# Idaho State Income Tax FAQs

IDAHO
Center for
Fiscal Policy

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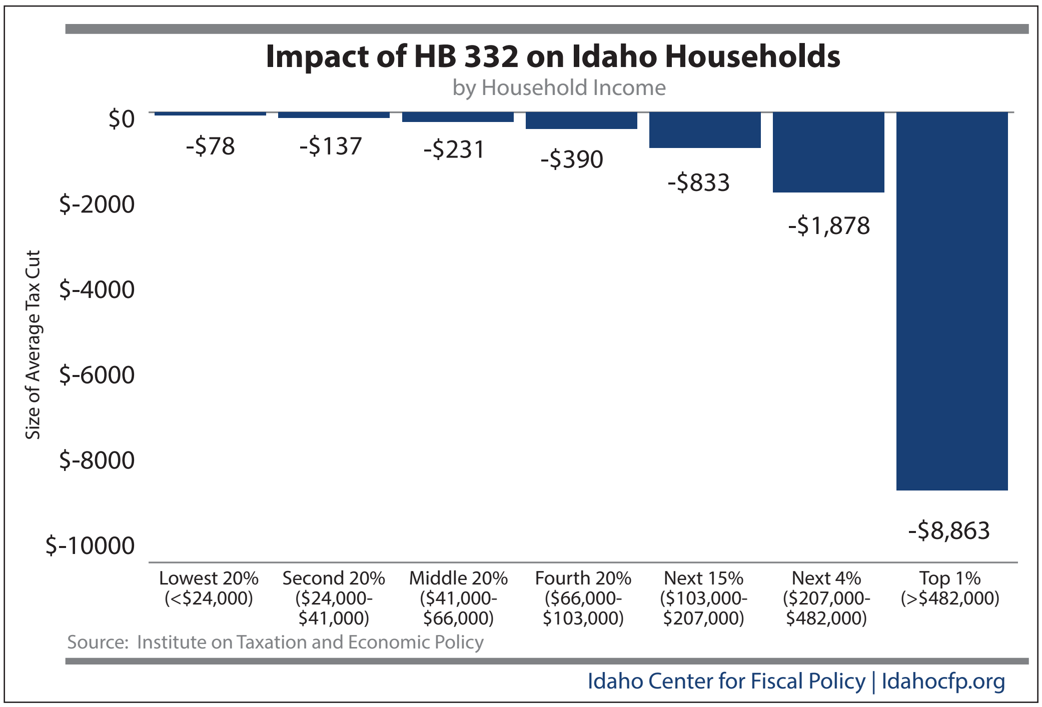
## How many Idahoans are "in" the top income tax bracket?

Idaho has a graduated income tax structure with seven tax brackets. For most people, their taxable income falls under several different rates - not just one rate. For example, if you are single with a taxable income of $3,136, you will pay 1.125 percent on the first $1,568, 3.125 percent on the second $1,568, and 3.625 percent on the last $1,568 that you earn. This graduated tax structure allows the tax load to be shouldered more equitably than compared with a non-graduated structure. About 50 percent of Idaho households have at least some portion of their taxable income levied at the top rate, while the rest of it is levied at lower rates. One in two Idahoans do not have any of their income levied at the top rate. This is why cuts to the top income tax rates generate lopsided tax benefits (see below).

## What's the difference between taxable income and gross income?

Taxable income is the amount that an individual pays taxes on, which is often considerably less than gross income. Gross income is an individual's total pay before taxes and other deductions. For example, for a couple earning about $50,000 annually, they will likely take the standard married deduction of $24,800, bringing their taxable income to $22,200. Assuming the couple contributes $3,000 a year to their retirement account and has no other credits or deductions, they may owe about $1,000 in state income tax.




## Does Idaho lose federal state fiscal relief dollars from enacting state tax cuts using state dollars?

The American Rescue Plan Act (ARPA) legislation specifies that if a state enacts a net tax cut it may forgo the equivalent amount of federal aid provided through ARPA's Coronavirus State Fiscal Recovery Fund. Idaho is estimated to receive about $1.25 billion in state fiscal relief. The U.S. Treasury has released guidance stating that one narrow type of tax cut – only those related to state conformity with federal statute – will not incur ARPA's tax cut penalty. States are still awaiting further guidance clarifying whether the tax cut penalty would apply to income tax cuts that are paid for with state dollars.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