

House Revenue & Taxation Committee

Minutes
2006



MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: August 25, 2006

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** All Members Present

GUESTS: John Sandy, Office of the Governor; Steve Cook, Associate Professor at the University of Idaho; Ken Robison, Boise, Idaho. Guests submitting written testimony, Phil Homer, Idaho Association of School Administrators; Elinor Chehey, League of Women Voters, United Vision for Idaho

Chairman Crow convened the meeting at 9:00 a.m and requested a silent roll call. In her opening remarks the Chairman stated that the Legislature has been called into special session by Governor Risch to consider a property tax relief measure RS 16445 that the committee has seen several times and passed on the floor more than once. With the large surplus now in the bank to hold as security for schools, it's passage is highly likely. She pointed out that there are two additions to this bill, one being the one-hundred million dollar school security fund and the advisory ballot which was considered previously as a single bill.

Today we have been charged to again do the right thing and give the property taxpayers of Idaho immediate and meaningful relief. She said she hoped we could do the job with the same consideration, respect and courtesy that this committee has always displayed in the past.

The committee will follow the same rules here and on the floor as used in a regular session. Any testimony that may be allowed will be limited in both time and number of presenters. She knew that the committee would honor these restrictions and understand that time is very limited.

RS 16445: Chairman Crow recognized Mr. Sandy to present RS 16445. **John Sandy, Office of the Governor**, stated it was his honor to begin the presentation on introduction of RS 16445. Idaho's economy and needs have changed since 1931 when the "Property Tax Relief Act of 1931" was passed. The following RS is the "Property Tax Relief Act of 2005."

The purposes of the RS are as follows:

To permanently eliminate the 3 mil education maintenance and operation levy on Idaho real property immediately reducing property taxes by \$260 million and replacing that amount with the state sources described

below.

Raise the Sales Tax from 5% to 6% effective October 1, 2006, generating approximately \$210 million annually.

Protect education funding now and into the future by placing \$100 million into the Public Education Stabilization Fund.

Appropriate sufficient funds from the General Fund to accomplish the aforementioned.

Place an advisory question on the November 2006 general election ballot asking Idaho voters:

“Should the State of Idaho keep the property tax relief adopted in August 2006 reducing property taxes by approximately \$260 million and protecting funding for public schools by keeping the sales tax at 6%?”

Mr. Sandy said that after the last Legislative Session numerous Legislators and others asked the Gentleman on the Second Floor to revisit the need for property tax relief.

Property taxes had been discussed in the 2006 Legislature and the summer of 2005 statewide hearings. There were 40 to 50 bills presented last winter. There has been continuing discussion all over the state.

The Gentleman on the Second Floor agreed to revisit the issue with four conditions for property tax legislation. 1. Constitutional; 2. Immediate, substantial and permanent property tax relief; 3. Help education; 4. Votes to pass bill.

This RS as presented has had thirty days for public review. This is compromise legislation. There has been much input from across the state from citizens and legislators from both parties. He cited a letter from Rosalee from Worley struggling to pay her bills in order to pay her property taxes.

Mr. Sandy stated that much misinformation has and is being distributed about RS 16445. This bill meets the Gentleman on the Second floor's criteria. It is Constitutional, immediate, substantial and permanent property tax relief. It protects school with \$100 million. He yielded to Representative Lake to explain the bill.

Representative Lake walked the committee through RS 16445 page by page pointing out the changes in the law and the funding mechanism for the property tax relief.

MOTION: **Representative Raybould** moved to **introduce RS 16445 without recommendation** and be placed directly on **second reading**.

SUBSTITUTE MOTION: A substitute motion was made by **Representative Jaquet** to **introduce RS 16445A10 with a do pass recommendation** to be placed directly

on **second reading**.

Representative Denney advised the members that an RS could not be amended. He also requested that the sponsor provide copies of RS16445A10 to the members.

Statement of purpose of the Idaho Homeowners Tax Reduction Act, RS16445A10 is as follows:

It permanently eliminates the three mil education maintenance and operations levy on all Idaho properties currently qualifying for the Homeowner's Exemption, namely owner occupied primary residences, resulting in a \$104 million property tax cut for Idaho homeowners.

It retains the current property tax level for all other classes of Idaho property.

It provides targeted relief for homeowners without shifting tax burden onto other taxpayers or increasing sales tax. The Idaho Homeowner Tax Reduction Act does not raise any tax.

Appropriate the equivalent amount of reduced homeowner taxes into the school maintenance the 3 mil levy on all non-owner-occupied properties allowing schools to retain a stable source of ongoing maintenance and operations funding.

It immediately reduces Idaho homeowner property taxes \$104 million and relies on current state surplus and ongoing growth in state revenue to cover future costs.

There was considerable discussion on amending an RS. Representative Jaquet corrected her motion as it appears above.

**AMENDED
SUBSTITUTE
MOTION:**

An amended substitute motion was made by **Representative Moyle** to **introduce RS 16445 with a do pass recommendation** and be placed directly on **second reading**.

After a lengthy debate on the fairness of limited testimony, Chairman Crow declared a short break. She instructed the people representing RS 16445A10 to select two spokesmen to present their testimony and two in support of RS 16445. Representative Martinez requested to be recorded as saying it was not fair for those who wanted to testify not being notified before the meeting.

Speaker Newcomb said in his view testimony would result in an extension of the session which should be finished in one day. Property tax relief has been heard over and over and over. This proposal has been out for thirty days and the decision to allow some testimony has never before been allowed on an RS. The opposition to this proposal has had time to build a base for introduction when no one has seen the proposed alternate proposal. The public had the chance to respond before it came to this forum. Public access has been extraordinary because the Governor has heard advice from both sides. Allowing two spokesmen for both proposals is fair. The Legislature heard and

introduced last session every idea in that window of time. To allow compassionate testimony is way out of procedure which has never been allowed on RS's and that is extraordinary.

**PRO
RS 16445A10:**

Steve Cook, Associate Professor, University of Idaho, spoke in opposition to RS 16445 and in support of RS 16445A10. He compared RS 16445 to a pressure cooker and that the tax system was unfair and would shift to the homeowner and away from business.

Tax policy is an element of the economic development policy. This decision is symbolic of development. His concerns were relief versus reform of the tax shift creating a pressure cooker. There would be a decrease in property tax of \$260 million and \$210 million sales tax increase. See attached hand-out for his finding and conclusions.

**PRO
RS16445A10:**

Ken Robison, citizen of Boise, Idaho, testified against raising the sales tax to replace the \$3 per \$1,000 basic school levy. RS 16445 does not deliver a net tax relief to homeowners, those who need relief. Tax Commission figures indicate they would save \$104 million in property tax but would pay \$105 million in added sales tax.

Most Idahoans would pay more total taxes, including renters and many businesses would pay more in sales tax on business-related purchases than any property tax savings.

Basically this proposal would raise the sales tax to give property tax relief to property that needs no relief, commercial, utility and farm.

Inflation in the taxable value of commercial property has averaged only one percent a year since 1995 according to the Tax Commission. Many commercial properties in Ada County are paying only slightly more property tax in 2006 than they paid in 2000 and some are paying less. Total utility taxes are down \$8 million since 2000, eighteen percent, total farm property taxes in 2005 were less than in 2000.

Total non-residential property taxes have increased only thirteen percent in five years, mostly as a result of new commercial construction. This is less than one-fourth the rate of increase for residential property. In the last two years residential taxes increased nine times as much as total non-residential taxes. \$143 million compared to \$15 million.

No sales tax increase is needed to give relief to homeowners. That could be done by further increasing the limit on the homeowners exemption or by limiting levy replacement to owner-occupied homes, using surplus revenue.

The property tax problem is inflation in the taxable value of homes. The \$25,000 adjustment in the upper limit of the homeowner exemption which the Legislature approved in the regular session was a good step. It was not enough to catch up with inflation. Many homeowners had increases in taxable value in 2006 exceeding \$25,000.

One of the arguments being used for this legislation is that the adjustment in the exemption results in a \$47 million tax shift to other

kinds of property in 2006. The trouble with that argument is that there is no such shift.

Such a shift would happen only if there was no inflation in the taxable value of homes in 2006 and no new residential construction was coming on the tax rolls.

Current figures from the Tax commission for 2006 show that there is no such shift. After accounting for the update in the exemption, total taxable value of owner-occupied homes is still up \$5.4 billion. That is a near record.

The theory of the shift was that the updated exemption would reduce total taxable value of homes by more than \$4 billion in 2006 requiring local governments to raise levies, thus raising taxes for other kinds of property.

Because there is no reduction in the taxable value of homes there is no shift. In fact, adding the projected increase in the taxable value of other residential property, the total residential taxable value increase was \$13 billion. This exceeds the record \$9.3 billion increase of 2005.

With that increase, the Tax Commission numbers project a reduction in average levies of about ten percent. The result would be more than \$40 million in property tax savings for commercial, utility, farm, timber and mining property with no school levy replacement.

Mr. Sandy reiterated that the RS being considered had been discussed and out to the public for thirty days with the exact wording. This proposal brings true long-term, immediate and permanent property tax relief.

There was a lively, impassioned discussion about the fairness and the impact on public schools contained in RS 16445. There was also debate in support of the RS from members of the committee.

ORIGINAL MOTION:

Chairman Crow repeated the motions. The original motion was to **introduce RS 16445 without recommendation** and be referred to **second reading**.

SUBSTITUTE MOTION:

The substitute motion was to **introduce RS 16445A10** with a **do pass recommendation** and be referred to **second reading**.

AMENDED SUBSTITUTE MOTION:

The amended substitute motion was to **introduce RS 16445** with a **do pass recommendation** and be referred to **second reading**.

ROLL CALL VOTE:

Voting AYE - Representatives Barrett, Moyle, Field, Schaefer, Collins, Raybould, Roberts, Wood, Denney, McKague, Clark, Lake, Crow. Voting NAY- Representatives Smith, McGeachin, LeFavour, Jaquet, Saylor, Martinez. Motion **passed, 13-6-0**

WRITTEN TESTIMONY:

Phil Homer, Idaho Association of School Administrators, Attachment #2; Elinor K. Chehey, League of Women Voters, Attachment 3; United Vision for Idaho, Attachment #4 submitted

written testimony in **opposition to RS 16445**.

Steve Ahrens, Idaho Association of Commerce & Industry submitted testimony in **support of RS 16445, Attachment #5**.

ADJOURN:

There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:46 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 17, 2006

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Sayler, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Russ Hendricks, Idaho Farm Bureau Federation; Steve Ahrens, Idaho Association of Commerce & Industry; Phil Homer, Idaho Association of School Administrators

Chairman Crow called the meeting to order and requested a silent roll call. She assigned the following Sub-Committees:

#1 Representative Lake, Chairman; Representatives Schaefer, McGeachin, LeFavour.

#2 Representative Raybould, Chairman; Representatives Collins, Clark, Sayler.

#3 Representative Field (18), Chairman; Representatives Barrett, Smith, jaquet.

#4 Representative Roberts, Chairman; Representatives Wood, McKague, Martinez.

Chairman Crow explained that the purpose of this informational meeting on property taxes was to understand as fully as possible the ramifications before any changes. She added that the property tax issue is in the wrong venue and should be with counties and cities who assess property and set property tax rates, collect the tax and spend it. The Legislature only sets the boundaries.

She said it was her intention to hold hearings on all of the property tax legislation starting on January 30, 2006. The Committee will hear every bill but will not vote on bills until the hearings are completed. The purpose of this procedure is to have all the proposals before the Committee in order to make the best educated vote possible.

Chairman Crow recognized Mr. Hendricks to apprise the members of the

agricultural community position on changing property tax laws. **Russ Hendricks** representing the **Idaho Farm Bureau Federation**, briefly explained that the Farm bureau is a statewide general farm organization which represents all agricultural commodities in all of the 44 Idaho counties. One of their policies states that they are opposed to shifting property taxes to agricultural real-estate. One of the reasons farm and ranch families have taken the position is that agriculture already subsidizes residential property taxes.

Mr. Hendricks provided the members a copy of a recent study conducted by Dr. Neil Meyer and Martha Leighton for the University of Idaho entitled "Costs of Community Services." (Attachment #1) After reviewing the study, Mr Hendricks stated that the conclusion of this study was that both agricultural land and commercial property already subsidize residential property by paying more in property taxes than they receive in services. He said that if some of the proposals go forward, such as an increase in the homeowners exemption, there clearly will be a shift in taxes away from residential property and on to agricultural and commercial property.

Mr. Hendricks concluded his remarks saying that the study clearly points out, it would not only be unfair to shift more taxes to those classes of property that are already subsidizing residential properties, but it would also exacerbate the situation causing the legislature to deal with this situation once again in the future. (Printed testimony attached., #2)

After a brief question and answer period, Chairman Crow recognized Mr. Ahrens. **Steve Ahrens** identified himself as the President of the **Idaho Association of Commerce & Industry**. He stated that IACI was a statewide organization with nearly 300 member companies, representing all kinds and all size of business in Idaho. (Printed testimony, Attachment #3)

Mr. Ahrens delineated seven property tax "facts of life." #1 The property tax is a local tax. That means this whole debate was first of all a local issue rather than a state issue. #2 Local governments and schools spend money and property taxes are the way they raise revenue to pay for that spending. So if there's a problem it is with the rate of spending more than the rate of taxation. #3 The Iron Law of Property Taxation: There are only 2 ways to reduce property taxers (1) Cut spending, or (2) Shift the taxpaying responsibility to someone else. #4 Is your property assessment going up at a 45-degree angle? Rising valuations don't automatically mean your property taxes will go up at the same rate, or at all. If valuations go up, local governments can raise the money they need by lowering tax rates or holding them even.. If they don't do that - there's your "property tax problem." There was an extensive question and answer period.

Chairman Crow assigned the State Tax Commissions Rules to the #1 Subcommittee, Representative Lake, Chairman for review. She authorized Representative Lake to include any of the other subcommittees to assist.

Chairman Crow recognized Mr. Homer. **Phil Homer, Idaho Association of School Administrators**, stated that the following will be evident: (1)

His bias in the necessity for property tax in public school funding. (2)
Public schools do use more property tax funds than do cities and counties. He explained the public school system and how they are funded.

Mr. Homer said that for Idaho's public schools to succeed, they need to maintain a tax base that is broad, thorough and balanced. The School Administrators support: the continuance of the 3 mills and 1 mil property tax relief; increase in the Home Owners Exemption; increase the "Circuit Breaker"; an impact fee proposal; the close of the developers loophole; allow senior citizens to borrow against their property taxes. (Printed testimony, Attachment #4)

ADJOURN: Chairman Crow announced that the Committee was due on the floor and would continue the agenda tomorrow. She adjourned the meeting at 11:17 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 18, 2006

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Ken Harward, Association of Idaho Cities; Alex LaBeau, Idaho Realtors Association

Chairman Crow called the meeting to order and requested a silent roll call. The Chairman assigned the # 4 subcommittee, Representative Roberts, Chairman, to review the Idaho State Tax Commission Rules with the #1 subcommittee. She then recognized Mr. Harward.

Ken Harward, Association of Idaho Cities, apprised the Committee that Idaho cities are tremendously diverse in terms of size, geography, services provided and public demand for services. He passed a hand-out depicting population changes. (Attachment #1)

Mr. Harward stated that property taxes fund essential services: police, fire, streets, parks, libraries and other: legislative, executive, city clerk, etc. In conclusion, cities support the recommendation made by the interim committee for impact fees to pay for growth.

Alex LaBeau, representing the **Idaho Realtors Association**, said his Association conducted a poll to talk about what the citizens want and to establish a status quo. A majority of voters are satisfied with the government services they receive in relation to the taxes they pay. "And considering how much you pay in taxes and the government services you may use or receive some people say the taxes they pay are a good value for the services and benefits they receive." He passed out a hand-out defining the results. (Attachment #2)

The "circuit breaker" is by far the most popular. Changes to the homeowner's exemption is a bit more popular than the status quo. When conducting the poll they did not try to influence the citizenry one direction or another. Obviously the Association struggles with the concept of expanding the exemption because of the shift of liability to other real estate.

The Idaho Realtors Association did support HB 165 In 1995 which removed one mil from the M&O levy but it needs to be pointed out that it was absorbed by the general fund without any increase in other revenue sources. Another concern would be the fact that there is still the opportunity for supplemental over-rides which are used frequently. Moving the M&O to the state would create a lot of capacity.

Mr. LaBeau said the Association would encourage adding accountability to the system. They are not saying that the "truth in taxation" would be a panacea but the elements of the system forced more accountability. There was a lengthy question and answer period.

ADJOURN: Chairman Crow announced that the Committee was due on the floor and would continue the agenda tomorrow. She adjourned the meeting at 10:55 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 19, 2006

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Denney

GUESTS: Tony Poinelli, Idaho Association of Counties; Randy Nelson, Associated Taxpayers of Idaho; Dan John, Idaho State Tax Commission

Chairman Crow called the meeting to order at 10:00 a.m. and requested a silent roll call. Representative Lake moved to accept the minutes of the meeting held on January 17, 2006 as written. Motion carried on a voice vote.

The Chairman stated her intent was to introduce all of the property tax bills and after the hearings to be held starting on January 30, 2005 all property tax bills will be re-scheduled for the vote. She announced that all property tax adjustment legislation must be in the Revenue and Taxation office no later than January 27th at 4:00 p.m. She said the Committee has RS's, which are not on the agenda, dealing with property taxes which need to be introduced so the public will have the opportunity to review.

RS15497: Chairman Crow announced that the first item was RS15497. This proposed legislation reduces the school M&O levy to 1.5% replaced by the general fund. Budget growth cap to 3% plus the value of new construction. Limit of 3% on the increase of state replacement. Sponsored by Representatives Clark, Crow and Moyle.

MOTION: Representative Clark moved to **introduce RS15497**. Motion passed unanimously on a voice vote.

RS15498: Chairman Crow announced the next item was RS15498. She explained that this proposed legislation eliminates "foregone amount" in developing budgets; limits the carry over period of the unused portion of growth increase to the following year. Limits the use of new construction in the year that it occurs and the new construction roll not to be used in future years. Sponsored by Representatives Clark, Crow and Moyle.

MOTION: It was moved by Representative Clark to **introduce RS15498**. Motion passed unanimously on a voice vote.

- RS15501:** The Chairman announced the next item was RS15501 and stated the purpose of this proposed legislation is to put a moratorium on the ratio study for 2006 values. She said the bill was sponsored by Representatives Clark, Crow and Moyle.
- MOTION:** Representative Roberts moved to **introduce RS15501**. Motion passed unanimously on a voice vote.
- RS15506:** Chairman Crow announced the next item was RS15506. This proposed legislation expands the home owners exemption from the lower of 50% of assessed valuation or \$50,000 to the lower of 50% of assessed valuation or \$75,000. It also indexes the maximum allowable deduction for succeeding years to cost of living adjustments as determined by the federal government. Sponsored by Representative Lake and Senator Keough.
- MOTION:** Representative Lake moved to **introduce RS15506**. Motion passed unanimously on a voice vote.
- RS15508:** The Chairman announced the next item was RS15508. This proposed legislation expands the "Circuit Breaker" law . This represents a movement from the current \$22,500 to \$28,000 as the income qualifier and an increase from \$1,200 to \$1,320 as the maximum amount of participation by the state. Recommended by the interim committee sponsored by Representative Lake and Senator Keough.
- MOTION:** It was moved by Representative Roberts to **introduce RS15508**. Motion passed unanimously by a voice vote.
- RS15509C1:** Chairman Crow announced the next item was RS15509C1. This proposed legislation allows for the inclusion of the value of the residential home site when computing property valuations for the homeowners exemption. Recommended by the interim committee sponsored by Representative Lake and Senator Keough.
- MOTION:** Representative Roberts moved to **introduce RS15509C1**. Motion passed unanimously on a voice vote.
- RS15512:** The Chairman announced the next item was RS15512 and explained that this proposed legislation authorizes the Idaho Housing and Finance Association, Director of Department of Insurance and the Director of the Department of Finance to promulgate rules authorizing their respective participants to engage in issuance of reverse mortgages to persons over 62 years of age for the purpose of paying property taxes that they otherwise may not be able to afford. Recommended by the interim committee sponsored by Representative Lake and Senator Keough.
- MOTION:** It was moved by Representative Saylor to **introduce RS15512**. Motion passed unanimously on a voice vote.

RS15513: Chairman Crow announced the next item was RS15513 and stated that this legislation reduces the maximum property tax levy for M&O of schools from .3% to .15%. It also repeals .10% of property tax replacement which as been capped at \$75,000,000. Recommended by the interim committee sponsored by Representative Lake and Senator Keough.

MOTION: Representative Roberts moved to **introduce RS15513**. Motion passed unanimously by a voice vote.

RS15573: The Chairman announced the next item was RS15573. This proposed legislation allows school districts to impose an impact fee on new residential construction. Recommended by the interim committee sponsored by Representative Lake and Senator Keough.

MOTION: It was moved by Representative LeFavour to **introduce RS15573**. Motion passed unanimously by a voice vote.

RS15574: Chairman Crow announced the next item was RS15574 and explained that this proposed legislation provides that land that is being developed into rural home sites must meet the requirements of the agriculture exemption in order to receive the benefit of the exemption. Recommended by the interim committee sponsored by Representative Lake and Senator Keough.

MOTION: Representative Raybould moved to **introduce RS15574**. Motion passed unanimously on a voice vote.

RS15592: Chairman Crow announced the next item was RS15592 and said this proposed legislation defines "platting" and provides that the act of platting land actively devoted to agriculture does not in and of itself cause the land to lose it's agriculture status. Sponsored by Representative Jaquet.

MOTION: Representative Martinez moved to **introduce RS15592**. Motion passed unanimously on a voice vote.

RS15608: The Chairman announced the next item was RS15608. This proposed legislation repeals the \$75 million cap placed in fiscal year 2005 on Governor Batt's property tax replacement legislation of 1995. Sponsored by Representative Jaquet.

MOTION: It was moved by Representative Sayler to **introduce RS15608**. Motion passed unanimously on a voice vote.

Chairman Crow stated that the committee would now continue and finish the presenters on property taxes. She recognized Mr. Poinelli.

Tony Poinelli, Idaho Association of Counties (IAC), stated that IAC was strongly supportive of work that the interim committee did and commends them for that.

The IAC membership supported the increase in the “circuit breaker”; expanding the “home-owners exemption” to broaden the benefits for Idaho residents, seniors and younger new home buyers; the repeal of the rural sub-dividers exemption back to the original intent which was to be able to continue the receiving the agriculture exemption even though the land was platted; property tax deferral program. IAC also supported local option taxes in the past and it seems to have provided some relief in two counties since property tax relief is built into it.

Copy of Mr. Poinelli’s testimony is attached along with a list of county required services. (Attachment #1)

Chairman Crow recognized Mr. Nelson. **Randy Nelson, Associated Taxpayers of Idaho**, remarked that he had followed the interim committee around the state and heard lots of comments. He felt it was important to put in context the entire tax burden paid so he had prepared reports.

Mr. Nelson addressed individually the following reports: FY2002 Idaho tax and fiscal system; history of property, income and sales taxation in Idaho; selected state/local tax collections; local property taxes in 2005; six year summary of local property tax increases; general provisions allowing for 1999-2005 local property tax increases; Examples of the 2004 property tax budgets; examples of the 2005 property tax budgets; statewide county assessed market values ; statewide assessed market values, 2005 and 2004 compared; statewide summary for all taxing districts by county; percent of total 2005 property taxes by each major category of property; statewide Idaho taxable values and property taxes; percent of Idaho’s local property taxes paid by each major property category; Idaho construction report, statewide 1999-2004; 2005 local property taxes by county; summary of some Statewide exemption values; Statewide 50% or \$50K homeowner exemption impact for 2005; 2005 examples of the homeowner exemption. The last page of the hand-out lists questions about property tax relief garnered from taxpayers around the state for consideration. (Attachment #2)

Chairman Crow recognized Mr. John. **Dan John, Idaho State Tax Commission**, provided a hand-out entitled “General Property Tax Concepts” and said in deference to Mr. Nelson previous presentation he would not go through his whole report. (Attachment #3) He noted what has been the pattern of taxable values on page 3. Page 4 reflects what accounts for the larger increases in property tax in 2005.

Page 16 explains assessment changes. There have been lots of myths about what changing values do. Assessment changes affect the distribution, not the overall amount, of the property tax, given a budget driven system. Assuming a fixed or limited budget, as with the 3% cap, the tax increases and decreases in concert with the changes in proportional shares of total value represented. See page 16.

Page 17 explains the effect of assessed value changes on budget driven systems. Budgets versus values except school M&O reflects what is myth or reality. Year 2005 effect of exemptions on tax revenue such as shifts and losses outlined on page 27.

The exemption spiral leads to high property tax rates, which in turn results in new pressure for exemptions, which in turn the tax base spirals down and the tax rate spirals up. Explanation of the “circuit breaker” on page 31 showing that no property tax is shifted to other property taxpayers.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 11:18 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 23, 2006

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Ted Spangler and Dan John, Idaho State Tax Commission

Chairman Crow called the meeting to order and requested a silent roll call. Representative McGeachin moved to accept the minutes of the meeting held on January 18, 2006 as written. Motion passed on a voice vote.

RS15685: Chairman Crow announced the first item on the agenda was RS15685 and explained that the first three items on the agenda were property tax bills to be automatically introduced. RS15685 increases the income brackets for low income elderly, widowed and disabled homeowners who qualify for the "circuit breaker" property tax relief program.. It will increase the maximum income level from \$22,630 in 2005 to \$30,000 in 2006. Sponsored by the Governor.

MOTION: It was moved by Representative Roberts to **introduce RS15685**. Motion passed unanimously on a voice vote.

RS15686: This RS ends the rural home site development exemption from property tax as of January 1, 2006, but extends the exemption for properties eligible for the exemption in 2006. For properties protected by the extension, the exemption ends upon the occurrence of the earlier of December 31, 2010, the beginning of construction of a building or sale or transfer of the property.

The bill also provides that the exemption for the speculative portion of the value of agricultural property shall not change only because the property is included in a plat and provides for reporting on the property tax rolls the exempted value within rural subdivision plats. Sponsored by the Governor.

MOTION: It was moved by Representative Lake to **introduce RS15686**. Motion passed unanimously on a voice vote.

RS15699: This RS would allow individual homeowners with low income who are

elderly, disabled or widowed and who qualify for “circuit breaker” property tax relief to postpone payment of property taxes on their homes. Sponsored by the Governor.

MOTION: Representative Clark moved to **introduce RS15699**. Motion passed unanimously on a voice vote.

RS15368: Chairman Crow announced the next item on the agenda was RS15368 and asked Mr. Spangler to explain the proposed legislation. **Ted Spangler, Idaho State Tax Commission**, stated that this RS deals with modifying the sales factor of the three-factor formula by which multistate corporations apportion business income to Idaho for computing income tax. The economy nationally is changing by moving to sales of goods. The current law dates back to 1950 and is outdated.

Under current law, all receipts are included in the numerator if the greater cost of performance is within this state but no receipts are included in the numerator if the greater costs of performance are outside this state even though there may be costs of performance in this state.

MOTION: Representative Clark moved to **introduce RS15368**. Motion carried on a voice vote.

RS15388: Chairman Crow announced the next item on the agenda was RS15388 and recognized Mr. Spangler to present the RS. **Ted Spangler, Idaho State Tax Commission**, stated that this RS addresses income taxation of “pass-through entities” such as S-Corporations, partnerships, limited liability companies and trusts. This proposed legislation authorizes the use of “composite returns” which codifies a long-standing practice of the State Tax Commission. This RS also adds a withholding requirement when making payments of taxable income to their shareholders, partners, member, or beneficiaries. Withholding is not required when these persons elect to participate in a composite income tax return by which the entity reports the income and pays the tax of its members.

MOTION: Representative LeFavour moved to **introduce RS15388** with a corrected Statement of Purpose.” Motion passed on a voice vote.

RS15357: Chairman Crow announced the next item on the agenda was RS15357 and asked Mr. John to explain the RS. **Dan John, Idaho State Tax Commission**, stated that this is the annual bill to update references to the Internal Revenue Code (IRC). It conforms the Idaho income tax to changes made to the IRC after January 1, 2005, including the American Jobs Creation Act. However, for taxable years beginning on and after January 1, 2006, the bill disallows any deduction for qualified production activity income otherwise allowed by IRC as a deduction on a federal return. Taxpayers entitled to the deduction for taxable years beginning during 2005 are unaffected.

Section 1 of the bill has no fiscal impact. Section 2 will increase the general fund by \$3 million as a result of the repealing section 199 if the IRC. He said that nineteen other states have repealed this section.

MOTION: Representative Field moved to **introduce RS15357**. Motion passed on a

voice vote.

RS15373: The Chairman announced the next item on the agenda was RS15373 and asked Mr. John to address the RS. **Dan John, Idaho State Tax Commission**, stated that Idaho Code currently permits Idaho residents on active military duty outside Idaho for at least 120 consecutive days to deduct their military pay when computing Idaho taxable income. They are also required to reduce their exemptions and deductions in proportion to their exempt military income. This RS repeals the requirement to reduce their exemptions and deductions.

MOTION: Representative Wood moved to **introduce RS15373**. Motion passed on a voice vote.

RS15387: Chairman Crow announced the next item on the agenda was RS15387 and recognized Dan John. **Mr. John** said that this RS makes several technical corrections to the Idaho Income Tax Act.

Section 1 provides that once the income tax brackets are adjusted for the Consumer Price Index no subsequent adjustment to the CPI will affect the brackets.

Section 2 provides a date by which a taxpayer who is required to recapture the two-year property tax exemption is required to report the recapture.

Section 3 extends the due date for filing employer electronic copies of W-2s from the last day of February to March 31. This conforms to the federal due date.

Section 4 & 5 harmonize inconsistencies between sections 63-3044 (2) and (3) and 63-3045A(b), Idaho Code, as to the method by which tax is "assessed." The amended sections provide for a clear date of assessment and a consistent method for recording assessment.

Sections 6 & 7 amends 2005 legislation on the "Idaho Headquarters Incentive Act" and the "Idaho Small Business Incentive Act" to coordinate the maximum credit allowed to a taxpayer claiming both credits.. This change makes them the same as all other credit laws.

MOTION: Representative Moyle moved to **introduce RS15387**. Motion passed on a voice vote.

ADJOURN: Chairman Crow announced that this concludes the agenda and adjourned the meeting at 10:30 a..m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION Lake, SUBCOMMITTEE

DATE: January 23, 2006
TIME: 3:00 p.m.
PLACE: Room 416
MEMBERS: Chairman Lake, Representatives Schaefer, McGeachin, LeFavour
**ABSENT/
EXCUSED:** None
GUESTS: Susan Renfro and Janice Boyd

Chairman Lake called the meeting to order at 3:00 pm and requested the secretary take a silent roll.

The Chairman recognized **Susan Renfro, Director and Clerk to the Board, Idaho Board of Tax Appeals and Janice Boyd, Tax Policy Specialist, Idaho State Tax Commission.**

**Docket No.
36-0101-0501**

Susan Renfro began with an explanation of the pending rules of the **IDAPA - Idaho Board of Tax Appeals, Docket No. 36-0101-0501.** (Attachment #1)

Rule No. 30: No longer allows third party non-attorney representation before the Board through a Board approved power of attorney. The Attorney General has advised the Board that this rule conflicts with Sections 3-401 and 3-420, Idaho Code, the unauthorized practice of law. (Attachment #2)

Rule No. 45: References third party representatives and a power of attorney, conflicting with Sections 3-401 and 3-420, Idaho Code, the unauthorized practice of law.

MOTION:

Representative McGeachin recommended approval of **Docket No. 36-0101-0501** and to present it to the committee. The motion **passed** on a voice vote.

The Chairman recognized **Janice Boyd** and she presented the **Idaho State Tax Commission Administrative** pending rules.(Attachment #3)

**Docket No.
35-0101-0501**

Docket No. 35-0101-0501. The following is a nontechnical explanation of the substance and purpose of the proposed rulemaking for Income Tax.

Rule 006: Amend Income Tax Rule 006 to update the publication date of the incorporated document "Model Regulations, Statutes and Guidelines, Uniformity Recommendations to the States," to the new edition.

Rule 050: Promulgate new Income Tax Rule 050 to clarify that LLCs and members will be treated according to their federal classification and that

the income tax administrative rules apply in accordance with that federal classification even though LLC and member may not be specifically mentioned in a rule.

Rule 075: Amend Income Tax Rule 075 to add the table for the income tax brackets and rates for calendar year 2005.

Rule 107: Amend Income Tax Rule 107 to correct the references from "Rule 330 and 335" to "Rules 330 through 336" so that all the rules for the definitions of business income and nonbusiness income are referenced.

Rule 108: Amend Income Tax Rule 108 to add information related to the new addback required for general state sales taxes deducted by individuals who include such taxes as itemized deductions. The amendments conform to Idaho Code section 63-3022, as amended in HB 10, passed by the 2005 Legislature.

Rule 120: Amend Income Tax Rule 120 to add information related to the new deduction allowed to taxpayers who restore income under the federal claim of right and who claimed the federal credit instead of the deduction. The amendments conform to new Idaho Code section 63-3022F, enacted in HB 13, passed by the 2005 Legislature.

Rule 121: Amend Income Tax Rule 121 to include sales tax in the information that discusses itemized deductions and the calculations that must be made. The amendments conform to Idaho Code section 63-3022, as amended in HB 10, passed by the 2005 Legislature.

Rule 170: Amend Income Tax Rule 170 to correct the phrase "Idaho taxable income" to "taxable income." Restructure the rule so that the general information is addressed at the beginning of the rule followed by specific information and examples.

Rule 266: Amend Income Tax Rule 266 to add information on how a nonresident will report the gain or loss from the sale or other disposition of a partnership interest or stock in an S corporation. The amendments conform to Idaho Code section 63-3026A, as amended in HB 25, passed by the 2005 Legislature.

Rule 340: Amend Income Tax Rule 340 to correct the word "contributes" to "contribute" to make the sentence grammatically correct.

Rule 341: Amend Income Tax Rule 341 to clarify that unity can be established under any one of the judicially acceptable tests and cannot be denied merely because another of those tests does not simultaneously apply. Because the rule only discusses one test, the Mobil Oil Corp. v. Vermont "factors of profitability" test, to illustrate how significant flows of value might be used to determine if a unitary business exists, the amendments clarify at the beginning of the rule that unity can be established under any one of the judicially acceptable tests.

Rule 342: Amend Income Tax Rule 342 to correct the word "many" to "may" and to change a semicolon to a period to make the sentence grammatically correct.

Rule 550: Amend Income Tax Rule 550 to provide the exceptions to the general rule that income producing activity for purposes of the sales factor generally does not include transactions and activities performed on behalf of the taxpayer. The amendments provide that income producing activity includes transactions and activities performed on behalf of a taxpayer when the taxpayer sells its product exclusively through independent contractors, when the independent contractors can work only for the taxpayer, or when excluding the transactions and activities of the independent contractors would lead to an unreasonable result. The amendments also provide that only the direct costs paid by the taxpayer are considered.

Rule 570: Amend Income Tax Rule 570 to include the exception to the general rule that alternative apportionment may be required to fairly represent the extent of the taxpayer's business activity in Idaho even if the income producing activity with respect to business income derived from intangible personal property can be readily identified. Amendments also correct instances where "income" was used in the rule when "gross receipts" should have been.

Rule 620: Amend Income Tax Rule 620 to correct the references from "Rules 330 through 334" to "Rules 330 through 336" so that all the rules for the definitions of business income and nonbusiness income are referenced.

Rule 872: Amend Income Tax Rule 872 to change the due date for paying withholding for employers who are farmers from the last day of February to the last day of January in accordance with Idaho Code section 63-3036, as amended in HB 28, passed by the 2005 Legislature.

MOTION: Representative Janice McGeachin moved to **approve Docket No. 35-0101-0501** and refer it to the full committee. The motion **passed** on a voice vote.

Docket No. 35-0101-0502

Docket No. 35-0101-0502: Presented by Janice Boyd.

Rule 275: Promulgate new Income Tax Rule 275 to address qualifying entities and what investment in securities and activities incident thereto includes in accordance with Idaho Code section 63-3026A, as amended in HB 400, passed by the 2005 Legislature.

MOTION: Representative Schaefer moved to **approve Docket No. 35-0101-0502** and refer it to the full committee. Motion **passed** on a voice vote.

Docket No. 35-0101-0503. Presented by Janice Boyd.

Rule 799: Amend Income Tax Rule 799 to add to the list of priority of credits the new credits allowed by HBs 306 and 323, which were passed by the 2005 Legislature, and to address adjustments to credits.

Rule 920: Promulgate new Income Tax Rule 920 to provide definitions for rules relating to the Idaho Corporate Headquarters Incentive Act of 2005.

Rule 921: Promulgate new Income Tax Rule 921 to discuss the coordination of the Idaho Corporate Headquarters Incentive Act with the Idaho Small Employer Incentive Act of 2005, pass-through entities, the effects of reorganizations, mergers and liquidations, relocations of facilities, and unitary sharing.

Rule 922: Promulgate new Income Tax Rule 922 to discuss the Idaho Corporate Headquarters tax incentive criteria and the certification requirements.

Rule 923: Promulgate new Income Tax Rule 923 to discuss the Idaho Corporate Headquarters Investment Tax Credit, including when the credit is allowed, qualifying taxpayers, qualified investments, limitations, carryovers, and coordination with the investment tax credit allowed by Idaho Code section 63-3029B.

Rule 924: Promulgate new Income Tax Rule 924 to discuss the Idaho Corporate Headquarters Real Property Improvement Tax Credit, including when the credit is allowed, qualifying taxpayers, qualifying buildings and structural components, limitations, and carryovers.

Rule 925: Promulgate new Income Tax Rule 925 to discuss the Idaho Corporate Headquarters New Jobs Tax Credit, including when the credit is allowed, qualifying taxpayers, calculating the number of employees and the number of new employees, how to compute the credit, limitations, and carryovers.

Rule 926: Promulgate new Income Tax Rule 926 to discuss recapture of the Corporate Headquarters tax incentives, including the failure to meet the tax incentive criteria, the year the deficiency occurs, early dispositions of investment in new plant, failure to maintain increased employment, and the effects of reorganizations, mergers, and liquidations.

Rule 930: Promulgate new Income Tax Rule 930 to provide definitions for rules relating to the Idaho Small Employer Incentive Act of 2005.

Rule 931: Promulgate new Income Tax Rule 931 to discuss the coordination of the Idaho Small Employer Incentive Act with the Idaho Corporate Headquarters Incentive Act of 2005, pass-through entities, the effects of reorganizations, mergers and liquidations, relocations of facilities, and unitary sharing.

Rule 932: Promulgate new Income Tax Rule 932 to discuss the Idaho Small Employer tax incentive criteria and the certification requirements.

Rule 933: Promulgate new Income Tax Rule 933 to discuss the Idaho Small Employer Investment Tax Credit, including when the credit is allowed, qualifying taxpayers, qualified investments, limitations, carryovers, and coordination with the investment tax credit allowed by Idaho Code section 63-3029B.

Rule 934: Promulgate new Income Tax Rule 934 to discuss the Idaho Small Employer Real Property Improvement Tax Credit, including when

the credit is allowed, qualifying taxpayers, qualifying buildings and structural components, limitations, and carryovers.

Rule 935: Promulgate new Income Tax Rule 935 to discuss the Idaho Small Employer New Jobs Tax Credit, including when the credit is allowed, qualifying taxpayers, calculating the number of employees and the number of new employees, how to compute the credit, limitations, and carryovers.

Rule 936: Promulgate new Income Tax Rule 936 to discuss recapture of the Idaho Small Employer tax incentives, including the failure to meet the tax incentive criteria, the year the deficiency occurs, early dispositions of investment in new plant, failure to maintain increased employment, and the effects of reorganizations, mergers, and liquidations.

MOTION:

Representative Nicole LeFavour moved to **approve Docket No. 35-0101-0503** and refer it to the full committee. The motion **passed** on a voice vote.

**Docket No.
35-0201-0501**

Docket No. 35-0201-0501 Presented by Janice Boyd.

Rule 010: Amend Administration and Enforcement Rule 010 to refine the definition of pay, paid, payable or payment, by specifying that checks received as payment must be drawn on a United States bank or financial institution and that the definition excludes drafts drawn on a foreign bank or other foreign financial institution in regard to which a processing fee may be incurred by the state of Idaho.

Rule 131: Promulgate new Administration and Enforcement Rule 131 to provide the Tax Commission with the authority to reject certain types of payments.

Rule 310: Section 63-3045, Idaho Code, establishes a formula for calculating the yearly interest rate applied to deficiencies of tax and refunds. The rates are published in Administration and Enforcement Rule 310. Amend Administration and Enforcement Rule 310 to add the interest rate for calendar year 2006.

Rule 600: HB 14, passed by the 2005 Legislature, amended Section 63-3049, Idaho Code, to change the requirement for a deposit the taxpayer makes when appealing a State Tax Commission decision to the district court or to the board of tax appeals. Previously the deposit was required to be 20% of the amount in controversy when the State Tax Commission issued the notice of deficiency. The bill changed the requirement to 20% of the amount asserted when the State Tax Commission issues its decision. Amend Administration and Enforcement Rule 600 to conform to the new requirements for the deposit.

Rule 704: Amend Administration and Enforcement Rule 704 to include the Administrator of the Division of Building Safety as an official the Tax Commission can exchange information with related to public works contracts in accordance with Section 54-1904A, Idaho Code, as amended in HB 337, passed by the 2005 Idaho Legislature.

MOTION: Representative McGeachin made the motion to **approve Docket No. 35-0201-0501** and refer it to the full committee. The motion **passed** on a voice vote.

ADJOURN: Meeting adjourned at 4:20 p.m.

Representative Dennis Lake
Chairman

Chris Taylor
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 24, 2006

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Roberts and Denney

GUESTS: Ted Spangler and Dan John, Idaho State Tax Commission

Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes of the meeting held on January 19, 2006. Motion passed on a voice vote.

RS15595C1: Chairman Crow announced the first item on the agenda was RS15595C1 which is another property tax proposal. The RS exempts from the property tax any increase in the net taxable value of real property of a taxpayer in excess of five (5) percent per year.

MOTION: It was moved by Representative Field to **introduce RS15595C1**. Motion passed unanimously on a voice vote.

RS15607C1: The Chairman announced the next item on the agenda was RS15607C1 another property tax proposal. It updates the "homeowner" exemption for inflation, raises the upper limit to \$100,000, indexes the "homeowner" exemption and includes the land.

MOTION: Representative Saylor moved to **introduce RS15607C1**. Motion passed unanimously on a voice vote.

RS15358: Chairman Crow announced the next item on the agenda was RS15358 and asked Mr. Spangler to explain the RS. **Ted Spangler, Idaho State Tax Commission**, said that under the definition of "resident" in the Idaho Income Tax Act, it is occasionally possible for an individual who is a nonresident alien for federal income tax to be an Idaho resident. This RS prevents the result by expressly excluding a nonresident alien from the Idaho definition of "resident."

MOTION: Representative Raybould moved to **introduce RS15358**. Motion passed unanimously on a voice vote.

RS15371: Chairman Crow announced the next item on the agenda was RS15371 and recognized Mr. Spangler. **Mr. Spangler** stated that this RS amends the Idaho Sales Tax Act to change the penalty for doing business without a seller's permit, when a permit is required, from a criminal misdemeanor

to a civil penalty. The amount of the penalty is unchanged. Persons who are officers or employees with the duty to account for and pay over the tax for the business, instead of each officer of a corporation, are also subject to the penalty.

MOTION: Representative Lake moved to **introduce RS15371**. Motion passed on a voice vote.

RS15390C1: The Chairman announced the next item on the agenda was RS15390C1 and asked Mr. Spangler to explain the RS. **Ted Spangler, Idaho State Tax Commission**, stated that this RS deals with cigarette wholesalers, motor fuel distributors and employers are issued permits, licenses or account numbers for administering the cigarette tax, motor fuel tax and income tax withholding. It authorizes the State Tax Commission to revoke or suspend these permits, licenses and accounts when the holders are no longer engaged in a business in which these are required or when the holder is in violation of law governing these taxes.

Provides civil penalties for doing business without a required permit, license or account. The provisions are modeled after provisions in the Idaho Sales Tax Act governing sellers' permits under that Act.

MOTION: Representative McKague moved to **introduce RS15390C1**. Motion passed on a voice vote.

RS15424: Chairman Crow announced the next item on was RS15424 and asked Mr. John to explain the RS. **Dan John, Idaho State Tax Commission**, said that there was an error on the Statement of Purpose and requested that it be corrected. The RS makes the following technical corrections to the property tax laws:

Section 1 provides that property not taxed due to the exemption for "significant capital improvements", property in a single county in excess of \$800,000,000, shall not be included on any new construction roll.

Section 2 deletes obsolete language requiring percentage reduction of state money under the "circuit breaker" property tax relief program.

Section 3 strikes any requirement that exempted property be included on any new construction roll.

MOTION: Representative Jaquet moved to **introduce RS15424**. Motion passed on a voice vote.

RS15425C1: The Chairman announced the next item on the agenda was RS15425C1 and recognized Mr. John to present the RS. **Mr. John** explained that this RS amends the Idaho Income Tax Act to require a withholding tax when individual nonresidents, or business entities without a permanent place of business in Idaho, sell Idaho real property. Withholding would not be required when individual residents, or business entities with a permanent place of business in Idaho sell Idaho real property.

When nonresident, or business entities without a permanent place of business in Idaho sell real property, three percent of the proceeds is withheld.

MOTION: Representative Martinez moved to **introduce RS15425C1**. Motion passed on a voice vote.

ADJOURN: There being no further business to come before the meeting, Chairman Crow adjourned the meeting at 10:23 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION - Roberts SUBCOMMITTEE

DATE: January 24, 2006
TIME: 8:00 a.m.
PLACE: Room 404
MEMBERS: Chairman Roberts, Representative Wood, McKague, Martinez
**ABSENT/
EXCUSED:** None
GUESTS: Jim Husted and Alan Dornfest

Chairman Roberts called the meeting to order at 8:00 a.m. and a silent roll call was taken by the secretary.

The Chairman recognized **Jim Husted and Alan Dornfest, State Tax Commission, Tax Policy Specialists** to present the Idaho State tax commission administrative pending rules (See attached - complete document of 2006 Revenue and Taxation House Pending Rules - Administrative Rules Review).

Docket No. 35-0102-0501 **Docket No. 35-0102-0501** (Idaho Sales and Use Tax) presented by Jim Husted.

Rule 041: Amend Rule 041 to conform to the rate change.

Rule 058: Amend Rule 058 to conform to the 5% tax rate, effective July 1,2005. **Rule 063:** Amend Rule 063 to conform to the statute.

Rule 068: Amend Rule 068 to correct the effective dates for the 5 % and 6 % rates and strike Subsection 068.07.

Rule 073: Amend Rule 073 to change references to the 6% rate to 5%.

Rule 107: Amend Rule 107 to correct the rule so it refers to a 5% tax rate.

Rule 109: Amend Rule 109 to add a statement that, as of July 1,2005, the fee is \$35. **Rule 126:** Amend Rule 126 to strike Subsections 126.03 and 126.04.

Rule 128: Amend Rule 128 to conform to Section 63-3622RR, Idaho Code.

MOTION: Representative Martinez moved to **approve Docket No. 35-0102-0501** and refer it to the full committee. The motion **passed** on a voice vote.

**Docket No.
35-0102-0502**

Docket No. 35-0102-0502 (Idaho Sales and Use Tax) presented by Jim Husted.

Rule 037: Amend Rule 037 to conform to federal law.

Rule 047: Amend Rule 047 to state that sales of rafting trips aren't taxable if they occur on navigable waters. To add a statement that judicial determinations could change this ruling. And to change the reference to the 5% rate to conform to statute.

The Subcommittee has concerns with Idaho Sales and Use Tax Administrative Rules Docket No. 35-0102-0502 - rule 047 - Outfitters, Guides, and Like Operations 11. Federal Preemption. Federal preemption prohibits the states from imposing tax on any vessel or other water craft, or its passengers or crew if the vessel or water craft is operating on any navigable waters.

The Subcommittee recommends this be monitored as it may become an issue that may need to be addressed in the future.

MOTION:

Representative McKague moved to **approve Docket No. 35-0102-0502** and refer it to the full committee. The motion **passed** on voice vote.

**Docket No.
35-0102-0503**

Docket No. 35-0102-0503 (Idaho Sales and Use Tax) was presented by Jim Husted.

Rule 70: Amend Rule 070 to state that the Commission may issue temporary permits that are valid for no more than 90 days.

Rule 79: Amend Rule 079 to conform to Section 63-3622RR, Idaho Code.

Rule 99: Amend Rule 99 to correct the statement in Subsection 099.07 and add a new subsection clarifying amendment to Section 63-3622K, Idaho Code.

Rule 102: Amend Rule 102 to conform to Section 63-3622RR, Idaho Code.

MOTION:

Representative Martinez moved to **approve Docket No. 35-0102-0503** and to refer it to the full committee. Motion **passed** on a voice vote.

**Docket No.
35-0110-0501**

Docket No. 35-0110-0501 (Idaho Cigarette & Tobacco Products Tax) presented by Jim Husted.

Rule 011: To strike the current wording of the rule and replace it with a statement that distribution of free tobacco products is unlawful and include a cross-reference to the statute.

Rule 018: To amend Rule 015 to state that tax must be reported on the return for the month which the stamps are affixed.

Rule 021: To amend Rule 021 to state that the first distributor is liable for the tax and must indicate the tax was paid on the invoice. The second

distributor will then not be liable for the tax.

MOTION: Representative Wood moved to **approve Docket No. 35-0110-0501** and refer it to the full committee. Motion **passed** with a voice vote.

Docket No. 35-0111-0501 **Docket No. 35-0111-0501** (Idaho Unclaimed Property Tax) was presented by Jim Husted.

Rule 005: To amend Rule 005 to provide the mailing address for unclaimed property, an updated e-mail address, an updated Web site address, and to update office hours available.

Rule 015: To amend Rule 015 to state that holders must send the stock certificate or its electronic equivalent.

Rule 016: To amend Rule 016 to add language adapted from Oregon's Administrative Rule 141-010-0212. The burden is on the claimant to provide sufficient proof to establish the elements of the claim, and it is the claimant's responsibility to contact persons and to search out documents relating to the claim.

MOTION: Representative Wood moved to **approve Docket No. 35-0111-0501** and refer it to the full committee. Motion **passed** on a voice vote.

Docket No. 35-0103-0501 **Docket No. 35-0103-0501** (Idaho Property Tax) was presented by Alan Dornfest.

Rule 960: Rule 960 is being amended to update rule based on HB126 and make rule internally consistent and update procedures for calculation of the county weighted average forest land levy rate in response to request from industry representatives.

In August 2005, the State Tax Commission adopted this rule as a temporary rule with an effective date of January 1, 2005. The temporary rule was published in the Idaho Administrative Bulletin, Volume 05-8, August 3, 2005, pages 295 through 297. With this publication the department is initiating proposed rulemaking.

MOTION: Representative Wood moved to **approve Docket No. 35-0103-0501** and refer it to the full committee. Motion **passed** on a voice vote.

Docket No. 35-0103-0502 **Docket No. 35-0103-0502** (Idaho Property Tax) was presented by Alan Dormfest.

Rule 645: Rule 645 is being amended to clarify references and definitions necessary for implementing HB215 passed by the 2005 Legislature. The statute will be retroactive on January 1, 2005, and this rule will need to be in place for the effective date.

Rules 962 and 964: These rules are being amended to update rule based on Hb126 and make rule internally consistent. The statutes will be retroactive on January 1, 2005, and the rule changes will need to be in

place for the effective date.

MOTION: Representative Martinez moved to approve **Docket No. 35-0103-0502** and to refer it to the full committee. Motion **passed** on a voice vote.

Docket No. 35-0103-0503 **Docket No. 35-0103-0503** (Idaho Property Tax) was presented by Alan Dornfest.

Rule 006: Make annual updates to incorporations by reference material.

Rule 130: Amend rule to clarify land not meeting the definition in Idaho Code Section 63-604, is the only land to be reported by the assessor for the rural speculative homesite exemption and all land meeting criteria in Idaho Code Section 63-604 must be reported in categories 1 through 5.

Rule 131: Amend rule to update definitions and statistical measures for consistency with national standards.

Rule 315: Amend rule to assure improved equalization of manufactured homes.

Rule 509: Amend rule to require submission of exempt value resulting from Idaho Code Sections 63-602GG, 63-602HH, 63-602HH [63-602II] and 63-606A.

Rule 609: Amend rule to clarify and provide examples relating to ownership of homes on jointly owned land.

Rule 612: Add rule to clarify exempt status of personal property permanently affixed to certain property registered vehicles.

Rule 802: Amend rule to clarify new construction in annexed areas is only reported on the construction roll and is excluded from the annexation value.

Rule 805: Modifies date for county clerks to submit notices of compliance so notice is timely and current for property tax funded budget approval process.

MOTION: Representative Wood moved to **approve Docket No. 35-0103-0503** and refer it to the full committee. Motion **passed** on a voice vote.

ADJOURN: Meeting adjourned at 9:40 a.m.

Representative Roberts
Chairman

Chris Taylor
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** January 25, 2006
- TIME:** 10:00 a.m..
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** None
- GUESTS:** Dan John and Ted Spangler, Idaho State Tax Commission;
Representative Smylie; Representative Bilbao
- Chairman Crow called the meeting to order and requested a silent roll call. Representative Field moved to accept the minutes as written for the meeting held on January 23, 2006.
- RS15761:** Chairman Crow announced the first item on the agenda was RS15761 which was another property tax proposal. The RS provides that owner-occupied homestead used as the primary dwelling place of an individual who is at least seventy (70) years of age, has paid Idaho real property taxes on Idaho residential real property continuously for the immediately preceding ten years and who is the record owner holding title or who has retained or been granted a life estate, may apply for an exemption from the tax on the property each year upon application. Sponsored by Representative McKague.
- MOTION:** Representative Schaefer moved to **introduce RS15761**. Motion passed unanimously on a voice vote.
- RS15372:** The Chairman announced the next item on the agenda was RS15372 and recognized Mr. John to explain the RS. **Dan John, Idaho State Tax Commission**, said that this RS deals with extensions of income tax returns. Provides for taxpayers who qualify for an extension of time to file their Idaho individual income tax returns, the due date to pay taxes due on the return when filed is the earlier of the extended due date or at the time the return is filed.
- MOTION:** Representative Lake moved to **introduce RS15372**. Motion passed on a voice vote.
- RS15384** Chairman Crow announced the next item on the agenda was RS15384 and asked Mr. John to continue. **Mr. John** stated that this RS amends the cigarette tax provisions to change the penalty for possessing more than ten (10) packages of cigarettes without an Idaho cigarette stamp from the current law making it a criminal misdemeanor to a civil penalty. The penalty would apply to persons who purchase unstamped cigarettes

from rapidly growing on-line retailers. The penalty would not apply to persons who purchase cigarettes from tribal retailers selling cigarettes within the exterior boundaries of an Idaho tribal reservation.

MOTION: Representative Saylor moved to **introduce RS15384**. Motion passed on a voice vote.

RS15383C1 Chairman Crow announced the next item on the agenda was RS15383C1 and recognized Mr. Spangler. **Ted Spangler, Idaho State Tax Commission**, explained that this RS allows the State Tax Commission to enter into an agreement with the Internal Revenue Service relating to offset of tax refunds. When implemented taxpayers with final non-appealable tax assessments owed to the state or to the federal government will be subject to having that tax debt offset against any tax refunds owed to the other.

Refunds owed by the State Tax Commission will first be applied against debts owed to the state, such as unpaid child support, before being offset against federal tax. No offset of federal tax against state refunds is allowed unless an agreement for offsetting federal refunds for state tax debts is in place.

MOTION: Representative Field moved to **introduce RS15383C1**. Motion passed on a voice vote.

RS15423 Chairman Crow announced the next item on the agenda was RS15423 and asked Mr. Spangler to continue. **Mr. Spangler** said that this Section 1 amends the occupancy tax to clarify that the occupancy tax applies to industrial property but not to operating property. Section 2 defines operating property to include an electrical generation plant under construction regardless of its ownership.

MOTION: Representative Clark moved to **introduce RS15423**. Motion passed on a voice vote.

RS15466C1: The Chairman announced the next item on the agenda was RS15466C1 and asked Representative Smylie to explain the RS. **Representative Smylie**, said this RS will provide an Idaho income tax credit for Project P.A.T.CH which stands for "planned assistance for troubled children." This credit is already provided for several other schools with similar missions. Project Patch is a residential school, treatment facility and wilderness program located in Garden Valley, Idaho since 1990. It is fully licensed by Idaho Health & Welfare and accredited by the Northwest Association of Accredited Schools, Idaho Department of Education and Joint Commission of Accreditation on Health Care Organizations. He said there is an error in the RS that need to be corrected. The organizations correct acronym is P.A.T.CH.

MOTION: After a short question and answer period, Representative Saylor moved to **introduce the corrected RS15423C2**. Motion passed on a voice vote.

RS15467C1: Chairman Crow announced the item on the agenda was RS15467C1 and

asked Representative Smylie to continue. **Representative Smylie** stated that this RS would extend a sales tax exemption to Project P.A.T.CH. (Patch) This exemption is already provided for several other schools with similar missions and all regular educational institutions. Project Patch is a residential school, treatment facility and wilderness program.

There was a short discussion on whether Patch qualifies for the exemption. Chairman Crow instructed Representative Smylie to work with the Tax Commission and the proposed legislation will be put on the agenda at a later date.

RS15414:

Chairman Crow announced that the next item on the agenda was RS15414 and asked Representative Bilbao to explain the RS. **Representative Bilbao** said that this proposal helps approximately 100 small museums around the state. The purpose of this RS provides an exemption from sales tax for two limited categories of purchases and admissions by museums, purchases and admissions.

Museums are narrowly defined in the RS to be limited to public institutions and private 501 (c)(3) exempt not-for-profit institutions. They are further defined through the use of an adaptation of the American Association of Museums definition. These limitations are designed to limit potential abuses and to provide limited fiscal impact while assisting the narrow category of education institutions for which it is intended to affect.

In response to Representative Jaquet question whether museums collected sales tax on donation boxes, Representative Bilbao said no.

MOTION:

Representative Wood moved to **introduce RS15414**. Motion passed on a voice vote.

ADJOURN:

There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:38 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** January 26, 2006
- TIME:** 10:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representative Barrett, Denny and Lake
- GUESTS:** Vaughn Killeen, American Red Cross of Greater Idaho; Jack Lyman, Idaho Mining Association; Roger Madsen, Idaho Department of Commerce & Labor
- Chairman Crow called the meeting to order and requested a silent roll call. Representative Collins moved to accept the minutes as written of the meeting held on January 24, 2006. Motion carried on a voice vote. The Chairman reiterated that the first five RS's on the agenda were property tax proposals to be introduced.
- RS15814:** Chairman Crow announced the first item on the agenda was RS15814. The proposed legislation limits all property tax portions of any budget to a three percent (3%) increase per year. Sponsored by Representatives Moyle, Crow and Clark.
- MOTION:** Representative Roberts moved to **introduce RS15814**. Motion passed unanimously on a voice vote.
- RS15817:** The Chairman announced the next item on the agenda was RS15817. This RS allows for M&O to grow at three percent (3%) per year and replaces all M&O property taxes with any state-generated revenues over eight percent (8%) growth per year. Sponsored by Representatives Moyle, Crow and Clark.
- MOTION:** Representative Clark moved to **introduce RS15817**. Motion passed unanimously on a voice vote.
- RS15690:** Chairman Crow announced the next item on the agenda was RS15690. That by a vote of the people a taxing district budget could be limited with the exception of school budgets. Sponsored by Representative Moyle.
- MOTION:** Representative Roberts moved to **introduce RS15690**. Motion passed unanimously on a voice vote.
- RS15784:** The Chairman announced the next item on the agenda was RS15784. This proposed legislation enacts a new section to provide an exemption from taxation for the tax year 2007 and thereafter that portion of the

market value for assessment purposes of residential improvements which exceeds the market value for the year 2006. Sponsored by Representative Schaefer.

MOTION: It was moved by Representative Clark to **introduce RS15784**. Motion passed unanimously on a voice vote.

RS15790: Chairman Crow announced the next item on the agenda was RS15790. This RS applies a moratorium on all taxing districts for fiscal years 2006 and ending in 2007 on the certification of budget requests to finance the property tax portion of their operating budgets. Sponsored by Representatives Clark, Crow and Moyle.

MOTION: It was moved by Representative Roberts to **introduce RS15790**. Motion passed unanimously on a voice vote.

RS15487: Chairman Crow this concludes the property tax proposals and the first item on the regular agenda was RS15487. She recognized Mr. Killeen to explain the RS. **Vaughn Killeen** identified himself as the Chief Executive Officer for the **American Red Cross of Greater Idaho**. He elaborated on the primary mission and function of the Red Cross both locally and nationally.

The purpose of this RS is to allow a taxpayer to donate ten dollars (\$10.00) to the American Red Cross of Greater Idaho Fund at the time of filing the taxpayer's state tax return. The \$10.00 donation would reduce e the taxpayer's refund by \$10.00 or increase the taxpayer's payment by \$10.00.

Mr. Killeen stated that the donation was kept low to allow better response to provide better services specifically in Idaho.

MOTION: Representative Field moved to **introduce RS15487**. Motion passed on a voice vote.

RS15532C1: The Chairman announced the next item on the agenda was RS15532C1 and asked Mr. Lyman to present the RS. **Jack Lyman, Idaho Mining Association**, stated that the RS clarifies that the legislature intended the sales tax exemption for pollution control equipment to be available for devices, materials and equipment that become improvements to real property. This means that a synthetic liner required by DEQ and intended to protect ground water quality would be eligible for the exemption from sales tax. Under current Tax Commission rulings the exemption would be denied because the liner would be considered an improvement to real property.

MOTION: Representative Moyle moved to **introduce RS15532C1**. Motion carried on a voice vote.

RS15605: Chairman Crow announced the next item on the agenda was RS15605 and recognized Mr. Madsen to explain the RS. **Roger Madsen, Director of the Idaho Department of Commerce and Labor**, said this proposal was crafted over the summer by a task force to help the film industry in Idaho. He stated that this RS is meant to help Idaho compete

with incentive programs in neighboring Oregon, Utah, Washington, Montana and Canada.

The purpose of RS15605 is to provide a rebate of sales taxes paid on qualifying expenses when a minimum of \$200,000 is spent on a film and media production projects in Idaho over 36 months. The rebate would sunset in 2013

The task force estimates the proposed incentives could bring film-making worth about \$5 million per year to Idaho and cost the state \$50,000 in rebates each year assuming \$1 million in taxable purchases.

There were a few questions relating to future fiscal impact.

MOTION: Representative Jaquet moved to **introduce RS15605** with a corrected fiscal impact statement. Motion passed on a voice vote.

RS15729C1: Chairman Crow announced the next item on the agenda was RS15729C1 and asked representative Roberts to explain the RS. **Representative Roberts** stated that this proposed legislation provides a voluntary mechanism for new growth to pay for necessary public infrastructure and minimize its impact on existing taxpayers.

MOTION: Representative Clark moved to **introduce RS15729C1**. Motion passed on a voice vote.

ADJOURN: Chairman Crow announced that the Committee meeting on Monday, January 30,2006, will be held in the Boise City Hall council room. There being no further business to come before the Committee, the Chairman adjourned 10:29.a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** January 30, 2006
- TIME:** 9:00 a.m
- PLACE:** Council Room, Boise City Hall
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Sayler, Jaquet, LeFavour
- ABSENT/
EXCUSED:** None
- GUESTS:** Phil Homer, Idaho Association of School Administrators; Joseph Gallegos, AARP Idaho; Linda Fischer, Ada County Treasurer; Don Bizallion; Charles Tomas, Citizens for Annexation Reform; John Brewer; Robert Johns; Richard Kaylor; Brian Whitlock, Office of the Governor; Bill Goodnight; Ken Robison; Cherry Woodbury; Kerry Ellen Elliott, Idaho Association of Counties, John Gannen; Charlotte Snow; Kathryn Burgess; Russ Hendricks, Idaho Farm Bureau; Roger Sherman; Robert Johnson
- Chairman Crow convened the meeting at 9:00 a.m. and requested a silent roll call. Representative Martinez moved to accept the minutes as written of the meeting held on January 25, 2005. Motion passed on a voice vote. The Chairman thanked the Mayor for the use of the Council Room and informed the guests on her suggested rules of conduct at the hearing. Testimony would be restricted to the context of the bills on the agenda.
- RS15652C1:** Chairman Crow stated that the first ten RS's on the agenda were on property tax proposals to be introduced. She announced the first item on the agenda was RS15652C1. The RS provides counties the opportunity to implement and collect a sales tax of up to 0.5%. It requires a 66 2/3rd percent vote. It sunsets every ten years and clarifies that the revenues are to be used for property tax relief and the funding of capital projects. It excludes maintenance and operations including affordable housing. Sponsored by Representative Jaquet
- MOTION:** Representative Sayler moved to **introduce RS15652C1**. Motion passed unanimously on a voice vote.
- RS15677:** The Chairman announced the next item on the agenda was RS15677. This RS authorizes counties to adopt local option sales tax with a 66 2/3rd approval with a rate not to exceed .5%. Not less than 50% of the revenue generated would be applied to reduce existing property taxes. Sponsored by Senator Goedde, Co-sponsors Senator Compton. Representative Chadderdon, Henderson, Sayler
- MOTION:** It was moved by Representative LeFavour to **introduce RS15677**. Motion passed unanimously on a voice vote.
- RS15740:** Chairman Crow announced the next item on the agenda was RS15740. The

RS puts a 3% cap on increases in valuation on residential property used as a primary residence. Sponsored by Representative Eskridge. Co-sponsored by Senators Keough, Broadsword. Representatives Anderson, Deal, Henderson, Nonini. Bayer.

MOTION: Representative Wood moved to **introduce RS15740**. Motion passed unanimously on a voice vote.

RS15782: Chairman Crow announced the next item on the agenda was RS15782. This RS provides for impact fees for the construction of K-12 education facilities related to growth. Sponsored by Senator Werk. Co-sponsored by Senators Keough, & Corder and Representatives Jaquet, Anderson & Saylor.

