

UTAH TAX REFORM: Who Wins? Who Loses?



**Osher Lunch and Learn Presentation
February 19, 2020
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WHY RESTRUCTURE UTAH TAXES? Quick Review—in a nutshell

- **Utah sales tax revenues are growing at a rate that lags behind state income tax revenues, creating reduced flexibility and, arguably, imbalance problems.**
- **The Legislature appointed a 2019 Tax Task Force (Tax Restructuring and Equalization Task Force--TRETf) to recommend changes, which, after months of study, recommended more sales tax revenue and less income tax revenue.**
- **Did this solve the problem?**

A December special session of the Legislature passed the recommended tax bill, which was signed by the Governor and enacted into law.

Then, the Legislature and Governor repealed the law after a successful referendum by the registered voters of Utah (with help from grocers).

So, where are we now?

? ?

Let's review.

Some UCC Principles That Should Guide Future Tax Restructuring

Just to keep in mind:

- 1. Accountable state budget process, reviewing all state spending on rolling 5-year schedule**
- 2. Transparent priorities for government spending: education, social services, infrastructure (roads, etc.)**
- 3. Fairness principles: taxes based on ability to pay; no double taxation on business inputs to avoid tax pyramiding**
- 4. Reexamination & justification for tax exemptions and economic development subsidies on a regular basis**

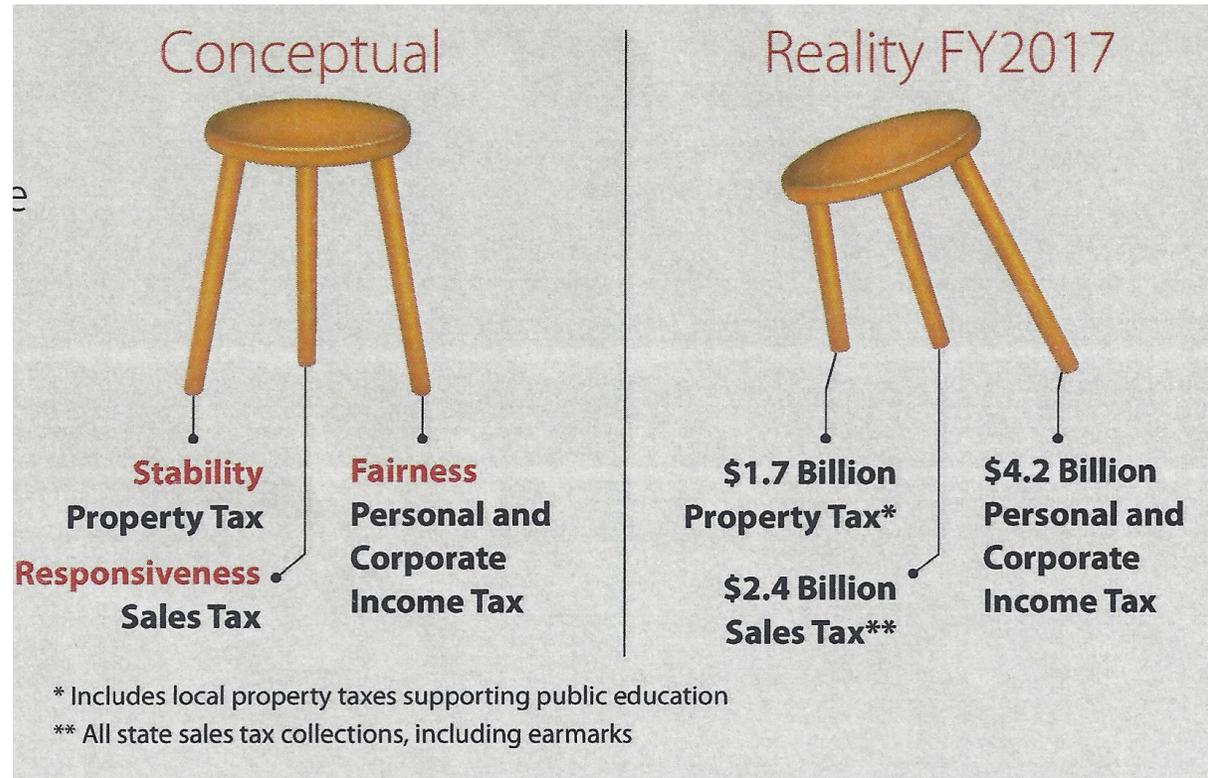
How much of this did the TRETf address?

UTAH TAX REVENUES COME FROM THREE MAIN SOURCES:

Property Taxes, Income Taxes, Sales Taxes (plus a gas tax/user fee)

Gardner Policy Institute Graphic (important influence on Legislature):

“Balanced Tax Base” v. 2017 Reality

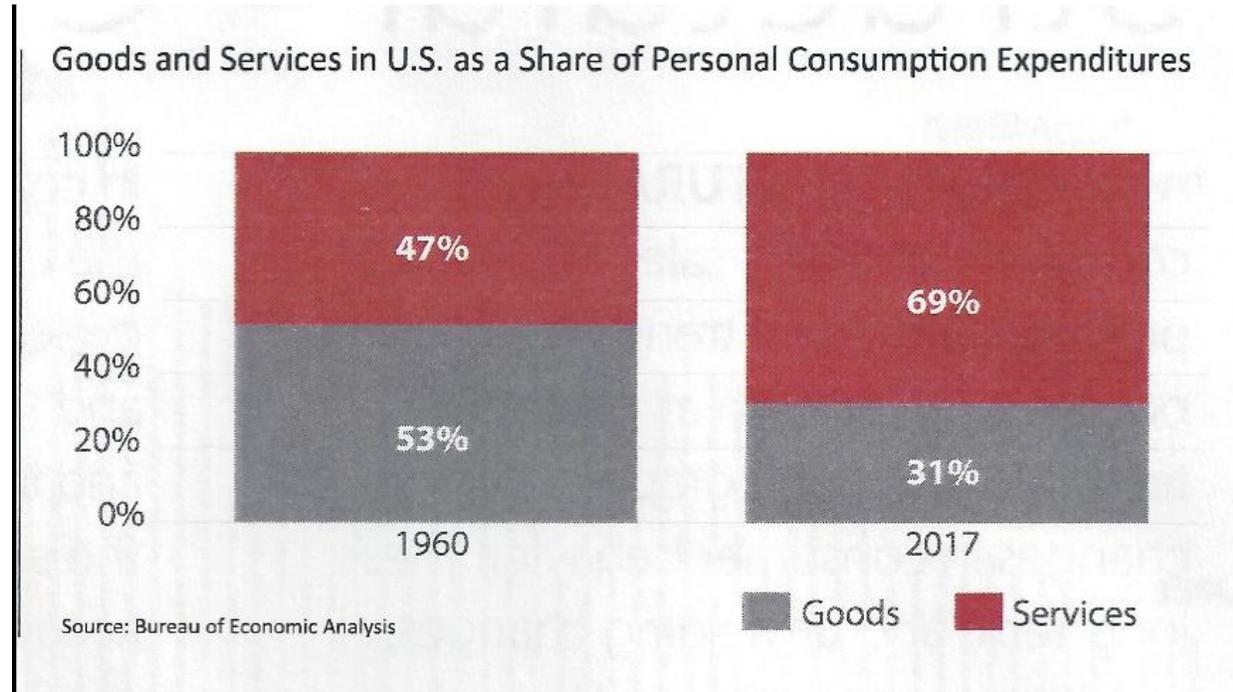


UTAH TAX SOURCES HAVE VARIOUS USES

- 1. Income taxes--(constitutional earmark is only for public and higher education or their rainy day fund)**
- 2. Property taxes—for local government, school districts, and other public services (like libraries, mosquito abatement)**
- 3. Sales taxes—for most everything else, including social services (e.g., Corrections, Medicaid, Child Care) & more earmarks for roads (sales tax revenues go into the “General Fund”)**
- 4. Gas taxes—constitutional earmark for roads**

IS THERE ENOUGH IN EACH FUND? THAT’S THE REAL QUESTION.

SALE OF GOODS IS SHRINKING AS A SHARE OF ALL PURCHASES (& SALE OF SERVICES IS INCREASING)



- **Goods shrank from 53% of consumer purchases in 1960 to 31% in 2017**
- **Services in 2017 constituted 69% of all personal consumption expenditures. In other words, our consumption habits have changed!**

**MORE MONEY FROM SALES TAXES IS NEEDED FOR THE GENERAL FUND.
(NO CRISIS YET, BUT LEGISLATURE WANTED TO GET AHEAD OF IT.)**

UTAH COULD. . .

1. Reduce many sales tax exemptions (Now almost \$1 billion/year)

(TRETf uncovered inadequate reporting requirements and outcome measures for many exemptions.)

2. Add a sales tax on majority of services (as we now have done on most goods)

(Legislature's initial first choice)

3. Raise the state sales tax rate (all consumers pay; the more you consume, the more you pay)

WHAT DID THE UTAH TAX REFORM BILL DO? I

A. INCREASED STATE SALES TAXES:

- 1. Reinstated the full state sales tax on food--\$250M (offered a grocery tax credit to those with low incomes)**
- 2. Removed a few exemptions (\$186M: biggest was removing the motor fuel tax exemption at distributor level--\$170M; adding diesel fuel excise tax --\$16M)**
- 3. Taxed some selected services (e.g., Uber & Lyft, pet grooming, towing, streaming media--\$43M)**

TOTAL TAX INCREASE was ABOUT \$478M (Fiscal Analyst Estimates)

BUT ALSO . . .

B. REDUCED INCOME TAXES to offset the sales tax increases

- 1. Reduced the overall income tax RATE (\$348M reduction)**
- 2. Increased the state income tax exemption for dependents (\$132M)**
- 3. Offered a few tax benefits (\$18M to a subset of Social Security recipients and \$6M to eligible families experiencing intergenerational poverty)**
- 4. Offered a grocery tax credit to low and middle-income families (\$135M)**

TOTAL REDUCTIONS: ABOUT \$639M

**WAS THE OVERALL \$161 Million (\$639-478M) REDUCTION IN REVENUE
FOR EDUCATION WISE?**

(Remember: this is an income tax reduction for education.)



- **OUR PER PUPIL SPENDING FOR PUBLIC EDUCATION K-12 IS ALREADY LOWEST IN THE NATION.**
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- **OUR K-12 EDUCATION OUTCOMES ARE ONLY ABOUT AVERAGE DESPITE DEMOGRAPHIC ADVANTAGES.**
- **OUR TEACHERS ARE UNDERPAID, TEACHER RETENTION IS A SERIOUS PROBLEM, AND SUPPORT SERVICES (E.G., NURSES, SOCIAL WORKERS, MENTAL HEALTH COUNSELORS) ARE LACKING.**
- **OUR ENGLISH LANGUAGE LEARNERS HAVE AN ACHIEVEMENT GAP THAT DESERVES FAR MORE TARGETED INTERVENTIONS.**

UTAH IS ONE OF ONLY SIX STATES THAT DOES NOT HAVE A STATE PUBLICLY SUPPORTED PRESCHOOL PROGRAM FOR 4-YEAR OLDS.

(High-quality preschool is a UCC priority. It's not yet a state priority.)





KINDERGARTEN READINESS is the best indicator of later success in school, healthiness, and employability. Yet children who are ethnic minorities, English language learners, or from low-income families are the most likely not to be “kindergarten ready.”

We need to invest much more in their educational achievement. For every \$1 invested in HIGH-QUALITY PRESCHOOL, research indicates at least a \$6-7 return.

**So, as the Legislature considers a new tax plan, what should be some
BASIC GOALS OF A SOUND STATE TAX SYSTEM?**

- 1. Enough revenue to meet public needs and keep the economy healthy**
- 2. Fair distribution of the tax burden**
- 3. An excellent public education and higher education system**
- 4. Wise investments in good times to avoid increased costs later (e.g., infrastructure and social support services)**

GIVEN THESE GOALS,

Why an income tax cut?

(Election year? Anti-tax, anti-government spending values?)

2. Why an increase in the state sales tax on food?

**Failure to locate enough exemptions to repeal and services to tax—
(influence of heavy lobbying by powerful special interests?)**

**3. Why does the Legislature want to remove the constitutional income
tax earmark for education? What would replace it?**

**More flexibility. Satisfaction with current education outcomes.
Need to rob Peter to pay Paul. No satisfactory replacement yet.**

**4. Why aren't we investing in our children's health, safety,
education?**

OUR TAXES ARE NOT HIGH

- 1. U.S. taxes are the lightest among all developed western nations.**
- 2. Utah taxes are less than the U.S. average, and Utah income taxes have been shrinking as a % of personal income.**
- 3. Utah property taxes are eleventh lightest in the U.S.**
- 4. Utah gas tax is about average in the U.S. and is \$7 billion short of covering our road-building needs.**

There is room, need, and opportunity (given Utah's growing economy) to invest in Utah's future.

(Matthew Weinstein will continue our discussion from here.)