



The Utah Taxpayer

A Publication of the Utah Taxpayers Association
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Legislature Cuts Taxes, Increases Spending, Passes Education Vouchers

The Utah Legislature passed the state’s largest ever tax cut, the state’s largest ever spending increase, and finally passed education vouchers.

Tax Cuts – SB223 (Niederhauser)

With no dissenting votes in the Senate or House, Gov. Huntsman signed SB223, the omnibus tax bill, into law. The following table lists the tax cuts for FY2008 and FY2009.

State Spending Growth

Despite significant tax cuts, most of which will occur in FY2009, state spending continues to surge as the following chart demonstrates.

In the five years since 2003, state fund expenditures have grown 72.5% from \$3.42 billion, or 11.5% annually while total funds have grown 59.3% from \$7.22 billion, or 9.8% annually. During that time period, combined inflation and population growth has been about 6%. In the past ten years, which includes three years of flat or negative spending growth, state government expenditures have approximately doubled, or about a 7% annualized increase. From FY06 –FY08 state expenditures will increase nearly 40%.

Some proponents of higher spending argue that much of the recent growth is due to “one-time” infrastructure improvements such as roads

SB223 Tax Cuts

Tax Cut	FY2008	FY2009
Individual income taxes	\$27,175,000	\$108,700,000
Reduction in sales tax on food (2.75% to 1.75%)	\$19,427,000	\$40,408,200
Reduction in general state sales tax rate (4.75% to 4.65%)	\$19,642,800	\$40,857,000
Expansion of business input sales tax exemption (mining)	\$2,431,000	\$5,013,000
Research and development tax credit	\$0	\$14,500,000
Renewable energy tax credit	\$1,332,200	\$2,970,700
Dental prosthesis sales tax exemption	\$915,700	\$1,886,400
Cable TV equalization	\$2,384,000	\$5,006,500
Total	\$73,307,700	\$219,341,800

Source: Legislative Fiscal Analyst (SB223 fiscal note). Implementation date for above tax cuts is January 1, 2008 except for renewable energy tax credit which will be implemented retroactively to January 1, 2007.

State Spending Growth

Year	State funds	Annual Growth Rate	Total funds	Annual Growth Rate
2004	\$3.53 billion	3.2%	\$7.91 billion	9.6%
2005	\$3.99 billion	13.0%	\$8.62 billion	9.0%
2006	\$4.25 billion	6.5%	\$9.25 billion	7.3%
2007	\$5.04 billion	18.6%	\$10.46 billion	13.1%
2008	\$5.90 billion	17.0%	\$11.50 billion	9.9%

Source: Legislative Fiscal Analyst State Budget Overview

Utah Taxes Now Conference – May 4th, 2007

The Utah Taxpayers Association will be hosting its annual Utah Taxes Now Conference on Friday, May 4th, at the Little America Hotel. A major theme of the conference will be transportation reform. Other issues will include education reform, the tax cuts enacted by the legislature, and future tax cuts which will bring the greatest growth to Utah’s economy. More details will be available in the April newsletter.

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and buildings and therefore taxpayers should not be too concerned about recent government growth. However, even so-called “one-time” expenditures are still expenditures and should be counted. Moreover, from a long-term structural budget perspective, roads are not a one-time expense since Utah will be spending hundreds of millions of dollars annually to expand its transportation infrastructure in order to accommodate population growth.

Understating state government growth

Officially, state government growth from FY07 to FY08 is 17.0% (excludes non-general state funding such as federal sources). However, once the FY08 budget goes through the supplemental process next year, the increase will most likely be higher. For example, last year, the official growth rate in state funds from FY06 to FY07 was 16.3%. However, with the addition of supplemental appropriations in the 2007 session, the actual growth rate was 18.6%, which is significantly higher than the originally advertised 16.3% increase.

If FY2008 appropriations are compared to pre-supplemental FY2007, the growth rate would be 19.3%.

Education spending increases: just maintaining the status quo?

The spending lobby maintains that recent education increases have not kept up with or exceeded enrollment growth and inflation and have not made up for the lean years in the earlier part of this decade. The following chart outlines increases in the Minimum School Program (MSP) adjusted for enrollment growth and inflation.