MOTION: Representative Martinez moved to **introduce RS15782**. Sponsored by Senators Werk, Keough & Corder. Representatives Jaquet, Anderson, & Saylor.

RS15786: Chairman Crow announced the next item on the agenda was RS15786. The purpose of this legislation is to provide meaningful and substantial property tax relief to all Idaho property owners by repealing the school maintenance and operations (M&O) levy. Sponsored by Representative Moyle.

MOTION: It was moved by Representative Roberts to **introduce RS15786**. Motion passed unanimously by a voice vote.

RS15788C1: The Chairman announced the next item on the agenda was RS15788C1. The intent of the RS is to add to the Idaho "Circuit Breaker" property tax relief program a class of non-elderly working people whose total property tax meets or exceeds 10% of their annual adjusted gross income from all sources. The required qualification is based on the Federal Earned Income Tax Credit. Sponsored by Representative LeFavour.

MOTION: It was moved by Representative Jaquet to **introduce RS15788C1**. Motion passed unanimously on a voice vote.

RS15801: Chairman Crow announced the next item on the agenda was RS15801. This RS has been withdrawn for further study.

RS15810: The Chairman announced the next item on the agenda was RS15810. This RS provides for a moratorium that the ratio between the market value and the assessed value of real property shall not apply to values established for 2006. Sponsored by Representative McGeachin.

MOTION: Representative McGeachin moved to **introduce RS15810**. Motion passed unanimously on a voice vote.

RS15811: The Chairman announced the next item on the agenda was RS15811. The purpose of the RS is to place a limit on the value of annexations. Sponsored by Representative Roberts.

MOTION: Representative Collins moved to **introduce RS15811**. Motion passed unanimously on a voice vote.

RS15812: Chairman Crow announced the next item on the agenda was RS15812. The

purpose of the RS is to place a limit on the value of new construction.
Sponsored by Representative Roberts.

- MOTION:** It was moved by Representative Raybould to **introduce RS15812**. Motion passed unanimously on a voice vote.
- RS15823:** The Chairman announced the next item on the agenda was RS15823. The proposed legislation repeals the partial exemption for parcels of land in a rural home site development plat. It also provides that platting land actively devoted to agriculture does not alone cause the land to lose its agriculture exemption.
- MOTION:** It was moved by Representative Raybould to **introduce RS15823**. Motion passed unanimously on a voice vote.
- HB422:** Chairman Crow stated this concludes the property tax proposals and announced the first item on the regular agenda was HB422. She recognized Representative Lake to present the bill. **Representative Lake** testified saying this legislation was recommended by the interim committee. This legislation expands the "Circuit Breaker" law because the assessed valuation of homes is increasing faster than the consumer price index to which the law is indexed. This represents a movement from the current \$22,500 to \$28,000 as the income qualifier and an increase from \$1,200 to \$1,320 as the maximum amount of participation by the state. After this one time step up, the law will continue to be indexed to the CPI.
- There would be a reduction of \$6,000,000 to the general fund if this law is passed without changing the homeowners exemption. If this law is passed in conjunction with the expansion of the homeowners exemption to \$75,000 the reduction to the general fund would be \$4,200,000.
- PRO:** **Phil Homer** representing the **Idaho Association of School Administrators**; **Cliff Green** representing **Idaho School Board Association**; **John Eaton, Idaho Realtors**, testified in support of HB 422.
- PRO:** **Joseph Gallegos**, Director of **AARP Idaho**, spoke in support of HB 422. Testimony attached. (Attachment #1)
- PRO:** **Linda Fischer, Ada County Treasurer**, stated that she was representing the **Idaho Treasurer Association** who are in support of HB 422. The legislation provides for some relief for taxpayers.
- CON:** **Don Bizallion** stated that he was a retired citizen and said the "circuit breaker" needs to be closed out. The current system is not working. Social Security is not keeping up with inflation and the "circuit breaker" works on paper not in reality.
- CON:** **Charles Thomas** identified himself as a Board member of Citizens for Annexation Reform and testified in generality.
- PRO:** **John Brewer**, retired citizen, spoke in support of HB 422. The real issue is that all taxes on property are based on budgets.
- PRO:** **Robert Johnson and Rich Kaylor**, retired citizens, testified in favor of HB

422.

HB 437: Chairman Crow announced the next item on the agenda was HB 437 and recognized Mr. Whitlock to present the legislation. **Brian Whitlock, Office of the Governor**, said this legislation raises the income brackets for low income elderly, widowed and disabled homeowners who qualify for the "circuit breaker" property tax relief program. Currently the maximum level is \$22,630 after medical expenses are paid. This legislation increases the maximum level to \$30,000. The average claimant has a benefit of \$579 which is 73% of average taxes.

The increase is accomplished by a one-time mathematical adjustment increasing the base brackets enacted in 1992. There will be no shift in property taxes. The state reimburses the property tax and there is no loss to local entities. Mr. Whitlock outlined the number of households benefitting from this legislation. Reimbursements to local governments paid from the general fund will increase by \$73 million.

There were many questions relating to the revenue stream of other proposals the Committee would be considering. **Commissioner Hammond, Idaho State Tax Commission**, responded by providing current data prepared by the Tax Commission.

HB 421: Chairman Crow announced the next item on the agenda was HB421 and recognized Representative Lake to present the legislation. **Representative Lake** stated that there was an error the Statement of Purpose reflecting the property tax shift from owner occupied homes to other classes of property of \$30 million and should be corrected to \$47 million.

The purpose of this legislation is to expand the home owners exemption from the lower of 50% of assessed valuation or \$50,000 to lower of 50% of assessed valuation or \$75,000. It also indexes the maximum allowable deduction for succeeding years to cost of living adjustments as determined by the federal government,.

This legislation allows for the inclusion of the value of the residential homestead when computing property valuations for the homeowner's exemption.

Representative Lake provided a hand-out and reviewed the following charts: 2005 taxable market value of property; 2005 taxable market value of property under current law; 2005 average property tax levy rates by property class; 2005 taxes on properties assessed at \$80,000; 2005 taxes on properties assessed at \$150,000; 2005 taxes on properties assessed at \$300,000; 2005 taxes on properties assessed at \$550,000; 2005 taxable market value of property in "Skiburg, Idaho"; 2005 budget-driven tax on an "Skiburg" property assessed at \$1 million; 2005 taxable market value of property in "Subdividian, Idaho"; 2005 budget-driven taxes on subdividian properties assessed at \$100,000; 2005 budget-driven subdividian properties assessed at \$250,000; 2005 budget-driven taxes on subdividian properties assessed at \$350,000. (Attachment 2)

HB 423: Chairman Crow announced the next item on the agenda was HB 423 and asked Representative Lake to present the bill. **Representative Lake**

testified that this legislation allows for the inclusion of the value of the residential home site when computing property valuations for the homeowners exemption. He said the Fiscal Impact needed to be corrected to read as follows."None to the General Fund. There will be about a four million dollar reduction in the amount of property tax that would otherwise go to public education. This legislation will cause a property tax shift from owner occupied homes to other classes of property of about \$38,000,000 if it is implemented without expanding the homeowners exemption."

PRO: **Bill Goodnight** private citizen testified in support of HB 421.

Ken Robison private citizen testified that the primary property tax problem is excessive inflation in the taxable value of homes. The value of the homeowner exemption is shrinking as more homes top out the \$50,000 limit. With a shrinking exemption total residential taxes increased a record \$62 million in 2004 and another record \$81 million in 2005. Without legislation to curb inflation in taxable value there will be more of the same in 2006. About 48 percent have topped out the limit and the number is increasing.

HB421 would partly restore the exemption's value and also slow future tax increases, though not so much as a \$100,000 upper limit.

Mr. Robison suggested that HB 423 to limit the exemption to the portion of a lot's value exceeding a threshold amount, such as \$30,00. Or exempt 20 percent rather than 50 percent. This would help people with high value lots and low value homes but would protect counties that have less inflation in home values. A copy of Mr. Robison whole testimony is attached. (Attachment #3)

PRO: **Cherry Woodbury** private citizen testified in support of HB421. She said the root cause of increased assessed valuation because it is based on market value of new homes. Increasing the exemption is only a band-aid. The legislature needs to put a cap on valuations.

PRO: **Phil Homer, Idaho Association of School Administrators; Cliff Green, Idaho School Board Association; Kerry Ellen Elliott, Idaho Association of Counties; John Gannen, private citizen** testified in support of HB421.

Charlotte Snow retired citizen living in Eagle, Idaho. She said she was being taxed from her farm and would have to put her property up for sale to pay the property taxes.

Kathryn Burgess private citizen testified that HB 421 and HB 456 put a better index for inflation but it is just a start to fix the whole tax system.

CON: **Russ Hendricks, Idaho Farm Bureau**, stated he was representing several other agricultural organizations including the Milk Producers of Idaho, Idaho Grain Producers, Idaho Dairymen's Association and the Idaho Cattle Association.

Agricultural producers of all types all across the state recognize that there is a serious problem with rapidly escalating property taxes. However, they do not believe that increasing the homeowner's exemption is an effective solution to the problem. This would simply shift the tax to a different

taxpayer.

All of these shifts cause some unintended consequences. To illustrate this he provide a hand-out on an analysis of homeowner exemption depicting the current \$50,000 maximum and the proposed \$75,000 homeowner exemption. (Attachment #4)

In conclusion , Mr. Hendricks testified that they certainly recognize that there was a problem that needs to be addressed with property taxes. However, increasing the homeowner's exemption is not an effective solution to that problem and does not address the root cause of the problem. It is simply a band-aid approach and will not permanently solve the taxpayers concerns while creating other unintended inequities. (Written testimony attached, Attachment #5.)

PRO: **Roger Sherman, United Vision for Idaho**, testified in support HB 421 and HB 423. He said that most people benefit from the Homeowner's exemption and these bills are a good start. The issue of property tax relief is a local issue and not a State issue. The State sets the parameters and rules.

PRO: **Richard Kaylor** private citizen spoke in support of HB546 raising the exemption to \$100,000.

ADJOURN: Chairman Crow announced that the agenda would be continued tomorrow. She adjourned the meeting at 11:31 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 31, 2006

TIME: 9:00 a.m.

PLACE: Council Room, Boise City Hall

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Charles Thomas, Citizens for Annexation; Keith Alfred, The Common Interest; Lina Casey; Don Reading, Idaho Center on Budget and Tax Policy; Robert Getzin, Idaho Rental Owners & Managers Assn; Robert Johnson; Ken McDevitt; Cliff Green, Idaho School Board Association; Phil Homer, Idaho Association of School Administrators; Dorothy Snowball, David Hegg; Don Borchers, Howard Barton; Gene Bray; John Brewer; Bob Johnson; Robert Huntley; Stan Kress, Cottonwood School District; Mike Chatterton, Blaine County School District

Chairman Crow called the meeting to order and requested a silent roll call. Representative Raybould moved to accept the minutes as written of the meeting held on January 26, 2006. Motion passed on a voice vote.

**UNANIMOUS
CONSENT;** Chairman Crow asked for unanimous consent to reprint the Statement of Purpose for both HB 421 and 423. Consent was granted.

HB 456: Chairman Crow announced the first item on the agenda was HB 456 and recognized Representative Jaquet to present the bill. **Representative Jaquet** provided printed testimony as follows: This legislation updates the homeowner exemption for inflation. It raises the upper limit to \$100,000 where the exemption would be if it had been indexed for the cost of living after the 1982 initiative. It indexes the exemption for the future and includes the lot using the "homestead" definition in the code.

According to the State Tax Commission, the increase in residential taxes in 2006 would be \$65 million less than otherwise. In 2005 residential taxes were up \$81 million. Homeowners with this legislation would still see an increase.

In the second year residential taxes for schools would be \$16 million less than they would be otherwise. In 2005, \$293.5 million of property taxes go to public schools M&O. The total amount of property taxes for schools was \$529.7 million. The school multiplier for M&O is applied to prior year values.

In the absence of an adequate exemption the tax system shifts taxes go to homes. This legislation corrects that shift. This shift occurs because homes are assessed at market value whereas other property classifications use the income and cost approach as well as sometimes market. Many years ago, Perry Swisher and John Evans served on a committee which reached this conclusion which still applies today. They recommended the homeowner exemption as a way to mitigate this effect.

The value of the homeowner's exemption has been shrinking and continues to shrink for homeowners who have topped out at the current \$50,000 limit. The Tax Commission estimates that 49% of our owner-occupied homeowners have reached this ceiling. Updating the limit would offset some of the excessive inflation in taxable values and restore, or partly restore, the value of the exemption. With the value of the homeowner's exemption shrinking, homeowners in some areas are seeing increases of 20% or more each year.

The tax system is presently out of balance. Residential property comprises 66.3% of the property values to fund services and schools. At the time the homeowners' exemption went into place residential still paid a disproportionate share of the property taxes.

Representative Jaquet distributed charts depicting the 1983 percent of property taxes paid; 2005 percent of property taxes paid, by class; 2005 percent taxes paid, by class, under the \$100,000 plus land

It is not correct to say that residential property is paying a disproportionate higher share because of new construction. According to ATI figures as provided by Randy Nelson, of the \$11.2 billion in increased residential values in 2005 only \$3.3 billion were new construction.

It is also not correct to say that this is a problem that only affects certain parts of Idaho. Again, according to ATI figures, rapid value increases are taking place in 14 counties and represent 8.9% of the 2005 value. Ten of these counties are the most populated and an additional four: Blaine, Valley, Custer and Elmore have development pressures from outside the county.

Representative Jaquet said that this legislation has created several nonresidential tax code changes over the years to name a few: the Micron R&D incentive; Albertson's large corporate incentive; the small business tax incentive; the repeal of the personal property tax for agriculture; the re-valuation of timber; changes to operating property, not to mention the numerous job credit and exemptions granted.

This adjustment updating the homeowner's exemption is fair and due to the residential property taxpayers of Idaho. An increase in the homeowner's exemption is supported by the assessors who live with this issue daily. It is justified. The system needs to be fixed and our constituents want us to do it this session. Statewide, the BSU study indicated 82% of the sample definitely supported or totally supported the "circuit breaker" increase. 65% supported an increase in the homeowner's exemption. Updating this exemption was the

recommendation heard most often across the state by the interim committee on property taxation.

In conclusion she said the proposals before the committee will restore the value of the exemption, protect homeowners from future unreasonable tax increases and restore balance to the tax system. If nothing is done taxes will continue to shift to residential homeowners. 2006 does look like 2005. Levies probably won't go up, values will be up and absorbed. Residential homeowners will see increases but not as much. Of the total 400k households, 250k will receive some benefit. Mobile homeowners on leased land may not see a benefit but many should be on the "circuit breaker."

Representative Lake questioned as to why this legislation has an upper limit of \$100,000 instead of the \$75,000 limit the interim committee voted on and adopted. Representative Jaquet responded saying raising the exemption brings the exemption to a level to account for inflation.

PRO: **Charles Thomas, Board member of Citizens for Annexation Reform**, regretfully supported HB456, HB470, HB479, HB480, HB481 saying these bills serve only as a band-aid for property tax relief.

Keith Allred, The Common Interest, provided a hand-out showing the growth in residential proportion of assessed market value. Showing possible causes of residential property's increased proportion; possible causes of residential property's increased proportion; sources of growth in residential market value; explaining the effect of assessed value changes on budget driven systems. (Attachment #2)

PRO: **Lina Casey** testified in support of HB 456, HB 470 and HB 480. She stated to keep in mind residential property is paying 63% of the tax burden. This does not include all rentals that are homes, duplexes, triplexes and fourplexes and vacation homes. These properties are and have been paying much more than a homeowner. Affordable housing will be even more challenging to find if this disparity continues. The 50/100 exemption will double this disparity.

Attached is a copy of an example of homeowners where the exemption does not apply. (Attachment #3)

Affordable housing has become impossible to provide by the small investor. Larger apartment complexes are taxed on income basis and pay much less than the small rental owner. She urged the committee to do something to help renters with a fair taxation method.

PRO: **Don Reading, Idaho Center on Budget and Tax Policy**, provided a hand-out on the "impact of Expanding the Homestead Exemption."

(Attachment 4) He testified in support of HB 456. The charts and tables illustrated the impact of expanding Idaho's exemption from its current maximum of \$50,000 to a maximum of \$75,000 or, alternatively, \$100,000.

The analysis shows that on average, homeowners in all income groups benefit from an expanded homestead exemption. Proportionately homeowners in the lowest 20%, middle 20% and fourth 20% receive a larger share of property tax reduction when the homestead exemption is increased to \$75,000. Homeowners in the second 20% and fifth 20% receive a larger share of property tax reduction when the homestead exemption is increased to \$100,000.

Mr. Reading concluded his remarks by saying these alternatives show the impact of reducing property taxes through expanding the homestead exemption with no offsetting tax increases of any kind.

CON: **Robert Getzin, Idaho Rental Owners & Managers Assn.**, testified he has a problem with a number of bills, HB 421, HB423, HB 456 and HB 482. His problem was with two little words - owner occupied.

In 1982 the people of the State of Idaho drafted and passed an "initiative providing 50% or \$50,000 Residential Property Tax Exemption." It did not have those two little word in it. This initiative not only provided an exemption for single family residents it also provided this exemption for duplexes, triplexes and fourplexes.

In 1983 the Idaho legislature crossed out most of the language in the initiative and replaced it with Owner Occupied. This created an unfair and uneven taxation on all rentals shifting the tax burden onto all renters in the State. Renters have had to pay more taxes than all homeowners and have actually been double taxed. Doubled taxed because not only do they have to pay higher when they cannot write off on their income tax the portion of their rent that pays the tax while the owner occupied owner pays a lower tax and gets to write off this tax on his income tax, federal and state.

This injustice needs to be corrected now. Raising the property tax exemption to \$75,000 or 50% or \$100,000 or 50% it will create an even greater injustice than currently exists. Printed full text is attached. (Attachment #5)

PRO: **Robert Johnson** private citizen testified in support of HB 456 saying to include land and indexing is only common sense. Runaway valuations caused a runaway tax. Commercial residences property taxes are calculated by income and expense and is too complex for people to understand.

PRO: **Ken McDevitt** private citizen testified in support of HB 456 saying this bill would give some property tax relief.

PRO: **Cliff Green, Idaho School Board Association; Phil Homer, Idaho Association of School Administrators**, testified in support of HB

CON: **Dorothy Snowball**, private citizen, testified in opposition to HB 456. She voiced her concern that this bill would shift property taxes onto rental properties.

CON: **David Hegg** identified himself as an owner of a computer software company involved with housing information systems. He testified that rental housing represents shelter of three households in every ten in the State.

Currently the homestead exemption shifts \$3.5 million of tax to 1-5 unit renters. He proposed two proposals designed to create fairness and promote affordable housing.

First would be to adopt a 10/10 or 20/20 for 1-4 unit rental housing. This holds existing rentals harmless to the tax shift created by the homestead exemption. The cost of the 10/10 is \$7 million a year, the 20/20 cost is \$14 million per year.

Second is to approve the 50/75 for 1-4 units that have the homestead exemption or are placed into service between now and 2010. The cost of this exemption for the next 15,000 needed rentals starts at \$1.4 million the first year and increases each year until reaching a cumulative exemption of \$7.5 million in 1010. Printed testimony attached. (Attachment #6)

PRO: **Don Borchers** private citizen testified in support of HB 456 saying he was for increasing the homeowners property tax exemption and increasing the property tax reduction program "circuit breaker" from \$22,630. He also favored increasing the sales tax by one cent and used to off-set property taxes.

PRO: **Howard Barton** private citizen testified in support of HB 456 saying that old folks need help.

HB 470: Chairman Crow announced the next item on the agenda was HB 470 and asked Representative McKague to address the bill. **Representative McKague** stated that this bill was conceived to reach a broad sector of property taxpayers.

The purpose of the bill is to provide owner-occupied homestead used as the primary dwelling place of an individual who is at least seventy years of ages. They have paid Idaho real property taxes on Idaho residential real property continuously for the immediately preceding ten years and who is the record owner holding title or who has retained or been granted a life estate, may apply for an exemption from the tax on the property each year upon application. If the owner dies after the exemption has been approved is shall be in force for the rest of the year.

Each time one of these homes sells it goes back on the tax rolls an most likely at a higher rate. In time the counties should recoup

whatever losses it may incur.

PRO: **Gene Bray** private citizen testified in support of HB 456 and HB 470. He said that state government has become to dependent on the property assessment money though which has become essentially an eminent domain attrition program via run-away property taxes for senior citizens on relatively fixed incomes. Full context of testimony attached. (Attachment 7)

John Brewer and Bob Johnson, private citizens, testified in support of HB 470

HB 418: Chairman Crow announced the next item on the agenda was HB 418 and recognized Representative Clark to present the bill.

Representative Clark testified that this legislation is on the spending side of the equation. Eleven years ago HB 156 was put into place lowering the M&O levy.

The purpose of this legislation is to lower the public school property tax M&O budget limit from .03 percent of the property tax value based to 1.5 percent of the property tax value beginning in property tax year 2006. Revenue losses to the school districts under this change will be paid from the general fund.

Second a budget growth cap is applied that limits non-voter approved school property budgets to three percent plus the value of new construction.

Third, this legislation provides a three percent cap statewide for school property taxes and would provide that property tax replacement would grow at a rate of three percent each year.

Representative Clark provided copies of reports on hypothetical FY06 property taxes paid, by class; application of standard 3% property tax budget cap to school district M&O levy; general provisions allowing for 1999-2005 local property tax increase. (Attachment # 8)

HB 424: Chairman Crow announced the next item on the agenda was HB 424 and asked Representative Lake to present the bill. **Representative Lake** stated that this bill is similar to HB 418.

The purpose of this legislation is to reduce the maximum property tax levy for M&O of schools from .3% to .15%. It also repeals .10% of property tax replacement which has been capped at \$75 million and is currently being funded through the general fund.

Robert Huntley testified that schools need more money and HB424 would help with passing bonds.

CON: **Phil Homer, Idaho Association of School Administrators**, testified the last five years have been difficult for the legislature in providing the financial resources to the various agencies.

The Legislature built a safety net for public schools by giving them the

three mill levy on market value. When state general fund dollars were down as they have been until this year, public schools were able to levy on property to keep them whole. This safety net has certainly been beneficial for schools in order for them to meet their financial obligations.

He urged the members to consider what should be done with the three mills and the one mill property tax replacement, that the committee think about how beneficial that safety net has been during those difficult funding years and how difficult it may be to replace those dollars in the years to come.

CON: **Cliff Green, Idaho School Board Association**, testified in opposition to HB424 and any other bill to remove the 3 mill levy which is a stable source of funds. Ongoing funds from the general fund is risky business without raising sales tax.

Education is valued in Idaho and people are willing to pay for education. Education needs to be balanced with local stability.

CON: **Stan Kress, Cottonwood School District**, testified about three school districts are without market value support. Reducing the M&O levy to .15% does not solve problems with funding for schools with low market value .

CON: **Mike Chatterton** stated that he was the business manager for the **Blaine County School District**. He testified in opposition to HB 424 stating that school budgets should be left at the local level and the cap should be eliminated.

ADJOURN: Chairman Crow announced that time had run out and the agenda would continue tomorrow. She adjourned the meeting at 11:40 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 1, 2006
- TIME:** 9:00 a.m.
- PLACE:** Council Room, Boise City Hall
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** NONE
- GUESTS:** Phil Homer, Idaho Association of School Administrators; Dale Higer, Trustee of the Meridian School District; Jim Thomas; Janet Orndorff, Ada County School District Legislative Committee Tri-Chairman; John Brewer; Garret Nancolas, Mayor of Caldwell; Judy Brown, Idaho Center on Budget & Tax Policy; Tony Poinelli, Idaho Association of Counties; Joe Gallegos, AARP;
- Chairman Crow convened the meeting at 9:00 a.m. and requested a silent roll call. She said there was a copy of a letter from the Governor's office with information on the "circuit breaker" contained in HB 437 that was requested by a Committee member. (Attachment #1)
- RS15801C2:** The Chairman announced the first item on the agenda was RS15801C2 which was a property tax related proposal. The purpose of the RS is to provide for a local option real estate transfer tax. Implementation and collection requires a 66 and 2/3rd vote not to exceed ten years on a consolidated election date. The tax may not exceed 1% of the sales price. Disclosure is required as a prerequisite for this act. The legislation exempts residential homes under the state median price. Revenues are targeted 50% for property tax relief and 50% for one time capitol expenditures.
- MOTION:** It was moved by Representative Saylor to **introduce RS15801C2**. Motion passed unanimously on a voice vote.
- HB 429:** Chairman Crow announced the next item on the agenda was HB 429 and recognized Representative Jaquet to present the bill. **Representative Jaquet** stated that this legislation repeals the \$75 million cap placed in fiscal year 2005 on Governor Batt's property tax replacement legislation in 1995. The statute authorized the State of Idaho to compensate Idaho school districts 1/10th of 1% of market value for district maintenance and operations. Tied to market value, with the rapidly escalating home values across Idaho, districts have been unable to access additional dollars from property tax replacement because of the cap. The cap is hurting small poor districts. She passed out a report on school districts depicting actual market value and property tax replacement prorated based on the \$75 million cap. (Attachment #2)

- PRO:** **Phil Homer, Idaho Association of School Administrators**, testified in support of HB 479 saying the cap does not help school districts. He was in favor of removing the cap.
- PRO:** **Dale Higer, Trustee of the Meridian School District**, testified in support of HB 429. He testified that money flowing to school districts should be unrestricted. The cap does not work and it changes what was intended to do in removing the 1 mill levy. Funds are not coming to school districts as promised.
- PRO:** **Jim Thomas** testified in support of HB 429, HB 481, HB 456 and HB 421.
- HB 479:** Chairman Crow announced the next item on the agenda was HB 479 and recognized Representative Moyle to present the bill. **Representative Moyle** stated that this a very simple bill which allows for M&O to grow at three percent (3%) per year and replaces all M&O property taxes with state-generated revenues over eight percent growth per year. This legislation would be \$17 million in property tax relief.
- CON:** **Janet Orndorff, Ada County School District Legislative Committee Tri-Chairman**, testified in opposition to HB 479. She opposed a cap. She voiced concern of the language on page 6, lines 28 through 33 for all money annually to be appropriated.
- PRO:** **John Brewer** testified that the concept of HB 479 was worth considering.
- CON:** Chairman Crow apologized to Ms. Orndorff and back tracked to HB 418 and HB 424. **Janet Orndorff, Ada County School Districts Legislative Committee Tri-Chairman**, testified in opposition to HB 418 and 424. She provided a hand-out showing hypothetical general fund comparison of medicaid, universities, public school and corrections.
- The viability of funding for public education in Idaho relies heavily on the property tax. To consider eliminating part or all of the property tax as a funding source for schools raises two areas of concern; 1. An inadequate level of funding to meet state/federal requirements and to cover overhead costs. 2. The stability of funding for schools. Copy of full context of testimony and charts are attached. (Attachment 3)
- HB 419:** Chairman Crow announced the next item on the agenda was HB 419 and recognized Representative Clark to present the legislation. **Representative Clark** said the concept of foregone balance goes into perpetuity. The purpose of this legislation is to eliminate the "foregone amount" concept in developing budgets for taxing district. It limits the carry over period of the unused portion of growth increase to the following year. When the foregone balance is taken it will not be used in future budget calculation. This bill takes the foregone balance out and if not used it will be lost.

This legislation limits the use of new construction in the year that it occurs and the new construction will not be used in future years. New construction with annexation has caused budget explosions. New

construction presently is added into the budget base line.

- PRO:** **John Brewer** testified in support of HB 419
- Jim Thomas** stated that the real issue is market value. Developers should pay impact fees.
- HB 478:** Chairman Crow announced the next item on the agenda was HB 478 and recognized Representative Moyle to present the bill. **Representative Moyle** said this legislation limits all property tax portions of any budget to a three percent increase per year.
- CON:** **Garret Nancolas, Mayor of Caldwell**, testified in opposition of HB 478. He said the demand for services and cost of growth is expected. New growth of homes increase need for safety such as policemen and firemen. The new construction rolls provide for basic service and he therefore opposes this bill. Local governments have a hard time restricting budgets with rising health-care costs and other costs caused by development and growth.
- The City of Caldwell is in the same circumstances as the majority of the cities in Idaho. We are struggling to keep up with the demand for services caused by the cost of new growth, the amenities and the safety services that citizens deserve from municipalities.
- Caldwell struggled last year to stay under the cap on spending growth after hiring seven new police officers and firefighters. Much needed personnel alone can consume much of a city's allotted budget increase.
- CON:** **Judy Brown, Idaho Center on Budget & Tax Policy**, testified in opposition of HB 478. She said that there are other bills restricting property taxes. Spending at the local levels is low. The list of local services shows high value Idahoans support and trust getting a good value.
- CON:** **Tony Poninelli, Idaho Association of Counties**, testified that new growth should pay for itself. It does not only include capitol facilities, it means more judges, prosecutors, law enforcement officers, firemen, etc. He voiced concern regarding eliminating the new construction roll.
- CON:** **Janet Orndorff, Ada County School District Legislative Committee**, testified in opposition to HB 478 saying this is similar to previous legislation.
- CON:** **Joe Gallegos, AARP**, testified in opposition to HB 478.
- HB 480:** Chairman Crow announced the next item on the agenda was HB 489 and she recognized Representative Moyle to present the bill. **Representative Moyle** stated that this legislation amends Chapter 8, Title 63, Idaho Code. By a vote of the people a taxing district budget could be limited. This legislation would allow citizens to vote to lower the levy.
- ADJOURN:** Chairman Crow stated that the time had run out and would continue the

agenda tomorrow in the regular meeting room. She adjourned at the meeting 11:29 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 2, 2006
- TIME:** 9:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** None
- GUESTS:** Dan Chadwick, Idaho Association of Counties; Garrett Nancolas, Mayor of the City of Caldwell; Jason Hancock, Legislative Services Office; Phil Homer, Idaho Association of School Administrators
- Chairman Crow called the meeting to order and requested a silent roll call. She called for subcommittee reports.
- SUBCOMMITTEE REPORTS:** Representative Lake reported that his subcommittee had met and reviewed the 2006 State Tax Commission Pending Rules on the Income Tax Administrative Rules. The subcommittee approved all of the rules.
- The subcommittee also recommends the approval of the Idaho Board of Tax Appeals Pending Rules.
- MOTION:** Representative Lake moved to accept the subcommittee report. Motion passed on a voice vote.
- Representative Roberts reported that his subcommittee had met and reviewed the State Tax Commission Pending Rules on Sales and Use Tax Administrative Rules; Property tax Administrative Rules; Cigarette and Tobacco Products Tax Administrative Rules and Unclaimed Property.
- The subcommittee had concerns with the Idaho Sales and Use Tax Administrative Rules Docket No. 35-0102-0502 - rule 047 - Outfitters, Guides and Like Operations 11 Federal Preemption. Federal preemption prohibits the states from imposing tax on any vessel or other water craft or its passengers or crew if the vessel or water craft is operating on any navigable waters. The subcommittee recommends this be monitored as it may become an issue that may need to be addressed in the future.
- MOTION:** Representative Roberts moved to accept the subcommittee report. Motion passed on a voice vote.
- MOTION:** Representative Clark moved to **table HB 420** relating to Property tax/ratio

study/moratorium. Motion passed on a voice vote.

HB 481: Chairman Crow announced the first item on the agenda was HB 481 and recognized Representative Clark to present the bill. **Representative Clark** stated this legislation puts a freeze on all taxing districts for fiscal years 2006 and ending in 2007 on the certification of budget requests to finance the property tax portion of their operating budgets.

HB 482: Chairman Crow announced the next item on the agenda was HB 482 and recognized Representative Schaefer to present the bill. **Representative Schaefer** said that this bill was brought forward ten years ago and in retrospect the legislature is embroiled in the same situation today. Essentially this legislation keeps the assessed valuation from going up after a given date.

The value remains the same for the property for taxation purposes until a transfer of ownership occurs or major improvements are made, at which time the property is reappraised with the new value becoming the valuation and new base value for the exemption.

The residential improvements must be owner-occupied and the primary dwelling place of the owner as of January 1, 2006 or the date of the transfer of ownership.

HB 509: Chairman Crow announced the next item on the agenda was HB 509 and asked Representative Roberts to present the legislation. **Representative Roberts** explained that current law states that the budget is set by taking any one of the 3 tax years preceding the current tax year, whichever is greater. This amount may be increased by a growth factor of not to exceed three percent plus the amount of revenue that would have been generated by applying the levy of the previous year, not including any levy described in subsection (4) of this section, to any increase in market value subject to taxation resulting from new construction or change of land use classification (this bill amends and inserts the following language) “for the first tax year following the new construction or change of land use classification appearing on the new construction roll and fifty percent of such new construction or change of land use classification amount for each year thereafter. This legislation limits the value of new construction for the second full year.

CON: **Dan Chadwick, Idaho Association of Counties**, testified in opposition to HB 509. He said that new construction needs to be added to the rolls giving local governments flexibility to deal with growth in their budgets.

HB 506: The Chairman announced the next item on the agenda HB 506 and recognized Representative LeFavour to present the bill. **Representative LeFavour** stated that this legislation provides property tax relief specifically for a class of non-elderly working people.

