicates that the company will actually spend nearly \$60 million on the project.



**Table 5. Total Credits Applied 1986-88, Carryover, and Preliminary Approved Expenditures for 1989**

Regional Analysis Location	Number	Tax Credits Applied		Total 1986-88	Carryover	One-half	Maximum	Theoretical
		1987	1988			1989 App Expend	Theoretical Credits	Credits Outstanding
Southeast	24	\$1,435.8	\$2,044.9	\$3,480.7	\$1,909.1	\$4,228.4	\$9,618.1	\$6,137.5
Prince William Sd	10	\$1,733.1	\$1,860.3	\$3,593.4	\$3,237.8	\$2,377.6	\$9,208.8	\$5,615.4
Cook Inlet	17	\$1,131.5	\$1,660.1	\$2,791.6	\$1,324.6	\$2,433.5	\$6,549.7	\$3,758.1
Kodiak	15	\$1,985.6	\$3,062.8	\$5,048.4	\$4,163.2	\$4,538.2	\$13,749.7	\$8,701.3
Aleutian Islands	11	\$903.8	\$4,712.1	\$5,615.9	\$7,898.3	\$30,443.2	\$43,957.4	\$38,341.5
Bristol Bay	9	\$683.9	\$886.1	\$1,570.0	\$1,411.4	\$1,384.5	\$4,365.9	\$2,795.9
Arctic-Yuk-Kusk	3	\$0.0	\$21.4	\$21.4	\$32.2	\$496.4	\$550.0	\$528.6
<b>Total</b>	<b>89</b>	<b>\$7,873.7</b>	<b>\$14,247.7</b>	<b>\$22,121.4</b>	<b>\$19,976.6</b>	<b>\$45,901.7</b>	<b>\$87,990.6</b>	<b>\$65,878.3</b>

**Table 6. Total Credits Applied 1986-88, Carryover, and Estimated Qualifying Expenditures for 1989\***

Ownership Analysis Location	Number	Tax Credits Applied		Total 1986-88	1986-88 Carryover	One-half	Maximum	Max Est
		1987	1988			1989 Est Qual Exp*	Estimated Credits	Credits Outstanding
Alaskan Owned	44	\$4,001.4	\$5,290.8	\$9,292.2	\$3,152.7	\$14,903.1	\$27,347.9	\$18,055.8
US Owned	21	\$1,489.2	\$4,795.8	\$6,285.0	\$1,675.1	\$5,431.4	\$13,391.5	\$7,106.5
Foreign Owned	24	\$1,989.3	\$4,161.1	\$6,150.4	\$15,148.8	\$9,501.6	\$30,800.8	\$24,650.4
<b>Totals</b>	<b>89</b>	<b>\$7,479.9</b>	<b>\$14,247.7</b>	<b>\$21,727.6</b>	<b>\$19,976.6</b>	<b>\$29,836.1</b>	<b>\$71,540.2</b>	<b>\$49,812.7</b>
Fac. > \$1 Million	28	\$5,164.8	\$10,131.7	\$15,296.5	\$18,548.3	\$25,346.8	\$59,191.5	\$43,895.0
Fac.> \$5 million	6	\$1,109.2	\$3,856.3	\$4,965.5	\$11,659.9	\$19,100.1	\$35,725.5	\$30,760.0
Firms > \$2 million	12	\$5,886.9	\$11,223.1	\$17,110.0	\$16,417.6	\$25,870.6	\$59,398.2	\$42,288.2

\*NOTE - The estimated '89 expenditures shown are 65% of the preapproved amount. See text for description.

### **Credits Taken**

While reported expenditures totaled \$83 million during the 1986-1988 period, only about \$23 million in actual credits were applied. Credits are limited to 50% of a firm's tax liability and to 50% of qualified expenditures. Generally, the credits taken by most major firms are limited by their tax liability and not by the size of their qualified expenditures. Qualified expenditures made in 1986-1988 generated potential credits of \$42 million, nearly twice as large as the amount actually applied. The credit carry forward is about \$19 million. See Table 5.

The Department of Revenue has preapproved expenditures in 1989 of \$92 million. Total theoretical credits potentially equal \$88 million (half of the 1989 preapproved amount plus the amount carried forward and the amount already claimed). However, based on past experience, qualified expenditures actually reported on tax returns will be about 65% of the amount preapproved (\$60 million), generating an estimated credit of \$30 million. Adding the 1989 estimated credit and the 1987 - 1988 carryover (\$19 million) gives a more probable maximum estimated credit outstanding of \$50 million. See Table 6.

### **Anticipated Total Revenue Impacts**

Investments in facilities and equipment placed in service during 1989 may be used to qualify for credit through 1991. However, credits actually applied will probably peak in 1988, with the smallest amounts taken in 1987 and 1991. The price and volume of fish and shellfish and thus tax receipts (and credits) are expected to be less in 1989 and 1990 than in 1988. By 1991 most firms with credits to carry forward will have exhausted their 3 year window. The overall credits actually applied during the life of the tax credit program are expected to total between \$48 and \$55 million, about 60% of the total credits potentially available (\$87 million).

### **Plant Ownership**

In order to show how the benefits of the tax credit program are distributed, an attempt was made to compare expenditures and credits applied according to the following ownership categories: U.S., Foreign and Alaska. There is no practical way to "officially" determine plant ownership and even arriving at consistent, meaningful definitions is difficult. However, ownership of most major facilities is common industry knowledge and it was felt that it would be more useful to do an imperfect comparison than to avoid the issue. Knowledgeable individuals, news reports and other sources were consulted to help arrive at the ownership designations used.

Firms are designated Alaskan owned if the president or general manager resides in the state, if it is owned by a resident corporation, or if it is generally thought of as a locally owned facility. There are instances where a firm may have begun operations in the state, has a significant proportion of resident stockholders and a substantial part of their management staff are residents, but for business

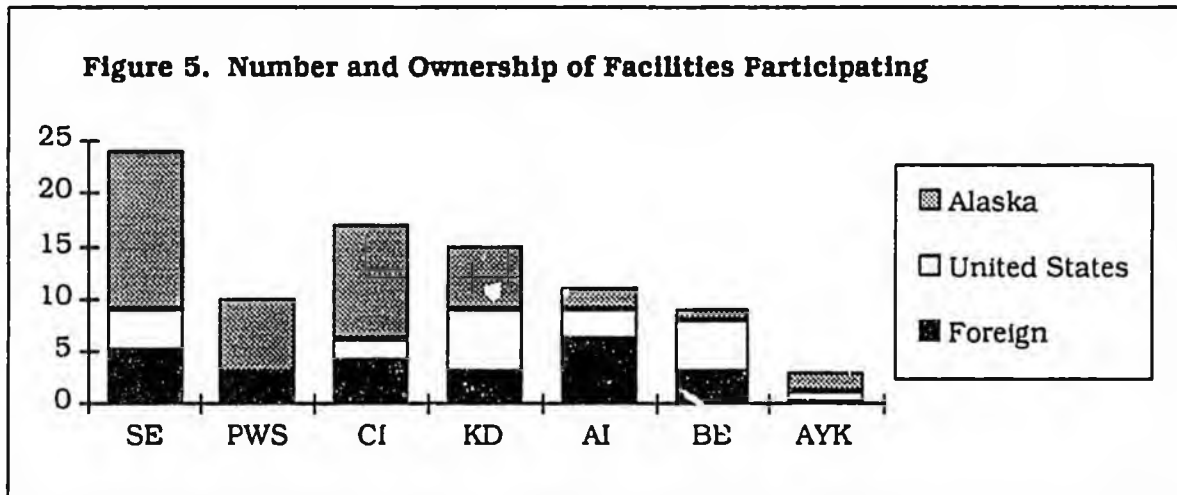
reasons the firm elected to move their corporate offices outside the state. Such firms are also termed Alaskan.

Firms are designated U.S. owned if they are known to be owned by outside corporations, if they have never had their headquarters in the state, if there are no known significant resident stockholders and if most management staff have their homes outside the state.

Firms are termed foreign owned if reports indicate that all or nearly all the company is held by foreign nationals or foreign corporations. In practice, foreign owners tend to have full ownership control of the firms in which they are heavily invested. Those firms classified as foreign in this paper are all thought to have 90% or more foreign ownership.

Of the 89 facilities where expenditures have or will be made under the tax credit program, on the order of 44 are owned by Alaska residents or Alaska-based corporations, 24 by foreign entities, and 21 by U.S. citizens or corporations headquartered outside of the state. See Table 6.

Forty-one percent of the credits actually applied through 1988 were taken by Alaskan firms, 29% by US firms, and 31% by foreign firms. Based on the tax liabilities of the companies involved, the 1989 approved expenditures and the amount of credits carried over from prior years, this ratio is not expected to change appreciably in the future.



### Concentration of Major Investments

Through 1988, 14 firms had made investments of more than \$1 million at 18 plants. These large investments amounted to \$65 million or about 77% of all investments made during the period. As a result of these investments, credits totaling \$18.2 million were actually applied. This amount represented 79% of all credits taken during the period. See Table 7.

Adding 65% of 1989 preapproved expenditures to those reported through 1988 gives an estimate of total expenditures through the life of the credit program. Through 1989, 22 firms will likely have made investments of more than \$1 million at each of 28 plants. This category of large investments will total about \$128 million or 89% of the total estimated expenditures of all participating firms.

Total expenditures by company for the life of the tax credit program are estimated below:

**Table 7. Company Expenditures by Size**

<u>Expenditures</u>	<u>Number of firms</u>	<u>\$Invested</u>	<u>% of Total</u>
Over \$1 million	22	\$128 million	89%
over \$2 million	12	\$114 million	79%
over \$5 million	8	\$99 million	69%
over \$10 million	5	\$75 million	52%
over \$15 million	2	\$43 million	30%
over \$20 million	1	\$26 million	17%

### Areas

Area designations used in this paper are:

- SE: Southeast, includes Yakutat
- PWS: Prince William Sound, includes Seward
- CI: Kodiak, includes Chignik
- AI: Aleutian Islands, includes Sand Point, King Cove
- BB: Bristol Bay, includes Port Moller, Togiak
- AYK: Arctic, Yukon, Kuskokwim - includes points north of Togiak and interior rivers.

## PRESS RELEASE

Department of Revenue  
March 29, 1990  
Contact: Steve Kettel  
(907) 465-2320

RECEIVED MAR 29 1990

### ALASKA'S FISH TAX CREDIT PROGRAM MOSTLY BENEFITS OUTSIDE CORPORATIONS

Almost 90 percent of the benefits of Alaska's fish tax credits go to large Lower 48-based firms who employ mostly non-residents. The Alaska Department of Revenue estimates that the State will lose an estimated \$15 million in revenue this year in credits to fish processors. More than 70 percent of the total credits taken went to 12 firms, 10 of which were based outside the State.

Department of Labor figures for 1988 indicate that the workforces of these 10 Outside firms, which total approximately 10,200 employees, average 59 percent non-residents. The non-resident employment percentages for these firms ranged from a low of 15 percent to a high of 80 percent.

In 1987, the legislature enacted a law allowing fish processors to claim a credit of up to 50 percent of their liability on the raw fish taxes. Processors claim credits based on the amount of capital expenditures they make to improve production or product quality. Fish processors may carry forward unused credits and apply the credits against its tax liabilities for the next two years.

The amount of loss from this tax break has been increasing each year. The potential amount of fish tax credits increases every year as construction and capital improvements are completed, and businesses accumulate unused credits from prior years to apply against subsequent years' tax liabilities.

