HIGHLIGHTS

- The sales and use tax ("sales tax") is by far the largest state General Fund revenue source, generating about $1.6 billion in General Fund revenues in FY 2011, plus an additional $210 million in earmarked state funds. In addition, the sales tax generated about $770 million in FY 2011 for local governments.

- Total state sales tax revenues declined by nearly 20% between FY 2007 and FY 2010, due both to economic factors and legislative policy changes, but returned to moderate growth in FY 2011 as the economy stabilized.

- Over the long-term, the sales tax base is gradually declining relative to the economy. Various reasons exist for this decline, including a shift in consumption patterns from taxable goods to nontaxable services, technological change, including e-commerce and digitization of goods, and tax exemptions. A declining sales tax base has important long-term implications for state and local policymakers.

- While the sales tax base has been declining, sales tax rates have generally increased. After significant state rate increases from the 1960s through the 1980s, however, the Legislature has generally reduced state rates. Since enactment of the first local option sales tax rate in 1959, local governments have generally increased local sales tax rates, taking advantage of a proliferation of local sales taxes authorized by the Legislature.

- After initial earmarking for the Depression-era Emergency Relief Fund, the state moved away from earmarking sales tax revenue in the 1950s. However, in the past two decades this trend has reversed itself, as significant amounts of both state and local sales tax revenues are now earmarked for specific purposes.

Sales Tax in Utah
The sales and use tax ("sales tax") is a very important revenue source for the state, as well as for local governments, generating a total of about $2.6 billion in FY 2011 revenue. Sales tax is by far the largest state General Fund revenue source, generating about $1.6 billion, or 83%, of the total $1.9 billion in FY 2011 General Fund revenue. In addition, more than $210 million in additional state sales tax revenue was earmarked for various purposes in FY 2011.¹

In addition to the state revenue, in FY 2011 the sales tax generated approximately $770 million for counties, cities, and towns. Of this amount, about $530 million was general-purpose revenue and $240 million was earmarked (or set aside) for specific purposes such as mass transit, roads, arts and recreation, and rural hospitals.

This briefing paper provides an overview of the sales tax in Utah, including a review of (a) the historical development of the sales tax, (b) the current sales tax system, including a review of the sales tax base, rate, and revenues, and (c) future sales tax issues.

HISTORICAL OVERVIEW
HOW DID WE GET HERE?

Sales Tax Enactment
The Legislature first imposed a general sales tax in 1933, in the midst of the Great Depression, and the tax has remained in place ever since. Although specific excise taxes had previously been imposed on certain products such as cigarettes and gasoline, at the time of enactment of the sales tax, the property tax provided approximately 90% of state and local government revenues.² But significant property tax delinquencies during the Great Depression highlighted the need to diversify Utah's tax revenue portfolio and led to enactment of the income tax in 1931 and the sales tax in 1933.

The initial sales tax bill enacted in 1933 imposed a rate of 0.75% on retail sales, including the sale of tangible...
Although a sunset date in the original bill indicated the sales tax would only last for about two years, a special session bill several months later repealed the sunset date, increased the tax rate to 2.00%, and limited the retail sales provision just to the sale of tangible personal property. In addition, if revenues came in above a certain threshold, property taxes were to be reduced to compensate for the extra sales tax growth. The bill also expanded the list of sales tax exemptions to include an exemption for religious and charitable institutions.

**Early Changes**

Several years later, in 1937, the Legislature imposed the “use” tax, a companion tax to the sales tax imposed at the same rate as the sales tax, but on property purchased out of state and used, stored, or consumed within the state.4 Also in 1937, the Legislature required that consumers pay sales tax with sales tax tokens (see Figure 1). However, by the early 1950s, sales tax tokens were phased out in favor of a tax remittance process that was easier to administer.5

With the Great Depression a fading memory, the Legislature eliminated earmarking of sales tax to the Emergency Relief Fund in 1955. Instead, all sales tax revenues were deposited into the state General Fund. Although portions of future sales tax increases were temporarily earmarked for certain purposes, such as public education and state facilities, the idea that the state sales tax was primarily for the state’s General Fund took root.

