

Review of Income Tax Credits: UESP, Taxpayer, & Retirement

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Revenue and Taxation Interim Committee

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Overview

Requirements of H.B. 310

Income tax credits in general

Review of credits

Review of Tax Credits – H.B. 310 (see page 17 of packet)

Review all tax credits on a three-year cycle (17 per year)

Evaluate cost, purpose, effectiveness, and state benefit

Recommend to Legislature whether the credit should be continued as is, modified, or repealed

How Income Tax Credits Impact Tax Liability

$$(\text{Taxable Income} * 5\%) - \text{credits} = \text{Tax liability}$$

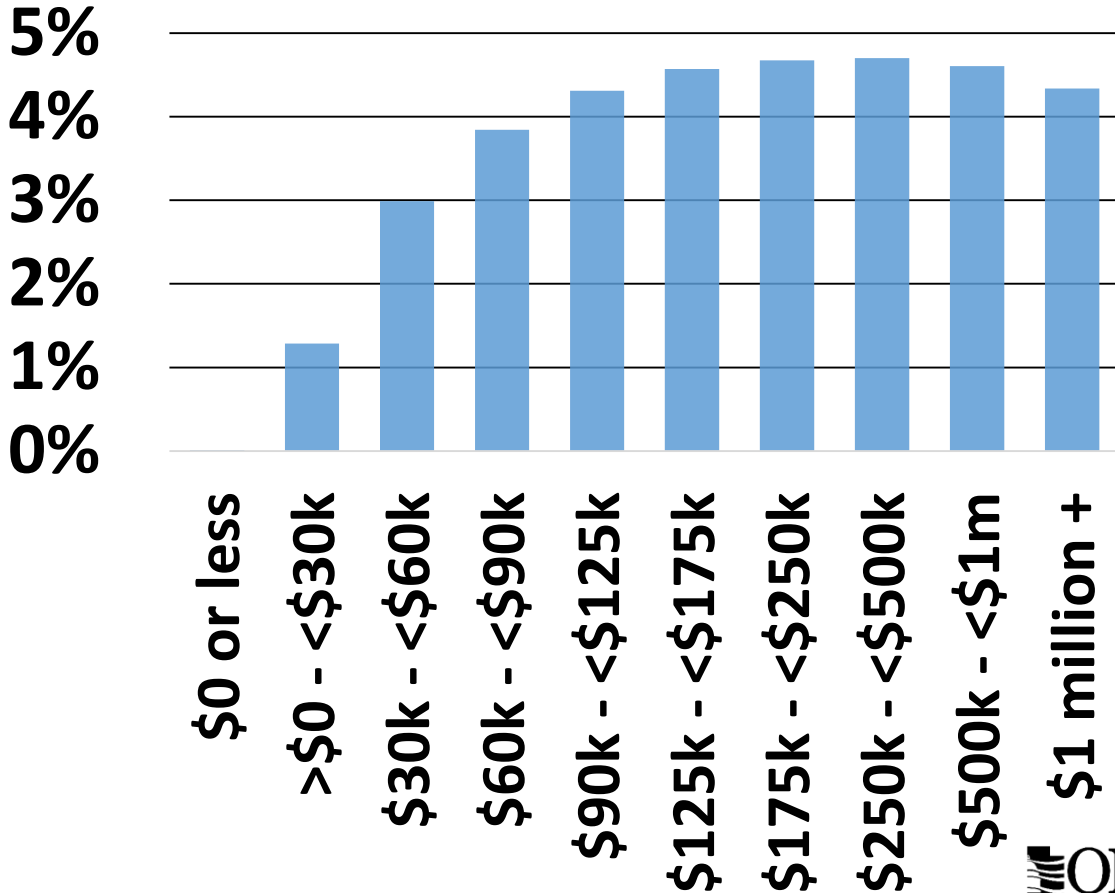
Effective Tax Rate by Adjusted Gross Income

2014 Tax year

Effective Tax Rate without Credits



Effective Tax Rate with Credits



Purposes and State Benefits of Income Tax Credits

Incentivize certain behavior

Stimulate the economy or a sector of the economy

Provide tax relief

Recognize taxes paid

Tax Year 2014 Credits – See Handout

Total number of credits claimed: 1.26 million

- Total number of returns: 1.24 million

Total dollar amount of credits claimed: \$1.17 billion

- FY 2015 individual income tax revenue: \$3.16 billion

Taxpayer credit is huge compared to other credits

- 89% of total number of credits claimed
- 87% of total dollar amount claimed
- 90% of all returns claimed a taxpayer credit

Today's Review

Three Credits

Utah Educational Savings Plan
tax credit

Taxpayer tax credit

Retirement tax credit

Tasks

1. Evaluate cost, purpose, effectiveness, and state benefit of each credit
2. Recommend to Legislature whether the credit should be continued as is, modified, or repealed

Utah Educational Savings Plan Tax Credit

(see page 87 of your packet)

What is Utah Educational Savings Plan (UESP)?

- Nonprofit established by Legislature in 1996
- Complies with Section 529, Internal Revenue Code
- Open savings accounts / designate beneficiaries
- Account contributions are invested by UESP
- Tax-advantaged savings account used for college expenses
 - Contributions may be eligible for Utah tax credit
 - Earnings grow tax free (like a Roth IRA)
 - Withdrawals are tax exempt if used for a qualified education expense
- \$8.9 billion in 311,000 accounts

Utah Educational Savings Plan Tax Credit

(see page 87 of your packet)

About the credit

- **How much:** 5% of contributions to a UESP account, up to:
 - Single: \$1,900 per qualified beneficiary (\$95 credit)
 - Married (joint return): \$3,800 per qualified beneficiary (\$190 credit)
 - Maximums are annually adjusted for inflation
- **Who:** UESP account owner that has Utah taxable income (regardless of who makes the contribution)
- **Recapture:** Nonqualified expenditures and rollover to a different 529 plan

Utah Educational Savings Plan Tax Credit

Cost, purpose, effectiveness, and state benefit

Tax Year	Dollar Amount	Number	Qualified Withdrawals
2010	\$2.4 M	10 K	\$11.8 M
2011	\$2.4 M	11 K	\$14.4 M
2012	\$2.4 M	12 K	\$18.3 M
2013	\$2.5 M	14 K	\$22.7 M
2014	\$2.8 M	15 K	\$27.4 M
Total	\$12.6 M	62 K	\$94.7 M

Incentivizes saving

- Fewer student loans
- Counteract effects of downfall

Incentivizes education

- More likely to vote, live longer, be happier, have good health, earn more
- Leads to faster economic growth, greater innovation, higher productivity, lower unemployment

Utah Educational Savings Plan Tax Credit

- Questions?
- Should the UESP tax credit be continued as is, modified, or repealed?
- Committee discussion / action

Taxpayer Tax Credit

(see page 89 of your packet)

Utah Exemption
75% of federal exemptions (personal / dependent), plus an additional exemption for certain dependents with a disability

How much:

6% of (Federal Deduction + Utah Exemption)

Example 1

Standard deduction and 4 exemptions

$$6\% * (\$12,600 + (4 * \$3,000)) = \$1,476$$

Example 2

Itemized deductions and 4 exemptions

$$6\% * (\$15,000 + (4 * \$3,000)) = \$1,620$$

Taxpayer Tax Credit

(see page 89 of your packet)

Phase-out of credit

1.3¢ per \$1 of taxable income that exceeds:

- \$13,850 (single)
- \$27,610 (married)
- \$20,707 (Head of Household)

Taxable income thresholds are annually adjusted for inflation

Example

Standard Deduction, 4 Exemptions, \$50,000 of taxable income

$$6\% * (\$12,600 + (4 * \$3,000)) = \$1,476$$

$$\text{Phase-out: } (\$50,000 - \$27,610) * 1.3\text{¢} = \$291$$

$$\text{Taxpayer credit: } \$1,476 - \$291 = \$1,185$$

$$\text{Tax liability: } (5\% * \$50,000) - \$1,185 = \$1,315$$

In this example, the credit would completely phase-out at \$152,225 in UTI.

Taxpayer Tax Credit

Cost, purpose, effectiveness, and state benefit

Tax Year 2010 to 2014

- Taxpayer credits claimed: 5.5 M
- Total amount claimed: \$5.1 B
- Individual income tax revenue: \$13.7 B

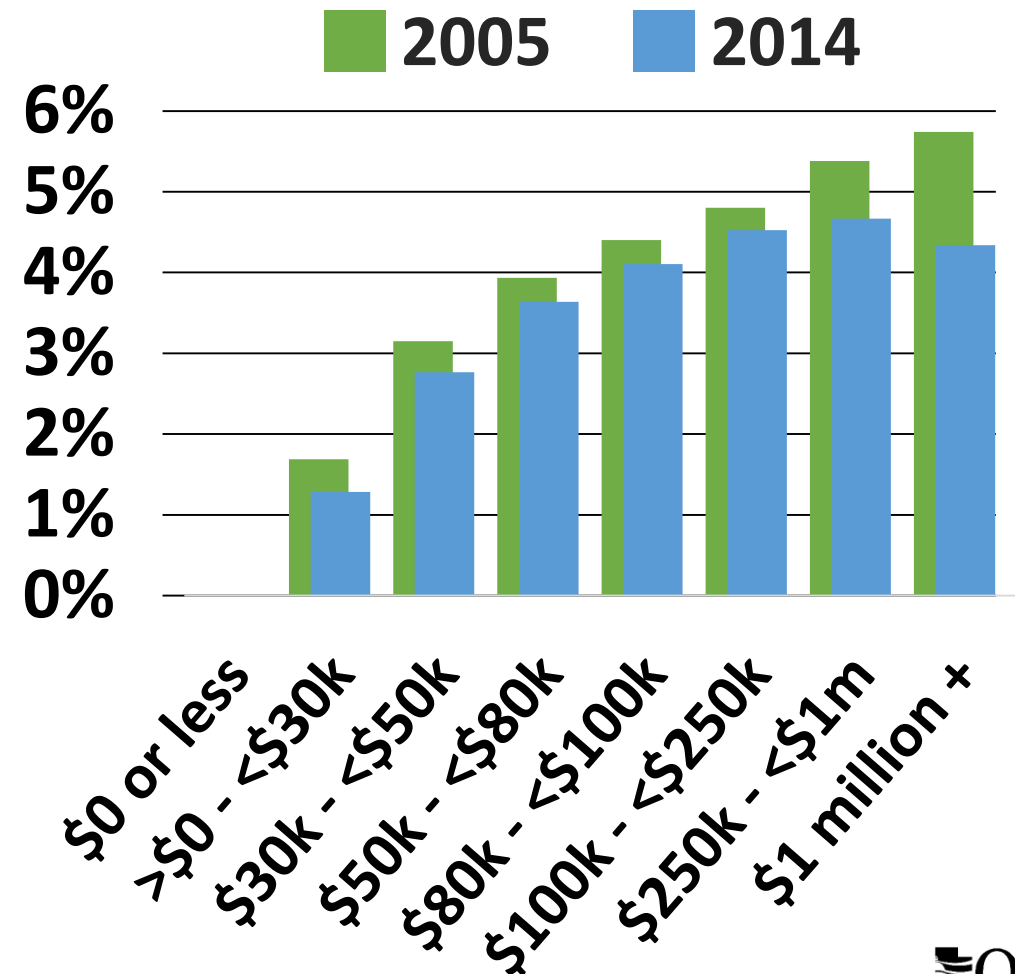
Income tax reform

- Recognize mortgage interest, charitable donations, and other itemized deductions
- Provide tax relief for lower income

Minimum threshold of income that should not be subject to an income tax

Future tax relief or revenue enhancement

Average Effective Tax Rate



Taxpayer Tax Credit

- Questions?
- Should the taxpayer credit be continued as is, modified, or repealed?
- Committee discussion / action

Retirement Tax Credit

(see page 91 of your packet)

Type 1

Type 2

Who:

- Born before 1953
- 65 or older

- Born before 1953
- Under 65
- Eligible retirement income

How much:

- Up to \$450
- Up to \$900 on joint return

- Lesser of \$288 or 6% of eligible retirement income
- Up to \$576 on joint return

Phase-out:

- 2.5¢ per \$1 of modified adjusted gross income that exceeds:
 - \$16,000 (separate)
 - \$25,000 (single)
 - \$32,000 (others)
- Thresholds are not adjusted for inflation

Retirement Tax Credit

Cost, purpose, effectiveness, and state benefit

Tax Year	Dollar Amount	Number
2010	\$44 M	86 K
2011	\$45 M	88 K
2012	\$45 M	88 K
2013	\$45 M	88 K
2014	\$45 M	88 K
Total	\$224 M	438 K

- Replaced deductions allowed under old system
- Tax relief for the elderly
- Fixed income

Retirement Tax Credit

- Questions?
- Should the retirement credit be continued as is, modified, or repealed?
- Committee discussion / action