
Idaho Center on Budget & Tax Policy

Briefing Book
January 15, 2003

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Idaho's Tax System is Regressive

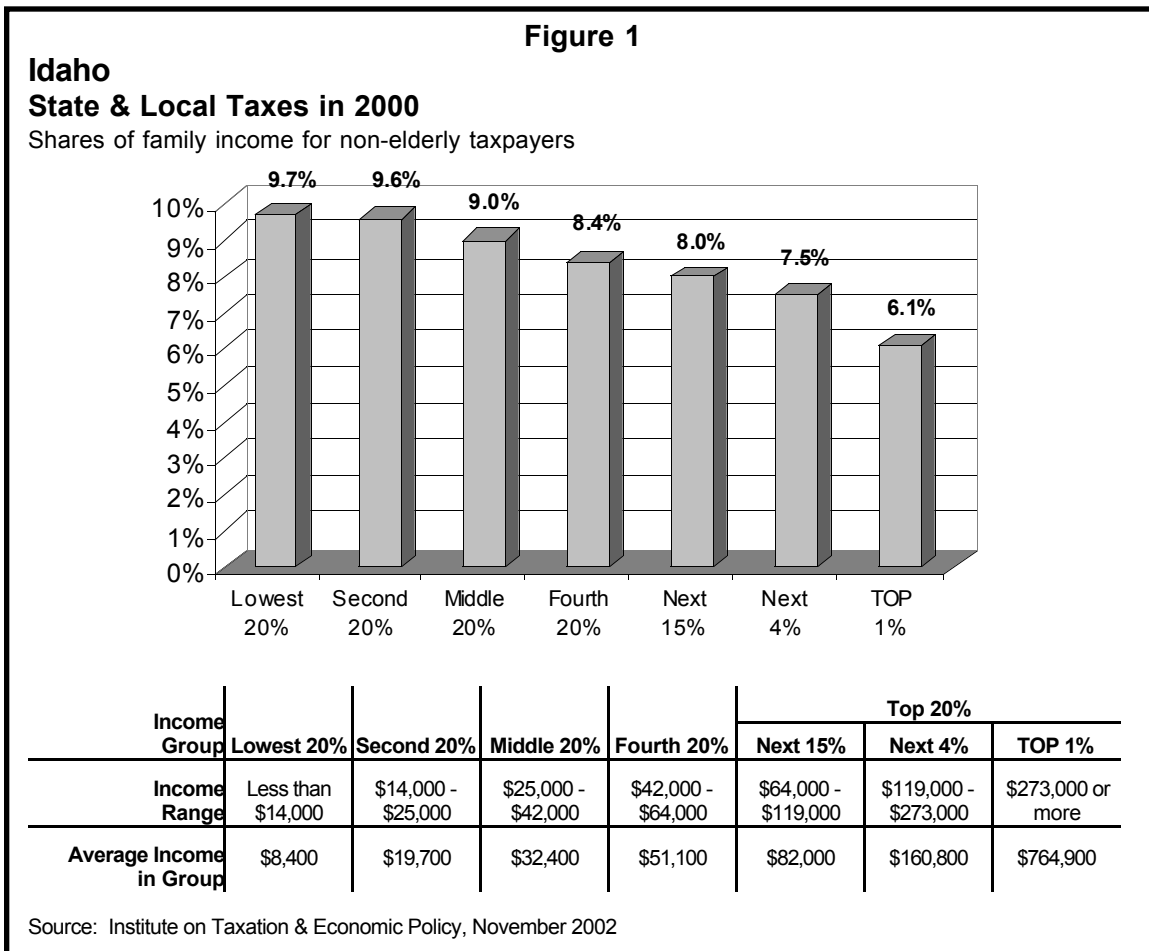
an Idaho Budget Brief

revised January 2003

Idaho places a greater tax burden on poor and moderate-income families than on rich families. See Figure 1 below. The five percent of Idaho families with the highest incomes – essentially incomes over \$120,000 – pay 7.5 percent or less of their incomes in state and local taxes. In comparison, middle-income families pay 9.0 percent of their incomes in state and local taxes. Middle-income families pay taxes at a rate that is 20 percent (9.0/7.5) higher than the rate at which the richest 5 percent of families pay taxes. These high-income families enjoy a substantial tax advantage under Idaho's current tax system.

