

HB

90

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

REPORTED OUT

MAY 12 2003

SENATE FINANCE
COMMITTEE

DATE: 4/17/03

FURTHER:

DATE TURNED
IN TO OFFICE: 12 May 2003

Finance Committee considered CS FOR HOUSE BILL NO. 90(FIN)

HB 90 TAX CREDIT: SALMON DEVELOPMENT/UTILIZATION

"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."

and recommends:

Senate Bill:

be replaced with S CS CS HB 90 (FIN)

same title

adopt previous CS CS Forthcoming ()

new title

House Bill:

attached amendment(s)

same title

technical title

new: SCR # _____

adopt Letter of Intent by _____ Committee

further referral to _____ Committee

NEW FISCAL NOTE(S):

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

Department	Date	Fiscal	Zero	FN#
Revenue	7/1/03	49.3		#1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>	✓			
<i>[Signature]</i>			✓	
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			

MAY 12 2003

SENATE FINANCE COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSHB 90(FIN)
(H) Publish Date: 3/26/03

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.

SENATE CS FOR CS FOR HOUSE BILL NO. 90()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES STEVENS, Wolf, Ogg, Kohring, Lynn

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

11 (1) exceed 50 percent of the taxpayer's tax liability incurred under this
12 chapter for processing of salmon during the tax year; or

13 (2) be claimed for property first placed into service after December 31,
14 2005.

1 (c) If the property for which a tax credit is claimed is installed on a vessel, the
2 amount of qualified investment under (a) of this section is determined by multiplying
3 the investment cost of the qualified investment property by a fraction, the numerator
4 of which is the weight of raw salmon processed on the vessel by the taxpayer in the
5 state in the tax year in which the property is first placed into service, and the
6 denominator of which is the weight of raw salmon processed on the vessel by the
7 taxpayer in and outside of the state in the tax year in which the property is first placed
8 into service.

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

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

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

21 (g) If, during a tax year, property for which a credit was claimed under this
22 section is disposed of by the taxpayer, ceases to be qualified investment property, or is
23 removed from service in the state, the tax due under this chapter is increased by the
24 recapture percentage of the aggregate decrease in the credit allowed under this section
25 for all prior tax years that would have resulted solely from reducing to zero the credit
26 allowed for the qualified investment property under this section. The amount of tax
27 credit attributable to the qualified investment that is carried forward from prior tax
28 years is terminated as of the first day of the tax year in which the qualified investment
29 property is disposed of by the taxpayer, ceases to be qualified investment property, or
30 is removed from service in the state. For purposes of this subsection,

31 (1) the recapture percentage during the year in which the property is

1 first placed into service or during the first year following the year in which the
2 property is first placed into service is 100 percent;

3 (2) the recapture percentage during the second year following the year
4 in which the property is first placed into service is 75 percent;

5 (3) the recapture percentage during the third year following the year in
6 which the property is first placed into service is 50 percent;

7 (4) the recapture percentage during the fourth or subsequent year
8 following the year in which the property is first placed into service is zero percent;

9 (5) qualified investment property used on a vessel is considered to
10 have been removed from the state on the first day of a tax year in which the proportion
11 of raw salmon processed in the state on the vessel is less than 50 percent of total
12 weight of raw salmon processed on the vessel in and outside of the state.

13 (h) The amount of a tax credit recaptured under (g)(1) - (3) of this section may
14 not be included in the determination of the amount of that tax credit that is allowable
15 under this section or AS 43.75.036.

16 (i) In this section,

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

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

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

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

29 (5) "useful life" means the useful life of the property that is or would
30 be applicable for purposes of depreciation.

31 **Sec. 43.75.036. Salmon utilization tax credit.** (a) A taxpayer that is a

1 fisheries business may claim a salmon utilization tax credit of 50 percent of the
2 amount of the qualified expenditure in the state in the tax year for full utilization of
3 salmon.

