A More Responsible Tax Policy for Idaho

Tax break reviews and sunsets are critical to sensible policy

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Making sure that Idaho has enough resources to meet residents' needs and that those resources are spent wisely is part of the public trust that goes along with governing. Responsible investments in public services that bolster our economy have been a key ingredient in Idaho's tradition of prosperity. However, over the last 15 years, the state has reversed course, steadily cutting revenues by approximately $500 million annually. These cuts have left us with fewer resources to invest in education, public safety, and the health and well-being of Idahoans.

An official process to assess Idaho's tax policies could rein in costly tax breaks and improve our economy by protecting revenue for crucial investments that will make Idaho stronger.[1] Taking a new approach to tax policy is one way to get Idaho back on track. This requires ensuring everyone is paying their fair share and that tax dollars are invested wisely. When specific tax breaks are deemed useful or necessary, the people of Idaho deserve a good return on their investment. But tax breaks, also known as *"tax expenditures"* because they represent money taken out of the state budget, are currently operating on autopilot and lack reviews and sunsets (ending dates).

Idaho has no systematic review process in place for current tax breaks

Every year the state spends millions of tax dollars to make sure Idahoans can get a good education, have safe homes and communities, and enjoy good health. The spending that makes these things happen is debated and approved in a public manner and many of the programs include sunset clauses or other criteria for renewal. On the other hand, every year Idaho spends millions of dollars on tax breaks without including them in the annual budget or conducting consistent cost-benefit reviews.

Some tax breaks are designed to create jobs or stimulate other economic activity. Tax breaks can also lower costs for crucial services, like health care. However, the state does not have a process to determine whether the majority of Idaho's tax expenditures work as intended. Idaho could develop a more fiscally responsible approach to tax policy by establishing standards for tax break legislation and creating a consistent process of review and oversight.[2]

Recent cuts in revenue put our public services and economy at risk

Idaho's tax revenue is among the lowest in the nation. The Idaho Tax Commission, in a report released in 2013, found that Idaho's per capita tax collection is 49th in the US and last among 11 western states.[4] Since the late 1990's, Idaho has made a variety of tax policy changes that have left us with $500 million less to invest each year in Idaho schools, our state workers, assistance for Idahoans with disabilities and other public services.[5] For example, Idaho made several adjustments to the tax rate collected for individual income tax between 2000-2012, reduced the tax rate on corporate income from 8.0% to 7.4% between 2001-2012, and exempted the first $100,000 from business personal property tax in 2013. These changes to

Recommendations:

- Tax break legislation identifies goals and objectives.
- The beneficiaries of tax expenditures are responsible for proving the tax breaks work as intended.
- Tax break legislation includes a scheduled sunset (expiration date).
- Non-partisan analysts regularly evaluate tax expenditures based on how successful they have been in meeting their objectives and offer recommendations to legislators.
- Relevant committees of the legislature regularly review current tax breaks, in public hearings. No tax break should go more than five years without a review and hearing.[3]

Idaho's tax rate make it even more essential that we carefully scrutinize tax breaks that will further impact how much revenue Idaho has to invest in education and other public services.

Currently, Idaho has 136 tax expenditures on the books for sales tax, corporate income tax and individual income tax. These 136 expenditures represent almost $2.4 billion that is not collected out of a total state budget of $2.8 billion.[6]

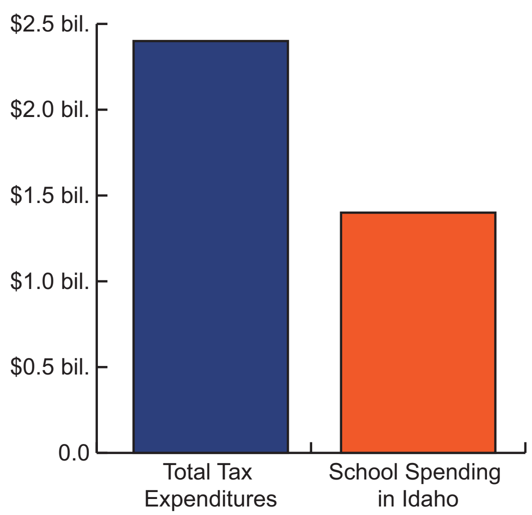
Well-designed and carefully targeted tax breaks can be tools that create incentives for private investment and promote overall well-being. However, excessive tax breaks can drain a significant amount of revenue that could be used for schools, roads, and other key services and infrastructure, which are critical underpinnings of a healthy state economy. This weakens Idaho in the long-run. In comparison to the $2.4 billion of revenue we give away in tax expenditures, the public education budget for Idaho in 2015 is $1.4 billion. That means we give away $1 billion more in tax breaks than we invest in our K-12 education budget.

Our state's budget represents Idaho's priorities. One of the most effective approaches for Idaho to remain competitive and economically vibrant now and in the future, is to ensure we educate our children well today so that they can be part of Idaho's skilled work force in the future. That opportunity is jeopardized when Idaho's tax break policies give away billions of dollars in revenue that could be used for education -- and we don't know whether those breaks work. Reviewing and reporting on tax breaks will allow us to focus spending on areas that have a proven return on investment, like education.

Idaho Tax Expenditures Forecasted 2015

	Number of Expenditures	Dollar Amount Not Collected
Income Tax Expenditures	44	$396,179,000
Sales Tax Expenditures	92	$1,995,262,000
Total	136	$2,391,441,000

Chart 1. Idaho Tax Expenditures Compared to School Spending for Fiscal Year 2015



Source: Division of Financial Management, 2014 Legislative Activities Summary, FY 2015 General Fund Summary.

Reviewing tax breaks now makes Idaho stronger in the future

As residents of the state, we all contribute to the services that help Idaho run efficiently and effectively. Idaho lawmakers should look carefully at spending in general, and excessive spending through tax expenditures in particular, and update our tax system to provide support for what should be essential state priorities. Working together, we can find a common sense approach to updating Idaho's tax system so it is more efficient and protects revenue that benefits all Idahoans. Our future depends on an approach that puts our children and overall quality of life first.

References

1. The lack of an official review process in Idaho does not reflect a lack of effort to have more oversight over tax expenditures by the many Idaho legislators. Among a variety of efforts, in 2010, Representative Wendy Jaquet sponsored HB 396, which would have established a Tax Review Commission to review sales tax expenditures. That bill did not receive a hearing. Also in 2010, Senator Chuck Winder sponsored legislation that would have required five year reviews of tax expenditures and mandatory five year expirations for expenditures enacted after 2010. That legislation passed the Senate, but not the House.
2. The Idaho Legislature has formed special committees to examine tax expenditures, most recently through a 2007 Tax Exemptions Interim Committee. However, no official or consistent review process currently exists.
3. Institute on Taxation and Economic Policy, "Five Steps Towards a Better Tax Expenditure Debate," http://www.itep.org/pdf/fivesteps_1012.pdf (October 2012).
4. Idaho State Tax Commission, "State and Local Tax Burden Analysis, Executive Summary, FY 2011 Taxes," http://tax.idaho.gov/reports/EPB00074_10-23-2013.pdf?qp=y (October 23, 2013).
5. Idaho Center for Fiscal Policy, "Idaho Budget Primer," http://idahocfp.org/new/wp-content/uploads/2014/07/ICFP-Budget_Primer.pdf (June 2014).
6. Idaho Division of Financial Management: http://dfm.idaho.gov/Publications/EAB/GFRB/GFRB15/TaxStructure_Jan2014.pdf (January 2014).

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