

## Broaden the base

### Extend sales tax to services

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Gov. Jon Huntsman's timing may not be the best, but he's got the right idea. Utah should broaden its tax base by applying the sales tax to services. In exchange, the governor would eliminate the remaining sales tax on unprepared food.

This is not a new idea. Former Gov. Olene Walker's tax reform commission proposed it four years ago. But the Legislature heard only half of the message. It lowered rates for the income tax and the sales tax on food, but it has not broadened the sales-tax base to include services like professional fees for lawyering and accounting. In fact, by cutting the sales tax on unprepared food from 4.75 percent to 2.75 percent, it actually has narrowed the base.

Gov. Huntsman brought up the idea again the other day. The reason his timing is not the best is that most economists would say that imposing new taxes on business inputs during a recession is exactly the wrong thing to do. That's what a sales tax on professional services would be. It also would be a tough sell to impose a tax on health-care services when inflation in that sector of the economy already is out of control.

Even if the sales tax were removed completely from unprepared food, and his proposal were revenue-neutral, the governor probably would face stiff opposition from the Legislature. Perhaps that's why he did not make the proposal part of his budget, nor does he have a bill ready for introduction in the legislative session that begins later this month.

Nevertheless, the concept of taxing services is a good one. As the Walker commission argued, the base of most of Utah's taxes, adjusted for economic growth, is shrinking. As manufacturing has declined, services have grown in relative importance. As the base of the tax structure narrows, government revenues also become more volatile during the ups and downs of the business cycle.

What's more, the existing structure penalizes the poorest among us disproportionately. People get dinged every time they go to the grocery store. But the biggest clients of accountants, lawyers and the like -- the well-to-do and business classes -- don't pay a tax on those services. What's more, if you broaden the tax base, you can lower the rates on everyone.

The naysayers complain that a tax on services would be an accounting nightmare. There's some truth in that argument, but the problem is not insurmountable. Mostly it's a smokescreen to protect those who don't want to be taxed.