

SB 27

# SENATE FINANCE COMMITTEE REPORT

DATE: 5/8/91

FURTHER:

DATE TURNED INTO OFFICE: 5-19-91

The Finance Committee considered SENATE BILL NO. 27

"An Act establishing a fisheries business tax credit; and providing for an effective date."

and recommended:

- replace with \_\_\_\_\_ CS
  - or adopt \_\_\_\_\_ CS SB 27 (LFC)
  - attached amendment(s)
  - Senate Finance 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) \_\_\_\_\_ Dept/Date: \_\_\_\_\_

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

appropriation-no fiscal note

**APPROVES PREVIOUS:**

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

zero fiscal note(s) DF&G 5/18/91

**SIGNING DO PASS:**

D. J. Stalley

**OTHER RECOMMENDATIONS:**

J. D. Dineen - No Rec

Art Adams - Do Not Pass

John H. ... - No Rec

John ... (No Rec)

1. Paul ... Do not pass 2. \_\_\_\_\_  
Co-Chairs: Signatures and Recommendations

CS For Senate Bill 27  
Letter of Intent  
Senate Finance Committee

It is the intent of the legislature that the Department of Revenue -- under the terms of this legislation -- only grant fisheries business tax credits for capital expenditures that are directly related to providing new equipment and processing facilities for seafood production. It is also the intent of the legislature that this tax credit be used to encourage the development and installation of new and innovative technology for processing seafood products in Alaskan shorebased plants.

STATE OF ALASKA  
1991 LEGISLATIVE SESSION

No. 2

Bill Version: SB 27

(S) Publish Date: 5/8/91  
Fish and Game

Revision Date: 3/13/91

Department Affected: Fish and Game

Title: Fisheries Business Tax Credit

BRU: Commercial Fisheries

Component: Commercial Fisheries

Sponsor: Sen. Zharoff

Requestor: Governor

COMPONENT SERIAL NO.

4 5 9

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
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
LAND & 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
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REVENUE	0	0	0	0	0	0
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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

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)

Changes in (SB 27) (LHC)  
have no fiscal impact. This  
fiscal note is appropriate.

5-6-91 RMS  
date Comte Aide (initial)

Prepared By: Bob Clasby

Phone: 465-4210

Division: Commercial Fisheries

Date: 3/13/90

Approved by <sup>DEPUTY</sup> Commissioner: RON SOMERVILLE

Agency: ADF+G

Date: 3/18/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

No. 1

STATE OF ALASKA  
1991 LEGISLATIVE SESSION

BII Bill Version: SB 27

(S) Publish Date: 5/8/91

Revision Date: \_\_\_\_\_  
Title: Establishing a fisheries  
business tax credit  
Sponsor: Senator Zharoff  
Requestor: \_\_\_\_\_

Department Affected: Department of Revenue  
BRU: Revenue Operations  
Component: Income and Excise Audit

COMPONENT SERIAL NO. | 1 | 1 | 3 |

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LANDS & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>REVENUE</b>	0.0	(13,617)	(13,617)	(13,617)	0.0	0.0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0.0	(13,617)	(13,617)	(13,617)	0.0	0.0
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	0.0	(13,617)	(13,617)	(13,617)	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: 0.0

ANALYSIS: Attach a separate page for analysis.  
See Attached

Changes in CSB 27 (L+C)  
reflect NO FISCAL CHANGE from the original  
fiscal note. This fiscal note is appropriate.  
5-1-91 RLM  
date Comte Aide (initial)

Prepared By: Carl A. Meyer *Carl A. Meyer* Phone: (907) 465-2320  
Division: Income and Excise Audit Division Date: February 26, 1991

Approved by Commissioner: Lee E. Fisher *Lee E. Fisher*  
Agency: Department of Revenue Date: 2-1-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

February 26, 1991

SB 27  
FISCAL NOTE ANALYSIS  
DEPARTMENT OF REVENUE

SB 27 would reestablish the fisheries business tax credit program, similar to the current credit program as provided for under AS 43.75.032, which expires December 31, 1991. The fisheries tax credit program provided by this bill is essentially structured after the current program except for the following differences:

<u>CURRENT CREDIT PROGRAM</u> <u>AS 43.75.032</u>	<u>SB 27 CREDIT PROGRAM</u> <u>AS 43.75.037</u>
Effective July 1, 1986	Effective January 1, 1992
Expires December 31, 1991	Expires December 31, 1994
Credits may be claimed for 3 consecutive years from 1987 through 1989	Credits may be claimed for 2 consecutive years from 1992 or 1993
Last tax year in which a credit may be claimed is 1991 (FY92)	Last tax year in which a credit may be claimed is 1994 (FY 95)

Both of the programs allow for a maximum credit not to exceed 50% of the tax liability and credits may not be approved for more than 50% of qualifying expenditures. Also, both programs provide that credits may not be carried back to prior tax years and that no credits are allowed to taxpayers in arrears with the department in payment of a fisheries business tax under AS 43.75.015.