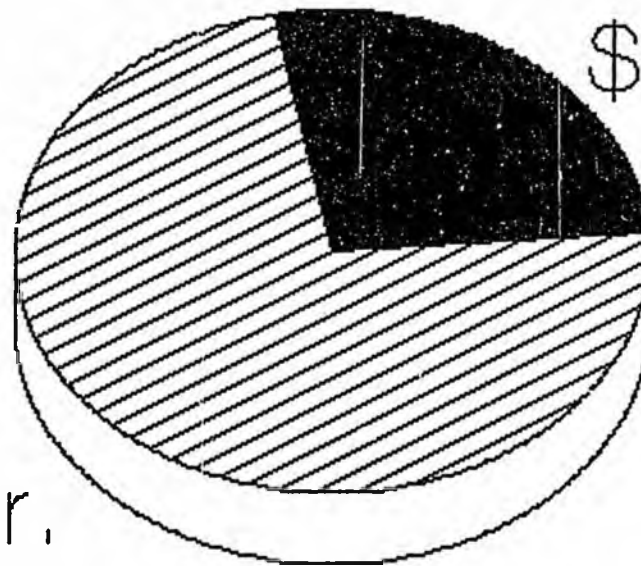
Since the program began in 1987, state revenues have been reduced by \$21.7 million because of the credits claimed by fish processors. This year's fish tax loss is expected to be \$15 million as a result of the tax credit program.

Lower 48-based firms are those with principal offices located outside the state or owned by more than 50 percent non-residents.

0337K

# Fish Taxes FY 1989

Gen. Fund  
\$11,037,670

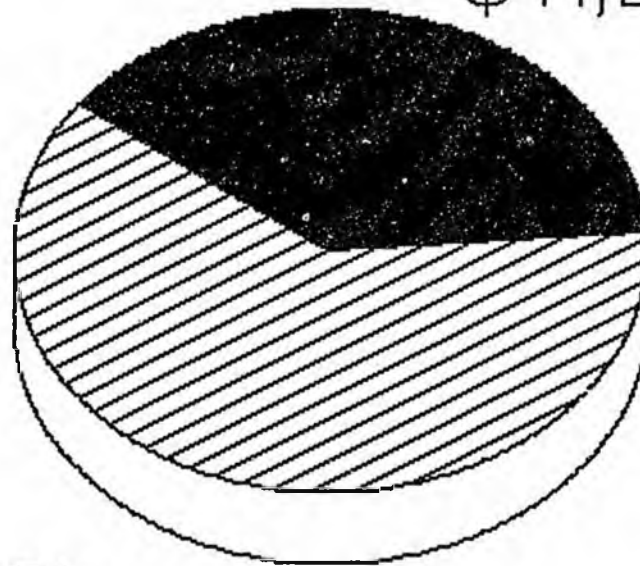


Ord. & Shr.  
\$30,366,560

PREPARED BY  
INCOME & EXCISE AUDIT DIV  
4-6-90

# Fish Taxes FY 1988

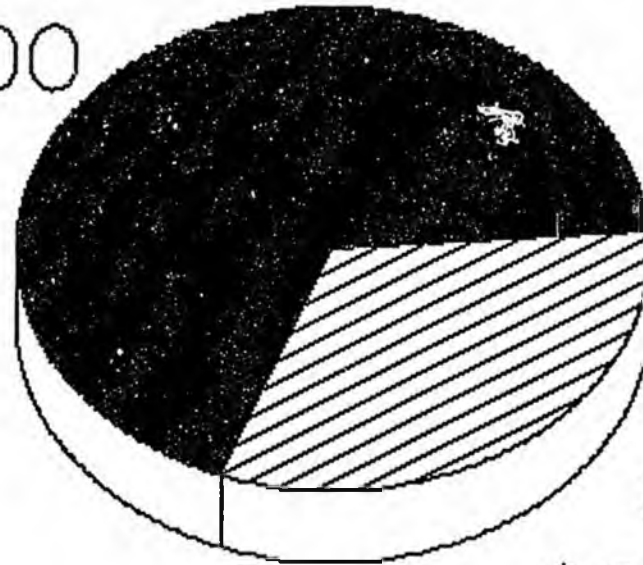
Gen. Fund  
\$11,214,360



Ord. & Shr.  
\$18,176,020

# Fish Taxes FY 1987

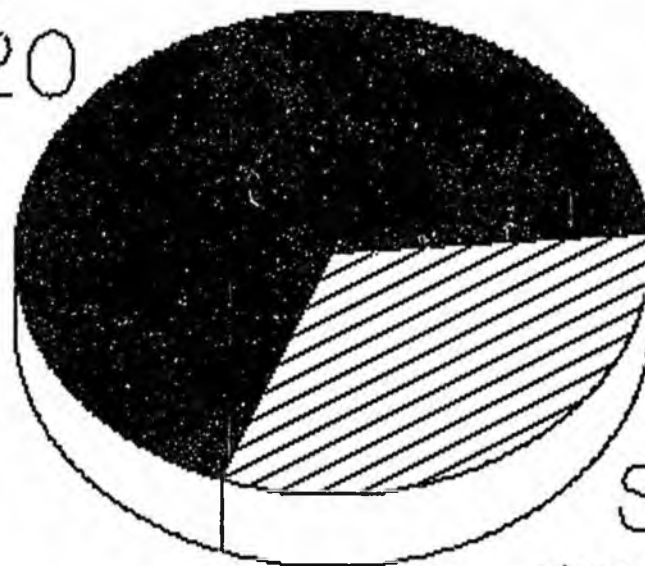
Gen. Fund  
\$18,348,500



Shared  
\$8,676,554

# Fish Taxes FY 1986

Gen. Fund  
\$14,348,020



Shared  
\$6,781,110



SENATOR FRED F. ZHAROFF  
ALASKA STATE LEGISLATURE

P. O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259

DURING SESSION:

P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 485-3473 • 485-3474 • 485-3844 (Labor and Commerce Committee)

DISTRICT N

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

MEMORANDUM

TO: Senator Rick Uehling  
Co-Chairman  
Senate Finance Committee

FROM: Senator Fred F. Zharoff

DATE: March 16, 1990

RE: CS For Senate Bill 74 - "An Act amending and extending the fisheries business tax credit; relating to fisheries business tax refunds to municipalities; and providing for an effective date."

I respectfully request that CSSB 74 be scheduled for hearing before the Senate Finance Committee at the committee's earliest convenience.

CSSB 74 extends the existing Fisheries Business Tax Credit program an additional two years. If passed, SB 74 would allow fisheries businesses to have the benefit of the program for a five year period, rather than the three years now provided by law. The bill also extends the period during which seafood processors may apply for the bill from 1989 to 1991.

The tax credit acts as an incentive for increased investment in Alaska's shorebased seafood processing facilities. It allows processors to use up to fifty percent of their annual business tax liability for capital expenditures that "increase product diversity, or production efficiency and capacity, or improve product quality". The spinoff effects from this credit include:

- Economic development in Alaskan coastal communities.
- Greater employment opportunities.
- More markets for Alaskan commercial fishermen.
- A more stable Alaska seafood industry.

The program is particularly crucial at this time due to increased Alaskan involvement in the fledgling bottomfish industry and the threat the state faces from the Seattle-based factory trawler fleet. Alaska must do all it can to encourage and support shorebased processors.

CSSB 74 also makes the following changes to the tax credit statute:

-- It clarifies that fisheries businesses may make capital expenditures each year in which they are eligible to claim tax credits.

-- It adds a new category of eligible capital expenditures under which seafood processors can receive credits for fisheries-related municipal improvement projects. This will help coastal communities keep up with seafood processor demands for additional municipal services and facilities.

-- It corrects an contradiction in the current statute pertaining to municipal participation in the tax credit. The present law allows municipalities to offer their own tax credit to processors in the amount of up to half the shared fish tax revenue they receive from the state. However, the law only allows processors to claim tax credits of up to a maximum of 50 percent of their business tax liability, effectively blocking a municipal contribution. The bill raises the cap to 75 percent to accommodate both state and municipal tax credits.

The following backup information is attached:

1. Sectional analysis.
2. Department of Revenue fiscal note and position paper.
3. Department of Revenue annual report about the Fisheries Business Tax Credit program.
4. Resolution passed by the Southwest Alaska Municipal Conference.
5. Alaska Municipal League position paper. The AML's suggested amendment was incorporated into the Resources CS.
6. Excerpt from the Alaska Municipal League 1990 Policy Statement.
7. Letter from Mr. John Lotzgesell, treasurer for Kodiak Salmon Packers, Inc.
8. Letter from Mr. Larry Cambronero, vice president for Chugach Fisheries, Inc.
9. Letter from T.K. Beeston, president of Nelbro Packing Company.
10. Summary of results from Fisheries Business Tax Credit Survey.

Memo to the Senate Finance Committee - page 3

11. Senate Advisory Council research report on the Fisheries Business Tax Credit program.
12. Fisheries Business Tax Credit statutes.
13. Fisheries Business Tax Credit regulations.



# SENATOR FRED F. ZHAROFF

## ALASKA STATE LEGISLATURE

P. O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259

DURING SESSION:

P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 485-3473 • 485-3474 • 485-3844 (Labor and Commerce Committee)

DISTRICT N

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

1

### SECTIONAL ANALYSIS

#### CS FOR SENATE BILL NO. 74 (Resources)

"An Act amending and extending the fisheries business tax credit; relating to fisheries business tax refunds to municipalities; and providing for an effective date."

#### SECTION 1

Amends 43.75.032(a) to allow a fisheries business to claim a fisheries tax credit for a maximum of five consecutive years, rather than the three consecutive years allowed by present law. Extends the period during which a processor may begin the credit from 1989 to 1991. Also clarifies that a fisheries business may make a qualifying capital expenditure each year it claims the credit.

Adds new paragraph (3) which allows processors to receive tax credits for their participation in fisheries-related municipal improvement projects. This will help municipalities secure funds for municipal capital expenditures related to or needed because of fisheries development.

#### SECTION 2

Changes existing language to be consistent with amendment in Section 1, and deletes reference to three year tax credit period and replaces it with reference to a five year period.

#### SECTION 3

Deletes reference to three year tax credit period and replaces it with reference to five year period.

#### SECTION 4

Changes language to be consistent with amendment in Section 1.

#### SECTION 5

The current law only allows a taxpayer to claim tax credits for up to 50 percent of their business tax liability. This section raises the cap to 75 percent in

order to allow municipalities, if they so wish, to also participate in the tax credit. The 50 percent tax liability cap will remain in effect for processors who do not receive a municipal tax credit.

SECTION 6

Allows a municipality to offer a tax credit for not more than five years, rather than the three years now allowed in present law.

SECTION 7

Changes the repeal dates in the current law to reflect a five year credit rather than a three year credit.

SECTION 8

Changes a repeal date in the current law to reflect a five year credit rather than a three year credit.

SECTION 9

Changes an effective date in the current law to reflect a five year credit rather than a three year credit.

SECTION 10

APPLICABILITY TO EXISTING CREDITS.

Allows municipalities to extend any tax credits they may have already offered from three years to five years.

SECTION 11

Retroactive clause. Makes the five year tax credit retroactive to the start of the program, Jan. 1, 1987. This is necessary to allow for the continuation of the present program.

SECTION 12

Immediate effective date.



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### MEMORANDUM

TO: Steve Kettel  
Director - Income and Excise Tax Division  
Department of Revenue

FROM: Karl Ohls *Karl Ohls*  
Office of Senator Zharoff

DATE: Feb. 15, 1990

RE: Senate Bill 74 - Fish Tax Credit extension

This memo is a followup to the Senate Resources Committee meeting on Feb. 5. At the meeting, Resources Committee members expressed interest in seeing a number of different versions of the bill and a fiscal analysis for each one.

