MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE:	Monday, March 25, 2019
TIME:	1:00 P.M.
PLACE:	Room WW53
MEMBERS PRESENT:	Chairman Rice, Vice Chairman Grow, Senators Hill, Vick, Anthon, Lakey, Cheatham, Burgoyne, and Nye
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 meeting of the Local Government and Taxation Committee (Committee) to order at 1:00 p.m.

H 183

Relating to Income Taxes; To Revise Provisions Regarding the Taxation of Corporations on Foreign Income. **Senator Hill** presented **H 183**, stating it was a simple, but technical, last step to full conformity with the Tax Cuts and Jobs Act (TCJA) of 2017. **H 183** specifically deals with the allowable deductions related to offshore or foreign income. The goal of the federal tax bill was to bring the earnings from United States companies overseas back to the United States for reinvestment, particularly in manufacturing.

H 183 addresses three basic issues. Section 965 is a new requirement to report and pay taxes on earnings that have been held overseas since 1986. Section 245A and Global Intangible Low-Taxed Income (GILTI), establishes allowable deductions for future overseas earnings and levels the expected amount of taxes on those earnings. Foreign-Derived Intangible Income (FDII) is used to replace the section 199 manufacturing deduction, which was an incentive for manufacturing here in the United States. It is a much more limited manufacturing deduction as far as application, but the deduction is higher.

The federal law repealed a number of deductions that were otherwise allowed to corporations. Significant manufacturing deductions as well as entertainment expenses were no longer deductible. Corporations no longer received deductions for parking or mass transit for employees. Interest is deductible in corporations only to the extent it exceeds 30 percent of adjusted gross income. Net operating losses, which have been used to offset income going forward, are limited to 80 percent of taxable income. Those were just some of the changes for corporations in exchange for these deductions.

Senator Hill stated that during the previous legislative session they had a conformity bill which attempted to address the issue at that time. The desire was not to wait, and wanting the citizens to know what tax laws they were operating under. However, due to the complexity of the issue, the decision was made to add the deductions back, and wait until this session. The changes made in **H 183** were in the original bill. The three deductions, 245A, 250, and 965, were added back, and now **H 183** removes them.

The fiscal impact statement shows three tiers to taxation of foreign income. The first is income inclusion (H 463, 2018), then allowable deductions related to that income (**H 183**), and tax calculation. At the federal level there is a foreign tax credit for taxes paid in a foreign country to help offset the United States tax. Idaho has a flat 80 percent deduction. It would be difficult for a company to calculate a foreign tax credit on taxes paid in several different countries, particularly if those corporations only have a small part of their operation in Idaho. The legislature allows the 80 percent deduction to take the place of foreign tax credits. There is an 85 percent deduction available, but **Senator Hill** relayed that most companies do not participate because they are then required to divulge much broader information to the State Tax Commission.

MOTION: **Senator Nye** moved to send **H 183** to the floor with a **do pass** recommendation. **Senator Anthon** seconded the motion. The motion carried by **voice vote**.

ADJOURNED: There being no further business at this time, **Chairman Rice** adjourned the meeting at 1:11 p.m.

Senator Rice Chair	Machele Hamilton Secretary