

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
**3:00 P.M.**  
**Room WW53**  
**Wednesday, January 11, 2012**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
	Page Introduction	Senator Corder
	Intern Introduction	Senator Corder
RULES REVIEW IDAPA 35	Idaho State Tax Commission	
<a href="#"><u>35-0103-1101</u></a>	Property Tax Administrative Rules	Alan Dornfest Idaho State Tax Commission
<a href="#"><u>35-0103-1103</u></a>	Property Tax Administrative Rules	Alan Dornfest Idaho State Tax Commission
<a href="#"><u>35-0103-1104</u></a>	Property Tax Administrative Rules	Alan Dornfest Idaho State Tax Commission

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Wednesday, January 11, 2012

**TIME:** 3:00 P.M.

**PLACE:** Room WW53

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

**ABSENT/ EXCUSED:** Senator Siddoway

**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.

**MINUTES:** **Chairman Corder** called the meeting to order at 3:00 pm. **Chairman Corder** introduced the intern, **Benjamin Richner**, and the committee page, **Alexander Wright**. Chairman Corder said at the January 17 meeting, **Mr. Mike Ferguson** and **Dr. Stephen Cooke** will speak on a study about personal property tax. The gavel was turned over to **Vice Chairman Johnson** to conduct the rules review. **Vice Chairman Johnson** introduced **Mr. Alan Dornfest**, Tax Policy Supervisor, Idaho State Tax Commission, to present the Property Tax Rules Review.

**DOCKET NO: 35-0103-1101** **Mr. Dornfest** stated that Rule 630 was amended to add Notification of Capital Investment. There was no clear notice of acceptance or rejection for the application. House Bill 13, which was introduced last session, did not specify the date when the exemption would be effective and when the investment was to be included in the county's new construction roll.

**Senator Bilyeu** asked what the effective date is for the bill. **Mr. Dornfest** said it was either January 1 or upon adjournment. **Senator Bilyeu** asked which counties have applied for and used this. **Mr. Dornfest** replied Ada County was the only county he was aware of.

**DOCKET NO: 35-0103-1103** **Mr. Dornfest** stated Temporary Rule 995 was necessary because sales tax revenues needed to be distributed in October 2011, and this rule affects the distribution of the adjustment, which is to be distributed based on population.

**Senator Hill** asked why the ratio of 1/44 based on the number of counties in the state was not used, rather than the population of the counties. **Vice Chairman Johnson** introduced **Tony Poinelli**, Idaho Association of Counties. **Mr. Poinelli** stated the ratio was going to be used originally because the assumption was there would be equal responsibility among counties, but with election consolidation the larger counties will have more responsibility.

**Senator Hill** asked if the counties were consulted on this change. **Mr. Poinelli** said a sub-committee worked with the counties to determine the formulas.

**DOCKET NO: 35-0103-1104** Rule 004 is being amended to provide an explanation of the documents that are confidential and not open to the public as provided in House Bill 239, and to clarify that the exchange of information between the county and the Tax Commission is not limited.

**Chairman Corder** asked if there is a definition of trade secrets in the Tax Code. **Mr. Dornfest** replied that he is not aware of one and there is not any in the property tax code.

Rule 006 is being amended to update references to appropriate and current editions of guides and professional standards used to determine values of certain property. This is updated annually to incorporate reference material.

**Senator Hill** asked if there was a reason the rules could state "in the current edition", rather than the exact year. That way the rules would not have to be changed annually. **Mr. Dornfest** said the legal staff felt it was not proper and the annual review forces a verification of the changes.

Rule 115 is being amended to add the requirement that the values be listed by category value on the abstract for any taxing district with a restriction providing that such district does not levy property taxes on all otherwise taxable property in accordance with Section 63-509. Counties need to send in documents that provide information documenting what categories are subject to tax by a particular district. This was agreed to unanimously by the county assessors.

**Senator Hammond** asked why any taxing district would be allowed to assess any other way. The assessment formula should be consistent. **Mr. Dornfest** said there are statutory provisions that force the inconsistency. Change to the taxing formula long-term through statutory change would be helpful.

**Chairman Corder** said the ambulance district chose not to tax unimproved property. Why are they able to choose when other taxing districts are not. **Mr. Dornfest** said he was not aware of why this occurred.

Rule 219 is being amended to delete the requirement to assign separate parcel numbers if the parcel is located entirely within one county and one tax code area.

Rule 225 is being amended to reflect the provisions of newly enacted House Bill 95 changing the life of an urban renewal agency from 24-20 years and to restrict urban revenue allocation areas to one annexation after July 1, 2011. If paper maps are still needed, one set will be created at no charge. Otherwise, all maps will be electronic.

Rule 312 is being amended to exclude federal and state of Idaho property from inclusion in Section 63-602Y, Idaho Code. HUD properties are an exception as they have been authorized by Congress to be treated as though they are not owned by the government.

Rule 314 is being amended to establish standards for maintaining parcel record information and list the basic information that should be included in the assessor's office parcel records.

Rule 400 is being stricken. All confidential information has been consolidated into one rule.

Rule 509 requires that urban renewal increment values and the value of certain exemptions be reported and subtracted from the taxable value for each secondary category.

Rule 701 is being amended to conform to House Bill 113 which designates the Idaho Tax Commission as the approving authority for the property tax reduction application.

Rule 717 is being amended to conform to House Bill 113 which designates the Idaho Tax Commission as the property tax reduction approving authority.

Rule 802 is being amended to conform to House Bill 124 which provides a five-year look back limit both for new construction that was missed in the year it should have been placed in the rolls and for deductions that must be included on the roll. House Bill 95 had a special provision that said prior to the provision in the bill, the additional increment from a land use designation improvement was available for the urban renewal agency. It is no longer available to the urban renewal agency due to a statutory change.

**Senator Bilyeu** asked if the land has been designated for improvement and some improvements have been done, how would the land get designated back to farmland. **Mr. Dornfest** said the assessor will change the category, it may not be possible to change back to farmland.

Rule 804 is being amended to provide information for assessors to adjust the urban renewal base assessment roll for changes in the taxable amount of a property due to the annual changes in maximum homeowner's exemption.

**Chairman Corder** said the adjustments are reduced based on lower property values, but are they adjusted up as well. **Mr. Dornfest** said base value is subject to several types of changes, so up would reestablish the base value.

Rule 808 provides direction on how to compute levies for certain districts that may not levy against all taxable property in the district and requires that each relevant county, as well as the Tax Commission, be given documentation of the election or ordinance which determined the category of property to be taxed.

Rule 988 is being amended to provide the taxpayers' options should the Qualified Investment Exemption (QIE) election be drafted by the assessor and that the assessor shall notify the taxpayer electing the QIE and shall identify the basis for the denial. **Mr. Dornfest** said the taxpayer can elect to take either the QIE or Investment Tax Credit. In the past there has been no requirement for the assessor to give notice of approval, only disapproval. The taxpayer cannot take both exemptions; if they are rejected for one, they can apply for the second.

**MOTION:**

**Senator Hill moved** to approve Docket No 35-0103-1101, Docket No 35-0103-1103 and Docket No 35-0103-1104. **Senator Hammond** seconded, and the motion was carried by **Voice Vote**.

**Vice Chairman Johnson** turned the gavel back to **Chairman Corder**.

**ADJOURNMENT:** **Chairman Corder** adjourned the meeting at 4:05 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
**3:00 P.M.**  
**Room WW53**  
**Thursday, January 12, 2012**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
RULES REVIEW IDAPA 35	Idaho State Tax Commission	
<a href="#"><u>35-0101-1101</u></a>	Income Tax Administrative Rules	Cynthia Adrian Idaho State Tax Commission
<a href="#"><u>35-0101-1102</u></a>	Income Tax Administrative Rules	Cynthia Adrian Idaho State Tax Commission
<a href="#"><u>35-0107-1101</u></a>	Kilowatt Hour Tax Administrative Rules	Cynthia Adrian Idaho State Tax Commission
<a href="#"><u>35-0108-1101</u></a>	Mine License Tax Administrative Rules	Cynthia Adrian Idaho State Tax Commission
<a href="#"><u>35-0201-1101</u></a>	Tax Administration and Enforcement Rules	Cynthia Adrian Idaho State Tax Commission
<a href="#"><u>35-0102-1101</u></a>	Sales Tax Administrative Rules	McLean Russell Idaho State Tax Commission

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

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MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, January 12, 2012

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**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.

**Chairman Corder** called the meeting to order at 3:05 pm. **Chairman Corder** introduced **Cynthia Adrian** of the Idaho State Tax Commission.

**DOCKET NUMBER:** 35-0101-1101  
Rule 756 will inform employers of the requirements to qualify for the income tax credit of the Hire One Act.

**Senator Siddoway** asked if the costs outweigh the benefits in real dollars for the insurance program. **Ms. Adrian** said she was not sure. **Chairman Corder** asked about the conversation that occurred to make the determination of 80% and 70% of the qualifier for employer-provided insurance. **Ms Adrian** replied that was actually part of the individual and group disability supplemental standards rule that was used for these standards.

**Chairman Corder** turned the gavel over to **Vice Chairman Johnson**.

**DOCKET NUMBER:** 35-0101-1102  
Rule 001 is being amended to add the reference to Idaho Code, section 63-3039 and subsections 001.03 through 001.05, which address the effective date, closed years or issues, and transactions before an effective date of the rules in this chapter. **Senator Hill** asked when "shall" versus "will" is used in a rule. **Ms. Adrian** said most rules had been changed to "will" for consistency, this was an oversight.

Rule 030 is being amended to include the reference to Rule 032 with regard to the safe harbor exception and military servicemembers and their spouses.

Rule 032 is being amended to conform to changes to the Servicemembers Civil Relief Act , which changes the Idaho terminology to match the federal terminology used. **Senator Hammond** asked for the definition of safe harbor. **Ms. Adrian** said when a person may not meet residency requirements, such as military members transferred on duty.

Rule 033 is being amended for a name change to match the terms in federal law.

Rule 075 is being amended to add the tax brackets for calendar year 2011, and remove the information for the calendar year 2006 so only five years of historical data is retained in the rule.

Rules 105, 120, 125, 253 & 254 are being amended consistent with House Bill 102, which was passed by the 2011 Idaho Legislature. **Senator McKenzie** asked for a historical context of the progressive tax code; it is currently at 7.8% and starts at \$26,000. When was it changed to the current amount. **Senator Hill** replied it is changed annually by statute.

Rule 121 is being amended to remove information related to the standard deduction for tax year 1999.

Rule 171 is being amended to clarify that real property must be held 12 months to qualify as required by the statute. The amendment also addresses the differences in computing the holding period of property received in liquidating vs nonliquidating distributions from partnerships and S corporations.

Rule 250 is being amended to address when interest and dividend income is received by a part-year resident. **Senator Bilyeu** asked if there had been problems in the past with pass-through entities. **Vice Chairman Johnson** introduced **Dan John**, of the Idaho State Tax Commission, who replied no.

Rule 263 is being amended to specifically address the sourcing of guaranteed payments and distributions in excess of basis that a nonresident individual partner would report to Idaho.

Rule 266 is being amended consistent with House Bill 8, to change when a nonresident is ineligible to make the election to have a pass-through entity pay his tax on such income. **Senator Hill** asked if this rule change was a policy change or simply codifying current policy. **Ms. Adrian** said this change was based on House Bill 8.

Rule 267 is being promulgated to address the amount of a suspended passive activity loss a part-year resident is allowed to deduct on their Idaho return.

Rule 270 is being amended to provide more information on what constitutes an Idaho work day.

Rule 275 is being amended to provide clarification as to what does and doesn't qualify as investment income for nonresidents.

Rule 290 is being amended consistent with House Bill 8, to change when a nonresident is ineligible to make the election to have a pass-through entity pay his tax on such income.

Rule 570 is being amended to address how the receipts from the sale of stock in another corporation will be sourced for purposes of the sales factor numerator when it represents the sale of operational assets of a business.

Rule 582 is being amended to eliminate the "presumption" language included in the rule and state unequivocally that the entities listed are financial institutions.

Rule 705 is being amended to be consistent with House Bill 630 to limit the qualifying contributions to monetary donations.

Rule 711 is being amended to address how the investment tax credit may be shared in the year a corporation with ITC is acquired.

Rules 712 and 713 are being repealed because the maximum carryover period on the years covered in these rules has expired.

Rules 745-748 are being amended consistent with House Bill 297.

Rules 755-759 are consistent with House Bill 297 to revise the income tax credit allowed for qualifying new employees.

**Senator Hammond** asked if anyone had taken advantage of the Hire One Act yet. **Ms. Adrian** replied there are no returns for 2011 yet.

Rules 761 and 762 are being repealed because the statute of limitations has expired on the tax years covered in these rules.

Rule 771 is being amended to add tax year 2011 and the applicable grocery credit amounts to the table. This update is done annually.

Rule 815 is being amended consistent with S1079 which provides an individual serving in the Armed Forces or in support of the Armed Forces serving in a combat zone or contingency operation with an extension of time to pay without interest if an extension of time to file was allowed under Internal Revenue Code section 7508.

Rule 877 is being amended consistent with House Bill 8, to modify the base on which backup withholding is computed from actual distributions to distributive or pro rata income.

Rule 880 is being amended consistent with S1079 to provide individuals who receive an extension of time to file a tax return with additional time to receive a refund of withholding.

**Vice Chairman Johnson** introduced **Bill Myers** of Holland and Hart who testified in opposition to Rule 263 and Rule 275 of Docket Number 35-0101-1102. **Mr. Myers** said the rule is in contradiction to the IRS code and it discourages investment in Idaho by partnerships. **Senator McKenzie** said it is fairly common in a partnership to have income that is both dividends and employment income. What would be the change from current law where guaranteed payments are taxed as regular income. **Mr. Myers** said there are guaranteed payments without taxability in partnership shares. **Senator Hill** asked if the argument is with the statute or the rule. **Mr. Myers** said the statute is fine, the issue is with the rule. **Senator Werk** asked if the Idaho Tax Commission agrees if the rule is in violation of the law. **Mr. John** said the rule is current practice, not because of new law. There was a decision in 2005 in favor of the Tax Commission's interpretation. There are pending appeals, however. **Senator Werk** asked if the rule is in violation of federal law. **Mr. John** replied not in the view of the Tax Commission. **Mr. Myers** stated that non-resident income is discriminated against in Rule 275. **Chairman Corder** said the statute is not contrary to federal code, just the rule. **Mr. Myers** replied correct. **Senator Hill** stated that he has had a concern with this rule for some time.

**Vice Chairman Johnson** introduced **John McGown** of Hawley Troxell, who testified in opposition to rule 171-06. **Mr. McGown** said there is no rational distinction for holding periods of liquidated and non-liquidated property related to capital gains. **Mr. John** said he does not know the genesis of the rule. **Senator Hill** asked for an example of the practical affect of what this rule does. **Mr. McGown** said if a group of people form a partnership and purchase real estate and then decide to sell the real estate; the holding period for the real estate would depend on whether it was all being sold or not.

**Chairman Corder** stated voting on this docket will be suspended until the meeting on January 18, 2012, when the questions can be addressed. **Senator McKenzie** stated there are three questions to be answered at the next meeting: are the rules in violation of statute or federal code, what is the policy purpose and what are practical examples.

**DOCKET  
NUMBER:  
35-0107-1101**

Rule 30 is being amended to make the change from monthly to quarterly filing of the kilowatt hour tax return discretionary, subject to Tax Commission approval.

**DOCKET  
NUMBER:  
35-0108-1101**

Rule 10 is being amended to include additional examples of what constitutes a valuable mineral typically found in Idaho subject to the mine license tax. **Senator Siddoway** asked that in the next version of the rules, there would be a clear definition of cinders. **Ms. Adrian** replied that could be done.

**DOCKET  
NUMBER:  
35-0201-1101**

Rule 310 is being amended to add the interest rate and applicable Revenue Ruling for calendar year 2012 to the table that identifies this information by year.

**DOCKET  
NUMBER:  
35-0102-1101**

Rule 704 is being amended consistent to House Bill 680. The bill provides an exchange of information agreement between the State Tax Commission and the State Treasurer.

Rule 43 is being amended to comply with House Bill 213 exempting from sales and use tax all gratuities, whether voluntary or mandatory, if the gratuity is given for services provided as a supplement to the income the service provides. **Vice Chairman Johnson** introduced **McLean Russell** of the Idaho State Tax Commission.

Rule 73 is being amended to comply with House Bill 214 that exempts from use tax the use of motor vehicles by nonresident college students in the state of Idaho.

Rule 85 is being amended to clarify that the Red Cross's sales and use tax responsibility should be addressed in the federal government section of Rule 94 rather than its current location.

Rule 94 is being amended to explain that the State of Idaho cannot require the federal government to collect sales tax on any sales and that the Red Cross is an instrumentality of the federal government for the purposes of sales and use tax. **Senator Hill** said the exemption used to be only for sales to the federal government, but now it includes by the federal government. Does that mean if there is travel to a federal park and souvenirs are purchased, they are not subject to sales tax. **Mr. Russell** replied that is correct. **Senator Hill** asked if we are codifying what has been in use, or is this a recent change in the federal law? **Mr. Russell** said it is a clarification.

Rule 98 is being amended to reflect the altered appearance of the diplomatic exemption card system.

Rule 107 is being amended to comply with House Bill 214 that exempts from use tax the use of motor vehicles by nonresident college students in Idaho.

Rule 109 is being amended to change the definition of currency operated amusement devices to include credit and debit card machines.

**Vice Chairman Johnson** stated that Docket Number 35-0101-1102 will be suspended.

**MOTION:**

**Senator Bilyeu** moved to approve Docket Number 35-0101-1101, Docket Number 35-0107-1101, Docket Number 35-0108-1101, Docket Number 35-0201-1101 and Docket Number 35-0102-1101. **Chairman Corder** seconded, and the motion carried by Voice Vote.

**Vice Chairman Johnson** turned the gavel back to **Chairman Corder**. **Chairman Corder** reminded the committee of the presentations that will be made at the meeting on January 17, 2012.

**ADJOURNMENT:** The meeting was adjourned at 4:10 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

**AMENDED #1 AGENDA**  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
**3:00 P.M.**  
**Room WW53**  
**Tuesday, January 17, 2012**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<b>PRESENTATION</b>	Review of Report Related to Repeal of the Idaho Personal Property Tax for Business Equipment	Dr. Stephen Cooke, Retired Associate Professor in Agricultural Economics, University of Idaho  Mike Ferguson, Idaho Center for Fiscal Policy

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

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MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Tuesday, January 17, 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.

**Chairman Corder** called the meeting to order at 3 pm.

**PRESENTATION:** Review of Report Related to Repeal of the Idaho Personal Property Tax for Business Equipment. **Chairman Corder** introduced **Dr. Stephen Cooke**, retired Associate Professor in Agricultural Economics, University of Idaho. See Attachments #1 - #3.

**Dr. Cooke** said his presentation was a critique of the Entin study that was completed in 2007 related to a repeal of Personal Property Tax on businesses.

**Dr. Cooke** presented a graph that showed the difference between 2007 and 2011 growth levels. The growth percent for both are very close. **Senator Hill** said the graph shows percentages of growth and not economic activity; therefore the graph does not show the economy being the same as it was in 2007. **Dr. Cooke** replied that is correct, the growth rate is the same, but the percent of growth is based on a smaller economy in 2011.

The Entin study was based on \$108 million in property tax relief. **Dr. Cooke** compared the Entin study and the Cooke and Stodick study based on \$45 million decrease in personal property tax. **Dr. Cooke** said the Entin study made no determination between benefits to federal and state governments. **Senator Hill** asked what assumptions were used for the study, what do the businesses who saved the tax do with the money. **Dr. Cooke** said the assumption was that the entire \$45 million was saved by Idaho residents and spent in Idaho. The \$45 million would be a one-time injection into the economy and any additional money would come from a multiplier affect.

Idaho historically has been near the top of the country in job creation; however, the wage levels are among the lowest in the country. In 2009, the average wage in Idaho was 24% lower than the United States average. **Senator Hammond** asked if the cost of living was compared as well. **Dr. Cooke** replied that if a state has a low cost of living that makes it a very attractive place to live, then the price of housing goes up. Cost of living becomes a confounding factor; to have a low cost of living means to have high housing prices. It is not an advantage to have a low cost of living. Idaho has above average growth in below-average wage jobs.

**Senator McGee** asked **Dr. Cooke** if he thought Idaho should raise taxes to help the economy. **Dr. Cooke** said taxes should complement the private investment; it is a partnership. High taxes per se are not a good idea, but starving the economy in the name of low wages is not a good idea. A well-planned strategy in which strategic investments are made in research and development, such as IGEM; an investment in an educated workforce and an infrastructure that is equal to or better than the national average would drive the economy of the state.

**Senator Siddoway** asked that with the current situation of high unemployment, should employers with lower-wage jobs available be taxed rather than have the ability to employ people. **Dr. Cooke** said tax policy requires subtlety and nuance. The State should prefer easing the burden on small business; however, a large proportion of property tax repeal would benefit the utilities. This is not an argument for raising taxes. Capital should be invested in local services that people who move into the state will need, rather than a decrease in personal property tax.

**Senator Siddoway** said that utilities will pass through any increase to consumers. **Dr. Cooke** said he is not interested in raising taxes on anyone, he was asked to review a study done in 2007. **Senator Siddoway** asked where the additional funding for education would then come from. **Dr. Cooke** said that would come from the decision of how to use the \$45 million that the Governor said was available for tax relief.

**Senator McKenzie** asked if the criticism of the report by Dr. Entin was specific to a reduction in the personal property tax or based on a belief that any cut tax would hurt the economy. **Dr. Cooke** referenced a 2011 statement by Stelman and Deller that all tax cuts are counter productive to economic performance.

**Senator Werk** said that in the presentation it was stated that reductions in taxes did not generate enough economic activity that they would pay for themselves. In 2001, there were overall business cuts in Idaho; should that have caused economic activity. **Dr. Cooke** said he has not analyzed that particular situation, but according to the Stallman/Deller study, tax cuts are not the road to economic development and increased business.

**Senator Werk** said small businesses have more work keeping track of personal property and there is a law that says there will be a \$100,000 exemption, which will include 85-90% of small businesses in Idaho. **Dr. Cooke** said that policy is moving in the right direction. **Senator Werk** said Idaho does not have walls around the state, so when a tax credit is provided to a company, the benefit may be felt somewhere else, such as if the company opens a facility elsewhere. The state has then subsidized an operation elsewhere. **Dr. Cooke** said the modeling was done such that the tax proposal gets the benefit of the doubt, rather than trying to overstate or understate assumptions. The study assumes the first round of benefits are in Idaho; that money would go into the pockets of Idahoans.

**Chairman Corder** introduced Mike Ferguson, Director of the Idaho Center for Fiscal Policy. See Attachments #4 and #5.

**Mr. Ferguson** said the Entin study appears to grossly exaggerate the amount of induced economic activity associated with eliminating personal property tax and it barely makes mention of the fact there will need to be some other revenue source increase or reduction in public services.

**Senator Hill** said the states around us are better rated than Idaho on the State Business Tax Climate Index, but on property tax ratings, Idaho is doing well. We need to consider the competitive climate the state is in when discussing tax policy and not look at studies in a vacuum. **Mr. Ferguson** said the state cannot operate in a vacuum, the surrounding states must be surveyed. Idaho is unique in the nation in the number of neighboring states that do not have either state income tax or sales tax. In the period of the two decades from the late 1980's to the 2000's, Idaho had the second best economic performance in the nation. During the 1980's, the taxes increased in corporate, individual and sales. There was still unparalleled growth in the state. The taxes were raised in part to fund education in order to have a productive labor force. The importance of taxes in relation to economic growth seems to be exaggerated.

**Senator Hill** asked that when our ratings changed from 32-18, was that because other states changed their tax rates and Idaho did not. **Mr. Ferguson** replied that it would be speculation since that has not been studied. In 2000 and 2001 personal income tax rates were dropped.

**Senator Johnson** asked why the Cobbs-Douglas production model is considered mathematically convenient. **Mr. Ferguson** said it has a constant elasticity of supply on labor and capital. As the economy expands, the output gain from capital or labor does not change. That assumption is questionable.

