

**MINUTES OF THE
REVENUE AND TAXATION INTERIM COMMITTEE**
Tuesday, September 5, 2006 – 8:00 a.m. – Room W135 House Building

Members Present:

Sen. Curtis S. Bramble, Senate Chair
Rep. Wayne A. Harper, House Chair
Sen. Mike Dmitrich
Sen. Brent H. Goodfellow
Sen. Lyle W. Hillyard
Sen. Howard A. Stephenson
Pres. John L. Valentine
Rep. Sheryl L. Allen
Rep. Ralph Becker
Rep. Tim M. Cosgrove
Rep. Glenn A. Donnelson
Rep. Gregory H. Hughes
Rep. Fred R. Hunsaker
Rep. Bradley G. Last
Rep. Rebecca Lockhart

Rep. Rosalind J. McGee
Rep. Carol Spackman Moss
Rep. Merlynn T. Newbold
Rep. Patrick L. Painter
Rep. Gordon E. Snow

Members Absent:

Rep. Craig A. Frank

Staff Present:

Mr. Phillip V. Dean, Policy Analyst
Mr. Leif Elder, Research Analyst
Mr. Bryant R. Howe, Assistant Director
Ms. Angela D. Oakes, Associate General Counsel
Ms. Rebecca L. Rockwell, Associate General Counsel

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

1. Committee Business

Chair Bramble called the meeting to order at 8:20 a.m.

MOTION: Rep. Donnelson moved to approve the minutes of the July 19, 2006 meeting. The motion passed unanimously.

2. Consideration of Draft Legislation Relating to the State Individual Income Tax

Ms. Rockwell distributed and discussed 2006 Fourth Special Session draft legislation, "Income Tax Amendments," and "Individual Income Tax Proposal Summary." A fiscal note memo for the draft legislation was also distributed. She explained that the draft legislation modifies tax brackets for taxable years beginning on or after January 1, 2006.

Ms. Rockwell explained that the draft legislation also enacts the Single Rate Individual Income Tax Act effective beginning with the 2007 taxable year. She said that a trust or estate may not file under the single rate system. Ms. Rockwell said that the Act allows a resident or nonresident individual to pay a state individual income tax calculated either as a single rate on the basis of federal adjusted gross income or pay a multi-rate individual income tax on the basis of the current system, which uses federal taxable income as the starting point. She noted that the bill modifies additions to and subtractions from federal taxable income for purposes of calculating state individual income tax.

Sen. Bramble distributed a discussion draft of a revised Utah Individual Income Tax Return. He explained that this draft return shows how the state individual income tax return might appear beginning with the January 1, 2007 taxable year. He said that only a few lines are added to allow a taxpayer to use the single rate calculation.

Rep. Becker asked if the draft bill indexes tax brackets for future inflation. Ms. Rockwell responded that as currently drafted, the bill does not index the tax brackets. President Valentine said that he supports adjusting the tax brackets each year for inflation.

Sen. Goodfellow asked whether granting an option to taxpayers to calculate tax liability on the basis of federal adjusted gross income will discourage charitable donations. Sen. Bramble said that the draft legislation does not discourage charitable donations because a taxpayer who enjoys tax advantages by making charitable donations would elect to calculate the taxpayer's state individual income tax on the basis of federal taxable income.

Sen. Hillyard commented that carefully designing the new individual income tax return is critical for taxpayer education and compliance. Mr. Rodney Marrelli, Executive Director, Tax Commission (Utah State Tax Commission), spoke to the Committee about designing the new individual income tax return. Comm. Pam Hendrickson, Chair, Tax Commission, agreed with Mr. Marrelli's comments.

Ms. Andrea Wilko, Fiscal Analyst, Office of the Legislative Fiscal Analyst, answered questions about the fiscal note memo.

Mr. Tom Williams, Tax Commission, answered questions regarding the revenue effects of the draft legislation.

Rep. Allen noted that the current average effective tax rate for taxpayers with incomes above \$250,000 is now 5.45 percent. She asked whether lowering the effective tax rate to 5.3 percent will have a positive effect on economic development. Ms. Wilko noted that business location decisions are made based on a variety of factors and that she is not aware of any studies that specifically address income tax rates.

Mr. Mike Jerman, Utah Taxpayers Association, distributed and discussed "Electable Individual Income Tax Proposal is Meaningful Tax Reform." He said that his organization strongly supports the draft legislation and that for several years his organization has supported indexing tax brackets for inflation.

