

Utah's Tax Burden

May 13, 2004

Measuring tax burden can be a complicated task. One issue is whether to measure the burden per capita, dividing tax revenues by population, or to use a measure that expresses the burden in proportion to income. Utah Foundation chooses to use a measure based on income, because it most clearly illustrates the financial load placed on residents and businesses to pay for government services. For Utah, per capita measures are always skewed by the state's large child population and do not seem to fairly compare Utah to other states.

Another issue is which taxes or revenues to use as the basis for the comparison. Utah Foundation uses taxes and fees as reported to the Bureau of the Census. Using the Census Bureau provides a standardized set of data for comparison to other states, and including fees has become important as government agencies have moved to greater fee funding to supplement tax funding over the past 25 years.

In this Research Brief, Utah Foundation examines Utah's state and local tax and fee burdens and then adds an estimate for federal taxes to provide a measure of all taxes paid by Utah residents and businesses. The federal data do not include fees and are from a different source – the Tax Foundation.

Utah has a high state tax burden, a low local government tax burden, and a low federal tax burden. Together, these add to a moderate combined state, local and federal tax burden.

State Taxes & Fees

Utah's state tax burden is quite high, ranking 8th highest in the nation. This is partly the result of funding a public education system for Utah's substantial student population. Utah's average family size is the largest in the nation, and this results in a large student population and heavy demands on the tax system to fund the education system. Utah's student-age population (ages 5-17) is 20% larger than would be expected for an average state.

Figure 1: State Tax & Fee Burden

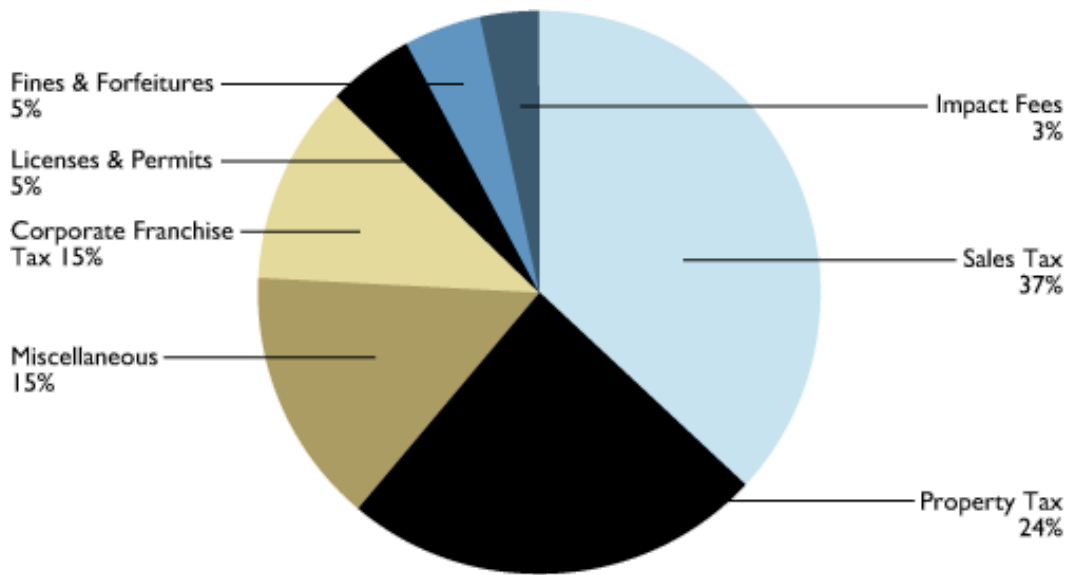
Mountain States	Per \$1,000 Personal Income	National Rank
1. New Mexico	\$114.98	3
2. Utah	99.50	8
3. Idaho	90.57	16
4. Montana	87.26	18
5. Wyoming	78.51	29
6. Arizona	70.32	38
7. Nevada	69.54	39
8. Colorado	61.70	47

Source: Bureau of the Census (Census); Bureau of Economic Analysis (BEA); Calculations by Utah Foundation

Local Taxes & Fees

Local governments, including cities, towns, counties, special districts and multipurpose districts, receive most of their revenue from the local sales tax (all 29 counties levy the maximum 1% sales tax). The property tax also contributes a significant portion of local revenues.

Figure 2: Utah Local Government Taxes & Fees, 2002



Utah League of Cities and Towns' compilation of municipality Comprehensive Annual Financial Reports (CAFRs); Utah State Auditor's Office

Taxes levied by Utah's local governments are lower than the national average. The Mountain States range from having very low to very high local burdens. Comparing the local tax and fee burden chart with the state burden chart shows states that have low local burdens have high state burdens, and vice versa.

Figure 3: Local Tax & Fee Burden

Mountain States	Per \$1,000 Personal Income	National Rank
1. Wyoming	\$76.28	3
2. Colorado	64.92	6
3. Nevada	58.97	15
4. Arizona	55.72	24
5. Montana	54.53	28
6. Idaho	54.07	32
7. Utah	51.12	40
8. New Mexico	41.30	46

Source: Census; BEA; Calculations by Utah Foundation

Utah's Major Taxes

Figure 4: Property Tax

Mountain States	Per \$1,000 Personal Income	National Rank
1. Montana	\$45.33	6
2. Wyoming	37.87	11
3. Arizona	30.74	23
4. Idaho	28.65	29
5. Colorado	26.98	34
6. Utah	25.28	36
7. Nevada	24.34	39
8. New Mexico	15.84	50

Source: Census; BEA; Calculations by Utah Foundation

The property tax in Utah has receded in importance over the past 20 years. Once (long ago) the primary source of state and local government revenue, it now comprises about 26% of state and local taxes and fees. It has never been a popular tax, but it does provide a very stable source of revenue for government.

In 1985, the Legislature passed the Tax Increase Disclosure Act, more commonly known as “Truth in Taxation.” This law made several notable changes in the way property taxes were administered. It required that any government hold a public hearing before raising revenue from property taxes, even if the increase was due to inflation or normal appreciation of property. When aggregate property values rise, the accompanying tax rate must be adjusted so that the overall tax charge remains constant; any exception to this procedure requires a local agency to post a notice of public hearing to raise taxes. Fearing negative reactions to such notices, many local governments have looked to other sources, such as impact fees and sales taxes to replace property tax revenue lost to inflation.

Figure 5: General Sales Tax

Mountain States	Per \$1,000 Personal Income	National Rank
1. New Mexico	\$47.69	2
2. Arizona	38.20	8
3. Utah	35.72	9
4. Nevada	34.90	11
5. Wyoming	34.27	12
6. Colorado	27.68	22
7. Idaho	24.68	32
8. Montana	0.00	48

Source: Census; BEA; Calculations by Utah Foundation

Of all taxes, the sales tax is perhaps the least noticed by taxpayers, because it is paid in hundreds of small transactions. It also draws revenue from almost all citizens, including visitors to the state, which makes for a broader tax base. It is a regressive tax, however, in that the poor spend a larger percentage of their income on essential items that are taxable.

Utah relies heavily on the sales tax, relative to other Mountain States. Over time, this heavy reliance on sales taxes can be problematic, as the tax grows slower than long-term economic growth because the U.S. economy is moving to a greater consumption of services compared to taxable tangible goods.

Figure 6: Individual Income Tax

Mountain States	Per \$1,000 Personal Income	National Rank
1. Utah	\$32.04	15
2. Idaho	31.90	16
3. Colorado	26.66	22
4. Montana	25.77	28
5. New Mexico	22.49	36
6. Arizona	18.04	39
7. Nevada	0.00	45
8. Wyoming	0.00	45

Source: Census; BEA; Calculations by Utah Foundation

Utah’s individual income tax is the highest of all the Mountain States, and about 15th highest nationally. This reveals the slight disfavor with which the region regards the tax. Most Mountain states are below average in individual income tax burdens.

In Utah, as in nine other states, the highest income tax bracket begins at less than \$10,000 in income for a married couple. This makes the income tax essentially a flat tax, and negates its nominally progressive structure.

Figure 7: Corporate Income Tax

Mountain States	Per \$1,000 Personal Income	National Rank
1. Montana	\$4.98	15
2. Idaho	4.16	21
3. Arizona	4.12	23
4. New Mexico	4.07	24
5. Utah	3.37	28
6. Colorado	2.46	39
7. Nevada	0.00	48
8. Wyoming	0.00	48

Source: Census; BEA; Calculations by Utah Foundation

Utah corporate income or corporate franchise tax collections are slightly lower than the average state. As with the personal income tax, the Mountain states do not rely on this tax as heavily as the rest of the country. Two of Utah's neighbors, Wyoming and Nevada, do not levy a corporate income tax.

State & Local Tax and Fee Burden

Adding Utah's state and local tax and fee burdens shows that about \$151 of every \$1,000 of personal income earned in the state goes to paying taxes and government fees. This is equivalent to saying about 15.1% of personal income is dedicated to paying these taxes and fees. This is the 11th highest tax and fee burden in the nation. A few years ago, Utah Foundation research showed this measure at 14th highest in the nation.

Federal Tax Burden

Utah's federal tax burden is lower than the national average. At \$222 per \$1,000 of personal income, federal taxes paid by Utah residents and businesses rank 40th highest in the nation. This is most likely the result of larger families (more child tax deductions and credits), high charitable contributions, and lower incomes than many states.

Adding federal taxes to state and local taxes and fees reveals a moderate overall tax burden, ranking 28th highest in the nation. For Utahns, the combined total paid to all levels of government is about 37% of personal income.

Figure 8: Total Taxes & Fees

Mountain States	State & Local Taxes & Fees	National Rank	Federal Taxes	National Rank	State, Local & Federal Combined	National Rank
1. Wyoming	\$154.80	8	\$275.13	3	\$429.93	1
2. Nevada	128.51	37	260.33	9	388.85	13
3. New Mexico	156.28	4	229.60	33	385.88	14
4. Colorado	126.62	40	257.42	11	384.04	16
5. Utah	150.62	11	221.99	40	372.60	28
6. Montana	141.79	20	227.74	36	369.53	30
7. Idaho	144.64	19	223.54	38	368.18	32
8. Arizona	126.04	43	240.54	21	366.58	34

Source: Census; BEA; Tax Foundation; Calculations by Utah Foundation

It is also interesting to note the benefits Utah receives from the federal government budget. According to a study in the late 1990s by Harvard's Taubman Center for Local and State Government and Senator Daniel Patrick Moynihan, Utah pays less to the federal government than it receives back in federal spending. In 1999, Utah paid \$4,034 per capita to the federal government and received back \$4,324. Nationwide, New Mexico received the most money from the federal government for the money it paid (\$7,992 vs. \$4,048), and Connecticut received the least (\$5,224 vs. \$8,064).

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