



THE UTAH TAXPAYER

A PUBLICATION OF THE UTAH TAXPAYERS ASSOCIATION

Victories, Progress Made During the 2016 Legislative Session

Taxpayers fared very well during the 2016 Legislative Session, considering the major tax increases levied in 2015. Your Taxpayers Association was successful in ensuring that key pieces of legislation passed that promote fiscal responsibility and increase transparency. Your Taxpayers Association also prevented the passage of bills that would have increased the tax burden on Utahns.

These potential tax increases include SB 104, sponsored by Sen. Jim Dabakis (D - Salt Lake City) which would have created a progressive structure on the individual income tax. This increase could have cost individuals a total of **\$178 million** in 2018.

Additionally, a bill sponsored by Rep. Raymond Ward (R - Bountiful), HB 153, would have cost taxpayers another **\$42 million** in fiscal year 2018. This legislation would modify the calculation of the certified property tax rate by including an adjustment for inflation. This increase would directly threaten Utah's Truth-in-Taxation law by causing automatic tax increases without any accountability.

Neither of these bills passed the Legislature, due to the efforts of your Taxpayers Association and our partners. In fact, they never made it out of committee.

Utah 2.0

The Association's major legislative initiative, Utah 2.0, had success beyond what most thought *(continued on page 3)*

Save the Date for the Taxes Now Conference and "Teed Off On Taxes" Golf Tournament

The Utah Taxes Now Conference is on **Monday, May 16, 2016** at the Grand America Hotel, beginning at 8 am. You can keep updated on the speakers for this event at www.utahtaxpayers.org.

Next, "Teed Off On Taxes" Golf Tournament on **Thursday, June 9, 2016** at the Eaglewood Golf Course in North Salt Lake. Sponsorship opportunities are available.

Space is limited at both of these events. Contact Teresa Urie at Teresa@utahtaxpayers.org, or by calling (801) 972-8814 for more details.

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My Corner: New Item on Property Tax Notice Does Not Impose New Taxes

Taxpayers will see an additional line item on their property tax notices this year but that does not mean there is a new tax being levied.

That new item on the property tax notice represents the work of

Utah's Legislature on Senate Bill 38. The bill brought greater equity in funding for Utah's students as it increased the amount of state money appropriated to charter schools by \$20 million. The bill also added an increased amount of transparency to the property tax notice as it will now show how much of a property owner's taxes are going towards their local school district and the share of taxes going to fund students who live in the district but attend a charter school.

In the past, the notice has not shown taxpayers how much of their property tax went towards charter schools as the notices usually showed line items for their local district and the basic statewide levy. Thanks to Senate Bill 38, a new line item will be introduced to show the portion that the charters will receive.

How this will occur is that the current line item for the school district will now subtract the portion of the taxes collected for charters to show how much of the property tax is going to the local district. The next line will then show the subtracted amount for charters to show how much of the tax is going to charter schools. If a taxpayer adds the two numbers together, they will find that the combined tax rate is the same as it has been prior unless the district is raising its tax this year.

At the risk of over explaining it I'll try it one more way. The taxes collected for public education in Utah will still occur the same way and at the same amounts. What Senate Bill 38 is changing is an explanation of how much of their tax goes to the district school and how much goes towards charter schools.

Charter schools will still have no taxing authority under this bill but will receive additional funding from the state to go towards closing the gap of funding between charter students and students

attending local district schools. This money is coming from growth in state income taxes, not from tax rate increase. This is a step in the right direction as it ensures that all Utah students attending a public school are receiving adequate funding and also further ensures that Utah students have a choice in where and how they receive their education.

While much of this is positive for taxpayers and Utah's students, there is one caution that comes with this bill.

As this new line item on the property tax notice is handled, some local school districts may seek to increase their own taxes in the future and justify the hike by claiming the districts are losing money to the charter

schools. To prevent this from immediately happening the legislature

included a provision in SB 38 that prevents school districts from raising taxes this year unless they made their intentions to increase taxes known by March 4.

However, that does not mean that in the years to come the district schools will not seek to ask taxpayers for additional money citing the amount given to charters as the reason. That argument should be dismissed immediately. Taxpayers are paying to ensure all Utah students have the best education possible. If a student chooses to attend one school over another that should not sound the alarm for higher taxes. Instead, that should send a signal to the school losing the student that it is time to improve and find a way to be more attractive to that student.

We expect Utah's students will be the greatest benefactors from this legislation as it makes great efforts to ensure that every Utah student has an opportunity for a great education in Utah. The Taxpayer will also benefit, as they will have the opportunity to better understand how their dollars are helping Utah students succeed.

Property tax notice will now show taxes for charter schools

2016 Legislative Session Recap

(continued from page 1) was achievable in one year.

While Utah 2.0 was set up and continues to be a multi-year approach to continuing Utah's economic viability and competitiveness, taxpayers should be pleased with what has been accomplished.

HB 61, sponsored by Rep. John Knotwell (R - Herriman), expands the NAICS codes that are allowable for electable single sales factor. If you'll recall from our March newsletter, single sales factor is a calculation for the corporate franchise tax, which allows businesses to exclusively be taxed on their sales made within the state.

This option is available to some industries, but not others. Your Taxpayers Association, through Utah 2.0, is committed to ending this inequity and will fight for this over the coming years.

The second component of Utah 2.0 is similar to the inequity that exists in the corporate franchise tax. Currently there is a sales tax penalty for some inputs used for manufacturing. If a piece of equipment lasts longer than three years, it is exempt from sales tax. If its useful life is shorter than three years, the purchaser is required to pay sales tax, creating a double taxation for some businesses.

Your Taxpayers Association stands behind the principle that only outputs should be taxed, which is where HB 180, sponsored by Rep. Brad Wilson (R - Kaysville), comes in. This bill would have removed the sales tax penalty on inputs creating a more equal playing field.

While this bill did not make it through the full Legislature due to questions about short-term funding, taxpayers should be encouraged by the progress it made.

In 2015 a similar bill, sponsored by Sen. Stuart Adams (R - Layton), passed through the Senate, but did not make it through the House. This year, the opposite occurred. As the Association met with legislators in both bodies, a majority are supportive of the policy. We expect to see this again next year with a plan to handle the fiscal note.

Utah 2.0 is not simply about creating better tax equity for taxpayers, but a higher view of how to stimulate economic growth and keep our competitive edge. This includes how our children

are educated and prepared for the future. SB 103, sponsored by Sen. Ann Millner (R - Ogden), establishes a process for investing strategically in workforce development through the use of stackable credentials.

Remote Sales

One of the most hotly contested issues during the Session was taxation of remote sales, which are sales made at a non-traditional store, located outside of the state. These can include purchases made online, by mail-order, or by telephone, among others.

As a quick reminder, in order to be taxed by a governmental entity, a company must have some form of presence within that entity, in our case, the state of Utah. Out-of-state, or remote, sellers cannot be taxed under law.

Currently, any taxpayer that makes a remote purchase is required to remit the amount of sales taxes to the Tax Commission when filing their taxes each year. That amount is calculated and then distributed accordingly between different governmental entities, as it would be if that person were to make a purchase at a local brick-and-mortar store.

However, few taxpayers are aware or remit and inform these remote purchases to the Tax Commission. In fact, state fiscal analysts estimate that the amount that should be collected from remote sales ranged between \$150 - 200 million annually. In 2014, only \$200,000 was collected.

There's the history. What did the Legislature try to do about it? Members of both bodies sponsored different pieces of legislation that would had varying degrees of affecting how this sales tax on remote purchases could be collected.

One of these bills, HB 235, sponsored by Rep. Mike McKell (R - Spanish Fork), would have created a nexus for some remote sellers in the state, as well as adjusted the sales tax rate to prevent an extraordinary amount of revenue received by the government (broaden the base, lower the rate). HB 235 would also have given small businesses, and even individual sellers and buyers, exemptions due to the possibility of

higher compliance costs based on a revenue threshold.

The main goal for most of these remote sales related bills would be to create a physical presence for sellers outside the state. This physical presence is otherwise known as nexus. HB 235 would have created a link between remote sellers and the state by taxing what is known as an “affiliate nexus”.

HB 235 did pass through the House Revenue and Taxation Committee, but did not receive a vote on the House floor. Expect a lot more about this issue in the coming months.

Funding Infrastructure

In other hotly debated issues, the debate for water and transportation infrastructure raged on during the 2016 Session.

SB 80, sponsored by Sen. Stuart Adams (R - Layton) originally moved three sales tax earmarks that funded transportation projects into a fund that would begin collecting money for water infrastructure projects.

The bill was later amended to remove two earmarks altogether, moving the revenue into the General Fund, but still moved one earmark to the water infrastructure fund. It also adds a provision that before the money is spent, data must be collected on infrastructure projects and a timeline from the State Water Development Commission.

Your Taxpayers Association is deeply concerned over this legislation, as just one year ago, transportation advocates claimed that without an increase in revenue, many road infrastructure and maintenance projects would go unfunded, leading to increased traffic and difficulty moving around the state. With money being driven away from transportation which claimed to have been in such dire straits a year ago, SB 80 takes a step in creating the contingency for another tax hike for transportation funding.

Prison Sales Tax Option

SB 180, sponsored by Sen. Lyle Hillyard (R - Logan), one of the chief architects of Utah’s budget,

looked to eliminate a 0.5% local option sales tax for Salt Lake City as part of the package for being chosen to host the new state prison. SB 180 passed the Senate Revenue and Taxation Committee unanimously just the week before the full vote on the Senate floor, but was defeated by a narrow vote of 13-15.

Your Taxpayers Association is working with Sen. Hillyard and other interests to bring the bill back in the 2017 Legislative Session to ensure this possible tax increase is defeated.

Improving Truth in Taxation

But it wasn’t all bad news. Taxpayers got another victory in the passage of SB 120 on the final night of the 2016 Session. This bill makes a minor change that will have a major impact on taxpayers all across the state in the future.

Simply, this bill removes the debt service, or bonds, from total collected tax revenue in a year for a governmental entity. What does this mean? It strengthens Utah’s Truth in Taxation laws, as well as transparency for future tax increases.

Here’s an example in practice. Before SB 120, if a bond for a new public building is set to expire at the end of a year and the elected officials decide to raise taxes by the exact amount the annual bond payment, they could escape accountability by not calling it a tax increase, since the amount of revenue never changed. Therefore, the entity would not be subject to the exact same measures and requirements of Truth in Taxation.

Because of SB 120, that bond payment is not considered part of the revenue. If this same circumstance were to happen this year, the entity and its officials would have to acknowledge the tax increase and be applied the same Truth in Taxation laws as any other time they wished to raise revenue.

Your Taxpayers Association continues to work with the bills that didn’t make it all the way, so we can lead the charge for taxpayers throughout the 2017 Session.

Legislative Scorecard Released and “Friend of the Taxpayer” Recipients Named

The Utah Taxpayers Association released its annual 2016 Legislative Scorecard recently. The Association’s Scorecard rated Utah’s 104 legislators on 17 taxpayer related bills, including major

funding sources for state projects.

Reps. Justin Fawson, Dan McCay, Fred Cox, Sophia Dicaro, Steve Eliason, and Kraig Powell all received 100% by voting in line with Association

positions on key bills.

In the Senate, only two senators scored as high. Sens. Lincoln Fillmore and Howard Stephenson received a perfect score from the Association.

Legislators scoring 90% or higher receive the “Friend of the Taxpayer” distinction. In the Senate, 14 members received that honor, including 3 Democrats. In the House, 28 members received the award, none of which included Democrats.

“Following the major tax increases levied in 2015, we are pleased to see a year in which so many legislators stood up for the taxpayer,” said Billy Hesterman, vice president of the Utah Taxpayers Association. “We hope the public takes note of the legislators that held true to sound tax policy and not increasing the burden on all taxpayers.”

The full Scorecard is available by clicking here, or you can view it Scorecard on our website, www.utahtaxpayers.org.

2016 Friends of the Taxpayer

House of Representatives:

Fred Cox – 100%	Sophia Dicaro – 100%
Steve Eliason – 100%	Justin Fawson – 100%
Dan McCay – 100%	Kraig Powell – 100%
Gage Froerer – 94.1%	Craig Hall – 94.1%
Tim Hawkes – 94.1%	John Knotwell – 94.1%
Brad Last – 94.1%	David Lifferth – 94.1%
Jeremy Peterson – 94.1%	Val Peterson – 94.1%
Marc Roberts – 94.1%	Mike Schultz – 94.1%
Robert Spendlove – 94.1 %	Earl Tanner – 94.1%
Norm Thurston – 94.1%	Ray Ward – 94.1%
Brad Daw – 93.7%	Brian Greene – 93.7%
Stephen Handy – 93.7%	Derrin Owens – 93.7%
Jon Stanard – 93.7%	Rebecca Edwards – 93.3%
Dean Sanpei – 93.3%	Brad Wilson – 92.3%

Senate:

Lincoln Fillmore – 100%	Howard Stephenson - 100%
Luz Escamilla – 94.1%	Wayne Harper – 94.1%
Deidre Henderson – 94.1%	Al Jackson – 94.1%
Karen Mayne – 94.1%	Brian Shiozawa – 94.1%
Scott Jenkins – 93.7%	Ann Millner – 93.7%
Dan Thatcher – 93.7%	Jim Dabakis – 93.3%
Todd Weiler – 93.3%	Lyle Hillyard – 92.8%

Tax Day and Your Income Taxes: A Brief Description

April 18th, 2016, Tax Day.

Typically, Tax Day falls on April 15. But this year, due to a holiday on Friday, April 15th in Washington, D.C., combined with the weekend, you get an extra three days to file.

Alright, now that you’ve had a minute to shake off that negativity, let’s delve into what you’re actually paying, which are your income taxes.

What is it? Income taxes are the taxes paid from any income that is made by an individual over the course of a year. In many circumstances, income taxes are taken directly from a person’s paycheck.

Income taxes are collected by both state and federal government. Some states, like our neighbor Nevada, do not have an income tax. Neither does Wyoming. In fact, 7 states across the country to not collect any income taxes. However, the citizens of these states still pay *federal* income taxes.

How much do I pay? The income tax rate multiplied by the tax base determines how much taxes are owed. Utah’s income tax rate has been

adjusted several times over the years. The current rate is just 5%, which applies to everyone.

Nationally, that’s pretty rare. In fact, only 8 of the 50 states have a single income tax rate.

By contrast, California and Missouri have 10 rates for income taxpayers.

Take a look at the map on the next page, which details the highest income tax rate for each state. All of our neighboring states, with the exception of Idaho, have lower income tax rates than Utah.

Federal income taxes are more complicated than Utah’s simple 5% rate. Each year, the IRS uses the Consumer Price Index (CPI) to calculate the past year’s inflation and adjusts income thresholds, deduction amounts, and credit values accordingly. This adjustment prevents something known as “bracket creep”. Essentially, bracket creep is movement into a higher tax bracket as taxable income increases, due to inflation.

For estimated tax rates for 2016, take a look at the table on the following page from the Tax Foundation of Washington, D.C. The rates range from 10% to 39.6%! That’s a lot of variation. These

income brackets are estimated for the income taxes filed in 2017. The IRS has yet to released the official brackets.

How much are we paying? In Utah, your state income taxes are used to fund our public education and higher education systems. In 2015, over \$2.5 billion in income taxes were collected by the state.

Compare that to the amount Utah taxpayers paid to the federal government. The amount Utahns paid in federal income taxes was closer to \$18.1 billion in 2015. That’s approximately \$6,000 per person in the state of Utah. Strong fiscal prudence goes a long way, doesn’t it?

Nationwide, state income taxes account for 27% of all taxes paid. But how about the remaining taxes you have to pay, such as property and sales taxes.

Each year, tax wonks like us look forward to (or

complain) about Tax Freedom Day. Tax Freedom Day is the day when the nation as a whole has earned enough money to pay its total tax bill for the year. This includes taxes at all levels.

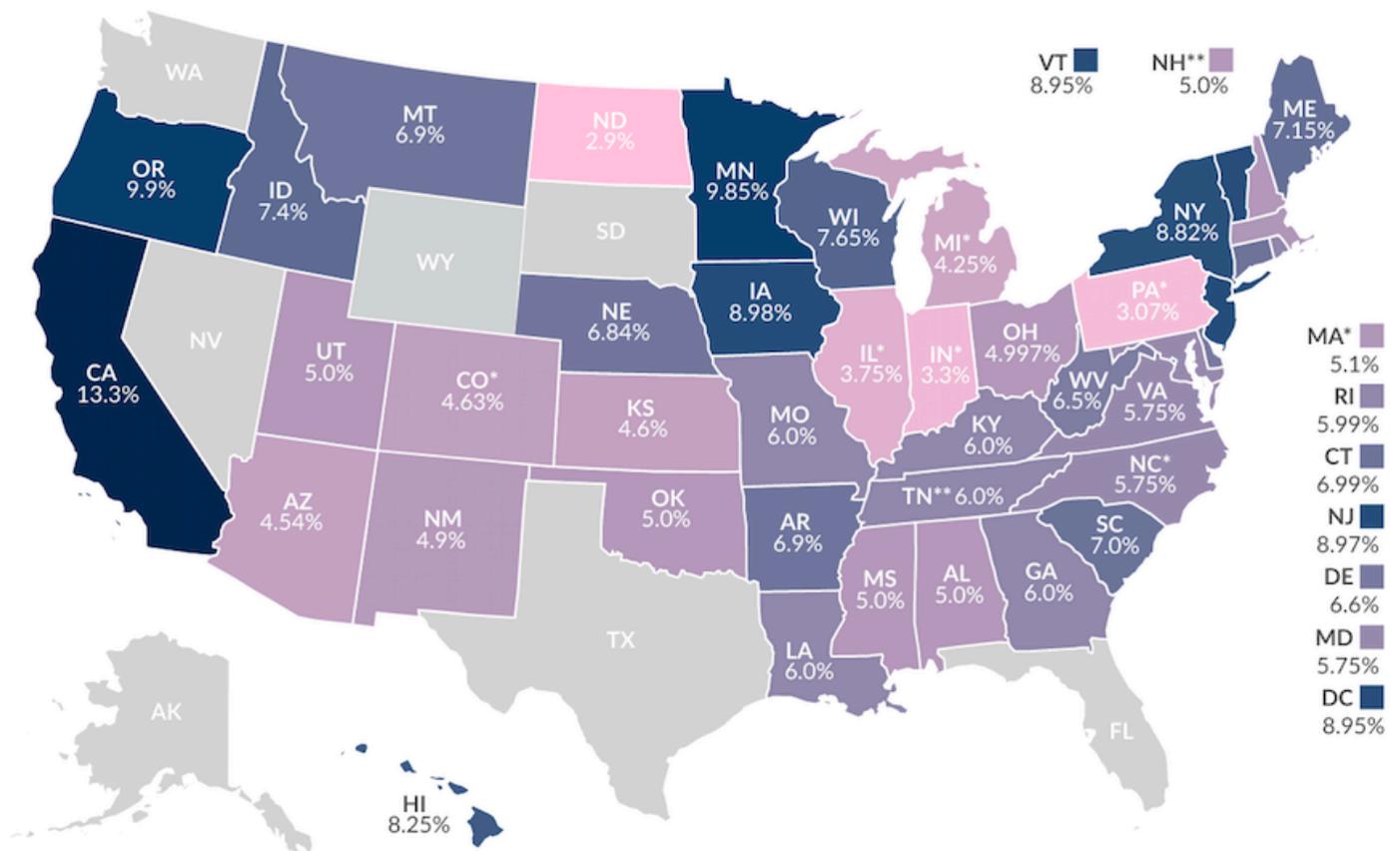
Some of these statistics are staggering. In total, Americans will pay nearly **\$5 trillion** in taxes at all levels. That’s more than we pay for food, clothing, and housing combined.

Nationwide, Tax Freedom Day falls on April 24th. In Utah, Tax Freedom Day comes a few days earlier, on April 21st, which is still far too late in the year.

Rest assured, Utah is far from the worst. Connecticut, ranked last in the nation, celebrates Tax Freedom Day on May 21st.

The Tax Foundation, from where this data is collected, states that nationwide, on average, it

Top State Marginal Individual Income Tax Rates, 2016



Note: (*) State has a flat income tax. (**) State also only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. It is not an effective marginal tax rate, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included. Source: State tax forms and instructions.



takes 46 days to earn enough money to pay off the individual income tax.

Don't some people receive tax credits? At both the state and federal level, some exemptions are allowed for certain income earners or purchases and donations made throughout a taxable year. For example, Utah allows for income tax exemptions if you donated to a nonprofit organization, bought a clean energy vehicle, or even if you have children. You can find out more about these at the Tax Commission's website.

Where can I find helpful resources? For those of you that may not have filed quite yet, there are some great, free resources on the Utah State Tax Commission's website. We'll link you over.

Table 1. 2016 Taxable Income Brackets and Rates (Estimate)

Rate	Single Filers	Married Joint Filers	Head of Household Filers
10%	\$0 to \$9,275	\$0 to \$18,550	\$0 to \$13,250
15%	\$9,275 to \$37,650	\$18,550 to \$75,300	\$13,250 to \$50,400
25%	\$37,650 to \$91,150	\$75,300 to \$151,900	\$50,400 to \$130,150
28%	\$91,150 to \$190,150	\$151,900 to \$231,450	\$130,150 to \$210,800
33%	\$190,150 to \$413,350	\$231,450 to \$413,350	\$210,800 to \$413,350
35%	\$413,350 to \$415,050	\$413,350 to \$466,950	\$413,350 to \$441,000
39.6%	\$415,050+	\$466,950+	\$441,000+

You can also learn more about changes across the country in 2015 regarding income taxes and the Tax Freedom Day on the Tax Foundation's website.

Senate Rejects Removing Local Option Sales Tax For Salt Lake City as Location of New State Prison

In the final two weeks of the 2016 Legislative Session, the Utah Senate failed to repeal the prison sales tax.

SB 180, sponsored by Sen. Lyle Hillyard (R - Logan), one of the chief architects of Utah's budget, looked to eliminate a 0.5% local option sales tax for Salt Lake City for being chosen to host the new state prison.



Sen. Lyle Hillyard

Let's take this bill and add some context to see why this option is atrocious for taxpayers all across the city and the state.

As recently as February of this year, a representative from Salt Lake City said there was no plan to move forward with the tax increase at this time, but wanted it kept in the "toolbox" for the future.

Prior to this, during several debates in the 2015 Salt Lake City mayoral race, both former mayor Ralph Becker and current mayor Jackie Biskupski both took an even stronger stance by saying there were no plans to use this option.

Sen. Hillyard, sponsor of SB 180, calls this local option sales tax a "loaded gun", and the Association could not agree more. If the desire is

not there from Salt Lake City's leaders to pursue it at this time, it should not be given as an open-ended option to fund government on the backs of both city residents and commuters alike.

Salt Lake City already has one of the highest sales tax rates in the state with a rate of 6.85%. If Salt Lake City opted to use the entirety of the local option sales tax, the rate would jump to an astonishing 7.35%, punishing families of all sizes and socioeconomic status.

In 2015, then-mayor Becker argued that the sales tax option may be needed due to defray the costs of services from the number of commuters that travel to the capital city for work, and then return to their homes elsewhere in the valley. However,



Former Salt Lake City Mayor Ralph Becker and current Mayor Jackie Biskupski debate in 2015. (Photo credit: Tom Detrich - Salt Lake Tribune)

this principle is inherently wrong by placing the cost burden on taxpayers that are less likely to use more city services as its full-time residents.

Sen. Luz Escamilla (D - Salt Lake City) represents the west side of the city, including the new prison site, told the Salt Lake Tribune in 2015 that she believes that the prison location determination and the sales tax option should have been separated. Despite taking this position, she voted against SB 180 and removing the option for the tax increase.

SB 180 passed the Senate Revenue and Taxation Committee unanimously just the week before the full vote on the Senate floor, but was defeated by a narrow vote of 13-15.

Senators opposed to removing the sales tax option argued that taking away this potential revenue source would be going back on a promise that the Legislature made in 2015 to allow the city that had the new prison placed in it to receive the option to raise the sales tax.

However, when the Legislature first passed the local option sales tax in association with the prison, there had not been a city picked to host the new prison site. The only promise made in 2015 was that taxpayers in the city that received the prison would

one day see a tax hike. That sounds like a deal that needs to be reconsidered.

That is exactly what Hillyard was attempting to do. Unfortunately the Senate thought otherwise and rejected the proposal.

The lobbying efforts from the Salt Lake City Mayor's office and some other special interests appeared to be the difference as to why the bill was torpedoed. Some lawmakers lost sight of the families and businesses in the state and sought to protect revenue for the government.

Additionally, the entire state (its taxpayers) are footing the bill for the prison and is not asking the city to directly shoulder any of the costs. This is simply a case of government showing how it has a spending problem.

Your Taxpayers Association is working with Sen. Hillyard and other interests to bring the bill back in the 2017 Legislative Session to ensure this possible tax increase is defeated. The Association stands to represent and remind lawmakers that they are tasked with keeping taxpayers and their hard-earned dollars in mind as they create policy. Expect to hear much more about this in the coming year.

Association Accomplishments During March:

- ❖ Successfully lobbied the 2016 Utah Legislature for lower taxes and better tax policy.
- ❖ Met weekly with House and Senate leadership to discuss legislative issues with other members of the Utah Business Coalition.
- ❖ Defeated bills that would have increased taxes and/or implemented poor tax policy, including measures on double-dipping for retired state employees.
- ❖ Advocated for legislation to improve Utah's tax climate and economic outcomes through the legislative initiative, Utah 2.0.

In the News:

- ❖ Comment on SB 244
 - [Salt Lake Tribune](#)

