

Why does IPEA care so much about taxes?

By Donna Yule, IPEA Executive Director

IPEA spends a lot of time working on tax and revenue issues in the Idaho state legislature, and sometimes people wonder why. They ask: What does supporting Idaho public employees have to do with taxes?

The short answer is ***everything***.

But here's the long answer.

In the last decade or so, the Governor and the current legislature have made tax cutting a priority. Every year in the seven years that I have been lobbying, someone has introduced legislation to cut taxes. Usually they pass, although in the last couple of years, IPEA has been working with other organizations in a coalition and we have been successful in stopping many recent tax cuts. In fact, I just recently testified on behalf of IPEA at this fall's tax working group (an interim committee of the Idaho legislature. [Here's my testimony](#), and here is one of the [media stories](#).

Many Idaho legislators like to cut taxes because their big money donors are big businesses that want to pay less in taxes. Governor Otter loves to cut taxes as well because his large donors are primarily big businesses who want to see taxes cut. Almost every tax cut that has been implemented in the last decade has benefited wealthy people and big business, but rarely do they benefit low income and middle income people like us.

So, while we don't get any benefit from the tax cuts, we definitely pay the costs. Whenever there is a tax cut, the revenue to our state General Fund is cut. That General Fund is where all the money for state employee salaries comes from. It is also where much of the money comes from to support our schools and our infrastructure.

So the long and short of it is that when revenue to the state is cut, every single program that the state supports has to have its budget cut as a result. That means no raises for state employees. But it also means that life-saving services to our neediest people are often cut.

Several of our legislators, almost exclusively Republican, have an ideological belief that all government is bad, and that we should shrink government to the point of nonexistence. The problem with that is we all depend on government. We depend on government to make sure our roads and bridges are well-maintained and safe. We depend on government to make sure we have enough state policemen to patrol our vast system of rural highways. We need government to make sure our children and grandchildren are well educated and attending safe schools. We need government to make sure someone picks up our garbage. And I could go on and on. But to have these services provided, we need to raise the revenue to pay for them, and part of that cost for services is salaries to public employees.

IPEA works on the big tax issues. Every year Governor Otter asks for a repeal of the Personal Property Tax. The name is misleading, because the Personal Property Tax is a tax large business and major corporations (most small business are exempted) pay on the property and equipment they have. Two years ago a bill for a repeal of this tax was moving pretty quickly through the legislature, and the state's powerful big business lobby, Idaho Association of

Commerce and Industry, was pushing hard to pass it. Many of the Idaho legislators are in the pocket of IACI and/or one of its big business members. But IPEA, along with other organizations in the Partnership for Idaho's Future, decided to try to stop the repeal.

As an aside, the repeal of this tax would have been absolutely devastating to local governments, mainly cities and counties. While the state General Fund sees some of the revenue from this tax, it is mainly distributed to counties. It accounts for a big part of the revenue for Idaho counties, which means it is used to pay for things like your county sheriff and deputies, maintenance of county roads, schools, etc. Some of the revenue is geared to cities and is used for city roads, police departments and even ambulances. The repeal of the Personal Property Tax would have caused hundreds of public employee layoffs at the local level, not to mention a cut back of essential services that benefits thousands of Idahoans.

IPEA and our partners knew that going up against this tax cut when IACI was supporting it was akin to David going up against Goliath. But we did it, and we won!

The Governor has indicated he'd like to try to repeal the Personal Property Tax again in 2016, so we know the fight is not over.

Last year Representative Mike Moyle (R) of Star brought a really terrible bill to the legislature right at the very end of the session. This was a very confusing and convoluted bill that wrapped up raising the gas tax, swapping out the grocery tax credit with sales tax on groceries, and a further "flattening" of the income tax. The end result of his tax bill would have been a drain on the state General Funds by about \$50 million. Not only that, but the flattening of the tax code would mean that people who earned between \$20,000 and \$65,000 would actually see a tax increase, while higher income people would get a tax cut.

Once again, our partnership rallied and we managed to kill this bill. Here's a link to [my testimony](#) in the Rev and Tax committee in 2015 opposing Moyle's tax cut bill. When I testify at the Idaho legislature, I often draw from reports done by the Idaho Center for Fiscal Policy. This non-partisan organization offers great analysis of the state's economic well-being. Here's a link to a [report by ICFP](#) from January, 2015 that I referenced in my testimony.

Sometimes the proposed changes to Idaho's tax codes are smaller, but they always have the net effect of lessening the revenue coming into the state general fund, so at IPEA we still make an effort to oppose them.

For instance, in the 2015 legislature, the Girl Scouts came in asking for a sales tax exemption for Girl Scout cookies. IPEA opposed this legislation. Why? Because more sales tax exemptions cut down on revenue to the state's General Fund.

Currently there are hundreds of sales tax exemptions on the books in Idaho. For a business or entity to get exempted from collecting sales tax, they must come to the legislature and ask for it. For many years, that was pretty much all it took, and the legislature approved a lot of sales tax exemptions. Oftentimes, those exemptions were for a business that had connections to certain legislators, a political party, or the Governor. It's important to note that these exemptions almost never benefit a typical middle or low income Idahoan. For instance, there's a sales tax exemption on hang glider kits. Not hang gliders, but kits to build your own. How many hang glider kits do you typically purchase? The point is that these exemptions are often very specific to a particular business that simply can't be bothered and who have friends in high places.

Reports have shown that in Idaho, we actually have more sales tax exemptions than we have in sales tax. That means we could easily raise millions of dollars each year simply by closing some, or all of these exemptions. IPEA wants to see reform in this area. For instance, we'd like to see all sales tax exemptions have an automatic sunset. Then those businesses would have to come in periodically to make their case to the legislature that it makes sense to keep them on the books.

At IPEA, we think eliminating many sales tax exemptions would be good for the average Idahoan. If we eliminated many exemptions, including those on some services, we could lower the overall sales tax rate and still collect millions of dollars each year to apply to public employee salaries, education, infrastructure, and other important public programs.

Here are a couple of examples:

1. Girl Scout cookies: When the Girl Scouts testify to be exempted from sales tax, they often make the case that paying the tax takes money from their programs. This simply isn't true. The Girl Scouts don't pay the sales tax on their cookies; their customers do. The Girl Scouts are just a conduit to collect the tax and pass it on. If they need to raise money for their programs, they simply need to raise the cost of cookies. What person would decide not to buy Girl Scout cookies if they raised the cost by 50 cents a box?
2. Collecting sales taxes on services: i.e. Haircuts. The average woman pays between \$30 and \$50 for a haircut every six weeks. If you paid tax on it, you'd be paying a couple of bucks more each month. But if the overall tax rate went down 1%, this would be a net savings for the average Idahoan because you pay taxes daily on many other things, like your morning coffee and your groceries. In most cases, the savings would be more than the increase on the services you regularly use.

Here's a [great report from ICFP](#) about sales tax and other exemptions and how they affect Idaho's bottom line.

Tax and revenue issues are complicated. Revenue in Idaho government is a three legged stool. We collect revenue for our public programs through sales tax, property tax, and income tax. But those taxes need to be in some kind of balance to properly fund government. For instance, when the state legislature refuses to fund education properly, local school districts are forced to try to pass supplemental levies to keep their schools functioning. When we cut revenue in one area, say, through income taxes, then we must make up for it somewhere else, say, by raising property taxes. So many tax cuts are actually tax "shifts". When the state legislature gives a tax cut to big business and wealthy people, then your property taxes are going to go up to balance it out. And if you are a renter, your rent is very likely to go up as well.

If you are interested in more reading about the state's revenue stream, the ICFP put out this [great report](#) last January.