

**MINUTES OF THE
TAX REVIEW COMMISSION**

Friday, June 8, 2001 – 1:00 p.m. – Room 405 State Capitol

Members Present:

Mr. Gary Cornia, Chair
Rep. Judy Ann Buffmire
Rep. Greg J. Curtis
Sen. Lyle W. Hillyard
Comm. Bruce Johnson
Ms. Dorothy P. Owen
Sen. Millie M. Peterson
Mr. Keith Prescott

Members Excused:

Ms. Anne Clark

Staff Present:

Mr. Bryant Howe,
Research Analyst
Ms. Rebecca L. Rockwell,
Associate General Counsel
Ms. Sandra Wissa,
Legislative Secretary

Note: A list of others present and a copy of materials distributed in the meeting are on file in the Office of Legislative Research and General Counsel.

1. Committee Business

Chair Cornia called the meeting to order at 1:13 p.m. and welcomed members of the Tax Review Commission (TRC).

MOTION: Rep. Buffmire moved to approve the minutes of the January 10, 2001 meeting. The motion passed unanimously with Sen. Peterson and Rep. Curtis absent for the vote.

2. Update on State and National Efforts to Simplify the Sales Tax

Commissioner Bruce Johnson updated the TRC on the status of state efforts on the Streamlined Sales Tax Project (Project). Commissioner Johnson stated that recent progress in Florida, Illinois, and Texas is particularly significant due to the larger populations in those states. He also discussed a pilot project involving North Carolina, Michigan, Kansas, and Wisconsin. He said that the pilot project is using certified software to allow the collection of taxes for multiple states, and the states are working with two major retailers.

Rep. Buffmire asked whether there would be any national efforts to simplify sales and use taxes as a result of the Project. Commissioner Johnson explained that the Project is an attempt for the states to simplify sales and use taxes and minimize burdens on remote sellers of collecting sales and use taxes. States will then be able to urge Congress to pass legislation that would require remote sellers to collect sales and use taxes because requiring such collection is not an undue burden on interstate commerce.

Sen. Hillyard reviewed S.B. 74, "Sales and Use Tax - Uniform Sales and Use Tax Administration Act and Sales and Use Tax Revisions." Sen. Hillyard stated that when staff drafted S.B. 74 they kept in constant contact with both the National Conference of State

Legislatures (NCSL) and the Project to ensure that the legislation was endorsed by both groups. Sen. Hillyard was told at the last meeting of the NCSL Executive Committee Task Force on State and Local Taxation of Telecommunications and Electronic Commerce (NCSL Task Force) that Utah's bill was the best of all that had been passed. Sen. Hillyard highlighted the importance of protecting local merchants in developing tax policy in relation to remote sales.

Sen. Hillyard explained that the NCSL Task Force's objective is to develop a unified proposal to simplify the tax system and then to go back and encourage states to support the proposal. He stated that Utah has resolved many issues relating to sales and use tax simplification, and highlighted some remaining issues relating to sourcing sales and use transactions that the state still needs to resolve. Sen. Hillyard emphasized that the NCSL Task Force is moving quickly to finalize its work.

Chair Cornia asked Commissioner Johnson about trusted third parties and whether authorizing a third party agent to be responsible for certain sales and use tax collection and remittance duties of a vendor relieves some of the problems with multiple rates. Commissioner Johnson said that trusted third parties are now called certified service providers. He explained that allowing a certified service provider to assume certain sales and use tax collection and remittance duties of a vendor addresses the problem of requiring a small vendor that does not have its own nationwide system to collect sales and use taxes. He stated that the vendor would be able to rely on a certified service provider or certified software which would eliminate liability for the vendor if there is an error in the sales and use tax collection and remittance process.

3. Recent Congressional Action on Taxation of Electronic Commerce

Mr. Howe reviewed the handout "Selected Legislation Before Congress Regarding Taxation of Electronic Commerce" and explained the major bills that are currently being discussed in Congress. Mr. Howe also discussed the article "Where will Congress End Up on the Internet Tax Issue?" He noted that the article suggests that the longer Congress delays action on Internet taxation, the greater the chance that Congress will extend the current moratorium on certain state taxes relating to the Internet.

4. Overview and Background on 2001 General Session S.J.R. 11 "Resolution on Taxation of Remote Sales and Developing Technologies"

Mr. Howe reviewed 2001 General Session S.J.R. 11, "Resolution on Taxation of Remote Sales and Developing Technologies," and explained that the TRC has been asked to develop a plan to minimize and remove tax related burdens on persons using developing technologies in business.

Sen. Hillyard stated that he thought that this resolution was intended to level the playing field without burdening persons using developing technologies with new taxes. He stated that some general guidelines are needed so people do not use one technology over another because of tax policy. Mr. Prescott was worried that the wording of the resolution might be considered an invitation to unlevel the playing field.

Chair Cornia asked that Sen. Valentine be invited to the next meeting to discuss this resolution. Chair Cornia also asked Sen. Stephenson to provide a list to staff of other parties who may want to share their views on this issue.

Mr. Howe also reviewed the handouts "ULCT Telecommunications Task Force 2001 Meeting Schedule and Discussion Proposal," "Transaction Taxes & Fees," "Utah Adds 15,400 Tech Jobs Since 1994," and "Utah's High-tech Sector Called Lagging, Average."

5. Government Revenue and Tax System Task Force (Task Force)

Ms. Rockwell distributed a handout, "Government Revenue and Tax System Task Force 2001 General Session H.B. 86 Highlights," and reviewed the study items, meeting schedule, and reporting requirements for the Task Force.

Rep. Curtis stated that the Task Force has reviewed tax policy principles, municipal finances, enterprise funds, sales and use taxes, and property taxes. He stated that the Task Force is still considering how to proceed, and has not yet developed any recommendations. Rep. Curtis noted that whether to grant increased taxing authority to local governments is a controversial issue that the Task Force will face.

Chair Cornia asked whether the Task Force would want the TRC to make recommendation and provide input or just receive reports from the Task Force. Rep. Curtis stated that he believes that the TRC would probably be asked to make recommendations on Task Force proposals.

6. Other Business

Chair Cornia stated that there are some people on the TRC who will not be reappointed. He recommended that the TRC not make any appointments until the governor makes his appointments.

Chair Cornia asked for recommendations on issues that the TRC should study during the 2001 interim. TRC members' recommendations include studies of: sales and use tax simplification; federal tax legislation implications for Utah (see handouts "Summary of Provisions Contained in the Conference Agreement for H.R. 1836, the Economic Growth and Tax Relief

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Reconciliation Act of 2001," "Bush Tax Cut Hits States' Wallets," and "Some Guidance on the Tax Rebate Check"); allowing a state earned income tax credit; sales and use tax exemptions; impediments to economic development; whether to permanently index the individual income tax brackets; and 2001 General Session H.B. 158 "Individual Income Tax - Addition of Interest to Federal Taxable Income." Chair Cornia asked staff to provide the TRC with a list of the current sales and use tax exemptions.

Chair Cornia noted that the TRC would meet on the second Friday of each month.

Chair Cornia adjourned the meeting at 3:00 p.m.