**Figure 1**

Utah Sales Tax Tokens

**Figure 2**

**Sales Tax Timeline**

- 1933: State sales tax first imposed (0.75%)
- 1937: Sunset date removed & rate increased (2.00%)
- 1939: Use tax imposed
- 1955: Earmark for Emergency Relief Fund eliminated & sales tax deposited to state General Fund
- 1959: First general local option tax authorized (0.50%)
- 1961: State rate increased (2.50%)
- 1963: State rate increased (3.00%)
- 1969: State rate increased (4.00%)
- 1975: General local option rate increased (0.75%)
- 1977: First earmarked local tax - Public transit (0.25%)
- 1978: First differential state rate - Residential fuel (1.00%)
- 1983: State rate increased (4.125%)
- 1985: State rate increased (4.625%)
- 1986: General local option tax rate increased (0.875%)
- 1987: General local option tax rate increased (0.10%)
- 1990: Initial Olympic earmarking (state & local)
- 1991: New local option tax - Add'l public transit
- 1993: New local option tax - Rural health care facility
- 1994: County option tax - County option transport
- 1996: State rate increased (4.875%)
- 1997: State rate increased (5.00%)
- 1998: State rate increased (5.09375%)
- 1999: State rate increased (5.09375%)
- 2000: State rate increased (5.09375%)
- 2001: State rate increased (5.09375%)
- 2002: State rate increased (5.09375%)
- 2003: State rate increased (5.09375%)
- 2004: State rate increased (5.09375%)
- 2005: State rate increased (5.09375%)
- 2006: State rate increased (5.09375%)
- 2007: State rate increased (5.09375%)
- 2008: State rate increased (5.09375%)
- 2009: State rate increased (5.09375%)

**Source:** Laws of Utah (various years)
Figure 3
Authorized General Sales & Use Taxes and Rates, 2011

<table>
<thead>
<tr>
<th>Description (First Year Imposition Authorized)</th>
<th>Rate</th>
<th>Statutory Reference</th>
<th>Extent Imposed</th>
<th>Revenue (FY 2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State-Imposed Sales Taxes Imposed Statewide</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State – General (1933) or Residential Fuel (1977) or Food and Food Ingredients (2007)</td>
<td>4.70%</td>
<td>59-12-103(2)(a)</td>
<td>Statewide</td>
<td>$1.8B</td>
</tr>
<tr>
<td></td>
<td>2.00%*</td>
<td>59-12-103(2)(b)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.75%*</td>
<td>59-12-103(2)(c)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Locally-Imposed Sales &amp; Use Taxes Imposed Statewide</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local – General Local Option (1959)</td>
<td>1.00%</td>
<td>59-12-204</td>
<td>Statewide</td>
<td>$414M</td>
</tr>
<tr>
<td>Local – General County Option (1998)</td>
<td>0.25%</td>
<td>59-12-1102</td>
<td>Statewide</td>
<td>$104M</td>
</tr>
<tr>
<td><strong>Locally-Imposed Sales &amp; Use Taxes Not Imposed Statewide</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local – Public Transit (1975) or Municipal Highway / Public Transit (1998)</td>
<td>0.25% or 0.30%*</td>
<td>59-12-2213</td>
<td>81% of taxable sales (Davis, Salt Lake, Weber County, portions of Tooele and Summit County, 34 cities/towns)</td>
<td>$84M</td>
</tr>
<tr>
<td></td>
<td>0.30%</td>
<td>59-12-2215</td>
<td>10% of taxable sales (25 cities/towns)</td>
<td>$11M</td>
</tr>
<tr>
<td>Local – Additional Public Transit / Airport / Highways (1991) or Public Transit / Fixed Guideway / Highways (2004)</td>
<td>0.25%</td>
<td>59-12-2214</td>
<td>62% of taxable sales (Davis, Salt Lake, Weber County &amp; 3 cities/towns)</td>
<td>$48M</td>
</tr>
<tr>
<td>Local – County Option Transportation (2007) or Airport, Highway, or Public Transit within Counties of Second Class (2009)</td>
<td>0.25%*</td>
<td>59-12-2217</td>
<td>56% of taxable sales (Cache, Salt Lake, Weber County)</td>
<td>$39M</td>
</tr>
<tr>
<td></td>
<td>0.10% or 0.25%</td>
<td>59-12-2218</td>
<td>14% of taxable sales (Utah County)</td>
<td>$12M</td>
</tr>
<tr>
<td>Local – County Botanical, Cultural, Recreational &amp; Zoological – also known as Zoo, Arts, and Parks or &quot;ZAP&quot; (1993) or City or Town Botanical, Cultural, Recreational &amp; Zoological / ZAP (2003)</td>
<td>0.10%</td>
<td>59-12-703</td>
<td>61% of taxable sales (Cache, Salt Lake, Summit, Uintah, Weber County)</td>
<td>$23M</td>
</tr>
<tr>
<td>Local – Rural Health Care Facilities (1993) or Rural City Hospital (1994)</td>
<td>1.00%*</td>
<td>59-12-802</td>
<td>0.6% of taxable sales (Daggett, Garfield, Kane County)</td>
<td>$2M</td>
</tr>
<tr>
<td></td>
<td>1.00%</td>
<td>59-12-804</td>
<td>0.1% of taxable sales (1 city/town)</td>
<td>$0.4M</td>
</tr>
<tr>
<td>Local – Resort Community (1983)</td>
<td>1.10%*</td>
<td>59-12-401</td>
<td>3% of taxable sales (15 cities/towns)</td>
<td>$11M</td>
</tr>
<tr>
<td>Local – Additional Resort Community (1998)</td>
<td>0.50%*</td>
<td>59-12-402</td>
<td>0.8% of taxable sales (6 cities/towns)</td>
<td>$1M</td>
</tr>
<tr>
<td>Local – Town Option (1998)</td>
<td>1.00%*</td>
<td>59-12-1302</td>
<td>0.01% of taxable sales (1 city/town)</td>
<td>$0.04M</td>
</tr>
<tr>
<td>Local – City or Town Option (2008)</td>
<td>0.20%*</td>
<td>59-12-2103</td>
<td>4% of taxable sales (2 cities/towns)</td>
<td>$2M</td>
</tr>
<tr>
<td><strong>State-Imposed Sales Taxes Not Imposed Statewide</strong> (Related to Certain Locally-Imposed Taxes)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State – Additional State Sales &amp; Use (2007)</td>
<td>0.25%</td>
<td>59-12-1802</td>
<td>Not currently imposed</td>
<td>n/a</td>
</tr>
<tr>
<td>State – Supplemental State Sales &amp; Use (2008)</td>
<td>0.30%*</td>
<td>59-12-2003</td>
<td>16% of taxable sales (Davis &amp; Weber County)</td>
<td>$3M</td>
</tr>
</tbody>
</table>

# Taxed at general state rate prior to being taxed at differential rate.
* A tax rate with an asterisk indicates that a tax rate may be imposed up to the listed tax rate. A tax rate without an asterisk is imposed at the listed tax rate.
^ Currently imposed at a rate of 0.05% in Davis and Weber County.

Data source: Utah Code, Laws of Utah (various years), Utah State Tax Commission
Expansion of the Sales Tax

In 1959, a major sales tax development occurred when the Legislature first authorized cities and counties to impose the general local option sales tax, at a rate of 0.50%. This was an important step in revenue diversification for local governments, which, until that time, still relied largely on property taxes. Also in that year, the Legislature expanded the sales tax base by including certain services, such as repairs of tangible personal property, short-term accommodations, and laundry and dry cleaning services.

In response to increasing demand for public services, the sales tax grew dramatically in the 1960s as the Legislature doubled the state rate. From the 2.00% rate put in place in 1933, the Legislature increased the state rate to 2.50% (1961), 3.00% (1963), and then 4.00% (1969). As Figure 4 shows, a few years after the last of these state rate increases, the sales tax became the largest of the state and local taxes and has remained the single largest tax nearly every year since.

The first earmarked local option sales tax was created in 1975 when the Legislature authorized the local option public transit tax. In addition, the general local option tax rate was increased from 0.50% to 0.75%.

The state enacted its first differential state sales tax rate in 1977, when it reduced the state rate on residential fuel to 1.00%. Although the rate has changed several times since this initial reduction, residential fuel continues to receive preferential sales tax treatment today, with a reduced state rate of 2.00%.

During the early 1980s, distribution of the general local option sales tax was a topic of major controversy. At that time, local sales taxes were distributed solely based on point-of-sale. A significant push began to include population as a distribution component because many growing cities had increasing municipal service demands, but minimal retail sales. After several years of controversy, a compromise was reached in 1983 to increase the general local option sales tax rate and to phase in a distribution formula based 50% on point-of-sale and 50% on population. The general local option sales tax rate initially increased from 0.75% to 0.88% (1983), then to 0.91% (1986), and finally to 1.00% (1990). The 1.00% rate remains in place today, as does the 50/50 distribution.6

Coinciding with some of these local rate increases, the state increased its sales tax rates in the mid-1980s in response to economic difficulties and major flooding in the state. In 1983, the Legislature imposed a state rate increase from 4.00% to 4.13% and again, in a special session later that same year, to 4.63%. In 1986, the rate was reduced slightly to 4.59%, then increased substantially again in 1987 to 5.09%.

Recent History

Since the increases in the mid-1980s, the Legislature has generally reduced state sales tax rates. The 5.09% general state rate put in place in 1987 was gradually reduced over time (5.00% in 1990, 4.88% in 1994, 4.75% in 1997, and 4.65% in 2008). After a slight increase in 2009, the general state rate is currently 4.70%. In addition, the state enacted a differential state rate on food and food ingredients of 2.75% in 2007 and further reduced the rate to 1.75% in 2008.

Although the general local option sales tax imposed by all municipalities has been constant at 1.00% since 1990, local sales taxes have increased since this time through the significant number of different local option sales taxes that the Legislature has authorized in this period, many of which are earmarked for particular purposes. As detailed in Figure 3, the additional local option sales taxes include: public transit and other transportation (1975, 1991, 1998, 2004, 2007, 2009); resort communities (1983 and 1998); zoo, arts, and parks (1993 and 2003); rural hospitals (1993 and 1994); county option (1998); town option (1998); and city/town option (2008).

In an effort to increase rate uniformity statewide, the Legislature has also adopted two state taxes that are imposed if certain local tax rates are not imposed.
WHERE ARE WE NOW?
THE SALES TAX BASE

What Is Taxed?
Although the sales tax is sometimes referred to as a tax on consumption, this is not completely accurate for two reasons. First, many types of consumption escape taxation through exclusion or exemption. Second, the sales tax is also imposed on the sale of business inputs used in production.

The sales tax is currently imposed on the sale, lease, rental, or purchase of most goods and several services, including the following:

- retail sales of tangible personal property;
- certain telecommunication services;
- commercial and residential fuels;
- prepared food;
- admissions and user fees;
- repair, renovation, and assisted cleaning or washing of tangible personal property;
- short-term accommodations;
- laundry and dry cleaning services; and
- certain products that are transferred, repaired, or renovated electronically.

With a few exceptions, the general state and local sales tax bases are identical, meaning that taxable sales and exempt sales are similar under both state and local sales taxes.7

What Isn't Taxed?
A sales tax exemption is a transaction that falls under the general definition of the sales tax base, but is not taxed because it is specifically removed from the tax base. The largest sales tax exemption is for motor and special fuels, which are subject to motor and special fuel excise taxes. Other sizable exemptions exist for selected business inputs (such as property purchased for resale and certain manufacturing and mining machinery and equipment), prescription drugs, and food stamp program purchases.

A sales tax exclusion is a transaction that falls outside the general definition of the sales tax base and is therefore not taxed. Current sales tax exclusions include health care services, professional services, such as legal and accounting services, and many personal services, such as salon and landscaping services.

Sales Tax Base Over Time
Figure 5 displays the history of the percent change in quarterly taxable sales since 1978. As the positive growth rates shown in blue suggest, the sales tax base generally grows over time in nominal dollars. The chart also highlights the very large declines experienced during the recent recession, which are far greater than declines during any other recession during the time period shown. However, as the chart also shows, moderate growth has resumed in recent quarters.

Figure 5
Year-Over-Year Percent Change in Gross Taxable Sales 1978Q4 to 2011Q1

Part of the reason for the nominal growth and an important feature of the sales tax base is that because it is based on sales price, it automatically adjusts with price changes in taxable items.

In addition, the sales tax base also tends to grow with population increases because a larger population will generally require greater sales of food, clothing, vehicles, and other taxable items. At the same time, this increased population also creates an increased demand for numerous public services funded by the sales tax.

Notwithstanding the general increase in the nominal sales tax base over time, a comparison of the sales tax base with various measures of the economy illustrates that the sales tax base is gradually declining relative to the economy as a whole. Figure 6 illustrates this phenomenon by comparing gross taxable sales (the sales tax base) to two measures of the state economy—Utah personal income and Utah gross domestic product (GDP). As the chart shows, the sales tax base is undergoing a gradual relative decline when compared to these two measurements of the economy.
Why is the sales tax base declining relative to the economy? Various reasons exist, including shifting consumption patterns, technological changes, and sales tax exemptions.

The cumulative effect of these consumption pattern changes is a declining sales tax base. Although the sales tax does not seem to be in danger of immediate collapse, a continuing decline in the tax base could limit the long-term viability of the tax as it reaches an ever-narrowing portion of household consumption.

SALES TAX RATES

The sales tax rate imposed on a taxable transaction is the sum of the state and local rates imposed at the location of the transaction (see Figure 3). Because localities have discretion in imposing local taxes, rates vary throughout the state. The lowest rate of 5.95%, imposed in localities such as Fillmore and Woodruff, is comprised of a 4.70% state, 1.00% general local, and 0.25% general county rate. The highest rate of 8.35%, imposed in Alta, is comprised of a 4.70% state, 1.00% general local, 0.25% general county, 0.30% public transit, 0.25% additional public transit, 0.25% county option transportation, 1.00% resort community, 0.50% additional resort community, and 0.10% ZAP.

Figure 7 shows the historical trends for state and local rates since 1933. As the chart illustrates, the general state rate remained consistent for nearly 30 years after enactment, increased significantly between the 1960s and 1980s, and has gradually declined since. Local rates have generally increased since enactment of the general local option tax in 1959 and various other local option taxes in recent decades.

**Figure 6**
Utah Sales Tax Base as Percent of Economy 1960 to 2010

Clearly, one important factor in the relative decline is changing consumption patterns as the economy shifts from a goods-based to a more service-based economy. In particular, much of the economic growth over the past several decades has come in health services, professional services, and personal services, which are currently excluded from the tax base.

Another major factor in the declining base is technological change, including internet purchases and digitization of goods. Although use tax is owed on items purchased out-of-state and used in-state (such as items purchased over the internet or catalogues), many consumers are unaware of or ignore the requirement.

The Streamlined Sales Tax Project is a decade-old effort by many states, including Utah, to address the issue of uncollected sales and use tax. A major effort of the project is to create more simplicity and uniformity in sales tax definitions and rates, so that retailers can more easily comply with sales tax laws throughout the country.

Another technological change impacting the sales tax is the digitization of goods. Many goods that are subject to sales tax are simply no longer purchased because their content is easily obtained digitally at no cost, including software, books, magazines, videos, music, and games. Digital items that are purchased often cost less than the hardcopy equivalent.

**State Rates**
The general state sales tax rate is currently 4.70%. In addition, a reduced state rate is in place for residential fuels (2.00%) and food and food ingredients (1.75%). If residential fuel and food and food ingredients were
taxed at the general rate, a general state rate of about 4.25% to 4.30% would provide the same revenue.

Local Rates
Of the local option sales taxes, two are imposed statewide – the general local option (1.00%) and general county option (0.25%) taxes. In addition to these two taxes, local governments are authorized to impose sales taxes for various purposes, including mass transit, roads, arts and recreation, and rural hospitals. Each of these local option taxes has its own rates, qualifications, and restrictions on use.

In 2011, the statewide effective sales tax rate is about 6.05%, consisting of a 4.25% effective state rate (includes reduced rates on food and residential fuels) and a 1.80% aggregate local rate (includes 1.00% local option, 0.25% county option, and an average 0.55% effective rate for the various other local option taxes).

SALES TAX REVENUES

Revenue Amounts
The sales tax generated a total of about $2.6 billion in FY 2011 revenue, making it the single largest state and local tax. Sales tax is by far the largest state General Fund revenue source, generating about $1.6 billion, or 83%, of the total $1.9 billion in FY 2011 General Fund revenue. In addition, more than $210 million in additional state sales tax revenue was earmarked for various purposes in FY 2011.

In addition to the state revenue, in FY 2011 the sales tax generated about $770 million for counties, cities, and towns. Of this amount, about $530 million was general-purpose revenue, whereas the remaining $240 million was earmarked for specific purposes such as mass transit, roads, arts and recreation, and rural hospitals.

Figure 8 shows the nominal amount of sales tax revenues over time, for both the state and for local governments. Figure 9 adjusts the nominal data for inflation and population change.

Disposition of Revenues
After initial earmarking of sales tax revenues for the Depression-era Emergency Relief Fund, the state moved away from earmarking sales tax revenue in the mid-1950s. However, in the past two decades this trend has reversed itself, as significant amounts of both state and local sales tax revenues are now earmarked for specific purposes.

This shift toward increased earmarking began several decades ago, with relatively minor sales tax earmarks for water projects, the Olympics, and local transit, but has developed into significant state and local earmarking today. Although some earmarked state revenue was redirected to the General Fund on a one-time basis in FY 2011, the trend toward increased earmarking of sales tax seems likely to continue for the near future, with the Legislature having recently overridden a gubernatorial veto of a bill earmarking certain sales tax growth for transportation purposes.

Proponents of earmarks argue that they are a vital budgetary tool to set aside funds for a public purpose that needs dedicated funding, when the annual budget process doesn’t adequately provide for long-term needs. Opponents argue that all expenditures should have to compete annually through the budget process, without a leg up on other needs.
FUTURE SALES TAX ISSUES
WHERE ARE WE GOING?

Although the last of Utah’s three major taxes adopted, the sales tax has consistently been the single largest tax over nearly four decades. It has shown the capacity to generate significant revenues to fund expenditures approved by the Legislature and has also proven to be one of the most politically acceptable taxes.

So what does the future hold for the sales tax? The future will ultimately depend on economic changes and legislative decisions. But by all indications, the sales tax appears likely to continue as an important revenue source for the state and for local governments.

However, the tax may face challenges going forward as consumption patterns change. For example, the recent Great Recession could have lingering short-term and long-term effects on sales tax growth patterns if households continue to cut back on consumption and increase savings. One recent study found that national per capita consumption levels have dropped by about $2,100 annually since December 2007. Other research shows consumers are making fewer trips to the grocery store, buying lower priced items, and buying fewer items overall.

Moreover, as previously discussed, a gradual but continual shift toward a service-based economy has been occurring for many decades. In addition, it has been suggested that the existing tax structure, including the sales tax, will become "road-kill on the information superhighway," as technology makes geography less and less relevant to transactions. It remains to be seen if this dire prediction about the impact of technological change will pan out. But, at a minimum, changes in purchasing patterns merit serious consideration in future sales tax policy.

A few of the most basic options for the sales tax base going forward include retaining the general structure of the existing system, moving to a broad-based household consumption tax, or replacing the sales tax with another tax. Of these, moving to a broad-based household consumption tax has generated considerable discussion in recent years. In support of the concept, tax economist Charles McLure suggests the following guiding principles to modernize the sales tax:

1. Taxation of all consumption. A modern tax would apply uniformly to all consumption: it would not exempt certain products. That way, it would not distort consumer choices of what to buy to discriminate among consumers based on their preferences for taxed and exempt products. Perhaps as important, it would not be necessary for taxpayers and tax administrators to make sometimes 'indistinct distinctions' between taxed and exempt products.

2. Exemption of all business purchases. A modern tax would not apply to sales to other businesses. That way it would not distort decisions on the choice of business inputs or encourage vertical integration or tax-motivated 'self-production.'

3. Exemption of investment. A modern sales tax would not be levied on investment; it would apply only to consumption. That way it would not discourage saving and investment.

Since the sales tax was first imposed, overall rates have generally increased over time. Although some of these rate increases were used to provide an increased level of government services, some may have occurred in response to a declining base, which failed to provide the revenues needed to maintain desired service levels. However, it is important to note that higher sales tax rates create greater economic inefficiency, or what economists sometimes refer to as "deadweight loss."

Along these same lines, there is a limit on sales tax rate "headroom" (that is, economic and political capacity to increase rates). In recent decades, the state has ceded sales tax headroom to local governments, cutting state rates while local rates increased. This state and local government interaction in the sales tax will likely remain an issue going forward. Discussions surrounding the appropriate distribution of the general local option sales tax are also likely to continue.

Another issue going forward is complexity. Consider, for example, the complexity and resulting uncertainty faced by a seller required to collect the sales tax. In the rate structure alone, a seller doing business in multiple locations is required to cope with rates that can vary widely depending on the item taxed and location of the transaction. Complexity also exists in the tax base, as sellers must distinguish between taxable and nontaxable sales that often depend on very fine distinctions among transactions.

In summary, although the sales tax will likely continue as a major tax, the Legislature will have to grapple with many issues relating to this tax in the years ahead.

---

1 This briefing paper examines sales taxes that are imposed generally on taxable items within a particular jurisdiction. Specialized sales taxes or excise taxes (such as taxes imposed on motor and special fuel, cigarettes and other tobacco products, alcohol, restaurant food, hotel rentals, and car rentals) are not covered. For brevity, except when specifically mentioned, the term "sales tax" includes both the sales and use tax.
2 History of Utah’s First Century of Taxation and Public Debt. Jewell Rasmussen (1996). Funds reverted to the General Fund if they were not utilized or if collections came in above certain amounts.
3 A sale was exempt from the use tax to the extent tax was paid in another state on the purchase.
4 http://www.toyota.utah.gov/salt_lake_tribune/n/another_time/102394.html
5 Some comparatively minor "bad defenses" and other exceptions to the general 50/50 distribution exist.
6 Food is excluded from the base for all local option taxes except the general local option and county option taxes. Various items are excluded from the base for the resort community taxes, including motor vehicles, aircraft, waterfront, and mobile homes.