STINNER: Welcome to the joint hearing of Appropriations and Revenue Committee. My name is John Stinner. I'm from Gering. I represent the 48th Legislative District. I serve as Chair of Appropriations. We have today Senator Lou Ann Linehan, who also serves as Chair of Revenue. I'd like to start off by having members do self-introductions, starting with Senator Friesen.

FRIESEN: Curt Friesen, District 34: Hamilton, Merrick, Nance, and part of Hall County.

McCOLLISTER: John McCollister, District 20, central Omaha.

KOLTERMAN: Mark Kolterman, District 24: Seward, York, and Polk Counties.

LINEHAN: Lou Ann Linehan, District 39: Elkhorn, Waterloo, and Valley.

STINNER: John Stinner, District 48, all of Scotts Bluff County.

HILKEMANN: Robert Hilkemann, District 4, west Omaha.

CLEMENTS: Rob Clements, District 2: Cass County, parts of Sarpy, and Otoe.

WISHART: Anna Wishart, District 20, west Lincoln.

GROENE: Mike Groene.

DORN: Myron Dorn, District 30, Gage County and part of Lancaster.

STINNER: I see I got an infiltrator in my--

WISHART: Sorry, 27.

STINNER: I'm just kidding. Our committee clerk today is-- for this hearing is Brittany Bohlmeyer. Today, we have the Department of Revenue here to testify on their 2020 Interim Tax Expenditure Report. As with other hearings, when you come up to testify, please state and spell your first and last name. As a matter of committee policy, I'd like to remind everyone that the use of cell phones and other electronic devices are not allowed during a public hearing. At this time, I would add that-- for all of us to silence our cell phones and make sure that they're on vibrate. With that, we'll begin the hearing. Tax Commissioner, welcome.

TONY FULTON: Thank you, Chairman Stinner, Chairwoman Linehan, members of the Appropriations and Revenue Committees. For the record, my name is Tony Fulton, T-o-n-y F-u-l-t-o-n, and I serve as Nebraska's Tax Commissioner. We are presenting the interim tax expenditure report that you would have received on October 15. The department, pursuant to the Tax Expenditure Reporting Act, has published the 2020 Tax Expenditure Report in full. Yeah, it's in full. This report provides a review of tax and fee expenditures, as is required in even-numbered years, to enable the Legislature to better determine those sectors of the economy receiving indirect subsidies because of tax expenditures. Full reports have been published biennially, biennially since 1979, switching to where full reports are only published in the even-numbered years, beginning in 1992. Supplemental reports on certain statutorily selected sales tax exemptions are published biennially in odd-numbered years. A tax expenditure is defined as a revenue deduction that occurs in the tax base of the state or a political subdivision because of an exemption, deduction, exclusion, tax deferral, credit, or preferential rate introduced into the tax structure. The tax expenditures included in this report are those in effect on July 1, 2020, so the property tax cred-- the Property Tax Incentive Credit enacted by 11-- LB1107 in August is not contained in this report. All tax programs that generate state or local revenue annually in excess of $2 million are included in the report. Dr. HoaPhu Tran, revenue economist manager for the department, will present the report today, and George Kilpatrick, our tax policy, tax policy manager, will also be available to provide specific answers as required. Before I turn it over to Dr. Tran, I should ask whether there might be any questions the committee has and I will try to answer them now.

STINNER: Questions? Seeing none, thank you.

GEORGE KILPATRICK: Good morning, Senators--

STINNER: Good morning.

GEORGE KILPATRICK: --Chairman-- Chairmen, I should say-- Stinner and Linehan and other members of the Appropriations and Revenue Committee. I am not Dr. Tran. My name is George Kilpatrick, G-e-o-r-g-e K-i-l-p-a-t-r-i-c-k. I'm the-- as Tax Commissioner Fulton said, I'm the manager of tax policy at Department of Revenue. I'm going to prevent-- present a little bit of background information for you before we get into the, the numbers, so to speak. This is the full report that we do. The outline for today is we're going to introduce the tax expenditure report, which the Tax Commissioner just did. I'm going to talk a little bit about what we're going to cover. Again, the Tax Commissioner did, did read to you the statutory definition of what a tax expenditure is, which is what we're, what we're reporting here. A little bit of basic information about sales and income tax and then--

McCOLLISTER: I can't hear--

GEORGE KILPATRICK: --Dr. Tran will talk about the--

McCOLLISTER: Hey George, would--

LINEHAN: I can't hear you.

McCOLLISTER: --I understand we're going to be safe, but we can't hear you.

VARGAS: Or just talk to the mic a little more, more louder.

GEORGE KILPATRICK: I'm sure this is better. I'll be happy to go without the mask. As I noted before some of you arrived, I did get a test result back today and I'm negative. So I tested yesterday, so I was negative yesterday at least. So hopefully, that provides some level of comfort for everyone in the room. My name is George Kilpatrick. Do you want me to repeat all of that?

STINNER: No, that's fine.

GEORGE KILPATRICK: Just sort of pick up where we were--

STINNER: Yes.

GEORGE KILPATRICK: --would be fine because I haven't really delivered any pertinent information yet. We will talk about-- a little bit about sales and income tax basics and then I will turn it over to HoaPhu, Dr. Tran, at the point where we talk about where their data sources come from and what the actual results are, if that's OK. The purpose, as provided by statute, is provide a mechanism to enable the Legislature to determine those sectors of the economy which benefit from tax expenditures, meaning some, some exemption or credit or something else like that. Again, as the Tax Commissioner noted, full reports are, are done on even-numbered years like this one, where the entire report is done. There are, there are interim reports in between and we have this hearing in the interim every year. And quite frankly, you've all seen at least one of these, if not more, so we can probably skip over some of this. That's the cycle. So next year, we would talk specifically about relatively, relatively new tax expenditures that have been enacted, services purchased for nonbusiness use, and telecommunications. That's the entire table of contents, all the tax programs that are in the published report that you received. We're not going to talk about all those. We're going to talk about sales and income tax specifically, obviously the biggest programs and the biggest numbers. Just for your information, we do-- there is at least a little bit of information on property assessment and taxation on bingo, cigarettes, lodging, and all those other tax programs that the department does administer in one form or another. The sales tax aspects, again, are broken down into categories. Those are defined by the statute, as to what categories we're supposed to have. Again, agriculture, consumer goods, energy, nonprofit, government, recently added, and so forth. Income tax tend to be deductions, exclusions, and credits. That's what, that's what gets-- is considered a tax expenditure with respect to the income tax. This is the definition of what, what is a tax expenditure. Again, a number of what we have always done and what the statute talks about by breaking it up into certain categories is what-- anything that appears to be listed in the statute as an exclusion or an expenditure. Many states, many states do tax expenditure reports. And often what you would find if you were to compare them is that certain items that we have in ours probably are not in others. And I'm talking primarily about things like sales for resale and ingredient/component parts. A sales tax is supposed to be on final consumption and so most states do not consider those sort of intermediate goods: livestock on the hoof and the grain and, and, and inventory and stuff like that as tax expenditures. Our statute does list those as items not subject to tax, so they are listed in the tax expenditure report and often, those are very large numbers. So what I'm suggesting is, is that our-- is our report is probably more extensive than you might find if you looked at other states' reports for those-- for that reason. We, we traditionally, in the Department of Revenue and provided by statute-- the statute now that breaks the sales tax exemptions up into particular categories to be reported on requires a certain amount of reporting that perhaps other states might not do. And so that's all I'm trying to emphasize here. I always sort of object to this slide, but, but this, this is a couple of ways or categories of expenditures. Sometimes things are exempted because of the identity of the seller and that's a relatively narrow group. School groups, youth sport programs are a couple of things that are mentioned, but generally speaking, even tax-exempt entities are to collect tax on their sales. So, for example, when you go to a, to a university-owned bookstore, for example, even though the university itself is exempt from sales tax, you pay tax on whatever you buy there. Generally speaking, generally speaking, even though the selling entity is exempt or, or otherwise benefited by the tax code, what they sell is going to be exempt. So there are relatively few seller-based exemptions. There are a number of item-based things like groceries, for example, and prescription drugs that are exempt because they're exempt-- because what the item-- it doesn't matter who's selling them or who's buying them. There are, there are a number of entity-based or buyer-based exemptions. Government generally is exempt from sales tax, not all governments. They're-- they are listed by statute, those that are exempt. It is most, but for example, a Sanitary and Improvement District is not exempt from sales tax. A public power district is not exempt from sales tax. So there are a couple of exceptions like that, but generally speaking, governments are. On the other hand, with nonprofits, generally speaking, nonprofits are-- pay sales tax on the items they purchase by entities. Certainly, there are large-- number of large ones that are exempt. Educational-associated institutions are exempt. A lot of healthcare, hospitals, nurse-- you know, nursing homes, a number of, of healthcare providers are exempt on their purchases. But one common misconception among taxpayers, they call into RTP all the time, is well, I-- you know, this entity is exempt. Well, generally speaking, that does not mean you're sales tax exempt. They get a certificate-- they get a, a 501(c) designation from the federal government indicating that they're not subject to income tax, but that does not exempt many of these entities from sales tax. So most, most nonprofits, at least by entities, are-- by the number of entities, pay sales tax on things that they purchase. However, obviously, there are some very large ones that do not. And then finally, the buyer's intended use, this tends to be a combination of things. And that's why I sort of object to the list because often there's more than one thing in play. The manufacturing machinery and equipment exemption, for example, is equipment used in manufacturing, so it is a use-based exemption, but you also have to be a manufacturer. So someone else buying the same equipment would not be a-- would not be eligible for the exemption. So we often find, particularly on these use based, that there's a combination of things, that it's the buyer and, and what it is. Ag machinery used, it has to be used in commercial agriculture or it's not exempt, so it has to be both. The machinery has to be ag machinery and it has to be used in commercial agriculture. So that-- so often these exemptions are a little more complicated than simply dividing them up into four categories and that's why I always sort of object to this. But it does help sometimes in analyzing why something is exempt. Speaking of why-- these are some commonly listed reasons for exemptions: it's necessary for life. We talk about food. That's not necessarily true. Energy is also necessary for life, but it's not generally exempt. The product may be-- have a different tax imply-- posed on it, for example, motor fuel tax. However, things like cigarettes and alcohol are subject, subject both to an excise tax and a sales tax upon their sales. There is some consideration about what we call vertical equity, which, which means how it treats different people in different economic strata. That's why Meals on Wheels and things like that are often exempt because they're consumed by, by low-income individuals and those things are, in fact, exempt. There's a couple of examples listed there. There is also certain types of entities that the Legislature, rightly or wrongly in the past, has decided that they wanted to provide to encourage this sort of thing as opposed to some other sort of a consumption, meaning things like nonprofit museums. Their, their admissions are exempt and their purchases are exempt generally. And again, as I mentioned before, sales for resale ingredients and components should be exempt in a, in a properly designed sales tax because it's, it's to be for final consumption, not intermediate consumption. And then finally, the federal government does preempt certain things. I think the, the chief example is probably purchases on-- in ship stores or, or on the base. As I noted earlier, generally when government sells things or, or a nonprofit sell things, generally speaking, those are subject to tax, even though a nonprofit entity or a tax-exempt entity might be selling it. However, federal law does prohibit us-- all states from collecting sales tax on items sold on a military base or a ship store or those sorts of things. So there's some reasons why things are exempt. Again, this is history that you all know, so I don't necessarily want to spend a lot of time. The Revenue Act of '67 did replace the state property tax with a combination of sales and income tax. Generally speaking, the sales tax is applied against leases, the rentals, repairs, applications of tangible personal property. As you know, and I've said this before and you probably know this already, generally, sales of tangible personal property are taxable unless there's an exemption in existence for it. Sales of other things that are not tangible personal property such as services, intangibles, admissions, lodging, stuff like that are not taxable unless provided for by statute. So generally speaking, sales of tangible personal property if the statute is silent are taxable. Sales of things other than tangible personal property require statutory inclusion in order to be subject to sales tax and that's, that's just how it's designed and that's not atypical among states at all. So again, there's a number of things that are specifically made taxable, certain services-- and they're, they're listed in a particular section, but also rentals of lodging for less than 30 days, warranties when, when the product that's being warranted is-- would be subject to tax if sold, intellectual entertainment properties such as satellite programming and TV programming, telecom, that sort of thing, are specifically made subject to sales tax. I think I might be-- yep, I believe I'm done at that point. So unless you have particular questions for me, I will turn it over to Dr. Tran.

