

**MINUTES OF THE
TAX REFORM TASK FORCE**

Monday, November 28, 2005 – 9:00 a.m. – Room W135 House Building

Members Present:

Sen. Curtis S. Bramble, Senate Chair
Rep. Wayne A. Harper, House 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 Bramble called the meeting to order at 9:13 a.m.

MOTION: Rep. Snow moved to approve the minutes of the November 2 and November 7, 2005 meetings. The motion passed unanimously with Sen. Dmitrich, Rep. Hughes, Rep. McGee, Rep. Urquhart, and Mr. Ashdown absent for the vote.

2. Review of Draft Legislation - Task Force Recommendations

Ms. Oakes distributed and discussed 2006 General Session draft legislation "School Districts - Limited Amendments to Truth in Taxation."

MOTION: Comm. Hendrickson moved to adopt 2006 General Session draft legislation "School Districts - Limited Amendments to Truth in Taxation" with a favorable recommendation. The motion passed unanimously with Sen. Dmitrich, Rep. Hughes, and Rep. McGee absent for the vote.

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Sales and Use Tax Exemption for Semiconductor Fabricating, Processing, Research, or Development Materials."

MOTION: Pres. Valentine moved to adopt 2006 General Session draft legislation "Sales and Use Tax Exemption for Semiconductor Fabricating, Processing, Research, or Development Materials" with a favorable recommendation. The motion passed unanimously with Sen. Dmitrich and Rep. McGee absent for the vote.

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Sales and Use Tax - Manufacturing Exemptions Amendments."

Pres. Valentine asked if striking lines 119 and 120 of the draft legislation would change the fiscal impact.

Comm. Bruce Johnson, Tax Commission (Utah State Tax Commission), said removing lines 119 and 120 would not affect the fiscal impact.

Ms. Oakes distributed and discussed 2006 General Session draft legislation "Tax on Insurance Premiums."

Pres. Valentine asked if the new language in this draft legislation would open a broad exemption for all life insurance.

Mr. John Cummins, Utah Insurance Department, said that this bill only gives an exemption for corporate-owned life insurance.

Ms. Lynn Solarczyk, Tax Commission, said the Tax Commission requested that certain definitions be included in the legislation so that its auditors would clearly know what defines a variable life insurance premium.

Mr. James Valarian, citizen, said preferential tax treatment to large corporations and not smaller corporations should be avoided.

Ms. Andrea Wilko, Fiscal Analyst, Office of the Legislative Fiscal Analyst, said these types of insurance policies are not current being sold in Utah and therefore this exemption to the insurance premium tax would not affect current revenues.

MOTION: Pres. Valentine moved to adopt 2006 General Session draft legislation "Tax on Insurance Premiums" and to carefully monitor the bill's fiscal note. The motion passed with Rep. Becker and Rep. Newbold voting in opposition and Mr. Ashdown absent for the vote.

Sen. Bramble distributed and discussed 2006 General Session draft legislation "Sales and Use Tax - Manufacturing Exemptions Amendments."

MOTION: Sen. Stephenson moved to adopt 2006 General Session draft legislation "Sales and Use Tax - Manufacturing Exemptions Amendments" with a favorable recommendation. The motion passed with Rep. McGee and Rep. Newbold voting in opposition and Mr. Ashdown absent for the vote.

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Sales and Use Tax Exemptions for Certain Business Inputs."

Staff distributed "Sales Tax Exemption Amounts."

Rep. Snow asked why draft legislation that exempts telecommunications business inputs is for a one-year life or greater, but this draft legislation exempts all other business inputs of only three-year lives or

greater. Sen. Stephenson replied that it was to entice telecommunications companies to continue to increase investments in Utah.

MOTION: Sen. Stephenson moved to adopt 2006 General Session draft legislation "Sales and Use Tax Exemptions for Certain Business Inputs." The motion passed with Rep. Becker and Rep. McGee voting in opposition and Rep. Dougall, Rep. Hughes, and Rep. Urquhart absent for the vote.

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Sales and Use Taxation of Amusement Devices and Cleaning or Washing of Tangible Personal Property."

Mr. Jim Olsen, Utah Food Industry Association, spoke in favor of the draft legislation.

Rep. McGee asked if this legislation addresses the issue that the Tax Commission originally brought before the Task Force. Comm. Hendrickson replied that this draft legislation does address the issue and leaves only a narrow area where additional rulemaking by the Tax Commission would be required.

MOTION: Comm. Hendrickson moved to adopt 2006 General Session draft legislation "Sales and Use Taxation of Amusement Devices and Cleaning or Washing of Tangible Personal Property" with the removal of language on line 170 "other than an amusement device, skill device, or ride device" with a favorable recommendation. The motion passed with Rep. Becker, Rep. Kiser, and Rep. Newbold voting in opposition and Sen. Stephenson, Pres. Valentine, Rep. Dougall, Rep. Hughes, and Rep. Urquhart absent for the vote.

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Multi-Channel Video or Audio Service Tax - County or Municipality Franchise Fee Tax Credit."

MOTION: Sen. Dmitrich moved to adopt 2006 General Session draft legislation "Multi-Channel Video or Audio Service Tax - County or Municipality Franchise Fee Tax Credit" with a favorable recommendation. The motion passed unanimously with Sen. Stephenson and Rep. Urquhart absent for the vote.

3. Amendments to the Individual Income Tax

Mr. Dean gave an overview of the three individual income tax proposals before the Task Force.

Rep. Dougall presented "Income Tax Reform." He explained his new proposal, H3, would include an individual income tax rate of five percent or lower, a charitable contribution credit, a home ownership credit, and a reform adjustment tax credit for households and individuals.

Mr. Ashdown explained the benefits a flat tax would give Utah.

MOTION: Sen. Stephenson moved to adopt Rep. Dougall's individual income tax proposal and to direct that additional analysis be conducted.

Mr. James Valarian, citizen, said that he is opposed to a flat tax. He said the state should have a progressive tax system, and that echoing the federal tax system is easier for citizens to understand and comply with.

Ms. June Taylor, citizen, said that the total tax burden on lower income individuals is what really matters, and that changing the income tax would affect the sales and use tax. She encouraged the Task Force to look at the effects of all recommendations before making a decision.

Comm. Bruce Johnson, Utah State Tax Commission, said the proposal seems very clear. He said he supports the concept and that there are actually very few details left to consider.

The motion passed with Rep. Becker, Rep. McGee, Rep. Newbold, and Rep. Snow voting in opposition.

4. Redevelopment Agency Amendments

Mr. Roger Tew, Utah League of Cities and Towns, explained the League's proposal to change certain definitions, more clearly define what constitutes "blight," and make other changes to current state statutes governing redevelopment agencies.

Mr. Arie Van DeGraaff, Utah Association of Counties, spoke in favor of the League's proposal.

Mr. Larry Newton, State Office of Education, spoke in opposition of allowing time or property extensions on existing redevelopment projects.

MOTION: Sen. Dmitrich moved to recommend that the proposal submitted by the Utah League of Cities and Towns concerning redevelopment agencies be presented to the Revenue and Taxation Interim Committee.

SUBSTITUTE MOTION: Rep. Becker moved to recommend that the proposal submitted by the Utah League of Cities and Towns concerning redevelopment agencies be presented to the Revenue and Taxation Interim Committee with the additional provision that use of eminent domain be allowed to rectify cases of blight. The motion failed with Sen. Dmitrich, Rep. Becker, and Rep. McGee voting in favor and Rep. Dougall absent for the vote.

The original motion passed unanimously with Rep. Dougall absent for the vote.

Ms. Oakes distributed and discussed "Requirement of Property Tax Increase Advertisement Bill File 290," "Advertising Property Tax Increases - Bill File 204," and "Current Notice Format."

Mr. Roger Tew, Utah League of Cities and Towns, spoke in opposition of adding percentages in the property tax increase advertisement.

Mr. Arie Van DeGraaff, supported Mr. Tew's comments.

Mr. Mike Jerman, Utah Taxpayers Association, spoke in favor of including percentages in the property tax increase advertisement.

Mr. LeGrand Bitter, Utah Association of Special Districts, spoke in support Mr. Jerman's comments.

MOTION: Rep. Snow moved to adopt "Advertising Property Tax Increases -- Bill File 204" with the addition of one sentence that would read: "The percent increase in your total property tax bill, which includes school districts, city, county, and special districts, will be approximately 'x' percentage."

SUBSTITUTE MOTION: Sen. Stephenson moved to adopt "Requirement of Property Tax Increase Advertisement Bill File 290" and remove "an increase of 4.5%" from the last paragraph.

Sen. Stephenson withdrew his motion.

SUBSTITUTE MOTION: Pres. Valentine moved to adopt "Requirement of Property Tax Increase Advertisement Bill File 290" with the removal of "The percent increase in your total property tax bill, which includes school district, county, city, and special service district levies, will be approximately _ %" from the first bullet point and "an increase of 4.5%" from the last paragraph. The motion passed with Sen. Dmitrich, Rep. Becker, Rep. McGee, Rep. Snow, and Comm. Hendrickson voting in opposition.

5. Exempting Sales of Unprepared Food from the Sales and Use Tax

MOTION: Rep. Urquhart moved to notify the Revenue and Taxation Interim Committee that the Task Force supports the removal of the sales and use tax on sales of food.

Mr. LeGrand Bitter, Utah Association of Special Districts, said there might be several special districts that have sales and use tax revenues pledged as collateral.

Mr. Jim Olsen, Utah Food Industry Association, distributed to the Task Force an analysis of food sales as a percent of total sales for different categories of retail grocery and convenience stores. He said that in grocery stores, 79 percent of sales are food and 21 percent of sales are nonfood items; in super stores, 35 percent of sales are food and 65 percent of sales are nonfood items; and in club stores, 15 percent of sales are food and 85 percent of sales are nonfood items.

Mr. Roger Tew, Utah League of Cities and Towns, spoke in opposition to the removal of sales and use tax from food.

Mr. Arie Van DeGraaff, Utah Association of Counties, said that some services provided by the counties are funded by sales and use tax.

Mr. Mike Jerman, Utah Taxpayers Association, proposed using revenues that will be collected by the state under the SST (Streamlined Sales and Use Tax Agreement) to replace the revenue that is lost due to removing the sales and use tax on sales of food.

Mr. Jim Gass, Smithfield City, spoke in opposition to removing the sales and use tax on food. He said that removing the sales tax from food would devastate his community.

Ms. June Taylor, citizen, spoke in favor of removing the sales and use tax on food.

Mr. James Valarian, citizen, suggested that the state pay cities for revenues they might lose from removing the sales and use tax on food.

SUBSTITUTE MOTION: Pres. Valentine moved to remove sales tax on food by using all options available, including a refundable credit. The motion failed with Sen. Bramble, Sen. Dmitrich, Sen. Stephenson, Pres. Valentine, Rep. McGee, and Comm. Hendrickson voting in favor.

The original motion passed with Rep. McGee and Rep. Snow voting in opposition.

6. Single Statewide Sales and Use Tax Rate

Rep. Harper distributed and discussed "Proposed 6.4% Uniform Sales and Use Tax Rate and Modifications to the Sales and Use Tax Act to Achieve a Uniform Sales and Use Tax Rate" and "Proposed 6.4% Uniform Sales and Use Tax Rate."

Mr. David Gessel, Utah Hospitals and Health Systems, asked how hospitals will receive funding from the state. Rep. Harper explained that funds would be granted similarly to other local option taxes.

Mr. Jim Olsen, Utah Food Industry Association, spoke in strong support for this proposal. He said that this proposal is what will make the SST work.

MOTION: Comm. Hendrickson moved to recommend this proposal to the Revenue and Taxation Interim Committee. The motion passed unanimously with Pres. Valentine, Rep. Urquhart, and Mr. Ashdown absent for the vote.

7. Property Tax - Airline Property

Ms. Oakes explained constitutional issues with the proposal made by SkyWest Airlines in the last meeting.

Mr. Troy Larkin, CITTA, spoke to the Task Force about SkyWest Airlines' proposal.

MOTION: Rep. Urquhart moved to recommend SkyWest Airlines' proposal to the Revenue and Taxation Interim Committee. The motion failed with Sen. Bramble, Sen. Stephenson, Rep. Becker, Rep. Dougall, Rep. Hughes, and Rep. Urquhart voting in favor and Pres. Valentine, Rep. Snow, and Mr. Ashdown absent for the vote.

MOTION: Rep. Hughes moved to state that bill file 290, as amended, supercedes bill file 204. The motion passed with Sen. Dmitrich, Rep. Becker, Rep. McGee, Rep. Snow, and Comm. Hendrickson

voting in opposition and Pres. Valentine, Rep. Dougall, Rep. Urquhart, and Mr. Ashdown absent for the vote.

8. Property Tax - Inflation Adjustment

MOTION: Sen. Stephenson moved to table 2006 General Session draft legislation "Property Tax - Certified Tax Rate Adjustment." The motion passed with Sen. Dmitrich, Rep. Becker, Rep. Harper, Rep. McGee, and Comm. Hendrickson voting in opposition and Pres. Valentine and Mr. Ashdown absent for the vote.

MOTION: Rep. Newbold moved to reconsider action on SkyWest Airlines' proposal. The motion passed unanimously with Sen. Dmitrich, Pres. Valentine, Rep. Becker, Rep. McGee, and Mr. Ashdown absent for the vote.

MOTION: Rep. Newbold moved to recommend SkyWest Airlines' proposal to the Revenue and Taxation Interim Committee. The motion passed with Comm. Hendrickson voting in opposition and Sen. Dmitrich, Pres. Valentine, Rep. Becker, Rep. McGee, and Mr. Ashdown absent for the vote.

9. Other Tax Issues

This item was not discussed.

10. Other Items / Adjourn

MOTION: Comm. Hendrickson moved to adjourn the meeting. The motion passed unanimously with Sen. Dmitrich, Pres. Valentine, Rep. Becker, Rep. McGee, and Mr. Ashdown absent for the vote.

Chair Bramble adjourned the meeting at 1:30 p.m.