**ADJOURNMENT:** The meeting was adjourned at 4:40 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

**AMENDED #1 AGENDA**  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
**3:00 P.M.**  
**Room WW53**  
**Wednesday, January 18, 2012**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
Rules Review:		
Docket Number: <a href="#">35-0101-1102</a>	Rule 263-04. Dealing with Guaranteed Payments to Partners	Dan John, Idaho State Tax Commission
	Rule 275. Exempting Nonresident Income from a Qualified Investment Partnership	Dan John Idaho State Tax Commission
	Rule 171-06B. Idaho Capital Gains Deduction-Qualified Property	Dan John Idaho State Tax Commission

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Sen Hill	Sen Werk
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Sen McGee	

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**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Wednesday, January 18, 2012  
**TIME:** 3:00 P.M.  
**PLACE:** Room WW53  
**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, McGee, Siddoway, Werk, and Bilyeu  
**ABSENT/ EXCUSED:** Senator Hammond

**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.

**Chairman Corder** called the meeting to order at 3:10 pm.

**DOCKET NUMBER:** 35-0101-1102  
Rule 263. Dealing with Guaranteed Payments to Partners. **Chairman Corder** turned the gavel over to **Vice Chairman Johnson**. **Vice Chairman Johnson** introduced **Dan John** of the Idaho State Tax Commission. **Mr. John** said the purpose of the rule was to capture Idaho source income. The rule treats guaranteed payments the way the Tax Commission has handled them in the past. **Mr. John** introduced **Cynthia Adrian** of the Idaho Tax Commission. See Attachments #1-#4.

**Ms. Adrian** said there are very limited uses for guaranteed payments. There are times when a guaranteed payment is treated as the partner's distribution of ordinary income.

**Senator Werk** asked if the rule were to be followed, would that change the treatment of the guaranteed payments. **Ms. Adrian** said the rule is the current practice.

**Chairman Corder** asked if the rule is in compliance with Idaho Statute and IRS code. **Ms. Adrian** replied yes. **Chairman Corder** said if other people have the belief the rule is not in compliance, what should be done. **Ms. Adrian** said the guaranteed payments are Idaho source income, so the taxes should be paid to Idaho. There is a difference of opinion as to whether these are Idaho source income. **Chairman Corder** asked if the Tax Commission more often favors the taxpayer or the Tax Commission. **Ms. Adrian** said she did not know.

**Vice Chairman Johnson** introduced **Steve Young**, of Holland and Hart. **Mr. Young** spoke in opposition to the rule. See Attachment #5. **Mr. Young** said this may be a clarification in the minds of the Tax Commission, but not in the minds of the taxpayer. The 2005 decision was not precedent; it was related to a company that operated 100% in the state of Idaho. **Mr. Young** said if there is an oil partnership that drills wells and one of the partners is hired to drill the well; he is not paid in his capacity as a partner, but rather as a well-driller. That should be considered a guaranteed payment and only taxed in the state where the work was performed, not split among the states where the company has facilities.

**Chairman Corder** asked if a person worked in another state doing work for the benefit of Idaho; would that be taxed in Idaho. **Mr. Young** said as a partner, the partnership work is taxed in every state where the company is doing business.

**Senator Werk** asked in the case of a managing partner, would any additional fee received for managing the partnership be considered a guaranteed payment. **Mr. Young** said it could be. In a prior law firm, there was a set salary for the managing partner as well as a distribution through the partnership. The set salary should be considered a guaranteed payment because the amount is not based on the income of the partnership. The income of the partnership should be used for taxes and not the income of the partner, unless the work was done in Idaho.

**Mr. Young** said there was a client who was a member of a C Corporation for 35 years. The client was the president of the C Corporation. The business was converted from a C Corporation to an LLC; at that time, the company stayed the same with the exception of the corporate structure and Idaho then taxed the president's salary as a guarantee payment.

**Senator Bilyeu** said if the Tax Commission has treated guaranteed payments this way in the past, what will be different with the new rule. **Chairman Corder** said people have appealed this treatment in the past.

**Vice Chairman Johnson** introduced **Mike Lindstrom** of Eide Bailey, LLP, who spoke in opposition of the rule. Mr. Lindstrom said currently, 100% of income for work that is performed in Idaho is taxed in Idaho. This change would cause the taxes to be distributed among all states where the company does business; and Idaho would lose money. There is a very narrow group of people this rule applies to; this rule only applies to non-residents of Idaho.

**Vice Chairman Johnson** introduced **John McGown** of Hawley Troxell who spoke in opposition to the rule. **Mr. McGown** said there are two systems of taxation in Idaho, one for individuals and one for entities. Under the individual tax structure, if you are a resident, you pay tax on all of the income; but receive a credit for taxes paid to other states for work done in those states. All of the income is reported to Idaho. Entities have apportioned taxes. This case is a mix between guaranteed payments, which are taxed as an individual and partnership income which is a different tax system.

**Senator Hill** asked if the rule would be contrary to IRS code. **Mr. McGown** said it would be contrary. The rule as proposed says guaranteed payments are not going to be treated as individual income, it will all be treated as entity income.

**Vice Chairman Johnson** introduced **Chelsea Kidney** of the Idaho Tax Commission. **Ms. Kidney** said federal tax rules are complex. The position of the Tax Commission is that guaranteed payments are not salary. At the federal level, they are treated as ordinary income. The Tax Commission's treatment of guaranteed payments is consistent with the federal government's treatment. Recipients of guaranteed payments do not receive a W-2 or 1099 as they would with a salary.

**Senator McKenzie** asked if Internal Revenue Code 707(a) is used when the partner is acting in a capacity other than as a partner and IRC 707(c) is used when acting as a partner, then if guaranteed payments are analogous to a salary, should IRC 707(a) be used. The partner is providing service to the partnership when not acting as a partner. **Ms. Kidney** said work that is done by someone who does not need to be a partner in order to do it is covered in 707(a) and guaranteed payments are covered in 707(c).

**Senator McKenzie** asked what is the difference in policy between a C Corporation and an LLC. **Ms. Kidney** said when a partnership creates a structure, there is a choice of entities to be taxed by.

**Senator Hill** said guaranteed payments are on a separate line of the K-1 and are not listed as part of the overall partnership income because the IRS wants this source of income treated differently. Is this strictly a state issue or is it also a federal issue. **Ms. Kidney** said it is a federal issue. There are guaranteed payments given that are not for services. **Senator Hill** said we need to be fair and the rules that we make need to be fair. The majority are punished for the behavior of a few and that is done in laws all the time. Most guaranteed payments go out in different portions because one partner performs more services or provides more capital than someone else.

**MOTION:**

**Senator Hill** made a motion to reject rule 263-04 of Docket Number 35-0101-1102. **Senator Siddoway** seconded and the motion carried by Voice Vote.

**DOCKET  
NUMBER:  
35-0101-1102**

Rule 275 relating to Exempting Nonresident Income from a Qualified Investment Partnership. **Ms. Adrian** said that ninety percent (90%) of gross income from investments that produce income that would not be taxable by a non-resident individual if the investment were held by that individual, according to Idaho Statute 63-2036A 3(c).

**Mr. Young** spoke in opposition to the rule. See Attachment #6. **Mr. Young** said the concept of a Qualified Investment Partnership (QIP) is that a group invests in a stock together rather than individually. Under tax law, the partners of the partnership would only pay tax for the state in which they reside. This encourages people to invest in states other than the ones where they reside. However, according to this rule, if a partnership rather than an individual invests in an Idaho company stock, the members of the partnership need to pay tax in Idaho. Section 63-2036A of Idaho Statute says a QIP must derive at least 90% of its gross income from investments that produce income that would not be taxable to a nonresident individual if the investment were held by that individual.

**Senator McKenzie** asked what non-investment income is and how it would factor into the 90% rule. **Mr. Young** said non-resident individuals shall not be taxed on investment income from a qualified investment partnership. The tax commission rule introduces the concept of non-investment income of the qualified investment partnership. If you meet the 90% test, then all of your income should qualify. The distributive share of non-investment income of a QIP is included in Idaho Taxable income.

**Senator Siddoway** said he does not believe that people will not invest in Idaho because they had to file an income tax return. **Mr. Young** said for very wealthy investors, that would probably be the case, but for others who may want to invest, it would be a deterrent. If they did not care, there would be no reason for QIP's.

**Mr. John** said the rule was not intended to exempt income that was taxable to an individual had they engaged in the transaction on their own. If this rule is rejected, income would be transferred from taxable to nontaxable simply by the form of the entity. If the rule is considered problematic, then the law should be changed from 90% to 100%.

**Senator McKenzie** said the QIP was not intended for individuals to get together to exempt transactions. **Mr. John** said rejecting the rule doesn't necessarily do that, the statute would have to be changed. If there is a QIP with \$1million in income and \$900,000 of that was from equities, it is still not taxable to investors who are not residents. The \$100,000 invested in a farm would be subject to tax.

**MOTION:** **Chairman Corder** made a motion to approve rule 275 of Docket 35-0101-1102. **Senator Werk** seconded. **Senator McKenzie** said the policy behind the rule makes sense, but it is inconsistent in the statute with having a 90% standard. The policy question is whether it should be a 90% or 100% exemption. A more rational policy would be to put the statute at 100%; treat QIP's the same as an individual. The motion carried by Voice Vote.

**DOCKET NUMBER:** **35-0101-1102** Rule 171. Relating to Idaho Capital Gains Deduction-Qualified Property. **Mr. John** said the rule deals with holding periods of distributions of pass-thru entities. The rule makes a distinction between different types of distribution; partial or complete. When you look at the Tax Commission and the IRC sections, this rule is the result you will get. If that is not good policy, then the statute should be changed.

**Vice Chairman Johnson** introduced **Phil Skinner** of the Idaho Tax Commission. See attachment #7. **Mr. Skinner** said Section 1223 of the Internal Revenue Code should be used to determine holding periods. The holding period for the item that was exchanged for the stake in the partnership would inherit the holding period of the partnership. IRC 1223(1) and 732(b) discuss liquidating distributions and IRC 1223(2) and 732(c) discuss distributions of a regular (non-liquidating) distribution.

**Senator Siddoway** asked if the liquidation holding period is time or money based. **Mr. Skinner** said it is both; all Idaho statute concentrates on is the holding period. For an Idaho capital gains deduction you need a holding period of 12 months. A non-liquidating distribution is when the partnership remains, some assets are being distributed.

**Mr. McGown** spoke in opposition to the rule. See Attachment #8. **Mr. McGown** said as an example, there is a partnership with three parcels of land to be liquidated. Distribution of the third parcel taints the other two in the Idaho State tax deduction if the partnership is being liquidated. There is no logic to this. The implications of the rule have not been considered.

**Chairman Corder** stated the Tax Commission has represented that these changes more accurately reflect the statute, do you agree. **Mr. McGown** replied no, the Tax Commission has strained to make the interpretation they have come up with. There is a case pending before the Board of Tax Appeals with a similar issue.

**Mr. Skinner** said the Attorney General's office has no opinion regarding these rules. Exchange of property does not include the liquidation of the partnership. If this rule is not adopted, the same result will be implied through the existing rule.

**MOTION:** **Senator Siddoway** made a motion to accept Rule 171-06B of Docket No.35-0101-1102. **Senator Bilyeu** seconded and the motion carried by Voice Vote.

**Vice Chairman Johnson** turned the gavel back to **Chairman Corder**.

**Chairman Corder** said if the same rule that was rejected in the Senate is rejected in the House, the rule will be rejected. If the rule is not rejected in the House, the rule is then not rejected at all.

**ADJOURNMENT:** The meeting was adjourned at 5:25 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
3:00 P.M.  
Room WW53  
Thursday, January 19, 2012

SUBJECT	DESCRIPTION	PRESENTER
	PRESENTATION: Tax Comparisons Among Western States	Randy Nelson, President, Associated Taxpayers of Idaho  Dan John, Idaho State Tax Commission

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, January 19, 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.

**Chairman Corder** called the meeting to order at 3 pm. **Chairman Corder** said each committee member will receive an email with a link to the Stallman/Deller study that was referenced by Dr. Cooke.

**PRESENTATION:** Tax Comparisons Among Western States. **Chairman Corder** introduced **Randy Nelson**, President of the Associated Taxpayers of Idaho. See attachment #1.

**Senator Werk** said there is a security training company that is moving to Idaho from Sparks, Nevada. The taxes will be higher, but there is a better business climate in Idaho.

**Mr. Nelson** said there are a lot of details and methodology behind the numbers, but the presentation is a summary of the detail. **Senator Hill** said the document appears to show the entire tax burden for someone making over \$150,000 would be 8.9% for Idaho tax and the federal tax level for the same person would be 8.1%. **Mr. Nelson** said the federal line is the average of all states, not federal income tax.

**Vice Chairman Johnson** said Wyoming ranks number one in tax burden per \$1000 of income. Does that include local taxes such as mineral royalty taxes as well. **Mr. Nelson** said it does.

**Senator Werk** said he was not aware the states surrounding Idaho exempt food, with the exception of Utah.

**Chairman Corder** said it is very difficult to compare different composite rates because different taxing districts are used. The overall ranking for Idaho is #43; is this an effort to get to the composite rate of what really is a net cost. **Mr. Nelson** said yes.

**Senator Siddoway** asked what should be the tax policy to entice businesses into the state. **Mr. Nelson** said the rankings for Idaho are a little high on individual income tax and the corporate income tax. However, the country has a high corporate tax rate, which affects all states. There is some competition between the states.

**Chairman Corder** introduced **Dan John** of the Idaho Tax Commission. **Mr. John** said the presentation has general tax information to compare Idaho with the nearby states. See attachment #2. There is a "three-legged stool" of taxes: sales tax, income tax and property tax. Many of the neighboring states around Idaho do not tax one of the three items. Oregon does not have a sales tax and Washington does not have an income tax.

**Mr. John** said what existed for a few years after the sales tax was a state property tax that paid for some flood control districts. **Senator Hill** asked how the property tax was collected; did the county collect it and remit it to the state. **Mr. John** said it came straight to the state. There is \$15.7 million that goes to the circuit breaker fund, which is a property tax deduction for low-income seniors that the State pays to the counties.

**Chairman Corder** said there was never a mechanism to adjust business inventory replacement dollars to the counties; when the property tax exemption was given to agriculture, was the same formula of reimbursement used. **Mr. John** said the same pattern was used; the first year the counties were reimbursed for property tax that did not come in on agriculture. If farming moves from one jurisdiction to another, the money from the lack of ability to attach farmland does not follow it.

**Chairman Corder** asked if the percentage between cities and counties stays the same. **Mr. John** said it is shared equally.

**Senator Werk** asked if the chart represents supplemental levies and property taxes for schools and the Maintenance & Operation (M & O) levies. **Mr. John** said Boise is the only school district to have an M & O levy.

**Senator Werk** said in 2006 there was a shift of taxes and there was a concern the burden would shift to commercial property. This chart appears to show this did not occur. **Mr. John** said the chart does not take into consideration other types of property that are now being taxed. In the early 2000's, residential property was coming on to the tax rolls more quickly than commercial property.

**Senator Bilyeu** said when the M & O came off and there was a shift to state tax, there was a belief that property taxes would go down; however, the chart shows the taxes went down for a year or two, then back up again. **Mr. John** said the total of the properties went back up, not necessarily individual property taxes.

**Senator Hill** said the chart of property taxes shows only total dollars collected; it is not a comparison of amount of properties, as there were many residential units added during this time.

**Mr. John** said the state of Washington has a cigarette tax of \$3.025 per pack.

**Senator Werk** said Washington has the third lowest rate of smoking in the country.

**Mr. John** said when there is discussion about taxing services, admissions for items such as movie theaters are taxed as services.

**Vice Chairman Johnson** asked which CPI Index is used and does it include energy and food and is it a chained CPI.. **Mr. John** said it does include energy and food. **Vice Chairman Johnson** asked if the state ever changed CPI. **Mr. John** said not since the state went to indexing.

**ADJOURNMENT:** The meeting was adjourned at 4:20 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
**3:00 P.M.**  
**Room WW53**  
**Tuesday, January 24, 2012**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#">H 355</a>	Relating to Income Taxes; Amending Section 63-3004	Dan John, Idaho State Tax Commission
PRESENTATION	Property Tax Assessments	Bob Geddes, Chairman Idaho State Tax Commission
MINUTES APPROVAL	January 11, 2012	Senator Johnson, Senator Siddoway
	January 12, 2012	Senator Hammond, Senator Werk
	January 17, 2012	Senator Bilyeu, Senator McKenzie

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: jbujarski@senate.idaho.gov

## MINUTES

# SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

**DATE:** Tuesday, January 24, 2012

**TIME:** 3:00 P.M.

**PLACE:** Room WW53

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

**ABSENT/ EXCUSED:** Senator McKenzie

**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.

**Chairman Corder** called the meeting to order at 3 pm.

**H 355** Relating to Income Taxes, Amending Section 63-3004. **Chairman Corder** introduced **Dan John** of the Idaho State Tax Commission. **Mr. John** said this is an annual update based on the IRS Code as of January 1, 2012 and this year there is no fiscal impact.

**MOTION:** **Senator Hammond** made a motion to send H 355 to the floor with a Do Pass recommendation. **Senator McGee** seconded and the motion carried by Voice Vote. **Senator Hammond** will be the sponsor.

**PRESENTATION:** **Chairman Corder** introduced **Tom Katsilometes** Commissioner of the Idaho State Tax Commission. **Mr. Katsilometes** said one of the areas that is focused on is powers and duties. The Tax Commission must insure fair, equitable and accurate property assessments for the citizens of the state of Idaho. The amount of taxable value in the state is \$106.7 billion, which results in \$1.38 billion in property tax collected. The Tax Commission oversees the operation of the assessors. There are about 1200 different taxing districts that need to be overseen. The taxing districts have overlapping assessments and processes. There is a good relationship with the counties that has gotten better over the last year and a half. All four commissioners meet with each county and ask how the Tax Commission can help and how is the Tax Commission doing in support of the counties. What needs to be improved.

The Tax Commission has worked with Boise County to formulate some legislation to assist Boise County with their bankruptcy.

**Senator Hammond** asked whether true market value target is being met. **Mr. Katsilometes** said the true market value is the actual price of comparable sales in the area. The Tax Commission looks at true market value as an oversight organization, the assessors are the ones who actually set that. **Senator Hammond** asked how the counties are doing in reaching the true market value. There is often a fear that if true market value is reached, the property taxes will rise. Actually, the property taxes will not rise, but the levy rates may go down, is that correct. **Mr. Katsilometes** said that is correct. The counties are doing very well in meeting the true market value target.

**Chairman Corder** introduced **Steve Fiscus** Administrator of the Property Tax Division, Idaho State Tax Commission. See attachment #1. **Mr. Fiscus** said the counties and the Tax Commission both have statutory responsibility to mandate a system of property taxation throughout the state. Market value is the number the Tax Commission seeks from the counties, but there is a tolerance built in; the number does not have to be 100%. The range could be 90%-110% for some counties.

**Mr. Fiscus** said not all taxing districts levy; however they are monitored to be sure they are holding elections. More and more of the small taxing districts are not holding their elections regularly or properly. The Tax Commission will work with the counties to be sure the elections are held and they are accountable to the citizens of the district.

**Mr. Fiscus** said the Tax Commission saved the State \$436,741 due to audits of the applicants for the Property Tax Reduction Program. Some applicants were not qualified to receive this exemption.

**Senator Bilyeu** asked if the Tax Commission appraises commercial property for any counties, and if so, does the Tax Commission charge the counties for this service. **Mr. Fiscus** said the Tax Commission does provide assistance to some counties for appraisal of industrial properties, not commercial. There is no charge for the service. Some counties have started contracting with a former employee of the Tax Commission for this work. **Senator Bilyeu** asked for the definition of "physical inspection". **Mr. Fiscus** said there was an issue in the past on the definition of adequate appraisal. There is a rule that defines adequate appraisal and what components are necessary.

**Vice Chairman Johnson** asked who the vendor is for the Modernization Program for the software, why is the GIS piece separate and why all counties are not using the Technical Support Bureau. **Mr. Fiscus** said it is not one vendor, several years ago three counties went out for bid and the Tax Commission supported their choices. The modernization plan is to transition from the current system that was created in the 1970's to current software and hardware, which will be easier to maintain. The counties may choose their own software as long as they meet the requirements the Tax Commission has set forth. The GIS system is integrated with the Technical Support Bureau.

**Chairman Corder** said the Statewide Board of Equalization equalizes the values by county. What is being equalized. **Mr. Fiscus** said counties need to be equalized and categories of property, not only within counties but in adjacent counties due to joint districts.

**Chairman Corder** introduced **Dan Chadwick**, Executive Director of the Idaho Association of Counties (IAC). **Mr. Chadwick** said any system will have to fit the needs of all counties in Idaho, no matter how diverse they are in physical size and population. Article 7 of the Idaho Constitution has the basics as to why Idaho has the type of system it does and why there is such an important relationship between the Tax Commission and all forty-four counties. The article states the system has to be fair and equitable, uniform, and describes how it should be set up. There have to be boards of equalization at the county and state level. County support has been one of the most important relationships that exist between counties and the Tax Commission. The current commissioners are some of the best people to work with.

The Tax Commission has to act as a regulator at times; however, the commission also trains the assessors. The IAC spends most of the time educating and training county elected officers of their obligations under the law.

**Senator Werk** said Article 7, Section 8 of the Idaho Constitution states "the power to tax corporations or corporate property, both real and personal, shall never be relinquished or suspended, and all corporations in this state or doing business therein, shall be subject to taxation for state, county, school, municipal and other purposes, on real and personal property owned or used by them, and not by this constitution exempted from taxation within the territorial limits of the authority levying the tax." Would there need to be a constitutional amendment needed to eliminate personal property tax. **Mr. Chadwick** replied if it was read by itself, a constitutional amendment would be needed. However, Section 5 authorizes exemptions from taxes. There are other provisions that will allow the legislature some flexibility.

**Chairman Corder** introduced **Bob McQuade**, Ada County Assessor. **Mr. McQuade** said a committee called the IT Options Committee was created to evaluate software for use for property tax appraisal. **Mr. McQuade** said this is the best relationship the assessors have had with the Tax Commission, over the 40-year span of his career. The assessors guard and protect the statutory responsibilities they have been given. One of the major tools the assessors use is software. In Ada County, up until eight years ago, the software being used was 25 years old. The assessors do not have to use a central system. They are currently doing that now with the Idaho Transportation Department and it is very cumbersome and difficult to work with.

This also allows the counties to be innovative and modify the systems they use very quickly. If a central system was being used, all assessors would have to agree before a change could be made.

**MOTION:** **Vice Chairman Johnson** made a motion to approve the minutes of January 11, 2012. **Senator Siddoway** seconded and the motion carried by Voice Vote.

**Senator Hammond** made a motion to approve the minutes of January 12, 2012. **Senator Werk** seconded and the motion carried by Voice Vote.

**Senator Bilyeu** made a motion to approve the minutes of January 17, 2012. **Senator Hill** seconded and the motion carried by Voice Vote.

**ADJOURNMENT:** The meeting was adjourned at 3:55 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
3:00 P.M.  
Room WW53  
Wednesday, January 25, 2012

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
DOCKET NUMBER: 35-0101-1102	Income Tax Administrative Rules	Dan John, Idaho State Tax Commission
PRESENTATION:	Response to Dr. Cooke presentation	Alex LaBeau, President, Idaho Association of Commerce and Industry

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

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.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

**AMENDED #1 AGENDA  
 SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
 3:00 P.M.  
 Room WW53  
 Thursday, January 26, 2012**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>H 356</u></a>	Relating to Property Taxes, to Remove the Requirement that the County Board of Equalization Shall Grant or Deny Applications for Property Tax Exemptions	Dan John, Idaho State Tax Commission
<a href="#"><u>H 360</u></a>	Relating to Taxation; To Authorize the State Tax Commission to Accept Payment of Taxes by Means of the Electronic Payment Processor	Dan John, Idaho State Tax Commission
<a href="#"><u>H 361</u></a>	Amends existing law relating to the sales and use tax to revise provisions relating to the application of exemption for vehicles registered under the International Registration Plan.	Dan John, Idaho State Tax Commission
<a href="#"><u>H 362</u></a>	Relating to Taxes, to Provide for Mailing Notices of Deficiency Determination by First Class Mail Rather than by Registered or Certified Mail	Dan John, Idaho State Tax Commission

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
 Room: WW31  
 Phone: (208) 332-1315  
 email: jbujarski@senate.idaho.gov

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, January 26, 2012  
**TIME:** 3:00 P.M.  
**PLACE:** Room WW53  
**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, McGee, Hammond, Werk, and Bilyeu  
**ABSENT/ EXCUSED:** Senator Siddoway

**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.

**Chairman Corder** called the meeting to order at 3pm.

**H 362** Relating to Taxes, to Provide for Mailing Notices of Deficiency Determination by First Class Mail Rather than by Registered or Certified Mail. **Chairman Corder** introduced **Dan John** of the Idaho State Tax Commission. **Mr. John** said current law requires the Tax Commission to send certain notices to taxpayers by certified mail. Approximately 35% of all certified mail is returned as unclaimed. See attachment #1. The only mailing that would be changed is for notices of deficiency only and the legislation sunsets in June 30, 2013. This would allow the Tax Commission to analyze the effectiveness of the change. This change could save the Tax Commission approximately \$200,000 per year.

**Chairman Corder** introduced **Randy Tilley**, Division Administrator for the Audit Collections Division of the Idaho State Tax Commission, to discuss in more detail the changes to House Bill 362. See attachment #2. **Mr. Tilley** said the person will be contacted by telephone at least twice. If there is no response, a Notice of Deficiency will be sent.

**Chairman Corder** asked what is the percentage of phone calls are you not able to make contact. **Mr. Tilley** said the Tax Commission would leave a message if the person is not available, asking for a return call.

**Vice Chairman Johnson** asked how the taxpayer knows how long they have to respond to a notice. **Mr. Tilley** said it is based on the postmark date of the letter and the taxpayer receives an exact date by which they need to respond. The obligation of the Tax Commission is to send a letter to the last known address; however, the staff will try to find a more recent address for the taxpayer.

**MOTION:** **Senator McGee** made a motion to send House Bill 362 to the floor with a Do Pass. **Senator Bilyeu** seconded and the motion carried by Voice Vote. **Senator McGee** will be the floor sponsor.

**H 356** Relating to Property Taxes, to Remove the Requirement that the County Board of Equalization Shall Grant or Deny Applications for Property Tax Exemptions. **Mr. John** said the requirement to approve all exemptions annually is flawed. This bill is a clean up of current statute, because there are not always written documentation for all exemptions. See attachment #3. The deadline for making application is April 15.

**Senator Hammond** asked why the State is not uniform in requiring an application for all exemptions. **Mr. John** replied there are other provisions in Idaho Code that do not require an application.

**Senator Werk** said if this bill is clean up, are processes being changed or is everything statutorily correct. **Mr. John** said it eliminates a provision that doesn't work and puts exemptions in the same code section.

**MOTION:** **Vice Chairman Johnson** made a motion to send House Bill 356 to the floor with a Do Pass. **Senator Werk** seconded and the motion carried by Voice Vote. **Vice Chairman Johnson** will be the floor sponsor.

**H 360** Relating to Taxation; To Authorize the State Tax Commission to Accept Payment of Taxes by Means of the Electronic Payment Processor. **Mr. John** said this statute is being amended to also allow payments to be made to electronic payment transaction processors. This legislation allows the Tax Commission to not pay credit card fees. See attachment #4.

**MOTION:** **Senator McKenzie** made a motion to send House Bill 360 to the floor with a Do Pass. **Senator McGee** seconded and the motion carried by Voice Vote. **Senator McKenzie** will be the floor sponsor.

**H 361** Amends Existing Law Relating to the Sales and Use Tax to Revise Provisions Relating to the Application of Exemption for Vehicles for Vehicles Registered under the International Registration Plan. **Mr. John** said this statute is amended to make the review period four consecutive fiscal year quarters. This change will make documentation of the exemption simpler. See attachment #5.

**Senator Hill** asked if at anytime during those four quarters they fall below the threshold, they will lose the exemption. **Mr. John** replied if they are below the 10% for their fleet, they will lose the exemption. **Senator Hill** asked why does the statute say the last four quarters rather than annual period. **Mr. John** said that could have been done.

**MOTION:** **Senator Werk** made a motion to send House Bill H 361 to the floor with a Do Pass. **Senator Bilyeu** seconded and the motion carried by Voice Vote. **Chairman Corder** will be the floor sponsor.

**ADJOURNMENT:** The meeting was adjourned at 3:35.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
**3:00 P.M.**  
**Room WW53**  
**Tuesday, January 31, 2012**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#">H 357</a>	Relating to Property Taxes; To Establish Standards and Methods for the Valuation for the Taxation of Forest Lands under the Productivity Option to apply for a ten-year Period	Mr. Dan John, Idaho State Tax Commission
<a href="#">H 363</a>	Relating to Income Taxes; To Provide Treatment for Certain Passive Losses Incurred when a Taxpayer did not Conduct Business in Idaho	Mr. Dan John, Idaho State Tax Commission
<a href="#">H 364</a>	Relating to Income Taxes; To Clarify the Deduction for Retirement Benefits Paid to Certain Retired Police Officers and Revising the Definition of Disabled	Mr. Dan John, Idaho State Tax Commission
<a href="#">H 365</a>	Relating to Income Taxes; to Clarify the Deduction for Net Operating Losses	Mr. Dan John, Idaho State Tax Commission
<a href="#">RS21059</a>	This Concurrent Resolution Would Reject One Section in a Pending Rule of the State Tax Commission relating to Tax Administrative Rules as not being Consistent with Legislative Intent.	Senator Corder
MINUTES APPROVAL:	January 18, 2012	Senator McGee, Senator Siddoway
	January 19, 2012	Senator Hammond, Senator Johnson

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: jbujarski@senate.idaho.gov

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Tuesday, January 31, 2012  
**TIME:** 3:00 P.M.  
**PLACE:** Room WW53  
**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators McKenzie, McGee, Hammond, Siddoway, Werk, and Bilyeu  
**ABSENT/ EXCUSED:** Senator Hill

**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.

**Chairman Corder** called the meeting to order at 3 pm. **Chairman Corder** announced there would be no meeting on Tuesday, February 7; and Wednesday, February 8 there will be joint meeting with the House Revenue and Taxation Committee at 9 am in the Auditorium.

**MINUTES:** **Senator Siddoway** made a motion to approve the minutes of January 18, 2012. **Senator McGee** seconded, and the motion carried by Voice Vote.

**Senator Hammond** made a motion to approve the minutes of January 19, 2012. **Vice Chairman Johnson** seconded, and the motion carried by Voice Vote.

**H 357** Relating to Property Taxes; to Establish Standards and Methods for the Valuation for the Taxation of Forest Lands under the Productivity Option to apply for a Ten-Year Period. **Chairman Corder** introduced **Dan John** of the Idaho State Tax Commission. **Mr. John** said the bill is from the CFTM Committee of Forest Land Taxation Methodology. The CFTM determines how forest land is valued. The group is made up of the Tax Commission, four members who represent business entities, holding not less than 5,000 acres of timberland, one member selected from the membership of the Idaho Forest Owners Association, five members selected from the membership of the Idaho Association of Counties and the Superintendent of Public Instruction or his designee.

The formula that has been in statute for the last several years that specifies how forest land is to be valued expired at the end of 2011. This bill has a new methodology for determining the value of forest tracts beginning January 1, 2012. The value is floored at 2011 values and allows not more than a 5% annual increase for a total of 30% increase in value over the next ten years.

**Senator Bilyeu** asked if the change will raise the value of forest land. **Mr. John** replied that it would raise the value over time.

**Chairman Corder** asked as of the date the bill takes affect, would there be a decrease in taxes. **Mr. John** said that would depend on the mix of the other properties. If the other properties have gone up, there could be a decrease.

**MOTION:** **Senator Siddoway** made a motion to send H 357 to the floor with a Do Pass. **Senator Hammond** seconded, and the motion carried by Voice Vote. **Senator Hammond** will be the floor sponsor.

**H 363** Relating to Income Taxes; to Provide Treatment for Certain Passive Losses Incurred when a Taxpayer did not Conduct Business in Idaho. See attachment #1. **Mr. John** said the bill deals with a relatively narrow tax law. If the loss is incurred prior to the taxpayer coming to Idaho, the loss cannot be claimed against Idaho gains.

**MOTION:** **Senator McKenzie** made a motion to send H 363 to the floor with a Do Pass. **Senator McGee** seconded, and the motion carried by Voice Vote. **Senator McKenzie** will be the floor sponsor.

**H 364** Relating to Income Taxes; to Clarify the Deduction for Net Operating Losses. See attachment #2. **Mr. John** said the bill is truly a cleanup bill. The bill covers retirement plans the cities have had for police officers prior to the PERSI system. The plans were paid into at the time they were not covered by social security.

**Chairman Corder** asked if the sentence that was stricken on page 2 related to the definition of widow including widower does that change the definition of who can benefit. **Mr. John** said the first page has the language for widow and widower.

**MOTION:** **Senator McGee** made a motion to send H 364 to the floor with a Do Pass. **Vice Chairman Johnson** seconded, and the motion carried by Voice Vote. **Senator McGee** will be the floor sponsor.

**H 365** Relating to Income Taxes; to Clarify the Deduction for Net Operating Losses. See attachment #3. **Mr. John** said the bill makes technical corrections to the Idaho Income Tax Act. There are four sections with corrections.

**MOTION:** **Senator Siddoway** made a motion to send H 365 to the floor with a Do Pass. **Senator Hammond** seconded, and the motion carried by Voice Vote. **Senator Siddoway** will be the floor sponsor.

**RS 21059** This Concurrent Resolution Would Reject One Section in a Pending Rule of the State Tax Commission relating to Tax Administrative Rules as not being Consistent with Legislative Intent. **Chairman Corder** turned the gavel over to **Vice Chairman Johnson**.

**Chairman Corder** said because the committee voted to reject the rule dealing with guaranteed payments, the resolution needed to be created.

**MOTION:** **Senator McGee** made a motion to send RS 21059 to the 10th order. **Senator Bilyeu** seconded and the motion carried by Voice Vote.

**Senator Hammond** asked why this rule was being rejected. **Chairman Corder** said there was debate as to whether Rule 263, dealing with guaranteed payments, was being treated consistently with Idaho Statute and IRS code. The committee did not resolve the point, so the committee determined to reject the rule.

**Vice Chairman Johnson** turned the gavel over to **Chairman Corder**.

**Senator Werk** reminded the committee that small bills could be sent directly to the consent calendar rather than having someone introduce them.

**ADJOURNMENT:** The meeting was adjourned at 3:30.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
3:00 P.M.  
Room WW53  
Wednesday, February 01, 2012

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#">H 358</a>	Relating to Property Taxes, to Revise Provisions Relating to Delivery of Property Values to Cemetery Districts	Dan John, Idaho State Tax Commission
PRESENTATION:	Board of Tax Appeals	Susan Renfro, Board of Tax Appeals
MINUTES APPROVAL:	January 24, 2012	Senator Bilyeu, Senator Werk
	January 25, 2012	Senator Siddoway, Senator McKenzie
	January 26, 2012	Senator McGee, Senator Hammond

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Wednesday, February 01, 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.

**Chairman Corder** called the meeting to order at 3 pm. **Chairman Corder** said there was a report from the Tax Commission distributed to the committee members in the packets. The report complies with legislation passed a year ago to require the Tax Commission to report closing agreements in excess of \$50,000.

**H 358** Relating to Property Taxes; to Revise Provisions Relating to Delivery of Property Values to Cemetery Districts. **Chairman Corder** introduced **Dan John** of the Idaho State Tax Commission. **Mr. John** said Sections 1-3 change the term "assessor" to "auditor". The county auditor is the person who provides values to the taxing districts, not the assessor. See attachment #1.

**Mr. John** said the data that is available on the first Monday in July is not very accurate. All the information has not been given to the assessors by that time. The bill would change the date from the first Monday in July to the first Monday in August. However, the highway districts have their budget hearings the beginning of August, so they need the information before the first Monday in August. There is a pending amendment to H 358 to change the date for the highway districts from the first Monday in August, to the third Monday in July.

**Senator McKenzie** asked if the term auditor is another name for the clerk. **Mr. John** said the clerk is the auditor.

**MOTION:** **Senator McGee** made a motion to send H 358 to the 14th Order for possible amendment. **Senator Bilyeu** seconded, and the motion carried by Voice Vote. **Chairman Corder** will be the floor sponsor.

**PRESENTATION:** **Chairman Corder** introduced **Susan Renfro**, Director, State Board of Tax Appeals. **Ms. Renfro** introduced **Linda Pike**, Board Member for Northern Idaho and **David Kinghorn**, Board member for Southeastern Idaho.

**Ms. Renfro** said the Board of Tax Appeals was created in 1959 to provide the opportunity for taxpayers to appeal decisions of the local Boards of Equalization, the County Commissioners and also the decisions of the State Tax Commission. The Board of Tax Appeals is an independent board; it is a separate entity. The Commissioners travel to the areas where the appeal originates to hear the cases. See attachment #2. In the last six years, the amount of appeals has gone up astronomically. In 2005, there were 287 appeals; in 2006, there were 1,142. The appeals are also more complex, and the volume will probably not decrease in the near future. **Ms. Renfro** said there are only eight people at the Board of Tax Appeals. This presentation is informational, the Board is not asking for anything from the legislature.

**Senator McKenzie** asked if there is a particular type of case that is appealed most often. **Ms. Renfro** said the cases are totally different; it is usually people who feel very strongly about the issue they are questioning. It is not necessarily complex cases that are appealed.

**Senator Siddoway** asked what is the average time frame spent on a case. **Ms. Renfro** said it depends on the complexity; a hearing takes about a couple of hours, the decision will take at least two days. **Senator Siddoway** asked if the board is involved in every aspect of the process, or is the staff able to take care of some of the issues. **Ms. Renfro** said the Board is fully involved; there is not a decision that goes out without Board review. **Senator Siddoway** asked if a taxpayer decides to appeal and hears what steps need to be taken to appeal; do they then decide not to appeal. **Ms. Renfro** replied there are some who decide not to appeal.

**Senator Werk** asked if there was a reason Twin Falls County had so many appeals. **Ms Renfro** replied there is usually one county that has a lot of appeals. Twin Falls had a lot of subdivisions that had home values decreased.

**Senator Werk** asked if the job of the Board would be easier if there was sales price disclosure on property. **Ms. Renfro** said there is so much information available now, which is very helpful to taxpayers. However, one side may have all the information and the other side may not.

**Chairman Corder** said the Board is designated as part time, but if the total appeals are divided by three; that would average one appeal per day, which would not be part time. **Ms. Renfro** said the only part of the Board that is part time is the pay; the Board members are limited to an income of \$10,000 per year. **Chairman Corder** asked what the difference is between ad valorem appeals and other appeals and why are they reported separately. **Ms. Renfro** said ad valorem appeals are on a different cycle. The cycle starts September/October right after the June assessment notice is received. Ad valorem includes property values and exemptions such as agriculture and homeowner.

**MOTION:**

**Senator Werk** made a motion to approve the minutes of January 24, 2012. **Senator Bilyeu** seconded, and the motion carried by Voice Vote.

**Senator Siddoway** made a motion to approve the minutes of January 25, 2012. **Senator McKenzie** seconded, and the motion carried by Voice Vote.

**Senator McGee** made a motion to approve the minutes of January 26, 2012. **Senator Hammond** seconded, and the motion carried by Voice Vote.

**ADJOURNMENT:** The meeting was adjourned at 3:40 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
3:00 P.M.  
Room WW53  
Thursday, February 02, 2012

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<b>HEARINGS:</b>	Board of Tax Appeals: Linda Pike State Tax Commission: Richard Jackson	Senator Corder
<b>PRESENTATION:</b>	Developer Discount Idaho Code 63-602K and 63-604	Steve Fiscus, Alan Dornfest, Idaho State Tax Commission

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, February 02, 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.

**Chairman Corder** called the meeting to order at 3:05 pm. **Chairman Corder** said there was a notebook for each Senator with copies of the studies that have been presented to the committee. The books can be kept either in the Committee office or each Senator may take their book.

**CONFIRMATION HEARINGS:** **Chairman Corder** introduced **Linda Pike**, Gubernatorial appointee for the Board of Tax Appeals. **Ms. Pike** said she grew up in Oklahoma on a cattle, wheat and cotton farm and later went to the University of Idaho for a law degree.

**Senator Johnson** said the fact that **Ms. Pike** has never missed a meeting shows great dedication. **Ms. Pike** said there are only two meetings a year, because the Board is a working board, rather than one which has a lot of meetings. The hearings are the items that take a lot of time; schedules constantly change. There is an attempt to have four hearings a day in the more outlying areas. Until they get to the hearing, the commissioners do not know how much time a hearing will take.

**Senator Hill** asked if the Board members considered themselves advocates for the taxpayers or the state, since they are paid by the State. **Ms. Pike** said neither, they consider themselves judges and are impartial at all times.

**Senator Bilyeu** asked how many extra hearing officers there are. **Ms. Pike** said generally there are two in the office, but there is only one now, plus one part-time employee. **Senator Bilyeu** asked how many days there are hearings scheduled in a month. **Ms. Pike** said it is very cyclical and fall is the busy time.

**Chairman Corder** introduced **Rich Jackson**, Gubernatorial appointee for the State Tax Commission. **Mr. Jackson** introduced his family and said he is a CPA by trade.

**Senator Hill** asked Mr. Jackson if he felt his background as a CPA would add or detract from his ability to be on the State Tax Commission. **Mr. Jackson** said the Board of Medicine has both laymen and physicians on it. There are perspectives other board members may not have because of specific abilities. **Mr. Jackson** said he ended his relationship with his accounting practice. Anything that could be perceived as a conflict of interest, he has recused himself from.

**PRESENTATION:** **Chairman Corder** introduced **Alan Dornfest** of the State Tax Commission to discuss the Developer Discount; found in Idaho Code 63-602K and 63-604. **Chairman Corder** said there is a possible bill coming to the Committee that is in regards to the developer discount, so the Committee needs to understand the history of the discount. **Mr. Dornfest** said there was a speculative value exemption created in 1982. The exemption constrains the value of land. Farmland values vary throughout the state, depending on location and type of farmland.

Farmland can transition into other uses such as being in a subdivision with restricted covenants that disallow farming, and farmland can become fully developed land. Currently, there is not a consistent practice as to when farmland loses the exemption. There could be three stages of the land transition; farmland, vacant but not farmed, and land with site improvements. Site improvements are added to the land value rather than the value of the building that will be built. When the land is not being farmed and is being converted to residential use, the value of the land may go up. There is no clear guidance as to whether it is proper to value the land with the incremental values. The house itself is exempt from taxation until it is occupied. The assessor is not capturing the increments on the building of the house.

**Senator Hill** asked what the intermediate values would be, and what improvements would have to be done to value the land at the intermediate value. **Chairman Corder** said there is no clear process across the state. The developers would like to stop at the intermediate stage until the land is fully developed.

**Mr. Dornfest** said when the land is valued at the intermediate level, it does not look any differently, it has no site improvements. The use has changed in that it is no longer being farmed. Site improvements would cause the land to be valued at the highest level.

**Senator Werk** said there was an issue in the past relating to the developer's exemption. **Mr. Dornfest** said in the 1970's and 1980's there was a system of valuation commonly used and commonly known as the developer's discount. In the early 1990's, legal staff and the Office of the Attorney General had reviewed this practice and found it to be inconsistent with the constitutional requirement to have land valued at market value. In 2002, House Bill 488 created a rural homesite exemption. That exemption valued the land at the original farmland value. This bill was an administrative problem because it caused the assessors to look through history and see what had been done in the past.

In 2006, this law was repealed. The original system that was ruled unconstitutional was a valuation system. The exemption was not unconstitutional, it was unwieldy.

**Mr. Dornfest** said in 1993 this issue was dealt with again. House Bill 389 required the time period for multiple lots to be taken into account. This bill was not able to be implemented at all and was repealed the next year.

**Senator Bilyeu** asked if the value the developers would like to see in the potential bill is the speculative value. **Mr. Dornfest** said that the developers are more interested in the middle value, converted to non-farmland, but no site improvements. **Senator Bilyeu** asked how long the land would be valued at the mid-level. **Mr. Dornfest** said the value would be changed upon sale of the lot or beginning of building upon the land.

**ADJOURNMENT:** The meeting was adjourned at 3:50 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

JOINT  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
**AND**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**WW02-Auditorium**  
**Wednesday, February 08, 2012**

SUBJECT	DESCRIPTION	PRESENTER
	Roll Call and Opening Remarks	Chairman Corder, Chairman Lake
<b>PRESENTATION: What Could be Done to Stimulate Idaho Economic Conditions</b>		
	Food Production Sector: Food Producers of Idaho	Brent Olmstead, Chairman, Food Producers of Idaho Tax Committee
	Jobs Sector:	Clark Krause, Jobs for Idaho
	Energy Sector:	Senator Curt McKenzie, Representative George Eskridge
	Commerce and Industry Sector:	Alex LaBeau, President, IACI
	Small/Moderate Business Sector:	Jeff Sayer, Department of Commerce
	Chamber of Commerce Sector:	John Watts
	Banking Sector:	Len Williams, President and CEO, Home Federal Bank

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

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

**DATE:** Wednesday, February 08, 2012

**TIME:** 9:00 A.M.

**PLACE:** WW02-Auditorium

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

Chairman Lake, Vice Chairman Collins, Representatives Barrett, Moyle, Raybould, Roberts, Schaefer, Smith, Wood, Bedke, Harwood, Barbieri, Bayer, Ellsworth, Gibbs, Burgoyne, and Rusche

**ABSENT/ EXCUSED:** Senator Bilyeu and Representative Killen

**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.

**Chairman Corder** called the meeting to order at 3:02 pm. **Chairman Corder** said guests were invited to make suggestions as to what can be done by the legislature to provide economic incentives.

**PRESENTATION:** **Chairman Corder** introduced **Brent Olmstead**, Chairman, Food Producers of Idaho Tax Committee. See attachment #1. **Mr. Olmstead** said the Tax Committee was formed this year and it is the first time the Food Producers have had a tax committee. The Food Producers consider a tax a fee for services from the government.

Alternative energy development will be a growing industry in agriculture. They would like the green credits that are accrued to stay with the developer of the alternative energy.

**Representative Roberts** said in the past he has requested a list of state and federal regulations that drive the cost of doing business higher. Which regulations are the worst. **Mr. Olmstead** said most of the regulations that are onerous are federal regulations. For example, the dairy industry has to get a permit to discharge; however, they are not allowed to discharge. The Food Producers have used zero-based budgeting and it has helped find efficiencies in the programs at lesser costs.

**Representative Rusche** said the guiding principals show "tax policy changes should not shift taxes from one category or class to another"; however, the proposal to eliminate personal property tax would shift taxes. **Mr. Olmstead** said most of agriculture does not have to pay personal property taxes and when those were eliminated, there were no other tax increases at the local level. Producers would rather remove the personal property tax than have a decrease in income tax. They would be willing to pay a little more in a different area than continue with the personal property tax.

**Representative Harwood** said since the energy has to be purchased by the deliverer, should not some of the green credits go with the energy. **Mr. Olmstead** said when the dairy industry installs a digester and electro ventilation panel, that will cost \$650-\$700/ head of cattle. That is not economically feasible without the green credits. Part of the payment for the digester is the green credit, which cuts the costs of the digester in half.

**Representative Bedke** asked all presenters to mention what they would like to use if there was \$45 million available for investments. **Mr. Olmstead** said the first priority would be more research and development by the universities. The exemptions and tax credits available do not necessarily spur economic growth. The only industry in Idaho that is growing and has wages above the national level is agriculture. The multiplier generated by the agricultural industry is higher than any other segment of the Idaho economy. Agriculture enjoys the most tax credits and exemptions in the state.

**Representative Burgoyne** asked what can be done to spur value-added activities. **Mr. Olmstead** said there is proposed legislation that will offer a tax credit for an Idaho-based company that uses Idaho agricultural products in a value-added system.

**Chairman Corder** introduced **Clark Krause**, of Jobs for Idaho. See Attachment #2. **Mr. Krause** said his organization is a coordinated effort of community economic development leaders. **Mr. Krause** is with Boise Valley Economic Development. The Boise Valley Economic Partnership is a regional group that represents ten cities in Idaho that puts together packages for businesses interested in moving to the area, or expanding in the area. **Mr. Krause** said he visited about 124 companies last year. Many companies are now using consultants for site selection. **Mr. Krause** said the state should create a job expansion fund. This fund would award money to new and existing companies.

The range of these awards would be \$1000-\$10000 depending on the job, wage, and which area they are locating in. These awards would be given post performance; the money would be awarded after the job creation over a period of one-four years. These jobs would export over 50% of a good or service out of state. All award commitments would have deadlines in order to ensure funds are not encumbered by companies not moving forward. The program would be transparent; there would be a report every year that showed what jobs were involved and whether the companies are still in Idaho.

