

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

5596 STRA HJR 68

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# Fuel: Frustrations

Continued from page D-4

all types, all around the nation, like farmers and fishermen," said Al Cobb, director of legal and political affairs for the Petroleum Marketers Association of America. "The IRS is likely to be overwhelmed by paperwork for these refunds."

"Since we're eligible for the rebates, we don't think it's wise to put the tax on the first place. We've always been exempt in the past," Corazza said.

At least one fishing industry expert, however, said the tax credit change is a bit of a red herring.

"It isn't going to make that much difference," said Craig Wiese, business management specialist at the Marine Advisory Program at University of Alaska Anchorage.

Wiese estimated that an average 42-or 48-foot seining ship operating in Prince William Sound would spend about \$5,000 on fuel a year, only five percent of annual revenue of \$100,000.

Wiese acknowledged that paying the fuel tax up front could make a significant difference in the finances of a family trying to live off a seiner's earnings.

The fuel tax law changes began as an IRS effort to get a better handle on the fuel taxes, said local and national IRS officials.

"The government is trying to force users to leave a paper trail so when we do future audits we can follow where the fuel got sold," the tax attorney Fidlow said.

Marilyn Steen, spokeswoman for the IRS office in Anchorage, said some fuel dealers in U.S. cit-

ies were taking advantage of lax IRS auditing and enforcement to dodge fuel taxes.

But the pressure on Congress to raise revenues without raising taxes during the Budget Reconciliation Act may result in placing an extra burden on fishermen, especially smaller operators, Burch said.

"One thing that will happen is a lot of excellent fishermen will not file for a refund," he said.

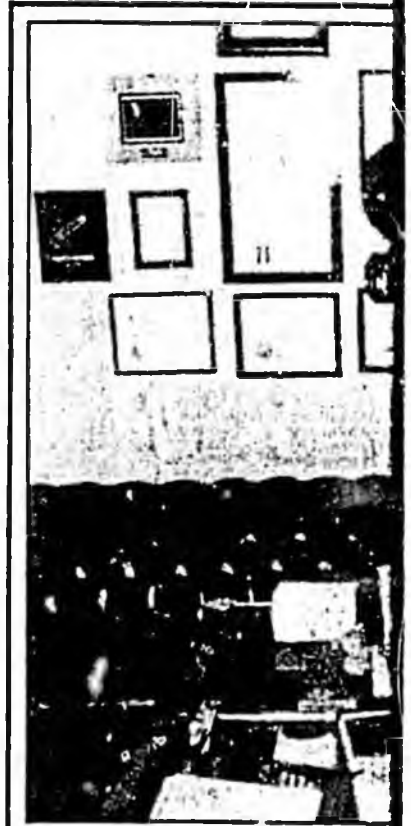
Burch, who spends \$100,000 per year on diesel fuel for his two boats, said accountants will make sure he and other large operators file for tax refunds. "Fishermen, like a lot of businessmen, are undercapitalized, and they'll be caught by having to pay for it up front," Ramaglia said. "They'll have to decide whether to put off maintenance on the engine, or put new cable on the winch, or to maintain their EPIRBs (emergency locator transmitters)."

The new tax laws give the IRS the discretion to allow state and local governments, airplanes, diesel trains, and industrial users of fuel to continue to buy diesel fuel tax-free, Cobb said.

Steen said the tax service would probably preserve the exemptions for diesel fuel, as they do for gasoline.

But until the actual announcement of the regulations, which Steen expects in three weeks, there is no way of knowing for sure which users other than fishermen and farmers will have to pay their taxes up front.

In Alaska, Burch is encouraging members of his draggers' association to write protest letters to the state's congressmen, and Ramaglia said he is encouraging his customers to do the same.



