SCOMM

#48:13

STATE OF ALASKA
THE LEGISLATURE

POUCH V · STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

LEGISLATIVE REFERENCE LIBRARY

May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

House Special Committee on Fisheries, 1/29/85 8:30 am
" " " " 2/5/85, 8:30am
" " " " 2/7/85, 8:30am

Alaska State Legislature

House of Representatives

Official Business

Pouch V
Juneau, Alaska 99811

Phone:
(907) 465-4924

Special Committee on Fisheries

AGENDA

Tuesday, January 29, 1985
8:30-10:00 a.m.
209 Behrends

1. Public Hearing on HB 58 (An Act relating to the Fisheries Business Tax)

2. Discussion of Priorities

3. Confirmations of Ernest Carter to Board of Fisheries and Bruce Twomley to Commercial Fisheries Entry Commission

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

November 15 ,1984

MEMORANDUM

TO: Representative Bette Cato

FROM: Sharman Haley
Legislative Analyst

RE: Legislative History of the Raw Fish Tax
Research Request 85-039

The raw fish tax, AS 43.75.010-.140, dates from statehood. The law provides for a tax on raw fish purchases by canneries, cold storages, and other processors. As of 1978, the statute levied a tax of from one to four percent of the purchase price depending on the specific fishery resource and the type of processing facility. Fishermen selling to floating processors outside State jurisdiction were also subject to the tax. Twenty percent of the tax revenues were refunded to the borough and/or first class city in which the facility was located. As you requested, a five-year history of bills affecting the raw fish tax is presented in this memorandum.

1979-1980

Thirteen bills amending the raw fish tax statutes were introduced during the Eleventh Legislature. House Bill 571 and SB 448, identical bills sponsored by Representative Hayes and Senator Kelly respectively, were omnibus tax relief bills suspending the raw fish tax as well as a host of other taxes. These bills saw little legislative action. House Bill 340, introduced by Representative Gardiner, also saw little action. The bill would have tied the reporting and enforcement of regional aquaculture assessments to processor licensing under the raw fish tax statutes. House Bill 227 would have eliminated the distinction between floating and shore-based cold storages, thereby reducing the tax rate on the floating facilities from four percent to one percent. This proposal by Representative Osterback did not move from the House Resources Committee.

House Bill 306, sponsored by the Governor, was a thorough overhaul of the raw fish tax statute. The bill:

- imposed a uniform six percent tax on all processors;
- increased revenue sharing with the local government unit to 33-1/3 percent;

- required that half of the local revenue sharing be spent on docks or other fishery enhancement projects;

- directed an additional 33-1/3 percent of the revenue to the Commercial Fishing and Agriculture Bank; and

- upgraded the bond requirements for salmon exporters.

Bills introduced by Senator Kerttula (SB 132) and Representative Branson (HB 83) also addressed local revenue sharing, raising it to 50 or 60 percent, respectively. The Governor's bill was modified by the Senate Community and Regional Affairs Committee, grafted on to Senator Kerttula's bill number, and enacted into law as Chapter 79 SLA 1979. The legislation deleted all references to "raw fisheries products," replacing the phrase with "fisheries resources." Hence "raw fish tax" is now something of a misnomer; the statutory name is Fisheries Business Tax.

The stated purposes of the act were to:

1) insure that the state is able to continue its efforts toward overall fisheries-related development programs by raising additional revenue to pay for its programs;

2) make the imposition of the fisheries tax more uniform among fisheries businesses; and

3) provide funding for the development of new fisheries.

The tax rates established by Chapter 79 SLA 1979 are as shown in the table below:

	Shore-based Processor	Floating Processor
Canned Salmon	4.5%	5.0%
Developing Commercial Fish Species*	1.0%	3.0%
Other Fisheries Resources	3.0%	5.0%

*Developing commercial fish species are defined in AS 16.05.050(12) as species in a specific region for which the optimum yield harvest has not been reached, a substantial portion of the harvest has been allocated to foreign fishing, or commercial harvest of the species recently developed.

Under Chapter 79, a person who transports or sells a fisheries resource outside the jurisdiction of the State is liable for the tax which would otherwise be paid by the processor.

The legislation provided for 20 percent revenue sharing to local government, and 20 percent to the Commercial Fishing and Agriculture Bank. Second class cities were made eligible for revenue sharing as well as first class cities. The new revenue sharing formula was to begin with calendar year 1980 taxes. The legislation also increased the bonding requirements for salmon exporters to $50,000. The bond covers not only payment of the tax to the State, but also payment to the fishermen for the salmon.

Three pieces of legislation passed in 1980 made corrective amendments to the 1979 enactment. House Bill 192 (enacted as Chapter 155 SLA 1980) corrected the starting date of the new revenue sharing formula to taxes collected for calendar year 1979. The House Judiciary Committee deleted the penalty provisions from the act so as not to duplicate the criminal code. These repealers were offered in CSHB 354, and later incorporated in SB 313 and enacted as Chapter 113 SLA 1980. The House Judiciary Committee also made a corrective amendment suggested by the code revisor deleting the definition of "year". This correction was incorporated into SB 277 and enacted as Chapter 94, SLA 1980.

A bill which was a forerunner of legislation creating the Alaska Seafood Marketing Institute was passed by the legislature in 1980 but vetoed by the governor. The original version of HB 962 provided processors with a tax credit of up to 15 percent of the fisheries business tax liability for donations to a nonprofit corporation organized to improve the quality of and to develop markets for Alaska seafood. The final version, SCSCSHB 962, established a fisheries business tax grant fund financed by appropriations from the legislature. The bill authorized grants to a nonprofit seafood marketing corporation of up to 15 percent of the fisheries business tax paid by members of the corporation in the preceeding year. The governor vetoed the bill due to constitutional problems.

1981-1982

Several amendments to the fisheries business tax statutes were made by the Twelfth Legislature. Senator Eliason introduced SB 200, which would have relieved freezer boats from tax liability if the processors to which they sell were regulated by the statute. His proposal was incorporated into HB 460, which was introduced by the House Resources Committee. House Bill 460 also increased revenue sharing to local governments from 20 to 50 percent of tax revenues starting with tax year 1982. As a transitional measure, revenue sharing was pegged at 30 percent of 1981 fisheries business taxes. After a complicated passage, SCSCSHB 460 (Fin)am S (efd am H) was enacted as Chapter 117 SLA 1981.

Other fisheries business tax legislation considered but not passed by the Twelfth Legislature included HB 422 by Representative Malone. The bill would have shifted the tax liability from fish processors to fish purchasers. Senator Mulcahy also introduced a bill, SB 523, to clarify the language defining "value" as used in calculating tax liability. Some of this clean-up was accomplished in HB 460.

Representatives Zharoff and Bettisworth proposed in HB 103 to repeal the fisheries business tax entirely. This bill saw no action.

1983-1984

Three pieces of legislation offered in the Thirteenth Legislature would have established a fisheries business tax credit program. None of these proposals were enacted. Senator Ferguson proposed (in SB 191) a rate reduction of one-half percent for businesses that also pay the seafood marketing assessment under AS 16.51.120. Senator Mulcahy proposed (in SB 379) to grant up to a 50 percent credit on tax liability for purchases of equipment used in processing a developing commercial fish species. The Senate Resources Committee Substitute for this bill restricted the credit to equipment for processing bottomfish.

Representative Zharoff also sponsored legislation granting a tax credit of up to 50 percent of the fish tax liability. Under his proposal, credits would have included expenditures for improvement of quality control and upgrading or modernization of processing facilities as well as expenditures for equipment used in processing developing commercial species. The House Special Committee on Fisheries' version of HB 518 generalized the credit to apply to any capital expenditure but restricted its application to shore-based canneries and limited the application of credits to no more than five consecutive years. The bill would have required the Department of Revenue to make an annual report to the legislature describing the expenditures for which the credit was granted and the attendant increases in employment or processing capacity. The bill was in House Rules Committee when the legislature adjourned.

* * * * *

I hope that this memorandum has provided you with the information you sought. If you would like more detailed information regarding any of the measures discussed above or if you have any further questions, please don't hesitate to call me.

SH

* DELIVER TO: TCJNU *
* *
* *
* ORIGINAL *
* SENT: 01/28/85 TIME: 16:39 *
* SUBJECT: H. SPEC. COMMITTEE ON FISH. *
* PRINT DATE: 01/28/85 TIME: 16:43 *
* *
****

TO: ALL SITES

SPONSOR: HOUSE SPECIAL COMMITTEE ON FISHERIES — T/C DATE/DAY: 2/5 TUES

TYPE: LEGISLATIVE PUBLIC HEARING — TIME: 8:30-9:15 AM

SUBJECT: HB 58: FISHERIES BUSINESS TAX — JNU ROOM # BEHRENDS 209

CHAIRING SITE/PERSON: REP. GOLL/JNU — MODE: 4-WIRE

CONTACT/PHONE #: RODGER PAINTER 465-4925 — BRIDGE # NA

****

PARTICIPATING SITES

NORTH SLOPE

ANAKTUVUK PASS
BARROW
KAKTOVIK
POINT HOPE
WAINWRIGHT

INTERIOR

DELTA JUNCTION
FAIRBANKS
FORT YUKON
GALENA
GLENNALLEN

NANA

AMBLER
KOTZEBUE
NOORVIK
SELAWIK

BRISTOL BAY

BETHEL
DILLINGHAM
ST. PAUL
SAND POINT
UNALASKA
TOGIAK
TOKSOOK
NAKNEK
NEWHALEN

SOUTH CENTRAL

ANCHORAGE
* CORDOVA
HOMER
SOLDOTNA
* KODIAK
MAT-SU
* SEWARD
* VALDEZ

NORTON SOUND

GAMBELL
HOOPER BAY
NOME
SAVOONGA
SHISHMAREF
UNALAKLEET

ALL ALASKA

ALL LIO'S

OTHER SITES WELCOME W/ PRIOR NOTIFICATION

OFFNETS: ______________________________
____
____

SOUTHEAST

HAINES
HOONAH
** JUNEAU
KETCHIKAN
PETERSBURG
* SITKA
WRANGELL
YAKUTAT

****

DATE TAKEN/BY: 1/28, DORIS — JNU TROUBLE #'S 586-1062, 465-3836

NOTE: CORDOVA WILL BE DIALED BY JUNEAU. — ANC TROUBLE # 278-9624

SPECIAL TROUBLE # ___-____

PUBLICITY:

XX STANDARD PUBLIC HEARING PROCEDURES

__ SPECIAL INSTRUCTIONS

** NON-LEG BILLING PH#/ADDRESS

LOCAL MODERATOR:
START TIME:
END TIME:

#TESTIFIED: #OBSERVED:
TOTAL:

###

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date 1-28-85

REQUEST
Bill/Resolution No: HB 58
Title: Fisheries Business Tax Credit

Sponsor: Cato & Grussendorf
Requestor: Special Committee on Fish.
Date of Request: January 18, 1985

FISCAL DETAIL
Agency Affected: Department of Revenue
Program Category Affected: Collection and Management
BRU, Program of Subprogram(s) Affected:
Audit Division
Audit Division

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
200 TRAVEL	-0-	2.0	-0-	-0-	-0-	-0-
300 CONTRACTUAL	-0-	3.0	-0-	-0-	-0-	-0-
400 SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
500 EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
600 LANDS & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
700 GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
800 MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	-0-	5.0	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
GENERAL FUND	-0-	5.0	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	5.0	-0-	-0-	-0-	-0-

POSITIONS:

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME	-0-	-0-	-0-	-0-	-0-	-0-
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: Please see attached.

Prepared By: Martin J. Richard
Phone: 465-2320
Division: Audit
Date: January 18, 1985

Approved by Commissioner:
Date:
Agency:

Distribution (by Agency preparing fiscal note):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Analysis for HB 58

Travel $2.0 - Passage of HB 58 will require the Audit Division to draft regulations and conduct public hearings throughout the state. Our fare and per diem costs are estimated at $2,000 for travel to Ketchikan, Anchorage and Kodiak by one Audit Division employee.

Contractual Services $3.0 - Conducting public hearing requires the presence of a court reporter, and advertising in statewide newspapers. In addition, the bill will make it necessary for the Department to revise its tax forms to request additional information from processors, and prepare annual reports to the legislature. Programming and forms design costs are included in this request.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date

REQUEST
Bill/Resolution No: HB 58
Title: Relating to the Fisheries Business Tax
Sponsor: Cato and Grussendorf
Requestor: House Special Committee on Fisheries
Date of Request: January 18, 1985

FISCAL DETAIL
Agency Affected: Revenue
Program Category Affected:
BRU, Program of Subprogram(s) Affected:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	(7000.0)	(7000.0)	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page for analysis.

Robert W. Elliott

Prepared By: Robert W. Elliott
Division: Research Section

Phone: 465-2173
Date: 1/23/85

Approved by Commissioner: ______ Date: ______
Agency: ______

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

FISCAL NOTE, HB 58
Attachment

Analysis for HB 58:

The above estimates are derived from the Revenue Sources January, 1985, projections for fisheries business taxes, and provide for tax credits effective in FY 86. The estimates reflect the maximum revenue loss the State would experience if all shore-based fisheries business tax returns applied for a 50 percent tax credit, and were subsequently approved by the department. It should be noted that although the fish processors would be the primary beneficiaries of the tax credit, there exists the possibility in certain cases where, if the processors are given a 50 percent credit and the remaining 50 percent is refunded to local governments per AS 43.75.130, the State could eventually not receive any revenues from those fisheries business taxes.

Estimates are duplicated for FY 87 and not shown beyond since price/catch projections are unknown.

Alaska State Legislature

REPRESENTATIVE
BETTE CATO
DISTRICT 6
BOX 775
VALDEZ, ALASKA 99686
(907) 835-4568
WHILE IN JUNEAU
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4858
(907) 586-2660

House of Representatives

COMMITTEES

CHAIRMAN
HOUSE TRANSPORTATION

MEMBER
HOUSE COMMUNITY AND
REGIONAL AFFAIRS

MEMORANDUM January 21, 1985

TO: Representative Peter Goll
Chairman
House Special Committee on Fisheries

FROM: Representative Bette Cato BC

SUBJECT: House Bill 58

On the 16th of January, I have introduced House Bill 58, "An Act relating to the fisheries business tax" which has been referred to the Resources Committee.

The purpose of this legislation is to provide an incentive to processors to upgrade the quality of their present facilities and equipment in order to enhance the quality or increase the quantity of Alaska's processed seafood. This would be done by directing the Department of Revenue to credit shore-based processors the state's portion (50%) of the fisheries business tax which must be used by the eligible processors for capital improvements.

The Department of Revenue would promulgate regulations for approving applications from the processors detailing their planned uses of the tax credit, which the Department would have 60 days to approve or disapprove. Further, the Department would prepare a report to the Legislature each regular legislative session describing what the credits were used for, and if possible, how employment and the processing capacity of the fisheries were improved.

The history of this bill is detailed in my request to the House Research Agency number 85-039. The members of the Committee would doubtless find this paper helpful in their deliberations.

The Department of Revenue has kindly made available to me mailing labels of all the processors names in the event that the Committee would like to contact them for possible testimony, and have the list for future reference. The labels are in Representative Shultz' office, and a copy of them could be obtained from there.

PROPOSED COMMITTEE SUBSTITUTE

HB 58

Pg 1

21 * Sec. 2. AS 43.75 is amended by adding new sections to read:

22 Sec. 43.75.018 FISHERIES BUSINESS TAX CREDIT. (a) A fisheries

23 business is entitled to a credit of not more than 50 percent of the

24 business tax liability under AS 43.75.015 for eligible capital expenditures

25 related to increasing production efficiency and capacity, increasing product diversity, and improving product quality at (TO) a shore-based fisheries business facility in the state made

26 during the tax year if an applicatation for the credit is approved by

27 the department.

pg 3

8 (9) "eligible capital expenditures" includes the price paid for the

9 equipment and the costs of improvements made to depreciable property defined ~~designated~~ by the Commissioner of Commerce and Economic Development

10 but does not include expenditures that are deducted entirely for

11 federal income tax purposes in the year in which they accrued or were

12 paid.

0075g

Alaska Trollers Association

REPRESENTING ALASKA POWER TROLLERS

130 Seward St., No. 213
Juneau, Alaska 99801
(907) 586-9400

1/30/85

HOUSE SPECIAL COMMITTEE ON FISHERIES

TESTIMONY OF THE ALASKA TROLLERS ASSOCIATION ON HOUSE BILL NO. 58

This testimony is submitted in regard to House Bill #58 jointly introduced by Representatives Grussendorf and Cato. Although the intent of the Bill is surely to promote construction of Alaska based facilities in the fish processing sector - a laudable goal - we are concerned about unintended side effects of the Bill.

One of the fastest growing new sectors in the Alaskan fishery is direct marketing of salmon and other species from small catcher/processor boats. Many trollers have for some time frozen their catch onboard and/or direct marketed. These developments have resulted in production of high-quality, high-value Alaskan seafood products which service some of the best markets, and which return "top dollar" to Alaskan fishermen and their communities.

House Bill #58, as written, would discriminate heavily against these producers. Tax, figured on grounds price of their production, would be five percent. No tax credit would be available to offset their capital expenditures for vessel improvements (ie. refrigerator systems, cleaning stations, sanitary systems, etc.) The effective tax on catcher/processors would be more than three times that of shore-based facilities.

We believe that the tax differential between small catcher/processors and on-shore processors should be eliminated. Tax credits should be extended to both types of processors, provided that the catcher/processor or floating processor's vessel is registered in Alaska, and is owned by an individual or company whose principal place of business is in Alaska. If you wish to make a distinction between small catcher/processors and floating processors then perhaps the DEC guideline of five tons round weight per day may suffice. In this way the incentive to growth will be extended to all sectors of the industry.

Earl E. Krygier
Executive Director

January 29, 1985

The Honorable Peter Goll
Pouch V
Juneau, Alaska 99811

Dear Peter:

As you know, I attended part of the hearings on the fisheries tax bill. Upon reflection, I have several concerns with the measure as it stands. Unfortunately, I will be in Sitka at the Board of Fisheries hearings when you next consider the bill, and must rely upon this correspondence to raise my concerns with you.

The tax bill as written, would seem to discriminate against resident, small boat processors. These individuals are already taxed at a higher rate (5%) than shore based processors (3%), most of whom are headquartered out of state. If the measure is not expanded to include this group, the bill would seem directly opposed to the interests of the Alaska economy.

As an example, if I sell a fish to Whitney-Fidalgo at 50¢ pr lb., and earn $5.00, that amount and some of the wages paid to labor will be retained within the economy of the state. (Please note that many cannery personnel are seasonal residents). If this measure passes, Whitney-Fidalgo would pay the state an effective rate of 1½% tax on the ex-vessel price.

If, on the other hand, I clean the fish, pack it in boxes (purchased locally), rent a truck (locally) and haul it to the airport (where they employ local labor), and finally send it to California where I am paid $2.00 pr. lb., the $20 I have earned is retained within the economy of the state, (as well as the wages of the local support group). Yet this process, which would have Alaska retaining a far greater proportion of the value of its fisheries production, is to be taxed at a far greater rate than the process mentioned above.

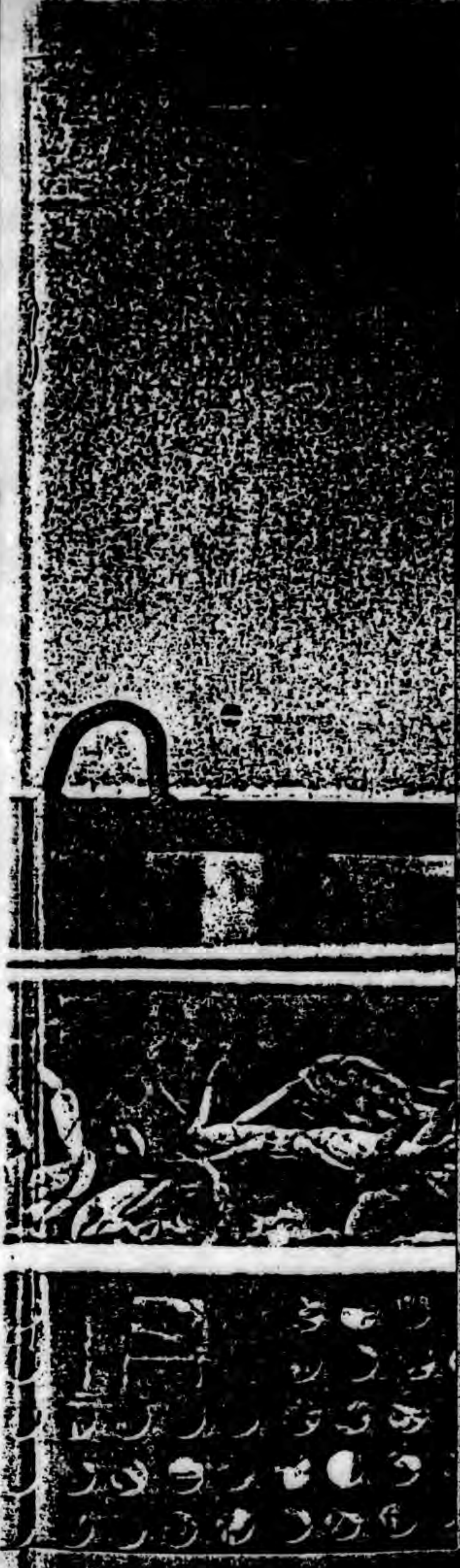
The capital investment credits, would seem to be a direct subsidy to that segment of the fisheries industry which is based in Seattle. While I won't raise objections to that per se, it seems illogical not to extend the same support to resident floating processors. This is especially true in that quality control begins onboard, and such credits might go a long way towards the financing of chilling systems and the like.

The movement towards small boat processing, was largely forced by the low prices offered by out of state corporations. In that the growth of this sector has been successful, both fishermen and the state have benefited. If the tax bill fails to include this group, the legislature will be supporting a continued paradigm of out of state domination of the fisheries, at the expense of small scale Alaskan enterprise.

Thank you for your consideration of these matters.

Sincerely
Neal Gilbertsen

Neal Gilbertsen
Box 1066
Juneau, Alaska 99802



Processors Look to 1985

Down So Long It Looks Like Up

FROM THE TUNA COMPANIES in Southern California to the crab plants along the Aleutian Chain, the West Coast seafood processing industry remained mired in a deep slump as 1984 came to a close, and while 1985 held scattered promise, the objective in many players' minds was mere survival.

"My short-term outlook extends to lunch," says one Alaska operator struggling to utilize high fixed-cost plants that once processed large volumes of king crab. "My long-term outlook extends to the weekend. We're shrunk back as tight as we can get."

If the country at large was mildly anxious about a slowdown in what had been vigorous economic growth, the processors were still trying to cope with a decade — the 1980s — that had offered them unrelenting pain.

Said one operator grimly trying to keep his ship afloat, "There's no such thing as making profits anymore," and the comment seemed to typify the plight of the industry as a whole. Resource dislocations, a dollar that discouraged exports while it drew a flood of product into the United States, and a hotly competitive domestic market driven exclusively by price, all figured in the processors' malaise.

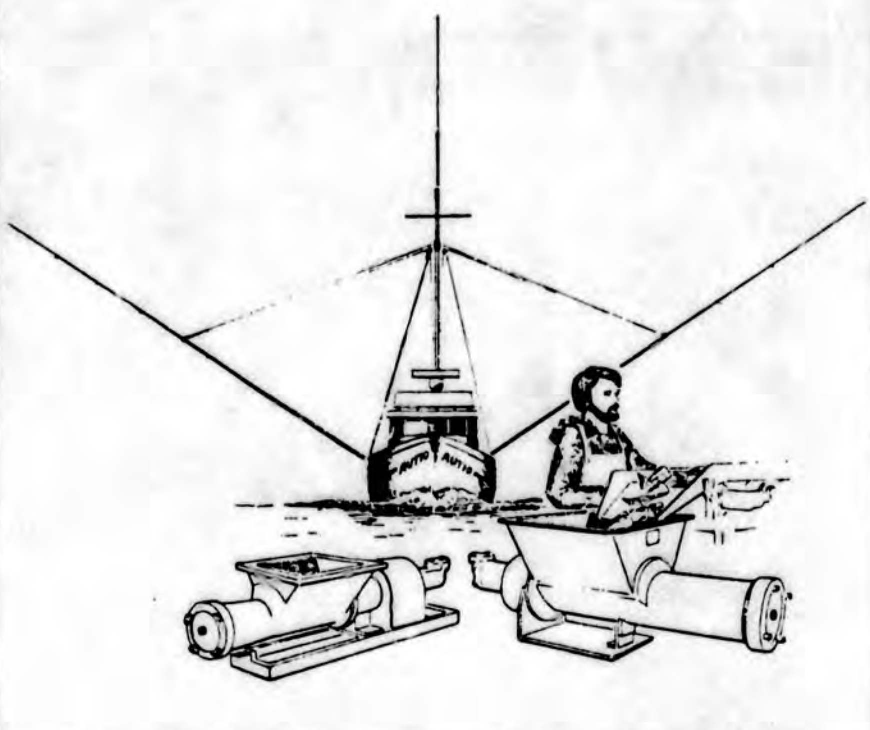
■ A small load of crab ready for processing. The shortage of every species of crab has hurt many processors and forced them either to cut back operations or to look at other species.

OCEAN TRANSPORTATION
OF
REFRIGERATED CARGOES

SUNMAR SHIPPING, INC

Circle No. 31 on Reader Service Card.

Those who know... specify AUTiO GRINDERS



Autio's equipment for the fish industry includes: Fish & crab shell grinders, pumps, baggers, and bait grinders. The grinders are available in several sizes and in both electric and hydraulically driven models. Our satisfied customers include most of the largest processors in the U.S.