4 (b) The amount of the tax credit applied against taxes under this section may
5 not

6 (1) exceed 50 percent of the taxpayer's tax liability incurred under this
7 chapter for salmon during the tax year; or

8 (2) be claimed for property first placed into service, or for expenditures
9 incurred, 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 expenditure 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 on the vessel
14 by the taxpayer in the state in the tax year in which the equipment is first placed into
15 service, and the denominator of which is the weight of raw salmon processed on the
16 vessel by the taxpayer in and outside of the state in the tax year in which the
17 equipment is first placed into 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) If, during a tax year, equipment for which a credit was claimed under this
31 section is disposed of by the taxpayer, ceases to be a qualified expenditure, or is

1 removed from service in the state, the tax due under this chapter is increased by the
2 recapture percentage of the aggregate decrease in the credit allowed under this section
3 for all prior tax years that would have resulted solely from reducing to zero the credit
4 allowed for the qualified expenditure under this section. The amount of tax credit
5 attributable to the qualified expenditure that is carried forward from prior tax years is
6 terminated as of the first day of the tax year in which the equipment is disposed of by
7 the taxpayer, ceases to be a qualified expenditure, or is removed from service in the
8 state. For purposes of this subsection,

9 (1) the recapture percentage during the year in which the equipment is
10 first placed into service or during the first year following the year in which the
11 equipment is first placed into service is 100 percent;

12 (2) the recapture percentage during the second year following the year
13 in which the equipment is first placed into service is 75 percent;

14 (3) the recapture percentage during the third year following the year in
15 which the equipment is first placed into service is 50 percent;

16 (4) the recapture percentage during the fourth or subsequent year
17 following the year in which the equipment is first placed into service is zero percent;

18 (5) equipment used on a vessel is considered to have been removed
19 from the state on the first day of a tax year in which the proportion of raw salmon
20 processed in the state on the vessel is less than 50 percent of total weight of raw
21 salmon processed on the vessel in and outside of the state.

22 (h) The amount of a tax credit recaptured under (g)(1) - (3) of this section may
23 not be included in the determination of the amount of that tax credit that is allowable
24 under this section or AS 43.75.035.

25 (i) In this section,

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

28 (2) "new equipment" means tangible, depreciable personal property
29 with a useful life of three years or more whose original use commences with the
30 taxpayer and does not include property first used by another person;

31 (3) "qualified expenditure" means

1 (A) the direct and incremental cost of the development,
2 manufacture, or purchase of new equipment by a taxpayer to produce
3 marketable products in the state using salmon waste;

4 (B) reasonable custom processing or disposal fees paid to
5 another fisheries business in the state that does not claim a credit under this
6 section or AS 43.75.035 and that produces marketable products from salmon
7 waste, less the market value of the products produced for the taxpayer; or

8 (C) the direct and incremental cost of transporting salmon
9 waste to a facility in the state that produces a marketable product from salmon
10 waste;

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

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

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

16 (g) For purposes of this section, tax revenue collected under AS 43.75.015
17 from a person entitled to a credit under AS 43.75.035 or 43.75.036 shall be calculated
18 as if the person's tax were collected without applying the credit; tax revenue collected
19 does not include the amount of a tax credit recaptured under AS 43.75.035(g) or
20 43.75.036(g).

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

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

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

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

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

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

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

31 (1) January 1, 2009; or

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

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

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

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



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

FAX COVER SHEET

DATE: 12 May 2003 TIME: 9:20 am

TO: Legal Services

NUMBER OF PAGES, INCLUDING COVER SHEET: 1

FROM: MINDY ROWLAND
SENATE FINANCE COMMITTEE SECRETARY
PHONE: 465-4935
FAX: 465-2187

NOTES: Final Please
SCS CS HB 90 23-LS0525 \ B
5/9/03 Utermohle
no changes
Thx
Mindy

ADOPTED 5/3/03

WORK DRAFT

WORK DRAFT

WORK DRAFT

23-LS0525W
Utermohle
5/3/03

SENATE CS FOR CS FOR HOUSE BILL NO. 90()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES STEVENS, Wolf, Ogg, Kohring, Lynn

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

11 (1) exceed 50 percent of the taxpayer's tax liability incurred under this
12 chapter for processing of salmon during the tax year; or

13 (2) be claimed for property first placed into service after December 31,
14 2005.

