

Utah in Context

September 17, 2019

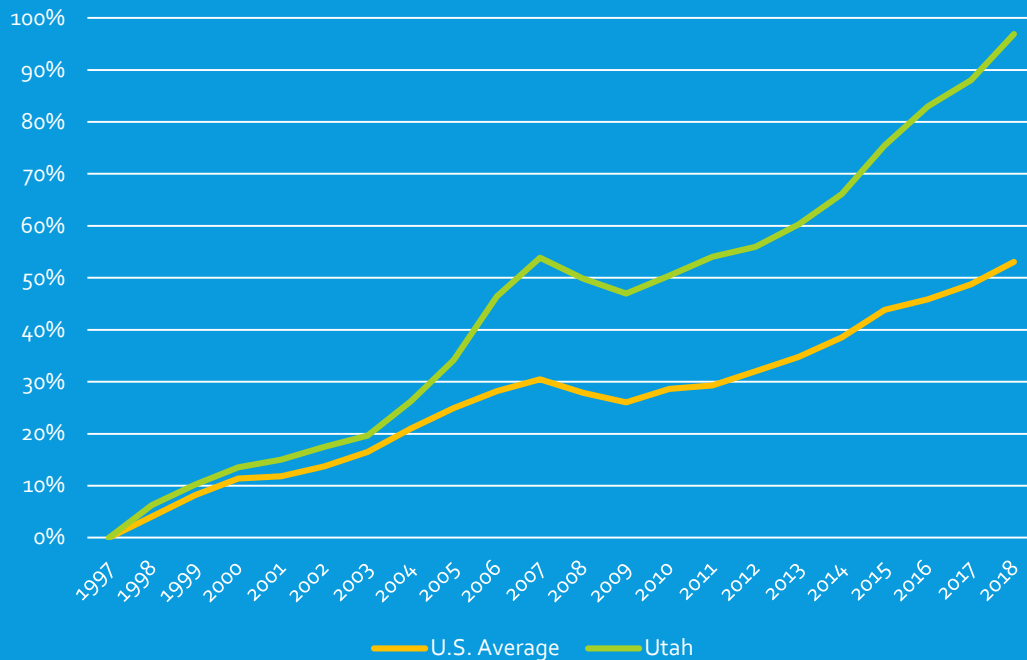
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A GROWING ECONOMY

GDP GROWTH, UTAH AND PEERS, 1997-2018

GDP Growth, 1997-2018



State	Growth
Utah	+97%
U.S. Average	+53%
Arizona	+68%
Colorado	+73%
Idaho	+68%
Nevada	+75%
New Mexico	+21%
Wyoming	+71%

UNIQUE FEATURES

OF UTAH'S ECONOMY AND TAX CODE

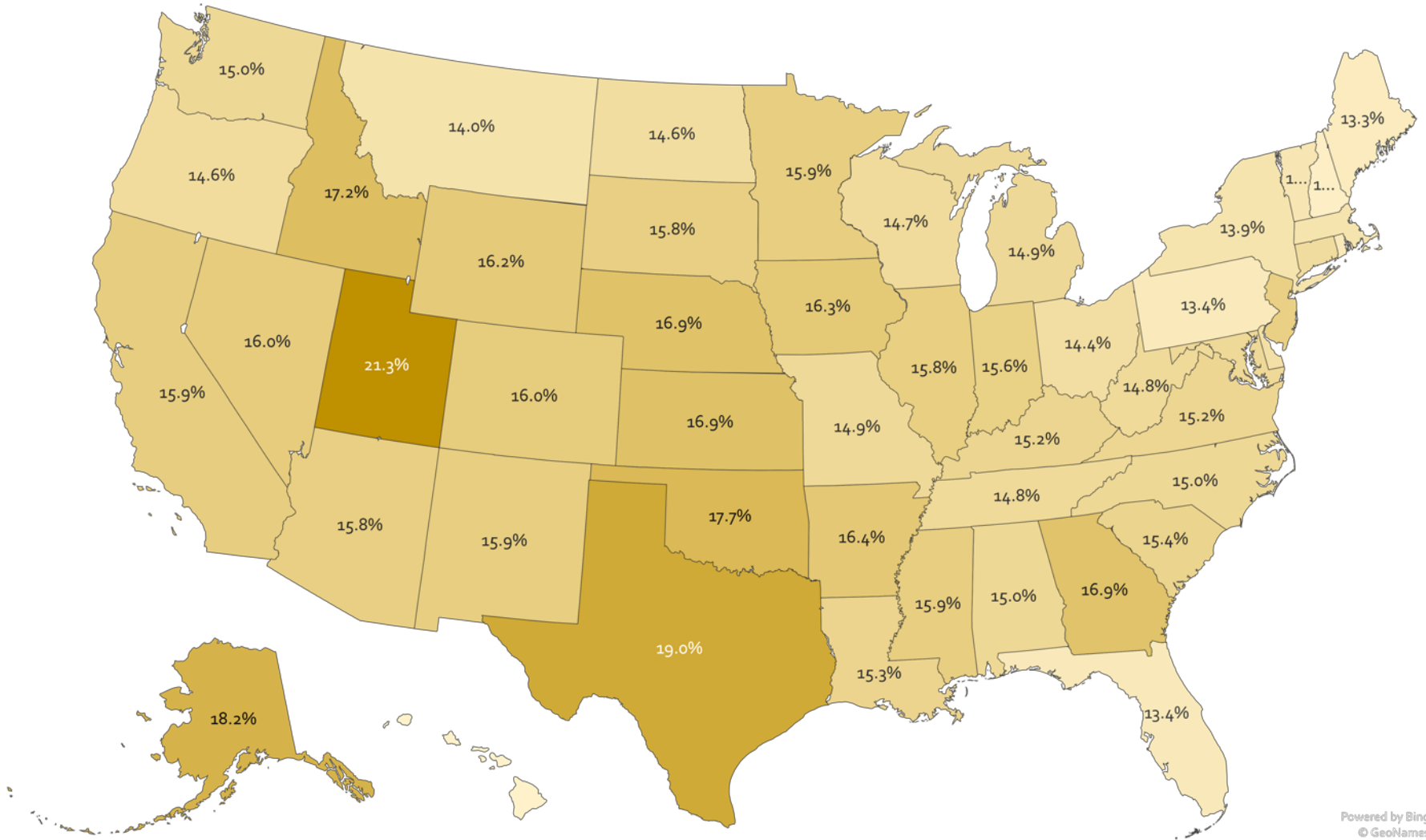
Earmarking of Tax Revenues

- Utah earmarks 100% of individual and corporate income taxes, about 32% of sales tax
- Alabama earmarks 98% of PIT, but not CIT
- Massachusetts earmarks 40% of PIT and CIT
- Only five other states earmark more than 10% of their PIT

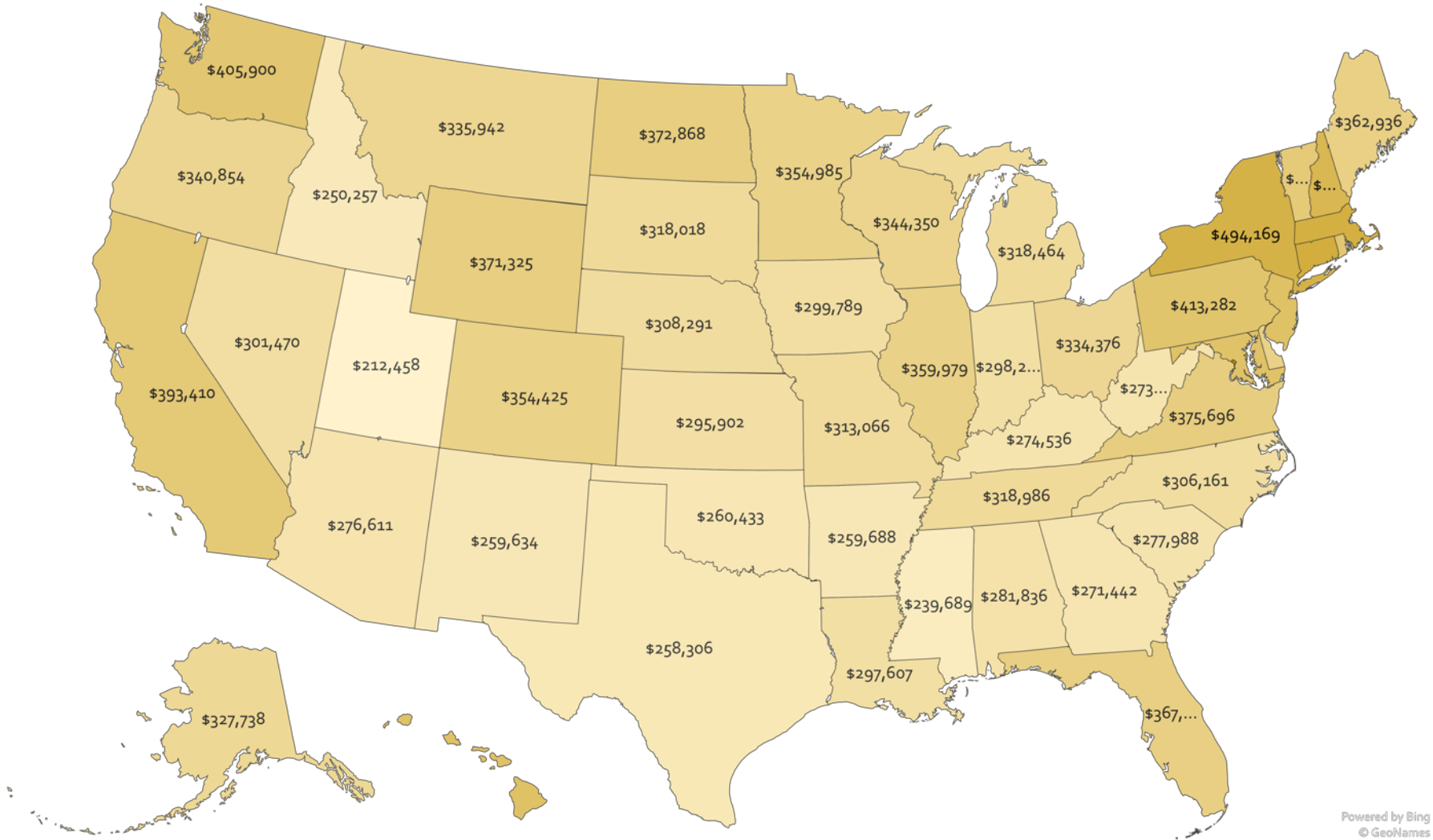
Density and Land Ownership

- Less than a third of Utah's land is privately owned
- Three-fourths of population is concentrated in four most populous Wasatch Front counties
- Eighty-five percent of taxable value concentrated in six counties

Public School Students as a Percentage of State Population



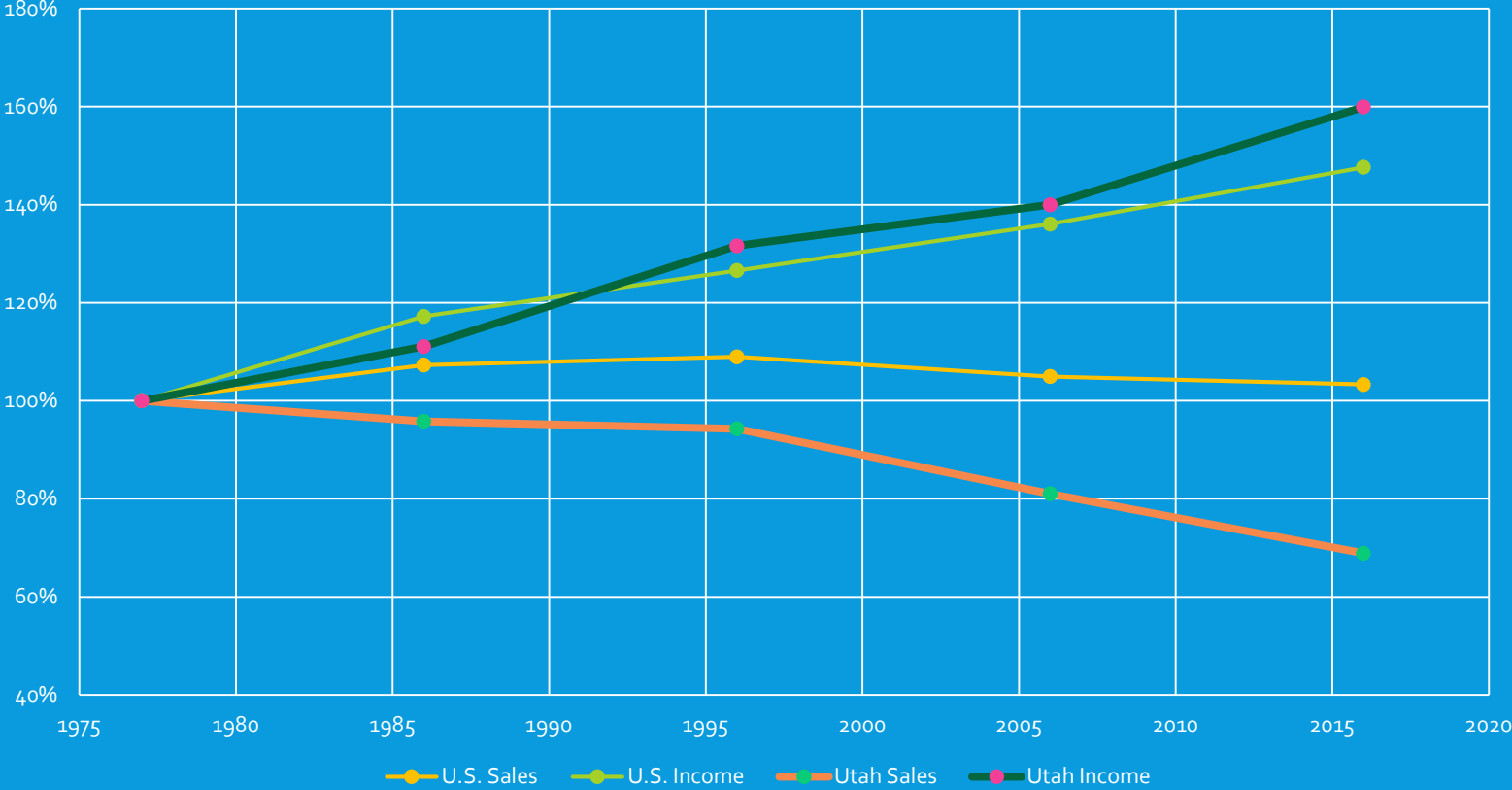
State Personal Income Per Public School Student



UTAH'S ERODING SALES TAX

COMPARED TO U.S. AVERAGES

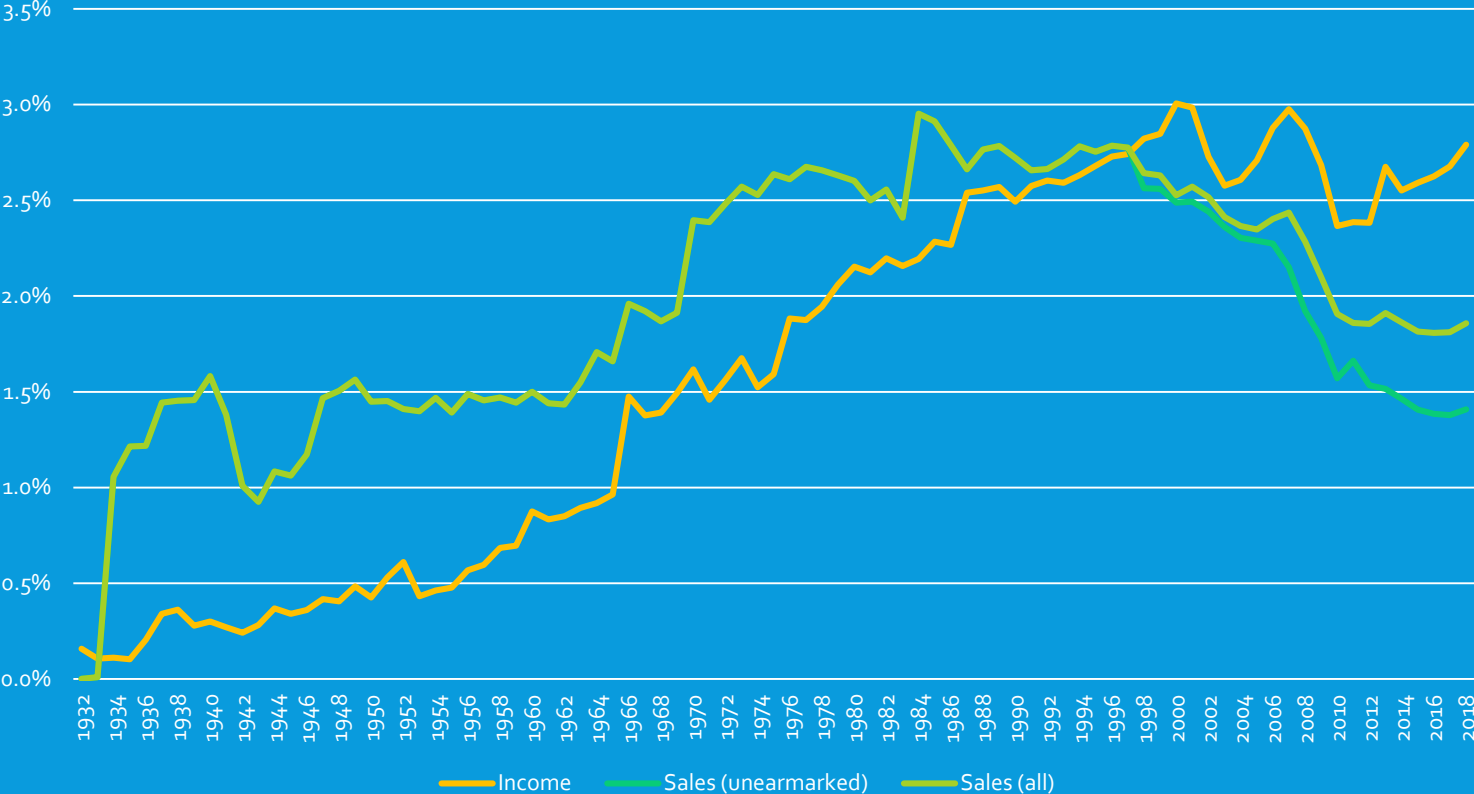
% Change in Share of Total Tax Collections



