

POLICY OPTIONS

Tax Restructuring and Equalization Task Force

August 19, 2019



UTAH STATE
LEGISLATURE

GUIDING PRINCIPLES

Competitive

Sufficient

Sustainable

Stable

Flexible

Fair

Simple

Transparent

FULL STATE SALES TAX RATE ON FOOD

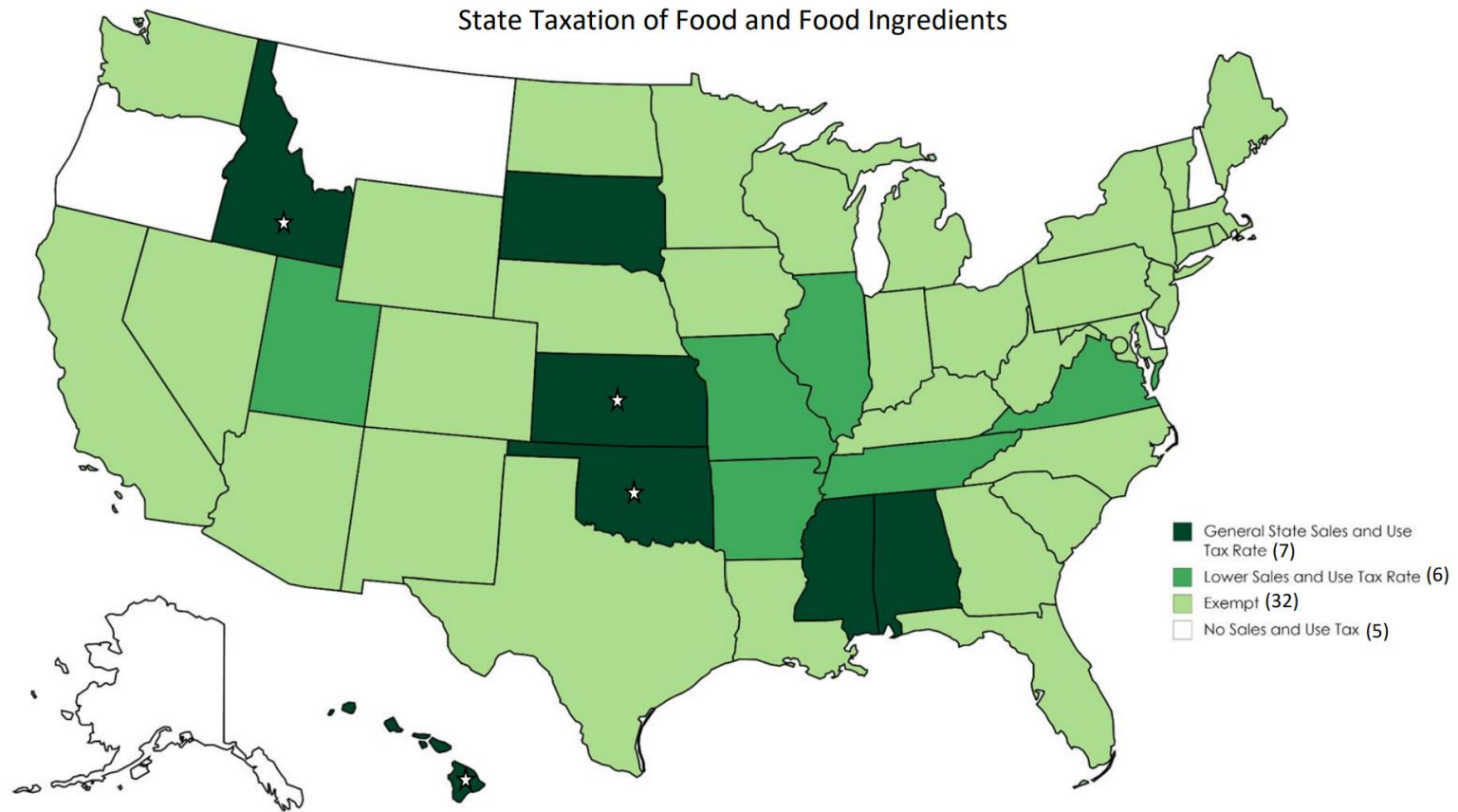
Policy Description

- Currently, the purchase of unprepared food products is taxed at a lower rate than other purchases of tangible personal property.
- The legislature could increase the sales tax rate on all food purchases to match the general rate.
- It could also increase the rate only on certain food products such as candy, soda, bottled water, and dietary supplements.

