

Analysis and Considerations Related to House Bill 380

April 26, 2021



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The Idaho Legislature is considering a proposal that would reduce the number of income tax brackets from seven to five, cut income and corporate tax rates and provide a one-time tax rebate. HB380 is a revised version of HB332, with one significant change, the elimination of two tax brackets, which serves to make Idaho's tax system more regressive.

Under this current proposal, the tax benefits from this proposed legislation would be heavily lopsided. Taking all provisions into account, households with very modest earnings would receive an \$82 average tax cut, and the top 1 percent who would receive an average tax cut of \$8,883.

The draft legislation would cost between \$383 million and \$398 million in its first year and between \$163 million to \$171 million per year thereafter.

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

- Reduce the number of tax brackets in Idaho from seven to five.
- Reduce the individual income tax rates for the five new tax brackets, with larger cuts for the higher rates (see chart).
- Reduce the corporate income tax rate from 6.9 percent to 6.5 percent.
- Provide a 9 percent income tax rebate or \$50 per tax payer and dependent, whichever is greater

Current Idaho Statute vs. HB 380					
Current Tax Brackets	Current Taxable Income	HB380 Tax Brackets	HB380 Taxable Income	Current Individual Tax Rates	HB380 Individual Tax Rates
1	<\$1,000	1	<\$1,000	1.25%	1%
2	\$1,000 to <\$2,000	2	\$1,000 to <\$3,000	3.13%	3.10%
3	\$2,000 to <\$3,000			3.63%	
4	\$3,000 to <\$4,000	3	\$3,000 to <\$4,000	4.63%	4.5%
5	\$4,000 to <\$5,000	4	\$4,000 to <\$5,000	5.63%	5.50%
6	\$5,000 to <\$7,500	5	\$5,000+	6.63%	6.50%
7	\$7,500+			6.93%	

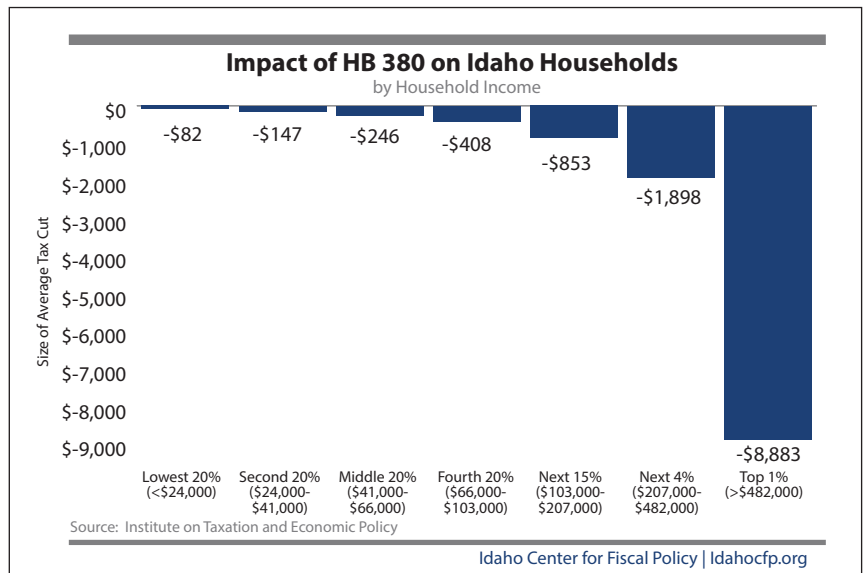
Eliminating Two Tax Brackets Would Make Idaho's Tax Code More Regressive

House Bill 380 would fundamentally change Idaho's tax code so the tax load would shift more heavily onto the shoulders of more modest income Idahoans while more affluent Idahoans would owe less as a percentage of their incomes.

The proposed elimination of two tax brackets makes Idaho's income tax structure closer to a flat tax. A flat tax taxes all income at a set percentage, regardless of ability to pay. As a result, middle- and low-income households bear more of the cost of state services and pay a much higher share of their earnings in state taxes overall.



The state income tax is Idaho's only major tax that is based on ability to pay. It makes up for some of the inequity of sales, property, and excise taxes, which fall more heavily on more moderate earners as a percentage of income. By making the income tax more regressive, Idahoans of more modest means, who have suffered the brunt the economic downturn caused by the pandemic, will be negatively impacted by this dramatic change to the tax structure.



Fiscal Impact of HB 380 in First Year (FY 2022)

	Fiscal Note Projection	Institute on Taxation and Economic Policy Projection
Personal income tax rate reductions	-\$162.9 million	-\$154 million
Corporate tax rate reduction		-\$17 million
One-time tax rebate	-\$220 million	-\$225 million
Total	-\$382.9 million	-\$398 million

Source: Fiscal note and Institute on Taxation and Economic Policy

Fiscal Impact of HB 380 in Second Year (FY 2023) and Beyond

	Fiscal Note Projection	Institute on Taxation and Economic Policy Projection
Personal income tax rate reductions	-\$162.9 million	-\$154 million
Corporate tax rate reduction		-\$17 million
Total	-\$162.9 million	-\$171 million

Source: Fiscal note and Institute on Taxation and Economic Policy

HB380 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 \$1.25B set aside for Idaho in federal fiscal aid from ARPA, a clawback based on HB380's fiscal impact of \$383M could reduce Idaho's fiscal aid allocation by one-third, to about \$867M. This clawback of federal funds could continue into the future given the two permanent provisions of HB380 – the corporate and income tax reductions.

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.

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