



2004 Annual Report
Idaho State Tax Commission

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This annual report gives an overview of Idaho’s major tax revenues for 2004 and describes various tax-related programs administered by the Idaho State Tax Commission. Property tax statistics cover the 2004 calendar year. Sales, income, and other taxes are reported for fiscal year 2004, which ended June 30, 2004.

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

Thanks to an improved economy, stabilized budget, and dedicated employees, the Tax Commission processed more than 2 million returns and collected a record \$2.5 billion for fiscal year 2004.

We kept the cost of collecting revenue low. For every \$100 we collected, it cost us \$1.01; the national average is \$1.22.

We told legislators that if they gave us 10 new full-time positions and restored funding to 15 existing positions in Audit and Collections, we would bring in an extra \$9.4 million dollars in one year. We exceeded that prediction by nearly two to one!

Our employees successfully implemented two major projects that required a substantial amount of resources — eliminating the quarterly income tax withholding return filed by employers and administering the local option sales tax for Kootenai County.

As our economy continues to thrive, we are committed to finding more efficient ways to collect revenue and to educating Idaho's citizens about how to comply with Idaho's tax laws.

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



Dewey Hammond
Chairman



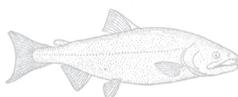
Coleen Grant
Vice Chairman



Sam Haws



Tom Katsilometes



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 September of 2004. The session updated stakeholders on the agency’s progress throughout the year and provided an opportunity to share ideas for the future.

Highlights

Employees exceed revenue expectations

The addition of 10 new employees and the restoration of 15 full-time positions previously left vacant brought in an additional \$15.4 million. This exceeded our revenue expectations by more than \$6 million and gave us a pay-back ratio of more than 11 to 1.

Withholding changes benefit businesses

Employers no longer have to file quarterly income tax withholding returns, thanks to a new law proposed by the Tax Commission and passed by the Legislature. This law change reduced the number of returns employers file and the Tax Commission processes by more than 100,000 annually. Many employees were involved in this undertaking, which included writing legislation, making programming changes, revising forms and returns, and developing information materials to educate more than 52,000 employers.

Tax Commission administers Kootenai County tax

At the request of Kootenai County, we began administering its new local option sales tax. Our services included registering more than 5,000 retailers for the tax, providing tax forms to each participating taxpayer, receiving and processing all tax payments and returns, and issuing taxpayer refunds.

Truckers’ audits combined under audit program merger

We assumed the responsibility for auditing truckers under the International Registration Plan (IRP) and Full Fee Registration Program when four auditors moved to the Tax Commission from the Idaho Transportation Department. The IRP and Full Fee programs audit the same trucking company records as the International Fuels Tax Audit (IFTA) program, which is administered by the Tax Commission. Merging the two audit functions streamlined audits for truckers and centralized information on registration fee and fuels tax issues.

Teamwork with other agencies provides improved service

We partnered with Idaho Commerce and Labor and the Idaho Industrial Commission to develop an application that allows business owners to apply online for the following accounts: sales tax, use tax, income tax withholding, unemployment insurance, Boise Auditorium District tax, and travel and convention tax. Taxpayers receive their permits and account number by mail within a few days of their electronic registration.

We teamed with the Idaho Transportation Department and the Idaho State Police to launch a new Web site to help truckers comply with the state's registration fees and fuels tax laws. The Idaho Trucking Portal at **trucking.idaho.gov** allows trucking companies to take care of state and industry-related business around the clock. The site offers information and services from each of the agencies and links to the transportation sites of neighboring states and the federal government.

Additional services benefit the military

We prepared tax relief information for packets given to Idaho military members being deployed to Iraq. We also added a special page on our Web site that provides tax relief information and Web links for Idaho military members and their families.

Web site enhancements offered

We launched training videos on the property tax section of our Web site, complete with audio instruction, to assist the mapping staffs of 44 Idaho counties; added a "Forgot to File?" Web page on our site to help individuals and businesses take the next step in filing a late or forgotten return; and added an education page listing classes offered by the Tax Commission. We also posted monthly sales and use tax reports sorted by county, and quarterly city revenue sharing reports.

