

The Case Against Cutting Utah's Income Tax Rate

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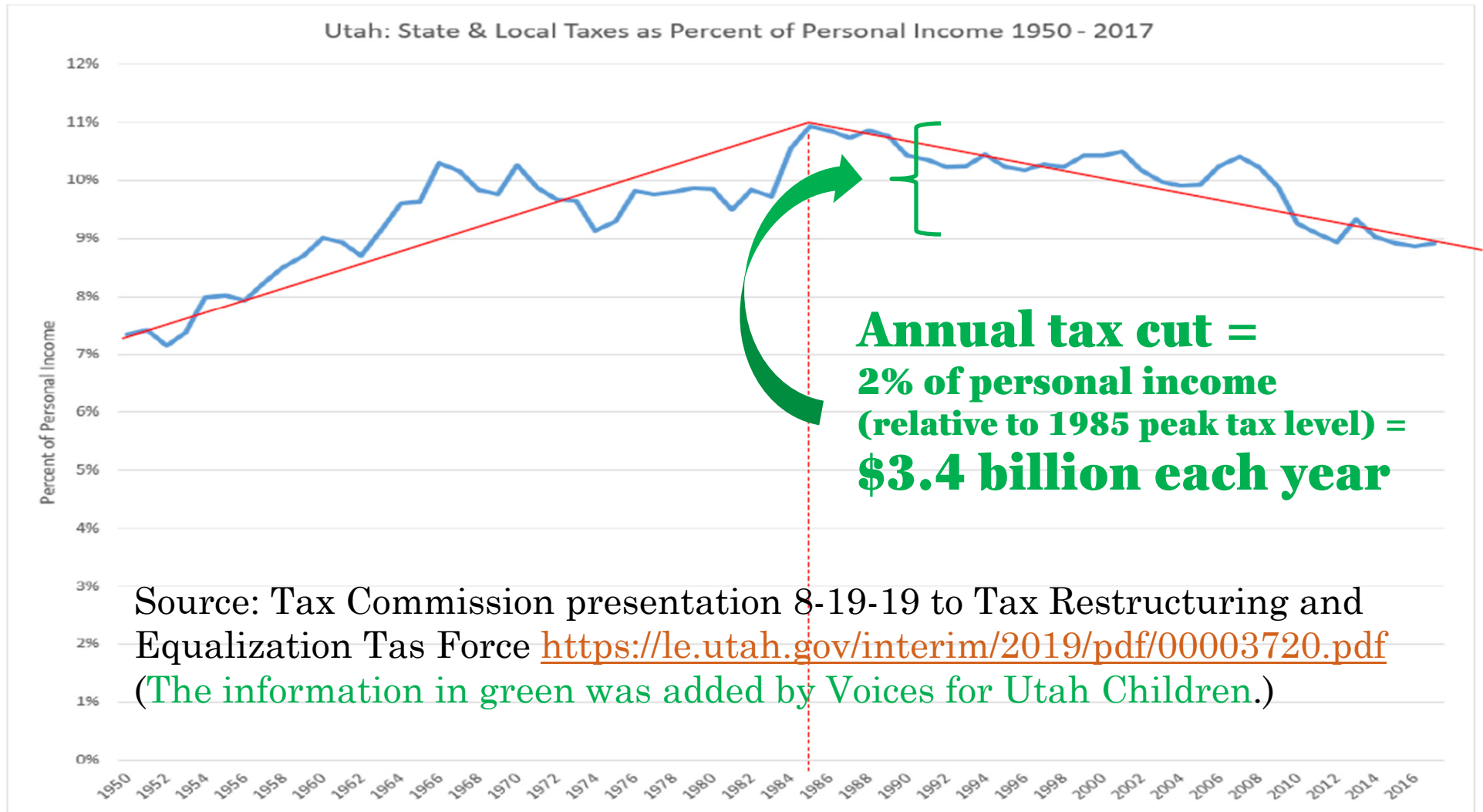


1) OVERALL TAX REVENUES:

What is the history of Utah's tax level?

Are taxes in Utah higher or lower than in the past?

Overall Utah Tax Burden



Source: Utah State Tax Commissioner Larry Walters

How much have we cut Utah taxes?

Since 1985, we've passed tax breaks that now add up to **\$3.4 billion each year** – a 17% cut to Utah's revenues, leaving us with \$17 billion instead of >\$20 billion in FY22.

In other words, if Utahns still paid 1985 tax rates – counting all state and local taxes – on their current incomes, Utah state and local governments would receive an additional \$3.4 billion in revenue every year.

Is Utah a “slow-motion Kansas”?

2012: Kansas cuts taxes by 15% overnight

2012-2017: Political backlash results from mediocre economic performance and severe cutbacks in education, transportation, and other vital public services.

