



The Utah Taxpayer

A Publication of the Utah Taxpayers Association

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Tax Cut Era Comes to an End?

As growth in state government revenues begins to decelerate due to an economic slowdown, Gov. Huntsman and the Utah Legislature are less likely to cut taxes. While the 2008 Utah Legislature may end up cutting taxes in the \$2million range, these tax cuts will be much lower than the taxes of 2006 and 2007.

While this year Utah enjoys one of the largest revenue surpluses in state history, revenue forecasts suggest the economy is slowing. Without strong revenue growth, the Legislature initially did not expect to have funds available to expand the state’s transportation system. However, last week Republicans in the House and Senate agreed to fund some of these transportation needs by increasing the statewide sales tax by .05%, or \$21,870,000 statewide. The following table summarizes the overall tax cut proposals the Legislature is currently considering.

2008 General Session		
HB 133	Tax cut for individuals purchasing their own health insurance	\$ (18,700,000.00)
SB 204	Extends the 2007 income tax cuts to real estate investment trusts	\$ (2,800,000.00)
SB 28	Single sales factor for the transportation industry	\$ (650,000.00)
HB 201	Tax credit for solar projects	\$ (250,000.00)
HB 359	Sales and use tax exemption for sales of fuel	\$ (1,958,000.00)
	Sub-Total	\$ (24,358,000.00)
	.05% increase in sales tax for transportation chokepoints	\$ 21,870,000.00
	Net Tax Cut	\$ (2,488,000.00)

The following table itemizes the tax cuts enacted by the Utah Legislature in recent years. Tax cuts from 2005 to 2007 totaled \$407 million, including local impacts of sales tax exemptions and reduction in municipal telecommunications license tax,. About 85% of these tax cuts, including cable TV equalization and the second gross receipts tax repeal, directly benefited individuals while 15% of these tax cuts, including one-third of the reduction in general state sales tax rate, directly benefited businesses.

2005 General Session (FY2007 impact)		
HB 78	Corporate income tax: electable double sales weighting	\$7.0 million
SB 13	Ind. Income tax cut active-duty National Guard/reservists (FY05 only)	\$1.1 million
SB 127	Avoids unintended sales tax increase on certain business inputs	\$1.3 million
2006 General Session (FY2008 Impact)		
HB 109	Reduction in sales tax on food	\$70.0 million
SB 29	Sales tax exemption telecommunications (incl. local impact)	\$10.0 million
SB 31	Sales tax exemption manufacturing repairs (incl. local impact)	\$8.0 million
SB 34	Second gross receipts tax repeal	\$5.5 million
2006 Special Session (FY2008 Impact)		
SB4001	Optional 5.35% flat tax	\$36.0 million
SB4001	Indexing individual income tax brackets and rate reduction	\$42.0 million
2007 General Session (FY2009 Impact)		
SB223	Individual income tax	\$108.7 million
SB223	Reduction in food sales tax (2.75% to 1.75%)	\$40.4 million
SB223	Reduction in general state sales tax (4.75% to 4.65%)	\$40.9 million
SB223	Sales tax exemption for mining purchases (incl. local impact)	\$6.5 million
SB223	Research and development income tax credit	\$14.5 million
SB223	Renewable energy tax credit	\$3.0 million
SB223	Sales tax exemption for dental prosthesis	\$1.9 million
SB223	Cable TV equalization	\$5.0 million
HB238	Reduction in municipal telecommunications licenses tax	\$5.5 million

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Sources: www.le.utah.gov, Economic Report to the Governor, Utah Taxpayers Association newsletters
 Note: While the "official" amount of the 2007 tax cut was \$220 million, this amount excludes the local impacts of the municipal telecommunications license tax cut (\$5.5 million) and the mining sales tax exemption (\$1.5 million). The above table includes these local tax cuts for a total of \$227 million.

The accompanying table summarizes the tax cuts for the 2005, 2006, and 2007 General Sessions.

In the 2002, 2003, and 2004 General Sessions, Utah increased taxes by nearly \$60 million.

Tax cuts offset somewhat by increased local tax authority

While the Legislature was busy cutting taxes at the state level, it was also busy increasing taxing authority at the local level.

On the last night of the 2005 General Session the Utah Legislature authorized counties to increase motor vehicle registration fees by \$10 per year, with revenues earmarked for corridor preservation. If every county imposes this new tax, total statewide impact would be about \$17 million, but most observers expect the increase will be about \$14 million, since many rural counties will not impose the new tax.

In the 2006 Fourth Special Session, the Legislature authorized counties to impose an additional 0.25% increase in sales tax rates to fund roads and rails projects. If all counties impose this tax, the statewide impact would be \$116 million annually. Based on historical trends, taxpayers can safely assume that all Wasatch Front counties will eventually adopt the 0.25% sales tax increase.

Some argue that increasing local sales tax authority wasn't really a tax increase because the Legislature prohibited property tax for light rail and commuter rail. However, the main purpose for authorizing the 0.25% sales tax increase was concern that voters would not approve property tax increases for light rail and commuter rail.

Will Legislature raise taxes in 2009 and 2010?

Historically, the Legislature has raised taxes in bad times and cut taxes in good times. In the economic downturn of the mid-1980s, Utah raised taxes by about \$150 million, which is more than \$500 million in today's economy. In the economic downturn that occurred earlier this decade, Utah raised taxes by a much smaller \$60 million.

Economists are already talking about a "v-shaped" recovery. We hope they're right, but we heard this one back in 2001. By 2003, legislators were joking about an "L-shaped" recovery. Fortunately, the Legislature resisted calls to immediately dip into rainy-day funds and substantially raise taxes.

If the economic downturn ends up being worse than currently expected, Utahns can expect the Legislature to increase local sales tax authority for transportation, especially since passing this decision off to voters is a lot less politically painful for legislators than voting for tax increases on the floor of the House or Senate.

Legislative Session	Total Tax Cut
2005 General	\$9 million
2006 General	\$93 million
2006 Special (4 th)	\$78 million
2007 General	\$227 million
Total	\$407 million

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These tax cuts have helped Utah develop the nation's most vibrant economy; our economy outpaces the nation in job creation, low unemployment, and appreciation in home value.



My Corner - by M. Royce Van Tassell
Utahns for Public Schools review of Legislature's tax policy full of flaws, fails Utah's families

(Due to Howard Stephenson serving in the Legislature, this month's My Corner comes from Association Vice President Royce Van Tassell)

A new report from Utahns for Public Schools (UfPS), the UEA/PTA/Utah School Boards Association/etc. coalition that opposed vouchers on last November's ballot, castigates the Legislature for pursuing sound tax and fiscal policies. In their view, the Legislature should increase taxes, and spend ever more money on public education. This report's many flaws fail Utah's families by ignoring the record increases public education has received during the past several years. Moreover, their prescription of higher and higher taxes will harm Utah's economic competitiveness, and lead to less spending on public education.

As detailed elsewhere in this newsletter, over the past several years Utah's Legislature has enacted hundreds of millions of dollars in tax cuts. These tax cuts have helped Utah develop the nation's most vibrant economy; our economy outpaces the nation in job creation, and low unemployment. All of these positive economic benefits increase Utahns' income, which in turn increases the tax dollars the state has available for public education.

Despite the clear benefits public education enjoys because of Utah's recent tax cuts, the report from UfPS criticizes these tax cuts. In their view, Utah's economic well-being bears no relationship to the tax policies the Legislature has adopted.

Without any empirical or logical evidence, they assert, “during the past 10 years, had the new 5% single-rate income tax system been in place, the Education Fund would have receipted [sic] \$235 million less in revenues.” Because it ignores the new business investment in Utah a lower tax rate would have invited, their assertion is just plain wrong. Utah’s economy would have grown even more, and that growth would have more than offset the lost revenues from the lower tax rate.

Besides wanting the hundreds of millions of dollars in tax cuts back that the Legislature has enacted in the past several years, the report fails Utah families by questioning why the Legislature didn’t raise property taxes by \$381 million this past year. By their reasoning, Utah should more than double the basic property tax levy for education. Given the ongoing outcry over property taxes, and surveys showing 70% of Utahns wanting a tax cut, it’s hard to justify the massive tax increases they propose.

While criticizing the tax cuts the Legislature has enacted, they conveniently ignore the tax breaks public education itself authorizes. When the Legislature last revised the state’s RDA law, public education received veto authority over proposed redevelopment tax subsidies. In 2007 alone, the Granite School Board alone approved more than \$100 million in redevelopment tax subsidies to some of the largest developers in the country. Importantly, these RDAs all subsidize development that would have occurred without the subsidy. By contrast, the tax cuts criticized by the report invite new investment in Utah. The report’s criticism of the Legislature’s tax cuts coupled with their silence on RDA projects exposes UfPS’s hypocrisy.

While public education is rightly one of the Legislature’s highest priorities, UfPS suggest it should be the only priority. “If the backbone of Utah’s thriving economy is its educated workforce, then those demands need to be met first.”

Such myopic analysis underscores the report’s self-serving flaws. A functioning transportation system helps public education by allowing economic growth. If employees and goods are continually mired in massive traffic jams, Utah won’t attract the business investment necessary for the economy to expand. And without that economic growth and the income tax revenue it generates, Utah’s public education system won’t enjoy the steady increases it has received over the past 20 years.

A functioning transportation system also offers another tangible, yet apparently overlooked (at least by UfPS) benefit to public education. Just a couple of weeks ago the teachers and students stranded at Fox Hollow, Ridgeline and Harvest elementary schools learned all too vividly what happens when the transportation system fails. Nevertheless, the report argues that the Legislature should not prepare for widening I-15 in Utah county, the most pressing transportation problem in the state, until all of public education’s “demands” are met.

The report is further flawed in its version of history. While the study criticizes the Legislature for allowing higher education to receive funding from the Education Fund, it fails to mention that the largest member of UfPS, the UEA, supported the constitutional amendment allowing income tax dollars to be spent on higher and public education.

Utah families, businesses and taxpayers understand the importance of lower taxes and public education. Unfortunately, UfPS believe the only way to improve public education is to raise property and income taxes. Their flawed analysis fails to account for the economic consequences of higher taxes. The best way to provide more funding for public education is to lower taxes, and result in new business investment into the state.

Two Years, Three Tax Systems

The Taxpayers Association has received several calls and emails regarding changes in Utah’s individual income tax system. Hopefully, the following explanation will clarify the situation.

In tax year 2007 – which Utahns are currently preparing – Utahns have two choices:

1. the traditional bracketed system with a top marginal rate of 6.98% (reduced from 7.0% in previous years) applied to income above \$11,000 (up from \$8,626 in previous years)
2. A flat tax of 5.35% on adjusted gross income

In tax year 2008 – which Utahns will be preparing a year from now – Utahns will have one system with the following characteristics

1. A single rate of 5.0%
2. Credits of 6%
 - a. 75% of federal personal exemptions
 - b. Federal standard deduction or federal itemized deductions excluding state income taxes paid.
 - c. Credits are phased out at 1.3 cents per dollar of AGI in excess of \$24,000 for married couples, \$18,000 for head of household, and \$12,000 for singles. These thresholds are indexed for inflation starting in tax year 2009.

Most of the confusion is based on the mistaken belief that the 5.35% flat rate (option two for tax year 2007) is the tax system that will be in place starting tax year 2008. As the accompanying examples show, in 2008 tax credits and a single rate of 5% will be in place.

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The accompanying examples demonstrate how the new tax changes impact a median-income, two-parent, three-child family in tax years 2007 and 2008.

TY2007 - Bracketed / 6.98% Top Marginal Rate	
Adjusted Gross Income	\$ 57,700
- Personal exemption at \$2,550 each (75% of federal \$3,400 for TY2007)	\$ 12,750
- Itemized deductions excl state income taxes paid	\$ 12,117
- Less 50% federal tax liability	\$ 115
= Taxable income	\$ 32,718
State income tax	
Below \$11,000 taxable income	\$ 480
Above \$11,000 taxable income at 6.98%	\$ 1,516
Total state income tax	\$ 1,996

TY2007 - 5.35% Flat Tax Rate	
Adjusted Gross Income	\$ 57,700
State income tax at 5.35%	\$ 3,087

TY2008 - 5% Single Rate with 6% Credits	
Adjusted Gross Income	\$ 57,700
Tax at 5% of adjusted gross income before credits	\$ 2,885
6% credits before phase out	
- federal itemized deductions (\$12,117) excl state income taxes	\$ 727
- 75% of federal personal exemption (\$3,500 in TY08) per person	\$ 788
Total credit	\$ 1,515
Credit phase out at 1.3 cents per dollar AGI over \$24,000 (married)	\$ 438
Net credit	\$ 1,076
State income tax: 5% of AGI less net credit	\$ 1,809

2008 Utah Legislature- Tax Related Bills

The following table shows the status of key bills in the 2008 Legislative Session, which ends Wednesday, March 5th. We encourage our readers to express their appreciation to their legislators for their service to the state. For fuller descriptions and the most up-to-date information on these and other bills tracked by the Taxpayers Association, see our Watch List at www.utahtaxpayers.org.

Status of Key Bills in the 2008 Legislative General Session, as of Friday, February 29, 2008

Bill Number	Bill Summary	Taxpayer Position	Status
HB 49 S1	Budget reserve account and disaster recovery account amendments.	Support	Passed House and Senate
HB 52	R&D Tax Credits	Support	Passed House and Senate
HB 54 S2	Helps county assessors annually update valuation of all properties	Support	Passed House, Pending in Conference Committee
HB 58 S1	Severance tax trust fund	Support	Passed House, Pending in Senate
HB 75 S2	Inventory and review of commercial activities performed by state agencies	Support	Passed House and Senate
HB 313	Indexes motor fuel and special fuel tax for inflation	Oppose	Failed to obtain committee hearing
HB 355 S2	Raises cigarette tax and earmarks the revenue	Oppose	Failed in House Rev and Tax Committee
HB 356	Equalizes taxation of moist snuff products	Support	Passed House, Pending in Senate
HB 383	Equalizes school building capital outlay statewide	Support	Pending in House
HB 405 S1	Extends duration of city RAP, ZAP, etc. taxes	Oppose	Failed on House floor
HB 435	Public hearings on property tax increases	Support	Pending in House
SB 28	Electable single sales factor	Support	Passed Senate, Pending in House
SB 35	Differential pay for math and science teachers	Support	Passed Senate, Pending in House
SB 38 S2	Transparency in government finance	Support	Passed Senate, Pending in House
SB 45 S2	Inventory of competitive activities of local entities	Support	Passed House and Senate
SB 48 S4	Equalizes school building capital outlay funding in Salt Lake County	Support	Passed Senate, Pending in House
SB 64	Income tax - Capital gains transactions	Support	Passed Senate, Pending in House
SB 135	Extending the sales and use tax exemption for pollution control facilities	Support	Passed House and Senate
SB 237	Commercial airline and airport taxation amendments	Support	Pending in Senate