## Security measures

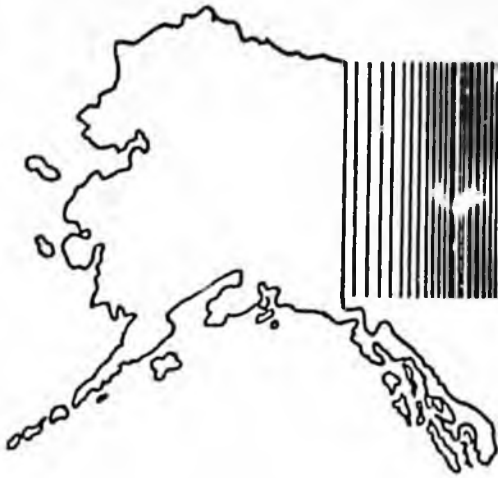
Philip W. Little, president of infrared spotting scope. The tries to do for private comparison Service does for the president.

## UAW sues

KENOSHA, Wis. (AP) — UAW workers Union Local 72 filed a lawsuit against Chrysler Corp., alleging it is breaking federal laws by pulling production from Kenosha and putting people out of work.

In a response, Chrysler said a review of the suit indicated it was without merit.

The suit, which also names as defendants the city of Detroit and the U.S. Dept. of Housing and Urban Development, says Chrysler obtained about \$50 million in grants to modernize its Jefferson plant in Detroit, said James Eggle, attorney for the union.



# NEWS

DON YOUNG CONGRESSMAN FOR ALL ALASKA

March 3, 1988  
FOR IMMEDIATE RELEASE  
CONTACT: Steve Hansen (202) 225-5765

## CONGRESSMAN YOUNG INTRODUCES SPORT FISHING, BOAT SAFETY BILL

WASHINGTON, D.C. - Alaska Congressman Don Young and four other members of the Merchant Marine and Fisheries Committee have introduced legislation to provide funds for recreational boat safety programs and sport fishing restoration.

Young also serves as Vice Chairman of the Subcommittee on Fisheries and Wildlife Conservation and the Environment, which will consider the reauthorization bill.

"For the past several years, our nation's boaters and anglers have contributed to programs through excise taxes imposed on motorboat fuel and sport fishing equipment," Young said. "This bill will ensure that those funds continue to be used for the purposes intended by Congress - to provide for the enhancement of sport fishing programs and boating safety programs.

"Alaska has been a major beneficiary of the sport fish restoration funds, having received over \$7 million in Fiscal Year 1987 - the most of all 50 states," Young added. "Alaska would receive additional funding if the state were to participate in the boating safety program, as is now being considered by the state legislature."

The other sponsors of H.R. 3918 are Congressmen Walter Jones (D-N.C.), Robert Davis (R-Mich.), Earl Hutto (D-Fla.), and Mario Biaggi (D-N.Y.).

# Congressional Delegation Respond to Lindsay; Work to Fix Fuel Tax

3/10/88 AG

Since Dale Lindsay, president of Harbor Enterprises, issued his "tax alert" warning users of marine fuel that they will have to front the federal government \$16 a gallon for marine diesel beginning April 1, there has been some action in Washington D.C. by the members of Alaska's congressional delegation.

Congressman Young is co-sponsor of HB 3865, which basically throws out the new fuel tax -- passed by Congress in its waning minutes last December. Senator Ted Stevens is in the process of drafting a similar bill, to be introduced in the Senate as soon as it's ready. And Senator Frank Murkowski is working with the Internal Revenue Service, trying to straighten out some of the technicalities of the bill as passed with the goal of preventing its impacts from falling on Alaskans.

No one in the congressional delegation is optimistic, however, that anything can be done before April 1. Lindsay had hoped that, at least, the IRS could be persuaded to delay its implementation of the new law for sixty days beyond April 1 to allow investigation of its adverse impacts on Alaskan users of marine diesel fuel. According to Senator Stevens, such a delay is highly unlikely. He said the IRS believes the situation with the new law is trying to deal with involves large numbers of flagrant abusers, and it is eager to stem the loss of tax revenues.

The new tax is \$151 of tax per gallon on "any liquid suitable for use as a fuel in a diesel highway vehicle or a diesel powered train." The IRS believes that, at present, people are buying marine (or agricultural or timber) fuel, which is tax exempt, and converting it for use on the road. The IRS wants, and the new law requires, wholesalers to pay the tax upfront. Then, if they can prove the fuel was actually used for marine (or agricultural or timber industry) purposes, they can get their money back in the form of tax credits on other taxes they also pay.

