

**MINUTES OF THE
REVENUE AND TAXATION INTERIM COMMITTEE**
Wednesday, April 21, 1999 -- 2:00 p.m. -- Room 223 State Capitol

Members Present:

Sen. Howard Stephenson, Senate Chair
Rep. Raymond W. Short, House Chair
Sen. Ron Allen
Sen. John L. Valentine
Rep. Ralph Becker
Rep. Judy Ann Buffmire
Rep. Kevin S. Garn
Rep. Wayne A. Harper
Rep. David M. Jones
Rep. Loraine T. Pace
Rep. Tammy J. Rowan
Rep. Jack A. Seitz
Rep. Richard L. Walsh

Members Excused:

Sen. Robert F. Montgomery
Rep. Margaret Dayton
Sen. L. Steven Poulton
Rep. Loretta Baca

Members Absent:

Sen. Mike Dmitrich

Staff Present:

Mr. Bryant R. Howe,
Research Analyst
Ms. Rebecca L. Rockwell,
Associate General Counsel
Ms. L. Kaye Clark,
Secretary

Note: A list of others present and a copy of materials distributed in the meeting are on file in the Office of Legislative Research and General Counsel.

1. Committee Business--- Chair Short called the meeting to order at 2:00 p.m.

a. Introduction of committee members and staff - At the request of Chair Short, the committee members and staff introduced themselves.

b. Approval of Minutes of November 18 and 24, 1998 meetings

MOTION: Sen. Valentine moved to approve the minutes of the meetings held on November 18 and 24, 1998, with the following amendments: (1) November 18 minutes, Page 3, Item 4: "MOTION: Rep. Valentine moved that the sponsor delete the out-of-pocket provisions in the legislation and to add language to the legislation providing that premiums [~~or expenses~~] are only deductible to the extent they are not deducted on the taxpayer's federal income tax return[;]" and (2) November 18 minutes, Page 2, Item 3: change "met" to "meet." The motion passed unanimously. Reps. Garn and Jones were absent for the vote.

2. Update on Revenue Projections

a. Doug Macdonald, Utah State Tax Commission ("Tax Commission"), presented to the committee information from the handouts "Key Economic Indicators" and "TC-23 Monthly Revenue Summary, First Three Quarters." He reported increases in labor productivity, nonfarm

employment, the Utah consumer sentiment index, unit car and truck sales, sales and use tax, and withholding tax. Mr. Macdonald commented that residential and nonresidential construction has slowed. He then responded to questions from the committee concerning income tax filings.

3. Tobacco Settlement Revenue

a. Overview of Settlement and Potential State Revenue – Mr. Jim Soper, Solicitor General, Office of the Attorney General, updated the committee regarding the tobacco settlement. He said that Utah filed a suit against several large tobacco manufacturers to recover \$130 million in Medicaid payments, but the settlement agreement was for a higher amount. Mr. Soper noted that funds may not be dispersed until certain finalization requirements provided for in the settlement agreement have been met. Chair Short stated that the federal government may take more than \$600 million of the settlement funds.

b. Proposed Congressional Action on States' Use of Tobacco Settlement Revenue – Ms. Rockwell explained that because differing versions of the 1999 emergency supplemental appropriations bill have passed the in House and Senate, a conference committee has been appointed to resolve the differences. She informed the committee that there are at least two other bills before Congress to prevent the federal government from recouping state tobacco settlement or judgment money as reimbursement for Medicaid costs related to smoking.

Mr. Soper answered questions from the committee including questions on the disbursement of the tobacco settlement money to Utah and the payment of attorneys' fees. Chair Short recommended the members read the material in the handout titled "Tobacco Settlement."

4. Simplified Tax and Wage Reporting System (STAWRS)

a. Introduction and Overview – Mr. Howe discussed the handouts "Change in State Revenue, United States - FY 1997-1998," which ranked Utah in the top one-third of the states in revenue growth, and "Combined State and Local Option Sales and Use Tax Rates," summarizing the different sales and use tax rates levied in Utah. Chair Stephenson added that the sales and use tax has become more complex in its application among the various jurisdictions.

Mr. Howe explained that the Simplified Tax and Wage Reporting System ("STAWRS") is a joint program of several federal agencies, states, and private organizations to find ways to reduce the employer tax and wage reporting burden while improving the effectiveness and efficiency of government operations. He said STAWRS is focused on: (1) streamlined customer service; (2) harmonized wage reporting; and (3) single point filing.

b. Montana's Single Point Filing System - Mr. Howe then reviewed Montana's employer reporting pilot project, and explained that it provides for single point filing but not simplification. This program combines two forms into the single form "MTQ/941-PILOT."

c. Perspectives from the Small Business Community – James W. Turner, CPA, spoke in favor of: (1) adopting harmonized wage definitions; and (2) Utah's participation in a study funded by the Internal Revenue Service and the Department of Labor. He urged the committee to consider recommending to the Governor that Utah participate in the study.

Mr. Larry Bunkall, Utah Manufacturers Association, recommended the state consider participating in the study. He expressed the following concerns with the STAWRS program: (1) implementation would require legislation to provide statutory authority to departments affected to delegate certain functions and duties to another department; and (2) not all business are prepared to participate in electronic reporting.

MOTION: Rep. Pace moved to instruct staff to draft a letter to the Governor stating the Revenue and Taxation Interim Committee's recommendation that Utah be involved in the pilot program. The motion passed unanimously. Rep. Jones was absent for the vote.

Commissioner Bruce Johnson, Tax Commission, stated that the Tax Commission supports tax simplification efforts.

5. Introduction to Interstate Retail Sales, Including Electronic Commerce

a. Overview of S.B. 178, Study on Sales and Use Tax Compact and Agreement – Sen. Valentine, sponsor of the legislation, discussed the impact of remote sales on local revenues. He explained that S.B. 178 authorizes the Tax Commission to enter into preliminary negotiations regarding a sales and use tax compact with other states, and to study certain issues relating to sales and use taxation. He said the bill requires the Tax Commission to report periodically during the interim.

Ms. Rockwell outlined the duties imposed by S.B. 178 on the Tax Commission, the Tax Review Commission ("TRC"), and the Revenue and Taxation Interim Committee. Ms. Rockwell explained that if the Tax Commission studies an issue provided for in the legislation, the Tax Commission shall present an initial report to the Revenue and Taxation Interim Committee beginning on or before the May 1999 interim meeting, and make additional reports to the Committee as the Committee requests. She stated that the TRC shall study sales and use tax simplification during the 1999 interim and make reports to the Revenue and Taxation Interim Committee as the Committee requests. Ms. Rockwell explained that if the Revenue and Taxation Interim Committee drafts legislation during the 1999 interim that authorizes the Tax Commission to enter into a compact with one or more states, the legislation shall include: (1) procedures and criteria for entering into, amending, and terminating the compact; and (2) a requirement that the Tax Commission makes reports to the Legislature.

b. Background on Interstate Sales – Mr. Howe reviewed information from the handout "Interstate Sales, Including Electronic Commerce." He discussed the tax implications of remote

sales and noted there are diverse projections regarding the impact of remote sales on state sales tax revenues. Mr. Howe noted that purchasers have the responsibility to pay the use tax, but use taxes are rarely paid.

Chair Stephenson commented on the potential impact of sales and use tax revenue lost during an economic downturn. He said the committee will continue to be informed on this issue. The committee then discussed issues relating to interstate retail sales, interstate information sharing, applying a single sales tax rate to all sales and uses within the state, distribution of taxes from remote sales, and common definitions.

6. Review of Proposed Revenue and Taxation Study Items from the Master Study Resolution

The committee reviewed a list of study items from the handout "1999 Possible Study Items." Chair Stephenson requested that the committee members inform the chairs of items that they have an interest in studying during the 1999 interim.

7. Other Business – No other business was discussed.

6. Adjournment --

MOTION: Sen. Valentine moved to adjourn the meeting at 4:10 p.m. The motion passed unanimously.