

SCOMM

147:36



REPRESENTATIVE BILL THOMAS

ALASKA STATE LEGISLATURE DISTRICT 5

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webpage: www.akrepublicans.org/thomas/

State Capitol

Juneau AK, 99801-1182

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SPONSOR STATEMENT

HB 321

SALMON PRODUCT DEVELOPMENT TAX CREDIT

REP. BILL THOMAS

The Salmon Product Development Tax Credit encourages and accelerates the development and production of value-added salmon products in Alaska by providing an economic incentive to make the necessary investments in new technology and equipment. Managed by the Department of Revenue, the credit allows applicants to claim up to 50% of the value of eligible equipment on their annual Fisheries Business Tax (FBT) returns. The FBT is a tax on the ex-vessel value of fisheries resources landed in Alaska.

This credit program was a key recommendation of the Joint Legislative Salmon Industry Task Force, and was first enacted in 2003. Since then it has stimulated some important changes in Alaska's industry. New processing equipment eligible for the tax credit enables businesses to offer a more diverse complement of Alaska salmon products which helps increase overall customer acceptance. Modern equipment also helps increase efficiency of processing operations and improves throughput, meaning that quality is improved by handling fish while they are still in fresh condition. This tax credit also encourages in-state processing of our salmon which is critical to job creation and retention in fishing communities.

Although Alaska's salmon industry is beginning to recover from years of low values caused by factors such as competition from fish farming, the industry continues to be challenged by changes in the marketplace and increasing labor and energy costs. Extending the tax credit beyond its current sunset date of Dec. 31, 2008 will allow the industry to continue the progress that is being made in developing and producing salmon products that will keep Alaska's fisheries competitive in world markets. This program is a wise investment in maximizing the long-term value and benefits of our fishery resources for the good of all. The state should continue to support one of our most important basic industries by extending the Salmon Product Development Tax Credit through passage of HB 321.

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB 321
() Publish Date:

Identifier (file name): HB321-DOR-TAX-1-22-08
Title Salmon Product Development Tax Credit

Dept. Affected: Revenue 04
RDU: Taxation and Treasury
Component: Taxation and Treasury

Sponsor Rep Thomas
Requester (H) Fisheries

Component Number 2476

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information					
OPERATING EXPENDITURES	FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous	1.5	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	7.0	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	(2,000.0)	(2,000.0)	(2,000.0)

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
TOTAL	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2008) cost: 0.0

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

See Attached.

Prepared by: Tim Cottongim, Audit Supervisor and Dan Stickel, Economist
Division: Tax
Approved by: Jerry Burnett
Department of Revenue

Phone (907) 465-3695
Date/Time 1/22/08 12:00 AM
Date 1/22/2008

25-LS1285\M

Kane

1/23/08

CS FOR HOUSE BILL NO. 321()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIFTH LEGISLATURE - SECOND SESSION

BY**Offered:****Referred:****Sponsor(s): REPRESENTATIVE THOMAS****A BILL****FOR AN ACT ENTITLED**

1 "An Act relating to the salmon product development tax credit; providing for an
2 effective date by amending an effective date in sec. 7, ch. 57, SLA 2003, as amended by
3 sec. 4, ch. 3, SLA 2006; and providing for an effective date."

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

5 * **Section 1.** AS 43.75.035(b) is amended to read:

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

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

10 (2) be claimed for property first placed into service after December 31,
11 2011 [2008].

12 * **Sec. 2.** AS 43.75.035(i)(3) is amended to read:

13 (3) "qualified investment" means the investment cost in depreciable
14 tangible personal property with a useful life of three years or more to be used

1 predominantly to perform a processing, packaging, or product finishing function that
2 is a significant component in producing value-added salmon products beyond gutting
3 of the salmon; in this paragraph, "property"

4 (A) includes

5 (i) filleting, skinning, portioning, mincing, forming,
6 extruding, stuffing, injecting, mixing, marinating, preserving, drying,
7 smoking, brining, packaging, blast freezing, or pin bone removal
8 equipment; [AND]

9 (ii) new parts to convert an existing can seamer to pop-
10 top can production; and

11 (iii) conveyors used specifically in the act of
12 producing a value-added salmon product;

13 (B) does not include

14 (i) vehicles, forklifts, conveyors not used specifically
15 in the act of producing a value-added salmon product, cranes,
16 pumps, or other equipment used to transport salmon or salmon
17 products, knives, gloves, tools, supplies and materials, equipment that
18 is not processing, packaging, or product finishing equipment, or other
19 equipment the use of which is incidental to the production, packaging,
20 or finishing of value-added salmon products; or

21 (ii) the overhaul, retooling, or modification of new or
22 existing property, except for new parts to convert an existing can
23 seamer to pop-top can production;

24 * Sec. 3. AS 43.75.035 is amended by adding a new subsection to read:

25 (j) The department shall develop and implement procedures by which a
26 taxpayer that is a fisheries business may submit the taxpayer's proposed investment to
27 the department and request a preliminary determination of whether the investment
28 qualifies for the salmon product development tax credit under this section. A
29 preliminary determination by the department that the taxpayer's submission qualifies
30 for the credit is binding, unless the department determines that the taxpayer has made
31 a material misrepresentation in the taxpayer's submission.

The determination

1 * **Sec. 4.** Section 7, ch. 57, SLA 2003, as amended by sec. 4, ch. 3, SLA 2006, is amended
2 to read:

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

4 (1) January 1, 2015 [2012]; or

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

7 (A) a court has entered final judgment that AS 43.75.035 or
8 43.75.036, added by sec. 1, ch. 57, SLA 2003 [OF THIS ACT], violates the
9 commerce clause contained in art. I, sec. 8, United States Constitution; and

10 (B) the time for an appeal of that judgment has expired, or, if
11 an appeal was taken, a final order on the appeal has been entered that
12 AS 43.75.035 or 43.75.036, added by sec. 1, ch. 57, SLA 2003 [OF THIS
13 ACT], violates the commerce clause contained in the United States
14 Constitution.

15 * **Sec. 5.** This Act takes effect immediately under AS 01.10.070(c).