1 (c) If the property for which a tax credit is claimed is installed on a vessel, the
2 amount of qualified investment under (a) of this section is determined by multiplying
3 the investment cost of the qualified investment property by a fraction, the numerator
4 of which is the weight of raw salmon processed on the vessel by the taxpayer in the
5 state in the tax year in which the property is first placed into service, and the
6 denominator of which is the weight of raw salmon processed on the vessel by the
7 taxpayer in and outside of the state in the tax year in which the property is first placed
8 into service.

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

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

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

21 (g) If, during a tax year, property for which a credit was claimed under this
22 section is disposed of by the taxpayer, ceases to be qualified investment property, or is
23 removed from service in the state, the tax due under this chapter is increased by the
24 recapture percentage of the aggregate decrease in the credit allowed under this section
25 for all prior tax years that would have resulted solely from reducing to zero the credit
26 allowed for the qualified investment property under this section. The amount of tax
27 credit attributable to the qualified investment that is carried forward from prior tax
28 years is terminated as of the first day of the tax year in which the qualified investment
29 property is disposed of by the taxpayer, ceases to be qualified investment property, or
30 is removed from service in the state. For purposes of this subsection,

31 (1) the recapture percentage during the year in which the property is

1 first placed into service or during the first year following the year in which the
2 property is first placed into service is 100 percent;

3 (2) the recapture percentage during the second year following the year
4 in which the property is first placed into service is 75 percent;

5 (3) the recapture percentage during the third year following the year in
6 which the property is first placed into service is 50 percent;

7 (4) the recapture percentage during the fourth or subsequent year
8 following the year in which the property is first placed into service is zero percent;

9 (5) qualified investment property used on a vessel is considered to
10 have been removed from the state on the first day of a tax year in which the proportion
11 of raw salmon processed in the state on the vessel is less than 50 percent of total
12 weight of raw salmon processed on the vessel in and outside of the state.

13 (h) The amount of a tax credit recaptured under (g)(1) - (3) of this section may
14 not be included in the determination of the amount of that tax credit that is allowable
15 under this section or AS 43.75.036.

16 (i) In this section,

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

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

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

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

29 (5) "useful life" means the useful life of the property which is or would
30 be applicable for purposes of depreciation.

31 **Sec. 43.75.036. Salmon utilization tax credit.** (a) A taxpayer that is a

1 fisheries business may claim a salmon utilization tax credit of 50 percent of the
2 amount of the qualified expenditure in the state in the tax year for full utilization of
3 salmon.

4 (b) The amount of the tax credit applied against taxes under this section may
5 not

6 (1) exceed 50 percent of the taxpayer's tax liability incurred under this
7 chapter for salmon during the tax year; or

8 (2) be claimed for property first placed into service, or for expenditures
9 incurred, 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 expenditure 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 on the vessel
14 by the taxpayer in the state in the tax year in which the equipment is first placed into
15 service, and the denominator of which is the weight of raw salmon processed on the
16 vessel by the taxpayer in and outside of the state in the tax year in which the
17 equipment is first placed into 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) If, during a tax year, equipment for which a credit was claimed under this
31 section is disposed of by the taxpayer, ceases to be a qualified expenditure, or is

1 removed from service in the state, the tax due under this chapter is increased by the
2 recapture percentage of the aggregate decrease in the credit allowed under this section
3 for all prior tax years that would have resulted solely from reducing to zero the credit
4 allowed for the qualified expenditure under this section. The amount of tax credit
5 attributable to the qualified expenditure that is carried forward from prior tax years is
6 terminated as of the first day of the tax year in which the equipment is disposed of by
7 the taxpayer, ceases to be a qualified expenditure, or is removed from service in the
8 state. For purposes of this subsection,

9 (1) the recapture percentage during the year in which the equipment is
10 first placed into service or during the first year following the year in which the
11 equipment is first placed into service is 100 percent;

12 (2) the recapture percentage during the second year following the year
13 in which the equipment is first placed into service is 75 percent;

14 (3) the recapture percentage during the third year following the year in
15 which the equipment is first placed into service is 50 percent;

16 (4) the recapture percentage during the fourth or subsequent year
17 following the year in which the equipment is first placed into service is zero percent;

18 (5) equipment used on a vessel is considered to have been removed
19 from the state on the first day of a tax year in which the proportion of raw salmon
20 processed in the state on the vessel is less than 50 percent of total weight of raw
21 salmon processed on the vessel in and outside of the state.