I now have the drafts of the various versions of SB 74 that the committee members wish to review. On behalf of the Senate Resources Committee, I wish to request a fiscal analysis and/or note for each one, and for the current version. I have labeled the drafts A, B, C, D and E.

A. is the extension of the present program with the two amendments. One clarifies that a capital expenditure can be made each year the credit is taken. The other adds fisheries-related municipal projects to the list of projects for which a credit can be claimed.

B. is the extension of the present program with the amendment clarifying when a capital expenditure can be claimed.

C. establishes a new three-year Fisheries Business Tax Credit program, allowing the current one to expire. It includes the amendments clarifying when the capital expenditure can be made and allowing credits for fisheries-related municipal projects.

D. establishes a new three-year tax credit program, allowing the current one to expire. It includes the amendment clarifying that capital expenditures can be made each year the credit is taken.

E. establishes a new five-year tax credit program, with substantially the same provisions as the current one. It does not clarify when capital expenditures can be made and does not allow credits for municipal projects.

Also attached is a copy of the unamended version of SB 74.

My recollection -- and that of the other staff people present -- is that the committee was interested in finding out the fiscal implications of the amendments and the various versions of SB 74, and if there were any substantial differences between them.

cc: Nancy Peterson  
Senate Resource Committee staff

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

3  
STEVE COWPER, GOVERNOR

P.O. BOX 3  
JUNEAU, ALASKA 99811-0400  
PHONE: (907) 465-2300  
TELEFAX: (907) 465-2389

January 22, 1990

The Honorable Tim Kelly  
President of the Senate  
P.O. Box V  
Juneau, AK 99811

Dear Mr. President:

In accordance with AS 43.75.034, the Department of Revenue respectfully submits the following annual report on the Alaska fisheries business tax credit program.

In 1986, the Alaska Legislature enacted AS 43.75.032 to provide a fisheries business tax credit to businesses for expenditures that increase product diversity, or production efficiency and capacity, or improve product quality, at a shore-based fisheries business facility in the state, or contribute to the development of a cooperative seafood industrial park in the state. The program allows fisheries businesses to reduce their tax liability by up to 50% for a maximum period of three consecutive years.

Although this statute sunsets December 31, 1991, only those expenditures incurred through 1989 are eligible for this tax credit program. Fisheries businesses may claim unused credits on returns through tax year 1991.

Tax credits may not be approved for more than 50% of eligible capital expenditures. However, AS 43.75.032 provides that an additional 25% of the expenditures may be used as credits for expenditures made in municipalities which adopt an ordinance directing the Department of Revenue to reduce the amount of its shared tax revenues by the additional expenditures taken as credits.

To date, the following municipalities have adopted such ordinances: Anchorage, Pelican, Seward and Valdez. In any case, a taxpayer's credit may not exceed 50% of its tax liability.

The Department of Revenue adopted an emergency regulation effective December 22, 1989 recognizing that there were circumstances in which taxpayers were unable to place its plant construction or improvements in service by the December 31, 1989 deadline. The regulation, 15 AAC 75.085, allows for fisheries businesses to claim tax credits for those expenditures incurred through December 31, 1989 as long as the plant or improvements are placed in service by December 31, 1990.

The Honorable Tim Kelly  
January 22, 1990  
Page 2

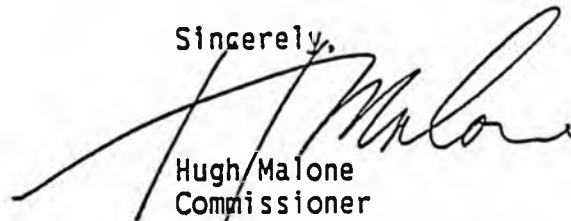
The attached spreadsheets provide details of the estimated expenditures approved for tax credits in 1989 and the actual credits taken for tax years 1988 and 1987. Total expenditures approved for the 1989 tax year were \$66,732,463. Actual credits taken against 1988 taxes which directly reduced fiscal year 1989 revenues totaled \$14,666,914. The total amount of potential credits to date which may be applied against 1989, 1990 and 1991 tax returns totals \$61,125,995.

Expenditures were made for the following types of equipment and facilities:

- Plant modifications and facility upgrades
- Baader filleting skinning machines
- Ice houses and refrigeration equipment
- New and replacement of various pumps and cannery equipment
- Bottomfish and surimi processing equipment
- Forklifts, loaders, cranes, booms, etc.

To date no business has sought approval of a credit for construction of an industrial park.

Sincerely,



Hugh Malone  
Commissioner  
Department of Revenue

HM:SK:ped  
Enclosures  
90-5  
1168s

# 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  
TELEFAX: (907) 465-2389

January 22, 1990

The Honorable Sam Cotten  
Speaker of the House  
P.O. Box V  
Juneau, AK 99811

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The Honorable Sam Cotten  
January 22, 1990  
Page 2

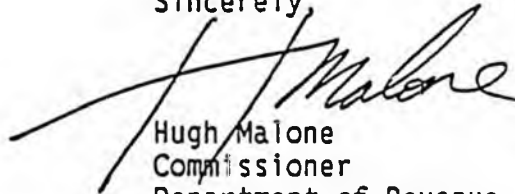
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Sincerely,



Hugh Malone  
Commissioner  
Department of Revenue

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Alaska Department of Revenue  
1987 FISHERIES BUSINESS TAX CREDIT DATA  
 For the Calendar Year 1987

<u>LOCATION OF FACILITY</u>	<u>EXPENDITURES APPROVED</u>	<u>ACTUAL 1987 EXPENDITURES</u>	<u>TAX CREDIT CLAIMED</u>
Akutan	\$13,888,000.00	\$ 116,062.36	\$ 58,031.18
Alitak	120,000.00	196,732.00	139,756.02
Chignik	351,500.00	290,021.00	145,010.50
Cordova	2,299,402.00	2,220,290.63	636,193.40
Craig	385,000.00	493,871.16	95,657.16
Ekuk	435,645.00	608,203.00	91,914.30
Excursion Inlet	282,237.00	687,135.00	85,472.55
*Haines	0.00	0.00	57,841.17
*Homer	0.00	0.00	323,270.91
Hoonah	195,515.00	349,428.62	47,265.70
Juneau	4,500.00	5,762.96	2,881.48
Kasilof	190,000.00	190,000.00	25,527.02
Kenai	1,403,292.00	1,160,302.42	565,854.67
Ketchikan	2,663,257.00	1,553,896.00	172,505.78
King Cove	2,500,000.00	0.00	0.00
Kodiak	11,276,266.05	8,578,273.69	1,800,820.57
Naknek	533,205.00	486,496.71	397,803.97
Petersburg	3,183,347.00	3,077,003.41	531,474.91
Port Bailey	364,653.00	45,901.00	57,713.88
Seward	618,087.00	618,087.00	423,094.87
Sitka	650,674.00	550,705.49	280,089.09
Togiak	139,395.00	69,697.50	40,970.40
Unalaska	13,362,294.00	17,326,912.00	330,748.40
Valdez	475,000.00	269,273.34	93,392.50
Wrangell	197,000.00	156,894.00	41,512.50
Yakutat	1,224,435.00	490,770.53	149,801.71
**Alaskan Waters	N/A	N/A	441,182.04
TOTALS	<u>\$56,712,704.05</u>	<u>\$39,541,746.82</u>	<u>\$7,035,786.68</u>

\* Fisheries tax credits may be applied against a taxpayer's entire liability. In some cases, taxpayers operate in more than one location and apply credits against tax liabilities attributable to locations where expenditures were not incurred.

\*\* In some cases, taxpayers own floating processors as well as shore-based facilities and apply credits against tax liabilities attributable to the floating processors.

Alaska Department of Revenue  
1988 FISHERIES BUSINESS TAX CREDIT DATA  
 For the Calendar Year 1988

<u>LOCATION OF FACILITY</u>	<u>EXPENDITURES APPROVED</u>	<u>ACTUAL 1988 EXPENDITURES</u>	<u>TAX CREDIT CLAIMED</u>
Akutan	\$ 403,000.00	\$ 5,079,940.37	\$ 2,381,638.44
Anchorage	811,600.00	475,280.94	230,323.00
Bethel	51,000.00	51,000.00	19,006.54
Chignik	860,405.44	764,746.44	356,733.23
Cordova	2,797,604.00	2,862,781.99	1,002,366.81
*Craig	0.00	0.00	65,216.68
Dutch Harbor	450,000.00	450,000.00	56,111.37
Egegik	110,500.00	103,152.00	44,910.36
Fkuk	1,836,997.00	2,168,997.00	92,589.34
Excursion Inlet	44,500.00	23,326.00	131,304.30
Gustavus	65,050.00	72,100.00	5,079.58
Haines	39,000.00	39,000.00	99,905.94
Homer	239,300.00	160,063.14	304,810.13
*Hoonah	0.00	0.00	59,649.40
Juneau	630,220.00	211,342.61	41,711.06
Kasilof	2,031,073.77	2,035,388.00	403,204.00
Kenai	4,917,507.06	1,987,285.95	893,163.56
Ketchikan	815,105.00	179,593.00	307,381.29
King Cove	0.00	2,800,000.00	815,984.52
Kodiak	9,591,291.49	8,048,590.53	2,215,428.67
Kodiak Island	592,000.00	494,110.00	451,778.00
Larsen Bay	218,800.00	228,376.00	114,188.00
Naknek	3,817,963.00	2,331,401.88	763,306.41
Nikiski	493,951.49	300,732.50	147,926.44
North Pole	57,140.00	56,231.79	2,431.86
Pelican	59,100.00	47,581.87	30,928.23
Petersburg	2,014,950.00	1,678,096.67	591,451.70
Port Graham	124,623.00	186,974.95	97,193.00
Seward	4,468,472.00	1,622,741.71	329,948.88
Sitka	332,874.00	514,428.86	367,434.67
Togiak	163,000.00	187,841.00	77,457.15
Unalaska	17,105,213.00	605,213.00	355,474.49
Valdez	11,759,500.00	6,057,195.37	939,890.65
Wrangell	117,000.00	81,007.95	57,766.30
Yakutat	1,026,850.53	936,060.93	203,753.96
**Alaskan Waters	0.00	0.00	609,466.12
 TOTAL	 <u>\$68,045,590.78</u>	 <u>\$42,840,582.45</u>	 <u>\$14,666,914.08</u>

\* Fisheries tax credits may be applied against a taxpayer's entire liability. In some cases, taxpayers operate in more than one location and apply credits against tax liabilities attributable to locations where expenditures were not incurred.

\*\* In some cases, taxpayers own floating processors as well as shore-based facilities and apply credits against tax liabilities attributable to the floating processors.

Alaska Department of Revenue  
SCHEDULE OF 1989 APPROVED EXPENDITURES  
 For the Calendar Year 1989

<u>LOCATION OF FACILITY</u>	<u>EXPENDITURES APPROVED</u>
Akutan	\$ 727,000.00
Alitak	840,560.00
Anchorage	1,853,162.00
Bethel	1,065,000.00
Bristol Bay	70,800.00
Chignik	315,000.00
Cordova	2,858,958.00
Dillingham	115,311.00
Dutch Harbor	28,792,000.00
Egegik	196,468.00
Ekuk	174,300.00
Excursion Inlet	1,004,300.00
Gustavus	4,000.00
Haines	130,000.00
Juneau	175,000.00
Kasilof	156,500.00
Kenai	2,806,625.00
Ketchikan	3,009,200.00
King Cove	600,000.00
Kodiak	6,237,204.40
Naknek	1,607,398.00
Nikiski	500,000.00
North Pole	107,808.00
Pelican	52,805.00
Petersburg	3,130,000.00
Port Bailey	463,050.00
Sand Point	1,400,000.00
Seldovia	315,300.00
Seward	2,994,200.00
Sitka	403,240.00
St. Paul Island	3,081,000.00
Togiak	516,500.00
Uganik Bay	370,574.00
Unalaska	14,000.00
Valdez	97,000.00
Wrangell	298,000.00
Yakutat	<u>250,200.00</u>
 TOTAL	 <u>\$66,732,463.40</u>

Since calendar year 1989 returns are not due until March 31, 1990, data for actual expenditures and credits claimed are not available as of the time of this report.

Alaska Department of Revenue  
SCHEDULE OF POTENTIAL CREDITS  
 For the Calendar Year 1988

LOCATION OF FACILITY	ACTUAL CREDIT CARRYFORWARD (1)	PREVIOUS POTENTIAL CREDITS (2)	1989 POTENTIAL CREDITS (3)	TOTAL POTENTIAL CREDITS (4)
Akutan	\$ 158,331.75	\$ 0.00	\$ 363,500.00	\$ 521,831.75
Alitak	0.00	0.00	420,280.00	420,280.00
Anchorage	27,317.47	0.00	926,581.00	953,898.47
Bethel	6,493.46	0.00	532,500.00	538,993.46
Bristol Bay	0.00	0.00	35,400.00	35,400.00
Chignik	70,467.25	0.00	157,500.00	227,967.25
Cordova	297,519.24	0.00	1,429,479.00	1,726,998.24
*Cordova/Port Graham/Uganik	573,492.96	0.00	0.00	573,492.96
Dillingham	0.00	0.00	57,655.50	57,655.50
Dutch Harbor	452,570.41	0.00	14,396,000.00	14,848,570.41
Egegik	6,665.64	0.00	98,234.00	104,899.64
Ekuk	0.00	0.00	87,150.00	87,150.00
Excursion Inlet	0.00	0.00	502,150.00	502,150.00
Gustavus	30,970.42	0.00	2,000.00	32,970.42
Haines	6,461.85	0.00	65,000.00	71,461.85
Hoonah	67,799.21	0.00	0.00	67,799.21
Juneau	63,960.25	0.00	87,500.00	151,460.25
Kasilof	683,962.98	0.00	78,250.00	762,212.98
Kenai	252,994.92	0.00	1,403,312.50	1,656,307.42
Ketchikan	212,730.93	0.00	1,504,600.00	1,717,330.93
King Cove	0.00	0.00	300,000.00	300,000.00
Kodiak	4,110,270.80	0.00	3,118,602.20	7,228,873.00
Naknek	216,574.41	0.00	803,699.00	1,020,273.41
Nikiski	2,439.81	0.00	250,000.00	252,439.81
North Pole	25,684.04	0.00	53,904.00	79,588.04
Pelican	0.00	0.00	26,402.50	26,402.50
Petersburg	30,129.35	199,500.00	1,565,000.00	1,794,629.35
*Petersburg/Bristol Bay	231,303.25	0.00	0.00	231,303.25
Port Baily	0.00	0.00	231,525.00	231,525.00
Sand Point	0.00	0.00	700,000.00	700,000.00
Seldovia	0.00	0.00	157,650.00	157,650.00
Seward	84,903.50	0.00	1,497,100.00	1,582,003.50
Sitka	0.00	0.00	201,620.00	201,620.00
*Sitka/Yakutat	244,903.48	0.00	0.00	244,903.48
St. Paul Island	0.00	0.00	1,540,500.00	1,540,500.00
Togiak	16,463.35	0.00	258,250.00	274,713.35
Uganik Bay	0.00	0.00	185,287.00	185,287.00
Unalaska	8,103,295.83	8,250,000.00	7,000.00	16,360,295.83
Valdez	2,728,265.52	0.00	48,500.00	2,776,765.52
Wrangell	19,672.17	0.00	149,000.00	168,672.17
Yakutat	0.00	0.00	125,100.00	125,100.00
*Multiple Locations	584,618.88	0.00	0.00	584,618.88
<b>TOTALS</b>	<b>\$ 519,310,242.12</b>	<b>\$ 8,250,000.00</b>	<b>\$ 377,346,271.72</b>	<b>\$ 611,125,004.83</b>

(See footnotes and the following page)

Alaska Department of Revenue  
SCHEDULE OF POTENTIAL CREDITS  
For the Calendar Year 1988

Footnotes to Schedule of Potential Credits

\* Amounts for fisheries businesses which operate in more than one location and may apply credits for expenditures made in one location against liabilities incurred in other locations.

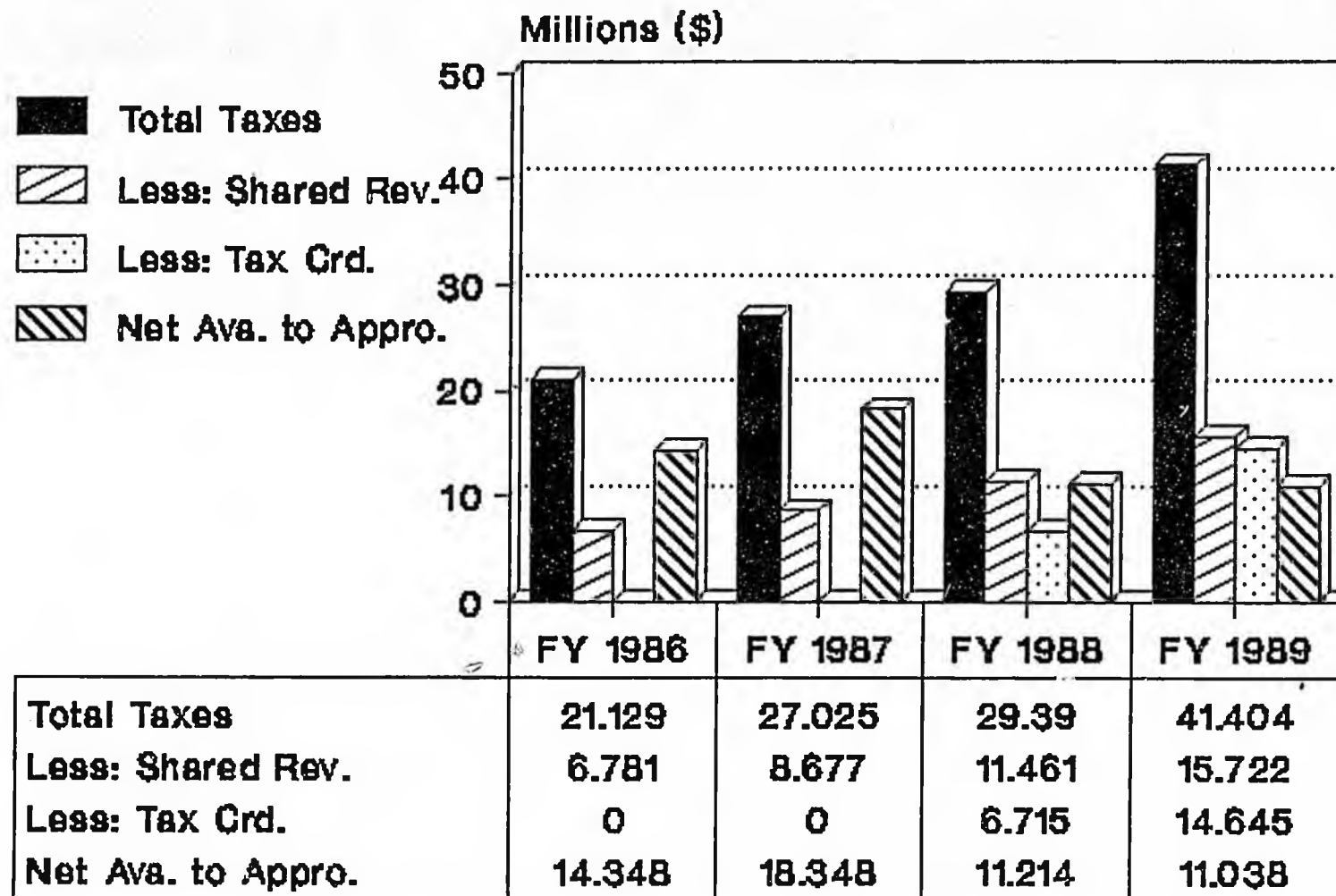
(1) Amounts from 1988 returns which are available to be carried forward to subsequent tax years.

(2) Amounts approved prior to 1989, but have not been applied against tax liabilities because the plant or improvements were not placed in service as of December 31, 1988. These amounts are expected to be claimed against 1989 tax liabilities.

(3) Amounts which represent 50% of approved expenditures in 1989 which may be applied against liabilities beginning with tax year 1989.

(4) Total of amounts to be carried forward (1) and potential credits (2) and (3).

## Fisheries Business Tax Program Fish Tax Credit Impact on G.F. Revenues



15 AAC 75 is amended by adding a new section to read:

15 AAC 75.085. EXCEPTION TO PLACED IN SERVICE RULE. (a) A fisheries business is entitled to a credit for those expenditures actually made through December 31, 1989 and approved by the department for improvements made to depreciable property or for new plant construction, even though improvements or construction were not completed and the facility was not placed in service as of December 31, 1989 if the following conditions are met:

(1) the expenditures for the construction of new plant or plant improvements were substantially made on or before December 31, 1989;

(2) facts and circumstances beyond the control of the fisheries business taking the credit delayed or postponed the placing in service of the facility or improvements beyond December 31, 1989;

(3) completion of the improvements or construction, and placement of the improvements or facility into useful service are made prior to December 31, 1990; and,

(4) the fisheries business applies for and receives a waiver from the department as provided in this section from the placed in service rule as provided by 15 AAC 75.080.

(b) On or before the due date of its 1989 fisheries business tax return, a fisheries business shall apply in writing to the department for a waiver from the placed in service rule and provide the following information:

(1) the status of the construction and verification that construction of the facility was substantially complete as of December 31, 1989;

(2) the current status of the construction as of the time of applying for the waiver; and,

(3) a complete explanation of those facts and circumstances that delayed or postponed completion of the construction beyond December 31, 1989.

(c) A fisheries business is not entitled to a tax credit for expenditures made prior to December 31, 1989 if it fails to obtain a waiver from the placed in service rule

(1) prior to claiming credit for those expenditures on its fisheries business tax return; or,

(2) before the due date of the return, whichever is earlier.

(d) For purposes of this section, substantially complete means that more than 50% of the total expenditures for approved improvements or new plant construction were made by December 31, 1989.

(e) Credit is limited in all cases to those expenditures actually made prior to January 1, 1990. (Eff. 12/22/89, Register 113)

Authority: AS 43.05.080  
AS 13.75.032

Expires April 30 1990  
unless made "permanent"  
by the adopting agency.



# Southwest Alaska Municipal Conference

*Putting Resources to Work For People*

1007 West 3rd Avenue, Suite 201 • Anchorage, Alaska 99501 • (907) 274-7555

RECEIVED JAN 30 1993 (4)

## RESOLUTION NO. 88-27

A RESOLUTION OF THE SWAMC REQUESTING THE AMENDMENT AND EXTENSION OF AS 43.75.032 WHICH AUTHORIZES STATE FISHERIES BUSINESS TAX CREDITS TO FISH PROCESSORS.