**Salmon Product Development Tax Credits
Calendar Years 2003 - 2006**

*Take file date
March'*

Year	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Number of Companies Claiming Credits	16	28	24	29
Total Development Expenditures ¹	<u>\$2,306,180</u>	<u>\$8,310,911</u>	<u>\$6,391,775</u>	<u>\$5,792,521</u>
Product Development Credits Generated	\$1,153,090	\$4,155,456	\$3,195,888	\$2,896,261 ^a
Credits Denied at Audit ²	<u>(\$667,565)</u>	<u>(\$2,545,822)</u>	<u>(\$1,092,639)</u>	<u>(\$25,082)</u>
Credits Allowed	<u>\$485,525</u>	<u>\$1,609,634</u>	<u>\$2,103,249</u>	<u>\$2,871,179</u>

Work

¹ See Attachment 1 for a list of expenditure categories claimed

² See Attachment 2 for a list of reasons why credits were denied

^a The majority of these credits have not as yet been audited

Attachment 1

Salmon Product Development Expenditure Categories

Qualified Expenditures

Code	Description
BM	Brining Machines
CM	Curing machine
FM	Fillet machines
FR	Freezers
GM	Glazing machines
GR	Grinders
HR	Horizontal retorts
IM	Ikura Packaging machine
PM	Pin bone machines
RD	Roe drying machine
RR	Roe rubbing machine
RS	Roe separator
RV	Roe vibrating machine
RW	Roe washer
SH	Smokehouse
VM	Vacuum packaging machines
SKM	Skinning machines

Non-Qualified Expenditures

Code	Description
BDC	Building construction
DIB	De-ice bin
DOP	Dock pilings
FV	Fishing Vessel
FSH	Fish hooks
FTT	Fillet trim table
FWD	Fish washer/dryer
GTM	Gutting machine
HDM	Heading machine
ICM	Ice Machine
LBC	Labor- Construction
LBE	Labor- Electrical
LBM	Labor- Plumbing
LBR	Labor- Refrigeration
NPW	Net pens for wild fish
PBM	Plumbing
PKG	Bag blowers
"	Tape machines
"	Banding machines
"	Strapping machine
"	Dispensing & Sealing machines
"	Labeling machine
PRC	Low pressure receiver
RFC	Refrigeration compressor
RFM	Misc. refrigeration equipment
RPM	Roe processing room
RPS	Roe processing station
SBS	Stun/Bleed systems
SCL	Scales
TBL	Tables
TLP	Air knives
"	Fillet sharpener
"	Spare parts
TRN	Deck crane
"	Dolly carts
"	Fillet baskets
"	Filleting line
"	Fish pump equipment
"	Freezer carts
"	Freezer rolling racks
"	Loading ramp
"	Pallet jacks
"	Pocket conveyor
"	Tote Dumper
"	Totes
WDB	Washdown box

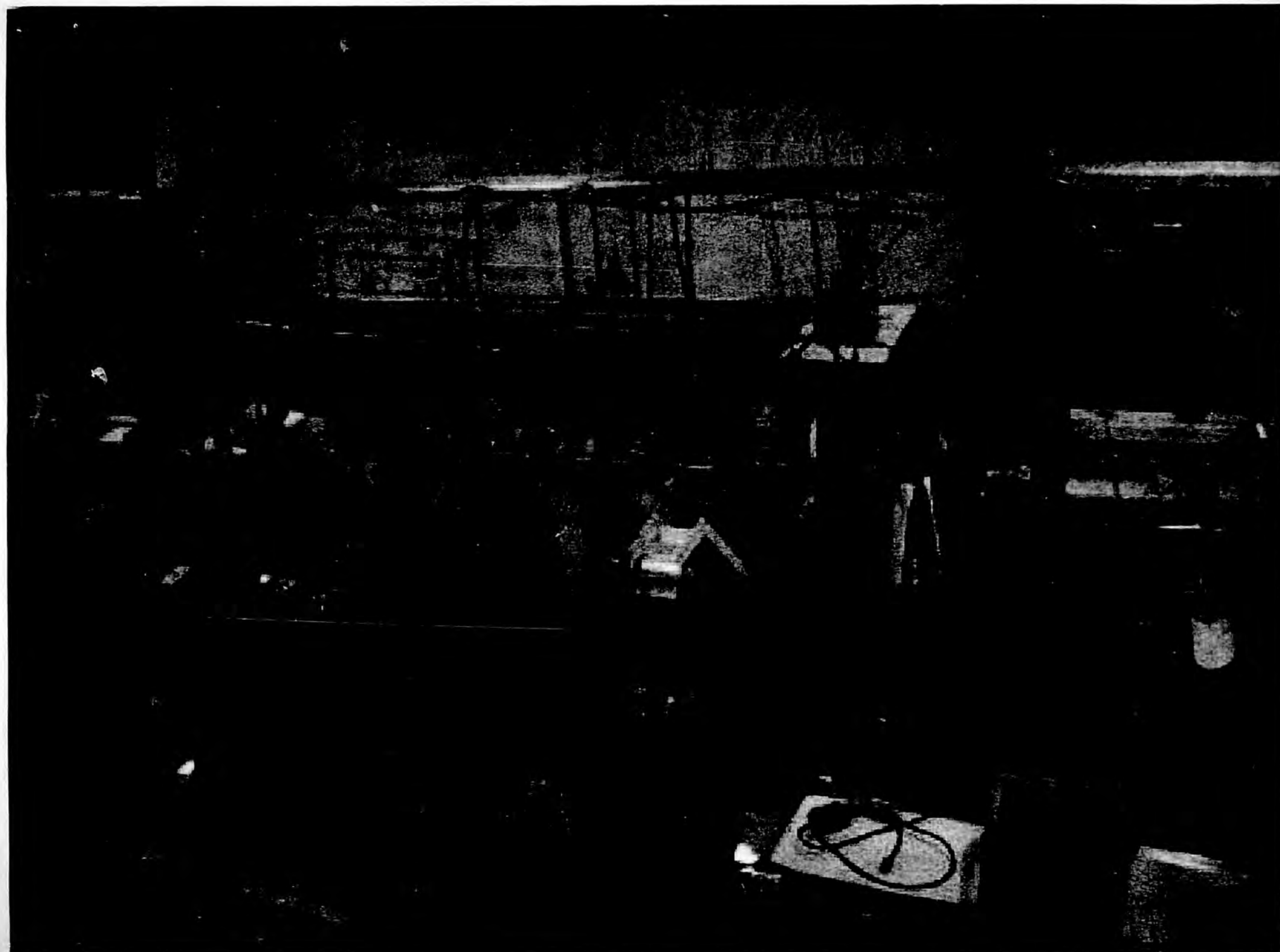
✓
Value added product
modernize the industry

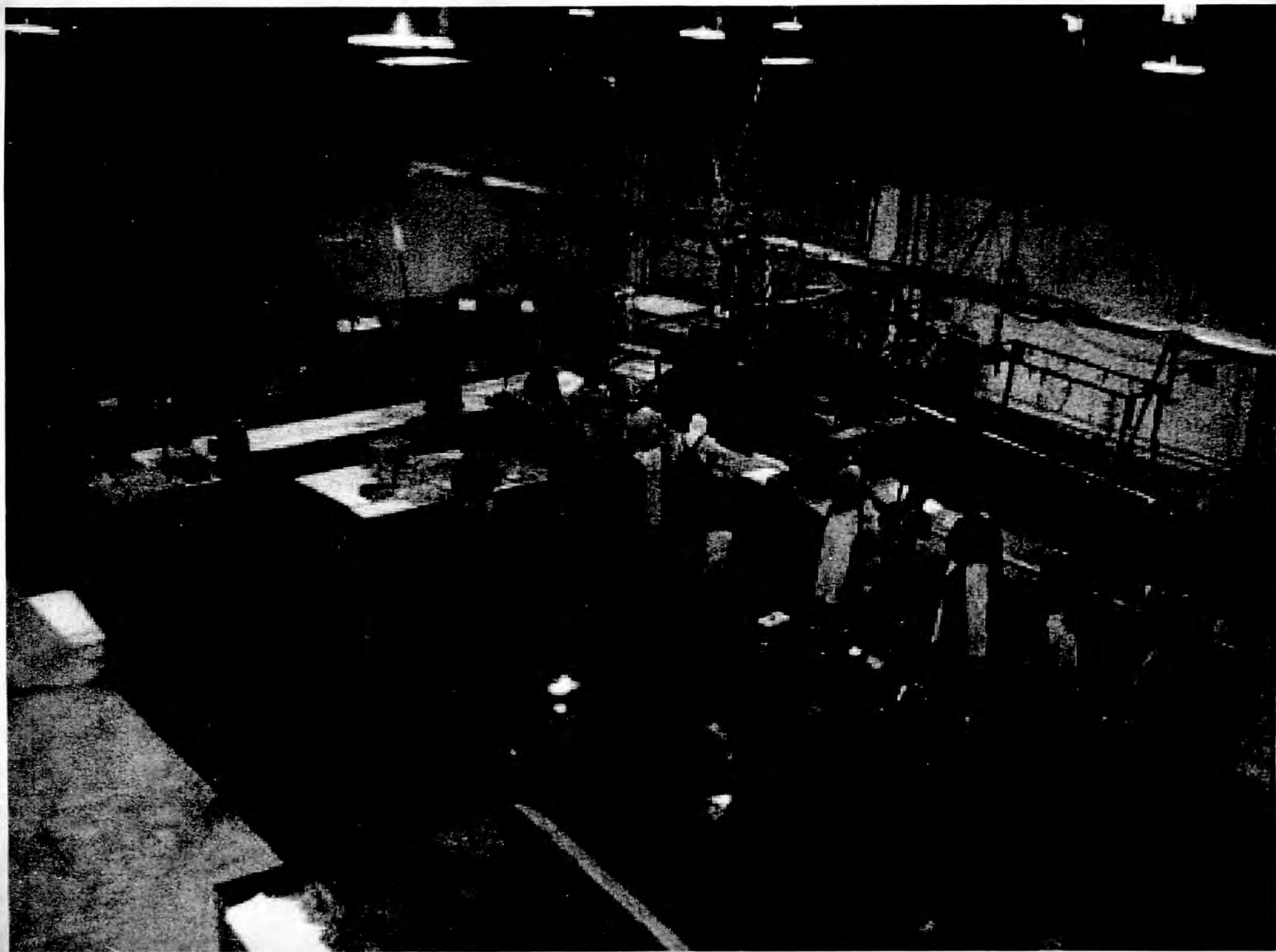
Attachment 2

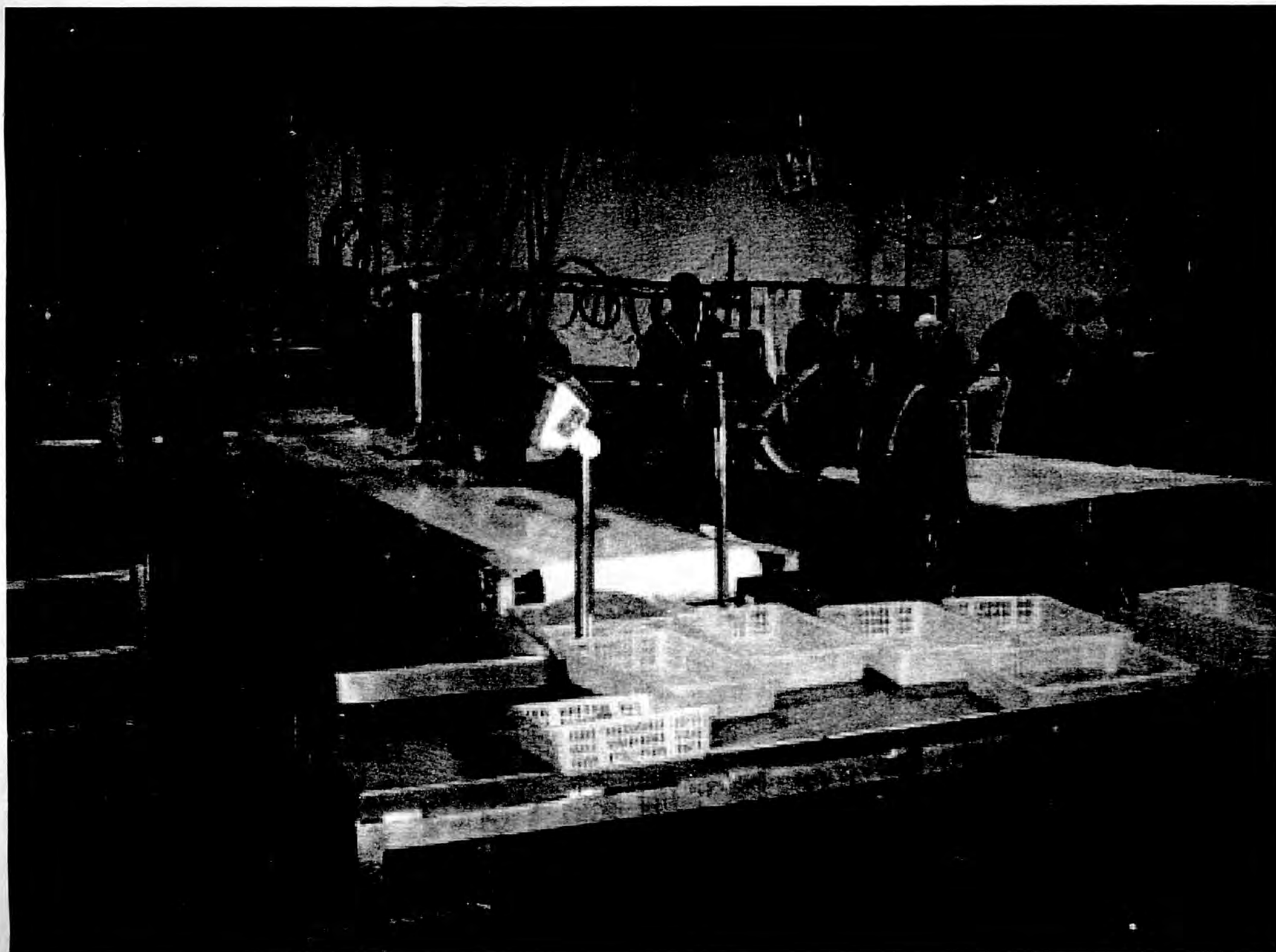
Salmon Product Development Tax Credits Denied

