State and Local Finance:
Idaho’s State and Local Tax System

Prepared for New Legislator Orientation
December 1, 2020
Presentation Outline

• Tax Policy Overview
• Sales & Use Taxes
• Property Tax
• Income Tax
• Idaho’s Comparative State & Local Tax Burden
Tax Policy Overview

• Reliable (Sufficient, Stable, Certain)
• Equitable (Vertical, Horizontal)
• Simple (taxpayers, administration)
• Responsive to interstate and international competition
• Economically neutral
• Accountable and transparent

Idaho’s Major State and Local Revenue FY 2020

Total Revenue: $7.01 Billion

- **Property Tax**
  - $2,035.2
  - 29.0%

- **Income Tax**
  - $1,914.1
  - 27.3%

- **Sales Tax**
  - $2,085.9
  - 29.8%

- **Corporate Income Tax**
  - $246.0
  - 3.5%

- **Misc Taxes**
  - $729.4
  - 10.4%

Source: Idaho State Tax Commission
Inflation Adjusted Major State and Local Revenues
SFY 1989 to SFY 2020

Billions

- Property Tax
- Income Tax
- Sales Tax

Years:
- 1989
- 1990
- 1991
- 1992
- 1993
- 1994
- 1995
- 1996
- 1997
- 1998
- 1999
- 2000
- 2001
- 2002
- 2003
- 2004
- 2005
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
- 2017
- 2018
- 2019
- 2020
The Idaho Sales and Use Tax Base

- Title 63 Chapter 36, Idaho Code defines transactions subject to a sales and use tax.
- First enacted in 1965 at 3%, the current rate is 6% statewide with some special instances of local option rate in resort cities.
- Broadly, it is the sale, lease, or rental of tangible personal property (goods).
- Use tax imposed on storage or use of tangible personal property, typically applied to out of state purchases from retailers not required to collect sales tax.
- Local option tax only for resort cities.
What Idaho Does Not Tax

• Exclusions
  o Most Services ($1.72 B)
    • Construction, Professional, Health, etc.
  o Some Goods
    • Motor Fuels ($162.4 M)
    • Natural gas, electricity, & other utility ($118.3 M)
    • Prescriptions and durable medical equipment ($74.8 M)

• Exemptions
  o Specific Uses
    • Agriculture Production (irrigation & pollution control included) ($238.1 M)
    • SNAP/WIC ($13.7 M)
    • Trade-in Value ($37.6 M)
  o Specific Entities
    • Education Purchases, Hospital Purchases, Government Purchases, Charities, R&D at National Lab, etc. ($111.8 M)

Source: DFM General Fund Revenue Book FY 2021
Sales and Use Tax Revenue

Where does the money go?

General Fund 81%
State Earmarked 1%
Tax Relief Fund 4%
Local Tax Relief and Election Consolidation 14%

**FY 2020 Revenues $ in millions**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$1,689.4</td>
</tr>
<tr>
<td>State Earmarked</td>
<td>$31.9</td>
</tr>
<tr>
<td>Tax Relief Fund</td>
<td>$83.6</td>
</tr>
<tr>
<td>Local Tax Relief and Election Consolidation</td>
<td>$281.7</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$2,086.6</strong></td>
</tr>
</tbody>
</table>

Source: Idaho State Tax Commission
Why the Sales and Use Tax matters

• Almost half of revenues generated to the General Fund are from Sales and Use Tax.
• Historically has been used as a new funding stream for existing programs (K-12 education), to offset property tax exemptions (business inventory, agricultural equipment, personal property tax), and create new programs (elections consolidation)
• Tax on consumption, making it probably the least hated tax
• For fast-growing states, like Idaho, revenue growth is driven largely by population growth
• Large year-over-year revenue growth makes it a target for earmarking
• Generally a regressive tax, meaning a higher proportion of income is spent on goods for low-income earners
The Property Tax:
As provided in Idaho Constitution

• General Rule
  o All tangible property (real & personal) shall be
    • Assessed at a uniform and equal rate in proportion to its fair market value; and
    • Taxed at a uniform and equal rate

• Exceptions to the General Rule

• Property Tax Exemptions
Property Tax Assessment Exceptions

- **Agricultural** and **Mining** is Value Based
- **Timber** is formula based
- **Operating property (Utilities)** is weighted based on the income approach or on market approach using a comparison of sales for like companies
Property Tax Exemptions

• Constitutional Mandates:
  o Government owned property; Unimproved real property of fish and game may be subject to fee in lieu of tax, if authorized by statute
  o Legislature may exempt other property by statute

• Selected Legislative Exemptions
  o Mostly found in Chapter 6, Title 63, Idaho Code
  o Homestead Exemption
  o Business Inventory
  o Motor Vehicles
  o Intangible Personal Property
  o Crops (in state and shipped out of state)
  o Personal Property less than $3,000
Property Tax Budgets

- Current, annually determined market value base:
  - $175.0 billion in 2019 ($153.2 billion in 2018)

- Budget based: Budget $ ÷ Taxable Value = Levy Rate
  - Uniform rate for all classes of property (minor exceptions)
  - Independently determined rates for each of about 1,000 taxing districts
Property Tax Budgets (Cont.)

• Except with voter approval, annual increase in property tax budgets ($) are generally limited to 3% plus new construction, annexation and previously forgone increases
  - No additional budget due to increased value of existing property
  - Growth in individual property taxes may vary from this figure:
    - If value of one property goes up more than another, the property with the greater increase will pay a higher proportion of the total property tax
    - If so, taxes on another property increase less or decrease
Property Tax Budgets (Cont.)

• Tax is levied on most real and business personal property

• Tax is generated and used locally:
  - $2,035.2 million to local units of government
  - $76.2 million to urban renewal agencies

• Many varieties of tax relief are available:
  - Exemptions, partial and full
  - Circuit Breaker (state pays part—sometimes all—of property tax)
  - Tax Deferral – interest still accrued until deferral is terminated
Property Tax by Property Type
budget year 2020 (in millions $)

- Owner Occupied Residential, $899.5, 44%
- Commercial/Industrial, $521.0, 26%
- Other Residential (No Homeowner's Exemption), $483.1, 24%
- Agricultural, $49.4, 2%
- Timber, $8.7, 1%
- Mining, $4.3, 0%
- Operating (Utilities), $69.1, 3%
Property Tax by District budget year 2020

- Schools: 30%
- Counties: 27%
- Cities: 27%
- Special Purpose Taxing Districts: 16%
Why the Property Tax Matters

- Major source of revenue for local governments and some school districts (most school districts rely on property tax for supplemental levies or bonds in addition to state appropriations)
- Tax on wealth and capital
- Oldest state and local tax (state does not receive revenues from property tax)
- Provides stability
- Transparency
- Political Accountability
- Unpopular tax
Idaho Individual Income Tax

• §63-3002, Idaho Code, states it is the intent of Title 63, Chapter 30 to be identical to the provisions of the Federal Internal Revenue Code relating to the measurement of taxable income.

• The income tax was first enacted in 1931. For the purposes of calculating the tax, there are 7 marginal tax rates (incremental tax paid on incremental income) ranging from 1.125% to 6.925% applied to brackets of taxable income, which are adjusted annually for inflation.

• For Idaho residents, income from all sources is taxable. Non-residents only pay tax on income earned in Idaho. Part-time residents pay tax on all sources while living in Idaho.

• Differences from federal taxable income for Idaho filers include 100% of Social Security income, 60% of certain capital gains and 100% of interest earned on US government securities.
Distribution of Returns and Income Tax Paid

Tax Year 2018

Share of Returns by Taxable Income
- Less than $80K: 87%
- $80-$125 K: 7%
- Greater than $125K: 6%

Share of Tax Paid by Taxable Income
- Less than $80K: 37%
- $80-$125 K: 17%
- Greater than $125K: 46%

Source: Idaho State Tax Commission
Idaho’s Income Tax System
Marginal vs. Effective Rates

Tax filing as “single”. Double the income for filing “joint”
Why the Individual Income Tax Matters

- **Tax on Income**
  - Includes individuals or personal filers, “pass-through” business entities, and trusts and estates
- **Almost half of revenues to the General Fund is from Individual Income Tax**
- **Offsets regressivity in other taxes**
- **Revenues more subject to economic conditions**
Idaho Corporate Income Tax

- Title 63, Chapter 30, Idaho Code sets the corporate income tax rate at 6.925% applied to taxable income.
- The income tax was first enacted in 1931.
- In FY 2020 corporate taxable income was nearly $4 Billion producing $243.3 million for the General Fund.
- Net revenues generated are deposited to the General Fund.
- Also a $10 filing tax per return that is deposited to the Permanent Building Fund.
- Entities that file under the corporate rate include a corporation or association transacting business in Idaho.
- Multistate corporations base their Idaho taxable income on apportionment formula which includes property, payroll, and annual sales.
Business Credits

• Investment Tax Credit
  o Credit provided to businesses that purchase qualifying property for use in the business
  o 3% of qualified investment
  o Not refundable
  o Limited to no more than 50% of tax liability
  o Carryforward provision for up to 14 years

