

**HB**

**344**

<target><bill>HB 344</bill><subject>HB  
344</subject><comm>HFSH26</comm></target>

## House Fisheries—February 23<sup>rd</sup>, 2010

### 1. Call to Order.

Good morning and welcome to the House Special Committee on Fisheries.

Mention **Date & Time** for the Record.

Note committee members **in attendance for the Record**.

Remind folks to **turn off their cell phones, etc...**

### 2. Today will once again hear **HB344—Salmon Product Development Tax Credit**.

We also have **Arne Fuglvog, aide to Senator Murkowski**.

Mr. Fuglvog will be joined by **Doug DeMaster, Director of NOAA's Alaska Fisheries Science Center**.

They will be making **remarks on recent Ocean Policy Task Force recommendations**.

### 3. We will begin with HB344.

Afterwards we will recess to the call of the chair, then following floor session we will reconvene here to hear Mr. Fuglvog and Mr. DeMaster's presentation.

### 4. Turning to **HB344**:

- We have a **committee substitute** that incorporates an amendment with the bill sponsor's approval
- **Do we have a motion to adopt the committee substitute?**
- Fisheries aide **Tim Clark** will speak to the changes in this bill version.





## REPRESENTATIVE BILL THOMAS

ALASKA STATE LEGISLATURE DISTRICT 5

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State Capitol

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### **Sponsor Statement HB 344**

#### **An Act Relating to the Salmon Product Development Tax Credit**

House Bill 344 extends the deadline for salmon processors in Alaska to receive a salmon product development tax credit. The program allows applicants to claim a credit on their annual fisheries business tax for the purchase of eligible equipment. Credits received may not exceed 50% of a taxpayer's liability. Under current law, processors can claim the credit for the property first placed into service by December 31, 2011. This bill would extend the program's sunset date to December 31, 2015, allowing the processors ample time to continue their long-range investment planning.

The salmon product development tax credit was a key recommendation of the Joint Legislative Salmon Industry Task Force. First enacted in 2003, the credit was part of an effort by Alaska's elected leaders and the fishing industry to develop innovative value-added salmon products. Since then it has stimulated some important changes in Alaska's commercial fishing 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 output, meaning that quality has improved. This tax credit also encourages in-state processing of our salmon resource 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 the recent economic depression, changes in the marketplace, and increasing labor and energy costs. Extending the tax credit beyond its current sunset date of December 31, 2011 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. 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 344.

# FISCAL NOTE

**STATE OF ALASKA**  
**2010 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: HB 344  
 () Publish Date: \_\_\_\_\_

Identifier (file name): HB344-REV-TAX-02-17-10 Dept. Affected: Revenue  
 Title Salmon Product Development Tax Credit RDU Taxation and Treasury  
 Component Tax Division  
 Sponsor Representative Thomas  
 Requester (H) Fisheries Special Committee Component Number 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>OPERATING EXPENDITURES</b>								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
<b>TOTAL OPERATING</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>								
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<b>CHANGE IN REVENUES ( )</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(2,400.0)</b>	<b>(2,400.0)</b>
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**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2010) cost: \_\_\_\_\_

**POSITIONS**

Full-time							
Part-time							
Temporary							

**ANALYSIS:** (Attach a separate page if necessary)

See Attached.

Prepared by: Tim Cottongim, Revenue Audit Supervisor/Tim Harper, Economist III  
 Division Tax Division  
 Approved by: Ginger Blaisdell, Director  
Administrative Services Division

Phone (907) 465-3695  
 Date/Time 2-17-10; 11:09am  
 Date 2-17-10; 4:08pm

**FISCAL NOTE**

**STATE OF ALASKA  
2010 LEGISLATIVE SESSION**

**BILL NO. HB 344** \_\_\_\_\_

**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 four years through 2015. 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 up to 50% of the Fisheries Business Tax liability on salmon processed in Alaska in the year generated and the three subsequent years.

**Revenues:**

Although it is difficult to determine the number of taxpayers who would take advantage of this tax credit, the DOR would expect reduced Fisheries Business Tax collections in the years added. The department would expect the Fisheries Business Tax to decrease by \$2.4 million for each additional year the credit is extended.

**Expenditures:**

The provisions of this bill could be implemented with existing state resources. No additional personnel or resources would be needed, since the DOR is already performing these duties.

