

STATEMENT OF PURPOSE

RS26226C1

This trailer bill to H 463 creates better consistency in policy between worldwide and "water's edge" filing methodologies. Historically, the U.S. federal tax system has partially double-taxed foreign earnings, and Idaho also partially double-taxed foreign earnings using a more simplified methodology (for water's edge filers) so Idaho would conform to federal law. The federal system is no longer double taxing foreign earnings in order for U.S. multinational companies to be competitive with non-U.S. companies. This bill creates conformity to the new federal law to keep Idaho multinational companies competitive.

Additionally, the majority of states historically do not double-tax foreign dividends, and currently Idaho is not competitive with those other states. Legislative history in Idaho from 2004 allowed a reduced level of tax on foreign dividends. The 2004 repatriation act allowed companies the option to repatriate with a federal double-tax burden. The new law requires federal tax on all unremitted earnings, with a similar reduced federal double-tax burden. This bill follows Idaho's own legislative historical precedent and provides for discounted double-tax on historical earnings. If Idaho's tax law maintains the status quo, it will be penalizing these companies with incremental double-tax liabilities compared to historical levels, so this bill resolves that double-tax issue.

Finally, the new Federal Foreign Derived Intangible Income (FDII) provisions provide a "booster" deduction to incentivize U.S. companies to manufacture domestically, rather than manufacture offshore. This bill includes an adoption of this policy by Idaho as well.

FISCAL NOTE

There is no fiscal impact to the general fund for the proposed legislation. Idaho multinational companies will generally be bringing back a much higher level of foreign dividends as a result of the new federal exemption on these dividends. The fiscal impact of that will be positive, but is unknown at this time.

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DISCLAIMER: This statement of purpose and fiscal note are a mere attachment to this bill and prepared by a proponent of the bill. It is neither intended as an expression of legislative intent nor intended for any use outside of the legislative process, including judicial review (Joint Rule 18).