

Idaho's Tax Code in National Context

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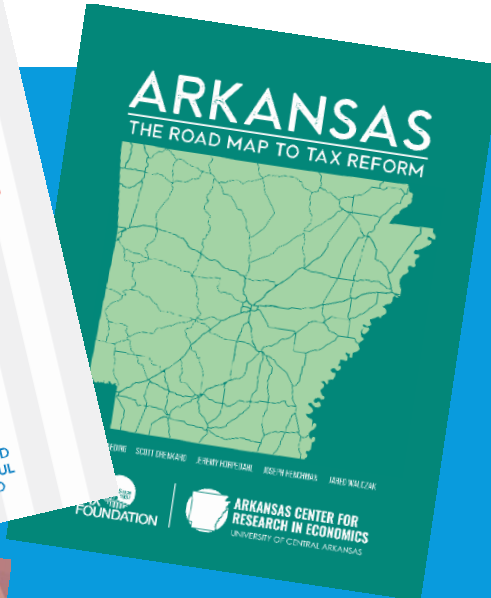


ABOUT THE TAX FOUNDATION

we've worked for
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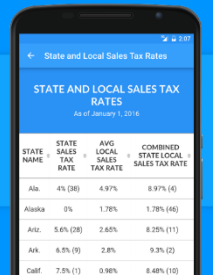
TAX FOUNDATION

How do the 2016 Presidential Tax Plans Compare So Far?

	Bush	Carson	Cruz	Paul	Rubio	Santorum	Trump
10-Year GDP Growth	10%	16.0%	13.9%	12.9%	15%	10.2%	11.5%
10-Year Capital Investment Growth	28.8%	46.6%	43.9%	40.5%	48.9%	29%	29%
10-Year Wage Rate Growth	7.4%	10.9%	12.2%	11.4%	12.5%	7.3%	6.5%
Added Jobs (millions)	2.7	5.2	4.9	4.3	2.7	3.1	5.3
10-Year Static Revenue Estimate (billions)	-\$3,665	-\$5,617	-\$3,666	-\$1,797	-\$6,055	-\$3,223	-\$11,980
10-Year Dynamic Revenue Estimate (billions)	-\$1,610	-\$2,472	-\$768	+\$737	-\$2,401	-\$1,093	-\$10,135

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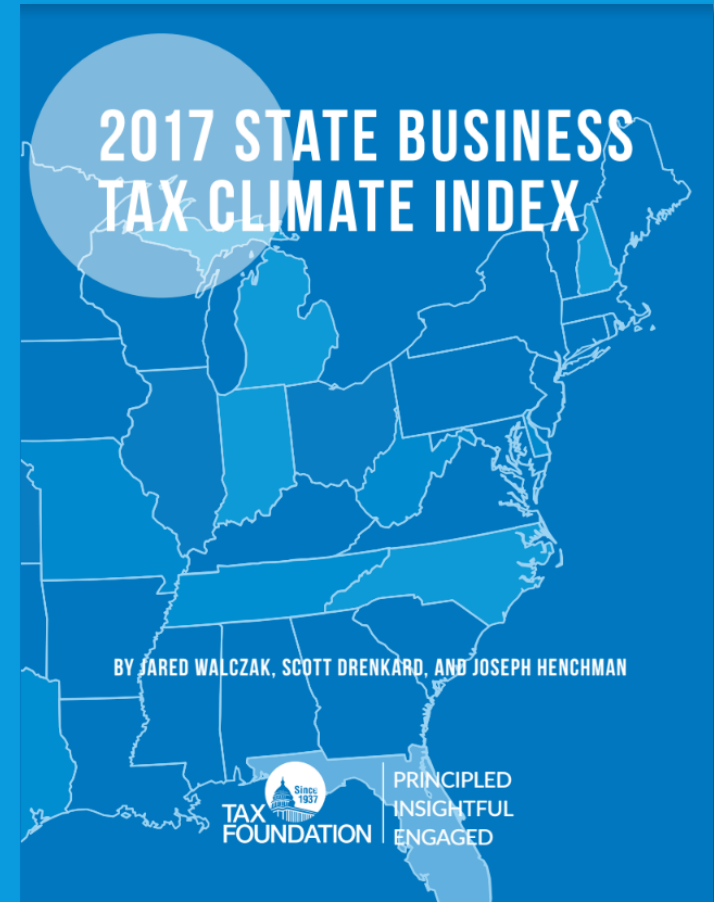
INTRODUCING **FACTS & FIGURES** FOR YOUR SMARTPHONE



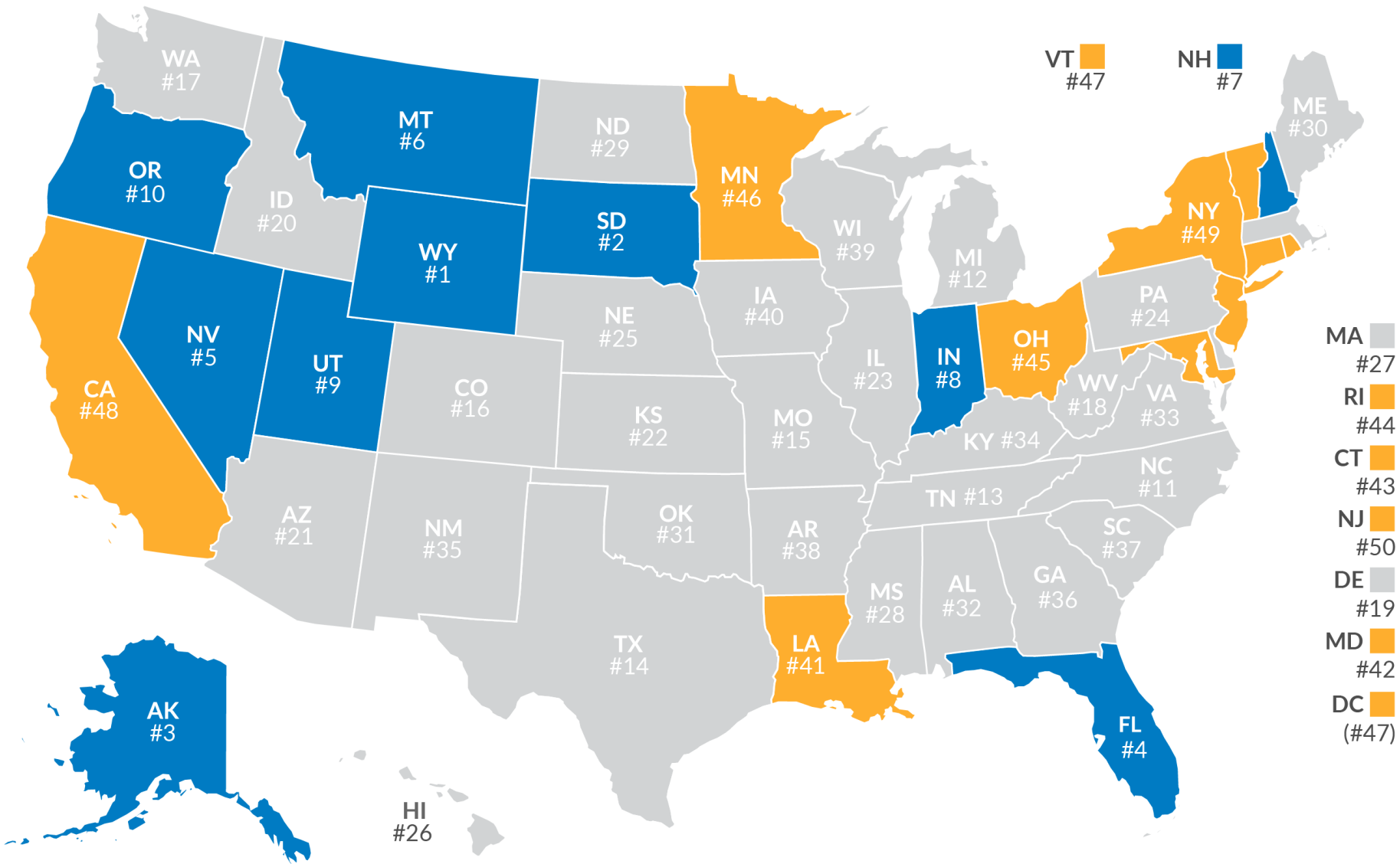
STATE BUSINESS TAX CLIMATE INDEX

MAJOR STUDIES

- A comprehensive look at state tax structures
- The **how** rather than **how much**
- Five areas of tax:
 - Individual income taxes
 - Corporate income taxes
 - Sales and excise taxes
 - Property taxes
 - Unemployment insurance taxes



2017 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. DC's score and rank do not affect other states. The report shows tax systems as of July 1, 2016 (the beginning of Fiscal Year 2017).

Source: Tax Foundation

- 10 Best Business Tax Climates
- 10 Worst Business Tax Climates

STATE BUSINESS TAX CLIMATE INDEX

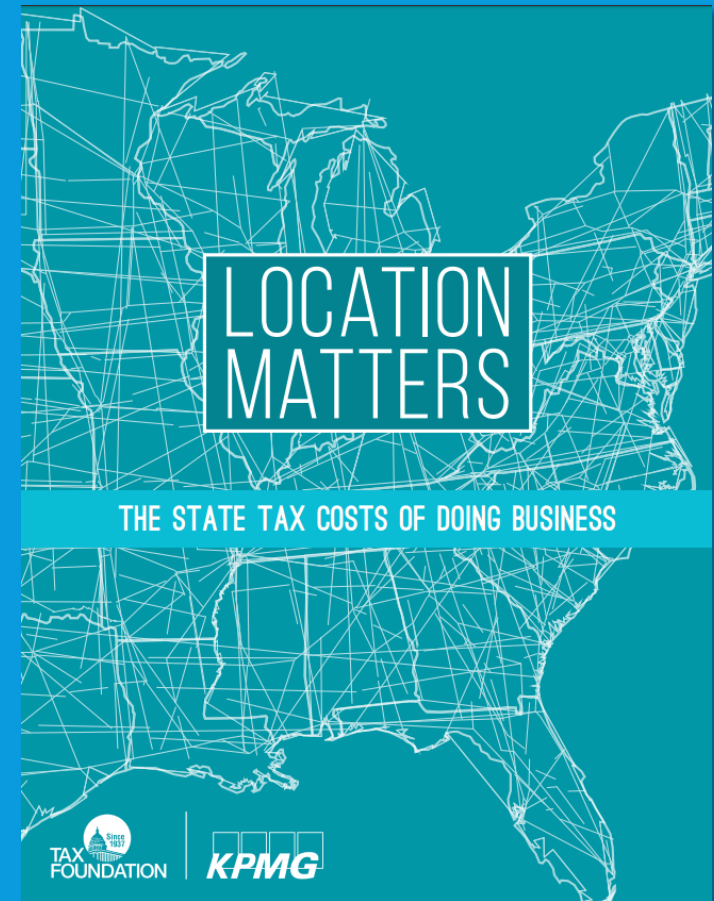
MAJOR STUDIES

- Overall Rank: 20th
 - Corporate Taxes: 24th
 - Individual Income Tax: 23rd
 - Sales Tax: 26th
 - Unemployment Insurance Tax: 46th
 - Property / Wealth Taxes: 2nd

LOCATION MATTERS

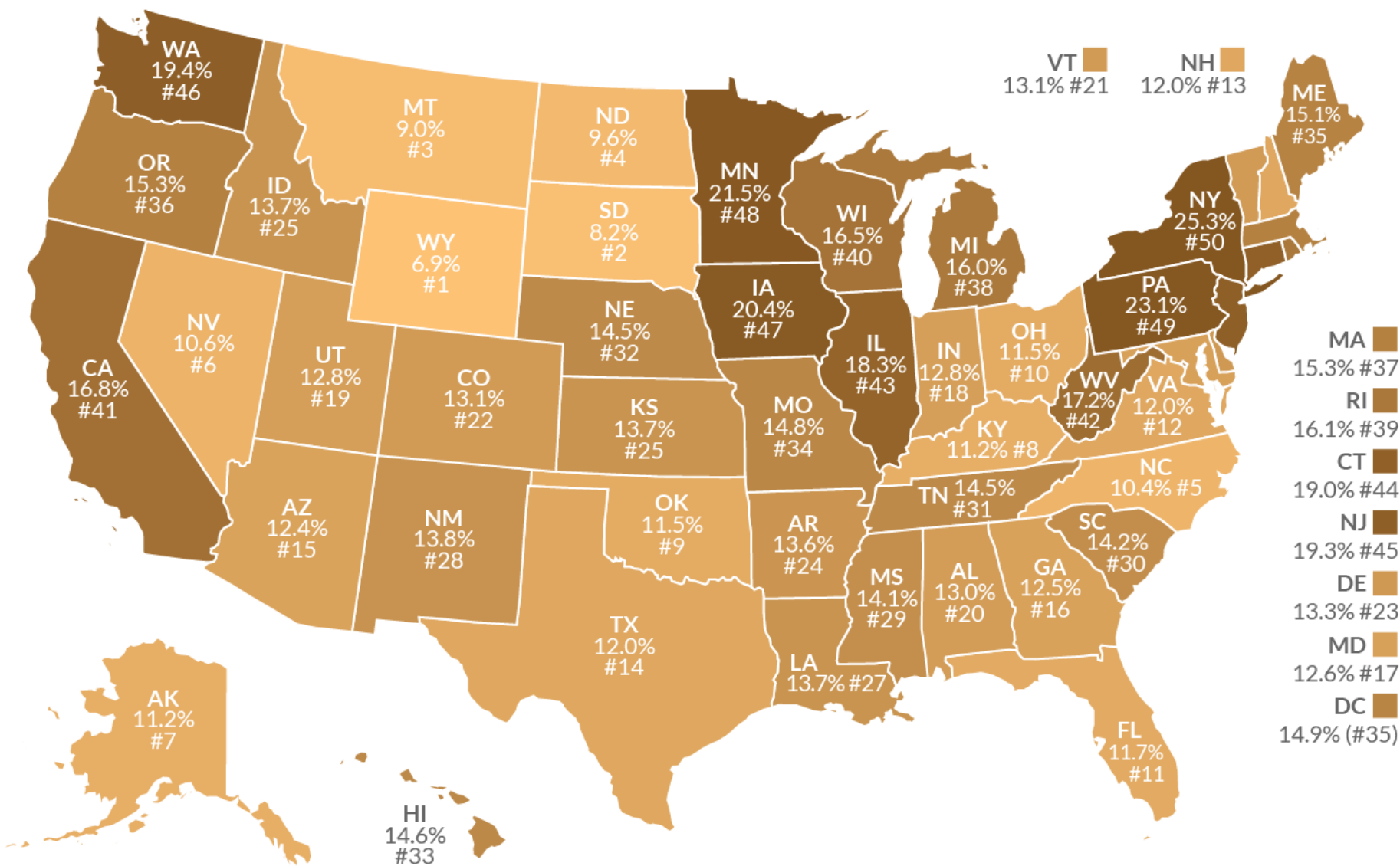
MAJOR STUDIES

- Model firms study
- Calculates **how much** by maturity, industry, and state
- Includes all taxes on businesses
- Takes tax incentives into account



Location Matters: The State Tax Costs for Corporate Headquarters

Total Effective State and Local Tax Rate on a Mature Corporate Headquarters, 2014



Total Effective State and Local Tax Rate



LOCATION MATTERS

MAJOR STUDIES

- Corporate Headquarters: 25th
- R&D Facility: 27th
- Retail Store: 26th
- Capital-Intensive Manufacturer: 36th
- Labor-Intensive Manufacturer: 37th
- Call Center: 36th
- Distribution Center: 22nd

INDIVIDUAL INCOME TAX

- Seven bracket tax with top rate of 7.4%
 - 1.6% > \$0
 - 3.6% > \$1,452
 - 4.1% > \$2,940
 - 5.1% > \$4,356
 - 6.1% > \$5,808
 - 7.1% > \$7,260
 - 7.4% > \$10,890
- Inflation-indexed brackets, std. deduction, and p.e.
- Historical top rate was 10.5% (1964)

INDIVIDUAL INCOME TAX

- Idaho PIT features –
 - High rate, progressive
But kick-in of top rate is low
 - Brackets indexed for inflation
 - Avoids marriage penalty
 - Ranks 24th on individual income tax component of the *State Business Tax Climate Index*

State	Ranking
<i>Idaho</i>	23
Montana	21
Nevada	1
Oregon	32
Utah	12
Washington	6
Wyoming	1

INDIVIDUAL INCOME TAX

- Effects of individual income taxes –
 - Excessive PITs discourage wealth creation
 - High top marginal rates reduce GSP growth
 - Graduated-rate PITs increase labor costs
 - Many businesses pay individual income taxes
(pass-through taxation of S corps, LLCs, partnerships, and sole proprietorships)

INDIVIDUAL INCOME TAX

- Modernizing the PIT –
 - Secure rate reductions w/ SUT base broadening
ID implicit base breadth: 37.9%; SD: 57.6%, ND: 69.2%, WY: 88.6%
 - Implement “tax triggers” to phase in reductions
Provides revenue stability during pendency of tax reform
 - Consolidate brackets
Expanding standard deduction & personal exemption are more effective ways to ensure desired progressivity

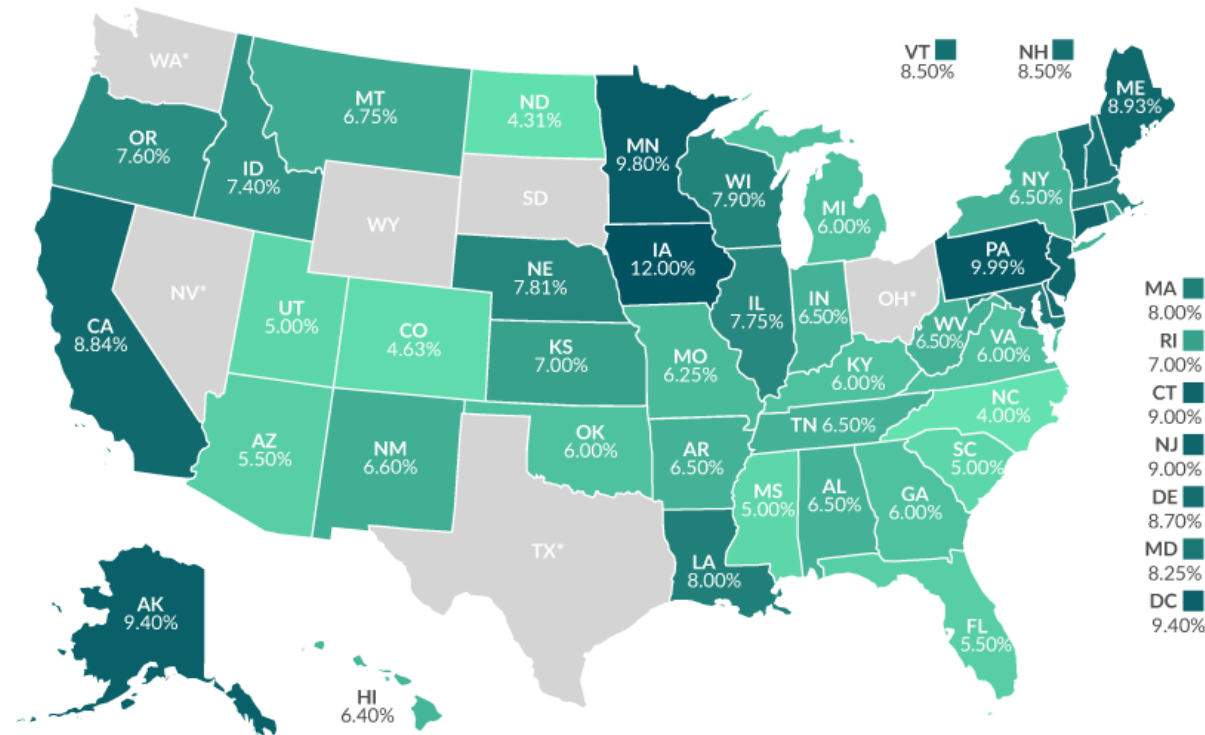
CORPORATE INCOME TAX

- Imposed at flat rate of 7.4%
- Has jobs, R&D, and investment credits
- Throwback rule
- Loss treatment:
 - 2 year carryback (\$100,000 cap)
 - 20 year uncapped carryforward

CORPORATE INCOME TAX

How High Are Corporate Income Tax Rates in Your State?

Top State Marginal Corporate Income Tax Rates in 2016



Note: (*) Nevada, Ohio, Texas, and Washington do not have corporate income taxes but do have gross receipts taxes with rates not strictly comparable to corporate income tax rates. Arkansas assesses a surcharge of 3% of the taxpayer's total liability. Connecticut's rate includes a 20% surtax. Delaware and Virginia have gross receipts taxes in addition to their corporate income taxes. Illinois' rate includes two separate corporate income taxes, one at a 5.25% rate and one at a 2.5% rate. The tax rate in Indiana will decrease to 6.25% on July 1, 2016.

Source: State tax statutes, forms, and instructions; Commerce Clearinghouse.

Top State Marginal Corporate Income Tax Rate



Idaho's neighbors

- **NV, WA, & WY:**
No CIT
- **MT & UT:**
Single-rate CIT
(4.63%, 6.25%)
- **OR:**
Graduated rate
(12.0%, 7.0%)

CORPORATE INCOME TAX

- Idaho CIT features –
 - Above-average rate
 - Heavy tax incentives reliance
 - Ranks 24th on corporate income tax component of the *State Business Tax Climate Index*

State	Ranking
Idaho	24
Montana	13
Nevada	34
Oregon	35
Utah	3
Washington	48
Wyoming	1

CORPORATE INCOME TAX

- Trends in corporate income taxes –
 - Single-rate corporate income tax systems
More consistent with simplicity, neutrality; no meaningful “ability to pay” concept
Minimizes incentives for firms to engage in expensive tax planning / arbitrage
 - Review of incentives programs
Cost/benefit analysis of targeted incentives with emphasis on base broadening
 - Reduced reliance on corporate income taxation
High volatility & admin costs, low collections; 15 states + DC cut CITs since 2008
- *n.b.* Many businesses pay individual income taxes
(pass-through taxation of S corps, LLCs, partnerships, and sole proprietorships)

CORPORATE INCOME TAX

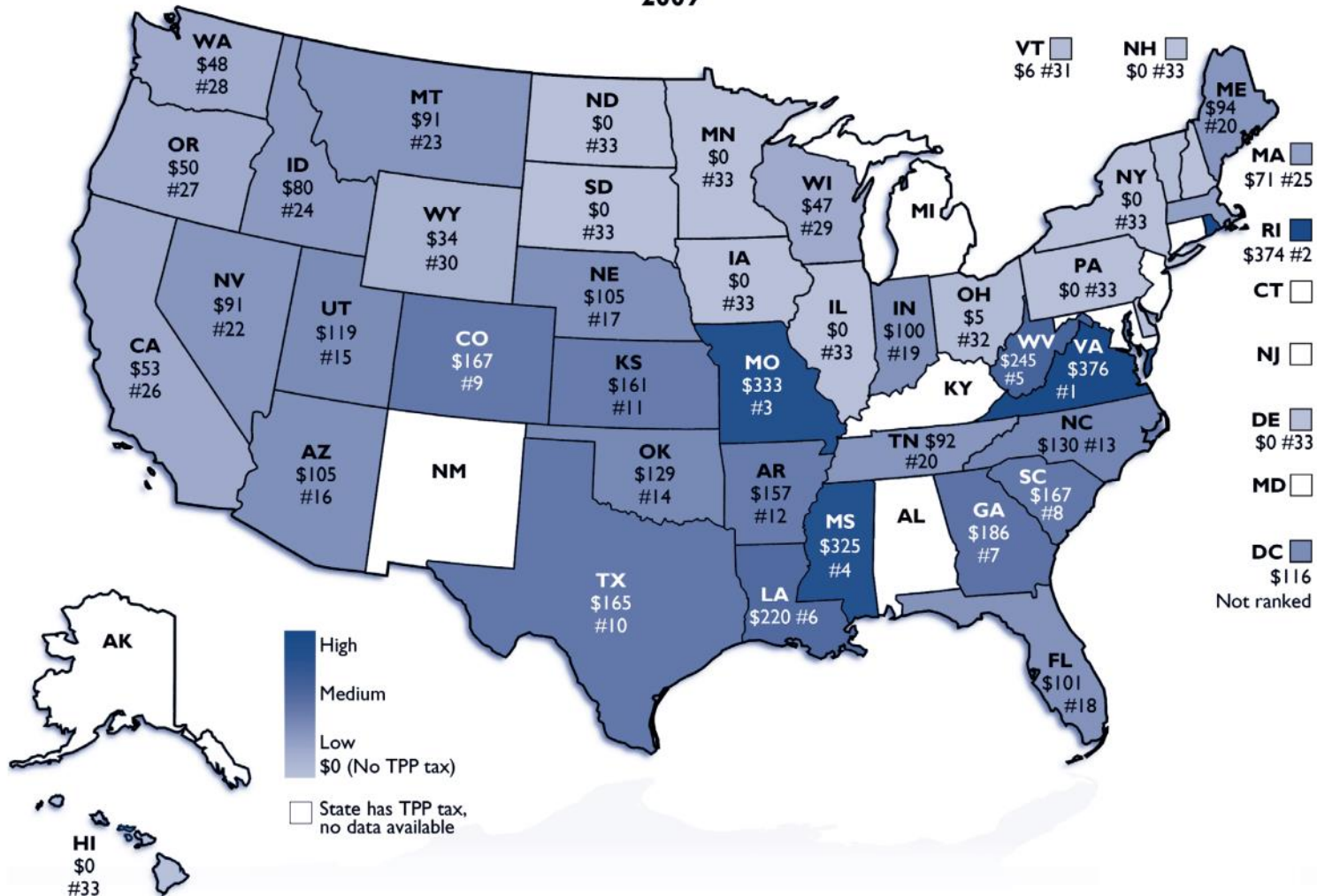
- Modernizing the CIT –
 - Moving away from ineffective carve-outs
Enhancing tax neutrality, lowering rate, creating more pro-growth tax code
 - Implement “tax triggers” to phase in reductions
As with PIT, an attractive way to phase in cuts over time as revenues permit

TANGIBLE PERSONAL PROPERTY TAXES

- Tangible personal property taxes are imposed on “things that can be touched or moved”
- Idaho’s TPP is essentially a tax on machinery and equipment & trade fixtures
- Has a *de minimis* exemption of \$100,000 and an acquisition threshold of \$3,000
- The Mountain West relies on TPP more heavily than many other regions, though states across the nation are gradually moving away from such taxation

TANGIBLE PERSONAL PROPERTY TAXES

Tangible Personal Property Tax Collections Per Capita 2009



TANGIBLE PERSONAL PROPERTY TAXES

- Effects of TPP taxes –
 - Disincentivize capital investment
Apply to select business inputs, creates incentivizes outflow of mobile capital
 - Impose high compliance costs (taxpayer active)
Taxpayer must document & depreciate personal property subject to taxation
 - Levied non-transparently
Baked into consumer costs, hidden from view

TANGIBLE PERSONAL PROPERTY TAXES

- Modernization options –
 - Increase acquisition price threshold
Currently, all business personal property with acquisition price under \$3K exempt
 - Exempt new property from taxation
Limits immediate impact on local bases, largely phases out over time
 - Enact a local option
Permit localities to make exemptions more generous or repeal them outright

UNEMPLOYMENT INSURANCE TAXES

- Fourth-highest taxable wage base in the country (tie)
\$37,200 (tied with ND), after WA, HI, and AK (average of \$18,041)
- Charging method: most recent employer only
- Surtaxes and Reserve Taxes
Loan & Interest Repayment Surtax, Reserve Tax, Surtax for Administration
- Experience rating qualification time period: 1.5 yrs

TAX POLICY

NATIONAL TRENDS

- **Reduced Capital Taxation**

States are moving away from taxes on capital (capital stock taxes, tangible personal property taxes, and inventory taxes)

- **Income Taxes Down, Sales Taxes Up**

Nineteen states have cut PITs and fifteen states have cut CITs since 2008, but sales tax rates are trending upward, responsive to continued base erosion

- **Return of Gross Receipts Taxes**

After decades of GRTs falling into relative obsolescence, there has been a recent resurgence (Texas, Ohio, and Nevada, with a proposal failing in Oregon this November)

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