



PERSONAL PROPERTY TAX ELIMINATION – TALKING POINTS

A BILL TO PHASE OUT THE “PERSONAL PROPERTY TAX” PAID BY IDAHO BUSINESSES ON MACHINERY, TOOLS, FURNISHINGS, EQUIPMENT WILL BE PRESENTED TO THE IDAHO LEGISLATURE BY THE IDAHO ASSOCIATION OF COMMERCE & INDUSTRY.

KEY PROVISIONS:

- PHASED REMOVAL OF PERSONAL PROPERTY FROM PROPERTY TAX – 2008 THROUGH 2013
- FOLLOWS CONCEPTS OF:
 - REPEAL OF BUSINESS INVENTORY PROPERTY TAX (1967)
 - INTANGIBLE PERSONAL PROPERTY (1996)
 - EXEMPTION FOR AGRICULTURAL MACHINERY AND EQUIPMENT (2001)
- FREEZES MARKET VALUE FOR ASSESSMENT PURPOSES AT JANUARY 1, 2008 LEVEL
- FREEZES TAX DOLLARS FROM THE ASSESSED VALUE AT OCTOBER 2008 LEVEL
- PROPERTY ACQUIRED AFTER JANUARY 1, 2008 – 100% EXEMPT FROM PROPERTY TAX
- REPLACE 2008 TAX REVENUES AT 2008 LEVEL ON AN ONGOING BASIS, WITH DISTRIBUTION TO COUNTIES FROM SALES TAX REVENUES, WITH FIRST DISTRIBUTION IN STATE FISCAL YEAR 2010 (FALL OF 2009) THIS SCHEDULE WILL BE IN EFFECT IF THE GENERAL FUND REACHES 4% OR GREATER. EACH YEAR THE GENERAL FUND MEETS OR EXCEEDS THE TRIGGER 25% OF THE REMAINING AMOUNT OF UNEXEMPTED PROPERTY WILL BE EXEMPTED UNTIL FY-2014 AT WHICH TIME ALL PERSONAL PROPERTY WILL BE EXEMPT.
 - DISTRIBUTION IN FY 2014, AND EACH YEAR THEREAFTER = 100% OF 2008 PROPERTY TAX ON PERSONAL PROPERTY
 - EACH TAXING DISTRICT WILL RECEIVE DOLLARS BASED ON THEIR PERCENTAGE OF TOTAL TAX DOLLARS RECEIVED IN 2008
 - NEW TAXING DISTRICTS AFTER JANUARY 1, 2008 WILL NOT RECEIVE DISTRIBUTIONS
- DOLLARS DISTRIBUTED TO COUNTIES AND OTHER TAXING DISTRICTS WILL BE INCLUDED IN LOCAL REVENUES FOR PURPOSE OF THE 3% CAP LIMITATION ON BUDGET INCREASE IMPOSED BY SECTION 63-802, IDAHO CODE.

ADDITIONAL POINTS:

- The term “personal property” will be further defined after the 2008 legislative session through a negotiated rule-making process with the State Tax Commission. Most of this work has already been completed in anticipation of passage, giving a clear road map for the implementation of the legislation. Rarely does public policy have such a clear path.
- The legislation DOES NOT exempt the first \$50,000 in the taxable value of personal property. *This alternative has been forwarded by those opposing the elimination of the tax.* Having such a provision treats businesses unfairly by forcing them to continue to fill out the forms and track business equipment purchases. It also discourages investment in new equipment to avoid paying the tax.
- The total *gross* cost is estimated to be \$110 million. This money will come from sales tax collections and will replace personal property tax dollars to avoid a shift in property tax liability.
- The *net* cost to the state is estimated to be between \$56 and \$63 million based on new investment into Idaho because of the elimination of the tax. This is approximately 2% of the appropriated budget for Idaho and less than nine tenths of 1% of the total revenue to be spent by the state coming fiscal year. This will be gradually absorbed through five years, making the overall impact negligible.
- Counties will have less compliance costs — exemption provided in the legislation will eliminate the difficult, complex, and arbitrary assessment and collection process, allowing county governments to dedicate those savings to other critical areas.
- Counties will be 100% reimbursed by the state general fund as outlined in the legislation, and this revenue stream actually aids counties by providing a predictable and reliable revenue stream. In addition, though State Tax Commission figures indicate personal property tax revenue has been steadily declining since 1999; county revenues would be set by the legislation to assure them of this revenue stream.
- Should there be any downturn in the economy and the general fund revenues fail exceed 4% more than the prior year, no new distribution to the exemption will occur. However, regardless of the economic activity of the prior five years the exemption will be 100% in FY-2014

POLICY DISCUSSION:

The business personal property tax applies to business machinery, tools, furnishings, equipment and some fixtures. It is one of the most difficult to administer and comply with for government and business alike. It is a barrier to economic development, and studies indicate that the elimination of the tax not only benefits business, but will increase the personal income of Idaho citizens.

A study by a nationally-known economist was commissioned by IACI to determine the effects of eliminating the business personal property tax, which yielded some surprising results. The elimination of the business personal property tax is not only good for business, but good for the citizens as well. State private sector product (income) will increase by about 1.51%, or \$569 million, based on the elimination of the business personal property tax. About two-thirds will be in the form of private sector wages and salaries, or \$379 million. It is good policy for the state.

There has been much said about giving "business a tax break." Frankly, those views are short-sighted. Money in the hands of business doesn't just sit idle. It goes to work by being reinvested into equipment and people. Therefore, when we talk about this policy of removing this onerous tax, we are talking about our citizens having more opportunity.

Some business owners have given unsolicited responses about the policy changes proposed by this legislation stating this would allow them to invest in better equipment to make them more efficient. Others have said they would use the money to invest in employees by offering health benefits that they could not previously afford. These are significant and real-world examples of how this policy makes a BIG difference in improving Idaho.

The elimination of the Idaho business personal property tax on equipment will reduce the cost (or "service price" or required rate of return) of using the equipment in Idaho. The stock of equipment will increase. With more capital in place, the demand for labor will rise and output will rise.

The business personal property tax is a direct tax on the asset value of the equipment. The asset value is much larger than the annual income from the asset, which means that a property tax rate is equivalent to a much higher income tax rate. That is why even a seemingly small property tax can have a large impact in the investment decision and on the competitive business climate position of the state.

LEGISLATIVE DISCUSSION:

The purpose of this legislation is to phase out the tax over a set period of time. Elements of the legislation include an immediate – and retroactive to January 1, 2008 – exemption of new personal property.

There will be a savings to counties that will no longer have to track and assess many of these depreciating assets of the businesses in the state. It should be noted that the increase in the homeowner's exemption far exceeds the elimination of this tax. Those shifts in tax liability are unreimbursed by the state.

Counties in general will not lose money under the shift. They will still set their budgets and collect the tax they need to operate. This exemption would *not* reduce their budgets. In fact, the legislation allows local governments to calculate the replacement dollars as property tax, holding local governments budgets harmless resulting in a net long-term benefit to local governments in addition to business throughout Idaho.

The phase-out process would create an annually increased exemption that would be applied to the personal property. Local governments will be reimbursed by the state sales tax, ensuring the exemptions allowed for in the phase-out will not create any shift to other classes of property.

Mine profits taxes do not change with the passage of this legislation. Counties which receive this tax will continue to do so.

The money invested by the state will be offset by an increase in other revenue sources amounting to over 49% of the static cost, or a bit over \$53 million, based on the original study. The net cost will be under just over half the static estimate. Income of the population will rise by \$569 million. The state will take back about 9.3%, or \$53 million. The federal tax take will be about 31%, or \$176 million (payroll and income taxes). The after-tax income of the population will rise by \$339 million. The income gains to the population are far larger than the cost of the tax relief to the state. The bottom line is: the true cost to the state is roughly *half* of the "worst case scenario" outlined in the legislation of \$96 million.

The ongoing benefits of being a state without the business personal property tax will make Idaho more competitive on a global scale. Businesses looking to expand in Idaho will take expansion here more seriously. Businesses looking to relocate to Idaho will look upon Idaho as a good place to invest and bring with them good jobs.

In other words, every dollar the state gives up in order to cut this tax will boost the after-tax income of Idaho residents by more than \$6. If you ask the voter if they would like to make that trade, they would surely say "Yes."