

MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Friday, February 28, 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:** None

**GUESTS:** Michael Chakarun, McLean Russell, Idaho State Tax Commission; Donna Yule, Idaho Public Employees Association; Melissa Nelson, ISCPA; John Eaton, Realtors; Trent Wright, Auto Dealers; Matt Hunter, Pocatello Chamber; Ray Stark, Boise Chamber; Megan Ronk, Megan Bronder, Matt Borud, Jeff Sayer, Idaho Department of Commerce; Margaret Watson, Economic Advisory Council; Norris Krueger, Entrepreneur Northwest; John Watts, Chamber Alliance; Wayne Hoffman, Idaho Freedom Foundation; Alex La Beau, IACI; Elizabeth Criner, NWFPA, ISDA, FWAA; Jeremy Pisca, Jobs for Idaho.

**Chairman Collins** called the meeting to order at 9:02 am.

**H 529:** **Jay Larsen**, President, Idaho Technology Council requested the committee consider holding **H 529** pending clarification of the fiscal note.

**MOTION:** **Rep. Raybould** made a motion to **HOLD H 529** in committee at the call of the Chair. **Motion carried by voice vote.**

**H 546:** **Jeff Sayer**, Director, Idaho Department of Commerce, presented **H 546** which will provide a tax incentive for new business opportunities. Director Sayer said this legislation has been a long time in the development stage. Companies are becoming more sophisticated and states more competitive. **H 546** is seen as an ideal solution in allowing Idaho to be competitive, flexible and sensible in how we approach business incentives. The crux of this bill rests in the definitions. A business must bring jobs to the state, and business is defined as single business, group of related businesses, or separate divisions within a company. There is a community match requirement and while it is designed to be flexible, Director Sayer wanted communities to have 'skin in the game'. The definition of full-time jobs is 30 hours a week or more. A meaningful project is defined as an expansion of an existing business or a new business started or moving to Idaho. This tax incentive will reward new projects without rewarding organic growth. The creation of 20 jobs in a rural community or 50 jobs in an urban community is required. New jobs means nonseasonal and full time, where wages paid are higher than the average county wage. Shifting jobs from one part of the state to another is not a new net increase and would not qualify. Similarly, firms that lay off and subsequently hire employees within a twelve month period would also not qualify. New state revenue means new net revenue and does not apply to existing business revenue. If a business brings a project forward that meets these criteria, reimbursement of up to 30% of new state sales and use tax, state income tax generated by the entity and new personal income tax could be earned. C Corporations, S Corporations, LLC entities and Partnerships would all qualify for tax reimbursement incentives.

**Director Sayer** stated this legislation gives a company credit for creating jobs that bring in new net revenue. The tax credit is a refundable credit and is not transferable to another company. The project will be kept open as long as jobs continue to be added, but cannot exceed 15 years. Once the workforce of the business is stabilized, the tax incentives will end. Director Sayer stated there is not a clear delineating point defining urban and rural. The standard definition existing in rules and statutes is 25,000 and less. Anything not considered urban is considered rural. There are four communities; Ammon, Chubbuck, Garden City and Eagle, that, based on population, would be fall in the rural category. However, this legislation would exclude these communities and any others adjoining an urban community.

In reviewing the application process, **Director Sayer** stated each business will define the economic value they are bringing to Idaho, as well as possible detriments to existing firms. The Idaho State Tax Commission will ensure the business is in good standing. The required community match, a very thorough description of the project, and involvement with the Idaho Economic Advisory Council (EAC) is required. The EAC is created through statute and comprised of seven members, one from each of six regions and one member at large. They are responsible for all major grants awarded through Commerce and will be the oversight body for the Tax Incentive Reimbursement program.

