

# UTAH CORPORATE INCOME TAX

PREPARED FOR THE REVENUE AND TAXATION  
INTERIM COMMITTEE

JUNE 21, 2017



# UTAH CORPORATE INCOME TAX – PRESENTATION OVERVIEW

Rate

Revenue

Credits

Base

Apportionment

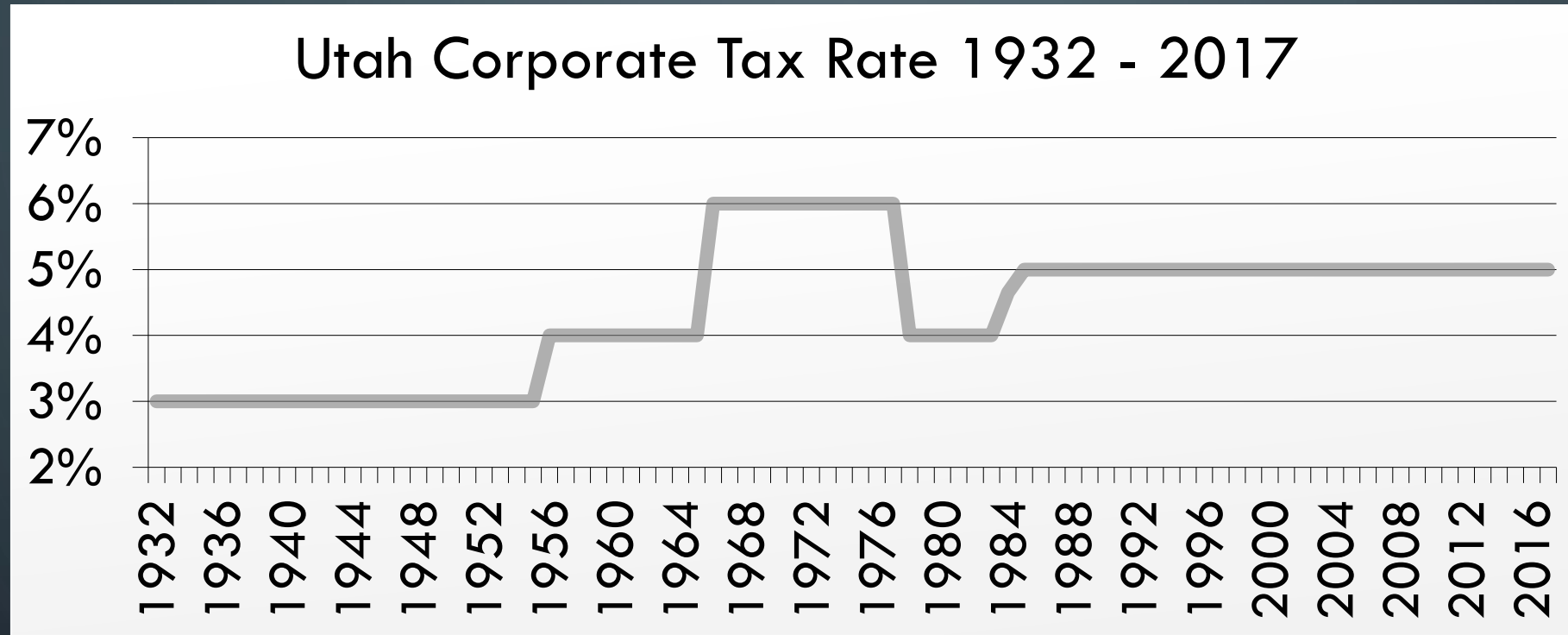
# UTAH CORPORATE INCOME TAX – BASICS

$$\text{Tax Base} \times \text{Rate} = \text{Tax revenue / Tax liability}$$

$$\text{Income Tax Base} \times \text{Rate} - \text{Credits} = \text{Tax revenue / Tax liability}$$

$$\text{Tax Year 2014} \quad \boxed{\$7.5 \text{ Billion}} \times 5\% - \$61 \text{ Million} = \$314 \text{ Million / } \$56,000 \text{ per taxpayer}$$

