Utah’s Sales & Use Tax: Issues and Options

Prepared for:
Bagels & Briefings
February 16, 2010
Presentation Outline

• 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”)

- 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

- 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

Property Tax
(state & local, including earmarks)
$2.6 B
31%

Individual Income Tax
(state)
$2.3 B
28%

Sales Tax
(state & local, including earmarks)
$2.6 B
31%

Corporate Income Tax (state), $0.25B, 3%
Transportation Taxes (state), $0.34B, 4%
Other State (severance, cigarette, insurance, etc.), $0.30B, 4%
Other Local (Excise), $0.07B, 1%

Source: Utah State Tax Commission
Sales and Use Tax Revenue:
State Unrestricted, State Earmarked, and Local
FY 2009

- Local
  - $820M
  - 31%

- State Earmarked
  - $277M
  - 11%

- State Unrestricted
  - $1,547M
  - 58%

Total FY 2009 Revenue:
$2.64 Billion

Source: Utah State Tax Commission
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

Local $425M
Public Transit $221M
County $107M
Resort Community $12M
Rural Hospital $8M
Municipal Highway $12M
ZAP/RAP $27M
Other $8M

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

Source: Utah State Tax Commission
State Sales Tax Revenue Amounts
FY 1970-2009

Source: Utah State Tax Commission
Why Do Tax Revenues Change?

• 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

Source: Utah State Tax Commission
Sales Tax Base
Basic Tax Formula

(Base x rate) – credits = 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?
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”
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?

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

<table>
<thead>
<tr>
<th>Exemption</th>
<th>FY 2009 State Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor and special fuels</td>
<td>$109 M</td>
</tr>
<tr>
<td>Manufacturing machinery &amp; equipment</td>
<td>$105 M</td>
</tr>
<tr>
<td>Resale property / component parts</td>
<td>$ 55 M</td>
</tr>
<tr>
<td>Prescription drugs</td>
<td>$ 40 M</td>
</tr>
<tr>
<td>Certain religious / charitable sales &amp; purchases</td>
<td>$ 11 M</td>
</tr>
<tr>
<td>Farm machinery &amp; equipment</td>
<td>$ 10 M</td>
</tr>
</tbody>
</table>

Source: Utah State Tax Commission
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?

Data source: Utah State Tax Commission and 2008 Economic Report to the Governor
The Sales Tax Base: 
Why is It Declining Over the Long Term?

• 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

Sources: “E-Commerce in the Context of Declining State Sales Tax Bases”
Sales Tax Base
Nominal Gross Taxable Sales Changes

Source: Utah State Tax Commission
Inflation-Adjusted Per Capita Gross Taxable Sales

Source: Utah State Tax Commission, GOPB
Recent Changes by Sector

Sales Tax Base

Source: Utah State Tax Commission
The Changing Utah Sales Tax Base

1984
- Business Purchases: 35%
- Services: 11%
- Retail Trade: 52%
- Other: 2%

2008
- Business Purchases: 27%
- Services: 14%
- Other: 3%
- Retail Trade: 56%

Source: Utah State Tax Commission
Sales Tax on Food
Food as a % of Gross Taxable Sales

Grocery taxable sales as a % of total taxable sales
Restaurant taxable sales as a % of total taxable sales

Source: Utah State Tax Commission
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

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%
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

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

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

Source: Tax Foundation
State and Local General Sales Taxes as % of Personal Income


Utah ranks 13th highest

Source: US Census Bureau
Perceived vs. Actual Tax Burden: Selected Utah Taxes

Source for perceived tax burden: Utah Foundation, “The 2008 Priorities Survey”
Tax Review Commission

• “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

• 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