Companies that move to Idaho under this plan will most likely stay in the area. Arizona just put together a plan that awards up to \$9000/ job. They have seen 300% more projects in the past one and half years and have already created 10,000 jobs.

**Representative Roberts** asked if the money is an increase on the expenditure side of the state budget, or a reduction to the income side of the state budget. **Mr. Krause** replied they would be happy with either one; these are suggestions and the organization would like the legislature to determine the best plan for Idaho.

**Chairman Corder** introduced **Representative George Eskridge**, and **Senator Curt McKenzie**, Co-Chairmen of the Interim Committee on Environment, Energy and Technology. See attachments #3 and #4. **Representative Eskridge** said the Monsanto study shows the Idaho Economy is largely based on low-cost energy. According to the Governor's Project 60 plan, low-energy costs are one of the most significant reasons to relocate a business to Idaho. Tax revenue for wind energy is estimated at \$4 mm for 2011. The tax structure for wind developers was changed from a property tax structure to a production tax methodology, which benefits the counties long term. The developers say they need certainty in the tax structure.

**Senator McKenzie** said economic development relies chiefly on two primary objectives: a secure, reliable and stable energy system; and maintaining a low cost energy supply. There will not be more large scale hydro projects in the future. Approximately 52% of the electricity in the state is imported as well as 100% of the transportation fuels. There are environmental concerns as well; 40% of the electricity in the state is from coal. A smart grid would give feedback to consumers related to their use of electricity. There needs to be more support for in-state energy resources such as wind and solar. Overly burdensome siting requirements should be avoided. All resources should be investigated. The Columbia River Basin treaty is due to expire in 2014 and should be renewed.

**Representative Burgoyne** asked if the state has good tax policy now or are there things that should be done. **Representative Eskridge** said it needs to be looked at on a case by case basis. The short-term tax incentive that is used for the development of wind was successful and it had a sunset. This allowed for certainty in tax policy.

Thermal could be a good industry for Idaho and perhaps a tax incentive could be created to get this industry propelled forward.

**Chairman Corder** introduced **Alex LaBeau**, President of the Idaho Association of Commerce and Industry. See attachment #5. **Mr. LaBeau** said the elimination of the personal property tax is the number one priority for both large and small members of IACI. The tax is difficult to administer and is an unstable source of income for the state. The numbers from the Entin study were debated heavily, but no one denied there would not be a positive economic impact to eliminating the personal property tax. There should be a change in definition that delineates between real property and personal property.

**Representative Burgoyne** asked if the presentation stated the 6% sales tax is too high. **Mr. LaBeau** said that is not the suggestion. The sales tax is reasonably in line with other states. States do not consistently apply sales tax to the same items. Most states with a sales tax have a production exemption.

**Representative Gibbs** said his district includes many small counties and 50% of the county revenue comes from personal property tax. **Mr. LaBeau** said there is a plan to replace every dollar those counties would lose from a revenue-sharing formula from the state. This is not an appropriation process so there is some level of certainty the counties will continue to receive the money in an economic downturn.

**Chairman Lake** said there was a trigger of 3.14 billion mentioned; what would happen in the meantime. **Mr. LaBeau** said this trigger gives the state the opportunity to fully recover and put a plan in place. The trigger would be used if the personal property tax was going to be eliminated all at once and not phased out.

**Representative Roberts** asked if there was to be a definition of real versus personal property created during this session. **Mr. LaBeau** said there have been a multitude of meetings with county organizations and multiple meetings with assessors and county officials. The preference is to have rules set in place to give to the tax commission and test them. That way, a much more specific tax reduction number can be given to the legislature. **Representative Roberts** asked which item would benefit the state more: decreasing the top rate of the personal income tax or eliminating the personal property tax. **Mr. LaBeau** said economic benefit is not the first reason to get rid of the personal property tax. This is a bad tax and very difficult to administer. The issue then is between the S-Corporate rate and the C-Corporate rate. What is the current effective rate of C-Corporations in the state. There may be some companies paying the highest rate, but some may be paying nothing.

**Chairman Corder** introduced **Jeff Sayer**, Director, Department of Commerce. See attachment #6. **Director Sayer** said the three priorities for the Department of Commerce are: protect and retain businesses that are here; help existing businesses grow; and finally, assist in attracting new businesses to the state. Some of the current businesses' priorities are: improve transportation access, elevate supply of skilled workforce, help with onerous regulations, maintain low energy costs, and keep urban renewal tools. The highest priority was to help current businesses have access to doing business with the state.

**Director Sayer** said companies were asked; of these three taxes, which one is most important to reduce or eliminate: personal property tax, personal income tax and corporate income tax. The number one item was the elimination of the personal property tax. The businesses would like the tax to go away, but primarily they'd like it to be less onerous; easier to manage. Between personal income tax and corporate income tax, the most important was personal income tax since many companies pay that rate rather than the corporate rate. The Hire One Credit has not been utilized because businesses cannot currently hire employees with those hourly rates and provide insurance to meet the requirement levels. IGEM is a critical step forward. **Director Sayer** said companies are hiring site selectors and the site selectors are being compensated for the incentives they can bring to their company. Quality of life, skilled workforce, strong work ethic, immediate and quick access to state leadership across all levels are benefits of Idaho; however, these items are not seen by the site selectors because they are looking for specific requirements and our strengths are not on that list. If Idaho can make the top five in the site selection process, the company would come to Idaho. The effective tax rate is much lower than the actual tax rate, but all a site selector would see would be the tax rate.

**Representative Rusche** said the unemployment insurance ranking is low for Idaho, due to underfunding in the past. **Director Sayer** said it does show in an unfavorable light, but it is being worked on.

**Senator Werk** asked if flattening out the tax rates would be helpful. That would lower the corporate tax rate and eliminate some exemptions. **Director Sayer** said there are higher priorities than the corporate tax rate. Investments in an award fund would be more helpful. A discussion of the effective tax rates would be more useful at this time.

**Chairman Corder** introduced **John Watts**, representing the Chamber of Commerce Alliance. See attachment #7. **Mr. Watts** said what is missing now is the cash in employees' pockets to purchase items, and the cash for the employer to invest in the future. Approximately 80% of all businesses in the state of Idaho file an individual income tax return. The individual income tax rate needs to be modified before the corporate tax rate. The amount insurance will rise is very difficult for companies to estimate and plan for. Chobani would not be in Twin Falls without the Urban Renewal incentives. Some of the current incentives are no longer valuable because the cost of inflation has minimized the effect.

**Representative Burgoyne** asked if decreasing the income tax would be revenue neutral because of more growth, or because very few people pay the actual rates. **Mr. Watts** said part of the proposal is close to a neutral proposal. The state needs to look at a systemic policy shift. How should the taxes cover the expenses for the state. When there are 245,000 out of 606,000 income tax filers paying only \$4 mm in the general fund, but taking out \$28 mm in grocery tax credits, that should be examined.

**Senator Hill** said there has been much discussion against government subsidies for health insurance, how is this different. Would a rebate or deduction go to all health insurance premiums so people who are self-insured would receive the subsidy as well. **Mr. Watts** said the unpredictability of health insurance costs are as important to the businesses as the health insurance exchange conversations that are occurring. The businesses are paying the costs already, so they are not a subsidy. They hope to recapture some of those costs.

**Chairman Corder** introduced **Len Williams**, CEO and President of Home Federal Bank. See attachment #8. **Mr. Williams** said banks don't stimulate the economy, they are a result of the economy. The Idaho Banking community is not only willing, but eager to lend.

ADJOURNMENT: The meeting was adjourned at 10:55 am.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

**AMENDED #1 AGENDA  
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
3:00 P.M.  
Room WW53  
Thursday, February 09, 2012**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
	Procedural Issues with SCR 113	Senator Davis, Jennifer Novak, Secretary of the Senate
Gubernatorial Appointment:	Linda Pike, Board of Tax Appeals	Senator Corder
	Rich Jackson, State Tax Commission	Senator Corder
Presentation:	Streamlined Sales Tax	Dan John, Commissioner Rich Jackson, State Tax Commission
<a href="#">RS21152C1</a>	Clarifies that Public Hospital Districts and County Hospitals may Invest Funds Generated from the Operational Revenues of the Public Hospital in Prime Commercial Paper, Bonds, Debentures or Notes	David Lehman, Principle Strategic Advisors
<a href="#">RS21154</a>	Relating to Property Taxes, to Provide that Delinquencies on Personal Property Taxes Shall be First and Prior, Perpetual Liens on Specified Property	Senator Corder
MINUTES APPROVAL:	January 31, 2012	Senator Werk, Senator Johnson
	February 1, 2012	Senator McKenzie, Senator Bilyeu
	February 2, 2012	Senator Siddoway, Senator McGee

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: jbujarski@senate.idaho.gov

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, February 09, 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.

Chairman Corder called the meeting to order at 3:00 pm.

**SCR113 PROCEDURE:** **Chairman Corder** introduced **Senator Davis**. **Senator Davis** said there were small procedural issues with the process related to SCR113.

**MOTION:** **Senator Hill** made a motion to ratify the committee report of February 2, 2012 related to SCR113 with a Do Pass, Nunc Pro Tunc. **Senator Werk** seconded, and the motion carried by Voice Vote.

**GUBERNATORIAL APPOINTMENT:** **Senator Bilyeu** made a motion to send the appointment of **Linda Pike** to the Board of Tax Appeals to the floor with a recommendation that it be confirmed by the Senate. **Senator McGee** seconded, and the motion carried by Voice Vote. **Senator Bilyeu** will be the sponsor.

**Senator Hill** made a motion to send the appointment of **Rich Jackson** to the State Tax Commission to the floor with a recommendation that it be confirmed by the Senate. **Senator Hammond** seconded, and the motion carried by Voice Vote. **Senator Hill** will be the sponsor.

**PRESENTATION:** Related to the Streamlined Sales Tax. **Chairman Corder** introduced **Dan John** and **Commissioner Rich Jackson** of the State Tax Commission. **Mr. John** said there is a group of states that are trying to change sales tax so remote sales can be taxed. States have wrestled with the issue of remote sales for years. Long ago, there were issues with catalog sales, now it is internet sales. There have been two important court cases dealing with this issue: National Bellas Hess Inc, vs Illinois (1967) and Quill Corp vs North Dakota (1992). In the National Bellas Hess case, the US Supreme Court determined that Illinois cannot require the retailer to collect and remit the sales tax on sales made into Illinois because there is no nexus with the state. The US Supreme Court ruling on Quill vs North Dakota said North Dakota could not require Quill to collect sales tax. Under the Commerce Clause of the Constitution, this is considered unconstitutional; however Congress is allowed to govern what happens under the Commerce Clause. In the 1990's the Tri-state project was begun whose purpose was to simplify sales tax laws to make it easier for the taxpayers to comply with remote sales taxes.

When the US Supreme Court ruled that the lawsuit violated the Commerce Clause, it was on the basis of complexity; there was an unconscionable amount of work needed to be done for vendors to collect sales taxes for multiple states. The Federation of Tax Administration started looking into the issue to simplify the tax systems. In 1999, a streamlined sales tax project was created. States could then band together and once large interest was shown in the project, Congress might expand the states' nexus. The mission was to iron out the differences among state-level taxation, which is a major issue for recovering remote sales taxes. This would even the playing field between remote sellers who are not required to collect taxes and brick and mortar sellers on the street. The brick and mortar sellers have a 6% disadvantage.

**Mr. John** said the agreement that has been worked out requires state-level administration of all state sales and use taxes; uniformity in state and local tax bases; central electronic registration and uniformity of systems. A Central electronic registration system will allow a company to register in one place to collect sales tax throughout the country. State and local rates need to be simplified; states currently have different rates on different types of products. Every state would be considered "destination sourcing", which means the tax would be paid where the buyer is located, not where the seller is. There would be a simplified tax remittance system and all tax due to the state would be administered by one agency.

As of June 2011, there are 24 states who are full members of the streamlined sales tax organization. There are certified service providers whose software has been determined to work for this process. The purchaser can use a credit card and the software will know what the sales tax rate is for that state. The vendor will collect the necessary tax and the state will receive the money from the certified service provider. Because the states are certifying the software to be correct, if there is a mistake, the vendors are held harmless. There are already vendors who are voluntarily collecting sales taxes even though they are not currently required.

**Chairman Corder** introduced **Representative Nessel**, who has been working on the streamlined sales tax.

**Commissioner Jackson** said there are new issues such as taxing software purchases and purchases through internet downloads. If software is downloaded into the internet cloud, what location should be used for sales tax. The state needs to determine how they want to react to this because it will affect the tax base moving forward.

**Chairman Corder** introduced **Commissioner Langhorst** of the State Tax Commission. See attachment. **Commissioner Langhorst** said there was a meeting of multiple states to discuss the streamlined sales tax. There was a large discussion on the creation of incentives for businesses; however, local businesses have a built-in disadvantage because of the sales tax. It is very difficult to enforce the gathering of sales tax when it is related to remote sales. Support for the streamlined sales tax is building at the federal level.

**Senator Hill** said it seems there is a high percentage of states already on board, considering twenty-four states are already working on this and there are some states who do not charge sales tax at all. What efforts are being made at the federal level. **Commissioner Langhorst** said the Multi-State Tax Commission is working for uniform state laws so fraud will be easier to discern. There has not been much lobbying on the federal level for this issue, but that is starting to occur. **Senator Hill** asked for an estimate on how much is being lost through internet and catalog sales. **Commissioner Langhorst** said the best source two years ago showed \$30 million; that number was strictly oriented to e-commerce, but the loss could be up to three times that.

**Senator Bilyeu** said there was a potential bill last year to educate citizens and accountants to voluntarily pay sales tax for remote sales. Have any states put an information program in place. **Commissioner Langhorst** said the only state is Illinois, but there has been no monitoring of the results. **Senator Bilyeu** said she supports a streamlined sales tax; however, it is moving very slowly and it will be a long time before any benefits are felt. **Commissioner Langhorst** said there are between 1200-1400 vendors who have volunteered to collect the sales tax and Idaho has received several million dollars already from remote sales.

**Chairman Corder** said according to the handout, www.amazon.com is a pretty significant player in opposing the streamlined sales tax. **Commissioner Langhorst** said amazon has asked for incentives and gotten them in some states, and in other states they have fought against new legislation. They are in support of the mainstream fairness act.

**RS 21152C1** Clarifies that Public Hospital Districts and County Hospitals may Invest Funds Generated from the Operational Revenues of the Public Hospital in Prime Commercial Paper, Bonds, Debentures or Notes. **Chairman Corder** introduced **David Lehman**, Principle Strategic Advisors. **Mr. Lehman** said in the current Idaho Code, there is no distinction made between tax revenue and other taxable revenue for public hospitals, which limits the investment strategies for hospitals.

**MOTION:** **Senator Hammond** made a motion to send RS 21152C1 to print. **Senator Siddoway** seconded, and the motion carried by Voice Vote.

**RS 21154** Relating to Property Taxes; To Provide that Delinquencies on Personal Property Taxes Shall be First and Prior, Perpetual Liens on Specified Property. **Chairman Corder** turned the gavel over to **Vice Chairman Johnson**.

**Chairman Corder** said this legislation is from the equipment dealers. Currently, a dealer can have a security interest lien filed against a piece of property and that piece of property may also have a personal property tax liability and the liability would take precedence.

**Senator Bilyeu** asked if this affects mobile homes that are considered personal property. **Chairman Corder** said he does not believe so.

**MOTION:** **Senator McGee** made a motion to send RS 21154 to print. **Senator Werk** seconded, and the motion carried by Voice Vote.

**Vice Chairman Johnson** turned the gavel back to **Chairman Corder**.

**MOTION:** **Senator Werk** made a motion to approve the minutes of January 31, 2012. **Vice Chairman Johnson** seconded, and the motion carried by Voice Vote.

**MOTION:** **Senator McKenzie** made a motion to approve the minutes of February 1, 2012. **Senator Bilyeu** seconded, and the motion carried by Voice Vote.

**MOTION:** **Senator Siddoway** made a motion to approve the minutes of February 2, 2012. **Senator McGee** seconded, and the motion carried by Voice Vote.

**Senator Werk** said the joint meeting was fairly historic; however presentations based on objective information would be preferable to self-fulfilling ones.

**ADJOURNMENT:** The meeting was adjourned at 3:55 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
3:00 P.M.  
Room WW53  
Wednesday, February 15, 2012

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
	Page Presentation	Senator Corder
	Discussion of Joint Meeting	Senator Corder
	Pre-HB 417 Documents for Committee, No Testimony	Senator Corder

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES

## SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

**DATE:** Wednesday, February 15, 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.

**Chairman Corder** called the meeting to order at 3 pm.

**Chairman Corder** introduced page **Alexander Wright** and thanked him for his service to the committee. **Mr. Wright** said he will be going to the University of Idaho to major in Mechanical Engineering and then move to the Middle East.

**DISCUSSION OF JOINT MEETING:** **Chairman Corder** handed out a synopsis of ideas that were suggested from the presenters at the joint meeting and asked the committee members what should be changed for future presentations. See attachment #1

**Senator Bilyeu** said she was unable to attend, but found the comment to improve transportation access interesting. **Chairman Corder** said there was no detail mentioned with the comment. This was an opportunity for presenters to present different options; however some did not take the opportunity and instead presented the established rhetoric. **Senator Bilyeu** said it would be good to have the presenters rank their suggestions as to priority.

**Senator Hammond** said it can be difficult for people to make proposals rather than criticize what has been suggested. A committee or subcommittee could create alternatives in advance, which could be discussed. Incentives are a short-term solution and policy is a long-term strategy. Policy does not favor any specific company and favors a long-term commitment from companies to stay in Idaho. Incentives cause a state to attract companies because of the incentive, not because of an overall favorable view of the state. These companies do not have a long-term commitment to Idaho.

**Senator Werk** said the joint meeting was valuable; however, factual economic data of the impact of different strategies would be more helpful.

**Senator Siddoway** said there are other ways to help industries rather than incentives. Regulations can be eased which would help industry without costing the state tax money. **Chairman Corder** said industries that use dairy products will move to the state regardless of incentives because the transportation costs are much cheaper locally rather than to send products across country.

**Senator Hammond** said it would be good to find out what issues the Department of Commerce and recruiters are struggling with in recruiting companies to Idaho and conversely; why are companies planning on leaving Idaho.

**Senator McKenzie** said the informational meetings are very helpful.

**DISCUSSION  
OF H 417**

**Chairman Corder** said tax legislation begins in the House and that many of the Senate Committee members see the bills for the first time right before they are voted on. **Chairman Corder** handed out worksheets related to the fiscal impact of H 417, which will be heard on February 21, 2012. See attachment #2.

**Chairman Corder** said the fiscal note uses some assumptions that are different from some of the information that was received from the aircraft repair industry in Idaho. The statement of purpose shows there are twenty-six facilities in Idaho. However, they all do not have relevance for the purposes of this legislation. There is a comparison of states with exemptions on aircraft parts, and Idaho, that takes into consideration other taxes such as sales and income. The sheet that has income tax revenue is contrary to the statement of purpose. The income tax revenue sheet uses different assumptions than the statement of purpose. The amount of \$79,500 is wages with a multiplier for the facilities other than Western Aircraft.

There are two spreadsheets for Western Aircraft; one is an annual calculation of potential gain or loss which uses the percentages outlined in the fiscal impact, and the other one uses a multiplier of 37.6% as provided by Derek Santos of the Division of Financial Management. All of the business was calculated using the assumption that it was new business. However, some of the business shown is existing business. There are not as many financial benefits as shown in many of the calculations.

The sales tax revenue of \$36,000 which is gained by the state due to Western Aircraft building a \$1 million building can only be used for the first year of calculations since it is a one-time event.

**Vice Chairman Johnson** said there seemed to be some confusion by the companies who filled out the surveys whether Idaho residents would receive the tax exemption as well as non-residents. **Chairman Corder** said the surveys were sent out prior to that decision being made.

**Chairman Corder** said there is no implication of preconceived positions on this legislation. He just wants to be sure the committee understands the calculations prior to receiving the legislation.

**Senator Werk** said the fact that the worksheets differ speaks to the fiscal note and the need to select economic assumptions. There could be a discussion of economic assumptions rather than actual legislation.

**Vice Chairman Johnson** thanked **Chairman Corder** for all the hard work.

**ADJOURNMENT:** The meeting was adjourned at 3:55 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
**3:00 P.M.**  
**Room WW53**  
**Thursday, February 16, 2012**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
PAGE INTRODUCTION	Mark Christensen	Senator Corder
<a href="#"><u>S 1316</u></a>	Relating to Public Funds; to Authorize Treasurers for Public Hospitals and Treasurers for County Hospitals to Invest Funds Generated From Operational Revenues in Certain Investments	David Lehman, Principle Strategic Advisors
<a href="#"><u>H 438</u></a>	Relating to Income Taxes; to Revise The Income Tax Credit for Capital Investment	Dan John, State Tax Commission
<a href="#"><u>S 1315</u></a>	Relating to Property Taxes; to Provide That Delinquencies on Personal Property Taxes Shall be First and Prior	Suzanne Budge, John Deere
<a href="#"><u>S 1314</u></a>	Relating to the Prudent Management of Institutional Funds	Darin DeAngeli
MINUTES APPROVAL:	February 8, 2012	Senator Hammond, Senator Johnson

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: jbujarski@senate.idaho.gov

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, February 16, 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.

**Chairman Corder** called the meeting to order at 3:02 pm. **Chairman Corder** introduced the page for the second half of the session, **Marc Christensen**. **Mr. Christensen** said he is from St. Anthony and will be going to college, majoring in Medicine.

**S 1316** Relating to Public Funds; to Authorize Treasurers for Public Hospitals and Treasurers for County Hospitals to Invest Funds Generated From Operational Revenues in Certain Investments. **Chairman Corder** introduced **David Lehman** of Principle Strategic Advisors and the Kootenai Medical Center. **Mr. Lehman** said this legislation will allow hospitals to invest revenue generated from the operation of the hospital into investment-grade corporate securities. This legislation does not allow revenue generated from taxes or levy assessments to be invested. This change in the legislation will allow the hospitals to double return on investment.

**Senator Hammond** asked what the rules are for investments by the state of Idaho. **Mr. Lehman** said the sideboards used by the hospital are similar to those used by the State Treasurer. The hospitals are only allowed to invest in investment grade corporate tax of an A rating or higher and only US companies. The difference between the hospitals and the state treasurer is the hospitals have eliminated any reference to maintenance and options for stock ownership. Investment possibilities are very limited in scope.

**Senator Siddoway** asked what the current restrictions on investments are. **Mr. Lehman** said the current restrictions are based on the section of statute that regulates all public monies, The county hospitals or hospital districts can invest in government-backed securities and securities from state organizations such as county bonds. Kootenai Medical Center has opted for more conservative US-based treasuries because the rating for those bonds can be significantly higher than that of a political subdivision. **Senator Siddoway** asked if the long-term savings accounts are utilized by districts as well. **Mr. Lehman** said 30-40% of the money that is used in the operations of the hospital are in bank accounts.

**MOTION:** **Senator McGee** made a motion to send S 1316 to the floor with a Do Pass. **Senator Hammond** seconded, and the motion carried by Voice Vote. **Senator Hammond** will be the floor sponsor.

H 438

Relating to Income Taxes; To Revise the Income Tax Credit for Capital Investment. **Chairman Corder** introduced **Dan John** of the State Tax Commission. See attachment #1. **Mr. John** said the change in this legislation is to eliminate a potential problem that has never occurred. Idaho has a tax credit for qualified properties which is 3%. There is a fourteen-year period in order to carry this over. There is a recapture period of five years. The legislation relating to the carryover period says the credit is valid as long as there is an Idaho situs. After the fifth year when the recapture ends, the property does not even need to be owned by the original purchaser for them to keep the carryover.

**Senator Hill** said the carryover was only originally five years, when the capture time and carryover time were equal, there was no problem. **Mr. John** said early on, that was true.

MOTION:

**Senator Werk** made a motion to send H 438 to the floor with a Do Pass. **Senator Hill** seconded, and the motion carried by Voice Vote. **Senator Werk** will be the floor sponsor.

S 1315

Relating to Property Taxes; to Provide that Delinquencies on Personal Property Taxes Shall be First and Prior. **Chairman Corder** introduced **Suzanne Budge** representing John Deere. **Ms. Budge** said this is a change to current legislation and affects large multi-state companies that finance clients' purchases. It changes the lien position when a piece of equipment must be repossessed and the equipment has a delinquency in personal property taxes.