• Qualifying New Employee Credit
• Research Activity Credit
• Broadband Investment Credit
• Reimbursement Incentive Credit
  o Refundable credit up to 30% for up to 15 years on new corporate business income tax, sales and use tax, and personal income tax withheld from employees paid as a result of qualifying project

Source: FY 2018 General Fund Revenue Book
Why the Corporate Income Tax Matters

• Tax on Income, but very volatile
• About 6% of revenues to the General Fund is from Corporate Income Tax
• Revenues somewhat subject to economic conditions, but also individual business activities.
  o Investment plays a large role in what is taxable income
<table>
<thead>
<tr>
<th>Tax /Fee Type</th>
<th>Rate</th>
<th>FY 2020 Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer</td>
<td>$.15/gallon</td>
<td>$4.5 million</td>
</tr>
<tr>
<td>Cigarette</td>
<td>$.57 for a pack of 20</td>
<td>$33.6 million</td>
</tr>
<tr>
<td>E911 Prepaid Wireless Fee</td>
<td>2.5% of service price</td>
<td>$1.6 million</td>
</tr>
<tr>
<td>Electricity (Kilowatt Hour)</td>
<td>.5 mill per kilowatt hour</td>
<td>$2.1 million</td>
</tr>
<tr>
<td>Mine License</td>
<td>1%</td>
<td>$116,860</td>
</tr>
<tr>
<td>Oil &amp; Gas Production</td>
<td>2.5%</td>
<td>$46,091</td>
</tr>
<tr>
<td>Tobacco Products</td>
<td>40% of wholesale price</td>
<td>$14.9 million</td>
</tr>
<tr>
<td>Travel &amp; Convention</td>
<td>2%</td>
<td>$13.1 million</td>
</tr>
<tr>
<td>Wine</td>
<td>$.45/gallon</td>
<td>$6.1 million</td>
</tr>
</tbody>
</table>
### Other Taxes / Fees (Cont.)

<table>
<thead>
<tr>
<th>Tax/Fee Type</th>
<th>Rate</th>
<th>FY 2020 Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fuels:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Aviation Gasoline</td>
<td>$.07/gallon</td>
<td></td>
</tr>
<tr>
<td>• Diesel</td>
<td>$.32/gallon</td>
<td></td>
</tr>
<tr>
<td>• Gasoline</td>
<td>$.32/gallon</td>
<td></td>
</tr>
<tr>
<td>• Jet Fuel</td>
<td>$.06/gallon</td>
<td></td>
</tr>
<tr>
<td>• Compressed Natural Gas</td>
<td>$.32/CGE</td>
<td></td>
</tr>
<tr>
<td>• Liquefied Natural Gas</td>
<td>$.349/DGE</td>
<td></td>
</tr>
<tr>
<td>• Propane</td>
<td>$.232/gallon</td>
<td></td>
</tr>
<tr>
<td>• Transfer Fee</td>
<td>$.01/gallon</td>
<td></td>
</tr>
<tr>
<td><strong>Illegal drug</strong></td>
<td>Various rates</td>
<td>$327</td>
</tr>
<tr>
<td><strong>Insurance premium tax</strong></td>
<td>1.5%</td>
<td>$101.6 million</td>
</tr>
<tr>
<td><strong>Wine direct shipper fee</strong></td>
<td>$50 first time,</td>
<td>$16,312</td>
</tr>
<tr>
<td></td>
<td>$25 yearly</td>
<td></td>
</tr>
</tbody>
</table>
How does Idaho’s State and Local Tax Burden compare to other states?
State and Local Taxes as a percent of Personal Income FY 2017

Idaho ranks 35th and has a below average tax burden

Source: U.S. Dept of Commerce, U.S. Census Bureau
State and Local Taxes as a percent of Personal Income
Idaho FY 2017 – FY 2006

Source: U.S. Dept of Commerce, U.S. Census Bureau
How Idaho Compares
Idaho Taxes and Own Source Revenue as a Percent of Personal Income
FY 2017

Rank Among 50 States and District of Columbia

<table>
<thead>
<tr>
<th>Category</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>35</td>
</tr>
<tr>
<td>Property</td>
<td>37</td>
</tr>
<tr>
<td>Income</td>
<td>22</td>
</tr>
<tr>
<td>Sales</td>
<td>26</td>
</tr>
<tr>
<td>Motor Fuel</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: U.S. Dept of Commerce, U.S. Census Bureau
Please feel free to contact me with any questions at (208)334-4739 or kbybee@Lso.Idaho.gov

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