

## Broaden the base: State should extend sales tax to services

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Broaden the base, lower the rates. That was the basic message of Gov. Olene Walker's tax reform commission.

So far, the Legislature has acted on only half of that message. It has lowered rates for the income tax and the sales tax on food.

But it has been deaf to the other half of the message: broaden the base. In fact, the reduction of the sales tax on unprepared food actually has narrowed the base.

As a tax base narrows, it becomes more vulnerable to the ups and downs of the business cycle.

The commission's report, issued in November 2004, noted that "the core base of most of our taxes, adjusted for economic growth, is declining." It said that the bases for the income and sales taxes were declining annually at 1.4 percent and 1.3 percent, respectively. The corporate income tax base was declining at 8 percent a year. Only the property tax base was increasing at 3.8 percent per year.

It also noted that the sales, individual income and corporate income taxes are volatile, meaning that if the economy grows, the individual income tax, for example, grows even more. But if the economy declines, the individual income tax declines more steeply. The swings in the corporate income tax are most extreme of all.

Only the sales tax tracks the economy closely. We would assume, however, that the elimination of unprepared food from the base will make the sales tax less stable.

Against this backdrop, House Speaker Greg Curtis, R-Sandy, told a meeting of the Utah Taxpayers Association over the weekend that he favors further cuts in the individual income tax and the sales tax on groceries.

But we believe that Senate President John Valentine, R-Orem, is closer to the right mark. He observed that the cuts to the grocery tax narrow the base, and to make up for that, the sales tax base should be broadened to include services, such as tax preparation, legal representation, even lawn care.

Though that will be a tough sell to doctors, lawyers and lawn-care providers, who will lobby the Legislature against applying the sales tax to their services, Sen. Valentine is right. Ours is increasingly a service economy. The tax system should reflect that.

We would add that the Legislature might want to take stock of its latest tax cuts before it plunges ahead with more. The modified flat income tax that the Legislature enacted this year does not even take effect until the 2008 tax year.