



MEMO – April 17, 2017

TO: All County Commissioners, Clerks, and Assessors

FROM: Alan Dornfest, Property Tax Policy Bureau Chief

RE: House Bill 235 – Exemption for value added by business investment

With the redrafting of the provisions of the business investment property tax exemption found in Section 63-602NN, Idaho Code several administrative issues need to be revisited. I am scheduled to give a presentation on the exemption and these issues on June 8, during the Clerks/Commissioners Conference in Idaho Falls. The tax commission is also in the process of developing temporary and permanent rules, which will incorporate changes made necessary by this year's legislation, which will be in effect July 1, 2017. In the meantime, we thought it would be beneficial to share with you the guidance we are considering incorporating into these rules. Major areas of concern and suggested direction are listed below.

- 1. What are the major changes from existing law found in Section 63-602NN, Idaho Code?**
 - a. The investment no longer has to be in a manufacturing plant, but can be in any non-retail commercial facility.
 - b. The investment can be as little as \$500,000; the county commissioners must establish the minimum investment amount (not less than \$500,000) by ordinance.
 - c. The investment can be in new or existing facilities.

- 2. Are there limitations?**
 - a. The exemption is still limited to five years.
 - b. The exemption can only be for value in property at the project site that exceeds the base value of the property. Base value is the value of the property in the project area in the year immediately preceding the start of the project period.
 - c. Land is not eligible for the exemption and any investment in land will not count toward fulfilling the \$500,000 (or other) investment threshold.
 - d. Although investment in improvements to existing buildings does count toward the threshold requirement, investment that represents the purchase of any existing building does not count.

- 3. How is the exemption application made?**
 - a. Application must be made with the county commissioners by April 15 of the first year in which the exemption is to be granted.
 - b. Procedures are found in Section 63-602, Idaho Code.

4. Can the exemption be granted to begin in 2017?

- a. Yes, for manufacturing or other facilities for which the exemption is permitted under the law as it exists prior to July 1, 2017, provided the \$3,000,000 investment has been met.
- b. Not if the company is attempting to qualify under the HB 235 provisions, since these do not go into effect until July 1, 2017 and that is too late to apply for 2017.

5. How does the base year concept work in cases where existing buildings are demolished?

- a. The value of the property at the project site in the year immediately preceding the first year in which the exemption is to be granted is the base value. If that value is reduced for any reason, including demolition of existing property, the base value is unchanged.
- b. The exemption can never exceed the investment related increase over the base value. If the investment provides a \$1 million building following tear down of a building valued at \$100,000, the maximum exemption would be \$900,000.

I'm sure there are more issues and we will be glad to listen to your questions and concerns as we go forward with our rules development process. Please feel free to call me at 334-7742 to let me know if you have any questions.

- cc. Steve Fiscus, Property Tax Division Administrator
Tom Katsilometes, Tax Commissioner
Consulting appraisers
Rick Anderson, Tax Policy Specialist
George Brown, Deputy Attorney General