

# INDIVIDUAL AND CORPORATE INCOME TAX

The Idaho income tax is a tax levied on individuals and corporations based on their income during a 12-month tax period. In the case of businesses (proprietorships, partnerships, and corporations) the concept of income is not gross receipts, but rather is most closely associated with the economic concept of profit.

The rate of Idaho's income tax is a flat 7.4% on corporate income. Tax rates on individuals vary from a low of 1.6% to a top rate of 7.4%. Idaho's individual income tax brackets are adjusted each year for inflation.

The tax expenditures granted under the income tax can be classified into two principle categories: exemptions based on the source of income (exclusions); and exemptions based on the use of income (deductions and credits). Source exemptions include interest from certain government securities, capital gains, and social security payments. Use exemptions include donations to educational institutions and purchases of equipment used in business enterprises. Notable features of the income tax structure that are within Idaho's policy discretion but are **not** considered tax expenditures include: the rate brackets, personal exemptions, and standard deductions. These features of the tax structure have the effect of reducing revenues, but they are not selective with regard to whom they apply.

A special note concerning tax expenditure definitions is relevant in the case of the income tax. Since the foundation of the Idaho income tax is federal taxable income, there are a number of federal tax expenditures that are adopted in Idaho by default. These federal tax expenditures could technically be considered Idaho tax expenditures, since Idaho adopts them by law. However, this report takes the approach that federal tax expenditures related to the definition of taxable income are **not** Idaho tax expenditures. Thus, the federal tax expenditure associated with the mortgage interest deduction is not considered an Idaho tax expenditure. Similarly, Idaho's exclusion of social security income from the income tax base is treated as an Idaho tax expenditure only to the extent that it exceeds the partial federal exclusion for social security income.

**The principal Idaho income tax expenditures relating to uses of income are:**

- Investment Tax Credit
- Other States Tax Credit
- Elderly Dependent Credit
- Youth and Rehabilitation Credit
- Schools, Libraries, and Museums Credit
- Grocery Credit
- Recycling Equipment Credit
- Technological Equipment Deduction
- Long-Term Care Insurance Deduction
- Alternative Energy Device Deduction
- Insulation Deduction
- Workers' Compensation Premium Deduction
- Child Care Deduction
- College Savings Deduction
- Health Insurance Deduction

Elderly and Developmental Disability Deduction  
Adoption Expense Deduction  
Medical Savings Account Deduction  
Right Income Adjustment Credit  
Riparian Land Improvements Credit (Sunset 2002)  
Broadband Investment Credit  
County Incentive Investment Tax Credit (Sunset 2001)  
Research Activity Credit  
Promoter Sponsored Events Credit  
Corporate Headquarters Investment Credit (Repealed 2008)  
Corporate Headquarters Real Property Improvement Credit (Repealed 2008)  
Corporate Headquarters New Jobs Credit (Repealed 2008)  
Small Employer Capital Investment Credit (Sunsets 2020)  
Small Employer Real Property Improvement Credit (Sunsets 2020)  
Small Employer New Jobs Credit (Sunsets 2020)  
Live Organ Donation Expenses Credit  
Biofuel Investment Tax Credit (Sunset 2011)  
Special Job Credit (Sunsets 2016)  
Reimbursement Incentive Credit  
Certain Charitable Contributions Deduction

**The principal Idaho income tax expenditures relating to sources of income are:**

Capital Gains Exclusion  
Government Interest Exclusion  
Social Security Exclusion  
Railroad Retirement Exclusion  
Retirement Benefit Exclusion  
Idaho Lottery Winnings Exclusion  
Indian Earnings on Reservation Exclusion  
World War II Reparations Exclusion  
Marriage Penalty Deduction  
Certain Loss Recoveries Deduction  
Nonresident Guaranteed Partnership Income Exclusion

## SALES AND USE TAX

The Idaho sales tax is a 6.0% transaction tax levied on the purchase or use of goods and services by consumers, where consumers may be either individuals or businesses. Transactions involving purchases by businesses are included in the sales tax base if the goods or services are consumed by the purchasing business. Transactions involving purchases of goods or services for resale (including components or parts used in manufactured goods) are not considered a part of the sales tax base. The legal incidence of the Idaho sales tax is on the purchaser. Sales taxes are distant relatives of value-added taxes.