WHEREAS, AS 43.75.032 enables an onshore fish processor to receive a State Fisheries Business Tax Credit for capital improvements to the fish processing plant, and

WHEREAS, this credit has assisted many onshore fish processors in Southwest Alaska to upgrade and expand processing facilities, which has assisted long-term economic development of the region and the State; and

WHEREAS, the initial legislation authorized the tax credits for only a three year period and expires on January 1, 1992; and


WHEREAS, legislation was introduced in 1988 to extend the credit to a five year period and the expiration date an additional 2 years, but this legislation was not adopted; and

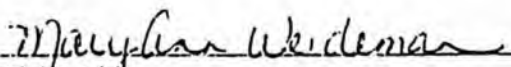
WHEREAS, the municipalities in Southwest Alaska believe the tax credit program has resulted in economic development in their community and that extending the credit would better enable the onshore fish processing industry to capitalize on the increase in bottomfish and other fisheries development.

NOW THEREFORE BE IT RESOLVED that the SWAMC requests that the State Fisheries Business Tax Credit authorized in AS 43.75.032 allow credits for a period of five years and that the expiration date be extended an additional two years.

BE IT FURTHER RESOLVED that SWAMC requests that the legislature allow local municipalities to give an additional 25% credit.

PASSED AND ADOPTED THIS 28TH DAY OF AUGUST.

  
\_\_\_\_\_  
President

  
\_\_\_\_\_  
Secretary

Alaska  
MUNICIPAL  
League

TELEPHONE  
(907) 586-1325  
FAX 463-5480


217 SECOND STREET, SUITE 200  
JUNEAU, ALASKA 99801

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February 5, 1990

MEMORANDUM

TO: Senator Bettye Fahrenkamp, Chairperson  
Members of the Senate Resources Committee

FROM: Scott A. Burgess, Executive Director 

SUBJECT: SB 74 - Extending the Fisheries Business Tax Credit

The Alaska Municipal League (AML) supports SB 74, amending and extending the Fisheries Business Tax Credit program. On behalf of the AML, I am requesting an amendment to allow the credits to be applied to cooperative or municipal utility construction related to on-shore fisheries development.

Specifically, on Page 1, Line 19, after "...capital expenditure." Costs paid by a fisheries business eligible for the business tax credit shall include the construction costs of a cooperative or municipal utility improvement project which is related to on-shore fisheries industry development. Ownership of any utilities constructed under this provision must remain with the cooperative or municipality. A fisheries business may claim...

The AML supports legislation extending the Fisheries Business Tax Credit program, which enables on-shore fish processors to receive credit for capital improvements to fish processing plants. The AML supports the application of the fisheries business tax credit to cooperative or municipal utility construction related to on-shore fisheries development. The AML supports allowing such credits for five years, rather than two, and that the expiration date be extended to 1996.

The initial legislation establishing the Fisheries Business Tax Credit program allowed tax credits for capital improvements to on-shore fish processing plants for only three years and established January 1, 1992 as the expiration date for the program. Many on-shore processors have been able to upgrade and expand their processing facilities by taking advantage of the program, thus aiding economic development in many of Alaska's coastal communities. Municipalities in coastal areas support an extension of the program to allow for five years of credit for capital improvements and a later expiration date to enable the on-shore fish processing industry to capitalize on the increase in bottomfish and other fisheries development.

Again, the AML supports SB 74 and requests an amendment to include tax credits for cooperative or municipal utility expansions related to on-shore fisheries development. Thank you.

- o Extension of Fisheries Business Tax Credits - The League supports legislation extending the Fisheries Business Tax Credit program, which enables onshore fish processors to receive credit for capital improvements to fish processing plants. The League supports the application of the fisheries business tax credit to cooperative or municipal utility construction related to on-shore fisheries development. The League requests that such credits be allowed for five years, rather than two, and that the expiration date of the program be extended to 1994.

The initial legislation establishing the Fisheries Business Tax Credit program allowed tax credits for capital improvements to onshore fish processing plants for only three years and established January 1, 1992 as the expiration date for the program. Many onshore processors have been able to upgrade and expand their processing facilities by taking advantage of the program, thus aiding economic development in many of Alaska's coastal communities. Municipalities in coastal areas support an extension of the program to allow for five years of credit for capital improvements and a later expiration date to enable the onshore fish processing industry to capitalize on the increase in bottomfish and other fisheries development.

- o Marketing - The League supports continued state funding of the Alaska Seafood Marketing Institute.

The Alaska Seafood Marketing Institute (ASMI) has proven its effectiveness in promoting Alaskan fish products in the United States and abroad. ASMI is funded by the State in partnership with industry to market Alaskan seafood.

- o Crab Management - The League strongly urges the State to retain state jurisdiction over crab management of fishery resources in the federal Exclusive Economic Zone. The Legislature is urged to appropriate any additional funds necessary to allow the State to comply with federal requirements.

The State has demonstrated its ability to manage the domestic crab fishery. It has the expertise and resources to develop a comprehensive Alaska Management Plan, which would provide the industry with constant and locally controlled management.

- o Mariculture - The League supports the development of a stable, year-round private mariculture industry, with the initial efforts directed toward

Administrative Office  
20520 Bowen Road  
Mukwonago, Washington 98272  
Telephone (206) 486-9872

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Administrative Office  
20520 Bowen Road  
Mukwonago, Washington 98272  
Telephone (206) 486-9872



March 1, 1990

The Honorable Senator Fred F. Zharoff  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Senator Zharoff:

As a shore-based salmon processing plant located on the southwest side of Kodiak Island we wish to express our support for Senate Bill 74, the tax credit extension bill for the Fisheries Business Tax Credits.

Kodiak Salmon Packers, Inc. is an Alaskan corporation. Established in May 1986, we have steadily increased our production capacity at our Larsen Bay facility. Our direct payment to the State for the past three years for the Alaska Corporate Net Income Tax have been: 1986 - \$63,896; 1987 - \$37,566; 1988 - \$ 171,806. Our gross Fisheries Business tax for the past three years are as follows:

	Gross	Net of Credits
1986	\$ 56,663.73	\$ 56,663.73
1987	203,614.52	139,827.28
1988	564,428.68	450,240.68
	<u>\$ 824,706.93</u>	<u>\$ 646,731.69</u>
	=====	=====

Our production, by gross pounds of salmon purchased has been: 1986- 4,662,201; 1987- 4,975,981; 1988 - 11,983,185.

Realistically, the Fisheries Credits has allowed us to more economically make the necessary improvements to our facility. The large increase in production from 1987 to 1988 was due to a great part, to our increase in frozen production capacity and improvements to a critical ice storage and distribution facility.

Our Company attempts to support Alaska businesses as much as possible and gives Alaskan residents preferred employment opportunities. As the only facility in Larsen Bay that can effectively handle northbound freight services- we allow all

materials for the City of Larsen Bay and its residents to be loaded (& unloaded) and transferred across our dock facilities at no charge. It is estimated that an average of \$338,000 to \$462,000 per year are disbursed to Alaska companies. This figure does not include payments to Alaskan tenders nor to our Alaskan fishermen.

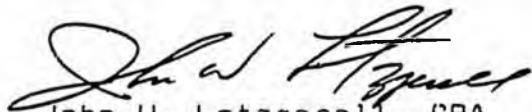
We realize the difficulty that you face on the passage of this bill. With the decline in State revenues from oil royalties and pressure to raise other revenues you face a formidable task. There are very few advantages to being a shore-based seafood processing plant. We are subject to the runs of salmon surrounding our area, whereas floating processors can come into an area, compete for raw product, and then move to other locations to maximize their production. However, from a taxing and monitoring viewpoint, a shore-based facility is easy to identify. We are there to offer steady seasonal employment; shore support services; offer a solid basis for tax remittances; easier to inspect by State and Federal agencies; and are helpful to assist State agencies in their programs.

If we, as a processor, may offer any additional assistance to you, we express our sincere invitation to contact us. By the way, Alan Beardsley wanted to pass on his pleasure of having you visit our plant this past summer.

I am enclosing some related information about our company and remain

Very truly yours,

KODIAK SALMON PACKERS, INC.

  
John W. Lotzgesell, CPA  
Treasurer

# STATE OF ALASKA

STEVE COWPER, GOVERNOR

## DEPARTMENT OF FISH AND GAME

P.O. BOX 3-2000  
JUNEAU, ALASKA 99802-2000  
PHONE: (907) 465-4160

### DIVISION OF FISHERIES REHABILITATION, ENHANCEMENT & DEVELOPMENT (FRED)

February 13, 1990

Kodiak Salmon Packers  
20520 Brown Road  
Monroe, WA 98272

Dear Sir:

The Alaska Department of Fish and Game (ADF&G), Fisheries Rehabilitation, Enhancement and Development (FRED) Division maintains an annual performance award program to recognize special efforts of staff as well as program supports. The program is based upon nominations from the divisional staff and selection by the Division's Management Team.

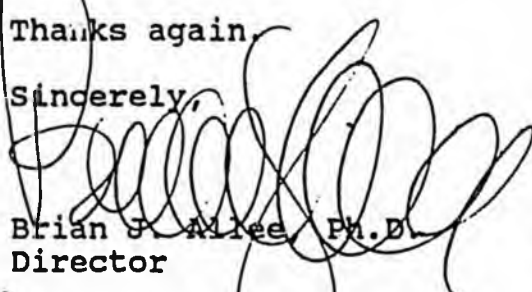
The Kodiak Salmon Packers are being given a FRED Division Performance Award in the category of program supporters for 1989. The staff and management people of Kodiak Salmon Packers of Larsen Bay, Kodiak Island have been exceptional program supporters since 1986. You have passed over 534 tons of liquid fertilizer across your dock at Larsen Bay to assist the ADF&G and the Kodiak Regional Aquaculture Association in fertilizing Karluk and Frazer Lakes. You have provided dock and warehouse space, and logistical support without compensation. You have always been ready to support ADF&G in the efforts to rehabilitate the salmon runs in Kodiak Island.

The FRED Division would like to thank Kodiak Salmon Packers for their past support and look forward to many more years of cooperative fisheries enhancement work at Kodiak.

The program supporter's award consists of a plaque. If someone from your organization is able to attend, I would like to present it at the FRED Division annual meeting in Anchorage on February 27 at the Barratt Inn at 1:00 P.M. If you are unable to attend, I will ask Lorne White to present the award to you in Kodiak.

Thanks again.

Sincerely,



Brian J. Allee, Ph.D.  
Director

cc: Lorne White  
Oliver Holm, KRAA

CHUGACH FISHERIES, INC.



4241 - 21st AVENUE WEST, SUITE 204  
SEATTLE, WA 98199  
PHONE (206) 284-0804

RECEIVED JAN 10 1989

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January 10, 1989

Senator Fred F. Zharoff  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Senator Fred F. Zharoff

The purpose of this letter is to ask for your support in promoting the extension of the capital improvement tax credit program. I understand that review of the program is set for legislative session scheduled in January.

The program had allowed our company a chance to improve our ability to produce a better quality product as well as open new markets and in turn received higher value for our product. Our added capital expenditures had brought positive contributions to the Alaskan business communities as well as increased local employment.

I am aware of the fact that you're one of the original supporter of the program therefore counting on you for your continued support to our industry.

Thank you in advance for your support.

Very truly yours,  
Chugach Fisheries, Inc.

A handwritten signature in black ink, appearing to read "L. Cambroner". The signature is stylized and cursive.

Larry Cambroner  
V.P. Operations

**Nelbro**  
PACKING COMPANY

P.O. BOX 82548  
KENMORE, WASHINGTON 98028



RECEIVED FEB 3 1989  
(9)

February 2, 1989

Senator Fred F. Zharoff  
P.O. Box V  
Juneau, AK 99811

Dear Senator Zharoff:

I enclose the Survey of Shorebased Seafood Processing Companies on the use of the Fisheries Business Tax Credit for our two plants at Naknek and Petersburg.

I apologize for the delay in responding but I have been away from my office and I hope that these responses are in time to be helpful.

We certainly support and appreciate your efforts to extend the Credit for an additional two years. This will assist us, and all shore based processors, to compete in a very competitive industry and will generate new jobs and additional tax revenue within the State of Alaska.

If there is anything further I can do please contact me.

Yours sincerely,

NELBRO PACKING COMPANY

T. K. Beeston

**Survey on the Use of the Fisheries Business Tax Credit  
Senator Zharoff**

**Conducted during 1988-89 Legislative Interim  
Questionnaire Results Compiled 3/14/89**

**Response:**

43 companies with onshore plants responded out of a possible 127.  
33% return.

These companies returned surveys for 64 processing plants, out of a possible 165. 39% of Alaska's onshore plants.

The companies that responded are estimated to account for 75% of the seafood processing capacity in Alaska.

**How many plants used the tax credit?**

92% of the plants used the tax credit.  
8% did not.

**How many additional jobs were created by the tax credit?**

77% hired additional workers.  
22% did not.  
1% switched existing workforce from seasonal to year-round employment.

**Did processors use the tax credit to diversify?**

77% used the tax credit to process new species or new products.  
23% did not.

**Did product capacity increase due to tax credit?**

88% increased production capacity with the tax credit.  
12% had no increase.

**Where was the tax credit money spent?**

79% said they spent the money for the tax credit improvements in the communities in which they operate (labor, construction materials, etc.).

5% did not.

9% did not know the amount.

7% said not applicable.

**Did the tax credit encourage processors to invest onshore rather than offshore?**

39% --because of the tax credit--invested in onshore plants rather than floating processors.

61% answered not a factor or not applicable.

**Did the tax credit affect prices?**

34% said that they were able to pay fishermen more for their fish because of improvements made with the tax credit.

58% said it had no effect on prices.

8% said question was not applicable.

2% did not know.

**Did the tax credit increase the length of the operating season?**

47% said they increased the length of their operating season because of tax credit improvements.

45% said it had no impact.

4% said not applicable.

4% said they would increase their operating season in the future.

**Was the tax credit used for freezers?**

14% used to diversify from a canning to a freezing operation.

86% answered no or not applicable.

52% of the plants that answered no already had freezing facilities.

Alaska State Legislature

RECEIVED JAN 10 1989



SENATOR  
ARLISS STURGULEWSKI

Chairman, Senate Community and Regional Affairs Committee  
Vice-Chairman, Senate Judiciary Committee  
Member, Senate Resources Committee

2957 SHELDON JACKSON STREET  
ANCHORAGE, ALASKA 99508

While in Juneau  
P. O. BOX V  
JUNEAU, ALASKA 99811  
(907) 465-3818

Senate

MEMORANDUM

January 9, 1989

TO: Senator Zharoff

FROM: Senator Sturgulewski

RE: SB 74 "An Act amending and extending the fisheries business tax credit relating to fisheries business tax refunds to municipalities, and providing for an effective date."

Earlier this year I requested the Senate Advisory Council to look into the impact of the Fisheries Business Tax Credit program. I am sending their report on to you in hopes that it will be useful background for SB 74.

Enclosure

# Alaska State Legislature

Senate Advisory Council



P.O. Box V  
State Capitol  
Juneau, Alaska 99811  
Phone: (907) 465-3114

## MEMORANDUM

TO: Senator Arliss Sturgulewski  
Alaska State Senate

ATTENTION: Frank Hoffman

FROM: Richard Rainery *RR*  
Senior Analyst

DATE: November 22, 1988

SUBJECT: Fisheries Business Tax Credit and Revenue Sharing Programs  
Research Request No. 88-003324

You have requested information concerning the consequences of implementing the Fisheries Business Tax credit program and the results of the municipal revenue sharing feature of the same tax, including the provision calling for phased activation of full revenue sharing for newly formed boroughs. While tax revenues derived from the sale of raw fish have been shared by the State of Alaska with the municipalities of origin for a number of years now, both the tax credit program and the new borough share phase-in are recent amendments to the law. As such, information concerning their influence on the seafood industry and municipal finances and economies is still sketchy. Your question is rather broad and while this memorandum will touch on all aspects of the tax credit and revenue sharing programs, the subject is broad as well. I refer you to a recent draft Senate Advisory Council report, Community Fisheries Development, which includes a discussion of state fisheries taxation policy for additional information. Copies have been provided to your office.

### I. Fisheries Business Tax Credit Program

Credits against the tax liabilities of seafood processing industry firms were made available for calendar years beginning in 1986. A firm may claim a credit of up to 50% of annual tax liability for the costs of certain capital investments at shoreside facilities. Eligible improvements, which must be approved in advance by the Alaska Department of Revenue (ADOR), include facilities which diversify products, increase efficiency, quality, and capacity or development of cooperative seafood industrial parks. The full amount of an approved credit may be applied against up to three years' tax liabilities. The basic intent of the tax credit, as well as some other aspects of the tax's structure, is to encourage expansion of existing facilities into new processes

Senator Arliss Sturgulewski  
November 22, 1988  
Page 2

and products and to entice new processing capacity to locate on Alaskan terra firma rather than operating at sea, which is the predominant trend at present, particularly in the groundfish fisheries.

Has the provision of the tax credit lured the seafood industry ashore? Within the near future there will be some fifty U.S. factory trawlers (most in excess of 200 feet in length) operating in the Alaskan Exclusive Economic Zone (EEZ), up from none just a few years ago. There are plans for at least two 600 foot processing vessels as well. These ships will not be replacing existing shore based capacity, but displacing the foreign processing components of at sea joint ventures as the "Americanization" of the EEZ continues. That process should be complete within about two years. It is predicted that 80% of the bottomfish catch will be processed at sea. A variety of factors assure that floating processing will predominate. Combined operations are more profitable, transshipment to tramp freighters is more efficient than calling at shore, better quality products are assured by immediate processing of catches, and suitable sites for plants are scarce on the Bering Sea coast. These are not absolutes, there are factors which favor shore based facilities<sup>1</sup>, but no reversal in the trend of the last few years is apparent yet.

Measuring the economic benefits of tax incentives in general is a difficult task. Despite the proliferation of special tax treatment for a variety of industries in states across the nation, rare has been the rigorous analysis of the economic effect of an incentive. Nor have state governments made concerted efforts to assess the revenue impacts of incentives. This is generally the case in Alaska. The fisheries business tax credit program is still too new to judge fairly and completely. It is true that, since the credit was implemented, processing companies have filed for and received approval from ADOR for a huge amount of expenditures for qualifying improvements. These are recorded in Table 1. It should be noted that these data are preliminary and "unaudited". Their value lies in their representation of gross magnitude rather than as a precise rendering of circumstances.

When lobbying for the enactment of the credit program, processing interests were careful not to claim that sensational growth of shore based processing capacity would result, but asserted that it was a necessary element in any meaningful attempt to spark such expansion. Approved applications for credits now exceed \$113 million in amount for calendar years 1987 and 1988. This represents a significant percentage of the assessed value of existing shore plants, perhaps as much as one third. Comprehensive estimates on statewide assessed values are not available, but a partial survey in 1987 identified about \$210,000,000 in capital assets (see Community Fisheries Development).

---

<sup>1</sup>The fisheries business tax rate structure favors shore plants and capital and labor costs are lesser on land.

Table 1  
Fisheries Business Tax Credit Investments  
(Calendar Years 1987 and 1988)

	1987	1988*	Both Years
Approved Expenditure	\$55.2	\$58.6	\$113.8
Potential Credit	27.6	29.3	56.9
Actual Expenditure	37.6	39.9#	77.5
Actual Credit	18.8	19.9#	38.7
Credit Claimed	6.7	14.4	21.1

Source: ADOR, 1988.

\* As of November 1988.

# Estimates based on 1987 patterns.

Annual tax collections have ranged between about \$15 million and \$25 million since Fiscal Year 1980. One-half of total tax liabilities represents the upper limit on credits, if all processors had been eligible for the full 50%. It is not surprising that actual credits have been less than the approved level thus far; individual company tax bills are small enough that most larger credit amounts will have to be spread out over three years to be fully used. Credits claimed on 1987 tax returns reduced state revenues by \$6.7 million, only about one third the value of credits earned. 1988 expenditures are forecast to be only slightly higher than those of 1987, but credits will be more than double 1987 levels principally due to carryover from that year. State revenues have declined as a result. Increased harvest values have kept collections relatively high, but will not counterbalance the loss of income resulting from use of credits and the state's portion after revenue sharing has substantially decreased (see the next section for more details).

The fundamental issue, in light of this information, is whether the investments in question would have been made in the absence of the credit. The answer to that question is not clear. It presupposes knowledge of the innermost workings of corporate decisionmaking that is not usually available to government researchers. Certainly, it has been the position of business in general that tax incentives are meaningful and oftentimes essential elements in

certain decisions.<sup>2</sup> I certainly cannot dispute that position in this case. It is, however, not the claim of the Alaskan processing industry that these investments would not have occurred absent the credit. Rick Lauber, vice-president of the Pacific Seafood Processors Association (PSPA), says that he would not make that assertion. He does say that the level of investment since the enactment of the credit has surprised him, both the amount and the number of processors participating (over 40 in both years). He believes that the credit has definitely influenced the timing of investments. Given the rapid development of the Bering Sea bottomfish industry, that circumstance may be the real benefit of the credit, permitting the capture of a portion of the harvest for shore plants before the domestic processing sector becomes fully developed. It would seem, however, that the shore plant sector was in a "fish or cut bait" situation and in order to compete had to invest to adapt to the new fisheries and markets. The credit surely made those investments more attractive.

Mr. Lauber cited one case in which the credit was instrumental in a decision for a major expansion of one shore plant, although perhaps in an unforeseen manner. A major Aleutian processor had determined to expand capacity and diversify, but was debating whether to do so at an existing shore plant or to add to its fleet of floating processors. The plans of the newly formed Aleutians East Borough to assess a 2% tax on the sale of raw fish would have been the straw that tipped the scale in favor of at sea processing had it not been for the availability of the fisheries business tax credit. As a result, a \$14 million dollar expansion to the firm's shore plant went forward.

A significant portion of ADOR approved expenditures are for bottomfish processing. According to Dick Reynolds of the Office of Commercial Fisheries Development in the Alaska Department of Commerce and Economic Development, the following rough categories of investment were approved in 1987:

- |  |                  |
|--|------------------|
| 1. Docks, unloading, and holding facilities      | - \$ 4.7 million |
| 2. Ice or refrigeration/freezing facilities      | - 7.4 million    |
| 3. Buildings or utilities                        | - 16.2 million   |
| 4. Standard finfish/shellfish species processing | - 4.1 million    |
| 5. Other value added processing                  | - 2.4 million    |
| 6. Bottomfish fillets                            | - 8.9 million    |
| 7. Surimi  | - 9.9 million    |
| 8. Other (including fishmeal and oil processing) | - 4.4 million    |

Approximately \$40 million of the \$58 million total was identified by Mr. Reynolds as capital improvements for bottomfish processing plants, so it would seem as though the money (if indeed all these planned investments come to fruition) is largely being spent in that developing sector as intended by law.

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<sup>2</sup>Although most research has suggested incentives are not necessary or are poorly designed, there are respectable arguments on both sides of the issue.

