

## Gov wants to swap one tax for another

**Taxes » Huntsman proposes taxing services and nixing the remaining sales tax on food.**

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Gov. Jon Huntsman Jr. wants the Legislature to once again take up the thorny issue of taxing a whole host of services, from legal fees and accounting and medical bills to things like carpet installation that now go untaxed. "It doesn't need to be a tax increase. We can balance it out by taking the rest of the sales tax off food, which is something I would propose to do," said Huntsman, who has made repeal of the grocery a priority since he first ran for office in 2004.

Beginning in 2007, Huntsman and lawmakers repealed 2 percent of the state's 4.75 percent state sales tax on food. The governor has made repealing the remaining tax one of his goals for his second term, which begins next week.

But taxing services has, in the past, made Republican legislators cringe, and there is little sign that has changed.

"There is little legislative appetite to revisit taxing services," said Senate Majority Leader Curtis Bramble, R-Provo, an accountant who has played a significant role in Utah's recent tax reform efforts. The topic was floated during a recent Senate Republican caucus meeting and produced a dull thud.

The logic behind taxing services goes like this: For generations, Utah's tax structure has been built on sales tax and manufacturing, while a growing services sector has gone untouched.

"Ultimately, we've got to come to grips with the reality that the service sector is increasingly a big part of our economic base and it's left out of the tax regime," Huntsman said in a recent interview.

The problem is that sales taxes are volatile -- revenues spike in good times and contract dramatically in bad times, like now. Supporters argue that adding services to the mix means a wider state tax base.

"If you broaden that base enough, you decrease that volatility," M. Keith Prescott, chairman of the Utah Tax Review Commission, said. Prescott has supported taxing services for years, even though, as an accountant, his industry would be one of those affected.

It's not a new idea.

In 2004, then-Gov. Olene Walker pitched the taxation of some services as part of a tax reform package, but legislators balked.

"They took what we proposed and did the feel-good thing by cutting the [income tax] rates, but instead of broadening the tax base, they narrowed it," said Walker, who believes the current economic downturn could have been mitigated if lawmakers had adopted her recommendations.

Other states have grappled with the issue as well. New Mexico and Hawaii are the only two states that levy sales tax on a broad range of services, according to a 2007 survey by the Federation of Tax Administrators. Bramble said the Legislature spent seven years studying the proposed tax on services, and discovered that any scheme to tax services quickly breaks down because of its complexity.

First, he said, there is opposition to imposing new taxes on medical expenses, which make up a large portion of the untaxed services, as well as "business input services," like computer consulting and business accounting and legal fees. Take those off the table and the pool of available services shrinks rapidly.

Beyond that, there are too many variations in billing and how taxes on things like life insurance premiums or investment funds should be assessed, that it becomes cumbersome.

"It simply became an insurmountable obstacle," Bramble said.

The opposition to the proposal, says Prescott, is "only based on whose ox is being gored."

"Service providers aren't being taxed now and, by and large, they're not going to like the proposal," said Prescott, who believes any complexities could be worked through with a little effort. "The truth is its really not all that difficult."

Any changes are not likely imminent. The Utah State Tax Commission has appointed a subcommittee to study the issue of taxing services, but its work is still in the early stages.

Huntsman has not recommended specific legislation to implement the change this year, nor are any changes to the tax structure detailed in his budget recommendations for the coming year.

"Certainly, it will be a controversial proposal," Prescott said.

To tax and serve

Utah levies a sales tax on some services, but not others. A July 2007 survey by the Federation of Tax Administrators found that Utah taxes 58 of 168 categories in the survey. Here are some examples.

Services taxed in Utah:

Pet grooming

Fishing and hunting guides

Diaper service

Dry cleaning and shoe repair

Amusement park admission

Services that are not taxed in Utah:

Advertising sales

Pest extermination

Lawyer fees

Accounting services

Medical expenses

Lobbying and consulting

Custom meat slaughtering

Source: Federation of Tax Administrators survey of states, July 2007.