

Idaho State Tax Commission 2003 Annual Report

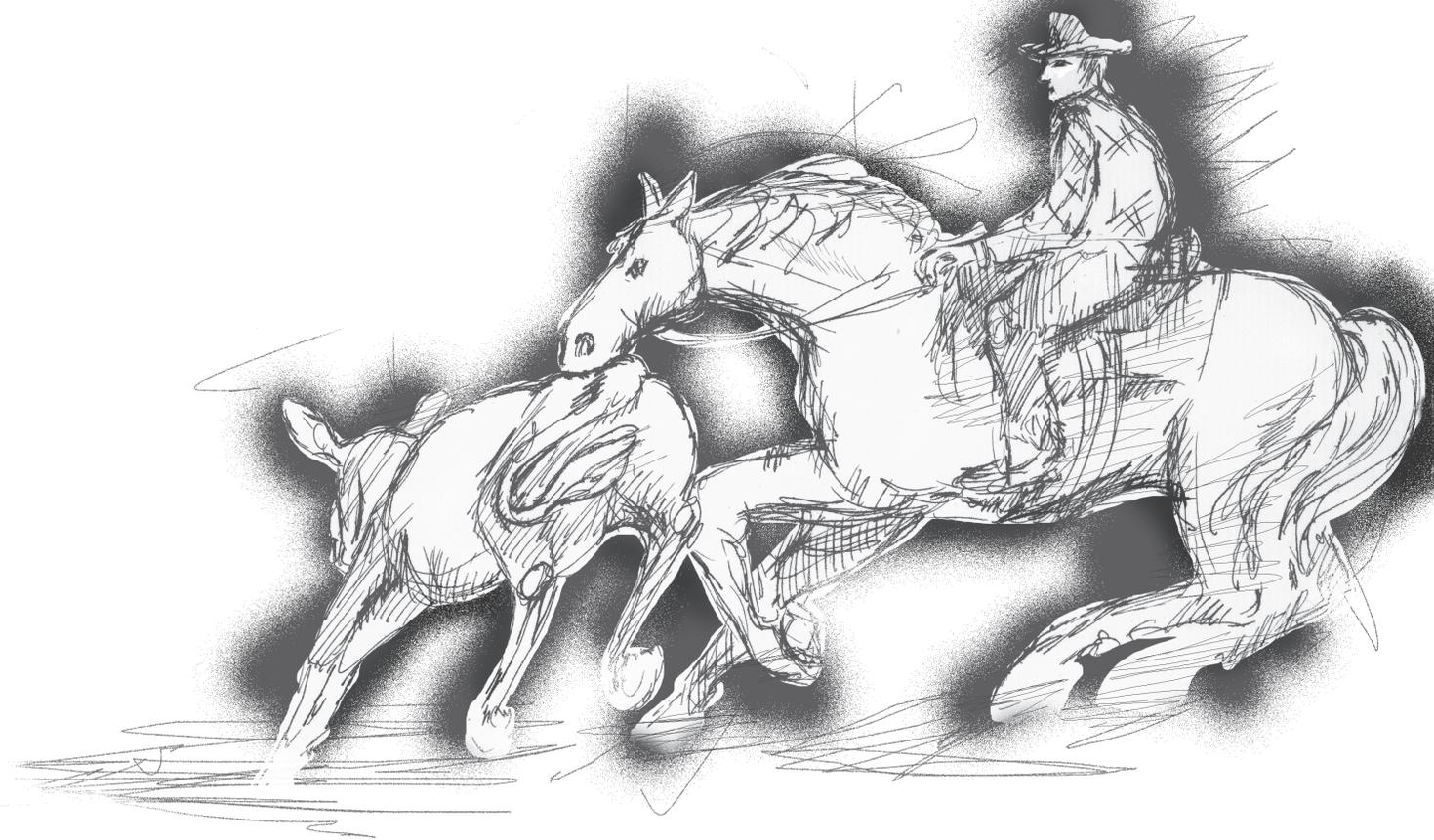


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This annual report gives an overview of Idaho's major tax revenues for 2003 and describes various tax-related programs administered by the Idaho State Tax Commission. Property tax statistics cover the 2003 calendar year. Sales, income, and other taxes are reported for fiscal year 2003, which ended June 30, 2003.

