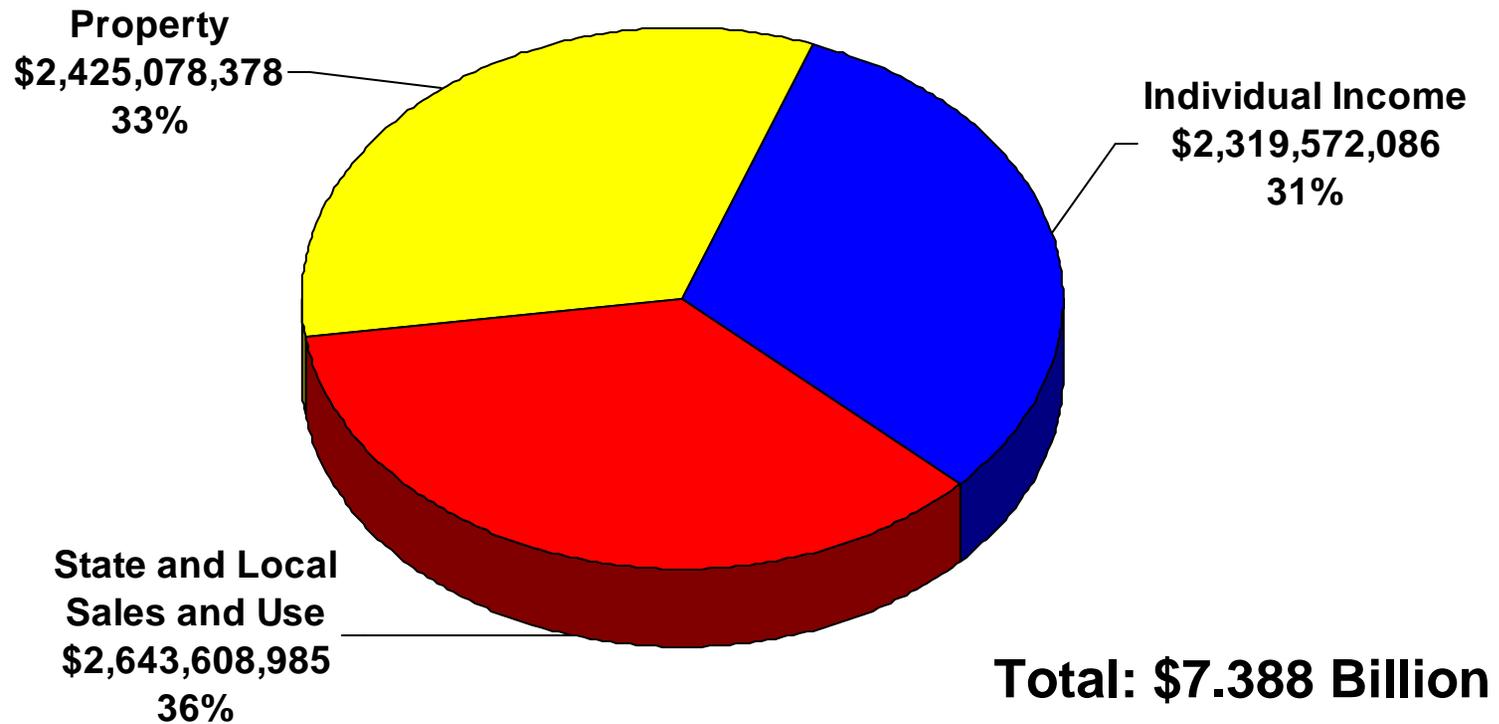


What Happened to Taxpayers Under Utah's New Individual Income Tax?

Prepared for:
Bagels & Briefings
January 26, 2010

Utah's Three Major State and Local Taxes:

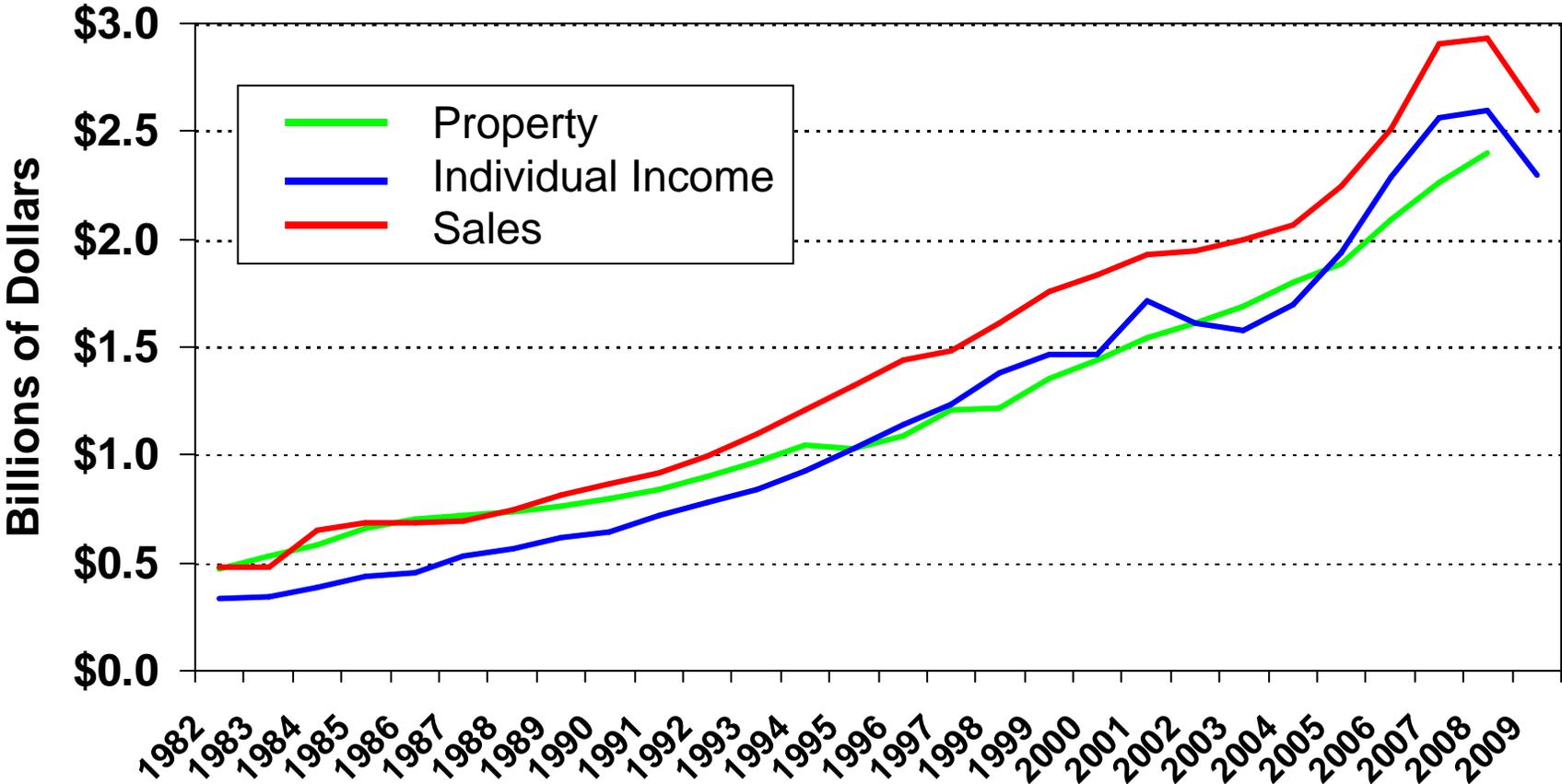
Individual Income, Property, and State and Local Sales and Use Fiscal Year 2009



Source: Utah State Tax Commission, Property Tax Division and Economic and Statistical Unit
Property tax is for 2008 tax year and are property taxes charged.

