

House Bill 40's Income Tax Cut Makes Idaho's Tax System More Regressive, Shifting the Tax Burden to Working Families

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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 income tax rate cuts that make our overall tax system more regressive- shifting more of the tax burden to Idaho's working families. House Bill 40 continues to perpetuate this trend by providing more tax relief to wealthy households than those with lower incomes.

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. This could significantly reduce Idaho's annual revenue between \$240 and \$258 million (see Appendix), with high income households benefitting the most. The top 20 percent of households – those with incomes of \$146,700 and above – would receive 66 percent of the overall benefits. Additionally, the top one percent of income earners would receive an average income tax cut of \$5,358. This is compared to the \$127 average tax cut families earning the median income would receive annually.

House Bill 40 gives a greater share of income tax cut benefits to the wealthiest 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 (\$) | Average Tax Cut as a % of Household Income |
|--------------|-----------------------|--|---------------------------------------|--|
| Lowest 20% | Less than \$31,100 | 0% | -\$26 | 0.09% |
| Second 20% | \$31,100 - \$55,600 | 3% | -\$64 | 0.14% |
| Middle 20% | \$55,600 - \$91,800 | 9% | -\$127 | 0.17% |
| Fourth 20% | \$91,800 - \$146,000 | 20% | -\$264 | 0.22% |
| Next 15% | \$146,000 - \$286,000 | 27% | -\$456 | 0.25% |
| Next 4% | \$286,000 - \$738,300 | 17% | -\$1,080 | 0.26% |
| Top 1% | \$738,300 and above | 22% | -\$5,358 | 0.27% |

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

Income Tax Cuts are Permanent and Shift the Tax Burden on Working Families

The bill's income and corporate tax cuts are the latest in a round of cuts over four years to arrive at a "flat" tax of 5.695 percent. Yet these broad-based tax cuts do little to help cash-strapped families during a time of significant price increases. 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.

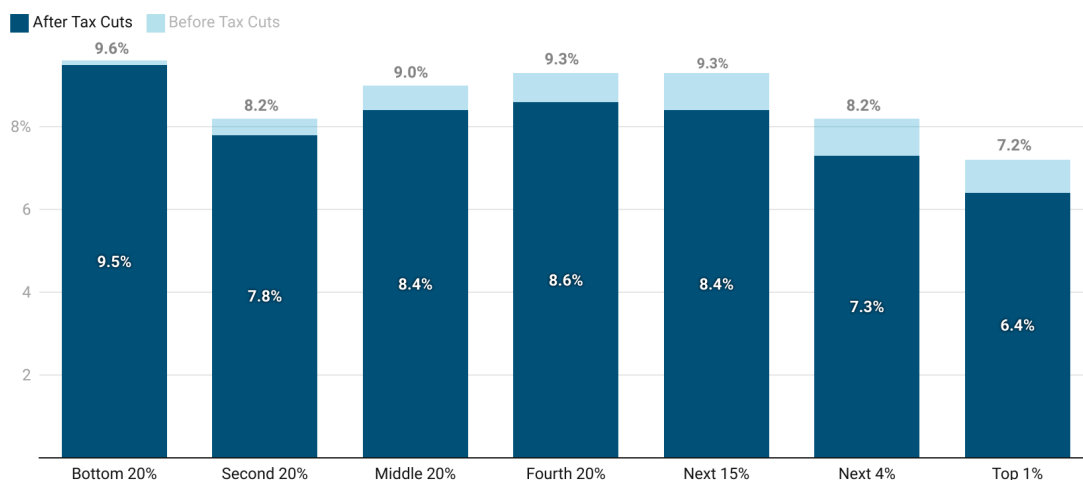
How Do Income Tax Cuts Make Idaho's Tax System More Regressive?

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 tax 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 every family regardless of their income, adding more regressivity back into the tax code. **Now each of Idaho's three main revenue streams are regressive, resulting in families with lowest incomes paying a greater percentage of their income on taxes than families with higher incomes.** See the "Tax Systems Explained" section for more.

Idaho's string of income tax cuts have made the state's tax system more regressive

Total sales, property, and income taxes as a share of family income



"Before Tax Cuts" share of family income amounts are calculated based on the income tax cuts in HB 380 of 2021, HB 436 of 2022, HB 1 of 2022, and HB 521 of 2024.

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

Tax Systems Explained

Tax systems are usually composed of progressive, regressive, and proportional taxes. Progressive tax systems take a larger percentage of income from high-income groups than low-income groups (ex. federal income tax). Regressive tax systems take a larger percentage of income from low-income groups than high-income groups (ex. sales and property tax). Usually, the combination of these taxes taken together, along with certain tax credits, results in taxpayers paying roughly the same percentage of their incomes in taxes, creating a proportional tax system. Idaho's current tax system does not reflect that. When all the state's taxes and tax credits are taken together, Idaho's overall tax system is regressive.¹

Tax System Types

Percent of income paid in taxes by income group

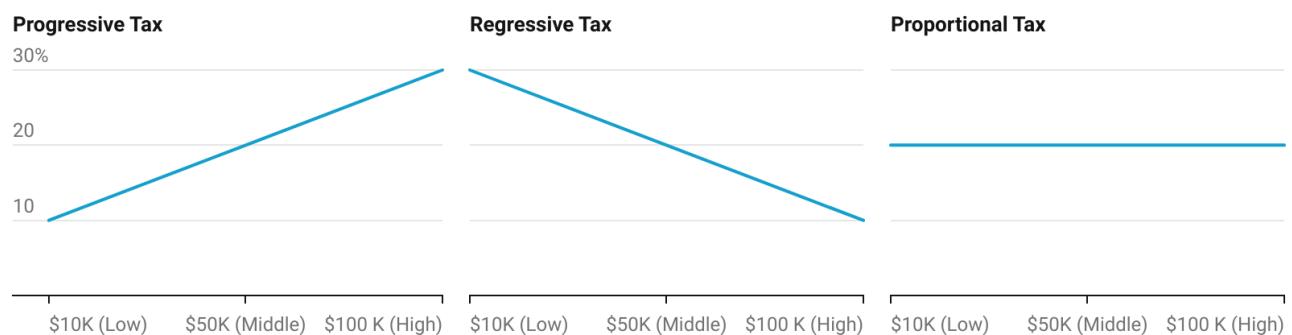


Chart: Idaho Center for Fiscal Policy • Source: IRS • Created with Datawrapper

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,² 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).³

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 effort⁴ nationally and lowest out of the 13 western states.⁵ 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.

This report was updated from a version previously published on January 29, 2025, to add context and improve clarity.

Endnotes

1. Carl Davis et. al. “Who Pays? 7th Edition.” Institute on Taxation and Economic Policy. January 9, 2024.
2. May Roberts. “Idaho’s Recent String of Income Tax Cuts Jeopardizes Investments in Public Services.” Idaho Center for Fiscal Policy. October 4, 2024.
3. General Fund Revenue Book. Department of Financial Management. Idaho Fiscal Year 2026.
4. Lower ranks equal higher taxes, higher ranks equal lower taxes, with 1 being the highest.
5. Sharlene Davis. “Comparative Tax Potential: Tax Burden in Idaho and the United States FY2022.” Idaho State Tax Commission. January 2025.
6. Idaho Legislature. “H0040 – Seventy Seventh Legislature (2025): Taxation, income, metals, military.” January 23, 2025.

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.⁶ 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