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It's Time to Expand the Manufacturing Sales Tax Exemption

Perhaps the most important thing elected officials can do to understand economic development is to imagine that they are deciding where to build the business. In this hypothetical example, it's easy to see that multiple variables affect their decision of where to invest: land prices, available qualified workforce, working transportation system, taxes, energy prices, etc.

In some measure, all of these variables affect the costs and benefits of doing business in Utah rather than Kansas, New York, Georgia, Arizona or somewhere else. Utah's elected officials want to lower the costs of doing business in Utah, so investors and employees will want to invest their lives and their fortunes in Utah.

Perhaps the easiest way to lower the cost of doing business in Utah is to eliminate the tax on business inputs. Recall the fundamental law of economics – the higher the price, the lower the quantity people are willing to purchase. In this case, taxing business inputs in Utah increases the price of business in Utah, which means people are less willing to purchase more of it in Utah.

Consider the example of a corn farmer. If Utah taxes his seed corn (the farmer's business input), will he plant more or less seed corn? The answer is obvious: he'll plant less. If the farmer plants less seed corn in spring, he'll harvest and sell fewer ears of corn in the fall. In other words, taxing business inputs (seed corn) restrains economic development (ears of corn harvested).

Utah's Legislature has tried to implement this basic policy since the mid-1990's, when your Taxpayers Association first convinced the Legislature to eliminate the sales tax on business inputs for manufacturing. In 1995 the Legislature eliminated all sales taxes on manufacturing inputs.

A few months later the Tax Commission realized it had inaccurately calculated the short-term cost of the bill, and in a special session the Legislature amended the manufacturing exemption so that manufacturing inputs with less than a three-year life would be subject to sales tax. (The Legislature chose a three-year floor, because the federal tax code distinguishes between expensed items and depreciated items. Expensed items have a life less than three years, while depreciated items have a life longer than three years.) Since then, the Legislature has extended similar sales tax exemptions to a variety of other business inputs, including mining products, web search portals, electronic payment equipment, etc.

Because these sales tax exemptions have a short-term cost to the state (the state no longer receives sales tax revenue it previously received, as show in the bill's fiscal note), the Legislature has not been willing to unilaterally eliminate sales tax from all business inputs. However, these fiscal notes have only been short-term. They ignore the new business that comes to Utah because the Legislature has lowered the cost of doing business in Utah.

Whenever a company invests in Utah, it may not pay the sales tax on its business inputs, but it generates additional economic activity that generates additional income taxes, property taxes and sales taxes. Fiscal notes for sales tax exemption bills have always counted the lost revenues, but ignored the additional revenues to the state (income, property and sales taxes).

Over the last several months, your Taxpayers Association has been working with the Utah Manufacturers Association to eliminate the three-year floor for the manufacturing exemption. Why, for example, should the manufacturing

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exemption apply to manufacturing ice cream, but not to an abrasive or caustic manufacturing process like machining? It shouldn't. It was a mistake to limit the manufacturing exemption only to business inputs with at least a three-year life.

To be clear, Utah wants more manufacturers to invest in Utah, regardless of whether their processes are abrasive or not. We need Blue Bunny ice cream and Dannon yogurt just as much as we need IM Flash and Petersen, Inc. The point is that Utah's tax code shouldn't prefer one type of manufacturer to another.

Utah is in a distinct and inglorious minority of states with a floor on its sales tax exemption. According to the Tax Foundation's "2013 State Business Tax Climate Index", five states have no sales tax at all. Of the remaining 45 states and the District of Columbia, 6 fully tax manufacturing inputs. Thirteen, including Utah, partially exempt manufacturing inputs. The remaining 27 fully exempt manufacturing inputs.

The tax and spend lobby object to sales tax exemptions as a rule. They believe that business is like the fairy tale character Jack and his magic beans. They believe that business will grow to the sky, regardless of cost. In their fairy tale world, taxes don't influence where businesses invest, or how much they invest. With similar fairy tale policies leading to Detroit's bankruptcy, Utah would be wise to ignore the fairy tale prescriptions of the tax and spend lobby.

Table 1: How States and the District of Columbia Tax Manufacturing Inputs

Fully Tax Manufacturing Inputs	Partially Exempt Manufacturing Inputs	Fully Exempt Manufacturing Inputs
6	13	27

Source: The Tax Foundation, "2013 State Business Tax Climate Index," page 44.

It simply makes no sense to prefer ice cream makers and other non-abrasive manufacturers to manufacturers whose chemical or other manufacturing processes consume some of their "seed corn." We have already testified before the Legislature's Economic Development Task Force, chaired by Senator Stuart Reid and Representative Brad Wilson about this issue, and we look forward to continuing to work with them. The time has come for Utah to eliminate this three-year floor, and your Taxpayers Association is committed to getting that done in the 2014 Legislature.

My Corner: Salt Lake County Mayor and Council Enter the Education Business as County Tax Hike Kick In

Association President Howard Stephenson

At the same time property taxpayers in Salt Lake County were gasping at the huge county property tax hikes on mailed assessment notices last week, Mayor Ben McAdams convinced the County Council to spend more than a third of a million dollars on a "first-of-its-kind" pre-school program in one of the county's five school districts.

While Salt Lake County government is taking on a new education role, the county's property taxes rose 16% in the general fund, 22% in the library fund, and a whopping 50% in the assessing and collecting fund.

Nowhere have county governments been charged with educating our kids, noble though that task is. We have school districts for that purpose. But Mayor Ben McAdams and the County Council decided that a public-private partnership was worthy of county taxpayer dollars because, the Mayor said, $14 would be saved for every $1 spent on the program. I've heard those kinds of promises made countless times over the years but the savings ultimately haven't materialized despite the sincerity of the promise makers.

Don't get me wrong, I'm all about preparing kids for kindergarten. But I just don't believe it's the job of county governments. And where will they draw the line? The current program provides Pre-K training for just 600 3-year-olds in Granite School District. Next year is the Mayor going to convince the Council to approve funding for preschools in Murray, Canyons, Jordan, and Salt Lake Districts?

Why not go after the millions of dollars spent by the federal government in Utah on Head Start. This program has been in place for nearly 50 years, spending over $180 billion and achieving absolutely nothing for the children in the program. The federal government spends millions on this program every year in Utah, despite the fact that children in Head Start are not benefitted academically by this costly federal jobs program. According to the Heritage Foundation, of 11 measures of cognitive ability—including reading, language, and math ability—access to Head Start made no difference for either three- or four-year-old students on any outcomes.

Admittedly, the Granite Preschool program is better than Head Start, but it's not better than the lower cost UPSTART Pre-K program, which was funded by the Legislature. (The Legislature is actually designated by the state Constitution to fund education, Mayor McAdams.) The UPSTART program is less costly per student because it takes place in the home on computers, giving children 15-20 minutes per day of individualized, adaptive instruction through fun activities that children love.

The Legislature required the State Office of Education to contract for a third-party evaluation of the UPSTART program. The results were recently released, showing an approximate doubling of academic gains over the control group on two tests of early literacy skills: the Brigance Inventory of Early Development and the Bader Reading and Language Assessment.

It is unfortunate that Salt Lake County has decided to get into the business of education when that is not their charge, constitutionally or statutorily. But having chosen to do so, it is unfortunate they did not do more research.

Appealing the County's Valuation of Your Property: How to get Comparable Sales Data

Utah's 29 counties recently mailed property tax notices to every Utah property owner. These notices indicate this year's assessed valuation for the parcel, the taxable value, the property tax rate each taxing entity with jurisdiction over the parcel intends to levy, the anticipated total property tax due on the property, and any Truth in Taxation hearings being held in the area.

With property values increasing in some areas and decreasing in other areas, some taxpayers are likely unconvinced that the county's assessed value represents the property's fair market value. If you believe the county assessor set your property value too high, state law allows you to appeal the valuation.

To begin the appeal process, property owners must notify the county's Board of Equalization that they intend to appeal their valuation. Each county accepts notification in different ways. For example, Utah County residents must complete a form that is sent with their notice and return it. That form can also be found online (http://www.utahcounty.gov/Dept/clerkaud/Equalization.html). In Salt Lake County, property owners must complete form BE-1. A hard copy of that form is available in the County Assessors office, and a soft copy is available online (http://www.saltlakecountyauditor.org/site/tax). For information on how to notify the Board of Equalization in your county, call your county assessor's office.

After notifying the county that you plan to appeal the valuation of your property, the next step is to gather comparable sales data justifying your belief that the county assessor overvalued your property. If you purchased or sold the property within the past year, the closing or settlement statement for that sale suffices. If you choose to share it, that sales price will determine your property's fair market value.

Identify at least 3 properties similar in style, quality, size, age, location, land area, etc. Then, identify the assessed value or sales price of those 3 properties.