## Committee Substitute for HB344

- The CS adds “ice making” equipment to the list of qualified investments under section (j)(3)(A)(i). *PAGE 2, LINE 7.*
- The value-added processes that have most increased the worth of salmon catches around the state depend on high-quality harvests.
- When you have a greater the proportion of high quality fish, you have more fish can be steered into value-added processes.
- Ice is essential for significantly increasing the proportion of Number 1 grade fish in the harvest.
- Adding ice-making equipment to the investments qualified under the product development tax credit will result in a significantly larger quantity of quality salmon to increase the proportion of value-added processing in the state.
  - Chilling fish in slush ice can increase the percentage of “Number 1” fish from 50 percent to as much as 85 percent of a given catch.
  - Number 1 fish are essential for filleting—one of the highest volume value-added processes.
  - Some processors around the state have only enough ice-making capacity to care for landed fish awaiting processing.
    - This amendment would potentially allow them to add machinery to make ice available to their catcher fleets.
    - They may also be more able to make ice available on tenders, in order to get ice to catcher boats on the grounds.

*\* THE BILL SPONSOR SUPPORTS THIS AMENDMENT, LIMITED TO ICE-MAKING EQUIPMENT.*

**CS FOR HOUSE BILL NO. 344(FSH)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-SIXTH LEGISLATURE - SECOND SESSION**

**BY THE HOUSE SPECIAL COMMITTEE ON FISHERIES**

**Offered:**

**Referred:**

**Sponsor(s): REPRESENTATIVES THOMAS, Peggy Wilson, Austerman**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to the salmon product development tax credit; and 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 by sec. 4, ch. 8, SLA 2008."**

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 2015 [2011].

12 **\* Sec. 2.** AS 43.75.035(j)(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, ice making, or pin bone  
8 removal equipment;

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 producing  
12 a value-added salmon product;

13 (B) does not include

14 (i) vehicles, forklifts, conveyors not used specifically in  
15 the act of producing a value-added salmon product, cranes, pumps, or  
16 other equipment used to transport salmon or salmon products, knives,  
17 gloves, tools, supplies and materials, equipment that is not processing,  
18 packaging, or product finishing equipment, or other equipment the use  
19 of which is incidental to the production, packaging, or finishing of  
20 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. Section 7, ch. 57, SLA 2003, as amended by sec. 4, ch. 3, SLA 2006, and by sec. 4,  
25 ch. 8, SLA 2008, is amended to read:

26 Sec. 7. Section 3, ch. 57, SLA 2003, [OF THIS ACT] takes effect on the  
27 earlier of the following:

28 (1) January 1, 2019 [2015]; or

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

31 (A) a court has entered final judgment that AS 43.75.035 or

1 43.75.036, added by sec. 1, ch. 57, SLA 2003, violates the commerce clause  
2 contained in art. I, sec. 8, United States Constitution; and

3 (B) the time for an appeal of that judgment has expired, or, if  
4 an appeal was taken, a final order on the appeal has been entered that  
5 AS 43.75.035 or 43.75.036, added by sec. 1, ch. 57, SLA 2003, violates the  
6 commerce clause contained in the United States Constitution.

**PSPA**  
**PACIFIC SEAFOOD PROCESSORS ASSOCIATION**  
Est. 1914

February 12, 2010

Representative Bryce Edgmon, Chair  
House Special Committee on Fisheries  
State Capitol  
Juneau, AK 99801-1182

**RE: Support for HB 344**  
**Extension of the Salmon Product Development Tax Credit**

Dear Representative Edgmon and Members of the House Fisheries Committee:

On behalf of the Pacific Seafood Processors Association, a trade association of seafood processing companies with operations in many communities throughout Alaska, I am writing to express strong support for HB 344, and to request that this important legislation be moved from the House Fisheries Committee as soon as possible.

The legislature constructed the existing Salmon Product Development Tax Credit program tightly to accomplish very specific goals. It is proving to be very successful in accomplishing its intended purpose of encouraging and enabling Alaska salmon processors to develop and produce value-added salmon products in Alaska. This, in turn, is helping Alaska's salmon industry keep pace with evolving consumer demands and keep Alaska salmon competitive on world markets. It is a program that essentially pays for itself by increasing the value and marketability of Alaska salmon.

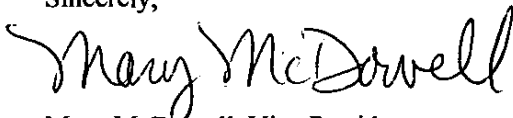
The attached 1-page document briefly describes some of the improvements that have been made with the help of this program. Many of the new product forms developed and improvements and expansions made in recent years would not have happened, or would have been significantly delayed, without the incentive and assistance provided by the tax credit program. The attached page also describes ways our member companies anticipate utilizing the tax credit program in upcoming years if it is extended.

Alaska's seafood industry, operating in remote areas of Alaska, is dealing with extremely high energy costs, the worldwide economic downturn, and other enormous challenges. Yet, the industry's future, and the future economic benefits Alaska's fisheries provide to fishermen, communities, and the state, depend on continued progress in developing and expanding value-added product forms and capacity. Extension of the Salmon Product Development Tax Credit Program will play an important role in maintaining the continued development and competitiveness of the Alaska salmon industry.

Extending this very effective program makes good sense for Alaska. We urge quick scheduling and passage of HB344.

Thank you very much for your consideration.

Sincerely,



Mary McDowell, Vice President

Attachment

222 Seward Street, Suite 200  
Juneau, AK 99801  
Phone (907) 586-6366  
Fax (907) 586-4618  
[www.pspafish.net](http://www.pspafish.net)

## **Past use of the Salmon Product Development Tax Credit**

The Salmon Product Development Tax Credit Program has been very effective in advancing the goal of increasing in-state value-added processing. The credit has enabled and encouraged seafood companies to make investments in equipment that they would otherwise have had to delay or forego. In many cases, the credit has enabled companies to begin producing value-added product forms they had not previously produced.

Since enactment of the program, PSPA member companies have purchased and put into production a wide variety of value-adding equipment, such as:

- skinless/boneless fillet equipment
- roe separating equipment
- smoking equipment
- equipment to produce boneless/skinless salmon in pop-top ("easy-open") cans
- equipment to produce sockeye ikura
- equipment for packaging ikura in vacuumed sealed packages

The credit has enabled companies to increase capacity of pounds purchased from fisherman and improve quality by adding fillet lines and investing in coolers, blast freezers, and upgrading and increasing freezer capacity.

## **Anticipated future use of the tax credit**

Continuation of the Salmon Product Development Tax Credit would be extremely helpful in maintaining the momentum of the expansion of in-state, value-added processing, and allow companies to plan for future capital investment in their salmon operations around the state and keep Alaska salmon competitive in evolving world markets.

Customers continually want more user-friendly products. The salmon fillet market, for example, has grown tremendously in the last few years and the market has not shown any signs of over supply. It takes some risk and a few years for companies to assess how their investments in value-added processing are paying off and then additional time to gear up and gather financial resources to make additional investments. A tax credit that makes such investments feasible in a shorter timeframe benefits Alaska harvesters, processors, communities, and the state.

If this tax credit program remains available, our member companies anticipate utilizing it in upcoming years for such things as additional filleting equipment; salmon sausage equipment; salmon oil refining equipment; equipment for producing skinless/boneless products; freezing capacity upgrades and increases, portioning equipment, vacuum packing equipment, and salmon roe processing equipment.

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February 16, 2010

Representative Bryce Edgmon, Chair  
House Special Committee on Fisheries  
State Capitol  
Juneau, Alaska 99801-1182

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

Dear Representative Edgmon and Members of the House Fisheries Committee:

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 is writing to express strong support for **Bill HB344, Extension of the Salmon Product Development Tax Credit** and to request that this important legislation be moved from the House Fisheries Committee as soon as possible. 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 **HB344, Extension of the Salmon Product Development 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.

4 Nickerson, Suite 400, Seattle, WA 98109  
P.O. Box 31179, Seattle, WA 98103-1179  
PHONE (206) 726-9900 FAX (206) 726-1667  
www.northpacificseafoods.com



February 13, 2010

Chairman Bryce Edgmon  
Members of the House Fisheries Committee  
State Capitol  
Juneau, AK 99811-1182.

RE: HB 344, Salmon Tax Credit

Dear Chairman Edgmon and Members of the House Fisheries Committee:

North Pacific Seafoods would like to express our support for the passage of HB 344, renewing the Salmon Product Development Tax Credit. The current program has allowed the industry to keep pace on Alaska salmon products in the quickly changing domestic and world markets. The extension of this program will continue the momentum and success Alaska salmon products have 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 coastal areas of Sitka, Kodiak, Pederson Point (Naknek) and Togiak. With the changing market demands, North Pacific Seafoods has converted from salmon canning to a 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 caviar. 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,

Jeffrey Backlund  
Vice President

**Alaska Pacific Seafoods**  
627 Shelikof Ave  
Kodiak, Alaska 99615  
(907) 486-3234  
(907) 486-5164

**Pederson Point**  
P.O. Box 99  
Naknek, Alaska 99633  
(907) 246-4461  
(907) 246-6657

**Sitka Sound Seafoods**  
329 Katlian Street  
Sitka, Alaska 99835  
(907) 747-6662  
(907) 747-6268

**Togiak Fisheries**  
P.O. Box 30  
Togiak, Alaska 99678  
(907) 493-5331  
(907) 493-5133



# ICICLE

February 17, 2010

Rep. Bryce Edgmon, Chair  
House Special Committee on Fisheries  
Alaska State Legislature  
Juneau, Alaska 99801

Dear Chairman Edgmon and Committee Members,

I wish to express our support for HB 344, an act to extend the salmon product development tax credit program through the year 2015.

ICicle Seafoods, Inc. purchases and processes salmon in Southeast, Prince William Sound, Kodiak, Cook Inlet and Bristol Bay. We have utilized the salmon product development tax credit program on a number of occasions to purchase equipment to further diversify our product line, improve quality and prolong product viability. This has resulted in higher customer acceptance of our products.

The salmon product development tax credit program has been beneficial to the Alaska salmon industry. It has enabled the industry to re-tool and modernize equipment thereby putting Alaska salmon in a better competitive position in the global market place with other types of seafood and protein sources. The program has served as the catalyst that can make needed capital improvements a rational choice during economically challenging times.

We urge you to support HB 344 and thank you for your consideration.

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

Prepared by Department of Revenue - Tax Division

**Salmon Product Development Credit Expenditures**

**Qualified Expenditures**

Description  
Brining equipment  
Curing equipment  
Fillet lines  
Fillet machines  
Blast freezers  
Glazers  
Ikura packaging machines  
Pin bone machines  
Plate freezers  
Pop-top canning equipment  
Roe drying machines  
Roe rubbing machines  
Roe separators  
Roe vibrating machines  
Roe washers  
Skinning machines  
Smokehouses  
Vacuum packaging machines

**Non-Qualified Expenditures**

Description  
Bag blowers  
Banding machines  
Building construction  
Deck cranes  
Dock pilings  
Dolly carts  
Equipment maintenance  
Equipment overhauling  
Equipment retooling/retrofitting<sup>1</sup>  
Fish hooks  
Fish pumps  
Fish washing equipment  
Fishing vessels  
Freezer baskets  
Freezer carts  
Freezer rolling racks  
Grinders  
Gutting machines  
Heading machines  
Ice machines  
Knife sharpeners  
Knives  
Labeling machines  
Loading ramps  
Net pens  
Pallet jacks  
Pocket conveyors  
Retooling  
Scales  
Sealing machines  
Spare parts  
Standard canning equipment  
Ordinary freezers  
Strapping machines  
Stun/bleed systems  
Tables  
Tape machines  
Tools  
Tote dumpers  
Totes

<sup>1</sup>Except pop-top canning systems

**Figure 3 - Revenue Collections Detail**

Listed in order of total amount of revenue collected

TAX TYPE	FY 2009	FY 2008	FY 2007
<b>FISHERIES BUSINESS</b>			
Established			
Shore-based	\$30,223,448	\$24,865,940	\$21,838,661
Floating	6,809,487	5,769,466	4,461,717
Cannery	5,069,742	5,218,570	3,603,230
Developing			
Shore-based	48,357	54,486	4,040
Floating	249	802	2,523
Total Tax	42,151,283	35,909,264	29,910,171
Prepayments	3,523,354	3,694,083	5,546,512
Penalties and Interest	311,942	504,207	169,178
License Fees	13,500	13,975	14,725
Less Credits			
Winn Brindle	(192,792)	(177,228)	(167,000)
Alaska Education	(450,000)	(450,000)	(300,000)
Salmon Product Development	(3,121,697)	(4,501,973)	415,745
<b>Total Receipts</b>	<b>42,235,590</b>	<b>34,992,328</b>	<b>35,589,331</b>
Fisheries Business Tax Shared			
Direct to Municipalities	(21,304,498)	(18,268,399)	(16,079,365)
DCCED* Municipal Allocation	(1,635,638)	(1,920,635)	(1,530,472)
<b>Amount Retained by State</b>	<b>\$19,295,454</b>	<b>\$14,803,294</b>	<b>\$17,979,494</b>
* Department of Commerce, Community and Economic Development			
<b>ALCOHOLIC BEVERAGES</b>			
Liquor	\$18,609,636	\$18,719,422	\$17,323,104
Beer	12,971,806	13,317,219	13,063,186
Wine	5,512,824	5,140,482	4,852,715
Beer qualifying for reduced tax rate	914,888	801,127	797,543
Penalties, Interest and Refunds	487,207	186,950	1,916
<b>Total Receipts</b>	<b>\$38,496,361</b>	<b>\$38,165,200</b>	<b>\$36,038,464</b>
Amount transferred to Alcohol and Other Drug Abuse Treatment and Prevention Fund	(18,968,874)	(19,080,505)	(18,018,504)
<b>Amount Retained in General Fund</b>	<b>\$19,527,487</b>	<b>\$19,084,695</b>	<b>\$18,019,960</b>

**Sec. 43.75.035. Salmon product development tax credit.**

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

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

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

(2) be claimed for property first placed into service after December 31, 2011.

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

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

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

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

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

the taxpayer, ceases to be qualified investment property, or is removed from service in the state. For purposes of this subsection,

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

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

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

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

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

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

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

(j) In this section,

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

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

(3) "qualified investment" means the investment cost in depreciable tangible personal property with a useful life of three years or more to be used predominantly to perform a processing, packaging, or product finishing function that is a significant component in producing value-added salmon products beyond gutting of the salmon; in this paragraph, "property"

(A) includes

(i) filleting, skinning, portioning, mincing, forming, extruding, stuffing, injecting, mixing, marinating, preserving, drying, smoking, brining, packaging, blast freezing, or pin bone removal equipment;

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

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

(B) does not include

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

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

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

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

(6) "value-added salmon product" means the product of a salmon that is processed beyond heading, gutting, or separation in a manner that materially enhances the value of the salmon product, such as shelf-stable, retort pouched, smoked, pickled, or filleted salmon, ikura, leather, or jerky; "value-added salmon product" does not include a salmon or salmon product that

(A) has been subjected to only one or more of heading, gutting, freezing, packaging, quality assurance practices, or value retention practices;

(B) is salmon skeins or other unprocessed salmon products whether fresh or frozen;

(C) is canned, except for salmon products in a pop-top can; or

(D) is produced out of the state.

Testimony of Greg Fisk re HB 344  
before the  
House Special Committee on Fisheries,  
Honorable Bryce Edgmon, Chairman  
February 18, 2010

Chairman Edgmon and Members of the Committee,

My name is Greg Fisk. I'm here today representing Bristol Bay Economic Development Corporation. BBEDC supports passage of HB 344 and the renewal of the Salmon Product Development Tax Credit.

The Tax Credit has helped stimulate investment in new value added processing equipment across the State. Probably most important are the many salmon fillet lines now operating. In Bristol Bay increasing fillet production is truly transforming the fishery.

Unfortunately, basic salmon quality issues continue to limit the full positive economic impact of the investments in value added equipment. This is particularly acute in Bristol Bay, but is certainly not limited to the Bay. It's an old problem – lack of fish chilling capacity. This results in a high incidence of No. 2 fish that are unacceptable for filleting. The big problems are gaping and bruising.

Increasing the percentage of No. 1 grade fish is vital to getting full benefit from other investments under the Salmon Product Development Tax Credit. Proper chilling in slush ice has been demonstrated to increase the percentage of No. 1 fish from the 45% - 50% range to 80%-85% in Bristol Bay.

Accordingly, BBEDC would like to suggest that, as HB 344 works its way through the process, you consider adding ice production and delivery equipment to the list of qualified investments eligible for the tax credit. Doing so will directly contribute to achieving the original intent of the Salmon Product Development Tax Credit, by helping to ensure that we have the quality salmon needed for effective value-added processing in Alaska.

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Ice Production and Delivery Equipment should include:

- the actual ice makers themselves, and the refrigeration systems required;
- ice storage systems –conventional insulated ice houses, tanks for slurry systems, etc.
- delivery systems – ice rakes, augers, pneumatic systems, chutes, etc.