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

Despite budget cuts due to an economic downturn, the Tax Commission was able to accomplish its goals during a difficult year with less money and fewer employees.

We increased audit and collection recoveries over last year, despite having to defer filling 41 general fund job vacancies at the start of the fiscal year. Much of the revenue boost was due to the increased workload carried by collection employees who exceeded the average workloads of neighboring states by 50 to 100 percent. We also increased productivity through the use of our new database software, which automates routine tasks and keeps more accurate track of results.

Our biggest accomplishment by far was the successful implementation of the sales and cigarette tax increases in a short time frame. More than 50 employees devoted time and effort to meet this challenge. Thanks to advanced planning and teamwork, we implemented the sales tax increase with less than a week's notice. By the time the cigarette increase occurred the following month, our employees knew exactly what to do.

More achievements by the Tax Commission team are listed in the Highlights section of this report.



Coleen Grant
Vice Chairman

Dewey Hammond
Chairman

Sam Haws

Larry Watson

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:

- 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.

Business and industry leaders, legislators, and other government officials attended the Tax Commission's annual stakeholders meeting in October of 2003. The session updated stakeholders on the agency's progress throughout the year and provided an opportunity to share ideas for the future.

Highlights

Tax Commission team implements sales and cigarette tax increases in record time

When the governor signed legislation to increase the sales tax rate to 6 percent less than a week after the bill's signing, the Tax Commission was ready to implement the change. In anticipation of the law, we formed a team at the beginning of the legislative session. The team identified and prepared the documents that needed to be changed, made programming updates, and developed information materials to educate retailers and the public. The day the governor signed the bill into law, we issued a press release, posted information on our Web site, and mailed information packets to more than 51,000 retailers. Our employees prepared for the cigarette tax increase in less than a month using the same teamwork and procedures they established to successfully implement the sales tax increase.

Web site services enhanced

We launched a new employment link on our Web site, improved our Property Tax pages by debuting online registration for county assessor training classes, and introduced the first interactive survey of ratio study practices for the states and Canadian provinces and territories. For the first time, we listed locations on our Web site where low-income taxpayers could get free tax preparation and filing assistance. We also added the comparative reports of monthly receipts and distributions.

Speaker's bureau teaches students and prisoners

Our speaker's bureau delivered 50 presentations to more than 650 taxpayers in 2003. The presentations included a joint project with the IRS, involving high school government classes throughout the state. We gave a civics lesson to more than 300 high school students to explain taxes, why we have to pay them, and how to prepare an income tax return. We also taught this civics course to prisoners in the Boise area as one of the classes they had to pass before applying for parole.

Businesses and the public educated about Unclaimed Property

As guardians of unclaimed property in Idaho, we began a series of educational presentations to businesses on their responsibility to report unclaimed property in their possession. We also created a new brochure to explain the unclaimed property requirements for business owners. In addition, we partnered with seven Idaho newspapers to regularly publish the names of potential unclaimed property owners. One claimant saw her name in a newspaper and recovered \$750,000.

Additional services benefit taxpayers during tax drive

For the first time, the Lewiston and Coeur d'Alene offices joined the Boise office in providing curbside service to taxpayers dropping off income tax returns on April 15. Besides collecting returns, employees handed out tax forms and IRS employees joined in the Boise event. Also, throughout the tax season, many employees volunteered their time to help low-income taxpayers prepare their returns as part of Tax Aide, a program sponsored by AARP.

Income tax electronic filing reaches new heights

During the 2003 filing season, one in three Idaho taxpayers filed their income tax returns electronically. This is a 36 percent increase over the previous year.

Tax Commission lauded for outstanding performance

- **Electronic filing program garners top e-file award among states**

The Idaho State Tax Commission had the best electronic tax filing program in the nation, according to the National Association of Computerized Tax Processors (NACTP). The association awarded our agency "Best Overall E-File Program for 2003." We won the honor over 40 other states with electronic filing programs.

- **Web site wins Press Club award**

The Tax Commission's award-winning Web site won first place for "Web Site General Excellence - Public Relations" in the Idaho Press Club's 2003 Excellence Awards. This is the fourth consecutive year our Web site has received an award from the Idaho Press Club.

- **County Support Section receives ProVal Information Technology Award**

Our County Support section garnered the "Outstanding ProVal Information Technology Department for 2003" award from Manatron, the makers of ProVal. ProVal is a product county assessors use to appraise property. County Support installs, converts, and supports the ProVal software product for 30 Idaho counties. We won the award for providing front-line technical support and training to the counties with minimal assistance from Manatron.

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 (more than 30 days in a row).
Cigarette Tax	Package of 20	\$0.28 (changed to \$0.57 on 6-1-03)	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 12-31-03, then changes to \$1.5 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 substances sold by weight Controlled substances 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% (changed to 6% on 5-1-03)	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

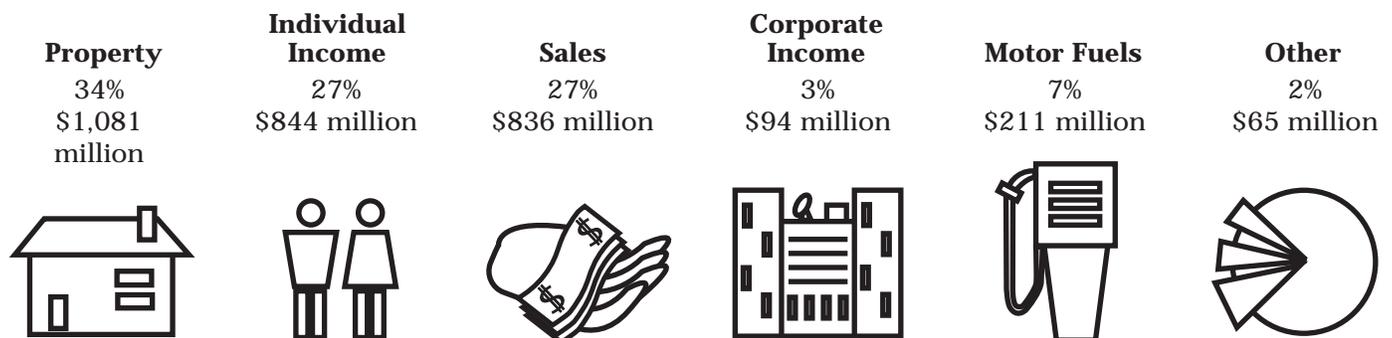
The Tax Commission is responsible for conducting audits of tax returns filed by individuals and businesses and for collecting taxes owed that have not been paid. The Audit and Collections program encourages voluntary compliance with tax laws and enforces those laws in cases where voluntary compliance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

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

Source	FY 2000	FY 2001	FY 2002	FY 2003
Sales & Use Tax	\$6,293,166	\$9,500,135	\$8,315,593	\$8,252,553
Withholding	301,391	156,260	369,906	296,762
Motor Fuel Taxes	1,102,020	927,241	506,258	557,701
Miscellaneous Taxes (Cigarette, Tobacco, Beer, Wine)	173	89,505	18,813	6,322
Income Taxes:				
Corporate	11,250,989	6,870,761	12,301,119	9,907,124
Individual	10,635,686	8,729,513	10,438,813	14,252,536
Estate Tax	197,817	111,952	1,277,720	44,475
Travel & Convention and Greater Boise Auditorium District	0	2,620	2,277	8,124
Unclaimed Property*	553,081	644,598	685,304	0
Mine License	0	0	0	0
TOTAL AUDIT RECOVERIES	30,334,323	27,032,585	33,915,803	33,325,597
Collections of Delinquent Taxes	64,480,399	64,960,342	80,140,076	87,108,305
TOTAL ENFORCEMENT-GENERATED REVENUES	\$94,814,722	\$91,992,997	\$114,055,879	\$120,433,902

* 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 - FY2003*



* Property tax reflects calendar year 2003. Property tax amounts reflect approved budgets and may not represent actual collections. Sales tax includes revenue sharing; income tax includes Permanent Building Fund.