The tax advantage of the richest one percent of families in Idaho – families with annual incomes of \$273,000 or more – is even greater. Their tax burden amounts to 6.1 percent of income. The tax burden of middle-income families is almost 48 percent higher (9.0/6.1) than the tax burden of these super-rich families.

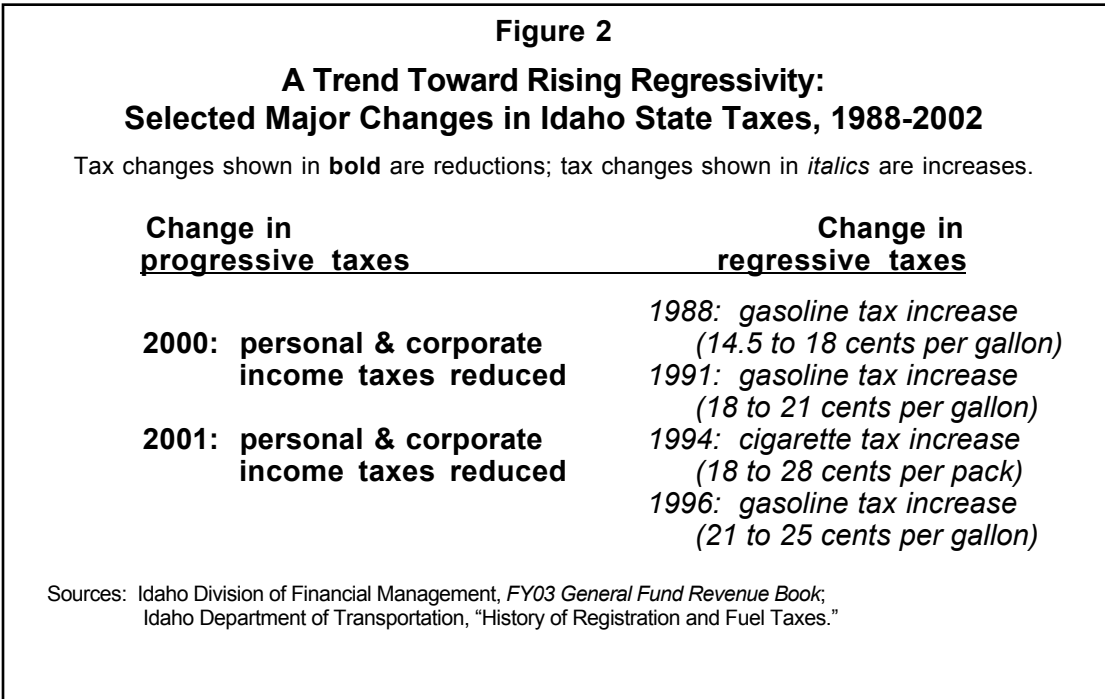
At the other end of the income scale, low-income families have a tax disadvantage relative to middle-income families. The tax burden of the poorest fifth of families in the state is 9.7 percent, about 8 percent higher (9.7/9.0) than the tax burden of middle-income families.



The major state and local taxes include income taxes; the general sales tax; other sales and excise taxes, such as the gasoline tax and the taxes on alcohol and cigarettes; and property taxes. Of these taxes, only the personal income tax is progressive – that is, higher-income families pay a higher percentage of their incomes than do lower-income families. All the other taxes are regressive – higher-income families pay a smaller percentage of their incomes than do lower-income families. The overall effect is that Idaho's tax system, consisting of one progressive tax and several regressive taxes, is regressive.

Over the course of the last fifteen years Idaho has demonstrated a consistent trend that will make its tax system more regressive. Figure 2 shows that when the state increases taxes, it increases regressive taxes. When the state cuts taxes, it cuts progressive taxes. Idaho's gasoline tax, which is a regressive tax, increased from 14.5 cents per gallon to 25 cents per gallon over this time period – an increase of more than 72 percent.

This is important information to take into consideration in thinking about any future tax changes in our state, and about how to create a tax system that is fairer for all Idahoans. In particular, increasing the sales tax will further increase the regressivity of our tax system. Any increase in a regressive tax, however, could be accompanied by offsetting changes in the only progressive tax – the income tax – in such a way as to move toward a system in which the tax burdens of all families, regardless of income, are more nearly equal.

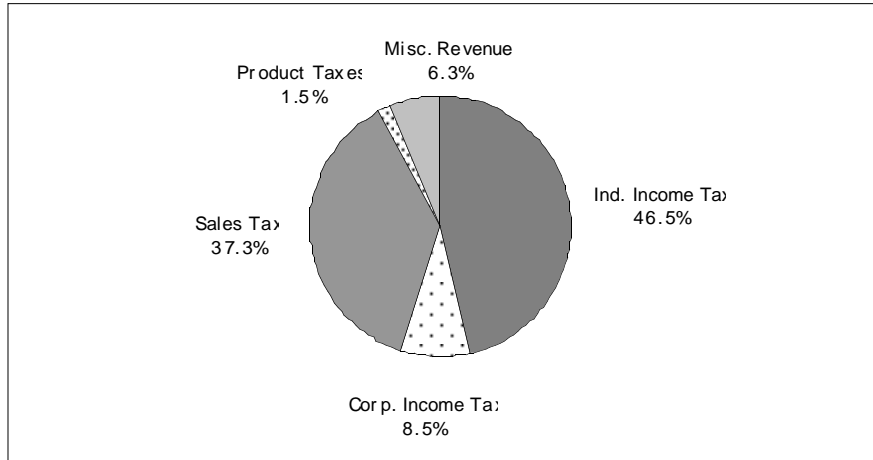


IDAHO OPTIONS						
All Idaho Taxpayers, 2002						
2002 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%
Income	Less Than	\$13,800 –	\$25,600 –	\$41,300 –	\$65,100 –	\$122,000 –
Range	\$13,800	\$25,600	\$41,300	\$65,100	\$122,000	\$266,600
Average Income in Group	\$8,800	\$19,400	\$32,400	\$52,200	\$85,200	\$165,300
Current Idaho Sales Tax (5%)	4.3%	3.9%	3.3%	2.8%	2.2%	1.4%
direct consumer portion	3.5%	3.2%	2.7%	2.3%	1.8%	1.2%
business portion	0.8%	0.7%	0.6%	0.5%	0.4%	0.3%
6.5% Idaho Sales Tax	5.6%	5.0%	4.3%	3.6%	2.8%	1.8%
direct consumer portion	4.5%	4.1%	3.5%	3.0%	2.3%	1.5%
business portion	1.0%	0.9%	0.8%	0.7%	0.5%	0.3%
Increase (percent of income)	+1.2%	+1.1%	+0.9%	+0.8%	+0.6%	+0.4%
Revenue	(millions \$)					
Current Law	\$ 815,976					
@ 6.5%	#####					
SOURCE: Institute on Taxation and Economic Policy, January 2003						

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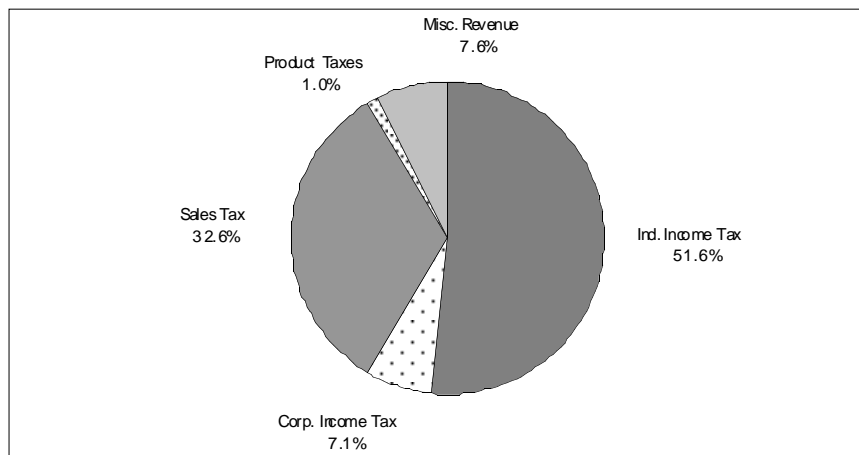
The Changing Composition of Idaho's General Fund

Idaho General Fund Revenue by Source, 1990



Source: calculated from data in Idaho **General Fund Revenue Book**, various issues