AUTiO company
SPECIALIZED EQUIPMENT FOR THE FOOD INDUSTRY

Rt. 4, Box 480
Astoria, Oregon 97103 USA

(503) 458-6191
TWX 910 466 8010
AUTIO ASTO

Circle No. 32 on Reader Service Card.

With traditional strongholds under pressure, says an observer, "everybody's looking for the new niche, but it never appears. That means you've got to do things better just to stay in business, but you reach a point where you can't get any better." Still, he says, if the overall climate has been negative, there are positives worth noting as well. "There is lots of doom and gloom but it's not entirely so, and you've got to paint both sides of the picture."

San Diego Depression

Certainly 1984 yielded no more poignant story than that which occurred in Southern California where the tuna era came perilously close to an end. San Diego may still rank as the world's tuna capital, speculates Bumble Bee's Mike McGowan, but it is a distinction that reflects the past rather than the future. With no more canneries in the border city, fewer boats are coming to call and the tuna trend is inevitably offshore. Where is the next tuna capital, McGowan muses, perhaps Samoa, perhaps Bangkok?

It has been the flood of imported product, primarily from Thailand, that has precipitated the tuna industry's latest crisis, the one that finally overwhelmed the California plants. While most of the domestic industry anxiously sought tariff relief to stem the tide of water-packed product, Bumble Bee took the opposite tack at the behest of parent Castle & Cooke, the international trading firm.

For Castle & Cooke, that the tuna woes came hard on the heels of the Alaska king crab collapse where it had also been a major player, and as the company had closed the doors on its crab subsidiary, it was actively seeking to divest itself of Bumble Bee. Bumble Bee's future remained in doubt, with an internal management group the likely takeover candidate. The company's Hawaii plant had joined the San Diego facility in mothballs, at least temporarily, and processing operations continued only in Puerto Rico.

The San Diego fleet was also riddled with casualties despite the reappearance of an abundant resource in the Eastern Pacific as the world's largest ocean returned to normal in the wake of El Nino.

"I don't know where the industry is going," says McGowan. "I've given up crystal ball gazing."

At Terminal Island, counterpart Ed Ryan, spokesman for Starkist, notes the obvious aftereffects of the tuna industry's failure to obtain tariff relief: the closure of Starkist's mainland facility and the substantial number of boats going out of business.

"There will be an onslaught of imports after January 1," he predicts, and estimates a final 1984 import total of between 8 million and 8.25 million standard cases, with Thailand accounting for 4 million to 4.5 million. In 1985, he says, "I figure the total will reach 9 million easy."

Ryan sees more pitfalls ahead for the industry in 1985, although he anticipates that his own company will be "somewhat better off because we took the gulp on Terminal Island in '84 and got rid of the dead loss situation."

Right now, he says, the big concern is for the boats, and he cites the possibility of strikes and tie-ups in view of prices driven down by the imports. In the market, however, he predicts strong sales activity with an early lenten season, and with the values that exist.

"There's no question that people are buying a lot of tuna," he says. "Prices of $.59 and $.69 a can move a lot of fish."

Santa Barbara Bullishness

Up north in Santa Barbara, Seafood Specialties spokesman Mike Wagner cites a far different experience. "1984 was a good year, an excellent year," he says, and lists three causal factors.

First has been swordfish, with the gillnet fleet "racking them in" and sale prices holding well. And, according to Wagner, the fishermen are "really competitive now in terms of taking care of the fish. The product is gorgeous."

He describes angel shark as the second factor behind his bullishness. After working at it for many years, he says, he's now able to place angel shark all over the country, and this onetime incidental nuisance has become a moneymaker.

The third positive, he says, has been the combination of "lots of little things."

"During the winters of 1982 and 1983, we really got hit hard . . . we just survived," he says, "but during the winter of 1984, we're pulling out of debt." El Nino brought tropical species with it, he says, fish like yellowfin tuna, yellowtail, opa and luvar. "They've given us something to sell along with the standard snapper, sole and shark."

It's not like life is all roses, however. "My biggest complaint," says Wagner, "is that the industry is really changing fast now and you've got to stay up or you're out of business."

Easy to clean • Slings from boat • Fork lift rotation

Tough polyethylene isothermic seafood transport containers

S. M. L. XL (500-2,200 lb. capacity) • Inexpensive • Rugged • Lightweight • USDA & FDA approved.

Tests prove after 10 days 77% of original ice still frozen lasting over 1 month. Preserves #1 Grade A quality.

DIAL (619) CAN-FISH 24 hrs.

WAHOO INDUSTRIES, INC. 1540 Frazee Road San Diego, CA 92108

Circle No. 33 on Reader Service Card.

MOST IMPORTANT NEWS IN 20 YRS. TO ICE USERS

MORRIS AND ASSOCIATES

Introduces the "Power Saver" - Saves Thousands $ in Electrical Cost $

ICE-MASTER ICE MAKER

Models available 2 to 90 tons

The 1985 model Morris "ICE-MASTER" ICE MAKERS are now available for forward-looking leaders in the vegetable, seafood, and food processing industries. The new models reflect over 36 years of engineering research and development by America's leading designer and builder of Ice Making Equipment.

This know-how has paid off in the design of the 1985 Morris Ice Makers and the dramatic reduction in their cost of operation . . . so important when electric cost continues to increase an average of 15% per year.

The 1985 Morris-designed "ICE-MASTER" ICE MAKERS *assure an operating savings of from one-third to one-half* compared with any other units on the market. This latest "state of the art" equipment from Morris features the original "Double Tube" design originated by Morris many years ago.

Call or write for the money-saving details today. Make us Prove It! If you use ice you cannot afford to wait . . . especially at today's electric and water costs, one of your largest overhead expenses.

P.O. Box 1046 • Raleigh, N.C. 27602 • (919) 779-1250 • TX 377-2214

Circle No. 34 on Reader Service Card.

KARAT ROPES Made in Norway

Smaller Diameter, Greater Strength, Less Drag, Floats, 90% stronger than Polypro. 25% stronger than Nylon.

Dia	Approx.Wt./600 ft.	Approx. Tensile
3/8"	20.4 lbs.	4000 lbs.
15/32"	29.4 lbs.	5800 lbs.
9/16"	40.2 lbs.	8000 lbs.

600' coils in stock

Call or write for literature & sample.

National TOLL FREE NUMBER 1-800-752-0202

Everett Marine & Fishing Supply
1220 80th S.W., Everett, WA 98203
206-743-7004

EVERETT Marine & Fishing SUPPLY

Circle No. 35 on Reader Service Card.

SURVIVOR

EQUIPPED WITH:

Hood quilted with 4mm foam.

Reflection strips on chest, shoulders, back and hood.

Detachable, inflatable built in lung.

Detachable safety harness in waterproof tunnel.

Lightstick and sky-blazers in special pocket on the left sleeve.

Chest- and legpockets with a double waterturning flap to prevent water from entering.

By means of velcro, adjustable neoprene closure at the wrist.

Adjustable closures at the ankles and upperlegs.

Special reinforced seat and kneepads.

TECHNICAL FEATURES:

- material: Nylon with a neoprene coating (strong, waterproof and resistant against oil, grease and gasoline).
- taped seams (100% waterproof).
- quilted with a very soft closed cell foam (buoyancy and to avoid hypothermia).
- safety colour: red with a white top (easy to trace at night) and red collar.

Loopholes in all pockets to connect lines for a knife, etc.

Whistle on line in outside pocket.

Non-magnetic sliders on frontzip.

Double waterturning flap over frontzip.

Collar closure by means of velcro and non-magnetic D-ring.

Instant draining, when a man who has gone overboard and wants to climb on board again, by netting in the underpart of the legs.

Call us for a free catalog or come in to see our full line of Imhoff waterproof clothing at:

Sailor's Choice Outer Wear Inc.
2144 Westlake Ave. (at Boat World) • Seattle, WA
(206) 281-7792
Vancouver B.C. office (604) 984-6762

Imhoff of Holland

Circle No. 36 on Reader Service Card.

He cites the appearance of lots of little "peddlar trucks" on the California scene, low overhead operations that outbid the traditional processors for fish, then undersell them in the marketplace. To fight the trend, he says, traditional processors have to get more competitive, but that's "hard to do when you're sitting on facilities that can handle big loads."

"I'm scaling down," he says. "I've had to turn down big loads from guys I want to buy from, but I have to compete with the peddlars."

Another change that has affected the industry is the growing importance of air freight, according to Wagner. The airlines want the business, he says, and they're cheaper than trucks.

"I can ship a container to Seattle [by air] for $53," he says. "That's a real positive."

Monterey Malaise

The optimism fades to the north. Monterey Seafood's Phil Tringale says simply, "1984 stunk." El Nino devastated the bay's squid resource, and it hasn't come back.

What about the future? The biologists aren't optimistic about next year's squid prospects, says Tringale, and that promises to prolong the pain for Monterey processors and the bay's lampara fleet.

Fortunately, he says, there was a good run of mackerel which went into cans and helped pay the bills, but mackerel "isn't a moneymaker."

What to do when your bread and butter disappears? "We're diversifying," Tringale says.

Santa Rosa Regret

At Point St. George Fisheries in Santa Rosa, Les Amundsen shares the uncharitable view of 1984. "It has been a very poor year so far," he says. "Every fishery has been disappointing.

"In salmon, they wouldn't let us catch or buy when they were there. Shrimp — we got a little production at the end of the year, but the market is terrible because of the Norwegian imports. We don't know if we can move what we put up.

"Bottomfish is the same old story. It's never a moneymaker, it just helps cover overhead." Black cod came on late and turned out to be a good market, he continues, but it started out very poorly.

The Dungeness crab situation was muddled, according to Amundsen. The coast had just settled on a price, but production was spotty and the meat market was weak in view of all the available substitutes — artificial

LUNDE MARINE INTRODUCES RAYTHEON'S NEW RAYNAV-550

Raytheon Marine Company is pleased to introduce the smallest, most automatic Loran C receiver... the Raynav 550. This unit provides all the features, performance, and accuracy of bigger Loran C units but at a fraction of the cost!

Raytheon's RAYNAV-550 Loran-C Navigator

Outstanding features include:
- Compact size (measures only 8 x 6 x 4 inches)
- Large, easy-to-read, easy-to-use backlit LCD keyboard
- 50 waypoints
- Auto ASF automatically corrects time delay errors for greatest lat/long accuracy
- Automatic magnetic correction factor converts true bearing data to magnetic bearing
- Automatic waypoint sequencing selects next waypoint "coming" and "going"
- Yacht racing "countdown" timer built in
- Automatic display of distance and bearing to next waypoint
- Speed over ground, Velocity to destination, Velocity along route, and Time to go
- Standard autopilot (NMEA 0180) and color video plotter outputs
- 8 notch filters to block interference
- All this for less than $900.

LUNDE MARINE ELECTRONICS, INC.

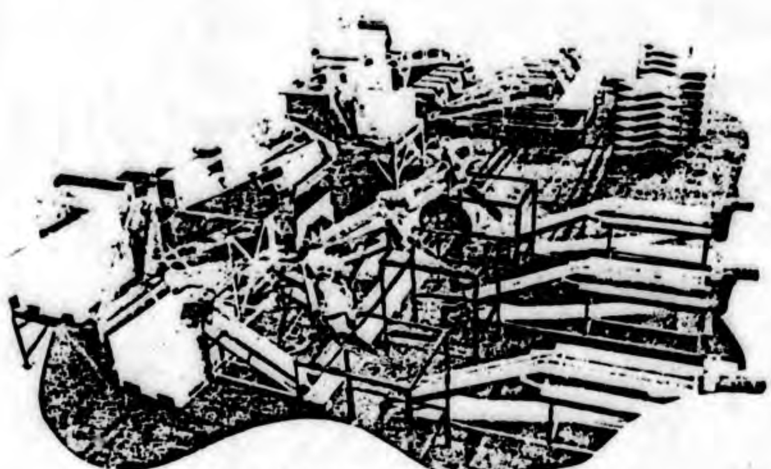
RAYTHEON

5415 24th Ave. N.W. Seattle, WA 98107 (206) 789-3011
Telex 15-2793 Cable: Lunde-Sea Dutch Harbor: (907) 581-1419

Circle No. 38 on Reader Service Card.

You name it, we do it

We've been designing and fabricating seafood processing equipment for nearly forty years. Whether your project is big or small, talk to Flohr first.



Heading, grading & packing line for farm raised salt water shrimp

FMF Flohr Metal Fabricators, Inc.
3920 6th Avenue N.W. P.O. Box 70469
Seattle, Washington 98107
(206) 633-2222

Quality metal fabrication through the skills of individual craftsmen.

Circle No. 39 on Reader Service Card.

product, Korean snow crab, Chilean product. The whole-crab market had been firm for both frozen and fresh product, he says, then the Alaskans started trying to move their brine frozen inventories and the market softened.

"It's quite a gamble," he says of the Dungeness season. "The processors are very cautious. There's so many boats and so much gear, it's going to hit us all at once."

Crescent City Survival

In Crescent City, Eureka Fisheries' Ken Butler looks for improved Dungeness production in 1985, but admits that not all fishermen share his view. Few companies are in a position to freeze much crab and gamble on the market, he says, although Eureka will put up frozen product.

"I'm optimistic," he says. "I'd like to think there will be more product although it's just a gut feeling."

He cites an improving picture for groundfish at year end, with an aggressive market "when we have fish." And, the company has maintained its interest in whiting, he says, and has discovered "a little bit more interest, a little bit more excitement" in the market with product moving to the East Coast and the Midwest for the first time.

The big surprise in 1984 was the appearance of more shrimp at the end of the season, according to Butler. "We got a real spurt, and it was nice size, too. We had only 55,000 pounds up to August 26, and we ended up with over 500,000. Of course, we still have the inventory. We can't compete with the Norwegians."

What has to happen for a successful 1985? "I'd like to see the companies make money so the fishermen can make money," Butler says. "We've been hammered for four years."

"I'm as gloomy as the weather right now," he continues, looking out at an inclement California day. That provokes a comment on the approach of Dungeness operations: "This place looks like a little Dutch Harbor now. There are probably over 200 boats here, and 40,000 or 50,000 pots."

Seattle Surprises

In Seattle, Icicle's Mark Sandvik says 1984 "brought some good things, although the overall climate has been negative. We're an export oriented industry, and the strong dollar presents real problems."

Nonetheless, he cites a surprisingly aggressive Japanese presence in 1984, and a European market that was more active than anticipated. There was big Alaskan salmon production, without correspondingly high yields in British Columbia and along the Lower 48 coast, he says.

"From our standpoint, production went well and sales were better than anticipated volume-wise, although margins were squeezed for us and for the fishermen. There are two ways to go in a climate like this. You can raise prices or squeeze costs, but the strong dollar has taken away the upside, so we're squeezing."

As for 1985, Sandvik doesn't see major changes. "We keep looking for the dollar to weaken, for the king crab to come back and for canned salmon to pick up," he says.

If Sandvik represents the point of view of a big Alaska processor, Ted Otness of Alaska Fresh speaks for a smaller company that was once entirely dependent on crab. "Right now," he says, "my attitude is that the golden nugget won't materialize so we have to be very cautious. We don't have the luxury of being careless. We keep our eyes open for opportunities and try to capitalize when we see them."

"We've gone from a winter company to a summer company. We used to do king crab primarily, but now we're into salmon, halibut, Dungeness and black cod. The crab problems have made us a much broader company. Maybe it's a good thing, and we're in it for the long term.

"Of course, it's no fun. We much more enjoyed being crab processors."

At Seawest Industries of Edmonds, Washington, Darryl Pedersen is a processor for whom the crab collapse has produced an unwelcome degree of financial stress. "The industry hasn't been able to adjust to current economics, especially in shellfish," he says. "Costs are too high, without enough volume. The fishermen are desperate and they have to demand too high a price.

"The processor winds up taking the financial risk up front, which consistently hasn't worked. We speculate and the market continually dies on us. The export opportunities are nil, and not only can't we export but the strong dollar forces others to export from their countries into this one."

What hurts, he says, is having high fixed-cost facilities operating at 20 percent of capacity, when "nobody has been able to cut operating costs by 80 percent." The market has become fractured and values have changed, according to Pedersen, who says, "Price is the only consideration now. Fishermen and processors are losing money, and the consumer is convinced he's paying too much."

Alaska Alternative

For the operators of catcher-processors, 1984 has been a transition year, according to Trans-Pacific's Mike Nordby. In crab, this mode of operation has largely replaced the shorebased industry in Alaska, and while the production declines have been severe, he says, there is also less competition in the marketplace for the companies whose vessels can pursue the remaining stocks.

And, according to Nordby, there are signs that the main production area of bygone years — Bristol Bay — will again yield a harvestable stock in 1985. In the marketplace, he says, after two years of steady price increases that constricted sales opportunities, prices have fallen sharply as failing shore-based companies have sold off their inventories. That development has its downside, he says, but the upside is increased demand not only at the restaurant level but among supermarkets that turned their backs on

Modeled by Catherine E. Hancock

Hancock

Cod-End Tripper

Designed to be the best Tripper on the market. Made from high strength Manganese bronze with a ½" stainless bolt holding the spike. Heavy spike head for hitting with a soft hammer. Fairing guard over the head and nut of bolt. Eight (8) cam wedges on the inside of body. Finished smooth all over. For use with ⅝" or ¾" braided or hard lay line. Weight 5 lbs. Postage paid anywhere in the USA.

$30.

Hancock Marine
300 River St.
Fall River, Ma. 02720
Phone: 617-678-0301

Established in 1935

Circle No. 40 on Reader Service Card.

■ Crates of just-canned salmon. Tuna packers could only wish that their industry was as robust as the salmon industry in 1984.

king crab several years ago.

Throughout this transition period, he says, "catcher-processors have established themselves as the dominant force in production and the most stable force in the market. We've withstood the resource declines, and now we look forward to rebuilding stocks and a market that shows renewed interest in the product."

The growing fleet of catcher-processors also supports the growing production of North Pacific whitefish, and Nordby describes more transitions under way in this segment of the industry. The market has been hit with "tremendous oversupplies" of fillet products, he says, with surging Canadian imports and the strong dollar at work, along with weakness in the European fillet and saltfish markets that has provoked all North Atlantic producers to target upon the U.S. consumer.

On the local scene, he comments, there has been an increase in Alaskan whitefish production as more players have entered the game, along with a decline in Pacific cod abundance that has necessitated a shift in emphasis to Alaskan pollock, a resource that is vast but virtually unknown to the American consumer.

FRED THOMAS

■ Cannery workers pack salmon. The Alaska salmon industry was one bright spot for processors in 1984, and should continue that way in 1985.

Canadian Calculation

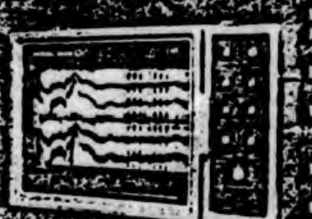
Life is little simpler for Canadian processors today, says Peter Browne of Quality Fish in Vancouver. "Our biggest problem is the strength of the U.S. dollar," he says, with the Canadian dollar pegged to its U.S. counterpart and other currencies weak.

"Our problem is exactly the same as that of U.S. processors," he continues — the difficulty of exporting into Europe, Japan and other countries. "Of course," he says, "in salmon, the U.S. has an advantage because Alaska supplies 50 percent of the world's salmon while we supply 13 percent so their unit costs are lower. As for 1985, I can't speculate on currency values, although I hope the U.S. dollar weakens, and falling interest rates should help."

And so the bright spots are few and far between for processors along the entire coast. The name of the game is to cut costs, diversify and hope, and life can only get better for those who've been able to hang on.

by John Sabella

DUAL FREQ./DUAL RECORDING ECHO SOUNDER MODEL 8001



■ 8" (200mm) chart width
■ Simultaneous recording of 28 & 200kHz switchable to single freq. recording
■ Gain, TVG, White Line, Power independently adjustable for each freq.
■ Built in digital depth indicator shows depths in meters, fathoms, feet and braca without adjustment
■ Maximum depth 1600m/800fm/4800ft in 12 ranges
■ Operates on 12/24/32VDC
■ Heavy duty cast aluminum cabinet

MARINE FACSIMILE RECORDER MODEL FX-240

■ Built-in General Coverage Receiver AM/SSB/CW
Provides continuous coverage from 100kHz to 30MHz without any crystals. Synthesized no-tune-up design allows direct access to any frequency
■ Dry Aluminized Paper
Has no storage problem. Sixty meter (197') length eliminates frequent paper changing
■ Automatic Start-Stop & Framing
■ Compact Light Weight Cabinet
Measures 385(W) x 330(H) x 150(D)mm & weighs 12kg approx.

Jmc Japan Marina Co., Ltd.

36-2-1001 Udagawa-cho, Shibuya-ku, Tokyo, 150 Japan
Phone: (03) 461-3606 / Cable: JAMARINECOL TOKYO / Telex: J23631 JMC

Circle No. 42 on Reader Service Card.

HIGHLINERS VS GREENHORNS

What team do you want to be on?

You can tell a lot about people by the clothes they wear. On a fishing vessel, it's easy to spot the HIGHLINERS. They're wearing Grunden of Sweden foul weather gear. GREENHORNS don't. Anyone who knows anything about being on the water wears Grundén of Sweden, made especially for the professional. It keeps you comfortable in the worst of weather. Freezer tested to -100°F, it won't get stiff in the cold. And the fullness of cut gives you complete body coverage and total mobility.

COFISH INTERNATIONAL, INC.

Specialist in protective clothing in the U.S.A. for: Grunden of Sweden foul weather clothing / Polar Flex insulated work gloves, flotation jackets and vests / More of Norway thermo pile garments. Available at quality retailers in all major fishing ports.

P. O. Box 13, East Haddam, CT 06423 USA
Tel. 203-873-9500/9266 Telex 710-420-0530

Circle No. 43 on Reader Service Card.

Official Business

Alaska State Legislature

House of Representatives

Pouch V
Juneau, Alaska 99811

Phone:
(907) 465-4924

Special Committee on Fisheries

M E M O R A N D U M   January 31, 1985

TO: Members
Special Committee on Fisheries

FROM: Representative Peter Goll
Chairman

SUBJECT: Fisheries Business Tax Revenue Sharing Figures

Attached are the revenue sharing figures for the Fisheries Business Tax requested at the last Fisheries Committee meeting by Representative Jenkins. The revenue sharing with local communities is designed to offset the impact of providing services to processing plants. The tax credits granted by HB 58 would not affect revenue sharing.

