

# A LIGHTER LOAD

Utah's Changing Tax Burden

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## Research Report 771



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## INTRODUCTION

Taxes and government spending are a top issue for Utah voters.<sup>1</sup> Tax reform is a top priority for the Utah Legislature and administration. In early 2019, legislators attempted a sweeping tax reform, and have continued to discuss options throughout the year.

To provide context, this report reviews the state's tax burden. This report looks at data over a 24-year span from 1993 to 2016 (the latest data available) and calculates Utah's tax burden as a ratio of governmental revenue per \$1,000 of personal income. This ratio illustrates the proportion of Utahns' earnings that are used to fund local and state governmental services.

This report finds that Utah's tax burden has seen a strong decline since 2007. While the property tax burden has remained fairly steady, the burden of all other taxes and fees has decreased sharply, leaving Utahns with a higher share of their income.

## METHODOLOGY

For this report, Utah Foundation analyzed the U.S. Census Bureau's Annual Survey of State and Local Government Finances and U.S. Bureau of Economic Analysis state personal income data. In this report, Utah Foundation calculates tax burden as the total of all state and local taxes and mandatory fees. Mandatory fees are for services over which the government holds a virtual monopoly, such as sewerage, courts, libraries and airport services, as well as 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.

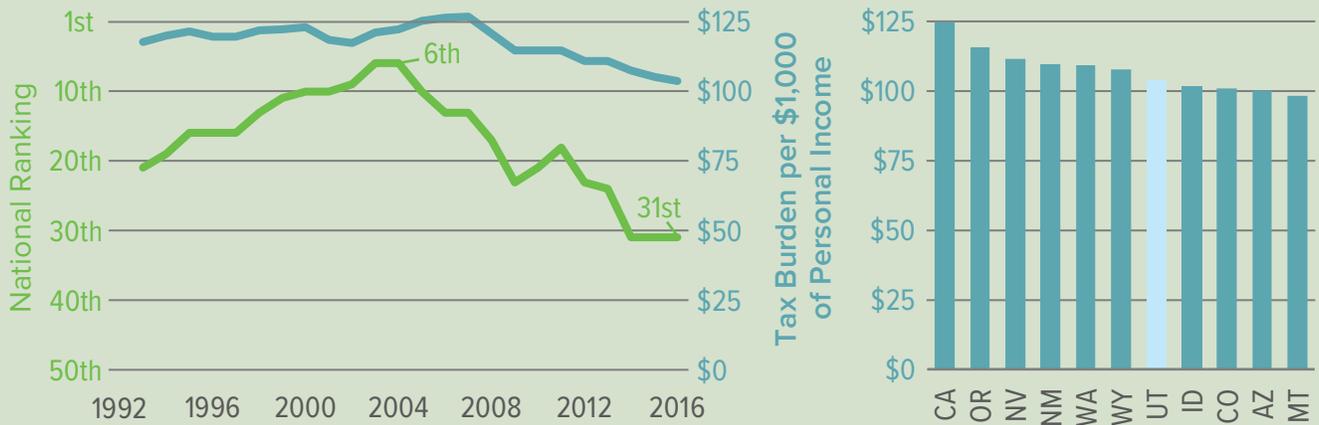


### KEY FINDINGS OF THIS REPORT

- Utah's Tax burden in 2016 was the lowest in 25 years, at \$103.86 per \$1,000 of personal income.
- In 2003 and 2004, Utah had the sixth highest tax burden in the nation. By 2016, it had fallen to 31st.
- Utah's falling sales tax burden was responsible for one-third of the total decline from 2007 to 2016.
- A primary factor in Utah's falling tax burden is rising personal income. Utahns' total personal income increased by 51% between 2007 and 2016, the third-fastest increase in the nation.
- About one-third of the growth in personal income is from population growth, while two-thirds is from growth in per capita personal income. However, inflation accounts for about half of the increase in per capita income.
- Utah's property tax burden is the only component to have increased from 2007 to 2016.
- Utah's motor fuel tax burden has eroded since 1998 due to inflation and improved fuel efficiency. During the past decade, Utah saw one of the nation's largest drops in fuel tax burden.

