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# Research Report

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# PROPERTY TAX OR SALES TAX?
## FUNDING TRANSIT INVESTMENTS IN SALT LAKE COUNTY

### HIGHLIGHTS

- Funding TRAX light rail extensions is feasible with either a ¼-cent sales tax increase or a property tax-funded general obligation bond.
- The sales tax option provides more revenue than the proposed property tax and could allow the bonds to be retired sooner or provide funds for operating expenses or other capital projects.
- Business taxpayers would face nearly the same aggregate burden from either the sales tax or the property tax option. However, the business share of a property tax increase would be higher, at 43% compared to 31% of a sales tax increase. Some property-intensive businesses would see large dollar impacts from the property tax.
- Household taxpayers would pay a significantly higher aggregate burden from the sales tax than from the property tax increase, mostly because the sales tax increase is larger.
- Because household consumption is much larger than business consumption and the homeowner property base is much larger than business property holdings, households would pay more in the aggregate than businesses under either tax scenario.



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**Editor's Note:** *In May of this year, the Salt Lake Chamber asked Utah Foundation to perform a brief analysis on the impacts of a property tax increase compared to a sales tax increase for a large transit investment proposal. That proposal has been placed on the November ballot by the Salt Lake County Council as a general obligation bond, which would raise property taxes. Discussion continues about replacing that measure with a regional sales tax proposal. This report compares the impacts of raising property taxes similar to the current general obligation bond proposal to the impacts of a quarter-cent sales tax increase in Salt Lake County.*

### BACKGROUND

Local business and government leaders have been examining funding options for new light rail routes in Salt Lake County. These new routes would extend the Utah Transit Authority (UTA) TRAX light rail service to South Jordan, Draper, Salt Lake International Airport, and West Valley at a cost of around $1.3 billion. Some of the costs would be funded through federal grants, and about $900 million would need local funding. These TRAX extensions would be completed by 2015, and this is an acceleration of projects that were originally slated to be built over a longer time horizon. Community and business leaders have asked for consideration of such an accelerated timeline to avoid a near-tripling of traffic congestion predicted by 2030.[1]

To accomplish this accelerated building schedule, local government leaders requested Salt Lake County to place a general obligation bond on the ballot for voter approval in November 2006. As is the norm with local general obligation bonds, this proposal would include an increase in county property tax rates to provide funds for bond debt service.

Some observers have questioned whether a sales tax increase would be a better alternative than a property tax increase. The Salt Lake Chamber has asked Utah Foundation to analyze the potential impacts on businesses and households of a property tax increase compared to a sales tax increase.

This report provides a comparison of revenues that would be generated by a specific property tax proposal and a ¼-cent sales tax proposal. The potential impacts of these two tax proposals on households and business taxpayers in Salt Lake County are examined, along with economic and political factors that might affect either proposal.

## SUMMARY OF FINDINGS

Comparing a property tax sufficient to service a $900 million 30-year G.O. bond to a ¼-cent sales tax increase, either option would impose nearly the same aggregate tax burden on the business community. However, the business share of the overall tax burden is higher with the property tax than with the sales tax. For households, the sales tax imposes a significantly larger aggregate tax burden than the property tax.

Because household consumption is much larger in the aggregate than business consumption and the homeowner property base is much larger than business property, households would pay more than businesses under either tax scenario, even though the effective property tax rate on businesses is nearly twice as high as the rate on homeowners.

Different types of businesses would be impacted differently by either tax. For example, a business with large property holdings but small taxable consumption, such as the owner of a commercial office tower, would see a much larger impact from the property tax.

The sales tax option provides the following advantages and disadvantages:

**Advantages**
- Greater taxpayer/voter support
- Revenue grows with economy
- Future revenue could be used for additional projects or operating costs
- Tourists share in the tax burden

**Disadvantages**
- High current sales tax burden, although the tax rate in Salt Lake County is low compared to other western cities
- Limited legal and political headroom
- Higher burden on households
- Non-deductible for household federal taxes

The property tax option provides the following advantages and disadvantages:

**Advantages**
- Limited term and declining rate benefits taxpayers
- Authority to levy tax exists now
- Low current property tax burden
- Fairly equal division of aggregate tax burden between households and businesses
- Deductible on household federal tax returns

**Disadvantages**
- Debt proposed is close to county debt limit
- Lower taxpayer/voter support
- Minor tourist share in tax burden
- Does not grow with economy

Either option would generate revenues sufficient to build the projects proposed by UTA. Because of the desire (for simplicity's sake) to work with increments of ¼ cent on the sales tax, the sales tax increase would provide more revenue than the property tax proposal. The property tax option would generate a smaller revenue stream because the tax rate would decline each year as property values rise so that only what is needed for a predetermined debt service would be levied. The sales tax would increase each year as the economy grows and could allow debt to be retired more quickly. The property tax would sunset when the bonds are paid off, while the sales tax could continue in perpetuity to fund other capital projects or operating costs (although a sales tax authorization could be written with a sunset as well).

Which option is chosen depends on desired plans for future UTA infrastructure and services. If all that is needed is a limited-term revenue solely for capital projects, the property tax fits well. The fact that the authority to levy the tax already exists is a significant advantage. If an ongoing revenue stream for future projects or potential operating revenues is more attractive, the sales tax option may be worth pursuing. This effort could delay implementation, so the decision may also be affected by how urgent the timeline is for levying the tax and beginning construction.

## PROPERTY TAX ALTERNATIVE

According to draft estimates from Zions Public Finance, this project could be financed with a series of four 30-year bonds totaling $902 million. The debt service on these bonds would be financed

**Figure 1: Debt Service and Tax Rates for Series of 30-Year General Obligation Bonds**

| Year | Fiscal Year Ending Dec 31 | Debt Service Payments | Property Tax Rate To Service Debt |
|---|---|---|---|
| | 2007 | $0 | 0.000230 |
| 1 | 2008 | 13,524,494 | 0.000449 |
| 2 | 2009 | 26,995,239 | 0.000540 |
| 3 | 2010 | 33,528,902 | 0.000700 |
| 4 | 2011 | 43,632,752 | 0.000879 |
| 5 | 2012 | 55,271,188 | 0.000909 |
| 6 | 2013 | 58,542,422 | 0.000887 |
| 7 | 2014 | 58,538,430 | 0.000869 |
| 8 | 2015 | 58,539,403 | 0.000852 |
| 9 | 2016 | 58,536,118 | 0.000835 |
| 10 | 2017 | 58,544,186 | 0.000818 |
| 11 | 2018 | 58,539,058 | 0.000802 |
| 12 | 2019 | 58,542,784 | 0.000787 |
| 13 | 2020 | 58,538,347 | 0.000771 |
| 14 | 2021 | 58,544,003 | 0.000756 |
| 15 | 2022 | 58,538,279 | 0.000741 |
| 16 | 2023 | 58,538,825 | 0.000727 |
| 17 | 2024 | 58,542,452 | 0.000712 |
| 18 | 2025 | 58,536,657 | 0.000699 |
| 19 | 2026 | 58,542,934 | 0.000685 |
| 20 | 2027 | 58,537,090 | 0.000671 |
| 21 | 2028 | 58,534,568 | 0.000658 |
| 22 | 2029 | 58,544,453 | 0.000645 |
| 23 | 2030 | 58,536,426 | 0.000633 |
| 24 | 2031 | 58,539,983 | 0.000620 |
| 25 | 2032 | 58,543,703 | 0.000608 |
| 26 | 2033 | 58,542,186 | 0.000596 |
| 27 | 2034 | 58,539,909 | 0.000584 |
| 28 | 2035 | 58,531,710 | 0.000573 |
| 29 | 2036 | 58,541,248 | 0.000562 |
| 30 | 2037 | 58,542,110 | 0.000413 |
| 31 | 2038 | 45,017,435 | 0.000405 |
| 32 | 2039 | 45,013,845 | 0.000200 |
| 33 | 2040 | 25,006,734 | 0.000197 |
| 34 | 2041 | 25,009,572 | 0.000051 |
| 35 | 2042 | 10,002,268 | 0.000000 |

Note: The bonds would be issued in four phases with full implementation in year five. Each bond carries a 30-year term but the total repayment period is 35 years because of the staggered issuance of bonds.

Source: Zions Public Finance.

by property tax rates that would vary by year as shown in Figure 1. The bonds would be issued in phases, with the full debt incurred by 2011. By the sixth year of bond payment, the debt service in this plan would peak at about $58.5 million per year and remain at that level through year 30. This projection assumes very modest increases in the total assessed value of property in Salt Lake County from property development and appreciation. As the value of property increases, the property tax rate required to service the debt payments decreases, ranging from a high of .000909 to .000413 before it falls further as some of the bonds are paid off in the final five years.

A primary feature of general obligation bonds is that the taxing entity, in this case Salt Lake County, pledges its full faith and credit to pay the required debt service. That pledge means property tax rates will be adjusted each year in order to generate the needed revenue for the upcoming year's scheduled debt payments. If total assessed value were to increase faster than projected, the tax rate would be further reduced. Similarly, if assessed value increased slower than projected, the tax rates would need to be higher to service the debt.

## PROPERTY TAX INCIDENCE ON BUSINESSES AND HOMEOWNERS

An examination of 2004 property tax data shows that in Salt Lake County, business properties account for about 43% of the assessed value of all property. This includes real property, such as land and buildings, and personal property, such as business equipment, boats and recreational vehicles. It also includes property that is centrally assessed by the state, such as utilities, pipelines, airlines, and mines.

Owner-occupied homes are provided a tax exemption of 45% of value, which results in business property being taxed at almost twice the effective rate of homeowner property. Currently, the homeowner share of the property tax burden is about 57%. If the homeowners' exemption did not exist, the business share of property taxes would be about 30%, rather than the current 43% ratio, and homeowners would pay 70%, simply because there is much more homeowner property than business property in Salt Lake County.

Figure 2 shows the aggregate impact of the proposed property tax on business and household taxpayers during the first seven years as

**Figure 2: Business and Homeowner Shares of Proposed Property Tax Increases**

| Year | Property Tax at Varying Rates | Business Share | Homeowner Share |
|---|---|---|---|
| 2007 | $12,179,835 | $5,359,128 | $6,820,708 |
| 2008 | 24,774,868 | 10,900,942 | 13,873,926 |
| 2009 | 30,368,893 | 13,362,313 | 17,006,580 |
| 2010 | 40,172,680 | 17,675,979 | 22,496,701 |
| 2011 | 51,455,362 | 22,640,359 | 28,815,003 |
| 2012 | 54,292,936 | 23,888,892 | 30,404,044 |
| 2013 | 54,062,695 | 23,787,586 | 30,275,109 |

Sources: Tax revenues from Zions Public Finance estimates. Business and Homeowner ratios estimated by Utah State Tax Commission in "Western States' Tax Burdens, Fiscal Year 2002-2003." Calculations by Utah Foundation.

**Figure 3: Salt Lake County Assessed Values and Property Taxes Levied, 2004**

| Line | Class of Property | Assessed Value | Percent of Total | Property Tax | Percent of Total |
|---|---|---|---|---|---|
| 1 | **Real Property** | **$42,772,474,608** | **84.5%** | **$633,021,124** | **84.6%** |
| 2 | Primary Residential | 26,870,601,388 | 53.1% | 399,237,611 | 53.3% |
| 3 | Other Residential | 1,565,270,250 | 3.1% | 23,492,211 | 3.1% |
| 4 | Commercial & Industrial | 14,280,623,800 | 28.2% | 209,440,159 | 28.0% |
| 5 | Non Farmland Assessment Act (FAA) Agricultural | 2,622,520 | 0.0% | 34,470 | 0.0% |
| 6 | FAA Agricultural | 53,356,650 | 0.1% | 816,673 | 0.1% |
| 7 | | | | | |
| 8 | **Personal Property** | **3,589,879,548** | **7.1%** | **52,718,038** | **7.0%** |
| 9 | Mobile Homes for Primary Residence | 74,534,771 | 0.1% | 1,083,841 | 0.1% |
| 10 | Mobile Homes Non Primary Residence | 5,485,380 | 0.0% | 80,349 | 0.0% |
| 11 | Other Personal Property | 3,509,859,397 | 6.9% | 51,553,848 | 6.9% |
| 12 | | | | | |
| 13 | **Centrally Assessed Property** | **3,053,401,531** | **6.0%** | **45,837,121** | **6.1%** |
| 14 | Airlines | 924,916,350 | 1.8% | 14,012,511 | 1.9% |
| 15 | Other Transportation | 58,496,747 | 0.1% | 845,050 | 0.1% |
| 16 | Power | 638,346,061 | 1.3% | 9,564,415 | 1.3% |
| 17 | Telephone | 1,091,895,959 | 2.2% | 16,316,203 | 2.2% |
| 18 | Pipeline & Gas Utilities | 339,746,414 | 0.7% | 5,098,942 | 0.7% |
| 19 | | | | | |
| 20 | **Natural Resources** | **1,183,716,773** | **2.3%** | **16,872,228** | **2.3%** |
| 21 | Metal Mines | 1,095,692,164 | 2.2% | 15,557,310 | 2.1% |
| 22 | Sand & Gravel | 87,176,662 | 0.2% | 1,302,890 | 0.2% |
| 23 | Non-Metal Mines | 847,947 | 0.0% | 12,028 | 0.0% |
| 24 | | | | | |
| 25 | **TOTAL** | **$50,599,472,460** | **100.0%** | **$748,448,511** | **100.0%** |
| 26 | | | | | |
| 27 | **Household Property (Lines 2, 3, 9 & 10)** | **$28,515,891,789** | **56.4%** | **$423,894,012** | **56.6%** |
| 28 | **Business Property (All other lines)** | **$22,083,580,671** | **43.6%** | **$324,554,499** | **43.4%** |

Source: Utah State Tax Commission data from "Utah Property Tax: 2004 Annual Statistical Report."

the tax ramps up and then levels off at about $54 million per year in 2012 and thereafter. Note that this is less than the $58.5 million debt service shown in Figure 1, because some of the debt service would be paid through the fee-in-lieu that applies to motor vehicles and some would be paid through collections of past due property tax from prior years. When fully phased in, this results in taxes of $23.8 million on businesses in Salt Lake County and $30.3 million on households.

