IDAHO CENTER for FISCAL POLICY

Idaho Tax Breaks: A Process for Review is Needed

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Every year, Idaho spends millions of tax dollars to make sure families receive a good education, live in safe homes and communities, and enjoy good health. However, since 2019, the state has made a variety of tax policy changes that have left us with hundreds of millions of dollars less to invest in schools, roads, law enforcement, and other public services. Idaho deserves a more fiscally responsible approach to tax policy by creating a process to review and evaluate tax breaks for individuals and corporations.

Idaho's tax cuts and tax breaks deplete public resources:

Idaho taxes are among the lowest in the nation. The Idaho State Tax Commission reported Idaho's per person tax collection ranked 36th lowest in the U.S. and eighth lowest amongst 11 western states through state fiscal year 2020.[1] Since 2006, total relative tax burdens in Idaho have dipped well below the U.S. average when compared to income.[2]

During the past three years, Idaho made cuts that cost the state a total annual reduction of $571 million in ongoing long-term revenue.[3] Most recently, Idaho changed the personal income and corporate tax rate to a "flat" tax rate of 5.8 percent, which asks more, as a share of income, from the poor and middle-class than the wealthy. An analysis by the Institute on Taxation and Economic Policy estimates that the new flat tax will cost an additional $130 million a year in lost revenue.[4]

Idaho lawmakers also created specific tax breaks, which are known as "tax expenditures" because they represent money taken out of the state budget. The tax breaks are supposed to encourage economic development, reward behaviors such as saving or home buying, or instill fairness in the tax code, but very few are ever evaluated or ended.

The costly tax cuts make it essential to scrutinize tax expenditures that also deplete public resources to ensure that they are accomplishing their intended goals. For example, a nationwide study on firm-specific tax expenditures found evidence that these incentives do not accomplish the goal of increasing broader economic growth at the state and local level.[5] Alternatively, a study on the effects of the 2021 expanded federal Child Tax Credit found evidence that the credit did accomplish its goal by reducing monthly child poverty by close to 30 percent.[6] With a potential economic downturn looming, our revenue system needs to be examined and strengthened.

Tax break reviews and sunsets are sensible policy:

Currently, Idaho has 146 tax expenditures on the books for sales and income tax (both individual and corporate).[7] Of those 146, there are 61 principal tax expenditures that have verifiable data to estimate a cost.[8] These 61 tax expenditures represent over $3.7 billion that is not collected compared to a total General Fund budget of nearly $5.2 billion.[9]

Idaho Tax Expenditures for FY 2023

	Principal Tax Expenditures	Foregone Revenue
Income Tax Expenditures	24	$721,725,000
Sales Tax Expenditures	37	$3,002,359,000
Total	61	$3,724,084,000

Table: Idaho Center for Fiscal Policy • Source: Idaho Division of Financial Management • Created with Datawrapper

Cuts in revenue put our public services and economy at risk:

Idaho's tax expenditures are projected to cost $3.7 billion in lost revenues in FY 2023.[10] In comparison, the FY 2023 public education budget for Idaho is $2.9 billion.[11] Idaho gives away roughly $800 million more in tax breaks than it invests in schools. And the cost is projected to grow. In FY 2024, tax breaks are projected to cost $3.8 billion – an increase of $900 million over five years.[12]

Idaho gives away more in tax breaks than it spends on education

Fiscal Year 2023

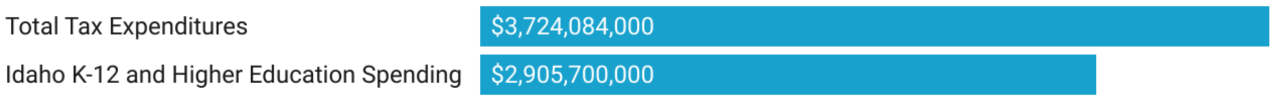

Chart: Analysis by the Idaho Center for Fiscal Policy • Source: Idaho Division of Financial Management and Idaho Legislative Services Office • Created with Datawrapper

The value of Idaho's forgone revenue grows annually

Chart: Idaho Center for Fiscal Policy • Source: Idaho Division of Financial Management • Created with Datawrapper

Haphazard review process for tax breaks hamstrings fiscal responsibility:

Spending on public programs and services is debated and approved in a public manner, and many programs include sunset clauses or other criteria for renewal. Some tax breaks are intended to incentivize job creation, economic stimulus, or provide cost reduction for crucial services - such as health care. However, the state does not have a process to determine whether Idaho's tax expenditures work as intended. Idaho could develop a more fiscally responsible approach to tax policy by establishing standards for tax break legislation and creating a consistent process of review and oversight.

Reviewing tax breaks regularly makes Idaho stronger in the future:

As residents of the state, we all contribute tax dollars to pay for the services that help build a strong foundation for Idaho's communities. Idaho lawmakers need to look carefully at all spending, including tax expenditures, and clean up our tax system to ensure there is sufficient funding to support important priorities, such as education, roads, and public safety. This is a commonsense approach that puts our children, economic future, and overall quality of life first.

The following actions would strengthen Idaho's tax break review process:

1. Require tax break legislation to identify goals and objectives of the programs.
2. Require the beneficiaries of tax expenditures to prove the tax breaks work as intended.
3. Include a scheduled sunset (expiration date) in tax break legislation.
4. Allow non-partisan analysts to regularly evaluate tax expenditures based on how successful they have been in meeting their objectives and offer recommendations to legislators.
5. Require relevant committees of the legislature to regularly review current tax breaks in public hearings.
6. Require public review and hearings on tax breaks at least every five years.

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