

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Tuesday, March 20, 2018

TIME: 1:00 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 1:02 p.m.

H 594 **Relating to Tax Exempt Property; Hop Crops Production Machinery.** **Representative Anderst** presented **H 594**. This legislation proposes to exempt machinery and equipment used in the harvesting of hops from property taxation. **Representative Anderst** reported hop production machinery is not currently defined in statute as property exempt from taxation; this creates confusion and inconsistency in how tax is applied. To address these issues, **Representative Anderst** referenced a proposed amendment to exempt hops production machinery from property taxation for the next two years. During that time, the statutory definitions pertaining to agricultural machinery and equipment will be more clearly defined, including when harvesting ends and processing begins.

TESTIMONY: **Justin Baldwin**, representing the Idaho Association of County Assessors, spoke in opposition to **H 594**. **Mr. Baldwin** commented the proposed tax exemption is selective and will benefit only a small percentage of taxpayers. He suggested such an exemption will result in a tax shift to other taxpayers in surrounding residential areas.

DISCUSSION: **Vice Chairman Bayer** asked Mr. Baldwin to comment on the implications to shifts in tax liability as exemptions change over time, and how potential tax shifts may be avoided in the future. **Mr. Baldwin** replied taking taxable property on and off the tax roll is detrimental to local budgets. In his opinion, the property tax exemption provided for agricultural equipment has been detrimental to rural communities. The nature of the agriculture industry has evolved; as such, incremental increases of replacement dollars for rural counties are needed to sustain growth.

Senator Patrick commented property tax exemptions for agricultural equipment are beneficial to agribusiness. In his opinion, hops is no different than any other commodity and should be taxed the same way. **Mr. Baldwin** agreed. However, he argued these types of exemptions may result in a tax shift to other taxpayers.

TESTIMONY: **Diane Gooding**, representing the Idaho Hop Growers Association, spoke in support of **H 594**. **Ms. Gooding** briefly explained how hop crops are harvested and processed, and how these processes are distinct from other crops. She stated fair assessment of harvest machinery across the agriculture industry is needed.

Russ Hendricks, representing the Idaho Farm Bureau Association, spoke in support of **H 594**. **Mr. Hendricks** commented the proposed exemption would not change the original intent of the law because it would apply only to equipment used during harvesting.

Brian Stender, Canyon County Assessor, commented on **H 594**. **Mr. Stender** briefly described how Canyon County has assessed hops production equipment historically. He stated clarity is needed to ensure counties are applying property tax consistently and within the law.

Representative Anderst provided closing comments. He informed the Committee relevant stakeholders, including the Idaho State Tax Commission and industry representatives, will use the two-year working window to clearly distinguish equipment used for harvesting from equipment used for processing, and how tax may be applied in each circumstance.

MOTION: **Senator Rice** moved to send **H 594** to the 14th Order for possible amendment. **Vice Chairman Bayer** seconded the motion.

DISCUSSION: **Senator Hill** expressed his support for the motion, with the understanding that an equitable solution will be reached that aligns with the original intent of the law.

Senator Rice recognized the distinct nature of hop crops. He commented the definition of harvesting needs to be clarified for all crops, not just hops, because the end of the harvesting process is the point in which tax may be applied. This will preclude the need to reexamine this section of Idaho Code in the future.

VOICE VOTE: The motion carried by **voice vote**.

H 675 **Relating to Taxation; Child Tax Credit.** **Senator Hill** presented **H 575**. **H 463** provided a \$130 tax credit per qualifying child. **H 675** proposes to increase the child tax credit from \$130 to \$205. **Senator Hill** provided specific examples of how the proposed increase would impact families based on income level and family structure (Attachment 1).

DISCUSSION: A discussion ensued regarding the tax savings examples provided. **Senator Vick** sought clarification of the net tax reduction in each scenario. **Senator Hill** provided examples of how this legislation will impact tax liability by income and family size and structure. He noted large families will see a net tax reduction, as compared to a tax increase under the provisions of **H 463**.

Senator Nye asked if a \$270 tax credit per child would offset the tax increase on large families. **Senator Hill** said that was a reasonable approximation, if differences in tax rates are not taken into account.

TESTIMONY: **Miguel Legarreta**, representing the Associated Taxpayers of Idaho (ATI), spoke in support of **H 675**. **Mr. Legarreta** provided data compiled by ATI regarding the impact this legislation will have on families. According to his analysis, families with three or more children will pay less in State income taxes than the prior tax year.

Senator Nye asked how a \$270 child tax credit would affect these projections. **Mr. Legarreta** replied \$287 per child would keep families whole, or fully offset the tax increase resulting from conformity to federal tax code.

ORIGINAL MOTION: **Senator Siddoway** moved to send **H 675** to the floor with a **do pass** recommendation. **Senator Vick** seconded the motion.

SUBSTITUTE MOTION: **Senator Nye** moved to send **H 675** to the **14th Order** for possible amendment. The motion failed due to lack of a second.

VOTE ON ORIGINAL MOTION: The motion carried by **voice vote**.

S 1220aaH **Committee Action on House Amendment.** **Chairman Johnson** explained the Committee will take action to concur or not concur with **S 1220aaH**.

TESTIMONY: **Krystal Hinkle**, representing the Idaho State Fire Commissioners' Association (ISFCA), spoke in opposition to **S 1220aaH**. **Ms. Hinkle** commented **S 1220aaH** would reduce the amount of money available to fire districts, as well as reduce access to personnel and resources through cooperative agreements between districts. These factors would ultimately limit the ability of fire districts to provide emergency services throughout the State.

Miguel Legarreta, representing the Associated Taxpayers of Idaho, stated there are 550 special taxing districts, excluding cities and counties, that receive sales tax revenue distribution; 57 are highway districts. Based on 2015 data, the total sales tax distributed to all local jurisdictions, including cities and counties, was approximately \$166.3 million.

DISCUSSION: **Vice Chairman Bayer** asked a representative from the Idaho State Tax Commission (Commission) to comment on **S 1220aaH**. **Ken Roberts**, Chairman of the Commission, stated the original intent of the legislation was to provide clear guidelines as to how sales tax revenues are distributed throughout the State.

Senator Siddoway asked Representative Moyle to explain the intent behind the House amendment. **Representative Moyle** stated the intention is not to harm taxing districts that receive sales tax revenues, but to keep sale tax distributions specific to the taxing district and the purpose for which it was created.

Senator Rice asked why the House amendment limits cooperative agreements. He noted rural firefighting efforts often cross fire district boundaries and require the sharing of resources across districts. **Representative Moyle** acknowledged these concerns and said fire districts can continue to operate this way, but not using sales tax revenues.

Vice Chairman Bayer asked Representative Moyle if he considered drafting separate legislation to address these issues. **Representative Moyle** said an effort was made to draft such legislation last year. He recognized the concerns raised during testimony, but he believed the amendment was vetted appropriately.

Senator Nye asked how the House amendment limits cooperative agreements between taxing districts. **Representative Moyle** stated sales tax distributions should be used for the purpose in which the taxing district was created; the language is inclusive in this regard. The language does not prevent districts from entering into cooperative agreements.

MOTION: **Senator Patrick** moved to not concur with **S 1220aaH**. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

ADJOURNED: There being no further business, **Chairman Johnson** adjourned the meeting at 2:07 p.m.

Senator Johnson
Chairman

Jennifer Carr
Secretary