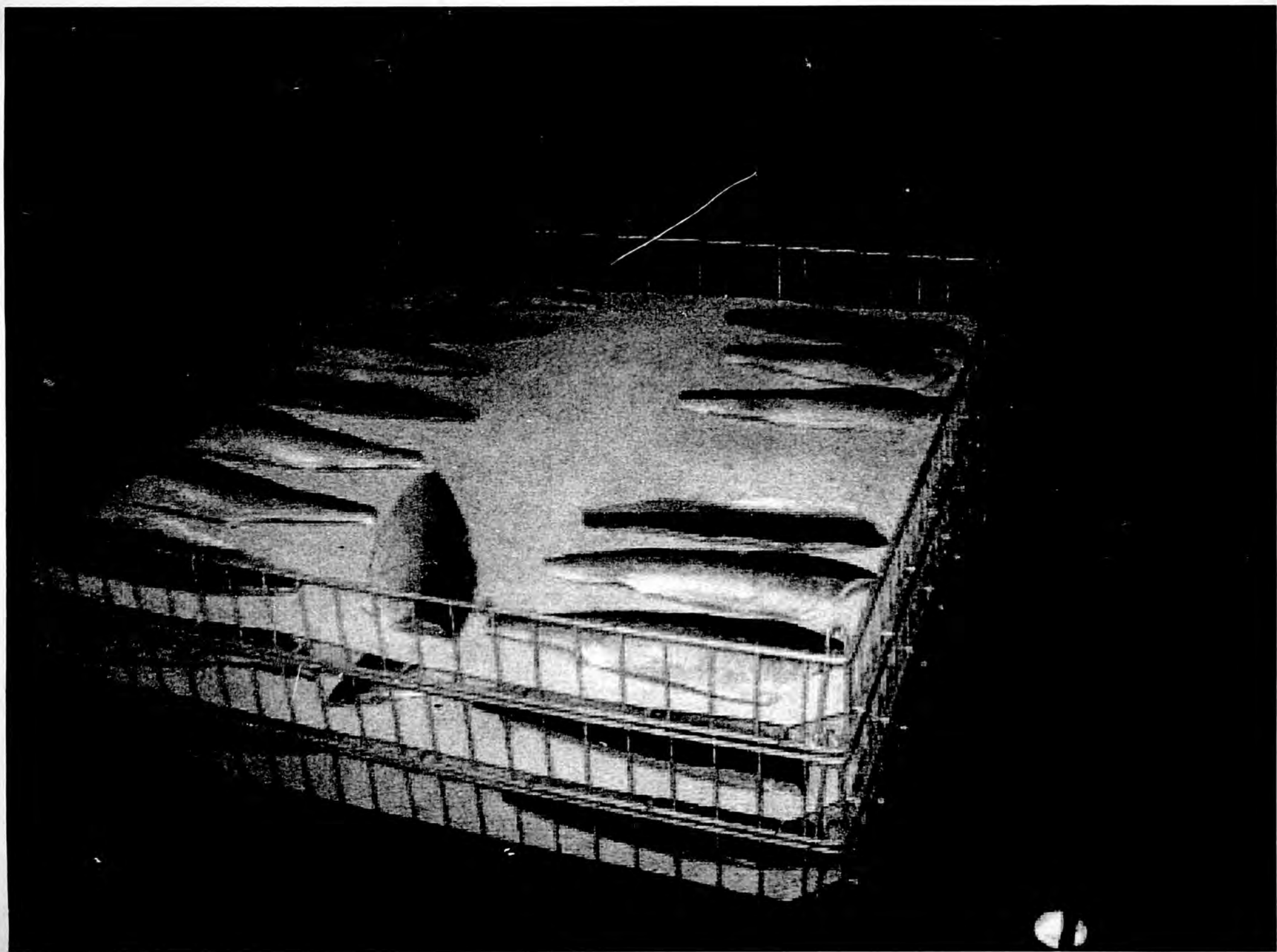
Reason Credit Denied

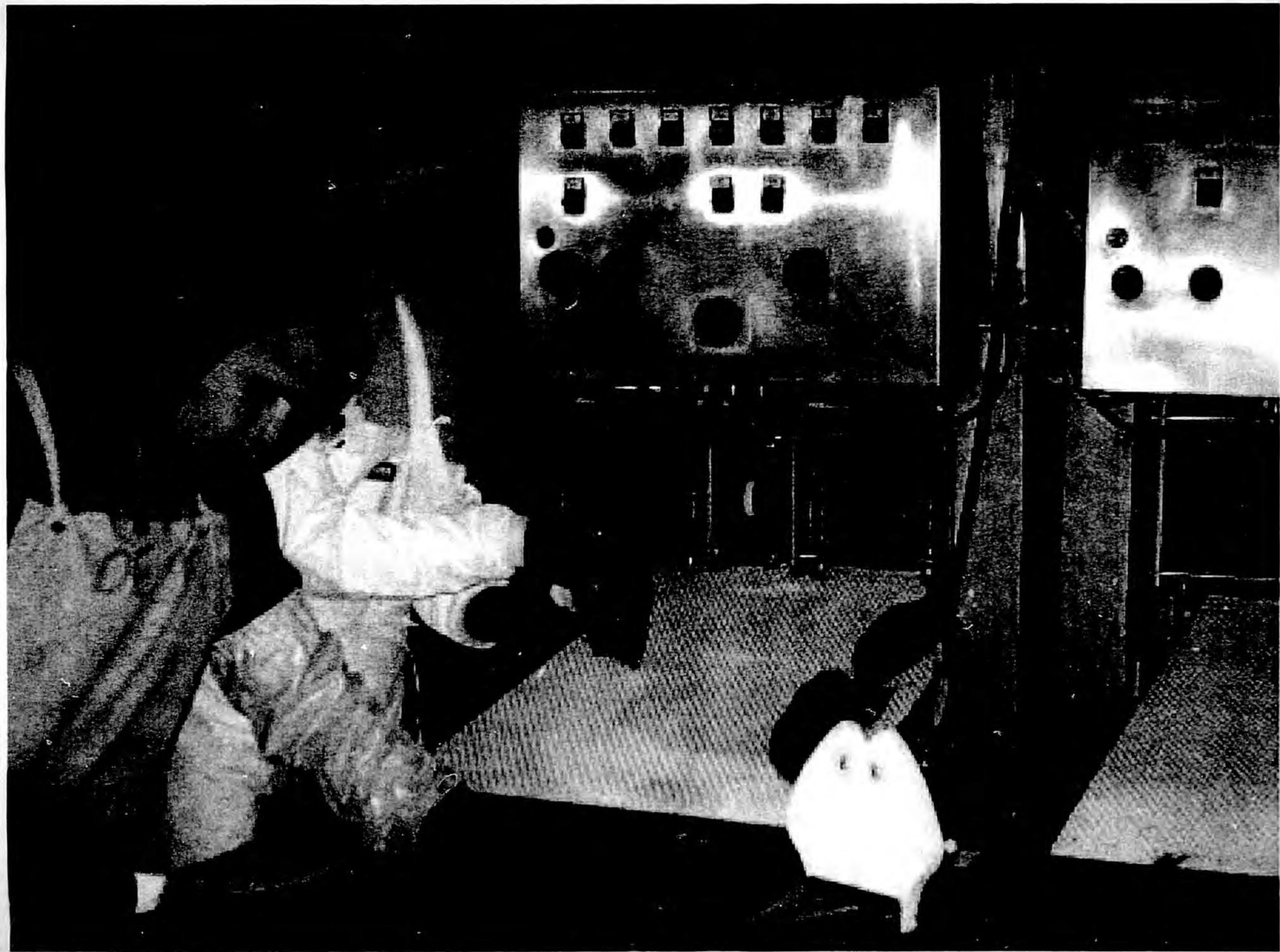
Not producing a value-added salmon product
Not predominately used for salmon
Used property
Costs included State grants
Unsubstantiated investment costs
Not personal property
Spare parts, tools, supplies
Fees paid to another fisheries business claiming a credit
Taxpayer in arrears
Miscellaneous

