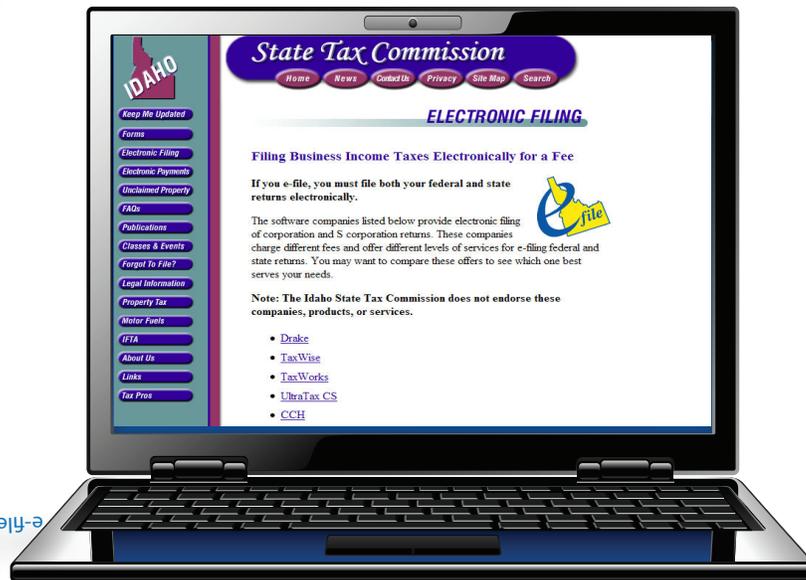
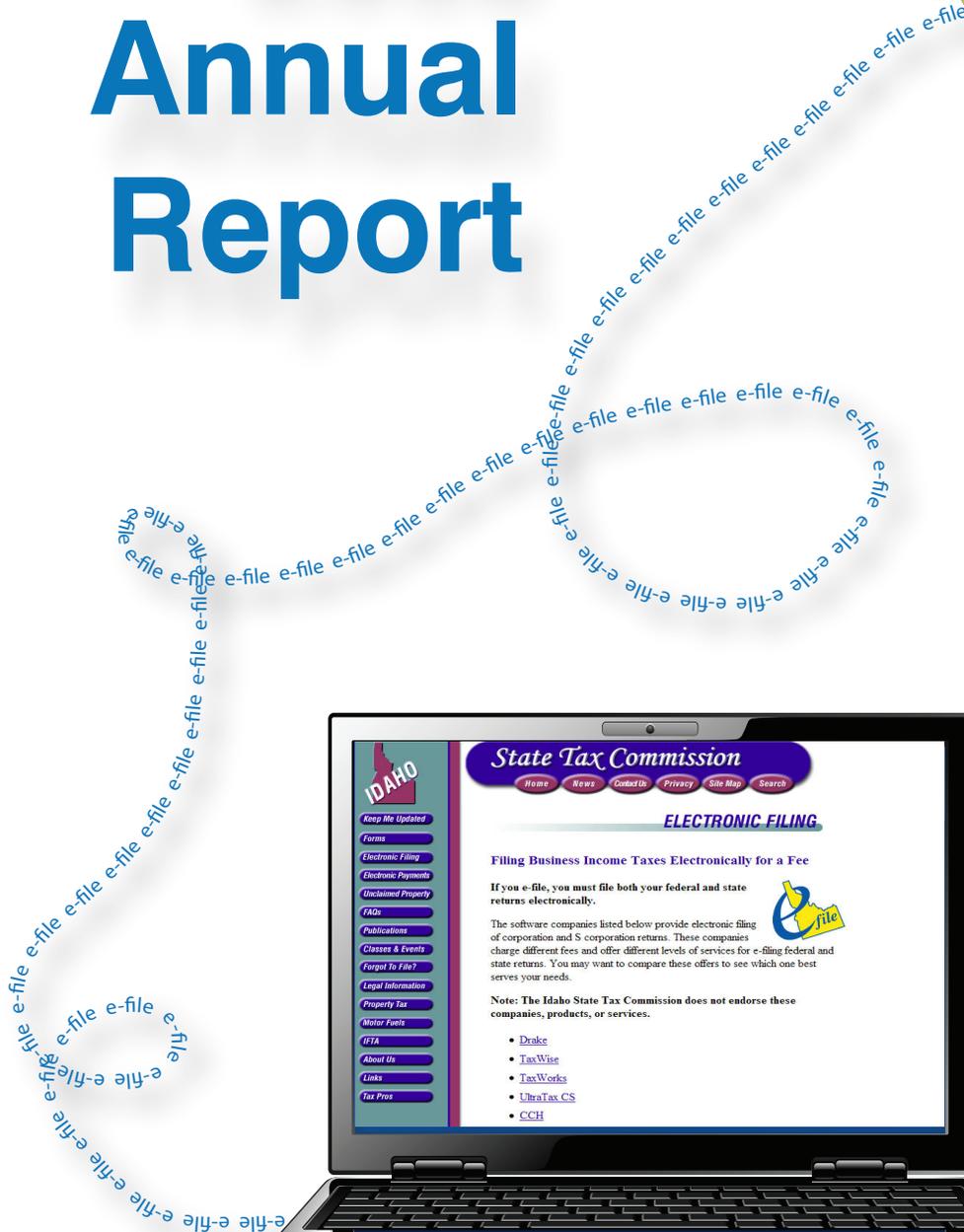


2008 Annual Report



Idaho State Tax Commission

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This annual report gives an overview of Idaho's major tax revenues for 2008 and describes various tax-related programs administered by the Idaho State Tax Commission. Property tax statistics cover the 2008 calendar year. Sales, income, and other taxes are reported for fiscal year 2008, which ended June 30, 2008.

Our Mission

To provide courteous, quality services and to administer the state's tax laws in a fair, timely, and cost-effective manner to benefit Idaho citizens.

A Message from the Commissioners

Although 2008 marked the beginning of an economic slowdown for Idaho as well as the rest of the country, the Idaho State Tax Commission managed to expand its services to the public while maintaining its high level of efficiency.

We increased our services by offering e-filing for businesses that file tax returns for the travel and convention tax, Greater Boise Auditorium District tax, and the Nez Perce County tax. We also worked with software companies to provide e-filing for business income tax returns, including corporation, S corporation, and partnership returns.

The Tax Commission processed a record 2.29 million tax documents in FY2008 and collected a record \$197 million in taxes owed. While these amounts have dramatically increased over the years, the number of employees working at our agency has stayed the same, and our productivity continues to improve. It costs us less than a penny for every dollar we collect.

As we head into an uncertain economic future, we'll continue to find ways to save the state money and run our agency more efficiently. See the Highlights section of this report for more of the Tax Commission's achievements.



Pictured top to bottom are Tax Commissioners Royce Chigbrow, chairman; Sam Haws; Coleen Grant, vice chairman; and Tom Katsilometes.

Photo by Malia Thomas, Tax Commission employee

Strategic Plan and Performance

The Tax Commission's strategic goals are the guiding principles by which we have chosen to do business. These goals focus on the agency's commitment to improving voluntary compliance, maximizing resources, and increasing employee satisfaction. They are:

- Make conducting business as simple as possible for our customers, stakeholders, and employees.
- Recruit, develop, retain, and value a high-quality workforce.
- Build and strengthen relationships with our customers and stakeholders.
- Promote fairness, consistency, and uniformity in the development and administration of tax law and policy.
- Exercise security and maintain confidentiality of information.

Business and industry leaders, legislators, and other government officials attended the Tax Commission's annual meeting in October of 2008. The session updated participants on the agency's progress throughout the year and provided an opportunity to share ideas for the future.

Highlights

New tax discovery computer program improves audit efficiency

We added a new tax discovery module to our tax processing system. The new module helps us more effectively identify nonfilers, audit candidates, and fraudulent returns. It also allows us to match W-2s that taxpayers file to the W-2s their employers issue. And we can match W-2s that employers issue to the income tax withholding reports that they file.

New online W-2 service helps employers

We provided another way for employers to submit employee W-2s to the state. Our new service lets them manually enter their W-2s online and send them electronically. The service is especially helpful to small businesses that have only a few employees. It also reduces paperwork and keeps a filing history for employers.

Expanded Web services provide taxpayer outreach

We added our first online class to our Web site in 2008. The class helps contractors and others in related businesses determine their sales tax requirements. And, for the first time, we used our Web site to solicit comments on a temporary administrative rule. The site linked to proposed language for the rule and also included a way for taxpayers to e-mail their suggestions about the rule.

Tax Commission receives innovation award

The Tax Commission received The Association for Work Process Improvement (TAWPI) 2008 Innovation Award. The 2008 Innovation Award for Payments Automation recognizes innovative business solutions that boost efficiency and save money. We received the award for creating a solution with a vendor to electronically transfer payment and tax return information from our five field offices to the central system in Boise. We were also the

(continued on next page)

first state to use new technology to image and virtually batch full-page tax returns and payments. These two new processes allowed us to eliminate duplicate manual tasks and will eventually save more than \$100,000 a year by reducing paper storage. And we now have agency-wide access to returns and payments within 24 hours of receiving them, which allows quicker responses to taxpayer questions and reduces collection times.

E-file for income tax returns hits a new high

Almost two-thirds of our individual income tax returns were filed electronically in 2008. Although Idaho is not one of the states that mandates electronic filing, our voluntary rate is among the best in the country.

Fuels tax rate changes implemented quickly

The Tax Commission was ready when the tax rates increased for aviation fuel and jet fuel. We updated forms, computer programs, and information on our Web site. We also provided updated electronic filing software to fuel distributors to prepare them for the changes.

Outreach programs help more Idahoans

We gave almost 150 presentations to more than 2,000 people. The training included:

- Classes for businesses about tax laws, exemptions, and how to file income tax withholding and sales tax returns.
- A community education class for taxpayers about how to file income tax returns.
- Small business forums offering tax information for new business owners.
- Presentations to CPAs about recent and proposed law changes, income tax issues, and our electronic services.
- Training for volunteers who prepare income tax returns for low-income taxpayers.
- A presentation to building contractors about sales tax issues affecting them.
- Training for payroll processing companies about income tax withholding.
- Continuing education courses for county commissioners, treasurers, and assessors.
- Instructions to state prison inmates on preparing federal and state income tax returns.
- Presentations to civic groups and county clerks about unclaimed property.

Idaho Taxes

Most of Idaho's tax revenues come from three sources: income tax (personal and corporate), sales/use tax, and property tax.

Listed below are taxes collected by the state. Property taxes are collected by counties and taxing districts to provide local services and do not generate revenue for state use.

Type of Tax	What is Taxed	Rate	Other Information
Beer and Wine Tax	Beer Wine	\$0.15/gallon \$0.45/gallon	
Boise Auditorium District Hotel/Motel Room Sales Tax	Hotel/motel occupants in the Boise metropolitan area	5%	Exception: Long-term residents (more than 30 days in a row).
Cigarette Tax	Package of 20	\$0.57	Wholesalers pay this tax to the Tax Commission.
Corporate Net Income Tax	Idaho taxable income	7.6%	Multistate businesses must apportion their income using a three-factor formula made up of property, payroll, and sales (the sales factor is double-weighted).
Electricity Tax	Water-generated electricity	1/2 mill per kilowatt hour	Exception: There is no tax on the sale of electricity used for irrigation, manufacturing, mining, milling, smelting, refining, or processing.
Gasoline Tax	Gasoline Aviation fuel Jet fuel	\$0.25/gallon \$0.07/gallon \$0.06/gallon	Off-road users get refunds for tax on gasoline used in equipment and auxiliary engines.
Illegal Drug Stamp Act	Marijuana Controlled substances sold by weight Controlled substances sold by dosage	\$3.50/gram \$200/gram \$200 per 50 dosages	
Individual Income Tax	Idaho taxable income	1.6% to 7.8%	Rate depends on income.
Mine License Tax	Value of ores mined or extracted	1%	
Sales/Use Tax	Retail sales and rentals of tangible personal property; admission fees and fees for recreation or hotel/motel rooms (except stays of more than 30 days). Use tax applies if sales tax was not paid at the point of purchase.	6%	Exception: Utilities, motor fuels (which are taxed separately), prescription drugs, and tangible personal property used in manufacturing, farming, processing, mining, and fabricating.
Severance Tax	Market value of oil and gas produced or sold in Idaho	2%	
Special Fuels Tax	Diesel Propane Natural gas	\$0.25/gallon \$0.181/gallon \$0.197/therm	Off-road users get refunds for tax on gasoline used in equipment and auxiliary engines.
Tobacco Tax	All tobacco products except cigarettes	40% of wholesale price	
Travel & Convention Hotel/Motel Tax	Hotel/motel occupants and campground users	2%	Exception: Long-term residents (more than 30 days in a row).

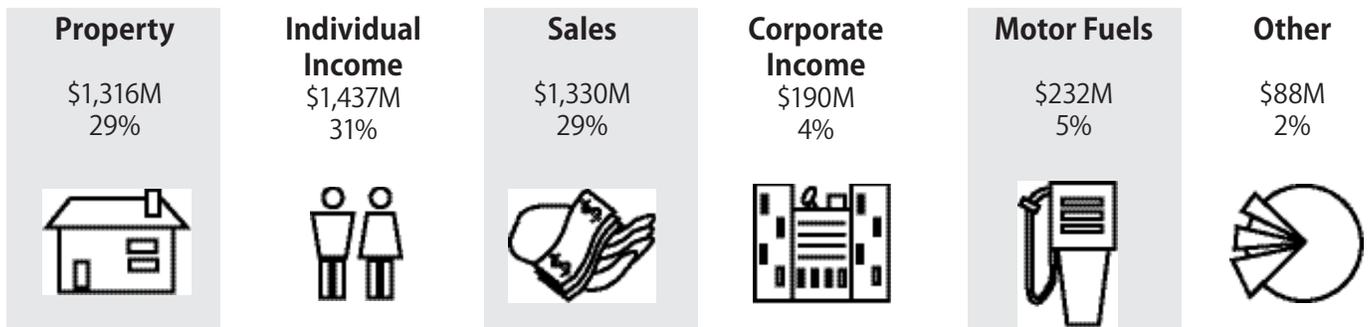
Audit and Collections

The Tax Commission is responsible for conducting audits of tax returns filed by individuals and businesses and for collecting taxes owed that have not been paid. The Audit and Collections program encourages voluntary compliance with tax laws and enforces those laws in cases where voluntary compliance is lacking.

The figures below represent a four-year comparison of revenues generated by Audit and Collections.

Source	FY2005	FY2006	FY2007	FY2008
Sales & Use Tax	\$7,186,890	\$8,392,199	\$21,521,883	\$10,923,324
Withholding	166,404	196,331	602,192	408,007
Motor Fuel Taxes	424,445	699,760	992,777	550,245
Miscellaneous Taxes (Cigarette, Tobacco, Beer, Wine)	155,083	1,013,219	267,779	584,282
Income Taxes:				
Corporate	11,950,630	20,344,507	13,214,314	24,254,576
Individual	11,689,032	12,619,039	13,261,622	18,935,671
Estate Tax	261,634	148,476	0	14,993
Travel & Convention and Greater Boise Auditorium District	2,136	4,484	2,974	4,326
Total Audit Recoveries	31,836,254	43,418,015	49,863,541	55,675,424
Collections of Delinquent Taxes	98,417,260	122,343,532	112,677,805	141,633,791
Total Enforcement Revenues	\$130,253,514	\$165,761,547	\$162,541,346	\$197,309,215

State and Local Taxes Collected - FY2008*



* Property tax reflects calendar year 2008. Property tax amounts reflect approved budgets and may not represent actual collections. Sales tax includes revenue sharing; income tax includes Permanent Building Fund.

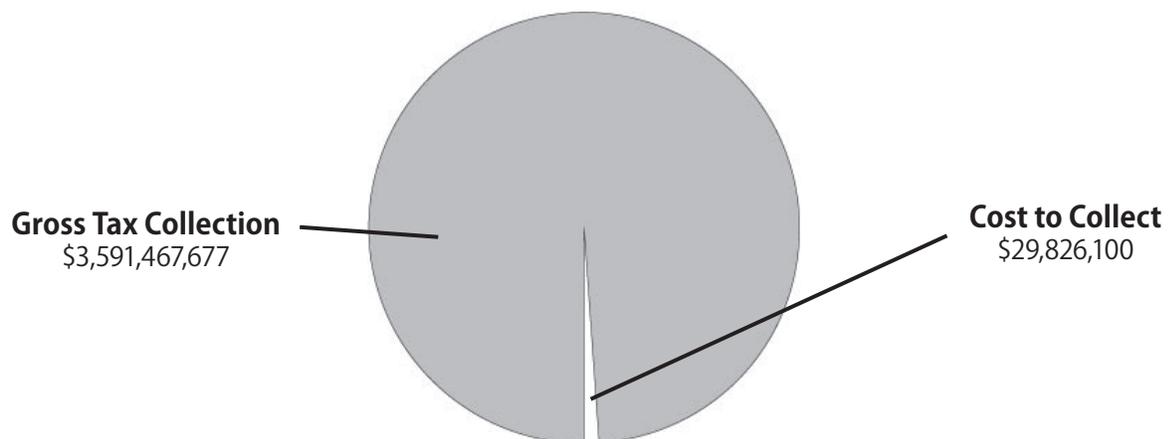
Idaho Revenues

The Tax Commission collected revenues totaling more than \$3 billion in fiscal year 2008. This was an increase of almost \$150 million or about 4.3 percent from the previous year.

A two-year comparison of revenues by category is shown below. These figures represent gross collections.

Source	FY2007	FY2008	% Change
Individual Income Tax	\$1,630,854,595	\$1,705,036,185	4.6
Corporate Income Tax	211,189,816	212,879,756	0.80
Sales & Use Tax	1,272,854,661	1,339,278,004	5.2
Cigarette Tax	47,731,819	46,216,367	(3.2)
Tobacco Tax	7,531,427	8,349,574	10.9
Beer Tax	4,542,068	4,587,618	1.0
Wine Tax	3,020,650	3,124,900	3.9
Electricity (kilowatt hour)	2,259,240	1,599,181	(29.2)
Mine License Tax	3,569,792	3,829,532	7.2
Estate Tax	158,590	32,204	(79.7)
Unclaimed Property	9,406,284	12,897,167	37.1
Escheat Trust	44,787	(14,535)	(132.5)
Motor Fuel Taxes	234,487,649	238,280,049	1.6
Boise Auditorium District Tax	4,007,376	4,311,970	7.6
Travel & Convention Tax	6,908,518	7,378,675	6.8
Illegal Drug Tax	301	151	(49.8)
Suspense (source not identified)	(78,554)	83,922	(206.8)
Miscellaneous	135,695	153,751	13.0
Railroad Car Co. Property Tax	97,501	111,132	14.0
Local Option Tax	3,196,320	3,323,349	4.0
Wine Direct Shipper Fee	(included in Wine Tax total)	8,725	N/A
Totals	\$3,441,918,535	\$3,591,467,677	4.34

Tax Revenues vs. Cost to Collect - FY2008



Distribution of Revenues

The figures below represent a two-year comparison of how the revenues collected in Idaho were distributed.

Fund	FY2007	FY2008	Change
General Fund	\$2,569,894,844	\$2,698,412,350	\$128,517,506
Fish & Game Donation	47,089	54,298	7,209
Abandoned Mine Reclamation Fund	1,208,148	1,300,705	92,557
Petroleum Storage Trust	(300)	1,398,476	1,398,776
Cancer Control Fund	387,481	374,957	(12,524)
Central Tumor Registry	154,989	149,980	(5,009)
Substance Abuse Treatment (Alcohol Intox.)	1,266,915	1,287,279	20,364
County Juvenile Probation	4,955,324	4,821,625	(133,699)
Water Pollution Control	4,800,000	4,800,000	0
Idaho Travel & Convention	6,773,342	7,255,551	482,209
State Aeronautics Fund	1,658,901	1,601,396	(57,505)
Capital Improvements	1,340,587	1,360,847	20,260
Waterways Improvement	1,340,587	1,360,847	20,260
Off-Highway Improvements	1,340,587	1,360,847	20,260
Road & Bridge	698,222	708,774	10,552
Local Bridge Inspection	100,000	100,000	0
Railroad Grade Crossing	250,000	250,000	0
Highway Distribution Fund	222,965,286	219,256,669	(3,708,617)
Search & Rescue Fund	40,624	41,237	613
Motor Fuel Distribution Fund	(428,812)	1,537,565	1,966,377
Multistate Tax Compact	(1,652,461)	1,871,623	3,524,084
Substance Abuse Treatment	301	0	(301)
Administrative & Accounting Fund	245,950	248,400	2,450
Motor Fuels Administrative Fund	3,631,400	3,563,100	(68,300)
Wine Direct Shipper Fee to ISP	7,200	3,225	(3,975)
Guard & Reserve Support Donation	55,540	76,667	21,127
Permanent Building Fund	49,916,681	43,804,105	(6,112,576)
Miscellaneous Income	129,031	145,969	16,938
Public School Endowment	5,238,301	5,495,211	256,910
Children's Trust	72,927	85,092	12,165
Revenue Sharing & Counties	154,818,091	152,578,192	(2,239,899)
Circuit Breaker	15,402,668	15,405,563	2,895
Sales Tax - Ag Property Relief	9,727,441	8,487,103	(1,240,338)
Sales Tax - Demonstration Pilot Project Fund (new fund)	N/A	932,755	932,755
Counties - Estate Tax	15,859	3,220	(12,639)
State Refund Fund	372,100,047	395,772,044	23,671,997
Refund Fund - County Juvenile Probation	185,477	532,201	346,724
Unclaimed Property	6,097,910	7,270,252	1,172,342
Trust Fund - Escheat	(75,690)	(44,787)	30,903
Election Campaign Fund	35,798	35,631	(167)
Suspense Fund	(46,330)	121,525	167,855
Boise Auditorium District	3,994,444	4,294,654	300,210
Grape Growers & Wine Producers	149,593	155,526	5,933
Local Option Tax	3,074,543	3,197,003	122,460
Totals	\$3,441,918,535	\$3,591,467,677	\$149,549,142

Tax Revenue Sharing

In fiscal year (FY) 2008, 11.50 percent of Idaho's sales tax revenue was distributed to local governments based on the state's 6 percent sales tax rate. About 3.24 percent of Idaho's total sales tax revenue was distributed directly to cities. Half of this amount was distributed according to population, and the other half was based on the market value of property within each city.

Another 3.24 percent of the sales tax revenue was distributed directly to the counties. Each county received a guaranteed annual amount of \$30,000. The rest was distributed according to population.

In addition, 4.13 percent of the sales tax was distributed to counties, eligible cities, and nonschool taxing districts according to a complex formula based on amounts received in 1999, current population (for cities and counties), and current property taxes (for other eligible nonschool taxing districts). And .89 percent of the sales tax revenue was distributed to nonschool taxing districts based on the proportionate share of each district's property tax budget. For more information on the formulas used for the distribution, contact the Idaho State Tax Commission.

Also, eligible taxing districts received \$8.5 million annually in quarterly distributions from state sales tax revenues to replace property tax on agricultural equipment that was exempted from property tax by legislation in 2001. And, small amounts of lottery withholding and estate tax were distributed to eligible counties.

Distributions were made after the end of each quarter, so the FY2007 fourth quarter portion of these totals was distributed in July 2008.



“For the first time today I filed Idaho sales tax using your electronic filing system. I’m so impressed with how easy it was that I have to pass on my gratitude. Thank you for making it easy on the business owner to file this necessary form. It means more than you know.”

— Kelly

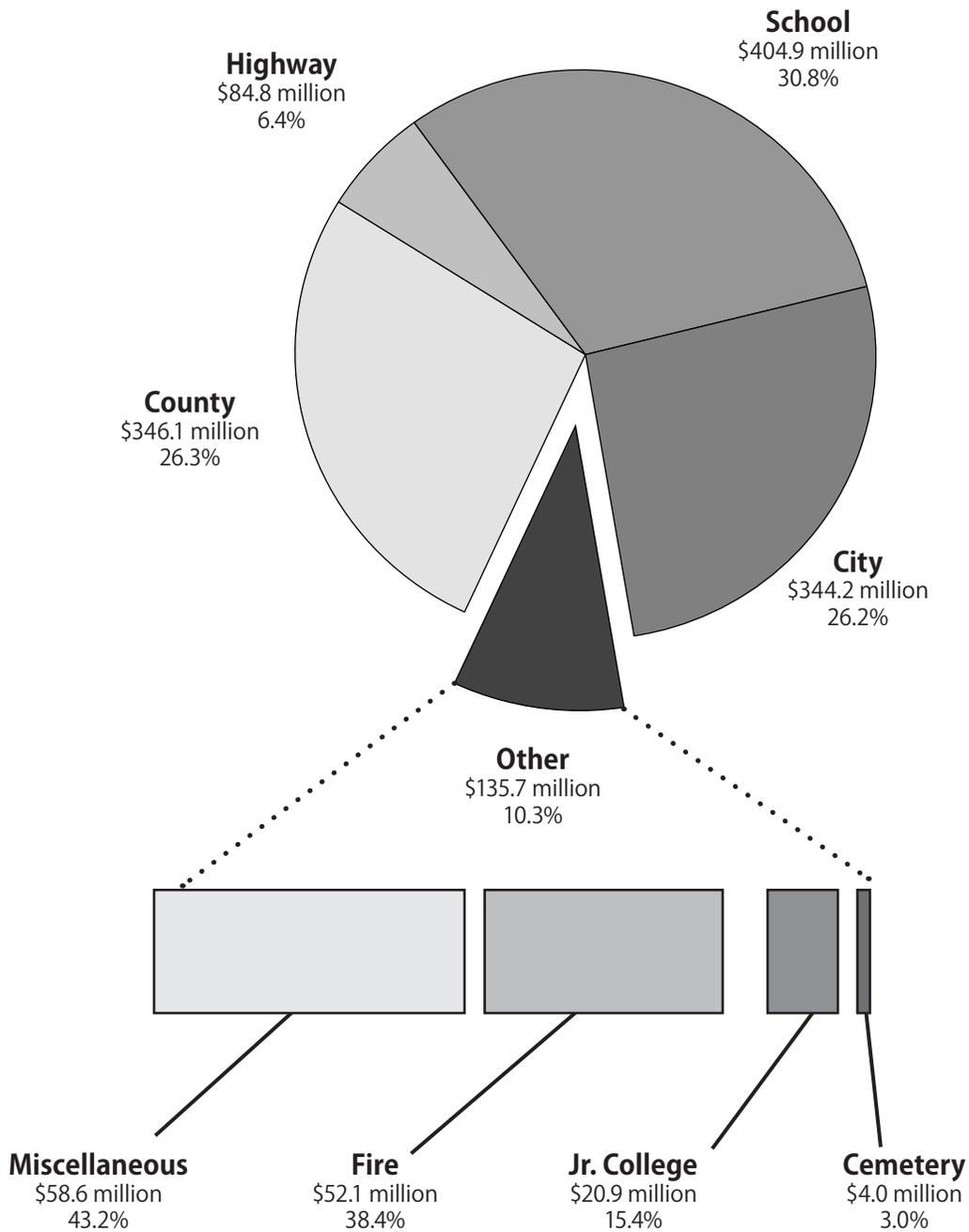
Average Property Tax Rates

The figures below represent the 2008 average property tax rates for urban and rural areas in each county. Rates are expressed as a percentage of a property's taxable value and include the total taxes levied by all taxing districts within the county. The urban tax rate includes all taxes paid within any incorporated city that levies property tax.

County	Average Urban %	Average Rural %	County	Average Urban %	Average Rural %
Ada	1.192%	1.053%	Gem	0.877%	0.548%
Adams	1.019%	0.675%	Gooding	1.590%	0.899%
Bannock	1.972%	1.080%	Idaho	0.938%	0.503%
Bear Lake	0.842%	0.526%	Jefferson	1.670%	1.027%
Benewah	1.053%	0.586%	Jerome	1.839%	1.107%
Bingham	1.975%	1.178%	Kootenai	0.934%	0.588%
Blaine	0.509%	0.438%	Latah	1.670%	1.255%
Boise	0.870%	0.647%	Lemhi	1.054%	0.471%
Bonner	0.862%	0.550%	Lewis	1.574%	0.988%
Bonneville	1.617%	0.993%	Lincoln	1.521%	0.961%
Boundary	0.930%	0.667%	Madison	1.485%	1.254%
Butte	1.994%	1.355%	Minidoka	1.291%	0.828%
Camas	1.307%	0.841%	Nez Perce	1.814%	0.973%
Canyon	1.694%	1.094%	Oneida	1.450%	0.800%
Caribou	1.899%	1.013%	Owyhee	1.025%	0.703%
Cassia	1.442%	0.906%	Payette	1.704%	0.910%
Clark	1.058%	0.765%	Power	2.258%	1.490%
Clearwater	1.432%	0.805%	Shoshone	1.332%	0.961%
Custer	0.524%	0.301%	Teton	0.602%	0.477%
Elmore	1.615%	0.863%	Twin Falls	1.537%	0.952%
Franklin	1.220%	0.902%	Valley	0.604%	0.335%
Fremont	0.940%	0.613%	Washington	1.398%	0.770%
			Overall	1.179%	0.781%

Property Tax Use

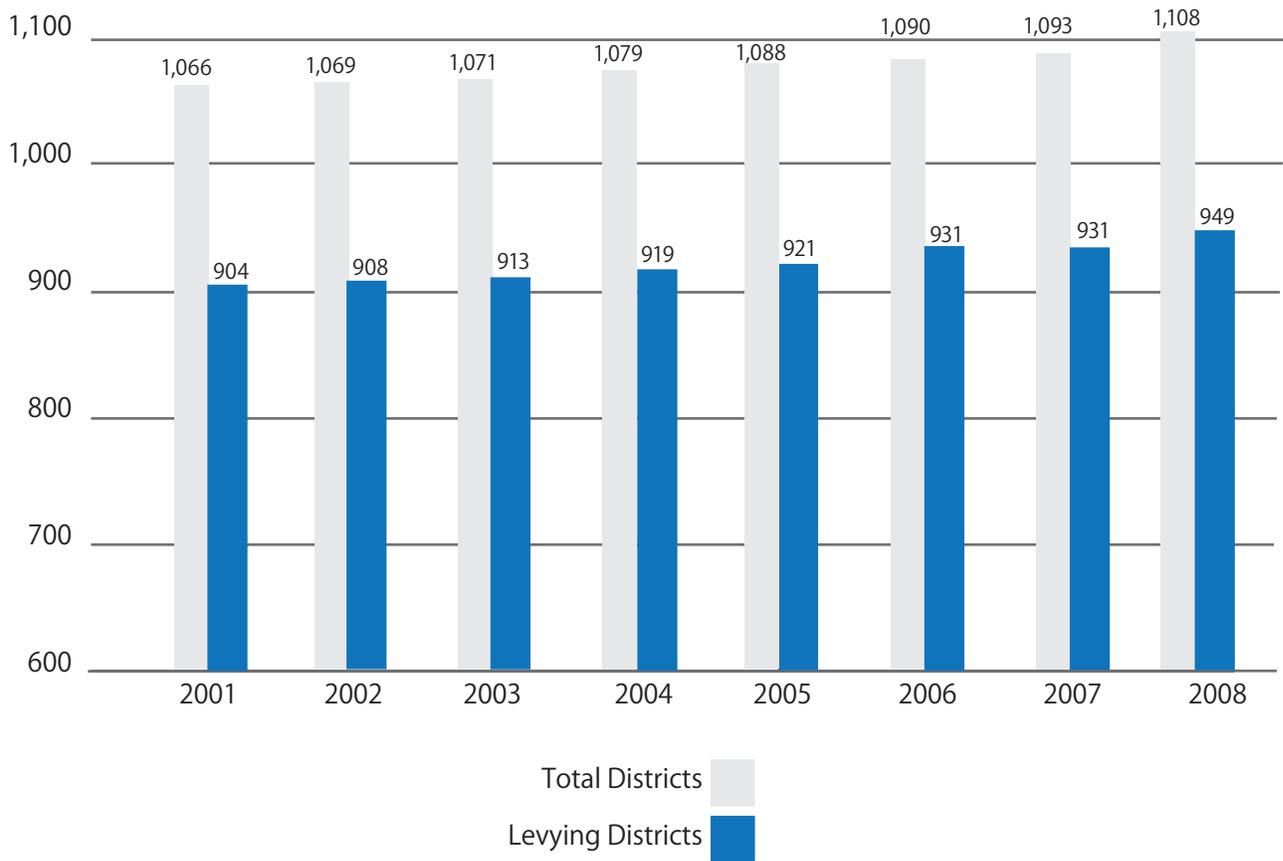
The chart below shows how taxing districts used the 2008 property tax and the dollars they budgeted.



Property Taxing Districts

A taxing district is a unit of government that is established to provide public services. Some districts, like cities and counties, provide a variety of services. Most have a limited purpose, such as mosquito abatement, flood control, etc. Not all taxing districts actually levy taxes, even though they're legally authorized to do so. About 14 percent of taxing districts didn't levy property taxes in 2008. Taxing districts overlap, and a property owner pays taxes to more than one district. Each piece of property lies in a unique "tax code area," which is defined by the combination of taxing districts that govern it. In 2008 there were 3,431 tax code areas in Idaho.

Taxing Districts



“It looks like the folks at the Idaho Tax Commission hit a home run with a simple and useful GIS application.”

— Patrick

Property Tax Reduction (Circuit Breaker)

Idaho's Property Tax Reduction (Circuit Breaker) Program offers property tax relief to low-income elderly, widowed, disabled, and other eligible homeowners. Begun in 1974, it grew out of a widow's exemption program and was expanded in 1981 to include the categories listed above.

The 2008 Property Tax Reduction Program allowed up to \$1,320 in property tax reduction for eligible households, depending on their income. As income rises, the amount of property tax reduction decreases.

The chart below shows changes in the program since 1999.

Tax Year	Approved Claimants		Benefits Paid		Eligibility	
	Number	Change From Prior Year (%)	Average \$ Per Claimant	Total (\$ mil)	Maximum Income (\$)	Maximum Benefit (\$)
2008	27,831	-1.3	554.43	15.43	28,000	1,320
2007	28,202	-1.9	543.12	15.32	28,000	1,320
2006	28,737	7.8	534.09	15.35	28,000	1,320
2005	26,656	0.6	579.46	15.46	22,040	1,200
2004	26,493	1.8	564.93	14.97	21,580	1,200
2003	26,031	5.5	540.78	14.08	21,290	1,200
2002	24,684	6.8	517.39	12.77	20,750	1,200
2001	24,175	-0.1	496.38	12.00	20,050	1,200
2000	24,209	-0.5	483.29	11.70	19,570	1,200
1999	24,331	-0.4	471.42	11.47	19,310	1,100



“The employees in the Idaho State Tax Commission Office are the most professional, helpful, courteous and attentive I have ever had the pleasure to come in contact with. I was never made to feel uncomfortable and all of my questions or concerns were addressed in full each and every time I contacted your office.”

— Sharon

Ratio Study

Idaho law requires that all property be assessed at market value. The Idaho State Tax Commission is responsible for making sure each county assessor is assessing property at market value. To do this, the Tax Commission conducts annual ratio studies in each county. These are used to evaluate the assessment process in the counties and to equalize the distribution of state school funds and local school property taxes.

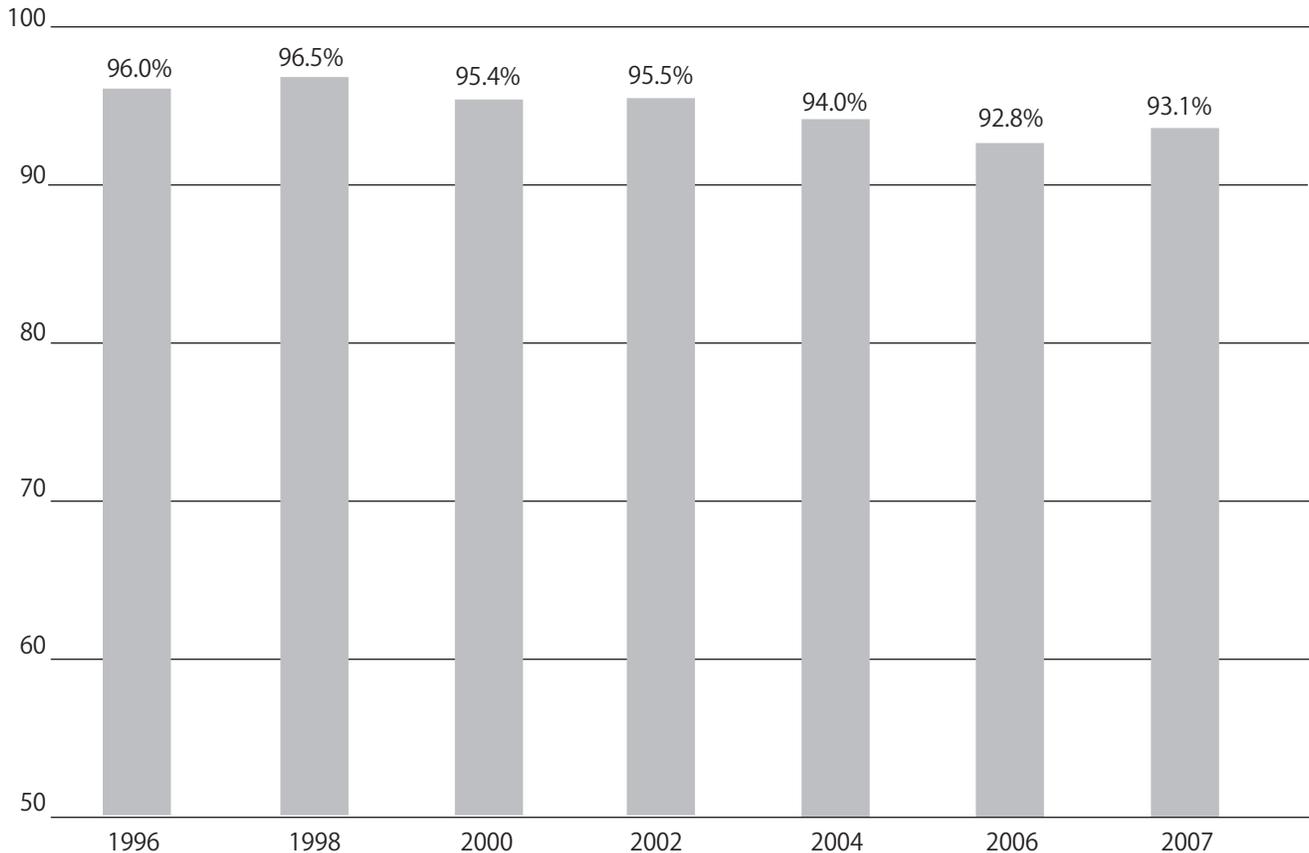
The ratio study is a type of statistical analysis in which assessments are compared to sale prices for residential and commercial property in each county and school district. The ratio study provides measurements of assessment quality by determining the typical level and relative uniformity of the assessments.

The results are reported to the State Board of Equalization (consisting of tax commissioners), which meets annually to review property assessments by category. The Tax Commission has established assessment level standards based on nationally recognized practices. Categories that don't meet these standards may be subject to additional testing or to adjustments by the Tax Commission.

The chart below shows long-term patterns in the residential assessment level.

Average assessment level for improved urban residential property

100% = Market Value



Tax Burden Study

Comparisons among Idaho, the Western states, and the nation are highlighted below. The Western states used for comparison are Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. Percentages indicate how much of the average person's 2006 total income was spent on each tax in fiscal year 2006. This comparison includes state and local taxes.

Type of Tax	National Average (%)	Idaho Average (%)	Median of 11 Western States (%)
Property	3.10	2.94	2.92
Sales	2.56	2.56	3.31
Individual Income	2.60	2.90	2.34
Corporate Income	0.44	0.47	0.47
Motor Vehicle	0.65	0.83	0.63
Overall	11.04	10.70	10.70

The chart below compares Idaho 2006 taxes to the national average of taxes divided by income after adjusting for differences in income or population among the states. It also shows the number of states using each tax and includes Washington, D.C.

Type of Tax	Income		Population		# of States With Tax
	% of U.S. Average	Rank	% of U.S. Average	Rank	
Property	87.1	31	70.4	38	51
Sales	96.5	26	78.0	38	47 *
Individual Income	115.0	18	92.9	27	44
Corporate Income	94.6	23	76.5	30	47
Motor Vehicle	154.3	5	124.7	11	51
Overall	95.1	34	76.9	46	51

*Includes Alaska, which has local sales tax but no state sales tax.

Tax Commission Contacts

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tax.idaho.gov

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Pocatello: 611 Wilson Ave., Suite 5

Twin Falls: 440 Falls Ave.



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