The revenue effect is estimated based on the average tax credit generated per year under the current credit program. (\$68,083,151 total credits divided by five years, or \$13,616,630)

A position paper is attached.

CS FOR SENATE BILL NO. 27(L&C)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE LABOR AND COMMERCE COMMITTEE

Offered: 5/8/91  
Referred: Resources, Finance

Sponsor(s): SENATOR ZHAROFF

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing a fisheries business tax credit; and providing for an effective date."

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

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

4           Sec. 43.75.037. FISHERIES BUSINESS TAX CREDIT. (a) A fisheries business is  
5 entitled to a credit of not more than 50 percent of the business tax liability under AS 43.75.015  
6 for capital expenditures made during the tax year if an application qualifying for the credit is  
7 approved by the department in advance of the capital expenditure and before January 1, 1994.  
8 A fisheries business may claim a credit under this subsection for a maximum period of two  
9 consecutive years and may claim the credit for capital expenditures only for the equipment and  
10 improvements that are placed in service by the fisheries business no later than the last day of the  
11 first tax year for which the credit is claimed. An applicant for the credit may elect to begin the  
12 two-year period with tax year 1992 or 1993. A tax credit under this subsection may not be  
13 approved for more than 50 percent of a capital expenditure, and the approval of the application  
14 for credit may be modified or revoked by the department at any time.

1 (b) For purposes of this section, a capital expenditure qualifies for a tax credit if the  
2 expenditure

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

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

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

11 (d) A fisheries business is entitled to a credit of not more than five percent of the  
12 business tax liability under AS 43.75.015 for contributions to the A. W. "Winn" Brindle memorial  
13 scholarship account under AS 14.43.250 that are made during the tax year or during the period  
14 in which the taxpayer may file the return and pay the tax for the tax year under AS 43.75.030.  
15 A fisheries business may claim a credit under this subsection for the 1992 or 1993 tax years.  
16 A tax credit under this subsection may not be approved for more than 100 percent of a  
17 scholarship contribution.

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

21 (f) The department may not approve a tax credit under this section if

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

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

27 (3) the fisheries business claiming the credit is in arrears in the payment of a  
28 seafood marketing assessment under AS 16.51.120 or a tax imposed by this title; for purposes  
29 of this paragraph, a taxpayer is not in arrears if the payment is under administrative or judicial  
30 appeal.

31 (g) The department shall prepare an application form for a credit under this section. A

1 fisheries business claiming the credit allowed by this section must submit an application for the  
2 credit on that form.

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

5 (i) In this section

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

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

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

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

19 Sec. 43.75.037. TAX CREDIT FOR SCHOLARSHIP CONTRIBUTIONS. (a) A  
20 fisheries business is entitled to a credit of not more than five percent of the business tax liability  
21 under AS 47.75.015 for contributions to the A.W. "Winn" Brindle memorial scholarship account  
22 under AS 14.43.250 that are made during the tax year or during the period in which the taxpayer  
23 may file the return and pay the tax for the tax year under AS 43.75.030. A tax credit under this  
24 section may not be approved for more than 100 percent of a scholarship contribution, and the  
25 approval of the application for credit may be modified or revoked by the department at any time.

26 (b) The department may not approve a tax credit under this section if the fisheries  
27 business claiming the credit is in arrears in the payment of a seafood marketing assessment under  
28 AS 16.51.120 or a tax imposed by this title; for purposes of this subsection, a taxpayer is not in  
29 arrears if the payment is under administrative or judicial appeal.

30 (c) The department shall prepare an application form for a credit under this section. A  
31 fisheries business claiming the credit allowed by this section must submit an application for the

1 credit on that form.

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

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

5 (b) For purposes of this section, tax revenue collected under AS 43.75.015 from a person  
6 entitled to a credit under former AS 43.75.032 or under AS 43.75.037 shall be calculated as if  
7 the person's tax had been collected without applying the credit.

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

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

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

12 \* Sec. 6. FISHERIES BUSINESS TAX CREDIT CLAIM IN TAX YEAR 1994. Notwithstanding  
13 the amendment of AS 43.75.037 by sec. 2 of this Act, a taxpayer who elects to begin the two-year period  
14 for the fisheries business tax credit under AS 43.75.037 and whose project was approved by the depart-  
15 ment under AS 43.75.037 before January 1, 1994, may claim the fisheries business tax credit for tax year  
16 1994 for capital expenditures made by the taxpayer during the 1993 tax year.

17 \* Sec. 7. Sections 2 and 5 of this Act take effect January 1, 1995.

