



Kate Bradshaw

Director of Government Affairs
801.799.5711
Salt Lake City
kabradshaw@hollandhart.com



Billy Hesterman

Government Affairs Specialist
801.799.5709
Salt Lake City
WSHesterman@hollandhart.com

Utah Legislative Update: November 2019

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Tax Reform continues to dominate Utah's Capitol Hill as the Tax Restructuring and Equalization Task Force has released draft legislation that it may recommend to the entire Legislature for action. In late October, the Task Force adopted a baseline proposal to begin the bill drafting process. The baseline proposal has now been formalized into a draft bill dated November 5, 2019.

A summary of the proposal that includes the latest changes can be viewed here: <https://le.utah.gov/interim/2019/pdf/00004769.pdf>

A copy of the proposal can be viewed here:
<https://le.utah.gov/Interim/2019/pdf/00004761.pdf>

The November 5 draft bill includes the following changes from current tax policies:

Income Tax

The targeted income tax cut was increased from an earlier proposal of a \$75 million tax cut to \$80 million with a rate of 4.58%.

- The taxpayer tax credit will be restored to its full amount. The benefit of the tax credit was diminished after the Trump tax cuts passed in 2017, and legislators hope to beef it up to pre-Trump tax cut levels.
- Create an income tax credit for certain social security retirement income
- Create a grocery tax credit for low-to-middle income residents to offset the impact of restoring the state sales tax rate on unprepared food
- Create an intergenerational poverty earned income tax credit

Sales Tax

- Charge the full state sales tax rate on unprepared food (food purchased at grocery stores)
- Expand the sales tax base by eliminating some existing sales tax exemptions
- Expand the sales tax base by eliminating the sales tax exemption for motor and special fuels (add a sales tax on top of the excise tax that drivers already pay)

The trucking industry brokered a compromise on diesel fuel from the earlier proposal to instead create a new excise tax on diesel of \$0.10/gal rather than accept the repeal of the existing

sales tax exemption on diesel.

- Expand sales tax base by beginning to charge sales taxes on certain services (see page 5 of the proposal)
Maintenance and repair of real property is included in the expanded sales tax, but with an exclusion for capital improvements. Specificity around what is or is not a capital improvement was discussed and is a section of the bill that is likely to evolve.
- Increase the state motor vehicle rental tax from 2.5% to 4.0%
- Shrink the sales tax base by exempting feminine hygiene products from sales tax
- A significant change that was not discussed in the baseline proposal, but was included in the November draft bill, is decreasing the rate and cap the vendor discount (this is the portion of sales tax a vendor is allowed to keep offsetting the burden of being a tax collector). The current rate is 1.31% of sales tax uncapped. The draft bill proposed changing the limit to 1.2% and capping the vendor discount at \$400,000 of sales tax collected.

Other budget tweaks

- Pass a resolution to ask the voters of Utah to approve removing the requirement for all income taxes to be used for public education
- Pass legislation to ensure education funding is maintained at its current levels
- Fund school lunch programs from the education fund and deposit the portion of the liquor markup that was paying for school lunches into the general fund

The Task Force has another meeting scheduled on **November 25 at 4:00 p.m.** at the Capitol. It is possible the Task Force could make final tweaks to their current proposal and make a final recommendation to the full legislature at that meeting, but members have said additional meetings may be needed as they continue to fine tune this proposal. A Special Session is still rumored to be held in early December to pass the legislation.

If you have questions about the tax reform process or the draft bill, please feel free to contact the Holland & Hart Government Affairs team.