

Idaho Property Tax Exemptions

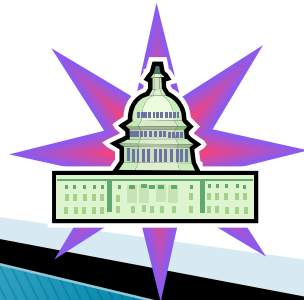
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Property Tax Exemptions in Idaho

- ▶ Principles
- ▶ Types
- ▶ Effects

Exemptions – What are they?

- Exemptions –
 - Grant relief to particular type of taxpayer based on ownership (government, religious foundation, etc.) or use (non-profit educational, agricultural equipment, etc.)
 - May be funded if state replaces revenue – or provides alternate tax (eg: solar farms)
 - Otherwise taxes shift to non-exempt property through higher levy rates



Exemptions – A Necessary Distortion

- ▶ Some promote admin., social & economic goals
 - encourage certain property uses (historic property)
 - facilitate economic objectives (formerly contaminated land)
 - improve administrative feasibility (household goods)
- ▶ Tax supported entities would otherwise have to raise tax to pay property tax
- ▶ Benefits should be clearly understood and be provided uniformly to similarly situated taxpayers
 - vague exemptions can become opportunistic and should be avoided.

Guidance on Exemptions from the IAAO Standard on Property Tax Policy

- ▶ **Principles for an effective exemption program:**
 - Be narrow in scope;
 - Require periodic review and include sunset provisions to ensure objectives remain relevant;
 - Require adequate documentation to evaluate eligibility and enable periodic audits;
 - Include an analysis of their effects (i.e. on other taxpayers, taxing districts, revenue, etc.).

The down side of Exemptions

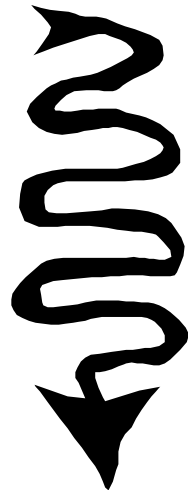
- ▶ Narrow tax base
- ▶ May shift taxes or cause revenue losses
- ▶ May raise tax rates
- ▶ May result in costly administrative procedures and eligibility battles
- ▶ Effect of numerous, overlapping exemptions difficult to determine
- ▶ Thought of as “rights”
- ▶ *de facto* tax expenditures that reduce revenue (may be hidden)

Revenue and tax shifting implications should be analyzed for existing and new or proposed exemptions

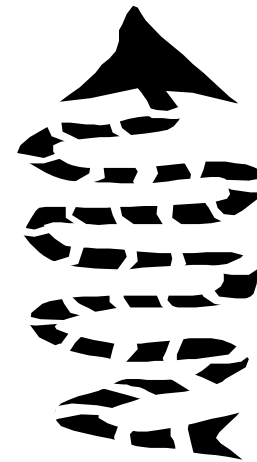
The Exemption Spiral

Exemptions lead to high property tax rates, which in turn results in new pressure for exemptions, which in turn...

Tax Base:



Tax Rate:



Applicable Principles

- ▶ All property is taxable unless expressly exempt (§63–601)
 - Burden of proof is on taxpayer claiming exemption
 - Not all exemptions require application
 - Household goods
 - Business inventory
 - Crops and Livestock
- ▶ Exemptions are to be construed narrowly and against taxpayer
 - Specific qualifying criteria must be met
 - When applications are required, they must be filed timely

