

**Utah Tax Review Commission
Utah Sales and Use Tax**

Review of the Manufacturing Machinery and Equipment Sales Tax Exemption

September 21, 2016

Year	Author	Summary
1984	Oveson	<p>Report focused only on manufacturing equipment purchased for "new or expanding" operations.</p> <p>"The report shows that just over \$10 million of capital investment induced by this legislation (sales tax exemption) would offset the project \$3.97 million first year reduction in [total] tax revenues resulting from passage . . ."</p> <p>"The figure of \$371.23 in [all state and local] tax revenues for each \$1,000 in investment in new machinery investment is based on analysis showing that each million dollars (In constant 1972 dollars) generates 266.48 jobs."</p>
1991 (First year study was required)	Utah State Tax Commission, Economic & Statistical Unit	<p>"Did the enactment of the investment exemption induce enough new investment to offset the annual cost of \$6 million to \$10 million? Would the investment have occurred anyway? These are critical questions to which there is only insubstantial evidence to support the case that new investment occurred solely as a result of the exemption." (p. 13)</p> <p>"In summary, while there is some evidence that the exemption has attracted additional employers to Utah, it appears that the advent of Sales and Use Tax Exemption for Manufacturing Machinery and Equipment has enhanced manufacturing employment among existing firms." (p. 18)</p> <p>"By including the [manufacturing equipment] exemption in the [Price Waterhouse] model, we found that that Utah business taxes as a percent of pre-tax income dropped ½ of 1 percent, from 9.5 percent to 9 percent for a West Valley City site, and from 9 percent to 8.5 percent for the Provo site. Either way . . . the exemption did not move Utah from its next-to-lowest place position in business taxes among the nine different locations (six other states and three Utah cities).</p> <p>"The above method only looks at the exemption's effects on the overall tax burden of the firm. A more focused approach might examine the effect of the exemption on the tax for an additional \$10 million of capital expansion. Here the exemption clearly has an impact. Figure 7 [in the report] illustrates that the exemption moves Utah's tax on capital, dropping it from \$99,000 to \$81,000 for every \$1 million in capital expansion. While these savings may not be significant from an economic point of view, they probably help in the selling process as chief executive officers make decisions on plant expansions or relocations." (p. 18)</p>

Year	Author	Summary
1993	Walters	<p>"There is no identifiable difference in the flow of manufacturing capital between states which can be linked directly to the sales tax exemption granted by the states. While there may be instances of the exemption playing a role in the location decision of a specific firm, in the aggregate other factors have consistently provided to be more important in determining where capital is invested." (p. 27)</p> <p>"In general, good economic reasons can be given for retaining the exemption in all but five industries [lumber and wood products, furniture and fixtures, fabricated metal products, industrial machinery and equipment, and rubber and misc. plastic products]. In making this recommendation, it should be noted again that the overall effect of the exemption is very small. The rationale for retaining the exemption in so many industries is that, at the margin, their competitive positions will be enhanced or protected. This benefit comes at a significant cost to the state, but in the present national policy climate, it seems wisest to recommend retention of the exemption in most cases." (p. 44)</p>
1996	Utah State Tax Commission, Economic & Statistical Unit	<p>"Utah's manufacturing climate clearly is one of the strongest in the nation at the present time, in terms of employment and firm growth. A significant turnaround in employment occurred two or three years following the implementation of the "new or expanding" exemption.</p> <p>"The remaining portion of the tax base for manufacturers, taxable purchases of replacement equipment, parts, supplies, repairs, and consumables have continued to rise.</p> <p>"Based on reported costs of the exemption and surveys of manufacturers from the Bureau of the Census, new plant and equipment investment by Utah manufacturers has risen as fast, if not faster, than investment nationally since the advent of the exemption.</p> <p>"Our preliminary econometric work, notwithstanding prior research conducted for the Tax Review Commission to the contrary, indicates that the manufacturing exemption may play a significant role in the growth in gross state products and per capita exports for the fifty states.</p> <p>"Recent work by California economists using a computable general equilibrium model for the California economy suggests that there is 'no free lunch for tax cuts' at the state level. This is due to the requirements that states have to balance their budgets and that, at the state level, investment does not have to equal savings. Results from their work show that the long-run returns to state governments range between 1 cent and 25 cents for every \$1 of tax cut." (p. 22)</p>

Year	Author	Summary
1998	Hovey	<p>"The trend of state tax cuts for manufacturing means that there is little likelihood of widespread tax increases on manufacturing.</p> <p>"To the extent that any states do raise business taxes, they would likely opt for forms of broad-based, low-rate taxes on all business activity, such as a single business tax. In the context of revenue neutral changes in business taxes, such changes reduce taxes for capital intensive businesses, such as manufacturing, and increase them on less capital intensive businesses such as accounting, law, advertising, and services.</p> <p>"In this context, ending the manufacturing exemption would not only put Utah in a minority position among states but in a shrinking minority.</p> <p>"Unless accompanied by new tax reductions for manufacturing, it would also put Utah in the position of increasing taxes on manufacturing at a time when other states are reducing them.</p> <p>"Such results would unquestionably be viewed with alarm by the affected Utah firms and by those paid by Utah and its political subdivisions to promote state economic development. The extent to which it would affect perceptions of 'business climate' and the extent to which such perceptions would affect future manufacturing expansion in Utah cannot be known with certainty." (p. 24-25)</p>
2002	Utah State Tax Commission, Economic & Statistical Unit	<p>"After reviewing for the third time in fifteen years the sales and use tax exemption for sales or leases of machine and equipment purchased or leased by a manufacturer in Utah, the Utah State Tax Commission makes the following findings to the Revenue and Taxation Interim Committee:</p> <p>"Utah's manufacturing climate clearly is one of the strongest in the nation at the present time, in terms of employment and firm growth. A significant turnaround in employment occurred two or three years following the implementation of the "new or expanding" exemption.</p> <p>"The remaining portion of the tax base for manufacturers, taxable purchases of replacement equipment, parts, supplies, repairs, and consumables have continued to rise.</p> <p>"Based on reported costs of the exemption and surveys of manufacturers from the Bureau of the Census, new plant and equipment investment by Utah manufacturers has risen as fast, if not faster, than investment nationally since the advent of the exemption.</p> <p>"In contrast to our earlier work in 1996, subsequent econometric work on our part indicates that the manufacturing exemption in the 50 states does not statistically affect the growth in the states' gross state product, the growth in states' manufacturing value added, or per capita export levels.</p> <p>"The trend is for states to alleviate sales tax burdens for manufacturing equipment. By 2001, only two states did not allow some type of exemption. Only 10 states allow a partial exemption (limited to new and expanding or cutting the rate for manufacturing purchases). In 1990, 10 states had no exemption and six states had partial exemptions."</p>

Year	Author	Summary
2011	Utah State Tax Commission, Economic & Statistical Unit	<p>"Although these results [of the report] imply that the sales and use tax exemption for manufacturing machinery and equipment is relevant to the level of growth in Utah's manufacturing sector, they do not explicitly establish a cause and effect relationship. In other words, we do not know unequivocally the degree to which the exemption amounts presented in Section 1 impact the real per-capita share of manufacturing SGDP. (State Gross Domestic Product)</p> <p>"Nevertheless, we can make worthwhile inferences from these results. For one, Utah has consistently outperformed the adjoining New Mexico and Nevada, both of which do not offer the exemption. Nevertheless, Utah has outpaced or kept pace with the adjoining states that do offer the exemption. Therefore, the sales and use tax exemption alone does not completely explain Utah's manufacturing growth.</p> <p>"Nevertheless, we ought not dismiss the importance of the exemption to Utah's manufacturing sector. A counterfactual can help illuminate the assertion. Suppose that the exemption were repealed. It is not unreasonable to project that a competing state which has many of the other factors that compose Utah's positive business environment, would be to not only attract new entrants away from Utah but to incentivize Utah manufacturers to relocate [to] that competing state. Furthermore, the exemption has been in effect for 24 years, which could mean that long-term manufacturers may have become accustomed to claiming the exemption as part of their business plan. In this case repealing the exemption may become burdensome to long established manufacturers. Therefore, the State Tax Commission finds no reason to remove the sales and use tax exemption for manufacturing machinery and equipment." (p. 21 – 22)</p>

Sources:

Oveson, Richard M. "Report on Proposed Sales and Use Tax Exemption for Manufacturing Machinery and Equipment." State of Utah. May 18, 1984.

Economic and Statistical Unit, Utah State Tax Commission. "Review of the Sales and Use Tax Exemption for Manufacturing Machinery and Equipment." Performed for Revenue and Taxation Committee, Utah State Legislature. October, 1991.

Walters, Lawrence C. "Phase 1 Report: Evaluation of Sales Tax Exemptions for Certain Films, Tapes, and Records; New and Expanding Manufacturing Equipment; and Geneva Steel." Presented to Utah Tax Review Commission. June 11, 1993.

Economic and Statistical Unit, Utah State Tax Commission. "Review of the Sales and Use Tax Exemption for Manufacturing Machinery and Equipment." Performed for Revenue and Taxation Committee, Utah State Legislature. September, 1996.

Hovey, Hal. "Sales Tax Exemption for Machinery and Equipment Used in Utah Manufacturing." State Policy Research, Inc. November, 1998.

Economic and Statistical Unit, Utah State Tax Commission. "Review of the Sales and Use Tax Exemption for Manufacturing Machinery and Equipment." Performed for Revenue and Taxation Committee, Utah State Legislature. February, 2002.

Economic and Statistical Unit, Utah State Tax Commission. "Review of the Sales and Use Tax Exemption for Manufacturing Machinery and Equipment." Performed for Revenue and Taxation Committee, Utah State Legislature. October, 2011.