

Utah Tax System Overview

OLRGC 2022: Policy 360

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Presentation Outline

- **Tax Policy Overview**
- **Income Tax**
- **Sales & Use Tax**
- **Property Tax**



Policy Overview

Major tax types

- Income tax
- Sales and use tax
- Property tax

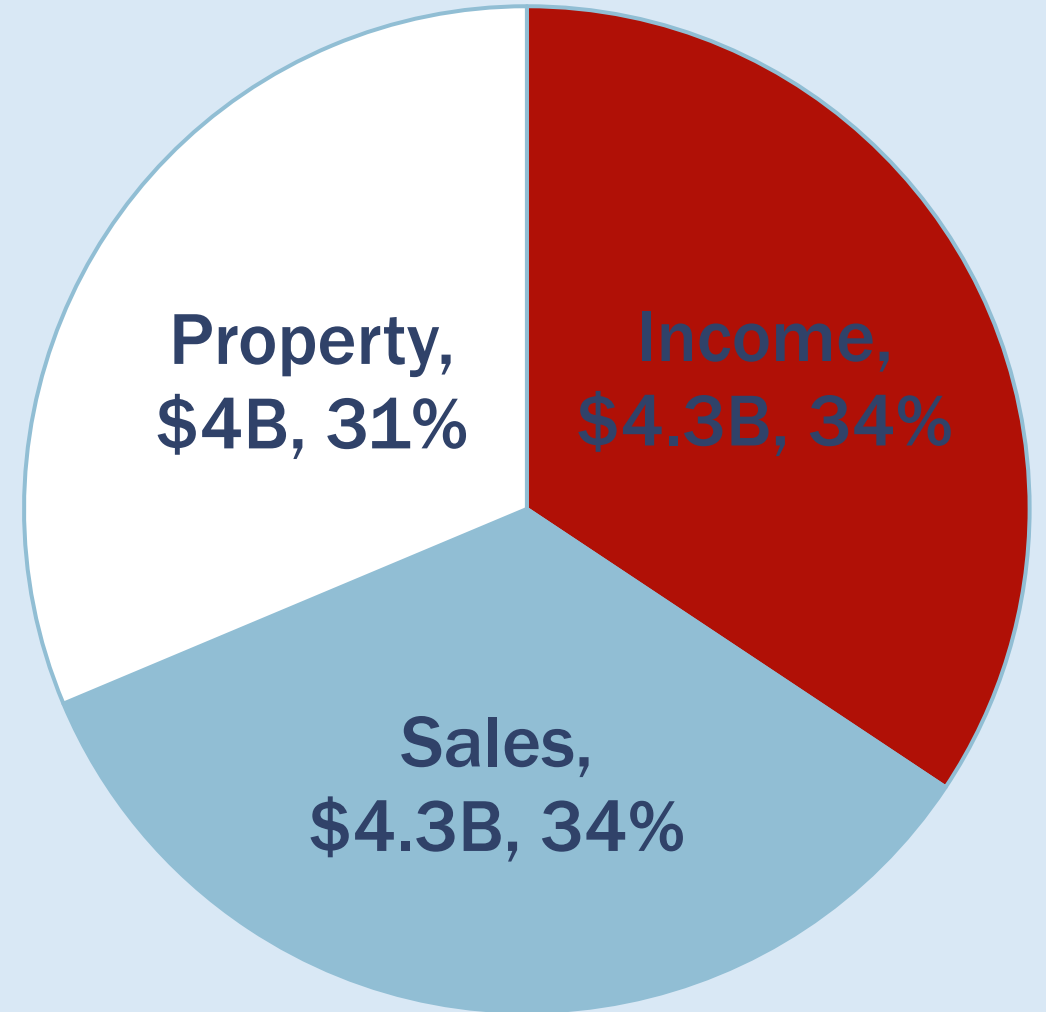
Selected other taxes

- Excise taxes on beer and cigarettes and tobacco
- Motor fuel tax
- Severance tax on oil, gas, and mining



Policy Overview

FY-2019 total revenue
for state and local
governments from
three major tax types:
\$12.6 Billion





Policy Overview

Base x Rate = Tax Revenue

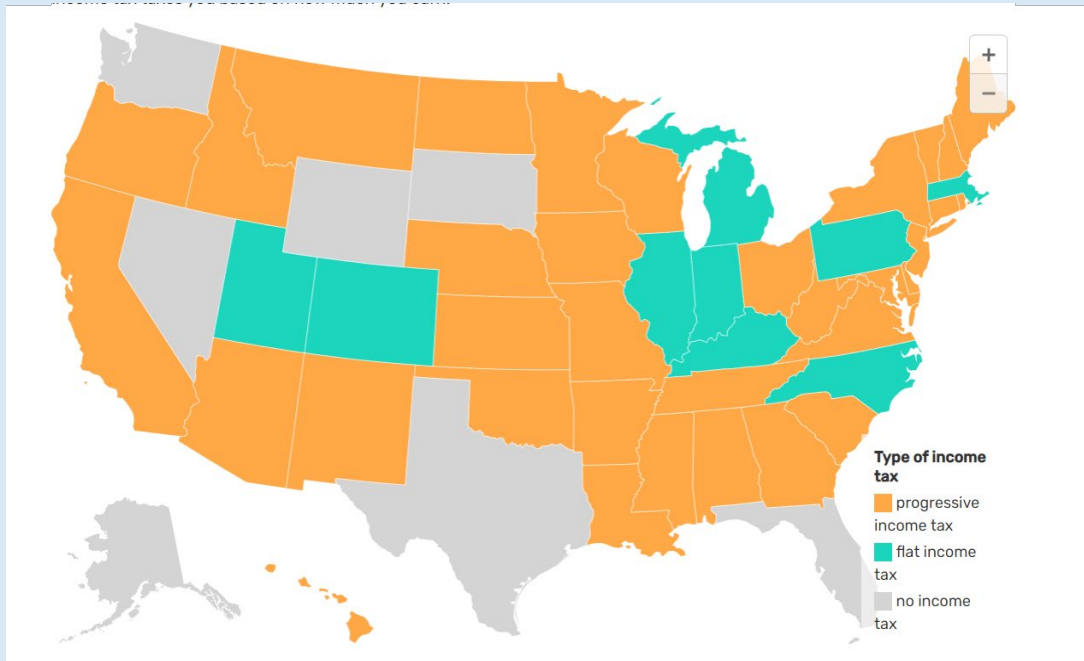
Base:

- total amount of income, property, assets, consumption, transactions, or other economic activity subject to taxation by a tax authority i.e. *what is taxed*

Rate:

- percentage at which an individual or corporation is taxed

Income Tax: what is taxed?



Source: Federation of Tax Administrators

Base:

- Income earned in the state by individuals (individual income tax); and
- Utah income of domestic and foreign corporations (corporate income tax)

Rate:

- 4.95%



Income Tax: what is **not** taxed?

$$(\text{Taxable income} \times 4.95\%) - \text{Credits} = \text{Tax}$$

Exemption:

an amount of money a taxpayer can subtract from taxable income, reducing total tax amount owed

Credit:

an amount of money a taxpayer can subtract from taxes owed, reducing total tax amount owed



Income Tax: what is **not** taxed?

Taxpayers tax credit

- Value of credit claimed was \$1.3 billion for 2019
- 6% of federal standard deduction amount+ 6% of Utah personal exemption
- Value reduces by \$0.13 for each dollar the taxpayer's state taxable income exceeds certain thresholds

Other credits (nearly 40)

- Value of credits claimed was approx. \$222 million for 2018
- Business incentives (ex. research activities credit)
- Charitable (ex. adoption of a child with special needs)
- Incentives for specific behaviors (ex. contribution to a 529 education savings plan)

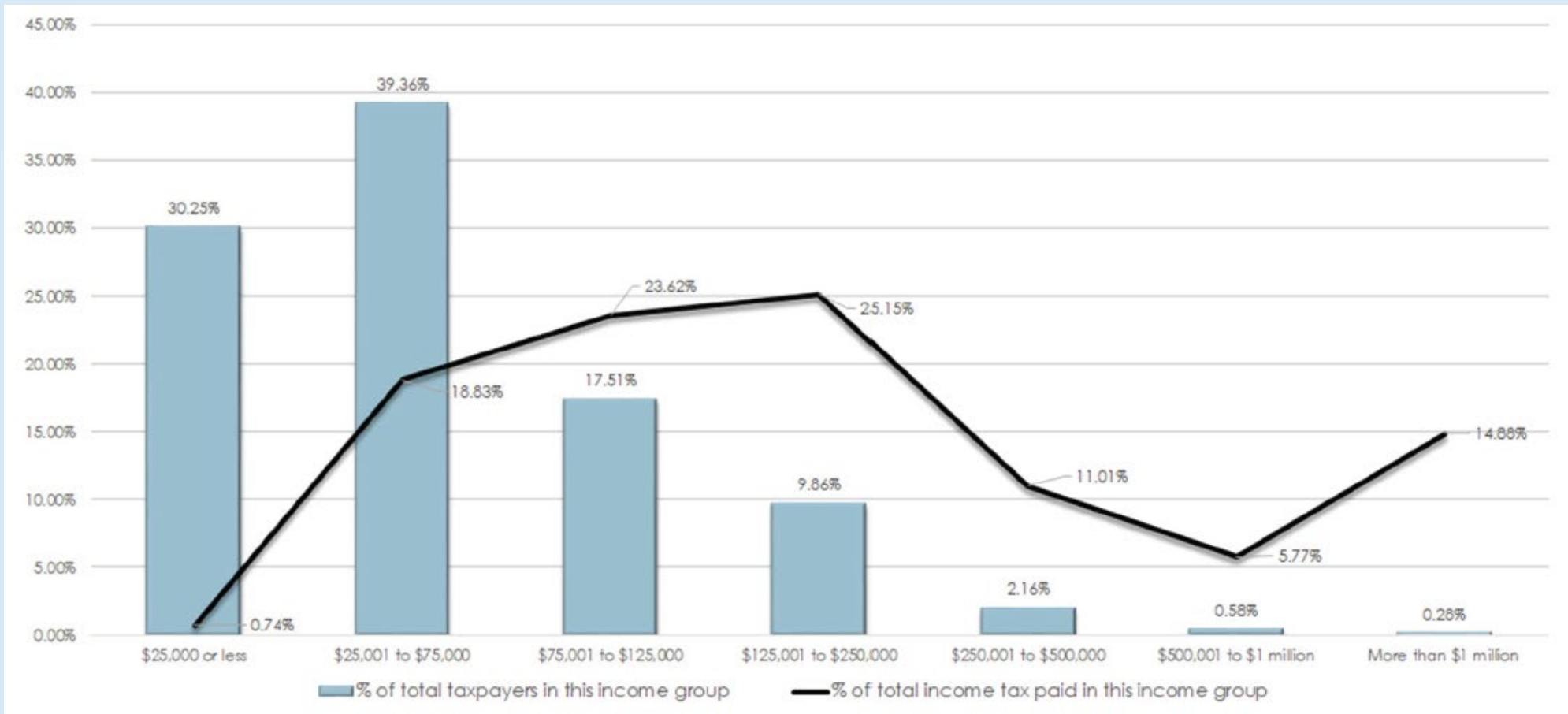


Income Tax: Who pays?

