



## House of Representatives State of Idaho

March 9, 2020

Mr. Rakesh Mohan  
Office of Performance Evaluations  
954 W. Jefferson Street, Suite 202  
Boise, ID 83702

Dear Rakesh:

**Problem: Tax breaks are not systematically reviewed**

Idaho's tax system relies on three primary sources: income taxes, property taxes, and sales taxes. The Idaho Legislature decides who and what can be taxed. Tax breaks (sales tax exemptions, new business tax incentives, personal property tax exemptions, etc.) are established with some legislative intent in mind, but the Legislature lacks a process to regularly review and evaluate tax breaks as economic realities change. The problem is exacerbated by the lack of any objective evaluative criteria to assess the net long-term benefit of a tax break, and the absence of any timeframe within which the tax break will be reviewed or be subject to sunset. In short, most tax breaks (especially sales tax exemptions and exceptions) continue in perpetuity.

**Magnitude of the problem:**

The financial consequences of tax breaks that don't successfully advance the state's interest are a shift in taxes to the average citizen and the underfunding of necessary programs. Idahoans have experienced property tax increases due to continuous school bonds and levies, periodic increases in the gas tax, sustaining the grocery tax, increasing college tuitions, and the imposition of new and increasing fees. Sales tax exemptions and exceptions reached \$2.48 billion in FY'19, which is larger than the entire FY'19 sales tax growth. This is up from \$1.5 billion in FY'05, totaling over \$28 billion in the last 15 years. With no consistent review process, evaluative criteria or sunset provisions, the magnitude of the fiscal impact will continue to put pressure on other methods of funding vital state services and responsibilities, including education, transportation, healthcare, prisons, public lands and so on.

**Study objectives:**

- Identify practices that could be adopted in Idaho to regularly review and evaluate tax breaks in a way that maximizes objectivity. These might include sunset clauses or regularly scheduled legislative committees that review tax breaks. Such reviews should include key stakeholders, including the legislature, industry and economic experts.
- Identify commonly used quantifiable evaluative criteria for determining if a tax break is delivering a net long-term benefit to the state.

Mr. Rakesh Mohan  
March 9, 2020  
Page 2

- Investigate and report on other impacts, fiscal or otherwise, that the current fiscal policies on tax breaks may have on the state's ability to sustainably meet its constitutional and statutory obligations.

**Desired Outcomes and OPE Report Use:**

- Create a list of criteria that lawmakers can refer to when evaluating new and existing tax breaks.
- Recommend a sustainable, objective process for reviewing and deciding if a tax break should be retained or eliminated, including the timeframe within which such reviews should occur.
- OPE findings, conclusions and recommendations will be used by the Legislature to determine the degree to which current fiscal policies should be changed to accommodate the growing revenue needs of Idaho.

Sincerely,

Two handwritten signatures in blue ink. The signature on the left is more complex and scribbled, while the signature on the right is more fluid and cursive.

Rep. Rick D. Youngblood  
Rep. Steve Berch

jm