

## Local Governments Play a Key Role in Growing Idaho's Economy and Protecting our Quality of Life

Idaho's quality of life depends upon reliably funding local governments to maintain our public infrastructure. Eliminating the business personal property tax without providing replacement funding will shake the foundation of our local communities.

Personal property tax revenues fund essential local services such as education, law enforcement, fire protection, streets, airports, and community colleges.

Personal property makes up 9.6% of the property tax base statewide, but in some counties personal property comprises up to half of the local tax base.

Exempting personal property from taxation without mitigating the financial impacts to local governments would mean either increased property taxes for home owners, small businesses, and farmers or cuts in essential services.

Every day, business owners closely scrutinize Idaho communities and their public services and infrastructure to determine where to locate or relocate their business.

Cuts in essential local services will make Idaho communities less competitive in attracting new businesses and investment at a time with economic growth and development are the most significant issues facing our state.

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# Understanding Taxation of Personal Property in Idaho



## **What is Real Property?**

### **Real property includes:**

- Land,
- Improvements,
- Quarries and Fossils,
- Standing Timber, and
- Property Classified by Courts as Real Property.

### **Idaho Code further defines improvements as:**

- Buildings, Structures, Mobile Homes;
- Fences & Ditches;
- Fixtures;
- Floating Homes; and
- Fruit, Nut-Bearing, Ornamental Trees.

## **What is Personal Property?**

**Anything that is owned and is not included as real property is defined as personal property, including:**

- Logging Tools, Machinery & Equipment;
- Mining Tools, Machinery & Equipment;
- Manufacturing Tools, Machinery & Equipment; and
- Desks, Chairs, File Cabinets, Computers, etc.

## **What Personal Property is Already**

### **Exempt from Taxation?**

**Certain personal property is already exempt from property taxation, including:**

- Business Inventory;
- Farm Machinery & Equipment;
- Livestock;
- Personal Effects & Household Items; and
- Registered Motor Vehicles.

Business inventory and livestock were exempted from personal property tax in the 1960's and 70's. The state dedicated a portion of the revenue from the newly enacted sales tax to offset the revenue loss to local governments.

Farm machinery and equipment were exempted from personal property tax in 2001. The state provides replacement revenues to offset the revenue loss to local governments.

## **Personal Property Tax Revenues, 2011**

In 2011, statewide, personal property generated approximately \$133.7 million in local property tax revenue for counties, cities, schools, and other local taxing districts. Of this amount, \$85.2 million (63.7%) came from traditional personal property, \$39.1 million (29.2%) came from operating personal property, and \$9.3 million (7.1%) came from personal property located within an urban renewal district.

In 2011, personal property revenues accounted for 9.6% of all local property tax revenues. To contrast, real property taxes accounted for 90.4% of all local property tax revenues.

## **House Bill 599aa in 2008**

In 2008, the Idaho Legislature adopted HB 599aa, which exempted up to \$100,000 of personal property per taxpayer, per county.

The exemption was set to trigger when state general fund revenues increased 5% over state FY 2008. Due to the economic recession and the resulting collapse of state revenues, the exemption has not yet taken effect.

## **Impacts of HB 599aa**

When the exemption established by HB 599aa takes effect, most Idaho businesses will be completely exempt from paying personal property taxes.

Under HB 599aa the state would provide replacement revenues to local governments amounting to approximately \$21.5 million annually.

Counties, cities, and school districts support immediately triggering the exemption established by HB 599aa. The exemption established by HB 599aa strikes the right balance between several competing interests:

- Promoting economic growth and development,
- Fiscal responsibility,
- Protecting local governments' ability to provide essential and legally mandated services, and
- Preventing a significant shift in tax burden onto homeowners, small businesses, and agriculture.

## **Future Legislation**

In 2013, the Legislature will take up legislation to repeal the business personal property tax. Counties, cities, and schools want to be part of the solution and work collaboratively with stakeholders to identify a fair way to exempt personal property without hurting homeowners, farmers, and small businesses.

**To provide protections to both homeowners and local taxing districts, any new legislation must:**

- Clarify the definition of fixtures to remove existing loopholes
- Provide permanent annual replacement revenues
- Protect the bonding authority and credit rating of local governments