



The Utah Taxpayer

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Association Fights For Reduced Tax Hike

Municipal Services Tax Hike Reduced Almost \$1 Million

Your Taxpayers Association worked with county officials to convince them to reduce the existing municipal services budget by \$930,000, even when the State Tax Commission had inappropriately authorized them to increase it by an additional \$6.1 million.

Testimony by your Taxpayers Association in front of the County Council and efforts to shore up support from various members, saw the measure to reduce the municipal services tax increase pass by a narrow 5 to 4 vote.

SB 168 mandated that city residents no longer pay for investigative services from the county when the cities already provided them. Accordingly, the Taxpayers Association supported Mayor Workman's proposal to reduce the county's investigative area to the unincorporated county only and to reduce the budget from \$9.2 million to \$3.1 million. That meant a reduction to 1/4 of the population previously served and left Investigative Services with 1/3 of prior funding.

Sheriff Kennard's proposal was to hike the \$7.7 million tax increase on unincorporated property owners by \$4.5 million or \$50 for a \$200,000 house. Mayor Workman proposed to mitigate the existing \$142 property tax increase reducing it \$10 for the same house or \$930,000 overall.

The Association expresses its appreciation to the Mayors office and members of the county council who were determined to act in the best interest of taxpayers.

Utah Legislators Look at Taxing Services

The legislature's new Government Revenue and Tax System Task Force is considering a proposal to extend Utah's current sales taxes to services. Proponents argue it would result in a lower overall tax rate. "I'm interested in broadening the [sales tax] base to include services and lowering the overall rate," House Majority Leader Kevin Garn said. "I think our current sales tax system is outdated and outmoded," he continued.

Currently, Utah's state and local sales taxes generally only apply to the purchase of tangible products that will not become part of a fixed asset—clothing, food, automobiles, as well as cleaning and repair of personal property such as clothing and automobiles. Industries such as legal, financial, medical and dental services, are not taxed. As Utah's economy has shifted more toward the service sectors, Utah's sales tax base for state and local government has been narrowed. The Office of Legislative Research estimated that less than one-half of the states economic activity is subject to sales taxes. While the impetus for taxing

Taxing Services

- 1) Would result in double taxation—tax will be passed on to consumer and taxed again.
- 2) Hardships for smaller businesses who can't afford to provide services in-house.
- 3) Utah would suffer a competitive disadvantage vis-a-vis states that don't tax services.
- 4) Administrative problems with multiple state corporations which purchase services.
- 5) Taxing medical or insurance services hits lower income disproportionately hard.

services may be to broaden the base and reduce the rate, it is obvious there is also concern about low projections in sales tax revenue growth due to a slowing economy.

Only two states—Hawaii and New Mexico—have extended their sales taxes to almost all services, including

accounting, legal and medical services. (Delaware and Washington also tax such professions, but with a gross receipts tax and a business and occupations tax, respectively.) Florida and Massachusetts experimented with taxing services but repealed it later in part due to an out-migration of service businesses. Other states tax specific services, largely limited to cleaning, maintenance and delivery services.

Although broadening the sales tax base by taxing services may result in a lower tax rate, it would be questionable whether it would reduce the impact on lower income families as proponents hope. Sales taxes tend to be regressive—to take a larger share of low incomes than of higher incomes—and so bear more heavily on the poor. But by placing a sales tax on medical or insurance services the total tax impact could be equivalent if not greater to what now exists on lower incomes. The impact to Utah's families would depend entirely on which services were taxed.

What is certain is that extending sales taxes to services used by
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My Corner

By Howard Stephenson

After years of haranguing from your Utah Taxpayers Association and others, the first resounding vote in opposition to property tax

subsidies for private developers occurred in May at the taxing agency committee of South Jordan City's Redevelopment/Economic

Development Agency (RDA/EDA). Now it

appears South Jordan is threatening

Mr. Stephenson

to retaliate against the school district.

