

**MINUTES OF THE  
REVENUE AND TAXATION INTERIM COMMITTEE**  
Wednesday, April 24, 2002 – 9:00 a.m. – Room 129 State Capitol

**Members Present:**

Sen. Curtis S. Bramble, Senate Chair  
Rep. Wayne A. Harper, House Chair  
Sen. Ron Allen  
Sen. Lyle W. Hillyard  
Sen. Howard A. Stephenson  
Rep. Afton Bradshaw  
Rep. David Clark  
Rep. Steven R. Mascaro  
Rep. Ty McCartney  
Rep. Carol Spackman Moss  
Rep. LaWanna Shurtliff  
Rep. Gordon E. Snow  
Rep. John E. Swallow

**Members Absent:**

Rep. Ralph Becker  
Rep. Judy Ann Buffmire  
Rep. Kevin S. Garn

**Staff Present:**

Mr. Bryant R. Howe, Research Analyst  
Ms. Rebecca L. Rockwell, Associate General Counsel  
Ms. Sandra Wissa, Legislative Secretary

**Note:** A list of others present and a copy of materials can be found at <http://www.image.le.state.ut.us/imaging/history.asp> or contact the committee secretary at 538-1032.

**1. Committee Business**

Rep. Snow called the meeting to order at 9:20 a.m. because the committee chairs had not yet arrived at the meeting. When Rep. Harper arrived at the meeting, he assumed the duty of chairing the meeting.

**MOTION:** Rep. Bradshaw moved to approve the minutes of the January 17, 2002 meeting. The motion passed unanimously with Sen. Allen and Rep. Swallow absent for the vote.

**2. Revenue Update**

Mr. Doug Macdonald, Chief Economist, Tax Commission (Utah State Tax Commission), made the presentation "2002 Utah Revenue Outlook." He explained that the state's declining employment situation indicates that Utah is still in a recession. However, some sectors of the economy, especially the government sector, are providing some job growth. Mr. Macdonald also explained the various components that make up the gross state product. With regards to the state's revenue picture, he explained that combined General Fund/Uniform School Fund revenue collections are about \$30.55 million below legislative projections. Transportation Fund revenue collections are about \$350,000 above legislative projections.

**3. Summary of the "Job Creation and Worker Assistance Act of 2002" (New Federal Tax Law)**

Mr. Howe distributed "Overview of the 'Job Creation and Worker Assistance Act of 2002'" and made a presentation. He explained selected major tax provisions of the act and how the act could affect Utah's tax revenues, especially corporate franchise and income tax revenues. One provision of this new act allows a taxpayer an accelerated 30 percent depreciation of certain property that is put into operation

within a specific time period. This provision is meant to spur new investment by decreasing after-tax acquisition costs. However, because this accelerated depreciation decreases federal taxable income, it will also reduce state corporate franchise and income tax revenues and individual income tax revenues.

#### **4. The Utah Inheritance Tax Act**

Mr. Howe distributed "Utah Estate Tax" and made a presentation. He explained how Utah's inheritance tax has been affected by the Economic Growth and Tax Relief Reconciliation Act of 2001. Mr. Howe reviewed how Utah's inheritance tax is determined and how the federal law changes will result in a complete phase out of Utah's inheritance tax. Mr. Howe noted, however, that unless Congress acts otherwise, the federal law changes are repealed effective December 31, 2010, and that repeal would result in Utah's inheritance tax collections being resumed. He also explained that Utah's inheritance tax currently provides about 2 percent of all General Fund tax revenues.

Mr. David Winder, Executive Director, Department of Community and Economic Development, stated that Utah should not act to protect inheritance tax revenues if such an action would place Utah at a competitive disadvantage in comparison to other states.

The Committee discussed Utah's inheritance tax.

#### **5. Review of the "Economic Growth and Tax Relief Reconciliation Act of 2001"**

Mr. Howe distributed "Summary Economic Growth and Tax Relief Reconciliation Act of 2001" and made a presentation. Mr. Howe highlighted key provisions of the federal act and provided information on how the federal act may affect Utah.

Mr. Tom Williams, Economist, Tax Commission, distributed and reviewed "HR 1836 Impact on Utah." Mr. Williams explained that the federal law changes could result in state revenue increases in fiscal years 2003, 2004, and 2005, but could result in state revenue losses in fiscal years 2006 through 2010.

#### **6. The Utah Corporate Franchise and Income Taxes, Job Growth, and the Utah Tax System**

Mr. Howe distributed "Job Growth and the Utah Business Tax Climate" and made a presentation. He explained that the presentation provides background information for the committee to consider in reviewing the overall tax climate for Utah businesses as well as study items listed on 2002 General Session S.J.R. 15, "Master Study Resolution," involving eliminating the corporate income tax and providing tax credits for certain business investments.

Mr. David Winder stated that Utah's business tax policy is in good shape and competitive with other states. He explained that Utah is below average in tax and financial incentives, but has other advantages that help bring businesses to the state including: a well-educated work force with good work ethics; transportation; research universities; and lifestyle. He indicated that eliminating state corporate franchise and income taxes will not necessarily attract new businesses. Mr. Winder asked that the committee study 2002 General Session H.B. 149, "Tax Credits for Manufacturing Capital Investments."

Mr. Mike Jerman, Utah Taxpayers Association, stated that members of the Utah Taxpayers Association view the Utah business tax climate as neutral to slightly negative. He explained that there is strong evidence that lower tax burdens ultimately lead to higher growth. He indicated that the volatility of corporate franchise and income taxes makes these taxes difficult for policymakers to manage. He suggested a "metering" of these taxes, using a 5-year average for budgeting, and then using the excess in "lean" years. Mr. Jerman indicated that H.B. 149 is worth examining because most other states offer this type of tax credit.

Mr. Steven Peterson, Associate Executive Director, Utah School Boards Association and Utah School Superintendents Association, distributed a memorandum to the committee. He stated that the overall tax climate for Utah business is favorable. He indicated that there is no evidence to support the assertion that eliminating the state corporate income tax would result in an increase in jobs and economic growth. Mr. Peterson stated that the Utah School Boards Association and the Utah School Superintendents Association opposed H.B. 149 because it would take money out of the Uniform School Fund.

Mr. Thomas E. Bingham, President, Utah Manufacturers Association, stated that the current recession is a manufacturing recession and that one of the major causes of the recession is the overvaluation of the dollar. He indicated that Utah's overall tax climate is unfavorable and the Utah Manufacturers Association believes tax policy affects job growth. He explained that while it may be helpful to reduce or eliminate corporate franchise and income taxes, manufacturers would greatly benefit from an expansion of the sales and use tax exemption for manufacturing equipment. Mr. Bingham stated that Utah's focus on attracting new companies to the state should not negatively affect existing Utah companies.

## **7. Other Business**

**MOTION:** Rep. Shurtliff moved to adjourn the meeting. The motion passed unanimously with Rep. Mascaro absent for the vote.

Chair Harper adjourned the meeting at 12:09 p.m.