



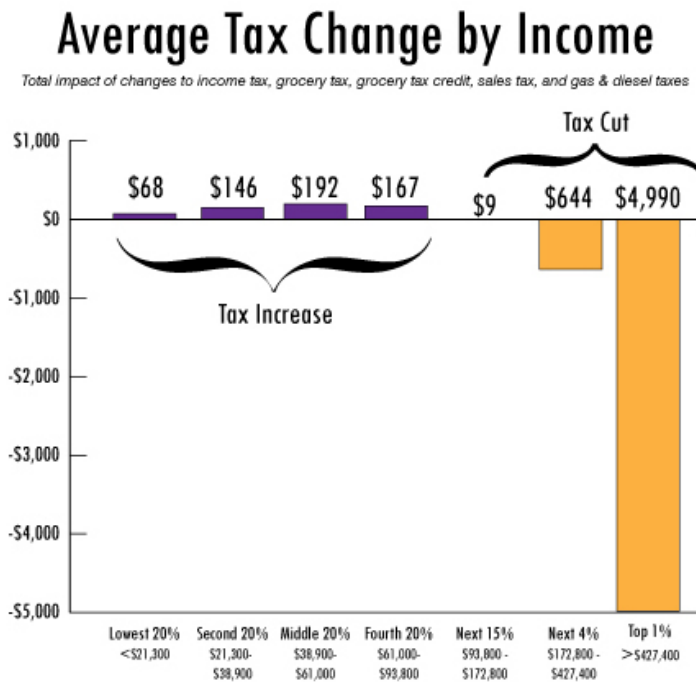
A Complex End-of Session Proposal:

Notes on House Bill 311

A new proposal in the Idaho Legislature would dramatically shift the way taxes are collected and generate a new revenue source for roads and bridges. The proposal has several components which in combination mean that taxpayers across the bottom 80% of the income distribution will pay more, on average.

The proposal is designed to generate \$65 million annually in transportation funding due to higher gas taxes. The other changes to sales and income tax will reduce dollars available to the General Fund by \$70.5 million per year, after the various components of the bill are fully implemented in fiscal year 2017.¹ Our education system represents the largest investment made with General Fund dollars.

Please see the chart below for the net impact on Idahoans of the various components of the proposal.



Source: Analysis provided by The Institute on Taxation and Economic Policy

The components included in the analysis above are:

- **Replacement of Idaho's graduated income tax rate with a flat rate of 6.7% on all income for earners at or above \$5,861 in taxable income.** This will not change income taxes for earners below this level of taxable income. In this new collapsed tax bracket, earners who used to pay 6.1%, 7.1% or 7.4% as marginal rates (and lower rates on the first segment of income earned) shift to paying a flat rate of 6.7% on every dollar earned. This change reduces General Fund revenue slightly and is essentially a tax shift, raising income taxes for the middle class while lowering taxes for higher earners.
- **Repeal of the grocery tax credit and the elimination of the sales tax on food.** The current grocery tax credit of \$120 for seniors and \$100 for individuals is a bigger benefit to lower earners than a sales tax exemption on food. The isolated impact of both of these changes will mean a small increase (about \$15-\$30) in taxes paid by the lowest 40% of earners, on average. This change also decreases General Fund revenue.
- **An increase in the gas and diesel tax from 25 cents a gallon to 32 cents.** This change will generate \$65 million annually to be directed towards funding transportation.

Loss to General Fund Revenue is \$70.5 Million by Second Year

There will be a gain in General Fund revenue in fiscal year 2016 of \$15 million, in part because the sales tax exemption for groceries won't take effect until October, 2015. By fiscal year 2017, when all of the proposed changes are fully implemented, the General Fund will see a loss of \$70.5 million.¹

¹ See the General Fund Daily Update, updated March 27, 2015. Accessed March 30, 2015 at: <http://legislature.idaho.gov/budget/publications/GFBudgetUpdate/BudgetUpdate.pdf?t=142766968267>

Note: This report revised on March 30th to reflect updated information from LSO. A previous version stated a general fund revenue loss of \$50 million in the second year, based on reports from the Spokesman-Review.