18 \* Sec. 8. Except for secs. 2 and 5, this Act takes effect January 1, 1992.

AMENDMENT TO SB 27

P. 2, LINES 1 - 6: REPLACE WITH:

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

(1) increases product diversity in secondary processing or improves product quality at a shore-based fisheries business facility in the state; or

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

(3) increases production efficiency and capacity of shore-based processing facilities with 50 employees or less.

Justification for amendment: It is estimated that 70 - 80% at a minimum of the ownership of onshore processing plants are foreign investors. It would apparently be legally difficult to limit this tax credit to Alaska-owned, or even U.S.-owned companies, since the mix of ownership patterns is fairly tangled.

However, a bigger question is why should we be giving a tax credit to encourage further capacity in large-scale salmon processing and groundfish processing plants? We are already at maximum capacity. Any further investment will merely force existing companies out of business or force a shortened processing season, which is not to the benefit of local communities.

Instead, we should be encouraging investment in small-scale, local processors and in improvements in quality control and in secondary processing.



SENATOR FRED F. ZHAROFF  
ALASKA STATE LEGISLATURE

P. O. BOX 405, KODIAK, ALASKA 99615 (907) 488-5259  
DURING SESSION:  
P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474

1

DISTRICT N

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

SECTIONAL ANALYSIS

CS For Senate Bill No. 27 (L&C)

"An Act establishing a fisheries business tax credit; and providing for an effective date."

SECTION 1

- (a) Establishes a new fisheries business tax credit program to be in effect for the years 1992 and 1993. Amended to include a "placed in service" rule that requires the improvements or equipment to be in place by no later than the last day of the first year the credit is claimed. Also amended to give the Department of Revenue the power to modify or revoke its previous approval of credit applications.
- (b) Establishes qualifications for the tax credit. Same qualifications as the previous program.
- (c) Prohibition on carrying back tax credit to prior tax years, but credit allowed to be carried forward within the two years available. Same provision in the previous program.
- (d) Allows tax credit for contributions to the A.W. "Winn" Brindle memorial scholarship account. Same language as previous program, except for clarification on when the credit can be claimed.
- (e) Total tax credit that may be claimed is capped at fifty percent of the taxpayer's business tax liability. Same language as previous program.
- (f) Prohibitions on granting tax credits. Same language as previous program except for (3), which was amended to include being in arrears on seafood marketing assessments and salmon enhancement taxes.
- (g) Provides for an application form.
- (h) Provides for timely consideration of applications. Same language as previous program.
- (i) Definitions. Same language as previous program.

TAX CREDIT REPORT

Requires preparation of an annual report. Same language as previous program.

SECTION 2

Establishes tax credit for A.W. "Winn" Brindle memorial scholarship account, to take effect when the fisheries business tax credit program sunsets. Language in paragraphs (a) through (d) copied from previous section.

SECTION 3

(b) Allows municipalities to receive their 50 percent share of fisheries business taxes collected within municipal boundaries. Includes reference to the statute created by this bill.

SECTION 4

Technical amendment for consistency between previous tax credit program and program created in this bill.

SECTION 5

Repeals the requirements for the tax credit report (43.75.039), the definition of "capital expenditure" (43.75.140(1)), the definition of "product diversity" (43.75.140(7)), the definition of "product quality" (43.75.140(8)), and the effective date for Brindle scholarship contributions in the previous law (sec. 10, ch. 79, SLA 1986) upon the sunset date of the new tax credit program, January 1, 1995.

SECTION 6

FISHERIES BUSINESS TAX CREDIT CLAIM IN TAX YEAR 1994.

Makes clear that fisheries businesses that have applied and received approval for two year tax credit projects in 1993 may claim the tax credit in 1994.

SECTION 7

Implements the credit for Brindle Scholarship contributions in Section 2 and the repeal of unneeded statutes when the program sunsets in Section 5.

SECTION 8

Effective date of January 1, 1992 for remaining sections.



SENATOR FRED F. ZHAROFF  
ALASKA STATE LEGISLATURE

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

DURING SESSION:

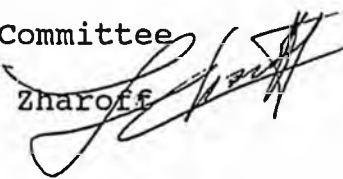
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DISTRICT N

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

MEMORANDUM

TO: Senator Pat Pourchot  
Co-Chairman  
Senate Finance Committee

FROM: Senator Fred F. Zharoff 

DATE: May 10, 1991

RE: CS For Senate Bill 27 (L&C) - "An Act establishing a fisheries business tax credit; and providing for an effective date."

I respectfully request that CSSB 27 (L&C) be scheduled for a hearing before the Senate Finance Committee at the earliest opportunity.