State and Local Sales & Use, Individual Income, and Property Tax Revenues

FY 1982 to FY 2009

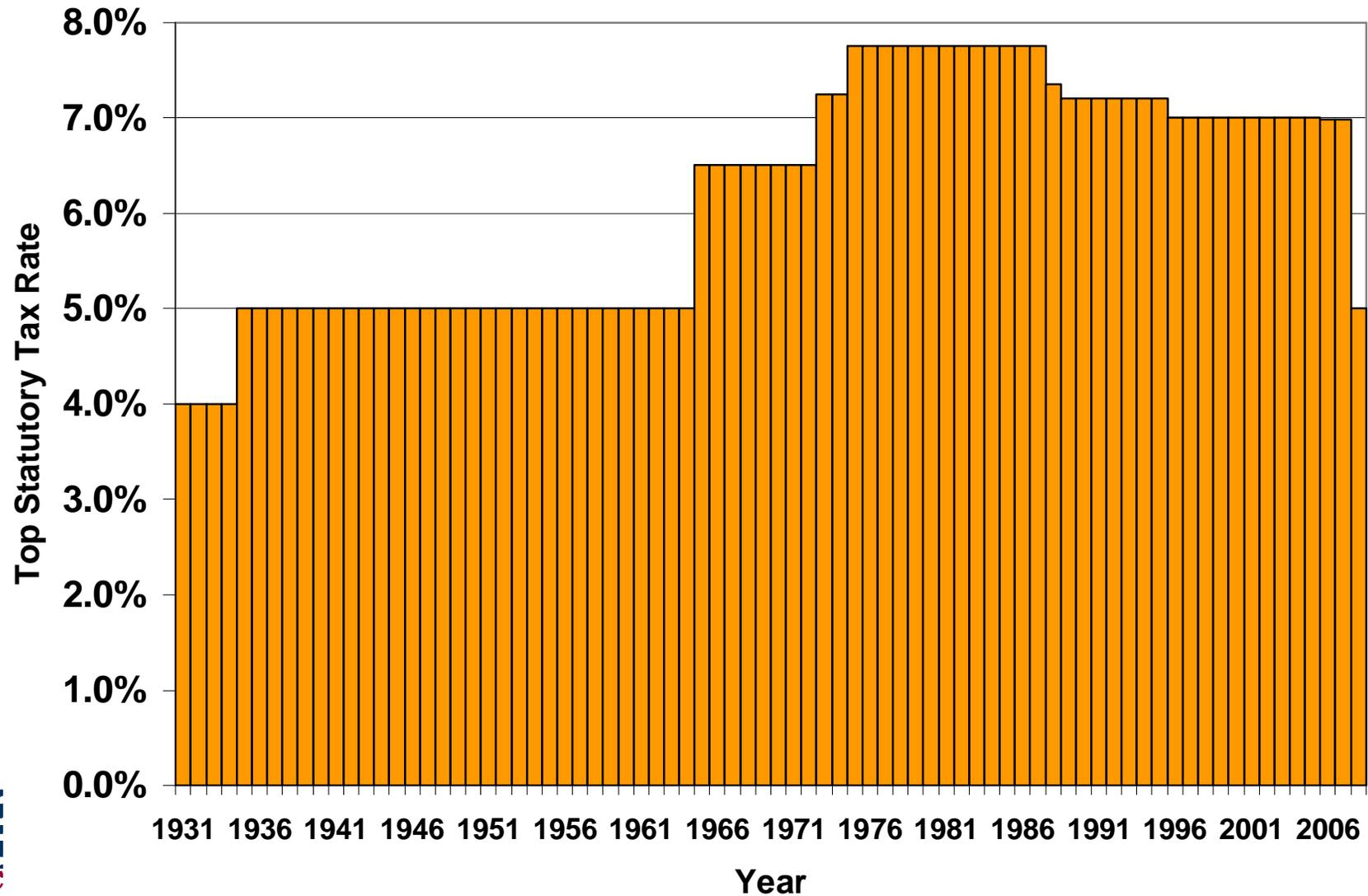


Source: Utah State Tax Commission, Property Tax Division and Economic and Statistical Unit

Utah Individual Income Tax Act of 1973

- Starting point: federal taxable income
- Several additions and deductions to determine state taxable income
- Six tax brackets
- Top bracket began at \$7,500 (MFJ) state taxable income with a 7.25% rate
- Tax brackets not indexed for inflation until partially adjusted in 2001 and 2006
 - In 2001, top bracket adjusted to begin at \$8,626 (MFJ)
 - In 2006, top bracket adjusted to begin \$11,000 (MFJ)