**Ms. Budge** introduced **Beverly Heird-Flores** of John Deere. **Ms. Heird-Flores** said the legislation pertains to personal property tax liens on construction equipment. When John Deere is doing a credit check to determine whether or not to finance a potential client, county personal property tax liens do not show as they are not reported.

If the equipment needs to be repossessed at some time in the future and there are any personal property tax liens; the liens will take precedence over the purchase money security interest (PMSI). The county tax lien will take the equipment dealer out of first lien position.

**Senator Hammond** asked if the financing company would bear the responsibility for the tax lien on the piece of equipment that is being repossessed. **Ms. Heird-Flores** said as the legislation is today, the financier would be responsible for the tax lien on any other personal property as well.

**Senator Siddoway** asked what happens to the county's tax obligations, who pays it. **Ms. Heird-Flores** said if there is personal property that does not have a PMSI on it, the remaining taxes could be paid through that remaining property. **Senator Siddoway** said if there are fifty bulldozers and John Deere has financed one, what property tax would John Deere be responsible for. **Ms. Heird-Flores** said under current statute, before the John Deere equipment can be resold, all of the property tax liens would have to be paid, not only the one on the equipment they have financed. **Senator Siddoway** said the current legislation is not fair to the financiers, but a change has to be fair to the counties as well.

**Senator Hill** said with the proposed change, what would be the result if the equipment needs to be repossessed. **Ms. Heird-Flores** said it would depend on how the remaining machines are financed. If the tax lien existed first, it would stay first priority. If the tax lien was placed on the equipment second, the county would be responsible for getting the money from the owner of the equipment rather than the financing company. **Senator Hill** said with the current legislation the equipment company has to pay the tax liens on all equipment and with the new legislation, the financing company would have to pay none of the tax liens. Is there a compromise where the tax on the equipment that is financed by the company would be paid by the company, **Ms. Heird-Flores** said that is not one of the current options.

**Senator Hammond** said if the financier is in first lien position, they should stay there regardless of what happens after they have received that position. **Senator Hammond** asked how often this issue occurs in Idaho. **Ms. Heird-Flores** said there have been more repossessions across the country.

**Senator Werk** asked if the equipment would have equity when it is repossessed; does the financing company end up with that equity. Could the equity be used to pay off the tax liability. **Ms. Heird-Flores** said under the current situation, the equipment could not be sold at all. **Senator Siddoway** said if the equipment has been used hard and not maintained, there may not be any equity. **Senator Werk** said this legislation may leave the equipment company whole, but it leaves the counties with potentially nothing.

**Senator McKenzie** said there would be no way to know the equity of the property due to use and age. **Senator Werk** said there would be some residual value and perhaps it could be used to pay the tax lien.

**Chairman Corder** asked if once the lien has been paid, is there enough residual value in the equipment to satisfy the loan. **Ms. Heird-Flores** says there are many times they do not receive enough money to equal the outstanding loan.

**Senator Werk** said another way to solve this problem is to require the counties to disclose any liens they may have, which would allow the equipment dealers to make a more-informed decision. **Chairman Corder** said if the lien were to come after the financing has been established, the county lien will come first anyway.

**Chairman Corder** introduced **Colby Cameron** representing Caterpillar, who spoke in support of the legislation.

**MOTION:**

**Senator Werk** made a motion to hold S 1315 subject to the call of the Chair. **Senator McGee** seconded. **Senator McGee** said there are additional questions that need to be answered. **Senator McKenzie** said the bigger issues are when there is a property tax lien that is unknown; and the financial obligation is much greater than the value of the equipment, due to an unfair tax liability. **Chairman Corder** asked committee members to give him any additional questions. The motion carried by Voice Vote. **Chairman Corder** and **Senator Hammond** voted no.

**S 1314**

Relating to the Prudent Management of Institutional Funds. **Chairman Corder** introduced **Darin DeAngeli** of Ahrens, DeAngeli Law Group. **Mr. DeAngeli** said the current legislation specifies how charities manage and spend their funds, specifically endowments. In 1996 the law was changed to instruct endowments to invest the money in accordance with modern portfolio theory. This change uses total return concepts and this will work to underpay the charitable beneficiaries. There are two parts to the law, part one says here is how you invest and part two says here is how you spend. If the law requires you to invest using total return concepts, it must allow charities to disregard references to principal and income in spending the endowments.

**MOTION:** **Senator McGee** made a motion to send S 1314 to the floor with a Do Pass. **Senator Hill** seconded, and the motion carried by Voice Vote. **Senator Hill** will be the floor sponsor.

**MOTION:** **Senator Hammond** made a motion to approve the minutes of February 8, 2012. **Vice Chairman Johnson** seconded, and the motion carried by Voice Vote.

**ADJOURNMENT:** The Meeting was adjourned at 4:05 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
3:00 P.M.  
Room WW53  
Tuesday, February 21, 2012

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#">H 417</a>	Relating to Sales Tax; To Provide that Certain Materials, Parts and Components Installed on Certain Aircraft are Exempt From the Sales and Use Tax	Representative Frank Henderson

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

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MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Tuesday, February 21, 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.

**Chairman Corder** called the meeting to order at 3:00 pm.

**ANNOUNCEMENTS:** **Chairman Corder** said the Joint Legislative Oversight Committee has asked if there are any requests from the committee related to work for the Office of Performance Evaluation. ALEC will have a presentation on Friday morning at 8:30 in the auditorium. It is titled "Rich States vs Poor States".

**H 417** This change in Idaho law will make the taxation of parts installed on private aircraft owned by non-residents consistent with the taxation of parts installed as components of aircraft manufactured in Idaho and sold to non-residents, as well as parts installed on aircraft in commercial use. **Chairman Corder** introduced **Representative Henderson**. See attachment #1.

**Representative Henderson** said the workshop the committee held that discussed the financial impacts of this legislation was very helpful. This bill would exempt the sales tax currently charged on aircraft parts installed in Idaho. There are 23 states where there is no sales tax on these parts. Commercial aircraft are already exempt, so this pertains to private aircraft.

**Representative Henderson** said there are seven companies that will benefit from this legislation immediately. These companies will provide 182 new technician jobs in five years. When a job such as airplane mechanic is created, there are indirect jobs that are created as well, such as suppliers, transportation and retail.

**Vice Chairman Johnson** asked if the \$164,000 of sales tax receipts could be calculated to determine an estimate of the annual sales. **Representative Henderson** said he would be unable to provide an accurate number. The number on the fiscal note was given by Western Aircraft.

**Senator Werk** asked if the \$164,000 of lost tax revenue should be subtracted from the \$112,023 of additional tax revenue, which would mean the state has lost \$52,000 of tax revenue in the first year. **Representative Henderson** said that would be correct, which means it is up to the committee if this investment is worthy of creating an industry that in five years would be delivering over \$15,000,000 to the Idaho economy. **Senator Werk** asked if the jobs that are listed for future business are commitments, or hope. **Representative Henderson** said Empire Airlines is a very large company and they employ over 100 people now. The jobs listed in the handouts are a commitment and there is great confidence they will come to pass.

**Senator Bilyeu** asked if any of the Idaho aircraft repair stations have been overlooked as there is one that she knows of that is not listed. **Representative Henderson** said the list is the companies in Idaho certified to install instruments.

**Representative Henderson** said the emergency clause was added because there is contract pending with Western Aircraft for specifically this type of work. **Senator Hill** asked if the intent was to eliminate all of the other exemptions as well that are spelled out in the act.

**Chairman Corder** introduced **Russ Westerberg**, representing Western Aircraft, to answer the question. **Mr. Westerberg** said the intention is to impose a sunset in five years to remove all exemptions. **Senator Hill** said he wanted to be sure there is no repeal of the entire sales tax act. **Mr. Westerberg** said he is confident the language is applied only to Section 63-3622GG of the Idaho Code.

**Vice Chairman Johnson** asked what the sales tax revenue will be in year five in order to be able to make a decision whether or not to renew this legislation. **Representative Henderson** said the state will look at the sales tax revenue and total salaries of over \$15,000,000 and 182 technician jobs. The wages coming into the state will exceed the sales tax cost incurred by the state.

**Chairman Corder** introduced **Jeff Mihalic**, President of Western Aircraft. See attachment #2. **Mr. Mihalic** said Western Aircraft has been in Idaho for almost 80 years. Aircraft maintenance and modernization is responsible for 2/3 of the employment of the entire company; however, it is not the most profitable part of the company. The company has lost \$800,000 because of the pricing that is necessary to get new business. That challenge is more difficult when there is an additional 6% sales tax added that other states do not have. The result of not passing this legislation is not only putting the 100 new jobs at risk, but there is a risk to the current 110 jobs that are in this segment of the company.

**Mr. Mihalic** said the fiscal note only included the capital budget for 2012, but there were additional capital improvements such as facility expansion in the next years as well. This legislation will be cash positive for the state of Idaho by 2014. The primary competitors do not charge a sales tax on installed parts. The employment is dramatically higher in the states that do not assess a sales tax on installed parts. Between Western Aircraft and their primary national competitors, there is a total of 5,622 jobs. There are 5,421 of those jobs in states without a sales tax on installed parts. There are 201 jobs in the states that charge a sales tax, and most of those jobs are at Western Aircraft. There are temporary employees now working

at Western Aircraft that could be converted to full time employees with benefits when this legislation passes.

**Senator Werk** asked if the company had another location, where is it and does that state have this tax exemption. **Mr. Mihalic** said there is one other location that does similar work in North Carolina and there is no sales tax exemption, which is also a problem for them. **Senator Werk** said when this legislation nears the sunset period, will there be a way to track and show proof that this legislation was valuable. **Mr. Mihalic** said with the sunset clause, Western Aircraft is putting their own business at risk. The companies affected will expect to report back to the legislature prior to the sunset.

**Senator Werk** said according to the charts, this business is a loss leader for the company. Are profits expected in the future. **Mr. Mihalic** said profits are forecast in the future. The price point is difficult because of the sales tax issue, but other changes are being made in the business as well.

**Chairman Corder** introduced **Mark Warbis**, Senior Special Assistant for Economic Development and Energy for the Governor, who spoke in support of the bill. **Mr. Warbis** said the aviation industry is considered a growth segment for the economy of Idaho. There were discussions with Boeing on expansion in Idaho; however there needed to be a critical mass of supporting industries such as aircraft repair before Boeing would expand into Idaho. Idaho has many advantages including the workforce and flyable days.

**Vice Chairman Johnson** asked what the growth for the aeronautics industry has been for the last ten years. **Mr. Warbis** said the growth has been slow but solid.

**Chairman Corder** introduced **Alex LaBeau**, President of the Idaho Association of Commerce and Industry who spoke in support of the legislation. **Mr. LaBeau** said this is a competitive fairness issue.

**Senator Werk** asked if IACI supports the streamlined sales tax as it would level the playing field as well. **Mr. LaBeau** said in the ten years that it has been worked on, they have supported it.

**Chairman Corder** introduced **Sharlene Stredwick**, Chairman of Western Aircraft, who spoke in support.

**Chairman Corder** introduced **Bill Miller**, a volunteer with the Idaho Aviation Association, who spoke in support. **Mr. Miller** said when the people who own these airplanes come to Idaho for maintenance or repair, they will be adding to the economy by staying at local hotels, eating at local restaurants and paying taxes on aviation fuel.

**Chairman Corder** introduced **Ray Stark**, Boise Metro Chamber of Commerce, who spoke in support. **Chairman Corder** asked if Boise has made any financial concessions to support this legislation. **Mr. Stark** said there is a letter of support from the city.

**Chairman Corder** introduced **Senator Winder** who spoke in support. **Senator Winder** thanked the committee for hearing this legislation.

**Representative Henderson** said there will be other companies in the state that will benefit from this legislation as well; such as those that make parts that are used in aircraft repair.

**MOTION:**

**Senator Hill** made a motion to send H 417 to the floor with a Do Pass. **Senator McGee** seconded. **Senator Werk** said he had a concern about the sunset provision that takes away a larger set of tax benefits. The motion carried by Voice Vote. **Senator Winder** will be the floor sponsor.

**ADJOURNMENT:**

The meeting was adjourned at 4:05 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
**3:00 P.M.**  
**Room WW53**  
**Thursday, February 23, 2012**

SUBJECT	DESCRIPTION	PRESENTER
PRESENTATION:	Homeowner's Exemption	Randy Nelson, President, Associated Taxpayers of Idaho Steve Fiscus, State Tax Commission
PRESENTATION:	The Role of Education in Tax Relief	Robin Nettinga, Idaho Education Association
<a href="#">RS21345</a>	To Provide that Delinquencies on Personal Property Taxes shall be First and Prior Perpetual Liens on Specified Property.	Senator Corder
<a href="#">HCR 33</a>	Stating Findings of the Legislature and Rejecting a Certain Rule of the State Tax Commission Relating to Income Tax Administrative Rules	Senator Corder
MINUTES APPROVAL:	February 9, 2012	Senator Werk, Senator McKenzie
	February 15, 2012	Senator Bilyeu, Senator McGee

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Hammond
Vice Chairman Johnson	Sen Siddoway
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen McGee	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
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MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, February 23, 2012  
**TIME:** 3:00 P.M.  
**PLACE:** Room WW53  
**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, and Bilyeu  
**ABSENT/ EXCUSED:** Senators Siddoway, Hammond and Werk

**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.

**Chairman Corder** called the meeting to order at 3:05 pm.

**PRESENTATION:** Related to Homeowner's Exemption. **Chairman Corder** introduced **Randy Nelson**, President, Associated Taxpayers of Idaho. See attachment #1. **Mr. Nelson** said before 2006, the homeowner's exemption was a maximum of \$50,000, only on the home; that did not include the land. In 2006 the exemption was \$75,000 including the land. For 2012, the exemption will be \$83,974. The \$169.9 million of tax shift goes to: Other Residential, Commercial/Industrial, apartment complexes that are larger than four-plexes, Agriculture/Timber/Mining, and Operating (Utilities).

**Senator Bilyeu** said as the tax rate increases and other properties pay for the tax shift of \$169.9 million; do the residential homeowners receive part of that shift as a rate increase. **Mr. Nelson** said yes. **Chairman Corder** said the shift is mitigated for the most part. The six-year average using the Consumer Price Index (CPI) and the Housing Price Index (HPI) is the same; however the HPI had more volatile shifts throughout that time period.

**Chairman Corder** introduced **Steve Fiscus** of the State Tax Commission. See attachment #2. **Mr. Fiscus** said in the future, there will probably be more people capped out of the homeowners' exemption. **Chairman Corder** said in 2011 with the amount of money from homeowners capping out, \$169.9 million was shifted elsewhere; 27% of that was shifted to the homeowners who are eligible for the exemption. **Mr. Fiscus** said there are four steps to calculating homeowners exemptions:

- Calculate the average Idaho House Price Index-All-Transactions of the four most recently available quarters as of September 15.
- Calculate the average Idaho Price House Index-All-Transactions of the four quarters immediately preceding the earliest quarter used in Step 1.
- Divide the Step 1 average by the Step 2 average to determine a factor.
- Multiply the factor determined in Step 3 by the current maximum dollar-value limit on the homeowner's exemption to produce the new dollar-value limit.

**PRESENTATION:** The Role of Education in Tax Relief. **Chairman Corder** introduced **Robin Nettinga**, Executive Director of the Idaho Education Association. See attachment #3. **Ms. Nettinga** said the number one factor firms consider when making decisions regarding locations at which to expand is the quality of the local workforce. Idaho has continued to grow low-wage, low-skill jobs over the past ten years. A 2011 study of states' business taxes by the accounting firm Ernst and Young found Idaho business taxes are already below the US average. The same study also found that from 2007-2010 the business tax share of the Idaho economy had actually dropped by 7%. A national survey found Idaho to be 40th in the nation in its oversight of its business incentive programs.

**RS 21345** To Provide that Delinquencies on Personal Property Taxes shall be First and Prior Perpetual Liens on Specified Property. **Chairman Corder** said this was a new bill in place of S 1315. The consensus of the committee was that the scope of the tax liability in relation to the liens on the personal property needed to be more equitable.

**Senator Hill** asked for unanimous consent that RS 21345 be sent to the Senate Judiciary and Rules Committee for print. Consent was granted.

**HCR 33** Stating Findings of the Legislature and Rejecting a Certain Rule of the State Tax Commission Relating to Income Tax Administrative Rules. **Chairman Corder** said that HCR 33 is related to the rule that was rejected earlier in the session.

**Senator McKenzie** made a motion to send HCR 33 to the floor with a Do Pass. **Senator Bilyeu** seconded, and the motion carried by Voice Vote. **Chairman Corder** will be the floor sponsor.

**MINUTES APPROVAL:** **Senator McKenzie** made a motion to approve the minutes of February 9, 2012. **Senator Hill** seconded, and the motion carried by Voice Vote.

**Senator Bilyeu** made a motion to approve the minutes of February 15, 2012. **Vice Chairman Johnson** seconded, and the motion carried by Voice Vote.

**ADJOURNMENT:** The meeting was adjourned at 3:45 p.m.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
3:00 P.M.  
Room WW53  
Tuesday, February 28, 2012

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
TAX UPDATE BOOKS	Distribution and Explanation of Tax Update Books	Dan John, State Tax Commission
<a href="#">H 482</a>	Relating to Reports on Capital and Surplus; to Clarify When the Report on Capital and Surplus is to be Filed and to Make a Technical Correction	Seth Grigg, Idaho Association of Counties
MINUTES APPROVAL	February 16, 2012	Senator Johnson, Senator Siddoway

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder  
Vice Chairman Johnson  
Sen Hill  
Sen McKenzie  
Sen Hammond  
Sen Siddoway  
Sen Werk  
Sen Bilyeu

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Tuesday, February 28, 2012  
**TIME:** 3:00 P.M.  
**PLACE:** Room WW53  
**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, Siddoway, Werk, and Bilyeu  
**ABSENT/ EXCUSED:** Senator Hammond

**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.

**Chairman Corder** called the meeting to order at 3:00 pm.

**Chairman Corder** introduced **Dan John** who explained the tax update books that had been distributed to the committee. **Mr. John** said the source materials listed in the front of the books are good information sources, whether they are in the book or online. A lot of the information is from the Federation of Tax Administrators. There are documents in the books that compare Idaho to all other states in relation to different taxes. **Mr. John** said the income tax in Idaho is progressive; the higher the income, the higher the tax rate.

**H 482** Relating to Reports on Capital and Surplus; to Clarify when the Report on Capital and Surplus is to be Filed and to Make a Technical Correction. **Chairman Corder** introduced **Seth Grigg**, Idaho Association of Counties. See attachment #1.

**Mr. Grigg** said this bill is a housekeeping measure and has to do with a report on capitalization that is required to be filed by a public depository. The report is filed with both the State of Idaho and counties. The report shows a bank or financial institution that is designated as a public depository is financially viable. This legislation is to align the date the report is filed with the county to the same date it is filed with the state.

**Chairman Corder** introduced **Vicky McIntyre**, Ada County Treasurer, who spoke in support of the bill. **Senator Hill** asked what the due date was before the change to the legislation. **Ms. McIntyre** said the statute for the state said January 31, or a date declared by the State Treasurer. However, the statute followed by the counties did not include the part as "declared by the State Treasurer". The State Treasurer often chose February 15, but the county still needed the report filed on January 31.

**MOTION:** **Senator Werk** made a motion to send H 482 to the floor with a Do Pass. **Senator Siddoway** seconded, and the motion carried by Voice Vote. **Senator Werk** will be the floor sponsor.

**MINUTES APPROVAL:** **Vice Chairman Johnson** made a motion to approve the minutes of February 16, 2012. **Senator Siddoway** seconded, and the motion carried by Voice Vote.

**ADJOURNMENT:** **Chairman Corder** adjourned the meeting at 3:30 p.m.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
3:00 P.M.  
Room WW53  
Wednesday, February 29, 2012

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#">H 517</a>	Relating to Adjustments to Idaho Taxable Income, to Remove Language Disallowing Deduction of Certain Expenses of Elementary and Secondary School Teachers.	Senator Brackett
<a href="#">H 489</a>	Relating to Use Tax; To Provide That Use Tax Shall Not Apply to Certain Free Tastings of Beverages	Roger Batt
<a href="#">S 1357</a>	To Provide that Delinquencies on Personal Property Taxes shall be First and Prior Perpetual Liens on Specified Property	Suzanne Budge, John Deere

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder  
Vice Chairman Johnson  
Sen Hill  
Sen McKenzie  
Sen Hammond  
Sen Siddoway  
Sen Werk  
Sen Bilyeu

COMMITTEE SECRETARY

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MINUTES

## SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

**DATE:** Wednesday, February 29, 2012  
**TIME:** 3:00 P.M.  
**PLACE:** Room WW53  
**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, 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.

**Chairman Corder** called the meeting to order at 3:05 pm. **Chairman Corder** announced there have been additions to the books supplied by Dan John of the State Tax Commission.

**H 489** To Provide the Use Tax Shall Not Apply to Certain Free Tastings of Beverage.  
**Chairman Corder** introduced **Roger Batt**, of the Idaho Grape Growers and Wine Producers. See attachment #1.

**Senator Hill** asked why beverage tastings are part of this bill, but not other food products. **Mr. Batt** said when the bill was first created, free samples of food were included; however the Tax Commission would prefer to regulate the food samples. **Chairman Corder** introduced Dan John of the State Tax Commission. **Mr. John** said when the bill was brought to the Tax Commission, the only industry that had been discussed was the wine industry. It would have a significant fiscal impact to eliminate the use tax on food as compared to beverages.

**Senator Hill** asked if the people providing the free drinks charged below market price, what would happen in relation to sales tax. **Mr. John** said the sales tax is based upon the amount charged, unless it is deemed the charge is to circumvent the sales tax. **Senator Hill** asked if a retailer charged less than his cost, would that trigger a review. **Mr. John** said no. If a product is "buy one, get one free", the sales tax is on the total purchase price, rather than the listed price. **Senator Hill** said there is no reason to charge use tax on free samples when they are used to increase sales and sales tax is charged on the sales. **Mr. John** said when someone gives away something for nothing, they are considered the consumer and the tax involved would be a use tax on the value of a good, not a sales tax. When a retailer goes out and buys something to give away, that is subject to either the sales tax or use tax.

**Vice Chairman Johnson** asked if a winery opens a box of wine for a tasting, is it written off as a business expense. **Mr. John** said if the wine was produced there, it was probably already written off. If it was purchased for resale, it could be written off.

**Senator Werk** asked if a customer pays for a tasting, how does that impact the initial charge for the tasting. **Mr. John** said if someone goes to a winery and pays a charge for tasting, the charge is subject to sales tax. **Senator Werk** asked if a large can of a beverage was given away as a sample, would that have to be consumed in the store. **Mr. Batt** said there is no definition of the size of the tasting in the bill. A tasting is defined as a beverage provided to a potential customer at no charge. The wine industry tasting size is about one ounce. **Mr. Batt** said the sample, no matter the size, would need to be consumed on the premises.

**Senator Bilyeu** asked if there is a tax on advertising. **Mr. John** said the service of advertising does not have a tax; but if you are purchasing an item for advertising purposes, there is a sales tax. This is not considered advertising because there is a consumption of tangible personal property which is subject to a sales or use tax. This is a product rather than a service.

**Senator Hill** said a customer can get a free Krispy Kreme doughnut with any purchase. What would the sales tax be charged on, the one that was purchased or the cost of both. **Mr. John** said the sales tax would be paid on the purchase price; no matter how many doughnuts were included. **Senator Hill** said Krispy Kreme used to give away a free doughnut without any purchase. Would the free doughnut have had a use tax attached. **Mr. John** said anything that is given away would be subject to the use tax.

**Senator Hammond** said wine tasting is for education and to test the flavor, the consuming of alcohol is not a goal. The tax should be on the purchase of the product, not on the sips.

**Chairman Corder** introduced **Colby Cameron** of Sullivan, Reberger and Eiguren representing the Northwest Grocery Association who spoke in support of the bill.

**Chairman Corder** introduced **Pam Eaton**, Chairman of the Idaho Lodging and Restaurants Association, who spoke in support. **Ms. Eaton** said they would also like to see a bill exempting food tastings as well.

**MOTION:**

**Senator Hammond** made a motion to send H 489 to the floor with a Do Pass. **Senator Hill** seconded, and the motion carried by Voice Vote. **Senator Siddoway** will be the floor sponsor.

**H 517**

Relating to Adjustments to Idaho Taxable Income, to Remove Language Disallowing Deduction of Certain Expenses of Elementary and Secondary School Teachers. **Chairman Corder** introduced **Senator Brackett**. **Senator Brackett** said this legislation allows the state to conform to the federal tax code for calculating adjusted gross income with regards to certain exemptions for elementary and secondary school teachers. The emergency clause means the legislation will be effective for the 2012 tax year. This is a fair and commonsense adjustment.