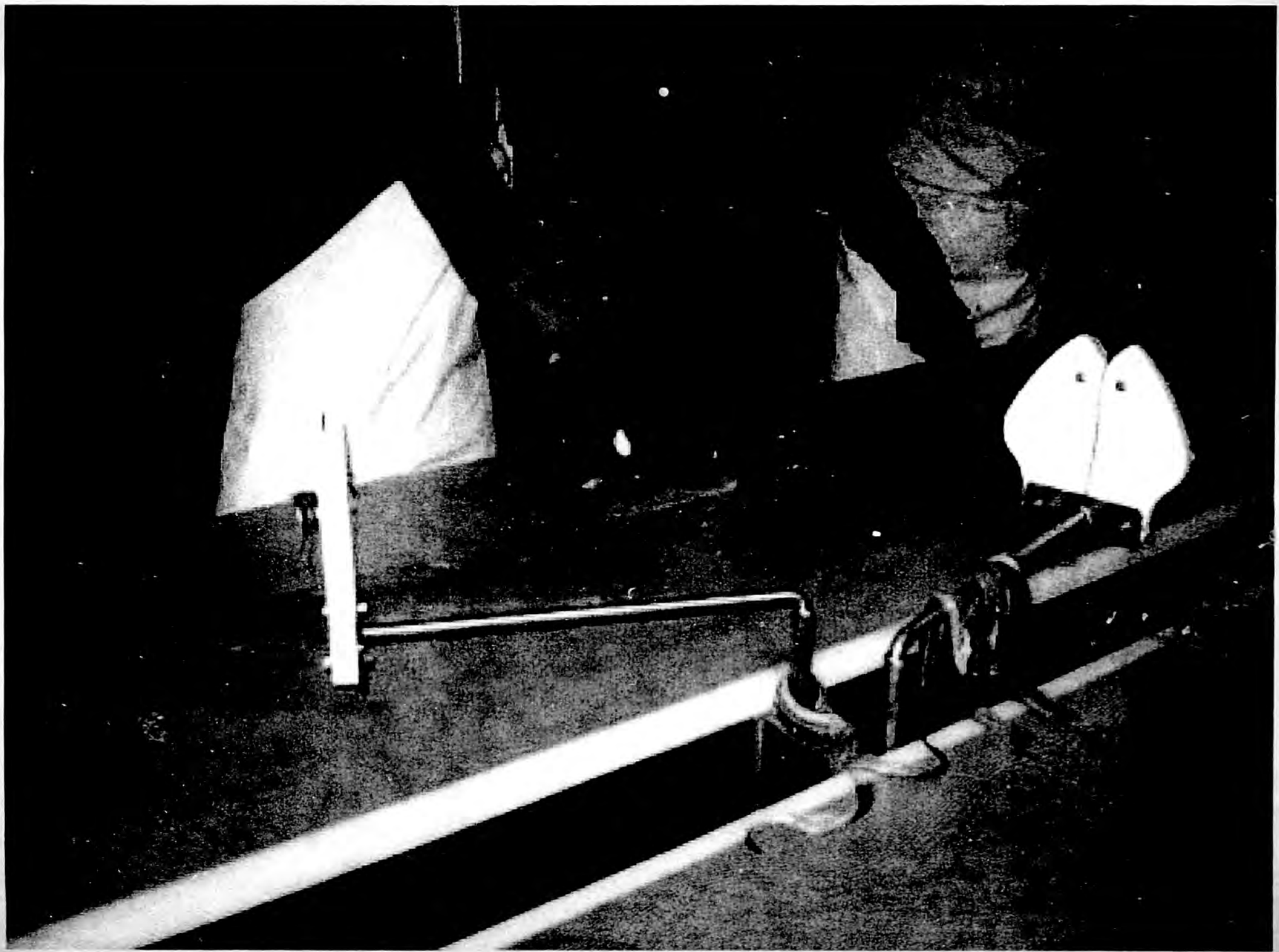


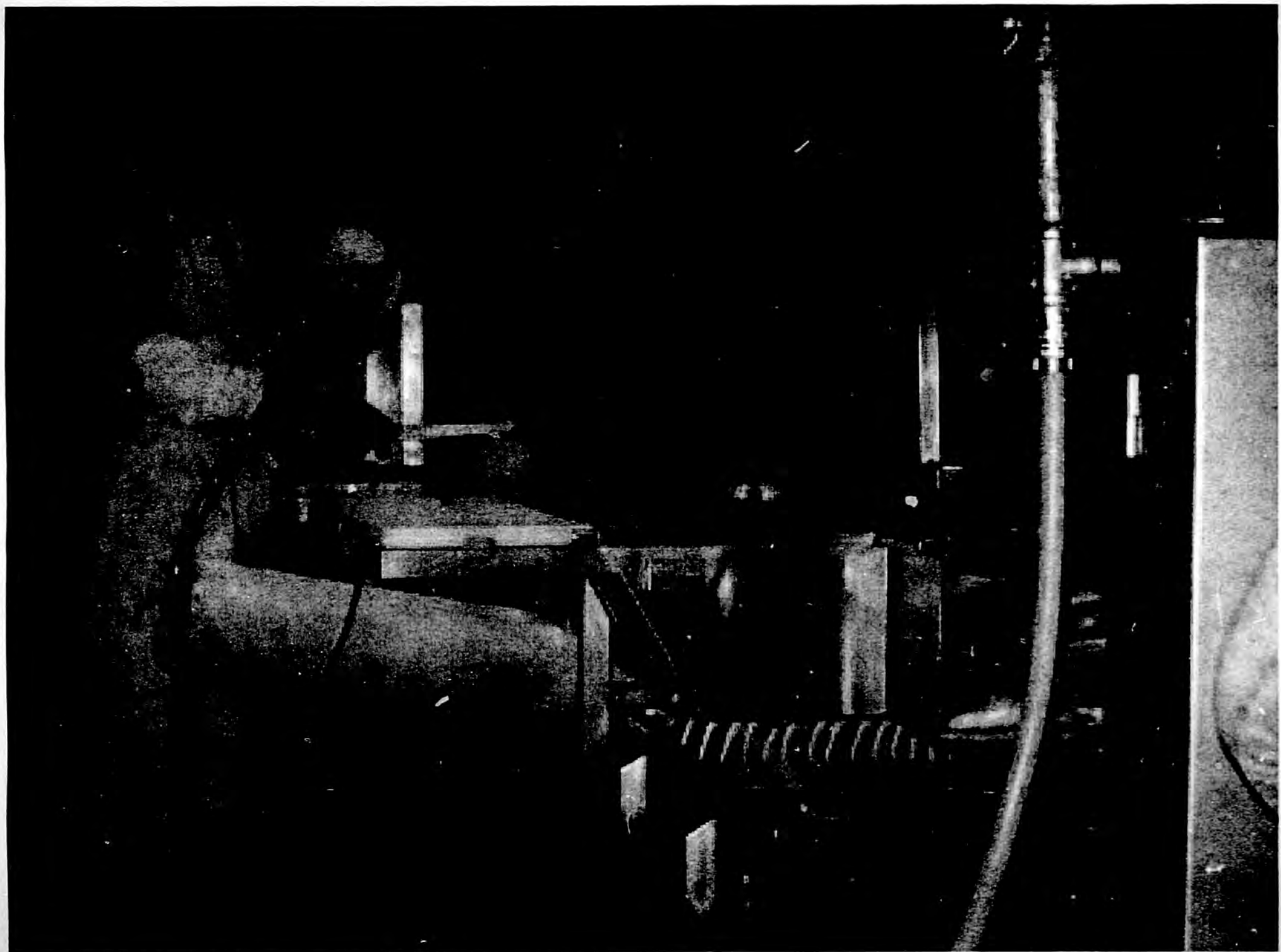




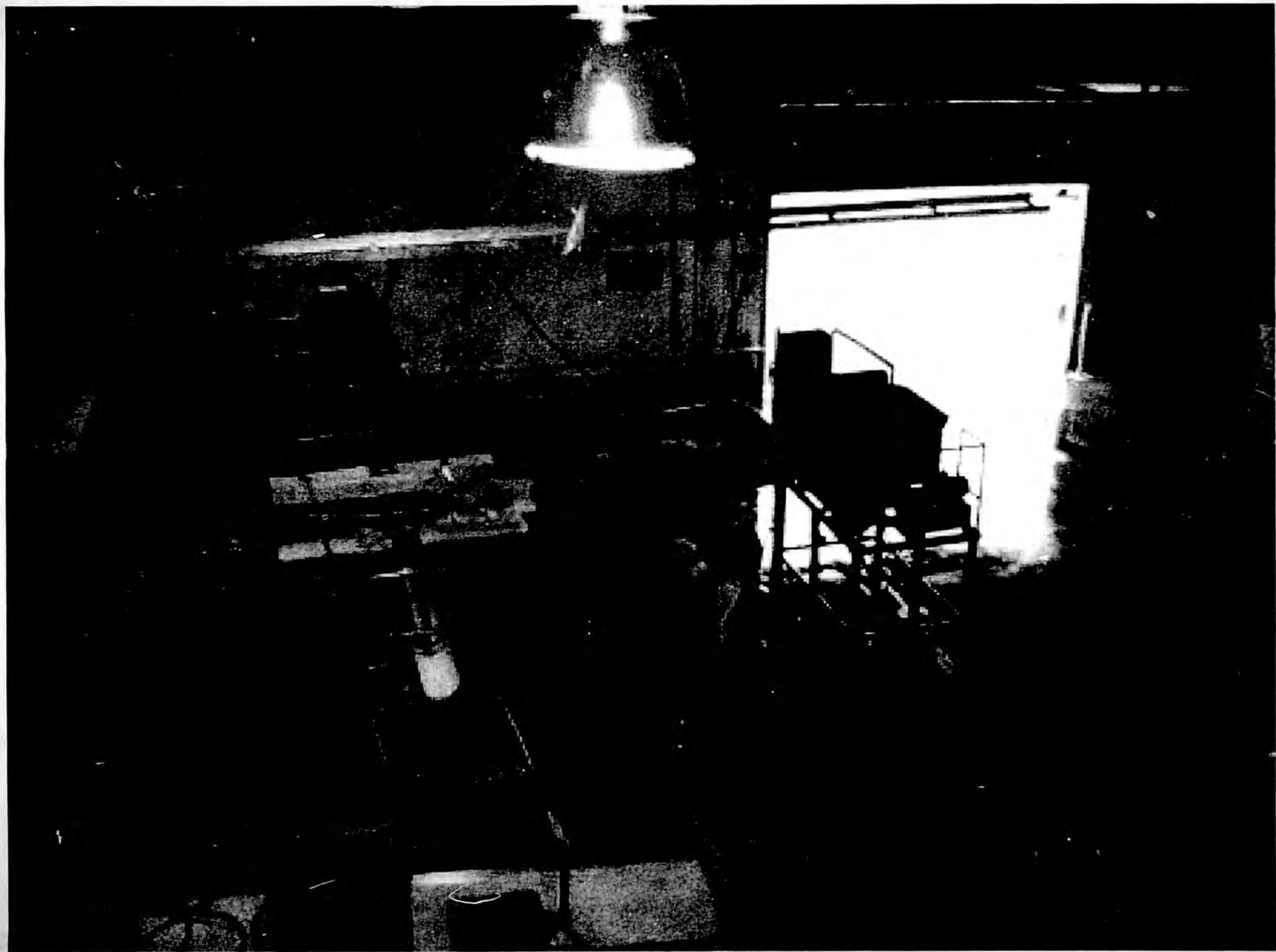














Box 908, Wrangell, Alaska 99929
T. 907.874.3346 F. 907.874.3035

www.wrangellseafoods.com

Representative Bill Thomas, Sponsor
Representative Paul Seaton, Chair, House Fisheries Committee
Fax: 907-465-2652

January 22, 2008

RE: Support for HB 321 – Salmon Product Development Tax Credit

Dear Representatives Thomas & Seaton:

On behalf of Wrangell Seafoods, Inc. (WSI), I would like to support HB 321 – Salmon Product Development Tax Credit.

