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THE UTAH TAXPAYER

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User Fees the Solution to Utah's Transportation Needs

The Utah Legislature is once again looking at funding options for the state's critical transportation needs. Lawmakers considered addressing the issue in the 2014 legislative session but couldn't settle on a solution before their 45-day time limit ran out.

Once the November elections are behind them, legislators will continue to examine a variety of options to fund Utah's transportation needs. They need to do so. Utah's current funding structure for roads is unsustainable, considering the gas tax has lost 40% of its purchasing power since last increased in 1997.

Currently Utah's gas tax rate sits at 24.5 cents per gallon, which is 29th in the nation. That tax alone only produces a little more than $350 million per year for Utah's roads. To make up for the additional funds needed to pay for Utah's transportation system, the state also draws upon a number of earmarks from sales tax revenue that will provide roughly $291.3 million in FY2015. Your Taxpayers Association is working with Utah's legislature to change those sales tax earmarks into a process that more closely ties the money collected for road construction and maintenance to highway users.

Earlier this year, lawmakers discussed several proposals to alter Utah's current gas tax policy. One proposal included cutting the gas tax rate while increasing sales tax across the board to pay for transportation. Another proposal looked at increasing the gas tax to 32 cents per gallon by 2018. A third option looked to completely renovate the gas tax and create a two-component system.

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Notice of Utah Taxpayers Association's Annual Meeting

All members of the Utah Taxpayers Association are invited to attend the Association's Annual Meeting, which will be held on Friday, November 21, 2014 at 2:00 PM. The meeting will be at the offices of Holland & Hart, 222 South Main Street, Suite 2200, Salt Lake City, Utah. Due to building security, please bring photo ID. Nominations for the Board of Directors will be accepted from the general membership until five days prior to the Annual Meeting.

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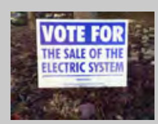


Association President Howard Stephenson

My Corner: Taxpayer Subsidized Mega Hotel Nets Only One Bid

Salt Lake County needs to head back to the drawing board with its plan to subsidize a mega convention center hotel in downtown Salt Lake City. After claiming there were multiple developers interested in building such a facility near the Salt Palace, only one company submitted a bid in the county's request for proposals (RFP) for the project. One. Not five or ten, only one.

This is surprising, as supporters of the hotel boondoggle continually told lawmakers and the public that this was a project that would generate a lot of interest from many businesses itching for the opportunity to bring their services to Utah.

The results say otherwise.

Your Utah Taxpayers Association has opposed the hotel convention center plan since its conception and worked vigorously to challenge it throughout its life. The Association successfully blocked the first edition of the proposal, as it was voted down on the last night of the state legislature's 2013 session. But Salt Lake County mayor Ben McAdams was able to lobby enough lawmakers, after some minor tweaks to his first bill, to push it through to final passage in this year's session.

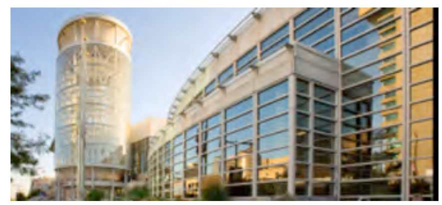
Now other Salt Lake City hotels are left with an uneven playing field as they face the prospect of going up against a major competitor with a built-in government endorsed advantage.

The fact that only one company wanted to bid on Salt Lake County's proposal is a warning signal that the plan is misguided. While media reports indicate at least eight companies showed interest in building the hotel initially, only one decided it was worth the risk to move forward. Salt Lake County needs to find out why the other seven backed away.

With only one company submitting a bid, it is impossible to know if Utah's taxpayers are getting the best value for the subsidies they will be providing. This also brings up questions about the RFP itself. Salt Lake County needs to reevaluate the parameters of the request it is making and see if it can create a proposal that is attractive to more investors.

Again, this is a problem of government trying to be in the business of doing business, rather than leaving such things to the private market. Instead of allowing businesses to see a profitable opportunity for a large hotel near Salt Lake City's convention center, the government is attempting to create a need that requires taxpayer subsidization. This is done at the risk of hurting businesses that have long been a part of the fabric of our community.

In a recent study commissioned by your Taxpayers Association, performed by hotel and real estate consultants (HREC), it was found that existing hotels in Salt Lake City would lose $105 million in revenue over the first five years to this government subsidized hotel.



Salt Palace Convention Center

The Association's study also discovered the claim that Salt Lake City is missing out on conventions because it lacks a 1,000-room hotel to be false. According to data provided by Salt Lake County and its convention and visitors bureau (Visit Salt Lake), HREC found that of the 99 conventions that Visit Salt Lake courted but that opted out of coming to Utah declined because either the Salt Palace was already booked, the organizations wanted a destination with warmer weather, or they were seeking a location with a livelier nightlife. The study also found that in its first year of operation, the new hotel would receive 53% of its revenue at the direct expense of the already existing hotels in the downtown area.

With these facts in mind, and facing the reality that only one company chose to bid on the county's RFP, the Utah Taxpayers Association calls on Salt Lake County to rethink its effort for a taxpayer subsidized mega hotel. At the very least, the bid process should be reopened to attract more interested parties, or if no other businesses see Salt Lake as a destination ready for such a facility, then the time has come to abandon the effort and allow the market to dictate when such a project should occur. ◆

User Fees the Solution to Utah's Transportation Needs

…Continued from page 1

The first component would have been a flat rate of 14 cents per gallon, and the second component a 3.69% rate on the price of gas, making the change revenue neutral for the upcoming fiscal year. All these proposals failed to gain any traction in the session, but similar proposals may be considered in 2015.

Your Taxpayers Association has previously written on these pages that sound tax policies rely on user fees for government services. When user fees are not possible, a tax should be as intimately related to the service provided as possible. That is why your Taxpayers Association has in the past pushed for proposals that included a 25 cents per gallon increase to the gas tax with a simultaneous cut in the state income tax.

In 2013 the Utah Taxpayers Association proposed the legislature increase the gas tax by 42.4 cents per gallon, placing the tax at 66.9 cents per gallon, while calling for all general sales taxes that were currently being diverted for roads be returned to other state agencies such as higher education. That proposal also included reducing the income tax rate from 5% to 4.57% to ensure the tax changes remained revenue neutral. These proposals should once again be considered as lawmakers look to meet the cost of Utah's roads and highways.

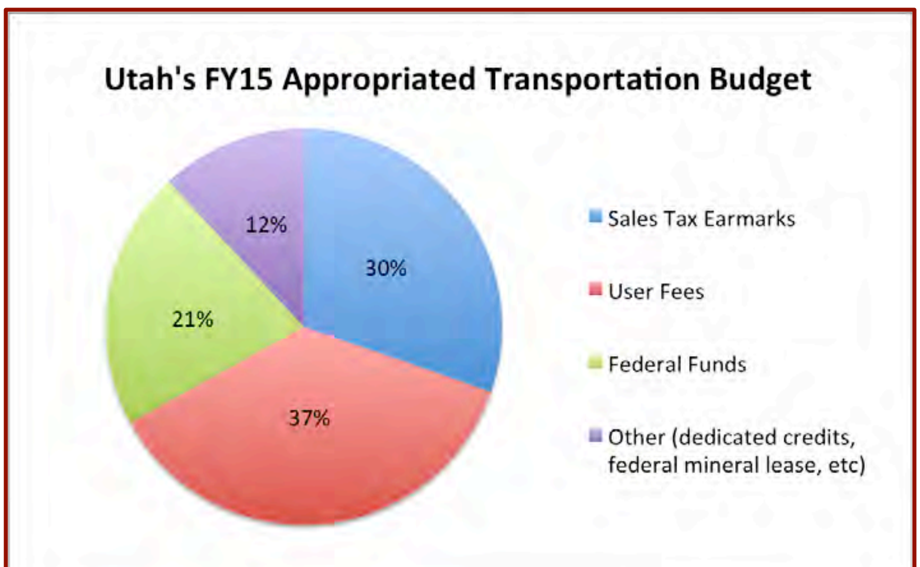
Alternative funding options, such as mileage based user fees (MBUF), should also be considered as we look to the future.

These user fees, also known as vehicle miles traveled (VMT), are arguably the best way of connecting road use with transportation costs. It is also the best way of reducing congestion, providing long-term funding and creating greater transportation equity.

The state of Oregon is set to start the next phase in its VMT pilot project. Beginning in July of 2015, the Beaver State will allow 5,000 volunteer vehicles participate in the program. The details of the plan include:

- A 1.5 cents per mile road usage charge for travel on public roads (determined to be the equivalent of Oregon's state gas tax)
- A refund/credit of the state gas tax to those motorists who sign up for the VMT program
- A refund/credit for travel on private roads in Oregon
- Use Oregon Department of Transportation (ODOT) developed methods by which VMT vehicles will measure and report mileage
- Options for VMT participants as to how their mileage will be collected and reported that includes at least one method *not* using GPS technology
- Establishment of an integrated open-systems technology architecture
- Use of private sector partners to provide options to VMT volunteers in lieu of the DOT system
- Requirements for the protection of personal information
- Enforcement standards including penalties for false statements, non-payment and tampering with in-vehicle technology

Your Taxpayers Association encourages Utah's lawmakers to develop a similar system to what Oregon is doing. This is an innovative solution that leads our current archaic taxing process for transportation funding into a modern era that better aligns use with cost. ◆



Utah's Wireless Taxes Top Neighboring States and Rank 12th Highest in the Nation

Washington D.C.