The intent of this legislation is to add to the Idaho “circuit breaker” property tax relief program for working people whose total property tax meets or exceeds 10% of their annual adjusted gross income from all sources. Representative LeFavour passed a copy of the “Federal Income Credit” form showing qualification for the credit. (Attachment # 1)

Qualifications for this program is intended to use the same income brackets and ceiling as the existing "circuit breaker" but also requiring qualification based in the Federal Earned Income Tax Credit which provides income tax relief to 97.765 working families.

By targeting this segment of the "circuit breaker" at those whose property tax meets or exceeds 10% of their income, this program will focus relief on households in those areas where property tax is highest, particularly compared to wages and earned income.

PRO:

The Chairman called upon Mayor Nancolas to give further testimony on HB 509. **Garrett Nancolas, Mayor of the City of Caldwell**, testified in opposition to HB 509 on new construction being eliminated in the budget process. He voiced two concerns; eliminating the growth and annexation, providing for fire and police protection for new growth.

Mayor Nancolas detailed the City of Caldwell budget and said without the construction roll and annexation Caldwell would be \$250,000 behind in the game to keep up with growth.

HB 505

Chairman Crow announced the next item on the agenda was HB 505 and recognized Representative Roberts to present the bill. **Representative Roberts** stated that the three legged stool needs to go back to the shop. This bill tweaks the system. He provided a hand-out depicting the school M&O levy; property taxes paid by type of taxing districts; cost of replacing the public schools M&O levy; state & local funding per support unit; percent change by year. (Attachment #2)

The purpose of this legislation is to provide meaningful and substantial property tax relief to all Idaho property owners by repealing the school maintenance and operations levy. These funds would be replaced, up to the equalized funding level, by an increased General Fund appropriation to public schools. The source of such additional general funds would be provided by an increase in the state sales tax rate from 5% to 6%. He yielded to Mr. Hancock to explain the charts.

Jason Hancock, Legislative Services Office, reviewed the chart on the cost of replacing the public schools M&O levy. It would cost \$244 million in FY 2007 assuming that the Legislature funds enrollment growth and provides a discretionary funds budget increase of 3% over the FY 2006 funding level. A 6% sales tax would raise approximately \$210 million in FY 2007.

Representative Roberts said in conclusion that this legislation holds education harmless.

CON:

Phil Homer, Idaho Association of School Administrators, testified in opposition to HB 505. He said the property tax is a safety net and eliminating the M&O needs considerable discussion.

HB 507:

Chairman Crow announced the next item on the agenda was HB 507 and recognized Representative McGeachin to present the bill. **Representative McGeachin** stated that this bill places a freeze on property values for tax assessment purposes. It also directs the State

Tax Commission to conduct a study. Printed testimony attached.
(Attachment # 3)

HB 508: Chairman Crow announced the next item on the agenda was HB 508 and recognized Representative Roberts to present the bill. **Representative Roberts** stated the purpose of this legislation is to place a fifty percent limit on the value of annexation when developing the budget.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 11:14 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 6, 2006

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Representative Eskridge; Karl Dye, Bonner County Commissioner; Representative Deal; Ronn Julian, resident of Valley County; Brian Whitlock, Office of the Governor; Russ Hendricks, Idaho Farm Bureau Federation; Justin Hayes, Idaho Conservation League; Karen Campbell, Valley County Assessor; Phil Homer, Idaho Association of School Administrators; Geoffrey Wardle, BOMA Boise; Alex LaBeau, Idaho Association of Realtors; Jayson Ronk, Building Contractors Association of Southwestern Idaho

Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes as written of the meeting held on January 30, 2006. Motion passed on a voice vote. The Chairman announced the first item on the agenda was HB 455 and said the sponsor was not available and the testimony would be heard later.

HB 503: Chairman Crow announced the next item on the agenda was HB 503 and recognized Representative Eskridge to present the bill. **Representative Eskridge** testified that HB 503 provides that the taxable value of an owner-occupied primary residence shall not increase by a growth factor of more than 3% per year beginning tax year 2006.

The exemption remains in effect until the property changes ownership either by sale or inheritance. In the event of the death of a spouse the surviving spouse would continue benefitting from the exemption. When the property changes ownership then the property shall acquire a new taxable value equal to the market value at the time of transfer. However the base year in this case is 2005 so the 3% limitation would be effective in the tax year 2006 so there would not be a tax shift.

This legislation moderates the shift to homeowners realizing high valuation increases by exempting from taxable value any increase in value above 3% and moves the obligation of taxes back to a distribution balance more like that experienced before the sudden increase in residential property values. Printed testimony attached. (Attachment #1)

- PRO:** **Karl Dye, Bonner County Commissioner**, testified in support of HB 503. He provided a hand-out depicting capping property values. (Attachment #2) The benefits from HB 503 would allow homeowners to predict future values and corresponding taxes. It would spread budget increases equally over all properties, not just those that increased in value the most. It would not limit budget-driven taxing districts from funding projects. This bill would encourage taxpayer participation in budget processes.
- HB 455:** Chairman Crow announced Representative Deal was available and would go back to the first item on the agenda, HB 455. **Representative Deal** testified both residential and commercial valuations have increased rapidly. The legislature needs to look at the predictability of property tax.
- This bill creates a new section to Chapter 6, Title 63, Idaho Code. It exempts from the property tax any increase in the net taxable value of real property of a taxpayer in excess of five percent per year.
- This legislation provides that the property included in the calculation of the exemption shall include each parcel of real property owned by the taxpayer. It provides that the exemption does not apply to forest land and provides that the Legislature declare the exemption necessary and just and provide for rules.
- HB 427:** Chairman Crow announced the next item on the agenda was HB 427 and recognized Representative Lake to present the bill. **Representative Lake** said that this was the first of four bills to deal with the issue created by HB 488 that the Senate amended late in the session. This caused unintended consequences. This legislation attempts to bring back what was first intended.
- This legislation provides that land which is being developed into rural home sites must meet the requirements of the agriculture exemption in order to receive the benefit of the exemption.
- PRO:** **Ronn Julian** private citizen from Valley County testified in support of HB 427 and had reviewed the history of the 2002 legislation on the agricultural developers discount. The original language was amended in the Senate changing the original intent.
- HB 428:** Chairman Crow announced the next item on the agenda was HB 428 and recognized Representative Jaquet to present the bill. **Representative Jaquet** explained that this legislation repeals the rural development plat agricultural exemption or what is referred to as the “developer discount.”
- The interim committee indicated that they supported a repeal or phase out of the “developer discount.” Concern has been expressed that the current statute by the 2002 legislature may jeopardize the agriculture exemption as defined in 63-604. This legislation defines “platting” and clarifies that the act of platting land actively devoted to agriculture does not in and of itself cause the land to lose its agriculture status. This clarifies for the assessor that the actual and functional use of the land is the criteria to determine the value.

- PRO:** **Ronn Julian** testified in support of HB 428 saying that for the last seven months he researched the legislative history and impact of 63-602FF, I.C. in Valley County. The purpose and intent of the 2002 legislation was to provide a tax benefit/incentive for local citizen owners of agricultural land. The legislation caused a shift of the tax burden to owners of properties not considered eligible. At best this Idaho Code provision is inequitable. He provided a hand-out of reports on the issue. (Attachment # 3)
- This proposed legislation will rectify the situation where new growth centers in his county are demanding and requiring more services yet contributing little to the tax base. Full text of testimony attached. (Attachment # 3)
- HB 438:** Chairman Crow announced that the next item was HB 438 and asked Brian Whitlock to present the legislation. **Brian Whitlock, Office of the Governor**, said that there was an attempt last year to correct the “developers discount”. The Governor’s office staff had worked with the State Tax Commission regarding grandfathering the “developer discount.” This bill extends the exemption for properties eligible for the exemption in 2005. For properties protected by the extension the exemption ends upon the occurrence of the earlier of December 31, 2010, the beginning of construction of a building or the sale or transfer of the property except the first transfer to a surviving spouse or child following the death of an owner.
- He asked the Committee to hold this bill subject to the call of the Chair.
- HB 510:** The chairman announced the next item on the agenda was HB 510. She recognized Representative Roberts to present the bill. **Representative Roberts** stated it is important to restore integrity to the agricultural exemption. The purpose of this legislation is to repeal the partial exemption for parcels of land in a rural home site development plat. It also provides that platting land actively devoted to agriculture does not alone cause the land to lose its agriculture exemption.
- CON:** **Ronn Julian** voiced concern about what transpires if some parcels sell or apply to individual parcels.
- PRO:** **Russ Hendricks, Idaho Farm Bureau Federation**, testified in support of HB 510 saying it preserves the integrity of the agricultural exemption. This legislation gets to the heart of the matter.
- PRO:** **Justin Hayes, Idaho Conservation League**, testified in support of HB 510 saying that this bill helps for planned growth.
- PRO:** **Karen Campbell, Valley County Assessor**, testified in support of HB 510 saying she has worked for twenty three years in Valley County. She has learned that taxation needs to be fair and equal. This bill helps to maintain equatability.

- HB 426:** Chairman Crow announced the next item on the agenda was HB 426 and recognized Representative Lake to present the bill. **Representative Lake** stated that this is the last piece of legislation proposed by the interim committee. He said that some school districts are overwhelmed by residential construction. There is unprecedented need for building schools. This legislation allows school districts to impose an impact fee on new residential construction.
- PRO:** **Phil Homer, Idaho Association of School Administrators**, testified in support of HB 426 saying this bill gives fast growing school districts some ability to meet building requirements.
- HB 504:** Chairman Crow announced the next item on the agenda was HB 504 and recognized Senator Werk to present the bill. **Senator Werk** stated that the inclusion of schools in the impact fee system was supported by a 2/3rd majority vote of the interim committee on property tax relief bill package. This bill allows for the collection of impact fees for public educational facilities within the framework of the current impact fee structure. Impact fees will be collected for a specific purpose and must be directed to that specific purpose.
- There is a provision to allow school districts specific authority to adopt an impact fee ordinance. Extending impact fees to pay for education facilities in limited high growth areas is the right thing to do. For property taxpayers, for communities, for school children and the citizens of Idaho. Copy of entire testimony is attached. (Attachment #4)
- PRO:** **Phil Homer, Idaho Association of School Administrators**, testified in support of HB 504.
- CON:** **Geoffrey Wardle, "BOMA Boise"** testified in opposition to HB 504 saying in 2002 BOMA appeared before this Committee in support of the impact fee reform measures that this Committee approved and were ultimately approved by the Idaho Legislature. The calls for expanded use of impact fees or simplification of impact fees represents a fundamental misunderstanding of the role of and effect that impact fees have on the real estate market. BOMA Boise opposes the impact fee bills that are currently before this Committee as they do not constitute true property tax reform. A copy of written testimony is attached. (Attachment #5)
- CON:** **Alex LaBeau, Idaho Association of Realtors**, testified in opposition to HB 504. He echo Mr. Wardle's testimony about the hard work that was done on the current impact fee statute. The two pieces of legislation on impact fees have no effect on reducing property taxes, they are impact fees. Schools in high growth communities are frequently the recipients of donated land for the locating of future school facilities.
- CON:** **Jayson Ronk, Building Contractors Association of Southwestern Idaho**, testified in opposition to HB 504. He reiterated testimony made by the two previous testifiers. He also added that this bill will have a negative impact.

HB 501: Chairman Crow announced the next item on the agenda was HB 501 and recognized Representative Jaquet to present the bill. **Representative Jaquet** explained that this legislation is a local option bill to impose a sales tax.

This legislation provides counties the opportunity to implement and collect a sales tax of up to 0.5%. It requires a 66 2/3rd vote. It sunsets every ten years and clarifies that the revenues are to be used for property tax relief and the funding of capital projects, exclusive of school maintenance and operation. It also includes affordable housing.

She passed out two letters of support of HB 501. (Attachment #6)

ADJOURN: Chairman Crow announced that time had run out and would continue the agenda tomorrow. She adjourned the meeting at 11:26 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 7, 2006

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** NONE

GUESTS: Senator Goedde; Rick Currie, Kootenai County Commissioner; Ben Wolfinger, Sheriff of Kootenai County; Alex LaBeau, Idaho Association of Realtors; Brian Whitlock, Office of the Governor; Pat Collins, Idaho Bankers Association; Allen Cameron, Idaho Credit Union League

Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes as written of the meeting held on January 31, 2006. Motion passed on a voice vote.

RS15836C1: Chairman Crow announced the first item on the agenda was RS15836C1 and stated this was the last property tax relief bill. The purpose of this proposal is to repeal the partial exemption for parcels of land in a rural home site development plat. It also exempts the speculative portion of unsold or unimproved lots. The bill was sponsored by Tamarack Resort.

MOTION: Representative Lake moved to **introduce RS15836C1**. Motion passed on a voice vote.

HB 502: The Chairman announced the next item on the agenda was HB502 and recognized Senator Goedde to present the bill. **Senator Goedde** testified that in 2003 the legislature enacted a local option sales statute which is the basis of this legislation. At that time Kootenai County allowed for a program which built jail facilities as long as the following criteria were met: 1. The capital expenditure was identified on the ballot. 2. 66 2/3rd of the voters approved the measure. 3. Half of the proceeds went to property tax reduction. 4. The maximum duration of the collection would be either when the debt was satisfied or ten years. 5. Only counties could use the process. 6. The ability to use local option sunsets in 2009.

Since that time both Kootenai County and Nez Perce County used the device for public safety buildings. In Kootenai County 70% of the voters approved the measure and are saving about \$5 million per year in property tax payments. It is estimated that 30% of sales tax collected in Kootenai County comes from out of county visitors so the tax shift goes out of state.

Senator Goedde stated that he had heard arguments that the use of local

option tax would simply expand government as it gives commissioners another pot of money to spend. He was happy to report that Kootenai County commissioners only found the need to use 2% of the allowed 3% cap to balance their budget this year. Also when the voters saw the capital improvement portion as too much on another ballot issue, they chose to reject it. Local option sales tax is not a rubber stamp operation.

House bill 502 is not a panacea and local option will not work everywhere but that is not a reason to defeat it. He pointed out that the farm personal property exemption that was passed several years ago did very little for taxpayers in his district or many other urban areas. This legislation is one more tool for some jurisdictions to use in fighting property tax increases.

HB 502 makes three significant changes in current statute: 1. It expands the use of local option from jails to capital projects with no part of the issue funding maintenance and operations. 2. It requires that to validate an election 40% of the electorate must vote. 3. Removes the sunset clause but still allows for a maximum of ten years duration.

PRO: **Rick Currie, Kootenai County Commissioner**, testified in support of HB 502 saying local option sales tax worked well for Kootenai County. He reiterated Senators Goedde's testimony that there was \$5 million saving in property taxes.

PRO: **Ben Wolfinger, Sheriff of Kootenai County**, spoke in support of HB 502 saying a good part of taxes collected was from outside Kootenai County. This bill provides for property tax relief and it works.

HB 532: Chairman Crow announced the next item on the agenda was HB 532 and recognized Representative Jaquet to present the bill. **Representative Jaquet** explained that this legislation provides for a local option real estate transfer tax to be initiated by the county commissioners or a petition of 10% of the registered voters calling for an election. It takes 66 2/3rd vote; the tax may not exceed 1% of the sales price; a ten year sunset; sales price disclosure is required; exempts residential home values under the state median price; 5% of the revenues must go to property tax relief; the remainder may go to capital projects or property tax relief.

This legislation provides for property tax relief when growth is driving up values in hyper inflationary markets. It might cool the real estate market when speculative forces operated to drive home prices up. It could generate dollars that communities could use to offset effects of growth, especially high end growth.

CON: **Alex LaBeau, Idaho Association of Realtors**, testified in opposition to HB 532 saying that his Association has a clear position in opposing transfer taxes or fees at all levels of government. Real estate transfer taxes or fees impose an unwarranted financial burden at the time of settlement and discourage the purchase and sale of real property. This form of taxation is an unstable source of revenue and can present significant budget shortfall problems in economic downturns.

HB 425: Chairman Crow announced the next item on the agenda was HB 425 and

recognized Representative Lake to present the bill. **Representative Lake** said this legislation on reverse mortgage for persons over 62 years of age for the purpose of paying property taxes is already covered by other groups and authority.

MOTION: Representative Lake moved to **table HB 425**. Motion carried on a voice vote.

HB 439: Chairman Crow announced the next item on the agenda was HB 439 and recognized Mr. Whitlock to present the bill. **Brian Whitlock** representing the **Office of the Governor** testified there have been numerous proposals brought before this committee as potential solutions to the increasing burden of property taxes.

The issue of concern that was the focus of Governor Kempthorne's comments in the State of the State address was that in some areas of the state rising property values might cause seniors, those on fixed incomes and the disabled to be priced out of their homes.

In addition to the recommendation they have made on adjusting the "circuit breaker" the Governor is proposing to give seniors and the disabled who meet the criteria of the "circuit breaker" the added ability to defer their property taxes.

Under HB 439 the state will pay the deferred taxes as long as it is needed to keep them in their home. The state is repaid the money and monies left over would go into a revolving fund helping seniors and the disabled in perpetuity.

Here is how HB 439 would work. First to be eligible you must meet "circuit breaker" tests of age 65 or over, disabled, a widow or widower and meet income levels. This in turn means you must meet the "homeowner exemption" qualification. For the purposes of this deferral the homeowner must own at least one half the equity of the property. The home cannot be co-owned by other persons other than a spouse or held in trust or a life estate.

The homeowner submits a "circuit breaker" application by April 15 and for the remaining amount the taxpayer can pay or apply to defer their property tax with the State Tax Commission by April 15. The State Tax Commission pays the county the remaining property tax amount in December. Claimant must re-apply annually. Non-qualification because of income level in any year does not trigger repayment. When the ownership of the property changes or when the homeowner permanently moves from the property, unless for medical reasons or upon death of applicant, then the cumulative tax obligation plus interest is due. Money comes back to the State Tax Commission and the revolving fund is established.

Again, this is legislation that would provide a "last resort" for those who qualify to stay in their homes.

There are about 24 other states that offer this type of deferral option to homeowners. Based on the experience in those other states we are fairly

confident that this safety net will be utilized by a small number of Idahoans who truly need it.

The fiscal impact of this legislation is capped at \$500,000 annually and is estimated to take about nine years for the revolving loan fund to become solvent with no subsidization needed from the State General Fund. Lending institutions have concerns with this legislation as to whether the state should be in the first or second position of a lien.

CON: **Pat Collins**, Attorney for the **Idaho Bankers Association**, testified in opposition to HB 439 saying their concern dealt with the state being in the first position for the settlement of liens. He described the current system on mortgages where the bank pays the property taxes when they are due and the taxes may be included in monthly payments.

CON: **Allen Cameron, Idaho Credit Union League**, spoke in opposition to HB 439 saying this bill takes priority from the lender.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:45 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 8, 2006

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** NONE

GUESTS: Scott Turlington, Tamarack Resort, Phil Davis, Valley County Commissioner

Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes as written of the meeting held on February 1, 2006. Motion passed on a voice vote.

Chairman Crow stated that there was a package of bills before the Committee on property tax relief and also a list placing these bills in categories and code references. (Attachment #1) Also a copy of proposed property tax legislation with a brief description of the bills prepared by Randy Nelson, Associated Taxpayers of Idaho. (Attachment #2) These bills will be considered by categories.

HB 569: The Chairman announced the first item on the agenda was HB 569 which had not been heard. She recognized Scott Turlington to present the bill. **Scott Turlington** stated he was representing **Tamarack Resort** testifying that this legislation repeals the partial exemption for parcels of land in a rural home site development plat. This legislation also exempts the speculative portion of unsold or improved lots.

The current law has unintended consequences and this bill is a fair and balanced approach. The bill makes land developers pay taxes on one-third of their property's market value until they sell the plots or build on them. It puts a tremendous amount of money in the property taxpayers pockets that the are not currently getting.

PRO: **Phil Davis, Valley County Commissioner**, testified that he shared the position of the Idaho Association of Counties to repeal 63-602FF which is in this bill. Originally the intent was for economic incentive and this bill is more equitable. This bill makes it workable, understandable and not very onerous to assessors.

“CIRCUIT Chairman Crow announced the first item to be considered would be the

BREAKER” CATEGORY “circuit breaker” bills: **HB 422** , Property tax/circuit breaker” income sponsored by Representative Lake and senator Keough; **HB 437**, Property tax relief/”circuit breaker” income levels sponsored by the Governor; **HB 506**, Property tax relief/earned income, “circuit breaker” sponsored by Representative LeFavour

MOTION: Representative Lake moved to send **HB 422** to the floor with a **DO PASS** recommendation. Motion **passed** on a voice vote. Representative Lake will sponsor the bill on the floor.

MOTION: Representative Moyle moved to **Hold HB 437 and HB 506 subject to call of the Chair**

SUBSTITUTE MOTION: A substitute motion was made by Representative Raybould to **HOLD HB 506**.

AMENDED SUBSTITUTE MOTION: An amended substitute motion was made by Representative LeFavour to **HOLD 437** and leave HB 506 on the table.

Original motion to **HOLD HB 437 and HB 506 subject to call of the Chair Passed.**

LOCAL OPTION SALES TAX CATEGORY Chairman Crow announced the next category of property tax relief was **Sales Tax Replacement (Local option taxes): HB 501**, County local option sales tax, capital project and affordable housing sponsored by Representative Jaquet; **HB 502**, County local option sales tax, capital projects sponsored by Senator Goedde

MOTION: Representative Jaquet moved to send **HB 501** to the floor with a **do pass** recommendation.

SUBSTITUTE MOTION: A substitute motion was made by Representative Roberts to **HOLD HB 501 subject to call of the Chair.**

AMENDED SUBSTITUTE MOTION: An amended substitute motion was made by Representative Clark to **HOLD HB 501**. Motion **passed** on a voice vote.

MOTION: Representative Saylor moved to send **HB 502** with a **do pass** recommendation. Roll call vote was requested.

ROLL CALL VOTE: Voting AYE - Representatives Smith, LeFavour, Jaquet, Saylor, Martinez. Voting NAY - Representatives Barrett, Moyle, Field, Schaefer, Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Lake, Crow. Motion **FAILED, 14-5-0**

MISCELLANEOUS The Chairman asked that if any sponsor wished to have their bill pulled or

CATEGORIES hold for the call of the Chair should do so now.

MOTION: Budget Limit/Freeze Category—HB 509, Taxing district, budget request, limit sponsored by Representative Roberts. Representative Roberts moved to **HOLD HB 509 subject to call of Chair**. Motion **passed** on a voice vote.

MOTION: Rural Developers Exemption --HB 428 Property tax, agricultural land, platted sponsored by Representative Jaquet. Representative Jaquet moved to **HOLD HB 428 subject to call of Chair**. Motion **passed** on a voice vote.

MOTION: Homeowner Exemptions Category—HB 470, Property tax exemption, homestead increase sponsored by Representative McKague. Representative McKague moved to **HOLD HB 470**. Motion **passed** on a voice vote.

MOTION: Rural Developers Exemption –HB 438, Property tax, agricultural land, plat sponsored by the Governor. Representative Lake moved to **HOLD HB 438 subject to call of Chair**. Motion **passed** on a voice vote.

REVERSE MORTGAGE CATEGORY: The Chairman announced that the next category was reverse mortgage and the only bill remaining was HB 439, Property Tax Deferral Act sponsored by the Governor

MOTION: Representative Field moved to send **HB 439** to the floor with a **do pass** recommendation

SUBSTITUTE MOTION: Representative Moyle moved **HOLD HB 439 subject to call of the Chair and requested a new RS be drafted**. Motion **passed** on a voice vote.

ASSESSMENT CAP: Chairman Crow announced the next category was Assessment Cap. **HB 455**, Income tax/property value increase, new section, sponsored by Representative Deal; **HB 482**-Property tax exemption/value increase sponsored by Representative Schaefer; **HB 503** –Property tax exemption, increase value sponsored by Representative Eskridge; **HB 507**–Property tax ratio study/moratorium study sponsored by Representative McGeachin.

MOTION: Representative Denney moved to **HOLD HB 455 subject to call of the Chair**. Motion **passed** on a voice vote.

UNANIMOUS CONSENT: Representative Schaefer asked to hold HB 482. Chairman Crow asked for unanimous consent to **HOLD HB 482**. Consent was granted.

MOTION: Representative Wood moved to send **HB 503** to the floor with a **do pass** recommendation.

SUBSTITUTE A substitute motion was made by Representative Roberts to **HOLD HB**

MOTION: **503 subject to call of Chair.** Motion passed on a voice vote.

MOTION: Representative McGeachin moved to **HOLD HB 507 subject to call of Chair.**

ADJOURN: Chairman Crow adjourned the meeting at 10:28 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 9, 2006

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** NONE

Chairman Crow called the meeting to order and requested a silent roll call. There was a discussion relating to melding HB 510 and HB 427 together with a new RS which both sponsors agreed to.

RURAL DEVELOPER CATEGORY: Chairman Crow announced the next category was Rural Developer discount. **HB 427**, Property tax, rural homesite development sponsored by Representative Lake and Senator Keough; **HB 428**, Property tax, agricultural land, platted sponsored by Representative Jaquet; **HB 438**, Property tax, agriculture land, plat sponsored by the Governor; **HB 510**, Property tax exemption/rural homesites sponsored by Representative Roberts; **HB 569**, Partial exemption/agriculture exemption sponsored by Tamarack Resort

MOTION: Representative Moyle moved to **HOLD HB 510 and HB 427** in order to meld the two bills together. Motion **passed** on a voice vote.

MOTION: Representative Moyle moved to **HOLD HB 569**. Motion **passed** on a voice vote.

HOMEOWNER EXEMPTIONS CATEGORY: The Chairman announced the next category was Homeowner Exemptions. **HB 421**, Property tax, homestead exemption increase sponsored by Representative Lake and Senator Keough; **HB 423**, Property tax, homestead exemption sponsored by Representative Lake and Senator Keough; **HB 456**, Property tax/homestead exemption increase sponsored by Representative Jaquet; **HB 470**, Property tax exemption, homestead increase, new section sponsored by Representative McKague.

MOTION: Representative Jaquet moved to send **HB 456** to the floor with a **do pass** recommendation. **WITHDRAWN**

SUBSTITUTE MOTION: A substitute motion was made by Representative Raybould to **HOLD 456 subject to call of Chair. WITHDRAWN**

AMENDED SUBSTITUTE MOTION: An amended substitute motion was made by Representative Clark to send **HB 421** to the floor with a **do pass** recommendation.

MOTION: The amended substitute motion became the **Original motion**. Motion to send **HB 421** to the floor with a **do pass** recommendation **passed**. Representative Lake will sponsor the bill on the floor.

MOTION: Representative Jaquet moved to **HOLD HB 456**. Motion **passed** on a voice vote.

IMPACT FEES: Chairman Crow announced the next category was Impact Fees **HB 426**, School district impact fees sponsored by Representative Lake and Senator Keough; **HB 504**, School district impact fees sponsored by Senator Werk; **HB 532**, Local option real estate transfer tax sponsored by Representative Jaquet.

MOTION: Representative Jaquet moved to **HOLD HB 532**. Motion **passed** on a voice vote.

MOTION: Representative Saylor moved to **HOLD HB 504 subject to call of Chair**. Motion **passed** on a voice vote.

MOTION: Representative Moyle moved to **HOLD 426 and bring a back a new RS**. Motion **passed** on a voice vote.

SCHOOLS, MAINTENANCE & OPERATION LEVY: Chairman Crow announced the next category was Schools, Maintenance & Operation Levy. **HB 418**, Schools, M&O levy sponsored by Representatives Clark, Crow & Moyle. **HB 424**, Schools, M&O reduction reduced sponsored by Representative Lake and Senator Keough; **HB 429**, Schools, repeals property tax replacement cap sponsored by Representative Jaquet; **HB 479**, Public school levy/financing sponsored by Representative Moyle, Crow and Clark.

MOTION: Representative Clark moved to **HOLD HB 418 subject to call of Chair**. Motion **passed** on a voice vote.

MOTION: Representative Jaquet moved to **HOLD HB 429 subject to call of Chair**. Motion **passed** on a voice vote.

MOTION: Representative Denney moved to **HOLD HB 424 and HB 479 subject to call of Chair**. Motion **passed** on a voice vote.

MOTION: Representative Raybould moved to send **HB 505** to the floor with a **do pass** recommendation. Roll call vote was requested.

ROLL CALL VOTE: Voting AYE - Representatives Field, Schaefer, Collins, Raybould, Robert, Wood, Lake. Voting NAY - Representatives Barrett, Moyle, Smith, Denney, McKague, McGeachin, Clark, LeFavour, Jaquet, Saylor, Martinez, Crow. Motion **FAILED, 7-12-0**

Chairman Crow instructed the sponsors of school M&O to bring forth a more palatable RS. The Chairman adjourned the meeting at 10:35 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 13, 2006

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** NONE

GUESTS: Representative Deal

Chairman Crow called the meeting to order and requested a silent roll call. Representative Field moved to accept the minutes as written of the meeting held on February 2, 2006.

HB 454: Chairman Crow announced the first item on the agenda was HB 454. She asked that this bill be referred to the germane committee because it deals with sales tax revenues. She recognized Representative Deal to present the bill. **Representative Deal** said that this legislation deals with wine shipments between states by wineries. This bill passed unanimously in the State Affairs Committee. A reciprocal agreement has been made in 23 states and 31 more states are in the process of joining in the agreement.

The purpose of the legislation is to make this change which would be beneficial to Idaho wineries. This proposal will establish a permit system that applies the same rules to all wineries regardless of location. This bill establishes a \$50 annual registration fee.

The proposal would increase the collection of sales and excise taxes on wine shipped to Idaho consumers and establish greater public safeguards to prevent wine shipments to minors.

MOTION: Representative Raybould moved to send **HB 454** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Deal will sponsor the bill on the floor.

RS16030C1: The Chairman announced the next item on the agenda was RS16030C1 and recognized Representative Roberts to present the bill. **Representative Roberts** stated that this bill replaces HB 510 and includes language to cover child or spouse. This bill repeals 63-602FF.

This legislation repeals the partial exemption for parcels of land in a rural home site development plat. It also provides that platting land actively devoted to agriculture or transferring a parcel to a child or spouse does not alone cause the land to lose its agriculture exemption.

- MOTION:** Representative Raybould moved to **introduce RS16030C1** and recommend that it be placed on **second reading with do pass** recommendation. Representative Roberts will sponsor the bill on the floor.
- RS16043C1:** Chairman Crow announced the next item on the agenda was RS16043C1 and asked Representative Roberts to explain the RS. **Representative Roberts** stated that this RS replaces HB 426.
- The purpose of this legislation is to allow school districts to impose an impact fee on new residential construction. The revenue will first be used to abate unsafe school facilities and to retire school district bonded indebtedness.
- MOTION:** Representative Moyle moved to **introduce RS16043C1** and recommend that it be placed directly on **second reading** with a **do pass** recommendation. Motion passed on a voice vote. Representatives Roberts and Lake will be co-sponsors on the floor.
- RS16049:** Chairman Crow announced the next item on the agenda was RS16049 and asked Roberts to explain the RS. **Representative Roberts** said that this legislation combines HB 424 and HB 479.
- The purpose of this proposed legislation reduces the maximum property tax levy for maintenance and operations of schools from .3% to .15%. It also repeals .10% of property tax replacement which has been capped at \$75,000,000 and is currently being funded through the general fund.
- If receipts for the general fund for the year just ended exceed the revenues from the previous year by at least 8% the excess shall be transferred to the public school income fund and a corresponding reduction shall be made in the maintenance and operation levy.
- MOTION:** After a short debate it was moved by Representative Wood to **introduce RS16049**.
- SUBSTITUTE MOTION:** A substitute motion was made by Representative Lake to **introduce RS16049** and recommend it be placed directly on **second reading** with a **do pass** recommendation. Roll call was requested.
- ROLL CALL VOTE:** Voting AYE - Representatives Moyle, Field, Schaefer, Raybould, Lake, Crow. Voting NAY - Representatives Barrett, Smith, Collins, Roberts, Wood, Denney, McKague, McGeachin, Clark, LeFavour, Jaquet, Saylor, Martinez. Motion **failed, 6-13-0**.
- Original motion to **introduce RS16049 passed** on a voice vote.
- RS16050:** Chairman Crow announced the next item on the agenda was RS16050 and asked Representative Roberts to explain the RS. **Representative Roberts** stated that this is a companion bill to RS16049.
- This legislation imposes an increase in the sales tax of one half of one percent beginning June 1, 2006. The intent is the additional revenue will be used to fund schools that will experience a similar decrease in funding

from property taxes.

