UTAH FOUNDATION
RESEARCH • ANALYZE • INFORM

Research Report

Report Number 726, January 2015

Easing the Burden

Utah Taxes Taking Lowest Share of Income in 20 Years

10 West Broadway, Suite 307, Salt Lake City, UT 84101
801.355.1400 • utahfoundation.org

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.

Easing the Burden

Utah Taxes Taking Lowest Share of Income in 20 Years

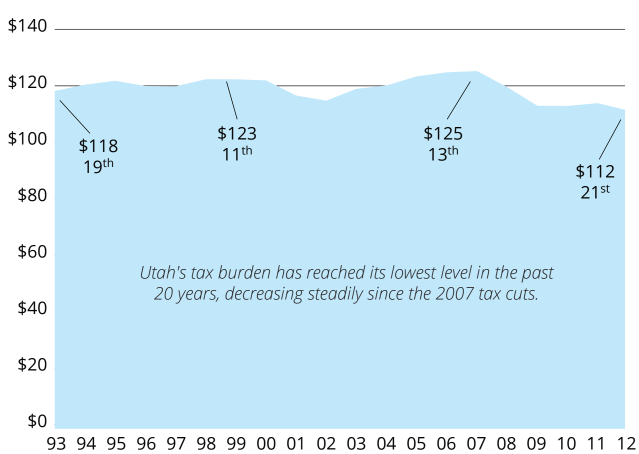
Over the past several years tax cuts have reduced Utah's annual revenues by $479 million, or nearly 8%.[1] For Utahns, this means a lower tax burden.

Utah Foundation periodically reviews Utah's tax burden and ranks it among other states. For this review, tax burden is defined as all taxes and mandatory fees collected by the state and local governments as a ratio to $1,000 of personal income. Utah Foundation found that Utah's state and local tax burden is at its lowest point in the past 20 years after reaching a peak in 2007. This report considers the impact of recent events such as the 2007 tax cuts and the Great Recession. The report provides an analysis of two decades of data to track historical trends.

KEY FINDINGS

- **Utah's tax burden is at $111.60 per $1,000 of personal income, the lowest burden in the past 20 years. (see page 1)**
- **Utah's tax burden ranks twenty-first among states. (see page 1)**
- **Utah's 2007 tax cuts correspond with a decrease in the tax burden of $8.19, resulting in Utah's ranking falling by eight places from thirteenth in 2007. (see page 3-4)**
- **In the past 20 years, state and local governments have pivoted away from using new taxes and instead rely more on fees. (see page 6)**
- **Over the past 20 years, the state tax burden has decreased while the local government tax burden has increased. (see page 6)**
- **The Great Recession had little impact on the tax burden. (see page 6)**

Utah Tax Burden per $1,000 of Personal Income over Past 20 Years, with National Rankings



Source: U.S. Census Bureau, Bureau of Economic Analysis. Calculations by Utah Foundation.

Utah's Tax Burden per $1,000 Personal Income, 2012

	Utah	Utah's National Ranking
Taxes & Mandatory Fees	**$111.60**	**21**
Individual income tax	$24.85	20
Sales tax	$25.17	19
Property tax	$26.98	32
Corporate income tax	$2.60	32
Motor fuel tax	$3.75	15
Other taxes	$12.92	41
Mandatory Fees	$15.32	9