CSSB 27 establishes a new two-year Fisheries Business Tax Credit program, modeled after the credit program that was in existence from 1987 through 1989.

The original program was a tremendous success in encouraging increased investment in Alaska's shorebased seafood processing facilities. According to the Department of Commerce and Economic Development, over \$140 million was invested in Alaska seafood plants during the tax credit period. The credit gave many processors the opportunity to expand into groundfish and to make this resource a viable fishery for Alaskans.

CSSB 27 would reactivate the program for a limited time period, 1992 through 1993. Processors would be able to use up to fifty percent of their annual business tax liability for two consecutive years for capital expenditures that "increase product diversity, or production efficiency and capacity, or improve product quality".

The spinoff effects from the credit include:

- Economic development in Alaskan coastal communities.
- More year-round operation of seafood plants, which benefits resident Alaskan processing workers.
- More markets for Alaskan commercial fishermen.
- Greater diversity in species processed and products produced.

The credit is particularly crucial at this time due to the competitive threat Alaska's shorebased groundfish processors face from the Outside-based offshore factory trawler fleet.

CSSB 27 moved out of the Senate Labor and Commerce Committee on May 6 with three "do pass" recommendations and one "no recommendation". The L&C committee substitute addresses the concerns raised by the Department of Revenue. The bill moved out of the Senate Resources Committee on May 8 with three "do pass" recommendations and two "no recommendations".

The following backup information is attached:

1. Sectional analysis.
2. Fiscal note from the Department of Revenue.
3. Fiscal note from the Department of Fish and Game.
4. Letter from the Department of Revenue to Senate President Richard Eliason, containing the department's annual report on the program.
5. Letter from Mr. Barry Lester, chief executive officer of the Seafood Producers Cooperative.
6. Letter from Mr. William Dignon, president of Hoonah Cold Storage.
7. Letter from Mr. Alvin Burch, executive director of the Alaska Draggers Association.
8. Alaska Municipal League position paper.
9. Department of Commerce and Economic Development report on the impact of the tax credit, March, 1990.
10. Department of Commerce and Economic Development report estimating the increase in fish taxes that likely will be collected due to the tax credit, April, 1990.
11. Results of Fisheries Business Tax Credit survey.
12. Alaska Seafood Marketing Institute fact sheet about the seafood industry.
13. Fisheries Business Tax Credit statutes and regulations.

February 26, 1991

S B 27  
POSITION PAPER  
DEPARTMENT OF REVENUE

S B 27 would result in a significant and continuing reduction to the state share of fisheries business taxes. S B 27 is modeled after the current fisheries business credit program provided in AS 43.75.032. Under this current program, over \$68,000,000 in tax credits have been generated, Table I, and a large portion of these credits will be utilized to reduce taxes in 1990 and 1991. S B 27 would become effective for the 1992 tax year thereby essentially extending the credit program without interruption for another three years to 1994.

The Fisheries Business Tax Credit is structured in such a manner that revenues shared back to municipalities are not impacted. Specifically, Sec. 3 of the legislation provides that shared taxes are determined before application of the credit. Pursuant to AS 43.75.130, 50% of fisheries business taxes are shared with the cities and/or boroughs in whose jurisdictions the fisheries resources are processed. This 50% sharing comes off the top leaving a maximum of 50% to the state. Since SB 27 would allow a credit in any one tax year up to 50% of the fisheries business tax liability, the state would receive no fisheries business tax revenue where a taxpayer claims a full 50% credit. In that situation, the state merely collects the tax and remits that full amount to the municipality. If all taxpayers fell into that situation, the state would retain no fisheries business taxes.

For calendar tax year 1989, tax credits represented 35% of the fisheries business tax liabilities before credits. Shared revenues represented 39% of tax liabilities before credits. Fisheries business taxes generated for the general fund represented only 26% of the tax liabilities before credits. Table II.

Since AS 43.75.137 enacted in legislation last session extends revenue sharing to all floating tax liabilities, as opposed to only those floating tax liabilities where the processing activities occur within a city or borough, the tax base for revenue sharing will increase. That will have two effects. First, the amount of shared revenues will increase. Second, the amount of fisheries business taxes generated for the general fund will decrease. The combination of the credit program and the change in revenue sharing for floating tax liabilities will therefore significantly impact the fisheries business tax revenues going into the general fund.

S B 27  
POSITION PAPER  
DEPARTMENT OF REVENUE  
February 26, 1991

See Dept.  
of Commerce  
reports  
for positive  
benefits.