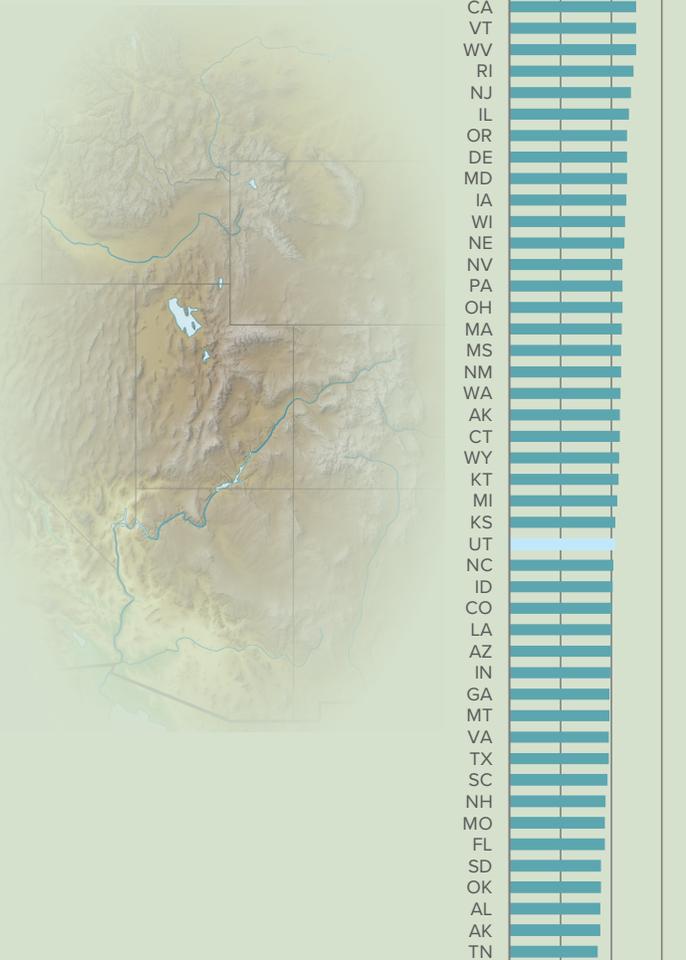
**Utahns' tax burden has steadily decreased in recent years.**

**Figure 1: Utahns' Total Tax Burden 1993-2016 and Compared to Western States in 2016**



**Utah had the 31st highest tax burden in the United States.**

**Figure 2: 2016 Tax Burden by State**



**OVERALL TAX BURDEN**

The last tax burden report released by Utah Foundation in 2015 was based on data from 2012. At that time, Utah ranked 23<sup>rd</sup> among states, with a tax burden of \$110.95 per \$1,000 of personal income. By 2016, Utah ranked 31<sup>st</sup> among states, with a tax burden of \$103.86. Utah's tax burden peaked 10 years earlier in 2007 at \$126.71 per \$1,000 of personal income, when Utah had the 13<sup>th</sup> highest tax burden. (However, Utah's tax burden *ranking* peaked in 2003 and 2004, when it had the sixth highest tax burden in the nation.)

The fact that Utah's tax burden ranking has fallen along with its tax burden indicates that this trend is specific to Utah, rather than just reflecting national trends.

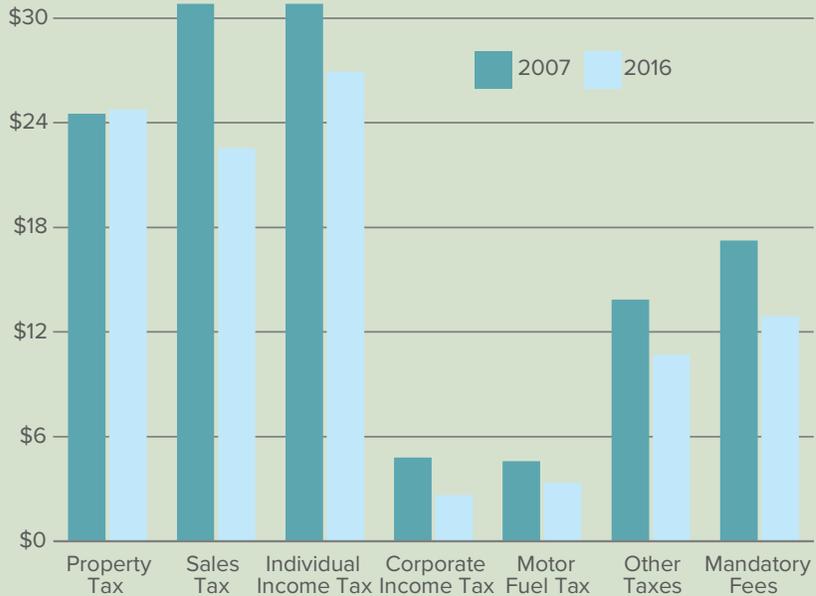
The largest factor in Utah's falling tax burden is decreases in Utah's sales tax burden, which is responsible for one-third of the decline. Decreases among income tax, other taxes and mandatory fee burdens are also significant, accounting for 17%, 14% and 19% of the overall tax burden decline. Property tax has held steady.

The fact that nearly all of the components of Utah's tax burden decreased suggests that Utah's personal income is growing faster than tax revenues. Indeed, from 2007 to 2016, Utah's total personal income increased by 51% in nominal dollars (not adjusted for inflation; it increased 32% in constant dollars). When looking at all states, only North Dakota and Texas have seen faster growth in statewide personal income. The decrease in Utah's tax burden is the sixth largest decrease among states. However, among these top six, Utah's decreasing tax burden seems to be most linked to increases in personal income. Utah's increasing personal income is driven primarily by two factors: its second-in-the-nation population growth from 2007 to 2016 and its higher-than-average per capita personal income increases during the same time period. Utah's larger population accounts for approximately one-third of the growth in personal income while the growth in personal income per capita accounts for two-thirds. However, inflation accounts for 53% of the increase in per capita income.

It should be good news when the tax burdens fall because Utahns are earning more money. As long as the costs of governmental services remain stable, this means Utahns are able to enjoy the same level of government services while having a higher disposable income. On the other hand, when the tax burdens fall because higher levels of personal income are associated with population growth, there may be reason for concern. If tax revenues are not growing as quickly as personal income generated from new Utahns, tax revenues may not be sufficient to maintain state and local governments' standard portfolio of services to this new population. This is not a sure bet, however, because each new additional citizen may represent a new marginal cost to the system, which is often lower than the average cost of providing services.

**Over the previous 10 years, all components of Utahns' tax burden have declined, with the exception of property taxes.**

**Figure 3: Components of Utahns' Tax Burden by Tax, 2007 to 2016**



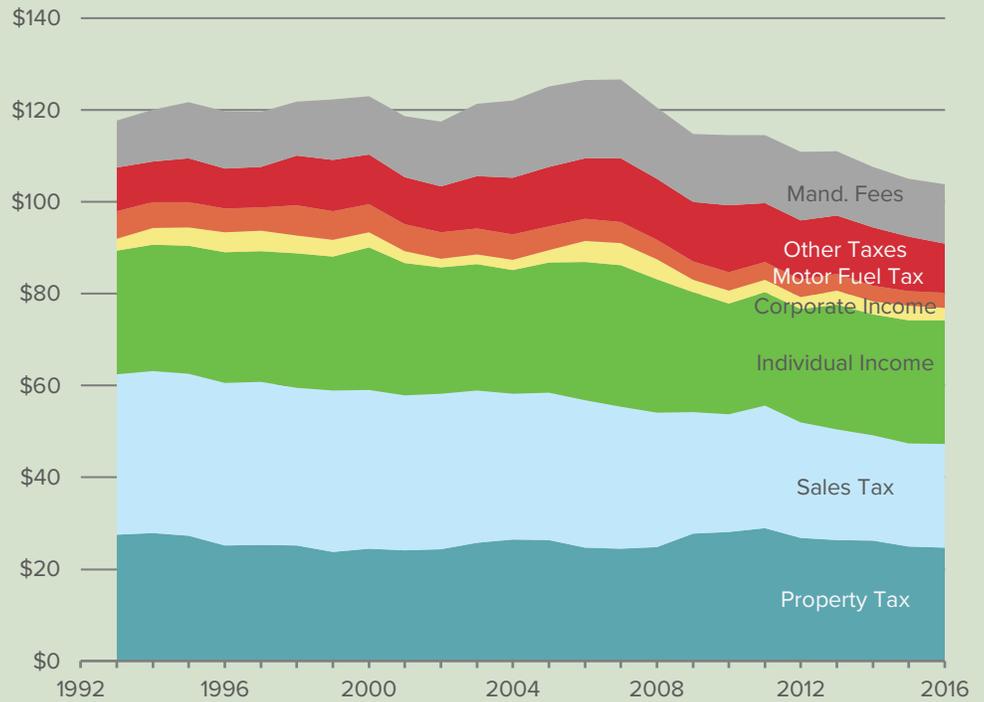
**Utahns' tax burdens tend to be lower than average in the U.S. and the West, except for the income tax and mandatory fees.**

**Figure 4: Components of Tax Burden, Compared to U.S. and Western States**

	Utahns' Tax Burden	US Tax Burden	National Ranking	Western States Ranking
Taxes & Mandatory Fees	\$103.86	\$112.59	31	7
Property Tax	24.75	31.62	34	8
Sales Tax	22.56	23.68	29	9
Individual Income Tax	26.93	23.64	14	3
Corporate Income Tax	2.66	3.41	25	4
Motor Fuel Tax	3.35	2.83	21	6
Other Taxes	10.70	15.30	45	9
Mandatory Fees	\$12.91	\$12.11	14	6

The motor fuel tax burden and the sales tax burden saw the largest decreases from 1993 to 2016.

Figure 5: Components of Utah's Tax Burden, 1993 to 2016



The components of Utah's tax burden tend to vary year to year. Yet two – the sales tax and the motor fuel tax – have shown continual declines over a quarter century.

When looking at 11 Western states, Utah has a slightly lower-than-average tax burden.

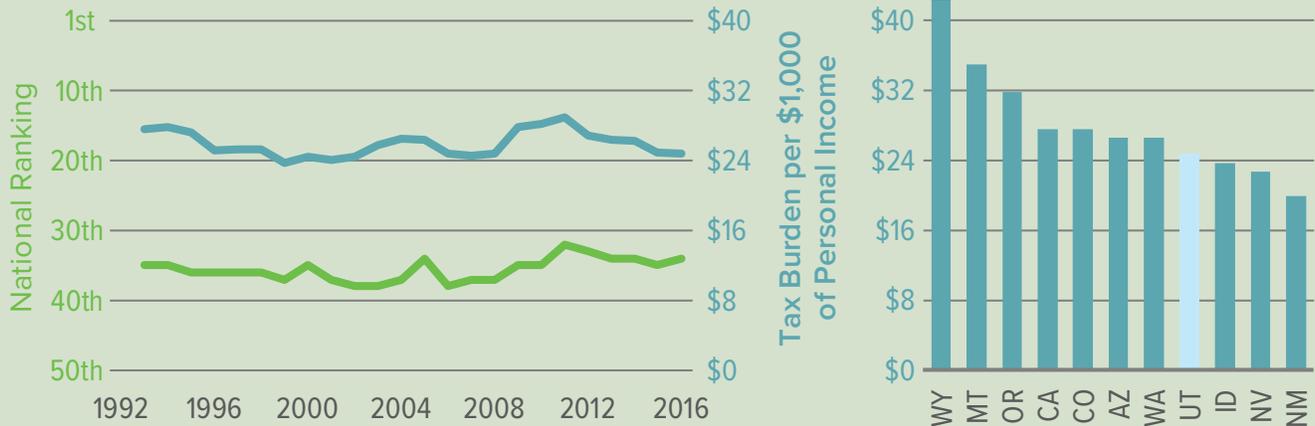
Western states have diverse methods of funding state and local government. Five of 11 Western states forego either sales or income taxes.

Figure 6: Components of Tax Burden among Western States

	All Taxes & Mandatory Fees	Property Tax	Sales Tax	Individual Income Tax	Corporate Income Tax	Motor Fuel Tax	Other Taxes	Mandatory Fees
Arizona	\$100.06	\$26.61	\$34.78	\$14.39	\$2.07	\$3.26	\$8.65	\$10.30
California	124.71	27.60	23.58	36.37	4.46	2.25	13.30	17.15
Colorado	100.88	27.53	23.66	22.66	2.19	2.33	10.93	11.58
Idaho	101.71	23.71	23.35	22.74	2.82	5.04	10.57	13.49
Montana	98.29	34.89	0.00	26.11	2.63	4.11	20.12	10.42
Nevada	111.48	22.72	38.46	0.00	0.00	3.89	32.65	13.74
New Mexico	109.63	19.90	38.08	17.51	1.41	3.05	20.81	8.86
Oregon	115.84	31.74	0.00	41.36	3.71	2.87	19.38	16.78
Utah	103.86	24.75	22.56	26.93	2.66	3.35	10.70	12.91
Washington	109.51	26.55	43.32	0.00	0.00	3.70	19.76	16.18
Wyoming	\$107.96	\$42.43	\$24.75	\$0.00	\$0.00	\$3.49	\$27.62	\$9.68

**Utah's property tax burden is the most stable component of the tax burden.**

**Figure 7: Utah's Property Tax Burden 1993-2016 and Compared to Western States in 2016**



**COMPONENTS OF THE TAX BURDEN**

**Property Tax**

Utah's property tax burden of \$24.75 per \$1,000 of personal income in 2016 represented a quarter of the total tax burden, ranking Utah 34<sup>th</sup> nationally and eighth among 11 Western states. Of Utah's three primary tax sources (property, sales and income taxes) the property tax burden has the lowest national ranking. While Utah has long subscribed to a three-legged stool approach, with each of these three income sources imposing a similar burden, most other states tend to rely more on the property tax. In Utah, the property tax is dedicated to local governments like cities, counties, school districts and local districts such as cemeteries and mosquito abatement districts. As mentioned in earlier Utah Foundation research, some worry that Utah's Truth in Taxation laws (which prevent local governments from receiving a windfall due to the appreciation of property) has worked too well and is preventing local governments from receiving needed funding.<sup>2</sup> However, the fact that property tax revenues have risen in step with Utah's personal income shows that, overall, property taxes have increased faster than inflation and population growth. However, it may be that specific types of local governments are struggling while others have been able to raise enough revenues to meet their needs.

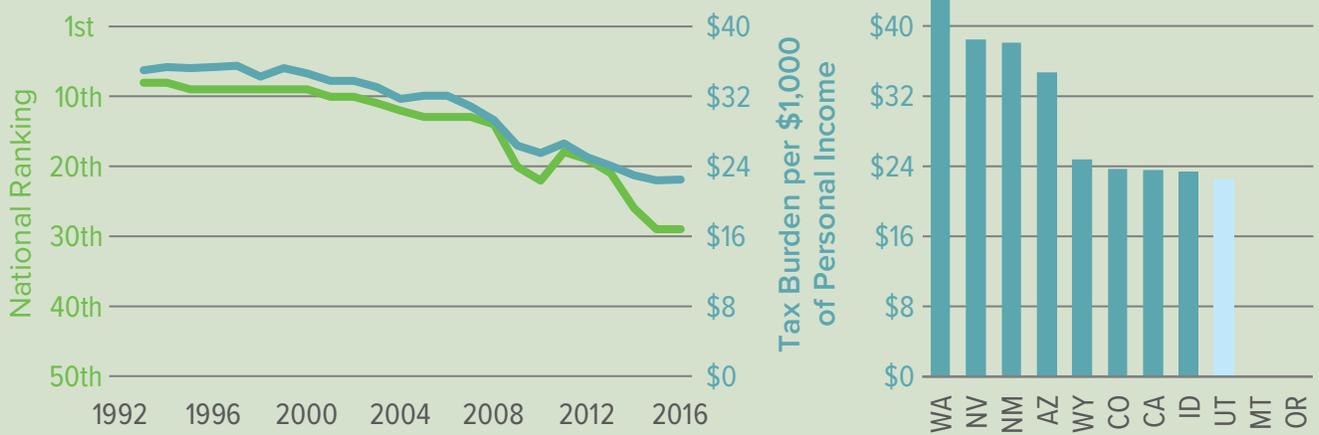
Utah's property tax burden is unique among other tax burden components. It was the sole tax burden component to increase from 2007 to 2016. However, most of its growth occurred between 2008 and 2011. Since 2011, it has experienced the gradual declines seen across most other tax burden components. This increase from 2008 through 2011 is likely due at least in part to Utah's Truth in Taxation law and the Great Recession. Truth in Taxation created a property tax system where revenues are constant while rates fluctuate. During the Great Recession, rates automatically increased to compensate for the lower property values that resulted from the recession. While revenues stayed constant during this time period, personal income declined, increasing the tax burden.

**Sales Tax**

Utah's sales tax burden was \$22.56 per \$1,000 of personal income, or a little more than one-fifth of the overall tax burden. That put Utah 29<sup>th</sup> in the nation and ninth among 11 Western states – the lowest among all states that collect sales tax. Utah's sales tax

**Utah's sales tax burden decreased by 27% from 2007 to 2016.**

**Figure 8: Utahns' Sales Tax Burden 1993-2016 and Compared to Western States in 2016**



burden fell by more than one-third over the 24 year period and 27% in the last 10 years alone, decreasing from \$30.83 in 2007. Because the sales tax is one of the state's three primary sources of income, this decrease accounts for more than one-third of Utah's total tax burden decrease since 2007. The long, steady decline of the sales tax burden highlights a broader long-term trend across the nation as the share of transactions in the economy transfer from goods (which are usually taxed) to services (which are often not taxed). Utah is among 35 states that have seen decreases during the past 10 years. The corresponding slide in the sales tax ranking means that this is occurring faster in Utah than in many other states. Indeed, Utah's sales tax burden has seen the biggest slide since 1993, and the third biggest slide from 2007 to 2016.

**Income Tax**

Utah's 2016 income tax burden sat at \$26.93 per \$1,000 of personal income, ranking the state with the 14<sup>th</sup> highest income tax burden in the nation and the third

**Utah's income tax burden fell during the recession, but has slowly grown since.**

**Figure 9: Utahns' Income Tax Burden 1993-2016 and Compared to Western States in 2016**





highest among Western states (although three of the 11 Western states do not collect income tax). Utah’s income tax saw a steep slide from 2007 to 2010, from \$30.83 to \$24.11 per \$1,000 of personal income, reflective in part of income tax reforms in 2007 and 2008. Utah’s income tax burden has crept back up since then, but is still 13% lower than its 2007 peak, contributing to 17% of the overall decline in Utah’s tax burden over the same time period.

Utah’s income tax is dedicated to K-12 and higher education. When looking solely at tax rates, Utah ranks 34<sup>th</sup> highest. However, Utahns have the 14<sup>th</sup> highest income tax burden. This is because Utah has a single rate. So while the rate is low compared to the highest brackets of other states, it applies to all Utahns.

### Corporate Income Tax

Utah’s corporate income tax burden in 2016 was \$2.66 per \$1,000 of personal income. That placed Utah 25<sup>th</sup> nationally and fourth among Western states. Corporate income tax is one of the most volatile of the revenue sources broken out in Utah Foundation’s analysis. Like the individual income tax, these revenues are earmarked for K-12 and higher education.

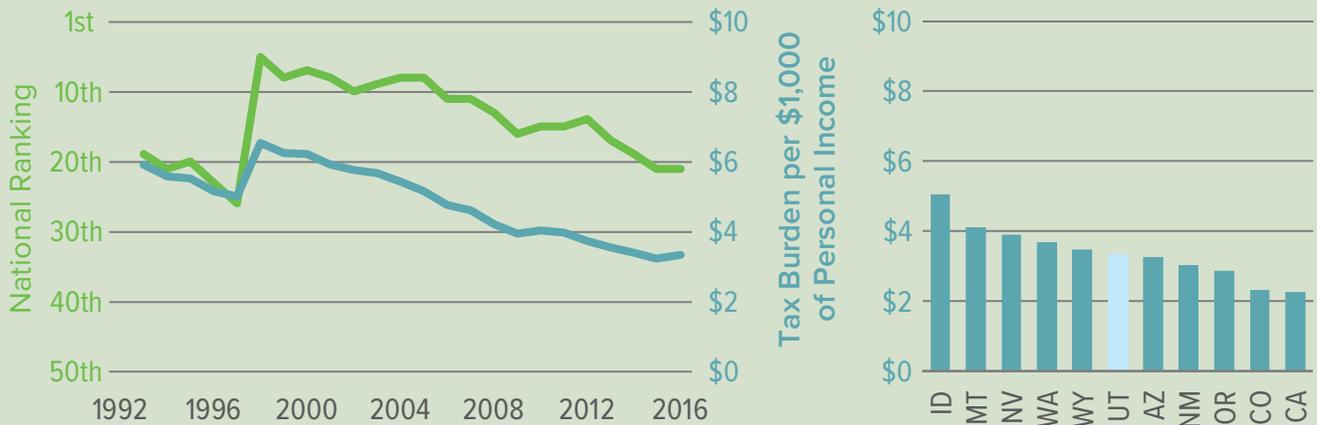
### Utah’s corporate income tax burden varies widely from year to year

Figure 10: Utahns’ Corporate Income Tax Burden 1993-2016 and Compared to Western States in 2016



**Utah's motor fuel tax burden has gradually decreased due to inflation and fuel efficiency.**

**Figure 11: Utahns' Motor Fuel Tax Burden 1993-2016 and Compared to Western States in 2016**



**Motor Fuel Tax**

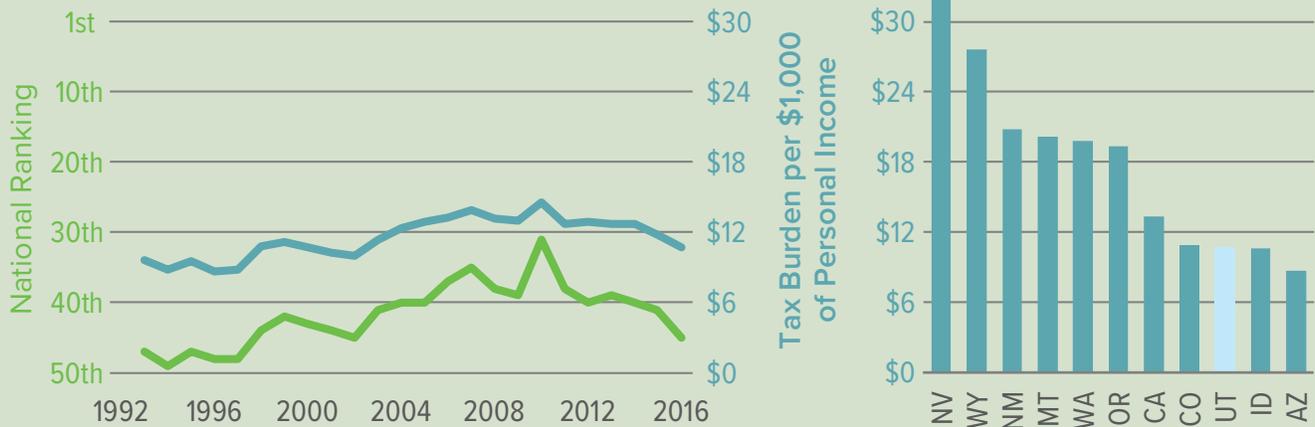
Utah's motor fuel tax was at \$3.35 per \$1,000 of personal income, placing the state 21<sup>st</sup> in the nation and sixth among Western states. The tax burden of the motor fuel tax is distinguished among most states with its gradual decreases punctuated by sharp increases. The sharp increases represent increases in the per-gallon tax, while the long gradual slopes downward represent static amounts per gallon that are eroded by inflation and by the adoption of increasingly fuel-efficient and electric vehicles. Many states, including Utah, are experimenting with an alternative tax on the miles vehicles travel to support or even replace the motor fuel tax. The fact that Utah's ranking has also decreased from 2007 to 2016 demonstrates that Utah's motor fuel tax burden has been falling faster than many other states. In fact, Utah's motor fuel tax burden decrease over this time period was the sixth largest in the nation. Legislation passed in 2015 and 2017 to increase fuel taxes and index it to alleviate some of the erosion might change this trend.<sup>3</sup> Nonetheless, Utahns will probably continue to pay less motor fuel tax than at any point in the 1990s or 2000s.



**Among Western states, Utah's motor fuel tax burden in 2016 was in the middle of the pack. But Utah's motor fuel tax burden decrease from 2007 to 2016 was the sixth steepest drop in the nation.**

**Utah's other tax burden is one of the lowest in the nation.**

**Figure 12: Utahns' Other Tax Burden 1993-2016 and Compared to Western States in 2016**



**Other Taxes**

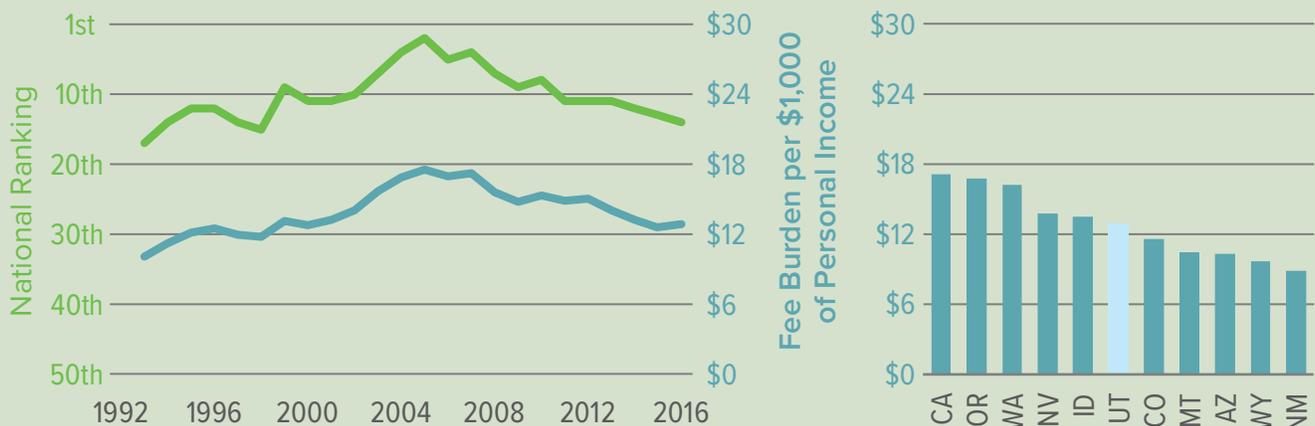
Utah's tax burden of the remaining taxes represents only \$10.70 per \$1,000 of personal income, placing Utah 45<sup>th</sup> nationally and ninth among Western states. Most other states rely more heavily on taxes outside of the sources previously discussed. These could be revenues from state-sponsored gambling or resource extraction.

**Mandatory Fees**

In 2016, Utahns paid \$12.91 in mandatory fees for every \$1,000 of personal income. That places Utahns 14<sup>th</sup> nationally and sixth among Western states. Utah Foundation defines mandatory fees as fees for services where non-public alternatives are not readily available, such as sewerage, courts, libraries and airport services; they also include exactions on property owners for road improvements. By

**Utah's mandatory fee burden peaked in 2005.**

**Figure 13: Utahns' Mandatory Fee Burden 1993-2016 and Compared to Western States in 2016**



contrast, a non-mandatory fee is a fee for a service that could be provided by a private organization or not purchased at all, such as college tuition, school lunches, parking in public garages, medical services at hospitals, park admissions and other recreational activities. Most of Utah's mandatory fee burden is levied by local governments and reflects sewerage, solid waste, and other charges.

## **CONCLUSION**

Utah's tax burden has steadily decreased from 2007 to 2016. The corresponding decrease in state ranking signifies that this is not just part of a national trend. Among all states, Utah's tax burden saw the sixth largest decrease over a decade. Utah also saw the third highest increase in personal income among states between 2007 and 2016. This was largely driven by Utah's rapid population growth and above-average increases in per-capita personal income.

To the extent that Utah's shrinking tax burden is attributable to higher levels of per capita personal income, it is welcome news. As incomes increase, Utahns are better off financially and have more discretionary income. However, to the extent that Utah's falling tax burden is related to its population growth, it may indicate budgetary shortfalls if tax revenues are not increasing quickly enough to support basic services.

## ENDNOTES

- 1 Bateman, Mallory, Christopher Collard and Shawn Teigen, *2016 Utah Priorities Project: Part I: Survey of voters' issues and concerns*, Utah Foundation, (2016), [www.utahfoundation.org/reports/2016-utah-priorities-project-survey-of-voters-issues-and-concerns-part-i/](http://www.utahfoundation.org/reports/2016-utah-priorities-project-survey-of-voters-issues-and-concerns-part-i/).
- 2 Collard, Christopher, et al., *The Essential Tax: Property Taxation in Utah*, Utah Foundation, (2018), [www.utahfoundation.org/reports/essential-tax-property-taxation-utah/](http://www.utahfoundation.org/reports/essential-tax-property-taxation-utah/).
- 3 National Conference of State Legislatures, "Recent legislative actions likely to change gas taxes," (2019), [www.ncsl.org/research/transportation/2013-and-2014-legislative-actions-likely-to-change-gas-taxes.aspx](http://www.ncsl.org/research/transportation/2013-and-2014-legislative-actions-likely-to-change-gas-taxes.aspx).





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