

IDAHO

Tax Commission

2009 Annual Report



Tightening Our Belt

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This annual report gives an overview of Idaho's major tax revenues and describes various tax-related programs administered by the Idaho Tax Commission. Property tax statistics cover the 2008 calendar year. Sales, income, and other taxes are reported for fiscal year 2009 (July 1, 2008, through June 30, 2009).

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

The Tax Commission spent fiscal year 2009 tightening our belt because of budget cutbacks due to the economic downturn. To meet the challenge posed by the decline in our staff resources, we have reallocated job duties as much as possible to align remaining resources to the most productive positions. We also conducted an exhaustive assessment of all our business processes, and we've implemented numerous changes to save money and be more efficient in our jobs.

In addition, we have begun a thorough analysis of Idaho's tax gap (see p. 16 of this report). The tax gap is the difference between the tax imposed by law and what taxpayers actually pay voluntarily and on time. The tax gap represents an opportunity to bring in more revenue to the state without creating any new taxes.

The agency's newest commissioner—David Langhorst—signed on this year and has launched into the task of researching and analyzing the tax gap. He served as both a state representative and senator and rose to assistant minority leader in the Idaho Senate. Langhorst was also a member of the Local Government and Taxation Committee and served on two interim committees on tax policy.

The Tax Commission is optimistic about the challenges that lie ahead. As Idaho's revenue collecting agency, we feel a heightened sense of responsibility in helping our Governor and Legislature navigate the way through a struggling economy. We are energized by the opportunities we've had to fine-tune our operations and focus on our mission. And we are working hard to turn our opportunities into meaningful results in fiscal year 2010.



Royce Chigbrow
Chairman



Sam Haws
Vice Chairman



Tom Katsilometes



David Langhorst

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. Our FY2009 goals were:

- 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.

Highlights

Income tax withholding changes benefit employers

The agency combined two reporting forms into one, making it easier for employers to report their annual income tax withholding. Many agency employees were involved in this undertaking, which included making computer programming changes, revising forms and returns, developing information materials, and updating [A Guide to Idaho Income Tax Withholding](#) to educate more than 61,000 employers.

New e-file service offered for 1099 returns

We offered employers a free service to file their 1099s electronically on our Web site. The service also allows them to e-file other information returns, including 1098s and W-2Gs.

Online calculator helps taxpayers estimate their property taxes

We partnered with Idaho counties to help property owners calculate their property taxes. We placed a calculator on our Web site that allowed taxpayers in 19 counties to estimate the taxes they owed for 2009.

Internal detection saves the state money

Thanks to good detective work, our employees identified a number of suspicious income tax returns and stopped \$409,909 in fraudulent refunds from being issued. And employees reviewing property tax reduction applications saved the state \$413,000 that would otherwise have been paid to ineligible claimants.

Grocery credit refund program implemented for low-income Idahoans

After a new law increased the number of people who qualified for the grocery credit refund, the Tax Commission partnered with state agencies and nonprofit organizations to spread the word to the new people who qualified—low-income Idahoans who aren't required to file a tax return. We also created new forms and flyers to make it

(continued on next page)

easier for people to claim the refund. We received almost 57,000 returns and paid more than \$5.3 million in refunds to low-income citizens.

Credit card changes save the state money

The Tax Commission stopped absorbing the bank fees to process credit/debit card and e-check payments and passed those fees on to taxpayers using those payment services. This new measure will save the state \$2 million annually by charging only the individuals who use credit/debit cards or e-checks instead of spreading the cost to all Idahoans.

Outreach programs continue to grow

We gave more than 200 presentations to more than 3,200 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.
- A small business webinar 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.
- Workshops providing sales and use tax information to car dealers and financial agencies.
- Training for college students on how to fill out Idaho income tax returns.
- Presentations to farmers' market vendors about their sales tax responsibilities.
- Continuing education courses for county commissioners, treasurers, and assessors.
- Seminars for motor carriers about the International Fuels Tax Agreement (IFTA) and International Registration Plan (IRP) programs and their recordkeeping requirements.
- Instructions to state prison inmates on preparing federal and state income tax returns.
- Presentations to civic and business groups 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 manu- facturing, 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).

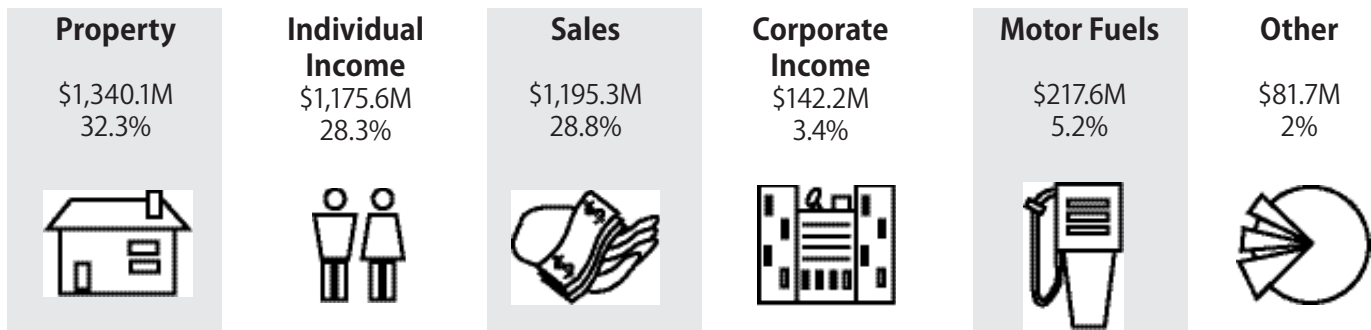
Audit and Collections

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	FY2006	FY2007	FY2008	FY2009
Sales & Use Tax	\$8,392,199	\$21,521,883	\$10,923,324	\$10,986,467
Withholding	196,331	602,192	408,007	486,910
Motor Fuel Taxes	699,760	992,777	550,245	2,410,601
Miscellaneous Taxes (Cigarette, Tobacco, Beer, Wine)	1,013,219	267,779	584,282	872,233
Income Taxes:				
Corporate	20,344,507	13,214,314	24,254,576	13,452,079
Individual	12,619,039	13,261,622	18,935,671	15,804,679
Estate Tax	148,476	0	14,993	0
Travel & Convention and Greater Boise Auditorium District	4,484	2,974	4,326	4,687
Total Audit Recoveries	43,418,015	49,863,541	55,675,424	44,017,656
Collections of Delinquent Taxes	122,343,532	112,677,805	141,633,791	120,254,001
Total Enforcement Revenues	\$165,761,547	\$162,541,346	\$197,309,215	\$164,271,657

State and Local Taxes Collected - FY2009*



* Property tax reflects calendar year 2009. Property tax amounts reflect approved budgets and may not represent actual collections. Sales tax includes revenue sharing; income tax includes Permanent Building Fund.

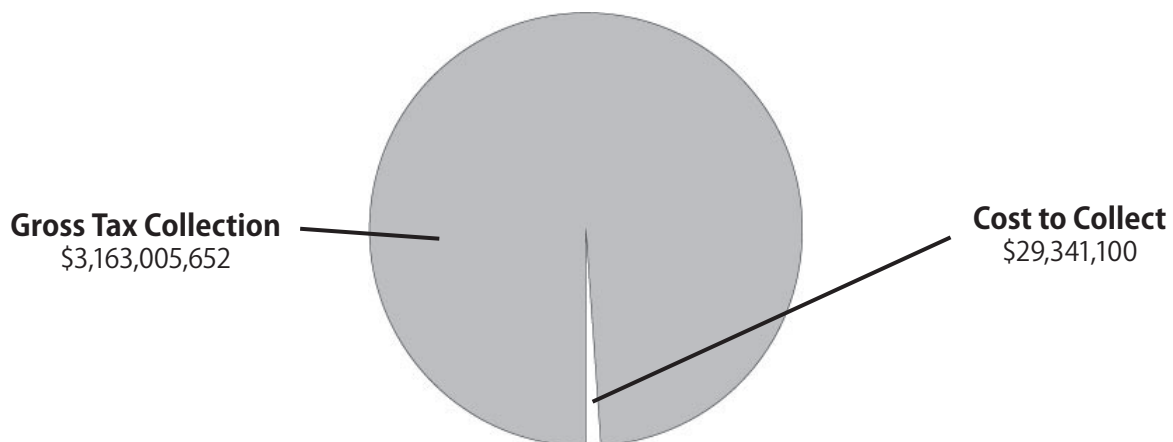
Idaho Revenues

The Tax Commission collected revenues totaling more than \$3 billion in fiscal year 2009. This was a decrease of more than \$428 million or about 11.9 percent from the previous year.

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

Source	FY2008	FY2009	% Change
Individual Income Tax	\$1,705,036,185	\$1,478,272,661	(13.3)
Corporate Income Tax	212,879,756	174,502,954	(18.0)
Sales & Use Tax	1,339,278,004	1,201,248,330	(10.3)
Cigarette Tax	46,216,367	44,391,855	(4.0)
Tobacco Tax	8,349,574	8,466,987	1.4
Beer Tax	4,587,618	4,353,782	(5.1)
Wine Tax	3,124,900	3,964,738	26.9
Electricity (kilowatt hour)	1,599,181	2,018,222	26.2
Mine License Tax	3,829,532	1,430,032	(62.7)
Estate Tax	32,204	264,213	720.5
Unclaimed Property	12,897,167	9,719,884	(24.6)
Escheat Trust	(14,535)	233,532	(1706.7)
Motor Fuel Taxes	238,280,049	219,899,041	(7.7)
Boise Auditorium District Tax	4,311,970	3,754,740	(12.9)
Travel & Convention Tax	7,378,675	6,862,000	(7.0)
Illegal Drug Tax	151	326	116.3
Suspense (source not identified)	83,922	135,462	61.4
Miscellaneous	153,751	180,772	17.6
Railroad Car Co. Property Tax	111,132	133,289	19.9
Local Option Tax	3,323,349	3,163,519	(4.8)
Wine Direct Shipper Fee	8,725	9,313	6.7
Totals	\$3,591,467,677	\$3,163,005,652	(11.9)

Tax Revenues vs. Cost to Collect - FY2009



Distribution of Revenues

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

Fund	FY2008	FY2009	Change
General Fund	\$2,698,412,350	\$2,363,619,686	(\$ 334,792,664)
Fish & Game Donation	54,298	44,246	(10,052)
Abandoned Mine Reclamation Fund	1,300,705	485,163	(815,542)
Petroleum Storage Trust	1,398,476	2,075,275	676,799
Cancer Control Fund	374,957	360,294	(14,663)
Central Tumor Registry	149,980	144,115	(5,865)
Substance Abuse Treatment (Alcohol Intox.)	1,287,279	1,342,131	54,852
County Juvenile Probation	4,821,625	4,704,717	(116,908)
Water Pollution Control	4,800,000	4,800,000	0
Idaho Travel & Convention	7,255,551	6,730,263	(525,288)
Veterans Support Donation (new fund)	N/A	43,003	43,003
Cooperative Welfare Fund (new fund)	N/A	181,890	181,890
State Aeronautics Fund	1,601,396	1,816,016	214,620
Parks & Rec Motor Fuels	4,791,314	4,525,807	(265,507)
Local Bridge Inspection	100,000	100,000	0
Railroad Grade Crossing	250,000	250,000	0
Highway Distribution Fund	219,256,669	205,248,611	(14,008,058)
Search & Rescue Fund	41,237	38,953	(2,284)
Motor Fuel Distribution Fund	1,537,565	(84,756)	(1,622,321)
Multistate Tax Compact	1,871,623	1,855,168	(16,455)
Administrative & Accounting Fund	248,400	252,963	4,563
Motor Fuels Administrative Fund	3,563,100	3,669,500	106,400
Wine Direct Shipper Fee to ISP	3,225	3,050	(175)
Guard & Reserve Support Donation	76,667	47,805	(28,862)
Permanent Building Fund	43,804,105	41,068,849	(2,735,256)
Miscellaneous Income	145,969	176,777	30,808
Public School Endowment	5,495,211	5,144,941	(350,270)
Children's Trust Donation	85,092	65,272	(19,820)
Revenue Sharing & Counties	152,578,192	136,994,687	(15,583,505)
Circuit Breaker	15,405,563	15,459,099	53,536
Sales Tax - Ag Property Relief	8,487,103	8,487,103	0
Sales Tax - Demonstration Pilot Project Fund	932,755	1,448,521	515,766
Counties - Estate Tax	3,220	26,421	23,201
State Refund Fund	395,772,044	336,200,612	(59,571,432)
Refund Fund - County Juvenile Probation	532,201	299,883	(232,318)
Unclaimed Property	7,270,252	7,937,558	667,306
Trust Fund - Escheat	(44,787)	226,480	271,267
Election Campaign Fund	35,631	34,320	(1,311)
Suspense Fund	121,525	172,447	50,922
Boise Auditorium District	4,294,654	3,741,415	(553,239)
Grape Growers & Wine Producers	155,526	197,594	42,068
Special Olympics Donation (new fund)	N/A	36,132	36,132
Local Option Tax	3,197,003	3,033,641	(163,362)
Totals	\$3,591,467,677	\$3,163,005,652	(\$ 428,462,024)

Tax Revenue Sharing

In fiscal year (FY) 2009, 11.5 percent of Idaho's sales tax revenue was distributed to local governments. 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 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 FY2009 fourth quarter portion of these totals was distributed in July 2009 (FY2010).



"I want to compliment you on your website. It is outstanding, very easy to download, and simple to follow. I also want to compliment you on your outstanding taxpayer service, phone assistance, and easy access, all of which show professionalism."

— Sandra

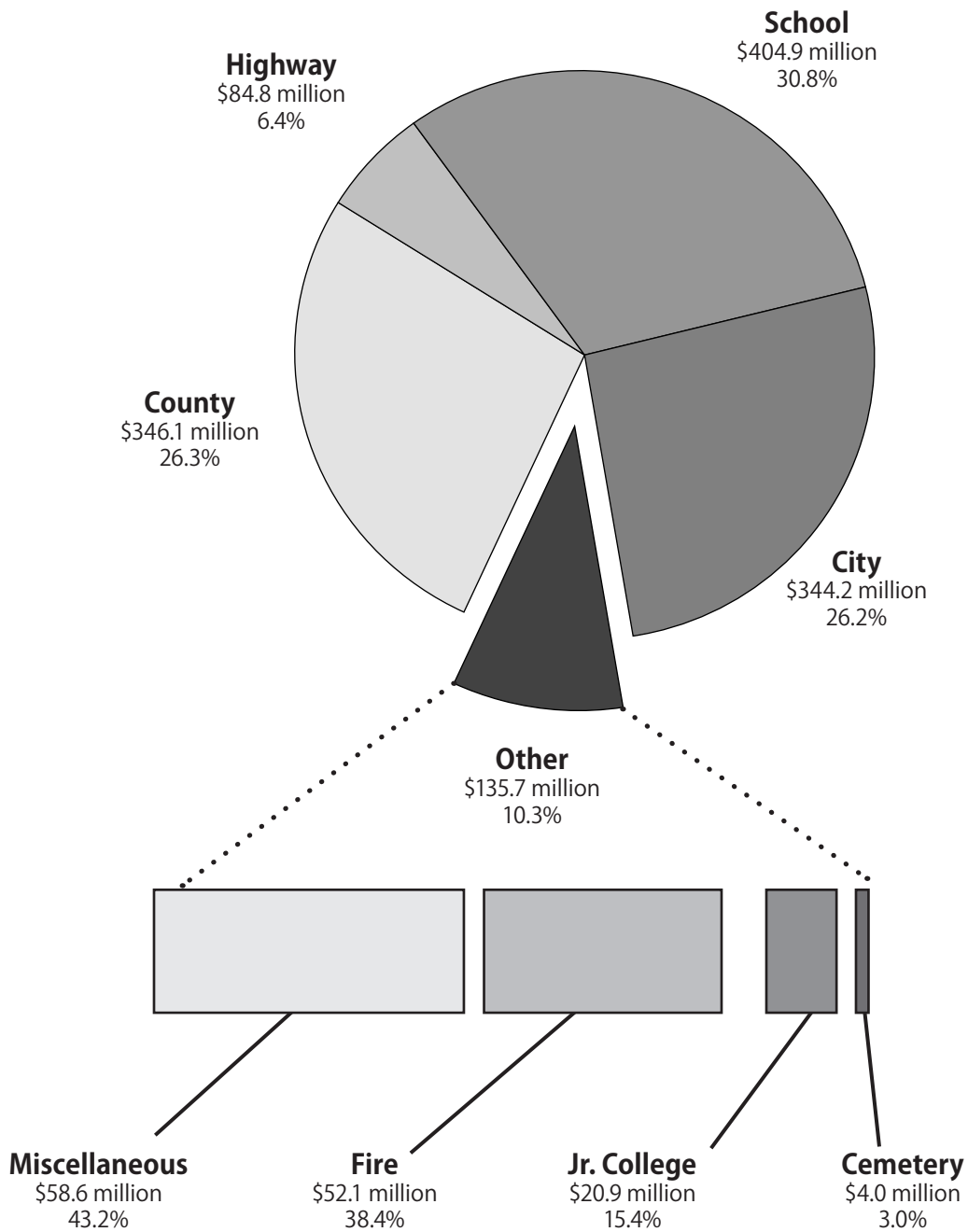
Average Property Tax Rates

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

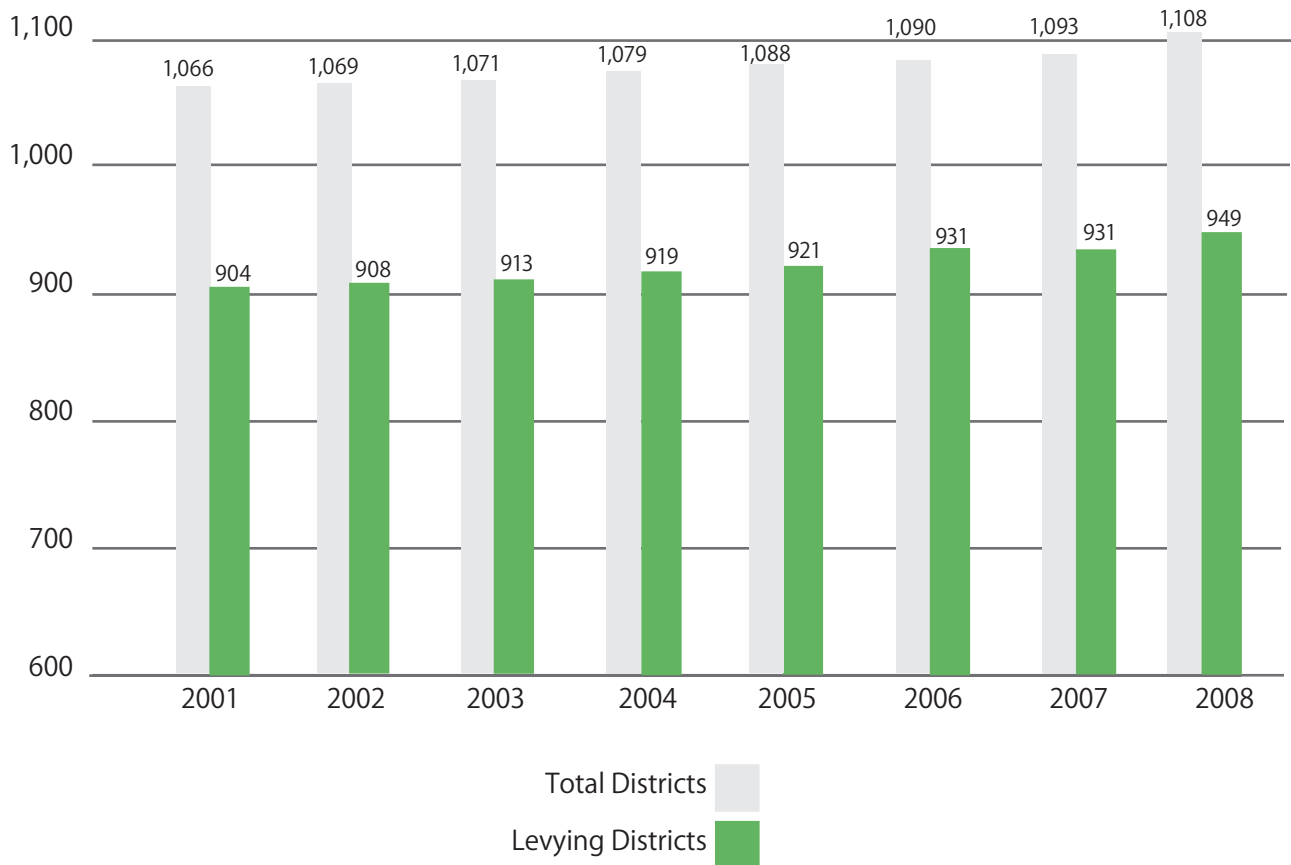
The chart below shows how taxing districts used the 2008 property tax and the dollars they budgeted.



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



"Thank you very much for your time and help.... We truly appreciated your kindness, support, and energy...."

— Dusadee

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



"We were very impressed with [the auditor's] experience, professionalism and great understanding demeanor. She obviously has the ability to 'read' her clients well and treat them with sincerity and respect while maintaining the Commission's audit intent."

— Steve

Ratio Study

Idaho law requires that all property be assessed at market value. The 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.

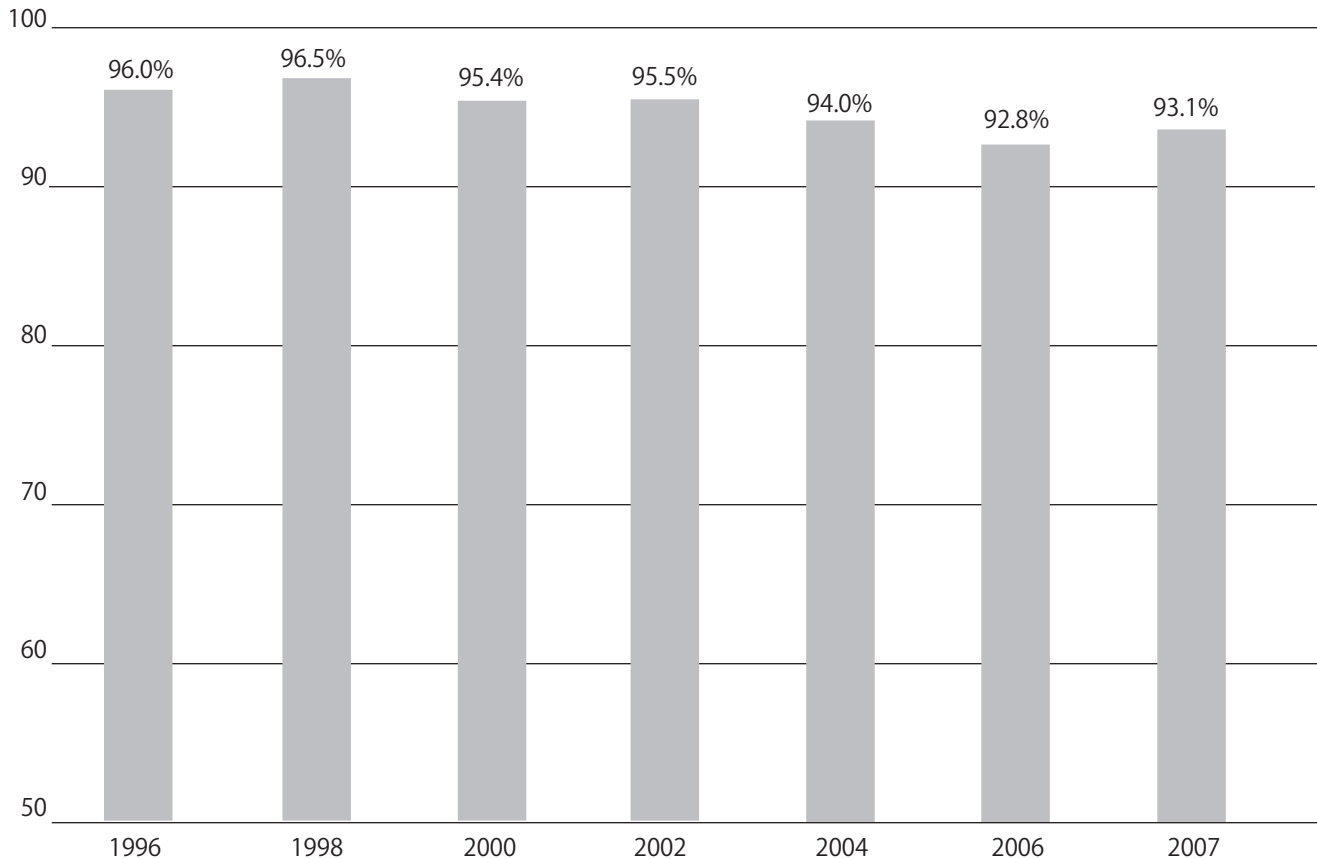
The ratio study is a type of statistical analysis in which assessments are compared to sale prices for residential and commercial property in each county and school district. The ratio study provides measurements of assessment quality by determining the typical level and relative uniformity of the assessments.

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 2007 total income was spent on each tax in fiscal year 2007. This comparison includes state and local taxes.

Type of Tax	National Average (%)	Idaho Average (%)	Median of 11 Western States (%)
Property	3.31	2.33	2.83
Sales	2.58	2.68	3.14
Individual Income	2.50	2.94	2.40
Corporate Income	0.52	0.39	0.39
Motor Vehicle	0.51	0.76	0.62
Overall	11.02	9.97	10.54

The chart below compares Idaho 2007 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	70.5	41	58.6	42	51
Sales *	103.6	21	86.2	29	47
Individual Income	117.7	18	97.9	23	44
Corporate Income	75.4	32	62.7	35	47
Motor Vehicle	150.0	6	124.7	13	51
Overall	90.5	42	75.2	46	51

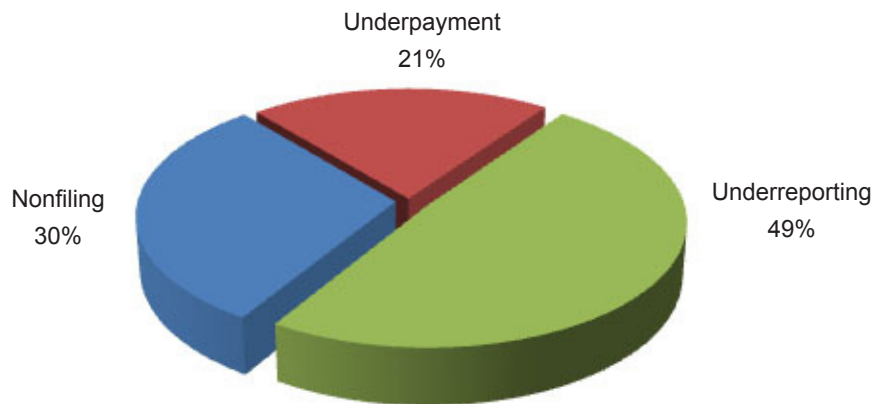
* Sales tax reflects four months at a 5% rate and eight months at the current 6% rate.

Idaho's Tax Gap

The tax gap is the difference between the tax imposed by law and what taxpayers actually pay voluntarily and on time. The tax gap is important because it imposes an unfair burden on those who pay on time and accurately, it erodes public confidence in the voluntary tax system, and it reduces revenue needed for the state to provide services.

According to a Tax Commission analysis, Idaho's tax gap includes:

- Underreporting – not reporting the full tax liability on a timely filed return (understated income or overstated deductions or credits)
- Underpayment – not paying the full amount of tax reported on a timely filed return
- Nonfiling – not filing returns on time or not paying on time



The Tax Commission is committed to helping reduce the tax gap by continuing our research and analysis, educating policymakers and the public, and implementing specific compliance initiatives when funding is available. To this end, we have estimated the portion of the tax gap that can be collected in a cost-effective way and written two business plans to achieve our goal of closing the tax gap. For more information, see our report on [Idaho's Tax Gap, 2009](#), available on our Web site.

Settlement Agreements for FY2009

A settlement is a written agreement between the Tax Commission and a taxpayer to settle disputed tax liabilities. The Tax Commission considers entering into a settlement when it determines there's a legitimate doubt about the liability or collectability of taxes, or when the taxpayer can demonstrate extreme financial or personal hardship.

The Tax Commission performed more than 14,000 audits in FY2009. Of the 273 protested cases handled by the Tax Commission, 26 resulted in settlement agreements. Seven of these involved reductions of \$50,000 or more to the disputed amount of tax due. The Tax Commission will present a complete report on settlements to the Legislature during its 2010 session.



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