2017: Kansas legislature reverses the tax cuts, restores public revenues and even overrides the Governor’s veto to do it.



The Wichita Eagle

POLITICS & GOVERNMENT

The Brownback Legacy: Tax cut push led to sharp backlash

If Gov. Sam Brownback resigns his position to join the Dept of State, he will leave behind a state where many now see his legacy more as a scar than a triumph.

He became a highly-divisive figure, drawing fire from both Democrats, moderate Republicans and some conservative Republicans as well. For much of his second term, polls ranked his popularity near the bottom of governors nationally.

The Legislature rolled back his signature 2012 tax cuts in early June, raising taxes in an effort to end a years-long cycle of revenue not matching expenses. Lawmakers said it was time to right the ship of state, and they passed a bill over Brownback’s veto to generate \$1.2 billion in new revenue over two years.

Even some who initially embraced the 2012 policy – like Senate President Susan Wagle, a Wichita Republican who voted against the 2017 tax increases – say Brownback’s experiment failed.

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We all like paying lower taxes, but....

Is it possible to have too much of a good thing?

One of the greatest economic thinkers Utah ever produced, business guru **Clayton Christensen**, who passed away in 2020, wrote a decade ago in the Harvard Business Review, *“If you study the root causes of business disasters, over and over you’ll find this predisposition toward endeavors that offer immediate gratification.”*

Are the dangers of short-term thinking any less when it comes to government policy?

Tremendous unmet needs in critical areas of state responsibility:

- **Education**: Better bang for the buck than other states, yet....
 - High school grad rates below national when adj for demographics
 - Larger majority-minority gaps than nationally
 - College completion behind US among younger Utahns (age 25-34)
 - Kindergarten: \$52.5 million to make full-day K available to all
 - Pre-K and Child Care: Can cost more than college, yet pay is too low
- **Public Health**:
 - 82,000 uninsured children pre-pandemic
 - rank 5th worst in US for uninsured children & last for Latino children
- **Infrastructure** – billions in projected unfunded needs
- **Poverty** prevention through early intervention, affordable housing, etc.
- **Social services** like mental health and substance abuse treatment, disability services, domestic violence, seniors, etc.
- **Air quality**
- ...and many more



This should be the top priority for Utah's Legislature

By A. Scott Anderson, Contributor | Jan 23, 2020, 9:00am MST

As each Utah legislative session proceeds, a theme seems to emerge, whether intended or not. I hope the theme of the session that starts next Monday will be, "Investing in Utah's future."

Nothing is more important than preparing for, and investing in, the rapid growth that is occurring in Utah.

Investing in Utah's future doesn't just mean spending more money, although money is an important component. It also means putting the policies in place that will help Utah grow in such a way that preserves our enviable quality of life. Growth is inevitable, but we must plan for it and invest in it so that it doesn't overload our highways and infrastructure, pollute our air and overwhelm our schools. We must plan for growth that produces good jobs that support a family.

Most of these suggestions require additional funding. I recognize that funding resources are limited and, while many projects are worthy, everything can't be funded. But it's also important to remember that Utah taxes are relatively low — lower now than in many years. Investments in education, clean air and infrastructure will produce good jobs and preserve Utah's strong economy.



utahpolicy.com/archive/25728-guest-opinion-rapid-growth-means-we-need-new-funding-o



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Guest opinion: Rapid growth means we need new funding options

