

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**10:00 A.M.**  
**Room EW42**  
**Thursday, January 09, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
	Organizational Meeting - Rules Review	Chairman Collins

COMMITTEE MEMBERS

Chairman Collins  
Vice Chairman Wood(35)  
Rep Barrett  
Rep Moyle  
Rep Raybould  
Rep Denney

Rep Anderson(31)  
Rep Anderst  
Rep Dayley  
Rep Hartgen  
Rep Kauffman  
Rep Trujillo

Rep Be Determined  
Rep Burgoyne  
Rep Erpelding  
Rep Meline

COMMITTEE SECRETARY

Kathleen Simko  
Room: EW53  
Phone: 332-1125  
email: [hrev@house.idaho.gov](mailto:hrev@house.idaho.gov)

MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Thursday, January 09, 2014

**TIME:** 10:00 A.M.

**PLACE:** Room EW42

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

**ABSENT/  
EXCUSED:** Rep. Barrett

**GUESTS:** Raeleen Welton, Westerberg & Associates; N.L. Clayville, DFM.

**Chairman Collins** called the meeting to order at 10:00 am.

**Chairman Collins** welcomed the committee back and introduced Page **Anthony Sein**.

**Chairman Collins** stated the Administrative Rules will be reviewed by the full committee.

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 10:03 am

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Monday, January 13, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
Docket Nos:	Review of Rules - Idaho State Tax Commission	
<a href="#"><u>35-0101-1301</u></a>	Income Tax Administrative Rules	Cynthia Adrian, Idaho State Tax Commission
<a href="#"><u>35-0101-1302</u></a>	Income Tax Administrative Rules	Cynthia Adrian, Idaho State Tax Commission
<a href="#"><u>35-0101-1303</u></a>	Income Tax Administrative Rules	Cynthia Adrian, Idaho State Tax Commission
<a href="#"><u>35-0201-1301</u></a>	Administration and Enforcement Rules	Cynthia Adrian, Idaho State Tax Commission
<a href="#"><u>35-0201-1302</u></a>	Administration and Enforcement Rules	Cynthia Adrian, Idaho State Tax Commission
<a href="#"><u>35-0201-1303</u></a>	Administration and Enforcement Rules	Cynthia Adrian, Idaho State Tax Commission
<a href="#"><u>35-0102-1302</u></a>	Idaho Sales and Use Tax Administrative Rules	McLean Russell, Idaho State Tax Commission
<a href="#"><u>35-0103-1302</u></a>	Property Tax Administrative Rules	Alan Dornfest, Idaho State Tax Commission
<a href="#"><u>35-0109-1301</u></a>	Wine Tax Administrative Rules	McLean Russell, Idaho State Tax Commission
<a href="#"><u>35-0110-1301</u></a>	Idaho Cigarette & Tobacco Products Tax Administrative Rules	McLean Russell, Idaho State Tax Commission
<a href="#"><u>35-0114-1301</u></a>	Prepaid Wireless E911 Fee Administrative Rules	McLean Russell, Idaho State Tax Commission

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Be Determined  
Rep Burgoyne  
Rep Erpelding  
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Monday, January 13, 2014

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

**PLACE:** Room EW42

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

**ABSENT/  
EXCUSED:** None.

**GUESTS:** Cynthia Adrian, David Langhorst, Idaho Tax Commission; Russell Westerberg; N.L. Clayville, DFM; Benjamin Davenport, Associated Taypayers of Idaho; Zach Hauge, IACI; Brad Hunt, OARC; Elli Brown, Veritas Advisors LLP; Monica Hopkins, ACLU; Mike Brassey, Union Pacific RR; Jesse Taylor, Vapolicy; Hannah Brass Greek, PPVNW.

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

**MOTION:** **Rep. Wood (35)** made a motion to approve the minutes of the January 9, 2014 meeting. **Motion carried by voice vote.**

**DOCKET NO. 35-0101-1301:** **Cynthia Adrian**, Tax Policy Specialist, Idaho State Tax Commission, presented **Docket No. 35-0101-1301**, Income Tax Administrative Rules, which was a part of the negotiated rules process. Section 195 is new as a result of legislation passed last year and deals with Ponzi type losses.

**MOTION:** **Rep. Wood(35)** made a motion to accept **Docket No. 35-0101-1301, Section 195** as presented. **Motion carried by voice vote.**

**Cynthia Adrian**, continued with her presentation of **Docket No. 35-0101-1301**. Section 201 addresses changes and clarifications dealing with net operating losses. Section 263 clarifies limits of guaranteed compensation treated as compensation within Idaho partnership entities. Section 872 deals with payment of state income tax withheld and due dates for payments when annual threshold amounts are met or exceeded.

**MOTION:** **Rep. Kauffman** made a motion to accept **Docket No. 35-1010-1301** as presented. **Motion carried by voice vote.**

**DOCKET NO. 35-0101-1302:** **Cynthia Adrian**, Idaho State Tax Commission, presented **Docket No. 35-0101-1302**, Income Tax Administrative Rules, which were not a part of the negotiated rules process. Ms. Adrian stated the rule has been published and the public has had an opportunity to review and provide comment. Rule 180 clarifies, for Idaho tax purposes, the definition of abode. In response to a question, Ms. Adrian stated this is not a substantive change, but a clarification of current practice. Ms. Adrian also clarified the difference between abode and domicile and stated where a person registers to vote or licenses their vehicle is generally what determines the filing of income tax returns. Section 75 is the tax bracket rule and is modified annually. Section 105 is amended to be consistent with taxes paid to another state. Section 120 clarifies that loss recovery not included in taxable income and subsection 104 specifies that technology donations are calculated as the lower of cost or fair market value. Section 121 changes the word 'shall' to 'will', and subsection 17 clarifies carryback of net operating losses for taxable years subsequent January 1, 2000 and prior to January 1, 2013. Section 125, subsection 01 changes the word 'or' to 'and'. Section 140 clarifies the location of a qualifying

energy efficiency upgrade credit which must be located in Idaho. Section 180 deals with technology equipment donations and a clarification limiting the deduction to the lower of cost or fair market value. Section 194 sets the limitation of tax deductible medical costs to the applicable percentage of the Federal Adjusted Gross Income levels. Subsection 6 limits the percentage to 7 1/2 percent for a taxpayer or spouse aged 65 or older, and to 10 percent for taxpayers under age 65, effective January 1, 2013. Section 251 clarifies federal total income. Section 252 changes 'shall' to 'will' in applicable subsections, as well as a clarification for federal computation of net operating loss. Section 254 reflects changes needed due to 2013 legislative action. Section 270 is amended to be consistent with prior legislation to include the word 'partner'. Section 280 adds a code reference in the heading. Section 291 is amended to be consistent with guaranteed payments and pass through entities. Section 710 clarifies that taxpayers do not get investment tax credit. Section 714 clarifies investment tax credit within the recapture period. Section 771 outlines the Idaho grocery tax credit, which is set by statute and amended annually. Section 801 specifies taxable elections period for certain individuals. Section 855 deals with the permanent building fund tax and clarifies when it applies to backup withholding and pass through entities.

**MOTION:** **Rep. Burgoyne** made a motion to accept **Docket 35-0101-1302** as presented.  
**Motion carried by voice vote.**

**DOCKET NO. 35-0201-1301:** **Cynthia Adrian**, Idaho State Tax Commission, presented **Docket No. 35-0201-1301**, Administration and Enforcement Rules. Section 705 outlines what requirements are needed in order to constitute a valid written request in cases of identity theft disclosure.

**MOTION:** **Rep. Wood(35)** made a motion to accept **Docket No. 35-0201-1301** as presented.  
**Motion carried by voice vote.**

**DOCKET NO. 35-0201-1302:** **Cynthia Adrian**, Idaho State Tax Commission, presented **Docket No. 35-0201-1302** which deals with the interest rate rule and is annually updated. In response to a question, Ms. Adrian clarified that the rate is based on the federal rate and is spelled out in statute.

**MOTION:** **Rep. Meline** made a motion to accept **Docket No. 35-0201-1302** as presented.  
**Motion carried by voice vote.**

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:40 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
9:00 A.M.  
Room EW42  
Tuesday, January 14, 2014

SUBJECT	DESCRIPTION	PRESENTER
Docket Nos:	Review of Rules - Idaho State Tax Commission	
<a href="#">35-0101-1303</a>	Income Tax Administrative Rules	Cynthia Adrian, Idaho State Tax Commission
<a href="#">35-0201-1303</a>	Administration and Enforcement Rules	Cynthia Adrian, Idaho State Tax Commission
<a href="#">35-0102-1302</a>	Idaho Sales and Use Tax Administrative Rules	McLean Russell, Idaho State Tax Commission
<a href="#">35-0109-1301</a>	Wine Tax Administrative Rules	McLean Russell, Idaho State Tax Commission
<a href="#">35-0110-1301</a>	Idaho Cigarette & Tobacco Products Tax Administrative Rules	McLean Russell, Idaho State Tax Commission
<a href="#">35-0114-1301</a>	Prepaid Wireless E911 Fee 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 Collins	Rep Anderson(31)	Rep Be Determined
Vice Chairman Wood(35)	Rep Anderst	Rep Burgoyne
Rep Barrett	Rep Dayley	Rep Erpelding
Rep Moyle	Rep Hartgen	Rep Meline
Rep Raybould	Rep Kauffman	
Rep Denney	Rep Trujillo	

COMMITTEE SECRETARY

Kathleen A. Simko  
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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Tuesday, January 14, 2014

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

**PLACE:** Room EW42

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

**ABSENT/  
EXCUSED:** None.

**GUESTS:** Gary Peters, Tim Walsh, Steven Martin, Nikki Tanget, Becca George, Amy Curtis-Schaeffer, Sarah Curtis-Schaeffer, Mistie Tolman, Guy & Vicki Anderst, self; Monica Hopkins, ACLU; Cynthia Adrian, McLean Russell, David Langhorst, Idaho State Tax Commission; Jack Lyman, Idaho Mining Assoc.; Dennis Stevenson, Rules Coordinator; Phil Skinner, AG's Office; ; Benjamin Davenport, ATI; Brody Aston, Lobby Idaho; N.L. Clayville, DFM; Alicia Eshbach-Ugalde; Julie Hart, Russ Westerberg, Raeleen Welton, Westerberg & Associates.

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

**DOCKET NO. 35-0101-1303:** **Cynthia Adrian**, Tax Policy Specialist, Idaho State Tax Commission, presented **Docket No. 35-0101-1303**, Income Tax Administrative Rules. Section 10, provides for Idaho income tax purposes, the definition of marriage, as noted in the Idaho Constitution.

**Gary Jay Peters**, self, spoke in **opposition** to this rule change stating that his \$6,000 IRA contribution will be taxed twice if this rule is adopted, since Idaho does recognize his partner.

**Tim Walsh**, self, spoke in **opposition** to this proposed change. He believes couples should have the option to decide whether to file single or married tax returns. Mr. Walsh covers his domestic partner on his health insurance and the employer is required pay taxes on both the employee and employer portion of the premium. Mr. Walsh stated he pays a higher tax on the same income as a heterosexual couple would pay and should not be required to file a completely different tax return. This rule places an unconstitutional burden on his family.

**Steve Martin**, self, testified he has lived in Idaho more than 30 years and has been with his partner for 17 years. He stated that the Internal Revenue Service has decided, for federal tax purposes, all same sex marriages will be recognized and treated equally. This proposed change places an undue burden on select Idaho residents by requiring them to prepare two sets of tax forms. Mr. Martin believes passage of this rule will be costly to taxpayers.

**Nikki Tangent**, self, stated she and her partner **Becca George** have a complicated financial situation. Together, they own three businesses, two residences, and have two dependents with college savings accounts. Due to the complex nature of their personal finances, they were looking forward to filing a joint tax return. Ms. Tangent stated the cost of following different guidelines and filing different tax returns will be a burden. She urged the committee to follow other states that don't recognize same sex marriage and to treat Idaho taxes the same as federal tax returns.

**Monica Hopkins**, Executive Director, ACLU, urged rejection of this rule. She stated that Idaho should mirror the United States Supreme Court ruling where all same sex marriages should be recognized for tax purposes. This rule creates undue hardships, will be more costly, necessitate a paper filing of tax returns and ultimately result in more work for everyone. Ms. Hopkins stated that a federal return filed with the Department of Treasury will not match that filed with the State of Idaho. Ohio and Kentucky are currently being sued over this same situation by taxpayers. Ms. Hopkins asked the committee to follow federal tax guidelines in spite of an Idaho constitutional ban on same sex marriages.

**Amy Curtis-Shaffer**, self, spoke in **opposition** to this proposed change. She feels it is unethical as the designation options available on the Idaho State tax form does not allow filing as a joint income earner, thereby not matching the designation on the federal return. She stated it will be more costly to prepare the additional tax returns and believes that money would be better spent adding to her child's college fund.

**Misty Tolman**, testified she and her partner live in Meridian and are raising four children together. Ms. Tolman urged a no vote on this discriminatory tax law, which will create a financial burden and treat some of Idaho's citizens differently in terms of taxes.

**Alicia Eshbach-Ulgade**, self, testified she and her partner were legally married in the state of Washington. Ms. Eshbach-Ulgade stated she is required by the federal government, under the Affordable Care Act, to file a joint federal return. This proposed change will force her to lie on the Idaho tax return. She does not want to perjure herself by signing the tax form, which essentially denies her marriage exists.

**Ms. Adrian** responded to a question by reading from Idaho Code 32-201 and 32-209, dealing with the definition of marriage. She deferred to **Phil Skinner**, Deputy Attorney General and legal counsel to the Idaho Tax Commission, who provided an overview of his legal analysis. Mr. Skinner stated the first review was of existing law and Legislative intent, which clearly outlines a marriage as being between a man and a woman. His conclusion was the Idaho Tax Commission had no other choice than to apply this definition to tax policy. The next step was to determine if there was judicial precedent, which would overrule Idaho law. Mr. Skinner stated the Windsor case was the only federal case available. In looking at the Windsor case, the United States Supreme Court ruled that section 3 of the Defense Of Marriage Act was unconstitutional and that the federal government could not discriminate against same sex couples for purposes of determining federal benefits or protections. However, this case also focused on the rights of states to determine and regulate the definition of marriage. If a state recognizes same sex marriage, the federal government does not have the right to interfere. Conversely, the opposite must also be true in that if a state does not recognize same sex marriage, the federal government must remain silent. Mr. Skinner stated the Attorney General's direction was to follow the Legislative intent. It is his opinion that the Tax Commission does not have the authority to go against what the Legislature has set. Mr. Skinner acknowledged that while there are currently many challenges across the nation that could establish a judicial precedence, at this point, only the Windsor case is available.

In response to a question, **Mr. Skinner** stated Section 28 of the Idaho Constitution, which defines marriage between a man and a woman as the only legal union, reinforced but did not influence his legal analysis.

**Ms. Adrian** responded to a question on a 'marriage penalty', stating some married individuals with a certain income level, may pay more tax than if they filed separate tax returns.



- MOTION:** **Rep. Burgoyne** made a motion reject **Docket No. 35-0101-1303**. A roll call vote was requested. **Motion failed by a vote of 2 AYE, 13 NAY. Voting in favor** of the motion: **Reps. Burgoyne, Erpelding. Voting in opposition** of the motion: **Reps. Wood(35), Barrett, Moyle, Raybould, Denney, Anderson(31), Anderst, Dayley, Hartgen, Kauffman, Trujillo, Meline, Collins.**
- DOCKET NO. 35-0201-1303:** **Cynthia Adrian**, Tax Policy Specialist, Idaho State Tax Commission, presented **Docket No. 35-0201-1303**, Administration and Enforcement Rules, which provide a definition of marriage, for tax purposes.
- MOTION:** **Rep. Trujillo** made a motion to accept **Docket No. 35-0201-1303. Motion carried by voice vote. Rep. Erpelding** requested to be recorded as voting **NAY**.
- DOCKET NO. 35-0102-1302:** **McLean Russell**, Tax Policy Specialist, Idaho State Tax Commission, presented **Docket No. 35-0102-1302**, Idaho Sales and Use Tax Administrative Rules, Section 36, which deals with signs and billboards. The sale of advertising signs may consist of materials and labor that are part of the taxable sales price. Mr. Russell clarified that subsection 4 speaks to road signs which typically include signs belonging to governmental entities. While governmental units are tax exempt, this rule applies to contractors and their obligation to pay use tax for materials utilized in the construction of signs. Private contractors working for the State of Idaho making improvements to real property are not exempt from use tax. This rule applies to any sign that becomes part of the real property. The proposed rule change reflects how the Idaho Department of Transportation is currently administering tax on sign construction and intended to provide clarity.
- In response to a question, **Mr. Russell** stated this rule change is not reflective of the personal property tax exemption. Determining real property from tangible personal property has been debated back to 1965, when personal property tax was initiated. Mr. Russell stated the sales tax law was designed to collect taxes on materials that go into real property, regardless of the end user, and there is no exemption for contractors. In response to a question Mr. Russell said there has been some confusion and this rule is an attempt to clarify that a sign may have real property elements. He stated sales tax code and rules are very different than real property tax code and rules.
- MOTION:** **Rep. Trujillo** made a motion to reject **Section 036**. A roll call vote was requested. **Motion carried, by a vote of 8 AYE, 6 NAY, 1 Absent/Excused. Voting in favor** of the motion: **Reps. Wood(35), Barrett, Moyle, Raybould, Denney, Dayley, Trujillo, Collins. Voting in opposition** to the motion: **Reps. Anderson(31), Anderst, Hartgen, Kauffman, Erpelding, Meline. Rep. Burgoyne was absent/excused.**
- ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 10:24 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Wednesday, January 15, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
Docket No. <a href="#">35-0102-1302</a>	Idaho Sales and Use Tax Administrative Rules	McLean Russell, Idaho State Tax Commission
Docket No. <a href="#">35-0109-1301</a>	Wine Tax Administrative Rules	McLean Russell, Idaho State Tax Commission
Docket No. <a href="#">35-0110-1301</a>	Idaho Cigarette & Tobacco Products Tax Administrative Rules	McLean Russell, Idaho State Tax Commission
Docket No. <a href="#">35-0114-1301</a>	Prepaid Wireless E911 Fee Administrative Rules	McLean Russell, Idaho State Tax Commission
<a href="#">RS22360</a>	Idaho Income Tax Definition - Resident or Nonresident, Trust or Estate	Michael Chakarun, Idaho State Tax Commission
<a href="#">RS22362</a>	Technical Corrections to Cigarette and Tobacco Products Taxes	Michael Chakarun, Idaho State Tax Commission
Presentation	Assessing the Need For Taxpayer Advocacy	Rakesh Mohan, Director, Office of Performance Evaluation, Idaho Legislature

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Be Determined
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Wednesday, January 15, 2014

**TIME:** 9:00 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:** Reps. Erpelding, Moyle, Agidius.

**GUESTS:** Russell Westerberg, Raeleen Welton, Julie Hart, Westerberg & Associates; Benjamin Davenport, ATI; Mike Chakarun, McLean Russell, Idaho State Tax Commission; Parker Papworth, Lobby Idaho; Brad Hunt, OARC; Jan Sylvester, self; N.L. Clayville, DFM; McKinsey Lyon, Gallatin.

**Chairman Collins** called the meeting to order at 9:01 am.

**MOTION:** **Rep. Raybould** made a motion to approve the minutes of January 13, 2014.  
**Motion carried by voice vote.**

**DOCKET NO. 35-0102-1302:** **McLean Russell**, Tax Policy Specialist, Idaho State Tax Commission, continued with the presentation of **Docket No. 35-0102-1302**, Section 037-02, dealing with taxation on sales of aircraft and under which conditions they are excluded as tangible personal property. Section 041, subsection 10 clarifies that paid food and beverage samples offered for tasting are subject to sales tax. A provider of free samples of food or beverages offered for tasting are not subject to sales or use tax. Section 046 provides guidance on tangible personal property coatings, such paint, powder and spray on bed liners. This section is intended to provide consistency and conformity to current statutes. Generally labor is not taxable. When a coating is applied to new tangible personal property or new or used tangible personal property that has never been previously coated, labor is taxable. Materials that become a part of tangible personal property are taxed. Materials and labor charges must be separated out or the entire amount will be deemed to be subject to tax.

In response to a question, **Mr. Russell** clarified that labor for repairs is not taxable, but labor for improvement of new tangible personal property would be taxable.

Section 079 deals with production exemption and clarifies that real property production exemption does not apply to equipment and materials used to improve real property. Section 114 makes corrections to reflect the name change from Food Stamps to Federal Supplemental Nutrition Assistance Program (SNAP) as well as to update payment methods available. Section 130 speaks to promoter sponsored events and the obligations of the promoter to ensure participants pay applicable taxes. **Mr. Russell** stated this section needed an update to reflect current forms required for filing of taxes, some of which also serve as a temporary sellers permit.

In response to a question, **Mr. Russell** stated there is a distinction between a regularly scheduled, ongoing event versus a single occurrence and the staff encourages a longer term permit when needed. He also stated there is a penalty for the promoter if they fail to ensure participants have the required permit and is a minimum fine of \$50 per event, \$25 per seller and is capped at a total penalty of \$1,000.

**MOTION:** **Rep. Anderson(31)** made a motion to accept **Docket No. 35-0102-1302**. **Motion carried by voice vote.**

**DOCKET NO. 35-0109-1301:** **McLean Russell**, Tax Policy Specialist, Idaho State Tax Commission, presented **Docket No. 35-0109-1301**, Wine Tax Administrative Rule. Section 012 deals with direct shipment of wine. When a shipper is licensed as a direct wine shipper in another state, the sale of wine to a resident of that state, when the shipment is delivered in that state, is exempt from Idaho tax on wine.

**MOTION:** **Rep. Anderst** made a motion to accept **Docket No. 35-0109-1301**. **Motion carried by voice vote.**

**DOCKET NO. 35-0110-1301:** **McLean Russell**, Tax Policy Specialist, Idaho State Tax Commission, presented **Docket No. 35-0110-1301**, Cigarette and Tobacco Products Tax Administrative Rules. Section 019 clarifies wholesale sales price determination for an out-of-state distributor with a nexus in Idaho.

**MOTION:** **Rep. Kauffman** made a motion to accept **Docket No. 35-0110-1301**. **Motion carried by voice vote.**

**DOCKET NO. 35-0114-1301:** **McLean Russell**, Tax Policy Specialist, Idaho State Tax Commission, presented **Docket No. 35-0114-1301** on Prepaid Wireless E911 Fee Administrative Rules. This is an entirely new chapter (14) and Section 100 outlines E911 and tax obligations imposed on the sale of prepaid wireless telecommunications service. The 2.5% E911 fee is not imposed on the actual device. However, if there is not a way to separate the device from the service, the seller is required to collect the fee. Section 300 outlines the conditions when out-of-state sales are exempt from the fee. In response to a question, Mr. Russell stated that through the negotiated rule making process, there was a great deal of interest in the rule, but no opposition expressed.

**MOTION:** **Rep. Burgoyne** made a motion to accept **Docket No. 35-0114-1301**. **Motion carried by voice vote.**

**RS 22360:** **Mike Chakarun**, Tax Policy Manager, Idaho State Tax Commission, presented **RS 22360** related to estates and trusts and codifies the definition of "resident" and "nonresident".

**MOTION:** **Rep. Wood(35)** made a motion to introduce **RS 22360**. **Motion carried by voice vote.**

**RS 22362:** **Mike Chakarun**, Idaho State Tax Commission, presented **RS 22362**. This proposed legislation provides technical corrections to the Cigarette and Tobacco use tax, eliminating the sale of cigarettes by vending machines, which is no longer permitted in Idaho and defines taxable period versus annual period, for tax purposes.

**MOTION:** **Rep. Anderson(31)** made a motion to introduce **RS 22362**. **Motion carried by voice vote.**

**Rakesh Mohan**, Director, Office of Performance Evaluation (OPE), Idaho Legislature, outlined the function of OPE, which is a nonpartisan, independent office. At the request of the Joint Legislative Oversight Committee (JLOC) OPE evaluates various programs, departments and agencies to ensure efficient and effective operations. Mr. Mohan stated JLOC had requested a study on the need for taxpayer advocacy in Idaho. The goal was to produce a study that would be useful to the Idaho State Tax Commission (ISTC) as well as policy makers. The initial step was to collect data, which did exist, but was not readily available or not being tracked. The OPE team conducted interviews and surveys, including both staff and tax professionals. The information contained in the final report, will be useful to policy makers in exploring the feasibility of creating a taxpayer advocacy effort in Idaho.

**Mr. Rakesh** introduced **Amy Lorenzo**, Office of Performance Evaluation. Ms. Lorenzo stated that the potential need for a taxpayer advocate does not indicate a problem exists. In other states an advocate has been a benefit to taxpayers or seen as good public policy. The study revealed that a taxpayer advocate exists in 29 states. Common among the services goes beyond problem resolution to include helping ensure fair treatment during any tax collection process, protection of taxpayer rights, and helping individuals navigate complicated tax laws. Additionally, advocates can offer both individual and system solutions.

The team explored whether this framework could be beneficial in Idaho by first looking at compliance, however, data was not available to determine statewide trends. **Ms. Lorenzo** stated the ISTC has been conducting outreach efforts, but have not been maintaining the data needed to determine success. The team looked at what other information could be used and found in 2012 out of almost 700,000 individual tax returns, 69% reported taxable income of less than \$25,000. 43% of returns were not prepared with the assistance of a paid professional. Idaho does have a Taxpayer Bill of Rights which is more directed to ISTC rights, than individual rights. Ms. Lorenzo stated generally, tax professionals support the need for taxpayer advocacy and feel it could be beneficial. ISTC staff questioned the need for taxpayer advocacy. The evaluation team had two recommendations for the ISTC; update publications so they are clear, comprehensive and accessible, and improve data management systems. The ISTC plans to implement both of these suggestions. Due to significant data limitations, a final determination on the need for taxpayer advocacy in Idaho could not be reached. However, the research contained in the final report will help guide policy makers.

In response to questions from the committee, **Ms. Lorenzo** said the primary qualification in order to receive assistance at the federal level is financial hardship, but varies at the state level. In regard to definition of taxpayer advocacy, for purposes of the study, a consistent definition was provided to respondents. Ms. Lorenzo stated the cost and size of taxpayer advocacy programs in the other states varied widely, from an office of one person, to a staff of 28.

In response to a question regarding whether taxpayers felt programs were working, **Ms. Lorenzo** stated unfortunately, a national comparison to determine benefit was not possible due to incomplete data collection. Ms. Lorenzo stated the ISTC felt they try to be good advocates for the taxpayer and the process, but were not asked whether advocacy is their responsibility. Typically, the state Department of Revenue had oversight of taxpayer advocacy at state level while an independent body is the model at the national level.

In response to a question, **Ms. Lorenzo** stated there was a broad range of authority observed by the study. While all taxpayer advocates felt they had some authority, they don't generally have authority to override findings of audit, as an example. They do try to ensure that a person is treated fairly and the process is followed and understood. Ms. Lorenzo stated generally the person was required to make a good faith effort to resolve issues before they receive services and in many instances, referrals from the tax commission to the taxpayer advocate were also being made.

**ADJOURN:**

There being no further business to come before the committee, the meeting was adjourned at 10:02 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

**AMENDED AGENDA #1**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Thursday, January 16, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>RS22421</u></a>	Technical Changes to Idaho Income Tax Law	Mike Chakarun, Idaho State Tax Commission
<a href="#"><u>RS22451</u></a>	Annual Conformity Bill	Mike Chakarun, Idaho State Tax Commission
<a href="#"><u>RS22455</u></a>	Technical Changes to Idaho's Property Tax Laws	Alan Dornfest, Idaho State Tax Commission
<a href="#"><u>RS22358</u></a>	Tax Clarification on "Natural Person" and Permanent Building Fund fee	Mike Chakarun, Idaho State Tax Commission

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
Room: EW53  
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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Thursday, January 16, 2014

**TIME:** 9:00 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. Barrett

**GUESTS:** Ed Hawley, Admin. Rules; Alan Dornfest, Michael Chakarun, Idaho State Tax Commission; Melissa Nelson, ISCPA; Julie Hart, Westerberg & Associates; Brent Olmstead, MP Idaho; Raeleen Welton, RMP.

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

**MOTION:** **Rep. Meline** made a motion to approve the minutes of January 14, 2014. **Motion carried by voice vote.**

**RS 22421:** **Mike Chakarun**, Tax Policy Manager, Idaho State Tax Commission, presented **RS 22421**. This proposed legislation makes three technical corrections to Idaho's income tax laws. Section 1 provides a net operating loss carryback limit of \$50,000 for married individuals, filing separately in the year of loss. It also corrects language in the Internal Revenue Code Section 1212 related to passive losses. Section 2 is related to loss of federal tax exempt status in Idaho, unless otherwise exempt, when 501 nonprofit entities fail to file tax form 990 and lose federal tax exemption status. Section 3 corrects a reference error.

**MOTION:** **Rep. Dayley** made a motion to introduce **RS 22421**. **Motion carried by voice vote.**

**RS 22451:** **Mike Chakarun**, Tax Policy Manager, Idaho State Tax Commission, presented **RS 22451**. Known as the annual conformity bill, if approved, this legislation will conform Idaho income tax changes made to the Internal Revenue Code, which affect tax years beginning 2013. This would provide clarification on definition of marriage. Mr. Chakarun stated there were no major tax changes in 2013 and while Congress is still dealing with extensions that would not take effect until 2014, there is no anticipated fiscal impact this year.

In response to a question, **Mr. Chakarun** concurred subsection c is new and intended to have relevance for the tax commission clarifying a marriage must be one recognized in both Idaho Code and the Idaho Constitution.

**MOTION:** **Rep. Trujillo** made a motion to introduce **RS 22451**. **Motion carried by voice vote.** **Rep.(s) Burgoyne & Erpelding** requested to be recorded as voting **NAY**.

**RS 22358:** **Mike Chakarun**, Tax Policy Manager, Idaho State Tax Commission, presented **RS 22358**. Currently, there is confusion over the status of certain entities not considered a 'natural person' and the inclusion or exclusion of that entity in a composite return. Additionally, confusion exists on whether or not a pass-through entity is required to pay the Permanent Building Fund fee in specific circumstances. This proposed legislation would clarify the definition as well as include a cross reference to Idaho Code governing a nonresident's Idaho source income.

**MOTION:** **Rep. Burgoyne** made a motion to introduce **RS 22358**. **Motion carried by voice vote.**

**RS 22455:** **Alan Dornfest**, Idaho State Tax Commission, ISTC, presented **RS 22455**. This proposed legislation makes technical corrections to Idaho's property tax laws. Section 1 would eliminate the State Tax Commission meeting on the 4th Monday in August of each year, if the work of the Commission is finished. Section 2 adds a provision exempting property, subject to occupancy tax, from assessment and tax when a change in status is made. Property subject to occupancy tax would not be subject to occupancy tax. There also is a provision providing taxpayers a 28 day notice to appeal an occupancy tax assessment. Section 3 is regarding yield tax, related to forest lands. This change will require the tax collector to provide notice.

In response to a question, **Mr. Dornfest** stated that there is not change in the procedure. The ISTC is no aware of prior issues related to notification of appraisal. Currently, the notice to taxpayers are required to show both the appraised value and full value. The notice inclusion is intended to provide sufficient time for taxpayers on their right to appeal.

**MOTION:** **Rep. Kauffman** made a motion to introduce **RS 22455**. **Motion carried by voice vote.**

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:29 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary



AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
9:00 A.M.  
Room EW42  
Monday, January 20, 2014

SUBJECT	DESCRIPTION	PRESENTER
<a href="#"><u>RS22381</u></a>	Donations to Veterans Support Fund on Idaho Form 43	Tamara Mackenthun, Veteran Services
<a href="#"><u>RS22431</u></a>	Electronic Tax Filing - Idaho Business Income Tax Returns	Mike Chakarun, Idaho State Tax Commission
<a href="#"><u>RS22452</u></a>	Taxable Value Levy Definition	Alan Dornfest, Idaho State Tax Commission
<a href="#"><u>RS22522</u></a>	Reservation Income Exclusion For Tribal Members	Rep. Trujillo

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Monday, January 20, 2014

**TIME:** 9:00 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:** Reps. Moyle, Erpelding

**GUESTS:** Benjamin Davenport, ATI; Alan Dornfest, Mike Chakarun, State Tax Commission; Raeleen Welton, Russell Westerberg, Kootenai Tribe; Melissa Nelson, ISCPA; Tamara Mackenthun, Idaho Veteran Services; Bill Roden, Coeur d'Alene Tribe; Tim Olson, Nez Perce Tribe.

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

**RS 22381:** **Tamara Mackenthun**, Veteran Services, presented **RS 22381**. This proposed legislation would allow donations to the Veterans Support Fund, available on Idaho Individual Tax Form 40, to be added to Form 43 for nonresidents. This proposed legislation would ensure the option to donate can also be done on all tax returns filed electronically. The Veterans Support Fund is utilized to provide a variety of training, rehabilitation and other services to Idaho's Veterans.

**MOTION:** **Rep. Meline** made a motion to introduce **RS 22381**. **Motion carried by voice vote.**

**RS 22431:** **Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission (ISTC) presented **RS 22431**. This proposed legislation would require tax return professionals, who prepare more than 10 returns, to file Idaho income tax returns electronically. There are some situations where electronic filing is currently required, but some software developers are hesitant to develop electronic filing capabilities in Idaho unless it is mandated by statute.

In response to questions from the committee, **Mr. Chakarun** stated the cost to conform to mandated electronic filing for a small tax preparer is unknown. The federal form uses a declaration the tax payer and preparer both sign, which is also used for Idaho state returns. An LLC must decide if they are a disregarded entity, which impacts the way taxes are filed. Mr. Chakarun stated software vendors are anticipated to be willing to provide the update and there are between 20-30 software developers currently offering products. The Tax Commission did not want to make noncompliance onerous and the \$5 noncompliance fee is felt to be sufficient. This proposed legislation also includes a safe harbour for the tax preparer, if a client refuses to file electronically.

**Mr. Chakarun** clarified that a third party value added network is the software provider, which provides preparation as well as transmittal software. This proposed legislation would clean up existing language and discourage tax returns from being faxed or submitted in magnetic media format. Mr. Chakarun stated there were no concerns expressed on language included or not included and most tax preparers endorse this proposed legislation since it saves them time and money. Clients like it since they don't have to be concerned with the possibility of the tax return getting lost.

In response to a question, **Mr. Chakarun** stated **RS 22431** does not impose a mandate on an individual to file electronically and only effects paid tax preparers. Software developers make continual changes, so ISTC doesn't anticipate a significant increase in costs for software updates. In the event a tax return cannot be filed electronically, the ISTC will ensure there is a mechanism to allow paper filing. About 50% of business and 70% of individual tax returns are currently being filed electronically. The goal of the ISTC is to have 80% of all tax returns filed electronically.

**MOTION:** **Rep. Raybould** made a motion to introduce **RS 22431**. **Motion carried by voice vote.**

**RS 22452:** **Alan Dornfest**, Property Tax Bureau Chief, Idaho State Tax Commission, presented **RS 22452**. **H 599** passed in 2008, set up a mechanism for personal property exemption. Last year, **H 315** amended **Idaho Code 63-803(4)** on the definition of personal property exemption with a substitution of a fixed replacement dollar approach. Once finalized for 2013, the fixed dollar amount will not change, but unless the levy process is modified, it will understate the amount of the levy rate, beginning in 2014. **RS 22452** eliminates the inclusion of exempt value in the formula and corrects the problem.

**MOTION:** **Rep. Anderson(31)** made a motion to introduce **RS 22452**. **Motion carried by voice vote.**

**RS 22522:** **Rep. Trujillo** presented **RS 22522**. This legislation would allow a member of a federally recognized Indian tribe who resides on an Idaho Indian reservation, to exclude from Idaho taxable income, income earned by that individual on the Indian reservation of residence. This proposal statutorily implements the legislative intent of **HCR 32** passed in 2013, and codifies current Idaho Tax Commission practice into law.

**MOTION:** **Rep. Burgoyne** made a motion to introduce **RS 22522**. **Motion carried by voice vote.**

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:29 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Tuesday, January 21, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>H 369</u></a>	Idaho Residency Determination For Estate Or Trust	Michael Chakarun, Idaho State Tax Commission
<a href="#"><u>H 370</u></a>	Technical Corrections - Idaho Cigarette and Tobacco Products Tax	Michael Chakarun, Idaho State Tax Commission
<a href="#"><u>H 374</u></a>	Technical Corrections - Operating Loss Carryback Limit, Failure to File 990 Forms and Reference Error	Michael Chakarun, Idaho State Tax Commission
<a href="#"><u>H 375</u></a>	Annual Internal Revenue Code Conformity Bill	Michael Chakarun, 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 Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Tuesday, January 21, 2014

**TIME:** 9:00 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:** None

**GUESTS:** Mike Chakarun, ISTC; Benjamin Davenport, ATI; Melissa Nelson, ISCPA; N.L. Clayville, DFM; Raeleen Welton.

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

**MOTION:** **Rep. Burgoyne** made a motion to approve the minutes of January 15, 2014.  
**Motion carried by voice vote.**

**MOTION:** **Rep. Wood(35)** made a motion to approve the minutes of January 16, 2014.  
**Motion carried by voice vote.**

**H 369:** **Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission (ISTC), presented **H 369**. This bill amends **Idaho Code 63-3015** which provides a definition for resident and nonresident estate or trust, for Idaho income tax purposes.

In response to questions from the committee, **Mr. Chakarun** stated that a funeral trust is typically set up with a funeral director for the purpose of accumulating funds to pay for burial expenses. There have not been prior issues, but the ISTC would like to have a statutory definition instead of a rule based one, to more clearly make the distinction.

**Mr. Chakarun** explained the difference between a residence and a domicile is, a person can have many residences, even in different states, but for tax purposes, are only permitted one domicile. This legislation was reviewed with the Idaho Society of CPA's and attorney **Bob Aldridge** and only technical changes were made. **Mr. Chakarun** clarified that if the trustee lives in Idaho, it would be an Idaho trust. The ISTC does not anticipate problems if a trustee lives out-of-state.

**Mr. Chakarun** responded to a question that the reason code is being changed into statute, is to clearly make the distinction between nonresident and resident trust since this impacts how income is sourced. The ISTC would like to move this into statute to strengthen the effect. This proposed statute contains verbatim language from the existing rule.

**MOTION:** **Rep. Meline** made a motion to send **H 369** to the floor with a **DO PASS** recommendation.

**ROLL CALL  
VOTE:** A roll call vote was requested. **Motion carried by a vote of 10 AYE, 5 NAY, 1 Absent/Excused.** Voting in favor of the motion: **Reps. Collins, Raybould, Denney, Anderson(31), Anderst, Hartgen, Kauffman, Trujillo, Agidius, Meline.** Voting in opposition to the motion: **Reps. Wood(35), Barrett, Dayley, Burgoyne, Erpelding.** **Rep. Moyle was absent/excused.** **Rep. Meline** will sponsor the bill on the floor.

**H 370:** **Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission, presented **H 370** which makes technical corrections to the Cigarette and Tobacco Products Tax Act, removing reference to vending machine sales, as they are no longer permitted in Idaho. This legislation also clarifies a taxable period as the taxable year.

**MOTION:** **Rep. Wood(35)** made a motion to send **H 370** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Rep. Anderst** will sponsor the bill on the floor

**H 374:** **Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission (ISTC), presented **H 374**, which makes three technical changes to Idaho Income Tax Act. This legislation clarifies the net operating carryback loss allowance for a married couple, filing singly, is limited to \$50,000. Additionally, the clarification between a loss and a passive loss is made. Failure to file Form 990 by nonprofit entities, that results in loss of tax exempt status by the Internal Revenue Service (IRS), will also result in loss of tax exempt status for Idaho tax purposes. This legislation also contains a correction of a reference.

In response to questions, **Mr. Chakarun** stated he was aware of one instance where a married couple claimed \$100,000 each for carryback loss, which was allowed by the ISTC. The intent and long standing practice of the ISTC is a married couple filing jointly is allowed one, \$100,000 loss carryback. Consequently, if they file singly, the allowance should be split and each party can claim \$50,000. Mr. Chakarun stated this is a proactive clarification of current law and not a substantive change.

In response to a question, **Mr. Chakarun** stated the IRS does have a lapsed exemption certificate, providing the entity can justify the request for retroactive status. If there is not sufficient justification, a new exemption certificate application will be needed. Mr. Chakarun stated for Idaho income tax purposes, the ISTC would follow the federal determination on nonprofit status.

**MOTION:** **Rep. Dayley** made a motion to send **H 374** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Rep. Dayley** will sponsor the bill on the floor.

**H 375:** **Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission, presented **H 375** which is the annual conformity bill, updating Idaho tax code to the IRS code, effective 1/1/2014. The adjusted gross income line item and itemized deduction line item from the federal form are the only two that flow through to the Idaho tax forms. This conformity bill will not be impacted by changes related to the Affordable Care Act. This legislation clarifies the definition of marriage and does not conform to the U.S. Treasury ruling permitting joint tax filing for same sex couples. There is a severability clause included, in the event a subsequent ruling declares any portion of this act invalid, other provisions would still be enforceable.

In response to a question from the committee, **Mr. Chakarun** stated that the ISTC has reviewed the provisions of the Affordable Care Act with respect to the tax implications and this legislation and do not feel there are any areas of concern.

**MOTION:** **Rep. Trujillo** made a motion to send **H 375** 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.

**ADJOURN:**      There being no further business to come before the committee, the meeting was adjourned at 9:34 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

**AMENDED AGENDA #2**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Wednesday, January 22, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
	Western Aircraft Presentation	Russell Westerberg, Westerberg & Associates
<a href="#"><u>RS22507</u></a>	Related to Calculation of Idaho Net Operating Loss	Michael Chakarun, Idaho State Tax Commission
<a href="#"><u>RS22542</u></a>	Technical and Administrative Corrections - Business Personal Property Tax Exemption	Seth Grigg, Idaho Association of Counties

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Wednesday, January 22, 2014

**TIME:** 9:00 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:** None

**GUESTS:** Dawn Justice, Rick Smith, Idaho Bankers Association; Raeleen Welton; Russell Westerberg, Western Aircraft; Mike Chakarun, ISTC; N.L. Clayville DFM; Seth Grigg, Idaho Association of Counties

**Chairman Collins** called the meeting to order at 9:00 a.m.

**MOTION:** **Rep. Kauffman** made a motion to approve the minutes of the January 20, 2014 meeting. **Motion carried by voice vote.**

**Russell Westerberg** of Westerberg and Associates introduced **Jeff Mihalic** the President of Western Aircraft who would be providing the committee with an update. Mr. Mihalic stated Western Aircraft is primarily an aircraft service company, located at Gowen Field and has been an FAA certified repair station for nearly 60 years. They have 185 full time employees across five business units, plus seven contractors. Western Aircraft has five major departments; aircraft sales, aircraft charter, line services, aircraft maintenance, and parts sales. Most of their employees are in the aircraft maintenance department. Employee hiring has proven to be a tough job due to the lack of qualified technical candidates. The original investment plan total was nine million dollars and the current plan is now \$9,859,022.

Western Aircraft now has a new parts warehouse, and the tool room and shop buildings will be done in April. The company added four new sales people in 2013, including turbo prop sales, avionics, and interiors, and also added 46 out of state customers. Western Aircraft now has new fleet capability, the Challenger and added on two other fleet types. They added eight avionics technicians in 2013, and the staff is fully trained on Garmin G1000 and Falcon Easy 2 mods. Expanded interior capability increased interior shop from five employees to 18 in 2012. Western Aircraft partners with A&P schools and ISU to create internships and expand recruiting efforts. **Mr. Mihalic** stated that Western Aircraft continues to meet the commitments made in 2012 and are on track to deliver a net positive economic outcome to the State of Idaho.

**RS 22507:** **Michael Chakarun**, Idaho State Tax Commission presented **RS 22507**, proposed legislation that will provide a computational method for the calculation of Idaho NOL when a taxpayer recognizes REMIC EII. The Excess Income Inclusion (EII) of Real Estate Mortgage Investment Conduits (REMIC) and the Idaho net operating loss (NOL) computation method is recognizing REMIC EII are not defined in statute and creates confusion for taxpayers and administration issues for the Tax Commission.

**MOTION:** **Rep. Wood(35)** made a motion to introduce **RS 22507**. **Motion carried by voice vote.**

**RS 22542:** **Seth Grigg**, Idaho Association of Counties presented **RS 22542**, this proposed legislation provides for technical and administrative corrections to the business personal property tax exemption. The amendments are as follows: Amend Section 33-1103, Idaho Code, to revise the definition of "market value for assessment purposes" for school bonds. Amend Section 63-309, Idaho Code, to clarify that taxable improvements on tax exempt land are not eligible for the business personal property tax exemption. Amend Section 63-602KK, Idaho Code, to clarify the taxpayers with personal property value less than \$100,000 need only to apply for the exemption once, as long as certain conditions are met and to make other technical corrections. Amend Section 63-808, Idaho Code, to revise the definition of "taxable value" for determining property tax levies. Amend Section 63-3638, Idaho Code, to clarify the process of distributing personal property tax replacement money when taxing districts or revenue allocation areas are combined, dissolved, or discontinued.

**ORIGINAL MOTION:** **Rep. Anderst** made a motion to return **RS 22542** to the sponsor.

**SUBSTITUTE MOTION:** **Rep. Burgoyne** made a substitute motion to introduce **RS 22542**.

**VOTE ON SUBSTITUTE MOTION:** Roll call vote was requested on the substitute motion to introduce **RS 22542**. **Substitute motion failed, 3 AYE, 12 NAY, 1 Absent/Excused. Voting in favor** of the substitute motion: **Reps. Burgoyne, Erpelding, Meline. Voting in opposition** to the substitute motion: **Reps. Wood(35), Barrett, Raybould, Denney, Anderson, Anderst, Dayley, Hartgen, Kauffman, Trujillo, Agidius, and Chairman Collins. Rep. Moyle was absent/excused.**

**VOTE ON ORIGINAL MOTION:** **Chairman Collins** called for a vote on the original motion to return **RS 22542** to the sponsor. **Motion carried by voice vote. Reps. Burgoyne, Erpelding, and Meline** requested that they be recorded as voting **NAY**.

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 10:04 a.m.

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Representative Collins  
Chair

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Amber Duke  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Monday, January 27, 2014**

SUBJECT	DESCRIPTION	PRESENTER
<a href="#">H 381</a>	Veteran Support Fund Designation On Idaho Tax Form 43	Tamara Mackenthun, Veteran Services
<a href="#">H 384</a>	Codification of Tribal Income Exclusion Earned on Reservation of Residence	Rep. Janet Trujillo
<a href="#">RS22595</a>	Tax Exemption for U.S. Military Retirement Income	Rep. Kathleen Sims

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Monday, January 27, 2014

**TIME:** 9:00 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:** Chairman Collins, Vice Chairman Wood(35)

**GUESTS:** Tim Olson, NezPerce Tribe; Raeleen Welton, Russ Westerberg, Kootenai Tribe; Tamara Mackenthun, Idaho Veteran Services; Helo Hancock, Bill Roden, Coeur d'Alene Tribe; N.L. Clayville, DFM; Kathy Martin, LCSC; Lyn Darrington, Shoshone Bannock Tribes.

**Rep. Barrett** called the meeting to order at 9:05 am.

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

**H 381:** **Tamara Mackenthun**, Deputy Administrator, Veteran Services, presented **H 381** which would provide the option to donate to the Veterans Support Fund on Idaho Individual Income Tax. This donation is currently available on Form 40 for residents but is not available on Form 43 for nonresidents or on all electronic filing options. This bill would ensure that the option to donate is available on all Idaho Individual Income Tax Forms as well as all electronic filing options.

**MOTION:** **Rep. Burgoyne** made a motion to send **H 381** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Rep. Agidius** will sponsor the bill on the floor.

**H 384:** **Rep. Trujillo** presented **H 384**. This legislation would codify a long standing practice by the Idaho Tax Commission regarding Idaho taxable income. Income earned on a tribal reservation, by a member of a federally recognized Indian tribe who resides on that reservation, would be tax exempt. **H 384** statutorily implements the legislative intent of **HCR 32**, passed in 2013.

**Bill Roden**, representing the Coeur d'Alene Tribe stated in 1974 the Board of Tax Appeals affirmed a consistently followed rule exempting income earned by tribal members enrolled by a federally recognized tribe. In 2011 the Idaho Tax Commission was advised by legal counsel to put this long standing practice into statute. Negotiated rule making did not occur and in 2013, the rule was rejected allowing this change. The Tax Commission has worked diligently with tribal representation to reinstate the rule related to income earned on reservations. Mr. Roden expressed appreciation for the support and work by the Tax Commission.

**Rep. Trujillo** summarized **H 384** is simply to codify historical practice.

**MOTION:** **Rep. Raybould** made a motion to send **H 384** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Rep. Trujillo** will sponsor the bill on the floor.

**RS 22595:**

**Rep. Sims** presented **RS 22595**. Currently, income of retired military living in Idaho is tax exempt after the retiree reaches age 65. This proposed legislation would make military retirement income tax exempt, regardless of age. Retired military bring a wealth of experience to a prospective employer and Idaho is at a disadvantage in recruiting retired military under the age of 65. Rep. Sims stated it is difficult to quantify the potential fiscal impact and can only be estimated.

In response to questions **Rep. Sims** clarified the change is noted on lines 34-35 since this is the subsection where reference specific to military is made. Rep. Sims stated this proposed legislation will provide an incentive to military retirees to continue working and will have a positive fiscal impact to Idaho since additional income will be taxed. This is seen as a Veteran's, economic development and skilled workforce solution.

**Rep. Sims** clarified the reference to 'widows' and 'widowers' in the change reflects current exemption for spouses of deceased military, as those retirement benefits are also tax exempt. Rep. Sims reiterated at this point any fiscal impact is just an estimate. Currently about .26 % of military retirees in Idaho have not yet reached the age of 65. There is no definite number as to how many potential veterans would be able to take advantage of this bill. Rep. Sims confirmed businesses indicate they are disadvantaged when competing with other states to attract highly educated, skilled and experienced military retirees, particularly to other states exempting military retirement income at any age.

**MOTION:**

**Rep. Burgoyne** made a motion to introduce **RS 22595**. **Motion carried by voice vote.**

**ADJOURN:**

There being no further business to come before the committee, the meeting was adjourned at 9:32 am.

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Representative Barrett  
Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Monday, February 03, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>RS22429</u></a>	Assessment of Operating Property - Rate Regulated Utility Entities	Alan Dornfest, Idaho State Tax Commission
<a href="#"><u>RS22542C1</u></a>	Technical & Administrative Corrections - Business Personal Property Tax Exemption	Seth Grigg, Association of Idaho Counties
<a href="#"><u>RS22621</u></a>	Technical Changes - Idaho Property Tax Law	Alan Dornfest, Idaho State Tax Commission
<a href="#"><u>H 377</u></a>	Clarification Language & Permanent Building Fund Fee Payment	Michael Chakarun, 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 Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Monday, February 03, 2014

**TIME:** 9:00 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:** Alan Dornfest, Mike Chakarun, Idaho State Tax Commission; Mike Brassey, Idaho Power Co.; Russell Westerberg, Rocky Mountain Power; Elizabeth Criner, NWFP/Simplot; N.L. Clayville, DFM; Julie Hart, Westerberg & Assoc.; Lynn Tominaga, IGWA.

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

**MOTION:** **Rep. Meline** made a motion to approve the minutes of January 22, 2014. **Motion carried by voice vote.**

**MOTION:** **Rep. Anderson(31)** made a motion to approve the minutes of January 27, 2014. **Motion carried by voice vote.**

**RS 22429:** **Alan Dornfest**, Idaho State Tax Commission, presented **RS 22429** which is intended to provide valuation guidance on the assessment of operating property, owned by rate regulated utility companies, for income tax purposes. This proposed legislation would not affect locally assessed property, as determined by the county assessor. This proposed legislation is a result of an ongoing dispute with regard to assessment of obsolete operating property and matches language agreed to in the litigation settlement with Idaho Power Co. Mr. Dornfest stated Rocky Mountain Power/Pacific Corp. and Avista have reviewed this proposed legislation and expressed no opposition.

In response to questions from the committee, **Mr. Dornfest** stated he was unaware of any opposition from electric utility entities, which would be the only utilities impacted by this legislation. He clarified that Atlanta Power Co. may not have been included in notice of the legislation, however, they are a very small company.

**MOTION:** **Rep. Erpelding** made a motion to introduce **RS 22429**. **Motion carried by voice vote.**

**RS 22542C1:** **Seth Grigg**, Association of Idaho Counties, presented **RS 22542C1** which makes technical and administrative corrections to business personal property tax exemption. Section 1 removes reference to **Idaho Code 63-602KK**. Section 2 is related to improvements made on property located on tax exempt land, clarifying the improvements are not eligible for tax exemption. Section 3 requires the taxpayer to make application for tax exemption once, providing specific conditions are met. Section 4 removes the reference to **Idaho Code 63-602KK**. The final changes are in Section 5, which speaks to how replacement funds are handled when taxing districts are consolidated.

In response to questions from the committee, **Mr. Grigg** stated he did not know how floating cabins might be treated and would get that information to the committee. He clarified these changes are being requested by the counties to fix unforeseen administrative issues resulting from the passage of the personal property tax legislation in 2013. Idaho Association of Counties is bringing the changes since they brought the original bill forward. Mr. Grigg stated Section 6, subsection 11 deals with agriculture replacement, which is a different tax exemption. This proposed legislation deals specifically with replacement of personal property tax only.

**MOTION:** **Rep. Erpelding** made a motion to introduce **RS 22542C1**. **Motion carried by voice vote.**

**RS 22621:** **Alan Dornfest**, Idaho State Tax Commission (ISTC), presented **RS 22621** which is replacement legislation for **H 376**. Current law requires the Board of Tax Commission to meet the 4th Monday in August related to property tax and operating property assessments. **RS 22621** removes the requirement to meet, if all business of the Commission is completed. Section 2 is related to occupancy tax and contains two changes. The first change clarifies when improvements to property are subject to occupancy tax. Mr. Dornfest stated this is to prevent both property and occupancy tax from being charged on the same property. He does not believe this has occurred, but the ISTC is taking a proactive approach. Subsection 3 (b) is related to the notice to the taxpayer for an appeal process. The 28 day time limit will begin once the appraised value is placed on the tax roll. The final change is in Section 3 regarding yield tax assessed to forest land. Forest land owners have the option to pay yield tax or ongoing tax, based on the value of the land. At harvest, the yield tax is owed, but current language is unclear as to whether the owner is ever notified. This proposed change requires the county tax collector to notify the landowner of any yield tax owed.

**MOTION:** **Rep. Trujillo** made a motion to introduce **RS 22621**. **Motion carried by voice vote.**

**H 377:** **Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission, presented **H 377**. This bill clarifies the definition of 'natural person' and inclusion on an Idaho composite return. This bill will include additional entities in the composite return; grantor trust, qualified subchapter S corporation and single member Limited Liability Company (LLC). **H 377** will also provide clarification on payment of the Permanent Building Fund (PBF) fee for qualifying nonresident individuals and pass-through entities. If these new entities are on the composite return, they will still be required to pay the PBF.

**MOTION:** **Rep. Anderson(31)** made a motion to send **H 377** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Rep. Anderson(31)** will sponsor the bill on the floor.

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:30 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary



AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:30 A.M.**  
**Room EW42**  
**Tuesday, February 04, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>H 382</u></a>	Electronic Filing - Idaho Business Income Tax Returns	Michael Chakarun, Idaho State Tax Commission
<a href="#"><u>H 383</u></a>	Personal Property Tax Exemption Idaho Code 63-602KK(2)	Alan Dornfest, Idaho State Tax Commission
<a href="#"><u>H 420</u></a>	Tax Exemption - U.S. Military Retirement Income	Rep. Sims

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

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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 Sayler, 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

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Thursday, February 06, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>S 1213</u></a>	Exemption Application - Oil and Gas Wells	Sen. Jim Rice
<a href="#"><u>S 1236</u></a>	Electronic Notification Of Property Tax By County Treasurer	Seth Grigg, Idaho Association of Counties
<a href="#"><u>S 1237</u></a>	Clarification Of Tax Deeded Property Redemption Time Limit	Seth Grigg, Idaho Association of Counties
<a href="#"><u>RS22775</u></a>	Accountability and Transparency - Special Units of Government	Rep. Trujillo

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Thursday, February 06, 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, Burgoyne, Erpelding, Meline

**ABSENT/  
EXCUSED:** Rep. Agidius

**GUESTS:** Vicky McIntyre, Ada County & IATC; Tracie Lloyd, Canyon County & IATC; Seth Grigg, Idaho Association of Counties; Kate Haas, Kestrel West; Raeleen Welton, Rocky Mountain Power; Suzanne Budge, SBS Associates; Phil Homer, IASA; Parker Papworth, Lobby Idaho.

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

**MOTION:** **Rep. Wood(35)** made a motion to approve the minutes of February 4, 2014.  
**Motion carried by voice vote.**

**S 1213:** **Sen. Rice** presented **S 1213**. This legislation will eliminate the need for entities to make application for tax exemption, since oil and gas wells are always exempt from personal property tax.

**MOTION:** **Rep. Moyle** made a motion to send **S 1213** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Rep. Moyle** will sponsor the bill on the floor.

**S 1236:** **Seth Grigg**, Idaho Association of Counties, presented **S 1236** which would authorize County Treasurers to send tax notices electronically, upon the request of the taxpayer.

In response to questions from the committee, **Mr. Grigg** stated the reference to the Post Office box mailing address is found throughout the statute so it was not changed in the context of emailing notices. Documentation proving receipt of any email notices sent would be up to the Treasurer. Currently, the only way a Treasurer knows if the taxpayer did not receive a mailed tax notice is if the mail is returned. Similarly, an undeliverable email notice is typically sent for email that cannot be delivered. The final process for follow up notice would be at the discretion of the Treasurer.

**Rep. Trujillo** stated the Treasurer has a requirement to provide notice, which is covered in statute. However, regardless of whether the notice is actually received or not, the tax is still owed.

**Tracie Lloyd**, Canyon County Treasurer, stated if mail is returned, they try to find amore accurate mailing address and this would be the same process used for an email tax notice.

**Mr. Grigg** confirmed email tax notice is not intended to be mandatory and would be only at the request of the taxpayer.

**MOTION:** **Rep. Trujillo** made a motion to send **S 1236** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Rep. Trujillo** will sponsor the bill on the floor.

**S 1237:** **Seth Grigg**, Idaho Association of Counties, presented **S 1237**. Current statute permits an individual twelve months for tax deed redemption but allows the County Treasurer a 14 month period to auction the tax deeded property. This legislation clarifies the time limit of fourteen months for redemption of tax deeded property, by the owner of record.

**MOTION:** **Rep. Anderst** made a motion to send **S 1237** to the floor with a **DO PASS** recommendation.

**Mr. Grigg** stated the County is required to put tax deeded property up for auction within a 14 month period. The County is also allowed to set a minimum bid and generally, the amount covers the tax deficiency and any additional costs incurred. If a bid is not received, the County does not lose the ability to sell the property. The County can sell tax deeded property at any amount they see fit, with no time certain.

In response to a question, **Mr. Grigg** stated the Board of County Commissioners can allow a hardship waiver when tax becomes past due. Generally, a property is tax deeded three years after the tax becomes delinquent. With the additional 14 months provided to the owner in this legislation, more than four years will have passed by the time of auction. Typically by this time, the former owner has no interest or ability to retain the property, however, nothing prevents them from approaching the County and potentially purchasing the property for the listed price.

**Tracy Lloyd**, Canyon County Treasurer, stated they have several pieces of property that were not sold at auction and which are now listed with a real estate agent. These are very distressed properties where the owner just walked away.

**Rep. Kauffman** declared Rule 38 as his wife is a County Treasurer.

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

**RS 22775:** **Rep. Anderst** will sponsor the bill on the floor.

**Rep. Trujillo** presented **RS 22775**. This proposed legislation is intended to improve the public accountability and transparency of all special purpose governmental units in Idaho. Only 35.5% are in compliance with auditing requirements. School districts are at 100% since their funding will be withheld if audits are not completed in time. There is not expected to be a fiscal impact as Legislative Services Office (LSO) anticipates the audits can be done with existing state resources. Rep. Trujillo stated LSO will develop the form and process to be used for the audits of various governmental units.

**MOTION:** **Rep. Wood(35)** made a motion to introduce **RS 22775**. **Motion carried by voice vote.**

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:28 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary



**AMENDED AGENDA #1**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Friday, February 07, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>H 402</u></a>	Excess Income Inclusion of Real Estate Mortgage Investment Conduits and Idaho Net Operating Loss Computation	Michael Chakarun, Idaho State Tax Commission
<a href="#"><u>RS22616</u></a>	Exemption of Rate Regulated Public Utilities- Personal Property Tax	Sen. Siddoway
<a href="#"><u>RS22696</u></a>	Sales Tax Exemption - Prescription Glasses & Contact Lenses	Kris Ellis, Idaho Optometric Physicians
<a href="#"><u>RS22708C1</u></a>	Adoption of International Residential Building & Energy Conservation Codes	Tyler Mallard, Risch Pisca
<a href="#"><u>RS22826C1</u></a>	Income Tax Exemption - Broadband Service Construction Contribution	Rep. Eskridge
<a href="#"><u>RS22628</u></a>	Conservation Easement Tax Valuation Repeal	Rep. Morse

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Friday, February 07, 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, Burgoyne, Erpelding, Meline

**ABSENT/  
EXCUSED:** Rep. Denney

**GUESTS:** Russell Westerberg, Raeleen Welton, Rocky Mountain Power; Tyler Mallard, IBCA; Tony Smith, Benton Ellis; Mike Chakarun, Idaho State Tax Commission; Rick Smith, Hawley Troxell; Rich Hahn, Idaho Power; Phil Homer, IASA; Ron Williams, ICTA; Dawn Justice, Idaho Bankers Association; Ben Davenport, Associated Taxpayers of Idaho.

**Chairman Collins** called the meeting to order at 9:01 am.

**H 402:** **Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission (ISTC), presented **H 402**. This bill will provide a method of computation for the calculation of Idaho Net Operating Loss (NOL) when a taxpayer recognizes Real Estate Mortgage Investment Conduits (REMIC) Excess Income Inclusion (EII). Currently, the method of computation for REMIC EII is not defined in statute. The lack of a clear definition creates confusion for taxpayers and the Idaho State Tax Commission. This legislation is the result of a joint effort between the ISTC and the Idaho Bankers Association.

**Mr. Chakarun** stated owners of REMIC who incur a NOL are required to pay taxes, since the Internal Revenue Code considers excess income to be taxable income of the entity, in the year of loss. This taxable income then flows through on to the Idaho return. Idaho statute is unclear on how NOL is treated and this bill will provide clarification. In Section 2, 63-3027 is modified to allow for multi-state corporations.

**MOTION:** **Rep. Anderson(31)** made a motion to send **H 402** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote. Rep. Anderson(31)** will sponsor the bill on the floor.

**RS 22616:** **Sen. Siddoway** presented **RS 22616** which is related to personal property tax exemption exclusion for rate-regulated utilities and railroads. **H 315** passed in 2013, allows public utilities to receive a \$100,000 exemption per county. Personal property tax exemption loss is replaced with state funds, to the county.

In response to a question on the fiscal note, **Sen. Siddoway** stated the current fiscal note is pretty conservative, in his opinion. The state will replace lost revenue at the county level, due to passage of **H 315**, at a flat, fixed rate. If operating properties and railroads are excluded from the tax exemption, the state won't need to replace those funds.

**MOTION:** **Rep. Wood (35)** made a motion to introduce **RS 22616**.

**Sen. Siddoway** acknowledged since small utilities are not rate regulated, there is a possibility competitive inequities could result from this proposed legislation. Sen. Siddoway stated he is assuming there will be further exemptions for personal property tax added to existing exemptions, in the future. **H 315** left all entities included as being eligible for the exemption. This proposed legislation would exclude rate regulated utilities and railroads from utilizing the personal property tax exemption.

**VOTE ON THE MOTION:**

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

**RS 22696:**

**Kris Ellis**, Idaho Optometric Physicians, presented **RS 22696**. The intent of this proposed legislation is to align prescription glasses and contact lenses with other prescriptions and medical devices, making them exempt from Idaho sales tax. The prescription exemption has been around since 1966, when the Idaho sales tax was implemented. For tax purposes, vendors separate out the two categories of charges; services from taxable goods. Currently, close to 90% of some optometric practices are paid by insurance companies, who pay providers a 'global fee' which includes the fitting fee, lab fee and dispensing fee, as well as the product itself. In many cases, there is not a way to determine the cost of the product at the time of service, resulting in a tax on the entire payment.

**Ms. Ellis** stated she is asking for introduction only, not a hearing, and plans to work with the Governor's office and Joint Finance and Appropriations Committee, in the interim, to implement the entire exemption in a subsequent session.

**MOTION:**

**Rep. Raybould** made a motion to introduce **RS 22696**. **Motion carried by voice vote.**

**RS 22708C1:**

**Tyler Mallard**, Government Affairs Liaison, Risch Pisco, representing the Idaho Building Contractors Association presented **RS 22708C1**. This proposed legislation would adopt the current version of both the International Residential Building Code and the International Energy Conservation Code, identifying those codes as the Idaho Residential Building Code and the Idaho Energy Conservation Code. If future editions or amendments to the code are needed, they would be made through the Idaho Building Code Board negotiated rulemaking process, which requires written notice and a public hearing.

In response to a question, **Mr. Mallard** stated this proposed legislation would permit adoption of the most recent version of the International codes, which would become Idaho Code. Going forward, changes would be made through the negotiated rulemaking process, as needed and applicable for Idaho. Mr. Mallard stated there is no anticipated impact to the General Fund and nothing he is aware of would prevent modification of the code, at adoption, to meet Idaho's needs.

**MOTION:**

**Rep. Trujillo** made a motion to introduce **RS 22708C1**. **Motion carried by voice vote.**

**RS 22826C1:**

**Rep. Eskridge** presented **RS 22826C1**, which would establish an income tax credit for individual and small business broadband consumers making contributions to aid in the construction of broadband services to unserved areas of Idaho. The income tax credit amount would be capped at \$10,000 for individuals and \$50,000 for small businesses. The tax credit is taken over a five year period of time, 20% per year. The purpose of **RS 22826C1** is to help push broadband service to the remaining 5-10% of the state currently without access. Rep. Eskridge made a comparison of this proposed legislation to Rural Electric Cooperatives, which provides consumers an opportunity to pay the difference between cost of installation and anticipated revenue needed to pay for the cost of infrastructure.

**Ron Williams**, attorney and lobbyist representing the Idaho Telecommunication Association and Link Idaho Task Force stated this proposed legislation is a result of the work Link Idaho has been working on to address the 90% of consumers in unserved areas of the state who lack access to wireless services. The cost of cable installation is between \$25-40,000 per mile. Companies need to reach approximately 35 customers per mile to make the business investment feasible. This proposed legislation would allow customers to help fund the infrastructure.

**Mr. Williams** stated the proposed legislation would be somewhat self sunsetting since the more the tax credit is utilized, the less need there is for the investment. The fiscal impact statement comes from a financial model estimating 15% of households, 25% of businesses, currently found in unserved areas, would take advantage of this tax credit.

**MOTION:** **Rep. Wood(35)** made a motion to introduce **RS 22826C1**.

In response to a question, **Mr. Williams** stated the contribution in aid of construction is essentially when a customer in an unserved area, contributes toward the cost of line extension for broadband.

**Rep. Kauffman** declared Rule 38, stating he is a board member of a company providing broadband services.

**Mr. Williams** responded to a question stating he did not include assumptions of a possible multiplier effect related to economic development and the \$7 million is likely greater than will be the final impact. He said there are ongoing efforts at both the state and federal level to redirect Universal Service Funds into broadband services.

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

**RS 22628:** **Rep. Morse** presented **RS 22628**. Rep. Morse stated this is a simple repeal of Idaho Code 55-2109, which currently mandates property with a conservation easement, be valued for tax purposes without the easement. The existing statute violates the uniformity of taxation requirement in the Constitution. Repeal of this statute would result in uniformity is appraisal and taxation for all parcels of land. Rep. Morse stated an appraisal is really related to the right to use property. Idaho Code 55-2109 was enacted in 1988. While there is no reported case law there is a central Idaho case on record, which declared the statute to be unconstitutional.

In response to questions, **Rep. Morse** said there is typically a reclassification of property, in cases where the functional use results in a major economic impact. He stated a conservation easement can be compared to scenic easement. When a conservation easement is placed on a property, it must be in perpetuity, in order to get the federal tax deduction. In cases for timber property, harvesting rights or prohibition to harvest would be taken into determining the market value.

**MOTION:** **Rep. Anderst** made a motion to introduce **RS 22628**. **Motion carried by voice vote.**

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 10:05 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Tuesday, February 11, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>RS22475C1</u></a>	Audits of Local Units of Government - Financial Transparency	Rep. Morse
<a href="#"><u>RS22588</u></a>	Medical Device Tax	Rep. Dayley
<a href="#"><u>H 440</u></a>	Valuation of Operating Property of Rate Regulate Electric Utilities	Alan Dornfest, Idaho State Tax Commission
<a href="#"><u>H 442</u></a>	Property Tax Law Technical Changes	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 Collins(Collins)	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
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email: hrev@house.idaho.gov

MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Tuesday, February 11, 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, Burgoyne, Erpelding, Meline

**ABSENT/  
EXCUSED:** Chairman Collins

**GUESTS:** Benjamin Davenport, Associated Taxpayers; Alan Dornfest, Idaho State Tax Commission; Amber Pence, City of Boise; Melissa Nelson, ISCPA; Rich Hahn, Katrina Basye, Idaho Power; Russell Westerberg, Rocky Mountain Power; Tyler Mallard, Risch Pisca.

**Vice-Chairman Wood(35)** called the meeting to order at 9:03 am.

**MOTION:** **Rep. Meline** made a motion to approve the minutes of February 6, 2014. **Motion carried by voice vote.**

**MOTION:** **Rep. Anderson(31)** made a motion to approve the minutes of February 7, 2014. **Motion carried by voice vote.**

**RS 22475C1:** **Rep. Morse** presented **RS 22475C1**. This legislation is intended to address the embezzlement and audit risk within local units of government. **RS 22475C1** will increase financial transparency and provide more meaningful salary and benefit information through reporting. Section 1 would require audits to be posted on the governmental entity website, provided they maintain one. Section 2 (e) would require every entity holding government funds, to be audited every two years unless they have established written policies and management controls for oversight.

**Rep. Morse** stated there are 1500 local units of government required to file audit reports with the Legislative Services Office (LSO), however many are not currently in compliance. Rep. Morse said current code clarifies when audits are due. The proposed legislation does not change this section but adds a 'trigger' requiring an audit every two years **or** the entity must provide written policies and procedures and establish specific management controls and internal oversight. Currently there is no enforcement mechanism for noncompliance. The proposed legislation would put in place an enforcement mechanism resulting in the loss of city, county, or state revenue funds in the event of noncompliance.

**Rep. Morse** stated Section 2 (f) requires the audit report to include the number of full-time position (FTP) employees as well as salary and benefit costs. A correction on page two, line 49 is needed to replace the word 'of' with 'or'.

In response to questions, **Rep. Morse** clarified this proposed legislation would apply to all units of local government, including school districts. He indicated if some of the information on employee FTP and benefits is currently being collected by the Department of Financial Management (DFM), he has not found consistency in the data. Rep. Morse said the information may be aggregated and not available at the local level.

As only 35% of local units of government currently comply with local audit standards, the changes will be made slowly. Mandating websites, as an example, could be costly for small counties. **Rep. Morse** clarified this is an incremental process.

- MOTION:** **Rep. Barrett** made a motion to introduce **RS 22475C1**.
- Rep. Trujillo** responded to a question from the committee stating her proposed legislation would be a companion to **RS 22475C1** and would create a state website that would show audit information for entities who do not have one.
- VOTE ON MOTION:** **Vice-Chairman Wood(35)** called for a vote on the motion. **Motion carried by voice vote.**
- RS 22588:** **Rep. Dayley** presented **RS 22588** related to the Patient Protection and Affordable Care Act (PPACA) passed by Congress in 2010. This is a joint memorial requesting the Secretary of the United States Department of Health and Human Services suspend imposition of all PPACA taxes until a national review is completed, so a clear understanding of the potential impact can be measured. The PPACA imposes a variety of taxes on the healthcare industry, including a 2.3% medical device tax imposed on a manufacturer, producer or importer. The tax is based on the sales price of the product and is estimated to generate \$29 billion over the next ten years. Impact on Idaho is estimated to be a loss of nearly 100 jobs, \$11.5 million in lost wages, as well as taxes. **Rep. Dayley** stated this is a bipartisan effort across the nation.
- MOTION:** **Rep. Burgoyne** made a motion to introduce **RS 22588**. **Motion carried by voice vote.**
- H 440:** **Alan Dornfest**, Idaho State Tax Commission (ISTC), presented **H 440** which will provide valuation guidance on the assessment of operating property, owned by rate regulated electric utility companies, for property tax purposes. This legislation is in response to a dispute regarding the proper way to account for obsolescence. Litigation between the ISTC and Idaho Power resulted in a method of calculation for obsolete operating property. The language in **H 440** is identical to what was agreed upon in the settlement. Avista and Rocky Mountain Power have expressed no opposition to this legislation.
- If the entity has further forms of obsolescence, no additional recognition by the appraiser will be given. **Mr. Dornfest** stated the method of calculation utilized for assessment takes into account all forms of obsolescence.
- MOTION:** **Rep. Trujillo** made a motion to send **H 440** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Rep. Kauffman** will sponsor the bill on the floor.
- H 442:** **Alan Dornfest**, Idaho State Tax Commission, presented **H 442**, which makes four technical corrections to Idaho property tax law. Section 1 eliminates the requirement for the State Tax Commission to meet on the fourth Monday in August to equalize property assessments and to set assessments for operating property, if the work of the Commission is finished. This legislation states they will act no later than the fourth Monday.
- Section 2 adds a provision exempting property subject to occupancy tax from assessment and tax under **Idaho Code 63-602Y** when there is a change in status. This change deals with improvements and how occupancy tax is assessed. Improvements subject to occupancy tax will not also be subject to property tax. **Mr. Dornfest** stated there is no evidence this is occurring, however, this legislation is intended to clarify property is not subject to both taxes.
- The process for notice hasn't been clear and this legislation clarifies notice is upon 'entry of appraised value on the occupancy tax role'. **Mr. Dornfest** stated **H 442** also provides a 28 day notice for a taxpayer to appeal an occupancy tax assessment. Section 3 requires the tax collector to provide a notice to a taxpayer when a yield tax is due on timber harvest.

**MOTION:** Rep. Burgoyne made a motion to send **H 442** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** Rep. Trujillo will sponsor the bill on the floor.

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:37 am.

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Representative Wood(35)  
Vice Chair

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Kathleen A. Simko  
Secretary



**AMENDED AGENDA #1**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Thursday, February 13, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>RS22712</u></a>	Sales Tax Distribution Formula - Enhanced Highway Funding	Rep. Kauffman
<a href="#"><u>RS22676</u></a>	Electricity Producing Or Substation Property Tax Exemption	Rep. Loertscher
<a href="#"><u>RS22576C1</u></a>	Tax Credit - Nonprofit Scholarship Granting Organizations	Rep. Vander Woude
<a href="#"><u>H 441</u></a>	Technical and Administrative Corrections - Business Personal Property Tax Exemption	Seth Grigg, Idaho Association of Counties

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius  
Rep Burgoyne  
Rep Erpelding  
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Thursday, February 13, 2014

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

**PLACE:** Room EW42

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

**ABSENT/  
EXCUSED:** None

**GUESTS:** Russell Westerberg, Rocky Mountain Power; Suzanne Budge, SBS Associates, LLC; Alan Dornfest, Idaho State Tax Commission; Benjamin Davenport, Associated Taxpayers; Julie Hart, Westerberg & Associates; Robin Nettinga.

**Vice Chairman Wood(35)** called the meeting to order at 9:01 am.

**MOTION:** **Rep. Dayley** made a motion to approve the minutes of February 11, 2014 with the following correction: On page 2, paragraph 4, line 4 the word 'rules' should be 'taxes'. **Motion carried by voice vote.**

**RS 22712:** **Rep. Kauffman** presented **RS 22712** which is intended to provide enhanced funding for Idaho's road infrastructure. Money from the General Fund would be allocated to local road entities, through a modification in the redistribution formula, in the approximate amount of \$22 million. This is the amount of sales tax estimated by the Idaho State Tax Commission (ISTC) on the sale of tires and auto accessories. The \$22 million would be split with 57% going to the state highway account and 43% to units of local government, and expended only for planning, engineering, maintenance and construction of state highways and roads.

In response to questions from the committee **Rep. Kauffman** stated 2% is estimated the tax revenue generated by sales of tires and auto accessories. This amount is \$22 million and would come from the General Fund, but there is not a specific General Fund allocation identified which would be decreased. Rep. Kauffman stated the funds could be additional revenue generated from growth in the economy.

**Rep. Kauffman** said the tax revenue from tires has been going to the General Fund for years. There was consideration for allocation of tax revenue specifically from the sale of tires, accessories and related auto parts, however, the data does not currently exist to determine the amount generated. The \$22 million estimate was provided by the ISTC and Rep. Kauffman stated he worked backwards to derive the 2% amount. Rep. Kauffman stated the use of a specific percentage will allow revenue to keep pace with inflation.

**MOTION:** **Rep. Moyle** made a motion to introduce **RS 22712**.

In answering additional questions, **Rep. Kauffman** explained how the split between highways and local units of government was decided. He clarified the tax revenue is not intended to be used for right of way acquisition. Rep. Kauffman stated Idaho is one of only two or three states with no General Fund money going to roads.

**Rep. Kauffman** stated the current shortfall needed for roads and highways is estimated at \$262 million, by the Idaho Department of Transportation. Any additional income could be used by local highway districts for maintenance, which will help extend usability of the road surface. Rep. Kauffman stated farm equipment and machinery are not subject to sales tax.

**VOTE ON  
MOTION:**

**Vice Chairman Wood(35)** called for a vote on the motion. **Motion carried by voice vote.** Rep. **Burgoyne** requested to be recorded as voting **NAY**.

**Vice Chairman Wood(35)** welcomed Rep. **Ann Collins** to the committee. Rep. Collins will be filling in for her husband **Chairman Gary Collins**, until his return.

**RS 22676:**

**Rep. Loertscher** presented **RS 22676** which would amend **Idaho Code Section 63-602JJ**. Rep. Loertscher stated this is essentially a fairness issue and would eliminate entities from using the tax exemption for property not used in the direct production of electricity. To be eligible for the exemption, property must be used in the actual production of electricity or be a substation.

**MOTION:**

**Rep. Moyle** made a motion to introduce **RS 22676**. **Motion carried by voice vote.**

**RS 22576C1:**

**Rep. Vander Woude** presented **RS 22576C1**. This proposed legislation would provide a 50% Idaho income tax credit to individuals and corporations making donations to eligible nonprofit Scholarship Granting Organization (SGO's). SGO's would qualify if they provide scholarships to low-income K-12 students attending approved non public schools. The fiscal impact is dependent upon the utilization and approximately \$1 savings to the state for every \$1 donated to SGO would be realized.

In response to questions, **Rep. Vander Woude** stated he is unaware of any potential constitutional problems with the proposed legislation. He stated the total amount of the credit is capped at \$10 million. Once the cap is reached, the limit will only be adjusted by the Consumer Price Index.

**MOTION:**

**Rep. Moyle** made a motion to introduce **RS 22576C1**. **Motion carried by voice vote.** Rep. **Burgoyne** requested to be recorded as voting **NAY**.

**H 441:**

**Seth Grigg**, Idaho Association of Counties (IAC), presented **H 441**, which makes technical and administrative corrections to the personal property business tax exemption that arose as unforeseen consequences in the implementation of **H 315**.

The first amendment is found in **Idaho Code Section 33-1103** and revises the definition of "market value for assessment purposes" as related to school bonds. The replacement amount of lost income from property tax is fixed in time, based on 2013 assessments. As time passes, the assessor will have no way to determine the value of property and this change corrects that problem.

The change in Section 2 amends **Idaho Code Section 63-309** to clarify that taxable improvements on tax exempt land are not eligible for the business personal property tax exemption.

In Section 3, **Idaho Code Section 63-602KK** is being amended to clarify the application for tax exemption for personal property valued at less than \$10,000 is only required to be made once, provided certain conditions apply. This section also includes several technical corrections.

Section 4 makes a change to **Idaho Code Section 63-808** to clarify the definition of 'taxable value' for determination of property tax levies.

Section 5 adds language to **Idaho Code Section 63-3638** which provides a clarification in the distribution process of personal property tax replacement funds, when taxing districts are consolidated.

**MOTION:**        **Rep. Dayley** made a motion to send **H 441** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Reps. Dayley and Burgoyne** will sponsor the bill on the floor.

**ADJOURN:**      There being no further business to come before the committee, the meeting was adjourned at 9:36 am.

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Representative Wood(35)  
Vice Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Friday, February 14, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>RS22889</u></a>	Distribution of Cigarette Tax - Modification	Rep. Moyle

COMMITTEE MEMBERS

Chairman Collins(Collins)	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius  
Rep Burgoyne  
Rep Erpelding  
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Friday, February 14, 2014

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

**PLACE:** Room EW42

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

**ABSENT/  
EXCUSED:** None

**GUESTS:** Julie Hart, Westerberg & Associates.

**Vice Chairman Wood(35)** called the meeting to order at 9:03 am.

**MOTION:** **Rep. Trujillo** made a motion to approve the minutes of February 13, 2014. **Motion carried by voice vote.**

**RS 22889:** **Rep. Moyle** presented **RS 22889** which proposes a change in the distribution of cigarette taxes, beginning in FY 2015.

**Rep. Moyle** stated the restoration of the Capitol is being paid for with tobacco tax. When the debt is paid in FY 2015, there will be additional funds available. Currently, cigarette tax revenue is distributed to a variety of funds. The taxes have been declining in recent years. This proposed legislation would fix the amount the different funds receive. The Refund account is used to pay for damaged goods and will not have a fixed amount of funding allocated.

After the fixed distributions are allocated, if there are excess cigarette tax revenues, they will be distributed in the following order: up to \$4.7 million to the GARVEE debt service, up to \$3 million to the Secondary Aquifer Planning, Management and Implementation Fund for recharge only, up to \$2 million to the Department of Water Resources Aquifer Fund, and any remaining funds will be used for maintenance and repair of state highways.

In response to questions, **Rep. Moyle** stated there are certain sites where the funds allocated to aquifer recharge will make a difference and, since planning is needed, the \$2 million is allocated for that purpose. Rep. Moyle said GARVEE projects benefit the entire state. When additional funds are used for repayment of GARVEE, General Fund resources can be used elsewhere.

**Rep. Moyle** clarified the revenue used to repay GARVEE is borrowed on the bond market and paid back by money received from the federal government. The debt, however, is not with the federal government. There is an annual state match of \$4.7 million. If this proposed legislation passes, the state match will be paid using cigarette tax revenues. GARVEE debt must be 10 years or older in order to pay the bonds off early. Rep. Moyle stated all of the programs currently receiving cigarette tax revenue will get the same, or more, in the future, with the fixed allocation being proposed.

In response to a question, **Rep. Moyle** stated the Public School Income Fund will not be decreased. Since Idaho is such a rural state, not all areas have the capacity to generate the money needed to keep roads maintained. Rep. Moyle acknowledged while more of the economic impact and revenue is generated in District 3, all of Idaho will benefit by having an improved road infrastructure. Similarly, the issue of water recharge may advantage one area more than another, but the entire state ultimately benefits. Rep. Moyle stated ideally, GARVEE would be paid off first before additional funds are directed to other areas, but the goal was to be more flexible and this proposed legislation does that.

**MOTION:** **Rep. Raybould** made a motion to introduce **RS 22889. Motion carried by voice vote.**

**Vice Chairman Wood(35)** thanked Page **Anthony Sein** for his work with the committee over the past six weeks. Vice Chairman Wood(35) introduced **Lindsey LaPrath**, a Senior at Middleton High School, as the new committee Page.

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:27 am.

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Vice Chairman Wood(35)  
Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Tuesday, February 18, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>H 420</u></a>	Tax Exemption-Military Retirement Income Regardless of Retiree Age	Rep. Sims
<a href="#"><u>RS22915</u></a>	Idaho Corporate and Individual Income Tax Reduction	Rep. Moyle
<a href="#"><u>RS22921</u></a>	Governmental Entities - Standards of Audits	Rep. Trujillo

COMMITTEE MEMBERS

Chairman Collins(Collins)	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius  
Rep Burgoyne  
Rep Erpelding  
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Tuesday, February 18, 2014

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

**PLACE:** Room EW42

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

**ABSENT/  
EXCUSED:** Rep. Dayley

**GUESTS:** None

**Vice Chairman Wood(35)** called the meeting to order at 9:00 am.

**MOTION:** **Rep. Raybould** made a motion to approve the minutes of February 14, 2014.  
**Motion carried by voice vote.**

**H 420:** **Rep. Sims** presented **H 420** which is related to the exemption of military retirement income for Idaho residents, regardless of age. Rep. Sims explained **H 420** was brought back to the committee due to a recalculation of the fiscal impact.

**MOTION:** **Rep. Moyle** made a motion to send **H 420** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Reps. Anderson(31), Burgoyne, and Erpeling** requested to be recorded as voting **NAY**. **Rep. Sims** will sponsor the bill on the floor.

**RS 22915:** **Rep. Moyle** presented **RS 22915**. This proposed legislation would reduce the amount of individual and corporate income tax over time and upon certain conditions being met. Beginning in taxable year 2015, individual and corporate income taxes would be lowered by one tenth of one percent (.10%). Beginning January 1, 2016, the income tax rate in all brackets would be lowered by one tenth of one percent (.10%) in each subsequent year, only when General Fund revenue growth exceeds three percent (3.0%) the preceding year. Reductions will continue until individual and corporate tax rates equal 6.8%.

In response to questions from the committee, **Rep. Moyle** stated the impact in General Fund revenues does not take into consideration the \$21 million which would be put back into the economy. Subsequent the 2015 tax year, General Fund revenues would need to be growing in order to realize the tax reduction.

**Rep. Moyle** stated generally, as income tax rates are reduced, growth in the economy increases, thereby reducing the reliance on federal subsidies. Rep. Moyle stated he questions whether Idaho is 46th in the nation for income taxes, since fees are not included. When the overall tax burden is considered, he believes the cost is much higher. Rep. Moyle said potential businesses look at the current rate of 7.4% and it is a deterrent. When asked if consideration was made to immediately cut the corporate tax rate to 6.9%, Rep. Moyle said since not all businesses are C Corporations, not all businesses would benefit.

**MOTION:** **Rep. Anderst** made a motion to introduce **RS 22915**, with the correction in the SOP of the word 'tall' to 'all' in line three. **Motion carried by voice vote.**

**RS 22921:** **Rep. Trujillo** presented **RS 22921** which makes technical corrections to **H 474** and is related to accountability by governmental entities. Rep. Trujillo stated the changes made includes the exclusion of school districts, as they are audited under a different section of Idaho Code and are 100% compliant. Section 1 establishes a central registry in the Legislative Services Office website by January 1, 2016 and the process of budget submission and audit criteria. **RS 22921** is also modified to include a section on notification and penalties, for governing entities failing to comply.

**MOTION:** **Rep. Anderson(31)** made a motion to introduce **RS 22921**. **Motion carried by voice vote.**

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:16 am.

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Representative Wood(35)  
Vice Chair

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Kathleen A. Simko  
Secretary

**AMENDED AGENDA #1**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Wednesday, February 19, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>RS22877</u></a>	Remotely Accessed Computer Software Definition	Mike Reynoldson, Idaho Technology Council
<a href="#"><u>RS22888</u></a>	Sales Tax Exemption - Food & Beverage Donations	Rep. Dayley
<a href="#"><u>RS22928</u></a>	Sales Tax Exemption - Camp Rainbow Gold	Jeremy Chou

COMMITTEE MEMBERS

Chairman Collins(Collins)	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Wednesday, February 19, 2014

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

**PLACE:** Room EW42

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

**ABSENT/  
EXCUSED:** None

**GUESTS:** Jeremy Chou, Camp Rainbow Gold; Elli Brown, Veritas Advisors; Jonathan Parker, Internet Truck Stop; Elizabeth Lizberg, Camp Rainbow Gold; Donna Yule, IPEA; Benjamin Davenport, Associated Taxpayers.

**Vice Chairman Wood(35)** called the meeting to order at 9:00 am.

**MOTION:** **Rep. Meline** made a motion to approve the minutes of February 18, 2014. **Motion carried by voice vote.**

**RS 22877:** **Mike Reynoldson**, Idaho Government Affairs Manager, Micron Technology, acting as the Public Policy Chair of the Idaho Technology Council, presented **RS 22877**. Mr. Reynoldson stated the proposed legislation is regarding remotely accessed computer software, commonly referred to as 'cloud' services. Software and its use has changed over the years. In Idaho, sales tax has never been collected on cloud services, as they do not represent a tangible good, and the software is transferred electronically.

Last year, legislation was drafted to provide clarification. When the Idaho State Tax Commission (ISTC) suggested further changes, **H 243**, was introduced and ultimately passed, providing an update to the definition of software. During the interim rule making process, **Mr. Reynoldson** stated there was disagreement between industry and the ISTC and subsequently, it was agreed upon that further legislation was needed. **RS 22877** is intended to provide clarification and update the definition of software, to ensure the legislative intent is very clear that cloud services are not subject to Idaho sales tax.

In response to a question, **Mr. Reynoldson** stated the language stricken on page two had been added last year and is now addressed with new language on page one. The stricken portion deals with entertainment software, typically in the form of applications, or 'apps'. There was a problem differentiating between applications used for entertainment versus other purposes, so the language was removed entirely. Mr. Reynoldson stated essentially a customer purchases a license to use the software, whether they purchase functionally equivalent software or cloud services.

**Mr. Reynoldson** responded to a question regarding software purchased on a disc, but not delivered on a disc stating, if the software was delivered electronically, it would not be subject to taxes.

**Mr. Reynoldson** stated he would take into consideration adding the wording 'digitally coded' to the definition. In response to a question, he provided an explanation stating, when a vendor comes to a physical location with a disc or flash drive, loads the software and takes the disc or flash drive with them, this is considered 'load and leave'. He stated this isn't considered a tangible piece of property equivalent to downloading from the cloud, it just uses a different method. It is likely the user is paying a licensing fee annually or upon software update. The user does not have the ability to change the software, only input data.

Responding to a question on the fiscal note, **Mr. Reynoldson** explained it is difficult to gather data on sales of software. Consideration was given to the fiscal impact of **H 243** in 2013 and that fiscal impact was excluded, thus the fiscal impact provided in **RS 22877** is given as a range.

**MOTION:** **Rep. Anderson(31)** made a motion to introduce **RS 22877**. **Motion carried by voice vote.**

**RS 22888:** **Rep. Dayley** presented **RS 22888**. In 2013 legislation was passed to exclude food and beverages, provided at no charge during tasting events, from use taxes. This proposed legislation will address use tax exemption for food and beverages donated to individuals and non-profit entities, provided the product is given away at no charge.

**Rep. Dayley** clarified the target population is food producers and not individual donors. The Idaho State Tax Commission (ISTC) suggested making the language very specific. Entities at the wholesale or production level giving food away are essentially taking the product out of their inventory. Donations made by entities like Albertson's, who donate expiring products off the shelves, would not qualify.

**MOTION:** **Rep. Erpelding** made a motion to introduce **RS 22888**. **Motion carried by voice vote.**

**RS 22928:** **Jeremy Chou**, attorney with Givens Pursley, presented **RS 22928** as a Board member of Camp Rainbow Gold. Mr. Chou stated the proposed legislation has no negative fiscal impact, since Camp Rainbow Gold has always been tax exempt. Camp Rainbow Gold (CRG) provides services to children and families with cancer. The American Cancer Society (ACS) has operated CRG for approximately 30 years.

The ACS has been listed as a qualifying health organization, exempt from Idaho sales tax, since 1985. ACS recently divested their affiliation with cancer camps to focus on cancer research. Consequently, CRG is now operating as a 501(c) 3 entity and effective January 1, 2014 would not be eligible for sales tax exemption. This proposed legislation would provide a continuation of the sales tax exemption by including them on the eligible list of health related organizations.

**Mr. Chou** responded to a question stating while CRG is a 501 (c) 3 that designation does not exempt them for Idaho sales tax purposes. This proposed legislation would add CRG to the list of existing 'health related entities'. Mr. Chou stated CRG provides counseling services, has a full medical staff, and can administer chemotherapy and other medical services during camp. CRG maintains a partnership with the Mountain States Tumor Institute (MSTI).

**MOTION:** **Rep. Agidius** made a motion to introduce **RS 22928**. **Motion carried by voice vote.**

**ADJOURN:**      There being no further business to come before the committee, the meeting was adjourned at 9:31 am.

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Representative Wood(35)  
Vice Chair

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Kathleen A. Simko  
Secretary

**AMENDED AGENDA #2**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Thursday, February 20, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#">RS22756C2</a>	Revise Cap On Medical Savings Account	Rep. Hixon
<a href="#">RS22908C1</a>	Adoption of International Residential Building & Energy Conservation Code	Tyler Mallard, Risch Pisca
<a href="#">H 486</a>	Conservation Easement Taxation	Rep. Morse

COMMITTEE MEMBERS

Chairman Collins(Collins)	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney(Rynearson)	Rep Trujillo

Rep Agidius  
Rep Burgoyne  
Rep Erpelding  
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Thursday, February 20, 2014

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

**PLACE:** Room EW42

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

**ABSENT/  
EXCUSED:** Reps. Trujillo, Burgoyne

**GUESTS:** Alan Dornfest, Idaho State Tax Commission; Bas Hargrove, INC; Russell Westerberg, Raeleen Welton, Rocky Mountain Power; Benjamin Davenport, Associated Taxpayers.

**Vice Chairman Wood(35)** called the meeting to order at 9:01 am.

**Rep. Dayley** requested a point of personal privilege regarding a clarification in the minutes of February 19, 2014 stating, on page two, the last line of his presentation on **RS 22888**, he intended as "Even though the focus of this proposed legislation is agriculture production, donations made by entities like Albertson's, who donate products off the shelf, could qualify".

**MOTION:** **Rep. Dayley** made a motion to approve the minutes of February 19, 2014. **Motion carried by voice vote.**

**Vice Chairman Wood(35)** introduced **Rep. Rynearson** who is serving as a substitute for **Rep. Denney**

**RS 22756C2:** **Rep. Hixon** presented **RS 22756C2** which is designed to remove the current limit of \$2,000 for Medical Savings Accounts (MSA's). Medical and indigent costs continue to rise. This proposed legislation is an update on a 1995 Medical savings account statute. **RS 22756C2** would be retroactive to January 1, 2014 and allows contributions to MSA's and interest earned on them, to be tax deductible. Currently, there is a cap on MSA's of \$2,000 which is not sufficient to keep pace with actual costs. This proposed legislation is intended to provide incentives to make contributions to MSA's. Employers would be provided a credit, against income tax, of 7.4% of their contributions to an employee's MSA. **Rep. Hixon** stated this would also put more buying power in the hands of the individual. Any amount in an individual's MSA must be exhausted before they would be eligible for any state benefits such as county indigent funds or Idaho Medicaid. **Rep. Hixon** stated there is no known opposition to this bill. The fiscal impact is dependent on the amount of utilization. With the escalation of health care related costs, this proposed legislation gives the individual more buying power for expenses such as deductible and co-pay amounts or insurance premiums.

In response to a question, **Rep. Hixon** stated there is no limit in **RS 22756C2** on contributions since current statute addresses withdrawals at specific age or conditions as well as potential taxes imposed. Contributions going into MSA's are after tax amounts. **Rep. Hixon** said the fiscal note does not take into consideration any amount local taxing entities might save.



**MOTION:** **Rep. Raybould** made a motion to introduce **RS 22756C2** with the following changes to the RS on page 1, Section 1, subsection 2 to read "For taxable years beginning on or after January 1, 2014, the annual contributions to a medical savings account may not be limited. Both interest earned and all contributions to medical savings accounts shall be deducted from taxable income by the account holder, if such amount has not been previously deducted or excluded in arriving at taxable income", and the addition in the fiscal note of "Because this legislation requires that medical savings accounts are exhausted before state assistance is offered for medical programs, there may be decreases in program utilization resulting in a positive fiscal impact to the indigent and CAT funds, and other programs that offer state assistance for medical care".

In response to further questions, **Rep. Hixon** stated this proposed legislation could potentially save Catastrophic Medical Funds (Cat funds) since any balance in a MSA would be required to be spent prior to application and use of county or state Cat funds. Rep. Hixon clarified any MSA funds can be used for costs over and above what any health insurance policy covers, including dental and vision services. MSA's can be held year to year and earn interest on fund balances.

**Rep. Hixon** responded to question stating they did not consider inclusion of a trigger, in the event the corporate tax rate decreases. There are incentives for employers to make employee contributions. He stated it is believed to be more attractive for an employer to get a tax credit, which can be carried forward for 15 taxable years, instead of a tax deduction. Rep. Hixon does not see a need for a corporate tax rate trigger at this time and stated if needed, one can be added in the future.

**VOTE ON MOTION:** **Vice Chairman Wood(35)** called for a vote on the motion. **Motion carried by voice vote.**

**RS 22908C1:** **Tyler Mallard**, Government Affairs Liaison Risch Pisca and representing the Building Contractors Association, presented **RS 22908C1** related to the adoption of the International Residential Building Code and International Energy Conservation Code by Idaho. This proposed legislation is being brought back to the committee with a technical correction from the original RS, which deleted the wrong Code section.

**MOTION:** **Rep. Kauffman** made a motion to introduce **RS 22908C1**. **Motion carried by voice vote.**

**H 486:** **Rep. Morse** presented **H 486** which will repeal **Idaho Code Section 55-2109**, related to taxation of conservation easements. Mandated by the 1988 statute, when conservation easement legislation was passed in Idaho, Rep. Morse stated this code section is unconstitutional. Regardless of the constitutionality, this statute interferes with other mandates requiring the actual and functional use of a piece of property to be considered in assessing its value. Assessment, for tax purposes, is based on the actual market value. A conservation easement can be placed on part or all of a piece of property and can be small or more comprehensive. Article VII, Section 2 of the Idaho Constitution requires levying tax, based on the valuation of property. Article VII, Section 5 requires that all taxes must be uniformly applied on the same class of property.

**Rep. Morse** declared he is, by profession and trade, an appraiser, and has a real estate and broker's license. Ad valorem and assessment, in general, recognizes the uniqueness of each property. Since the title and physical attributes can vary from property to property, the valuation of property is fact specific and not a matter of law. Rep. Morse provided information on a trial court decision, based on a northern Idaho county case. The deed of consideration and scenic easement in the decision, outlined limited and retained property rights limited. Rep. Morse stated there are between 80-150 parcels similarly situated in this county and the trial court decision requires the properties to be treated equally. In an earlier case, the Supreme Court held that a statute cannot declare a public policy contrary to the Constitution. An easement typically grants a right of use to someone else's property.

**Rep. Morse** stated his second argument for repeal of this statute is the major economic restriction placed on a property, whether it is through an easement or covenant. An easement restricts future use and conveys use, but not ownership. **Idaho Code 63-208** provides rules prescribing market value for assessment purposes, stating the actual and functional use shall be considered. The result is a conflict exists in assessing property with conservation easements between the Idaho Constitution and other statutes, which dictate the assessment be made without consideration of the easement.

**Rep. Morse** cited another case, Greenfield Village Apartments v. Ada county. In this 1997 case, Ada County did not consider a rent restricted covenant that limited actual and functional use of the property, in its assessment. The Idaho Supreme Court vacated the District Court decision and ruled the Assessor should have taken into consideration the rent restriction covenant, which limited the use of the property.

In response to a question from the committee whether the easement owner pays property taxes on the value of the easement, since they cannot use or develop the property, **Rep. Morse** stated, in order to get a deduction, the easement must be donated to a qualifying entity and be granted in perpetuity. The intent of an easement is to restrict development and preserve certain rights, which protect the land.

The committee posed a question regarding who pays the taxes on the difference between the market value and the assessed value? **Rep. Morse** reiterated there is inequity in the tax system, since property with an easement cannot be taxed at market value. If there is no restriction on the actual conservation easement, repeal of the statute will allow assessment to be made as it would on any other property.

**Rep. Morse** stated when there is a restriction on a property with a conservation easement, a value component is lost and no longer rests with the property owner. There is a perpetual, limited and restricted use and it is inequitable to tax that individual for property rights they no longer have.

Regarding a question on selling of an easement, **Rep. Morse** stated in some cases, acquisition of easements are made through eminent domain and consequently, not voluntary. The owner is compensated for the loss of the right to use the property. In other cases, an individual may donate an easement to a qualifying entity. The only way they are compensated is through gift tax deduction. If the property owner does not have the rights to the property, they should not pay taxes on value that does not exist.

As a clarifying response to the question on sale of an easement, **Rep. Morse** stated if there is a gain on the property that exceeds the basis, it would be a taxable sale.

Responding to a question, **Rep. Morse** said the actual and functional use for tax assessment purposes, as mandated by statute, limits the use of the property and consequently, impacts the market value. Valuation for conservation easement purposes, is the highest and best use.

In response to a question, **Rep. Morse** acknowledged the case study cited in the North Idaho case was not one of eminent domain, but was a scenic easement situation.

**Rep. Morse** stated markets change and a purchase price is one indicia of the value. Valuation is always a question of fact. If the market value has declined, it is likely due to a change in market considerations.

**Rep. Morse** responded to a question saying the issue being addressed is the ad valorem assessment. The Idaho Constitution mandates, for tax purposes, that the actual value of the property is considered and uniformity is required, regardless of what occurred in the past. This requirement for uniformity of valuation and treatment of property, collectively, may impact the tax burden of other property owners in the county, but there is a statutory mandate to tax in a uniform and equitable manner.

In response to a question, **Rep. Morse** stated even if a change was made on the actual and functional use clause, there is still the clear uniformity mandate and would require amendments to two sections of the Idaho Constitution.

**Rep. Morse** acknowledged the North Idaho county case stopped at trial court level. Working with the Attorney General's Office, they looked for any other Idaho cases involving conservation easements and found none. The 1997 Idaho Supreme Court case, Greenfield Village v. Ada County was the closest one found on record, but was related to a covenant, not an easement.

**Rep. Morse** stated it is not feasible to eliminate conservation easements, as there are hundreds, maybe thousands already in place. He said he believes **H 486** is the best way to correct the ad valorem issue.

**Rep. Morse** recapped stating the two primary outcomes is the disparity of treatment as evidenced by the 80-150 cases in North Idaho being treated one way due to the case presented, while other counties assess conservation easement property differently. This lack of uniform treatment by other counties in using actual and functional use instead of market preference and sales, creates the problem. The Idaho State Tax Commission (ISTC) has a statutory duty to defend the current statute, but acknowledges there is a problem. Valuation is fact specific. Without a conservation easement, property has an ascertainable value, based on economic use. The conveyance of conservation easement preserves a corridor and protects rights, and the value is materially diminished due to the easement. In order to get a charitable tax deduction, a conservation easement must be donated to a qualifying entity. Subsequently, there is a change in the economics of a property for the unrestricted remainder of the property. The charitable entity can't sell the easement, but the remainder of the property may or may not be significantly impaired.

**MOTION:** **Rep. Raybould** made a motion to **HOLD H 486** in committee. **Motion carried by voice vote.**

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 10:23 am.

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Representative Wood(35)  
Vice Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
9:30 A.M.  
Room EW42  
Friday, February 21, 2014

SUBJECT	DESCRIPTION	PRESENTER
<a href="#">RS22944C1</a>	Revision of Cigarette Tax Revenue Distribution	Rep. Moyle
<a href="#">RS22951</a>	Idaho Reimbursement Incentive Act	Jeff Sayer, Idaho Department of Commerce

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

COMMITTEE MEMBERS

Chairman Collins(Collins)	Rep Anderson(31)	Rep Agidius
Vice Chairman Wood(35)	Rep Anderst	Rep Burgoyne
Rep Barrett	Rep Dayley	Rep Erpelding
Rep Moyle	Rep Hartgen	Rep Meline
Rep Raybould	Rep Kauffman	
Rep Denney(Rynearson)	Rep Trujillo	

COMMITTEE SECRETARY

Kathleen A. Simko  
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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Friday, February 21, 2014

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

**PLACE:** Room EW42

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

**ABSENT/  
EXCUSED:** None

**GUESTS:** Bill Connors, Boise Metro Chamber; Benjamin Davenport, Associated Taxpayers of Idaho; Elli Brown; Jack Lyman; Idaho Mining Association; Jeff Sayer, Megan Ronk, Megan Bronder, Eric Forsat, Commerce; Raeleen Welton, Westerberg; N.L. Clayville, DFM; Elizabeth Criner, NWFPFA

**Vice Chairman Wood(35)** called the meeting to order at 9:30 a.m.

**RS 22944C1:** **Rep. Moyle** presented **RS 22944C1** regarding a revision of cigarette tax revenue distribution. Rep. Moyle stated this legislation is a companion to **H 478** which allows the state to continue providing funding from state lottery proceeds to defray costs of the public schools bond levy equalization program. Without **H 478** there would be an increase in the amount of cigarette tax revenue used to offset payments for the bond levy equalization program.

**MOTION:** **Rep. Anderson(31)** made a motion to introduce **RS 22944C1**. **Motion carried by voice vote.**

**RS 22951:** **Jeffrey Sayer**, Idaho Department of Commerce, presented **RS 22951** regarding the Idaho Reimbursement Incentive Act. Mr. Sayer stated he believed Idaho was in a position to accelerate and grow with new business opportunities. The tax reimbursement incentive is a new performance based development tool that provides a tax credit up to 30% for up to 15 years on new corporate income tax, sales tax, and payroll taxes paid as a result of a new qualifying project. Mr. Sayer said there will be performance requirements, and that businesses need to prove they have met their promises. Mr. Sayer also said that he believes this is one of the things we can do as a state to stimulate the economy and provide higher paying wages for our employees.

**MOTION:** **Rep. Trujillo** made a motion to introduce **RS 22951**. **Motion carried by voice vote.**

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 10:00 a.m.

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Representative Wood(35)  
Chair

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Amber Duke  
Secretary

**AMENDED AGENDA #1**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Monday, February 24, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>RS22960</u></a>	Reduction of Idaho Corporate & Individual Income Tax Rates	Rep. Moyle
<a href="#"><u>RS22605</u></a>	Idaho State Tax Rule Review Resolution	Rep. Wood(35)
<a href="#"><u>H 531</u></a>	Tax Exemption - Camp Rainbow Gold	Jeremy Chou, Givens Pursley

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

COMMITTEE MEMBERS

Chairman Collins(Collins)    Rep Anderson(31)  
Vice Chairman Wood(35)    Rep Anderst  
Rep Barrett    Rep Dayley  
Rep Moyle    Rep Hartgen  
Rep Raybould    Rep Kauffman  
Rep Denney(Rynearson)    Rep Trujillo

Rep Agidius  
Rep Burgoyne  
Rep Erpelding  
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Monday, February 24, 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, Burgoyne, Erpelding, Meline

**ABSENT/  
EXCUSED:** Rep. Denney

**GUESTS:** Melina Nelson, ISCPA; Benjamin Davenport, Associated Taxpayers; Michelle Ward; Debbie Mallis; Rita Wood; N.L. Clayville, DFM; Jeremy Chou, Givens Pursley; Elizabeth Lizberg, Camp Rainbow Gold; Stacey Satterlee, ACS CAN.

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

**RS 22960:** **Rep. Moyle** introduced **RS 22960** stating this replaces previously introduced legislation and makes a correction, as requested by the Idaho State Tax Commission, between 'point' and 'percentage point'. This legislation proposes a reduction in corporate and individual income tax rates, effective January 1, 2015.

**MOTION:** **Rep. Anderst** made a motion to introduce **RS 22960**. **Motion carried by voice vote.**

**RS 22605:** **Rep. Wood(35)** introduced **RS 22605**, which is a Concurrent Resolution to reject **Rule 36** under **Docket No. 35-0102-1302** related to taxes paid on materials used in construction of road signs. **Rep. Wood(35)** stated the committee previously rejected **Rule 36** through a roll call vote.

**MOTION:** **Rep. Trujillo** made a motion to introduce **RS 22605**. **Motion carried by voice vote.**

**H 531:** **Jeremy Chou**, Givens Pursley, representing Camp Rainbow Gold presented **H 531**. Camp Rainbow Gold serves approximately 300 kids and families each year. Previously administered by the American Cancer Society (ACA), cancer camps were divested by the ACA to focus more on cancer research. The ACA is specifically listed as a health related organization, exempt from Idaho sales tax. Camp Rainbow Gold is now a separate 501 (c) 3 organization. This legislation preserves the tax exempt status and consequently will have no negative impact.

**Stacy Saterlee**, American Cancer Society Cancer Action Network (ACSCAN) testified in support of **H 531**.

**MOTION:** **Rep. Wood(35)** made a motion to send **H 531** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote**. **Rep. Wood(35)** will sponsor the bill on the floor.

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:08 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
9:00 A.M.  
Room EW42  
Wednesday, February 26, 2014

SUBJECT	DESCRIPTION	PRESENTER
<a href="#">H 547</a>	Cigarette Tax Distribution	Rep. Moyle
<a href="#">H 530</a>	Idaho Use Tax Exemption For Qualified Food & Beverage Donations	Rep. Dayley
<a href="#">RS22991</a>	Audits For Units of Local Governmental	Rep. Trujillo

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Wednesday, February 26, 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, Burgoyne, Erpelding, Meline

**ABSENT/  
EXCUSED:** None

**GUESTS:** Roger Batt, Idaho Heartland Coalition; Benjamin Davenport, Associated Taxpayers of Idaho; Melissa Nelson, ISCPA; Russ Hendricks, Farm Bureau; Norm Semanko, Idaho Water Users Association; Stacey Satterlee, ACS CAN; Brian Patton, Idaho Department of Water Resources; Roger Seiber, Capitol West.

**Chairman Collins** called the meeting to order at 9:01 am.

**MOTION:** **Rep. Dayley** made a motion to approve the minutes of February 20, 2014. **Motion carried by voice vote.**

**MOTION:** **Rep. Wood(35)** made a motion to approve the minutes of February 21, 2014. **Motion carried by voice vote**

**H 547:** **Rep. Moyle** presented **H 547** which deals with the allocation of tobacco tax. This legislation would freeze most of the allocations and keep current beneficiaries whole, with the exception of the bond equalization fund, whose allocation floats. As the Idaho Capitol restoration project gets paid off, this bill will allocate \$4.7 million of cigarette tax as the state match for the GARVEE bonds, which will free up funds in the State Transportation Improvement Plan (STIP). The Secondary Aquifer Planning, Management, and Implementation Fund would receive the next \$5 million. Assuming additional funds are available, they would be directed to the State Highway Account. Rep. Moyle stated GARVEE bonds can only be paid off early if they have been in place 10 years, which will be in 2016.

**MOTION:** **Rep. Wood(35)** made a motion to send **H 547** to the floor with a **DO PASS** recommendation.

In response to questions from the committee, **Rep. Moyle** stated the highway funding would go directly into the State Highway Fund as the primary intent is to pay off GARVEE bonds. Consequently, the highway distribution formula for local highway district use was not included in this legislation. Providing the \$4.7 million state match for GARVEE will free up state sales tax dollars that could be used to retire the GARVEE bonds entirely, which would ultimately make more funding available for local highway use.

**Rep. Moyle** concurred this could be seen as a disproportionate distribution of cigarette tax. However, all of Idaho benefits from the GARVEE projects and this is seen as a fair way to free up funds. He said the tobacco tax in Idaho is less than surrounding states. Rep. Moyle speculated more tobacco tax likely is generated in North Idaho.

Responding to another question, **Rep. Moyle** stated the cigarette tax topped out in 2004 and it's uncertain what future revenues might be generated. Rep. Moyle acknowledged careful thought was put into this bill to make the water allocation broad and flexible so the results benefit the entire state. Rep. Moyle said water resource issues are not just an eastern Idaho issue.

**VOTE ON  
MOTION:**

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

**H 530:**

**Rep. Dayley** presented **H 530** which would provide exemption from Idaho use tax for qualified donations of food and beverages. This is similar to legislation passed in 2013 providing use tax exemption on beer and wine tastings. As a result of that law, commodity groups have requested they also be exempt from use tax on certain donations.

**Roger Batt**, Idaho Heartland Coalition, testified **in support of H 530**. Idaho Heartland Coalition is made up of agricultural commodity organizations and producers. In 2011 wineries were requested by the Idaho State Tax Commission (ISTC) to go back three years to calculate and pay use tax on wine tastings. Subsequently, **H 489** was passed in 2012 and **H 187** in 2013 to deal with exemptions of tastings. Mr. Batt said producers were notified in December 2013 that use tax was to be paid on donated food products which resulted in the current legislation under consideration.

In response to a question, **Mr. Batt** stated it is difficult to quantify a precise fiscal impact as the data has not been consistently collected or use tax previously paid on donations.

**Russ Hendricks**, Idaho Farm Bureau, testified **in support of H 530**, stating producers would rather see excess product go to a good use like a food pantry or homeless shelter, than to just plow it under. Producers and the Idaho Farm Bureau don't see it as good public policy to tax charitable donations.

**MOTION:**

**Rep. Raybould** made a motion to send **H 530** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Rep. Dayley** will sponsor the bill on the floor.

**RS 22991:**

**Rep. Trujillo** presented **RS 22991** which is a revision to **H 523** previously introduced, which is related to audit requirements for local governmental entities. Rep. Trujillo stated the Idaho State Tax Commission (ISTC) requested several changes be made. A date was added for notification to ISTC, an administrative provision was removed and several other wording changes have been made. This proposed legislation will ensure a streamlined audit process and provide information from the ISTC that has been needed.

**MOTION:**

**Rep. Erpelding** made a motion to introduce **RS 22991**. **Motion carried by voice vote.**

**ADJOURN:**

There being no further business to come before the committee, the meeting was adjourned at 9:28 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

**AMENDED AGENDA #1**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Thursday, February 27, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>H 548</u></a>	Corporate & Individual Tax Rate Reduction	Rep. Moyle
<a href="#"><u>H 529</u></a>	Definition Clarification for Remotely Accessed Computer Software	Jay Larsen, Idaho Technology Council
<a href="#"><u>S 1301</u></a>	Tax Liability of "Innocent Spouse"	Sen. Bock

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
Room: EW53  
Phone: 332-1125  
email: [hrev@house.idaho.gov](mailto:hrev@house.idaho.gov)

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.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary



AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
9:00 A.M.  
Room EW42  
Friday, February 28, 2014

SUBJECT	DESCRIPTION	PRESENTER
<a href="#">H 529</a>	Continuation - Definition Clarification for Remotely Accessed Computer Software	Jay Larsen, Idaho Technology Council
<a href="#">H 546</a>	Idaho Tax Reimbursement Incentive	Jeff Sayer, Idaho Department of Commerce
<a href="#">H 560</a>	Audits For Local Units of Government	Rep. Trujillo
<a href="#">RS22953</a>	Homeowner Exemption - Military Personnel	Rep. Perry

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
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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. IAC 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

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
9:00 A.M.  
Room EW42  
Tuesday, March 04, 2014

SUBJECT	DESCRIPTION	PRESENTER
<a href="#">H 506</a>	Tax Exemption - Electricity Producing Operating Property	Rep. Loertscher
<a href="#">HCR 45</a>	State Sales Tax Administrative Rule Rejection	Rep. Wood(35)
<a href="#">H 544</a>	Medical Savings Account Contributions	Rep. Hixon

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius(Agidius)
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
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email: hrev@house.idaho.gov

MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Tuesday, March 04, 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, Burgoyne, Erpelding, Meline

**ABSENT/  
EXCUSED:** Rep. Trujillo

**GUESTS:** Will Hart, Idaho Consumer Owned Utilities; Tom Felzer, Idaho Winds; Scott Nichols, US Geothermal; N.L. Clayville, DFM; Leif Elgethun, ICEA; McLean Russell, ISTC; Elizabeth Criner, ISDA; Julie Taylor, Blue Cross of Idaho; Marnie Packard, Pacific Source; Suzanne Budge, SBS Associates/NFIB.

**Chairman Collins** called the meeting to order at 9:01 am.

**MOTION:** **Rep. Meline** made a motion to approve the minutes of February 27, 2014. **Motion carried by voice vote.**

**H 506:** **Rep. Loertscher** presented **H 506**, stating there are provisions elsewhere in law that conflict with language in this legislation and he requested it be held in committee.

**UNANIMOUS  
CONSENT  
REQUEST:** **Chairman Collins** asked for unanimous consent to **HOLD H 506** in committee at call of chair. There being no objections, the request was granted.

**HCR 45:** **Rep. Wood(35)** presented **HCR 45** which rejects Rule 36, **Docket No. 35-0102-1302**, related to taxation of signs and billboards.

**MOTION:** **Rep. Wood(35)** made a motion to sent **HCR 45** to the floor with a **DO PASS** recommendation. **Motion carried by voice vote.** **Rep. Wood(35)** will sponsor the bill on the floor.

**H 544:** **Rep. Hixon** presented **H 544** which would remove the cap for Idaho Medical Savings Account (MSA) contributions, stating this legislation encourages individuals and employers to make contributions. The current statute, established in 1995, has a cap of \$2,000. This MSA is Idaho's own program, different than the federal option. Contributions and interest earned are tax deductible and funds can be used for a wide variety of eligible medical expenses. This legislation would remove the cap and provide incentives to employers to make contributions on behalf of their employees. Employers would be able to take a 7.4% tax credit, which is not refundable, but could be rolled over up to 15 years. The final change is to ensure the MSA funds must be expended before any public assistance, such as Medicaid or CAT funds, be used. Rep. Hixon stated the high costs of health care, combined with Idaho's low wages, present challenges. More than 50% of Idaho bankruptcies filed in Idaho are health care related. Many of Idaho's families are one medical procedure away from bankruptcy and this legislation will provide an alternative and allow greater buying power by consumers.



In response to questions from the committee, **Rep. Hixon** stated the 7.4% credit is not specifically tied to the current top tax rate. The intent was to provide an incentive to the employer to make contributions. The amount of annual contributions are unlimited and a cap was not considered, as the MSA statute limits how the funds can be spent and has early withdrawal penalties. The goal was to ensure sufficient funds could be saved, pre tax, to meet the growing costs of health related expenses.

**Rep. Hixon** stated the Idaho MSA is different than the federal program and is intended to provide an Idaho tax benefit. He further clarified employers could take the 7.4%, even if their corporate tax rate is lower. Rep. Hixon responded the anticipated decrease in utilization of the indigent CAT funds is possible, since employers of the lowest wage earners could put money into their MSA account. This legislation provides an incentive to employers and puts more buying power back into the hands of the people. Rep. Hixon noted the 7.4% tax credit is on the MSA contribution. A cap was not included since, over the past two decades, health care costs continue to escalate. The MSA rolls over year to year allowing a tax free accrual. In the event of a potential catastrophic health related situation, the balance in a MSA would hopefully be sufficient to cover those costs.

**MOTION:** **Rep. Barrett** made a motion to send **H 544** to the floor with a **DO PASS** recommendation.

**SUBSTITUTE MOTION:** **Rep. Burgoyne** made a substitute motion to send **H 544** to General Orders, with an amendment, as follows: Page one, line 19 on page "contributions to a medical savings account be limited to \$19,000".

**SUBSTITUTE MOTION WITHDRAWN:** **Rep. Burgoyne** withdrew his substitute motion to send **H 544** to General Orders.

**Rep. Hixon** responded to a question, clarifying the cap is not on the amount of the MSA account balance, but the annual contribution made. He stated this legislation would allow a deduction, as well as a tax credit, on the contribution. Rep. Hixon stated he would like to see a change of the status quo in how we pay for health care and to put more money in the hands of the people. The Idaho MSA is not tied to the federal government and provides Idaho tax free contributions. Rep. Hixon believes this legislation is the way to accomplish these goals. He does not want to tie the 7.4% tax rate to the overall tax rate structure.

**MOTION WITHDRAWN:** **Rep. Barrett** withdrew her motion to send **H 544** to the floor with a **DO PASS** recommendation.

**MOTION:** **Rep. Wood(35)** made a motion to **HOLD H 544** in committee, at the call of chair. **Motion carried by voice vote.**

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:36 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

**AMENDED AGENDA #2**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**9:00 A.M.**  
**Room EW42**  
**Wednesday, March 05, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#">RS23050</a>	Sales Tax Savings Account	Rep. Clow
<a href="#">RS23061C1</a>	Removal of Idaho Homestead Exemption Index	John Eaton, Idaho Association of Realtors
<a href="#">RS23079</a>	Idaho Medical Savings Accounts	Rep. Hixon

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)	Rep Agidius
Vice Chairman Wood(35)	Rep Anderst	Rep Burgoyne
Rep Barrett	Rep Dayley	Rep Erpelding
Rep Moyle	Rep Hartgen	Rep Meline
Rep Raybould	Rep Kauffman	
Rep Denney	Rep Trujillo	

COMMITTEE SECRETARY

Kathleen A. Simko  
Room: EW53  
Phone: 332-1125  
email: hrev@house.idaho.gov

MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Wednesday, March 05, 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, Burgoyne, Erpelding, Meline

**ABSENT/  
EXCUSED:** None

**GUESTS:** Russell Westerberg, Taxpayers; Caitlin Rusche, IAC; John Eaton, Realtors; McLean Russell, Idaho State Tax Commission; Marnie Packard, Pacific Source; Julie Taylor, BCI; Benjamin Davenport, Associated Taxpayers of Idaho; N.L. Clayville, DFM.

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

**MOTION:** **Rep. Meline** made a motion to approve the minutes of February 28, 2014. **Motion carried by voice vote.**

**MOTION:** **Rep. Kauffman** made a motion to approve the minutes of March 4, 2014. **Motion carried by voice vote.**

**RS 23050:** **Rep. Clow** presented **RS 23050** which will create a savings account from sales tax remitted by retailers, engaged in business in Idaho, but not required to collect sales tax. The funds accrued in this account will be used to provide tax relief, controlled by the Legislature, and not part of the General Fund. Any revenue collected would be held until a future time, when the Legislature determines the appropriate tax relief use.

In response to questions, **Rep. Clow** stated the annual amount of projected revenue would be dependent of several future issues, including the streamlined sales tax or federally implemented remote sales tax. While nothing is assured, \$30-50 million is possible. If Idaho is not a participant in the streamlined sales tax governing board, the amount is not likely to be very significant. This proposed legislation would provide a vehicle to collect the tax in the event out of state sales tax revenue is generated.

**Rep. Clow** stated while nothing is currently in place, any sales tax collected would be done so by retailers. This proposed legislation is completely separate from any possible legislation to participate in the streamlined sales tax.

**McLean Russell**, Idaho State Tax Commission, responded to a question stating there are no known retailers, currently collecting tax, without a nexus in Idaho.

Idaho residents and businesses remit use tax through income tax returns. **Rep. Clow** clarified this proposed legislation would only impact sales tax and not use tax. Responding to a question, Rep. Clow stated the thought behind the separate fund was so the revenue could be directed where the Legislature determines most appropriate and it should not be a part of the General Fund.

**Rep. Clow** said there is no legal means to require tax collection, but if federal legislation is put in place, retailers may feel obligated to collect and remit sales tax to Idaho. There is no expectation of any funds to come immediately, but this is a proactive approach to be ready for potential future opportunities.

**MOTION:** **Rep. Barrett** made a motion to return **RS 23050** to the sponsor.

**SUBSTITUTE  
MOTION:**

**Rep. Erpelding** made a substitute motion to introduce **RS 23050**. A roll call vote was requested. **Motion carried by a vote of 12 AYE, 3 NAY, 1 ABSENT/EXCUSED. Voting in favor of the motion: Reps. Collins, Raybould, Anderson(31), Anderst, Dayley, Hartgen, Kauffman, Trujillo, Agidius, Burgoyne, Erpelding, Meline. Voting in opposition to the motion: Reps. Wood(35), Barrett, Denney. Rep. Moyle was absent/excused.**

**RS 23061C1:**

**John Eaton**, Idaho Association of Realtors, presented **RS 23061C1** which will increase the amount of the Idaho homeowners exemption to \$90,000. Prior legislation in 2006 increased the homeowners exemption amount from \$50,000 to \$75,000 and contained an index. In 2014, based on the index, the homeowners exemption is just under \$84,000. This proposed legislation would remove the index and fix the exemption at \$90,000. Mr. Eaton stated an increase in the homeowners exemption does not reduce the amount of funding to the counties, but represents a tax shift. In 2006, this shift was \$23 million. If the exemption increases, businesses and second home owners pay a greater share of the tax. Most people pay their property taxes through an escrow account. They have seen the need to fund the escrow account increase, while property values have declined. Although it was difficult to determine exactly, using the Multiple Listing Service (MLS) the average sales price of a home in Idaho is between \$165,000 - \$170,000. Since the proposed legislation allows the lesser of 50% of the home assessed value or \$90,000, there is a little room for growth in the average home value, before the \$90,000 would be reached.

**MOTION:**

**Rep. Denney** made a motion to introduce **RS 23061C1**.

Responding to a question, **Mr. Eaton** stated he does not believe this change will have a negative effect. It is not reasonable to expect housing prices will never fall again and this isn't about tax relief. While there was some discussion on changing the underlying index, the decision was not to go in that direction as the target would keep moving. When the exemption fluctuates and the resulting tax shift occurs, it makes it difficult for businesses to plan, creating another economic development impediment. Mr. Eaton spoke with several local tax assessors and they believe this change will make their job easier. They get a lot of calls and complaints when property taxes go up and their home value goes down. A flat exemption will make it easier to explain.

**Mr. Eaton** responded to a question on the impact of home owners on fixed incomes stating the county Circuit Breaker is an option for these situations, as well as private sector solutions, like reverse mortgage.

**VOTE ON  
MOTION:**

**Chairman Collins** called for a vote on the motion. **Motion carried by voice vote. Rep. Burgoyne** requested to be recorded as voting **NAY**.

**RS 23079:**

**Rep. Hixon** presented **RS 23079** which is related to the Idaho Medical Savings Account (MSA). This proposed legislation contains the changes suggested and would increase the annual contribution amount to \$20,000 per person each year. Employer contributions, made on behalf of employees, would be eligible for a 10% tax credit.

**Chairman Collins** responded to a question stating funds contributed to an MSA on behalf of employees, can be used for medical insurance premiums.

**MOTION:**

**Rep. Erpelding** made a motion to introduce **RS 23079**.

In response to a question, **Rep. Hixon** said there was no impact in the fiscal note, due to the change in percentage of tax credit eligibility for employer contributions.

**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 9:51 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

**AMENDED AGENDA #1**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**8:30 A.M.**  
**Room EW42**  
**Thursday, March 06, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>H 507</u></a>	Tax Credit For Scholarship Granting Organizations	Rep. VanderWoude
<a href="#"><u>H 584</u></a>	Homeowners Exemption For Deployed Service Members	Rep. Perry

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Thursday, March 06, 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. Barrett, Moyle, Agidius.

**GUESTS:** David Braswell, Tamara Mackenthun, Division of Veterans Services; Brad Carr, Idaho Federation of Independent Schools; Michael Sage, parent; Jean Lockhart, Boise Rescue Mission; Shelly Matthews, LAM Christian Academy; Terry Ryan, Idaho Charter School Network; Robbie Rhinesmith, Friedman Foundation; Phil Homer, Idaho Association of School Administrators; Jane Whittmeyer, Coalition of Idaho Charter Schools; Paul Stark, Idaho Education Association; Kristyn Kirschenman, Risch-Pisca; John Eaton, Miguel Legarreta, Idaho Association of Realtors.

**Chairman Collins** called the meeting to order at 8:32 am.

**H 507:** **Rep. Vander Woude** presented **H 507** stating this legislation is very similar to what was presented in 2013. **H 507** would provide a 50% credit on state income taxes to individuals and corporations donating to nonprofit scholarship granting organizations (SGO's). There is a three year carry forward provision and corporations would be limited to a maximum of 50% of the Idaho corporate tax liability. The total amount of all tax credits statewide would be limited to \$10 million each fiscal year. If the \$10 million cap is reached, it will automatically increase, based on the Consumer Price Index (CPI). There are restrictions on students qualifications for eligibility and SGO's are only permitted to use 10% of the donation for administrative costs. There is a prohibition against providing scholarships for students to attend any school with paid staff, board members or relatives in common with the SGO. Rep. Vander Woude said eligible students can receive a maximum scholarship, 80% of the total cost of tuition and fees, which is to ensure parents have 'skin in the game'. The remaining 20% will come from the family. There are currently 10,000 students enrolled in private schools, representing 3.5 % of Idaho's student population. Families would qualify based on income level and the estimate of 9,000 potential students was used to determine fiscal impact. Rep. Vander Woude stated the average scholarship is \$2,700.

In response to a question, **Rep. Vander Woude** said the legislation includes a stipulation preventing a tax refund from being paid in the event the SGO tax credit results in a negative tax owed. The tax credit can be carried forward up to three years.

**Brad Carr**, Superintendent, Cole Valley Christian Schools (CVCS), testified in **support of H 507**. CVCS graduates 100% of their students and most go on to secondary education. The desire is to have access for parents and the primary reason preventing attendance at CVCS is financial. This legislation allows parents to choose the education their children receive and provides access to all students who may not otherwise be able to afford this option.

**Michael Sage**, parent, testified **in support of H 507**. Mr. Sage has two sons. One is in public school, the older son attends Cole Valley Christian School. The older son was having difficulty in public school since entering kindergarten. He had an Individual Education Plan (IEP) and went through extensive testing, which led to a diagnosis of dyslexia and other learning differences. When this child was in the third grade, he attended a combination of both public and private schools. Mr. Sage spoke of his frustration when it was determined his son needed an aide, but no school district funding was available, because he wasn't disruptive in class. When Mr. Sage offered to pay for the aide himself, he was told due to contract and security concerns, this option was not possible. It would be unequitable as not all parents could afford to pay for added special assistance. Mr. Sage stated he didn't want his child to fail, due to public policies and he subsequently elected to enroll him in private school. While the Sage family is fortunate and can afford the tuition, **H 507** would allow lower income families to seek the best education for their children.

**Jean Lockhart**, Vice President, Women and Children's Ministries, Boise Rescue Mission, spoke **in support of H 507**. Through the scholarships provided by Cole Valley Christian School, six of the children from the Boise Rescue Mission are attending private school, and doing well. Ms. Lockhart stated Idaho offers many options to education; private, public or home schooling. This legislation is important in allowing access to private education options, regardless of income.

**Terry Ryan**, President, Idaho Charter School Network (ICSN), testified **in support of H 507**. The ICSN is represented by 85% of Idaho's Charter Schools, as members, and 90% of charter school students. This legislation provides a choice and a wide range of education opportunities.

**Robbie Rhinesmith**, Friedman Foundation, testified **in support of H 507**. The Friedman Foundation is a legacy foundation and promotes school choice for all children. Mr. Rhinesmith stated approximately 250,000 students in the nation are getting scholarships for private schools. Eleven out of twelve Gold Standard Studies conducted show significant academic gains from school choice. Even among the more than 90% of students in public schools, the option of school choice improves their academic performance. Six empirical studies showed school choice saved money for the state. Mr. Rhinesmith said this legislation is about students, parents and choosing the right school and will help all parents, not just the wealthy. Of 23 studies on school choice, focused on public schools where private schools are also an option, 22 of those studies showed test scores of public students improved when school choice vouchers were offered in the district.

In response to a question from the committee, **Mr. Rhinesmith** stated the studies covered both secular and nonsecular private schools across the nation. Additionally, **H 507** provides requirements for schools and students, including accreditation requirements, compliance with federal discrimination laws, and is applicable to schools serving all religions.

**Shelly Matthews**, principle at Lamb Christian Academy in Coeur d' Alene, testified **in support of H 507**. Ms. Matthews stated half of this years first grade class has learning disabilities with a wide range of reading levels, from 14 words per minute (wpm) to 270 wpm, presenting a challenge for teachers. This legislation will help families make the right choice in how their children can get the best education, specific to each child, and their unique situation.



**Phil Homer**, Idaho Association of School Administrators and Idaho School Boards Association, testified **in opposition to H 507**, stating it would divert funds away from the goals the Governor's Task Force on Education has outlined. Mr. Homer said the Article IX, Section 1 of the Idaho Constitution requires the Legislature to establish and maintain a general and uniform public education system. If the \$10 million did come through the revenue stream, schools would get \$4.7 million and this legislation would take funds from public education.

In response to a question, **Mr. Homer** acknowledged this legislation could save the state money, but local school districts would lose money. Schools have fixed costs. If the revenue stream is decreased, there is less money going to public schools. Mr. Homer stated, in response to a question, unless there is a marked decrease in public education enrollment, even if schools have overcrowding, this would not help since there are still fixed costs that need to be covered. He concurred the loss would be through a decrease in the Average Daily Attendance (ADA) schools received, based on student enrollment.

**Paul Stark**, General Counsel for the Idaho Education Association (IEA), testified **in opposition to H 507**. The IEA supports school choice, but also supports a strong public education system. The IEA's position on **H 507** is it's essentially a voucher system, but granted through a tax credit and ultimately, the money is going to private schools. The net effect is funding to public schools will be cut. While the state may realize savings, schools districts will see a decrease, especially in very small school districts. When student enrollment declines, while the variable costs may decrease, the fixed costs are still there. Corporations get a tax credit and a deduction for donating to a nonprofit.

In response to a question, **Mr. Stark** agreed the discussion has been with the assumption that every student using this program would represent a loss from a public school. While this is speculative, the fiscal note refers to the number of students leaving public schools. Mr. Stark stated while he could not respond to specific examples in prior testimony, anecdotal incidents should not be used to make broad-sweeping policy. He suggested there are other avenues such as local school boards, the Department of Education or House Education Committee better situated to address specific situational issues. This bill will help support and sustain a religious school and Article 9 of the Idaho Constitution prohibits that action.

Responding to a question, **Mr. Stark** said the fiscal note is a projection, but the ADA will decline if 659 students leave public schools. Small schools will suffer a greater proportionate hit. Idaho is currently ranked 50th in per pupil spending, with an average of between \$5,000 - \$6,000. The effect this legislation will have on schools of varying sizes is purely speculative, but the certainty is, a \$10 million door has been opened, having a negative impact on public school funding.

**Mr. Homer** responded to a question stating there are about 280,000 students in Idaho.

**Chairman Collins** turned the gavel over to **Vice Chairman Wood(35)**.

**Mr. Stark** responded to a question by reiterating, while there are unique anecdotal situations, this bill is about money and tax credits. It is not good public policy to make sweeping changes based on a few situations.

**Jane Wittmeyer**, Coalition of Idaho Charter School (CICS), testified **in support of H 507**. CISC supports school choice and this legislation is about school choice. School choice is necessary and this bill provides an option to families who otherwise may not be able to afford the best choice in how to educate their children.

**Robbie Rhinesmith** responded to a question stating Idaho already provides tax credits for religious schools. The key language is the word "appropriation" in the Idaho Constitution and while the meaning of the word is arguable, tax credits can't be considered as an appropriation at the federal level. The Idaho Attorney General's opinion on last year's bill was, while it may be challenged, it is defensible and likely to be upheld.

**Rep. Vander Woude** summarized, stating this legislation is about school choice. The tax credit only allows 50% of eligible donations to be credited and tax credits can only carry forward three years. SGO's can't sit on the funds and must spend 75% of donations every year, so no more than 25% of the annual revenue is carried forward into the next fiscal year.

**MOTION:** **Rep. Anderst** made a motion to send **H 507** to the floor with a **DO PASS** recommendation.

In response to a question, **Rep. Vander Woude** clarified the qualified deduction comes off total income. SGO's have a trading provision so if one school gets more donations than needed, they can transfer funds to another school, provided all of the transferring entity applicants have been served. In terms of the fiscal note, the ADA was used and **Rep. Vander Woude** noted, budgeting for school districts is done on a projected enrollment basis. Responding to question on the probability of a lawsuit, if the \$10 million limit is reached and a claim is made by a potential donor unable to take advantage of the tax credit. **Rep. Vander Woude** said there are limits on a variety of other similar opportunities.

**SUBSTITUTE MOTION:** **Rep. Burgoyne** made a substitute motion to send **H 507** to General Orders.

**VOTE ON SUBSTITUTE MOTION:** Roll call vote was requested. **Motion failed by a vote of 4 AYE, 7 NAY, 5 Absent/Excused. Voting in favor** of the motion: **Reps. Anderson(31), Burgoyne, Erpelding, Meline. Voting in opposition** to the motion: **Reps. Wood(35), Raybould, Denney, Anderst, Dayley, Kauffman, Trujillo. Reps. Collins, Moyle, Barrett, Hartgen, Agidius were absent/excused.**

**VOTE ON MOTION:** **Vice Chairman Wood(35)** called for a vote on the motion. **Motion carried by voice vote. Reps. Burgoyne, Meline, Erpelding, and Anderson(31)** requested to be recorded as voting **NAY. Rep. Vander Woude** will sponsor the bill on the floor.

**H 584:** **Rep. Perry** presented **H 584** related to the homeowners exemption eligibility for active service members who are deployed outside of Idaho. This legislation would allow them to maintain their homeowners exemption whether they are deployed to a combat zone or not. Sometimes, service members are in a combat zone intermittently throughout a period of time. Also, active duty orders do not always specify the deployment location, when the information is classified. The legislation includes an aspect of personal responsibility on the part of the individual, since they must reapply annually and provide proof of deployment to keep the exemption. **Rep. Perry** stated the Division of Veteran's Affairs and the Idaho Association of Counties are both **in support** of this legislation.

**MOTION:** **Rep. Raybould** made a motion to send **H 584** to the floor with a **DO PASS** recommendation.

**Rep. Trujillo** responded to a question from the committee stating counties try to do due diligence on whether homeowners are taking advantage of dual homeowner exemption in other states, as well as Idaho.

Responding to a question, **Rep. Perry** stated if a service member is in a combat zone, and does not apply in time, the county would have discretion on whether to grant the exemption or not. She noted the service member does not have to personally be present and could have another individual make the application on their behalf.

**VOTE ON  
MOTION:**

**Vice Chairman Wood(35)** called for a vote on the motion. **Motion carried by voice vote. Rep. Perry** will sponsor the bill on the floor.

**ADJOURN:**

There being no further business to come before the committee, the meeting was adjourned at 10:16 am.

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Representative Wood(35)  
Vice Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
8:30 A.M.  
Room EW42  
Friday, March 07, 2014

SUBJECT	DESCRIPTION	PRESENTER
<a href="#">RS23091</a>	Related to Idaho Code 63-3022O, Bonus Depreciation	Mike Chakarun, Idaho State Tax Commission
<a href="#">H 593</a>	Sales Tax Savings Account	Rep. Clow
<a href="#">H 594</a>	Removal of Idaho Homestead Exemption Index	John Eaton, Idaho Association of Realtors
<a href="#">H 595</a>	Idaho Medical Savings Accounts	Rep. Hixon

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
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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

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
8:30 A.M.  
Room EW42  
Monday, March 10, 2014

SUBJECT	DESCRIPTION	PRESENTER
<a href="#">H 506</a>	Tax Exemption Electricity Producing Operating Property	Rep. Loertscher
<a href="#">RS23084</a>	Tax Exemption Electricity Producing Operating Property	Rep. Loertscher
<a href="#">RS23111</a>	Personal Property Tax	Sen. Siddoway
<a href="#">RS23101</a>	Clarification of Effective Date For H 384	Bill Roden, attorney
<a href="#">RS23067</a>	Telecommunications Network & Data Center Equipment Tax Exemption	Rep. Dayley
<a href="#">H 598</a>	Clarification of Remotely Accessed Computing Services	Jay Larsen, Idaho Technology Council

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Monday, March 10, 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:** None

**GUESTS:** Russell Westerberg, Rocky Mountain Power; Elli Brown, Veritas Advisors; Mike Chakarun, Alan Dornfest, McLean Russell, Idaho State Tax Commission; Melissa Nelson, ISCPA; Rick Smith, Jay Larsen, Idaho Technology Council; Mike Brassey, Union Pacific Railroad; Amber Pence, City of Boise; Jonathan Parker, Internet Truck Stop; Caroline Merritt, Ray Stark, Boise Metro Chamber; John Jameson, Ridgeline Energy; Bill Roden, Coeur d'Alene Tribe; Ryan Woodings, MetaGeek, LLC.

**Chairman Collins** called the meeting to order at 8:32 am.

**MOTION:** **Rep. Burgoyne** made a motion to approve the minutes of March 6, 2014. **Motion carried by voice vote.**

**UNANIMOUS  
CONSENT  
REQUEST:** **Chairman Collins** requested unanimous consent to **HOLDH 506** in Committee. There being no objection, the request was granted.

**RS 23084:** **Chairman Collins** stated **RS 23084** was being returned to the Sponsor.

**RS 23101:** **Bill Roden**, representing the Coeur d'Alene Tribe, presented **RS 23101** which is a trailer bill to legislation passed earlier this year, as **H 384**. This proposed legislation will clarify the retroactive date of January 1, 2013, and adds an emergency clause.

**MOTION:** **Rep. Trujillo** made a motion to introduce **RS 23101**, and recommend it be sent to the Second Reading Calendar. **Motion carried by voice vote.** **Rep. Agidius** will sponsor the bill on the floor.

**RS 23111:** **Rep. Moyle** presented **RS 23111** dealing with personal property tax exemption. The prior legislation passed in 2013 provided a tax exemption for personal property, on the first \$100,000. The larger issue to ultimately eliminate personal property tax entirely still needs to be addressed. This is the next step, which will increase the exemption amount to \$250,000, effective FY 2016. **RS 23111** outlines personal property of operating property entities and the percentage of the property that will be tax exempt. Also defined is the difference between real and personal property. **Rep. Moyle** said the "third and a half factor", which is related to property that is attached and bolted down, could still cause some confusion on whether this is personal or real property. This proposed legislation clarifies that distinction, as well as codifying Rule 205.

**Rep. Burgoyne** declared Rule 38, stating he has done legal work for a firm selling cell towers. **Rep. Moyle** responded to a question stating the ultimate goal is to end the personal property tax entirely. Due to the Four R Act, it's unlikely Idaho can opt out railroads from taxation. The debate is whether to include operating property. **RS 23111** removes the former definition of taxpayer and makes the definition more clear.

Responding to another question, **Rep. Moyle** said rail cars are the boxes on the train and are considered personal property and eligible for the exemption. However, the rail way itself is considered to be real property and not included. The bigger debate is related to the percentage calculations. The fiscal impact has been based on the dollar amount and the percentage within each industry category.

**MOTION:** **Rep. Raybould** made a motion to introduce **RS 23111**.

In response to a question, **Rep. Moyle** said the fiscal numbers were derived from conversations with various entities; the Senate, Idaho State Tax Commission, businesses and House Leadership. While this proposed legislation does not represent a consensus, it is a good starting point. **Rep. Moyle** stated there is full replacement of tax shortfall resulting from personal property tax exemption, fixed at the 2012 tax year revenue amount. If local units of government consolidate, they continue to get replacement revenue, however, if they dissolve, the revenue would be retained by the state.

**VOTE ON MOTION:** **Chairman Collins** called for a vote on the motion. **Motion carried by voice vote.** **Reps. Burgoyne, Erpelding, Meline** requested to be recorded as voting **NAY**.

**RS 23067:** **Rep. Dayley** presented **RS 23067** which would enhance Idaho's ability to move and store data and provide a competitive advantage. Currently Idaho exempts regular manufacturing equipment, but not telecommunication equipment. This proposed legislation would exempt new purchases of telecommunications network and data center equipment, from sales and use tax. **Rep. Dayley** stated he is requesting introduction only of **RS 23067** and does not intend to bring it to the floor this session.

**MOTION:** **Rep. Burgoyne** made a motion to introduce **RS 23067**.

**Rep. Dayley** responded to a question stating there are still unknown impacts of this proposed legislation, such as the amount of water that might be required. This is why he is requesting a print only, to allow the interim to explore some of these issues. **Rep. Kauffman** declared Rule 38, stating he is on the board of a telephone company.

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

**H 598:** **Jay Larsen**, Idaho Technology Council, presented **H 598** which defines Cloud services and improves the language in **H 243**, passed in 2013. Mr. Larsen said current supporters of this legislation include the Boise Metro Chamber of Commerce, Simplot Company, Idaho Association of Commerce and Industry, the Idaho Association of Realtors, and the Idaho Restaurant and Lodging Association, among others. Entertainment would not be included in the definition and a retroactive clause was removed. **H 598** will clarify cloud services are not subject to sales tax.

**Rick Smith**, Hawley-Troxell, testified in support of **H 598**. Mr. Smith was very involved in the drafting of **H 243** and **H 598** and wanted to provide clarification, if needed, on the language. Mr. Smith stated this legislation would not treat use tax differently from sales tax. This legislation deals with the definition of software and how it fits within the definition of tangible personal property. Ultimately, it is really a tax policy as to what is included as software. Tangible goods like discs and computers with pre-loaded software are and will continue to be taxed as tangible property. Remotely accessed and electronically delivered software is not considered tangible. To be consistent with the prior statute, tax policy should exclude those services from taxation.

In response to a question, **Mr. Smith** said audits are possible for Cloud services. If the primary use is remotely accessed, it would be excluded. Mr. Smith stated it is difficult to determine the fiscal sales tax impact, especially for software. He acknowledged the original fiscal impact last year, was estimated between \$250,000 - \$750,000 and was based on the best estimate of existing Cloud services. As we move into the future, an increase in the projected fiscal impact will occur due to the increase in use of Cloud technology. Ultimately, it is still a guess and difficult to determine. Mr. Smith responded to a question stating the basis for the fiscal impact resulted from estimates the Idaho State Tax Commission (ISTC) provided, which was \$8 million. Mr. Smith explained as more and more software is migrated to the Cloud, they felt a more accurate estimate is in the \$2 - \$5 million range.

**Mr. Smith** acknowledged this legislation would close off potential taxing of Cloud software in the future, but under current law, it isn't taxable at this point. Software is typically sitting somewhere outside Idaho and providing service on a remote basis. Since services are not taxable, last year's bill was labeled as a clarification bill. **H 598** is consistent with the principle of not taxing services. Mr. Smith stated, in response to a question, this legislation first outlines the types of exclusions, such as remotely accessed software, then adds back the non-excluded entertainment exemptions, like digital books and music, that are taxed as tangible goods.

**Jonathan Parker**, Holland and Hart, representing the Internet Truck Stop, testified **in support of H 598**. Internet Truck stop provides a service to match freight loads with truck drivers and connects those drivers to shippers. This allows drivers to avoid 'deadheading' where they drive their truck without a revenue producing load, typically on a return trip. Internet Truck Stop is located in New Plymouth, only eight miles from Oregon, who is attempting to lure Internet Truck Stop there by providing financial incentives. Owner and founder **Scott Moscrip** is an Idaho native and would like to keep his business here. Mr. Parker said this legislation would help attract as well as retain business and provide clarification of legislation previously passed.

**Carolyn Merritt**, Boise Metro Chamber, representing over 1800 members, including many that provide or access Cloud services, spoke **in support of H 598**. **H 598** is needed to ensure prior legislation and subsequent rules are applied as intended and will help attract, as well as retain, Idaho businesses.

**Ryan Woodings**, founder of MetaGeek, a software company that helps businesses manage computer software, testified **in opposition to H 598**. Mr. Woodings stated he is married to **Rep. Holli Woodings**. **H 243** was meant to clarify Cloud services and **H 598** doesn't match the traditional definition of a service.

**Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission (ISTC) stated the ISTC **does not oppose or support H 598**. Mr. Chakarun stated the ultimate decision is up to the Legislature but believes the decision should be based on as much information as possible. The ISTC calculates the fiscal impact of **H 598**, at a minimum, will be \$8 million and continue to grow. Software was originally defined as tangible personal property and taxed. In 1993, information stored on some type of medium was taxed. Barring a statutory exemption, this is still defined as tangible personal property. During the 2013 rule making, it came to the attention of the ISTC the intent was not to collect sales tax. In calculating the fiscal impact, Mr. Chakarun used actual sales tax returns from audits, and public information, looking at about 100 tax payers, who had a long history of sales tax collection. Of this sample size, 20 businesses were identified that paid tax on remotely accessed software and Cloud storage. Mr. Chakarun said these were some of Idaho's larger employers. The amount of sales tax that would not have been paid if **H 598** had already been enacted was \$5 million. There are currently 55,000 sales and use tax permits in Idaho and the ISTC believes a realistic fiscal impact is \$8 million.

**Mr. Chakarun** stated while this is not typically how fiscal notes are done, ISTC felt it was the best way to get a realistic estimate. As a point of information, **H 598** would exempt smart phones, tablets and applications, downloaded software, online software, and enterprise software. Enterprise software is not offered on a disc, but installed directly on a computer and known as "load and leave". Some of the enterprise software packages are very costly and can run hundreds of thousands to even millions of dollars. Software maintenance contracts would also be impacted. While some are currently not taxed, like help desks, others are partially taxed, since they are not wholly comprised of services. Other software maintenance contracts are taxed at 100%, when the contracts are written in a way so use of the software, without the maintenance component, is not permitted.

In response to questions, **Mr. Chakarun** stated the scope of the definition of tangible personal property is not narrowed by this legislation. The original bill excluded services in the Cloud, but was confusing on the load and leave concept. This bill makes it clear software, loaded onto a computer, is no longer taxable. **Mr. Chakarun** said in determining the fiscal note, the ISTC looked at potential sales tax impact only and did not take into consideration other possible economic activity.

**Mr. Chakarun** deferred to **McLean Russell**, ISTC, who responded to a question stating sales involving a license, lease or subscription are rentals and require a use tax. Leases, rentals and sales of tangible personal property are taxable in Idaho.

**Mr. Larsen** closed his presentation saying this legislation is intended to exempt entertainment from the sales tax exclusion. It's uncertain where things might be in five to ten years, but we do know where we are right now. Most applications, or apps as they are referred to, are primarily used for entertainment and will still be taxed. This bill aligns services, as being tax exempt, with existing statutes. It also aligns Idaho with the 17 other states that exempt remotely accessed software, from sales tax.

**MOTION:** **Rep. Burgoyne** made a motion to send **H 598** to the floor with a **DO PASS** recommendation. A roll call vote was requested. The **motion carried** by a vote of **14 AYE, 2 NAY, 0 Absent/Excused. Voting in favor** of the motion: **Reps. Collins, Barrett, Moyle, Raybould, Denney, Anderson(31) Anderst, Dayley, Hartgen, Kauffman, Trujillo, Agidius, Burgoyne, Erpelding. Voting in opposition** to the motion: **Reps. Wood(35), Meline. Rep. Moyle** will sponsor the bill on the floor.

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:45 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

**AMENDED AGENDA #1**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**8:30 A.M.**  
**Room EW42**  
**Tuesday, March 11, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>H 600</u></a>	Bonus Depreciation	Mike Chakarun, 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 Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
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Phone: 332-1125  
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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Tuesday, March 11, 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:** Rep. Wood(35)

**GUESTS:** Michael Chakarun, Idaho State Tax Commission; Melissa Nelson, ISCPA; Russell Westerberg, Rocky Mountain Power.

**Chairman Collins** called the meeting to order at 8:31 am.

**MOTION:** **Rep. Trujillo** made a motion to approve the minutes of March 7, 2014. **Motion carried by voice vote.**

**H 600:** **Mike Chakarun**, Tax Policy Manager, Idaho State Tax Commission (ISTC) presented **H 600** which is related to bonus depreciation and designed to fix a problem embedded in the American Taxpayer Relief Act of 2012. Historically, Idaho lists specific Acts they will not confirm to for tax purposes. This legislation amends Section 63-3022O, Idaho Code, to affirmatively state that subsection (k) of section 168 of the Internal Revenue Code (IRC) related to bonus depreciation does not apply to any asset placed in service after December 31, 2009.

In response to a question, **Mr. Chakarun** stated this legislation would require filing of amended returns, if the taxpayer has already filed, and applied the bonus depreciation allowance.

**MOTION:** **Rep. Trujillo** made a motion to send **H 600** to the floor with a **DO PASS** recommendation.

Responding to additional questions, **Mr. Chakarun** stated he believes the number of taxpayers required to file amended returns is very limited. Taxpayers filing their own returns may have inadvertently taken the allowance. Information can be put on the ISTC website to alert taxpayers, but there is no easy way to search returns already filed to determine if the allowance was taken. The oversight of excluding the bonus depreciation allowance has occurred previously. In 2011 **H 102**, which was the conformity bill, was needed to clarify Idaho was not going to permit the IRC bonus depreciation allowance, and was done retroactively. For taxpayers who may have already filed and taken the allowance, Mr. Chakarun said the ISTC could address these situations on a case by case basis, as they arise.

**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. Raybould** will sponsor the bill on the floor.

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 8:44 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
9:00 A.M.  
Room EW42  
Thursday, March 13, 2014

SUBJECT	DESCRIPTION	PRESENTER
<a href="#">RS22719</a>	Capital Gains - Limited Liability Company	Sen. Mortimer
<a href="#">RS23149</a>	Urban Renewal District Taxation - Community Colleges	Sen. Nonini

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

Kathleen A. Simko  
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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Thursday, March 13, 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, Burgoyne, Erpelding, Meline

**ABSENT/  
EXCUSED:** Rep. Moyle

**GUESTS:** Raeleen Welton, Westerberg & Associates.

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

**MOTION:** **Rep. Burgoyne** made a motion to approve the minutes of March 10, 2014. **Motion carried by voice vote.**

**MOTION:** **Rep. Kauffman** made a motion to approve the minutes of March 11, 2014. **Motion carried by voice vote.**

**RS 23149:** **Sen. Nonini** presented **RS 23149** which is related to Idaho community college funding and the loss of revenue being diverted by Urban Renewal Districts (URD's). This proposed legislation would amend Idaho Code 50-2908 to exempt community college districts beginning in FY 2015. Currently, only local schools districts are exempt. Impacted counties would be Kootenai, Ada, Canyon, Twin Falls and Jerome. In these areas where funds are going to the URD, community are approximately \$958,341, in Jerome County, \$3,426,000 and in Twin Falls County, \$4,095,904. The revenue shortfall in each community college budget must be made up through other income sources.

**MOTION:** **Rep. Wood(35)** made a motion to introduce **RS 23149**.

In response to questions **Sen Nonini** stated he would like to get this proposed legislation passed, but realizes it is late in the session. He said this is different than prior legislation due to the addition of language addressing new construction. **Sen. Nonini** clarified this would only impact areas with community colleges. Currently, North Idaho Community College is looking at raising fees as well as a potential change in athletic conferences, to balance the budget.

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

**RS 22719:** **Sen. Mortimer** presented **RS 22719** stating this issue was brought to his attention from accountants. **Sen. Mortimer** worked with the Idaho State Tax Commission (ISTC) last year and **RS 22719** is the result of those conversation and related to real estate held in a Limited Liability Company (LLC). Currently, if sold to another individual in the same LLC, this property would be treated as ordinary income, instead of capital gains. The capital gain change would allow partners who own Idaho real estate, in a partnership, to sell their interest. This is an attempt to conform to federal tax policy. **Sen. Mortimer** is requesting a print hearing only and will use the interim to continue discussions with the ISTC and accountants.



Responding to a question, **Sen. Mortimer** stated, as the statute is currently written, property sold would be treated as ordinary income, to the owner of interest in the LLC. While he clarified he is not an accountant, Sen. Mortimer stated he believes sale of property by a C corporation would be treated as a sale of stock. If the property was owned by an S corporation, it would be treated as a capital gain.

**MOTION:** **Rep. Burgoyne** made a motion to introduce **RS 22719**. **Motion carried by voice vote.**

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 9:23 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

**AMENDED AGENDA #1**  
**HOUSE REVENUE & TAXATION COMMITTEE**  
**1:15 P.M.**  
**Room EW42**  
**Tuesday, March 18, 2014**

<b>SUBJECT</b>	<b>DESCRIPTION</b>	<b>PRESENTER</b>
<a href="#"><u>RS23164</u></a>	Administrative Rules - Rejection Rule 205, Docket No. 35-0103-1302	Rep. Moyle

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

COMMITTEE SECRETARY

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Tuesday, March 18, 2014

**TIME:** 1:15 P.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:** None

**GUESTS:** Rick Smith, Century Link.

**Chairman Collins** called the meeting to order at 1:17 pm.

**MOTION:** **Rep. Burgoyne** made a motion to approve the minutes of March 13, 2014. **Motion carried by voice vote.**

**RS 23164:** **Rep. Anderst** presented **RS 23164** which will be a Concurrent Resolution rejecting Rule 205 of **Docket No. 35-0103-1302**. **Rep. Burgoyne** declared Rule 38, stating his firm represents entities impacted by this proposed legislation.

**MOTION:** **Rep. Burgoyne** made a motion to introduce **RS 23164** and recommend it be sent directly to the Second Reading Calendar. **Motion carried by voice vote.**

**ADJOURN:** There being no further business to come before the committee, the meeting was adjourned at 1:20 pm.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary

AGENDA  
**HOUSE REVENUE & TAXATION COMMITTEE**  
9:00 A.M.  
Room EW42  
Thursday, March 20, 2014

SUBJECT	DESCRIPTION	PRESENTER
	Approval of Minutes	

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

COMMITTEE MEMBERS

Chairman Collins	Rep Anderson(31)
Vice Chairman Wood(35)	Rep Anderst
Rep Barrett	Rep Dayley
Rep Moyle	Rep Hartgen
Rep Raybould	Rep Kauffman
Rep Denney	Rep Trujillo

Rep Agidius
Rep Burgoyne
Rep Erpelding
Rep Meline

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MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Thursday, March 20, 2014

**TIME:** 9:00 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:** Reps. Barrett, Moyle.

**GUESTS:** None

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

**Chairman Collins** expressed appreciation to the Committee for their efforts this session.

**MOTION:** **Rep. Anderst** made a motion to approve the minutes of March 18, 2014. **Motion carried by voice vote.**

**Chairman Collins** recognized Page **Lindsey LaPrath** for her service to the Revenue and Taxation Committee during the second half of the 2014 session.

**ADJOURN:** There being no further business to come before the committee the meeting was adjourned at 9:03 am.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary