



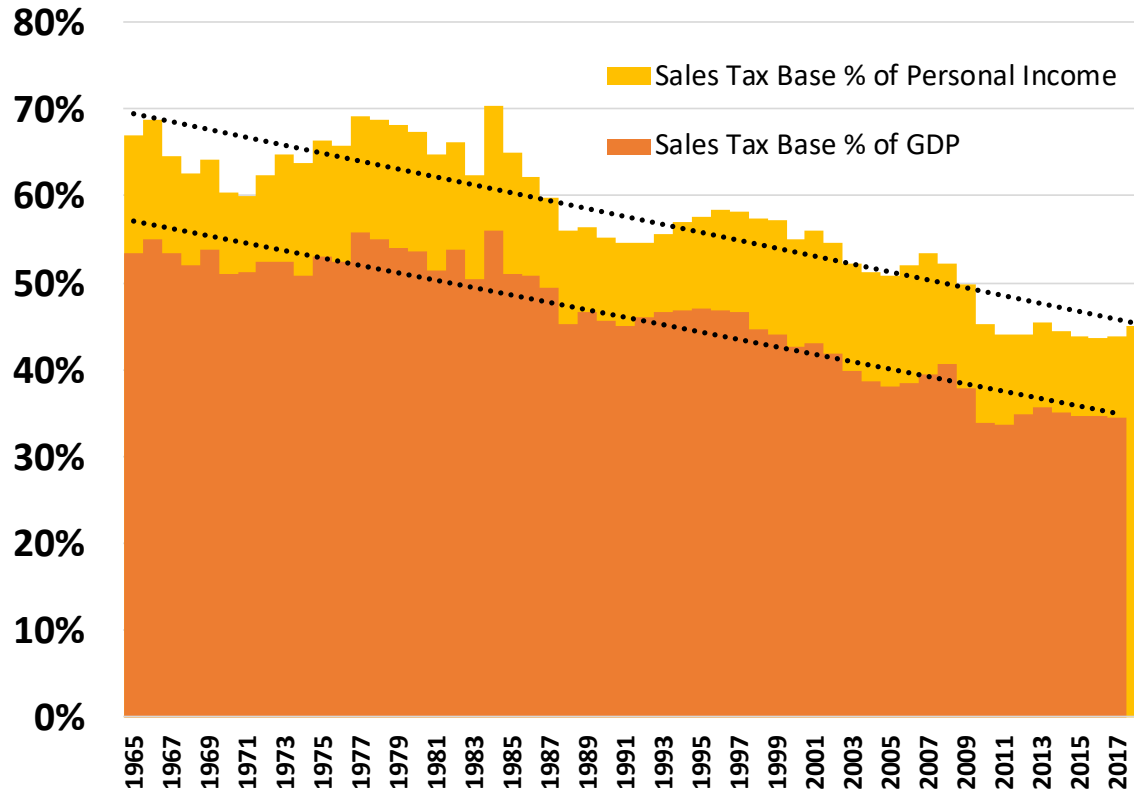
UTAH STATE

LEGISLATURE

Tax System Reboot

February 28, 2019

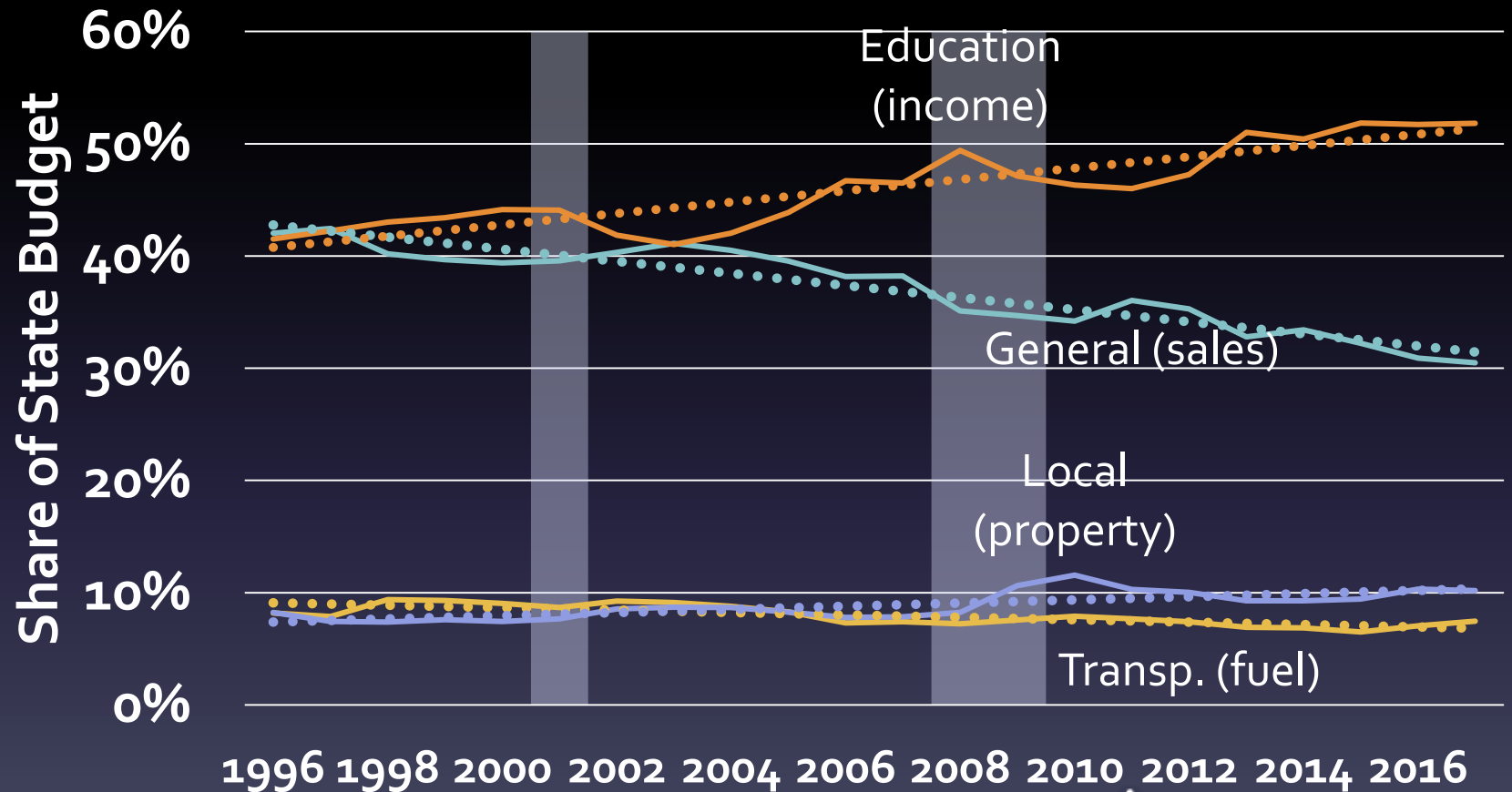
GF Tax Base Lags Economy



Source: Governor's Office of Planning and Budget



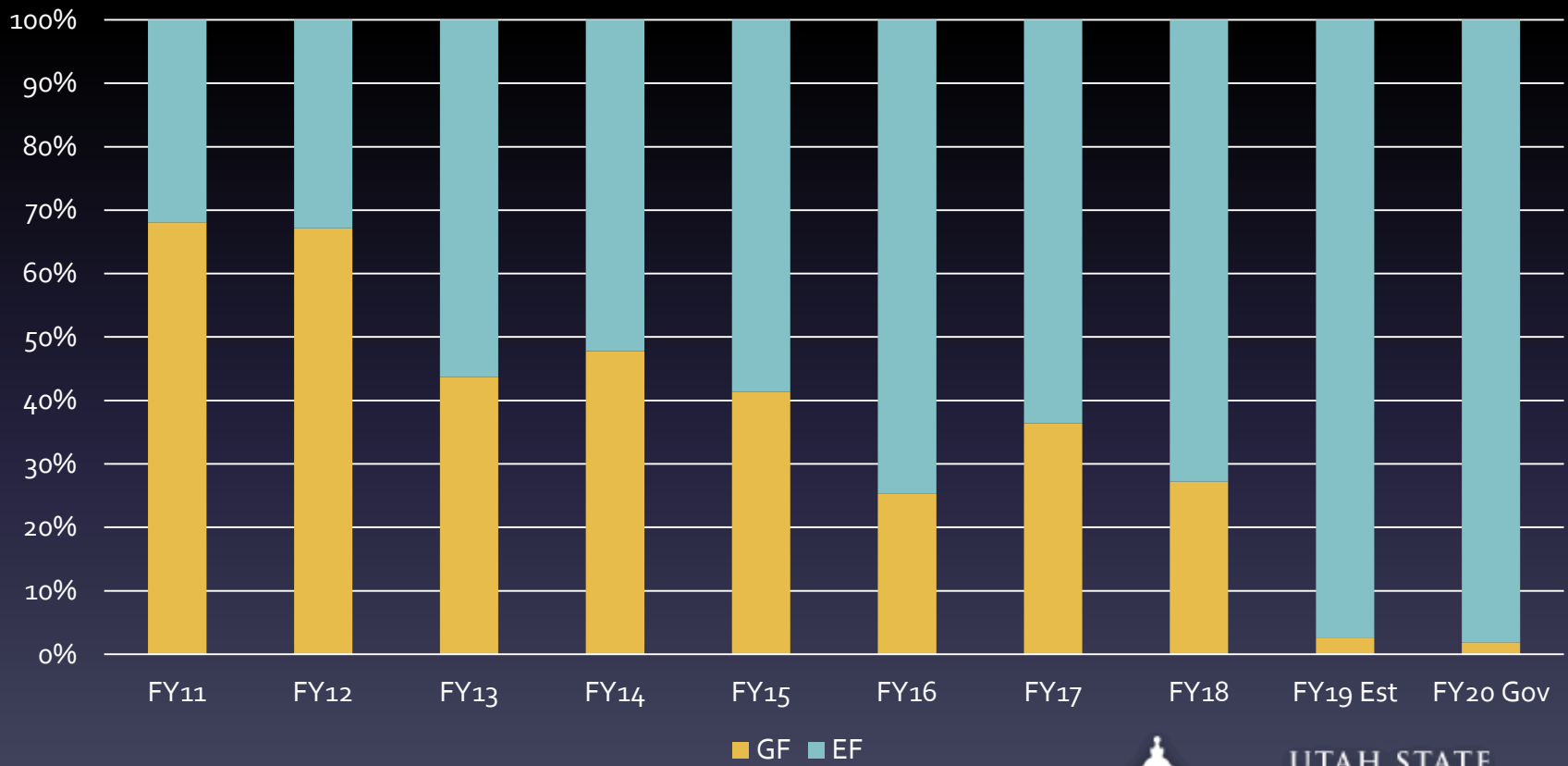
GF Share of Budget Declining



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General Fund Shrinking in HED

Percent Share of HED Subcommittee Appropriations



Available Revenue

(in Millions)	One-time	Ongoing
General Fund	\$52	\$178
Education Fund	<u>\$477</u>	<u>\$392</u>
Total	\$529	\$570