**Senator Werk** said he appreciated the work that has been done regarding this issue and is happy to have the opportunity to vote on this bill.

**Chairman Corder** introduced **Bert Marley**, Director of Public Policy for the Idaho Education Association, who spoke in support. **Mr. Marley** said studies show that more and more teachers are spending their own money to supply the classroom; 97% of teachers surveyed spent an average of \$477 per year for classroom supplies. The federal tax deduction that is being conformed with expired at the federal level in 2011 and there is work being done to urge Congress to extend the educator tax deduction.

**MOTION:**

**Senator Werk** made a motion to send H 517 to the floor with a Do Pass. **Senator Hill** seconded, and the motion carried by Voice Vote. **Senator Brackett** will be the floor sponsor.

**S 1357**

**Chairman Corder** introduced **Suzy Budge**, representing John Deere. **Chairman Corder** said this bill replaces S 1315. **Ms. Budge** said this is related to personal property tax and where a Purchase Money Security Interest stands when it comes to tax delinquencies. There is a difficulty with how counties assess for personal property; all personal property items are considered all one item. There is an amendment being worked for this legislation so any personal property under the PMSI can be separate from the rest of the personal property.

**Chairman Corder** introduced **Tony Poinelli**, Idaho Association of Counties. **Mr. Poinelli** said the way the personal property tax is done, if an individual owner owns multiple pieces of equipment, they are lumped together as one parcel. If any part of those items become delinquent, the lien is applied to the entire parcel. There are sections of Idaho code that need to be modified and amended to allow for segregation of individual pieces of property.

**Senator Bilyeu** asked if segregation is not allowed, or is not the current practice. **Mr. Poinelli** said it is both. The law does not clearly allow for segregation to occur and it is not practice.

**Senator Siddoway** asked why other sections would need to be amended when the Legislature passes a law that would make them obsolete. **Mr. Poinelli** said there is a process that needs to occur and the other statutes deal with the process.

**Chairman Corder** introduced **Roy Eiguren**, representing Caterpillar, who spoke in support.

**Chairman Corder** introduced **Roger Batt**, representing the Pacific Northwest Hardware and Implement Association, who spoke in support.

**Senator Werk** said he would prefer to see any amendments before the bill is sent to the amending order. **Chairman Corder** assured the committee they would see any amendments before the bill is amended.

**MOTION:**

**Senator Werk** made a motion to send S 1357 to the 14th Order. **Senator Siddoway** seconded, and the motion carried by Voice Vote.

**Chairman Corder** adjourned the meeting at 3:45 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
3:00 P.M.  
Room WW53  
Wednesday, March 07, 2012

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
AMENDMENTS TO <a href="#">S 1357</a>	To Provide that Delinquencies on Personal Property Taxes shall be First and Prior Perpetual Liens on Specified Property	Tony Poinelli, Idaho Association of Counties; Teresa Baker, Deputy Prosecutor Ada County
MINUTES APPROVAL:	February 21, 2012	Senator McKenzie, Senator Hammond
	February 23, 2012	Senator Johnson, Senator Bilyeu
	February 28, 2012	Senator Johnson, Senator Siddoway

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Siddoway
Vice Chairman Johnson	Sen Rice
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen Hammond	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Wednesday, March 07, 2012

**TIME:** 3:00 P.M.

**PLACE:** Room WW53

**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, Hammond, Siddoway, Rice, 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.

**Chairman Corder** called the meeting to order at 3:05 p.m.

**AMENDMENTS  
TO  
S 1357**

To Provide that Delinquencies on Personal Property Taxes shall be First and Prior Perpetual Liens on Specified Property. **Chairman Corder** said the issues involved in the original legislation were larger than expected; the amendments have changed everything about the bill except the number.

**Chairman Corder** introduced **Teresa Baker**, Ada County attorney. See attachment #1. **Ms. Baker** said the original S 1357 sought to amend Idaho Code 63-1003. The proper code to be amended was 63-1014, and a process needed to be added for the segregation of a particular piece of property from the entire parcel. There is a minimum dollar value for the property to be segregated and that is \$20,000. This legislation allows for the process of valuing the property that is to be segregated and the taxes that will be collected. This will also allow the tax lien to be kept as priority on the remaining items in the parcel.

**Ms. Baker** said there is one more small change to the bill, and that would be on line 15 to add "and the estimated taxes for the current year" after the word incurred.

**Ms. Baker** said the taxpayers fill out the personal property tax valuation that declares the value of the items in the parcel. If someone holding a Purchase Money Security Interest (PMSI) on a piece of personal property in the parcel needs to repossess that property, they would file a request with the tax assessor. The value of the property would come from the holder of the PMSI.

**Senator Werk** asked if Section B should be changed to make the end of the section more clearly state that the segregated property is being discussed. **Ms. Baker** said that would be a good change. **Senator Werk** said a period on line 14 after personal property and take out the word "and" would work as well.

**Senator Bilyeu** said the owner turns in the value of the personal property; but who determines the value of the amount to be segregated. **Ms. Baker** said the value of the item to be segregated comes from the holder of the PMSI.

**Senator Werk** asked how the county will acquire a good estimate of the piece of property to be segregated. **Ms. Baker** said the taxpayer provides the value on the property declaration, but if the item is to be repossessed or sold, a copy of the PMSI would be used and the item would have to have a market value greater than \$20,000.

**Senator Rice** said on line 15 it states that the estimated tax for the current year would be added, is the tax prorated for the entire year. **Ms. Baker** said according to Idaho Code the property tax lien attaches on January 1.

**Senator McKenzie** said this proposal is a good balance between the interests of the PMSI holder and the counties. On lines 17 and 18 there is a reference to late charges and cost. Is there a limitation on the amount of late charges or cost that must be paid by the PMSI holder. **Ms. Baker** said there are specific meanings for late charges under Idaho statute. A taxpayer is not allowed to go into arrears on personal property taxes as they are on property taxes. Current law states the county has very specific rules they must abide by in relation to the late charges.

**Senator Werk** asked if there is a feedback loop for the valuation of the personal property. Since the owner declares the value of the personal property, how is the correct determination of the value made. Why is an appraisal not required. **Chairman Corder** said the lender would be the appraiser and the value of the property would be established when it is sold. **Ms. Baker** said the counties are not going to wait until the property is sold to establish the value; therefore, it is determined by the PMSI holder.

**Senator Rice** said the amendment addresses only property over \$20,000; does that mean if the value is less than \$20,000, the property cannot be released from the lien. **Ms. Baker** said there could be purchases such as a refrigerator for \$500. Personal property is transitory in nature. When property is moved from county to county, the taxes are due the day the property leaves the first county.

**Chairman Corder** introduced **Donna Peterson**, Payette County Treasurer. See attachment #2. **Ms. Peterson** said the declaration form does not show a unique item if there are duplicates, such as two forklifts. The requirement of the PMSI allows the counties to attempt to tie a value to a unique item.

**Vice Chairman Johnson** asked if an item has a \$40,000 value on the PMSI, but the taxpayer has listed it on the declaration for \$15,000; is there a reconciliation involved. **Chairman Corder** introduced Suzanne Budge, of John Deere. **Ms. Budge** said usually the owner of personal property will value the property higher because they did not finance 100% of the price.

**MINUTES  
APPROVAL:**

**Senator McKenzie** made a motion to approve the minutes of February 21, 2012. **Senator Siddoway** seconded, and the motion carried by Voice Vote.

**Vice Chairman Johnson** made a motion to approve the minutes of February 23, 2012. **Senator Bilyeu** seconded, and the motion carried by Voice Vote.

**Vice Chairman Johnson** made a motion to approve the minutes of February 28, 2012. **Senator Hammond** seconded, and the motion carried by Voice Vote.

**ADJOURNMENT:** The meeting was adjourned at 3:35 p.m.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**  
3:00 P.M.  
Room WW53  
Thursday, March 08, 2012

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#">H 519</a>	To Provide that Certain Site Improvements Shall be Exempt from Property Taxation	Representative Hartgen

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Siddoway
Vice Chairman Johnson	Sen Rice
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen Hammond	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, March 08, 2012

**TIME:** 3:00 P.M.

**PLACE:** Room WW53

**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, Hammond, Siddoway, Rice, 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.

**Chairman Corder** called the meeting to order at 3:10 p.m. **Chairman Corder** said there is an email in the packets that was received shortly before the meeting from the Twin Falls Urban Renewal Agency that is in opposition to this legislation.

**H 519**

To Provide that Certain Site Improvements Shall be Exempt from Property Taxation.

**Chairman Corder** introduced **Representative Hartgen**. **Representative Hartgen** said land starts as either agricultural or forestry. See attachment #1. If it is being developed, it goes to a platted stage with no improvements; however the value increases and therefore the taxes. This bill proposes to deal with a problem that has held back development projects. There is inconsistency as to how the land valuations are determined across the state. In the second stage, the value and taxation increases substantially, but there is no income for the developer of this property.

**Chairman Corder** introduced **Senator Heider**. **Senator Heider** said the email from Twin Falls Urban Renewal Agency is no longer an issue. **Senator Heider** spoke to them and they are at peace with the legislation because of the wording in Section G on page 3.

**Chairman Corder** introduced **Brad Wills**, land developer from the Magic Valley. See attachment #2. **Chairman Corder** said the Fiscal Impact on the Statement of Purpose in the presentation is different than the one on the bill. There is no Local Level Impact on the SOP attached to the legislation.

**Mr. Wills** said Idaho does not tax business inventory. The IRS and State Tax Commission consider site improvements a product until the land is sold or utilized and then a taxable transaction occurs. This land should be considered business inventory. Stage 1 is when the land is agriculture or forestry. In Stage 2 the land is platted without any improvements. Stage 3 the land has been improved with infrastructure, but it is still vacant. In Stage 4 the lots have been improved and the structures are completed. The valuations of Stages 2 and 3 vary across counties. This bill requires an application to receive the exemption and the land must be developer-owned. If the land goes back to the bank, the bank is a lienholder, not a developer so this exemption would not apply.

**Mr. Wills** said new construction is where most of the site improvement value has been added to the tax rolls.

**Senator Bilyeu** said the county budget can increase 3%, not the tax revenue.

**Mr. Wills** said that is correct.

**Mr. Wills** said there are a lot of properties in Stage 3 that are being farmed in order to get the lower tax rate that is available in Stage 1. This is called inefficient farming. With this legislation, there would be a postponement of taxes; these properties would be fully taxed eventually. In the last years, new construction rolls have totaled \$33 billion. Of that, there is an estimate of \$13 billion in land development. Empty parcels require minimal services. Levy rates vary from .66% in Challis to 2.56% in a local city. Property in Challis for Stage 2 would be taxed at \$100 versus \$380 in the local city. Urban Renewal Agencies are not in the land development business.

**Senator Rice** asked if there is a definition for "land developer". The land could be placed under a corporation and the corporation sold rather than the land. **Mr. Wills** said there was a meeting a month ago with the State Tax Commission. They requested that an official definition would not be created because it may not be done properly. The Board of Equalization will determine if someone is a developer, with guidance from the State Tax Commission.

**Senator Bilyeu** said the document showed \$1500/ acre valuation for Stage 1, however that is not market value because the land already has an exemption on it. What would the market value be. **Mr. Wills** said a year ago it would have been \$2500 and now it would be \$4500/ acre. **Senator Bilyeu** said the Stage 1 acreage has an exemption already. Stage 2 land could still be farmed even though it has been platted, is that correct. **Mr. Wills** said typically when land is platted, the water rights are given to the municipality, so the type of farming is limited. The Stage 4 value includes the value of the home on the property. **Senator Bilyeu** asked if it would be fair for a purchaser of an individual lot to have their value rise substantially when they purchase the lot, but for the developers it would not. **Mr. Wills** said that was determined to be legal about six years ago. One developer, because they own multiple lots, is considered to have a discounted value on the lots. This is business inventory. It would be similar to a tree farm; if an individual buys a tree, they would have to pay sales tax on it.

**Vice Chairman Johnson** asked if the Idaho Association of Counties was in favor of this legislation. **Mr. Wills** said the counties are here and can speak to their concerns. The tax on the property increases 10x from one stage to the next higher one. There are no exemptions in Stage 3.

**Senator Werk** asked why the bill does not just say "when there is a conveyance" the exemption is lost. **Mr. Wills** said once the developer sells the property, the land is no longer inventory so there is no implied application of this legislation.

**Senator Hill** said under current law, when a developer makes improvements, he pays sales tax on the cost of materials. When the property is sold, it is not subject to sales tax because it is real estate. Items that go into inventory do not have sales tax paid on them, but the finished product has sales tax charged. When the land is classified as inventory would that require purchasers to pay 6% on the purchase of the lot. **Chairman Corder** introduced **Steve Fiscus** of the State Tax Commission. **Mr. Fiscus** said this would be similar to the house itself, in that no tax would be paid when it is sold.

**Chairman Corder** introduced **John Eaton** of the Idaho Association of Realtors, who spoke in support. **Mr. Eaton** said this was the most fair legislation related to this issue he has seen. When ineffective farming is used, the land reverts from Stage 3 to Stage 1 which creates a substantial tax shift on the taxpayers in the county. The value of the land has been severely decreased. An exemption is the only tool available and this legislation would create a much smaller tax shift.

**Chairman Corder** introduced **Jayson Ronk**, Vice President of the Idaho Association of Commerce and Industry, who spoke in support.

**Chairman Corder** introduced **Max Vaughn**, Minidoka County Assessor and Chairman of the Idaho Association of Counties Legislative Committee, who spoke in opposition. **Mr. Vaughn** said this legislation is a departure from tax policy and it is difficult to understand that infrastructure is inventory. There is a lack of uniformity between counties on this issue. Minidoka County has no site improvements; the infrastructure is not valued that way; it is all fair market valuation. The developers are encouraged to develop in phases, so there are not a lot of developed lots available that cannot be sold. If there is an exemption on site improvements, Minidoka County would not know what to deduct since their valuation is based on market value.

**Senator Rice** asked for clarification that in Minidoka County there is no difference in the tax amount for the developer between a platted lot and one just sold. **Mr. Vaughn** said the market could change every year because it is assessed by market value. Site improvements do not necessarily increase the value of the lot.

**Vice Chairman Johnson** asked if a lot could be subdivided by a private individual and then receive the exemption. **Mr. Vaughn** said that is a possibility.

**Chairman Corder** introduced **Brent Adamson**, Assessor for Boise County who spoke in opposition. **Mr. Adamson** said there is no consistency across the state as to how land is valued, and that is necessary because no piece of dirt will have the same value from area to area. There are only a minority of counties in the state that value land the same way Twin Falls County does. The rest use market value.

**Chairman Corder** said due to the time limit, testimony would continue on Wednesday, March 14, 2012.

**ADJOURNMENT:** The meeting was adjourned at 4:20 p.m.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
3:00 P.M.  
Room WW53  
Tuesday, March 13, 2012

<u>SUBJECT</u>	<u>DESCRIPTION</u>	<u>PRESENTER</u>
<a href="#">H 387aa</a>	Relating to Revenue and Taxation; To Provide that the Owner of a Homestead Previously Qualified for Exemption is not Required to Make a Separate Application to Continue Qualification of the Exemption During the Time of Military, Humanitarian or Religious Service	Senator Brackett
<a href="#">H 582</a>	To Revise Provisions Relating to Taxation of Income of Owners of an Interest in a Pass-through Entity, to Define a Term and to Provide Administrative Provisions	Robert Aldridge

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Siddoway
Vice Chairman Johnson	Sen Rice
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen Hammond	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Tuesday, March 13, 2012

**TIME:** 3:00 P.M.

**PLACE:** Room WW53

**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, Hammond, Siddoway, Rice, 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.

**Chairman Corder** called the meeting to order at 3:10 p.m.

**H 387AA**

To Provide that the Owner of a Homestead Previously Qualified for Exemption is not Required to Make a Separate Application to Continue Qualification of the Exemption During the Time of Military, Humanitarian or Religious Service. **Chairman Corder** introduced **Senator Brackett**. **Senator Brackett** said this bill clarifies status of the residents' homestead exemption for property tax when someone leaves their primary dwelling place for military, humanitarian or religious service. This allows the home to be exempt as long as the homeowner intends to return upon conclusion of the service. The absence for other than military service would be limited to 36 months. There should be more done to encourage public service.

**Chairman Corder** introduced **Representative Luker**. **Representative Luker** said this bill started because of a letter from a constituent. See attachment #1. This bill is an improved version of H 30 from 2011 that failed. The Association of Counties has not taken a position; however, they helped craft some of the language, including limiting the time for humanitarian and religious service.

**Senator Hill** said on page 4, there is a provision that states the exemption would be allowed if the house were being rented. Can homeowners claim the exemption now if they are gone, but don't rent out the house. **Representative Luker** said there are two ways to lose the homeowners' exemption; if the owner is not residing in the house or if the house is being rented. **Senator Hill** asked if there were any recapture provisions. **Representative Luker** said that would depend on how the intent is looked at. The county commissioners could take away the homeowner's exemption because the intent changed.

**Senator Werk** said the original language on Page 4 already had an exemption for military members. **Representative Luker** said it was very narrowly defined; only those being sent to a combat zone. The current code says those serving in a combat zone can lease their house and not lose their exemption. **Senator Werk** asked if the legislation would be changed if the constituent had been working out of town and making money on the rental of their home. **Representative Luker** said if he had still been serving in the Peace Corps, it would not have been a problem. **Senator Werk** said with the exception of the combat zone deployment, in most instances people are making voluntary choices which leads to other implications that may not be taken into account. A voluntary personal decision may be made that results in a business decision. If someone has lived in the house for a long time, they would make money on the rental of that property. **Representative Luker** said the basic question is, does this cost the county money. It does not because these people already have a homeowner's exemption. They are being penalized if they want to go away for a period of time with the intent of returning. They are

not able to go serve elsewhere without the exemption and without being able to rent their home.

**Senator McKenzie** said the county may not lose money, but the tax burden is being shifted to the other taxpayers. The exemption applies to an owner-occupied dwelling and primary residence. Many of the military in Idaho are in the guard and they get a three-month notice when they are called up. People who want to serve in the Peace Corps have an option as to when they leave. This legislation forces the other property owners to pay for the exemption. **Representative Luker** said the principal is the same whether you are in a combat zone or a humanitarian trip. The county is providing the same services to the dwelling.

**Senator Rice** said if someone needs to rent a house, they will rent this particular dwelling rather than another place which could increase the demand for housing. This exemption does have the same effect as shifting the taxation. **Representative Luker** said whatever place they rented, the services would still be needed. If someone is able to rent out their house for what it costs them, they are then able to go serve.

**Senator Hammond** said currently if an assignment is accepted to proselytize for a given church or religion, the homeowner's exemption would be taken away. If they are granted a tax exemption for religious work, is that not a constitutional problem with the separation of church and state. **Representative Luker** said the exemption is not being granted based on their religious status, but rather based on homeowner's status. **Senator Hammond** said this legislation actually does grant an exemption because of the religious activity they are participating in. **Representative Luker** said that is one of the qualifying events, but not the only one. A lot of religious service involves humanitarian service. **Senator Hammond** said when he had worked on this issue in the past, the only reason the focus was on the National Guardsmen leaving for combat duty was because they do not have a choice where to go and when.

**Senator Werk** said if there was a large religious community in a specific county and there was a large number of people doing religious service in a given year, the result would be that those people who were left would pick up the tax burden.

**Senator Bilyeu** said when she was the assessor in Bannock County, when someone went on a mission, the homeowner's exemption was not taken away unless the house was rented. This legislation would not help those on an educational sabbatical.

**Chairman Corder** asked if service in a combat zone is considered to be the same as other military service. **Representative Luker** said no, the desire to be of service is the same. **Chairman Corder** said this legislation does equalize the types of service and has lessened the value of service in a combat zone. The combat exclusion was very specific. The original exemption was intended to be a distinct honor and privilege for the military going to combat zones and it is unlike any other service.

**Chairman Corder** said there is a mechanism already in place to protest the homeowner's exemption being removed on a taxpayer's home. The citizen can go to the county and appeal the decision. Should these people not go through the current appeal process that is in place. **Representative Luker** said there is a very short time frame to make an appeal and technically the law says if the home is not owner occupied, the exemption should be lost. A lot of counties have looked the other way in the past. **Chairman Corder** asked how religious service and humanitarian service is defined in this legislation. **Representative Luker** said they would be defined using the normal definition in the dictionary; service to others for an organization. **Chairman Corder** said there has been a lot of discussion as to the role of state and county governments and now the State is telling the county they have to grant exemptions. Who decides what is considered humanitarian service. **Representative Luker** said humanitarian service means service to others and it would include all religions.

**Chairman Corder** introduced **Colonel Bill Richey**, Special Assistant for Military Affairs Promoting Mountain Home Air Force for the State, who spoke in support. See attachment #1.

**Chairman Corder** asked if this legislation is for deployed military only or also for those being transferred. **Colonel Richey** said this is for all military which would include not only deployments, but permanent change of duty stations. The three years only applies to humanitarian service; military service would be exempt as long as they did not purchase another home anywhere else.

**Chairman Corder** introduced **Miguel Legarreta** of the Idaho Association of Realtors, who spoke in support. **Mr. Legarreta** said this is a fairness issue and the tax shift would be temporary until the homeowners come back from service.

**Senator Werk** said the example of a military family moving for Officer Training is very similar to a private corporation transferring a family overseas; would they receive the same exemption. **Mr. Legarreta** said there is a difference in the examples and the private corporation would not receive the exemption.

**Senator Rice** asked if there was any difference between being paid by the charity for the humanitarian work or going as a volunteer. **Mr. Legarreta** said that would be difficult to determine.

**Chairman Corder** introduced **Geoff Schroeder**, former Mountain Home City Councilman, who spoke in opposition. **Mr. Schroeder** said this legislation is a solution looking for a problem. This covers everyone on active duty, not just those on a military base. There is no time limit for the military with the exemption. This creates an economic incentive for people to rent their houses. There are already exemptions for military people who suffer a hardship by needing to move.

**Mr. Schroeder** said any law that is written today applies in future markets as well; even when people may be making money on renting their homes.

**Senator Brackett** said more needs to be done to promote and encourage public service.

**Senator Hill** said lawmakers are paid to figure the unintended consequences of legislation. In most cases, the people who would benefit from this legislation have good, pure intent. When you rent a home, you lose money. The people who would be affected are people who have lived in Idaho for a long time and are our friends and community members. This exemption is not an incentive to do good, but rather a penalty for doing good.

**MOTION:**

**Senator Hill** made a motion to send H 387aa to the floor with a Do Pass recommendation. The motion failed for lack of a second.

**H 582**

To Revise Provisions Relating to Taxation of Income of Owners on an Interest in a Pass-Through Entity, to Define a Term and to Provide Administrative Provisions.

**Chairman Corder** introduced **Bob Aldridge**, of Trust Estate Professionals of Idaho, Inc. (TEPI). **Mr. Aldridge** said this legislation is limited to pass-thru entities and non-residents. See attachment #2.

**Vice Chairman Johnson** asked **Dan John** if the Tax Commission is in favor of this legislation. **Mr. John** said the TEPI group identified issues they have had. The Tax Commission is supportive of the changes.

**MOTION:** **Senator Hill** made the motion to send H 582 to the floor with a Do Pass. **Senator Hammond** seconded, and the motion carried by Voice Vote. **Senator Hill** will be the floor sponsor.

**ADJOURNMENT:** **Chairman Corder** adjourned the meeting at 4:20 p.m.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
3:00 P.M.  
Room WW53  
Wednesday, March 14, 2012

SUBJECT	DESCRIPTION	PRESENTER
<a href="#">H 519</a>	Continuation of Testimony To Provide that Certain Site Improvements Shall be Exempt from Property Taxation	Representative Hartgen, Brad Wills

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Siddoway
Vice Chairman Johnson	Sen Rice
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen Hammond	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Wednesday, March 14, 2012  
**TIME:** 3:00 P.M.  
**PLACE:** Room WW53  
**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, Siddoway, Rice, Werk, and Bilyeu  
**ABSENT/ EXCUSED:** Senator Hammond

**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.

**Chairman Corder** called the meeting to order at 3 pm. **Chairman Corder** said the SOP has been changed to reflect the earlier presentation.

