

MINUTES
JOINT MEETING
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
HOUSE REVENUE & TAXATION COMMITTEE**

DATE: Tuesday, January 16, 2018

TIME: 8:30 A.M.

PLACE: Lincoln Auditorium

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Rice, Vick, Patrick, Burgoyne, and Nye
Chairman Collins, Acting Vice Chairman Kauffman, Representatives Moyle, Raybould, Anderst, Dayley, Hartgen, Chaney, Nate, Thompson, Gestrin, Stevenson, Troy, Gibbs, Erpelding, and Gannon

ABSENT/ EXCUSED: None

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 Collins** called the joint meeting of the Senate Local Government and Taxation Committee and House Revenue and Taxation Committee to order at 8:30 a.m. He welcomed members from both committees and explained that the joint meeting was informational in nature and intended to provide an overview of the impact of federal tax reform on the State of Idaho.

PRESENTATION: **Ken Roberts**, Chairman, Idaho State Tax Commission (Commission), provided an overview of the Tax Cuts and Jobs Act and Idaho conformity. **Chairman Roberts** explained that Idaho's income tax code conforms to the Internal Revenue Code (IRC) annually with the exception of Bonus Depreciation rules and Net Operating Loss (NOL) provisions. He referenced Idaho Code § 63-3002 to demonstrate statutory intent that Idaho conform to the IRC; code conformity relieves the Legislature from creating stand-alone tax code and simplifies tax preparation and administration. **Chairman Roberts** noted that changes to tax brackets, corporate tax rates, Alternative Minimum Tax (AMT), and federal credits for individuals and corporations at the federal level will not affect Idaho income tax or Idaho revenue.

Doreen Warren, Public Information Officer for the Commission, presented information regarding tax year 2017 conformity. **Ms. Warren** stated there are two retroactive provisions that will impact Idaho taxpayers for tax year 2017, the first of which lowers the threshold for itemized medical expenses from 10 percent to 7 percent of federal adjusted gross income (AGI). This provision sunsets on December 31, 2018; the threshold will reset to 10 percent beginning tax year 2019. **Ms. Warren** explained that Idaho conformity to this provision will reduce revenue for fiscal years (FY) 2018 and 2019 by \$6.4 million and \$1.8 million, respectively.

The second retroactive provision will impact multinational corporations that file Idaho income tax returns. **Ms. Warren** explained that businesses will be required to report and pay tax on previously unreported overseas earnings and profits that are in domestically-owned, foreign corporations. Because of the unique nature of multinational taxation and uncertainty as to how these provisions will affect corporations that file Idaho tax returns, **Ms. Warren** observed that legislative action is needed to provide pertinent guidance.

Representative Moyle asked for clarification regarding the revenue projections of this provision in relation to 2017 conformity. **Ms. Warren** asked Tom Shaner, Tax Policy Manager, Idaho State Tax Commission, to respond. **Mr. Shaner** explained the apportionment process utilized to calculate revenue in this regard, as well as the difficulties in determining a dollar amount with certainty at this time. **Representative Moyle** asked if this is one-time revenue, if the Commission will be able to identify the revenue generated as a result of this provision during next year's budget cycle. **Mr. Shaner** responded that because the Internal Revenue Service (IRS) requires corporations to add this revenue to existing dividends, it will be difficult to delineate such revenue with accuracy.

Representative Nate asked if other states utilize data analysis models to generate revenue projections in this regard. **Mr. Shaner** replied that tax laws are too diverse nationally to generate meaningful comparisons. **Representative Nate** commented that it would be beneficial to the budget process to identify a broad dollar estimate.

Senator Siddoway asked for clarification regarding the sunset of the itemized medical expense deductions threshold. **Mr. Shaner** surmised that the sunset date was the result of negotiations.

Senator Burgoyne asked if Idaho chose not to conform to one of the retroactive provisions, regardless of which, would that decision result in administrative or policy problems for the State. **Mr. Shaner** replied that the Commission would have to make adjustments to the tax collection process to capture related data from federal tax forms. **Senator Burgoyne** further inquired if the administrative costs of non-conformity to either provision would be costly and burdensome to the State. **Mr. Shaner** affirmed.

Representative Gannon asked for explanation of why Idaho chooses to conform to the itemized medical expense deductions provision, and if conformity would be affected by the creation of a child tax credit. **Mr. Shaner** explained that the point at which Idaho conforms that captures the itemized medical expenses deductions occurs before federal taxable income is adjusted; a child tax credit would be subsequently factored and would require legislative action.

Representative Hartgen asked when Idaho businesses can begin to adapt to the retroactive federal provisions. **Mr. Shaner** stated that Idaho businesses may begin changing federal withholding tables, but changes to state withholding will depend on legislative action.

Senator Burgoyne asked for clarification regarding how businesses treat repatriated income and how repatriation will impact 2017 taxes. **Mr. Shaner** explained that repatriation represents a shift from a worldwide taxing system at the federal level to a more common territorial system. A failure to conform would put Idaho at a disadvantage with multistate and national corporations.

Cynthia Adrian, Tax Policy Specialist with the Commission, presented information on tax year 2018 conformity. **Ms. Adrian** outlined how changes in the Tax Cuts and Job Act will impact Idaho taxpayers. She noted that while changes to federal tax rates will not impact Idaho, there are many factors that will affect Idaho revenue. First, if Idaho conforms to the federal increase in the standard deduction, Idaho revenue will be reduced by \$340 million. Second, eliminating the personal exemption and dependent exemptions will increase Idaho revenue by \$272.3 and \$139.5 million, respectively. Third, eliminating or capping most itemized deductions will increase Idaho revenue by \$55.3 million. Fourth, changing definitions for qualified expenses from a 529 Education Savings account will reduce Idaho revenue by approximately \$6 million. **Ms. Adrian** stated that current projections estimate an increase in \$118.8 million if Idaho conforms to all current individual provisions.

Mr. Shaner presented information regarding the affect that federal tax reform will have on businesses and Idaho revenue. He stated that if Idaho conforms to all current business provisions as outlined (see Attachment 1), Idaho revenue will be reduced by \$21.4 million. **Mr. Shaner** pointed out that the intent of the Section 199A provision, which reduces most pass-through income by 20 percent on an owner's income tax return, is to balance tax rates between pass-through entities and C corporations. He explained that because Idaho's top tax rate for individuals and the tax rate for corporations are the same, federal justification does not exist for Idaho. **Mr. Shaner** concluded that as the federal law is written, Idaho conformity would include this provision; it would require legislative action to deviate from that provision.

Representative Nate asked about the accuracy of the total projected revenue increase. **Mr. Shaner** responded that the Commission strives for accuracy in its estimations, and that possible deviations from the projected dollar amount may result from the varying state of the economy.

Representative Gannon sought clarification regarding federal child tax credits and asked if the Commission had considered a proportionate credit or exemption at the state level. **Mr. Shaner** explained that the federal tax credit is \$2,000 per child; creating a proportionate tax credit at the state-level requires legislative action.

Senator Patrick asked for clarification regarding accelerated depreciation and simplified accounting, specifically whether the revenue reduction is ongoing or recalculated annually. **Mr. Shaner** explained that these projections are calculated annually.

Representative Erpelding asked for clarification regarding inclusion of income in the 2018 tax year; he asked if this revenue is a product of tax policy change rather than new income. If so, he queried if the amount will be different in the 2019 tax year. **Mr. Shaner** stated this is accurate in a general sense.

Senator Bayer asked if information is available regarding the implications of federal tax liability for Idaho individuals and businesses, either at the state or federal level. **Mr. Shaner** replied that the Commission does not have this information.

Senator Burgoyne asked if the Commission examined how many Idahoans will be affected by the state and local property tax deduction cap of \$10,000. **Mr. Shaner** explained that the Commission is examining this issue, but estimates the amount of tax filers in this category to be 45,000.

Senator Vick asked if lowering the corporate tax rate would alleviate the need to balance tax rates between pass-through entities and C corporations, as outlined in Section 199A. **Mr. Shaner** replied that a disparity between wage earners and business owners would still exist.

Chairman Roberts provided closing remarks. He emphasized the importance of tax policy that simplifies tax preparation and administration. He also noted that the Economic and Revenue Assessment Committee will address potential fiscal effects of increased economic activity on revenue projections.

ADJOURNED: There being no further business at this time, **Chairman Collins** adjourned the meeting at 9:38 a.m.

Senator Johnson
Chair

Jennifer Carr
Secretary