

MINUTES
HOUSE REVENUE & TAXATION COMMITTEE

DATE:	Tuesday, January 15, 2019
TIME:	9:00 A.M.
PLACE:	Room EW42
MEMBERS:	Chairman Collins, Vice Chairman Stevenson, Representatives Moyle, Anderst, Dayley, Chaney, Gestrin, Addis, Dixon, Furniss, Giddings, Nichols, Ricks, Erpelding, Ellis, Mason
ABSENT/ EXCUSED:	Representative(s) Gestrin
GUESTS:	Alan Dornfest, Idaho State Tax Commission (ISTC); Kathlynn Ireland, ISTC; Brian Stender, Canyon County Assessor; Trevor Buller, Taylor & Company; Brad Hunt, O.A.F.C.
MOTION:	Chairman Collins called the meeting to order at 9:00 a.m. Rep. Mason made a motion to approve the minutes of January 9, 2019. Motion carried by voice vote.
DOCKET NO. 35-0103-1801:	Alan Dornfest , Tax Policy Bureau Chief, ISTC, stated Docket No. 35-0103-1801 amends Rule 312 to treat formerly exempt government property uniformly with other previously exempt property that loses their exemption during the year by taxing it on a prorated basis for the portion of the year remaining after the exemption is lost. In response to committee questions on how a previous exempt government property that becomes non-exempt goes on construction rolls each quarter, Mr. Dornfest responded that Rule 312 has nothing to do with the new construction rule and concerns consistent treatment between government property and non-government property. Mr. Dornfest stated in response to further committee questioning that the rule's effective date is January 1, 2019. Mr. Dornfest , said Rule 408 is amended so that assessors can request re-examination of operating property values based upon preliminary, rather than final, values which makes it possible for the ISTC to handle assessor requests prior to the State Board of Equalization meeting when the values are finalized. This gives counties the opportunity to meet potential complaint deadlines. Mr. Dornfest stated Rule 610 is amended to provide that percentages of ownership set out in the deed determine partial ownership interests in relation to the homeowner's exemption. The rule also provides examples of how much of a home owner exemption may be granted in multiple-owner properties. Mr. Dornfest informed the committee that Rule 613 and 614 are companion rules with extensive changes that are the result of a year of work from a team of stakeholders who made valid clarifications to Rule 613 procedures. There are no changes in Rule 613, just clarifications. Rule 613 describes the process by which agricultural land is valued for assessment purposes. Specifically, Rule 613 amends and clarifies agriculture land valuation. It defines an agricultural area to better respond to localized crops and provides clarification of the calculation of net operation income. An agricultural area may have different patterns of areas of crops grown of which the assessor needs to be cognisant and address those specific areas as agricultural areas within their county. Also, income attributable to exempt irrigation equipment has to be subtracted as part of the expenses required by law. The clarification was based on concern that some counties were inconsistently subtracting the entire cost of irrigation equipment resulting in inconsistent results.

Mr. Dornfest introduced **Kathlynn, Ireland**, Tax Policy Specialist, ISTC, to address farmland value changes. Ms. Ireland said Rule 613 clarifications mostly itemize the typical expenses that farmers have in their practice that would be deducted from gross income. Ms. Ireland indicated there was some confusion with the assessors valuing agricultural land in determining how to calculate out the income attributable to the exempt irrigation equipment, so a rent calculation example was included. She said a step-by-step process on how to calculate the exempt income associated with equipment and the process and a table are included as well.

In response to committee concerns about the costs imposed and concern about how things are valued by the rule changes, **Ms. Ireland** responded, the procedures were not changed at all, and the calculations an assessor must go through to arrive at a value per acre is the same as the current rule. She informed the committee, ISTC developed templates that can be utilized to calculate the costs of irrigation equipment that would go into the calculation of the income to be deducted. She doesn't see any additional costs at the county level.

Ms. Ireland responded to committee questions regarding determining agricultural area, irrigation equipment depreciation exemptions based on an income approach value and reduction of gross income attributable to irrigation equipment, determination of economic rent, and the elements involved in localization of the definition of the term "typical farm."

Brian Stender, Canyon County Assessor, stated he has worked with these rules for eighteen years. In his county the rates won't be changed, but Idaho's county assessors are afraid of following the new rule with the smaller capitalized value and increased costs to the Idaho farmer. He agrees with most of Rule 613, but he is concerned about the reserve calculation rate. He would like the rule rejected and worked on another year.