**H 519** To Provide that Certain Site Improvements Shall be Exempt from Property Taxation.  
Continuation of testimony. **Chairman Corder** introduced **Gerald Martens** of EHM Engineers, who spoke in support. **Mr. Martens** said they are required to master-plan develop and plat the entire ownership. There has been a greater decrease in prices in the Treasure Valley than Twin Falls, but there is not a market now for this land. It is not farmable.

**Chairman Corder** asked if an exemption on partially-developed land allows developers to make long-term planning. **Mr. Martens** said a sale of 5-8 lots a year is a good year and that is 2-3 acres, but the community planners require the developers to master-plan the entire parcel which could be 10 acres or 40 acres.

**Chairman Corder** introduced **Steve Cope**, of SKC, Inc, who spoke in support. **Mr. Cope** said in 2006 his company sold 100 lots; since then his company has sold five lots. There are currently 54 residential lots that were in existence at the end of 2006, or under construction in 2007. The property taxes from 2007-2011 exceeded \$200,000. The property tax in 2011 was \$32,000. Prior to the crash, property taxes were an expense, but not a burden. If Idaho has a policy not to tax inventory, then lots builders own should not be taxed either.

**Senator Bilyeu** asked if the five lots sold since 2006 were residential or commercial. **Mr. Cope** said they were residential. More could have been sold, but it would have been at greatly reduced prices. The prices from 2006 have dropped 50-60%. Lots that were selling in 2006 at \$90,000, are currently selling at \$35,000. **Senator Bilyeu** asked what the lots are assessed at. **Mr. Cope** said most of the lots are in the low-mid 30,000's, some are in the high 20,000's. The assessor has looked at what the lots are actually selling for and adjusted the values. The subdivision is ready for people to move into. **Senator Bilyeu** asked what the lots would be assessed at if the legislation passes. **Mr. Cope** said the lots that are assessed at \$30,000 would be \$3,000-\$4,000.

**Chairman Corder** introduced **Ben Davenport**, Risch Pisca Law Firm, representing Idaho Building Contractors Association, who spoke in support. **Mr. Davenport** said the association has been working on legislation like this for a long time and appreciate the work Mr. Wills has done.

**Senator Werk** asked if the Building Contractors Association would be willing to work with the legislature to make any necessary changes in the future. **Mr. Davenport** said this bill is the right way to go and would be willing to work with others.

**Chairman Corder** introduced **Brad Miller**, of Van Auker Company, who spoke in support. **Mr. Miller** said his company is a developer of large, industrial warehouses. They do not subdivide property, but will subdivide it at a later date if necessary. The problem is there is no shovel ready ground available. There was a long-term tenant interested in the property, but the land would not be ready in time. There needs to be shovel-ready ground, but the carrying costs with the tax rate prohibit maintaining inventory. Very few services are needed on undeveloped lots. The utilities are extended there, but not used.

**Senator Rice** asked if the tax structure currently discouraging shovel-ready ground hurts economic development. **Mr. Miller** said it is a factor. Companies have come to explore the area and could not relocate because of power needs and the lack of shovel-ready ground. The public and private sector do not work well together.

**Chairman Corder** said since the property is not now being subdivided, it falls under the agriculture exemption and with this new legislation, the county would actually receive more property tax funds. **Mr. Miller** said sometimes the agriculture exemption is used, sometimes not; but the net result would be more taxes being paid. It takes 6-9 months to get land ready for development; which usually is too long for a tenant to wait.

**Senator Rice** asked how much time would be taken from the project if the ground is shovel ready. **Mr. Miller** said through the city of Nampa, a building permit can be ready in two weeks.

**Chairman Corder** introduced **David Turnbull**, President of Brighton Corporation, who spoke in support. **Mr. Turnbull** said there have been a lot of discussions on how to bring the economy of Idaho back; this legislation would help with the economy rebounding. DirecTV approached the Brighton Corporation in December, 1995. The facility they were interested in creating had to be built and open by November of the following year. If this land had not been developed for DirecTV, the Brighton Corporation would have paid approximately \$580,000 in property tax on the land. Since the land was shovel ready, DirecTV has paid approximately \$250,000 in property taxes in addition to employing 1500 people.

**Chairman Corder** introduced **Miguel Legarreta**, of the County Association of Realtors, who spoke in support.

In conclusion, **Brad Wills** said this is a good bill and it has taken a year to put it together. The bill will be easy to administer for the county assessors. This is a business issue, not a developer issue.

**Senator Werk** said there was a discussion about some of the language in the portion related to transferring the land from one party to another. **Mr. Wills** said there was a lot of work done in the language and the conveying by title intends there is a sale involved. Further defining could be done in the rules. **Senator Werk** said if land developer X sold their land to land developer Y as a whole, is that considered a conveyance of title. **Mr. Wills** said different scenarios were examined; there are many different structures for real estate deals. A land developer would be the person who, in the course of the business, developed the land, got the entitlements and got the final approval.

**Chairman Corder** introduced **Dan John**, of the State Tax Commission. **Mr. John** said if a land developer sells to anyone, even another land developer, title will transfer and the land status will change then. The Tax Commission will write the rules related to this legislation.

**Senator Bilyeu** asked who approves the application for the exemption. **Mr. Wills** said the Board of Equalization or County Commissioners approve all applications. **Senator Bilyeu** asked for a walk-through of the process this exemption will take. **Mr. Wills** said there would be developed land, an application would be completed, the county or Board of Equalization may ask questions and then some counties would use fair-market value; others would determine a finished-lot value, then use the discounting factor of 90%. Stage 2 would be the lower assessed value. The look back time frame is only five years; anything developed before that would not count for this exemption. The property value would be evaluated quarterly. **Senator Bilyeu** asked if the land would then be on the tax roles at 10% of market value until it was sold. **Mr. Wills** said if the lots are sold or a structure is started on the land.

**Vice Chairman Johnson** asked how this would affect the counties this year when the effective date is January 1, 2012. **Mr. Wills** said if the effective date was July 1, this would go into effect in the following year, since the assessments are based on value as of January 1. Budgets have not been set on the value for this year, so this would not affect budgets. With new construction, the counties will have the same amount of money available, but they will not have as much new money.

**Chairman Corder** thanked **Mr. Wills** for making the effort to bring this bill to the legislature and proving that any citizen can bring legislation, if they are willing to expend the effort.

**MOTION:** **Senator Siddoway** made a motion to send H 519 to the floor with a Do Pass recommendation. **Senator Rice** seconded. **Vice Chairman Johnson** said based on conversations with the assessor's office in Nez Perce County, the county does not want this legislation this year.

**ROLL CALL VOTE:** Aye Votes: **Senators Bilyeu, Werk, Rice, Siddoway, McKenzie, Hill** and **Chairman Corder**. Nay Votes: **Vice Chairman Johnson**. Absent: Senator Hammond.

Motion carried; **Senator Heider** will be the floor sponsor.

**ADJOURNMENT:** **Chairman Corder** adjourned the meeting at 3:55 p.m.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
3:00 P.M.  
Room WW53  
Thursday, March 15, 2012

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#">H 593</a>	To Provide that in No Event Shall the Aggregate Outstanding Principal Amount of General Obligation Bonds and any Other Indebtedness for Which the Full Faith and Credit of the District are Pledged Shall Exceed Nine Percent of the Actual or Adjusted Market Value for the Assessment	Representative Luker
MINUTES APPROVAL:	February 29, 2012	Senator Werk, Senator Hammond
	March 7, 2012	Senator Rice, Senator McKenzie

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Siddoway
Vice Chairman Johnson	Sen Rice
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen Hammond	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, March 15, 2012  
**TIME:** 3:00 P.M.  
**PLACE:** Room WW53  
**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, Hammond, Siddoway, Rice, 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.

**Chairman Corder** called the meeting to order at 3:20 p.m.

**H 593**

To Provide that in No Event Shall the Aggregate Outstanding Principal Amount of General Obligation Bonds and any Other Indebtedness for Which the Full Faith and Credit of the District are Pledged Shall Exceed Nine Percent of the Actual or Adjusted Market Value for the Assessment. **Chairman Corder** introduced **Representative Luker**. **Representative Luker** said in 2008 the Community Infrastructure District (CID) legislation was passed. This helped with road construction and other types of infrastructure. This legislation is a fine-tuning bill and adds a few sideboards.

There are seven changes to the bill, which are listed on the Statement of Purpose. A CID allows a non-contiguous addition, but it must have a substantial nexus to the initial district or the original project. **Chairman Corder** asked for an example as to when a non-contiguous addition would be necessary. **Representative Luker** said there could be an area developed by the same developer in three or four years that is not directly contiguous, but could be sharing the same roadway.

**Senator Werk** said he was uncomfortable with the wording related to written testimony. The wording seems to indicate the written testimony must be in addition to personal testimony.

**Representative Luker** said in the original legislation, the indebtedness allowed was up to 12% of the adjusted market value of the taxable real property. That has been changed to 9%, because if there is too much indebtedness, people will not buy property. The appeal time for district creation has been changed from 30 days to 60 days.

**Senator Rice** said the change to the last line on page 4 would be more clear if the "and" was changed to an "or". **Representative Luker** said that would be fine.

**Senator Hammond** said the change requiring 2/3 of the owners to approve the creation of the district could be a problem if there are two or three very large landowners who own the majority of the land, but also a large group of people who own small parcels. Each owner would receive one vote regardless of how much land they own. **Representative Luker** said the purpose of this section is not to create a CID, but it is to potentially approve later indebtedness by special assessment. By the time this section would be used, the development would be in standard lot development.

There was much discussion about changing some of the language in the legislation.

**Senator Bilyeu** asked for an example as to how a CID could cross county or city lines. **Representative Luker** said there could be a property boundary that spans two city districts, especially in urban areas.

**Chairman Corder** introduced **Jeremy Pisca**, Risch Pisca Law Firm, representing M3 Companies. **Mr. Pisca** said no CID can be formed unless the city consents to it. Usually, this will happen only in the city boundaries. CID's can be formed outside of the city's boundaries with the city's consent.

**Mr. Pisca** said the CID format was created to be a mechanism to allow growth to pay for itself. In the past, the state has relied on impact fees, which by their nature, are paid in arrears. An impact fee is paid at the time a building permit is issued. By that time, the need for sewers and roads and other community-financed public infrastructure has passed.

Boise is the only city that has created a CID. The interest has slowed down due to the economy, but they are still being contemplated around the state. Currently, written testimony is not disregarded whether it is submitted before or the day of the meeting.

**Chairman Corder** asked about a potential development in Ada County/Boise County. Which city would have the authority over a CID in that area. **Mr. Pisca** said in that particular example, it would be the city of Eagle. There would be an annexation first, with the cooperation of the other county.

**Senator Bilyeu** asked how this compares to a tax increment financing district. **Mr. Pisca** said they are completely different tools, both used for development. The CID can only be used to finance infrastructure that is regional in nature, publicly owned and could not be financed with an impact fee.

**Senator Werk** asked about Section 5 and the language requiring 2/3 of owners' approval before a hearing is called. **Mr. Pisca** said lines 17-25 are misunderstood. They refer only to adopting a resolution ordering a hearing be held. The hearing still has to be noticed and held. Typically one entity owns the entire property; it is very rare there would be a lot of owners.

Under the current statute, the CID Board (which is typically the city council), would be able to call a hearing without approval from anyone else in advance. A CID is a tool to develop undeveloped land. **Representative Luker** said with the original legislation the city council could call a hearing without any input from anyone else; this was a compromise.

**Vice Chairman Johnson** asked what the benefit is from changing the amount of indebtedness from 12% to 9%. **Representative Luker** said the change is to make sure the property itself is not overburdened with debt.

**Representative Luker** said the city of Boise is comfortable with the changes.

**H 593**

**Senator McKenzie** made a motion to send H 593 to the floor with a Do Pass recommendation. **Senator Werk** seconded, and the motion carried by Voice Vote. **Senator McKenzie** will be the floor sponsor.

**MINUTES  
APPROVAL:**

**Senator Werk** made a motion to approve the minutes of February 29, 2012. **Senator Hammond** seconded, and the motion carried by Voice Vote.

**Senator Rice** made a motion to approve the minutes of March 7, 2012. **Senator McKenzie** seconded, and the motion carried by Voice Vote.

**ADJOURNMENT:** **Chairman Corder** adjourned the meeting at 4:05 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

**AMENDED #1 AGENDA  
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
2:00 P.M.  
Room WW53  
Tuesday, March 20, 2012**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#">H 584aa</a>	To Provide for Continuation of the Homestead Exemption for a Time Certain Upon the Owner's Beneficiary's, Partner's, Member's or Shareholder's Death if Certain Circumstances Occur; Declaring an Emergency and Providing Retroactive Application	Senator Chuck Winder
<a href="#">H 515aa</a>	To Provide that Each Agency, Department and Commission Shall Seek to Minimize the Number of Certain Printed Copies;	Representative Bob Nonini
<a href="#">H 653</a>	To Provide that if the Date for Filing any Report, Claim, Tax Return, Statement or Other Document or Making Any Such Payment Falls upon a Saturday, a Sunday, a Legal Holiday or, in Matters Arising Under the State Income Tax Law, a Holiday Recognized by the Internal Revenue Service, Such Acts Shall be Considered Timely if Performed on the Next Business Day; and Declaring an Emergency	Chairman David Langhorst, State Tax Commission
<a href="#">H 634</a>	To Clarify the Credit for Taxes Paid to Other States; Declaring an Emergency and Providing Retroactive Application	Ken McClure
MINUTES APPROVAL:	March 8, 2012	Senator Bilyeu, Senator Siddoway

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Siddoway
Vice Chairman Johnson	Sen Rice
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen Hammond	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: jbujarski@senate.idaho.gov

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Tuesday, March 20, 2012

**TIME:** 2:00 P.M.

**PLACE:** Room WW53

**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, Hammond, Siddoway, Rice, 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.

**Chairman Corder** called the meeting to order at 2:10 p.m.

**H 584AA** To Provide for Continuation of the Homestead Exemption for a Time Certain Upon the Owner's Beneficiary's, Partner's, Member's, or Shareholder's Death if Certain Circumstances Occur. **Chairman Corder** introduced **Senator Winder**. **Senator Winder** said this legislation allows, in case of the death of the homeowner, to make the exemption valid for the year in which they die and one year after. This allows the executor time to settle the estate.

**Chairman Corder** introduced **Michael Johnson**, who spoke in support. **Mr. Johnson** said if a person dies on December 30, the tax exemption would go away January 1 of the next year and the relatives would have to pay more tax. It could take a year or more to settle an estate.

**MOTION:** **Senator Hammond** made a motion to send H 584 aa to the floor with a Do Pass recommendation. **Senator Bilyeu** seconded. **Senator Hill** said there was a concern with the fiscal note. It is hard to estimate what the impact would be, but there are a lot of tax bills that have the same issue. The motion carried by Voice Vote. **Senator Winder** will be the floor sponsor.

**H 515AA** To Provide that Each Agency, Department and Commission Shall Seek to Minimize the Number of Certain Printed Copies. **Chairman Corder** introduced **Representative Nonini**. **Representative Nonini** said all legislators receive a number of written reports over the course of the session and if those reports are sent electronically, it could save the state money in printing costs.

**Chairman Corder** introduced **Ty Palmer**, who spoke in support. **Mr. Palmer** said he has noticed that legislators receive a large amount of mail consisting of annual reports that are required to be submitted. If these were sent electronically, the state could save money by not printing and mailing these documents. This does not change the requirement that the documents need to be submitted. This bill does not limit the amount of copies produced, but rather the copies must be requested before they are printed.

**Senator Hill** asked if the Division of Financial Management (DFM) is in support of this legislation. **Mr. Palmer** said they are.

**Chairman Corder** introduced **Wayne Hammon**, Director, DFM, who spoke in support. **Mr. Hammon** said they already require documents electronically from the departments.

**Chairman Corder** introduced **Jan Sylvester**, who spoke in opposition. **Ms. Sylvester** said this bill is redundant, vague and overreaching. There are different types of electronic format and this bill does not specify a particular one. There is no definition as to how a "commission shall seek to limit the number of copies".

**Senator Hill** asked if she were opposed to the concept of having agencies submit these reports in electronic format or if the concern is with the verbiage of the bill. **Ms. Sylvester** said she is opposed to the bill, what is currently in code is what the state needs. It is very easy to overwrite a current version of an electronic document with an earlier version.

**MOTION:** **Senator Werk** said this legislation does not have clear language; however, this is a good concept. **Senator Werk** made a motion to send H 515 aa to the floor with the Do Pass recommendation. **Senator Hammond** seconded. **Senator Bilyeu** asked if the language in the bill is repeated or if it applies to different items. **Mr Palmer** said the first section discusses the performance reports and the second section is related to strategic plans. The motion carried by Voice Vote. **Senator Werk** will be the floor sponsor.

**H 653** To Provide that if the Date for Filing any Report, Claim, Tax Return Statement or Other Document, falls upon a Saturday, Sunday, a Legal Holiday or, in Matters Arising Under the State Income Tax Law, a Holiday Recognized by the IRS, such Acts Shall be Considered Timely if Performed on the Next Business Day. **Chairman Corder** introduced David Langhorst, Chairman, State Tax Commission.

**Chairman Langhorst** said the current code was set up to extend deadlines, but it didn't explicitly extend the due date for amended returns. There is a three-year statute of limitations and if someone filed on the last day of those three years, the returns were flagged by the system as being late.

**Senator Hill** said this legislation has to do with any reports filed in the office; however when the legislation discusses holidays recognized by the IRS, the Income Tax documents are the only ones included. Is that confusing for a taxpayer who has a sales tax form due, but the income tax form would not be due because of an IRS holiday. **Chairman Langhorst** said the language is meant to construe Chapter 30, but the rulemaking process will take the other forms into consideration. If this legislation is not passed, the appeals would be settled, because the taxpayers' cases are compelling.

**MOTION:** **Senator Werk** made a motion to send H 653 to the consent calendar with a Do Pass recommendation. **Senator Hill** seconded, and the motion carried by Voice Vote. **Senator Corder** will be the floor sponsor.

**H 634** To Clarify the Credit for Taxes Paid to Other States. **Chairman Corder** introduced **Ken McClure** representing the Idaho Society of Certified Public Accountants. **Mr. McClure** said this is a housekeeping bill; it deals with how the income of a taxpayer that earns income in a number of different states is taxed. If the taxpayer is a resident of the state of Idaho, the taxpayer pays income tax on all income in Idaho and pays income in each of the states where they earn income. The taxpayer would then get a credit in Idaho for the lesser of the amount actually paid to the other state or the amount of the percentage of income which is earned in another state.

Texas income tax is called a franchise tax and has been treated as income tax by Idaho. However, there have been different interpretations as to whether it should be. This legislation will define what the requirements will be for receiving a credit. This change will entitle an Idaho taxpayer to a credit for taxes paid to Idaho for the portion of the taxes that were paid to Texas. The Tax Commission believes the fiscal note should be a loss of \$205,000 rather than a loss of \$125,000.

**MOTION:** **Senator Siddoway** made a motion to send H 634 to the floor with a Do Pass recommendation, with a correction to the fiscal note to read \$205,000. **Senator Hammond** seconded, and the motion carried by Voice Vote. **Senator Siddoway** will be the floor sponsor.

**MINUTES APPROVAL:** **Senator Bilyeu** made a motion to approve the minutes of March 8, 2012. **Senator Siddoway** seconded, and the motion carried by Voice Vote.

**ADJOURNMENT:** **Chairman Corder** adjourned the meeting at 2:45 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
2:00 pm  
Room WW53  
Wednesday, March 21, 2012

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#">H 485 aa</a>	To Revise the Eligibility Criteria for Taking a State Income Tax Deduction for Installing Energy Efficiency Upgrade Measures Within Existing Residences; Declaring an Emergency and Providing Retroactive Application	Representative Jacquet, Representative Vander Woude

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Siddoway
Vice Chairman Johnson	Sen Rice
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen Hammond	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Wednesday, March 21, 2012

**TIME:** 2:00 P.M.

**PLACE:** Room WW53

**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, Hammond, Siddoway, Rice, 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.

**Chairman Corder** called the meeting to order at 2:05 pm.

**H 485AA**

To Revise the Eligibility Criteria for Taking a State Income Tax Deduction for Installing Energy Efficiency Upgrade Measures within Existing Residences; Declaring an Emergency and Providing Retroactive Application. **Chairman Corder** introduced **Representative Jacquet**. **Representative Jacquet** said the original bill related to a tax deduction for installing energy efficiency upgrades for houses built before 1976. The new bill provides a deduction if the home was built prior to 2002. This legislation applies only to the taxpayer's main residence, not rental properties. This legislation also clarifies what is eligible for deduction. The Idaho Strategic Energy Alliance supports this legislation. There are also economic development benefits, such as job creation for engineering firms, wholesalers, materials retailers and the construction industry, which has been the industry most affected by the recession. The energy code for new homes became compulsory in 2002, which is why that year is used in the legislation.

**Chairman Corder** introduced **Representative Vander Woude**. **Representative Vander Woude** said this bill provides a tax break for the average homeowner. The previous legislation included commercial property and rentals; this only applies to residences. When a residence is improved upon, the value of the home goes up and then so too does the tax. There is a direct write-off according to expenses; it is not a credit against taxes. Energy costs continue to climb and the value of the deduction will increase proportionally to the price of energy. With the construction industry in a current downturn, the cost to the homeowner to make improvements could be less as well.

**Senator Bilyeu** asked if the upgrades include rewiring. **Representative Vander Woude** said it would not be included; just those items that directly affect energy efficiency.

**Vice Chairman Johnson** asked if doors would qualify for the tax deduction. **Representative Jacquet** said the legislation follows the energy conservation code for eligibility of items. **Vice Chairman Johnson** said one letter in support mentioned doors and one did not, so there was some confusion.

**Chairman Corder** asked for the steps to get the deduction on the tax return. **Representative Jacquet** said there would be an official audit to recommend energy-saving steps and the homeowner would then choose which ones to do. There is a line item on the tax form to enter the deduction. **Senator Hill** said an itemized deduction form does not have to be filed in order to claim this deduction on the Idaho return. There is a line on the Idaho form and this is not a deduction for federal income tax.

**Senator Hill** said the original legislation stated it was only allowed for the residence of the taxpayer. Line 13 states it has to be in any existing building in the state of Idaho which serves as a place of residence of the individual taxpayer. **Representative Vander Woude** said this is the original legislation and it could be read to have been available to residences only. .

**Senator Bilyeu** said the part to be stricken specifically mentions doors, but the new bill does not mention doors; are they now eliminated from the deduction. **Representative Jacquet** said the energy conservation code was followed and doors are not mentioned.

**Chairman Corder** asked **Senator Hill** how difficult the administration of this legislation would be. **Senator Hill** said there would be a second Idaho form and the taxpayer would have to have receipts of anything they are deducting. **Senator Hill** said few of his accounting clients qualified for the old legislation since most had houses that were built after 1976 and few would be expecting this now. **Chairman Corder** asked if tax software packages would be able to handle this deduction. **Senator Hill** said most of the common software packages are sophisticated enough.

**Chairman Corder** introduced **Milan Kaldenberg**, CPA, who spoke in support. **Mr. Kaldenberg** said the current law is unfair and this will be a good improvement. There have been clients who have purchased energy-efficient windows on the assumption that they would get a deduction; however, their residence was built in 1978, so it was disallowed. Nothing was on the return that said only homes built prior to 1976 would be eligible. The outdated law and overzealous government agencies have caused hardships to taxpayers. The deduction being disallowed has happened to a number of people.

**Chairman Corder** introduced **Ben Davenport**, of Risch, Pisca Law Firm, representing the Building Contractors Association, who spoke in support. **Mr. Davenport** said this legislation does not include doors; the old language referred to storm doors.

**Chairman Corder** introduced **Pam Eaton**, Idaho Retailers Association, who spoke in support. **Ms. Eaton** said the retailers will let people know when they make purchases that would be tax deductible. There are also signs in the store, and many employees would tell customers what they need in order to receive their deduction.

**Chairman Corder** introduced **Neil Colwell**, of Avista Corporation, who spoke in support.

**Vice Chairman Johnson** asked if Avista has any ongoing energy-efficiency rebates or programs for customers. **Mr. Colwell** said there are, and Avista has been involved in those activities in varying degrees for the last 30 years.

**Senator Hill** said some utility companies have provided incentives over the years in the form of actual rebates; what kind of programs does Avista have. **Mr. Colwell** said they have been engaged in those types of programs; in the past, there have been 10-year no interest loans. Since that time, there have been a variety of other programs, but he has not been as involved in those, so does not have details. There have been a variety of incentives, but they are not as aggressive as they have been in the past.