# UTAH CORPORATE INCOME TAX – UTAH RATE HISTORY 1932 TO 2017

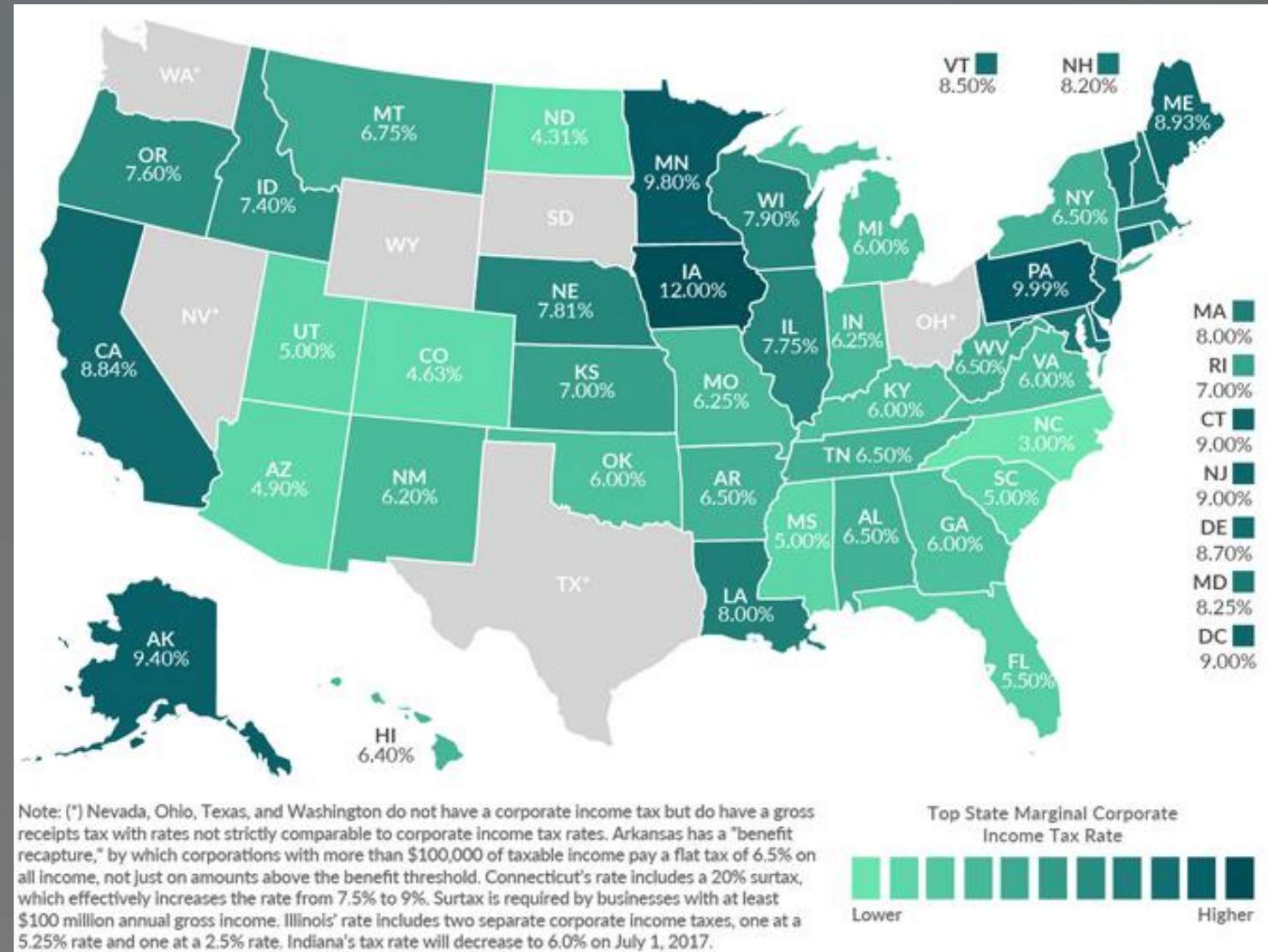


- Rate has ranged between 3% to 6%
- Current rate is 5% (single rate)
- 5% rate in effect since 1985

# UTAH CORPORATE INCOME TAX – STATE RATE COMPARISON

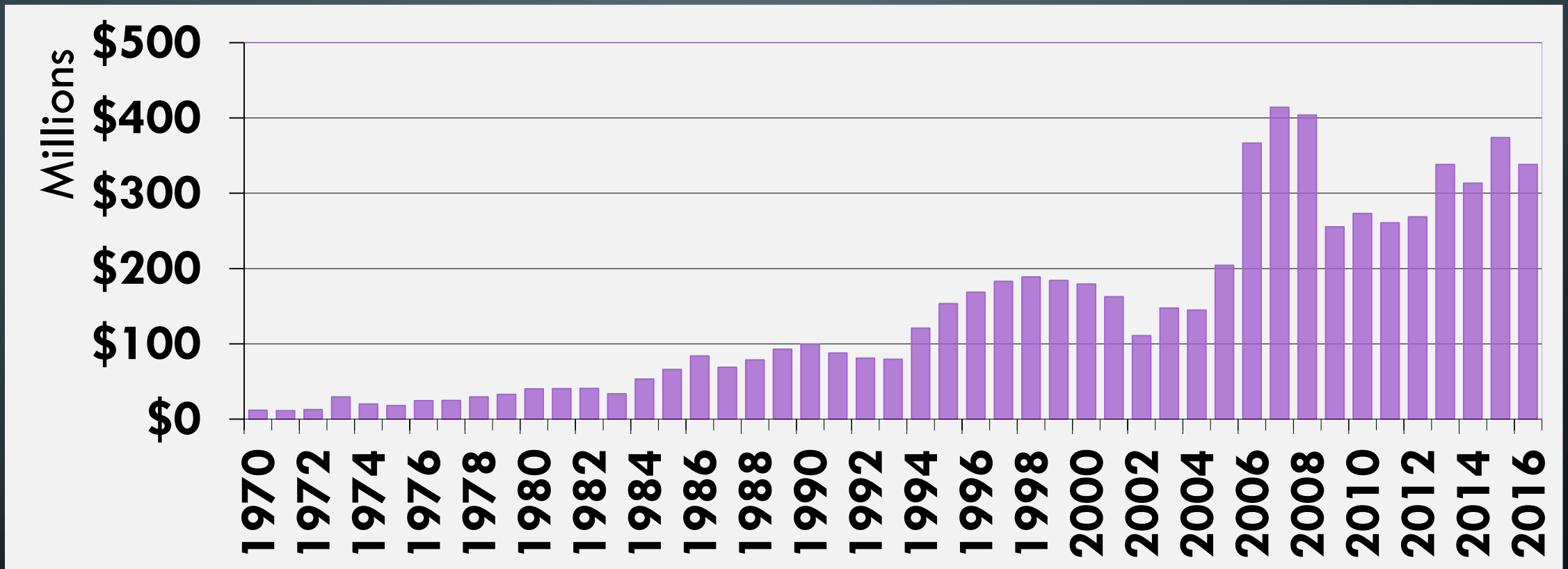
## Corporate Tax Rates (Utah and Bordering States)