The tax in 2012 would be about $100 on a $200,000 home and would decline in subsequent years. For business property, the tax would equal nearly $91 for each $100,000 of property value, or $909 per $1 million in property value.

To further understand the impact of this tax on business taxpayers, Utah Foundation examined data from the Utah State Tax Commission, showing assessed values of property classes in Salt Lake County in 2004. Figure 3 shows that business properties comprise about 43% of the tax roll, as described above. However, Figure 3 provides a deeper look at how the tax burden is distributed. Any new property tax rate would apply to these classes of property in the same proportions as the current property tax.

For example, about six percent of a new property tax would be paid by centrally assessed taxpayers, including utilities and airlines. About 2.3 percent would be paid by mining interests. About 28 percent of the tax would be derived from land and buildings owned by businesses, and less than seven percent of the tax would be derived from business equipment taxes.

Data were not available to allocate property taxes by industrial classifications to understand how much would be paid by manufacturers or retailers or any other type of business, except those listed as centrally assessed and natural resources property owners. However, some anecdotal cases can be constructed with data from the Salt Lake County Assessor's online database of parcel information.[2] These cases can help illustrate the impact on various types of taxpayers of such a tax increase.

### EXAMPLES OF PROPERTY TAX INCREASES

To better illustrate the impact of the property tax increase required to service these bonds, some examples of business taxpayers were obtained through the county database mentioned above. Figure 4 shows how these companies would have been affected if the maximum property tax from Figure 1 had been imposed in 2005.

**Figure 4: Examples of Property Tax Increases on Business Taxpayers**

| Business Type | Property Value | Property Tax* | New Bond Prop. Tax** | % Tax Increase |
|---|---|---|---|---|
| Car dealership | $7,380,100 | $85,469 | $6,709 | 7.8% |
| Retail "supercenter" | 12,804,800 | 191,099 | 11,640 | 6.1% |
| Retail grocery store | 2,655,000 | 35,231 | 2,413 | 6.9% |
| Large office building | 55,557,400 | 829,138 | 50,502 | 6.1% |
| Small office building | 2,297,500 | 34,287 | 2,088 | 6.1% |
| Bank branch | 686,800 | 8,673 | 624 | 7.2% |
| Large hotel | 28,994,000 | 432,706 | 26,356 | 6.1% |
| Motel | 2,056,600 | 30,693 | 1,869 | 6.1% |
| Medium manufacturer | 15,635,400 | 230,653 | 14,213 | 6.2% |
| Small manufacturer | 5,432,500 | 69,585 | 4,938 | 7.1% |

*Value and tax are from 2005 property tax statistics.
** Assumes highest property tax increment from G.O. Bond (.000909) if it were in place in 2005.
Sources: Salt Lake County Assessor (www.slpropertyinfo.org), with calculations by Utah Foundation.

Obviously, the largest tax increases, in terms of absolute dollars, would fall on those companies with large amounts of property, such as a downtown high-rise office building owner or a large hotel. Manufacturers with expensive buildings and equipment would also see a large tax increase in terms of dollars, but as a percentage of current property taxes, each of these businesses would experience an increase of about six to eight percent.

The differences in the percentage tax increase are merely a reflection of how high the current tax rate is on these companies. Those with a lower tax rate currently (usually companies in suburban areas) would see a higher percentage increase from the added rate for the G.O. bond. If the values of property were projected forward to 2012, when the highest rate from the bond would actually be in place, the percentage tax increase would be the same, because both the current and new taxes would be larger in proportion to the higher projected property value.

### PUBLIC POLICY IMPLICATIONS OF A PROPERTY TAX FUNDED GENERAL OBLIGATION BOND

***Declining tax burden and limited term.*** One of the features of a general obligation bond is that the property tax rate is changed each year so that it generates only the revenue needed to service the debt. As long as overall property value increases in the county (by new construction and appreciation of existing property), the tax rate will decline over time. This provides a benefit to taxpayers by reducing the tax burden of the bond over time, but it does not allow the taxing entity to benefit from economic growth providing additional revenue. The tax rate for a G.O. bond will also be eliminated when the last debt service payment is made, making this a temporary revenue only for capital investment, while an ongoing tax could be converted into operating revenues when the debt is retired or used to cover debt for additional projects.

***Minor impact on tourists.*** A property tax does not capture much revenue from tourism, except in an indirect way from ski resorts, hotels, airlines, or other companies that derive much of their revenue from tourism. Nevertheless, as tourism grows, the property tax will not necessarily grow with that economic activity, since property values are not directly linked to tourism activities. Tourism does place additional loads on transit and other transportation systems, but property taxes do not respond to that load.

