Policy Options Review

Tax Restructuring and Equalization Task Force | October 10, 2019

August 19th, 2019 meeting

The following policy options were studied in the 08-19-19 task force meeting. Additional details and data sources for these policy options can be found on the task force's legislative webpage.

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.

Fiscal Impact

Option 1: Restore Full Sales Tax on All Food

- Est. Revenue (FY21):
  - $250 million
- Est. Growth Trend (CAGR):
  - 4.4% annually
- Stability over time:
  - Relatively insensitive to price changes
  - More stable than taxable sales throughout business cycle

Option 2: Restore Full Sales Tax on Soda and Candy

- Est. Revenue (FY21):
  - $16 million
- Est. Growth Trend (CAGR):
  - 4.4% annually
- Stability over time:
  - Candy moderately insensitive to price changes
  - Soda moderately sensitive to price changes

Option 3: Restore Full Sales Tax on Soda, Candy, Bottled Water, and Dietary Supplements

- Est. Revenue (FY21):
  - $43 million
- Est. Growth Trend (CAGR):
  - 4.4% annually
- Stability over time:
  - 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.

Fiscal Impact

- Est. Revenue (FY21):
  - ($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.
  - ($300 million) with no phase-out, $100 credit per individual.
- Est. Growth Trend (CAGR):
  - 1.7% annually
- Stability over time:
  - Counter-cyclical with the economy

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.

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.

Fiscal Impact

- Est. Revenue (FY21):
  - ($45 million) at 10%, refundable, apportionable
- Est. Growth Trend (CAGR):
  - 3.7% annually
- Stability over time:
  - 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 primarily working taxpayers

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

Refundability

- State EITC could be structured as refundable or nonrefundable

Social Security Income Tax Credit

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.

Fiscal Impact

- Est. Revenue (FY21):
  - ($13 million) per changes in HB 441
  - ($33 million) non-refundable credit based on all social security income
- Est. Growth Trend (CAGR):
  - ~4.0% annually
- Stability over time:
  - N/A

Policy Considerations

Scope

- The credit may be broadly available or targeted.

Fairness

- Not all retirees receive social security income.

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 Tax Credit

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 mitigate the impact of tax reform and to provide an economic incentive for military retirees to retire in Utah.

National Comparison

- 33 states, and the District of Columbia, exempt some or all military retirement pay for some or all military retirees from state income tax.
- 7 states, including Utah, do not offer any exemption from income tax for military retirement income.

Fiscal Impact

- Est. Revenue (FY21):
  - ($1.8 million) for half of income excluded from taxable income calculation
- Est. Growth Trend (CAGR):
  - 1.8% annually
- Stability over time:
  - Unknown

Policy Considerations

Scope/Flexibility

- 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.

Economic Competitiveness

- Military retirees may be younger than other retirees and well skilled. Attracting more military retirees to state may positively affect the workforce. Data does not indicate a strong relationship between military retirement taxation and retirement location.

Income Tax Rate

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.

Fiscal Impact

- Est. Revenue (FY21):
  - ~($55 million) per 0.05% rate reduction
- Est. Growth Trend (CAGR):
  - 6.3% annually (individual)
  - 8.4% annually (corporate)
- Stability over time:
  - Cyclical with the economy

Policy Considerations

Scope

- A reduction in the income tax rate would apply to all Utah taxpayers.
- Higher income taxpayers would see a higher degree of tax relief.

Budgetary impact

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

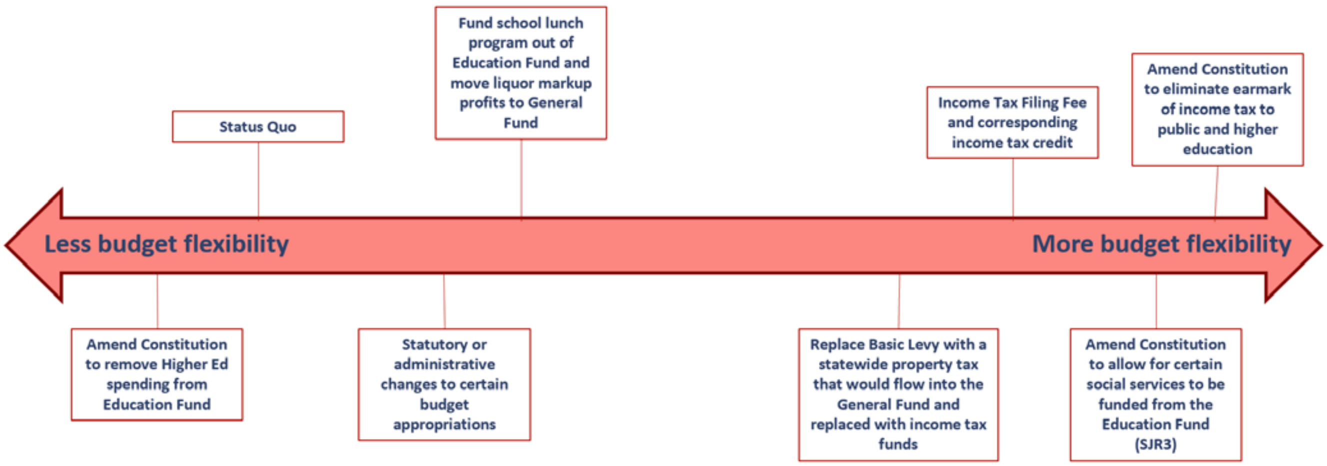
Economic Competitiveness

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

September 5th, 2019 meeting

The following policy options were studied in the 09-05-19 task force meeting. Additional details and data sources for these policy options can be found on the task force's legislative webpage.

Spectrum of Potential Modifications to Allowed Uses of Income Tax



Eliminate Spending Restrictions on Income Tax Revenue

Policy Description

- The Legislature could pass a resolution to amend the constitution to eliminate the spending restrictions that require all income tax revenue to be spent on public and higher education.
- The resolution would need a 2/3 majority in both chambers of the legislature and a majority vote in a statewide general election.

National Comparison

- Utah only state with 100% of income tax revenue dedicated to education spending.
- 2 other states dedicate a portion of income tax revenue to education in their state constitution
- 6 other states dedicate a portion of income tax revenue to education in statute

Policy considerations

Flexibility

- This change would provide the Legislature flexibility to use income tax revenue to meet any state need.

Scale

- An amendment could be crafted to free up all or a portion of income tax revenue. It could also be crafted to allow income tax revenue to be used for only certain state purposes.

Simplicity/Transparency

- Eliminating spending restrictions simplifies the budget process.

Income Tax Filing Fee and Credit

Policy Description

- The Legislature could impose a fee on each individual or corporation that files an income tax return and deposit the fee in the General Fund. An income tax credit equal to the amount of the fee could offset the cost of the fee to the taxpayer.
- This policy would effectively transfer the amount of the fee from the Education Fund to the General Fund.
- A fee of $1 per filer would transfer approximately $1.5M.

National Comparison

- Idaho requires all individuals and corporations who file an income tax return to pay an additional tax of $10, which goes into a Permanent Building Fund.

Basic School Program Funded from Education Fund

Policy Description

- The Legislature could adjust the Basic School Program to allow property tax revenue generated by the minimum basic levy to be deposited in the General Fund. An amount equal to the property tax revenue generated by the minimum basic levy could then be sent to local school districts from the Education Fund.
- This policy would effectively transfer the amount of revenue generated from the minimum basic levy ($500M in FY21) from the Education Fund to the General Fund.

School Lunch Program Funded from Education Fund

Policy Description

- The Legislature could fund the School Lunch Program from the Education Fund rather than the revenue generated from 10% of the total gross sales of liquor.
- This policy would effectively transfer the amount of revenue generated from 10% of the total gross sales of liquor ($55M in FY21) from the Education Fund to the General Fund.

Education Programs Currently Funded from General Fund

Policy Description

- The Legislature could fund approximately $470 million of education programs from the Education Fund rather than the General Fund.
- Examples of such programs include:
  - Higher Education ($335M)
  - STEM Action Center – Heritage and Arts ($10.8M)
  - Education/Training – Corrections ($2.4M)
  - Rehabilitation Services – Workforce Services ($18.5M)

Income Tax Credits from Other Funds

Policy Description

- The Legislature could remove statutory provisions that require income tax credits and donations to be funded from the General Fund or Transportation Fund.
  - Motor Fuel for Agriculture
    - $125,465 (Transportation Fund)
  - Hand Tools Used in Farming
    - $5,285 (General Fund)
  - Alternative Fuel Heavy-Duty Vehicles
    - $208,000 (General Fund)
  - At-Home Parent
    - $381,900 (General Fund)
  - Campaign Fund Contribution
    - $107,788 (General Fund)

Policy Considerations

Scale

- Each of these options could be scaled to target specific programs or amounts of revenue to transfer from the Education Fund to the General Fund.

Flexibility

- These policies would increase the General Fund, which can be used for any state purpose.

Simplicity/Transparency

- Some of these policies simplify the flow of revenue from source to use, while others complicate the flow.

Local Impact

- Funding the basic school program from the Education Fund would change the role of local school districts in generating revenue.

Expand the Utah Personal Exemption

Policy Description

- The 2017 Federal Tax Cuts and Jobs Act had the effect of eliminating the personal exemption component of the taxpayer tax credit for Utah personal income tax purposes.
- In the 2018 2nd Special Session, the Legislature passed a bill that created the "Utah Personal Exemption," which reinstated a portion of this provision.
- The Legislature could expand the Utah Personal Exemption to help mitigate certain impacts of federal tax changes.
- Income phaseouts could be implemented to target the benefit, if desired.

Option 1: Utah Dependent Personal Exemption

- Est. Revenue (FY21):
  - ($136 million) to restore full dependent exemption amount
- Est. Growth Trend (CAGR):
  - 3.0% annually
- Stability over time:
  - N/A

Option 2: Utah Dependent Personal Exemption, Phaseout at 1.5%

- Est. Revenue (FY21):
  - ($55 million) to restore full dependent exemption amount 1.5% phase-out (currently @ 1.3%)
- Est. Growth Trend (CAGR):
  - 3.0% annually
- Stability over time:
  - N/A

Policy Considerations

Scope

- Taxpayers with more dependents would benefit more than those with fewer dependents.
- The benefit could be targeted more towards low-and-middle-income taxpayers by applying an enhanced income phaseout schedule.
- Taxpayers with no dependents would not see a benefit.

Budgetary Impact

- An increase in the Utah Personal Exemption would reduce revenue in the state's Education Fund.

Mitigation of Federal Tax Changes Impact on State Taxes

- While many taxpayers saw a reduction in federal taxes from the 2017 federal tax reform, many Utah taxpayers saw an increase in state income tax owed.
  - Expanding the Utah Personal Exemption would offset that increase for many families.

September 26th, 2019 meeting

The following policy options were studied in the 09-26-19 task force meeting. Additional details and data sources for these policy options can be found on the task force's legislative webpage.

Increase Motor and Special Fuels Tax

Policy Description

- The Legislature could raise the per-gallon tax on gas and diesel purchases to generate additional revenue for transportation needs.
- This excise tax is currently constitutionally earmarked for spending on roads and bridges.
- An increase in fuel excise taxes could be used to reduce the statutory earmarks of sales tax revenue for transportation projects.

National Comparison

- Utah currently ranks 26th in total state taxes on gasoline among U.S. states.

Fiscal Impact

- Est. Revenue (FY21):
  - Approximately $90 million for each $0.05 increase
- Est. Growth Trend (CAGR):
  - 2.8%
- Stability over time:
  - Generally follows the business cycle, with lower peaks and troughs

Policy Considerations

Scope

- Fuel taxes are paid by residents and visitors.
- Those who live far from their jobs or without access to alternative transportation modes will be impacted the most.

