

SB

52

Revision Date: _____ Dept. Affected: Revenue
 Title: Fisheries Business Tax Credits BRU: Revenue Operations
 Component: Income and Excise Audit
 Sponsor: Senator Mackie
 Requestor: (S) CRA COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES	(3,650-7,300)	(7,300-14,600)	(7,300-14,600)	(7,300-14,600)	(7,300-14,600)	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY97) cost \$ 0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Brett Fried, Economist Phone: 465-3682
 Division: Income and Excise Audit Division Date: January 28, 1997
 Approved by Commissioner: Wilson L. Condon Date: January 28, 1997
 Agency: Department of Revenue

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DEPARTMENT OF REVENUE
Income and Excise Audit Division

Fisheries Business Tax Credit
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BILL ANALYSIS

Section 1 - Amends the Fisheries Business Tax statutes to provide a tax credit for capital expenditures. Expenditures qualify if they increase product diversity, increase production efficiency and capacity or improve product quality at a shore-based fisheries business facility in the state. Expenditures can also qualify if they contribute to the development of a cooperative seafood industrial park. A fisheries business may only claim credits for a maximum period of three consecutive years and may begin the three-year period for expenditures with any tax year from 1998 through 2000. Eligible tax credits that are not claimed in a single year can be carried forward a subsequent year as long as this falls within the three consecutive years the applicant has chosen.

The amount of the tax credit is limited to 50 percent of a capital expenditure, unless a municipality agrees to give up a portion or all of its share of tax revenue. If a municipality does opt to reduce its share then a business could claim up to 75 percent (depending on how much the municipality gives up) of its capital expenditure as a credit. The total tax credit for a tax year for capital expenditures and scholarship contributions may not exceed 50% of the taxpayer's fisheries business tax liability for that year. The department may not approve a tax credit for capital expenditures if the property for which the capital expenditure was made was subject to a previous capital expenditure under this section, the property for which the capital expenditure was made was sold or transferred between fisheries businesses having substantial common ownership or the fisheries business claiming the credit is in arrears in the payment of its fisheries business taxes.

The department is required to prepare an application form for a credit and approve or disapprove an application for a credit under this section no later than 60 days after receiving the application. The Department of Revenue is also required to submit a report on the expenditures, and if possible increases in employment and processing capacity, for which a credit was approved (in conjunction with the Department of Commerce and Economic Development) on the fisheries business tax credit program by the 15th legislative day of each regular legislative session.

Section 2 - Amends the refund to local government section (AS 43.75.130) so that revenue collected from the fisheries business tax is calculated as if a fisheries business tax credit had not

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Income and Excise Audit Division

Fisheries Business Tax Credit

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January 28, 1997

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been collected. This holds municipalities harmless from the credits. The municipality may adopt an ordinance directing the Department of Revenue to reduce the municipality's refund over a period of not more than three years by an amount not exceeding 25 percent of the capital expenditure.

Section 3 - Defines terms such as "capital expenditure", "cooperative", "product diversity", "product quality" and "seafood industrial park".

Section 4 - The first tax report of expenditures, for which credits were approved on and after July 1, 1997, is due February 1, 1998.

Section 5 - Repeals all sections of this Act on January 1, 2003 except for the reporting requirement (section 1 (j)).

Section 6 - Repeals section 1 (j), February 15, 2003.

Section 7 - Establishes an effective date of July 1, 1997.

OPERATING EXPENDITURES

The Income and Excise Audit Division would be required to expend audit staff time to implement the credit pre-approval process. In addition audit staff work would be required to review records of taxpayers actually applying the tax credits. This time would result in a reallocation of current staff time but does not justify a new position.

GENERAL FUND REVENUE EFFECT See page 4.

Other This bill fails to take into consideration the complementary landing tax. See Ch. 81, SLA 1996 ("The fisheries resource landing tax...is both designed and intended to be a compensatory tax that complements the fisheries business tax levied and collected under AS 43.75). The legislature in the the last session passed remedial legislation to insure equal treatment. Therefore, since the landing tax and the fisheries business tax are compensatory taxes, credits must be extended equally under both tax types. The department will have many other technical changes to this legislation based on problems experienced under the previous fisheries tax credit program.

Alaska Department of Revenue
Income and Excise Audit Division
Projected Revenue Decreases from the Fisheries Business Tax Credit

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Scenario A - All Qualifying Expenditures are Used: Assume that the exact same level of qualifying expenditures are made in the in the new Fisheries Business Tax Credit as were made in the original (1986-1989) Fisheries Business Tax Credit program. Total expenditures were \$146 million, and since 50% of these expenditures qualify for credit, total qualifying expenditures were \$73 million. Additionally, assume that these expenditures are spread evenly over the qualifying years except for year one where only 6 months are relevant.

