

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Thursday, January 27, 2022

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Rice, Vice Chairman Grow, Senators Vick, Lakey, Souza, Bayer, Ricks, Nye, and Semmelroth

ABSENT/ EXCUSED: None

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 Rice** called the Local Government and Taxation Committee to order at 3:03 pm.

PASS THE GAVEL: **Chairman Rice** stated that because he was presenting on a bill, Vice Chairman Grow would chair the meeting.

RS 29241 **Relating to water and sewer districts; amending Section 42-3209, Idaho Code, to revise provisions regarding compensation and to make technical corrections. Senator Vick** presented **RS 29241**. **Senator Vick** explained that this bill would allow local water and sewer districts to increase compensation for their board members from \$100 per meeting to \$150 per meeting. He noted that the last increase in compensation for local water and sewer board members was in 2003.

MOTION: **Senator Souza** moved to send **RS 29241** to print. **Senator Lakey** seconded the motion. The motion to send **RS 29241** to print passed by **voice vote**.

RS 29256 **Relating to property tax budgets; amending Section 63-802, Idaho Code, to revise provisions regarding limitations on taxing district budgets.. Chairman Rice** presented **RS 29256**. **Chairman Rice** explained that this bill is a bit of housekeeping related to H 389 passed last session. Expiring tax districts were not supposed to be subject to the 8 percent cap. This fixes that and closes an unintended loophole regarding the use of foregone balances. He further explained that a taxing district explored the idea of not taking 3 percent on their new construction and, instead, doing a 20 percent tax increase or budget increase purely from foregone balances. That was never intended under H 389. This bill closes that loophole and leaves people able to use forgone balances, but in a more limited way.

MOTION: **Senator Vick** moved to send **RS 29256** to print. **Senator Souza** seconded the motion. The motion to send **RS 29256** to print passed by **voice vote**. **Senator Nye** stated that although he was voting to send **RS 29256** to print, he reserved the right to change that vote on the floor.

H 436

Relating to income tax; amending Section 63-3024, Idaho Code, to revise provisions regarding Income Tax. **Chairman Rice** presented H 436. **Chairman Rice** explained that this bill is an ongoing tax cut. It reduces the tax brackets from five to four: 1 percent, 3 percent, 4,5 percent and 6 percent. Currently our top tax bracket is 6.5 percent for both individuals and corporations. He further explained that this bill reduces the corporate tax rate to 6 percent. This bill is retroactive to January 1, 2022, the beginning of the tax year. **Chairman Rice** stated that this bill would result in \$350 million in one time rebates. Idaho has a large surplus as a result of the collection of income and sales taxes which amounted to about \$900 million above what was projected. **Chairman Rice** explained that the tax rebates amount to 12 percent of what people paid in state income taxes in 2020, or \$75 per individual that received a grocery credit, whichever is higher. **Chairman Rice** then shared a survey that Boise State University conducted. The survey asked residents from across the state which type of tax relief should be provided if there was a budget surplus. 37.7 percent said property taxes should be reduced. 37.4 percent said income taxes should be reduced. Only 19.4 percent said sales tax should be reduced.

DISCUSSION:

Senator Nye asked Chairman Rice whether there had been a study regarding whether any of the increase in tax revenue was the result of the federal stimulus money. **Chairman Rice** responded that the Economic Outlook Committee discussed that. When you insert large amounts of money into the supply there is a combination of increased economic activity and inflation. We are looking at an ongoing year after year increase in revenue of \$750 million. And we are likely to see that increase to \$900 million or \$950 million next budget year. **Senator Nye** then asked whether there had been studies as to whether the increase in the revenue may have been a result of the federal stimulus. **Chairman Rice** explained that since we haven't finished with the impacts over the next several years, there couldn't be a study. We have to look at similar periods of time, similar situations throughout history and estimate from there.

Senator Souza asked Chairman Rice why we were keeping the lowest tax rate of 1 percent. **Chairman Rice** responded that those in the lowest tax bracket would only pay \$8. **Chairman Rice** further explained that Idaho has narrow tax brackets so that a family of four who is paying \$260 in income taxes is already in the top tax bracket.

TESTIMONY:

Testifying in favor of H 436 in person or virtually were the following: Suzanne Budge on behalf of the National Federation of Independent Business; Caroline Merritt representing the Idaho Chamber Alliance; John Eaton, Vice President of the Idaho Association of Commerce and Industry; Miguel Legarreta with the Associated Taxpayers of Idaho; and Alex Adams, Administrator of the Idaho Division of Financial Management.

- **Ms. Budge** stated that independent businesses have faced many challenges during the pandemic. Among these were labor shortage, supply chain disruptions, inflation and energy costs. H 436 would provide helpful tax relief to small businesses.
- **Ms. Merritt** stated that lower individual and corporate income tax rates assist local areas, Chambers of Commerce, economic development organizations and the Idaho Department of Commerce in recruiting, retaining and expanding new businesses in Idaho. She further stated that Idaho has a higher corporate income tax rate than our neighboring states and that lower corporate tax rates would make us more competitive.
- **Mr. Eaton** also stated that the lower corporate income tax rates would make Idaho more competitive. He noted that H 436 simplifies the tax code by eliminating one of the brackets and is more fair in that it makes the corporate income tax rates the same as the individual income tax rates.

- **Mr. Legarreta** discussed the impact of lower corporate income tax rates on our community. He noted the large contributions of corporations such as Albertsons who provide food to people in need and provide service to the community. **H 436** is a way to return revenue and promote growth in a fair, transparent manner.
- **Mr. Adams** stated that our income tax rates are comparatively higher than other states. He noted that **H 436** ensures economic vibrancy. He further noted that, although this bill does not address property tax relief, the governor's budget provides for an increase in teacher pay which is one of the largest drivers of property taxes and supplemental levies. In addition, transportation is another driver of property taxes. The governor's budget proposes fully funding transportation at the local level.
- **Chairman Rice** concluded his remarks by noting that, while the income tax rate in most states are generally lower than the sales tax rate, Idaho's income tax rate is higher than our sales tax rate. Finally, he stated that other areas of concern such as roads and property taxes are being addressed in the governor's budget and other legislation.

TESTIMONY:: Testifying against **H 436**, in person, virtually or in writing were the following:

- Evan Koch representing the Kootenai County Democratic Central Committee;
- Heather Stout;
- Mary Ruckh;
- Phyllis Lamken;
- Kay Hummel;
- Carol Rachel;
- Nate Roberts;
- Stephanie Hanson;
- Kathleen Lacey;
- William Brudenell; and
- John Poole.

They expressed common concerns. Some felt that a reduction in sales taxes, especially on groceries, and property taxes should be a priority. Some felt that the tax rates in this bill favored the wealthy and corporations. Some felt that priority should be given to spending for transportation and education, teacher pay and all day kindergarten over income tax relief.

MOTION: **Senator Vick** moved to send **H 436** to the floor with a **do pass** recommendation. The motion was seconded by **Chairman Rice**.

DISCUSSION: **Senator Ricks** thanked the sponsor of the bill. He emphasized that this bill would provide a minimum tax rebate of \$75 to everyone who qualifies for the grocery tax credit. He supported the reduced tax brackets and pointed out that twenty six states have a lower income tax rate than Idaho. **Senator Semmelroth** asked to explain why she would be voting against **H 436**. She cannot vote in favor of **H 436** because of the overwhelming number of her constituents who have asked her to vote no. **Senator Vick** noted that he has proposed a bill that would increase the grocery tax credit. **Senator Bayer** suggested that additional legislation increasing the grocery tax credit could be advanced. She also noted that she has proposed legislation that would enhance the circuit breaker program which would allow more senior citizens to remain on the program and reduce the risk of losing their

homes. All of these proposals together could provide real relief. **Senator Souza** commented that this bill would provide relief to small businesses who have suffered during the last two years. **Senator Lakey** expressed his support of **H 436** citing the strong economy which gives the legislature the ability to provide tax relief while also funding infrastructure and education. **Senator Nye** stated that he would be voting in opposition to **H 436** for many of the reasons stated by those who testified previously against this bill. He expressed a desire to defer a vote on this bill until the budgetary needs of education, transportation and other needs are addressed.

VOICE VOTE: The motion to send **H 436** to the floor with a **do pass** recommendation carried by **voice vote**.

ADJOURNMENT: There being no further business at this time, **Vice Chairman Grow** adjourned the meeting at 4:10 pm.

Senator Rice
Chair

Meg Lawless
Secretary