Staff • December 11, 2020 • Last updated: May 4, 2021

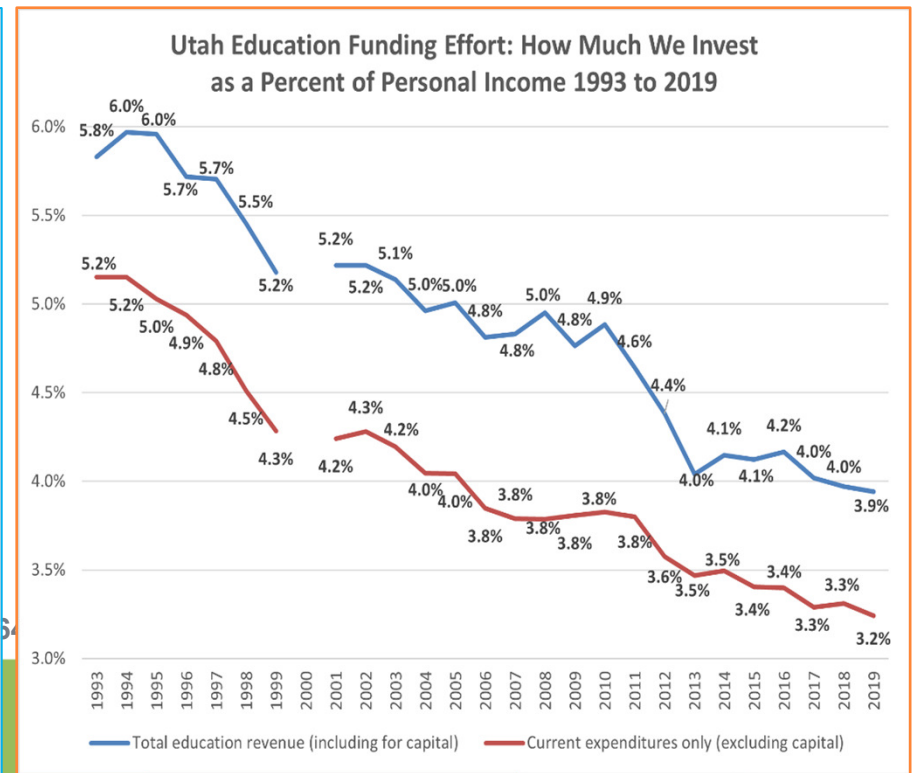
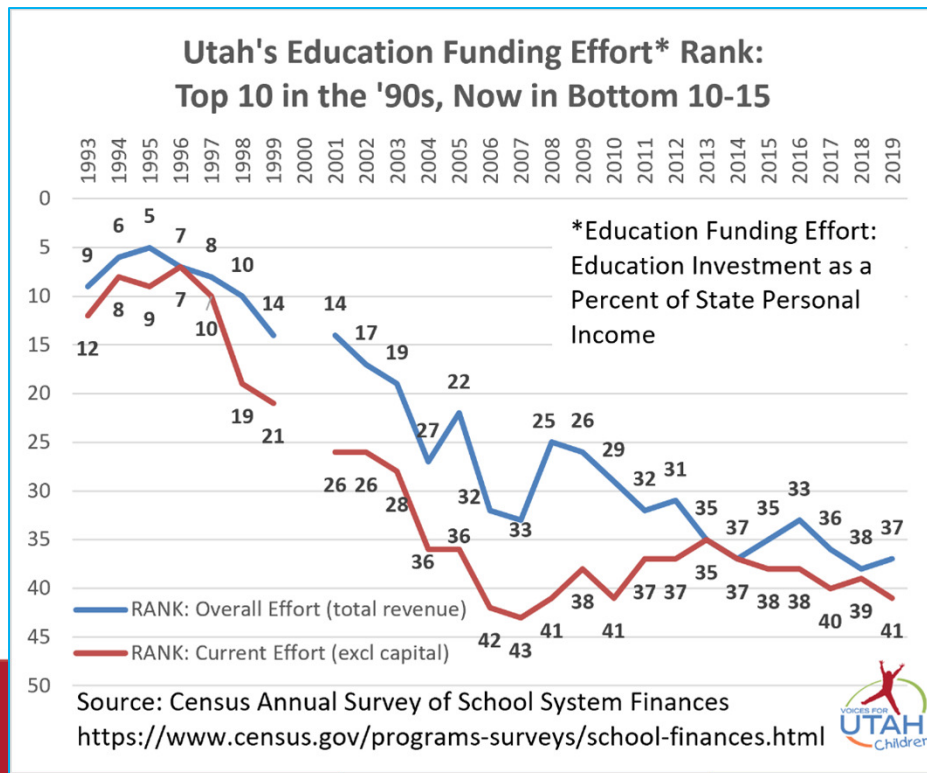
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2021 release of 2019 Census data on state education investment