**Senator Hill** asked **Mr. Kaldenberg** if the cost of the improvements that are able to be deducted include the cost of labor. **Mr. Kaldenberg** said typically, yes, because those are included in the purchase price. The State Tax Commission has not confirmed labor is included.

**Vice Chairman Johnson** asked **Representative Jacquet** if the fiscal note includes the cost of labor. **Representative Jacquet** said the number of jobs generated does include labor. The numbers in the fiscal note were provided by the Tax Commission.

**Senator Werk** said the cost to the state will be what is written on the fiscal note. This figure will be accurate as represented by the Tax Commission. **Representative Jacquet** said that is true.

**MOTION:**

**Senator Werk** made a motion to send H 485aa to the floor with a Do Pass recommendation. **Vice Chairman Johnson** seconded. **Senator Werk** said one of the focuses of the interim energy committee was energy efficiency. It has the least cost and extends the energy supply. As the population grows, it would be good to see the energy usage decrease.

**Senator McKenzie** said energy efficiency was not only the highest priority, but utilities have to do long-range planning for potential growth. This outweighs new generations of power, no matter the source. Education can help people be more energy-efficient. This is a better way to manage energy than through mandates, which other states have done.

Motion carried by Voice Vote. **Chairman Corder** and **Senator Hill** voted no.

**ADJOURNMENT:** **Chairman Corder** adjourned the meeting at 2:50 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

AGENDA  
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
2:00 P.M.  
Room WW53  
Thursday, March 22, 2012

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
	Presentation for Dan John	Chairman Corder
<a href="#">H 661</a>	To Provide a New Special Income Tax Credit for New Employees and to Provide Procedures	Representative Moyle
MINUTES APPROVAL:	March 13, 2012	Senator Johnson, Senator Werk

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Siddoway
Vice Chairman Johnson	Sen Rice
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen Hammond	

COMMITTEE SECRETARY

Jo Ann Bujarski  
Room: WW31  
Phone: (208) 332-1315  
email: [jbujarski@senate.idaho.gov](mailto:jbujarski@senate.idaho.gov)

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, March 22, 2012  
**TIME:** 2:00 P.M.  
**PLACE:** Room WW53  
**MEMBERS PRESENT:** Chairman Corder, Senators Hill, McKenzie, Siddoway, Rice, Werk, and Bilyeu  
**ABSENT/ EXCUSED:** Vice Chairman Johnson, Senator Hammond

**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.

**Chairman Corder** called the meeting to order at 2:10 pm.

**PRESENTATION FOR DAN JOHN** **Chairman Corder** introduced **Dan John**. **Chairman Corder** announced that **Mr. John** will be retiring from the Tax Commission at the end of March and will be sorely missed by the legislature. **Chairman Corder** said the Senate is very pleased with the contributions that Mr. John has made to the state of Idaho, and there is a deep appreciation, respect and esteem for all the work Mr. John has done.

**Senator Hill** said when he was Chairman of the Committee, he relied on Mr. John a great deal and he is incredible. He has a vast amount of knowledge that will be missed.

**Senator Werk** said he always considered Mr. John a trusted advisor and not a bureaucrat.

**Senator Bilyeu** said she has respected Mr. John and his thoughtful answers to all questions.

**Senator Siddoway** said Mr. John has done a great job throughout the years, especially knowing answers to impromptu questions.

**H 661** To Provide a New Special Income Tax Credit for New Employees and to Provide Procedures. **Chairman Corder** introduced **Representative Moyle**. **Representative Moyle** said this legislation was to fix a timing issue with the Hire One Act. That Act starts on April 15; however the existing employee tax credit ended on January 1. There was a four and a half month lag. This legislation fills the time gap.

**Senator Hill** asked why there are new sections rather than just changing the date. **Representative Moyle** said that is exactly what happened. The old language went back in and the date was changed.

**Senator Siddoway** asked if anyone had utilized the Hire One Act. **Representative Moyle** said people had used the original employee tax credit, but he did not know about the Hire One Act.

**MOTION:** **Senator Rice** made a motion to send H 661 to the floor with a Do Pass recommendation. **Senator Bilyeu** seconded, and the motion carried by Voice Vote. **Senator Rice** will be the floor sponsor.

**MINUTES**            **Senator Werk** made a motion to approve the minutes of March 13, 2012. **Senator**  
**APPROVAL:**        **Siddoway** seconded and the motion carried by Voice Vote.  
**ADJOURNMENT:** **Chairman Corder** adjourned the meeting at 2:20 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

**AMENDED #1 AGENDA  
 SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
 2:00 P.M.  
 Room WW53  
 Tuesday, March 27, 2012**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
PAGE GRADUATION:	Marc Christensen Thank You	Chairman Corder
<a href="#">H 687</a>	Relating to the Unclaimed Property Program	Treasurer Ron Crane
<a href="#">H 691</a>	Relating to Special Use Permits, Conditions and Procedures; To Establish Provisions Relating to Exceptions or Waivers of Certain Standards	Ken McClure
MINUTES APPROVAL:	March 15, 2012	Senator Johnson, Senator Rice
	March 20, 2012	Senator Hammond, Senator Siddoway

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Siddoway
Vice Chairman Johnson	Sen Rice
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu

COMMITTEE SECRETARY

Jo Ann Bujarski  
 Room: WW31  
 Phone: (208) 332-1315  
 email: jbujarski@senate.idaho.gov

Sen Hammond

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Tuesday, March 27, 2012

**TIME:** 2:00 P.M.

**PLACE:** Room WW53

**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators McKenzie, Hammond, Siddoway, Rice, Werk, and Bilyeu

**ABSENT/ EXCUSED:** Senator Hill

**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.

**Chairman Corder** called the meeting to order at 2:50 pm.

**MINUTES APPROVAL:** **Vice Chairman Johnson** made a motion to approve the minutes of March 15, 2012. **Senator Rice** seconded, and the motion carried by Voice Vote.

**Senator Hammond** made a motion to approve the minutes of March 20, 2012. **Senator Siddoway** seconded, and the motion carried by Voice Vote.

**PAGE PRESENTATION:** **Chairman Corder** introduced the Page, **Marc Christensen**, presented him with a gift and thanked him for his service in the second half of the session. **Mr. Christensen** said he will be going to Alaska for the summer and then on a mission. After that, he intends to go to college and then medical school.

**H 687** Relating to the Unclaimed Property Program. **Chairman Corder** introduced **Cozette Walters** of the Idaho Treasurer's Office. **Ms. Walters** said when the unclaimed property program was transferred from the Tax Commission to the Treasurer's office, there was code created that would allow both groups to exchange information. Prior to January of this year, the groups had shared the same computer system which allowed access to the taxpayer identifying numbers. Now, the Treasurer's Office has a computer system of their own and the taxpayer identifying numbers were left off the list of the items the Tax Commission is allowed to share. This legislation would allow them to share that information again. The Tax Commission and the Treasurer's Office are both in support of this legislation.

**MOTION:** **Senator Hammond** made a motion to send H 687 to the floor with a Do Pass Recommendation. **Senator Bilyeu** seconded, and the motion carried by Voice Vote. **Senator Rice** will be the floor sponsor.

**H 691** Relating to Special Use Permits, Conditions, and Procedures; To Establish Provisions Relating to Exceptions or Waivers of Certain Standards. **Chairman Corder** introduced **Ken McClure**, representing Milk Producers of Idaho, Chobani and Sorrento/Lactalis. **Mr. McClure** said this legislation was meant to address a decision of the Idaho Supreme Court that was issued on January 25, 2012. See attachment #1. In that case, the Supreme Court ruled that a Conditional Use Permit (CUP) cannot be used to allow something to occur within a zone which is not otherwise allowable in the zone. A Conditional Use Permit is only to be used to create additional restrictions on something that is already allowable.

The only item now that can be used to allow building a different structure is a variance. This is a very large problem; the CUP has been used for at least thirty years to allow something that is not usually allowed. Variances are only allowed if there is something uniquely different about the land. Most of the land in Idaho is not unique. Any CUP that has been granted that allows exceptions or waivers is now void. Anyone who has a manufacturing facility or transmission line under a CUP has exposure and there is a question as to whether that is a non-conforming, non-permitting use of the zone, which would need to be modified or removed.

This bill amends the same section of Code twice. People who are concerned with very large structures, such as windmills in rural areas wanted additional notice that landowners in the adjoining parcels would receive individual notice. If there is an unincorporated area and the structure will be taller than 400', all people who own property within a mile need to be notified. The notice must identify the precise points on the parcel where the structure will be built.

The second section of the bill says a CUP may be offered that has exceptions and waivers. Some counties, such as Ada, have a requirement that there can not be a structure taller than 35' without a special use permit. Under the Supreme Court case, a special use permit can not be given, so in order to have one structure of that height, it would have to be allowed at any place in the county for any structure. Some of these decisions should be made on a site suitability criteria.

Section 3 has an explicit, specific retroactive clause. Any CUP which has been issued previously is confirmed on a going-forward and going-backward basis if the time for administrative appeal has expired. The statute is retroactive back to the passage of the CUP. The entire statute could not be made retroactive because of Subsection F and subsection B. This statute does not prevent people who feel they have been harmed by windmills to file a lawsuit.

**Senator McKenzie** asked what other statutes have notices that effectively cross county lines and what is the obligation of county commissioners to consider testimony from outside the county. **Mr. McClure** said the current statutes for variances are based upon footages and if those footages are across counties, they would apply. There must be at least one public hearing which allows testimony. Some counties do have limitations on who may testify at a hearing.

**Senator Werk** asked what the specific difficulties are with the Supreme Court judgment. **Mr. McClure** said a few of the examples would be: a residential subdivision was platted and there was relief from a setback requirement and it was run through the proper process and was approved. However, under the Supreme Court's ruling, the CUP is now arguably void, so the owners of the subdivision have questions about clarity of the title and the soundness of the legal authority which they platted the subdivision under. With a feedlot or a dairy, there are extensive setback requirements and in some counties those requirements are 1/2 mile from a subdivision or so many yards from a public road. The owner of the ground which was going to be developed using the CUP obtained the consent of the adjoining property owners. A power utility's transmission lines are almost always built on CUP's.

**Senator Werk** asked why the legislation required mailing notices rather than some other way of notification. Notification of those who live within a mile, which is required, could be a huge amount of people to contact. **Mr. McClure** said there is a publication requirement that appears in statute already. The mailing was mentioned specifically because not everyone has email; there is not a central location for email addresses. Because of the nature of the area where very tall structures are built, there are very few people who live around them.

**Chairman Corder** introduced **Jerry Mason**, representing the Association of Idaho Cities, who spoke in support. **Mr. Mason** said the decision by the Supreme Court was a surprise and is inconsistent with how the world has worked. It is not unusual for cities and counties to have ordinance provisions that use the threshold of CUP to address uses that are shades of gray. Counties and cities would need to wholesale revise their ordinances.

**Senator Werk** asked if the one mile requirement actually includes a two-mile radius. **Mr. McClure** said that it does.

**MOTION:**

**Senator Hammond** made a motion to send H 691 to the floor with a Do Pass recommendation. **Senator Rice** seconded. **Senator Hammond** said this is a way to respond to a court ruling and not roll back all of the actions taken in the past. **Senator Werk** said Section 1 is bothersome because it appears to provide a back door way to try to provide difficulties with utility development. **Senator Werk** made a substitute motion to send H 691 to the 14th order. The substitute motion failed for lack of a second. The original motion carried by Voice Vote.

**ADJOURNMENT:** **Chairman Corder** adjourned the meeting at 3:40 pm.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary

**AMENDED #1 AGENDA  
 SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE  
 8:00 A.M.  
 Room WW53  
 Thursday, March 29, 2012**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#">H 563</a>	To Reduce the Income Tax Rate on a Certain Amount of Idaho Taxable Income; To Reduce the Corporate Income Tax Rate; Declaring an Emergency and Providing Retroactive Application	Senator Winder
<a href="#">H 697</a>	Adds to, repeals and amends existing law relating to revenue and taxation to establish provisions relating to levies for payment of certain judgments;	Representative Roberts
MINUTES APPROVAL:	March 14, 2012	Senator McKenzie, Senator Rice
	March 22, 2012	Senator Bilyeu, Senator Werk
	March 21, 2012	Senator Johnson, Senator McKenzie

***If you have written testimony, please provide a copy of it to the committee secretary to ensure accuracy of records.***

COMMITTEE MEMBERS

Chairman Corder	Sen Siddoway
Vice Chairman Johnson	Sen Rice
Sen Hill	Sen Werk
Sen McKenzie	Sen Bilyeu
Sen Hammond	

COMMITTEE SECRETARY

Jo Ann Bujarski  
 Room: WW31  
 Phone: (208) 332-1315  
 email: jbujarski@senate.idaho.gov

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, March 29, 2012

**TIME:** 8:00 A.M.

**PLACE:** Room WW53

**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, Hammond, Siddoway, Rice, 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.

**Chairman Corder** called the meeting to order at 8:05 am. The Committee Secretary called an attendance roll call; all Committee members were present.

**H 563**

To Reduce the Income Tax Rate on a Certain Amount of Idaho Taxable Income.

**Chairman Corder** introduced **Senator Winder**. **Senator Winder** said the Governor had proposed tax relief of \$45 million in his State of the State address. He thanked the Joint Finance and Appropriations Committee and its Chairman to enable the money to be available. There are times when priorities have to be rearranged. Not our values, but our priorities. The 35-35-35 compromise of teachers' salaries, tax relief and replenishing funds, is the final roadblock in going home, to work and to use the next six weeks to campaign for the primary elections.

**Senator Werk** asked why the Fiscal Note only discusses 2013, but does not carry beyond that, while the legislation does not sunset in 2013. **Senator Winder** said this bill is ongoing. **Senator Werk** asked if the Fiscal Note should be changed to reflect the ongoing nature of the legislation. **Senator Winder** said it does not need to be changed.

**Chairman Corder** introduced **Erik Makrush** of the Idaho Freedom Foundation, who spoke in support. See attachment #1.

**Chairman Corder** introduced **Bruce Perry** of Boise, who spoke in opposition. **Mr. Perry** said everyone would like to pay less taxes, but is this bill good policy. If there is interest in tax reform, then something meaningful should be done; this bill tinkers with the rates on the margin. This will not provide any kind of meaningful stimulus to the economy. A corporation that is investigating moving into this state will consider a multitude of factors: quality of workforce, quality of environment, and the quality of the schools. The last item on the list would be whether the tax rate is 7.6% or 7.4%. There are people who can really benefit from the \$35 million; if there is extra money in the budget, something should be done to restore cuts to Medicaid, to restore cuts to education, to do something meaningful.

**Chairman Corder** introduced **Shawn Bariger**, President and CEO of the Twin Falls Area Chamber of Commerce, who spoke in support. See attachment #2.

**Senator Hill** asked if the income tax rate would be a factor in businesses relocating to Idaho. **Mr. Bariger** said all of the things such as good work ethic are critical to businesses, but the income tax rate is the first thing businesses look at and Idaho is not competitive.

**Chairman Corder** asked if **Mr. Bariger** was aware of how many neighboring states also have industrial tax credit.

**Chairman Corder** introduced **Alex Neiwerth** of Idaho Association of Government Employees, who spoke in opposition. **Mr. Neiwerth** said he is in favor of fiscal responsibility, but the state finances are not in order yet to have a tax cut.

**Chairman Corder** introduced **Donna Yule**, Executive Director of the Idaho Public Employees association, who spoke in opposition. See attachment #3.

**Chairman Corder** introduced **John Watts**, representing the Idaho Chamber Alliance. **Mr. Watts** thanked the Chairman for being gracious at all times. **Mr. Watts** spoke in support. See attachment #4. **Mr. Watts** said they would have preferred a tax rate of 5.5%, but that was considered too deep of a cut. Nevada has no income tax. Most of the small businesses in Idaho file as an individual and that rate is 7.8%, rather than the corporate rate of 7.6%.

**Chairman Corder** introduced **Marty Durand**, representing the Idaho Building Trades Council, who spoke in opposition. See attachment #4.

**Chairman Corder** introduced **Cyndi Tiferet**, who spoke in opposition. **Ms. Tiferet** said there is money available in the state now to help those who need help the most.

**Chairman Corder** introduced **David Hensley** of the Governor's Office who spoke in support. **Mr. Hensley** said tax relief is a first step; tax reform is a longer-term endeavor that requires thoughtful consideration of time. JFAC has agreed there is enough money to meet the priorities the Governor has set forth. The taxable rate of 7.8% for individuals starts at \$26,700; \$53,000 for a joint filer.

**Senator Rice** asked if the Governor believes this will help attract businesses to Idaho. **Mr. Hensley** said the Governor believes this will attract new businesses and will help existing companies grow as well.

**Chairman Corder** introduced **Geoff Burns**, who spoke in opposition. See attachment #5.

**Senator Werk** said the Committee spent a fair amount of time looking at the effectiveness of different kinds of tax strategy. This hit the nail on the head on what the Committee discovered, which is investment in higher education has probably the best long-term effectiveness. **Mr. Burns** said one of the inhibitors to high-paying jobs being attractive to the Valley is the lack of funding in higher education.

**Chairman Corder** introduced **Rod Clay**, of the Plumbers and Pipefitters Union, who spoke in opposition. **Mr. Clay** said when the higher tax brackets get a tax cut, it is not spent back in the economy. The money would be better invested in education.

**Chairman Corder** introduced **Barbara Kemp**, who spoke in opposition. See attachment #6.

**Senator Winder** said this has been characterized as a tax bill that only benefits the rich. The poverty level in this country is \$31,000 and this tax break begins at \$21,700. Thirty percent of the people in Idaho pay no taxes. There has been grocery tax relief that represents \$15-16 million/year; that every family benefits from. Pay for Performance in education is being funded at \$39 mm. Funding has been increased for higher education for this year. This will show that Idaho is a friendly state to business. Voting for this bill is also a vote to support higher funding for teachers, and allows for rainy-day funds.

**Chairman Corder** asked if a vote for this was the only way there would have been a vote for pay for performance or keeping the teachers whole. **Senator Winder** said pay for performance has nothing to do with this. The emphasis was that there have been a lot of things done to improve funding for education. This is a compromise that will work for the House, the Governor's office and the majority of the Senate.

**Senator Werk** asked if there was any indepth analysis done on job creation. Nothing has been given that shows there will be a single job created. Have any studies been done. **Senator Winder** said there has been testimony that various chambers believe this will help businesses to grow. There should have been testimony from the Department of Commerce and other chambers. One of the items businesses look at are tax rates. **Senator Werk** said there is an article of faith here; if we do something, something else good will happen.

**Senator Hammond** asked where the \$35 million of tax relief comes from and who are the beneficiaries. **Senator Winder** said the \$35 million was a compromise between the House and the Governor.

**Senator Rice** asked how many jobs would be created if tax relief is not done. **Senator Winder** said none.

**MOTION:**

**Senator Rice** made a motion to send H 563 to the floor with no recommendation. **Senator Hill** seconded. **Vice Chairman Johnson** said he appreciates all of the public input and takes it seriously. Many good things have been accomplished this legislative session. There are obstacles to economic development and one of those is the shrinking and struggling middle class. There has been a decrease of high-paying jobs in Idaho. This is an investment in the future of Idaho. Part of the tax policy is to lower tax rates, but more must be done. All members of the Senate need to be heard from on this issue. **Senator Hammond** said the issue has been are the funds really available to do this, can this be done safely. There has not been enough information to make an informed decision on this. **Senator Hammond** will support the motion, but perhaps vote against the bill on the floor. **Senator Werk** said there have been many thoughtful discussions in the committee to determine the most efficient and effective use of the dollars in the state. **Senator Werk** said he is being asked to take the tax money his lower-income constituents pay and redistribute it upwards to the wealthy, in the forlorn and unsubstantiated hope it will trickle back down to them. **Senator Hill** said he appreciated the comments as well. Targeted tax policy means the legislature chooses the winners and losers. Doing nothing does not impact the economy. It is difficult to determine the impact of tax cuts since there are always more factors involved. Businesses look at opportunities and costs when they are determining where to locate. If it creates a job so someone who did not have a paycheck now has a paycheck; they will notice. As the state went into the recession, a law was passed to increase the grocery tax credit for every family. Every year this credit costs the state \$15.5 million. The poor and the elderly now receive a credit of \$90 per person and everyone else receives \$70. This has a good chance of creating jobs.

**Senator Rice** said when a tax rate is cut, the state will take less of someone's money from them. They have more money to spend however they want to spend it. Jobs are created by the people who have the money to create jobs. There are families that are struggling that want jobs, not handouts. It is important to allow the Senate to vote on this bill.

**Senator Bilyeu** said she can not see where this bill is going to help the Idaho economy. Money should be put into education, particularly higher education. The constituents want and need that. Money needs to be put into infrastructure. Nevada does not have a corporate income tax, but corporations are not flocking to Nevada either.

**ROLL CALL  
VOTE:**

**Vice Chairman Johnson, Senators Hill, McKenzie, Hammond, Siddoway and Rice** voted aye; **Chairman Corder, Senators Werk and Bilyeu** voted no. The motion carried. Senator Winder will be the floor sponsor.

**MINUTES  
APPROVAL:**

**Senator McKenzie** made a motion to approve the minutes of March 14, 2012. **Senator Rice** seconded, and the motion carried by Voice Vote.

**Senator Bilyeu** made a motion to approve the minutes of March 22, 2012. **Senator Hill** seconded, and the motion carried by Voice Vote.

**Vice Chairman Johnson** made a motion to approve the minutes of March 21, 2012. **Senator McKenzie** seconded, and the motion carried by Voice Vote.

H 697

Adds to, Repeals and Amends Existing Law Relating to Revenue and Taxation to Establish Provisions Relating to Levies for Payment of Certain Judgments.

**Chairman Corder** introduced **Representative Roberts**.

**Representative Roberts** said this bill is an effort to find an avenue forward for Boise County. In 2009 there was an applicant that claimed a violation of the fair housing act. The county lost the judgment, and had no insurance that covered this. A Federal jury trial took place in 2010 and while the Boise County board had approved the permit, the conditions were so onerous, it had the practical effect of denial. The applicant was awarded damages and attorneys' fees. The county commissioners explored all possible options to pay the award, including Chapter 9 bankruptcy.

Bankruptcy Court found the county could access funds. The judge then said the county could hold a levy to pay the award. The judge said the levy should exceed the 3% cap; which the State Tax Commission said they would not grant the excess. Three separate courts have said the county can rely on the State Constitution to exceed the cap.

The Constitution has a provision that allows for an additional, special tax to be collected up to 10 mills. Idaho Statute does not provide for that however, since there is a 3% cap. The federal court determined the judgment was an ordinary and necessary expense. There are a couple of ways to create debt. One way is by 2/3 approval of the voters. The other is by ordinary and necessary expense, which is done without a vote.

Instead of allowing a federal judge determine tax law in Idaho and potentially undermining the 3% cap; this bill was created. Two provisions were added to the original bill, a majority of the voters would need to pass the levy, and the bill has a sunset clause for 2017.

**Representative Roberts** said the legislation only allows for the payment of judgments by order of a court. The taxing district must first budget the maximum amount of property tax permitted, and all surplus funds must be spent. The amount can only be .1%. If there are new houses built, or an area annexed, that will allow the budget to grow by more than 3%.

**Senator Rice** said this allows the State Tax Commission and Boise County avoid litigation, saving both money. **Representative Roberts** said there is currently 5.5% interest on a 5-year note. This legislation will allow the county to go into a bonding situation that will benefit the taxpayers because longer-term bonds are currently at 1%-2%.

**Chairman Corder** introduced **Carl Olsson**, Deputy Attorney General working at the Tax Commission. **Mr. Olsson** said the Tax Commission is in support of the bill and the Attorney General's office is neutral.

**Chairman Corder** introduced **Brent Adamson**, Assessor for Boise County, who spoke in support. If this bill is not passed, there will be drastic budget cuts in Boise County. Several of the residents have suggested budgets should be cut, however the assessor's office has been cut 20%. There is nothing the Assessor's Office does that is not statutorily required, except for the website and a computer in the front area for citizens.

**Representative Roberts** said this legislation needs to be passed today, as it needs to be on the ballot, which is being printed on March 30, 2012 (Friday).

**MOTION:** **Senator Hammond** made a motion to send H 697 to the floor with a Do Pass. **Vice Chairman Johnson** seconded, and the motion carried by Voice Vote. **Senator Corder** will be the floor sponsor.

**ADJOURNMENT:** **Chairman Corder** adjourned the meeting at 10 am.

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary