Last session the effort to reform our tax system, HB441, ultimately failed because the public was neither sufficiently aware of the potential need for tax reform nor were they able to offer input on possible solutions. This summer the Utah House Minority Caucus held town halls to both educate the public about structural issues with the Utah tax code and to solicit feedback on possible options for reform. The Utah House Minority Caucus organized a total of seven town halls in Salt Lake City, West Valley City, Ogden, Provo, Sandy, Holladay, and Heber City. The agenda consisted of a presentation, an interactive poster session, and a comment period. This is our report on the public feedback we received from those town halls which should be used when considering tax reform legislation.

Background

The Utah House Minority Caucus organized a total of seven town halls in Salt Lake City, West Valley City, Ogden, Provo, Sandy, Holladay, and Heber City. The agenda consisted of a presentation, an interactive poster session, and a comment period. The focus of this memo will be the interactive poster session where attendees placed sticky note cards on posters with their thoughts about various tax reform options and questions. The three questions were: Should tax reform be revenue neutral, revenue cutting, or revenue raising? Who should bear the greatest burden? And how quickly should new plans be implemented? The twelve tax options were: expand sales/consumption tax base, raise rates, statewide property tax, eliminate restrictions on revenue use (earmarks), eliminate the education fund, eliminate tax credits/exemptions, tourism tax, carbon tax, gross receipts tax, tax sports gambling, statewide lottery, and transportation user fee. The sticky note cards were color coded for the tax options with green indicating positive feeling, red indicating negative, and yellow indicating questions or non-disqualifying concerns. Members of the public who were not present were able to share their thoughts through an online survey. You can find all comments HERE. Video of our Heber City Town Hall presentation is also available HERE.
Results

Town Halls: Green indicates supportive comments. Yellow indicated concerns or questions. Red indicates oppositional comments.
Online Survey

### Number Support/Interested

<table>
<thead>
<tr>
<th>Tax Option</th>
<th>Number Support/Interested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon Tax</td>
<td>28</td>
</tr>
<tr>
<td>Statewide Lottery</td>
<td>24</td>
</tr>
<tr>
<td>Tax Sports Gambling</td>
<td>22</td>
</tr>
<tr>
<td>Tourism Tax</td>
<td>16</td>
</tr>
<tr>
<td>Consumption Tax</td>
<td>14</td>
</tr>
<tr>
<td>Eliminate Tax Credits/Exemptions</td>
<td>14</td>
</tr>
<tr>
<td>Statewide Property Tax</td>
<td>7</td>
</tr>
<tr>
<td>Transportation User Fee</td>
<td>7</td>
</tr>
<tr>
<td>Eliminate Restrictions on Revenue Use (Earmarks)</td>
<td>5</td>
</tr>
<tr>
<td>Raise Rates</td>
<td>5</td>
</tr>
<tr>
<td>Gross Receipts Tax</td>
<td>3</td>
</tr>
</tbody>
</table>
Option Discussed: Expand Sales/Consumption Tax Base (Tax Services)

- Expanding the state sales tax across the wide swath of services, as proposed under HB 441, would have added approximately $36 billion annually to the existing $68 billion sales tax base.

- Raising the sales tax on grocery food from 1.7% to the full 4.85% would generate approximately $227,000,000.

- Sharing economy, shifting tastes and preferences, and the general growth in economic activity among certain untaxed sectors has led to a significant portion of our economy untaxed.

- Impacted: currently untaxed services/economic sectors

Tax services that currently are not taxed, such as...

- Sharing Economy
- Construction Activities
- Information and Technology
- Legal
- Financial
- Medical
- Real Estate
- Cosmetic Surgery
- Private Lessons
- Professional Landscaping
- Haircuts

Etc.

Remove tax exemptions for things like...

- Certain Machinery/Equipment
- Farming Inputs
- Vehicle Trade-Ins
- Water
- Sales With Religious or Charitable Orgs
- Prescription Drugs
- Equipment Bought by Filmmakers
- Laundromats
- Industrial Fuel Use
- SNAP/WIC Purchases
- Newspapers/Subscriptions
- Tickets to College Athletic Events
- Electricity for Ski Lifts

Etc.

Word cloud of comments received:
Positive comments about expanding sales tax to more services usually included caveats about ensuring that new taxes do not overburden small businesses. Any changes on service oriented businesses should be thoughtfully constructed.

- “Thoughtfully and carefully - to avoid unfair/unwise application of an otherwise reasonable option”
- “Expand the base only if the expansion is general and with a minimum of exemptions (no carve outs for legal/medical)”

Respondents are concerned that small business would be hurt either because large industries would find or create loopholes and carve outs or for compliance costs.

- “No way. Pyramid taxes. Bad for small businesses. Not enforceable for service based companies outside of Utah who cater to Utah residents.”
- “High implementation cost”
Option Discussed: Raise Rates

- Keep current structure but raise the rates to generate more revenue
- Utah has an income tax with a flat rate of 4.95%, both personal and corporate
- Utah has a sales tax rate of 4.85%
- Impacted: everything currently taxed

Word cloud of comments received:

Raising rates, particularly on income tax, was seen positively if done in a progressive fashion. Respondents also liked that it was a simple adjustment that most taxpayers would understand.

- "Income tax is the fairest as long as you make sure those that earn more pay more."
- "Preferable to new taxes. Simple, transparent, easy to understand"

Negative comments centered around burdening Utah taxpayers who can least afford to pay more, especially if sales tax rates are increased.

- "Do nothing! We are more service oriented but we are still crazy consumers. Sales tax will even out as get more for online purchases."
- "Sales tax should stay - it's already relatively high, especially considering local taxes. Do not raise rate on groceries."
Option Discussed: Statewide Property Tax (Real Estate Tax)

- Utahns currently pay local property taxes (on immovable property/real estate)
- If Utah were to institute a .1% statewide property tax, it would generate approximately $300,000,000 annually.
- Payment in Lieu of Taxes (PILT)
- Federal payments to local governments that help offset losses in property taxes due to non-taxable Federal lands within their boundaries

- Impacted: property owners

Word cloud of comments received:

Respondents who liked a statewide property tax noted simplicity of expanding an existing revenue source and be minimally disruptive. Would

- “I support this proposal. It is broad-based and would be much easier to administer than the service-based sales tax proposals.”
- “This is probably the least noticeable of all taxes if enacted by slow, small increases.”

Concerns for a statewide property tax revolved around hurting Utahns on a fixed income and further increasing the cost of owning a home. Additionally it would distribute value in a local community to the rest of the state.

- “Tough for retired people or people on a fixed income to keep!”
- “I appreciate knowing my property tax goes to local funds, amenities that impact the rate of my home/property”
Option Discussed: Eliminate Restrictions On Revenue Use (Earmarks)

- Approximately 22% of the General Fund is currently statutorily earmarked.
- A significant majority of these earmarks are for transportation purposes
- Finding alternative funding sources for transportation could free up potential General Fund revenue for other purposes
- Impacted: transportation funding

Word cloud of comments received:

Respondents liked the flexibility that comes with eliminating earmarks.

- “Yes! All funding should have to show a need each year. There should never be automatic or guaranteed funding.”

Comments against eliminating earmarks conceded they should be reviewed but no drastic changes since they have worked well so far.

- “Earmarks provide funding stability and enable legislators to do their job of negotiating with each other in good faith. They should be periodically reevaluated, but not eliminated outright.”
Option Discussed: Eliminate The Education Fund

- The Utah Constitution mandates that all income tax revenue go towards education funding.
- That has been loosened to include higher education
- S.J.R. 3 passed Senate last session. Would allow for social services funding to come out of income tax.
- Could put all tax revenue into the General Fund and fund education.
- Impacted: guaranteed source of education funding

Word cloud of comments received:

Eliminating the Constitutional earmark that puts all income tax revenue into the Education Fund was the most disliked option. Those in favor liked that eliminating the education fund would allow income tax to be the main driver of state spending.

- “‘Guaranteed funding’ does not mean adequate funding. Let’s remove this walled garden and bring all budget items into the general fund. Let’s have income tax be the main driver or all future spending needs.”

Those against eliminating the education fund mainly focused on the fact that even with this earmark, Utah lags behind other states in per-pupil funding.

- “No! We still lag behind other states in education funding. Don’t get rid of this protection.”
- “No - Legislature does not fund education nearly as well as it used to and it’s the state’s most important responsibility.”
Option Discussed: Eliminate Tax Credits/Exemptions

- Utah law exempts certain purchases from the sales and use tax.*
- FY2018 Business Inputs - $326,191,500
- FY2018 Non-Business Inputs/Charitable and Government - $70,060,000
- FY2018 Non-Business Inputs/Economic Development - $164,000
- FY2018 Non-Business Inputs/Economic Efficiency - $313,656,400
- FY2018 Non-Business Inputs/Healthcare - $170,860,000
- FY2018 Non-Business Inputs/Other - $25,910,000
- Total - $906,841,900

*Utah Tax Commission Report

Word cloud of comments received:

Respondents overall supported looking at removing exemptions but most positive comments were qualified to indicate that exemptions should be carefully reviewed to ensure they are no longer needed.
- “Yes, over time we have given exemptions to reward/attract business. That's not fair to the majority of residents.”
Option Discussed: Tourism Tax

► Leisure and hospitality is one of the fastest growing sectors of the economy.
► Currently, local tourism tax but not statewide.
► Utah could raise taxes on tourist activities like hotels, vehicle rentals, and other activities.
► For example, compared to other heavily-touristed states Utah currently taxes lodging and rental vehicles relatively little.
► Impacted: tourists and local business

Word cloud of comments received:

A tourism tax received the fewest negative comments. Respondents liked using our many tourist attractions to help pay for the resources those tourists use. They did express some concern that a tourism tax too far out of whack with neighboring states could be harmful.

- "Yes, impose a higher tourism tax. If visitors impact local roads, towns, and air quality they should pay some higher taxes on lodging and vehicle rentals. This is their piece of the pie that we don't collect."
- "People are not going to stop visiting UT based on our tax system. Great idea to tax tourism!"
Option Discussed: Carbon Tax

- Rep. Briscoe’s HB 304 (2019 GS) would generate more than $600 million in tax revenue by imposing a tax on fossil fuels.

- HB 304 offsets the tax increase through many different methods, resulting in an overall fiscal impact that is nearly net neutral.

- Revenue from a carbon tax could be used to address the structural issues currently seen with the Education Fund/General Fund imbalance.

- Impacted: fossil fuel industry and fossil fuel consumers

Word cloud of comments received:

A Carbon Tax received the most positive comments. Those in favor like that it serves the purpose of bringing in funds and incentivizing cleaner energy sources.

- “Great idea! We need to start taking climate change seriously and corporations need to do their part. However, we need to ensure that rural communities in Utah can transition from fossil fuel economy to a more sustainable one.”

- “The carbon tax is a great idea - implement ASAP! Offsets to consumers make this palatable. Carbon emitters/producers need to cover costs they cause to the environment.”
Those with concerns or against the option think it will hurt communities that rely on our carbon emitting industries for jobs and/or affordable electricity. If a carbon tax is successful at limiting carbon emissions, then it will eventually be a poor source of tax revenue.

- “Regressive. We already have gas tax. Temporary fix if we are truly moving to renewables”
- “The state needs to ensure other options of the same price or cheaper to avoid hurting impoverished communities, but absolutely!”
Option Discussed: Gross Receipts Tax

- A tax on the total revenue of a business
  - Does not account for business costs, just revenue

- Simple to administer and calculate

- Creates tax-pyramiding and promotes vertical integration
  - Taxes business-to-business transactions

- Impacted: businesses and consumers

Word cloud of comments received:

Positive comments noted the administrative simplicity of a gross receipts tax.

- “Should be considered - broad based and easier to administer than service based sales tax.”

Most respondents were negative to a gross receipts tax. The biggest notes were the lack of fairness and the potential for tax pyramiding that would ultimately be borne by the consumer.

- “One of the most unfair ways to tax - particularly in our industry (trade) with high gross but tiny margins.”
- “Bad. Tax pyramiding just hides all the levels of taxation and consumers are caught paying all of it on the back end.”
Option Discussed: Tax Sports Gambling / Statewide Lottery

- SB 181 (2019) estimated $13.5 million in revenue for the state by taxing horse racing.
- Nevada generates about $20 million in revenue annually off sports betting.
- States around Utah’s population generate about $75 million annually off lotteries (great variability by state).
- Impacted: gamblers

Word clouds of comments received:

Positive comments noted that while lotteries and gambling are regressive, that money is going to be spent in neighboring states anyway. Keeping that money in Utah for a specific purpose was a common comment.

- “Good idea. May be regressive, but gambling is a choice. The people are already going out of state to do it. Let's keep our $$ in Utah.”
- “Do a specific use lottery - use it for education or care of children in poverty or elderly care.”

Negative comments centered around the minimal amount of revenue either would generate and that most of that revenue would come from less wealthy Utahns.

- “I oppose this not morally, but because the potential revenue (not much) would be on the backs of those who can least afford it.”
Option Discussed: Transportation User Fee

- A Transportation User Fee is a fee assessed to residents and businesses based on the traffic levels generated by each dwelling unit or business.
  - Think of it as an impact fee for roads
- Rates for each type of dwelling
  - Single family home, apartment...etc
- Single rate for businesses multiplied by developed acres and usage category
- Could replace or supplement gas tax to fund roads
- Impacted: businesses and residents

Word cloud of comments received:

Those who liked a Transportation User Fee want to do more to ensure our roads are paid for by those who use and benefit from them.
- “Businesses should bear some of the burden of infrastructure that benefits them.”
- “Paves the way for smart growth and development very important with population expected to double by 2050.”

Those who were not in favor were cautious about introducing a new system of taxation when and could burden those who do not use a personal vehicle for transportation.
- “This strikes me as something that is regressive. More revenue is raised on progressive tax policy.”
- “Oppose. Use the fuel tax to accomplish the same thing. I support increased fuel taxes.”
Questions: Should tax reform be revenue neutral, revenue reducing, or revenue raising?

- Revenue neutral - for every dollar raised through new funding, cut a dollar of taxes raised through a different source. Rebalancing our funding streams.
- Revenue cutting - shrink the amount of tax dollars as well as ability of the state to provide services, education, and infrastructure.
- Revenue raising - do not worry about offsetting new revenue with cuts elsewhere. New revenue to invest in priorities.