



In The Know

A Publication of the Education Commission
November 14, 2019 Volume 1, No. 4

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"Taxation is the price which civilized communities pay for the opportunity of remaining civilized."

Albert Bushnell Hart

This is a special edition of "In the Know" written to provide background information regarding the Utah State Legislature's Tax Reform efforts. The intent of this issue is to provide the reader with information necessary to engage in discussions with their state legislators and make informed decisions if a constitutional amendment is placed on the ballot. **It is anticipated that a special session of the legislature will be called to address the issue of Tax Reform in December, which may have significant impact on the future education of our children. If you feel that the legislation should be considered during the regular session when there will be more opportunity for discussion with legislators, consider contacting the Governor and requesting that he not support calling a special session.**

Tax Reform

Education Funding – A Primer

There are currently three sources of state revenue to fund state government programs, including public education. These three sources of revenue are collected by assessing taxes on sales of goods (sales tax), property and income. Each revenue source is designated to fund specific programs. Specifically they fund the following:

- The **sales tax** is the primary revenue source for the General Fund, which pays for state government services besides education, including public safety, courts, social services, elections, air quality and transportation. One of the main issues with the sales tax is a narrowing base.
- The **property tax** is a funding source for local governments and public schools. Residential properties that are the primary residence of the homeowner in Utah receive a property tax exemption of 45%. That means only 55% of a home's value is subject to taxation. That exemption keeps property taxes for most homeowners quite low.

- The **income tax is** a funding source for public education as guaranteed by the Utah Constitution. Prior to 1996, public education was defined as K-12 schools. In 1996, a constitutional amendment was passed by voters to include higher education in the definition.

Sales and income tax rates are set by the Utah State Legislature. Property Tax rates are set by procedures established in the Utah Constitution.

Why Tax Reform Now?

State legislators believe there is a structural revenue imbalance. This imbalance manifests itself in the following ways:

- There is not sufficient sales tax revenue to sufficiently fund state needs.
- There is excess funding in income tax, which by the state constitution, is designated for public education (public education & higher education)
- There is a need for changes that provide for a structure with increased flexibility for legislators.

Tax Restructuring Policy Proposal

NOTE: There are a number of tax restructuring policy proposals that have been submitted by different members of the Tax Restructuring and Equalization Task Force. This issue will focus on the proposal submitted by the committee chairs, Senator Lyle Hillyard and Representative Francis Gibson.

Budgetary Impact

- Results in an overall net tax reduction of \$75 million dollars.
 - A family of four making \$60,000 per year would see an estimated average total tax reduction of more than \$400 per year.
- Restores funding of higher education to the sales-tax based General Fund
- Fully implements an Accountable Budget Process that reviews all state spending on a rolling five-year schedule.

Policy Impact

- The sales tax base would be increased and would better track ongoing changes in consumer expenditures.
- Impacts to lower-income and/or fixed-income residents from a higher sales tax rate on food would be mitigated by a Grocery Tax Credit, as well as a new income tax credit for certain Social Security retirement income.
- Funding for transportation infrastructure would be partially shifted away from General Fund sources by removing an existing sales tax exemption on motor vehicle fuels to help bridge the gap until an alternative funding mechanism, such as a road user charge, is viable as a primary funding source for transportation.

Policy Summary

- Reductions in Income Tax
 - Reducing individual and corporate income taxes.
 - Expanding the “Utah Dependent Exemption” provision of the taxpayer tax credit.
 - Creating an income tax credit for certain Social Security retirement income.
 - Creating a “Grocery Tax Credit” for low-to-middle-income residents.
- Expansion in Sales Tax
 - Restoring the full sales tax rate on unprepared food.
 - Expanding the sales tax base by repealing certain sales tax exemptions.
 - Transitioning to direct user fees for transportation costs.
 - Reducing sales tax earmarks for transportation.
 - Expanding the sales tax base by charging sales tax on certain services.
 - Increasing the state Motor Vehicle Rental Tax.
- Revenue Neutral Shifts
 - Establishing meaningful funding security for education and removing constitutional restriction on income tax.
 - Funding school lunch program from Education Fund and depositing the portion of the liquor mark-up that currently funds program in the general fund.
 - Establish meaningful funding security for public education and remove the constitutional restriction on income tax.

Policy Description

- Reduce Individual and Corporate Income Tax Rates
 - Reduce the state income tax rate by at least 0.25%
- Expand the Utah Dependent Exemption
 - Increase the exemption amount per dependent from \$565 to \$2,500.
- Create an Income Tax Credit for Social Security Income
- Create a “Grocery Tax Credit” for Low to Middle-Income Residents
 - \$100 refundable income tax credit per household member
 - Phase-out rate of credit is .02% per dollar above thresholds of \$30,000 for one exemption, increasing by \$10,000 per household member.
 - Maximum income before phase-out starts, regardless of number of household members is \$90,000.
- Restore Full State Sales Tax Rate on Food (from the current rate of 1.75% to 4.85%).
- Repeal Certain Exemptions to make the sales tax a broader consumption tax.
- Repeal the Sales Tax Exemption on Motor and Special Fuel.

- Broaden the Sales Tax Base by Charging Sales Tax on Certain Additional Services.
- Increase the State Motor Vehicle Rental Tax.
- Fund Public Education school Lunch Program from Education Fund.
 - Deposit the current funding source for school lunch, a portion of liquor markup profits, into the General Fund.
- Establish Meaningful Funding Security for Public Education and Remove the Constitutional Restriction on Income Tax.
 - Amend the Utah Constitution to allow for needed flexible flexibility for funding all of state government (requires a vote of the public).
 - Continue to fund public education at the current level and create an alternative, more stable, funding mechanism for public education.
 - Fund more of higher education from the General Fund.

The full text of the Hillyard/Gibson proposal can be found at*:

<https://le.utah.gov/interim/2019/pdf/00004649.pdf>

The proposed bill can be found at:

<https://le.utah.gov/Interim/2019/pdf/00004761.pdf>

Links to Additional Committee Member Proposals

Fillmore: <https://le.utah.gov/interim/2019/pdf/00004643.pdf>

Mayne: <https://le.utah.gov/interim/2019/pdf/00004628.pdf>

Briscoe: <https://le.utah.gov/interim/2019/pdf/00004636.pdf>

Cornia: <https://le.utah.gov/interim/2019/pdf/00004642.pdf>

Members of the Task Force

Sen. Lyle W. Hillyard (R), Chair
 Rep. Francis D. Gibson (R), Chair
 Sen. Curtis S. Bramble (R)
 Sen. Kirk A. Cullimore (R)
 Sen. Lincoln Fillmore (R)
 Mr. Gary Cornia
 Ms. Kristen Cox
 Mr. M. Keith Prescott
 Mr. Steve P. Young
[Ryan M. Hunter](#), Policy Analyst
[Alex R. Janak](#), Policy Analyst

Sen. Karen Mayne (D)
 Rep. Joel K. Briscoe (D)
 Rep. Tim Quinn (R)
 Rep. Mike Schultz (R)
 Rep. Robert M. Spendlove (R)
[Andrea Valenti Arthur](#), Associate
 General Counsel
[Christine R. Gilbert](#), Associate General
 Counsel
[Jesse Dowdle](#), Administrative Assistant

* Please note, you may have to copy the URL into your web browser to access the document(s).

The Utah Public Education Coalition (UPEC)

The Utah Public Education Coalition is a group of representatives from the major education organizations in the state. Organizations that are members of the coalition include:

Governor’s Deputy for Education	Utah Council of Education Deans
State Superintendent of Public Ed.	Utah Education Association
Utah Assn. of School Business Officers	Utah PTA
Utah Assn. of Ele. School Principals	Utah School Boards Assn.
Utah Assn. of Sec. School Principals	Utah School Employees Assn.
	Utah School Superintendents Assn.

The coalition has adopted the following position regarding current tax reform efforts.

Position on Tax Restructuring

The Utah Public Education Coalition supports the creation of a stable funding mechanism to support public education based on the following principles:

- Enrollment growth;
- Inflation;
- Funding the Utah State Board of Education (USBE) Strategic Plan, and;
- The Governor’s 10-year Education Roadmap

What Can I Do?

It is anticipated that the Utah State Legislature will ask Governor Herbert to call a special session in December. If you are concerned about the direction of the proposals being considered by the Tax Restructuring and Equalization Task Force, contact members of the committee and express your concerns to them. If a special session is called, contact the legislators that represent you to give them your input on any legislation being considered.

Link to find your legislators: le.utah.gov (select the “My Legislators” button on this page).

Tips When Contacting Legislators

- State who you are and what you are contacting them about – Identify yourself as a constituent and the specific legislation (bill number) or issue you wish to discuss.
- Be confident. Tell your story and share your experiences with your elected leaders.
- **Engage** not **enrage**. Make sure that you are respectful in your discussions, even if your legislator is not the person you voted for. Remember, legislators are people first, officials second.

- Assume good intent. Remember that your legislator represents a large number of people with many diverse opinions.
- Be knowledgeable of the issues.
- Be honest and use plain language.
- Speak from the heart, but don't over-tell your story.
- Stay on message.
- Thank them for their time and for listening to your information. Remember, the more you contact them and build a positive relationship with them, the more credibility you will have with them, even if they don't always agree with you.

Questions and Talking Points for Your Discussions

The tax restructuring proposal recommended by the task force raises a number of questions and points of discussion that deserve to be addressed before any permanent action is taken. The following might be used as discussion points as you engage your legislators.

- As I have reviewed the tax restructuring proposal, it seems that the legislature has the power or flexibility to pass legislation that allows for increases in the General Fund and reduces the Income Tax to eliminate the structural imbalance. Is the proposal more a matter of reducing transparency opposed to an issue of flexibility?
- When there are so many funding needs that currently exist in the state, including public education, why reduce taxes by \$75 million dollars? In light of the fact that Utah education funding is ranked 51st in the country, is the proposal's goal to maintain current funding levels adequate? Should the \$75 proposed tax cut be eliminated and designated for education?
- Is it true that the restructuring proposal would decrease the tax burden on residents from all income brackets except one and two-person households with annual earnings between \$15,000 and \$35,000? Isn't it also true that the individuals who will feel the highest impact on raising the sales tax on food are low-income families? Does the tax credit that they would be given mitigate the impact of lowering income taxes and raising sales taxes for these individuals?
- Many of our Intergenerational poverty (IGP) families may struggle with money management skills. Have you considered that the increased food tax will impact them negatively 365 days a year and may not intuitively be tied to a once a year tax credit?
- Is it true that the group that would benefit most by the proposed decrease in income tax are the top salary tier making \$113,000 and above? (information link: <https://www.sltrib.com/news/politics/2019/10/28/utahs-top-earners-would/>)
- Wouldn't it be prudent to create the plan for establishing meaningful funding security for public education before removing the constitutional guarantee? Would this plan be based on property tax which is the most stable funding source? Would the property tax need to be raised substantially to provide adequate security to meet the needs of public education?

**“May the Force be with you”
Obi-Wan Kenobi**