



Sales Tax Distribution

“Realign sales tax distribution payments to communities, giving them a greater motivation to improve their business environment.”

Idaho’s current method of sales tax distribution to cities is overly-complicated and is based on a formula and data that is outdated. Furthermore, as it bears no reasonable relation to actual sales in a city, Idaho’s sales tax distribution system does not incentivize growth.

Presently, Idaho pays 35.9% of every dollar to the counties for distribution to the cities as follows:

- Each city is entitled to 105% of the dollar amount the city received in Q4 of 1999, or the “hypothetical base.”
- Then, the remaining excess is distributed:
 - 50% in proportion to the population that the city bears in relation to the state
 - 50% in proportion to the city’s assessed market value in relation to the state

The largest share of quarterly sales tax is the hypothetical base. This base was calculated in a frozen moment in time. Hence, any city which has had stronger growth in population or in market value relative to the growth of the state since 1999 receives a disproportionately low allocation of the largest bucket of sales tax funding dollars.

A demonstrative chart is attached to explain how the hypothetical base works in Idaho.

We suggest slowly weaning municipalities off of this inequitable formula by reducing the hypothetical base of 105% by 10% per year. In other words, in 2018, 95% of the base would be distributed before moving to excess. In 2019, 85%, and so forth.

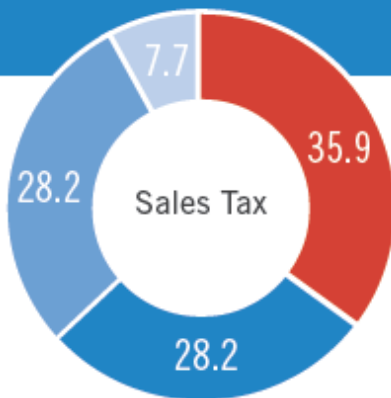
This will allow cities to become accustomed to a more appropriate mechanism for distribution. Over time, this proposal would result in a more dynamic formula for sales tax distribution—one which will increasingly recognize and encourage positive business environment moves within Idaho’s cities.

How
Idaho State Sales Tax

is Distributed to Cities

11.5%

Of total sales tax revenue is paid by the state tax commission in calendar-quarter installments:



7.7% is paid to counties for special purpose taxing districts

- › 100% is paid to counties

28.2% is paid to the counties as follows

- › \$1,320,000 is distributed to each county annually
- › The remainder is divided in proportion to population in relation to the state

28.2% is paid to the counties as follows

- › 50% in proportion to the population that the city bears in relation to the state
- › 50% in proportion to the city's assessed market value in relation to the state

35.9% is paid to the counties for distribution to the cities as follows:

- › **Each city is entitled to 105% of the dollar amount the city received in Q4 of 1999.**
- › Then, the remaining excess is distributed:
 - 50% in proportion to the population that the city bears in relation to the state
 - 50% in proportion to the city's assessed market value in relation to the state

Most of these allocations are perfectly fair – distributed in proportions that are constantly updated according to current data, however...

35.9%

1999

Hypothetical Base

The largest share of quarterly sales tax distribution is the first part of the 35.9%, which is distributed as 105% of the dollar amount the city received in Q4 of 1999.

The state tax commission refers to this amount as the “**hypothetical base**.” This base was calculated in a frozen moment in time.



Consequently

Any city which has had stronger growth in population or in market value relative to the growth of the state since 1999 receives a disproportionately low allocation of the largest bucket of sales tax funding dollars.

For example...

City A In 1999

With a population of **10,563** received a base quarterly distribution of **\$91,713**

Today, 16 Years Later

Growth	Population	Disbursement
12%	11,854	\$91,713

City B In 1999

With a population of **33,659** received a base quarterly distribution of **\$93,803**

Today, 16 Years Later

Growth	Population	Disbursement
38%	46,402	\$93,803

In a More Egregious Example:

City C Since 1999

Has grown by 6% to 32,401

Today, 16 Years Later

Growth	Population	Disbursement
6%	32,401	\$354,768

City D Since 1999

Has grown 202% to 83,596

Today, 16 Years Later

Growth	Population	Disbursement
202%	83,596	\$36,602

City C receives \$354,768 per quarter while City D receives \$36,602

Wait, you mean a city with a population of 83,596 is allocated \$36,602 per quarter while a city with a population of 32,401 is allocated \$354,768?

So, over the year, City C (32,401 pop): \$1,419,072 and City D (83,596 pop): \$146,408? That can't be right!?

But it is!

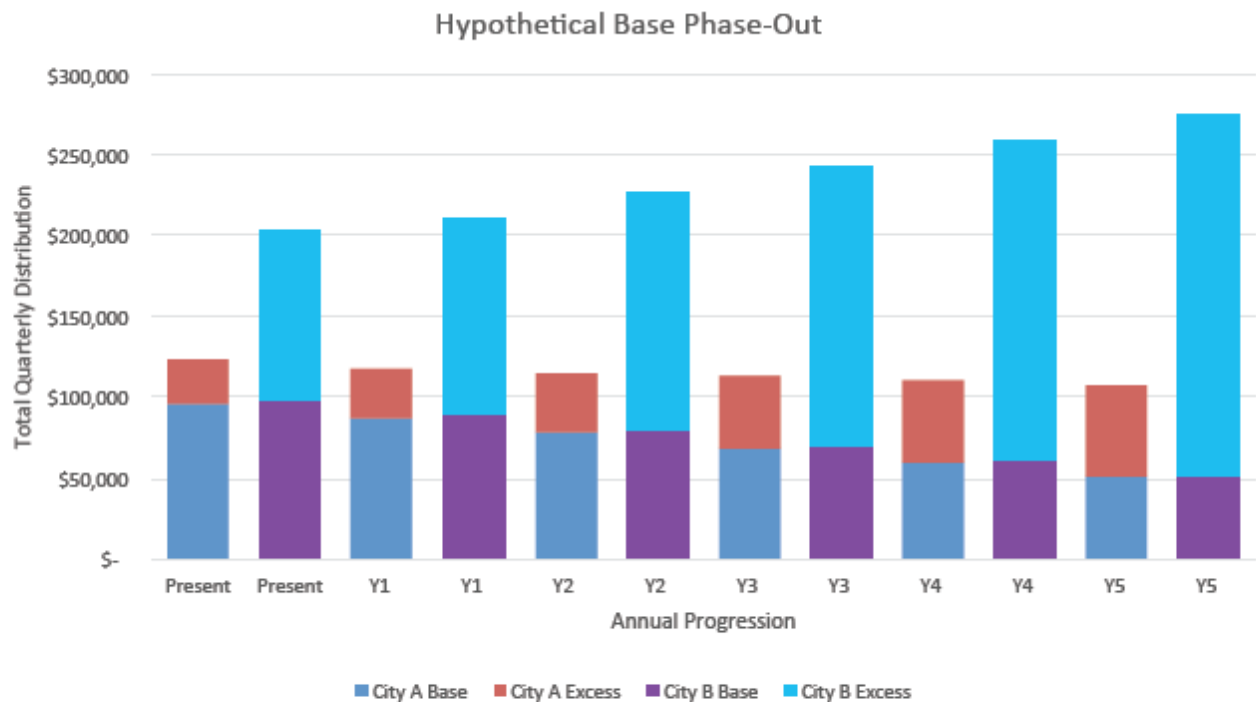
The frozen base distribution contributes to such drastic inequity that a city which is 2.5x larger receives 1/10th as much in sales tax funding under this broken formula.

How Can We Fix This?

Slowly...

- › The law presently states (63:3638) that 105% of base must be distributed under this formula before the excess is divided. Over the next 10 years, we can slowly wean municipalities off the inequitable formula by reducing that amount by 10% per year. In 2017, 95% of the base will be distributed before moving to excess. In 2018, 85% and so on...
- › Cities can slowly become accustomed to the more appropriate mechanism for distribution and over time we can rectify the problem of a base sales tax distribution which is still frozen in time.
- › This will allow cities to accommodate over time and eventually result in a more dynamic formula for sales tax distribution without drastically impacting city budgets.

Suggested



Assuming no population change and a 3% per year increase in total collected sales tax.