

## Overview

Targeted reform of Utah's individual income tax can have powerful dynamic effects. Economic research indicates that marginal tax rates significantly influence the business decisions of entrepreneurs and corporate leaders. Based upon this research, the Governor's Office of Planning and Budget developed a dynamic growth analysis under the assumption that a lower marginal tax rate would induce additional corporate relocation to Utah over and above current projections for economic growth.

## Dual Tax System

In the 2006 Fourth Special Session, the Legislature passed Senate Bill 4001, Income Tax Amendments, which provides for an optional flat tax rate of 5.35%; or, alternatively, expanded brackets and a lower top tax rate for taxpayers who elect to stay with the current system. The effect of the reform is that about 5% of taxpayers will switch to the new flat system, but it is expected key corporate decision-makers will be in this group. Although taxpayers with adjusted gross income of less than \$50,000 pay only 20% of taxes, they will receive 25% of the tax cut.

## Analysis Design

GOPB's analysis was informed by the corporate presence in Boise, Idaho. Boise currently has five large corporations with employment in excess of 1,000 jobs:

- Micron: over 5,000 jobs
- Hewlett Packard: 3,000 to 5,000 jobs
- Boise Cascade: 1,500 to 2,000 jobs
- JR Simplot: 3,000 to 5,000 jobs
- Washington Group International: 1,000 to 1,500 jobs

While Utah will not exactly replicate Boise's experience, it is realistic to suggest corporate relocation can be enhanced with a more competitive tax environment. This individual income tax reform provides the state's governor with a powerful tool to enhance Utah's corporate recruiting effort. The medium-term dynamic effect could be induced general and education fund revenue exceeding the static reduction in income tax collections.

## REMI Modeling System

GOPB used the REMI modeling system to analyze the effects of corporate relocation. This system, developed by Regional Economic Models, Incorporated, is a dynamic structural formulation of Utah's economy. REMI includes economic, demographic, and fiscal components. The economic structure includes estimates of employment and gross domestic product by state by industrial sector. Demographic effects are generated from additional employment opportunities estimated in the economic component. For example, migration is a function of

both the wage level and new employment at the industry level. REMI tracks the aging of the migrant population and the number of children born to migrants. Fiscal effects, including sales, individual, and corporate tax are estimated based on additional income and economic activity at the industry level.

## New Direct High-Paying Jobs

The analysis conducted by GOPB assumed that 6,000 direct new jobs would be created by 2020 at salaries higher than the current state average. During 2009, after tax reform has been implemented and is going forward, 1,500 high-paying jobs will be created. An additional 1,000 jobs follow in 2010, 750 jobs in 2011 and 2012, 250 jobs per year thereafter. The cumulative effect is 6,000 jobs in 2020. In the interest of simplicity and informed by Boise's experience, particularly with Micron, all of the jobs were assumed to be in the manufacturing sector.

## Compensation Premium

REMI's default manufacturing compensation, which includes wages and health and retirement benefits, for Utah is about \$55,000 per job, \$42,000 of wages and \$13,000 of benefits. This default reflects a large amount of low-skilled manufacturing skills and the absence of corporate headquarters. To capture the effect of corporate headquarters and high-skill jobs that are being targeted with tax reform, GOPB adjusted REMI's default compensation by a \$20,000 increase per job. In effect, GOPB assumed the new jobs created as result of tax reform amounted to a \$20,000 premium per job. The result of this assumption is to increase the average compensation of the direct new jobs from \$55,000 to \$75,000. Initially, the premium totals \$30 million in 2009, but grows to \$120 million by 2020.

## Economic Impacts

REMI computes a wide array of economic impacts. To focus the discussion, GOPB presents gross domestic product by state and employment. GDP by state is Utah's contribution to the Nation's GDP, and is the broadest measure of final economic activity at the state level. Employment includes both payroll jobs and entrepreneurs.

## Utah's Gross Domestic Product

In the absence of tax reform, GOPB projects Utah's GDP will reach \$143.0 billion (constant-chained 2000 dollars) in 2020. With a targeted tax reform, this amount could increase \$2.6 billion, or 1.8%, to a state GDP of \$145.6 billion.

