

**MINUTES OF THE
REVENUE AND TAXATION INTERIM COMMITTEE**
Wednesday, June 14, 2000 -- 9:00 a.m. -- Room 223 State Capitol

Members Present:

Sen. Howard Stephenson, Senate Chair
Rep. Raymond W. Short, House Chair
Sen. Ron Allen
Sen. Mike Dmitrich
Sen. Robert F. Montgomery
Sen. L. Steven Poulton
Sen. John L. Valentine
Rep. Ralph Becker
Rep. Margaret Dayton
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:

Rep. Judy A. Buffmire

Members Absent:

Rep. Loretta Baca

Staff Present:

Mr. Bryant R. Howe,
Research Analyst
Ms. Rebecca L. Rockwell,
Associate General Counsel
Ms. L. Kaye Clark,
Legislative 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 9:00 a.m.

MOTION: Rep. Pace moved to approve the minutes of the April 19 and May 17, 2000 meetings. The motion passed unanimously. Sen. Poulton and Reps. Becker, Harper, and Jones were absent for the vote.

2. Individual Income Tax: Capital Gains – David Winder, Executive Director, Department of Community and Economic Development, discussed the individual income tax on income from capital gains. He stated that Utah's capital gains tax is a substantial deterrent for high wealth individuals to live in Utah. He reviewed data contained in the handouts "Major State and Local Taxes" and "State Capital Gains Rates," comparing Utah's tax rates with rates in other states. He requested the committee study reducing the capital gains tax rates because of the negative impacts on Utah's economy. Mr. Winder responded to questions about: (1) the impact of a reduction in the capital gains tax on the uniform school fund; (2) pending federal estate tax legislation; and (3) increasing the corporate franchise tax.

MOTION: Sen. Stephenson moved to prepare draft legislation reducing by 50% the income tax rate on income from capital gains. The motion passed unanimously. Sen. Poulton and Reps. Harper and Jones were absent for the vote.

Sen. Dmitrich requested the committee review the deductibility of federal individual income taxes on the state individual income tax form. Chair Short said that issue would be on a future agenda.

3. Imposition of Fees by Local Governments on Mobile Telecommunication Services –

Sen. Valentine explained that the cities have agreed not to impose any new taxes on mobile telecommunication services through December 31, 2000 while the committee reviews the taxation of telecommunication services. He said that beginning on January 1, 2001, some cities, including Salt Lake City, may incorporate into their budgets a franchise tax on mobile telecommunication services. Sen. Valentine then introduced representatives from municipalities and the telecommunications industry who would present comments to the committee.

Steven Allred, Salt Lake County Attorney, discussed the authority of cities to impose a franchise tax on telecommunication services. He stressed that cities are not imposing a new tax, but simply making adjustments to recapture leakage in the revenue stream due to technology changes. He said revenues from the franchise of telephone services have decreased because of the increase in untaxed telephone service.

Paul Morris, West Valley City Attorney, discussed trends in wireless telephone use. He reported that all of the cities have agreed to comply with a uniform ordinance. He recommended studying simplification of Title 11, Chapter 24, Local Taxation of Utilities Limitation.

Robin Riggs, US West, discussed the need for a comprehensive study of telecommunications taxes in Utah.

Laurie Itkin, Leap Wireless, commented that for customers with an inexpensive service plan, a \$1 per month tax would be a high percentage of their bill. She then reviewed the charges on a local \$30 wireless telephone bill and identified 7 separate taxes equaling approximately 12% of the total bill.

Patrick Fucik, Sprint, stated that Sprint does not support additional taxes on telecommunications and did not agree to the taxes that may be incorporated into some cities' budgets beginning on January 1, 2001. He supports a legislative review of the telecommunications taxation process.

John McNamara, AT&T, reviewed other states' taxation of telecommunications. He recommended the entire tax structure be replaced with a simple, uniform communication tax that is administered by the Utah State Tax Commission (Tax Commission).

John Cmelak, Verizon Wireless, reviewed his concerns regarding the proposed city taxes, as listed in the handout "Verizon Wireless." He recommended the committee continue to work with representatives from the telecommunications industry, the Utah League of Cities and Towns, and the Utah Taxpayers Association to develop meaningful tax reform.

Scott Romney, citizen, and Greg Fredde, Utah Taxpayers Association, spoke against the imposition of fees by municipalities on mobile telecommunication services.