	FY 98*	FY 99	FY 00	FY 01	FY 02	FY 03
Revenue under Scenario A	(\$7,300,000)	(\$14,600,000)	(\$14,600,000)	(\$14,600,000)	(\$14,600,000)	\$0

Scenario B - Half of All Qualifying Expenditures are Used: Assume that the exact same level of qualifying expenditures are made in the in the new Fisheries Business Tax Credit as were made in the original (1986-1989) Fisheries Business Tax Credit program. Total expenditures were \$146 million, and since 50% of these expenditures qualify for credit, total qualifying expenditures were \$73 million. Additionally, assume that the limitation that a credit can only reduce a taxpayers annual liability by 50% results in only half of these expenditures (\$36.5 million) being used. Additionally, assume that these expenditures are spread evenly over the qualifying years except for year one where only 6 months are relevant.

	FY 98*	FY 99	FY 00	FY 01	FY 02	FY 03
Revenue under Scenario B.	(\$3,650,000)	(\$7,300,000)	(\$7,300,000)	(\$7,300,000)	(\$7,300,000)	\$0

* Credits apply to 6 (not twelve months) in the first year.

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SENATOR JERRY MACKIE

ALASKA STATE LEGISLATURE

SPONSOR STATEMENT

SB 52, Fishery Business Tax Credit

I introduced SB 52 to help bring some economic stability and growth to Alaska's commercial fisheries industry. I think the best way to do this is through development incentives that increase operational efficiencies, improve product quality, or bring new products to market. The incentives are business tax credits, up to 50 % of a company's tax liability, for any capital investments in shore based facilities that achieve these goals.

Alaska's fishery resources provide nearly 70,000 jobs in the private sector, for more than any other industry. These are fishermen, processors and the processing labor force. For most of the state's coastal and river communities, commercial fishing is the dominant economic activity that sustains the community. Thus, when markets deteriorate and fish prices fall, as has happened with salmon, the effects can be immediate, wide spread, and devastating.

SB 52 is modeled after a similar program that was in effect from 1986 to 1991. This program was largely responsible for large investments in processing quality control in facilities throughout the state. It is also credited with stimulating Alaskan participation and expansion into the harvesting, processing, and marketing of new bottom fisheries.

The Alaskan fisheries industry needs a boost to improve the marketability of its traditional fishery products and to introduce new, value added products that appeal to consumers worldwide. This will require large investments in new and better equipment. I feel that the tax incentive program is the way to accomplish these improvements in the most direct and efficient manner. The benefits will accrue to both resident commercial fishermen as well as the processing labor force through increased fishing opportunities and increased processing jobs.



SENATOR JERRY MACKIE

ALASKA STATE LEGISLATURE

SECTIONAL

SB 52, Fisheries Business Tax Credit

Section 1. A new section AS 43.75.035, Tax credits for certain capital expenditures, is added.

Subsection (a) establishes a fisheries business tax credit for certain kinds of capital expenditures a business makes to improve production or product. The maximum credit allowed is 50% of the business' raw fish tax liability (AS 43.75.015). The credit must have advanced approval by the Department of Revenue.

Subsection (b) limits the application of the investment credits to three consecutive years maximum for a particular business beginning in any year between 1998 and 2000.

Subsection (c) limits the amount of the credit to 50% of the actual value of the investment itself unless a municipality where the facility is located acts to increase this limit under subsection (d).

Subsection (d) allows a municipality to offer an increased credit to a business within its boundaries. The added credit is offset from the municipality's portion of shared fishery tax revenues under AS 43.75.130(h) [See *Sec. 2.]. The total amount of the increased credit under this subsection is limited to 25% of the investment value in the three year period.

Subsection (e) prohibits carrying an eligible credit back to a prior year. An eligible credit may be carried forward to the next tax year within the allowed three duration year period.

Subsection (f) requires a tax credit applicant to notify in the municipality, if any, of the location of the capital investment and a send a copy of the credit application.

Subsection (g) caps the combined credits from scholarship contributions under AS43.75.032 (Winn Brindle) and the investment credit under this section to 50% of total tax liability.

Subsection (h) prohibits (1) multiple tax credits on the same capital expenditure, (2) credits on capital expenditures between businesses having substantial common ownership, and (3) tax credits for businesses who are in arrears in the payment of fishery taxes.