Such taxes are passed along all the way to the pump. That means that anyone who buys marine fuel and uses it for marine purposes is going to pay 15¢ a gallon more for it beginning April 1.

Vessel owners/operators -- ultimately the tax payers -- can get their money back by deducting the amount of the tax

they have paid from their federal income taxes. Or they can undertake extensive paperwork, post a bond, and become exempt from paying the tax as they purchase fuel.

Lindsay says such procedures are burdensome for people who shouldn't really be affected by the tax at all, and unfair as well.

What it amounts to, according to Lindsay, is small businesspeople being required to make interest-free loans to the U.S. government, with a corresponding rise in their costs. Furthermore, says Lindsay, the added cost will have the additional effect of causing fishermen to buy their fuel from tankers on the high seas, where they neither have to pay the higher costs nor undertake the paperwork to get their money back later.

Lindsay became aware of the new tax about a month ago when the IRS notified him and his company about having to collect it. The president of Harbor Enterprises, which does business in Dutch Harbor, Kodiak, Nikolski and Seward and villages around Kodiak island and the west Peninsula as Petro Marine, immediately asked Senators Stevens and Murkowski and Congressman Young to get to work to amend the bill so that marine users are clearly unaffected, and therefore neither have to pay the tax, apply for refunds, nor post bond to become exempt.

In commenting on the unlikelihood of the IRS's being willing to postpone implementation of the new law as Lindsay had hoped, Senator Stevens said he thinks "we'll have to live with the law for this year. It's very important for everyone to keep good records of paying the tax so they'll be able to get their money back."

## Fishermen face 20-cent fuel cost rise

By KAREN DURR  
Staff Writer

Between the state and the federal governments, commercial fishermen can expect to pay 20 cents more per gallon of diesel fuel.

Late last year, the state dropped its nickel-a-gallon rebate on its marine fuel tax for vessels that burn the fuel more than three miles offshore, outside Alaska's territorial limit.

And now the federal government apparently is going to change the way its 15 cents per gallon diesel fuel tax is collected, eliminating the exemption commercial fishermen had enjoyed along with farmers, freight vessels, tug boats and state and local governments.

Instead of charging wholesale fuel merchants the tax when they purchase fuel from refineries, now the tax will be col-

lected across the board at the pumps.

The new collection method came to the attention of City Councilman Jim Ramaglia, who also owns Kodiak Oil Sales.

Ramaglia brought up the information at Council Committee meetings during Thursday night's meeting, saying when the exemptions are dropped on April 1, "the impact will be quite tremendous."

Noting that some fishermen are on the borderline between profit and ruin, he said the increase in tax and the elimination of the state rebate "will be terrific pressure that could knock some guys out of business."

Although he says he is having difficulty in pinpointing details on the matter from the Internal Revenue Service, Ramaglia says he is concerned

about the impact the fuel tax changes will have on coastal communities. Instead of coming in to buy fuel, vessels will rendezvous with tanker vessels off shore and avoid paying the state tax, as well as spending money for other items while in port.

A federal rebate program will refund the fuel tax, but he says he understands the refund won't be money in anyone's pocket, but a credit on federal income tax.

A similar change in how a 9 cent per gallon tax on gasoline is collected went into effect Jan. 1, Ramaglia says.

"I think it's real important we contact our Congressional representatives and let them know loud and clear that it's going to be hard on the economy of Alaska and every other state in the union," he says.

# Tax exemption change hurts new fisheries

2/17/88 KOM  
By SUZANNE HANCOCK  
Staff Writer

A \$9 billion revenue enhancement package has a hidden price tag in it for Alaskan fishermen and others who use diesel fuel, special fuels and aviation fuel.

The package is part of the overall budget reconciliation.

Fishermen will still be exempt from the 15 cent Federal Excise Tax, but instead of enjoying this exemption up front, exempt users will have to pay the tax and be reimbursed later.

Marketers such as Kodiak Oil Sales/North Pacific Fuel's Jim Ramaglia are not looking forward to the change for themselves and their clients. The marketer has to pay the tax collected within two weeks of the sales which will add to paperwork and the cost of doing business.

Ramaglia figures that this added expense will kill marginal and pioneer fisheries. Worse than that, Ramaglia sees the added expense as being life threatening because rather than putting money into repairs and equipment, it will be paying for fuel.