MOTION: Rep. Pace moved that the committee receive a copy of the Florida telecommunications tax legislation and then study this issue at a later meeting. The motion passed unanimously. Sens. Dmitrich and Poulton and Rep. Garn were absent for the vote.

4. Individual Income Tax Deduction for Savings Account Interest Earnings – Sen. Valentine acted as committee chair for the discussion of this item. Chair Short reviewed draft legislation, "Individual Income Tax - Deduction for Interest or Dividends and Limits on Deductions." He explained that the bill provides an individual income tax deduction for certain interest or dividends that accrue to an account at an eligible bank, credit union, association, or industrial loan corporation.

MOTION: Rep Seitz moved to study the draft legislation, "Individual Income Tax - Deduction for Interest or Dividends and Limits on Deductions," and place this item on next month's meeting agenda. The motion passed unanimously. Sens. Stephenson, Dmitrich, and Montgomery, and Reps. Garn, Jones, and Walsh were absent for the vote.

5. Sunset Review of Energy Savings Systems Tax Credits – Mr. Howe explained that the energy savings system tax credit is equal to 25% of the cost of a residential energy system, up to \$2,000 per unit. Business entities may claim a credit equal to 10% of a commercial energy system, up to \$50,000 per unit. He provided an historical overview of the number and dollar amounts of the credits taken by taxpayers and a summary of financial incentives offered by other states by reviewing the handouts "Energy Savings Systems Tax Credit" and "Summary – Residential Energy Systems Tax Credits."

Jeff Burks, Director, Utah Energy Office, Department of Natural Resources, reported that there has been a significant increase in the number of applications for the tax credits. Mr. Burks and Donna Coulson, Utah Energy Office, Department of Natural Resources, responded to questions from the committee.

MOTION: Rep. Becker moved that the energy savings systems tax credits be extended for five years. The motion failed with Sens. Allen, Dmitrich, and Montgomery and Reps. Becker, Seitz, and Walsh voting in favor. Sen. Stephenson and Reps. Garn, Harper, and Jones were absent for the vote.

MOTION: Sen. Valentine moved to go to the next item on the agenda. The motion passed unanimously. Sen. Stephenson and Reps. Garn, Harper, and Jones were absent for the vote.

6. Resort Community Sales and Use Tax -- Definition and Interpretation of "Transient Room Capacity" – Sen. Dmitrich stated that representatives of some of the cities that are affected by the resort community sales and use tax were not able to attend the meeting. He

requested that these cities be included in any future discussions on amending language relating to this tax.

Mr. Howe presented background information regarding the resort community sales and use tax contained in the handout "Resort Community Sales and Use Tax." He discussed issues relating to the tax including: (1) the definition of "transient room capacity"; and (2) whether there should be a regular review to determine the eligibility of municipalities to impose the tax.

David Spatafore, Utah League of Cities and Towns, stated the tax is intended to address the impact of tourists on resort communities. He encouraged the committee to refine the definition of "transient room" rather than relying on permanent population as a measurement for determining eligibility to impose the tax.

Tom Bakaly, Director, Capital Programs and Budget, Park City, distributed the handout "Park City Transient Room Capacity." He reviewed the process Park City uses to calculate the transient room capacity for purposes of the resort community sales and use tax.

Keith Gaily, Boulder Town, discussed the burdens placed on resort communities to provide services.

Allen Henrie, City Manager, Panguitch City, introduced Mayor John Tourkenson. Mayor Tourkenson spoke in favor of the tax.

Ben Coomer, Councilman, Green River, commented that resort communities should be given broad flexibility when determining eligibility to levy the additional tax.

Sen. Stephenson urged working toward tax simplification.

MOTION: Rep. Rowan moved to request that the cities extend the moratorium on taxing wireless communications services to allow the legislature to address the issue during the 2001 General Session.

SUBSTITUTE MOTION: Rep. Seitz moved to adjourn the meeting. The motion passed with Reps. Dayton and Rowan voting in opposition. Sen. Montgomery, Chair Short, and Reps. Becker, Garn, and Jones were absent for the vote.

7. Other Business – Chair Short announced that the next meeting will be held on Wednesday, July 12, 2000.

8. Adjournment – The meeting was adjourned at 12:10 p.m.