The Department has no information from past experience tending to suggest that these tax credits produce a positive benefit in relation to the \$68,000,000 cost. An Alaska Department of Labor report of "Nonresidents Working in Alaska 1988" found that seafood processing has traditionally had difficulty attracting resident workers and therefore employed high numbers of non-resident workers and 1988 was no exception. During the first two years of the current fisheries tax credit program, when \$86,000,000 of qualified expenditures were made, Appendix A, the number of non-resident workers in the processing industry increased by 2,689 workers from 1987 to 1988 while resident workers increased by only 48. Appendix B. Therefore, the report indicates the credit program did not provide any benefit in the form of new jobs for residents.

All expenditures  
are made  
in state.

It would also appear that the processing industry is dominated by out of state businesses. The top ten fisheries businesses in 1989 are not resident firms to Alaska, employ on the average 57.4% nonresident workers, and account for 58.5% of the total fisheries business tax and 63.4% of the tax credits. Of the top twenty fisheries businesses, 11 are foreign owned and 6 others are headquartered out of the state. These twenty firms on the average employ 53.4% non-residents and account for 75% of the fisheries tax liability and 83.1% of the tax credits. Table III. If we can assume that the capital expenditures that increase product diversity or production efficiency and capacity, or improve product quality, are for the most part made in states other than Alaska and then imported into the state, then the benefit to the state in the form of increased Alaska investment may be significantly reduced.

Processors will  
not be able to  
take all credits  
claimed

(\$68 million)  
due to (1) three  
year restriction  
and (2) credits  
limited to 50%  
of actual tax  
liability.

Absent increased jobs for Alaska residents or increased Alaska investment providing other tangible benefits to the state and communities, it would be difficult to find a favorable cost/benefit analysis. The cost of the current program is known. That cost is \$68,000,000. Unless the benefits exceed that \$68,000,000, the state is needlessly foregoing revenues.

The Department would oppose any legislation of this nature that would have a negative cost in relation to the benefit. The effectiveness of tax expenditures in the form of tax credits is questionable. See Appendix E. However, the department leaves the cost/benefit question for others to address and defers expressing a position on this particular legislation at this time.

#### Proposed Technical Amendments

1. Under AS 43.75.290, a fisheries business means a person who processes fisheries resources for sale. AS 43.75.020 requires that the person obtain a license for each processing plant. AS 43.75.015 imposes a fisheries business tax on that person based on the value of the resources processed. AS 43.75.030 requires each person to file a return and pay the tax. Therefore, since the maximum amount of the credit in a tax year is to be determined by reference to 50% of the business tax liability of the taxpayer, a taxpayer with multiple processing plants can aggregate the overall liability to maximize the credit generated from but one processing plant. In this manner,

S B 27  
POSITION PAPER  
DEPARTMENT OF REVENUE  
February 26, 1991

*Policy  
question.  
Not adopted.*

shore-based credits have been applied against liabilities generated from floating processors which are unrelated to the capital expenditure. If that is not an intended result, language starting at page 1, line 8 could be added to read:

For purposes of this section, a credit for capital expenditures made at one processing plant may not be applied against business tax liabilities attributable to other processing plants.

*Adopted*

2. The legislation suggests that a fisheries business is vested with a credit after it is approved by the department. In practice, companies have requested pre-approval of amounts to be expended and identified the specific items at a later date. Companies have also substituted items for those approved based on changed circumstances. The department on occasion has later determined, after granting approval, that other items do not qualify for the credit. In order to clearly allow the department to correct errors following pre-approval, language starting after the additional language in 1. could be added to read:

Pre-approval of the application for credit is subject to later revocation or correction by the department.

*Adopted*

3. The legislation provides that a fisheries business may claim a credit for two years if "activity for which the claim of the credit is made occurs during the two-year period". The department is unclear as to what constitutes sufficient "activity". We would instead suggest the following language at page 1, line 8:

A fisheries business may claim a credit under this subsection for a maximum period of two consecutive years and may claim the credit for capital expenditures for equipment and improvements to depreciable property that are placed in service no later than the last day of the first tax year for which the credit is claimed.

A placed in service rule would be easier to administer and simply means that the property is in a condition or state of readiness and availability and is subject to depreciation for federal income tax purposes.

*Current language  
addresses problem  
of same piece of  
property being  
used for  
multiple credits.*

4. AS 43.75.037(e)(2) of the legislation denies a tax credit for property sold or transferred between fisheries businesses having substantial common ownership. This provision applies to both new and used property. The legislation would not, however, deny a credit to a fisheries business that buys used property from other than a related company. The department would suggest that the following language be substituted for (e)(2) at page 2, line 22 to allow the credit for all new property and to deny it for all used property:

(2) the original or first use of the property for which the capital expenditure was made was not by the taxpayer.

