

HB

90

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 14, 2003

FURTHER REFERRALS:

Date of Committee Action: 3/24/03

The FINANCE Committee considered:

HB 90

HOUSE BILL NO. 90

TAX CREDIT FOR SALMON DEVELOPMENT

"An Act relating to a salmon product development tax credit under the Alaska fisheries business tax and the Alaska fisheries resource landing tax; and providing for an effective date."



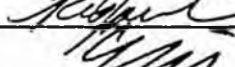
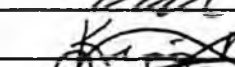
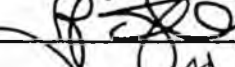
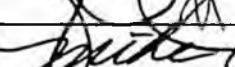
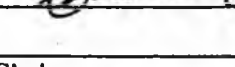

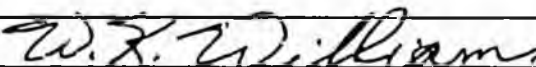
Recommends it be replaced with HCS or CS for HB 90 (FIN)
 For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

List of Abbrev for Depts.:
 ADM
 CED
 COR
 CRT
 EED
 DEC
 DFG
 GOV
 HSS
 LEG
 LAW
 LWF
 NVA
 DNR
 DPS
 REV
 DOT
 UA

<u>NEW FISCAL NOTES</u>				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
<u>REV</u>		✓		

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Hawker	✓			
	S. J. Storte			✓	
	Joubert			✓	
	C. R. Crotty			✓	
	Meyer			✓	
	Foster	X			
	Whitaker			✓	
	Chenault	X			
Chair:					
Chair: 	Williams	✓			

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: CSHB90 (FIN)
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Tax credit for salmon development BRU Revenue Operations
Component Tax Division
Sponsor Representatives Stevens and Wolf
Requester House Finance Committee Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	42.2	84.5	84.5	84.5	84.5	84.5
Travel		4.0	4.0	4.0	4.0	4.0
Contractual	1.1	2.1	2.1	2.1	2.1	2.1
Supplies	1.0	1.5	1.5	1.5	1.5	1.5
Equipment	5.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	49.3	92.1	92.1	92.1	92.1	92.1

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	**	**	**	**	**	**
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	49.3	92.1	92.1	92.1	92.1	92.1
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	49.3	92.1	92.1	92.1	92.1	92.1

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	1	1	1	1	1	1
Part-time	0.5	0.5	0.5	0.5	0.5	0.5
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation would establish two new tax credit programs:

- 1) Allow taxpayers to take a tax credit against their Fisheries Business Tax liability for 50% of qualified investment in new value-added salmon processing equipment.
- 2) Allow taxpayers to take a tax credit against their Fisheries Business Tax liability for 50% of the cost of operations or investment in new equipment for the full utilization of salmon.

We believe these credits, combined with state and federal bonus depreciation allowances, will generate a high level of interest in this program.

**** See attached pages for further discussion.**

Prepared by: Chuck Harlamert, Chief of Operations Phone 465-4773
Division: Tax Division Date/Time 3/25/03 9:38 AM
Approved by: Larry Persily, Deputy Commissioner Date 3/25/2003
Agency: Department of Revenue

Operating Expenditures

For purposes of adequately monitoring these new tax credits, and enforcing the intent of the legislation, the Department of Revenue Tax Division is requesting operating funds to cover the costs of:

- One-half of a Tax Technician II position. The Division will require additional Tax Technician resources to coordinate credits and limitations between returns of taxpayers with multiple facilities.
- A Revenue Auditor III position to enforce the credits. The department anticipates some taxpayers may take overly aggressive positions, due to the attractiveness of the 50% tax credit and the flexible qualifying criteria for the credit for new equipment and operations for full utilization of salmon. Credits for expenditures outside the intent of this legislation, if left unchecked, could inappropriately reduce state revenue and unfairly compete with investment that truly fulfills the legislative intent. The Division therefore requests funding for a Revenue Auditor III position to cover the expenses associated with enforcement of the credits.

Effect on State Revenue

We cannot predict the revenue loss from the new credits. The actual revenue loss to the state would depend on the amount of qualified investment and the value of the salmon catch for the year.

The extent of the two credits, especially the full-utilization credit, could be sufficient to allow many large processors to generate enough credit to offset half their Fisheries Business Tax liability for salmon through Fiscal 2009. The legislation ends the tax credit provision on December 31, 2005, but allows taxpayers to carry forward any unused credits for three years, meaning the state may not see the last of the credits applied against tax liabilities until Fiscal 2009.