22 (h) The amount of a tax credit recaptured under (g)(1) - (3) of this section may
23 not be included in the determination of the amount of that tax credit that is allowable
24 under this section or AS 43.75.035.

25 (i) In this section,

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

28 (2) "new equipment" means tangible, depreciable personal property
29 with a useful life of three years or more whose original use commences with the
30 taxpayer and does not include property first used by another person;

31 (3) "qualified expenditure" means

1 (A) the cost associated with the development, manufacture, or
2 purchase of new equipment by a taxpayer to produce marketable products
3 using salmon waste;

4 (B) the cost associated with the operation of new equipment, or
5 with the purchase of custom processing services, to produce marketable
6 products using salmon waste less the market value of the products produced; or

7 (C) the direct cost of transporting salmon waste to a facility in
8 the state that produces a marketable product from salmon waste less the
9 amount of consideration that the taxpayer receives for the salmon waste;

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

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

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

15 (g) For purposes of this section, tax revenue collected under AS 43.75.015
16 from a person entitled to a credit under AS 43.75.035 or 43.75.036 shall be calculated
17 as if the person's tax were collected without applying the credit; tax revenue collected
18 does not include the amount of a tax credit recaptured under AS 43.75.035(g) or
19 43.75.036(g).

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

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

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

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

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

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

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

30 (1) January 1, 2009; or

31 (2) the date of the attorney general's notification to the lieutenant

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governor and to the revisor of statutes that

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

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

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

Joint Legislative Salmon Industry Task Force 5/3/03

Legislative Members

Senator Ben Stevens, Chair
Representative Gary Stevens, Vice-Chair
Senator Kim 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 salmon 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 property first placed into service after December 31, 2005. *(b)*
- Delineates how the tax credit is determined and calculated for eligible vessel tax credits. *(c)*
- Specifies the qualifying tax year as 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 on salmon in the three years following the qualifying tax year. *(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 tax liability incurred for salmon. *(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)*
- Creates a tax credit recapture provision for property that is disposed of, ceases to be qualified investment property, or is removed from service in the state. *(g)*
- The recapture percentage during the qualifying tax year and the first year following is 100 percent. *(g(1))*
- The recapture percentage during the second year following the qualifying year is 75 percent. *(g(2))*
- The recapture percentage during the third year following the qualifying year is 50 percent. *(g(3))*
- The recapture percentage during the fourth and subsequent years following the qualifying year is zero. *(g(4))*
- Provides definitions for this section. *(i)*

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 claimed for property first placed into service or for expenditures incurred 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 qualifying tax year. *(d)*
- Qualified expenditures 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 salmon 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)*
- Creates a tax credit recapture provision for equipment that is disposed of, ceases to be qualified expenditure, or is removed from service in the state. *(g)*
- The recapture percentage during the qualifying tax year and the first year following is 100 percent. *(g(1))*
- The recapture percentage during the second year following the qualifying year is 75 percent. *(g(2))*
- The recapture percentage during the third year following the qualifying year is 50 percent. *(g(3))*
- The recapture percentage during the fourth and subsequent years following the qualifying year is zero. *(g(4))*
- Provides definitions for this section. *(i)*

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; and ensures that any "recaptured" tax credit is not unduly distributed.

- 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. This is the effective date of the qualifying tax years.

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.

Joint Legislative Salmon Industry Task Force

Legislative Members

Senator Ben Stevens, Chair
Representative Gary Stevens, Vice-Chair
Senator Kim Elton
Representative Bill Williams
Senator Ann 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

Sponsor Statement

House Bill 90

"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."

House Bill 90 provides two tax credits: one for salmon product development and another for salmon utilization. The purpose of the measure is to encourage industry to invest in the production of new value-added salmon products to improve the marketability of Alaska salmon through diversification of product forms as well as to encourage the full utilization of all salmon parts for the production of marketable products. The measure would provide an added impetus for new fishery businesses considering processing salmon to make investments in Alaska.

