

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

Thursday, June 16, 2005 – 10:00 a.m. – Room W125 House Building

Subcommittee Members Present:

Sen. Howard A. Stephenson, Senate Chair
Rep. Stephen H. Urquhart, House Chair
Rep. Rosalind J. McGee
Mr. Neil Ashdown

Other Task Force Members Present:

Sen. Curtis S. Bramble
Rep. Wayne A. Harper
Rep. Merlynn T. Newbold
Rep. Todd E. Kiser
Rep. Ralph Becker

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.le.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

Chair Stephenson called the meeting to order at 10:17 a.m.

MOTION: Rep. Urquhart moved to approve the minutes of the May 26, 2005 meeting. The motion passed unanimously with Sen. Bramble, Rep. McGee, Rep. Becker, Rep. Harper, and Rep. Newbold absent for the vote.

2. Gross Receipts Tax

Mr. Reed Searle, General Manager, Intermountain Power Agency (IPA), presented on the gross receipts tax on electrical corporations. Mr. Searle indicated that IPA and Pacificorp generally view the gross receipts tax on electrical corporations as a punitive tax and spoke to their reasons for that view. He indicated that they believe that the tax is unconstitutional, but have chosen not to challenge the statute.

Mr. Searle provided background on IPA and the history of the gross receipts tax on electrical corporations. He indicated that IPA only opposes a certain portion of the gross receipts tax it pays and also stated that elimination of the corporate income tax rate would automatically trigger elimination of the gross receipts tax on electrical corporations. Sen. Stephenson asked if a change in the corporate income tax base through an apportionment formula that double-weights sales or is based completely on sales should change the gross receipts tax. Mr. Searle indicated that IPA policy is that it should be taxed similar to for-profit electrical utilities.

Mr. Searle commented on the 1995 gross receipts tax increase, indicating it was put in place to offset a general property tax decrease. He commented on how other utilities were treated relative to the general

property tax decrease in 1995 and on the legislative process when the bill passed. Mr. Searle again indicated that IPA policy is that it should be taxed similar to for-profit electrical utilities.

Sen. Stephenson indicated that he views the increased amount of gross receipts tax as unfair and provided reasons for that view. Rep. McGee requested a written copy of Mr. Searle's remarks. Sen. Bramble and Sen. Stephenson discussed the gross receipts tax on radioactive waste facilities. Mr. Ashdown commented on taxing a political subdivision of the state and Mr. Searle indicated that IPA has requested the in-lieu taxes, other than the 1995 gross receipts tax increase. Rep. Urquhart commented that the radioactive waste facility gross receipts tax differs from the electrical gross receipts tax and asked about arguments provided in 1995 in favor of the gross receipts tax increase. Mr. Searle related his recollection of the 1995 legislative process related to the gross receipts tax increase. Rep. Becker asked about the revenue collection history for the gross receipts tax. Mr. Dean indicated that the packet provided to the subcommittee included a section with revenue collections through 2004. Rep. Becker asked if action on this issue would be considered in a future meeting. Sen. Stephenson indicated that since this was the first time the issue was considered, action on the issue could be deferred to a future meeting.

3. Corporate Franchise / Income Tax

Mr. Dean distributed and reviewed "Corporate Franchise and Income Tax and Gross Receipts Tax and Radioactive Waste Tax" packet, including background information such as tax forms and information on the tax base, tax rates, tax credits, and revenue.

Mr. Doug MacDonald, Chief Economist, Utah State Tax Commission, commented on the income apportionment formula. Sen. Bramble indicated that the apportionment formula is impacted by the ratio of Utah sales to nationwide sales. Mr. MacDonald stated that the double-weighted sales formula lowers the effective tax rate of exporters. Sen. Bramble and Sen. Stephenson indicated that the tax incentive of a double-weighted sales apportionment formula is for businesses to provide jobs and purchase property within the state.

Mr. MacDonald commented on the corporate gross receipts tax in Washington and the corporate value-added tax in Michigan. Sen. Bramble commented on value added taxes. Sen. Stephenson asked if Governor Walker's advisors had considered a corporate value-added tax. Mr. Ashdown indicated he was not part of those discussions, although their final recommendations were to eliminate the corporate franchise and income taxes. Mr. Dean indicated that former Governor Walker's proposal had a second option, if elimination were not feasible due to the revenue impact, to change the income apportionment formula to double-weight the sales factor and to establish a minimum filing threshold. Rep. Harper commented on the number of large out-of-state corporations that pay a large share of the corporate income tax and asked Mr. MacDonald if establishing a minimum filing threshold, possibly at \$500,000, would provide an economic development incentive. Mr. MacDonald indicated he did not know the extent to which the corporate income tax affected business location decisions since property and sales tax are likely to be more significant taxes for many large companies, although a \$500,000 exemption could provide an incentive to small- or medium- sized corporations.

Rep. Kiser asked how elimination of the corporate income tax would affect individual taxpayers if the lost revenue had to be made up through some other tax. Mr. Ashdown indicated that the corporate income tax is passed on to individuals, such as shareholders, customers, or employees. He also stated that the argument for elimination is that it could serve as a selling point to businesses considering locating within the state. Mr. MacDonald indicated that targeted credits may be more effective and less costly in attracting business and commented on tax systems in various other states.

Sen. Stephenson commented on elimination of the corporate income tax, an income apportionment factor based only on sales, and a corporate value added tax and consideration of those topics at future meetings. Rep. Harper indicated his desire to have a minimum filing amount considered. Rep. McGee indicated that she would like to see the issues separately noted on the agenda, with opportunity for public comment.

4. Individual Income Tax

Mr. Dean distributed and reviewed "Income Tax Subcommittee Report" related to the actions taken by the Subcommittee at its June 8, 2005 meeting. Sen. Bramble indicated that the recommendation adopted was a starting point and did not preclude ongoing conversations about the income tax proposal. Mr. Dean distributed and reviewed "Selected Single Rate Income Tax Options," indicating the document was distributed and reviewed in more detail at the June 8, 2005 meeting. Mr. Dean distributed and reviewed "Option A 4.0% x AGI = State tax," which shows the impact of Option A from "Selected Single Rate Income Tax Options" on taxpayers with different income levels, personal exemptions, and standard or itemized deductions. Mr. Dean distributed and reviewed a draft version of "Resolution Eliminating Earmarking of Income Tax".

Sen. Stephenson requested comments on the individual income tax based on federal adjusted gross income with no deductions. Rep. Harper and Rep. Newbold asked about the taxpayer comparison document and Mr. Dean responded to their questions. Sen. Stephenson commented on the trends shown by the document. Mr. Ashdown indicated that it was important to remember that the individual income tax is one piece of reforming the tax system and should be viewed in that context. Sen. Stephenson commented that one option would be to provide an individual income tax credit to offset the sales tax on food for those at lower income levels. Sen. Bramble commented on former Governor Walker's income tax proposal and on exempting those at lower income levels from the tax system. Sen. Stephenson and Sen. Bramble discussed task force processes. Rep. Newbold commented on various single-rate options, such as providing a \$20,000 exemption for all taxpayers and incorporating personal exemptions.

Rep. McGee stated that the Subcommittee should bring back various individual income tax proposals to the next meeting for further discussion and public comment. She also indicated that Rep. Jones and Rep. Mascaro were present and had information they would like to provide to the Subcommittee. Rep. Urquhart indicated the Tax Reform Task Force (Task Force) is still in early deliberations and the full Legislature is the only entity that can actually enact the concepts being discussed. He indicated that there are many ways to exempt subsistence-level income from the income tax and recommended that the Task Force consider the flat tax proposal and changes to that proposal. Sen. Bramble indicated that the motion for the Task Force to consider the proposal was passed at the previous Subcommittee meeting and that discussions on ways to address the impact on those with lower incomes could be addressed by the Task Force. He also indicated that the July meeting of the Revenue and Taxation Interim Committee would

involve various stakeholders from the education community representing different viewpoints and their recommendations on reforming the tax system. Rep. Harper indicated that the purpose of the subcommittees is to identify the main issues and a few options and then move the discussion to the Task Force.

Rep. Jones discussed the implications of the adopted proposal on those at higher and lower income levels and indicated that there are other options. Sen. Stephenson commented on the income tax bill proposed by Rep. Jones and Rep. Mascaro. Rep. Jones commented on various components of the bill and indicated that the bill generally reduces taxes on those with incomes below \$75,000 whereas the flat tax adopted by the Subcommittee would increase taxes on those at lower income levels.

Sen. Bramble commented on the legislative voting history for the individual income tax bill by Rep. Jones and Rep. Mascaro. Rep. Jones indicated that the most recent version of the bill had not had a vote on the bill itself. Rep. Harper indicated the House Revenue and Taxation Standing Committee had voted to send the bill, along with several other income tax concepts, to the Task Force. Rep. Mascaro commented on the legislative voting history for the various individual income tax proposals by Rep. Jones and Rep. Mascaro, and indicated that the bill was sent by the House Committee to interim study by the Task Force. Sen. Bramble commented on the distributional effects of the bill by Rep. Jones and Rep. Mascaro. Rep. Mascaro commented on the distributional effects of the flat tax, a side-by-side comparison of the distributional effects of different proposals, components of the bill by Rep. Jones and Rep. Mascaro, and the motion by the House Standing Committee for the Task Force to consider the bill. Sen. Stephenson indicated the Subcommittee had already acted to send a proposal to the Task Force and any requests for comparisons or other action would be up to the Task Force.

MOTION: Rep. Becker moved to have the Task Force consider a side by side comparison of the adopted flat tax proposal, the bill by Rep. Jones and Rep. Mascaro, the existing individual income tax, and the proposal of former Governor Walker.

Sen. Stephenson asked if Rep. Newbold's and Rep. Harper's concepts should also be included in a comparison. Rep. Becker indicated that he felt the comparisons were helpful in understanding the consequences of various proposals.

SUBSTITUTE MOTION: Rep. Urquhart moved to recommend that the Task Force have a full and open discussion of individual income tax options.

Rep. Becker asked for a point of order regarding procedure when a substitute motion is made. Rep. Becker indicated his intent is for members to have comparative information available. Sen. Bramble indicated that the proposal by Rep. Jones and Rep. Mascaro has evolved over time and asked what was included in the latest proposal. Rep. Jones indicated that the proposal being referenced is contained in 2005 General Session 1st Substitute H.B. 197, which was referred to the Task Force by the House Revenue and Taxation Standing Committee.

The substitute motion passed with Rep. Becker and Rep. McGee voting in opposition.

Rep. Becker requested that when the Task Force considers the individual income tax proposal, that a comparison of the various proposals, including the proposal by Rep. Jones and Rep. Mascaro, be made. Rep. Newbold indicated that a side-by-side comparison would be helpful and commented that the individual income tax is only one portion of the whole tax reform picture and should be viewed in that context.

Sen. Bramble commented on the proposal presented at the previous meeting by Mr. Keith Prescott. He also indicated that one purpose of tax reform is to encourage economic development and that the high marginal income tax rate in Utah affects those making business location decisions.

Sen. Stephenson requested that staff draft a bill eliminating the gross receipts tax on certain electrical corporations and that the corporate franchise/income tax be addressed in more detail at the next meeting. Rep. Newbold asked regarding the constitutional amendment to eliminate the earmarking of taxes on income for education. Sen. Bramble indicated that at the previous meeting, that proposal was sent to the Utah Constitutional Revision Commission for its review and comment.

5. Other Items / Adjourn

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

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