

Utah's Shrinking Sales Tax Base and its Relevance to Future Policy Decisions: How will we Finance Tomorrows Needs?

Legislative Policy Summit

November 19, 2015

John L. Valentine, Chairman, Utah State Tax Commission

Leif G. Elder, Policy Analyst, Office of Legislative Research and General Counsel

Bryant R. Howe, Deputy Director, Office Legislative Research and General Counsel

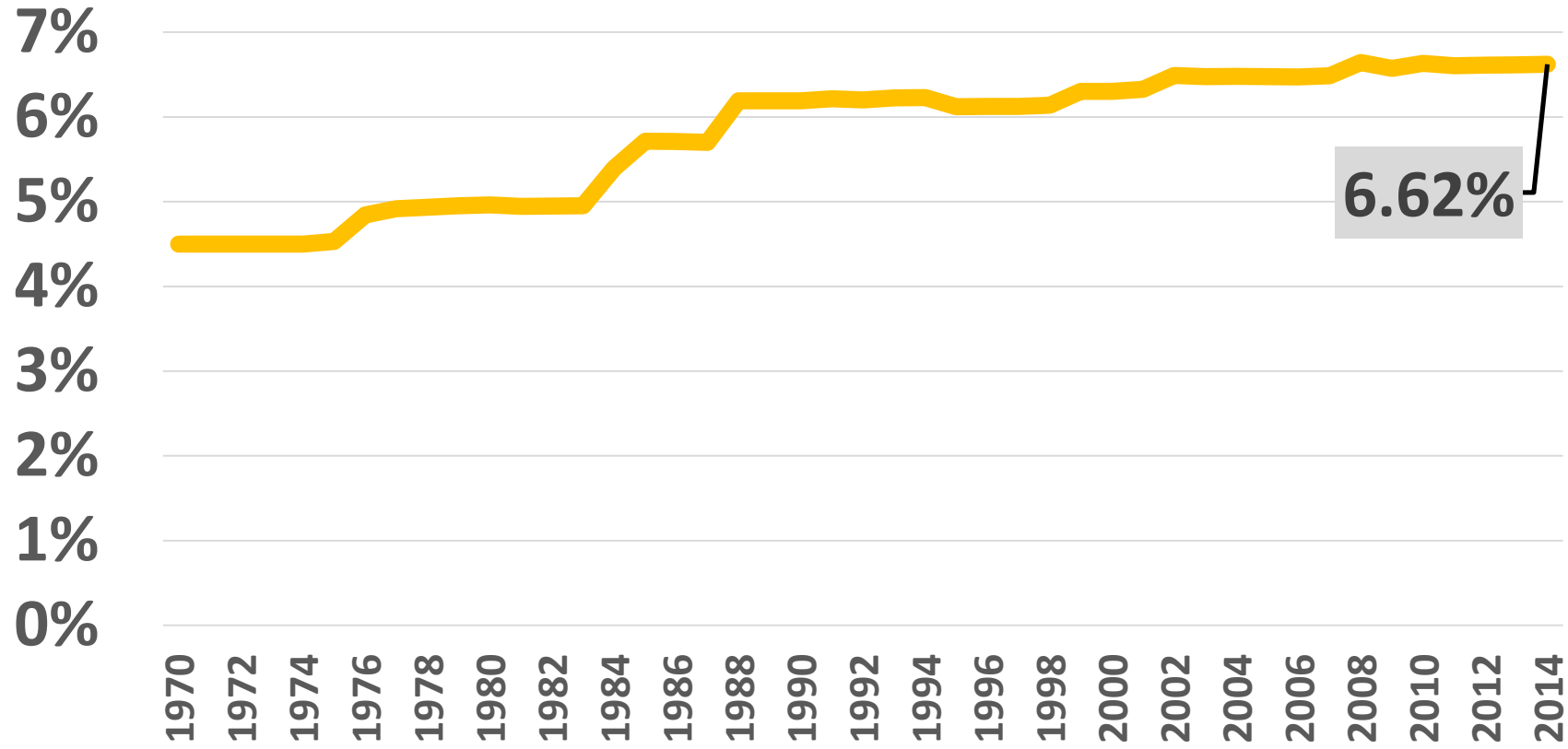


What's happening to the sales tax?

Base
X Rate

Revenue

Rates are getting higher . . .