The state in Fiscal 2001 retained \$5.6 million in Fisheries Business Taxes on salmon (net of municipal shared revenue). In Fiscal 2002, the state retained \$4.25 million. The Fiscal 2003 estimate is \$2.8 million in state revenue, net of municipal sharing (half of the Fisheries Business Tax is shared with municipalities). This legislation requires that the tax credit come entirely from the state's share of the Fisheries Business Tax revenue. Therefore, a 50% credit, depending on how many taxpayers claim the credit and to what extent they use the credit, could eliminate anywhere from one dollar to all of the state revenues in a year of low catches or low salmon prices — or anywhere in between.

The legislation's intent is that the cost to the state of the credit would be repaid in future years with increased Fisheries Business Tax revenues on a higher value and full utilization of salmon.

Section 1

AS 43.75.035(b) limits the credit to 50% of the taxpayer's tax on salmon and includes a sunset provision of December 31, 2005.

AS 43.75.035(c) provides a mechanism to provide partial credit for qualified property used on a vessel both inside and outside of Alaska.

AS 43.75.035(d) allows credits in excess of the annual limitation to be applied against taxes in the three subsequent tax years.

AS 43.75.035(e) specifies that the limitation on credit application of 50% of salmon tax liability is on the combined application of the Salmon Product Development Tax Credit and the Salmon Utilization Tax Credit.

AS 43.75.035(f) prohibits the use of the credit if the taxpayer is delinquent on its unemployment insurance contribution or state taxes under AS 43.

AS 43.75.035(g) defines key terms that effectively spell out the requirements for the credit.

AS 43.75.035(g)(2) restricts the credit to investment in new property.

AS 43.75.035(g)(3) provides the core definition for the credit – qualified investment.

AS 43.75.036(a) provides a tax credit for 50% of qualified expenditure for full utilization of salmon.

AS 43.75.036(b) through AS 43.075.036(g)(2) mirror, for the salmon utilization credit, the provisions set out in AS 43.75.035(b) – (g)(2).

AS 43.75.036(g)(3) defines qualified expenditure for the salmon utilization credit as costs associated with the "development, manufacture, purchase or operation of new equipment or a manufacturing process to produce marketable products using the bones, skin, viscera and carcasses of salmon."

Section 2 – Municipalities Held Harmless

The credit does not affect revenue sharing to municipal governments. The tax credit, therefore, would come entirely from the state's share of Fisheries Business Tax revenues.

Section 4 – Retroactivity

The credit is retroactive for investments and property placed in service after January 1, 2003.

Adopted

*Called
Dymally Final
6/15/03
JH*

23-LS0525U
Utermohle
3/20/03

Don B. Stevens

CS FOR HOUSE BILL NO. 90(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES STEVENS, Wolf

*wait
for new
Fiscal
Note*

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to a salmon product development tax credit and a salmon utilization
2 tax credit under the Alaska fisheries business tax; and providing for an effective date."

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

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

5 **Sec. 43.75.035. Salmon product development tax credit.** (a) A taxpayer
6 that is a fisheries business may claim a salmon product development tax credit of 50
7 percent of qualified investment in new property first placed into service in a shore-
8 based plant or on a vessel in the state in the tax year.

9 (b) The amount of the tax credit applied against taxes under this section may
10 not exceed 50 percent of the taxpayer's tax liability incurred under this chapter for
11 salmon during the tax year. The tax credit under this section may not be claimed for
12 investments made after December 31, 2005.

13 (c) If the property for which a tax credit is claimed is installed on a vessel, the
14 amount of qualified investment under (a) of this section is determined by multiplying

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the investment cost of qualified investment property by a fraction, the numerator of which is the weight of raw salmon processed on the vessel by the taxpayer in Alaska in the tax year in which the property is first placed in service, and the denominator of which is the weight of raw salmon processed on the vessel by the taxpayer in and outside of Alaska in the tax year in which the property is first placed in service.

(d) An unused credit under this section may be carried forward and applied against the tax liability incurred on salmon in the following three tax years.

