

# Utah's Sales & Use Tax: Issues and Options

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Prepared for:  
Bagels & Briefings  
February 16, 2010

# Presentation Outline

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- Background
- Sales Tax Revenues
- Sales Tax Base
- Sales Tax Rates
- Current Sales Tax Issues

# Why Does the Sales & Use Tax Matter?

## Features of the Sales & Use Tax (“Sales Tax”)

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- Largest state General Fund revenue source & significant revenue source for many local governments
- Ability to purchase / consume is one measure of ability to pay
- Basically every household pays
- Regressive (lower income households pay a higher percentage of income in tax)
- Potential to “export” a portion of the tax to visitors
- Collected by businesses
- Impacts on local zoning decisions
- Collected a little bit at a time
- Politically popular (least unpopular?)

# Sales & Use Tax History

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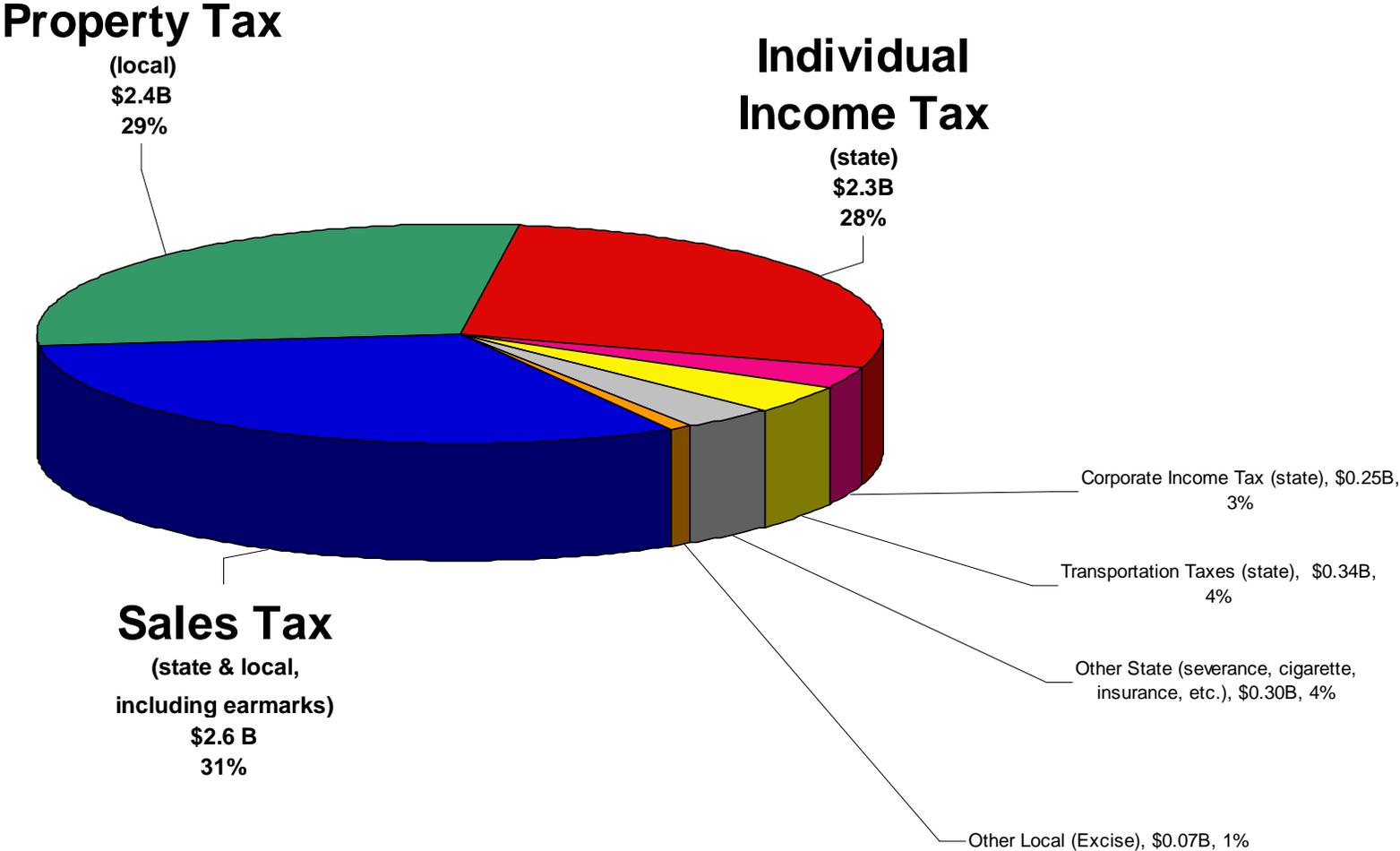
- Sales tax first imposed by state during the Great Depression (1933)
- Use tax imposed soon after (1937)
- First local option sales tax authorized in 1959
- Over time, increasing reliance on sales tax for both state and local governments



# Sales Tax Revenues

# Utah's State & Local Tax Structure

## FY 2009

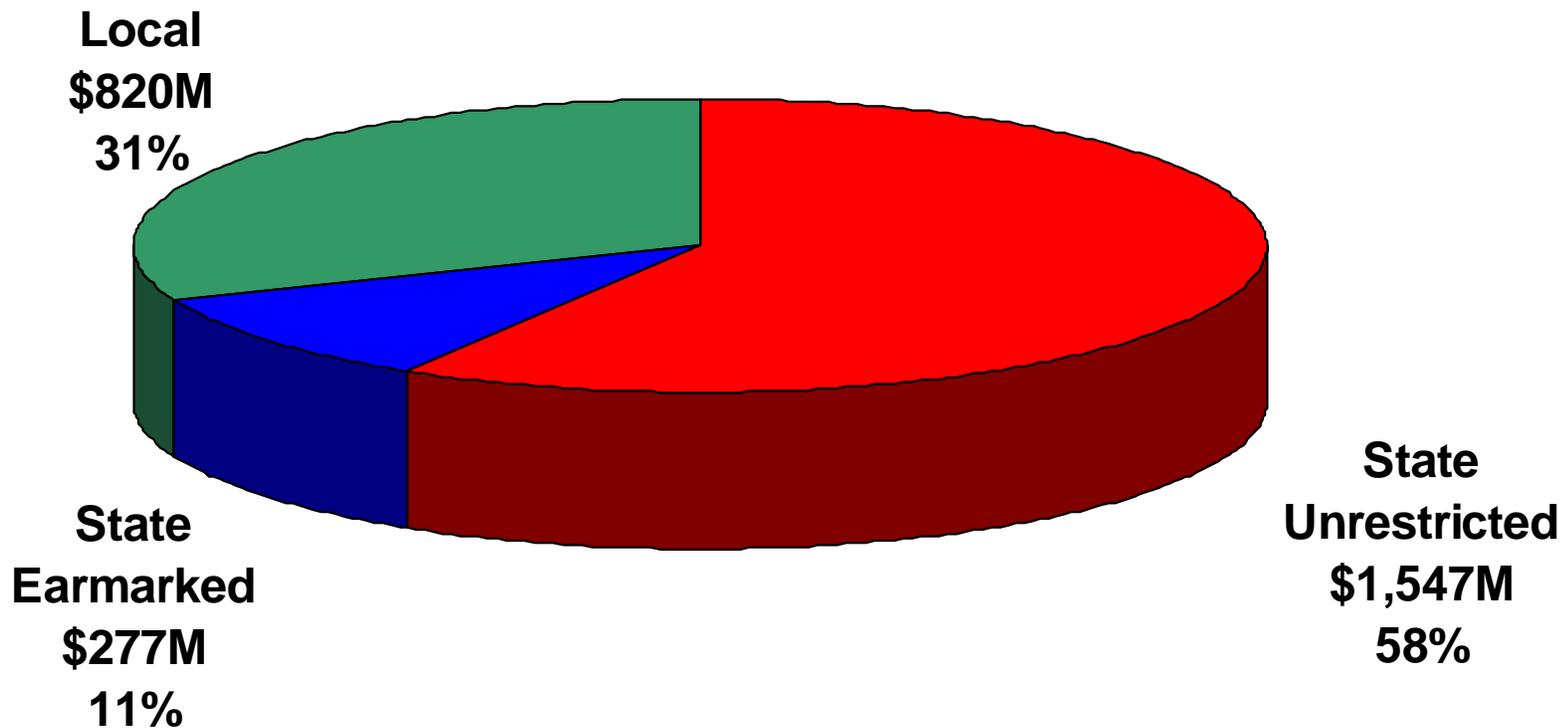


Source: Utah State Tax Commission

# Sales and Use Tax Revenue:

## State Unrestricted, State Earmarked, and Local FY 2009

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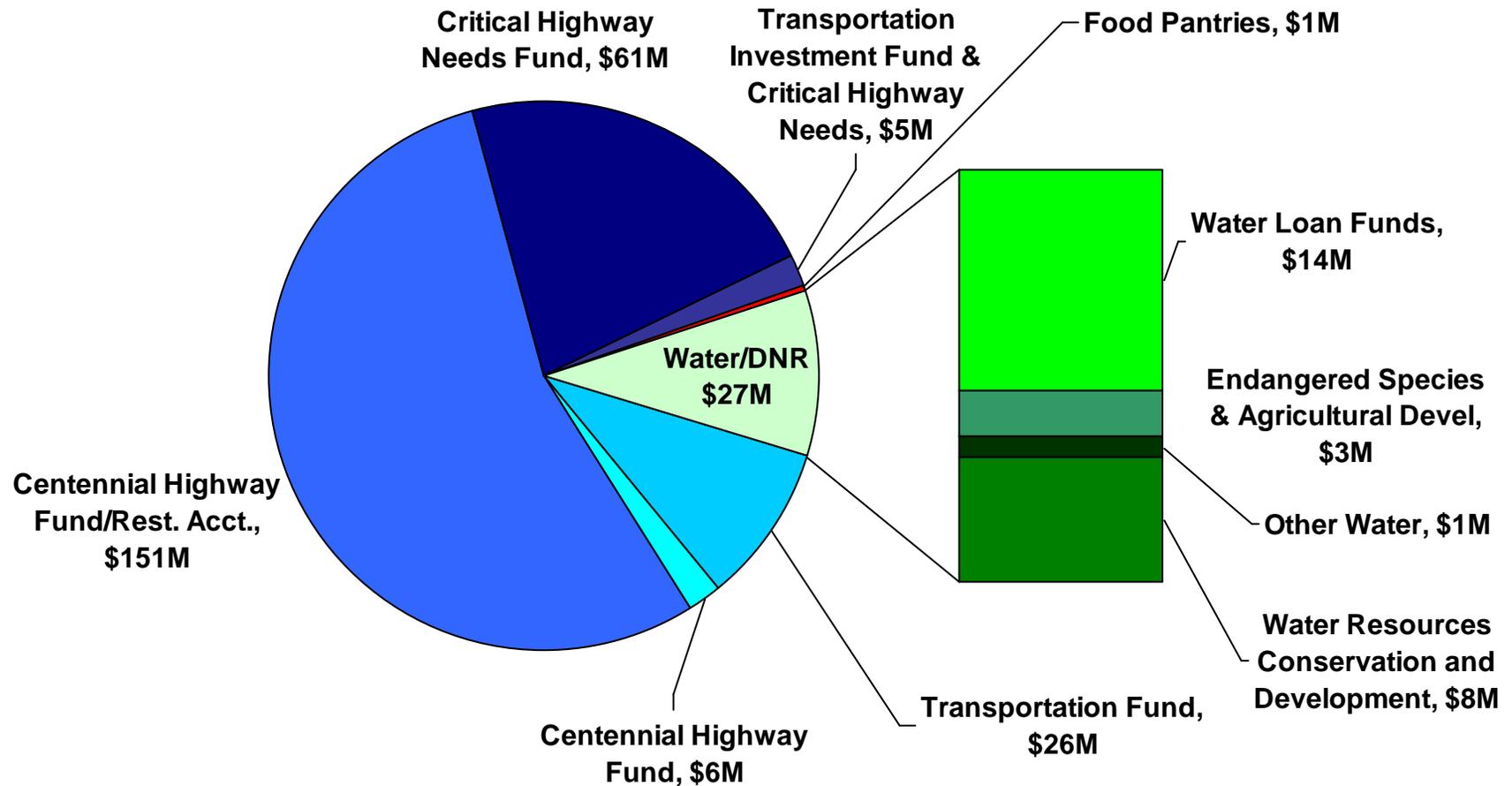


**Total FY 2009 Revenue:  
\$2.64 Billion**



# Earmarks of State Sales and Use Tax

FY 2009



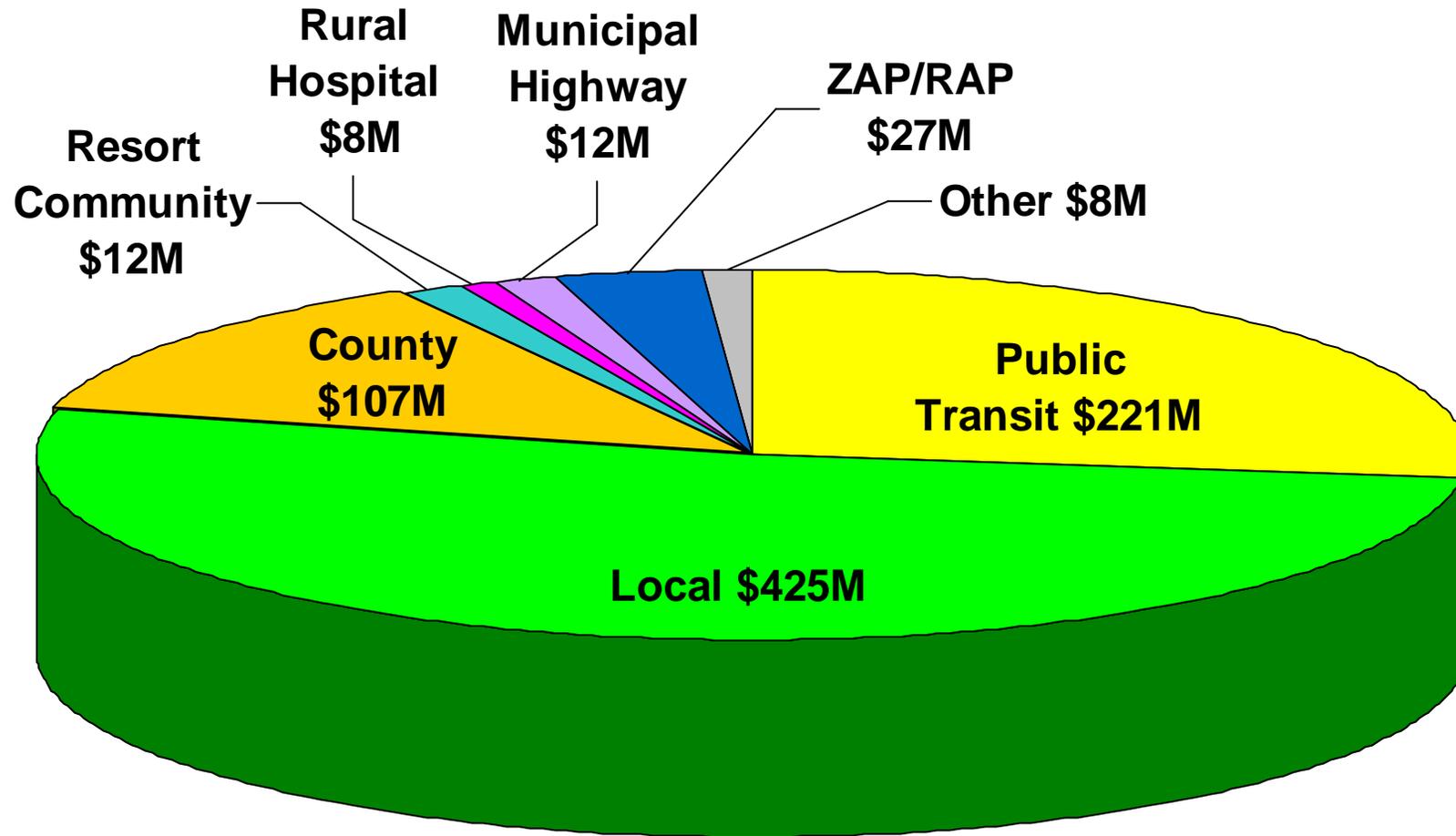
**Total Earmarks: \$277 million**

Source: Utah State Tax Commission, GOPB



# Revenue from Local Sales & Use Taxes

## FY 2009



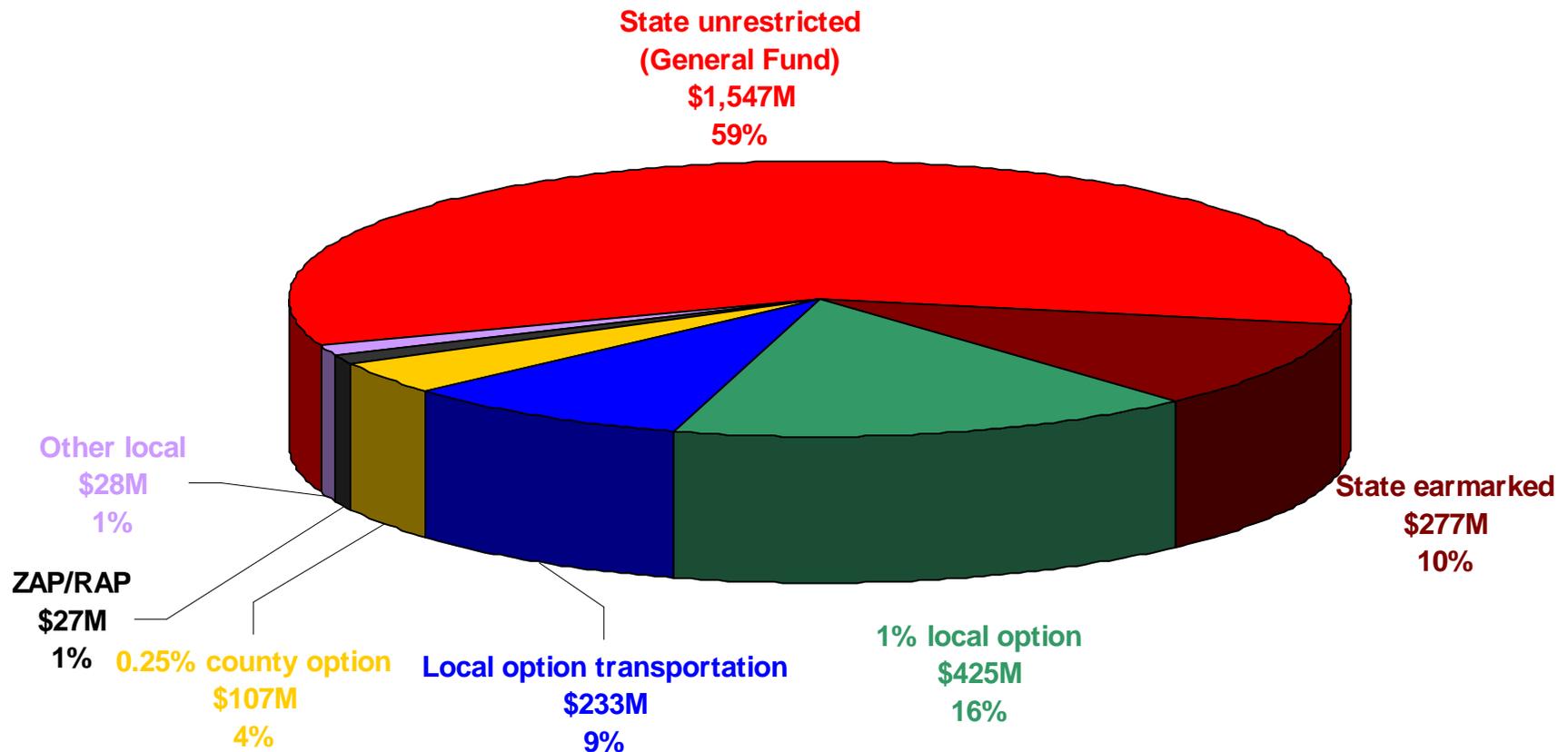
**Total Local:  
\$820 Million**

Source: Utah State Tax Commission



# Where Do Sales Tax Revenues Go?

## FY 2009



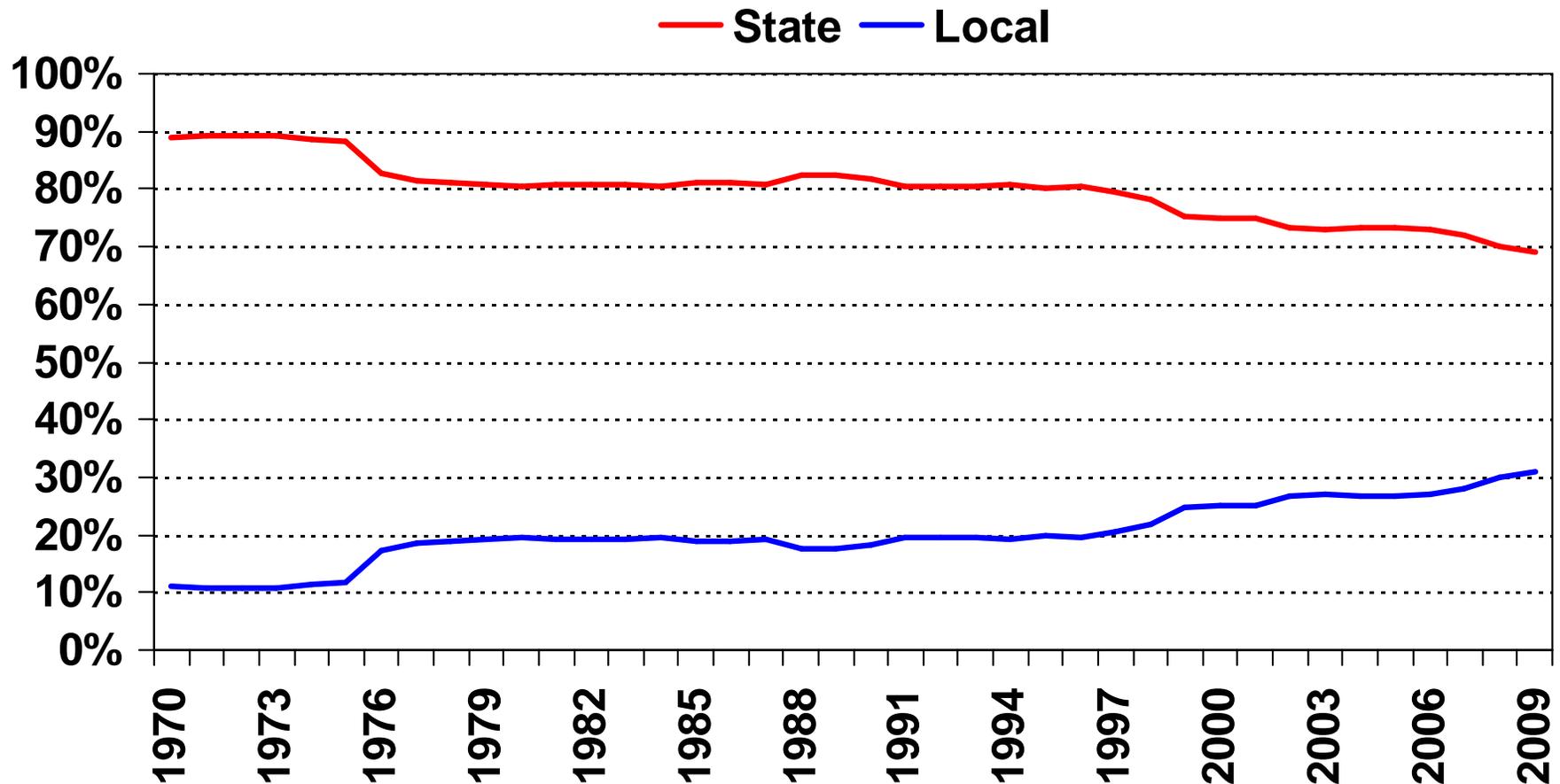
**FY 2009 State & Local Sales & Use Tax Revenue:**  
**\$2.64 billion**

