Legislative Services Office
Idaho State Legislature

Serving Idaho's Citizen Legislature

Eric Milstead
Director

To: Members of the Tax Working Group
From Eric Milstead, Legislative Services Office
Date: September 10, 2015

Re: Recap of the meeting held September 8, 2015, in the Senate Majority Caucus Room

The tax working group held its third meeting on September 8, in the Statehouse. Pro Tem Hill provided a recap of the group's first two meetings. Derek Santos (DFM) discussed DFM's revised (higher) revenue forecast for 2015 and told the group that the Governor will budget to the new forecast.

Keith Bybee (LSO) discussed an analysis comparing Idaho resident individual income tax data with a method of taxation mirroring Utah's current individual income tax approach. The analysis was the result of a collaborative effort of Keith Bybee, Derek Santos, and State Tax Commission staff, which included Scott Grothe, Michael Chakarun, Alan Pack, and Ken Roberts. Computing taxes with the Utah methodology resulted in $9.5 billion more total taxable income, but $59.4 million less tax. This methodology dropped the tax rate 2.3% from Idaho's current method for an effective tax rate of 4.3%. Additionally, under the Utah method, 42% of Idaho resident individual income tax filers would receive a tax increase, but only 10% of that 42% would have more than a 5% increase in tax.

Pro Tem Hill briefly discussed options regarding potential income tax reform that had been discussed by the group, including:

- Reduce all income tax rates in all brackets;
- Reduce the highest marginal income tax rate;
- Revise Idaho's income tax approach to reflect a "flat tax" approach (similar to the House model proposed during the 2015 Legislative Session); and
- Revise Idaho's income tax approach to reflect a modified single income rate (similar to the Utah model).

Senator Burgoyne noted that other options are available, including a reduction of the lower income tax rates in Idaho's current system. Senator Burgoyne also noted that the states of Washington and Oregon have economies that share similarities with Idaho, particularly segments in the Treasure Valley and north Idaho. These two states' approaches to taxation and business should be considered as examples for the working group to consider in addition to, or perhaps instead of, the Utah example.

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

April Renfro, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

Statehouse, P.O. Box 83720
Boise, Idaho 83720-0054

Tel: 208-334-2475
www.legislature.idaho.gov

Jeff Sayer, director of the Idaho Department of Commerce, emphasized that the issue he believes is most critical to growing the state's economy is providing a skilled workforce. Workforce issues supersede tax policy and infrastructure issues in the eyes of business leaders.

Speaker Bedke agreed that workforce issues are critical, but also noted the current political realities that exist in the Legislature.

Senator Stennett and Representative Rusche suggested that any effort on tax reform should take a "long-term" view of the issue while keeping a strong eye on the fairness of any reforms. Senator Stennett reiterated that Washington and Oregon may be appropriate models regarding tax policy for the group to consider.

Senator Burgoyne noted that reviewing, and perhaps refocusing, efforts in higher education relating to workforce education and development is likely a key component in any effort to meet business needs for skilled talent.

The discussion then turned to how the working group might move forward. Pro Tem Hill asked whether the chairs of both tax committees could work with a smaller group of legislators to discuss the issues raised to date by the working group and perhaps move forward on some of the matters raised.

Representative Collins acknowledged differences in approaches and perspectives between the Senate and the House. He suggested that the proposed smaller group could look at income tax, including exemptions and/or credits, and personal property tax.

Senator Siddoway indicated that education funding should be a backdrop to any issue the smaller group works on. He stated that he was comfortable with examining possible revisions to the income tax, but he is not comfortable with potential reductions in revenue of $150 million to $200 million.

Several members of the working group expressed the desire to avoid a situation where a tax-related proposal is introduced late in the Legislative Session, which potentially creates disagreements that might otherwise have been avoided through an earlier introduction of the proposal.

Senator Stennett suggested that any proposed reform or revision be considered with a phased-in approach to allow an incremental assessment of the impact of the reform.

The meeting concluded with the working group directing the chairs of the tax committees to chair a "smaller" working group of legislators to further discuss the issues raised to date. This smaller working group shall consider ways to move ahead and will report back to leadership.