

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

Prepared for:

Bagels & Briefings

February 24, 2015

Presentation Outline

Tax Policy Overview

Utah's Comparative State & Local Tax Burden

Income Taxes

Sales & Use Taxes

Property Tax

Fuel Taxes



Tax Policy: Why Does it Matter?

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

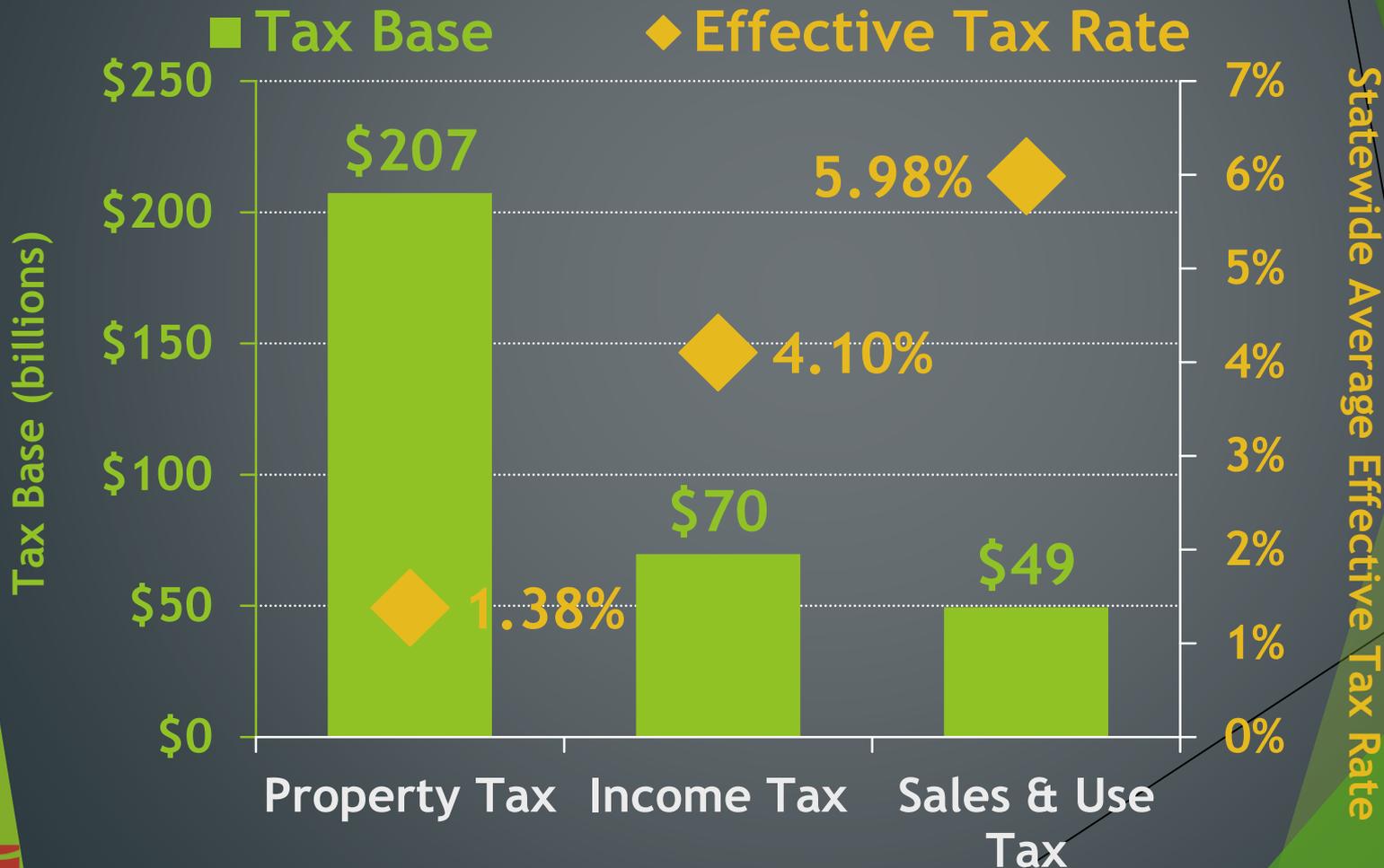
Economically neutral

Accountable and transparent

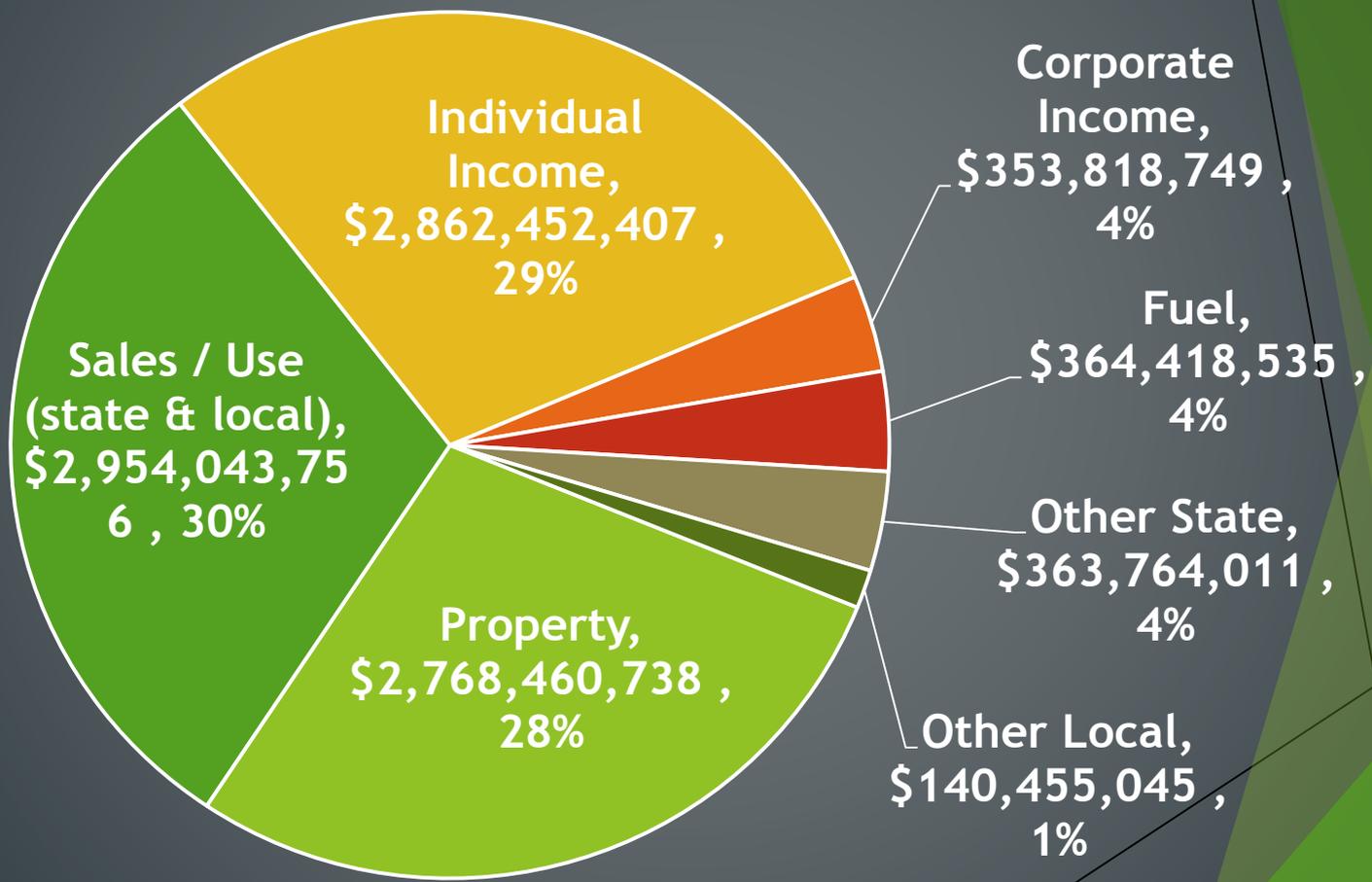
Taxation 101

Base X Rate =
Revenue

Utah Tax Base & Effective Tax Rates



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

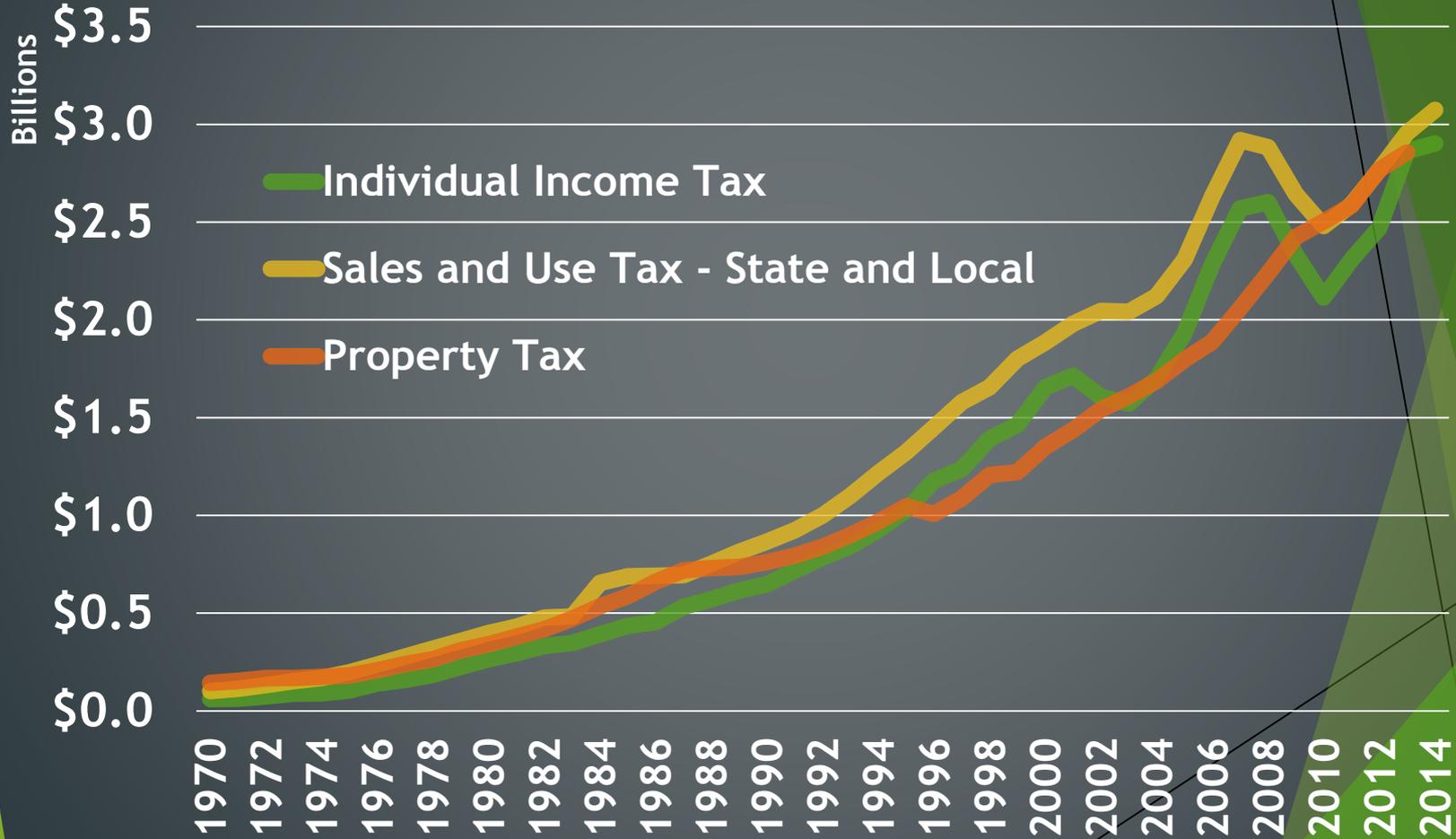


Total Revenue: \$9.807 B



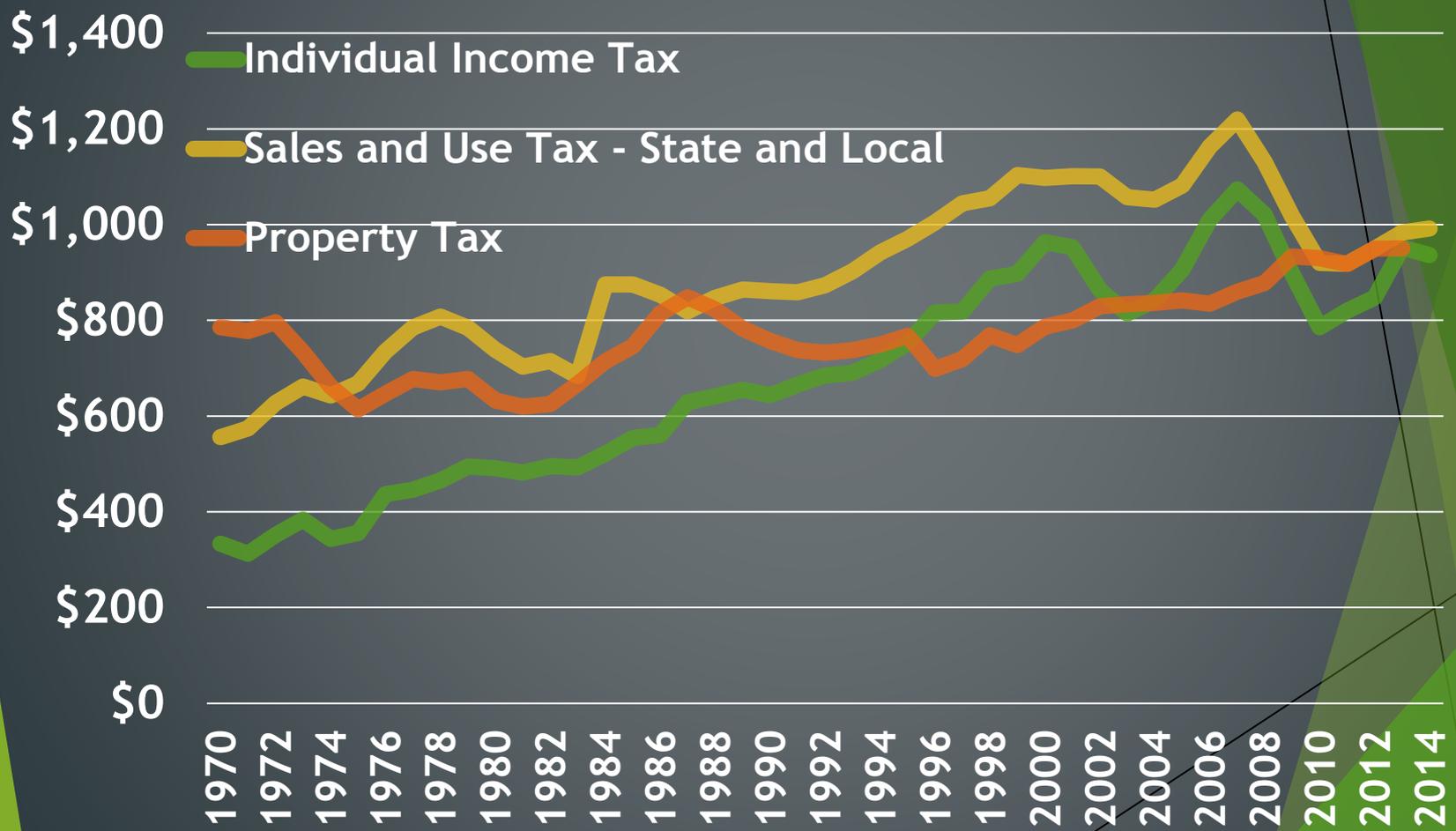
State and Local Sales & Use, Individual Income, and Property Tax Revenues

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



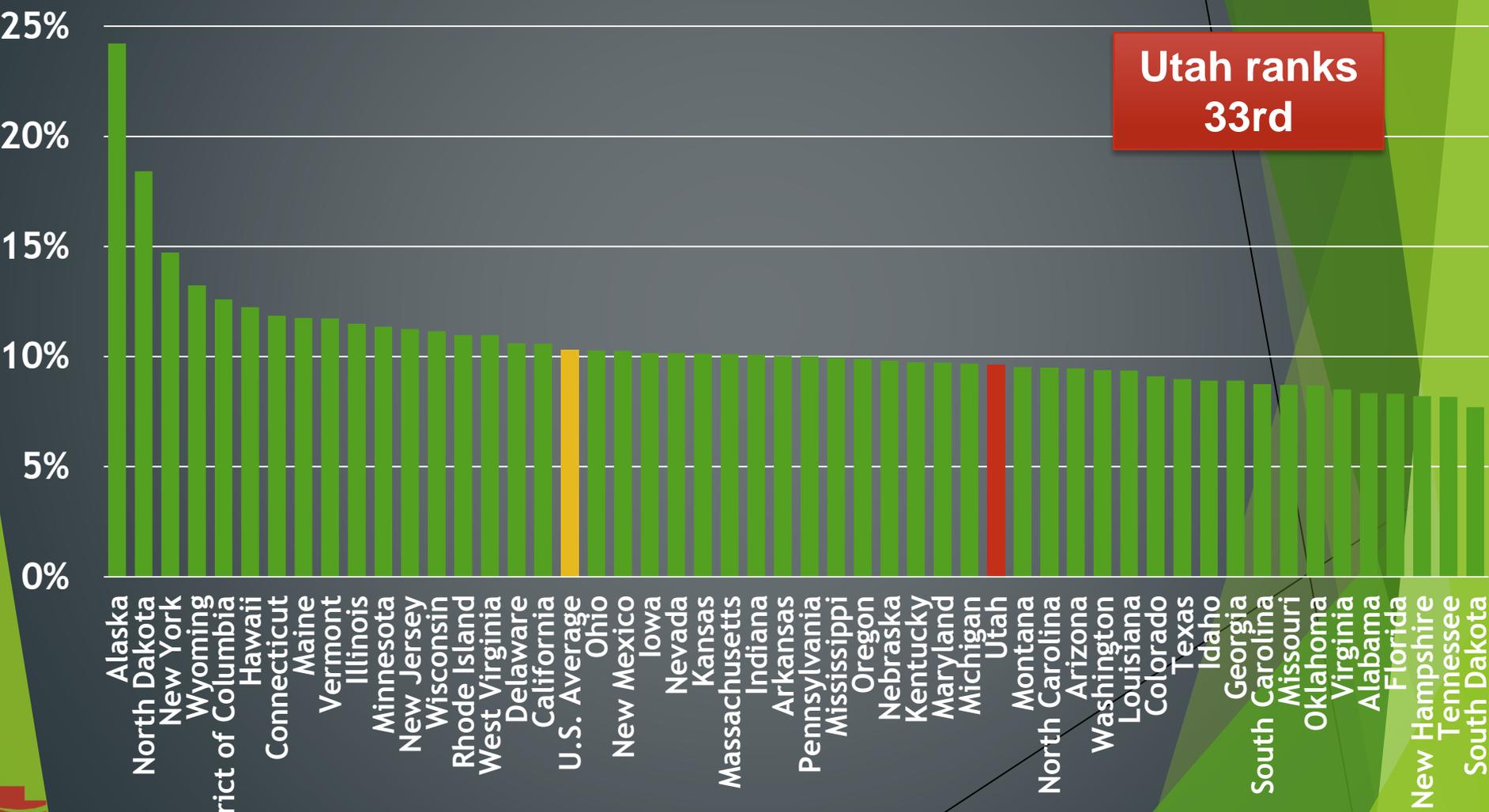
Source: Utah State Tax Commission

The image shows the Utah State Capitol building, a large, classical-style structure with a prominent dome. In the foreground, there is a large, circular fountain with water cascading over its edge. The scene is set during the day with a clear sky. The text is overlaid on the left 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 2012