If a business is exempt from the tax, it is entitled to a refund. The tax is for road maintenance and only road-use diesel is taxed. But the tax is collected by the Internal Revenue Service and application for the exemption must be made to it.

Users that the type of tax is put out on audits and following exemptions

and making decisions. He also says that it is possible a refund will be a long time coming, especially at first while the new system gets put into motion.

Fishing, marine transportation, and some other areas unrelated to road use will be considered tax exempt and must follow these rules to get a refund:

- if a business or individual pays more than \$1,000 in one calendar quarter, they can apply for a refund at the end of the quarter. This is the tax on approximately 6,700 gallons.

- if a business or individual pays less than \$1,000 in a quarter, they must wait until the end of the year to apply.

- a business or individual may not combine two quarters to come up with the \$1,000 in order to apply before the end of the year.

The law has been passed and now the IRS is writing regulations to implement it. It goes into effect April 1. According to Ramaglia, the IRS says the law has been laid down by Congress and all they will be doing is enforcing it. Marilyn Steen, spokesperson for the IRS, said the refund could be applied against other taxes owed the IRS.

In order to change things now, Congress has to revise the law. Ramaglia suggests that individuals write our representatives in Washington, D.C. about their concerns.

"American industry depends on diesel," said Ramaglia. "In general a Senator or Congressman equates one handwritten letter to 400 persons concerned with an issue."

Ramaglia says that personal comments are more important than just signing a petition or having a fishing association do all the work. When an individual writes, they receive a response.

Our Congressional delegation is:

- Senator Ted Stevens  
522 Hart Building  
Washington, D.C. 20510
- Congressman Don Young  
2331 Rayburn House Office Building  
Washington, D.C. 20515
- Senator Frank Murkowski  
709 Hart Building  
Washington, D.C. 20510

News article - Tax exemption change

## Diesel users' complaints force new fuel tax ideas

*Would affect oil drillers, loggers, farmers, fishers*

WASHINGTON (AP) - The Senate Finance Committee, flooded by complaints from farmers, fishermen and mining companies, voted Monday to allow some sales of diesel fuel without the payment of tax.

The relief would be financed by doubling the tax on gas-guzzling cars and closing a loophole that has allowed a handful of distilleries to dodge part of the liquor tax by watering down some of their booze.

Because of the drive to reduce the budget deficit, farmers and others who buy diesel for off-road use may not get their relief until Oct. 1. Unless some bookkeeping trick can be found quickly, they will have to pay the 15.1-cent-a-gallon tax and then apply for a refund when they file their income tax returns next year.

The committee is restrained by an agreement between Congress and the

Reagan administration which requires that each dollar of tax relief be offset by a dollar of tax increase.

**Pay, then ask refund**

As part of the deficit-reduction law passed last December, farmers and other off-the-road diesel users are required to pay the tax, beginning April 1, and then apply for a refund. Congress found there had been a considerable amount of evasion because of the difficulty in policing so many retail outlets. The new law requires the tax be collected by wholesalers or producers.

Farmers accused the government of trying to balance the budget on their backs, contending there is no reason that Washington should have interest-free use of their money - an average of about \$320 per farmer per year - for as much as 12 months. Similar complaints have come from timber companies, mine operators, fishermen and oil drillers.

The Finance Committee put together this package, which is subject to approval in the Senate and House:

-To allow all diesel bought for any off-road use from wholesalers to escape the tax altogether. Tax-

exempt buyers of off-road diesel from retailers would have to pay the tax and get a refund next year. This would cost the government \$543 million through 1993.

-To approve a "taxpayer bill of rights," which would clamp down on what are perceived to be abuses of taxpayers by the Internal Revenue Service. This would lose \$517 million over five years, due chiefly to a drop in compliance.

**Holding back refunds**

-To extend through June 30, 1989, the expiring authority for the IRS to withhold tax refunds from people who owe student loans, farm loans and other federal debts. This would raise about \$400 million.

-To double the tax on new cars whose fuel efficiency does not meet federal standards, raising \$375 million through 1993.