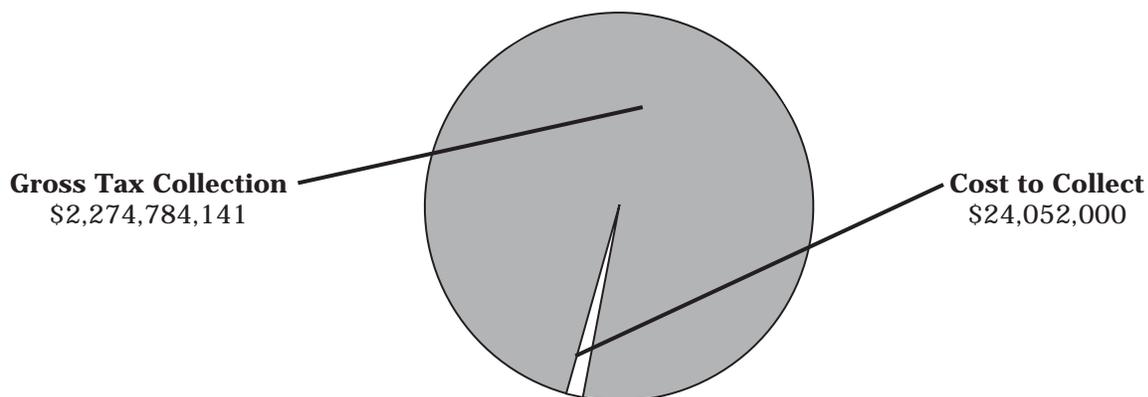
Idaho Revenues

The State Tax Commission collected revenues totaling over \$2.2 billion in fiscal year 2003. This was an increase of almost \$69 million or about 3.1 percent from the previous year.

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

Source	FY 2002	FY 2003	% Change
Individual Income Tax	\$1,033,900,324	\$1,033,471,076	-0.1
Corporate Income Tax	110,751,222	119,810,713	8.2
Sales & Use Tax	791,623,566	839,180,862	6.0
Cigarette Tax	23,410,260	24,214,967	3.4
Tobacco Tax	4,946,753	5,336,826	7.9
Beer Tax	3,993,719	4,070,882	1.9
Wine Tax	2,300,850	2,372,656	3.1
Electricity (kilowatt hour)	1,794,653	1,803,702	0.5
Mine License Tax	1,236,740	107,239	-91.3
Estate Tax	9,070,686	15,576,990	71.7
Unclaimed Property	5,794,678	8,504,102	46.8
Escheat Trust	4,252	16,470	287.4
Motor Fuel Taxes	213,919,875	212,172,155	-0.8
Boise Auditorium Dist. Tax	2,569,830	2,694,957	4.9
Travel & Convention Tax	4,912,981	5,044,435	2.7
Illegal Drug Tax	4,360	69,197	1,487.1
Suspense (unidentified source)	-4,319,754	90,631	-102.1
Miscellaneous	120,148	117,792	-1.9
Railroad Car Co. Property Tax	127,992	128,489	0.4
TOTALS	\$2,206,163,135	\$2,274,784,141	3.1

Tax Revenues vs. Cost to Collect - FY2003



Distribution of Revenues

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

Fund	FY 2002	FY 2003	Change
General Fund	\$1,594,613,452	\$1,654,271,853	\$59,658,401
Fish & Game Donation	53,672	55,026	1,354
Abandoned Mine Reclamation Fund	420,388	18,402	(401,986)
Petroleum Storage Trust	14,066	9,621	(4,445)
Cancer Control Fund	375,977	388,168	12,191
Central Tumor Registry	150,395	155,272	4,877
Alcohol Intox. Treatment	1,071,117	1,098,644	27,527
County Juvenile Probation	4,485,411	4,646,083	160,672
Water Pollution Control	4,800,000	4,800,000	0
Idaho Travel & Convention	4,803,708	4,930,773	127,065
State Aeronautics Fund	1,591,377	1,503,027	(88,350)
Capital Improvement	1,264,767	1,271,082	6,315
Waterways Improvement	1,264,767	1,271,082	6,315
Off-Highway Improvements	1,264,767	1,271,082	6,315
Road & Bridge	658,733	662,022	3,289
Local Bridge Inspection	100,000	100,000	0
Railroad Grade Crossing	250,000	250,000	0
Highway Distribution Fund	201,449,984	201,452,929	2,945
Search & Rescue Fund	38,326	38,518	192
Motor Fuel Distribution Fund	(632,785)	271,693	904,478
Multistate Tax Compact	600,925	457,698	(143,227)
Substance Abuse Treatment	4,360	69,197	64,837
Administrative & Accounting Fund	107,500	117,400	9,900
Motor Fuels Administrative Fund	3,215,274	2,356,200	(859,074)
Permanent Building Fund	18,777,988	18,769,330	(8,658)
Miscellaneous Income	112,773	110,612	(2,161)
Public School Endowment	4,775,856	4,921,536	145,680
Children's Trust	73,349	79,388	6,039
Revenue Sharing & Counties	108,500,397	112,947,416	4,447,019
Circuit Breaker	11,983,517	12,787,109	803,592
Counties - Estate Tax	907,069	1,557,711	650,642
State Refund Fund	235,561,815	234,357,267	(1,204,548)
Refund Fund - County Juvenile Probation	162,453	146,966	(15,487)
Unclaimed Property	4,839,632	4,743,756	(95,876)
Trust Fund - Escheat	37,181	(30,095)	(67,276)
Election Campaign Fund	103,717	32,848	(70,869)
Suspense Fund	(4,319,754)	90,631	4,410,385
Boise Auditorium District	2,567,419	2,685,280	117,861
Grape Growers & Wine Producers	113,542	118,614	5,072
TOTALS	\$2,206,163,135	\$2,274,784,141	\$68,621,006