Subsection (i) gives the department authority to prepare the credit application form. The department has 60 days after reception to approve or reject an application.

Subsection (j) requires annual reports to the legislature on the activities of the tax credit program. The report must describe certain results that have occurred because of the program.

Section 2. Two new subsections are added to AS 43.75.130. Subsection (g) holds a municipality's revenue sharing harmless from the state's allowance of a credit. Subsection (h) requires a municipality to adopt an ordinance directing the department to reduce its fish tax revenue share commensurate with any additional tax credit that is allowed under AS 43.75.035 (d).

Section 3. AS 43.75.290 is amended to add definitions for "capital expenditure", "cooperative", "product diversity", "product quality" and "seafood industrial park".

Section 4. The date of the first report to the legislature on the programs experience is set for February 1998.

Section 5 and 6. Repealer sections terminate the tax credit program on January 1, 2003 and the legislative report on February 15, 2003.

Section 7. July 1, 1997 effective date.

**DEPARTMENT OF COMMERCE &
ECONOMIC DEVELOPMENT**

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OFFICE OF THE COMMISSIONER

FISHERIES BUSINESS TAX CREDIT STUDY

EXECUTIVE SUMMARY

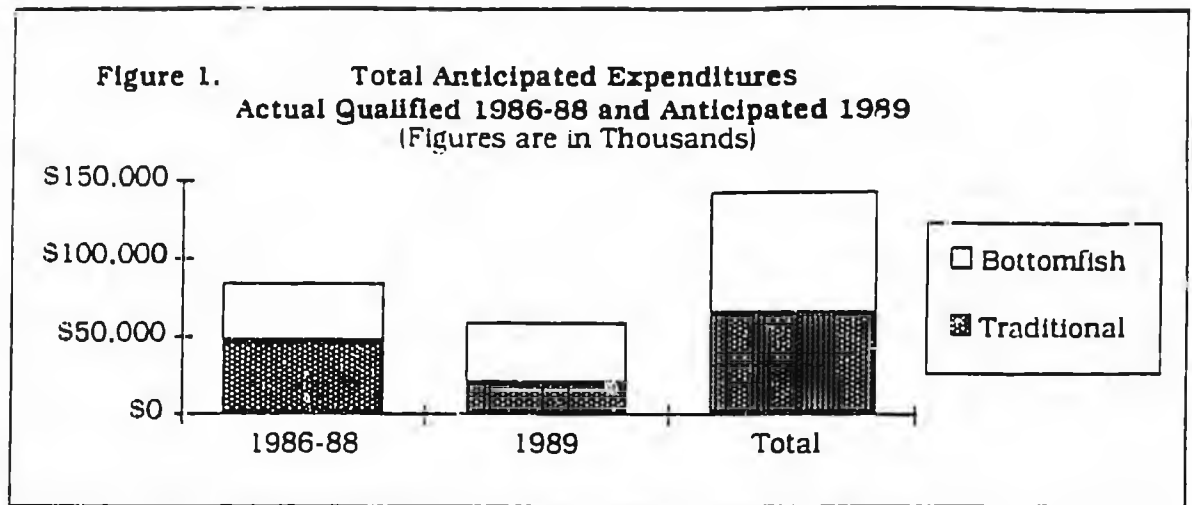
Purpose. This report addresses the effects of the Fisheries Business Tax Credit Program, and its stimulus to investments and employment. An attempt is also made to address several questions of interest: what types of investments are being made, where, and by what types of companies; what have the costs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

