

**MINUTES OF THE
TAX REVIEW COMMISSION**

Monday, November 8, 1999 - 1:00 p.m. -- Room 405 State Capitol

Members Present:

Mr. James B. Lee, Vice-chair
Rep. Judy Ann Buffmire
Ms. Anne Clark
Rep. Greg J. Curtis
Mr. Robert M. Graham
Comm. Rich McKeown
Judge Jon Memmott
Ms. Bonnie Miller
Ms. Dorothy P. Owen
Sen. Millie M. Peterson
Mr. Keith Prescott

Members Excused:

Mr. Gary Cornia, Chair
Mr. Mark Buchi
Sen. Lyle W. Hillyard

Staff Present:

Mr. Bill Asplund
Assistant Director
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. Call to Order and Approval of Minutes -- Vice-chair Lee called the meeting to order at 1:10 p.m. and welcomed members of the Tax Review Commission ("TRC").

MOTION: Rep. Buffmire moved to approve the minutes of the October 22, 1999 meeting. The motion passed unanimously. Rep. Curtis, Judge Memmott, and Mr. Prescott were absent for the vote.

2. Report from Ad Hoc Group on Tax Burdens

Ms. Owen explained that the TRC established a task force to review research on tax burdens and to develop a number of policy options regarding ways to improve the current state tax system. She reviewed the task force's findings and policy options that could be implemented within the income tax structure from the report "Ad Hoc Task Force on Tax Burden Report to Tax Review Commission." The task force findings as outlined in the report are as follows:

"1. Utah's state and local taxes, in total, are going to be higher than national averages if funding for public services are going to be comparable to other states.

2. The evidence clearly shows that Utah's state and local tax structure does not distribute this higher tax burden proportionately among all taxpayers. Rather, it is regressive with lower and middle income taxpayers bearing a greater burden.

3. The major factors driving this disparity are the sales tax on food and the erosion of the state's income tax brackets due to inflation.
4. Over time the state and local tax system has become more regressive and without intervention will become more inequitable. Without changes in the state's income tax, there is a tax increase of between \$2 and six million a year depending on inflation.
5. The opportunities to affect significant change in a tax system are relatively rare. When they arise, policy makers need to utilize the opportunity to address the serious problems within the income tax structure.
6. Although a competitive business tax structure is valuable, it is important that taxes not be given disproportionate attention. Generally, labor, land or transportation costs are more important to a business than are taxes."

Greg Fredde, task force member, discussed the current tax system. He reviewed the existing state income tax brackets and said the brackets have become antiquated.

Doris Geide-Stevenson, task force member, discussed Utah's income tax policy guidelines that indicate that the system should shield subsistence income from taxation. She said current tax policy places a higher tax burden on the poor, and is not consistent with the guidelines adopted by the Legislature.

Robert Huefner, task force member, explained that the task force has identified a number of options to address the inequity among household tax burdens. He discussed the following options: (1) major systemic changes in the income tax structure; (2) major systemic changes in the sales tax system; (3) other income tax adjustments; (4) adjustments which increase progressivity and generate revenue; and (5) things to avoid in the future. These options are discussed in detail in the task force's report. Mr. Huefner stated that the task force is not recommending any one solution. Members of the task force responded to questions from the TRC.

Ms. Owen thanked the task force members for their work. Vice-chair Lee also thanked the task force and said the information provided will be very helpful to the TRC.

3. Property Tax Assessment

Glen Stevens, Western States Association of Tax Representatives and Questar, updated the TRC regarding centrally assessed property and intangible issues. He reviewed the handout "Valuation of Companies, How Utah Compares." Mr. Stevens commented that progress has been made since the WilTel decision, but problems remain. He reported that he is working to amend the utility valuation administrative rule that has been adopted by the Utah State Tax Commission

("Tax Commission"). Mr. Stevens recommended simplifying the property tax process to establish a predictable way to calculate values and reduce the number of appeals.

Norman Ross, PacifiCorp, commented that valuation methods used by the Tax Commission result in higher valuations than in other states. He said that even under the new rule, many companies have appealed their valuations.

Commissioner McKeown commented that the Tax Commission expects to have a hearing on modifications to the rule in January.

R. Neal Kohtz, US West, discussed the fairness of Utah's property tax policy for businesses that have facilities in Utah.

Commissioner Bruce Johnson, Tax Commission, recommended the rule be given more time to be fully implemented and tested.

Bill Thomas Peters, Utah Association of Counties, commented that the data in the handout needs further explanation to provide a true comparison with other states' valuations.

The TRC discussed property tax issues including intangibles, tax policy, and fair market value.

4. Sales and Use Tax Simplification

Doug Macdonald, Tax Commission, reviewed information on what would happen to city and county sales tax revenues if there was a single statewide sales and use tax rate of 6.0, 6.1, 6.2, or 6.3 percent. The information also indicated a small potential loss in state revenues if a 5.75 percent sales and use tax rate was applied only to all remote sales (see handout "FY 1997-98 and 1998-99 Local Tax Distribution and Single Statewide Rate Calculation").

The TRC requested Mr. Macdonald provide information showing the estimated cost if every taxing entity raised its sales and use tax rate to the maximum rate allowed by law.

5. Other Business

The next meeting of the TRC will be held on Tuesday, November 23, 1999, at 12:00 p.m.

Rep. Buffmire requested the tax burden issue be placed on the November 23 agenda.

Mr. Macdonald agreed to provide general information on taxing services.

6. Adjournment

MOTION: Sen. Peterson moved to adjourn the meeting at 3:50 p.m. The motion passed unanimously.