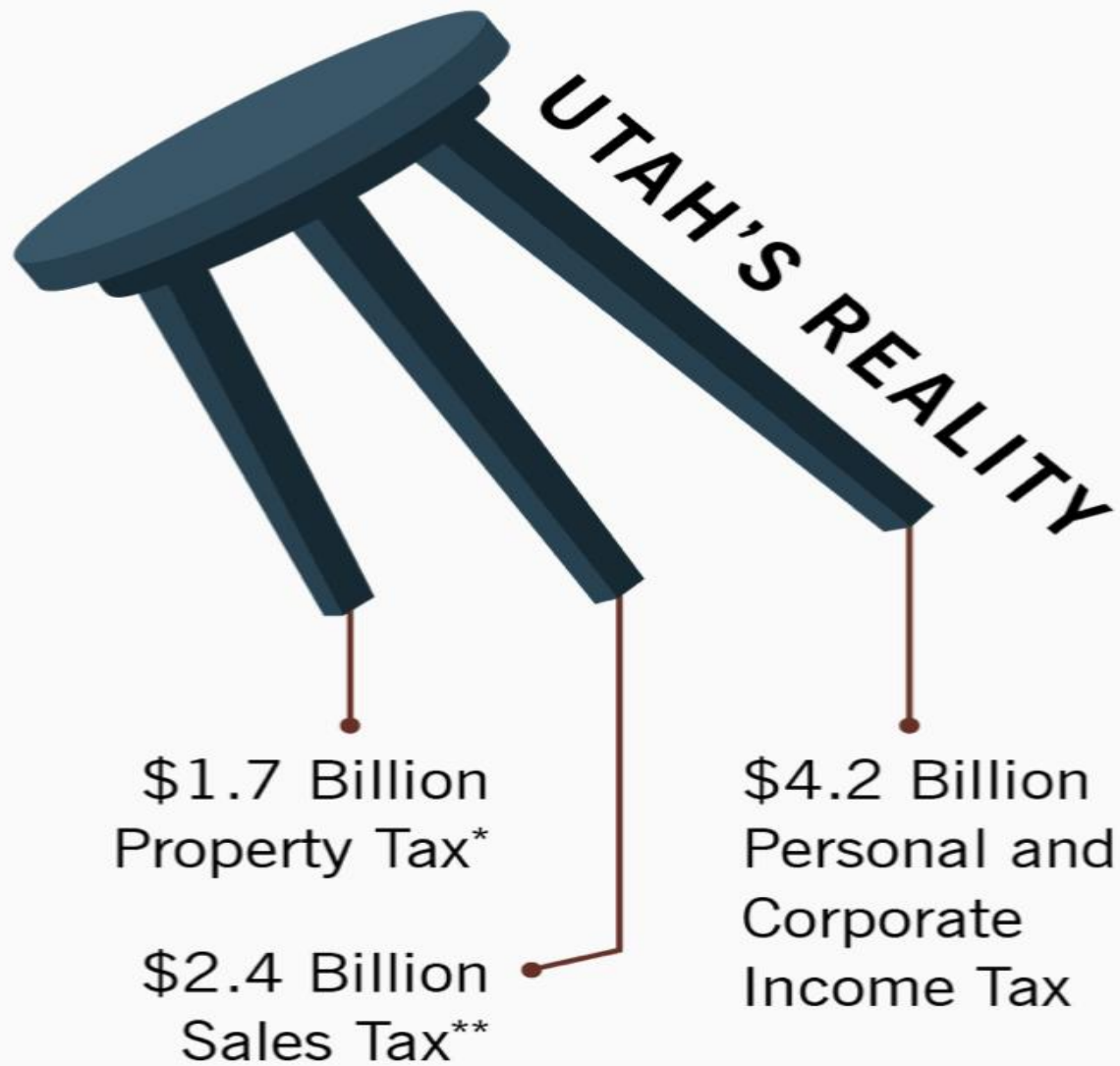
\$200 m to \$300 m of this is ABOVE TREND



GF Available Revenue

	(in Millions)
February Revenue Estimate	\$230
Dec. 3, Special Session	<u>-\$235</u>
Subtotal	-\$5
Base Budget Bills	<u>-\$39</u>
Subtotal	-\$44
Medicaid Expansion (SB96)	<u>-\$20</u>
Current General Fund Deficit	-\$64





Services Currently Taxed

- Telecom service that originates and terminates within the boundaries of the state.
- Admission or user fees for amusement for amusement, entertainment, recreation, exhibition, cultural, or athletic activities.
- Services for repairs or renovations of tangible personal property.
- Hotel, motel, and other short term accommodations
- Laundry or dry cleaning services.



