

**MINUTES OF THE
REVENUE AND TAXATION INTERIM COMMITTEE**

Wednesday, November 10, 2004 – 9:00 a.m. – Room W135 House Building

Members Present:

Sen. Curtis S. Bramble, Senate Chair
Rep. Wayne A. Harper, House Chair
Sen. Ron Allen
Sen. Leonard M. Blackham
Sen. Mike Dmitrich
Sen. Lyle W. Hillyard
Sen. Howard A. Stephenson
Rep. Sheryl L. Allen
Rep. Ralph Becker
Rep. Stephen D. Clark
Rep. Carl W. Duckworth
Rep. Craig Frank
Rep. Ann W. Hardy
Rep. Kory M. Holdaway

Rep. Bradley G. Last
Rep. Carol Spackman Moss
Rep. Merlynn T. Newbold
Rep. Gordon E. Snow

Members Absent:

Rep. Greg J. Curtis
Rep. Jack A. Seitz

Staff Present:

Mr. Bryant R. Howe, Assistant Director
Ms. Rebecca L. Rockwell, Associate General Counsel
Mr. Tom Vaughn, Associate General Counsel
Ms. Phalin L. Flowers, Legislative Secretary

Note: A list of others present and a copy of related materials can be found at www.leg.utah.gov or by contacting the committee secretary, Phalin Flowers, at 538-1032. A recording of the meeting is available from the committee secretary.

1. Committee Business

Chair Harper called the meeting to order at 9:06 a.m.

MOTION: Rep. Frank moved to approve the minutes of the October 20, 2004 meeting. The motion passed unanimously with Sen. Allen, Sen. Dmitrich, Sen. Hillyard, Rep. Becker, and Rep. Holdaway absent for the vote.

Ms. Lynn Solarczyk, Utah State Tax Commission, spoke regarding the sales and use tax exemption for semiconductor fabrication and processing materials. She reported that fewer than ten accounts claimed this exemption in the amount of \$1.1 million.

Mr. Erv Logan, Fairchild Semiconductor, spoke in support of the sales and use tax exemption for semiconductor fabrication and processing materials.

2. Report of the Utah Tax Review Commission

Mr. Keith Prescott, Chair, Utah Tax Review Commission (TRC), reviewed the findings and recommendations of the TRC for 2004. He presented 2005 draft legislation "Sales and Use Tax - Sales of Seasonal Crops or Other Products," and recommended that the sales and use tax exemption for seasonal crops sold by the producer during the harvest season be repealed. Mr. Prescott also presented 2005 draft legislation "Sales and Use Tax Agriculture Exemptions." He explained that this legislation repeals certain sales and use tax exemptions relating to agriculture because those exemptions are included in another exemption. He also presented 2005 draft legislation "Sales and Use Tax - Agricultural

Exemption Vehicle Limitation." Mr. Prescott provided a copy of the statement the TRC adopted on Citizen's State Initiative Number 1 "Utah Clean Water, Quality Growth and Open Space Initiative."

Mr. David Crapo, Vice Chair, Utah Tax Review Commission, supported Mr. Prescott's comments.

Chair Harper turned the chair over to Sen. Bramble.

MOTION: Sen. Allen moved that 2005 draft legislation "Sales and Use Tax Agriculture Exemptions" be approved as a committee bill. The motion passed unanimously with Rep. Clark absent for the vote.

MOTION: Sen. Allen moved that 2005 draft legislation "Sales and Use Tax - Agricultural Exemption Vehicle Limitation" be approved as a committee bill.

SUBSTITUTE MOTION: Rep. Snow moved that 2005 draft legislation "Sales and Use Tax - Agricultural Exemption Vehicle Limitation" be approved as a committee bill with the additional recommendation that the bill be referred to a standing committee for further review during the general session. The motion passed unanimously with Rep. Clark absent for the vote.

Ms. Lynn Solarczyk, Utah State Tax Commission, clarified several points on collecting sales and use taxes from producers of seasonal crops.

MOTION: Rep. Last moved to proceed to the next agenda item. The motion passed with Sen. Allen and Rep. Becker voting in opposition and Rep. Clark absent for the vote.

3. Report of the Individual Income Tax and Corporate Franchise and Income Tax Task Force

Sen. Hillyard reported on the issues studied by the Task Force (Individual Income Tax and Corporate Franchise and Income Tax Task Force) during the 2004 interim. He explained that the Task Force discussed the individual income tax in detail but took no formal action. He also explained that the majority of the Task Force supported two recommendations concerning corporate franchise and income taxes. The first recommendation is to increase the minimum tax from \$100 to \$250. The second recommendation is to adjust the income apportionment formula for multistate corporations from the existing formula, which equally weighs a corporation's property, payroll, and sales, to a formula that would allow a corporation to elect to apportion income on the basis of a double weighted sales factor.