Our Web site broke a record on April 15 when it received more than 1.2 million hits, the largest single day hit count for an Idaho state agency.

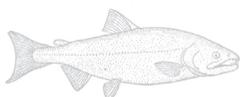
Free electronic filing services introduced

For the first time, the Idaho State Tax Commission partnered with the Free File Alliance to provide free electronic filing of federal and state income tax returns to qualifying taxpayers. The Free File Alliance is a public-private partnership agreement between 10 states (including Idaho), the Internal Revenue Service, and software companies in the tax preparation industry. About 60 percent of Idahoans who file taxes qualify for this free service, including senior citizens, young adults, people who are eligible for the earned income tax credit, and military personnel.

We also offered more than 56,000 businesses the option of filing their sales and use tax and employee income tax withholding returns for free online. The Tax Commission now manages five electronic filing programs for taxpayers who file and pay Idaho taxes. Taxpayers can also file fuels tax and International Fuels Tax Agreement returns on our Web site.

Income tax electronic filing continues to soar

During the 2004 filing season, almost half of Idaho taxpayers filed their income tax returns electronically. This is a 22 percent increase over the previous year.



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	\$0.57	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 water-generated electricity used for irrigation, manufacturing, mining, milling, smelting, refining, or processing.
Estate Tax	This tax consists of the federal state death tax credit. The federal estate tax tables are used for computation. The tax expires for deaths after 12-31-04.	Variable	
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 equip- ment 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%	Rate depends 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.	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	
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.

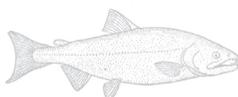
Source	FY 2001	FY 2002	FY 2003	FY 2004
Sales & Use Tax	\$9,500,135	\$8,315,593	\$8,252,553	\$10,370,712
Withholding	156,260	369,906	296,762	87,601
Motor Fuel Taxes	927,241	506,258	557,701	1,060,971
Miscellaneous Taxes (Cigarette, Tobacco, Beer, Wine)	89,505	18,813	6,322	16,996
Income Taxes:				
Corporate	6,870,761	12,301,119	9,907,124	15,388,589
Individual	8,729,513	10,438,813	14,252,536	10,481,107
Estate Tax	111,952	1,277,720	44,475	5,065
Travel & Convention and Greater Boise Auditorium District	2,620	2,277	8,124	378
Unclaimed Property*	644,598	685,304	0	0
Mine License	0	0	0	0
TOTAL AUDIT RECOVERIES	27,032,585	33,915,803	33,325,597	37,411,419
Collections of Delinquent Taxes	64,960,342	80,140,076	87,108,305	98,855,462
TOTAL ENFORCEMENT REVENUES	\$91,992,997	\$114,055,879	\$120,433,902	\$136,266,881

*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 - FY2004*

Property	Individual Income	Sales	Corporate Income	Motor Fuels	Other
\$1,151M 34%	\$878M 26%	\$1,009M 30%	\$101M 3%	\$217M 6%	\$50M 1%
					

*Property tax reflects calendar year 2004. Property tax amounts reflect approved budgets and may not represent actual collections. Sales tax includes revenue sharing; income tax includes Permanent Building Fund.



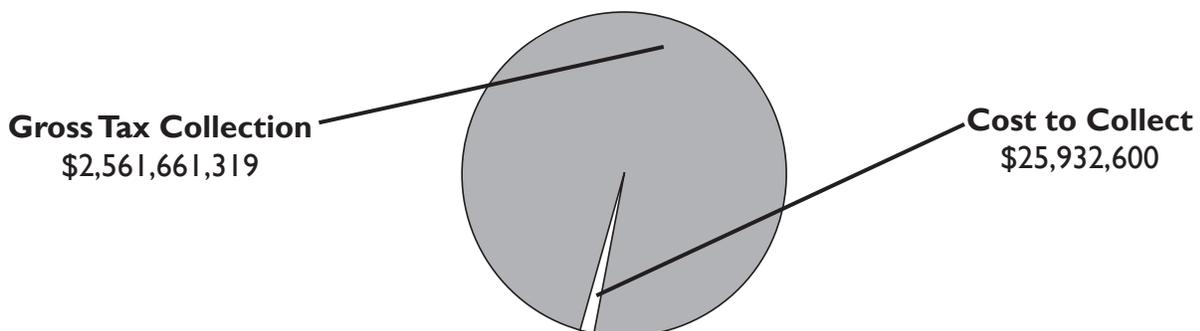
Idaho Revenues

The Tax Commission collected revenues totaling over \$2.5 billion in fiscal year 2004. This was an increase of almost \$300 million or about 12.6 percent from the previous year.