Sales Tax Revenue Sharing

In fiscal year (FY) 2003, 13.75 percent of Idaho's sales tax revenue was distributed to local governments. About 3.88 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 3.88 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, 6 percent of the sales tax was 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 received \$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. 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 FY 2002 fourth quarter portion of these totals was distributed in July 2003.

"I wanted to write to you this morning to commend you for having such a wonderful staff! I needed help sorting out a problem and was given what I would call exceptional and personal care..."

I am thankful to have been in such competent and friendly hands with those in your department.

My best to you all."

Andrea



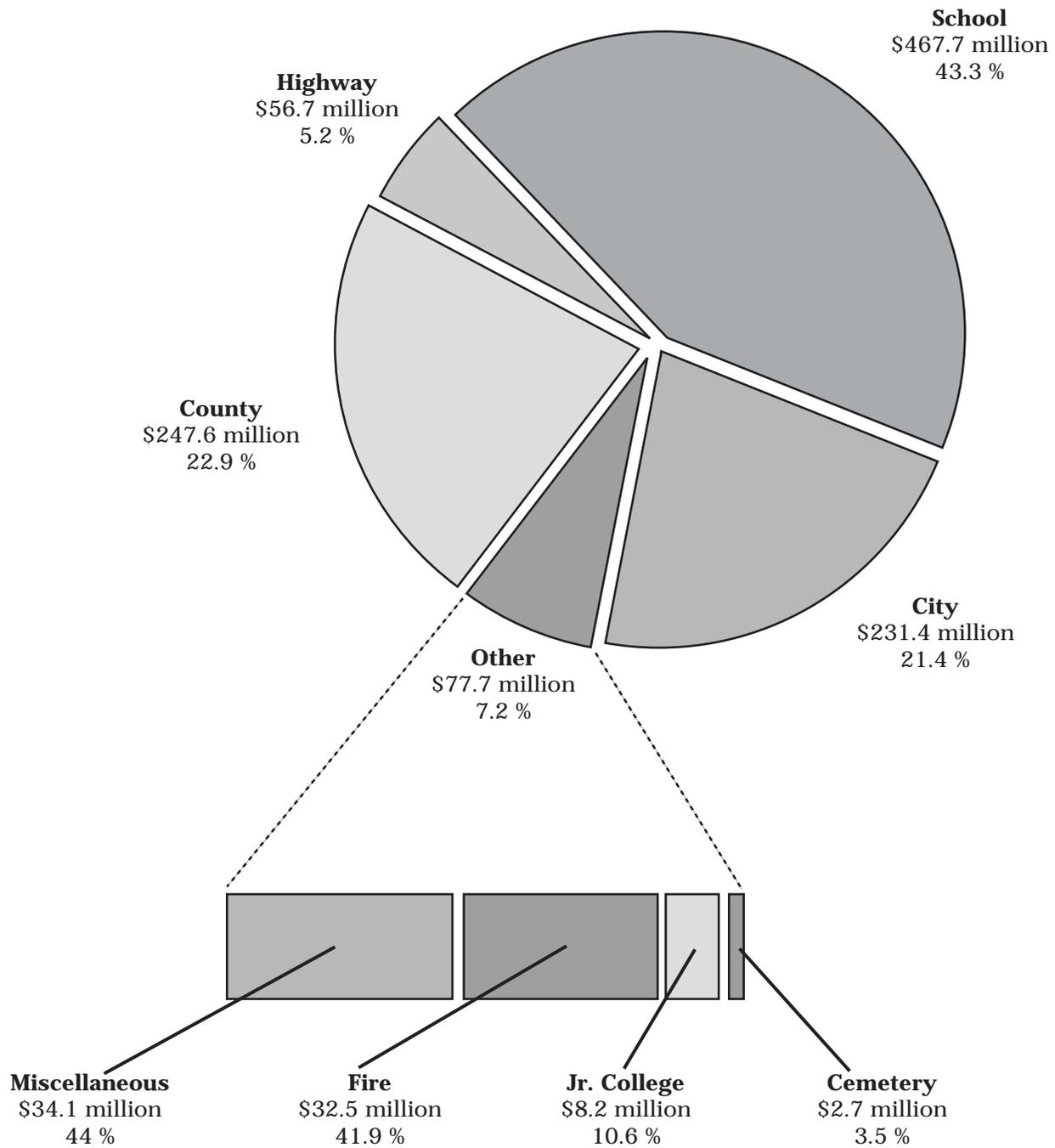
Average Property Tax Rates

The figures below represent the 2003 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	1.657	1.426	Gem	1.506	1.177