In response to committee questions whether Rule 613 would raise values, **Mr. Stender** responded it would only add \$2.32 in Canyon County but might increase more in other counties. In response to committee questions regarding what he would do to change the rule to make counties happy, Mr. Stender indicated that Idaho's county assessors were not uniform in their methods for making assessments, but he believed assessments would go up.

Mr. Dornfest reiterated it is the belief of ISTC that if counties were assessing based on current rules used the way they are written, the same effect would occur.

Mr. Dornfest addressed Rule 614, a companion rule to Rule 613. He said Rule 613 spells out procedure and Rule 614 shows examples of the procedures.

In response to committee questions, on where the increased value on the examples came from, **Mr. Dornfest** yielded to **Ms. Ireland** who informed the committee the examples came directly from the farm whose 2017 assessment was the impetus to address these rule changes.

Mr. Dornfest presented Rule 630, which implements **H 591** and provides application procedures for taxpayers, counties and the ISTC for the exemption for new capital investments, which is a special exemption that requires a \$1 billion investment before it can be made. Once the exemption is made, the taxable value of the property in the county cannot exceed \$400 million. Centrally assessed and locally assessed property are eligible for the exemption. Previously, application was made to county commissioners which is not appropriate in dealing with centrally state assessed property. Clarification language about notification to county officials was included.

In response to committee questions on Rule 630's impact on larger businesses coming into Idaho, **Mr. Dornfest**, replied the rule in law did not change for property that would be locally assessed, so if a big corporation were moving to Idaho there is no change, even if they invest \$1 million. Last year's law allowed an expansion or inclusion of properties that were operating property such as public utilities, and there was no previous procedure for including those properties in the exemption, which Rule 630 rectifies.

Mr. Dornfest said Rule 709, the circuit breaker property tax reduction rule, is being amended in concert with rule 610 to provide that any specific ownership interest found in a deed will be used for determining qualifying interest exactly the same as in Rule 610.

Mr. Dornfest, stated Rule 802 provides procedures for counties and taxing districts to use when they add or deduct property to or from the new construction roll, which has the purpose of establishing the maximum property tax budget for taxing districts. It does not, in itself, lead to whether a property is taxable or non-taxable. Eligible new construction adds to budget capacity. Mr. Dornfest added that sometimes deductions are required and he gave examples. **H 559** set up a provisional look-forward exemption on property considered taxable saying those properties have to come off the tax roll and cannot be added to a new construction roll. There has to be a deduction for any property that was included under the former law and subsequently taken off. There is a five-year look back in the law, but the law is retroactive to January 1, 2016. Rule 802 also deals with property otherwise qualifying for the new construction rule being granted an exemption found in Idaho Code § 63-602NN. For development over \$500,000, depending upon county ordinances, there can be exemptions for those investments. When the exemptions are lost, the properties can be added to the new construction roll. Mr. Dornfest discussed the rules impact and Idaho Code § 63-602NN procedures regarding exemptions and credits for property annexations into urban renewal areas. Rule 802 also specifies procedures for a proration systems when there are de-annexations or dissolutions to revenue allocations in areas of urban renewal.

In response to committee questions on the new construction roll in a revenue allocation area, **Mr. Dornfest** responded all new construction within the area counted for the budget side and did not count for the levy side and drove up tax rates. In 2007, Idaho Code § 63-301A, which is the new construction roll law, said the county is not going to count new construction within the urban renewal area until dissolution or de-annexation and added the value of increment to both sides which enhanced budget capacity, but since the tax base also grows, it makes it neutral. The current system doesn't promote levy rates going down or up, which follows the statute and gives credence to Idaho Code §63-602NN provisions. When an urban renewal district dissolves, Idaho Code §63-301A requires that new value go into the existing tax districts as new construction.

MOTION: **Rep. Moyle** made a motion to hold **Docket No. 35-0103-1801** for time certain of one week. Discussion on the motion was held.

VOTE ON MOTION: **Motion carried by voice vote.**

ADJOURN: There being no further business to come before the committee, the meeting was adjourned at 10:36 a.m.

Representative Collins
Chair

Lorrie Byerly
Secretary