

**Senator Howard A. Stephenson** proposes to substitute the following bill:

**INCOME TAX DEDUCTIONS AND REVENUES**

1998 GENERAL SESSION

STATE OF UTAH

**Sponsor: David L. Buhler**

AN ACT RELATING TO INDIVIDUAL INCOME TAX AND STATE AFFAIRS IN GENERAL; PROVIDING THAT FEDERAL INCOME TAX DEDUCTED FROM FEDERAL TAXABLE INCOME IS BEFORE CERTAIN CREDITS ARE APPLIED; PROHIBITING THE GOVERNOR FROM INCLUDING IN THE BUDGET CERTAIN REVENUE INCREASES RESULTING FROM FEDERAL INCOME TAX LAW CHANGES; AND MAKING TECHNICAL CHANGES.

This act affects sections of Utah Code Annotated 1953 as follows:

AMENDS:

**59-10-114**, as last amended by Chapter 56, Laws of Utah 1997

**63-38-2**, as last amended by Chapter 136, Laws of Utah 1997

*Be it enacted by the Legislature of the state of Utah:*

Section 1. Section **59-10-114** is amended to read:

**59-10-114. Additions to and subtractions from federal taxable income of an individual.**

(1) There shall be added to federal taxable income of a resident or nonresident individual:

(a) the amount of any income tax imposed by this or any predecessor Utah individual income tax law and the amount of any income tax imposed by the laws of another state, the District of Columbia, or a possession of the United States, to the extent deducted from federal adjusted gross income, as defined by Section 62, Internal Revenue Code, in determining federal taxable income;

(b) a lump sum distribution allowable as a deduction under Section 402(e)(3), Internal

1 Revenue Code, to the extent deductible under Section 62(a)(8), Internal Revenue Code, in  
2 determining federal adjusted gross income;

3 (c) 25% of the personal exemptions, as defined and calculated in the Internal Revenue  
4 Code;

5 (d) a withdrawal from a medical care savings account and any penalty imposed in the  
6 taxable year if:

7 (i) the taxpayer did not deduct or include the amounts on his federal tax return pursuant  
8 to Section 220, Internal Revenue Code; and

9 (ii) the withdrawal is subject to Subsections 31A-32-105(1) and (2); and

10 (e) the amount refunded to a participant under Title 53B, Chapter 8a, Higher Education  
11 Savings Incentive Program, in the year in which the amount is refunded.

12 (2) There shall be subtracted from federal taxable income of a resident or nonresident  
13 individual:

14 (a) the interest or dividends on obligations or securities of the United States and its  
15 possessions or of any authority, commission, or instrumentality of the United States, to the extent  
16 includable in gross income for federal income tax purposes but exempt from state income taxes  
17 under the laws of the United States, but the amount subtracted under this subsection shall be  
18 reduced by any interest on indebtedness incurred or continued to purchase or carry the obligations  
19 or securities described in this subsection, and by any expenses incurred in the production of  
20 interest or dividend income described in this subsection to the extent that such expenses, including  
21 amortizable bond premiums, are deductible in determining federal taxable income;

22 (b) (i) 1/2 of the net amount of any income tax paid or payable to the United States [after  
23 all allowable credits;] as reported on the United States individual income tax return of the taxpayer  
24 for the same taxable year;

25 (ii) (A) for taxable years beginning on or after January 1, 1998, except as provided in  
26 Subsection (2)(b)(ii)(B), the amount of income tax subtracted under Subsection (2)(b)(i) is after  
27 subtracting all nonrefundable federal credits;

28 (B) the amount of income tax subtracted under Subsection (2)(b)(i) is before subtracting  
29 the following credits:

30 (I) the child tax credit under Section 24, Internal Revenue Code;

31 (II) the Hope Scholarship Credit under Section 25A, Internal Revenue Code; and

1            (III) the Lifetime Learning Credit under Section 25A, Internal Revenue Code;