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

Source	FY 2003	FY 2004	% Change
Individual Income Tax	\$1,033,471,076	\$1,097,096,603	6.2
Corporate Income Tax	119,810,713	126,911,498	5.9
Sales & Use Tax	839,180,862	1,032,987,504	23.1
Cigarette Tax	24,214,967	45,718,940	88.8
Tobacco Tax	5,336,826	6,285,447	17.8
Beer Tax	4,070,882	4,159,877	2.2
Wine Tax	2,372,656	2,576,928	8.6
Electricity (kilowatt hour)	1,803,702	1,827,040	1.3
Mine License Tax	107,239	115,263	7.5
Estate Tax	15,576,990	6,233,916	-60.0
Unclaimed Property	8,504,102	9,009,890	6.0
Escheat Trust	16,470	0	-100.0
Motor Fuel Taxes	212,172,155	219,173,944	3.3
Boise Auditorium Dist. Tax	2,694,957	2,720,985	1.0
Travel & Convention Tax	5,044,435	5,315,084	5.4
Illegal Drug Tax	69,197	1,938	-97.2
Suspense (unidentified source)	90,631	-45,750	-150.5
Miscellaneous	117,792	132,566	12.5
Railroad Car Co. Property Tax	128,489	121,102	-5.8
Local Option Tax (new county tax)	N/A	1,318,544	N/A
TOTALS	\$2,274,784,141	\$2,561,661,319	12.6

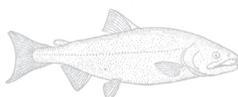
Tax Revenues vs. Cost to Collect - FY2004



Distribution of Revenues

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

Fund	FY 2003	FY 2004	Change
General Fund	\$1,654,271,853	\$1,910,090,078	\$255,818,225
Fish & Game Donation	55,026	57,060	2,034
Abandoned Mine Reclamation Fund	18,402	37,040	18,638
Petroleum Storage Trust	9,621	1,672	(7,949)
Cancer Control Fund	388,168	370,061	(18,107)
Central Tumor Registry	155,272	148,022	(7,250)
Alcohol Intox. Treatment	1,098,644	1,141,015	42,371
County Juvenile Probation	4,646,083	4,644,222	(1,861)
Water Pollution Control	4,800,000	4,800,000	0
Idaho Travel & Convention	4,930,773	5,200,843	270,070
State Aeronautics Fund	1,503,027	1,379,248	(123,779)
Capital Improvement	1,271,082	1,296,146	25,064
Waterways Improvement	1,271,082	1,296,146	25,064
Off-Highway Improvements	1,271,082	1,296,146	25,064
Road & Bridge	662,022	675,076	13,054
Local Bridge Inspection	100,000	100,000	0
Railroad Grade Crossing	250,000	250,000	0
Highway Distribution Fund	201,452,929	208,502,212	7,049,283
Search & Rescue Fund	38,518	39,277	759
Motor Fuel Distribution Fund	271,693	(224,848)	(496,541)
Multistate Tax Compact	457,698	1,405,856	948,158
Substance Abuse Treatment	69,197	1,938	(67,259)
Administrative & Accounting Fund	117,400	115,000	(2,400)
Motor Fuels Administrative Fund	2,356,200	2,794,100	437,900
Permanent Building Fund	18,769,330	18,489,268	(280,062)
Miscellaneous Income	110,612	120,910	10,298
Public School Endowment	4,921,536	4,860,773	(60,763)
Children's Trust	79,388	89,261	9,873
Revenue Sharing & Counties	112,947,416	117,825,356	4,877,940
Circuit Breaker	12,787,109	14,097,706	1,310,597
Counties - Estate Tax	1,557,711	623,422	(934,289)
State Refund Fund	234,357,267	250,646,046	16,288,779
Refund Fund - County Juvenile Probation	146,966	95,461	(51,505)
Unclaimed Property	4,743,756	5,323,367	579,611
Trust Fund - Escheat	(30,095)	(51,075)	(20,980)
Election Campaign Fund	32,848	33,382	534
Suspense Fund	90,631	(45,752)	(136,383)
Boise Auditorium District	2,685,280	2,712,871	27,591
Grape Growers & Wine Producers	118,614	128,794	10,180
Local Option Tax (new fund)	N/A	1,295,219	N/A
TOTALS	\$2,274,784,141	\$2,561,661,319	\$286,877,178



