

**HB**

**344**

<target><bill>HB 344</bill><subject>HB  
344</subject><comm>SF26</comm></target>

# SENATE FINANCE COMMITTEE REPORT

DATE: 4/8/10

FURTHER:

DATE TURNED  
IN TO OFFICE: 4/13/10

Finance Committee considered CS FOR HOUSE BILL NO. 344(FIN)

## HB 344 SALMON PRODUCT DEVELOP. TAX CREDIT

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

and recommends:

- be replaced with  SCS or  CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous  SCS or  CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt \_\_\_\_\_ Letter of Intent
- further referral to \_\_\_\_\_ Committee

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

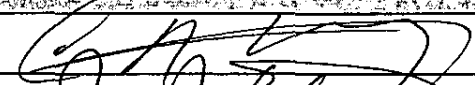



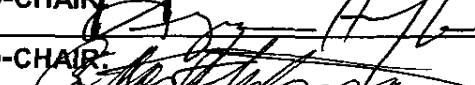
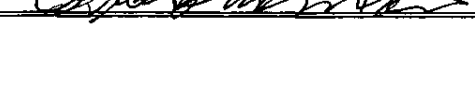
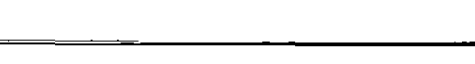
**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
REV	4/2/10			✓	2

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Huggins				
	THOMAS	✓			
	EGAN	✓			
	ORSON				
	Ellis				
CO-CHAIR: 					
CO-CHAIR: 					

# FISCAL NOTE

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

Fiscal Note Number: 2  
 Bill Version: CSHB 344(FIN)  
 (H) Publish Date: 4/6/10

Identifier (file name): CSHB344(FIN)-REV-TAX-04-02-10 Dept. Affected: Revenue  
 Title: Salmon Product Development Tax Credit RDU: Taxation and Treasury  
 Sponsor: Representative Thomas Component: Tax Division  
 Requester: House Finance 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>							
<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>

**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 04-02-10; 8:36am  
 Date 04-02-10; 8:46am

FISCAL NOTE #2

STATE OF ALASKA  
2010 LEGISLATIVE SESSION

BILL NO. CSHB 344(FIN)

**ANALYSIS CONTINUATION**

**Bill Language:**

This bill extends the existing Salmon Product Development (SPD) tax credit for investment in processing equipment used to produce value-added salmon products by four years through 2015. This bill also adds ice making machines to the list of qualified investments eligible for an SPD tax credit.. The SPD tax credit provisions under AS 43.75.035 authorize taxpayers to claim a credit against their fisheries business tax liability for 50% of qualified investment in new value-added salmon processing equipment and ice making machines. 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.



## REPRESENTATIVE BILL THOMAS

ALASKA STATE LEGISLATURE DISTRICT 5

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webpage: [www.akrepublicans.org/thomas/](http://www.akrepublicans.org/thomas/)

State Capitol

Juneau AK, 99801-1182

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888-461-3732

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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 50% of the purchase costs of eligible equipment. Credits received may not exceed 50% of a taxpayer's annual tax 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 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, resulting in improved quality. Increased investment in Alaskan equipment encourages in-state processing of our salmon resource which is critical to job creation and retention in fishing communities.

The House Fisheries and Finance Committees added ice machines to the list of investments that qualify for the tax credit. Having a top quality base product delivered to processors is a prerequisite to further value adding processing of salmon.

Alaska's salmon industry is beginning to recover from years of low values caused by competition from fish farming, 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.

Prepared by Department of Revenue - Tax Division  
**Salmon Product Development Credit Expenditures**


**Qualified Expenditures**

**Non-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 seperators
  - Roe vibrating machines
  - Roe washers
  - Skinning machines
  - Smokehouses
  - Vacuum packaging machines

- 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

HFN Version adds  
 Ice machines as  
 a Qualified Expenditure



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

**Figure 3 - Revenue Collections Detail**

Listed in order of total amount of revenue collected

TAX TYPE	FY2009	FY2008	FY2007
<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	<u>249</u>	<u>802</u>	<u>2,523</u>
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	<u>13,500</u>	<u>13,975</u>	<u>14,725</u>
Less Credits			
Winn Brindle	(192,792)	(177,228)	(167,000)
Alaska Education	(450,000)	(450,000)	(300,000)
Salmon Product Development	<u>(3,121,697)</u>	<u>(4,501,973)</u>	<u>415,745</u>
<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	<u>(1,635,638)</u>	<u>(1,920,635)</u>	<u>(1,530,472)</u>
<b>Amount Retained by State</b>	<b><u>\$19,295,454</u></b>	<b><u>\$14,803,294</u></b>	<b><u>\$17,979,494</u></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	<u>487,207</u>	<u>186,950</u>	<u>1,916</u>
<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	<u>(18,968,874)</u>	<u>(19,080,505)</u>	<u>(18,018,504)</u>
<b>Amount Retained in General Fund</b>	<b><u>\$19,527,487</u></b>	<b><u>\$19,084,695</u></b>	<b><u>\$18,019,960</u></b>

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P.O. Box 31179, Seattle, WA 98103-1179  
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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) 246-6651

**Sitka Sound Seafoods**  
329 Kallian 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



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,

A handwritten signature in cursive script that reads "Barry D. Collier".

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

**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.

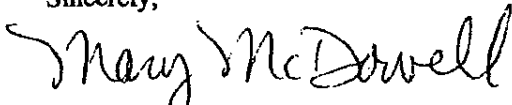
The attached 1-page document briefly describes some of the improvements that have been made with the help of this program. Many of the new product forms developed and improvements and expansions made in recent years would not have happened, or would have been significantly delayed, without the incentive 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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