SALES & INCOME TAX FLIP

PIT NOW GENERATES MORE REVENUE

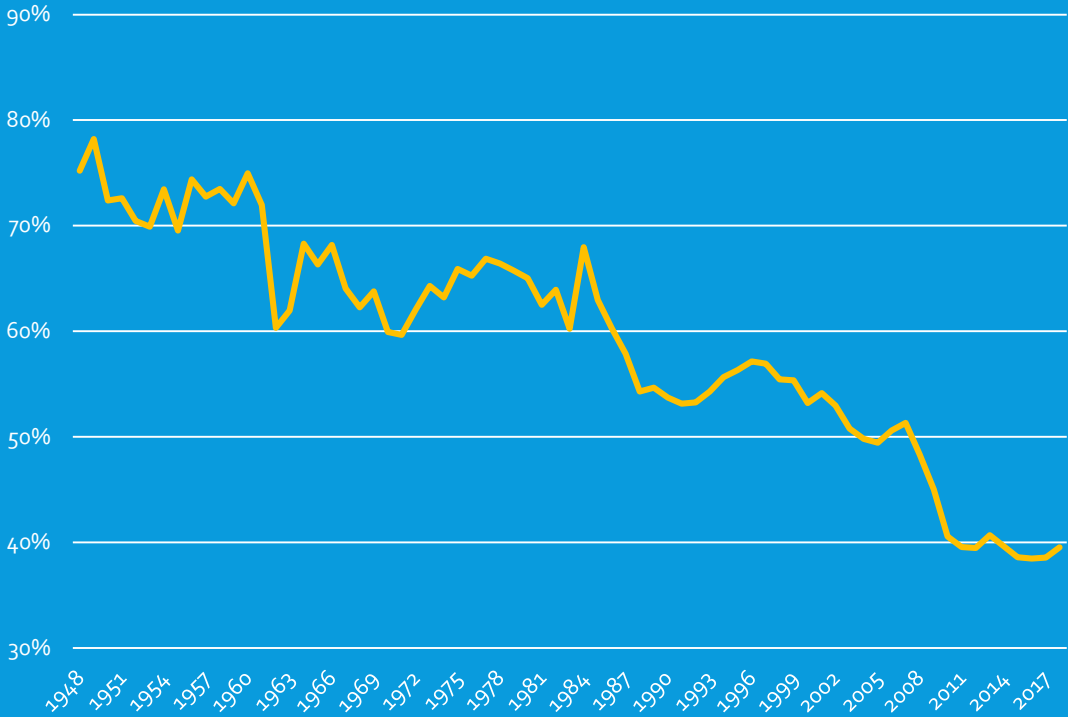
Income & Sales Tax Collections as a Percentage of State Income



SALES TAX BASE DECLINE

BARELY HALF ITS POST-WAR BREADTH

Utah's Sales Tax Base as a Percentage of Personal Income



State	Growth
Utah	41%
Arizona	37%
Colorado	34%
Idaho	40%
Nevada	54%
New Mexico	58%
Wyoming	45%

BASE BROADENING

SALES TAX EXPANSION IN OTHER STATES

Kentucky

- Personal services, including landscaping, pet care, small animal veterinary, fitness and recreational, diet and weight loss, limousine, bowling, campgrounds, extended warranties

North Carolina

- Services where providers already had a SUT obligation—installation, repair, maintenance, service charges

Iowa

- The new economy: digital goods, software as a service, ride sharing, and certain other personal services

District of Columbia

- Personal services linked to tangible goods or real property

WHY IT MATTERS

SHOULD WE CARE ABOUT BASE EROSION?

Promoting Economic Growth

- Broad bases and lower rates more equitable and economically efficient
- Shifts revenue toward less pro-growth PIT

Ensuring Stability

- Consumption taxes are economically efficient and *can* be stable, but current design isn't
- If sales tax is unreliable compared to earmarked taxes, can lead to poor tax policy decisions during a recession

MORE INFORMATION

“MODERNIZING UTAH’S SALES TAX” BOOKLET

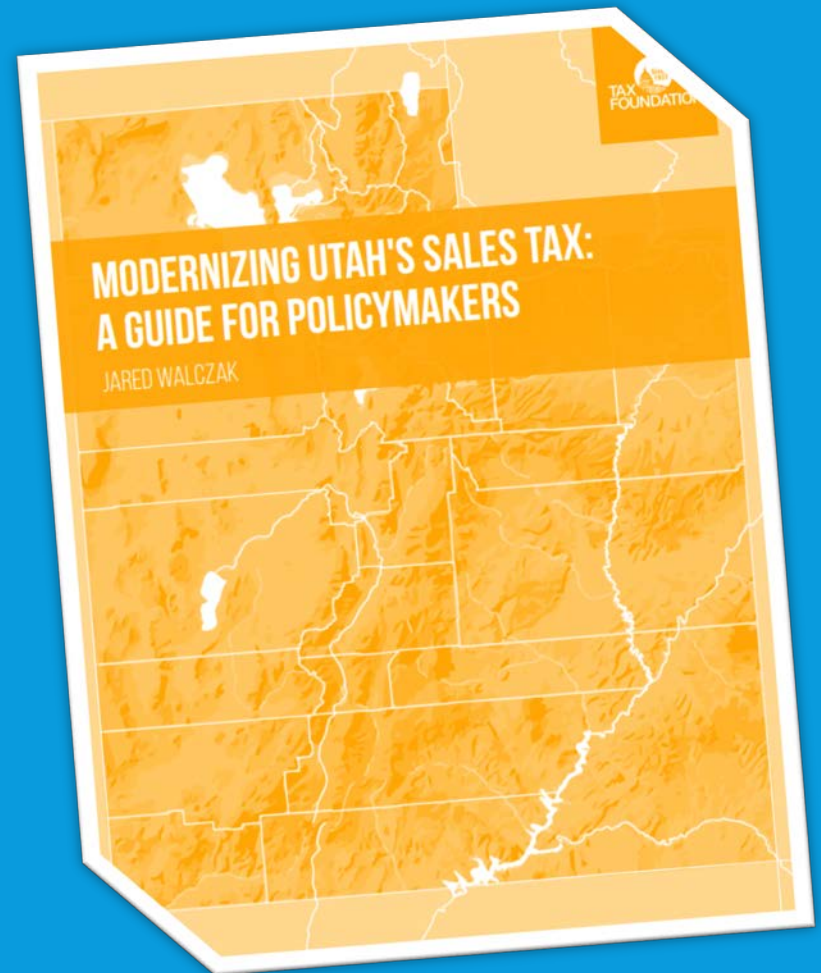
Utah does not have a revenue problem, but it does face a problem of imbalance. Shifting consumption patterns are eroding the sales tax, with untaxed services assuming an ever-greater share of personal consumption. Rates have risen over time to keep up, and the income tax—which is considerably less pro-growth than the sales tax and is fully “earmarked”—has emerged as the dominant state tax.

Utah’s sales tax breadth is barely half what it was at its peak shortly after the end of World War II, and the percentage of personal consumption subject to the tax has declined from nearly 50 percent to just 35 percent over the past 20 years. A modernization of Utah’s sales tax is long overdue—for fairness, revenue stability, and a rebalancing of the tax code to secure the future of one of the more economically efficient forms of taxation available to states.

In this publication, we make the case for sales tax modernization. We also delve into vital questions of policy design. We explore why and how to avoid the taxation of intermediate transactions (business inputs), which causes multiple layers of tax to be embedded in purchase prices. We examine ways to address the preliminary revenue uncertainty associated with base broadening, as well as options for including local sales taxes in any reforms. We offer suggestions for right-sizing the sales tax base, as well as ideas on how best to rebalance the overall revenue picture to encourage economic growth.

Conditions are ripe for reform. It is our hope that this analysis can help inform deliberations about the structure and implementation of reforms that benefit all Utahns.

<https://taxfoundation.org/modernizing-utah-sales-tax/>



Questions?

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