Budgetary impact

- An increase in the motor fuel taxes could free up General Fund money for other programs by reducing earmarks.
  - This would help address the structural challenges.

Transitionary Period

- Fuel taxes are a strong example of user fees, but their effectiveness is waning due to technology advancements.
- Road Usage Charge fees could be the primary source of transportation funding in the future but cannot replace fuel taxes in the short-to-mid-term.

Repeal Sales Tax Exemption for Motor and Special Fuels

Policy Description

- The Legislature could expand the sales tax base by repealing the exemption for motor and special fuels.
- This expansion of sales tax base could be paired with a reduction in statutory sales tax earmarks for transportation.
- Charging the 4.85% state sales tax rate on motor fuel (price of $2.50/gallon) would equate to $0.12/gallon in tax.

National Comparison

- 16 other states apply a per-dollar tax to fuels, in addition to excise taxes.

Fiscal Impact

- Est. Revenue (FY21):
  - Approximately $200 - $275 million, depending on fuel prices
- Est. Growth Trend (CAGR):
  - 4.6%
- Stability over time:
  - More volatile than the economy, follows the price of oil

Policy Considerations

Scope

- Sales taxes are paid by residents and visitors.
- Those who live far from their jobs or without access to alternative transportation modes will be impacted the most.

Budgetary Impact

- An increase in the sales tax base could free up General Fund money for other programs by reducing transportation earmarks.
  - This would help address the structural challenges.

Transitionary Period

- Repealing this exemption would alleviate some of the structural challenges the state is facing but would not address the long-term trend of a shrinking sales tax base.
  - Sales of gasoline aren’t growing as fast as the economy and population.
- Road Usage Charge fees could be the primary source of transportation funding in the future but cannot replace fuel taxes in the short-to-mid-term.

Modify the State Motor Vehicle Registration Fee

Policy Description

- The Legislature could increase the motor vehicle registration fee to generate additional revenue for transportation needs.
- This increase could be paired with a reduction in statutory sales tax earmarks for transportation.
- The Legislature could also modify how the vehicle registration fee is assessed.

National Comparison

- Every state charges some form of vehicle registration fee, but there is wide variation among states in how fees are calculated and assessed.
- Utah is roughly middle-of-the-pack on actual cost of registration fees.

Fiscal Impact

Option 1: Increased State Motor Vehicle Registration Fee

- Est. Revenue (FY21):
  - $30 million per $10 increase on all types.
- Est. Growth Trend (CAGR):
  - 3.9%
- Stability over time:
  - Generally grows at a stable rate

Option 2: Convert Flat Registration Fee into a Value-Based Fee

- Est. Revenue (FY21):
  - Could be structure to be revenue-positive, negative, or neutral.
- Est. Growth Trend (CAGR):
  - 3.9%
- Stability over time:
  - Follows business cycle with smaller peaks and troughs.

Policy Considerations

Scope

- Motor vehicle rental taxes are paid by residents.
- Fee is constant, regardless of road use.

Budgetary impact

- Currently, the state motor vehicle registration fees are split between the Transportation Fund and the Transportation Investment Fund.
- An increase in the motor vehicle registration fee could potentially free up General Fund money for other programs by reducing transportation earmarks.
  - This would help address the structural challenges.

Annual lump sum vs. incremental payments

- A registration fee is paid in one lump sum payment each year, which can be more burdensome for low-income residents.
- Other options, such as the gas tax, are paid on an incremental basis.

Flat fee vs. Value-based fee

- Converting to a value-based registration fee would increase the tax burden on owners of more expensive vehicles and reduce the tax burden on owners of less expensive vehicles.
- Uniform age-based fee would still be charged.

Increase the State Motor Vehicle Rental Tax

Policy Description

- The Legislature could increase the 2.5% state motor vehicle rental tax to generate additional revenue for corridor preservation or other transportation needs.
- This increase could be paired with a reduction in statutory sales tax earmarks for transportation, depending on how the new revenue is dedicated.

National Comparison

- 43 other states impose a state motor vehicle rental tax, with Utah's 2.5% rate near the low end of rates.

Fiscal Impact

- Est. Revenue (FY21):
  - $3 million per 1%
- Est. Growth Trend (CAGR):
  - 6.3%
- Stability over time:
  - Generally follows business cycle

Policy Considerations

Scope

- Motor vehicle rental taxes are paid primarily by visitors.

Budgetary impact

- Currently, the state motor vehicle rental tax is dedicated to the Marda Dillree Corridor Preservation Fund.
- An increase in the motor vehicle rental tax could go towards increased corridor preservation or could be used for other transportation purposes.
- Could potentially free up General Fund money for other programs by reducing transportation earmarks.
  - This would help address the structural challenges.

Other Impacts

- Increasing the motor vehicle rental tax could lead to increased use of peer-to-peer car and ride sharing services, many of which are not currently collecting and remitting state sales taxes.

Implement Tolling Mechanisms

Policy Description

- The Legislature could generate new transportation funding by implementing tolls on certain state roads.
- This expansion of transportation revenue could be paired with a reduction in statutory sales tax earmarks for transportation.
- Road or lane pricing could be used as a revenue generation tool, as opposed to just a demand management tool.

National Comparison

- A majority (and growing number) of states are utilizing tolling on roads, bridges, and tunnels.

Fiscal Impact

- Est. Revenue (FY21):
  - Approximately $1B for all state highways ($0.05/mile)
- Est. Growth Trend (CAGR):
  - 2.4%
- Stability over time:
  - Generally stable, with small business cycle effects

Policy Considerations

Scope

- Tolls are paid by residents and visitors.
- Those who rely on newly tolled routes would be impacted the most.

Budgetary Impact

- New revenue generated from tolling could free up General Fund money for other programs by reducing transportation earmarks.
  - This would help address the structural challenges.

Types of Tolling

- Tolling could be introduced on entire portions or just on individual lane(s) of certain roads.
- Used to manage throughput or generate revenue?

Other Impacts

- If only certain roads are tolled, it could lead to increased congestion on other roads as people seek to avoid tolled roads.

Expand the Road User Charge (RUC) Program

Policy Description

- The Legislature could implement a RUC that would charge drivers for their actual use of the roads.
- This per-mile tax could eventually replace the state's fuel taxes, but in the medium-term would likely be used in conjunction with existing fuel taxes.
- This new revenue could be paired with a reduction in statutory sales tax earmarks for transportation to free up General Fund revenue for other programs.

National Comparison

- Around 10 states have RUC pilot programs completed or planned

Fiscal Impact

- Est. Revenue at 1.7 cents/mile (FY21):
  - $363 million for all state highways
  - $200 million for interstates only
  - $131 for urban interstates only
- Stability over time:
  - Cyclical with the economy

Policy Considerations

Scope

- At implementation, road usage taxes are likely paid by residents and not visitors.
  - As technology advances, out-of-state drivers could be required to pay.
- Those who live far from their jobs or without access to alternative transportation modes will be impacted the most.
  - Though some studies have shown a RUC to be more beneficial to rural drivers than a gas tax
- The Legislature could start with a smaller, low-technology program, then convert to a large-scale program when the available technology makes that more feasible.

Budgetary impact

- New revenue from a RUC program could free up General Fund money for other programs by reducing transportation earmarks.
  - This would help with the structural challenges.

Forward-Looking

- Sales of gasoline aren't growing as fast as the economy and population.
- A RUC would capture all road use, even by vehicles that do not purchase fuel.
  - As the number of less-or-no-fuel vehicles increases, RUC taxes would keep pace, unlike fuel taxes.
- Road Usage Charge fees could be the primary source of transportation funding in the future but cannot replace fuel taxes in the short-to-mid-term.

Create a State Carbon Tax

Policy Description

- The Legislature could implement a carbon tax that could address the state's structural revenue problems by pricing externalities into fossil fuel-based energy consumption.
- A carbon tax could generate significant new revenue for transportation and General Fund programs, while lowering sales tax and income tax rates.

National Comparison

- 10 states have a form of carbon pricing known as cap-and-trade.
    - California has an economy-wide cap-and-trade program.
    - Nine eastern states participate in the Regional Greenhouse Gas Initiative (RGGI) that uses cap-and-trade in the power sector.
- Several additional states are considering carbon pricing policies.

Fiscal Impact

- Est. Revenue (FY21):
    - Approximately $500 million
- Est. Growth Trend (CAGR):
    - 4.0%
- Stability over time:
    - Follows the business cycle

Policy Considerations

Scope

- Various aspects of a carbon tax would be paid by only residents while others would be paid by residents and visitors.
- Those who spend a bigger portion of their budget on energy will be impacted the most.
- Targeted tax reductions could be implemented to offset the impacts of the carbon tax on certain populations.

Budgetary Impact

- While a carbon tax program could be designed to be revenue neutral to the state, it would dramatically change the balance of our tax structure.
- Increased revenue from a carbon tax could be offset with reduced sales and income tax rates and/or increased exemptions and credits.
    - This could help address the state's structural challenges.

Other Impacts

- A carbon tax would lead to increased costs for fossil fuel-based energy.
- Air quality could be improved due to a reduction in fossil fuel energy and increased funding for air quality projects.
- Companies involved in fossil fuel energy development would be negatively impacted.
- Taxpayers that have a low reliance on fossil fuels could see a net tax benefit from a carbon tax as a result of reduced rates on other taxes.

Reduce B&C Road Fund Percentage

Policy Description

- Utah code currently appropriates 30% of revenue that flows into the Transportation Fund to be used for class B & C roads.
- The legislature could reduce the percentage of Transportation Fund revenue appropriated to class B & C roads and allow counties and cities to use local option sales taxes to fund the operation of those roads.
- Similar to the basic school program, the legislature could hold harmless counties and municipalities with low sales tax bases.

Policy Considerations

Budgetary Impact

- Reducing the percentage of Transportation Fund revenue going to B & C road funds would increase the portion of gas tax revenue available for state roads.
- This could free up some general fund revenue, but the impact would be reduced over time as gas tax revenue as a share of total budget continues to decline.

Local Impact

- Counties and municipalities have varying sales tax bases, limiting the ability of some areas to generate sufficient sales tax revenue to make up for lost B & C road fund revenue.

October 10th, 2019 meeting

The following policy options were studied in the 10-10-19 task force meeting. Additional details and data sources for these policy options can be found on the task force's legislative webpage.

Eliminate Certain Sales Tax Exemptions

Policy Description

- The Legislature could eliminate existing sales tax exemptions on certain transactions to broaden the sales tax base.
- There are currently 89 sales tax exemptions that remove certain transactions that would otherwise be subject to sales tax from the sales tax base.
- The estimated value of these exemptions is approximately $1B.
- The likely policy goals of these transactions include: eliminating tax pyramiding, promoting charitable organizations, enabling an efficient collection system, and incentivizing or reducing costs for certain transactions such as health care purchases.

National Comparison

- Utah ranks 27th in the United States for sales tax breadth or percent of consumption subject to sales tax (~34%).

Policy Considerations

Scope

- Any number of existing exemptions could be eliminated or modified to scale this policy change to meet the legislature's goals.

Budgetary Impact

- Eliminating or reducing sales tax exemptions would broaden the sales tax base and increase General Fund revenue.

Reporting

- The state has little data on the actual costs of sales tax exemptions because reporting requirements have been repealed. Prior to their repeal, the quality of data the reporting requirements provided was low.

Policy Alignment

- The likely policy goals for existing sales tax exemptions vary widely and some may not align with the Legislature's current priorities.

Include Additional Services in Sales Tax Base

Policy Description

- The Legislature could expand the sales tax base to include additional services.
- Utah currently taxes most services related to maintenance, repair, and rental of tangible personal property, accommodations, recreation, utilities, and telecommunications.

National Comparison

- According to a 2017 survey by the Federation of Tax Administrators, 21 states and the District of Columbia tax more services than Utah.

Policy Considerations

Scope

- The legislature could opt to broadly add services to the sales tax base, or narrowly add certain services to the sales tax base.

Stability

- Including services would add stability to the sales tax base as consumer patterns shift to favor services.

Efficiency

- Sales taxes are the most efficient types of tax. Expanding the sales tax bases generates revenue with smaller distortions to the overall economy than other tax types.

Pyramiding

- Expanding the sales tax base to include more business inputs can make the actual tax burden higher than implied by the tax rate due to intermediate taxes being passed along to the consumer in the form of higher prices.

Simplicity

- Expanding the sales tax base can increase the compliance burden on some businesses and the administration burden on the Tax Commission.

Local Impact

- Expanding the sales tax base may have unequal impacts at the local level depending upon how the policy is crafted by the legislature.

Address Inconsistent Treatment

Policy Description

- A number of services are currently treated inconsistently in the tax code. For example:
  - Downloaded media is taxed, but streaming media is not.
  - Downloaded software is taxed, but online software as a service is not.
  - Some car washes are taxed, but others are not.
  - Dry cleaning is taxed, but coin operated laundry is not.
- The legislature could expand the sales tax base by taxing those services similar to currently taxed services.

Fiscal Impact

- Est. Revenue (FY21):
  - $72.8 million
    - Software as a service: $67m
    - All else: $5.8m
- Est. Growth Trend (CAGR):
  - 4.6%
- Stability over time:
  - Cyclical with the economy

Policy Considerations

Scope

- The legislature could address as many or as few inconsistencies as meet its policy goals.

Simplicity

- Treating similar services consistently could increase simplicity for consumers and vendors.

Include New Economy Services in Sales Tax Base

Policy Description

- The legislature could expand the sales tax base by including services that have appeared in recent years as part of the "new economy," including:
    - Peer to peer ride sharing
    - Software as a service
    - Streaming media

National Comparison

- 13 states and several municipalities currently tax peer to peer ride sharing
- 14 states currently tax software as a service (including Utah in some cases)
- 26 states currently tax streaming media (including Utah in some cases)

Fiscal Impact

- Est. Revenue (FY21):
    - $70.5 million
        - Software as a service: $67m
        - All else: $3.5m
- Est. Growth Trend (CAGR):
    - Variable, perhaps between 5% and 45% and up
- Stability over time:
    - Generally cyclical with the economy

Policy Considerations

Scope

- The legislature could include as many or as few new economy services as meet its policy goals.

Stability

- Including new economy services would add stability to the sales tax base as consumption of such services replace currently taxed transactions.

Simplicity

- In several instances, including new economy services would address inconsistencies in how these services are treated compared to traditional services.

Include Traditional Consumer Services in Sales Tax Base

Policy Description

- The legislature could expand the sales tax base by taxing services purchased by end users, including:
  - Professional services:
    - Legal services
    - Accounting services
    - Architecture, Landscape Architecture, Engineering, and Design services
    - Photography services
    - Veterinary Services
  - Transportation and warehousing services:
    - Towing services
    - Parking services
    - Travel and tour services
    - Self-storage services
  - Other services:
    - Repair and maintenance of real property
    - Flight, fine art, sports and recreation instruction
    - Personal care services

Fiscal Impact

- Est. Revenue (FY21):
  - $496 million
    - Professional: $381m
    - Transp/storage: $33m
    - Other: $82m
- Est. Growth Trend (CAGR):
  - 4.6%
- Stability over time:
  - Cyclical with the economy

Policy Considerations

Scope

- The legislature could include as many or as few consumer services as meet its policy goals.

Simplicity

- Treating the sales of goods and services the same under the tax code would simplify transactions in some cases.

Stability

- Including consumer services would add stability to the sales tax base as consumer patterns shift to favor services.

Include High Growth Services in Sales Tax Base

Policy Description

- The legislature could expand the sales tax base by taxing services that have seen high rates of growth in recent years, including:
  - Medical services
  - Housing services
  - Financial services

National Comparison

  - Utah is one of 18 states that does not require non-profit health plans to pay insurance premium tax.
  - Utah is one of 12 states that does not charge a real estate transfer tax.
  - 6 states currently tax bank service charges, investment advice, or loan broker fees.

Fiscal Impact

- Est. Revenue (FY21):
  - $2.5 billion
    - Medical - $1.4b
    - Housing - $803m
    - Financial - $296m
- Est. Growth Trend (CAGR):
  - 8%
- Stability over time:
  - Generally more stable than the overall economy, although still cyclical

Policy Considerations

Scope

  - The legislature could include as many or as few high growth services as meet its policy goals.

Stability

  - Including high growth services would add stability to the sales tax base as consumption of such services continue to grow.

Financial Burden

  - In the case of medical and housing services, high growth has resulted in high prices, which could be exacerbated with the imposition of a sales tax on these services.

Implement a Value Added Tax to Replace Sales Tax

Policy Description

- The legislature could replace the current sales tax with a value added tax.
- A value added tax requires tax to be paid at each level of production, but only on the value added at each level.
- The end result of a value added tax is a tax on all final consumption.

National Comparison

- No other states currently employ a value added tax.
- Value added taxes are, however, common throughout the rest of the world.

Fiscal Impact

- Est. Revenue (FY21):
  - $1.4B per 1%
- Est. Growth Trend (CAGR):
  - 5.6%
- Stability over time:
  - Cyclical with the economy

Policy Considerations

Scope

- A value added tax would be a large policy shift requiring a replacement of the current sales tax structure.

Stability

- A value added tax would grow with consumption providing a stable tax base.

Simplicity

- Cross-border transactions could complicate the implementation of a value-added tax as purchasers of business inputs would need to keep record of in state vs out of state sales taxes paid.

Implement a Gross Receipts Tax to Replace Sales Tax

Policy Description

- The legislature could replace the current sales tax with a gross receipts tax.
- A gross receipts tax requires businesses to pay a tax on their gross revenues, with no exclusions for business expenses.
- The end result of a gross receipts tax is a tax on all final and intermediate consumption.

National Comparison

- Depending upon how the term is defined, between 5-8 states currently impose a gross receipts tax.

Fiscal Impact

- Est. Revenue (FY21):
  - $3.25B per 1%
- Est. Growth Trend (CAGR):
  - 5.6%
- Stability over time:
  - Cyclical with the economy

Policy Considerations

Scope

- A gross receipts tax would be a large policy shift requiring a replacement of the current sales tax structure.

Stability

- A gross receipts tax would grow with the economy providing a stable tax base.

Pyramiding

- Because all intermediate and final transactions are subject to tax under a gross receipts tax, the tax rate paid by the final consumer does not capture the full tax burden the consumer is paying.
- Typically, states attempt to minimize pyramiding in a gross receipts system by imposing a low tax rate.

Policy Options to Avoid Pyramiding

Targeted Options

Exemption Certificate

- Require businesses to present certificate to all vendors.

Income Tax Credit for Sales Tax Paid

- Require businesses to record all sales taxes paid and report to tax commission.

Mitigating Option

Identify services primarily consumed by end user rather than businesses

- Some pyramiding would occur, but would be mitigated by avoiding sectors primarily composed of business inputs.

Policy Options to Limit Burden on Very Small Businesses

Age Exemption

- Exempt sales by an individual under a specified age if the service is performed solely by that individual.

Single Remittance with Income Tax

- If a seller has less than a threshold amount of taxable sales, allow the seller to remit sales tax collections annually on an income tax return.

Vendor Discount

- Modify the vendor discount to mitigate compliance burden on very small businesses.

Policy Options to Address Local Impact

Maintain Current Local Option Sales Tax Revenue

- Exclude local option sales taxes from expanded base.
- Include local option sales taxes in expanded base and reduce B&C road fund distribution.

Increase Current Local Option Sales Tax Revenue

- Include local option sales taxes in expanded base.