

Idaho Taxes Poor & Middle Class Much More Than Wealthy

Low- and middle-income families in Idaho pay a higher share of their income in state and local taxes than do the richest families in Idaho, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. When it comes to paying for services, Idaho has an unfair tax system.”

Idaho’s Tax Code: Tax the Poor & Middle Class More Than the Wealthy

When all Idaho taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Idaho families—with average incomes of \$765,000—is 8.7% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is a 6.1%.
- The average tax rate on families in the middle of the income distribution—those earning between \$25,000 and \$42,000—is 9.3% before and 9.0% after the federal offset, one half more than the effective rate on the richest Idahoans.
- But the tax rate on the poorest Idaho families—those earning less than \$14,000—is the highest of all. At 9.7% it is more than half again higher than the effective rate of the wealthiest Idahoans.

“Idaho has a progressive income tax, but it is not progressive enough to offset the regressivity of its sales and excise taxes,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Idaho.”

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Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of Idaho taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Tax burdens increased on low- and middle-income families.
- But taxes on better-off families stayed constant or fell.

"Idaho's tax structure is losing its progressivity as lawmakers continue to let taxes rise on the middle class," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low- and middle-income taxpayers."

Two pages of tables detailing the Idaho findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

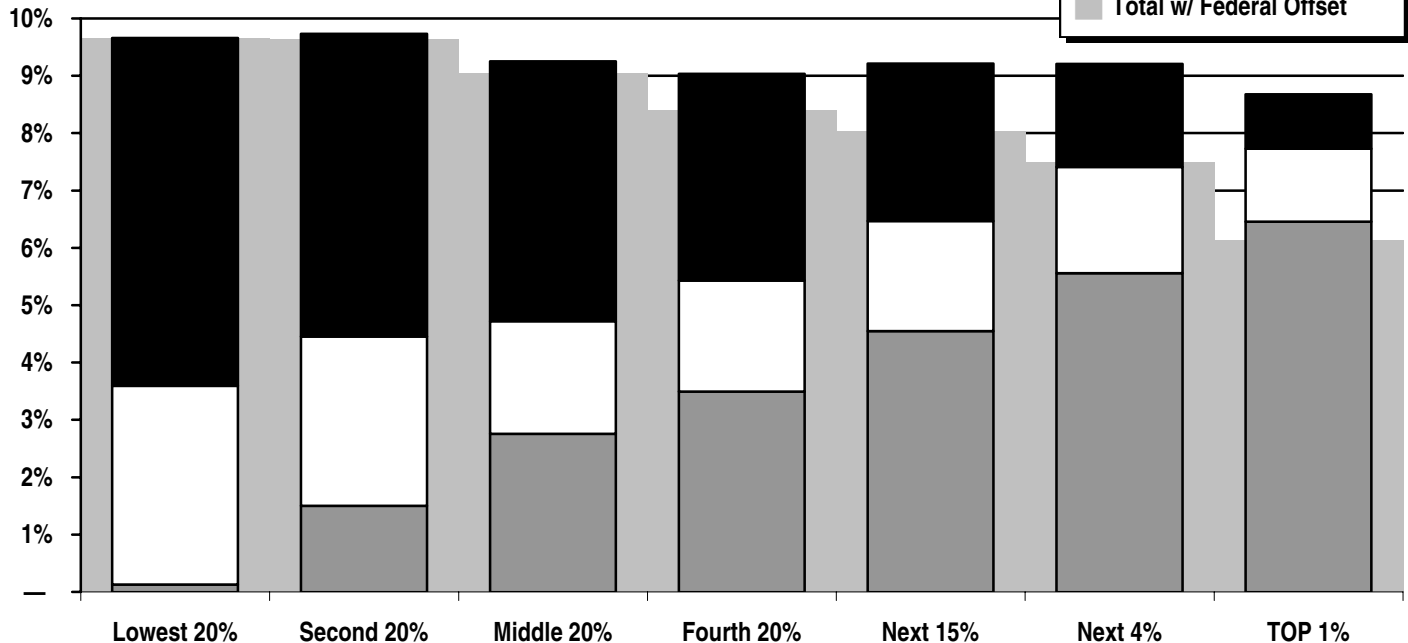
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

MORE . . .

Idaho

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



| Income Group | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Top 20% | | |
|---------------------------------|--------------------|---------------------|---------------------|---------------------|----------------------|-----------------------|-------------------|
| | | | | | Next 15% | Next 4% | TOP 1% |
| Income Range | Less than \$14,000 | \$14,000 – \$25,000 | \$25,000 – \$42,000 | \$42,000 – \$64,000 | \$64,000 – \$119,000 | \$119,000 – \$273,000 | \$273,000 or more |
| Average Income in Group | \$8,400 | \$19,700 | \$32,400 | \$51,100 | \$82,000 | \$161,000 | \$765,000 |
| Sales & Excise Taxes | 6.1% | 5.3% | 4.5% | 3.6% | 2.7% | 1.8% | 0.9% |
| General Sales—Individuals | 3.6% | 3.2% | 2.7% | 2.3% | 1.8% | 1.2% | 0.7% |
| Other Sales & Excise—Ind. | 1.2% | 0.9% | 0.8% | 0.6% | 0.4% | 0.2% | 0.1% |
| Sales & Excise on Business | 1.3% | 1.1% | 1.0% | 0.7% | 0.6% | 0.4% | 0.2% |
| Property Taxes | 3.5% | 2.9% | 2.0% | 1.9% | 1.9% | 1.9% | 1.3% |
| Property Taxes on Families | 3.3% | 2.9% | 1.9% | 1.8% | 1.7% | 1.5% | 0.7% |
| Other Property Taxes | 0.2% | 0.1% | 0.1% | 0.1% | 0.2% | 0.4% | 0.6% |
| Income Taxes | 0.1% | 1.5% | 2.8% | 3.5% | 4.5% | 5.6% | 6.5% |
| Personal Income Tax | 0.1% | 1.5% | 2.7% | 3.4% | 4.5% | 5.5% | 6.2% |
| Corporate Income Tax | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.1% | 0.2% |
| TOTAL TAXES | 9.7% | 9.7% | 9.3% | 9.0% | 9.2% | 9.2% | 8.7% |
| Federal Deduction Offset | — | -0.1% | -0.2% | -0.6% | -1.2% | -1.7% | -2.5% |
| TOTAL AFTER OFFSET | 9.7% | 9.6% | 9.0% | 8.4% | 8.0% | 7.5% | 6.1% |

Note: Table shows 2002 tax law at 2000 income levels.

Idaho Tax Trends

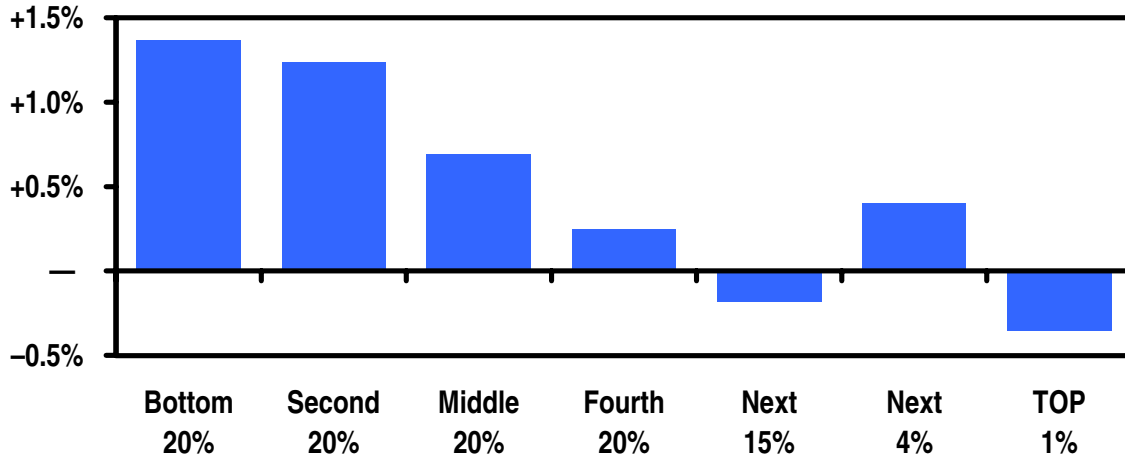
Progressive Features

- ✓ Graduated income tax rates
- ✓ Brackets and exemptions indexed
- ✓ Credit to offset sales tax on groceries
- ✓ Property tax homestead exemption
- ✓ Low income circuit breaker property tax credit

Regressive Features

- ✗ Groceries subject to sales tax

Changes in Taxes as Shares of Income, 1989 – 2002

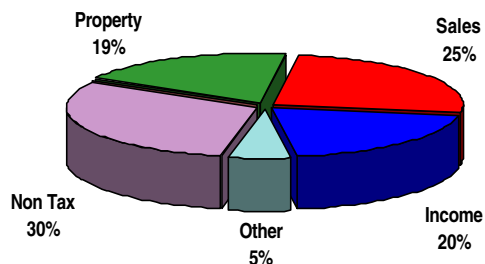


| | Bottom 20% | Second 20% | Middle 20% | Fourth 20% | Top 20% | | |
|---------------------------|------------|------------|------------|------------|----------|---------|--------|
| | | | | | Next 15% | Next 4% | TOP 1% |
| Sales & Excise | -0.0% | -0.0% | +0.0% | +0.0% | +0.0% | +0.0% | -0.0% |
| Property | +1.1% | +0.9% | +0.3% | +0.3% | -0.2% | +0.1% | -0.0% |
| Income | +0.2% | +0.5% | +0.4% | +0.2% | +0.3% | +0.5% | +0.5% |
| Federal Offset | +0.0% | -0.1% | -0.1% | -0.3% | -0.3% | -0.2% | -0.8% |
| Overall Change | +1.4% | +1.2% | +0.7% | +0.2% | -0.2% | +0.4% | -0.4% |

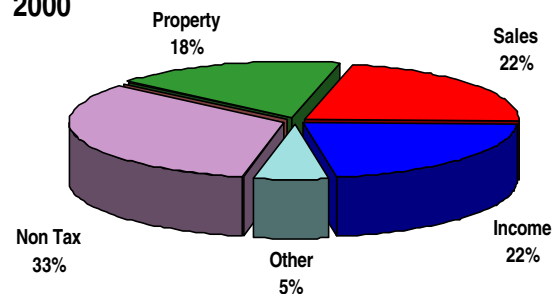
A 10 cent hike in the cigarette tax and a 4.5 cent hike in the gas tax was almost entirely offset by inflationary losses in excise tax revenues. As income tax brackets were not indexed until late in the decade, bracket creep caused an implicit tax hike for middle and lower income taxpayers. Across the board rate reductions were not enough to offset these and other inflationary effects.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census