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Tax Equalization and Reduction Act

Principles, Major Changes, and Impacts Summary – 02/26/2019

Principles of Tax Reform

- **Broaden the sales tax base in all sectors**
- **Minimize tax pyramiding and avoid disruptions**
- **Anticipate future new economic activity**
- **Eliminate exemptions where practical**
- **Implement excise tax where sales tax expansion is not practical**
- **Structure implementation to:**
 - Phase-in the reduced sales tax rate to ensure assumptions are validated
 - Make sales tax base expansion/rate reduction and income tax provisions coincide as much as possible for taxpayers.
- **Hold harmless provisions for local option sales taxes**
 - Maintain statewide local rates (1.0% + 0.25%)
 - Excess revenue retained for hold harmless distribution
 - Reduce local option rates proportionate to new base

Overall Revenue Neutrality

An expanded base is offset by decreased rates

- **The General Fund's tax base is broadened by an estimated \$36 Billion**
 - Bring a significant number of services, including some construction inputs and professional services, into the sales tax base
 - 0.075% transfer tax on all real estate transactions other than refinances generates about \$18 million
 - 1% premium tax on commercial medical insurance generates about \$66 million
 - Eliminate 15 current sales tax exemptions to generate approximately \$72 million
- **These increases in the base are offset by:**
 - Sales tax rate reduction to 3.10%
 - Income tax rate reduction to 4.75%
 - Expanded Utah Personal Exemption for low-to-middle income Utahns
 - EITC for Utahns experiencing intergenerational poverty
 - Expanded retiree tax credit



Tax Equalization and Reduction Act

Principles, Major Changes, and Impacts Summary – 02/26/2019

At full implementation, a typical Utahn, 31 years of age, married with 1 dependent, making \$65,325 per year, would have a net tax reduction \$634:

- **Although expanding the tax base is mostly paid directly by businesses, about a quarter may be paid by consumers (+\$158)**
- **Lower the overall rate to 3.10% (-\$416)**
- **Expand personal exemptions (-\$294)**
- **Expand retirement tax credit (applies to older Utahns)**
- **Implement an earned income tax credit (applies to intergenerational poverty)**
- **Reduce income tax rate to 4.75% (-\$82)**
- **The FINAL IMPACT WILL DEPEND ON AN INDIVIDUAL'S TAX POSITION**

Tax change for the "Typical" Non-Business Utahn

Age: 31

Dependents: 1

Filer status: Married Filing Joint

Income: \$65,325

Spending on taxable items pre-change: 40%

Spending on taxable items post-change: 48%

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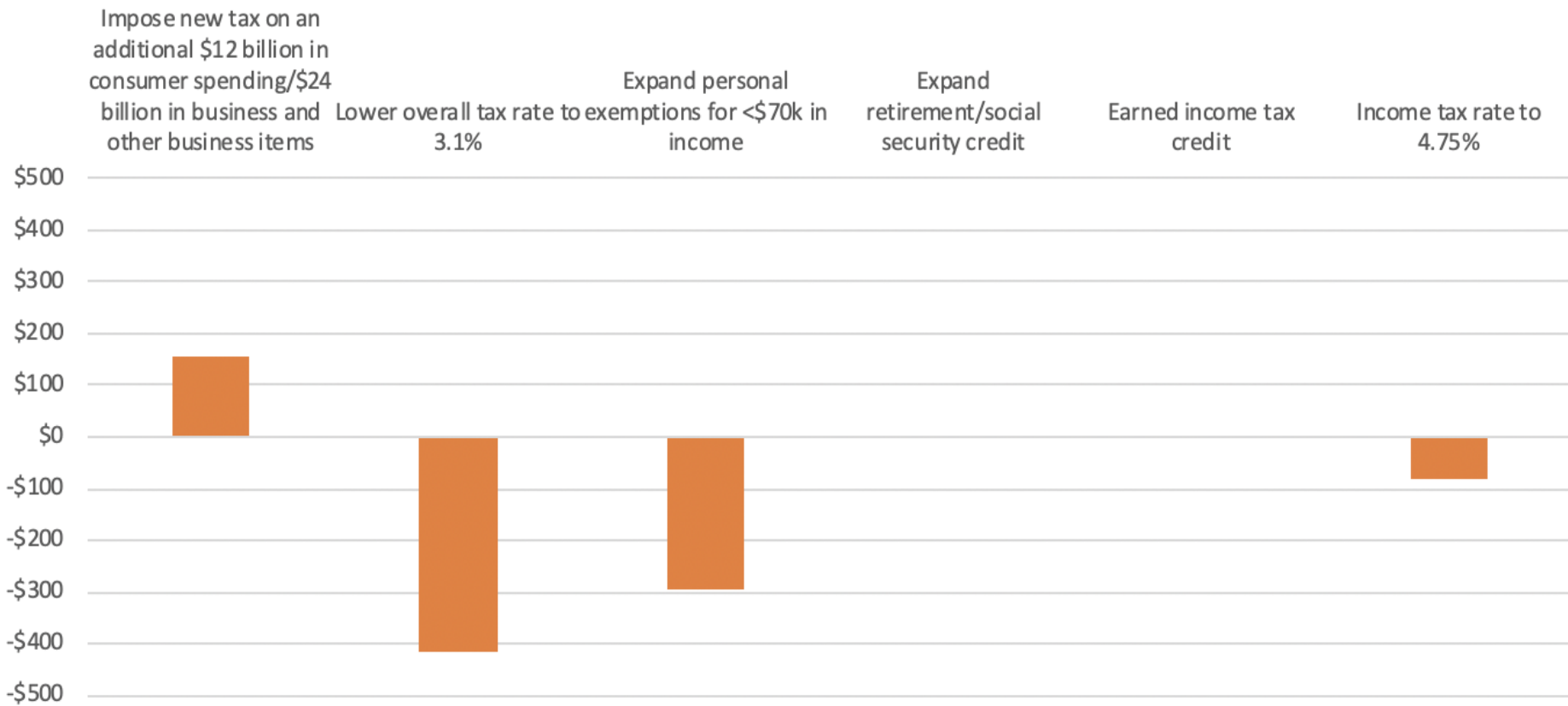
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IMPLEMENTATION

Implementation structure that phases-in the reduced sales tax rate to ensure assumptions are validated

- Jan. 1, 2020 - state sales and use tax rate reduced from 4.7% to 3.9%
- Oct. 1, 2020 - if sales and use tax revenue collections meet or exceed revenue estimates, state rate reduced from 3.9% to 3.1%.
- Fiscal Year 2020-2021 - any revenues collected in excess of revenue estimates put in restricted account to be used to lower sales and use tax rates



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HOLD HARMLESS PROVISIONS FOR LOCAL OPTION SALES TAXES

- Maintain statewide local rates (1.0% + 0.25%)
 - Beginning Jan. 1, 2020 any revenue in excess of previous year collection + growth factor put in restricted account for hold harmless distribution
 - Growth factor = CPI growth + statewide population growth
- Reduce variable local option rates (0% - 2.75%) proportionate to new base
 - Reduced by 17% of original rate once on Jan 1, 2020 and once on Oct 1, 2020
 - Any revenue losses can be offset with restricted account funds



SALES AND USE TAX BASE RESTRICTED ACCOUNT

State Revenue Use

- Lower state sales and use tax rates as the legislature may provide by statute

Local Option Revenue Use

- Lower local sales and use tax rates as the legislature may provide by statute
- Distribute revenues to political subdivisions to offset losses from rate reduction
- Implement future hold harmless formulas



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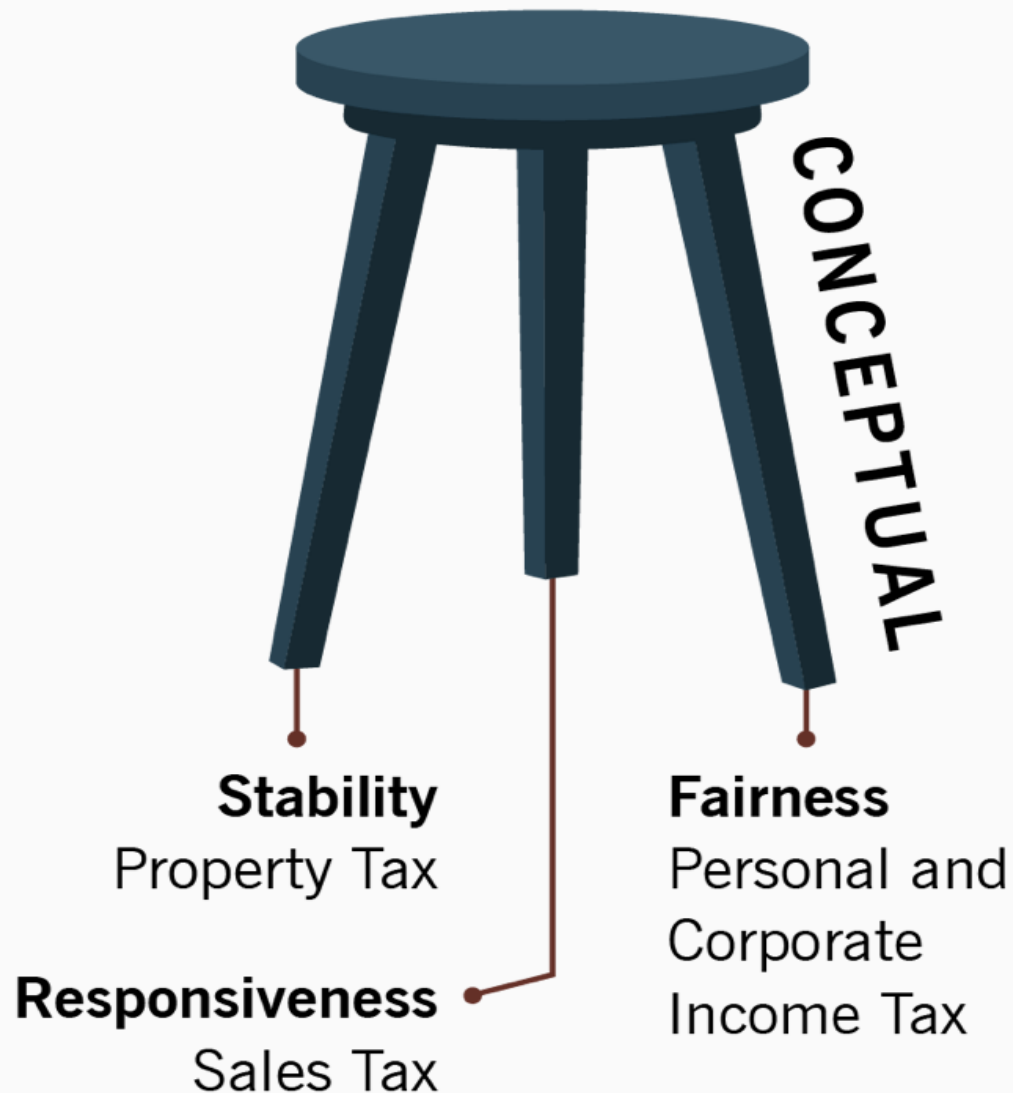
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Education Held Harmless

HB 441 has no effect on the Education Fund. It decreases both Education Fund Revenue and Education Fund Spending Without Impacting Public Education.

More importantly it stabilizes the General Fund, which will protect the education fund for the future.







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