Exemptions – references and nuances

- ▶ Most exemptions are found in §63–602 I.C.
 - Within this chapter of Idaho Code, alphabetical sections A through OO provide for different exemptions.
 - Some sections, such as 602W, provide multiple types of exemptions under the general heading “Business inventory”
 - (1) – livestock
 - (2) – merchandise
 - (3) – never occupied residential improvements
 - (4) – site improvements
- ▶ However, at least 30 exemptions are not found in §63–602
 - Examples:
 - §50–2014 – property owned by urban renewal agency
 - §67–7439 – equipment used in the State lottery
 - In this case, however, the state lottery pays a “...grant not to exceed the amount that would be payable as taxes on the property...if the property were not exempt from taxation.”
- ▶ Currently in §63–602 I.C. the exemptions are listed alphabetically.
 - Presently A to OO
- ▶ Improvements on exempt land
 - May be owned or used separately and thereby not qualify for exemption – §63–309

General Exemption Statute – IC 63–602

- ▶ Exclusive use
 - May be required
 - Carve outs may be permitted –ie: Charitable and Religious with alternate uses over 3% of value of entirety
- ▶ Application may be required
 - Code provides list where application is not required
 - Otherwise, April 15 is default deadline
 - Subject to alternative if such specified in exemption code
 - Example: 63–602AA – Exceptional situations (hardship) – 4th Monday in June
 - If application is required:
 - Default is annual
 - Exceptions in Code, such as 63–602G (HE) – allows continuation if same property occupied as primary residence, etc.

Exemptions (cont.)

- ▶ Idaho Code 63–602 lists the exemptions that do not require annual application
 - For example: 63–602G the Homestead Exemption
- ▶ For exemptions that require an annual application, the typical process is:
 - application made to the county commissioners by April 15
 - taxpayer and assessor notified of the decision by May 15.
 - decision of the commissioners can be appealed to the county BOE, by either the taxpayer or assessor

Exemptions (cont.)

- ▶ If you debate amongst yourselves if the property would qualify or not.....place it on the property roll and notify the taxpayer, the taxpayer is responsible to indicate what statute they would qualify under.
- ▶ Also, consult your Prosecuting Attorney for advice on whether an organization qualifies for a property tax exemption. Such advice will be based on a legal review of the exemption statute, Idaho case law on exemptions and the particular facts involved.

Process

- ▶ For exemptions subject to application:
 - For locally assessed property, applications to be approved annually by county commissioners
 - Unless other procedure specified – eg: homeowners exemption applied for through county assessor
 - Appeals to County BOE
- ▶ For Centrally Assessed Property (Operating Property)
 - Application included with Operator's Statement
 - Application is to Tax Commission
 - Examples: Vehicles, Pollution Control Equipment, Qualified Investment Property (QIE)
 - Owned by operating property companies (note: these exemptions are also available for locally assessed property)

Recapture Provisions

- ▶ Some exemptions allow recapture (claw backs) when conditions warrant
 - QIE: if property sold or disposed of during next 5 year period
 - Homeowner's exemption: if improperly claimed or granted (up to seven years)
 - Personal property (\$250,000) exemption: if improperly claimed (up to seven years)

Types of Exemptions

- ▶ No application or approval required

Code Section	Description
	For more information, see the referenced code section or Chapter 8, <u>Section II. of this manual</u>
§63-602A	Government Property
§63-602F	Possessory Rights to Public Lands, Unpatented Mining Claims, Public Cemeteries and libraries
§63-602I	Household Goods, Wearing Apparel, Personal Effects
§63-602J	Properly Registered Motor Vehicles
§63-602L(1)	Certain Intangible Personal Property
§63-602M	Certain Secured Dues and Credits
§63-602R	Agricultural Crops
§63-602S	Fruits and Vegetable Held for Consumption and Seeds Shipped out of State
§63-602U	Certain Personal Property in Transit
§63-602V	Certain Personal Property in Original Package in Storage
§63-602W	Business Inventory Including Certain Dwellings and site improvements
§63-602Z	Property Tax Exemptions Apply to Occupancy Tax
§63-602DD	Certain Manuf. Homes with a Dealer's Plate or Used as Sheep or Cow Camps
§63-602EE	Certain Tangible Personal Property Used Exclusively in Agriculture; ag machinery
§63-602OO	Oil and Gas Related Property
§63-2431	Gasoline, Aircraft Engine Fuel, or Special Fuels
§63-3502	Cooperative Electric Association Exempt from all Taxes Except Gross Receipts Tax
§63-3502A	Cooperative Natural Gas Assoc. Exempt from all Taxes Except Gross Receipts Tax
§63-3502B (63-602JJ)	Wind, solar, and geothermal Exempt from all Taxes Except Gross Receipts Tax

Types of Exemptions (cont.)

