

**MINUTES OF THE
TAX REFORM TASK FORCE**

Wednesday, June 8, 2005 – 9:00 a.m. – Room W135 House Building

Members Present:

Sen. Curtis S. Bramble, Senate Chair
Rep. Wayne A. Harper, House Chair
Sen. Mike Dmitrich
Sen. Howard A. Stephenson
Pres. John L. Valentine
Rep. Ralph Becker
Rep. John Dougall
Rep. Gregory H. Hughes
Rep. Todd E. Kiser
Rep. Rosalind J. McGee
Rep. Merlynn T. Newbold
Rep. Gordon E. Snow
Comm. Pam R. Hendrickson
Mr. Neil H. Ashdown

Members Absent:

Rep. Stephen H. Urquhart

Staff Present:

Mr. Bryant R. Howe, Assistant Director
Mr. Phillip V. Dean, Policy Analyst
Ms. Rebecca L. Rockwell, 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 task force secretary, Phalin Flowers, at 538-1032. A recording of the meeting is available from the task force secretary.

1. Task Force Business

Chair Harper called the meeting to order at 9:13 a.m.

2. Perspectives on Tax Reform -- Utah Foundation

Mr. Stephen Kroes, Executive Director, Utah Foundation, presented "Utah's Tax System." He also distributed "Financing Government in Utah." He discussed Utah's current tax situation and explained that Utah's state and local tax burden is high while Utah's federal tax burden is 40th in the nation. He said that his organization believes that the most important elements of former Governor Walker's tax reform plan are stability, economic growth, and revenue sufficiency. For stability, the individual income tax should be flattened and the sales and use tax based expanded. For economic growth, purchases of business inputs should be exempt from the sales and use tax. For revenue sufficiency, the property tax and motor fuel tax should be adjusted. He explained that flat taxes are more stable, but less progressive. He also said that the sales tax base should be broadened to include more services to better align with the changing economy.

Sen. Bramble asked Mr. Kroes for his specific recommendations for changes to Utah's tax system. Mr. Kroes replied that his organization has a long history of providing policy research and does not advance specific recommendations.

Rep. Hughes said that many tax deductions have strong constituencies. This makes it difficult for the Legislature to enact substantive reform. He said that the Utah Foundation could play an important role to provide objective analysis, without advocacy.

Rep. Dougall asked if it is feasible to modify the sales and use tax to balance the regressivity of a flat tax. Mr. Kroes replied that lowering the sales tax rate on food and extending the sales and use tax to services would improve that tax's progressivity. He said that a flat tax could be designed to exclude a certain level of income.

Rep. Mcgee said that it is important to clearly define what is meant by a "flat tax." She also requested information on transportation taxes based on number of miles traveled.

3. Perspectives on Tax Reform -- Utah League of Cities and Towns

Mr. Kenneth H. Bullock, Executive Director, Utah League of Cities and Towns, presented "ULCT Tax Reform Efforts." A packet of other information from the League was also distributed. Mr. Bullock explained that his organization's priorities for tax reform include amending property tax truth in taxation laws to allow for inflationary growth, recommending no sales and use tax changes without involving affected entities, pursuing flexibility in municipal revenue sources, recommending that the Legislature not trade one revenue source for another, aligning state and local economic development, and working to develop a collaborative long term solution for transportation funding needs.

Ms. Kerri Nakamura, Utah League of Cities and Towns, spoke to the Task Force on municipal revenue and expenditure data. She demonstrated the database her organization uses to determine fiscal impacts of various policies on municipalities.

Mr. Roger Tew, Utah League of Cities and Towns, clarified several points for the Task Force.

Sen. Bramble asked if it is appropriate for the Legislature to limit what services may be provided by municipalities. Mr. Bullock replied that locally elected municipal officials believe they are accountable to the public.

Commissioner Hendrickson asked the witnesses if they agree with former Governor Walker's proposal to reduce the excise tax on motor fuel and replace it with the sales and use tax. Mr. Bullock replied that it is important for revenues to be stable and grow with the economy. The source of revenue is not an issue.

4. Perspectives on Tax Reform -- Utah Taxpayer's Association

Mr. Mike Jerman, Utah Taxpayers Association, distributed and discussed "Utah Taxpayers Association's Position on Walker Proposal #3: Implement Electable Single Sales Factor Apportionment." He explained that instead of eliminating the state corporate income tax, his organization supports allowing companies to choose between the current three-factor apportionment formula or a single sales factor apportionment formula.

Mr. Jerman also distributed "Utah Taxpayers Association's Position on Walker Proposal #4: Eliminate Sales Taxes on Business Inputs" and "Utah Taxpayers Association's Position on Walker Proposal #8: Eliminate Boutique Sales Tax." He explained that the Utah Taxpayers Association supports these proposals.

Mr. Jerman also distributed "Utah Taxpayers Association's Position on Walker Proposal #12: Prohibit RDAs for Retail and Office Parks." He explained that while this proposal is a good first start, more should be done to limit the use of RDAs.

Mr. Jerman also distributed "Utah Taxpayers Association's Position on Walker Proposal #13: Maintain Current Certified Tax Rate Calculation." He explained that the Association opposes automatic inflationary adjustments to certified tax rates under Utah's Truth-in-Taxation law. He also distributed and discussed "Utah Taxpayers Association Supports Measures to Reduce Regressivity."

Rep. McGee asked if it is appropriate for a government entity to ask citizens if they want a certain service provided and if they are willing to pay higher taxes for that service. Mr. Jerman replied that these types of services, as much as possible, should be provided through fees. He also said that "truth in taxation" hearings provide opportunities for citizens to advocate for higher property taxes for expanded services.

Rep. Hughes said that the public is often asked to slightly increase sales and use taxes to pay for a specific public service enhancement and that these rate increases worsen the sales and use tax's regressivity.

5. Perspectives on Tax Reform -- Utah State Tax Commission

Mr. Rod Marrelli, Executive Director, Utah State Tax Commission, distributed and discussed "Tax Simplification - A Dream Whose Time Has Come?" He explained reasons to simplify the current state and local tax system and what simplification means. Tax commission priorities for administrative simplicity include simplifying distribution of the local option sales and use tax, reducing the number of lines on the individual income tax form. He explained that most individual income and corporate franchise and income tax credits are rarely used.

6. Perspectives on Tax Reform -- Utah Association of Counties

Mr. Carl Hendrickson, General Counsel, Utah Association of Counties, told the task force that the state and local tax system should be fair, just, and simple. He said that for many public services, counties act as an agent of the state. Examples of these services include mental health and substance abuse treatment services and incarceration of felons as a condition of probation. He said that a county's tax base is inherently different from a municipality's and that it is important for revenue sources to be stable and balanced. He said that his organization supports expansion of the sales and use tax base to services but that the task force should proceed cautiously when exempting purchases of business inputs. His organization supports changing the distribution formula for the local option sales and use tax to allocate all funds based on population.

Mr. Hendrickson said that adequate funding should be provided to counties to operate state mandated services. It is important to not usurp the voice of citizens who have voted to impose certain taxes to provide certain services.

Rep. McGee asked that Mr. Hendrickson provide the task force with a written copy of his testimony.

7. Perspectives on Tax Reform -- Sutherland Institute

Mr. Paul Mero, Sutherland Institute, discussed "A Unique Perspective on Tax Reform in Utah: Favor the Family." He explained that the Sutherland Institute's center point is the family. He suggested keeping incentives for family size, charitable donations, and home ownership. He said that his organization supports making the sales tax an important funding source, exempting food from the sales and use tax, and imposing the sales and use tax on services. He also recommended eliminating the constitutional earmarking of taxes on income for education and that funding for education should be shifted to the sales and use tax. By doing so, the corporate income tax could be eliminated. He summarized by saying the goal of the task force should be to cover the legitimate costs of government and then put nation-building, or state-building back in the hands of civil society.

8. Task Force Discussion

The Task Force discussed holding public hearings in various statewide locations. Tentative plans to hold public hearings later this year in Logan, Salt Lake, Provo, Vernal, Price, Cedar City, and St. George were discussed.

The Task Force recessed at 12:09 p.m.

9. Subcommittee Meetings

The Income Tax Subcommittee and Property Tax Subcommittee met.

10. Subcommittee Meetings

The Sales and Use Tax Subcommittee and RDA/Other Taxes Subcommittee met.

11. Task Force Reconvenes

The Task Force reconvened at 4:36 p.m.

Rep. Harper discussed "Report of the Sales and Use Tax Subcommittee." He said that the subcommittee continued its discussion of the sales and use tax base.

Sen. Bramble reported that the Income Tax Subcommittee voted to develop a flat individual income tax system consisting of a four percent rate on federal adjusted gross income. This recommendation is a building block of tax reform and would help ameliorate this tax's volatility. The subcommittee also voted to ask the Constitutional Revision Commission to examine the feasibility of removing the earmarking of taxes on income for education.

Minutes of the Tax Reform Task Force
June 8, 2005
Page 5

Sen. Dmitrich reported that the Property Tax Subcommittee reviewed "Resolution Regarding Property Tax on Personal Property." He said that this resolution amends the Utah Constitution to empower the Legislature, under certain conditions, to exempt personal property from the property tax.

12. Other Items / Adjourn

The next Task Force and subcommittee meetings are scheduled for Thursday, June 16, 2005 beginning at 8:00 a.m.

MOTION: Rep. McGee moved to adjourn the meeting. The motion passed unanimously with Sen. Stephenson and Pres. Valentine absent for the vote.

Chair Bramble adjourned the meeting at 4:50 p.m.