



House Bill 40 Further Cuts the Income Tax, Disproportionately Benefiting Wealthy Idahoans

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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, over the last several years, the state has passed deep and costly tax rate cuts that make our tax system more regressive- disproportionately burdening Idahoans with the lowest incomes. House Bill 40 continues to perpetuate this trend by providing relief disproportionately to wealthy households.

House Bill 40 Income Tax Reduction Impact

House Bill 40 includes a provision to reduce the flat tax from 5.695 to 5.3 percent. While this could significantly reduce Idaho’s revenue between \$240 and \$258 million (see Appendix), most Idaho households would not see a meaningful change in their tax bill from this reduction. The top 20 percent of households – those with incomes of \$146,700 and above – would receive 67% of the overall benefits. The remaining benefits would be spread out among the 80 percent of Idaho’s households whose incomes are below \$146,000. The top one percent of income earners would receive a \$5,358 income tax cut on average. Meanwhile, families earning the median income would receive \$127 on average from the cut.

Income tax cuts give the most to the top 1 percent of Idaho households

Estimates of the distributional impact of a personal income tax rate reduction from 5.695% to 5.3% in Idaho, by income group.

Income Group	Income Range	Share of Total Tax Benefits from Tax Cut	Average Tax Change Per Household (\$)
Lowest 20%	Less than \$31,100	0%	-\$26
Second 20%	\$31,100 - \$55,600	3%	-\$64
Middle 20%	\$55,600 - \$91,800	9%	-\$127
Fourth 20%	\$91,800 - \$146,000	20%	-\$264
Next 15%	\$146,000 - \$286,000	27%	-\$456
Next 4%	\$286,000 - \$738,300	17%	-\$1,080
Top 1%	\$738,300 and above	22%	-\$5,358

Table: Idaho Center for Fiscal Policy • Source: Institute on Taxation and Economic Policy, 2025 • Created with Datawrapper



How do income tax cuts make Idaho's tax system more regressive?

A regressive tax system is when those with lower incomes pay a larger share of their income on taxes than those with higher incomes. This can happen when everyone is charged the same tax rate regardless of income. Therefore, Idaho sales and property taxes that charge the same tax rate to everyone add regressivity to the tax code.

Prior to the changes made in 2022, Idaho had an income tax rate that gradually increased depending on your income range. This added progressivity to the tax code, working to balance the regressivity of the sales and property tax. In 2022, Idaho changed to a "flat" income tax system that charged the same rate to everyone, adding more regressivity back into the tax code. Now each of Idaho's three main revenue streams are regressive and disproportionately burden Idahoans with the lowest incomes.

Income Tax Cuts are Permanent and Greatly Favor Wealthier Idaho Households

The bill's income and corporate tax cuts are the latest in a round of cuts over 4 years to arrive at a "flat" tax of 5.695 percent. Yet these broad-based tax cuts do 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. Tax relief should be directed towards those who need it the most.

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

The permanent revenue decrease from income tax cuts in House Bill 40 builds on previous cuts made in early 2024, 2023, 2022, and 2021. In total, these three rounds of tax cuts add up to a \$948 million ongoing reduction in long-term revenues,¹ removing the equivalent of 17 percent of the state's main fund that supports core public services like transportation, education, and other economic growth investments (using FY24 General Fund as a reference).²

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 43rd lowest overall tax effort³ nationally and

¹ May Roberts. "[Idaho's Recent String of Income Tax Cuts Jeopardizes Investments in Public Services.](#)" Idaho Center for Fiscal Policy. October 4, 2024.

² [General Fund Revenue Book](#). Department of Financial Management. Idaho Fiscal Year 2026.

³ Lower ranks equal higher taxes, higher ranks equal lower taxes, with 1 being the highest.



lowest out of the 13 western states.⁴ The most recent analysis of the tax load was completed before the tax cuts in 2023 and 2024.

Idaho Lawmakers Should Consider Tax Relief Policies that Lift-Up Working Families

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. Idaho deserves a fair approach to tax policy that targets tax relief on Idahoans with modest incomes who need it the most. Idaho has some programs to help balance the regressivity of the tax code, such as a property tax reduction “circuit breaker” program, a grocery tax credit, and a non-refundable child tax credit. But these efforts need to go further to make a bigger impact.

Income tax relief can be provided to those who need it the most by creating tax relief programs that target working families and Idahoans with modest incomes. Examples of programs that would effectively achieve this are creating a state Earned Income Tax Credit and making the state’s Child Tax Credit refundable.

Appendix: Estimates of Fiscal Impact of HB 40 Income Tax Cut

The fiscal note attached to the legislation makes a conservative estimate that the proposal will cost \$240 million in personal and corporate income tax cuts.⁵ The Institute on Taxation and Economic Policy (ITEP), a nonpartisan nonprofit that stimulates tax policy scenarios, makes an estimate that the personal income tax cuts alone would cost \$258 million.

HB 40 Income Tax Cut Cost Analysis

Reducing the flat income tax rate from 5.695 to 5.3

FY26	Bill's Fiscal Note	Institute on Taxation and Economic Policy
Income tax rate reduction cost	\$240,000,000	\$258,000,000

Table: Idaho Center for Fiscal Policy • Source: Institute on Taxation and Economic Policy and HB 40 Fiscal Note • Created with Datawrapper

⁴ Sharlene Davis. “[Comparative Tax Potential: Tax Burden in Idaho and the United States FY2022.](#)” Idaho State Tax Commission. January 2025.

⁵ Idaho Legislature. “[H0040 – Seventy Seventh Legislature \(2025\): Taxation, income, metals, military.](#)” January 23, 2025.