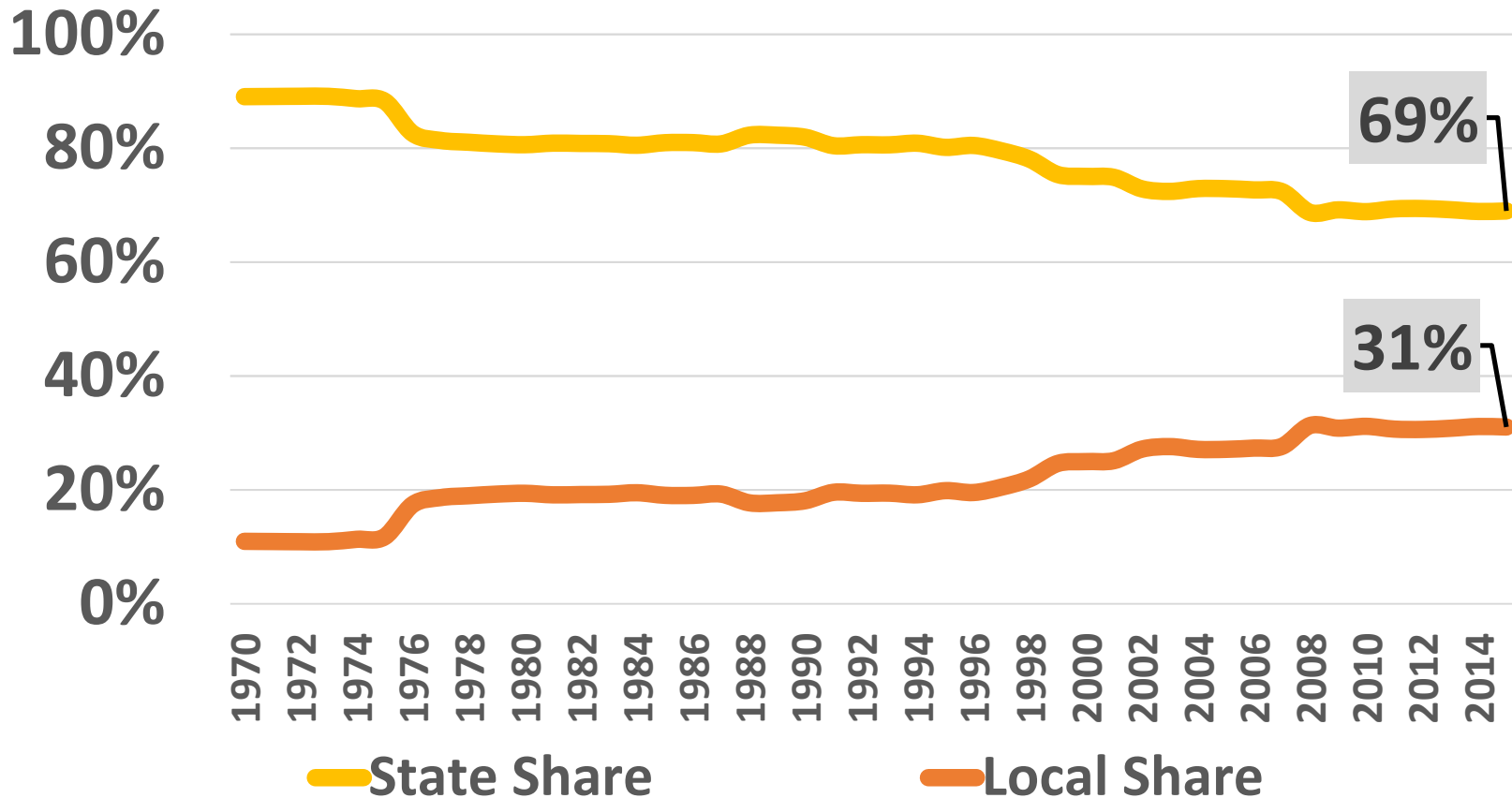


— Combined State and Local Sales Tax Rate (derived)

Source: Utah State Tax Commission

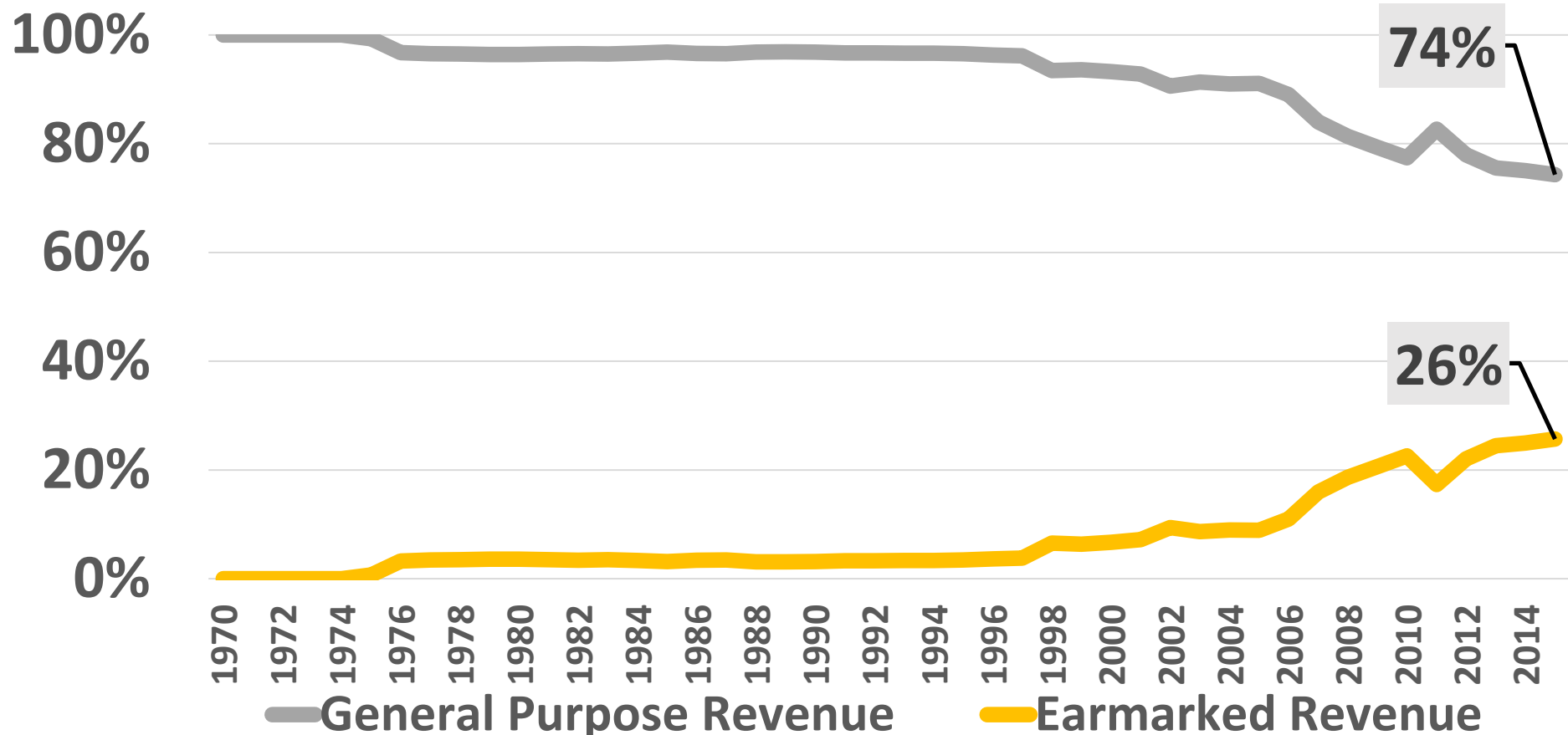
A greater share of the revenue is going for local purposes . . .

Share of Sales Tax Revenue



A greater share of state revenue is being earmarked . . .

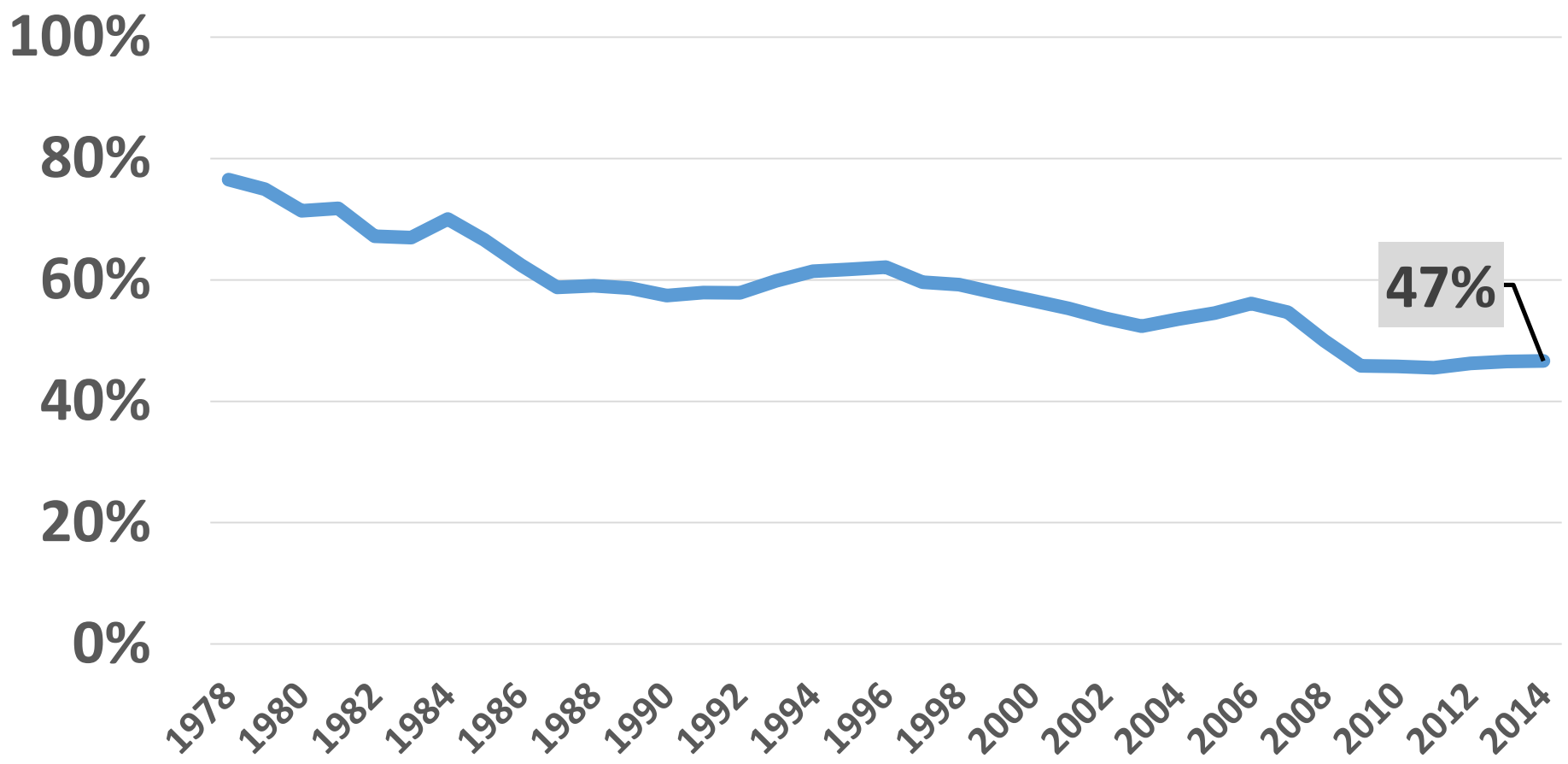
General Purpose and Earmarked State Sales Tax Revenue



Source: Utah State Tax Commission

The base is shrinking . . .

Sales Tax Base as a % of Utah Personal Income



Source: US Dept of Commerce, Bureau of Economic Analysis. And Utah State Tax Commission

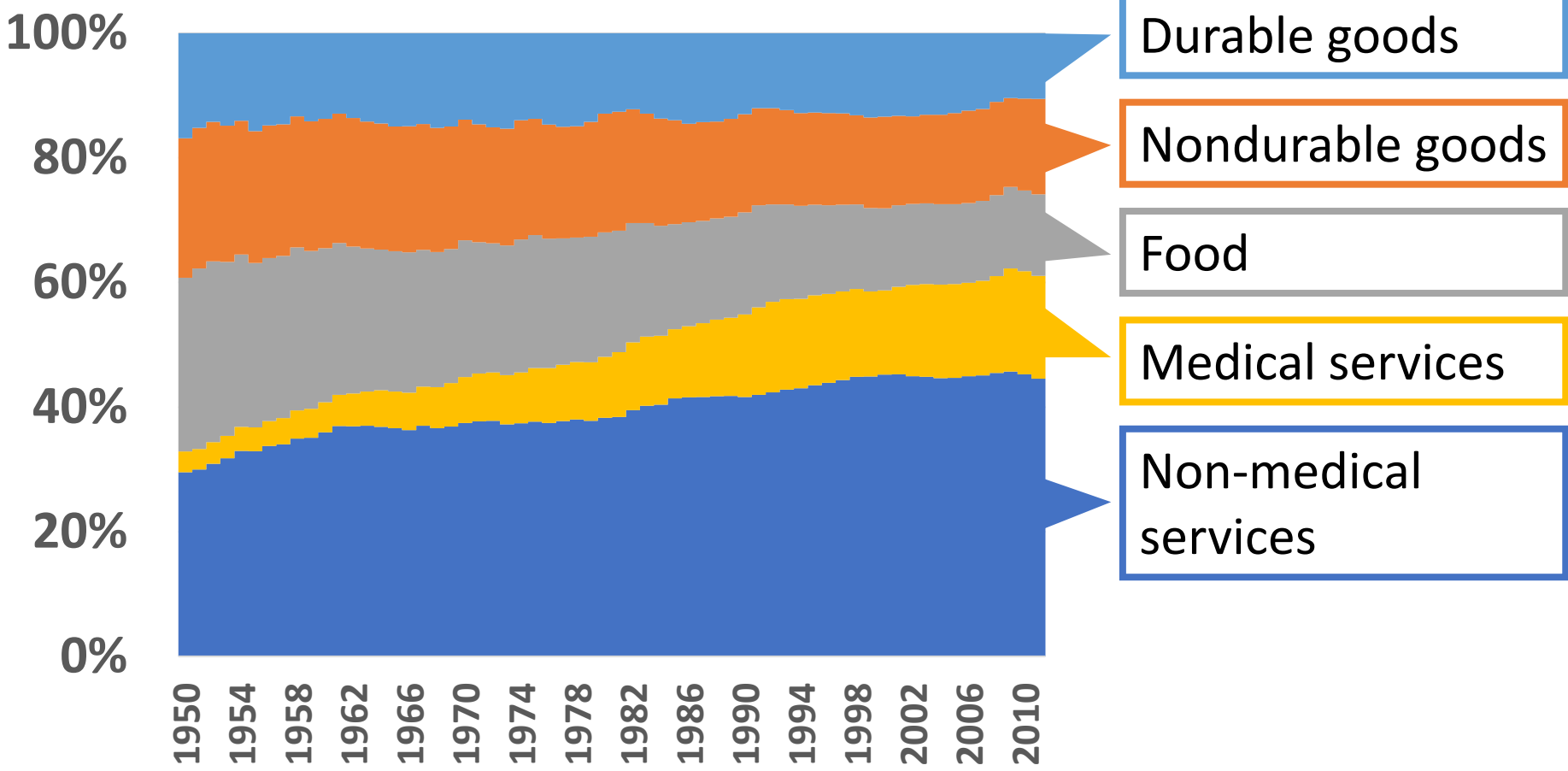
Why is the base shrinking?

Changing purchasing patterns

- Goods becoming relatively cheaper
- Aging population
- More services are being purchased
- Cost of medical services outpacing inflation
- Sharing economy

Consumption is shifting . . .

US Personal Consumption Expenditures
1950-2012



Source: US Dept of Commerce, Bureau of Economic Analysis

Why is the base shrinking?

Changing purchasing patterns

- Goods becoming relatively cheaper
- Aging population
- More services are being purchased
- Cost of medical services outpacing inflation
- Sharing economy

Remote transactions

Technological change

- Digitization of goods (software, books, music)

Legislated exemptions

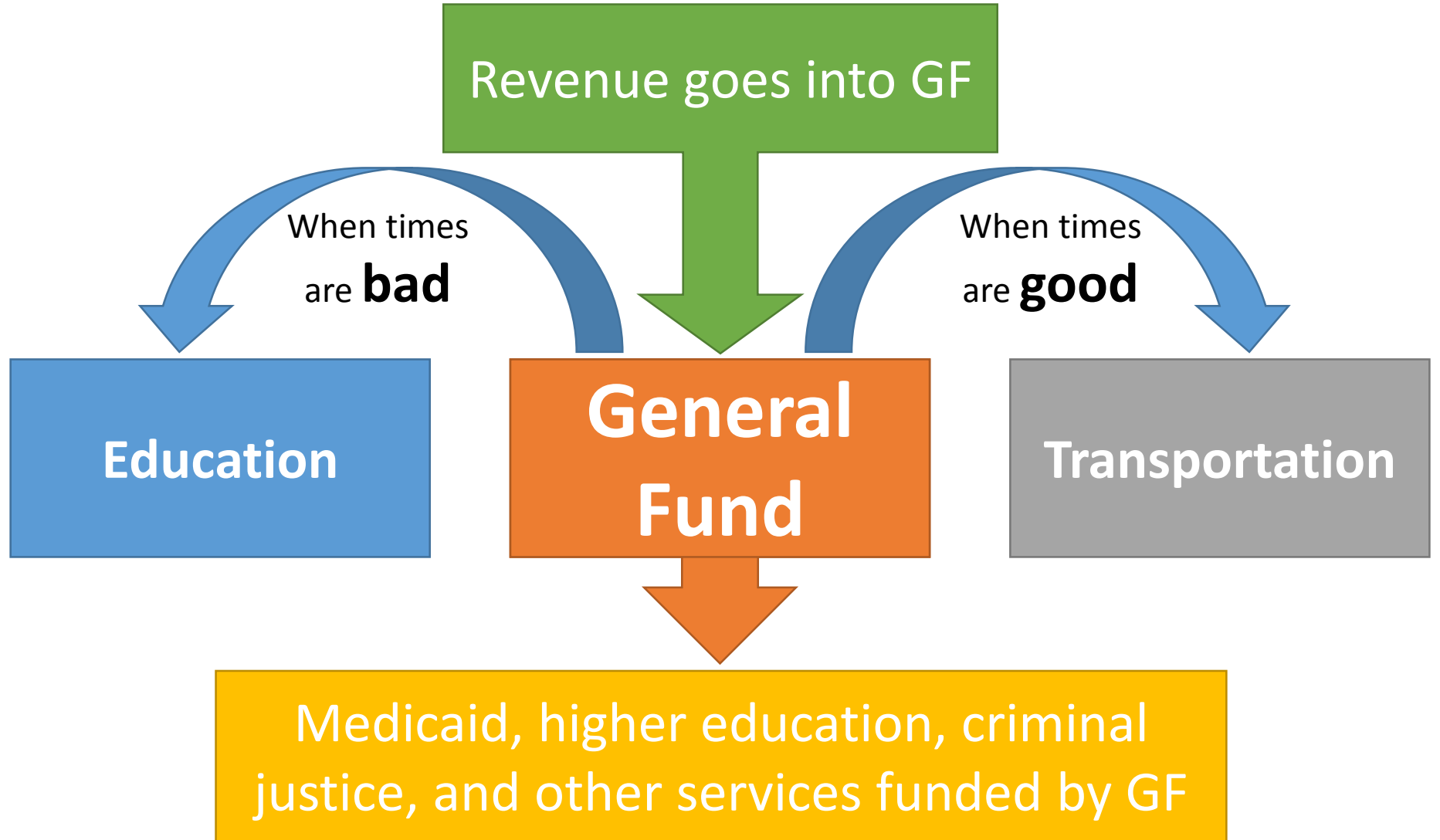
What is taxed?

Exemptions

Transactions
that are Taxed

Exclusions
(transactions that are
not part of the tax
base)

Where does the money go?



Things you can't change . . .

Boomers are aging and spending less on taxable goods

Wither the Millennials? Will they:

- Buy vs. Share
- Rent vs. Own
- Digital vs. Tangible
- “Possess” vs. “Experience”

Remote transactions (if Congress does nothing)

Savings rates/paying down debt

Digitization of goods

Sharing economy

General household consumption patterns

Things you can change . . . but are really hard

Broaden the base?

- To what?
- Medical services?

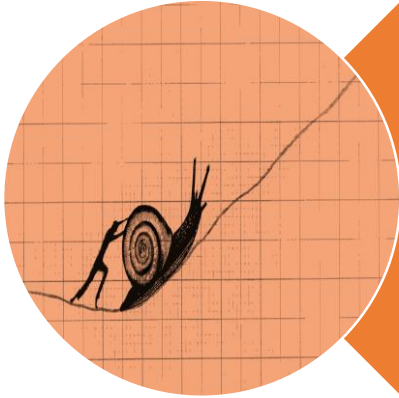
Change the base?

- Tax more of household consumption but less of business inputs

Hold the line on rate increases?

- State rate
- Authorization of local options

Things you should probably plan on . . .



Learn to live with
sluggish sales tax
growth



Maybe going to the
sales tax “Well” a
little less often