STINNER: Questions? Seeing none, thank you. Just for your information, this is kind of a dead room, so you're going to have to increase your volume so we can pick it up. I've got 70-year-old ears.

HOAPHU TRAN: All right.

KOLTERMAN: Fix the mask.

GROENE: Mask.

HOAPHU TRAN: Good morning, Chairman and member of the committee. Can you hear me fine, then? No?

STINNER: I-- yeah, you probably ought to take that off and hopefully this works.

HOAPHU TRAN: All right. My name is HoaPhu Tran, H-o-a-P-h-u, last name Tran, T-r-a-n. I will present to you the rest of the slides here and we just go into some of the items that-- in the report specifically and how we come up with some of this estimation. As you all know, when we have an exemption, we don't have any data in-house. And we just don't have tax data in-house because it's-- we don't collect tax on those. So to come up with some of the exemption, we have to rely heavily on data source that is outside the state or we have to scale the data back down from the federal side because the federal, after all, have to-- they collect a lot of data that we don't have on the state level and the federal level. So the-- some of the data source we rely on is the Census Bureau, the Consumer Expenditure Survey, that basically tell us how much money the U.S. has spent on certain things, certain activity. So we use that number, kind of prorate it back down to what Nebraska tend to do. Data come from-- also from Bureau of Economic Analysis, Agriculture, Department of Education, Department of Energy, so it just depends on the type of exemption we're working on.