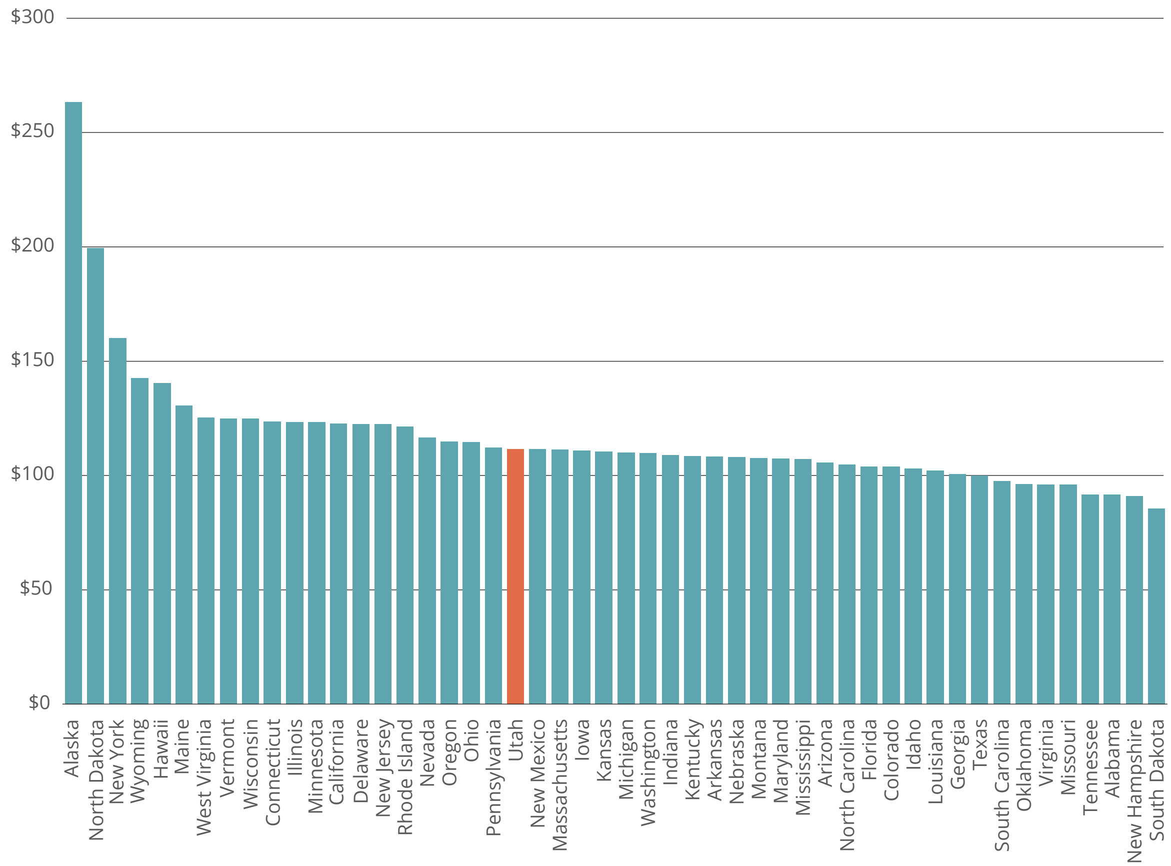
Source: U.S. Census Bureau, Bureau of Economic Analysis. Calculations by Utah Foundation.

This research report was written by Utah Foundation Research Analyst Christopher Collard. Additional assistance was provided by Research Director Shawn Teigen. Mr. Collard can be reached for comment at (801) 355-1400, or by email at christopher@utahfoundation.org.

UTAH'S TAX BURDEN

Utah Foundation periodically reviews the state's tax burden. This report looks at data over a 20-year span from 1993 to 2012 (the latest data available) and calculates the tax burden as a ratio of government revenue per $1,000 of personal income.[2] This ratio illustrates the proportion of Utahns' earnings that are used to fund local and state government services.

Figure 1: Tax Burden by State, per $1,000 Personal Income



Source: U.S. Census Bureau, Bureau of Economic Analysis. Calculations by Utah Foundation.

In this analysis, Utah Foundation calculates tax burden as the total of all state and local taxes and mandatory fees. Mandatory fees are those fees over which the government holds a virtual monopoly, such as sewers, courts, libraries, airport services, and exactions on property owners for road improvements. By contrast a non-mandatory fee is a fee for a service that could be provided by a private organization or not purchased at all. Non-mandatory fees include college tuition, school lunches, parking in public garages, medical services at hospitals, park admissions, and other recreational activities. Including only mandatory fees more accurately represents the tax burden placed on Utahns because it encapsulates fees that are difficult to escape.

The last tax burden report released by Utah Foundation in 2011 was based on data from 2008. At that time, Utah ranked seventeenth among states with a tax burden of $119.76 per $1,000 of personal income. By 2012, Utah ranked twenty-first among states with a tax burden of $111.60. The decrease in the tax burden is due primarily to recent tax cuts and Utah's recently improving unemployment rate (which helps drive up statewide personal income). Just as Utah is ranked in the middle of the pack nationally, Utah's tax burden is fifth of the eleven western states.

TAXES IN UTAH

Utah's tax revenue is primarily from sales, income, and property taxes. Historically, the sales tax has represented the largest tax burden on Utahns. However, the 2007 tax cuts passed unanimously by the Utah Legislature and signed by Governor Huntsman reduced both sales and income taxes, making property taxes the single largest burden on Utahns since 2009 (see Figure 3). Over the past 20 years, the motor fuel tax burden has also decreased, while other tax burdens and mandatory fees have increased.