Alaska's salmon industry is a vital element in the economy of the state. Although Alaska salmon is one of the premiere food commodities in the world, an enormous increase in the world supply of salmon in recent years has caused significant decreases in the market value of Alaska salmon. This situation threatens investments and livelihoods in the salmon industry and related businesses and also negatively affects Alaska's state and local economies.

House Bill 90 will assist in improving Alaska's competitive position in salmon markets as it is utilized to develop value-added salmon products for placement into world markets.

Department of Revenue
Tax Division

Fisheries Business Tax (\$ million)

	Actuals												Forecast	
	FY 1997 (CY 1996*)		FY 1998 (CY 1997*)		FY 1999 (CY 1998*)		FY 2000 (CY 1999*)		FY 2001 (CY 2000*)		FY 2002 (CY 2001*)		FY 2003 (CY 2002*)	
	Value	Tax	Value	Tax	Value	Tax	Value	Tax	Value	Tax	Value	Tax	Value	Tax
Halibut	\$73	\$2.1	\$100	\$3.1	\$63	\$1.9	\$107	\$3.2	\$128	\$3.9	\$112	\$3.4	\$112	\$3.4
Salmon	\$373	\$14.1	\$288	\$11.0	\$271	\$10.3	\$383	\$14.7	\$292	\$11.2	\$227	\$8.5	\$152	\$5.6
Herring	\$60	\$2.3	\$18	\$0.7	\$12	\$0.5	\$20	\$0.8	\$12	\$0.5	\$15	\$0.5	\$10	\$0.4
Shellfish	\$160	\$5.7	\$179	\$6.6	\$206	\$7.8	\$284	\$10.9	\$134	\$4.8	\$113	\$3.9	\$115	\$4.0
Groundfish	\$213	\$6.8	\$220	\$7.1	\$171	\$5.4	\$224	\$7.1	\$312	\$10.1	\$275	\$8.9	\$275	\$8.9
Totals	\$879	\$31.0	\$805	\$28.5	\$723	\$25.9	\$1,018	\$36.7	\$878	\$30.5	\$742	\$25.2	\$664	\$22.3

*Data is from fisheries business tax returns by fiscal year. In general, this corresponds to the previous calendar year fishing season. However, due to late or amended returns, this data may reflect more than one calendar year.

Note: Revenue amounts are before fifty percent of the fisheries business tax revenue is shared to qualifying communities.

FY 2003 estimate is from the Spring 2003 Revenue Sources Book



UNITED FISHERMEN OF ALASKA

211 Fourth Street, Suite 110
Juneau, Alaska 99801-1172
(907) 586-2820
(907) 463-2545 Fax
E-Mail: ufa@ufa-fish.org
www.ufa-fish.org

April 11, 2003

Senator Scott Ogan
Chair
Senate Resources Committee
State Capitol (MS 3100)
Juneau, AK 99801

Dear Senator Ogan,

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 in Alaska 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,

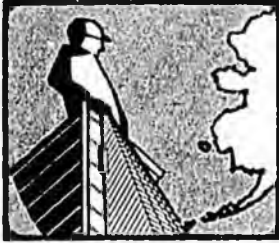
Thomas M. Gemmell
Executive Director

Copy: Senator Ben Stevens
Senator Tom Wagoner
Senator Fred Dyson
Senator Ralph Seekins
Senator Kim Elton
Senator Georgianna Lincoln

MEMBER ORGANIZATIONS

Alaska Crab Coalition • Alaska Dragger Association • Alaska Longline Fishermen's Association • Alaska Trollers Association • Alaska 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 • Douglas Island Pink and Chum • Groundfish Forum • Ketchikan 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
Petrelburg Vessel Owners Association • Prince William Sound Aquaculture Corporation • Puffin Blaine Vessel Owners Association • Seafood Producers Cooperative
Seward Alaska Regional Dive Fisheries 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

