



THE UTAH TAXPAYER

A PUBLICATION OF THE UTAH TAXPAYERS ASSOCIATION

Utah 2.0 - Ensuring Utah's Economic Viability

As the 2016 Legislative Session nears, your Utah Taxpayers Association has been meeting with legislators, business leaders, and other policy officials to unveil a new initiative aimed at bringing Utah back to the forefront in economic development and creating a fairer tax policy.

We've all been bombarded with studies showing Utah as a great place to do business, but is that actually the case as we open 2016?

Sure, Utah is better than some other states, but we're beginning to lose our edge.

Enter Utah 2.0.

Utah 2.0 is a four-pronged approach to catching Utah up to surrounding states, and then adding an even more competitive edge for businesses to relocate and continue to expand in our communities.

Keeping Utah 2.0 is about creating a strong economic climate for businesses that have a local presence to grow, expand, and to continue being more attractive for businesses looking to move here.

These four proposals are as follows:

1. Create equity in tax code by allowing a sales tax exemption for all manufacturing inputs, rather than inputs that have a life greater than 3 years,
2. Allow all industries to calculate the corporate franchise (income) tax using a single sales factor,
3. Ensure Utah is prepared with a proper and necessary workforce for the 21st Century.
4. Work with local and national policymakers on enforcing sales tax equity for all retailers,

Let's begin by taking a look at the first item, a sales tax exemption for all manufacturing inputs, or the three-year life sales tax penalty.

Back in 1995, a bill strongly backed by your Taxpayers Association created a sales tax exemption for manufacturing inputs (stuff used to create and build other stuff). However, it was only allowed for those inputs that last for more than three years.

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JANUARY 2016

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Spencer Nitz	Research Analyst
Teresa Urie	Executive Assistant

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My Corner: The Keys to Prosperity

Policymakers can have a significant impact on increasing Utah’s prosperity through specific actions to improve economic outputs, or GDP (Gross Domestic Product), according to Dr. Scott Schaefer, economist and professor of finance at University of Utah’s David

Eccles School of Business. While great economists are known for communicating in simple, understandable terms, Professor Schaefer was no different. Dr. Schaefer presented at the Utah Legislature’s Biennial Economic Summit on November 19, 2015 at the Adobe campus in Lehi. This all-day conference focused on economic development and how Utah can maintain its competitive edge, and what policymakers should do to keep Utah’s lead economically.

Professor Schaefer’s presentation, ‘What Drives Prosperity,’ focused on the policies that lawmakers can implement to ensure Utah’s economic prosperity. His presentation focused on growing economic outputs which are created by using lesser-valued inputs to build something better. Greater-valued outputs lead to increased gross domestic product (GDP), and Schaefer’s presentation focused on what Utah can be doing to create a more friendly business climate for business.

As can be seen in the accompanying chart (slide 22), the inputs which yield increased productivity are investments into capital and labor (labor is often described as human capital).

Both the public and private sectors can influence increased investment in both capital and labor.

Capital investment in machinery and equipment, for example, can be increased by public policies, which exempt them from sales taxes when put in operation to improve the productivity of each worker. Similarly, the productivity of human capital can also be increased through public and private investment in education and training.

We’ve discussed inputs and how each of these can contribute to a growing economy. But what causes growth in outputs?

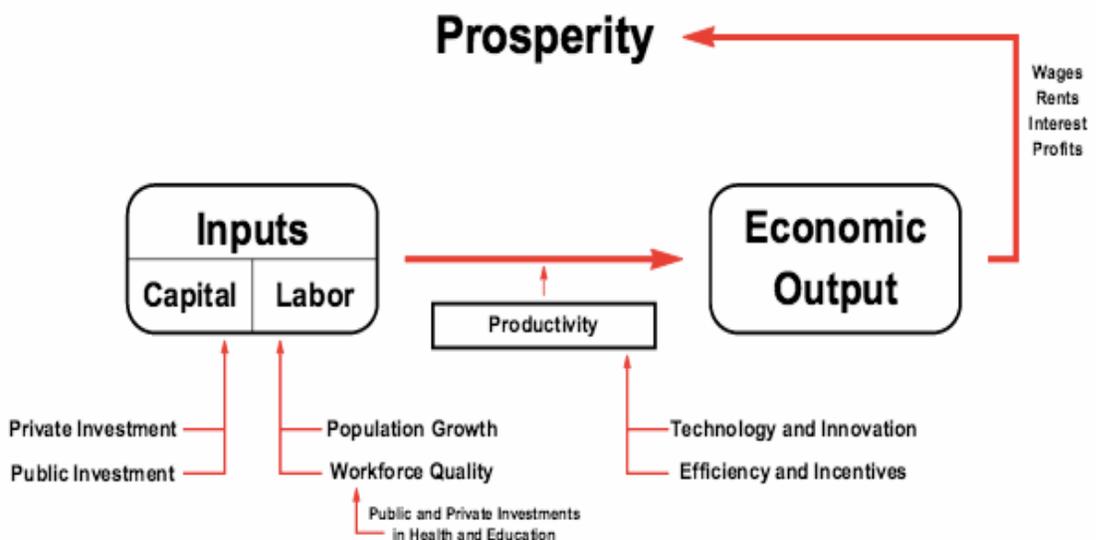
Schaefer said there are two ways to grow the value and production of inputs. First, factor accumulation. Put simply, the more a company invests in its inputs (capital, labor), the more a product (output) can be produced.

Investing in capital is a smart move for many companies, Schaefer argues, since capital is durable, allowing for longer-lasting effects on economic growth.

Factor accumulation isn’t exclusively limited to tangible products, he said. “We often hear the term ‘investing in people,’ which is another way to grow the value of these economic outputs,” he said.

For example, population growth and the education of persons in the population is vital to economic success. Dr. Schaefer points out that making a workforce more educated through proper investment from both the public and private sectors, leads to more productive labor, and consequently, greater prosperity.

Dr. Schaefer’s presentation and others at the



summit have prompted many in the business community including your Taxpayers Association to initiate an economic plan called Utah 2.0 which implements greater investment in capital by eliminating the three year life tax penalty on machinery and equipment and the electable single sales factor to make Utah's corporate income tax less punitive and more competitive. Utah 2.0 also calls for more precision investment of current tax dollars spent on higher education to ensure we spending tax dollars on the training and degrees Utah employers need. Utah 2.0 explained more fully elsewhere in this newsletter.

You can view Dr. Schaefer's full presentation here.

Broad Questions For Policymakers

- Is government making the right public investments in capital?
- Is government encouraging the right private investments in capital?
- Is government making the right public investments in human capital?
- Is government encouraging the right private investments in human capital?

Utah 2.0 - Ensuring Utah's Economic Viability

(cont. from page 1) In the years following that, Utah's manufacturing gross domestic product (GDP) grew faster and stronger than surrounding states, and much more than it had in years past.

The 1995 legislation was a good start in making Utah more attractive to manufacturing businesses, and it had a direct correlation in economic development in the state.

However, the Utah Legislature needs to finish the job. From a tax policy standpoint, this is an entirely unfair solution to some companies, by creating a sales tax penalty for some businesses, while excluding others.

Take the hypothetical example of two companies (competitors) that produce an identical output of drive shafts for vehicles.

Company A has a singular, 8-hour shift. Company B has two shifts, with the employees and equipment running twice as long.

Company B, while making the exact same drive shaft as Company A, will go through its equipment and inputs two times faster, but are producing more. Why do we have policies to punish businesses who are producing more, higher-valued outputs?

Our second initiative is to make Utah's corporate income tax more competitive by allowing all industries the opportunity to elect for a single sales factor. Bear with us, this one takes a bit of an explanation, but it'll be well worth it.

As it stands now in Utah code, some industries corporate income is calculated based on three factors: property, payroll (employees), and sales in

Utah.

Right now, some industries are allowed the option to calculate their corporate income tax based only on the sales made within the state. However, this does not apply to everyone.

Just like the manufacturing input exemption, some are excluded, including mining, and informational systems (IT), and finance. It's this inequity in the tax code that needs to be addressed immediately.

Utah has always been a leader in creating sound economic policy that businesses and organizations of all sizes flock to. But as other states learn from Utah's example by providing single sales factor for all industries, including California, Colorado, and Texas, Utah looks less and less attractive to businesses.

Third, Utah needs to ensure that we have the properly trained workforce to continue attracting businesses that have jobs ready to be filled.

Some estimates have placed the number of unfilled STEM jobs in Utah at 10,000.

