

Designing a Review of Tax Preferences

Report highlights

March 2021

Idaho has many tax preferences but little information about the extent to which they meet the Legislature's goals.

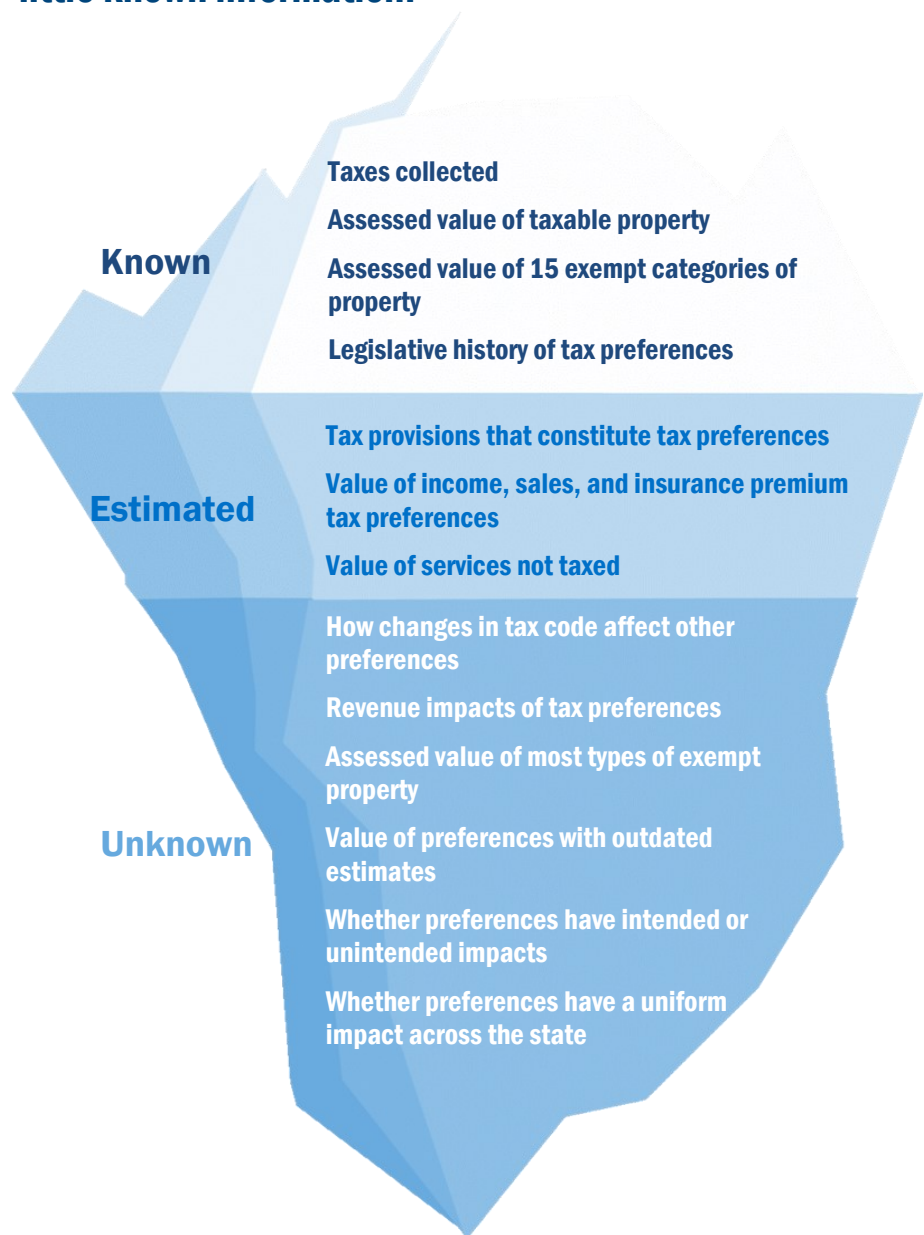
166 or more credits, exemptions, and other **tax preferences** exist in Idaho's income, property, and sales tax code.

While the Legislature systematically reviews direct spending each year, it has no process for reviewing tax preferences.

If the Legislature is satisfied with current tools, it could continue with the status quo by reviewing agency reports and requesting ad-hoc information. Alternatively, Idaho could develop a system to regularly review tax preferences.

34 states have a systematic review of tax preferences in statute, including **Montana, Oregon, Utah, and Washington.**

The Legislature is managing tax policy with relatively little known information.



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www.legislature.idaho.gov/ope/

We identified four questions that the Legislature should answer if it chooses to design a systematic review of tax preferences.



Considerations for policymakers

A successful review must

be motivated by the **Legislature's priorities,**

have a strategy to **inform policy,**

have a clearly **defined scope,**

and provide **sufficient resources.**

Other states have changed their review process over time. The Idaho Legislature can start with a small scope and later adapt the review based on its experience and evolving needs.

1

What values and goals motivate the Legislature's review of tax preferences?

Options include:

- Simplify the tax code
- Regularly examine the performance of tax preferences
- Address issues with a broad impact with dispersed costs or benefits

2

How will the Legislature ensure that a review informs policy?

Options include:

- Incorporate the review into germane committee process
- Create a standing joint interim committee
- Integrate a sunset clause when drafting a new or modifying an existing tax preference
- Include more detailed performance standards when drafting legislation affecting tax preferences

3

How will the Legislature define the review's scope?

The Legislature should determine:

- Which tax preferences to include
- How frequently a preference should be reviewed
- What questions analysts should answer during the review

4

What resources will the Legislature dedicate to make the review effective?

The Legislature should determine:

- The number of staff and where they should be located
- Which elements of the review should be set in statute, delegated to the legislative committee, and delegated to staff
- How to ensure analysts conducting the review will have authority to access necessary information