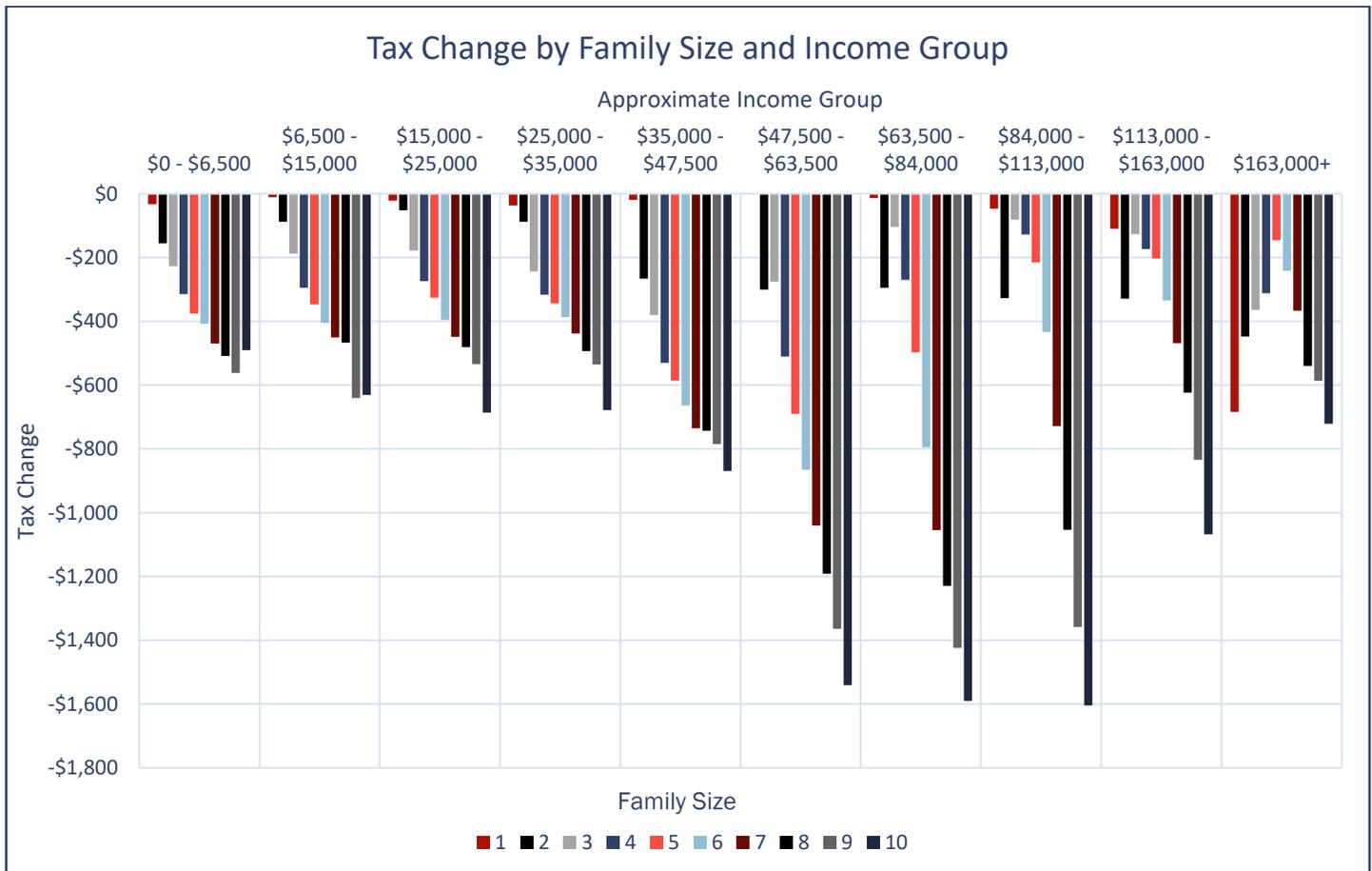


Task Force Tax Restructuring Policy Proposal (4th Substitute)

Budgetary Impact

- Results in an overall net tax reduction of approximately \$155 million.
 - A single filer would see an estimated average total tax reduction of more than:
 - \$20 per year if their income was \$25,000
 - \$0 per year if their income was \$60,000
 - \$45 per year if their income was \$85,000
 - A family of two would see an estimated average total tax reduction of more than:
 - \$50 per year if their income was \$25,000
 - \$300 per year if their income was \$60,000
 - \$325 per year if their income was \$85,000
 - A family of four would see an estimated average total tax reduction of more than:
 - \$270 per year if their income was \$25,000
 - \$510 per year if their income was \$60,000
 - \$125 per year if their income was \$85,000
 - A family of seven would see an estimated average total tax reduction of more than:
 - \$440 per year if their income was \$25,000
 - \$1,040 per year if their income was \$60,000
 - \$725 per year if their income was \$85,000

Incidence of Tax



Policy Summary

This proposal includes the following policy modifications:

Reductions

Income Tax

- Reducing individual and corporate income tax rates (**Lines 1270, 1278, 1516**)
- Expanding the “Utah Dependent Exemption” provision of the taxpayer tax credit (**Line 1755**)
- Creating an income tax credit for certain Social Security retirement income (**Line 2251**)
- Creating a “Grocery Tax Credit” for low-to-middle-income residents (**Line 2345**) (**Rebate: Line 2399**)
- Earned Income Tax Credit (**Line 2429**)

Sales Tax

- Exempting menstrual products and consumables used in the repair, cleaning, and maintenance of tangible personal property from sales tax (**Lines 3241, 4801, 5536**)

Expansions

Sales Tax

- Restoring the full sales tax rate on unprepared food (**Line 4330**)
- Expanding the sales tax base by repealing certain sales tax exemptions (**Line 4703**)
- Expanding the sales tax base by repealing the sales tax exemption for motor and some special fuels (**Line 4707**)
- Creating new excise tax on diesel rather than repealing sales tax exemption (**Line 5695**)
- Transitioning to direct user fees for transportation costs (**Line 6064**)
- Expanding the sales tax base by charging sales tax on certain services (**Line 4280**)

Other

- Increasing the state Motor Vehicle Rental Tax (**Line 5556**)

Budget Shifts

- Restore some funding of Higher Education to the sales tax-backed General Fund (**Line 6580**)
- 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 (**Line 6568**)
- Reducing sales tax earmarks for transportation (**Line 4614**)

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
- One-time rebate for 2019 filers, equal to approximately half of the per dependent credit amount described above, to be paid in early 2020

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

- For filers below 100% of FPL, a one-time payment worth 25% of the credit amount will be sent to eligible filers after July 1, 2020.
 - \$500,000 is appropriated to DWS to identify and assist eligible recipients who would not otherwise file a return.

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
 - Address list or database used to send direct mail
 - Database access for viewing or retrieving information
- 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 occupants 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%)
 - Average daily rack price will ultimately be calculated using a three-year look back
 - The first annual price set by the Tax Commission would become the floor for the price thereafter
- 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 the revenue generated and administrative costs for the RUC program annually
 - Once net revenues reach certain thresholds relative to revenue generated by the sales tax on motor fuel, the Legislature will consider reducing the sales tax on motor fuel
 - UDOT will collect odometer readings from vehicles at time of vehicle emission testing
- 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
- \$5,000,000 of new revenue from the sales tax on motor fuel will be appropriated for Class B Roads in counties with a population of less than 14,000
 - Equal amount distributed to each qualifying county

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 1st)
 - \$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

- Reduce Education Fund appropriations to Higher Education and replace those Education Fund appropriations with a like amount of General Fund appropriations

12/12/19 Update - Fiscal Impact:

Options	Est. Total Impact FY21	Est. Ind. Impact FY21	Est. Bus. Impact FY21
Income Tax			
Reduce income tax rate (4.66%)	(\$348,000,000)	(\$309,500,000)	(\$38,500,000)
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)	
Total	(\$639,000,000)	(\$600,500,000)	(\$38,500,000)
Sales/Other Tax			
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	\$16,000,000		\$16,000,000
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	
Total	\$478,500,000	\$409,500,000	\$69,000,000
Budget Shifts			
Fund school lunch and underage drinking prevention from Education Fund (\$39M shift)			
Fund some additional higher education from General Fund (\$391M 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)			
Net ongoing fiscal impact	(\$160,500,000)	(\$191,000,000)	\$30,500,000
One-time fiscal impacts			
One-time dependent exemption rebate	(\$60,000,000)	(\$60,000,000)	
One-time grocery credit payment	(\$12,000,000)	(\$12,000,000)	
Net one-time fiscal impact	(\$72,000,000)	(\$72,000,000)	