Utah Individual Income Tax: Top Statutory Tax Rate



The Road to Individual Income Tax Reform

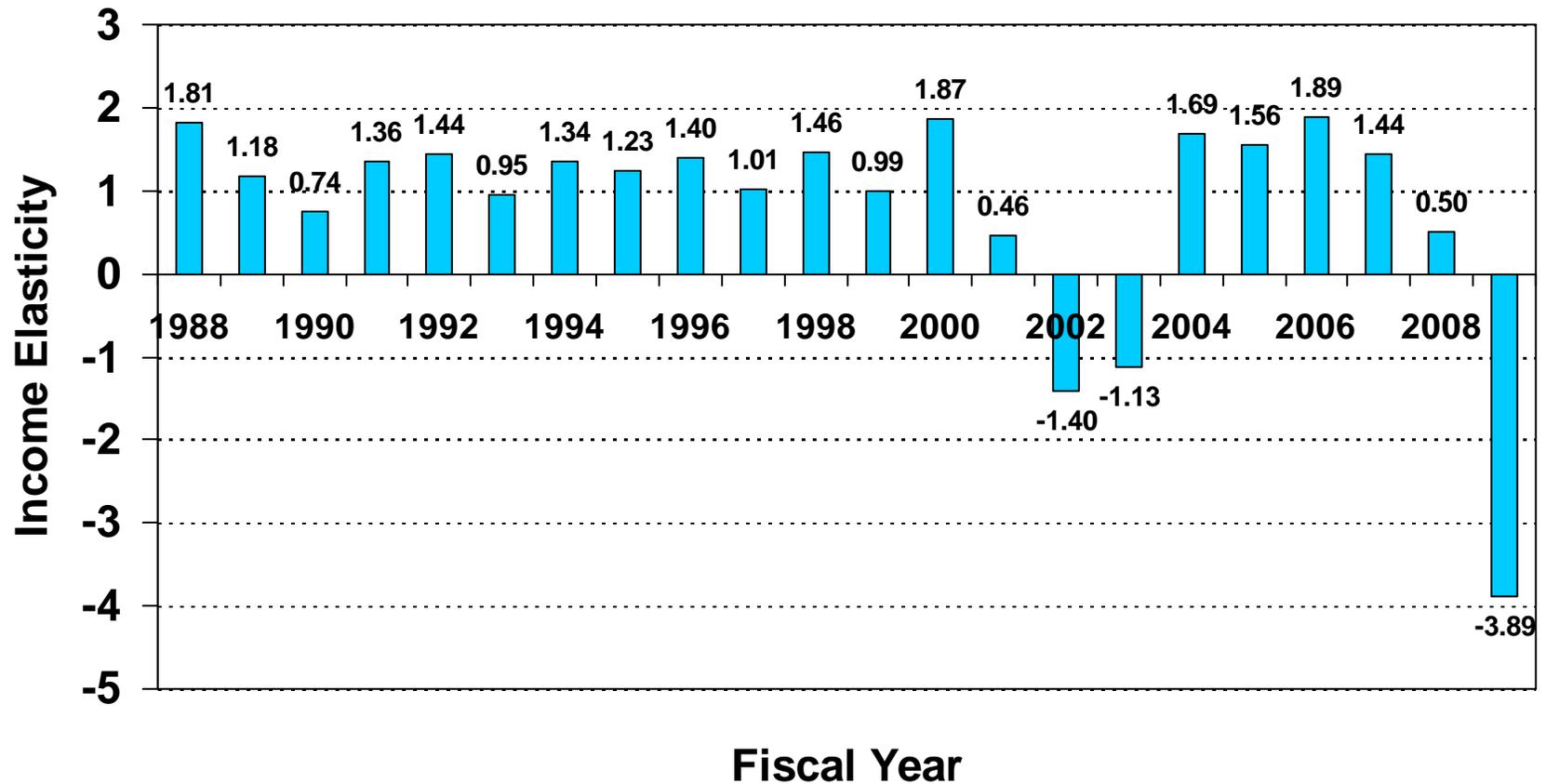
- 2003 – “Jones-Mascaro”
 - Broaden brackets
 - Limit dependent deduction
- 2004 – Income Tax Task Force
 - Study federal linkage
- 2004 – Governor Walker
 - 4.9% of federal taxable income (single rate) or 4.1% of federal AGI
- 2005 – Tax Reform Task Force
- 2006 – More steps:
 - 4th Special Session: Expand tax brackets and cut top rate to 6.98%
 - 4th Special Session: “Dual system” with 5.35% flat tax option
- 2007 General Session
 - Current system adopted

What Problems Did the Legislature Want to Solve?

- Federal taxable income as a starting point
- Revenue volatility
- Tax rates higher than neighboring states

Utah Individual Income Tax Elasticities

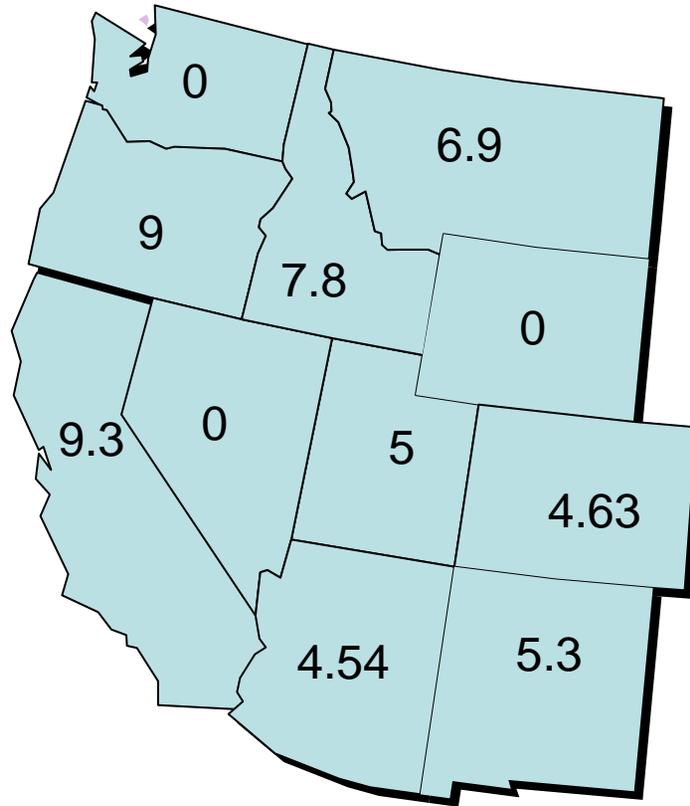
FY 1998 – FY 2009



Source: FY 1989 to FY 2008 – Governor's Office of Planning and Budget. FY 2009 calculation by Office of Legislative Research and General Counsel and is subject to revision based on revised personal income data.



