

# Summary of SB 4001, 4th Special Session

## Individual Income Tax

### September 19, 2006

**Enacted Bill**

The enacted bill expands existing system tax brackets and reduces the top bracket rate. In addition, a taxpayer may calculate the individual income tax in two different ways and pay the lesser of the two calculations. Taxpayers who benefit by computing the tax under the revised existing system may do so. Taxpayers who benefit by giving up certain deductions in exchange for a lower rate may pay under a flat rate computation with a rate of 5.35%.

**Existing System (effective tax year 2006)**

All existing additions, deductions, exemptions, credits, and checkoff contributions remain  
 Tax brackets (applied to state taxable income) expanded and top bracket rate cut  
 Beginning in tax year 2009, tax brackets are indexed for changes in the consumer price index

| Current Brackets |         |       |       | Expanded Brackets* |          |       |       |
|------------------|---------|-------|-------|--------------------|----------|-------|-------|
| Lower            | Upper   | Add   | Rate  | Lower              | Upper    | Add   | Rate  |
| \$0              | \$1,726 | \$0   | 2.30% | \$0                | \$2,000  | \$0   | 2.30% |
| \$1,727          | \$3,450 | \$40  | 3.30% | \$2,001            | \$4,000  | \$46  | 3.30% |
| \$3,451          | \$5,176 | \$97  | 4.20% | \$4,001            | \$6,000  | \$112 | 4.20% |
| \$5,177          | \$6,900 | \$169 | 5.20% | \$6,001            | \$8,000  | \$196 | 5.20% |
| \$6,901          | \$8,626 | \$259 | 6.00% | \$8,001            | \$11,000 | \$300 | 6.00% |
| \$8,627          | and up  | \$362 | 7.00% | \$11,001           | and up   | \$480 | 6.98% |

\*Single brackets at 1/2 these amounts

**Flat Rate Computation (effective tax year 2007)**

Effective tax year 2007, a taxpayer will be able to pay the lesser of the current system computation and the following flat rate computation:

- 5.35% of federal adjusted gross income (AGI) with the following adjustments:
  - Add certain:
    - income tax amounts deducted from AGI by an estate or trust
    - lump sum distributions
    - child's income reported on a parent's return but not included in AGI
    - medical savings account withdrawals and penalties deducted on state individual income tax return
    - educational savings plan withdrawals not used for qualified higher education purposes that were deducted on state individual income tax return
    - other states' bond interest
    - trust distributions received by a resident beneficiary
    - adoption expenses deducted on a state or federal individual income tax return
  - Subtract:
    - deductions required by federal law, treaty, or case law (US interest, certain American Indian income, and railroad retirement income)
    - Uintah-Ouray reservation income
    - state tax refund included in AGI

Taxpayer may claim nonrefundable and refundable credits and make checkoff contributions

Low-income exemption remains

Determination may be made each year and for amended returns

Flat tax computation is not allowed for estates and trusts

Tax Commission may adjust AGI if taxpayer would receive a double tax benefit or suffer a double tax detriment

Non-resident tax apportioned