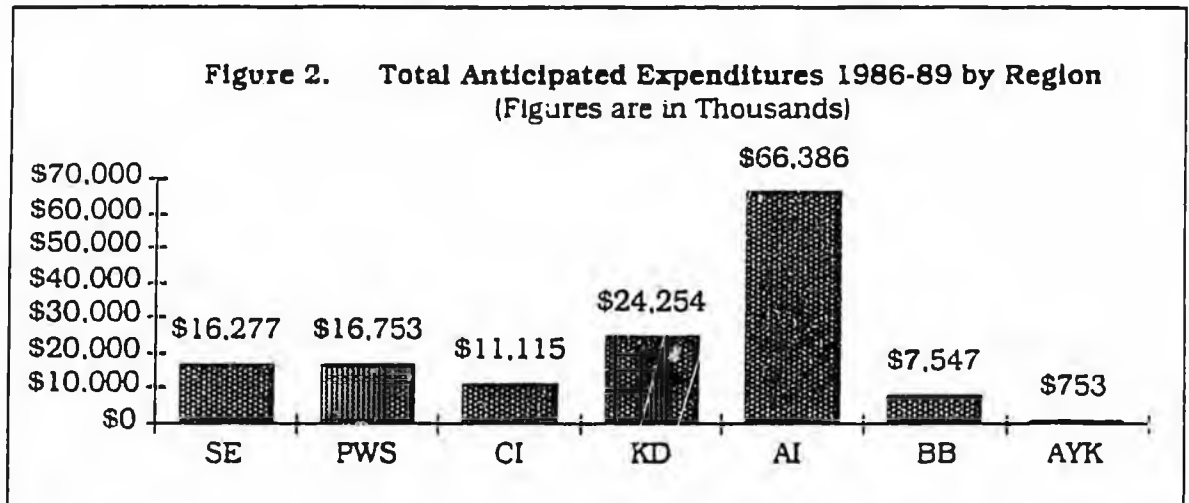
Number of participants. Sixty-seven firms representing 96 Alaska processing facilities have or intend to participate in the fisheries tax credit program. Expenditures actually qualifying for credit during the 1986-1988 period were made at 76 plants. Applications for expenditures during 1989 at an additional 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		3	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, fillets 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.

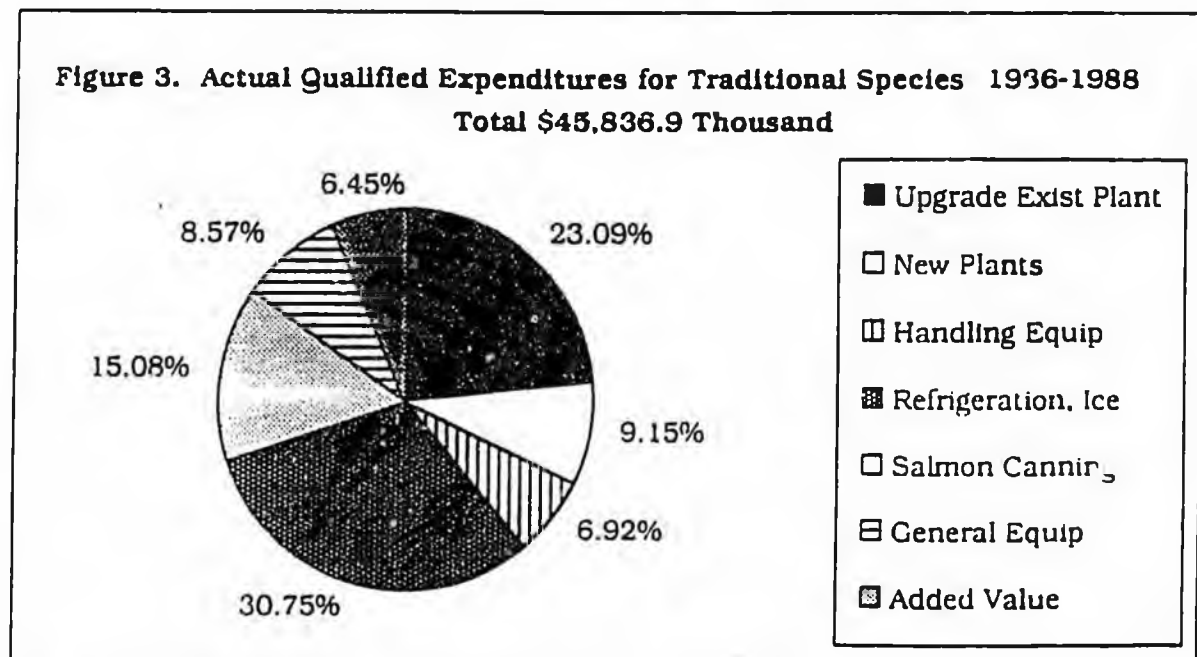


Table 2. Actual Qualified Expenditures 1986-1988 on Traditional Species

	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
Arclic-Yuk-Kusk	\$22.5	\$0.0	\$6.0	\$49.1	\$0.0	\$20.3	\$9.3	\$107.2
Total	\$10,582.2	\$4,193.5	\$3,171.7	\$14,092.6	\$6,910.0	\$3,930.0	\$2,956.9	\$45,836.9

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	\$391.9	\$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
Total	\$9,593.6	\$5,544.0	\$838.5	\$1,898.4	\$19,184.7	\$515.2	\$37,574.4

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

	Traditional Species			Bottomfish			Grand Total
	1986-88	'89 Est*	Total	1986-1988	'89 Est*	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
Total	\$45,836.9	\$18,566.2	\$64,403.1	\$37,574.4	\$41,106.0	\$78,680.4	\$143,083.5

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.

