



THE BOTTOM LINE

By Howard Headlee, President, Utah Bankers Association

Don't Underestimate the Impact of Tax Policy on Utah's Economic Success



If Congress continues on its current path, state legislatures around the country are going to get really busy. Those who believe states are best equipped to solve our most complicated problems should be very pleased, but now the hard work begins.

Of course this all depends on any of the significant pieces of legislation under consideration passing both the House and the Senate. But if the current overhaul of healthcare makes it to the President's desk, many of the most difficult issues, including high cost risk pools (pre-existing conditions) will have to be tackled at the state level.

The other major initiative that looks to have momentum this year is tax reform. And given the fact that our state income tax system piggy backs off the federal system, whatever changes are made in Washington D.C. could have a significant impact on state revenues.

If final action reflects the current rhetoric, the tax base will be broadened to capture in-

come currently excluded from federal income tax. This will allow Congress to lower the overall corporate and personal income tax rates. According to some reports, the reduction in rates could be significant. This could either mean an irresponsible expansion of the federal debt, or a significant expansion of the tax base, or perhaps both.

Any expansion of the base, will result in an increase in income tax revenues for the State of Utah unless the legislature acts to lower its rates in conjunction with the federal rates as the base expands.

In light of the "Our Schools Now" initiative, we can expect a healthy debate between those committed to revenue neutrality and those looking to increase the State's investment in education. Either way, there will be a fantastic opportunity to re-evaluate tax policy in the State of Utah.

Too many underestimate the impact of tax policy on Utah's economic success. The foundation for that success

can be traced back to the last tax revolt in the late 80's. The lessons learned during this period have served the state very well. The foundation of sound management led by Governor Bangerter, was continued by the "boom buffers" employed by Governor Leavitt along with meaningful tax reductions that allowed Utah to exit the list of the highest-tax states (as a percent of personal income).

The election of Jon Huntsman Jr. and his effort to broaden Utah's tax base and lower rates along with a continuation of the strong foundation of sound management he inherited, launched Utah into its current role of economic leadership in the country.

I remember Huntsman's election well. His platform was very simple: If we create the best environment for economic expansion and jobs, we will have plenty of money for important programs like education. His opponent, Scott Matheson's platform was equally simple: If we raise taxes and invest in education,

our skilled workforce will attract business investment and create economic expansion.

Governor Herbert has maintained this approach and the state's position as the best economy in the country, but more importantly has made good on the promise of investing the windfall of this enormously successful policy into our education system in record amounts.

In short, taxes and Utah's tax policy has made a big difference in the opportunities and quality of life of every Utahn. Congress is now preparing to make significant changes to the nation's tax policy that will drive tough decisions for every state. Utah will have to be nimble and smart in order to preserve the top economy in the nation and continue to generate healthy increases in education revenues over the long-run. The Legislature need only draw upon Utah's legacy of sound management and pro-growth tax policy to remain #1. ■