

## Tax Restructuring Policy Proposal

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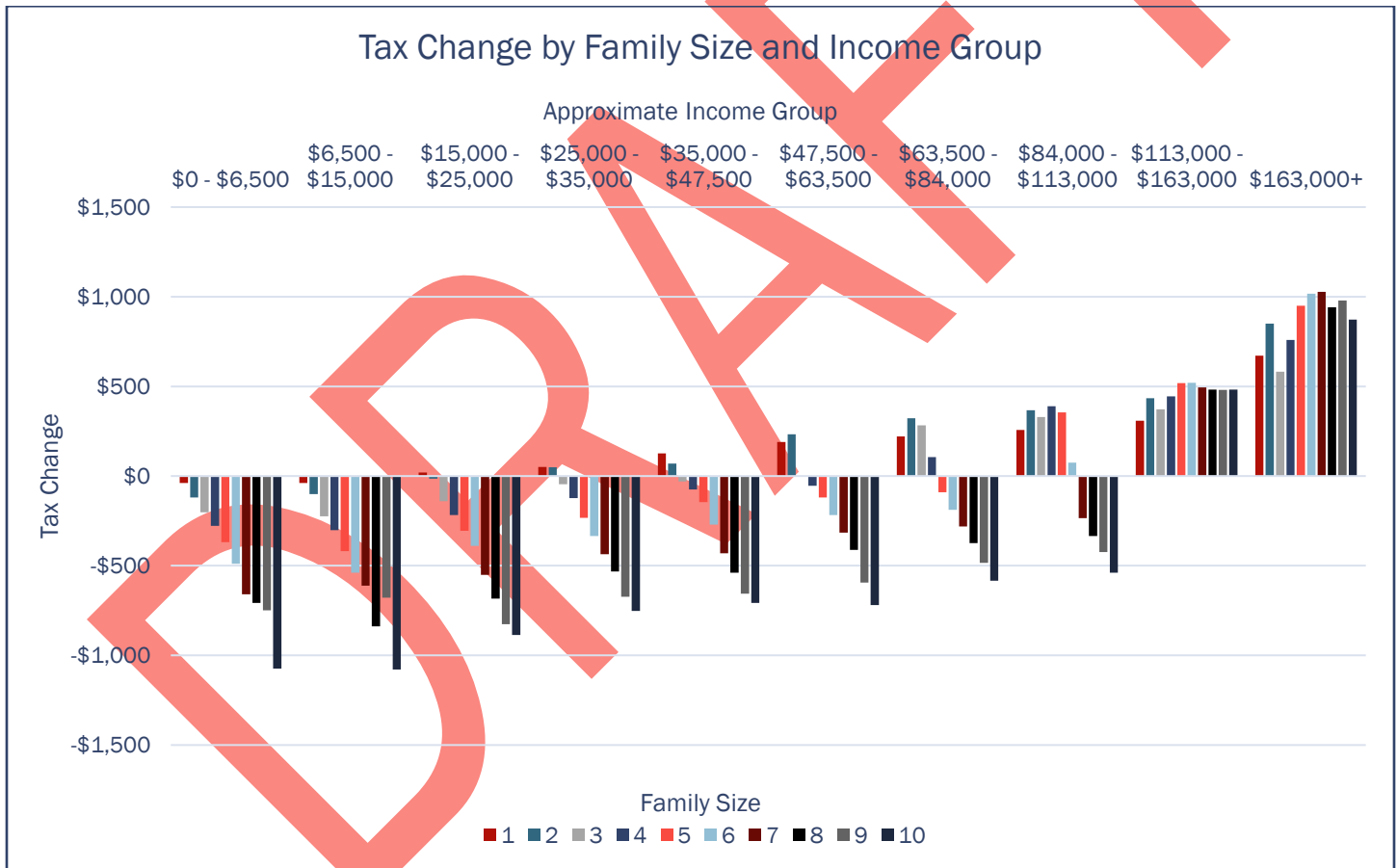
### Executive Summary:

This proposal would take many steps to address the state's structural revenue imbalance. The result of these policy changes would be a tax structure with increased flexibility for the Legislature in choosing how to fund state programs and would address several policy concerns.

#### Budgetary Impact

- Results in an overall net revenue increase of approximately \$283 million.
  - A family of four making \$60,000 per year would see an estimated average total tax reduction of more than \$50 per year
- Restores funding of Higher Education to the sales tax-backed General Fund, holding Public Education harmless.

#### Incidence of Tax



#### Policy Impact:

- The sales tax base would be increased and would better track ongoing changes in consumer expenditures.
- Impacts to lower-income and/or fixed-income residents from a higher sales tax rate on food would be mitigated by a Grocery Tax Credit.
- Funding for infrastructure would come from a stable property and land tax base.

## Policy Summary:

This proposal includes the following policy modifications:

### Reductions

#### Income Tax

- Creating a “Grocery Tax Credit” for low-to-middle-income residents

### Expansions

#### Sales Tax

- Restoring the full sales tax rate on unprepared food
- Expanding the sales tax base by charging sales tax on certain services

#### Property Tax

- Impose statewide property tax to fund infrastructure

#### Other

- Expand user fees

### Revenue Neutral Shifts

- Establishing meaningful funding security for education before removing the constitutional restriction on income tax

## Policy Description:

### Create a “Grocery Tax Credit” for Low-Income Residents

- Low-income individuals and families can receive a credit against their personal income tax to offset the state sales tax on food.
- For those not owing any state personal income tax the credit can be a refund (negative tax).

### Restore Full State Sales Tax Rate on Food

- The sales tax rate on unprepared food and food ingredients (e.g. groceries) would return to the full state sales tax rate of 4.85% from the currently reduced rate of 1.75%

### Broaden the Sales Tax Base by Charging Sales Tax on Certain Additional Services

- Include certain services in the tax base to make the sales tax a broader consumption tax and providing more similar treatment to goods and services
- Newly taxed services would be those primarily consumed by the end user to minimizing tax pyramiding
- Sales or use tax would be due from the end user of these services if the end user is in Utah
- Businesses (whether in-state or out-of-state) providing the services would collect and remit the tax
- Businesses collecting and remitting the tax would be eligible to retain a portion of the sales tax collected as a vendor discount to minimize the compliance burden

### Impose Statewide Property Tax to Fund Infrastructure

- A statewide property tax of .035% of the taxable value of a home would generate approximately \$100M
- Utah's property tax burden is in the bottom fifth of all states.
- The property tax is the tax that creates the least amount of distortion in the economy. In more technical terms the property tax minimizes the dead-weight loss that is associated with the imposition of a tax.
- Investing in infrastructure, like transportation, has been shown in a variety of economic studies to increase the value of surrounding real estate. The increases in property value occurs with the development of parks, K-12 schools, improved public safety facilities. The property tax has a direct connection to the increase values.

### Expand User Fees

- Governments have the opportunity to improve efficiency by employing user fees when they offer and sell services that can be measured and metered or price.
- For example, user charges on water can provide funding for capital expenditures and operating expenses.

### Establish Meaningful Funding Security for Public Education Before Remove the Constitutional Restriction on Income Tax

- Continue to fund public education at at least its current level and create an alternative, stable, funding mechanism for public education
- Amend the Utah Constitution to allow for needed flexibility for funding all of state government

## Fiscal Assumptions:

Estimated revenue impacts for FY2021 are based on the most direct data accessible assuming a certain set of assumptions. Data sources include the Utah State Tax Commission, the U.S. Economic Census, the Bureau of Labor Statistics' Consumer Expenditure Survey, and information collected and analyzed by the Office of the Legislative Fiscal Analyst.

Assumptions include the following:

- Estimates for the revenue from services are based on the 2012 U.S. Economic Census, grown forward to FY2021 using a 4.6% assumed growth.
- Tax incidence modeling assumes percent of individual income spent on certain goods and services based on data from the Consumer Expenditure Survey.
- Tax incidence modeling does not account for effect on businesses. Approximately \$30 million of the tax change will be paid by businesses. Businesses will be affected by the sales tax on food, sales tax on certain services, and statewide property tax. Businesses account for approximately 27 percent of property tax incidence. We do not have reliable data on the percentage of food or certain services purchased by businesses. Change in business tax incidence may affect consumers if businesses raise or lower their prices due to tax changes.
- The average decrease in total tax incidence may be slightly inflated due to the exclusion of non-resident filers in the average calculations of the food credit.
- The average decrease in household tax incidence is a sum of each individual component, independent of the other components of the proposal. A simultaneous model, including interaction between the components, may slightly change household tax incidence.