The salmon tax credit was a result of the work of the Joint Salmon Legislative Tax Force's work several years ago, which recommended several ways the State could help support the changes the Alaska salmon industry needed to make in order to turn the economics of the industry around and allow the industry to compete on a global basis.

Re-tooling was identified by many as one of the necessary changes. WSI has re-tooled during the past year, changing this traditional cannery into a state-of-the-art fresh and frozen salmon processing facility, capable of preparing a high quality frozen salmon ready for later value-added processing, utilizing the City's new cold storage. WSI invested over \$8 million in this re-tooling, approximately 20 times more than the maximum tax credit we may be allowed over a three-year period. Under WSI's projections, the tax credit will not cost the State of Alaska anything, because the re-tooling has increased the capacity, quality, utilization, efficiency and value of the plant, which will return the State approximately three times the annual taxes after this three-year period.

The salmon industry still has a long way to go re-tooling Alaska shore-based plants in order to be competitive with the rest of the global food market. The extension of this bill will encourage the industry to continue these improvements and investments which extend to the communities and State of Alaska.

Thank you for your consideration and work on this bill.

Sincerely,

Julie Decker, Executive Administrator

Quality From the Inside Out

**ALASKA GENERAL SEAFOODS**

6425 NE 175th Street
Kenmore, WA 98028-4808
Tel: 425-485-7755
Fax: 425-485-5172
Internet: www.akgen.com



January 18, 2008

Rep. Paul Seaton
Chairman, House Fisheries Committee
Alaska Legislature, State Capitol
Juneau, AK 99801

Dear Rep. Seaton,

HB321

Thank you and the House Fisheries Committee for hearing House Bill 321. The Salmon Product Development Tax Credit program has provided significant incentive for our company to increase our investments in value adding equipment in our plants in Naknek and Ketchikan. This bill, if passed, will simply extend for three years what has been a clearly successful program. We believe this extension is in the best interests of our industry in that it will provide continued momentum to salmon processor's ability to ensure that Alaska's salmon products continue to be competitive in world markets.

Our company has used this program to acquire the equipment necessary to get us into the production of salmon fillets, salmon caviar and easy open tops on our salmon cans. All of these end products provide us with access to new markets for our products and increase the end value of each pound of salmon that we are able to deliver to them.

It is our desire to expand our company's investments in further value adding of our salmon products each year to the extent that such investments are economically feasible. There is much to be done to ensure that our Alaska salmon products continue to be competitive. Not unlike many other businesses our margins are being squeezed by a number of rapidly increasing costs, not the least of which is our cost of electricity and fuel. Continuing cost increases of that magnitude inhibit any business's ability to reinvest capital in equipment and ours is no exception. In spite of these factors we plan to invest to the extent possible and will clearly do more of this than we otherwise would as long as this program is continued.

We thank you for your interest in this bill and urge you and the Fisheries Committee to approve it.

Sincerely,

Gordon Lindquist
Vice President / General Manager
Alaska General Seafoods

GL

cc: Office of Rep. Bill Thomas - Ian Fisk by fax to 907 465 2652
Mary McDowell, Vice President PSPA 907 586 4618



January 23, 2008

Representative Paul Seaton
Chair, House Special Committee on Fisheries
Alaska State Legislature
Juneau, Alaska 99801

RE: HB 321 An act to extend the salmon product development tax credit

Dear Chairman Seaton and House Fisheries Committee Members,

I wish to express our support for HB 321, an act that would extend the salmon product development tax credit program through the year 2011.

We have utilized this program on a number of occasions to purchase equipment to further diversify our product line and improve quality. This has resulted in higher customer acceptance and products with a longer shelf life.

It has been our practice to contact the Dept. of Revenue before embarking on projects that we intend to use the salmon tax credit on for their opinion as to whether or not the project would qualify. We have found this to be helpful. Therefore, we can support the addition of the language in Section 2 allowing for a preliminary determination by the Dept. of Revenue regarding the qualification of a project for the tax credit.

The salmon product development tax credit program is beneficial and can provide the incentive to make needed capital improvements a rational choice during economically challenging times.

Your support of HB 321 would be very much appreciated.

Sincerely,
ICICLE SEAFOODS, INC.

Kris Norosz
Government Affairs

PETERSBURG FISHERIES

A DIVISION OF ICICLE SEAFOODS, INC.

P.O. Box 1147 • Petersburg, AK 99833 • Tel: 907-772-4294 • Fax: 907-772-4472



January 21, 2008

Representative Paul Seaton
Chairman of House Fisheries Committee
Alaska Legislature, State Capitol
Juneau, Alaska 99801

THE TENTH FLOOR
2200 SIXTH AVENUE
SEATTLE, WA 98121-1820
206.728.6000
OPERATION FAX 206.441.9090
SALES FAX 206.728.1855

Dear Chairman Seaton:

It is my pleasure to introduce Peter Pan Seafoods, Inc. We were incorporated in 1950 as the successor to P.E. Harris Co., which began canning salmon in Alaska in 1912. Peter Pan Seafoods processes and sells various types of Alaskan seafood products. All of our raw seafood is purchased from independent fishermen participating in fisheries throughout Alaska. Our production facilities include: King Cove, Port Moller, Dillingham, and Valdez. Salmon products account for the largest portion of our sales; other major product lines include crab, halibut, cod, Pollock and black cod. Our products are sold primarily to wholesalers and distributors throughout the world.

Peter Pan Seafoods would like to thank you and the Committee for hearing **Bill HB321, the Salmon Tax Credit Bill**. This bill simply extends for 3 more years an existing program that is proving very successful for the Alaskan salmon industry. We hope to continue the momentum and progress this program has afforded us in keeping our Alaskan salmon products competitive in the domestic and world markets.