BSFA



Bering Sea Fishermen's Association

725 Christensen Drive, 3
Anchorage, Alaska 99501
(907) 279-6519
FAX (907) 258-6688

Serving western Alaska small boat fisheries since 1980

February 26, 2003

Representative Paul Seaton, Chair
House Special Committee on Fisheries
State Capitol
Juneau, AK 99801

Re: HB 90 Salmon Product Development Tax Credit

Dear Representative Seaton:

On behalf of the Bering Sea Fishermen's Association ("BSFA"), I appreciate the opportunity that you provided to our representative to present testimony today on HB 90. BSFA is a membership organization that works to support the over 2,000 commercial salmon fishermen in western Alaska. Our membership is very interested in the recommendations of the Joint Legislative Industry Salmon Task Force. As we testified today, we are in support of HB 90.

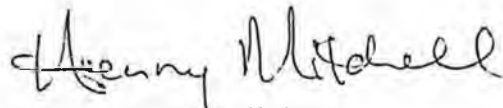
This bill will provide a tax credit for the purchase of equipment used for value-added salmon processing. With today's depressed salmon markets, the competition from farmed salmon, and the high costs of transportation of product from the remote western Alaska fisheries, value-added processing is the only hope for the survival of this important industry. The tax credit proposed in HB 90 will assist in the purchase of the expensive, yet necessary, equipment to produce these value-added products. In places where such equipment has been installed, the products are able to compete in the world market.

At the committee hearing, you requested our position on whether the tax credit should be facility specific or apply on a company-wide basis. We support the company-wide approach. Say a company invests in new equipment for value-added processing in Bethel, but there is a run failure and little or no fisheries business tax liability is created. Yet, the same company has revenue from the Yukon River. This company should be able to offset at least some of the costs of the investment in Bethel by its activities on the Yukon as it may very well have been basing its investment decision on the expectation of the tax credit.

One other issue that was raised during the hearing was the ability to have the tax credit applied to used equipment that had not previously been used as the basis for the tax credit. We also support this concept as the goal is to increase the amount of value-added production, not to support the manufacture of new equipment. For small processors operating in western Alaska, used equipment, even with the tax credit, may be all that the operator can afford.

Again, thank you for the opportunity to comment on this legislation and we will continue to follow its progress through the legislative process.

Very truly yours,

A handwritten signature in cursive script that reads "Henry Mitchell".

Henry Mitchell *EG*
Executive Director

cc: Senator Ben Stevens

SENATE FINANCE COMMITTEE

SIGN-IN

HB 90-TAX CREDIT:SALMON DEVELOPMENT/UTILIZATION

NAME: Chuck Harlamert Subject/Bill No: HB 90

Co./Dept./Title: Dept. of Revenue Phone: 4773

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

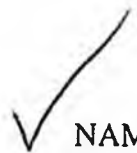
Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

SENATE FINANCE COMMITTEE

SIGN-IN

HB 90-TAX CREDIT:SALMON DEVELOPMENT/UTILIZATION



NAME: Chuck Harlament Subject/Bill No: HB 90

Co./Dept./Title: Revenue Chief of Operations Phone: 4773

Address: 11th floor SOB Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____

Co./Dept./Title: _____ Phone: _____

Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

SENATE COMMITTEE REPORT

DATE: 4/2/03

FURTHER: Finance

DATE TURNED
IN TO OFFICE: 4-17-03

Resources Committee considered CS FOR HOUSE BILL NO. 90(FIN)

HB 90 TAX CREDIT: SALMON DEVELOPMENT/UTILIZATION

"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."

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:

- same title
- new title

House Bill:

- same title
- technical title
- new: SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
REV	3/25/03	✓		2

APPROPRIATION - no fiscal note

	SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
Seekins	<i>Joseph Seekins</i>	✓			
B. Stevens	<i>Ben Stevens</i>	✓			
Wagoner	<i>Thomas H. Wagoner</i>	✓			
Dyson	<i>Paul Dyson</i>	✓			
Lincoln	<i>Scott Lincoln</i>	✓			
Elton	<i>Scott Elton</i>	✓			
Ogan	CHAIR: <i>Scott Ogan</i>			✓	