Tax Revenue Sharing

In fiscal year (FY) 2004, 11.50 percent of Idaho's sales tax revenue was distributed to local governments based on the state's temporary 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). 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 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 FY 2003 fourth quarter portion of these totals was distributed in July 2004.



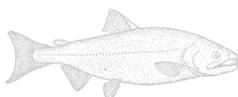
“I was so impressed with the services I received today that I had to write you and advise you of my positive encounter with your department. Ms. Brown ... was an excellent representative of your entire team and I must assume that this is the manner in which you have trained and continued to coach your team members who work with you.”

—Charlie H.

Average Property Tax Rates

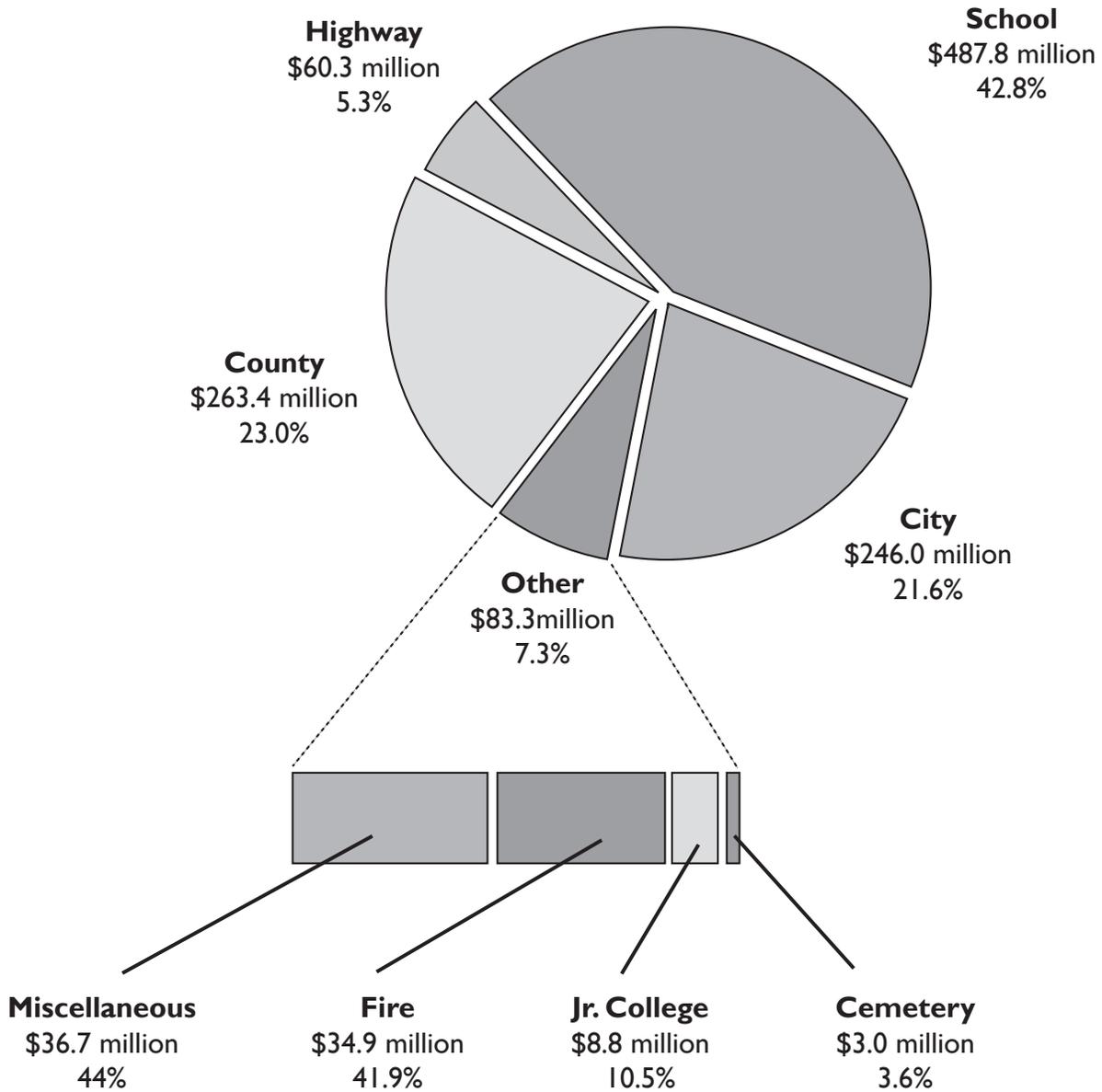
The figures below represent the 2004 average property tax rates for urban and rural areas in each county. Rates are expressed as a percentage of a property's taxable value and include the total taxes levied by all taxing districts within the county. The urban tax rate includes all taxes paid within any incorporated city that levies property tax.

County	Average Urban %	Average Rural %	County	Average Urban %	Average Rural %
Ada	1.658	1.409	Gem	1.458	1.067
Adams	1.701	1.156	Gooding	1.800	1.129
Bannock	2.408	1.463	Idaho	1.506	1.008
Bear Lake	1.372	0.960	Jefferson	1.155	1.198
Benewah	1.704	1.134	Jerome	2.131	1.401
Bingham	2.169	1.380	Kootenai	1.688	1.265
Blaine	0.622	0.522	Latah	2.087	1.659
Boise	1.304	0.995	Lemhi	1.609	0.948
Bonner	1.435	1.004	Lewis	2.047	1.386
Bonneville	2.045	1.397	Lincoln	1.962	1.269
Boundary	1.687	1.351	Madison	1.512	1.288
Butte	1.842	1.248	Minidoka	1.755	1.204
Camas	1.994	1.293	Nez Perce	2.323	1.352
Canyon	2.219	1.484	Oneida	1.702	1.172
Caribou	2.184	1.376	Owyhee	1.581	1.227
Cassia	1.741	1.197	Payette	2.187	1.335
Clark	1.282	1.017	Power	2.498	1.656
Clearwater	1.951	1.157	Shoshone	2.411	1.660
Custer	1.064	0.802	Teton	0.840	0.684
Elmore	2.027	1.131	Twin Falls	1.928	1.269
Franklin	1.501	1.144	Valley	1.216	0.738
Fremont	1.428	1.045	Washington	1.856	1.248
			OVERALL	1.658	1.190



Property Tax Use

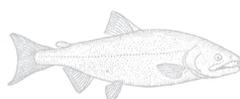
The chart below shows how taxing districts used the 2004 property tax and the dollars they budgeted.



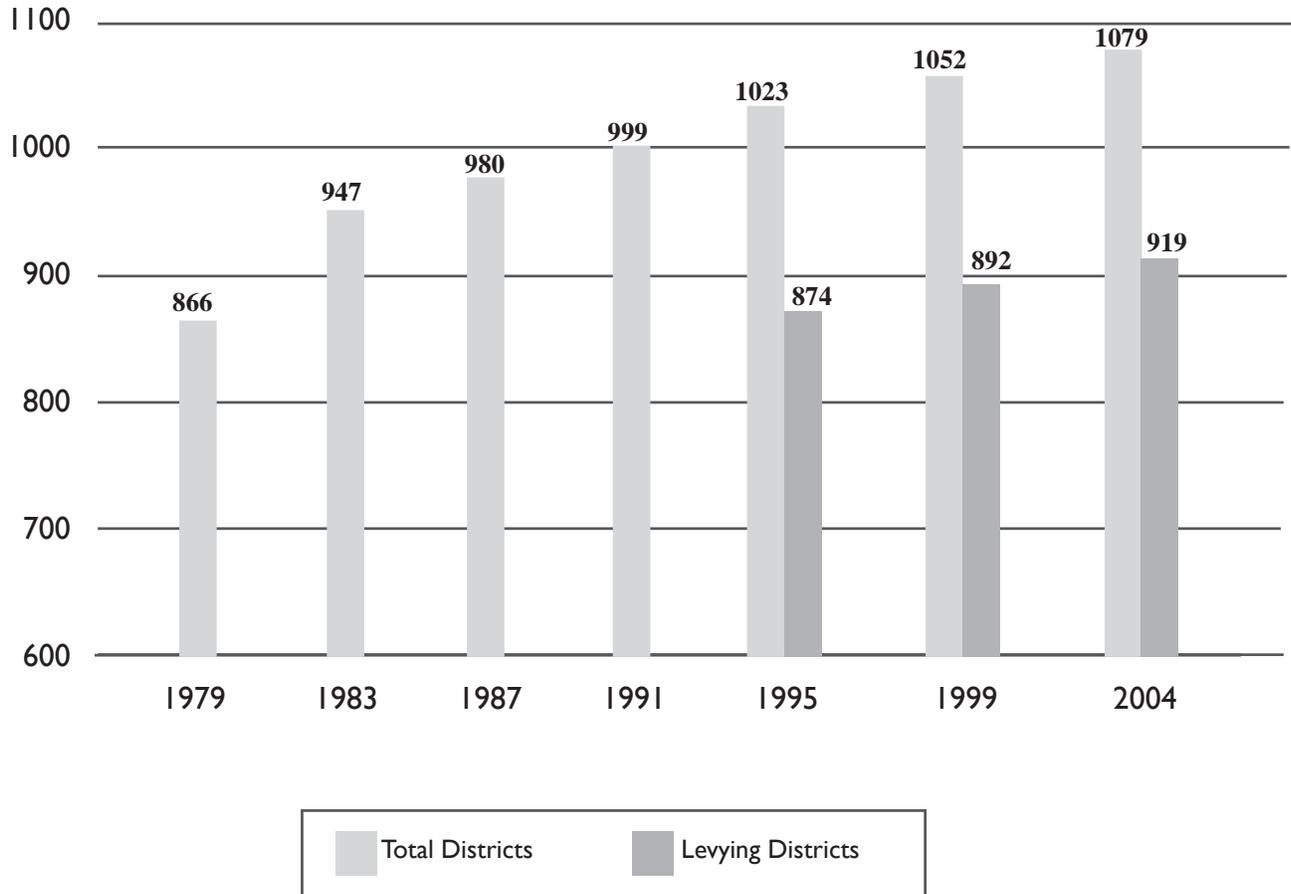
Property Taxing Districts

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 are legally authorized to do so. About 15 percent of taxing districts did not levy property taxes in 2004. 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 2004 there were 3,288 tax code areas in Idaho.

Taxing District or Authority	Total Statewide	Taxing District or Authority	Total Statewide
Ambulance	21	Levee	1
Auditorium	3	Library	56
Cemetery	180	Mosquito Abatement	12
City	201	Museum	0
Community College	2	Port	1
County	44	Recreation	31
Drainage	1	Regional Airport	0
Pest Control	5	School	114
Fire	150	Sewer	32
Flood Control	14	Sewer & Water	54
Highway - County Road & Bridge	101	Water	26
Hospital	20	Watershed Improvement	10
		TOTAL	1,079



Taxing Districts



“Thank you for your patience and assistance during the audit. I was expecting a completely different experience when I heard tax audit. Those words will not strike dread and fear into my heart anymore thanks to your pleasant attitude and genuinely helpful nature.”

—Karen C.

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.

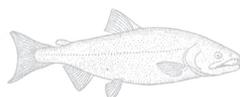
The 2004 Property Tax Reduction Program allowed up to \$1,200 in property tax reduction for eligible households, depending on their income. As income rises, the amount of property tax reduction decreases.

The chart below shows changes in the program since 1995.

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

“I am reregistering to efile with all the states and want you to know that you have a great website. I was able to find the info I needed quickly and it was in a format that was easy to read and understand. The other states should use your website as a model. Even this email was easy!”

—Robin S.



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.

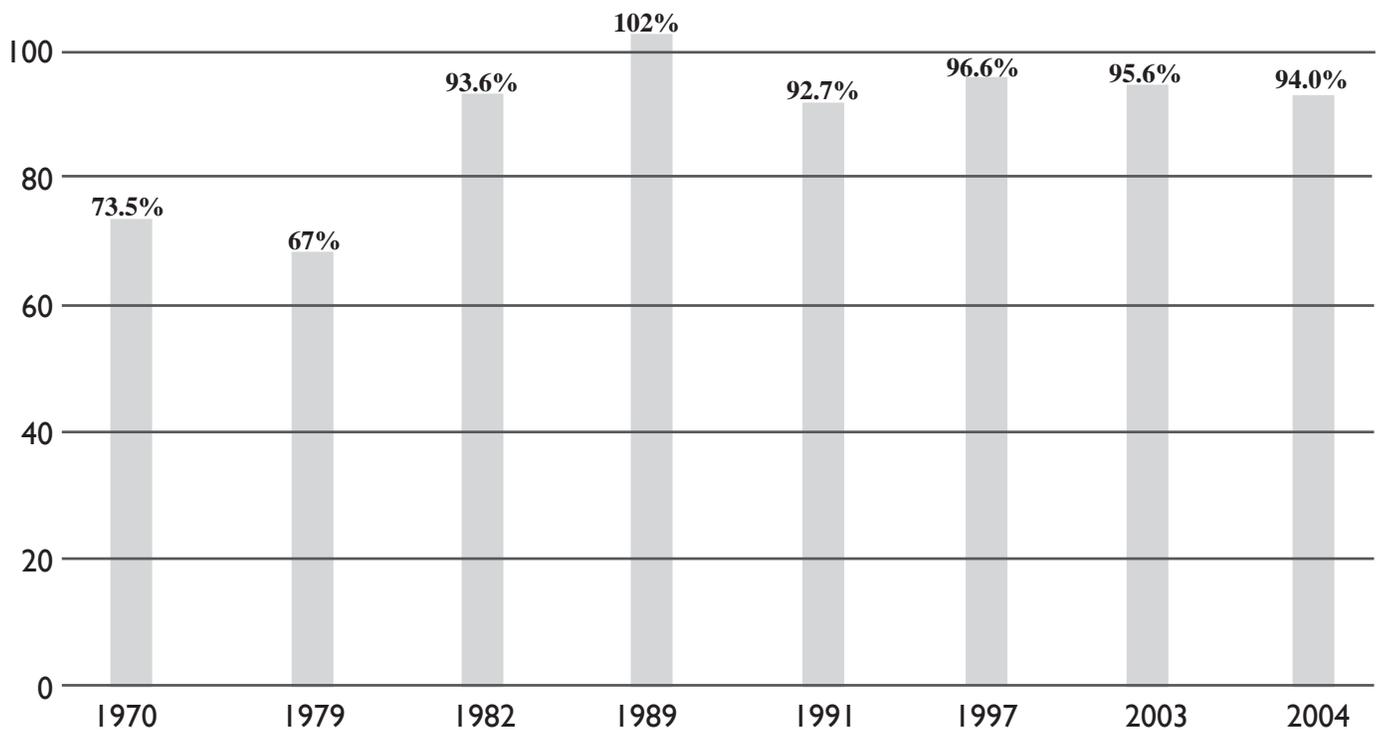
The ratio study is a type of statistical analysis in which assessments are compared to sale prices for residential and commercial property in each county and school district. The ratio study provides measurements of assessment quality by determining the typical level and relative uniformity of the assessments.

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

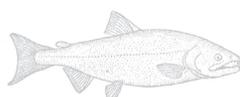
Comparisons among Idaho, the Western states, and the nation are highlighted below. The Western states used for comparison are Arizona, California, Colorado, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. Percentages indicate how much of the average person's 2002 total income was 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		# 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

Web site

tax.idaho.gov

Telephone

334-7660 in the Boise area

(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

Pocatello: 611 Wilson Ave., Suite 5

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



tax.idaho.gov