

MINUTES
HOUSE REVENUE & TAXATION COMMITTEE

DATE: Thursday, February 27, 2014

TIME: 9:00 A.M.

PLACE: Room EW42

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

**ABSENT/
EXCUSED:** Rep. Trujillo

GUESTS: Bob Aldridge, Trust & Estate Professionals of Idaho; John Watts, Idaho Chamber Alliance; Jonathan Parker, Internet Truck Stop; Ray Stark, Boise Metro Chamber of Commerce; Matt Hunter, Pocatello-Chubbuck Chamber; Donna Yule, Idaho Public Employees Association; Christine Tiddens, Catholic Charities of Idaho; Nate Fisher, Verizon; Jason Kreizenbeck, Lobby Idaho, LLC; Rick Smith, Idaho Technology Council; Melissa Nelson, ISCPA; Jay Larsen, Idaho Technology Council; Caroline Merritt, Boise Metro Chamber; Kate Haas, Kestrel West; Benjamin Davenport, Associated Taxpayers of Idaho; John Eaton, Realtors; McLean Russell, Idaho State Tax Commission; Rachael Raue, self; Elizabeth Criner, Simplot, FWAA & NWFPA; Mike Reynoldson, Micron; Trent Wright, IADA; Pam Eaton, IRA, ILRA, ISPA.

Chairman Collins called the meeting to order at 9:00 am.

MOTION: **Rep. Raybould** made a motion to approve the minutes of February 21, 2014.
Motion carried by voice vote.

MOTION: **Rep. Wood(35)** made a motion to approve the minutes of February 26, 2014.
Motion carried by voice vote.

Chairman Collins welcomed substitute **Rep. Paul Agidius** to the committee.

H 548: **Rep. Moyle** presented **H 548** which deals with a rate reduction in corporate and individual income taxes, beginning January 1, 2015. Rep. Moyle stated this legislation decreases tax rates over a six year period and provides a safeguard if the economy takes a downturn. The intent is to get income tax rates in line with Montana and the ultimate rate of 6.8% would put Idaho under Montana's rate of 6.9%.

John Watts, Veritas Advisors and representing the Idaho Chamber Alliance, testified in support of **H 548**. Mr. Watts stated this proposed rate structure reduces tax by one tenth of one percent (.10%) beginning in FY 2015. The subsequent annual reductions will continue until the rate reaches 6.8% and is contingent upon the General Fund being 3% higher than the previous year, before the additional decrease is provided. This legislation impacts all income tax brackets for individual tax returns and the same formula applies for corporate rates. Mr. Watts provided information regarding the growth in the General Fund since 2005, which has averaged 3.5%. In terms of dollars, the average growth rate in the General Fund was \$2.5 billion. In 2015, JFAC is budgeting \$2.86 billion dollars of which \$57.6 million will go into the savings accounts. The fiscal impact of **H 548** is \$21 million. The trigger is scheduled for FY 2016 which allows a more direct correlation between the income tax rate reduction and economic growth. The motivation is to create an attractive market for business. Mr. Watts stated the Oregon rate is higher at 9.9% but they do not have a sales tax. This legislation sends a signal to firms that their tax rate will decrease as the economy grows.

In response to a question, **Mr. Watts** clarified the 6.8% tax rate goal would be accomplished by the year 2020, assuming the growth occurs. When asked why this legislation stops at 6.8%, Mr. Watts responded while a tax rate of 5% is certainly preferred, at this point, it is just not feasible.

A comparison of Idaho with New Mexico and Montana, related to similarities in population and business environment, it was noted those states have a greater reliance on federal funding than Idaho. **Mr. Watts** stated when more revenue can be generated, more opportunities can be considered, which allows a reduction in the reliance on outside funding. However, reliance on federal funds is beyond the scope of this legislation, whose purpose is to make Idaho more competitive.

Mr. Watts did not have the information regarding whether there is a direct correlation between income tax rates and economic growth. **Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission (ISTC), responded to the question stating a recent study was released regarding the effect of taxes and economic growth.

