

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Wednesday, January 25, 2012

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, McGee, Hammond, Siddoway, Werk, and Bilyeu

**ABSENT/
EXCUSED:**

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

The meeting was called to order at 3 pm.

DOCKET NUMBER: **Chairman Corder** said the entire docket needed to be voted on. In prior meetings, only specific rules were addressed.
35-0101-1102

MOTION: **Senator McKenzie** made a motion to approve the balance of Docket 35-0101-1102. **Senator McGee** seconded, and the motion carried by Voice Vote.

PRESENTATION: **Chairman Corder** introduced **Alex LaBeau**, President of Idaho Association of Commerce and Industry, to speak in response to the presentation that was submitted by Dr. Stephen Cooke and Mike Ferguson. All three presentations were based on a study by Stephen Entin on personal property tax repeal. See Attachment. **Mr. LaBeau** said the \$100,000 exemption that was put into place in 2008 has yet to go into effect because of the triggers that were used have not been hit. Some issues with the 2008 law have been resolved, but there are still some glaring ones.

Chairman Corder asked if the legislature treated operating property one way and all other property a different way, and should they be treated equally. **Mr. LaBeau** replied that property should all be treated the same way; it is assessed by the state because there are different counties that it operates in. Usually it is owned by a company such as a utility that has multiple jurisdictions.

Mr. LaBeau said the exemption would cause over 80% of businesses in the state to no longer pay personal property tax, so the entire burden of personal property tax would be borne by a few companies.

Senator Werk said the 2008 exemption does not differentiate between large and small companies, every company is treated the same way. **Mr. LaBeau** said the exemption does not differentiate, but there was a belief the state was helping small businesses. **Senator Werk** said entities that had operations in multiple counties could take the exemption for each county where there was property. **Mr. LaBeau** said that was correct, and that was one of the ongoing issues with the 2008 law. Companies that have two operations in one county can only take one exemption, but those that have an operation in each of two counties would get exemptions for each county.

Mr. LaBeau said there could be an attorney's office with \$20,000 of office equipment and the office is making \$200,000 per year. The attorney's office would not pay personal property tax because of the exemption. A contractor may have \$300,000 of equipment and only make \$50,000 per year. The contractor would still have to pay property tax. There is no equity in the cap.

Mr. LaBeau said there were discussions with the Idaho Association of Counties two years ago where eight principles were agreed to that would need to be met for the elimination of the personal property tax. All eight were met by a proposal from IACI and the association still chose to oppose the proposal.

Senator Hammond asked why the personal property tax could not be eliminated entirely and the local taxing authorities given the ability to raise the levy rate to the amount that they would lose because of the personal property tax elimination.

Mr. LaBeau replied they worked with counties to find agreement to ensure there was no shifting of liability from one classification to another. There was a promise made to the legislature that nothing would be done during the economic downturn. Elimination of the personal property tax by allowing the assets to depreciate over a period of a number of years will affect counties differently. This option could be considered by the legislature.

Senator McGee asked what the correlation is between personal property and unemployment. **Mr. LaBeau** said there would be a positive impact on labor; state private sector income would increase about 1.5% or \$569 million. Two-thirds of this would be in the form of private sector wages and salaries or \$379 million. That translates to about 2800 full-time equivalent workers, about a .5% rise, plus an increase in the hourly wage of about 1%, for a total rise in labor income of about 1.5%.

Senator Bilyeu said the first option is to let the assets fully depreciate and not add any new ones. When depreciation is usually taken, the value of the asset would stay at 20%, because assets are not fully depreciated. Was leaving the assets at 20%, rather than take them to zero, considered. **Mr. LaBeau** said a depreciation schedule for putting the asset to zero can be created; the value does not have to be frozen based on an income model used for typical business depreciation. Any property tax remaining is inappropriate; however, leaving the depreciation at a specific level can be investigated.

Senator Bilyeu said when she was an assessor, getting the business' books for addition of assets to add to the personal property tax was not difficult. **Mr. LaBeau** said the process varies by county, there are a myriad of ways that the property tax may be dealt with.

Senator Johnson said the numbers in the Entin study appear to show an average wage of \$135,000 salary. **Mr. LaBeau** said the Executive Summary of the Entin study explains the calculations. In addition to new jobs, there would be a wage increase for many current employees.

Chairman Corder said there were copies of the annual letter from the State Tax Commission in the packets.

ADJOURNMENT: The meeting was adjourned at 3:45 pm.

Senator Corder
Chairman

Jo Ann Bujarski
Secretary