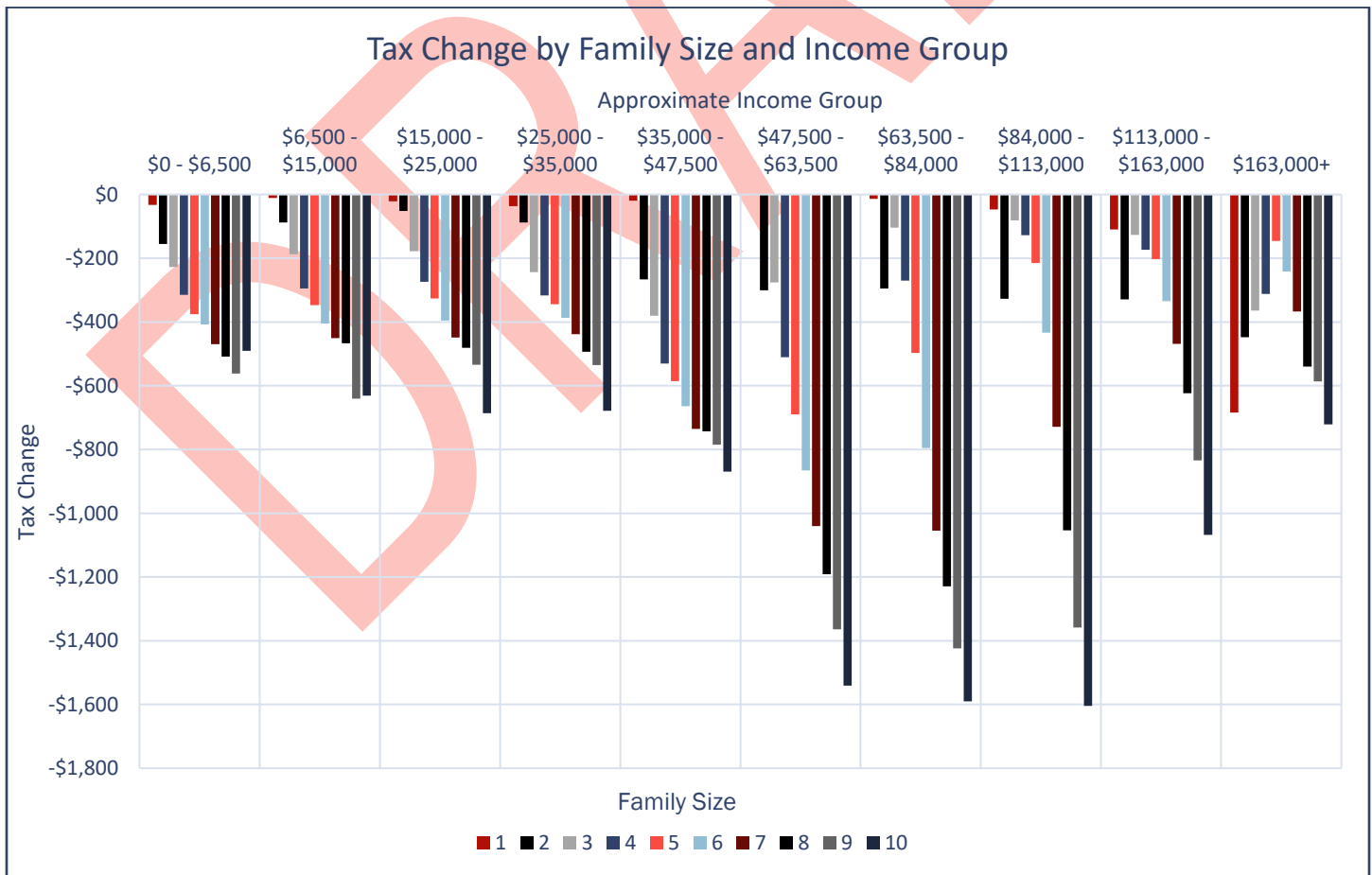


## Task Force Tax Restructuring Policy Proposal (2<sup>nd</sup> Substitute)

### Budgetary Impact

- Results in an overall net tax reduction of approximately \$155 million.
  - A single filer would see an estimated average total tax reduction of more than:
    - \$20 per year if their income was \$25,000
    - \$0 per year if their income was \$60,000
    - \$45 per year if their income was \$85,000
  - A family of two would see an estimated average total tax reduction of more than:
    - \$50 per year if their income was \$25,000
    - \$300 per year if their income was \$60,000
    - \$325 per year if their income was \$85,000
  - A family of four would see an estimated average total tax reduction of more than:
    - \$270 per year if their income was \$25,000
    - \$510 per year if their income was \$60,000
    - \$125 per year if their income was \$85,000
  - A family of seven would see an estimated average total tax reduction of more than:
    - \$440 per year if their income was \$25,000
    - \$1,040 per year if their income was \$60,000
    - \$725 per year if their income was \$85,000

### Incidence of Tax



## Policy Summary

This proposal includes the following policy modifications:

### Reductions

#### Income Tax

- Reducing individual and corporate income tax rates
- Expanding the “Utah Dependent Exemption” provision of the taxpayer tax credit
- Creating an income tax credit for certain Social Security retirement income
- Creating a “Grocery Tax Credit” for low-to-middle-income residents

#### Sales Tax

- Exempting menstrual products and consumables used in the repair, cleaning, and maintenance of tangible personal property from sales tax

### Expansions

#### Sales Tax

- Restoring the full sales tax rate on unprepared food
- Expanding the sales tax base by repealing certain sales tax exemptions
- Expanding the sales tax base by repealing the sales tax exemption for motor and some special fuels
- Creating new excise tax on diesel rather than repealing sales tax exemption
- Transitioning to direct user fees for transportation costs
- Expanding the sales tax base by charging sales tax on certain services

#### Other

- Increasing the state Motor Vehicle Rental Tax

### Budget Shifts

- Restore some funding of Higher Education to the sales tax-backed General Fund
- Funding school lunch program and underage drinking prevention program from Education Fund and depositing the portion of the liquor mark-up that currently funds the programs in the General Fund
- Reducing sales tax earmarks for transportation