Idaho General Fund Revenue by Source, 2001



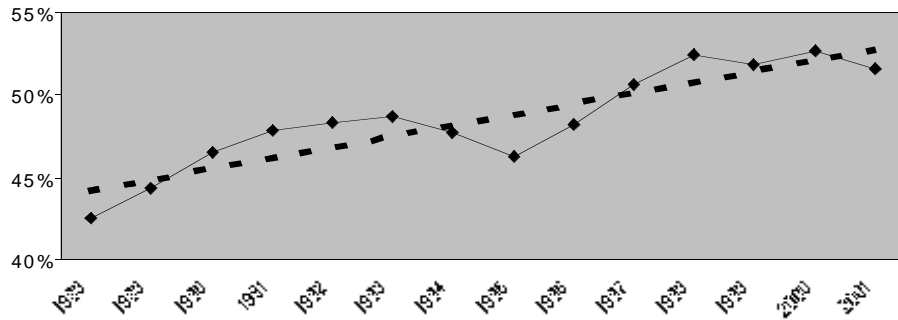
Source: calculated from data in Idaho **General Fund Revenue Book**, various issues

Over the course of the '90s,

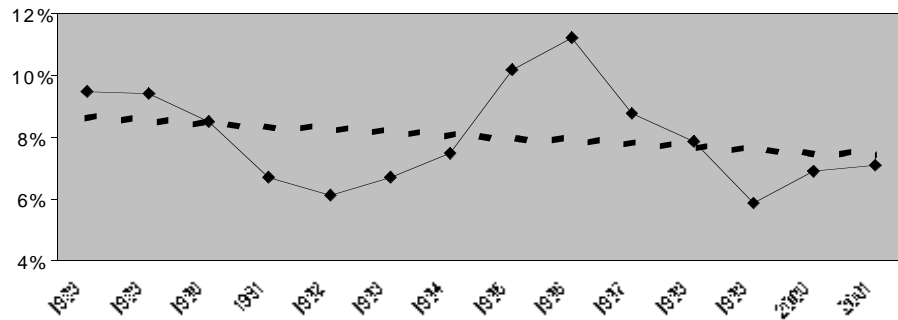
- the share of General Fund revenues contributed by the individual income tax grew. It is now the source of slightly more than half of all General Fund revenues. The individual income tax is the only progressive tax.
- the shares of both the corporate income tax and the sales tax shrank. The sales tax in particular is regressive.
- the share of product taxes shrank. About half of all product taxes come from the cigarette tax, which is highly regressive.
- miscellaneous revenues consist of a variety of deposits into the General Fund, some of which are tax-based and some of which are not, and tend to be highly variable and unpredictable.

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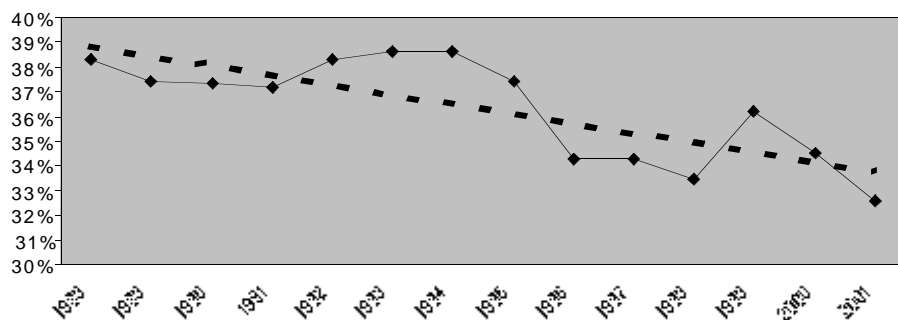
Idaho's Individual Income Tax as a Share of General Fund Revenues, 1988-2001



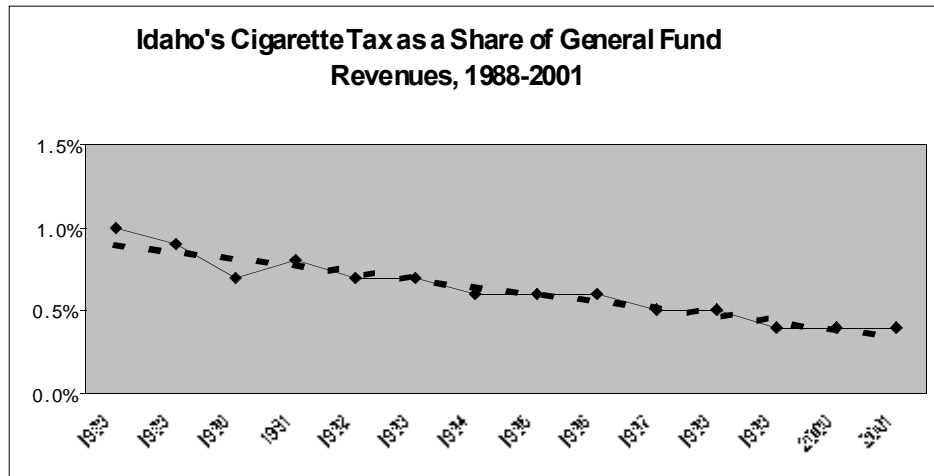
Idaho's Corporate Income Tax as a Share of General Fund Revenues, 1988-2001



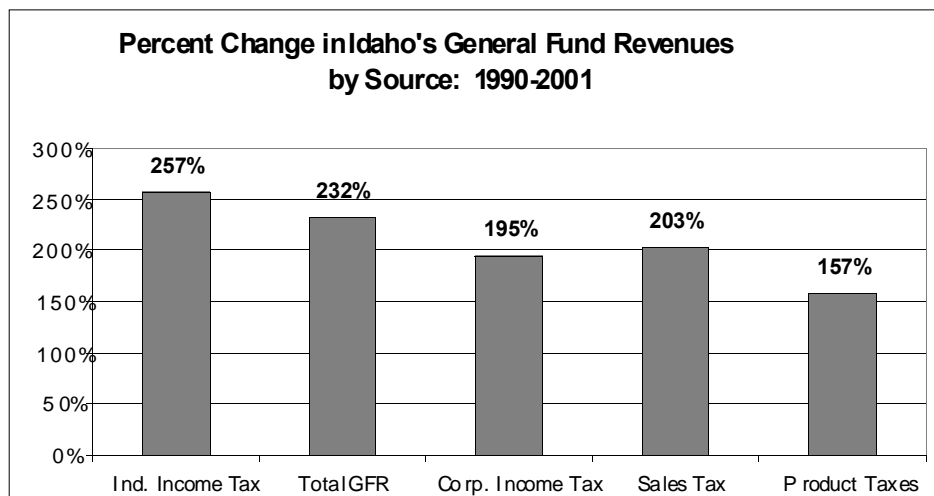
Idaho's Sales Tax as a Share of General Fund Revenues, 1988-2001



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- approx. 30% of cigarette tax collections are distributed into the General Fund, according to the current formula.
- increasing the cigarette tax from the current 28 cents per pack to 68 cents per pack would increase net collections by \$38 million, assuming no reduction in smoking.



Source: calculated from data in Idaho **General Fund Revenue Book**, various issues

prepared by Judith Brown, Director, May 30, 2002

Is State Government Growing “Too Fast”?

an Idaho Budget Brief
2002

August

One sometimes hears the charge that Idaho state government has been growing “too fast.” Has state government been growing? And, if it has, how fast has it been growing?

Over the past 15 years or so, Idaho has been one of the five fastest-growing states in the nation. As a state grows, it is to be expected that state government will grow too – there are more children attending schools and needing health care, more highways to maintain and improve, and so on.

Thus, in thinking about whether or not state government is growing “too fast,” it is important to adjust state spending for growth. One widely accepted way to do this is to look at state spending as a share of personal income earned in the state. Personal income grows both as the population and hence the number of workers grows, and also as the economy grows and develops.

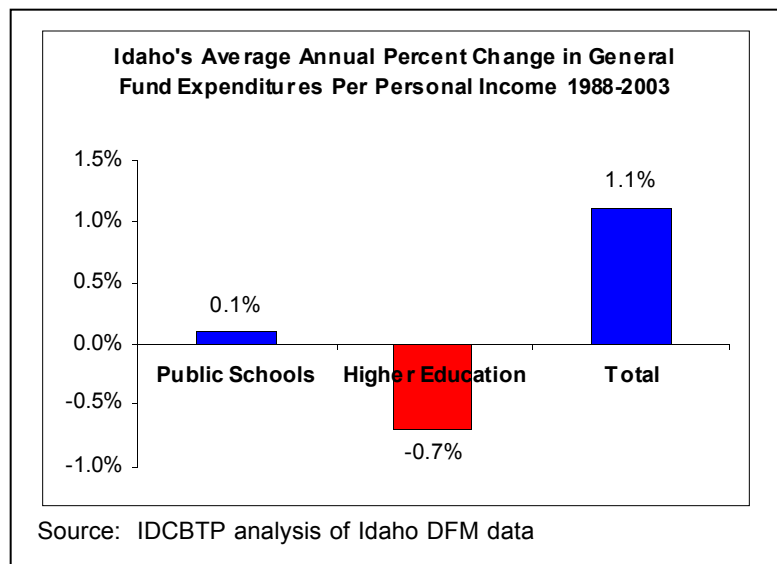
The chart at right looks at state spending in Idaho as a share of personal income – that is, state spending adjusted for growth – over the 15-year period 1988 to 2003. (Fiscal year 2003 started July 1.) Over this period, total state spending as a share of personal income has been growing by just 1.1% per year. This is a very modest rate of growth for a very fast-growing state.

