



Utah Citizens' Counsel, dedicated to improving public policy

November 21, 2019

Dear Governor Herbert:

The Utah Citizens' Counsel (UCC) is convinced that the proposals of the Tax Restructuring and Equalization Task Force (TRETf) are not ready for a special session or even for the 2020 regular legislative session. We urge postponement and additional study. Here is why.

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1. The tax proposals raise complex issues that are not well enough understood by the public and the Legislature. Although a need exists to broaden the base of the sales tax in the face of long-term shifts of consumer behavior from goods to services, Utah needs more analysis of the impact on consumer choices and small business growth. Specific plans for implementation are needed to ensure compliance and to explain how the new administrative burden on the smallest businesses will be eased.*

2. The Legislature will be better able to avoid the charge of picking winners and losers if it develops clearer neutral principles for selection of service businesses to be taxed. The perception that politically influential professions, such as lawyers, accountants, and realtors, receive preferential treatment damages the legitimacy of proposals and potentially harms compliance rates.

3. Utahns have a right to understand the relative tax burden on middle-income, low-income, and top-income groups of all the changes to state and local taxes. To our knowledge, the overall percent of income to be paid in state and local taxes by quintiles or deciles has not yet been carefully estimated and made available to the public. Social Security credits, a limited Earned Income Tax Credit, and a grocery tax credit do not ensure that the overall proposal is not regressive.

4. TRETf needs to conduct a more thorough review of existing tax preferences. TRETf staff estimates current sales tax exemptions alone as close to one *billion* dollars each year.** Not until the state reconsiders how much it is currently foregoing in tax revenue and how much of that foregone revenue remains justifiable can the Legislature make an informed decision on how much needs to be raised in new sales taxes. Both infrastructure (e.g., roads) and social services need a far clearer road map of future income sources.

5. The substantial reduction in the general income tax rate, combined with increased income tax credits, will create serious harm to public and higher education, especially when public education has so many unmet needs. Utah's strong economy and tax surpluses create opportunities to regain some of the \$1

billion average annual loss to public education over the past 20 years*** while still having money to roll over into a rainy day fund for uncertain needs in the future.

6. The impact of any proposal to eliminate the constitutional earmark for education by substituting local property tax raises and funding annual enrollment and inflation growth is highly uncertain. Utah's dismal failure to adequately support public education is what today makes the earmark a necessity. Repealing it must be off the table until the Legislature establishes credibility in meeting their fundamental responsibility to invest in our children and Utah's cultural and economic future.

In sum, TRETf's proposals do not yet demonstrate sufficient legitimacy. A fair tax system would not be regressive. It would avoid conflicts of interest and favors to powerful players. It would be transparent to the public. It would include evaluation of incentives and externalities created by the tax structure. From among the many proposals considered by TRETf members or staff, the choice of which to adopt has been made behind closed doors without adequate public discussion and justification. We believe the Legislature needs more time to develop a package of tax revisions that embodies these values. We urge you to push the Legislature to take the time to develop a better tax model that could be recognized as worth replicating in other states.

Most sincerely,

Susan Olson, Dixie Huefner, and Pat Christensen
on behalf of *The Utah Citizens' Counsel*

cc: Lieutenant Governor, TRETf, Legislature, and interested advocacy groups

*The Policy Options Review prepared by TRETf staff for the October 10th meeting notes which other states already tax more services than does Utah. Also of potential use is a report from the Pew Charitable Trust that showed the complexities of taxing services in several states and of implementing North Carolina's 2016's state tax on services (<https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2017/06/27/why-states-are-struggling-to-tax-services>).

**A table in the 2018 annual report of the Utah State Tax Commission itemizes each sales tax exemption. A table on the Tax Commission website (<https://tax.utah.gov/econstats/income/credits-checkoffs>) totals the 2017 (the last year reported) corporate income tax credits at \$599,115,557. Individual income tax credits were not totaled.

***This figure has been well documented by both the Utah Foundation and Doug MacDonald., former chief economist of the Utah State Tax Commission.

The Utah Citizens' Counsel is an independent, nonpartisan group of senior community advocates who are dedicated to improving public policy on complex issues through dialogue, creative problem solving, education, and consensus building.