

MINUTES
JOINT MEETING
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
HOUSE REVENUE & TAXATION COMMITTEE**

DATE: Tuesday, February 16, 2016

TIME: 9:00 A.M.

PLACE: House Majority Caucus Room

MEMBERS PRESENT: Chairman Siddoway, Vice Chairman Guthrie, Senators McKenzie, Johnson, Rice, Vick, Bayer, Stennett and Burgoyne

Chairman Collins, Representatives Moyle, Raybould, Anderson, Anderst, Dayley, Hartgen (Hartgen), Kauffman, Nate, Scott, Thompson, Erpelding, Nye and Rudolph

ABSENT/ EXCUSED: Vice Chairman Trujillo and Representative Chaney

NOTE: The sign-in sheet, testimonies and other related materials will be retained with the minutes in the committee's office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Collins** called the joint meeting of the Senate Local Government and Taxation Committee and House Revenue and Taxation Committee to order at 9:01 a.m. He welcomed members from both committees and explained that the meeting was intended to provide a forum for discussion on tax issues, as well as a review of the progress of the Tax Working Group.

Chairman Siddoway explained that the decision to meet in a different location was to allow face-to-face discussion and gather ideas on how to proceed in terms of future tax policy. He welcomed Senators Lee and Den Hartog, who are members of the Tax Working Group.

PRESENTATION: **Eric Milstead**, Director, Legislative Services Office (LSO), reviewed the work and progress of the 2015 Tax Working Group. **Mr. Milstead** noted that this group was appointed in September 2015, to discuss tax policy, identify short- and long-term goals and develop strategies to avoid potential late-session issues. He indicated that as the Group's work progressed, the focus narrowed to include income, sales and personal property tax. **Mr. Milstead** then discussed the Group's visits to the Utah legislature and the knowledge gained from those visits regarding Utah's process of creating and implementing tax policy. He highlighted the collaborative nature of their approach, as well as their emphasis on transparency and public outreach, which contributed to their success in achieving their goals. **Mr. Milstead** shifted his focus back to the Idaho Working Tax Group, providing information on the varying tax issues addressed, noting topics of general and specific emphasis (see attachment 1), as well as Idaho's current tax exemptions and deductions (see attachment 2). He addressed possible pathways to future implementation of tax reform, including the creation of a permanent interim tax committee by concurrent resolution. **Mr. Milstead** argued that the benefit of such a committee, when given specific directives, is the ability to handle groundwork for germane committees. He suggested that LSO may be utilized for limited staffing; for more extensive staffing needs, money would need to be appropriated for permanent positions.

DISCUSSION: **Chairman Collins** asked the members for input regarding a target tax rate to work towards, referencing Utah's progression to a 5 percent tax rate.

Chairman Siddoway referenced the map of national tax rates (see attachment 3) and noted that Idaho has made some attempts to reduce tax rates over recent years. He commented that if Idaho did identify a target rate, it would be necessary to eliminate a number of current deductions in a manner similar to Utah's legislature as they worked to reach a 5 percent tax rate. **Chairman Siddoway** remarked that if the consensus is that current tax rate needs to be changed in order to make Idaho more competitive with its neighbors, it will be necessary to reduce the number of exemptions in the tax code. Public outreach will be a critical part of this process in terms of educating taxpayers on the benefits of potential reform. He asked the committee to consider which tax (property, sale or individual) to focus on and if there is a need to form a permanent interim committee to continue work on these issues.

Chairman Collins referenced current tax exemptions and deductions in Idaho, commenting on the nature of untaxed revenue.

Representative Moyle commented that although he agrees that income tax rates are too high, he does not agree that a tax cut requires a corresponding tax increase. He remarked that as Idaho's economy continues to grow, we can offset some of these issues with revenue growth. **Representative Moyle** referenced various tax rates of neighboring states in comparison to Idaho, stating he does not believe Idaho should raise taxes.

Senator Burgoyne remarked that a policy decision must be made on how to approach potential reductions of tax rates. He commented that from a marketing standpoint, a reduction in tax rates will make Idaho more economically competitive with its neighbors while simultaneously generating similar effective rates. **Senator Burgoyne** felt that a resolution must be reached by this body before effectively moving forward with tax reform.

Representative Anderson remarked that Idaho has one of the lowest overall tax burdens in the country and asked if the Tax Working Group took that into consideration. **Chairman Collins** responded that they did consider equitable tax rates, among other factors, and the meeting today is an opportunity to consider how to incorporate these factors into future tax policy. **Representative Anderson** then provided examples of how tax rates in Utah and Idaho are fairly similar in impact on the taxpayer.

Chairman Collins asked Keith Bybee, Principal Budget and Policy Analyst, LSO, to provide comparison information. **Mr. Bybee** provided specific information on how tax comparisons are generated and what factors are included in analysis.