The MSP accounts for more than 90% of total school district operations expenditures exclusive of federal funds. A good portion of increased MSP funding is from one-time sources.

Inflation-adjusted Per Student Minimum School Program Expenditures

Years	Spending Growth	Annualized Growth
FY93 – FY08	45.9%	2.6%
FY98 – FY08	24.7%	2.2%
FY03 – FY08	16.4%	3.1%

Calculations by Utah Taxpayers Association based on data from the Legislative Fiscal Analyst, Utah State Office of Education, and Bureau of Labor Statistics.

Transportation increases

Transportation received a significant infusion of state general fund revenues. Transportation will receive \$684 million in state general fund revenues in FY08. Prior to 1990, transportation generally received no state general fund revenues and prior to FY2006 never received more than \$200 million in one year.

Legislature Enacts Major Tax Cuts and Reforms

Utah’s recent efforts to reform taxes began in late 2003 when Gov. Olene Walker asked a group of tax experts to propose a comprehensive tax reform plan. Three and a half years later, Governor Huntsman and the Legislature enacted major changes to Utah’s individual income tax that reduce tax burdens (\$108.7 million in FY09) while creating a tax system with a single, lower rate and a broader base. The new tax system is not a flat tax for most taxpayers since most taxpayers will be eligible for various credits that are phased out as income increases. Key elements of the proposal are as follows:

- Utah’s previous top marginal rate of 7% (temporarily reduced to 6.98% for tax year 2007) will be replaced by a single rate of 5%.
- The new system will not have tax brackets.
- Moderate progressivity will be maintained by offering non-refundable credits that are phased out as income increases. Credits are phased out at a rate of 1.3 cents per dollar of adjusted gross income in excess of \$24,000 for married households and \$12,000 for singles. Since the credits are completely phased out at high income levels, Utah’s new system will be a 5% flat tax for high income households.
- Taxpayers will be able to choose a non-refundable credit based on either 6% of the federal standard deduction or 6% of federal itemized deductions (excluding Utah income taxes paid).
- Taxpayers will be able to claim non-refundable credits for each household member equal to 4.5% of the federal personal exemption.
- Miscellaneous credits found on form TC-40S and reported on lines 20 and 30 of TC-40 such as renewable energy and historic preservation will not be impacted by these changes.

A married household with four children with income less than \$25,350 in TY08 will not pay any state income tax, up from \$24,900 (both numbers are estimates based on assumptions for TY08).

Implementation date is January 1, 2008. Dual system that was approved in 2006 special session will be implemented for one year only (TY2007).

Utah’s 5% tax rate is lower than the national average of 5.3%. This may be the first time ever that Utah’s rate has been lower than the national average. However, even after the rate reduction

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and tax cut, Utah's overall individual income tax burden will most likely be higher than the national average due to Utah's broader base.

State sales tax reductions

SB223 reduces the state sales tax rate on food by one full percentage point from 2.75% to 1.75%. The state general sales tax rate will be reduced 0.1 percentage point from 4.75% to 4.65%.

Cable TV tax cut

Cable TV providers will be eligible for a tax credit equal to 50% of the utility franchise tax that they pay to cities. This rebate will be passed on to customers.

Research and development tax credit

SB223 improves the existing R&D tax credit by allowing a 7% credit (up from current 6%) on qualified research expenditures (QRE) over a base year amount. SB223 also allows companies to claim a 5% credit on all QRE.

Renewable energy tax credit

SB223 reauthorizes and expands the existing renewable energy tax credit. The credit consists of two parts

-Reauthorization of the investment credit for residential and small commercial projects in which 10% of system construction and installation costs can be claimed as an income tax credit up to a maximum of \$2,000 for residential projects and \$50,000 for small commercial projects. Investment credit is not refundable.

-Creation of a new production credit of 0.35 cents for each kilowatt-hour produced for large commercial projects. Credit is refundable but cannot be carried forward or carried back.

Expanding business input sales tax exemption for mining equipment

SB223 exempts from sales taxes the purchases of mining equipment and machinery with a three year or more life expectancy. In an ongoing effort to eliminate sales taxes on business inputs, your Taxpayers Association helped convince the Tax

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SB13 reauthorizes and expands and the existing renewable energy tax credit.

SB142 exempts from sales taxes the purchases of mining equipment and machinery with a three year or more life expectancy

2007 Key Legislation Box Score		
Wins- 8 Losses-4		
Sponsor/ Number	Senate Bills	Win/ Loss
Niederhauser SB223	Omnibus Tax bill: reduced income tax rate, lowered sales tax on food rate, alternative power tax credit, research and activities credit, sales tax exemption for mining. UTA Position Legislative Action	Win
Stephenson SB13	Tax Credits for Alternate Power Generation UTA Position Legislative Action	Win
Hillyard SJR2/SB18	Created a trust fund in which severance taxes will be deposited. UTA Position Legislative Action	Win
Stephenson SB171	Research Activities Tax Credit Amendments UTA Position Legislative Action	Win
Stephenson SB142	Sales and Use Tax Exemptions for mining industry. UTA Position Legislative Action	Win
House Bills		
Menlove HB381	Would pay math and science teachers \$5,000 above the salary schedule. UTA Position Legislative Action	Loss
Morley HB89	Requires summary of government assistance given by the state. UTA Position Legislative Action	Win
Hughes HB393	Truth in Bonding UTA Position Legislative Action	Win
Newbold HB38	Directed Salt Lake County to fund the Real soccer stadium in Sandy UTA Position Legislative Action	Loss
Urquhart HB148	Provides vouchers for parents who wish to send their children to private schools UTA Position Legislative Action	Win
Hughes HB193	Requires 65% of school district operations to be spent on instruction. UTA Position Legislative Action	Loss
Wyatt HB203	Local Option Distribution Formula for Sales Tax UTA Position Legislative Action	Loss

Reform Task Force to recommend this exemption. It has taken two years to accomplish this important tax cut in the legislature.

Severance tax trust fund

The Legislature made some progress towards the creation of a severance tax trust fund. A one-time \$20 million appropriation will be deposited into a general fund restricted account. In 2008, voters will be asked to approve a constitutional amendment that will allow severance tax revenues to be deposited into the permanent state trust fund account that was created in the 1990s to receive tobacco settlement funds. Currently, severance tax revenues are allocated to the general fund.

Uniform rate on food sales tax

Food will be taxed at 3% statewide (1.75% state, 0.25% county, 1.00% city). Currently, three counties -- Millard, Kane, and Emery -- do not impose the 0.25% county option. The counties have the option of imposing the 0.25% sales tax rate while lowering their property taxes dollar for dollar, or the state will impose the 0.25% for its own use. The counties are expected to impose the sales tax.

Food purchases will not be subject to ZAP or transit/transportation taxes. Transit/transportation tax rates will be increased by 0.05 percentage points to offset most of the reduction in base. ZAP tax rates will not be increased.

Vouchers

After several years of approval by the Utah Senate and defeat by the House of Representatives despite lopsided Republican majorities in the House, the Utah Legislature has finally approved an education voucher program. The passage of HB148 and HB174 enact the nation's most comprehensive school choice program. Your Taxpayers Association has been advocating school choice legislation for at least 25 years, believing that competition in the education marketplace will create a tide that will lift all boats, including improving neighborhood public schools.

The voucher will be means-tested so that low income households receive the largest voucher. Maximum voucher amount is \$3,000 and minimum is \$500. The plan holds school districts financially harmless for five years for each student who leaves for a private school, requiring the Weighted Pupil Unit (WPU) funding to continue to flow after the child is no longer in class. After five years, the public system will still save money for each student who leaves a public school. The average student currently draws approximately \$6,400 in combined state, federal and local funding. Under the voucher plan, even after the five-year hold-harmless period, every student who leaves the district schools would leave behind between \$5,900 and \$3,400, depending on the voucher amount received.

Already the government education community has begun circulating a referendum petition to place the voucher law on the ballot for repeal.

The statewide UEA teachers union and the Utah PTA are scheduling public schools as the venues for collection of signatures at events including parent-teacher conferences.

The Utah Attorney General has been asked by legislators to determine whether parent-teacher conferences and other school events are legal venues for signature gathering. The NEA national teachers union is expected to plow millions of dollars into the ballot campaign because the Utah law is the most comprehensive in the nation and they feel it must be defeated. To read HB148 [click here](#) to read HB174 [click here](#).



My Corner - by Howard Stephenson Legislative Session: The Best of Times

It's easy for elected officials to be generous when the economy enables taxpayers to be generous. But the real measure of fiscal conservatives is when they provide permanent tax reductions and keep spending limits intact.

Record Education Spending Increases

The Utah Legislature *was* generous, enacting the biggest spending increase in state history including a \$489.5 million, 21% increase in spending for public education. More than 10%, or \$50 million of the total was earmarked for increased technology spending in an attempt to bring Utah classrooms into the 21st Century. Teachers were provided a uniform \$2,500 ongoing pay raises plus one-time \$1,000 bonuses. In an unusual precedent, these pay increases are provided outside the Weighted Pupil Unit (WPU) which usually reflects the compensation package increase for the year. On top of the compensation increases, the WPU is increased 4% and non-teaching personnel

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Quote of the Month #1

"While tax cuts are politically popular, they are not always the right thing to do. We commend the Legislature on keeping our money."

- Apparently the Herald editorial board did not notice the \$219 million dollar tax cut.

Source: Daily Herald editorial board, March 4, 2007

are provided \$7 million for one-time bonuses. Additionally, teacher compensation will also increase as a result of \$6.6 million funding for an extra professional development day for teachers. Classroom supply money was funded at \$10 million, up \$2.5 million to provide an increase for first year teachers.

Truth in Bonding

HB393 will require local governments to disclose to voters the property tax impact if proposed bonds are approved by voters, unless the impact is less than \$15 per year on a primary residence of average value.

HB393 is a good government bill. When voting on a proposed bond, taxpayers need to know the cost of proposed bonds to their homes and businesses. The Utah State School Board has asked Governor Huntsman to veto the measure based on legal counsel Carol Lear's claim that it is flawed. [Click here](#) to read for yourself.

Record Tax Cuts

Cutting taxes a record \$219 million has to count for something. While I sponsored a \$14.5 million R&D tax credit expansion, a \$2.9 million renewable energy tax credit, and a \$5 million mining equipment sales tax exemption, these were rolled into a single senate bill to eliminate the possibility that the House might play games as they did in the 2006 session. At that time, the House passed the food sales tax cut but refused to pass the income tax cut. Also included in this year's senate bill were another one cent reduction in the state food sales tax amounting to \$40 million and a \$108 million income tax cut and simplification.

Spending Limit

Utah's spending limit was left largely intact despite attempts to gut it. The limit was slightly weakened by exempting all transportation expenditures.

Despite these huge victories for taxpayers and schools, there were some areas of disappointment in the 2007 general session of the legislature: The legislature failed to accomplish a few conservative goals.

Differential pay and merit pay

In a surprise move, the Legislature did not implement differential pay for teachers this year, which would have provided a \$5,000 per year pay differential to math, science, and special education teachers. Finding teachers in these subject areas is difficult, and basic economics dictate that higher wages will increase the supply of teachers in these areas. In fact, legislation in 2005 directed the State School Board to develop plans for differential pay and merit pay. The school board followed the direction of the legislature and brought a plan forward with the bill receiving unanimous approval of the House of Representatives, but insider wrangling among Republican legislative leadership defunded the bill, preventing it even being considered on the Senate floor.

Differential pay will be further studied during the interim and the legislature is expected to take up the idea next year as the realization of severe shortages sets in for qualified math, science, and special ed teachers.

Congestion pricing

Unfortunately, the Legislature did not consider highway congestion pricing this year. Your Taxpayers Association will continue to advocate for transportation reforms such as congestion pricing to expand the capacity of existing highways in addition to significantly expanding highway funding. This year's Utah Taxes Now Conference will focus on transportation issues such as congestion pricing.

Legislative Master Study List

Every year the legislature passes a Master Study List which directs the legislature's agenda during the interim, in preparation for the following year's General Session. These interim committees meet once a month, typically on the third Wednesday. Twenty-three tax related issues were included in this year's study list, HJR14. The following is a summary of the tax and spending items which will be studied.

Minimum wage - to study increases in the minimum wage and a review of low and moderate income families to save for education, retirement, etc. and to form assets in

Small Business Health Insurance - to study how to develop a basic health

Alternative to Basic Skills Competency Test - to study allowing the State Board of Education to use a nationally norm-referenced test to satisfy the basic skills competency test requirement

Education Funding - to study issues related to public education and charter school

Funding Formula - to study the school transportation funding formula.

Public Education Funding - to study the equalization of all state and local public

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Quote of the Month #2

"A regional performing-arts center would be a coup, an economic draw for our marketplace area."

Centerville Mayor Ronald Russell arguing that taxpayer subsidies for entertainment venues promote economic growth.

Source: Salt Lake Tribune, February 22, 2007

Statewide Compensation for Teachers - to study uniformity in handling compensation for teachers by the state rather than by individual school districts and charter schools.

Use of Education Funds - to study the use of surplus Education Fund and Uniform

Basic School Levy - to study implementing inflationary increases into the minimum basic school levy program and adding statutory language to allow for increases based on the Consumer Price Index.

Kindergarten Readiness - to study statewide pre-kindergarten program, including provisions of the Kindergarten Readiness Initiative (S.B. 222).

Taylor Plan - to study state-funded, merit based opportunities for high school students to earn their college tuition, meet standardized test scores, and meet and maintain grade point average requirements.

Teacher Loans - to study low cost loans for teachers (H.B. 416).

Teacher Salaries and Benefits - to study and compare the salary schedules and benefits of neighboring states and determine the advisability and means of increasing teacher salaries to the national average, and continue ProExcel implementation.

Technology in Schools - to study ensuring technology-assisted instruction is utilized in Utah's public schools.

Testing and Diplomas - to study high school diploma requirements and high stakes testing.

Use of Education Funds - to study the use of surplus Education Fund and Uniform School Fund monies (H.B. 429).

Public Employees Union Financial Responsibility - to study reporting requirements for public employee unions (H.B. 430).

Education and Taxes - to study issues related to public education and property taxes.

Income Tax Additions and Subtractions - to study whether a resident or nonresident estate or trust may subtract certain qualified investments in the Utah Educational Savings Plan Trust from federal taxable income, and whether to require adding to federal taxable income amounts not expended for higher education costs under certain circumstances

Income Tax Credit Shifting - to study and develop methods for switching individual income tax credits to rebates, vouchers, grants, or other funding mechanisms.

Income Tax Deductions as Insurance Incentives - to study income tax deductions for insurance premiums for businesses to motivate them to provide health insurance for their employees.

Property Tax - to study issues related to property tax equalization.

Property Tax Deferral - to study a property tax deferral for senior citizens

Refund for Tax Overpayment - to study allowing a taxpayer to claim a tax refund

Sales Tax Distribution - to study a resolution to sales tax distribution challenges related to point of sale and population.

Sales Tax on Business Inputs - to study implementation of a Tax Reform Task Force proposal to remove the sales tax on business inputs.

Sales Tax Rate - to study a uniform statewide sales tax rate.

Tax Credit for Liquid Fuels - to study the adoption of an income tax credit for the production of liquid fuels from waste materials, including coal and other tailings.

Tax Revisions - to study miscellaneous tax revisions.

Taxpayer Attorney Fees - to study the payment of taxpayer attorney fees when the taxpayer is required to bring the same issue on appeal multiple times

Motor Fuel Tax - to study the current motor fuel tax and determine whether it should be replaced (partially or in whole) with a cent-per-mile-driven charge or a flexible excise tax.

Special Revenue Funds - to study special revenue funds and restricted special revenue funds.