PROPERTY TAX IN UTAH

Burden shift to residential properties

Abstract

A discussion how market forces have affected residential property owners in the current property tax system.

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Executive Summary

Current Utah tax policy requires each tangible, taxable piece of property pay its prorated share of tax in proportion to its market value. Utah has three classifications, aka buckets, for the different property types, real property, personal property, and centrally assessed. At issue is the tax shift toward real property owners (specifically residential owners), away from other property types. Over the past two decades, the portion of property tax paid by real property owners has shifted from 79% to 91% of the total. (see Table 1) Market conditions, limited availability of sale information, and current laws have created the shift. The question before policy makers is do you want this trend to continue. If current policy remains in place unchanged, the drift will remain. Change will require action on the part of the Legislature.

Percent of Whole	2000	2005	2010	2015	2020	2023
Real	79%	83%	83%	82%	86%	91%
Personal	8%	6%	6%	6%	6%	4%
Centrally Assessed	13%	11%	11%	12%	8%	5%

Table 1

Potential changes include increasing the maximum primary residential exemption, limited sales disclosure, allowing for different rates per bucket, or a floating residential exemption that will maintain a predetermined ratio between primary residential properties and other taxable property.

Utah Constitution and Property Tax Act

Prior Legislatures have left clear instructions on the administration of the assessment and taxation of property. Article XIII Section 2 of the Utah Constitution states "So that each person and corporation pays a tax in proportion to the fair market value of his, her, or its tangible property, all tangible property in the State that is not exempt under the laws of the United States or under this Constitution shall be: assessed at a uniform and equal rate in proportion to its fair market value, to be ascertained as provided by law; and taxed at a uniform and equal rate." UCA 59-2-102(13) defines fair market value as"… the amount at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the relevant facts." This means the Commission and county assessors are required to value each tangible, taxable property at its market value each year.

Current system advantages and disadvantages

Advantages

The current property tax system serves as a policy model for several other states. Kansas, Nebraska, Iowa, and Idaho have each followed Utah's example. Utah's system serves as a model policy for the American Legislative Exchange Council (ALEC). The system is transparent, easily explained at its basic level, guarantees a stable revenue source for taxing entities and requires requests for additional property tax revenue to go before the public.

Transparency

Utah's property tax system has several advantages built in. The first being transparency. The days of having to employ an esoteric formula to calculate the assessed value of a property are thankfully long gone. Currently, each taxable property receives a notice that includes the assessed market value. Each property owner may appeal said assessed value, as they feel appropriate. More importantly, taxing entities are required to hold truth in taxation meetings if they request additional property tax revenue over and above what the entity received in the prior year, with some adjustments for new growth etc. (See further explanation below under Truth in Taxation)

Easily explained

At its most basic level, Utah property tax is easy to explain. The assessed market value, subtracting any exemptions equals taxable value. Taxable value multiplied by the tax rate equals the property tax liability for that year.

Revenue neutrality

Current tax policy guarantees taxing entities revenue equal to what the entity received in the prior year with some adjustments for new growth, a five-year rolling collection average, a three year Board of Equalization average, etc. This guarantee serves as a solid revenue foundation that is not subject the ebbs and flow of property values in their district. The entity does not suffer a loss when values increase. Neither does the entity reap a windfall with an increase in assessed value. Thus making revenue projections predictable from year to year.

Truth in Taxation

Taxing entities that want to increase revenue through property tax are required to engage the public through a process known as Truth in Taxation (T in T). The T in T process requires the entity notice taxpayers through various media and hold a minimum of one hearing. The hearing allows the elected or appointed members of the decision making body to involve the public and justify the need for additional property tax revenue. The hearing also allows members of the public to voice their support or opposition to the proposed increase.

Disadvantages

While some would declare Utah's property tax policy as the best in the United States, it is not a perfect system. There are built in inefficiencies in assessment valuations, revenue neutrality does not extend to the individual taxpayer, and truth in taxation is sometimes difficult.

Assessment inefficiencies

Utah is a non-disclosure state, which means that deeds transferring ownership do not include the sale price of the property. This forces county assessors to rely on alternative information sources such as the local multiple listing service (MLS) and transfer surveys. Most counties enjoy a positive relationship with their local MLS and receive the majority of the residential transactions through that source. Along the Wasatch Front, Utah Real Estate.com captures a high portion of residential transactions. While the MLS serves as a great resource for residential sales information, it does not report nearly as many commercial improved or vacant land sales. For example, in years 2021 and 2022, Utah Real Estate.com reported over 8,000 single-family residential sales compared to an inventory of 72,000 residences (approximately 11%). Weber County received fewer than 90 sales of commercial properties over the same period compared to an inventory of 4,800 commercial parcels (approximately 2%). In practice, this results in lower proportional assessments for commercial properties than residential properties. This in turn creates a disproportionately high property tax liability for residential property owners.

Individual taxpayer tax predictability

While taxing entities receive the benefit of a predictable income stream year over year, the individual property owner can, and often does, bear the impact of unexpected tax increases to their property. There are two main reasons for this lack of predictability, value shifts through reappraisal and large revenue requests from taxing entities.

Tax shifts through reappraisal

Utah tax policy requires that the Commission or county assessor value each taxable property at its market value each year. Utah has three property tax categories, real property, personal property, and centrally (state) assessed. The real property category includes residential, commercial, and vacant land. As discussed in detail below, the real property category, specifically residential, claims a higher portion of the overall tax burden year after year. The real property market, specifically residential, fluctuates to a greater degree than personal property or state assessed. The real estate market has a higher sensitivity to changes in supply and demand, interest rate changes, etc. than say a railroad or gas utility. Proportionally, real property also has a higher demand than state assessed properties. The greater demand pushes up the sale prices, and consequently market values, of real estate at a higher rate. As a result, the individual property owner suffers a tax shift toward their property and away from centrally assessed and personal property.

Taxing entity requests (Truth in Taxation)

By design, Truth in Taxation is a difficult process. The decision making bodies of each organization must advertise the average value of residence and commercial property, the tax increase amount of the proposed increase to the average values, the date(s), time(s), and location(s) of the T in T meetings. Citizens often give spirited feedback opposing raising property taxes. This forceful resistance often leads to a reluctance to increase revenue through property tax. Again, the system's design intends to make raising the property tax difficult, in theory forcing a deliberate and well-thought-out plan before increasing the tax burden of citizens. The difficulty also creates an unfortunate side effect, where the commission, council, or board, will refuse to increase property tax until it is impossible to avoid doing so. This results in a large one-time increase that comes as a shock to the property owner as an unexpected expense.

Property tax overview

Components

Three basic components comprise the Utah property tax system are budget, taxable value, and tax rate. Entity budgets have the greatest influence on property tax. The greater the budget the larger the tax burden of the property owners in that service area. Taxable value is the sum of the assessed values contained within the entity borders minus any reductions or exemptions in assessed value. The property types, aka buckets, which comprise assessed value are locally assessed real property, locally assessed personal property and centrally (state) assessed property. The two most common reductions are the residential exemption and land assessed under the Farmland Assessment Act. (aka FAA or Greenbelt). Finally, the tax rate expresses the relationship between the entity budget and the taxable value.

Property tax charged

Property tax charged to the individual parcel is a product of the taxable value and the tax rate. For example, assume the assessed value of a residence of $400,000 and a property tax rate of 0.011. Homes that serve as the primary domicile for a resident receive a 45% exemption from the assessed value. $400,000 x 45% = $180,000. Calculating the tax requires removing the residential exemption from the assessed value to equal the taxable value. $400,000 - $180,000 = $220,000. The final step multiplies the taxable value by the tax rate. $220,000 x 0.011 = $2,420.

Revenue neutrality and tax shift

Utah law guarantees entities charging a property tax the same revenue from this source as the prior year. Entities do not gain or lose funds through market fluctuations. Entities may only increase their budget from property tax via new growth or truth in taxation. Revenue neutrality only applies to the entities themselves, not to the individual taxpayer.

Utah's property tax system requires each taxable property shouldering a proportionate share of the overall tax burden based on the taxable value of the property. The property tax burden will fluctuate as an individual property's assessed value changes proportionally in relation to the whole. Refer to Tables 1 and 2 below on the following page.

Year 1							
Budget	Tax Rate		House #	Taxable Value	Tax Rate	Tax Liability	% of Total
20,000	1.00%		1	250,000	1.00%	2,500	12.5%
			2	325,000	1.00%	3,250	16.3%
			3	375,000	1.00%	3,750	18.8%
			4	550,000	1.00%	5,500	27.5%
			5	500,000	1.00%	5,000	25.0%
			Total	**2,000,000**	**1.00%**	**20,000**	100.0%

Table 2

Year 2							
Budget	Tax Rate		House #	Taxable Value	Tax Rate	Tax Liability	% of Total
20,000	0.87%		1	275,000	0.87%	2,391	12.0%
			2	375,000	0.87%	3,261	16.3%
			3	425,000	0.87%	3,696	18.5%
			4	600,000	0.87%	5,217	26.1%
			5	625,000	0.87%	5,435	27.2%
			Total	**2,300,000**	**0.87%**	**20,000**	100.0%
			House #	Value Change	% Change	Tax Change	
			1	25,000	10.0%	(109)	
			2	50,000	15.4%	11	
			3	50,000	13.3%	(54)	
			4	50,000	9.1%	(283)	
			5	125,000	25.0%	435	
			Total	**300,000**	**15.0%**	**-**	

Table 3

This hypothetical tax area contains five residential properties. The tax area requires a budget of $20,000. The taxable value for the area equaled $2,000,000. Dividing the budgeted amount by the taxable value yields a tax rate of 1%. In year two, the taxable value for the area increased $300,000 (15%), each property increasing from $25,000 to $125,000 (9.1% to 25%). The common assumption is as taxable value fluctuates, the tax liability changes proportionally. In the example above, the tax bill for three of the five homes decreased while the remaining two increased. Why would this occur? Article XIII Section 2(1) of the Utah Constitution states "So that each person and corporation pays a tax in proportion to the fair market value of his, her, or its tangible property, all tangible property in the State that is not exempt under the laws of the United States or under this Constitution shall be: assessed at a uniform and equal rate in proportion to its fair market value, to be ascertained as provided by law; and taxed at a uniform and equal rate." This means if a property's value changes proportionally higher than the average, the tax for that parcel increases. Conversely, if a property's value changes proportionally lower than the average, the tax for that parcel decreases.

Statewide Taxable Value Shift by Buckets

As mentioned earlier, three categories of value, aka buckets, comprise the taxable value used to calculate the tax rate. These three buckets are real property, personal property, and centrally assessed. Historically statewide, the real property bucket has contributed several times more than centrally assessed and personal property buckets combined. The real property portion of the whole has increased over the past two decades, starting at 79% [1] in 2000 then increasing to 91% in tax year 2023 [2].