MOTION: Sen. Hillyard moved to approve the concept of raising the minimum tax from \$100 to \$250. Sen. Hillyard withdrew his motion.

4. Report of the Motion Picture Task Force

Sen. Allen gave a brief report on the Motion Picture Task Force. He explained that the state competes with other states to attract investment and production activities in Utah by the motion picture industry. Sen. Allen noted that other states fund the start up of film production and provide a sales and use tax exemption for sales of film stock. He also discussed legislation that provides grants to TV and motion picture production firms that do business in the state.

Ms. Leigh Von Der Esch, Director, Utah Film Commission, spoke in favor the Task Force's recommendations.

Rep. Allen supported Sen. Allen's comments regarding the Task Force recommendations.

MOTION: Sen. Allen moved that 2005 draft legislation "Motion Picture Incentive Fund" be approved as a committee bill. The motion passed with Rep. Newbold voting in opposition and Sen. Dmitrich, Sen. Hillyard, and Rep. Becker absent for the vote.

5. Tax, Fee, and Charge Revisions

Chair Bramble turned the chair over to Rep. Harper.

Sen. Bramble briefly spoke on this item. This item was withdrawn from the agenda.

6. Calling Local Special Elections for Sales and Use Tax Purposes

Sen. Bramble introduced this item.

Ms. Rockwell distributed and discussed 2005 draft legislation "Calling Local Special Elections For Sales and Use Tax Purposes."

MOTION: Sen. Stephenson moved that 2005 draft legislation "Calling Local Special Elections For Sales and Use Tax Purposes" be approved as a committee bill. The motion passed unanimously with Sen. Dmitrich, Rep. Becker, and Rep. Moss absent for the vote.

7. Report of the Hazardous Waste Regulation and Tax Policy Task Force

Sen. Bramble gave a report of the findings and recommendations of the Hazardous Waste Regulation and Tax Policy Task Force. He explained that although Envirocare receives about 93% of the waste disposed of at commercial low-level radioactive waste facilities in the United States (based on cubic feet), Envirocare only receives .1% of the waste based on curies. He explained that this indicates that Utah receives large volumes of very low-level radioactive waste while the other two commercial disposal facilities in the country receive low volumes of waste with higher levels of radioactivity. He also explained that the rate of taxation on Envirocare has increased by over 500 percent over the past few years.

8. Options for a Single Statewide Sales and Use Tax Rate or Uniform County Wide Sales and Use Tax Rates

Chair Harper turned the chair over to Sen. Bramble.

Rep. Harper distributed and discussed "Proposal for a Uniform Statewide Sales and Use Tax Rate."

Mr. Roger Tew, Utah League of Cities and Towns, commented on the advantages and disadvantages of creating a single sales and use tax rate for the state.

Mr. Jim Olsen, Utah Retail Merchants and Food Industry, supported a single sales and use tax rate for the state.

Ms. Lynn Solarczyk, Utah State Tax Commission, said that the commission supports any effort to help sellers comply with the sourcing requirements of the Streamlined Sales and Use Tax Agreement.

Ms. Kathryn Pett, General Counsel, Utah Transit Authority, said that some aspects of the proposal will affect the revenue sources of public transit districts in the state.

9. Land Value Taxation

Sen. Stephenson introduced this issue. He distributed "Henry George and the Reconstruction of Capitalism" and "A Land Value Tax for Utah's Transportation Needs."

Mr. Lawrence Walters, Lincoln Institute of Land Policy, gave a presentation on land value taxation. He explained that there is substantial empirical evidence that land value is affected by the quality of the nearby transportation infrastructure. Some of this increased taxable value may be a source of funding highway construction.

10. Revisions to Sales and Use Tax Treatment of Mailing and Printing Charges

Sen. Hillyard introduced this issue.

Mr. Bruce Olson, Ray Quinney & Nebeker, representing the Printers Industry of Utah, reviewed with the committee how certain requirements of the Streamlined Sales and Use Tax Agreement affect the direct mail industry.

11. Other Items / Adjourn

MOTION: Rep. Holdaway moved to adjourn the meeting. The motion passed unanimously with Sen. Allen, Sen. Blackham, Sen. Bramble, Sen. Dmitrich, Rep. Allen, Rep. Becker, and Rep. Duckworth absent for the vote.

Chair Harper adjourned the meeting at 11:55 a.m.