- \*NV – 0.00%
- WY – 0.00%
- CO – 4.63%
- AZ – 4.90%
- UT – 5.00%
- NM – 6.20%
- ID – 7.40%



# UTAH CORPORATE INCOME TAX – HISTORICAL REVENUE

## FY 1970 TO FY 2016



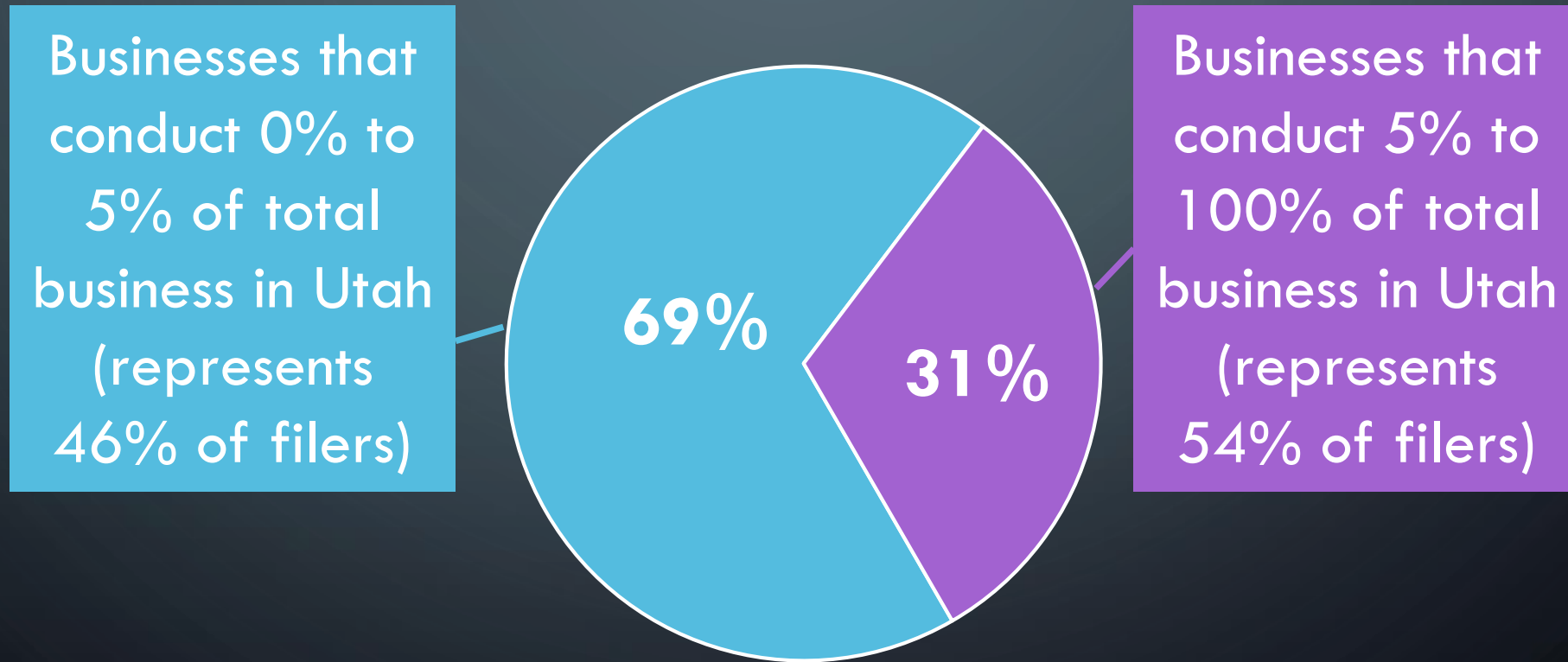
- \$338 million (FY 2016)
- Volatile revenue source

- Revenue earmarked for Education Fund

# UTAH CORPORATE INCOME TAX – WHO PAYS?

## TAX YEAR 2014 - \$314 MILLION IN REVENUE

### % of Revenue Collected by Amount of Total Business in Utah



# UTAH CORPORATE INCOME TAX – WHO PAYS?

**Businesses don't pay taxes – people do**

- **Employees** through lower wages
- **Share holders** through lower rates of return
- **Consumers** through higher prices on goods and services

