



Legislative Services Office

Idaho State Legislature

Eric Milstead
Director

Serving Idaho's Citizen Legislature

To: Members of the Tax Working Group
From: Eric Milstead, Legislative Services Office
Date: September 28, 2015

Re: Recap of Meeting on September 17, Senate Majority Caucus Room

The tax policy workgroup met for the fourth time on September 17. Representative Collins welcomed members and reviewed the reason for this initiative, explaining that the two legislative bodies were in disagreement over tax policy upon Sine Die. The workgroup will work to identify tax revisions or relief that might be workable during the next session, and may bring a recommendation to the full legislature. It will pursue the long-term goal of trying to change, and simplify, our overall tax policy. It costs roughly three billion dollars (General Fund) to run this state. The group needs to investigate if there is a way that is fairer than our current system, for all earners.

Senator Siddoway explained that for the last three years, the Speaker and Majority Leader in the House have approached him stating that they needed a lower than 7 percent top income tax rate to fund this state. After Utah's adoption of their new model, that number dropped to 5%. This workgroup's objective is to now look at our policies and see what can be accomplished during the next session to bring our number down. Any extensive remodel would require assistance from our tax commission, LSO and DFM. He emphasized that today's session was an open and informal discussion.

Eric provided an overview to-date, referring members to the distributed summaries of previous meetings. The conversation began with Utah's tax model as a starting point. Eric noted that while he will mention Utah's approach often, that should not be read as emphasizing Utah's legislation as the only or primary approach to discuss. Rather, the working group consistently emphasized that all ideas should be considered and discussed. Utah had some success with the approach or process they took in developing their legislation. Every aspect of the tax system should be on the table. The first meeting took place on June 26, and primarily covered process. Utah's tax reform took seven years; two intensive years devoted to defining the problem. They established close relationships between policymakers to break down any territorial issues between those entities. They established a taskforce with a concerted effort toward public outreach. They hired an economist who was on board for two years, deputized by the IRS to examine individual income tax rates and returns. There was significant effort to gain buy-in.

The second meeting, on July 20, was a review, with a plan to start broadly and then focus effort. Utah's objective was to lower the rate and simplify the process. Utah is now at a modified flat tax of 5% with credits for lower income individuals. Utah was able to accomplish their objectives in a healthier economic environment, before the recession. DFM discussed revising or reducing personal property tax and tying income tax to other reform efforts.

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The group met for a third time on September 8, and dovetailed the previous discussion of Utah's working relationships. Commerce Director Sayer reported that a skilled workforce is his first priority. Leadership asked Representative Collins and Senator Siddoway for a plan to move forward with regard to avoiding a late session. That meeting culminated in the creation of this workgroup. Senator Siddoway advised members that it could be a long-term commitment.

Keith Bybee presented examples of Idaho resident individual tax returns, processed using the Utah model. Discussion ensued regarding exemptions and rates. In response to concerns about shifting the burden to lower incomes, Keith reported that Idaho has the second lowest tax burden per capita, and by income; but he is still not sure where relief, and burden, would fall.

Senator Burgoyne and Representative Erpelding expressed interest in giving commerce consideration. Representative Collins advised that this is not a commerce-driven workgroup and asked members to bear in mind political realities. Other ideas put forth for consideration were:

- Long term, a discussion of income and sales tax changing or going away
- personal property tax; grocery tax; taxing services
- Look at overall tax policy, tie it to economic growth, and then adjust according to those indicators
- A methodology to monitor, as individual requests come through, any immediate impact to the overall model
- Changes affecting county payments: watch for potential reductions and consequences
- Phase out emergency and supplemental levies: they create economic instability, place undue burden on rural areas, and affect school districts and the state's ability to attract business
- Examine Oregon and Washington models as well, given their similar shortfalls
- Difficult-to-track internet purchases

Representative Collins noted that we are going into a busy time for the staff that we rely on to build a model. Eric reminded the workgroup that Utah hired a fulltime, dedicated expert. Eric recapped some of the morning's discussion points going forward: review of Washington and Oregon's economies and tax systems, internet transactions, and sales tax and income tax deductions.

Eric outlined the next agenda:

- Commerce Director Sayer to present trends in both small and large business sectors
- DFM to review expenditures, and provide a comparison of Idaho tax rates, regionally and nationally

The next three meeting dates and times are as follows:

- October 6th, 8:30 a.m.- noon
- October 14th, 8:30 a.m.- noon
- Nov 3rd, 8:30 a.m.- noon

The Co-chairs thanked the membership for their willingness to serve on this workgroup and for their input, encouraging them to share any thoughts they might have after adjournment. They appreciate the staff support in LSO and DFM, noting that at some point, it may become necessary to hire an economist, formalize the process, and begin public testimony and state travel. The meeting adjourned at 11:50a.m.

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