STATEMENT OF PURPOSE

RS26878

Idaho generally conforms to the federal code for the purpose of calculating taxable income. However, given the short time frame between passage of the federal Tax Cut and Jobs Act (TCJA) and the 2018 Legislative session, policy makers did not have time to thoroughly review some complex corporate provisions and did not conform to them. This legislation removes three sections of the Internal Revenue Code (IRC) that grant corporate deductions from being added back into the calculation of Idaho corporate taxable income. The result would be to allow the same deductions received at the federal level at the state level regarding corporate taxation. Each multinational employer with tax liability in Idaho will have a complicated blend of credits and deductions based on a variety of factors, including where the product was manufactured, where the product was sold, the tax rates of various countries, and if the foreign earnings generated are attributable to either tangible (such as cash) or intangible (such as intellectual) property. The legislation addresses three sections of the IRC that were modified as part of the TCJA in December of 2017. Section 965 addresses deemed repatriation of foreign assets earned between 1986 and 2017 that are generally required to be declared in tax year 2017, allowing a deduction of between 55 and 77 percent depending on the type of asset (cash/cash equivalent or non-cash) being declared. Section 250 addresses deductions for both Global Intangible Low-Taxed Income (GILTI) and Foreign-Derived Intangible Income (FDII) income post 2017. Even though both acronyms use the term exclusively "intangible," the computations involve both tangible and intangible assets. Section 245A allows a deduction on repatriated income for companies that already paid taxes on income earned in a foreign country when it was repatriated to a U.S. company post 2017. The concept of all these provisions is to incentivize manufacturing and investment inside the United States and make the United States IRC more competitive on a global scale.

FISCAL NOTE

The impact of allowing the deductions in Sections 965, 250 and 245A should result in net increased revenue to the state from corporate taxation moving forward because of the requirements of the TCJA. None of this income is included in revenue projections calculated by the State Economist, and it was not included in any appropriation calculation for FY2019. The reason is that this income was largely never reported prior to the TCJA, and so these are largely net new tax sources of revenue for the federal government and Idaho. Over the next 10 years, based on best assumptions, the revenue projection to the state due to this legislation will be as follows:

		H463 (2018)	H183 (2019)	Net Impact
Sec. 965 (2017 Tax Years Only)				
	FY 2018	13.6		
	FY 2019:			
	Refunds from FY 2018 revenue (60% deduction)		(2.7)	
	965 (FY 2019 Impact)	18.7		
	60% deduction for H183		(11.2)	
	FY 2019 Total 965 Impact	**18.7**	**(13.9)**	**4.8**
	FY 2020:			
	Refunds from FY 2018 revenue (60% deduction)		(5.4)	
	965 (FY 2020 Impact)	38.1		
	60% deduction for H183		(22.9)	
	FY 2020 Total 965 Impact	**38.1**	**(28.2)**	**9.9**
	TOTAL 965	**70.4**	**(42.2)**	**28.2**
Sec. 245A (beginning in 2018 tax years)				
	FY 2019 245A	11.6	(11.6)	0.0
	FY 2020 245A	11.6	(11.6)	0.0
	FY 2021 245A	11.6	(11.6)	0.0
	FY 2022 245A	11.6	(11.6)	0.0
	Total 245A	**116.0**	**(116.0)**	**0.0**
GILTI (beginning in 2018 tax years)				
	FY 2019 GILTI	20.0	(10.0)	10.0
	FY 2020 GILTI	20.0	(10.0)	10.0
	FY 2021 GILTI	20.0	(10.0)	10.0
	FY 2022 GILTI	20.0	(10.0)	10.0
	Total GILTI	**200.0**	**(92.5)**	**107.5**
FDII (beginning in 2018 tax years)				
	FY 2019 FDII	2.4	(9.5)	(7.1)
	FY 2020 FDII	2.4	(9.5)	(7.1)
	FY 2021 FDII	2.4	(9.5)	(7.1)
	FY 2022 FDII	2.4	(9.5)	(7.1)
	Total FDII	**24.0**	**(95.0)**	**(71.0)**

FY 2019	**52.7**	**(45.0)**	**7.7**
FY 2020	**72.1**	**(59.3)**	**12.8**
FY 2021 forward	**34.0**	**(31.1)**	**2.9**

Contact:
Senator Brent Hill
Senator Chuck Winder
(208) 332-1000