Senator McKenzie remarked that if Idaho has lower effective tax rates than other states but higher apparent rates, this becomes a policy issue rather than a marketing issue, emphasizing that tax policy should be transparent and predictable. He commented that there is value in examining the number of expenditures, in coordination with the executive branch and with public involvement.

Representative Raybould remarked that if a decision is made to form an interim tax committee, germane committees, as well as the executive branch, must identify specific areas of focus and provide direction for future action. He explained that specific problem areas need to be identified, followed by the examination of similar problem areas in surrounding states and discussion of possible solutions.

Senator Bayer recognized that defining a specific problem area is not easy due to the complexity and political nature of the issue; if transparency, predictability and equitability are goals, there currently exist tax incentives that do not support such intentions. **Senator Bayer** indicated that data on sales tax, overall tax burden, cost of living and average household means in neighboring states would provide a more accurate metric of comparison when examining potential tax reform in Idaho.

Chairman Siddoway specified that the Tax Working Group did examine various tax differentials of neighboring states, but due to time constraints, that information was not presented at this meeting.

Representative Nye commented that long-term planning is necessary and should include a needs assessment that incorporates education, transportation and justice-related funding needs. He noted that Idaho currently operates under a one-year budget plan which involves cutting taxes but not meeting the needs of the State.

Senator Rice expressed frustration with the political climate surrounding the Tax Working Group and remarked that questions about tax reform should be addressed during the legislative session rather than in an interim committee. He stated that working through an interim committee or working group creates barriers to discussion of tax policy, discussion he believes should occur in germane committees and with public input.

Representative Anderst agreed that without specific guidance and focus, it is difficult to produce meaningful tax reform. He suggested that if an interim committee was created, a long-term policy approach should be utilized with focus on budget needs, stabilization and growth. **Representative Anderst** remarked that instead of identifying a specific target number for tax rates, focus on making Idaho more competitive and any target tax rate should be reflective of that.

Senator Vick agreed that specific direction is necessary before for an interim tax committee is created, and such direction can be provided by germane committees. He then commented on factors outside of tax policy that influence economic growth and attract business, and future work on tax policy should incorporate these variables.

Representative Rudolph commented that a multi-year budgeting plan should be implemented before taking into consideration specific issues such as tax cuts. He feels there is a systemic error in focusing on single-year budgeting.

Representative Erpelding expressed disappointment in the short-term focus taken by the Tax Working Group; rather than working towards long-term goals, discussions were centered on the upcoming legislative session. He remarked that future planning and discussions pertaining to tax policy should include not only the Legislature, but State departments, school districts and county commissioners. He stated that revenue needs to be balanced between discussions regarding tax relief.

Vice Chairman Guthrie commented that the overall tax package should be examined when considering changes to tax policy, including current deductions and exemptions. He remarked that in terms of marketing, Idaho is sending the wrong message by communicating how the State lags behind others rather than creating a positive image of what the State has to offer.

Representative Thompson encouraged the continuation of the Tax Working Group, as well as building upon their work to revamp Idaho's tax structure through

a multi-faceted approach. He pointed out that short- and long-term planning will be important moving forward.

Senator Burgoyne, commenting on his experiences in the Tax Working Group, noted that the opportunity to examine and interpret data was beneficial and allowed participants to engage in analysis not always undertaken during the legislative session. He emphasized that this type of background work is necessary prior to making tax policy decisions.

Senator Bayer remarked that the timing of discussions regarding an interim tax committee should not preclude debate and action on tax proposals presented during the current legislative session. He emphasized that it is the responsibility of this body to continue working on tax legislation and these discussions serve as a complement to work completed during the session.

Chairman Collins commented that his overall experiences with the Tax Working Group were beneficial and aided his understanding of the tax process. He feels there is merit to establishing an interim committee if specific direction and focus are provided.

Representative Anderst suggested collaboration and consensus building between the House and Senate committees, rather than attempting to define specific areas of focus. **Chairman Collins** responded that meeting today was an opportunity for the joint membership to discuss and review the efforts of the Tax Working Group, not to make specific decisions.

Chairman Siddoway highlighted the efforts of the Tax Working Group and the difficulties they faced when deciding how to proceed during the current legislative session. He mentioned internet sales tax as being an issue that could be addressed in the future, explaining that legislation already exists to set aside funds from interest sales. **Chairman Siddoway** commented that he will yield to the judgment of the combined committees and leadership about how to move forward with tax policy changes. He asked the combined membership to examine the value of establishing an interim committee and to act accordingly in germane committees.

Chairman Collins remarked that if a decision is made to introduce a concurrent resolution for an interim tax committee, the Legislature as a whole will have the opportunity to provide input and engage in debate about how to proceed with future tax policy.

ADJOURNED: There being no further business, **Chairman Collins** adjourned the meeting at 10:20 a.m.

Senator Siddoway
Chair

Jennifer Carr
Secretary