- MOTION:** Representative Smith moved to **introduce RS16050**. Motion passed on a voice vote.
- RS16047:** Chairman Crow announced the next item on the agenda was RS16047 and recognized Mr. Spangler. **Ted Spangler, Idaho State Tax Commission**, stated that this RS replaces HB 439 to allow individual homeowners with low incomes who are elderly, disabled or widowed and who qualify for the "circuit breaker" property tax relief to postpone payment of property taxes on their homes.
- In the previous hearings on HB 439 objections were heard to do with liens, first or second position. This RS adds that priority. In the event property taxes are deferred the State is protected by recording the tax lien on the property which takes its priority as to other encumbrances based on the date of recording. An existing mortgage takes priority.
- MOTION:** After voicing his concerns relating to RS16047 Representative Moyle moved to in **introduce HB 439** and recommend that it be placed on **second reading**.
- SUBSTITUTE MOTION:** A substitute motion was made by Representative Roberts to **introduce RS16047**. Motion **passed** on a voice vote.
- HB 419:** Chairman Crow announced the next item on the agenda was HB 419. The purpose of this legislation is to eliminate the "foregone amount" concept in developing budgets for taxing districts.
- MOTION:** Representative Moyle moved to **HOLD HB 419 subject to call of the Chair**. Motion **passed** on a voice vote.
- HB 478:** The Chairman announced the next item on the agenda was H 478. The purpose of the legislation limits all property tax portions of any budget to a three percent increase per year.
- MOTION:** Representative Moyle moved to **HOLD HB 478 subject to call of the Chair**. Motion **passed** on a voice vote.
- HB 480:** Chairman Crow announced the next item on the agenda was HB 480 and recognized Representative Moyle to present the bill. **Representative Moyle** said this bill is the hammer to allow voters to reduce the property tax portion of its budget that equals or exceeds two hundred fifty thousand dollars annually.
- He walked through the bill and suggested an amendment on page 2 line 2 through 5 as follows: Requires 10% of voters in the last election to sign a petition. It also requires 66 2/3rd voter approval to pass.
- MOTION:** Representative Wood moved to send **HB 480 to the amending order**. Roll call was requested.
- ROLL CALL VOTE:** Voting AYE - Representatives Barrett, Moyle, Schaefer, Smith, Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Lake,

LeFavour Saylor, Crow. Voting NAY Representatives Field, Jaquet, Martinez. Motion **passed, 16-3-0**

Representative Moyle will sponsor the amendment on the floor.

HB 481: Chairman Crow announced the next item on the agenda was HB 481 and recognized Representative Clark to present the bill. **Representative Clark** stated that this legislation freezes tax charges.

This legislation applies a moratorium on all taxing districts for fiscal years 2006 and ending in 2007 on the certification of budget requests to finance the property tax portion of their operating budgets.

Representative Clark stated that this legislation is true property tax relief across the board and deals only on the spending side not on property values.

MOTION: Representative Barrett moved to send **HB 481** to the floor with a **do pass** recommendation.

SUBSTITUTE MOTION: A substitute motion was made by Representative Lake to **HOLD HB 481 subject to call of the Chair**. Motion **passed** on a voice vote.

HB 508: Chairman Crow announced the next item on the agenda was HB 508 and recognized Representative Roberts to present the bill. **Representative Roberts** said this legislation places a limit on the value annexations when developing the budgets. On page 2 , line 24 reflects fifty percent of the value of annexation can be used.

MOTION: Representative Wood moved to send **HB 508** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Roberts will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:31 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 14, 2006
- TIME:** 9:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** NONE
- GUESTS:** Skip Smyser, Idaho Trucking Association; Allyn Dingel, Attorney; Gemma VanHole, Learning Lab, Inc.; Senator Sweet; Dan John and Ted Spangler, Idaho State Tax Commission
- MINUTES;** Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to approve the minutes as written of the meeting held on February 7, 2006. Motion passed on a voice vote. Representative Lake moved to approve the minutes as written of the meeting held on February 6, 2006. Motion passed on a voice vote.
- RS15477:** Chairman Crow announced the first item on the agenda was RS15477 and asked Representative Saylor to explain the RS. **Representative Saylor** said this proposed legislation provides an Idaho income tax credit for donors who donate to Project Safe Place, a national program with five participating programs in Idaho. Project Safe Place sites provide immediate help and resources for young people in crisis.
- This program is geared toward short term crisis situations and offers young people a chance to work through their crisis with the aid of supportive adults.
- Federal funding for this program has been reduced making it difficult for them to offer the needed level of service. Providing a tax credit will stimulate additional contributions toward their operating expenses.
- Representative Saylor said that estimating the fiscal impact is difficult. The fiscal note should be changed to reflect \$25,000 to \$50,000.
- MOTION:** Representative Roberts moved to **introduce RS15477** with a corrected Statement of Purpose and Fiscal Note. Motion **passed** on a voice vote.
- RS15594:** Chairman Crow announced the next item on the agenda was RS15594 and asked Mr. Smyser to explain the RS. **Skip Smyser**, Connolly and Smyser, Ctd. stated that he was representing the Idaho Trucking Association testified this proposed legislation is being brought forth because an audit performed by the State Tax Commission. The purpose of this legislation is to amend Idaho Code 63-6955R to

include the sale of glider kits. This is not an aviation term, it is a trucking term. A glider kit is, for all intent and purposes, a new replacement vehicle even to the extent of being furnished by the truck manufacturer with a new Manufacturer's Certificate of Origin which is the same instrument of title that comes with a new vehicle. This legislation would permit an owner of a wrecked vehicle to purchase and put in service a replacement on the same basis as the original vehicle, not as a repair part.

Approximately 100 glider kits are sold per year. Sixty percent of those register with the International Registration Plan. The cost of a glider kit is \$80,000 so the total sales from glider kits is \$4,800,000. The sales tax collected on the amount is \$240,00. This legislation will reduce the amount of sales tax income to the state by that amount.

Chairman Crow suggested that the Fiscal Note be changed to reflect only the \$240,000 reduction in sales tax collections.

MOTION: Representative Wood moved to **introduce RS15841** with a corrected Statement of Purpose. Motion **passed** on a voice vote.

RS15841: Chairman Crow announced the next item on the agenda was RS15841 and asked Mr. Dingel to explain the RS. **Allyn Dingel, Attorney**, said the Learning Lab provides a crucial service for adults along with pre-school children who cannot read or write. There are 50 volunteers who work with illiterate men and women to break the cycle of illiteracy and become self-sufficient.

The purpose of this RS is to add a credit for contributions to the Learning Lab, Inc. on the Idaho Income Tax Form. Mr. Dingel yielded to Ms. VanHole.

Gemma VanHole, Learning Lab, Inc., briefly explained the function of the Learning Lab. She said they teach needy young children to read to prepare them for Kindergarten.

MOTION: Representative Smith moved to **introduce RS15841**. Motion **passed** on a voice vote.

RS15891C1: Chairman Crow announced the next item on the agenda was RS15891C1 and asked Senator Sweet to explain the RS. **Senator Sweet** stated that this proposed legislation adds a new section 63-3622SS to Idaho Code providing a sales tax exemption for fees charged on shooting ranges and shooting competitions by non-profit organizations.

Because of an unexpected 2005 State Tax Commission interpretation that shooting range fees are subject to sales tax, some nonprofit organizations were determined to owe sales tax on the fees. Many organizations have been put in serious financial jeopardy by this new interpretation of the sales tax statutes. They will not only owe sales tax that they had previously believed was not required to be collected but will also be subject to the imposition of interest and penalties which could be relatively substantial.

MOTION: Representative Moyle moved to **introduce RS15891C1**. Motion **passed** on a voice vote.

HB 441: Chairman Crow announced the next item on the agenda was HB 441 and recognized Mr. John to present the bill. **Dan John, Idaho State Tax Commission**, stated that this bill does two things. Section 1 is the annual bill to update references to the "Internal Revenue Code." Section 2 disallows any deduction of qualified production activity income otherwise allowed by the "Internal Revenue Code" as a deduction on a federal return. Taxpayers entitled to the deduction for taxable years beginning during 2005 are unaffected. The deduction is added back as Idaho adjusted income.

There was considerable discussion on how the disallowance of the federal exemption would affect Idaho manufactures and engineers. In response to some of the questions Mr. John stated this bill does not require two sets of books as this is a line item deduction. He also said the provision authorized by Congress jumps to 6% in 2007 and jumps to 10% by 1010 .

MOTION: Representative Smith moved to send **HB 441** to the floor with a **do pass** recommendation.

SUBSTITUTE MOTION: A substitute motion was made by Representative Barrett to **HOLD HB 441** to make two bills instead of combining the two issues.

AMENDED SUBSTITUTE MOTION: An substitute motion was made by Representative Lake to **HOLD HB 441 time certain for one week**. Motion **passed** on a voice vote. Representative Barrett requested to be recorded as voting no.

HB 443: Chairman Crow announced the next item on the agenda was HB 443 and recognized Mr. John to present the bill. **Dan John, Idaho State Tax Commission**, said that this bill makes technical corrections.

Section 1 provides that once the income tax brackets are adjusted for the Consumer Price Index, no subsequent adjustment to the CPI will affect the brackets.

Section 2 provides a due date when a taxpayer who is required to recapture the two-year property tax exemption is required to report the recapture.

Section 3 extends the due date for filing employer electronic copies of W-2's from the last day February to March 31. This conforms to the federal due date.

Sections 4 & 5 harmonize inconsistencies between Sections 63-3044 (2) and 63-3045A(b), Idaho Code, as to the method by which tax is "assessed." The amended sections provide a definite date of assessment and a consistent method for recording the assessment.

Sections 6 & 7 amends the 2005 legislation for the "Idaho Headquarters Incentive Act" and the "Idaho Small Business Incentive Act" to coordinate the maximum credit allowed to a taxpayer claiming both credits.

MOTION: Representative Raybould moved to send **HB 443** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative McGeachin will sponsor the bill on the floor.

HB 444: Chairman Crow announced the next item on the agenda was HB 444 and recognized Mr. John to address the bill. **Dan John, Idaho State Tax Commission**, said that current Idaho income tax law permits Idaho residents on active military duty outside Idaho for at least 120 consecutive days to deduct their military pay when computing Idaho taxable income. He explained the disparity in current law. This bill repeals the requirement to reduce their exemptions and deductions.

MOTION: Representative Smith moved to send **HB 444** to the **amending order** to change the effective date to 2005. Representative Crow seconded the motion. Motion **passed** on a voice vote. Representative McKague will sponsor the bill on the floor.

HB 471 Chairman Crow announced the next item on the agenda was HB 471 and recognized Mr. John to present the bill. **Dan John, Idaho State Tax Commission**, said this bill changes the due date of payment of taxes at the time taxpayers file an extension of their Idaho individual income tax return.

MOTION: Representative Lake moved to send **HB 471** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Collins will sponsor the bill on the floor.

HB 457: Chairman Crow announced the next item on the agenda was HB457 and recognized Mr. Spangler to address the bill. **Ted Spangler, Idaho State Tax Commission**, stated rarely there is a problem with nonresident aliens. Occasionally it is possible for an individual who is a nonresident alien for federal income tax purposes to be an Idaho resident. This bill prevents that result by expressly excluding a nonresident alien from the Idaho definition of "resident."

MOTION: Representative Field moved to send **HB457** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Denney will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:00 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 15, 2006
- TIME:** 9:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** NONE
- GUESTS:** Jason Hancock, Legislative Services; Brian Whitlock, Office of the Governor; Russ Hendricks, Idaho Farm Bureau Federation; Vaughn Killeen, American Red Cross of Greater Idaho; Jack Lyman, Idaho Mining Association; Bob Fick, Idaho Department of Commerce; Ben Shed and Dawn Wells, Media Industry
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes as written for the meeting held on February 9, 2006. Motion passed on voice vote. Representative Smith moved to accept the minutes as written for the meeting held on February 8, 2006. Motion passed on a voice vote.
- HB 678** Chairman Crow announced the first item on the agenda was HB 678 and recognized Representative Roberts to present the bill. Representative Roberts explained that this bill combines different pieces of HB 424 and HB 479. He walked through the changes.
- The purpose of this legislation is to reduce the maximum property tax levy for maintenance and operations of schools from .3% to .15%. It also repeals .10% of property tax replacement which has been capped at \$75,000,000 and is currently being funded through the general fund.
- It further caps the revenue growth produced by the remaining .15% levy at 3% per year.
- If receipts for the general fund for the year just ended exceed the revenues from the previous year by 8%, then the excess shall be transferred to the public school income fund and a corresponding reduction shall be made in the Maintenance and Operation levy.
- Jason Hancock, Legislative Services, explained the** mechanics of the bill and the special treatment of four school districts. He also explained that the \$75 million does not go away it is in the ongoing base for public schools.
- MOTION:** After a short debate Representative Clark moved to send **HB 678** to the

floor with a **do pass** recommendation. Roll call was requested.

ROLL CALL VOTE: Voting AYE- Representatives Barrett, Moyle, Field, Schaefer, Smith, Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Lake, Saylor, Crow. Voting NAY -Representative LeFavour, Jaquet, Martinez. Motion **passed, 16-3-0**. Representative Roberts will sponsor the bill on the floor.

HB 679 The Chairman announced the next item on the agenda was HB 679 and asked Representative Roberts to present the bill. **Representative Roberts**, stated it was his intent to fund the reduction of the M & O levy from the State General Fund.

This legislation imposes an increase in the sales tax of one half of one percent (.5%) beginning June 1, 2006. The intent is that the additional revenue will be used to fund schools that will experience a similar decrease in funding from property taxes.

Motion: Representative Clark moved to **HOLD HB 679**.

SUBSTITUTE MOTION: a substitute motion was made by Representative Roberts to send **HB 679** to the floor with a **do pass** recommendation.

AMENDED SUBSTITUTE MOTION: An amended substitute motion was made by Representative Denney to send **HB 679** to the floor **without recommendation**. Roll call was requested.

ROLL CALL VOTE: Voting AYE - Representatives Field, Schaefer, Smith, Collins, Raybould, Roberts, Wood, Denney, McGeachin, Clark, Lake, Crow. Voting NAY- Representatives Barrett, Moyle, McKague, LeFavour, Saylor, Martinez. Motion **passed, 12-6-1**.

HB 680 Chairman Crow announced the next item on the agenda HB 680 and recognized Mr. Whitlock to present the bill. **Brian Whitlock, Office of the Governor**, stated that this bill provides a safety net to allow individual homeowners with low incomes who are elderly, disabled or widowed and qualify for the "circuit breaker" property tax relief to postpone payment of property taxes on their homes.

They must have fifty percent equity in their homes to qualify to secure the payment of all existing deferrals of property taxes. Until the Lax is paid the State is protected by recording the tax lien on the property which takes its priority as to other encumbrances based on the date of recording.

MOTION: Representative Lake moved to send **HB 680** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Lake will sponsor the bill on the floor. Representative McKague requested to be recorded as voting no.

RS15611 Chairman Crow announced the next item on the agenda was RS 15611 and asked Mr. Hendricks to submit the proposed legislation. **Russ**

Hendricks, Idaho Farm Bureau Federation, testified that this a companion bill to SB 1364.

The purposes of this legislation are to remove the existing 2.5 percent state fuel tax deduction for ethanol blended fuel once a renewable fuel standard is implemented. Changes the definition of petroleum products for the underground storage tank fund to include ethanol and ethanol blends so the underground storage tank fund not inadvertently under funded.

MOTION: Representative Raybould moved to **introduce RS 15611** Motion **passed** on a voice vote.

RS 15759 Chairman Crow announced the next item on the agenda was RS15759 and asked Representative Field to explain the RS. Representative Field said there are several types of tax in the moist snuff category of tobacco products. This results from basing the tax on product quantity not the price of the product at the wholesale level.

This revision will maintain the tax on premium moist snuff at its current level of \$1.00 per ounce on the most expensive products but apply the same tax rate to all other moist snuff regardless of the wholesale price of the product. The state will continue to tax the product based on value through imposition of the state*s sales tax at the rate of five percent on the retail price.

The dedicated revenue will be additional funding for drug, family and mental health courts throughout Idaho, subject to appropriation. Such funds will be expended under the jurisdiction of the Supreme Court. She said there was an error in the RS and another paragraph needs to be added.

MOTION: Representative Clark moved to **introduce RS15759 with Change 1**. Motion passed on a voice vote.

RS15857: Chairman Crow announced the next item on the agenda was RS1 5857 and asked Representative Clark to submit the proposed legislation. **Representative Clark** said these amendments will make the retail sale of premium cigars in Idaho more competitive with the neighboring states of Utah and Nevada. Their excise tax rate is lower than Idaho and on a level playing field with the adjoining states of Washington and Oregon where the excise tax on cigars is capped at fifty cents.

MOTION: Representative Smith moved to **introduce RS15857**. Motion **passed** on a voice vote.

HB 483 The Chairman announced the next item on the agenda was HB 483 and recognized Mr. Killeen to present the bill. **Vaughn Killeen, CEO of the American Red Cross of Greater Idaho**, said the purpose of this legislation is to allow a taxpayer to donate ten dollars to the American Red Cross of Greater Idaho Fund at the time of filing the taxpayer*s state tax return. The ten dollar donation would reduce the taxpayer*s refund by ten dollars or increase the taxpayer*s payment by ten dollars.

Mr. Killeen distributed a copy of "American Red Cross of greater Idaho Information Paper." (Attachment #1)

MOTION: Representative Field moved to send **HB 483** to the floor with a do pass recommendation. Motion **passed** on a voice vote. Chairman Crow will sponsor the bill on the floor.

HB 484 Chairman Crow announce the next item on the agenda was HB 484 and recognized Mr. Lyman to present the bill. **Jack Lyman, Idaho Mining Association**, went into great detail of the history of the production exemption. The Tax commission determined that the pollution control exemption did not expressly include or exclude equipment that becomes a part of real property. The Commission took the position that tax exemptions are to be construed strictly against the taxpayer and cannot be created by implication.

As a result, the Commission ruled against a taxpayer claiming the exemption for materials used in the construction of a waste water treatment facility. This bill clarifies that the intent of the legislature that the sales tax exemption for pollution control equipment to be available for devices, materials and equipment that become improvements to real property. This means that a synthetic liner required by DEQ and intended to protect ground water quality would be eligible for the exemption from sales tax.

MOTION: Representative Wood moved to send **HB 484** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Denney will sponsor the bill on the floor.

HB 497 Chairman Crow announced the next item on thp agenda was HB 497 and recognized Mr. Fick to present the bill. **Bob Fick** representing the **Idaho Department of Commerce & Labor**, stated that this legislation is the first step to encourage the film and media production projects in Idaho. The legislation provides a rebate of sales taxes paid on qualifying expenses when a minimum of \$200,000 is spent on a film and media production project.

PRO: **Ben Shed** representing the media industry said he had worked with the task force, along with Representative Kemp, to create media jobs in Idaho to encourage young people to stay in Idaho.

This legislation provides a rebate of sales tax and would only occur after the money was collected. This legislation puts Idaho on a level playing field with surrounding states. He yielded to Ms. Wells a film actress from Driggs, Idaho.

PRO: **Dawn Wells** stated she was excited about educating young people in the film industry in an attempt to keep them in Idaho.

MOTION: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 11:00 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 16, 2006
- TIME:** 9:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representative Denney
- GUESTS:** Ted Spangler and Dan John, Idaho State Tax Commission
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes as written of the meeting held on February 13, 2006. She advised the Committee that the sponsors of the following bills requested that they be held. HB 442, Income tax, multistate/unitary corporations and HB 445, Income, pass-through entity, sponsored by the Idaho State Tax Commission; HB 498, Income tax, employees, certain, personal bill sponsored by Representative Hart.
- UNANIMOUS
CONSENT:** The Chairman asked for a unanimous consent to **HOLD HB 442, HB 445 and 498**. Consent was granted.
- RS16086:** Chairman Crow announced the first item on the agenda was RS16086 and asked Representative McGeachin to submit the RS. **Representative McGeachin** stated she would like for this RS to be referred to the Judiciary, Rules and Administration Committee. The purpose of this proposed resolution is to establish September 14th as Missing Person Day in Idaho.
- MOTION:** Representative Martinez moved to **introduce RS16086** and recommend that it be **referred to the Judiciary, Rules and Administration Committee**. Motion **passed** on a voice vote.
- HB 458:** Chairman Crow announced the next item on the agenda was HB 458 and recognized Mr. Spangler to present the bill. **Ted Spangler, Idaho State Tax Commission**, stated that this bill amends the Idaho Sales Tax Act to change the penalty for doing business without a seller's permit when a permit is required, from a criminal misdemeanor to a civil penalty. The amount of the penalty is unchanged. Persons who are officers or employees with the duty to account for and pay over the tax for the business are also subject to the penalty. This changes the law from making each officer of a corporation liable to only those in charge.

This legislation transfers responsibility from the local prosecuting attorney

whose work load is too busy to handle the cases.

MOTION: Representative Smith moved to send **HB 458** to the floor with a **do pass** recommendation. Motion **carried** on a voice vote. Representatives Crow and Barrett requested to be recorded as voting no. Representative Smith will sponsor the bill on the floor.

HB 459: Chairman Crow announced the next item on the agenda was HB 459 and asked Mr. Spangler to continue. **Ted Spangler** stated that this legislation harmonizes provisions in other statutes. Cigarette wholesalers, motor fuel distributors and employers are issued permits, licenses or account numbers for administering the cigarette tax, motor fuel and income tax withholding.

This bill authorizes the State Tax Commission to revoke or suspend these permits, licenses and accounts when the holders are no longer engaged in a business in which they are required, or when the holder is in violation of law governing these taxes.

The bill also provides civil penalties for doing business without a required permit, license or account. The provisions are modeled after provisions in the Idaho Sales Tax Act governing seller's permits under that Act.

MOTION: Representative Clark moved to send **HB 459** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Crow requested to be recorded as voting no. Representative Clark will sponsor the bill on the floor.

HB 473: Chairman Crow announced the next item on the agenda was HB 473 and recognized Mr. Spangler to continue. **Ted Spangler** said this bill allows the State Tax Commission to enter into an agreement with the Internal Revenue Service relating to offset of tax refunds. When implemented taxpayers with final, non-appealable tax assessments owed to the state or to the federal government will be subject to having that tax debt offset against any tax refunds owed to the other.

Refunds owed by the State Tax Commission will first be applied against debts owed to the state, such as unpaid child support, before being offset against federal tax. No offset of federal tax against state refunds is allowed unless an agreement for offsetting federal refunds for state tax debts is in place.

MOTION: Representative Roberts moved to send **HB 473** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Saylor will sponsor the bill on the floor.

HB 461: Chairman Crow announced the next item on the agenda was HB 461 and recognized Mr. John to present the bill. **Dan John, Idaho State Tax Commission**, said that the Statement of Purpose needs to be corrected changing the Section number. This bill makes the following technical correction to the property tax laws passed last year:

Section 1 provides that property not taxed due the exemption for “significant capital improvements”, property in a single county in excess of \$8 million, shall not be included on any new construction roll.

Section 3 strikes any requirement that exempted property be included on any new construction roll.

Section 3 deletes obsolete language requiring percentage reduction of state money under the “circuit breaker” property tax relief program.

MOTION: Representative Moyle moved to send **HB 461** to the floor with a **do pass** recommendation and a reprint of the Statement of Purpose. Motion **passed** on a voice vote. Representative Moyle will sponsor the bill on the floor.

HB 472: Chairman Crow announced the next item on the agenda was HB 472 and recognized Mr. John to continue. **Dan John** said this bill relates to shipment of remote sales. This bill amends the cigarette tax provisions to change the penalty for possessing more than ten packages of cigarettes without an Idaho cigarette stamp from a criminal misdemeanor to a civil penalty.

The penalty would apply to persons who purchase unstamped cigarettes from on-line retailers. The penalty would not apply to persons who purchase cigarettes from tribal retailers selling cigarettes within the exterior boundaries of an Idaho tribal reservation.

MOTION: After a brief discussion Representative Smith, seconded by Representative Crow, moved to send **HB472** to the floor and recommend that it be placed on the **amending order** to delete the last two words on line 33 and delete lines 34 through 37 exempting sales by Indian tribes, with a reprint of the Statement of Purpose. Motion passed on a voice vote. Representatives Barrett, LeFavour, Jaquet, Saylor and Martinez requested to be recorded as voting no. Representative Smith will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:40 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 20, 2006
- TIME:** 9:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representatives Wood and Roberts
- MINUTES:** Chairman Crow convened the meeting at 9:00 a.m. and requested a silent roll call. Representative Lake moved to accept the minutes as written of the meeting held on February 14, 2006.
- RS15837:** Chairman Crow announced the item on the agenda was RS15837 and asked Representative Bolz to submit the RS. **Representative Bolz** said this RS is about the Cooperative Service Agencies with a levy for five school districts.
- Cooperative Service Agencies provide a valuable service to smaller school districts by providing services on a consolidated basis for less money than the individual districts could by themselves. Under current statute each of the districts passes a levy to fund the CSA for operational expenses. There are no funding mechanisms for building facilities or maintenance of those facilities.
- This legislation would provide a mechanism for CSA's to levy .1% for buildings and maintenance. Each school district in the CSA would have to pass the levy.
- MOTION:** Representative Raybould moved to **introduce RS15837**. Motion **passed** on a voice vote.
- RS16091:** The Chairman announced the next item on the agenda was RS16091 and asked Representative Henbest to explain the RS. **Representative Henbest** said this legislation adds an exemption from sales tax for purchases made by an Idaho nonprofit organizations offering free dental clinic services to children and making this retroactive.
- Representative Henbest reviewed the history of the partnership with the Boise School district to assist in-need children to get to the dental clinics.
- MOTION:** Representative LeFavour moved to **introduce RS16091**. Motion **passed** on a voice vote.
- HB 685:** Chairman Crow announced the next item on the agenda was HB 685 and recognized Mr. Dingel to present the bill. **Allyn Dingel, Attorney,**

briefly stated that this legislation is to add a credit on the Idaho income tax form for contributions to the Learning Lab, Inc., a nonprofit 501 (c) (3). He introduced officers of the Learning Lab. He yielded to Ms VanHole .

Gemma VanHole, Executive Director, Learning Lab, Inc., went into great detail of the functions of the Learning Lab. It provides crucial education intervention to functionally illiterate and under-educated adults and to pre-school children. The program helps break the cycle of illiteracy.

MOTION: Representative Lake moved to send **HB 685** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Raybould will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 9:38 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 21, 2006
- TIME:** 9:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representative Smith
Representatives Roberts and Wood
- GUESTS:** Dan John, Idaho State Tax Commission
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Field moved to accept the minutes as written of the meeting held on February 15, 2006. Motion passed on a voice vote. Representative Saylor moved to accept the minutes as written of the meeting held on February 16, 2006. Motion passed on a voice vote. Representative Collins moved to accept the minutes as written of the meeting held on February 20, 2006. Motion passed on a voice vote.
- RS16067:** Chairman Crow announced the first item on the agenda was RS16067 and asked Representative Moyle to submit the RS. **Representative Moyle** explained that this legislation requires taxing districts, when holding an election to increase property taxes, to mail notices of such elections to property taxpayers.
- A brief discussion ensued and Representative Moyle was directed to include the fiscal impact change to the bill.
- MOTION:** Representative Clark moved to **introduce RS16067** with a corrected fiscal impact. Motion passed on voice vote.
- HB 441:** Chairman Crow announced the next item on the agenda was HB 441 and recognized Mr. John to present the bill. **Dan John, Idaho State Tax Commission**, said this is the annual conformance to the Internal Revenue Code including the American Jobs Creation Act.
- This bill disallows any deduction for qualified production activity income otherwise allowed by the IRC as a deduction on a federal return. Taxpayers entitled to the deduction for taxable years beginning during 2005 are unaffected. This disallowance was carved out because of the cost of \$6 million annually.
- CON:** **Ray Stark**, representing the **Boise Metro Chamber of Commerce**, testified in opposition to HB 441. He said the Chamber was opposed to the bill as written. Without full conformance with the IRC problems would be created. He urged the Committee to come back with a new RS to

conform entirely with the Internal Revenue Code.

CON: **Steve Ahrens**, President of the **Idaho Association of Commerce & Industry** testified that IACI for several years has had a consistent policy that maintaining conformance between state and federal tax codes is the best tax philosophy. Conformance eases the job of computing and paying taxes for both individuals and businesses. This bill omits IRC Section 199 allowing deductions for qualified production activity income.

The disallowance of these deductions would cost the Idaho business community about \$3 million according to the bill's fiscal impact statement. The deductions are designed to encourage job growth in the manufacturing sector. Disallowing the QPAI deductions would penalize Idaho manufacturing operations. It also would discourage out-of-state manufacture's from relocation in Idaho. This is a wrong message to send to businesses that we hope will come to Idaho.

He urged the committee to support full conformance between state and federal tax codes including the deduction for qualified production activity income.

MOTION: Representative Raybould moved to **HOLD HB 441** and a new RS be submitted with full conformance with the Internal Revenue Code. Motion **passed** unanimously on a voice vote.

HB 475: Chairman Crow announced the next item on the agenda was HB 475 and recognized Representative McGeachin to present the bill. **Representative McGeachin** said this bill provides an exemption from sales tax for purchases and admissions by museums.

The bill is strictly defined to apply to public institutions and private 501 © (3) not-for-profit institutions. She yielded to Mr. Pennock.

David Pennock stated that he was representing the **Idaho Association of Museums**. He expounded on the hand-out which reflected educational services needed; major economic impact and financial support need to continue to provide benefits. (Attachment #1)

MOTION: Representative Clark moved to send **HB 475** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative McGeachin will sponsor the bill on the floor.

HB 688: Chairman Crow announced the next item on the agenda was HB 688 and asked Representative Sayler to address the bill. **Representative Sayler** said that this bill will provide an Idaho income tax credit for donors who donate to Project Safe Place, a national program with five participating programs in Idaho. He passed out a report showing the Project Safe Place services provided and how they work in Coeur d' Alene.

This program is geared toward short term crisis situations and offers young people a chance to work through their crisis with the aid of supportive adults. Federal funding for this program has been reduced making it difficult for them to offer the needed level of service. Providing a tax credit will stimulate additional contributions toward their operating

expenses.

MOTION: Representative Martinez moved to send **HB 688** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Sayler will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:03 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 22, 2006

TIME: 8:30 a.m

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Alex LaBeau, Idaho Association of Realtors; Mike Brassey, SunCor Development Company; Fred Tillman, Ada County Commissioner; Jerry Mason, Association of Idaho Cities; Nancy Merrill, Mayor of Eagle; Susan Eastland, Boise resident; Lee Flinn, Conservation for Idaho Voters; Steve Ahrens, Idaho Association of Commerce and Industry; Ken McClure, Idaho Growth Alternatives Coalition

MINUTES: Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes as written of the meeting held on February 21, 2006.

**UNANIMOUS
CONSENT:** Chairman Crow explained that the Committee had previously voted to introduce RS15466C2 to change the abbreviation to P.A.T.CH. There was a problem with the registration in the Office of the Secretary of State. The original RS15466C1 is correct. She asked for unanimous consent to **introduce RS15466C1**. Unanimous consent was granted.

HB 485: The Chairman announced the first and only item on the agenda was HB 485 and asked Mr. LaBeau to present the bill. **Alex LaBeau, Idaho Association of Realtors**, stated that this controversial legislation has been rewritten on Public Improvement Districts (PID). He gave a broad overview of how this legislation works . A (PID) is a voluntary financing mechanism that enables new growth to pay for itself. A PID allows new growth to be isolated into a separate taxing district. The new growth property within the district is specifically and voluntarily taxed to pay for the new infrastructure. No additional property taxes are imposed on landowners outside the district. Twenty-eight states already have some form of public infrastructure financing in place.

A PID is not a forced annexation, a local improvement district or some other kind of taxation that can be imposed over landowners' objections. A PID is infrastructure financing paid for by informed home-buyers who voluntarily choose to buy a home in the district.

This legislation is a voluntary financing tool. It does not replace, and is not intended to be, land use regulation. Land development with a PID must comply with all applicable land use requirements as may be

imposed under the Idaho Local Land Use Planning Act and applicable local planning and zoning ordinances.

Publicly owned and maintained infrastructure that may be financed through a PID includes, without limitation, sewer and water, drainage, roads, transportation, school sites, libraries, parks, pathway, emergency service facilities and recreational facilities.

This legislation is a valuable tool for counties and cities to use for infrastructure. He yielded to Mr. Brassey.

Mike Brassey, SunCor Development Company, walked through the bill section by section. Local government can choose to use this tool for infrastructure and how it is to be funded. It is up to the county or city to make this decision. In response to a question relating to what happens when the bond is paid off, Mr. Brassey stated that the district simply disappears.

PRO

Fred Tillman, Ada County Commissioner, stated he was Chairman of the Legislative Committee for the Idaho Association of Counties and they had voted to be in full support of HB 485. The bill allows a good financial tool to use project by project and helps growth to pay for itself.

This legislation is optional and may or may not be used. The concept is not for everyone else to pay for development infrastructure costs.

CON:

Jerry Mason stated that he was a lawyer for Coeur d'Alene and was representing the **Association of Idaho Cities**. He spoke in opposition to HB 485. He testified that this legislation puts Idaho in an unusual position of creating another government entity authorized to levy property taxes when the current environment is demanding property tax relief. PID's would cause sprawling development outside existing cities. A copy of the Association of Cities perspectives on Public Infrastructure Districts is attached. (Attachment #1)

Mr. Mason suggested the following amendments to the bill: 50-3007 FINANCES. Add "and above and beyond the infrastructure improvements already required by local subdivision or development ordinances,"; 50-3005 (4) add "No expenses may be incurred or reimbursed pursuant to this statute unless initially incurred in compliance with public procurement requirements set forth in chapter 28, title 67, Idaho Code to ensure that property tax charges and user fees for debt repayment do not exceed the cost that would be fairly incurred through compliance with statutory standards."

Mr. Mason stated that AIC believes that this legislation is bad policy and strongly urged the Committee to Hold HB 485.

