

**Background and Highlights**  
**1st Sub. H.B. 378 - Sales and Use Tax Amendments**  
**Rep. Wayne A. Harper**

Background

For several years the legislature has considered how to simplify the state tax code, including the sales and use tax. With sales and use tax rates in the state ranging between 5.75% and 8.1% in the more than 300 jurisdictions that impose a sales tax, a uniform rate will enhance compliance, ease administration, allow for the use of simplified return forms, enhance transparency, and support stability.

The sales and use tax is the state's tax and should be limited to statewide funding. Property tax should fund local projects and income tax funds education. However, we have blurred that separation and now allow the state to impose a property tax and local entities to impose a sales tax.

Highlights

1st Sub HB 378:

- Reduces the state sales and use tax rate from 4.75% to 4.56%;
- Imposes the 3rd quarter cent state sales and use tax for transit and transportation as a state tax to replace the loss of .25% in the state base and places those revenues in Transportation Investment Fund of 2005;
- .25% generates about \$96M and the change from 8.5% ST to 13.5% ST for vehicle related auto sales is about \$92M;
- Maintains the statutory requirement that in Salt Lake County "¼ of ¼ " be used for roads and the "¼ of ¼" approved by the voters in Salt Lake County last fall be used for corridor preservation for the Mountain View Highway;
- Imposes the first and second quarter cent sales and use tax in all areas of the state where the first and second quarters are not currently imposed.
- Maintains the first and second quarter as a local option tax that may be imposed locally at a future date (with corresponding property tax reduction for second quarter);
- Removes the requirement to impose the tax by a vote;
- Creates certain dedicated accounts into which the revenues will be deposited and expended;
- Retains the city and county ZAP and RAP taxes that were voted on as a sales tax and incorporates those taxes into the state base, and keeps them as a sales tax until the voted authorization expires. Local governments may choose to keep programs funded by ZAP, and RAP taxes using other funding sources.

1st. Sub H.B. 378 establishes a uniform statewide sales and use tax rate\* of 6.56% on non-food purchases effective January 1, 2008 , consisting of the following sales and use tax rates:

Name of Tax	Rate (%)	Disposition/Distribution	Food in the Base?	Other Provisions
State Sales and Use Tax - General	4.56	General Fund	No	Set rate at 4.56 until grants under Section 9-17-103 expire

Name of Tax	Rate (%)	Disposition/Distribution	Food in the Base?	Other Provisions
State Sales and Use Tax - Food	2.75	General Fund	Yes	
Local Option Sales and Use Tax	1	No change to current distribution system	Yes	
County Option Sales and Use Tax	.25	No change to current distribution system.	Yes	If a county does not impose the County Option Sales and Use Tax, the state sales and use tax rate in those counties is increased to establish a uniform statewide rate. As provided in current law, a county that imposes the County Option Sales and Use Tax is required to reduce its property tax revenue to achieve revenue neutrality.
Local Option Transportation Sales and Use Tax – Basic Rate	.25	Point of sale distribution for transit or transportation	No	If a jurisdiction does not impose both the Local Option Transportation Sales and Use Tax – Basic Rate and Additional Rate, the state sales and use tax in those jurisdictions is increased to establish a uniform statewide rate.
Local Option Transportation Sales and Use Tax – Additional Rate	.25	Point of sale distribution for transit or transportation	No	If a jurisdiction does not impose both the Local Option Transportation Sales and Use Tax – Basic Rate and Additional Rate, the state sales and use tax in those jurisdictions is increased to establish a uniform statewide rate.  With a commensurate reduction in property taxes by some entities to remain revenue neutral.

Name of Tax	Rate (%)	Disposition/Distribution	Food in the Base?	Other Provisions
State Sales and Use Tax – Transportation Investment Fund	.25	<p><b>With regards to revenue raised in a county of the first class:</b>  25% is designated for state highway projects in that county;  25% is designated for corridor preservation;  and  50% is designated for grants to transit districts that operate in a county of the first class.</p> <p><b>With regards to revenue raised in a county of the second class:</b>  25% of the revenue is designated for corridor preservation in the county where the revenue is raised.</p> <p>All other revenue is deposited into the Transportation Improvement Fund</p>	No	
Total	6.56			

\* except for those entities that impose rural hospital taxes and resort community taxes

1st Sub HB 378 modifies or repeals the following local option sales and use taxes:

Name of Local Option Sales and Use Tax	Replaced by:
Public Transit - Basic Rate (Section 59-12-501)	Local Option Transportation Sales and Use Tax – Basic Rate

<b>Name of Local Option Sales and Use Tax</b>	<b>Replaced by:</b>
Public Transit - Additional Rate (Section 59-12-502)	Local Option Transportation Sales and Use Tax – Additional Rate  A county or municipality imposing the Local Option Transportation Sales and Use Tax – Additional Rate that, on April 1, 2007, did not impose a tax under either Section 59-12-502 or was within a county that imposed the tax under Chapter 12, Part 15, would be required to make a commensurate reduction in property tax revenue to achieve revenue neutrality.
Municipal Option Roads and Mass Transit (Part 10)	Local Option Transportation Sales and Use Tax – Basic Rate
County Option Transportation (Part 17)	Effective April 1, 2007, only Salt Lake County will impose this tax. Revenue is replaced by earmarks of Part 19
County Option for Highways, Fixed Guideways, or Mass Transit (Part 15)	Local Option Transportation Sales and Use Tax – Additional Rate
Resort Community (Basic and Additional)	No change
County ZAP (Part 12)	Repeal – replace with grants from Department of Community and Culture
Municipal ZAP (Part 14)	Repeal - replace with grants from Department of Community and Culture
Town Option (Part 13)	Repeal - replace with change to 1% local tax distribution formula (\$33,000)
Rural County and Rural City Health Care Facility	No change