(e) Qualified investment costs upon which a tax credit is claimed under this section may not be considered for another tax credit in this title. A tax credit applied under this section together with a tax credit applied under AS 43.75.036 may not exceed 50 percent of the taxpayer's tax liability incurred for the processing of salmon during the tax year.

(f) A taxpayer may not claim the tax credit allowed under this section if the taxpayer is in arrears in the payment of assessments under AS 16.51.120, contributions under AS 23.20, or taxes or assessments collected or owed under this title. For purposes of this subsection, a taxpayer is not in arrears if the liability for the assessment, contribution, or tax is under administrative or judicial appeal.

(g) In this section,

(1) "first placed into service" means the moment when property is first used for its intended purpose;

(2) "new property" means property whose original use commences with the taxpayer and does not include property first used by another person;

(3) "qualified investment" means an investment cost in the following depreciable tangible personal property with a useful life of three years or more to be used predominantly to produce value-added salmon products beyond gutting of the salmon, including filleting, skinning, portioning, mincing, forming, extruding, stuffing, injecting, mixing, marinating, preserving, drying, smoking, brining, packaging, blast freezing, or pin bone removal equipment;

(4) "tax liability" means the liability for all taxes under this chapter before all credits allowed by this chapter;

(5) "useful life" means the useful life of the property that is or would

1 be applicable for purposes of depreciation.

2 **Sec. 43.75.036. Salmon utilization tax credit.** (a) A taxpayer that is a
3 fisheries business may claim a salmon utilization tax credit of 50 percent of the
4 amount of the qualified expenditure in the state in the tax year for full utilization of
5 salmon.

6 (b) The amount of the tax credit applied against taxes under this section may
7 not exceed 50 percent of the taxpayer's tax liability incurred under this chapter for
8 salmon during the tax year. The tax credit under this section may not be claimed for
9 investments made after December 31, 2005.

10 (c) If the tax credit is claimed for installation or operation of new equipment
11 on a vessel, the amount of the qualified expenditures under (a) of this section is
12 determined by multiplying the cost of the installation or operation of the equipment by
13 a fraction, the numerator of which is the weight of raw salmon processed using the
14 equipment on the vessel by the taxpayer in Alaska in the tax year in which the
15 property is first placed in service, and the denominator of which is the weight of raw
16 salmon processed on the vessel by the taxpayer in and outside of Alaska in the tax
17 year in which the property is first placed in service.

18 (d) An unused credit under this section may be carried forward and applied
19 against the tax liability incurred on salmon in the following three tax years.

20 (e) Qualified expenditures for which a tax credit is claimed under this section
21 may not be considered for another tax credit in this title. A tax credit applied under
22 this section together with a tax credit applied under AS 43.75.035 may not exceed 50
23 percent of the taxpayer's tax liability incurred for the processing of salmon during the
24 tax year.

25 (f) A taxpayer may not claim the tax credit allowed under this section if the
26 taxpayer is in arrears in the payment of assessments under AS 16.51.120, contributions
27 under AS 23.20, or taxes or assessments collected or owed under this title. For
28 purposes of this subsection, a taxpayer is not in arrears if the liability for the
29 assessment, contribution, or tax is under administrative or judicial appeal.

30 (g) In this section,

31 (1) "first placed into service" means the moment when property is first

1 used for its intended purpose;

2 (2) "new equipment" means equipment with a useful life of three years
3 or more whose original use commences with the taxpayer and does not include
4 property first used by another person;

5 (3) "qualified expenditure" means the cost associated with the
6 development, manufacture, purchase, or operation of new equipment or a
7 manufacturing process to produce marketable products using the bones, skin, viscera
8 and carcasses of salmon;

9 (4) "tax liability" means the liability for all taxes under this chapter
10 before all credits allowed by this chapter;

11 (5) "useful life" means the useful life of equipment that is or would be
12 applicable for purposes of depreciation.

13 * Sec. 2. AS 43.75.130 is amended by adding a new subsection to read:

14 (g) For purposes of this section, tax revenue collected under AS 43.75.015
15 from a person entitled to a credit under AS 43.75.035 or 43.75.036 shall be calculated
16 as if the person's tax were collected without applying the credit.

17 * Sec. 3. AS 43.75.035, 43.75.036, and 43.75.130(g) are repealed.

18 * Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section to
19 read:

20 **RETROACTIVITY.** Sections 1 and 2 of this Act are retroactive to January 1, 2003.

