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THE UTAH TAXPAYER

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2019 Session: There's Still Plenty of Work to Do in the Coming Months

Now that we've had some time to digest the 2019 General Session, one topic dominated much of the conversation. But plenty of other issues boiled up that will affect taxpayers for years to come. Let's review what happened, and what to expect.

HB 441: Tax Equalization and Reduction Act (Quinn)

Needless to say, the biggest tax issue that was faced during the 2019 General Session was the effort to expand the sales tax, mostly by taxing services.

While the Utah Taxpayers Association has long supported broadening the sales tax base and lowering the income tax rate, HB 441 was not the way to accomplish this, without damaging Utah's economy for decades to come.

In the bill, the expansion of the sales tax included business-to-business transactions, which is also known as tax pyramiding.

Economists have long contended that a sales tax should be placed on the final consumption or purchase of an item, rather than have multiple stages in the production cycle.

This could apply to legal services for patents, accounting and engineering services, or even something as seemingly trivial as security services. Taxing these services would lead to higher costs for the end consumer, and are all services used during the production of an item.

Your Taxpayers Association was the first to sound the alarm on this bill that contained these major concerns. *(continued on page 4)*

SAVE THE DATE! Utah Taxes Now Conference to be Held on Tuesday, May 21, 2019 at the Grand America Hotel

The 41st Taxes Now Conference, to be held May 21 at 8 a.m., will largely focus on the efforts of state legislators to pass sales tax reform in Utah.

As discussions regarding how Utah ought to modernize its tax structure, conversations at the Taxes Now Conference will key in on:

1. Ensuring no business-to-business taxes are created,
2. Revenues from expansion of the base should exceed compliance and enforcement costs,
3. Utah companies must not be put at a competitive disadvantage,
4. Reducing income tax rates instead of sales tax rates.

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My Corner: The Importance of Remembering Who The People's House is For

Association President
Howard Stephenson

Leaving the legislature after 26 years, and now having lobbied for my first legislative session, has given me a greater respect for both legislators and lobbyists. As a legislator, I was required to deal with all the issues that came before my committees and before the floor of the senate. As a lobbyist, I have the luxury of dealing with a few important issues in a more selective way.

During this most recent session, I gained a new respect for the lobbyists I serve with at the Utah Taxpayers Association and other free enterprise organizations. I recognized how hard it was sometimes to get the attention of legislators they wanted to speak with about an important issue. While I recognize that the number of issues I as a lobbyist was required to deal with was far fewer than the number required of legislators, the amount of time we needed to invest in legislators in order to gain their vote of support of our position took a lot more work than being a legislator with so many wanting your attention. I found myself now in the position of competing with others for the attention of legislators, not unlike sales persons competing for the attention of customers who may not be interested in what they are selling.

Legislators realize from the moment they are elected that they have taken on a pretty heavy responsibility. The act of casting that first vote on a controversial issue weighs heavily on emotions. Only after I left office did I realize that being a legislator is, in a real sense, a ball and chain which denies flexibility and freedom enjoyed by those not serving in office. Being addressed as "Senator" or "Representative" can't help but elicit a certain pride and, if we're not careful, an egotistical response. The headiness of the perceived new power and title sometimes causes a legislator to treat those who come before us with less respect than we should. That lack of decorum is easier to recognize in other legislators than it was in oneself.

On one occasion I witnessed a committee chair berating a citizen who appeared before the committee visibly showing his trepidation and emotional tension. The witness was chastised by the committee chair and forbidden to deliver his prepared presentation. It was in that moment that I realized for the first time that we as legislators are the only visitors in the Capitol. It is owned by the people; it is their house. The temporary titles we are given do not belong to us, they are placed on us so that the people can hold us accountable. We sit on the floor with a gallery above us so that the citizens can keep an eye on us. We are seated in committees on raised platforms, not to be honored and elevated above the attendees, but so the people can keep an eye on us, and we cannot avoid their scrutiny. I remember a particular school group that I took on a tour of the back halls of the legislature after they had been given the regular tour by the Capitol docents. As the 5th graders moved from room to room, I noticed a short Hispanic boy held the door for all his classmates. When we got to the Senate floor, I showed them the desk I sat at while the Senate was conducting business. I asked the students, "Whose desk is this?" They must have thought I was asking a rhetorical question, because they all said in unison, "That's your desk." I told them, "No, it is not my desk. It is the desk I am required to sit at so that everyone can know what I am doing in representing the people who elected me. The desk belongs to the people; the desk belongs to you and your parents. I am only allowed to sit at it so you can watch me and make sure I conduct myself in a responsible manner." I explained to the students, that if the people feel I have not acted appropriately as senator, they have the power to remove me from office when I stand for re-election.

I then moved to the president's dais and held up the large gavel. I explained that the 29 senators cannot act until the president, who has been elected by the Senate to preside, pounds the gavel and calls us to order. Then, at the conclusion of our work that day, he pounds the gavel again after a motion to adjourn is passed. I told the students that the legislators were powerless to act until the senate president struck the gavel again. I remembered the young boy who had held the door for each of his classmates and invited young Ian Biddle to come to the dais with me to pound the gavel and show the students what it sounded like when the president called the senate to order. I cautioned him that he needed to strike the gavel on the wooden plate so he would not destroy the desk. This young boy held the gavel with both hands and struck the plate which caused a reverberation of sound throughout the chamber. All his classmates applauded and cheered. At the conclusion of the tour, I walked with the students and their chaperones towards the Senate Building and the cafeteria where they would eat their sack lunches. Ian's uncle, an elderly gentleman, stopped me and with tears in his eyes, said with a Spanish accent, "When you explained that the office is not yours, but belongs to the people, I realized what a place of freedom the United States is, because in two days, I am required to return to Venezuela, where our government does not respect the people nor do the people have to power to remove officials the way you do in America."

I sometimes think of this Venezuelan man when I walk through the Capitol. I wonder if our citizens and elected officials fully appreciate what it means to have a government of the people, by the people and for the people. Looking back on it, it was easy to get lost in the perceived prestige of elected office. Going forward, I hope our legislators and lobbyists alike will contemplate the meaning of what it is we do when we walk through the doors of the Capitol. Elected officials should always remember that it is a privilege to hear from citizens and work to represent them to the best of their abilities while they are visitors in the "People's House."

2019 Session: There's Still Plenty of Work to Do in the Coming Months (continued)

With only 36 hours given to read and understand the bill, which had been kept under wraps for months, and with only ten days left in the Session, the House Revenue and Taxation Committee took a vote on the bill and sent it to the House floor without addressing many of the changes your Taxpayers Association had called for.

Thanks to the efforts and analysis done by your Taxpayers Association and partnership of dozens of member organizations of the Utah Business Coalition, legislative leaders agreed to hold off on the proposal, and instead rather study it in more depth with business leaders and individuals to create a more stable, economically viable solution.

HB 495: Tax Restructuring and Equalization Task Force (Schultz)

Following the decision to pause the proposals contained within HB 441, the Legislature passed HB 495 , which creates a task force that will take the proposal on the road to hear from businesses and individuals.

We are engaging legislative leadership to encourage business-friendly, tax-minded individuals be placed on the task force in order to better steer the conversation that won't harm Utahns well into the future.

HB 231: Tangible Personal Property Revisions (Lisonbee)

This bill increased the exemption for tangible personal property from $10,000 to $15,000. Currently, small business personal property in Utah is doubly taxed; the full sales tax on the original purchase equal to about 7% statewide and the annual property tax on that personal property which is the equivalent of about 1 1/2 %. Generally, this personal property has a life of around 5 years on average before it needs to be replaced. Especially in terms of electronics used in small business. So, in other words, small business pays 7% sales tax on the personal property and then over the course of the life of the personal property, they pay another roughly 7% tax through property taxes.

This bill will ease the compliance of small business, but there is an ongoing effort to ensure that if an item is subject to the sales tax, then it should be exempt from the personal property tax.

SB 201: Sales and Use Tax Modifications (Winterton)

Following the victories in 2018 that eliminated the three-year life sales tax penalty on business inputs for manufacturers and mining operations, the march to eliminate sales taxes on inputs in Utah continues.

