

MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Friday, March 07, 2014

**TIME:** 8:30 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, Burgoyne, Erpelding, Meline

**ABSENT/  
EXCUSED:** Reps. Agidius, Denney.

**GUESTS:** John Eaton, Idaho Association of Realtors; Russ Hendricks, Idaho Farm Bureau; Mike Chakarun, Idaho State Tax Commission; Benjamin Davenport, Associated Taxpayers of Idaho; McKinsey Lyon, Gallatin; Elizabeth Criner, Winco/ISDA; N.L. Clayville, DFM; Suzanne Budge, SBS Associates/NFIB.

**Chairman Collins** called the meeting to order at 8:34 am.

**MOTION:** **Rep. Raybould** made a motion to approve the minutes of March 5, 2014. With the following changes: on Page 2, Paragraph 2, last sentence to read "...allows the lesser of 50% of the home assessed value or \$90,000...". **Motion carried by voice vote.**

**RS 23091:** **Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission (ISTC) presented **RS 23091**. The American Taxpayer Relief Act of 2014 extended bonus depreciation deduction for businesses, first established in 2002, into 2013. This proposed legislation would amend Section 63-3022O of Idaho Code to affirmatively state that subsection 168 of the Internal Revenue Code (IRC) does not apply to assets placed in service after December 31, 2009. With this amendment, the statute will not need to be revisited in the event Congress extends the bonus depreciation again in the future. Mr. Chakarun requested expediting **RS 23091** by sending it directly to the Second Reading Calendar.

**Mr. Chakarun** responded to a question stating the primary focus of this proposed legislation is fiscally motivated. He said this change is seen as a safer way of dealing with a potential change in Congress. Idaho could always modify future legislation to allow the bonus depreciation deduction.

In response to a question, **Mr. Chakarun** stated the ISTC does not envision this proposed legislation will create potential lawsuits. Idaho did not conform with the IRC in allowing bonus depreciation in 2012 and has allowed the deduction in only two of the 12 years it has been available, in 2008 and 2009. Tax practitioners are accustomed to keeping two depreciation schedules due to the prior history of nonconforming with the IRC on this issue, as well as other aspects of tax law.

**Mr. Chakarun** said instructions, forms and the rule state that Idaho does not conform to the bonus depreciation. This proposed legislation is intended to clarify that position. In response to a question, Mr. Chakarun stated to his knowledge, there haven't been prior problems related to this issue. **RS 23091** contains an emergency clause for the 2013 tax year, He acknowledged tax filers would need to re-file 2013 returns, if they have already filed and claimed bonus depreciation.

**Mr. Chakarun** said the genesis of bonus depreciation was designed to jump start economic development after the events of 2001 and concern of a possible economic recession. It is difficult to determine how many 2013 returns, already filed, could be impacted. The bonus depreciation provision would not be available in 2014 unless Congress extends it again. When the 2013 conformity bill was passed, the ISTC didn't realize there was a problem.

**MOTION:** **Rep. Burgoyne** made a motion to introduce **RS 23091**, with the following correction: add the word "million" after \$18.5 in the fiscal note.

**SUBSTITUTE MOTION** **Rep. Barrett** made a substitute motion to return **RS 23091** to the sponsor. **Motion failed by voice vote.**

**VOTE ON MOTION:** **Chairman Collins** called for a vote on the motion. **Motion carried by voice vote.** **Rep. Barrett** requested to be recorded as voting **NAY**.

**H 593:** **Rep. Clow** presented **H 593** which is considered a tax relief bill. **H 593** looks to the future and how to manage funds generated and remitted by out of state retailers that do not have a requirement to collect sales tax. While there is currently no requirement to collect sales tax, if the federal law changes, some retailers might collect taxes before Idaho makes it mandatory. This bill would provide a mechanism to collect those taxes,

**MOTION:** **Rep. Burgoyne** made a motion to send **H 593** to the floor with a **DO PASS** recommendation.

**Rep. Clow** responded to a question stating any possible sales tax collected would go into the General Fund and distributed the same as all other taxes. This legislation is a preferred alternative and is complimentary with other bills recently passed, so funds can be used to provide tax relief, rather than supporting government functions.

In response to questions from the committee, **Rep. Clow** does not believe there are any businesses making voluntary remittance of taxes, at this time. **Rep. Clow** stated this legislation does not impact taxes currently being collected by businesses having a nexus in Idaho. Technically, funds come in through the ISTC and they decide how to distribute them, and **H 593** makes it clear where these funds would go.

**VOTE ON MOTION:** **Chairman Collins** called for a vote on the motion. **Motion carried by voice vote.** **Rep. Barrett** requested to be recorded as voting **NAY**. **Rep. Clow** will sponsor the bill on the floor.

**H 594:** **John Eaton**, Idaho Association of Retailers, presented **H 594** which would remove the index currently in place on the Idaho homeowners exemption and fix the exemption amount at \$90,000, or 50% of the assessed value, whichever is less. The tax shift that occurs when the exemption rises, as it does when tied to the index, has a negative impact on the economy.

**Russ Hendricks**, Idaho Farm Bureau, testified **in support of H 594**. **Mr. Hendricks** provided a brief history of the Idaho homeowners exemption stating it originated in 1982, and was enacted by a citizens initiative. At that time the exemption was for 50% of the home value, up to a maximum of \$50,000 and excluded any land. There were no changes for 24 years, until 2006, when at least 15 bills dealing with exemption were introduced in the Legislature. The underlying problem wasn't the exemption, but the spending at the local county level, which drives the tax rate, that was the real issue. **Mr. Hendricks** said two proposals were brought forward; one to raise the homeowners exemption to \$100,000, and the other to increase it to \$75,000. There was significant pressure from taxpayers for a change, so an index was put in place to track the value of homes. An additional change was the inclusion of up to one acre of land. In the very first year, the exemption increased by \$15,000 and, as home prices went up, the exemption continued to rise. In 2009, the

statute was amended to allow for a decrease and subsequently, the exemption has gone down. There was a dramatic shift of \$120 million in 2006 when the exemption was changed. If the exemption is allowed to continue rising, higher value home owners are helped, but with the 50% cap, lower valued homes are not getting as much benefit and see a higher tax burden. Businesses, since they don't qualify for the exemption, also see their tax rate increase.

**MOTION:** **Rep. Trujillo** made a motion to send **H 594** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Reps. Burgoyne and Erpelding** requested to be recorded as voting **NAY**. **Rep. Trujillo** will sponsor the bill on the floor.

**H 595:** **Rep. Hixon** presented **H 595** related to Idaho Medical Savings Accounts (MSA). This legislation would increase the annual contribution to \$20,000, per person, to an MSA. It also provides an incentive to Idaho employers making contributions on behalf of their employees, who would be eligible for up to a 10% income tax credit. Health care costs have increased significantly since 1995 when the current cap of \$2,000 was established. The MSA funds can be used for a variety of eligible expenses.

**MOTION:** **Rep. Meline** made a motion to send **H 595** to the floor with a **DO PASS** recommendation.

**Suzanne Budge**, NFIB, testified **in support of H 595**, reinforcing the importance of this legislation to the 17 million self employed individuals in the nation.

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

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:33 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary