

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Tuesday, February 09, 2016

TIME: 3:00 P.M.

PLACE: Room WW53

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

ABSENT/ EXCUSED: Senator Rice

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: **Vice Chairman Guthrie** called the meeting of the Local Government and Taxation Committee (Committee) to order at 3:04 p.m. and asked the secretary to take a silent roll. He noted that Chairman Siddoway would be joining the Committee meeting after attending a panel discussion.

MINUTES APPROVAL: **Senator Bayer** moved to approve the Minutes of January 26, 2016. **Senator Stennett** seconded the motion. The motion carried by **voice vote**.

H 359 **Alan Dornfest**, Property Tax Policy Bureau Chief, Idaho State Tax Commission (Commission), presented **H 359**. The purpose of this legislation is to clarify that operating property is not apportioned to flood control, community infrastructure, watershed improvement, herd and levee districts. These taxing districts only levy on real property. **Mr. Dornfest** noted that this bill provides clarity and continuation of current practice. He explained that prior to statutory changes made in 2008 HB 599, operating property was not delineated into real and personal property. This meant that for certain taxing districts, specifically flood control, community infrastructure, watershed improvement, herd and levee districts, which are only permitted to levy property tax against real property, operating property companies did not pay any tax. **Mr. Dornfest** indicated the Commission seeks to codify current practice by providing that operating property not be included in the taxable value for the purpose of making a levy against real property.

MOTION: **Senator Johnson** moved to approve **H 359** with a **do pass** recommendation. **Senator Bayer** seconded the motion. The motion carried by **voice vote**.

H 360 **Mr. Dornfest** presented **H 360**, pertaining to filing requirements for taxing districts. This legislation requires taxing districts be formed by January 1 in order to levy property tax in the subsequent year. **Mr. Dornfest** indicated that all taxing districts, with the exception of three community infrastructure districts in Ada County, are currently held to this provision. The bill requires all districts in the State of Idaho be subject to the January 1 filing deadline, and he noted that this will reduce the likelihood of levy calculation errors and mapping and tax code area inconsistencies. **Mr. Dornfest** also specified that enforcement will not go into effect until January 1, 2017, in order to incorporate any new community infrastructure districts that may form. He then stood for questions.

Senator McKenzie asked if a different filing date for community infrastructure districts is written in statute and in which case would need to be redacted, or is not clearly stated in current code. **Mr. Dornfest** replied that current code is unclear because it does not include a filing date for these districts.

Senator Burgoyne inquired if urban renewal districts are affected by this legislation, to which **Mr. Dornfest** replied that urban renewal districts are already held to the January 1 filing requirement.

Senator Bayer asked how the proposed filing date change may affect the process for cities considering expansion through annexation. **Mr. Dornfest** replied that cities are already held to the January 1 filing requirement, so the legislation would not impact that process. He emphasized that there is no change for any taxing district except community infrastructure districts.

Senator Burgoyne asked if the three community infrastructure districts specified were involved in drafting this legislation and provided a position regarding the filing date change. **Mr. Dornfest** replied that the Commission did not reach out to these districts.

MOTION: **Senator Johnson** moved to approve **H 360** with a **do pass** recommendation. **Vice Chairman Guthrie** seconded the motion. The motion carried by **voice vote**.

H 376 **Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission, presented **H 376**, which updates cigarette tax bonding requirements in § 63-2510A, Idaho Code. **Mr. Chakarun** reported that this legislation repeals the minimum bond requirement of \$1,000 and now requires a bond amount to be the greater of twice the estimated average tax liability for the reporting period or the value of stamps in the wholesaler's inventory, including the value of stamps ordered but not received. The legislation also continues the bond waiver program. **Mr. Chakarun** explained that there is guesswork on the part of the taxpayer when applying for a permit to become a cigarette wholesaler; often, a minimum bond requirement is provided by the applicant, who subsequently requests more cigarettes than are covered by the initial bond amount. The result is continued back-and-forth communication between the Commission and applicant to determine the correct bond amount. He indicated that the proposed changes will streamline this process. **Mr. Chakarun** also stated the cost of stamps and cigarettes are now more expensive, making the original bond amount obsolete. He then stood for questions.

Senator Stennett asked if the proposed changes are a result of delinquency or loss caused by applicants manipulating the bond application process. **Mr. Chakarun** responded that the Commission does not currently have problems with permit holders; as a preemptive approach, the Commission wants to ensure that the correct bond amount is identified at the front-end of the process.

Senator Burgoyne sought clarification on the relationship between the value of stamps and estimated tax liability. **Mr. Chakarun** explained that through the proposed changes the Commission wants to be able to match the tax liability with the amount of bonds in place.

Chairman Siddoway asked for clarification on how stamps are placed on cigarette packages. **Mr. Chakarun** explained there is a machine that applies stamps to individual packages of cigarettes before the box is sealed. In some cases, the wholesaler will send cigarettes unstamped to the distributor, who will then apply the stamps.

MOTION: **Vice Chairman Guthrie** moved to approve **H 376** with a **do pass** recommendation. **Senator McKenzie** seconded the motion. The motion carried by **voice vote**.

H 352

Chairman Siddoway invited Tom Shaner, Tax Policy Specialist, Idaho State Tax Commission, to the podium.

Mr. Shaner provided clarification to the Committee regarding questions posed about tax extension procedures during a previous meeting. He explained that the Commission does allow for certain extensions, noting that Idaho Code § 63-114 allows for a one-year extension for an officially declared disaster; in addition, he described a Commission rule that allows for a one-month filing extension. **Mr. Shaner** pointed out that the Commission routinely receives and honors state extension requests and will honor federal extensions as well.

Senator Burgoyne asked if a federal extension is granted in conjunction with a state exemption, is the taxpayer then not obligated to pay and report until the extension period expires. **Mr. Shaner** explained that Idaho routinely grants 30-day extensions under reasonable circumstances. **Senator Burgoyne** then asked if the state waiver simply provides a reconciliation period or relieves the taxpayer of the obligation to pay, and how such policy relates to Internal Revenue Service (IRS) policy. **Mr. Shaner** replied that report and payment are delayed 30 days by the State without penalty, while the IRS provides 15 days for such action. He indicated that if the IRS granted a waiver, the Commission would take similar action.

MOTION: **Vice Chairman Guthrie** moved to approve **H 352** with a **do pass** recommendation. **Senator Stennett** seconded the motion. The motion carried by **voice vote**.

ADJOURNED: There being no further business, **Chairman Siddoway** adjourned the meeting at 3:30 p.m.

Senator Siddoway
Chair

Jennifer Carr
Secretary