

Analysis and Considerations Related to House Bill 332

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The Idaho Legislature is considering a proposal that would cut income and corporate tax rates and provide a one-time tax rebate.

Under the proposal, the tax benefits from this proposed legislation are heavily lopsided. Taking all provisions into account, households with very modest earnings would receive a \$78 average tax cut, and the top 1 percent who would receive an average tax cut of \$8,863.

The draft legislation would cost between \$386 million and \$389.4 million in its first year and between \$160 million to \$169.4 million per year thereafter.

The bill makes two main changes to Idaho's tax system and implements a one-time credit:

- 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.
- 9 percent income tax rebate or \$50 per tax payer and dependent, whichever is greater.

Current Individual Tax Rate	Proposed Individual Tax 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%	6.20%	0.43%
6.93%	6.50%	0.43%

HB332 Puts Federal Relief Dollars At Risk

The recently-approved federal American Recovery Plan Act (ARPA) requires that for every dollar that a state spends on net tax cuts, a dollar of the federal fiscal aid it receives from the Act's Coronavirus State Fiscal Recovery Fund could be clawed back. Of the \$1.2B set aside for Idaho in federal fiscal aid from ARPA, a clawback based on HB332's fiscal impact of \$389M could reduce Idaho's fiscal aid allocation by one-third, to about \$800M. Tax cuts passed recently, like the new PPP grant deductibility, could add to the clawback, as could the out-years of HB332's two permanent provisions – the corporate and income tax reductions – if they are enacted and remain in place.

The United States Treasury has not issued guidelines on how these cases will be handled. Other states have hit pause until they learn more. This restriction on state tax cuts is in effect through the end of 2024 or whenever the funds have been fully expended.

HB332 Impact on Idaho Households

The one-time tax rebate would provide Idaho tax payers with a rebate check. The check amount would be calculated by multiplying the individual or couple's 2019 Idaho taxes owed by 9 percent, with a \$50 minimum payment per taxpayer and dependent. For example, if an Idaho couple owed \$4000 in Idaho taxes in 2019, they would receive a \$360 rebate check. However, for Idahoans with lower tax liability, they would receive \$50 per taxpayer and dependent. For example, an Idaho family of four would receive a \$200 check because it was greater than 9 percent of their taxes owed.

Most Idaho households still would not see a significant change in their tax bill from this legislation. Taking all the components into account (one-time rebate, income and corporate rate reductions), Idaho households with incomes up to



\$66,000 a year would see a decrease in their tax liability in the range of \$78 - \$231 on average, depending on their exact circumstances. The top 1 percent – those with incomes of \$482,000 and above – would see an \$8,863 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 to the right for the average tax cuts by income ranges.)

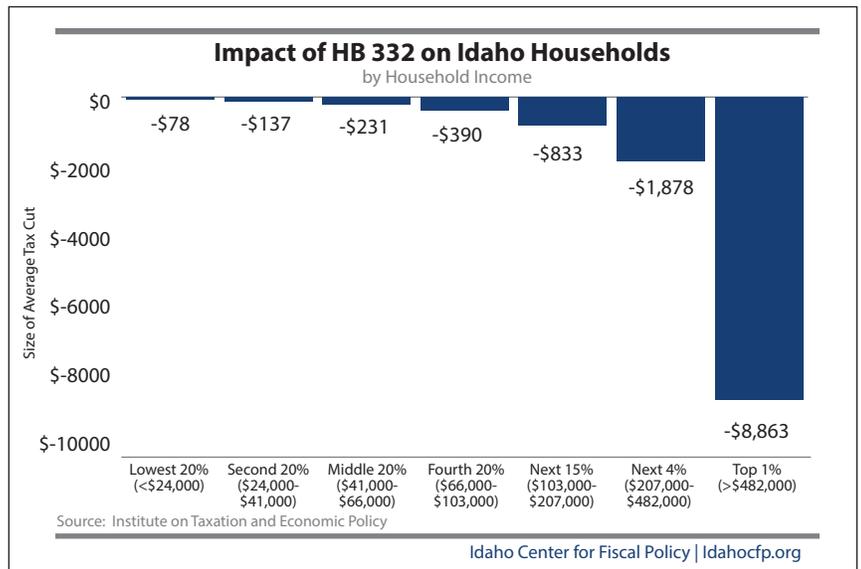
HB332 Fiscal Impact

The fiscal note attached to the legislation makes an estimate that the proposal will cost \$389 million in its first year (fiscal year 2022) and \$169.4 million in years thereafter. The Institute on

Taxation and Economic Policy (ITEP), a nonpartisan nonprofit that simulates tax policy scenarios, makes estimates at \$386 million in year one and \$160 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 - or \$13.77 million annually - would flow to out of state shareholders.

The Tax Relief Fund has been identified as a pay-for and could cover a portion of the cost, but for fiscal year 2021, 52% of the tax cuts would not be covered by the fund. The Tax Relief Fund is projected to collect an estimated \$184 million by the end of this fiscal year.



Fiscal Impact of HB 332 in First Year (FY 2022)

	Fiscal Note Projection	Institute on Taxation and Economic Policy Projection
Personal income tax rate reductions	-\$169.4 million	-\$143 million
Corporate tax rate reduction		-\$17 million
One-time tax rebate	-\$220 million	-\$225 million
Total	-\$389 million	-\$386 million

Source: Fiscal note and Institute on Taxation and Economic Policy

Fiscal Impact of HB 332 in Second Year (FY 2023) and Beyond

	Fiscal Note Projection	Institute on Taxation and Economic Policy Projection
Personal income tax rate reductions	-\$169.4 million	-\$143 million
Corporate tax rate reduction		-\$17 million
Total	-\$169.4 million	-\$160 million

Source: Fiscal note and Institute on Taxation and Economic Policy

