

**MINUTES OF THE
TAX REFORM TASK FORCE**

Wednesday, October 5, 2005 – 8:00 a.m. – Room W135 House Building

Members Present:

Rep. Wayne A. Harper, House Chair
Sen. Curtis S. Bramble, Senate Chair
Sen. Mike Dmitrich
Pres. John L. Valentine
Rep. Ralph Becker
Rep. John Dougall
Rep. Todd E. Kiser
Rep. Rosalind J. McGee
Rep. Merlynn T. Newbold
Mr. Neil H. Ashdown
Comm. Pam R. Hendrickson

Members Absent:

Sen. Howard A. Stephenson
Rep. Gregory H. Hughes
Rep. Gordon E. Snow
Rep. Stephen H. Urquhart

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 Bramble called the meeting to order at 8:18 a.m.

2. Apportionment of Business Income to the State

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Apportionment of Business Income to the State."

Rep. McGee said that adopting this legislation would create a loss in revenue and that that she is in favor of maintaining revenue neutrality.

3. Amendments to Gross Receipts Taxes

Ms. Oakes distributed and discussed 2006 General Session draft legislation "Gross Receipts Tax Amendments, Repeal and Public Utility Tariffs."

Rep. McGee noted that this proposal reduces revenue to the Uniform School Fund.

Mr. Mike Jerman, Utah Taxpayers Association, spoke in favor of repealing the gross receipts tax.

MOTION: Pres. Valentine moved that the Task Force adopt 2006 General Session draft legislation "Apportionment of Business Income to the State" with a favorable recommendation to the Revenue and Taxation Interim Committee and to present at public hearing. The motion passed unanimously with Rep. McGee absent for the vote.

MOTION: Pres. Valentine moved that the Task Force adopt 2006 General Session draft legislation "Gross Receipts Tax Amendments, Repeal and Public Utility Tariffs" with a favorable recommendation to the Revenue and Taxation Interim Committee and to present at public hearing. The motion passed unanimously with Rep. McGee absent for the vote.

4. Amendments to the State Individual Income Tax

Mr. Keith Prescott, CPA, Mr. Gary Cornia, Professor, Marriott School of Management, BYU, and Mr. Ray Nelson, Professor, Marriott School of Management, BYU presented Gov. Huntsman's recommended changes to the state individual income tax. They noted that the proposal has a single rate of five percent, is based on federal adjusted gross income, provides for an exclusion of income for certain low and middle income families, and provides a credit for charitable contributions.

Mr. Prescott noted that countries in Eastern Europe have experienced rapid economic expansion due to the adoption of a flat income tax. In fact, income tax revenue growth is so strong that some countries are lowering tax rates. He said that states are finding that high marginal tax individual income tax rates are a deterrent to economic growth.

Rep. Dougall asked how the proposal's five percent rate compares with the individual income tax rates in surrounding states. Mr. Ashdown replied that the proposed five percent rate is lower than every Inter-mountain state with an income tax, with the exception of Colorado.

Mr. Prescott noted that the proposal limits to five the number of persons per return that can claim the \$4,000 income exclusion. He noted that 87 percent of all Utah individual income tax returns claim four or fewer personal exemptions and that 99 percent of all Utah individual income tax returns claim seven or fewer personal exemptions.

Pres. Valentine asked why the proposal limited the number of personal exemptions to five. Mr. Prescott replied that this was done to arrive at a five percent tax rate. He said that the tax rate would need to be increased to 5.1 percent if the number of personal exemptions is not capped at five.

Sen. Greg Bell distributed and discussed "Utah Individual Income Tax Proposal" and "Estimates for Tax Year 2007." He explained that he does not support a flat tax. He proposed keeping the income tax revenue neutral, keeping federal standard and itemized deductions and personal exemptions, broadening the base by eliminating state deductions from federal taxable income, reducing the number of tax brackets from six to four, and making the tax brackets meaningful by updating for inflation.

MOTION: Comm. Hendrickson moved to continue discussion of Governor Huntsman's individual income tax proposal at the next Task Force meeting. The motion passed unanimously.

MOTION: Rep. Becker moved to continue discussion of Sen. Bell's individual income tax proposal at the next task force meeting. The motion passed unanimously with Mr. Ashdown absent for the vote.

5. Constitutional Earmarking of Taxes on Income for Education

Ms. Cathy Dudley, State Office of Education, spoke in opposition to removing the earmarking of taxes on income for education from the Utah Constitution.

Ms. Pat Rusk, President, UEA (Utah Education Association), acknowledged that there are legitimate arguments for removing the earmarking of income tax for education, but noted that UEA is against removing the earmarking provision.

Pres. Valentine noted that at the July meeting of the Revenue and Taxation Interim Committee that representatives of the Utah Education Association claimed that state funding for public education had been recently cut and that no action was taken by the Legislature during its 2005 General Session to restore this funding. He asked for documentation that funding had in fact been cut.

Mr. Courtney White, UEA, clarified that there have been no cuts to funding of education in the past few years but that UEA is concerned with the decline in the proportion of the state budget allocated to public education. Sen. Valentine requested that in the future that this be clearly stated.

MOTION: Pres. Valentine moved to table the to proposal to remove from the Utah Constitution the earmarking of taxes on income to fund education. The motion passed unanimously with Rep. McGee absent for the vote.

6. Property Tax Issues

Ms. Oakes distributed and discussed 2006 General Session draft legislation "Requirement of Property Tax Increase Advertisement" and 2006 General Session draft legislation "Advertising Property Tax Increases."

MOTION: Sen. Dmitrich moved to adopt "Working Group Proposal - Bill File 204" and 2006 General Session draft legislation "Advertising Property Tax Increases."

Mr. Mike Jerman, Utah Taxpayers Association, Mr. Carl Hendrickson, Utah Association of Counties, and Mr. Roger Tew, Utah League of Cities and Towns, addressed the Task Force concerning the two legislative proposals.

SUBSTITUTE MOTION: Rep. Dougall moved to adopt 2006 General Session draft legislation "Requirement of Property Tax Increase Advertisement."

Rep. Becker spoke against the substitute motion.

Rep. Newbold spoke in favor of the substitute motion.

The substitute motion failed with Rep. Harper, Rep. Dougall, Rep. Kiser, and Rep. Newbold voting in favor and Sen. Bramble and Mr. Ashdown absent for the vote.

Sen. Dmitrich amended his motion to include contact information on the advertisement.

The original motion passed with Rep. Dougall and Rep. Kiser voting in opposition and Sen. Bramble and Mr. Ashdown absent for the vote.

Mr. Allen Tippetts, Personal Property Director, Salt Lake County Assessor's Office, presented "Utah Personal Property Assessment." He outlined a proposal to simplify the personal property tax system by allowing a taxpayer to certify that the value of all personal property is not more than a certain amount.

Mr. Lee Gardner, Salt Lake County Assessor, spoke to the proposal.

Mr. Paul Ebertine, business owner, spoke in favor of having a simple and fair tax personal property system that is simple to comply with.

7. Personal Property Tax

Rep. Dougal distributed and discussed 2006 General Session draft legislation "Resolution Regarding Property Tax on Personal Property."

Mr. Robert Rees, Associate General Counsel, Office of Legislative Research and General Counsel answered questions concerning the draft resolution.

Mr. Roger Tew, member, CRC (Constitutional Revision Commission), explained why the CRC voted not to support this draft resolution.

Mr. Gary Thorup, Holmes Roberts & Owen, explained that the issue he is dealing with in the airline industry can be brought before the Utah State Tax Commission with or without the passage of this draft legislation.

MOTION: Rep. Dougall moved to adopt 2006 General Session draft legislation "Resolution Regarding Property Tax on Personal Property" with a favorable recommendation to the Revenue and Taxation Interim Committee and to present at public hearing. The motion passed with Sen. Dmitrich, Rep. Becker, Rep. McGee, and Comm. Hendrickson voting in opposition and Pres. Valentine and Mr. Ashdown absent for the vote.

8. Report and Recommendations from Sales and Use Tax Working Group

Rep. Harper introduced this item. He distributed and discussed "Confusing and Inconsistent Issues."

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Sales and Use Tax - Exemption for Isolated or Occasional Sales."

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Sales and Use Tax Exemption for Transportation" and 2006 General Session draft legislation "Sales and Use Tax Exemption for Certain Transportation of Passengers."

Mr. Dean distributed and discussed "Sales and Use Tax - Exempting Business Inputs in Various Sectors."

Mr. Gary Thorup, Holmes Roberts & Owen, said that the Utah State Bar has created a working group to discuss the difference between tangible personal property and real personal property.

MOTION: Comm. Hendrickson moved to exempt both the replacement part and the repair of existing manufacturing parts. The motion passed unanimously with Pres. Valentine and Mr. Ashdown absent for the vote.

Ms. Lynn Solarczyk, Utah State Tax Commission, clarified several issues for the Task Force.

MOTION: Comm. Hendrickson moved to adopt with a favorable recommendation 2006 General Session draft legislation "Sales and Use Tax - Exemption for Isolated or Occasional Sales" to the Revenue and Taxation Interim Committee and to present at public hearing. The motion passed unanimously with Pres. Valentine and Mr. Ashdown absent for the vote.

MOTION: Rep. Newbold moved to direct staff to draft legislation concerning locally grown agricultural products and to refer the draft to public hearing. The motion passed unanimously with Pres. Valentine and Mr. Ashdown absent for the vote.

9. Redevelopment Agency Issues

This agenda item was not discussed.

10. Other Tax Issues

This agenda item was not discussed.

11. Other Items / Adjourn

MOTION: Rep. Dougall moved to adjourn the meeting. The motion passed unanimously with Rep. Urquhart absent for the vote.

Chair Bramble adjourned the meeting at 1:18 p.m.