- ▶ Application needed to establish use or conditions, but no process specified in statute

§63-602B	Certain Property of Religious Corporations or Societies
§63-602C	Certain Property of Fraternal, Benevolent, or Charitable Corporations or Societies
§63-602D	Certain hospital's Property-Non-Profit
§63-602E	Property Used for School or Educational Purposes
§63-602H	Partial Value of Residential Property in Certain Zoned Areas
§63-602N	Irrigation Water and Certain Structures
§63-602P	Certain Facilities Used for Air and Water Pollution Control
§63-602Q	Certain Cooperative Telephone Lines
§63-602X	Property that Has Experienced Casualty Loss
§63-602GG	Low Income Housing Owned by Nonprofit Organizations
§63-602HH	Property in One County in Excess of \$800,000,000
§63-602KK	\$250,000 Pers. Property Exemption
§63-4502	New Capital Investment over \$400 Million, \$1 Billion to qualify
§63-606A	Property Eligible for ITC with Certain Employment & Investment (Optional)
§63-602J	Properly Registered Motor Vehicles
§63-602P	Certain Facilities Used for Air and Water Pollution Control
§63-602L (2)	Certain Intangible Personal Property

STC assessed property (reported on operator's statement)



Also available for locally assd.

Types of Exemptions (cont.)

- ▶ Application process specified in exemption statute

§63-602G	Partial Value of Residential Improvements (Homeowners' Exemption)
§63-602W(4)	Site Improvements Installed by the Land Developer
§63-602AA	Property of People with Exceptional Situations (Hardship)
§63-602BB	Partial Exemption for Remediated Land
§63-602CC	Qualified Equipment Utilizing Postconsumer or Postindustrial Waste
§63-602II	Unused Infrastructure (Optional)
§63-602NN	New Plant and Building Facilities (Optional)
§63-603[63-§602O]	Reduction in Assessment or Credit Relating to Exemption under §63-602O Utility plant used to generate power for pumping water
§63-1305C	Provisional Exemption – Property that will be used for an exempt purpose
§63-3029B	Qualifying Taxpayers may elect to exempt investments from property taxes for two years in lieu of taking investment tax credit on income taxes. (QIE)

Exemptions outside Title 63 without application requirement

§21-114)	Registered Aircraft
§22-2722	Property Owned/ Used by Soil Conservation District
§25-2402	Operating or Personal Property Exempt from Taxation by Herd District
§26-2138	Personal Property Owned by Credit Union
§27-422	Perpetual or Endowed Care Cemetery
§26-2186	Personal Property Owned by Idaho Corporate Credit Union
§31-1425	Operating Property Exempt from Taxation by Fire District Unless by Agreement
§31-1426	Certain Unimproved Real Property May Be Granted Exemption from Taxation by Fire District
§31-3908A	Certain Personal Property and Unimproved Real Property May Be Granted Exemption from Taxation by Ambulance District
§31-4117	Certain Real Property May Be Exempt from Taxation by Translator District
§31-4208	All Property Owned by County Housing Authority Except by Agreement
§33-2133	All Property Owned by a Dormitory Housing Commission
§39-1452	All Property Owned by Idaho Health Facility Authority
§41-405	Personal Property Owned by Insurers or Agents
§42-3115	Personal and Operating Property Exempt from Taxation by Flood

