Tax Policy: Why Does it Matter?
It’s not only the amount of revenue that matters, but also how you get it.

Sound tax policy is concerned with how taxes:

- Are designed and administered
- Affect the taxpayer
- Affect the economy

Tax policy affects every citizen of Utah

Tax policy provides revenue that funds state and local public services.
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

Base X Rate = Revenue
Utah Tax Base & Effective Tax Rates

<table>
<thead>
<tr>
<th>Tax Base (billions)</th>
<th>Property Tax</th>
<th>Income Tax</th>
<th>Sales &amp; Use Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$70</td>
<td>$49</td>
<td>$207</td>
</tr>
<tr>
<td>$50</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>$100</td>
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<td></td>
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<tr>
<td>$150</td>
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<tr>
<td>$200</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>$250</td>
<td>$207</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Effective Tax Rate:
  - Property Tax: 1.38%
  - Income Tax: 4.10%
  - Sales & Use Tax: 5.98%

Source: Utah State Tax Commission
Utah’s Three Major State and Local Taxes:
Income, Property, and Sales & Use Tax Revenues
FY 2014

Total Revenue: $9.807 B

- Individual Income, $2,862,452,407, 29%
- Sales / Use (state & local), $2,954,043,756, 30%
- Property, $2,768,460,738, 28%
- Corporate Income, $353,818,749, 4%
- Fuel, $364,418,535, 4%
- Other State, $363,764,011, 4%
- Other Local, $140,455,045, 1%

Source: Utah State Tax Commission
State and Local Sales & Use, Individual Income, and Property Tax Revenues
FY 1970 to FY 2014

Source: Utah State Tax Commission
Real Per Capita State and Local Sales & Use, Individual Income, and Property Tax Revenues
FY 1970 to FY 2014

Source: Utah State Tax Commission
Utah’s State and Local Tax Burden: How Does It Compare?
State and Local **Taxes** as a Percent of Personal Income
FY 2012

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

Utah ranks 33rd
State and Local Taxes as a Percent of Personal Income
Utah: FY 1995 to FY 2012

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 2012

Rank Among 50 States and District of Columbia

Source: U.S. Department of Commerce, U.S. Census Bureau
Income Taxes
Individual and Corporate
Utah’s Single Rate Individual Income Tax Effective Tax Year 2008

- **Single Rate**: 5%
- **Taxable Income**
  - Federal AGI
  - Additions
  - Subtractions
- **Several Tax Credits**
  - Taxpayer
  - Retirement
- **Credit Phase Out**
  - Based on income
    - 1.3%
    - 2.5%
Effect of Recent Income Tax Changes

(Tax base x tax rate) - tax credits = tax liability

New system is moderately progressive

- Old system - progressive through tax base and tax rates
- New system - progressive through tax credits

Briefing papers available (visit le.utah.gov)
Utah’s Income Tax System Remains Progressive
Tax Year 2013

Source: Utah State Tax Commission
Distribution of Returns and Utah Tax Tax Year 2013

Source: Utah State Tax Commission
Distribution of Returns and Utah Tax
Tax Year 2013

Returns by AGI

- Less than $80K, 78.30%
- $80-125K, 13.30%
- Greater than $125K, 8.40%

Utah Tax by AGI

- Less than $80K, 30.60%
- $80-125K, 24.70%
- Greater than $125, 44.70%

Source: Utah State Tax Commission
<table>
<thead>
<tr>
<th>Adjusted Gross Income</th>
<th>% of Returns</th>
<th>% of Exemptions</th>
<th>% of Income (AGI)</th>
<th>% of Utah Income Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than $40K</td>
<td>52.1%</td>
<td>38.5%</td>
<td>13.9%</td>
<td>7.2%</td>
</tr>
<tr>
<td>$40-80K</td>
<td>26.2%</td>
<td>31.5%</td>
<td>26.0%</td>
<td>23.4%</td>
</tr>
<tr>
<td>$80-125K</td>
<td>13.3%</td>
<td>18.3%</td>
<td>22.5%</td>
<td>24.7%</td>
</tr>
<tr>
<td>$125-250K</td>
<td>6.5%</td>
<td>9.1%</td>
<td>18.2%</td>
<td>21.8%</td>
</tr>
<tr>
<td>$250K-$1M</td>
<td>1.7%</td>
<td>2.4%</td>
<td>11.6%</td>
<td>14.0%</td>
</tr>
<tr>
<td>$1M+</td>
<td>0.2%</td>
<td>0.2%</td>
<td>7.8%</td>
<td>8.9%</td>
</tr>
<tr>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Utah State Tax Commission
### Why Does the Individual Income Tax Matter?

<table>
<thead>
<tr>
<th><strong>Earmarked for public and higher education</strong></th>
</tr>
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<tbody>
<tr>
<td><strong>Adjustable</strong></td>
</tr>
<tr>
<td>- Ability to pay</td>
</tr>
<tr>
<td>- Offset regressivity of other taxes</td>
</tr>
<tr>
<td><strong>Detailed information on taxpayers</strong></td>
</tr>
<tr>
<td><strong>Visible</strong></td>
</tr>
<tr>
<td>- $ withheld from paychecks</td>
</tr>
<tr>
<td>- Annual tax return</td>
</tr>
<tr>
<td><strong>Tax on Income</strong></td>
</tr>
<tr>
<td>- Individuals</td>
</tr>
<tr>
<td>- “Pass-through” business entities</td>
</tr>
<tr>
<td>- Trusts and estates</td>
</tr>
</tbody>
</table>
Corporate Franchise & Income Tax Revenue by % of Business in Utah
Tax Year 2012

- Businesses that conduct 0% to 5% of total business in Utah: 67%
- Businesses that conduct 5% to 100% of total business in Utah: 33%

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

- **Retail sales of tangible personal property**
- **Sales of certain telecommunication, utility, or passenger services (reduced rate may apply)**
- **Sales of food (reduced rate may apply)**
- **Certain admissions, such as movie tickets**
The Utah Sales and Use Tax Base: What Do We Tax?

| Certain services, such as cleaning and repair of tangible personal property |
| Certain hotel or motel charges |
| Products transferred electronically |
| “Use tax” |
The Utah Sales and Use Tax Base:
What Don’t We Tax?

What we do
tax.

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

Exclusions
The Utah Sales and Use Tax Base: What Don’t We Tax?

Selected exclusions

- Professional services
- Personal care services

Exemptions

- Currently 70+ exemptions
- Estimated FY 2013 state revenue effect: $697M
The Utah Sales and Use Tax Base: What Don’t We Tax?

Examples of sales and use tax exemptions:

- Motor, special, aviation fuels ($277M)
- Manufacturing machinery & equipment ($110M)
- Prescription drugs ($59M)
- Farm machinery & equipment ($39M)
- Natural gas, electricity, coal for industrial use ($25M)
- Food stamps & WIC ($8M)
- Certain religious / charitable sales & purchases ($7M)

Source: Utah State Tax Commission
Sales and Use Tax Rate
What’s the Rate?

State Tax Rate

+ Sum of Local Tax Rates

= Total Tax Rate

Depends on what is being taxed

Depends on which local taxes are imposed

Location of transaction matters
The state tax rate depends on what is being taxed

Examples:

- Food and food ingredients → 1.75%
- Residential fuels → 2.00%
- General → 4.70%
Counties, cities, and towns are authorized to impose a variety of local option sales and use taxes.

Most local option sales and use taxes tax the same transactions taxed at the state level.
Local Option Sales and Use Tax Rates

Imposed for general purposes

- Local option 1.00%
- County option 0.25%

Revenue collected → Deposited → General Fund of county, city, or town
Local Option Sales and Use Tax Rates

Imposed only for a specified purpose

- Public transit tax, up to 0.30%
- County “zoo, arts, and parks tax,” 0.10%
Local Option Sales and Use Tax Rates

Imposed only on certain transactions

- County transient room tax, up to 4.25%
- County tax on food sold by restaurants, up to 1.00%
State and Local Sales and Use Tax Rates Over Time
1970 to 2014

Source: Utah State Tax Commission
State and Local Sales and Use Tax
Share of Revenues Over Time
FY 1970 to FY 2014

State Share of Sales Tax Revenue
Local Share of Sales Tax Revenue

Source: Utah State Tax Commission
Sales & Use Tax Base
Year-Over Percent Change
FY 1978 Q4 to FY 2013 Q3

Source: Utah State Tax Commission
Over the long term, the sales and use tax base is gradually declining relative to the economy as a whole.

Source: US Dept of Commerce, Bureau of Economic Analysis
The Sales & Use 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 & use tax base

Cross-border shopping
• Internet, phone, 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”
US Personal Consumption Expenditures 1929-2012

Source: US Dept of Commerce, Bureau of Economic Analysis
Sales and Use Tax Revenue
Where Does the Money Go?
FY 2014

State not Earmarked, $1,656,806,222, 54%
General Local Option, $496,435,229, 16%
State Earmarked, $453,855,085, 15%
General County Option, $124,399,383, 4%
Local Transportation, $273,858,547, 9%
Other Local (ZAP/RAP, rural hospital, resort community, etc.), $54,552,089, 2%

Source: Utah State Tax Commission
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, Utah Transit Authority, and other public transit districts
- Tax on consumption
- Politically more popular less unpopular than other taxes
- Impacts zoning decisions
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
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
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

Constitutionally Mandated Exemptions
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
The Property Tax “Tree”
What is and is not taxed?

Examples:
- Government
- Charitable
- Religious
- Educational
- Farm Equip
- Livestock
- Inventories
- Irrigation
- 45% of Primary Res.
- Household furnishings

Source: Office of Legislative Research and General Counsel.
Property Taxes
Where Does the Money Come From?
2013 Tax Year

Primary Residential, 1,305,225,398, 46%
Commercial, 621,661,679, 22%
Utilities, 174,296,198, 6%
Motor Vehicles, 167,277,750...
Natural Resources, 117,577,461, 4%
Personal, 182,322,224, 6%
Other Real, 288,434,721, 10%

Source: Utah State Tax Commission
Property Taxes
Where Does the Money Go?
2013 Tax Year

- Schools: 55%
- Counties: 18%
- Municipalities: 14%
- Special Districts: 13%

Source: Utah State Tax Commission
School Basic Levy History
1980-2013

Source: Utah State Office of Education
Effective Property Tax Rates
Primary Residential Property and All Property
1995 - 2013

Source: Utah State Tax Commission
Why Does the Property Tax Matter?

<table>
<thead>
<tr>
<th>Feature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on wealth and capital</td>
</tr>
<tr>
<td>Source of revenue for schools and other local government entities</td>
</tr>
<tr>
<td>Oldest state and local tax</td>
</tr>
<tr>
<td>Stability</td>
</tr>
<tr>
<td>Transparent</td>
</tr>
<tr>
<td>Unpopular tax</td>
</tr>
<tr>
<td>Provides political accountability</td>
</tr>
</tbody>
</table>
Fuel Taxes
Motor and Special Fuel
Combined Motor and Special Fuel Tax Revenue
FY 1976 to FY 2014

Indicates a tax rate increase

Source: Utah Department of Transportation Annual Statistical Surveys; Utah State Tax Commission
Fuel Taxes
Where Does the Money Go?

- Constitutionally earmarked for highway purposes (construction and maintenance)
- 70% to UDOT
- 30% to cities and counties (B&C Road Fund)
  - Used under the direction of UDOT
  - Distributed based on road length and pavement type
Why Do Motor and Special Fuel Taxes Matter?

- Significant source of revenue for maintaining state highway system
- Politically unpopular
- Somewhat like to a user fee - taxes use of public highways
- Taxed on a per-unit basis, so adjusts with consumption amount, not price
Please feel free to contact us with any questions at
(801) 538-1032

Leif Elder, Policy Analyst
Bryant Howe, Assistant Director