**Can't choose who pays**

**May shift taxes to people outside of Utah**



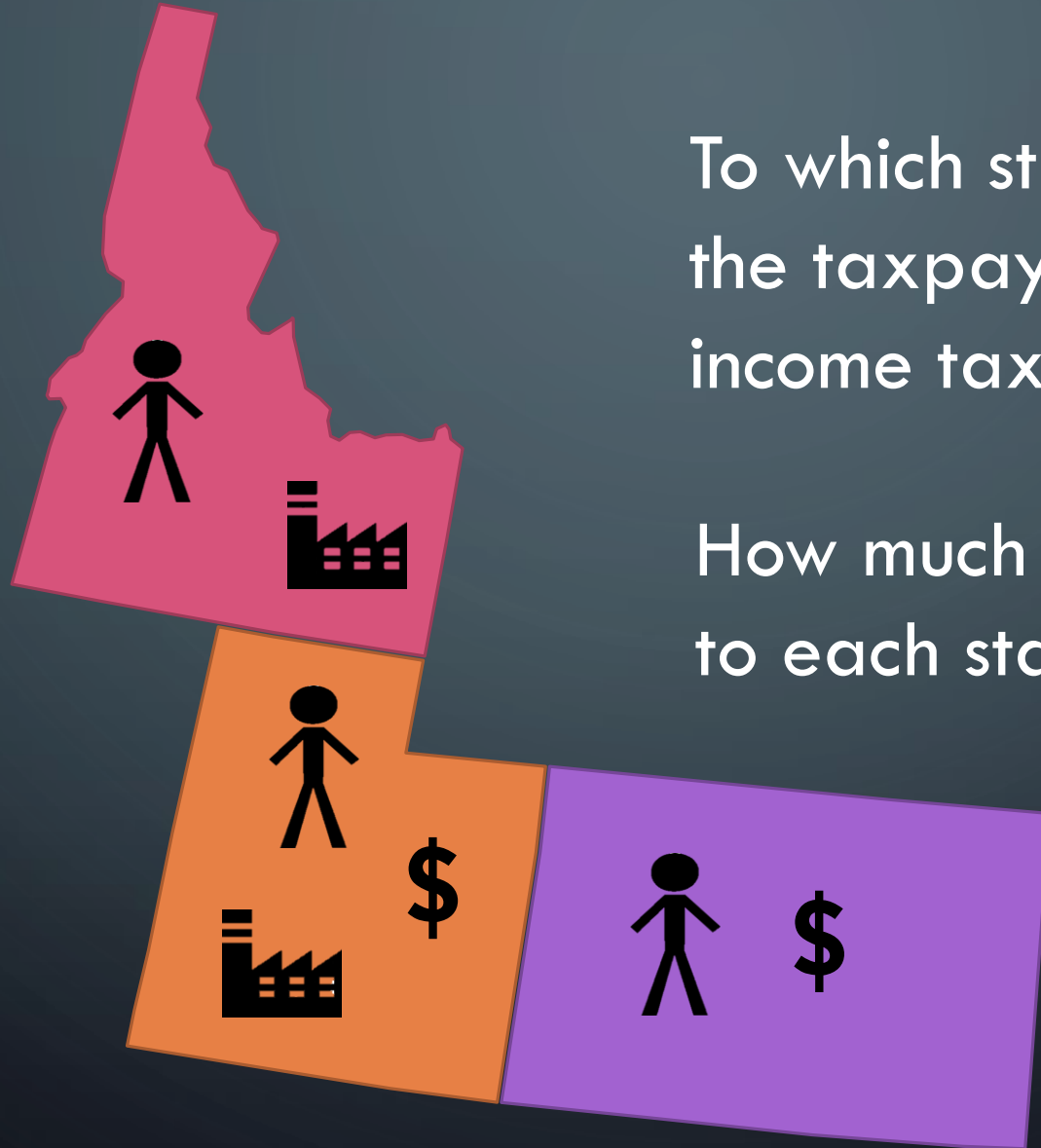
# UTAH CORPORATE INCOME TAX – FIVE LARGEST CREDITS

## 2014 TAX YEAR

Credit	Amount Claimed	# of Claims
Qualified Research Activities	\$ 39,843,451	195
EDTIF	10,682,331	30
Motion Picture	4,973,056	14
Low-Income Housing	2,000,000	<10
Targeted Business	900,000	<10
<b>Total (all credits)*</b>	<b>61,000,000</b>	<b>360</b>

\*Totals are approximate

# UTAH CORPORATE INCOME TAX – BASE



To which state does the taxpayer owe income tax?

How much is owed to each state?

## WHAT IS APPORTIONMENT?

Method for determining how much business income a state may tax.

Only business income is subject to apportionment

**Business Income** = Income arising from transactions and activities:

- In the regular course of a taxpayer's trade or business
- Includes income from tangible and intangible property if the acquisition, management, and disposition of that property is part of the business's regular trade or operations

## Three General Methods of Apportionment

1. Equally Weighted Three-factor Formula
2. Weighted Sales Factor Formula
3. Single Sales Factor Formula

## Equally Weighted Three-factor Formula

Three factors: property, payroll, and sales

- Taxpayer calculates three fractions: one for each factor that compares the factor in the state to the factor everywhere

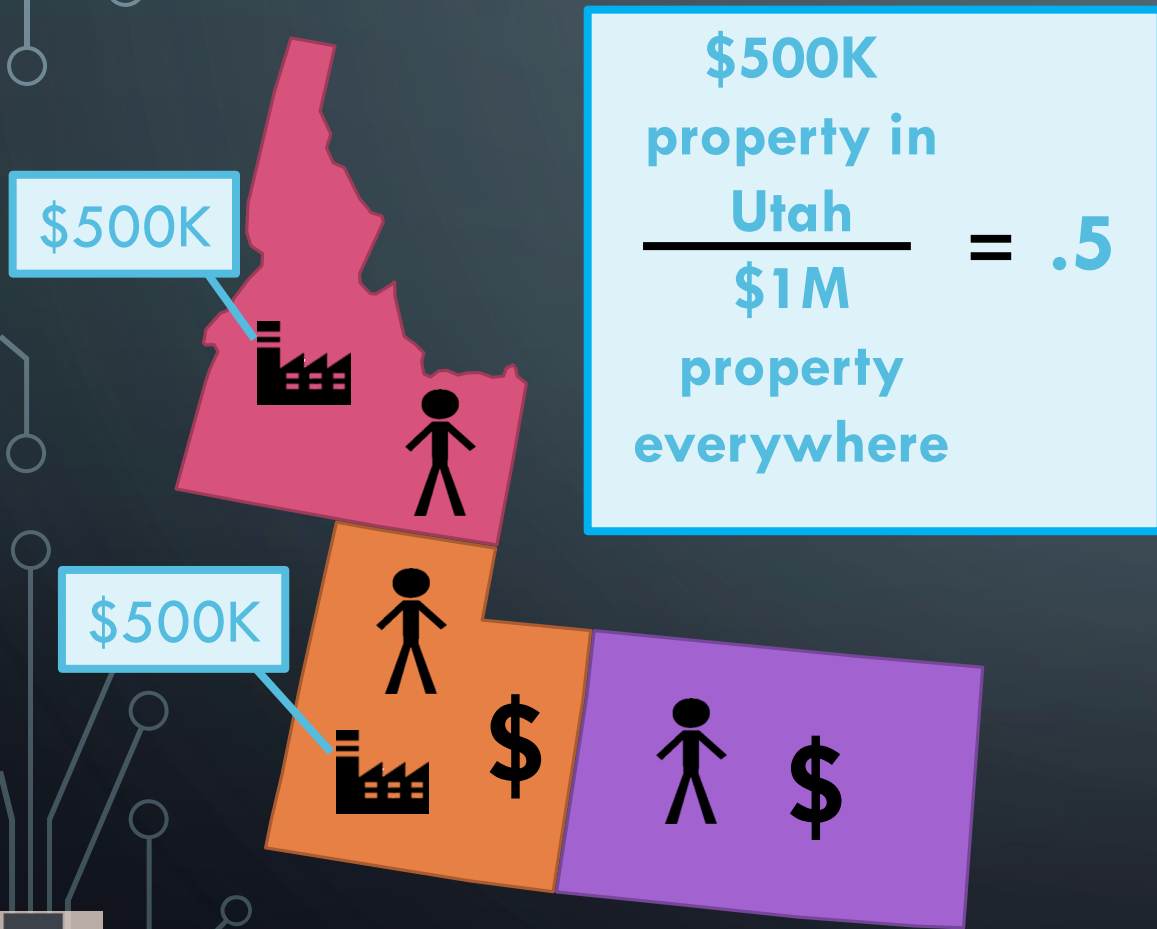
Example:

$$\frac{\text{Property in Utah}}{\text{Total Property}} + \frac{\text{Payroll in Utah}}{\text{Total Payroll}} + \frac{\text{Sales in Utah}}{\text{Total Sales}}$$

- Each factor weighted equally, so the three factor fractions are added together and divided by **three**
- Business income is multiplied by the resulting fraction to calculate the amount apportioned to Utah

# UTAH CORPORATE INCOME TAX – APPORTIONMENT OF INCOME

## EXAMPLE: EQUALLY WEIGHTED THREE-FACTOR FORMULA



Assuming the value of each factor is evenly distributed among the states in which the factor is located:

$$\frac{.5 \text{ (property)} + .333333 \text{ (payroll)} + .5 \text{ (sales)}}{3}$$

44% of business income apportioned to Utah

If business income is \$10M:  
\$4.4 million apportioned to Utah  
 $\$4.4 \text{ million} \times 5\% = \$220,000$   
(base) x (rate) = (tax liability)

## Weighted Sales Factor Formula

- Taxpayer calculates payroll, property, and sales factors, but the sales factor is given a greater weight (usually double)

Example:

$$\frac{\text{Property in Utah}}{\text{Total Property}} + \frac{\text{Payroll in Utah}}{\text{Total Payroll}} + 2x \left( \frac{\text{Sales in Utah}}{\text{Total Sales}} \right)$$

- Sum of three fractions divided by **total number of factors** (usually four)
- Business income is multiplied by the resulting fraction to calculate the amount apportioned to Utah



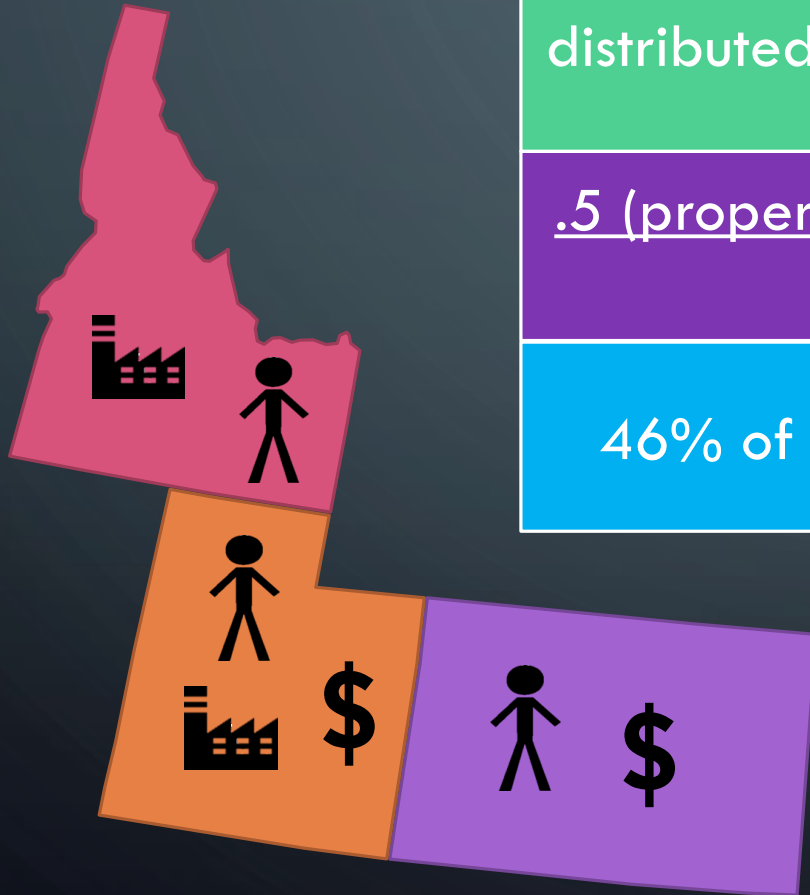
# UTAH CORPORATE INCOME TAX – APPORTIONMENT OF INCOME

## EXAMPLE: DOUBLE WEIGHTED SALES-FACTOR FORMULA

Assuming the value of each factor is evenly distributed among the states in which the factor is located:

$$\frac{.5 \text{ (property)} + .333333 \text{ (payroll)} + 2 \times .5 \text{ (sales)}}{4}$$

46% of business income apportioned to Utah



## Single Sales Factor Formula

- Property and payroll are disregarded; sales within the state are compared to sales everywhere to calculate fraction

Example:

$$\frac{\text{Sales in Utah}}{\text{Total Sales}}$$

- Business income is multiplied by the sales factor fraction to calculate the amount apportioned to Utah

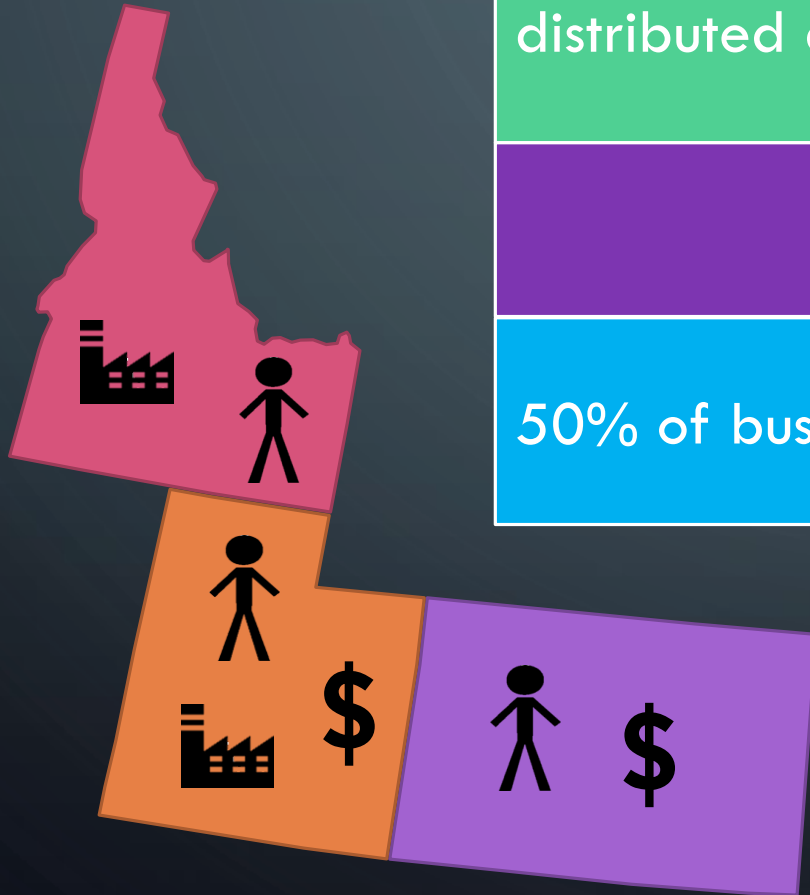
# UTAH CORPORATE INCOME TAX – APPORTIONMENT OF INCOME

## EXAMPLE: SINGLE SALES FACTOR FORMULA

Assuming the value of each factor is evenly distributed among the states in which the factor is located:

.5 (sales)

50% of business income is apportioned to Utah



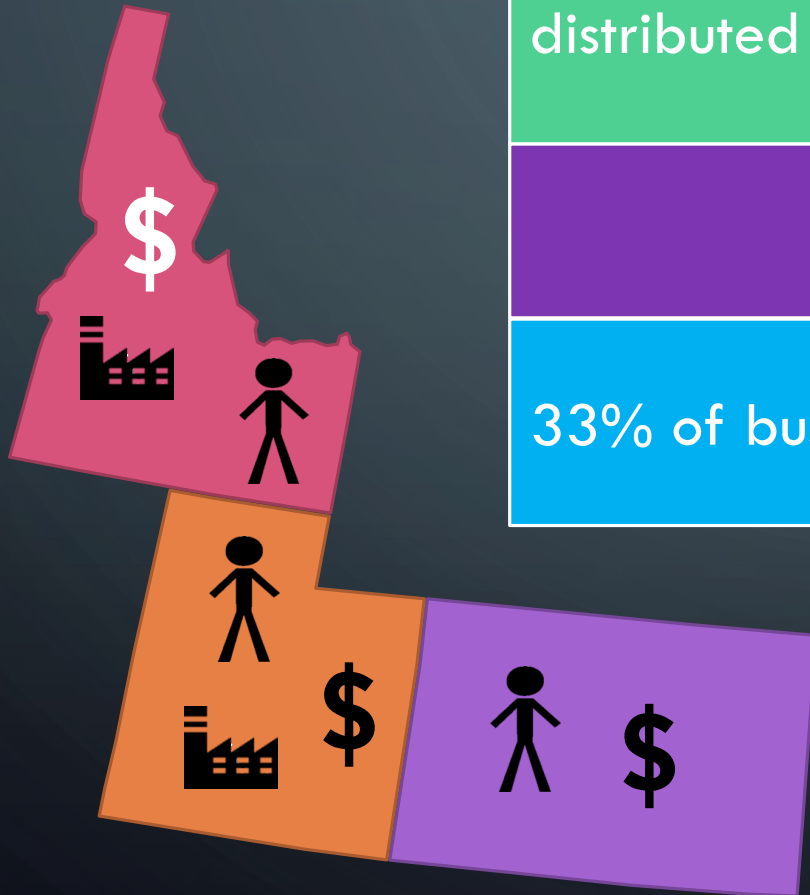
# UTAH CORPORATE INCOME TAX – APPORTIONMENT OF INCOME

## EXAMPLE: SINGLE SALES FACTOR FORMULA

Assuming the value of each factor is evenly distributed among the states in which the factor is located:

.333333 (sales)

33% of business income is apportioned to Utah



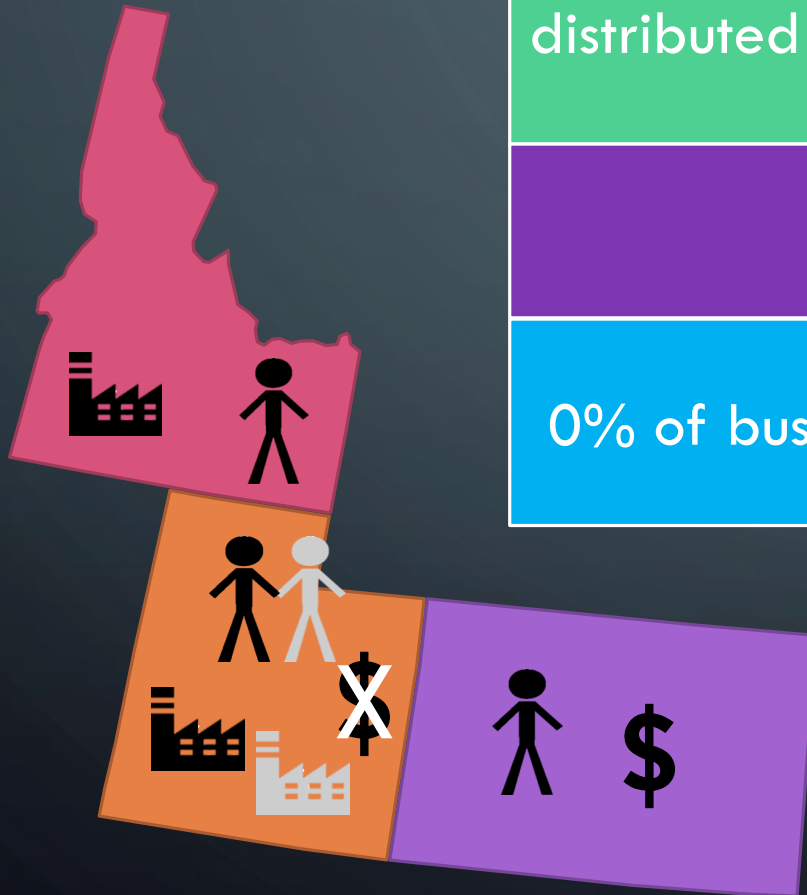
# UTAH CORPORATE INCOME TAX – APPORTIONMENT OF INCOME

## EXAMPLE: SINGLE SALES FACTOR FORMULA

Assuming the value of each factor is evenly distributed among the states in which the factor is located:

.0 (sales)

0% of business income is apportioned to Utah



# UTAH CORPORATE INCOME TAX – CURRENT APPORTIONMENT

## Election between Equally Weighted & Double Weighted Sales Factor formulas

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- Mining
- Natural Gas Distribution
- Manufacturing, except Automobile and Computer & Electronic Product Manufacturing
- Transportation & Warehousing
- Information, except Other Information Services
- Finance and Insurance

## Election between all three apportionment formulas

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- Computer and Electronic Product Manufacturing

## Mandatory Single Sales Factor formula

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- All other Industries

# UTAH CORPORATE INCOME TAX – HISTORY OF APPORTIONMENT

## Pre-2006

**Mandatory equally weighted three-factor formula**

## 2006 – 2010

**Taxpayer election between equally weighted three-factor formula and double weighted sales factor formula**

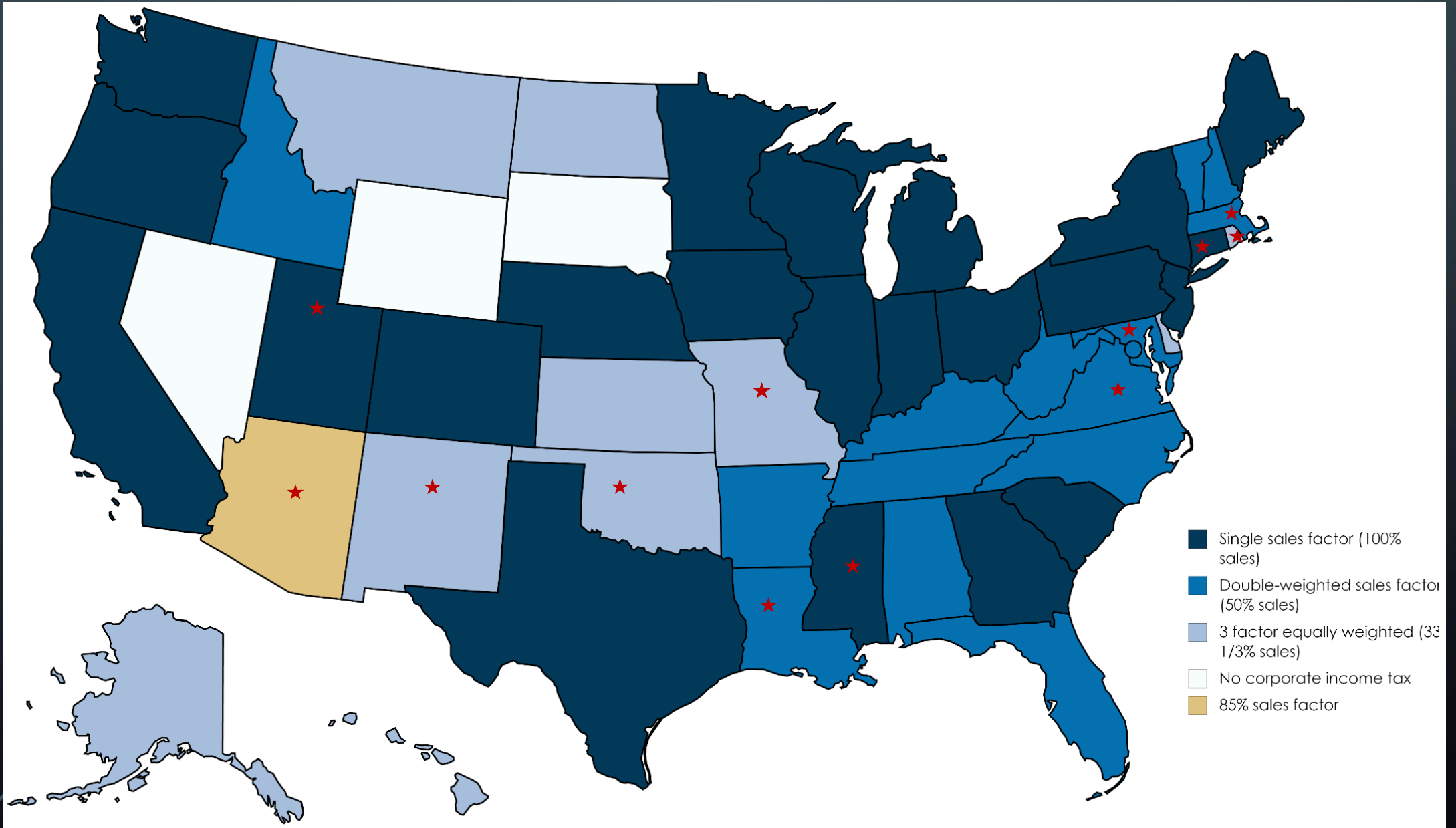
## 2010-Present

- Mandatory single sales factor formula for most industries
- Remaining industries retained election between equally weighted three-factor formula and double weighted sales formula

## 2016

Computer and Electronic Product Manufacturing industry authorized to elect among equally weighted three-factor formula, double weighted sales formula, and single sales factor formula

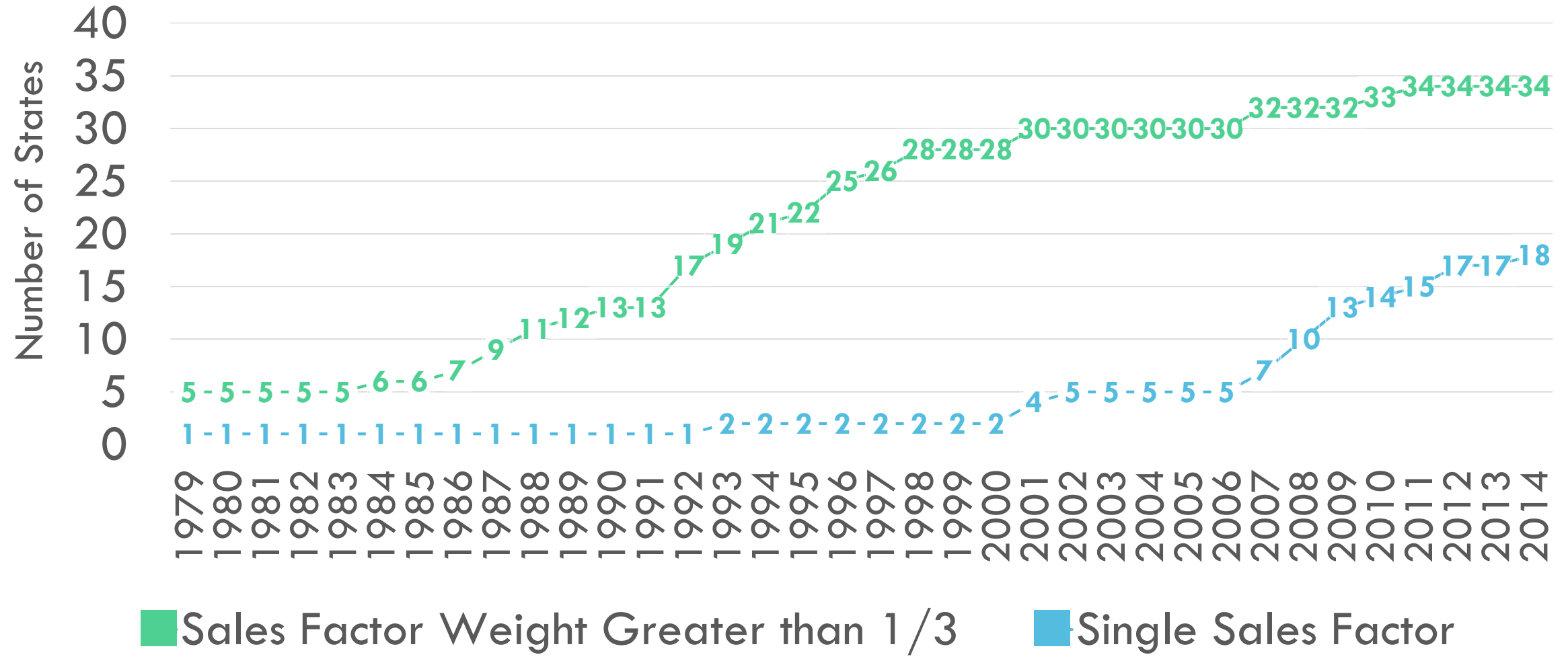
# UTAH CORPORATE INCOME TAX – STATE APPORTIONMENT FORMULAS





# UTAH CORPORATE INCOME TAX – STATE APPORTIONMENT TREND FORMULAS (1979 TO 2014)

## State Apportionment Formulas for Manufacturing Industry



## Why the trend toward a more heavily weighted sales factor?

- Businesses can view corporate income tax as a separate tax on:

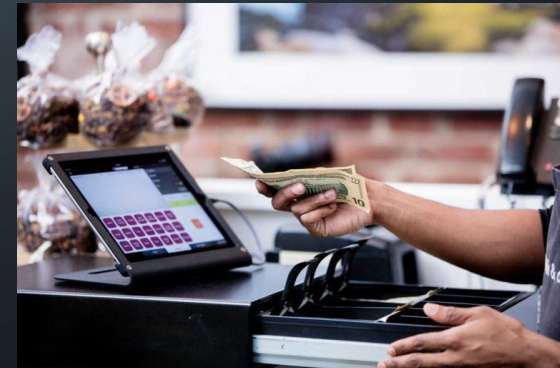
Property



Payroll



Sales



## Why the trend toward a more heavily weighted sales factor?



- Corporate income tax is a factor businesses consider when investing or expanding
- States want to encourage capital investment and employment

# UTAH CORPORATE INCOME TAX – TREND

Why the trend toward a more heavily weighted sales factor?

Increasing the weight on the sales factor

Sales	Property	Payroll
100%	0%	0%
90%	5%	5%
80%	10%	10%
70%	15%	15%
60%	20%	20%
50%	25%	25%
33%	33%	33%

Decreases the weight on the property and payroll factors

# UTAH CORPORATE INCOME TAX – WHAT FORMULAS ARE USED?

## 2014 CORPORATE RETURNS

### 2014 Corporate Returns by Minimum Tax Status (20,704 returns)

#### Paid minimum tax of \$100

- About 15,000 returns
- Accounts for 1% of revenue

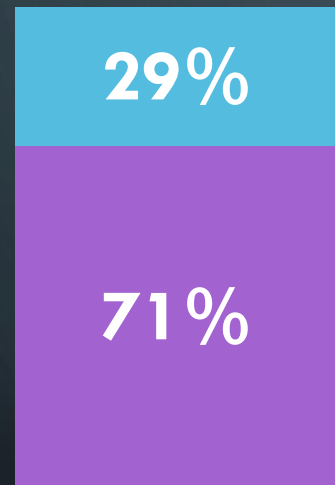
71%

29%

#### Paid 5% of net income

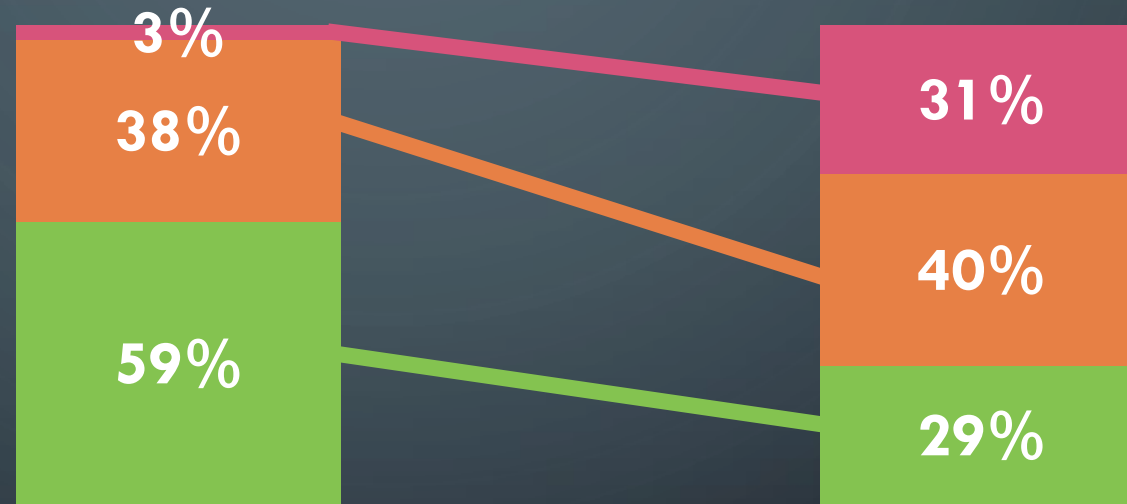
- About 6,000 returns
- Accounts for 99% of revenue




# UTAH CORPORATE INCOME TAX – WHAT FORMULAS ARE USED? 2014 CORPORATE RETURNS



What formula do businesses use?

How much of the \$7.5 billion base is apportioned by each formula?



-  Elected Double Weighted Sales
-  Had to use Single Sales
-  Elected Equally Weighted

QUESTIONS???