	Control District
§42-3708	Personal and Operating Property Exempt from Taxation by Watershed Improvement District with Exceptions
§42-4115	Property Owned by Water and Sewer District
§42-3238	Private community sewer system <u>exempt</u> from water and sewer district levies
§42-4416	Personal and Operating Property Exempt from Taxation by Levee District
§49-401	Registration fee in lieu of property tax
§50-1908	Property Owned by Housing Authority Except by Agreement
§50-2014	Property Owned by Urban Renewal Agency
§67-6208	Real Property Owned by Idaho Housing Agency Except by Agreement
§67-7439	Equipment directly used in state lottery
§70-2206	Property of an intermodal commerce authority

Valuation related exemptions

- ▶ When statutes specify valuation methodologies that may be construed as producing taxable value that is not market value
 - 63-205A – assessment of Section 42 low-income properties

(f) If the use of the income approach as described in subsection (2)(b) of this section results in an assessed value lower than would be obtained if the income approach in subsection (2)(b) of this section were not used, the difference will be exempt.

Idaho Constitution grants Legislature authority to provide exemptions as exception to uniformity provision

Alternate Valuation Methods – without explicit exemption language

- ▶ §63–602K (repealed 2020)
 - Had provided speculative value exemption for farmland
 - Defers to §63–604 – Land actively devoted to agriculture defined
 - “...eligible for appraisal, assessment, and taxation as agricultural property....”
 - Valuation described in Rule 617 and §63–205C
- ▶ §63–1705 – Taxation of forest lands under productivity option
 - Provides formula by reference to external document (“...process developed by the CFTM....”)
 - Difference from market value had been tracked as speculative value exemption until that provision was repealed
- ▶ §63–205B – Assessment of operating property of rate-regulated electric utility companies
 - Specifies income approach weighting and other limits, regardless of market forces

Credits, Cancellations, and Deferrals

- ▶ Property Tax Reduction (circuit breaker) – §63–701...
 - State pays part of property tax as grant applied to taxes
 - Property is not exempt – but all or part of taxes may be paid by state
- ▶ Cancellations – §63–711 and 1302
 - 711 relates to hardships
 - 1302 relates to other issues, such as double taxation and errors
 - This section could also be used to cancel taxes for homestead exemptions granted late in the year
 - No replacement money so taxing districts lose money
- ▶ Deferral – §63–712
 - State pays property tax on homestead – in the form of a loan
 - Amount paid and interest accrues as lien to be satisfied when deferral is terminated

STC Rules Providing Definitions of Exemptions

- ▶ 603 – Religious Exemption
 - Covers factors related to determining percent of property used for business purposes
- ▶ 605 – Educational Exemption
 - Covers eligibility of leased real or personal property
- ▶ 608 – Homestead Exemption – after death of claimant;
 - Cannot qualify if original interest was life estate
- ▶ 609 – Homestead Exemption
 - Partial ownership – proportional shares
- ▶ 610 – Homestead Exemption – special situations
 - Dual residency
 - Community v. Separate property
- ▶ 611 – Residential value in areas rezoned non-residential

STC Rules Providing Definitions of Exemptions (cont.)

- ▶ 612 – Motor Vehicle exemption
 - Personal property temporarily affixed to vehicle does not qualify
 - Recreational vehicles not registered by Aug. 31 subject to assessment
 - Assessment cancelled if fee paid before 4th Monday in November
- ▶ 615 – Intangible Personal Property exemption
- ▶ 619 – Water and Air Pollution Control Equipment
 - Excludes any property or portion used for production of marketable by-products
- ▶ 620 – Never Occupied Residential Improvements
 - Includes ancillary structures intended as residential
 - Does not include improvements included in land value (site imps.)
- ▶ 625 – Homeowner's Exemption on Occupancy Roll
 - Still allowed in cases where claimant also gets homeowner's exemption on property on primary property roll

STC Rules Related to Exemptions (cont.)

- ▶ 626 – Certain Personal Property exempt (ie: \$250,000)
 - Provides for taxpayer election of location
 - Provides that structures, such as cell towers, do not qualify
- ▶ 627 – Personal Property Exemption – ownership clarification
 - Clarifies related entity and common enterprise situations which may restrict use of exemption by such entities
- ▶ 628 – Remediated Land – Partial Exemption
 - Clarifies process and value calculations
- ▶ 629 – Qualified Equipment Utilizing Post Consumer or Post-Industrial Waste
 - Clarifies description of qualifying and non-qualifying equipment and timing – Must be filed by March 15

STC Rules Providing Definitions of Exemptions (cont.)

- ▶ 630 – New Capital Investment Exemption (\$1 Billion investment)
 - Clarifies notification process (initiated by taxpayer)
 - April 15 deadline (later pushes exemption to following year)
 - Exemption continues after qualifying period
- ▶ 631 – New or Existing Plant Investment (63–602NN)
 - Discretionary on part of county commissioners
 - Applies to new property or additions to existing real or personal property
 - Does not apply to land
- ▶ 632 – Oil or Gas Wells – defines extent of eligible property

Exemptions for which exempt value is tracked and reported on abstracts

- ▶ 63-602W(4) – Site Improvements
- ▶ 63-602G – Homeowner’s
- ▶ 63-602P – Pollution Control
- ▶ 63-602X – Casualty Loss
- ▶ 63-602AA – Exceptional Situations (hardship)
- ▶ 63-602BB – Remediated Land
- ▶ 63-602CC– Equipment using post consumer waste (recycling)
- ▶ 63-602GG – Low-income housing owned by nonprofits
- ▶ 63-602HH – Significant capital investments –
 - (value in excess of \$800 million if specified criteria met)
- ▶ 63-602II – Unused Infrastructure
- ▶ 63-602NN – Business Investment property – 5 years maximum
- ▶ 63-606A – Small employer growth incentive
- ▶ 63-3029B – Qualified Investment Exemption (QIE)
 - Two years on certain personal property; provides for recapture if sold within 5 years
- ▶ 63-4502 – New capital investments –
 - Value in excess of \$400 million if certain criteria met
 - Claimant precluded from other exemptions, except QIE
 - Means that \$400 million remains taxable

Estimated Property Tax Shifted by Tracked Exemptions in 2023

Exemption	Amount of Property Tax Shifted (\$Thousands)
New Capital Investment (63-4502)	11,814
Casualty Loss (63-602X)	41
Business Investment (63-602NN)	3,454
Pollution Control (63-602P)	2,754
QIE (63-3029B)	218
Site Improvements (63-602W(4))	2,296
Homeowner's Exemption (63-602G)	169,312

Personal Property Exemptions – with Replacement Money from State

- ▶ **Agricultural Equipment –**
 - 2001 effective date –
 - Based on taxes charged in 2000
 - Plus one time 6% adjustment
 - Minus adjustment for school M&O levy reductions in 2006
 - Current annual total is \$8.5 million
- ▶ **Items worth \$3,000 or less exempt – 2013; no replacement \$**
- ▶ **\$100,000 Personal Property – 2013 effective date**
 - Per taxpayer per county
 - Based on 2013 taxes calculated
 - \$18.9 million replacement money from state sales tax account
- ▶ **\$250,000 Personal Property – 2022 effective date**
 - Per taxpayer per county
 - Based on 2022 taxes calculated
 - \$3.8 million replacement money from state sales tax account

Replacement amounts shown are annual, but paid quarterly (ag equip) or twice a year (other personal property)

Recent Changes in Personal Property Tax Exemptions

- ▶ HB 389 (2021)
 - Exemption raised from \$100K to \$250K
 - Additional replacement money from state
 - Transient personal property exempt beginning 2022
 - No replacement money
- ▶ HB 565a (2022)
 - Personal property capable of movement and used in construction, logging, mining of saleable minerals exempt
 - Broader than transient personal property (all exempt)
 - Based on use
 - Not based on movement between counties
 - No replacement money

Limitations on Personal Property Replacement Money

- ▶ Eligible taxing districts
 - Those in existence and levying against personal property in 2013 (\$100,000 based replacement money)
 - Those in existence and levying against personal property in 2022 (difference in value of exemption between \$100,000 and \$150,000 used to calculate replacement money)
- ▶ Urban Renewal Agencies
 - With Revenue allocation areas in existence in 2013 – 1st distribution
 - With Revenue allocation areas in existence in 2022 – 2nd distribution
 - Replacement money reverts to state general fund upon termination
- ▶ Newer Taxpayers
 - Eligible for up to \$250,000 in value reduction
 - No additional replacement money
- ▶ Newer taxing districts or levies
 - Not eligible for replacement monies

Effects of Ag Equipment and Personal Property Replacement Monies

▶ Taxpayers

- Tax shifting did not occur in year of implementation (or expansion) due to replacement money
- Tax shifting occurs subsequently, provided:
 - More property is exempt in the future than in the first year or tax rates are higher
 - New taxing districts are formed, or new levies passed

▶ Taxing Districts

- Neutral in first year
- May have excess replacement money in future
 - Due to expiring or diminishing levies that existed in year used for determining replacement monies
 - Due to value increases in remaining taxable property that lower rates from those used to calculate replacement monies
- May have higher levy rates in future
 - Lower tax base if ag equip and personal property values would have grown
 - May make it more difficult to pass bonds and similar levies due to narrower tax base
- Location issues – exempt property or taxing district boundaries
 - No change to replacement

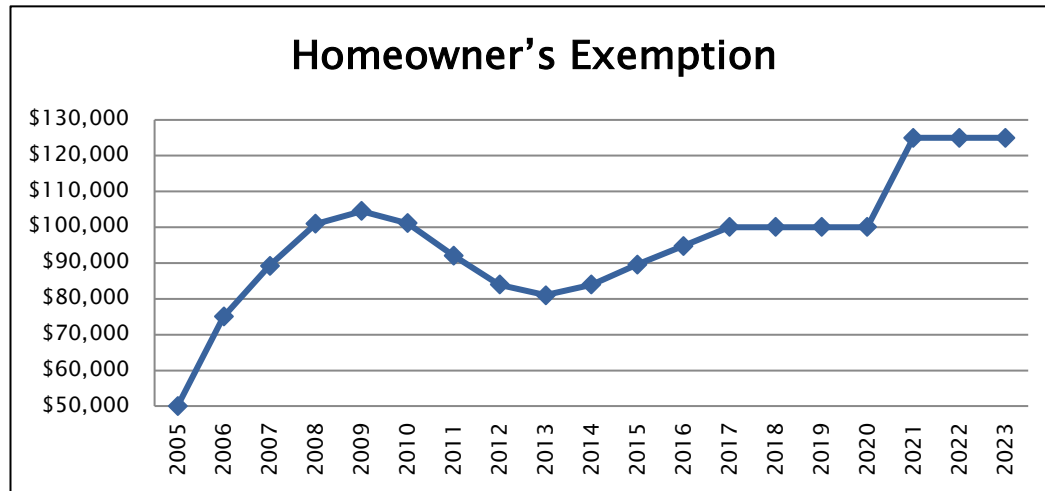
Alternate Energy Producer Exemptions

- ▶ 63–602JJ – Wind, Solar, Geothermal
- ▶ 63–3502B – Provide gross earnings tax instead of property tax
- ▶ Effects on taxing districts
 - Wind and geothermal
 - Additional funds outside normal property tax budget limits
 - No subtraction from property tax budget capacity
 - Solar
 - Dollar for dollar subtraction from property tax budget limits
 - Not added back for future budget capacity increase calculations
 - i.e.: 3% growth calculated after subtraction

Exemptions that apply to certain levies

- ▶ Principle – property is fully taxable (no valuation or use type exemptions apply)
- ▶ Property is exempt from certain levies
 - Statutory prohibition – e.g.: flood control, community infrastructure, herd districts levy on real property only (§42–3115, §50–3113, and §25–2402)
 - Statutory default with option
 - Fire districts – operating property exempt from levy unless company consents to taxation by fire district (§31–1425(1))
 - Statutory – by option of taxing district
 - Ambulance and fire
 - May choose to exempt unimproved real and any personal property (all or portion)
 - §31–3908 or 3915; §31–1425(2)

Homeowner's exemption maximums



History of Maximum Homeowner's Exemption		House Price Index Used
Years	Maximum	If HPI were used
1980 – 1982	\$10,000	NA
1983 – 2005	\$50,000	NA
2006	\$75,000	NA
2007	\$89,325	NA
2008	\$100,938	NA
2009	\$104,471	NA
2010	\$101,153	NA
2011	\$92,040	NA
2012	\$83,974	NA
2013	\$81,000	NA
2014	\$83,920	NA
2015	\$89,580	NA
2016	\$94,745	NA
2017	\$100,000	\$101,610
2018	\$100,000	\$110,150
2019	\$100,000	\$121,950
2020	\$100,000	\$135,850
2021	\$125,000	\$149,525
2022	\$125,000	\$174,229
2023	\$125,000	\$224,360
2024	\$125,000	\$234,223

Tax Shifting – Current Exemption Basis (no change)

Year	Percent Change in Primary Residential tax	Percent Change in Other Residential tax	Percent Change Commercial tax	Percent Change Agricultural land tax
2016 – 2017	+ 6.9	+5.6	+4.4	+3.4
2017 – 2018	+10.6	+4.9	+2.9	+0.8
2018 – 2019	+12.9	+5.4	+0.2	-0.7
2019 – 2020	-2.8	-5.4	-8.9	-7.3
2020 – 2021	+14.5	+9.3	+3.3	-3.5
2021 – 2022	+11.5	+5.2	-10.1	-16.8
2022 – 2023*	-24.3	+1.5	+9.5	-9.6

*After all HB 292 tax relief applied

Tax Change in Existing Property

Year	Percent Change in Primary Residential tax	Percent Change in Other Residential tax	Percent Change Commercial tax
2016 – 2017	+ 5.3	+3.8	+3.2
2017 – 2018	+6.1	+5.4	+0.2
2018 – 2019	+8.9	+3.5	-2.1
2019 – 2020	-5.5	-7.6	-11.5
2020 – 2021	+5.8	-1.4	-11.8
2021 – 2022	+9.3	+3.4	-13.5
2022 – 2023*	-25.6	-1.0	+8.0

*After all HB 292 tax relief applied

Comparison of Actual Tax to Hypothetical Tax Based on Indicated Homeowner's Exemption – Using prior HPI based adjustment

Year	Hypothetical Homeowner's Exemption Limit (\$)	Percent Change in Primary Residential tax	Percent Change in Other Residential tax	Percent Change Commercial tax	Percent Change Agricultural land tax
2017	101,610	-0.3	+0.2	+0.2	+0.1
2018	110,150	-1.5	+1.1	+1.2	+0.8
2019	121,950	-4.0	+2.7	+3.1	+1.7
2020	135,850	-6.0	+4.0	+4.7	+2.8
2021	149,525	-3.4	+2.4	+2.8	+1.8
2022	174,229	-5.8	+4.7	+5.4	+4.4
2023	224,360	-13.1	+7.3	+9.6	+6.0

Conclusions

- ▶ Exemptions are a necessary component of every property tax system – seen worldwide
- ▶ Key elements
 - Definitions
 - Clarity
 - Specificity
 - Consistency – between assessment or political jurisdictions
 - Understandability of process
 - Application
 - Granting
 - Tracking –
 - Impact analysis
 - Continuing applicability (ie: situations and use may change over time)