

2002

ANNUAL REPORT

IDAHO STATE TAX COMMISSION

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This annual report gives an overview of Idaho's major tax revenues for 2002 and describes various tax-related programs administered by the Idaho State Tax Commission. Property tax statistics cover the 2002 calendar year. Sales, income, and other taxes are reported for fiscal year 2002, which ended June 30, 2002.

Mission Statement

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

A Message from the Commissioners

2002 marked a year of firsts for the Tax Commission.

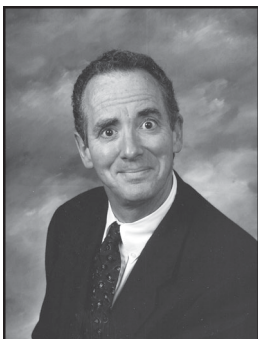
We completed the final phase of our CATS (Convert All Tax Systems) Project, making Idaho the first state to use commercial off-the-shelf software created specifically for taxing agencies. This software, which replaced an aging tax processing system, saved Idaho taxpayers millions of dollars and years of development and project time. It also improved our effectiveness in tax administration and taxpayer services.

We became the first state to offer free online filing for truckers licensed under the International Fuel Tax Agreement in North America. Our efforts received national recognition from the Federation of Tax Administrator's electronic newsletter, *Tax Express*, and *Government Technology* magazine.

For the first time, our Web site launched free filing for Form 40EZ (short form for income tax), debuted an information section on property tax, and offered taxpayers the ability to research the status of their income tax refunds.

More achievements are listed in the Highlights section of this annual report.

With 2003 well under way, we look forward to many more firsts as we concentrate on improving services to taxpayers while working with limited resources.



Dewey Hammond
Chairman



Coleen Grant
Vice Chairman



Larry Watson



Sam Haws

Strategic Plan and Performance

The Tax Commission's strategic goals continued to provide the framework for the way the agency conducted business in 2002. These goals focus on the agency's commitment to improving voluntary compliance, maximizing resources, and increasing employee satisfaction. They are:

- Promote voluntary compliance with tax laws and improve enforcement efforts.
- Maximize efficient use of resources and promote fiscally responsible partnerships with stakeholders.
- Support an environment that promotes a workforce that is both encouraged and empowered.

A main focus for the Tax Commission in 2002 was to complete the CATS Project. It replaced an outdated and inflexible tax processing system with a modern system that provides more timely and accurate information to staff, taxpayers, and other stakeholders. The new system also lays the foundation for improving and expanding electronic services for taxpayers.

Business and industry leaders, legislators, and other government officials attended the Tax Commission's annual stakeholders meeting in July of 2002. The session updated stakeholders on the agency's progress throughout the year and provided an opportunity to share ideas for the future.

Highlights

CATS Project reaches finale

The Tax Commission's three-year CATS Project finished early and under budget. The project converted the agency's tax administration system to GenTax[®], a more flexible system that allows easier access to data. The CATS Project is now serving as a model for other state revenue departments and Idaho agencies. The Tax Commission has been visited by several states interested in learning about commercial off-the-shelf software like GenTax[®], and staff members have been invited to give presentations on the new system at several national conferences.

Free online tax filing services debut

Taxpayers had an easier way to file their taxes thanks to two new online services offered for free by the Tax Commission. More than 9,000 taxpayers filed the 40EZ income tax short form electronically, and truckers licensed under the International Fuel Tax Agreement (IFTA) filed 16 percent of IFTA returns online.

Income tax electronic filing continues to surge

More than 156,000 individual income tax returns were filed electronically in 2002. This is an increase of 18 percent over last year and amounts to 28 percent of the total returns filed in 2002. Returns filed electronically are virtually error free and reduce processing costs.

Web site features exciting new enhancements

The Tax Commission introduced a new button on its Web site to help taxpayers determine the status of their income tax refunds and unveiled an extensive new property tax section to serve taxpayers and county personnel. We also expanded the unclaimed property section to allow taxpayers to search for unclaimed property by city, and we added dollar range amounts within the search results. Also, the Web site was named a finalist in the 2002 Best of the Web national awards contest, placing 12th out of 350 entries.

Employees volunteer their time for free tax return preparation

Tax Commission employees volunteered their time to provide free tax help to low-income taxpayers at VITA (Volunteer Income Tax Assistance) sites throughout the state during the tax season. They also offered free tax assistance at two malls in the Treasure Valley and last-minute help at the Boise main post office on April 15.