***Not directly tied to economic growth.*** The property tax does not respond quickly to economic growth, and in some economic cycles, it may not respond much at all. When Utah's economy grows strongly as it is now, income taxes and sales taxes grow immediately to match that economic growth. Property values sometimes do not grow much during these expansion periods, as in the late 1990s, when Utah's economy was quite strong, but home price appreciation fell to last in the nation. Conversely, some parts of the country saw rapid home price appreciation even during the 2001-2003 recession, because low interest rates drove a housing boom. This makes the property tax generally more stable than income or sales taxes, but it also provides less growth during boom times.

***Authority exists in Utah law for this tax now.*** With approval of Salt Lake County and county voters, this tax could be levied within the coming year. If a sales tax were desired, business and community officials would need to ask the state Legislature to amend state statutes that limit local sales tax rates. This could extend the time to implementation and creates additional uncertainty about the funding outcome.

***Federal deductibility.*** For household taxpayers, a property tax increase would be deductible on federal income tax returns, reducing the eventual burden of the tax somewhat. This is not a concern for business taxpayers, which can deduct taxes as a cost of doing business.

### POLITICAL IMPLICATIONS OF A PROPERTY TAX INCREASE

***Low tax burden ranking.*** Currently, Utah's property tax is low compared to other states. In 2004, when Utah Foundation last performed a ranking on state and local taxes, Utah's property tax burden as a percent of personal income was lower than 35 other states.[3] This low tax burden is partly the result of Utah's Truth in Taxation law, which for 20 years has created political pressure for rate reductions when property values increase. It is also a reflection of anti-property tax sentiment common in western states. However, this low tax burden signifies that there is economic or political "headroom" available, that taxpayers may feel that such an increase is affordable since the overall property tax is affordable. As evidence that Utah's current property tax burden is reasonable, a recent report from Ernst & Young showed that Utah currently has the seventh best property tax climate for business among the 50 states and the District of Columbia.[4]

*Attitudes about property taxes*. Politicians often say the property tax is the "most hated tax." This may be true, and one reason it evokes animosity is that its tax burden is quite transparent. Because taxpayers receive a lump-sum bill each November and often pay the tax in one large payment, it can feel painful to pay. Income tax payments are usually made through payroll withholdings or quarterly payments, which makes the tax easier to comply with. Sales taxes are paid in thousands of transactions each year, making their burden much less visible in the aggregate and much less difficult to pay. Taking a property tax increase to voters for a general obligation bond may prove difficult, because of potential feelings of animosity toward the tax.

*County debt limit and credit rating*. Salt Lake County has a strong credit rating. As the county would be the issuer of these bonds, care must be taken that this level of debt does not reduce that strong credit rating. State law limits the county's outstanding G.O. bond debt to two percent of total assessed value in the county. According to the County Treasurer, at December 31, 2005, the county had slightly less than $200 million in outstanding G.O. debt, and its debt limit was $1.4 billion. If $900 million in new G.O. debt were to be issued immediately, only $300 million would remain under the debt limit. Reducing available debt capacity in such a manner could limit the county's capability to respond to large-scale disaster or other needs that would call for debt issuance. However, the proposed general obligation bonds would be issued in a four-part series, with the final increment to be issued in 2011. The county's debt limit will have grown by then, and this additional capacity may provide enough flexibility to meet future county needs and satisfy debt rating agencies.

## SALES TAX ALTERNATIVE

Instead of raising property taxes and issuing general obligation bonds, these TRAX projects could be funded by raising the Salt Lake County sales tax rate by ¼ cent. The county could issue bonds based on the sales tax revenue stream. Figure 5 shows projected revenues from a ¼-cent sales tax compared to the estimated property taxes from the estimates above for the G.O. bond proposal. Clearly, revenues from a ¼-cent sales tax would exceed the revenues from the proposed property tax, which would allow the bonds to be retired sooner than the 30-year term described above. Alternatively, other projects could be added to the proposal and a higher debt level could be sustained with these revenues. Or some of the revenue could be utilized for operating costs of the new TRAX lines or for other services such as new bus routes designed to connect to the new TRAX lines.

**Figure 5: Revenues from 1/4-Cent Sales Tax Compared to Property Tax for $900 Million Bond**

| Year | 1/4 Cent Sales Tax* | Property Tax at Varying Rates** |
|---|---|---|
| 2007 | -- | $12,179,835 |
| 2008 | $52,560,000 | 24,774,868 |
| 2009 | 55,450,800 | 30,368,893 |
| 2010 | 58,500,594 | 40,172,680 |
| 2011 | 61,718,127 | 51,455,362 |
| 2012 | 65,112,624 | 54,292,936 |
| 2013 | 68,693,818 | 54,062,695 |
| 2014 | 72,471,978 | 54,001,582 |
| 2015 | 76,457,937 | 53,974,793 |

* Assumes growth of 5.5% per year. 2008 figure based on Zions Public Finance estimate.
** Same property tax figures as in Figure 2, based on Zions Public Finance projections.

