

## Task Force Tax Restructuring Policy Proposal

This proposal includes the following policy modifications:

### Reductions

#### Income Tax

- Reducing individual and corporate income tax rates
- Expanding the “Utah Dependent Exemption” provision of the taxpayer tax credit
- Creating an income tax credit for certain Social Security retirement income
- Establishing a state earned income tax credit
- Creating a “Grocery Tax Credit” for low-to-middle-income residents

#### Sales Tax

- Exempting menstrual products and consumables used in the repair, cleaning, and maintenance of tangible personal property from sales tax

### Expansions

#### Sales Tax

- Restoring the full sales tax rate on unprepared food
- 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 some special fuels
- Creating new excise tax on diesel rather than repealing sales tax exemption
- Transitioning to direct user fees for transportation costs
- Expanding the sales tax base by charging sales tax on certain services

#### Other

- Increasing the state Motor Vehicle Rental Tax

### Budget Shifts

- Restore funding of Higher Education to the sales tax-backed General Fund, holding Public Education harmless.
- 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
- Reducing sales tax earmarks for transportation

## Policy Descriptions

### Reduce Individual and Corporate Income Tax Rates

- Reduce the state income tax rate from 4.95% to 4.66%

### Expand the Utah Dependent Exemption

- Increase the exemption amount per dependent from \$565 to \$2,500
- Joint filers with no dependents will be able to claim one exemption
- Credit remains 6% of exemption amount
- Phaseout rate of credit remains \$0.013 per dollar over:
  - \$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

- Non-refundable tax credit equal to total Social Security income included in Adjusted Gross Income (AGI) x State Income Tax Rate
- Amount of credit reduced by \$0.025 per dollar that modified AGI (including Social Security and all other income) exceeds:
  - \$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

- 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
- Credit amount equals 10% of the federal credit amount an individual is entitled to claim
- DWS will conduct outreach to inform eligible individuals about credit

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

- \$125 refundable income tax credit for the first four household members
  - \$50 refundable income tax credit for each additional household member
- Phaseout rate of credit is 0.0035% of the credit per dollar above 175% of the federal poverty limit
  - For households with more than five members, the phaseout begins at 175% of the federal poverty limit for five member households
- For example, a family of four with a household income of up to \$45,062 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 \$45,062, with the credit phasing out entirely at \$73,633.
- 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
  - File a completed form with the Tax Commission
- A separate form will be created for claimants who do not file income taxes

### Exempt Menstrual Products and Consumables Used in Repair, Cleaning, and Maintenance of Tangible Personal Property from Sales Tax

- The current 4.85% sales tax on menstrual products and items consumed in the repair, cleaning, and maintenance of tangible personal property would no longer be charged

## 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%

## Repeal Certain Exemptions

- 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
  - Vehicles used for temporary sporting events
  - Admissions to college athletic events
  - Textbooks purchased by a student (not including a college bookstore; seller sales primarily textbooks)
  - Primarily unassisted cleaning of tangible personal property
    - Unless payment is exclusively through machines that only accept cash or coin
  - Use of unassisted amusement device
    - Unless payment is exclusively through machines that only accept cash or coin
  - Vending machine food sold for \$1 or less under certain circumstances
    - Unless payment is exclusively through machines that only accept cash or coin
  - Certain car washes
    - Unless payment is exclusively through machines that only accept cash or coin
  - Sales to a public transit district (includes construction materials converted to real property)
  - Fuel sold to a common carrier railroad and used in a locomotive engine
  - Newspapers or newspaper subscriptions
- The following exemption would be repealed in 2027:
  - Construction materials for life science research facility (material converted to real property only)
- 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)

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

- 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
- 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%)
- 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
  - UDOT will be required to report on current status of user fees annually

- General sales tax earmarks for transportation would be reduced due to new transportation revenue from motor and special fuel sales tax
  - 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
- Use of HOV lane by vehicles with “clean vehicle” decal will be repealed in 2025
- Use of HOV lane will require 3+ vehicles beginning in 2025

### Create New Excise Tax on Diesel

- Rather than repeal existing sales tax exemption on diesel, create a new excise tax on diesel of:
  - \$0.06 per gallon starting in 2020 (April 1<sup>st</sup>)
  - \$0.10 per gallon starting in 2022
- General sales tax earmarks for transportation would be reduced due to new transportation revenue from diesel excise tax

### 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
- The following services would be included in the tax base:
  - Installation of tangible personal property when part of a taxable sale
  - Pet boarding, pet grooming, and pet daycare services
  - Personal transportation service
    - Includes all intrastate motor vehicle transportation services except for:
      - services provided by governmental entities
      - ambulance services
      - transportation that is part of a funeral service
      - low speed vehicles in a county of the first class
    - Includes:
      - peer to peer **ride** sharing (peer to peer **car** sharing is already subject to sales tax)
      - scenic and sightseeing transportation in a motor vehicle
  - Motor vehicle towing
  - Parking lots and garages
  - Dating referral services
  - Identity theft protection
  - Streaming media
  - Shipping and handling when part of a taxable sale

- Electronic security monitoring of real property
- Include clarifying language to codify existing practice regarding software as a service
- 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

- Increase the state motor vehicle rental tax from 2.5% to 4.0%
  - Under current state law, this tax applies to peer to peer **car** sharing services
  - Does not apply to peer to peer **ride** sharing services

### Fund Public Education School Lunch Program and Underage Drinking Prevention Program from Education Fund

- 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.

- 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

## 12/6/19 Update - Fiscal Impact:

Options	Est. Total Impact FY21	Est. Ind. Impact FY21	Est. Bus. Impact FY21
<b>Income Tax</b>			
Reduce income tax rate (4.66%)	(\$344,500,000)	(\$306,500,000)	(\$38,000,000)
Expand Utah Dependent Personal Exemption	(\$132,000,000)	(\$132,000,000)	
Create Social Security credit	(\$18,000,000)	(\$18,000,000)	
Create Earned Income Tax Credit	(\$6,000,000)	(\$6,000,000)	
Create Grocery credit	(\$135,000,000)	(\$135,000,000)	
<b>Total</b>	<b>(\$635,500,000)</b>	<b>(\$597,500,000)</b>	<b>(\$38,000,000)</b>
<b>Sales/Other Tax</b>			
Exempt additional products from sales tax	(\$5,000,000)	(\$5,000,000)	
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	\$170,000,000	\$117,000,000	\$53,000,000
Tax certain services	\$43,000,000	\$43,000,000	
Increase motor vehicle rental tax	\$4,500,000	\$4,500,000	
<b>Total</b>	<b>\$475,500,000</b>	<b>\$409,500,000</b>	<b>\$66,000,000</b>
<b>Budget Shifts</b>			
Fund school lunch and underage drinking prevention from Education Fund (\$58M shift)			
Fund higher education from General Fund (\$534M shift)			
Direct a portion of new sales tax on fuel to transportation projects (\$34M shift)			
Replace gas tax earmark for transit with sales tax earmark for transit (future \$6M shift)			
<b>Net fiscal impact</b>	<b>(\$160,000,000)</b>	<b>(\$188,000,000)</b>	<b>\$28,000,000</b>