

The Way We Tax: Utah's State and Local Tax System

Prepared for:
Bagels & Briefings
February 7, 2017

Presentation Outline

Tax Policy Overview

Sales & Use Taxes

Property Tax

Income Taxes

Utah's Comparative State & Local Tax Burden



Tax Policy: Why Does it Matter?

Elements of an Optimum Tax System

Reliable

- Sufficient
- Stable
- Certain

Equitable

- Vertical Equity
- Horizontal Equity

Simple

- For taxpayers to pay
- For tax collectors to collect

Responsive to interstate and international competition

Economically neutral

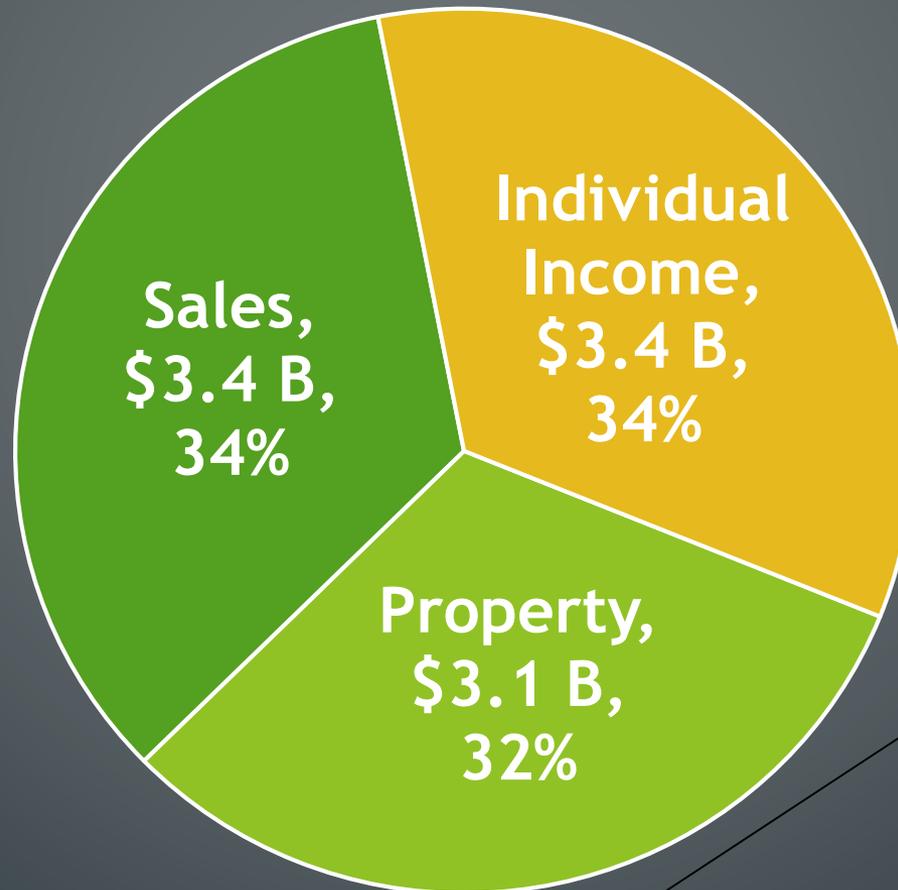
Accountable and transparent

Taxation 101

Base X Rate =
Revenue

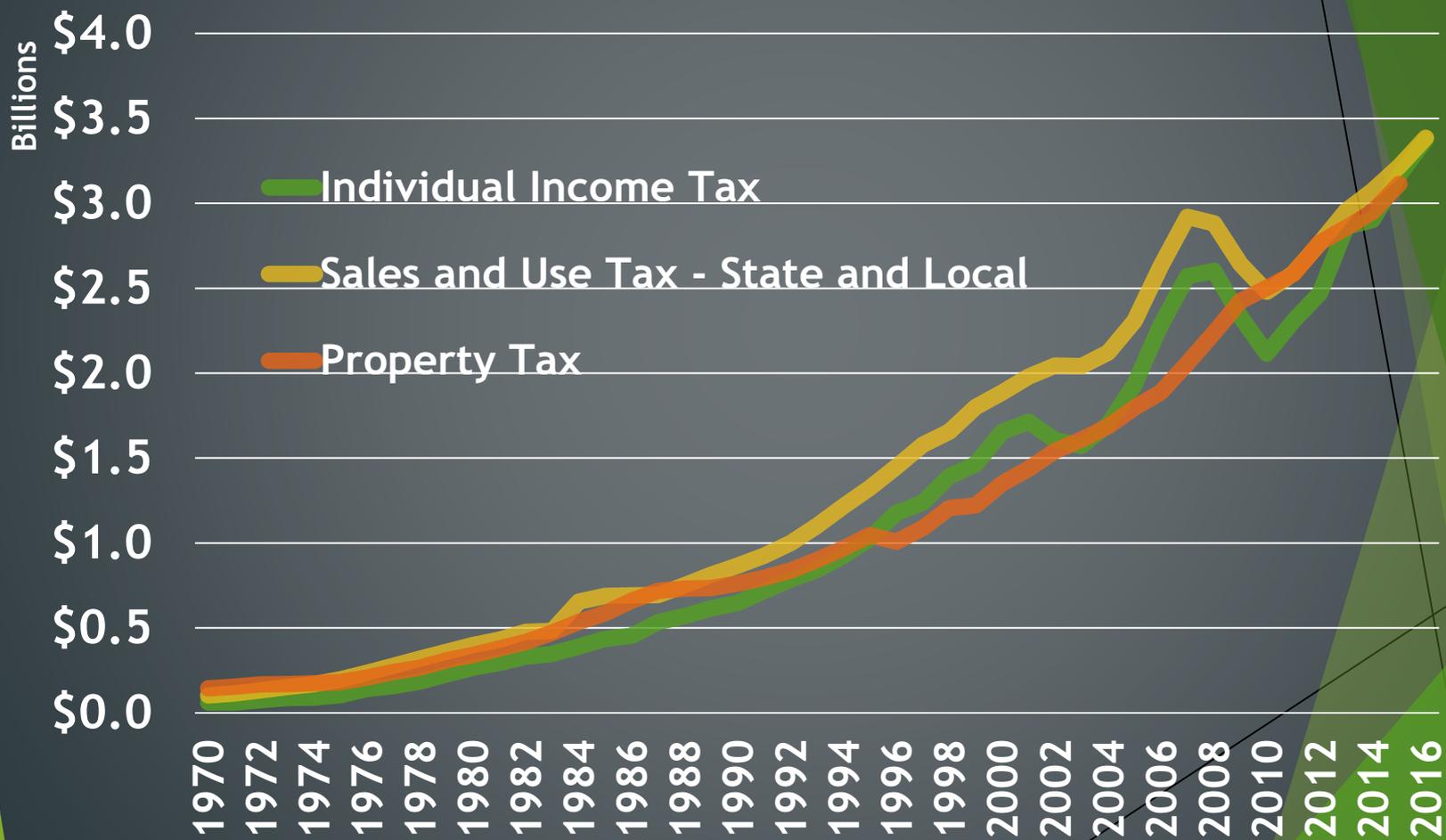
Utah's Three Major State and Local Taxes: Income, Property, and Sales & Use Tax Revenues FY 2016

Total Revenue: \$9.9 Billion



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

FY 1970 to FY 2016



Source: Utah State Tax Commission



Sales & Use Taxes

State and Local

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

Sale, lease, or rental of goods (“tangible personal property”)

Telecommunication services

Certain cleaning services (dry cleaning, pet cleaning, etc.)

Food (prepared and unprepared)

Repair or renovation of tangible personal property

Admissions (movies, recreation, golf, sports, trails, etc.)