Top Individual Income Tax Rates: Utah and the Western States -- 2008 Tax Year



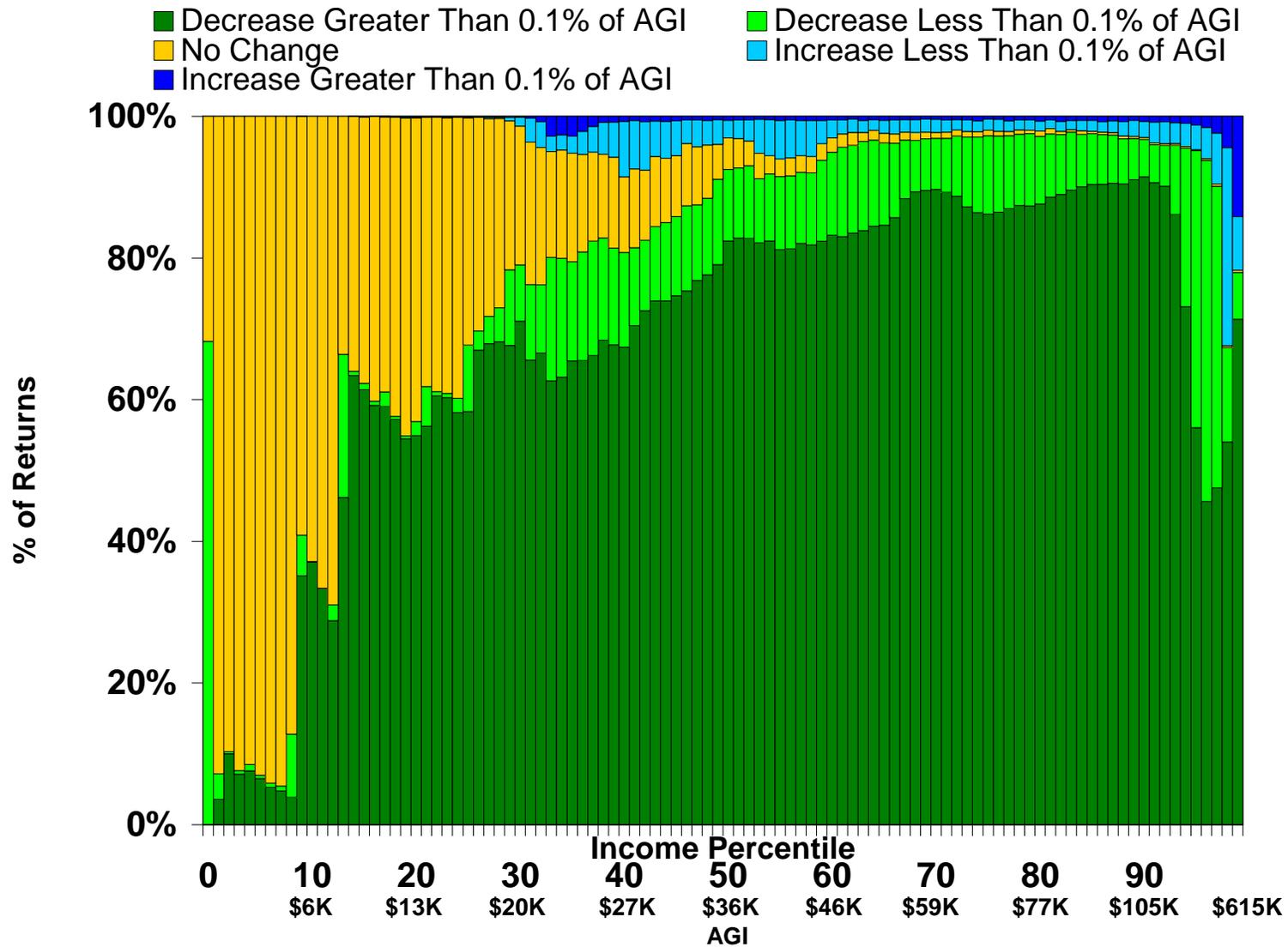
Structure of New Income Tax System

- Starting point of federal adjusted gross income (AGI)
- 5.0% statutory top rate
- Tax credits that phase out as income increases
 - Taxpayer tax credit 6% of
 - 6% of federal itemized or standard deductions plus 75% of personal exemptions
 - Phases out as income increases above certain levels
 - Retirement tax credit

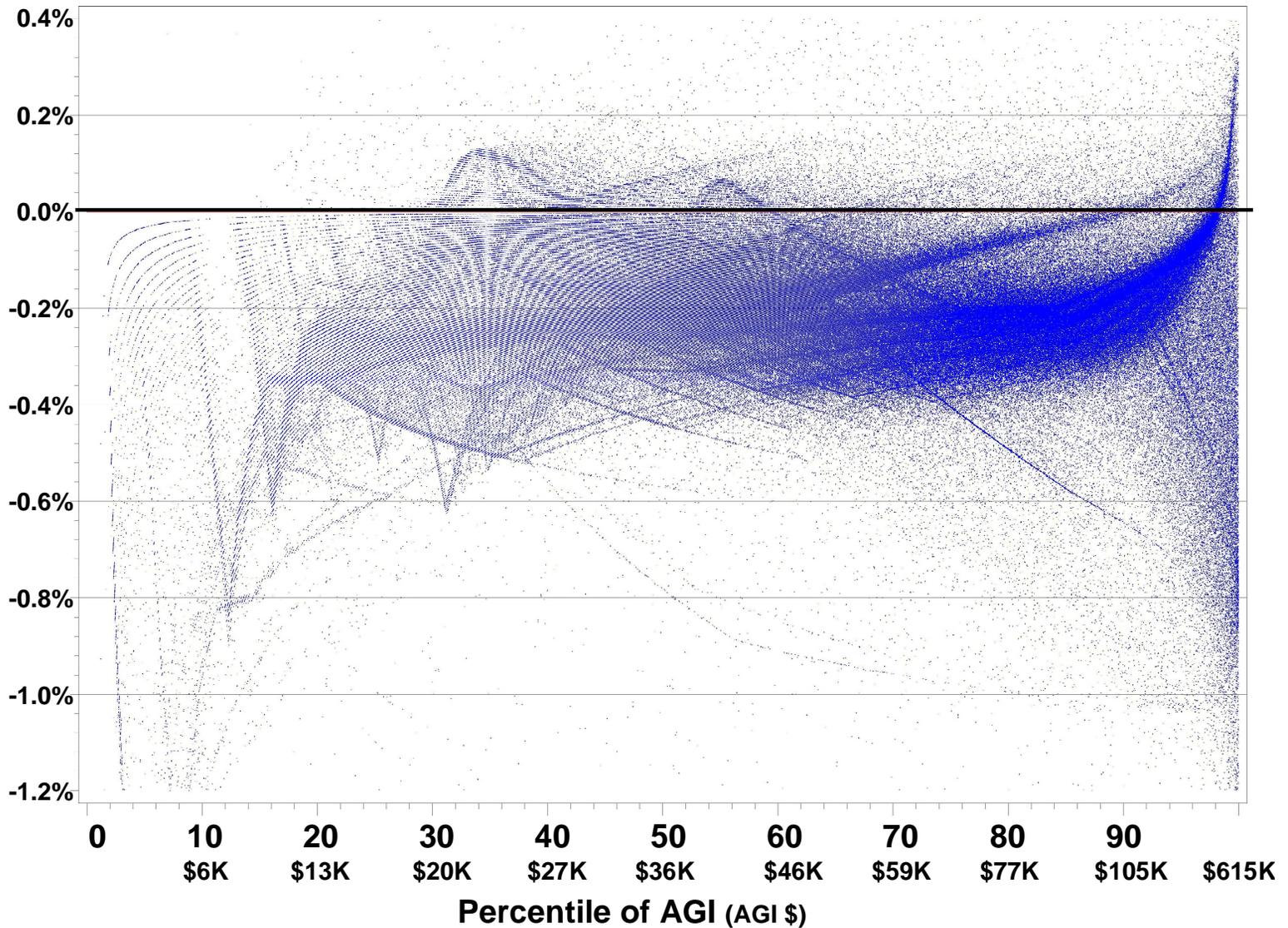
Tax Analysis Methodology

- Use actual 2008 tax returns filed with State Tax Commission
- Apply tax structure in place in 2005, 2006, and 2007 to actual tax year 2008 tax returns
- Examine both % change and \$ change

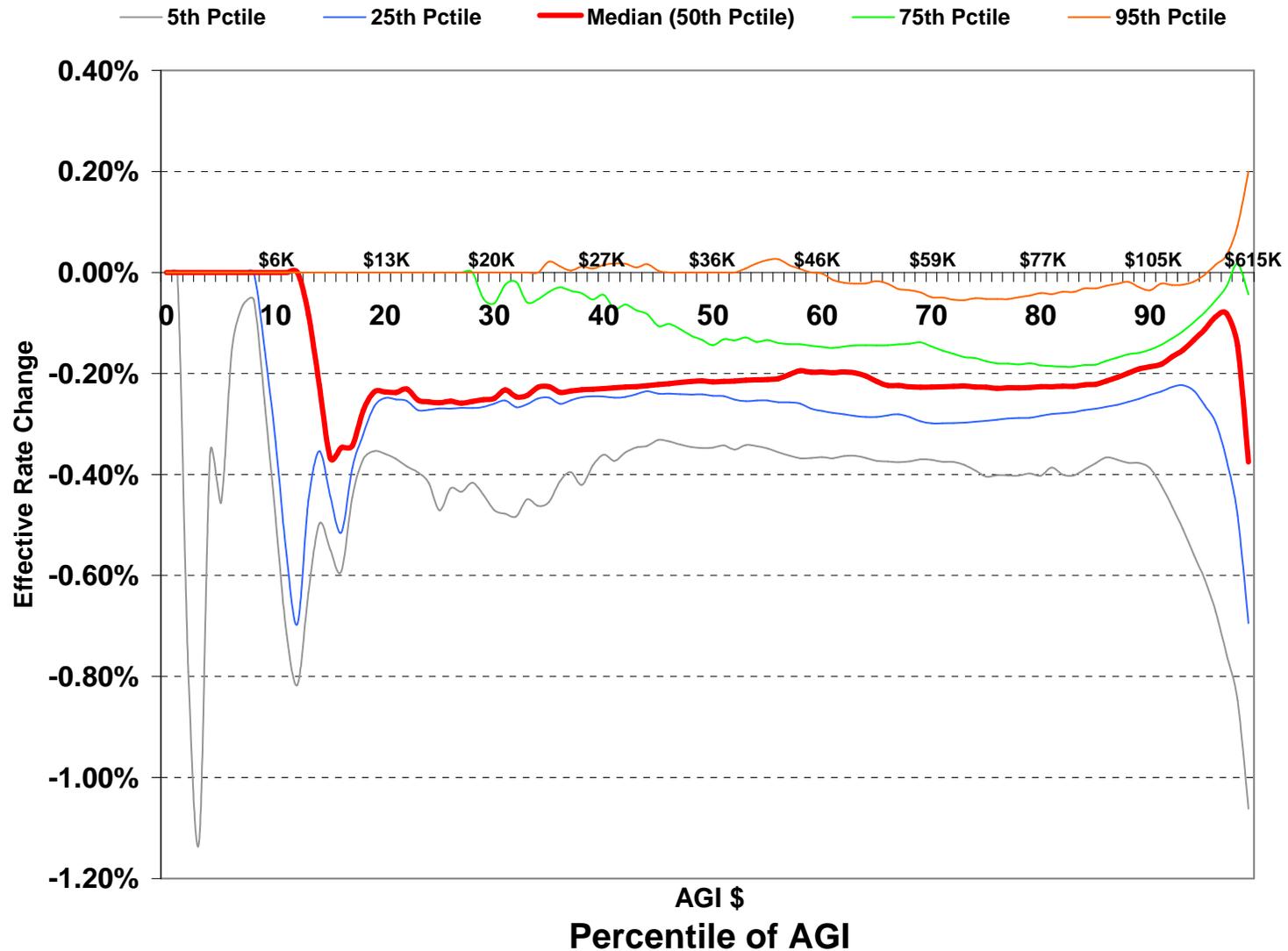
Tax Change by Income



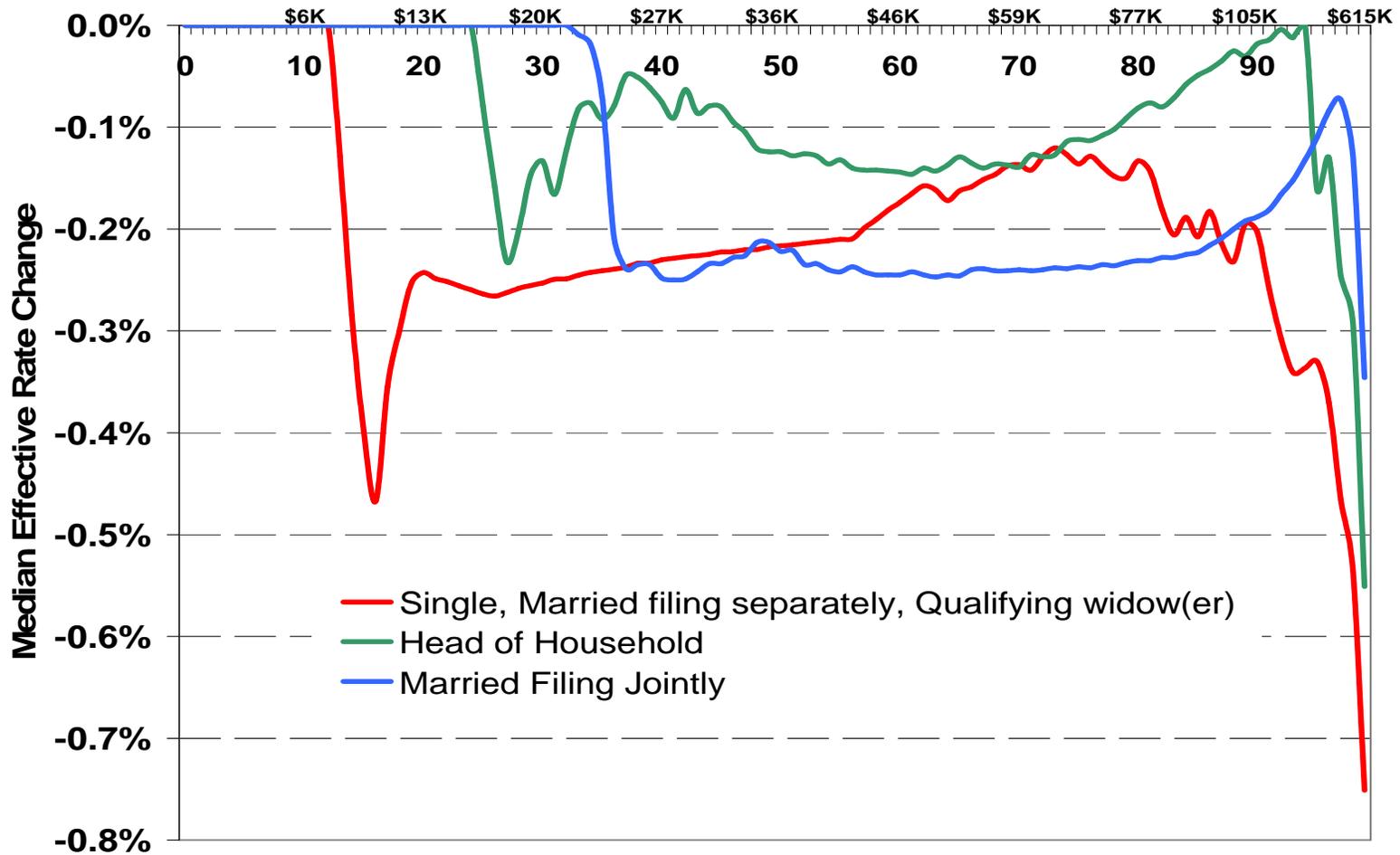
Effective Tax Rate Change By Taxpayer & Income



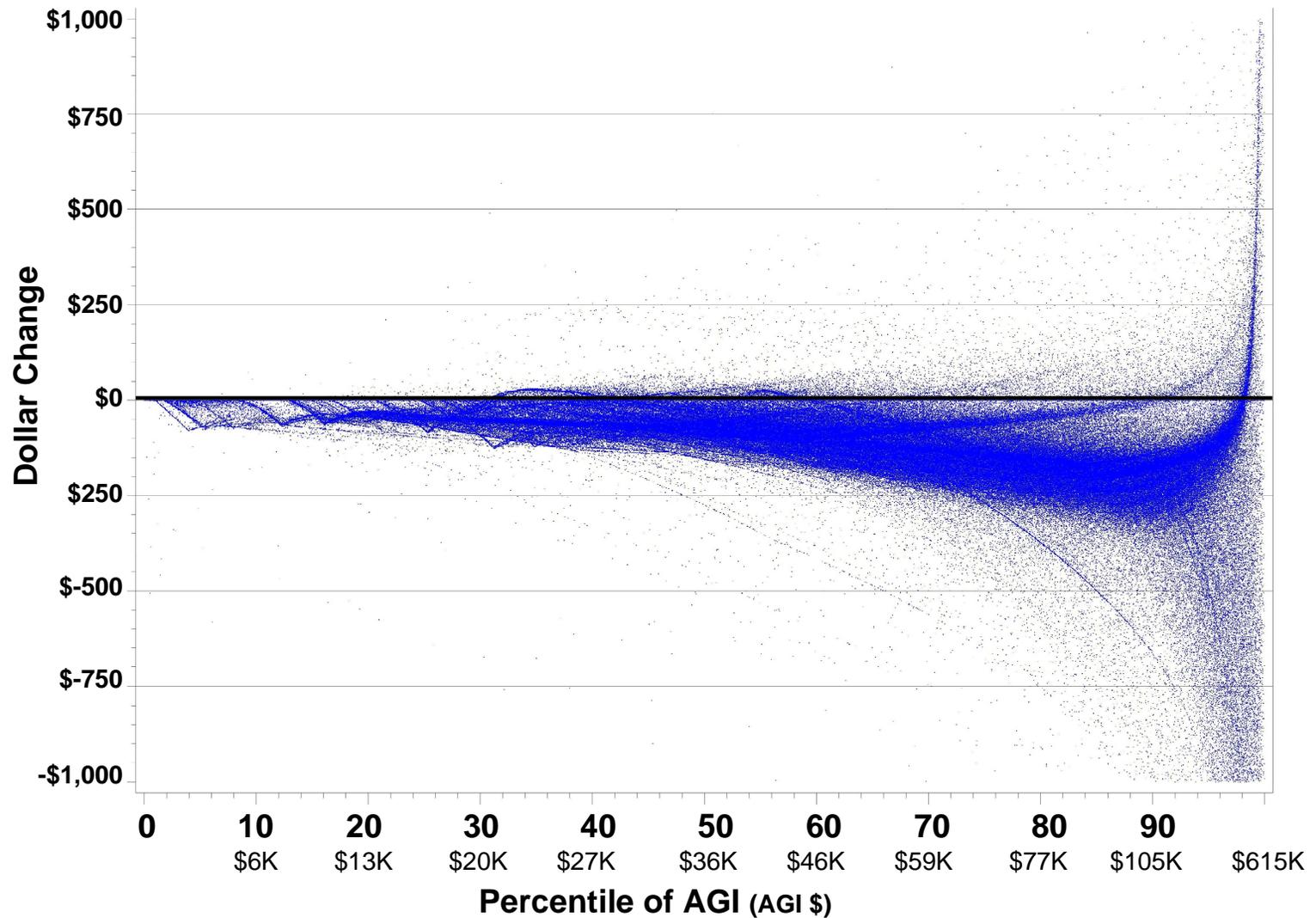
Effective Tax Rate Change By Income



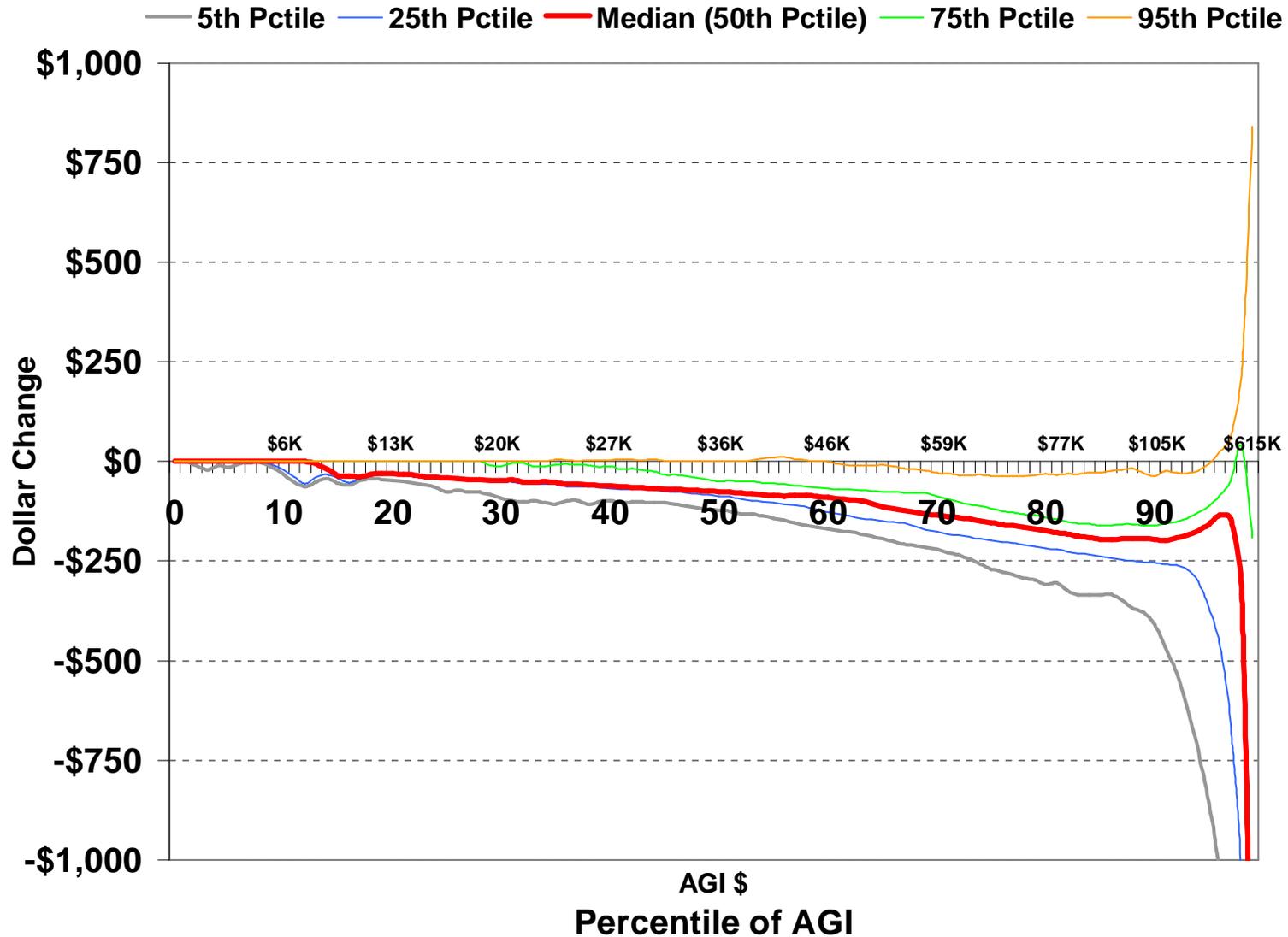
Median Effective Tax Rate Change By Filing Status & Income



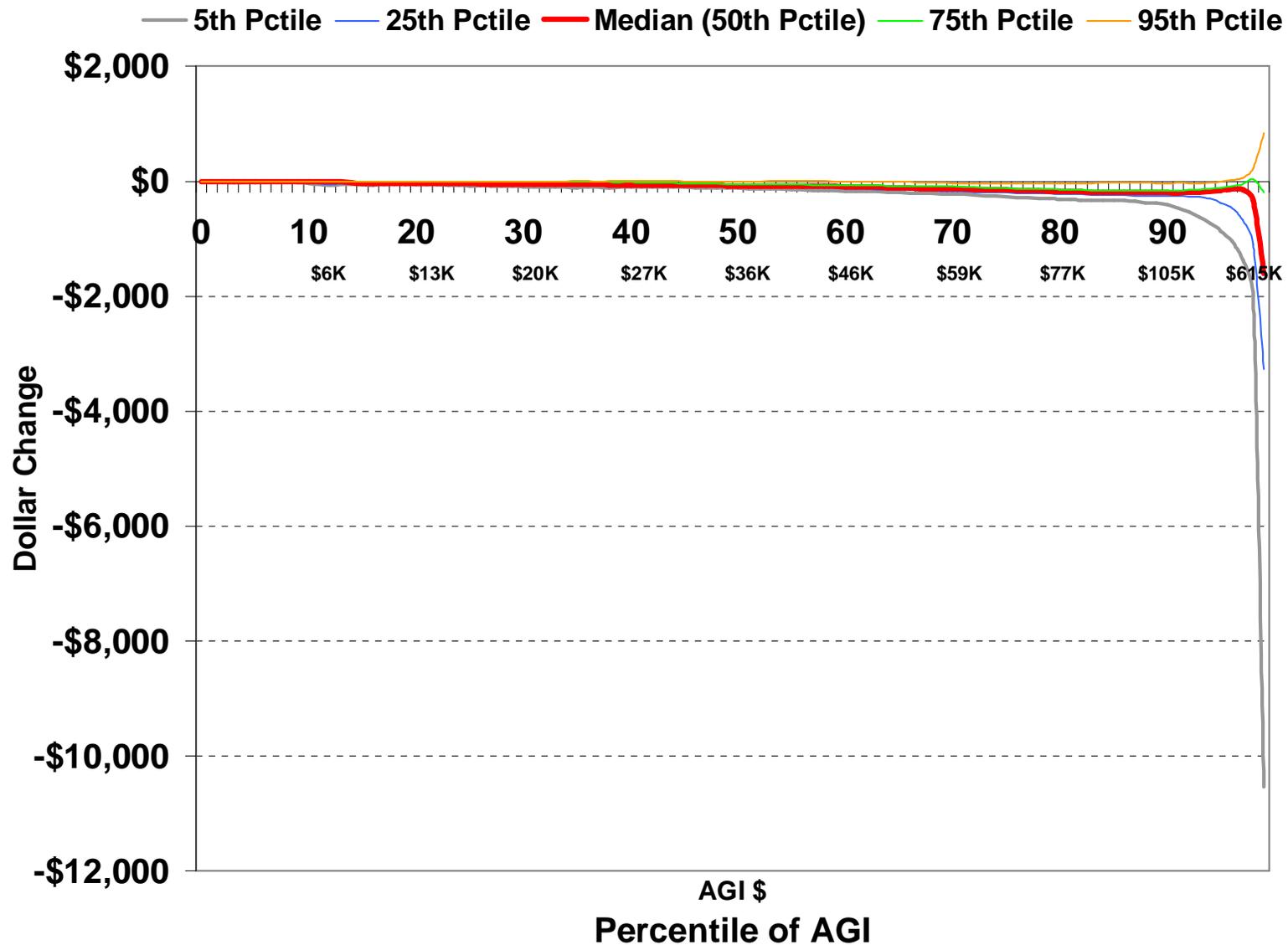
Dollar Amount of Change By Taxpayer & Income



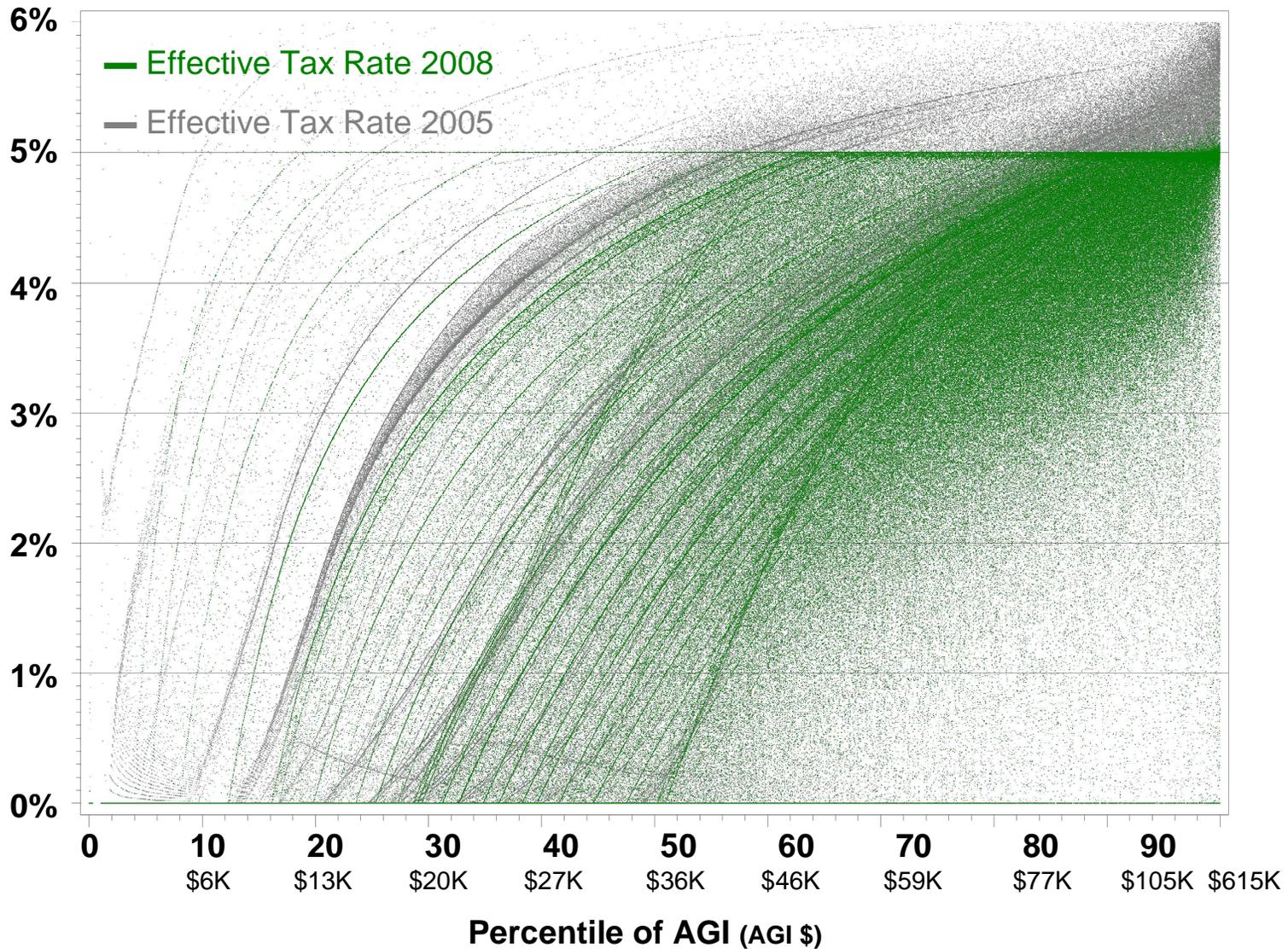
Dollar Amount of Change By Income



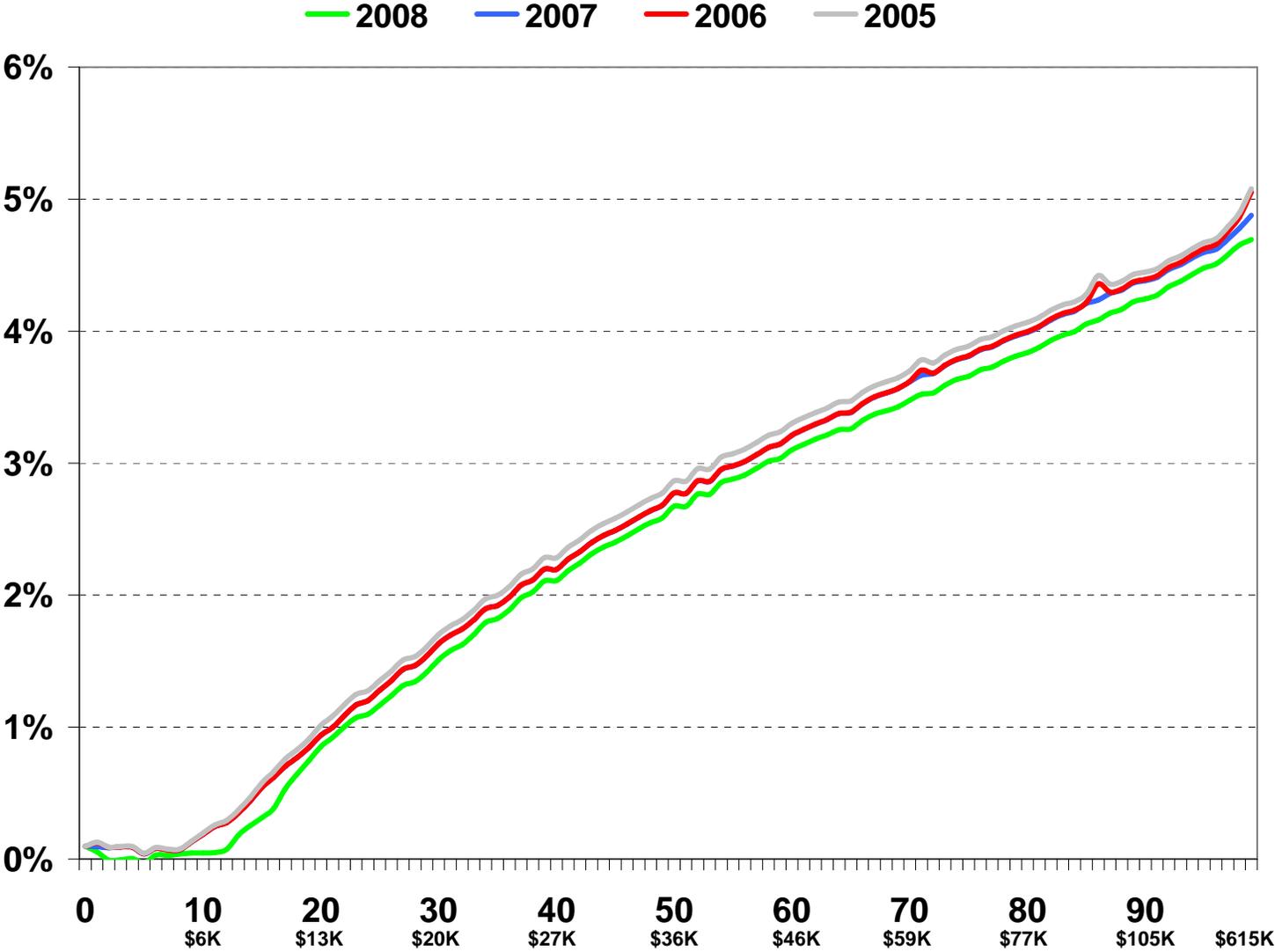
Dollar Amount of Change By Income



Effective Tax Rate By Taxpayer & Income



Effective Tax Rate By Income



Conclusion

- Various income tax changes were enacted between tax years 2005 and 2008
- The actual distributional effects were similar to those projected at the time the changes were enacted
 - About 97% pay the same or less compared to 2005 system
 - About 91% pay the same or less compared to 2007 system