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FISCAL POLICY

2022 Special Legislative Session: Understanding Impacts of the Tax and Education Bill

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State surpluses and strong revenue growth are leaving many states with a big opportunity this year. Idaho is no exception and is faced with options to advance policies that directly improve people's lives in education, health care, housing, child care, transportation, and other budget areas. A 2022 Special Legislative Session bill that reduces taxes and sends more dollars to the public schools budget will result in several positive outcomes that improve lives but also will produce unintended outcomes that hamper this goal.

One-Time Tax Rebates Help Address Rising Prices for People Hit Hardest

The bill provides a one-time tax rebate to Idahoans that is delivered via one of two ways to families: a percent-based rebate or a minimum rebate. Families receive either 10 percent of income tax amounts paid in 2020 ("percent-based" rebate) or $600 minimum per joint filer and $300 minimum for individual filers (the "minimum rebate"), whichever is greater.

Minimum Rebates

Pandemic-related factors including inflation are still disrupting the economy, causing hardship for middle and lower income families. Basic expenses like housing and child care were already unaffordable for many Idahoans, even before recent inflation took hold. *The minimum rebate ensures that moderate to low income families see significant cash in their pockets to ease the burden of rising costs.*

- **Minimum Rebate Impact:** The average benefit from the bill's one-time minimum rebate ranges from $334 - $445 for families with incomes under $71,000 (see Table 1).

Percent-Based Rebates

While the minimum rebate has strong effect for low-to-middle income families, the percent-based rebate sends significant amounts of revenue to much higher earners that experience less economic hardship. The percent-based rebate benefits only higher income families in Idaho, leaving out families hardest hit by inflation.

- **Percent-Based Rebate Impact:** About 8,480 households in the top one percent of income earners would receive a rebate of $6,485 on average. The percent-based rebate sends 41 percent of all one-time rebate benefits to households in Idaho earning over $156,000 on average (see Table 1).

Table 1: One-time tax rebates mostly benefit middle-class Idaho families

Estimates of the distributional impact of minimum rebate and percent-based rebate, by income group

Income group	Income Range	Share of Total Tax Benefits From Rebates	Average Tax Change Per Household
Lowest 20%	Less than $26,000	8%	–$334
Second 20%	$26,000 - $44,000	14%	–$369
Middle 20%	$44,000 - $71,000	17%	–$445
Fourth 20%	$72,000 - $113,000	19%	–$528
Next 15%	$113,000 - $234,000	19%	–$658
Next 4%	$234,000 - $557,000	10%	–$1,349
Top 1%	$557,000 or more	12%	–$6,485

Table: Idaho Center for Fiscal Policy • Source: Institute on Taxation and Economic Policy, 2022 • Created with Datawrapper

Surplus Dollars from Infusions of Federal Dollars Are Temporary; Income and Corporate Tax Cuts are Permanent and Greatly Favor Wealthier Idaho Households and Corporations

The bill's income and corporate tax cuts are the latest in a round of cuts over 3 years to arrive to a "flat" tax of 5.8 percent. Yet these broad-based tax cuts do very little to help cash-strapped families. The bulk of the permanent income tax cut benefits will flow to the wealthiest households and corporations, not people and families struggling to afford gas, groceries, and childcare.

- **Flat Tax Impact:** Most Idaho households would not see a significant change in their tax bill from the change to a flat tax. The top 20 percent of households – those with incomes of $113,000 and above – would receive 58 percent of the overall benefits; the remaining benefits will be spread out among the 80 percent of Idaho's households whose incomes are below $113,000. The top one percent of income earners will receive a $2,233 income tax cut – on top of the robust one-time rebate of $6,485 on average to this group. Families earning around the median income will receive $103 on average from the cut.
- **Corporate Tax Cut Impact:** The bill's cut to the corporate tax rate, at an overall cost of $12 million per year, would primarily benefit shareholders of corporations who live in other states and abroad. While some corporations that pay the corporate rate are fully Idaho-based, some – like multinationals - simply have some operations in Idaho. *According to our analysis, 81 percent of the cut would flow to out of state shareholders.*[1]

Table 2: "Flat Tax" cuts give the most to the top 1 percent of Idaho households

Estimates of the distributional impact of he fully-implemented 5.8% "flat tax", by income group

Income Group	Income Range	Share of Total Tax Benefits From Flat Tax	Average Tax Change per Household
Lowest 20%	Less than $26,000	2%	–$47
Second 20%	$26,000 - $44,000	8%	–$69
Middle 20%	$44,000 - $71,000	12%	–$103
Fourth 20%	$72,000 - $113,000	20%	–$154
Next 15%	$113,000 - $234,000	27%	–$253
Next 4%	$234,000 - $557,000	15%	–$513
Top 1%	$557,000 or more	16%	–$2,233

Table: Idaho Center for Fiscal Policy • Source: Institute on Taxation and Economic Policy, 2022 • Created with Datawrapper

Dollars Spent On Tax Cuts are Unavailable for Education and Other Priorities

The deep tax rate cuts over the last 3 years will chip away at Idaho's revenue stream year after year. When the next recession hits the economy, a lack of revenue may force cuts to education and other important public services and resources. Or, a recession could prompt an increase in other taxes – like sales and property taxes, which hits lower-income families and communities harder than wealthier ones.

