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248

**SENATE COMMITTEE REPORT
First Committee of Referral**

DATE: 1/25/08

FURTHER: Finance

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: _____

Resources Committee considered SENATE BILL NO. 248

SB 248 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#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS	PRINTED NAME	Do Pass	Do Not Pass	NOTE	REMARKS
	Green			✓	
	McBride			✓	
	Wielechowski	X			
	WAGONER	✓			
CHAIR:	HUGGINS	X			



Senator Lyman F. Hoffman

Senate Finance Committee - Co Chair

Alaska State Legislature • State Capital • Juneau, AK 99801-1182
Toll Free 1-866-465-4453 • (907) 465-4453 • Fax (907) 465-4523

District 5

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- Aktachuk
- Aktak
- Akutan
- Aleknagik
- Amchitka
- Atka
- Atmauthluk
- Attu
- Belkovich
- Bethel
- Chetana
- Chernofski
- Chignik
- Chignik Lagoon
- Chignik Lake
- Clark's Point
- Cold Bay
- Dillingham
- Dutch Harbor
- Eek
- Egegik
- Ekuk
- Elwuk
- Faise Pass
- Goodnews Bay
- Ivanof Bay
- Kasigluk
- King Cove
- King Salmon
- Kipruk
- Koliganek
- Kongiganak
- Kwethluk
- Kwigillingok
- Lower Kalskag
- Manokotak
- Mekoryuk
- Naknek
- Napaklak
- Napaskiak
- Nelson Lagoon
- New Stuyahok
- Newtok
- Nightmute
- Nikolski
- Nunapitchak
- Oscarville
- Perryville
- Pilot Point
- Platinum
- Port Heiden
- Portage Creek
- Quinhagak
- Saint George Island
- Saint Paul Island
- Sand Point
- Shemya Station
- South Naknek
- Togiak
- Toksook Bay
- Tuluksak
- Tuntutuliak
- Tununak
- Twin Hills
- Ugashik
- Unalaska
- Unga
- Upper Kalskag

To: Senator Charlie Huggins, Chairman
Senate Resources Committee

From: Senator Lyman F. Hoffman

Date: January 29, 2008

Re: SB 248 Salmon Tax Credits hearing

Senator Huggins,

At your convenience, I would request a hearing for Senate Bill 248, An act relating to the salmon product development tax credit.

Thank you for your consideration,

Lyman F. Hoffman
Senate District 5

ALASKA STATE LEGISLATURE

Sen. Charlie Huggins, Chair
Sen. Bert Stedman, Vice Chair
Sen. Lyda Green
Sen. Gary Stevens
Sen. Lesil McGuire
Sen. Bill Wielechowski
Sen. Thomas Wagoner



State Capitol, Room 119
Juneau AK 99801-1182
907-465-3878
Fax: 907-465-3265
800-862-3878

Senate Resources Committee
Butrovich Room 205
Friday, February 15, 2008
3:30-5:30 p.m.

AGENDA

- ✓ ➤ **SB 248 Salmon Product Development Tax Credit**
- **Presentation: AGIA Applicant A Energia**

passed
out of SRES
2-15-08

Teleconference

SB 248 Salmon Product Development Tax Credit

1. SB 248 vs/A

2. SB 248 Sponsor Statement

3. SB 248 Fiscal Note

— DOR Spread Sheet 2003-2006 Credits Allowed

4. SB248 Sect. Analysis

5. SB248 Support Letters

North Pacific Seafoods

Icicle

Peter Pan

SENATE BILL NO. 248

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIFTH LEGISLATURE - SECOND SESSION

BY SENATORS HOFFMAN, Stedman, Stevens

Introduced: 1/25/08

Referred: Resources, Finance

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 is amended by adding a new subsection to read:

13 (j) The department shall develop and implement procedures by which a
14 taxpayer that is a fisheries business may submit the taxpayer's proposed investment to

Stevens
supports
K

1 the department and request a preliminary determination of whether the investment
2 qualifies for the salmon product development tax credit under this section. A
3 preliminary determination by the department that the taxpayer's submission qualifies
4 for the credit is binding, unless the department determines that the taxpayer has made
5 a material misrepresentation in the taxpayer's submission.

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

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

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

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

12 (A) a court has entered final judgment that AS 43.75.035 or
13 43.75.036, added by sec. 1, ch. 57, SLA 2003 [OF THIS ACT], violates the
14 commerce clause contained in art. I, sec. 8, United States Constitution; and

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

20 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).



Senator Lyman F. Hoffman

Senate Finance Committee - Co Chair

Alaska State Legislature • State Capital • Juneau, AK 99801-1182
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SPONSOR STATEMENT

SB 248

SALMON PRODUCT DEVELOPMENT TAX CREDIT

Senator Hoffman

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 SB 248.

Interim: PO Box 886 • Bethel, Alaska 99559 • (907) 543-3541
Email: Senator_Lyman_Hoffman@legis.state.ak.us
www.senatorhoffman.com

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- Bethel
- Chenaik
- Chernofski
- Chignik
- Chignik Lagoon
- Chignik Lake
- Clark Point
- Cold Bay
- Dillingham
- Dutch Harbor
- Eek
- Egegik
- Ekuk
- Ekwoi
- False Pass
- Goodnews Bay
- Ivanof Bay
- Kasiglik
- King Cove
- King Salmon
- Kiprus
- Koliganek
- Kongiganak
- Kwethluk
- Kwigillingok
- Lower Kalskag
- Manokotak
- Mekoryuk
- Naknek
- Napaklak
- Napavikak
- Nelson Lagoon
- New Seayahok
- Newtok
- Nightmute
- Nikolski
- Nunapitnak
- Oscarville
- Perryville
- Pilot Point
- Platinum
- Pori Heiden
- Portage Creek
- Quinhagak
- Saint George Island
- Saint Paul Island
- Sand Point
- Shemya Station
- South Naknek
- Togiak
- Toksook Bay
- Tuluksak
- Tuntutuliak
- Tununak
- Twin Hills
- Ugashik
- Unalaska
- Unga
- Upper Kalskag

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 248
 () Publish Date: _____

Identifier (file name): SB248-DOR-TAX-1-30-08 Dept. Affected: Revenue 04
 Title Salmon Product Development Tax Credit RDU Taxation and Treasury
 Component Taxation and Treasury
 Sponsor Senators Hoffman, Stedman, Stevens
 Requester (S) Resources 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
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	(2,000.0)	(2,000.0)	(2,000.0)
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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
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

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 Stuckel, Economist Phone (907) 465-3695
 Division: Tax Date/Time 1/30/08 12:00 AM
 Approved by: Jerry Burnett Date 1/30/2008
Department of Revenue

FISCAL NOTE

**STATE OF ALASKA
2008 LEGISLATIVE SESSION**

BILL NO. SB 248

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 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:

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. We project investments will generate about \$2.0 million of allowed tax credits in each of the three tax years 2009-2011. We project that the credits arising under this bill will be used against Fisheries Business Tax liabilities for 2011-2013 to reduce receipts during FY 2012 - FY 2014. Fisheries Business Tax revenue to the state is therefore expected to be reduced by 2.0 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.

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.

**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 22, 2008
by T. Cottongim

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3887 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

January 31, 2008

SUBJECT: Sectional summary of SB 248 (Work Order No. 25-LS1384\A)

TO: Senator Lyman Hoffman
Attn: Tim Grussendorf

FROM: Brian J. Kane *BJK*
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1 of the bill extends the date by which property must be in place to be eligible for the tax credit from 2008 to 2011.

Section 2 of the bill adds a new subsection to AS 43.75.035 stating that a taxpayer in the fisheries business can submit a proposed investment to the Department of Revenue in order to get a preliminary determination of whether the investment will qualify for the tax credit. The preliminary decision by the department is binding if it determines the taxpayer's submission qualifies.

Section 3 of the bill extends the sunset date for AS 43.75.035 and 43.75.036 from 2012 to 2015.

Section 4 of the bill provides that the Act takes effect immediately.

If I may be of further assistance, please advise.

BJK:med
08-071.med



4 Nickerson Street Seattle, WA 98109

Senate Resources Committee
Alaska State Legislature
Juneau, Alaska 99801

January 25, 2008

RE: SB248, Salmon Tax Credit

North Pacific Seafoods would like to express our support for the passage of SB 248, 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,

Robert D. Nickinovich
President



ICICLE

✓ Included in
digital packet
SGL

January 29, 2008

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

RE: SB 248 An act to extend the salmon product development tax credit

Dear Chairman Huggins and Committee Members,

I wish to express our support for SB 248, an act that would extend the salmon product development tax credit program through the year 2011.

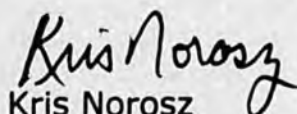
The tax credit program has served as a catalyst for modernizing and retooling processing equipment to make the Alaska salmon industry more competitive in the world market place. We have utilized this program on a number of occasions to purchase equipment to further diversify our product line and improve 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 SB 248 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

✓ included

FEB 01 2008



January 28, 2003

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

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

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.

cc: **Senator Lyman F. Hoffman**
Senate Resources Committee
State Capitol
Juneau, AK 99801

Senator Bert Stedman
Senate Resources Committee
State Capitol
Juneau, AK 99801

Senator Gary Stevens
Senate Resources Committee
State Capitol
Juneau, AK 99801

Sharon Long

From: Tim Grussendorf
Sent: Friday, February 08, 2008 2:14 PM
To: Sharon Long
Subject: sponsor statement sb 248
Follow Up Flag: Follow up
Flag Status: Red
Attachments: img-2081408-0001.pdf

SB 248

Mary McDowell will be there to testify on behalf of the Pacific Seafood Processors Assoc.

And Tim Cottongim from the Dept. of Revenue Tax division will be there for questions if necessary.

Thanks

TG

2/13/2008