Hotel and motel accommodations and services

Gas, electricity, heat, coal, etc. (commercial / residential use)

Sale or repair of products transferred electronically

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

Exemptions

**What we do
tax.**

Exclusions

(transactions that are not
part of the tax base)

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

Selected exclusions

- Professional services
- Personal care services
- Banking services
- Tuition
- Real estate transactions

Exemptions

- Currently 80+ exemptions

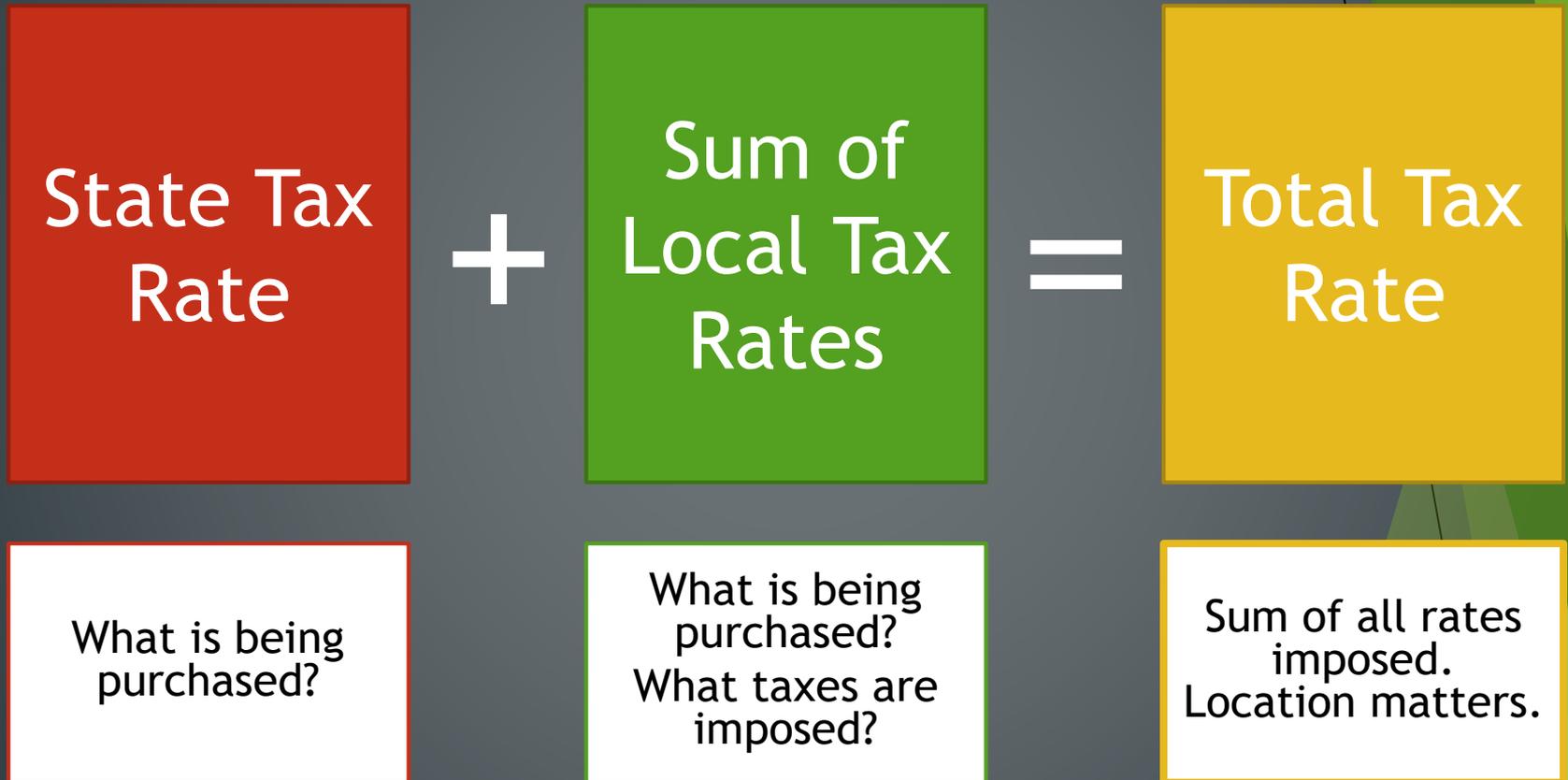
The Utah Sales and Use Tax Base: What **Don't** We Tax?

Examples of sales and use tax exemptions:

- Motor, special, aviation fuels (\$180M)
- Manufacturing machinery & equipment (\$121M)
- Prescription drugs (\$64M)
- Farm machinery & equipment (\$43M)
- Property for resale including ingredients (\$31M)
- Natural gas, electricity, coal for industrial use (\$27M)
- Food stamps & WIC (\$6M)
- Certain religious / charitable sales & purchases (\$4M)

Sales and Use Tax Rate

What's the Rate?



State Sales and Use Tax Rates

The state tax rate depends on what is being taxed

Examples



Food and food ingredients → 1.75%



Residential fuels → 2.00%



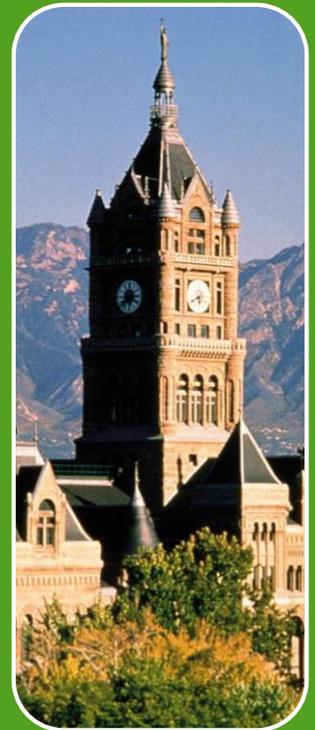
General → 4.70%

Local Option Sales and Use Tax Rates

Variety of local option sales and use taxes



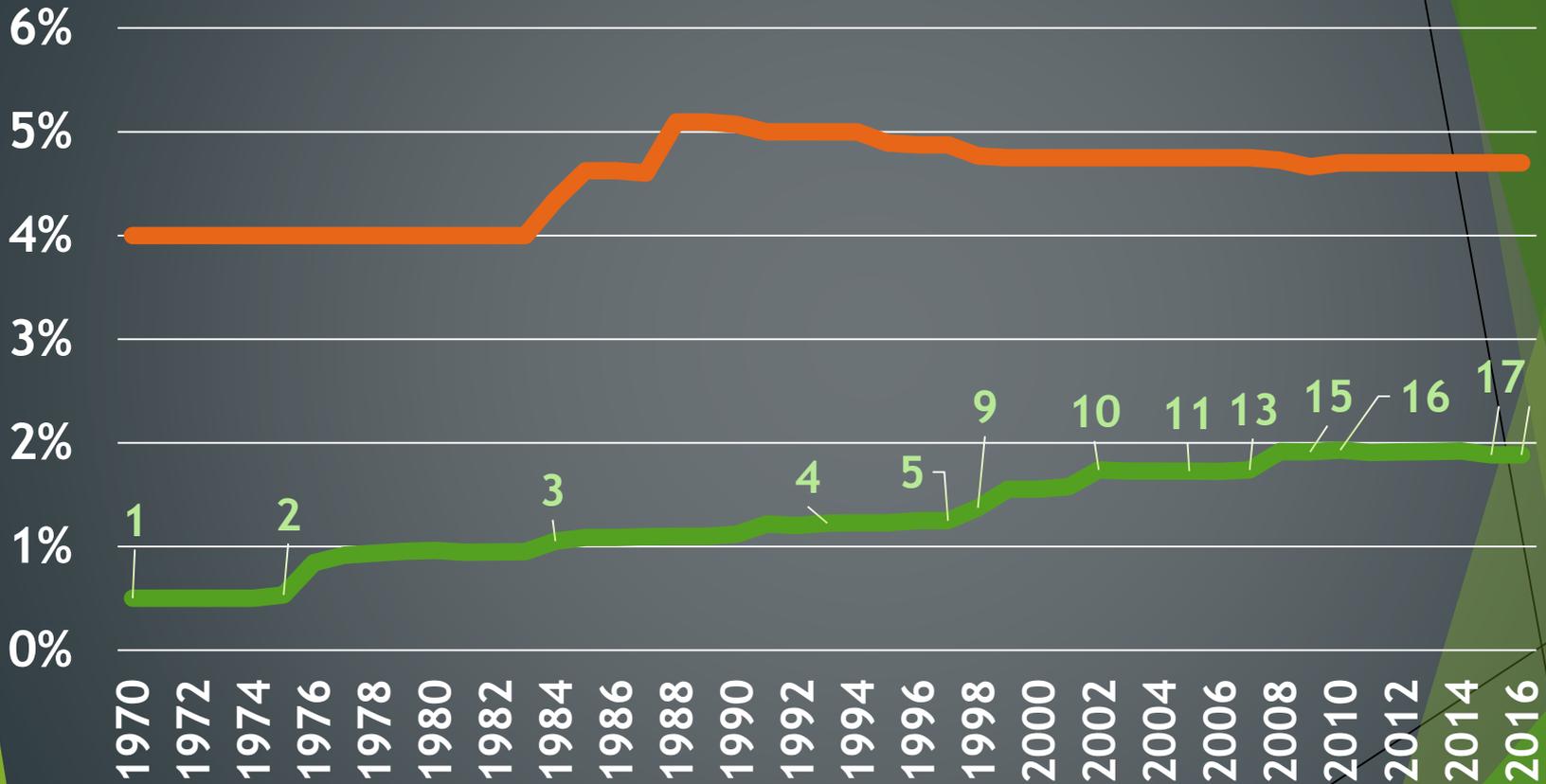
- General sales tax for general purposes
 - 1.00% city, towns, unincorporated areas
 - 0.25% county
 - Up to 1.60% resort communities
 - 0.50% state correctional facility
- General sales tax for specific purpose
 - Up to 1.05% transportation
 - 0.10% “zoo, arts, and parks”
 - 1.00% rural hospitals
- Sales tax on specific transactions
 - Up to 6.25% transient room
 - Up to 9.50% vehicle rental
 - 1.00% restaurant food
 - Up to 6.00% municipal energy



State and Local Sales and Use Tax Rates

Rates Over Time

1970 to 2016

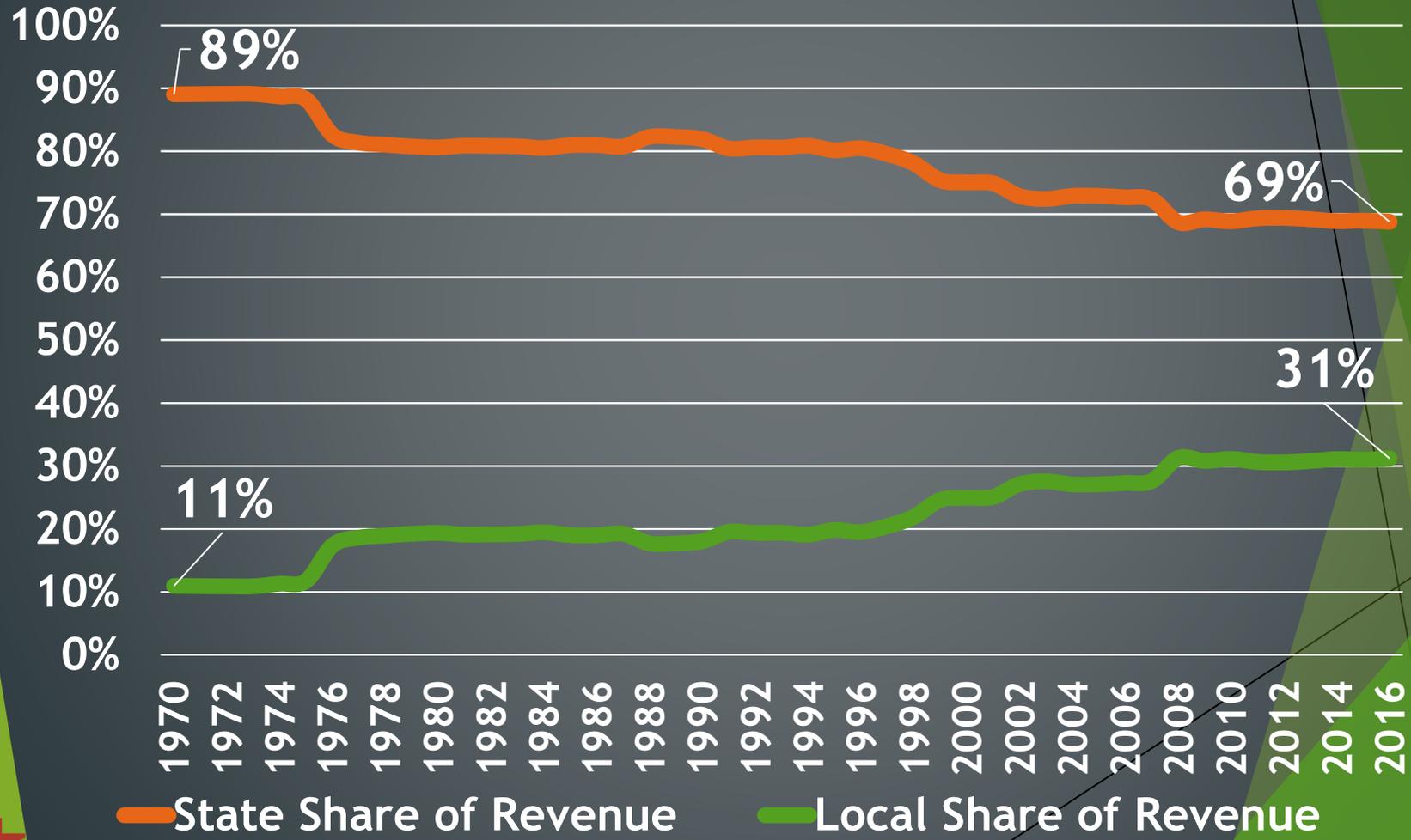


— State Rate
 — Local Rate (derived)*

* Number label indicates the number of local option sales taxes imposed



State and Local Sales and Use Tax Share of Total Revenues Over Time FY 1970 to FY 2016

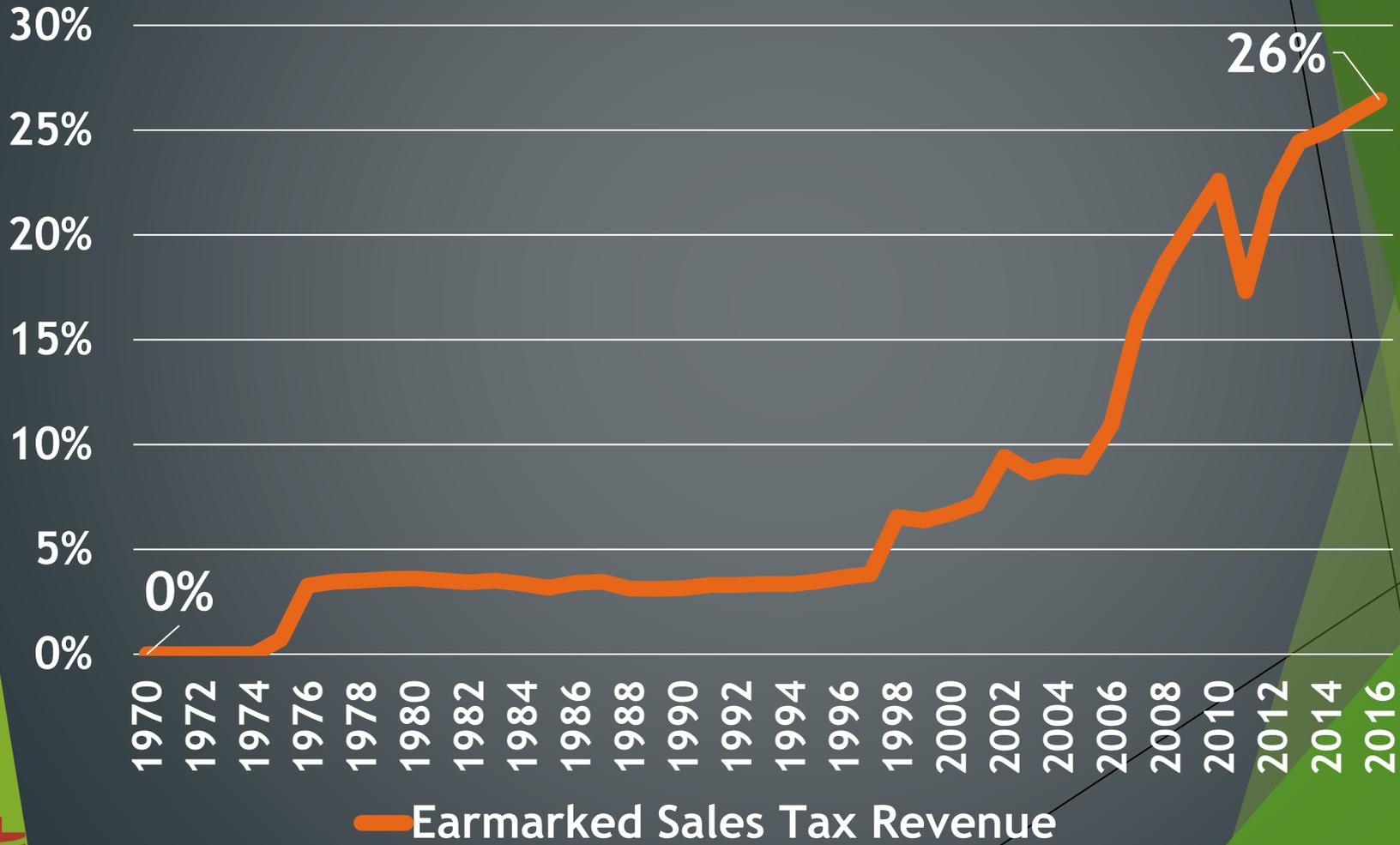


Source: Utah State Tax Commission

State and Local Sales and Use Tax

General Purpose and Earmarked Revenues Over Time

FY 1970 to FY 2016

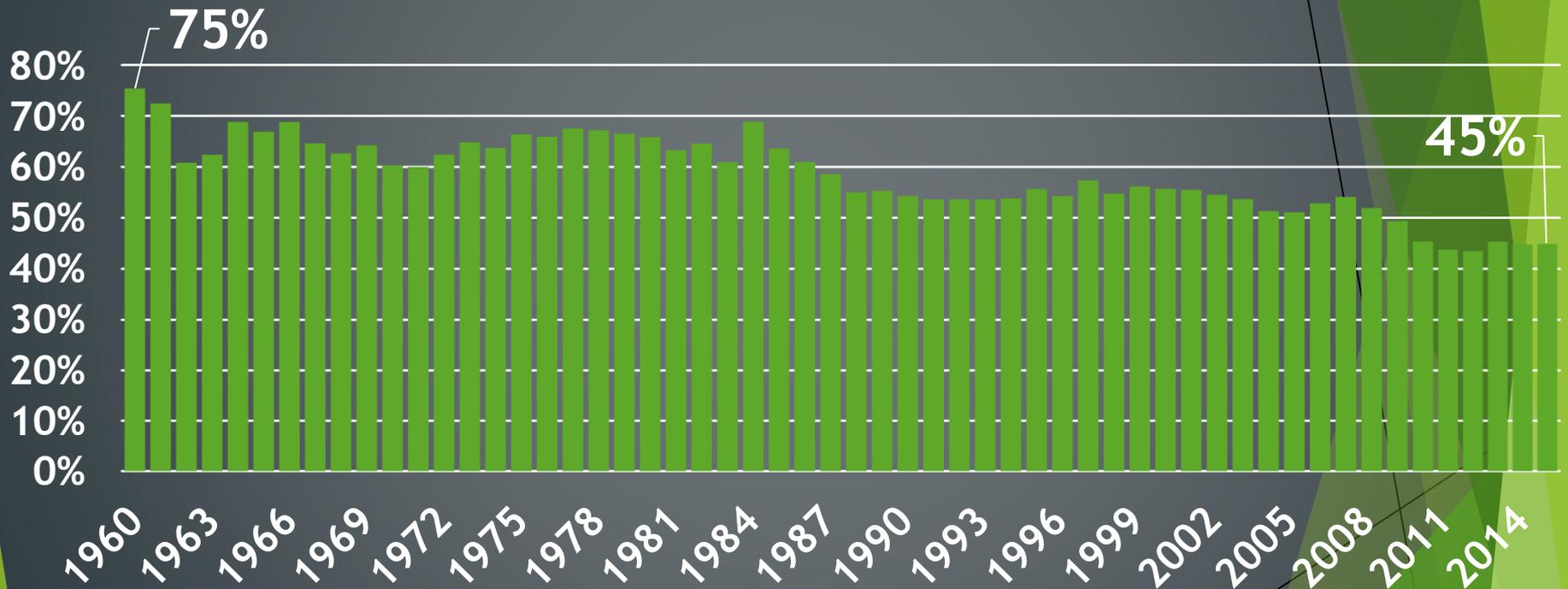


Source: Utah State Tax Commission

Sales & Use Tax Base

Gross Taxable Sales as a % of GDP and Personal Income 1960 to 2015

■ Sales Tax Base as a % of Utah Personal Income



Over the long term, the sales and use tax base is gradually declining relative to the economy as a whole.

The Sales & Use Tax Base

Why is It Declining Over the Long Term?

Changing purchasing patterns

- Movement to more of a service-based economy
- Sharing economy

Demographic changes

- Rising millennials
- Aging baby boomers

Cross-border shopping

- Internet, phone, and catalogue purchases

Technological change

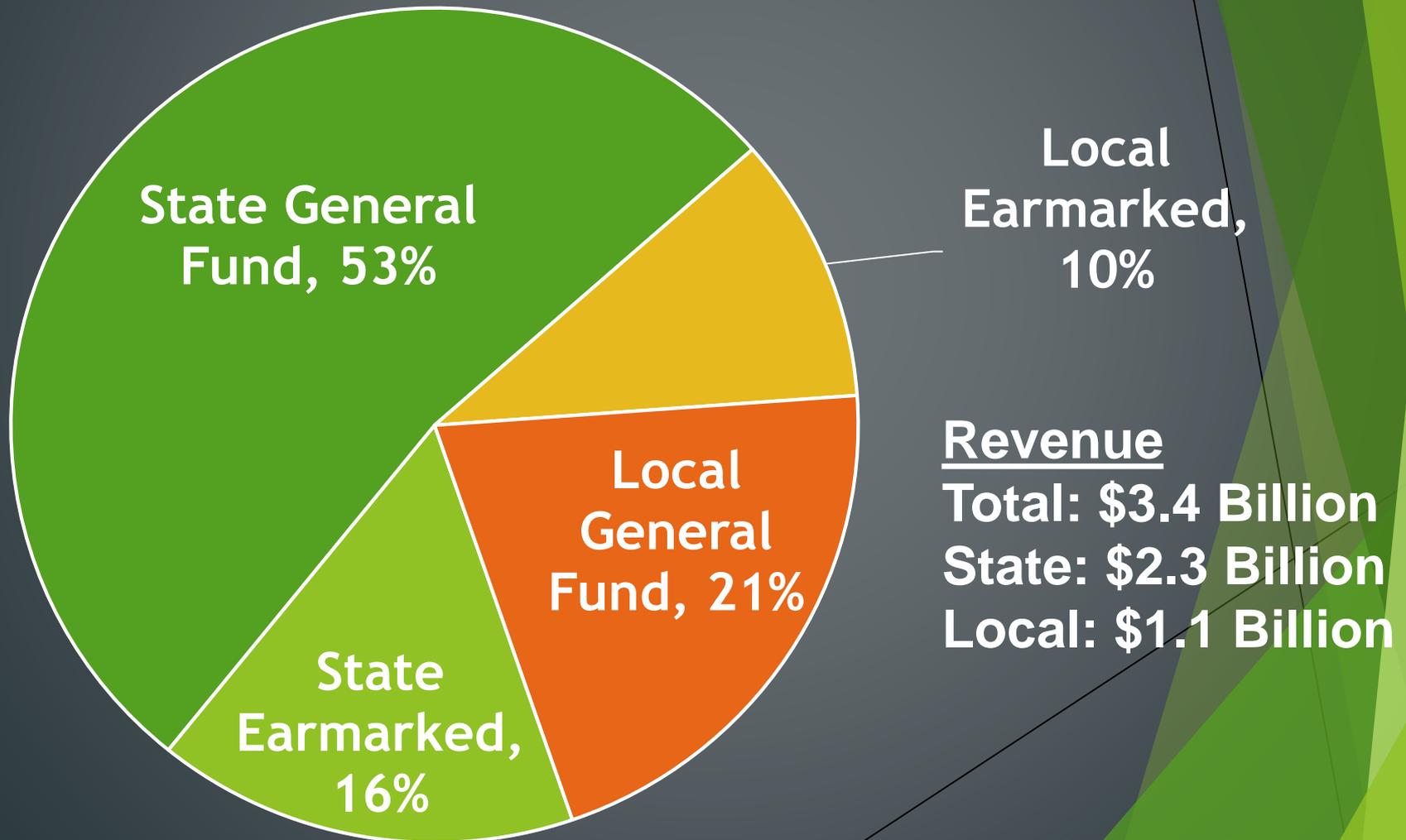
- Digitization of goods (software, books, music)

Legislated exemptions

Sales and Use Tax Revenue

Where Does the Money Go?

FY 2016



Why Does the Sales and Use Tax Matter?

Most significant source of revenue to state government and state higher education system

Significant source of revenue to local governments and public transit districts

Tax on consumption

Politically ~~more popular~~ less unpopular than other taxes

Impacts decisions (zoning, business location, etc.)

Property Tax

The Property Tax: Embedded in the Utah Constitution

General Rule

- All tangible property shall be:
 - Assessed at a uniform and equal rate in proportion to its fair market value; and
 - Taxed at a uniform and equal rate

Exceptions to General Rule

Property Tax Exemptions

Exceptions to the General Rule

The Legislature may by statute:

- Provide for agricultural land to be assessed based on its value for agricultural purposes
- Determine the manner and extent of taxing livestock
- Determine the manner and extent of taxing or exempting intangible property
- Exempt tangible personal property required to be registered for use on a public highway, waterway, or land or in the air
- Provide for the remission or abatement of the taxes of the poor

Constitutionally Mandated Exemptions

The Utah Constitution Exempts:

- Government owned property
- Nonprofit entity-owned property used for religious, charitable, or educational purposes
- Burial places
- Farm equipment and machinery
- Water rights and facilities used to irrigate land owned by the owner of the water rights and facilities
- Nonprofit entity-owned water rights and facilities used to irrigate land, provide domestic water, or provide water to a public water supplier

Selected Discretionary Property Tax Exemptions

Inventory

Up to 45% of residential property value

Household furnishings, furniture, and equipment

Tangible personal property that generates an inconsequential amount of revenue

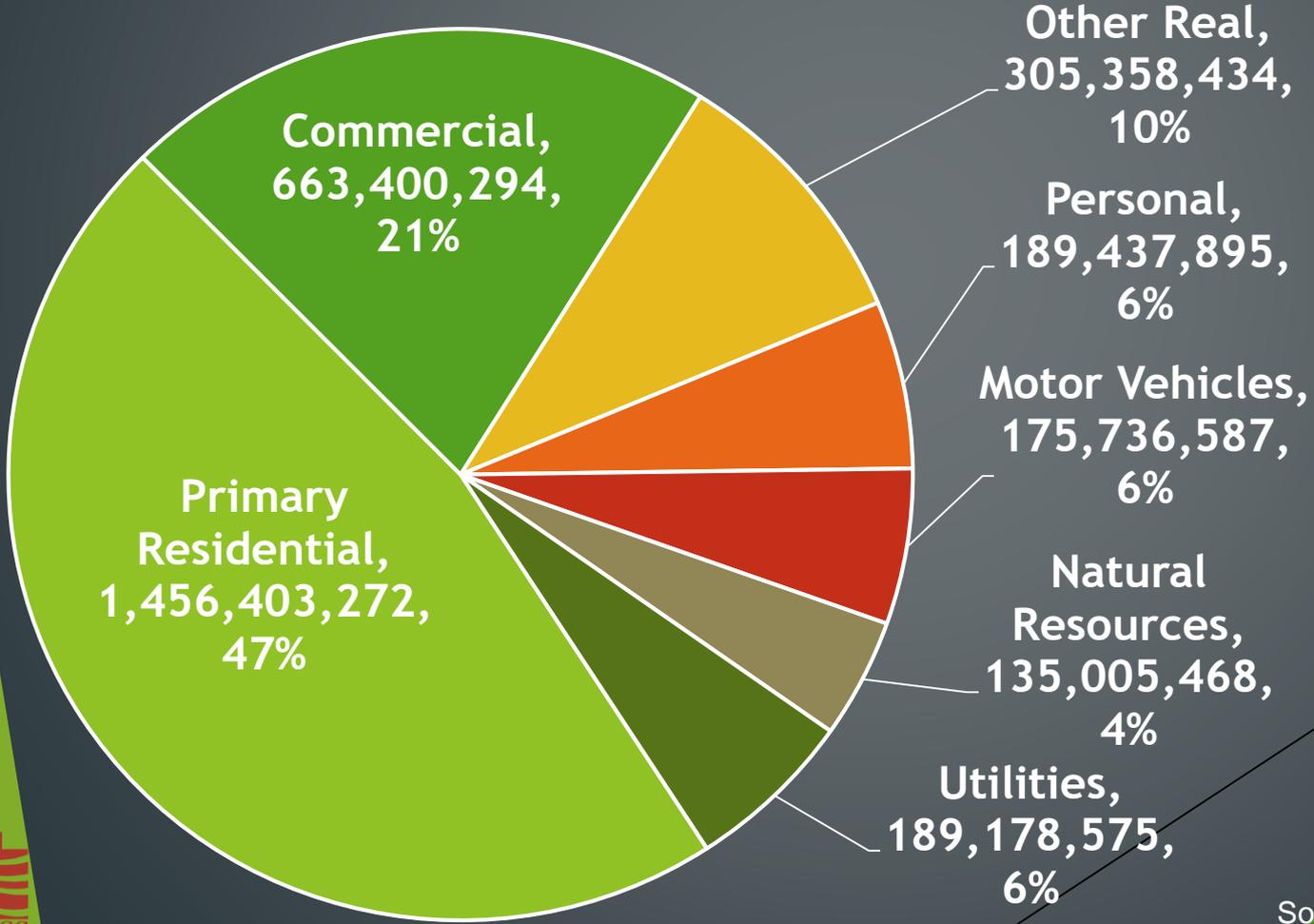
Property owned by a disabled veteran or unmarried surviving spouse or orphan

Property Taxes

Where Does the Money Come From?

2015 Tax Year

Total Property Taxes Charged: \$3.1 Billion



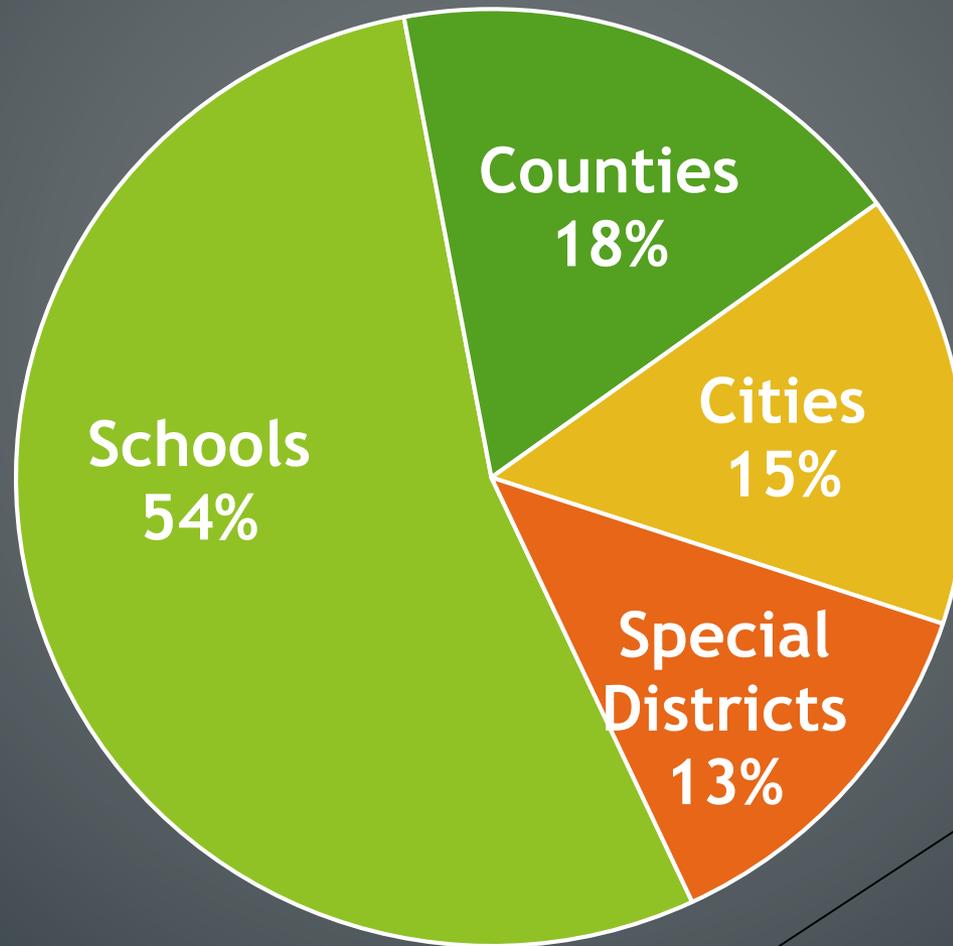
Source: Utah State Tax Commission



Property Taxes

Where Does the Money Go?

2015 Tax Year



Why Does the Property Tax Matter?

Tax on wealth and capital

Source of revenue for schools and local governments

Oldest state and local tax

Stability

Transparent

Unpopular tax

Provides political accountability (“Truth in Taxation”)



Income Taxes

Individual and Corporate

Utah's Single Rate Individual Income Tax

Tax Year 2015

$$\left(\text{Taxable Income} \times 5\% \right) - \text{Credits} = \text{Tax}$$

Taxpayer Credit

- Based on taxable income, deductions, exemptions
- Phases out: 1.3¢ per \$1 above threshold
- Makes individual income tax progressive
- Claimed on all returns but may phase out
- Total reduction in tax ≈ \$760 million

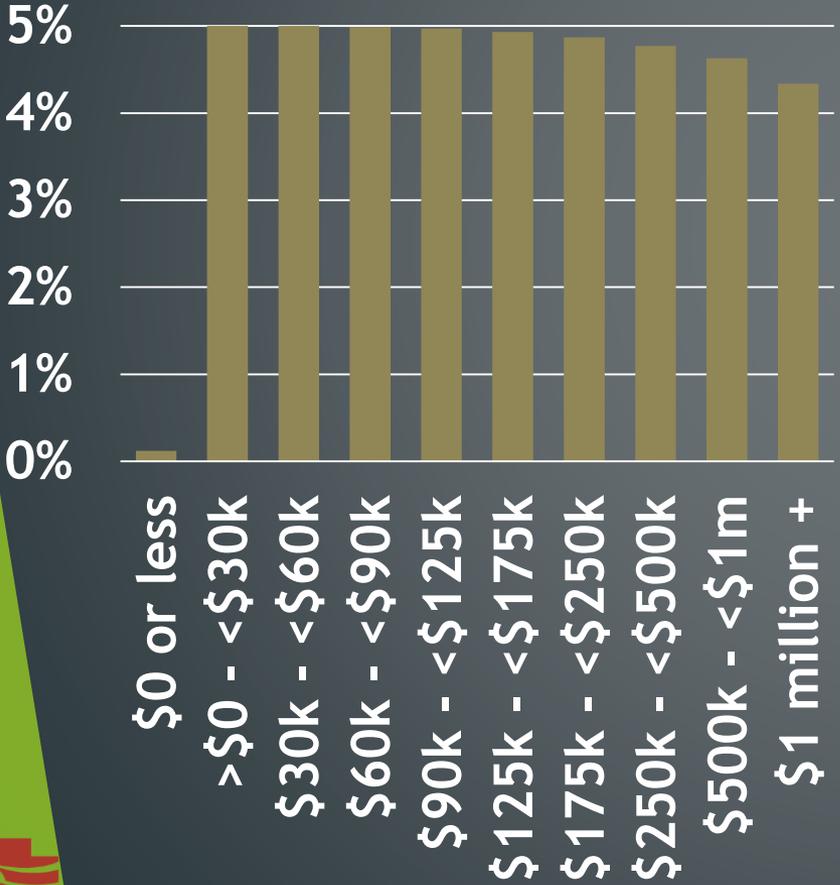
Other Credits

- 30+ other credits
- Returns with other credits ≈ 150 thousand (9%)
- Total value of other credits ≈ \$175 million

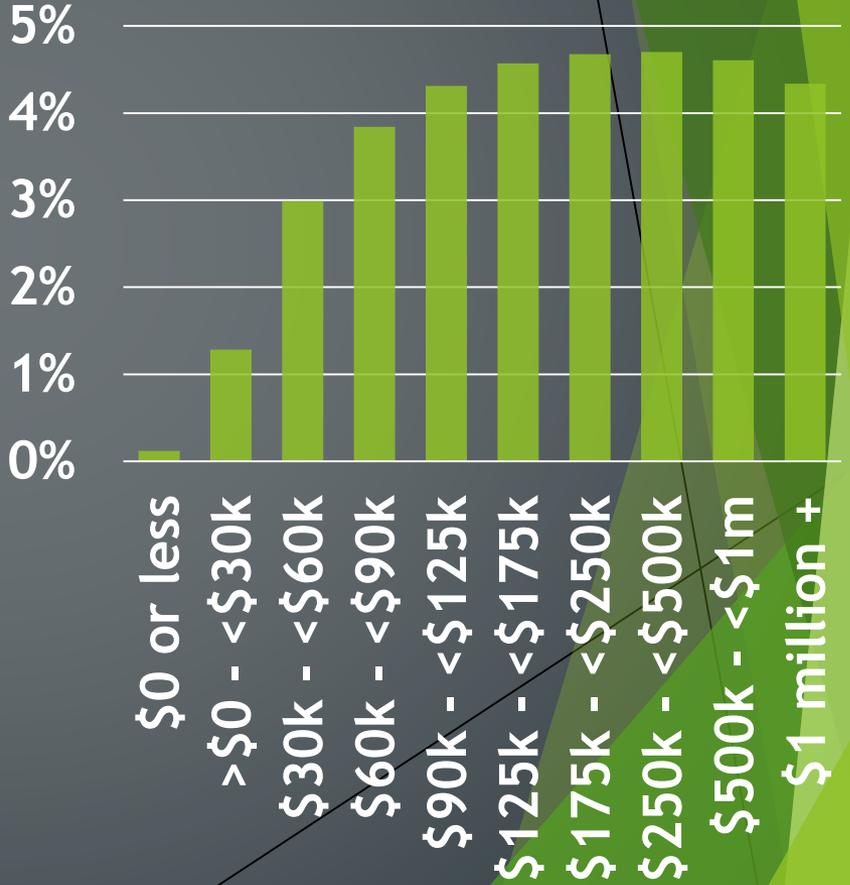
Utah's Income Tax System Remains Progressive

Tax Year 2015

Effective Tax Rate without Credits



Effective Tax Rate with Credits

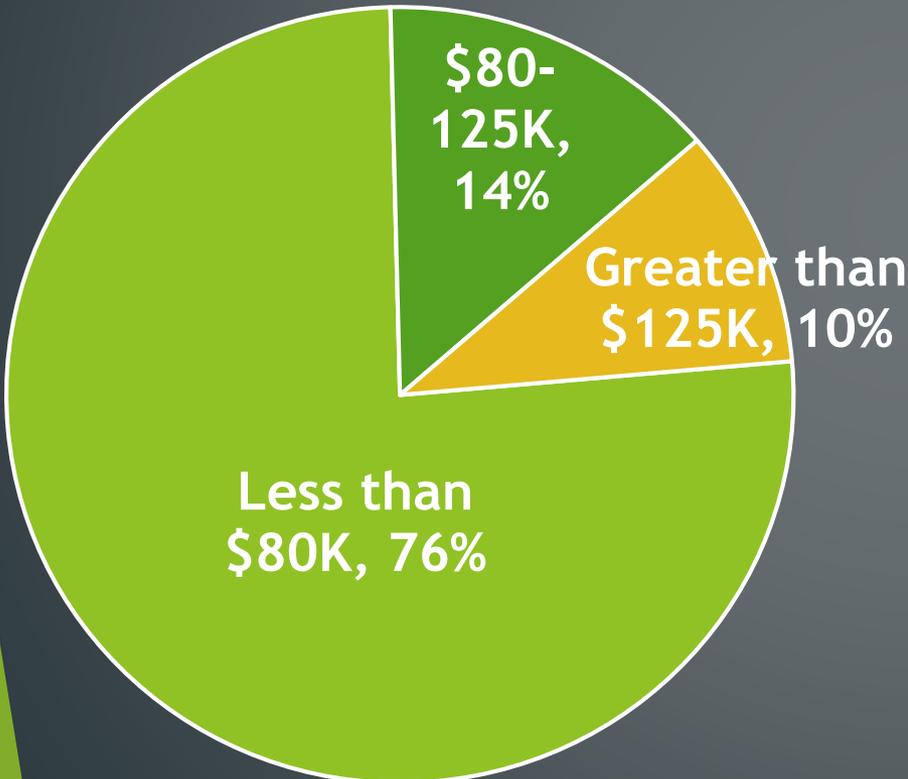


Distribution of Returns and Income Tax Paid

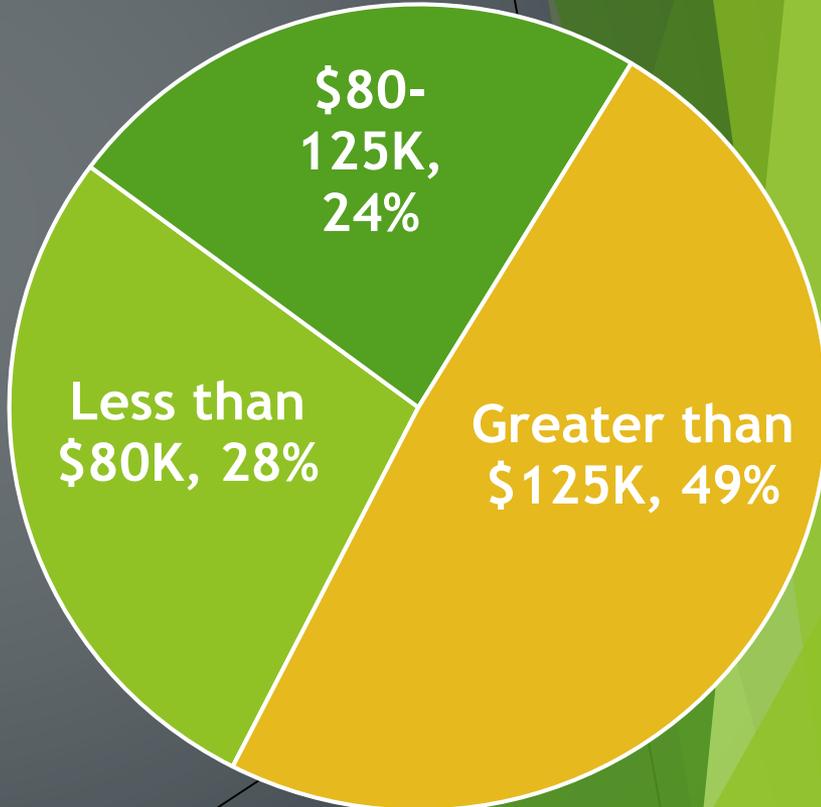
Who pays?

Tax Year 2015

Share of Returns by AGI



Share of Tax Paid by AGI



Why Does the Individual Income Tax Matter?

Earmarked for public and higher education

Adjustable

- Ability to pay
- Offset regressivity of other taxes

Detailed information on taxpayers

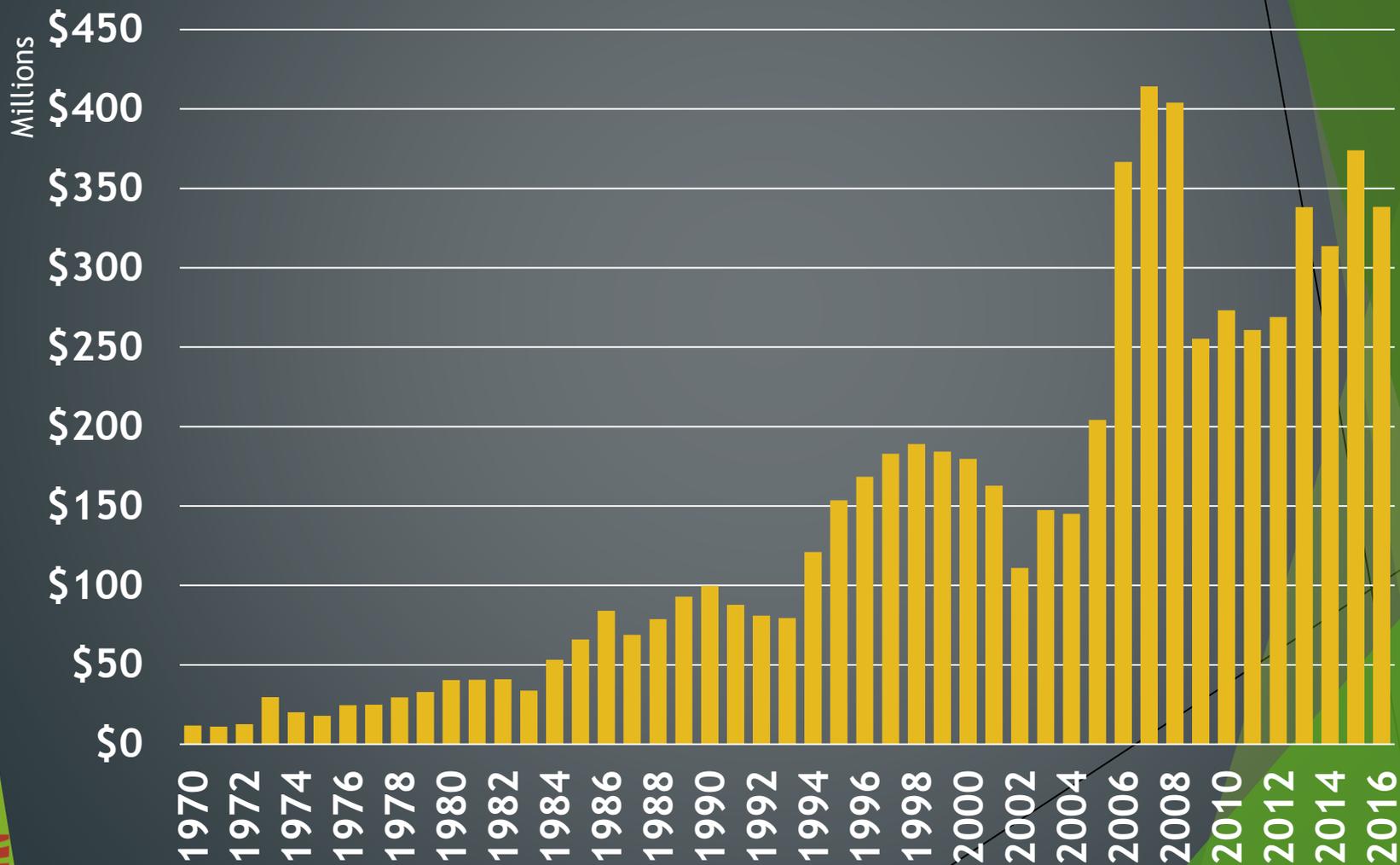
Visible

- \$ withheld from paychecks
- Annual tax return

Tax on Income

- Individuals
- “Pass-through” business entities
- Trusts and estates

Corporate Franchise & Income Tax Revenues FY 1970 to FY 2016



Source: Utah State Tax Commission

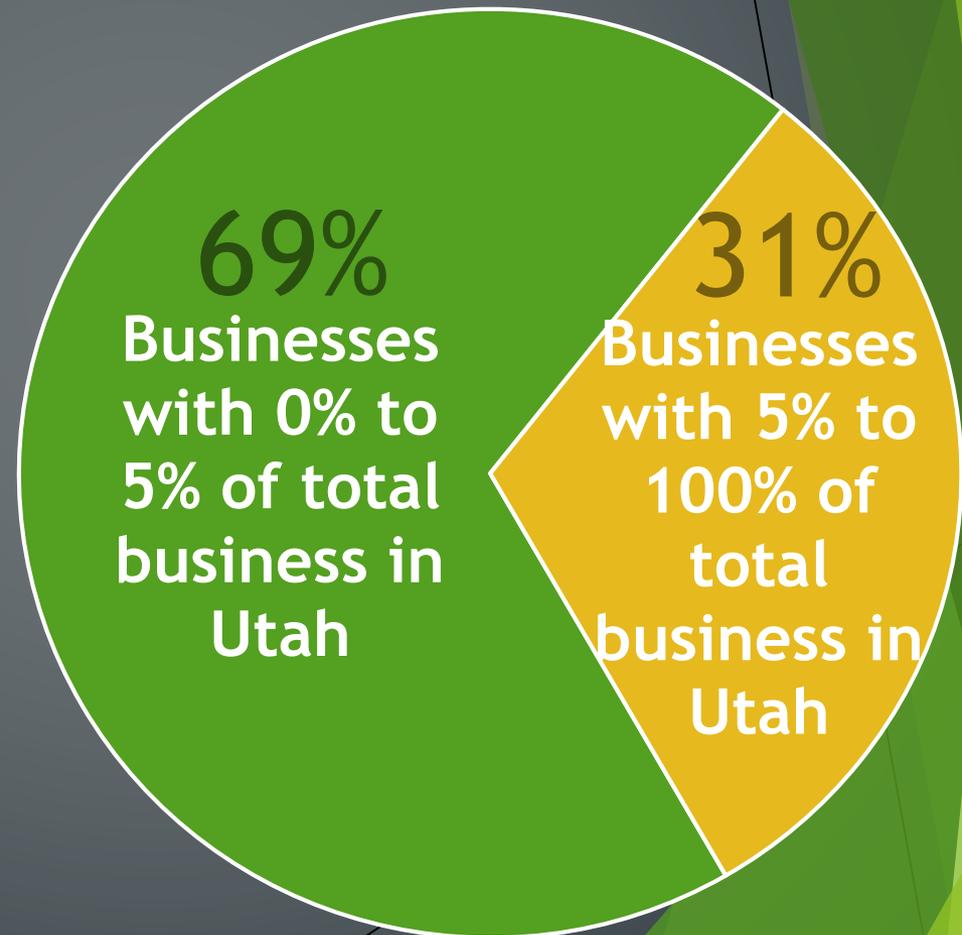


Corporate Franchise & Income Tax Revenue

Who pays?

Tax Year 2012

Businesses that conduct 0% to 5% of their total business in Utah pay **69%** of total Corporate Income Taxes



Source: Utah State Tax Commission

Why Does the Corporate Franchise & Income Tax Matter?

Earmarked for public and higher education

Volatile revenues

Tax on income

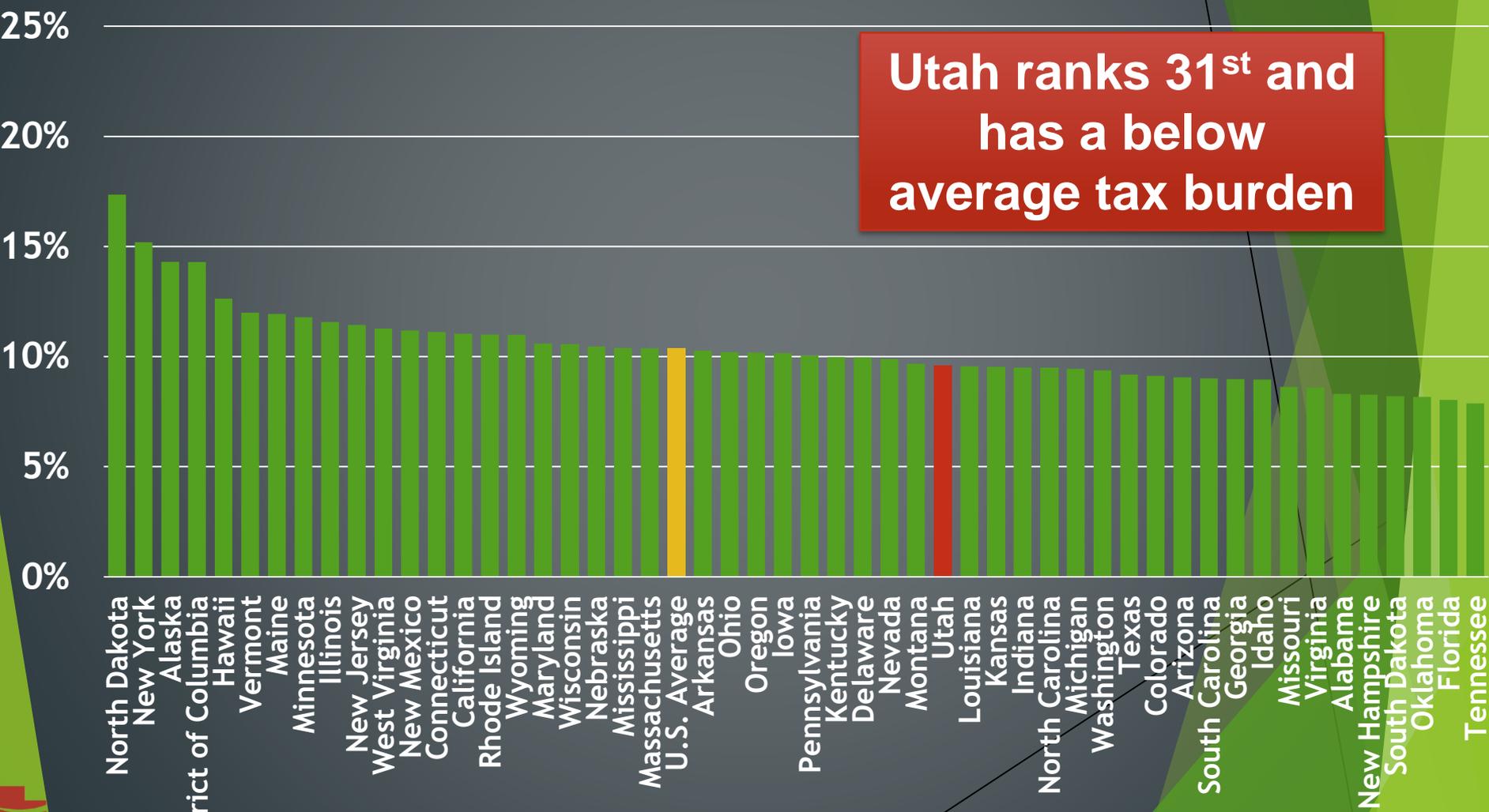
- Generally C-corporations
- **Note:** Income from other types of businesses (partnerships, LLC, S-Corporations, etc.) is generally passed through to owners who then pay individual income taxes on the income.

The image shows the Utah State Capitol building, a large neoclassical structure with a prominent dome, reflected in a circular fountain in the foreground. The fountain has a central tiered structure with water cascading down its sides. The scene is set during the day with a clear sky. A green geometric graphic element is visible on the right side of the image.

Utah's State and Local Tax Burden:

How Does It Compare?

State and Local Taxes as a Percent of Personal Income FY 2014

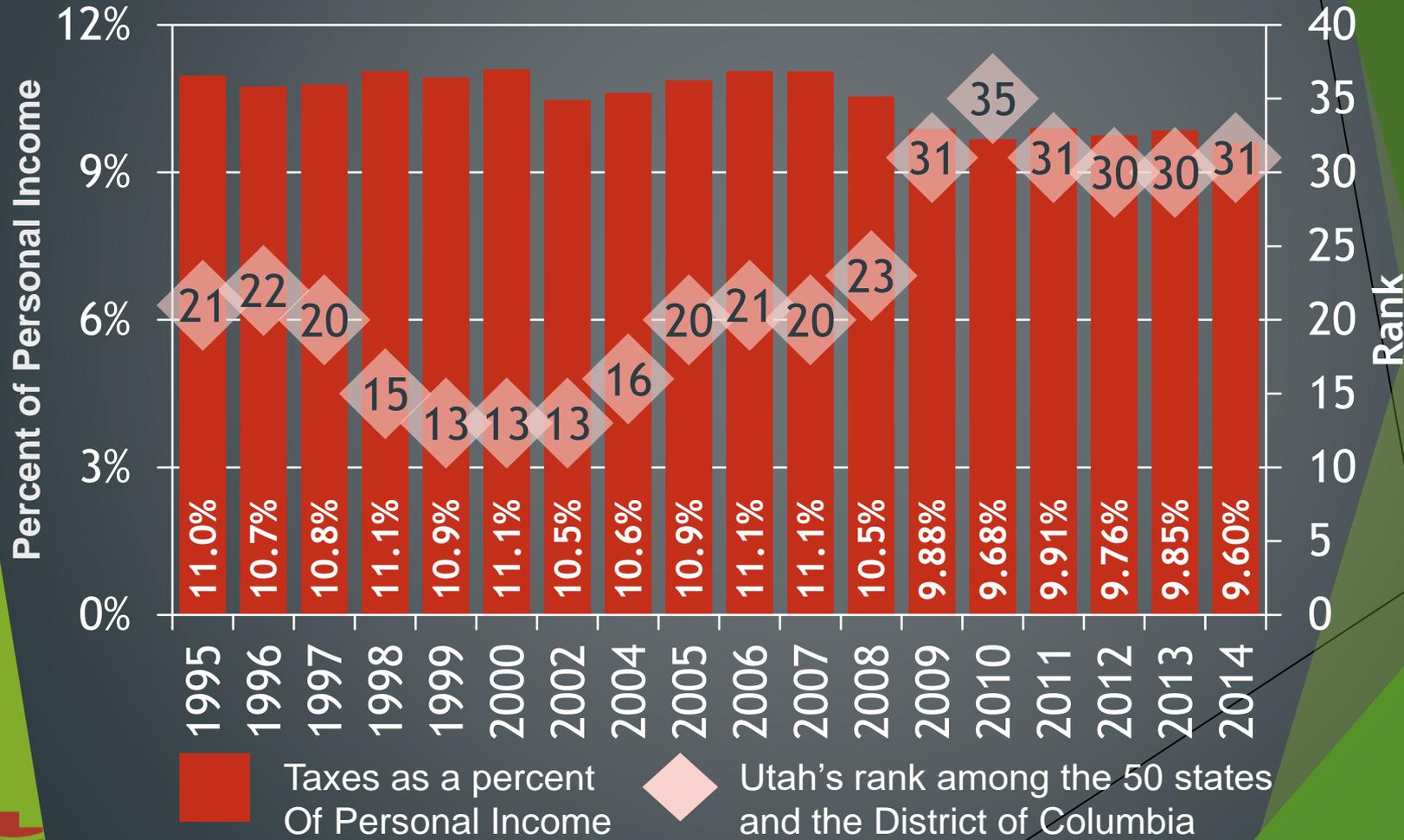


Source: U.S. Department of Commerce, U.S. Census Bureau



State and Local Taxes as a Percent of Personal Income

Utah: FY 1995 to FY 2014



Source: U.S. Department of Commerce, U.S. Census Bureau

How Utah Compares

Utah Taxes and Own Source Revenue as a Percent of Personal Income FY 2014



Income Tax Simulator Demonstration

Please feel free to contact us with any questions at
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