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

Prepared for:
Bagels & Briefings
February 7, 2017
Presentation Outline

- Tax Policy Overview
- Sales & Use Taxes
- Property Tax
- Income Taxes
- Utah’s Comparative State & Local Tax Burden
Tax Policy:
Why Does it Matter?
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’s Three Major State and Local Taxes: Income, Property, and Sales & Use Tax Revenues FY 2016

Total Revenue: $9.9 Billion

- **Sales:** $3.4 B, 34%
- **Property:** $3.1 B, 32%
- **Individual Income:** $3.4 B, 34%

Source: Utah State Tax Commission
State and Local Sales & Use, Individual Income, and Property Tax Revenues
FY 1970 to FY 2016

Source: Utah State Tax Commission
Sales & Use Taxes
State and Local
The Utah Sales and Use Tax Base: What Do We Tax?

Sale, lease, or rental of goods ("tangible personal property")

Telecommunication services

Certain cleaning services (dry cleaning, pet cleaning, etc.)

Food (prepared and unprepared)

Repair or renovation of tangible personal property

Admissions (movies, recreation, golf, sports, trails, etc.)

Hotel and motel accommodations and services

Gas, electricity, heat, coal, etc. (commercial / residential use)

Sale or repair of products transferred electronically
The Utah Sales and Use Tax Base: What Don’t We Tax?

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

What we do tax.
The Utah Sales and Use Tax Base: What Don’t We Tax?

Selected exclusions

- Professional services
- Personal care services
- Banking services
- Tuition
- Real estate transactions

Exemptions

- Currently 80+ exemptions
The Utah Sales and Use Tax Base: What Don’t We Tax?

Examples of sales and use tax exemptions:

- Motor, special, aviation fuels ($180M)
- Manufacturing machinery & equipment ($121M)
- Prescription drugs ($64M)
- Farm machinery & equipment ($43M)
- Property for resale including ingredients ($31M)
- Natural gas, electricity, coal for industrial use ($27M)
- Food stamps & WIC ($6M)
- Certain religious / charitable sales & purchases ($4M)

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

What is being purchased?

What is being purchased?
What taxes are imposed?

Sum of all rates imposed. Location 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%
Variety of local option sales and use taxes

- General sales tax for general purposes
  - 1.00% city, towns, unincorporated areas
  - 0.25% county
  - Up to 1.60% resort communities
  - 0.50% state correctional facility
- General sales tax for specific purpose
  - Up to 1.05% transportation
  - 0.10% “zoo, arts, and parks”
  - 1.00% rural hospitals
- Sales tax on specific transactions
  - Up to 6.25% transient room
  - Up to 9.50% vehicle rental
  - 1.00% restaurant food
  - Up to 6.00% municipal energy
State and Local Sales and Use Tax Rates
Rates Over Time
1970 to 2016

Source: Utah State Tax Commission

* Number label indicates the number of local option sales taxes imposed
State and Local Sales and Use Tax
Share of Total Revenues Over Time
FY 1970 to FY 2016

Source: Utah State Tax Commission
State and Local Sales and Use Tax
General Purpose and Earmarked Revenues Over Time
FY 1970 to FY 2016

Earmarked Sales Tax Revenue

Source: Utah State Tax Commission
Sales & Use Tax Base
Gross Taxable Sales as a % of GDP and Personal Income
1960 to 2015

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
- Sharing economy

Demographic changes

- Rising millennials
- Aging baby boomers

Cross-border shopping

- Internet, phone, and catalogue purchases

Technological change

- Digitization of goods (software, books, music)

Legislated exemptions

Sales and Use Tax Revenue
Where Does the Money Go?
FY 2016

State General Fund, 53%
State Earmarked, 16%
Local General Fund, 21%
Local Earmarked, 10%

Revenue Total: $3.4 Billion
State: $2.3 Billion
Local: $1.1 Billion

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 and public transit districts
- Tax on consumption
- Politically more popular less unpopular than other taxes
- Impacts decisions (zoning, business location, etc.)
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
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
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
Property Taxes
Where Does the Money Come From?
2015 Tax Year

Total Property Taxes Charged: $3.1 Billion

- **Primary Residential**: 1,456,403,272, 47%
- **Commercial**: 663,400,294, 21%
- **Other Real**: 305,358,434, 10%
- **Personal**: 189,437,895, 6%
- **Motor Vehicles**: 175,736,587, 6%
- **Natural Resources**: 135,005,468, 4%
- **Utilities**: 189,178,575, 6%

Source: Utah State Tax Commission
Property Taxes
Where Does the Money Go?
2015 Tax Year

- Schools: 54%
- Counties: 18%
- Cities: 15%
- Special Districts: 13%

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

- **Tax on wealth and capital**
- **Source of revenue for schools and local governments**
- **Oldest state and local tax**
- **Stability**
- **Transparent**
- **Unpopular tax**
- **Provides political accountability ("Truth in Taxation")**
Income Taxes
Individual and Corporate
Utah’s Single Rate Individual Income Tax
Tax Year 2015

\[
(\text{Taxable Income} \times 5\%) - \text{Credits} = \text{Tax}
\]

**Taxpayer Credit**
- Based on taxable income, deductions, exemptions
- Phases out: 1.3¢ per $1 above threshold
- Makes individual income tax progressive
- Claimed on all returns but may phase out
- Total reduction in tax ≈ $760 million

**Other Credits**
- 30+ other credits
- Returns with other credits ≈ 150 thousand (9%)
- Total value of other credits ≈ $175 million
Utah’s Income Tax System Remains Progressive
Tax Year 2015

Effective Tax Rate without Credits

<table>
<thead>
<tr>
<th>Income Bracket</th>
<th>Effective Tax Rate</th>
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<tbody>
<tr>
<td>$0 or less</td>
<td>0%</td>
</tr>
<tr>
<td>&gt;$0 - &lt;$30k</td>
<td>1%</td>
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<tr>
<td>$30k - &lt;$60k</td>
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Effective Tax Rate with Credits

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Distribution of Returns and Income Tax Paid
Who pays?
Tax Year 2015

Share of Returns by AGI
- Less than $80K, 76%
- $80-125K, 14%
- Greater than $125K, 10%

Share of Tax Paid by AGI
- Less than $80K, 28%
- $80-125K, 24%
- Greater than $125K, 49%

Source: Utah State Tax Commission
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 2016

Source: Utah State Tax Commission
Corporate Franchise & Income Tax Revenue
Who pays?
Tax Year 2012

Businesses that conduct 0% to 5% of their total business in Utah pay 69% of total Corporate Income Taxes

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
  - Note: Income from other types of businesses (partnerships, LLC, S-Corporations, etc.) is generally passed through to owners who then pay individual income taxes on the income.
Utah’s State and Local Tax Burden: How Does It Compare?
State and Local Taxes as a Percent of Personal Income FY 2014

Utah ranks 31st and has a below average tax burden

Source: U.S. Department of Commerce, U.S. Census Bureau
State and Local \textit{Taxes} as a Percent of Personal Income
Utah: FY 1995 to FY 2014

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 2014

Rank Among 50 States and District of Columbia

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<tbody>
<tr>
<td>Taxes</td>
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<td>Property Taxes</td>
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<td>General Sales Taxes</td>
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<td>Fuel Taxes</td>
<td>19</td>
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Source: U.S. Department of Commerce, U.S. Census Bureau
Please feel free to contact us with any questions at
(801) 538-1032

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