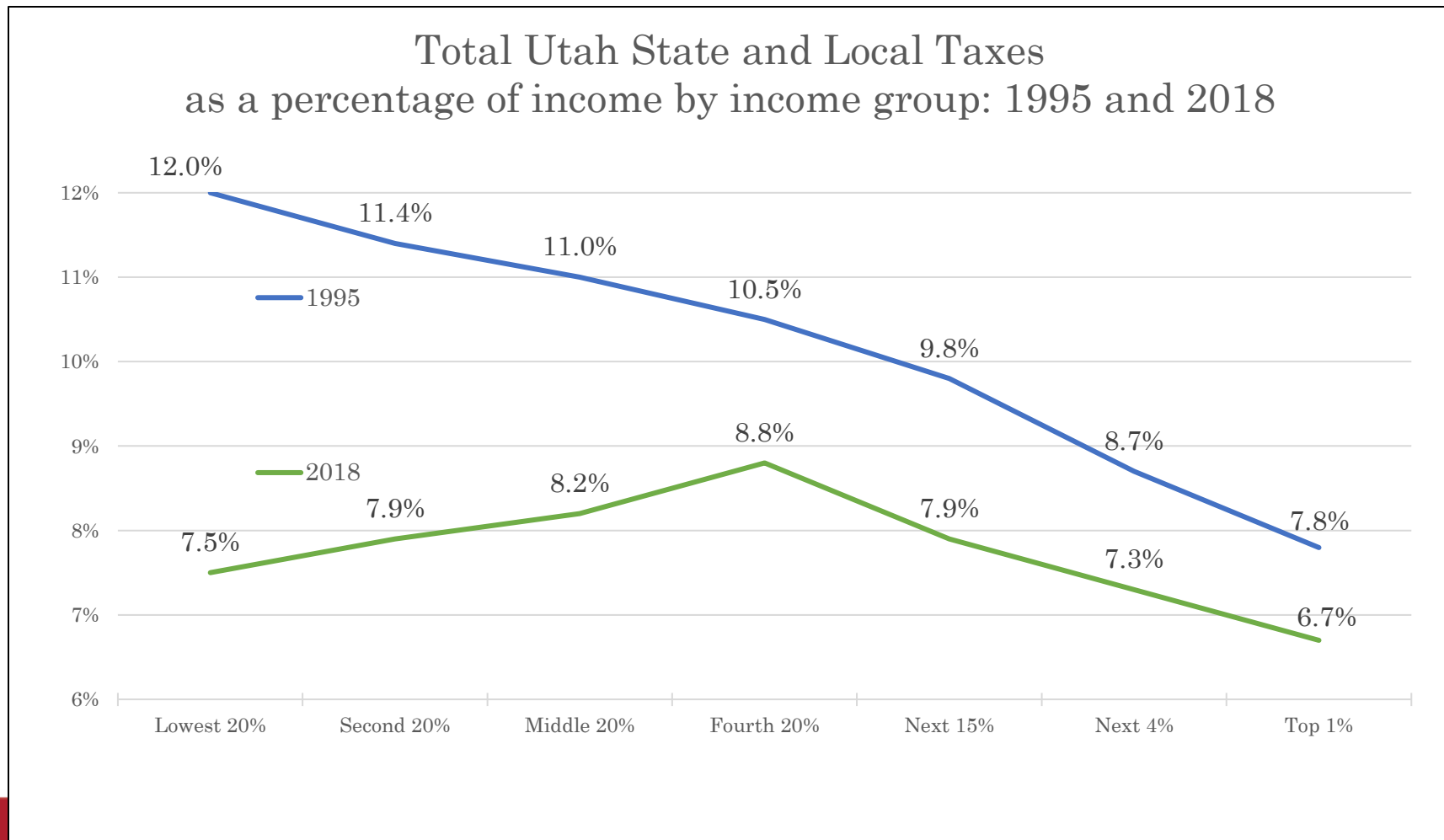
Good news: **We're #49!** Census Bureau Annual Survey of School System Finances 2018-19 reveals that, for the 1st time since 1988, Utah has defeated Idaho in the fight for 49th place. Utah outspent Idaho in FY2019 by \$29 per pupil: \$8,014 vs \$7,985 (compared to US avg of \$13,187).

Bad news: Utah education funding effort continues to fall:

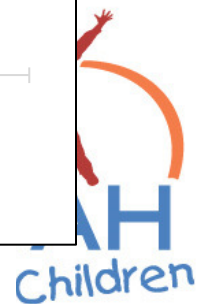


2) TAX FAIRNESS: Is the overall tax structure regressive? How many Utahns are we taxing into – or deeper into – poverty every year?

Utah's overall tax structure is regressive: The highest income Utahns pay a lower overall rate – though we've improved since 1995



<https://www.utahchildren.org/newsroom/speaking-of-kids-blog/item/1029-utah-tax-history>



2021 Tax Bills Passed:

\$100m in tax breaks aimed at upper-income households

HB 86	Rep. Brooks, Sen. Harper	\$18 million Social Security Income Tax Credit (non-refundable)	70% of this tax break goes to top 40% of taxpayers (household incomes >\$90k), while nearly none goes to lowest-income 40% of seniors (household incomes <\$60k).
SB 11	Sen. Harper, Rep. Pierucci	\$24 million Military Retirement Income Tax Credit (non-refundable)	90% of this tax break goes to top 40% of taxpayers (household incomes >\$90k), while nearly none goes to lowest-income 40% of seniors (household incomes <\$60k). See https://utahchildren.org/newsroom/speaking-of-kids-blog/item/1111-analysis-of-retirement-tax-credit-proposals for additional details.
SB 153	Sen. Fillmore, Rep. Moss	\$55 million tax cut -- increases the value of the Utah personal exemption for purposes of the (non-refundable) taxpayer tax credit from \$565 per dependent to \$1,750. Intended to offset the effects of the 2017 federal tax changes for families with children.	70% of this tax break goes to top 40% of taxpayers (household incomes >\$90k), while <10% goes to lowest-income 40% (household incomes <\$60k) (who pay an average overall state + local tax rate equal to 7.7% of their incomes).

