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Momentum Gains on Tax Reform at Federal and State Level

U.S. Senate passes major tax reform legislation

The U.S. Senate has passed its version of the Tax Cuts and Jobs Act. With that passage, House and Senate members will hold a "conference committee" to craft a bill from the House and Senate proposals that will become the final version of the legislation. Utah Representative Rob Bishop will be a part of those discussions.

There are a number of differences between the House and Senate plans. For example, the Senate plan reduces the penalty for the mandate to have health care to $0 while the House plan leaves the current penalty in place. Also, the House plan calls for a reduction of tax brackets from seven to four, while the Senate plan retains the current seven brackets. There are many other differences.

The Washington, D.C.- based Tax Foundation created a side-by-side comparison of the two plans.

The final version of the Tax Cuts and Jobs Act will include some version of these provisions when it is considered for final passage later this month.

View the table on page 3 to see the differences between the House and Senate tax reform plans.

(*Continued on page 3*)

SAVE THE DATE: Legislative Outlook Conference to be held on January 8, 2018

Join us for the Utah Taxpayers Association's annual Legislative Outlook Conference on **Monday, January 8, 2018** at 9 a.m. The event will be held at the **Grand America Hotel** in downtown Salt Lake.

Thanks to our title sponsor Merit Medical, as well as Comcast and Utah Kennecott Copper for their sponsorship of this event. Additional sponsorship opportunities are available.

Registration is free, but seats are limited at this event.

To RVSP, please contact Bren at (801) 972-8814 or bren@utahtaxpayers.org.

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VOLUME 42

My Corner: Pro Soccer Stadium Deal Undermines Counties "Taxpayer Watchdog" Claims

Association President Howard Stephenson

Earlier this year, the Utah Association of Counties (UAC) claimed counties are the taxpayer "watchdogs". In a press release, UAC claimed they were responsible for ensuring that all taxpayers are treated fairly in the state of Utah.

The claim was made as the counties attacked certain taxpayers in Utah that are designated as centrally assessed taxpayers. These taxpayers include companies such as railroads, telecommunications, utilities and mines that have property across multiple county lines. The counties claimed that these taxpayers were given preferential treatment by the legislature which is patently false. They have initiated a frivolous lawsuit challenging legislation which was enacted to ensure accuracy in assessment of centrally assessed properties.

But a recent expose in the Salt Lake Tribune directly counters the counties' watchdog claim. The Salt Lake Tribune published a story in late November that showed Real Salt Lake received a $5 million tax break over the last five years from Salt Lake County thanks to a value change for the property that the stadium sits upon. This resulted in what appears to be a sweetheart property value adjustment decrease of 42%. Where were the watchdogs when this was going on?

Clearly, the county is not paying attention or too busy punishing taxpayers that aren't as politically connected or popular as Real Salt Lake is. According to the Tribune story, Real Salt Lake initiated an appeal and it was determined that the stadium's value dropped from $98.1 million to $56.7 million.

That change would have, and was, approved by Salt Lake County's Board of Equalization, which is a function of the Salt Lake County Council. During this meeting, the county assessor had the item on a prepared sheet of properties with value changes greater than $250,000. According to county records, no questions were asked and no flags were raised at this significant value change of Real Salt Lake's stadium. Again, where were the watchdogs?

We don't know if the Real Salt Lake stadium valuation is correct. There simply is not enough public data released to give us an idea of how the valuation was achieved.

What we do know is that no eyebrows were raised by Salt Lake County officials.

Initially, Sandy City expressed concerns, but the news report indicates the city dropped its opposition to the valuation change after striking a deal with Real to preserve city tax revenue despite the value change.

Other entities weren't so lucky. The Tribune estimated that Real Salt Lake saved more than $3 million in taxes being paid to Jordan and Canyons school district. Additionally, they saved more than $800,000 in total taxes paid to Salt Lake County.

> In a complete counter to claims of defending taxpayers, one Utah county neglected school districts and other entities to the tune of $4 million.

And still, we don't hear any from these "watchdogs". Instead, they carry on with their pointless lawsuits against legislation that values aircraft at fair market value, not some arbitrary setting, created by the county council. In their lawsuit the counties are also challenging provisions your Taxpayers Association fought for ensuring that an appeal of a centrally-assessed business can only be initiated if a county believes the state Tax Commission's valuation is off by more than 50%.

This dichotomy proves that the counties have no great interest in being a watchdog for the public. Rather they are focused on punishing businesses in the state of Utah that employ thousands of workers and already pay millions in taxes each year that keep the lights on at our cities, counties, and school districts. They are focused on increasing the burden of the cost of government services on the backs of Utah businesses and individuals without any consideration of the cost.

As the true watchdog for Utah taxpayers, your Taxpayers Association calls on the counties to put procedures in place to give major tax valuation changes greater scrutiny and to call off unnecessary and costly lawsuits.

Momentum Gains on Tax Reform at Federal and State Level

Provision	House	Senate
Individual Income Tax Rates and Brackets	Consolidates current seven income tax rates into four, while retaining the top marginal rate of 39.6% and including an income recapture provision which phases out the effect of the 12% bracket for high earners, sometimes called a "bubble rate"	Retains seven brackets while reducing rates, brining the top marginal rate to 38.5% and avoiding the bubble rate; individual income tax rate changes sunset at the end of 2025
Standard Deduction	$12,200 for single filers, $18,300 for heads of household, and $24,400 for joint filers, indexed to chained CPI	$12,000 for single filers, $18,000 for heads of household, and $24,000 for joint filers, indexed to chained CPI
Child and Family Tax Credits	Increases child tax credit value to $1,600, with the phase-out for joint filers beginning at $230,000 while creating a new $300 per-person family tax credit for those not eligible for the child tax credit, to expire after five years	Increases credit value to $2,000, with the phase-out for joint filers beginning at $500,000; provision sunsets at the end of 2025.
Medical Expense Deduction	Repeals	Retains, and for tax years 2017 and 2018, allows it to be taken if eligible expenses exceed 7.5% of AGI rather than 10% under current law
Mortgage Interest Deduction	Limits the mortgage interest deduction to the first $500,000 in principle value	Keeps mortgage interest deduction for acquisition debt, but eliminates the deduction for equity debt
Graduate Student Income	Treats graduate student tuition waivers as taxable income	Not included in the Senate version
Corporate Rate Reduction	Cuts rate to 20%, effective tax year 2018	Cuts rate to 20%, delayed to tax year 2019
Estate Tax	Increases exemption to $10 million, indexed for inflation, with repeal after six years	Doubles the estate tax exemption

To read the full report, as well as speculation on the passage by Christmas, including statements from Senate Majority Leader Mitch McConnell from the Tax Foundation, click here.

Legislative Revenue and Taxation Committee Unveils State Tax Reform

While Congress wrestles with federal tax reform, Utah legislators unveiled their plan for making Utah's tax climate more competitive.

The bill contains ten major changes to Utah's tax system, including taxes on businesses, both large and small, fixes to equalize Utah's education system, as well as ensuring our transportation infrastructure's fund is solvent as vehicles become more fuel efficient.

We'll delve more deeply into the changes to several taxes on businesses on page 6, but for now, let's start with loosening burdens on businesses reporting personal property.

Exemption of Some Business Personal Property

Association members have often spoke of the difficulty of reporting business personal property, and your Taxpayers Association staff has worked closely with legislators to remove this resource-wasting requirement.

As part of the tax reform effort, business personal property that has an acquisition cost of less than $1,000 is now exempt.

This change will significantly reduce the deadweight and troublesome regulations from all business owners, and should not require a tax increase, since governmental revenue will be maintained.

Several small business owners dedicated time to speak in favor of this aspect of tax reform during the Revenue and Taxation Interim Committee's meeting.

The owner of a small clothing store in Salt Lake City testified before the committee of the burden of

reporting personal property and fear of audits. Ms. Carol Elliott of Paletti said that she has counted every hanger in her store to report it as property to the county.

Your Taxpayers Association thanks Rep. Dan McCay, at the urging of the Association, for adding this provision into tax reform.

Equalizing Education Funding for All Students

Your Taxpayers Association has long argued that the discrepancy between local funding of school districts needs to be addressed.

As part of the state's efforts on tax reform, Utah's education system will see major funding changes, including creating a uniform for school districts' local levy.

Currently, 11 school districts are allowed a maximum rate of 0.0018, while the remaining 30 are allowed a rate of 0.0025.

The legislation also seeks to freeze the statewide basic rate for a ten year period.

Rather than adjusting the rate as property values fluctuate like other government property tax rates, the statewide basic rate would remain the same to general additional revenue for Utah's public education system.

This new revenue would be used to equalize student funding with the efforts of Sen. Lincoln Fillmore, who plans to unveil legislation detailing the expenditures.

These tax reform proposals are likely to be modified as discussions continue, and may not reflect what is passed during the legislative session.

Stay tuned for more updates.

Utah Tax Reform Proposals

1. Expand the single sales factor for corporate tax income apportionment
   - Allows for some businesses the option for either three-factor or single sales factor
   - Once a business opts for single sales factor, it becomes mandatory,
   - Total phase-in by 2021
2. Clarify nexus for corporate income taxes
3. Repeal net operating loss (NOL) carryback
   - Prevents a company from carrying a net loss to a previous tax year
4. Increase accountability for income tax credits for businesses, including changes to the research and development tax credit
   - Adds oversight to R&D tax credits
5. Alternate fuel vehicles will pay an increased registration fee
6. Tax credit for the purchase of alternate fuel vehicles will be phased out over five years
7. Ensure that streamed media and other amusement devices are subject to sales taxes
8. Expand the manufacturing sales tax exemption to include:
   - Materials used or consumed in the manufacturing process
   - Machinery, equipment, and parts with less than a three-year economic life
9. Standardize the rate cap for the School Board Local Levy
   - Currently, 30 districts have higher caps (0.0025) than the remaining 11 (0.0018)
10. Freeze the Statewide Basic Rate for 10 years
11. Increase accuracy of the Truth-in-Taxation newspaper ad
    - Change to reflect anticipated tax increase on $100,000 of assessed value
12. Simplify the reporting process for business personal property
    - Remove the requirement that business personal property under $1,000 be reported

Guest Commentary: The Case for Utah's Tax Reform

Reforming the outdated tax system has emerged as a priority both at the state and national level. In Washington, Congress remains committed to developing a tax framework that will undo many of the detrimental aspects of the existing tax system. The hope is that an updated tax system will encourage economic growth through a better system. In Utah, the Legislature and the Governor are committed to updating our tax system to better align it to the modern economy.

Tax Principles

When looking at tax reform, it's helpful to first consider what principles are most important to focus on. If we could go back and start from scratch, how would we design the tax system? How would we build it? Would it be the same as what we have today? What would we do different?

The last time the State of Utah reformed its tax system was more than a decade ago, from 2005 to 2007. Before that, Utah hadn't seen major tax reform since 1947. As they considered what to do, state policymakers developed a set of principles in the tax system.

They called this the "TREES" of taxation. A tax system should be:

- Transparent: Taxpayers should know what they are paying and where the money is going
- Revenue sufficient: The primary purpose of taxes is to fund government operations, so the tax system should be designed to ensure there is predictability and consistency
- Efficient: The tax system should be sufficient for the needs of government while staying away from gimmicks that cause inefficiencies and waste
- Equitable: The tax system should apply similarly to people in similar situations
- Simple: Make paying taxes as simple and straightforward as possible

The last round of Utah tax reform was difficult and took several years to pass. However, by the 2007 legislative session, Governor Jon Huntsman and Legislative leaders were able to develop a tax reform package that represented the largest tax cut in Utah history and the largest reform in a generation. The critical component of the tax package was the reform of the income tax system that positioned the state for success in the future, and the positive results are undeniable.

State Representative and Economic and Public Policy Officer Zions Bank Robert Spendlove

Since 2007, Utah has consistently been ranked as having one of the best tax systems in the country and one of the strongest economies in the country. Utah ranks number one in population growth, its job growth is among the top ten in the country, the unemployment rate is among the lowest in the country, and economic migrants are flooding into the state at increasing rates. Utah is also recognized as having being one of the best managed states in the country and is one of only a handful of states to have the strongest bond ratings from national financial institutions. This not only reflects the state's strong economy, but also decreases the cost of financing infrastructure projects, such as roads and new state buildings.

The Next Step for Reform

While Utah has a competitive economic and tax environment, we must not rest on our laurels. If we want to remain competitive we must continue to address areas in need of revisions and additional reform. Other states have learned from the successes of Utah in the past and have now either copied Utah reforms or are implementing additional reforms. It's not enough anymore to maintain - states must be constantly looking for ways to improve their tax systems and grow the economy.

Ten years after the groundbreaking tax reforms of 2007, Utah lawmakers are working to upgrade and improve the tax system. While the 2007 reforms focused on the income tax, we must now be looking seriously at the sales tax. Because the Utah

Constitution requires all income taxes to go toward education, all other government services must be funded by other taxes, with the sales tax funding the majority of these functions. The sales tax is based on a 50 year-old goods based, brick and mortar economy. However, the modern economy is now a service based, virtual economy. Additionally, the Utah tax system is becoming less competitive in the treatment of corporate taxes, compared to other states. If Utah wants to be able to attract and retain businesses to the state, these inequities must be addressed.

Reforming and updating the tax system is difficult, which is why Congress has waited so long to take it on. However, Utah policymakers are committed to tackling this issue now, to ensure a fair tax system and a strong economy long into the future.

Protecting Utah's Economic and Business Competitive Edge for the Next Decade

As we have noted in previous articles in our newsletter, Utah is consistently named as one of the top states for business by multiple organizations over a number of years. Certain factors play into those rankings. Health care costs in the state are low, utilities costs are competitive with other states, we have a high quality of life and our tax system is currently competitive with other states. That last point, however, will not remain true if state lawmakers rest on their laurels and fail to make changes to Utah's corporate taxes.

A number of states across the nation have seen what Utah is doing and are now looking to match or outdo what we are doing in an effort to attract high-paying jobs to their state. To combat this your Taxpayers Association has been leading the effort at the legislature to reform Utah's corporate taxes. This has included the expansion of the single sales factor calculation for the corporate income tax and the elimination of the sales tax penalty place on business inputs for manufacturers and miners.

Both of these changes to the tax code would mean a greater tax environment for our businesses already in the state and for those looking to expand here. The changes have also been highlighted by national tax organizations as changes the state could make to improve its business climate.

The Washington, D.C.- based Tax Foundation, in its 2015 "Location Matters" publication, found that Utah was below average in taxes on most businesses except in manufacturing. The report stated that Utah's score for manufacturing could be improved if the state expanded the single sales factor calculation for the corporate income tax to more Utah businesses.

In the 2017 Legislative Session, the Council on State Taxation (COST), testified to the Senate Revenue and Taxation Committee in favor of Utah eliminating its sales tax penalty on manufacturing and mining inputs that last less than three years. In its written testimony, COST stated that Utah's current system of taxing certain business inputs forces tax pyramiding as a tax is imposed at multiple levels, such that the effective tax rate exceeds the retail sales tax rate. This forces companies to either pass the cost increases due to the tax on the input to consumers or reduce their economic activity in the state to remain competitive with other producers who do not bear the burden of such taxes.

If significant organizations like COST and the Tax Foundation are seeing these holes in Utah's tax code, then businesses looking to expand and create jobs are also seeing this. Utah's lawmakers need to act to remove these burdens from Utah's businesses. Not because this will increase the bottom lines for corporations across the state but because it will lead to more jobs within the state of Utah.

That means more high-paying quality jobs for the state's students to fill once they've finished their schooling. That means, in the long term, additional tax revenue for the state as it benefits from greater economic activity and it means an increase in the quality of life for the state.

The fiscal impacts to the state budget by the tax changes cannot be ignored. The expansion of the single sales factor calculation will decrease the state budget by $21 million at first, though we expect economic activity created by the tax will make up for the cost over time. The elimination of the sales tax penalty on manufacturers and miners will cost more than $60 million. To reduce the impact of the decrease to the state budget, it is entirely appropriate for state lawmakers to consider phase-in options for these tax changes, so to allow greater economic activity fill-in the lost revenue from the tax changes over time and not make the state budget face a major fiscal cliff by paying for the tax cuts all at once.

To do this the Legislature has discussed delaying

the change for the sales tax penalty for two years and then phasing it in over the next three years.

For the single sales factor calculation, consideration has been given to increase the weight given to sales within the state over a period of three years until the corporate income tax is based solely on sales within the state and payroll and property in the state have been fully eliminated from the calculation. We call on lawmakers to consider these phase-in practices as they consider these significant tax changes.

Utah is one of the greatest states in the nation because of its talented workforce and its business friendly government and regulation environment. But if the state wants to continue to be named one of the top states in the nation for business, it needs to remain competitive with other states in its tax code. Eliminating the sales tax penalty for manufacturing and mining and expanding the single sales factor calculation to more businesses will keep Utah ahead of the curve for years to come.

Utah Taxpayers Association Elects New Board of Directors Chairman, Other Changes to the Executive Committee

The Utah Taxpayers Association has elected a new chairman to lead the Association in 2018. At the annual membership meeting.

Morris Jackson has been elected to serve as the chair of the Association's Board of Directors, in a unanimous vote.

Jackson has served on the Board since 2008, and has previously served as the Association's Legislative Chair, as well as Vice Chair.

Jackson is a certified public accountant, who was previously employed at the Questar Corporation, where he held several positions during his 38-year tenure.

His main role with the company focused on federal and state tax policy and tax administration. When he retired from Questar Corporation, he held the position of General Manager, Corporate Tax.

During his business career, he was active in several professional organizations including holding various leadership positions with the Salt Lake Chapter of Tax Executives Institute and the American Gas Association, where he served for a period of time as the Chairman of the AGA's Tax Committee.

Since retiring from Questar, he has continued his involvement in state and local taxes and currently does tax consulting and income tax preparation for his clients.

In addition to Jackson as Association Chairman, there are also changes to the Executive Committee. These changes are documents below.

2018 Association Chairman Morris Jackson

- Vice Chair - Olga Siggins (Orbital ATK)
- Secretary - Bobby Rolston (Anadarko Petroleum)
- Treasurer - Brice Arave (IM Flash)
- Legislative Chair - Keith Pitchford (Rio Tinto)
- Immediate Past Chair - Mike Edmonds (U.S. Magnesium)

The Utah Taxpayers Association also welcomes two new members to the Board of Directors. Robert Maxwell of Dominion Energy will join the Board in place of Tim Ross, and Nicole Lengle of Harmons Grocery in place of John Ward.

The Association would like to thank Tim Ross, John Ward, and Clint Ensign for their service on the Board of Directors.

Taxpayers Cough Up $926 Annually to County Government

The Utah Taxpayers Association's 2017 Cost of County Governments report, based on FY 2016 data, shows the relationship between county government revenue and citizen income in Utah's 29 counties. This data provides a snapshot of on average how much of each thousand dollars earned by a citizen is consumed by the county government in Utah.

In the Utah Taxpayers Association's 2017 Cost of County Governments report, Daggett County ranks highest for cost of government, where residents pay on average $171.91 of each $1000 they earn. The lowest ranked county is Washington County, where residents only pay $13.89 of each $1000 earned to the county government.

Overall, the median cost of county governments in Utah is $30.97, and the average cost of county

governments in Utah is $41.92, per $1,000 of citizen income.

When taking into revenue collected per capita and total paid in taxes to county government annually, rankings change.

Using this calculation, this is the first time since Association began compiling this report that Cache County has become the lowest amount paid to county government annually.

Cache County collects $301 annually from taxes and fees per capita, where the average in Utah is $926.

With that said, Cache County did just approve a tax increase for 2018, so we'll likely see that amount grow next year.

Meanwhile, Daggett County collects an astounding $3,807 per capita.

Keep in mind, residents in rural counties generally face a higher cost of county government than residents in urban counties.

This rural versus urban trend is expected, as higher population in urban counties helps spread the burden of the counties' fixed costs in providing basic services to county residents. Additionally, several rural counties have many more secondary homes than along the Wasatch Front. These secondary homes are not eligible for the 45% primary residential exemption. With more property tax revenue available, the county tends to spend more.

Contributing to this, rural counties often provide more services, due to fewer city services.

Looking to more urban counties, Salt Lake County and Weber County are the highest cost urban county governments, where the county government consumes $24.36 and $23.30 of each $1,000 earned in the county respectively.

In order to determine the Cost of Government for Utah's 29 counties, 2016 population estimates and 2015 per capita income data was collected from the US Census Bureau. Government revenue and line item data was gathered from 2016 county financial reports from the Utah State Auditor's Office.

Association Accomplishments During November:

- Testified at the Tax Review Commission meeting in favor of taxpayer notification of tax increases
- Held the annual Membership Meeting where 2018 board member nominees were confirmed
- Spoke at the Revenue and Taxation Interim Committee in favor of state tax reform and changes to business taxes
- Sent out the 2017 Member Survey
- Worked with representatives from the governor's office on tax reform issues
- Held final tax seminar and breakfast for 2017 with state legislators

In the News

- Federal Tax Reform
  - Op-ed: Congressional tax proposal welcomes investment back to US: Deseret News
- School Bonds
  - School Districts ask voters for $800 million in bonds: Salt Lake Tribune
- Federal Tax Reform News
  - Popular Tax Deduction Targeted by GOP Plan: KCRA 3 Sacramento