

### Utah's Tax Situation

Research Report #666, May 2004

#### Lesson Summary

This lesson discusses Utah's tax burden relative to other states. The report also describes in detail each of the types of taxes levied in Utah.

#### Related Websites

- Utah State Tax Commission  
<http://tax.utah.gov/>
- Bureau of Economic Analysis  
<http://www.bea.gov/>
- The Tax Foundation  
<http://www.taxfoundation.org/>
- Federation of Tax Administrators  
<http://www.taxadmin.org>

#### Utah Core Curriculum

##### U.S. Govt. and Citizenship

- Std 3, Obj 2: Explore current issues affecting local governments; e.g., spending. Examine how public education is a function of state and local government.

##### Economics

- Std 3, Obj 2: Identify and compare examples of taxation throughout different historical periods.

##### Language Arts (9, 10, 11)

- Std 2, Obj 1: Confirm ongoing meaning by using print and other text features, e.g., graphs, captions, illustrations, models, diagrams, tables.

*This lesson plan is provided by Utah Foundation to assist in using the accompanying Research Report in high school or middle school classes. Please feel free to copy the Research Report for your students.*

#### Vocabulary

Animosity: Hatred, hostility.

Earmark: Set aside funds for a specific purpose.

Exemption: Freedom from taxation, charge, burden, etc.

Flat tax: A system in which all levels of income are taxed at the same rate.

Levy: To impose or collect (a tax).

Progressive tax: A tax that takes a larger percentage of the income of high-income people than of low-income people. The tiered federal personal income tax is an example.

Regressive tax: A tax that takes a larger percentage of the income of low-income people than of high-income people. The sales tax is a typical example.

Skewed: Distorted, slanted, biased.

Tax burden: A measure of the taxes paid in a state relative to another constant factor, such as personal income.

Volatility: The trait of changing often or widely.

#### Quick Questions

1. Three types of taxes produce 82% of Utah's tax revenue. Name the three taxes.  
  
Answer: Property, personal income, and sales.
2. What is Utah's national ranking for local tax burden, state tax burden, federal tax burden, and combined (local, state, and federal) tax burden (see Figure 2)?

Answer: local tax burden: 40<sup>th</sup>; state tax burden: 8<sup>th</sup>; federal tax burden: 40<sup>th</sup>; combined tax burden: 28<sup>th</sup>

3. In addition to local property tax revenue, school districts receive funds from the Uniform School Fund through the Minimum School Program. What is the purpose of the Minimum School Program?

Answer: The purpose is equalization, or to eliminate the disparity of funding between wealthy and poor districts.

4. Why is Utah's personal income tax considered "essentially a flat tax"?

Answer: Utah's personal income tax is basically a flat tax because most filers (80% of single filers and 95% percent of married joint filers) are in the highest bracket, meaning that most everyone is paying the same tax rate regardless of income level.

5. State income tax revenues can only be used to fund \_\_\_\_\_.

Answer: public education and higher education.

6. Why is taxing food controversial?

Answer: Taxing food is the subject of debate because food taxes are regressive (imposing a higher burden on the poor). However, food taxes are also a significant and stable source of revenue for state and local governments.

7. What is the Streamlined Sales Tax? What are its advantages?

Answer: Under the Streamlined Sales Tax, the tax rate for shipped goods depends on the point of delivery rather than the point of sale. The tax is designed to make it easier for catalog, Internet, and other cross-border businesses to remit sales tax. The Streamlined Sales Tax is expected to boost sales revenues as more online and out-of-state merchants charge the tax.

8. Name two goods subject to excise taxes. What are the current tax rates on these goods?

Answer: Tobacco and alcohol. The current rates are 69.5 cents per pack of 20 cigarettes, 86.875 cents per pack of 25 cigarettes, and 35% of the sales price of all other tobacco products. Liquor, heavy beer, and wine are taxed at 13%, while light beer is taxed at \$11.00 per barrel.

## Critical Thinking Activities

1. You are one of the Governor's tax advisors, and he or she has asked you to design a state income tax from scratch. You will determine the brackets, the rates, the exemptions and deductions. Consider whether you think the tax should be progressive, regressive, or flat. The income tax is dedicated to public and higher education, so keep in mind how much revenue you would like to generate for these public services. Explain your choices in a persuasive manner.
2. Compare two of Utah's three main taxes: the sales tax, the income tax, and the property tax. Discuss such qualities as the share of total state/ local revenue, whether it is considered progressive/ regressive/ flat, the comparative burden of Utahns compared to other states for the tax, how the tax is paid and administered, how the tax revenue is used, and how the tax has changed over time.
3. The state is suffering from a revenue shortfall and has nearly exhausted the constitutionally allowed amount of debt. The state needs a long-term solution to this persistent problem. In short, the Legislature needs to figure out a way to raise more money for the annual budget. As a member of the legislative budget committee, you have been asked to propose several alternative solutions along with the pros and cons of each alternative.

## Quiz Page

### Vocabulary

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Animosity	Levy	Tax burden
Earmark	Progressive tax	Volatility
Exemption	Regressive tax	
Flat tax	Skewed	

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