Each applicant for the Tax Incentive Reimbursement program will be required to complete an agreement with Commerce, at the direction of the EAC. The business is required to certify the jobs created and taxes paid, as well as allow an audit to be conducted. To ensure transparency, Commerce will have an annual audit, conducted by an independent third party, will provide an opinion on the effectiveness of the program. There is also a safety value so any new agreements can be suspended in the event of an economic downturn, when a hold back on state spending occurs. The program could be subsequently reinstated by Executive Order.

**MOTION:**

**Rep. Anderson(31)** made a motion to send **H 546** to the floor with a **DO PASS** recommendation.

In response to questions, **Director Sayer** said a pro rural stance was taken in the drafting of this legislation and if a community has a population of 25,000 or more, it will be considered urban. Everything else will be considered rural, with the exception of the previously noted four communities adjoining large urban areas. There was an effort to identify all areas where the EAC could be influenced, to ensure integrity of oversight committee. This legislation has a conflict of interest provision which will require EAC members to abstain from voting if a conflict exists. Director Sayer stated the intent was to keep EAC members from being lobbied.

Responding to a question, **Director Sayer** stated the average county wage is tracked and published on a monthly basis. The state taxes withheld and paid by the employee are only the state income taxes included in the program and there is no employer match.

**Matt Hunter**, President, Pocatello-Chubbuck Chamber of Commerce testified **in support of H 546** stating this is an important tool to help existing businesses grow as well as to attract new business to Idaho. This represents a net income for the state as no money is paid unless greater revenue is generated.

**Margaret Watson**, Parma, testified **in support of H 546**. Ms. Watson stated she is a grower, packer, and shipper of onions, retired Parma Mayor and member of the Economic Advisory Council (EAC) and this will be a great incentive for business growth.

**Norris Kruger**, Entrepreneur Northwest, testified **in support of H 546** stating rewarding high growth firms will generate significant return and job creation. The greatest job creation during the 2001 - 2007 time frame came from new businesses, 58%, while expanding business created 40% of the jobs.

**Wayne Hoffman**, President, Idaho Freedom Foundation, spoke **in opposition to H 546** stating if Idaho wants to be competitive, taxes should be cut. Incentives do not work. The Idaho tax burden is ranked 13th in the nation and Mr. Hoffman believes a broad based tax reform is a better approach. Mr. Hoffman cited several prior Idaho programs intended to provide job creation and business incentives including the Corporate Headquarters Incentive Act, established in 2005 and terminated in 2008. During this time, the use of this incentive program was zero. A Special Jobs Tax Credit started in 2011 has seen no utilization. A bio-fuel tax credit only spent \$68,000. Mr. Hoffman expressed concern regarding the new power this legislation gives to Commerce and why a nonelected body has the authority to distribute tax credits. He further stated Commerce is being given the authority to essentially act as the tax commission and questioned how audits would be managed and paid for.

**Alex LaBeau**, President Idaho Association of Commerce & Industry (IACI), testified **in support of H 546**. Idaho is competing on a global scale. The companies represented by IACI are already in Idaho but are competing in a global market. This legislation is being made to companies already doing business, is fairly simple, and puts the risk in on the company to perform in order to receive the credit. Most states already have this type of incentive. In response to a question on cost of audit, Mr. LaBeau stated there is an assumption the foregone revenue belongs to the government, but it does not. The state does not hold the risk. Verification of eligibility for the tax incentive credit is a part of the process, not a burden. The Idaho Legislature and Executive Branch have a responsibility to make determinations on the effectiveness. It makes sense the EAC is authorized to look at the agreement and operate within statute. Mr. LaBeau provided the Workforce Development Council as an example of a nonelected body who oversees grant funds, so having the EAC involved with the Tax Incentive Credit program is not an anomaly.

**Director Sayer** responded to a question regarding the decision making process of the EAC stating their meetings do fall within the Idaho open meeting requirements. The EAC is a body appointed by the Governor and no one political party can have a majority. Director Sayer stated the EAC is representative of the entire state, is a very dynamic organization and its members have very independent perspectives on how things should be done. Not all votes are unanimous. Answering another question, he said all of the information related to each project will be available to the public, at least annually. The independent audit will also be available. Director Sayer does not feel this will be an undue burden on Commerce staff. Every year, the rules review process will allow the legislature to make any needed changes.

