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Tax Task Force Moves Closer to a Final Proposal, as your Taxpayers Association Calls for a More Significant Tax Cut

On November 25th, the Tax Restructuring and Equalization Task Force met again to go over further proposals. While the primary focus was to hear from the public about the various proposals, a second draft of the tax reform legislation was released.

The updated bill featured a changed list of services that would start to collect and remit sales tax. The services that would be newly applicable to sales tax was trimmed down by eliminating the proposal to tax the maintenance of real property and vet services.

The Task Force also eliminated the proposal to cap the vendor discount related to sales tax collection by retailers. Traditionally, retailers have received a 1.31% discount for their costs associated with collecting the sales tax on behalf of the consumer.

Finally, the proposed income tax rate cut was adjusted from 4.58% to 4.64%. The Task Force chairs, Sen. Lyle Hillyard (R - Logan), and Rep. Francis Gibson (R - Mapleton), along with members of leadership have been striving to ensure that virtually everyone receives a tax cut in some form. Therefore, they have been working to add exemptions and deductions to the income tax for both individuals and families, which is the reason for an increase in the general income tax rate.

Your Taxpayers Association applauds the efforts of the Task Force, the Chairs, and legislative leadership to ensure most Utahns receive an overall net tax cut, but still strongly encourage a more significant cut to the income tax.

Our research has found that many businesses looking to locate or expand to Utah strongly take the income tax into account. In addition, a lower income tax rate benefits born-and-raised Utah businesses, that may not have received a special deal in order to lure them into the state. As Utah's business climate grows, so do its families and individuals prosper with the expanded growth.

The Task Force proposal continues to restore the state portion of the sales tax on food, which your Taxpayers Association strongly supports and has since its removal in the 2000's. The proposal also includes a grocery tax credit of $125 per exemption, with a phaseout starting at 138% of the poverty level.

Along with the revisions to the proposal, Task Force staff presented three possible additional options, based off of the most current proposal. These three additional options were tweaks to that current proposal.

Their presentation was based on analysis from the Legislative Fiscal Analyst (LFA), which shows the current proposal delivers a tax cut to 73% of residents, with an increase in the dependent/individual exemption to $2,500, the grocery tax credit,and an income tax rate cut down to 4.64%.

Option 1 was to increase the share of Utahns who would see a tax cut to 85% versus the current 73%. That would be done through an additional tax exemption for joint filers with no dependents and dropping the income tax rate to 4.66%. This option would increase the net tax cut from $80 million to $110 million.

Option 2 would be to increase the share of Utahns seeing a tax cut to 88% with a total net cut of $124 million. That would be done by not only adding the additional exemption for joint filers with no dependents. Also,the grocery tax credit of $125 per person up to 4 people and then $50 thereafter, but changing the phase out to start at 175% of the poverty level instead of 138%. That option would also lower the income tax rate to the 4.64% level.

Option 3 would be the same as option 2, however the income tax rate cut would be to 4.66% and therefore the total tax cut would only be $102 million instead of $124 million.

Another meeting was scheduled for December 9th and a special session is rumored to be planned for December 12th to vote on and pass the tax reform package.

My Corner: Time for a Dose of Reality on Education Reform and Funding

In the September issue of the Utah Taxpayer, I explained in detail why Utah's 51st ranking in spending per student is a flawed metric. I wrote in the October issue about Utah's ugly little secret of grotesque differences among Utah's school districts in spending per student.

In this issue I will share Utah's ranking in education outcomes, what needs to happen to improve those outcomes, why teacher pay should be differentiated by market demand of subject area, and how to end the volatility in education revenue funding sources.

Utah's Education Rankings

The 2019 American Legislative Exchange Council (ALEC) 23rd Annual Report Card on American Education gave Utah's education system the 9th best grade among the 50 states. Utah public schools also rank 10th best among the states according to How States Compare as reported in the 2019 Best High Schools Rankings. Utah's education system ranks 3rd best among the 50 states according to U.S. News & World Report. The 2018 Education Rankings is based 50% on higher education factors such as graduation rates and tuition costs. The remaining 50% is based on Pre-K through 12, using factors such as test scores and high school graduation rates.

But Utahns cannot crow about these results. A top ten designation in U.S. education outcomes is like being the tallest building in Tooele. As with the rest of the nation, Utah's results on the 2019 National Assessment of Educational Progress (NAEP) were stagnant or declining. To make matters worse, the Program for

International Student Assessment (**PISA**) recently revealed that 15 year old students in the United States continued to perform poorly when compared to their peers in other industrialized countries.

At the same time, four provinces in China outscored the rest of the world. Utah, and more broadly, the U.S. should be worried.

Why Other Nations Do Better in Education

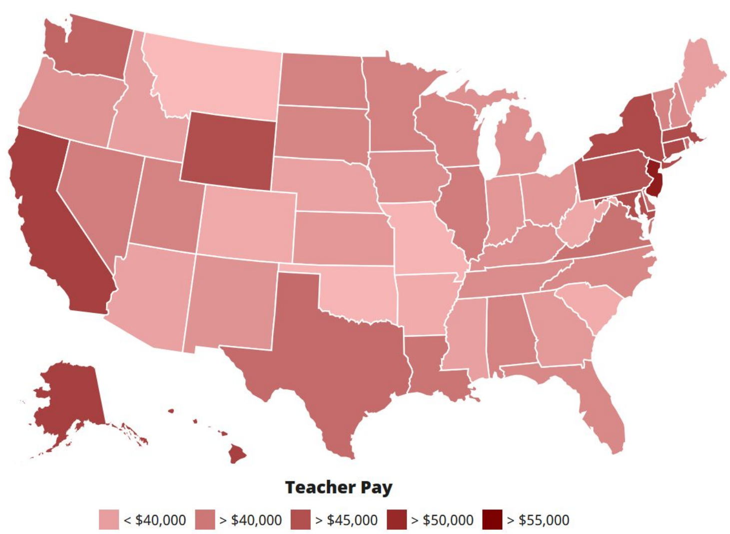
When I co-chaired the Education Committee of the National Conference of State Legislatures, I participated in an international study of the highest ranking countries on the PISA. The results of that more than two year study are contained in No Time to Lose.

The report stated, "We cannot ignore the reality that most state education systems are falling dangerously behind the world, leaving the United States overwhelmingly underprepared to succeed in the 21st century economy. After all of the national, state, and district reform efforts during the decade following No Child Left Behind, the U.S. was outperformed not only by a majority of the advanced industrial nations, but by a growing number of less-developed nations as well."

The four elements of a world class educational system contained on page 10 of the report should be required reading for anyone serious about reforming public education.

The Utah Legislature Must Ensure Marketplace Principles in Teacher Pay

As can be seen from the accompanying 50-state map from the World Population Review, Utah teacher salaries rank in the middle of the pack nationally. However the map doesn't show the extreme differences in salaries between rich and poor districts in Utah.



In today's economy, finding qualified teachers is difficult for the school districts more able to generate revenue but for districts of lesser means, it's literally an impossible task. Teachers in Utah's richest districts are paid competitively well by national standards, and in some districts, average teacher total compensation exceeds nationwide standards. In the poor districts no matter how high they increased their taxes they could never pay the $105,000 average teacher compensation in Park City School District. The Utah Legislature is *solely* to blame for these gross inequities and only the Legislature can fix it.

For more than a decade the Utah Legislature has provided a pay differential for highly qualified math, science, and special education teachers of about $4,500 annually. This has helped to attract teachers where we experience critical shortages. The Legislature needs to increase these pay differentials by at least $10,000 if we ever expect to have qualified teachers in these subject areas. While university engineering professors receive significantly more compensation than English or history professors, they couldn't survive on the one-size-fits-all salary schedule of public schools.

Ending School Funding Volatility

There have been rumblings about proposal to allow local school property taxes to automatically increase every year tied to an inflationary index. This is a bad idea, especially since the legislature in 2018 already tied the statewide basic property tax rate to increase by the same percent as the value of the Weighted Pupil Index is increased each year which is usually around three or four percent. These automatic property tax hikes are unacceptable.

Instead, the Legislature should address the volatility of education funding which was made worse in the 1995 and 1996 legislative sessions when the statewide basic levy for public education was cut in half. As a result education funding became more and more dependent on the volatile income tax and less reliant on the very stable property tax. Remedying this volatility can be done without a net increase in taxes.

While solving volatility is important, we must remember that combined state and local property tax revenues for education over the past quarter century, in spite of the 50% basic levy cut in the mid 90s, have actually increased 60% faster than student enrollments and inflation combined! In other words, Utah's Truth-in-Taxation law *has not* restricted education funding.

In 1995 and 1996, the Legislature should have taken the more appropriate action of cutting the volatile income tax instead of the stable property tax. Today our income tax would be much more competitive for economic expansion while our property tax would still rank around 35th lowest in the nation.

Hopefully the Utah Legislature will act to require greater accountability in education outcomes, provide significantly more pay for teachers in shortage areas and end the volatility in education revenue funding sources.

The Hits Keep on Comin' - A $200 Million Tax Cut is the Right Thing for Utah

Written by Association Vice President Rusty Cannon.

As the debate over tax reform in Utah comes to a crescendo with a special legislative session in December, a big question still remains: how big of a net tax cut should Utah taxpayers see? How much of taxpayers money should be returned to them, following years and years of surpluses?

There is mounting evidence that a robust amount could be returned to taxpayers without hurting state budgets. In Utah's parade of positive economic indicators ,the hits just keep on coming. After a slew of strong economic indicators over the last year continue to point towards a healthy budget surplus, the recent TC-23 report from the Utah State Tax Commission puts yet another capstone on the case for a meaningful tax cut. The November 2019 TC-23 report was released just before the Thanksgiving holiday and it gives us plenty to be thankful for from an economic perspective.

The Tax Commission report showed that individual income tax revenue grew by a whopping 11.3% in the previous month versus a Tax Commission and Governor's Office of Management and Budget forecast of 2.1%. Actual collections for the fiscal year so far are now above the forecasted range at over $1.33 billion[unclear what this 1.33 represents]. The legislature set aside $75 million for a tax cut at the end of the last legislative session, and now there is plenty of data to support a $200 million dollar tax cut. That is exactly what Governor

Herbert and Speaker Wilson both called for back in January, and the right move for taxpayers and for the future of Utah is to follow through on that.

While many complain that lowering the income tax rate hurts our public education system by cutting funding, that is simply not the case for a number of reasons..

First, approximately 40% of education funding comes from property taxes, not only income taxes. As people scream about income tax cuts they seem to conveniently ignore the fact that almost half of their funding comes from the most stable and reliable revenue source of all. In addition,due to Utah’s Truth in Taxation law, that revenue never declines.

Secondly, lower income tax rates do not produce less revenue in the long run. The golden rule of tax policy that has been known throughout history is that if you tax something less, you get more of it. If you lower income tax rates, that spurs investment, growth and a stronger economy that grows the whole economic pie even greater than you would otherwise see.Recent history right here in Utah gives us a perfect example of that. The Legislature cut the income tax rate from 7% to a 5% flat rate in 2007, that was unintentionally right as we entered a terrible recession. However, as evidenced by data from the U.S. Bureau of Economic Analysis, Utah’s GDP during 2009-2012 shrunk LESS than all other states in the region and recovered FASTER than all other mountain states as the economy recovered. Lower income tax rates are the best medicine for rough economic times as well as the good.

Third, the future of Utah’s economic competitiveness is at stake. We have to compete in the bare-knuckled fight to attract companies and jobs (hint: Silicon Slopes and many other industries across the state) day in and day out. By far the most critical factor in that is our income tax rate. Even if we lower our rate to the mid 4% range, we need to remember that we are competing with many states that now have an income tax rate down in the 3% range (i.e. North Carolina, Indiana, Pennsylvania) and of course the 0% states like our neighbors Nevada and Wyoming as well as Texas and Florida. Renowned economist Art Laffer speaking recently at the American Legislative Exchange Council told state legislators that if they wanted their state economies to grow, they should cut income tax rates. He said the smartest tax reform would be total elimination of state income taxes.

Economic competitiveness brings Utah jobs. Jobs are what allows us to earn a living and provide for our families. Jobs allow us to live vibrant lives and to prosper. The key to attracting and retaining those jobs is our income tax rate.

It is time for Utah to lower the income tax rate in a meaningful way benefitting all Utah families.

Interim Committee Moves on Improving Utah Business Climate; Cell Phone Fee Examined During Interim as Utah Ranks 5th Highest in the Nation

Exempting Sales Tax for Business Inputs for Oil and Gas and Electrical Generation

In the Public Utilities, Energy, and Technology Interim Committee, taxpayers scored a major victory as a bill sponsored by Sen. Ron Winterton passed committee and is headed to the 2020 General Session.

The bill, which is modeled after SB 201 in the 2019 Session, seeks to eliminate the sales tax penalty on business inputs for oil and gas extraction businesses, as well as electrical generation and pipeline transportation. The sales tax exemption would be phased-in over a three-year period.

Following successes in prior years eliminating sales tax for business inputs for mining, manufacturing, and many other industries, it’s time for these remaining important industries to be treated equally. Oil, gas, and electrical generation are the few industries in Utah still paying sales taxes on their business inputs.

While the benefit of the exemption would be felt across the state, the Uintah Basin would experience tremendous growth.

The Uintah Basin currently produces 80,000 barrels a day. The fiscal note anticipated a doubling of that amount. However, with a railroad built into the area for additional shipping, the Basin could produce 400,000 barrels a day following the implementation of the exemption.

According to the Legislative Fiscal Analyst Office, jobs created in FY 2024 could be as high as 3,900 depending on private investment as companies relocate to the Basin and other areas of the state. Additionally, $527 million in additional GDP in the state.

We continue to strongly advocate for the bill heading into 2020, and anticipate its passage.

Cell Phone Fee Examined as Utah Ranks 5th Highest in the Nation for Cell Phone Taxes

Cell phone taxes make up about 21.7 percent of the average customer’s bill, according to the national Tax Foundation. Utah ranks far higher than the nationwide average, at 25.6%. This puts Utah 5th highest in the nation.

Illinois has the highest wireless taxes in the country at 31.2 percent, followed by Washington at 28.8 percent, Nebraska at 28.1 percent, New York at 27.7 percent, and Utah at 25.6 percent.

Wireless customers are expected to pay more than $17 billion in taxes, fees, and government surcharges to all levels of government in 2019, which is $1 billion more than 2018.

The Tax Foundation says that a significant portion of the increase in cell phone tax burden is due to a 36% increase in the Federal Universal Service Fund (FUSF). The FUSF is under FCC jurisdiction and uses the money to subsidize telecommunications services in rural or high-cost areas. The FCC has also recently decided to use funds to fund broadband deployment.

Utah also has a Universal Service Fund (UUSF), which costs users $0.60 cents per line per month. Similar to the FUSF, the UUSF also uses the revenues to provide telecommunications services, including the expansion of broadband to high-cost areas.

Earlier this year, the Public Service Commission, which oversees the UUSF and implements the rate, increased the amount to the $0.60 from $0.36 per line per month following the Division of Public Utilities report the UUSF’s annual costs will average $21,648,861 from 2019 through 2021, arguing that the UUSF is running a deficit.

However, there are some questions about how the UUSF is being used, and whether the uncapped amount is appropriate, considering more and more people are purchasing cell phones and using them as the primary device for communication.

This is what the Public Utilities, Energy, and Technology Interim Committee is trying to uncouple during its November interim meeting. While no formal action was taken on how to better regulate or what to do with the UUSF, it appears action will be taken in the 2020 Session. Stay tuned.

The Average Utah Taxpayer Coughs Up $926 Annually to County Government

The Utah Taxpayers Association's 2019 Cost of County Governments report, based on FY 2018 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 2019 Cost of County Governments report, tiny Daggett County ranks highest for cost of government, where residents pay on average $82.65 of each $1000 of personal income. The lowest ranked county is Washington County, where residents only pay $12.77 per $1000 to the county government.

Overall, the median cost of county governments in Utah is $33.03, and the average cost of county governments in Utah is $40.68, per $1,000 of personal income.

When taking into revenue collected per capita and total paid in taxes to county government annually, Washington County continues to be the lowest in the state. Washington County collected $324 annually from taxes and fees per capita, whereas the Utah average is $979.

Meanwhile, Daggett County collects an astounding $2,358 per capita. Keep in mind, residents in rural counties generally face a higher cost of county government per person than residents in urban counties. This rural versus urban trend is typical, 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 proportionally greater taxes from centrally assessed businesses such as mines, oil fields, power plants and railroads and 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 continues to lead the pack, collecting $740 per capita. This is before an approved tax increase for FY 2020, so we can expect that amount to increase. Weber County follows Salt Lake as the second highest cost urban county governments, where the county government consumes $617 per capita.

While Utah County does rank low on the list, this is due to several factors, including new developments are required to incorporate into cities, which generally provide their own municipal services. Therefore, the county does not need to provide these, lowering the cost of county government. Additionally, Utah County has undergone a Truth-in-Taxation process only once in the past 30 years in order to recapture inflation. Utah County has proposed a 100% tax increase for the FY 2020 year, and citizens can expect to pay more beginning in 2020 even though the tax hike will be less than initially advertised.

The Cost of County Government report is calculated by the Utah Taxpayers Association, using data from the U.S. Census Bureau for population and per capita income, and used each county's FY 2018 Comprehensive

Annual Financial Report to gather government revenue and line item data. These are provided by the Utah State Auditor's Office.

If you wish to view a copy of the Cost of County Government report, go to utahtaxpayers.org.

Utah Taxpayers Association Elects New Board of Directors, Officers for 2020

2020 Chair
Jennifer Somers

The Utah Taxpayers Association has elected Jennifer Somers to chair the Association's Board of Directors in 2020 at the annual membership meeting in November.

Somers has served on the Board since 2017 and has previously served as the Association's Vice Chair. Somers is the Director of Government Affairs for CenturyLink.

Brian Verwer of Micron was elected Vice Chair, Bobby Rolston of Occidental Petroleum remains as Secretary, Nicole Lengel of Harmons Grocery remains as Treasurer, and Morris Jackson will be the Immediate Past Chair. Casey Hill of Energy Solutions will continue to serve as Legislative Chair. These officers constitute the Association's Executive Committee.

The Utah Taxpayers Association also welcomes four new members to the Board: Rory McDonald from Dominion Energy, Ben Johnson of Wells Fargo, Reid Raleigh from Domo, and Maxine Turner from Cuisine Unlimited.

The Association would like to thank Heather Lare from Autoliv and Jeff Callor from Dominion for their service on our Board.

Association Accomplishments During November:

- Met with the Utah County Commissioners Regarding Upcoming Property Tax Increase Proposal
- Spoke at the Tax Restructuring and Equalization Task Force meetings
- Met with legislators regarding tax reform package
- Participated in various interim committee meetings
- Held the Annual General Membership Meeting

In the News

- Latest on State Tax Reform Efforts
  - Tax Reform Re-Write: KUTV
  - Teachers Fear Tax Plan Will Jeopardize Education Funding: KJZZ