

HB

321

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 2/20/08

FURTHER:

DATE TURNED
IN TO OFFICE: 2/27/08

Finance Committee considered CS FOR HOUSE BILL NO. 321(FSH)

HB 321 SALMON PRODUCT DEVELOPMENT TAX CREDIT

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

and recommends:

be replaced with SCS or CS _____ ()

adopt previous SCS or CS _____ ()

attached amendment(s)

adopt _____ Letter of Intent

further referral to _____ Committee

SENATE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
<hr/>	
HOUSE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
					1
REV	2/6/08	✓			2

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Elton	✓			
	Thomas				
	Hyggren				
	OLSON				
	Hoffman				
	Stearns				

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSHB 321(FSH)
(H) Publish Date: 2/8/08

Identifier (file name): CSHB321(FSH)-DOR-TAX-2-6-08 Dept. Affected: Revenue 04
Title: Salmon Product Development Tax Credit 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						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES								
Personal Services	0.0	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	0.0
Contractual	0.0	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	0.0
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous	1.5	0.0	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	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	*	*	*	*	*

FUND SOURCE (Thousands of Dollars)

100: Federal Receipts								
100: GF Match								
100: 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: 2/6/08 12:00 AM
Date: 2/6/2008

FISCAL NOTE #2

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. CSHB 321(FSH)

ANALYSIS CONTINUATION

Bill Language:

This bill extends the existing Salmon Product Development tax credit for investment in processing equipment used to produce value-added salmon products by three years through 2011. The Salmon Product Development tax credit allows taxpayers to take a credit against their Fisheries Business Tax liability for 50% of qualified investment in new value-added salmon processing equipment. Credits may be applied against up to 50% of the Fisheries Business Tax liability on salmon processed in Alaska in the year generated and the three subsequent years.

This bill adds "conveyors used specifically in the act of producing a value-added salmon product" to the list of investments that qualify for the Salmon Product Development tax credit.

This bill also adds a new provision that allows a taxpayer to request a preliminary determination of whether an investment qualifies for the Salmon Product Development tax credit.

Revenues:

The revenue impact from the bill is indeterminate due to the unknown value of credits that will be claimed for qualifying conveyors. We anticipate that the revenue reduction impact of this bill will be at least \$0.1 million in FY 2011 and at least \$2.1 million in FY 2012, FY 2013 and FY 2014. Credits only reduce Fisheries Business Tax revenue to the state, and do not impact revenue shared with municipalities.

Based on preliminary FY 2005 audit results, a total of about \$2.1 million in Salmon Product Development tax credits were allowed for the fiscal year. We believe this credit will continue to attract a high level of interest, and we project investments in currently allowed equipment will generate about \$2.0 million of allowed tax credits in each of the three tax years 2009-2011. We anticipate that these credits will be applied against Fisheries Business Tax liabilities for 2011-2013, reducing revenues during FY 2012 - FY 2014.

Based on preliminary FY 2005 audit results, the Salmon Product Development tax credit was claimed (and subsequently denied at audit) for 11 conveyors that would have qualified for the credit under the new language, with an average cost of about \$20,400. Had these conveyors qualified for the credit, they could have reduced Fisheries Business Tax liability by about \$112,300 for the processors claiming the credit. Therefore, we anticipate at least \$0.1 million in additional tax credits from the addition of certain conveyors to the list of qualifying investments, but the actual value of credits is unknown and will likely be higher than \$0.1 million per year. Actual credits claimed will likely be higher for two reasons: (1) more credits may be claimed because the bill leads to new investments in qualifying conveyors, and (2) more credits may be claimed because processors know that they can take credits for planned investments in qualifying conveyors. We anticipate credits for the conveyors will be claimed in each of the four tax years 2008-2011, reducing revenues by an indeterminate amount during FY 2011 - FY 2014.

Expenditures:

Since the Salmon Product Development tax credit is already in place, there will be no new expense to extend the sunset date of the credit. However the new provision allowing a taxpayer to request a preliminary determination of whether an investment qualifies for the credit will require additional expenditures. Specifically, the Department of Revenue will need to develop new regulations for the predetermination process. Incremental costs to develop regulations will be \$7,000 in FY 2009 for travel, supplies and venue fees related to regulation development. We anticipate that the predeterminations can be made using existing staff.



REPRESENTATIVE BILL THOMAS

ALASKA STATE LEGISLATURE DISTRICT 5

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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.

**ALASKA GENERAL SEAFOODS**

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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 - Jan Firz by fax to 907 465 2652
Mary McDowell, Vice President PSFA 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,

A handwritten signature in black ink, appearing to read "Mike Erickson".

Mike Erickson
President
Alaska Glacier Seafoods, Inc.