-To limit use of a "wine flavors credit" under which some manufacturers of distilled spirits avoid a significant share of the \$12.50-a-gallon liquor tax by mixing some products with a grape-based alcohol. This is expected to raise \$360 million over five years.

*News article - Diesel users' complaints*

STATE OF ALASKA  
1988 LEGISLATIVE SESSION

BILL VERSION: CSHJR 68(RES)  
PUBLISH DATE: HOUSE 3/9/88

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Commerce & Econ. Dev.  
Title: Urging Congress to restore the BRU: Division of Business Development  
exemption from federal excise tax/certain diesel fuel users  
Sponsor: House Resource Committee Components: \_\_\_\_\_  
Requester: House Resource Committee

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Larry Mercurieff, Director  
Division: Business Development

Phone: 465-2017  
Date: March 8, 1988

Approved by Commissioner: J. Anthony Smith  
Agency: Department of Commerce and Economic Development

Date: March 8, 1988

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

MEMORANDUM

TO: Lloyd  
FROM: Ray  
DATE: 3/14/88  
SUBJECT: HJR 68

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This resolution has just come into committee, and Rep. Davidson requests that it be heard next week.

Apparently Federal Law that was passed last year will repeal the diesel fuel tax exemption for off road use. This includes fishing vessels, and any off road user of diesel fuel. This resolution asks the Alaska Congressional Delegation to sponsor legislation to repeal this portion of the law and allow the exemption to continue. Under the new law, users of the fuel would still get the exemption, but they would first pay the tax up front and then get a refund at the end of the year.

The law goes into effect April 1, 1988, so if we want the resolution to be effective it will need to be passed soon. It has a Finance referral after our committee. The resolution was introduced in the House on March 2, 1988.

# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**

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neers from across the country with the same problem.

Now Peratrovich holds a position on the board of directors of a new insurance firm set up to exclusively cater to his industry. The move has sliced his insurance bill by two-thirds.

The new firm, Architects and Engineers Insurance Company (AEIC), was made possible by the Risk Retention Act of 1986, which allowed self-insurance. Peratrovich said, that as far as he knew, AEIC is one of the first of its kind.

Bar associations are another working to get their own insurance firm, banking reportedly already has its own company and the Alaska Municipal League is also looking into the prospect.

Just eight months after an informal organizational meeting last May, the company obtained its conditional license Jan. 2. AEIC operates under

try. The corporate office in Chicago fields 20 to 30 calls a day on the average, he says.

"We're in it together to solve a problem," Peratrovich said. "Even the thousands we've spent (to develop the company) are still a savings."

Peratrovich said most A/E firms that have had an insurance problem have heard of the new company.

The firm, with a man by the name of Roy Vince at the helm, intends to capture one-tenth of the market. To succeed, the company institutes a thorough screening process before allowing a firm to join and buy its products.

It sells professional liability insurance which could be termed the malpractice insurance of engineering and architecture.

Peratrovich's association with the

See SELF, Page 24

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## Withdrawal of non-roadway users fuel tax exemption would hurt fish, timber and ag

By IMRE NEMETH (m:ta)

The probable intent of legislation stuck in 1987's year-end budget reconciliation bill agreed to by the White House and Congress was probably to save the country money by enforcing greater control over fuel taxes.

Jim Ramaglia calls the actual result a free loan to the government that could put many in the fishing, timber and agricultural industries out of business.

The dispute concerns a measure that would disallow current exemption of the 18-cent-per-gallon tax by industries not using the roadways. If instituted, wholesalers would have to charge their patrons the added tax after April 15.

Under the new law, those businesses holding an exemption in the past would be able to apply for a refund at the end of the year.

"When people have to pay this tax, that means they are going to have to extend maintenance schedules, put off replacement of parts and worn out equipment," Ramaglia said. "In the commercial fishing industry, this might mean delaying the purchase or repair of life saving equipment such as survival suits or life rafts. I'm sure a similar situation exists in other industries such as farming and logging."

Ramaglia has reason to be concerned. As vice president and man-

See EXEMPTION, Page 24

## Journal increases its tax lien coverage

The Alaska Journal of Commerce has made a major addition to its "On The Record" coverage with state and federal tax lien and lien release filings from Alaska's First Judicial District (Southeast).