At present little concrete information is available on how these investments, actual or prospective, will affect the Alaskan seafood industry and the overall state economy. The industry is presently booming, with the value of catches to fishermen and processors increasing on an annual basis, despite the fact that fewer of the most highly valued species, salmon, have been landed in each of the last two years. Construction of refrigeration facilities will enable processors to adapt to changing markets in which frozen salmon are displacing canned fish and in which frozen bottomfish fillets are an increasing piece of the pie. Frozen fish are generally higher in value than canned products and the fact that they may as well be held in inventory during periods of product surfeit should help to strengthen somewhat the market position of processors of Alaskan fish.

At this point it would be speculative to attempt to determine whether there have been any employment gains attributable to the credit program. While the credit focusses on capital investment, it is certain that some increased employment will result from capacity growth and product diversification. Whether new jobs will be filled by Alaskans or non-residents is the question. Recently about 70% of shore based processing jobs have been filled by non-resident seasonal workers. Statewide, seafood processing employment increased by 100 jobs (less than 1%) between August (a peak month) 1987 and August 1988. The increase appears to have been centered in Southeast Alaska, where little bottomfish is processed. If there is a substantial increase in workforce at bottomfish plants, that may be more likely to benefit the site communities since most such plants will operate on a year-round basis as opposed to the seasonal nature of the established fisheries. Even if labor is imported, many non-residents may perforce become de facto residents.

Although the financing of construction of new facilities is eligible under the credit program, no applications for new plants have been made says John Hansen, supervisor of the audit office of the Income and Excise Tax Division of ADOR. All approved expenditures have been for existing or previously planned investments. Credit use has yet to affect much of maritime Alaska; eligible investment occurred in but 22 communities in 1987. Some 63% of the dollar value of approved 1987 applications were from only three communities (Akutan, Kodiak, and Unalaska) and 87% originated in but 10 communities. In 1988, the top three (Kodiak, Unalaska, and Valdez) accounted for 60% of approved value, while the top ten sites had 89%.

A final note on the credit program: Mr. Lauber of PSPA asserts that the program could be of added benefit to the state, particularly in terms of resident employment if a clarification to the law were made. The processors believe that the construction of employee housing should qualify for the credit. ADOR has not agreed and has not approved such expenditures. PSPA contends that if apartment or detached housing were eligible under the program, permanent residents could be attracted to Alaskan communities. Many communities in which plants are located are chronically short of housing. The

provision of decent housing combined with year-round employment could, in Mr. Lauber's opinion, help to ameliorate the transient, temporary nature of most processing employment. He believes that if companies operating factory trawlers and other at sea processing vessels could qualify for credits for investments in housing, a number of such vessels could be enticed to homeport in Alaska. Of the fifty or so factory trawlers licensed to fish the Alaskan EEZ, no more than ten are homeported in Alaska. Increasing that number would obviously strengthen local and regional fishing and support sector economies.

## II. The Fisheries Business Tax Revenue Sharing Program

The fisheries business tax has been a significant contributor to the state treasury (in relative terms) for only the last ten years. Total collections topped \$10 million dollars for the first time in FY 1979 and since FY 1981 have ranged from about \$19 million to \$26 million. Figure 1 displays state and municipal shares since FY 1979, with estimates for FY 1989 - 1990, and shortfalls in municipal shares for FY 1987 - 1988 when appropriations were insufficient for full funding. Since the 1981 amendment to the law which

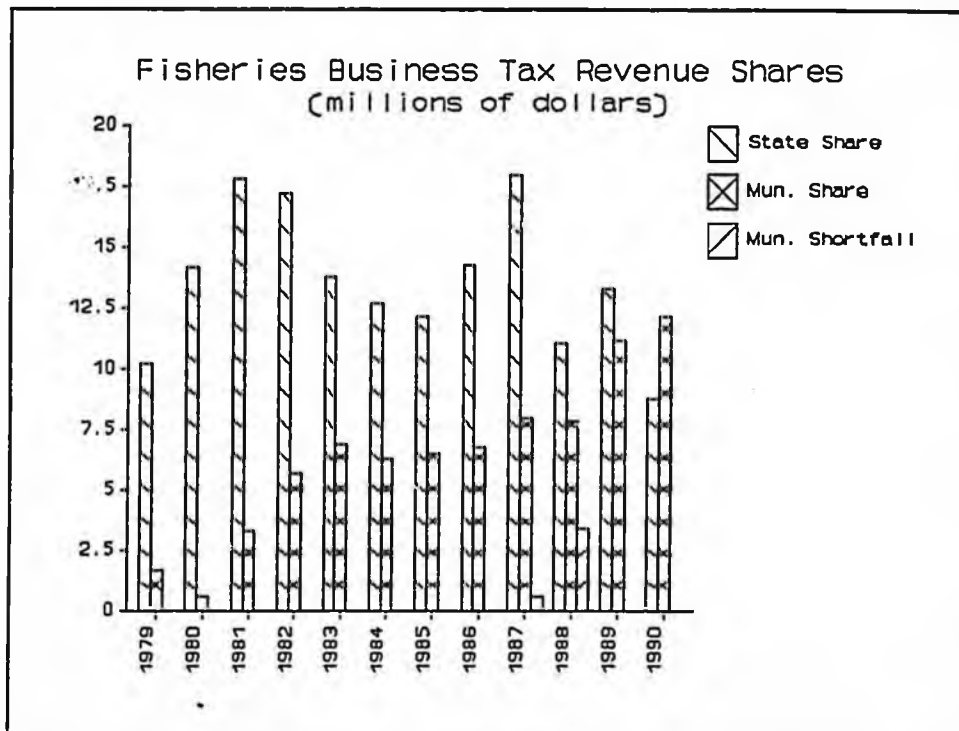


Figure 1 FY 1989 and FY 1990 shares estimated.

Source: ADOR, 1988.

increased the municipal share of locally generated revenues from 20% to 50%, municipal shares have been steadily rising. The proportion of state/municipal shares had settled into about a two thirds/one third pattern for the five years beginning in FY 1983. That relationship changed in FY 1988 as taxpayers began claiming credits. The state share dropped to only 49% of revenues with municipalities entitled to 51%, although the latter received only 35% as legislative appropriations were insufficient for full distribution.<sup>3</sup> Although total liabilities in FY 1988 were a record \$29.1 million, state revenues declined in absolute, as well as relative, terms, compared to the previous year. Strong harvests and good prices pushed up revenues, but the tax credit reduced the state share of the total by \$6.7 million for the year. Absent the credit, the rough FY 1983 - FY 1987 proportion of state/municipal shares would have prevailed.

ADOR projections of fisheries business tax revenues and the distribution of those revenues for the present and coming fiscal year (Elliot, pers. com., 1988) are as follows:

<u>FY 1989</u>	
State share	- \$13.3 million
Municipal share	- 11.2 million
Municipal shortfall	- 3.4 million
Credits	- 14.4 million
<u>FY 1990</u>	
State share	- \$ 8.8 million
Municipal share	- 12.2 million
Credits	- 8.9 million

The increased state share in FY 1989 reflects the high prices received by fishermen during 1988. The decline in FY 1990 is indicative of ADOR's opinion that those high prices will not be duplicated next year. The increase in the FY 1989 credit amount is the result of the carryover of approved but unclaimed FY 1988 credits (some \$23 million). As that carryover diminishes, the overall level of credits claimed is expected to decline in FY 1990. So for the period FY 1988 - FY 1990, the net state share of gross fisheries business tax collections is forecast to decline by \$30 million as a result of credits against the tax liabilities of processors. State revenues for the period are forecast to decline to levels comparable to those of FY 1979, before the present tax structure was adopted (FY 1989 must be regarded as an anomaly at present as inflated salmon prices raised the total ex-vessel value for those species for the 1988 calendar year by over 40% above the previous record).

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<sup>3</sup>The \$600,000 shortfall in FY 1987 distributions to municipalities was wiped out by a supplemental appropriation the following year. Supplemental funding for the FY 1988 shortfall has been requested by ADOR for FY 1990.

Senator Arliss Sturgulewski  
November 22, 1988  
Page 8

In 1987, the Alaska Legislature amended the revenue sharing formula for the fisheries business tax to provide for a phased implementation of the full share of revenues to be returned to newly formed boroughs for monies collected from organized municipalities within the boundaries of those boroughs. Under normal circumstances such monies are split evenly (25%/25%) between the community of origin and the encompassing borough. SB 162 altered the formula in AS 43.75.130 to give new boroughs a 5% share of revenue in the first year of operation, with the city retaining 45%. In each succeeding year, the borough share would increase by 5% and the city share decrease by 5% until the standard division came into effect at the commencement of the fifth calendar year of the borough's existence.

Only one borough, Aleutians East, has been incorporated since the effective date of the formula change. The Aleutians East Borough was incorporated on October 23, 1987, so the formula was applied only to the last quarter's tax receipts from the affected cities (Akutan, King Cove, and Sand Point). The borough has thus far received 5% of the revenues generated within those cities for just that final quarter of 1987. The formula amount was reduced further by the FY 1988 funding shortfall. Other municipalities received 70.39% of the revenue sharing funds due them; the Aleutians East Borough (and its constituent communities) received only 64.88% of the full entitlement as a result of their delayed submission of tax information to ADOR. Insufficient funding remained by that time to return the same portion of full funding to Aleutians East municipalities that was provided to the remainder of the state. The division of tax revenues (in thousands) generated in the borough for FY 1988 was as follows:

Aleutians East Borough	- \$ 6.2 (shortfall - \$ 3.3)
City of Akutan	- 244.3 (shortfall - 132.2)
City of King Cove	- 372.4 (shortfall - 201.6)
City of Sand Point	- 108.5 (shortfall - 58.7)
Total	- \$731.4 (shortfall - \$395.8)

It may appear as though the borough's share is substantially less than a 5% share of one quarter's tax collections. This impression is the result of the seasonal nature of fishery harvests. The bulk of the value of harvests are taken during the spring and summer quarters. In the last quarter of 1987, raw fish sales in these three cities amounted to only 13% of the year's sum.

Please inform us if there is any additional information you wish on this topic.

STATE OF ALASKA  
1990 LEGISLATIVE SESSION

BILL VERSION: 2d CSSB 74 (FIN)

PUBLISH DATE: \_\_\_\_\_

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: Fisheries Business Tax Credit  
Refunds to Municipalities  
Sponsor: Zharoff, Et al.  
Requestor: Finance

Agency Affected: Revenue  
BRU: Income & Excise Audit

Components: Operating

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
<b>OPERATING</b>						
PERSONAL SERVICES	<del>40.0</del>	40.0	<del>40.0</del>	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	<del>5.0</del>	5.0	<del>5.0</del>	0	0	0
SUPPLIES	<del>1.0</del>	1.0	<del>1.0</del>	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	<del>46.0</del>	46.0	<del>46.0</del>	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	15.85mil	16.0 mil	16.0 mil	0	0	0

*0* *[15.0 mil]* *[16.0 mil]* *[16.0 mil]*

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
<b>TOTAL</b>	0	0	0	0	0	0

POSITIONS:

FULL-TIME	1	1	1	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Prepared By: Steven E. Kettel *Steven E. Kettel* Phone: (907) 465-2320  
Division: Income and Excise Audit Date: April 28, 1990

Approved by Commissioner: Hugh Malone *Hugh Malone FOR* Date: April 28, 1990  
Agency: Department of Revenue

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

2d CS SB 74  
Prepared by:  
Steven E. Kettel  
April 28, 1990

Analysis

- allows retroactive change to 1987-1989 program, requiring or allowing taxpayers previously denied credits to apply for and receive refunds. Cost est. \$850,000
- does not require municipal participation in program.
- potential revenue impact of \$15 million per year.
- Section 10 we believe makes program a three year program (1990-1992). We are unsure of sponsor's intention on expenditures made in 1992, but it appears they also will receive credit.

