SB 2001
Tax Restructuring Revisions
Compliance and Enforcement

Commissioner Rebecca Rockwell
Utah State Tax Commission
Sales and Use Tax Changes

• Increases Sales Tax Rate on Grocery Food from 3% to 6.1%
• New Taxable Services
• New Sales Tax Exemption
• Repealed Sales Tax Exemptions
• Clarification of Taxable Transactions
• Increased Motor Vehicle Rental Tax Rate 2.5% to 4%
• Fuel Tax Changes
Income Tax Changes

- Individual and Corporate Income Tax Rate 4.95% to 4.66%
- Increase Taxpayer Tax Credit
- Taxpayer Tax Credit Rebate
- Social Security Tax Credit
- Grocery Tax Credit
- Grocery Tax Credit Rebate
- Inter-generational Poverty Earned Income Tax Credit
Tax Reform Implementation Timeline

Jan - Feb
Update employer withholding tables

Feb - Mar
Send taxpayer tax credit rebates to 2018 filers

Feb 1
Notify retailers of sales tax changes effective April 1
- Grocery Food Rate
- New taxable services
- New exemptions
- Repealed exemptions
- Motor Vehicle Rental Tax Rate
- Sales Tax on Motor and Special Fuel

April 1
Implement Sales and Use tax changes.
& Finish sending taxpayer tax credit rebates to 2018 filers

April 15
Begin sending Grocery tax rebates and taxpayer tax credit rebates to 2019 filers.

July 1
Finish sending grocery tax rebates and taxpayer tax credit rebates to 2019 filers

July – Oct
Develop income tax forms, instructions, and programming for 2020 tax year.

Oct – Nov
Distribute 2020 income tax forms & instructions to tax prep providers (i.e. TurboTax, TaxAct, etc.)
Impact of Voter Referendum

• Tax Commission has a constitutional duty to administer the tax laws of the state.

• The Tax Commission is currently preparing to implement SB 2001 when it becomes effective in February 2020.

• However, the filing of the voter referendum to repeal SB 2001 poses unique challenges related to the timing and enforcement of the bill.

• For now, the Tax Commission will continue to monitor the progress of the referendum while proceeding to prepare to implement the law when it goes into effect.
Sales and Use Tax Changes
Total Sales Tax Rate on Grocery Food increased from 3% to 6.1%

<table>
<thead>
<tr>
<th>Grocery Tax Breakdown</th>
<th>Current</th>
<th>Beginning April 1, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Rate</td>
<td>1.75%</td>
<td>4.85%</td>
</tr>
<tr>
<td>Local Option</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>County Option</td>
<td>0.25%</td>
<td>0.25%</td>
</tr>
<tr>
<td><strong>Total Rate</strong></td>
<td><strong>3.0%</strong></td>
<td><strong>6.1%</strong></td>
</tr>
</tbody>
</table>
New Taxable Services  (Beginning April 1, 2020)

- Security System Monitoring
- Personal Transportation
- Parking
- Towing

- Pet Boarding and Care
- Pet Grooming
- Dating Referral
- Identity Theft Protection
New Taxable Services  (Beginning April 1, 2020)

• New taxable service providers may have never collected sales tax before and may not be registered with the Tax Commission.

• The Tax Commission is developing outreach efforts to educate service providers of the collection obligation using methods including:
  • Working with the media
  • Contacting industry groups
  • Updating Tax Commission publications

• Even with outreach efforts compliance is expected to start slow and increase over time.
New Taxable Services  (Beginning April 1, 2020)

Are installation and delivery now taxable?
Installation or delivery charges are not subject to sales tax unless charged in conjunction with the sale of a taxable item.

<table>
<thead>
<tr>
<th>Taxable Installation or Delivery</th>
<th>Not Taxable Installation or Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shipping and handling associated with the sale of taxable goods to a consumer</td>
<td>Shipping and handling associated with the sale goods to a retailer or distributor for resale</td>
</tr>
<tr>
<td>Installation associated with the sale of taxable goods to a consumer.</td>
<td>Installation unrelated to a sale of taxable goods.</td>
</tr>
</tbody>
</table>
Repealed Exemptions  (Beginning April 1, 2020)

- Ski Resort Electricity
- Admission to College Sporting Events
- Tangible Personal Property converted to Real Property by a Transit District
- Fuel sold to a Railroad for use in a Locomotive
- Charges for Accessing a Database

Similar to the new taxable services, the Tax Commission is developing outreach efforts to inform taxpayers of the taxability of these transactions.
New Exemption  (Beginning April 1, 2020)

Amounts paid for Tangible Personal Property that:

1. is not electricity, gas, machinery, equipment, vehicles, parts, office equipment, or office supplies; and

2. is consumed while providing one of the following:
   - Repairing or renovating tangible personal property
   - Cleaning or washing tangible personal property
   - Laundry or dry cleaning services

Examples include:
Soaps, lubricants, etc.
Clarification of Taxable Transactions

• Software as a Service (SAAS) was already considered taxable in Utah but SAAS was not defined in Utah code.
  • The bill clarified the definition to include the use of seller-hosted software regardless of how the software is accessed.

• Also clarified that a charge for streamed media is taxable regardless of whether the charge includes the option to download.
Increased Tax on Fuel  (April 1, 2020)

<table>
<thead>
<tr>
<th>Fuel Type</th>
<th>Current Rate</th>
<th>April 1st Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Fuel</td>
<td>$0.311</td>
<td>$0.41</td>
</tr>
<tr>
<td>Non-diesel Special Fuel</td>
<td>$0.168</td>
<td>$0.221</td>
</tr>
<tr>
<td>Diesel</td>
<td>$0.311</td>
<td>$0.371</td>
</tr>
</tbody>
</table>

- These rates represent the aggregate of taxes imposed on each fuel type.
- The tax will be collected and paid by the supplier/distributor using the current fuel tax return. There will be no additional filing requirements.
Income Tax Changes
Taxpayer Tax Credit  (Beginning 2020 tax year)

- Utah Personal Exemption $2500 per dependent. (previously $565)
- One personal exemption allowed for taxpayers with no dependents.
- Subject to the phase-out, all qualified Utah income tax filers will receive the increased taxpayer tax credit with no additional effort.
- Taxpayers may use this credit to reduce or eliminate Utah income tax when they file their 2020 return in the spring of 2021.
**Taxpayer Tax Credit Rebate**

- The Tax Commission will authorize rebate payments to qualified taxpayers between March and June 2020.
- Rebates will be automatically generated by the Tax Commission computers based on 2018 return info.*
- The rebate is $1,285 per dependent subject to an income phase-out.
- This rebate will benefit low income taxpayers with dependents.

*2019 return information will be used if a 2018 return was not filed by October 15, 2019. If 2019 return is also not filed by April 15, 2020, the taxpayer is not qualified for a rebate.
Social Security Tax Credit  (Beginning 2020 Tax Year)

• Credit equal to 4.66% of taxable social security benefits subject to a phase-out.
• Provides tax relief to a broader group of retired taxpayers than the retirement tax credit alone.
• Covers the gap for retired taxpayers who are under 67 years old and drawing social security benefits.
• Credit may be used to reduce or eliminate Utah income tax when they file their 2020 return in 2021.
Grocery Tax Credit (Beginning 2020 Tax Year)

- $125 for first 4 household members and $50 per additional household member.
- Phases out gradually for household income over 175% of the federal poverty level.
- Can be claimed by filing a Utah income tax return.
- This credit is refundable - taxpayers without a Utah tax liability or filing obligation can still benefit.
Grocery Tax Rebate

• The Tax Commission will authorize rebate payments to qualified taxpayers between April and June 2020.

• Rebates will be automatically generated by the Tax Commission computers based on 2019 return info if a 2019 Utah return is filed by April 15, 2020.

• The rebate is 25% of the amount a household would receive under the Grocery Tax Credit if the credit were effective for 2019 tax year.
Earned Income Tax Credit (Beginning 2020 Tax Year)

• 10% of the qualified federal EITC for the previous year.
• Claimant must be identified by the Dept. of Workforce Services as experiencing intergenerational poverty.
• This credit is refundable - taxpayers without a Utah tax liability or filing obligation can still benefit.