CON:

Nancy Merrill, Mayor of Eagle, Idaho, spoke in opposition to HB 485

saying that this is not a tool for cities. This legislation will change the structure of development across the state of Idaho. It creates “leapfrog” development being forced by one person, the developer.

CON: **Susan Eastland, Boise, Idaho**, strongly declared her opposition to HB 485. Speaking from her past experience as a Highway District Commissioner it was her opinion that this legislation provides no public benefit in Ada County. The proposal gets developers out of having to pay to build roads and sidewalks the ACHD now requires of them. The county commissioners will find themselves in the peculiar position of being in charge of numerous PIID’s while being elected to speak for all the citizens of Ada County. As a taxpayer of Ada County, she does not expect her tax dollars to be spent on such a scheme. (Attachment #2)

CON: **Garrett Nancolas, Mayor of Caldwell**, testified in opposition to HB 485. He said that this bill is being touted as a way to “make growth pay for itself and cities can use this.” This is not a correct statement. It does not cover ongoing service costs. To imply that this is an important tool for cities and counties is not true.

CON: **Lee Flinn, Executive Director of the Conservation Voters for Idaho**, spoke in opposition to HB 485. Their organization supports tools and incentives for well-planned growth but does not believe this bill serves that purpose. She urged the Committee to vote no on HB 485 saying it would limit the ability of local government to keep development organized and sustainable. A copy of printed testimony is attached. (Attachment 3)

PRO: **Steve Ahrens, Idaho Association of Commerce and Industry**, testified in support of HB 485 reiterating that this legislation is a tool to assure that new growth pay for itself. It provides fairness and balance in the tax system and is a valuable business tool.

PRO: **Ken McClure** stated that he was representing the **Idaho Growth Alternatives Coalition** and the **Idaho Bankers Association**. A letter from the Idaho Bankers Association stating their positive position is attached. (Attachment 4)

This legislation makes development more efficient and successful. The cities have the same option to form a Public Infrastructure Improvement District and should not be concerned by counties who have a right to make development decisions.

Prior to sale an agreement is mandatory to make full disclosure to the homebuyers of the effect of PID financing. Extra steps are required of the developers to disclose the property tax. All sale brochures include a statement of the LID tax.

MOTION: Representative Smith moved to send **HB 485** to the floor with a **do pass** recommendation. Roll call was requested.

**ROLL CALL
VOTE:**

Voting AYE - Representatives Field, Schaefer, Smith, Collins, Roberts, Wood, McGeachin, Clark, Lake, Crow. Voting - NAY Representatives Barrett, Moyle, Raybould, McKague, LeFavour, Jaquet, Saylor, Martinez. Motion **passed, 10-8-1.**

ADJOURN:

There being no further business to come before the committee, Chairman Crow adjourned the meeting at 9:40 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 23, 2006
- TIME:** 9:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representatives Wood and Denney
- GUESTS:** Representative Nonini; Dan John, Idaho State Tax Commission; Representative Hart; Pam Eaton, Idaho Retailers Association; Jerry Deckard, Swisher International; Representative Sale; Cliff Diffendaffer, Blacks Public Shooting Range; Skip Smyser, Idaho Trucking Association; Jason Andrus, Doug Andrus Distributing LLC
- Chairman Crow called the meeting to order and requested a silent roll call.
- RS15752:** Chairman Crow announced the first item on the agenda was RS15752 and asked Representative Nonini to submit the RS. **Representative Nonini** stated the current code has a dual tax system. The purpose of this legislation is to change the tax in Title 41, Chapter 34 Idaho code, so that companies will be consistent with the premium tax structure adopted as part of HB 724 in the 2004 legislative session.
- MOTION:** Representative Lake moved to **introduce RS15752**. Motion **passed** on a voice vote.
- RS16137:** The Chairman announced the next item on the agenda was RS16137 and asked Mr. John to explain the RS. **Dan John, Idaho State Tax Commission**, stated that this is the annual bill to update references to the Internal Revenue Code. It conforms the Idaho income tax to changes made to the IRC after January 1, 2005, including the American Jobs Creation Act. It does not exempt the qualified production activity.
- MOTION:** Representative Moyle moved to send **RS16137** with the recommendation that it be placed on **second reading**. Motion **passed** on a voice vote. Representative Moyle will sponsor the bill on the floor.
- RS15973:** Chairman Crow announced the next item on the agenda was RS15973 and asked Representative Hart to explain the proposed legislation. **Representative Hart** said the Idaho Drug Free Youth organization is the only organization in the state of Idaho that offers preventative counseling and program to prevent drug addiction and drug use to Idaho youth before they ever use drugs.

He explained how members obtain membership and they must submit to random drug testing. The purpose of this legislation is to create an income tax credit for contributions to the Idaho Drug Free Youth organization.

MOTION: It was moved by Representative Clark to **introduce RS15973**. Motion **passed** on a voice vote.

RS16066: Chairman Crow announced the next item on the agenda was RS16066 and asked Representative Hart to submit the RS. **Representative Hart** stated that when property is sold at auction for delinquent taxes the distribution of the proceeds of the tax deed sale is not equitable. This proposed legislation provides for the distribution of the proceeds of a tax deed sale that is equitable and in conformance with common sense and fair play.

As the law currently stands, when a property is sold at tax deed auction, 100 percent of the proceeds are distributed among the various taxing districts associated with the property. None of the proceeds are distributed to the record owner and the record owner loses his entire equity.

This bill would provide that after the various taxing districts are made whole for any delinquent taxes and fees and after any perfected liens have been paid, that the record owner would receive any funds that remain. The legislation also provides for a three percent penalty on the gross sale amount to be paid to the county if the record owner had made no reasonable attempt to cure the delinquency or to sell the property prior to the tax deed sale. It also provides that the remaining proceeds shall be distributed to the county if no claim has been made for the funds within a two year period of the sale.

This legislation will define "party in interest" such that a taxing district will be barred from redeeming and taking ownership of tax deed properties by paying only the delinquent taxes plus interest.

MOTION: Representative Robert moved to **introduce RS16066**. Motion **passed** on a voice vote.

HB 697: Chairman Crow announced the next item on the agenda was HB 697 and recognized Representative Field to present the bill. **Representative Field** explained that this legislation is to equalize the tax structure to impose an excise tax on moist snuff instead of an ad valorem tax on smokeless tobacco. She said the game rules were different. She demonstrated the disparity of the cost of moist snuff by showing cans of the same weight selling for thirty cents, one for one dollar and twenty cents and one for sixty two cents. This is a strange way to tax a like product. She said the market for smokeless tobacco is growing.

The purpose of this legislation is twofold: It provides a dedicated revenue source for urgently needed additional funding for drug, family and mental health courts throughout Idaho, subject to appropriation, such funds to be expended under the jurisdiction of the Supreme Court.

The second purpose is to obtain necessary revenues by adopting uniform tax treatment on the moist snuff category of tobacco products. This revision will maintain the tax on premium moist snuff at its current level of \$1.00 per ounce on the most expensive products, but apply the same tax rate to all other moist snuff, regardless of the wholesale price of the product. The state will continue to tax the product based on value through imposition of the state's sales tax at the rate of five percent on the retail price.

By this legislation up to \$850,000 in increased tax revenue will be subject to appropriation to the drug court, mental court and family court services fund to be utilized by the Supreme Court.

PRO: **Pam Eaton**, CEO of the **Idaho Retailers Association**, testified in support of HB 697. She stated that tobacco products should be treated the same way and supports the bill as written. The Association also supports the extra amount going to the program as stated by Representative Field.

CON: **Jerry Deckard** identified himself as representing **Swisher International**. He provided a hand-out on smokeless tobacco (Attachment #1) and displayed an array of smokeless products. He pointed out that no three looked alike and some were not a tobacco product. Smokeless tobacco is not a uniform industry.

Unlike other state excise taxes in Idaho the Other Tobacco Product (OTP) tax is an ad valorem tax. OTP including moist snuff, cigars and chewing tobacco are taxed based on a percentage of the manufacturer's price. Every time the price of moist snuff, cigars or chewing tobacco increase, tax revenues automatically increase as well. In practice the price for moist snuff increases at a rate greater than inflation and therefore increases the excise tax revenues without any action by the Legislature.

Mr. Deckard reviewed the other statistics contained in the hand-out. He said it is a change in tax policy to carved out a small portion of tobacco products having a dynamic tax impact on consumers.

Representative Field wrapping up the testimony said that this legislation is a fair way to level the playing field.

MOTION: Representative Barrett moved to **HOLD HB 697**.

SUBSTITUTE MOTION: A substitute motion was made by Representative Field to send **HB 697** to the floor with a **do pass** recommendation.

AMENDED SUBSTITUTE MOTION: An amended substitute motion was made by Representative Raybould to **HOLD HB 697** time certain for **one week**. Roll call was requested.

ROLL CALL VOTE: Voting AYE - Representatives Field, Raybould, LeFavour, Jaquet, Martinez, Crow. Voting NAY - Representatives Barrett, Schaefer, Smith,

Collins, Roberts, McKague, McGeachin, Clark, Lake, Sayler. Motion **failed, 6-10-3.**

**ROLL CALL
VOTE:**

Roll call was requested on the substitute motion. Voting AYE - Field, Jaquet, Crow. Voting nay - Representatives Barrett, Schaefer, Smith, Collins, Raybould, Roberts, McKague, McGeachin, Clark, Lake, LeFavour, Sayler, Martinez. Motion **failed, 3-13-3.**

Original motion to **HOLD HB 697 passed** on a voice vote.
Representatives Crow and Field requested to be recorded as voting no.

HB 686:

Chairman Crow announced the next item on the agenda was HB 686 and recognized Representative Sali to present the bill. **Representative Sali** said that no one was aware of an unexpected 2005 State Tax Commission interpretation that shooting range fees are subject to sales tax. Some nonprofit organizations were determined to owe sales tax on fees.

Non-profit hunting and shooting sport organizations provide an extremely valuable public service that encourages a high level of confidence in the use of firearms. He cited that non-profit shooting clubs find it hard to pay back taxes plus interest for the last three years. He passed-out a letter from the National Rifle Association of America supporting the bill.(Attachment #2)

In response to inquires relating to drafting legislation to cover non-profit organizations, **Dan John, State Tax Commission**, said that it would be possible but it would cause a huge fiscal impact. Currently non-profit organizations with a 501 C (3) classification exemption from sales tax are specifically listed in the code.

PRO:

Cliff Diffendaffer, Blacks Public Shooting Range, testified in support of HB 686. He said the unfair taxation of non-profit organizations only curtails the ability of gun club organizations to provide a safe place to shoot. His range is used by the Idaho Fish and Game for gun safety. As population increases his mission of providing firearms safety education becomes more important.

The State Tax Commission audited his organization and determined that they owed back taxes of \$4,545 for uncollected sales tax plus interest. The payment of back taxes curtailed their expansion of the shooting range and safety education to young hunters and target shooters.

MOTION:

Representative Smith moved to send **HB 686** to the floor with a **do pass** recommendation.

**SUBSTITUTE
MOTION:**

A substitute motion was made by Representative LeFavour to send **HB 686** to the amending order to amend the bill as follows: "On line 13 after

“SHOOTING SPORTS.” insert the following language: For 501 C non-profit charitable shooting ranges and organizations or when an unincorporated non profit shooting organization or facilities’ gross annual dues collected do not exceed \$4,000.”

**AMENDED
SUBSTITUTE
MOTION:**

An amended substitute motion was made by Representative Lake to **HOLD HB 686**. Roll call was requested.

**ROLL CALL
VOTE:**

Voting AYE - Representatives Raybould, Roberts, McGeachin, Lake, LeFavour. Voting NAY - Representatives Barrett, Schaefer, Smith, Collins, McKague, Clark, Jaquet, Sayler, Martinez, Crow. Motion **failed 5-10-4**

**ROLL CALL
VOTE:**

Roll call was requested on the substitute motion to **Amend HB 686**. Voting AYE - Representative LeFavour. Voting NAY - Representatives Barrett, Schaefer, Smith, Collins, Raybould, Roberts, McKague, McGeachin, Clark, Lake, Jaquet, Sayler, Martinez, Crow. Motion **Failed 1-14-4**

**ROLL CALL
VOTE:**

Roll call was requested on the original motion to send **HB 686** to the floor with a **do pass** recommendation. Voting AYE - Representatives Barrett, Schaefer, Smith, Collins, Raybould, Roberts, McKague, Clark, Jaquet, Sayler, Martinez, Crow. Motion **passed 12-3-4**.

HB 687:

Chairman Crow announced the next item on the agenda was HB 687 and recognized Mr. Smyser to present the bill. **Skip Smyser, Idaho Trucking Association**, stated that a “glider kit” is treated as a new vehicle. It has its own VIN numbered is not a reconstructed vehicle. He passed out a brochure on “glider kits.” (Attachment #3)

The purpose of this legislation is to amend Idaho Code 6-6955R to include the sales of glider kits. Glider kits, for all intents and purposes, are new replacement vehicle even to the extent of being furnished by truck manufacturer with a new Manufacturer’s Certificate of Origin which is the same instrument of title that comes with a new vehicle. This legislation would permit an owner of a wrecked vehicle to purchase and put in service a replacement on the same basis as the original vehicle, not as a repair part.

PRO:

Jason Andrus stated he was representing the **Doug Andrus Distributing LLC**, and testified in support of HB 686. He said that his company has built glider kits for sixteen years. They had applied for a sales tax exemption on form ST-104MV under the interstate commerce exemption. We have a right to rely on the State’s interpretation and consistent application of law that has exempted glider kits from sales tax for sixteen years.

It is not logical that these vehicles should be treated differently than other interstate commercial vehicles which are licensed under the International Registration Plan. They are not a part used to repair a vehicle. They are

a new vehicle with a separate identification number and a separate title. They do the same activities and pay the same licensing fees as other commercial vehicles.

MOTION: Representative Roberts moved to send **HB 687** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Lake will sponsor the bill on the floor.

ADJOURN: Chairman Crow announced that the Committee was past due on the floor and would continue the agenda on Monday, February 27, 2006. She adjourned the meeting at 10:34 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 27, 2006
- TIME:** 9:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representative LeFavour
Representative Denney
- GUESTS:** Russell Westerberg, Cigar Association of America; Mark Sturmun, Boise retailer; Jennifer Matoske, P.A.T.C.H.; Representative Nonini; Representative Henbest
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes as written of the meeting held on February 22, 2006. Motion passed on a voice vote.
- HB 693:** Chairman Crow announced the first item on the agenda was HB 693 and recognized Representative Clark to present the bill. **Representative Clark** stated that this legislation caps the excise tax on cigars to fifty cents. The purpose of this bill is to help small tobacco retailers in Idaho by making the retail sale of premium cigars in Idaho more competitive with neighboring states. He yielded to Mr. Westerberg.
- PRO:** **Russell Westerberg** stated he was representing the **Cigar Association of America**. He stated that Idaho currently taxes tobacco products other than cigarettes at a rate of 40% of the manufacturers' selling price. Obviously each time the manufacturers raise the price the tax bite becomes larger. Today the tax on other tobacco products like cigars is nearly twice the tax on cigarettes if the current tax of 47 cents were to be converted to a percentage of the wholesale price.
- Mr. Westerberg explained at length the tax charged on cigars in the surrounding states. He said there would be fewer problems with black market sales of cigars which deny the state excise and sales tax revenues and lower enforcement and administrative costs.
- Premium cigar manufacturers are in support of HB 693 because they appreciate the challenge facing Idaho vendors of their product struggling to compete with retailers in neighboring states. The Cigar Association supports capping cigars in Idaho not because they think doing so will create more cigar smokers but rather based on the experience in Oregon and Washington capping cigars at 50 cents will cause current Idaho consumers of cigars to buy their cigars from Idaho retailers. A copy of printed testimony and a schedule of the excise tax in all U.S. States is attached. (Attachment #1)

PRO: **Mark Sturmun** testified for HB 693 stated that he was the owner of a downtown tobacco store. He said that it is extremely difficult to sell full boxes of cigars. People sample his cigars and then order them from the internet to buy at a better price.

The tax on cigars is not fair or equitable. He demonstrated by showing the same amount of tobacco in ounces of tobacco taxed at \$6, \$5 and a box of premium cigars being taxed \$90. Hand made cigars are taxed at forty percent of the manufacturers' price and should be more commensurate with cigarettes. The price of cigars is out of control.

Mr. Sturmun stated he is not competitive with surrounding states and the internet. There is no good reason to keep the tax at its current structure.

MOTION: Representative Clark moved to send **HB 693** to the floor with a **do pass** recommendation.

SUBSTITUTE MOTION: A substitute motion was made by Representative Lake to **HOLD HB 693**. Roll call vote was requested.

ROLL CALL VOTE: Voting AYE - Representative Field , Roberts, Wood, Lake. Voting NAY - Representatives Barrett, Schaefer, Smith, Collins, Raybould, McKague, McGeachin, Clark, Jaquet, Saylor, Martinez, Crow. Motion **failed, 4-12-3**.

Original motion to send **HB 693** to the floor with a **do pass** recommendation **passed** on a voice vote.

RS15851C1: Chairman Crow announced the next item on the agenda was RS15851C1 and asked Senator Burkett to submit the proposed legislation. **Senator Burkett** explained that this proposal establishes a one-time income tax credit for Idahoans who donate bone marrow or any part of an organ including the intestine, kidney, liver, lung, or pancreas.

This measure will encourage live organ donation and allow an Idahoan to defray the costs of travel, lodging or lost wages incurred through live donations up to \$5,000.

MOTION: Representative Smith moved to **introduce RS15851C1**. Motion **passed** on a voice vote.

RS15467C2: Chairman Crow announced the next item on the agenda was RS15467C2 and asked Mrs. Matoske to explain the RS. **Jennifer Matoske** went into great detail of the services provided by "planned assistance for troubled children."

P.A.T.C.H. is fully licensed by the Idaho Health & Welfare and accredited by the Northwest Association of Accredited Schools, Department of Education and Joint Commission of Accreditation on Health Care Organizations. This proposed legislation would extend a sales tax exemption to Project P.A.T.C.H.

MOTION: Representative Wood moved to **introduce RS15467C2**, Motion **passed** unanimously on a voice vote.

- RS16103:** Chairman Crow announced the next item on the agenda was RS16103 and asked Representative Nonini to submit the RS. **Representative Nonini** explained that this amendment to Chapter 36, title 63 creates a new section 63-3622SS, Idaho code. The amendment provides the authority for a private sector investor to recoup his investment in building an interchange from an interstate highway and for building other transportation and utility infrastructure contiguous to the interchange.
- This proposed legislation provides sales and use tax rebate to the private investor when they have incurred minimum costs and have paid for constructing a retail facility and the interchange and associated transportation/utility infrastructure.
- The privilege of a tax rebate is terminated when these costs have been reimbursed. The interchange and roadway construction must be designed and constructed to standards of the Idaho Transportation Department and/or any political subdivision of the State of Idaho which may subsequently own and maintain the new roadway. The provision for a sales and use tax rebate described herein was developed in cooperation with the Idaho State Tax Commission.
- The retail facility must cost a minimum of five million dollars and the taxpayer has expended in excess of ten million for the installation of an interchange to file for the sales and use tax rebate of 75% of all sales and use taxes collected by the retailer.
- Representative Nonini stated that this is a new concept and was worthy of a hearing.
- MOTION:** Representative Roberts moved to **return RS 16103 to the sponsor.**
- SUBSTITUTE MOTION:** A substitute motion was made by Representative Lake to **introduce RS 16103.** Roll call was requested.
- ROLL CALL VOTE:** Voting AYE - Representatives Schaefer, Smith, Collins, Raybould, McKague, Lake, Saylor, Martinez. Voting Nay - Representatives Barrett, Moyle, Field, Roberts, Wood, McGeachin, Clark, Jaquet, Crow. **Motion failed 8-9-2.**
- Original motion to **return RS 16103 to sponsor passed** on a voice vote.
- HB 706:** Chairman Crow announced the next item on the agenda was HB 706 and recognized Representative Henbest to present the bill. **Representative Henbest** stated that this legislation provides an exemption from sales tax for purchases made by an Idaho nonprofit organization offering free dental clinic services to children making this retroactive.
- She passed out a picture of a mobile "children's free dental clinic."
(Attachment #2)
- MOTION:** Representative Smith moved to send **HB 706** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Henbest will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:33 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 28, 2006
- TIME:** 10:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- GUESTS:** Representative Eskridge; Roger Madsen, Idaho Commerce & Labor
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes as corrected of the meeting held on February 23, 2006. Motion passed on a voice vote.
- RS15503:** Chairman Crow announced the first item on the agenda was RS15503 and asked Representative Jaquet to submit the RS. **Representative Jaquet** stated that basically this RS adds the Advocates for Survivors of Domestic Violence and Sexual Assault, Inc. to the list of charities listed in IC 63-36220 exempting sales tax on purchases. Representative Jaquet noted an error on the RS that needs to be corrected. The name of the organization was not complete.
- MOTION;** Representative Saylor moved to **introduce RS15503** with change 1 to correct the name to "Advocates for Survivors of Domestic Violence and Sexual Assault, Inc.
- SUBSTITUTE MOTION:** Representative Roberts moved to **Hold RS15503**. Roll call was requested.
- ROLL CALL VOTE:** Voting AYE - Representatives Barrett, Roberts Wood. Voting NAY - Representatives Moyle, Field, Schaefer, Smith, Collins, Raybould, McKague, McGeachin, Clark, Lake, LeFavour, Jaquet, Saylor, Martinez, Crow. Motion **failed, 3-15-1**
- Original motion to **introduce RS15503C1 passed** on a voice vote. Representatives Barrett and Roberts requested to be recorded as voting no.
- RS15693:** Chairman Crow announced the item on the agenda was RS15693 and

asked Representative Clark to explain the RS. **Representative Clark** stated that this proposed legislation increases the percentage of the General Fund that can be deposited into the Budget Stabilization Fund. The percent is increased from 5% to 8%. This increase is in line with the percent of growth in the General Fund since 1998. Representative Clark stated that \$70 million was transferred this year to the Budget Stabilization Fund which filled the five percent. The growth was more than the mandatory four percent and there was no more room for the additional transfer.

MOTION: Representative Raybould moved to **introduce RS15693**. Motion **passed** on a voice vote.

RS15738: Chairman Crow announced the next item on the agenda was RS15738 and asked Representative Eskridge to address the RS. **Representative Eskridge** stated that this proposed legislation was passed by this Committee last year and was too late to be acted on in the Senate.

The purpose of this legislation is to remove Section 63-3622G, Idaho Code, which prevents certain industries from receiving the production exemption. There are four wood pellet manufacturing companies located in Idaho that are prohibited from full participation in the State's sales and use tax exemption afforded to all other manufacturing companies.

MOTION: Representative Clark moved to **introduce RS15738**. Motion **passed** on a voice vote.

RS16112C1: Chairman Crow announced the next item on the agenda was RS16112C1 and recognized Mr. Madsen to submit the proposed legislation. **Roger Madsen, Idaho Commerce & Labor**, explained that this legislation revises the Idaho Small Employer Incentive Act by expanding eligible projects and replacing the existing employee-capital expenditure ratio for investment over \$500,000. It also requires that all additional employees average \$15.50 an hour plus benefits using only wages ranging from \$12.00 an hour to \$48.08 an hour to determine the average.

Mr. Madsen stated that the original legislation was made with good intentions and is a good economic tool. The qualifications were too high to be workable. This bill is crafted to include more investors.

MOTION: Representative Moyle moved to **introduce RS16112C1**. Motion **passed** on a voice vote.

RS16140: Chairman Crow announced the next item on the agenda was RS16140 and asked Representative McKague to explain the memorial. **Representative McKague** said the purpose of this House Joint Memorial is to urge the U.S. Department of Agriculture (NAIS) to forego implementation of National Animal Identification System, or to delay the issuance of the proposed rule which will set forth NAIS requirements now targeted for July 2006 to afford the public additional information relating to the proposed mandatory program additional time for public comment.

MOTION: Representative Clark moved to **introduce RS16140** and recommend that it be referred to Agricultural Affairs Committee. Motion **passed** on a voice

vote.

ADJOURN:

There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:25 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** March 1, 2006
- TIME:** 10:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representative Field
- GUESTS:** Dan John, Idaho State Tax Commission; Richard Mollerup, Idaho Land Title Association
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Smith moved to accept the minutes as written of the meetings held on February 27, 2006 and February 28, 2006. Motion passed on a voice vote.
- RS16155:** Chairman Crow announced the first item on the agenda was RS16155 and asked Representative Wood to present the RS. **Representative Wood** stated that the purpose of this proposed legislation is to update Idaho's definition of a "moped." Vehicle and transportation technology has changed since the code was originally written. She asked that the legislation be referred to the Transportation Committee.
- MOTION:** Representative McKague moved to **introduce RS16155** and recommend that it be referred to the Transportation Committee. Motion **passed** on a voice vote.
- HB 474:** Chairman Crow announced the next item on the agenda was HB 474 and recognized Mr. John to present the bill. **Dan John, State Tax Commission**, stated that this legislation amends Section 1 of 63-317, Idaho Code, to clarify that the occupancy tax would apply to industrial property but not to operating property.
- It amends Section 2 of 63-201, Idaho Code, defining "operating property" to include an electrical generation plant under construction regardless of its ownership. This bill corrects an issue brought up in Mountain Home. It makes clear that the occupancy tax does not apply to operating property when a plant is sold and ultimately becomes a public utility.
- Mr. John stated that after discussions with city officials who had voiced their problem of deleting "new construction." The bill needs to be amended to correct an inadvertent change in HB 474 that deleted "new construction" from the property tax rolls.
- MOTION:** Representative Wood moved, seconded by Representative Lake, to send

HB 474 to the **amending order** with Committee amendments attached. Motion **passed** on a voice vote. Representative Wood will sponsor the bill on the floor.

HB 460: Chairman Crow announced the next item on the agenda was HB 460 and asked Mr. John to present the bill. **Dan John, Idaho State Tax Commission**, said that this bill comes from the Idaho State Tax Commission to solve a growing problem. When a nonresident sells property in Idaho they are not paying the capital gains tax.

This bill amends the Idaho Income Tax Act to require a withholding tax equal to three percent of the sales price on the disposition of Idaho real property when individual nonresidents or business entities without a permanent place of business in Idaho sell Idaho real property. Currently fifty percent of transactions are never reported in Idaho.

The fiscal impact reflects a \$3 million increase to the general fund. This is incorrect as the \$3 million is for all sales. The amount of capital gains tax to the general fund would be approximately \$1 million.

CON: **Richard Mollerup** stated that he is the attorney for the **Idaho Land Title Association**. He testified in opposition to HB 460 objecting to the requirement of the transferee being required to deduct and withhold the capital gains tax. California has a similar law which has cleaner guidelines.

Mr. Mollerup pointed out that if there is a \$10,000 down payment the transferee is required to pay three percent on the total sale.

MOTION: After a brief question and answer period Representative Roberts moved to **hold HB 460** time certain for **one week**. Motion **passed** on a voice vote.

The Committee directed Mr. John and Mr. Mollerup to resolve differences and report back.

ADJOURN: Chairman Crow announced that having completed the agenda the meeting was adjourned. Meeting was adjourned at 10:28 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** March 2, 2006
- TIME:** 10:03 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representatives Field, Denney and Clark
- GUESTS:** Steven Millard, Idaho Hospital Association; Representative Bolz; Mark Cotner, Director of COSSA; Phil Homer, Idaho Association of School Administrators; Cliff Green, Idaho School Board Association; Teresa Molitor, Idaho Association of Commerce and Industry; Jennifer Matoske, project P.A.T.C.H.
- MINUTES:** Chairman Crow convened the meeting at 10:04 a.m. and requested a silent roll call. Representative Collins moved to accept the minutes as written of the meeting held on March 1, 2006. Motion passed on a voice vote.
- RS16122C1:** Chairman Crow announced the first item on the agenda was RS16122C1 and asked Mr. Millard to explain the RS. **Steven Millard, Idaho Hospital Association**, stated that this is not a new tax but a clarification of an existing law. This proposed legislation ensures that county hospitals and hospital districts continue to have the same property tax exemption for leased equipment afforded other tax exempt hospitals.
- MOTION:** Representative Lake moved to **introduce RS16122C1**. Motion **passed** on a voice vote.
- RS16186:** Chairman Crow announced the next item on the agenda was RS16186 and asked Representative Roberts to explain the RS. **Representative Roberts** said that this is not a exemption from sales tax it is an income tax credit for donors who donate to Shepherd's Home, Inc. This home provides immediate help and resources for young people in crisis.
- MOTION:** Representative Raybould moved to **introduce RS16186**. Motion **passed** on a voice vote.
- HB 705:** Chairman Crow announced the next item on the agenda was HB 705 and recognized Representative Bolz to present the bill. **Representative Bolz** explained to the Committee that Cooperative Service Agencies provide a valuable service to smaller school districts. COSSA is a CSA that provides services on a consolidated basis for less money than the individual districts could by themselves. Services provided by COSSA for the school year ending in 2005 saved the five school districts over \$2 million.

Under current statute each of the districts passes a levy to fund COSSA for operational expenses. There is no funding mechanism for building facilities or for maintenance of those facilities.

PRO: **Mark Cotner, Director of COSSA**, expounded on the history of COSSA. It is a five-school-district cooperative which began in 1969 that serves the rural communities of Canyon and Owyhee Counties. Current member school districts include Homedale, Marsing, Notus, Parma and Wilder. Services provided include professional-technical education, alternative and special education and gifted/talented programs. This collaboration enables the member school districts to pool resources and provide enhanced services that would not be feasible individually.

He provided a hand-out depicting current needs and consortium program costs . (Attachment #1) This legislative modification would allow consortium member districts the ability to locally approve an additional 1/10th if 1 % to be set aside to construct and maintain consortium facilities.

PRO: **Phil Homer, Idaho Association of School Administrators**, testified in support of HB 705. In response to questions relating to plant facility levy elections, he said the voting requirement depends on the districts' bonded indebtedness. When the bonded indebtedness goes up the voting requirement goes up.

PRO: **Cliff Green, Idaho School Board Association**, testified in support of HB 705.

PRO: **Teresa Molitor, Idaho Association of Commerce and Industry**, spoke in support of HB 705. She said that this legislation is a win-win proposal for the taxpayer. All five districts have to pass the levy assuring inherent protection.

MOTION: Representative Schaefer moved to send **HB 705** to the floor with a **do pass** recommendation with a corrected Statement of Purpose.

SUBSTITUTE MOTION: After a lengthy debate on the voting requirements, Representative Moyle moved, seconded by Representative McKague, to send **HB 705 to General Orders with committee amendments attached**. Roll call was requested.

ROLL CALL VOTE: Voting AYE - Representatives Moyle, Smith, Collins, Raybould, Roberts, Wood, McKague, McGeachin, Lake, LeFavour, Saylor, Martinez. Voting NAY - Representatives Barrett, Schaefer, Jaquet, Crow. Motion **passed, 12-4-3**. Representative Bolz will sponsor the bill on the floor.

HB 726: Chairman Crow announced the next item on the agenda was HB 726 and recognized Mrs. Matoske to present the bill. **Jennifer Matoske** stated she is the Development and Marketing Associate for **Project P.A.T.C.H.**

She briefly outlined the functions of the organization. This bill will provide an Idaho income tax credit for Project P.A.T.C.H. which stands for "planned assistance for troubled children."

MOTION: Representative Roberts moved to send **HB 726** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representatives Smylie and Schaefer will co-sponsor the bill on the floor.

HB 744: Chairman Crow announced the next item on the agenda was HB 744 and asked Mrs. Matoske to continued. **Jennifer Matoske** stated that this bill extends a sales tax exemption to Project P.A.T.C.H.

MOTION: After a brief question and answer period Representative Schaefer moved to send **HB 744** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representatives Roberts, Wood, Lake and LeFavour requested to be recorded as voting no. Representatives Smylie and Schaefer will co-sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:45 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** March 6, 2006
- TIME:** 9:00 a.m
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representative Saylor
Representatives Moyle and Denney
- GUESTS:** Representative Trail; Representative Bayer; Representative Henderson; Representative Nonini; Tami Brandstetter, Delta Dental; Bill Roden, Delta Dental; Russell Westerberg, The Principal Financial Group; Ellwood Kleaver, Primary Health; Stephen J. Petruzelli, Willamette Dental Management Corp.; Mike Shirtcliff, MDM, The Advantage Community; Skip Smyser, Idaho State Dental Association.
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Collins moved to accept the minutes as written of the meeting held on March 3, 2006. Motion passed on a voice vote.
- RS15485C2:** Chairman Crow announced the first item on the agenda was RS15485C2 and asked Representative Trail to explain the RS. **Representative Trail** stated that this proposed legislation relates to property exempt from taxation; amending Section 63-602E, Idaho Code, to allow a partial exemption from property tax if property is used for a non-profit school or education purposes or Charter school purposes and to provide an exemption for all property from which no profit is derived and which is held or used for endowment, building or maintenance purposes of schools, charter schools or education institutions.
- Representative Trail stated that this bill is about fairness and equity and is drawn very narrowly.
- MOTION:** Representative Lake moved to **introduce RS15485C2**. Motion **passed** on a voice vote.
- RS16176:** Chairman Crow announced the next item on the agenda was RS16176 and asked Representative Bayer to explain the RS. **Representative Bayer** said that this proposed legislation repeals current Section 50-22, Idaho Code, relating to annexation by cities and replaces it with language that provides for annexation of adjacent territory by voluntary annexation or annexation by request. Except when consent is obtained from those to be annexed a city will give notice of intent to annex, hold a public hearing and if objection specifications are met conduct an election in the affected area under certain conditions.

Further, that a city must comply with this section before it can annex adjacent territory. This proposed legislation will also amend Section 55-25-08, Idaho Code to delete reference to a written consent to annex. Representative Bayer requested that the RS be referred to the Local Government Committee for a hearing.

MOTION: It was moved by Representative Barrett moved to **introduce RS16176** and be referred to the Germaine **Local Government Committee**. Motion **passed** on a voice vote.

RS16194: Chairman Crow announced the next item on the agenda was RS16194 and asked Representative Henderson to explain the proposed legislation. **Representative Henderson** stated that this amends Section 67-8206, Idaho Code, to revise and simplify the procedures for the imposition of development impact fees. It also extends the number of years a governmental entity may hold development impact fees before expending them. He informed the Committee that cities are paying very high attorney fees to develop procedures to impose impact fees.

MOTION: Representative Schaefer moved to **introduce RS16194**. Motion **passed** on a voice vote.

RS16205: Chairman Crow announced the next item on the agenda was RS16205 and asked Representative Roberts to present the RS. **Representative Roberts** explained that this is not a major change but will require tax notices of school district taxes shall be shown separately: (A) Maintenance and operation; (B) Bond; (C) Supplemental; (D) Other. It also provides that the tax collector may establish a payment schedule to allow payments of current or future real or personal property taxes on a monthly or quarterly basis of at least twenty-five dollars or the balance owing.

MOTION: Representative Wood moved to **introduce RS16205**. Motion **passed** on a voice vote.

HB 730: Chairman Crow announced the next item on the agenda was HB 730 and recognized Representative Nonini to present the bill. **Representative Nonini** reviewed the history of the premium tax structure starting with a 435 page bill passed in 1961 without the governor's signature. He distributed a newspaper clipping headlining "The Biggest Bill In History."

The purpose of this legislation is to change the tax in title 41, Chapter 34, Idaho Code, so that companies will be consistent with the premium tax structure adopted as part of HB 724 in the 2004 Legislative Session. Unlike premium taxes assessed pursuant to Idaho Code Section 41-402, the current method of taxation based on four cents per subscriber contract per month in Chapter 34 has not been adjusted for health care inflation rates since 1982.

A single premium tax rate should make Idaho more competitive in its efforts to attract insurance carriers to market and sell their products in Idaho. The change to a single premium tax rate for all dental insurance carriers will also eliminate legal and financial exposure to the State created by the dual tax rate system.

Last year legislation on this issue had opposition from two companies. Chairman Crow instructed all parties to meet in the interim and resolve their problems. One company agreed to this legislation and Delta Dental still is in opposition. This issue is fair and sound tax policy.

CON: **Tami Brandstetter** stated that she is the CEO of **Delta Dental** and emphatically opposed HB 730. She said that Delta Dental is a not-for-profit corporation that operates under Chapter 34, title 41-3427, Idaho Code, since 1972. The mission of Delta Dental is to provide better oral health. Their organization is not an insurance company and does not have stock holders.

CON: **Bill Roden** representing **Delta Dental** distributed a hand-out on background information in behalf of the Delta Dental Plan. (Attachment #1) As directed by the Committee there were three meetings during the interim and he had attended two of those meetings.

Mr. Roden explained the difference between professional service corporations and insurance companies. In the case of a professional service corporation, having a financial disaster the dentists have to provide the services until the contract is completed. In the case of an insurance company's insolvency, assessments are made by all insurance companies but the insurance companies can then deduct the payments to the guaranty from their premium taxes.

He further pointed out that this bill deals with only two professional service corporations and does not include fraternal health care plans. He objected to imposing a burden on professional service corporations under the guise of fair play.

PRO: **Russell Westerberg** appeared on behalf of **The Principal Financial Group**. He said information about Principal and the reasons they are in full support of HB 730 is enumerated in the letter to this committee from the company's Executive Vice President & Chief Financial Officer Michael Gierse. A copy of the letter is attached. (Attachment #2)

Mr. Westerberg said some of what you have heard about HB 730 could give the impression that HB 730 is about the cost of dental care in Idaho or how health insurance companies should be defined and regulated or why there is a difference between an insurance company and professional service carriers.

He suggested that HB 730 is about none of that. It is all about tax policy and making Idaho's tax policy uniform and equitable as that tax policy applies to businesses wherever they may be located. However they may describe themselves they are offering the same product to Idaho consumers.

This legislation is not about insurance or how it should be sold or who should sell it. This legislation proposes to bring overdue equity to a glaring inequity in Idaho's tax policy pertaining to taxation of dental insurance.

PRO: **Ellwood Kleaver, CEO of Primary Health**, testified in support of HB 730 saying this legislation levels the playing field. He supported the graduated increase in the tax and the importance of competing in the market place.

PRO: **Stephen J. Petruzelli, President of the Willamette Dental Management Corp.**, said they did not seek to lower taxes or create a competitive advantage for Willamette but rather eliminate a competitive disadvantage. Taxing all dental plans in an equivalent manner they could return to competing on a more level playing field to sell needed services to the people of Idaho.

HB 730 is a fair compromise. It permits a phased-in approach over four years to equalize the tax burden on all dental benefit plans. Printed testimony is attached. (Attachment #4)

PRO: **Mike Shirtcliff, DMD, The Advantage Community**, testified in support of HB 730. He reviewed the operation of his company shown in printed testimony. (Attachment #5)

CON: **Skip Smyser, Idaho State Dental Association**, testified in opposition to the tax increase on Delta Dental. This tax increase would be a pass-through charge to the buying public. Insurance goes through risk pools while professional dental service corporations dentists stand behind their plan.

MOTION: Representative Lake moved to send **HB 730** to the floor with a **do pass** recommendation.

SUBSTITUTE MOTION: A substitute motion was made by Representative Barrett to **hold HB 730**. Roll call was requested.

ROLL CALL VOTE: Voting AYE - Representatives Barrett, Field, Schaefer, Smith, Raybould, McGeachin, Clark, LeFavour, Jaquet, Martinez. Voting NAY- Representatives Collins, Roberts, McKague, Lake, Crow. Motion to **HOLD HB 730 passed, 10-5-4.**

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:31 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 7, 2006

TIME: 9:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Sayler, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative Wood

GUESTS: Robert Shepherd, USTA-PA; Representative Eskridge

Chairman Crow called the meeting to order and requested a silent roll call. She said a copy of a committee report has been distributed relating to property tax relief bills passed by this Committee. (Attachment #1) There is also another report on all other property tax relief bills considered by the Committee. Hopefully you will find these reports useful as you visit with your constituents in the up coming month. (Attachment #2)

RS16198: Chairman Crow announced the first item on the agenda was RS16198 and asked Mr. Shepherd to present the RS. **Robert Shepherd, UST-PA**, explained that this changes the way premium moist snuff is taxed to one dollar per ounce. Currently it is taxed on ad valorem at forty percent of the wholesale price.

MOTION: Representative Field moved to **introduce RS16198**.

SUBSTITUTE MOTION: A substitute motion was made by Representative Smith the **return RS 16198 to sponsor**. Roll call was requested.

ROLL CALL VOTE: Voting AYE - Representatives Moyle, Smith. Voting NAY- Representatives Barrett, Field, Schaefer, Collins, Raybould, Roberts, Denney, McKague, McGeachin, Clark, Lake, LeFavour, Sayler, Martinez, Crow. Motion **failed, 1-15-2**.

Original motion to **introduce RS16198 passed**.

RS16174C1: Chairman Crow announced the next item on the agenda was RS16174C1 and asked Representative Lake to explain the RS. **Representative Lake** stated this proposed legislation raises the tax on each container of moist snuff to a minimum of \$1.00 per ounce and continue the tax rate of higher priced products at 40% of wholesale price of such tobacco products.

MOTION: Representative Roberts moved to **introduce RS16174C1**. Motion **passed** on a voice vote.

- HB 720:** Chairman Crow announced the next item on the agenda was HB 720 and recognized Representative Moyle to present the bill. **Representative Moyle** said that this legislation requires taxing districts, when holding an election to increase property taxes, to mail notices of such elections to property taxpayers. There was a short discussion relating to the cost of mailing notices.
- MOTION:** Representative Raybould moved to send **HB 720** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Moyle will sponsor the bill on the floor.
- HB 756:** Chairman Crow announced the next item on the agenda was HB 756 and recognized Representative Eskridge to present the bill. **Representative Eskridge** stated that this legislation Sections 63-3622D and 63-3622JJ which prevents certain industries from receiving the production exemption. There are four wood pellet manufacturing companies located in Idaho who are at a competitive disadvantage with neighboring states. This legislation exempts the sales tax on heating materials used in the production of wood pellets. He pointed out that there was an error on the Statement of purpose where it states that it removes Section 63-3622G. The correct purpose is to make changes to Sections 63- 3622Da and 63-3622JJ.
- MOTION:** Representative LeFavour moved to send **HB 756** to the floor with a **do pass** recommendation and a reprint of the Statement of Purpose. Motion **passed** on a voice vote. Representative Eskridge will sponsor the bill on the floor.
- ADJOURN:** There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:01 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

ATTACHMENT #1
PROPERTY TAX RELIEF BILLS PASSED OUT OF REVENUE
AND TAXATION COMMITTEE
58th IDAHO LEGISLATURE SECOND SESSION 2006

HB 421 Property tax, homestead exemption

This legislation expands the home owners exemption from the lower of 50% of assessed valuation or \$50,000 to the lower of 50% of assessed valuation or \$75,000. It also indexes the maximum allowable deduction for succeeding years to cost of living adjustments as determined by the federal government. It further allows for the inclusion of the value of the residential home site when computing property valuations for the homeowner's exemption.

Fiscal Impact: The additional exemption would reduce taxable value. Public school property taxes are estimated to decrease \$4 million. The tax shift from owner-occupied homes to other properties is estimated to be about \$47 million

HB 422 Property tax/circuit breaker/income

Increases the maximum qualifying income for the "circuit breaker" program from \$22,231 to \$28,000. This bill also increases the maximum property tax relief benefit from the current \$1,200 to \$1,320

Fiscal Impact: Estimated cost of expansion is \$6.6 million. If done in conjunction with homeowner expansion to \$75,000, the cost of this bill is estimated at \$4.2 million.

HB 480aa Taxing district budget/reduce property tax.

This bill only applies to local, non-school taxing districts with property tax budgets over \$250,000. If electors in those districts feel that the adopted budget is growing too rapidly they may initiate a budget reduction.

Fiscal Impact: If successful the taxing district would start from that new base and then grow at 3% plus new construction the following budget year. In the year of initial reduction the taxing district shall not be eligible to use any foregone balance amount.

HB 508 Taxing district budget request, limit

This bill would reduce the annexation component of the local property tax budget limitation law to 50% of the annexation value times the previous years non-exempt tax rate for the purpose of establishing the new district wide budget.

Fiscal Impact: This would reduce the local budget increase for taxing districts that have annexed new taxable property into their taxing district boundary. Reduces taxing districts by \$1.5 million statewide in 2005.

HB 676: Property tax, agriculture land, platting

This bill is a combination of H427 and H510 to repeal the rural home site development exemption. This bill also provides that platting land actively devoted to agriculture or transferring a parcel to a child or spouse does not alone cause the land to lose its agriculture exemption as long as it still meets the agricultural definition.

Fiscal Impact: Would vary by county. Statewide in 2005 there was \$5,978,000 in property taxes that was shifted to other property taxpayers.

HB 677 School district, impact

\$2.50 per square foot development impact fee on all new residential construction. The new fee revenue will first be used to abate unsafe school facilities and then to retire school district bond indebtedness and then can be used for plant facilities.
Fiscal Impact: The need for bond issues maybe reduced. The cost of a new home will increase.

HB 678: School district, tax levies

This calls for reducing the Public School M&O property tax levy from generally 0.3% to 0.15%. Repeals language regarding the state 0.1 % property tax replacement (which is now capped at \$75M) and is currently part of the state general fund. Limits the remaining property tax M&O levy to 3% growth per year. Also if the state general funds are over 8% growth the excess shall go to the public school income fund to provide a corresponding reduction in the school M&O property tax levy amount.
Fiscal Impact: Estimated \$125M property tax reduction and an expected, equal increase in the state general fund appropriations for public schools.

HB 679 Sales tax, additional one-half cent

This new section 63-3641 I.C. would impose a half-cent sales tax increase beginning June 1, 2006 with the intent to fund more public school costs through the state general fund.
Fiscal Impact: FY2007 estimated general fund tax increase of \$100 - 105M. This additional sales tax would not be subject to the sales tax distribution provisions of 63-3638 I.C., but shall be deposited to the state general fund. This is the companion bill to H678.

HB 680 Property Tax Deferral Act

This bill would allow low-income senior, disabled or widowed homeowners who qualify for the "circuit breaker" program to defer payment of their home's property taxes. Other than their spouse the home must not be co-owned by other persons or be held in trust subject to a life estate. The deferred taxes and interest (at 6%) would be payable when the homeowner and spouse have died, the property is sold or it no longer qualifies for the homeowner exemption and/or circuit breaker program. The lien for deferred taxes and interest shall not be the first and prior lien, but shall take its priority from the date and time of filing the notice of lien.

No Application for deferral of property taxes shall be granted if: 1) applicant fails to show sufficient equity in the property after consideration of encumbrances that are superior to any liens for deferral, 2) failure to show proof of adequate amount of insurance for the deferred tax and interest, 3) the result of deferred property taxes and interest would exceed 50% of the qualified claimant's proportional share of the market value of the qualified property.

Fiscal Impact: The maximum annual cost to the general fund is \$500,000 (from state sales tax).

ATTACHMENT #2

**PROPERTY TAX RELIEF BILLS CONSIDERED BY THE
REVENUE AND TAXATION COMMITTEE
58th IDAHO LEGISLATURE SECOND SESSION 2006**

CIRCUIT BREAKER

H437 Property tax relief/ "circuit breaker" income levels

This bill would increase the income brackets for low income, widowed, disabled and senior homeowners who qualify for the "circuit breaker" property tax relief program. After 2006, the 2006 lowest bracket would go from (\$0 - \$9,110) to (\$0 - \$12,050) to receive a maximum of \$1,200 in property tax relief. All income brackets in between would increase proportionately and the highest bracket would go from (\$22,231 - \$22,630) to (\$29,481 - \$30,000) to receive a maximum of \$150 in property tax relief.

Fiscal Impact: The 2004 cost to the state to provide this program was \$15 million. This bracket expansion is estimated to increase the state's cost an additional \$7.3 million.

H506 Property tax relief/earned income, "circuit breaker"

This bill would to add potential new qualifying claimants to this property tax relief program. These new claimants are those Idaho residents eligible for the federal earned income tax credit under Section 32 of the Internal Revenue Code, for whom the total property tax due for the previous year will meet or exceed ten percent of the claimant's annual adjusted gross income for that tax year. The bill includes language about recovery of erroneous claims.

Fiscal Impact: The bill identifies 97,765 federal income tax filers (people) getting the federal Earned Income Tax Credit. Based on the numbers of those filers who would qualify as circuit breaker claimants this bill would increase the cost of the circuit breaker program by \$16 million.

SCHOOLS, MAINTENANCE & OPERATION LEVY

H418 Schools, M&O levy

This bill would lower the public school property tax Maintenance & Operations budget limit from .03 percent of the property tax value base to 1.5 percent of the property tax value beginning in the property tax year 2006. Revenue losses to the school districts under this change will be paid from the general fund. Also, a budget growth cap is applied that limits non-voter approved school property tax budgets to 3% plus the value of new construction.

Fiscal Impact : This cost shift is estimated at \$204 million.

H424 Schools, M&O reduction reduced.

This legislation would reduce the public school property tax maintenance and operations levy from a general 0.3% to 0.15%. This bill would also repeal the 0.10% of property tax replacement (0.10% of statewide taxable value), which has been capped at \$75 million and is currently funded through the state general fund.

Fiscal Impact: Property taxes will be reduced \$125 to \$135 million. This bill expects that the appropriation for public schools from the state general fund will increase a similar amount.

H429 Schools, repeals property tax replacement cap.

This bill repeals the \$75 million cap in the statute and the state would again

return to replacing local school M&O property taxes by a formula that is 0.1 % multiplied by statewide school district actual or adjusted market value for assessment purposes.

Fiscal Impact: Rather than being frozen at \$75 million, repeal of this section would make the state's property tax replacement amount 0.1 % of each year's most current Dec. 31 statewide taxable value, which is now \$83.9 million.

H479 Public school levies/financing

For tax year 2006 forward, multiply the amount of the school M&O dollars raised under the general 0.3% multiplier statewide by 1.03 (3% increase). Then subtract the amount resulting from new construction that year from the total statewide taxable value at December 31 of the previous year. And, then divide the 3% increased budget amount by the December 31 taxable value amount (less new construction) to get the tax rate. Then reduce this rate further by including any revenues from the state general fund that are over an 8% general fund growth amount per year. Any of these general fund revenues would go into the school income fund and would be transferred from there.

Fiscal Impact: No fiscal impact reported.

H505 Eliminate M&O, 1 cent sales tax increase-school formula.

This bill increases the state general fund appropriation for public schools by increasing the state sales tax from 5% to 6% beginning June 1, 2006. Reduces local, nonschool district state sales tax revenue sharing from 13.7% to 11.5% so the new sales taxes all go to the state general fund. This bill would not have short-term impact on 110 of Idaho's 114 school districts and would also not impact charter schools in the state.

Fiscal Impact: Removes nearly \$290 million in FY2007 school M&O property taxes. The state would replace \$244 million of this amount, up to the equalized funding level provided to 110 of the state's 114 school districts, assuming that funding is provided for a 3% increase in per support unit discretionary funds for school districts. Four higher market value school districts currently receive no state equalization funding. The \$244 million state cost would be mostly covered by the \$210 million raised by the 1-cent sales tax increase. The remaining \$34 million balance (expressed as a tax reduction) would be covered by future state economic growth.

BUDGET LIMIT/ FREEZE

H419 Property tax, new construction, land use.

This bill would allow non-school taxing districts that have taken less than the maximum allowable property tax budget increase to recover the "foregone" budget amount by an amount not to exceed 100% of the "foregone amount." Whatever balance remains in the "foregone amount" shall not be included in the future budget calculations. The bill would also subtract the market value resulting from new construction or change of land use classification from the highest of the three previous year's budgets used for applying the 3% growth factor for the current year budget. The new construction component for the current year budget times the previous year's tax rate would only be added for one year to the current year's 3% budget increase.

Fiscal Impact: Would limit local ongoing budget growth.

H420 One-year property tax moratorium.

This bill would put a moratorium on property tax increases for 2006 by not

requiring the State Tax Commission to ascertain the ratio between the market value for assessment purposes for real property and the assessed valuation of real property in each county to ascertain the adjusted value of all property in each county.

Fiscal: Intent is to freeze local 2006 tax year budgets.

H478 Taxing districts, budget request, limit.

This bill proposes to limit local budget increases to 3% of highest of the three previous year's budgets. Local taxing districts can still go to the voters to increase the levy to a higher budget level and then grow 3% a year at the higher level. Two-thirds voter approval on a Mayoral November election date would be needed for a local taxing district to go to the higher budget/levy level.

Fiscal Impact: No fiscal impact reported.

H481 Taxing district budget request limit.

This bill places a moratorium on all taxing districts for fiscal year 2006 and ending in 2007. No taxing district shall certify a budget request to finance the property tax portion of its operating budget that exceeds the dollar amount of property taxes certified for that purpose in 2005.

Fiscal Impact: Varies

H507 Moratorium on ratio study.

This bill provides that a moratorium that the ratio between the market value and the assessed value of real property shall not apply to values established for 2006. It directs the State Tax Commission to conduct a review of existing income and sales tax exemptions to determine if they match the existing economic composition of the state. The in-depth analysis shall include: 1) Removal of school M&O from property tax; 2) Effectiveness of the non-school property tax budget limitation law; 3) Consideration of alternative budget limitations; 4) Impacts of 1% initiative on local property tax budgets; 5) Analysis of market valuation based requirements and 6) Report what other states are doing to limit property tax growth.

Fiscal Impact: None provided

H509 Taxing district, budget request, limit.

This bill would reduce the new construction component of the local property tax budget limitation law to 50% of the new construction value times the previous year's nonexempt tax rate.

Fiscal Impact: This would reduce the local budget increase for taxing districts that have taxable new construction property value within their taxing district boundary.

HOMEOWNER EXEMPTIONS

H423 Property tax, homestead exemption.

This legislation expands the \$50,000 or 50% homeowner exemption to the lesser of \$50,000 or 50%, including the land, beginning in the tax year 2007. And, beginning in tax year 2007 an annual cost of living (COL) adjustment will be made to the exemption based on the U.S. Health and Services, October 1, COL modification in the previous property tax year.

Fiscal Impact: This added exemption would reduce the amount of taxable value for the public school multiplier, thus reducing public school property taxes by an estimated \$4 million. There would also be a property tax shift from owner-occupied home to other classes of property (original est. was \$25 million tax shift).

H456 Property tax / homestead exemption increase.

This legislation doubles the maximum homeowner exemption to \$100,000 and includes the land. Also includes an annual cost of living adjustment percentage modification as determined by the secretary of human and health services announcement.

Fiscal Impact: The 2006 estimated reduction in homeowner property taxes is \$65 million and the year delay decrease in school property taxes due to less taxable value is \$16 million.

H470 Property tax exemption, homestead increase.

This bill proposes to exempt an additional \$150,000 (home and land) value in addition to the current \$50,000/50% homeowner exemption (whichever is less). The qualified applicant must have been a resident Idaho homeowner for the previous 10 years and must be 70 years of age or more (on or before April 15 of the year application for this exemption is made).

Fiscal Impact: State costs for the circuit breaker program would be less. But application for this exemption will reduce taxable value (and increase tax rates) in local taxing districts. Also the product of the public school district multiplier times taxable value will be less, thus less property taxes for school M&O.

ASSESSMENT CAP

H455 Income tax / property value increase.

This bill would exempt increases in the net amount of taxable value of real property for all parcels owned in excess of 5% per year. Forestland property assessment is identified as not being eligible for this exemption. (Personal and operating properties were not identified.)

Fiscal Impact: The cost to the state paid circuit breaker program would be less. The school M&O multiplier times taxable value will be less, so schools are estimated to get \$19 million less property tax dollars. Because taxable values would grow more slowly, tax rates of nonschool districts will increase and the bill estimates that in 2006 the impact of the statutory levy limits will be \$8 million less property tax collections.

H482 Property tax exemption/value increase.

This bill exempts that portion of the market value for assessment purposes of the residential improvement and lot exceeding the 2006 value of that same property. The value remains the same for the property until there is a transfer of ownership or major improvements are made (major improvement is a modification that exceeds 10% of the assessed value of the property). Transfer of ownership does not include transfers to spouse, surviving spouse, or trustee of spouse, former spouse in connection with a property settlement agreement, other transfers of this type.

Fiscal Impact: Potential reduction in property taxes for these taxpayers and shift to others.

H503 Property tax exemption, increase value.

During tax year 2006 and each year after owner-occupied residence taxpayers with the homeowners exemption will also receive an exemption for valuation increases on their residential improvements and a lot that is greater than 3% per year.

Fiscal Impact: No general fund impact, but STC estimates a reduction in 2005 taxable values by \$2.9 billion, resulting in a \$42.5 million tax shift and a \$10 million reduction in school M&O in the second year.

RURAL DEVELOPERS EXEMPTION

H427 Property tax, rural homesite development.

Land in rural areas previously having agric. exemption shall continue to get the exemption, except for individual parcels that have been transferred (unless the requirements for the exemption have been met). The remaining parcels shall be eligible for the agric. exemption in 63-602K Idaho Code (I.C.) unless they are otherwise ineligible. Transfer of a parcel to a child or spouse of the owner shall not cause ineligibility for the exemption unless construction of improvements has begun, then the parcel is not eligible for the agric. exemption.

Fiscal Impact: More exemption shifts taxes to other property classes and reduces school M&O funding. Loss of exemption does not shift taxes to other properties and increases school M&O funds.

H428 Property tax, agriculture land, platted.

This bill repeals the rural development agric. exemption in 63-602FF I.C.

Fiscal Impact: The statewide value of this exemption was \$788.1 million in 2005.

Repeal would remove this exemption and add this value back to the property tax rolls in those affected counties.

H438 Property tax, agriculture land, plat.

This bill ends the rural home-site development exemption from property tax as of Jan. 1, 2006, but extends the exemption for properties eligible in 2005. The exemption extension for those already eligible ends upon the occurrence of December 31, 2010 or earlier if a building starts being constructed on an exempt parcel, is annexed into a city or the sale or transfer of the property (except the first transfer to a surviving spouse or child following the owner's death). The bill also provides that the speculative portion of the value of agricultural property shall not change if the property is undeveloped but in a rural subdivision plat.

Fiscal Impact: Although the current rural developer exemption would not increase, the properties under the current exemption would remain as such until the exemption ends on December 31, 2010.

H510 Property tax exemption/rural homesites

This bill repeals the partial exemption for parcels of land in a rural home site development plat (63-602FF I.C.). It also provides that platting land actively devoted to agriculture does not alone cause the land to lose its agriculture exemption.

Fiscal Impact: No fiscal impact provided.

H569 Partial exemption / agriculture exemption

This bill repeals section 63-602FF and adds a new section 63-602JJ I.C., Economic Development Initiative. The bill proposes to exempt from property taxation the speculative portion of the taxable value of vacant subdivision or planned unit development (PUD) lots until improvements are being built or any interest in the ownership of the lot is sold or transferred to an unrelated entity. The amount exempted is two-thirds of the market value of the vacant subdivision or PUD lots. Unrelated entity means any business entity or trust which is owned 50% or less by the seller or transferor of the property or any individual who is not a spouse or lineal descendent.

Fiscal Impact: Nothing Estimated

IMPACT FEES

H426 School district, impact fees.

This bill proposes that school district boards be authorized to adopt a motion and impose an impact fee of up to \$2.50 per square foot on all new residential construction within the district. Remodeling of existing structures would not be subject to this fee, provided the remodel does not expand living space. The fee would be collected at the time a building permit is issued. The fees would be placed in the school plant facilities reserve fund. Entities collecting the fee would get up to 0.5% of the fees collected.

Fiscal Impact: The need for school overrides, Plant Facility levies and bonds may be reduced, but cost of a new home would increase (\$2.50 X 2,000 sq. ft. = \$5,000.)

H504 School district, impact fees.

This bill adds to powers and duties of the board of trustees for school districts to adopt an ordinance imposing a development impact fee (within the existing impact fee code) provided that the development impact fee shall be expended only within the county in which it was paid. The fee would be used for public school buildings provided the useful building life is 20 years or more. The fee can also be used for related school capital improvements.

Fiscal Impact: No impact to the state general fund. Will add to local school district revenues for new school facility construction associated with growth. May result in less need for property taxes for such facilities.

H532 Local option real estate transfer tax.

This bill intends to provide a county option of having a real estate transfer tax for 10 years provided two-thirds of the qualified county voters approve (on an election consolidation date) the authorization to adopt such ordinance. Half of the amount collected shall be for county property tax relief and the remainder for any lawful purpose. The tax may not exceed 1 % of the sales price. Price disclosure is required as a prerequisite for this act. Residential homes under the STC determined median price would be exempt. Revenues are targeted at a minimum of 50% for property tax relief and the remainder for one-time capitol expenditures.

Fiscal Impact: Amount collected depends on the county residential property transfers.

LOCAL OPTION SALES TAX

H501 County local option sales tax, capital project and affordable housing.

This bill would provide counties up to a 0.5% (half-cent) local option sales tax with up to 50% for property tax relief and the remainder of these sales tax collections for funding capital projects, including "affordable housing." Requires two-thirds of county voters to approve at an election held on the 4th Tuesday in May or the 1st Tuesday after the first Monday in November. The tax would have a 10-year duration.

Fiscal Impact: Would depend on county sales tax receipts.

H502 County local option sales tax, capital projects.

This bill would provide counties up to a 0.5% (half-cent) local option sales tax with at least 50% for property tax relief and the remainder for funding capital projects. Requires two-thirds of county voters to approve at an election conducted on the 4th Tuesday in May or on the first Tuesday after the first Monday in November, provided 40% of the registered voters in the county vote in the election. Duration of the tax would be 10 years.

Fiscal Impact: Depends on county sales tax receipts.

REVERSE MORTGAGES

H425 Reverse mortgages to pay property taxes.

This legislation authorizes the Idaho Housing and Finance Association, Director of the Department of Insurance and the Director of the Department of Finance to promulgate rules authorizing their respective participants to engage in the issuance of reverse mortgages to persons over 62 years of age for the purpose of paying property taxes and other expenses on their residential property that they otherwise may not be able to afford.

Fiscal Impact: None estimated, except for the cost of promulgating rules.

H439 Property tax deferral act.

This bill is intended for lower income individuals that also qualify for the state's "circuit breaker" property tax relief program. The property taxes to be deferred would not exceed 50% of the qualified claimant's proportional share of the market value of the qualified property. The amount of property tax deferred shall accrue interest (at 6% annually) during the period of deferral. The STC shall file a lien for the deferred property taxes in the county the property is located. The total amount of reimbursement payable to all counties under this deferral program shall not exceed \$500,000 per calendar year. (If so, then the amount deferred on all properties shall be proportionately reduced, and be payable.)

Fiscal Impact: Maximum \$500,000 annual cost to the state general fund from the state sales tax.

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** March 8, 2006
- TIME:** 9:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representatives Wood and Denney
- GUESTS:** Commissioner Dewey Hammond, Idaho State Tax Commission; George Prentice, The Shepherd's Home; Renee Chalfant, The Advocates
- UNANIMOUS
CONSENT:** Chairman Crow called the meeting to order and requested a silent roll call. She advised the Committee that HB 460, relating to withholding income tax on sale of real estate by non-residents, was held time certain for one week for all parties to resolve their differences. The issue has not been resolved and asked for **unanimous consent to hold HB 460**, time certain for one week, **until March 15, 2006**. Consent was granted.
- HB 765:** Chairman Crow announced the first item on the agenda was HB 765 and asked Representative Roberts to present the bill. **Representative Roberts** said this is an income tax credit for donors who donate to the Shepherd's Home, Inc. He yielded to Mr. Prentice.
- George Prentice**, Executive Director of **The Shepherd's Home** distributed a flyer on the mission of the home. (Attachment #1) It describes the mission, criteria, services, grantees, home and a profile of residents. The Shepherd's Homes is non-denominational and not affiliated with any faith or faith-based organization. It is a non-profit 501c 3 entity.
- MOTION:** Representative Martinez moved to send **HB 765** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Roberts will sponsor the bill on the floor.
- HB 754:** Chairman Crow announced the next item on the agenda was HB 754 and asked Mr. Hammond to present the bill. **Commissioner Dewey Hammond, Idaho State Tax Commission**, distributed a report analyzing "The Idaho Small Employer Incentive Act" impact of last years HB 323 and HB 754. (Attachment #2)
- He addressed two changes as follows: It removes the restriction that the minimum new "headquarters and administration" investment qualification must be \$500,000 changing the restriction to "investment in new plant and buildings" must be \$500,000. It adds the "minimum average salary of any additional jobs" at \$32,240. These changes make it more workable and

equitable for small business incentives.

- MOTION:** Representative Clark moved to send **HB 754** to the floor with a **do pass** recommendation. Roll call was requested.
- ROLL CALL VOTE:** Voting AYE - Representatives Moyle, Field, Schaefer, Smith, Collins, Raybould, McKague, McGeachin, Clark, Jaquet, Saylor, Martinez, Crow. Voting NAY - Representatives Barrett, LeFavour. Motion **passed, 13-2-4**. Representative Moyle will sponsor the bill on the floor.
- HB 755:** Chairman Crow announced the next item on the agenda was HB 755 and recognized Representative Clark to present the bill. **Representative Clark** said this legislation increases the percentage of the General Fund that can be deposited into the budget Stabilization Fund. The percent is increased from 5% to 8%. This increase is in line with the percent of growth in the General Fund since 1998.
- MOTION:** Representative Raybould moved to send **HB 755** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Clark will sponsor the bill on the floor.
- HB 757:** Chairman Crow announced the next item on the agenda was HB 757 and asked Representative Jaquet to address the bill. **Representative Jaquet** distributed a pamphlet illustrating "The Advocates" services. (Attachment #3) The purpose of this legislation is to add Advocates for Survivors of Domestic Violence and Sexual Assault, Inc. To the list of charities listed in IC 63-36220 exemption sales tax on purchases. She yielded to Mrs. Chalfant.
- Renee Chalfant, The Advocates**, apprised the members of their mission to prevent domestic violence and sexual assault in communities through education, shelter and supportive services. She said any consideration given to help their activities would be appreciated.
- MOTION:** Representative Martinez moved to send **HB 757** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Jaquet will sponsor the bill on floor.
- ADJOURN:** There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:11 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** March 9, 2006
- TIME:** 9:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Sayler, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representatives Roberts, Wood and Denney
- GUESTS:** Jack Lyman, Idaho Mining Association; Robert Shepherd ,States Smokeless Tobacco; Sue Ann Reese, American Heart Association; Jerry Deckard, Swisher International; Bill Roden, United States Smokeless Tobacco; Representative Hart
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Field moved to accept the minutes as written of the meeting held on March 6, 2006, March 7, 2006 and March 8, 2006. Motion passed on a voice vote.
- RS16230:** Chairman Crow announced the first item on the agenda was RS16230 and asked Mr. Lyman to explain the RS. **Jack Lyman, Idaho Mining Association** stated that this proposed legislation clarifies that the sales tax exemption for pollution control equipment is available for liners and reagents intended to protect ground water. Under current State Tax Commission rulings the exemption would be denied because the liners and reagents would be considered improvements to real property.
- MOTION:** Representative Raybould moved to **introduce RS16230** and recommend that it be placed on **second reading**. Motion **passed** on a voice vote. Representative LeFavour requested to be recorded as voting no. Representative Denney will sponsor the bill on the floor.
- HB 786:** Chairman Crow announced the next item on the agenda was HB 786 and recognized Mr. Shepherd to present the bill. **Robert Shepherd**, consultant for the **United States Smokeless Tobacco (USST-PA)**. He said the reasons this legislation is needed is because the marketplace for moist smokeless tobacco has changed over the last five years. The revenue stream is unstable and state revenues are diminishing and the current tax structure allows for manipulation of the tax system.
- The percentage of MST revenue included in the total Other Tobacco Products revenue received by the state has been decreasing over the last several years even though total can sales are higher. This is because the sales of products with a lower wholesale price have significantly increased. Since the tax is currently a percentage of the wholesale price, the MST tax revenues are not keeping pace with this increase in overall sales.

He explained the growth of the low price products, tier 3, actual and projected and the decrease in sales of premium products, tier 1, based on experience in other states. This growth in low price products causes a decrease in revenue to the state. He distributed a charts depicting revenue projection compared with the current tax method and the weight based method. The chart reflects that the \$850,000 will be there for the drug, mental health and family courts. He also distributed his prepared remarks including charts. (Attachment #1)

The Chairman announced that the Committee would hear testimony on HB 786 and HB 787 and then vote.

CON HB 786:
PRO HB 787:

Sue Ann Reese, American Heart Association, spoke in opposition to HB 786 saying the \$1 per ounce makes the premium product come down. She supported HB 787 because it capped the lower end product and leaves the premium product at the higher tax rate.

CON:

Jerry Deckard, Swisher International, stated that he was in support of the Statement of Purpose to fund drug, family and mental health courts. But the issue should be before the Joint Finance and Appropriation Committee and is a general obligation for all Idahoans. He distributed a hand-out showing a map of the United States reflecting how excise taxes were imposed on smokeless tobacco and cigarettes.

He described how smokeless taxes worked on page 5 of the hand-out saying that every time the price of moist snuff, cigars or chewing tobacco increase, tax revenues automatically increase as well. In practice the price for moist snuff increases at a rate greater than inflation and therefore increases the excise tax revenues without any action by the Legislature.

The remaining charts in the hand-out reflected indexing collections; chart on moist snuff sold in a wide variety of weights; if the tax rate had been seventy six cents per ounce the state would have received \$6,134,067 less between 1999 and 2004. (Attachment #2)

PRO:

Bill Roden, representing the **United States Smokeless Tobacco**, in rebuttal he said the revenue projection shown on the fiscal impact of HB 786 is reliable and the target would be met. Our methodology has been reviewed by the State Tax Commission and the Associated Taxpayers association and the methodology is correct. If the projected \$7 million, or more, income is not met the tax on wholesale price will be reinstated.

This legislation is fair and will provide predictable and reasonable stable revenues for the future and will avoid the pitfalls of the present law that encourages manipulation of price to reduce tax in order to gain market share.

This legislation makes funds available for mental health courts, drug courts and family court services. These are laudable purposes and they need money for the programs to work. He said that the Statement of Purpose is incorrect because it is not a dedicated fund but declares that \$850,000 will be available for appropriation for those purposes.

Both HB 786 and 787 will stop the erosion of future state revenues resulting from the existing tax policy that favors the low price products over the higher priced products in the same category. This tax policy needs to be changed as the market place has changed.

HB 787: Chairman Crow announced the next item on the agenda was HB 787 and recognized Representative Lake to present the bill. **Representative Lake** explained the difference between HB 786 and 787. This legislation raises the tax on each container of moist snuff to a minimum of \$1.00 per ounce and continue the tax rate of higher priced products at 40% of wholesale price of such tobacco products. The purpose of this change is to leave the low cost moist snuff at \$1 per ounce and freeze the high products at the 40% of wholesale.

MOTION: Representative Field moved to send **HB 787** to the floor with a **do pass** recommendation.

SUBSTITUTE MOTION: A substitute motion was made by Representative Barrett to **HOLD HB 787**. Roll call was requested.

ROLL CALL VOTE: Voting AYE - Representatives Barrett, Schaefer, Smith, McKague, McGeachin, Clark. Voting NAY - Representatives Moyle, Field, Collin, Raybould, Lake, LeFavour, Jaquet, Saylor, Martinez, Crow. Motion **failed, 6,10,3.**

Original motion to send **HB 787** to the floor with a **do pass** recommendation **passed** on a roll call vote. Representatives Barrett, Schaefer, McGeachin and Clark requested to be recorded as voting no. Representative Field will sponsor the bill on the floor.

MOTION: Representative Field moved to **hold HB 786**. Motion **passed** on a voice vote. Representatives Barrett, Schaefer, Smith, McGeachin, Clark requested to be recorded as voting no.

HB 731: Chairman Crow announced the next item on the agenda was HB 731 and recognized Representative Hart to present the bill. **Representative Hart** defined the various testing of youth that is mandatory to join the Idaho Drug Fee Youth organization. It is the only organization in the State of Idaho that offers preventative counseling and programs to prevent drug addiction and drug use to Idaho youth before they ever use drugs.

The organization is a nonprofit 501 c 3 organization and the purpose of this legislation is to create an income tax credit for contributions to the Idaho Drug Free Youth organization.

MOTION: Representative Clark moved to send **HB 731** to the floor with a **do pass** recommendation. Representative Hart will sponsor the bill on the floor.

ADJOURN:

Chairman Crow announced that the Committee was due on the floor and would hold the last bill on the agenda, HB 732, to be continued on Monday. She adjourned the meeting at 10:26 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 13, 2006

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative Denney

GUESTS: Representative Hart; Senator Jorgenson; Bryan Fischer, Idaho Values Alliance; Donna Peterson, Treasurer of Payette County; Dan Chadwick, Idaho Association of Counties; John Eaton, Idaho Association of Realtors; Fred Tilman, Ada County Commissioner

MINUTES: Chairman Crow called the meeting to order and requested a silent roll call. Representative Smith moved to accept the minutes as written of the meeting held on March 9, 2006. Motion passed on a voice vote.

HB 732: Chairman Crow announced that the first item on the agenda was carried over from March 9, 2006 meeting and recognized Representative Hart to explain the bill. **Representative Hart** stated that this legislation corrects an inequity in the Idaho Code or the distribution of proceeds of a tax deed sale. As the law currently stands, when a property is sold at a tax deed, one hundred percent of the proceeds are distributed among the various taxing districts associated with the property. None of the proceeds after expenses are distributed to the taxpayer who loses his entire equity.

He distributed copies of charts depicting the county process of distribution of surplus under this legislation. (Attachment #1) Also he distributed a suggested amendment to the bill and reviewed all the changes.. (Attachment #2) He pointed out another section of the code relating to seizure of personal property. The county can seize the property for back taxes and sell property. Then the proceeds go back to the taxpayer.

PRO: **Senator Jorgenson** testified in support of HB 732. He cited a case of abuse in Kootenai County where that the property was auctioned off for \$22,000 and the property value was over a half million dollars and the property was taken off the tax rolls. The \$22,000 was distributed to the taxing districts. This bill eliminates taxing districts from receiving the surplus from the sale.

PRO: **Bryan Fischer**, Executive Director of the **Idaho Values Alliance** testified in support of HB 732. He said because they believe it corrects an injustice in Idaho law that works an unfair hardship of Idaho families.

As a fundamental issue of fairness, property owners should be allowed to keep the proceeds of the sale once the outstanding tax liability is satisfied. Counties should not be allowed to reap a windfall from the financial hardship of unfortunate Idaho families. A copy of full testimony is attached. (Attachment #3)

CON: **Donna Peterson, Treasurer of Payette County**, stated she was representing both the **Idaho Association of County Treasurers** and the **Association of County Treasurers** as administrator of the Idaho tax policy and they oppose HB732. She went into great detail of the process the county treasurers goes through prior to making recommendations to the county commissioners to take a tax deed. During this four year process the taxpayer had received a minimum of nine notices indicating they were delinquent on property taxes.

Idaho Code says that if treasurers follow the law and meet all the criteria that the commissioners "shall" take tax deed, it does not say they "may" or "they could" but "shall." Should the county take a tax deed, the county becomes the owner of record. The previous owner can redeem their property up until the county commissioners sell the property.

In closing she said this bill would provide a mechanism to justify personal neglect and it takes away the consequences of not paying property taxes.

CON: **Dan Chadwick, Idaho Association of Counties**, stated that property ownership is a fundamental right. With this right goes responsibility to use the property in a way that does not harm others and to pay property taxes. As Mrs. Peterson explained, the issuance of a tax deed occurs after three years of failure to pay property taxes as required by law. Once the tax deed is issued, the property is no longer owned by the person who failed to meet their obligation. The property is now public property and the tax deed conveys title and ownership to the county. The owner had options to work out payment arrangements with the county to seek a hardship exemption from the commissioners or sell the property. The only way the title can return to the original owner is if the property is redeemed according to law.

The amendment proposed by Representative Hart seems to be complex and duplicative. In addition it puts the county treasurer in the awkward position of initiating a court action which really is within the purview of the prosecuting attorney.

Because the property owner had ample opportunity and options to resolve the payment of taxes and because once a tax deed issues, ownership is vested in the county on behalf of the public. HB 732 should be held in committee.

CON: **John Eaton, Idaho Association of Realtors**, testified in opposition to HB 732 . He said this bill sets up the county in the roll of selling land as a service and gives back to the property tax owner the surplus. He voiced concern that there is no penalty fee. It put Realtors in a bind for the county to provide services that should be provided for by private industry. This bill is not fair or equitable.

Representative Hart said in rebuttal that the Kootenai case is not an isolated issue. Property sold at tax deed auctions are typically sold at 50% of value.

MOTION: After a short debate, Representative Clark moved to **HOLD HB 732**.

SUBSTITUTE MOTION: A substitute motion was made by Representative McKague to send **HB 732** to **general orders** with Committee amendments attached. Roll call was requested.

ROLL CALL VOTE: Voting aye - Representatives Barrett, Moyle, Schaefer, Wood, McKague, McGeachin, Lake, CrOw. Voting NAY - Representatives Field, Smith, Collins, Raybould, Roberts, Clark, LeFavour, Jaquet, Sayler, Martinez. Motion **failed, 8-10-1**

Original motion to **HOLD HB 732 passed** on a voice vote.

RS16209: Chairman Crow announced the next item on the agenda was RS16209 and asked Commissioner Tilman to explain the RS. **Fred Tilman, Ada County Commissioner**, said there is a problem though-out the state in finding qualified land use planners. This proposed legislation adds a statute authorizing a board of county commissioners to impose and collect a user fee from the owner or developer creating a subdivision as defined in Idaho Code.

The statute prescribes that the said fees are to be dedicated to the development, sponsorship, promotion and administration of a Planning Education curriculum at a local institution of higher learning for the public benefit.

The statute further prescribes the manner of collecting the fees and the procedure for remitting the fees to the institution of choice of the commissioners. The user fees would not exceed \$100 per lot on plats and condominium amendment plats.

Mr. Tilman pointed out that there is an error on page one of the RS that needs to be corrected by replacing the word "improve" with "impose."

MOTION: Representative LeFavour moved to **introduce RS16209C1** reflecting the correction. Motion **passed** on a voice vote. Representatives Barrett, Moyle, Schaefer and Wood requested to be recorded as voting no.

ADJOURN: Chairman Crow announced that the Committee was already late to be on the floor and would continue the agenda tomorrow. She adjourned the meeting at 10:18 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 14, 2006

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Denney, Clark and Jaquet

GUESTS: Steve Millard, Idaho Hospital Association; Keith Donahue, Idaho Department of Environmental Quality; Dar Olberding, Ridgeline Energy; Representative Trail; Paul Kimmel, Latah County Commissioner; Bob Hieronymus, New Saint Andrews College; Representative Henderson

Chairman Crow called the meeting to order and requested a silent roll call. She said the first two bills were held over from yesterdays agenda.

HB 764: The Chairman announced the first item on the agenda was HB 764 and recognized Mr. Millard to present the bill. **Steve Millard** stated that he is the President of the **Idaho Hospital Association**. He said this legislation is to clarify existing law to ensure that the county hospitals and hospital districts continue to have the same property tax exemption for leased equipment afforded other tax exempt hospitals. This clarification is needed because of one county's interpretation of the law to not allow an exemption on leased medical equipment for a county hospital.

MOTION: Representative Wood moved to send **HB 764** with a **do pass** recommendation. Motion **passed** unanimously on a voice vote.

HB 728: Chairman Crow announced the next item on the agenda was HB 728 which had been introduced in the State Affairs Committee and asked Mr. Donahue to explain the bill. **Keith Donahue, Idaho Department of Environmental Quality**, testified that since passage of the Idaho Land Remediation Act in 1996, only two (2) parties have cleaned up properties under this Act, both of which were responsible for the contamination at issue. This lack of participation leaves largely unfulfilled the Legislature's stated goal(s) of eliminating public health risks and providing economic benefits to local communities by allowing contaminated, blighted properties to become sources of employment, housing, recreation and community open-space.

This Pilot Initiative aims to achieve the Legislature's goal(s) in promulgating the Act by increasing the number of private sector cleanup and redevelopment projects conducted under the Act. The Pilot Initiative offers ten (10) high priority projects up to \$150,000 in Community Reinvestment Rebates. A private party is entitled to the maximum rebate

only after expending \$215,000 conducting a DEQ-approved cleanup action at a high priority site. High priority sites are those in rural areas where environmental contamination is complicating private sector redevelopment of a blighted, under-utilized property. The Pilot Initiative requires no additional IDEQ funding, each dollar of funding equates a dollar spent removing contamination that presents a public health risk. IDEQ will gather data regarding total cleanup expenditures, construction expenditures, housing units and jobs located at participating projects, increases property taxes paid at participating properties, and reuse of existing infrastructure to determine the state and local benefits the Pilot Initiative provides. The Legislature can use this data to determine whether the Pilot Initiative should be modified, expanded or terminated.

MOTION: Representative Martinez moved to send **HB 728** to the floor with a **do pass** recommendation. Motion **passed** unanimously on a voice vote. Representative McGeachin will sponsor the bill on the floor.

RS16237: Chairman Crow announced the next item on the agenda was RS16237 and asked Mr. Olberding to explain the proposed legislation. **Dar Olberding, Ridgeline Energy**, said the purpose of this proposed legislation is to change the method of taxation on producers of wind energy from an ad valorem to a tax on production.

It provides for the distribution of taxes paid by producers of wind energy and to provide tax liens on property of producers of wind energy . It also provides for the assessment of nonoperating property of producers of wind energy.

MOTION: Representative LeFavour moved to **introduce RS16237**. Motion **passed** on a voice vote.

HB 778: Chairman Crow announced the next item on the agenda was HB 778 and recognized Representative Trail to present the bill. **Representative Trail** said this bill is to correct tax equity for nonprofit schools.

The purpose of this legislation related to property exempt from taxation to allow a partial exemption from property tax if property is used for nonprofit school or educational purposes or Charter School purposes. To provide an exemption for all property from which no profit is derived and which is held or used for endowment, building or maintenance purposes of schools, charter schools or educational institutions. He distributed a copy of a letter from the Office of the Prosecuting Attorney of Latah County and the New Saint Andrews College.

PRO: **Paul Kimmel**, Acting Chairman of the **Latah County Board or County Commissioners**, stated that under their current interpretation of I.C. 63-602E, the Latah County Board of Equalization only approves property used exclusively for non-profit schools or educational purposes. This does not allow for the pro-ration of a parcel into exempt and non-exempt uses. It is an "all or nothing" exemption, meaning the entire parcel must be used for exempt purposes or it does not qualify for an exemption.

From a public policy standpoint, the proposed bill would create a more realistic approach to determining educational property tax exemptions. As proposed, if the subject property is used "primarily" for school purposes or charter school purposes, a portion of the property could be used for business purposes and allow the assessor to pro-rate that share to calculate the tax exemption value. This would encourage adaptive reuses of older buildings throughout Idaho and allow property owners to lease

portions of their building for non-profit schools and educational institutions while retaining a portion of the building for taxable business endeavors. He urged the committee to seriously consider supporting HB 778.

PRO: **Bob Hieronymus**, Executive Vice President of the **New Saint Andrews College**, stated that the college applied for tax exemption on the property for all portions used for education purposes. The college did not apply for exemption on a portion leased to a restaurant. When the college requested for renewal of its property tax exemption it was challenged with an unprecedented hostile third-party complaint.

The argument brought against the college had little legal merit and would have likely been dismissed. However, the Latah County Prosecutors Office introduced a new argument, one not raised by the original complainants, that hinged on an interpretation of the Code that challenges the long-standing practice of prorating or apportioning properties with both exempt and non-exempt uses.

Latah County's Board of Equalization relied on the Prosecuting Attorney's legal opinion and ruled that not only should the portion containing a for-profit restaurant be taxed but that the other portions of the building used exclusively for educational purposes also be taxed.

Prior to the interpretation of the Charter School prorating clause, it had been the common practice of county assessors to prorate parcels used for both exempt and non-exempt purposes. Allowing Charter Schools to prorate their properties between exempt and non-exempt uses makes perfect sense. The same should be true for non-profit private education institutions like New Saint Andrews College.

MOTION: After considerable discussion to narrow the legislation to non-profit school purposes, Representative Smith moved to send **HB 778** to the floor with a **do pass** recommendation.

SUBSTITUTE MOTION: A substitute motion was made by Representative Moyle, seconded by Representative Crow, to send **HB 778** with the recommendation that it be placed on **General Orders** with Committee Amendments attached. The amendment would insert "non-profit" schools. Motion **passed** on a voice vote. Representative Smith requested to be recorded as voting no.

HB 780: Chairman Crow announced the next item on the agenda was HB 780 and recognized Representative Henderson to present the bill. **Representative Henderson** said that this legislation is necessary to reduce costs for counties to retain expensive consultants to develop a impact fee.

This legislation revises and simplifies the procedures for the imposition of development impact fees. It also extends the number of years a governmental entity may hold development impact fees before expending them. He distributed letters of support from the City of Eagle; Idaho Association of Realtors, Inc.; Idaho Association of Counties and the Association of Idaho Cities. (Attachment #1, #2, #3, #4)

MOTION: Representative Raybould moved to send **HB 780** with a **do pass** recommendation. Motion **passed** on a voice vote. Representative Henderson will sponsor the bill on the floor.

HB 781: Chairman Crow announce the next item on the agenda was HB 781 and recognized Representative Roberts to explain the bill. **Representative Roberts** said that he had discussed the possibility of showing the school taxes separately on tax notices with the Ada County Treasurer and they will do this voluntarily.

This legislation provides that school district taxes shall be separately shown on tax notices as maintenance and operation, bond, supplemental and other. It also provides that the tax collector may establish a payment schedule to allow payments of current or future real or personal property taxes on a monthly or quarterly basis of at least twenty-five dollars or the balance owing.

MOTION: Representative Wood moved to send **HB 781** to the floor with a **do pass** recommendation. Motion **passed** unanimously on a voice vote.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 9:55 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 15, 2006

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative McGeachin

GUESTS: Senator Burkett

MINUTES: Chairman Crow called the meeting to order and requested a silent roll call. Representative Raybould moved to accept the minutes as written of the meeting held on March 13, 2006. Motion passed.

HB 460: Chairman Crow announced the first item on the agenda was HB 460. She said there has been no consensus of the parties to resolve their differences in HB 460. She asked for **Unanimous consent to HOLD HB460**. Consent was **granted**.

HB 745: Chairman Crow announced the next item on the agenda was HB 745 and recognized Senator Burkett to present the bill. **Senator Burkett** said this legislation establishes a one-time income tax credit for Idahoans who donate bone marrow or any part of an organ including the intestine, kidney, liver, lung or pancreas.

Because of the financial hardship the bill allows a credit for expenses incurred such as travel, lodging and lost wages. There was considerable discussion on the establishment of lost wages.

MOTION: Representative LeFavour moved to send **HB 745** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Martinez will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 9:27 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 20, 2006

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Moyle, Field, Smith(24), Roberts, Denney and Clark

GUESTS: Dar Olberding, Ridgeline Energy

MINUTES: Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes as written of the meetings held on March 14, 2006 and March 15, 2006. Motion passed on a voice vote.

HB 816: Chairman Crow announced the first item on the agenda was HB 816 and recognized Mr. Olberding. **Dar Olberding, Ridgeline Energy** said that the purpose of this legislation is to change the method of taxation of wind energy from an ad valorem tax to pay-in-lieu of sales received for equipment purchases. He distributed a map showing grid lines of the Wolverine Creek Wind Farm. The legislation also provides for the filing of operators' statement and provides for computation, allotment and apportionment of tax to taxing districts due from producers of wind energy.

This legislation provides for the distribution of taxes paid by producers of wind energy and to provide tax liens on property of producers of wind energy and provides for the assessment of nonoperating property of producers of wind energy.

MOTION: Representative Lake moved to send **HB 816** to the floor with a **do pass** recommendation. Motion **passed** unanimously on a voice vote. Representative Jaquet will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 9:13 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** March 28, 2006
- TIME:** 9:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representatives Moyle, Field, Schaefer and Raybould
- GUESTS:** Representative Nonini
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Wood moved to approve the minutes as written of the meeting held on March 20, 2003. Motion passed on a voice vote.
- RS16242:** Chairman Crow announced the only item on the agenda was RS16242 and recognized Representative Nonini to present the proposed legislation again. **Representative Nonini** explained that this RS revisits giving investors who have installed and paid transportation and infrastructure costs on public owned land to recoup their costs through sales tax anticipation receipts known as STAR.
- This new proposed legislation changes from \$10 million to \$8 million for installation of an interchange from an interstate highway. It changes the distribution of the rebate from 75% to 65% of all retail sales collected by the retailer.
- Representative Nonini displayed a map depicting an area in North Idaho with an outdated interchange in the State of Washington which creates competition for retailers in Idaho. Representative Smith responded to a question relating to other similar situations saying he was not aware of any other partnership with the exception of Micron and perhaps one in Nampa where they paid for the access. Representative Clark suggested that the RS be changed to extend the time for property not in use to ten years and change that the tax commission shall, not may, recapture the tax paid. Chairman Crow queried the sponsor as to what the bill authorizes, not only the freeway improvement but also includes facilities, sewer, water and storm water systems, natural gas service, power lines for electrical services and installations of cable for telephone, internet and other electronic services that will be installed under streets or roadways. Representative Nonini responded that these infrastructure improvements would be made within the right-of-way.
- MOTION:** Representative Smith moved to **introduce RS16242** with the change on page 2, line 12 after the word “of” delete “sixty (60) months” to “ten (10) years). On page 2, line 13 remove the word “may” and insert “shall.”

SUBSTITUTE MOTION: Representative Barrett moved to **return RS16242 to sponsor**. Roll call was requested.

ROLL CALL VOTE: Voting AYE - Representatives Barrett, Roberts, McGeachin, Crow. Voting NAY - Representatives Smith, Collins, Denney, McKague, Clark, Lake, LeFavour, Jaquet, Saylor, Martinez. Motion **failed 5-10-4**.

The original motion to **introduce RS16242C1 passed** on a voice vote. Representatives Crow, Barrett and Roberts requested to be recorded as voting no.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 9:50 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** March 29, 2006
- TIME:** 9:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** NONE
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to approve the minutes as written of the meeting held on March 28, 2006. Motion passed on a voice vote.
- RS16302:** Chairman Crow announced that the only item on the agenda was RS16302 and asked Representative Roberts to explain the RS. **Representative Roberts** said the purpose of this legislation is to provide a meaningful and substantial property tax relief to all Idaho property owners by repealing the school maintenance and operations (M&O) levy. These funds would be replaced, up to the equalized funding level, by an increased General Fund appropriation to public schools. The source of such additional general funds would be provided by an increase in the state sales tax rate from 5% to 6%.
- This legislation would have no impact on 110 of the state's 114 school districts as well as no impact on charter schools. It removes nearly \$297 million in FY 2007 school M&O property taxes. The state would replace approximately \$250.7 million up to the equalized funding level provided to 110 of the state's 114 school districts, assuming that funding is provided for a 3% increase in per support unit discretionary funds for school districts.
- The legislation provides the state's four wealthiest school districts with the ability to levy the difference between what they are receiving now from their M&O levy and what the state will provide in equalized funding.
- The \$250.7 million state cost would be mostly covered through the \$210 million raised by increasing the sales tax from 5% to 6% with the balance to be covered by additional appropriations.
- There was a short debate on the merits of the bill and the necessity of providing property tax relief. Chairman Crow requested to be recorded as saying "The idea of two taxes being included in one bill is neither right nor ethical."
- MOTION:** Representative Raybould moved to **introduce RS16302** and recommend that it be placed directly on the **second reading calendar**. Roll call was

requested.

**ROLL CALL
VOTE:**

Voting AYE - Representatives Barrett, Moyle, Field, Schaefer, Collins, Raybould, Roberts, Wood, Denney, McKague, Lake. Voting NAY - Representatives Smith, McGeachin, Clark, LeFavour, Jaquet, Sayler, Martinez, Crow. Motion **passed 11-8-0**. Representative Roberts will sponsor the bill on the floor.

ADJOURN:

There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:20 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: April 4, 2006

TIME: 3:04 p.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** NONE

GUESTS: Randy Nelson, Associated Taxpayers of Idaho, Dan John, Idaho State Tax Commission; Jason Hancock, Legislative Services

Chairman Crow called the meeting to order and requested a silent roll call. Representative Moyle moved to accept the minutes as written of the meeting held on March 29, 2006. Motion passed on a voice vote. The Chairman stated that the Committee has two Senate Amendments to consider with two options to concur or not concur with the amendments.

HB 421Saa: Chairman Crow announced that the first Senate amendment was to HB 421 expanding the "home owners" exemption from the lower of 50% of assessed valuation or \$75,000. **Representative Lake** stated that the Senate amended the indexing from CPI to the Housing Price Index. He passed out a chart showing the Housing Price Index & CPI-U from 1970 through 2005. (Attachment #1) The difference is a temporary situation without damage. He urged the Committee to concur with the amendment.

Randy Nelson, Associated Taxpayers of Idaho, distributed a chart reflecting the difference between CPI-U average from 1990 through 2005 at 2.8% and Idaho HPI average for the same period at 5.6%. (Attachment #2) Another chart depicts examples of the 2005 tax/rate comparison by categories. (Attachment #3) The third chart compares the flexibility between the Consumer Price Index (CPI) and the Housing Price Index (HPI.) (Attachment #4)

MOTION: Representative Lake moved to return **HB 421Saa** to the floor with the recommendation to concur with the Senate amendment. Motion **passed** on a voice vote. Representative Wood requested to be recorded as voting no.

HB 422Saa Chairman Crow announced the second amendment was HB 422Saa increasing the "circuit breaker" qualification to \$28,000. **Representative Lake** said the Senate amendment excludes annuity income from the definition of income. It also adds capital gains in the income calculation. The qualifying \$28,000 income or 185% of federal guidelines making the growth slower. He distributed a graph on the "circuit breaker" income eligibility over the next ten years. (Attachment #5)

MOTION: Representative Lake moved to return **HB 422Saa** to the floor with the recommendation to concur with the Senate amendment. Motion **passed** on a voice vote.

RS16338C2: The Chairman announced that the Committee had before them RS16338C2 and recognized Representative Roberts. **Representative Roberts** said the key element of this bill is Section 1 to be known as "Property Tax Relief Act of 2006." The purpose of this legislation is to provide property tax relief to all Idaho property owners. All property owners will see relief by repealing the school maintenance and operations (M&O) levy. The source of such additional general funds would be provided by an increase in the state sales tax rate from 5% to 6.25%. This legislation also will provide for greater stability and predictability in public school budgets and would dedicate a fraction of sales tax revenues to the Public Education Stabilization Fund (PESF.)

Homeowners will see additional property tax relief by increasing the "homeowners exemption" from \$50,000 to \$75,000 including the value of land in the calculation. The \$75,000 figure is pegged to an inflationary index for adjustment in future years.

The state would replace approximately \$250.7 million, up to the equalized funding level provided to 110 of the state's 114 school districts. The legislation provides the state's four wealthiest school districts with the ability to levy the difference between what they are receiving now from their M&O levy, plus property tax replacement funds and what the state will provide in equalized funding. They currently receive no state equalization funding. A graph was distributed depicting the percent of change in hypothetical FY06 property tax by class with full M&O repeal plus Committee "homeowner exemption" " change versus Committee "homeowner exemption", change only. (Attachment # 6)

The \$250.7 million state cost would be covered through the 6.25%. The remaining sales tax funds raised are deposited in the Public Education stabilization Fund. The homeowner's exemption changes have no fiscal impact on any state funds.

A chart was distributed summarizing the various estimated 2005-2006 property tax comparison. With the "homeowner exemption" of 50% or \$75,000 including land with the three mill school M&O removed. (Attachment #7)

Representative Jaquet inquired as to the affect this legislation would have on the Blaine County school disrrict, **Jason Hancock, Legislative Services**, responded by explaining that the Blaine County school district currently has \$160,000 per unit from the property taxpayer and \$40,000 per unit from the state. Under this legislation they would have \$120,000 per unit from the taxpayers and \$80,000 from the state resulting in a reduction of property taxes.

In response to a question to the percentage of property tax paid by business property, **Dan John, Idaho State Tax Commission**, responded saying a recent Utah study reports business pays 36% and the COS

study shows that business pays 28%.

- MOTION:** After considerable debate on the merits of the RS, Representative Clark moved to **introduce RS16338C2** and recommend it be placed directly on **second reading**. Roll call was requested.
- ROLL CALL VOTE:** Voting AYE - Representatives Barrett, Moyle, Field, Schaefer, Collins, Raybould, Roberts, Wood, Denney, McKague, Clark, Lake, Crow. Voting NAY - Representatives Smith, McGeachin, LeFavour, Jaquet, Sayler, Martinez. Motion **passed 13-6-0**.
- ADJOURN:** There being no further business to come before the Committee, Chairman Crow adjourned subject to call of the Chair at 4:04 p.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: April 11, 2006, 2006

TIME: 1:40 p.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative McGeachin
Representative Denney

Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes as written of the meeting held on April 4, 2006. Motion passed on a voice vote.

RS16355: Chairman Crow announced the first item on the agenda was RS16355 and asked Representative Raybould to explain the RS. **Representative Raybould** said this is the last attempt for property tax relief. This bill is the same as HB 422aa without the escalator. This RS expands the homeowner's exemption from the lower of 50% of assessed valuation or \$50,000 to the lower of 50% of assessed valuation or \$75,000. It further allows for the inclusion of the value of the residential home-site when computing property valuations for the homeowner's exemption.

There was considerable debate relating to the escalation of property value.

MOTION: Representative Wood moved to recommend that **RS16355 be introduced** and recommend it be placed **directly on second reading**.

**SUBSTITUTE
MOTION:** A substitute motion was made by Representative Clark to **return RS16355 to the sponsor**. Roll call was requested.

**ROLL CALL
VOTE:** Voting Aye - Representative Barrett, Moyle, Field, Schaefer, Smith, Collins, Clark, Lake, LeFavour, Jaquet, Saylor, Martinez. Voting Nay - representatives Raybould, Roberts, Wood, McKague, Crow. Motion **passed 12.5.2**.

**UNANIMOUS
CONSENT:** Chairman Crow conveyed the following bills need Committee action: HB 494 relating to partial financing of school plant facilities by repealing the exemption on utility sales. The bill was a personal bill filed by Representative LeFavour; HB 495 relating to increasing the sales tax by one cent to provide adequate and stable funding for Idaho's K-12 public schools. The bill was a personal bill filed by Representative Ringo; HB 658 relating to property tax exemption for rural development. Introduced in the House Local Government Committee and sponsored by Russ Westerberg & Representative Barrett; HB 740 relating to establishing a community college system. Referred from the Education Committee.

Sponsored by Representative Rydalch and Senator Goedde; HB 807 relating to subdivisions dedicated to the development, sponsorship, promotion and administration of a Planning Education Curriculum at a local institution of higher learning. Sponsored by Fred Tilman; HB 855 relating to sales tax rebate for private investors who installed and paid for transportation and infrastructure costs. Sponsored by Representative Nonini.

The Chairman asked for **unanimous consent to HOLD HB 494, HB 495, HB 658; HB 740, HB 807, HB 855. Consent was granted.**

ADJOURN:

There being no further business to come before the Committee, Chairman adjourned the meeting at 1:54 p.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary