



# THE UTAH TAXPAYER

A PUBLICATION OF THE UTAH TAXPAYERS ASSOCIATION

## Utah's Capital City Looks at Transportation Fees

Over the past several years, some Utah cities have found ways to avoid Utah's Truth in Taxation through the creation of fees to cover budget shortfalls. Using covert budget tactics, elected officials and city managers have bolstered their general funds by implementing fees, which are not subject to the same disclosure, notification, and transparency laws as are property taxes.

Provo City led the way in the creation of a utility fee for transportation back in 2013. The city claimed it needed \$4 million annually to maintain its roads, but rather than working through the Truth in Taxation process, which could have provided the funding, Provo's elected officials opted to place a utility fee on everyone.

Provo began collecting the fee in FY 2014, and anticipates to collect \$2.3 million from the fee annually, far less than they said was needed in 2013. Compare that amount to the revenue collected from property taxes collected in Provo. In FY 2017, Provo anticipates collecting \$8.3 million in property taxes, whereas the total amount of fees Provo collects is more than \$19.6 million.

You may ask yourself what the difference is, considering that additional money is being collected by the government. Your Taxpayers Association *(continued on page 3)*

### Join Us Taxes Now Conference and "Teed Off on Taxes" Golf Tournament

The Utah Taxes Now Conference is scheduled **Thursday, May 18th, 2017** at the Grand America Hotel, beginning at 8 am. See the agenda, and register for the conference at [www.utahtaxpayers.org](http://www.utahtaxpayers.org).

Next, the "Teed Off On Taxes" Golf Tournament on **Thursday, June 8, 2017** at the Eaglewood Golf Course in North Salt Lake. Sponsorship opportunities are available.

**Space is limited at both of these events.**

Contact Bren Robinson at [bren@utahtaxpayers.org](mailto:bren@utahtaxpayers.org), click here to [register](#), or call (801) 972-8814 to reserve your spot!

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# My Corner: State and Federal Tax Reforms Will Boost Prosperity – Don't Miss Taxes Now Conference



Association President  
Howard Stephenson

I don't mean to count chickens before hatching time, but in 40 years at the Utah Taxpayers Association I have seldom seen a brighter outlook for meaningful tax reforms at either the state or federal levels than I do now.

That's why this year's 39<sup>th</sup> Annual Utah Taxes Now Conference is perhaps the most meaningful ever. We

have the most important players in both the state and federal tax reform process speaking and setting the stage for what is to come this year.

### State Tax Reform

The most positive tax reforms at the state level were the Utah tax cuts of 1995 and 1996 when the Utah Legislature removed sales taxes from manufacturing machinery and replacement parts and cut the statewide basic school property tax rate in half. Ten years later these were followed by the tax reforms of 2006 and 2007, broadening the income tax base and dropping the nominal rate from 7% to 5% and cutting the state portion of the sales tax on food by 3%.

These tax cuts were undoubtedly a major part of Utah's designation as the best place to do business and the state with the best economic outlook ten years running. But our first place ranking is somewhat like

being the tallest building in Tooele if graduates cannot get the jobs to support their families and employers cannot get the skilled workers they require to thrive in the Beehive State.

Lead by Senate President Wayne Niederhauser and Speaker of the House

Greg Hughes, the Utah Legislature has undertaken a year long process to propose reforms to Utah's tax

system with the intent of ensuring our economy is on sound footing to expand into the future and grow quality jobs and family income.

As I see it, two of the most important reforms under consideration are to eliminate the remaining three year life sales tax penalty on manufacturing and to severely reduce the corporate income tax burden through the single sales factor which will greatly entice businesses to expand and locate in Utah.

### Federal Tax Reform

In August 1981, President Ronald Reagan signed the Economic Recovery Tax Act of 1981, cutting individual income tax rates. Later, the Tax Reform Act of 1986 brought the lowest individual and corporate

income tax rates of any major industrialized country in the world. (That has since changed.)

The Reagan federal tax reforms of the 1980s were

the most significant boost to national economic growth since the Kennedy tax cuts in the 1960s, spurring the greatest peacetime economic growth in American history.

Total tax revenues literally doubled during the 1980s, and the results are even more impressive when looking at what happened to personal income tax revenues. Once the economy received an unambiguous tax cut in January 1983, income tax

revenues climbed dramatically, increasing by more than 54 percent by 1989 (28 percent after adjusting for inflation).

This year President Trump has proposed tax reforms which will take America to its next great economic expansion. A single element of the reform, that of dropping the corporate income tax from

35% to 15% will entice business activity which had fled the United States to return.

**"It is a paradoxical truth that tax rates are too high today and tax revenues are too low and the soundest way to raise the revenues in the long run is to cut the rates now." - President John F. Kennedy**

**"If Mother Nature had a political party – lets call it the 'making the Future Work for Everybody; party – . . . To provide sufficient revenue . . . she would . . . eliminate entirely America's corporate income tax, now 35 percent, the highest in the world." - Thomas Friedman, *Thank You For Being Late***

### Why Business Tax Cuts?

Utah citizens and American taxpayers must understand that business taxes are an economic fiction. They are a tool by politicians to hide the true cost of government from the citizens who ultimately pay those taxes through higher prices, lower profits and lower wages of the workers in those companies. Business taxes also push those companies to locate in parts of the nation and the world with lower taxes.

It is a common economic axiom that capital is a coward: it locates where it is least threatened. The

United States for most of its history has been a place where rule of law and patent rights have made it a haven for capital investment in business. That's why the U.S. has gotten away with confiscatory taxes on businesses: Protection from mafia-type extortions, nationalization of

**"I could tell our economic program was working when they stopped calling it Reaganomics."  
- President Ronald Reagan**

corporations compensated for the cost of high taxes. But the world has become flatter and capital is just as safe in Europe, the Pacific Rim and even China as it is in the U.S. No longer can America expect to get away with high business taxes.

## Utah's Capital City Looks at Transportation Fees (cont.)

has long argued that a fee is a tax, but in this case is a hidden tax, attached to the garbage, water or electricity bill. Fees, currently, are not subject to the same public hearing and notification process that is in place under Utah's Truth in Taxation laws.

Additionally, traditional utility fees are based on the direct cost of a service provided, such as water or power. A utility fee for transportation requires that everyone pay the same amount, regardless of their usage.

An individual may pay a fee to fish at a pond that is maintained by the city or a fee to receive requested government records. That fee covers the cost to the city to provide a service.

A tax is intended to provide money to the city for general government services such as public safety, snowplows, parks, and roads.

With this basic understanding of taxes and fees there is simply no way that a city can charge a "transportation fee" as a true user fee unless the city was prepared to administer it such that each fee payer only pay an amount that reflects their miles driven on the city road system.

A small number of Utah cities already impose this transportation utility fee including Mapleton and North Ogden, and officials in several other cities have looked at the option, like Pleasant Grove, as recently as last year.

Now it's drawn the attention of the most populous city in the state. The Salt Lake City Council held a work session in April to investigate if this type of fee would

work in Utah's capital city.

It appears likely that more fees will be created to allow city officials avoid the appearance of raising taxes by instead increasing fees. In fact, the cities' own lobbying arm, the League of Cities and Towns, says as much. In a presentation to Salt Lake City about transportation utility fees, Reid Ewing, a

### Transportation Fees to be Discussed at the Utah Taxes Now Conference

You can hear more about this issue, along with many others, including tax reform at both the state and federal level, at the Association's Taxes Now Conference, held on May 18th. [Click here](#) for an agenda, more information on the topics, and to register!

professor with the University of Utah, quoted the League's philosophy about fees in Utah: "...A fair summation of this history is that one or two cities pioneer the concept; the courts uphold the general authority of the city to act as it does and when more municipalities jump onto the bandwagon the legislature moves to restrict municipal authority. We then fight a rear guard action to preserve some of what we have.

"This will probably be the story of police service, fire service, transportation utility fees and any other fee we can think of. If they become common place in Utah municipalities, and appear to the legislature to be tax masquerading *(continued on next page)*

as a fee, the Legislature will either restrict or prevent the use of these fees.”

We interpret that quote to mean that what Provo, Mapleton, North Ogden and potentially the Salt Lake City Council are pursuing is only the beginning of these types fees. Once enacted, cities’ lobbyists will then fight to protect this revenue stream. This is exactly what happened in the 1970s, when cities began imposing Utah’s franchise taxes without statutory authority.

To overcome the legal issue of fees versus taxes, cities often try to make a determination of the road use by types of property. In Provo, fees are determined by property type and associated trips generated based on Provo’s transportation master plan and a study that determines road usage by property type. While this practice is an attempt to relate the fee to road use it simply cannot reflect a true user fee. It is simply a mathematical scheme for cities attempting to avoid the appearance of a tax increase.

Case law on taxes and fees is clear that cities cannot use fees to raise revenue for general government

purposes. However, state statutes could be clarified to give cities and residents a clearer picture on if these types of fees are legal for a city to impose.

Your Taxpayers Association calls on the Legislature to investigate this matter and, if need be, draw a clear line on how to define a tax or a fee within the state of Utah.

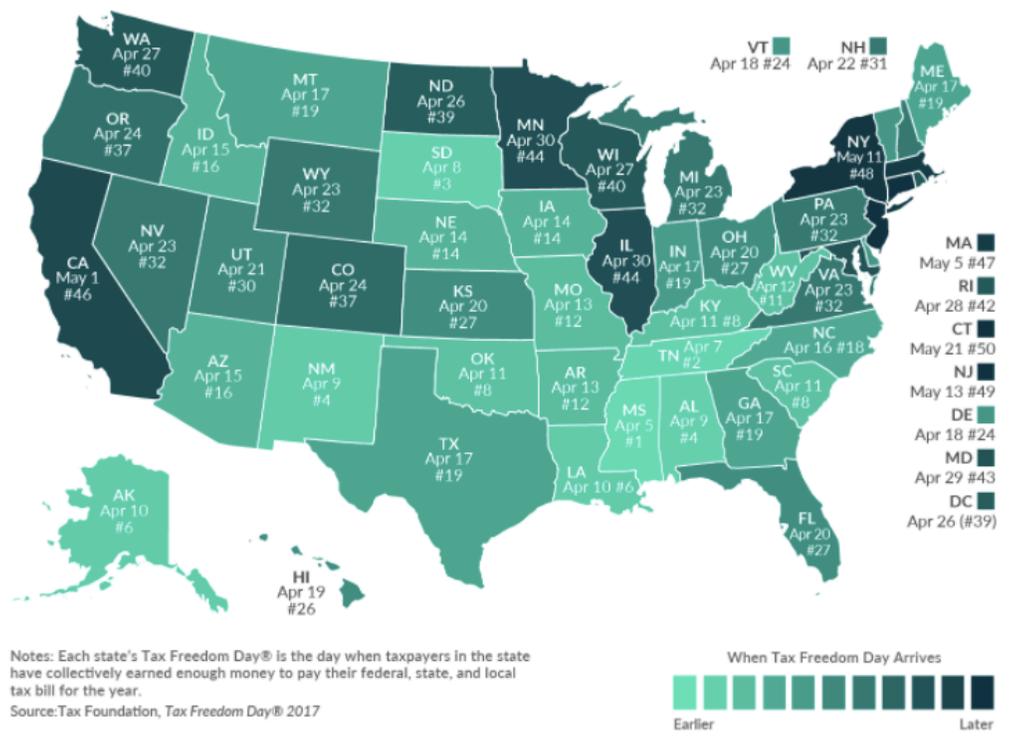
The Legislature needs to act before this type of funding mechanism escalates even further, before even more damage is done to taxpayers. The need for Utah’s cities to have well maintained roads is not in question. Transportation infrastructure is a producer of economic benefit a necessity to literally keep Utah moving. However, the funds to pay for road maintenance and construction should be delivered in an open and transparent way, not through fees hidden on a utility bill.

To provide feedback to the Salt Lake City Council on the potential of imposing a transportation fee, please [click here](#).

## Complying with Taxes Costs \$263 Billion, Says Report

In 1900, Americans paid 5.9% of their income in taxes. Now, in 2017, 31% of the national income is paid in taxes. This includes federal, state, and local taxes. That adds up to about \$5.1 trillion. Additionally, Americans are expected to pay more in taxes than they will spend on food, housing, and clothing combined. These are just a few of the details in this year’s Tax Freedom Day report, which was published in April by the Washington, D.C.-based Tax Foundation. Tax Freedom Day is the day Americans, on average, have earned enough money to pay the total tax burden. This year’s national Tax Freedom Day fell on April 23<sup>rd</sup> this year. This means the

When Does Tax Freedom Day® 2017 Arrive in Your State?



TAX FOUNDATION @TaxFoundation

Washington, D.C. Tax Foundation Map Shows Tax Freedom Day For Each State

average American needed to work for 113 days in order to earn enough to pay their tax bill. While Utah generally has lower taxes than the national average (see: How Utah Compares), our Tax Freedom Day lands only two days earlier, on April 21<sup>st</sup>. When compared to our neighboring states, Utah is about the middle of the pack. Of our neighboring states, New Mexico's Tax Freedom Day falls 12 days earlier than Utah's, while Wyoming and Nevada tie, falling on April 23<sup>rd</sup>. Take a look at the map above to see how other states places in Tax Freedom Day. But it's not just direct cost that make up our tax burden. The indirect cost of complying with federal, state, and local taxes is significant. The National Taxpayers Union Foundation finds that based on current estimates, taxpayers will spend 6.89 billion hours complying with the current tax code. The

cost adds up to nearly \$263 billion, based on private-sector worker average salary and the cost of tax preparation. For comparison, this cost surpasses the GDP of 154 countries, including Chile, Finland, and Portugal. But it gets worse, the Office of Management and Budget estimates that it takes the Internal Revenue Service over 8 billion hours to process the paperwork. Federally, the tax code as currently written is nearly 11,000 pages, and is 4 million words long. Since 2000, there have been revisions to 6,896 sections of the Internal Revenue Code – an average of 406 each year, more than one per day. While the current 1040 tax form, which account for 69% of 1040 returns, hasn't changed from 2 pages since 1945, the instruction booklet has grown 237 since that time.

## Guest Commentary: Tax Reform Key to Utah's Success

*This op-ed was originally published on April 13, 2017 in the Deseret News, and is reprinted here with permission of the author.*

### Deseret News

Utah's economy is booming. How can we keep it going long into the future? A key factor is progressive, pro-growth tax reform that produces more funding for education to create the best workforce in the nation. In the legislative session earlier this year, our leaders acknowledged the need for major tax reform in Utah. Some small, but important, steps were taken. But much more is needed to create a tax system that keeps Utah's economy vibrant, broadens the tax base and provides enough funding for education and other vital state services.

Legislative leaders were right to embrace tax reform. As society evolves and the structure of the economy changes, tax policy must keep up to avoid economic distortions and perverse incentives. State economists say that while Utah's economy has never been stronger, tax revenues are not keeping up proportionally. Current tax policy doesn't reflect realities of the economy.

Here are a few societal and economic changes that can no longer be ignored: First, retail sales are increasingly occurring online and taxes are not being collected on most of those online sales. In addition to

the revenue loss, brick-and-mortar stores are at a significant disadvantage.

Second, we are becoming much more of a service economy, and service transactions are generally not taxed. A few decades ago, some 72 percent of the economy, as measured by gross domestic product, was taxed in some fashion. Today, only 40 percent of the economy is taxed. Our tax code needs updating. It will soon not support the basic services government must provide.

Third, some taxes, such as the fuel tax, will become obsolete as more electric vehicles are sold and as other vehicles become more fuel-efficient. New ways to pay for our transportation system will need to be devised.

As lawmakers consider tax reform, it's important to remember a tried-and-true principle: The best tax structure features a broad base, with low rates. A broad-based system prevents any one economic sector from bearing an unfair share of the tax burden. All citizens and businesses benefit from government programs and benefits. All should have some "skin in the game."

Another important principle is that user fees make sense. Because everyone



A. Scott Anderson is CEO and president of Zions Bank

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benefits from excellent transportation infrastructure, it's fair that a portion of highway funding comes from the general fund. But those who drive on the highways should pay a much higher share.

Today, the ratio is far out of balance. In 1997, only 5 percent of state transportation funding came from the general fund. Transportation was funded mostly by users. Today, nearly 50 percent comes from the general fund. That is not sustainable if we are to have sufficient money for education, social services and other government services.

To their credit, legislators have begun requiring highway users to pay more by boosting the fuel tax and indexing it to prevent loss of purchasing power due to inflation. A commission will also study future transportation funding and governance structures.

A key goal of tax reform should be to generate more

money for education. We will not produce the nation's best workforce by spending the lowest amount per pupil in the country. Money isn't everything in education, but it is a critical element to attract top-quality teachers and maintain reasonable class sizes.

We all want low taxes, and state government is far more efficient today than ever before. But we need enough tax revenue for government to perform its proper roles.

In this period between legislative sessions, the governor and Legislature should analyze tax reform options and produce a balanced plan that could be addressed in a special legislative session or in next year's general session.

*A. Scott Anderson is CEO and president of Zions Bank.*

## Trump Team Releases Sneak Peak of Tax Reform Proposal

The Trump administration has started its work on reforming the federal tax code to lighten the financial burden the government puts on the United State's families and businesses.

While many details still remain to be worked out, Trump's team announced at the end of April that the priority of the President is to create jobs, promote economic growth and help low and middle income families. They believe tax reform will be key in helping the President accomplish those goals.

The proposal calls for a simplification of the tax code by eliminating four tax brackets for the individual income tax reducing the brackets to three-- a 10% bracket, a 25% bracket and a 35% bracket. The plan also calls for doubling the standard deduction so that married couples won't pay any taxes on the first \$24,000 of income they earn.

The Trump plan also calls for a repeal of the alternative minimum tax (AMT). The AMT creates significant complications by requiring taxpayers to do their taxes twice to see which is higher. The administration has declared that the practice makes no sense and has said taxpayers should have one simple code.

Capital gains and dividend tax rates would be at 20% under the Trump plan, it also calls for a repeal of the 3.8% Affordable Care Act (also known as Obamacare) tax on dividends and capital gains to eliminate the direct hit on investment income and small business owners.

Tax deductions for home ownership, charitable giving and retirement savings would remain under the Trump tax reform package but many of the other tax benefits would be eliminated to broaden the overall tax base.

### Federal and State Tax Reform to be Discussed at Taxes Now Conference

Learn more about federal tax reform at our annual Utah Taxes Now Conference on May 18th at the Grand America Hotel. Our keynote speaker, Chris Campbell, is the Majority Staff Director for the U.S. Senate Finance Committee and will join us to lay out what is happening on the ground in D.C. To register for the event [please click here](#).

Businesses would see a massive tax cut under this plan. Trump's team is calling for the business income tax rate to be cut from 35% to 15%. It would also call for a one-time tax on overseas profits, in an effort to bring back dollars that are offshore but could be invested in the U.S. to purchase capital and create jobs.

The Trump proposal did not include a border adjustability tax. It was stated that the intention of the reform is to create a territorial tax system, meaning U.S. companies would pay income on income related to the U.S. but not be subject to worldwide income.

## Op-Ed: Transparency Efforts During the 2017 Session Bring More Light to Government

*This op-ed was originally published on April 2, 2017 in the Deseret News, authored by Association Vice President Billy Hesterman.*

### Deseret News

The Utah Legislature should be commended for its work in the 2017 legislative session to increase transparency in the taxes and fees that governments on all levels collect.

Sen. Deidre Henderson, R-Spanish Fork, sponsored SB 150, which will ensure voters understand the full cost to taxpayers when a bond is being asked for on a ballot. Her legislation made a major change for taxpayers who are considering approving bonds.

Under the bill, the first piece of information on the ballot after the question of whether to approve a bond will now be the actual cost of the bond.

Previously, the full cost of a bond figure could have been placed toward the bottom of the description of the proposal. With Henderson's legislation the first piece of information given to voters is a transparent perspective on what is being asked of them when a bond is being proposed. This information, now placed first, will also give taxpayers a full understanding of how much their taxes will go down if the bond is rejected.

Another bill that provides more transparency for taxpayers was sponsored by Sen. Lincoln Fillmore, R-South Jordan. This bill dealt with taxation by Utah's local districts, also known as special service districts. These districts provide essential services such as water, garbage or sewer.

Fillmore recognized a problem in state law that allowed some of these districts to have taxation power without accountability at the ballot box. His bill, SB 94, now requires that special service districts that fall into this category send representatives to the district's member entities to give a report on the district's proposed tax increase in a public meeting, such as a city council meeting, before the tax increase can be approved.

More could be done in this area to improve representation in taxation for taxpayers in these districts, but this is a step in the right direction. When it comes to tax increases being proposed on the

ballot by an initiative, a taxpayer now may not get the full scope of the tax change by simply being informed of the rate change being proposed. Rep. Dan McCay, R-Riverton, sponsored HB 255, which requires ballot language for initiatives to also include the percentage of the tax increase and not simply the change of the rate. This will give taxpayers a greater understanding of the tax impact on Utah's families and businesses by any tax increase initiative.

Another bill passed by the Legislature adds transparency to certain fees charged by cities. Some of Utah's cities provide services such as power and water directly to their residents. What residents may not know is that the fees being charged for these services may be more than the cost of providing the service. This means the city is collecting more money than is needed to provide power or water, as an example, to its customers. Cities then transfer the excess from the fees to the city's general fund. Rep. Jefferson Moss, R-Saratoga Springs, a former city council member himself, determined that the public needed more notice about this practice.

Moss' bill, HB 164, requires cities to send out notices to those who benefit from the service about the fund transfer. This will inform residents that they may be paying more for their service than is required and allow the cities the opportunity to inform residents about how the city collects revenue from a variety of sources, not just taxes.

Transparency in taxation is paramount. If government is taking money from its people it needs to make certain the public is fully informed of how that money is being collected and spent. The Utah Taxpayers Association appreciates all of Utah's legislators for passing these bills and bringing greater light to the taxation process in Utah.

*Billy Hesterman is the Vice President of the Utah Taxpayers Association.*

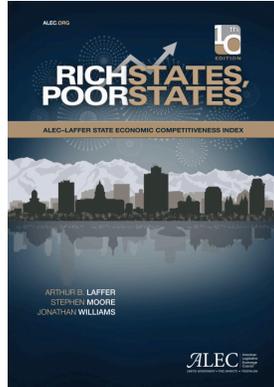


Association Vice President Billy Hesterman

## Utah Top State in Economic Climate National Ranking for 10 Straight Years

Utah continues to be the top state in the nation for economic outlook according to the latest Rich States Poor States report, published by the American Legislative Exchange Council (ALEC).

Utah is being managed in way to create a strong economic climate that allows businesses to thrive and families to enjoy a high quality of life, according to the report, released in April. Utah scored in the top 20 for 80% of the 15 variables measures by ALEC.



Jonathan Williams, a co-author of the Rich States Poor States report, explained that the states that ranked the highest in the report kept taxes low, avoided job-killing regulation, and followed prudent budget practices consistently. He also stated that when states enact bad policy individuals and corporations react rationally by working less, investing less, or by moving to a more business friendly state.

Data backs up Williams' claim as the top 10 states in the 2017 report have gained more than 3.75 million residents in the past decade while the bottom 10 states have lost more than 3.78 million residents over the same period. What can be taken away from this is that businesses are moving to where the best economic climates are and the people are following.

One of the states that made the most dramatic change in the report was Indiana. The Hoosier state was 24th in the report in 2012 but has now climbed up to second place, right behind Utah, in the rankings. With states like Indiana knocking on Utah's door, it is important that Utah's policy makers not be satisfied with the ranking but take it as a challenge to continue to enact policies that will keep Utah's economy number one for years to come.

Utah and Wyoming are the only states to be ranked in the top 10 since the report first started. Both New York and Vermont have managed to land in the bottom 10 in every Rich States Poor States report.

In his article published in the National Review,

### Association Accomplishments During April:

- ❖ Began planning and advertising the Utah Taxes Now Conference
- ❖ Confirmed keynote speaker from the United States Senate Finance Committee to discuss federal tax reform during the Utah Taxes Now Conference
- ❖ Met with Jordan School District board member to discuss future tax implications
- ❖ Met with Granite School District officials to discuss possible bonding for capital projects
- ❖ Answered Piute School District officials' questions about qualifying for greater state property tax equalization funding

#### In the News:

- ❖ Op-Ed:
  - [Association Vice President Billy Hesterman: Transparency Efforts During the 2017 Legislative Session Bring More Light to Government: Deseret News](#)
- ❖ Other News:
  - [Economic Benefit of Certain Tax Exemptions: Salt Lake Tribune](#)
  - [Utah Taxpayers Donate More to Homelessness than Education: Salt Lake Tribune](#)