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The Utah Taxpayer

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April 2007 Articles

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Taxes Now Conference Agenda

Taxes Now Conference May 4th!

My Corner- Time to Fix Utah's Punitive Corporate Income Tax

Tax Freedom Day

Impact of Recent Tax Changes on Utah Families

In the past two years, Gov. Huntsman and the Utah Legislature have dramatically changed Utah's tax structure. Many people have wondered how the combined effects of income tax changes and multiple sales tax changes will affect them. Your Taxpayers Association has developed the following summary of the tax effects of these tax changes on a Utah family of four.

Impact on a Utah family of four

The following chart illustrates the financial impact on a family of four of the tax changes of the 2006 and 2007 legislative sessions.

- Based on percent of income, low income families receive the largest tax cuts
- Based on total dollars, high income families receive the largest tax cuts.
- For high income families, most of the tax relief comes from reductions in individual income taxes.
- For low income families, tax relief comes from reductions in sales taxes, particularly the reduction in sales tax on food.
- While most tax changes result in reduced taxes, two change changes result in increased taxes: increasing the existing mass transit/roads sales tax from 0.50% to 0.55% and adding an additional transit/roads tax of 0.25%.

Tax Impact of Recent Changes on Utah Family of Four

	$20,000	$40,000	$60,000	$80,000	$100,000	$200,000	$500,000
Income tax changes	$0	-$136	-$185	-$214	-$245	-$274	-$1,980
3.0% reduction in state sales tax on food (1)	-$122	-$122	-$139	-$155	-$173	-$208	-$319
0.10% reduction in statewide rate (2)	-$11	-$16	-$21	-$28	-$34	-$52	-$102
0.60% reduction in "boutique" sales tax on food (1)	-$24	-$24	-$28	-$31	-$35	-$42	-$64
0.25% Salt Lake County rails/roads increase (2)	$27	$39	$53	$69	$86	$130	$255
0.05% mass transit increase (2)	$5	$8	$11	$14	$17	$26	$51
Total dollar change	-$124	-$251	-$309	-$345	-$384	-$420	-$2,159
Change in taxes as a percent of income	-0.62%	-0.63%	-0.52%	-0.43%	-0.38%	-0.21%	-0.43%

(1) food only (2) taxable purchases excluding food
Calculations by Utah Taxpayers Association based on data from Bureau of Labor Statistics and Utah State Tax Commission

Income tax changes

Last year, the Legislature reduced individual income taxes by $66 million for FY2007. This year the Legislature reduced individual income taxes by an additional $109 million for FY2009. The following summarizes the major changes to Utah's individual income tax system.

MARK YOUR CALENDARS FOR May 4th AND MAY 17th FOR THE
29th ANNUAL *TAXES NOW CONFERENCE* &
***TEED OFF ON TAXES* GOLF TOURNAMENT**

"Utah Taxes Now" Annual Conference- Friday, May 4th, 2007 at Little America Hotel.
"Teed Off on Taxes" Golf Tournament- Thursday, May 17th, 2007 at The Eaglewood Golf Course in North Salt Lake. Register for both events at www.utahtaxpayers.org
To reserve your spot call 801-972-8814, or email brina@utahtaxpayers.org

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This will be the first time in recent memory, if ever, that Utah's individual income tax rate has been lower than the national average

In the past two years, Gov. Huntsman and the Utah Legislature have made significant improvements to Utah's tax system.

1-Utah's previous top marginal rate of 7% (reduced to 6.98% for one year) will be replaced by a single rate of 5%. This will be the first time in recent memory, if ever, that Utah's individual income tax rate has been lower than the national average (currently 5.3%, non-weighted). However, a broader tax base will ensure that Utah's individual income tax burden as a percent of personal income will remain above the national average.

2-The new system will not have tax brackets.

3-Moderate progressivity will be maintained by offering non-refundable credits that are phased out as income increases.

4-Credits are phased out at a rate of 1.3 cents per dollar of adjusted gross income in excess of $24,000 for married households and $12,000 for singles. Since the credits are completely phased out at high income levels, Utah's new system will be a 5% flat tax for high income households.

5-Taxpayers will be able to choose a non-refundable credit based on either 6% of the federal standard deduction (approximately $10,900 in TY2008) or 6% of federal itemized deductions (excluding Utah income taxes paid).

6-Taxpayers will be able to claim non-refundable credits for each household member equal to 4.5% of the federal personal exemption (or 6% of 75% of the federal personal exemption). The federal personal exemption will be about $3,500 in TY2008.

