

# Analysis and Considerations Related to House Bill 199

February 22, 2021



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The Idaho Legislature is considering a proposal that would cut income tax, corporate tax, and sales tax rates as well as eliminate the grocery tax credit.

Under the proposal, most tax benefits would go to households with an annual income above \$103,000. To mitigate the negative impact on households whose taxes are increased by eliminating the grocery credit and who do not benefit from the income and corporate tax rate reductions, the bill includes a reduction in Idaho's sales tax. However, the overall impact of these provisions together are very small tax cuts for Idahoans earning up to \$66,000 and very large cuts for Idahoans earning \$103,000 and up.

The draft legislation would cost between \$102.1 million and \$123 million in its first year (fiscal year 2022) and between \$239 million to \$270.5 million per year thereafter.

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

- A reduction to the individual income tax rate for all seven tax brackets, with larger cuts for the higher rates (see chart).
- A reduction to the corporate income tax rate from 6.93 percent to 6.5 percent.
- The elimination of the grocery tax credit, which is currently \$100 for most Idaho residents and \$120 for Idahoans over 65.
- A reduction of the sales tax from 6 percent to 5.3 percent.

Current Rate	Proposed Rate	Rate Cut
1.25%	1%	0.25%
3.13%	2.80%	0.33%
3.63%	3.30%	0.33%
4.63%	4.25%	0.38%
5.63%	5.20%	0.43%
6.63%	6.15%	0.48%
6.93%	6.50%	0.43%

## Current Context

Idaho lawmakers face multiple pressures when it comes to fiscal and budget policy. Policymakers, business leaders, and researchers have estimated that as Idaho's population grows, local roads, bridges, and other transportation-related infrastructure will require investments of \$241.8 million every year.<sup>1</sup> Idaho's total tax collections per person are the eighth lowest in the country and second lowest of the Western states.<sup>2</sup> At the same time, some Idaho business groups are lobbying for increases to the personal property tax exemption and deducting Paycheck Protection Program and Idaho Rebounds business grants from income, both of which would considerably reduce revenues available for transportation, education, and other long-term economic growth investments.

Pandemic-related unemployment and income loss are still impacting Idaho communities, causing hardship particularly among middle and lower income families. Idaho's unemployment rate is 9.8 percent when considering people who have left the workforce, who are underemployed, and those who are working part-time, but would prefer full-time work.<sup>3</sup>



## Proposal's Impact on Idaho Taxpayers

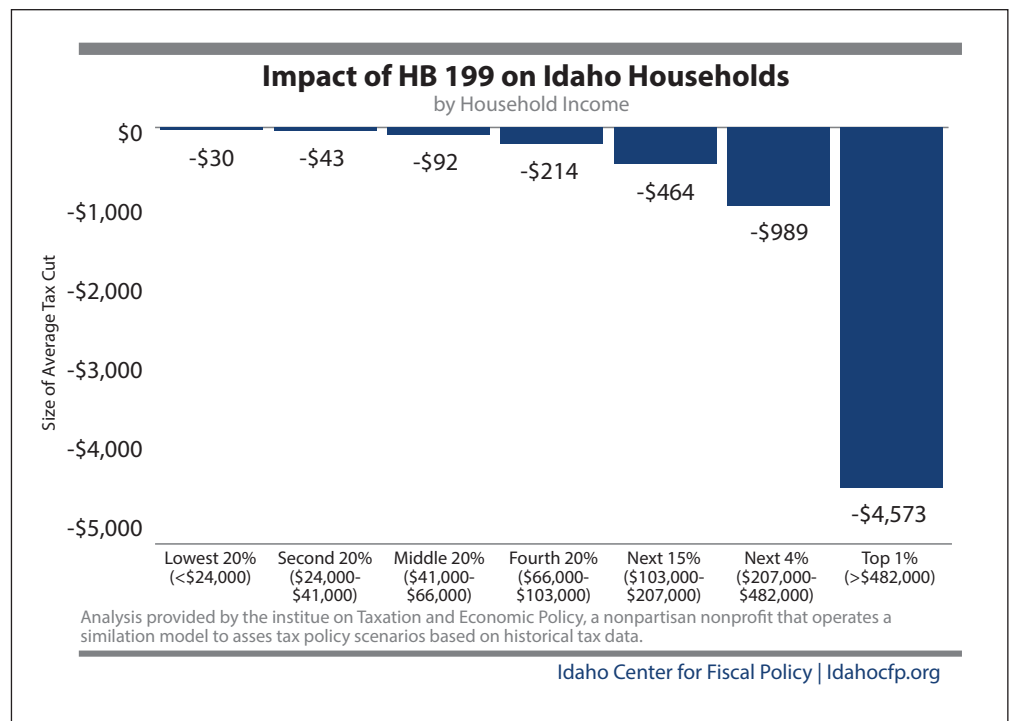
Most Idaho households would not see a significant change in their tax bill from this legislation. The top 20 percent of earners – those with incomes of \$103,000 and above – would receive most of the monetary benefit; the remaining benefits will be spread out among the 80 percent of Idaho's households whose incomes are below \$103,000.