Source: Utah State Tax Commission

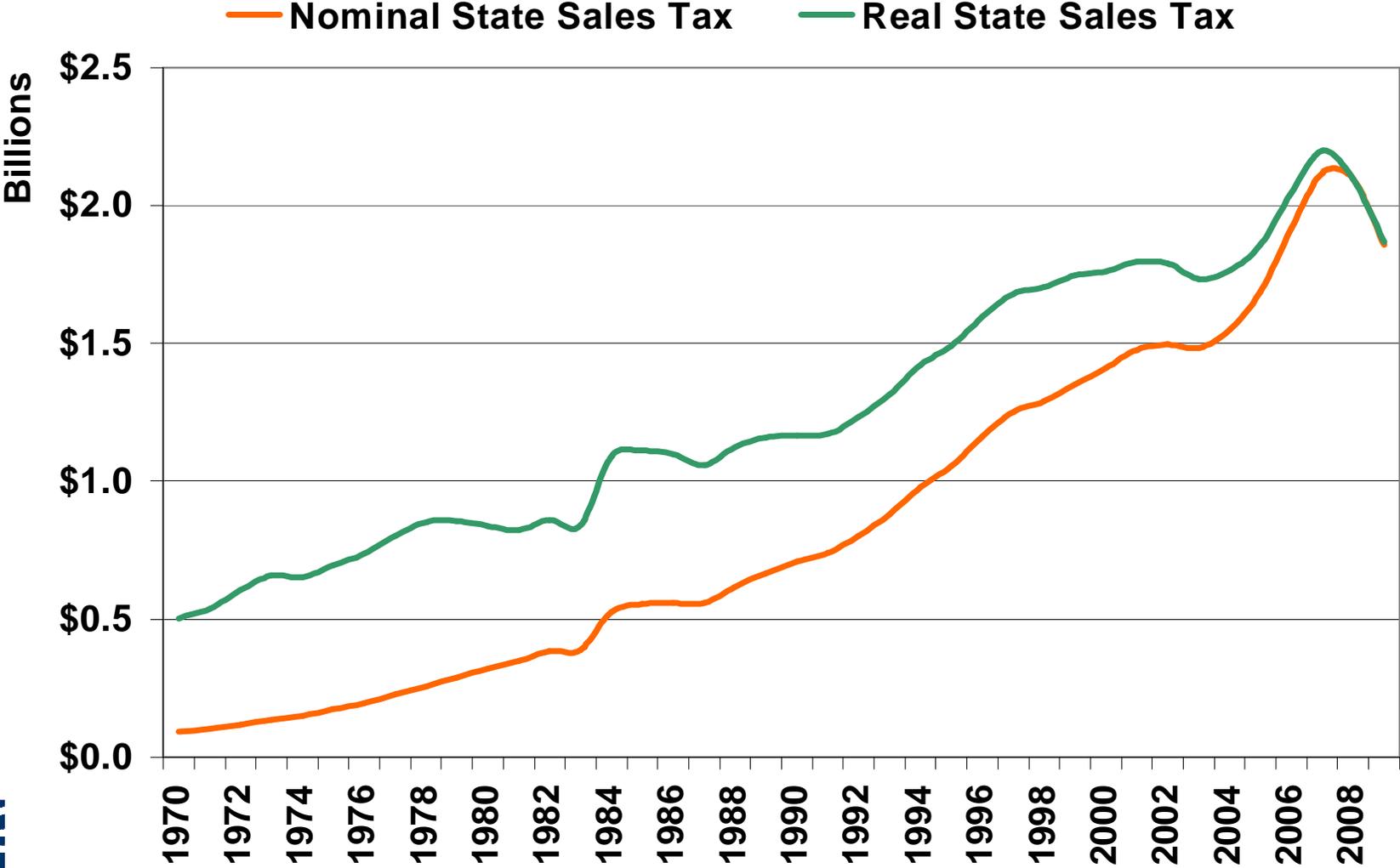


# State & Local Share of Sales Tax

## 1970 to 2009



# State Sales Tax Revenue Amounts FY 1970-2009



Source: Utah State Tax Commission

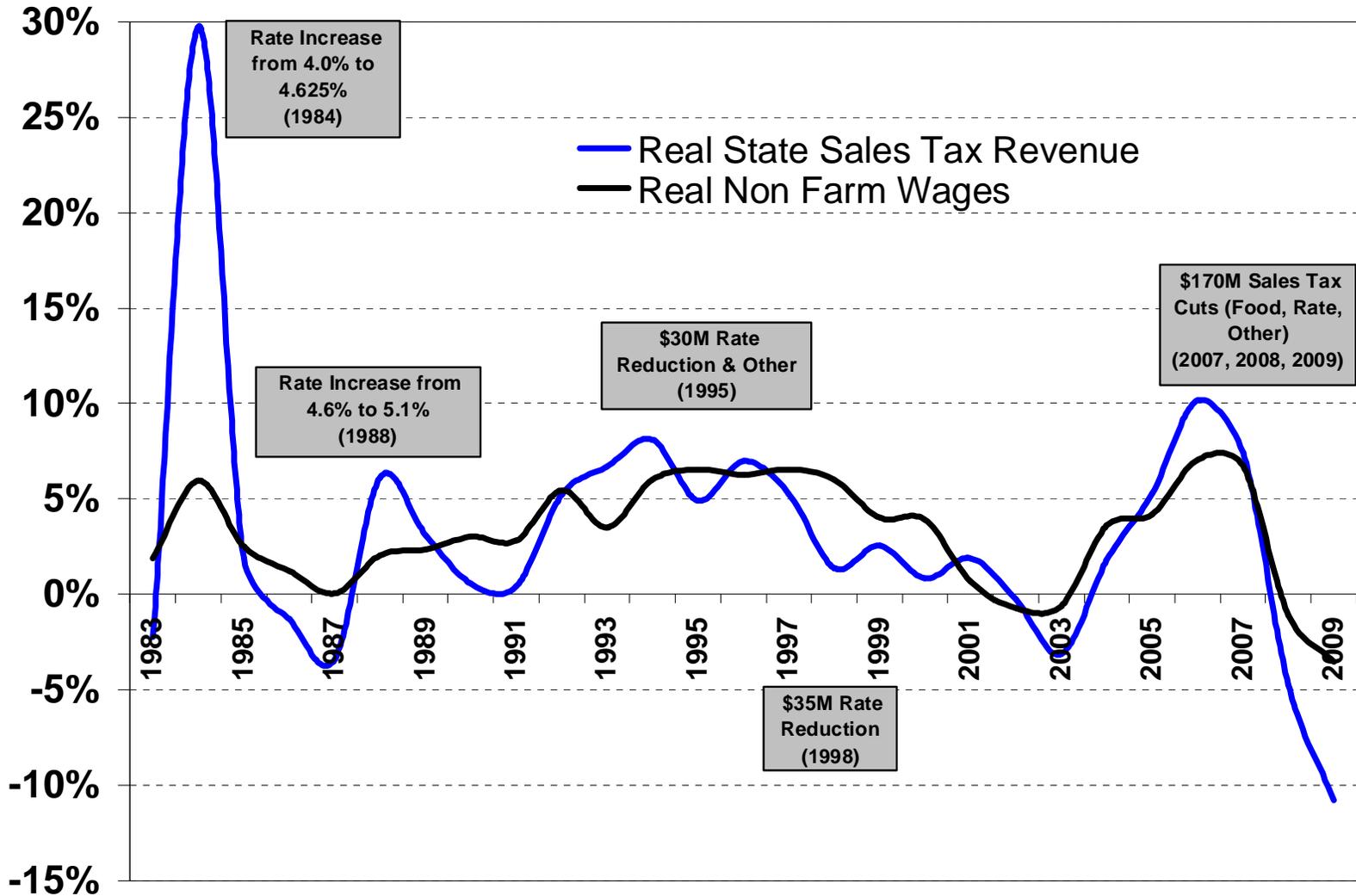
# Why Do Tax Revenues Change?

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- **Economic changes**
  - Employment
  - Population
  - Consumption
  - Investment
- **Legislated tax policy changes**
  - Tax base
  - Tax rate
  - Tax credits
- **Administrative changes**
  - Changes in official interpretation
  - Changes in practice

# Sales Tax

## Year-over % Change, FY 1983 - 2009



# Sales Tax Base

# Basic Tax Formula

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$$(\text{Base} \times \text{rate}) - \text{credits} = \text{tax}$$

- Tax **BASE** – What is being taxed?
- Tax **RATE** – At what level is the tax base taxed?
- Tax **CREDITS** – Are there additional offsets to the initial base x rate amount?
- Tax **LIABILITY / REVENUE** – What is the net amount to be paid / collected?

# The Utah Sales and Use Tax Base: What *Do We Tax*?

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## Key transactions subject to tax include:

- Retail sales of tangible personal property
  - Reduced rate may apply on sales of food
- Sales of certain telecommunication or utility services (reduced rate may apply)
- Certain admissions, such as movie tickets
- Certain services, such as a car wash when the purchaser doesn't perform the labor, repairs of tangible personal property, or dry cleaning
- Certain hotel or motel charges
- Products such as computer software transferred electronically
- “Use tax”

# The Utah Sales and Use Tax: What *Don't* We Tax?

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- Some transactions are not specifically exempt from sales and use taxes but are not part of the tax base, such as professional services or personal care services
- Other transactions are specifically exempt from sales and use taxes
  - Currently 68 exemptions
  - Estimated approximate state revenue effect for all exemptions for fiscal year 2009: \$460 Million

# The Utah Sales and Use Tax Base: What Don't We Tax?

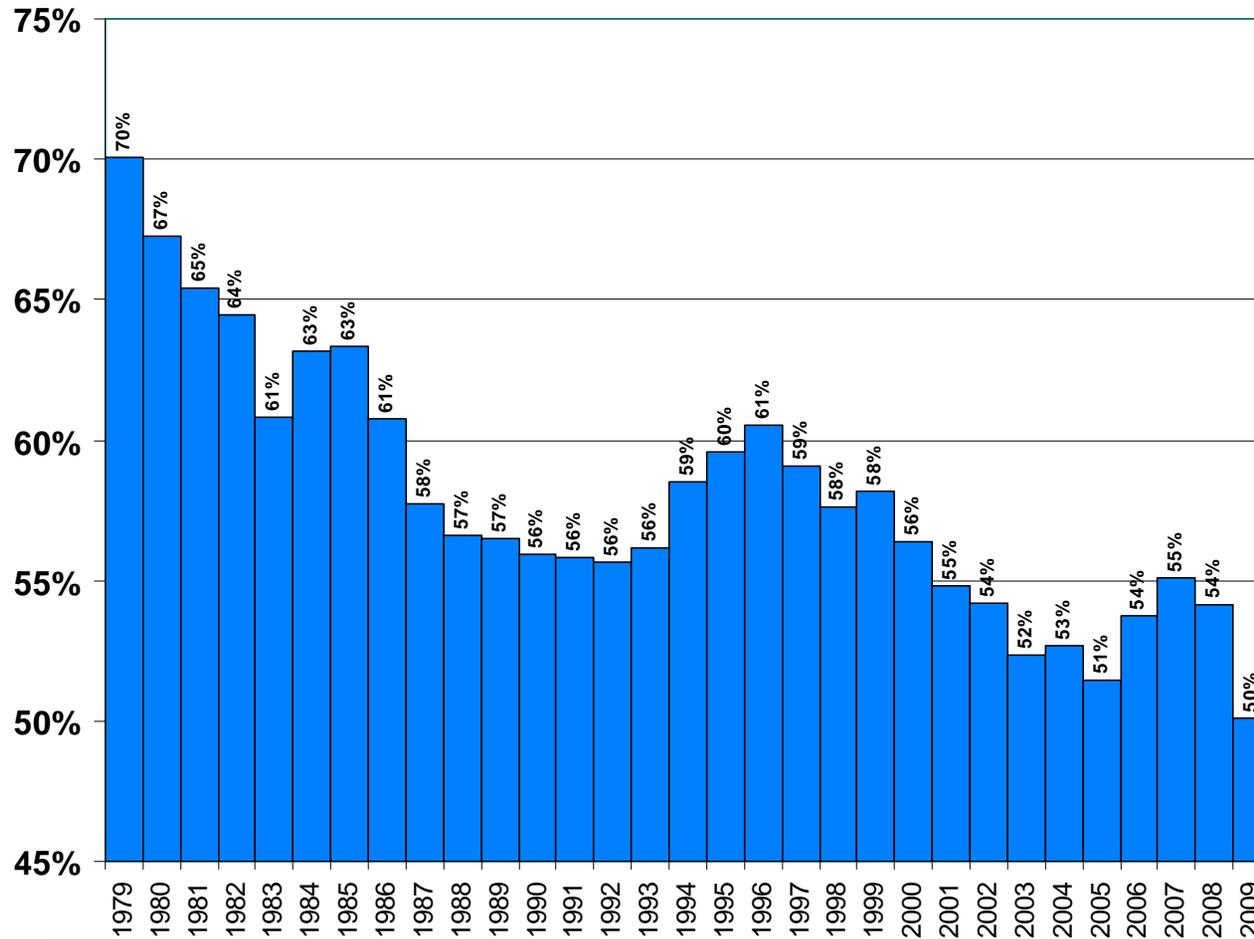
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- Some examples of major sales and use tax exemptions include:

<u>Exemption</u>	<u>FY 2009 State Impacts</u>
Motor and special fuels	\$109 M
Manufacturing machinery & equipment	\$105 M
Resale property / component parts	\$ 55 M
Prescription drugs	\$ 40 M
Certain religious / charitable sales & purchases	\$ 11 M
Farm machinery & equipment	\$ 10 M

# Sales Tax Base

## Gross Taxable Sales as a % of Personal Income



- Over the long term, the sales tax base is gradually declining relative to the economy as a whole.
- Why?

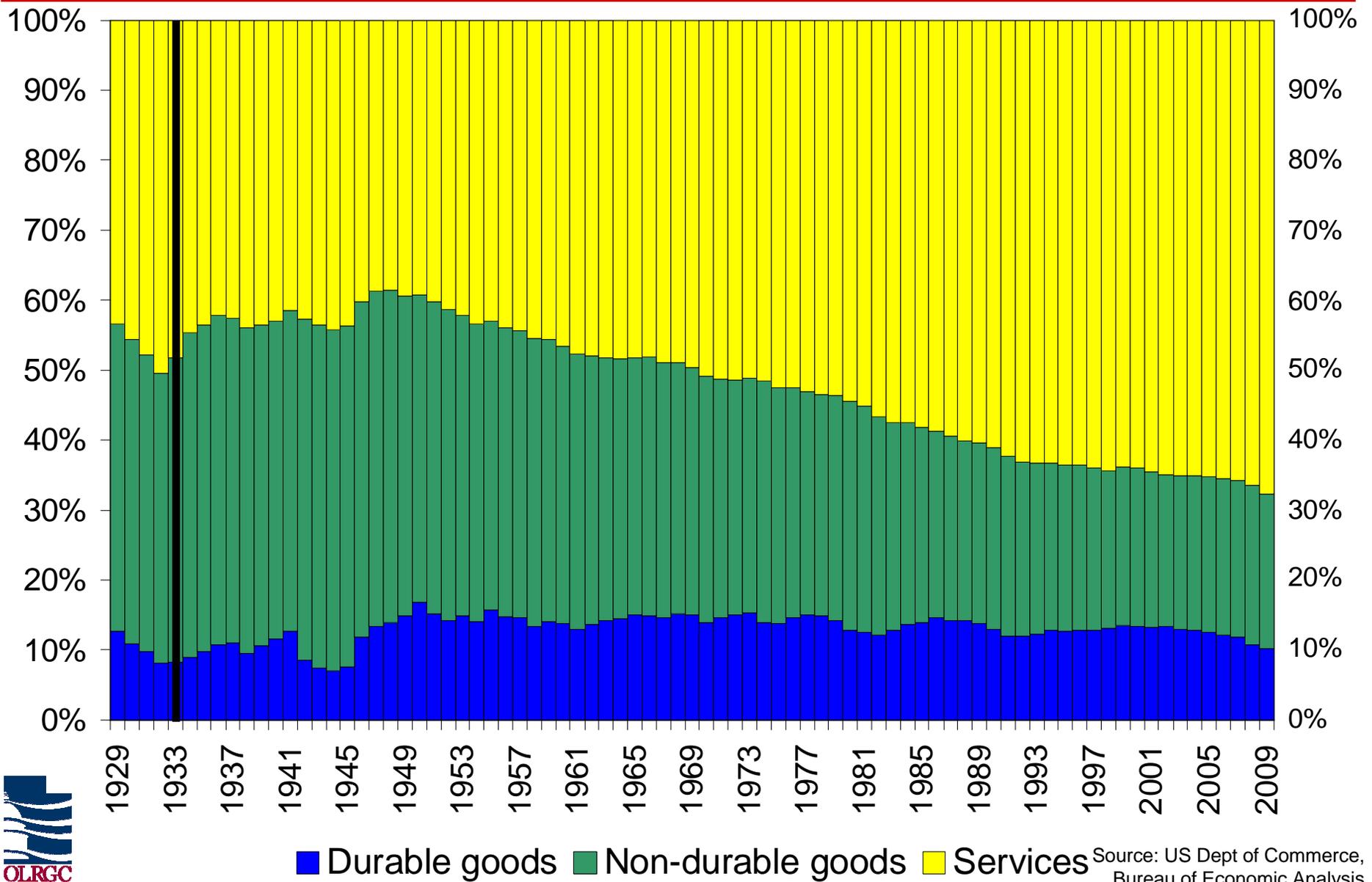


# The Sales Tax Base: Why is It Declining Over the Long Term?

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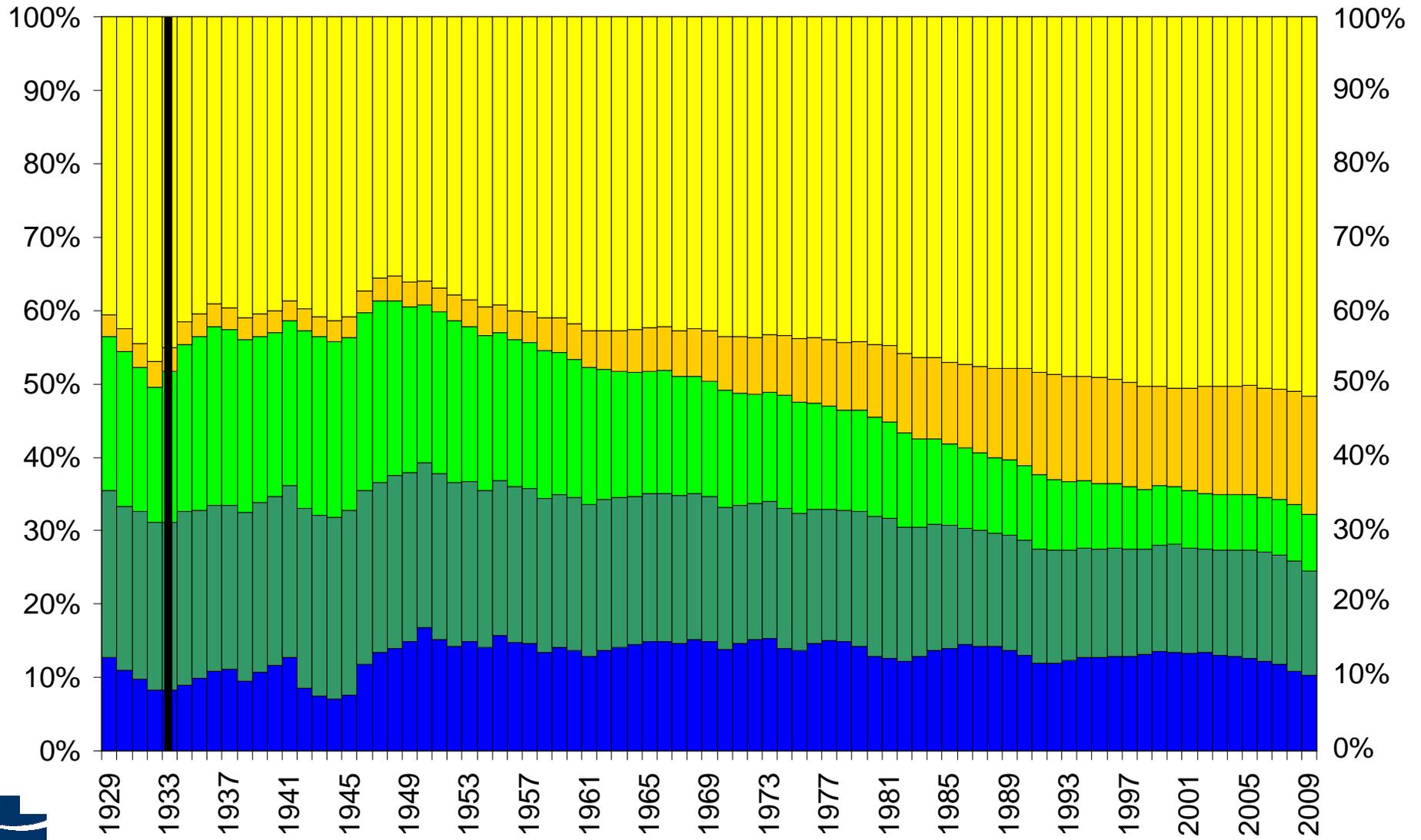
- Changing purchasing patterns
  - Movement to more of a service-based economy
  - Many services excluded from sales tax base
- Cross-border shopping
  - Internet and catalogue purchases
- Technological change
  - Digitization of goods (software, books, music)
- Legislated exemptions

# US Personal Consumption Expenditures



■ Durable goods ■ Non-durable goods ■ Services Source: US Dept of Commerce, Bureau of Economic Analysis

# US Personal Consumption Expenditures

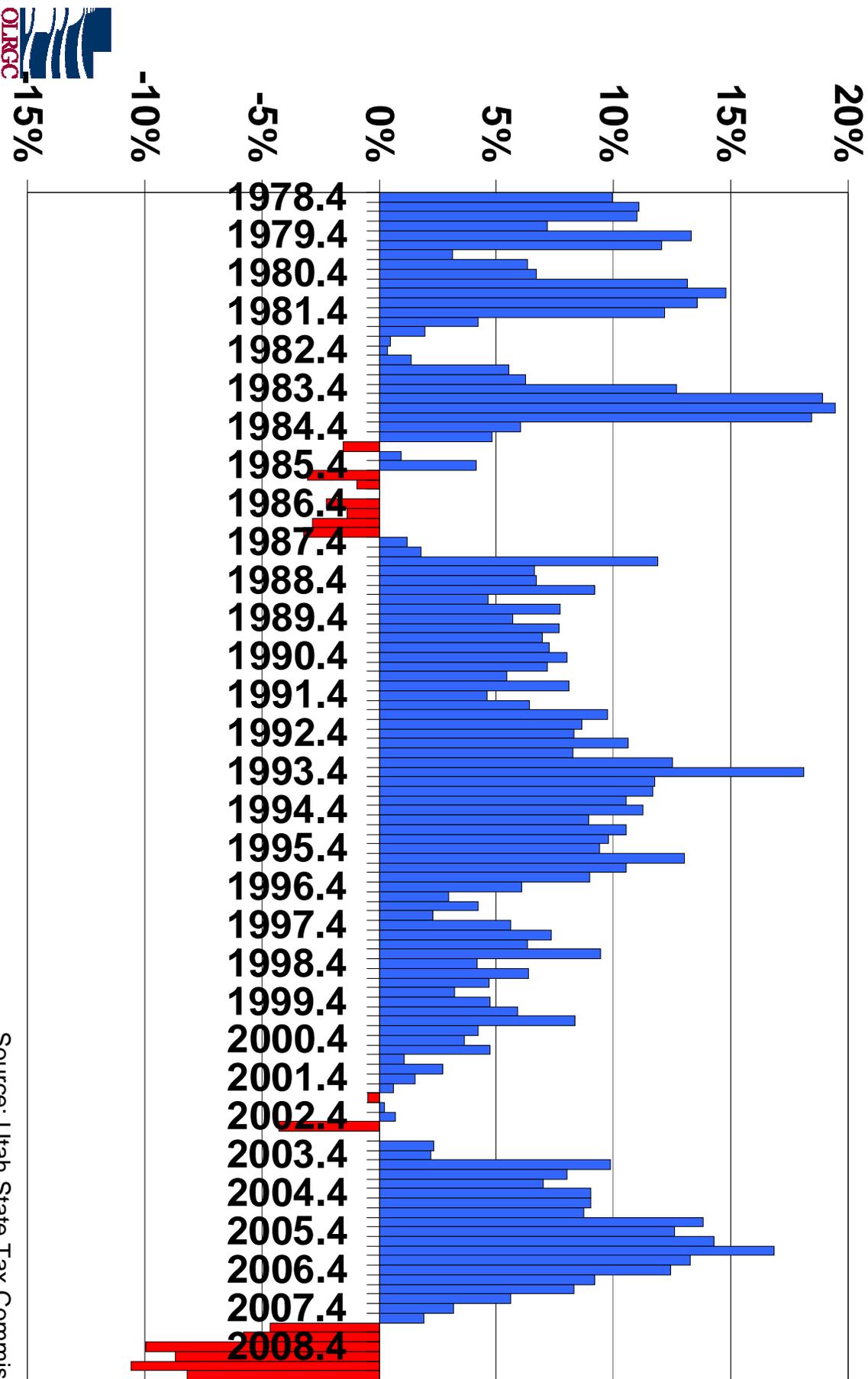


■ Durable goods
 ■ Nondurable goods except food
 ■ Food
 ■ Medical services
 ■ Non-medical services

Data source: US Dept of Commerce, Bureau of Economic Analysis

# Sales Tax Base

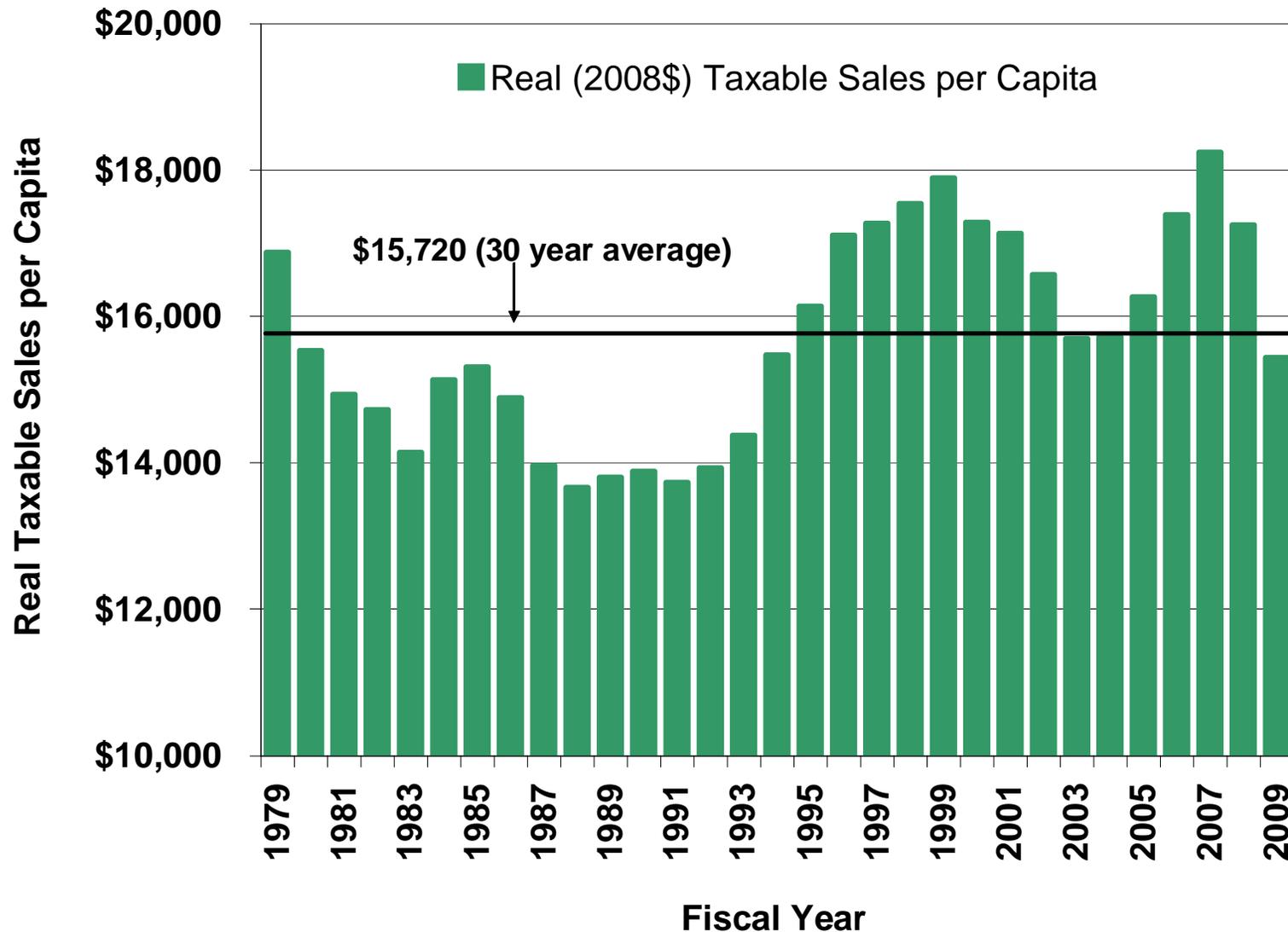
## Nominal Gross Taxable Sales Changes



Source: Utah State Tax Commission

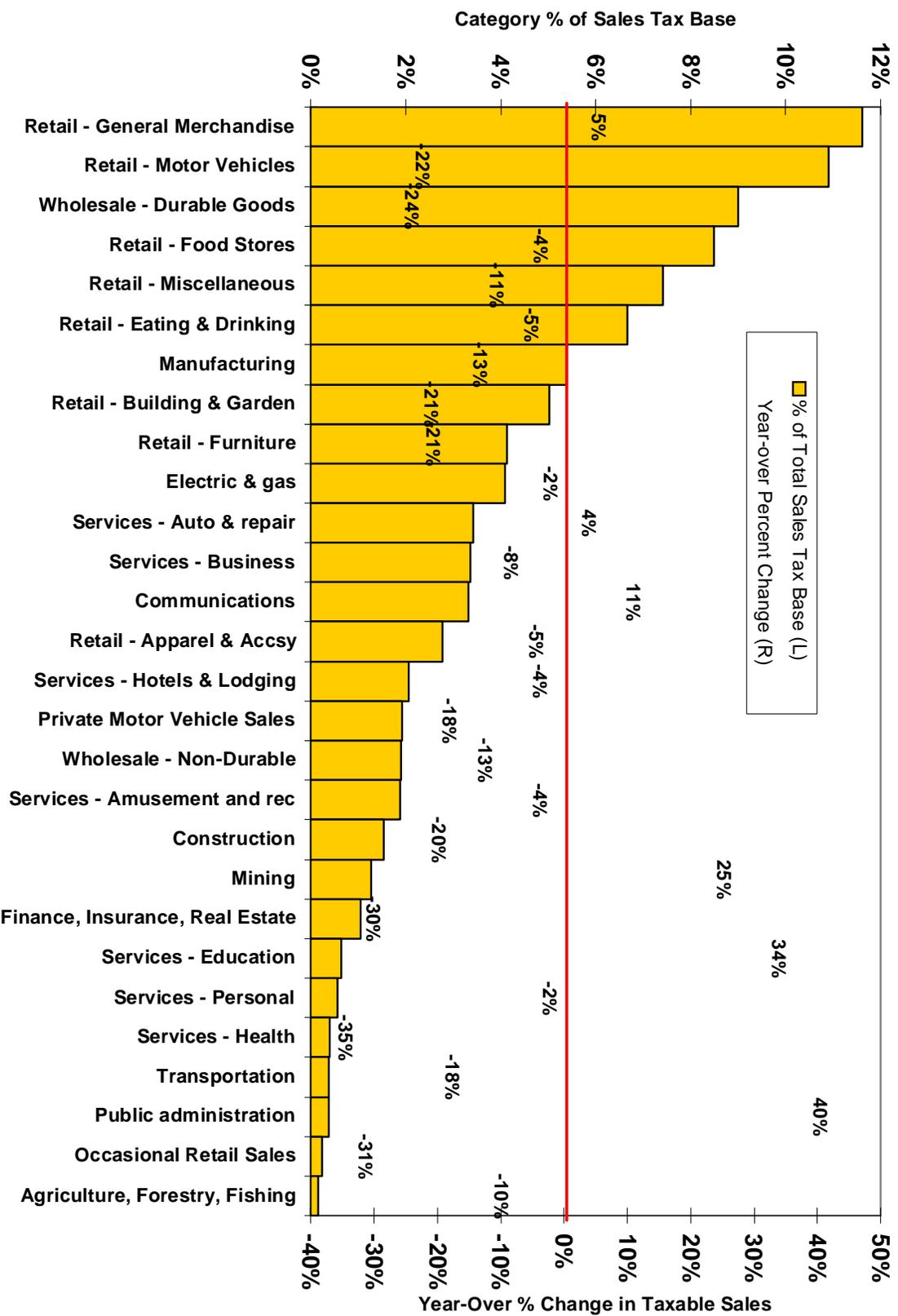


# Inflation-Adjusted Per Capita Gross Taxable Sales



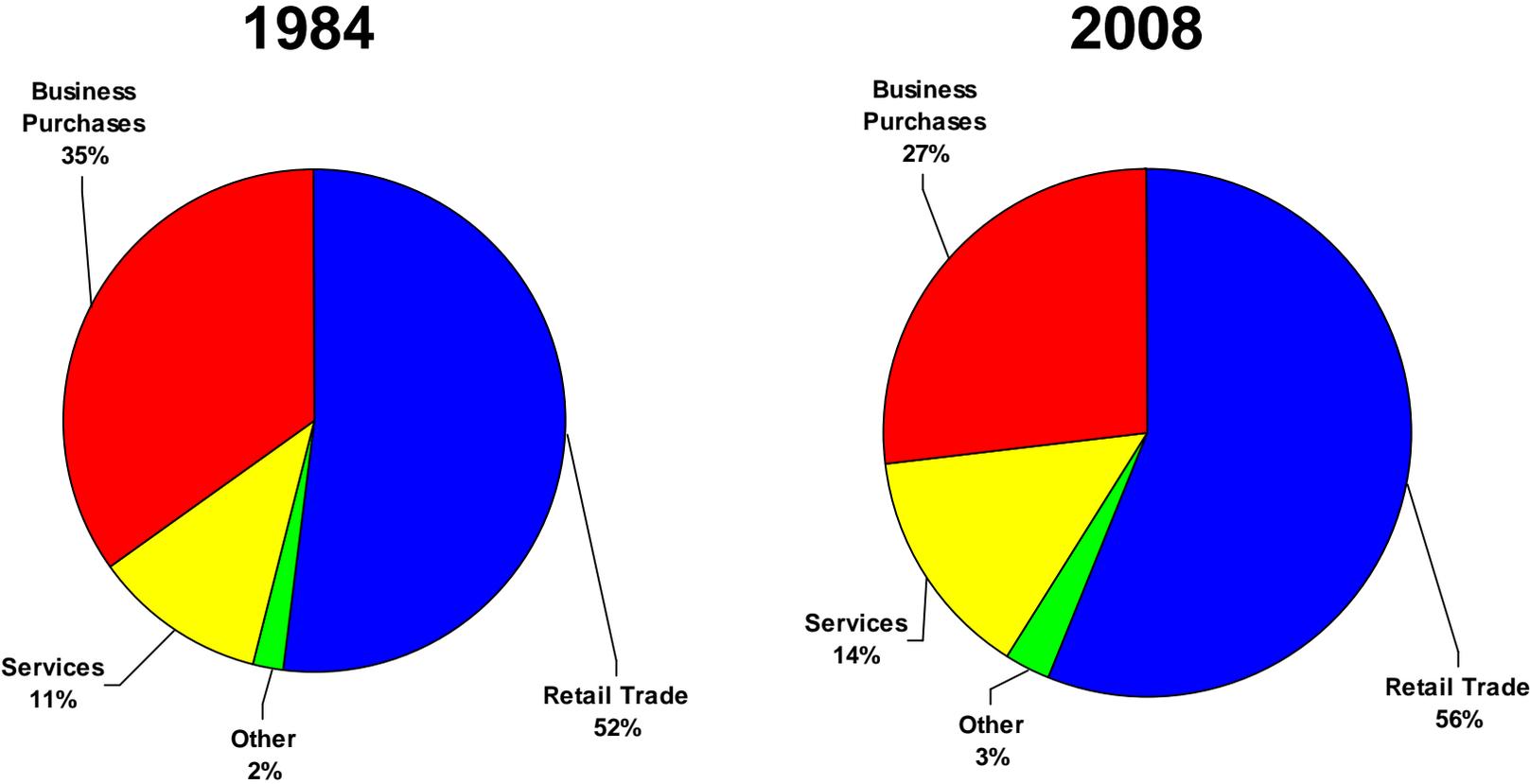
# Sales Tax Base

## Recent Changes by Sector



Source: Utah State Tax Commission

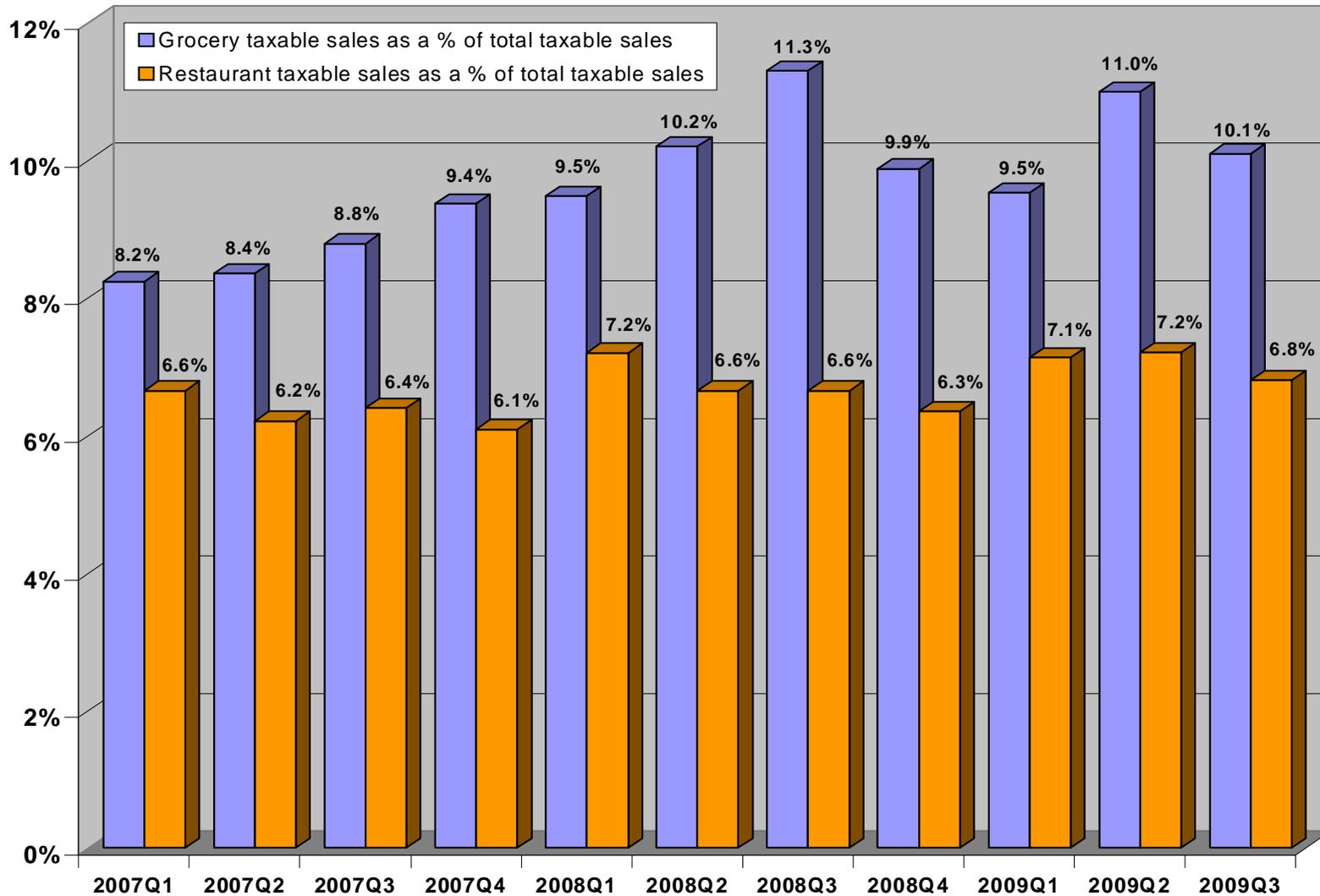
# The Changing Utah Sales Tax Base



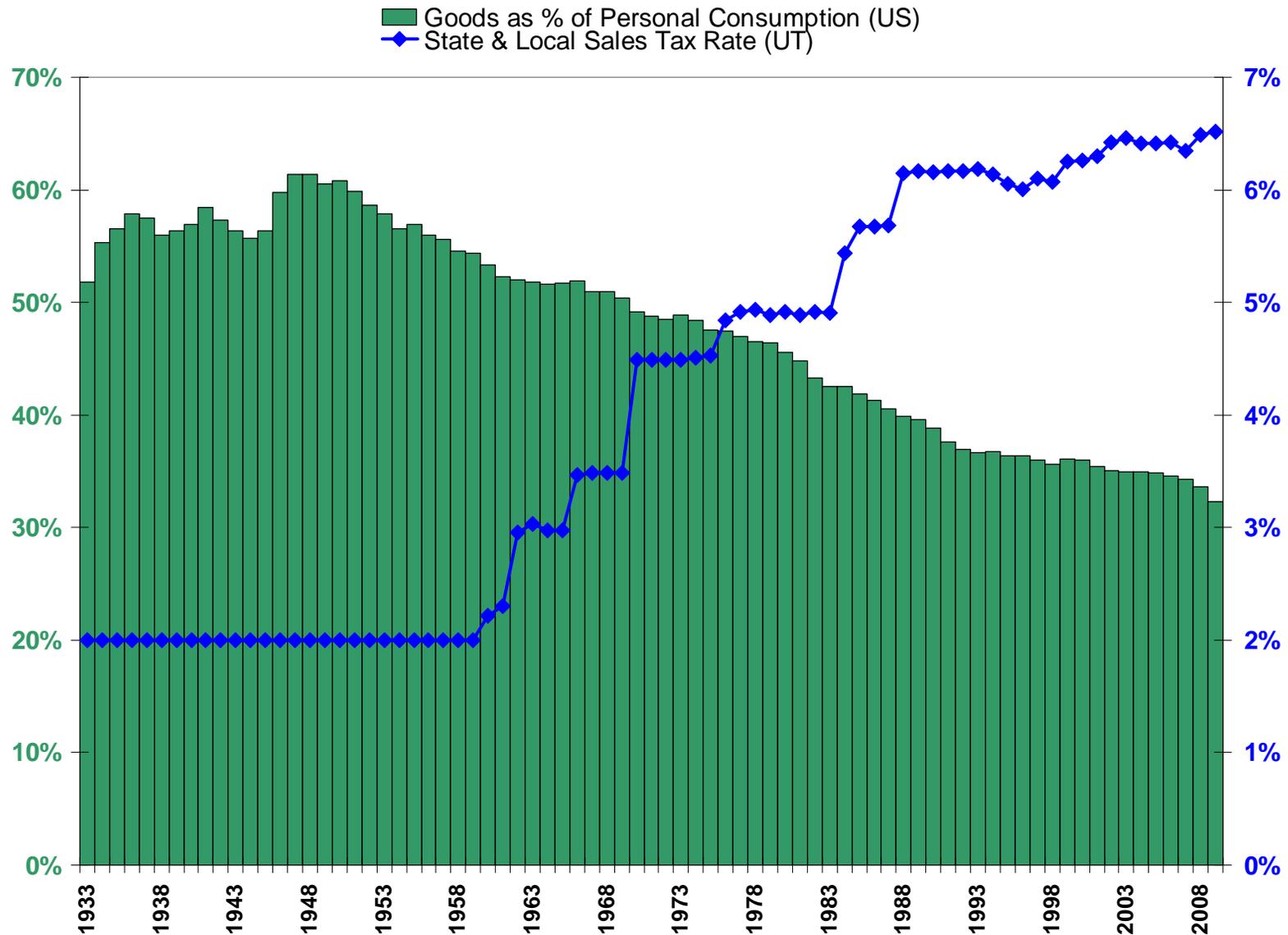
Source: Utah State Tax Commission

# Sales Tax on Food

## Food as a % of Gross Taxable Sales



# Shrinking Base, Increasing Rate

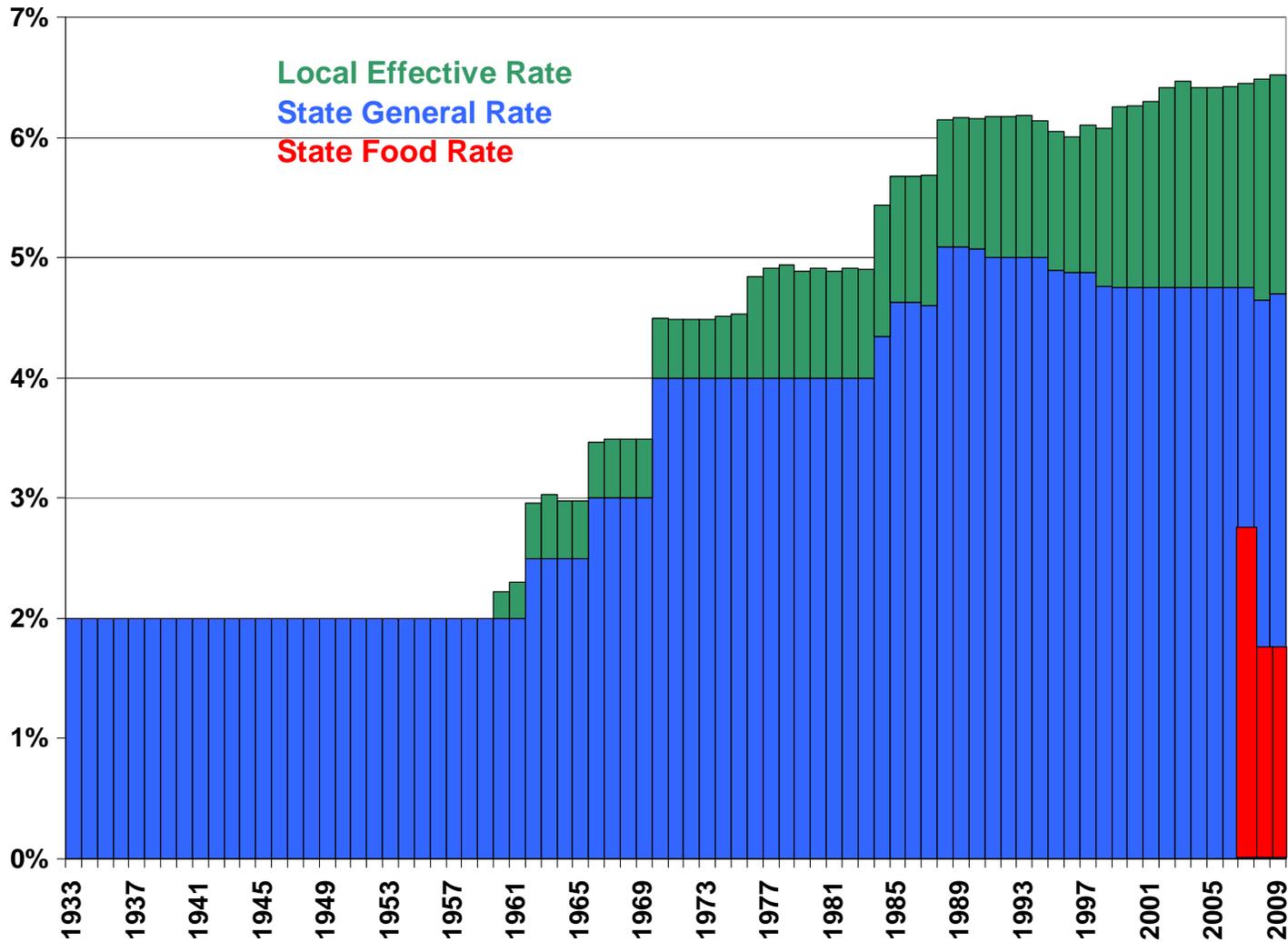


Data source: US Dept of Commerce, Bureau of Economic Analysis, Utah State Tax Commission



# Sales Tax Rates

# State & Local Sales Tax Rates



Source: Utah State Tax Commission



# State & Local Option Sales and Use Tax Rates

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State tax rate +

Sum of local tax rates where transaction occurs

Tax rate imposed on a transaction

- The state tax rate depends on what is being taxed

For example:

General state tax rate 4.70% (4.65% until 1/1/09)

Residential fuels tax rate 2.00%

Prepared food tax rate 4.70% (4.65% until 1/1/09)

Food and food ingredients tax rate 1.75%

# State & Local Option Sales and Use Tax Rates

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- Counties, cities, and towns are allowed to impose a variety of local sales and use taxes
- Most local option sales and use taxes tax the same transactions taxed at the state level
- Some local option sales and use taxes may be used for general fund purposes

For example:

Local sales and use tax	1.00%
County option sales and use tax	0.25%

# Local Option Sales and Use Tax Rates

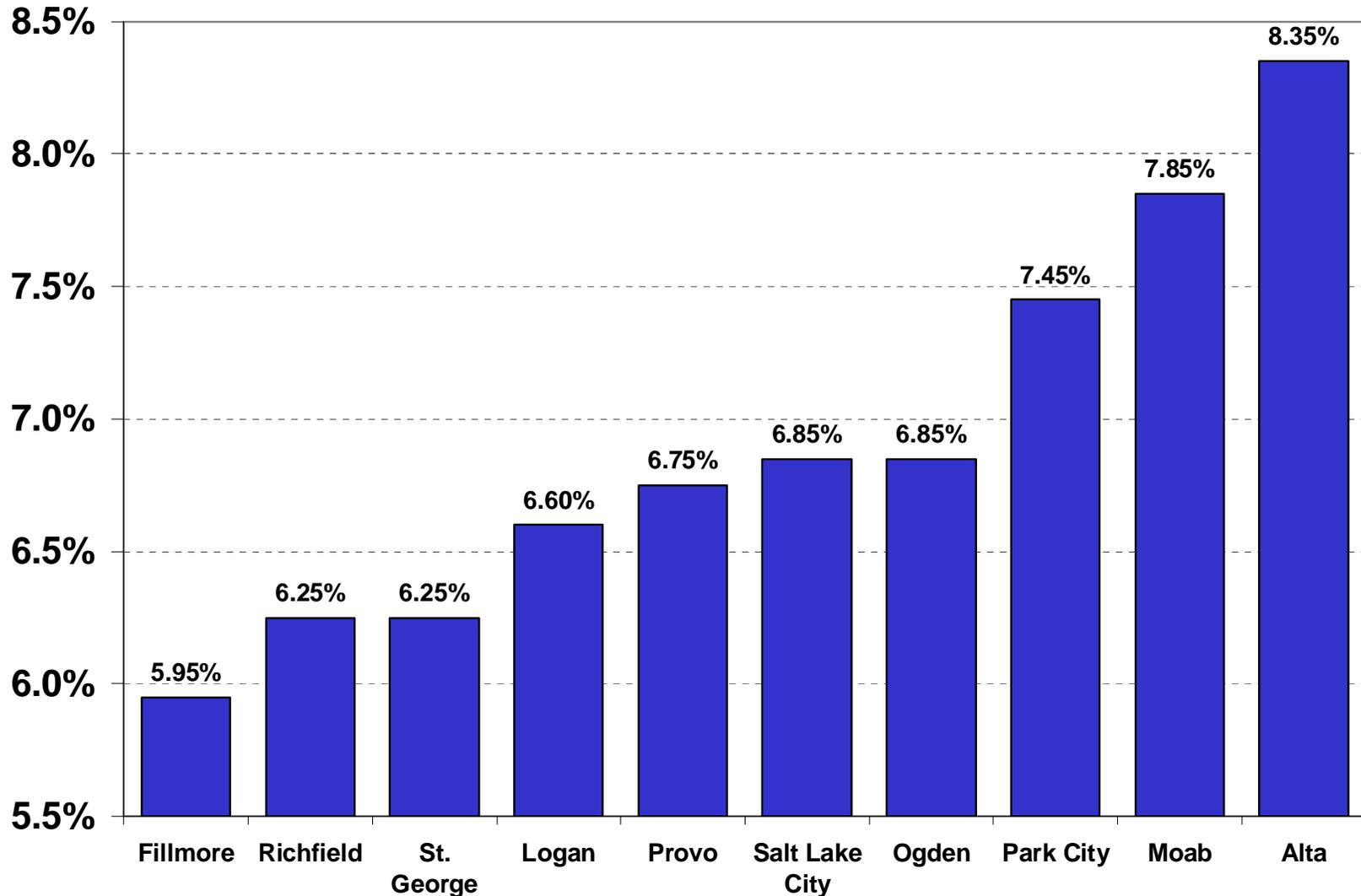
Name	Rate (%)	# Jurisdictions
Local Option	1.00	283
County Option	0.25	29
Mass Transit – Basic	Up to 0.25 or Up to 0.30	90
Mass Transit - Additional	0.25	52
Mass Transit/Fixed Guideway	Up to 0.30	27
County Option Transportation	Up to 0.25	3
County Airport, Highway, and Public Transit	0.10 or 0.25	1
Rural County Hospital	Up to 1.00	4
Rural Municipal Hospital	Up to 1.00	1
County Zoo, Arts, and Parks	0.10	4
Municipal Recreation, Arts, and Parks	0.10	17
Municipal Highway	0.30	24
Town Option	Up to 1.00	1
City or Town Option	Up to 0.20	1
Resort Community – Basic	Up to 1.10	15
Resort Community - Additional	Up to 0.50	5



Source: Utah State Tax Commission

# Combined State & Local Sales Tax Rates

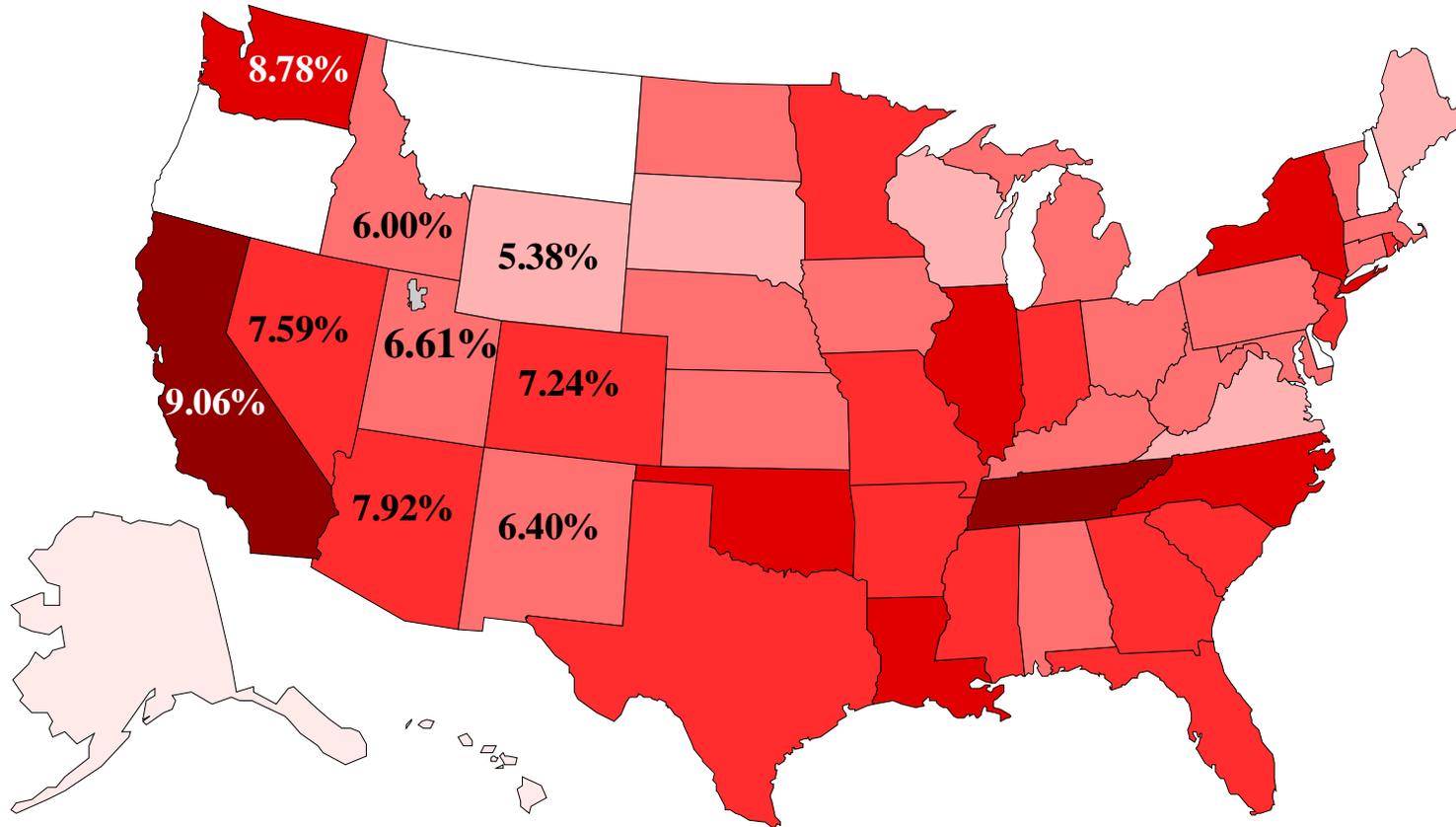
## Selected Locations, 2010Q1



Source: Utah State Tax Commission

# US State & Local Sales Tax Rates

## Statewide Average Rates, September 2009



- 9.00% or greater (2)
- 8.00% to 8.99% (6)
- 7.00% to 7.99% (14)
- 6.00% to 6.99% (17)

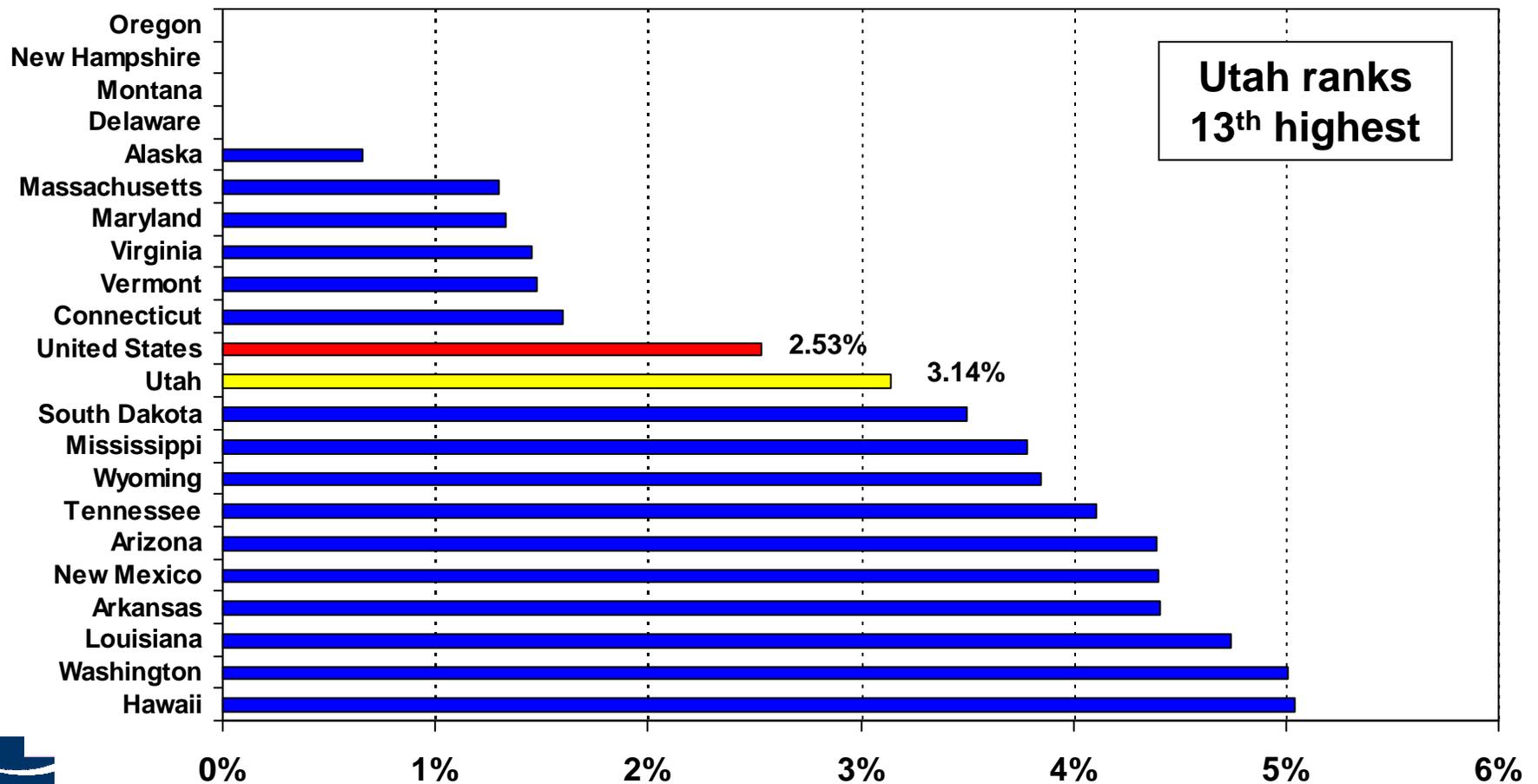
- 5.00% to 5.99% (5)
- Less than 5.00% (2)
- No general sales tax (4)



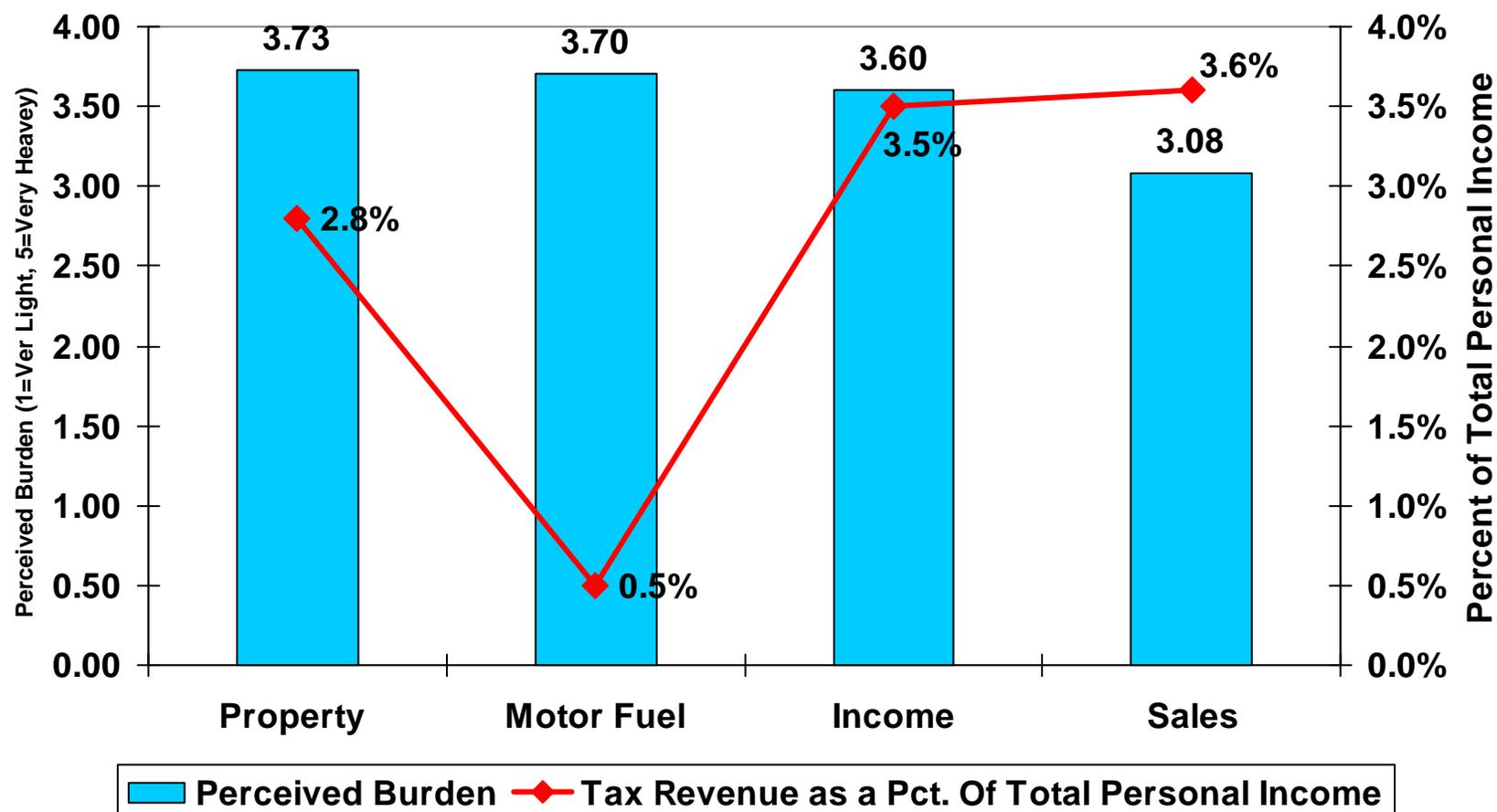
Source: Tax Foundation

# State and Local *General Sales Taxes* as % of Personal Income

Ten Highest and Ten Lowest States, Utah, and the United States: FY 2006 - 2007



# Perceived vs. Actual Tax Burden: Selected Utah Taxes



Source for perceived tax burden: Utah Foundation, "The 2008 Priorities Survey"

# Tax Review Commission

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- “We believe good sales tax policy consists of taxing final consumption uniformly, while excluding business inputs”
- TRC recommendations for in-depth study of whether the state’s sales and use tax system should be modernized to more closely align with the current economy
  - Tax Final Consumption
  - Don’t Tax Business Inputs
  - Don’t Tax Investment and Savings
  - Consider Taxpayer and Administrative Simplicity
  - Recognize Evolving Interstate, International, and Electronic Commerce

# Current Sales Tax Issues

# Major Sales and Use Tax Issues

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- Sales taxes on food
- Local option sales and use taxes
- Creation of new exemptions
- State sales and use tax earmarking
- Compliance with Streamlined Sales & Use Tax Agreement
- Transportation funding
- Changes in levels and type of consumption