2021 Tax Bills Not Passed

HB 309	Rep. Spendlove	\$7 million Earned Income Tax Credit equal to 10% of federal EITC targeted to Utahns in intergenerational poverty. (refundable)	This is the IGP EITC that was passed in Dec 2019 as part of the tax restructuring law that was repealed a month later.
HB 331	Rep. Seegmiller	\$68 million income tax rate cut from the current 4.95% to 4.9%	Utah's income tax is our only non-regressive tax, the only one that lines up with Utah's income distribution. Thus, income tax rate cuts make Utah's overall tax structure more regressive while also leaving the state with fewer resources to invest in Utah's children – their education, healthcare, and other unmet needs that keep thousands of our kids from achieving their potential.
SB 206	Sen. Fillmore	\$274 million income tax rate cut from the current 4.95% to 4.75% with a trigger mechanism to make permanent after two years.	

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The role of the income tax in Utah's tax structure

- Our only non-regressive tax
- The three-fifths/one-fifth rule: Three-fifths of the income tax is paid by the top one-fifth of taxpayers, which lines up with Utah's income distribution.
- All other taxes are regressive in nature – and make up the majority of taxes for most Utahns
 - Sales tax
 - Gas tax
 - Property tax

See detailed breakdown at <https://www.ITEP.org/WhoPays/UTAH>



Cutting the income tax rate to 4.7% means >\$300m less for education.

- Only 1/8 of the tax cut goes to the lowest-earning half of Utahns.
- 3/5 goes to the top 1/5
- 4/5 goes to the top 2/5

2019 Utah Income	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
<i>Income</i>	<i>Less than</i>	<i>\$27,000 –</i>	<i>\$47,000 –</i>	<i>\$75,000 –</i>	<i>\$122,000 –</i>	<i>\$238,000 –</i>	<i>\$592,000 –</i>
<i>Range</i>	<i>\$27,000</i>	<i>\$47,000</i>	<i>\$75,000</i>	<i>\$122,000</i>	<i>\$238,000</i>	<i>\$592,000</i>	<i>Or More</i>
<i>Average Income in Group</i>	<i>\$16,000</i>	<i>\$38,000</i>	<i>\$60,000</i>	<i>\$94,000</i>	<i>\$165,000</i>	<i>\$344,000</i>	<i>\$1,718,000</i>

Reducing the Personal Income Tax from 4.95% to 4.7%

Tax Change as % of Income	–0.1%	–0.2%	–0.2%	–0.2%	–0.2%	–0.2%	–0.2%
Average Tax Change	–\$13	–\$68	–\$113	–\$203	–\$343	–\$724	–\$3,780
% with Income Tax Cut	28%	79%	84%	95%	98%	100%	100%
Avg. Tax Cut for Those w/ Cut	–\$45	–\$85	–\$135	–\$213	–\$349	–\$725	–\$3,784
Share of the Total Tax Cut	1%	7%	11%	21%	26%	15%	19%

60% to the top 20%

81% TO THE TOP 40%



An alternative income tax cut that helps lower-income working Utahns:

Make Utah the 31st state with a state match for the federal EITC

2019 Utah Income	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income	Less than	\$27,000 –	\$47,000 –	\$75,000 –	\$122,000 –	\$238,000 –	\$592,000 –
Range	\$27,000	\$47,000	\$75,000	\$122,000	\$238,000	\$592,000	Or More
Average Income in Group	\$16,000	\$38,000	\$60,000	\$94,000	\$165,000	\$344,000	\$1,718,000

Impact of a state match for the federal EITC pegged at 10% of the federal

Tax Change as % of Income	–0.5%	–0.2%	–0.05%	–0.002%	—	—	—
Average Tax Change	–\$81	–\$65	–\$29	–\$1	—	—	—
% with Income Tax Cut	37%	22%	15%	1%	—	—	—
Avg. Tax Cut for Those w/ Cut	–\$219	–\$298	–\$191	–\$114	—	—	—
Share of the Total Tax Cut	46%	37%	17%	1%	—	—	—

TOTAL COST: \$50 million



Why the Earned Income Tax Credit?

Former US House Speaker [Paul Ryan](#):

"This is one of the few programs that have shown results. It encourages people to work by increasing the rewards of work. And we all know that the more people we have in the work force, the more opportunity we'll have in this country."

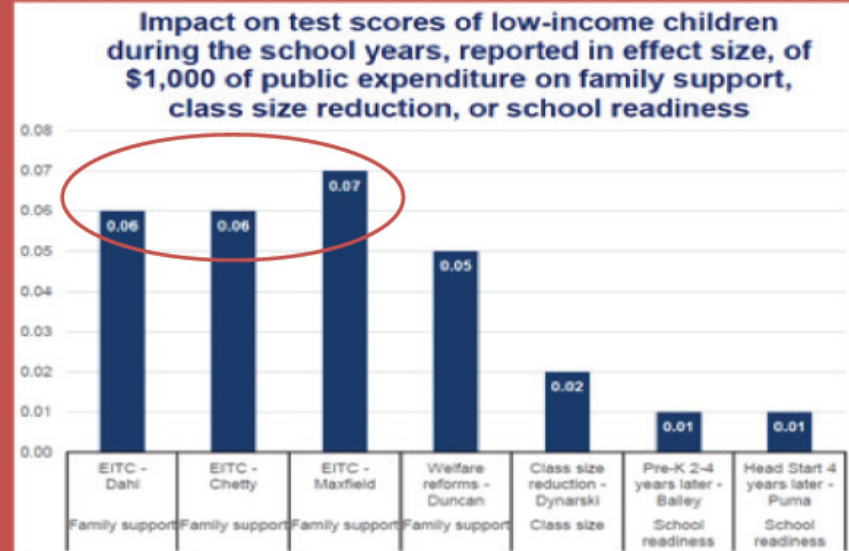
Former Utah State Senator [Howard Stephenson](#):

"It was Milton Friedman, the very conservative Nobel Prize winner in economics...he was the father of this Earned Income Tax Credit idea that rather than welfare programs it would be better to give people the power to earn more...but only on the degree to which you are earning money and working... it makes sense."

[American Enterprise Institute](#) Director of Economic Policy Studies Dr. Michael Strain:

"The Earned Income Tax Credit (EITC) is the cornerstone U.S. anti-poverty program, typically lifting over 5 million children out of poverty each year. Targeted to low-income households with children, and only available to those who work, the EITC contains strong incentives for non-workers to become employed."

EITC has #1 ROI boosting educational performance for at-risk kids



Source: AEI's Dr. Michael Strain testimony to Utah Legislature, 9/21/16

What do Utah public opinion surveys say about taxes?

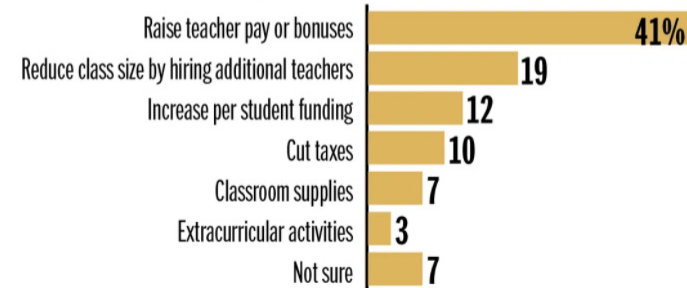
- Feb 2020: Deseret News/Hinckley Inst
<https://www.deseret.com/utah/2020/3/5/21166337/income-tax-children-disabled-services-legislature>

DESERET NEWS/HINCKLEY INSTITUTE

POLL

How should education surplus be spent

It is projected that the fund for public and higher education will have a surplus. Which of the following would be the best use of these surplus funds?



SOURCE: Poll conducted by Scott Rasmussen Feb. 24-March 1, 2020, of 1,000 registered voters in Utah and has a margin of error of +/- 3.1 percentage points.

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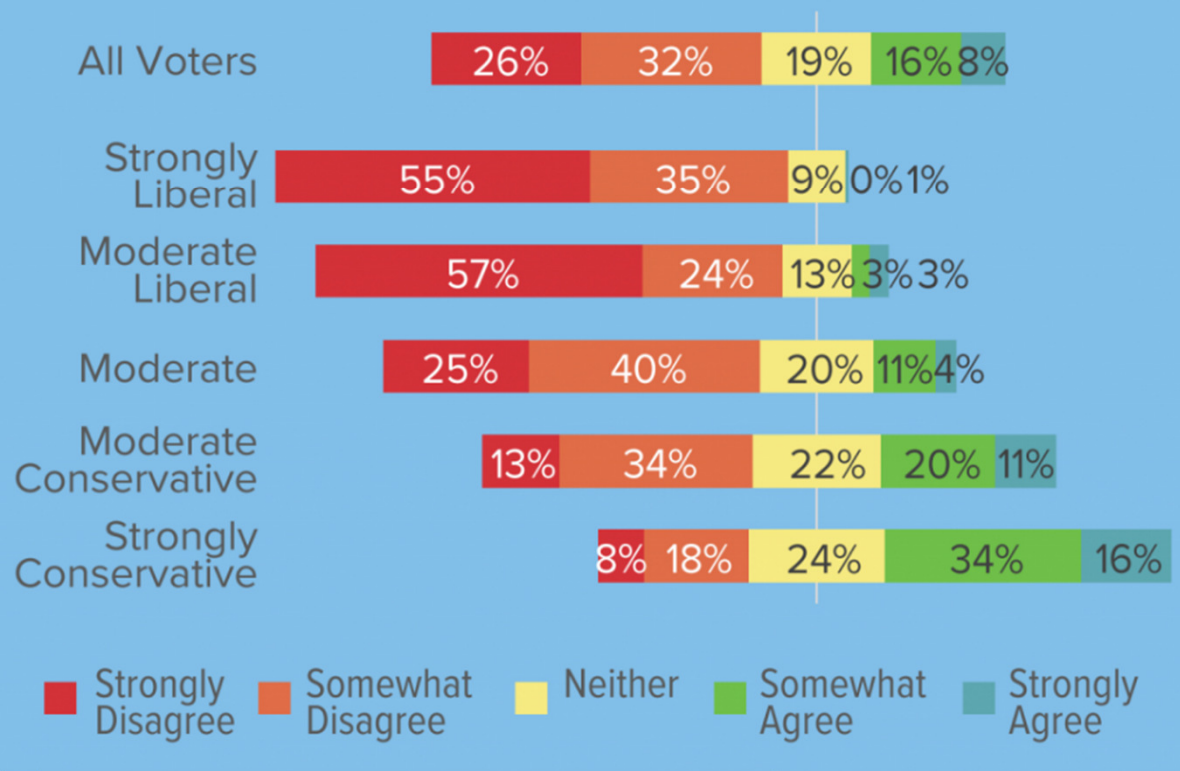


“Utah Foundation asked... whether Utahns favored an additional benefit at the expense of higher taxes... Overall, 74% of Utahns were willing to increase their taxes for a specific benefit. (Of the three, Utahns were most likely to support paying higher taxes for schools.)”

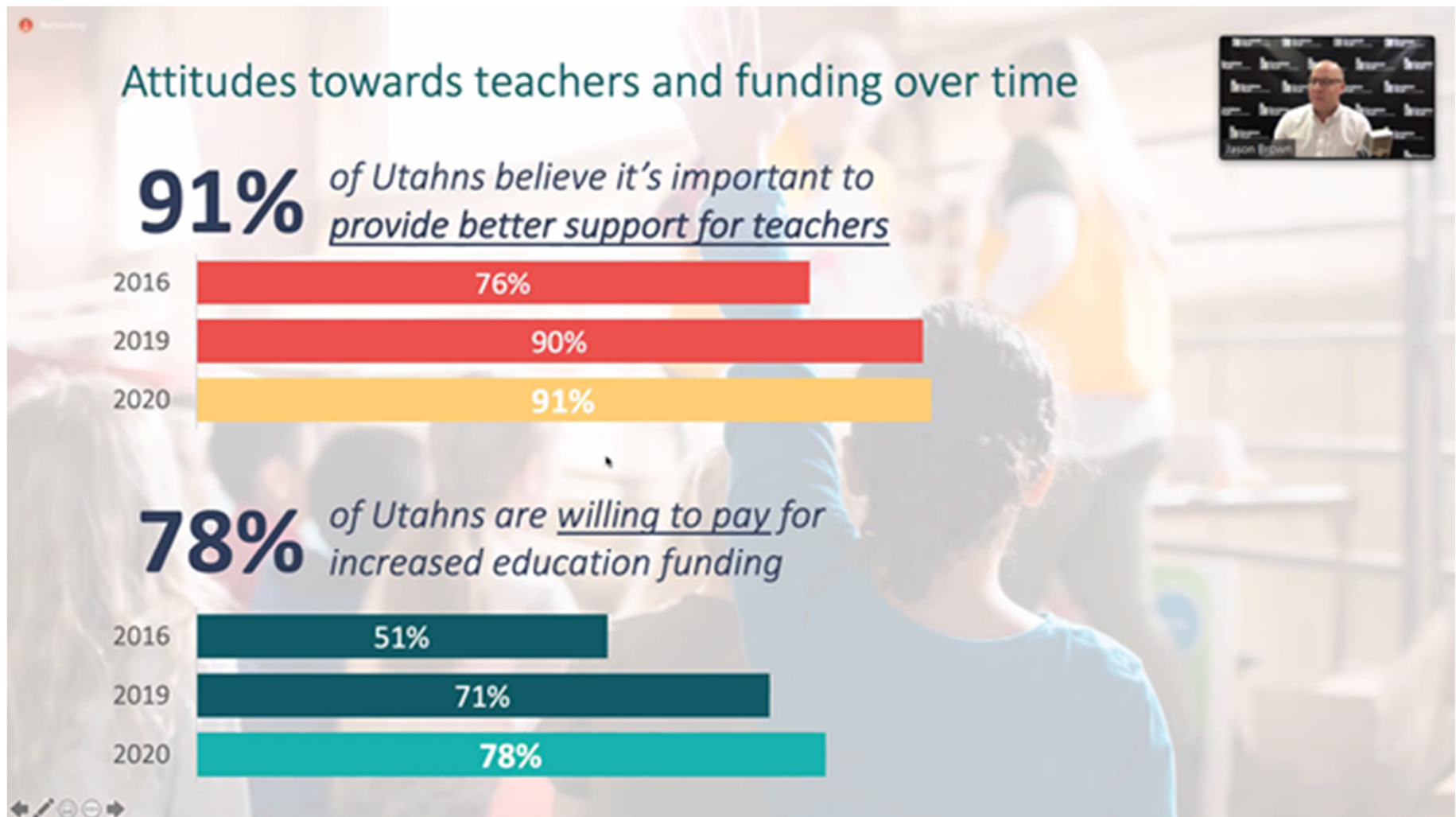
<https://www.utahfoundation.org/reports/utah-priority-no-2-state-taxes-and-spending/>

Majority of Utah voters do not want lower taxes if it means fewer or lower-quality services.

Figure 3: Share of Utah Voters who Agreed with the Statement “Utah should reduce taxes, even if it results in lower quality or fewer services for the state.”



Envision Utah surveys find high and growing awareness of the need to restore revenues for education



www.deseret.com/utah/2020/10/17/21518160/utah-education-priority-2020-presidential-race-survey-envision



- **Feb 2021: Deseret News/Hinckley Institute poll found 53%-41% favoring investment in Utah's future over tax cuts**

<https://www.deseret.com/utah/2021/2/22/22295155/poll-utahns-want-lawmakers-to-spend-extra-cash-money-education-income-tax-cut-2021-legislature>

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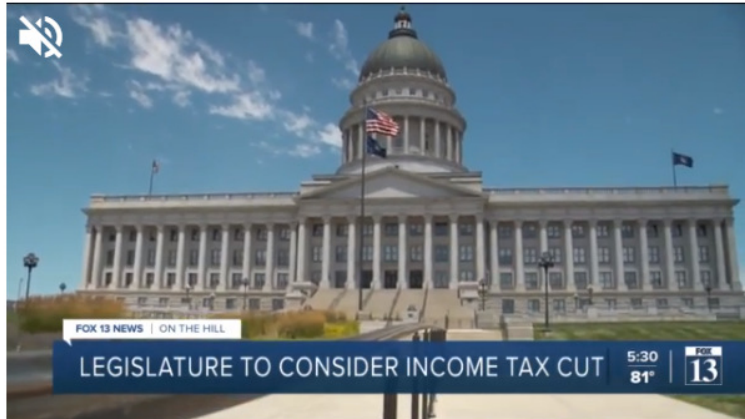
The Utah Legislature is currently debating how to spend the state's budget surplus. How do you think the money should be spent?



Deseret News/
Hinckley Institute poll

SOURCE: Poll conducted by Scott Rasmussen Feb. 10-16, 2021, of 1,000 registered Utah voters and has a margin of error of +/- 3.1 percentage points.

The Utah State Legislature will consider cutting state income tax



By: Ben Winslow

Posted at 3:39 PM, Sep 03, 2021 and last updated 6:31 PM, Sep 03, 2021

SALT LAKE CITY — A bill will be introduced in the next legislative session to cut the state income tax rate.

Senate Majority Leader Evan Vickers, R-Cedar City, has opened the bill file to reduce Utahns' income tax rate from 4.95% to 4.9%. That will be about \$65 million, he said in an interview with FOX 13.

"We feel like our economy's in a position right now where we could look at a strategy like that," Sen. Vickers said. "We did actually look at that strategy along with some of the targeted cuts last year, but we felt it wasn't the right time."

What the legislature passed was \$100 million in cuts to the military retirement income tax and the Social Security income tax, as well as restoring the dependent exemption. While the legislature felt some pressure to cut the overall income tax, they did not.



IN SUM...

Before giving in to the tax cut temptation, consider that....

- 1) Utah taxes are already lower than they've been since the 1960s.
- 2) Is it wise to use a temporary surplus for permanent tax cuts?
- 3) Is it best to pass income tax rate cuts that make Utah taxes even more regressive?
- 4) The public supports investing in Utah's future rather than tax cuts.

