

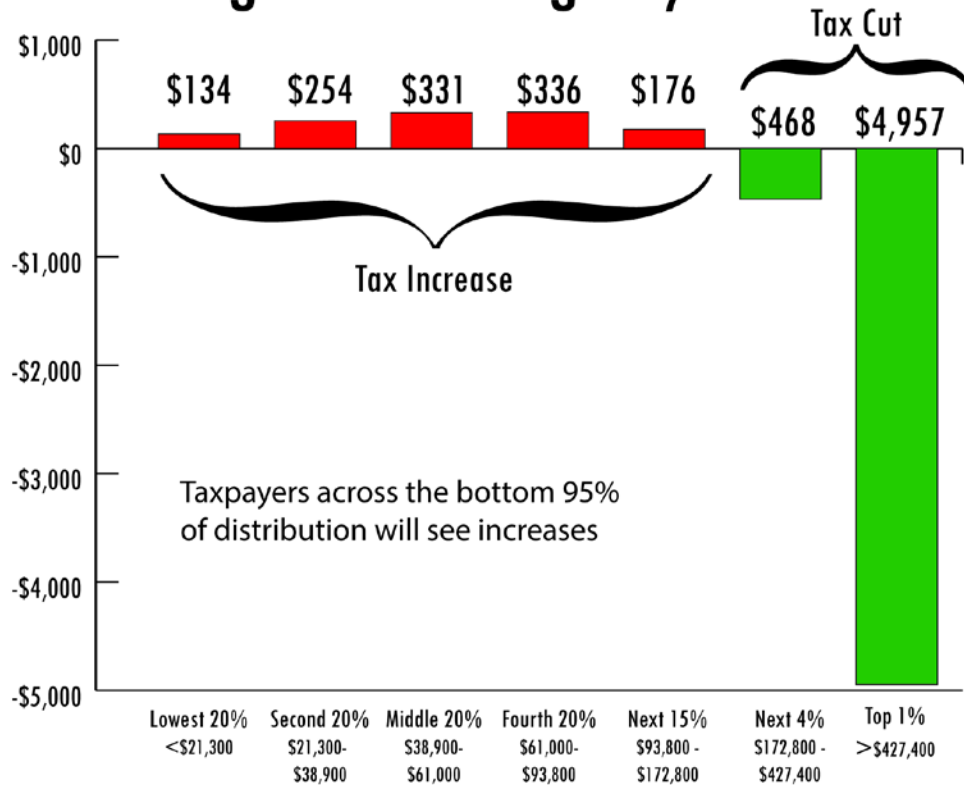


Complex Tax Proposal Would Have Uneven Impacts on Idahoans

February 20, 2015

A new proposal in the Idaho Legislature would dramatically shift the way taxes are collected and generate a new revenue source for our neglected roads and bridges. The proposal has several components which in combination mean that taxpayers across the bottom 95% of the distribution will pay more, on average. The proposal is designed to generate \$150 million in transportation funding through the sales tax hike, but the other changes generate the same level of revenue as in the past so it won't provide the state with additional funding to invest in other things, like education. Idaho's tax system currently asks those with higher-incomes to pay a smaller share of their income in taxes than average people. This "omnibus" tax proposal would increase this difference. Please see the chart below for the net impact on Idahoans of the various components of the proposal.

Average Tax Change by Income



Source: Analysis provided by the Institute on Taxation and Economic Policy, Feb, 2015.

The components of the proposal included in this analysis are as follows:

- **Replacement of Idaho's graduated income tax rate with a flat rate of about 6.6% for personal and corporate income tax.** This will mean an increase in the income tax rate from 1.6% to 6.6% for the lowest earners. Households at the top of the distribution and corporations will see a

decrease from 7.4% to 6.6%. This is essentially a tax shift and is not intended to generate new revenue.

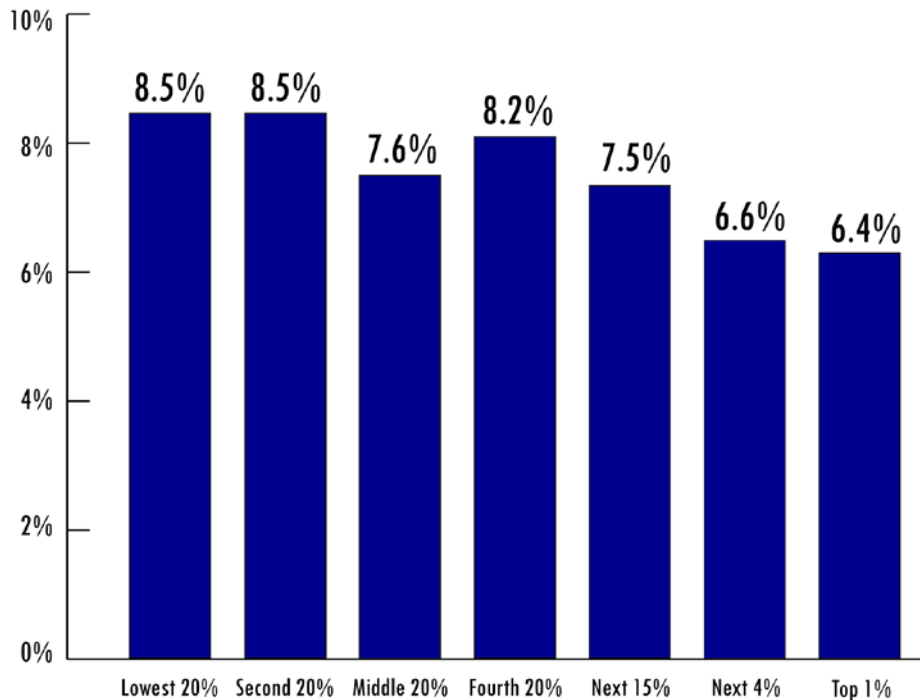
- **An increase in the sales tax from 6% to 7%.** This change will generate \$150 million to be directed towards funding transportation and will push taxes higher for all Idahoans.
- **An elimination of the sales tax on groceries and a repeal of the grocery tax credit.** The isolated net impact of both of these changes will mean a small increase (around \$20) in taxes paid by the lowest 20% of earners, on average. All other Idahoans will see a reduction in taxes that rises with income level. The top 1% would see a benefit of \$204 per year.

Distribution of Taxes in Current System

Idaho’s tax structure is already out of balance in that lower-earning families pay about 8.5% of their income in state and local taxes on average, while families at the very top pay only about 6.4%. The proposed tax shift would increase this discrepancy.

Idaho State and Local Taxes in 2015

Shares of Family Income for Non-elderly Taxpayers



Source: Institute on Taxation and Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 5th Edition. January, 2015. Available at: <http://www.itep.org/whopays/>

Strong Working Families Drive Our State Economy

Businesses depend on strong working families to shop in their stores and buy their products. For that reason, we should scrutinize any policy that means less money in the pockets of average Idahoans.

Strengthening the economic wellbeing of average Idahoans is part of the reasoning behind the graduated income tax. Sales taxes hit the middle-class and struggling people the hardest, and a graduated income tax – which requires people to pay a higher income tax rate as their income grows – can help counteract this fact so average people aren't paying a larger share of their income in state and local taxes than those at the top of the income distribution.

Outlook

In the wake of the Great Recession, Idaho will benefit from policies that support further investments in education and ensure that our public infrastructure is well-funded to keep us safe and our state productive. It is essential to Idaho's prosperity that we meet these goals through a system where all Idahoans share the load for investing in our future.