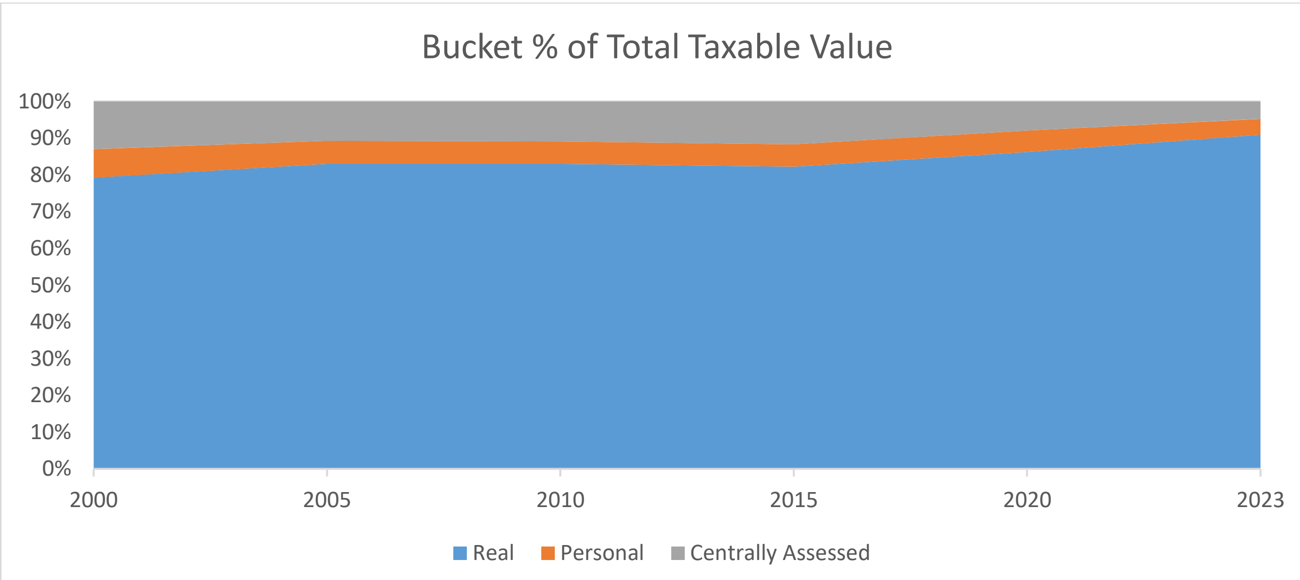

Figure 1

Percent of Whole	2000	2005	2010	2015	2020	2023
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Personal	8%	6%	6%	6%	6%	4%
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Table 4

While the statewide data shows a predominance of real estate in the overall ad valorem values, at 91%, these numbers vary considerably from county to county. In 2022, real estate contributed 90% or more of the tax roll in ten counties (up from eight in 2021), with Summit and Wasatch leading the way at 98%. On the other hand, four counties (down from five in 2021) relied heavily on centrally assessed properties with that bucket contributing 40% or more to their tax roll Emery County relies the most on centrally assessed properties at 77% of their total.

[1] Utah State Tax Commission annual statistical study
[2] Pre-Board of Equalization figures

Statewide Tax Shift Including All Real Property Categories

Utah law guarantees entities charging property tax the same revenue as the year prior, but that revenue does not come from the same source. Since property tax is proportionate to each property value, taxing entities experience variations in revenue sources based on market changes to types of taxable properties: centrally assessed, personal property, as well as those comprised real property. This fluctuation is most notable in residential properties, which have tripled during the study period. Residential real property increased from 55% to 67% of total real property from 2013 to 2022.

During the same period, other property types within the real property bucket remained steady and value in centrally assessed bucket decreased. Consequently, the loss in value from centrally assessed, coupled with the increase in residential property, creates a tax shift to residential property owners.

	2013 Taxable Value	2013 % of Whole	2022 Taxable Valu	2022 % of Whole
Residential Subtotal	108,629,147,187	55%	325,531,824,859	67%
Commercial/Industrial	42,975,313,373	22%	95,100,467,109	19%
Non FAA Vacant Land	7,619,234,192	4%	14,523,323,542	3%
FAA Land/Buildings	1,077,113,222	1%	1,530,899,569	0%
Personal	12,750,047,114	7%	23,174,168,863	5%
Centrally Assessed	23,008,113,703	12%	29,650,975,103	6%
Total	**196,058,968,791**	**100%**	**489,511,659,045**	**100%**

Table 5

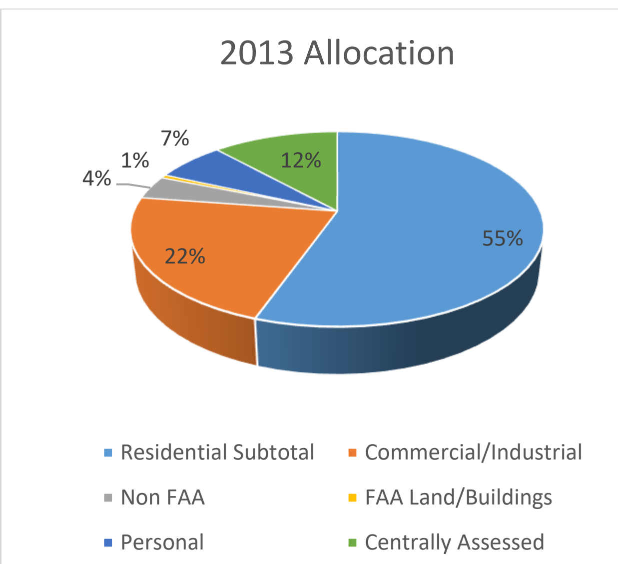

Figure 2

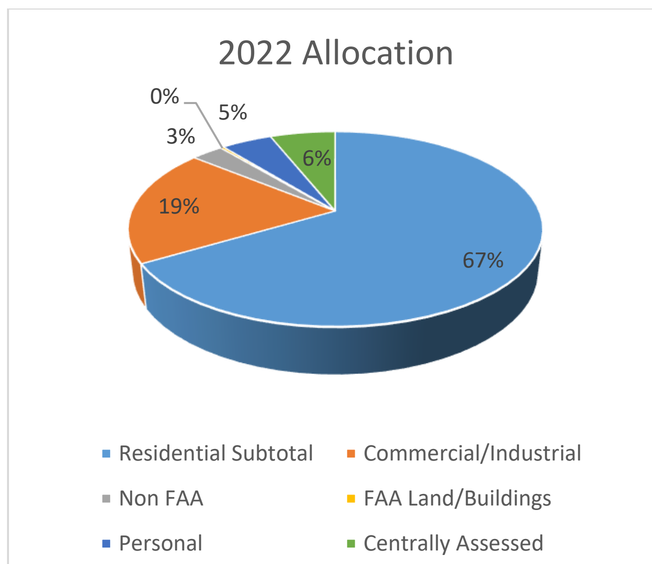

Figure 3

In areas throughout the state, other property types contained within the real property bucket (commercial and industrial, non-FAA and FAA land) have increased in market value as well. However, since that rate of increase is smaller than the rate of increase of real property, their tax burden by percentage has remained constant.
Statewide the tax shift to residential property owners is 12% from 2013 to 2022 to residential properties. Looking from 2013 to 2022, three different counties (Box Elder, Iron, and Tooele) the proportion of residential values increased by more than 20% (22%, 21%, and 27% respectively).

Taxable Value Shift in Real Property

The real property bucket contains multiple property types: residential, commercial/industrial, non-FAA vacant land, and FAA land and buildings. The major contributors in the real property bucket are residential and commercial improved parcels. These two property types made up 96% of the taxable value in the real property category in tax year 2022. This is a slight increase from 94% of the total in 2000. In 2022, the aggregate of residential and commercial improved properties comprised 86% of the total taxable value in Utah, up 6% from 2018 (80% of the total) and up 9% from 2011 (77% of the total). The residential portion grew during the same period (59% in 2018 to 67% in 2022), while the commercial/industrial share decreased slightly (22% in 2013 and 2018 to 19% in 2022).

Tax Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Res & Comm % of overall	77%	78%	78%	80%	80%	82%	82%	83%	84%	86%
Res portion of overall	55%	56%	57%	58%	58%	59%	60%	61%	63%	67%
Comm portion of overall	22%	22%	22%	22%	22%	22%	22%	22%	21%	19%

Table 62

Within the real property bucket, residential properties continue to garner a greater share of the property tax burden. Mirroring the total taxable value allocation, the residential property share increased from 68% in 2013 to 75% in 2022.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Residential Subotal	68%	68%	69%	69%	69%	70%	71%	71%	73%	75%
Commercial/Industrial	27%	26%	26%	26%	26%	26%	26%	26%	24%	22%
Non FAA Vacant Land	5%	5%	4%	4%	4%	3%	3%	3%	3%	3%
FAA Land/Buildings	1%	1%	1%	1%	1%	1%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Table 63

Values in Billions	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	% Change
Residential Subtotal	108.6	117.8	126.5	137.7	151.0	169.0	190.3	207.9	238.9	325.5	200%
Commercial/Industrial	43.0	45.3	48.1	52.7	57.2	63.2	69.3	74.9	78.3	95.1	121%
Non FAA	7.6	7.8	8.1	8.4	8.8	7.8	8.6	9.6	10.6	14.5	91%
FAA Land/Buildings	1.1	1.1	1.1	1.1	1.2	1.3	1.3	1.4	1.4	1.5	42%
Personal	12.8	13.4	13.7	14.9	16.6	17.0	19.0	19.9	20.4	23.2	82%
Centrally Assessed	23.0	25.0	26.0	24.6	24.3	26.5	27.1	26.9	27.2	29.7	29%
Total	**196**	**210**	**224**	**239**	**259**	**285**	**316**	**341**	**377**	**490**	**150%**

Figure 4

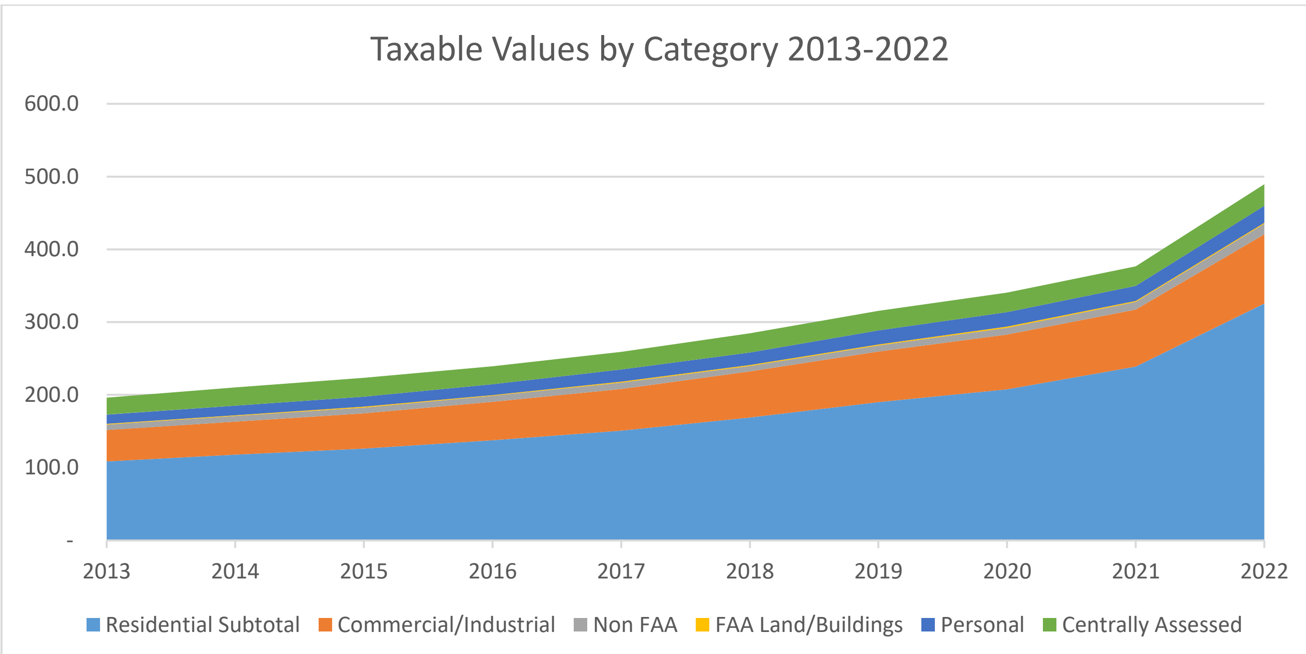

Figure 5

Residential Sale Prices

Residential sale prices experienced an unprecedented increase the past ten years, particularly accelerating from 2019 through July 2023. Along the Wasatch Front corridor, the overall median sale price increased from $147,500 in 2003 to $515,000 in 2022, a 145% change (7% annual change) before correcting back to $490,000 thus far in 2023. Most recently, 2020 through 2022 proved particularly acute, with a 46% increase in sale price over those years (21% annual change).

In 1,000s	2004	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Weber	120	161	156	150	136	140	152	158	171	186	209	233	259	293	370	425	410
Davis	155	215	206	202	187	193	210	218	230	251	273	305	330	365	455	525	505
SL	158	230	217	209	186	196	225	234	249	265	293	320	344	380	465	530	520
Utah	154	217	203	190	178	187	210	222	236	255	274	310	330	360	455	525	485

Table 6

*Source UahRealEstate.com. Years 2005-2007 ommitted for size consdierations

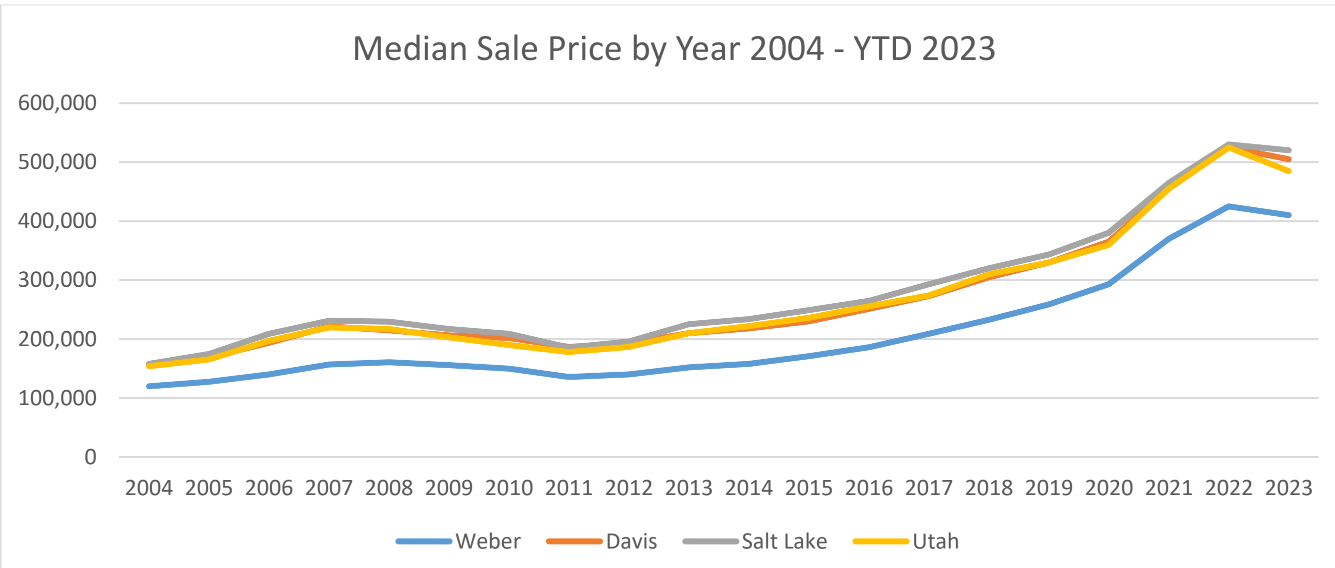

Figure 6

Ad Valorem Assessment and Tax Shifts

Utah Constitution and state law require all taxable tangible property be valued and taxed in proportion to its market value, excepting exemptions. Property values ebb and flow differently between categories, as well as within categories. For example, real estate values have increased greater than personal property and centrally assessed. The sale price of an apartment complex rose comparatively higher than that of an office building. These different fluctuations in turn create shifts in the property tax burden for individual property owners. The good news is the system continues to work as designed. The bad news is the rapid appreciation of residential property, and the resulting tax shift, has started to outstrip the ability to pay for many of our owners.

Potential solutions

Increase the residential exemption

Increasing the maximum residential exemption, from the current 45%, is the most straightforward option. Increasing the residential exemption maximum will ameliorate the current trend to primary residential properties, but it does not address the underlying causes of the historical shift toward residential real property.

Limited disclosure

The lack of sale data poses one of the biggest challenges to accurate valuations in Utah. As stated before, the transfer deed of a sold property does not record the sale price. Most counties have access to residential sales through their local MLS. Sales of improved commercial and vacant land are captured at a much lower rate than residential. Consequently, since assessors have better access to sales of residences, the typical assessed values of residential properties are more accurate. The lack of commercial sale data hinders the county's ability to appraise commercial properties accurately, further shifting the property tax burden to residential property owners. Limited disclosure of sales to the county assessor's office would provide more data, enabling greater assessment accuracy. The greater the appraisal accuracy across will promote equitable assessments.

Floating residential exemption

The theory behind a floating residential exemption is the proportion by a category (residential, commercial, vacant land, personal property, and centrally assessed) paid in an individual tax year would remain the same in subsequent years. As the proportions of each category change through reappraisal, the residential exemption will proportionally, moderating the property tax shifts found through reappraisal.

Individual tax rates per category

Utah's current tax policy requires the application of a uniform tax rate applied to all taxable property. If the effort is to eliminate tax shifts through reappraisal, assigning a different tax rate per category has potential. Like the floating residential exemption idea, calculating the tax rate per property type bucket would hold the proportion of tax collected steady year over year.