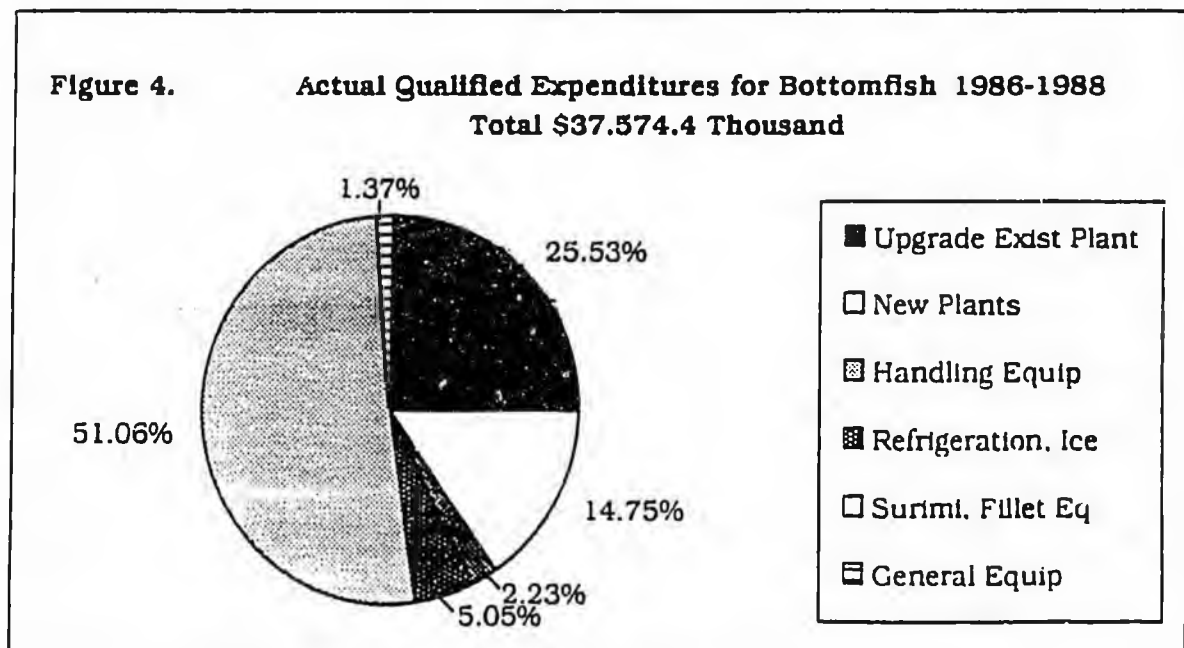


Table 5. Total Credits Applied 1986-88, Carryover, and Preliminary Approved Expenditures for 1989

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	\$2,014.9	\$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
Alutian Islands	11	\$903.8	\$4,712.1	\$5,615.9	\$7,898.3	\$30,443.2	\$13,957.4	\$38,341.5
Bristol Bay	9	\$683.9	\$886.1	\$1,570.0	\$1,411.4	\$1,384.5	\$1,365.9	\$2,795.9
Arctic-Yuk-Kusk	3	\$0.0	\$21.4	\$21.4	\$32.2	\$496.4	\$550.0	\$528.6
Total	89	\$7,873.7	\$14,247.7	\$22,121.4	\$19,976.6	\$45,901.7	\$87,999.6	\$65,878.3

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

Ownership Analysis		Number	Tax Credits Applied		Total 1986-88	1986-88 Carryover	One-half	Maximum	Max Est
Location			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	
Totals	89	\$7,479.9	\$14,247.7	\$21,727.6	\$19,976.6	\$29,836.1	\$71,540.2	\$49,812.7	
Fac. > \$1 Million	28	\$5,164.8	\$10,131.7	\$15,296.5	\$18,548.3	\$25,346.8	\$59,191.5	\$13,895.0	
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	\$12,288.2	