In a legislative policy summit held late in 2015, a University of Utah professor gave a presentation on investing in Utah's workforce, and how that ties to increasing economic outputs and gross domestic product. (If you'd like to read more, read this month's My Corner on page 2).

In order to keep our current students employed and to keep Utah as a strong state to do business, it is *vital* for students to understand the earned income potential for degrees and the workforce need in the state to help them make more

informed occupational and educational decisions.

We've [attached a chart](#) showing average salaries for students who study a certain degree in college.

Finally, Utah, and the nation needs to have the ability to create an equity for sales tax.

Discussion has been swirling around the issue for years, and it's time for policymakers at all levels to act.

In its most simple terms, this is again about creating a fair, equitable solutions to businesses and retailers all over the nation.

Interestingly, Utah requires that all taxpayers disclose online purchases made when they file their state taxes, in order to remit sales tax that they might not have paid. This past fiscal year, only \$200,000 was collected.

That figure might seem like a lot, but fiscal analysts estimate that number should be closer to \$180-190 million annually.

While self-reporting of online purchases is low in the state, your Taxpayers Association wants to ensure that lawmakers are to collect online sales tax, it *must* be revenue neutral. As an organization representing taxpayers, we do not want to see a windfall for governments as this tax is collected. It needs to be associated with a drop in the overall

sales tax, holding to the principle of broadening the base, and lowering the rate.

Another hurdle that the Association is working with legislators to solve is compliance costs. Let's take a small, online retailer averaging \$2,500 in profits annually that sells across the nation. How is that small business supposed to account for the hundreds of tax entities across the nation?

Complying with sales tax from governments would drive the small retailer right out of business.

It is compulsory that we keep smaller retailers in mind as we move forward, so as to not shut out thousands of businesses working their way up.

There you have it, Utah 2.0. Pretty cool. This initiative takes an all-encompassing look at the issues facing Utah businesses and individuals today, found the solutions, and will push Utah back to being a fair, strong business climate and continue to outpace all other states in nation when it comes to economic and job growth.

Would you like to learn more or get involved in our Utah 2.0 initiative? Give us a call or email billy@utahtaxpayers.org for more information.

You're going to be hearing a lot about this throughout the legislative session and 2016, so keep an eye out for more information and our progress.

Board of Directors Elected at Annual Member Meeting

Utah Taxpayers Association Chairman Mike Edmonds has been elected to serve as chair of the Association's Board of Directors for an additional year.

In November, the Association held its Annual Membership Meeting, approving Edmonds for another term in a unanimous vote of the Board of Directors. Edmonds was first elected to the position in November of 2014.

Edmonds, of US Magnesium, was named to the Utah Taxpayers Association's Board of Directors in 2009. He has previously served on the Association's Executive Committee as the Association's Treasurer.

He is a certified public accountant with



Utah Taxpayers
Association Chairman
Mike Edmonds

experience at PricewaterhouseCoopers. Prior to joining US Magnesium, Mr. Edmonds held several positions at Rio Tinto, including accounting positions and General Manager of their shared services offices in Salt Lake City. He has been with US Magnesium for 7½ years and is currently their Chief Financial and Administrative Officer.

Vice Chair Kent Stanger will was also re-elected to his respective position. Treasurer Brice Arave will also remain in his post for an additional year, as will Val Hafen who serves on the Executive Committee as an at-large member.

Keith Pitchford was elected as the Legislative Chair, replacing Morris Jackson.

Bobby Rolston was selected to serve as the Board's secretary replacing Eric Isom, who stepped down from the Board.

In other changes, Jim Hewlett has retired from the Board of Directors. He was serving as the immediate past chair. Others who are also leaving the Board

include Bob Fredricks and Kathryn Hymas.

The Taxpayers Association also welcomed Randy Robison of CenturyLink, Jayson Branch of Rocky Mountain Power, Tim Ross of Questar, Jo Ellen K. Stock of Union Pacific, and Dan Eldredge of Intermountain Power Agency as new Board members.

The Association is excited to welcome the newest

members of the Board and the new Executive Committee appointments and looks forward to relying on their expertise and direction.

The Taxpayers Association would like to thank retiring members of the Board for their years of service.

Salt Lake County approves \$9.4 million tax hike

Salt Lake County's property owners will not see a promised decrease in their taxes thanks to members of the Salt Lake County Council.

In December, the nine member Council voted 6-3 to raise property taxes to match the current property tax levy, which was expected to be lowered as a 20-year bond was scheduled to expire at the end of 2015.

Instead of giving property owners the tax break that should have come from the bond being retired, the majority of the Council decided to increase property taxes by \$9.4 million. The increase will amount to \$2.28 on a \$273,000 home. Had the increase not been put in place, a property owner of a \$273,000 home would have seen an \$18 annual decrease on their tax bill.

It took the Council two weeks to finalize the decision. The Council appeared that it might readjust the budget to lower the tax increase after Council members voted to delay their decision by one week during its budget hearing. During the hearing, property owners filled the Council's chambers demanding they abandon the increase. Unfortunately, one week later the Council adopted the budget with minor changes.

Republican Council members Steve DeBry and Amie

Winder Newton joined with the Democrats on the Council in supporting the tax increase. The Democrats include Jenny Wilson, Jim Bradley, Arlyn Bradshaw and Sam Granato.

Council Chairman Richard Snelgrove, a Republican, was the loudest opponent of the tax increase. Throughout the budget process, Snelgrove asked the Council members to not raise taxes. Snelgrove was also active in countering the argument that some Council members used in justifying the tax increase as they said it was a continuation of a tax and not an increase. Snelgrove consistently reminded the Council that the proposal was an increase. Council members Michael Jensen and Max Burdick joined Snelgrove in voting against the hike.

Your Taxpayers Association appreciates Council members Snelgrove, Jensen and Burdick for their courage to stand up for taxpayers and vote against this property tax increase.

Salt Lake County intends on using a large portion of the new tax revenue on criminal justice-related projects, which are still yet to be fully unveiled.

Pre-Legislative Conference a Success, Other Conferences to be Held Later this Year

On Monday, January 11 at the Little America hotel in Salt Lake City, your Taxpayers Association held its annual Pre-Legislative Conference.

The agenda was jam-packed with the state's leading legislators and policy makers discussing the top tax issues that will be discussed in the 2016 Session. Topics that were covered during the Conference include changes to the corporate

income tax, removing the taxation of business inputs, how to create equity in the sales tax between online out of state retailers and our local retailers, and removing earmarks from the state's general fund.

Speakers included President Wayne Niederhauser, Revenue and Taxation Interim Committee chairs Sen. Deidre Henderson and



Rep. Dan McCay, and Sen. Curt Bramble, who also is the chair of the National Conference of State Legislatures, spoke on efforts to create a sales tax

equity, both within the state and nationwide.

The conference was also the official unveiling of our Utah 2.0 initiative, which seeks to create a much healthier climate for businesses, industries, and

organizations of all shapes and sizes.

Look for a more detailed recap in February's edition of the Utah Taxpayer.

2016 Elected Officials Tax Boot Camp

The Utah Taxpayers Association will be hosting municipal officials from across the state to give these elected officers a crash course in Utah tax policy and how best to create policies that do not infringe upon the freedoms of the taxpayer.

We're still setting the agenda and the date, so stay tuned for updates on this must-attend conference.

2016 Legislative Committee Meetings

Every Thursday morning during the 2016 Legislative Session from 7:00 AM to 8:00 AM in the East Senate Building, Beehive Room.

These weekly meetings, held by the Utah Taxpayers Association during the legislative session, are an opportunity to be updated on the progress of key bills moving through the legislature. Each week Association staff will present an updated legislative "watch list" and will take questions and advice from Association members on the progress of key legislation. All Association members are welcome to participate at any time. For more information, or to indicate your intention to attend, contact Spencer at 801-972-8814 or spencer@utahtaxpayers.org.

Association Accomplishments During December:

- ❖ Completed our Year In Review, Action & Results Publication, view [here](#)
- ❖ Spoke against a tax increase in Salt Lake County
- ❖ Planned our Pre-Legislative Conference
- ❖ Met with legislators and other policymakers to unveil Utah 2.0.

In the News:

- ❖ Comment on Governor Herbert's proposed budget:
 - [KUER](#)
- ❖ Fighting against Salt Lake County's \$9.4 million property tax increase:
 - [Deseret News](#)
 - [Salt Lake Tribune](#)

What Did We Do For You In 2015?
Read our [*2015 Actions and Results*](#) report!