National Comparison

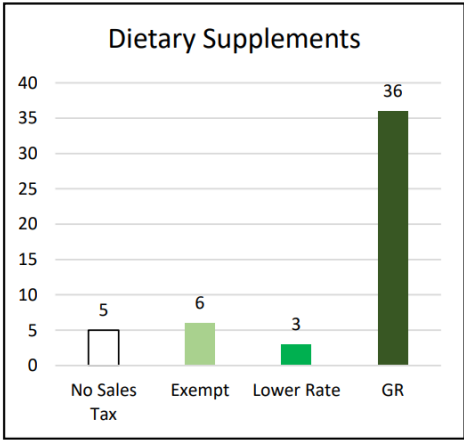
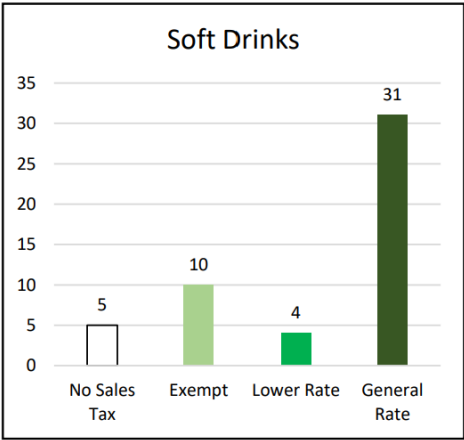
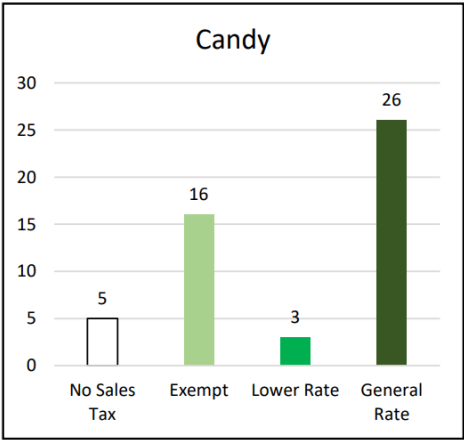
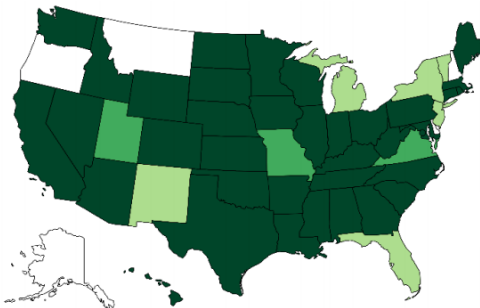
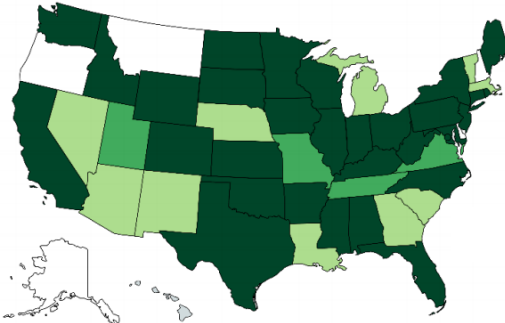
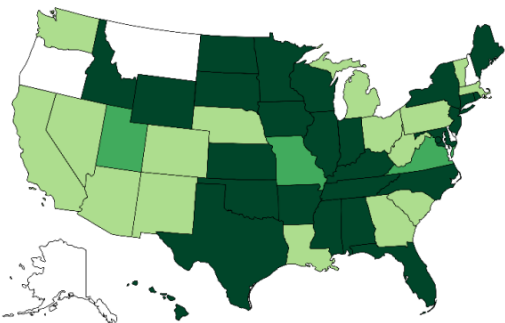
- 32 states and the District of Columbia exempt groceries from their sales tax base.
- Six states, including Utah, tax groceries at a reduced state rate.
- Seven states tax groceries at the full state rate.

STATE TAXATION OF FOOD AND FOOD INGREDIENTS



Note: A ★ denotes that the state provides a credit or refund offsetting some of the sales and use taxes paid on food by some portions of the population. The credits or refunds are usually a set amount per family member. The amount and eligibility rules vary.

STATE TAXATION OF CANDY, SOFT DRINKS, AND DIETARY SUPPLEMENTS



SALES TAX RATES

FOOD/FOOD INGREDIENTS

	1.75%	State Rate
	1.00%	Statewide Local Option
+	0.25%	Statewide County Option
<hr/>		
	3.00%	Statewide Rate

OTHER

	4.85%	State Rate
	1.00%	Statewide Local Option
	0.25%	Statewide County Option
+	0% to 2.1%	Other Local/County Options
<hr/>		
	6.10% to 8.2%	Total Rate

DEFINITIONS

“Food and Food Ingredients”

Substances that are sold for ingestion or chewing by humans and consumed for the substance’s taste or nutritional value.

