

A More Responsible Tax Policy for Idaho's Future

Tax break reviews and sunsets are sensible policy



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Ensuring that Idaho has the resources to pay for the building blocks of thriving communities -such as good schools, roads and health care - is a vital part of governing. Responsible investments in public services that undergird our economy have been a key ingredient in Idaho's prosperity. However, over the last 20 years, the state has steadily cut revenue, culminating in an annual loss of approximately \$800 million. These cuts have left us with fewer resources to invest in education, public safety, and the health and well-being of Idahoans than we would otherwise have.

In addition to tax cuts, Idaho lawmakers have created specific tax breaks – also known as “tax expenditures” because they represent money taken out of the state budget – that are supposed to encourage economic development, reward behaviors such as saving or home-buying, or instill fairness in the tax code. But very few of these tax choices, each of which drains revenues that could be used for critical goals, are ever evaluated or ended.

Currently, Idaho has 133 tax expenditures on the books for sales tax and income tax (both individual and corporate). These 133 expenditures represent almost \$3.2 billion that is not collected compared with a total General Fund budget of \$3.6 billion.¹ For example, it is estimated that \$69 million is foregone on the Idaho child tax credit while \$600,000 is foregone by exempting ski lifts and snowgrooming equipment from the sales tax.²

Idaho Tax Expenditures Forecasted for 2019		
	Number	Uncollected Dollar Amount
Income Tax Expenditures	41	\$593,158,000
Sales Tax Expenditures	92	\$2,602,221,000
Total	133	\$3,195,379,000

Source: Idaho Division of Financial Management.

Haphazard review process for tax breaks hamstrings fiscal responsibility

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 programs include sunset clauses or other criteria for renewal. Similarly, some tax breaks have well-intended goals: job creation, economic stimulus, or cost reduction 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.

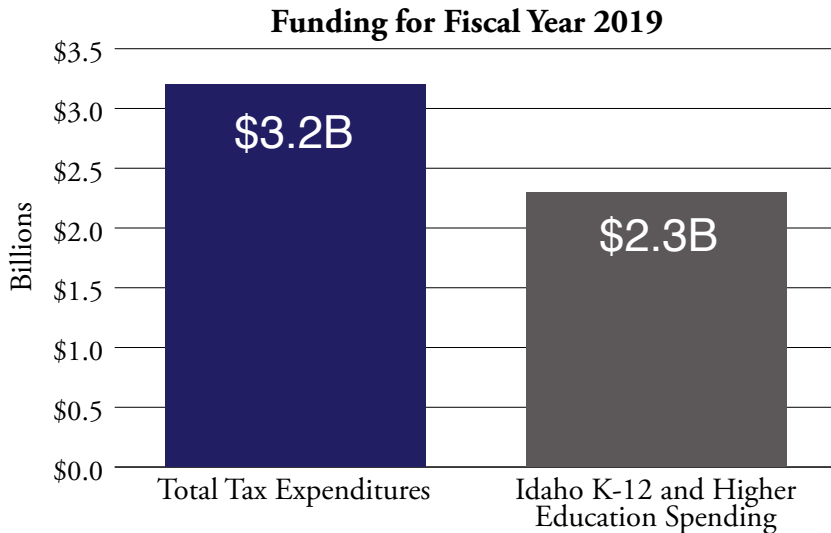
[1] Idaho Fiscal Facts, 2018. Figure refers to fiscal year 2019 General Fund.

[2] Idaho Division of Financial Management.

Cuts in revenue put our public services and economy at risk

Idaho taxes are among the lowest in the nation. The Idaho State Tax Commission, in a 2018 report, found that Idaho's per person tax collection ranks 46th lowest in the U.S. and last among 11 Western States.³

Since the late 1990s, Idaho has made a variety of tax policy changes that have left us with \$800 million less to invest each year in Idaho schools, roads, law enforcement, and other public services. For example, Idaho made several adjustments to the individual income tax rate, reduced the corporate income tax rate from 8.0% to 6.9%, and exempted the first \$100,000 in value from business personal property tax. These costly tax changes make it even more essential that we carefully scrutinize tax breaks that deplete public resources.



Well-designed and carefully targeted tax breaks can be tools that create incentives for private investment and promote growth. However, excessive tax breaks can drain a significant amount of revenue for major economic priorities, like a good public schools and universities. The opportunity for gains on these priorities is jeopardized when Idaho's tax break policies give away billions of dollars – and we don't know whether those tax breaks deliver benefits for the public.

Idaho's tax expenditures cost \$3.2 billion in lost revenues in 2019. In comparison the public education budget for Idaho is \$2.3 billion. That means we give away \$900 million more in tax breaks than we invest in schools. And the cost is projected to grow. In 2020, tax breaks are projected to cost \$3.3 billion, up from \$2.8 billion in 2017.

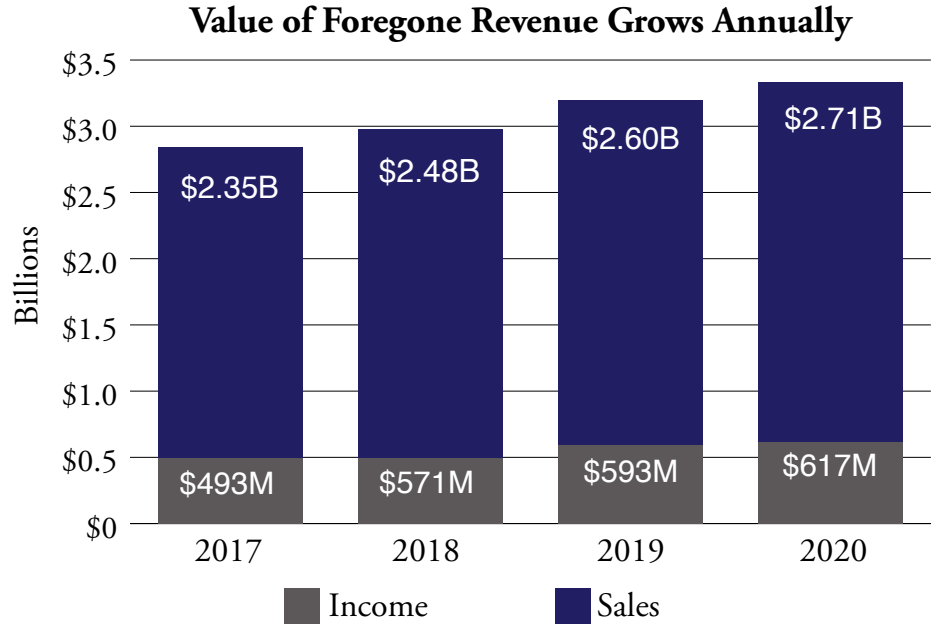
Reviewing tax breaks regularly makes Idaho stronger in the future

As residents of the state, we all contribute to the services that help build a strong foundation for Idaho's communities. Idaho lawmakers should look carefully at all spending, including tax expenditures, and clean up our tax system to provide support for important priorities. This is a common-sense approach that puts our children, economic future, and overall quality of life first.

[3] Idaho State Tax Commission. Tax Burden Study for Fiscal Year 2016.

The following recommendations would strengthen Idaho's tax break review process:

- 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.