21 * Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to
22 read:

23 **RETROACTIVITY.** If the attorney general provides notification under sec. 7(2) of
24 this Act, sec. 3 of this Act is retroactive to January 1, 2003.

25 * Sec. 6. Sections 1, 2, and 4 of this Act take effect immediately under AS 01.10.070(c).

26 * Sec. 7. Section 3 of this Act takes effect on the earlier of the following:

27 (1) January 1, 2009; or

28 (2) the date of the attorney general's notification to the lieutenant governor and
29 to the revisor of statutes that

30 (A) a court has entered final judgment that AS 43.75.035 or 43.75.036,
31 added by sec. 1 of this Act, violates the commerce clause contained in art. I, sec. 8. of

1 the United States Constitution; and

2 (B) the time for an appeal of that judgment has expired, or, if an appeal
3 was taken, a final order on the appeal has been entered that AS 43.75.035 or
4 43.75.036, added by sec. 1 of this Act, violates the commerce clause contained in the
5 United States Constitution.

6 * Sec. 8. Section 5 of this Act takes effect on the date of the attorney general's notification
7 under sec. 7(2) of this Act.

Joint Legislative Salmon Industry Task Force

Legislative Members

Senator Ben Stevens, Chair
Representative Gary Stevens, Vice-Chair
Senator Klm Elton
Representative Bill Williams
Senator Alan Austerman, Alternate
Representative Drew Scalzi, Alternate



Public Members

Sue Aspelund
Sam Cotten
Duncan Fields
Don Giles
John Lowrance
Robin Samuelson
Gary Slaven
Stephanie Madsen, Alternate
Chris Moss, Alternate

Sectional Analysis

Committee Substitute for House Bill 90 (FIN)

"An Act relating to a salmon product development tax credit and a salmon utilization tax credit under the Alaska fisheries business tax; and providing for an effective date."

Intent

To provide a salmon product development tax credit for the development of value-added salmon products and for full utilization of salmon.

Sectional Analysis

Section 1.

Section 43.75.035. Salmon product development tax credit

- Amends AS 43.75 (Fisheries Business Tax) to add a salmon product development tax credit of 50 percent of the taxpayer's tax liability for new property first placed into service in a shore-based plant or on a vessel in the state. *(a)*
- The tax credit cannot exceed 50 percent of the taxpayer's liability incurred under AS 43 for salmon or be applied for investments made after December 31, 2005. *(b)*
- Delineates how the tax credit is determined and calculated. *(c)*
- Specifies the eligible tax year by tying it to the tax year in which the property is first placed into service. *(c)*
- Allows an unused credit to be carried forward and applied against incurred tax liability for salmon in the three years following the initial tax credit. *(d)*
- Qualified investment costs may not be considered for another tax credit under AS 43 and ensures that combined salmon tax credits cannot exceed 50 percent of the taxpayer's liability. *(e)*

- A tax credit under this section may not be claimed if the taxpayer is in arrears on any tax or assessment under AS 43; AS 16.51.120; or AS 23.20. *(f)*
- Provides definitions for this section. *(g)*

Section 43.75.036. Salmon utilization tax credit

- Amends AS 43.75 (Fisheries Business Tax) to add a salmon utilization tax credit of 50 percent of the amount of the qualified expenditure for full utilization. *(a)*
- The tax credit cannot exceed 50 percent of the taxpayer's liability incurred under AS 43 for salmon or be applied for investments made after December 31, 2005. *(b)*
- Delineates how the tax credit is determined and calculated. *(c)*
- Specifies the eligible tax year by tying it to the tax year in which the property is first placed into service. *(c)*
- Allows an unused credit to be carried forward and applied against incurred tax liability for salmon in the three years following the initial tax credit. *(d)*
- Qualified investment costs may not be considered for another tax credit under AS 43 and ensures that combined salmon tax credits cannot exceed 50 percent of the taxpayer's liability. *(e)*
- A tax credit under this section may not be claimed if the taxpayer is in arrears on any tax or assessment under AS 43; AS 16.51.120; or AS 23.20. *(f)*
- Provides definitions for this section. *(g)*

Section 2.

- Amends AS 43.75.130 by adding a new subsection (g) to provide that tax credits approved under this measure are not to be deducted when calculating tax revenue collected under AS 43.75.015.
- A qualified tax credit *is not* deducted from the municipal portion of the fisheries business tax.
- A qualified tax credit *is* deducted from the state's portion of the fisheries business tax.