A new sales tax for transit projects would not necessarily sunset as the property tax for a G.O. bond would. However, policymakers could choose to place a sunset date on the sales tax increment, or they could allow use of the revenue in perpetuity for additional capital projects or continuing transit operating costs.

## SALES TAX INCIDENCE ON BUSINESSES AND HOUSEHOLDS

The Utah State Tax Commission estimates that businesses pay 31 percent of the total general sales tax in Utah.[5] This calculation does not refer to the sales tax that is passed on to customers at the cash register, but it is sales taxes on items a business consumes for its own use or taxes on equipment a business purchases for its operations. For example, a law firm will pay sales taxes on paper, office supplies, and other consumption related to the pursuit of its business. A manufacturing firm will pay sales taxes on equipment and tools purchased for use in producing the goods it sells. Unless a specific exemption exists, these business inputs are taxable. Businesses are exempt from taxation on the raw materials they use to produce taxable goods for sale, such as plastic used in making a toy. But the machinery used to create that toy is taxable, although Utah's Legislature has considered broader exemptions for these business inputs to production.

Figure 6 shows how the Tax Commission estimates the incidence of general sales taxes by type of good purchased. These data only provide information about the types of goods and services purchased, and data are not available to describe how this tax impacts different business sectors as consumers of these goods and services.[6] Therefore, we cannot estimate how a sales tax increase would affect manufacturers versus commercial building owners or other types of businesses as we did with the property tax information earlier.

Nevertheless, we can make some comment about the types of businesses highly impacted by a sales tax increase. Those businesses that purchase very expensive equipment on a regular basis would be significantly impacted. This could include manufacturers, especially high-tech manufacturers, whose equipment can become outdated in a short period, requiring frequent investment. Companies that operate large fleets of automobiles would also face a significant sales tax bill for purchases of vehicles.

**Figure 6: Salt Lake County Taxable Sales by Economic Sector, 2005**

| Major Economic Sector | Gross Sales 2005* | Household Share** | Household Sales 2005 | Business Sales 2005 |
|---|---|---|---|---|
| Agriculture, Forestry & Fishing | $28,684,551 | 5.0% | $1,434,228 | $27,250,323 |
| Mining | 88,033,712 | 1.0% | 880,337 | 87,153,375 |
| Construction | 205,994,647 | 66.7% | 137,398,430 | 68,596,217 |
| Manufacturing | 879,567,562 | 8.0% | 70,365,405 | 809,202,157 |
| Transportation | 67,964,271 | 5.0% | 3,398,214 | 64,566,057 |
| Communications | 686,337,049 | 55.0% | 377,485,377 | 308,851,672 |
| Electric & Gas | 716,897,287 | 55.0% | 394,293,508 | 322,603,779 |
| Wholesale - Durable Goods | 2,033,507,472 | 40.0% | 813,402,989 | 1,220,104,483 |
| Wholesale - Nondurables | 395,425,869 | 40.0% | 158,170,348 | 237,255,521 |
| Retail - Building & Garden | 888,584,862 | 68.0% | 604,237,706 | 284,347,156 |
| Retail - General Merchandise | 1,745,424,995 | 90.0% | 1,570,882,496 | 174,542,500 |
| Retail - Food Stores | 1,404,135,013 | 95.0% | 1,333,928,262 | 70,206,751 |
| Retail - Motor Vehicles | 1,995,844,197 | 75.0% | 1,496,883,148 | 498,961,049 |
| Retail - Apparel & Accessories | 510,464,132 | 92.0% | 469,627,001 | 40,837,131 |
| Retail - Furniture | 925,653,826 | 84.0% | 777,549,214 | 148,104,612 |
| Retail - Eating & Drinking | 181,309,743 | 80.0% | 945,047,794 | 236,261,949 |
| Retail - Miscellaneous | 1,273,372,632 | 91.0% | 1,158,769,095 | 114,603,537 |
| Finance, Insurance & Real Estate | 195,090,647 | 66.7% | 130,125,462 | 64,965,185 |
| Services - Hotel & Lodging | 347,989,509 | 20.0% | 69,597,902 | 278,391,607 |
| Services - Personal | 117,389,071 | 90.0% | 105,650,164 | 11,738,907 |
| Services - Business | 676,142,043 | 33.3% | 225,155,300 | 450,986,743 |
| Services - Auto & Repair | 615,193,558 | 60.0% | 369,116,135 | 246,077,423 |
| Services - Amusement & Rec | 334,544,448 | 66.7% | 223,141,147 | 111,403,301 |
| Services - Health | 53,646,619 | 60.0% | 32,187,971 | 21,458,648 |
| Services - Education | 127,545,084 | 90.0% | 114,790,576 | 12,754,508 |
| Public Administration | 41,127,028 | 66.7% | 27,431,728 | 13,695,300 |
| Private Motor Vehicle Sales | 202,498,291 | 80.0% | 161,998,633 | 40,499,658 |
| Occasional Retail Sales | 38,110,286 | 75.0% | 28,582,715 | 9,527,572 |
| Nondisclosable / Nonclassifiable | 7,233,287 | 50.0% | 3,616,644 | 3,616,644 |
| | | | | |
| **Total Taxable Sales** | **$17,783,711,694** | | **$11,805,147,925** | **$5,978,563,766** |
| **Total Household / Business Share** | | | **66.4%** | **33.6%** |

* Compiled from Utah State Tax Commission quarterly reports for 2005.
** Estimates of household share of sales tax burden by Utah State Tax Commission in 1999.

Source: "Western States' Tax Burdens Fiscal Year 1997-98."

For most of Salt Lake County, a ¼-cent increase in sales taxes would be a 3.8% increase in the sales tax burden. This compares to about a 6% increase in property taxes if the G.O. bond were approved. Despite the lower percentage increase in tax burden, the sales tax option would be a larger dollar increase, because existing sales tax revenue is higher than existing property tax revenue.

## PUBLIC POLICY IMPLICATIONS OF A SALES TAX INCREASE

***Tax revenue will rise with economic growth.*** A fixed sales tax rate will grow with Utah's economy. If the Utah economy grows faster than projected, the tax revenue could rise enough to retire the bonds early. On the other hand, if the economy slips into recession, this tax would grow slower than expected which may impair the ability to make debt service payments, unless a reserve is budgeted to cover such a slowdown. In addition, a sales tax does not necessarily expire after a fixed term like a property tax enacted for servicing a bond. If the sales tax were permanent, it could be used to fund a series of capital projects in the future or be converted to an operating revenue for future transit services.

One caveat to the statement that sales tax revenues will rise with economic growth: over long periods of time, sales taxes have grown slower than the economic as a whole, because American consumption patterns are shifting to more purchases of services, which are generally not taxed. In the short run, Utah's sales tax appears to be growing quite well in recent years, but long-term trends show slower growth than personal income, which is the most popular measure of state economic growth.

***Tourists share in the tax burden.*** Sales taxes allow some of the tax burden to be shared by visitors to the state. Those who come to Utah for skiing or other recreational activities would help support the state's transportation system by paying sales taxes on their purchases in Utah.

***Federal non-deductibility.*** Sales taxes are not deductible on federal income tax returns by household taxpayers. Therefore, there is no federal offset to subsidize the tax burden on Utah households. This is not a concern for business taxpayers, which can deduct taxes as a cost of doing business.

## POLITICAL IMPLICATIONS OF A SALES TAX INCREASE

***High sales tax burden.*** Utah's overall tax burden in relation to personal income is high. Utah's general sales tax burden ranks higher than all but eight states.[7] This is not to say that Utah's sales tax rates are out of line with other states; rather, the sales tax base is broader than in many states because Utah taxes all food. This will change if food for home consumption is eventually exempted from taxation as has been begun with legislation passed this year to phase out the food tax.

To place Utah sales tax rates in context, Figure 7 shows combined state and local sales tax rates in the largest city of each of the western states that have a sales tax. Salt Lake City ranks low, at seventh among the nine cities.

***Low transparency.*** Although Utah's sales tax burden is high compared to other states, the burden of this tax on any given household is quite opaque. Unlike the property tax, which is billed as a lump sum each year, Utah consumers do not generally know how much sales tax they pay per year. This probably allows sales taxes to pass with less opposition than the highly visible property tax.

***State law must be changed to levy this tax.*** If a new sales tax increment is desired, a change in state law will be required. This delays potential levying of the tax, unless a special Legislative session were convened soon to allow a vote on sales taxes this year. This may also be complicated because the Legislature is working to remove the sales tax from food, and approving a new sales tax increment for transit might be seen as "taking back" some of the tax relief given to taxpayers in that effort.

**Figure 7: Sales Tax Rates in the Largest City of Each Western State**

| City and State | Combined Sales Tax Rate |
|---|---|
| Seattle, Washington | 8.800% |
| Los Angeles, California | 8.250% |
| Phoenix, Arizona | 8.100% |
| Las Vegas, Nevada | 7.750% |
| Denver, Colorado | 7.600% |
| Albuquerque, New Mexico | 6.875% |
| **Salt Lake City, Utah** | **6.600%** |
| Boise, Idaho | 6.000% |
| Cheyenne, Wyoming | 6.000% |

Sources: City and state departments of revenue and Utah State Tax Commission.

**Figure 8: Projected Revenue from Sales and Property Tax Increases in Salt Lake County, Business and Household Share of Tax Burden**

| Year | 1/4 -Cent Sales Tax | Business Share | Household Share | Property Tax @ Varying Rates | Business Share | Homeowner Share |
|---|---|---|---|---|---|---|
| 2007 | -- | -- | -- | $12,179,835 | $5,359,128 | $6,820,708 |
| 2008 | $52,560,000 | $16,293,600 | $36,266,400 | 24,774,868 | 10,900,942 | 13,873,926 |
| 2009 | 55,450,800 | 17,189,748 | 38,261,052 | 30,368,893 | 13,362,313 | 17,006,580 |
| 2010 | 58,500,594 | 18,135,184 | 40,365,410 | 40,172,680 | 17,675,979 | 22,496,701 |
| 2011 | 61,718,127 | 19,132,619 | 42,585,507 | 51,455,362 | 22,640,359 | 28,815,003 |
| 2012 | 65,112,624 | 20,184,913 | 44,927,710 | 54,292,936 | 23,888,892 | 30,404,044 |
| 2013 | 68,693,818 | 21,295,084 | 47,398,734 | 54,062,695 | 23,787,586 | 30,275,109 |
| 2014 | 72,471,978 | 22,466,313 | 50,005,665 | 54,001,582 | 23,760,696 | 30,240,886 |
| 2015 | 76,457,937 | 23,701,960 | 52,755,976 | 53,974,793 | 23,748,909 | 30,225,884 |

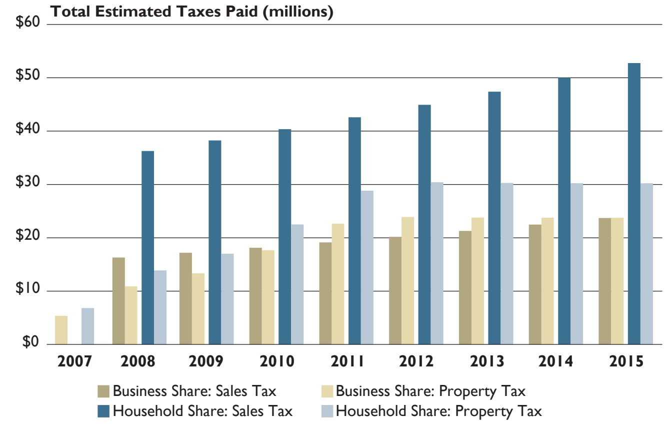
Sources: See Figures 2, 3, & 5. Business share of sales tax from Utah State Tax Commission; see endnote 5.

***Competition for local "headroom."*** Some cities and counties also have desires to use additional sales taxes for their own local purposes. They express concerns about any of the current "headroom" being taken by other governmental entities. The concept of headroom is both legal and political; the state places a legal limit on how much local sales tax can be enacted, and voters may only support a small additional increment of sales taxes before they feel that the rate is too high. Some local governments may not approve of that increment being used for transit if they plan to place their own sales tax increase on a future ballot.

## COMPARISON OF PROPERTY AND SALES TAX IMPACTS ON BUSINESSES AND HOUSEHOLDS

Figure 8 shows projected revenues from either a ¼-cent sales tax or the varying property tax rates needed to support a $900 million G.O. bond in Salt Lake County. Figure 9 shows the same data in graphic form. These charts assume a sales tax would not be implemented until 2008. This could change if a special session approves a sales tax option that could be voted on this November, allowing a 2007 implementation. In terms of total dollars paid, the sales tax and the property tax carry a similar burden for the business community. For households, however, the property tax imposes a lower total burden than the sales tax. In either case, households would pay more than businesses in the aggregate because household property holdings are larger than business property holdings and household consumption is larger than business consumption. For individual households, however, the effective property tax rate is significantly lower than for a business, since homeowners receive a 45 percent exemption of value for their primary residence.

**Figure 9: Business and Household Impacts of Sales and Property Tax Increases for Transit**




## ENDNOTES

[1] "Accelerating Utah Transportation Investments – Needs – Costs – Funding Options," published by Utah 2015 Transportation Alliance and the Salt Lake Chamber. Available at http://www.saltlakechamber.org/policy/issues/2015transportation/2015transneedsanalysis.pdf.

[2] Available at http://www.slpropertyinfo.org. Examples constructed from this data represent actual businesses located in the database by an address search.

[3] "Utah's Tax Situation," Utah Foundation, May 2004. Available at http://www.utahfoundation.org/research.

[4] "Property Taxes on Business Capital," Ernst & Young, March 2006. Available online: http://www.ey.com/global/download.nsf/US/Property_Taxes_on_Business_Capital/$file/PropTaxesOnBusCapital.pdf.

[5] "Western States' Tax Burdens, Fiscal Year 2002-2003," Utah State Tax Commission, February 2004. Available online: http://www.tax.utah.gov/esu/burdens.

[6] The total business share of sales taxes shown in Figure 6 is slightly higher than the 31% calculated in the more recent Tax Commission report cited above. However, the more recent report did not provide the detail on sales taxes paid by economic sector. The 31% ratio is used to calculate the business share in Figure 8.

[7] "Utah's Tax Situation," Utah Foundation.

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