## Policy Descriptions

### Reduce Individual and Corporate Income Tax Rates

- Reduce the state income tax rate from 4.95% to 4.66%

### Expand the Utah Dependent Exemption

- Increase the exemption amount per dependent from \$565 to \$2,500
- Joint filers with no dependents will be able to claim one exemption
- Credit remains 6% of exemption amount
- Phaseout rate of credit remains \$0.013 per dollar over:
  - \$14,879 for single filers
  - \$22,318 for head of household filers
  - \$29,758 for joint filers
- Phaseout thresholds adjust for inflation
- One-time rebate for 2019 filers, equal to approximately half of the per dependent credit amount described above, to be paid in early 2020

### Create an Income Tax Credit for Social Security Income

- Non-refundable tax credit equal to total Social Security income included in Adjusted Gross Income (AGI) x State Income Tax Rate
- Amount of credit reduced by \$0.025 per dollar that modified AGI (including Social Security and all other income) exceeds:
  - \$24,000 for married filers filing separately
  - \$30,000 for single filers
  - \$48,000 for head of household or joint filers

### Create a “Grocery Tax Credit” for Low-to-Middle-Income Residents

- \$125 refundable income tax credit for the first four household members
  - \$50 refundable income tax credit for each additional household member
- Phaseout rate of credit is 0.0035% of the credit per dollar above 175% of the federal poverty limit
  - For households with more than five members, the phaseout begins at 175% of the federal poverty limit for five member households
- For example, a family of four with a household income of up to \$45,062 per year would qualify for the full grocery credit amount (4x\$125 = \$500). That amount would be reduced for each dollar the family makes over \$45,062, with the credit phasing out entirely at \$73,633.
- In addition to the income parameters, to qualify, a claimant must:
  - Be considered a resident for income tax purposes
  - Not be claimed as a dependent on another federal tax return
  - Not have been incarcerated in the state for the portion of the year for which the claimant claims the credit
  - File a completed form with the Tax Commission
- A separate form will be created for claimants who do not file income taxes
- For filers below 100% of FPL, a one-time payment worth 25% of the credit amount will be sent to eligible filers after July 1, 2020.
  - \$500,000 is appropriated to DWS to identify and assist eligible recipients who would not otherwise file a return.

### Exempt Menstrual Products and Consumables Used in Repair, Cleaning, and Maintenance of Tangible Personal Property from Sales Tax

- The current 4.85% sales tax on menstrual products and items consumed in the repair, cleaning, and maintenance of tangible personal property would no longer be charged

### Restore Full State Sales Tax Rate on Food

- The sales tax rate on unprepared food and food ingredients (e.g. groceries) would return to the full state sales tax rate of 4.85% from the currently reduced rate of 1.75%

## Repeal Certain Exemptions

- Remove certain existing sales tax exemptions to make the sales tax a broader consumption tax
- The following exemptions would be repealed:
  - Electricity to ski resorts for lifts
  - Vehicles used for temporary sporting events
  - Admissions to college athletic events
  - Textbooks purchased by a student (not including a college bookstore; seller sales primarily textbooks)
  - Primarily unassisted cleaning of tangible personal property
    - Unless payment is exclusively through machines that only accept cash or coin
  - Use of unassisted amusement device
    - Unless payment is exclusively through machines that only accept cash or coin
  - Vending machine food sold for \$1 or less under certain circumstances
    - Unless payment is exclusively through machines that only accept cash or coin
  - Certain car washes
    - Unless payment is exclusively through machines that only accept cash or coin
  - Sales to a public transit district (includes construction materials converted to real property)
  - Fuel sold to a common carrier railroad and used in a locomotive engine
  - Newspapers or newspaper subscriptions
  - Address list or database used to send direct mail
  - Database access for viewing or retrieving information
- The following exemption would be repealed in 2027:
  - Construction materials for life science research facility (material converted to real property only)
- The following exemption would be modified to include occupants of certain data centers:
  - Machinery, equipment, or parts purchased by owners of certain data centers (one-year economic life)

## Repeal the Sales Tax Exemption on Motor and Special Fuel

- Remove existing sales tax exemption on motor and some special fuels (does not include diesel or aviation fuel) to make the sales tax a broader consumption tax
- Tax would be imposed at the distributor level on the average daily rack price of gasoline (calculated annually) at the existing state sales tax rate (4.85%)
  - Average daily rack price will ultimately be calculated using a three-year look back
  - The first annual price set by the Tax Commission would become the floor for the price thereafter
- Tax would be used to fund transportation in the medium term as a user fee until future user fee options that rely on more advanced technology become viable

- UDOT will begin studying transition immediately
  - UDOT will be required to report on the revenue generated and administrative costs for the RUC program annually
    - Once net revenues reach certain thresholds relative to revenue generated by the sales tax on motor fuel, the Legislature will consider reducing the sales tax on motor fuel
  - UDOT will collect odometer readings from vehicles at time of vehicle emission testing
- General sales tax earmarks for transportation would be reduced due to new transportation revenue from motor and special fuel sales tax
  - Because the transportation earmark that funds the Transit Transportation Investment Fund (TTIF) is repealed, an equivalent earmark is enacted to fund the TTIF beginning in FY 2022 with 50% of the growth in new revenue from the sales tax on food above the \$250M of estimated initial revenue from the increased rate
- Use of HOV lane by vehicles with “clean vehicle” decal will be repealed in 2025
- Use of HOV lane will require 3+ vehicles beginning in 2025
- \$5,000,000 of new revenue from the sales tax on motor fuel will be appropriated for Class B Roads in counties with a population of less than 14,000
  - Equal amount distributed to each qualifying county

### Create New Excise Tax on Diesel

- Rather than repeal existing sales tax exemption on diesel, create a new excise tax on diesel of:
  - \$0.06 per gallon starting in 2020 (April 1<sup>st</sup>)
  - \$0.10 per gallon starting in 2022
- General sales tax earmarks for transportation would be reduced due to new transportation revenue from diesel excise tax

