

**MINUTES OF THE
SALES AND USE TAX WORKING GROUP
TAX REFORM TASK FORCE**

Thursday, August 25, 2005 – 8:00 a.m. – Room W015 House Building

Working Group Members Present:

Pres. John L. Valentine, Senate Chair
Rep. Wayne A. Harper, House Chair
Rep. Todd E. Kiser
Comm. Pam R. Hendrickson

Members Absent:

Rep. Ralph Becker

Other Task Force Members Present:

Rep. Rosalind J. McGee
Rep. John Dougall

Staff Present:

Mr. Phillip V. Dean, Policy Analyst
Ms. Rebecca L. Rockwell, Associate General
Counsel
Ms. Phalin L. Flowers, Legislative Secretary

Note: A list of others present, copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

1. Working Group Business

Chair Harper called the meeting to order at 8:08 a.m.

MOTION: Comm. Hendrickson moved to approve the minutes of the July 13, July 21, and August 10, 2005 meetings. The motion passed unanimously with Pres. Valentine and Rep. Kiser absent for the vote.

2. State and Local Sales and Use Tax Base, Rates, and Exemptions

Mr. Dean distributed and discussed "Sales Tax on Food." He explained which states do not levy a general state sales tax, and which states do not levy a state sales tax on food. He also explained which states offer a grocery tax credit and showed an example of how Hawaii administers the credit.

Ms. Sarah Wilhelm, Utah Issues, distributed and discussed "Grocery Tax Credit." She explained that Utah Issues proposes a grocery tax credit that would be available to all state residents that meet the income criteria.

Rep. McGee asked Ms. Wilhelm to clarify how much revenue would be lost if a grocery tax credit is implemented. Ms. Wilhelm replied that the loss would be between \$55 and \$80 million.

Ms. Lynn Solarczyk, Tax Commission (Utah State Tax Commission), explained how the Tax Commission could administer a grocery tax credit. She noted that the Legislature would need to determine the revenue source for funding the credit.

Rep. Dougall asked about preventing fraud in claiming the credit. Ms. Solarczyk explained that the Tax Commission doesn't usually discover fraud without conducting an audit.

Rep. Harper requested that staff draft a proposal on how to implement a grocery tax credit so the Working Group can take further action on this item.

Rep. McGee asked the Tax Commission about funding the credit. Ms. Solarczyk commented that it would be easier for the Tax Commission if the credit were to be funded by the state sales and use tax, rather than local option sales and use taxes.

Mr. Roger Tew, Utah League of Cities and Towns, voiced concerns about funding the credit from local sales and use taxes.

Ms. Linda Hilton, Coalition of Religious Communities, voiced concerns about the grocery tax credit. She explained that a grocery tax credit may be underutilized by low income individuals. She said that removing sales and use taxes on all unprepared food items is the only way to truly help all individuals in the state.

Mr. Mike Jerman, Utah Taxpayers Association, supported the principle of an income tax credit on food but voiced concerns about the amount of revenue loss it would create.

Mr. Roger Tew and Mr. Lincoln Shurtz, ULCT (Utah League of Cities and Towns), presented "ULCT Response to the Legislative Proposal on One-Rate Sales Tax." Mr. Tew and Mr. Shurtz responded to questions from the Working Group and the Working Group discussed ULCT's recommendations.

Mr. Arie Van De Graaff, Utah Association of Counties, spoke in favor of participating in the Streamlined Sales Tax Project, but voiced several concerns about how to implement it.

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Sales and Use Tax - Exemption for Isolated or Occasional Sales." She explained that the Utah Tax Review Commission is still considering this draft legislation. She also distributed a draft letter addressed to the Utah State Bar asking its working group to address several issues relating to the sales and use taxation of real and personal property.

MOTION: Pres. Valentine moved to favorably recommend the letter to the Utah State Bar. The motion passed unanimously.

Rep. Harper distributed and discussed "Sales Tax Working Group Recommendations for Confusing or Inconsistent Issues in Sales Tax." He explained his recommendations for resolving these issues.

Mr. Eric Isom, Qwest, and Mr. Doug Hearst, Director, Sales and Tax Research Department, Qwest, spoke to the Working Group. Mr. Hearst explained that he also represented AT&T and T-Mobile. Mr. Hearst explained that these three telecommunications providers support enacting a sales and use tax exemption for the purchase of telecommunications equipment used directly in the provision of telecommunications services.

Mr. Jerry Oldroyd, Ballard Spahr Andrews & Ingersoll, representing Comcast Cable, and Mr. Shane Baggs, Precis Communications and Utah Cable Television Association, distributed and discussed "Cable/DBS Taxation Brief," "Cable/DBS Equalization," and "Utah Cable vs. Satellite." Mr. Oldroyd stated that cable and satellite services both pay a state excise tax, but only cable television providers pay an additional locally imposed franchise fee. He stated that like services should be taxed in a like manner

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and asked the Working Group to request draft legislation that would address the inequity of the taxes between the cable and satellite industry.

Mr. John Cmelak, Director, Tax Policy, Verizon Wireless, distributed and discussed "Sales Tax Exemption on Telecommunications Equipment." He supported the proposal brought by Qwest to exempt the purchase of telecommunications equipment used directly in the provision of telecommunication services.

Mr. David Berger, Regional Director, MCI Communications, supported Mr. Cmelak's comments.

Mr. Steve Mecham, and Ms. Nancy Gibbs, Utah Rural Telecom Association, expressed their support of the proposal to exempt certain telecommunications equipment.

3. Other Items / Adjourn

MOTION: Rep. Kiser moved to adjourn the meeting. The motion passed unanimously.

Chair Harper adjourned the meeting at 10:04 a.m.