Have you hugged your tax lady today?

Taxpayer Donna Heimback (right) hugs Tax Commission Auditor Johnna Brock at the Boise main post office on April 15. Brock has been offering free tax help to low-income families and the elderly for more than 20 years. (Photo by Kim Hughes, courtesy of *The Idaho Statesman*)



Senior Tax Auditor Johnna Brock has worked for the Tax Commission for 13 years, but has been volunteering in the VITA program for more than 20 years. The VITA program was organized by the Internal Revenue service (IRS) and is designed to provide free tax preparation for low-income families with simple returns. Each year, Tax Commission and IRS volunteers host sites throughout the state, including on evenings and weekends, to try to make filing taxes less painful for those who can't afford to hire a professional tax preparer.

Since she started working at the Tax Commission, Brock has spent every April 15 helping others with their tax returns. In fact, she has built strong bonds with the public through her undying dedication. Each year Brock and taxpayer Donna Heimback look forward to getting together over taxes at the main post office in Boise.

In a recent e-mail to Brock, Heimback reflected on their time together, *"I am so impressed with all of you guys who volunteer on tax day. You really make it fun.... You guys are the best. Thank you so much for being there."*

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	4%	Exception: Long-term residents (those who stay more than 30 days) are exempt.
Cigarette Tax	Package of 20	\$0.28	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 water-generated electricity used for irrigation, manufacturing, mining, milling, smelting, refining, or processing.
Estate Tax	Generally, taxable estates of more than \$1 million (for dates of death through 12-31-02, then changes to \$2 million)	Variable	This tax consists of only the federal state death tax credit. The federal estate tax tables are used for computation.
Gasoline Tax	Gasoline Aviation fuel Jet fuel	\$0.25/gallon \$0.055/gallon \$0.045/gallon	Off-road users get refunds for tax on gasoline used in equipment and auxiliary engines. Exception: Idaho National Guard aircraft.
Illegal Drug Stamp Act	Marijuana Controlled substance sold by weight Controlled substance sold by dosage	\$3.50/gram \$200/gram \$200 per 50 dosages	
Mine License Tax	Value of ores mined or extracted	1%	
Personal Income Tax	Idaho taxable income	1.6% to 7.8%, depending on income	
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.	5%	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	
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

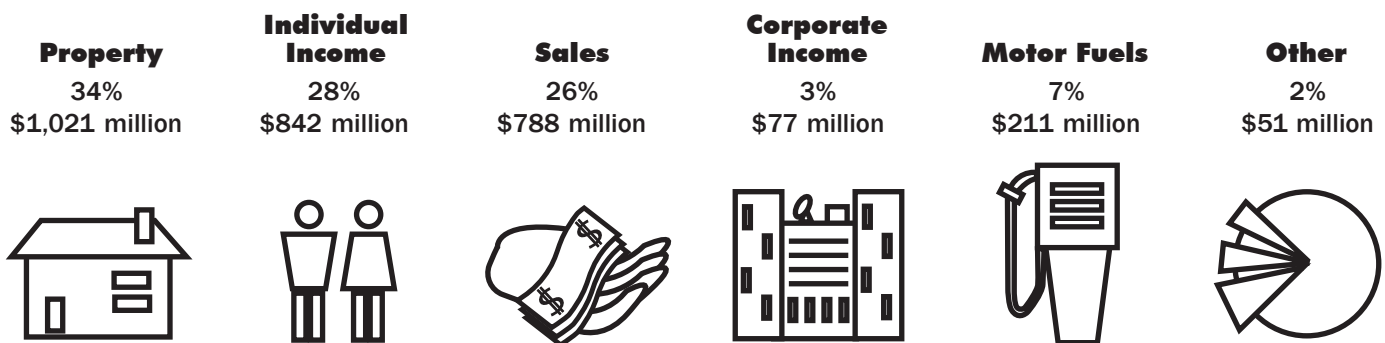
The Tax Commission is responsible for conducting audits of tax returns filed by individuals and businesses and for collecting taxes owed that have not been paid. The program encourages voluntary compliance with tax laws and enforces those laws in cases where voluntary compliance is lacking.

The figures below represent a four-year comparison of revenues generated by audit and collections.