You will need to describe your property's location, physical characteristics (number of bedrooms and bathrooms), size (acreage, finished and unfinished square feet in the home), age, etc. With that information, they can usually identify several comparable sales in less than 24 hours.

The least expensive way to obtain comparable sales data is to contact a realtor. Most realtors will provide comparable sales data at no charge.

Another option is to hire a professional to conduct an appraisal of your property. You can find an appraiser by looking in the Yellow Pages or by talking to a realtor. Other useful resources include The Appraisal Institute (www.appraisalinstitute.org) and the American Society of Appraisers (www.appraisers.org). In Utah, a typical residential appraisal costs about $350, and takes about one week to complete.

Regardless of how you collect comparable sales data, it's important to collect documents supporting your comparable sales data. These documents may include listings for your comparable sales, county assessments for those properties, or the appraisal you paid for. These documents will make your appeal hearing run smoother, and give you a better chance of winning your appeal.

There is one cautionary note. If your comparable sales data, including your property's closing documents, show the value of your property to be higher than what the county assessed it at, then the county may increase your assessed valuation even higher. You may be frustrated that your assessed valuation went up 30% in one year, but that frustration will fall on deaf ears if you bought your property for even more than what the county assessed it.

Armed with the best comparable sales data, you will be well prepared to have your property value lowered in your appeals hearing with the Board of Equalization. For more information about other elements of Utah's property tax system, or appealing the county's valuation of your property, call our office at 801.972.8814, or contact your county assessor.

Oregon's VMT Program Now Open to the Public

This month, Oregon Governor John Kitzhaber signed into law a new vehicle miles traveled (VMT) bill that opens the program to the public. Previously, pilot programs have been implemented, using state employees as test subjects. Now, up to 5,000 Oregonians can utilize this new method of paying taxes as an alternative to the 30 cents per gallon they are paying currently.

As a refresher, the VMT imposes a tax based on the miles that a vehicle travels, rather than by how many gallons of fuel are purchased. VMT has been looked at as a potential solution to transportation funding issues because it captures revenue based on how much a vehicle uses a road, not how much fuel it consumes. As the average vehicle's MPG has continued to increase, fuel consumption has decreased and therefore less revenue is generated.

In Oregon's case, the VMT tax is 1.5 cents per mile traveled. The current state imposed tax on a gallon of gasoline in Oregon is $0.30. So, if you drive a vehicle that averages more than 20 miles per gallon (mpg), this seems like a financially sound alternative – for the vehicle operator at least. The State of

While some critics worry about privacy with a VMT system, this new program is an opportunity to test how realistic the privacy concerns really are. New technologies have created hope for expanded opportunities for governments to fund transportation projects. Far surpassing basic mileage reading devices, the potential for GPS enabled services on vehicles, smartphones and other devices is great. Despite the significant cost associated with the development of such tools, advocates tout the increased possibilities as great ways to generate revenue for transportation projects based solely on user fees. For example, it is possible on smartphone apps to track a location down to just a few centimeters. This opens up the potential to be efficient in congestion pricing between heavy traffic areas and light traffic roads. Also, parking meters could be a thing of the past if an app can know how long a vehicle is parked at a specific place for a certain amount of time.

Your Taxpayers Association will monitor the results of Oregon's VMT program closely, and provide recommendations to Utah lawmakers on best practices for transportation funding, such as VMT.

Oregon would appear to lose out on revenue from participants in the VMT program whose vehicles get better than 20 MPG's over the existing taxing structure. But, it can't be assumed that all users of the new VMT program will be getting better than 20 MPG's.

SB 810, which created the VMT program, requires that no more than 1,500 vehicles could achieve less than 17 MPG's and no more than 1,500 vehicles achieve between 17 and 22 MPG's. That means that up to 3,500 vehicles could be paying less than they currently do for using Oregon's roads if the 2,000 vehicles not limited to certain mileage standards achieved more than 20 MPG's and the 1,500 vehicles that are between 17-22 MPG's all achieved greater than 20 MPG's. This appears to be going the wrong way to generate adequate revenue to fund road maintenance, especially considering the widening gap between revenue and the cost to maintain roads, which has increased 55 percent since 1993 while revenues have largely remained flat.

2013 Truth In Taxation Hearings

Your Taxpayers Association has worked with Utah cities and school districts to find budget solutions that avoid property tax increases. This year, forty-six taxing entities are asking more from residents and businesses. As a result, these school districts, cities and special districts will be holding Truth In Taxation (TnT) hearings this month.

The accompanying chart outlines all the TnT hearings throughout the state. Use the chart to determine if your local government is raising taxes. For more information about property tax increases and notification, visit the Utah Public Meeting Notice website at http://www.utah.gov/pmn.

Santaquin

This budget year Santaquin is attempting to pay for road maintenance by going through Truth in Taxation. Early discussions have led to the possible creation of a special service district to fund road maintenance. Your Taxpayers Association opposes the earmarking of funds and views this attempt as nothing more than earmarking.

Weber County Cities

In analyzing budgets this year, your Taxpayers Association noticed that a high number of cities in Weber County had proposed tax increases. Eight cities, including Harrisville, Hooper, Huntsville, Plain City, and Uintah are proposing tax increases to pay for contracts with the Weber County Sheriffs department.

Previously, the County has imposed a countywide tax to cover these services, but it has resulted in some communities not paying their fair share for the police services, Weber County reduced their portion of the property tax that paid for police services and asked the cities to contract with the County and pay for the services if they intended to use them.

Enoch

Until the housing crisis hit in 2007 and 2008, Enoch relied on development revenue to pay for a variety of ongoing programs. Rather than paring back their budget, since then Enoch has relied on the city's fund balance in the hopes that development revenue would rebound. With their fund balance low, they are now proposing to double the property tax.

It was foolish in the extreme to rely on one-time revenues (development fees) to pay for on-going programs. As Enoch's experience amply demonstrates, using temporary funding sources to pay for permanent programs inevitably increases pressure to increase taxes.

2013 TnT Hearings: Date and Time

Taxing Entity	% Incr.	TnT Date	TnT Time
Harrisville	100%	08/06/2013	7:00 PM
Uintah	78%	08/06/2013	7:00 PM
Fountain Green	21%	08/06/2013	6:30 PM
West Point	7%	08/06/2013	7:00 PM
Washington Terrace	6%	08/06/2013	6:00 PM
Salt Lake City School District	3%	08/06/2013	7:00 PM
Murray City School District	3%	08/06/2013	7:00 PM
Alpine School District	2%	08/06/2013	6:00 PM
Spanish Fork	1%	08/06/2013	6:00 PM
Provo	1%	08/06/2013	6:00 PM
Enoch	113%	08/07/2013	6:00 PM
Santaquin	100%	08/07/2013	7:00 PM
Wasatch County Fire	77%	08/07/2013	6:00 PM
Pleasant Grove	53%	08/07/2013	6:00 PM
Taylorsville	29%	08/07/2013	6:00 PM
Newton Cemetery	100%	08/08/2013	7:00 PM
Salt Lake County Library	22%	08/08/2013	6:00 PM
Salt Lake	17%	08/08/2013	6:00 PM
Laketown Fire District	98%	08/13/2013	7:00 PM
Woodland Hills	16%	08/13/2013	7:00 PM
Moab Valley Fire	15%	08/13/2013	6:00 PM
Iron County School District	5%	08/13/2013	6:00 PM
Castle Valley Special Service	4%	08/13/2013	6:00 PM
Emery County	4%	08/13/2013	6:00 PM
Daggett County School District	1%	08/13/2013	6:00 PM
West Valley	1%	08/13/2013	6:30 PM
Lewiston	0%	08/13/2013	7:00 PM
Glenwood	91%	08/14/2013	6:30 PM
Municipal Type Service Area	51%	08/14/2013	6:00 PM
Daggett	18%	08/14/2013	6:00 PM
Emery County School District	4%	08/14/2013	7:00 PM
Carbon County School District	3%	08/14/2013	6:00 PM
Grand County School District	2%	08/14/2013	6:00 PM
Farr West	166%	08/15/2013	7:00 PM
Huntsville	69%	08/15/2013	7:00 PM
Plain City	44%	08/15/2013	7:00 PM
Hooper	37%	08/15/2013	7:00 PM
Southwest Mosquito Abatement	32%	08/15/2013	6:00 PM
Salt Lake City	10%	08/15/2013	6:00 PM
Emery Water	4%	08/19/2013	7:00 PM
Fairview	85%	08/20/2013	7:30 PM
Tooele	69%	08/20/2013	7:00 PM
San Juan County Special Service #1	6%	12/04/2013	7:30 PM
Summit County Service #6	24%		
North Tooele County Fire	0%		