Davis and Jordan School Districts came under fire by your Taxpayers Association last year for either voting in favor of nonessential RDA/EDA subsidies or failing to show up to even vote. Both school boards were upset with the Association for claiming they were willingly giving up millions of dollars to private developers which should have been used to educate kids.

We have been slowly educating school boards across the state to the fact that most of the development projects receiving these subsidies would have occurred somewhere in the area as a natural product of market demand. Rarely are projects deserving of these tax subsidies, at least when looked at from an economic perspective.

Additionally, when these subsidies cause developments to occur ahead of market demand, already-existing enterprises suffer and sometimes close their doors, causing blight – the very thing RDAs are supposed to eliminate.

In a state which spends less per student on public education than any state in the nation, it just doesn't make sense for conscientious school board members to vote to give this money away. Annually, Utah school districts give up approximately \$25 million to fund RDA/EDA subsidies.

We were able to get the RDA/EDA

State Won't Tax Federal Rebate

HB 1008, which was passed during the June 20 special legislative session, ensures that the federal rebate checks of up to \$300 for single filers and \$600 for joint filers will not be taxed as Utah income. Paying state income taxes on the federal rebate would have affected 30,000 to 90,000 Utah filers who requested an extension to their filing or appeared as a dependent on someone else's return.

Rebate checks will not automatically come to those who filed after the April 15th deadline or those who are no longer dependents in 2001. So, in order to receive the rebate, late filers will apply for it as a credit when they file their federal return next year. By applying for the credit, their federal taxes will of course be reduced. Consequently, without HB 1008 they would have paid more state income taxes because they deduct less federal taxes on their state return.

The IRS had previously clarified that those receiving the federal rebate as a check in the mail would not be required to report the rebate on their federal return as a credit. Since Utah's income tax is tied to the federal, the rebate check does not affect the state income taxes they pay.

To fix the problem for those who don't automatically receive a rebate check, HB 1008 exempted all Utahns from having to pay any taxes on the rebates

from the tax cut, regardless of whether they receive it as a check or have to claim it as a credit when they file their taxes next year. The bill also aids Utah taxpayers legally since the recent IRS decision to not require the rebate check to be reported as a credit against their federal taxes lacks the power of congressional action or a court order. Someone or some agency could have pursued legal action challenging the IRS decision's effect on Utah income taxes.

HB 1008 sponsored by Rep. Matt Throckmorton had wide consensus, passing unanimously in both the House and Senate. It also represents the first time in recent history that Utah has changed its tax code to ensure the state does not benefit from federal tax cuts.

The net effect of not taxing the rebate checks saves Utah taxpayers an estimated \$5 million.

Federal Tax Rebate

Check mailing schedule based on last 2 digits of Social Security Number:

00-09: week of July 23

10-19: week of July 30

20-29: week of August 6

30-39: week of August 13

40-49: week of August 30

50-59: week of August 27

60-69: week of September 3

70-79: week of September 10

80-89: week of September 17

law changed to allow representatives from the various taxing agencies which lose the tax dollars to vote on the projects before the tax increment subsidy could be taken. However, a provision requiring 20% of RDA funds to be given to low-income projects was later put into the law. It makes no more sense for housing developers to receive subsidies which siphon off precious education tax dollars than it does for developers of retail, office, or industrial projects to get the subsidy.

In the vote on the South Jordan project's taxing agency council the representatives of the Jordan School Board were joined by "no" votes from the

State Board of Education, Salt Lake County and the special district representative.

Perhaps the worm has finally turned.

But not so fast. Following the vote to reject the subsidy, South Jordan City sent a letter to Jordan School Superintendent Barry Newbold saying that the city may cut off funding for certain school programs unless the city gets "remuneration and/or reciprocal services" from the school district.

Are cities now going to blackmail school officials into giving them education tax money?

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Ogden City Council Rejects 1% Property Tax Cut, Increases Utility Fees

Association Testifies at Local Hearings

Annually, local governments in Utah collect over \$1.7 billion in general taxes. These taxes include: property taxes, local sales taxes, tourism & restaurant taxes, and utility taxes. Your Taxpayers Association is the only statewide organization dedicated to reviewing local budgets and participating in budget hearings. During the month of June, your Taxpayers Association testified in nearly a dozen local budget hearings.

Here are highlights of the hearings:

Ogden City: Ogden City Mayor Matthew Godfrey had planned on lowering property taxes 1% per year for 10 years. However, the City Council does not share the Mayor's fondness for property tax cuts. The property tax decrease for FY 2001-02 was voted down by the City Council. Ogden City is not scheduled to raise taxes this year, but they are going to raise utility fees.

A mandatory recycling program, costing Ogden Citizens \$1.85 a month, was also passed by the City Council. Mayor Godfrey originally proposed a voluntary plan, where only those who used recycling paid for it, but the City Council saw fit to impose the recycling fee on everyone whether or not they use the service. Your Taxpayers Association pointed out the fact that high utilities and fees can deter businesses from locating in a city just the same as high taxes.

Provo City: It is clear to the Taxpayers Association that expenses are rising faster than revenues in Provo City. Provo's new budget gives real cause for concern - with an almost 20% spending increase over last year. Your Taxpayers Association strongly urges officials to rein in such a rapidly growing city budget. While Provo did not increase taxes this year (some fees were increased) we are concerned about the future impact of such spending increases and their potential to create tax hikes. There may not have been a tax increase this year - but what about a year or two down the road? Your Taxpayers Association will be carefully monitoring Provo's future budgets and will keep you informed of important developments.

Your Taxpayers Association worked closely with Provo Municipal Councilman Stan Lockhart and city staff to get to the bottom of the \$20 million increase in this

years budget. As it turned out roughly one quarter of this increase was due to double counting of fund transfers and was in fact *not increased spending*. One quarter of the increase was caused by higher electricity costs - which Provo City did not pass on to rate payers. One quarter was caused by the creation of a new city department (within the Energy Department) to build and operate Provo city's telecommunications and cable TV systems. The remaining quarter of the increase is the result of a cost of living adjustment for city employees, operation cost of a new city library and debt service

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costs. While closely examining the budget, Taxpayer association staff found errors and discrepancies in the amount of \$169,500 and worked with Provo officials to correct these problems.

Sometimes the strong Mayor form of government can lead to the city council playing a passive role in the budget process. The Provo Municipal Council has taken steps to counteract this, making a number of very important changes to the budget process. On a quarterly basis council members will be given data on revenues and fund balances so they can closely monitor any surplus revenues. Capital improvement funds will be more closely monitored, tying expenditures to specific projects. The airport capital improvement fund will also be placed under tighter control, to prevent any expenditure of city funds without specific council approval.

Your Taxpayers Association encourages city councils throughout Utah to carefully read state law so they fully understand their role and responsibility in appropriating taxpayer funds.

Holladay City: On June 7 the Holladay City Council held its budget hearing before a packed council chamber to consider a proposal to increase property taxes by \$84.15 on \$200,000 property. Your

Taxpayers Association had sent Tax Alerts to area residents warning them of the increase and urging them to let their voices be heard. Tax hike supporters said the increase was necessary for improved city infrastructure and would set city taxes at a level to discourage annexations from occurring. At the hearing your Association urged the council to reject the increase arguing that it makes no sense to increase taxes simply to avoid annexations and that concrete infrastructure plans should be first developed before establishing a funding mechanism for them.

Logan School District: Logan School District is going to have a Truth in Taxation hearing on Tuesday, August 14th at 7 PM. Officials will ask to retain last year's certified tax rate instead of adopt the new certified tax rate. This will result in a tax increase. Each year new growth is taken into account when the certified tax rate is calculated by the tax commission - which spreads the tax burden over more property. By adopting last year's certified rate all property will be taxed at last years rate, which ignores the revenue windfall caused by new growth. This will also harm property owners who have been reassessed at a higher value.

Logan School district is alone in regularly asking to retain last year's certified rate. All this results in is adopting the new certified rate one year later, temporarily enhancing the school districts revenue by capturing yearly revenue windfall caused by new growth. Should the economy slow or even contract, this strategy is not sustainable in the long term.

Your taxpayers association has suggested to the Logan School board that they not go through truth in taxation to retain last years certified rate, and that instead they seek to maximize the funds available to them through equalization.

Also, this year Logan School District will loose \$500,000 to RDAs. The curious thing about this is that some of the RDAs are for prime commercial property right on the main street of town. Your Taxpayers Association has suggested to district officials that they take a more active part in shaping RDA policy. District officials seem receptive to this idea, at least when it comes

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Cities Want More Balanced Tax System

Based on information contained in a video presentation produced by The Utah League of Cities and Towns, local governments are facing a revenue crisis. They believe the tax base for local government "needs to be broadened." Whether it is called revenue enhancement or broadening the tax base, it amounts to the same thing - a tax increase.

Your Taxpayers Association has recently completed a study of growth in city budgets, tax receipts and fund balances during the 1991-1999 period. The data does not support the idea that cities need more money or a broader tax base.

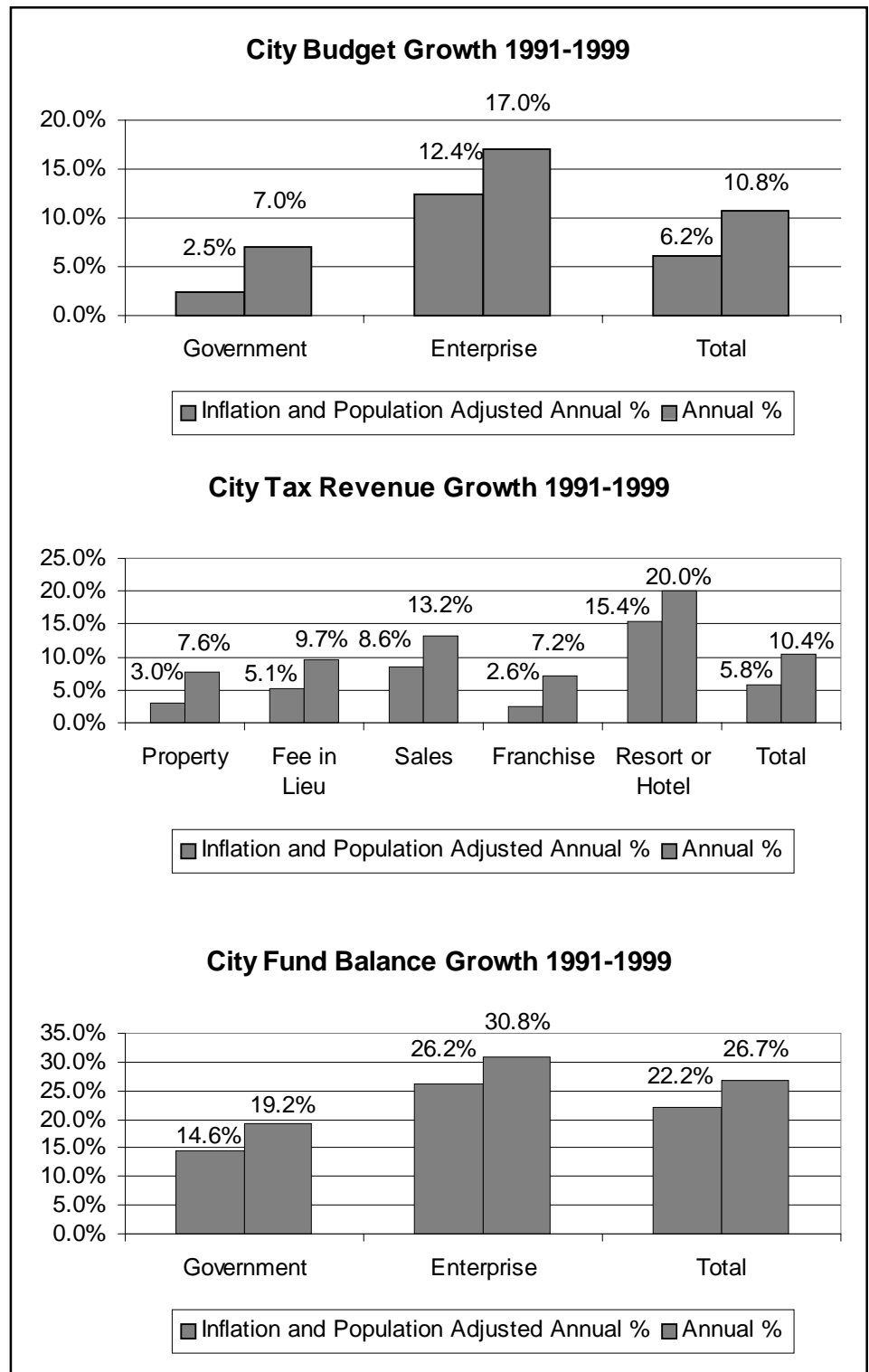
From 1991 to 1999, the most complete years for which data is available, 122 Utah cities have gone on a tremendous spending spree, increasing spending 86.1% or 10.8% annually. After adjustment for average annual inflation (2.2%) and population growth (2.4%) this is an increase of 6.2% annually. This shows city spending has been outpacing inflation and population growth by a

With all this growth above inflation and increased population your Taxpayers Association believes Utah's cities and towns should be satisfied with their current funding structure.

significant margin - by 49.6% from 1991 to 1999. This means city spending has experienced real growth of nearly 50% in less than a decade. It seems the alleged need to broaden the local government tax base is caused by a tremendous thirst for ever higher city spending.

As it turns out the 1991 to 1999 period was also a time of tremendous growth in city tax receipts, growing 82.9% or 10.4% annually. After adjustment for inflation and population growth, tax receipts have grown at 5.8% annually. As the table below shows, *all* types of taxes have increased a minimum of 57.4% during this time period - with resort/hotel taxes growing the most at 159.9%.

Sales tax revenues have more than doubled, increasing 105.8% from 1991 to 1999. This is an annual increase of 13.2% or 8.6% adjusted for inflation and population growth. Sales tax revenues have gone up 68.8% between 1991 and 1999.



The cities and towns complain that property taxes have not kept up with needs, but the numbers show property tax receipts have grown 61.1% or 7.6% annually from 1991 to 1999. Growth in tax receipts has outpaced inflation, with city tax revenues growing 24% in real terms from 1991 to 1999. With 24% more money

to play with, why do cities need to broaden their tax base? With all this growth above inflation and increased population your Taxpayers Association believes Utah's cities and towns should be satisfied with their current funding

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Utah Legislators Look at Taxing Services

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businesses raises very difficult issues.

First, a sales tax on business purchases is likely to be passed along to the consumer in the price of the goods or services. If a business's products are also subject to sales tax, "pyramiding" or "cascading" can result. This means the imposition of a sales tax on top of a sales tax. Utah recognizes this problem by exempting from the sales tax products for resale and machinery used in the production processes. Such exemptions are easier to administer for goods than for services, which can be hard to track through the production process.

Another complication is that sales taxes on some business services can create competitive advantages for businesses that can provide the service in-house. For example, if accounting or legal services were taxed, a company may bring those services in-house in order to avoid the tax. A company that employed its own accounting or legal staff would have an advantage over a company that had to use outside services. Smaller firms would pay a

Increase The Base and Reduce The Rate?

Reduce State Tax Rates by Including Health, Professional, Personal, and Cable Services as Part of Utah's Sales Tax Base

Utah Sales Taxes	Original Tax Base	Base with Services Included
State	4.75%	3.68%
Local Option	1.00%	0.78%
County Option	0.25%	0.19%
Transit Tax	0.25%	0.19%
Total Sales Taxes	6.25%	4.85%

disproportionate share of the tax because they have much less ability to provide services to themselves.

Sales taxes on business services would also put the state at a competitive disadvantage against states that do not levy sales taxes on business services. Many business and professional services are just as easily provided from Nevada as from Utah. In recent years, states have tended to remove sales taxes from machinery used in productive processes for reasons of interstate

competition for economic development. Sales taxes on business services could raise similar issues of interstate competitiveness.

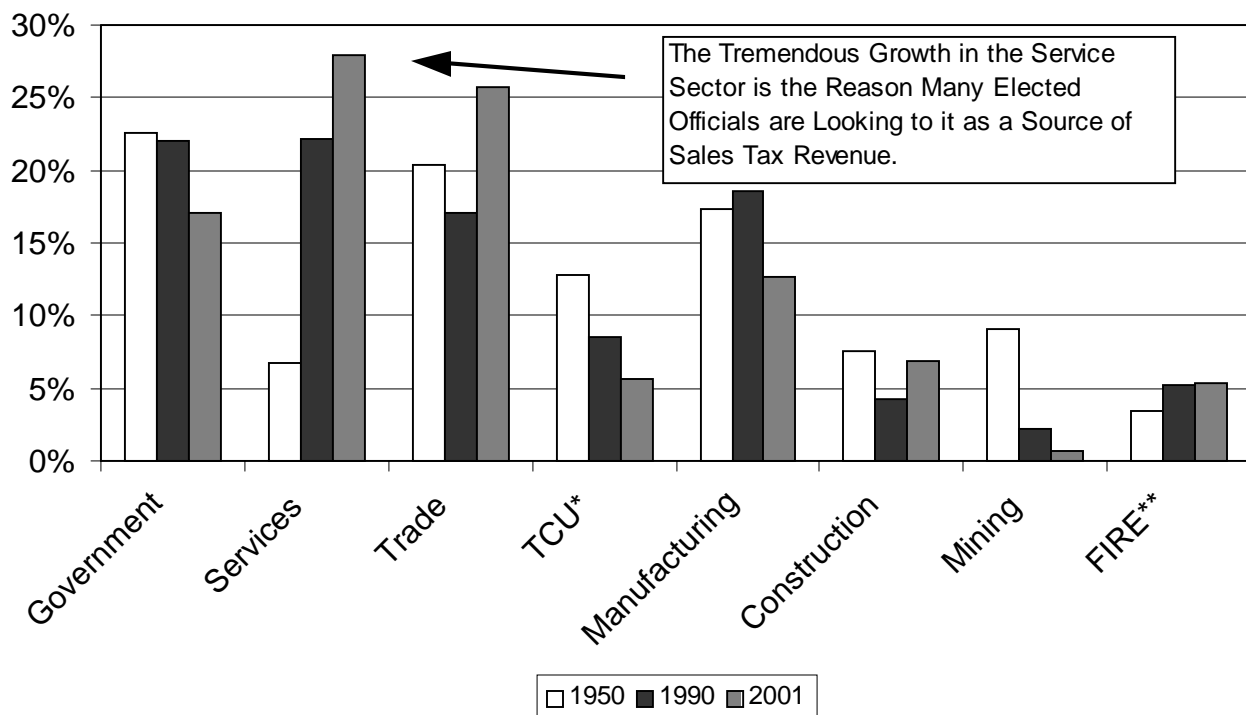
Another difficult issue is taxing services "imported" from out of state. States impose use taxes on goods brought into a state in order to preserve the competitive position of in-state sellers. This is much harder to do with some services. For example, legal and accounting services can originate in more than one state for users in more than one state. Where should the service be taxed? While there are ways to approach such problems, they are not as easily resolved as in the case of goods, and some services are much tougher to deal with than others. This problem applies mainly to professional services like law, accounting and advertising.

Imposing a sales taxes on services will also encourage existing service businesses, which are traditionally much more mobile than other capital intensive industries, to relocate to other states

If a tax on services is to be applied, it should be on consumer services, not business and professional services.

Utah Payroll by Industry

Demonstrated Growth in Service Sector



Association Testifies at Local Hearings

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to placing definite time limits on RDAs.

Rich School District: District officials will implement a voted leeway increase, this being the second year of a voter approved plan to increase the voted leeway .0004 per year for four years for a total increase of .0016.

Some of Utah's rural school districts, including Rich School District, are experiencing shrinking enrollment. This causes a number of problems. Class sizes are shrinking and there is no need to build new schools, but the unit cost per student is going up. While you have fewer students you still have the same building to operate. Small districts like Rich do not have spare schools to close.

Cities Want More Balanced Tax System

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structure.

Aside from spending tax dollars at an ever growing pace, it turns out Utah cities have been building up vast reserves of unspent tax dollars. Including both government and enterprise funds, cities have accumulated \$1.75 billion, of which \$1.1 billion is in unreserved/undesignated funds. This represents a very significant accumulation of tax dollars and fee monies. With such large fund balances, your Taxpayers Association wonders why cities need to broaden their tax base. It looks like they are doing very well already.

Your taxpayers association finds no merit in the Utah League of Cities and Towns proposal to broaden the local

Cache School District: District officials want to increase the voted leeway by .000097 to the allowed maximum. However, the size of the increase will be determined by this year's certified tax rate. Initial numbers given to the Cache School district seem to indicate the certified tax rate might be very close to last years, making for a potentially smaller increase of .000051. While this is still a tax increase, it is a smaller one than originally planned.

Cache School District changed the date of its budget hearing without giving adequate notice. This is particularly the case because board meetings are usually held on Thursdays, but this year's budget hearing was held on a Wednesday.

government tax base. Even property tax receipts, the revenue source frequently cited by the League as in decline, has grown 61.1% from 1991 to 1999. This averages out to 7.6% per year or 3% per year adjusted for inflation and population growth. As the economy has grown so have tax receipts in all categories. However, cities have chosen to increase spending faster than tax revenues have grown, 10.8% per year average increase as opposed to 10.4% annual average increase in tax revenues. Simply put, city budgets are growing faster than the economy and tax revenues have been growing and they want us to make up the difference so they can continue their spending growth. Utah's cities do not need any more of our hard earned dollars.

Tax Dollars at Work

Taxpayers and Zoo Animals Forgotten

The recent announcement that Hogle Zoo would not be moving in the near future, a move with a potential \$120 million price tag, seems like good news. However, there are plans to renovate the existing zoo, plans that could cost \$90 million or more. Now there is a push on to obtain legislative approval to increase the ZAP (Zoos, Arts and Parks) sales tax or a higher tax on restaurant meals. Consider the following:

- Since 1994, the Hogle Zoo budget has increased from \$4.4 to \$10.5 million.
- Taxpayers fund \$1.9 million in ZAP tax and nearly \$1.6 million in money from the state to the Hogle Zoo—a total of \$3.5 million.
- Employee salaries have increased 39%, marketing and public relations have increased nearly 300%, while animal care *has decreased* by 51%.
- Consulting expenses have gone up since 1995 from \$32,000 a year to over \$400,000 a year.
- \$5.8 million spent to create Phase I, a new entrance and plaza. Reconstruction of animal facilities is part of Phase II.
- Conclusion: Push for a sales tax increase to fund capital improvements to animal facilities in the upcoming 2002 legislative session.
- Taxpayer Concern: If the animals haven't been getting the new tax money, who has?