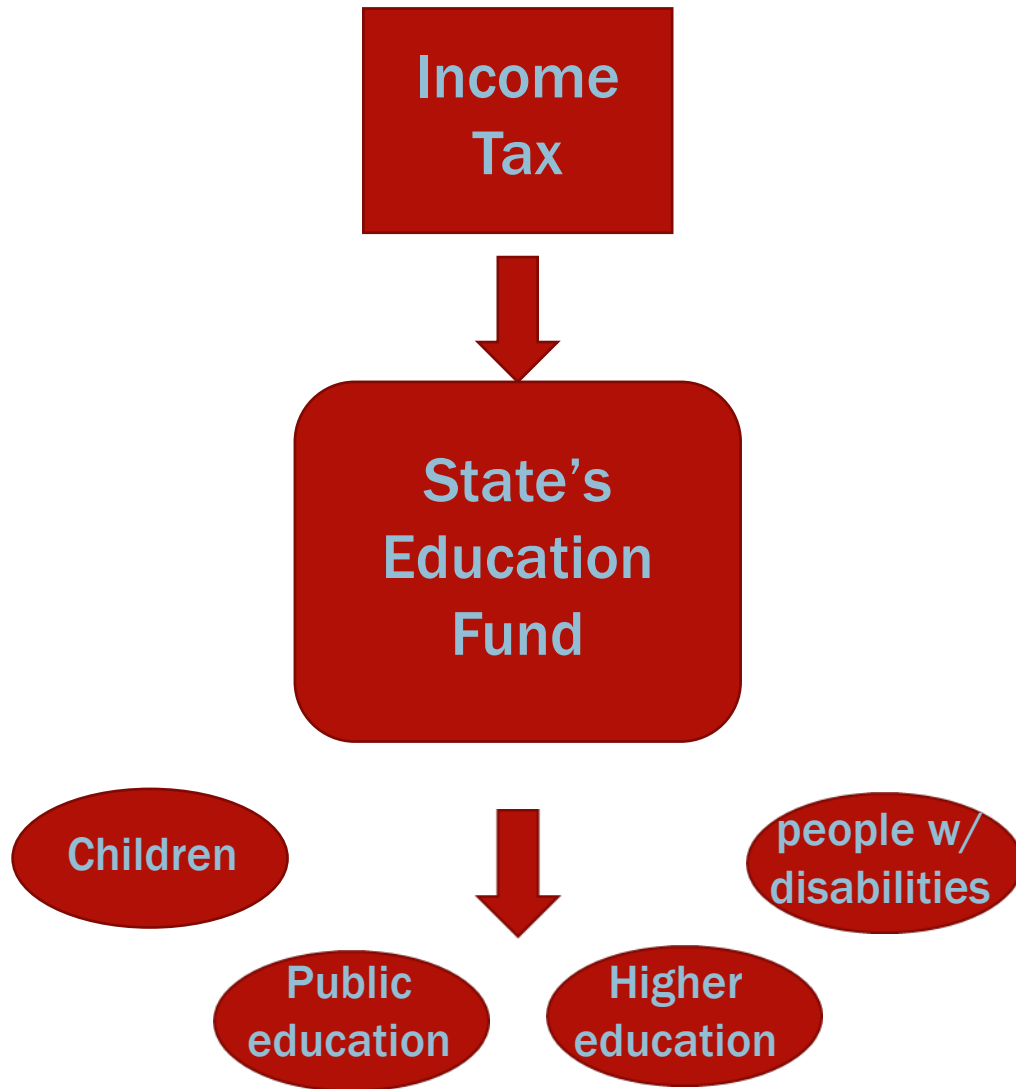
Percentage of Total Utah Tax Paid by AGI Group

Total taxes paid: \$4 M

Total returns filed: ~1.3 M



Income Tax: where does it go?



“All revenue from . . . a tax on income shall be used to support the systems of public education and higher education . . . and to support children and to support individuals with a disability.”

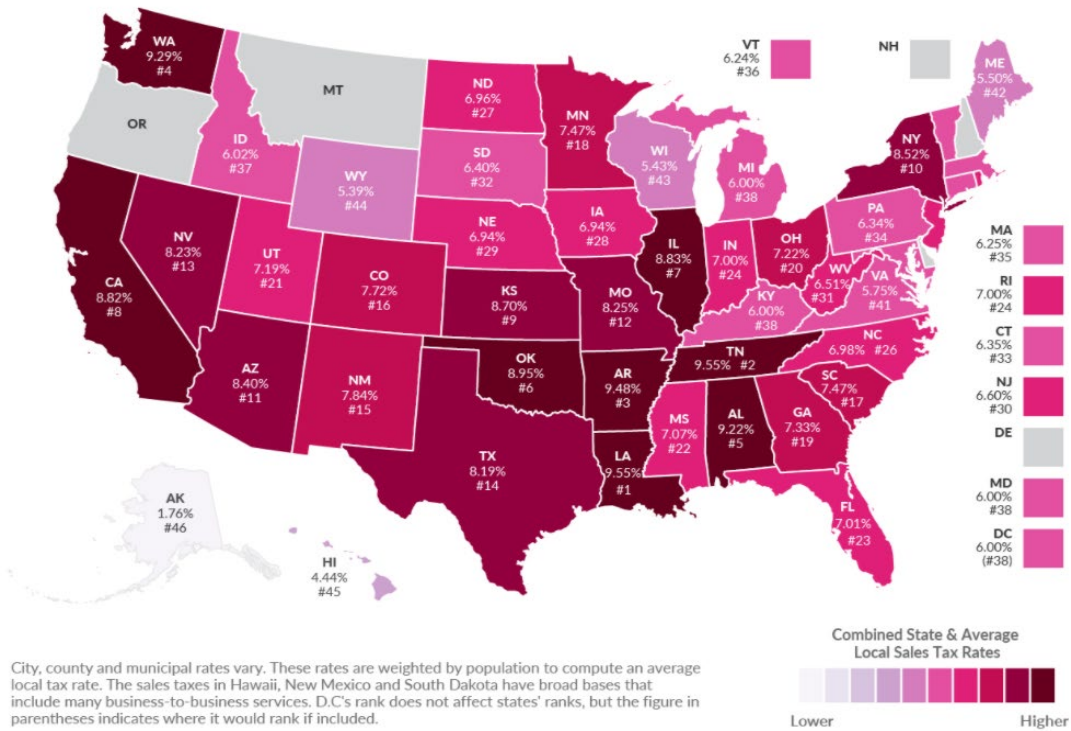
- Utah Constitution, Article XIII, Section 5

2020 Constitutional Amendment: voters approved the expansion of the use of income tax.

HB 357 (2020 General Session): adopted statutory framework that stabilizes education funding.

Sales & Use Tax: what is taxed?

Combined State & Average Local Sales Tax Rates, July 2021



Source: Tax Foundation

Base:

- Sale or purchase price of certain transactions

Rate:

- Multiple stacked rates imposed by state and local governments
- Range combined rate: 6.10% - 9.05%



Sales & Use Tax: what is taxed?

Sale, lease, and rental of goods (“tangible personal property”)

Food (prepared and unprepared)

Gas, electricity, heat, coal, etc. (commercial/residential)

Hotel and motel accommodations and services

Telecommunication services

Certain cleaning services (dry cleaning, pet cleaning, etc.)

Repair or renovation of tangible personal property

Sale or repair of products transferred electronically



Sales & Use Tax: what is **not** taxed?

Selected exclusions

- Professional services
- Banking services
- Personal care services
- Healthcare services
- Construction services
- Yard maintenance
- Tuition
- Real estate transactions

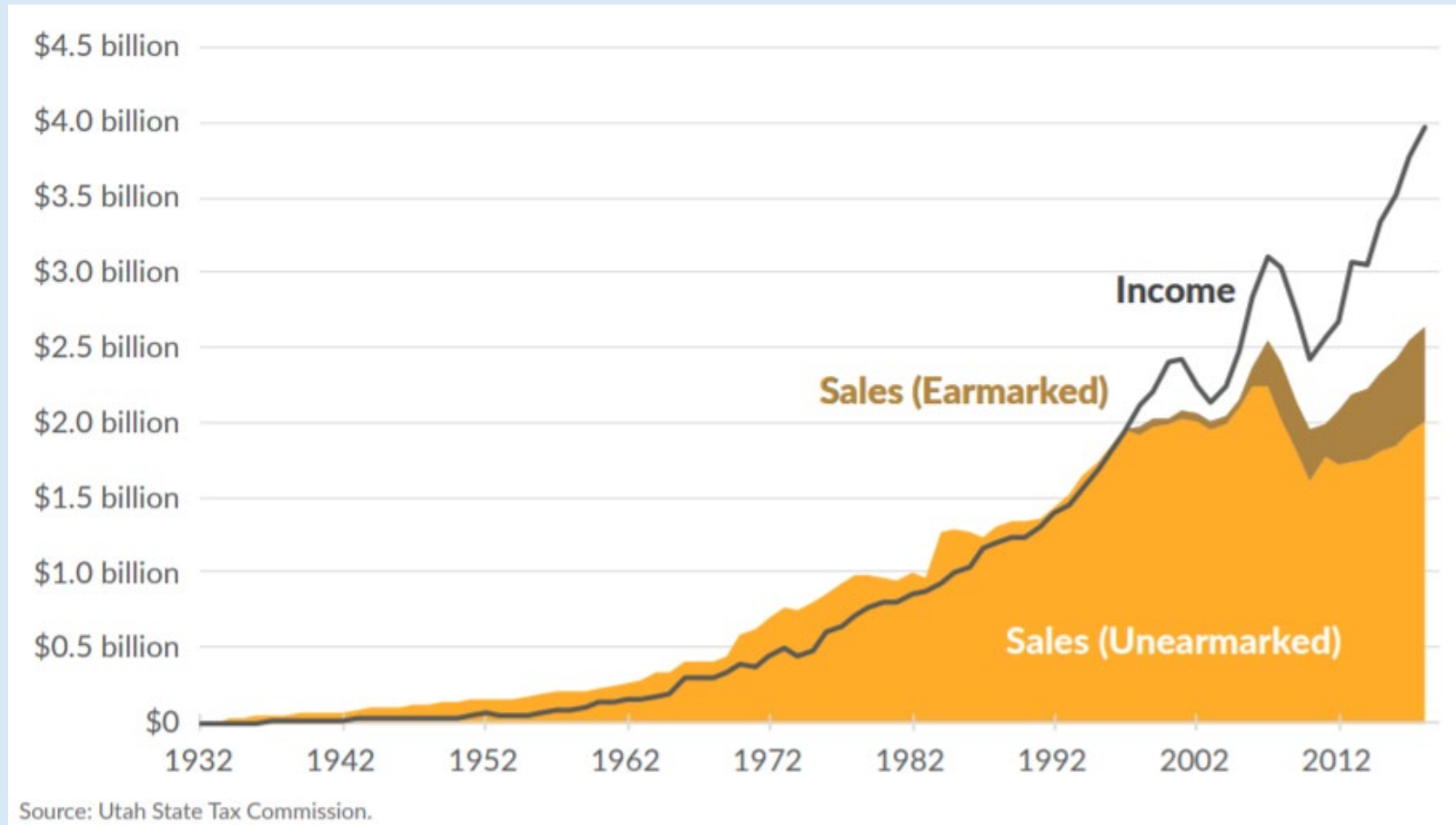
Types of exemptions

- Business inputs
- Charitable/government
- Economic development
- Economic efficiency
- Healthcare



Sales & Use Tax: Growth

Comparison of Income and Sales Tax Collection Over Time



Sales and Use Tax: Rates

State Tax Rate



**Sum of Local
Tax Rates**



Total Tax Rate

What is being
purchased?

What is being
purchased?
Where is it
being
purchased?

Sum of all rates
imposed



Sales & Use Tax: Rates

General purpose (applied statewide)

- State rate: 4.85% (general) or 1.75% (food or food ingredients)
- County option rate: 0.25%
- Local sales and use rate : city 1.0%

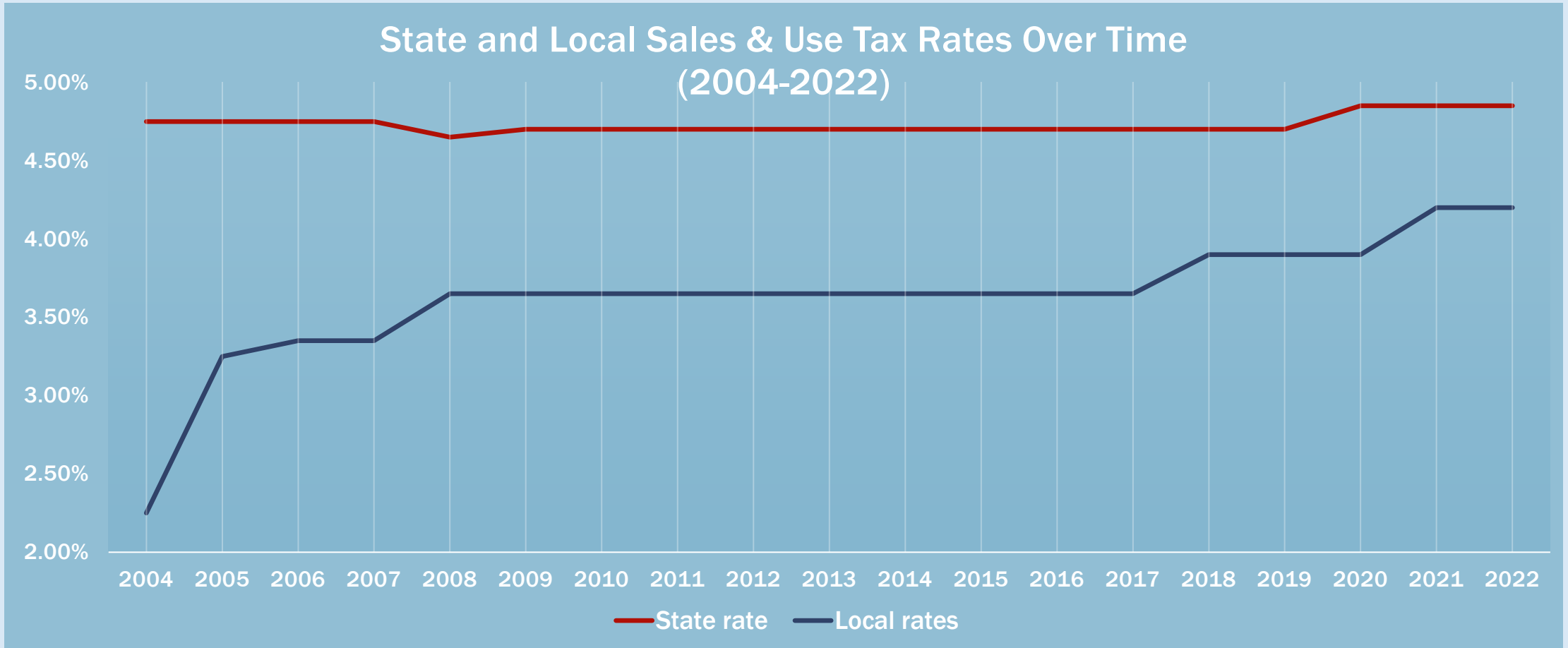
Selected additional local option sales taxes:

- Mass transit tax: up to .80%
- Rural hospital sales tax: up to 1%
- County transient room tax: up to 4.25%

Salt Lake City: $4.85\% + 1.0\% + 0.25\% + 1.65\% = 7.75\%$

- 1.65% includes mass transit, additional mass transit, county option transportation, transportation infrastructure, ZAP, and correctional facility taxes

Sales & Use Tax: Rates

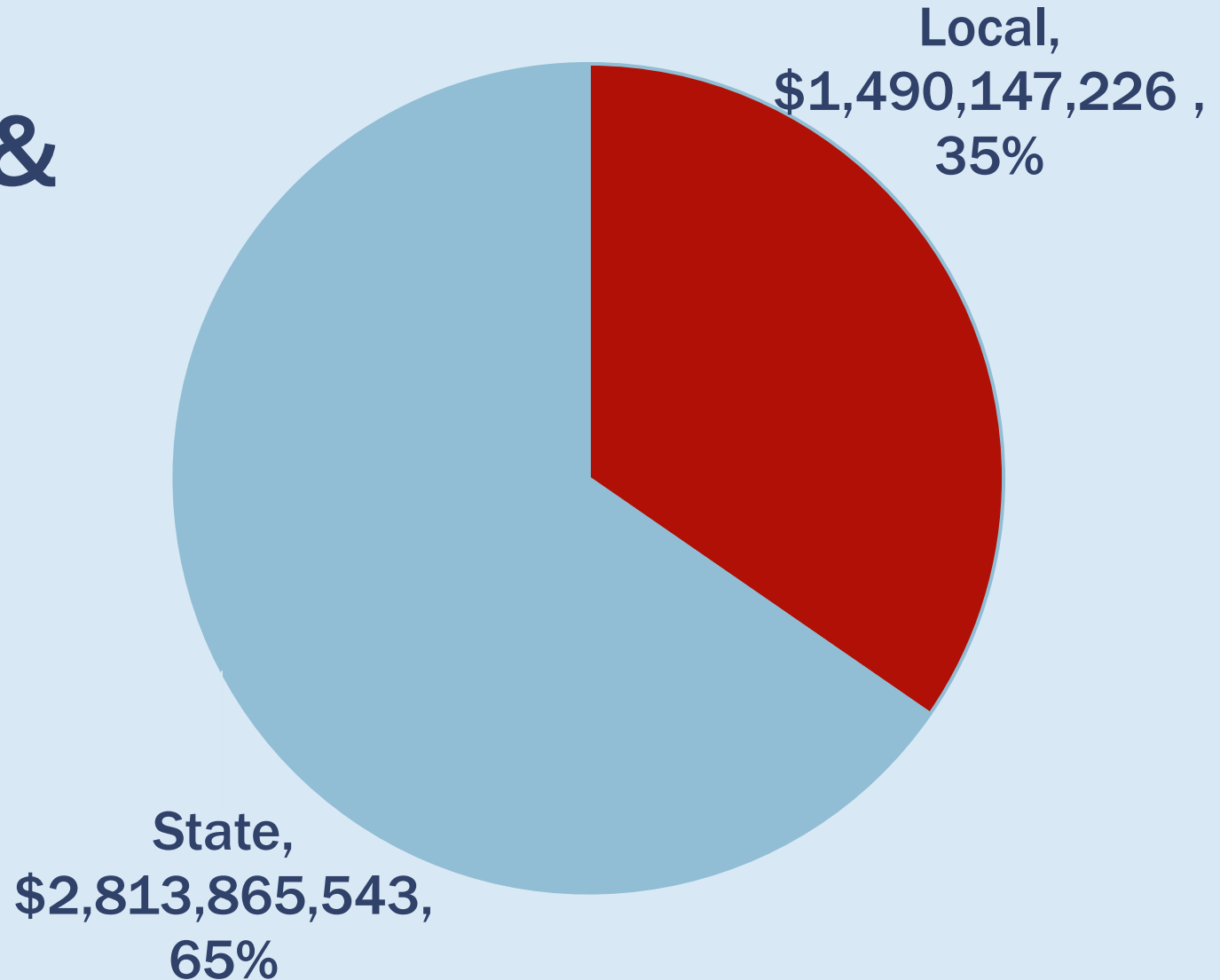


Source: Utah State Tax Commission



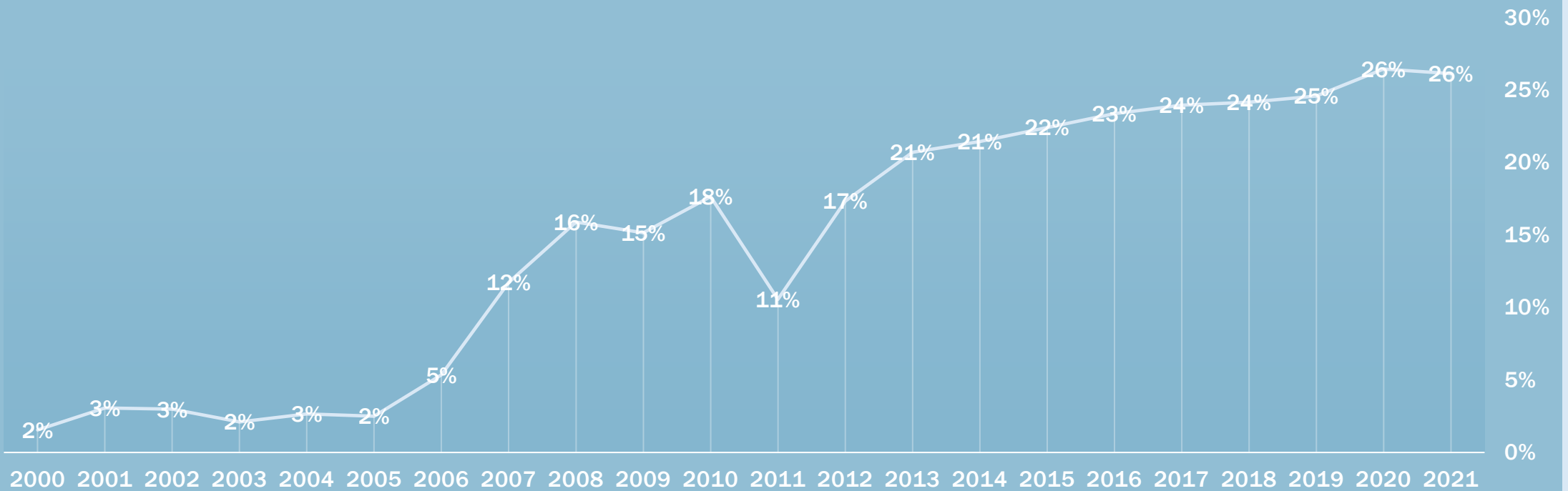
Sales & Use Tax: where does it go?

FY 2019 total sales &
use tax revenue:
\$4.3 Billion



Sales & Use Tax: Where does it go?

Earmarked Revenue as Percentage of Total State Sales Tax Revenues
(2000-2021)



Source: Utah State Tax Commission



Property tax: what is taxed?

All tangible property shall be “assessed at a uniform and equal rate in proportion to its fair market value.”

Source: Utah Constitution, Article VIII, Section 2

Base:

- Assessed value of all tangible property, including land, structures, and personal property

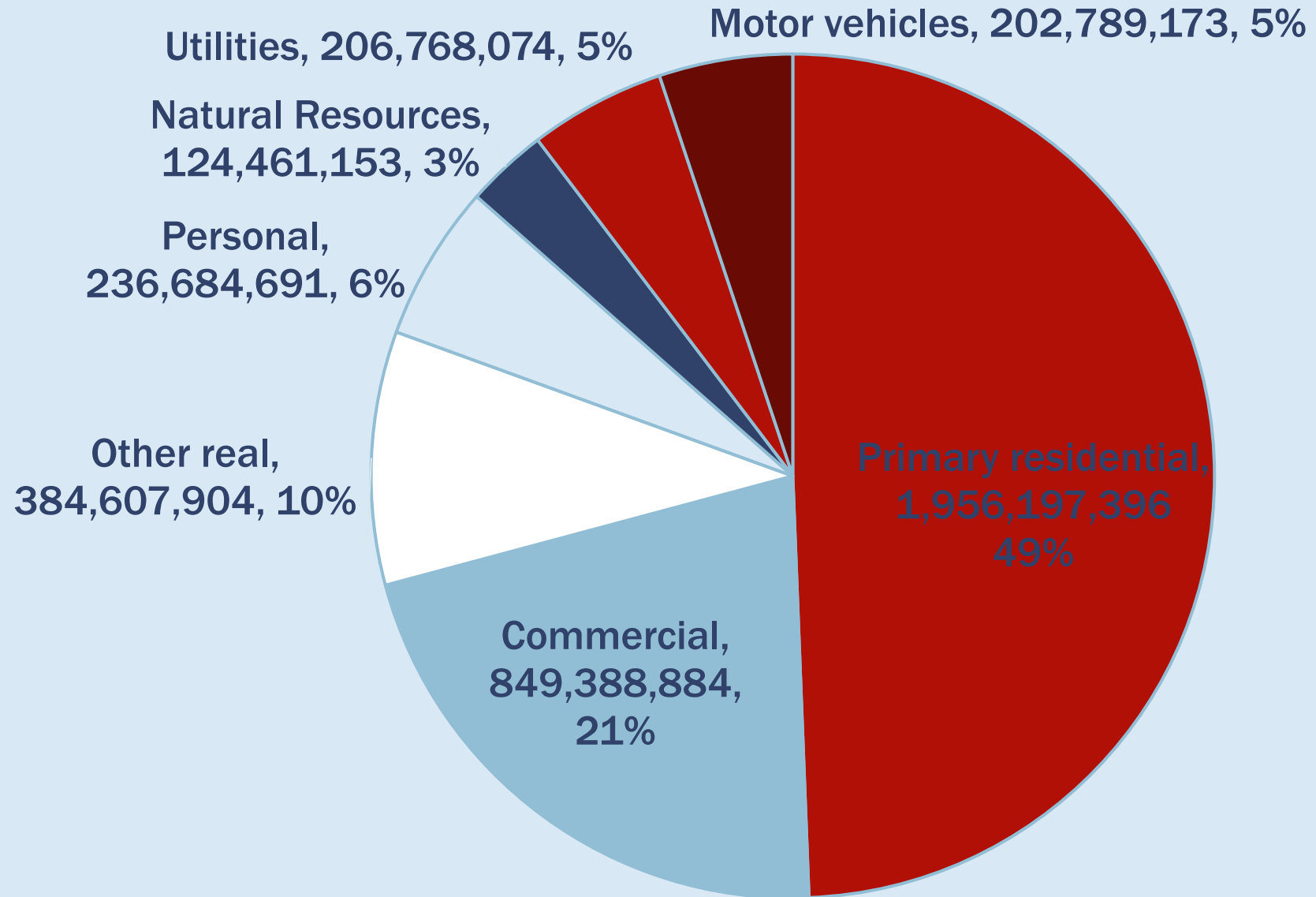
Rate:

- Multiple stacked rates imposed by counties, cities, school districts, and most special service districts



Property Tax: what is taxed?

**2019 Total
Property Taxes
Charged:
\$4.0 Billion**





Property Tax: what is **not** taxed?

Selected exemptions based on ownership

- State
- Political subdivisions
- Federal government
- Veterans
- Indigent

Selected exemptions based on use

- Exclusive use for religious, charitable, or education purpose (and owned by 501(3))
- Household furnishings
- Business inventory
- Farm machinery & equipment

- **45% of the fair market value of residential property**



Property Tax: Rates

Truth in Taxation laws

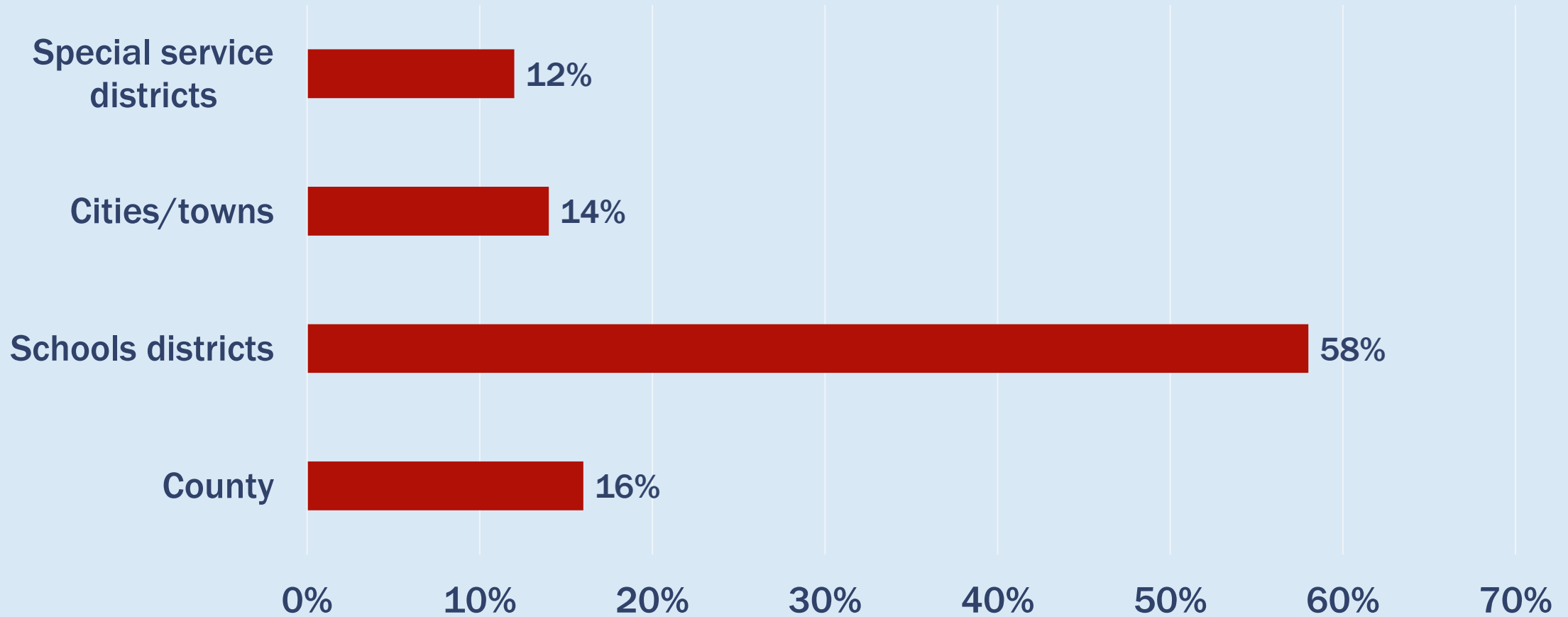
- Taxing entities can impose the **rate that will generate the same revenue as collected the previous year**
- When a taxing entity proposes to increase its property tax **revenues** above those collected the previous year, imposes specific public notice and public hearing requirements

Certified Tax Rates

- Utah State Tax Commission determines whether property tax revenue increase is being proposed
- Establishes the 'certified tax rate' i.e. the rate that will yield each taxing entity the same revenue as previous year



Property Tax: where does it go?



Based on 2019 Property tax revenue



Summary

	Income Tax	Sales & Use Tax	Property Tax
Base	income earned in Utah (starting point federal adjusted gross income)	purchase or sale price of certain transactions (mostly goods; few services)	assessed value of tangible property (real property & certain business personal property)
Rate	4.95%	multiple and stacked (state and local rates); range 6.10% - 9.05%	multiple and stacked (counties, cities, school districts, special service districts); adjusted to maintain revenue
Use	state education fund; constitutionally mandated uses	state revenue to general fund; local revenue to local funds	nearly 60% to school districts; remainder to other local government



Summary

Tax Policy Principles	Income (personal)	Income (corporate)	Sales & Use	Property
Reliability (stability, certainty & sufficiency)	Lower – more volatile	Lower – more volatile	Higher	Higher
Equity (vertical & horizontal)	Can be higher	Varies	Lower	Varies
Ease of compliance & administration	Higher	Varies	Varies	Higher
Responsiveness to interstate & international competition	Varies	Varies	Varies	Varies
Economic neutrality	Lower	Varies	Varies	Varies
Accountability	Higher	Lower	Lower	Higher

Source: NCSL