*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

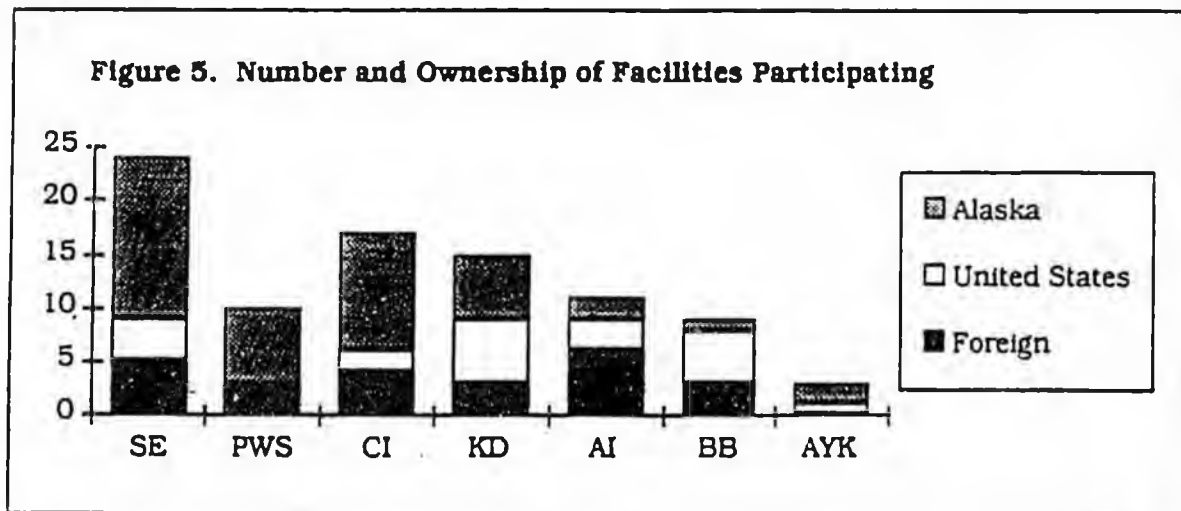
reasons the firm elected to move their corporate offices outside the state. Such firms are also termed Alaskan.

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.

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

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January 30, 1997

The Honorable Jerry Mackie
Alaska State Senate
State Capitol, Room 427
Juneau, AK 99801-1182

RE: Omission of landing tax, AS 43.77, from
SB 52

Dear Senator Mackie:

I have been in touch with your staff to alert you to an omission regarding SB 52 that may have been inadvertently overlooked: the bill amends the Fisheries Business Tax, AS 43.75, but does not amend the complementary Fisheries Landing Tax, AS 43.77. Your staff asked me to state these concerns, as briefly as possible, in a letter. This letter will address only the concern raised by the omission of the landing tax from the credit provided by the bill.

As you know, the American Factory Trawlers Association (AFTA) has vigorously attacked the constitutionality of the landing tax. One of AFTA's arguments is that the tax discriminates against interstate commerce. The Departments of Law and Revenue have been defending the landing tax. We argue that the landing tax does not discriminate because in-state processors pay a complementary tax, the Fisheries Business Tax, AS 43.75.

We believe we have a very strong case under the complementary tax doctrine. Our argument requires, however, that the tax rate under landing tax "not exceed the amount of the tax on intrastate commerce." *Oregon Waste Sys. v. Dep't of Envtl. Quality*, 114 S. Ct. 1345, 1352 (1994) (citing *State of Alaska v. Arctic Maid*, 366, U.S. 199, 204-05 (1961)). Tax credits may affect the effective tax rates, and complementary taxes should be considered in tandem. As you may recall, last session the legislature retroactively amended the landing tax to provide credits previously available only under the fisheries business tax. Ch. 81, SLA 1996. The concern raised by SB 52 is that making credits available under the fisheries business tax that are not available under the landing tax is unfair and counter to the careful balance required under the complementary tax doctrine.

The Honorable Jerry Mackie
January 30, 1997
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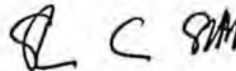
We understand from your staff that SB 52 is based on earlier legislation from the middle 1980's, adopted before the fisheries business tax had a sibling tax, and that no deliberate decision was made to exclude the landing tax from this credit provision. We recommend that the bill be amended to apply equally to AS 43.77 and that the provision limiting the credit to shore-based facilities be eliminated.

If you have any questions, feel free to call me.

Very truly yours,

BRUCE M. BOTELHO
ATTORNEY GENERAL

By:



Stephen C. Slotnick
Assistant Attorney General

cc: Pat Pourchot, Legislative Liaison, Office of the Governor
Bruce Botelho, Attorney General, Department of Law
Deborah Vogt, Deputy Commissioner, Department of Revenue
Deborah Behr, Assistant Attorney General, Department of Law
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