In response to a question on how this legislation relates to where taxes are generated, **Mr. Watts** stated there was consideration for taking the legislation further in terms of rate cuts. However, a preponderance of individual tax returns fall within the \$25-40,000 range. It was not feasible to 'drill down' further, consequently this legislation equitably reduces tax rates across the board. Asked whether this proposed reduction will be sufficient to entice businesses to consider Idaho, Mr. Watts reiterated the ideal would be a 5% corporate tax rate, but it was felt there was not the political appetite for that option, at this time. Mr. Watts stated the proposal was vetted with several individuals at the ISTC but not independent tax professionals. Communication from various Chambers of Commerce is, they would like to see the tax rate lowered.

Ray Stark, Boise Metro Chamber of Commerce, testified **in support of H 548** stating, Chambers across the state are on the frontline, working for economic development. About 14 years ago, the annual Chamber Leadership Summit focused on economic development and experts said Idaho's income tax rate was too high. At that time the rate was an 8% corporate and 8.2% individual tax. The experts stated secondly, Idaho was being eliminated from consideration by site selectors, without even being aware of it. Economic development is more than tax rates but this legislation is great progress. The \$3 million Idaho Opportunity Fund, started through legislation passed in 2013, is another great start and has been used to create economic development incentives. Third in the mix of economic development will be the Idaho Reimbursement Incentive Act proposed through **H 546**. Mr. Stark said the eventual elimination of personal property tax would be the fourth step toward making Idaho more attractive for business.

In response to a question, **Mr. Stark** stated while progress is being made in other areas, getting below 6.8% is not feasible at this time. Answering another question, Mr. Stark agreed while Utah's population is almost twice Idaho's size and they generate a lot more income tax revenue, reducing income tax does help Idaho be competitive. Utah is used as a comparison state since they also balance the system with both income and sales tax, while other surrounding states generally have one or the other.

Matt Hunter, President, Pocatello-Chubbuck Chamber of Commerce, testified **in support of H 548**. stating the rate reduction proposed in this legislation may not seem like a lot but it does send a message that Idaho is moving in the right direction. It will be seen in an attractive and positive light to businesses.

Donna Yule, Executive Director, Idaho Public Employees Association, spoke in **opposition to H 548**. Ms. Yule stated there is a misconception this legislation will create economic development. Idaho has the largest percentage of minimum wage workers in the country and is currently dead last in median income. Many of the policies just aren't working for Idaho's families. Idaho state workers are 29% lower in compensation than private sector employees. Idaho's roads and bridges are underfunded and schools need more money. This legislation will give another nice tax break to people who need it the least. Those making less than \$27,000 a year will receive no income tax break at all. Twenty percent of state classified workforce earns less than \$20,000 a year. Ms. Yule stated it is time to stop giving tax cuts. Improving infrastructure and having an educated workforce is what will attract business. Tax cuts do not benefit the Idaho economy.

Christine Tiddens, Catholic Charities, testified in **opposition to H 548** stating the proposed tax cuts won't really benefit most of Idaho's hard working families and low wage families will see no savings. This money is a key source of funding for other essential services like education and as a result, we are sacrificing Idaho's future stability. Ms. Tiddens stated protection of public systems will protect the important public values. She urged seeking a balance between responsible revenue generation and infrastructure improvement.

Rachael Raue, testified in **opposition to H 548** and limited her testimony to the reduction of tax rates for corporations. While the upper federal tax rate is 35%, Ms. Raue stated no one ever pays this rate as it is based on adjusted gross income. What is more important is the effective tax rate, which is the actual income divided by the amount of tax owed. After deductions are taken, many corporations have effective tax rates significantly lower than the higher rate. Ms. Raue **urged a NO vote** on **H 548** as it would push more of the tax base onto the individual tax returns.

Mr. Watts stated the issues presented exemplify the struggle inherent in this issue and is why there isn't a 5.0% proposal in front of the committee. A \$21 million decrease in a budget that is more than \$2.8 billion is manageable. Roads and bridges have dedicated funds and are not in the context of this bill. He stated tax policy in Idaho is a proportionate share of a proportionate income. Everyone will get a proportionate share of the decrease, depending on their income. The 3% trigger will result in added income of between \$70-90 million and be the direct cause and effect of the tax rate reduction and economic growth.

