IDAHO
Center for
Fiscal Policy

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Analysis and Considerations Related to House Bill 380

The Idaho Legislature is considering a proposal that would cut top income tax and corporate tax rates. The proposal would mean an income tax cut for 59% of Idaho households – with most of the benefits going to households with income levels above $99,000. The bill includes a small increase in Idaho's grocery tax credit to some households that do not benefit from the tax rate reductions.

The legislation would reduce Idaho's general fund revenue by $27.8 to $31 million. A majority of general fund spending (62% in fiscal year 2016) supports education.

The bill makes three main changes to Idaho's tax system:

- A reduction to the individual income tax rate for the top two brackets by a tenth of a percentage point – from 7.4% to 7.3% for the top bracket and from 7.1% to 7.0% for the next highest bracket
- A reduction to the corporate income tax rate from 7.4% to 7.3%
- An increase in the grocery tax credit by $10 a year for households whose income is below the level covered by the top two income tax brackets and who are eligible for the credit

Current Context

Idaho lawmakers face multiple pressures when it comes to tax policy. The outgoing Department of Commerce Director, Jeff Sayer, has cautioned against further tax cuts and has encouraged increased public investments to develop a pipeline of talented workers. Businesses looking to expand in Idaho or relocate to our state have expressed deep concerns about meeting their workforce needs and expressed little interest in tax rates.[1] Similarly, business leaders, legislators, and education experts participating in the Governor's Task Force for Improving Education have recommended a list of priority investments with a total

[1] Dentzer, B. (2015, October 6). Tax cuts? Top state business official tells lawmakers: 'Not today.' *Idaho Statesman*. Available at: http://www.idahostatesman.com/news/politics-government/state-politics/article40650972.html

price tag of about $350 million. At the same time, some Idaho business groups are lobbying for cuts to income taxes and increases to the personal property tax exemption, both of which would reduce revenues available for education.

Idaho's total tax collections per person are the second lowest in the country.[2] In a national ranking for economic climate, Idaho excels in the Cost of Doing Business category at 6th in the nation. This category includes the cost of taxes. That same ranking puts Idaho at 47th for Education, 33rd for Technology & Innovation and 32nd for Workforce.[3]

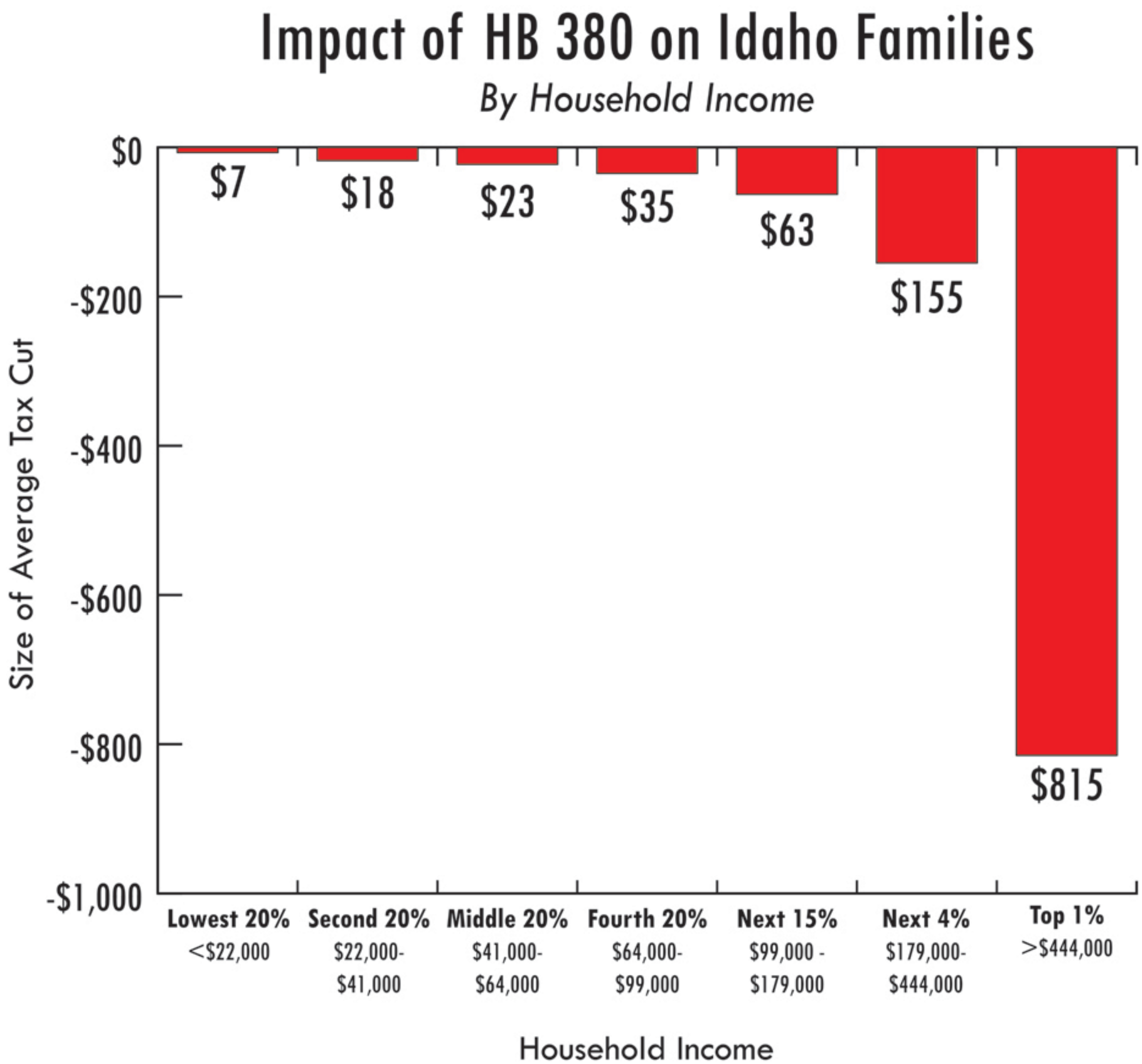
Proposal's Impact on Idaho Taxpayers

Most Idaho households would not see a significant change in their tax bill from this legislation. The top 20% of earners – those with incomes of $99,000 and above – would receive 59% of the monetary benefit; the remaining 41% of the benefit will be spread out among the 80% of Idaho's households whose incomes are below $99,000.

The piece of the proposal designed for households that would not receive an income tax cut is a $10 increase in the grocery tax credit for each member of the household. Idaho residents pay a 6% state sales tax on the groceries they buy and are eligible for a grocery tax credit of at least $100 per year for each household member (residents over age 65 receive a refund of $120 per person). The lowest paid Idahoans may not see any benefit from the increased grocery tax credit because the credit is denied to Idahoans in any month during which they receive SNAP (Supplemental Nutrition Assistance Program, or food stamps). SNAP is available to households whose income does not exceed $2,628 per month or $31,536 annually.

Idaho households with incomes between $41,000 and $64,000 a year would see a $23 decrease in their tax liability, on average. The top 1% – those with incomes of $444,000 and above – would see an $815 tax cut, on average. The exact tax cut that a household in any range would receive depends upon a variety of factors, including income, tax deductions, and household size. (See the chart below for the average tax cuts by income ranges.)

[2] Source: U.S. Census Bureau. Derived from state and local own-source general revenue per capita in FY2013.
[3] America's Top States for Business 2015: A scorecard on state economic climate (CNBC). Available at: http://www.cnbc.com/2015/06/24/americas-top-states-for-business.html



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

Estimates of Fiscal Impact

The fiscal note attached to the legislation makes a reasonable estimate that the tax cuts will cost the state $27.8 million a year, based on data provided by Legislative Services, the Idaho Tax Commission, and the state Division of Financial Management.

The Institute on Taxation and Economic Policy, a nonpartisan nonprofit that simulates tax policy scenarios, makes a similar estimate at $31 million. Please see the following table for details.

Projected Revenue Loss for Components of the Legislation

	Fiscal Note Projection	Institute on Taxation and Economic Policy Projection
Personal income tax rate reductions	$19.6 million	$23 million
Corporate tax rate reductions	$3 million	$3 million
Increase in grocery tax credit for lower tax brackets	$5.2 million	$6 million[4]
Total Revenue Reduction	**$ 27.8 million**	**$31 million[5]**

Additional Budget Pressures

Recently, the Legislature expressed interest in increasing public investments to bolster our economic outlook and ensure that government functions are performed at a level that meets public needs. One example is the teacher career ladder, a compensation structure designed to improve recruitment and retention of qualified teachers. This legislation was passed by large margins last year and full implementation is estimated to cost $214 million annually.[6] Last year, $33.5 million was appropriated as a first step. If the Legislature enacts the Governor's recommendation of $73.4 million for the 2017 fiscal year[7], the state will still need to identify another $140.5 million. Other competing priorities for general fund revenue include strengthening our public defense system and narrowing gaps between state employee compensation and market rates.

Over the past decade, economic conditions and revenue-reducing policies have led to lower general fund collections when we adjust for inflation and even lower levels when we look at revenue in per capita terms. For example, in 2007 Idaho collected $2,166 per capita. That figure decreased to $1,891 in 2016 (using consistent inflation-adjusted dollars). Thus, when

[4] This figure is difficult to predict because households participating in food stamps, or SNAP (Supplemental Nutrition Assistance Program), are not eligible for the grocery tax credit during months when they receive SNAP. They can receive a prorated credit. This estimate makes the following assumptions: that households below 75% of the eligibility threshold for snap are not eligible for the grocery tax credit; that households between 75% and 100% are, on average, eligible for 50% of the maximum value of the credit over the course of the year because their tax credit will be prorated; and that 92% of households with incomes above the SNAP eligibility threshold redeem the full grocery tax credit. These assumptions corroborate the Division of Financial Management's estimate that the grocery tax credit will cost the state $144.5 million in 2016.

[5] The amounts do not total because of rounding.

[6] Source: House Bill 296 from the 2015 Legislature. Available at: http://legislature.idaho.gov/legislation/2015/H0296SOPBookmark.htm

[7] Source: FY 2017 Legislative Budget Book. Available at: https://legislature.idaho.gov/budget/publications/LBB/current/LBB.pdf?t=1453962665163

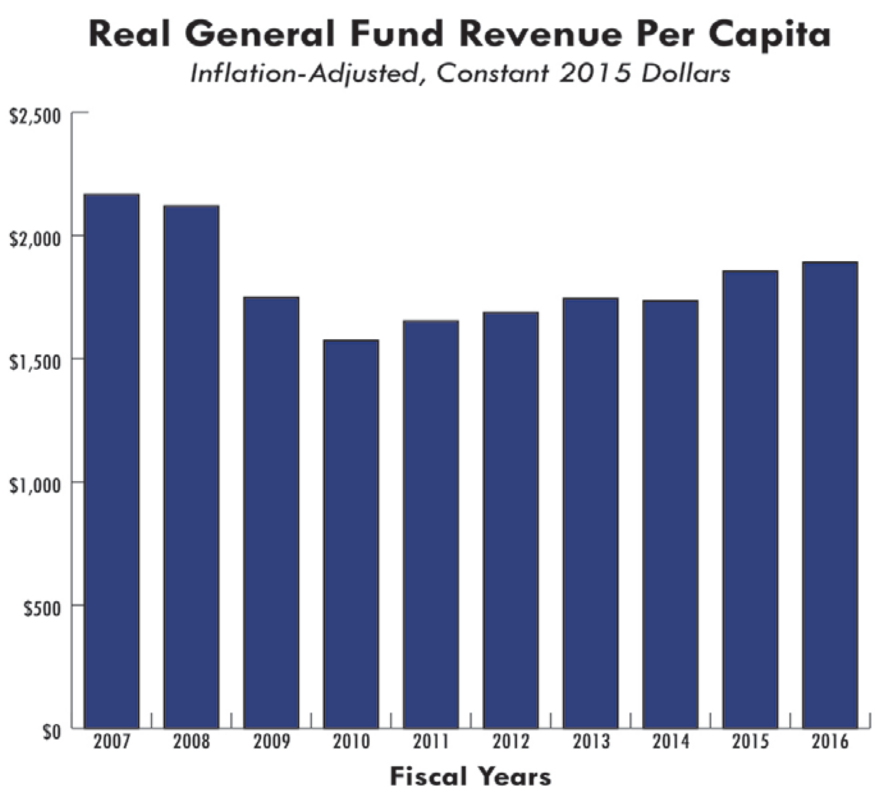
adjusted for inflation, per capita general fund revenues for fiscal year 2016 were only 87% of revenues from fiscal year 2007. (See the following table and chart for more details.)

