

# Income Tax Reform Overview

## Under the tax reform proposal:

This overview describes the income tax reform portion of an omnibus tax package. The omnibus package will incorporate income, business inputs, and sales tax reductions.

## How will it work?

- The estimated fiscal impact of income tax proposal is **\$110 million** (FY 2009).
- This is a **single track system**
- Under the proposed flat rate system, taxpayers have a **5% rate** and are eligible to receive a **nonrefundable taxpayer tax credit**:
  - The credit is 6% of the federal standard or itemized deduction, and the state personal exemption
  - The credit phases out at 1.4 cents on the dollar beginning at \$14,000 for single, \$21,000 for head of household, and \$28,000 for married filing joint
- There is a **retirement credit** to hold existing retirees harmless

## When implemented, this proposal:

- Reduces the top marginal rate from 5.35% to 5%.
  - In total, this will result in a **30%** rate reduction, from 7% to 5%.
- Utah's long-term competitiveness will continue to improve because of the reduction in the top marginal tax rate.

## Benefits of this proposal:

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:
  - From 7% to 5%.
3. Reduces volatility in the income tax.
4. Increases simplicity:
  - Flat tax has fewer calculations than the old graduated system.
  - Returns to a single tax system.

# Comparing Tax Systems Volatility

Year	Taxpayers	Utah AGI		Prior System			SB4001			Proposed Reform		
		millions	% chg	millions	chg	% chg	millions	chg	% chg	millions	chg	% chg
1994	804,421	\$24,533		\$979			\$953			\$922		
1995	843,671	\$27,178	10.8%	\$1,094	\$115	11.7%	\$1,065	\$112	11.7%	\$1,033	\$111	12.0%
1996	880,138	\$30,092	10.7%	\$1,159	\$65	6.0%	\$1,132	\$67	6.3%	\$1,130	\$97	9.4%
1997	914,479	\$33,259	10.5%	\$1,289	\$130	11.2%	\$1,258	\$126	11.1%	\$1,268	\$138	12.3%
1998	939,129	\$35,473	6.7%	\$1,390	\$100	7.8%	\$1,355	\$97	7.7%	\$1,358	\$90	7.1%
1999	963,572	\$38,469	8.4%	\$1,538	\$149	10.7%	\$1,500	\$145	10.7%	\$1,503	\$146	10.7%
2000	987,748	\$41,009	6.6%	\$1,642	\$103	6.7%	\$1,602	\$101	6.8%	\$1,612	\$108	7.2%
2001	997,808	\$40,249	-1.9%	\$1,555	-\$87	-5.3%	\$1,519	-\$83	-5.2%	\$1,557	-\$55	-3.4%
2002	1,002,184	\$39,578	-1.7%	\$1,538	-\$17	-1.1%	\$1,502	-\$16	-1.1%	\$1,528	-\$30	-1.9%
2003	997,407	\$41,471	4.8%	\$1,601	\$63	4.1%	\$1,560	\$58	3.8%	\$1,572	\$44	2.9%
2004	1,018,418	\$45,326	9.3%	\$1,785	\$184	11.5%	\$1,737	\$177	11.3%	\$1,743	\$172	10.9%
2005	1,084,964	\$54,009	19.2%	\$2,222	\$436	24.4%	\$2,148	\$411	23.7%	\$2,146	\$403	23.1%

Ratios		
Prior	SB4001	Proposal
1.09	1.09	1.12
0.56	0.59	0.87
1.07	1.06	1.16
1.17	1.15	1.06
1.27	1.27	1.27
1.02	1.02	1.09
2.86	2.81	1.83
0.65	0.64	1.14
0.86	0.80	0.60
1.24	1.22	1.18
1.28	1.24	1.21