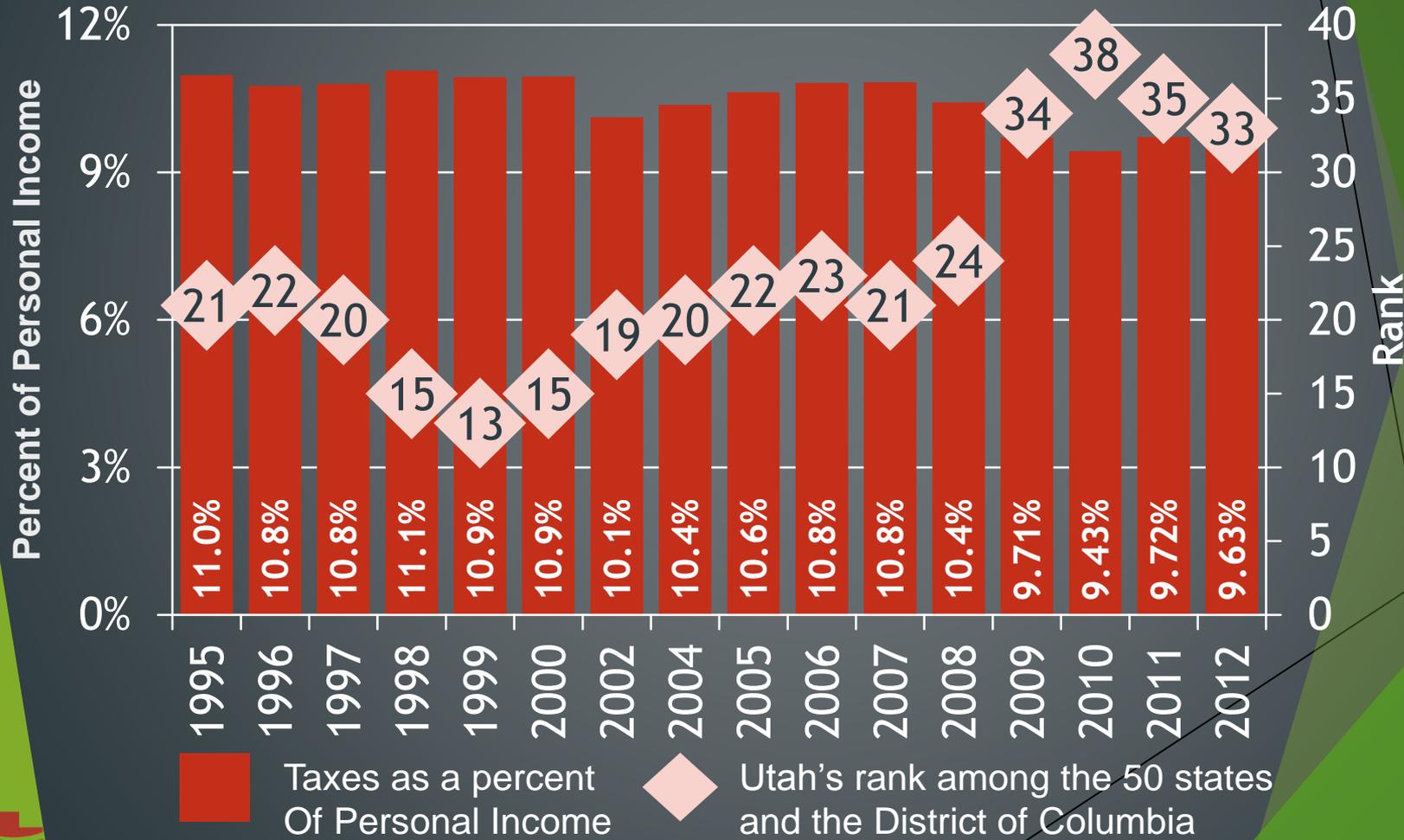


Source: U.S. Department of Commerce, U.S. Census Bureau



State and Local Taxes as a Percent of Personal Income

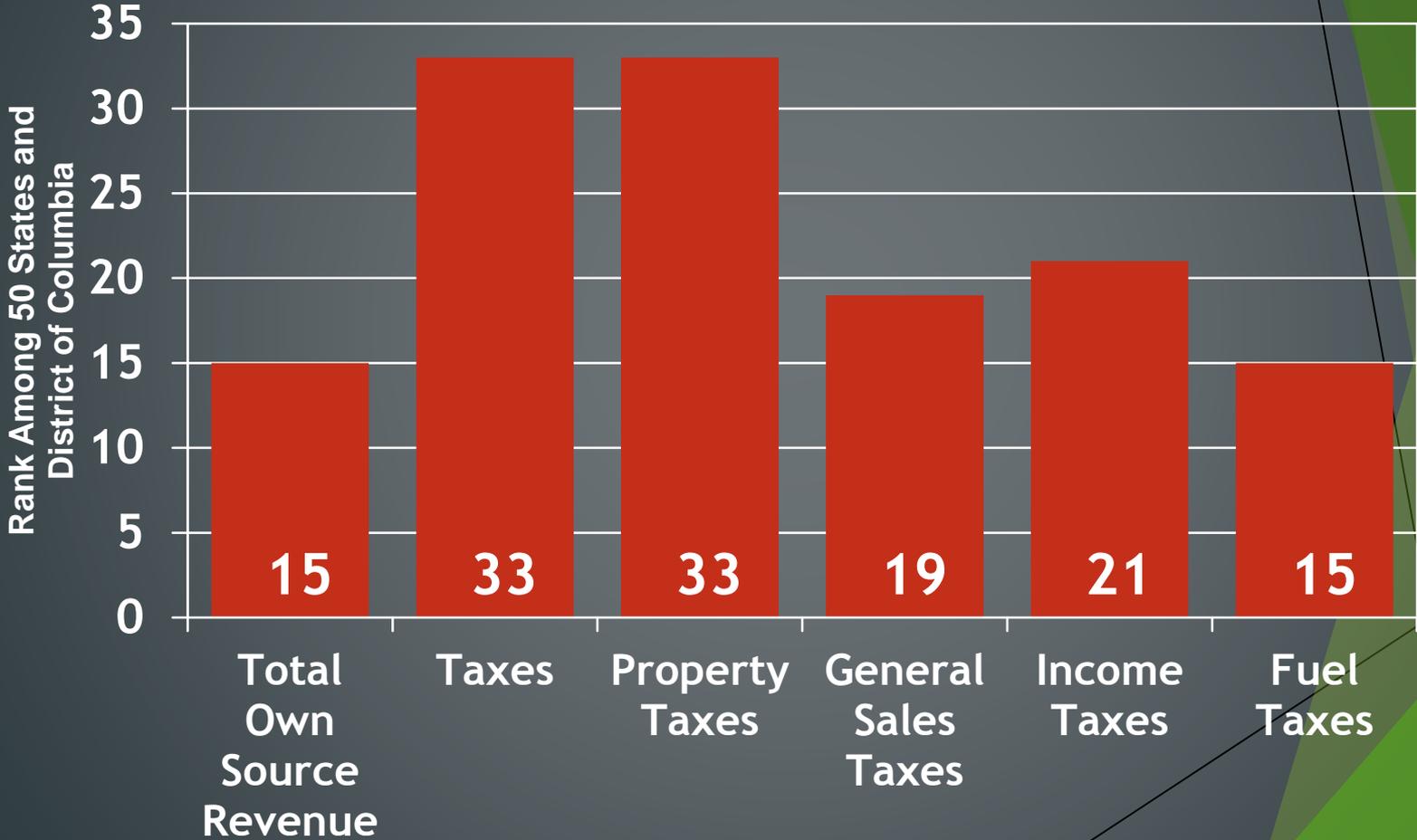
Utah: FY 1995 to FY 2012



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



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

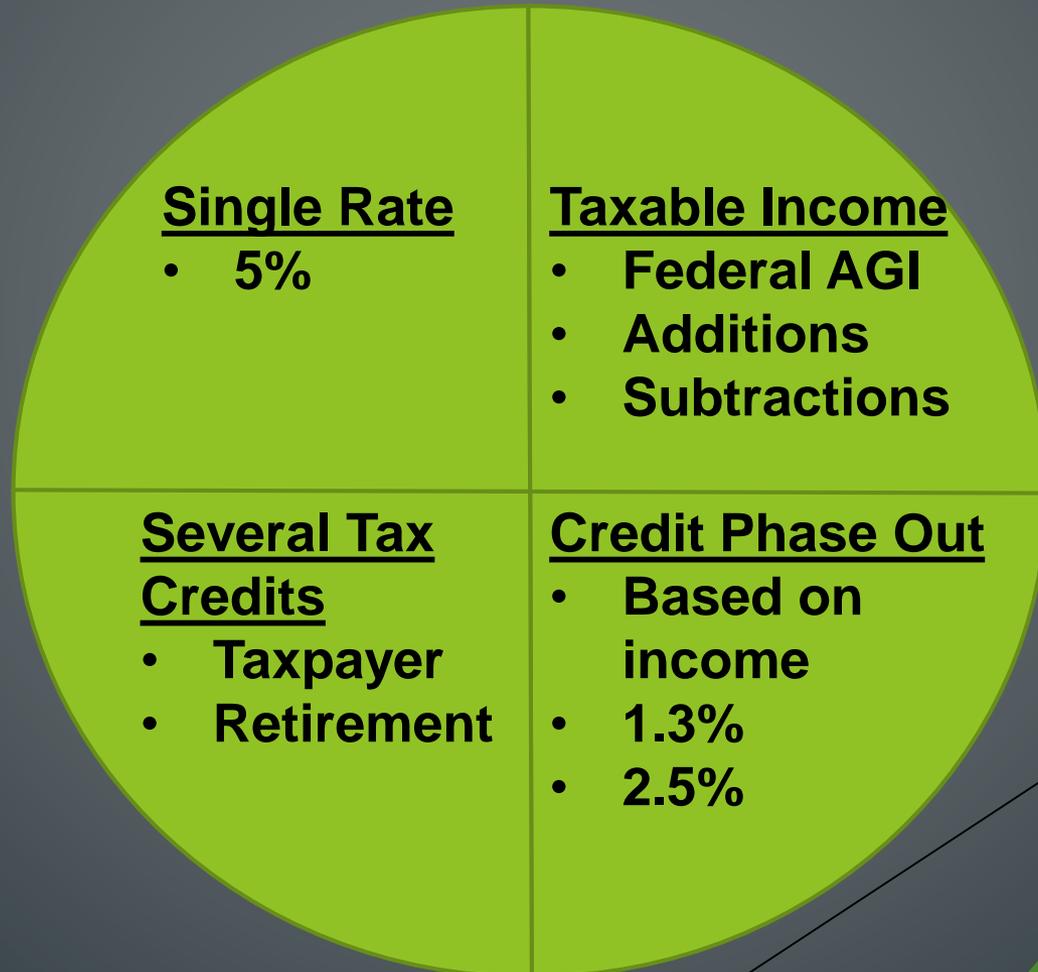


Income Taxes

Individual and Corporate

Utah's Single Rate Individual Income Tax

Effective Tax Year 2008



Effect of Recent Income Tax Changes

$(\text{Tax base} \times \text{tax rate}) - \text{tax credits} = \text{tax liability}$

