

MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Tuesday, February 04, 2014

**TIME:** 9:30 A.M.

**PLACE:** Room EW42

**MEMBERS:** Chairman Collins, Vice Chairman Wood(35), Representatives Barrett, Moyle, Raybould, Denney, Anderson(31), Anderst, Dayley, Hartgen, Kauffman, Trujillo, Agidius, Burgoyne, Erpelding, Meline

**ABSENT/  
EXCUSED:** Rep. Moyle

**GUESTS:** David Brasuell, Tamara Mackenthun, Phil Wickliff, Phil Wickins, Idaho Department of Veteran Services; William Heyob, Walt Modler, David Swickard, Marine Corps League; Jeffrey Bacon, Wyakin Warrior Foundation; Melissa Nelson, ISCPA; Rex McCoy, USA Retired; Mike Chakarun, Alan Dornfest, Doreen Warren, Idaho State Tax Commission; Seth Grigg, IAC, Harvey Dixon, DAV; J. Goodale, Dick Turner, Jeff Aebisler; Gary Saylor, Kien Downing, Mike Garshar, IMD; Raeleen Welton, RMP;

**Chairman Collins** called the meeting to order at 9:34 am.

**MOTION:** **Rep. Raybould** made a motion to approve the minutes of February 3, 2014.  
**Motion carried by voice vote.**

**H 382:** **Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission (ISTC), presented **H 382**, which would require electronic filing for specified income tax returns. Paid professionals who prepare more than 10 individual tax returns, businesses having more than 100 partners or shareholders, and partnerships or S corporations with assets exceeding \$10 million would be required to file electronically. The effective date is for returns filed on or after January 1, 2015. Electronic returns are much easier for the ISTC to administer. However, companies do not want to upgrade existing software unless electronic filing becomes mandatory in statute.

The ISTC goal is to have 80% of returns filed electronically. **Mr. Chakarun** stated electronic filing is more efficient, more secure, and less expensive for both the taxpayer and the ISTC. **H 382** provides a 'safe harbor' intended to protect the tax preparer should a client refuse to allow electronic filing. Twenty-seven states currently have an electronic filing requirement. Of the 15 vendors offering tax preparation software in Idaho, eight currently provide electronic filing capacity and none had opposition to this legislation.

**Mr. Chakarun** stated the cost of upgrading to electronic filing capability varies widely between vendors. **H 382** also cleans up references to obsolete technology. This legislation would take effect 1/1/2015. There is no requirement for individuals to file electronically and they can continue to file paper returns.

**Rep. Agidius** declared Rule 38. In response to questions, **Mr. Chakarun** agreed line 32 has an error and the word 'partnership' should be replaced with 'corporation". He clarified this legislation would not impact individuals who prepare tax returns on a voluntary basis.

**Doreen Warren**, Idaho State Tax Commission, responded to a question related to security of electronic filing, stating the Internal Revenue Service has modernized their system, including enhanced security. Ms. Warren explained the process of how the ISTC receives tax returns.

**Mr. Chakarun** stated the ISTC does not currently have any plans to require individuals to file electronically. Developers indicate they will make changes to software programs when electronic filing is a requirement. Mr. Chakarun responded to a question stating the ISTC felt it was their responsibility to bring this bill forward. **Chairman Collins** stated, for the record, there was no one signed up to testify on this legislation.

**Mr. Chakarun** responded to a question stating he anticipates additional costs related to software upgrade would be passed on to all customers. Mr. Chakarun said most tax preparation packages he is aware of can accommodate PDF attachments, so supporting material can still be included. There is no limit on the amount of occasions a tax preparer can use the 'safe harbor' provision.

**Mr. Chakarun** acknowledged the ISTC incurs expenses to scan paper filing into electronic format so it's anticipated this legislation will save money in the long term.

**Ms. Warren** stated the trend line has been a steady 3% increase in individual electronic filing. Currently, 76% of individual returns and 58% of business returns are now filed electronically. The ISTC anticipates an additional 19,000 individual and 8,000 business returns being filed electronically, with this mandate.

**MOTION:** **Rep. Raybould** made a motion to **HOLD H 382** in committee. **Motion carried by voice vote.**

**H 383:** **Alan Dornfest**, Idaho State Tax Commission, presented **H 383**. This legislation corrects a technical flaw resulting from passage of **H 315** in 2013 and how levy rates are set. **H 315** provides a \$100,000 personal property tax exemption. This legislation removes the requirement to add back the exempted value when levy rates are computed. Taxable value is used to determine levy rates for all taxing districts that levy property taxes. In 2014 this formula becomes a problem with the exemption value being added back and levy rates would be understated.

