

Utah Tax Reform Summary

Summary of 2006 Tax Reform (2007 Tax Year)

- Individual Income Tax reduction of \$80 million
 - Utah taxpayers will have the **option** of calculating income tax based on the current system of deductions with expanded tax brackets and reduced rate, or calculating income tax based on a new, simple flat-rate plan
 - Under the dual system, taxpayers calculate income tax using two alternatives:

<u>Option 1: Existing System</u>	<u>Option 2: Flat Rate System</u>
<ul style="list-style-type: none">• Keep all existing tax deductions and credits• Expand tax brackets 16% to 28%.• Reduce top marginal rate from 7.0% to 6.98%• Top bracket increases from \$8,626 to \$11,000• \$42 million will go to bracket expansion	<ul style="list-style-type: none">• Taxable Income based on federal AGI• Income tax rate set at 5.35%• \$36 million will go to the flat rate system

- This proposal:
 - Reduces the top marginal rate by nearly 25%
 - Gives every taxpayer tax relief
- Sales Tax reduction of \$80 million
 - Sales tax on food reduced by 2% - from 4.75% to 2.75%
- Business Taxes reduced by \$20 million
- **Fiscal Year 2008 tax reduction of \$180 million**

Summary of 2007 Tax Reform (2008 Tax Year)

- Income Tax reduction of \$110 million
 - Flat tax rate drops from 5.35% to 5%
 - Non-refundable Standard Taxpayer credit of 6% of federal standard or itemized deduction and 4.5% of federal personal exemptions that phase out as income increases
 - Non-refundable Retiree Credit up to \$450 per retiree that phases out as income increases
- Sales Tax reduced by \$80 million
 - General state sales tax rate is reduced by 0.1% - from 4.75% to 4.65% - \$40 million
 - State sales tax on food is reduced by 1% - from 2.75% to 1.75% - \$40 million
- Business Taxes reduced by \$30 million
- **Fiscal Year 2009 tax reduction of \$220 million**

Overview of All Tax Reform

- Individual Income Tax reduction of \$190 million
 - New individual income tax system established
 - Single tax rate of 5%
- Sales Tax reduction of \$160 million
 - General state sales tax rate reduced by 0.1% - from 4.75% to 4.65% (\$40m)
 - State sales tax on food reduced by 3% - from 4.75% to 1.75% (\$120m)
- Business Taxes reduced by \$50 million
- **Total revenue reduction of \$400 million** as a result of 2006 and 2007 tax reform

Benefits of Utah Tax Reform

1. **Broadens** the income tax base:
 - The low income will pay a flat tax on federal taxable income, but as income increases taxpayers will move to paying a flat tax on federal adjusted gross income.
2. **Lowers** the rate:
 - In total, this will result in a 30% income tax rate reduction, from 7% to 5%.
3. Significantly **reduces volatility** in the income tax:
 - This stabilizes future revenue growth, thereby strengthening education funding.
4. Increases **simplicity**:
 - The flat tax has fewer calculations than the old graduated system.
 - Returns to a single income tax system.
5. Improves equity through a **more progressive** tax system.
6. **Strengthens Utah's long-term competitiveness**, positioning the state for the 21st century:
 - Provides businesses additional incentives to relocate to Utah.