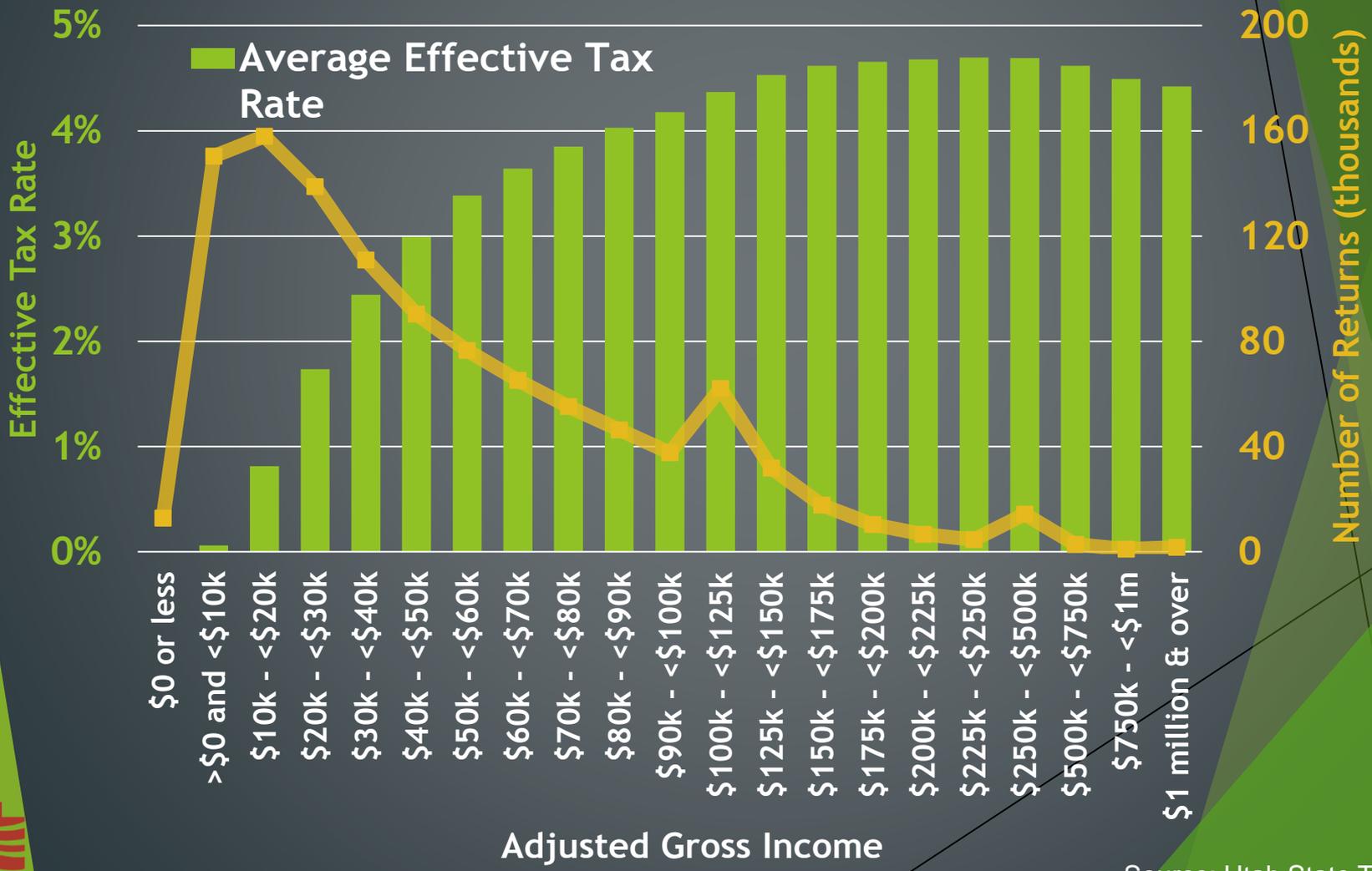
New system is moderately progressive

- 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

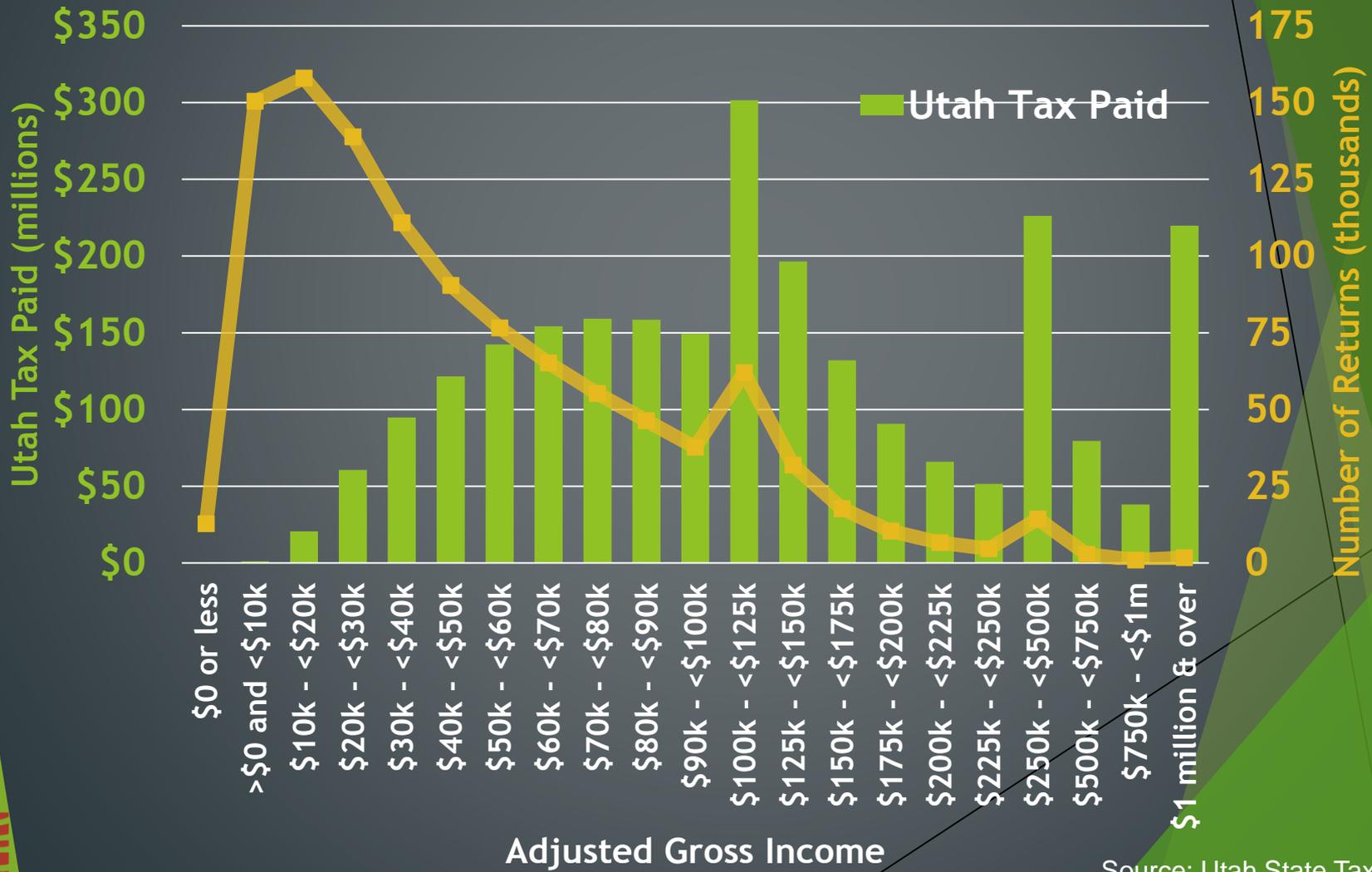
Tax Year 2013



Source: Utah State Tax Commission

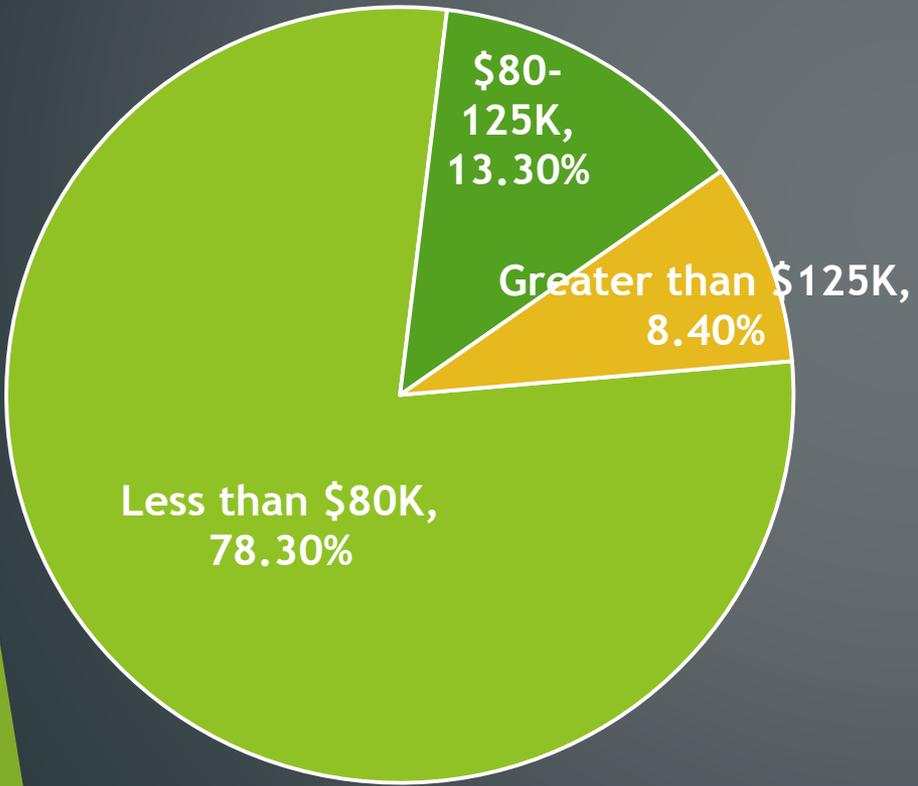


Distribution of Returns and Utah Tax Tax Year 2013

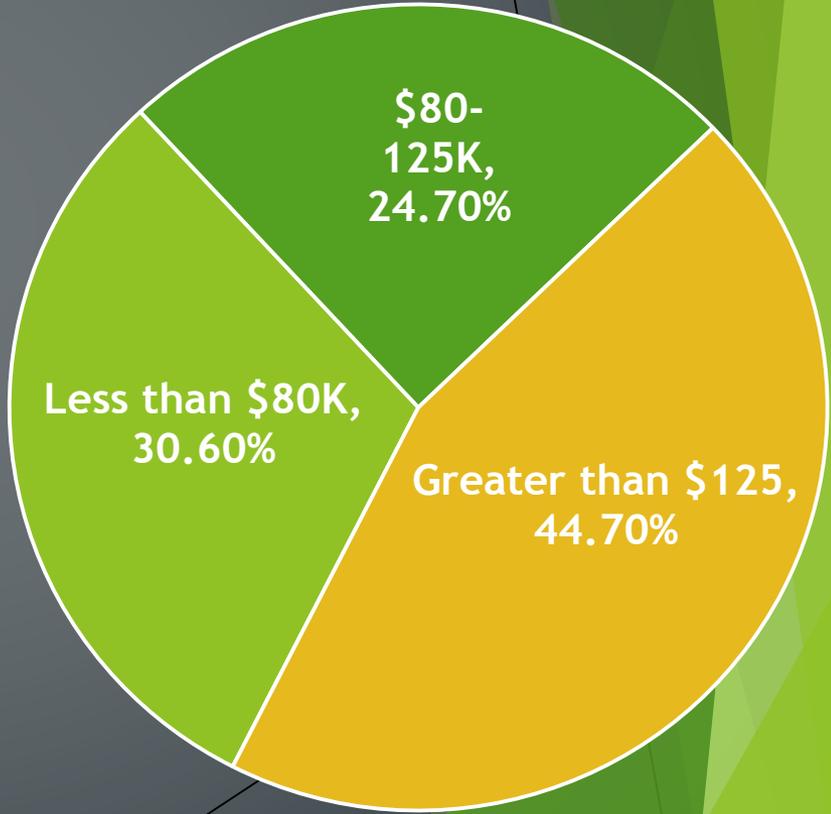


Distribution of Returns and Utah Tax Tax Year 2013

Returns by AGI



Utah Tax by AGI



Distribution of Returns, Exemptions, AGI, and Utah Tax

Tax Year 2013

Adjusted Gross Income	% of Returns	% of Exemptions	% of Income (AGI)	% of Utah Income Tax
less than \$40K	52.1%	38.5%	13.9%	7.2%
\$40-80K	26.2%	31.5%	26.0%	23.4%
\$80-125K	13.3%	18.3%	22.5%	24.7%
\$125-250K	6.5%	9.1%	18.2%	21.8%
\$250K-\$1M	1.7%	2.4%	11.6%	14.0%
\$1M+	0.2%	0.2%	7.8%	8.9%
	100%	100%	100%	100%

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

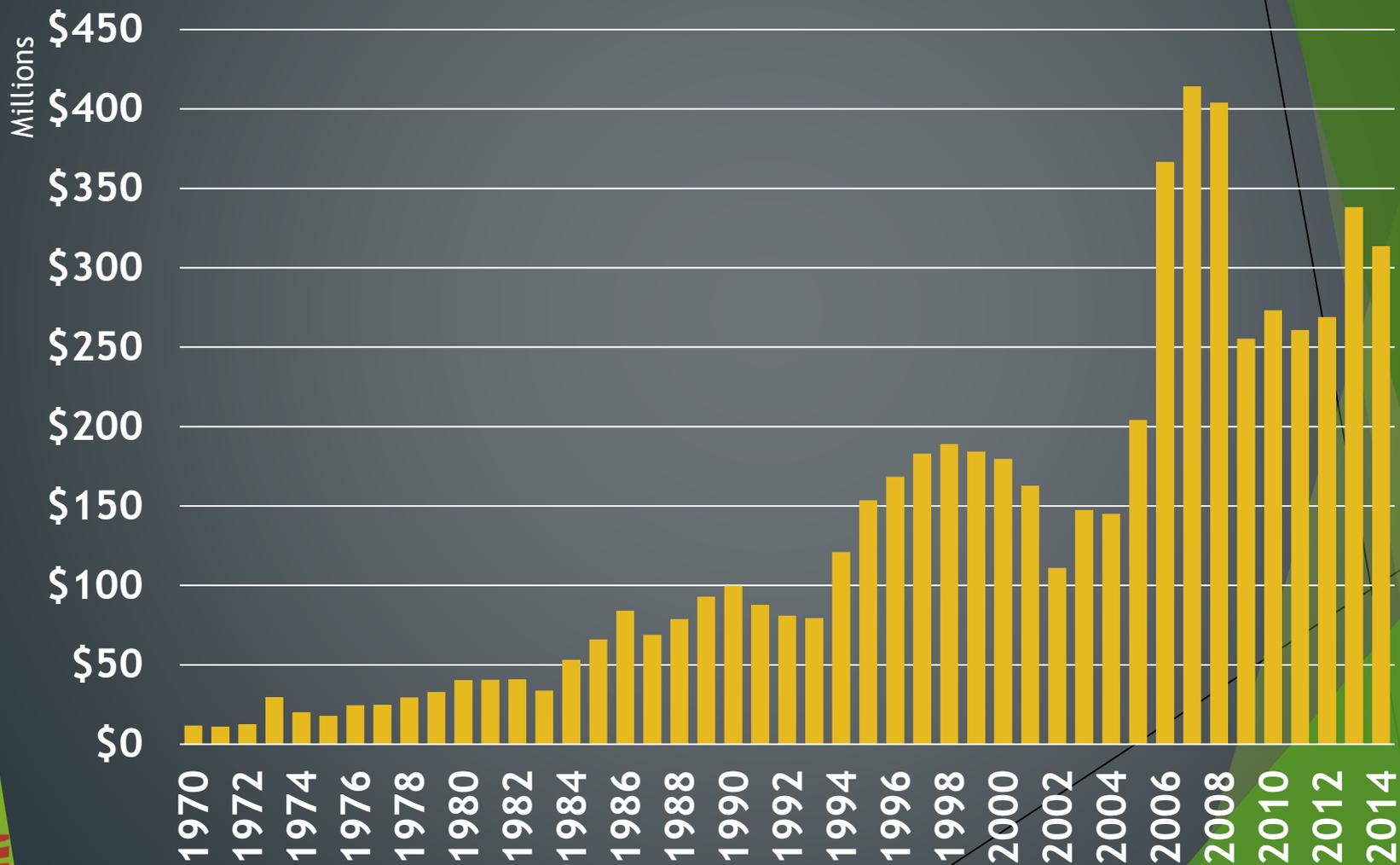
Visible

- \$ withheld from paychecks
- Annual tax return

Tax on Income

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

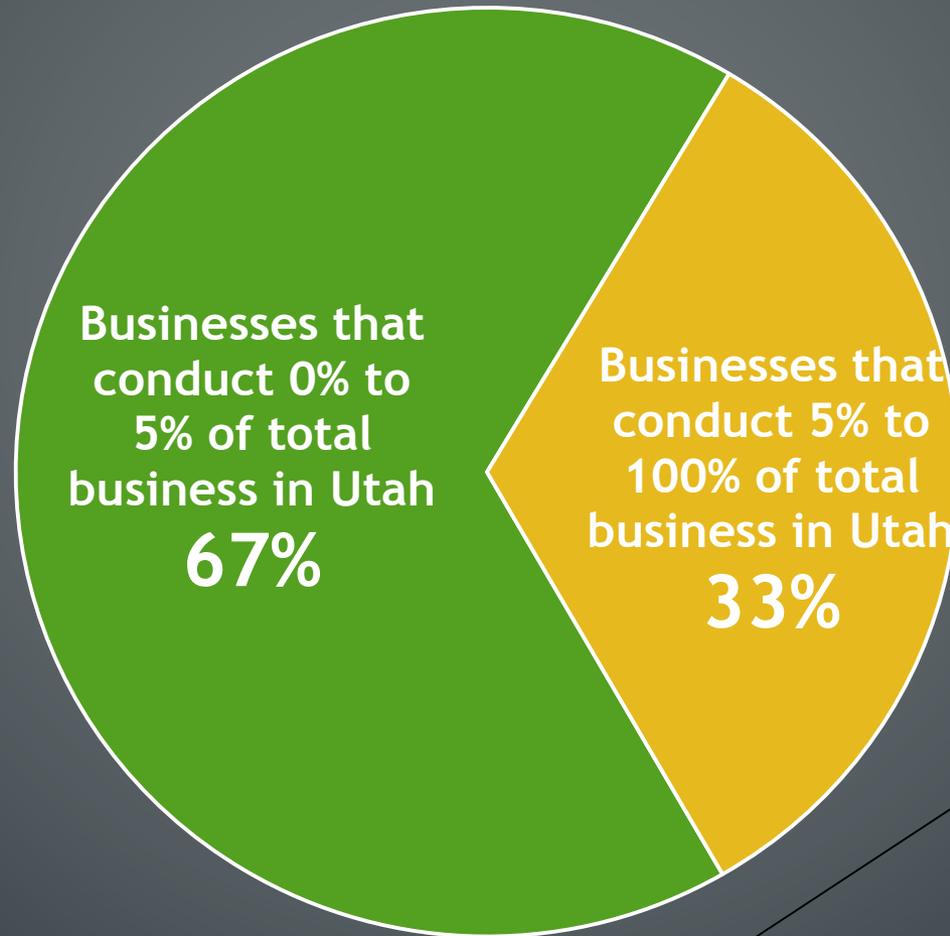
Corporate Franchise & Income Tax Revenues FY 1970 to FY 2014



Source: Utah State Tax Commission



Corporate Franchise & Income Tax Revenue by % of Business in Utah Tax Year 2012



Why Does the Corporate Franchise & Income Tax Matter?

