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October 13, 2023

Governor's Office of Economic Opportunity
c/o Jim Grover
Managing Director of Incentives and Grants
60 East South Temple, Suite 300
Salt Lake City, Utah 84111-1041

Mr. Grover,

On August 22, 2023 the Tax Commission received the Summit County - Housing and Transit Reinvestment Zone (HTRZ) Application dated June 12, 2023 and submitted by Shane C. Scott. Pursuant to Subsection 63N-3-604(3)(c), the Tax Commission is required to review each HTRZ application and provide an evaluation to the Governor's Office of Economic Development describing any challenges it poses to tax administration or indicating that the proposal can be administered as presented.

For purposes of property tax increment, the proposal: adequately identifies the individual parcels subject to inclusion in the HTRZ; indicates the increment collection period; and establishes the base year against which the increment will be calculated during the collection period. The Tax Commission has not identified any challenges that this proposal will create for setting the certified tax rate. However, because this proposal involves property that is locally assessed, coordination with the county is necessary to ensure that the affected parcels can be identified, the growth can be accurately valued, and the increment revenue can be properly distributed.

For purposes of sales tax increment, each proposal must:

- clearly and unambiguously identify boundaries of the HTRZ based on state sales and use tax collection boundaries;
- establish a base year against which sales and use tax increment can be measured; and
- indicate a collection period for which increment revenue will be distributed.

Based on a review of the above referenced application, the Tax Commission has identified the following administrative challenges, assumptions, and requirements:

1. The proposal seems to indicate that the sales tax boundary will be limited to the "commercial space" which differs from the outside boundary of the HTRZ as a whole. If this is accurate, it will not include revenue generated by sales shipped to the residential units if those sales are sourced on a destination basis. If this is the intent, we will establish the sales and us tax boundaries to capture only that revenue sourced to the commercial portion of the HTRZ. If this

is not correct, the adoption of the proposal will need to reflect the intended sales and use tax boundary.

2. The proposal indicates 2024 as the sales and use tax base year. Under Section 63N-3-610 the base year for sale and use tax purposes shall take effect the first day of a calendar quarter after 90 days notice to the Tax Commission. The 90 day period cannot commence until the Tax Commission has received the notice described in Section 63N-3-606. In light of this, it is already too late for the sales and use tax base year to be January 1, 2024. However, if the Tax Commission receives notice satisfying the requirements of Section 63N-3-610 by December 31, 2023, the sales tax base year may begin on March 1, 2024. If notice is received after this date then the base year will be further delayed accordingly.
3. For purposes of this analysis we have assumed that the base year for the entire sales tax area will be effective on a single date and have a single increment collection period. If this assumption is incorrect and the proposal intends for the sales tax area to be effective on a parcel-by-parcel basis, this could not be administered with the Tax Commission's current resources. Additionally, a sales tax boundary that is implemented on a parcel-by-parcel basis would pose a substantial burden on businesses as they try to report their sales according to boundaries that shift over time.
4. We were unable to determine the sales tax increment collection period. It appears that the collection period for property tax purposes is 15 years but it is unclear whether this period is intended to apply for sales tax purposes also. This is particularly unclear because the proposal also calculates revenues from sales tax collections over 30 years. The collection period must run for a specified period of consecutive years beginning one year following the beginning of the base year. If this HTRZ is created, we ask for confirmation regarding the collection period during which the sales tax increment diversion will apply.

I am available to answer any questions you may have or to discuss how to address each of the issues raised.

Sincerely,

Jason Gardner
Director of Policy, Planning, and Public Affairs
Utah State Tax Commission