

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Tuesday, March 06, 2018

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Rice, Vick, Patrick, and Nye

ABSENT/ EXCUSED: Senator Burgoyne

NOTE: The sign-in sheet, testimonies and other related materials will be retained with the minutes in the committee's office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Johnson** called the meeting of the Local Government and Taxation Committee (Committee) to order at 3:00 p.m.

H 524 **Relating to Fire Protection Districts.** **Senator Den Hartog** presented **H 524**. This legislation seeks to amend Idaho Code § 31-1420 to allow fire protection districts to exchange real property for other real property of equivalent value, as determined by a fire protection district board of commissioners. The bill also permits fire protection districts to sell the property.

DISCUSSION: **Senator Hill** asked how this legislation would apply to the exchange of property that was not equivalent in value. **Senator Den Hartog** replied this legislation would apply only to the exchange of property of equivalent value.

Senator Rice asked if it would be appropriate to add language to allow properties that are not equal in value to be exchanged, using a combination of real estate and cash. **Senator Den Hartog** affirmed.

TESTIMONY: **Bud Beatty**, representing the Idaho State Fire Commissioners' Association (ISFCA), spoke in support of **H 524**. **Commissioner Beatty** said the ISFCA believes this legislation provides flexibility in the exchange of property in this circumstance.

DISCUSSION: **Senator Rice** agreed with the underlying intent of the bill, but stated the language restricts the exchange of real property to property of equivalent value only. He suggested language to ensure that property in this instance can be exchanged for a combination of real property and cash to make up the equivalent value.

MOTION: **Senator Rice** moved to send **H 524** to the 14th Order for possible amendment. **Senator Hill** seconded the motion.

DISCUSSION: A discussion ensued regarding the intent of **H 524**. **Representative Vander Woude** stated the intent is to allow the exchange of real property for other real property. He expressed concern regarding a potential cash balance that may be incurred from the exchange of properties of different values. **Senator Hill** acknowledged these concerns, and while he felt the proposed amendment will lend flexibility to the exchange of property under certain circumstances, he stated he will defer to the judgment of the bill sponsor.

Senator Hill withdrew his second of the motion. **Senator Rice** withdrew his motion.

MOTION: **Senator Siddoway** moved to send **H 524** to the floor with a **do pass** recommendation. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

- H 518** **Relating to Recorder's Fees. Representative Blanksma** presented **H 518**. **Representative Blanksma** explained this legislation will provide clarification to 2017 HB 205 regarding recording fees for certain documents. She indicated that counties have not been consistent in their application of recording fees for documents exceeding 30 pages. This legislation proposes to amend Idaho Code § 31-3205 to clarify that recording fees for each additional page beyond 30 pages is \$3. **Representative Blanksma** reported the Idaho Land Title Association and the Idaho Association of Counties support this legislation.
- MOTION:** **Senator Vick** moved to send **H 518** to the floor with a **do pass** recommendation. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.
- H 492** **Relating to Property Tax Relief for Certain Disabled Veterans. Representative Giddings** presented **H 492**. This legislation proposed to provide a \$1,320 property tax reduction for Idaho veterans who have a 100 percent service-connected disability; the tax reduction may not exceed the amount of a veteran's property tax. **Representative Giddings** explained a surviving spouse may receive the benefit, but it will not extend to children. The proposed exemption is separate from the Circuit Breaker Property Tax Reduction (PTR) program because it is not based on income. **Representative Giddings** stated there are approximately 27,000 disabled veterans in Idaho; 2,067 of these veterans are 100 percent service-connected disabled. The Idaho State Tax Commission (Commission) estimates 960 new claims under this proposal.
- DISCUSSION:** **Senator Patrick** asked how this legislation will apply to spouses of veterans. **Representative Giddings** replied that a surviving spouse will be eligible for the tax reduction. If the property is held in a trust or there exists a circumstance of partial ownership, the tax reduction will apply to the portion of property owned by the spouse.
- Senator Hill** sought clarification regarding the fiscal note. **Representative Giddings** indicated the Commission based the estimate of \$900 per claim on average home values in Idaho.
- TESTIMONY:** The following individuals spoke in support of **H 492**: **Henry Parker, R.J. Thomas, Steve Neff, Tim McBride, Denny Croner, Ian Freeman, Julie Hart, and George Schnarre**.
- DISCUSSION:** **Representative Giddings** returned to the podium to provide closing comments. **Senator Nye** asked if a surviving spouse may be eligible for the proposed reduction if the veteran is deceased. **Representative Giddings** replied this proposal administers a tax reduction in the same manner as the Circuit Breaker PTR program, which requires a veteran to apply each year. She said allowing retroactive application may be considered in the future.
- Senator Hill** asked how disability ratings are determined. **Representative Giddings** explained the process, which is administered primarily through the United States Department of Veterans Affairs (VA). Documentation is provided by the VA for veterans to use when applying for benefits.
- MOTION:** **Senator Hill** moved to send **H 492** to the floor with a **do pass** recommendation. **Senator Vick** seconded the motion. The motion carried by **voice vote**.
- H 514** **Relating to Taxation of Capital Gains. Ken McClure**, representing the Idaho Society of Certified Public Accountants, presented **H 514**. This legislation seeks to align Idaho tax code with the Internal Revenue Code (IRC) regarding taxation of capital gains. Under the IRC, real estate held in a partnership or limited liability company (LLC) qualifies for long-term capital gain treatment if it meets certain requirements. If those requirements are met, a taxpayer may deduct 60 percent of the gain.

Idaho treats the sale of such real estate as one of intangible property rather than real property. **Mr. McClure** explained, in order for Idaho taxpayers to qualify for capital gains treatment, they must distribute the property to the partners and tenants in common (TIC), who then sell the TIC interests. He indicated the uninformed taxpayer is often caught unaware in these circumstances.

Mr. McClure then discussed the fiscal note. He stated the Commission does not have data from which to estimate fiscal impact in this regard because such instances are rare. As such, the projected fiscal impact was based on the judgment and experience of tax professionals. He said the actual revenue reduction will likely be less than \$500,000.

TESTIMONY: **Matthew Grow** and **Mike Lindstrom** spoke in support of **H 514**.

DISCUSSION: **Mr. McClure** returned to the podium to provide closing comments. **Senator Hill** asked Mr. McClure to provide examples of how capital gains attributable to qualified real property may be determined under this proposal. **Mr. McClure** assured the Committee he would provide this information.

MOTION: **Senator Hill** moved to send **H 514** to the floor with a **do pass** recommendation. **Senator Rice** seconded the motion. The motion passed by **voice vote**.

ADJOURNED: There being no further business at this time, **Chairman Johnson** adjourned the meeting at 4:05 p.m.

Senator Johnson
Chairman

Jennifer Carr
Secretary