ICICLE

January 29, 2008

Representatives Mike Chenault and Kevin Meyer
Co-Chairs, House Finance Committee
Alaska State Legislature
Juneau, Alaska 99801

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

Dear Chairmen Chenault and Meyer,

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

The tax credit program has served as a catalyst for modernizing and retooling processing equipment to make the Alaska salmon industry more competitive in the world market place. 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 CSHB 321 would be very much appreciated.

Sincerely,
ICICLE SEAFOODS, INC.

Kris Noro:
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



February 5, 2008

To Whom It May Concern:

John West Foods Ltd wish to express our support for the extension of the Value-Added Salmon Tax Credit currently under consideration by the Alaska Legislature. We support any and all efforts to ensure that the manufacturers of Alaska canned salmon are able to innovate and change to meet the needs of our consumers.

Our markets in the UK, Holland, and Ireland have long been very strong markets for Alaska canned salmon. However, our consumers' tastes are changing and we have no choice but to change with them. Demand for traditional canned salmon, with skin and bones, has been declining steadily in our sales regions and there is every reason to believe that this trend will continue. Our consumer research regularly shows that younger consumers are deterred from buying traditional canned products by the presence of skin and bones.

However we are currently having good success with new skinless and boneless canned salmon products, and are aggressively expanding our offerings of these items. Our goal is to capture a younger consumer base with these products and not allow the overall presence of Alaska canned salmon to decline.

This tax credit has given substantial impetus to Alaska's canners to invest in these skinless and boneless canning lines. We need these products to grow and to keep Alaska canned salmon a core product for the next generation of European seafood consumers. We fear that without the support of this tax credit that the pace of cannery modernization will slow or stop entirely. This would severely blunt our efforts to grow sales of Alaskan canned salmon.

Sincerely,

A handwritten signature in black ink, appearing to read "John W.", followed by a horizontal line extending to the right. To the right of the signature is the date "5/2/08".

John Tomlinson
Director
John West Foods Ltd
Liverpool L2 2GA
United Kingdom

Main Office - Lancaster House Tithebarn Street, Liverpool L2 2GA England

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WRANGELL
— S E A F O O D S —

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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



4 Nickerson Street Seattle, WA 98109

House Finance Committee
Alaska State Legislature
Juneau, Alaska 99801

January 25, 2008

RE: HB 321, Salmon Tax Credit

North Pacific Seafoods would like to express our support for the passage of HB 321, renewing the Salmon Product Development Tax Credit through the year 2011. The current bill has allowed the industry to keep pace on Alaska salmon products in the quickly changing domestic and world market. The extension of this bill to 2011 will continue the momentum and success Alaska salmon products are enjoyed in the global markets.

North Pacific Seafoods started in Alaska in the canned salmon processing business. Today we own and operate four (4) shore based seafood processing plants that the largest portion is salmon, though we also process crab, halibut, black cod, Pollock, Pacific cod, flat fish, rockfish and dive products. Our facilities are located in the coast areas of Sitka, Kodiak, Pederson Point and Togiak. With the changing market demands, North Pacific Seafoods has converted from salmon canning to 100% fresh and frozen processor of Alaska salmon and other seafood items.

North Pacific Seafoods continues to invest in our facilities each year. With the briskly increasing costs of energy, freight, labor and insurance, an increasing amount of our capital improvement funds have been diverted to address these issues that would normally be invested into product improvements. We have been utilizing the Salmon Tax Credit each year to improve our product development in salmon fillets and salmon ikura. We plan to continue to invest in salmon product development and the Salmon Tax Credit will allow us to invest at an accelerated level as long as this program continues.

We thank you for the continued support through the passage of the extension to the Salmon Product Development Tax Credit program.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert D. Nickinovich". The signature is written in a cursive style with some loops and flourishes.

Robert D. Nickinovich
President



January 28, 2008

Senator Charlie Huggins, Chairman
Senate Resources Committee
Alaska Legislature, State Capitol
Juneau, Alaska 99801

THE TENTH FLOOR
2200 SIXTH AVENUE
SEATTLE, WA 98121-4120
206 728 6000
OPERATION FAX 206 411 9900
SALES FAX 206 728 4855

Dear Chairman Huggins:

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 Senators Hoffman, Stedman and Stevens for introducing **SB248, the Salmon Tax Credit Bill** and request that the Senate Resources Committee hear and pass **SB248, 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 evolving world markets. We urge the committee to take quick action in support of **SB248, 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.

Alaska Salmon Ex-Vessel Value



Source: ADF&G

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

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>

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

Prepared by Tax Division
January 24, 2008
by T. Cottongim

Attachment 1

Salmon Product Development Expenditure Categories

Qualified Expenditures

<u>Code</u>	<u>Description</u>
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

<u>Code</u>	<u>Description</u>
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

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