Earmarked for public and higher education

Volatile revenues

Tax on income

- Generally C-corporations



Sales & Use Taxes

State and Local

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

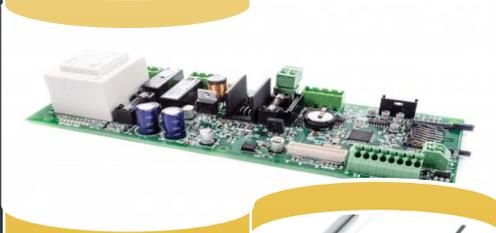
The Utah Sales and Use Tax Base: What Do We Tax?



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?

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

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)

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

State Sales and Use Tax Rates

The state tax rate depends on what is being taxed

Examples



Food and food ingredients → 1.75%

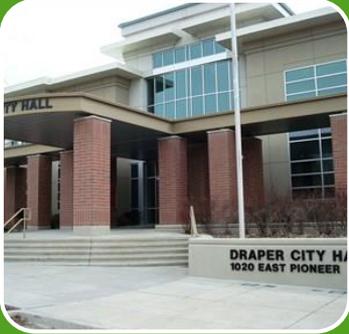


Residential fuels → 2.00%



General → 4.70%

Local Option Sales and Use Tax Rates



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

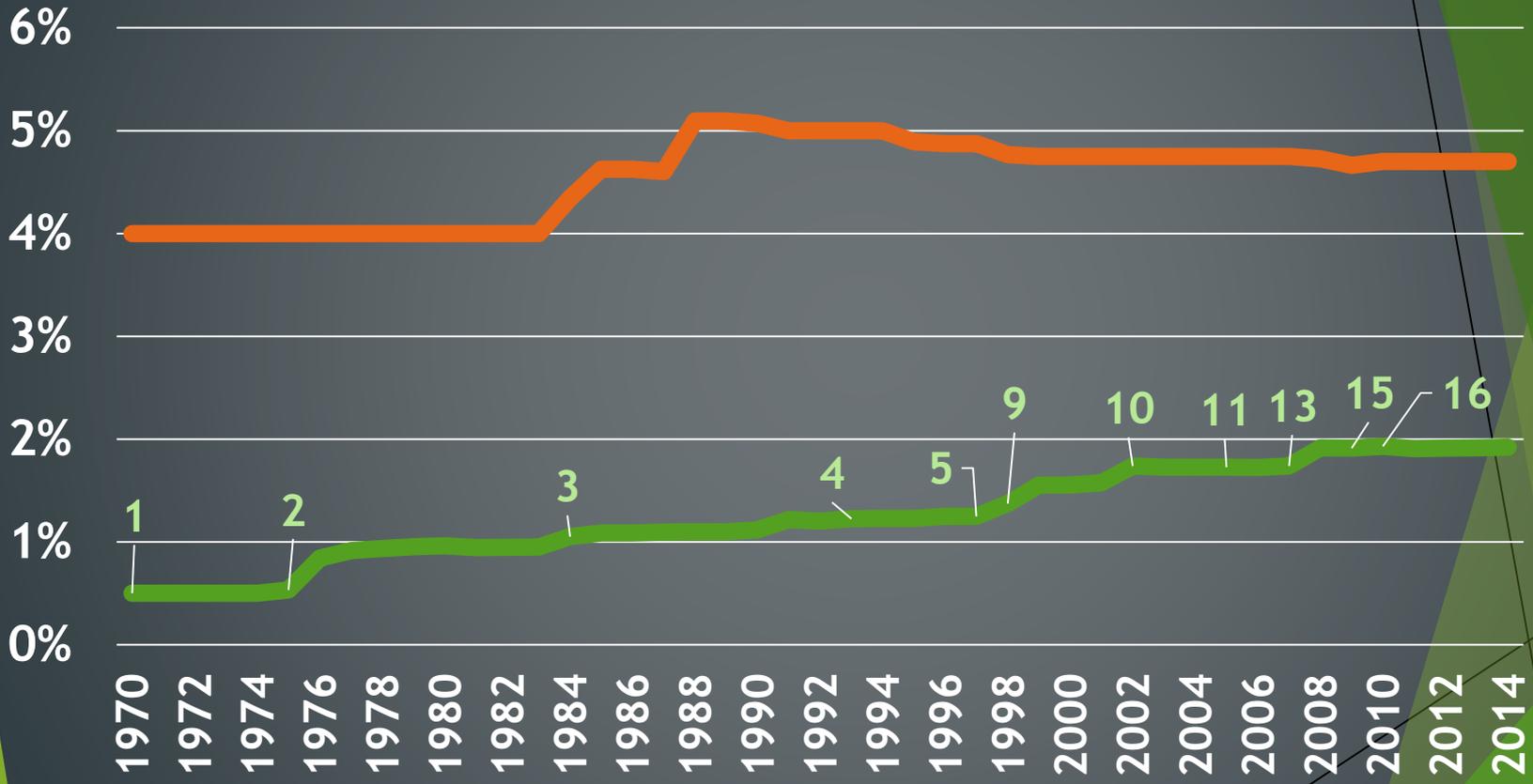
Imposed only on certain transactions

- 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

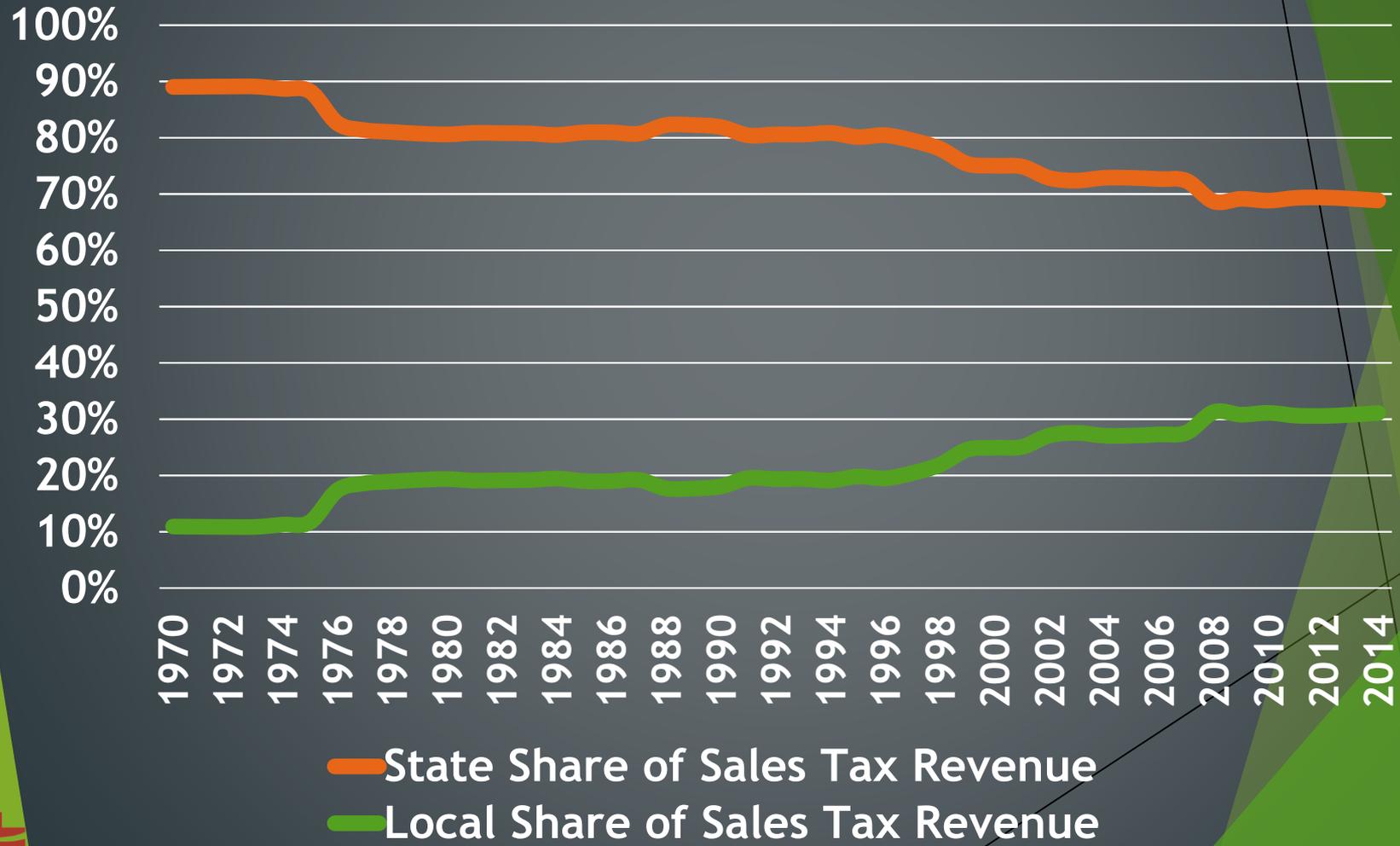
1970 to 2014



State Sales Tax Rate Local Sales Tax Rate (derived)



State and Local Sales and Use Tax Share of Revenues Over Time FY 1970 to FY 2014



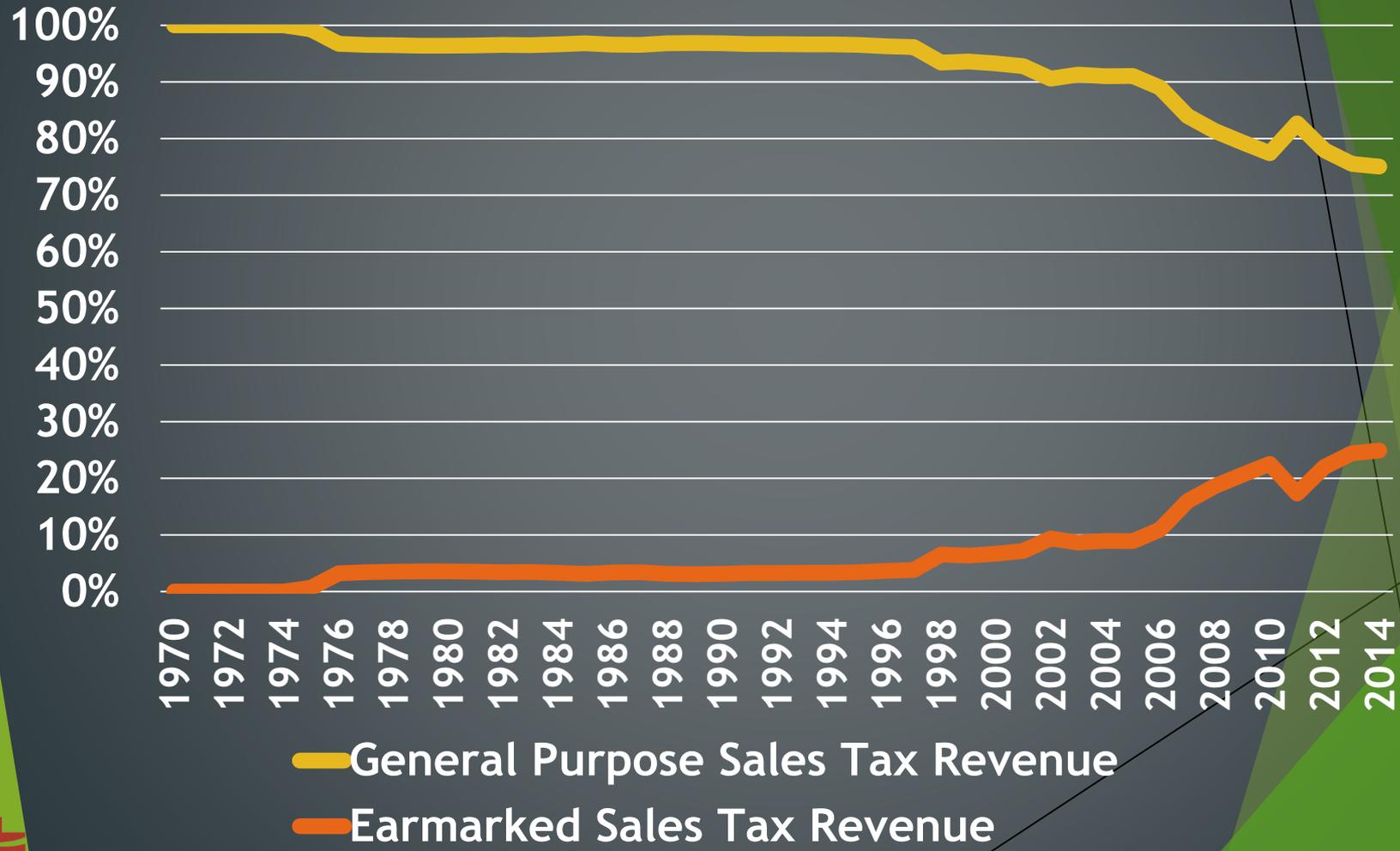
Source: Utah State Tax Commission



State and Local Sales and Use Tax

General Purpose and Earmarked Revenues Over Time

FY 1970 to FY 2014

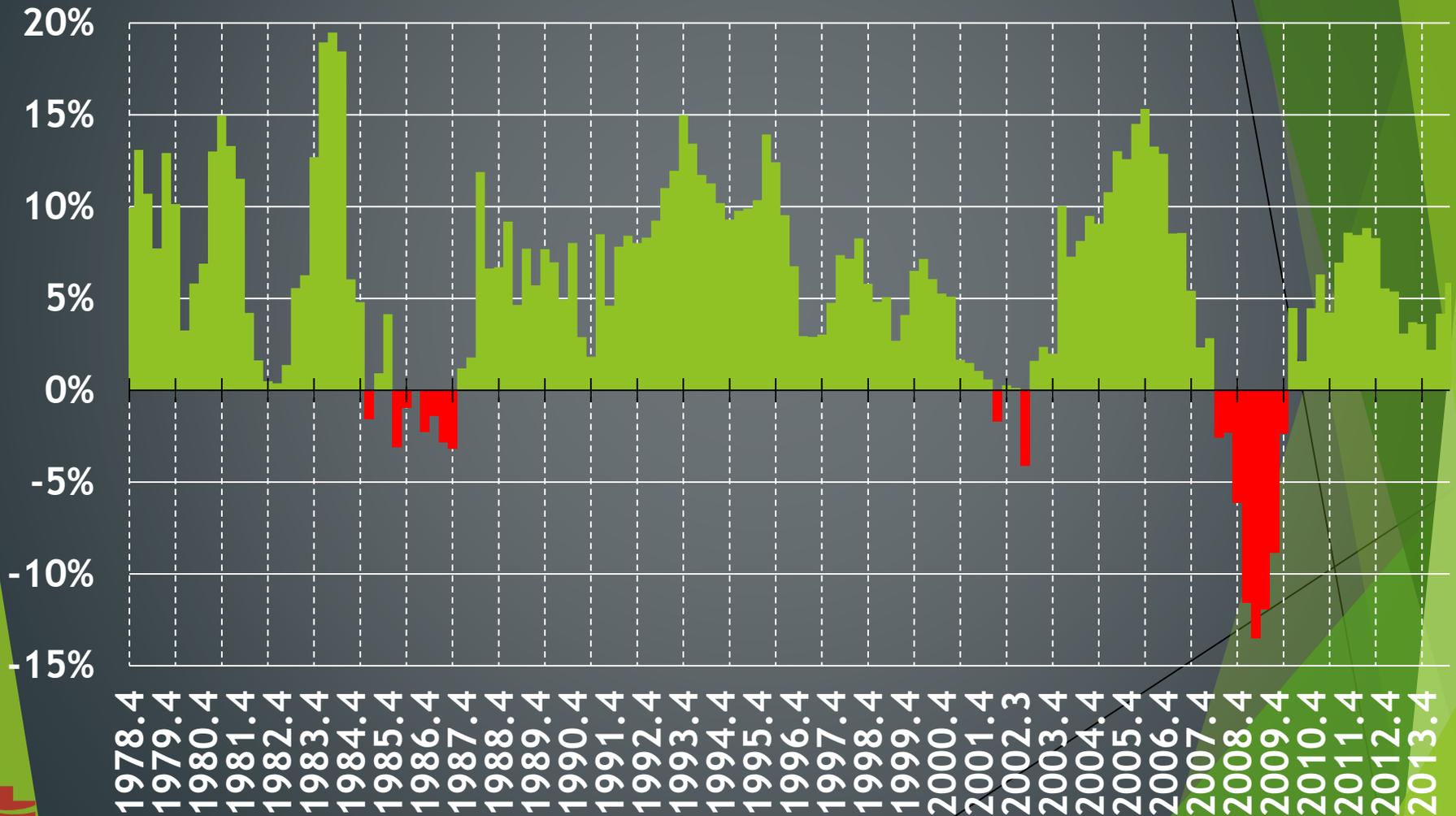


Source: Utah State Tax Commission

Sales & Use Tax Base

Year-Over Percent Change

FY 1978 Q4 to FY 2013 Q3

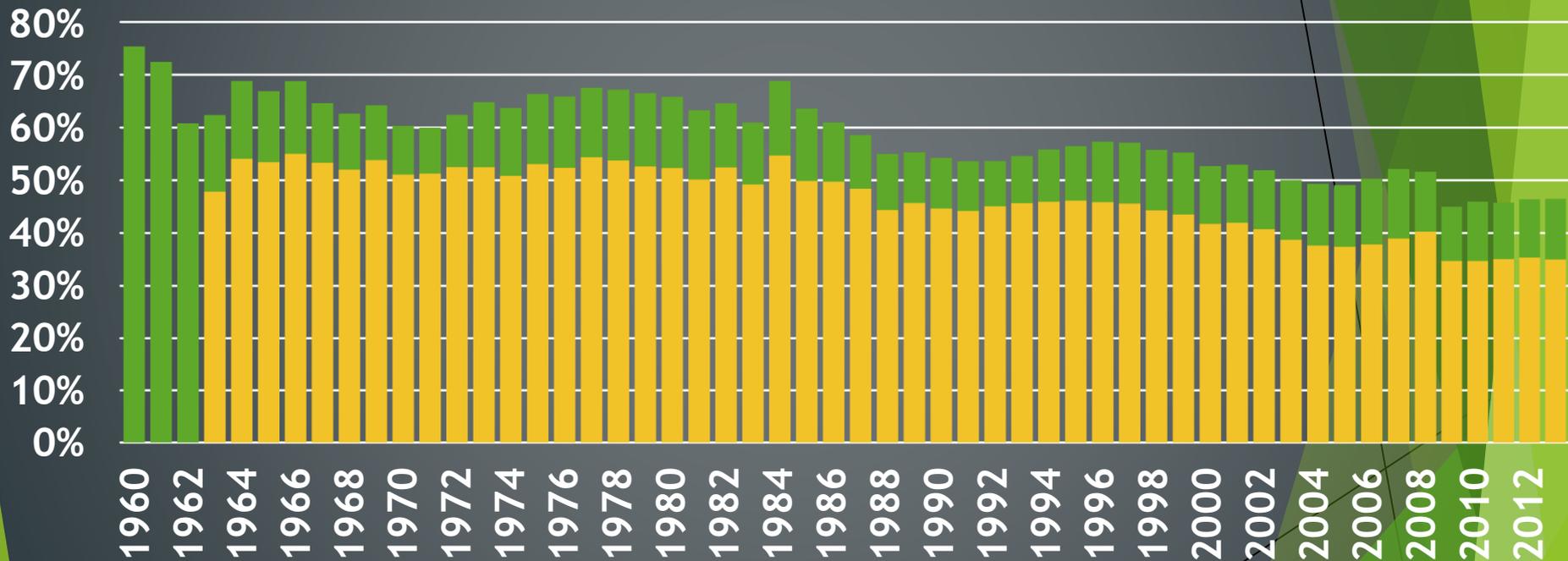


Source: Utah State Tax Commission

Sales & Use Tax Base

Gross Taxable Sales as a % of GDP and Personal Income 1960 to 2013

- Sales Tax Base as a % of Utah GDP
- 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
- Many services excluded from sales & use tax base

Cross-border shopping

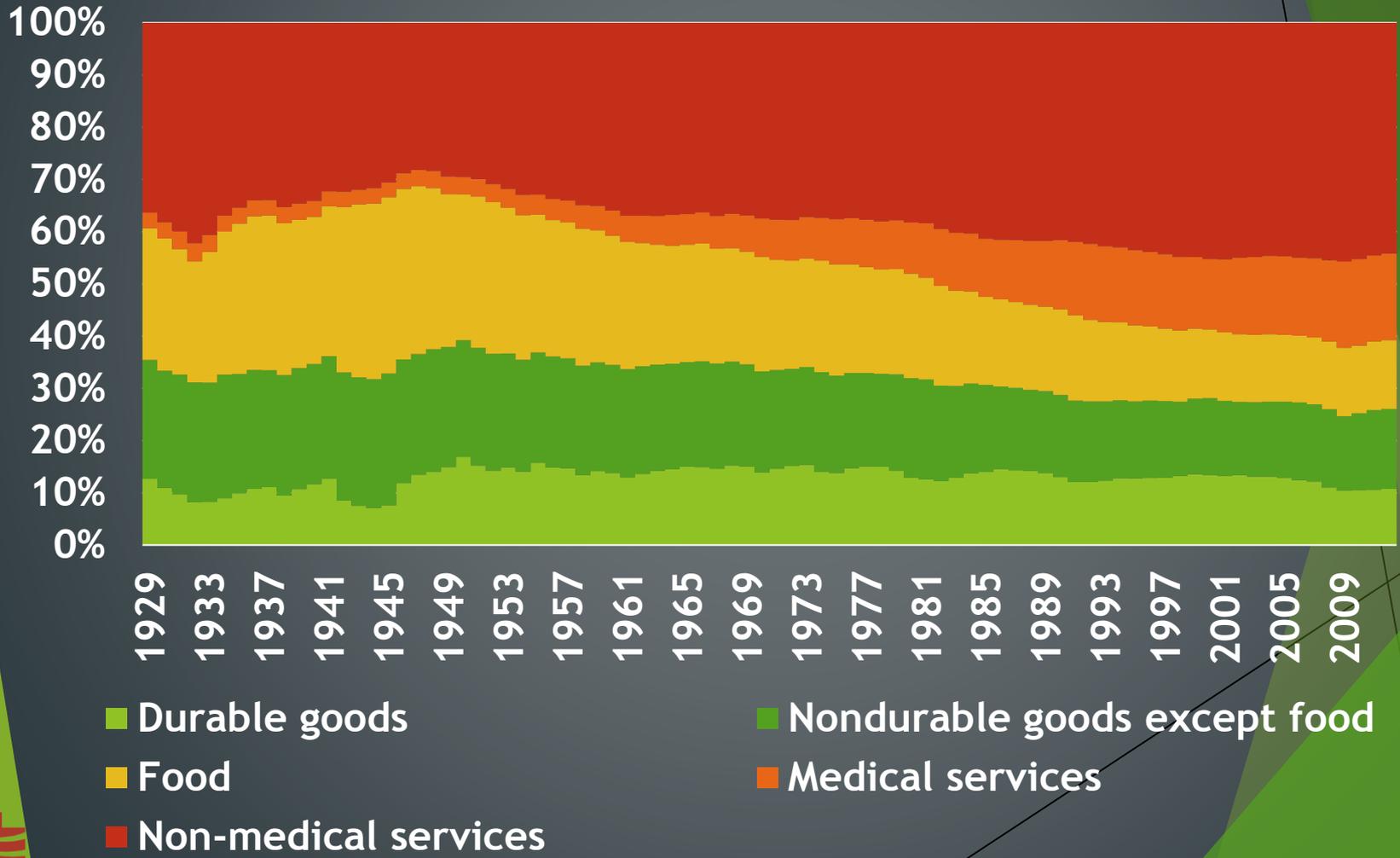
- Internet, phone, and catalogue purchases

Technological change

- Digitization of goods (software, books, music)

Legislated exemptions

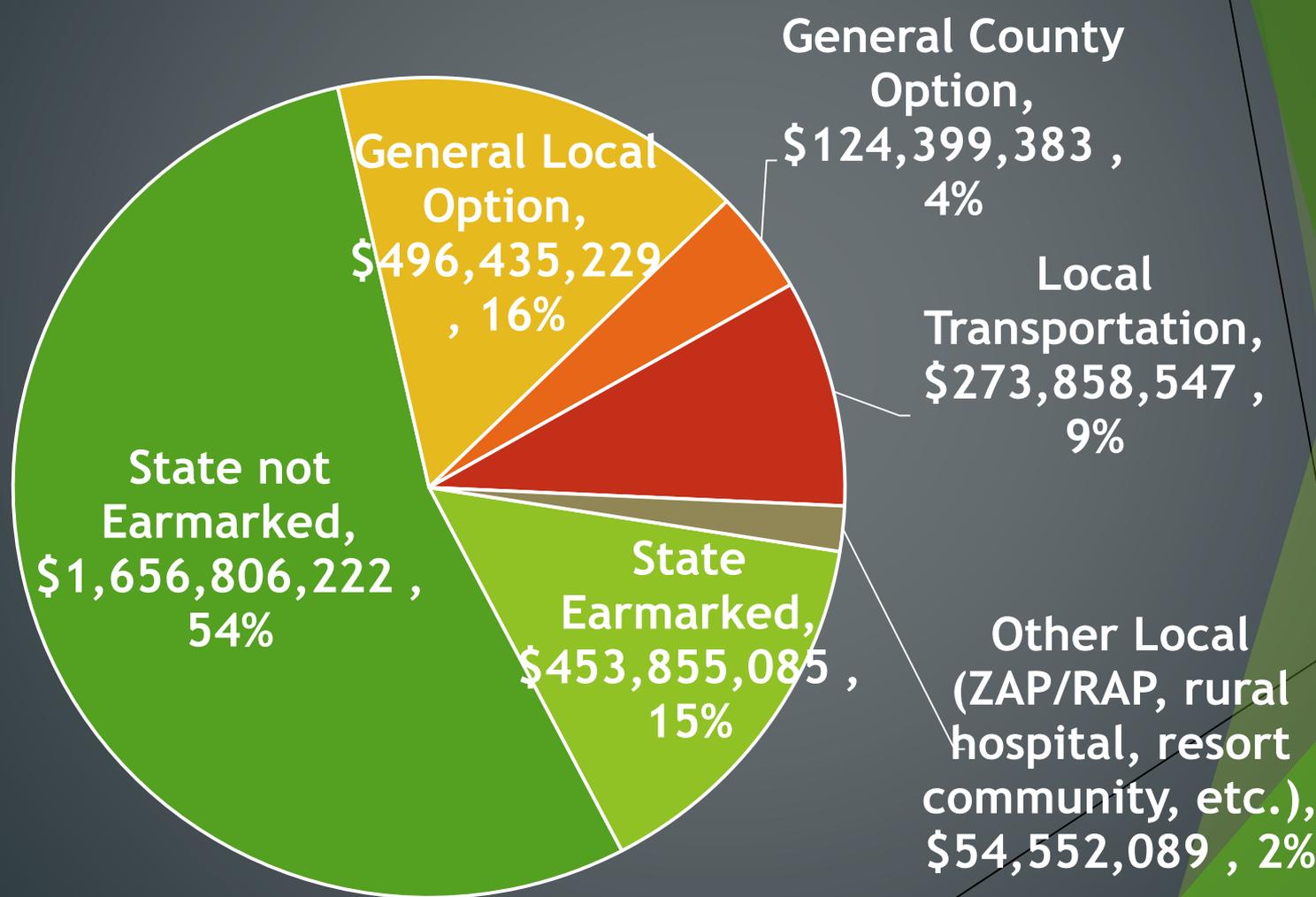
US Personal Consumption Expenditures 1929-2012



Sales and Use Tax Revenue

Where Does the Money Go?

FY 2014



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

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

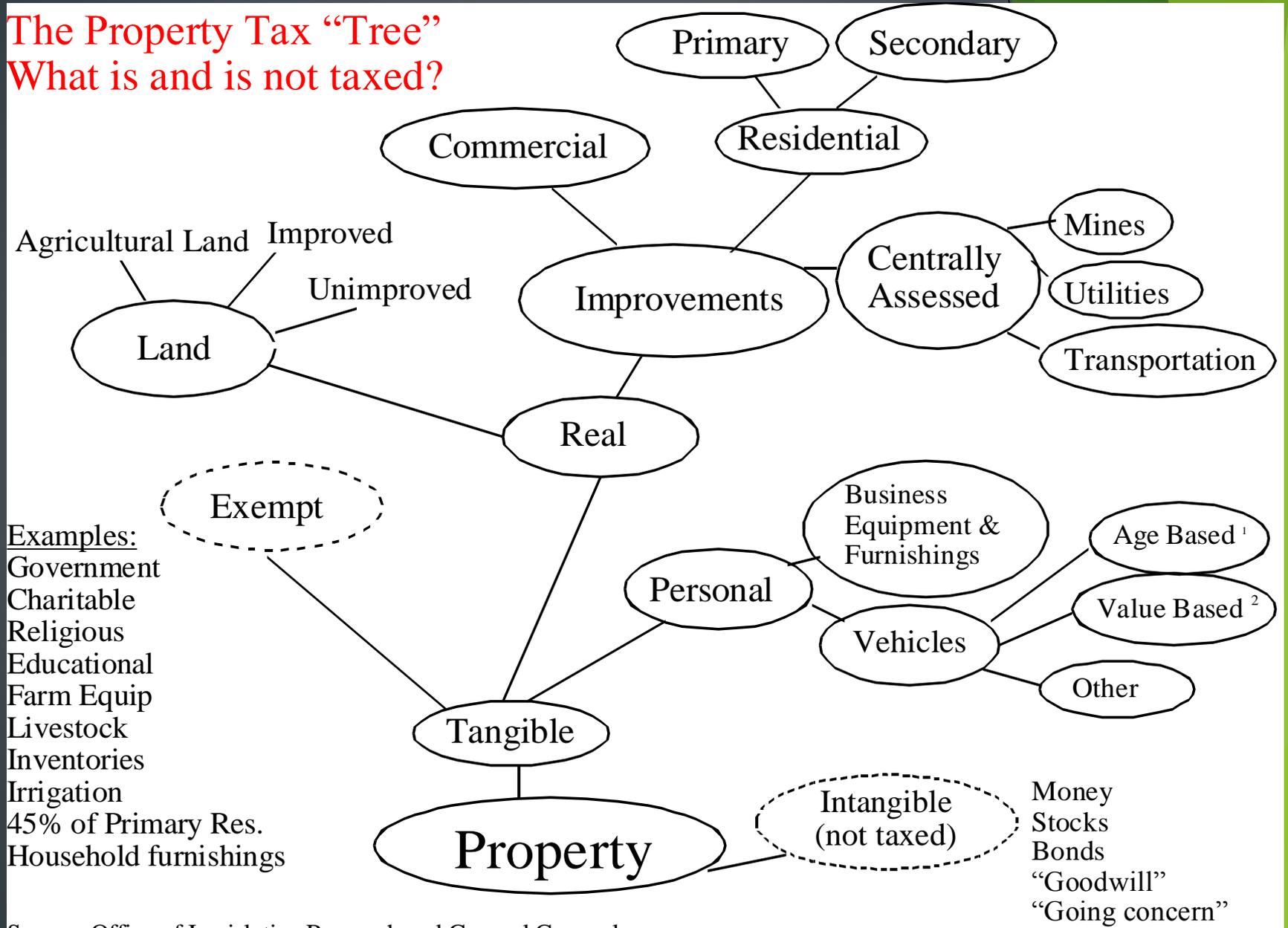
Household furnishings, furniture, and equipment

Tangible personal property that generates an inconsequential amount of revenue

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

The Property Tax “Tree”

What is and is not taxed?

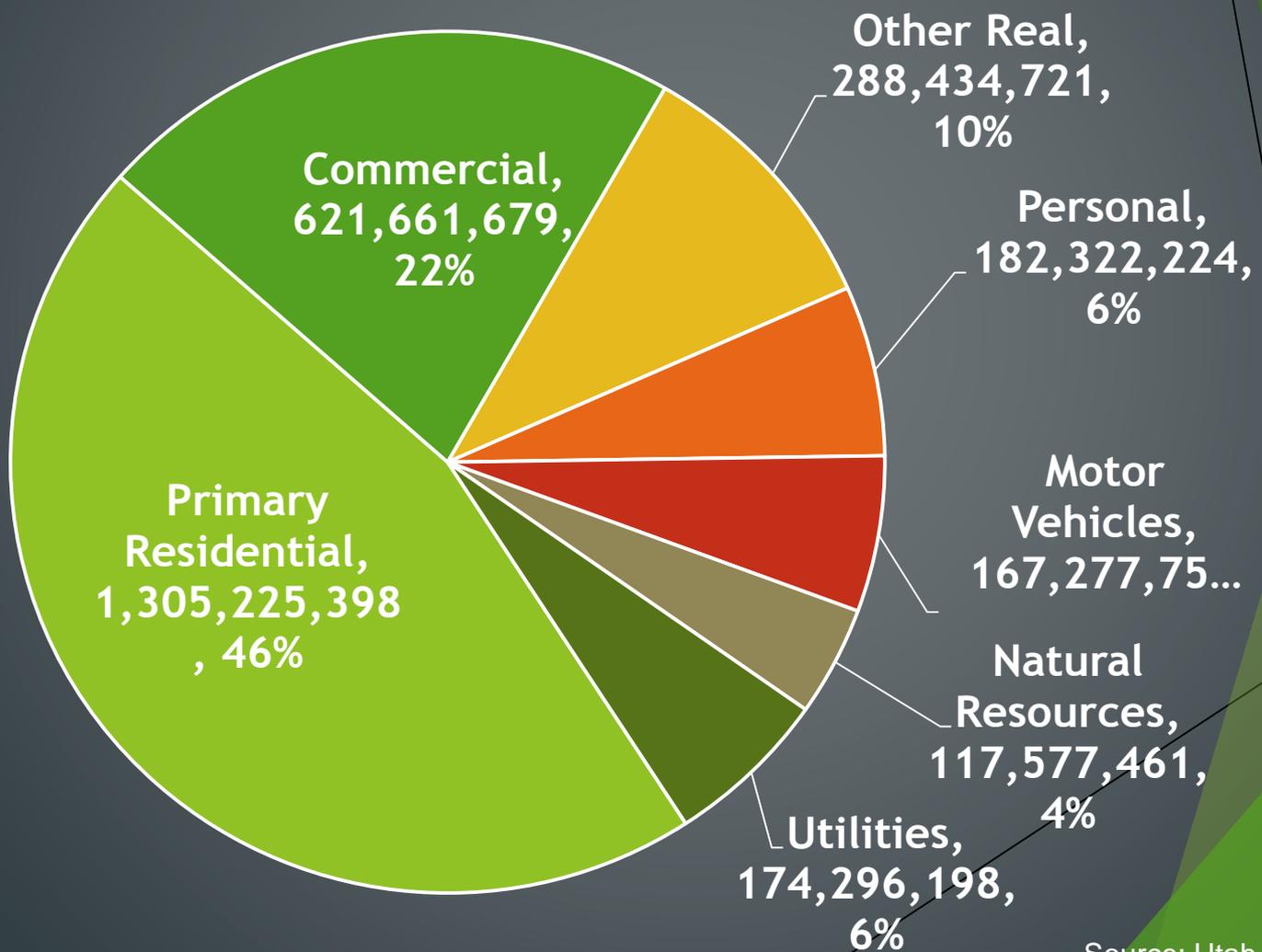


Source: Office of Legislative Research and General Counsel.

Property Taxes

Where Does the Money Come From?

2013 Tax Year



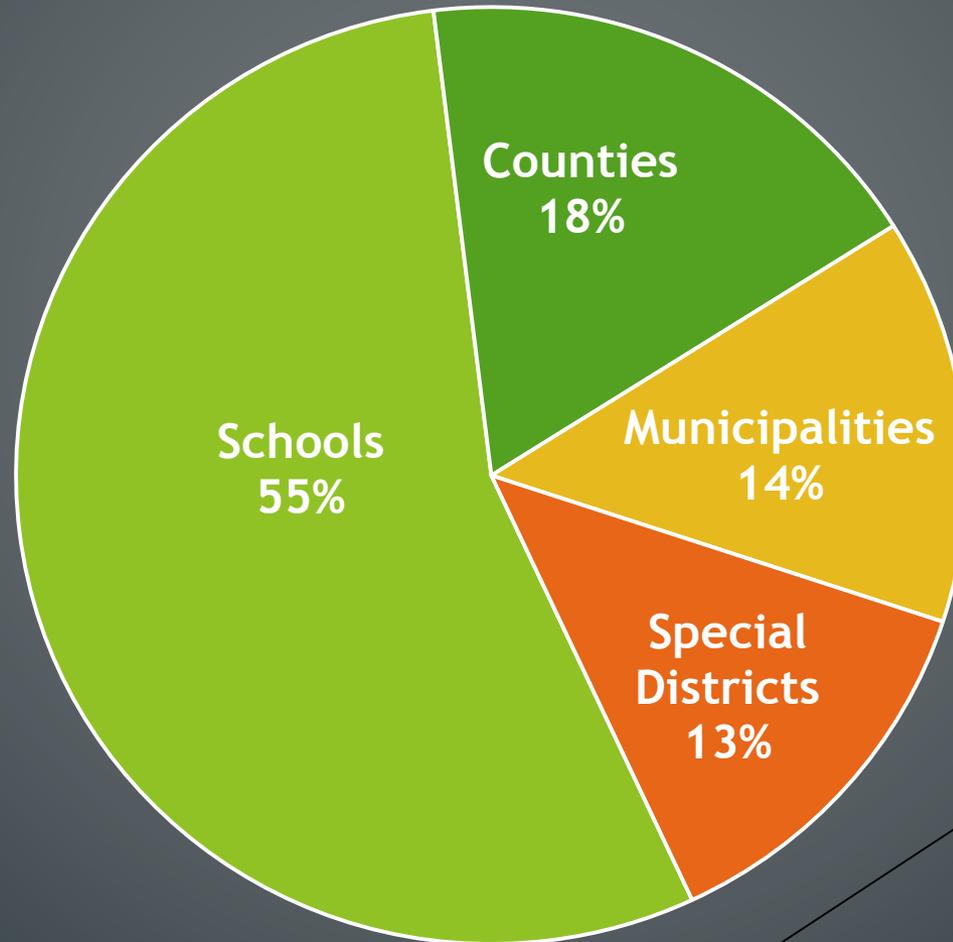
Source: Utah State Tax Commission



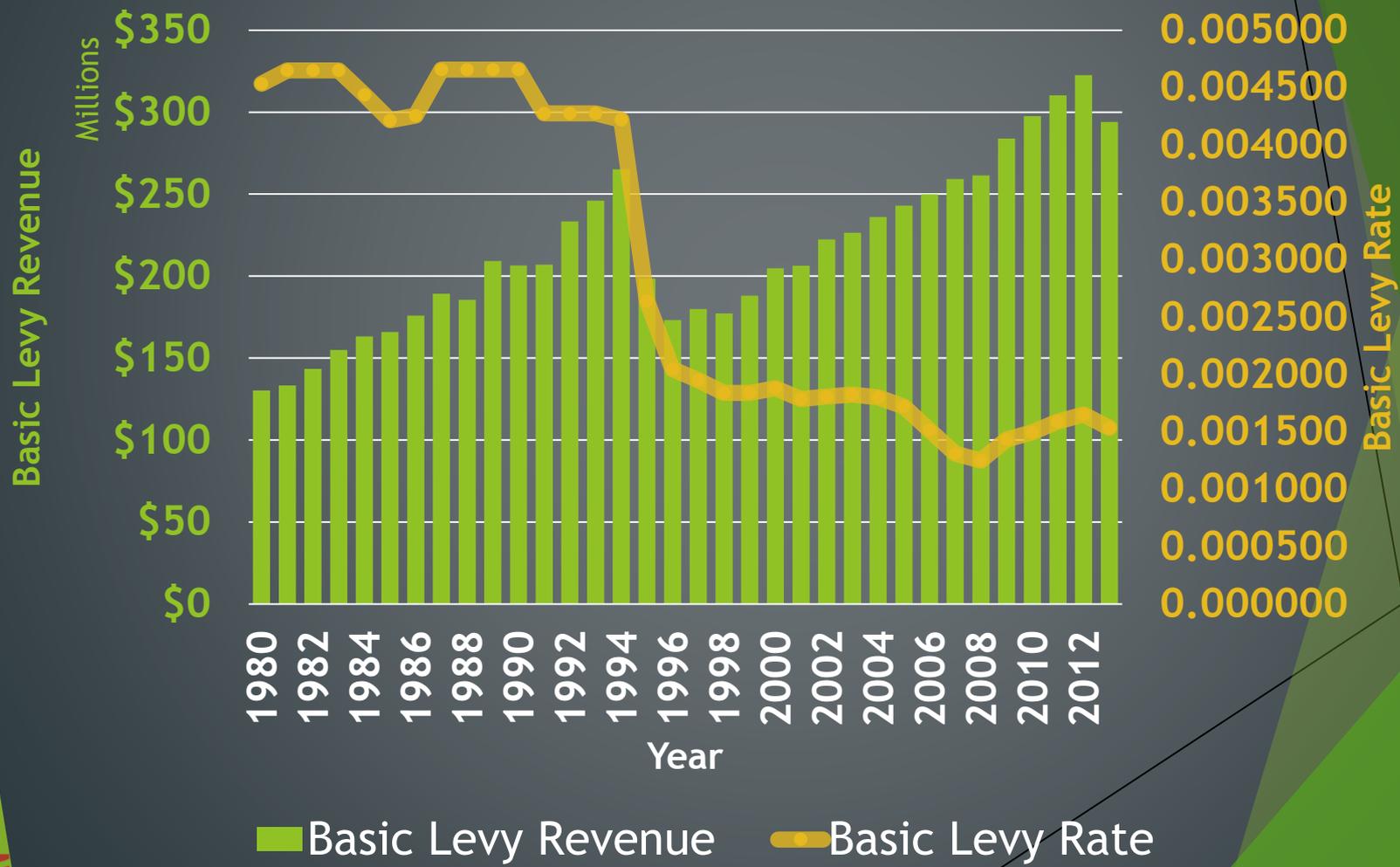
Property Taxes

Where Does the Money Go?

2013 Tax Year



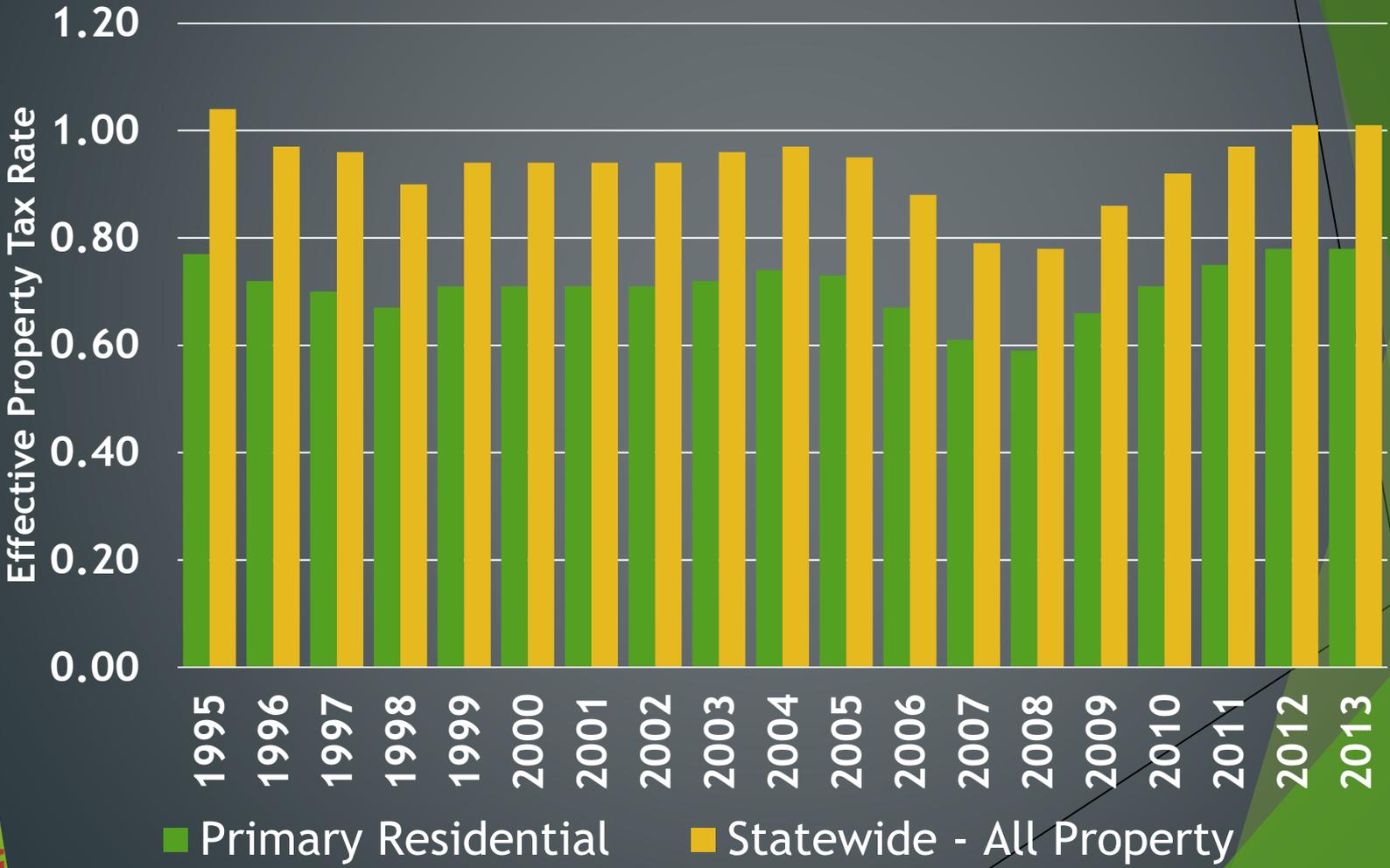
School Basic Levy History 1980-2013



Effective Property Tax Rates

Primary Residential Property and All Property

1995 - 2013



Source: Utah State Tax Commission

Why Does the Property Tax Matter?

Tax on wealth and capital

Source of revenue for schools and other local government entities

Oldest state and local tax

Stability

Transparent

Unpopular tax

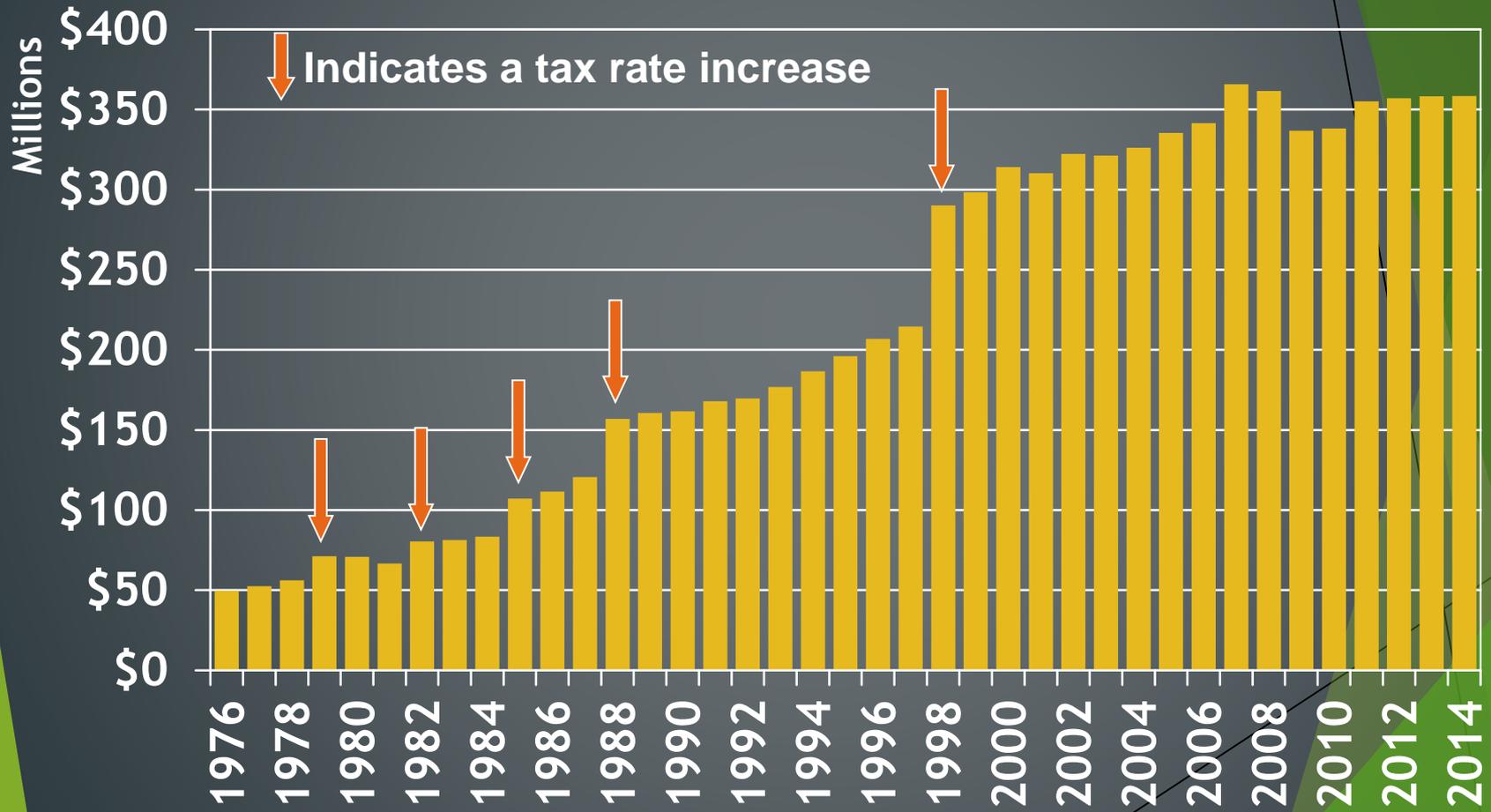
Provides political accountability

An ornate, multi-level legislative chamber with a balcony and murals. The room features a grand staircase, a balcony with a railing, and a large mural on the wall. The architecture is highly detailed with gold accents and classical motifs. The text "Fuel Taxes" and "Motor and Special Fuel" is overlaid on the left side of the image.

Fuel Taxes

Motor and Special Fuel

Combined Motor and Special Fuel Tax Revenue FY 1976 to FY 2014



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

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