We have been able to utilize the salmon tax credit at each of our Alaska production facilities. Both King Cove and Dillingham have added value added salmon fillet and ikura roe lines. In Port Moller, we expanded our value added salmon fillet operation; and in Valdez we added value added salmon fillet production, skinless boneless canned salmon and ikura roe. The progress we have achieved by adding and developing the value added salmon products in such a relatively short time is due to the Salmon Tax Credit.

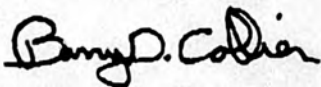
The ever increasing costs of energy, labor, packaging and insurance are diverting the funds that could otherwise be invested into these sorts of improvements. It is imperative to our industry and Peter Pan Seafoods in particular that the salmon tax credit continue for another 3 years. There is more to be achieved in the development of the salmon value added program to ensure Alaska salmon products keep pace with

Salmon Tax Credit Bill
Page 2

evolving world markets. We urge the committee to take quick action in support of **HB321, the Salmon Tax Credit.**

Thank you and the Committee for your timely consideration of this issue.

Respectfully,



Barry D. Collier
President and CEO
Peter Pan Seafoods, Inc.

cc: Office of Rep. Bill Thomas
Attn: Ian Fisk
Fax (907) 465-2652

Mary McDowell
Pacific Seafood Processors Association
Fax (907) 586-4618



Rep. Mike Chenault, Co-Chair
Rep. Kevin Meyer, Co-Chair
House Finance Committee
Alaska State Capitol
Juneau, AK 99801

Dear Representatives,

Alaska Glacier Seafoods (AGS) strongly supports the passage of HB 321, renewing the Salmon Product Development Tax Credit.

AGS is located in Juneau, and is a wholly Alaska owned company employing about 40 people. We have invested heavily in the salmon industry, producing fillets of king, coho, and sockeye, as well as high value roe products. The Salmon Product Development Tax Credit has been very helpful to AGS in weathering challenging times in the global salmon market.

Challenges remain however, and we support the continuation of this program because it will help businesses such as AGS to improve our capacity, efficiency and our ability to compete as an Alaskan business in a worldwide market.

AGS greatly appreciates the Legislature's understanding of the importance of the salmon industry in Alaska's economy, and we thank you for your continued support through the passage of HB 321.

Sincerely,

Mike Erickson
President
Alaska Glacier Seafoods, Inc.



ALASKA GENERAL SEAFOODS

6425 NE 175th Street
Kenmore, WA 98028-4808
Tel: 425-485-7755
Fax: 425-485-5172
Internet: www.akgen.com



January 18, 2008

Rep. Paul Seaton
Chairman, House Fisheries Committee
Alaska Legislature, State Capitol
Juneau, AK 99801

Dear Rep. Seaton,

HB321

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Our company has used this program to acquire the equipment necessary to get us into the production of salmon fillets, salmon caviar and easy open tops on our salmon cans. All of these end products provide us with access to new markets for our products and increase the end value of each pound of salmon that we are able to deliver to them.

It is our desire to expand our company's investments in further value adding of our salmon products each year to the extent that such investments are economically feasible. There is much to be done to ensure that our Alaska salmon products continue to be competitive. Not unlike many other businesses our margins are being squeezed by a number of rapidly increasing costs, not the least of which is our cost of electricity and fuel. Continuing cost increases of that magnitude inhibit any business's ability to reinvest capital in equipment and ours is no exception. In spite of these factors we plan to invest to the extent possible and will clearly do more of this than we otherwise would as long as this program is continued.

We thank you for your interest in this bill and urge you and the Fisheries Committee to approve it.

Sincerely,

Gordon Lindquist
Vice President / General Manager
Alaska General Seafoods

GL

cc: Office of Rep. Bill Thomas - Ian Fisk by fax to 907 465 2652
Mary McDowell, Vice President PSPA 907 586 4618

Mining Tax Credits Currently Available in Alaska

Exploration Incentive Credit AS 27.30.010

Designed to give a credit for exploration work. Credit is for up to 20m, has to be applied within 15 years after going into production. It is mainly for either new undiscovered areas or if a new technology has been developed that allows for better extraction.

Education Tax Credit AS 43.75.018

Up to 100,000 and if accompany contributes to museums, libraries, etc. Companies can take it every year. Limited to 50% of the contributions.

(There used to be a special industrial incentive credit, last time it could have been taken was 1999, however the statue is still on the books)

*Inlet Fish Producers***Louie Flora**

From: Vincent Goddard [vince@inletfish.com]
Sent: Friday, January 25, 2008 12:24 AM
To: Rep. Paul Seaton; Louie Flora
Cc: Rep. Bill Thomas; Rep. Mike Chenault; Rep. Kurt Olson; Sen. Tom Wagoner
Subject: Support for HB 321 Salmon Product Development Tax Credit

Hon. Rep. Paul Seaton
Alaska House of Representatives
Juneau, Alaska

Dear Rep. Seaton:

I am the owner and president of Inlet Fish Producers, Inc., which is an Alaska corporation dedicated to the production and marketing of Wild Alaska Salmon. Although we are only a mid-range sized company, maybe ranking about 12th in Alaska for total salmon volume processed annually, we are probably the largest salmon processing company that is an Alaska corporation, headquartered in Alaska, with 100% Alaska resident shareholders.

We have been very pleased with the assistance that has been provided to our operations through the Salmon Product Development Tax Credit. Through the assistance provided by this program, we have invested over \$500,000 in our fillet operations plant on the Kasilof River in Cook Inlet. We are now the largest producer of fresh and frozen salmon fillets in the Cook Inlet fishery, and have developed major retail customers in the US domestic market. This has allowed us to diversify from our past markets which were heavily dependent upon Japan and European frozen H&G sales. We never would have attempted this major renovation in our processing operations without the assistance designated for the salmon industry through the SPDU program.

We are very supportive of HB 321 which would extend by three years the time period for qualifying investments through to 2011. We have a long list of qualifying machinery and equipment that we would like to add to our plants, but, quite frankly, we cannot afford to invest in all of the equipment at one time. As 2008 is the final year for qualifying investments under the current law, we need an additional three years to be able to complete our renovation plans so that we can be truly competitive with the larger companies in the state. In that regard we are probably very different from the major Alaska salmon processing companies which are based in the Seattle area. Most of those companies have already made the major investments related to this program. Smaller companies such as ours will certainly need another three years of the SPDU program so that we can continue to renovate and improve our value added salmon processing operations.

We appreciate the efforts of the House Fisheries Committee and fully support Rep. Thomas and his sponsorship of HB 321.

Sincerely,

Vincent Goddard
President
Inlet Fish Producers, Inc.
Kenai, Alaska

1/25/2008