

## STATEMENT OF PURPOSE

### RS19453C1

This legislation will define "income" as used in Idaho Code 63-3011 to be gain or profit from interest from bonds, notes, money at interest, dividends from stocks or any other gain or profit from any sale, exchange, transfer of property, commodities and/or services. However, for any monies or other exchanges related to wages, salaries, commissions, bonuses, benefits or other consideration as payment for time, labor or expertise, this definition of "income" assigns a cost basis to the wages, salaries, etc. that is equal to the value of the payment received.

The effect of this proposed language is to clarify the definition of "income"; so that the income tax, as it is imposed by the state of Idaho, conforms to the original intent of Congress and the American People for the Sixteenth Amendment to the Federal Constitution. The genesis of the Sixteenth Amendment was the Income Tax Plank of the Democrat Party's 1908 Presidential Platform, which reads:

"We favor an income tax as part of our revenue system, and we urge the submission of a constitutional amendment specifically authorizing congress to levy and collect a tax upon individual and corporate incomes, to the end that wealth may bear its proportionate share of the burdens of the Federal Government."

The legislation also increases the state sales tax rate from 6% to 8.25% in an attempt to mitigate the effect on the general fund of no longer taxing earned income.

### FISCAL NOTE

Enactment of this proposed legislation will clarify that wages, salaries or other forms of compensation for time, labor or expertise will have a cost basis equal to the compensation such that there is no gain or profit when one is paid for their time, labor or expertise. In other words, earned income will no longer be taxed, whereas the current income tax will remain on unearned income. The rate of income taxation will be simplified to a single uniform rate of 7.5% on taxable income, and the exemption will be lowered to \$600.

The tax rate on sales tax will be increased from 6% to 8.25%.

The immediate effect of this legislation will be to reduce state revenues by \$300 million. However, over a 2 to 5 year period, the simplification of our state tax structure can be expected to promote additional economic growth such that state revenues will equal or exceed that of our current tax structure.

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