*Adopted*

5. AS 43.75.037(e)(3) of the legislation denies a tax credit to fisheries businesses in arrears under AS 43.75.015. Essentially, this means that a taxpayer in arrears under the fisheries business tax is not entitled to the credit while a taxpayer in arrears of salmon enhancement taxes, seafood marketing taxes, corporation net income taxes, or any other of the Alaska taxes other than fisheries business tax would be entitled to the credit. The department would suggest that the following language be substituted for (e)(3) at page 2, line 25 to deny the credit if any tax, penalty, or interest amount is in arrears:

(3) the fisheries business claiming the credit is in arrears in the payment of any liability under AS 43 and AS 16.51; for purposes of this paragraph, a taxpayer is not in arrears if the payment is under administrative or judicial appeal.

*Adopted*

6. AS 43.75.037(f) provides that the department shall prepare an application form for the credit. To make the meaning somewhat more clear, the department would suggest the following language at page 2, line 27:

(f) A fisheries business shall submit an application for a credit under this section on a form required by the department.

*Adopted*

7. The department's suggestions in 2, 5 and 6 above would also apply to Sec. 2.

TABLE I

FISHERIES BUSINESS TAX CREDITS BY YEAR

<u>Calendar Year</u>	<u>Tax Credits</u>
1987	\$ 7,547,133
1988	14,843,361
1989	13,159,344
Carryforwards to 1990 and 1991	<u>32,533,313</u>
Total Tax Credits	\$68,083,151

TABLE II

FISHERIES BUSINESS TAXES TO GENERAL FUND - 1989 TAX YEAR

	<u>Millions</u>
Shore-Based Tax Liability Before Credits	\$23.8
Fisheries Business Credits	<u>(13.2)</u>
Total Shore-Based Tax Receipts	10.6
Total Floating Tax Receipts	<u>13.9</u>
Total Fisheries Tax Receipts	24.5
Less Shared Tax Portion to Municipalities	<u>(14.8)*</u>
Net Retained Alaska Fisheries Business Taxes To General Fund	\$ 9.7

\* Based on FY 90 sharing statistics. 50% of shore-based tax liabilities before credits, as well as 50% of floating tax liabilities, each determined by the location of processing activities, are shared with cities and boroughs where the processing activities occur.

PERCENTAGE OF GENERAL FUND. CREDITS AND SHARED TAXES TO TOTAL TAXES-1989

	<u>Millions</u>	<u>Percentage</u>
Total Shore-Based Tax Liability	\$23.8	
Total Floating Tax Liability	<u>13.9</u>	
Total Fisheries Tax Liabilities	\$37.7	100%
Total Fisheries Tax Credits	(13.2)	35%
Total Shared Tax To Municipalities	<u>(14.8)</u>	39%
Total Fisheries Tax to General Fund	\$ 9.7	<u>26%</u>
		100%

TABLE III

DISTRIBUTION OF FISHERIES BUSINESS TAX CREDITS  
1989 CALENDAR TAX YEAR

<u>(A)</u> <u>Fisheries</u> <u>Business</u> <u>Taxpayers</u>	<u>(B)</u> <u># with</u> <u>Foreign</u> <u>Ownership</u>	<u>(A)</u> <u>% with</u> <u>Alaska</u> <u>Addresses</u>	<u>(A)</u> <u>% with</u> <u>Out of State</u> <u>Addresses</u>	<u>(C)</u> <u>Avg. % of</u> <u>Nonresident</u> <u>Employees</u>	<u>(A)</u> <u>% of</u> <u>Tax</u> <u>Liability</u>	<u>(A)</u> <u>% of</u> <u>Tax</u> <u>Credits</u>
Top 5	3	0%	100%	65.8%	44.8%	49.4%
Top 10	6	0%	100%	57.4%	58.5%	63.4%
Top 20	11	15%	85%	53.4%	75.0%	83.1%
All	-	-	-	60.0%	100.0%	100.0%

(A) From Department of Revenue Data

(B) DOR Data and "Foreign Ownership of Alaska Fish Processing Facilities",  
Research Request 90.167 for the Alaska State Legislature, April 3, 1990.  
Appendix C.

(C) DOR Data and "Residency Analysis of Alaska's Workers by Firm", 1988, by  
the Alaska Department of Labor, January 1990. Appendix D.

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

P.O. BOX 5  
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January 30, 1991

The Honorable Richard I. Eliason  
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 authorizing a fisheries business tax credit program to businesses which make 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. Under a carryforward provision in the statute, fisheries businesses may claim unused credits on returns through tax year 1991.

Tax credits may not be claimed 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 its shared tax revenues by the additional expenditures taken as credits.

During 1990 we received one such ordinance from Anchorage. In any case, a taxpayer's credit may not exceed 50% of its tax liability.

The attached schedules provide details of the actual expenditures and credits claimed for each year since the inception of the program as well as a schedule outlining the amount of credits carried forward which may be applied against 1990 fisheries business tax returns, due March 31, 1991.