SHARED REVENUE FY 84 SPREADSHEET

		Fisheries
1	MUA635 Anchorage Municipality Mun Asst Hand write op [illegible]	6670936
2	CBJ496 Juneau	3916461
3	CIS599 Sitka	21803110
4	BBB699 Bristol Bay Borough	93600224
5	FNS462 North Star Borough	69844
6	HAB944 Haines Borough	5200357
7	KPB465 Kenai Peninsula Borough	53442803
8	KGB466 Ketchikan Gateway Borough	21041660
9	KIB128 Kodiak Island Borough	709694434
10	MAB586 Matanuska-Susitna Borough	9000
11	NSB460 North Slope Borough	
12		
13	CIA323 Akhiok	
14	CIA322 Akiachak	
15	CIA321 Akiak	
16	CIA072 Akutan	10275813
17	CIA693 Alakanuk	
18	CAL596 Aleknagik	
19	CAL597 Allakaket	
20	CIA143 Ambler	
21	CAP063 Anaktuvok Pass	
22	CIA275 Anderson	
23	CIA461 Angoon	
24	CIA062 Aniak	31256
25	CIA057 Anvik	
26	CIA565 Atmautluak	
27	COA027 Atqasuk	
28	CIB781 Barrow	
29	CIB819 Bethel	1862737
30	CBM320 Brevig Mission	
31	CBU595 Buckland	
32	CIC132 Chauthbaluk	
33	CIC319 Chefornak	
34	CIC202 Chevak	
35	COC272 Chignik	23530824
36	CCP269 Clarks Point	8750
37	CCB210 Cold Bay	876480
38	CIC801 Cordova	47591610
39		
40		
		360301593

© WILSON JONES COMPANY G7512 GREEN

No.	Entity	8 Fisheries	9	10	11
1	CIC492 Craig	120499			
2	CID317 Deering				
3	CDJ475 Delta Junction				
4	CID836 Dillingham	10703868			
5	CID072 Diomede				
6	CEA594 Eagle				
7	CIE061 Eek				
8	CIE316 Ekwok				
9	CIE593 Elim				
10	CIE322 Emmonak	2231150			
11	CIF635 Fairbanks	2350			
12	CFY463 Fort Yukon				
13	CIF201 Fortuna Ledge	24685			
14	CIG271 Galena	1250			
15	CIG231 Gambell				
16	CIG315 Golovin				
17	CGB110 Goodnews Bay				
18	CIG200 Grayling				
19	CIH871 Haines	20448			
20	CHC590 Holy Cross				
21	CIH724 Homer	7942680			
22	CIH254 Hoonah	1790149			
23	CHB589 Hooper Bay				
24	CIH520 Houston				
25	CIH314 Hughes				
26	CIH852 Huslia				
27	CIH230 Hydaburg	1000000			
28	CIK111 Kachemak (rec'd FY84 Res. 1/9/85: vo'd. 1/10/85				
29	CIK464 Kake	3073900			
30	CIK313 Kaktovik				
31	CIK197 Kaltag				
32	CIK927 Kasaan				
33	COK301 Kasigluk				
34	CIK891 Kenai	21525692			
35	CIK709 Ketchikan	14115108			
36	CIK060 Kiana				
37	CKC059 King Cove	32242264			
38	CIK196 Kivalina				
39	CIK229 Klawock	858900			
40					
		95665935			

© WILSON JONES COMPANY 67812 GREEN

Shared Revenue FY 84 Spreadsheet Page Three

			Fisheries
1	CIK312	Kobuk	
2	CIK916	Kodiak	55984483
3	CIK311	Kotlik	
4	CIK679	Kotzebue	314347
5	CIK195	Koyuk	
6	CIK228	Koyukuk	
7	CIK088	Kupreanof	
8	CIK133	Kwethluk	
9	CLB218	Larsen Bay	2748606
10	CIL199	Lower Kalskag	
11	CIM310	Manokotak	
12	CMC599	McGrath	
13	CIM109	Mekoryuk	
14	CMV111	Mountain Village	
15	CIN308	Napaskiak	
16	CIN291	Nenana	128521
17	CNS226	New Stuyahok	
18	CIN521	Newhalen	
19	CIN194	Newtok	
20	CIN309	Napakiak	
21	CIN853	Nightmute	
22	CIN085	Nikolai	
23	CIN936	Nome	
24	CIN174	Nondalton	
25	CIN227	Noorvik	
26	CNP676	North Pole	
27	CNU598	Nuiqsut	
28	CIN314	Nunapitchuk	
29	NCC026	Nulato	
30	COH108	Old Harbor	
31	CI0469	Ouzinkie	
32	CIP644	Palmer	
33	CIP470	Pelican	6370694
34	CIP181	Petersburg	38903549
35	CIP194	Pilot Station	
36	CIP307	Platinum	
37	CPH224	Point Hope	
38	CPA471	Port Alexander	31647
39		[illegible]	
40			
			104481847

© WILSON JONES COMPANY 67812 GREEN

Shared Revenue FY 84 Spreadsheet -Page Four

			8 Fisheries	9	10	11
1	CPH306	Port Heiden				
2	CPL107	Port Lions				
3	CIQ193	Quinhagak	63750			
4	CIR225	Ruby				
5	CRM305	Russian Mission				
6		Saint George	107079			
7	CSM472	Saint Marys	3450			
8	CIS192	Saint Michael				
9	CSP331	Saint Paul				
10	CSP978	Sand Point	7571768			
11	CIS106	Savoonga				
12	CIS583	Saxman				
13	CIS191	Scammon Bay				
14	CIS058	Selawik				
15	CIS624	Seldovia	625			
16	CIS366	Seward	9504044			
17	CIS190	Shageluk				
18	CIS189	Shaktoolik				
19	CSP522	Sheldon Point				
20	CIS105	Shishmaref				
21	CIS188	Shungnak* Held Per R & B				
22	CIS396	Skagway				
23	CIS564	Soldotna	1250			
24	CIS187	Stebbins				
25	CIT855	Tanana				
26	CIT473	Teller				
27	CIS272	Tenakee Springs				
28	CIB301	Thorne Bay	1250			
29	CIT854	Togiak	5770128			
30	CTB223	Toksook Bay				
31	CIT305	Tuluksak	1250			
32	CIT186	Tununak	1250			
33	CIU258	Unalakleet	3750			
34	CIU215	Unalaska	30396621			
35	CIU198	Upper Kalskag				
36	CIV 401	Valdez	2329996			
37	CIW222	Wainwright				
38	CIW185	Wales				
39	CIW159	Wasilla				
40						
			55816211			

© WILSON JONES COMPANY G7512 GREEN

Shared Revenue FY 84 Spreadsheet Page Five

		Fisheries
CWM304	White Mountain	
CIW474	Whittier	162115
CIW559	Wrangell	294888
CIY479	Yakutat	3201608
	Total Page 5	3658611
	Total Page 4	55816211
	Total Page 3	104481847
	Total Page 2	95668935
	Total Page 1	360301593
	Grand Total	619927197

© WILSON JONES COMPANY G7512 GREEN

RAW FISH SHARES

FY80 Thru FY84

Fiscal Yr.	Gross Receipts	Penalty/Interest NSF Checks Refunds	Posted to State *	Net	% Shared	Amount Shared	Retained by State
FY84	19,181,148.29	141,578.85	6,641,025.50	12,398,543.94	50%	6,199,271.97	6,199,271.97
FY83	20,709,021.70	185,322.55	6,859,016.29	13,724,682.86	50%	6,862,341.43	6,862,341.43
FY82	23,014,131.52	51,646.17	4,026,992.01	18,935,493.34	30%	5,680,648.00	13,254,845.34
FY81	21,032,183.83	174,521.31	4,460,282.52	16,397,380.00	20%	3,279,476.00	13,117,904.00
FY80	14,716,893.39	37,989.75	2,995,418.64	11,683,485.00	20%	2,336,[illegible]7.00	9,346,788.00
Totals	98,653,378.73	531,058.63	24,982,734.96	73,139,585.14		24,358,434.40	48,781,150.74

* Posted State means those amounts the state retained because processors indicated they were outside all cities and boroughs during processing.

Ms. Sandi Cesarini, Sea hawk Seafoods, Valdez telephoned my office and wished the following information and comments dealing with issues raised at the Special Committee on Fisheries teleconference to be given to committee members:

1. Several floating processors have expressed concerns that HB 58 only provides a tax credit for shore based processors, however floating processors presently have advantages and credits not available to shore based processors.

a. Under the Federal Income Tax system floating processors are eligible to defer 50% of their tax liability. They must provide a plan for capital improvement expenditures to the Department of Internal Revenue to enable them to deduct this tax deferrment off their income for the year. In other words they may take the credit up front which provides them with a real capital advantage over shore based processors. This tax deferred money is also eligible for a partial investment credit.

b. The fact that floating processors are able to move their processing plant provides them with a definite advantage over shore based processors. With fish runs varying each year the floating processors are almost assured of continual "good" catches as they are able to move to where the fish are being caught. A shore based processor on the other hand is limited to one area, if there is a poor catch in that area the shore based processor suffers.

c. While shore based processors remain on land in one area they also contribute to the local economy through payment of property taxes, municipal rates (water & sewer), electricity and they also provide a great deal of the employement in the community.

2. In answer to the suggestion of eliminating the raw fish tax completely Ms. Cesarini feels:

a. This would severely hurt the cities in which the shore based processors live. Ms. Cesarini states that the shore based processors do not wish to gain at the expenses of the communities in which they live.

b. If the raw fish tax was eliminated the end result would be that the shore based processors would have this extra money. HOWEVER, this additional money would now be taxable by the federal government as income received. The tax rate for many shore based processors is high and this additional income would be taxed at this rate (estimated 42%)
Ms. Cesarini feels that the processors would benefit more by being eligible to receive a tax credit up to 50% of their business tax liability for capital immprovement expenditures. As HB 58 allows processors to carry this tax credit forward within the five year period this would benefit shore based processors considerably more than the elimination of the fish tax.

3. In answer to the suggestion of a 25% tax credit.

Several shore based processors have expressed their feelings of this idea. They believed the intent of HB 58 was to introduce a bill that would relieve the pressure on the fish processing industry. A 25% tax credit would not be sufficient to make any measurable impacts on the already suffering industry. HB 58 proposes to offer assistance to shore based processors for the next 5 years to enable them to improve and expand their operations. Due to the pressures the industry is currently experiencing many processors cannot make the improvements necessary to upgrade their facilities which is necessary if they are to survive and the pressures on the industry are to be relieved.
Processors feel if this was the intent and purpose of the bill, why start to put limits on it.

Alaska State Legislature

House of Representatives

Official Business

Special Committee on Fisheries

Pouch V
Juneau, Alaska 99811

Phone:
(907) 465-4924

January 26, 1985

SECTIONAL ANALYSIS OF HB 58
"An Act relating to the fisheries business tax"

Section One: Amends existing fisheries business tax statutes to replace the word "cannery" with "fisheries business."

Section Two: Establishes a program allowing a seafood processing company to claim a credit on up to half of its fisheries business tax liability. The 50 percent cap will ensure that revenue sharing to local communities will not be affected by the tax credits. To qualify for a tax credit, a seafood processor must invest in capital expenditures related to a shore-based facility in Alaska. The credits are limited to five consecutive years, and must be initiated within the 1985-1989 tax years. Thus, the tax credit program will sunset by 1994. Credits for capital investments exceeding the 50 percent cap in a single tax year may be carried forward to a subsequent tax year within the five-year limit. Buyer's of seafood facilities for which a tax credit had been claimed will not qualify for credits on those particular capital improvements. The Department of Revenue is given authority to adopt regulations for administering the program and is directed to act on applications within 60 days of receipt.

This section also provides for an annual report to the legislature on the benefits and utilization of the tax credit program.

Section Three: Provides that the tax credits will not affect revenue sharing with local communities.

Section Four: Defines "capital expenditures."

Section Five: Repeals the tax credit program June 30, 1994.

INTERNATIONAL LONGSHOREMEN'S & WAREHOUSEMEN'S UNION LOCAL 200

307 SOUTH FRANKLIN STREET, JUNEAU, ALASKA 99801 • (907) 586-6642

LARRY COTTER
President

JAY BROWNE
Vice President

MIKE ELLERS
Secretary-Treasurer

January 23, 1985

The Honorable Peter Goll
Alaska House of Representatives
Pouch V
Juneau, Alaska

Re: HB 58

Dear Representative:

Following discussions with Representative Cato and members of the fishing community I have decided that I am in full support of HB 58.

In an earlier letter to you I espoused a view that Alaska would be better off with a revamped fisheries business tax based upon a graduated scale than a tax credit approach as outlined in HB 58. However, I am now of the opinion the tax credit approach is a critical ingredient in providing Alaskan seafood processing companies a means through which their facilities can be modernized. And of course, modernization will play a crucial role in the development of a domestic bottom fish industry.

At the same time, I continue to believe a graduated fisheries business tax would provide added stimulus to seafood processing companies to engage in the processing of underutilized species. And I would strongly urge legislation along these lines be implemented.

In summation, I view these two approaches -- the tax credit for investment approach and the graduated tax approach -- as a meaningful combination of positive taxation which will yield a significant benefit to all Alaskans.

I look forward to speaking further with you on this in the future.

Very truly yours,

Larry Cotter

Larry Cotter
President

cc: The Honorable Ben Grussendorf
The Honorable Betty Cato
The Honorable Fred Zharoff

Official Business

Alaska State Legislature

House of Representatives

Pouch V
Juneau, Alaska 99811

Phone:
(907) 465-4924

Special Committee on Fisheries

M E M O R A N D U M   February 6, 1985

TO: Members
Special Committee on Fisheries

FROM: Representative Peter Goll
Chairman

SUBJECT: Proposed Amendment to HB 58

The Office of Commercial Fisheries Development in the Department of Commerce and Economic Development has suggested that the committee might want to consider the following amendment to HB 58.

Add the following language to line 15, page 2, of the committee work draft:

has been approved or if the property is the subject of a sale or transfer between fisheries businesses having substantially common ownership.

This amendment is aimed at preventing companies from selling equipment or property to subsidiaries from taking advantage of the tax credit program.

alaska fresh seafoods, inc.

PLANT: 105 MARINE WAY P.O. BOX 647, KODIAK, AK (907) 486-5740
HEAD OFFICE: FISHERMEN'S TERMINAL C-3 BLDG. ROOM 131, SEATTLE, WA 98119 (206) 285-2412 TELEX: 32-1296

MARCH 31, 1983

DEAR SIRS,

ENCLOSED, YOU WILL FIND OUR 1982 FISHERIES TAX RETURN AND OUR 1982 SEAFOOD MARKETING ASSESMENT RETURN, ALONG WITH OUR CHECK IN THE AMOUNT OF $174,392.89 FOR BOTH OF THE RETURNS.

LET US TAKE THIS OPPRITUNITY TO EXPLAIN OUR POSITION AS TO THE CURRENT METHOD OF TAXING THE FISHING INDUSTRY.
FIRST, WE ARE A SMALL PROCESSOR AND WE HAD TO BORROW THE MONEY FOR THESE TAXES. WE ARE SURE YOU WILL AGREE OUR $174,392.89 IS QUITE A TIDY SUM. THIS CAUSES AN EXTREME HARDSHIP ON US ESPECIALLY WITH THE STATE OF THE FISHERIES IN SUCH AN ECONOMIC DEPRESSION.
SECOND, IF THE CURRENT METHOD OF COLLECTING TAXES CONTINUES, AS IT IS, IT MAKES IT VIRTUALLY IMPOSSIBLE FOR US AS A SMALL PROCESSOR TO BE ABLE TO EXPAND INTO THE DEVELOPING FISHERIES THAT THE STATE NEEDS SO BADLY IF THE FISHING INDUSTRY IS TO SURVIVE IN ALASKA.
THIRDLY, BECAUSE OF THE BURDEN CAUSED BY THE CURRENT METHOD OF TAXING THE PROCESSORS,YOU WILL FIND FEWER PROCESSORS TO TAX EACH YEAR. THIS OF COURSE WILL LIMIT YOUR TAX BASE WHICH WILL CAUSE MORE TAXING AND FINIALLY RESULT IN THE STRANGLATION OF THE WHOLE INDUSTRY.

WE WILL OF COURSE, CONTINUE TO PAY OUR TAXES. BUT, WE WOULD LIKE TO STRONGLY RECOMMEND A RE-EVALUATION OF THE ALASKA FISHERIES BUSINESS TAX AND THE FISHERIES MARKETING ASSESMENT. HOPEFULLY, THIS WOULD BE DONE WITH THE IDEA OF LESSENING THE BURDEN ON THE FISHERIES INDUSTRY.

YOURS TRULY,

David Woodruff

DAVID M. WOODRUFF
VICE PRESIDENT,
ALASKA FRESH SEAFOODS, INC.

CC: GOVERNOR, WILLIAM SHEFFIELD
HONORABLE BOB MULCHY
HONORABLE FRED ZAROFF

DW:jg

Mail to:
Department of Revenue
Audit Division
Pouch SA
Juneau, Alaska 99811-0400

STATE OF ALASKA
DEPARTMENT OF REVENUE
ALASKA FISHERIES BUSINESS RETURN
AS 43.75.011 - 14

ONE RETURN PER PLANT OR VESSEL

Name (Person, firm or corporation)		E.I.N. or S.S. Number	
ALASKA FRESH SEAFOODS, INC.		911043499	
Mailing Address		Fisheries Business License No.	Tax Year
BOX 647		82-046	82
City, State, Zip Code	Daytime Telephone Number	Location of Operation	
KODIAK, AK 99615	(907) 486-5749	KODIAK	

Enter totals from Schedule A and/or Schedule B as indicated below and multiply by the appropriate percentages.

	TOTAL VALUE			TAX DUE	OFFICE USE ONLY
1. Canned Salmon - Shore-Based Business Schedule A; line 9, column (9A)	$ 0	Multiply by 4½% (.045)	1	$	
2. Other Shore-Based-Established Species Schedule A; line 9, column (9B)	$5,164,037	Multiply by 3% (.03)	2	$154,942.92	
3. Floating Business-Established Species Schedule A; line 9, column (9C)	$ 0	Multiply by 5% (.05)	3	$	
4. Shore-Based - Developing Species Schedule B; line 7, column (7A)	$760,037	Multiply by 1% (.01)	4	$ 7,600.37	
5. Floating Business-Developing Species Schedule B, line 7, column (7B)	$ 0	Multiply by 3% (.03)	5	$	
6. TOTAL TAX (Add Tax Due column, lines 1 through 5)			6	$162,543.29	
7. Enter amount of any prepayments of estimated tax ($25.00 license fee is not a prepayment)...			7	$ 0	
8. Balance due or (overpayment) (Subtract line 7 from line 6)			8	$	
9. Penalty for late filing (5% per 30 day period not to exceed 25%)			9	$	
10. Interest (12% a year)			10	$	
11. TOTAL DUE WITH THIS RETURN (Add lines 8 through 10)			11	$162,543.29	

NOTICE: If the fisheries business covered by this return is a shore-based fisheries business which floats, from 04-575 Vessel Itinerary must be completed and attached to this return.

ALLOCATION OF REVENUE. Please provide the information requested below to allow for allocation of revenue to local governments. If the return is for a vessel, complete the schedule on the right, showing the amount of the taxes allocated to each location. Please see the general instructions for further information.	Vessel Location	A, B or C	% of Tax Due Allocated Line 1	Line 2	Line 3	Line 4	Line 5	Dollar Amount Allocated Per Location
Name of Cannery, Plant, Vessel or Business								
Physical Location of Cannery, Plant or Business								
Check only one: A. ☐ Within incorporated city limits B. ☐ Outside city but within organized borough C. ☐ Outside all cities or boroughs								

I declare under penalty of perjury that this return (including all accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct and complete return.

Signature of Taxpayer	Date
X David ~ Woodruff	X 3-31-83
Signature of Agent	Date

This return must be filed with your payment on or before March 31, 1983. Make your remittance payable to the:
DEPARTMENT OF REVENUE
Audit Division
Pouch SA
Juneau, Alaska 99811-0400

Please attach as appropriate to this return, Schedules A - G and form 04-575 Vessel Itinerary.

Office Use Only

Department of Revenue
Audit Division
Pouch SA
Juneau, Alaska 99811-0400

ALASKA FISHERIES BUSINESS RETURN
SCHEDULE B. DEVELOPING COMMERCIAL FISH SPECIES

Fisheries Bus. Lic. No. 82-046

Developing commercial fish species are taxed at a lower rate than established species. Use this schedule only to report fish and shellfis species that have been designated as "developing" by the Alaska Department of Fish and Game. A list of these species is printed on the bac of this schedule. To report fish species that do not appear on the list of developing species, use Schedule A.

Please read the instructions and definitions on the back before completing this schedule.

DO NOT INCLUDE ESTABLISHED COMMERCIAL FISH SPECIES SEE SCHEDULE A	A. SHORE-BASED FISHERIES BUSINESS		B. FLOATING FISHERIES BUSINESS	
	Pounds	Total Value	Pounds	Total Value
1. Fisheries resources processed that were taken in company-owned or company-subsidized boats operated by employees of the fisheries business or in boats operated under lease or other arrangement. Complete a Schedule C for each column entry.		(1A) $		(1B) $
2. Fisheries resources processed that were purchased by your company from fishermen qualifying for exclusion from payment of the tax. Enter Total Pounds and Total Value from Schedule D in the appropriate column.		(2A) $		(2B) $
3. Fisheries resources processed that were purchased by your company except those resources included on line 2. Complete a Schedule C for each column entry.	261,935	(3A) $ 760,037		(3B) $
4. Fisheries resources that your company custom processed for someone other than a licensed fisheries business. List the name of the person/company owning the product which was custom processed. Attach Schedule E, Owner's Statement of Value, for each person/company you list.				
(a)		$		$
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
(h)				
(i)				
5. Fisheries resources that were custom processed for your company. List the name of the company that processed the resource. Complete a Schedule C for each column entry.				
(a)		$		$
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
(h)				
(i)				
6. Other fisheries resources transported outside the taxing jurisdiction of Alaska for subsequent processing or sale, or sold outside the taxing jurisdiction of Alaska. List the name of the person/company that purchased the product. Complete a Schedule C for each column entry.				
(a)		$		$
(b)				
(c)				
(d)				
(e)				
(f)				
7. TOTALS. Add categories 1-6. Enter (7A) on page 1 of the Return, line 4. Enter (7B) on page 1, line 5.		(7A) $ 760,037		(7B) $

Department of Revenue
Audit Division
Pouch SA
Juneau, Alaska 99811-0400

ALASKA FISHERIES BUSINESS RETURN
SCHEDULE A. ESTABLISHED COMMERCIAL FISH SPECIES

Fisheries Bus. Lic. No. 82-046

IMPORTANT. Before completing this schedule, please read the list of Developing Commercial Fish Species printed on the back of Schedule B. Any fishery resource processed that is included on this list is taxed at a lower rate and must be reported on Schedule B.

CUSTOM PROCESSORS. Use Schedule A only to report those established commercial fish species which you custom processed for someone other than a licensed fisheries business. You are not liable for the tax on fisheries resources you custom processed for another licensed fisheries business. You must, however, report on Schedule F those resources that you custom processed for another licensed fisheries business.

GENERAL INSTRUCTIONS

Before completing this form, please read carefully each category as described on lines 1-7. This will help you determine which categories apply to your fisheries business.

Make your entries in column A only for salmon canned at a shore-based cannery. For fisheries resources other than canned salmon which were processed at a shore-based fisheries business, make your entries in column B. For fisheries resources processed on a floating fisheries business, make your entries in column C.

If this return is for a shore-based fisheries business which floats, form 04-575 Vessel Itinerary must be completed. Make your entries as a shore-based business only if the vessel was anchored in one spot and did not move from that anchorage for any reason during the entire calendar year.

DEFINITIONS OF VALUE - 15 AAC 75.300

VALUE means the actual price paid for the fisheries resource by the fisheries business, including indirect consideration such as fuel, supplies, or gear, whether paid at the time of purchase of the fisheries resource or tendered as a deferred, delayed, or advance payment, except that VALUE means the market value of the fisheries resource if the fisheries resource is taken in company-owned or company-subsidized boats operated by employees of the fisheries business or in boats which are operated under lease or other arrangement.

MARKET VALUE means the prevailing value paid for fisheries resources of like kind and quality by fisheries businesses in the same market area to fishermen who own their vessels.

If you CUSTOM PROCESSED a fisheries resource for someone other than a licensed fisheries business, you are liable for payment of the tax. List the VALUE of the resource as reported to you on the Owner's Statement of Value, Schedule E.

NOTE: Each entry you make in a Total Value column must be supported by a schedule C, D or E as appropriate that shows, in addition to other items, the species that are included in that entry. For lines 1, 3, 5, 6 and 7, complete a Schedule C for each entry. For line 2, attach a Schedule D for each entry. For line 4, attach a Schedule E for each entry.

DO NOT INCLUDE DEVELOPING COMMERCIAL FISH SPECIES SEE SCHEDULE B	A. SALMON CANNED AT A SHORE-BASED CANNERY		B. SHORE-BASED FISHERIES BUSINESS (DO NOT INCLUDE SALMON CANNED AT A SHORE-BASED CANNERY)		C. FLOATING FISHERIES BUSINESS	
	Pounds	Total Value	Pounds	Total Value	Pounds	Total Value
1. Fisheries resources processed that were taken in company-owned or company-subsidized boats operated by employees of the fisheries business or in boats operated under lease or other arrangement. Complete a Schedule C for each column entry.		(1A) $		(1B) $		(1C) $
2. Fisheries resources processed that were purchased by your company from fishermen qualifying for exclusion from payment of the tax. Enter Total Pounds and Total Value from Schedule D in the appropriate column(s).		(2A) $		(2B) $		(2C) $
3. Fisheries resources processed that were purchased by your company except those resources included on line 2. Complete a Schedule C for each column entry.		(3A) $	3,437,088	(3B) $5,164,764		(3C) $
SUBTOTALS. Add lines 1-3 in each column. Enter subtotals on the back of this Schedule A, line 8.		(A) $		(B) $5,164,764		(C) $

04-574 A (1/85)

DEVELOP. O NOT INCLUDE COMMERCIAL FISH SPECIES SEE SCHEDULE B	A. SALMON CANNED AT A SHORE-BASED CANNERY		B. SHORE-BASED FISHERIES BUSINESS (DO NOT INCLUDE SALMON CANNED AT A SHORE-BASED CANNERY)		C. FLOATING FISHERIES BUSINESS	
	Pounds	Total Value	Pounds	Total Value	Pounds	Total Value
4. Fisheries resources that your company custom processed for someone other than a licensed fisheries business. List the name of the person/company owning the product which was custom processed. Attach Schedule E, Owner's Statement of Value, for each person/company you list.						
(a)		$		$		$
(b)						
(c)						
(d)						
(e)						
(f)						
(g)						
(h)						
(i)						
5. Fisheries resources that were custom processed for your company. List the name of the company that processed the resource. Complete a Schedule C for each column entry.						
(a)		$		$		$
(b)						
(c)						
(d)						
(e)						
(f)						
(g)						
(h)						
6. Salmon exported in the round. List the name of the person/company that purchased the salmon. Complete a Schedule C for each column entry.						
(a)		$		$		$
(b)						
(c)						
(d)						
7. Other fisheries resources transported outside the taxing jurisdiction of Alaska for subsequent processing or sale, or sold outside the taxing jurisdiction of Alaska. List the name of the person/company that purchased the resource. Complete a Schedule C for each column entry.						
(a)		$		$		$
(b)						
(c)						
(d)						
8. Enter amounts from Schedule A, Subtotals (from other side) in the appropriate columns.		(A) $		(B) $		(C) $
9. TOTALS. Add categories 4-8. Enter (9A) on page 1 of the Return, line 1. Enter (9B) on page 1, line 2. Enter (9C) on page 1, line 3.		(9A) $		(9B) $ 5,164,764		(9C) $

Department of Revenue
Audit Division
Pouch SA
Juneau, Alaska 99811-0400

ALASKA FISHERIES BUSINESS RETURN
SCHEDULE C. FISHERIES RESOURCES PROCESSED BY SPECIES

Fisheries Bus. Lic. No. 82-046

Complete as many Schedules C as necessary to support the appropriate Total Value column entries made on Schedules A and B. For Schedule A, separate Schedules C are required for lines 1, 3, 5, 6 and 7. For Schedule B, separate Schedules C are required for lines 1, 3, 5 and 6.

For example, if you canned King, Coho and Chum Salmon as a shore-based cannery, and all of the salmon were purchased fresh at the dock, you correctly made an entry on Schedule A at line 3, column A. That entry would be supported by this Schedule, showing detailed information about each of the three species of salmon you processed.

For line category entries made on Schedule A, line 5, or Schedule B, line 5, you must provide a separtate Schedule C for each person or company that custom processed for your company.

For line category entries made on Schedule A, lines 6 and 7, or Schedule B, line 6, you must provide a separate Schedule C for each person or company that purchased the resource which was transported unprocessed out of Alaska's taxing jurisdiction.