### Broaden the Sales Tax Base by Charging Sales Tax on Certain Additional Services

- Include certain services in the tax base to make the sales tax a broader consumption tax and providing more similar treatment to goods and services
- Newly taxed services would be those primarily consumed by the end user to minimizing tax pyramiding
- The following services would be included in the tax base:
  - Installation of tangible personal property when part of a taxable sale
  - Pet boarding, pet grooming, and pet daycare services
  - Personal transportation service
    - Includes all intrastate motor vehicle transportation services except for:
      - services provided by governmental entities
      - ambulance services
      - transportation that is part of a funeral service
      - low speed vehicles in a county of the first class

- Includes:
  - peer to peer **ride** sharing (peer to peer **car** sharing is already subject to sales tax)
  - scenic and sightseeing transportation in a motor vehicle
- Motor vehicle towing
- Parking lots and garages
- Dating referral services
- Identity theft protection
- Streaming media
- Shipping and handling when part of a taxable sale
- Electronic security monitoring of real property
- Include clarifying language to codify existing practice regarding software as a service
- Sales or use tax would be due from the end user of these services if the end user is in Utah
- Businesses (whether in-state or out-of-state) providing the services would collect and remit the tax

### Increase the State Motor Vehicle Rental Tax

- Increase the state motor vehicle rental tax from 2.5% to 4.0%
  - Under current state law, this tax applies to peer to peer **car** sharing services
  - Does not apply to peer to peer **ride** sharing services

### Fund Public Education School Lunch Program and Underage Drinking Prevention Program from Education Fund

- Deposit the current funding source for school lunch and underage drinking prevention, a portion of liquor markup profits, into the General Fund

### Restore funding of Higher Education to the sales tax-backed General Fund

- Reduce Education Fund appropriations to Higher Education and replace those Education Fund appropriations with a like amount of General Fund appropriations

## 12/12/19 Update - Fiscal Impact:

Options	Est. Total Impact FY21	Est. Ind. Impact FY21	Est. Bus. Impact FY21
<b>Income Tax</b>			
Reduce income tax rate (4.66%)	(\$348,000,000)	(\$309,500,000)	(\$38,500,000)
Expand Utah Dependent Personal Exemption	(\$132,000,000)	(\$132,000,000)	
Create Social Security credit	(\$18,000,000)	(\$18,000,000)	
Create Grocery credit	(\$135,000,000)	(\$135,000,000)	
<b>Total</b>	<b>(\$633,000,000)</b>	<b>(\$594,500,000)</b>	<b>(\$38,500,000)</b>
<b>Sales/Other Tax</b>			
Exempt additional products from sales tax	(\$5,000,000)	(\$5,000,000)	
Restore full sales tax on food	\$250,000,000	\$250,000,000	
Repeal certain exemptions	\$16,000,000		\$16,000,000
Sales tax on motor fuel/excise tax on diesel	\$170,000,000	\$117,000,000	\$53,000,000
Tax certain services	\$43,000,000	\$43,000,000	
Increase motor vehicle rental tax	\$4,500,000	\$4,500,000	
<b>Total</b>	<b>\$478,500,000</b>	<b>\$409,500,000</b>	<b>\$69,000,000</b>
<b>Budget Shifts</b>			
Fund school lunch and underage drinking prevention from Education Fund (\$39M shift)			
Fund some additional higher education from General Fund (\$391M shift)			
Direct a portion of new sales tax on fuel to transportation projects (\$34M shift)			
Replace gas tax earmark for transit with sales tax earmark for transit (future \$6M shift)			
<b>Net ongoing fiscal impact</b>	<b>(\$154,500,000)</b>	<b>(\$185,000,000)</b>	<b>\$30,500,000</b>
<b>One-time fiscal impacts</b>			
One-time dependent exemption rebate	(\$60,000,000)	(\$60,000,000)	
One-time grocery credit payment	(\$12,000,000)	(\$12,000,000)	
<b>Net one-time fiscal impact</b>	<b>(\$72,000,000)</b>	<b>(\$72,000,000)</b>	