Adams	1.640	1.145	Gooding	1.825	1.168
Bannock	2.354	1.452	Idaho	1.311	0.823
Bear Lake	1.395	0.968	Jefferson	1.885	1.219
Benewah	1.725	1.091	Jerome	2.056	1.337
Bingham	2.219	1.433	Kootenai	1.754	1.321
Blaine	0.689	0.579	Latah	2.321	1.798
Boise	1.266	0.967	Lemhi	1.428	0.793
Bonner	1.424	0.991	Lewis	1.969	1.325
Bonneville	2.085	1.400	Lincoln	1.884	1.240
Boundary	1.566	1.240	Madison	1.497	1.275
Butte	1.851	1.260	Minidoka	1.619	1.112
Camas	1.965	1.280	Nez Perce	2.333	1.331
Canyon	2.197	1.473	Oneida	1.661	1.150
Caribou	1.978	1.199	Owyhee	1.536	1.225
Cassia	1.722	1.197	Payette	2.220	1.344
Clark	1.293	1.038	Power	2.462	1.627
Clearwater	1.906	1.124	Shoshone	2.295	1.562
Custer	1.050	0.782	Teton	0.840	0.670
Elmore	1.971	1.129	Twin Falls	1.859	1.204
Franklin	1.515	1.184	Valley	1.292	0.762
Fremont	1.406	1.017	Washington	1.907	1.257
			OVERALL	1.679	1.204

Property Tax Use

The chart below shows how taxing districts used the 2003 property tax and the dollars budgeted to them.

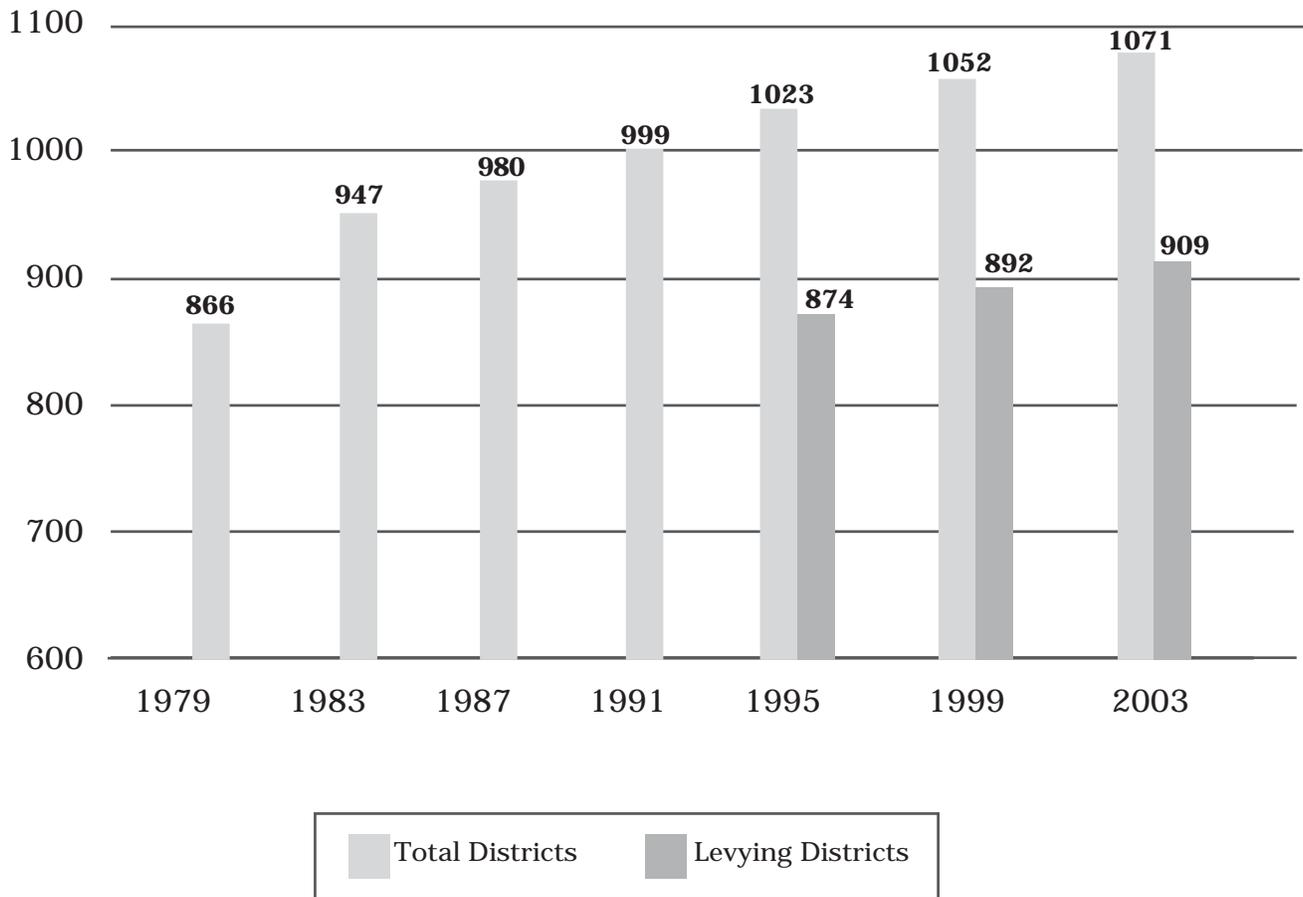


Property Taxing Districts

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 are legally authorized to do so. About 15 percent of taxing districts did not levy property taxes in 2003. 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 2003 there were 5,088 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	147	Sewer	32
Flood Control	14	Sewer & Water	53
Highway - County Road & Bridge	101	Water	26
Hospital	20	Watershed Improvement	10
		TOTAL	1,071

Taxing Districts



"I would like to offer my thanks and appreciation to the staff at the Idaho State Tax Commission. It is refreshing to work with professionals who are knowledgeable and care about what they do.

Again, thank you for the efforts of the Commission."

Mahlon



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 2003 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 1994.

Tax Year	Approved Claimants		Benefits Paid		Eligibility	
	Number	Change From Prior Year (%)	Average Per Claimant (\$)	Total (\$ mil)	Maximum Income (\$)	Maximum Benefit (\$)
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	1,200
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



"I have just completed filing my mother's Idaho 40EZ through the Idaho State Tax Commission web site. I just wanted to commend the ISTC and its staff for providing an extremely useful tool for Idaho taxpayers.

Thank you!"

Nick

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.