Section 3.

- Repeals AS 43.75.035; 43.75.036; and 43.75.130(g).

Section 4.

- Makes Sections 1 - 2 retroactive to January 1, 2003.

Section 5.

- If the attorney general provides notification under sec. 7(2) of this Act, section 3 of this Act is retroactive to January 1, 2003.

Section 6.

- Sections 1, 2 and 4 of this Act take effect immediately under AS 01.10.070(c).

Section 7.

- Section 3 of this Act takes effect on the earlier of January 1, 2009, or if the attorney general notifies the lieutenant governor and the revisor of statutes that a court has entered a final judgment that AS 43.75.035 or 43.75.036, added by section 1 of this Act, violates the commerce clause contained in article I, section 8, of the United States Constitution; and, the time for an appeal of that judgment has expired or if an appeal was taken, a final order has been entered that AS 43.75.035 or 43.75.036, added by section 1 of this Act, violates the commerce clause contained in the United States Constitution.

Section 8.

- Section 5 of this Act takes effect on the date of the attorney general's notification under section 7(2) of this Act.

Alaska State Legislature

Not adopted

Chair
Seaton

Vice Chair
Wilson

Members
Berkowitz
Guttenberg
Heinze
Kott
Samuels



State Capitol
Juneau, AK 99801
(907) 465-3306
(907) 465-3472

House Special Committee on Fisheries

LETTER OF INTENT CS HB 90 (FSH)

The following two points are recommendations from the House Special Committee on Fisheries for **CSHB 90 (FSH)**, "An Act relating to a salmon product development tax credit under the Alaska fisheries business tax; and providing for an effective date." The Fisheries Committee passed out CSHB 90 (FSH) with the understanding that these issues would be resolved.

1) The term "value-added salmon products" [AS 43 Sec. 75.035(g)(3)] should be better defined. This definition must be clarified to prevent abuse of the tax credit and decrease enforcement costs. As CSHB 90 (FSH) is written, many processes associated with standard processing are included in the definition. For example, the phrase "beyond gutting of the salmon" (line 22) would allow a heading machine to qualify for a tax credit if it is not explicitly prohibited. At least, this language should also prohibit traditional heading. The Department of Revenue (see attached fiscal note analysis) has suggested defining the terms "value-added" and "salmon product" separately. The Dep. Of Revenue has also suggested defining "salmon product" negatively (i.e. defining what should **not** be considered value added).

2) A "claw-back" provision for the tax credit should be considered. Such a provision would protect the State of Alaska from abuse of the credit. As the Department of Revenue has noted in their fiscal note analysis, "Investment credits are normally complimented by recapture provisions. Recapture, or "claw back" rules, reclaim all or part of the credit if the taxpayer does not follow through" (P.5).

A handwritten signature in cursive script, reading "Paul K. Seaton".

Representative Seaton
Chair, House Fisheries Committee

CC: House Resource Committee
House Finance Committee

- New -

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: CSHB 90 (FISH)
() Publish Date: _____

Revision Date/Time (Note if correction): March 20, 2003, 2 p.m. Dept. Affected: Revenue
Title Tax credit for salmon development BRU Revenue Operations
Component Tax Division
Sponsor Representatives Stevens and Wolf
Requester House Finance Committee Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	11.0	22.0	22.0	22.0	22.0	22.0
Travel						
Contractual	0.5	0.8	0.8	0.8	0.8	0.8
Supplies	0.3	0.5	0.5	0.5	0.5	0.5
Equipment	2.5					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	14.3	23.3	23.3	23.3	23.3	23.3

CAPITAL EXPENDITURES						
CHANGE IN REVENUES ()	(500.0)	(750.0)	(1,200.0)	(1,200.0)	(1,200.0)	(50.0)

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	14.3	23.3	23.3	23.3	23.3	23.3
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type-Do not abbreviate)						
TOTAL	14.3	23.3	23.3	23.3	23.3	23.3

Estimate of any current year (FY2003) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time	1	1	1	1	1	1
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation would allow taxpayers to take a Salmon Product Development Tax Credit against their tax liability for 50% of a qualified investment in new property used in producing value-added salmon products. We believe that the combination of this credit, and current state and federal bonus depreciation allowances, would generate a high level of interest in this program.

