

Task Force Tax Restructuring Policy Proposal

This proposal includes the following policy modifications:

Reductions

Income Tax

- Reducing individual and corporate income tax rates (Lines 925 & 1171)
- Expanding the “Utah Dependent Exemption” provision of the taxpayer tax credit (Line 1401)
- Creating an income tax credit for certain Social Security retirement income (Line 1814)
- Establishing a state earned income tax credit (Line 1953)
- Creating a “Grocery Tax Credit” for low-to-middle-income residents (Line 1905)

Sales Tax

- Exempting feminine hygiene products from sales tax (Lines 2495 & 4300)

Expansions

Sales Tax

- Restoring the full sales tax rate on unprepared food (Line 3830)
- Expanding the sales tax base by repealing certain sales tax exemptions (Lines 4224-5022)
- Expanding the sales tax base by repealing the sales tax exemption for motor and some special fuels (Lines 4210 and 5046-5082)
- Creating new excise tax on diesel rather than repealing sales tax exemption (Lines 4208 and 5046-5082)
- Transitioning to direct user fees for transportation costs (Lines 5335 and 5444)
- Expanding the sales tax base by charging sales tax on certain services (Lines 2356-3805)

Other

- Increasing the state Motor Vehicle Rental Tax (Line 5086)

Budget Shifts

- Restore funding of Higher Education to the sales tax-backed General Fund, holding Public Education harmless (Line 5897)
- Funding school lunch program and underage drinking prevention program from Education Fund and depositing the portion of the liquor mark-up that currently funds the programs in the General Fund (Lines 449, 467, & 897)
- Reducing sales tax earmarks for transportation (Lines 4116-4148)

Policy Descriptions

Reduce Individual and Corporate Income Tax Rates (Lines 925 & 1171)

- Reduce the state income tax rate from 4.95% to 4.64%.

Expand the Utah Dependent Exemption (Line 1401)

- Increase the exemption amount per dependent from \$565 to \$2,500
- Credit remains 6% of exemption amount

- Phaseout rate of credit remains \$0.013 per dollar over **(Line 1415)**
 - \$14,879 for single filers
 - \$22,318 for head of household filers
 - \$29,758 for joint filers
- Phaseout thresholds adjust for inflation

Create an Income Tax Credit for Social Security Income **(Line 1814)**

- Non-refundable tax credit equal to total Social Security income included in Adjusted Gross Income (AGI) x State Income Tax Rate **(Line 1838)**
- Amount of credit reduced by \$0.025 per dollar that modified AGI (including Social Security and all other income) exceeds: **(Line 1844)**
 - \$24,000 for married filers filing separately
 - \$30,000 for single filers
 - \$48,000 for head of household or joint filers

Create a State Earned Income Tax Credit **(Line 1953)**

- Refundable income tax credit to individuals identified by the Department of Workforce Services as experiencing intergenerational poverty and who claim the federal earned income tax credit **(Line 1960)**
- Credit amount equals 10% of the federal credit amount an individual is entitled to claim **(Line 1963)**
- DWS will conduct outreach to inform eligible individuals about credit

Create a “Grocery Tax Credit” for Low-to-Middle-Income Residents **(Line 1905)**

- \$125 refundable income tax credit per household member **(Line 1930)**
- Phaseout rate of credit is 0.0035% of the credit per dollar above 138% of the federal poverty limit **(Line 1943)**
 - For households with more than five members, the phaseout begins at 138% of the federal poverty limit for five member households
- For example, a family of four with a household income of up to \$35,535 per year would qualify for the full grocery credit amount (4x\$125 = \$500). That amount would be reduced for each dollar the family makes over \$35,535, with the credit phasing out entirely at \$64,106.
- In addition to the income parameters, to qualify, a claimant must:
 - Be considered a resident for income tax purposes
 - Not be claimed as a dependent on another federal tax return
- Not have been incarcerated in the state for the portion of the year for which the claimant claims the credit **(Line 1933)**
- File a completed form with the Tax Commission **(Line 1949)**
- A separate form will be created for claimants who do not file income taxes

Exempt Feminine Hygiene Products from Sales Tax (Lines 2495 & 4300)

- The current 4.85% sales tax on feminine hygiene products would no longer be charged

Restore Full State Sales Tax Rate on Food (Line 3830)

- 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%

Repeal Certain Exemptions (Lines 4224-5022)

- Remove certain existing sales tax exemptions to make the sales tax a broader consumption tax
- The following exemptions would be repealed:
 - Electricity to ski resorts for lifts (Line 4559)
 - Vehicles used for temporary sporting events (Line 4607)
 - Admissions to college athletic events (Line 4592)
 - Textbooks purchased by a student (not including a college bookstore; seller sales primarily textbooks) (Line 4897)
 - Certain electricity produced from a new alternative energy source (Line 4610)
 - Primarily unassisted cleaning of tangible personal property (Line 4271)
 - Unless payment is exclusively through machines that only accept cash or coin (Line 5022)
 - Use of unassisted amusement device (Line 4571)
 - Unless payment is exclusively through machines that only accept cash or coin (Line 5022)
 - Vending machine food sold for \$1 or less under certain circumstances (Line 4224)
 - Unless payment is exclusively through machines that only accept cash or coin (Line 5022)
 - Certain car washes (Line 4987)
 - Unless payment is exclusively through machines that only accept cash or coin (Line 5022)
 - Sales to a public transit district (includes construction materials converted to real property) (Line 4851)
 - Fuel sold to a common carrier railroad and used in a locomotive engine (Line 4884)
 - Newspapers or newspaper subscriptions (Line 4422)
- The following exemption would be repealed in 2027:
 - Construction materials for life science research facility (material converted to real property only) (Line 5256)
- The following exemption would be modified to include lessees of certain data centers:
 - Machinery, equipment, or parts purchased by owners of certain data centers (one-year economic life) (Lines 3185 and 4981)

Repeal the Sales Tax Exemption on Motor and Special Fuel (Lines 4210 and 5046-5082)

- Remove existing sales tax exemption on motor and some special fuels (does not include diesel or aviation fuel) to make the sales tax a broader consumption tax (Lines 4210 and 5046-5082)
- Tax would be imposed at the distributor level on the average daily rack price of gasoline (calculated annually) at the existing state sales tax rate (4.85%) (Lines 5066-5070)
- Tax would be used to fund transportation in the medium term as a user fee until future user fee options that rely on more advanced technology become viable
 - UDOT will begin studying transition immediately (Line 5335)
 - UDOT will be required to report on current status of user fees annually (Line 5444)
- General sales tax earmarks for transportation would be reduced due to new transportation revenue from motor and special fuel sales tax (Lines 4116-4148)
 - Because the transportation earmark that funds the Transit Transportation Investment Fund (TTIF) is repealed, an equivalent earmark is enacted to fund the TTIF beginning in FY 2022 with 50% of the growth in new revenue from the sales tax on food above the \$250M of estimated initial revenue from the increased rate (Line 4149)
- Use of HOV lane by vehicles with “clean vehicle” decal will be repealed in 2025 (Line 5247)
- Use of HOV lane will require 3+ vehicles beginning in 2023 (Line 5603)

Create New Excise Tax on Diesel (Lines 4208 and 5046-5082)

- Rather than repeal existing sales tax exemption on diesel, create a new excise tax on diesel of \$0.10 per gallon (Lines 4208 and 5046-5082)
- General sales tax earmarks for transportation would be reduced due to new transportation revenue from diesel excise tax (Lines 4116-4148)

Broaden the Sales Tax Base by Charging Sales Tax on Certain Additional Services (Lines 2356-3805)

- 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
- The following services would be included in the tax base:
 - Installation of tangible personal property when part of a taxable sale (Lines 2613-2623, 3132, and 3178)
 - Pet boarding and pet daycare services (Lines 3802-3803)
 - Personal transportation service (Lines 2894-2904, 3797)
 - Includes all intrastate motor vehicle transportation services except for:
 - services provided by governmental entities (Line 2900)
 - ambulance services (Line 2901)
 - transportation that is part of a funeral service (Line 2902)
 - low speed vehicles in a county of the first class (Line 2903)
 - Includes peer to peer ride sharing and scenic and sightseeing transportation in a motor vehicle (Line 2896)

- Motor vehicle towing (Line 3801)
- Parking lots and garages (Line 3800)
- Dating referral services (Line 3804)
- Identity theft protection (Line 3805)
- Streaming media (Line 3781)
- Shipping and handling when part of a taxable sale (Lines 2356-2370, 3131, and 3177)
- Storage of tangible personal property (Line 3798)
- Electronic security monitoring of real property (Lines 3336 and 3796)
- Include clarifying language to codify existing practice regarding software as a service (Lines 3344 and 3794)
- 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

Increase the State Motor Vehicle Rental Tax (Line 5086)

- Increase the state motor vehicle rental tax from 2.5% to 4.0% (Line 5086)
 - Applies to peer to peer car sharing services

Fund Public Education School Lunch Program and Underage Drinking Prevention Program from Education Fund (Lines 449, 467, & 897)

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

Restore funding of Higher Education to the sales tax-backed General Fund, holding Public Education harmless. (Line 5897)

- Reduce Education Fund appropriations to Higher Education by the amount of sales tax increases, school lunch program funding, and underage drinking prevention program funding proposed in this bill and replace those Education Fund appropriations with a like amount of General Fund appropriations

11/22/19 Update - Fiscal Impact:

Options	Est. Total Impact FY21	Est. Ind. Impact FY21	Est. Bus. Impact FY21
Income Tax			
Reduce income tax rate (4.64%)	(\$337,000,000)	(\$301,000,000)	(\$36,000,000)
Expand Utah Dependent Personal Exemption	(\$95,000,000)	(\$95,000,000)	
Create Social Security credit	(\$18,000,000)	(\$18,000,000)	
Create Earned Income Tax Credit	(\$6,000,000)	(\$6,000,000)	
Create Grocery credit	(\$125,000,000)	(\$125,000,000)	
Total	(\$581,000,000)	(\$545,000,000)	(\$36,000,000)
Sales/Other Tax			
Exempt feminine hygiene products from sales tax	(\$1,500,000)	(\$1,500,000)	
Restore full sales tax on food	\$250,000,000	\$250,000,000	
Repeal certain exemptions	\$13,000,000		\$13,000,000
Sales tax on motor fuel/excise tax on diesel	\$205,000,000	\$141,000,000	\$64,000,000
Tax certain services	\$30,000,000	\$30,000,000	
Increase motor vehicle rental tax	\$4,500,000	\$4,500,000	
Total	\$501,000,000	\$424,000,000	\$77,000,000
Budget Shifts			
Fund school lunch and underage drinking prevention from Education Fund (\$58M shift)			
Fund higher education from General Fund (\$559M shift)			
Net fiscal impact	(\$80,000,000)	(\$121,000,000)	\$41,000,000