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Comments for the Senate Finance Committee

Working Group on Community Development and Infrastructure

Section 30A Tax Credit for American Samoa

April 15, 2015

Continuation of the Section 30A tax credit is vital to the economy of American Samoa, including the preservation of jobs. The economy in this insular U.S. possession is precarious and has suffered substantial loss of employment in recent years. Section 30A of the Internal Revenue Code was designed to aid the Samoan economy. It works and it needs to be continued.

According to a study prepared by the U.S. Government Accountability Office (GAO) in 2014, employment in all sectors of the American Samoa economy declined by 11 percent in the period 2007-2012. Both real GDP and population have been declining in recent years. Tuna canning is the largest, and only, major industry in American Samoa. The same GAO study showed a 58 percent decline in tuna canning hourly workers in the period 2007-2013. Average inflation-adjusted earnings of those employed fell by 5 percent overall from 2007-2012 and by 2 percent from 2011-2012. According to the GAO study, employers attributed their labor-saving strategies to a moderate or large extent to mandated minimum wage increases as well as increased utility and material costs. However, by comparison, a loss of the Section 30A credit would have an even larger adverse effect on businesses in American Samoa. Based upon current employment levels, it is estimated that each $0.50 increase in the minimum wage costs American Samoa's canneries approximately $2 million each. Loss of the Section 30A credit would cost approximately $13 million. The $1.50 mandated increase in wages from 2007-2012 represents an increased cost of over $6 million and resulted in a 58 percent decline in tuna canning employment. A loss of 30A would represent a $13 million increase in cost.

Industries such as tuna canning could relocate to places with lower operating costs, including labor costs. In an earlier study, the GAO concluded that the minimum wage increases in American Samoa widened the gap between American Samoa and production sites with lower labor costs, such as Thailand. The GAO pointed out that the total differential in the annual wage bill between American Samoa and an equivalent number of employees in a tuna canning plant in Thailand at approximately $17.4 million. Income taxes can also be viewed as a cost of doing business. Loss of the Section 30A tax credit would substantially increase costs. Employers would be forced to consider alternative strategies.

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Corporate employers in American Samoa pay U.S. corporate income taxes and income taxes imposed by the American Samoan Government. The Section 30A tax credit reduces the impact of the federal corporate tax, though not by 100 percent. There have been suggestions that this tax credit mechanism be replaced by some other "non-tax policy alternatives" as part of development of a new comprehensive long-term economic policy toward American Samoa. However, no such alternatives have been enacted to date. Until that happens, the Section 30A tax credit will remain vital to the economy of American Samoa.

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