Tax reform in Utah

Sales tax on food:
I favor restoration of the sales tax on food only if it is offset by meaningful cuts to the income tax which would mitigate the effects on household income to those who would be most impacted by that sales tax restoration. Please see my separate proposal on income tax.

Income tax:
It is my belief that if the sales tax is restored to food, that increase in sale tax should be coupled to income tax reform. However, even if the sales tax is not restored to food, the described income tax reform should be implemented as a way of stabilizing and simplifying the income tax.

I do not favor an earned income tax credit. If the income proposed income tax restructuring does not give enough relief to offset the impact of full sales tax on food, a simple grocery credit would be the most administratively efficient way to complete the offset. The less “tinkering” we do to the system, the stronger it will be.

Sales tax on services:
I believe that any sales tax on services should be a tax on final consumption only. Sales tax on services would broaden the sales tax base and increase the revenue stream. Sales tax on certain professional services would help broaden the sales tax base and at the same time make the overall sales tax less regressive because they are more heavily used by upper income taxpayers. However, there are significant administrative difficulties that may make taxing these services impractical.

There are other services that should be examined but I have not yet analyzed the data in order to form an opinion on them individually.

In summary I see no theoretical reason that final consumption of services should not be taxed. The barriers are administrative and in certain cases economic.

Water:
Future water projects should be, as much as possible, funded through user fees. User fees bring transparency and conservation and are paid by the user of the government service.

Transportation:
Currently taxation for transportation is very complex and because of the complexity, lacks transparency. Raising revenue for transportation should be simplified and to the extent possible,
moved as quickly as practical to a system that is primarily based on usage. Usage should be defined to include both mileage and weight. Because of the current bond market, I favor bonding now for certain critical future needs.

I do not favor a separate sales tax on gasoline sales. A more permanent solution which is much more in line with the stated purposes of the task force and the interests of the state.

Sales tax exemptions, tax rebates etc.:

Exemptions from the sales tax need to be examined one by one for pyramiding, and economic effectiveness. I am very much in favor of reporting job creation or other factors in order to determine the number of jobs created or other economic positives created to help determine effectiveness of, or if the exemption or rebate should continue.

In cases where tax pyramiding does exist, but an exemption does not exist, one should be created.

Property tax:

Utah’s property taxes are among the lowest in the nation. I remember from our work on the TRC that there is a strong correlation between property values and both infrastructure and schools. This leads me to believe that we would be amiss by not giving property tax a more prominent role in restructuring state taxes for the future. A small increase in property tax, dedicated to schools could yield large benefits to education. The same would be true for transportation. In either case such an increase would mimic user fees inasmuch as the increased taxes would be paid by those benefiting from the government service.

Sincerely,

M. Keith Prescott CPA