On average, households that make less than \$103,000 would not benefit from the combination of a reducing the sales tax rate and eliminating the grocery credit, particularly in comparison with other households.

Taking all the components into account (sales, income, and corporate rate reductions and grocery credit elimination), Idaho households with incomes up to \$66,000 a year would see a decrease in their tax liability in the range of \$30-\$92 on average, depending on their exact circumstances. The top 1 percent – those with incomes of \$482,000 and above – would see a \$4,573 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.)

## Estimates of Fiscal Impact

The fiscal note attached to the legislation makes a reasonable estimate that the proposal will cost \$102.1 million in its first year (fiscal year 2022) and \$270.5 million in years thereafter. The lower estimates for the first year owe to the proposed sales tax rate reduction taking effect halfway through the fiscal year. The Institute on Taxation and Economic Policy (ITEP), a nonpartisan nonprofit that simulates tax policy scenarios, makes similar estimates at \$123.5 million in year one and \$239 million per year thereafter. Please see the tables below for details.



The cut to the corporate tax rate - at an overall cost of \$17 million - per year, would primarily benefit shareholders of Idaho-based corporations who live in other states and abroad. According to the analysis, 81 percent of the cut - or \$13.8 million annually - would flow to out of state shareholders. Similarly, 16 percent of the cut to the sales tax, or \$37.3 million out of the total \$233 million cut, per ITEP, would flow to people and entities based outside of Idaho.

The Tax Relief Fund is targeted to pay for the cost and could cover a portion of it until its current balance is exhausted. However, it is projected to only collect an estimated \$184 million by the end of this fiscal year and - according to the legislation - the fund would be eliminated. Revenue savings from avoiding conformity with major parts of the federal tax change provisions this year are deferred and the majority of those costs will come due when the largest tax break – the pass-through loss limitation - is lifted in 2024. The balance of the legislation's cost would therefore be shouldered primarily by the General Fund.



### Projected Cost of HB199 in First Year (FY 2022)

	Fiscal Note Projection	Institute on Taxation and Economic Policy Projection
Personal income tax rate reductions	-\$155 million	-\$144 million
Sales tax reductions (half of FY 22)	-\$94.5 million	-\$177.5 million
Corporate tax rate reduction	-\$16 million	-\$17 million
Elimination of grocery tax credit	+\$163.4 million	+\$155 million
<b>Total Cost</b>	<b>\$102.1 million</b>	<b>\$123.5 million</b>

### Projected Cost of HB199 in Second Year (FY 2023) and Beyond

	Fiscal Note Projection	Institute on Taxation and Economic Policy Projection
Personal income tax rate reductions	-\$168.2 million	-\$144 million
Sales tax reductions	-\$250.6 million	-\$233 million
Corporate tax rate reduction	-\$17.4 million	-\$17 million
Elimination of grocery tax credit	+\$165.7 million	+\$155 million
<b>Total Revenue Reduction</b>	<b>\$270.5 million</b>	<b>\$239 million</b>

1. Idaho Policy Institute, "Idaho's Transportation Infrastructure: Moving Idaho Forward," Accessed on February 19, 2021, at: <https://www.boisestate.edu/sps-ipi/files/2020/07/Transportation-Infographic-FINAL.pdf>

2. Idaho Tax Commission, "Comparative Tax Potential: Tax Burden in Idaho and the United States Fiscal Year 2017, Accessed at: [https://tax.idaho.gov/reports/EPB00074\\_12-09-2019.pdf](https://tax.idaho.gov/reports/EPB00074_12-09-2019.pdf)

3. This rate is the total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers. U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics 2020, Accessed on February 19, 2021 at: <https://www.bls.gov/lau/stalt.htm>