Public and higher education together account for about 60% of all state spending in Idaho. Adjusted for growth, spending on public education has been growing by a mere .1% per year while spending on higher

education has actually been *declining* by .7% per year. Are these spending levels adequate to promote the development of the state’s future workforce and to protect the state’s business climate?

Although total state spending has been growing very slowly, it has still grown faster than spending on either public or higher education. This means that there must be some other components of state spending that are growing faster than average. Two components of state spending that have been growing more quickly than overall state spending are corrections (prisons) and health care (mainly Medicaid/CHIP). Corrections accounts for about 7% of state spending and Medicaid/CHIP 13%. Thinking about whether or not state spending on these components has been growing “too fast” requires knowing whether or not the public is satisfied with, and willing to pay for, the current level and quality of services. In the meantime, it is important to recognize that although spending on corrections and health care has increased, overall state spending has increased only very modestly.

This is important information to take into consideration in thinking about the future of our state, and in particular about whether the budget should be balanced by enacting additional spending cuts or by raising additional revenues. The data do not support arguments that Idaho state government has been growing rapidly over the past 15 years.



Are Taxes in Idaho High? or Low?

an Idaho Budget Brief

September 2002

One common way of assessing whether a state's taxes are high or low is to compare them with taxes in other states, usually on either a per capita basis or on a share of personal income basis. A per capita basis adjusts the comparison for population, which is a gauge of the need for many public services (like education). A share of personal income basis adjusts the comparison for income, which is a gauge of ability to pay or tax effort. Idaho's rankings by both measures are given below. (A rank of 1 indicates the state with the highest tax for a category.)

Taxes in Idaho as compared to other states

On a per capita basis, state and local taxes are low in Idaho as compared to other states. Idaho's individual income tax ranks 25, right in "the middle of the pack." Idaho's corporate income tax, however, is relatively low – rank 35, placing Idaho in the lower third of states. Other state and local taxes in Idaho are low also, with the net result being that total state and local taxes in Idaho are quite low – the state ranks 40th out of 50.

On a share of personal income basis, Idaho's rankings as compared to other states are somewhat higher. Idaho's individual income tax ranks 15, in the upper third of states. Idaho's corporate income tax and selective sales taxes, however, rank much lower – 30 out of 50. Property taxes and general sales taxes rank in "the middle of the pack." Because Idaho's tax structure places heavy reliance on the individual income tax, Idaho's overall rank is a little above "the middle of the pack" – 18th out of 50.

So, are taxes high or low? It depends! On a per capita basis, total state and local taxes in Idaho are low. On a share of personal income basis, total state and local taxes in Idaho are slightly high. By either measure, however, Idaho's corporate income tax and selective sales taxes are relatively low.

Why are the two measures so different? This is due to several factors, including Idaho's larger-than-average family size (which tends to depress per capita rankings) and relatively low incomes (which tends to elevate per personal income rankings).

Similarly, the two measures are informative in different ways. Low per capita rankings, for example, may indicate under-funding for

things like public education – the need for tax support goes up as the proportion of school-age children increases. On the other hand, in a low-wage, low-income state like Idaho, somewhat high per personal income rankings indicate that Idahoans are making a substantial effort to provide public education and other state tax-supported services.

State & Local Taxes Per Capita in Idaho as Compared to Other States

Fiscal Year 1999

	Amount	Rank
Individual income tax	\$677	25
Corporate income tax	\$77	35
Property tax	\$652	35
General Sales Tax	\$561	38
Selective Sales Taxes	\$255	39
All other state & local taxes	\$207	29
Total state & local taxes	\$2,428	40

State & Local Taxes Per Personal Income in Idaho as Compared to Other States

Fiscal Year 1999

	cents/\$	Rank
Individual income tax	3.1	15
Corporate income tax	0.3	30
Property tax	2.9	27
General Sales Tax	2.5	28
Selective Sales Taxes	1.2	30
All other state & local taxes	0.9	18
Total state & local taxes	11.0	18

Sources:
1999 Census Bureau State and Local Government Finances Data;
Center on Budget and Policy Priorities, "State and Local Government Revenue for Fiscal Year 1998-99: State-by-State Census Data." Washington DC: CBPP, Sept. 21, 2001.

How Do Taxes in IDAHO Compare with Taxes in the Neighboring States?

State & Local Taxes Per Capita in Idaho and the Neighboring States

Fiscal Year 1999

	IDAHO		WASHINGTON		OREGON		NEVADA		UTAH		WYOMING		MONTA
	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount
Individual income tax	\$677	25	\$0	44	\$1,119	4	\$0	44	\$686	24	\$0	44	\$547
Corporate income tax	\$77	35	\$0	47	\$98	23	\$0	47	\$85	26	\$0	47	\$102
Property tax	\$652	35	\$1,001	14	\$771	30	\$697	33	\$560	39	\$1,090	11	\$1,009
General Sales Tax	\$561	38	\$1,446	1	\$0	47	\$1,073	3	\$828	15	\$902	10	\$0
Selective Sales Taxes	\$255	39	\$412	12	\$253	41	\$771	1	\$267	34	\$195	50	\$349
All other state & local taxes	\$207	29	\$288	11	\$333	7	\$384	5	\$143	45	\$643	3	\$305
Total state & local taxes	\$2,428	40	\$3,147	13	\$2,574	33	\$2,924	19	\$2,568	35	\$2,830	23	\$2,313

State & Local Taxes as a Share of Personal Income in Idaho and the Neighboring States

Fiscal Year 1999

	IDAHO		WASHINGTON		OREGON		NEVADA		UTAH		WYOMING		MONTA
	cents/\$	Rank	cents/\$	Rank	cents/\$	Rank	cents/\$	Rank	cents/\$	Rank	cents/\$	Rank	cents/\$
Individual income tax	3.1	15	0.0	44	4.3	2	0.0	44	3.0	16	0.0	44	2.5
Corporate income tax	0.3	30	0.0	47	0.4	27	0.0	47	0.4	26	0.0	47	0.5
Property tax	2.9	27	3.4	18	2.9	28	2.3	40	2.5	38	4.3	7	4.7
General Sales Tax	2.5	28	5.0	1	0.0	47	3.6	10	3.7	8	3.5	11	0.0
Selective Sales Taxes	1.2	30	1.4	16	1.0	41	2.6	1	1.2	28	0.8	49	1.6
All other state & local taxes	0.9	18	1.0	17	1.3	11	1.3	10	0.6	39	2.5	3	1.4
Total state & local taxes	11.0	18	10.8	22	9.8	43	9.8	45	11.4	11	11.1	14	10.7

Note: A rank of 1 is given to the state with the highest tax for a category. A rank of 50 means a state's tax is lower than in any other state, and a rank in the mid-20s means a state's tax falls in the middle.

Sources:

1999 Census Bureau State and Local Government Finances Data;

Center on Budget and Policy Priorities, "State and Local Government Revenue for Fiscal Year 1998-99: State-by-State Census Data." Washington DC: CBPP, Sept. 21, 2001.

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Grocery Tax Credit Needs Indexing

an Idaho Budget Brief

April 2001

Tax indexing has been one component of the permanent changes made to Idaho's tax structure over the past two years. Indexed income tax brackets first went into effect for Tax Year 2000. Indexing brackets prevents "bracket creep," whereby inflation alone causes tax rates to increase, and helps maintain the progressivity of the income tax.

In addition, tax credits must be indexed or their value will decline over time. To date, little attention has been paid to the serious erosion of Idaho's grocery tax credit since it was enacted in 1965. This paper looks at the declining value of this sales tax relief program, which has been "decided" by inflation rather than by policymakers.

Grocery Tax Credit Provides Sales Tax Relief

The grocery tax credit was created to partially rebate Idaho residents for sales taxes paid on food. In 1965 the credit was set at \$15 for individuals under 65 years of age, and \$20 for individuals 65 years of age or older. In 1978 the credit amount for senior citizens was raised from \$20 to \$30. Last month, the credit was raised by \$5 for everyone – to \$20 for non-senior individuals and \$35 for seniors.

Declining Value of the Grocery Tax Credit

The years since 1965 have been accompanied by ongoing, sometimes double-digit, inflation. The cumulative effect is that \$10 worth of groceries bought in 1965 would cost over \$50 today!

In addition, Idaho's sales tax rate has increased from 3% in 1965, to 4% in 1983, and then to 5% in 1986.

Yet throughout this period, the grocery tax credit has remained at \$15 for individuals under 65 years of age.

Chart 1 shows how the grocery tax credit would have increased if it had been adjusted for inflation and for the increases in the sales tax rate. If the credit had been fully indexed, it would have increased from \$15 per individual (under 65 years of age) in 1966 to \$95 in 2000.

The recent increase from \$15 to \$20 is a very small step in the direction of restoring the value of the grocery tax credit.

Chart 1. If the Grocery Tax Credit Had Been Indexed...

1966	\$15.00
1968	\$16.08
1970	\$17.95
1972	\$19.32
1974	\$22.77
1976	\$26.29
1978	\$30.16
1980	\$38.02
1982	\$44.64
1984	\$53.07
1986	\$60.25
1988	\$65.02
1990	\$71.81
1992	\$77.15
1994	\$81.49
1996	\$86.22
1998	\$89.59
2000	\$95.00

Budgetary Impact of a \$95 Grocery Credit

The cost to the state budget of increasing the grocery credit by \$5 is approximately \$5.6 million. Increasing the grocery tax credit by \$75, from \$20 to \$95, would cost \$84 million. This is well within the parameters of the current tax-cut debate.

Inflation and increases in Idaho's sales tax rate have seriously eroded the value of the grocery tax credit. Restoring the credit's value by increasing it to \$95 per individual is an affordable and equitable option.

Judith Brown, Director

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A Note on Idaho's Corporate Income Tax –

What Is Business's Fair Share?

There has been ongoing discussion as to whether or not Idaho's corporate income tax is high. Effective this year, Idaho's corporate income tax rate has been reduced from 8 percent to 7.6 percent. Several business tax credits have also been expanded.

In considering whether or not Idaho's corporate income tax is high, it is important to consider both Idaho's corporate income tax **rate** as well as the overall **share** of taxes raised through the corporate income tax. A high tax rate combined with generous credits, exemptions and other tax breaks can result in a tax that is effectively very low. This appears to be the case in Idaho.

Idaho's corporate income tax **rate** is a little above the middle of the range of rates found in the 31 states with a flat corporate income tax.¹ (See the table at right.) The recent reduction in Idaho's rate from 8 percent to 7.6 percent moved Idaho closer to mid-range.

However, despite an unchanging corporate income tax rate of 8 percent all through the 1990s, the share of General Fund revenues raised through the corporate income tax has been trending downward. The tax burden in Idaho has been shifting from corporations to families. See pages 3 and 4 of this briefing book.

Furthermore, compared to other states, Idaho corporate income tax tends to be somewhat low. See pages 7 and 8 of this briefing book.

Corporate Income Tax Rates

	Rate	Rank
Pennsylvania	9.99	1
Minnesota	9.8	2
Massachusetts	9.5	3
New Jersey	9	4
Rhode Island	9	4
West Virginia	9	4
California	8.84	7
Delaware	8.7	8
New Hampshire	8.5	9
New York	8	10
Indiana	7.9	11
Wisconsin	7.9	11
Idaho	7.6	13
Connecticut	7.5	14
Illinois	7.3	15
Maryland	7	16
Arizona	6.968	17
North Carolina	6.9	18
Montana	6.75	19
Oregon	6.6	20
Alabama	6.5	21
Missouri	6.25	22
Georgia	6	23
Oklahoma	6	23
Tennessee	6	23
Virginia	6	23
Florida	5.5	27
South Carolina	5	28
Utah	5	28
Colorado	4.63	30
Kansas	4	31

prepared by Judith Brown, Director, January 15, 2003
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¹ The majority of states have a flat corporate income tax rate, although 13 states have graduated corporate income tax rates and 6 states have no corporate income tax. See data compiled annually by the Federation of Tax Administrators available at <http://www.taxadmin.org>.