

MINUTES
HOUSE REVENUE & TAXATION COMMITTEE

DATE: Monday, February 20, 2012

TIME: 9:00 A.M.

PLACE: Room EW42

MEMBERS: Chairman Lake, Vice Chairman Collins, Representative(s) Barrett, Moyle, Raybould, Roberts, Schaefer, Smith(24), Wood(35), Bedke, Harwood, Barbieri, Bayer, Ellsworth, Gibbs, Killen, Burgoyne, Rusche

**ABSENT/
EXCUSED:** None.

GUESTS: Jesse Taylor, Westerberg & Associates

Chairman Lake called the meeting to order at 9:03 am.

MOTION: **Rep. Collins** made a motion to approve the minutes of the February 13, 2012 meeting. **Motion carried by voice vote.**

RS 21278: **Rep. Nessel** presented **RS 21278**. This legislation is the beginning of something very good for business in Idaho. We need a stronger economy, stronger employers and good jobs. It will help the state protect and retain current businesses as well as grow new business. It eliminates the 6% tax disadvantage and levels the playing field for main street businesses. This legislation is not just for internet sales, but mail order and any other type of sales that cross state lines. It establishes language to become part of the Streamlined Sales Tax Agreement, which simplifies the rates, sourcing policy and administration of the Agreement. It also provides legislative oversight. Idaho is currently not collecting about \$30M in online sales tax. If Idaho becomes a member of this agreement now, the benefits will be substantial. The annual membership fee is \$17,000 per year. No new taxes would be imposed with this legislation. It will support Idaho businesses.

Rep. Nessel stated that the first section of the legislation streamlines the definitions. It explains that the exemptions are still in place.

In response to Committee questions, **Rep. Nessel** stated that services are mentioned in the definitions in case taxing them occurs at a later date. There is no change in the current tax status for services. Services were mentioned in the definition as a part of the required language.

Dan John, Tax Commission, said that in the case of rebates, if there is a reduction due to a rebate, the rebate is not taxable.

Rep. Nessel said this legislation is effective for July 1, 2013. It includes on-site sales, not just internet sales. The definitions are uniform across the country and the states decide what to exempt or not exempt. The document states that it does not preempt state law. There is a requirement that each year the document must be reviewed and changes can be made to the Agreement.

Sourcing rules refer to where items are actually purchased and takes into consideration where the tax is imposed and where the tax revenue goes. Also included is how the money collected for local option taxes is divided throughout the state. The Agreement requires one administration point for local sales taxes, which will be the Tax Commission. The Local Option Tax is done at a fixed value, which is whatever the local districts have imposed.

The Agreement prohibits multiple rates for a local option taxing district. Idaho does not exempt food from sales tax like some states do. The definition of food is very complex. There are several pages of food definitions in the bill.

In response to Committee questions, **Rep. Nasset** said that this legislation does not go into effect until 2013. Companies with sales in Idaho would be required to file a return and remit the proper taxes. The main street businesses are losing sales to internet businesses. Until Congress mandates it, a tax is not required to be collected by the seller. Brick and mortar stores want to be treated fairly.

Mr. Johns stated that this is not an internet bill. It covers all remote sales, such as mail order and telephone sales. There will not be double taxation because the consumer will get credit for the amount of tax they pay to another state. The Agreement does not require states to tax or not tax anyone. It just requires that the streamline definitions be used if the state is participating. To participate, a central entity is required to collect the tax and distribute it. There is no change to what is taxed or not taxed. That can only be determined by the Legislature.

There are six certified service providers for the program and they will ensure privacy is maintained.

Rep. Nasset stated that there are currently three bills before Congress. The language in those bills is very similar. They all require a 3rd-party distributor.

Ecommerce has grown from 1% to 4% of all retail sales throughout the country. The state is not collecting a large amount of money. Federal action can take place without a state's participation. But before Idaho can participate, this same discussion will need to take place. Every dollar we forego, we need to get from somewhere else. This the best chance ever for passage of the federal legislation.

Chairman Lake announced that testimony will be continued on **RS 21278** tomorrow, February 21, 2012 at 9:00 am.

ADJOURN: There being no further business to come before the committee, the meeting was adjourned at 9:58 am.

Representative Lake
Chair

Janet Failing
Secretary