

**MINUTES OF THE
TAX REFORM TASK FORCE**

Wednesday, September 7, 2005 – 2:30 p.m. – Room W135 House Building

Members Present:

Rep. Wayne A. Harper, House Chair
Sen. Curtis S. Bramble, Senate Chair
Sen. Mike Dmitrich
Sen. Howard A. Stephenson
Pres. John L. Valentine
Rep. Ralph Becker
Rep. John Dougall
Rep. Gregory H. Hughes
Rep. Todd E. Kiser
Rep. Rosalind J. McGee
Rep. Merlynn T. Newbold

Rep. Gordon E. Snow
Rep. Stephen H. Urquhart
Mr. Neil H. Ashdown
Comm. Pam R. Hendrickson

Staff Present:

Mr. Phillip V. Dean, Policy Analyst
Mr. Bryant R. Howe, Assistant Director
Ms. Angela D. Oakes, Associate General Counsel
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. Task Force Business

Chair Harper called the meeting to order at 2:45 p.m.

MOTION: Mr. Ashdown moved to approve the minutes of the August 25, 2005 meetings. The motion passed unanimously with Sen. Stephenson, Pres. Valentine, Rep. Hughes, and Rep. Urquhart absent for the vote.

2. Perspectives on Tax Reform - Testimony from Commercial Aviation Industry

Sen. Bramble told the Task Force that he and Rep. Harper have requested that testimony be provided to the Task Force from a wide variety of industries. He said that at today's meeting, at the request of the Task Force chairs, representatives from the commercial aviation industry will present testimony.

Mr. Robert Dibley, President, Utah Air Transport Association, thanked the Task Force for an opportunity to provide comment. He said that he was asked to provide specific recommendations on what tax and other financial assistance could be provided to the air transportation industry. Mr. Dibley said that this industry faces a bleak future due to many factors, including rising fuel costs. He said that the industry expects to experience a \$7 billion increase in fuel costs associated with Hurricane Katrina. He said that Utah's tax policy has little to do with the current economic condition of the commercial aviation industry. He recommended that the Legislature should take no action to harm the industry. He suggested that the Task Force maintain the current sales and use tax exemptions because a favorable tax climate is critical in investment and business location decisions.

Mr. Dibley said that in addition to the current state tax benefits that the Task Force should also consider lowering the state excise tax on aviation fuel, providing a cap on state aviation fuel paid, and providing credits for training new employees.

Mr. Blake Pool, General Manager, Public Affairs, Delta Airlines, told the Task Force that his company appreciates the generous exemptions that they now enjoy. He said that Delta has 3,900 employees in Utah and operates 375 daily flights to 88 destinations. He said that his airline recently restructured its flight schedule to reduce the number of flights in other airports and this may result in additional flights for Salt Lake City. He said that Delta Airlines is committed to Utah, recently added flights to Mexico and Hawaii, and considers Utah to be a good place to conduct business.

Mr. Jose Louis Sanchez, Southwest Airlines, told the Task Force that he appreciated the opportunity to provide comment and that he is available to respond to specific questions. He said that his company has no specific recommendations to present at this time.

Mr. Todd Erickson, Director, Government Affairs, and Mr. Tory Larkin, Tax Counsel, SkyWest Airlines, told the Task Force that their company is grateful for the positive business climate that exists in Utah. They said that the state's tax policy has supported the company's growth.

Mr. Larkin said that his company currently benefits from no sales tax on jet fuel; an exemption for food and beverage purchases; an exemption for repair, maintenance, parts and equipment; favorable tax treatment of leased equipment; low aviation excise fuel taxes; and an exemption for off-highway diesel purchases. He said that an additional favorable tax treatment would include expanding the aviation fuel tax credit to airports other than Salt Lake City. He said that other states have recently offered incentives to SkyWest to expand its presence in those states. For example, SkyWest recently opened an aircraft maintenance facility in Boise because that city offered property tax exemptions on both land and personal property. He said that the states of Wisconsin and Indiana also recently granted property tax exemptions for property located in those states.

Sen. Bramble asked what the typical value is of airplanes owned by SkyWest Airlines. Mr. Larkin replied that the average value ranges between \$8 million and \$23 million.

Sen. Bramble asked whether SkyWest Airlines would benefit from a single sales factor apportionment formula.

Mr. John Green, SkyWest Airlines, told the Task Force that this was a possibility but that the airline now pays more in property taxes than in corporate income taxes. However, overall they would benefit from a change to the apportionment formula.

Pres. Valentine noted that it would require an amendment to the Utah Constitution to provide an exemption from the property tax for airline equipment and property.

Sen. Stephenson asked whether SkyWest Airlines has any evidence that property owned in Utah is overvalued. Mr. Larkin replied that his company closely monitors property tax appraisals and files appeals when necessary.

Ms. Megan Holberg, Chair, Utah Air Travel Commission, distributed "Economic Impact of Utah's Airports." She explained that the Salt Lake International Airport has a \$5.6 billion positive economic effect for the state.

3. Amendments to Insurance Premium Tax

Ms. Oakes distributed and discussed 2006 General Session draft legislation "Tax on Insurance Premiums." She explained that the bill decreases the tax rate paid for corporations on certain insurance premiums for the purchase of variable life insurance.

Mr. David Pearlman, Fidelity Investments, reviewed the need for the change in the insurance premium tax with the Task Force. He explained that his company plans to offer insurance products from its Utah operations and that this change to the insurance premium tax law would enable his company to provide a competitive product.

Sen. Stephenson said that the Task Force should examine the overall insurance premium tax to ensure that there are no disincentives to conduct business in the state.

MOTION: Pres. Valentine moved to adopt 2006 General Session draft legislation "Tax on Insurance Premiums" with a favorable recommendation to the Revenue and Taxation Interim Committee with an amendment to provide that the bill has retrospective operation to January 1, 2006. The motion passed unanimously.

4. State Corporate Franchise and Income Taxes -- Single Sales Factor in Apportionment Formula

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Apportionment of Business Income to Utah." She explained that the bill amends the Corporate Franchise and Income Taxes chapter relating to the apportionment of business income. She said that the bill allows a taxpayer to elect for one taxable year period to calculate the apportionment of business income on the basis of a fraction that double-weights the sales factor. The legislation also allows a taxpayer to elect for the taxable years to calculate the apportionment of business income on the basis of a single sales factor. Ms. Rockwell also noted that the Utah State Tax Commission has raised an issue with regards to the carry forward of certain business losses.

Mr. Mike Jerman, Utah Taxpayers Association, distributed and discussed "Implement Electable Single Sales Factor Apportionment." He explained that this legislation is a targeted approach to provide incentives for businesses to expand investment and employment in Utah. He said that other states have also adopted similar apportionment methodology.

Ms. Sarah Wilhem, Utah Issues, spoke in opposition to the proposed legislation. She said that while her organization supports good paying jobs to lift persons out of poverty, that there are a number of factors regarding corporate site selection and that state income taxes, and particularly state corporate income tax, is for the most part a minor consideration. However, she said the importance of having a well-trained workforce and a high quality of life is a critical factor in recruiting businesses to locate in the state.

MOTION: Pres. Valentine moved to request that staff continue conferring with the Utah State Tax Commission on loss carry forward issues and that this legislation be scheduled for consideration at a future Task Force meeting. The motion passed unanimously.

5. Amendments to Individual Income Tax

Mr. Dean distributed and discussed "Selected Single Rate Income Tax Options," "Individual Income Tax Base," and "Estimated Sample Taxpayer Impact of Various Reform Options."

MOTION: Rep. Hughes moved that the Task Force adopt the following positions: (a) endorse the concept of an individual income tax consisting of a rate of 4% on federal adjusted gross income, (b) continue study and review of the regressivity of the overall tax burden, and (c) that the Task Force present this concept at public hearings and solicit additional public comment.

Rep. McGee asked for additional information on what is meant by "overall regressivity." Rep. Hughes replied that certain design changes to the flat income tax could provide for a poverty exclusion, credit for purchases of food, eliminating the sales tax on food, or other policy choices. He explained that the Task Force should present a concept and recommendation to the public for comment.

Rep. Newbold commented that the Task Force should examine this proposal in the context of all other tax reform proposals that it is considering.

Rep. Snow said that he could not support the motion as stated and that he supported a deduction for mortgage interest.

Rep. Kiser said that he agreed with Rep. Newbold in the need for considering this recommendation in the context of other Task Force recommendations. He said he hoped the Task Force would develop a comprehensive recommendation for the entire state and local tax system.

Rep. Dougall said that he supports the motion in that it is a first step in building a package of reform recommendations.

Sen. Bramble noted that it may be too early for the Task Force to adopt a specific recommendation with regards to the individual income tax. He said that other recommendations with regards to the balance of the tax system need to be considered.

Rep. Becker said that he agrees with the comments that tax reform needs to be examined as a comprehensive package. He noted that a flat income tax alone would be regressive. However, if this tax

is balanced with other measures to ameliorate its regressive effects, then he could possibly support this proposal.

Sen. Stephenson commented that the current top state individual income tax rate of 7% is a significant deterrent to economic growth. He said a flat tax is a good first step and that this concept should be presented for public comment.

SUBSTITUTE MOTION: Sen. Bramble moved that the Task Force consider at future meetings other proposals and that the Task Force continue discussion of a flat tax proposal at its next meeting. He emphasized that the discussion of a flat tax proposal should continue and move forward at future meetings.

Rep. Hughes spoke in opposition to the substitute motion. He said that the Task Force should act on his original motion and that there is still sufficient time to develop a comprehensive recommendation.

Pres. Valentine spoke in favor of the substitute motion emphasizing the need for the Task Force to view a recommendation on a flat tax within the context of all possible changes.

The substitute motion passed with Sen. Stephenson, Rep. Becker, Rep. Dougall, Rep. Hughes, Rep. Urquhart, Comm. Hendrickson, and Mr. Ashdown voting in opposition.

6. Other Items / Adjourn

MOTION: Rep. Becker moved that the consideration of amendments to the circuit breaker program be addressed at a future Task Force meeting.

Sen. Dmitrich and Rep. Newbold spoke in favor of the motion.

The motion passed unanimously.

MOTION: Sen. Bramble moved to adjourn the meeting. The motion passed unanimously.

Chair Harper adjourned the meeting at 4:49 p.m.