P4___ Painting a Picture of the Public Purse

Introduction to Taxation in Idaho: A Tax Glossary[1]

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Overview: The "P^4. . :" Series

Of all the money we spend, we seem to give it most grudgingly to pay taxes. Most of us have favorite public services, but no one seems to have a favorite tax. Disgruntled taxpayers often threaten to revolt, but they do not refuse to accept public services. Perhaps it is our distaste for paying taxes that has led us to construct an extremely complex system to determine who will pay how much and for what. The *P^4*...series of publications was written to help citizens gain a basic understanding of taxation so they can evaluate various tax alternatives. This series of four publications includes:

1. An Introduction to Taxation (AEES 92-4)
2. A Guide to Commonly Used State and Local Taxes (AEES 92-5)
3. Criteria for Evaluating Taxes (AEES 92-6)
4. A Tax Glossary (AEES 92-7)

Part III provides one explanation for the conflicts that go along with revising tax policy. The taxes we prefer (dislike least) depend somewhat on our viewpoint: "Where we are coming from." We describe how citizens, looking at taxes from four important vantage points of society (business, government, private individuals and members of society in general), might interpret the criteria by which we compare taxes and tax systems. Criteria are presented and interpreted.

Tax Jargon

Ability-to-pay principle. A commonly used guideline for evaluating taxation, which argues that tax burdens should be distributed according to individual economic capacity to pay. Those with higher capacity should pay more in taxes, regardless of benefits received from public services.

Ad valorem. According to value. A tax imposed on the value of property. The more common ad valorem tax imposed by states, counties and cities is on real estate. Ad valorem taxes can also be applied upon personal property such as motor vehicles.

Adequacy. A adequate tax system provides enough money during a fiscal period to enable administrative officials to carry out their responsibility.

Administrative efficiency. Usually, the simpler the tax administered, the lower the administrative cost.

Administrative and enforcement costs of taxation. Those incurred by government agencies whose function is to collect taxes.

Assessed value. Used in the computation of property taxes. The assessed value on which property tax is based in Idaho is based on the appraised market value of a house and lot or property.

Assessment. A valuation placed upon property for the purpose of taxation; usually called *a tax assessment*.

Average tax rate. Tax paid as a percentage of the tax base.

Benefit rule (principle). A commonly used guideline for evaluating taxation, which argues that tax burden should be distributed according to benefits received from government services.

Certainty. Sure to happen. Inevitability in dealing with amount of tax required and how and when it should be paid. "Nothing is so certain as death and taxes."

Effective tax rate. Actual taxes paid, divided by the taxable base.

Equity. The state or quality of being just, impartial and fair. An equitable tax is usually thought of as one in which most of the populace pays and one which impacts most taxpayers to a similar degree.

Excise tax. Generally, any tax levied upon some phase of the production and distribution of goods or services. Also called a consumption tax.

Exportability. See tax exporting.

Fees. Charges for services performed by public agencies.

Fiscal capacity. A measure of the ability of a jurisdiction to generate income to finance government services.

Flexibility. The source of income responds to meet changing government needs.

General fund financing. The use of taxes to finance a bundle of government services rather than one particular service.

Grazing fee. Income paid by livestock producers for forage taken from federal lands. A varying proportion is returned to local government.

Gross income. All income from whatever source it is derived.

Horizontal equity. Equal treatment of individuals of the same economic capacity.

Impartial treatment. Taxes should be neutral among individuals and industries. Impartial treatment is difficult to achieve.

Incidence of taxation. Where the burden of a tax actually rests, regardless of how or against whom it is formally levied. Example: The incidence of sales tax invariably rests on the consumer, although the seller is the one formally taxed and who remits the tax to the government.

Income. The money return of material benefits arising from the use of wealth or from human services.

Individual or personal income tax. A tax levied upon individual incomes in excess of a specified minimum amount less certain deductions allowed by law.

Intangible property. Property that has no intrinsic and marketable value but is merely the representative or evidence of value, such as certificates of stock, bonds, promissory notes and franchises. Property that cannot be touched because it has not physical existence.

Intergovernmental transfers. Transfers of money in the form of grants-in-aid between levels of government: federal to state, state to local.

Land tax. See property tax.

Local Improvement District (LID). A special district set up under Idaho law to provide specific improvements or services in a specific geographic area.

Marginal tax rate. Extra tax paid on increases in the size of the tax base.

Market value. The value at which property would change hands between a willing buyer and willing seller, neither being compelled to buy or sell and both having reasonable knowledge of all relevant facts.

Mill. A money of account equal to 1/10 of a cent.

Net income. Income subject to taxation after allowable deductions and exemptions have been subtracted from gross or total income.

Non-tax source. Government finances obtained from licenses and permits, fees and fines.

Payment In Lieu of Taxes (PILT). Payment by federal government for services provided by local government to federal lands and employees.

Personal property. Everything that is subject to ownership but not coming under the dominion of real estate. A right or interest in things personal, or any right or interest that one has in things movable.

Personal property tax. See property tax.

Price control. The control or actual fixing of prices by the government. During World War II, for example, the U.S. government fixed *ceiling* (or maximum) *prices* on many commodities and introduced a rationing system. The term may apply to any effort by the government to influence the price level, for example, by means of *credit control*; or by efforts of private organizations to fix prices or restrict the freedom of the market. Sometimes called *price fixing.*

Progressive taxation. Taxes for which the rate increases as the income, or some other taxable base, increases. Progressive tax rates are found in taxes on individual incomes, estates and inheritances. Progressive taxation is used interchangeably with the words *graduated taxation.*

Property. The right to the future benefits of economic goods--material and non-material as determined by law.

Property tax. Generally, a tax levied on any kind of property. The property may be *real*, as in the case of land or buildings, or it may be *personal*, as in the case of stocks and bonds, auto or home furnishings. Sometimes property is classified for tax purposes. In such cases, a *personal property tax* is applied at a rate different from the rate applied to real property. A distinction may also be made in the case of real property: *A land tax* is applied to lands that are unimproved, but a *real estate tax* may be applied to both improved and unimproved land. Often called *general property tax.*

Proportional taxation. Taxation using the same rate regardless of the base amount taxed.

Real estate tax. See property tax.

Real property. Land and generally whatever is erected on, growing on or affixed to the land. Also, rights issuing from, annexed to and exercisable within or about land.

Regressive taxation. A tax levied at rates that vary inversely with the size or value of the property or amount of income. Thus, a flat per capita tax, such as sales tax, is regressive when measured relative to differing total amounts of income or property owned.

Revenue. The term refers to government income from taxation, duties. According to some authorities, the term may also be applied to government receipts from the sales of stock, land and other such property, and from fees; hence, all public revenue.

Sales Tax. A tax levied on the sale of goods and services at one or more stages in the process of distribution.

Severance tax. A tax levied on natural resources removed from land or water.

Shifting of taxation. The transfer of the incidence of a tax, usually in the course of ordinary business transactions, from the person on whom the tax has been levied to some other person.

Social reform. Taxes are sometimes used for reform by applying low rates or exemptions to encourage certain activities and applying high rates to discourage others.

Special sales tax. Special sales taxes are similar to general retail sales taxes except they tend to be somewhat less regressive. Example: motor fuel tax.

Stability. Refers to the effect changes in economic conditions have on revenue yields. A stable tax produces about the same amount of revenue in good times and bad.

Stumpage. Payment of 25% of revenue from timber harvest to local government. Of that 25%-70% is dedicated to roads and 30% to education.

Tangible property. All property that may be felt or touched and has real existence (physical) whether it is real or personal. The term may also refer to any property that can be accurately appraised.

Tax. A contribution exacted of people, corporations and other organizations by the government, according to law, for the government's general support and for the maintenance of public services. Besides being compulsory, a tax represents no exact correlation between the amount paid and the value of the public services from which the taxpayer benefits.

Tax exporting. This occurs when a portion of the taxes levied by one level of government is borne by people living outside the taxing community. For example, property tax on property owned by non-residents places a burden on "outsiders" or an occupancy tax on motel rooms used by tourist.

Taxation. To obtain revenue to fulfill policy objectives of government. Often used to achieve economic and social reforms.

Tax avoidance. Legal adjustments in behavior to reduce one's tax burden.

Tax base. A unit of value or privilege or object on which a tax is actually levied and a tax return is calculated. It determines how liabilities will be assessed. It may be property owned by the taxpayer, annual net income, the value of an estate of a deceased person, a corporate franchise, an occupation or the volume, number, quality or other characteristic of certain specified articles.

Tax evasion. Illegal efforts to avoid payment of a tax; for example, failure to report taxable income or property. Sometimes referred to as *tax dodging.*

Tax exemption. Legal freedom from the obligation to pay taxes, a privilege applicable to properties used, for example, for educational organizations or to the income of certain nonprofit organizations.

Tax levy. The amount of tax to be paid. In Idaho this is the dollars of tax paid per $1,000 assessed valuation.

Tax rate. The fraction of the tax base that is to be paid.

Tax rate structure. The levy applied to a tax base, the relationship between its percentage of the base, and the way that percentage varies with the size of the base.

Tax structure. The mix and types of taxes used by governing authorities.

Use tax. A tax levied on the use of particular articles. It is frequently resorted to in order to reach people who attempt to escape a local sales tax by purchasing in localities where the sales tax is not applicable.

User charges. Prices for the use of government services, determined by political as well as market considerations.

Value-added tax. For a given enterprise, the value-added tax is generally derived by computing the market price of goods completed, less the cost of materials purchased from others.

Vertical equity. Differential treatment of individuals according to their economic capacity.