The projected state tax revenue loss is based on the assumption that taxpayers would make qualified investments totaling \$2 million in Fiscal 2004, increasing to \$3 million in Fiscal 2005 and increasing to \$4.8 million during Fiscal 2006. The amount of credits generated are one-half of the qualified investments, with the credits totaling \$4.9 million under our assumptions. We also have assumed that tax liability limitations would hold taxpayers to using half of the credit generated in each year, with the remainder carried forward until fully utilized. Investments would have to be put into service by Dec. 31, 2005 to be eligible for this credit. Use of the tax credit would expire on Dec. 31, 2008.

The projections do not consider potential revenue resulting from possible increases in economic activity as a result of the credit.

Prepared by: Chuck Harlamert, Chief of Operations Phone 465-4773
Division Tax Division Date/Time 3/20/03 3:52 PM
Approved by: Larry Persily, Deputy Commissioner Date 3/20/2003
Agency Department of Revenue

Operating Expenditures

The Department of Revenue is requesting a small increment in operating funds to cover the costs of one-half of a Tax Technician II position to assist with this new program. The department believes it will require additional Tax Technician resources to coordinate credits and limitations between returns of taxpayers with multiple facilities. The department anticipates that the new tax credit provision in this legislation will be successful and will draw sufficient industry interest and use to require additional staff hours to assist and enforce the new program.

Section 1

AS 43.75.035(b) limits the credit to 50% of the taxpayer's tax on salmon and includes a sunset provision of December 31, 2005.

AS 43.75.035(c) provides a mechanism to provide partial credit for qualified property used on a vessel both inside and outside of Alaska.

AS 43.75.035(d) allows credits in excess of the current year limitation to be applied against taxes on salmon in the three subsequent tax years.

AS 43.75.035(f) prohibits the use of the credit if the taxpayer is delinquent on its unemployment insurance contribution or taxes under AS 43.

AS 43.75.035(g) defines key terms that effectively spell out the requirements for the credit.

AS 43.75.035(g)(2) restricts the credit to investment in new property.

AS 43.75.035(g)(3) provides the core definition for the credit – qualified investment.

Section 4 – Retroactivity

The credit is retroactive for investments and property placed in service after January 1, 2003.

Cordova District Fishermen United

Celebrating 68 Years of Service to Commercial Fishermen in Cordova, Alaska

P.O. Box 939 Cordova, Alaska 99574 / phone (907) 424-3447 / fax (907) 424-3430 /

e-mail cdfu@ptialaska.net

March 18, 2003

House Finance Committee
c/o Representative Bill Williams, Co-Chair
Alaska State Legislature
State Capitol (MS 3100)
Juneau, AK 99801-1182

SENT BY FACSIMILE TO 907.465.3793

RE: SUPPORT FOR HB 90 - An Act relating to a tax credit for value-added/new product development

Cordova District Fishermen United (CDFU) represents the hardworking commercial fishing families of Area E—Prince William Sound and the Copper River. We are pleased to inform you of our support for HB 90.

The salmon industry needs financial incentives to stimulate investments into higher value processing technologies. The tax credit proposed in HB 90 provides that incentive. We acknowledge that in the short term the credit reduces General Fund receipts. However, the State should realize a return in investment via increased values—and hence, increased taxes—for the salmon harvested and value-added in Alaska in the future.

We support tight provisions that prevent abuses so that the intent of the legislation is realized for the benefit of harvesters, processors, communities, and the State, and encourage your support of the bill.

Thank you for your thoughtful consideration of HB 90.

Sincerely,

Carrie Glasen

for

Sue Aspelund
Executive Director

cc: Senator Gary Stevens
Representative Kelly Wolf



Sec. ~~43.75.015~~. Fisheries business tax.

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

(1) salmon canned at a shore-based fisheries business - four and one-half percent;

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

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

(b) Instead of the taxes levied by (a) of this section, a person who processes a developing commercial fish species is liable for and shall pay a tax equal to

(1) one percent of the value of the developing commercial fish species processed by a shore-based fisheries business during the year; and

(2) three percent of the value of the developing commercial fish species processed by a floating fisheries business during the year.

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

Sec. 43.75.017. Exclusion from fisheries business tax.

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

(1) the vessel is operated as a commercial fishing vessel under a valid commercial fishing license;

(2) the fishery resource is not processed beyond heading, gutting or cleaning, freezing and glazing;

(3) the fishery resource was caught by the vessel; and

(4) the fishery resource is sold by the person claiming an exclusion from the tax to a fisheries business licensed under this chapter.