Figure 2: Tax Burden Comparison per $1,000 Personal Income, US and Utah

	Utah 2012	U.S. avg. 2012	Utah's Rank among All 50 States	Utah's Rank among 11 Western States
Taxes & Mandatory Fees	**$111.60**	**$116.56**	**21**	**5**
Taxes	$96.28	$104.95	32	7
Individual income tax	$24.85	$20.60	20	3
Sales tax	$25.17	$23.17	19	6
Property tax	$26.98	$31.50	32	9
Corporate income tax	$2.60	$3.55	32	6
Motor fuel tax	$3.75	$3.37	15	4
Other taxes	$12.92	$22.75	41	8
Mandatory Fees	$15.32	$11.61	9	4
Optional Fees	$29.77	$21.33	8	2
Tuition & college fees	$14.13	$8.74	3	1
Other optional fees	$15.64	$12.59	10	3
Taxes & All Fees	$141.37	$137.89	16	3

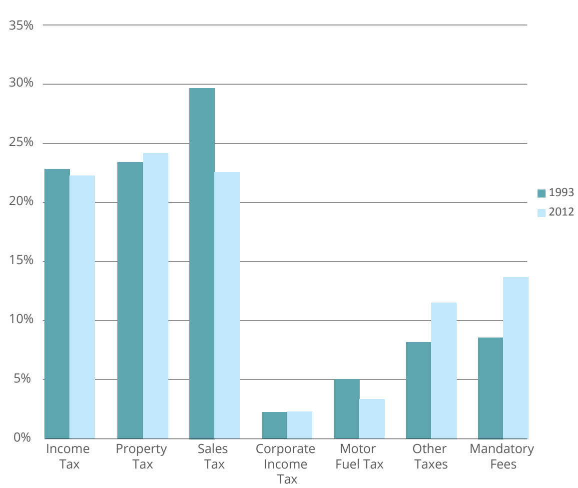
Source: U.S. Census Bureau, Bureau of Economic Analysis. Calculations by Utah Foundation.

Property Taxes

In 2012, Utah's property taxes were $26.98 per $1,000 of personal income, compared to a national average of $31.50. Property taxes have varied the least of all the measured indicators over the past 20 years. This stability is likely a reflection of the nature of property tax revenue. Because property values are unlikely to change drastically from year to year, property taxes are often a more stable source of revenue than sales or income taxes which typically decrease more during economic downturns.

In 1985 the Utah State Legislature passed the Tax Increase Disclosure Act, commonly referred to as "Truth in Taxation." The Act was designed to ensure a revenue neutral property tax rate every year, requiring local leaders to provide notice to the public of any tax increases, even when such increases are due to inflation or normal property appreciation. Fearing a negative public reaction to such notices, many local governments have looked to other fees and taxes to replace lost revenue. While many argue that these laws erode the tax revenue, the property tax burden has remained stable, and even increased since the recession as the revenue generated remained steady while personal income fell.

