

Be bold legislators: eliminate either corporate income tax or the tax on groceries

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If Idaho lawmakers want to do something really bold and useful this legislative session, I have two suggestions. One of these is doable this legislative session, depending on how lawmakers proceed.

Option one: Eliminate the tax on groceries. Eliminating the sales tax on groceries would save Idahoans somewhere around \$170 million a year. This sounds like pretty tough and, perhaps, insurmountable public policy to put in place. But not when you consider that Idaho's goofy little grocery tax credit—intended to refund Idahoans' payment of sales tax for groceries—already has a \$130 million annual price tag.

I've never fully understood the value of taking millions of dollars out of the economy at the store checkout line, only to give it back to Idahoans every year at tax time. In our daily calendar of dumb Idaho laws, we say it's like a state-mandated Christmas Club account that matures each April.

Eliminating the tax on groceries and the grocery tax credit would be good for the economy, good for Idaho consumers and would keep state politicians from picking winners and losers in the marketplace. Everyone buys groceries, so everyone benefits.

Under a plan being espoused by House Speaker Scott Bedke, the grocery tax credit would be available only for the poor and elderly. That's called "wealth redistribution," which is generally frowned upon.

The idea of eliminating the tax on groceries is actually not my first choice for tax policy changes. That's creates some pressure to keep the sales tax rate at 6 percent, making it harder to lower the rate. But the grocery tax credit is such bad tax policy, I don't see a clear path to removing it without removing the tax on groceries.

A better approach is Option Two: This would be to eliminate the state's corporate income tax. I've done the math and if state lawmakers reject the governor's plan to dump extra money into budget reserve accounts and new special projects and they keep spending increases to within 2-3 percent, they can get this done.

Ending the tax on corporate income would substantially increase the state's position relative to other states, help attract new business, encourage existing business investment in people and equipment and keep \$180 million in the economy.

Why does Idaho do so poorly in attracting business to Idaho? Because the state taxes everything under the sun, and business site selectors know it.

The corporate income tax is an impediment to economic development. It's an impediment to higher wages. I talk to business owners all the time who tell me they strategically curtail their investment in Idaho, knowing that they're up against a highly confiscatory tax.

There's nothing populist in getting rid of the tax, however, because people don't generally understand that corporations don't pay taxes; corporations just pass their tax burden on through the price of their products and services, or take it out of what they might otherwise have paid employees. Nonetheless, I think it is a superior option to the elimination of the tax on groceries.

Those two options are better than anything we've heard so far, and well within the range of possibilities in 2014. And now they're both on the table.