Fiscal Year	Nominal General Fund Revenues (in millions) *	Inflation-Adjusted General Fund Revenue (in millions, 2015 dollars)**	State Population***	Inflation-Adjusted General Fund Revenue Per Capita (2015 Dollars)
2007	$2,813	$3,261	1,505,105	$2,166
2008	$2,910	$3,253	1,534,320	$2,120
2009	$2,466	$2,719	1,554,439	$1,749
2010	$2,265	$2,473	1,570,639	$1,574
2011	$2,445	$2,617	1,583,780	$1,652
2012	$2,588	$2,691	1,595,590	$1,687
2013	$2,750	$2,814	1,612,843	$1,744
2014	$2,815	$2,836	1,634,464	$1,735
2015	$3,057	$3,057	1,647,540 (proj.)	$1,855
2016	$3,181	$3,140	1,660,720 (proj.)	$1,891

* Source: 2015 Idaho Fiscal Facts. Available at: https://www.legislature.idaho.gov/budget/publications/FiscalFacts/current/FF.pdf

** Source: Bureau of Labor Statistics, http://www.bls.gov/cpi/#tables - 2016 inflator calculated using the average inflation change over past three full years (1.3%).

*** Source: Idaho Department of Labor. Available at http://lmi.idaho.gov/census. The 2015-2016 population estimates were calculated using 0.8% annual growth (as used by Idaho Department of Labor from https://labor.idaho.gov/publications/2022-Idaho-Projections.pdf).



Idaho's general fund has also shrunk relative to our state's personal income, which is another way to examine revenue while accounting for economic conditions and inflation. In fiscal year 2007, the General Fund represented 5.8% of state personal income. By fiscal year 2016, that figure dropped to 5%.

Fiscal Year	Nominal General Fund Revenues (in millions)*	Idaho Personal Income (in millions)**	General Fund Revenue as a Percentage of State Personal Income
2007	2812.5	$ 48,369	5.8%
2008	2909.8	$ 50,396	5.8%
2009	2465.6	$ 49,339	5.0%
2010	2264.5	$ 49,332	4.6%
2011	2444.5	$ 51,790	4.7%
2012	2587.7	$ 54,115	4.8%
2013	2750.3	$ 56,686	4.9%
2014	2815.4	$ 58,716	4.8%
2015	3056.8	$ 61,060	5.0%
2016	3181.1	(unavailable)	(unavailable)

*Source: 2015 Idaho Fiscal Facts. Available at:
https://www.legislature.idaho.gov/budget/publications/FiscalFacts/current/FF.pdf

** Source: Personal income from US Bureau of Economic Analysis.
http://www.bea.gov/newsreleases/regional/spi/sqpi_newsrelease.htm

Conclusion

No taxpayer wants the state to collect more in taxes than is needed for efficient and cost-effective public investments in schools, higher education, safe communities, and other services that protect Idaho residents and fuel economic growth. The Legislature will have to weigh the short- and long-term impact of reducing state revenues, both in terms of what it means for the state's ability to make key public investments for Idaho's future and implications for the stability of state finances in both good times and bad.