

# Lessons Learned from Utah

## Professional Services Shouldn't Be Subject to Sales Tax

Utah recently joined the **long list of states** which have embarked on an idealistic path to expand the sales tax base broadly to services — only to find this road always leads to failure.





## Lawmakers should learn from Utah’s example: taxing professional services is the wrong choice for states.

In February 2019, the Utah Legislature attempted a massive undertaking: a significant tax “modernization” bill (**HB 441**) that extended the sales tax to most services, including legal, accounting, engineering, design, IT, consulting, advertising, and veterinary services. Lawmakers dropped the 260 page bill just two weeks before the legislative session was set to adjourn, angering Utahns and businesses for the poor tax policy in the bill, but also the way in which it was presented to the public — with little to no opportunity for constituents to understand and respond. This initial plan quickly failed. According to news **reports**, the bill was “yanked” at the last minute due to public backlash, with lawmakers announcing that they would put the legislation to “more study and public input before it is implemented.”

Over the subsequent months, lawmakers held a series of “listening sessions” and public forums throughout the state and studied the sales tax base expansion via the Tax Restructuring and Equalization Task Force. By the time the Task Force finished its work, the group had gained sufficient tax policy wisdom to completely abandon the idea of expanding the sales tax to professional services, opting instead to expand the sales tax “only” to fuel, groceries (eliminating the existing preferential rate), and digital services, using those funds to cut the income tax rate. The revised proposal was enacted in December 2019 during a brief special legislative session. Despite the legislature’s hope that income tax cuts would make the reform package more popular, the public was **solidly against** the proposal.

Faced with the strong possibility that a citizen referendum would likely repeal the new law, policymakers quickly voted to repeal the tax bill in the first week of the 2020 legislative session. According to the **Desert News**, “the tax reform package approved in December was subject to a referendum because it failed to get at least a two-thirds majority in the House and Senate.” Realizing that if put to a public vote the law would likely be repealed, state lawmakers decided to repeal it first. A few months later, in large part due to opposition to his leadership of the ill-fated tax reform effort, Senator Lyle Hillyard, Utah's longest-serving state Senator, lost his Republican Party primary.