

# STATE ADMINISTRATIVE IMPACTS OF FEDERAL TAX REFORM



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# Consensus Forecasts

Possible Scenarios	FY 2019	FY 2020
Scenario 1	\$80 million	\$85 million
Scenario 2	\$50 million	\$55 million
Scenario 3	\$25 million	\$30 million

# Qualified Business Income?

“Qualified Business Income” (QBI) is income generated by any of the following entities:

1. Sole Proprietorships
2. Trusts
3. Partnerships / LLCs
4. S-Corporations

\* There is a limited exclusion for a portion of income derived from service based industries (law, accounting, medicine, etc.)

# Consensus Forecasts

## Forecast Assumptions related to QBI

- |            |   |
|------------|---|
| Scenario 1 | No Utah income tax benefit related to QBI<br>(\$0 cost)   |
| Scenario 2 | Utah income tax benefit to only those who itemize deductions<br>(\$30 million cost)                         |
| Scenario 3 | Utah income tax benefit to both itemizers and those who claim the standard deduction<br>(\$55 million cost) |

# Who Pays the Tax?

**Name:** Average Joe  
**Filing Status:** Married Filing Joint  
**Dependents :** 3 Children  
**FAGI:** \$70,000

## Average Joe



2017	2018
\$70,000 income	\$70,000 income
\$15,190 personal exemptions	\$0 personal exemptions
\$12,700 Standard Deduction	\$24,000 Standard Deduction
\$1,126 Utah Taxpayer Tax Credit	\$893 Utah Taxpayer Tax Credit
\$2,374 Utah Income Tax	\$2,607 Utah Income Tax
<b>DIFFERENCE</b>	<b>\$233 (about 10%)</b>

# Why the Tax Increase?

Elimination of Personal Exemptions will decrease the Utah Taxpayer Tax Credit

\*The increased standard deduction is insufficient to compensate.

# Federal Tax Reform

## **Federal Business Taxation with Utah Impacts**

- 1. Limited deductions for net interest expenses**
- 2. 100% up-front expensing of certain capital expenditures**
- 3. Eliminated NOL carry-back**
- 4. Limiting carry-forward to 80% of taxable income**
- 5. Repatriation of Sub-part (F) foreign dividends**

# **Business Tax Recommendation**

- 1. Do not act legislatively without complete and reliable data.\***
- 2. Maintain pre-existing and unrelated Utah corporate tax reform goals.**
- 3. Monitor the impacts on business taxes in Utah.**

**\*Exception: The treatment of corporate NOLs should align with other business entity NOLs.**



# Overall Recommendations

- 1. Codify definitions of “Itemized deduction” and “Standard Deduction”.**
- 2. Modify the Taxpayer Tax Credit calculation.**
- 3. Align Utah treatment of all NOLs with the new federal treatment.**
- 4. Continue other tax reform efforts especially those that broaden the base and lower the rate.**

# QUESTIONS?