The Department of Revenue opposes the extension of the fisheries business tax credit.

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_  
Title: An Act Adending and Extending the Fisheries Business Tax Credit  
Sponsor: Zharoff et  
Requestor: CRA, Res. and Finance

Agency Affected: Revenue  
BRU: Income & Excise Audit  
Components: Operating

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE	(15,000)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)

**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS : (Attach a separate page if necessary)**

Prepared by: Steven E. Kettel *Steven E. Kettel* Phone: (907) 465-2320  
Division: Income and Excise Audit Date: \_\_\_\_\_  
Approved by Commissioner: Hugh Malone *Hugh Malone* Date: 2/23/90  
Agency: Department of Revenue

- Distribution (by preparer):
- Legislative Finance
  - Legislative Sponsor
  - Requestor
  - Office of Management and Budget
  - Impacted Agency(ies)

BILL ANALYSIS

This bill repeals and reenacts a new section to replace the current fisheries tax credit statute. This bill would have a triple fiscal impact to the State as follows:

1. Extends the current fisheries tax credit program as provided by AS 43.75.032 by 4 years. This bill extends the time period for making capital expenditures, which expired December 31, 1989, by 4 years to December 31, 1995. Concomitantly, this bill also extends the time period for claiming credits, which is currently due to expire with tax year 1991, by 4 years through tax year 1995.

2. Expands the allowability of expenditures eligible for fisheries tax credits. This bill would allow fisheries businesses to claim credits for construction, extension, or improvement of a utility, road or dock to be owned by a municipality. This subsection, AS 43.75.032(a)(3), omits any provision for the department to use its discretion in approving such expenditures, but provides for the municipality or cooperative to use its "judgment" in determining whether expenditures would qualify for the credits.

3. Increases the amount of credit from 50% to 75% of the fisheries tax liability. This bill would allow fisheries business to decrease the amount of tax remitted to the state from 50% to only 25% of the tax liability for cases in which municipalities which adopt ordinances directing the department to reduce their tax refund under AS 43.75.130. In cases where this provision would be applicable, the department would retain no revenue after refunding the respective municipality.

Additionally, this bill removes the current provision for prior approval of expenditures to qualify for tax credits. Without this requirement, more expenditures will likely be claimed because taxpayers may in their discretion believe that the expenditure is indeed eligible for the credit program.

The Department opposes this draft legislation.

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STATE OF ALASKA  
1990 LEGISLATIVE SESSION

BILL VERSION: CSSB 74

PUBLISH DATE: \_\_\_\_\_

FISCAL NOTE

REQUEST:

Revision Date: March 7, 1990 Amended  
Title: Fisheries Business Tax Credit  
Refunds to Municipalities  
Sponsor: Zharoff, Et al.  
Requestor: Finance

Agency Affected: Revenue  
BRU: Income & Excise Audit  
Components: Operating

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	0	0	0	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	<15,000>	<16,000>	<16,000>	<16,000>	<16,000>	<16,000>

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
<b>TOTAL</b>	0	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: (Attach a separate page if necessary)

Prepared By: Steven E. Kettel *Steven E. Kettel* Phone: (907) 465-2320  
Division: Income and Excise Audit Date: March 5, 1990

Approved by Commissioner: Hugh Malone *Hugh Malone* Date: March 5, 1990  
Agency: Department of Revenue

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

Prepared by:  
Steven E. Kettel  
March 7, 1990  
Page 2 of 2

### BILL ANALYSIS

This bill repeals and reenacts a new section to replace the current fisheries tax credit statute. This bill would have a dual fiscal impact to the State as follows:

1. Extends the current fisheries tax credit program as provided by AS 43.75.032 by 4 years. This bill extends the time period for making capital expenditures, which expired December 31, 1989, by 6 years to December 31, 1995. Concomitantly, this bill also extends the time period for claiming credits, which is currently due to expire with tax year 1991, by 4 years through tax year 1995.

2. Expands the allowability of expenditures eligible for fisheries tax credits. This bill would allow fisheries businesses to claim credits for construction, extension, or improvement of a utility, road or dock to be owned by a municipality. Under this subsection, AS 43.75.032(a)(3), the Department would need to promulgate regulations requiring municipalities or cooperatives to submit documentation substantiating their determination whether expenditures would provide substantial benefit to the municipality in which the fisheries business is located.

The Department opposes this draft legislation for the following reasons.

1. This legislation will have a significant impact on general fund revenues. The department estimated that general fund revenues will decrease by as much as \$64 million over the additional four year period the fisheries tax credit program is extended under this legislation.

The expansion of the scope of expenditures coupled with the deletion of the provision to require approval by the department prior to expenditures will increase the total amount of credits to be applied and carried forward against fisheries taxes that would otherwise be collected.

2. The department believes that the current fisheries credit program has fully served its purpose to benefit the industry by allowing them to establish new shore based processing plants and improve existing facilities. Now that the industry has made significant investment to increase production and efficiency, it is capable of successfully competing in the marketplace without additional fisheries tax credits provided by this legislation.

The department also contends that with the growing market for Alaska fisheries products, many of the expenditures incurred to date would have been made regardless of the current tax credit program. The department believes that extension of the fisheries tax credit program will not induce additional capital expenditures which otherwise may be made.

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: SB 74  
PUBLISH DATE: 4/12/89

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: An Act Amending and Extending the  
Fisheries Business Tax Credit  
Sponsor: Zharoff etc.  
Requestor: CRA, Res. and Finance

Agency Affected: Revenue  
BRU: Income & Excise Audit  
Components: Operating

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	(6700)	(13000)	(13700)	(13700)	(13700)	(13700)

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	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: (Attach a separate page if necessary)

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

Phone: (907) 465-2320  
Date: March 14, 1989

Approved by Commissioner: Hugh Malone  
Agency: Department of Revenue

Date: March 14, 1989

Distribution (by preparer):

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

SB 74  
PREPARED BY: STEVEN E. KETTEL  
MARCH 14, 1989

## SECTIONAL ANALYSIS

Section 1 extends the maximum period for which a fisheries business may receive a credit against their fish tax liability from three to five years.

Section 2 also extends the maximum period of time from 3 to 5 years the amount a municipality may increase the fish tax credit by foregoing up to one-half of their share of fish tax collections.

Section 3 extends the unused credit carryover to correspond to the 5 year election period in Section 1.

Section 4 increases the maximum amount of credit that may be claimed to 75% of the taxpayers total tax liability if a municipality participates in the credit program. Current law provides a 50% maximum whether or not a municipality participates.

Section 5 makes a technical change to adopt the five year credit period.

Section 6-8 provides a sunset provision on the fish tax credit of December 31, 1995.

Section 9 provides transition rules allowing municipalities to adopt an ordinance conforming to the change in this bill.

## SB 74/CURRENT LAW COMPARATIVE ANALYSIS

	<u>SB 74</u>	<u>CURRENT LAW</u>
1. AUTHORIZED PERIOD FOR EXPENDITURE	1987-1991	1987-1989
2. PERIOD CREDIT AVAILABLE	1987-1995	1987-1991
3. CARRY-OVER PROVISION	5 year	3 year
4. POTENTIAL FISCAL IMPACT	\$74.5 Million	\$35.2 Million
5. MAXIMUM CREDIT AVAILABILITY *	75 % tax liability	50% tax liability

\* requires municipal approval and participation

SB 74

Prepared by: Steven E. Kettel

March 14, 1989

## BILL ANALYSIS

The present fish tax credit program has been widely utilized by the shorebased fisheries processing industry. Nearly \$136 million in shorebased investment has been proposed since 1986 and the Department continues to approve additional millions in proposed expenditures each month.

Actual tax credits taken to date total \$6.7 million. This represents credits for expenditures made in 1987 only. 1988 expenditures and the corresponding credits will be claimed by the end of March 1989. Due to higher than expected returns in some salmon fisheries, and higher prices for many species, we anticipate both an increase in fish tax collections for 1988 and a corresponding increase in fish tax credits claimed.

## FISCAL IMPACT OF HB 74

We project that fish processors will continue to take advantage of this program into the 1990's. The attached schedule anticipates that by expanding the number of years that capital expenditures will create tax credits, an estimated \$74.5 million in general funds may be lost. To calculate this impact we have made several broad assumptions.

- 1) Expenditures will level out to \$40 million per year for each additional year of the program.
- 2) The fish tax collections will increase 10% in FY89 and 5% thereafter based upon increased product capacity and productivity through capital expansion.
- 3) We assume that the last tax year for which credits will be granted is 1995.

## DEPARTMENT POSITION STATEMENT

The Department of Revenue opposes this legislation for the following reasons:

- 1) As the fiscal note reports, this legislation has substantial impact on general fund revenues.
- 2) This legislation does not mandate municipal participation. The Department favors an amendment requiring cities and boroughs which benefit from the capital expansion to give up a portion of their revenues.
- 3) The Department believes that many of the expenditures have been made and will be made in the future regardless of whether a credit is offered.
- 4) Shorebased fisheries businesses already fully constructed are put at a competitive disadvantage against those new entries to the market.

PREPARED BY:

STEVEN E. KETTEL

PROJECTED REVENUE IMPACT  
FISHERIES BUSINESS TAX CREDIT (AS 43.75.032)

INCOME & EXCISE AUDIT  
MARCH 14, 1989

\$ in millions

TAX YEAR FISCAL YEAR	EXISTING CREDIT PROGRAM				PROGRAM UNDER SB74						PROGRAM TOTALS	SB74 TOTALS
	1987 1988	1988 1989	1989 1990(a)	1990 1991	1991 1992	1992 1993	1993 1994	1994 1995	1995 1996			
APPROVED EXPENDITURES	55.5	62.4	38.4	40.0	40.0	N/A	N/A	N/A	N/A	236.3	100	
CREDIT APPROVED	27.7	31.2	19.2	20.0	20.0	N/A	N/A	N/A	N/A	118.1		
CREDIT APPLIED (REVENUE LOSS)	6.7	11.0	11.8	12.4	13.0	13.7	13.7	13.7	13.7	109.7	74.5	
CREDIT AVAILABLE FOR CARRYFORWARD	21.0	41.2	48.6	56.2	63.2	49.5	35.8	22.1	8.4			

SUMMARY

FISHERIES TAX LIABILITY BEFORE CREDIT APPLIED	29.2	(b)32.1	33.7	35.4	37.2	39.0	39.0	39.0	39.0	323.6
CREDIT APPLIED	(6.7)	(11.0)	(11.8)	(12.4)	(13.0)	(13.7)	(13.7)	(13.7)	(13.7)	(109.7)
MUNICIPAL SHARE	<u>(14.6)</u>	<u>(16.0)</u>	<u>(16.8)</u>	<u>(17.7)</u>	<u>(18.6)</u>	<u>(19.5)</u>	<u>(19.5)</u>	<u>(19.5)</u>	<u>(19.5)</u>	<u>(161.7)</u>
GENERAL FUND SHARE	7.9	5.1	5.1	5.3	5.6	5.8	5.8	5.8	5.8	52.2

(a) TY 1989 expenditures to 3/10/89 amount to 18.4 million. Balance of calendar year expenditures at 20 million. TY 1991 through 1992 annual expenditures estimated at 20 million per year.

(b) Tax liability is an estimate based on an increase in resource value and production. Fisheries Business tax returns are due March 31 of the following year. The rate of increase is estimated at 5% to FY 1993 and remained constant through FY 1996.