**MOTION:** **Rep. Burgoyne** made a motion to send **H 383** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Rep. Burgoyne** will sponsor the bill on the floor.

**H 420:** **Rep. Sims** presented **H 420** which would make U.S. military retirement income tax exempt, regardless of the age of the retired member, or widow/widower of the retired member. This legislation would bring veterans back to Idaho to work and be an economic development tool.

**David Brashell**, Division of Veteran Services, spoke **in support** of **H 420**. Mr. Brashell stated Transition Assistance Program (TAP) classes are conducted across the U.S., teaching veterans how to reenter the civilian workforce. Information is provided on which states do and do not tax veteran retirement compensation. Taxing the retirement pay is a disincentive to attracting and retaining prospective employees, who are often at the peak of their career. Workforce development is an important issue in Idaho and this legislation will help tap the resource found within retiring veterans. Idaho National Lab (INL) has a long history of drawing a highly skilled workforce. INL is competing with other states with DOE facilities, that do not tax military retirement, for these valuable employees.

**Tamara Mackenthun**, Deputy Administrator, Division Veteran Services, stated approximately 13,250 military retirees currently live in Idaho, with an average retirement income of \$24,000. Retirees over 65 don't pay Idaho income tax on the first \$40,000. The initial estimate of the reduction of income tax revenue to Idaho was \$8 million. Ms. Mackenthun covered the calculations she used in determining the best estimate of what this legislation would potentially cost and determined a more realistic figure is \$3.5 million. Ms. Mackenthun stated Idaho does not currently tax railroad retirement income.

In response to questions, **Ms. Mackenthun** stated military retirees do receive social security. The \$40,000 cap on tax exempt military retirement comes from current statute, for those over 65 years of age. She said the general retirement eligibility standard is 20 years of active service, but there are extenuating situations that might create exceptions.

**Ms. Mackenthun** did not have a concrete number for veterans under the age of 65, employed in Idaho. She stated generally, for military retirees under 65, additional income is needed to compensate for the difference in full military salary and retirement pay. Ms. Mackenthun stated any income earned by retired military working in Idaho would be subject to state income tax. She acknowledged that 12.5% of Idaho's population is comprised of retired military.

In response to a question, **Ms. Mackenthun** said the issue of extending tax exempt status to other retired professions, such as police or fire, is a legislative decision. She stated Texas attracts a large number of military retirees and does not tax military retirement pay. She agreed this could also be due to the large number of active military bases already in place. Ms. Mackenthun said Idaho doesn't have the same opportunity for retirees to shop at base facilities, which provide them with products and services at a discounted price.

**William Heyob**, a career U.S. Marine with 24 years of service, and recently retired, testified **in support of H 420**. He provided an overview of military benefits and what would be needed in retirement, to be comparable with an active duty compensation package.

**Phil Wickliff**, Veteran Education Coordinator, Idaho Veteran Services, testified **in support of H 420**. Mr. Wickliff stated military are currently being penalized for receiving military retirement and drawing social security. In response to a question, Mr. Wickliff stated the \$40,000 limit is found in current statute for retirees 65 and older or 62 with a disability.

**Jeffery Bacon**, testified **in support of H 420**. Mr. Bacon is cofounder of the Wyakin Warrior Foundation. A majority of those they serve are young, energetic and have a lot to offer Idaho and prospective employers. This bill will further attract military retirees to Idaho.

In response to a question, **Dave Swiggart**, Air National Guard retiree, stated the \$40,000 limit is in current Idaho Tax Code, for those over 65, and provides a reduced tax burden based on social security received.

**Tamara Mackenthun**, clarified the Idaho individual income tax return form contains all of the details regarding tax exempt retirement benefits and does include fire, police, civil service and military retirement pay.

**Rep. Sims** stated her appreciation to the committee and asked for a favorable consideration of **H 420**.

**MOTION:**

**Rep. Dayley** made a motion to send **H 420** to the floor with a **DO PASS** recommendation.

**ROLL CALL  
VOTE:**

**Chairman Collins** called for a vote on the motion. A roll call vote was requested. **Motion carried** by a vote of **11 AYE, 4 NAY, 1 Absent/Excused**. **Voting in favor** of the motion: **Reps. Wood(35), Barrett, Raybould, Denney, Anderst, Dayley, Hartgen, Kauffman, Agidius, Meline, Collins**. **Voting in opposition** to the motion: **Reps. Anderson(31), Trujillo, Burgoyne, Erpelding**. **Rep. Moyle was absent/excused**. **Rep. Sims** will sponsor the bill on the floor.

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 11:09 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary