

## Tax Restructuring Policy Proposal

Sponsor(s): Rep. Joel Briscoe

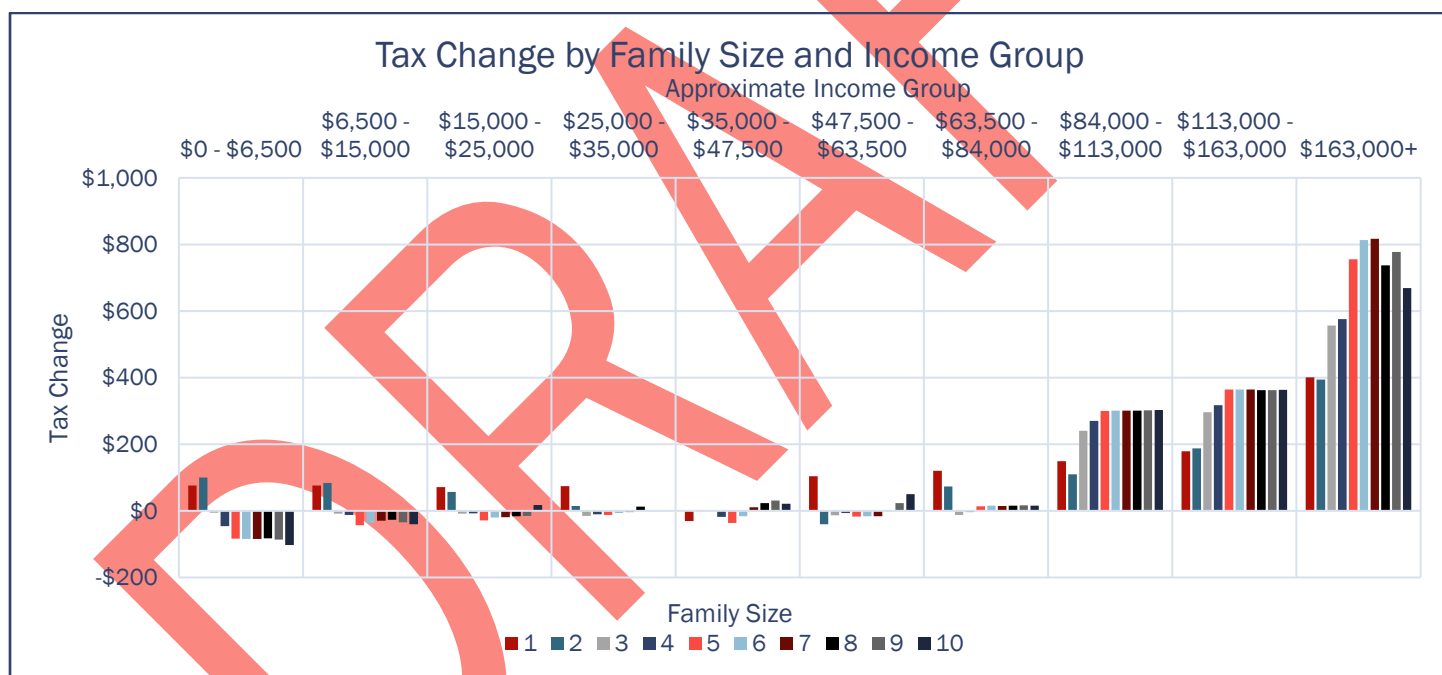
### Executive Summary:

This proposal would take many steps to address the state's structural revenue imbalance by implementing a state carbon dioxide emissions tax and modifying many current tax rates, exemptions, and credits. These policy changes would lead to a significant increase in General Fund revenue and a relatively minor decrease in Education Fund revenue. The results of these policy changes would be a decreased statewide reliance on carbon-based energy, increased air quality, and additional funding for the state's public education program and General Fund programs.

### Budgetary Impact

- Results in an overall net revenue increase of approximately \$683 million
  - A family of four making \$60,000 per year would see no estimated average total tax change
- Businesses would see a net total tax increase of approximately \$510 million

### 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 higher energy costs would be mitigated by a sales tax exemption for residential energy, an exemption from sales tax for most unprepared food, an expanded retirement income tax credit, and a state EITC.
- Funding for transportation infrastructure would be partially shifted away from General Fund sources by removing an existing sales tax exemption on motor vehicle fuels to help bridge the gap until an alternative funding mechanism, such as a road user charge, is viable as a primary funding source for transportation.

## Policy Summary:

This proposal includes the following policy modifications:

### Reductions

#### Income Tax

- Establishing a state earned income tax credit
- Expanding the retirement tax credit
- Establishing a tax credit for mining and manufacturing

#### Sales Tax

- Exempting unprepared food and food ingredients from sales tax
- Exempting residential fuel and electricity from sales tax
- Exempting commercial fuel and electricity from sales tax
- Reducing sales tax earmarks for transportation

### Expansions

#### Sales Tax

- Restoring the full sales tax rate on soda, candy, bottled water, and dietary supplements
- Expanding the sales tax base by repealing certain sales tax exemptions
- Expanding the sales tax base by repealing the sales tax exemption for motor and special fuels
- Expanding the sales tax base by charging sales tax on certain services

#### Other

- Establishing a carbon dioxide emissions tax

### Revenue Neutral Shifts

- Funding school lunch program from Education Fund and depositing the portion of the liquor mark-up that currently funds the program in the General Fund

## Policy Description:

### Create a State Earned Income Tax Credit

- Refundable income tax credit to individuals who claim the federal earned income tax credit
- Credit amount equals 10% of the federal credit amount an individual is entitled to claim

### Expand the Retirement Tax Credit

- Expand the existing retirement tax credit eligibility to include all filers age 65 or older
- Increase the amount of the retirement tax credit to \$650 per eligible filer (existing credit is \$450 per eligible filer over the age of 65)
- Amount of credit reduced by \$0.025 per dollar that modified adjusted gross income exceeds:
  - \$16,000 for married filers filing separately
  - \$25,000 for single filers
  - \$32,000 for head of household or joint filers

### Create an Income Tax Credit for Mining and Manufacturing

- Offer a refundable income tax credit to mining and manufacturing establishments
- Tax credit amount would equal 50% of the amount of carbon dioxide emissions tax the establishment paid

### Exempt Unprepared Food and Food Ingredients from State Sales Tax

- The current 1.75% state sales tax on unprepared food and food ingredients (e.g. groceries), other than soda candy, bottled water, and dietary supplements, would no longer be charged

### Exempt Residential Fuel and Electricity from State Sales Tax

- The current 2.0% state sales tax on gas, electricity, heat, coal, fuel oil, and other fuels for residential use would no longer be charged

### Exempt Commercial Fuel and Electricity from State Sales Tax

- The current 4.85% state sales tax on gas, electricity, heat, coal, fuel oil, and other fuels for commercial use would no longer be charged

### Restore Full State Sales Tax Rate on Soda, Candy, Bottled Water, and Dietary Supplements

- The state sales tax rate on soda, candy, bottled water, and dietary supplements would return to the full state sales tax rate of 4.85% from the currently reduced rate of 1.75%

### Repeal Certain Exemptions

- Remove certain existing sales tax exemptions to make the sales tax a broader consumption tax
- Repealed exemptions would be those where similar services are currently treated inconsistently (often related to historically coin operated sales):
  - Primarily unassisted cleaning of property (coin operated laundry, etc.)
  - Use of unassisted amusement device
  - Vending machine food sold for \$1 or less under certain circumstances
  - Car wash that does not include cleaning the interior of the vehicle

### Repeal the Sales Tax Exemption on Motor and Special Fuel

- Remove existing sales tax exemption on motor and special fuels (gasoline and diesel, does not include aviation fuel) to make the sales tax a broader consumption tax
- Tax would be imposed at the distributor level on the wholesale price of gasoline at the existing sales tax rate (4.85%)

### 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 where similar services are currently treated inconsistently and services related to the “new economy.”
- The following services would be included in the tax base:
  - Taxi and limousine service
  - Peer to peer ride sharing
  - Software as a Service (excluding custom business software programming)
  - Streaming media
- 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

### Create a Carbon Dioxide Emissions Tax

- The tax rate would be the equivalent of \$10 per metric ton of carbon dioxide emissions, increasing annually by inflation, with a cap of \$100 per metric ton
- The tax would be paid by:
  - consumers of motor, special and aviation fuels and natural gas
  - electricity providers on electricity produced for delivery in the state; and
  - emitters of carbon dioxide emissions in excess of 25,000 metric tons per year

### Fund Public Education School Lunch Program from Education Fund

- Deposit the current funding source for school lunch, a portion of liquor markup profits, into the General Fund

## 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 value of tax exemptions are based on a variety of direct and indirect data sources compiled by the Utah State Tax Commission and the Office of the Legislative Fiscal Analyst. Amounts were originally calculated in FY2017 and were escalated to estimates for FY2021 using 4.6% assumed growth.
- Estimates for the revenue from services are based on exemption data as discussed above, as well as data from the 2012 U.S. Economic Census, grown forward to FY2021 using 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.
- The value of the exemption on motor and special fuel assumes a pump price of \$2.85 per gallon for gasoline and \$3.50 for diesel; the analysis removes the federal and state gas taxes before applying the sales tax rate.
- Tax incidence modeling does not account for effect on businesses. Approximately \$510 million of the tax change will be paid by businesses. Businesses will be affected by the carbon tax, the income tax credit for mining and manufacturing industries, the sales tax on gas, the expansion of sales tax to services, the exemption for commercial energy, and changes to the sales tax on food. Businesses account for approximately 31% of purchased gasoline; 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 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.

## 10/22/19 Update - Fiscal Impact:

Options	Est. Total Impact FY21	Est. Ind. Impact FY21	Est. Bus. Impact FY21
<b>Income Tax</b>			
Create an Earned Income Tax Credit (EITC)	(\$45,000,000)	(\$45,000,000)	
Expand the Retirement Tax Credit	(\$16,000,000)	(\$16,000,000)	
Create a refundable tax credit for mining and manufacturing industries	(\$15,000,000)		(\$15,000,000)
<b>Total</b>	<b>(\$76,000,000)</b>	<b>(\$61,000,000)</b>	<b>(\$15,000,000)</b>
<b>Sales/Other Tax</b>			
Create a state carbon dioxide emissions tax	\$677,000,000	\$196,500,000	\$480,500,000
Remove sales tax on food	(\$141,000,000)	(\$141,000,000)	
Tax candy, soda, bottled water, and dietary supplements at full state sales tax rate	\$43,000,000	\$43,000,000	
Repeal exemption on motor and special fuel	\$240,000,000	\$165,500,000	\$74,500,000
Tax certain services	\$4,000,000	\$4,000,000	
Repeal certain exemptions	\$4,500,000	\$4,500,000	
Create a sales tax exemption for residential energy	(\$38,000,000)	(\$38,000,000)	
Create a sales tax exemption for commercial energy	(\$30,000,000)		(\$30,000,000)
<b>Total</b>	<b>\$759,500,000</b>	<b>\$234,500,000</b>	<b>\$525,000,000</b>
<b>Budget Shifts*</b>			
Fund school lunch from Education Fund (\$55M shift)			
<b>Net fiscal impact</b>	<b>\$683,500,000</b>	<b>\$173,500,000</b>	<b>\$510,000,000</b>

\*Proposal would also reduce General Fund earmarks for transportation to account for carbon tax revenues in General Fund.