

## TAX REFORM POLICY BRIEF: HB 441, HB 495, AND NEXT STEPS

### **Background:**

What a difference a few weeks make. At the end of the legislative session the logical expectation was that the legislature would move to revise and adjust the massive sales tax expansion bill (HB 441) with a goal of a special legislative session this summer. As of this paper, it appears that there is a much wider divergence of opinion on how the legislature will proceed to address the state budget fiscal challenge.

### **Tax Task Force**

The legislature passed a bill creating a special task force (HB 495) to address the issues associated with the state's "fiscal cliff". Specifically, the task force will "study state and local revenue systems with the purpose of making recommendations to address structural imbalances among revenue sources." The task force is to have 10 voting members (5 from the House and 5 from the Senate). In addition, the president of the Senate and the speaker of the House may each make recommendations to the Governor to appoint 2 non-voting members who have tax expertise. As of this paper, the task force has not been formally constituted. Membership will not likely be formalized before the end of April.

### **Possible Options:**

Although the mandate of the task force is broad, in fact the group's actual assignment is rather narrow. It is to address the issues associated with the different growth rates of the general fund and the uniform school fund. Although "everything is on the table", there are some options that seem to have the most potential and have been openly discussed. Please note that these ideas are not mutually exclusive, and a final product could incorporate components from several options.

1. *Sales tax on services* – Although it seemed that virtually the entire session was devoted to "base expansion" the truth is that in the end there was much less consensus on that approach than thought. The political blowback from the impacted business sectors has been loud and increasingly organized. Note: neither the House nor the Senate ever cast a vote on the proposal. The Senate was always much less enthusiastic about the base expansion than the House. The potential impact on local governments of "expanding the base – lowering the rate" was something the ULCT dealt with all session.
2. *Restore the Sales tax on Food* – Although not as comprehensive as other approaches – this action would put significant new money back into the state general fund. There is a clear divide between the Senate and the House on this option. A logical question is whether food would go back into all of the other rates and whether some rate adjustment would be made.
3. *Impose a new state property tax* – A property tax imposed by the state for its general fund has not existed the early 1970's. Although no one has publicly claimed ownership of this option was there has been some thought it would provide new revenue without some of the political challenges of the previous two options (It would just create new ones). The legislature's direct involvement with the property tax for general fund revenue may provide an opportunity for long wanted property tax adjustments for local government – a growth component for example.
4. *Constitutional Amendment to modify the "earmarking" of the income for education* – It is important to note that the "fiscal cliff" challenge that has driven the entire tax discussion is

actually tied the Utah Constitution's earmarking of the income tax. No other state "silos" a major revenue source in this manner. It dates back to 1947. It is unlikely that there would be an outright repeal of the earmark. However, the Senate did pass SJR 3 – which would have allowed the income tax to be used for social service and poverty programs.

It's worth mentioning there is also some internal disagreement about the immediate need for action or whether adjustments for the state general fund can be found in other ways.

**Economic Development Incentives:**

Another possible part of the discussion is the long-term sustainability of tax incentives to promote economic development. Numerous legislators have pointed out that despite robust growth in many parts of the state, businesses are still given incentives to relocate in high-growth communities. Some of these large relocations externalize costs to the communities (infrastructure, housing, etc.) and the loss in short-term tax revenues may hinder the government's ability to recoup those costs. While this isn't a definitive direction, the state may examine its approach to economic development incentives in these discussions.

**Next Steps:**

Although the task force has not been finalized yet, ULCT staff will continue to engage the legislature in tax reform discussions consistent with [ULCT's longstanding 2011 resolution on tax policy](#). While the legislature is undertaking an in-depth review of Utah's tax structure, are there any changes to the local tax system you want to see pursued by ULCT? In terms of economic development, consider what works well and what doesn't work well within the current economic development incentive structure?