Figure 3: Utah Tax Burden by Taxes and Fees, 1993 and 2012



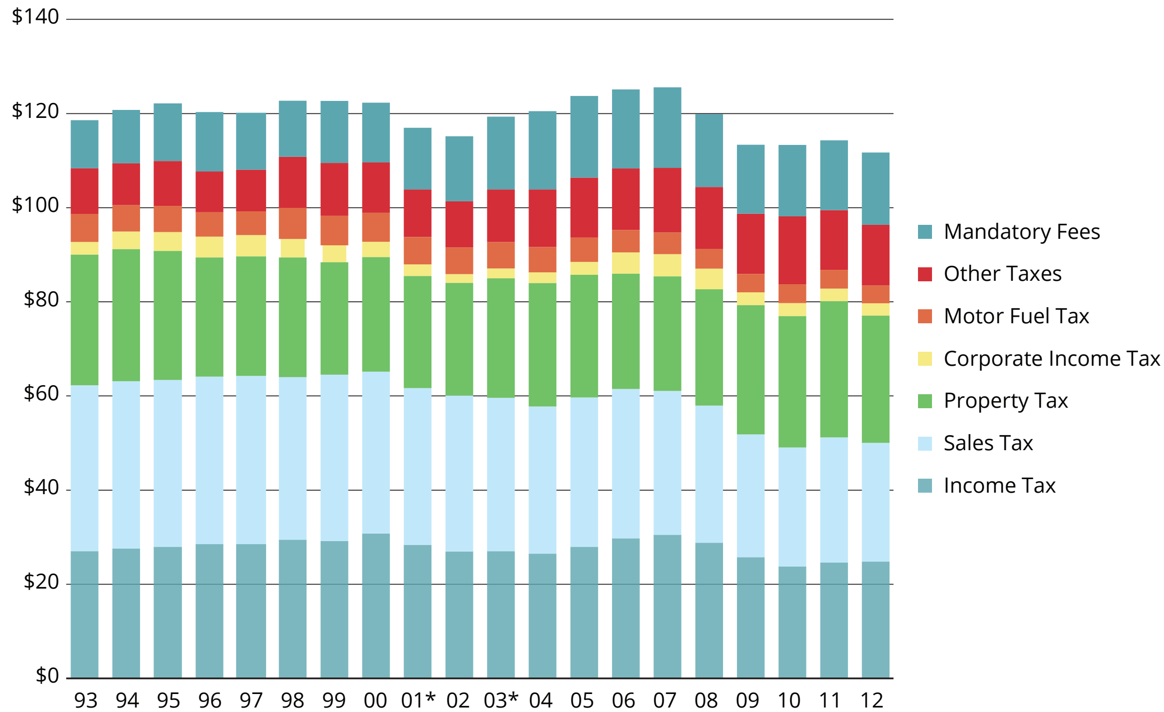
Source: U.S. Census Bureau, Bureau of Economic Analysis. Calculations by Utah Foundation.

The 2007 Tax Cuts (Income and Sales Taxes)

In 2012, one of the largest deviations from historical trends was in terms of total taxes collected (not including fees). Utah ranked thirty-second in 2012 for total taxes, while historically Utah has been in the low twenties. This decreased ranking is mainly due to lowered income, sales, and business taxes stemming from the tax cuts of 2007.

A statistical analysis comparing the tax burden before and after the 2007 tax cuts shows an average 7% decrease ($8.19 per $1,000 of personal income).[3]

Figure 4: Utah Historical Tax Burden per $1,000 Personal Income by Tax and Fee Type,



*Data were not collected in 2001 and 2003; the data shown here are imputed by averaging the surrounding years
Source: U.S. Census Bureau, Bureau of Economic Analysis. Calculations by Utah Foundation.

Without the reduction in taxes, Utah would have ranked seventeenth among states instead of thirty-second. The decrease in the total tax burden is largely due to decreases in the sales tax and the individual income tax burden. The income tax burden decreased by an estimated $1.62 per $1,000 of personal income (a difference of five places) and sales tax decreased by $5.26 (a difference of eight places).

Both individual and corporate income tax revenues are earmarked for education. Fluctuations in individual and corporate income tax burden affect school funding. The income tax burden in 2012 equaled $24.85 per $1,000 of personal income, ranking Utah twentieth in the nation. The 2007 tax cuts, branded as "Tax Relief and Reform," essentially provided a tax cut for 98% of Utahns.[4] Even with the 2007 tax cuts, income taxes in Utah remain a larger burden than the national average of $20.60. Of Utah's western neighbors, Wyoming, Nevada, and Washington do not levy an income tax (or corporate income tax), but instead rely on sales and property taxes (see Figure 5).

The 2007 tax cuts for businesses did not translate into a measurably lower tax burden for corporate income taxes until a year after other taxes were affected. In 2012, Utah's corporate income tax burden was $2.60 per $1,000 of personal income, ranking it thirty-second in the nation. The corporate income tax was also the smallest of the tax burdens analyzed (except each individual "other taxes"); nationally, the motor fuel tax burden is the smallest.

Utah's sales tax burden is $25.17 per $1,000 of personal income, slightly higher than the national average of $23.17. Sales tax is perhaps the least transparent tax for most Utahns. Since it is paid on many transactions throughout the year, the 4.70% state sales tax, 1.00% local option sales tax, 0.25% county option, and other sales taxes often escape taxpayers' attention. Other sales taxes include options for mass transit, county

Figure 5: Tax Burden per $1,000 Personal Income among Western States, 2012

Western States	Taxes & Mandatory Fees	Taxes	Individual Income Tax	Sales Tax	Property Tax	Corporate Income Tax	Motor Fuel Tax	Other Taxes	Mandatory Fees	Optional Fees	Tuition & College Fees	Other Optional Fees	Taxes & All Fees
Arizona	$105.62	$94.66	$13.20	$36.74	$29.21	$2.76	$3.83	$8.92	$10.96	$18.81	$8.24	$10.57	$124.43
California	$122.58	$105.85	$31.71	$23.60	$29.72	$4.58	$3.20	$13.04	$16.73	$18.22	$4.79	$13.43	$140.80
Colorado	$103.80	$91.05	$20.95	$23.35	$29.87	$2.12	$2.71	$12.05	$12.76	$23.01	$9.97	$13.03	$126.81
Idaho	$102.93	$89.11	$22.27	$22.48	$25.57	$3.46	$4.35	$10.99	$13.83	$21.25	$8.15	$13.10	$124.18
Montana	$107.62	$95.21	$23.66	$0.00	$36.26	$3.48	$5.57	$26.23	$12.41	$16.53	$10.43	$6.10	$124.15
Nevada	$116.42	$101.59	$0.00	$35.96	$27.20	$0.00	$3.61	$34.82	$14.83	$12.11	$4.25	$7.86	$128.53
New Mexico	$111.47	$102.61	$15.63	$39.78	$19.36	$3.82	$3.21	$20.81	$8.86	$22.28	$8.19	$14.10	$133.76
Oregon	$114.87	$98.90	$38.99	$0.00	$33.69	$3.25	$3.67	$19.29	$15.97	$27.33	$11.42	$15.91	$142.20
Utah	**$111.60**	**$96.28**	**$24.85**	**$25.17**	**$26.98**	**$2.60**	**$3.75**	**$12.92**	**$15.32**	**$29.77**	**$14.13**	**$15.64**	**$141.37**
Washington	$109.68	$93.85	$0.00	$41.71	$29.41	$0.00	$3.76	$18.97	$15.84	$21.53	$7.33	$14.20	$131.21
Wyoming	$142.63	$132.33	$0.00	$41.38	$45.43	$0.00	$2.29	$43.24	$10.30	$40.76	$5.58	$35.18	$183.39
Average	**$113.57**	**$100.13**	**$17.39**	**$26.38**	**$30.25**	**$2.37**	**$3.63**	**$20.12**	**$13.44**	**$22.87**	**$8.41**	**$14.47**	**$136.44**

Source: U.S. Census Bureau, Bureau of Economic Analysis. Calculations by Utah Foundation.

transportation, rural hospitals, arts and zoos, and resorts, resulting in a sales tax ranging from the commonly assessed 5.95% to the high of 8.35% at Alta. This tax draws revenues from both Utahns and tourists, creating a broad base. However, sales taxes are regressive, forcing people with lower incomes to spend a higher percentage of their income on the tax. Oregon and Montana are the only states in the West that do not levy a sales tax.

As of January 1, 2008, tax on food was reduced to 3%, in part to help with the regressive nature of sales tax. The reduction is somewhat complex and subsequently even less transparent than the standard sales tax; the reduced tax amount is based upon whether it is sold for taste or nutritional value, whether it is mixed or heated by the seller, repackaged, or otherwise.

The Motor Fuel Tax

In 2012, the motor fuel tax burden sat at $3.75 per $1,000 of personal income, ranking it fifteenth in the nation. The largest change among Utah's tax and fee rankings since 1993 occurred in the motor fuel tax. In 1997 the gas tax was 19 cents per gallon and Utah's motor fuel tax revenue was $5.01 per $1,000 of personal income. That year the Utah State Legislature raised the motor fuel tax by 5.5 cents to a total of 24.5 cents. That increased state revenue to $6.57. The motor fuel tax increase resulted in Utah jumping 21 places from twenty-sixth to fifth.

In 2013, Utah Foundation released a report on transportation revenue needs which showed that in order to fund the Unified Transportation Plan, Utah would have to raise the motor fuel tax by nine cents and tie the tax to inflation. To help provide an idea of the effect of such an increase in the motor fuel tax, had Utah levied a nine cent higher tax in 2012, motor fuel tax burden would have been $5.13 per $1,000 of personal income instead of $3.75. This would have increased Utah's motor fuel tax rank among other states by ten places from fifteenth to fifth, resulting in the second highest motor fuel burden in the West.

Utah's Motor Fuel Tax

Utah's motor fuel tax is a hot topic of debate lately among policymakers. The tax rate has not been adjusted since 1997 and revenues from the motor fuel tax are insufficient for Utah's maintenance and expansion plans. Utah's motor fuel tax is a tax per gallon rather than a sales tax. As a result, revenues are eroded over time through inflation. Further erosion in revenues from motor fuel taxes are a result of increasing fuel efficiency and alternative fuels.

Some efforts have been made to change the motor fuel tax (based on gallons purchased) to a sales tax (based on a percentage of the total dollar value). With this plan, revenues from motor fuel might at times increase with, or perhaps even outpace, inflation. However, if gas prices decrease for an extended period of time (similar to late 2014), a sales tax on motor fuel may not provide sufficient transportation revenues.

The Effect of the Great Recession on Tax Burden

Recessions have a curious effect on tax burden. Utah Foundation calculates tax burden as a ratio between revenues collected and personal income. During recessions, personal income and most forms of revenue decrease. As a result, the effect of recessions on the tax burden generally depends on what falls faster, income or revenue. If income falls faster then the tax burden will increase, but if the revenue falls faster then the tax burden will decrease. During the Great Recession across the United States and in Utah, the rate of decrease was not different enough to cause a notable change in the overall tax burden.

While there was no visible effect of the recession on the overall tax burden, there was an effect on a few key taxes and fees. Nationally, income tax revenues fell faster than actual income, which resulted in the individual income tax burden falling by $1.40 per $1,000 of personal income. Surprisingly, the tax burden of property taxes increased by $1.93. This increase was due to revenues from property taxes increasing slightly while personal income decreased.

Figure 6: Tax Burden Shift from State to Local, Average Annual Change from 1993 to 2012

	Annual State Tax Decrease	Annual Local Tax Increase
All U.S. States	$0.13	$0.10
Western States	0.36	0.28
Utah	0.62	0.17

Note: Data do not include mandatory fees.

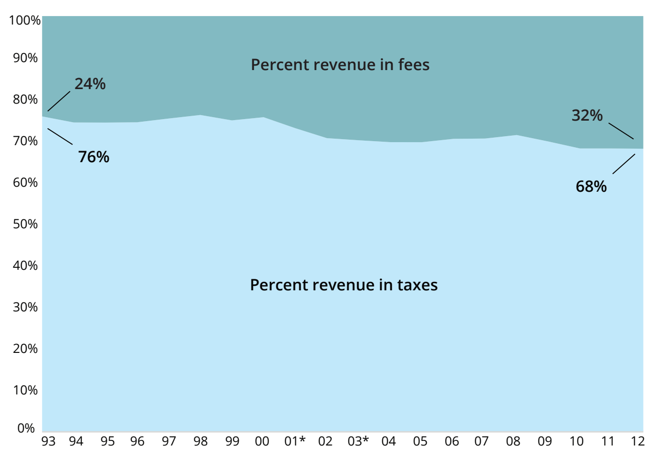
Source: U.S. Census Bureau. Bureau of Economic Analysis. Calculations by Utah Foundation.

General Tax Trends

Nationally, over the past 20 years the tax burden for states has decreased while the tax burden for local districts has increased. This shift is even more extreme in Utah. Utahns have seen their state tax burden decrease by an average of $0.62 per $1,000 of personal income each year, while the local burden has increased by $0.17 annually.[5]

There is no conclusive evidence pointing to why this shift is occurring. Perhaps localities have increased their tax burden in order to make up for lost revenue transfers from states. Another possible reason is that it may be easier for local leaders to generate support from local communities to raise taxes, while state leaders find the prospect of raising taxes more challenging.

Figure 7: Utah Tax Burden's Gradual Shift from Taxes to Fees



*Data were not collected in 2001 or 2003; the data shown here are imputed by averaging the surrounding years.
Source: U.S. Census Bureau, Bureau of Economic Analysis. Calculations by Utah Foundation

FEES IN UTAH

Another major trend across the nation over the past 20 years is a decreasing tax burden with an increasing fee burden. Nationally, in 1993, 79% of government revenue was generated through taxes, but by 2012 it had dropped to 76%. Western states experienced a larger shift of 4.8%. Utah's shift toward fees was even larger at 7.7%, more than double the national average.

Utah ranks in the top ten for every type of fee. In certain cases, fees are preferred over taxes because fees are usually tied directly to a government service and designed in such a way that the users of that service are the people paying for the service. Fees are also more likely to bypass the political difficulties that might come from raising taxes.

Mandatory Fees

Between 1993 and 2005, Utah's mandatory fee burden rose by 60% (a 5% annual increase) to $17.28 per $1,000 of personal income, making Utah third among states. The mandatory fee burden has since fallen to $15.32, while the average mandatory fee burden among states increased, dropping Utah to its current ninth place. It is possible that Utah was an early adopter of pivoting away from taxes toward fees and the rest of the nation is now following on the same course.

Tuition and College Fees

Utah ranked third nationally in tuition and college fees burden and ranked first among western states. In fact, the tuition and college fees burden is the only burden that ever ranked first place among all 50 states (in 2003 and 2004). This is despite the fact that Utah tuitions are the third lowest in the nation.[6] Utah's high ranking is due to its larger school-aged population as well as a higher rate of enrollment. Nationwide, only 7.2% of the population is between 20 and 25 years of age; in Utah, 8.4% of population lies within the same range. Among this student-aged population, 41.8% are enrolled nationally while in Utah 42.5% are enrolled. These factors help explain Utah's higher tuition and college fees burden when compared to other states.

There was a large bump in the tuition and college fees burden from 2010 to 2011, nationally and in Utah. This reflects an increase in college and university enrollment as opportunities in the job market remained tight, as well as a stagnation of the state's funding of higher education which has resulted in higher student tuition.

CONCLUSION

With the lowest tax burden in the past twenty years, state and local governments may not be raising enough revenue to support government services such as critical social programs, a suitable education system, or needed road maintenance. At the same time, lower tax burden means that taxpayers retain a larger share of their income. As a result, not only do taxpayers have more disposable income than they would otherwise have with a larger tax burden, but more money in taxpayers' pockets has the potential to boost the economy through increased consumer spending.

ENDNOTES

1. Calculations based on a presentation by Natalie Gochnour at the University of Utah, September 11, 2013 and the Governor's budget recommendations for FY 2016. Accessed on January 8, 2015 at http://gomb.utah.gov/wp-content/uploads/sites/7/2014/12/2016-FINAL-BUDGET-BOOK-12.22.2014.pdf.
2. Data was not collected in 2001 or 2003 and those data have been imputed by averaging the previous and post years.
3. A before and after regression format was used in this analysis accounting for variance due to differences between states or transient macroeconomic conditions.
4. Tax Relief and Reform: What Does it Mean for Taxpayers, Office of Legislative Research and General Council. March 2007. Accessed on January 8, 2015 at http://le.utah.gov/lgrc/Briefings/TaxReliefandReform2007.pdf.
5. Based on a linear regression using state indicator variables to control for fixed effects.
6. CollegeBoard, "Trends in Higher Education: Tuition and Fees by Sector and State over Time." Accessed on January 8, 2015 at http://trends.collegeboard.org/college-pricing/figures-tables/tuition-fees-sector-state-time

Major Supporters of Utah Foundation

Platinum Supporters

Boeing
George S. and Dolores Doré Eccles Foundation
Intermountain Power Agency
Love Communications
Questar
Rio Tinto
Rocky Mountain Power
Sorenson Legacy Foundation
Union Pacific
Zions Bank

Gold Supporters

The Church of Jesus Christ of Latter-Day Saints Foundation
Intermountain Healthcare
Overstock.com
Salt Lake City
Salt Lake Community College
Salt Lake County
Utah Transit Authority

Silver Supporters

Ally Bank
CBRE
Chevron
CIT Bank
Energy Solutions
Fidelity Investments
IASIS Healthcare
Management & Training Corp
Molina Healthcare
Mountainstar Healthcare
Regence BlueCross BlueShield
University of Utah Healthcare
Utah Community Credit Union
Washakie Renewable Energy
Wells Fargo
Wheeler Machinery
Workers Compensation Fund

Bronze Supporters

Central Utah Clinic
Centurylink
Deloitte
Deseret Management Corp.
Dixie State University
Enterprise Holdings
Ernst & Young
Garbett Homes
HDR Engineering
Holland & Hart
Magnum Development
Parsons Behle & Latimer
Potash Ridge Corporation
Ray Quinney & Nebeker
Riverton City
Sandy City
Staker & Parson Companies
Thanksgiving Point Institute
University of Utah
Utah State University
Utah System of Higher Education
Utah Valley University
Wasatch Front Regional Council
Webb Publishing
Weber State University