Does not include:

- Alcoholic beverages
- Tobacco
- Prepared foods

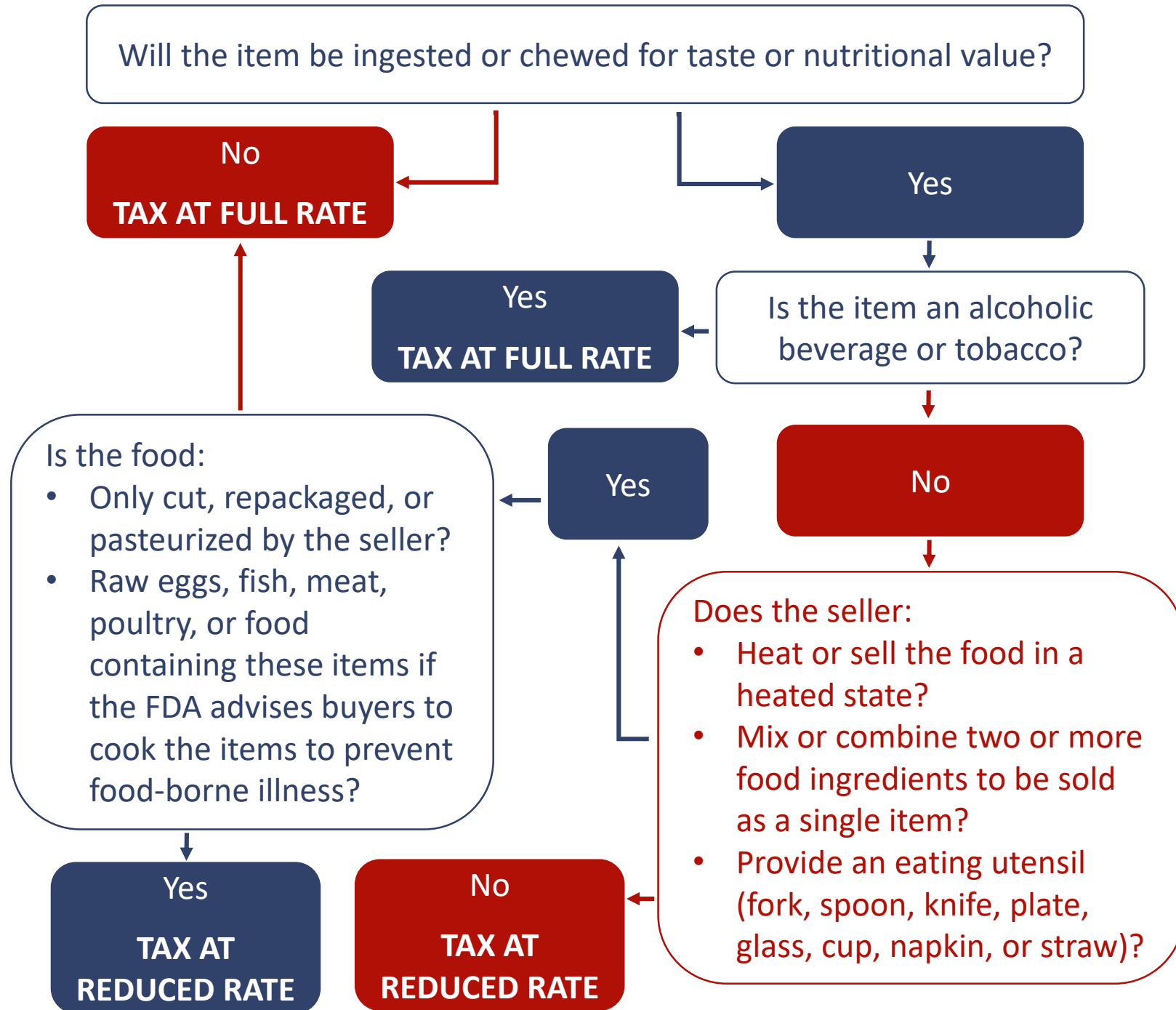
“Prepared Food”

- Food sold in a heated state
- Food heated by the seller
- Two or more food ingredients mixed or combined by the seller for sale as a single item
- Food sold with an eating utensil provided by the seller

Does not include:

- Food the seller only cuts, repackages, or pasteurizes
- Raw egg, fish, meat, poultry, or food containing these items, if the FDA advises buyers to cook the items to prevent food-borne illness

APPLYING THE GROCERY FOOD SALES TAX



RESTORE FULL SALES TAX ON FOOD

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
\$250 million	<ul style="list-style-type: none">• 4.4% annually	<ul style="list-style-type: none">• Relatively insensitive to price changes• More stable than taxable sales throughout business cycle

AVERAGE PERCENT OF INCOME SPENT ON FOOD, BY INCOME AND FAMILY SIZE (2016-2017)

