

Sales and Use Tax Exemptions

State Revenue Impacts

A Joint Report from: Utah State Tax Commission & Office of the Legislative Fiscal Analyst

This report fulfills the requirement of HB 25 from the 2017 General Legislative Session for the Utah State Tax Commission, in consultation with the Office of the Legislative Fiscal Analyst, to study and prepare a report on the state revenue impacts of the sales and use tax exemptions under Section 59-12-104 and to present the findings of that report to the Revenue and Taxation Interim Committee by November 30, 2017. This report presents Fiscal Year 2017 estimated state revenue impacts for each of the sales tax exemptions under 59-12-104. Exemptions are grouped into two major categories: (1) business inputs and (2) non-business inputs. Non-business inputs are further categorized into charitable / government, economic development, economic efficiency, healthcare, and other. Within categories, exemptions are listed by subsection number. In addition to a point estimate, a 1 to 5 rating of the quality of the estimate is included. Very little data on exempt amounts is reported to the Tax Commission which necessitated using outside data sources and making significant assumptions to obtain estimates. Higher ratings equate to a more reliable estimate. Estimates involving non state specific data and significant assumptions have relatively poor reliability, while estimates developed using state specific data and limited or no assumptions have relatively good reliability.¹ Some exemptions didn't have enough available data to produce an estimate, these exemptions do not have an estimate but are listed as 'Insufficient Data'. Note that many exemptions are highly dependent on taxpayer behavior and may vary significantly from year to year (i.e. what is listed for FY17 many not be representative of what will happen in future years). Some exemptions may influence the behavior of businesses and individuals in such a way that additional tax revenue (sales, income, property, etc.) is generated that the state would not have otherwise received. These dynamic fiscal impacts are not captured in the estimates provided in this report. One other item of note is that some sales or purchases are exempt under multiple exemptions. Because some exemptions overlap and some exemptions are not estimated, summing the estimated revenue impacts from all exemptions does not provide a meaningful estimate of total revenue impacts.

| Subsection (59-12-104) | Brief Description of Sales Tax Exemption | Year Enacted | FY 2017 State Revenue Impact | Estimate Reliability ¹ (Based on Quality and Availability of Data) |
|---|---|--------------|------------------------------|--|
| Business Inputs (one category; exemptions for purchases that are (1) primarily made by businesses or (2) limited to businesses) | | | | |
| Business Inputs - All | | | | |
| (4) | Certain products purchased by airlines for in-flight use or consumption | 1983 | \$1,900,000 | 3 |
| (5) | Aircraft parts and equipment for installation in certain aircraft | 1984 | \$7,400,000 | 1 |
| (6) | Commercials, films, and other audio / video sold to broadcasters and others | 1981 | \$6,200,000 | 1 |
| (11) | Pollution control equipment (includes consumables) | 1973 | \$6,300,000 | 3 |



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|---|--|--------------|------------------------------|--|
| (14) | Machinery, equipment, or parts to manufacturers and others (three-year economic life) | 1985 | \$136,400,000 | 3 |
| (15) | Certain equipment under certain aerospace or electronics contracts with the federal government | 1986 | \$7,200,000 | 1 |
| (18) | Certain products primarily used in farming operations | 1979 | \$65,300,000 | 2 |
| (19) | Hay | 1995 | \$10,300,000 | 3 |
| (22) | Non-returnable containers, labels, casings for use in packaging TPP | 1969 | Insufficient Data | N/A |
| (23) | Property stored in the state for resale | 1937 | Insufficient Data | N/A |
| (25) | Product purchased for resale in its original form or as a component part of a manufactured good | 1937 | Insufficient Data | N/A |
| (27) | Intrastate telecommunications services or fuel for use in compounding a taxable service | 1933 | \$7,500,000 | 1 |
| (29) | Certain products used by a steel mill | 1987 | \$210,000 | 3 |
| (32) | Telecommunications service for purposes of providing telecommunications service | 1990 | \$3,700,000 | 2 |
| (33) | Vehicle or products installed on a vehicle used by an authorized carrier | 1995 | \$15,200,000 | 1 |
| (37) | Electricity to ski resorts for lifts | 1996 | \$250,000 | 2 |
| (38) | Ski resort equipment and parts | 1996 | \$72,000 | 2 |
| (39) | Natural gas, electricity, coal, fuel oil, and other fuels for industrial use | 1996 | \$44,100,000 | 4 |
| (44) | Semiconductor fabricating, processing, research, or development materials | 2001 | \$7,000,000 | 2 |
| (46) | Vehicles used for temporary sporting events | 2001 | Less Than \$1,000 | 2 |
| (52) | Sale-leaseback transactions | 2003 | Insufficient Data | N/A |
| (54) | Machinery or equipment purchased by the film industry and used to produce certain media | 2004 | \$3,500,000 | 2 |
| (55) | Certain machinery, equipment, etc. for or by an alternative energy electricity production facility | 2002 | Insufficient Data | N/A |
| (56) | Certain machinery, equipment, etc. for or by a waste energy production facility | 2004 | Insufficient Data | N/A |
| (57) | Certain purchases for or by a facility that produces fuel from alternative energy | 2004 | Insufficient Data | N/A |
| (58) | Building materials shipped out of state and incorporated into real property | 1989 | Insufficient Data | N/A |

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|---|--|--------------|------------------------------|--|
| (59) | Address list or database used to send direct mail | 2005 | \$1,500,000 | 2 |
| (61) | Certain machinery, equipment, or software purchased by or for a telecommunications service provider | 2006 | \$11,900,000 | 2 |
| (62) | Products used in the research and development of alternative energy technology | 2006 | Insufficient Data | N/A |
| (63) | Business property purchased outside the state and brought into the state after first use | 2007 | Insufficient Data | N/A |
| (66) | Construction materials for Salt Lake International Airport (material converted to real property only) | 2008 | \$6,980,000 | 5 |
| (67) | Construction materials for new airport in 2nd class county (material converted to real property only) | 2008 | \$0* | N/A |
| (68) | Fuel sold to a common carrier railroad and used in a locomotive engine | 2008 | \$2,500,000 | 4 |
| (70) | Products to an aircraft repair provider if used to repair aircraft not registered in Utah | 2010 | \$250,000 | 3 |
| (73) | Construction materials for life science research facility (material converted to real property only) | 2012 | \$650,000 | 2 |
| (74) | Machinery, equipment, or parts used in qualified research (three-year life) | 2012 | \$13,800,000 | 3 |
| (75) | Product used in preparation of food if seller and purchaser are the same (seller already paid sales tax) | 2013 | Insufficient Data | N/A |
| (76) | Amusement and recreation machinery or equipment (three-year life; business must charge fee to use) | 2013 | \$480,000 | 1 |
| (77) | Short-term lodging consumables | 2013 | \$2,200,000 | 2 |
| (78) | Database access (viewing or retrieval of information) | 2013 | \$1,100,000 | 2 |
| (79) | Machinery, equipment, or parts used for electronic financial payment services (three-year life) | 2013 | \$1,700,000 | 1 |
| (81) | Business property temporarily brought into the state by an out-of-state business for disaster-related work | 2014 | \$0* | N/A |
| (83) | Molten magnesium | 2015 | \$610,000 | 4 |
| (84) | Machinery, equipment, parts, and materials to a drilling equipment manufacturer | 2015 | \$1,122,000 | 4 |
| (85) | Machinery, equipment, or parts purchased by certain data centers (one-year economic life) | 2016 | \$0* | N/A |
| (86) | Machinery, equipment, or parts purchased by an automobile manufacturer | 2017 | \$0** | N/A |
| (87) | Equipment or parts to industrial gas manufacturers to manufacture hydrogen (< three-year economic life) | 2017 | \$0** | N/A |
| (89) | Machinery, equipment, etc. purchased by a refinery and used in a specified activity | 2017 | \$0*** | N/A |

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|---|---|--------------|------------------------------|--|
| Non-Business Inputs (five categories; exemptions for purchases that are primarily made by consumers rather than businesses) | | | | |
| Non-Business Inputs - Charitable / Government | | | | |
| (2) | State and local government purchases except for certain construction materials | 1933 | \$47,800,000 | 1 |
| (8) | Sales to or by religious or charitable organizations | 1933 | \$11,900,000 | 1 |
| (12) | Certain food or alcohol served by religious, charitable, medical or higher education | 1939 | \$1,700,000 | 1 |
| (21) | Food stamp purchases | 1986 | \$5,100,000 | 5 |
| (28) | WIC purchases | 1987 | \$450,000 | 5 |
| (35) | Sales relating to schools and fundraising sales | 1995 | \$140,000 | 1 |
| (41) | Copies and publications by a government entity | 1997 | \$450,000 | 1 |
| (65) | Sales to a public transit district (includes construction materials converted to real property) | 2007 | \$310,000 | 3 |
| (69) | Sales to or by Heber Valley Railroad | 2010 | \$120,000 | 4 |
| (82) | Sales of goods and services at a National Guard morale, welfare, and recreation facility | 2014 | \$20,000 | 4 |
| Non-Business Inputs - Economic Development | | | | |
| (31) | Aircraft manufactured in Utah | 1990 | \$0* | N/A |
| (47) | Certain electricity produced from a new alternative energy source | 2002 | \$115,000 | 4 |
| (80) | Fuel cell | 2013 | \$47,000 | 3 |
| Non-Business Inputs - Economic Efficiency | | | | |
| (1) | Aviation, motor, special fuels (jet, gas, diesel, etc.) | 1933 | \$205,500,000 | 4 |
| (3) | Vending machine food sold for \$1 or less under certain circumstances | 1965 | \$85,000 | 3 |
| (7) | Primarily unassisted cleaning of property (coin operated laundry, etc.) | 1975 | \$3,100,000 | 3 |
| (9) | Non-resident vehicle that is not registered or used in the state except under specified circumstances | 1957 | \$7,800,000 | 3 |

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|---|--|--------------|------------------------------|--|
| (13) | Isolated or occasional sales if not regularly engaged in business | 1937 | Insufficient Data | N/A |
| (17) | Vehicle trade-ins and other trades as part payment for a purchase | 1933 | \$69,600,000 | 3 |
| (20) | Exclusive sale of seasonal crops and plants if sold during the harvest season by the producer | 1937 | \$510,000 | 4 |
| (24) | Product brought in by a nonresident for use (product may not be used for business in the state) | 1937 | Insufficient Data | N/A |
| (26) | Product for which sales tax was paid to another state (must pay difference if Utah tax is greater) | 1937 | Insufficient Data | N/A |
| (30) | Non-resident boat that is not registered or used in the state except under specified circumstances | 1988 | \$110,000 | 3 |
| (34) | 45% of a new and 100% of a used manufactured home (based on sales price) | 1995 | \$3,700,000 | 2 |
| (40) | Use of unassisted amusement device | 1996 | \$670,000 | 2 |
| (45) | Hotel accommodations and services taxed by the Navajo Nation | 2001 | \$63,000 | 1 |
| (50) | Currency or coinage that is legal tender | 1983 | Insufficient Data | N/A |
| (51) | Gold, silver, platinum (bars, coins, etc.; not legal tender; content 50%+ gold, silver, or platinum) | 2003 | Insufficient Data | N/A |
| (60) | Pawnbroker repurchases or redemptions | 2005 | \$1,220,000 | 2 |
| (72) | Municipal taxes or fees levied on purchaser for enhanced level of municipal service | 2011 | \$9,000 | 3 |
| (88) | Car wash that does not include cleaning the interior of the vehicle | 2017 | \$0*** | N/A |

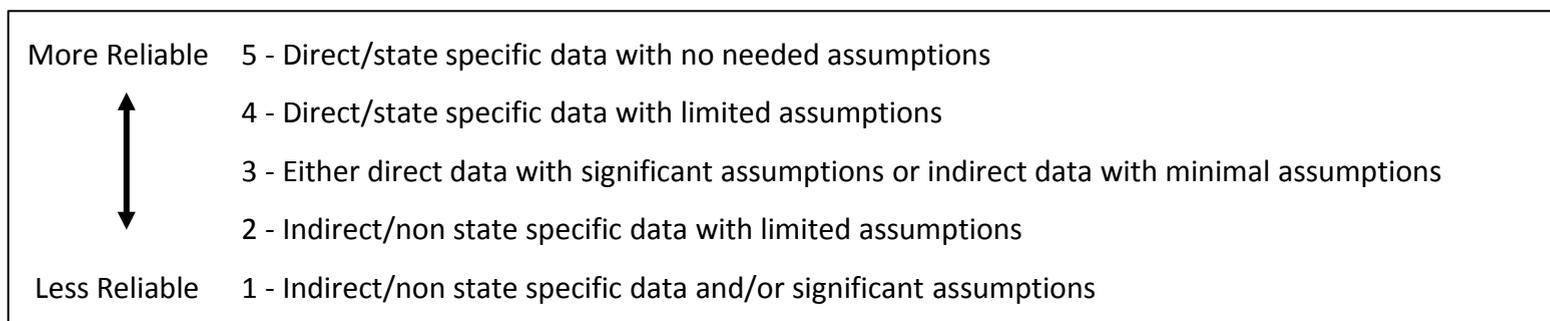
Non-Business Inputs - Healthcare

| | | | | |
|------|--|------|---------------|---|
| (10) | Prescription drugs, syringes, and stoma supplies | 1976 | \$154,700,000 | 2 |
| (36) | Prescribed durable medical equipment for home use | 1995 | \$4,000,000 | 1 |
| (43) | Sales to or by a nonprofit that provides certain services to persons age 60+ | 1999 | \$1,400,000 | 3 |
| (48) | Prescribed mobility enhancing equipment | 1995 | \$1,060,000 | 2 |
| (53) | Prosthetic device (prescribed or purchased by medical facility) | 1995 | \$800,000 | 2 |
| (64) | Prescribed disposable home medical supplies | 1995 | \$2,100,000 | 1 |

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|------------------------------------|---|--------------|------------------------------|--|
| Non-Business Inputs - Other | | | | |
| (16) | Newspapers or newspaper subscriptions | 1937 | \$1,780,000 | 2 |
| (42) | Admissions to college athletic events | 1998 | \$1,260,000 | 4 |
| (49) | Water in a pipe, conduit, ditch or reservoir | 2003 | \$21,600,000 | 3 |
| (71) | Textbooks purchased by a student (not including a college book store; seller sales primarily textbooks) | 2011 | \$190,000 | 2 |

Notes:

1 - Estimate Reliability Rating Scale



* There is no known state revenue impact from these exemptions in FY 2017. However, there could be exempt amounts in other years depending on taxpayer behavior.

** Exemptions 86 and 87 were passed in the 2017 General Session. These exemptions have no impact on state revenues in FY 2017. The fiscal note estimates that combined state revenue impact from these two exemptions is \$10 million in 2020.

*** Exemptions 88 and 89 were passed in the 2017 General Session and were not effective during FY 2017. Exemption 88 was estimated in the fiscal note to reduce state revenues by \$8,400 annually beginning in FY2018. Exemption 89 was estimated in the fiscal note to reduce state revenues by \$855,000 in FY 2018 and \$2,135,100 in FY 2019.