



Systematic Review of Tax Preferences

October 2020

Background

During the 2020 legislative session, the Joint Legislative Oversight Committee directed the Office of Performance Evaluations to identify practices that Idaho could adopt to regularly review and evaluate tax preferences.

Tax preferences are aspects of the tax code that treat certain people, activities, or types of income differently, often to promote a public policy purpose. Income tax deductions and credits are examples of tax preferences, as are exemptions of specific goods from the sales tax. Most taxes levied in Idaho, including the income, property, and sales taxes, have some tax preferences.

Each year the Joint Finance-Appropriations Committee reviews all state spending, and the Legislature votes to approve that spending. Tax preferences, in contrast, dedicate revenue to a policy without annual oversight.

Two legislators submitted a letter requesting this evaluation in response to the growing cost of tax preferences. The request letter notes that exemptions from the sales tax, including services not taxed, added up to almost \$2.5 billion for fiscal year 2018. The requesters wish to know how the Legislature might assess tax preferences alongside other state priorities for spending or tax relief.

Scope

We will identify key structural, procedural, and policy questions that the Legislature should consider when setting up a systematic review of tax preferences. We will study the approaches of other states and identify essential components to produce analysis useful to policymakers. We will recommend first steps should the Legislature elect to establish a formal tax preference review. We will answer the following questions:

What information does the state already have on tax preferences? How could the Legislature scope and prioritize Idaho's tax preferences for review?

What criteria could the Legislature use to evaluate tax preferences? What resources and data would be needed to produce evaluations using various criteria?

How could the Legislature structure the conduct of independent evaluations?

How can the Legislature integrate these evaluations into policy making?

Projected completion date: 2021 legislative session