Wireless service has become essential to daily life for individual consumers, businesses, and government. Few other services have seen the kind of explosive growth in subscribers that wireless service has enjoyed. Unfortunately, government has viewed this boon as a convenient revenue source, evidenced by the fact that over the past ten years the overall tax burden on wireless consumers grew three times faster than the general sales tax rate on other goods and services.

Last month, the Tax Foundation released a study on wireless taxation in the United States. Their results for 2014 show that Americans pay an average of 17.05% in combined federal, state and local taxes and fees on wireless service. Unfortunately, Utahans pay above average at 18.35% combined. This is more than double the sales and use tax Utahans pay on other taxable goods and services, and ranks Utah 12th highest in the nation for wireless taxes.

State-Local Rates of Neighboring States

State	Wireless Tax Rate	Disparity with Sales Tax Rate
UT	12.53%	5.73%
AZ	11.96%	3.76%
NM	11.02%	3.42%
CO	10.70%	3.07%
WY	7.71%	2.21%
ID	2.62%	-3.38%
NV	1.86%	-5.93%

Regionally, Utah ranks number one for state-local wireless tax burden, despite neighboring Nevada and Idaho, with the 2nd and 3rd *lowest* rates in the country respectively. When considering the extent to which the wireless tax rate is above the general sales tax rate (disparity with sales tax rate), Utah fares even worse.

So where exactly does 18.35% of your cellphone bill go each month? The chart to the right outlines the various taxes and fees that wireless subscribers in Utah pay. In addition to these taxes and fees, many wireless providers charge their own surcharges to defray the cost of federal regulations, a federal Universal Service Charge, and other taxes on the network provider's facilities and services.

Policy makers may think that high taxes on wireless communication are annoying to users, but aren't burdensome enough to change consumer behavior. This is not actually true. The price elasticity of demand for wireless service, which shows how sensitive consumers are to price changes, indicates that for each 1% increase in the price of wireless service, consumer demand for such service falls about 1.2%.

Cell phones are becoming the sole means of communication and connectivity for many Americans, with nearly 40% of all adults "wireless only." Amongst low-income users, the percentage jumps to 56%. As such, low-income users are disproportionately impacted by excessive taxes on wireless communication.

Another downside to discriminatory taxes on wireless service is a slowdown in wireless infrastructure investment. This slowdown not only impacts the deployment of more advanced wireless network infrastructure, but limits

Transaction Taxes, Fees, and Government Charges on Wireless Service in Utah

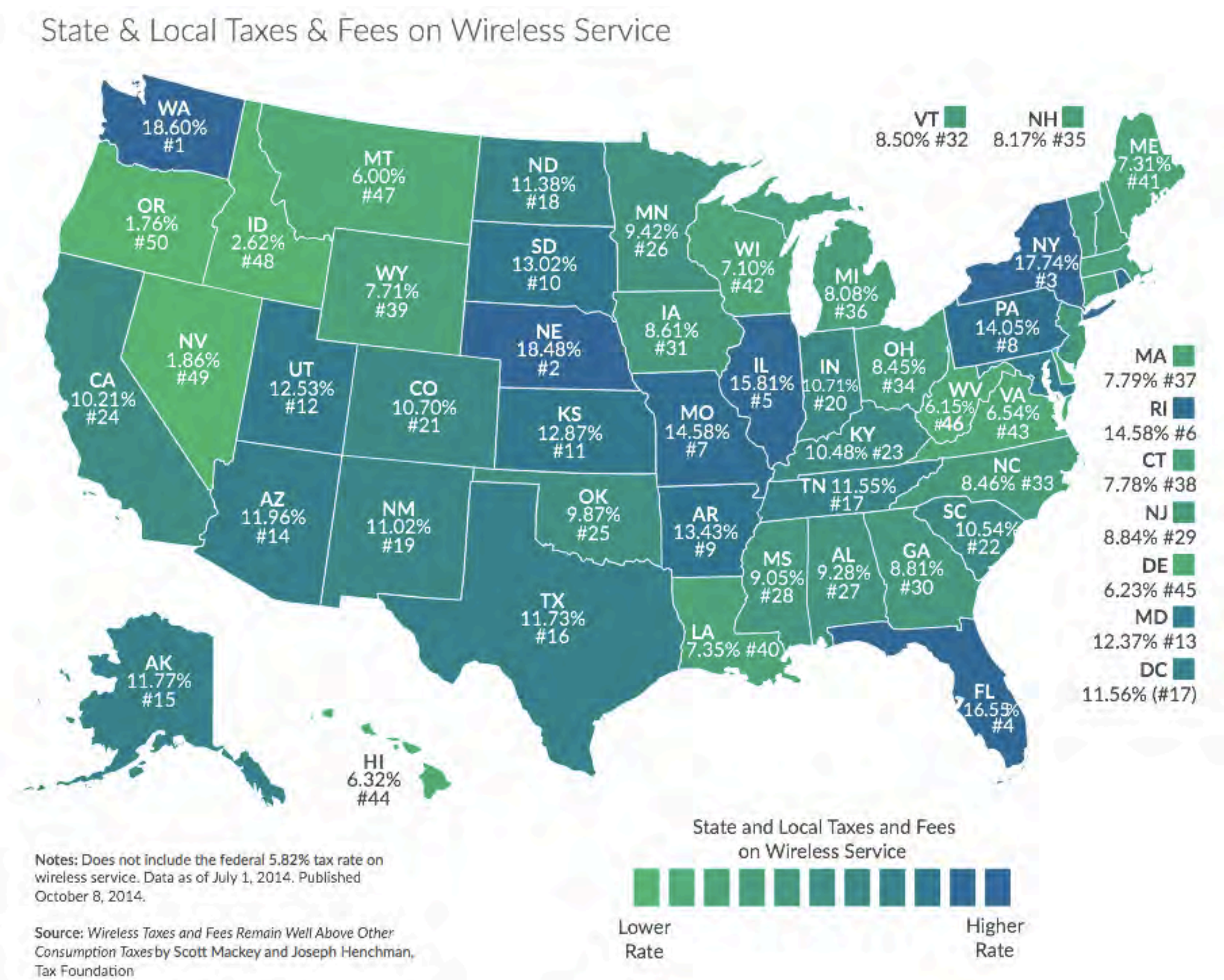
State sales tax	4.70%	Access and intrastate
Local sales taxes	2.10%	Avg. of SLC and Provo
Local utility wireless	3.50%	Levied at 3.5% max in SLC and Provo
Local 911	1.25%	$0.61/month
State 911	0.16%	$0.08/month
Poison Control	0.14%	$0.07/month
State USF	0.63%	1.0% times FCC safe harbor
State TRS	0.04%	$0.02/line
Federal rate	5.82%	Uniform across all states
TOTAL:	**18.35%**	

*Universal Service Funds = surcharges imposed on revenues from intrastate telecom services to subsidize services for schools, libraries, hospitals, and rural telephone companies operating in high cost areas.
**Telecommunications Relay Service = allows persons with hearing or speech disabilities to place and receive telephone calls.

economic benefits in the broader economy because so many sectors rely on wireless networks to boost productivity and efficiency. If all businesses can operate more productively and profitably, they can create new jobs and generate further economic activity. Subscriber revenue determines the extent to which providers can invest in network modernization, so price sensitive consumers responding to high taxes on wireless service only feed the problem of slower infrastructure investment. While fixing discriminatory telecom taxes may reduce revenue in the short term, the increase in consumer demand and network deployment as a result of a lower tax burden would likely over time counteract the lost revenue.

There is currently a congressional moratorium on state and local taxes on Internet access. Your Taxpayers Association believes that this tax-free zone should extend to cover wireless communication as well. Wireless communication is a cornerstone for economic growth, and burdening wireless service users with fees merely shoots the messenger. Current telecom tax policies need to move away from discriminatory taxes on wireless communication towards more broad-based tax sources that do no distort consumer purchasing decisions or slow investment in critical infrastructure. ◆

The map below from The Tax Foundation shows wireless tax rates and rankings in the United States.



December Truth in Taxation Hearings

Entity	Proposed Budget Increase	TnT Hearing Date	TnT Hearing Time
Wayne County	$55,000	12/15/14	6:00 PM
Moab Valley Fire Protection District	$100,000	12/10/14	6:00 PM

During the last legislative session your Utah Taxpayers Association helped pass SB 61, “Revisions to Property Tax.” SB 61 requires calendar year taxing entities (primarily counties) to hold December Truth-in-Taxation (TnT) hearings when proposing property tax hikes.

Prior to the passage of SB 61, calendar year taxing entities would budget for a property tax increase in November, then hold TnT hearings the following August. Because the hearings were taking place more than seven months into the budget cycle, it was usually impossible for these entities to alter their budgets and make do without a property tax hike, since the money was often already spent. This was the source of endless frustration to taxpayers and county officials alike.

Now this year, for the first time ever, counties are required to include an individualized notice of proposed property tax hikes and date of the December TnT hearings with the annual property tax bill, mailed by October 31.

Just as your Taxpayers Association attends August TnT hearings to prevent local property tax hikes, the Association will be active this December reviewing county budgets, monitoring any proposed property tax increases, and attending the hearings.

The following list provides a heads-up of which counties in Utah are proposing a property tax increase. In the December newsletter next month the Association will provide specific analysis of the proposed tax hikes. ◆

Will Businesses Be Paying Taxes On Income They Haven’t Yet Received?

For nearly 100 years, your Utah Taxpayers Association has worked tirelessly to ensure that Utah’s tax structure is one that will help businesses grow and create jobs for Utahns. This requires keeping an eye not only on proposals being discussed in Utah, but also monitoring what happens in Washington D.C.

During the past year, Senator Baucus (D-MT) and House Ways and Means Committee Chairman, Representative Camp (R-MI), have both proposed legislative changes that would restrict the use of the cash accounting method and instead require use of the accrual accounting method. This mandatory switch to the accrual method of accounting would spell disaster for countless Utah businesses.

The current cash method of accounting is a simple method in which income is recognized when it is collected. This accounting method is available to individual taxpayers and certain pass-through entities such as partnerships and S corporations, farmers, and personal service corporations. By comparison, the accrual method of accounting recognizes income when a service is performed, regardless of when cash is collected. Personal service companies, partnerships, farmers and ranchers rely on the cash method because these taxpayers typically do not have the benefit of matching revenues to expenses, many of which are fixed. Further, the timing for receiving payment is often unknown. Payment is often not received for months or years after the product or service is delivered, and in some cases it may never be received at all. Under the accrual method, these businesses would be required to pay taxes on income they have not yet received, or may never receive. Taxing businesses in advance for something they may never receive is terrible policy. This could subject these businesses to additional taxes and may result in these businesses being taxed in a higher tax bracket.

Utah is experiencing great economic prosperity, much of which is due to the tax environment here in the state. If forced to pay taxes before income is received, as would be required under the accrual method, less money would be available to small businesses for growth and job creation.

Not only does switching to the accrual method create an economic burden on businesses, it may also require a huge administrative issue for many firms in the State. Businesses currently using the cash accounting method will be required to take out loans or divert capital to pay for this tax increase. Those funds would otherwise be used to grow their businesses.

Several of the adversely affected business sectors are subject to state laws or professional ethics rules, which provide structuring requirements or impose other limitations on the ways in which the firms can obtain financing. For example, state laws restrict accounting firm ownership to individuals who actively participate in the business; thus, these firms cannot obtain outside investment capital. Similarly, lawyers must comply with state court ethics rules that generally prohibit them from forming a law firm partnership with a non-lawyer, or allowing a non-lawyer to own any interest in the law firm.

The potential shift from a cash accounting method to an accrual method threatens not only individual businesses in the state of Utah, but Utah's economy as a whole. Your Taxpayers Association has contacted Senator Hatch (R-UT), ranking member of the Senate Finance Committee, urging him to vote against any legislative changes that threaten Utah's vibrant economic environment and would result in a tax increase on businesses. ◆

Association Activities During October:

- Provided yard signs in support of Eagle Mountain's utility privatization vote November 4th
- Reviewed draft legislation designed to limit the ability of local governments to create special assessment areas resembling property taxes
- Reviewed bond proposals and other tax-related November ballot issues

In the News:

- Spoke out against reauthorization of the Salt Lake County ZAP tax
  - Fox 13
  - KUER
  - The Salt Lake Tribune
- Opposed Orem's University Mall CDA that threatens to put malls before students
  - The Daily Herald
- Urged voters to vote *for* Amendment A, making Utah's Tax Commission non-partisan
  - The Standard Examiner
- Kept an eye on thirty seven local governments raising taxes this year
  - The Salt Lake Tribune
- Called on Salt Lake County to re-open bidding for a downtown taxpayer subsidized hotel
  - Fox 13

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