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## Food tax boiling on front burner as legislative session starts

*Fight may pit Senate GOP, House GOP, Huntsman*

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It took only a few hours Monday, the first day of the 2006 Legislature, to set the stage for a standoff over taxes between Senate Republicans, their House counterparts — and Gov. Jon Huntsman Jr.

The governor is believed to be on the verge of announcing his own plan for taking the sales tax off food: increasing the state and local sales tax on other items to offset the estimated \$226 million that would be lost by state and local governments.

But the GOP Senate is now talking about a \$100 million tax cut in next year's budget — in the form of a \$75-per-person refundable personal income tax credit for sales tax paid on unprepared food for families earning less than about \$40,000.

When the Senate majority caucus votes on the proposal, likely Thursday, it will be the first time that Senate Republicans have locked on to a tax cut number. Last month, House Republicans voted in caucus to give a \$230 million tax cut in fiscal 2006-07.

Huntsman, also a Republican, proposed a \$60 million tax cut in his budget that included \$37 million toward taking the sales tax off food but no explanation of exactly how he'd like to see that accomplished.

That may well change in his State of the State address tonight.

Mike Mower, the governor's deputy chief of staff, said Monday only that the governor is looking "to provide Utahns with immediate relief from the onerous food tax at the checkout stand."

Asked about the tax credit being discussed by the Senate, Mower said the governor's goal is to simplify taxes. Providing any type of credit on state income tax forms, he said, would "make them more complicated."

This morning, the House Republicans' food tax bill — HB109, which removes the state and local sales from food completely — goes before a legislative committee where it is expected to pass.

Still, Senate President John Valentine, R-Orem, said a tax credit is the most "elegant solution" to dealing with the hated tax on food, allowing lawmakers to, in effect, eliminate the tax for low-income Utahns without having to find a way to make up the loss.

The Senate's food tax stand reflects the wishes of a variety of Utah businesses — which don't want to pay a higher sales tax rate on nonfood items, an estimated 1.1 percent increase, Valentine said.

It also eases concerns raised by Democrats and others that some government programs, especially those aimed at helping the poor, could go on the chopping block to cover the cost of the tax cut.

The price tag for removing the sales tax from food at the state level is as much as \$166 million annually. Another \$60 million or so is collected at the local level, money that many smaller communities heavily depend on.

House Speaker Greg Curtis, R-Sandy, has said with around \$1 billion in new money for legislators to spend, now is the time to just remove the much-hated food tax completely and not mess around with a \$75-per-person income tax credit that many Utahns wouldn't bother to apply for.

So HB109, a modification of a proposal Curtis put forward several months ago and sponsored by Rep. Merlynn Newbold, R-South Jordan, just removes the sales tax from unprepared food completely at the grocery store.

Unlike what the governor is expected to propose, the state would just lose its 4.75 percent tax on food, costing state coffers either \$150 million or \$166 million a year. There's some disagreement on what that number is, and House GOP leaders are moving the bill so quickly it as yet has no fiscal note on it.

HB109 would then allow cities, towns and counties to raise their local option sales tax rate slightly — making up for their lost food tax revenue. The higher county local option tax would be enough so that transit districts, resort towns, rural hospitals, zoos and arts programs — those entities that now have their own local option sales taxes — would get their funds from their host counties.

Since businesses don't buy much unprepared food, they would pay more sales tax through the nonfood tax rate hike. Groups like the Utah Taxpayers Association, a business-sponsored organization, don't like that.

Under the Senate GOP plan, businesses wouldn't pay more, since Utahns would just apply for the \$75 tax credit at tax time. The plan has another advantage —

out-of-state tourists who buy unprepared food would still pay the tax, whereas if the food tax is simply removed, nonresidents get the tax break also.

But advocates for the low income and homeless don't like the rebate system, since few poor people pay state income taxes now, and most likely wouldn't bother filing for the rebate.

In its study this past year, the Tax Reform Task Force estimated that the \$75 rebate program would cost the state around \$55 million (not the \$150 million a repeal would cost), but in reality only about \$25 million would be rebated because so many Utahns just wouldn't bother filing for the \$75 state check.

Roger Tew, lobbyist for the Utah League of Cities and Towns, said the league will not oppose the Curtis/Newbold bill "if the cities are held harmless" both in getting a small rate increase and in a fair tax distribution formula. "The speaker has been willing to work with us," Tew said. But so far no final formula has been set up.

The \$75-per-person credit that Senate Republicans are considering "has no fiscal impact on cities at all, so we take no stand for or against that," Tew said.

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