

My name is Casey Hill. I am the State Director of NFIB (the National Federation of Independent Businesses) and our organization has taken on this issue as a priority this year.

Where did this idea originate?

When the legislature was pursuing major tax reform a few years ago, there were numerous tax policy groups discussing best practices. One of the items that came out of those discussions was the issue of "tax pyramiding." As different ideas were explored relative to modifications to sales tax, we became aware that Utah had some areas in the code where tax pyramiding was unintentionally occurring.

What we're doing

SB93 eliminates instances of tax pyramiding, or the double taxation of business inputs, in two areas of state code: service industries subject to sales tax and certain intangible goods subject to sales tax.

What Is Tax Pyramiding?

Tax pyramiding occurs when the same final good or service is taxed multiple times along the production process. This yields vastly different effective tax rates depending on the length of the supply chain and disproportionately harms low-margin firms. The ideal base for sales taxation is all goods and services at the point of sale to the end-user.

Tax pyramiding exists in some areas of outdated Utah State Code. Utah has mostly done a good job of eliminating tax pyramiding when it comes to tangible goods subject to sales tax (like a salad at a restaurant, only the final salad is subject to sales tax, the restaurant does not pay sales tax on the lettuce it buys to make the salad). But despite Utah's well-deserved reputation as a business-friendly state there are still some areas where we can do better. One of those is removing instances of double taxation where it still exists.

Examples

A full-service car wash that is subject to sales tax: The tangible business inputs necessary to provide the service, e.g. soap, are also subject to sales tax. The car wash buys soap and pays sales tax on the soap. The car wash then washes your car and you pay sales tax on the service. You're paying tax on the soap tax (double taxation), because that soap tax was already added to the cost of the final service. This bill provides an exemption from tax for the tangible property that is consumed while providing the service when the final service is subject to sales tax.

A software company where their software is subject to sales tax: Most software isn't developed from scratch. In fact, most software is a combination of other already existing pieces of software purchased, repackaged, modified, etc., to provide a new piece of software. When a software company buys software to repackage into a new piece of software, it pays sales tax on that original purchase and you, as a consumer, pay sales tax on the taxed original software, because the tax is included in the price of the final product. This bill provides an exemption from tax the software purchased in the development of new software when the final piece of software is subject to sales tax.