We just have to pull data from a different data source and try to come up with the number to our best ability. In terms of credit, we do have those credit in-house so whenever we have in-house data, we use the tax data for that purpose. Some of the income tax-- most, if not all of the income tax are in-house data because those are deduction, exclusion, and credit, which on your tax form. If it's on the tax form, we have good data. If it's not, then we just don't. As for the nonprofit organization, we look at the IRS filing on the Form 990, which is public information. We use some of those for our estimation as well. And if we require data from other state agency, we ask them for the data and they provide us with the data. So we went extent [SIC] length to try to come up with some of this-- estimate. Some note on the estimating of this expenditure, in some case, there's-- no data exists. The item, the item is too specific, where there's no reliable data for the estimate to be any-- close to reality, so we just avoid those. The estimates and technique that we put on this report, we looked through other state-- how those state have-- most state have a tax expenditure report and, you know, we learn from them. We-- they learn from us, so we talk to each other and see what, what is the best method to go about doing all this estimation. One big thing I would say is all this estimates are static. They are not dynamic, meaning we do not assume a certain exemption lead to another spending. It's basically the whole ground of-- feed off spending in other good. And also, most of this, I do not assume human behavior change, meaning, for example, if you do some kind of tax policy change, you just don't assume people will just sit there and either absorb the tax or whatever the case may be. They will-- if they can change their behavior, they will, which we do not account for in this estimation. And the estimation are independent of each other, meaning if you-- if-- the key here is don't add up the number from the item on the report and say if we did it for this whole thing, this is what we will collect. It doesn't work that way. Each item on the report is independent by itself, not tied to each other, so there might be some overlap of those estimate. If the two category subcategory of each other, then those two will be overlap. The estimate on most of the sales tax are for fiscal year '19-20. Most of the income tax are for tax year 2020, tax law-- tax loss, so keep that in mind. So here's some specific exemption. First on sales tax on agriculture exemption, exemption on machinery and equipment used for agriculture purposes, we- the estimate is $218 million; chemical use on agricultural, $131 million; seeds sold to commercial, commercial products for agriculture purposes, $71 million; and water for irrigation and manufacturing come in about $23 million in tax exemption; animal life for human consumption, about $881 million, just some form of animal who product only used for human consumption or apparel; and grain for animal feed, $284 million. Some of the consumer goods: motor vehicle and motorboat trade-ins, $53 million. That's where you buy a car and you trade in your vehicle, the value of that trading is exempt. So it's about $53 million on that. Newspaper is about $3 million; certain medical equipment and medicine, $205 million. Again, some of this-- this is where those assumptions aren't dynamic, those effect-- does go into effect here is that a lot of this medical equipment and medicine get bought by-- get paid by Medicaid or Medicare, which is exempt from tax. We can't collect tax on that, even if we-- the federal government prohibit from that. So $205 million, that's included, the number of Medicaid and Medicare, which we can't isolate those number out. Food for home consumption, about $206 million. Motor fuel-- energy exemptions-- some of the energy exemptions specific in the report, motor fuel is $215 million; energy used in industry, manufacturing generation of electricity used by hospital or anything like that, coming in about $105 million; energy use in agriculture specifically, $59 million; aviation fuel, $7 million; component/ingredient part come in about $1.6 billion. Again, this is-- earlier, George devoted to this. It's not really a tax exemption because it's-- but we have to put it in the report because statutory say we have to put it in. But technically, a lot of state-- most, if not all do not consider this as a tax exemption because it's built a tax pyramid and it kind of depend on how long the process takes and-- so this is--technically, it's not in the base, but we have to put it in. Manufacturing machinery and equipment, about $85 million; container, used to, to place-- purchaser place that content in the container and sold as whole package, those containers are not taxed, $28 million. Room rental by certain institution, at college, hospital, things like that do not pay sales tax, that's coming about $94 million. Political subdivision, $160 million. Church and nonprofit colleges, medical facility, $214 million. Some other services, we list on here. Again, this is not exactly-- this is a list of item we have to put in the report, but this, this is not beginning with the tax base to begin with. So legal services, about $73 million. Note here is that we cannot separate out the legal services purchased by individual or businesses, so this $73 million includes both the purchase by individuals and businesses. Pet-related services, $16 million. Other real estate services, about $37 million. Professional service like investment advice, travel agency, physician, dentist, other healthcare, $310 million. And this is the new exemption that got put in last year. It's the lease of electricity power structure, about $9 million. Now we get to the income tax side. Income tax, this is the bracket and rate for the 2019 tax year. I should have put in 2020, which we already know but--

STINNER: I need to ask a quick question--

HOAPHU TRAN: Yes.

STINNER: --just for clarification purposes. For an example, purchases by political subdivisions of the state and you have in parenthesis 1967. Is that how far back that you've looked at that data or is--

HOAPHU TRAN: No, that's just when is-- the-- I think that's when the statute took place.

STINNER: So is the data current?

HOAPHU TRAN: The data is current, yes.

STINNER: OK.

HOAPHU TRAN: The number based on most recent data that we have--

STINNER: OK.

HOAPHU TRAN: --going forward.

STINNER: Just wanted to clarify that.

HOAPHU TRAN: Yes.

STINNER: Thank you.

HOAPHU TRAN: So on the income tax we have four bracket-- with different bracket and corporation, those bracket start to index back in 2014 or '13-- I can't remember, but it's what start the index. So every year, index on the bracket get updated. On corporation income tax, five point-- the top rate of individual income tax is 6.84. On corporation income tax, 5.58 percent for the first $100,000 of taxable income. After that, it is 7.81 percent. Here's some of the income tax expenditure. The state income tax refund, a subtraction is allowed for any state income tax refund is included in the federal AGI, so that reduced the revenue by roughly $11 million. The Nebraska standard deduction, coming at eight-- $585 million. Assumption for the Nebraska standard deduction estimate is that if we-- there's no standard deduction at all and no itemized deductions, so the deduction go to zero under this $585 million. Nebraska itemized deduction, this is for those individual who have more deductions than the standard deduction itself, so they choose to itemize, coming about $77 million. And again, this assumes if that go away, everybody will fall back to the standard deduction. And then there's a partial income tax exemption for Social Security, which is $7 million. If you look at the slide, that is not in there, but I just put this in this morning. Another expenditure is division-- dividend and capital gains deduction. So resident-- after-- resident of Nebraska get to deduct a certain kind of dividend or capital gain on a company or whatever, stock option, other thing like that-- it's employed by the corporation, $21 million. Non-Nebraska S corp and LLC income/loss exclusion, $42 million. I have a note on this, is if you look at the previous year report, the number is a lot higher, which is about $80 million, in that neighborhood. The reason for the lower estimate this year is we realize the, the people who have this out-of-state income deduction, some of them pay tax in the other state. So when they file in Nebraska, they do have a, a credit call-- tax paid to other state, which we did not account for before. So technically, it's not really 6.84 percent on the margin. We only get the difference between the 6.84 and whatever they pay to that other state. So we tried to take that into account, even though we have no idea where they're paying their taxes. But what we try to do here is to capture some of those credit that we have to give it to them for tax they pay on another state on the same income that is subject to taxes here if this go away. So that's why the number is smaller. I just want to put that up front. We-- the way we did that is we look at the income distribution for the personal income distribution and the tax rate and we try to come up with kind of a weighted rate that if subject to, to tax other state from our state income, that's what we have to give back. So it come about 3.7 percent. So we took the difference, that's why the number is smaller. Refundable earned income tax credit, about $30 million. Nebraska personal exemption credit, $223 million. This is the-- so for 2020, the credit is one-- $140 per exemption. And Nebraska property tax credit refund, which is new this year, put in at $125 million and it's effective for tax year 2020, which will be on the tax return for 2021. But again, this number for tax year number. And I guess that's all I have.

STINNER: Any questions? Senator Linehan.

LINEHAN: Thank you, Chairman Stinner. Early-- and maybe this is for the Commissioner, but which of these would not be in other state reports? Because I think he said that there are-- we report, according to statute, part of the exemptions that are included in products that are not the final sale. So do-- which of these would not be reported if we didn't-- because we don't-- generally, sales tax isn't collected on each step in the process, right? It's on the final sale.

HOAPHU TRAN: The one for sure now is that ingredient part, we did not have that in the report prior to, to statute-- I don't know when they change that rule, but prior to that, our tax expenditure report did not include ingredient part.

LINEHAN: So which page is that on?

HOAPHU TRAN: Ingredient part is on slide 16, component/ingredient part, the $1.6 billion.

LINEHAN: So the $1.6 billion, that means we would have to-- that would be pyramiding, right--

HOAPHU TRAN: Yes,

LINEHAN: --if we did that?

HOAPHU TRAN: Yes.

LINEHAN: So it's kind of a-- so when people say there's $1.6 billion in sales tax out there that we could just grab, it's not-- we chase all the manufacturers out of state.

HOAPHU TRAN: Right, so, so basically what I'm saying about this is-- it not being dynamic is $1.6 billion, if, if that go away, if we start taxing at every step, one thing you might see people do is they start the vertical integration, meaning that one company will buy pretty much all the supply chain until they get to the final product. Then to avoid all the added tax on each step, we might see that. I don't know if we will see that. So, so that's the-- in tax policy, sales tax policy is, is we try to tax final product. So anything that go into the process of making the final product, we don't consider that as a tax exemption. But in this case, we just have to do it.

LINEHAN: Because it's by statute, you have to report it?

HOAPHU TRAN: Yes.

LINEHAN: OK, thank you very much. Thank you, Chairman.

STINNER: Additional questions? Senator Groene.

GROENE: What we just talked about there is what Europe calls the value-added tax, right?

HOAPHU TRAN: To some form, yes.

GROENE: Yeah, thank you.

STINNER: Additional questions? Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Dr. Tran. If you go to page 19--

HOAPHU TRAN: Slide 19 or page 19? Slide 19. This?

CLEMENTS: 19.

HOAPHU TRAN: 17, 17.

CLEMENTS: Nebraska personal exemption credit.

HOAPHU TRAN: OK, this?

CLEMENTS: Let's see--

HOAPHU TRAN: Here?

CLEMENTS: Yeah, my printout has $131 for 2016 and I see that screen is $140.

HOAPHU TRAN: Yes, so the slide that you have was finalized yesterday. And overnight, when I read through, I didn't update the '16 number to the '20 number, so the, the number on your sheet is correct, it's just different year.

CLEMENTS: The 223 is the correct number--

HOAPHU TRAN: Yes,

CLEMENTS: --just the--

HOAPHU TRAN: It's just the description that we didn't--

CLEMENTS: The description is wrong.

HOAPHU TRAN: Right, because the index-- the personal exemption credit get indexed every year.

CLEMENTS: Yes.

HOAPHU TRAN: So that's-- so when we did this in '18, we put in '16. But when we update the number, we neglect to update that, so--

CLEMENTS: But the 2020 tax returns have not been filed. Are you projecting with the $140?

HOAPHU TRAN: It's not been filed, but the rate of credit is already set.

CLEMENTS: Yes.

HOAPHU TRAN: That $140 is the real number. It will be on the tax return, I think.

CLEMENTS: So that will be what will be reflected because of the 2020 tax returns. It's prospective, then, apparently.

HOAPHU TRAN: Yes, the $140 is for 2020--

CLEMENTS: Yes.

HOAPHU TRAN: --and $223 million reflect that number.

CLEMENTS: All right. Are there-- any other changes to my document need to be made?

HOAPHU TRAN: That's one of them. And the second one, as I say, is the one that you didn't see, the $7 million, the last one on there, the partial income tax that-- I just put this on this morning, on slide 17, income tax expenditure. You have three, I have four. Let me look at the slide actually here. That's page 22.

CLEMENTS: All right.

HOAPHU TRAN: Page 22, you have three item, I have four item.

CLEMENTS: Yes.

HOAPHU TRAN: The last item is not on your sheet.

STINNER: Is what?

HOAPHU TRAN: The last item, the pers-- the partial income tax for Social Security income where we exempt-- certain income, if they get to a certain level of AGI, some of that income is not taxable on Social Security benefit.

CLEMENTS: Yes.

HOAPHU TRAN: That is not on your sheet.

CLEMENTS: It's around $50,000 or less. They get--

HOAPHU TRAN: $58,000 for married couple--

CLEMENTS: $58,000.

HOAPHU TRAN: --this, but, the, the value here is for previous year. They start to index, so that number is a little higher now, but the, the cost is $7 million--

CLEMENTS: Thank you.

HOAPHU TRAN: --for the exemption.

LINEHAN: I didn't understand what he just said.

STINNER: Any additional questions? Senator Linehan.

LINEHAN: Could-- for some reason, my sheets all-- I have, like, five page 19s, so I'm lost here. So what-- I can't-- I couldn't follow what you just said because I can't see here in the slides--

HOAPHU TRAN: On the slide, under the income tax expenditure title, right?

LINEHAN: Uh-huh.

HOAPHU TRAN: The first thing you see on there is state income tax refund, you find that?

LINEHAN: Yep, OK.

HOAPHU TRAN: OK, so on that slide you see three item. The first three, right?

LINEHAN: Right.

HOAPHU TRAN: The PowerPoint I have is four item. I just put on the last item into the PowerPoint to present this morning, so it just have one additional item on my slide that is not on your slide.

LINEHAN: OK. And I can't read it from here, so what--

HOAPHU TRAN: It's the partial income tax exemption for Social Security benefit, coming about $7 million. I think that's what done in 2015, '16-- '15 or '16, I can't remember when this was passed.

WISHART: Would you be able to email us the updated version?

HOAPHU TRAN: Yeah, we can do that.

STINNER: Senator Clements.

CLEMENTS: And one more, regarding the military retirement exemption that we passed--

HOAPHU TRAN: Yes.

CLEMENTS: --in August, have you considered that in here?

HOAPHU TRAN: That is not effective until January 1, 2022? 2022, so it will be in two years.

CLEMENTS: It was deferred another year. All right, thank you.

STINNER: Any more questions? Seeing none, thank you.

HOAPHU TRAN: Thank you and I will turn over to my boss.

STINNER: Commissioner, would like to conclude?

TONY FULTON: If you've got any questions for me, I'll take them.

STINNER: Any questions for the Commissioner? Senator Friesen.

FRIESEN: Thank you, Chairman Stinner. You know, each year, I-- we go through the property tax part and I know each entity that files for an exemption on property taxes has to, according to the form, put in an estimate of how much value their property is worth. And yet, we never report it here. Are we-- on that form, are there other things that they don't have to fill out, too, that have an exemption or is that just one of those that--

TONY FULTON: Is this-- so for personal property?

FRIESEN: No, for real property. I mean, you-- we track that in here, but it says the data is not available. But when an entity requests to be exempt on real property, they have to fill out a form and it says in there they must put in an estimated value of that property. And yet, we don't collect any of that data and yet, it, it is supposed to be in this report as to what we're exempting.

TONY FULTON: Yeah, well, we'll have to-- so I'll give you the answer that I think is correct and then we'll respond to you, you know, afterward. This is-- that would be data that would exist at the county level. So the property taxes, I don't know that we collect that in aggregate at the state level.

FRIESEN: So you just don't ask for it?

TONY FULTON: Yeah, I think that's the case. I'll ask-- I'll talk to our property assessment division. We'll get you a formal answer, but I believe that's the answer. We don't collect that information from the counties.

FRIESEN: Because that-- it is part of this report, so to speak--

TONY FULTON: Yeah, OK.

FRIESEN: ---but it's not-- just say data is not available and that's because you don't collect it.

TONY FULTON: I, I believe so.

FRIESEN: I know the form requires filling it out and I know that some counties require it, some don't.

TONY FULTON: Yeah. Yeah, so we'll give you a formal response, but I believe that is the response.

FRIESEN: OK.

STINNER: Additional questions? Senator Groene.

GROENE: To follow up on Senator Friesen, do other states make nonprofits-- the county assessor put an assessment on them and then on this tax statement, it says zero? Because we have no idea what-- how much property is out there. And they're from sectors that's off the property tax rolls.

TONY FULTON: I don't know. We can-- we could find out though. I'm not certain what other states do.

GROENE: I'd be curious if there's other states who at least record the amount of property that's out there that's not being taxed because it's claiming to be nonprofit,

TONY FULTON: Yeah.

GROENE: --like hospitals. And so, anyway, just curious if other states--

TONY FULTON: Yeah, yeah, we could find out. I've heard that question from you before. Yeah, we'll find out and give you a formal response.

GROENE: Thank you.

STINNER: Additional questions? We have Senator Erdman and, and Senator Lindstrom on the telephone. Do you have any questions?

LINDSTROM: This is Brett. No questions.

ERDMAN: This is Steve. No questions.

STINNER: OK. Any additional questions? Seeing none, thank you.

TONY FULTON: Thank you.

STINNER: This concludes our hearing on the 2020 Tax Expenditure Report.