

**MINUTES OF THE
UTAH TAX REVIEW COMMISSION**

Wednesday, January 24, 2007 – 7:30 a.m. – Room 110 House Building

Members Present:

Mr. M. Keith Prescott, Chair
Mr. David Crapo, Vice Chair
Sen. Brent Goodfellow
Sen. Lyle W. Hillyard
Rep. Wayne Harper
Rep. Rosalind J. McGee
Mr. Larry Barusch
Mr. Mark K. Buchi
Dr. Gary Cornia
Ms. Janis A. Dubno
Ms. Kathleen Howell
Comm. Bruce Johnson
Mr. Bruce Jones

Members Absent:

Mr. Dixie Leavitt

Staff Present:

Mr. Phillip V. Dean, Policy Analyst
Mr. Leif G. Elder, Research Analyst
Mr. Bryant R. Howe, Assistant Director
Ms. Phalin L. Flowers, Legislative Secretary

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. TRC Business

Chair Prescott called the meeting to order at 7:38 a.m.

2. Amendments to the Individual Income Tax

Rep. John Dougall distributed and discussed 2007 General Session H.B. 123 "Tax Revisions." He explained that this bill would reduce the state sales and use tax on food from 2.75 percent to zero percent. The bill also lowers the top tax rate under the multiple-rate individual income tax system from 6.98 percent to 6.9 percent and lowers the tax rate under the single-rate individual income tax system from 5.35 percent to 4.9 percent. The bill allows taxpayers with a joint filing status to claim a nonrefundable credit equal to \$10,000 multiplied by the state sales and use tax rate. For taxpayers with a single filing status, the credit is equal to \$5,000 multiplied by the state sales and use tax rate. Individual income tax revenue that is lost due to the granting of this credit is replaced by monies from the General Fund.

Mr. Dean distributed and discussed "Estimated Impacts of HB 123 Income Tax Portions," "Estimated Impacts of HB 123 Income Tax Portions Married Filers," "Estimated Impacts of HB 123 Income Tax Portions Single Filers," "HB123 Income Tax Analysis," and "Utah Capital Gain Income."

Mr. Buchi asked how the revenue effect of H.B. 123 compares to the governor's tax cut proposal. Rep. Dougall replied that the Governor recommended reducing the tax rate under the single-rate individual income tax system to at least five percent, but that he made no recommendation regarding the multiple-rate individual income tax system or regarding the state sales and use tax on food. He said the governor's office had different tax credit proposals as well and that H.B. 123 provides a higher amount of tax relief than recommended by the governor.

Dr. Cornia noted that other states that exempt food from the sales tax eventually increase their sales and use tax rates. He also noted that during the last national economic downturn that states that do not impose the sales and use tax on food were more likely to have bonds downgraded by rating agencies than states

that impose a sales and use tax on food. Rep. Dougall noted that there is strong support in the Legislature to remove the sales and use tax from sales of food.

TRC discussion followed.

Sen. Goodfellow asked for additional filing scenarios on H.B. 123 to better understand the individual income tax effects of the bill on taxpayers with different income levels and family size.

Mr. Dean discussed the charts he distributed at the beginning of the meeting in more detail.

Dr. Ray Nelson, Associate Professor, BYU (Brigham Young University), presented "Utah Personal Income Tax Burdens and Revenue Volatility." He noted that in the 2005 tax year that the top one percent of returns paid 28 percent of individual income tax collections and the top five percent of returns paid 44 percent of the individual income tax collections. He explained how income tax burden is measured, how definitions of taxable income and tax rates affect revenue volatility, how recent and proposed individual income tax changes affect tax burdens, why understanding revenue volatility is important for state governments, how Utah's individual income tax volatility compares with other states, what influences the volatility of the state individual income tax, and what are the policy issues regarding using individual income tax revenue to finance public education.

Dr. Cornia noted that recognizing revenue volatility is important. One way to partially ameliorate the effects of revenue volatility is to establish an adequately sized budget reserve account. Dr. Nelson noted that the last economic recession in the United States was relatively mild with only two quarters of negative growth in real gross domestic product.

Ms. Dubno asked what would be the effects on revenue volatility if some type of earned income tax credit was part of the single-rate individual income tax system. Comm. Johnson wondered if removing the current deduction for one-half of federal individual income taxes under the multiple-rate individual income tax system would reduce revenue volatility.

Mr. Doug Macdonald, Executive Director, Utah Issues: The Center for Eliminating Poverty, distributed and discussed "Macroeconomic Characteristics of HB123 - Tax Revisions."

Mr. Howe distributed and discussed "Status of Legislation Adopted by the Utah Tax Review Commission." He gave the TRC an update on the status of bills adopted by the TRC during the 2006 interim.

Comm. Johnson distributed and discussed 2007 General Session H.B. 34 1st Substitute "Sales and Use Tax Exemptions for Certain Property Brought into the State." He explained that the TRC approved the original bill during the interim and that the substitute bill corrects certain technical issues raised since the original bill was approved.

MOTION: Comm. Johnson moved to favorably recommend 2007 General Session H.B. 34 1st Substitute "Sales and Use Tax Exemptions for Certain Property Brought into the State." The motion passed unanimously with Mr. Crapo, Rep. Harper, and Sen. Hillyard absent for the vote.

Rep. McGee distributed and discussed 2007 General Session H.B. 102 "Severance Tax Amendments." She explained that this bill would distribute a portion of the revenue from severance taxes on oil, gas, and

mining to several conservation funds and would leave very little for the severance tax trust fund that is contemplated in the legislation adopted by the TRC.

Mr. Buchi said that he believes H.B. 102 doesn't follow the TRC's position on the importance of creating an oil and gas severance tax trust fund.

MOTION: Rep. McGee moved to have the TRC reiterate its position on the use of severance tax and communicate that position in a letter to the Legislature.

Comm. Johnson said that he still agrees with the TRC's position on the use of severance taxes, but that the use of severance tax funds in H.B. 102 may not contradict the TRC's position of creating ongoing capital investments.

Mr. Buchi said that H.B. 102 may not contradict what the TRC envisioned using the interest from the severance tax trust fund for, but that it may not allow sufficient revenue to grow the severance tax trust fund.

SUBSTITUTE MOTION: Dr. Cornia moved to create a subcommittee that would pursue the TRC's original position of creating an oil and gas severance tax trust fund and present that position to the governor and the Legislature. The substitute motion passed unanimously with Mr. Crapo, Rep. Harper, Sen. Hillyard, and Rep. McGee absent for the vote.

Dr. Cornia distributed and discussed a recent article printed in the "Harvard Law Review." He said that this article discusses the procyclical nature of state revenue systems and the political difficulty that state legislatures face in establishing an adequately sized rainy day fund.

3. Review of Proposal to Eliminate the Minimum Basic School Levy

Rep. Dougall explained that the reason for discussion of eliminating the minimum basic school property tax levy is because there is a concern that property taxes are too high. He said that reducing or eliminating the minimum basic school property tax levy would provide needed tax relief to homeowners.

Mr. Buchi said eliminating the basic school levy is not a good idea for the state. Dr. Cornia said that the advantage of using revenue from the property tax to fund public education is that it holds locally elected officials responsible for education funding decisions.

4. TRC Study Topics for 2007

This item was not discussed.

5. Other Business / Adjourn

MOTION: Mr. Buchi moved to adjourn the meeting. The motion passed unanimously with Mr. Crapo, Rep. Harper, Sen. Hillyard, and Rep. McGee absent for the vote.

Chair Prescott adjourned the meeting at 10:08 a.m.