FEDERAL TAX CHANGES IMPACTING THE STATE OF UTAH TAX SYSTEM

(Report is designed to fulfill the requirements of Utah Code 59-1-213)

Protecting Americans from Tax Hikes (PATH) Act of 2015

The Protecting Americans from Tax Hikes Act of 2015 (PATH), enacted December 18, 2015, extends over 50 provisions for individuals and businesses. PATH makes permanent over 20 tax extenders and extends other provisions through 2016 or 2019. As this legislation extends many tax provisions that were previously temporary, state tax revenues would likely be minimally impacted compared to prior year. There could be a shift in the timing of revenues as individuals and businesses make adjustments (shift income and/or expenses from one year to another) as a result of the more certain nature of the tax provisions.

Permanent extensions for individuals include the following:

- American opportunity tax credit
- Enhanced additional child tax credit
- Earned income tax credit
- Educator expense deduction
- Transit benefits parity
- State and local sales tax deduction
- Tax-free charitable distributions from individual retirements plans
- Special rules for qualified conservation contributions

Permanent extensions for businesses include the following:

- Research tax credit
- Employer wage credit for active duty military employees
- Enhanced Code Sec. 179 expensing
- Charitable deduction for contributions of food inventory
- Modification of tax treatment of certain payments to controlling exempt organizations
- Basis adjustment to stock of S corporations making charitable contributions of property
- 15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements
- Treatment of certain dividends of regulated investment companies
- Exclusion of 100 percent of gain on certain small business stock
- Reduction in S corporation recognition period for built-in gains tax
- Subpart F exception for active financing income
- RIC qualified investment entity treatment under FIRPTA

Extensions through 2019 include the following:

- New markets tax credit
- Work opportunity tax credit
- Bonus depreciation
- Look-thru treatment of payments between related controlled foreign corporations under foreign personal holding company rules

Extensions through 2016 include the following:

- Exclusion from gross income of discharge of qualified principal residence indebtedness
- Deduction for mortgage insurance premiums
- Above-the-line deduction for qualified tuition and related expenses
- Qualified zone academy bonds
- Moratorium on medical device excise tax
- Various energy production and conservation tax credits and incentives
- Deduction for energy efficient commercial buildings
- Indian employment tax credit, mine rescue team training credit, and American Samoa economic development credit
- Other extensions include: modification of railroad track maintenance, classification of certain race horses as 3-year property, 7-year recovery period for motorsports entertainment complexes, accelerated depreciation for business property on an Indian reservation, election to expense mine safety equipment, special expensing rules for certain film, television, and live theatrical productions, deduction allowable with respect to income attributable to domestic production activities in Puerto Rico, empowerment zone tax incentives, special rule for sales or dispositions to implement FERC or State electric restructuring policy for qualified electric utilities.

Bipartisan Budget Act of 2015

Title XI – Revenue Provisions of the Bipartisan Budget Act of 2015 (enacted November 2, 2015) repeals the TEFRA and ELP (electing large partnership) partnership audit rules. The partnership audit rules have been replaced with more streamlined audit procedures that apply to all partnerships (certain partnerships with 100 or fewer partners can elect to opt-out) for partnership taxable years beginning after 2017. Under the new streamlined system, the audit of a partnership and any audit changes or adjustments to items of income, gain, loss, deduction, credit, and any partner's distributive share would be applied at the partnership level, not to individual partners, for the year in which such adjustments are finalized. Any additional taxes resulting from the audit would be collected from the partnership, rather than from each individual partner. The revised audit procedures are estimated to increase state tax revenues by $1.68 million in FY 2019, $2.33 million in FY 2020, $2.52 million in FY 2021, and increasing each year. These estimates were derived by applying an applicable percentage to the Joint Committee on Taxation's estimates at the federal level.

U.S. Appreciation for Olympians and Paralympians Act of 2016

The U.S. Appreciation for Olympians and Paralympics Act of 2016, enacted October 7, 2016, excludes from gross income the value of any Olympic or Paralympics medal and prize money received from the U.S. Olympic Committee. The income exclusion only applies to athletes with adjusted gross income of $1 million or less. Olympic athletes receive prize money of $25,000 for each gold medal, $15,000 for each silver medal, and $10,000 for each bronze medal; paralympic athletes receive $5000, $3500, and $2500, respectively. The number of Utah athletes who could take advantage of this income exclusion in any given competition year is unknown but has historically been few. This legislation would likely result in a minimal decrease to state revenues.