The permanent revenue decrease from income tax cuts in the bill builds on cuts made in early 2022 and in 2021. *In total, these three rounds of tax cuts add up to a $571 million ongoing reduction in long-term revenues, removing the equivalent of 12.4 percent of the state's main fund that supports core public services like transportation, education, and other economic growth investments* (using FY23 General Fund as a reference).

Idaho's total tax collections per person are already very low according to an annual study of the tax load by the Idaho Tax Commission. Idaho has the eighth lowest overall tax load in the country and the lowest of the 11 Western states when accounting for relatively low personal income in the state.[2] The most recent analysis of the tax load was completed before tax cuts in 2021 and 2022.

Every family should have the tools to meet household needs and succeed, especially in a challenging economy. Enhancing economic opportunity makes communities stronger in turn. There are better ways to help low and moderate income families afford the things they need and assure long-term economic growth by:

- Making a version of the minimum rebate a permanent feature of the tax system that low-income households can count on year after year to combat continued inflationary effects.
- Investing in affordable housing, health care, child care, and other essentials that help people make a living and contribute to the economy.

$330 Million Increase for Public Schools is a Wise Investment

The bill provides a direct increase of $330 million for schools by placing sales tax dollars into the Public School Income Fund. Is also directs $80 million from sales tax revenue to a new In-Demand Careers Fund.

Investments in Idaho's public and charter K-12 schools, students, and communities are desperately needed to enhance economic growth and opportunity. More state investments in schools can increase the number of high school graduations, trade school certifications, and community college and university degrees – all indicators strongly linked to wage growth.

Directly funding this increase from sales tax introduces more instability into the $330 million allotment for K-12. Typically K-12 dollars come from the General Fund, which is a mix of all types of tax revenue (income tax, sales tax, product taxes, and others). However, a 3 percent escalator clause to the $330 million means the investment will keep up with inflation.

Proposition 1 - the Quality Education Act - will be on the ballot in November. That initiative would have raised more than its initial estimate ($323 million) because of tax system changes that took place after the initiative was written and approved. The initiative may have ended up raising as much as $350-$400 million for a dedicated K-12 fund, other tax changes notwithstanding.[3] The special session bill has an effective date that would allow its tax and education funding changes to supersede any made by Proposition 1. As a result, voters lose out from a lack of clarity and information about the impacts of the proposals and how they compare.

Conclusion

The special session bill makes a significant $330 million investment in public schools, One-time rebates are aimed at folks hardest hit by inflation - moderate and low-income families. Both investments remove barriers for residents and communities that will increase economic opportunity.

[1] Idaho Center for Fiscal Policy analysis of economic modeling data from Institute for Taxation and Economic Policy.

[2] Idaho Tax Commission, "Comparative Tax Potential: Tax Burden in Idaho and the United States Fiscal Year 2019, Accessed at: https://tax.idaho.gov/reports/EPB00074_03-09-2022.pdf

[3] Idaho Center for Fiscal Policy analysis of economic modeling data from Institute for Taxation and Economic Policy.

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Appendix: Estimates of Fiscal Impact from Special Session Tax Provisions

The fiscal note attached to the legislation makes a reasonable estimate that the proposal will cost $500 million in its first year (fiscal year 2023) and $161.2 million ongoing. The Institute on Taxation and Economic Policy (ITEP), a nonpartisan nonprofit that simulates tax policy scenarios, makes an estimates at $454 million in the bill's first year (fiscal year 2023) and $130 million ongoing. The difference in estimates on the rebates may be attributed to different assumptions about how many households will qualify for rebates. Eligibility requires households to file taxes in 2020 and 2021 – or a Form 24 - to receive the rebate.

Projected Costs of Special Session Bill – Tax Provisions

	Bill's Fiscal Note	Institute on Taxation and Economic Policy
Personal income tax rate reductions	-$161.2 million	-$118 million
Corporate tax rate reduction	N/A	-$12 million
One-time rebates (FY23)	-$500 million	-$454 million
Total Cost	**$661 million**	**$584 million**

Source: Institute on Taxation and Economic Policy and Bill's Fiscal Note.

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