



THE UTAH TAXPAYER

A PUBLICATION OF THE UTAH TAXPAYERS ASSOCIATION

Mixed 2020 Legislative Session Attempts Tax Reform, Adds Taxes on Business Inputs, and Increases Transparency

Another general session has come and gone. Here are some of the passed bills highlights (captions in green) and, unfortunately, lowlights (captions in red) from the 2020 General Session.

HB 356 - Railroad Amendments (Ferry)

The Utah Taxpayers Association has long stood on the philosophy that eliminating sales taxes on business inputs is sound tax policy. By removing these sales taxes, Utah works to end tax pyramiding. By ending this practice, the consumer will generally pay a lower cost since there aren't layers of taxes built into the final price. In addition, economic activity is incentivized when there is less taxation on inputs. That provides fuel to the economic engine and produces even more consumption- which is taxed- in the long run.

Removing tax pyramiding is good business practice, and strongly affects how a state's economy performs. Utah's legislatures have followed your Taxpayers Association stance on eliminating taxes on business inputs and Utah's families and businesses have benefited.

HB 356 seeks to undo part of the major work that has been done to keep Utah #1 for Best Economic Outlook for 12 years running. The bill will remove the sales tax exemption on fuel for locomotives in an effort to build pedestrian and road travel crossways over railroad tracks.

While this may sound altruistic, raising costs to the railroads will ripple throughout Utah's economic system. It is classic tax pyramiding at its finest. Increased taxes on railroads can mean greater costs on items shipped into and around the state, whether that be housing materials, fuel, or perhaps even items purchased online.

Your Taxpayers Association was strongly opposed to this bill, and are truly appreciative to the Governor for vetoing this extremely harmful legislation. At publication time we are working to prevent a veto override.

We hope the legislature will look more broadly at legitimate solutions to critical railroad crossings where they exist throughout the state.

Strengthening Truth-in-Taxation through the Property Tax Notice (HB 164)

Utah is unique in the nation when it comes to property tax laws, specifically with our Truth-in-Taxation (TNT) law. TNT requires that entities that look to exceed their certified tax rate (collecting more property tax revenue than the prior year, excluding new growth) advertise the impact of the proposed increase and hold a public hearing to allow their taxpayers to provide input on the proposed tax increase. Utah's property tax system is based on revenue, rather than a static rate, like other states.

Utah's Truth-in-Taxation law is regularly praised by national organizations, and is actively modeled in other states, including Iowa. But since first taking effect in 1986, your Taxpayers Association continues to refine Truth-in-Taxation to provide even more transparency to taxpayers.

HB 164, sponsored by Rep. Jeff Moss, requires additional information be included on the property tax notice, mailed by the counties each year.

Following the passage of HB 293 in the 2018 Session which froze the statewide uniform school tax rate, the Legislature did not put in place a transparent method of showing an increase to the property owner. While taxes for the property owner increased, the change year-over-year was shown as zero on the mailed notice. HB 164 will change this to reflect the true change in taxes for the statewide basic levy.

In addition, the deadline to appeal a property's valuation, information about residential exemption, and the total taxable value of the property will also be required on the property tax notice under HB 164.

Your Taxpayers Association initiated this important legislation and are pleased to see the governor sign it into law.

SJR 9 - Proposal to Amend Utah Constitution - Use of Income Tax Revenue (McCay)

Utah's tax reform process over 2019 was tumultuous and 8% of voters didn't find the Legislature's solution appropriate and stopped it through a referendum. (Learn more about that proposal and the Association's position here.) Following the repeal of that proposal, Utah still has a spending flexibility problem.

All of Utah's income tax is dedicated toward education funding, and cannot be used for other purposes. The general fund (primarily driven by sales tax revenue) has more demands on it than ever before, as social services costs, such as Medicaid, continue to increase. Utah's demand for transportation also continues to increase, which puts additional strain on the general fund. While Utah's income tax revenue climbs higher with massive surpluses, the general fund does not grow to the same extent.

SJR 9 tries to help alleviate some of the pressure by expanding the constitutional earmark on income tax to also be used for children's health programs and people with disabilities.

This greater flexibility frees up more general fund money to be used on helping those in need and expanding programs to ensure Utah's indigent population is taken care of.

This resolution, as a Constitutional amendment, would require a vote of the people in order to take effect. The bill will bring the issue before the voters in November, and we encourage their support.

HB 357 - Public Education Funding Stabilization (Millner)

Utah's rainy day funds (both general and education), are generally funded with one-time end-of-year surplus money. In the event that Utah has "excess" funds, the Legislature will often deposit money into these funds in preparation for a rainy day. But again, these are one-time revenue sources.

HB 357 creates a funding source for a savings account for education that is funded with ongoing funding, meaning the state can expect that revenue to continue.

The bill creates a formula and a separate savings account for public education that will set aside surplus revenue, and then distribute it based on calculations from the Office of the Legislative Fiscal Analyst and the Governor's Office.

This bill is tied to the passage of the constitutional amendment created from SJR 9 and will only go into effect if the constitutional amendment is approved by voters.

SB 130 - 911 Communications Amendments (Harper)

The Utah Taxpayers Association has followed the Utah Communications Authority for years as a quasi-government agency, charged with providing emergency service communications around the state.

The UCA, following a blazing audit several years ago, has been undergoing some reforms. According to legislative audits, positive changes have been made. One of the recommendations made, however, was to reduce its large network capacity that was not being adequately used.

SB 130, in part, allows UCA to sell excess capacity in their network, such as broadband internet, to government agencies like school districts or libraries. This is a blatant example of using public funding to compete with the private sector.

We remain opposed to this process and will continue to monitor UCA's activities closely.

SB 239 - Refinery Sales Tax Exemption (Okerlund)

Several years ago, the Utah Legislature passed a bill that created a sales tax exemption for business inputs for refineries that would convert to Tier 3 fuel, which creates far less pollution than "older" fuels. That exemption was set to expire.

SB 239 expands the sunset for the exemption for an additional 18 months. While we support any move to exempt business inputs since it stimulates economic activity as well as drives costs down, we want to see this exemption made permanent.

SB 239 is supported by your Taxpayers Association and will be a great benefit to all Utahns as pollutant levels drop as Tier 3 fuel adoption increases and refineries continue to move in this direction.

SB 150 - Transportation Governance and Funding Amendments (Harper)

Utah's transportation system is subsidized by the general fund to the tune of hundreds of millions of dollars a year. This is due to the diminishing power of the gas tax, which has begun to flatten as vehicles become more efficient and the state's population continues to grow.

Your Taxpayers Association believes that a road usage charge (RUC) is the solution. RUC, essentially, has a driver pay for the miles they use. Eventually, the RUC would replace the gas tax as the primary funding solution for Utah's transportation system.

SB 150 requires that UDOT submit a written proposal in 2021 to implement the RUC. We'd like to thank Sen. Harper for being a champion on this issue.

SB 114 - Sales and Use Tax Exemption Amendments (Cullimore)

We've talked about the benefits of exempting sales taxes on business inputs earlier in this article, and SB 114 continues to make progress in this effort.

SB 114 not only sets into statute a clarification on exempting sales taxes on business inputs for data centers, but also clarifies when sales taxes must be paid when a provider offers a lesson in addition to tangible products.

In some circumstances, some businesses are audited and penalized for not collecting sales taxes on lessons, despite documentation from the Utah State Tax Commission stating that lessons are not subject to sales taxes. These painful audits and penalties can put businesses on the brink of closure.

This bill clarifies that lessons are not subject to the sales tax as part of an admission fee.

To view our entire Watchlist of more than 70 bills with which your Taxpayers Association has been engaged this year, [click here](#). Also, to see how your legislator protected your tax dollars, [click here](#) to view our Legislative Scorecard.

Karl N. Snow Jr. - Good Government Doesn't Just Happen, It Has a Designer

Utah citizens are justifiably proud that we are often recognized as the best managed state and for having the most efficient legislative process in the country. The Legislature has also been nationally recognized for its ability to prepare a budget and process legislation with a part-time legislature and relatively short legislative session. The enviable structure and operation of Utah's three branches of government owes much of its acclaim to those individuals who years ago focused their attention and dedicated their efforts to improve the structures of state and local government. Perhaps the most significant of these is Karl N. Snow, Jr.

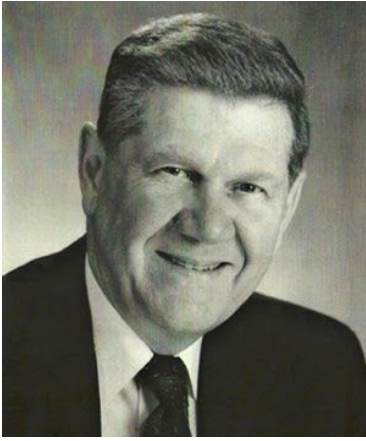


Karl did his doctoral dissertation at the University of Southern California on Utah's fiscal management and legislative staffing structures. Later, as a faculty member at Brigham Young University he was a consultant to the Legislature. As a new faculty member at BYU, his work attracted the attention of key Utah legislators interested in restructuring the budgeting process.

In 1966, Dr. Snow was hired as the first Fiscal Analyst for the Utah Legislature. His work eventually resulted in the Legislature's current non-partisan professional staffing structure.

I didn't fully appreciate the three efficient non-partisan legislative staffs – the Offices of Legislative Research and General Council, Legislative Fiscal Analyst and Legislative Auditor General – until as a State Senator, I discussed with other state legislators at national conferences their separate staffs for the House and Senate and sometimes for each political party in each body. I no longer took our efficient staffing structures for granted. I also learned that Utah's joint legislative interim committees (which meet monthly throughout the year preparing legislation for our short annual 45-day General Sessions) are also not standard among the states.

Many state legislatures don't meet during the interim at all and don't have a set number of days the legislature meets. These long and indefinite sessions make it difficult for ordinary citizens to serve in the legislature and still have full time jobs.



Former State Senator Karl Snow

Dr. Snow left the Fiscal Analyst position in 1969 to return to BYU as the Director of the Institute of Government. While there, he was recruited by some of the legislators he served while Fiscal Analyst to run for the legislature and was elected to the Utah State Senate from Utah County in 1972 and served through 1984.

His time there included a term as Senate Majority Leader and other leadership posts. One of the first measures he accomplished was modernizing the archaic commission form of city government to council-manager and council-mayor options. He was a major force in the creation and implementation of much of today's budgetary, fiscal management and operational structure of Utah state government, including vesting the Governor with budgetary authority instead of the cumbersome three member board of examiners.

Because of his deep knowledge of best practices in improving state organizational structures, Democrat Senate President Moroni Jensen appointed Republican Senator Karl Snow to Chair the Utah Constitutional Revision Commission. That body, which included both legislators and prominent citizens throughout the state, comprehensively studied major changes in the Utah Constitution. These projects included modifications in the Legislative Article, Executive Article, Judicial Article, Tax Article and the Education Article. Most importantly, these proposals were adopted by the required two-thirds vote of each house of the legislature and with Senator Snow's leadership were approved on the ballot by a majority of Utah voters.

Dr. Snow was a mentor to a legion of young people who have effectively managed and worked in state and local government throughout Utah and the entire country. He was the director of BYU's MPA Graduate program from which I graduated in 1977. He taught the Governmental Finance and Statistics Classes where I got the training which prepared me to go to work for the Utah Taxpayers Association 43 years ago this month.

Karl is still with us at 90 years old. Many of those whose lives he impacted have now either retired or are near that point. This year the Utah Legislature recognized Karl Snow's lasting legacy through a citation presented on the floors of the House and Senate.

Cannon's Canon: What Will Be the Consequences For Utah and Other States From CoronaVirus?

As the entire globe wrestles with the coronavirus pandemic, the various responses on the health front and economic front are being implemented on a national scale as well as the state level. On a national level, Congress recently passed the CARES Act (HR 748), which was immediately signed by President Trump.



HR 748 is a massive bill with a massive price tag and many different facets to stabilize the business community in the United States as well as shore up the soon to be stressed unemployment insurance benefit pools of the various states. The bill also provides immediate cash payments to US taxpayers in the form of \$1,200 checks for each person plus \$500 per child. Those benefits would start to phase out if a taxpayer's

income in 2019 or 2018 was above approximately \$75,000 for a single filer or \$150,000 for a couple, and completely phase out if your income was above \$99,000 for a single filer and \$199,000 for a couple.

On a state level, many states have started to implement similar measures to close schools and non-essential businesses and curtail activities to stop the spread of the virus. The short term and long term consequences to the economy could be substantial and possibly even devastating in many states. The federal bill (HR 478) provides around \$150 billion in direct aid to states to combat the virus outbreak and its effects. According to the Tax Foundation in Washington DC, total aid to each state is calculated with a formula. Utah should be receiving around \$1.25 billion in aid, while larger states like California, Texas and New York will receive somewhere between \$7 to \$15 billion each. There is also an additional \$340 billion in aid to states for emergency efforts. The Tax Foundation article and analysis can be found [here](#).

While eyes are fixed on what the weekly jobless claims data will show, one can see anecdotal evidence of the economic slowdown in various states around the country. In California for example, according to our sister organization there (CalTax), the clouds on the horizon look rather ominous. They are seeing major slowdowns in all three of their ports- Los Angeles, Long Beach and Oakland, film production has grinded to a halt, all schools and non essential businesses are closed as well as all beaches under a general stay at home order. California averages around 2,500 unemployment claims each day and that has jumped to around 115,000 per day now. California's Public Employees Retirement System (CalPERS) reportedly lost \$69 billion in assets, given changes in the market. Their state retirement plan is one of the most underfunded in the nation and was on thin ice long before this year. A number of local governments have raised the possibility that they could be facing bankruptcy, unless voters approve higher taxes later this year.

Reflecting on the problems of California gives us many reasons to be thankful for the fiscally conservative way that Utah has been managed for many decades. As the next month or two unfolds, the various responses of each state will be formulated and implemented. With healthy rainy day funds, working rainy day funds and many tools available to the Legislature and Governor, Utah will hopefully have a way out of this health and economic storm without causing excess pain for taxpayers and residents.

Utah Taxpayers Association Releases Annual Legislative Scorecard, “Friend of the Taxpayer” Award Winners Announced

The Utah Taxpayers Association annually releases a legislative scorecard ranking Utah's legislators by their votes on the most important tax-related bills considered during the most recent legislative session.

Out of 76 bills the Utah Taxpayers Association tracked during the 2020 Legislature, 14 tax-related bills were used in rating Utah's 104 legislators.

The average score in the Senate is 79.3%, a drop from 82.2% the year before. The House average this year is 74%, down from 77.3% in 2019. while the House average is 77.3%. Senator Curt Bramble was the only legislator to score 100% this year.

Sen. Lincoln Fillmore was the second highest percentage with the Utah Taxpayers Association, at 90.9%.

Four senators will be receiving the “Friend of the Taxpayer” award, with those voting more than 90% of the time with the Taxpayers position. Those were Senators Curt Bramble, Lincoln Fillmore, Dan McCay and Don

Ipson. Six members of the House won the award. Those were Representatives Walt Brooks, Marc Roberts, Mike McKell, Mike Schultz, Jeff Moss, and Adam Robertson.

Along with the 2020 General Session bills included in the Scorecard, the Association added SB 2001 from the December 2019 special session.

SB 2001, Tax Restructuring Revisions, was the result of nearly a year of deliberation from the Tax Equalization and Restructuring Task Force, the Legislature took up the recommendation in December of 2019. SB 2001 reduced the income tax rate to 4.66%, restored the dependent exemption for state income tax, reduced state income taxes on social security income, and created an Earned Income Tax Credit. In addition, it restored the full state sales tax rate on unprepared food and repealed the sales tax exemption on motor fuel.

Your Taxpayers Association supports cutting income taxes and broadening the sales tax base while providing an overall \$160 million tax cut to Utah taxpayers.

At the beginning of the 2020 General Session, in response to a successful referendum, the Legislature repealed SB 2001 in its entirety.

To view the entire Scorecard, click here.

Sobering Statistics on Unemployment Insurance Claims - How Does Utah Look?

Last week, on March 26th, weekly initial unemployment benefit claims reached the highest level in the history of our country. Claims were five times higher than the worst week during the Great Recession of 2008 at almost 2.9 million claims.

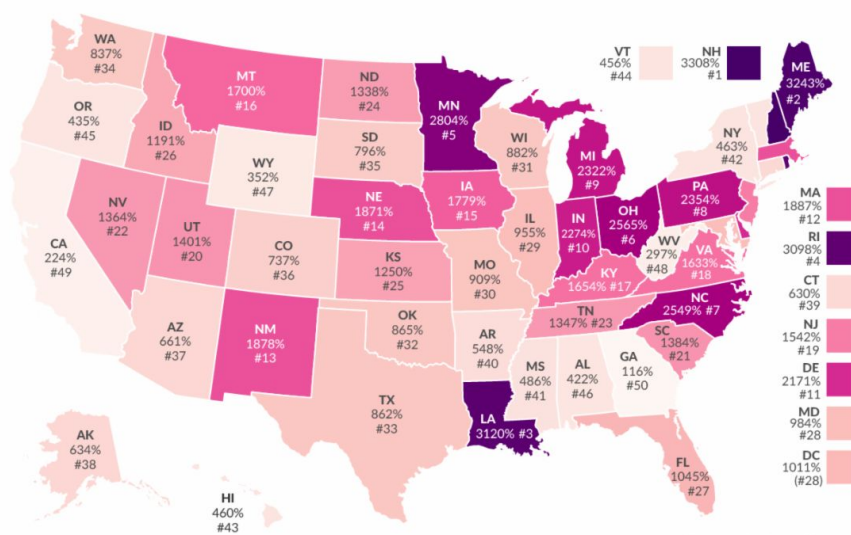
We are likely to see more sobering numbers in the coming weeks, therefore it is important that we take a look at the health of Utah's unemployment insurance trust fund and how it compares to other states.

The Tax Foundation in Washington D.C. has issued some excellent data. First, here is a look at how quickly claims have skyrocketed in the most recent week, which is seen on the right.

Utah comes in at #20 (with #1 out of 50 being the biggest jump) out of the fifty states with an alarming jump of 1,401% above the previous week. Other notable states are the biggest jump in the nation is New Hampshire at 3,308% and the smallest jump comes from Georgia at only a 116% increase.

How Quickly Have Unemployment Claims Risen in Your State?

Percent Change in Total Weekly Unemployment Claims, March 14-21, 2020



Note: Percent change between the week ending March 14 and the week ending March 21. Comparatively modest increases in some states owe largely to the timing of claims processing, with many initial claims likely to be processed the week ending March 28.

Source: U.S. Department of Labor

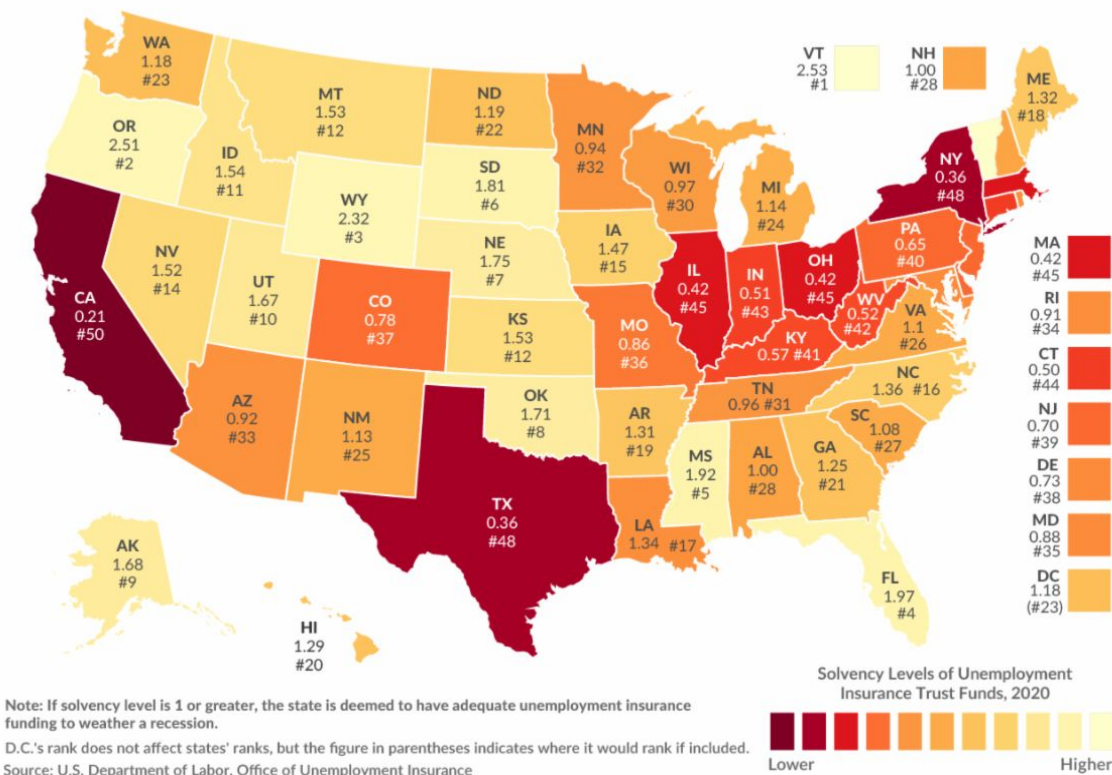
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States prepare for times like this by building their reserves in their respective Unemployment Insurance Trust Funds. Unfortunately, some states are better prepared than others and there is a wide range of levels of reserves. Here is a look at where Utah stands in relation to other states:

How Solvent Is Your State's Unemployment Insurance Trust Fund?

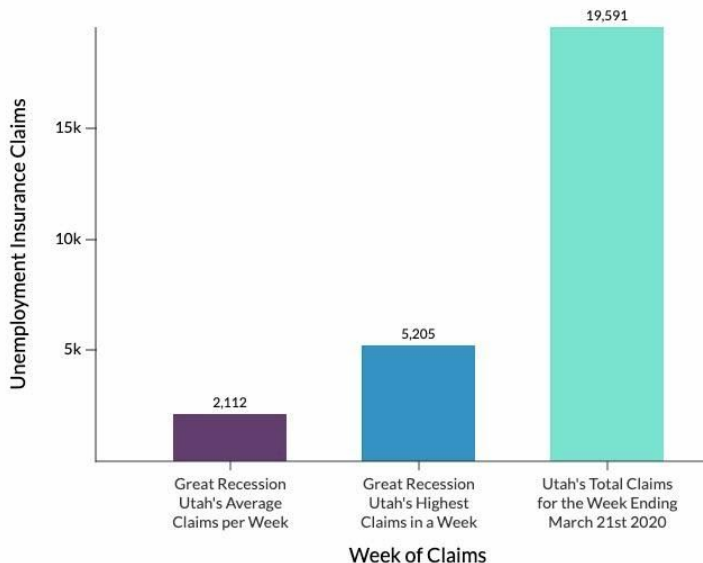
Solvency Levels of Unemployment Insurance Trust Funds, 2020



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Utah's leaders should be commended for keeping Utah in a good position. Utah has a fairly strong solvency ratio according to the Tax Foundation at 1.67. A ratio of 1 or greater is deemed to show the state having adequate insurance funding to weather a recession. Sadly, some states are in dire shape, including California at only a paltry ratio of .21 and New York and Texas not far behind with ratios of only .36.

This next chart is where things get a little worrisome. Here is an illustration of what has happened in Utah in the most recent week in comparison to the previous recession. As you can see, Utah's unemployment insurance trust fund will be tested:



There are efforts to bolster the states Unemployment Trust Funds from the federal government. The recently passed "CARES Act (HR 748)" contains several aid packages for states including federally funding the first week of unemployment claims and hundreds of billions of dollars to shore up the states' balances. Only time will tell if that will be enough.

Along with the federal aid, there are a number of measures the State of Utah could take to weather this storm. Hopefully, the solid position Utah has been in leading up to this will allow policymakers to provide remedies that don't further burden taxpayers.

Association Accomplishments During March:

- ❖ Lobbied legislators on tax related issues during the 2020 General Session
- ❖ Published 2020 Legislative Scorecard
- ❖ Began planning the 2020 Taxes Now Conference
- ❖ Discussed tax issues with gubernatorial candidates

In the News

- [Tax Cuts this Session? House and Senate GOP Divided](#): KSL
- [Empower Property Taxpayers with Notification](#): Newton Daily News
- [Utah Lobbyists Spar Over Rail Crossing Delays](#): Standard Examiner
- [Proposed Bill for Shifting Services for Children and Disabled under Education Funding](#): Fox 13
- [Take Advantage of Law that Requires more Local Tax Transparency](#): Globe Gazette