Our next challenge is eliminating the sales tax on business inputs for oil and gas extraction and electrical generation industries. This is a principle the Legislature has clearly believed in and has taken steps to fix it for other industries in the past.

While this bill did not pass through the entire Legislature, we expect to continue its progress throughout the year, and are hopeful for its passage during the 2020 Session.

SB 154: Utah Communications Authority Amendments (Harper)

Following the Legislature's decision to pass this bill, Utahns will see fees on their phones (both cell phones and landlines) to increase. The bill increases 911 fees from 9 cents to 25 cents, which is a **178% increase.**

While the Utah Taxpayers Association supports ensuring that public safety facilities, including 911 emergency centers, are funded adequately, phone users (whether it be a landline or a cell phone) are not the only users of 911 services. Public safety is used by all citizens, and therefore should be funded through general property taxes, through the general fund rather than applying even higher fees on cell phone and landline users.

We have been promised by key proponents of this bill that a discussion will be held throughout the interim to study the idea of moving the funding of 911 services from phones to the general fund, and we strongly expect they will hold true to their word.

HB 11: Property Tax Amendments (Hawkes)

Throughout the interim, we have been working on a bill to help property taxpayers during the appeals process. Many Association members have contacted us questioning the significant valuation increases on their homes or businesses, and how the best way to appeal the valuation with the county.

HB 11 protects property taxpayers and homeowners during the valuation and appeals process, by shifting the burden of proof during the valuation appeals process from the homeowner to the county. Currently, the homeowner must prove why their property is overvalued.

It also creates an automatic review process if a property's value increases by more than the median property value change plus 15%.

We are excited to see this change implemented following the passage by the Legislature, and taxpayers can expect much more transparency during the property valuation process.

SB 129: Public Safety and Firefighter Tier II Retirement Enhancements (Harper)

SB 129 made two changes to the Tier 2 retirement plan for police and firefighters. It will increase the contribution rate from 12% to 16%, with 2% coming from the employee salary deferral and 2% coming from the local employer. In addition, it will increase the yearly accrual they get for the pension plan from 1.5% each year to 2%.

Taxpayers can expect these increases to costs upwards of ten million dollars in the next few years.

SB 263: Property Tax Definition Amendments (Weiler)

Soon to be in effect, this bill creates a statewide standard that matches the federal definition whether an educational institution meets the requirements to receive a property tax exemption. There has been no statewide standard that all counties apply, which creates confusion for county assessors and nonprofit institutions.

While it doesn't go into effect until July of 2020, your Taxpayers Association is working with representatives of the counties to come to an agreeable conclusion that can take effect sooner than that date.

To find all the bills the Association tracked, click here. If you wish to review the Legislative Scorecard, click here.

Utah Taxpayers Association Releases Annual Legislative Scorecard, Recognizes 17 "Friends of the Taxpayer"

The Utah Taxpayers Association has released its annual legislative scorecard for the most recent legislative session. The scorecard ranks Utah's legislators by their votes on the most important tax-related bills considered during the session.

Out of the 60 bills the Utah Taxpayers Association tracked and took action on during the session, 14 tax-related bills were used in rating Utah's 104 legislators.

The average score in the Senate is 82.2%, while the House average is 77.3%. Senator Curt Bramble scored 100%, while Reps. Norm Thurston, Kim Coleman, and Tim Hawkes scored 100% in the House.

House Bill 441, which sought to expand the sales tax base to include business to business services in Utah and would have done irreparable harm to Utah's economy, was not a factor in our Scorecard. The bill never received a full body vote, therefore we are unable to score it. However, the Scorecard does provide information, including the committee vote, on the front page for those who are interested in learning more about it.

Due to the encompassing nature of HB 441, the Legislature did not have as many tax-related bills as we have scored in years past. Therefore, because of the smaller denominator, votes against the Association did lower legislators' scores more than they may have in previous years.

In the House, six bills received unanimous support, and seven bills in the Senate passed without a dissenting vote.

There were several bills that legislators voted against the Taxpayers Association's position. They are outlined here:

- HB 185 (Owens) - Allows tax increment financing to be used to build publicly-owned student housing. Only 11 legislators voted with the Taxpayers position.
- HB 252 (Ray) - Would have implemented a tax of 86% of the purchase price of electronic cigarettes and related products. 20 representatives voted with the Taxpayers position.
- SB 129 (Harper) - Mandates an increase in Tier 2 retirement contributions for public safety officers and firefighters from 12% to 16% of salary, with the employee covering half of that increased contribution.

Legislators that voted no more than once against the Association's position receive the distinction of "Friend of the Taxpayer". In the House, 11 legislators earned the honor. In the Senate, 6 members will be awarded the title for the upcoming year.

To view the entire Scorecard, click here.

2019 "Friend of the Taxpayer" Recipients:

House of Representatives

Norm Thurston - 100% (R - Provo)
Kim Coleman - 100% (R - West Jordan)
Tim Hawkes - 100% (R - Centerville)
John Knotwell - 91.7% (R - Herriman)
Susan Pulsipher - 91.7% (R - South Jordan)
Mark Strong - 90.9% (R - Bluffdale)
Walt Brooks - 90.9% (R - St. George)
Phil Lyman - 90.0% (R - Blanding)
Jeff Moss - 90.0% (R - Saratoga Springs)
Brad Last - 87.5% (R - Hurricane)
Brad Wilson - 85.7% (R - Kaysville)

Senate

Curt Bramble - 100% (R - Provo)
Todd Weiler - 91.7% (R-Woods Cross)
Lincoln FIllmore - 90.9% (R - South Jordan)
Kirk Cullimore - 90.9% (R - Sandy)
Dan Thatcher - 90.0% (R - West Valley)
Daniel Hemmert - 88.9% (R - Orem)

Cannon's Canon: Other States Challenging Utah's Economic Outlook Ranking by Cutting Income Taxes

by Association Vice President Rusty Cannon

Utah has come in at #1 every single year Art Laffer and the American Legislative Exchange Council have published their in depth ranking of the 50 states for the best economic outlook. We have had that title for 11 years in a row. However, as everyone knows, sitting on top of the pile can often put a target on your back.

The competition might not be specifically for that #1 spot, but it is a competition for the reasons that state sits at the top. Those reasons are: economic growth, job growth, low tax burden, low debt ratios, and low pension risk amongst many other things. As attractive as these measures are, they are only indicators that produce a higher quality of life for families and individuals in our state.

One of the greatest drivers of economic growth and job growth, which are the holy grail of what everyone is seeking, is the income tax rate. Our competition - virtually every other state in the nation is actively doing what they can to catch up to us. They try and lure companies and jobs to their state by lowering their income tax rate, coupled with other tax cuts.

The 5 states that are leading the pack in inflows of capital and jobs into their states are Florida, Nevada, South Carolina, Arizona and North Carolina, according to ALEC. It would make sense to see what they are doing as far as tax policy since people and capital vote with their feet and they are moving into those states. Here is what some of them - our competition - have been doing in recent years.

North Carolina

In recent years, no other state in the nation has been more of a shining example than North Carolina. Starting in 2013, their legislature passed a massive income tax cut that would change to a flat rate and phase down their individual income tax rate from 7.75% to 5.75% over three years and then, if revenue grew due to those tax cuts they said they would cut even further. That is exactly what happened, revenue grew and they reduced it even further to 5.25% in 2017. They also reduced their corporate income tax rate a whopping 60% from 6.9% to 3.0% over the same time period and then lowered it even further to 2.5% in 2019.

When they started those reforms in 2013, North Carolina sat at the middle of the pack in ALEC's Rich States Poor States ranking at 22. Since then, they have rocketed to #7 and have seen massive inflows of companies and jobs year after year. Their rank will likely continue to ratchet up. They are an example of exactly what happens when you cut income tax rates: you get more revenue, more jobs coming to the state and more economic growth. Contrary to what many naysayers will claim, cutting income tax rates spurs economic growth which then grows the entire pie for everyone. When you tax something less, you get more of it.

Florida

Florida taxpayers pay zero income tax. That attracts significant economic growth compared to other states and acts as a constant magnet for migration to the state for businesses and the jobs that come with them. However, they have not used this as a reason to sit on their hands. Florida has returned more than $6.7 billion to taxpayers in various tax cuts, tax incentives and pro-growth initiatives in recent years and is now sporting an economy that is about to breach the $1 trillion mark.

Some other examples of what they have done recently are $180 million in tax reductions on business capital, business to business transactions, and taxes on productivity, as well as cutting $400 million in property taxes.

Florida continues to chase Utah at the #1 spot in the Rich States Poor States ranking of best economic outlook with a #6 spot. Given all of the changes they have made to make Florida even more business and taxpayer friendly, they will surely continue to be a state to be reckoned with.

As Utah continues to refine and modernize our tax structure, it is absolutely vital that we further reduce our income tax rates and lighten the burden on business and capital. That will lead to continued job growth and assure Utah continues to be a great place to live, earn a good living and raise a family.

2019 School Spending Report Shows Continuing Movement Towards Hiring Additional Administrators

According to the Utah Taxpayers Association's 2019 School Spending Report, Utah's school districts' non-instructional staffs continue to grow, while teachers make up a smaller part of the total district employment. The annual report details expenditures per student, as well as salary information and tax rates of the 41 school districts in Utah. In addition, it compares Utah's traditional public school districts against the expenditure of data of charter schools across the state.

In fiscal year (FY) 2018, only 45% of total district employees were teachers, a trend that has been on the rise over the past 20 years. In FY 1999, roughly 55% of districts' total staff were teachers. Administrative staff continues to rise, while educators make up a smaller and smaller portion. What does this mean for Utah's students and per-pupil spending?

According to the report, Utah school districts spend $9,249 on average per student. This calculation includes debt service, construction and maintenance of buildings, and transportation along with other traditional education needs.

Compare this to the nationwide average of $13,119, according to the most recent data available from the National Center for Education Statistics. While this may appear to cast a negative light on Utah's funding, let's look at the numbers a little deeper.

Utah has 41 school districts, which puts Utah near the bottom of the total number of school districts nationwide (Hawaii only has one school district for its roughly 185,000 students). Utah's student enrollment is 581,054 in public school districts. That puts our average district enrollment at 14,172.

Illinois, which spends $14,180 per student, has a whopping 865 school districts, with an average district enrollment of just 2,388.

Each one of those 865 school districts needs administrators, librarians, janitorial staff, and extra buildings to prop up their functions. This is a redundant and perhaps unnecessary cost that burdens taxpayers, and raises the total per-pupil spending amount without improving learning.

Utah, on the other hand, because of our demographics and geography, has a population which is primarily located in urban areas. This allows us to have larger school districts by enrollment which avoids the hiring of unnecessary administrators to serve smaller populations.

In fact, when you look at school districts with smaller populations, like North Sanpete, with an enrollment of 2,471, they are spending $11,893 per pupil. This is the case for many of Utah's smaller school districts. With the exception of one (Juab), each school district with an enrollment of less than 3,000 spends more than $10,000 per pupil.

To illustrate this point even further, administrative costs are the second highest cost in per-pupil spending from the general fund, outside of direct instructional expenses. Administrative spending per student on average is more than spending for support services, operations and maintenance, and transportation. On average, Utah school districts spend $796 per student on administration, with some districts, like Daggett, spending nearly $3,700 on administration.

As school districts expand their non-educating staff, school district elected officials must be constantly vigilant and require accountability from their superintendents on expanded hiring practices. If they refuse to accept accountability, taxpayers will continue to see increases that do not educate our students, but line the pocketbooks of unnecessary staffers.

This is only a small portion of what is contained within this year's School Spending Report. To look at all the data for yourself, including tax rates, sources of revenue, and average class size, click here.

Association Accomplishments During March:

- Met with legislators and tax policy makers during the 2019 General Session regarding tax policy in the state
- Attended committee meetings at the 2019 General Session to state the Association's position on legislation that will affect taxpayers in Utah
- Released the 2019 Legislative Scorecard
- Announced the 2019 "Friend of the Taxpayer" Recipients
- Released the 2019 School Spending Report
- Began meeting with key legislators to educate on alternatives to tax pyramiding
- Planning for May 21st Utah Taxes Now Conference

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- Sales Tax Reform
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