In response to a question on whether there was consideration of providing more tax relief to the lower income bracket individuals, **Mr. Watts** stated since the bulk of the income tax returns filed are between \$24,000 - \$45,000, that was the focus. He said there are far fewer returns in the bottom brackets and even less in the higher brackets. Mr. Watts said this bill meets the goals of being proportionate, fair, and simple. The lower income tax brackets will see a reduction and everyone will benefit. The actual amount is proportionate to the level of income, whether an individual or corporation, and Mr. Watts acknowledged some will benefit to a greater extent simply because they earn more income.

MOTION:

Rep. Raybould made a motion to send **H 548** to the floor with a **DO PASS** recommendation.

SUBSTITUTE MOTION:

Rep. Burgoyne made a substitute motion to send **H 548** to General Orders, with Committee Amendments, striking all reference to 7.4% and substituting 6.9%.

AMENDED SUBSTITUTE MOTION:

Rep. Erpelding made an amended substitute motion to **HOLD H 548** in committee until further information from the Idaho State Tax Commission is received.

**VOTE ON
AMENDED
SUBSTITUTE
MOTION:**

A roll call vote was requested. **Motion failed by a vote of 4 AYE, 11 NAY, 1 ABSENT/EXCUSED. Voting in favor of the motion: Reps. Anderson(31), Burgoyne, Meline, Erpelding. Voting in opposition of the motion: Reps. Collins, Wood(35), Barrett, Moyle, Raybould, Denney, Anderst, Dayley, Agidius, Hartgen, Kauffman. Rep. Trujillo was absent/excused.**

Rep. Burgoyne clarified the motion to send **H 548** to General Orders, with the following Committee Amendments; to strike all changes in bill, amend lines 7-8 on page 3 and strike 7.4% and insert 6.9%, so the sentence reads; "The tax shall be equal to 6.9%."

**VOTE ON
SUBSTITUTE
MOTION:**

Chairman Collins called for a vote on the substitute motion. **Motion failed by voice vote.**

**VOTE ON
MOTION:**

Chairman Collins called for a vote on the motion to send **H 548** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote. Reps. Meline, Erpelding, Burgoyne** requested to be recorded as voting **NAY**. Rep. Moyle will sponsor the bill on the floor.

S 1301:

Sen. Bock presented **S 1301** which is intended to protect 'innocent spouses' from tax liability. Situations arise when spouses are separated or divorced and one spouse files a joint tax return, containing an understatement of income, attributed to the other spouse. Sen. Bock spoke of a case where a divorced spouse was unaware of a IRA distribution by her ex-spouse and held responsible for taxes. The individual prevailed at the IRS level, however, Idaho State Tax Commission (ISTC) rules do not provide spouse relief. Sen. Bock stated this legislation is really a matter of equity. There has to be income where the innocent spouse has not received benefit from that income. The ISTC would then look to the spouse who generated the income for tax payment. This legislation conforms Idaho Code to Internal Revenue Code and will bring everything into alignment.

Robert Aldridge, attorney, representing the Trust & Estate Professionals of Idaho, testified **in support of S 1301**.

Sen. Bock concluded by stating there is no real fiscal impact of this legislation, which is really about fairness.

MOTION:

Rep. Burgoyne made a motion to send **S 1301** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote. Rep. Burgoyne** will sponsor the bill on the floor.

H 529:

Jay Larsen, CEO and President, Idaho Technology Council, presented **H 529**. Last year, legislation was introduced related to the modernization of electronically delivered services. Cloud services allow a customer to pay a license for various services. **H 186** followed by **H 243** were intended to clarify the issue of taxation for electronically delivered services. During the interim rule making process, the Idaho State Tax Commission (ISTC) stated they could not follow Legislative intent, based on language in the statute. This improved legislation amends the definition of tangible personal property and is not a tax exemption, but an update to the existing definition needed as a result of modernization in the industry. **H 529** repeals language from last year to clarify intent. Mr. Larsen stated the software industry in Idaho represents firms employing more than 50,000 employees. There are 17 states that currently do not tax downloaded software and Mr. Larsen hopes Idaho will be number 18.

In response to a question, **Mr. Larsen** stated due to ambiguity, it can be difficult in determining whether the intended use was for entertainment, so this legislation excludes entertainment.

Chairman Collins stated the hearing on **H 529** will be continued tomorrow.

ADJOURN:

There being no further business to come before the committee, the meeting was adjourned at 10:31 am.

Representative Collins
Chair

Kathleen A. Simko
Secretary