For example, if you transported unprocessed fisheries resources out of Alaska's taxing jurisdiction and sold them to companies A and B, company A's name would appear in the box requesting "Name of Person or Company" in the first schedule below. The information for the species which were purchased by company A would then appear in the corresponding spaces. The next schedule would then be completed for the resources sold to company B.

NOTE FOR SCHEDULE B ENTRIES: Herring, shrimp, and certain species of crab are considered to be developing species only in certain areas. Additionally, shrimp are "developing species" in some areas only when caught with pot gear. For these species only, you must list the area where caught. For shrimp, you must also list the type of gear used.

THIS FORM CONTAINS FIVE SCHEDULES C. USE ADDITIONAL PAGES AS NECESSARY.

First complete the boxes immediately below by transferring information directly from Schedule A or Schedule B. For each species included in the totals you enter below, provide the information requested in the boxes to the right.

This Schedule supports the entry made at:

SCHEDULE	LINE	COLUMN
A	3	B

Name of Person or Company (for Schedule A, lines 5, 6 or 7 only, and Schedule B, lines 5 or 6 only)

TOTAL POUNDS (From Schedule A or B entry)
3,437,088 lbs

TOTAL VALUE (From Schedule A or B entry)
$5,164,764

SPECIES OF FISHERIES RESOURCE	AREA WHERE CAUGHT AND TYPE OF GEAR AS APPLICABLE TO SCHEDULE B	TOTAL POUNDS OF THAT SPECIES	AVERAGE VALUE PER POUND	TOTAL VALUE FOR THAT SPECIES
KING CRAB		811,979	3.504	2,845,520
DUNGENESS CRAB		732,377	.749	547,791
TANNER CRAB		716,915	1.62	1,161,540
KING SALMON		476	.666	317
RED SALMON		202,492	.938	189,987
PINK SALMON		191,300	.259	49,500
CHUM SALMON		578,024	.438	253,020
COHO SALMON		195,841	.559	109,458
HALIBUT		7,684	.99	7,631

First complete the boxes immediately below by transferring information directly from Schedule A or Schedule B. For each species included in the totals you enter below, provide the information requested in the boxes to the right.

This Schedule supports the entry made at:

SCHEDULE	LINE	COLUMN
B	3	A

Name of Person or Company (for Schedule A, lines 5, 6 or 7 only, and Schedule B, lines 5 or 6 only)

TOTAL POUNDS (From Schedule A or B entry)
261,935lbs

TOTAL VALUE (From Schedule A or B entry)
$760,037

SPECIES OF FISHERIES RESOURCE	AREA WHERE CAUGHT AND TYPE OF GEAR AS APPLICABLE TO SCHEDULE B	TOTAL POUNDS OF THAT SPECIES	AVERAGE VALUE PER POUND	TOTAL VALUE FOR THAT SPECIES
SCALLOPS		237,922	3.147	748,741
BLACK COD		1,900	.95	1,805
PACIFIC COD		18,400	.304	5,592
CLAMS		3,713	1.05	3,899

ALASKA DEPARTMENT OF REVENUE
Audit Division
Pouch SA
Juneau, Alaska 99811

SEAFOOD MARKETING ASSESSMENT RETURN

AS 16.51.160

DUE DATE:
MARCH 31
following the
assessment y

Name (Person, Firm or Corporation) ALASKA FRESH SEAFOODS, INC.	Assessment Year 1982	This return is an:
Mailing Address BOX 647	Employer's I.D. or Social Security No. 911043495	XX Original Return
City, State, Zip Code KODIAK, ALASKA 99615	Daytime Telephone Number 907) 486-5749	☐ Amended Return

Add all values entered in the TOTAL VALUE column from each Alaska Fisheries Business Return filed for the assessment year (page1, lines
Enter each total in column C below.

A. Fisheries Business License Number	B. Location of Operation or Vessel Name	C. Value of Seafood Products	Office Use C
82-046	105 MARINE WAY, KODIAK, AK	$ 5,924,801	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	

1. Total value of seafood products listed in column C. (If less than $50,000, skip lines 2 - 5, sign the return and file it on or before the due date.)	1.	$ 5,924,801	
2. Multiply the value entered on line 1 by .2% (.002)	2.	$ 11,849.60	
3. Penalty for late filing (5% per 30 day period not to exceed 25%)	3.	$	
4. Interest (12% a year)	4.	$	
5. Total assessment (Add lines 2 through 4)	5.	$ 11,849.60	

I declare under penalty of perjury that this return, including any accompanying statements, has been examined by me and to the best of my knowledge and belief is true, correct and complete.

Signature of Processor X [signature]	Date X 3-31-83
Signature of Agent	Date

File this return o
before March 31, wit
assessment due (lin
Make your remit
payable to the A
Department of Rev

Thank you.

04-578 (12/82)

Alaska State Legislature

House of Representatives

Special Committee on
~~Community & Regional Affairs~~
Fisheries

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-4833

8:30 - 9:15 teleconference
9:15 - 10:00 public

HEARING DATE: 02/05/85 HB58: Fisheries Business Tax

NAME (Please Print)	ADDRESS	REPRESENTING	TESTIFY (Yes or No)	PHONE NUMBER
Geneva Lucille Davenport	P.O. Box 211283	GOLL *	NO	6-1255
John Svensson	305 6th #1 Juneau	Rainbow Sea Foods		6-2580
Shirley Armstrong	Anchorage	Aid Roger Jenkins	NO	465-4453
Royce Weller	Juneau	DOR	YES	465-2300
Steve Kettel	" "	DOR	YES	" "
Cass Parsons	319 Seward St.	United Fishermen of Ak.	Yes	6-2820
Janet A. Fries		Rep. Herrmann	NO	
Catherine Waller	Pouch D	Dept. Commerce	no	2504
Reed Stoops	Suite L-3 #2 Marine Way	Chugach Fisheries	No	6-3561
Howard Wayne	JUNEAU	REP. SUND	NO	4919
Wendy Chamberlain	Juneau	Rep Cato	No	4858
Karl Ohls	Juneau	Sen. Zharoff	No	3473
Dick Reynolds	JUNEAU	DEPT. OF COMMERCE	NO	2163
Alfred A Owen	West Point via Kodiak	Kodiak Alaskan Seafoods Inc	yes	Baranof Rm 819

DELIV[illegible] [illegible]NU

ORIGIN[illegible]

SENT 02/05/85 TIME 09:29

FROM LIOKOD

SUBJEC[illegible] HOUSE FISHERIES HB 58 T/C

PRINT [illegible]TE: 02/05/85 TIME 09:29

*** FINAL T/C STATS ***

DATE: FEBRUARY 5, 1985

SITE: KODIAK LIO

SPONSOR: HOUSE SPEC. COMMITTEE ON FISHERIES

SUBJECT: HB 58 - BUSINESS FISHERIES TAX

LOCAL MODERATOR: LORNA STEELMAN

TESTIFIED:

NAME/REPRESENTING ADDRESS PHONE

1. EILEEN TORMALA, CRUSADER FISHERIES, BOX 692, KODIAK, 4863147
2. KEN ALLREAD, WESTERN AK. FISHERIES, BOX 2360, KODIAK, 486-4112
3. RAY SPAGNOLA, URSIN SEAFOODS, BOX 492, KODIAK, 486-5724
4. SLIM JOR DENSEN, BOX 2502, KODIAK, 486-5607
5. JEROME SELBY, KOD. IS. BOROUGH, 7 10 MILL BAY RD., KODIAK, 486-5736
6. JOHN SEVIER, 521 MILL BAY RD., KODIA K, 486-3234
7. DAVE WOODRUFF, 105 MARINE WAY, KODIAK, 486-5746

OBSERVED:

NAME/REPRESENTING ADDRESS PHONE

1. A. IRVING TORMALA, CRUSADER FISHERIES, BOX 692, KODIAK, 486-3147

TESTIFIED: 7

OBSERVED: 1

TOTAL: 8

TIME START: 8:30AM

TIME END: 9:10AM

```
****************************************************************
*                                                              *
* DELIVER TO: TCJNU                                            *
*                                                              *
*                                                              *
* ORIGINAL                                                     *
* SENT:          02/05/85  TIME: 09:31                         *
* FROM:          LIOSOL                                        *
* SUBJECT        FINAL STATS                                   *
* PRINT DATE:    02/05/85  TIME: 09:32                         *
*                                                              *
****************************************************************
```

FINAL T/C STATS

DATE: TUES.__FEB._5,_1985

SITE: SOLDOTNA

SPONSOR: HOUSE_SPECIAL_COMMITTEE_ON_FISHERIES

SUBJECT: HB_58:__FISHERIES_BUSINESS_TAX

LOCAL MODERATOR: __TIM__

****

TESTIFIED:

NAME/REPRESENTING	ADDRESS	PHONE

****

OBSERVED:

NAME/REPRESENTING	ADDRESS	PHONE

****

TESTIFIED: __0__
OBSERVED: __0__
TOTAL: __0__

TIME STARTED: 8:30A
TIME ENDED: 9:15A

```
*******************************************************
*                                                     *
* DELIVER TO: TCJNU                                   *
*                                                     *
*                                                     *
* ORIGINAL                                            *
* SENT:           02/05/85  TIME: 11:37               *
* FROM:           TCMAT                               *
* SUBJECT:        SPEC. CMTE ON FISHERIES             *
* PRINT DATE:     02/05/85  TIME: 11:38               *
*                                                     *
*******************************************************
```

*** FINAL T/C STATS ***

```
           DATE: ________FEB. 5, 1985____________________________
           SITE: ________SEWARD LTC______________________________
        SPONSOR: ________HOUSE SPECIAL COMMITTEE ON FISHERIES____
        SUBJECT: ________PROCESSORS______________________________
LOCAL MODERATOR: JACKIE CAMPBELL_________________________________
```

```
**********************************************************************
TESTIFIED:
NAME/REPRESENTING                    ADDRESS          PHONE

MELODY JORDAN/ICICLE SEAFOODS--BOX 8--SEWARD  99644

**********************************************************************
OBSERVED:
NAME/REPRESENTING                    ADDRESS          PHONE


**********************************************************************

TESTIFIED: __-1-____                          TIME START: ___________
 OBSERVED: __-0-____                            TIME END: ___________
    TOTAL: __-1-____
```

DE[illegible] [illegible] TI[illegible]ING

ORIG[illegible]
SEN[illegible] 0[illegible]/05/85 TIME: 12:34
FROM TCHOM
SUBJE[illegible] FINAL STATS-FISH. TAX
PRIM[illegible] [illegible]TE 02/05/85 TIME: 12:36

*** FINAL T/C STATS ***

DATE ________FEBRUARY 5, 1985________________
SITE ________HOMER___________________________
SPONSOR ________HOUSE SPECIAL COMM. ON FISHERIES______
SUBJECT ________HB 58 FISHERIES BUSINESS TAX__________
LOCAL MODERATOR: __JEAN SCHROEDER____________________

TESTIFIED:

NAME/REPRESENTING ADDRESS PHONE

1. BEBE BICE\ICICLE SEAFOODS\SEWARD FISHERIES, 842 FISH DOCK ROAD, HOMER, AK. 99603 PH. 235-8107

OBSERVED:

NAME/REPRESENTING ADDRESS PHONE

TESTIFIED: ____1______
OBSERVED: ____0______
TOTAL: ____1______

TIME START: 8:30________
TIME END: 9:15________

```
***********************************************************
*                                                         *
* DELIVER TO  TCJNU                                       *
*                                                         *
*                                                         *
* ORIGINAL                                                *
* SENT:           02/05/85  TIME: 09:14                   *
* FROM:           TCANC                                   *
* SUBJECT:        FISHERIES T-C STATISTICS                *
* PRINT DATE:     02/05/85  TIME: 09:14                   *
*                                                         *
***********************************************************
```

*** FINAL T/C STATS ***

```
     DATE: __________FEB. 5, 1985 - TUESDAY_______________
     SITE: __________ANCHORAGE____________________________
  SPONSOR: __________HOUSE SPECIAL COMM. ON FISHERIES______
  SUBJECT: __________HB 58_________________________________
  LOCAL MODERATOR: __DAVID J_______________________________
```

```
*************************************************************************
  TESTIFIED:
  NAME/REPRESENTING                 ADDRESS        PHONE


*************************************************************************
  OBSERVED:
  NAME/REPRESENTING                 ADDRESS        PHONE

*************************************************************************

  TESTIFIED: ___00____                      TIME START: ___8:30_____
   OBSERVED: ___00____                        TIME END: ___9:15_____
      TOTAL: ___00____

***********************************************************
```

```
**************************************************************
*                                                            *
* DELIVER TO: LTCJ                                           *
*                                                            *
*                                                            *
* ORIGINAL                                                   *
* SENT:           02/05/85  TIME: 09:01                      *
* FROM:           LIOKOD                                     *
* SUBJECT:        HB 58 T/C HOUSE FISHERIES                  *
* PRINT DATE:     02/05/85  TIME: 09:02                      *
*                                                            *
**************************************************************
```

TO: BILL/JUNEAU
     DONNA/KODIAK

PARTICIPANT LIST #3

TO TESTIFY:

7) DAVE WOODRUFF

EOM

```
*****************************************************************
*                                                               *
* DELIVER TO: LTCJ                                              *
*                                                               *
*                                                               *
* ORIGINAL                                                      *
* SENT:          02/05/85  TIME: 08:45                          *
* FROM:          LIOKOD                                         *
* SUBJECT:       HB 58 T/C HOUSE FISHERIES                      *
* PRINT DATE:    02/05/85  TIME: 08:45                          *
*                                                               *
*****************************************************************
```

TO : BILL-TCJNU

FRO KODIAK

HERE TO PARTICIPATE IN THIS MORNINGS HOUSE SPECIAL COMMITTEE ON FISHERIES TELECONFERENCE ARE THE FOLLOWING PEOPLE:

TO TESTIFY FROM KODIAK:

1) EILEEN TORMALA
2) KEN ALLREAD
3) RAY SPAGNOLA
4) SLIM JORDENSEN
5) JEROME SELBY

```
****************************************************
*                                                  *
* DELIVER TO: LTCJ                                 *
*                                                  *
*                                                  *
* ORIGINAL                                         *
* SENT:          02/05/85  TIME: 08:47             *
* FROM:          LIOKOD                            *
* SUBJECT:       HB 58 T/C HOUSE FISHERIES         *
* PRINT DATE:    02/05/85  TIME: 08:49             *
*                                                  *
****************************************************
```

TO: BILL/JUNEAU
FR: LORNA/KODIAK

PARTICIPANT LIST #2

TO TESTIFY:

6) JOHN SEVIER

EOM

```
****************************************************************
*                                                              *
* DELIVER TO: LTCJ                                             *
*                                                              *
*                                                              *
* ORIGINAL                                                     *
* SENT:          [illegible]                                   *
                 [illegible]
  [illegible]    [illegible]                                   *
* PRINT DATE:    02/05/85  TIME: 08:41                         *
*                                                              *
****************************************************************
```

TO: TCJNU
FROM: HOMER Homer

PARTICIPANT LIST #1

TO TESTIFY:
1. BEBE BICE, ICICLE SEAFOODS\SEWARD FISHERIES, 842 FISH DOCK ROAD, HOMER, AK. 99603 PH. 235-8107

REPRESENTATIVE
PETER GOLL

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4825

STATE OF ALASKA
HOUSE OF REPRESENTATIVES

M E M O R A N D U M February 4, 1985

TO: Members
Special Committee on Fisheries

FROM: Representative Peter Goll
Chairman

SUBJECT: Investment Tax Credits

The Department of Revenue responded to our request to supply materials relating to the effectiveness of tax credits in stimulating economic development by supplying numerous articles and reports. Representative Hurley's staff plowed through the voluminous materials and was kind enough to identify information relating to the effectiveness of tax credits.

Attached are copies of the pages flagged by Representative Hurley's staff with pertinent comments highlighted. The entire volume of materials was too large to duplicate in its entirety; the materials will be made available to any committee member upon request.

STATE TAXATION AND ECONOMIC DEVELOPMENT

ROBERT J VAUGHAN

COUNCIL OF STATE PLANNING AGENCIES 1979

SUMMARY AND RECOMMENDATIONS

State tax policy is in disarray: states compete for footloose firms by offering expensive tax holidays; households are in revolt against rising property tax burdens; cities demand state aid for social services; and the federal government mandates costly programs that must be paid for with state funds. By-passed by the federal grant programs spawned by the recent recession, state officials have been trapped in a reactive role and have been left out of the urban policy debate. The present state tax structure reflects the hasty application of band-aids rather than the considered surgery that is necessary to meet current economic problems.

This paper examined how the structure of state and local taxes can best be adapted to meet these problems. It approached the problem from a broad perspective, analyzing not only business taxes, but also the state/local fiscal structure and personal taxes, since these issues also influence the local pattern of development. The paper's conclusions, summarized below, should help local policy makers in the difficult tasks that confront them.

WHAT SHOULD A STATE ECONOMIC DEVELOPMENT STRATEGY LOOK LIKE?

Taxes are only one factor among many—and a relatively minor one—that affect state economic development. The quality of the local labor force, transportation facilities, energy prices, and population growth all contribute to shaping local development. In fact, population growth may be the single most important factor. Households are not only drawn by local job openings but also by an attractive residential and recreational environment. This implies that:

An economic development strategy must aim at attracting skilled workers as well as factories. Concentrating on industrial parks and business tax incentives at the expense of residential amenities will meet with only limited success.

As the distribution of jobs and people change in response to technological change and other market forces, as well as to public sector policies, underlying market conditions change. Wages and land prices are driven up in growth areas, while costs fall in slower growing regions. The future is not an indefinite extension of the past. A loss of manufacturing jobs may be counterbalanced by an increase in service industry employment. The lesson is that:

An economic development strategy must recognize changing local comparative advantage, and not attempt to wind the clock back. For the Northeast, and for many urban areas, manufacturing can no longer be the main engine of growth.

Most local employment growth occurs through the birth of new firms and the expansion of existing, small companies. Very little growth (or decline) results from the inmigration (or outmigration) of firms. Taxes play only a minor role in the location decisions of migrating companies. Therefore:

An economic development strategy must focus on the overall economic climate, and not waste resources on special incentives for a few favored firms. It must encompass a broad range of policies, including training programs, infrastructure development, and capital mobility as well as a balanced tax structure.

Finally, the relatively small role played by taxes does not imply that state governments are powerless to influence growth and development. Positive and coordinated leadership and a minimum of red tape are important considerations.

WHAT GUIDELINES SHOULD A STATE EMPLOY TO IMPROVE ITS TAX STRUCTURE?

The primary purpose of taxes is to raise revenues to pay for local services. This must be achieved with as little disruption as possible to businesses and households, as fairly as possible, and at the lowest possible administrative cost. The following guidelines should help in the formulation of local fiscal policy.

Efficiency

■ The overall burden of taxes should reflect the local preference for public services.

■ The tax structure should not encourage undesirable reactions by taxpayers, such as business or household relocation.

Equity

■ The greater a taxpayer's resources, the greater his tax payments should be.

■ Taxpayers with similar resources should incur similar tax burdens, all other things being equal.

■ The tax burden for tax
related to the value of publ

Administrative Cost

■ The tax should be simple
■ The tax revenue should b
■ The tax revenue should g
services grows.
■ The tax revenue should b

These guidelines cannot
necessarily compatible. An i
at a loss of equity, for examp
offs to be made explicitly a
There are also constraints
can pursue these goals. Fir
structure of fiscal federalism
of the federal and local gov
their desire to maintain so
limited by the fact that ther
who pays for specific taxes
hold behavior.

WHAT SHOULD STATES DO ABOUT THE STATE/LOCAL FISCAL STRUCTURE?

among their component juri
of recent court decisions con
government in its recent gr
federal grants that enabled n
mid-1970s recession more-or
be expected to step into th
source of local government r
payers' revolt. It is increasing
raise revenues.
There are several steps that
fiscal structure:

■ *Encourage metropolitan*
central cities with their relat
needed fiscal relief. Althoug
can provide some incentive

higher grants—a policy that the federal government should follow.

■ *Retarget state revenue sharing grants.* At present, most state aid is distributed on the basis of population, which minimizes its redistributive impact. Aid can be better targeted to needy areas.

■ *Introduce or expand state-financed circuit breakers.* These are an effective way to provide relief to low-income households. To be as equitable as possible, these should be extended to renters and place an upper income limit on eligibility. Federal assistance should be provided, perhaps using the state portion of General Revenue Sharing.

■ *The progressivity of state taxes should be increased in those states with regressive systems.* This can be done either by switching from regressive to progressive taxes or increasing the progressivity of present taxes. However, a sudden and sharp increase in progressivity may encourage the outmigration of high-income households.

■ *States should continue to lobby for increased federal aid for programs targeted to the poor.*

WHAT SHOULD STATES DO ABOUT BUSINESS TAXES?

There is a popular myth that a reduction in the level of state business taxes will produce a flood of new development. The truth is very different. The level of business taxes has very little impact on the local growth rate or on the interstate location decisions of firms. To some extent, intrastate differences in business taxes contribute to the movement of firms away from high-taxing central cities to less heavily taxed suburbs and non-metropolitan areas. Payroll taxes exacerbate the problem of unemployment, particularly among the less-skilled. Investment may be deterred by high local taxes. Some policies which may improve the efficiency and equity of the present business tax structure include:

■ *States should resist the temptation to cut business taxes in order to stimulate development.* Reduced business taxes have little effect on location or investment decisions. While states should ensure that their taxes are not greatly out of line with those of their neighbors, a stronger case can be made for reducing personal taxes to encourage development by attracting skilled workers than for business tax cutting.

■ *States should take steps to reduce interjurisdictional differences in tax rates.* The relevant steps are described above.

■ *States should review their allocation formulas for firms operating in more than one state.* Several states have formed a tax compact to ensure that multi-state companies pay taxes on their full tax base. While other states should follow suit, this will necessitate a simplification of interstate tax legislation and a move toward a more standardized definition of tax base. Federal legislation will be necessary for this.

■ *Some states should co*
their business taxes. The
nue, is simpler to admin
much as traditional busi
■ *States should consider*
of the burden of the prop
land. This would reduce
the property tax, and d
delays urban redevelopm
difficulties in such a shif

WHAT SHOULD STATES DO ABOUT TAX INCENTIVES?

promise to expand. Ther
have had much influence
These misplaced energi
redirected in several way

■ *With federal assistanc*
programs they offer. Th
that offer such incentives
mulas. States should co
climate, not on bribing a
■ *States should act to red*
tion. This can be done b
prohibition, or through
■ *The exemption of the i*
and from state and muni
taxes should be replaced
■ *If states are to use tax i*
subsidies. Wage subsidies
can be targeted to the ha
tax credits against payrol
is one of the few policies
■ *States should rely mor*
the reduction of red tape
manipulation.

WHAT SHOULD STATES DO ABOUT PERSONAL TAXES?

rates tend to reduce the r

Table 13
State Revenue from Selected Business Taxes
FY 1977

Tax	Revenue ($ Millions)
Business property taxes (state & local)	32916.0
Corporate net income	7259.7
Licenses	6897.0
Severance	2028.7
Unemployment insurance (FY 1975)	5135.0
Motor vehicle fuel sales	8660.0

SOURCE: U.S. Bureau of the Census, *Governmental Finances 1976-77*, Washington, D.C., 1978, and data presented in Tables 14 and 22.

$100 billion. Yet there are no Congressional committees overseeing these large "programs." At the state level, even less is known. The only states which systematically prepare a thorough annual review of state and local tax expenditures are California, Wisconsin, and Maryland. Other states should follow suit.

With these caveats, we can still make some general observations (Table 14). There are large differences among states in unemployment compensation payments, expressed as a percent of total wages. These differences arise because of differences in local wage rates, benefit levels, turnover rates, and unemployment rates and duration. In Colorado and Texas, employer contributions average less than 0.2 percent of the total wage bill, but top 2 percent in Alaska and Rhode Island. Since wages are about one-third of total costs in manufacturing (two-thirds of value added), these variations will be much more important than the difference between corporate tax rates of 4 and 8 percent since corporate income rarely tops 10 percent of gross sales.

The discussion in this chapter yields several conclusions concerning the impact of business taxes:

■ First, contrary to popular belief, interstate variations in business income taxes have had little impact on the location and relocation of businesses. Firms have not fled South to escape from high corporate tax rates in the North. High rates may deter new investment—but not by a great deal.

■ **Second**, more import
income taxes are *intras*
Business has expanded
areas in part because of h
taxes may have deterred
may benefit from shifting
improvements.
■ **Third**, payroll taxes ha
ment, and have probably
■ **Fourth**, the corporate i
lated to ability to pay. H
value of services received
source. Some states may
value added.
■ Fifth, the allocation of t
firms is inequitable. Son
inequity. Others should f
■ **Finally**, there is no re
tax levels. In fact, househo
of the increase in state ex
excessively high taxes ma
perhaps from simplifying t
states should focus on pe

EFFICIENCY

present level and structur
high tax levels in some
reduced unemployment a
dictional differences in tax
firms away from high taxi
in the Northeast. Third, it
and therefore discourage

These beliefs are widely
business community has lo
business to personal taxes.
special tax incentives to
We shall see that there is
claims, and that the third e
which has received little att
buting to unemployment

Overall Tax Levels

bated as heatedly and wi

d Business Taxes

Revenue ($ Millions)
32916.0
7259.7
6897.0
2028.7
5135.0
8660.0

Finances 1976-77, Washington, D.C., 22.

ional committees overseeing
.el, even less is known. The
a thorough annual review of
ornia, Wisconsin, and Mary-

e some general observations
nong states in unemployment
percent of total wages. These
in local wage rates, benefit
t rates and duration. In Colo-
average less than 0.2 percent
in Alaska and Rhode Island.
costs in manufacturing (two-
will be much more important
tax rates of 4 and 8 percent
ercent of gross sales.
veral conclusions concerning

rstate variations in business
the location and relocation
o escape from high corporate
ter new investment—but not

- Second, more important than *interstate* variations in business income taxes are *intrastate* variations in business property taxes. Business has expanded more rapidly in suburban or even exurban areas in part because of high taxes in central cities. Those same high taxes may have deterred investment and development. Some areas may benefit from shifting some of the tax burden onto land and off improvements.
- Third, payroll taxes have exacerbated the problem of unemployment, and have probably affected low income employment.
- Fourth, the corporate income tax is equitable inasmuch as it is related to ability to pay. However, it is not necessarily related to the value of services received, nor is it a predictable or stable revenue source. Some states may benefit by shifting toward a tax related to value added.
- Fifth, the allocation of business income among states for multistate firms is inequitable. Some states have taken steps to reduce this inequity. Others should follow.
- Finally, there is no reason for states to strive to cut business tax levels. In fact, households rather than business have paid for most of the increase in state expenditures since World War II. States with excessively high taxes may gain from reducing their disparities, and perhaps from simplifying their tax structure. But if taxes are to be cut, states should focus on personal rather than business taxes.

EFFICIENCY

Proponents of business tax cuts raise three efficiency arguments against the present level and structure of business taxes. First, they argue that high tax levels in some states deter business activities leading to reduced unemployment and lower investment. Second, interjurisdictional differences in tax rates have contributed to the movement of firms away from high taxing locales—particularly large central cities in the Northeast. Third, it is argued that business taxes fall on capital and therefore discourage new investment. 3

These beliefs are widely held. Their persuasive presentation by the business community has led to a general shifting of tax revenues from business to personal taxes, and to a general pressure on states to offer special tax incentives to stimulate investment and attract business. We shall see that there is no evidence to substantiate the first two claims, and that the third effect is relatively weak. However, in an area which has received little attention—payroll taxes—tax policy is contributing to unemployment among the unskilled.

Overall Tax Levels

Do high state taxes deter economic development? Few topics have been debated as heatedly and with less empirical foundation. Many state

:t Bureau of New York City
1 a somewhat unique position.
n move to either New Jersey or
:t with the city. Both states have
re—in part, one assumes, to try
:ss. The study, which examined
porate profits tax in 1966, con-
l left New York City in response
increase in local taxes would
nt. Unfortunately, it is difficult
odus of manufacturing from the

als within a metropolitan area
rbanization process is that part
eflected in land prices. Land
l, all other things being equal.
hile land in high taxing locales
npare the tax savings with the

talization of property tax dif-
central city/suburban differ-
Fuller and Towles, 1978; and
sta, and Stocker (1978) point
er incentives . . . These actions
are not always fully capitalized
ss is limited by imperfections in
paucity of available sites or
individual sites, and require-
and other land use restrictions,
the market."
may be greater for firms with
end to be large manufacturing
facilities and other features
le may, therefore, be induced
bile sectors. However, the few
e to gain a degree of political
minimize the extent to which
ation rents.
any studies of industrial loca-
t their region on the basis of
et growth, availability of raw
. and the quality of the labor
cation and skills of the labor
: of unionization. Compared
shrink in importance.

Of course, irrefutable evidence is hard to find. It is difficult to determine why a company hooses a particular location. Rigorous econometric models rarely have appropriate or accurate data to work with, and questionnaires are only as reliable as their often biased respondents.

The near unanimity of findings from all sources gives some credibility to the basic proposition that tax rates have not been important. Schmenner (unpublished) concludes that "cities and towns need neither fear that high tax rates alone will drive out all industry nor rejoice that low tax rates guarantee rapid industrial development." Schmenner also points out that analyzing the relationship between taxes and location is confounded because the causation runs two ways. While industry may be marginally attracted by low tax rates, a heavy local concentration of industry can lead to a low tax rate because of the size of the base.

There are other aspects of the business tax structure that may also influence location decisions. From the point of view of computing taxable income, land cannot be treated as a depreciable asset. This encourages firms to avoid areas where land prices are high and may decline. The bias is toward suburban areas where prices are low and expected to rise. This bias is reinforced by the fact that capital gains are taxed at a lower rate than corporate income. This shelters rapid appreciation from taxes, encouraging location at the urban fringe. Fulton (1971, p. 10) illustrates this process with the case of a company that:

> 10 years ago acquired a very large site on Route 128 near Boston. Before the company could complete its plans for construction on the new site, it received—and accepted—an offer for a small portion of the property at what constituted a substantial profit. This was the first of many such transactions, all with increasing profitability, to the point where the company was realizing greater profits in land sales than in manufacturing. As a result, when another division of the same company planned expansion in the Chicago area, the company insisted on the acquisition of 100 acres, even though the utmost requirement for the proposed facility was only 10 acres.

Business Taxes and New Investment

The fact that the corporate income tax falls upon the net income from capital makes it quite progressive (see below) but also encourages the substitution of labor for capital, and discourages new investment. We do not know how powerful these tendencies are. Labor is also heavily taxed through such payroll taxes as unemployment insurance and social security. And capital receives a multitude of special allowances such as investment tax credits and depreciation allowances above the true depreciation rate.

›ales.

·ion of Income for Tax Assessmen'.

ıe corporate income tax, but also a .or-
:ible tax, a financial corporations tax,
privilege tax.

they treat depreciation:
:ipment but does tax depreciation.
rchased but does not tax depreciation

:d depreciation.

'78); and testimony before the House
›well Harris, George Peterson, Philip
rinted by the Committee in *Rebirth of*
shington, D.C., 1976.

: cost of a home: today, it is 25 percent

6

WHAT SHOULD STATES DO ABOUT TAX INCENTIVES?

A direct result of the belief that business taxes really matter has been the proliferation of special tax incentives designed by states and localities to attract new businesses and to encourage expansion and new investment among existing firms. There are no reliable estimates as to how much in tax receipts are currently foregone under these programs. Smokestack chasing is *de rigeur* for states that adopt an aggressive development program. However, the clear conclusion of this chapter is that, for the most part, *firms are rewarded for doing what they would have done even in the absence of the incentive.* The fixation of states and localities on attracting manufacturing firms by whatever fiscal means possible has arisen from the belief that a new firm will yield a fiscal surplus—that is, its contribution to local tax revenues outweighs the costs of providing public services to the firm and its employees (Groves and Riew, 1963; and Kee, 1968). More recent studies, however, have shown that a new firm is not an unmixed blessing. Even in a community with relative high unemployment, 100 new jobs does not reduce local unemployment by 100. At least 50 of those slots are likely to be filled by new inmigrants who will require schooling, streets, sewers, and water. Other jobs might be filled by those not previously in the labor force. Secondary employment—retail and services—will also make demands for public services and do not necessarily yield a fiscal surplus. In fact, Gerweck and Epp (1976) show that secondary employment impacts may halve the net fiscal surplus resulting from a new factory. *When the state abates or exempts local taxes to induce a firm to move in, the net benefits may well become negative.*

The adoption of tax incentives tailored to the wishes of the few Fortune 500 companies that move is based on the mistaken belief that there is a fixed stock of manufacturing jobs in the nation and that the only way a state can improve its relative position is to steal from other states. The behavior is analagous to that of the homeowner who tries to maintain a green lawn by stealing his neighbors turf—at great effort —every time his own land turns brown. It is much easier and more productive to water regularly and apply fertilizer. We should reiterate the conclusions from earlier chapters. There are very few footloose firms. If growth is to be accelerated, then it must come from increasing the local company birth rate or from expansion in existing local companies, especially small firms. *Development efforts must focus upon* *ɔon expensive incentives to a few*

‌ɟesigned not only to attract foot-
ge existing firms to expand their
ɩocally. However, as we argued in
siness income and property taxes
estment decisions, and, therefore,
ırd for purchasing additional
ɔh impact. In fact, we will argue
from capital to create jobs is per-
to reduce the cost of labor. If a
to generate employment, and we
ɩir effectiveness, it should try to
s by introducing wage subsidies.
ɩness incentives is a large under-
variety. For example, we argued
ɩouble weighting of out-of-state
ɩmpacts should be considered as
ɔ of the financial services, tax
ovided by states for firms. The
personal and corporate income
ntees that property taxes will not
ɩn of new manufacturing equip-
ccelerated depreciation. Special
stry, state funds for research and
dding on federal procurement
from tax exempt revenue bond
r local development efforts. The
ɩainly upon tax incentives, but
ɩsures are also briefly discussed.
campaigns by states and cities
ɩetition has become.[2] New York
ving business the business any
to claims to be "Fund City", and
ɔcording to its $500,000 a year
ɩmission advises, "When the old
s, CUT OUT FOR TEXAS."
t in magazines alone, and the
ımped by 40 percent in the first

ɩas often been cast as the old and
t its economic base from the ag-
belt. The truth is very different.
nt states—a cut-throat regional
eceipts and places established

factories at a disadvantage relative to the brash newcomers. Ohio and Pennsylvania rival for Volkswagen, while steel companies languish. Firms leave New York State for adjacent Connecticut, New Jersey, and Pennsylvania. Most of the states offering twenty or more special programs (cf. Table 18) are in the Northeast.[3] In fact, public pressure for such measures is most intense in states where the economic development rate has been slower than the national average. A recent survey by the Advisory Commission on Intergovernmental Relations (1977) suggests that public support for tax incentives for business is closely related to local economic fortunes and prospects.

Question: Some states have passed laws which give special tax breaks or other incentives to industries that will locate facilities or expand present operations in that state. Do you favor or oppose such a policy?

	Percent of Total U.S.	Percent of Respondents by Region			
		Northeast	North Central	South	West
Favor	50	57	48	52	42
Oppose	36	30	38	30	49
No Opinion	14	13	13	18	9

SOURCE: ACIR, *Changing Public Attitudes on Government and Taxes*, Washington, D.C., 1977.

If this wasteful competition is to cease, state officials must educate their constituents about the futility of these programs.

EFFICIENCY

Do tax incentives work? Do they attract new firms and encourage new investment? There is no evidence that these concessions have had any significant effect on local growth.[4] Tax concessions are ineffective precisely because state and local taxes are, themselves, relatively unimportant as location determinants.

The tax battle is not only waged between states, but between counties and municipalities within a state. County officials offered a new bicarbonate plant a 12 year property tax break for moving to Seneca County, Ohio, yet the corporation's controller was quoted as saying, "The tax abatement was a nice kicker on the end, but we chose Ohio mainly because of its strategic location for distribution and market growth."[5]

Weinstein (1977, p. 75) concludes that:

> Taken as a whole, these incentives probably represent a serious misallocation of resources. In the main the government is subsidizing firms

for performing activities they would have undertaken in any case. Furthermore, when one considers that any incentive designed to reduce a company's state or local tax bill will increase that firm's federal tax liability—the superfluity of tax incentives becomes even more apparent. The result is a form of reverse revenue sharing in the amount of 48 cents on the dollar.

Even if local investment expanded by 2 percent as a result of a local investment tax credit, this still means that 98 percent of credits are flowing to firms that would have invested anyway.

Not only are tax incentives ineffective, they are also costly. Harrison and Kanter (1976) estimate that the ten tax incentives offered by Massachusetts cost at least $100 million a year, revenues that could be used to reduce residential taxes or improve local services. In just over a year, New York City has exempted $461 million in properties from $44 million in taxes. St. Louis has exempted nearly $1 billion worth of real estate—half the city's property tax base. By the early 1980s, Michigan's incentives may cost $50 million in state revenues and $30 million in local revenues.

Of course, to determine whether a measure is worthwhile, it is important to compare its benefits with its costs. A local development incentive does not have to be very effective to be worthwhile if its costs are negligible. The few studies that have compared the costs and benefits of fiscal incentives do not provide a very optimistic picture, although they do show that, under some conditions, fiscal incentives may be cost effective. Morgan and Hackbart (1974) concluded that if locally accruing benefits are not less than 50 percent of value added in a local plant and not less than 5 percent of the investment is a result of an incentive, then that incentive may be cost effective from the viewpoint of the state, although, as we argued in Chapter 2, there is no guarantee that the nation as a whole is not worse off.

What of the few firms that may respond to some kind of fiscal incentive?[6] Are they the type of firm that can assist meeting local development goals? In an important article, Harrison and Kanter (1976) argue that the type of firm most likely to respond are firms in highly competitive industries, for whom small differences in costs make the difference between success and failure. Yet, they argue:

> . . . these are the industries that in general pay lower wages, offer worse working conditions, provide less stable employment, and make it more difficult for labor to organize. Thus, incentives that lower costs of doing business appear to be policy instruments—if they work at all—that are most likely to "goose" the sector of the economy with the least desirable jobs, while providing windfall profits to the segments of the business community that needs them the least (p. 59).

In short, tax incentives
might have is not necessar

EQUITY

centive will tend to go to
these firms will be earning
firms had no federal tax li
had federal tax liabilities
incentives take the form o
Second, why should a ne
able firm that is well est
should be aware that this
firms, by placing them a
competitors locating in ot
A third equity problem

Cumulative Distri
for Corporati
i

Sector
All Industries
Agriculture
Mining
Contract Construction
Manufacturing
Transportation and Communication and Utilities
Wholesale and Retail
Fire
Services

SOURCE: Robert Tannenwald.
Committee on Appro
ington, D.C., October

e undertaken in any case.
incentive designed to reduce
rease that firm's federal tax
comes even more apparent.
ng in the amount of 48 cents

percent as a result of a local
at 98 percent of credits are
d anyway.
hey are also costly. Harrison
tax incentives offered by
year, revenues that could be
e local services. In just over
1 million in properties from
ed nearly $1 billion worth of
base. By the early 1980s,
n in state revenues and $30

easure is worthwhile, it is
costs. A local development
to be worthwhile if its costs
mpared the costs and bene-
very optimistic picture, al-
conditions, fiscal incentives
art (1974) concluded that if
50 percent of value added
of the investment is a result
cost effective from the view-
d in Chapter 2, there is no
ot worse off.
nd to some kind of fiscal
at can assist meeting local
cle, Harrison and Kanter
ely to respond are firms in
small differences in costs
failure. Yet, they argue:

y lower wages, offer worse
loyment, and make it more
es that lower costs of doing
t they work at all—that are
omy with the least desirable
e segments of the business
)).

In short, tax incentives are ineffective, and what little impact they might have is not necessarily desirable.

EQUITY

Not only are tax incentives inefficient, they are also inequitable. First, the incentive will tend to go to large and financially healthy firms, since these firms will be earning a taxable income.[7] Nearly 50 percent of all firms had no federal tax liability in 1971, and 95 percent of all firms had federal tax liabilities of less than $25,000 (Table 19). Unless the incentives take the form of credits, most firms will not be influenced.

Second, why should a new company pay less in taxes than a comparable firm that is well established in the state? State policy makers should be aware that this program may harm their well established firms, by placing them at a competitive disadvantage with newer competitors locating in other tax cutting states.

A third equity problem is that state and local officials often weave

Table 19
Cumulative Distributions of Income Tax Liabilities for Corporations Filing Income Tax Returns in 1971, by Sector

	Income Tax Liability		
Sector	0	Below $10,000	Below $25,000
All Industries	49.0	90.5	94.8
Agriculture	53.3	94.2	97.8
Mining	61.2	86.6	91.8
Contract Construction	50.9	91.0	95.3
Manufacturing	48.4	82.4	87.8
Transportation and Communication and Utilities	53.1	90.6	94.5
Wholesale and Retail	43.1	88.7	94.2
Fire	47.3	92.1	95.9
Services	56.5	95.7	98.1

SOURCE: Robert Tannenwald, "Federal Tax Approaches to Regional Development," in Committee on Appropriations, *Patterns of Regional Change*, U.S. Senate, Washington, D.C., October 1977, p. 697.

together a special "development package" for a particular firm that is considering moving in, threatening to move out, or considering a major expansion. Naturally, officials can only do so if the firm is large. Programs can rarely reach down to small firms, even though past experience suggests that such firms are the main source of employment expansion.

A final equity issue is that almost all incentives are offered to the owners of capital: few are offered to labor. We have argued that payroll taxes and minimum wage laws have priced low-skilled labor out of jobs. It is possible to imagine that the long run impact of tax incentives might be to encourage the substitution of capital for labor and therefore to *reduce* the number of jobs, while enhancing the aggregate returns to the ownership of capital. If this impact is explicitly understood, enthusiasm for present tax incentives may diminish.

ADMINISTRATIVE COST

The effectiveness of tax incentives might be greater if they were targeted toward smaller firms, which are the main engines of local growth (Schmenner, 1978). However, while it is administratively simple to identify and approach the relatively few large companies that are considering relocation, the market of small firms is impossibly large. There is a much higher failure rate among small firms, and thus the risk of providing a financial assistance/tax incentive package to these firms is high, and the overall administrative cost is likely to be much higher.

OTHER BUSINESS INCENTIVE PROGRAMS

As Table 19 graphically shows, the menu offered to the lucky few businesses to arouse the interest of development officials is not limited to tinkering with the tax structure. The enterprising firm can enjoy low leases on publicly-built facilities, low interest rate loans, cash grants, and publicly-trained employees. Are these other measures more effective than tax incentives?

Our overall answer is that most of these programs are not of major importance to influencing company decisions. We can only touch on these programs briefly in this paper.[9]

Tax Exempt Bonds

A major problem with state and local efforts to attract or retain industry is that they rely upon tax expenditures—tax exemption of bond interest payments, for example—and that these are very inefficient ways of channeling subsidies to industry. The federal tax structure has exempted the interest from state and local bonds, as well as bonds sold by local public development corporations, from federal income tax.

State and local authoriti
exemption to local income
form of capital market su
First, only a part of th
state treasuries actually go
is a subsidy to high income
subsidy at between 25 per
Morris (1976) estimates th
the federal treasury $4.8 l
effectively reduced state :
bondholders—those with
would have been satisfied
sidy of $1.3 billion. Total s
were approximately $10.5
Second, the market for
vestors turn to alternative
have had to compete with p
purchased 90 percent of ne
1975. The lowering of the
sonal income in 1976 ma
buyers. Pollution control
grew from only $100 mill
when state and local gov
debt.
Third, the interest on st
than on taxable issues. T
municipal bonds by banks
much more attractive. The
investors to absorb these s
municipals rose from 62 pe
January 1968 to 73 percer
between 1973 and 1975. A
leads to more rapid increa
borrowing costs. Soarin
investments.

Local Credit Agencies

able funds, or because of l
nationwide, and althoug
(Straszheim, 1969), it is no
The belief in a "credit-gap
practices that provide sub
able through industrial dev
corporations, or state ind

STATEMENT OF ROBERT EISNER, PROFESSOR OF ECONOMICS, NORTHWESTERN UNIVERSITY

Mr. EISNER. Thank you, Mr. Chairman.

I am delighted to be here. This is a subject I have been concerned with for a long time. I hope I am not trapped by any previous statements which may reveal inconsistencies today.

I should preface my statement by warning you I have been critical and usually opposed to the investment tax credit from its very inception and from its support through very many administrations of different political persuasions.

The investment tax credit constitutes the second largest "tax expenditure" in President Carter's budget for 1980, coming to some $18.46 billion, of which $15.37 billion is for corporations and $3.09 billion is for noncorporate business. The further revenue loss in future years will be larger, primarily because of growth in expenditures for eligible equipment, due considerably to inflation. It is hence most appropriate that this subcommittee focus on the investment tax credit as it initiates a study of selected tax expenditures.

The investment tax credit was conceived in the early days of the Kennedy administration's efforts to get the economy "moving again," and it was well-night aborted before delivery in 1962. The business community had been generally lobbying for massive new increases in tax-deductible depreciation. The tax credit was advanced as a device to spur business investment with a lesser loss in tax revenue.

In its original form, the investment credit was designed to offer a high incentive on marginal investment, that is, investment beyond a substantial base, rather than a lesser reduction in taxes for all capital spending, most of which would have taken place without the credit. As it finally came out of the legislative process in 1962, the high marginal or incentive effect was gone, the credit was restricted to equipment, excluding buildings, and further "liberalization" of depreciation came along in the 1962 "guidelines" anyway.

The investment tax credit then went through various vicissitudes. These included: changing interrelations with allowable tax depreciation; suspension and reinstitution in 1966–67; abandonment in 1969; reenactment in 1971; and an increase for the period 1975 through 1980 from 7 to 10 percent—from 4 percent for public utilities. The credit has now been made "permanent" at 10 percent and has been further liberalized in several respects.

Despite its now substantial history, the effects of the investment credit in stimulating business expenditures for equipment must properly remain in question. While business welcomes the tax reduction it appears to entail, queries as to its effect in stimulating investment draw overwhelmingly negative responses. In most cases, we are told, firms buy little or no additional equipment as a consequence of the tax credit.

Economic analysis of the consequences of the investment tax credit, along with those of other possible tax incentives for business investment, has usually involved essentially, and sometimes only, an examination of the effects of these credits on the after-tax rate of return on new investment, or alternately its effect on the after-tax cost or "rental price" of new investment, on the assumption that other things are unchanged or unaffected. The results for investment are then assumed or deduced from the presumed connection between investment and its after-tax yield or cost.

In major, large-scale econometric models, the investment tax credit has usually entered into such a cost-of-capital or rental-price term. Projections of its effects have then stemmed from the role of this term in the model, a role which itself has often been assumed rather than freely estimated. The assumptions, put somewhat technically, relate to the forms and rates of substitution of capital for labor as their relative prices are changed. Where the response to such relative price changes is taken to be substantial and rapid and where the model is so constructed that the investment tax credit generates a substantial change in the after-tax relative price of capital and labor, it is found to have some significant effect. Nevertheless, in many and perhaps most projections, each dollar of tax expenditure by the Treasury results in considerably less than a dollar of increase in investment spending. Many estimates, including my own which in some instances have focused directly on the investment tax credit, have found results to be very modest.

The modest estimated results of the investment tax credit relate to the fact that business investment, motivated by its expected profitability, is influenced overwhelmingly by the demand for final output. When that is high and growing, firms invest substantially and need no outside inducement to do so. When there is considerable excess capacity and when the outlook is for sluggish growth or actual decline, business investment is low and very difficult if not impossible to stimulate.

There is nothing that cripples business investment like a recession. From the beginning of 1974 to the third quarter of 1975, real nonresidential business fixed investment fell 17.5 percent. The effects of that recession have indeed been longlasting, as utilization of capacity did not readily recover. As late as the fourth quarter of 1977, investment in real terms was still some 3 percent below its previous peak in the first quarter of 1974. As a percentage of real gross national product, it remained even further behind.

The "investment tax credit" actually applies to only a small portion of total capital investment in the United States. In the first place, of course, it relates generally only to equipment. Yet producers' durable equipment in 1978 was less than 45 percent of total fixed investment. But investment, broadly and relevantly defined, includes all current activity that contributes to future production. It hence includes construction and acquisition of plant and equipment and inventories by households, nonprofit institutions, and government at all levels, as well as business investment.

Investment by a family in its own new house is investment leading to future production—of housing services—as much as is business investment in rental housing or in offices or factories. Purchase of automobiles by individuals may as reasonably be considered investment leading to the production of transportation services as purchase of automobiles by car rental or leasing companies or by firms taking advantage of investment tax credits and tax depreciation writeoffs on cars which they buy for the use of their executives or other employees. Construction of a municipal airport is as much investment as the acquisition of planes by an airline.

Further, there is a vast amount of investment in intangible capital. This includes research and development expenditures by business, government, and nonprofit institutions. It also includes investment in human capital in the form of education, and in job training and in the varied experience of working.

If our purpose in offering tax incentives for investment is to stimulate productivity and growth which will offer us more useful services in the future, is there really justification for the tax expenditures that focus on a relatively small portion of the total? In ongoing research, I estimate that even total business investment in plant and equipment is only one-fifth to one-sixth of all capital formation in the United States.

Business investment in general and investment in equipment in particular, it may well be argued, is the form of investment least in need of Government intervention or encouragement. Business firms should know when new machinery is sufficiently productive so that its expected profitability warrants its purchase. If its productivity and profitability are not sufficient to warrant this purchase, it is difficult to find adequate arguments for the Government to use discriminatory tax policy to make them so.

To the extent that the investment tax credit does stimulate investment it means that, for example, a firm contemplating purchase of a $100 piece of equipment with a "present value" or worth in terms of expected future returns of $95, is induced to purchase it by a tax credit of $10, which raises its value to the firm to $105. Yet if the firm has correctly calculated to begin with—and the Government has not otherwise loaded the dice against it—the value to society is really only the $95. Hence, the firm is induced to bring about the use of $100 of resources, the cost or supply price of the machinery, to realize only $95 of value. Such investment paves the path not to economic growth but to decay and decline.

One may doubt the effectiveness, as well as the desirability, of Government tax measures in changing total capital formation in the long run. A strong case can be made for longrun support to some investment—in human capital.

Precisely because we are not a slave economy, with poor markets for investment in human skills and considerable risk aversion by both potential lenders and borrowers, there may well be too little such investment; that is, investment in human capital. A whole generation of inner-city youths and others failing to move into productive employment may be deprived of the human capital necessary for self-support over a lifetime. Tax expenditures in the way of employment credits or subsidies, particularly for the young, are thus likely to have a much greater payoff for the economy.

But beyond this, generally full employment and generally full utilization of capacity should be expected in a reasonably free market economy to bring forth as much saving, and hence capital formation, as society on balance desires. It is questionable that Government in such a situation has any business telling us to save more; that is, to sacrifice current consumption for some potential consumption in the future—of ourselves, or our great-grandchildren.

Actually, in a full employment economy it may prove very difficult to change the proportion of income that people will save, at least by practicable measures to alter the relative price of saving and consumption. If this is so, and I believe that it is, then tax incentives or expenditures to stimulate one form of investment are likely to bring positive results, if at all, only at the expense of other investment. We may hence have more equipment and less plant, or more nonresidential investment and less new housing, or more business investment and less investment by nonprofit institutions, households and government, or more investment in physical capital and less investment in research and development, education, and know-how.

In terms of its stated objectives of stimulating business expenditures for equipment, the current investment tax credit is an inefficient and wasteful measure. From the standpoint of efficiency, the essential flaw of the existing tax credit is that it does not embody the marginal or incremental incentive aspects attached to this original formulation by economists in the Kennedy administration.

The current 10-percent credit goes to firms in major part for equipment investment that they would have undertaken anyway, without the credit. If we are looking for tax relief to business, it would be much more equitable or efficient to offer a general cut in business income taxes, involving primarily then a cut in the corporate tax rates. If we wish an incentive to business investment, however, it should be focused specifically on stimulating investment that would not otherwise be undertaken.

This could be accomplished by a tax credit which were not 10 percent on all investment but, say, 20 percent on investment beyond half of the average of the last several years, or 40 to 60 percent of investment beyond 80 or 90 percent of the previous average. One administratively simple technique would be to offer a relatively high tax credit to the excess of investment over depreciation allowances. In this way, firms would have a very large incentive to increase their investment but would receive no credit for the bulk of investment that they would have undertaken on their own.

None of this, though, meets the problem of distortion of the economy introduced by this kind of Government intervention. The particular expenditures subsidized, in this case business investment and equipment, will be increased, all the more if the tax expenditure is made more efficient, at the expense of other investment of resources. The ways in which pressures will be felt in the economy will vary. In some cases the increased demand for investment in the tax-subsidized areas will drive up investment costs and thus make investment elsewhere unprofitable. It may generally raise interest rates and hence particularly discourage long-lived investment.

Effects on the distribution of income may be significant and not necessarily welcome. Capital-intensive firms will be aided at the expense of labor-intensive firms. Since large firms tend generally to be more capital-intensive, the investment tax credit will hence tend to aid them at the expense of smaller firms. And while the introduction of more machinery may tend to make labor more productive—if the machinery itself is really productive and not merely purchased for the tax advantage—the substitution of capital for labor will tend to decrease the demand for labor, particularly less skilled labor where unemployment is highest, while offering more income to the owners of capital as a consequence of the tax advantages.

There are indeed other distortions. A flat percentage tax credit offers the greatest advantage to short-lived investment. This tends to encourage a fast payout, the making of the quick buck at the expense of more productive long-lived investment. The attempt to correct this by offering the full credit only for equipment of a certain minimum length of life and stepping the credit down for equipment of shorter useful lives brings arbitrary cutoffs in the choice of investment.

I might add tentatively the possibility of another distortion, overinvestment in firms benefiting from the investment credit, which results in a depressed set of values of existing capital elsewhere. This in turn may depress the stock market and the economy generally. For the credit is of course available only on new investment. Each firm may, at least for a while, view the credit as a boon to its own profits and of at least some special benefit to investment on the assumption that other parameters of its situation are the same. It hence does increase its investment, more according to some analysts, less according to me and others.

But then the effect of the added new investment is to offer further competition to existing capital in other firms—and in the firm undertaking the additional investment, but this is presumably taken into account. The added investment demand also raises interest rates. The result is that the value of existing capital, based on the discounting of its expected future returns, declines. Hence stock prices decline. Then, as people feel poorer with the lower real value of their portfolios, they spend less, thus putting a general damper on business sales and expectations.

The overall role of the Federal Government in the area of business investment should be to provide a general economic climate in which business can flourish and invest to an amount that is optimal in terms of private saving propensities and the productivity and profitability of capital. This implies a general Government fiscal policy, including both expenditures and the tax structure, which provides for adequate aggregate demand and generally full employment, with a minimum of regulatory and tax distortion of the market mechanism.

By providing the framework for a stable economy, social risks which would discourage investment would be minimized. To the extent that individual enterprises and risks are greater than the social risks and that individuals tend to be risk averse, Government has a role as a coinsurer. This is considerably accomplished by our income tax system. It can be improved by offering full offset for business income losses and a negative income tax for those of low income generally. In principle, where individual risk is greater than social risk, Government may properly contribute to risk pooling so that aversity to risk does not unduly hinder the maximization of productivity and income. It is not a proper role for Government, however, to encourage risk taking at the expense of the economy as a whole. By way of illustration, the supersonic passenger jet was at best a highly risky enterprise—although probably unprofitable as well. The considerable chance of failure helped discourage private enterprise from undertaking it on its own. That risk should properly also have discouraged Government.

Finally, I might suggest that if continuation of the investment tax credit is considered necessary in the interest of "business confidence," we may reflect upon results of a survey by the conference board of 400 chief executives of major companies about 1 year ago. These top-level business leaders were reported to favor strongly a cut in the corporate tax rather than other tax relief measures. And specifically, the cut in corporate tax rates was widely preferred to a boost in the investment tax credit.

Is it not time finally to aid the economy by reducing tax rates directly rather than by the enormous and complex variety of tax expenditures, frequently less charitably dubbed as "tax loopholes," which distort our tax structure and the economy? An excellent way to start would be to offer a large cut in general business tax rates, coupled with elimination of the investment tax credit, the largest single tax expenditure of them all.

Mr. PICKLE. Well, Professor Eisner, you have given us some good testimony. It is a little different approach than some of the testimony we have had in the course of these hearings. And I am sure the committee will want to ask you some questions after we hear from the other panelists.

I am sure the other panelists might also want to respond to your testimony.

I am going to ask the panel to continue with its discussion, and I would call on Mr. Allen Sinai next. I will not make any reference to the current negotiations going on, Mr. Sinai.

STATEMENT OF ALLEN SINAI, VICE PRESIDENT AND SENIOR ECONOMIST, DATA RESOURCES, INC., LEXINGTON, MASS.

Mr. SINAI. Actually, the correct pronunciation is Sinai, the Hebrew pronunciation, although I use the incorrect pronunciation of Sinai, like the desert or Mount Sinai.

Tax expenditures to stimulate business fixed investment are now an integral part of our Tax Code. We have seen, over the last 25 years, tax credits and changes in the tax credit for the purpose of the purchase of machinery and equipment, a number of changes and liberalizations in depreciation accounting: all designed to reduce the effective cost of capital goods, to enhance business cash flow, and to provide an offset to the inflation-induced rises in the corporate tax burden.

Of all the measures, probably the most controversial has been the investment tax credit. In fact, reflecting the uncertainty of researchers on the potency of this tax measure, the policymakers have at times had the tax credit permanent, temporary, and also, during 1969 and 1971, not even in effect.

In my statement, I want to look at the investment tax credit in light of the following questions: Has the ITC tax expenditure been effective in stimulating business fixed investment, raising productive capacity, and lowering prices? How efficient has the ITC been relative to other tax expenditures where efficiency is defined in terms of gain in fixed investment relative to lost revenues? How efficient has the ITC been relative to methods of accelerated depreciation or reductions in corporate profits taxes? And finally, given the current economic problems facing the United States, should public policy move to an even greater use of tax credits—for example, in plant or R. & D. spending to stimulate productivity and reduce inflation—or rely on other tax measures principally designed to affect consumer and business savings?

To review the effectiveness of the ITC over history, I have done two things: One is to look at and review the evidence of a number of studies on the ITC; and, No. 2, to do some analysis with the Data Resources model of the U.S. economy.

The empirical studies of the ITC have basically used a framework pioneered by Dale Jorgenson of Harvard. Disagreements over the impacts of the ITC have often focused on the assumed elasticity of capital spending with respect to multiplicative variables in the investment equation which combine the value of output with the rental price of capital.

In the DRI model, we use a generalization of the Jorgenson framework in the sense that we modify the assumptions of perfect competition in financial markets, and we relax the assumption that there is a single exogenous cost of financial capital. We relax the assumption that there is no business or financial risk in return-risk evaluation of firms in their investment decisions. And we do our work in the context of complete system simulation: that is to say, we allow for all the feedbacks in the full economy from changes in tax incentives that affect investment and affect output, and then feed back to affect investment again.

This is an important distinction, because virtually all of the other research on the subject has been in a partial equilibrium setting where only the increments to expenditures in equipment spending are analyzed, rather than as it works its way through the complete economic system.

In table 2 of the statement, which appears on page 8, there is presented a summary of some partial equilibrium studies of the effectiveness of the tax credit over history. The first is some testimony by Roger Gordon and Dale Jorgenson—at that time, Gordon of Harvard and Jorgenson, of course, of Harvard. Second is Chuck Bishoff and some work done in the late 1960's; third, the original work by Hall and Jorgenson; and the fourth is a simulation study done by Henry Aaron, Frank Russek, and Neal Singer. The table shows the increments to equipment spending by year from the investment tax credit. The numbers in parentheses are the percent of the base level investment that those dollars represent.

We see a rather sluggish response of investment equipment spending to removal of the tax credit. One sees rather slow responses, but in terms of the percent of the base level of investment, it is sizable. I would say it is 5 or 6 percent of the flow of investment going on in 1966 or 1967; as shown in the Gordon-Jorgenson result.

The peak response is in the fifth year after the removal of the tax credit. Even in the more optimistic result with regard to timing, the peak response occurs in the fourth year after the removal of the tax credit—that is in the Hall and Jorgenson work. The longest response occurs in the Aaron work, which is 7 years.

I think it fair to say on the basis of these partial equilibrium studies that the tax credit has a sizable magnitude effect. But it is very slow.

Now, to take a further look at what the tax credit has meant over history, we took the DRI model and simulated removal of the investment tax credit. The investment equation used in the DRI differs from the one that has been used and was used in Gordon-Jorgenson, in the context of our model, Mr. Chairman, in that a number of variables are added to the standard neoclassical Jorgensonian model to reflect the relaxation of the assumptions I talked about before.

And for those who are interested, the appendix contains the regression results from the equation that was used in the simulations, as well as from the more standard neoclassical equation.

Now, those results are shown in table 4 which is on page 11 of the statement, the table entitled "Effects of Removing the ITC from 1966-77"—that is over a 12-year period and it changes relative to the historical track solution. The historical track solution is essentially history. What is of interest are the changes produced relative to that base line from removing the investment tax credit.

The mean increase in producers' durable equipment spending over the 12-year period—or I should say decrease because here the tax credit was removed—the mean decrease was $5.4 billion over those years. That fall in investment was a result of removing the tax credit that actually was in existence, and was almost 8 percent of the value of the flow of investment during that period of time.

There was an average of near $150 billion of a decrease in the capital stock. Real GNP was not affected very much by removing the investment tax credit, although in the early years of the simulated removal there was approximately a 1-percent effect on real GNP.

Potential output fell somewhat, but so did inflation. And what that inflation result says is that the tax credit, on balance, is not a measure that will really help inflation. It generates a little more demand than it does potential capacity, and, therefore, is mildly inflationary.

The revenue loss over the period both for the corporate sector—for business—and for the whole economy is also given.

Now, in evaluating the various tax incentives by calculating the gain in business investment relative to the revenue loss, it is important to distinguish between the revenue lost from the corporate sector because of the tax incentive, and the total revenue position of the whole economy after complete feedback in the economy.

Any tax incentive, to the extent it stimulates investment and raises GNP, will have an induced effect on tax revenues; that is, the Government will get back some of the cost of the original tax incentive through induced real growth, higher inflation, and the higher tax revenues that result.

And so when evaluating the revenue loss in the statement, I have done it in two ways: I have done it in terms of the gain in business fixed investment per dollar lost of corporate taxes, and also in terms of the gain in business fixed investment per dollar lost of total revenues or, in some cases, a gain in the whole economy.

Well, the results in table 4 and the pictures of those results in charts 1 through 7 on pages 12 and 13 present really the story of what not having an investment tax credit would have meant in 1966 to 1967. This is, as I will repeat, it is a complete system response; it is the whole economy working as seen through the framework of the DRI model. The full feedback effects of the tax credit are significantly greater than in a situation with partial equilibrium.

The only other results from full model studies are shown on table 3 on page 9. I might add that two of the three of them were done with the DRI model. The other one, by Klein-Taubman, used an investment equation that really did not examine or have an explicit role for taxes in it.

But our rather complete presentation of what the tax credit would mean, with complete economy feedback, is there.

The pictures are striking with respect to the flow of durable equipment and also with respect to the production of new capital, durable equipment stock. They are not striking with regard to real economic growth. And they show little for potential GNP. They are very striking in the ratio of real nonresidential fixed investment to real GNP that would have occurred without the tax credit between 1966 and 1977.

In those charts, the dotted line is the situation without a tax credit. The solid line is the situation with a tax credit: essentially what history was.

In judging the efficiency of the tax credit as opposed to other tax incentives, we used the Data Resources model to evaluate three measures. Beginning in1979, an investment tax credit that would produce ex-anti a loss of $2 billion in tax revenue was imposed. That $2 billion ex-anti loss in corporate tax revenue was then used as the guide to pick a new statutory corporate profits tax rate and to see what the effect would be on business fixed investment. And then the $2 billion guide was also used to choose a shorter lifetime of equipment in order to simulate accelerated capital recovery.

A comparison of those effects over a 5-year period is shown in table 6 on page 16. I think the summary of interest is the so-called bang for a buck at the bottom of that page. In terms of business tax lost, the gain in business fixed investment per dollar corporate tax loss averaged 69 cents over 5 years for the investment tax credit. It averaged $1.14 over 5 years for shortening the lifetime of equipment. And it averaged only 11 cents for reducing corporate profits taxes.

Once again, these results reflect full economy feedback; they reflect the additional accelerator effects on output, that is, feeding back on both plant and equipment spending in our model. They also reflect, because of the structure of the investment equation we used, the impact of cash flow on business spending. They reflect, because we used a weighted average cost of debt and equity financing, some improvement in the cost of capital. And they reflect the role of rising capacity utilization on investment as well.

So a relative ranking would place the capital recovery acceleration first. It would place the ITC second. It would place the corporate profits tax reduction last.

Let me say that corporate profits tax reduction, being last, is unanimously agreed upon in the empirical work on the effectiveness of taxes on business fixed investment.

The "bang for a buck" of the ITC is not the dollar per dollar effect found in the Jorgenson studies, nor is it the 20-cent "bang for a buck" found by Professor Eisner in his study with Pat Lawler. But it is, I think, a sizable effect for the investment tax credit in terms of the return per revenue lost.

The reaction of the shorter lifetime—or actually any simulation in our model, whether accelerated depreciation, or shorter lifetime—any accelerated capital recovery in our model will have a very sizable effect when you allow for feedback.

To contrast the importance of this full economy response and what it does to the results, you might look at table 7 on page 18 where we have simulated the same three measures but have shut off all of the feedback effects in the model. Essentially, in table 7, we have not allowed any feedback at all in item No. 2. We have essentially done a partial equilibrium simulation.

The results show that over 5 years, the "bang for a buck" on the ITC is 60 cents, which is not that different from the 69 cents when you allow for feedback. They show a much smaller return to the shorter lifetime, the shorter equipment lifetime, of 35 cents per dollar revenue lost. They show about the same, a 13 cent "bang for a buck," for the corporate profits tax reduction.

This ordering is pretty much what other researchers have found in the partial equilibrium studies. But I would stress again, I think the full equilibrium results are more relevant because, after all, what really ends up in tax revenues to the Government, and what really ends up in investment, is what happens after the imposition of a tax credit and all the effects that run through the economy.

On some of the other issues the committee raised in the letter—let me briefly address those.

The committee asked about the effect of the ITC on productivity, inflation, and economic growth. Our work says that the investment tax credit was a potent measure to promote business fixed investment, somewhat stronger aggregate demand, and slightly higher productivity during the time that it has been in place. But it has not been a measure that one would argue should be used to promote capital formation and to reduce inflation.

I do not really see any great administrative burden to the ITC, especially since it has been around for so long. The only problem has been the changes every 3 or 4 years, which create some difficulties.

As far as abuses and unintended consequences, there are distortions in relative price effects. One has been alluded to already by Professor Eisner. It is shown in chart 8 on page 20. There has been a very substantial increase in producers' durable equipment spending since the institution of the investment tax credit, relative to plant spending.

Now, I do not think economists yet know what the bang on productivity is from plant versus equipment spending, but that is a question well worth pursuing; that is, whether we have had any substantial decline in productivity due to the fact we have an overwhelming preponderance of spending on equipment now relative to plant.

A uniform tax credit, which is essentially another question asked—namely, what about the different useful lives that appear in the investment tax credit—we have not completed our research on that subject yet, but we do have in that a distorting price effect toward longer-lived equipment, which may have been desirable in the early 1960's, but might be questionable now.

Another question that was asked was whether restoration of the Long amendment—that is, taking away the tax savings due to the tax credit from the depreciable base would be worthwhile. Well, I would presume the reasons for eliminating it in the first place—namely, accounting difficulty and its weakening effect on business fixed investment—would hold now. It does bring about another distortion, however—it is a kind of double accounting. You get credit, in other words, twice for the ITC, and it is not offset by lowering the depreciable base.

Well, in brief, I would have to say that the ITC has been an effective and relatively efficient policy to promote a greater rate of business fixed investment and higher real economic growth.

I would also say that another funding mechanism, that other funding mechanisms would be more cost effective and more efficient than the ITC. I think that measures to speed the recovery of capital or promote more rapid depreciation have a greater "bang for a buck" of lost tax revenue than does the ITC. Such measures could either take the form of shortened lifetimes for plant and/or equipment; indexing depreciation to inflation in order to more closely approximate replacement cost depreciation—and this was studied in some work I did with Andy Brimmer a few years ago—or by using depreciation rules, or a combination of rules that would concentrate greater depreciation earlier.

Of these measures, I think the most preferable on grounds of both efficiency and equity would be to more closely aline depreciation allowances with replacement costs. I would single out this kind of measure as priority No. 1 for any further changes in the role of tax expenditures on business fixed investment. Besides what it will do to business fixed investment, the distorting effect of historical cost depreciation on corporate profits during periods of high inflation has biased the allocation of resources in the U.S. economy, and restricts capital formation.

Real rates of return to the corporate sector are considerably lower under historical cost depreciation, and are accompanied by a kind of inflation drag in corporate spending and finance because the tax system has not kept pace with the higher replacement costs of depreciation. We do that for the consumer with periodic increases in the exemption allowed, but we really have not done that for the corporate sector.

I have never been a great fan of doing things for the corporate sector, but this particular distortion does stand out, and it did in 1978 and still does, as a "sore thumb" in the tax code.

Besides the large "bang for a buck" from accelerated depreciation or more speedy capital recovery measures, the negative inflation tax then from historical tax depreciation would be mitigated.

Thank you very much.

[The prepared statement follows:]

Official Business

Alaska State Legislature

House of Representatives

Pouch V
Juneau, Alaska 99811

Phone:
(907) 465-4924

Special Committee on Fisheries

M E M O R A N D U M January 26, 1985

TO: Members
Special Committee on Fisheries

FROM: Representative Peter Goll
Chairman

SUBJECT: 1/30 Teleconference

A teleconference has been scheduled for 2:00-3:00 p.m. Wednesday, January 30, 1985 with the Southeast Regional Fish and Game Advisory Council. This teleconference has been scheduled to give you the opportunity to become familiar with the advisory committee and regional council system.

The Southeast regional advisory council is one of the most active in the state and provides an excellent example of how local residents can gain more influence over activities affecting fish and wildlife. The Alaska National Interest Lands Conservation Act (ANILCA) granted the regional advisory councils a major role in resource management.

The regional council is meeting in Sitka concerning a number of issues coming before the Alaska Board of Fisheries and North Pacific Fishery Management Council. The regional council also will be discussing the management of Tongass National Forest.

Representatives of the Alaska Department of Fish and Game and the U.S. Forest Service will attend the teleconference at the Juneau site to respond to concerns raised by the Fisheries Committee and Regional Advisory Council.

I apologize for any inconvenience that may result from scheduling this teleconference at a time when the committee does not normally meet. The meeting time was set to accommodate the regional council agenda. It should be extremely informative and I hope you will be able to attend.

Alaska State Legislature

House of Representatives

Pouch V
Juneau, Alaska 99811

Phone:
(907) 465-4924

Official Business

Special Committee on Fisheries

M E M O R A N D U M January 25, 1985

TO: Members
Special Committee on Fisheries

FROM: Representative Peter Goll
Chairman

Peter Goll

SUBJECT: 1/29/85 Meeting

The Fisheries Committee will be conducting its first public hearing on HB58: "An act relating to the fisheries business tax," at 8:30 a.m. Tuesday, January 29. Attached is background prepared by House Research and a sectional analysis prepared by staff. Additional background information will be made available prior to the committee meeting upon request.

A number of witnesses have expressed interest in testifying on the bill, and invitations have been extended to several agencies and interest groups. Please contact committee aide Rodger Painter if you are interested in having the second public hearing held on the teleconference network.

To conform with the five-day notice requirement for committee actions, we have re-scheduled the confirmation hearings for Ernest Carter to the Board of Fisheries and Bruce Twomley to the Commercial Fisheries Entry Commission. Once the public is given another opportunity to comment on the confirmations, the committee will be asked to re-confirm its earlier recommendation.

We also will continue our discussion of committee priorities. If you have the opportunity before the meeting, please attempt to put your recommendations in writing.

Alaska State Legislature
House of Representatives
Official Business
Pouch V
Juneau, Alaska 99811
Phone:
(907) 465-4924
Special Committee on Fisheries

January 26, 1985

SECTIONAL ANALYSIS OF HB 58
"An Act relating to the fisheries business tax"

Section One: Amends existing fisheries business tax statutes to replace the word "cannery" with "fisheries business."

Section Two: Establishes a program allowing a seafood processing company to claim a credit on up to half of its fisheries business tax liability. The 50 percent cap will ensure that revenue sharing to local communities will not be affected by the tax credits. To qualify for a tax credit, a seafood processor must invest in capital expenditures related to a shore-based facility in Alaska. The credits are limited to five consecutive years, and must be initiated within the 1985-1989 tax years. Thus, the tax credit program will sunset by 1994. Credits for capital investments exceeding the 50 percent cap in a single tax year may be carried forward to a subsequent tax year within the five-year limit. Buyer's of seafood facilities for which a tax credit had been claimed will not qualify for credits on those particular capital improvements. The Department of Revenue is given authority to adopt regulations for administering the program and is directed to act on applications within 60 days of receipt.

This section also provides for an annual report to the legislature on the benefits and utilization of the tax credit program.

Section Three: Provides that the tax credits will not affect revenue sharing with local communities.

Section Four: Defines "capital expenditures."

Section Five: Repeals the tax credit program June 30, 1994.

Alaska State Legislature

House of Representatives

Official Business

Pouch V
Juneau, Alaska 99811

Phone:
(907) 465-4924

Special Committee on Fisheries

AGENDA

Tuesday, January 29, 1985
8:30-10:00 a.m.
209 Behrends

1. Public Hearing on HB 58 (An Act relating to the Fisheries Business Tax)

2. Discussion of Priorities

3. Confirmations of Ernest Carter to Board of Fisheries and Bruce Twomley to Commercial Fisheries Entry Commission

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

November 15 ,1984

MEMORANDUM

TO: Representative Bette Cato

FROM: Sharman Haley
Legislative Analyst

RE: Legislative History of the Raw Fish Tax
Research Request 85-039

The raw fish tax, AS 43.75.010-.140, dates from statehood. The law provides for a tax on raw fish purchases by canneries, cold storages, and other processors. As of 1978, the statute levied a tax of from one to four percent of the purchase price depending on the specific fishery resource and the type of processing facility. Fishermen selling to floating processors outside State jurisdiction were also subject to the tax. Twenty percent of the tax revenues were refunded to the borough and/or first class city in which the facility was located. As you requested, a five-year history of bills affecting the raw fish tax is presented in this memorandum.

1979-1980

Thirteen bills amending the raw fish tax statutes were introduced during the Eleventh Legislature. House Bill 571 and SB 448, identical bills sponsored by Representative Hayes and Senator Kelly respectively, were omnibus tax relief bills suspending the raw fish tax as well as a host of other taxes. These bills saw little legislative action. House Bill 340, introduced by Representative Gardiner, also saw little action. The bill would have tied the reporting and enforcement of regional aquaculture assessments to processor licensing under the raw fish tax statutes. House Bill 227 would have eliminated the distinction between floating and shore-based cold storages, thereby reducing the tax rate on the floating facilities from four percent to one percent. This proposal by Representative Osterback did not move from the House Resources Committee.

House Bill 306, sponsored by the Governor, was a thorough overhaul of the raw fish tax statute. The bill:

- imposed a uniform six percent tax on all processors;
- increased revenue sharing with the local government unit to 33-1/3 percent;

- required that half of the local revenue sharing be spent on docks or other fishery enhancement projects;
- directed an additional 33-1/3 percent of the revenue to the Commercial Fishing and Agriculture Bank; and
- upgraded the bond requirements for salmon exporters.

Bills introduced by Senator Kerttula (SB 132) and Representative Branson (HB 83) also addressed local revenue sharing, raising it to 50 or 60 percent, respectively. The Governor's bill was modified by the Senate Community and Regional Affairs Committee, grafted on to Senator Kerttula's bill number, and enacted into law as Chapter 79 SLA 1979. The legislation deleted all references to "raw fisheries products," replacing the phrase with "fisheries resources." Hence "raw fish tax" is now something of a misnomer; the statutory name is Fisheries Business Tax.

The stated purposes of the act were to:

1) insure that the state is able to continue its efforts toward overall fisheries-related development programs by raising additional revenue to pay for its programs;

2) make the imposition of the fisheries tax more uniform among fisheries businesses; and

3) provide funding for the development of new fisheries.

The tax rates established by Chapter 79 SLA 1979 are as shown in the table below:

	Shore-based Processor	Floating Processor
Canned Salmon	4.5%	5.0%
Developing Commercial Fish Species*	1.0%	3.0%
Other Fisheries Resources	3.0%	5.0%

*Developing commercial fish species are defined in AS 16.05.050(12) as species in a specific region for which the optimum yield harvest has not been reached, a substantial portion of the harvest has been allocated to foreign fishing, or commercial harvest of the species recently developed.

Under Chapter 79, a person who transports or sells a fisheries resource outside the jurisdiction of the State is liable for the tax which would otherwise be paid by the processor.

The legislation provided for 20 percent revenue sharing to local government, and 20 percent to the Commercial Fishing and Agriculture Bank. Second class cities were made eligible for revenue sharing as well as first class cities. The new revenue sharing formula was to begin with calendar year 1980 taxes. The legislation also increased the bonding requirements for salmon exporters to $50,000. The bond covers not only payment of the tax to the State, but also payment to the fishermen for the salmon.

Three pieces of legislation passed in 1980 made corrective amendments to the 1979 enactment. House Bill 192 (enacted as Chapter 155 SLA 1980) corrected the starting date of the new revenue sharing formula to taxes collected for calendar year 1979. The House Judiciary Committee deleted the penalty provisions from the act so as not to duplicate the criminal code. These repealers were offered in CSHB 354, and later incorporated in SB 313 and enacted as Chapter 113 SLA 1980. The House Judiciary Committee also made a corrective amendment suggested by the code revisor deleting the definition of "year". This correction was incorporated into SB 277 and enacted as Chapter 94, SLA 1980.

A bill which was a forerunner of legislation creating the Alaska Seafood Marketing Institute was passed by the legislature in 1980 but vetoed by the governor. The original version of HB 962 provided processors with a tax credit of up to 15 percent of the fisheries business tax liability for donations to a nonprofit corporation organized to improve the quality of and to develop markets for Alaska seafood. The final version, SCSCSHB 962, established a fisheries business tax grant fund financed by appropriations from the legislature. The bill authorized grants to a nonprofit seafood marketing corporation of up to 15 percent of the fisheries business tax paid by members of the corporation in the preceeding year. The governor vetoed the bill due to constitutional problems.

1981-1982

Several amendments to the fisheries business tax statutes were made by the Twelfth Legislature. Senator Eliason introduced SB 200, which would have relieved freezer boats from tax liability if the processors to which they sell were regulated by the statute. His proposal was incorporated into HB 460, which was introduced by the House Resources Committee. House Bill 460 also increased revenue sharing to local governments from 20 to 50 percent of tax revenues starting with tax year 1982. As a transitional measure, revenue sharing was pegged at 30 percent of 1981 fisheries business taxes. After a complicated passage, SCSCSHB 460 (Fin)am S (efd am H) was enacted as Chapter 117 SLA 1981.

Other fisheries business tax legislation considered but not passed by the Twelfth Legislature included HB 422 by Representative Malone. The bill would have shifted the tax liability from fish processors to fish purchasers. Senator Mulcahy also introduced a bill, SB 523, to clarify the language defining "value" as used in calculating tax liability. Some of this clean-up was accomplished in HB 460.

Representatives Zharoff and Bettisworth proposed in HB 103 to repeal the fisheries business tax entirely. This bill saw no action.

1983-1984

Three pieces of legislation offered in the Thirteenth Legislature would have established a fisheries business tax credit program. None of these proposals were enacted. Senator Ferguson proposed (in SB 191) a rate reduction of one-half percent for businesses that also pay the seafood marketing assessment under AS 16.51.120. Senator Mulcahy proposed (in SB 379) to grant up to a 50 percent credit on tax liability for purchases of equipment used in processing a developing commercial fish species. The Senate Resources Committee Substitute for this bill restricted the credit to equipment for processing bottomfish.

Representative Zharoff also sponsored legislation granting a tax credit of up to 50 percent of the fish tax liability. Under his proposal, credits would have included expenditures for improvement of quality control and upgrading or modernization of processing facilities as well as expenditures for equipment used in processing developing commercial species. The House Special Committee on Fisheries' version of HB 518 generalized the credit to apply to any capital expenditure but restricted its application to shore-based canneries and limited the application of credits to no more than five consecutive years. The bill would have required the Department of Revenue to make an annual report to the legislature describing the expenditures for which the credit was granted and the attendant increases in employment or processing capacity. The bill was in House Rules Committee when the legislature adjourned.

* * * * *

I hope that this memorandum has provided you with the information you sought. If you would like more detailed information regarding any of the measures discussed above or if you have any further questions, please don't hesitate to call me.

SH

Alaska State Legislature

HOUSE FISHERIES COMMITTEE

House of Representatives

~~Committee on~~

~~Community & Regional Affairs~~

Special Committee on Fisheries

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-4833

HEARING DATE: January 29, 1985: HB58, Committee Priorities and Confirmations

NAME (Please Print)	ADDRESS	REPRESENTING	TESTIFY (Yes or No)	PHONE NUMBER
Leo A. Land	Box 132 Haines	Self	X	766-2466
Neal Gilbertsen	Box 1066 Juneau	Self	No	N/A
Rick Lauber	Box 1625 "	Pacific Seafood Processors Assn	YES	586-6366
C Walker	"	Dept. Commerce	NO	2504
Steve Kettel	Pouch SA	Dept of Revenue	yes if necessary	2343
Greg Baker	Pouch D	Dept of Commerce / Fisheries	Yes	2162
Earl E. Krygier	130 Seward Suite 213	Alaska Trollers Assoc	Yes	586 9400
Nevette Bowen	Pouch V	Rep. Hurley	No	4963
Wendy Chamberlain	Pouch V	Rep. Cato	No	4858
JON NEWSTROM	Pouch V	SPEAKER'S OFFICE	NO	3720
D Damir	"	Rep. Jenkins	NO	4453
Karl Ohls	Pouch V	Sen. Zharoff	No	3473
Reed Stoops	Suite 218 Kamino Way	Chugach Fishing	No	6-3561
Gale Fisk	2150D LAWSON CREEK RD JUNEAU	SELF	YES	586-9400

Alaska State Legislature

House of Representatives

Committee on
Community & Regional Affairs

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-4833

HEARING DATE:

NAME (Please Print)	ADDRESS	REPRESENTING	TESTIFY (Yes or No)	PHONE NUMBER
Helen Fisher	Pouch V	Rep. Thompson	no	

RECEIVED 2/14/85

TO: Roger Painter c/o Rep Ball

FR: Jon Newsom, Speakers office

FYI

Stoner HB58

KODIAK ISLAND BOROUGH
RESOLUTION NO. 85-20-R

A RESOLUTION OF THE KODIAK ISLAND BOROUGH ASSEMBLY SUPPORTING USE OF A PORTION OF THE RAW FISH TAX TO PROVIDE SHORE BASED FISHERIES BUSINESS TAX CREDITS.

WHEREAS, fishing is an important economic activity in the State of Alaska employing one out of every ten Alaskans, and

WHEREAS, investment capital for onshore processing facilities is recognized as a top priority in the fishing community, and

WHEREAS, loss of the King Crab fishing means diversification is needed to derive maximum benefit from Alaska's fishery resources, and

WHEREAS, the potential growth of the bottomfish industry makes it especially important that this segment of the processing industry be promoted for the economic welfare of the entire state, and

WHEREAS, tax credits would encourage the building and expansion of onshore bottomfish facilities and create a more stable job market, and

WHEREAS, Senate Bill 11 and House Bill 58 allow tax credit of not more than fifty percent of a shore-based cannery or fishery business's tax liability for capital expenditures incurred for the development of the capability of processing a developing commercial fish species.

NOW, THEREFORE, BE IT RESOLVED by the Kodiak Island Borough Assembly that the Governor and the Legislature are urged to adopt Senate Bill 11 and House Bill 58 to provide tax credits to shore-based processors to develop or expand their facilities for bottomfish processing.

BE IT FURTHER RESOLVED that copies of this resolution be forwarded to:

The Honorable Bill Sheffield, Governor of Alaska
The Honorable Don Bennett, President of the Senate
The Honorable Ben F. Grussendorf, Speaker, House of Representatives
The Honorable Mike Navarre, Chairman, House Labor & Commerce Committee
The Honorable Albert P. Adams, Chairman, House Finance Committee
The Honorable Jan Faiks, Co-Chairman, Senate Finance Committee
The Honorable John C. Sackett, Co-Chairman, Senate Finance Committee
The Honorable Fred F. Zharoff, State Senate
The Honorable David W. Thompson, House of Represenatives
The Honorable John Pugh, Mayor, City of Kodiak
Andrew Brumbaugh, President, Kodiak Area Chamber of Commerce
Al Burch, Manager, Alaska Draggers Association
Ron Jolin, President, United Fisherman's Marketing Association
Lynn Domingo, Secretary-Treasurer, Cannery Workers Union
Chris Mitchell, Executive Director, Alaska Fisheries Development Foundation

PASSED AND APPROVED this 7th day of February, 1985.

KODIAK ISLAND BOROUGH

By [signature]
Deputy Mayor

ATTEST:

By Shirley Miller, CMC
Borough Clerk

AMENDMENT

Offered in the House Special Committee on Fisheries

TO: CS HOUSE BILL NO. 58

Page 3, after line 3, insert a new section to read:

"Sec. 43.75.035. RECAPTURE. If a taxpayer sells, disposes of, or otherwise ceases to use property for which a credit was allowed under AS 43.75.018 at any time within four years after the date the property was placed in service, the tax imposed for the taxable year under AS 43.75.015 is increased by the applicable percentage of the full amount taken as a credit under AS 42.75.018 according to the following table:

Years Property Placed in Service	Applicable Percentage
0 - 1	100
1 - 2	75
2 - 3	50
3 - 4	25"

2/6/85

COMMITTEE REPORT

HOUSE

Resources

(7)

FURTHER: Finance

1/16/85

Date: 02/07/85

The Committee on House Special Committee on Fisheries has had HB 58

"An Act relating to the fisheries business tax."

under consideration and recommends:

[ ] do pass [ ] do not pass

[ ] do pass with attached amendments(s)

[x] replace with CS for HB 58 (Fish) [x] same title [ ] new title

and recommends

[ ] AND attaches a "Letter of Intent" [X] New Fiscal Note Sup 15

[ ] Zero Fiscal Note Attached

[X] reports it back without recommendation

[ ] referred to the ______ Committee

MEMBERS SIGNING DO PASS

[signature]

[signature]

MEMBERS HAVING OTHER RECOMMENDATIONS:

[signature] No Recommendation

[signature] - No Rec

[signature] No Rec

[signature] no rec.

[signature]

[signature]

CHAIRMAN

alaska fresh seafoods, inc.

PLANT: 106 MARINE WAY P.O. BOX 647, KODIAK, AK (907) 486-5749
HEAD OFFICE: FISHERMEN'S TERMINAL C-3 BLDG. ROOM 131, SEATTLE, WA 98119 (206) 285-2412 TELEX: 32-1295

MARCH 31, 1983

DEAR SIRS,

ENCLOSED, YOU WILL FIND OUR 1982 FISHERIES TAX RETURN AND OUR 1982 SEAFOOD MARKETING ASSESMENT RETURN, ALONG WITH OUR CHECK IN THE AMOUNT OF $174,392.89 FOR BOTH OF THE RETURNS.

LET US TAKE THIS OPPRITUNITY TO EXPLAIN OUR POSITION AS TO THE CURRENT METHOD OF TAXING THE FISHING INDUSTRY.
FIRST, WE ARE A SMALL PROCESSOR AND WE HAD TO BORROW THE MONEY FOR THESE TAXES. WE ARE SURE YOU WILL AGREE OUR $174,392.89 IS QUITE A TIDY SUM. THIS CAUSES AN EXTREME HARDSHIP ON US ESPECIALLY WITH THE STATE OF THE FISHERIES IN SUCH AN ECONOMIC DEPRESSION.
SECOND, IF THE CURRENT METHOD OF COLLECTING TAXES CONTINUES, AS IT IS, IT MAKES IT VIRTUALLY IMPOSSIBLE FOR US AS A SMALL PROCESSOR TO BE ABLE TO EXPAND INTO THE DEVELOPING FISHERIES THAT THE STATE NEEDS SO BADLY IF THE FISHING INDUSTRY IS TO SURVIVE IN ALASKA.
THIRDLY, BECAUSE OF THE BURDEN CAUSED BY THE CURRENT METHOD OF TAXING THE PROCESSORS, YOU WILL FIND FEWER PROCESSORS TO TAX EACH YEAR. THIS OF COURSE WILL LIMIT YOUR TAX BASE WHICH WILL CAUSE MORE TAXING AND FINIALLY RESULT IN THE STRANGLATION OF THE WHOLE INDUSTRY.

WE WILL OF COURSE, CONTINUE TO PAY OUR TAXES. BUT, WE WOULD LIKE TO STRONGLY RECOMMEND A RE-EVALUATION OF THE ALASKA FISHERIES BUSINESS TAX AND THE FISHERIES MARKETING ASSESMENT. HOPEFULLY, THIS WOULD BE DONE WITH THE IDEA OF LESSENING THE BURDEN ON THE FISHERIES INDUSTRY.

YOURS TRULY,

David Woodruff

DAVID M. WOODRUFF
VICE PRESIDENT,
ALASKA FRESH SEAFOODS, INC.

CC: GOVERNOR, WILLIAM SHEFFIELD
HONORABLE BOB MULCHY
HONORABLE FRED ZAROFF

DW:jg

Mail to:
Department of Revenue
Audit Division
Pouch SA
Juneau, Alaska 99811-0400

STATE OF ALASKA
DEPARTMENT OF REVENUE
ALASKA FISHERIES BUSINESS RETURN
AS 43.75.011 - 140.

ONE RETURN PER PLANT OR VESSEL

Name (Person, firm or corporation): ALASKA FRESH SEAFOODS, INC.		E.I.N. or S.S. Number: 911043499	
Mailing Address: BOX 647		Fisheries Business License No.: 82-046	Tax Year: 82
City, State, Zip Code: KODIAK, AK 99615	Daytime Telephone Number: (907) 486-5749	Location of Operation: KODIAK	

Enter totals from Schedule A and/or Schedule B as indicated below and multiply by the appropriate percentages.

	TOTAL VALUE			TAX DUE	OFFICE USE ONLY
1. Canned Salmon - Shore-Based Business Schedule A; line 9, column (9A)	$ 0	Multiply by 4½% (.045)	1	$	
2. Other Shore-Based-Established Species Schedule A; line 9, column (9B)	$5,164,037	Multiply by 3% (.03)	2	$154,942.92	
3. Floating Business-Established Species Schedule A; line 9, column (9C)	$ 0	Multiply by 5% (.05)	3	$	
4. Shore-Based - Developing Species Schedule B; line 7, column (7A)	$760,037	Multiply by 1% (.01)	4	$ 7,600.37	
5. Floating Business-Developing Species Schedule B, line 7, column (7B)	$ 0	Multiply by 3% (.03)	5	$	
6. TOTAL TAX (Add Tax Due column, lines 1 through 5)			6	$162,543.29	
7. Enter amount of any prepayments of estimated tax ($25.00 license fee is not a prepayment) ...			7	$ 0	
8. Balance due or (overpayment) (Subtract line 7 from line 6)			8	$	
9. Penalty for late filing (5% per 30 day period not to exceed 25%)			9	$	
10. Interest (12% a year)			10	$	
11. TOTAL DUE WITH THIS RETURN (Add lines 8 through 10)			11	$162,543.29	

NOTICE: If the fisheries business covered by this return is a shore-based fisheries business which floats, from 04-575 Vessel Itinerary must be completed and attached to this return.

ALLOCATION OF REVENUE. Please provide the information requested below to allow for allocation of revenue to local governments. If the return is for a vessel, complete the schedule on the right, showing the amount of the taxes allocated to each location. Please see the general instructions for further information.	Vessel Location	A, B or C	% of Tax Due Allocated Line 1	Line 2	Line 3	Line 4	Line 5	Dollar Amount Allocated Per Location
Name of Cannery, Plant, Vessel or Business								
Physical Location of Cannery, Plant or Business								
Check only one: A. ☐ Within incorporated city limits B. ☐ Outside city but within organized borough C. ☐ Outside all cities or boroughs								

I declare under penalty of perjury that this return (including all accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct and complete return.

Signature of Taxpayer: X David Woodruff — Date: X 3-31-83

Signature of Agent — Date

This return must be filed with your payment on or before March 31, 1983. Make your remittance payable to the:

DEPARTMENT OF REVENUE
Audit Division
Pouch SA
Juneau, Alaska 99811-0400

Please attach as appropriate to this return, Schedules A - G and form 04-575 Vessel Itinerary.

Office Use Only

04-574 (Rev. 10/82)

Department of Revenue
Audit Division
Pouch SA
Juneau, Alaska 99811-0400

ALASKA FISHERIES BUSINESS RETURN
SCHEDULE B. DEVELOPING COMMERCIAL FISH SPECIES

Fisheries Bus. Lic. No. 82-046

Developing commercial fish species are taxed at a lower rate than established species. Use this schedule only to report fish and shellfis species that have been designated as "developing" by the Alaska Department of Fish and Game. A list of these species is printed on the bac of this schedule. To report fish species that do not appear on the list of developing species, use Schedule A.

Please read the instructions and definitions on the back before completing this schedule.

DO NOT INCLUDE ESTABLISHED COMMERCIAL FISH SPECIES SEE SCHEDULE A	A. SHORE-BASED FISHERIES BUSINESS		B. FLOATING FISHERIES BUSINESS	
	Pounds	Total Value	Pounds	Total Value
1. Fisheries resources processed that were taken in company-owned or company-subsidized boats operated by employees of the fisheries business or in boats operated under lease or other arrangement. Complete a Schedule C for each column entry.		(1A) $		(1B) $
2. Fisheries resources processed that were purchased by your company from fishermen qualifying for exclusion from payment of the tax. Enter Total Pounds and Total Value from Schedule D in the appropriate column.		(2A) $		(2B) $
3. Fisheries resources processed that were purchased by your company except those resources included on line 2. Complete a Schedule C for each column entry.	261,935	(3A) $ 760,037		(3B) $
4. Fisheries resources that your company custom processed for someone other than a licensed fisheries business. List the name of the person/company owning the product which was custom processed. Attach Schedule E, Owner's Statement of Value, for each person/company you list.				
(a)		$		$
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
(h)				
(i)				
5. Fisheries resources that were custom processed for your company. List the name of the company that processed the resource. Complete a Schedule C for each column entry.				
(a)		$		$
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
(h)				
(i)				
6. Other fisheries resources transported outside the taxing jurisdiction of Alaska for subsequent processing or sale, or sold outside the taxing jurisdiction of Alaska. List the name of the person/company that purchased the product. Complete a Schedule C for each column entry.				
(a)		$		$
(b)				
(c)				
(d)				
(e)				
(f)				
7. TOTALS. Add categories 1-6. Enter (7A) on page 1 of the Return, line 4. Enter (7B) on page 1, line 5.		(7A) $ 760,037		(7B) $

Department of Revenue
Audit Division
Pouch SA
Juneau, Alaska 99811-0400

ALASKA FISHERIES BUSINESS RETURN
SCHEDULE A. ESTABLISHED COMMERCIAL FISH SPECIES

Fisheries Bus. Lic. No. 82-046

IMPORTANT. Before completing this schedule, please read the list of Developing Commercial Fish Species printed on the back of Schedule B. Any fishery resource processed that is included on this list is taxed at a lower rate and must be reported on Schedule B.

CUSTOM PROCESSORS. Use Schedule A only to report those established commercial fish species which you custom processed for someone other than a licensed fisheries business. You are not liable for the tax on fisheries resources you custom processed for another licensed fisheries business. You must, however, report on Schedule F those resources that you custom processed for another licensed fisheries business.

GENERAL INSTRUCTIONS

Before completing this form, please read carefully each category as described on lines 1-7. This will help you determine which categories apply to your fisheries business.

Make your entries in column A only for salmon canned at a shore-based cannery. For fisheries resources other than canned salmon which were processed at a shore-based fisheries business, make your entries in column B. For fisheries resources processed on a floating fisheries business, make your entries in column C.

If this return is for a shore-based fisheries business which floats, form 04-575 Vessel Itinerary must be completed. Make your entries as a shore-based business only if the vessel was anchored in one spot and did not move from that anchorage for any reason during the entire calendar year.

DEFINITIONS OF VALUE - 15 AAC 75.300

VALUE means the actual price paid for the fisheries resource by the fisheries business, including indirect consideration such as fuel, supplies, or gear, whether paid at the time of purchase of the fisheries resource or tendered as a deferred, delayed, or advance payment, except that VALUE means the market value of the fisheries resource if the fisheries resource is taken in company-owned or company-subsidized boats operated by employees of the fisheries business or in boats which are operated under lease or other arrangement.

MARKET VALUE means the prevailing value paid for fisheries resources of like kind and quality by fisheries businesses in the same market area to fishermen who own their vessels.

If you CUSTOM PROCESSED a fisheries resource for someone other than a licensed fisheries business, you are liable for payment of the tax. List the VALUE of the resource as reported to you on the Owner's Statement of Value, Schedule E.

NOTE: Each entry you make in a Total Value column must be supported by a schedule C, D or E as appropriate that shows, in addition to other items, the species that are included in that entry. For lines 1, 3, 5, 6 and 7, complete a Schedule C for each entry. For line 2, attach a Schedule D for each entry. For line 4, attach a Schedule E for each entry.

DO NOT INCLUDE DEVELOPING COMMERCIAL FISH SPECIES SEE SCHEDULE B	A. SALMON CANNED AT A SHORE-BASED CANNERY		B. SHORE-BASED FISHERIES BUSINESS (DO NOT INCLUDE SALMON CANNED AT A SHORE-BASED CANNERY)		C. FLOATING FISHERIES BUSINESS	
	Pounds	Total Value	Pounds	Total Value	Pounds	Total Value
1. Fisheries resources processed that were taken in company-owned or company-subsidized boats operated by employees of the fisheries business or in boats operated under lease or other arrangement. Complete a Schedule C for each column entry.		(1A) $		(1B) $		(1C) $
2. Fisheries resources processed that were purchased by your company from fishermen qualifying for exclusion from payment of the tax. Enter Total Pounds and Total Value from Schedule D in the appropriate column(s).		(2A) $		(2B) $		(2C) $
3. Fisheries resources processed that were purchased by your company except those resources included on line 2. Complete a Schedule C for each column entry.		(3A) $	3,437,088	(3B) $5,164,764		(3C) $
SUBTOTALS. Add lines 1-3 in each column. Enter subtotals on the back of this Schedule A, line 8.		(A) $		(B) $5,164,764		(C) $

O NOT INCLUDE DEVELOP. COMMERCIAL FISH SPECIES SEE SCHEDULE B	A. SALMON CANNED AT A SHORE-BASED CANNERY		B. SHORE-BASED FISHERIES BUSINESS (DO NOT INCLUDE SALMON CANNED AT A SHORE-BASED CANNERY)		C. FLOATING FISHERIES BUS SS	
	Pounds	Total Value	Pounds	Total Value	Pounds	Total Value
4. Fisheries resources that your company custom processed for someone other than a licensed fisheries business. List the name of the person/company owning the product which was custom processed. Attach Schedule E, Owner's Statement of Value, for each person/company you list.						
(a)		$		$		$
(b)						
(c)						
(d)						
(e)						
(f)						
(g)						
(h)						
(i)						
5. Fisheries resources that were custom processed for your company. List the name of the company that processed the resource. Complete a Schedule C for each column entry.						
(a)		$		$		$
(b)						
(c)						
(d)						
(e)						
(f)						
(g)						
(h)						
6. Salmon exported in the round. List the name of the person/company that purchased the salmon. Complete a Schedule C for each column entry.						
(a)		$		$		$
(b)						
(c)						
(d)						
7. Other fisheries resources transported outside the taxing jurisdiction of Alaska for subsequent processing or sale, or sold outside the taxing jurisdiction of Alaska. List the name of the person/company that purchased the resource. Complete a Schedule C for each column entry.						
(a)		$		$		$
(b)						
(c)						
(d)						
8. Enter amounts from Schedule A, Subtotals (from other side) in the appropriate columns.		(A) $		(B) $		(C) $
9. TOTALS. Add categories 4-8. Enter (9A) on page 1 of the Return, line 1. Enter (9B) on page 1, line 2. Enter (9C) on page 1, line 3.		(9A) $		(9B) $ 5,164,764		(9C) $

ᴅepartment of Revenue
Audit Division
Pouch SA
Juneau, Alaska 99811-0400

ALASKA FISHERIES BUSINESS RETURN
SCHEDULE C. FISHERIES RESOURCES PROCESSED BY SPECIES

Fisheries Bus. Lic. No. 82-046

Complete as many Schedules C as necessary to support the appropriate Total Value column entries made on Schedules A and B. For Schedule A, separate Schedules C are required for lines 1, 3, 5, 6 and 7. For Schedule B, separate Schedules C are required for lines 1, 3, 5 and 6.

For example, if you canned King, Coho and Chum Salmon as a shore-based cannery, and all of the salmon were purchased fresh at the dock, you correctly made an entry on Schedule A at line 3, column A. That entry would be supported by this Schedule, showing detailed information about each of the three species of salmon you processed.

For line category entries made on Schedule A, line 5, or Schedule B, line 5, you must provide a separtate Schedule C for each person or company that custom processed for your company.

For line category entries made on Schedule A, lines 6 and 7, or Schedule B, line 6, you must provide a separate Schedule C for each person or company that purchased the resource which was transported unpro cessed out of Alaska's taxing jurisdiction.

For example, if you transported unprocessed fisheries resources out o Alaska's taxing jurisdiction and sold them to companies A and B, com pany A's name would appear in the box requesting "Name of Person o Company" in the first schedule below. The information for the specie which were purchased by company A would then appear in th corresponding spaces. The next schedule would then be completed fo the resources sold to company B.

NOTE FOR SCHEDULE B ENTRIES: Herring, shrimp, and certai species of crab are considered to be developing species only in certai areas. Additionally, shrimp are "developing species" in some areas onl when caught with pot gear. For these species only, you must list the are where caught. For shrimp, you must also list the type of gear used.

THIS FORM CONTAINS FIVE SCHEDULES C. USE ADDITIONAL PAGES AS NECESSARY.

First complete the boxes immediately below by transferring information directly from Schedule A or Schedule B. For each species included in the totals you enter below, provide the information requested in the boxes to the right.

This Schedule supports the entry made at:

SCHEDULE	LINE	COLUMN
A	3	B

Name of Person or Company (for Schedule A, lines 5, 6 or 7 only, and Schedule B, lines 5 or 6 only)

TOTAL POUNDS (From Schedule A or B entry)
3,437,088 lbs

TOTAL VALUE (From Schedule A or B entry)
$5,164,764

SPECIES OF FISHERIES RESOURCE	AREA WHERE CAUGHT AND TYPE OF GEAR AS APPLICABLE TO SCHEDULE B	TOTAL POUNDS OF THAT SPECIES	AVERAGE VALUE PER POUND	TOTAL VALUE FOR THAT SPECIES
KING CRAB		811,979	3.504	2,845,520
DUNGENESS CRAB		732,377	.749	547,791
TANNER CRAB		716,915	1.62	1,161,540
KING SALMON		476	.666	317
RED SALMON		202,492	.938	189,987
PINK SALMON		191,300	.259	49,500
CHUM SALMON		578,024	.438	253,020
COHO SALMON		195,841	.559	109,458
HALIBUT		7,684	.99	7,631

First complete the boxes immediately below by transferring information directly from Schedule A or Schedule B. For each species included in the totals you enter below, provide the information requested in the boxes to the right.

This Schedule supports the entry made at:

SCHEDULE	LINE	COLUMN
B	3	A

Name of Person or Company (for Schedule A, lines 5, 6 or 7 only, and Schedule B, lines 5 or 6 only)

TOTAL POUNDS (From Schedule A or B entry)
261,935lbs

TOTAL VALUE (From Schedule A or B entry)
$760,037

SPECIES OF FISHERIES RESOURCE	AREA WHERE CAUGHT AND TYPE OF GEAR AS APPLICABLE TO SCHEDULE B	TOTAL POUNDS OF THAT SPECIES	AVERAGE VALUE PER POUND	TOTAL VALUE FOR THAT SPECIES
SCALLOPS		237,922	3.147	748,741
BLACK COD		1,900	.95	1,805
PACIFIC COD		18,400	.304	5,592
CLAMS		3,713	1.05	3,899

ALASKA DEPARTMENT OF REVENUE
Audit Division
Pouch SA
Juneau, Alaska 99811

SEAFOOD MARKETING ASSESSMENT RETURN

AS 16.51.160

DUE DATE: MARCH 31 following the assessment y

Name (Person, Firm or Corporation)	Assessment Year	This return is an:
ALASKA FRESH SEAFOODS, INC.	1982	
Mailing Address: BOX 647	Employer's I.D. or Social Security No.: 911043495	XX Original Return
City, State, Zip Code: KODIAK, ALASKA 99615	Daytime Telephone Number: 907) 486-5749	☐ Amended Return

Add all values entered in the TOTAL VALUE column from each Alaska Fisheries Business Return filed for the assessment year (page1, lines Enter each total in column C below.

A. Fisheries Business License Number	B. Location of Operation or Vessel Name	C. Value of Seafood Products	Office Use C
82-046	105 MARINE WAY, KODIAK, AK	$ 5,924,801	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	
		$	

1. Total value of seafood products listed in column C. (If less than $50,000, skip lines 2 - 5, sign the return and file it on or before the due date.)	1.	$ 5,924,801	
2. Multiply the value entered on line 1 by .2% (.002)	2.	$ 11,849.60	
3. Penalty for late filing (5% per 30 day period not to exceed 25%)	3.	$	
4. Interest (12% a year)	4.	$	
5. Total assessment (Add lines 2 through 4)	5.	$ 11,849.60	

I declare under penalty of perjury that this return, including any accompanying statements, has been examined by me and to the best of my knowledge and belief is true, correct and complete.

Signature of Processor: X [signature]	Date X 3-31-83
Signature of Agent	Date

File this return o before March 31, wit assessment due (lin Make your remit payable to the A Department of Rev

Thank you.

04-578 (12/82)

STATE/LOCAL TAXES AND JURISDICTIONAL SHIFTS IN CORPORATE BUSINESS ACTIVITY: THE COMPLICATIONS OF MEASUREMENT

THOMAS VASQUEZ AND CHARLES W. deSEVE

Introduction

Little has changed since John Due wrote his 1961 survey of research into the effect of state/local taxes on industrial location.[1] A few more articles have been written and a few more cautions issued about the narrow applications of the results, yet the state of the art has changed little and the measurements remain inconclusive.

It may seem ironic at a conference on tax simplification to suggest a new research approach which is operationally more complicated than other methods have been. But it is the failure of state/local tax laws to be either simple or uniform which requires it. This paper will demonstrate permutations of corporate business activities and tax treatments which obscure the true magnitude of tax differences among jurisdictions. Nominal tax definitions and much aggregate tax data are insufficient in models of location behavior. Moreover, the particular distribution of a firm's existing activity among states and localities can have such a dramatic impact on its after-tax rate of return on marginal investment that broad generalizations about the fiscal interaction of jurisdictions may be impossible to make.

This paper first discusses a few of the conceptual difficulties in defining the interaction of tax laws among the states. It then summarizes a 13 state simulation of the impact of the jurisdictional dispersion of business activity and of Federal/State/local tax laws on the return to marginal investment in specific locations. It is not meant to be a tax comparison of the jurisdictions involved, but simply a demonstration of the importance and complications of many long-neglected variables.

Measuring Tax Differentials

A study of tax differentials, analogous to the study of any other cost differential should satisfy two basic conditions. First, the cost differential should be measured in the context of the relevant decision process. In the case of a decision to locate new plant or equipment, the only meaningful approach is to measure tax differentials in the context of investment policy. Secondly, the unit of comparison should be the same as that used by investors and should be general such that the tax differential measure can be compared to other cost differentials. Clearly, the after tax rate of return satisfies both these requirements.[2]

Among the approaches of earlier studies is the ranking of states according to the single year tax liability of hypothetical firms representative of selected industries.[3] Alternatively, differences in nominal taxes among jurisdictions are used as the independent variable in a behavioral model. In either case, the choice of tax liability as the comparison unit creates two problems. First, the purchase of physical capital is in effect the purchase of an expected income stream over the useful life of the asset. In the same sense that an investor would want to know the level, pattern and duration of the income stream produced by the asset, he also would want to know the level, pattern and duration of the tax liability stream. Clearly, a one-year measure of the income of the asset is worthless to the investor and thus a one-year measure of tax liability (or a comparison of nominal tax rates) is worthless. Secondly, because of the concern with all factors which affect location decisions, the choice of the unit of comparison should reflect the need to analyze the effects of all costs. The after-tax rate of return is a generally accepted measure which easily handles the problems presented by the timing of tax liabilities and income flows and can be used to compare tax cost differentials with other cost factors affecting the location decisions of firms.

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

December 22, 1983

MEMORANDUM

TO: Representative Fred Zharoff

FROM: O. Alexander Hoke
Legislative Analyst O. Alexander Hoke

RE: Raw Fish Tax Credit
Research Request 83-189

This memorandum addresses your questions regarding the design of a "raw fish tax" credit and the amount of tax credits that would be available to fish processors under such a system, especially for processors of developing fisheries. We also address alternatives to the tax credit suggested by officials in the Department of Revenue who reviewed your tax credit proposal.

ANALYSIS OF A RAW FISH TAX CREDIT

We understand that your proposal is to provide a tax credit of up to half of a processor's total Fisheries Business Tax liability for investments in plant and equipment which affect the quality of the fishery product or for investments in the processing of developing fisheries.

Models for a Raw Fish Tax Credit Program

There are numerous examples of investment tax credit programs in other states and in the Alaska and federal income tax systems. The tax credit programs tend to have a common approach and their implementing language is relatively straight forward. The credit is allowed against a tax liability (usually the state income tax), with the credit limited to a percentage of the investment made. In most cases, the percentage of the total investment allowed as a credit is 10 percent or less, but in a few instances, 100 percent of the investment is allowed as a credit. Presumably the more common smaller percentages are used in order to insure that the business seeking the credit is willing to place a substantial portion of their own resources into the investment, which effectively guarantees the soundness of the investments.

In most instances, the amount of the investment tax credit allowed in any tax year is limited to 50 percent of the business' total tax liability for that year. It may be assumed that this provision is designed to insure that the tax base is not severely eroded by the tax credit program. Most states (and the federal government) permit the business claiming a tax credit to carry forward any unused portion of tax credit claimed for one year. Some programs allow the unused portion of the tax credit to be carried back to previous tax years in order to permit a business to take full advantage of the tax credit.

As an example of how the tax credit carry forward works, assume that a processor owes $50,000 in raw fish tax to the State of Alaska. Since an investment tax credit of up to 50 percent of the total tax liability is permitted under your proposal, the tax credit limit for the first tax year is $25,000. Suppose that this processor invests $100,000 in new equipment eligible for the raw fish tax credit. If 100 percent of the investment is allowed as a credit against the raw fish tax liability, a credit of $100,000 can be claimed. However, only $25,000 can be used as a credit for the first year, leaving a total tax of $25,000 to be paid, and a balance of $75,000 in unused credit to be carried forward.

In the following year, assume that $60,000 in fisheries business tax is owed. Although $75,000 of raw fish investment tax credit was unused in the first year, only $30,000 (half of the $60,000 owed) may be claimed in the second year. Consequently, $30,000 must be paid in raw fish tax while an equal amount is claimed as a credit. Also, $45,000 in unused investment tax credit remains to be carried forward to the next tax year.

The carry back provisions allowed under the federal investment tax credit work in much the same manner as described above, except that in order to claim the credit, the business must file amended returns for prior years under which the credit is to be claimed. In this case, the federal government refunds any over paid taxes as a result of the amended returns.

The third major element common to most tax credit programs pertains to the type of investments for which a credit can be claimed. In most cases, the nature of investments eligible in the tax credit program reflects specific policy goals. For example, Colorado targets new and expanded mining and milling business investments; Florida credits investments in facilities situated within state-designated enterprise zones; Massachusetts limits credits to investments in manufacturing, agriculture, commercial fishing, and research and development businesses; Pennsylvania permits a tax credit for corporate investments in neighborhood revitalization and job training; and Virginia provides tax credit for business investment in impoverished areas of the state.

A more complete description of the form and content of various investment tax credit programs in the states can be found in the attached research bulletin, Tax Incentives and Financing Assistance for Industrial Location.

Fisheries Business Tax: AS 43.75.015

The fisheries business tax (raw fish tax) is defined by Alaska statutes as a percentage of the "market value" or actual sale price of the fishery resource. The sale price includes other valuable considerations offered in the transaction such as fuel, supplies, or gear. The tax percentage differs for shore-based businesses (processors), floating processors, and processors of developing fisheries as shown in the table below:

Table 1
Fisheries Business Tax Assessment
Based on the Value of Fish Processed

Fisheries Business Type	Percentage of Value Assessed Under the Raw Fish Tax
Shore-based canned salmon	4.5%
Other salmon processors and all other shore-based fish processors	3.0%
Floating fisheries processors	5.0%
Shore-based processor of developing fishery	1.0%
Floating processor of developing fishery	3.0%

The revenue generated under the fisheries business tax is shown in the table below as provided by the Department of Revenue:

Table 2

	Fisheries Business Tax Revenue (millions of dollars)						
Processor Type	FY77	FY78	FY79	FY80	FY81	FY82	FY83
Canned Salmon	3.8	5.5	6.7	4.3	5.9	8.6	4.3
Shore-Based	1.9	2.3	3.3	7.6	11.0	8.7	11.5
Floating	.5	.5	1.9	2.7	3.8	5.5	4.7
Totals	6.2	8.3	11.9	14.6	20.7	22.8	20.5

Half of the fisheries business tax revenues are reserved for the local government under whose jurisdiction the fish processor is operating. Under your proposal, the revenues collected on behalf of the local government jurisdictions would continue to be transferred to that level. The remaining half of raw fish tax collected by the State could be subject to the investment tax credit for processors.

A total of 488 fisheries business licenses were issued in 1982, while only 410 fisheries business tax returns were filed for that year. This means that some businesses were conducting processing activities requiring more that one license. For example, some businesses operate both shore-based and floating processing facilities.

Because the Department of Revenue publishes tax revenues on a fiscal year basis, taxes owed for calendar 1982 (which are due by April 1, 1983) are recorded as FY83 revenues. In actual practice, tax revenue will not always be paid by the processors by the April deadline. Some processors in financial trouble are paying past due taxes on individually arranged payment schedules. As a rough approximation, however, average taxes paid by processors (shown in Table 3) can be computed by dividing total FY83 fisheries business tax revenues by total calendar 1982 business licenses issued.

Table 3
Average Raw Fish Tax Credit Allowed

Processor Category	Total 1982 Licensed Processors	Fish Tax Revenues $Millions	FY83 Est. Avg. Fish Taxed Owed Per Processor
Shore-Based	218	$11.5	$52,752
Canneries	60	4.3	71,667
Floating	169	4.7	27,811

Average tax liabilities presented in Table 3 compare to Audit Division data which show that of the total of 410 raw fish tax returns for 1982, nearly one-fourth (108) of the returns reported more than $50,000 in taxes owed.

An interesting fact about the 108 largest fish processors is that about 40 of these processors are owned by foreign companies while others are owned by Washington-based firms. Also, 15 of the fisheries businesses owing over $50,000 in raw fish tax are making late payments according to a schedule arranged by the Department of Revenue. Presumably, the financial status of these businesses prohibits them from meeting their tax liability on time.

Processors of Developing Fisheries

There are approximately 60 shore-based processors and 60 floating processors which are taxed under the lower "developing fisheries" taxes shown in Table 1. In most cases, these businesses also process developed fisheries, which are taxed at the higher levels indicated in Table 1. A breakdown of the tax revenue raised under the developing rates of the fisheries business tax is presented below in Table 4.

Table 4

Raw Fish Tax Revenues on Developing Fisheries

Processor Type	1980	1981	1982
Shore-based	$137,090	$192,389	$280,002
Floating	111,618	330,419	555,293
Totals	$248,708	$522,808	$835,295

A comparison of the calendar 1982 total raw fish taxes on developing fisheries ($835,295) to the FY83 total of all raw fish tax revenue ($20.5 million) shows that developing fisheries taxes constitute only about 4 percent of total revenues.

Average Tax Credit Estimation

A breakdown of fisheries business tax returns would have to be requested of the Audit Division of the Department of Revenue in order to gain a clear picture of how fish processors would be affected by a tax credit program. In lieu of such a breakdown, a rough approximation of average tax credits permitted under a 50 percent tax credit ceiling can be made by dividing total tax revenues by the total number of processors. Such approximations are made in Table 5 for two groupings of fish processors: an aggregate of all processors and a subgroup of developing fisheries processors.

Table 5

"Raw Fish Tax" Credit Estimation
Maximum Credit Allowed Based on 1982 Data

Processor Category	Total Licensed Processors	Fish Tax Revenues	Est. Average Fish Tax Owed Per Processor	Estimated Tax Credit Per Processor**
Shore-Based (Total)	218	$11,500,000	$52,752	$26,376
Canneries	60	4,300,000	71,667	35,833
Floating (Total)	169	4,700,000	27,811	13,905
Undeveloped Fisheries Shore-Based	60*	280,002	4,667	2,333
Undeveloped Fisheries Floating	60*	555,293	9,255	4,627

*The data shown for developing fishery processors represent a portion of the comprehensive Shore-Based and Floating categories shown immediately above in this table.

**These figures reflect the average of maximum credits allowed based on 50 percent of taxes owed.

Of course, the average credits estimated above may present a somewhat misleading picture of the spread of potential tax incentives under your proposed investment tax credit program. Large processors may claim larger credits than the averages shown above if their tax liability exceeds the average of taxes owed for all processors. Likewise, small processors may find that their allowed credits are substantially less than those indicated above, depending on their tax liability.

We have not attempted to determine whether or not tax credits in the range of $14,000 to $36,000 would induce fish processors to make investments in new plant and equipment. However, it seems likely that if the investment tax credit program is restricted to processors of developing fisheries only, the potential tax credits of $2,000 to

$4,600 would provide little incentive for upgrading processing facilities. At the very least, the impact on the processing industry for developing fisheries appears to be insignificant given the modest investments that could be made using tax credits shown in Table 5.

Revenue Leakage To Federal Government Under Tax Credit Program

A concern expressed by Maureen O'Brien, Audit Division Director for the Department of Revenue, is that a number of large processors may find that the effectiveness of a raw fish tax credit is attenuated to the extent that a portion of their tax burden is merely shifted to the federal income tax. Since taxes paid to the State of Alaska are deductible under the federal income tax, a credit against state taxes translates into higher taxable income at the federal level.

For example, assume that a major fish processor reports $100,000 in taxable income on its federal income tax return after a deduction of $60,000 in taxes due under the Alaska Fisheries Business Tax. If the raw fish tax credit were implemented, this processor would be eligible for a tax credit of $30,000. This would boost the processor's federal taxable income to $130,000, with all income over $100,000 taxable at the maximum 46 percent rate. Consequently, the actual effect of the tax credit would be $30,000 minus the federal income tax increase of $13,800 (46 percent of $30,000), leaving $16,200 to offset the company's investment in new plant and equipment. In other words, for some large processors, every raw fish tax revenue dollar foregone by the State as a tax credit would buy 54 cents worth of new plant and equipment in the Alaska fish processing industry.

For smaller processors with taxable incomes in a lower tax bracket, this loss of State revenue to the federal income tax would not be as great. Furthermore, some investments in new equipment would qualify for the 10 percent investment tax credit and the accelerated cost recovery (depreciation) provisions of State and federal income tax law. These provisions would effectively increase the amount of raw fish tax credit that would actually be available for investment in fish processing industry improvements.

ALTERNATIVE INCENTIVES FOR FISH PROCESSING INVESTMENTS

Accelerated Cost Recovery System

Tax incentives for upgrading equipment and plant improvements are presently available to fish processors in the form of credits against a corporation's federal or State income tax liability. As a component of the Economic Recovery Tax Act of 1981, the U.S. Congress passed legislation allowing businesses to recover (depreciate) investments in new plant and equipment at a more rapid rate than under previous tax law. Under the Accelerated Cost Recovery System, property is classed as 3-year, 5-year, 10-year and 15-year recovery property. Ten and fifteen-year property relates primarily to utility property, while three and five-year property is defined in Table 6. The State of Alaska adopts the provisions of federal tax law including the Accelerated Cost Recovery System in AS 43.20.021.

Table 6
Accelerated Cost Recovery System and Investment Tax Credit

Cost Recovery Class	Property Description	Investment Tax Credit Allowed
3-year	autos, light trucks, some research & development equipment	6% of investment cost
5-year	most machinery and equipment, furniture and fixtures	10% of investment cost

Investment Tax Credit

A second economic stimulus in the 1981 Recovery Tax Act is the investment tax credit. A credit is offered against federal income tax liability equal to a percentage of the total investment cost of new equipment as shown above. The credit on investments is limited to 80 percent of the first $25,000 of federal tax liability and 90 percent of all tax owed above $25,000. Credit in a given tax year is limited to the total income tax owed to the government, although investment tax credit can be carried back three tax years or carried forward between seven and ten tax years and applied against taxes owed. Consequently, virtually all of the credit can be used to offset past or future tax liability.

Alaska statute (AS 43.20.036 b) limits the investment tax credit by allowing credit against only the first $20 million of qualified investment property (except pollution control equipment) for each tax year. The Alaska income tax credit allowed in any tax year is limited to 18 percent of the investment tax credit claimed for federal income tax purposes.

Energy and Rehabilitation Investment Credits

In addition to the standard tax credits allowed on investments of all new equipment, the Internal Revenue Code permits specific investment credits for energy property and rehabilitation of old facilities. These credits are listed in Table 7.

Table 7
Energy and Rehabilitation Investment Tax Credits

Property Investment Class	Tax Credit As a Percentage of Investment
Energy: Solar, wind, geothermal and ocean-thermal	15%
Energy: Small hydro-electric	11%
Energy: Biomass	10%
Rehab.: 30-year old structure	15%
Rehab.: 40-year old structure	20%
Rehab.: Certified historic structure	25%

Elective Expense Deduction

Federal tax law also permits a business to "expense" a limited portion of depreciation property each year as shown below.

Tax Years	Expense Limit
84 & 85	$7,500
After 85	$10,000

This provision means that property normally depreciated could be treated as a business expense and fully deducted from gross income up to the limits shown above.

Loan Programs

At present, there are five sources of loans and loan guarantees available to fish processors through State programs. Aside from conventional financing sources (banks) these sources include:

- Commercial Fishing and Agriculture Bank (CFAB)
- Alaska Resources Corporation (ARC)
- Fishery Product Revolving Loan Guarantee Fund
- Small Business Loan Program
- Alaska Industrial Development Authority

In the interest of transmitting this memorandum to you at the earliest possible date, we have not taken the time necessary to fully evaluate the loan program alternative suggested by the Department of Revenue. In a follow-up memorandum, we intend to review the provisions of existing loan programs to determine their suitability as a source of financing investments in fish processing industry. We will also examine the proposal of creating a new loan program as a source for financing improvements in the fish processing industry. We hope to be able to provide you with this additional information by the middle of January.

Inventory Control And Quality Fisheries Products

While discussing the implications of the proposed raw fish tax credit with John Mintken of the Revenue Department's Audit Division, an alternative relating to processors' inventories was suggested. Mr. Mintken proposed a State-supported inventory control system designed to stabilize the fisheries product market structure and provide additional warehousing and freezer storage capacity.

Mr. Mintken feels that a major problem for processors is uncertainty of the consumer demand for and market price of fisheries products. This uncertainty is closely tied to the volatility in total harvest of fish from one season to the next. Mr. Mintken believes that much of the reluctance to invest in new plant and equipment results from the considerable financial risk imposed by unknown fish prices, market demand, and harvest volumes. He suggests that the State could act as a warehousing/cold storage intermediary, available to purchase surplus fish products much as the federal government absorbs surplus grain production on a national level.

The State has, in fact, begun a program of this nature to support the developing grain producing business in Alaska. Last year, HB 156 created a State grain reserve program in which farmers can deposit their surplus grain in the State reserve as collateral for a loan from the

State. The loan amount is set at a level equal to the cost of producing the grain. The grain can be redeemed by the producer at any time by paying off the loan with interest. This means that the farmer is guaranteed that he can "sell" any grain that he produces, although the portion he turns over to the State reserve is essentially "sold" at the cost of producing it. If the market price for grain rises above the cost of production, the farmer can redeem his grain and sell it on the open market at a profit. If the farmer defaults on his loan, the State has "purchased" his grain at cost and is free to sell the grain at any time.

Obviously, a direct parallel can be devised for fish processors insuring them that they can "unload" any surplus fish products at a base price which guarantees no profit but at least protects them from loss.

According to Dave Bowhay, manager of Douglas Cold Storage, this practice may provide relief for processors deluged by incoming fish resources beyond their storage capacity. Mr. Bowhay feels that a serious factor limiting the quality of fisheries products results from the overloading of processing plant capacity caused by increasingly compressed fishing seasons. Additional storage capacity is uneconomical to build because the facilities are only used during a brief period of the year. As a solution to the problem, Mr. Bowhay suggests that either the fishing season be stretched out or State-operated storage facilities be built to accommodate surplus resources.

CONCLUSIONS

It appears that a raw fish tax credit program limited to half of the business' tax liability could result in an investment potential of between $14,000 and $36,000 per processor on the average. Of course, larger processors would be eligible for substantially more than the average. This credit coupled with investment tax credits against federal and state income tax liability may provide sufficient incentive for fish processors to upgrade their facilities.

A tax credit program restricted to developing fisheries would provide questionable investment incentives given estimated average credits of between $2,000 and $4,600.

Credit Eroded by Federal Income Tax. Department of Revenue auditors are concerned, however, that a significant portion of the Fisheries Business Tax revenues foregone in an investment tax credit program would be absorbed through higher federal and state income taxes.

Inability to Raise Investment Capital. A number of the processors, including about 15 of the larger processors (over $50,000 in raw fish tax owed) are presently unable to meet their tax liabilty on time.

These businesses may have difficulty obtaining the upfront financing needed to make investments which qualify for investment tax credits.

Tax Credit Benefits Foreign Processors. Another consideration regarding large processors is that about 40 of the 108 processors declaring a raw fish tax liability over $50,000 are foreign-owned. An additional number of these processors are owned by Washington-based companies (we have no data on the exact number). Consequently, a credit against the fisheries business tax will benefit these companies along with Alaskan-owned companies. Unlike State residency requirements in many of the Alaska loan programs, an attempt to target only Alaskan processors for a raw fish tax credit would probably not meet constitutional standards.

Federal and State Income Tax Incentives. Investment incentives are presently offered in the form of investment tax credits against both State and federal income tax liability. According to auditors in the Alaska Department of Revenue, however, many of the state's fish processors (especially the smaller processors) have little or no income tax liability. Consequently, the benefits from an income tax credit would exist only to the extent that a processor has an income tax liability that could be offset by the investment credit.

We hope that this information is useful in your preparation of a fisheries business tax credit program. If you have other questions regarding this memorandum, please call us.

OAH

Attachment