Mr. David Stringfellow, Governor's Office of Planning and Budget, spoke to the Committee about the tax rates.

Mr. Arch Sutherland, Coalition of Religious Communities, spoke in opposition to the draft legislation.

Mr. David Crapo, Vice-Chair, TRC (Utah Tax Review Commission), distributed and discussed a letter from the TRC addressed to the Committee.

Mr. Doug Macdonald, Utah Issues, distributed and discussed "White Paper on Income Tax Reform." He said that the draft legislation is a good start but that the state taxable income brackets should be further expanded. He said that states with high growth rates of economic activity do not always have low state individual income marginal rates.

Ms. Linda Hilton, Director, Coalition of Religious Communities, spoke in favor of repealing sales and use taxes on food. She also recommended that all of the proposed individual income tax cut come from expanding the tax brackets.

Ms. Sarah Wilhelm, Voices for Utah Children, spoke against enacting this draft legislation during a special session and spoke in favor of implementing a state earned income tax credit. She said that the state tax system needs to ensure that all citizens benefit from a growing economy.

Mr. Brian Bolander, President, Utah Association of Certified Public Accountants, recommended that the Committee follow the guidelines of American Institute of Certified Public Accountants. He said that his organization understands that there is a difference between what might be considered to be optimal tax reform and what is politically possible to enact. He spoke in favor of ongoing tax reform efforts.

Mr. Ed McCartney, Senior Vice President, Fidelity Investments, spoke in favor of the draft legislation. He said that his company has nearly 1,600 employees in Utah and that as the state considers economic development strategies, it should ensure that its tax structure remains competitive.

Mr. Chris Roybal, Senior Economic Advisor, Governor's Office, spoke to the Committee regarding the state individual income tax. He said that the current top rate of seven percent is a deterrent for companies to relocate or expand in Utah. He said that the top priority of Governor Huntsman's economic development strategy is tax reform. He said that the spending and investment decisions made in corporate board rooms affect all Utahns.

Ms. June Taylor, private citizen, spoke in opposition to the draft legislation. She said that the individual income tax reduction will not stimulate economic activity and will harm the quality of K-12 education.

Ms. Rhonda Rose, Utah State PTA, spoke to the Committee. She asked what assurances exist that future growth in individual income tax revenue will not be used for additional tax cuts. She said that businesses consider the quality of a state's education system in business location decisions.

Ms. Patti Harrington, Superintendent of Public Instruction, Utah State Office of Education, spoke to the Committee. She said that while the State Board of Education has not taken a position on the draft legislation, any individual income tax reform should be revenue neutral.

Rep. Allen asked for more information on the long-term plans for tax reform. Sen. Bramble replied that future tax reform actions by the Legislature will depend on many factors including the will of the Legislature and future economic growth. Rep. Harper said that the current state tax system is not responsive to an international economy. He said that tax reform should consist of carefully measured incremental actions.

Rep. Hughes said that he supports the draft legislation and that individual income tax reform should have been enacted during the 2006 General Session. He said that sufficient revenue is available to invest in public education.

Sen. Dmitrich said that he supports adjusting the state taxable income brackets for inflation.

Rep. Harper said that tax cuts are good for the economy and that other states are closely following the decisions of the Utah Legislature.

MOTION: Rep. Harper moved to favorably recommend 2006 Fourth Special Session draft legislation, "Income Tax Amendments."

SUBSTITUTE MOTION: Sen. Stephenson moved to favorably recommend 2006 Fourth Special Session draft legislation, "Income Tax Amendments" and to recommend that the state individual income tax brackets be indexed for inflation.

Rep. Hughes requested that the substitute motion be divided.

The motion to favorably recommend 2006 Fourth Special Session draft legislation, "Income Tax Amendments," passed with Sen. Goodfellow, Sen. Hillyard, Rep. Allen, Rep. Becker, Rep. Hunsaker, and Rep. McGee voting in opposition and Rep. Painter absent for the vote.

The motion to recommend that state individual income tax brackets be adjusted for inflation passed with Sen. Hillyard and Rep. Hunsaker voting in opposition and Rep. Painter absent for the vote.

3. Consideration of Draft Legislation Relating to Funding of Transportation Projects in Counties of the First Class

Due to lack of time, this item was not discussed.

4. Other Items / Adjourn

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

Chair Bramble adjourned the meeting at 10:49 a.m.