## Employment

Direct employment resulting from corporate recruiting drives additional economic activity and employment. Corporate operations require both initial capital investment and on-going purchases from in-state suppliers. This investment and supply

will generate a multiplier effect creating additional jobs in construction and other sectors. In addition, high paid corporate employees will consume millions of dollars of retail goods and services, creating jobs in the retail and service sectors. Health benefits, in particular, will drive an increase in the employment of more doctors and other health care professionals. Total employment exceeds 25,000 in 2020.

**Tax Revenue**

The Legislature estimated the initial static reduction in income tax collections resulting from tax reform to be \$78 million. GOPB estimates the static reduction in income tax collections will be about the same proportion of income tax through 2020, as the initial \$78 million. This proportion is 2.5% in 2009 and is assumed to remain at that rate through 2020. The result is growth in static reduction from \$78 million in 2009 to \$105 million (real inflation adjusted 2006 dollars) in 2020.

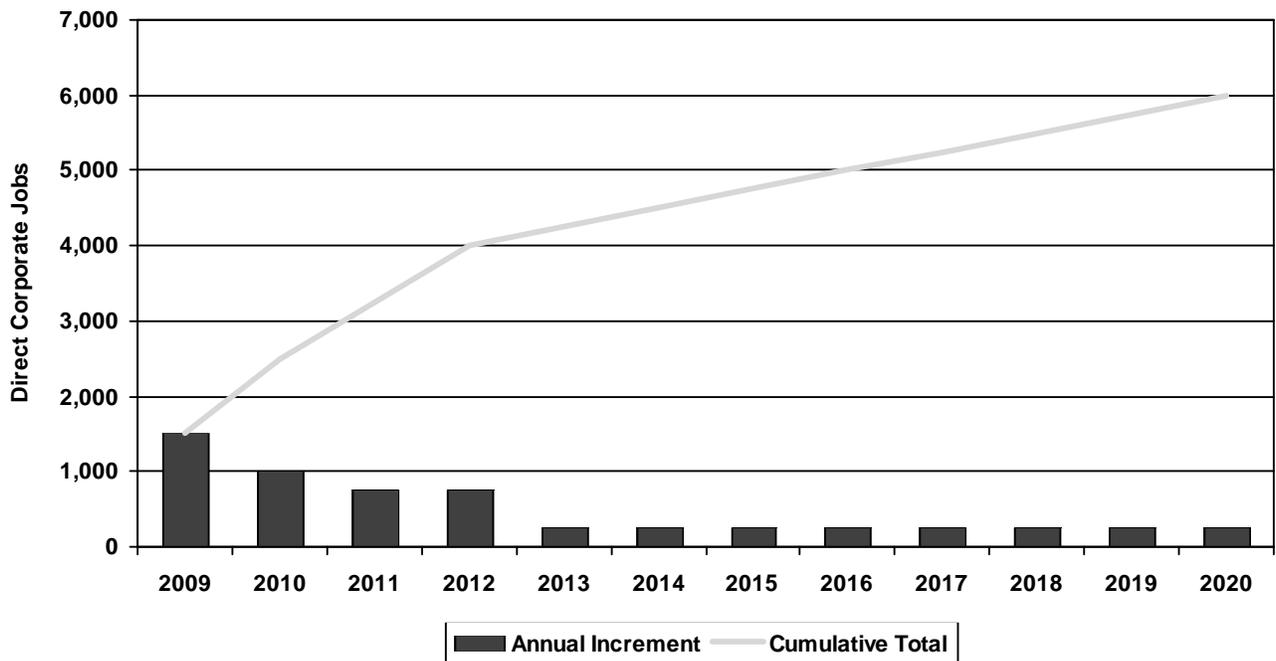
Combined General Fund and Education Fund revenue generated from corporate recruiting and additional induced eco-

nomnic activity initially totals less than the reduction in income tax. By 2015, however, dynamic revenue gains exceed the static reduction by about \$10 million. This net dynamic gain increases to about \$30 million annually in 2020.

**Conclusion**

Dynamic analysis allows a more complete understanding of policy decisions. Reforming the individual income tax to target corporate recruiting will generate more positive effects than a simple static analysis suggests. As proposed, tax reform could enable more effective corporate recruiting, resulting in 6,000 direct high paying jobs in 2020, with over 25,000 throughout the economy when the multiplier effect is considered. The overall economy, as measured by GDP by state, could be 1.8% larger, and the net revenue gain could be \$30 million.

Figure 80  
Direct Corporate Jobs Recruited to Utah: 6,000 Additional Jobs in 2020

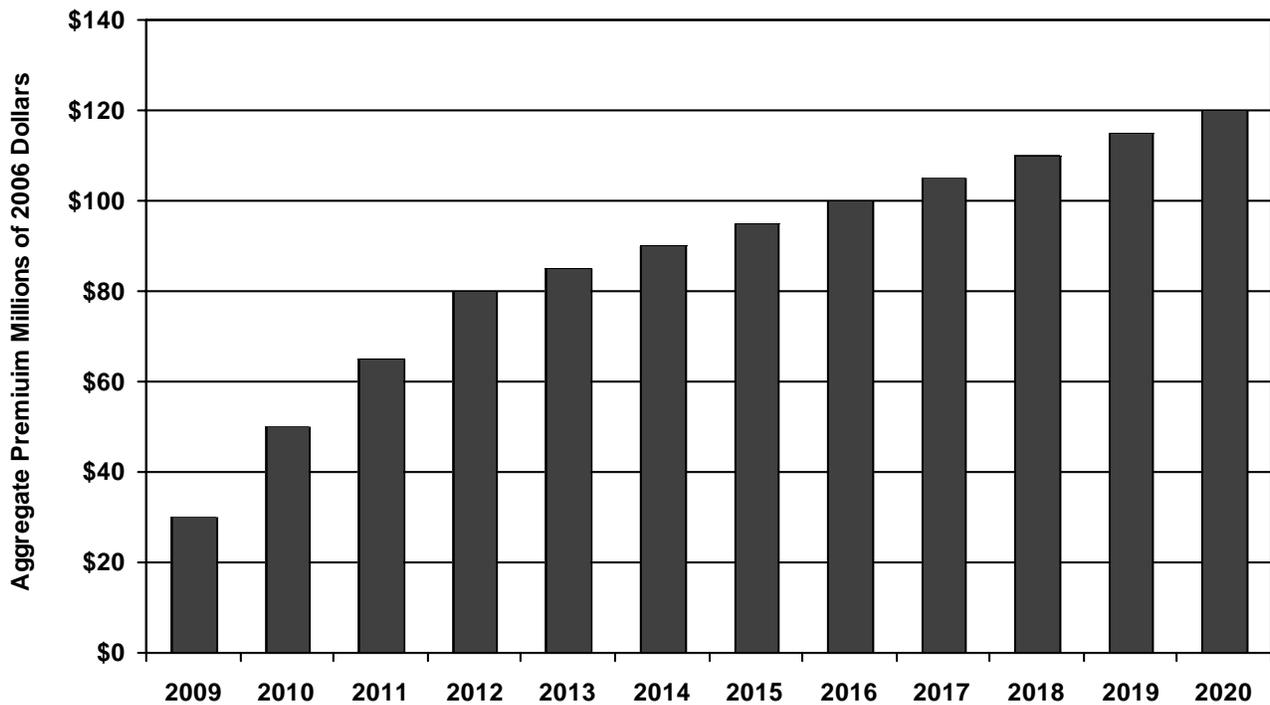


Source: Governor's Office of Planning and Budget



Figure 81

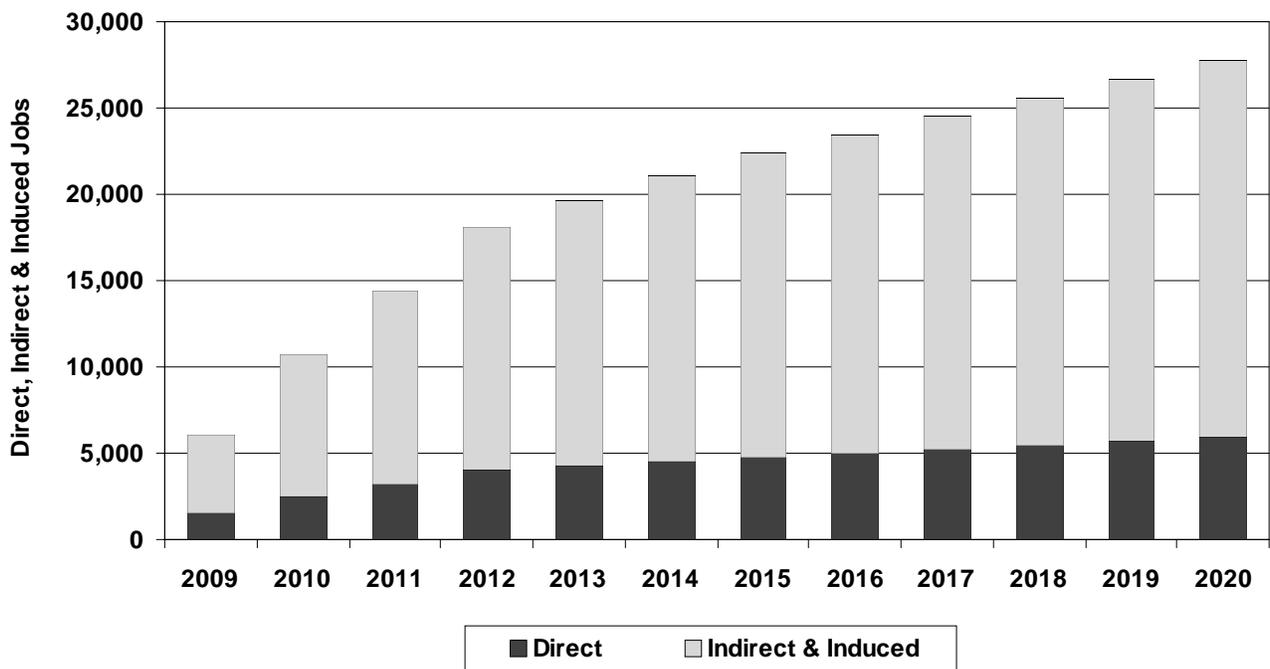
Corporate Compensation Premium Paid to Utah Employees: \$20,000 per Job, \$120 Million Wage and Benefit Premium in 2020



Source: Governor's Office of Planning and Budget

Figure 82

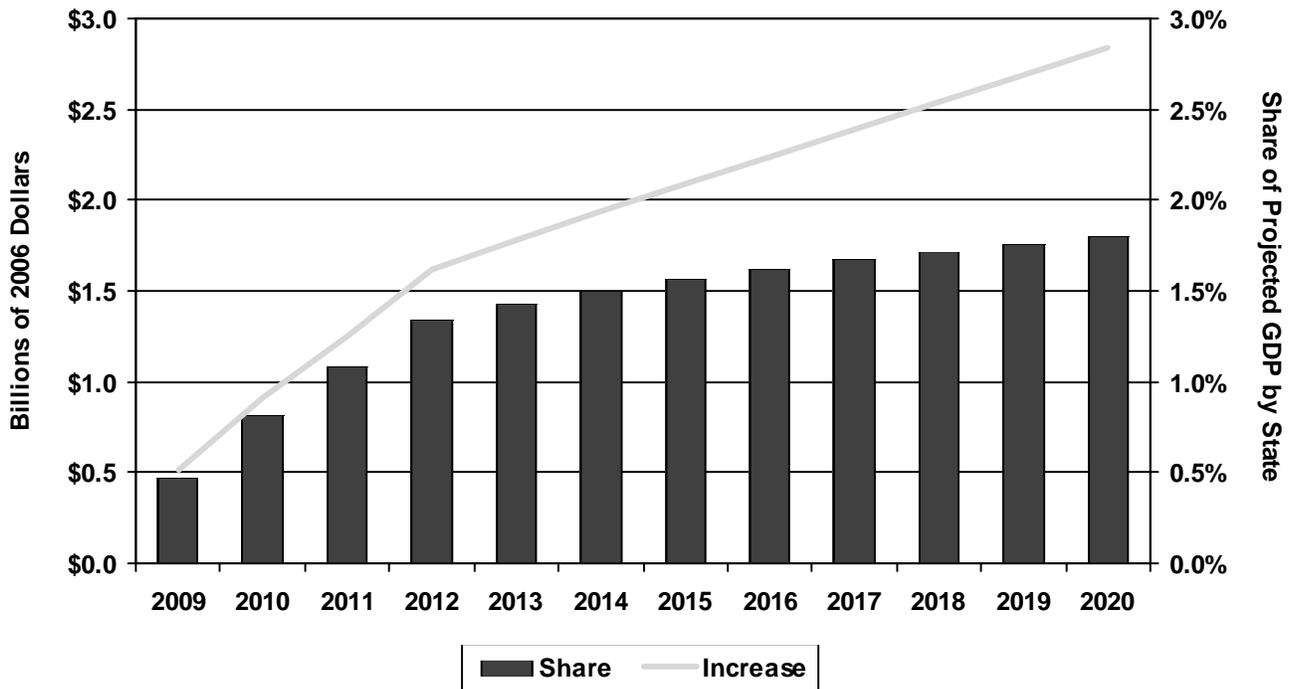
Direct, Indirect and Induced Employment Resulting from Corporate Recruitment: Over 25,000 Additional Jobs in 2020



Source: Governor's Office of Planning and Budget

Figure 83

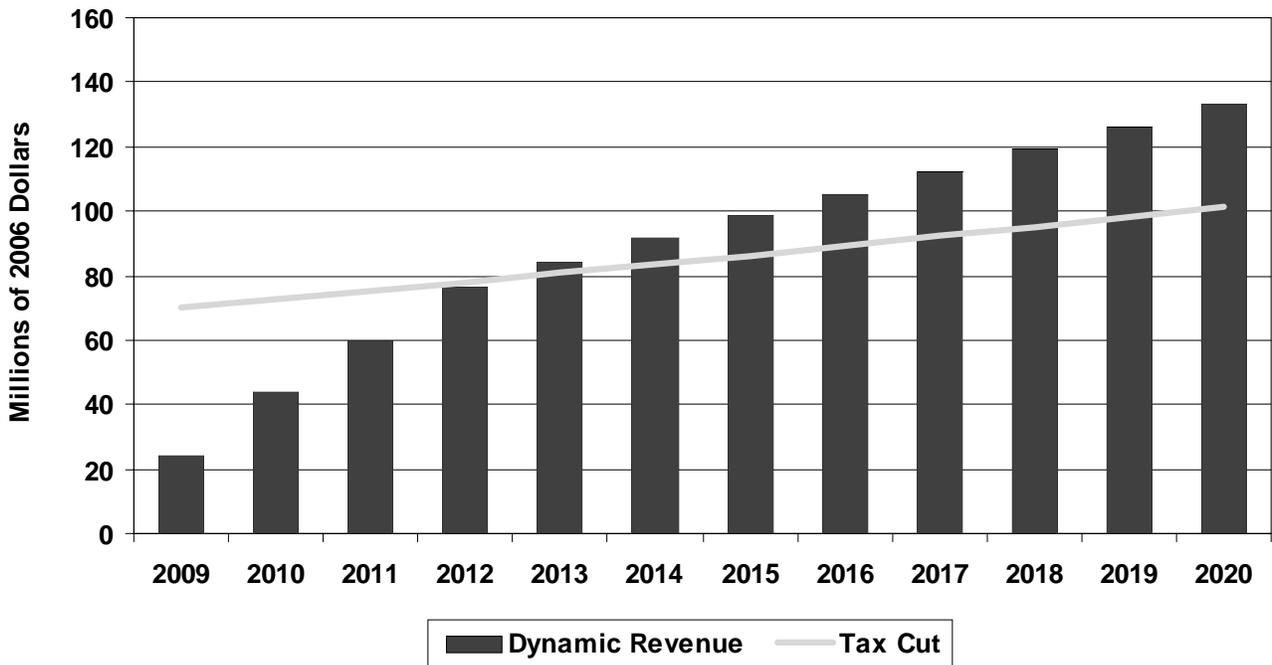
Expansion of Utah's Gross Domestic Product Above Projected Level: \$2.8 Billion or 1.8% Higher in 2020



Source: Governor's Office of Planning and Budget

Figure 84

Education and General Fund Revenue Compared with Tax Cut



Source: Governor's Office of Planning and Budget