Consumption, as an economic concept, can be divided into consumption of goods and consumption of services. The purchase of a hotel room is classified as a service, since it is only the right to use the hotel room for a limited time that it is being purchased. Purchase of a tent is classified as a good since the buyer becomes the owner of a tangible item. An interesting characteristic of Idaho's sales tax is that unless specifically exempted, purchase of a tangible good is a taxable event. On the other hand, the purchase of a service is generally not taxable unless the service is specifically included in the list of taxable transactions. Three major service categories that are completely taxable are "Hotels and Other Lodging Places," "Amusement and Recreation Services," and "Admissions." Two other types of sales defined by Idaho law as taxable are restaurant meals, which contain both tangible property and service elements, and charges for producing, processing, printing, or imprinting tangible personal property when the property is supplied by the consumer of these services.

The tax expenditures granted under the sales tax can be classified in three principal categories: exemptions based on the *use* of the good or service, exemptions based on the *specific good or service* being purchased, and exemptions based on the *individual or entity* making the purchase or sale.

### **Principal Idaho sales tax expenditures relating to specific uses are:**

- Production Exemption – Equipment
- Production Exemption – Supplies
- Irrigation Equipment and Supplies
- Pollution Control Equipment
- Broadcast Equipment and Supplies
- Publishing Equipment and Supplies
- Commercial Aircraft (Sunsets 2016)
- Railroad Rolling Stock and Remanufacturing
- Interstate Trucks
- Out-of-State Contracts
- Trade-in Value
- Sale or Lease of Businesses or Business Assets
- Supplemental Nutrition Assistance Program (SNAP)/Women, Infants, and Children (WIC)
- Vehicles and Vessels Sold to Nonresidents
- Common Carrier Purchases and Out-of-State Sales
- Donations of Real Property to Idaho Government
- Incidental Sales of Tangible Personal Property
- Lodging, Eating, and Drinking Places

School Lunches and Senior Citizen Meals  
Drivers Education Automobiles  
Ski Lifts and Snowgrooming Equipment  
Clean Rooms  
Alternative Electricity-Producing Equipment (Sunset 2011)  
Research and Development Equipment  
Corporate Headquarters Construction (Repealed 2008)  
Small Employer Headquarters Construction (2006-2020)  
Glider Kit Vehicles  
Media Production Projects (Sunsets 2016)  
State Tax Anticipation Revenue  
Motor Vehicles of Nonresident Students  
Personal Property of Military Personnel  
Beverage and Food Samples  
Beverage and Food Donations  
Prepared Beverage and Food Given to Employees

**Principal Idaho sales tax expenditures relating to specific goods and services are:**

**Goods Not Taxed**

Motor Fuels  
Heating Materials  
Utility Sales  
Used Manufactured Homes  
Vending Machines and Amusement Devices  
Prescriptions and Durable Medical Equipment  
Funeral Caskets  
Containers  
Nonprofit Literature  
Official Documents  
Precious Metal Bullion  
Idaho Commemorative Silver Medallions  
New Manufactured Homes or Modular Buildings  
Telecommunications Equipment  
Personal Property Tax on Rentals  
Remotely-Accessed Computer Software

**Services Not Taxed**

Construction  
Agricultural and Industrial Services  
Transportation Services  
Information Services  
Repairs  
Professional Services  
Business Services  
Personal Services  
Health and Medical Services  
Social Services  
Educational Services

Lottery Tickets and Pari-Mutuel Betting  
Media Measurement Services  
Miscellaneous Services  
Nonprofit Shooting Range Fees  
Gratuities for Meals

**Principal Idaho sales tax expenditures relating to specific entities are:**

Educational Institution Purchases  
Hospital Purchases  
Health Entity Purchases  
Canal Company Purchases  
Forest Protective Association Purchases  
Food Bank Purchases  
Nonsale Clothier Purchases  
Centers for Independent Living  
State of Idaho and Local Government Purchases  
Ronald McDonald House Rooms  
INL Research and Development Purchases  
Motor Vehicle Purchases by Family Members  
Sales by 4-H and FFA Clubs at Fairs  
Sales by Nonretailers (Yard and Occasional Sales)  
Sales by Indian Tribes on Reservations  
Sales of Meals by Churches to Members  
Sales by Outfitters and Guides  
Sales Through Vending Machines  
Auto Manufacturer Rebates  
Incidental Sales by Churches  
Federal Excise Tax Imposed at Retail Level  
Federal Constitutional Prohibitions  
Other Federal and State Statutory Prohibitions  
Volunteer Fire Departments and Emergency Medical Service Agencies  
Senior Citizens Centers  
Blind Services Foundation, Inc.  
Advocates for Survivors of Domestic Violence and Sexual Assault  
Free Dental Clinics  
Museums

		CY2010	CY2011	CY2012	CY2013
<b>1</b>	<b>Income Tax Expenditures (\$ 000)</b>				
1.1	<b>Uses of Income Not Taxed</b>				
1.1.01	Investment Tax Credit	\$27,665	\$28,836	\$28,861	\$25,349
1.1.02	Other States Tax Credit	\$60,382	\$64,584	\$68,284	\$71,753
1.1.03	Elderly Dependent Credit	\$735	\$747	\$771	\$754
1.1.04	Youth and Rehabilitation Credit	\$8,148	\$7,725	\$7,756	\$8,113
1.1.05	Schools, Libraries, and Museums Credit	\$4,116	\$6,946	\$7,477	\$7,844
1.1.06	Grocery Credit	\$76,286	\$89,727	\$103,456	\$118,584
1.1.07	Recycling Equipment Credit	\$1	\$4	\$9	\$0
1.1.08	Technological Equipment Deduction	\$56	\$52	\$58	\$57
1.1.09	Long-Term Care Insurance Deduction	\$1,127	\$1,198	\$1,258	\$1,315
1.1.10	Alternative Energy Device Deduction	\$487	\$422	\$340	\$321
1.1.11	Insulation Deduction	\$596	\$373	\$913	\$1,165
1.1.12	Workers' Compensation Premium Deduction	\$400	\$400	\$400	\$400
1.1.13	Child Care Deduction	\$3,861	\$3,917	\$3,921	\$4,008
1.1.14	College Savings Deduction	\$1,559	\$1,628	\$1,661	\$1,843
1.1.15	Health Insurance Deduction	\$13,292	\$14,593	\$14,936	\$16,839
1.1.16	Elderly and Developmental Disability Deduction	\$9	\$9	\$9	\$9
1.1.17	Adoption Expense Deduction	\$41	\$30	\$27	\$26
1.1.18	Medical Savings Account Deduction	\$817	\$787	\$742	\$725
1.1.19	Right Income Adjustment Credit	\$0	\$0	\$0	\$0
1.1.20	Riparian Land Improvements Credit	Sunset	Sunset	Sunset	Sunset
1.1.21	Broadband Investment Credit	\$688	\$574	\$2,081	\$1,347
1.1.22	County Incentive Investment Tax Credit	Sunset	Sunset	Sunset	Sunset
1.1.23	Research Activity Credit	\$1,866	\$1,697	\$3,449	\$1,990
1.1.24	Promoter Sponsored Events Credit	\$6	\$95	\$1	\$2
1.1.25	Corporate Headquarters Investment Credit	Repealed	Repealed	Repealed	Repealed
1.1.26	Corporate Headquarters Real Property Improvement Credit	Repealed	Repealed	Repealed	Repealed
1.1.27	Corporate Headquarters New Jobs Credit	Repealed	Repealed	Repealed	Repealed
1.1.28	Small Employer Capital Investment Credit	\$858	\$597	\$203	\$2,118
1.1.29	Small Employer Real Property Improvement Credit	\$24	\$5	\$141	\$478
1.1.30	Small Employer New Jobs Credit	\$40	\$147	\$26	\$157
1.1.31	Live Organ Donation Expenses Credit	\$45	\$19	\$25	\$23
1.1.32	Biofuel Investment Tax Credit	\$0	\$95	\$55	Sunset
1.1.33	Special Job Credit	\$0	\$125	\$0	\$0
1.1.34	Reimbursement Incentive Credit	\$0	\$0	\$0	\$0
1.1.35	Certain Charitable Contributions Deduction		\$0	\$0	\$0
1.2	<b>Sources of Income Not Taxed</b>				
1.2.01	Capital Gains Exclusion	\$11,322	\$10,616	\$19,534	\$13,399
1.2.02	Government Interest Exclusion	\$2,350	\$2,050	\$1,826	\$1,448
1.2.03	Social Security Exclusion	\$50,602	\$54,887	\$60,143	\$66,409
1.2.04	Railroad Retirement Exclusion				
1.2.05	Retirement Benefit Exclusion	\$5,975	\$6,460	\$6,890	\$7,455
1.2.06	Idaho Lottery Winnings Exclusion	\$4,775	\$4,856	\$4,901	\$4,986
1.2.07	Indian Earnings on Reservation Exclusion	\$565	\$598	\$628	\$653
1.2.08	World War II Reparations Exclusion	\$0	\$0	\$0	\$0
1.2.09	Marriage Penalty Deduction	\$0	\$0	\$0	\$0
1.2.10	Certain Loss Recoveries Deduction	\$0	\$0	\$0	\$250
1.2.11	Nonresident Guaranteed Partnership Income Exclusion	\$0	\$0	\$0	\$440