

**MINUTES OF THE
INCOME TAX SUBCOMMITTEE
TAX REFORM TASK FORCE**

Wednesday, June 8, 2005 – 1:00 p.m. – Room W125 House Building

Subcommittee Members Present:

Sen. Curtis S. Bramble, Acting Chair
Rep. Rosalind J. McGee
Mr. Neil Ashdown

Other Task Force Members Present:

Rep. John Dougall
Rep. Gregory H. Hughes
Rep. Merlynn T. Newbold

Members Absent:

Sen. Howard A. Stephenson, Senate Chair
Rep. Stephen H. Urquhart, House Chair

Staff Present:

Mr. Phillip V. Dean, Policy Analyst
Ms. Rebecca L. Rockwell, Associate General Counsel

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. Subcommittee Business

Acting Chair Bramble called the meeting to order at 1:42 p.m.

2. Information Requests

Mr. Dean distributed "Corporate Franchise and Income Tax and Gross Receipts Tax and Radioactive Waste Tax," containing background information such as tax forms and information on the tax base, tax rates, tax credits, and revenue. Mr. Dean distributed and reviewed "Sources of Utah Income," including types of income and the impact of capital gains on income tax revenues, "Selected Single Rate Income Tax Options," including various definitions of poverty, various options for exempting subsistence-level income, revenue-neutral rates of various options, and detail on amounts of existing federal and state tax deductions, and "Individual Income Tax Structure of Flat-Rate States," summarizing the income tax base and rate of states with a single individual income tax rate.

Sen. Bramble commented on the definition of regressivity and asked if information on government transfer payment and entitlement programs, such as Medicaid, food stamps, or housing benefits, had been compiled and factored into the analysis of regressivity. Mr. Dean indicated he would research the topic.

Rep. Dougall asked if any of the income tax options presented are regressive. Mr. Dean indicated that none of the options presented were regressive - one is proportional and the rest are progressive. Sen. Bramble indicated that Rep. Dougall's comment relates to his earlier comments about regressivity analysis and that transfer payments received should be considered in conjunction with the amount of tax paid.

Rep. McGee asked if other income tax options would be considered, including graduated income tax options such as the Jones-Mascaro income tax proposal. Sen. Bramble indicated that future agendas had not been set and that decision would remain with Subcommittee Chairs.

3. Flat Income Tax Concept

Mr. Keith Prescott, Chair of Utah Tax Review Commission and one of former Governor Walker's tax advisors, presented on former Governor Walker's income tax proposals. Sen. Bramble asked about the policy of constitutionally earmarking income tax for education. Mr. Prescott indicated that his own opinion was that the earmarking policy should be re-examined.

Mr. Prescott commented on state administrative issues, taxpayer simplicity, broadening the tax base and lowering the tax rate, examples of countries with a flat tax, economic competitiveness, revenue stability, and other issues related to the flat income tax. Mr. Prescott indicated that Utah's individual income tax system deters economic development. Sen. Bramble asked about issues related to the federal earned income tax credit. Mr. Prescott responded that the federal tax system in that area is convoluted and has administrative problems and, in addition, outright fraud has occurred.

Mr. Prescott reviewed former Governor Walker's advisors' preferred approach, which was to apply a flat rate of approximately 4.1% to federal adjusted gross income, with an exemption for those at lower income levels. He addressed the distributional impacts of the flat tax and indicated that a poverty exemption could be adjusted to minimize the change in tax from the current system for those at lower income levels.

Mr. Prescott mentioned several studies indicating that removing tax deductions for home mortgage interest and charitable contributions in other locations has had little or no effect on the housing market or on charitable contributions. Sen. Bramble asked about the impact on large estates or trusts of removing charitable contribution deductions. Mr. Prescott indicated that his opinion was that the federal estate tax had a much larger impact in that area than the individual income tax.

Mr. Prescott reviewed a second option for income tax reform presented by former Governor Walker, which bases the income tax on federal taxable income at a 4.9% rate, resulting in significantly lower revenues. Under the proposal, the property tax would be increased through an adjustment to the minimum school levy to a rate which achieves revenue neutrality.

Mr. Prescott commented on how broadening the base and lowering the rate through the tax system can limit the growth in the size of government by reducing the revenue highs and lows that occur throughout the economic cycle.

Rep. Hughes commented on the flat tax and the advantages of simplifying the income tax system.

MOTION: Rep. Hughes moved that the Subcommittee recommend to the Tax Reform Task Force a flat income tax based on federal adjusted gross income with no deductions at a revenue-neutral 4% rate (Option A from the "Selected Single Rate Income Tax Options" document).

Rep. McGee asked a question regarding how the motion compared with the options presented by Mr. Prescott. Mr. Prescott indicated that he presented two options, the first of which was based on federal adjusted gross income with a poverty exclusion and was revenue neutral, and the second of which was

based on federal taxable income and was not revenue neutral by itself, but was made revenue neutral by increasing the property tax.

SUBSTITUTE MOTION: Rep. McGee moved to defer action until after a graduated income tax proposal had been presented. The substitute motion failed with Rep. McGee voting in favor.

Rep. Newbold commented on examining the complete tax proposal and indicated that she viewed Rep. Hughes' motion as a starting point, but wanted to closely examine the distributional effect of the complete tax reform proposal, and would ultimately view the income tax proposal in light of the complete tax reform proposal.

Rep. Dougall spoke in favor of the original motion.

Ms. Susan Kuziak, Utah Education Association, asked about a presentation to the full task force by Mr. Steve Kroes of the Utah Foundation relating to the stability of a state income tax based on federal adjusted gross income or federal taxable income. Sen. Bramble, Mr. Prescott, and Rep. Dougall responded to her question.

The original motion passed with Rep. McGee voting in opposition.

Rep. Newbold requested that staff provide at the next Subcommittee meeting a document outlining the impact of the adopted income tax proposal on different types of taxpayers.

MOTION: Rep. Dougall moved that the Subcommittee recommend elimination of the constitutional earmarking of the income tax for education and request that the Constitutional Revision Commission (CRC) review and comment on the proposal. The motion passed with Rep. McGee voting in opposition.

4. Governor Huntsman's Perspective on Corporate Income Tax

This item was not discussed.

5. Other Items / Adjourn

MOTION: Rep. Dougall moved to adjourn the meeting. The motion passed unanimously.

Chair Bramble adjourned the meeting at 2:52 p.m.