2            (c) the amount of adoption expenses which, for purposes of this subsection, means any  
3 actual medical and hospital expenses of the mother of the adopted child which are incident to the  
4 child's birth and any welfare agency, child placement service, legal, and other fees or costs relating  
5 to the adoption;

6            (d) amounts received by taxpayers under age 65 as retirement income which, for purposes  
7 of this section, means pensions and annuities, paid from an annuity contract purchased by an  
8 employer under a plan which meets the requirements of Section 404 (a)(2), Internal Revenue Code,  
9 or purchased by an employee under a plan which meets the requirements of Section 408, Internal  
10 Revenue Code, or paid by the United States, a state, or political subdivision thereof, or the District  
11 of Columbia, to the employee involved or the surviving spouse;

12            (e) for each taxpayer age 65 or over before the close of the taxable year, a \$7,500 personal  
13 retirement exemption;

14            (f) 75% of the amount of the personal exemption, as defined and calculated in the Internal  
15 Revenue Code, for each dependent child with a disability and adult with a disability who is  
16 claimed as a dependent on a taxpayer's return;

17            (g) any amount included in federal taxable income that was received pursuant to any  
18 federal law enacted in 1988 to provide reparation payments, as damages for human suffering, to  
19 United States citizens and resident aliens of Japanese ancestry who were interned during World  
20 War II;

21            (h) subject to the limitations of Subsection (3)(e), 60% of the amounts paid by the taxpayer  
22 during the taxable year for health care insurance, as defined in Title 31A, Chapter 1, Insurance  
23 Code, for the taxpayer, the taxpayer's spouse, and the taxpayer's dependents to the extent the  
24 amounts paid for health insurance were not deductible under Sections 125, 162, or 213, Internal  
25 Revenue Code, in determining federal taxable income;

26            (i) except as otherwise provided in this subsection, the amount of a contribution made in  
27 the tax year on behalf of the taxpayer to a medical care savings account and interest earned on a  
28 contribution to a medical care savings account established pursuant to Title 31A, Chapter 32,  
29 Medical Care Savings Account Act, to the extent the contribution is accepted by the account  
30 administrator as provided in the Medical Care Savings Account Act, and if the taxpayer did not  
31 deduct or include amounts on his federal tax return pursuant to Section 220, Internal Revenue

1 Code. A contribution deductible under this subsection may not exceed either of the following:

2 (i) the maximum contribution allowed under the Medical Care Savings Account Act for  
3 the tax year multiplied by two for taxpayers who file a joint return, if neither spouse is covered by  
4 health care insurance as defined in Section 31A-1-301 or self-funded plan that covers the other  
5 spouse, and each spouse has a medical care savings account; or

6 (ii) the maximum contribution allowed under the Medical Care Savings Account Act for  
7 the tax year for taxpayers:

8 (A) who do not file a joint return; or

9 (B) who file a joint return, but do not qualify under Subsection (2)(i)(i); and

10 (j) the amount included in federal taxable income that was derived from money paid by  
11 the taxpayer to the program fund and investment income earned on those payments under Title  
12 53B, Chapter 8a, Higher Education Savings Incentive Program.

13 (3) (a) For purposes of Subsection (2)(d), the amount of retirement income subtracted for  
14 taxpayers under 65 shall be the lesser of the amount included in federal taxable income, or \$4,800,  
15 except that:

16 (i) for married taxpayers filing joint returns, for each \$1 of adjusted gross income earned  
17 over \$32,000, the amount of the retirement income exemption that may be subtracted shall be  
18 reduced by 50 cents;

19 (ii) for married taxpayers filing separate returns, for each \$1 of adjusted gross income  
20 earned over \$16,000, the amount of the retirement income exemption that may be subtracted shall  
21 be reduced by 50 cents; and

22 (iii) for individual taxpayers, for each \$1 of adjusted gross income earned over \$25,000,  
23 the amount of the retirement income exemption that may be subtracted shall be reduced by 50  
24 cents.

25 (b) For purposes of Subsection (2)(e), the amount of the personal retirement exemption  
26 shall be further reduced according to the following schedule:

27 (i) for married taxpayers filing joint returns, for each \$1 of adjusted gross income earned  
28 over \$32,000, the amount of the personal retirement exemption shall be reduced by 50 cents;

29 (ii) for married taxpayers filing separate returns, for each \$1 of adjusted gross income  
30 earned over \$16,000, the amount of the personal retirement exemption shall be reduced by 50  
31 cents; and

1 (iii) for individual taxpayers, for each \$1 of adjusted gross income earned over \$25,000,  
2 the amount of the personal retirement exemption shall be reduced by 50 cents.

3 (c) For purposes of Subsections (3)(a) and (b), adjusted gross income shall be calculated  
4 by adding to federal adjusted gross income any interest income not otherwise included in federal  
5 adjusted gross income.

6 (d) For purposes of determining ownership of items of retirement income common law  
7 doctrine will be applied in all cases even though some items may have originated from service or  
8 investments in a community property state. Amounts received by the spouse of a living retiree  
9 because of the retiree's having been employed in a community property state are not deductible  
10 as retirement income of such spouse.

11 (e) For purposes of Subsection (2)(h), a subtraction for an amount paid for health care  
12 insurance as defined in Title 31A, Chapter 1, Insurance Code, is not allowed:

13 (i) for an amount that is reimbursed or funded in whole or in part by the federal  
14 government, the state, or an agency or instrumentality of the federal government or the state; and

15 (ii) for a taxpayer who is eligible to participate in a health plan maintained and funded in  
16 whole or in part by the taxpayer's employer or the taxpayer's spouse's employer.

17 Section 2. Section **63-38-2** is amended to read:

18 **63-38-2. Governor to submit budget to Legislature -- Contents -- Preparation --**  
19 **Appropriations based on current state tax laws and not to exceed estimated revenues.**

20 (1) (a) The governor shall, within three days after the convening of the Legislature in the  
21 annual general session, submit a budget for the ensuing fiscal year by delivering it to the presiding  
22 officer of each house of the Legislature together with a schedule for all of the proposed  
23 appropriations of the budget, clearly itemized and classified.

24 (b) The budget message shall include a projection of estimated revenues and expenditures  
25 for the next fiscal year.

26 (2) At least 34 days before the submission of any budget, the governor shall deliver a  
27 confidential draft copy of his proposed budget recommendations to the Office of the Legislative  
28 Fiscal Analyst.

29 (3) (a) The budget shall contain a complete plan of proposed expenditures and estimated  
30 revenues for the next fiscal year based upon the current fiscal year state tax laws and rates.

31 (b) The budget may be accompanied by a separate document showing proposed

1 expenditures and estimated revenues based on changes in state tax laws or rates.

2 (c) For a budget prepared for a fiscal year beginning on or after July 1, 1999, the budget  
3 may not include any increases in state revenues as a result of changes in federal income tax laws:

4 (i) under the Taxpayer Relief Act of 1997, Pub. L. No. 105-34; or

5 (ii) taking effect on or after July 1, 1999.

6 (4) The budget shall be accompanied by a statement showing:

7 (a) the revenues and expenditures for the last fiscal year;

8 (b) the current assets, liabilities, and reserves, surplus or deficit, and the debts and funds  
9 of the state;

10 (c) an estimate of the state's financial condition as of the beginning and the end of the  
11 period covered by the budget;

12 (d) a complete analysis of lease with an option to purchase arrangements entered into by  
13 state agencies;

14 (e) the recommendations for each state agency for new full-time employees for the next  
15 fiscal year; which recommendation should be provided also to the State Building Board under  
16 Subsection 63A-5-103(2);

17 (f) any explanation the governor may desire to make as to the important features of the  
18 budget and any suggestion as to methods for the reduction of expenditures or increase of the state's  
19 revenue; and

20 (g) the information detailing certain regulatory fee increases required by Section  
21 63-38-3.2.

22 (5) The budget shall include an itemized estimate of the appropriations for:

23 (a) the Legislative Department as certified to the governor by the president of the Senate  
24 and the speaker of the House;

25 (b) the Executive Department;

26 (c) the Judicial Department as certified to the governor by the state court administrator;

27 (d) payment and discharge of the principal and interest of the indebtedness of the state of  
28 Utah;

29 (e) the salaries payable by the state under the Utah Constitution or under law for the lease  
30 agreements planned for the next fiscal year;

31 (f) other purposes that are set forth in the Utah Constitution or under law; and

1 (g) all other appropriations.

2 (6) Deficits or anticipated deficits shall be included in the budget.

3 (7) (a) (i) For the purpose of preparing and reporting the budget, the governor shall require  
4 from the proper state officials, including public and higher education officials, all heads of  
5 executive and administrative departments and state institutions, bureaus, boards, commissions, and  
6 agencies expending or supervising the expenditure of the state moneys, and all institutions  
7 applying for state moneys and appropriations, itemized estimates of revenues and expenditures.  
8 The entities required by this subsection to submit itemized estimates of revenues and expenditures  
9 to the governor, shall also report to the Utah Information Technology Commission created in Title  
10 63C, Chapter 2, before October 30 of each year. The report to the Information Technology  
11 Commission shall include the proposed information technology expenditures and objectives, the  
12 proposed appropriation requests and other sources of revenue necessary to fund the proposed  
13 expenditures and an analysis of:

14 (A) the entity's need for appropriations for information technology;

15 (B) how the entity's development of information technology coordinates with other state  
16 or local government entities;

17 (C) any performance measures used by the entity for implementing information  
18 technology goals; and

19 (D) any efforts to develop public/private partnerships to accomplish information  
20 technology goals.

21 (ii) (A) The governor may also require other information under these guidelines and at  
22 times as the governor may direct.

23 (B) These guidelines may include a requirement for program productivity and performance  
24 measures, where appropriate, with emphasis on outcome indicators.

25 (b) The estimate for the Legislative Department as certified by the presiding officers of  
26 both houses shall be included in the budget without revision by the governor. Before preparing  
27 the estimates for the Legislative Department, the Legislature shall report to the Information  
28 Technology Commission the proposed information technology expenditures and objectives, the  
29 proposed appropriation requests and other sources of revenue necessary to fund the proposed  
30 expenditures, including an analysis of:

31 (i) the Legislature's implementation of information technology goals;

1 (ii) any coordination of information technology with other departments of state and local  
2 government;

3 (iii) any efforts to develop public/private partnerships to accomplish information  
4 technology goals; and

5 (iv) any performance measures used by the entity for implementing information  
6 technology goals.

7 (c) The estimate for the Judicial Department, as certified by the state court administrator,  
8 shall also be included in the budget without revision, but the governor may make separate  
9 recommendations on it. Before preparing the estimates for the Judicial Department, the state court  
10 administrator shall report to the Information Technology Commission the proposed information  
11 technology expenditures and objectives, the proposed appropriation requests and other sources of  
12 revenue necessary to fund the proposed expenditures, including an analysis of:

13 (i) the Judicial Department's information technology goals;

14 (ii) coordination of information technology statewide between all courts;

15 (iii) any efforts to develop public/private partnerships to accomplish information  
16 technology goals; and

17 (iv) any performance measures used by the entity for implementing information  
18 technology goals.

19 (d) Before preparing the estimates for the State Office of Education, the state  
20 superintendent shall report to the Information Technology Commission the proposed information  
21 technology expenditures and objectives, the proposed appropriation requests and other sources of  
22 revenue necessary to fund the proposed expenditures, including an analysis of:

23 (i) the Office of Education's information technology goals;

24 (ii) coordination of information technology statewide between all public schools;

25 (iii) any efforts to develop public/private partnerships to accomplish information  
26 technology goals; and

27 (iv) any performance measures used by the Office of Education for implementing  
28 information technology goals.

29 (e) Before preparing the estimates for the state system of Higher Education, the  
30 commissioner shall report to the Information Technology Commission the proposed information  
31 technology expenditures and objectives, the proposed appropriation requests and other sources of



1 revenue necessary to fund the proposed expenditures, including an analysis of:

2 (i) Higher Education's information technology goals;

3 (ii) coordination of information technology statewide within the state system of higher  
4 education;

5 (iii) any efforts to develop public/private partnerships to accomplish information  
6 technology goals; and

7 (iv) any performance measures used by the state system of higher education for  
8 implementing information technology goals.

9 (f) The governor may require the attendance at budget meetings of representatives of  
10 public and higher education, state departments and institutions, and other institutions or individuals  
11 applying for state appropriations.

12 (g) The governor may revise all estimates, except those relating to the Legislative  
13 Department, the Judicial Department, and those providing for the payment of principal and interest  
14 to the state debt and for the salaries and expenditures specified by the Utah Constitution or under  
15 the laws of the state.

16 (8) The total appropriations requested for expenditures authorized by the budget may not  
17 exceed the estimated revenues from taxes, fees, and all other sources for the next ensuing fiscal  
18 year.

19 (9) If any item of the budget as enacted is held invalid upon any ground, the invalidity  
20 does not affect the budget itself or any other item in it.

21 (10) (a) In submitting the budget for the Departments of Health and Human Services, the  
22 governor shall consider a separate recommendation in his budget for funds to be contracted to:

23 (i) local mental health authorities under Section 17A-3-606;

24 (ii) local substance abuse authorities under Section 62A-8-110.5;

25 (iii) area agencies on aging under Section 62A-3-104.2;

26 (iv) programs administered directly by and for operation of the Divisions of Mental  
27 Health, Substance Abuse, and Aging and Adult Services; and

28 (v) local health departments under Title 26A, Chapter 1, Local Health Departments.

29 (b) In his budget recommendations under Subsections (a)(i), (ii), and (iii), the governor  
30 shall consider an amount sufficient to grant local health departments, local mental health  
31 authorities, local substance abuse authorities, and area agencies on aging the same percentage

1 increase for wages and benefits that he includes in his budget for persons employed by the state.

2 (c) If the governor does not include in his budget an amount sufficient to grant the increase  
3 described in Subsection (b), he shall include a message to the Legislature regarding his reason for  
4 not including that amount.

5 (11) (a) In submitting the budget for the Division of Services for People with Disabilities  
6 within the Department of Human Services, the governor shall consider an amount sufficient to  
7 grant employees of private nonprofit corporations that contract with that division, the same  
8 percentage increase for cost-of-living that he includes in his budget for persons employed by the  
9 state.

10 (b) If the governor does not include in his budget an amount sufficient to grant the increase  
11 described in Subsection (a), he shall include a message to the Legislature regarding his reason for  
12 not including that amount.

13 (12) The governor shall include the projected revenues and expenditures for collecting the  
14 uniform fee and other motor vehicle fees under Section 59-2-406 in the 1996-97 fiscal year budget.

15 (13) (a) The Families, Agencies, and Communities Together Council may propose to the  
16 governor under Subsection 63-75-4(3)(e) a budget recommendation for collaborative service  
17 delivery systems operated under Section 63-75-6.5.

18 (b) The Legislature may, through a specific program schedule, designate funds  
19 appropriated for collaborative service delivery systems operated under Section 63-75-6.5.

20 (14) The governor shall include in his budget the state's portion of the budget for the Utah  
21 Communications Agency Network established in Title 63C, Chapter 7, Utah Communications  
22 Agency Network Act.