

**MINUTES OF THE
UTAH TAX REVIEW COMMISSION**

Friday, February 23, 2007 – 4:00 p.m. – Room 125 House Building

Members Present:

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

Members Absent:

Ms. Janis A. Dubno
Rep. Wayne Harper
Sen. Lyle W. Hillyard
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 4:12 p.m.

2. Review of Legislative Tax Reform Proposals

Mr. Robert Spendlove and Mr. David Stringfellow, Governor's Office of Planning and Budget, discussed "Income Tax Reform Overview."

Mr. Spendlove said that the proposed amendments to 2007 General Session S.B. 223 "Tax Amendments" include changes to both the sales and use tax and the individual income tax. He explained that the estimated fiscal impact due to the individual income tax changes is about \$110 million in FY2009. He said that the proposal: (a) eliminates the current election option between the bracket system and single rate system; (b) imposes a tax equal to five percent of the taxpayer's modified federal adjusted gross income; (c) allows a nonrefundable credit equal to six percent of the taxpayer's federal itemized or standard deductions, plus the state personal exemption; and (d) allows a credit against certain retirement income for taxpayers born before 1952. He explained that this proposal reduces volatility, broadens the tax base, removes destabilizing factors, and improves simplicity.

Chair Prescott distributed and discussed "Utah Personal Income Tax Burdens and Revenue Volatility." He said that both the taxpayer and retiree credits phase out over higher incomes.

Ms. Sarah Wilhelm, Voices for Utah Children, spoke in favor of the proposed individual income tax changes.

Mr. Rod Marrelli, Executive Director, Tax Commission (Utah State Tax Commission), said that making the effective date of the proposed individual income tax changes retroactive to the beginning of the 2007 tax year may be problematic for the Tax Commission. He explained that his agency needs as much time as possible to implement the proposed changes.

Mr. Mike Jerman, Vice President, Utah Taxpayers Association, spoke in favor of the individual income tax proposal. He said that if the proposal is adopted it will be the first time the Utah individual income tax rate of five percent will be lower than the national average state individual income tax rate of 5.3

percent. He said that the Utah individual income tax rate has historically been higher than the national average state individual income tax rate by a full percentage point.

Dr. Cornia said that he hopes to see this proposal implemented for the 2007 tax year. Chair Prescott said that having three different individual income tax systems over a three year period would be frustrating for tax practitioners. Mr. Howe and Mr. Dean explained some of the technical drafting challenges associated with a 2007 tax year effective date.

Mr. Barusch asked if the Tax Commission has authority to waive the filing requirement for a taxpayer with no state individual income tax liability. Comm. Johnson replied that current state law provides that a taxpayer is exempt from the state individual income tax if the taxpayer's federal adjusted gross income is less than or equal to the sum of the taxpayer's personal exemptions and standard deduction.

MOTION: Mr. Crapo moved that the TRC send a letter to members of the Legislature expressing the TRC's support of a state individual income tax with the following features: (a) a single method of calculating tax liability, (2) reduced volatility, and (3) that reduced volatility may be accomplished by lowering the tax rate. The letter should further state that the TRC takes no position regarding the size of the proposed individual income tax cut or regarding any refunds or existing credits.

Mr. Spendlove said that the individual income tax proposal is simple, fair, and transparent for taxpayers, reduces volatility, and promotes home ownership and charitable contributions. Ms. Wilhelm said that the taxpayer credit acts as a nonrefundable earned income tax credit.

The motion passed unanimously with Sen. Goodfellow absent for the vote.

MOTION: Mr. Buchi moved that the TRC continue to urge legislative leadership to support the proposed oil and gas severance tax trust fund and to enact legislation to implement the trust fund during the 2007 General Session. The motion passed unanimously with Sen. Goodfellow absent for the vote.

3. Adjourn

MOTION: Mr. Barusch moved to adjourn the meeting. The motion passed unanimously with Sen. Goodfellow absent for the vote.

Chair Prescott adjourned the meeting at 5:22 p.m.