



Associated Taxpayers of Idaho:



Effects of Tax Exemptions on Tax Policy

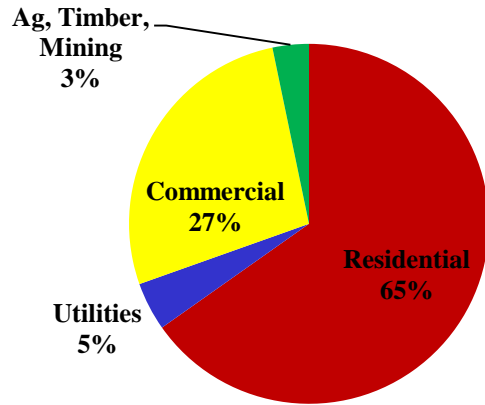
Robert McQuade
Ada County Assessor

Introduction

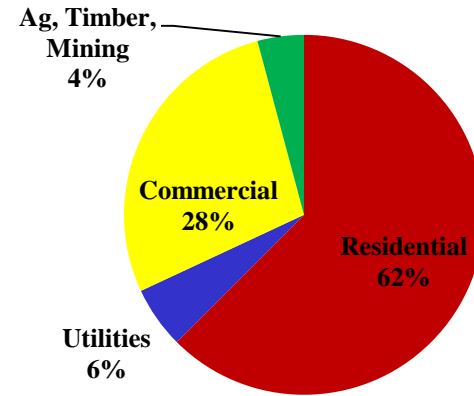
- Exemption Advocacy
- Purposes of Exemptions
 - Mitigation of Taxes
 - Economic benefits
- History of Property Tax Exemptions in Idaho
- Tax Burden:
 - Who pays the taxes
 - How the tax burden has shifted over time
- What are the guiding principles of Good tax policy?

Overall Tax Burden

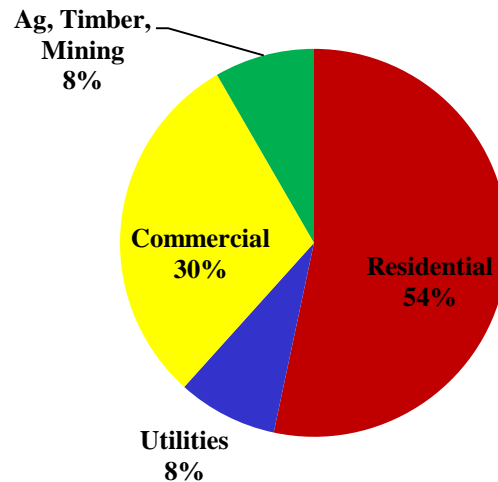
2016 Idaho Property Taxes by Major Category of Property: Constant 1978 Dollars



2006 Idaho Property Taxes by Major Category of Property: Constant 1978 Dollars



1996 Idaho Property Taxes by Major Category of Property: Constant 1978 Dollars



Guiding Principles of Good Tax Policy*

1. Equity and Fairness
2. Certainty
3. Convenience of Payment
4. Economy of Collection
5. Simplicity
6. Neutrality
7. Economic Growth and Efficiency
8. Transparency and Visibility
9. Minimum Tax Gap
10. Appropriate Government Revenue

Examination of Exemptions

- Equity and Fairness
 - Who pays the tax?
 - Tax exemptions result in shifting.
 - History
 - Rate bases taxed system prior to 1978 (Fixed levy rate multiplied by changing property value)
 - Increasing residential values in the 1970's result in citizens initiatives:
 - 1978 Citizen Initiative (1% of 1978 market value + 2% max increase in value.
 - 1982 Second Citizen Initiative (exemption of 50% of value up to \$50,000, also known as 50/50)
 - 1983 Legislature implemented the Homeowners Exemption

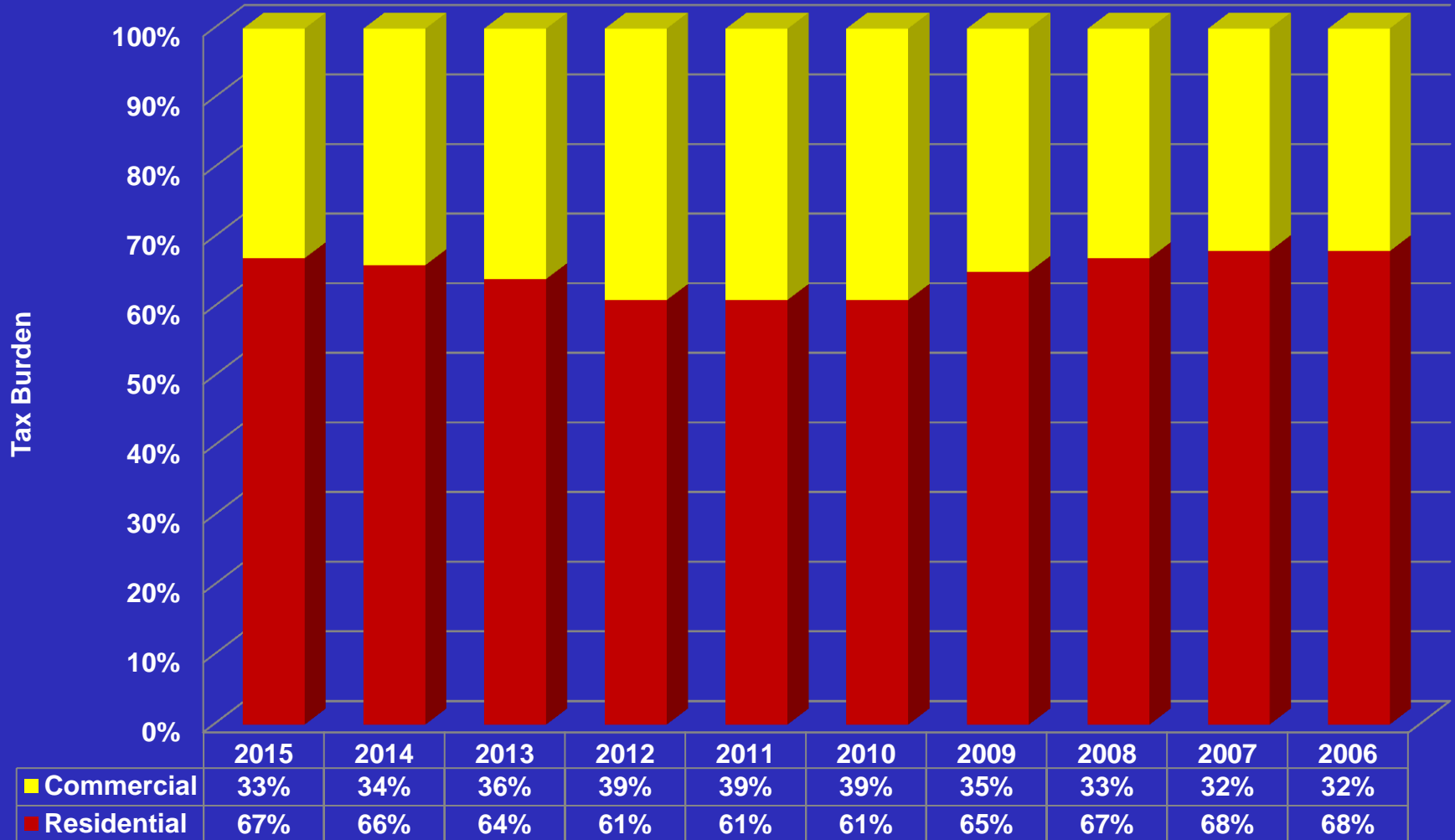
Examination of Exemptions

– History (continued)

- 2006 Governor Risch championed the following:
 - » Removal of school M&O for of Property tax
 - » 1 cent increase in sales tax
 - » Increase the Homeowners Exemptions to \$75,000 and index annually to the Federal Housing Index for Idaho
 - » Impacts
 - 1.) Rollercoaster of Homeowners Exemption values
 - 2009 Values Decrease, Homeowners Exemption increases to \$104,471.
 - 2013 Values increase, Homeowners Exemption decreases to \$81,000
 - 2.) Supplemental Maintenance and Operations Levies
 - 2006: 58 districts with supplemental levies
 - 2016: 90 districts with supplemental levies
 - 3.) Burden in Ada County
- 2016 Legislative sessions fixed the Homestead Exemption to 50% of value up to \$100,000 with no future indexing.

Examination of Exemptions

Ada County Tax Burden History



Economic Growth and Efficiency

- How are exemptions aligned with economic principle?
- Examples:
 - 2008 County Commissioners can exempt new plant and building facilities for a project over \$300 million.
 - Purpose: Stimulate economic growth
 - Exemption amount: \$168 million in 5 counties
 - Outlook: Push to lower exemption limits to less than \$300 million

Economic Growth and Efficiency

- Examples:

- 2008 Exempting taxpayers property over \$400 million.

- Purpose: Encourage large investments in industrial property
- Exemption amount: \$632 million in 1 county

- 2012 Site Improvement Exemption

- Function: exempts 75% of the site value of infrastructure improvements (roads, curbs, gutters, utilities, etc.)
- Purpose: Effect of the recession
- Exemption amount: \$205 million in 12 counties
- Outlook: Still in place today

Economic Growth and Efficiency

- Examples:
 - 2013 Personal Property Exemption
 - History
 - 2008 First \$100K exempt after state general fund increase over 5% over previous year.
 - 2009 First \$100K exempt after 5% increase over 2008 state general fund base year.
 - Function: Exempts up to \$100,000 per taxpayer per county, and stand-alone assets of \$3000 or less exempt.
 - Purpose: To make it attractive for businesses to locate in Idaho and for Idaho businesses to be competitive.
 - Exemption amount: Approximately 90% of the total number of businesses were completely exempt.

Economic Growth and Efficiency

- Examples:
 - Exemptions to foster alternative energy sources
 - Function: Taxes gross earnings instead of Property Tax.
 - Purpose: Promote alternate energy source development.
 - Examples:
 - Wind Farms
 - Geothermal energy
 - Solar Energy

Conclusion

- Significant number of exemptions in place currently.
 - Increases complexity of tax policy decisions
- Important to understand the impacts of new and existing exemptions.
- The framework for “Good Tax Policy”