Sec. 43.75.018. Fisheries business education credit.



Sec. 43.75.137. Additional refund.

To the extent that appropriations are available for the purpose, and notwithstanding the requirement of AS 37.07.080 (e) that approval of the office of management and budget is required, an amount equal to 50 percent of the tax revenue that is collected under this chapter from fisheries businesses and is not subject to division with a municipality under AS 43.75.130 shall be transmitted each fiscal year, without the approval of the office of management and budget, by the department to the Department of Community and Economic Development for disbursement to eligible municipalities under AS 29.60.450.

Sec. 43.75.140. [Renumbered as AS 43.75.290].

Repealed or Renumbered

Article 04. GENERAL PROVISIONS

Sec. 43.75.290. Definitions.

In this chapter,

(1) "developing commercial fish species" means those species of fish and shellfish annually designated by the commissioner of fish and game under AS 16.05.050 (a)(11);

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

(3) "fishery resource" means finfish, shellfish, and fish by-products, including but not limited to salmon, halibut, herring, flounder, crab, clam, cod, shrimp, and pollock;

(4) "floating fisheries business" means a fisheries business which is not a shore-based fisheries business; the term includes, but is not limited to, a shore-based fisheries business as defined in (5)(B) of this section when it is removed from the state;

(5) "shore-based fisheries business" means a fisheries business

(A) operated from a facility which is permanently attached to the land; or

(B) operated from a facility which remains in the same location in the state for the entire tax year;

(6) "taking" means pursuing, fishing, capturing, or harvesting a fisheries resource in any manner;

(7) "value" means

(A) the market value of the fisheries resource if the taking of the fisheries resource is done in company-owned or company-subsidized boats operated by employees of the company or in boats that are operated under lease to or from the company or other arrangement with the company and if the fisheries resource is delivered to the company; in this subparagraph, "company" means a fisheries business, a

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UNITED FISHERMEN OF ALASKA

March 10, 2003

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Representative Bud Fate
Chair
House Resources Committee
State Capitol (MS 3100)
Juneau, AK 99801

Dear Representative Fate,

Re: HB 90 Tax Credit for Salmon Development

United Fishermen of Alaska strongly supports HB 90 and recommends swift passage of this bill so that Alaska processors can make plans to use this bill this salmon season.

It is very clear from discussions during Salmon Task Force proceedings that providing salmon in forms that the consumer wants is critical to boosting the value of our salmon harvest. It is imperative that the Legislature and Administration provide incentives so that more value added work can be done in Alaska. Not only will this benefit harvesters but it will also help secure processor jobs and mitigate against raw fish being shipped to foreign countries for value added processing.

We look forward to working with you on this important piece of legislation.

Sincerely,

Thomas M. Gemmill
Executive Director

Copy: Senator Ben Stevens
Senator Gary Stevens
Senator Scott Ogan
Senator Tom Wagoner
Representative Pete Kott

Representative Bill Williams
Representative Paul Seaton
Representative Peggy Wilson
Senator Kim Elton
Representative Ethan Berkowitz

MEMBER ORGANIZATIONS

Alaska Crab Coalition • Alaska Druggers Association • Alaska Longline Fishermen's Association • Alaska Trappers Association • Alsea Processors Association • Bristol Bay Reserve
Chignik Regional Aquaculture Association • Chignik Seiners Association • Concerned Area "M" Fishermen • Cook Inlet Aquaculture Association • Cordova District Fishermen United
Crab Rationalization and Buyback Group • Dierkes Island Pink and Chum • Groundfish Forum • Kenai Peninsula Fishermen's Association • Kodiak Regional Aquaculture Association
Kodiak Seiners Association • North Pacific Fisheries Association • Northern Southeast Regional Aquaculture Association • Old Harbor Fishermen's Association
Petersburg Vessel Owners Association • Prince William Sound Aquaculture Corporation • Puffin Seiners Association • Seafood Producers Cooperative
Southern Alaska Regional Crab Fishermen's Association • Southeast Alaska Seiners Association • Southern Southeast Regional Aquaculture Association
United Cook Inlet Dredge Association • United Salmon Association • United Southeast Alaska Gillnetters • Western Gulf of Alaska Fishermen