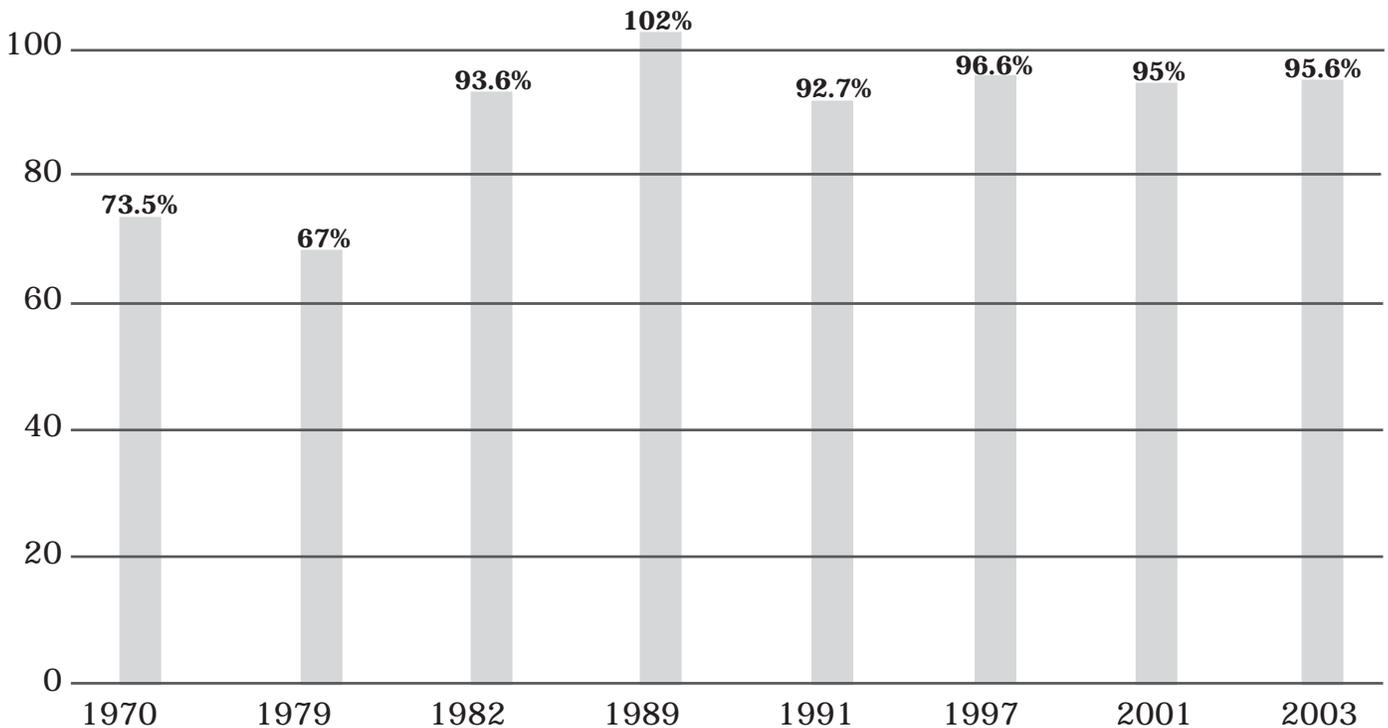
The ratio study is a type of statistical analysis in which assessments are compared to sale prices for residential and commercial property in each county and school district. The ratio study provides measurements of assessment quality by determining the typical level and relative uniformity of the assessments.

The results are reported to the State Board of Equalization (consisting of Tax Commission members), which meets annually to review property assessments by category. The 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 among 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 2002 total income was spent on each tax in fiscal year 2002. This comparison includes state and local taxes.

Type of Tax	National Average (%)	Idaho Average (%)	Median of 11 Western States (%)
Property	3.17	2.86	2.86
Sales	2.54	2.38	3.42
Individual Income	2.31	2.51	2.30
Corporate Income	0.32	0.23	0.20
Motor Vehicle	0.57	0.98	0.71
OVERALL	10.29	9.82	10.00

The chart below compares Idaho 2002 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	90.1	31	73.6	37	51
Sales	93.7	27	76.6	39	47*
Individual Income	108.9	22	89.0	30	44
Corporate Income	71.5	30	58.5	34	47
Motor Vehicle	172.8	3	141.3	8	51
OVERALL	95.4	38	78.0	44	51

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

Idaho State Tax Commission Contacts

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tax.idaho.gov

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Costs associated with this publication are available from the Idaho State Tax Commission in accordance with Idaho Code section 60-202.