7-Existing credits such as historic preservation, renewable energy, and several others that appear on the TC-40S form and are reported on lines 20 and 30 of the TC-40 will not be impacted by these changes.

Here's an example of how the new system will work based on TY2008 assumptions.

Modified adjusted gross income: $60,000; itemized deductions excluding state income tax: $14,400; family size: 4

Step #1: Calculate tax before credits

Taxpayer multiplies modified adjusted gross income by 5%. $60,000 x 5% = $3,000.

Step #2: Calculate credits prior to phase out

Taxpayer selects greater of itemized deductions (excluding state income tax) or standard deduction and multiplies by 6%. In this example, since the itemized deductions ($14,400) exceed the standard deduction (about $10,900 in 2008), the taxpayer uses itemized deductions.

Itemized/standard credit = $14,400 x 6% = $864

The taxpayer multiplies the number of household members by the federal standard exemption (about $3,500 in 2008) and them multiplies that by 4.5%.

Personal credit = $3,500 x 4 x 4.5% = $630

Total credit prior to phase-out is calculated by adding the two above credits together

Total credit prior to phase out = $864 + $630 = $1,494

Step #3: Calculate credit phase out

Credits are phased out at the rate of 1.3 cents per dollar of income above a certain threshold ($24,000 for a married couple). Credit phase-out = ($60,000 - $24,000) x 0.013 = $468

Step #4: Calculate credit

Taxpayer subtracts credit phase out in step #3 from credit in step #2 to get final credit.

Credit after phase out = $1,494 - $468 = $1,026

Step #5: Calculate tax

Taxpayer subtracts credit after phase out in step #4 from tax before credits in step #1.

Tax = $3,000 - $1,026 = $1,974

Under the old system (prior to changes in last year's special session), this household would have paid $2,159 in taxes for tax year 2008. The new system reduces individual income taxes by $185 per year for this household.

Sales tax changes

During the past two sessions, the Legislature has made several changes to sales taxes

- State sales tax on food will be lowered from 4.75% in 2006 to 2.75% in 2007 to 1.75% in 2008.
- General state sales tax (excluding food) will be reduced from 4.75% to 4.65%
- Salt Lake County transit/roads sales tax (excluding food) will be increased from 0.50% to 0.80%. This occurs in two parts: the original 0.50% will be increased to 0.55% and then the 0.25% approved last November by Salt Lake County voters will be added to that. The total sales tax rate in Salt Lake County, including state, city, county, and boutique sales taxes will be 6.8%.
- Food will be exempt from "boutique" sales taxes such as transit, ZAP, resort community, and other taxes. In Salt Lake County, the boutique sales tax reduction on food is 0.60% (The new "third quarter" Salt Lake County sales tax for roads and rails will also be exempt)

Conclusion

In the past two years, Gov. Huntsman and the Utah Legislature have made significant improvements to Utah's tax system. A lot of groups and individuals played a major role in this process which was started by Gov. Olene Walker more than three years ago.

2007 Utah Taxes Now Conference

(Tentative Agenda)

29th Annual Conference on Taxes & Spending

Securing Utah's Economic Future:

Reforming Taxes and Spending

Sponsored by: Utah Taxpayers Association, Workers Compensation Fund and Chevron/Texaco

Friday May 4, 2007 – 8:00 a.m. to 1:30 p.m.

Little America Hotel, 500 South Main Street, Salt Lake City, Utah

7:30 **Registration**

8:00 **Welcome**: **Max Miller**, Chairman of the Board, Utah Taxpayers Association
Layne Summerhays, Workers Compensation Fund

Conference Moderator: Rod Decker, KUTV News

8:10 **Keynote Speaker: David B. Horner, Esq.**
Chief Counsel, FTA
U.S. Department of Transportation
Breaking the Gridlock: USDOT's Congestion Initiative

8:30 **Legislative Leadership: What's next in tax and spending reform?**
President John Valentine
Speaker Greg Curtis

8:50 **Education Reform: Why do we fear change?**
How can technology help teachers and students?
HB148 Vouchers – **Rep. Greg Hughes**
Spitting school districts – Who will pay for school buildings? – **Speaker Greg Curtis**
Differential pay/merit pay – **Rep. Ronda Menlove**
21st century classrooms **– Patti Harrington,** Superintendent of Schools

9:30 **Review of 2007 Tax Legislation**
SB223 – Omnibus Tax Bill

- Income tax cut – **Sen. Wayne Niederhauser**
- Mining sales tax exemption – **Sen. Mike Dmitrich**
- Research and development tax credit – **Greg Fredde,** Merit Medical
- Renewable energy tax credit – **Rep. Mike Noel**
- Food sales tax cut – **Rep. Merlynn Newbold**

HB 111 – Personal property depreciation's effect on property tax rate – **Rep. John Dougall**

SB 5 – Eliminate penalties where no taxes are owed
SB 74 – Late payment tax penalties modifications
Val Hafen, CPA – Hafen Buckner Everett & Graff

SB 266 – Income tax filing date extension
HB 37 – Internet sales - cigarette tax
D'Arcy Dixon Pignanelli – Utah State Tax Commissioner

SB 203 Disclosure of confidential property tax information
SB 260 Property tax- definition of goodwill
Marc Johnson – Utah State Tax Commissioner

10:10 **Refreshment Break**

10:20 **Future Tax Initiatives: Maintaining a strong economy through targeted tax reform.**
Exempting all business inputs from sale taxes – **Sen. Howard Stephenson**
Corporate income tax cut single sales factor – TBA
Individual income tax issue – TBA
Revenue stability: Expanding sales taxes to services
Bruce Johnson – Utah State Tax Commissioner
Severance tax trust fund – **Mark Buchi**, Tax Attorney Holme Roberts and Owen

11:05 **Transportation Reform: How to solve the funding crisis through innovation.**
The Transportation Crisis – **Mike Jerman**
Rails/Roads Prioritization – **Rep. Wayne Harper**
SB69- Corridor Preservation – **Sen. Sheldon Killpack**

12:00 **Luncheon: Grand Ballroom**
Speaker: Governor Jon M. Huntsman, Jr.
The Next Steps in Tax Reform
Awards: Taxpayer Advocate of the Year
Excellence in Public Service

Mail/Fax Registration Form ***Email Registration***
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Early Bird- Before April 15th - $80 for Association Members, $100 for Others.
***After April 15th prices raise to $100 for members and $125 for others**. (Hurry! Space is limited to 300)*
Make Check Payable to: Utah Taxpayers Association, 1578 West 1700 South #201 Salt Lake City, UT 84104

Taxes Now Conference May 4th!

The future of tax reform in Utah will be explored at the May 4 Taxes Now Conference by Governor **Jon M. Huntsman, Jr.**, **Senate President John Valentine**, **House Speaker Greg Curtis**. They will explain their initiatives for the 2008 session and what tax changes are still needed to stabilize tax revenues and improve Utah's economy in the long term.

Tax Impacts Of Education Reform

The tax ramifications of education reform, splitting large school districts, merit pay, and computer-assisted instruction will be the topic of a panel of speakers at the Taxes Now conference.

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Rep. Greg Hughes will describe Utah's new school voucher program which will recruit parents who will voluntarily allow the state spend an average of $2,000 for their children's education instead of the $7,500 currently spent. Hughes will also explain the effect of the current referendum drive on implementation of the voucher program.

House Speaker Greg Curtis will discuss Utah's statutes for creating smaller school districts and solutions to the adverse effects this could have on property taxes in the rapidly growing, smaller districts.

Utah's inability to hire qualified math and science teachers will be addressed by **Rep. Ronda Menlove** who sponsored ProExcel, the differential/merit pay plan which was supported by the State School Board but not passed by the Utah Legislature.

State Superintendent Patti Harrington will explain the 21st century classroom and how the $50 million technology money will be utilized to enhance computer-assisted instruction.

Recent and Future Tax Changes

Sen. Niederhauser will discuss changes to Utah's individual income tax and how it will affect Utah families. SB223 enacted major changes that reduce tax burdens ($108.7 million in FY09) while creating a tax system with a single, lower rate and a broader base.

Sen. Niederhauser will discuss changes to Utah's individual income tax and how it will affect Utah families.

Greg Fredde of Merit Medical will explain Utah's new simplified R&D tax credit and how it eliminates provisions which penalize high-growth companies, and encourage additional investment into Utah's growing research and development activities.

Sen. Mike Dmitrich will review how expanding sales tax exemption for business inputs to include mining ($7.4 million tax cut reduction) was good tax policy. He will also review other ways in which Utah can avoid taxing business inputs which discourage investment.

Rep. Mike Noel will review how the reauthorization and expansion of the existing renewable energy tax credit will encourage investment in Utah, and create alternate efficient ways to produce clean affordable energy.

Tax Commissioners **Marc Johnson, D'Arcy Dixon Pignanelli, Bruce Johnson** and tax experts explain changes in Utah's tax laws such as; eliminate penalties where no taxes are owed (SB5), late payment penalties modifications (SB74), income tax filing date extension(SB 266) .

Question: How will Utah address the transportation crisis?

Transportation infrastructure is critical for Utah's economic development, but can Utah expand its transportation system without massive tax increases and without diverting even more general funds from K-12 and higher education? Will recent tax cuts be offset by future state and local tax hikes for transportation? These questions will be explored by a panel of experts at the Utah Taxes Now Conference.

In FY2008, the state will be spending almost $700 million in state general funds for roads, a good portion of this is statutorily earmarked for. Prior to the early 1990s, state government relied almost entirely on user fees such as gas taxes to fund transportation. Despite the huge increase in general funds for roads, transportation advocates say more money is needed for roads.

At the same time, local sales taxes for transit and roads are steadily increasing, with many advocates saying that more money is needed, possibly sales tax rates of 8%.

Answer: Transportation Reform

Utah can address its transportation problems by encouraging more efficient use of existing and future transportation infrastructure and more efficient allocation of transportation dollars. Several speakers at the 2007 Utah Taxes Now Conference will address transportation reform:

Utah can address its transportation problems by encouraging more efficient use of existing and future transportation infrastructure and more efficient allocation of transportation dollars.

David Horner of the US Department of Transportation will discuss congestion pricing, a means to encourage more efficient use of transportation infrastructure.

Rep. Wayne Harper will address prioritizing roads and transit projects based on the cost effectiveness of reducing congestion.

Sen. Sheldon Killpack will address efforts to purchase transportation corridors before land prices escalate due to encroaching development.

Mike Jerman of the Utah Taxpayers Association will discuss increasing gas taxes to encourage more efficient use of transportation infrastructure while reducing individual income taxes to ensure revenue neutrality.

My Corner - by Howard Stephenson

Time to Fix Utah's Punitive Corporate Income Tax

Following the recent signing of SB223 – the $220 million omnibus tax cut package – there was broad media coverage of the individual income tax cut which makes up $109 million of the cut and $80 million in sales tax cuts. These were viewed as tax cuts "for the people." But perhaps the most important parts of the bill for "people" and families were labeled as tax cuts for businesses: The $5 million mining equipment sales tax exemption, the $14.5 million research and development tax credit, and the $3 million renewable energy tax credit.

These business tax cuts – although meager in amount compared to the tax cuts on "people" – are designed to make Utah more attractive for capital investment and therefore more attractive for higher paying jobs to support Utah families. Governor Huntsman understands this and pointed out in his remarks at the signing of SB223 that capital is a coward, and consequently, it is incumbent on policymakers in Utah to make Utah safe for capital investment.

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Quote of the Month #1

"We are concerned here. We're worried about the 2008 elections. We have to put forward our conservative package — not so much on the moral issues but on fiscally conservative issues. We need to bring our people back."
Jeff Hartley, Executive Director, Utah Republican Party
Source: *Deseret Morning News, April 3, 2007*

In recent years, states have been slowly reducing corporate income taxes to remain competitive in a global economy. States have been doing this not by reducing corporate income tax rates but rather by increasing the sales factor weighting in corporate income tax apportionment formulas.

In recent years, states have been slowly reducing corporate income taxes to remain competitive in a global economy.

Why shouldn't Utah repeal the state corporate income tax entirely?

Complete repeal of the Utah corporate income tax presents two problems. First, the fiscal impact would be huge. In FY2006, Utah's corporate income tax generated $380 million (the amount generated each year varies dramatically depending on the state of the economy). Increasing the sales factor weighting would impact revenues by about $30 to $50 million per year.

Second, complete repeal of the state corporate income tax would allow local governments to begin collecting property taxes on intangible property such as patents, trademarks, and goodwill. The Utah state constitution prevents the taxation of intangible property as long as corporate income tax is imposed ("*If any intangible property is taxed under the property tax, the income from that property may not also be taxed*." -- Utah Constitution, Article XIII, section 2, part (6))

For example, let's assume a company has a market value based on its stock price of $1 billion and tangible real and personal property of $100 million. Currently, local governments can impose property taxes on $100 million. If the state corporate income tax were repealed without changing the state constitution, then local governments would impose property taxes on $1 billion.

What is apportionment of corporate income?

Apportionment of corporate income is an important issue for multi-state companies. Many decades ago, states agreed to use an evenly weighted three-factor apportionment formula based on a corporation's sales, property, and wages. Each factor was given a 33.3% weighting. This was intended to prevent over taxation of a corporation's profits. For example, without apportionment, a company doing business in twenty states would have to pay 100% state corporate income tax if each state imposed a 5% corporate income tax rate.

Apportionment of corporate income is an important issue for multi-state companies. Many decades ago, states agreed to use an evenly weighted three-factor apportionment formula based on a corporation's sales, property, and wages.

Using the evenly weighted three factor formula, the corporation's income would be apportioned to each state where it did business. The following hypothetical example illustrates how this works

	% of Sales	% of Wages	% of Property
Other States	99%	1%	1%
In State	1%	99%	99%

Total Apportionment is calculated as follows:
Other states = (99% + 1% + 1%) / 3 = 33.7%
Utah = (1% + 99% + 99%) / 3 = 66.3

Why increase sales factor weighting?

States have been increasing the sales factor weighting from the usual 33.3% in order to incentivize and encourage investment by high wage, export-oriented companies that have the option of locating in any state (or country for that matter). A semiconductor manufacturer, for example, pays high wages, brings money into the state by exporting products to other states, and can locate anywhere.

THE
Utah Taxpayer
Since 1922

THE UTAH TAXPAYERS ASSOCIATION
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Address Service Request

Utah recently enacted an electable double-weighted (50%) sales apportionment formula. Only eight states still use an evenly weighted formula for all corporations.

By increasing the sales factor to 100%, a company that employs Utahns and invests in Utah but exports all or most of its product to other states, would pay zero or little Utah corporate income tax (assuming the throwback rule were eliminated, which is a topic for another time). Companies that produce and employ in other states but sell their products in Utah would not benefit from this change.

Using the above example, the apportionment to Utah would be 1% if single sales factor were used instead of 66.3% if evenly weighted three factor were used.

Utah recently enacted an electable double-weighted (50%) sales apportionment formula. Only eight states still use an evenly weighted formula for all corporations. Thirteen states allow or soon will be allowing some or all corporations to use single sales factor (100% weighting). In addition three states (Nevada, South Dakota, and Wyoming) do not impose corporate income taxes at all.

Accomplishing the enactment of an electable single sales factor should be done in the 2008 session of the Utah Legislature. It may require a phase-in over a few years rather than an immediate jump from the 50% sales factor weighting currently allowed, but however it is done, there should be no delay in passing the law to make Utah more competitive.

Quote of the Month #2

"You mean we increased public education spending half a billion dollars this year and we still can't get qualified math and science teachers? Something's broken!"

Rick Jensen, Draper resident, responding to the legislature's failure to pass legislation which would pay math and science teachers $10,000 more than, say, P.E. teachers.

Source: *Communication to Utah Taxpayers Association*

Tax Freedom Day

Tax Freedom Day will arrive on April 30th this year, according to the Tax Foundation, two days later than last year.

Tax Freedom Day will arrive on April 30th this year, according to the Tax Foundation, two days later than last year. On a state-by-state basis, Tax Freedom Day arrives on different days. In Utah, for example, Tax Freedom Day arrives on April 22nd, a couple days earlier than the nation as a whole.

Tax Freedom Day is a broad economic measure that accounts for the amount of federal, state, and local taxes paid as a percent of national income. In 2007, Americans will earn $12.199 trillion in income and pay $3.988 trillion in taxes, or 32.7% of national income. Multiplying 32.7% by the number of days in a year equals 120 days. April 30th is the 120th day of the year.

Why does Tax Freedom Day arrive earlier in Utah?

Utah's federal income tax burden is lower than the national average, due largely to larger families and lower annual wages.

Utah's federal income tax burden is lower than the national average, due largely to larger families and lower annual wages. Larger families mean more federal personal exemptions and child tax credits. In fact, many middle-income Utah families pay little or no federal income tax.

Utah's average annual wage is about 18% below the national average (this is an average wage, not a per capita wage which includes children). Since the federal tax is steeply progressive, Utah's lower wages means that Utahns pay lower federal income taxes compared to the national average.

Several legislators argue that Utah's lower federal tax burden justifies a higher state and local tax burden. However, every level of government should be held separately accountable for the taxes it imposes. For example, a city should not argue that it is justified in imposing higher taxes than other cities simply because the county tax rate is lower than other counties.

Responding to criticism from the Left

Some groups criticize the Tax Foundation's Tax Freedom Day calculation. They argue that Tax Freedom Day does not measure the tax burden of a median income American. The Tax Foundation responds that Tax Freedom Day is a broad measure that accounts for tax burden across the entire economy and was never intended to measure the tax burden of the "average" American.

Some groups maintain that Tax Freedom Day overstates America's tax burden because taxes on capital gains are included in the numerator (taxes) but capital gains income is excluded in the denominator. The Tax Foundation responds that including capital gains income would impact Tax Freedom Day calculations by roughly one percent. Go to taxfoundation.org to read more