Family Size	Pre-Tax Income Category								
	Less than \$5,000	\$5,000 to \$9,999	\$10,000 to \$14,999	\$15,000 to \$19,999	\$20,000 to \$29,999	\$30,000 to \$39,999	\$40,000 to \$49,999	\$50,000 to \$69,999	\$70,000 and more
1	72%	24%	15%	11%	9%	6%	5%	4%	3%
2	120%	56%	25%	18%	15%	10%	8%	7%	6%
3	159%	35%	26%	20%	14%	11%	10%	7%	7%
4	100%		29%	26%	17%	11%	10%	9%	8%
5+	73%		42%	26%	23%	14%	13%	10%	9%

 Majority of family size/income bracket eligible for SNAP benefits

Source: [Bureau of Labor Statistics Consumer Expenditure Survey](#)

RESTORE FULL SALES TAX ON SODA AND CANDY

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
\$16 million	<ul style="list-style-type: none">• 4.4% annually	<ul style="list-style-type: none">• Candy moderately insensitive to price changes• Soda moderately sensitive to price changes

RESTORE FULL SALES TAX ON SODA, CANDY, BOTTLED WATER, AND DIETARY SUPPLEMENTS

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
\$43 million	<ul style="list-style-type: none">• 4.4% annually	<ul style="list-style-type: none">• Bottled water highly insensitive to price changes• Supplements – unknown sensitivity to price changes

POLICY CONSIDERATIONS

- **Regressivity and Affected Populations**

- Lower income households spend a higher percentage of their disposable income on groceries than do higher income households making grocery taxes regressive.
- This regressivity is partially mitigated by the fact that groceries purchased through the federal SNAP program are not subject to sales tax.
- Lower income households that earn enough income to not qualify for federal benefits would be disproportionately impacted by a higher sales tax on groceries.
- Various forms of tax relief could be considered to offset these issues.

- **Revenue Stability**

- Purchases of food tend to be less volatile than some other forms of consumption.

- **Simplicity**

- Treating food purchases the same as other final consumption purchases could increase simplicity for consumers and vendors.

- **Flexibility**

- Sales tax revenue from food purchases flows into the General Fund which can be used for any State purpose.

GROCERY TAX CREDIT

Policy Description

- The Legislature could create a grocery tax credit to mitigate the impacts that raising the sales tax rate on food could have on certain populations.

National Comparison

- Of the seven states that tax food at the full state sales tax rate, four offer some form of tax relief to certain populations.
 - Hawaii, Idaho, Kansas, and Oklahoma
- Typically, these states offset the sales tax burden on these populations by offering tax relief through an income tax credit.
- The structure of the tax credits, including credit value, eligibility requirements, and refundability, vary by state.

INCOME TAX CREDITS TO OFFSET SALES TAX ON FOOD PURCHASES

State	Sales Tax Rate	Income Tax Rate	"Grocery Tax Credit"	Residency Requirement	Income Qualifications	Other Qualifications	Refundable	Fiscal Impact
HI	4%	1.40% - 11.00%	\$35-\$110 per qualified exemption	Present in HI for more than 9 months of the year	Less than \$30,000 for single or married filing separately status; Less than \$50,000 for head of household or married filing jointly	Cannot have been confined in jail, prison or a youth correctional facility for the entire taxable year	Yes	\$30,800,000 (2016)
ID	6.00%	1.125%-6.925%	\$100 per household member under age 65 \$120 per household member age 65+	Full year	None	Refunds are prorated to exclude any months you received federal food stamps, were in jail, or were in the United States illegally	Yes	\$137,000,000 (2016)
KS	6.50%	3.1%-5.7%	\$125 per individual	Full year	\$30,615	Age 55+; or blind/disabled; or have a dependent child under 18 claimed as a personal exemption	No	\$10,900,000 (2015)
OK	4.50%	0.50% - 5.00%	\$40 per household member	Full year	\$50,000 for the elderly, disabled, and individuals with dependents; \$20K otherwise	Convicted felons in state prison for any portion of the year are ineligible; as well as individuals living in the state under a visa	Yes	\$37,000,000 (2016)

GROCERY CREDIT

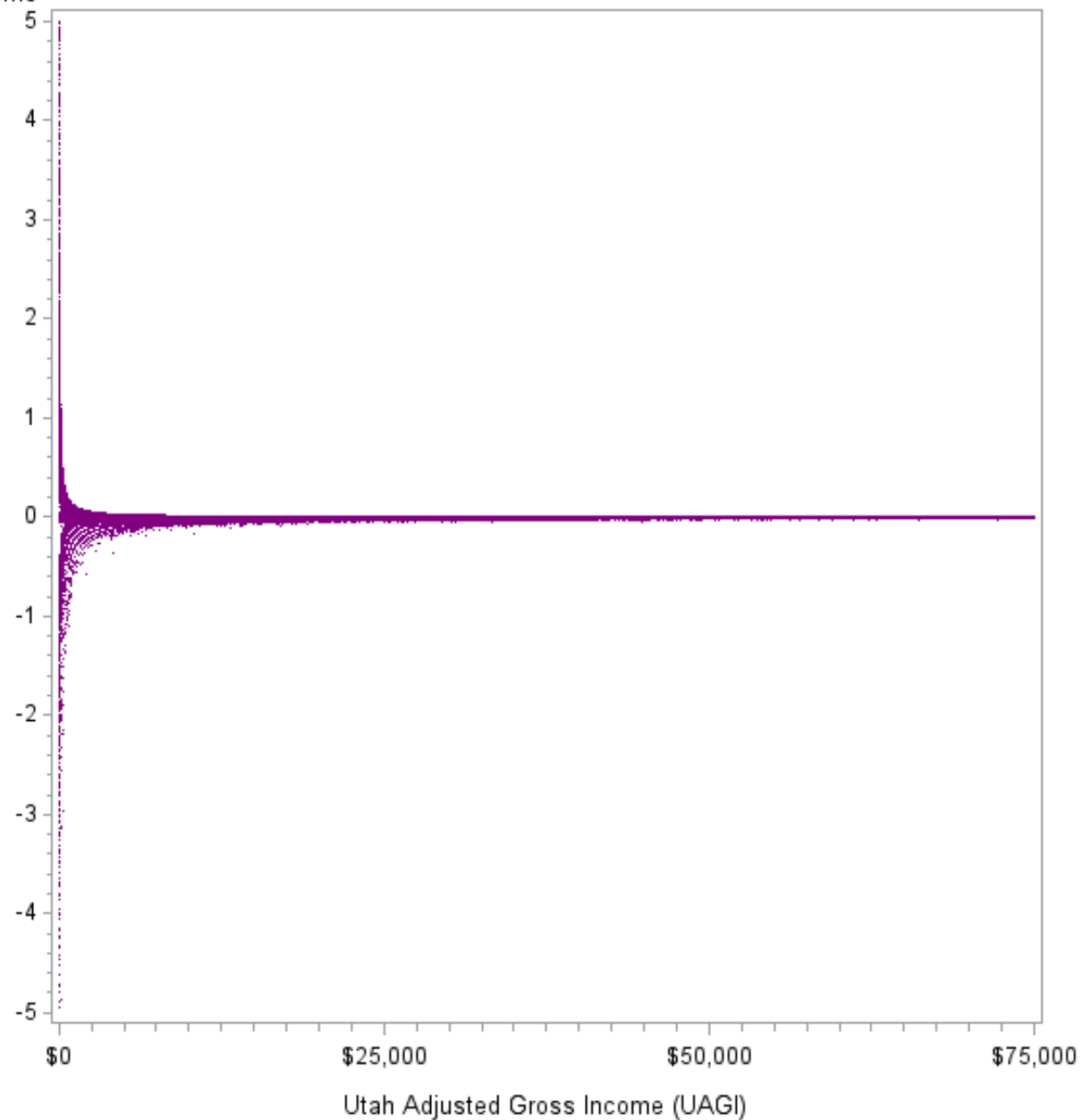
Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
<ul style="list-style-type: none">• (\$65 million) with phase-out, \$50 credit per individual.• Phase-out base starts at \$30k [single] and \$60k [married] @ 0.5% per dollar over phase-out base.	<ul style="list-style-type: none">• 1.7% annually	<ul style="list-style-type: none">• Counter-cyclical with the economy

GROCERY CREDIT

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
<ul style="list-style-type: none">• (\$300 million) with no phase-out, \$100 credit per individual.	<ul style="list-style-type: none">• 1.7% annually	<ul style="list-style-type: none">• Counter-cyclical with the economy

Food Tax + Grocery Credit, Percentage of Income

Overall Tax Change, Percentage of Income



Grocery credit = \$100 per individual,
no phase-out + sales tax on food at
full rate
Revenue impact = -\$50 m

POLICY CONSIDERATIONS

- **Scope**

- The credit could be designed to apply to all Utah residents, or it could be targeted to benefit certain populations through age, income, or disability restrictions.

- **Access to the Credit**

- Adding a section to the state income tax return form would create a simple way for those required to file state tax returns to access the credit.
- A simple form for use by those who do not have to file income tax returns would need to be created.
 - There could be difficulty for certain populations to access the tax credit.

- **Regressivity/Progressivity**

- Grocery credits are generally progressive for low- to middle-income groups.

- **Timing Issues**

- If a credit is given annually (in conjunction with income tax filings), but a resident is purchasing food on an ongoing basis throughout the year, there is a timing disconnect in terms of shouldering the additional cost of food and receiving the tax credit benefit.

EARNED INCOME TAX CREDIT

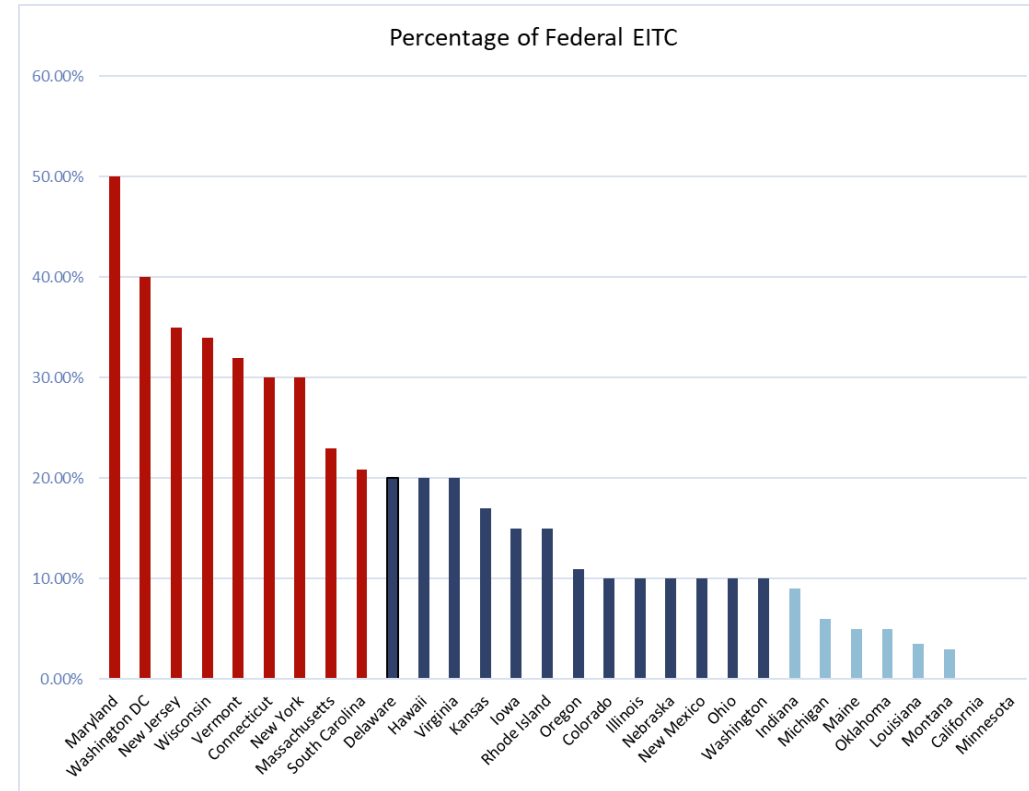
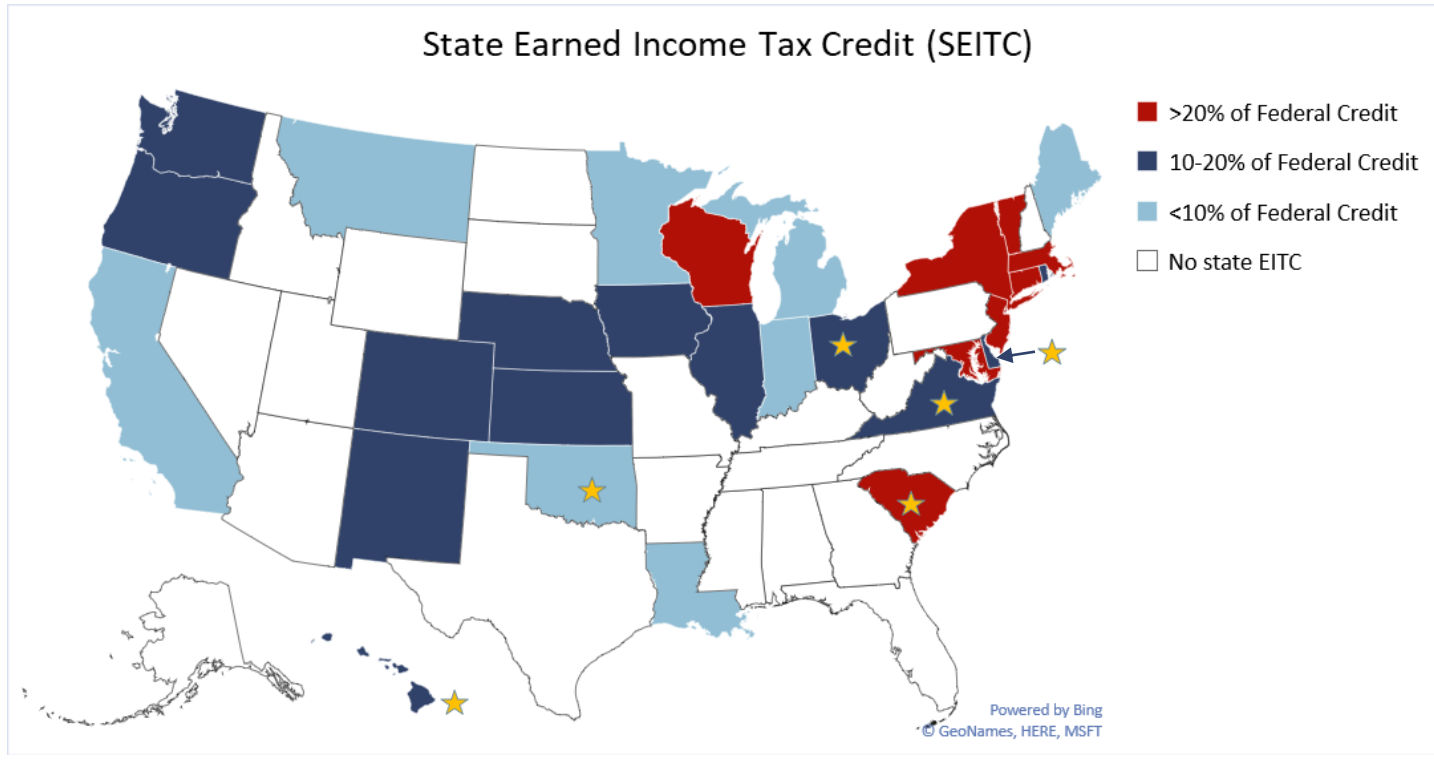
Policy Description

- The Legislature could provide a tax incentive for working residents of low-to-moderate-income by enacting a state earned income tax credit (EITC).
- An income tax return must be filed to qualify for the credit, thereby incentivizing the filer to earn income while receiving the tax benefit.

National Comparison

- An EITC is currently offered by the federal government, 29 states, and the District of Columbia.
- Typically, an EITC offered by a state is valued as a percentage of the federal EITC the resident qualifies for.

EARNED INCOME TAX CREDIT



Notes: ★ denotes a state in which the state earned income tax credit is not refundable. The SEITC is not refundable in Maryland in some circumstances. Alternative applications of SEITC: Wisconsin 4 – one child, 11 – two children, 34 – three children. Oregon: 11 (for families with children under the age of 3). Minnesota SEITC is based upon income. California SEITC is based off income levels. Ohio: limited to 50% of liability for state taxable income above \$20,000.

EARNED INCOME TAX CREDIT (EITC)

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
(\$45 million) at 10%, refundable, apportionable	<ul style="list-style-type: none">• 3.7% annually	<ul style="list-style-type: none">• Generally counter-cyclical with the economy

POLICY CONSIDERATIONS

- **Scope**

- EITC qualification starts with a known population (qualified for federal EITC) and can be crafted to apply to more narrow populations through criteria such as experiencing intergenerational poverty.

- **Benefits Working Taxpayers**

- To qualify, must have to file income tax return.

- **Regressivity/Progressivity**

- Earned income tax credits are generally progressive for low- to middle-income groups.

- **Refundability**

- State EITC could be structured as refundable or nonrefundable

SOCIAL SECURITY INCOME

Policy Description

- Utahns currently pay state income tax on the portion of social security income that is included in federal adjusted gross income.
- Utah offers a retirement tax credit to individuals born before 1953.
- The Legislature could create a social security tax credit to mitigate the impacts of tax reform on seniors with fixed incomes.

National Comparison

- 37 states and the District of Columbia exempt social security income from state income tax.
- 13 states, including Utah, tax social security income, to varying degrees.
 - Utah uses the same formula that is used to determine federal tax liability on social security income.

SOCIAL SECURITY INCOME CREDIT

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
(\$13 million) per changes in HB 441	<ul style="list-style-type: none">• 4.0% annually	<ul style="list-style-type: none">• N/A

SOCIAL SECURITY INCOME CREDIT

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
(\$33 million) non-refundable credit based on all social security income	<ul style="list-style-type: none">• ~4.0% annually	<ul style="list-style-type: none">• N/A

POLICY CONSIDERATIONS

- **Scope**

- The credit may be broadly available or targeted.

- **Fairness**

- Not all retirees receive social security income.
- A social security income credit would generally be progressive.

- **Flexibility**

- The Legislature could modify any income, age, or amount requirements as income tax revenue needs change. The Legislature also can modify the existing retirement tax credit to complement a social security income tax credit.

- **Revenue stability**

- As the state's population continues to age, more individuals will likely rely on social security as a primary source of income.
- A more robust tax credit for social security income may have larger impacts on the state budget in the future.

MILITARY RETIREMENT INCOME

Policy Description

- Military retirees in Utah currently pay state income tax on military retirement income.
- A military retiree can take advantage of retirement tax credit if the retiree was born before 1953.
- The Legislature could provide a military retirement pay tax credit to provide an economic benefit to military retirees and incentivize them to retire in Utah.

National Comparison

- 41 states, and the District of Columbia, provide a complete or partial exemption from state income tax of military retirement pay for some or all military retirees.
- 9 states, including Utah, do not offer any exemption from state income tax for military retirement income.

MILITARY RETIREMENT EXEMPTION

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
(\$1.8 million) for half of income excluded from taxable income calculation	<ul style="list-style-type: none">• 1.8% annually	<ul style="list-style-type: none">• Unknown

POLICY CONSIDERATIONS

- **Scope**

- The credit could be designed to apply to all military retirees, or it could be targeted to benefit certain populations through age, income, retirement date, or disability restrictions.

- **Regressivity/Progressivity**

- A military retirement income tax credit would generally be progressive.

- **Workforce Development**

- Military retirees may be younger than other retirees and well skilled. Attracting more military retirees to state may positively affect the labor force.

INCOME TAX RATE REDUCTION

Policy Description

- Utah has a single income tax rate, for both individuals and corporations, of 4.95%.
- Various exemptions and credits are available that can lower the effective rate paid.
- Income tax collections, while typically more volatile, have significantly outpaced other tax types in Utah over the last 30 years.
- The Legislature could provide an income tax rate reduction to provide tax relief to Utah taxpayers.

National Comparison

- 41 states levy an income tax on wage and salary income.
- 32 states have a graduated rate structure, unlike Utah's flat rate structure.
- Of the nine states that tax wage and salary income at a flat rate, Utah's rate is in the middle of the pack.

POLICY CONSIDERATIONS

- **Scope**

- A reduction in the income tax rate would apply to all Utah taxpayers.

- **Budgetary impact**

- A reduction in the income tax rate would reduce future revenue in the state's Education Fund.

- **Regressivity/Progressivity**

- Higher income taxpayers would see a higher degree of tax relief due to existing credits.

- **Economic competitiveness**

- Several surrounding states have a lower income tax rate than Utah.
- However, when considering total tax burden on businesses, Utah is one of the best in the nation.

INCOME TAX RATE REDUCTION

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
~(\$55 million) per 0.05% rate reduction	<ul style="list-style-type: none">• 6.3% annually (individual)• 8.4% annually (corporate)	<ul style="list-style-type: none">• Cyclical with the economy



UTAH STATE

LEGISLATURE

SOURCES

Sales Tax on Food

- [Utah Code § 59-12-103](#)
- [Utah Code § 59-12-204](#)
- [Utah Code § 59-12-1102](#)
- [Utah Code Section § 59-12-102\(51\), \(95\)](#)
- <https://tax.utah.gov/sales/food-rate>

Grocery Tax Credit

- Hawaii: https://www.capitol.hawaii.gov/hrscurrent/Vol04_Ch0201-0257/HRS0235/HRS_0235-0055_0085.htm
<http://files.hawaii.gov/tax/stats/stats/credits/2016credit.pdf>
- Idaho: <https://tax.idaho.gov/n-feed.cfm?idd=4246>
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- Kansas: <https://www.ksrevenue.org/taxnotices/notice13-12.pdf>
<https://www.ksrevenue.org/pdf/ar17complete.pdf>
- Oklahoma: <http://www.okdrs.org/guide/ok-sales-tax-relief-credit-ind>
<https://www.ok.gov/tax/documents/Tax%20Expenditure%20Report%202017-2018.pdf>

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Social Security Income

- <http://www.ncsl.org/documents/fiscal/StateTaxOnPensions2015update.pdf>
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- <https://mtrevenue.gov/taxes/individual-income-tax/retirement/>
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- <https://tax.vermont.gov/press-release/new-vermont-law-reduces-personal-income-taxes-5-million-social-security-recipients>

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Military Retirement Income

- <http://www.ncsl.org/documents/fiscal/StateTaxOnPensions2015update.pdf>
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- <http://www.veterans.arkansas.gov/assets/uploads/2018/01/20180124075300-act141-full-textpdf.pdf>
- <https://www.courant.com/politics/hc-military-pension-exemption-0716-20150716-story.html>
- <https://www.legis.iowa.gov/docs/code/422.7.pdf>
- <https://veterans.idaho.gov/StateBenefits>
- [https://www.maine.gov/veterans/docs/Maine%20Veterans%202016%20Tax%20One%20Pager%20\(3\).pdf](https://www.maine.gov/veterans/docs/Maine%20Veterans%202016%20Tax%20One%20Pager%20(3).pdf)
- https://taxes.marylandtaxes.gov/Individual_Taxes/Individual_Tax_Types/Income_Tax/Filing_Information/If_You_Are_Military_Personnel/Military_Retirement_Income.shtml
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Income Tax Rate Reduction

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