

MINUTES
HOUSE REVENUE & TAXATION COMMITTEE

DATE: Tuesday, March 16, 2021

TIME: 9:00 A.M.

PLACE: Room EW42

MEMBERS: Chairman Harris, Vice Chairman Addis, Representatives Moyle, Chaney, Gestrin, Dixon, Nichols, Kauffman, Adams, Cannon, Hartgen, Manwaring, Okuniewicz, von Ehlinger, Weber, Necochea, Ruchti

**ABSENT/
EXCUSED:** Representative(s) Adams

GUESTS: Miguel Legarreta, Associated Taxpayers of Idaho (ATI); Alex LaBeau, Idaho Association of Commerce and Industry (IACI); John Evans, Association of Idaho Cities (AIC); Kathy Dawes; and Alejandra Cerna Rios, Idaho Center for Fiscal Policy (ICFFP).

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

HCR 15: **Rep. Jim Addis** said **HCR 15** authorizes the continuation and completion of the Property Tax and Revenue Expenditures Interim Committee to study property taxes and property tax expenditures. Last year the committee came up with three legislative proposals. Passing **HCR 15** will allow the committee to continue and engage in other topics. The estimated fiscal cost is \$15,000, which he believes is overstated.

In response to committee questions, **Rep. Addis** said the committee met five times last year and focused on three pieces of proposed legislation, with the first uniform and transparency legislation now before the Governor to sign into law. A current senate bill on tax reduction is the fruit of the committee. Unfunded balances where communities hold large balances was also a focus of the committee. The committee helps get a consensus to pass legislation.

MOTION: **Rep. Dixon** made a motion to send **HCR 15** to the floor with a **DO PASS** recommendation.

Rep. Chaney spoke in opposition to **HCR 15** saying that although he respects the hard work the committee did, frequently interim committee legislation does not make it through the legislative process and can have the function of taking away other options.

VOTE ON MOTION: **Motion carried by voice vote. Rep. Addis** will sponsor the bill on the floor.

Chairman Harris turned the gavel over to **Vice Chairman Addis**.

H 332: **Rep. Harris** said **H 332** is tax relief and tax rebate legislation. The tax relief portion of the legislation brings the top tax bracket down to 6.5% for both the individual and corporate brackets, which is down from 6.925% and is about a 6% tax reduction. It brings all others tax brackets down percentage wise. The rate changes begin January 1, 2021 due to an emergency clause. Rep. Harris gave examples and explained how the tax rebate works. Those who filed taxes in 2020 will receive a \$50 per nose count for those who are claimed on their tax return or about 9% of their taxes paid in 2019, whichever is greater. The tax rebate portion of the legislation takes \$220 million, money Rep. Harris opines has been overpaid through income and sales tax, and returns it to the taxpayer through a check in 2021. Although Idaho November, December and January revenues were over their projections, with

February revenues being 65% over projections, **H 332** does not rely on that, the current Idaho bottom-line balance of \$500 million or money planned to be deposited into rainy-day funds. The \$220 million utilized for tax rebates and the \$170 million in bracket tax relief provides nearly \$400 million in tax relief, much of which is already available. The Tax Relief Fund will provide \$110 million in ongoing funding for the bracket reduction. The other portion comes from money earmarked for tax relief in the Governor's budget. The one time tax relief comes from \$180 million sitting in the Tax Relief Fund for tax relief purposes, as well as an addition \$40 million in the Governor's January budget that comes from IRS non-conformity legislation we passed in **H 58**. The non-conformance in **H 58** picked up approximately \$63 million. The intent of **H 332** is to return to taxpayers money they already paid in taxes and not to tax the system by being unreasonable or extreme.

Miguel Legarreta, ATI, provided an illustration of the potential impact of **H 332** on Idaho families. A family of two working parents with two children under 18 years of age, with an income of \$98,748, which is \$74,662 after deductions would save \$300, or 6.4%, in state taxes owed through reducing the tax bracket rates. The same family would be better off taking a rebate of a 9% one-time reduction, which would result in a return of \$391 for 11.6% of their taxes. The total state taxes owed by that family is reduced from \$3,849 to \$3,158, after credits, for an 18% savings in total or \$691 and reduces the effective tax rate from 3.9 to 3.2%.

Alex LeBeau, President, IACI, said IACI has not taken a formal position but most likely will support **H 332** because it almost perfectly fits the recommendations IACI challenged the House and Senate to make in 2017 with a proposal that would have dealt with income tax brackets. In 2017, they proposed a top bracket of 6.4% but 6.5% is awfully close.

John Evans, AIC, spoke in opposition to **H 332** saying a primary concern is the sunset provision in this legislation that would limit the inclusion of Wayfair funds into the sales tax distribution formula, which is a major source of revenue for cities that can ease the pressure of property taxes currently being scrutinized by the legislature this year. Internet sales are becoming an increasing percentage of total sales which erodes one of the stable revenue sources cities have.

In response to committee questions, **Mr. Evans** replied cities do not get the money now and, under current law, the sunset provision comes off in 2023 or 2024. He replied further that he is aware of transportation legislation that would give local governments twice what they would have gotten with the sunset provision removed but it has not become law, the issues are not being looked at holistically, and cities' reliance on a piece of legislation has been compromised. He said removal of sunset provisions can put more pressure on property tax.

Rep. Moyle commented he hoped AIC would support **H 332** because it gives local government twice the money now versus part of the money in four years, everyone needs a little tax relief, and cities need to live within their means because the state cannot keep subsidizing them with sales tax, alcohol tax and general funds.

Kathy Dawes, Moscow, and **Alejandra Cerna Rios**, ICFFP, spoke in opposition to **H 332** saying tax relief is not wanted until Idaho can maintain a general uniform system of free public schools, fund bridges and other infrastructure, fund broadband and make investments in other core services. Ms. Cerna Rios indicated the ICFFP is concerned about potential loss of state fiscal relief funds due to leverage of the American Recovery Fund Act which would prohibit states from using federal fiscal aid alongside a net reduction of the sales tax base or be subject to a claw back in an equivalent amount. She said of \$1.2 billion dollars in federal fiscal aid currently set aside for Idaho, a claw back in the amount of the costs of this legislation could reduce Idaho's allocation to \$800 million. The United States Department of Treasury

has not issued guidance on how these particular cases will be handled and other states have hit pause on making tax changes in order to receive more guidance.

MOTION:

Rep. von Ehlinger made a motion to send **H 332** to the floor with a **DO PASS** recommendation.

Rep. Harris closed saying one of the reasons for the goal of 6.4% mentioned by **Mr. LaBeau** is that Idaho has very high income tax rates. Idaho has income tax, sales tax and property tax. In the range of what most people earn, \$30,000 to \$100,000, Idaho has the fourth highest marginal tax rate in the nation. **H 332** brings Idaho in line with appropriate income tax rates.

Answering committee questions regarding Tax Relief Fund projections for the next three to four years, **Rep. Harris** said the anticipated balance of \$180 million on July 1, 2021 will be higher than the budget estimate of \$105 million, although \$135 million is expected. If the reason for the higher numbers is more people shopping from home, that pattern can change back causing the numbers to drop, but, if online shopping becomes a new normal, the \$105 million projection this year could become \$110 or \$120 million. In years to come \$135 million will not be the high-water mark.

Rep. Necochea spoke **in opposition** to **H 332** saying the tax relief is inequitable. Idahoans are asking for property tax relief, and **H 332** makes permanent changes in the sales distribution formula which can increase property taxes over time. The funds could be used for infrastructure or long-term education funding, and until there is guidance on the American Recovery Fund Act, the legislation could jeopardize relief to Idaho businesses and community.

VOTE ON MOTION:

Motion carried by voice vote. Rep. Harris will sponsor the bill on the floor.

Vice Chairman Addis turned the gavel over to **Chairman Harris**.

ADJOURN:

There being no further business to come before the committee, the meeting adjourned at 9:43 a.m.

Representative Harris
Chair

Lorrie Byerly
Secretary