The Honorable Richard I. Eliason  
January 30, 1991  
Page 2

Credits claimed since the program's inception total \$35.5 million. We anticipate that fisheries businesses will claim the same amount of credits taken last year, approximately \$13 million.

The Department of Commerce and Economic Development will forward their fisheries business tax credit annual report under separate cover.

Sincerely,

  
Lee E. Fisher  
Commissioner

LF:ped  
Enclosures  
91-9

Alaska Department of Revenue  
1987 Fisheries Business Tax Credit Data  
 For the Calendar Year 1987

Location	Actual 1987 Expenditures	Tax Credit Claimed
Alitak	\$ 196,732.00	\$ 139,756.02
Anchorage	1,000,000.00	48,390.67
Chignik	354,093.00	177,046.50
Cordova	2,072,296.63	523,268.88
Craig	0.00	29,697.03
Dry Bay	0.00	22,170.85
Dutch Harbor	428,552.00	100,331.24
Ekuk Spit	608,203.00	91,914.30
Excursion Inlet	687,135.00	85,472.54
Gustavus	23,129.00	3,265.00
Haines	0.00	57,841.18
Homer	1,411,928.00	323,270.92
Hoonah	349,428.62	47,265.70
Juneau	46,932.96	2,881.48
Kasilof	520,136.47	84,841.69
Kenai	984,368.95	696,296.30
Ketchikan	1,489,546.16	235,318.88
Klawock	0.00	3,147.53
Kodiak	8,865,416.97	1,310,126.60
Larsen Bay	127,574.49	63,787.25
Naknek	1,044,719.29	482,439.47
Nikiski	254,309.47	140,205.34
Pelican	61,134.17	36,680.50
Petersburg	2,054,740.00	421,545.21
Port Bailey	45,901.00	57,713.88
Port Graham	147,994.00	188,326.03
Seldovia	0.00	34,796.48
Seward	0.00	431,507.66
Sitka	1,594,246.19	280,089.09
Sterling	82,400.00	41,200.00
Togiak	64,092.57	32,046.29
Unalaska	16,898,360.00	352,921.28
Valdez	269,273.34	93,392.50
Wrangell	156,894.00	41,512.50
Yakutat	0.00	127,630.86
Various Alaskan Waters	<u>116,062.36</u>	<u>739,034.95</u>
Totals	<u>\$41,955,599.64</u>	<u>\$7,547,132.55</u>

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

Alaska Department of Revenue  
1988 Fisheries Business Tax Credit Data  
 For the Calendar Year 1988

Location	Actual 1988 Expenditures	Tax Credit Claimed
Akutan	\$ 4,820,629.37	\$ 341,868.83
Alitak	87,785.00	322,114.28
Anchorage	475,280.94	297,785.46
Bethel	51,000.00	47,983.54
Bristol Bay	24,528.52	0.00
Chignik	764,746.44	311,905.98
Chignik Lagoon	0.00	44,827.26
Cordova	2,862,781.99	1,010,042.31
Craig	0.00	65,216.69
Dillingham	0.00	159,951.52
Dry Bay	0.00	27,400.56
Dutch Harbor	450,000.00	56,111.37
Egegik Beach	103,152.00	44,910.36
Ekuk Spit	2,168,997.00	92,589.35
Excursion Inlet	23,326.00	131,304.30
Gustavus	72,100.00	5,079.58
Haines	39,000.00	100,451.64
Homer	0.00	304,323.35
Hoonah	0.00	59,649.40
Juneau	200,688.14	42,872.74
Kasilof	1,867,034.98	158,051.21
Kenai	2,112,044.30	1,058,882.73
Ketchikan	365,853.00	390,972.32
King Cove	2,422,436.00	815,984.52
Kodiak	8,024,062.01	1,962,944.87
Larsen Bay	228,376.00	114,188.00
Naknek	2,145,141.88	812,423.73
Nikiski	300,732.50	147,926.43
North Pole	56,231.79	2,431.86
Nulato	0.00	4,439.39
Pelican	47,581.87	30,928.22
Petersburg	3,307,455.27	593,381.90
Port Bailey	406,325.00	129,663.74
Port Graham	186,974.95	97,193.50
Port Moller	0.00	218,605.29
Sandpoint	0.00	202,032.84
Seldovia	0.00	57,296.57
Seward	80,562.00	329,478.83
Sitka	514,428.86	367,434.67
Sterling	235,000.00	0.00
Togiak	187,841.00	76,700.46
Unalaska	605,213.00	355,474.50
Valdez	7,422,829.37	286,662.97
Wrangell	81,007.95	57,766.31
Yakutat	936,060.93	176,353.40
Various Alaskan Waters	<u>259,311.00</u>	<u>2,929,753.96</u>
Totals	<u>\$43,936,519.06</u>	<u>\$14,843,360.67</u>

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

Alaska Department of Revenue  
1989 Fisheries Business Tax Credit Data  
 For the Calendar Year 1989

Location	Actual 1989 Expenditures	Tax Credit Claimed
Akutan	\$26,683,888.70	\$ 240,844.29
Alitak	710,334.00	108,091.35
Anchorage	784,083.00	179,033.50
Bethel	956,997.00	75,494.65
Bristol Bay	72,670.00	0.00
Chignik	181,225.00	108,024.24
Chignik Lagoon	0.00	24,275.19
Cordova	2,253,982.52	804,173.71
Craig	0.00	112,409.83
Dillingham	757,404.06	406,267.23
Dry Bay	24,714.54	18,838.08
Dutch Harbor	10,402,398.00	229,876.48
Egegik Beach	46,568.00	29,949.64
Ekuk Spit	72,341.00	157,116.68
Excursion Inlet	662,119.00	201,414.99
Gustavus	0.00	5,174.76
Haines	0.00	45,821.20
Homer	28,000.00	73,358.34
Hoonah	0.00	49,899.20
Juneau	64,570.00	7,592.72
Kaltag	0.00	2,769.70
Kasilof	0.00	69,082.60
Kenai	1,724,372.91	507,041.41
Ketchikan	3,273,443.00	771,305.98
King Cove	716,822.22	905,293.43
Kodiak	3,827,958.45	1,425,793.13
Larsen Bay	157,176.66	42,599.65
Mountain Village	0.00	7,789.71
Naknek	2,470,643.89	1,288,456.94
Nikiski	0.00	130,941.01
North Pole	50,249.13	1,909.73
Nulato	0.00	1,446.46
Pelican	0.00	0.00
Petersburg	371,585.29	387,756.26
Port Bailey	247,952.00	23,913.68
Port Graham	0.00	7,756.50
Port Moller	0.00	163,256.58
Sandpoint	0.00	129,429.89
Seldovia	315,300.00	10,480.74
Seward	2,840,026.33	185,998.73
Sitka	420,820.22	353,287.79
Togiak	534,448.59	22,201.41
Unalaska	0.00	337,367.99
Valdez	94,676.95	253,478.52
Wrangell	206,325.00	63,676.17
Yakutat	239,952.81	130,317.40
Various Alaskan Waters	<u>53,072.26</u>	<u>3,058,336.47</u>
Totals	<u>\$61,446,120.53</u>	<u>\$13,159,343.86</u>

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

Alaska Department of Revenue  
Schedule of Actual Credit Carryforward for 1990  
 As of January 18, 1990

Location	Actual Tax Credit Carryforward
Akutan	\$ 936,083.41
Alitak	105,880.46
Anchorage	154,919.86
Bethel	229,681.27
Bristol Bay	6,905.91
Chignik	53,055.51
Chignik Lagoon	105,880.46
Clarkspoint	936,083.41
Cordova	862,901.57
Craig	115,413.48
Dillingham	618,970.42
Dry Bay	119,721.92
Dutch Harbor	5,100,083.56
Egegik	105,880.46
Ekuk Spit	105,880.46
Excursion Inlet	105,880.46
Gustavus	31,700.66
Haines	108,622.71
Homer	2,778.50
Juneau	102,748.61
Kake	71,035.48
Kaltag	48,320.72
Kasilof	425,297.29
Kenai	738,793.51
Ketchikan	520,556.71
King Cove	352,789.40
Klawock	9,533.02
Kodiak	3,237,197.99
Larsen Bay	35,988.68
Mountain Village	724.15
Naknek	1,526,854.28
Nikiski	66,930.16
North Pole	48,898.88
Nulato	48,320.72
Petersburg	95,507.94
Port Bailey	105,880.46
Port Graham	206,039.86
Port Moller	352,789.40
Port Protection	405,143.24
Sandpoint	936,083.41
Seldovia	105,875.00
Seward	627,862.27
Sitka	122,145.24
Sterling	117,500.00
Togiak	130,743.12
Unalaska	302,606.50
Valdez	483,001.39
Wrangell	59,158.50
Yakutat	119,721.92
Various Alaskan Waters	<u>11,322,940.88</u>
Totals	<u>\$32,533,313.18</u>

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THE FOLLOWING DOCUMENT HAS NOT  
BEEN FILMED BUT IS AVAILABLE IN THE  
ORIGINAL FILE.

DOCUMENTS WHICH HAVE NOT BEEN  
FILMED BUT ARE AVAILABLE IN THE  
ORIGINAL FILE INCLUDE:

*Letters in Support from:*

*Alaska Municipal League 5/8/91*  
*Alaska Druggers Assoc. 3/29/91*  
*Heenan Cold Storage 3/29/91*  
*Seafood Producers Coop. 3/6/91*