Source	FY 1999	FY 2000	FY 2001	FY 2002
Sales & Use Tax	\$14,801,921	\$6,293,166	\$9,500,135	\$8,315,593
Withholding	185,748	301,391	156,260	369,906
Motor Fuel Taxes	541,729	1,102,020	927,241	506,258
Miscellaneous Taxes (Cigarette, Tobacco, Beer, Wine)	0	173	89,505	18,813
Income Taxes:				
Corporate	7,723,254	11,250,989	6,870,761	12,301,119
Individual	7,636,482	10,635,686	8,729,513	10,438,813
Estate Tax	57,358	197,817	111,952	1,277,720
Travel & Convention and Greater Boise Auditorium District	0	0	2,620	2,277
Unclaimed Property*	773,992	553,081	644,598	685,304
Mine License	1,258,682	0	0	0
TOTAL AUDIT RECOVERIES	32,979,166	30,334,323	27,032,585	33,915,803
Collections of Delinquent Taxes	51,101,040	64,480,399	64,960,342	80,140,076
TOTAL ENFORCEMENT GENERATED REVENUES	\$84,080,206	\$94,814,722	\$91,992,997	\$114,055,879

* Unclaimed property is unique because it is not a tax. These assets are merely held for safekeeping until the rightful heirs or owners can be found. Unclaimed property consists of the contents of safe deposit boxes, stocks, refund checks, and more.

State and Local Taxes Collected - FY2002*



* Property tax reflects calendar year 2002. Property tax amounts reflect approved budgets and may not represent actual collections. Sales tax includes revenue sharing; income tax includes Permanent Building Fund.

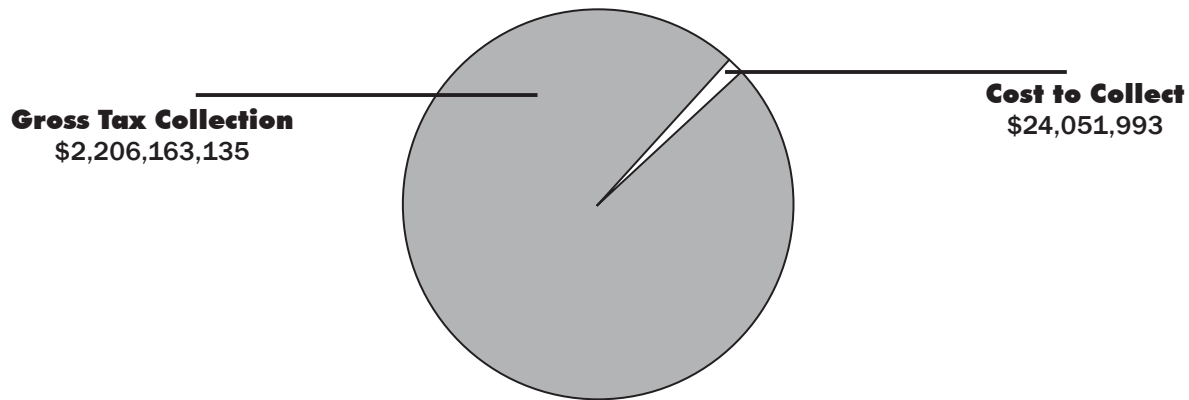
Idaho Revenues

The State Tax Commission collected revenues totaling \$2.2 billion in fiscal year 2002. This was a decrease of \$251 million or about 10.2 percent from the previous year.

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

Source	FY 2001	FY 2002	% Change
Individual Income Tax	\$1,200,254,667	\$1,033,900,324	-13.8
Corporate Income Tax	173,578,812	110,751,222	-36.2
Sales & Use Tax	778,886,914	791,623,566	1.6
Cigarette Tax	23,550,634	23,410,260	-0.6
Tobacco Tax	4,723,008	4,946,753	4.7
Beer Tax	3,866,352	3,993,719	3.3
Wine Tax	2,295,458	2,300,850	0.2
Electricity (kilowatt hour)	1,796,320	1,794,653	-0.1
Mine License Tax	245,269	1,236,740	404.2
Estate Tax	41,376,285	9,070,686	-78.0
Unclaimed Property	6,905,447	5,794,678	-16.0
Escheat Trust	4,448	4252	-4.4
Motor Fuel Taxes	205,729,909	213,919,875	4.0
Boise Auditorium Dist. Tax	2,726,958	2,569,830	-5.7
Travel & Convention Tax	5,086,806	4,912,981	-3.4
Illegal Drug Tax	7,171	4360	-39.2
Suspense (source not identified)	5,863,061	-4,319,754	-173.6
Miscellaneous	114,815	120,148	4.6
Railroad Car Co. Property Tax	131,705	127,992	-2.8
TOTALS	\$2,457,144,039	\$2,206,163,135	-10.2

Tax Revenues vs. Cost to Collect - FY2002



Distribution of Revenues

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

Fund	FY 2001	FY 2002	Change
General Fund	\$1,800,290,842	\$1,594,613,452	(\$205,677,390)
Fish & Game Donation	55,011	53,672	(1,339)
Abandoned Mine Reclamation Fund	61,476	420,388	358,912
Petroleum Storage Trust	45,539	14,066	(31,473)
Cancer Control Fund	375,042	375,977	935
Central Tumor Registry	150,017	150,395	378
Alcohol Intox. Treatment	1,047,434	1,071,117	23,683
County Juvenile Probation	4,457,259	4,485,411	28,152
Water Pollution Control	4,800,000	4,800,000	0
Idaho Travel & Convention	5,044,602	4,803,708	(240,894)
State Aeronautics Fund	1,687,135	1,591,377	(95,758)
Capital Improvement	1,244,697	1,264,767	20,070
Waterways Improvement	1,244,697	1,264,767	20,070
Off-Highway Improvements	1,244,697	1,264,767	20,070
Road & Bridge	648,279	658,733	10,454
Local Bridge Inspection	100,000	100,000	0
Railroad Grade Crossing	250,000	250,000	0
Highway Distribution Fund	197,004,831	201,449,984	4,445,153
Search & Rescue Fund	37,718	38,326	608
Motor Fuel Distribution Fund	(6,054,297)	(632,785)	5,421,512
Multistate Tax Compact	741,116	600,925	(140,191)
Substance Abuse Treatment	7,171	4,360	(2,811)
Administrative & Accounting Fund	36,216	107,500	71,284
Motor Fuels Administrative Fund	3,002,816	3,215,274	212,458
Permanent Building Fund	19,193,235	18,777,988	(415,247)
Miscellaneous Income	99,964	112,773	12,809
Public School Endowment	4,714,841	4,775,856	61,015
Children's Trust	72,759	73,349	590
Revenue Sharing & Counties	106,024,668	108,500,397	2,475,729
Circuit Breaker	11,711,317	11,983,517	272,200
Counties - Estate Tax	4,137,628	907,069	(3,230,559)
State Refund Fund	283,682,310	235,561,815	(48,120,495)
Refund Fund - County Juvenile Probation Svc.	125,877	162,453	36,576
Unclaimed Property	1,095,861	4,839,632	3,743,771
Trust Fund - Escheat	4,448	37,181	32,733
Election Campaign Fund	60,093	103,717	43,624
Suspense Fund	5,863,061	(4,319,754)	(10,182,815)
Boise Auditorium District	2,721,329	2,567,419	(153,910)
Grape Growers & Wine Producers	114,350	113,542	(808)
TOTALS	\$2,457,144,039	\$2,206,163,135	(\$250,980,904)

Sales Tax Revenue Sharing

Currently, 13.75 percent of Idaho's sales tax revenue is distributed to local governments. About 3.88 percent of Idaho's total sales tax revenue is distributed directly to cities. Half of this amount is distributed according to population, and the other half is based on the market value of property within each city.

Another 3.88 percent of the sales tax revenue is distributed directly to the counties. Each county receives a guaranteed annual amount of \$30,000. The rest is distributed according to population.

In addition, 6 percent of the sales tax is distributed to counties, eligible cities, and nonschool taxing districts according to a complicated formula based on amounts received in 1999, current population (for cities and counties), and current property taxes (for other eligible nonschool taxing districts). For more information on the formulas used for the distribution, contact the Idaho State Tax Commission.

Also, eligible taxing districts receive \$13.4 million annually in quarterly distributions from state income tax revenues to replace property tax on agricultural equipment that was exempted from property tax by legislation in 2001.

Distributions are made after the end of each quarter, so the FY 2001 fourth quarter portion of these totals was distributed in July 2002.



“Thank you so much for your recent help...It was very nice to deal with you and your outstanding customer service....It is so wonderful to know there is still superior customer service out there and you are definitely among the best I've had to deal with!”

— Kristie

Average Property Tax Rates

The figures below represent the 2002 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	1.6718	1.4016	Gem	1.6292	1.1643
Adams	1.5250	1.0421	Gooding	1.7929	1.1503
Bannock	2.3326	1.4308	Idaho	1.3219	0.8381
Bear Lake	1.3939	0.9779	Jefferson	1.8443	1.1711
Benewah	1.7128	1.0602	Jerome	1.9980	1.3001
Bingham	2.2042	1.4046	Kootenai	1.6543	1.2257
Blaine	0.6775	0.5679	Latah	2.3102	1.7698
Boise	1.3571	0.9882	Lemhi	1.3538	0.7460
Bonner	1.4040	0.9659	Lewis	1.9131	1.2935
Bonneville	2.1030	1.3948	Lincoln	1.8111	1.1893
Boundary	1.5177	1.1986	Madison	1.5312	1.3022
Butte	1.9709	1.3944	Minidoka	1.4680	1.0449
Camas	1.6886	1.0509	Nez Perce	2.1905	1.2389
Canyon	2.2044	1.4872	Oneida	1.7419	1.1665
Caribou	1.9351	1.1518	Owyhee	1.5606	1.1302
Cassia	1.5613	1.1657	Payette	2.2247	1.3423
Clark	1.2957	1.0521	Power	2.3897	1.5355
Clearwater	1.8272	1.0674	Shoshone	2.2850	1.5654
Custer	0.9604	0.7088	Teton	0.8387	0.6748
Elmore	1.9339	1.0994	Twin Falls	1.8325	1.1831
Franklin	1.5245	1.1937	Valley	1.2984	0.7768
Fremont	1.3781	0.9851	Washington	1.6073	0.9974
			OVERALL	1.6656	1.1748

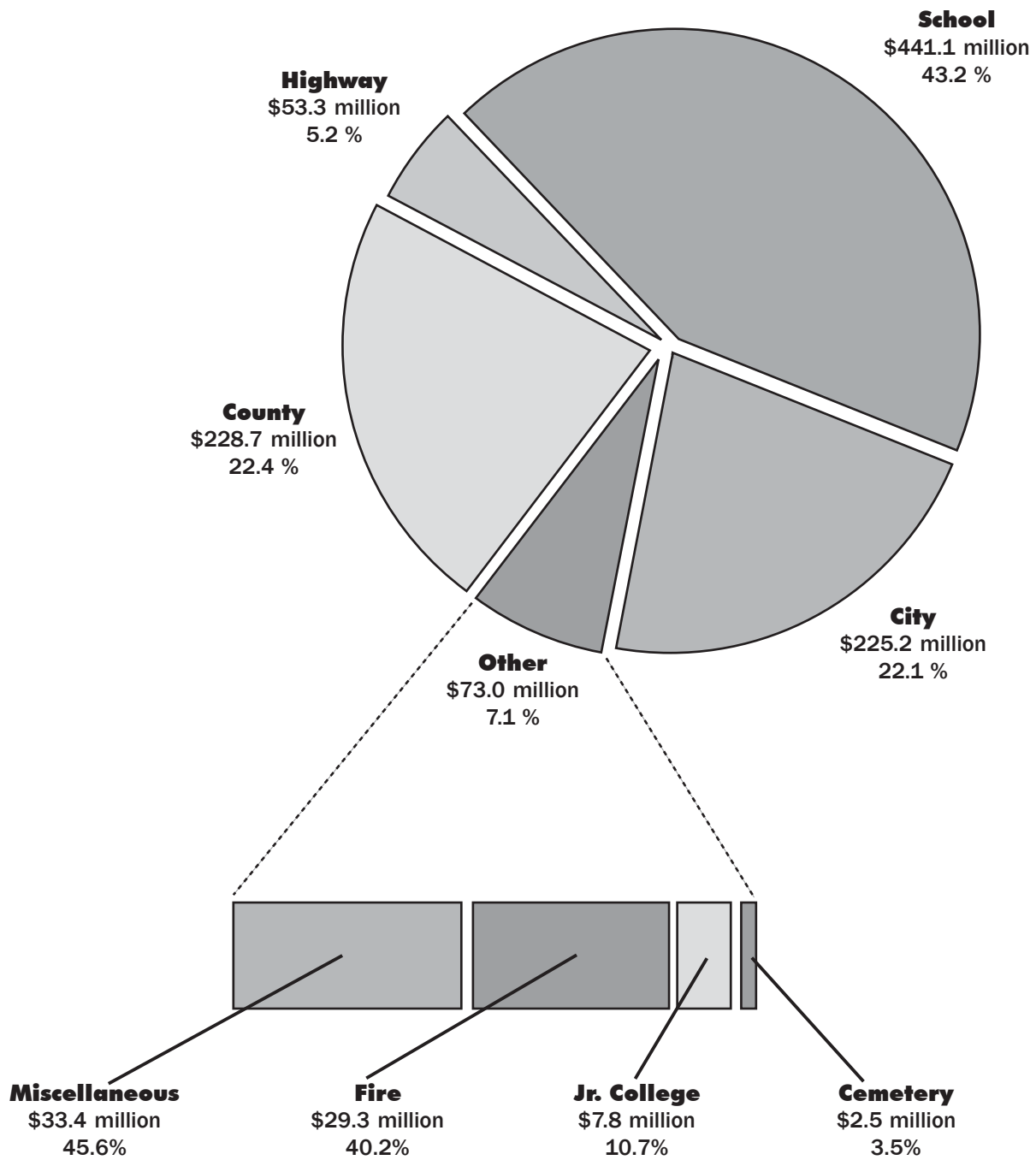


“I am a Missouri resident who stayed for a month over the summer in Idaho and worked. When it came time to do my taxes I was a little overwhelmed. I just wanted to say thank you because your well organized and easy to use web site made it easier for me in completing my taxes.”

— Jennifer

Property Tax Use

The chart below shows users of the 2002 property tax and the dollars budgeted to them.

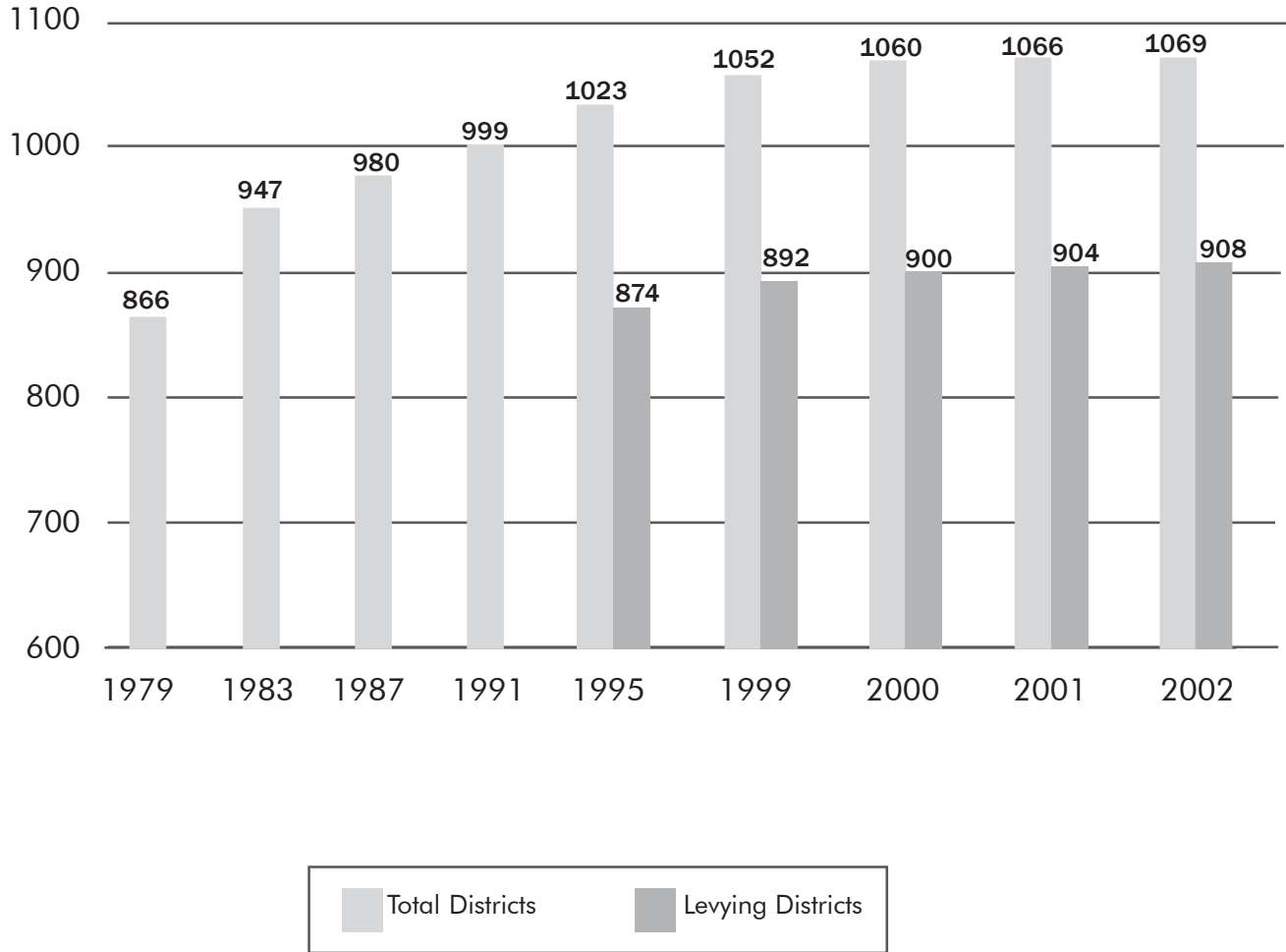


Property Taxing Districts

A taxing district is a unit of government which 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 are legally authorized to do so. About 15% of taxing districts did not levy property taxes in 2002. Taxing districts overlap and a property owner pays taxes to more than one district. Each piece of property lies in a "tax code area," which is defined by the combination of taxing districts that govern it. In 2002 there were 5,005 tax code areas in Idaho.

Taxing District or Authority	Total Statewide	Taxing District or Authority	Total Statewide
Ambulance	18	Levee	1
Auditorium	3	Library	56
Cemetery	180	Mosquito Abatement	12
City	201	Museum	0
Community College	2	Port	1
County	44	Recreation	30
Drainage	1	Regional Airport	0
Pest Control	5	School	114
Fire	145	Sewer	32
Flood Control	14	Sewer & Water	54
Highway - County Road & Bridge	101	Water	25
Hospital	20	Watershed Improvement	10
		TOTAL	1,069

Taxing Districts



“Bravo Idaho State Tax Commission! What a wonderful web site. Based in Utah, but dealing with tax exempt issues at one of our properties in Idaho, it was a sincere pleasure to find everything I needed for tax exempt issues on this web site. You have done a great service for out of state people needing tax information.”

— Sue

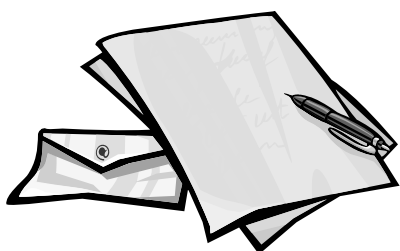
Property Tax Reduction (Circuit Breaker)

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 2002 Property Tax Reduction Program allowed up to \$1,200 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 1993.

Tax Year	Approved Claimants		Benefits Paid		Eligibility	
	Number	Change From Prior Year (%)	Average Per Claimant (\$)	Total (\$ mil)	Maximum Income (\$)	Maximum Benefit (\$)
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	1,200
1998	24,431	-0.8	445.75	10.89	18,920	1,100
1997	24,629	1.8	419.29	10.33	18,380	1,000
1996	24,185	-0.3	397.27	9.61	17,910	900
1995	24,254	5.4	363.04	8.81	17,430	800
1994	23,012	3.1	358.13	8.24	16,990	800
1993	22,324	5.2	336.04	7.50	16,510	800



I just wanted to let you know how pleasant and helpful your staff was in assisting me with my personal tax filing. They really live up to your mission statement. I also think your website is awesome, user friendly and informative. Thanks.

— Mike J.

Ratio Study

Idaho law requires that all property be assessed at market value. The State Tax Commission is responsible for making sure that 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.

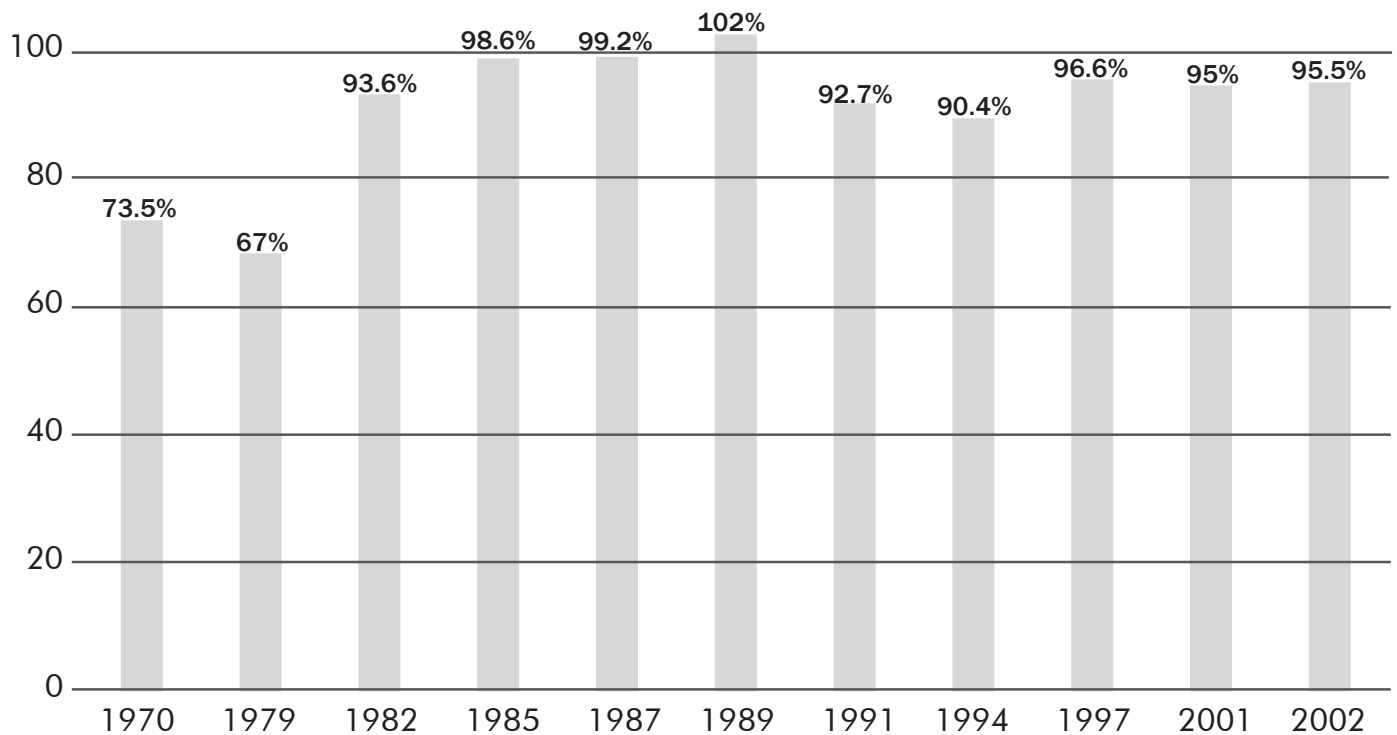
The ratio study is a statistical test in which assessments are compared to sale prices for representative sales of residential and commercial property in each county. The ratio study provides measurements of assessment quality by determining the overall level and comparative uniformity of the assessments.

The results are reported to the State Board of Equalization (consisting of Tax Commission members), which meets annually to review property assessments by category. The State Tax Commission has established assessment level standards based on nationally recognized practices. Categories that do not 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 between Idaho, the western states, and the nation are highlighted below. The western states used for comparison are Arizona, California, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. Percentages indicate how much of the average person's 2000 total income was spent on each tax in 2000.

Type of Tax	National Average (%)	Idaho Average (%)	Median of 11 Western States (%)
Property	3.09	2.88	2.88
Sales	2.66	2.48	3.50
Individual Income	2.62	3.20	2.59
Corporate Income	0.45	0.42	0.41
Motor Vehicle	1.07	0.59	0.81
OVERALL	10.80	10.92	10.69

The chart below compares Idaho 2000 taxes to the national average 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		Number of States with Tax
	% of U.S. Average	Rank	% of U.S. Average	Rank	
Property	93.2	29th	75.7	36th	51
Sales	93.0	31st	75.5	39th	47*
Individual Income	122.1	16th	99.2	23rd	44
Corporate Income	93.5	21st	75.9	25th	47
Motor Vehicle	181.9	4th	147.7	6th	51
OVERALL	101.1	20th	82.1	39th	51

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

Idaho State Tax Commission Contacts

Web site

www2.state.id.us/tax

Telephone

334-7660 in the Boise area
or (800) 972-7660 toll free

Office Locations

Boise: 800 Park Blvd., Plaza IV

Coeur d'Alene: 1910 N.W. Blvd., Suite 100

Idaho Falls: 150 Shoup Ave., Suite 16

Lewiston: 1118 F St.

Pocatello: 611 Wilson Ave., Suite 5

Twin Falls: 1038 Blue Lakes Blvd. N., Suite C



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