

PRIORITY ISSUE #5: TAXES AND GOVERNMENT SPENDING

Each gubernatorial election year since 2004, Utah Foundation organizes the Utah Priorities Project in partnership with the Hinckley Institute of Politics. The project is designed to engage the public and political candidates in serious dialogue on the most important issues facing our state. It begins with survey work that establishes what voters view as the top ten issues for the election year. This month, Utah Foundation releases a series of policy briefs of each of the top ten issues. In 2012, voters listed taxes and government spending as the 5th most important priority in the election year.

Utah has historically had a high burden of taxes and fees, ranking as high as 12th in the nation in 2004 and always in the top 20 high-burden states from 1994 to 2008. In 2011, Utah Foundation compared tax burdens to demands for public services, and found that Utah’s young population places particularly high demands on state and local government for public K-12 and higher education.¹ This helped explain the primary drivers behind Utah’s high tax and fee burden.

In a significant change from recent history, Utah’s burden of taxes and mandatory fees now falls well below the national average. When speaking of tax burden, Utah Foundation uses the measure of revenues per \$1,000 of personal income. This provides a depiction of tax and fee revenues in proportion to Utah’s economy and the incomes of residents. Another measure sometimes used is revenues per capita, but Utah’s unusually large population of children dilutes such a measure, giving Utah a lower ranking based on individuals who are not old enough to pay taxes.

Government-imposed fees are included in Utah Foundation’s measure of tax burden, because over time, many public agencies have levied fees as an alternative to taxes. In some cases, these fees are voluntary payments for a desired service, such as public college tuition or green fees at a municipal golf course. In other cases, these fees are mandatory exactions, such as sewer and water fees.

	U.S.	Utah	National Rank
All Taxes & Fees	\$140.03	\$142.06	20
Taxes & Mandatory Fees	118.71	110.93	31
All Taxes	105.87	95.61	38
Individual Income Tax	21.71	24.18	22
General Sales Tax	23.76	25.38	21
Property Tax	36.83	26.43	39
Corporate Income Tax	3.57	2.83	24
Motor Fuel Tax	3.16	4.04	17
All Fees	34.15	46.44	6
Mandatory Fees	12.84	15.31	8
Tuition & College Fees	8.84	15.86	5
Other Optional Fees	12.47	15.27	11

Sources: U.S. Census Bureau, Bureau of Economic Analysis (BEA).
Calculations by Utah Foundation.

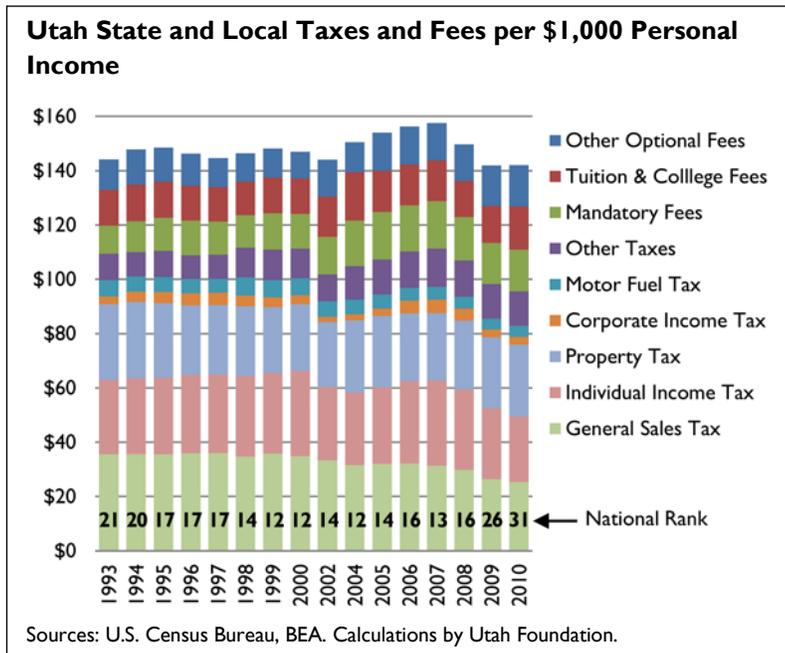
The above table shows the major taxes and fees collected in Utah compared to the national average for state and local governments. Utah ranks low in property taxes, slightly above average in individual income and sales taxes, and high in both mandatory and optional government fees. The best overall measure of Utah’s tax burden is the sum of taxes and mandatory fees, which places Utah at 31st in the nation. This is a surprisingly low ranking compared to the past two decades, and it is the result of two main factors: 1) tax reductions enacted in 2006 and 2007, and 2) a decline in revenues due to the impacts of the Great Recession at the end of the decade.

Major Tax Reductions

In 2006 and 2007, the Utah State Legislature and Governor Jon Huntsman enacted major reductions in Utah’s individual income and sales taxes. It was a time of rapid revenue growth due to a fast-paced economy, which created political flexibility for reducing revenue growth. The reductions also fit Governor Huntsman’s goals to craft a lower-rate, simpler income tax for economic competitiveness. Lastly, the reduction lowered the sales tax on food for reasons of economic justice.² The move to a flat-rate individual income tax with limited deductions was originally estimated to reduce income tax revenues by \$190 million. The reduction in sales taxes on food was estimated to reduce state and local sales tax revenues by \$140 million. Another reduction in the overall state sales tax rate was expected to reduce revenues by \$40 million. Other small tax reductions were also enacted in this period, estimated at about \$50 million in reductions. In all, these changes were expected to reduce state and local revenues by \$420 million at full implementation.³ This was about an 8% reduction to the nearly \$5 billion in general and education funds generated at the time. However, legislative tax experts now say the tax reductions were slightly smaller, because Utah’s economic base was shrinking when the cuts were fully phased in.

Recessionary Impacts

As those large tax cuts were being implemented, the national economy entered the Great Recession. The impacts of the recession began to affect Utah in 2008, with job losses and declines in personal income resulting in further reductions in state revenues. Fiscal year 2010 is the most recent year for which these tax burden figures are available nationwide, and in that year, Utah's individual income and sales taxes were nearly \$900 million below the level of fiscal year 2008.⁴



This decline in revenues corresponds to Utah's drop in national tax-and-fee burden rankings from 16th highest in 2008 to 31st in 2010. This is a dramatic drop in the rankings, especially after two decades of Utah ranking solidly in the top 20 high-burden states nationally. According to the estimates published when sales and income taxes were reduced, almost half of the decline over these two years was the result of those tax cuts, with the remainder being the result of the severe economic slowdown.

Faced with similar recession-induced revenue declines, many states raised taxes in recent years. According to the Center on Budget and Policy Priorities, 33 states had raised revenues by the spring of 2010.⁵ Utah has not enacted any significant tax increases in recent years, with the Legislature and Governor Gary Herbert agreeing to reduce spending to keep the budget in balance. This contrast in approaches likely explains some of the change in Utah's tax burden ranking – other states

increased their tax burdens, at a time when Utah kept taxes steady after a large reduction.

State Spending Changes

One of the consistent findings in Utah Foundation's Utah Priorities Surveys is that voters' greatest concern about taxes is related to how their tax dollars are spent. This is rated as more important than the overall tax burden or spreading the tax burden fairly. When asked for their preferences on state spending, voters clearly say that spending for K-12 public education should increase, and to a lesser extent, that spending for higher education, healthcare, and law enforcement should also increase.⁶ However, they would prefer that overall state spending decrease. Those two desires are incompatible, as the favored spending areas constitute nearly 80% of spending from state general and education funds.

In the wake of the Great Recession, state spending has been reduced significantly, with operational spending from general and special funds declining from \$4.9 billion in 2008 to \$4.3 billion in 2010. This was an overall decline of about 14%. The spending reductions were spread across all areas of the budget, although public education was reduced by a lower amount (9%) than most programs. Higher education, however, saw a 16% reduction during this period. Both K-12 and higher education experienced large increases in student loads during this period, making the funding reductions particularly difficult. After 2010, spending began to rise again as revenues began to recover.

This Utah Priorities Brief was written by Utah Foundation President Stephen Hershey Kroes. Contact him at (801) 355-1400 or by email at steve@utahfoundation.org.

¹ Utah Foundation Research Report #699, "Making Sense of Utah's Tax and Fee Burdens," March 2011.

² Salt Lake Tribune, "Huntsman's legacy in Utah: tax reform," Oct. 2, 2011. <http://www.sltrib.com/sltrib/home2/52598654-183/tax-huntsman-utah-reform.html.csp>

³ "Tax Relief & Reform: What Does It Mean for Taxpayers?" Briefing Paper, Office of Legislative Research and General Counsel, March 2007. <http://le.utah.gov/lrgc/Briefings/TaxReliefandReform2007.pdf>

⁴ The latest tax and fee revenue figures are from "State and Local Government Finances," U.S. Census Bureau, released Sep. 26, 2012. <http://www.census.gov/govs/estimate/>

⁵ "Budget Cuts or Tax Increases at the State Level: Which Is Preferable When the Economy Is Weak?" Center on Budget and Policy Priorities, Apr. 28, 2010. <http://www.cbpp.org/cms/?fa=view&cid=1032>

⁶ Utah Foundation Research Report #706, "The 2012 Utah Priorities Survey: The Top Issues and Concerns of Utah Voters for the 2012 Election," March 2012. <http://www.utahfoundation.org/reports/?p=839>

The mission of Utah Foundation is to promote a thriving economy, a well-prepared workforce, and a high quality of life for Utahns by performing thorough, well-supported research that helps policymakers, business and community leaders, and citizens better understand complex issues and providing practical, well-reasoned recommendations for policy change.