**Director Sayer** closed his presentation stating the old incentive models do not work any longer. This design puts the responsibility on the company and is a new model that does work. Utah has or will see a \$22 billion increase in payroll directly due to a similar incentive they have in place.

**AMENDED MOTION:**

**Rep. Anderson(31)** amended his motion with the changes as suggested, in the fiscal note.

**VOTE ON AMENDED MOTION:**

**Chairman Collins** called for a vote on the amended motion. **Motion carried by voice vote.** **Rep. Barrett** requested to be recorded a voting **NAY.** **Rep. Moyle** will sponsor the bill on the floor.

**H 560:** **Rep. Trujillo** presented **H 560**, related to transparency and accountability of local governmental entities. She stated only 35.5% of taxing districts are in compliance with the audit requirements. School districts are 100% in compliance. This legislation will provide a way to collect information on special purpose governmental entities and communicate with them regarding their audit responsibilities. Rep. Trujillo yielded the presentation to **April Renfro**, Legislative Audits Division, Legislative Services Office. Ms. Renfro stated they are the repository of local government audits, but don't currently have a way to identify what entities are out there to let them know of the audit requirement. Additionally, there is currently no way to enforce the requirement. **H 560** will provide the opportunity for better communication, starting with registry requirement. In response to a question, Ms. Renfro stated a statutory requirement already exists, but the vast majority of entities are not in compliance. When asked how the various special taxing districts, by type, were identified, Ms. Renfro stated the information was provided by the Idaho State Tax Commission (ISTC) but the accuracy of the data is not clear.

**Rep. Trujillo** stated this legislation will establish a website where these entities can register and will subsequently get a notice indicating the requirement to file. Their budget information will be submitted in December 2014 and counties can incur costs, if they choose to help entities in the process. The hope is eventually this portal can connect with the Idaho State Treasurer's Office creating a single repository of information. Rep. Trujillo responded to a question stating she worked with the Idaho Association of Counties (IAC) but does not know if they have taken a specific position on the legislation. IACI does support **H 560**.

**MOTION:** **Rep. Meline** made a motion to send **H 560** to the floor with a **DO PASS** recommendation.

In response to a question, **Rep. Trujillo** states cities are included in this legislation.

**VOTE ON MOTION:** **Chairman Collins** called for a vote on the motion. **Motion carried by voice vote.** **Rep. Trujillo** will sponsor the bill on the floor.

**RS 22953:** **Rep. Perry** presented **RS 22953** which represents an issue related to homeowner exemptions for military personnel, raised by a constituent. Currently, homeowner exemptions are only allowed to be maintained if service members were specifically deployed to a combat zone. This legislation would provide a way for active duty service members who are deployed outside of Idaho, to maintain their homeowner's exemption, even if they are not deployed specifically to a combat zone. The proposed legislation calls for personal responsibility on the part of the homeowner to apply every year and provide evidence of deployment. There is no fiscal impact to the General Fund and the Idaho Association of Counties is supportive of this proposed legislation.

In response to a question, **Rep. Perry** stated the county could deny the exemption if the homeowner failed to apply in time. However, the primary purpose is to remove the combat zone deployment requirement. The idea behind the annual application is to ensure the applicant remains on active duty status.

**MOTION:** **Rep. Erpelding** made a motion to introduce **RS 22953**.

**Rep. Perry** responded to a question stating while the retroactive aspect of legislation was attractive, the goal was to ensure the homeowner took personal responsibility and made the application. Current statute does allow permit rental of property while the service member is deployed.

**VOTE ON MOTION:** **Chairman Collins** called for a vote on the motion. **Motion carried by voice vote.**

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 10:32 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary