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Special session runs into skeptics

Sen. Hillyard: Tax reform has become tax cuts

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LOGAN - The Utah Senate's budget chairman cast doubts Friday on a special tax session tentatively set for September, questioning whether the dual-track income tax plan proposed by Gov. Jon Huntsman Jr. and Republican leaders is truly tax reform - or just a politically driven tax break.

Sen. Lyle Hillyard, R-Logan, asked why the tax debate was being rushed. "We started with tax reform and it became tax cuts. This proposal is 99 percent a tax cut and 1 percent tax reform," Hillyard said. "We should do broad reform while we have the money."

Hillyard said the special session would be like "closing your eyes and jumping."

"It seems like the two-tiered approach has the worst of both worlds. You will have to figure it out twice. You'll have people switching back and forth. . . . Two different philosophies gives me some concern. You ought to do it one way or the other."

Last week, Republican leaders in the House and Senate joined with Huntsman in pushing for a special session Sept. 20 - if their members support the proposal during caucus meetings planned for the first week of September.

The two-track income tax system would allow taxpayers to choose to file under the existing system with expanded brackets or, beginning in 2007, at a flat rate of 5.3 percent with no deductions or credits.

In a compromise to win support for the special session, it would also address measures to increase sales taxes and transfer hotel-room taxes to pay for mass transit.

But Hillyard and other members of the state Tax Review Commission meeting in Logan were skeptical of the motivations behind the special-session drive. The panel, made up of lawmakers and tax professionals, is charged with advising the governor and Legislature on sound tax policy.

Hillyard reminded members that the purpose of a tax reform process that began under Gov. Olene Walker was to broaden Utah's tax base and ensure adequate funding for education. "Are we really accomplishing that? Or are we just giving a tax cut? If that's all we're doing, just cut the rates on the existing system."

Hillyard warned that hurry-up tax reform on the eve of an election was dangerous. "If you miss something, you are really going to have a lot of problems," he said. "To rush something as important as this through in a special session is not wise."

Sen. Howard Stephenson, R-Draper and head of the business-supported Utah Taxpayers Association, joined Hillyard and other members in advising caution.

"What do we gain by doing it in a special session?" he asked Rep. Wayne Harper and the governor's budget director, Robert Spendlove, who presented the dual-track idea to the commission.

"They [special sessions] have universally been ugly things. They are pressure cookers. Special sessions have rarely been kind to taxpayers. Why rush it now?"

Spendlove and Harper, chairman of the House Revenue and Taxation Committee, appeared taken aback by the vehemence of the commission and gave conflicting answers, including whether the dual system would be a first step toward a broader flat tax-driven reform or if the two-track choice would be permanent. It was also unclear whether the two-track system was "reform" at all.

After describing tax reform being in the third year of a 10-year journey, Spendlove acknowledged it would be unlikely that the two-track system would ever evolve into a flat tax alone. But later, Harper argued for the special session, saying it would be the first step toward reform.

"This is not true tax reform," Harper said. "There is not the political will out there to do true tax reform. This is the basis for tax reform; we will have the framework."

Brigham Young University public management professor Gary Cornia said, "No one could argue this is fundamental tax reform; this is just sweeping around the edges," Cornia said.

As for the timing, Harper acknowledged, "It doesn't have to be done now. [But] Leadership believes we are close enough and there are enough votes there that we are going to call a special session."

The commission also found significant tax problems that are not addressed by the proposal, including "bundling" of deductions every two years that could allow filers who switch back and forth between the options to avoid taxes.

Spendlove pointed out the state already has a \$350 million surplus, telling the commission: "There is a demand that we do something with this money other than sinking it back in government."

Rep. Roz McGee called him on that statement. "There's a high demand for a tax cut? I'm hearing the reverse in talking to my constituents. The polls I have seen show the public is concerned with public education funding and transportation."

Spendlove said his information was "anecdotal" from phone calls to the governor's office.

He added the dual track system would make Utah more competitive nationally and, "It will help shore up education funding. It will not affect the state's ability to dramatically increase spending in public education."

What is the two-track income-tax proposal?

* Under the two-track income tax system, taxpayers would have their pick of using the existing system with expanded brackets or, starting in 2007, paying at a flat rate of 5.3 percent with no deductions or credits.