"We've carried tax lien and lien release coverage for many years from the Second (Fairbanks and Interior) and Third (Anchorage, MatSu, Kenai Peninsula, Kodiak Island and Aleutian Chain) Judicial Districts and we just recently began carrying the filings for the Fourth Judicial District (Barrow, Northwest Alaska, Nome)," said AJC Publisher Jim Martin. "Now our coverage of state and federal tax liens is statewide."

"Following the liens" has always been an important tool for credit-wise companies, even in the best of

economic times, Martin said, "and in a tough economic environment, it can be crucial."

"Should the IRS or state departments of Revenue or Labor place a tax lien against one of your customers, you should definitely reassess your relationship with that customer," Martin said. "In fact, some CPAs suggest putting that customer on a cash-up-front basis until you can be assured of the economic viability of that business."

A lien is one of the first pieces of hard evidence that a company may be in serious financial trouble. "Catching early signs early will increase your chances of either collecting an outstanding debt or protecting yourself on new orders from an possibly insolvent customer."

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For Heather Bradner

# • Exemption loss "throws wrench at the little guy"

Continued from Page 1

ager of Kodiak Oil Sales, Inc., in Kodiak, he's the one who must levy the tax. It's a job he doesn't really care for.

Since learning of the measure in an industry weekly review two months ago, the fuel distributor has organized fishermen on his island and made waves in Washington D.C.

"A bill has come about in the last couple of weeks to address the issue," said Steve Bolderjack, staff attorney at Rep. Don Young's Washington D.C. office. "It was introduced by a Congressman from Texas and already has 60 cosponsors."

Bolderjack said the change in the exemption process would affect a lot of people. The bill countering the eradication of the exemption (HR 3865) would preserve the prior practice, he said.

"If we can get any action before (April 15), I don't know," said the Congressional attorney. "It would be nice if we could get it through but

they're going to have to come up with a lot more support" to get it resolved in that short of time.

Bolderjack said Young himself had supported initial versions of the reconciliation package but refrained from voting yes on the final version because of amendments, like the tax issue, added right before passage.

Ramaglia said fuel costs for his fishermen (many of whom are already strapped for cash for whatever reason) will be pushed from 72 cents to 90 cents.

"Fuel is one of the single most expensive costs on a fishing boat," Ramaglia said. "And bottomfishing is very fuel intensive."

With more and more Alaska fishermen dragging large nets across the bottom of the ocean floor, their fuel costs have exceeded past usages. It could throw a wrench in a developing industry for the little guy, Ramaglia warns.

"For the fishing industry to put that money up front considering how much fuel they already buy could be a disaster," said Chris Blackburn, executive director of the Alaska Groundfish Data Bank.

Industry watcher Blackburn point-

ed out that none of the paperwork necessary for such an undertaking by the federal government appears to exist, nor do the forms for getting reimbursed toward year's end. She said Kodiak has been mobilized and many fishermen have contacted their associations spreading the word ever farther down the political channels.

One Anchorage petroleum distributor said that for the government to send that money back a whole new department would have to be set up

to handle the auditory processes necessary to keep everybody honest. It would cost more than they would save, he said.

The Kodiak distributor called everybody in his business in the state to warn them of the upcoming change in procedure. Of 10 he got ahold of, only three knew of the tax implementation, he said.

"I see it as having a real devastating effect on Alaska industry in general," he said.



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# • Self insurance

Continued from Page 1

venture began in April of last year when he received a letter in the mail. It informed him of a movement within his industry to start an insurance company run by and for engineers. As it turned out, Peratrovich knew the man responsible and decided to give him a call.

Together with a number of other senior partners of their own firms, some \$600,000 has been invested to get the new company going.

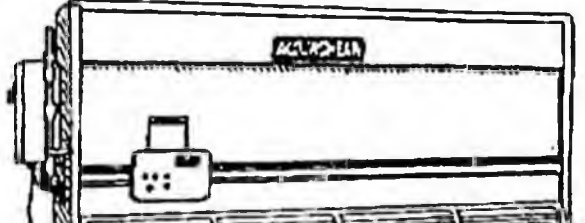
"Even the thousands we've spent are still a savings," Peratrovich said

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