



# THE UTAH TAXPAYER

A PUBLICATION OF THE UTAH TAXPAYERS ASSOCIATION

## Cities Escaping Truth-in-Taxation Process through Excess Utility Fees

One of the many purposes of Utah's Truth-in-Taxation law is to provide taxpayers with a clear understanding and notice when an entity has proposed a tax increase. The notices required under Truth-in-Taxation are transparent, and the process to raise taxes ensure that all taxpayers are aware of what more of their hard-earned dollars would be spent on.

However, some cities are finding ways to circumvent the transparency in Truth-in-Taxation.

Here's what's happening. Cities often own and operate their own utilities, such as power, water, or sewer. Each month, residents of those cities receive a bill charging them for what many ratepayers believe to be their direct use of those services.

Current law allows for unlimited transfers from an enterprise fund (utility funds) for any purpose as long as it is disclosed in their budget (which are often hundreds of pages long).

Oftentimes, city officials are overcharging customers for above what administrative costs are.

What this boils down to is the practice of residents' water, sewer, or power fees could go to pay for anything that a city decides (like parks, city celebrations, city travel, etc.)

Some cities have found that overcharging ratepayers for utilities can help subsidize their general funds in order to avoid the process of raising property taxes. This practice of fund transfers undermines the transparency and clarity taxpayers have come to expect through Truth-in-Taxation.

When a city proposes increasing the property tax on its residents, taxpayers know precisely what that means and how and when to voice their concerns. It is also required that clear notices be published and distributed to get the word out.

Fees, and the transfer and increases on fees, on the other hand, are designed to be hidden.

It is true that while fees and transfers are required to be disclosed to the public, it is often so convoluted in the hundreds-of-pages-long budget, residents may have a difficult time deciphering what is happening.

The truth is, these cities are playing a game with taxpayers, and cities are winning. City officials like to claim in re-election campaigns that they did not raise

*(continued on page 3)*

**FEBRUARY 2017**

VOLUME 42



Cities Escaping Truth-in-Taxation Process through Excess Utility Fees

Page 1



My Corner: Increasing the Income Tax is Risky Business, Other Options Should be Considered

Page 2



2017 Legislative Watchlist - Week Three

Page 3



Utah's Tax and Fee Burden Decreases in FY 2014

Page 4



Legislative Outlook Conference Recap

Page 6



Your Association Accomplishments in January

Page 6

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## My Corner: Increasing the Income Tax is Risky Business, Other Options Should be Considered



Association Chairman  
Mike Edmonds



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*On January 21, 2017 Utah Taxpayers Association Chairman Mike Edmonds and Vice President Billy Hesterman co-wrote the following op-ed, published in the Salt Lake Tribune, in response to the Our Schools Now initiative, which is looking to raise the income tax yield by 17.5%.*

### The Salt Lake Tribune

Raising the state's income tax rate to gain additional funding for Utah's education system is too big of a risk to take.

Despite Utah being one of the most fiscally conservative states in the nation, our tax burden is higher than the national average. According data from the U.S. Census Bureau, Utah's income tax burden is 15th highest in the nation. There is an economic danger in increasing that burden.

In the mid 2000's, Utah lowered its income tax rate from 7 percent to 5 percent. Since then, Utah has seen tremendous economic growth. We survived the Great Recession better than any other state, were named the best-managed state in the union and have been acknowledged as the top state for business multiple times.

The education fund has also grown over that same period. From 2007 to 2014 the state's education fund grew by more than \$750 million or by 26 percent.

If we want to ensure that Utah remains competitive with other states for top jobs, if we want to continue to expand "Silicon Slopes", if we want to make certain our children and grandchildren have jobs that keep them here, we need to look for ways to lower Utah's income tax rate.

If there is a desire across the state to increase education funding there are a number of other options to consider.

First, lawmakers could look at broadening the base and lowering the rate of the state's income tax.

By removing or lowering the amount allowed in deductions, credits and exemptions the state could raise funds for schools but still decrease the state's income tax rate. This could prove to be beneficial to the state as businesses often compare states by income tax rates when determining where to locate.

Due to Utah's dependent exemption, the more children a household has in the public education system, the less that household is paying for its children's education. By lowering the amount taken for this exemption, Utah would broaden its income tax base to provide that those who directly utilize a service, in this case public education, pay a fairer share for it. For example, reducing the value of the deduction by one-third would raise nearly \$150 million annually.

Second, the state could restore the sales tax on food. Utah has a state sales tax rate of 4.7 percent, but that rate drops to 1.75 percent for unprepared food. If lawmakers restored the rate, it is estimated the state could raise \$190 million annually.

If this option were to be considered, lawmakers would need to take steps to protect families that may struggle to put food on the table.

Next, Utah could end the practice of giving up school property tax dollars through tax increment financing projects. Far too often local school district boards are willing to give away their portion of property taxes for a new development within their district. They give away millions in property taxes to assist in the construction of malls, grocery stores or auto dealerships which don't produce enough jobs to justify the gift.

The legislature could also consider ending the sales tax subsidies that are paying for Utah's road and water projects and shifting those costs onto the users of Utah's highways and water systems. Currently sales taxes used to subsidize transportation projects are nearly \$500 million annually.

Finally, Utah school districts have the option of increasing property taxes. School districts have

approximately \$849 million in unused property taxing authority. Those districts that find additional funding is needed can increase their property taxes, but must take into consideration the district's taxpayers and specifically identify what, if any, proposed new revenues would be used for prior to beginning the process of raising taxes.

If any additional funds are raised for Utah's public education system, it should not be done in a way that merely pours additional funding into a status

quo system. If taxpayers are to make this significant investment, it needs to be done in a targeted manner with measurable results. Taxpayers deserve the assurance that these dollars are being spent to improve the education of Utah's students and not wasted on programs or staff that have no impact on student outcomes.

*If you wish to see this as published in Salt Lake Tribune online, [please click here](#).*

## Cities Escaping Truth-in-Taxation Process through Excess Utility Fees (continued)

taxes during their term. They accomplish this by stealing excess money from utilities, rather than go through the difficult process, if necessary, to raise property taxes to pay for basic city services.

Your Taxpayers Association has been working with

Rep. Jeff Moss (R - Saratoga Springs) to develop legislation that will bring accountability to cities when they subsidize their general funds on the excess income being given to the cities by ratepayers.

Expect to hear more on this issue.

## Transparency for Taxpayers Among Key Issues Association Working Towards During 2017 Session

Week Three of the 2017 Legislative Session is underway, and your Taxpayers Association has already been working hard on legislation to benefit taxpayers.

Let's take a look at some of our highest priority bills.

### **Utah 2.0 - Senate Bill 132 - Vehicle Manufacturers Tax Amendments (Bramble)**

SB 132 expands single sales factor apportionment of the corporate income tax, while removing the sales tax penalty for manufacturing inputs on another industry.

In 2015, the Taxpayers Association unveiled a legislative initiative called Utah 2.0, which was designed to strengthen Utah's economic growth and make the state a more attractive place for businesses to relocate and expand. Eliminating the sales tax penalty for business inputs and expanding the single sales factor are both key pillars of this initiative.

Utah currently places a sales tax penalty on manufacturing business inputs that have a life less than three years, which punishes some manufacturers while exempting others. Sound tax policy states that the state should tax outputs (final product), rather than inputs (items used to make the

final product). When inputs are taxed, a company's production is harmed through the state adding direct costs that are passed along to the consumer.

Also, Utah allows some industries to use the single sales factor apportionment to calculate their corporate income tax burden. However, other states are quickly implementing this tax reform, setting Utah behind for attracting businesses.

SB 132 exemplifies our Utah 2.0 initiative, which continues to strengthen economic competitiveness across the state. We encourage lawmakers to pass this legislation.

### **Utah 2.0 - Competency-Based Education Funding (Millner)**

Creates a model for mastery-based education funding, which reallocates funds back to the school district or charter school if a student is to graduate early. This legislation would authorize the State Board of Education to reimburse a local education agency (school district or charter school) that offers competency-based education for a student who graduates early from that LEA.

This funding mechanism is to incentives LEAs to offer competency-based education through giving the

LEA the funds it would otherwise lose when a student, dependent on mastery, graduates early.

### **Senate Bill 94 - Local District Revisions (Fillmore)**

SB 94 increases transparency to the taxpayer, by requiring that special service districts have greater accountability when proposing to raise taxes.

The boards of many special service districts are made up of appointed, rather than elected officials. SB 94 would require that before raising property taxes, special service districts be subject to one of the following accountability measures:

- The district's board must be comprised of elected officials,
- Must be voted upon and approved by citizens that comprise the district, or
- Must be voted upon and approved by  $\frac{2}{3}$  of the elected bodies of each municipality that comprise the district.

The Utah Taxpayers Association supports this bill and encourages lawmakers to pass this legislation.

### **Senate Bill 150 - Local Government Bond Amendments (Henderson)**

This bill is a transparency measure, meant to protect taxpayers. It mandates that local governments state up front, in the first paragraph, how much a bond will actually cost citizens, rather than burying that information at the bottom of a lengthy description on the ballot.

### **Senate Bill 110 - Sales and Use Tax Collection Amendments (Bramble)**

SB 110 creates a model for collecting sales taxes from remote sellers who sell in the state of Utah. If a seller is to sell more than \$100,000 in the state, SB 110 would require them to collect sales tax at the time of purchase.

Additionally, the bill would require that an out-of-state seller that advertises products with affiliates within the state would need to collect sales tax on purchases made.

Senate Bill 110 creates and better enforces an equitable, fair tax structure for the collection of sales taxes already owed.

The Utah Taxpayers Association has a long history of supporting tax equality among retailers. While we would prefer to see a federal solution on sales tax fairness to avoid a patchwork of remote sales tax laws across the country, we are supportive of states, including Utah, moving forward on their own to solve the issue.

### **Senate Bill 139 and 142 - Tax Increment Financing Revisions and Redevelopment Agency Amendments (Stephenson, Fillmore)**

These bills would restrict the amount of money, if any, that could be provided to redevelopment agencies to incentivize economic growth within the district.

Sen. Fillmore's bill (SB 142) would completely restrict school districts from giving away taxpayer-provided funds to redevelopment agencies, while Sen. Stephenson's SB 139 would limit the amount to 50% of property tax generated.

These proposals do not limit cities, counties, or local districts from providing tax increment financing to redevelopment agencies.

### **Senate Bill 141 - Income Tax Amendments (Dabakis)**

SB 141 establishes a progressive tax structure for Utah's individual income tax. The bill would raise the individual income tax rate to 7% for persons making more than \$500,000 annually.

The Utah Taxpayers Association adamantly opposes this increase to the income tax, and would urge lawmakers to reject this proposal on behalf of all proposals.

There are many more bills that your Taxpayers Association is monitoring and lobbying for on behalf of taxpayers. If you wish to read all the legislation, [please click here to read our updated Watchlist](#).

## **Utah's Tax and Fee Burden Decreases, Taxes Remain Below the National Average**

Each year, the Utah Taxpayers Association collects and analyzes data from across the country to rank and compare Utah's tax and fee burden to all other

states. Here are just a few highlights from this year's *How Utah Compares* report.

Utah's tax and fee burden ranked 20th highest in the

U.S. for Fiscal Year (FY) 2014. Tax and fee burden is expressed as the percentage of total personal income consumed by taxes and fees, excluding tuition.

Data from the U.S. Census Bureau’s State and Local Government Finances and personal income data from the Bureau of Economic Analysis are used to calculate the burden of various taxes in all fifty states. In December 2016, data for FY 2014 was released.

The overall tax and fee burden (excluding tuition) on Utahns decreased slightly (0.07%) from FY 2013. This decrease is primarily due to increases in personal income.

If fees are excluded from Utahns overall tax and fee burden, taxes remain lower than the national average, with 9.60% of Utahns adjusted gross income (AGI) paid towards taxes, ranking us 30th highest in the nation.

Tax cuts initiated during the Huntsman administration (2007) has significantly decreased Utah’s tax burden. These tax cuts saved taxpayers around \$400 million annually, and since that time, Utahns’ tax burden has remained below the national average.

Interestingly, while Utah’s tax burden remains relatively low, the fees that Utahns pay annually accounts for the 3.1% difference between tax burden and the combined tax and fee burden.

While user fees are frequently a sound method to fund certain services, governments have the ability to simply increase reliance on fees to avoid going through the process of raising taxes. As a result, taxpayers end up paying more for the same services in a less transparent way.

*How Utah Compares* also finds that Utah ranks above the national average for the individual income tax burden, with 2.69% of personal income going to pay this tax, compared with 2.37% nationally.

If Utah were to raise its income tax to collect an additional \$750 million, as is being proposed to fund public education, Utah’s ranking would jump from 15th highest in the country, to 6th.

To read the full report, [click here](#).

Snapshot of 50-State Tax Burden and Revenue Comparison, Fiscal Year 2014\*

	Taxes and Fees Exc.		Taxes	
	Burden	Rank	Burden	Rank
<b>United States</b>	<b>12.79%</b>		<b>10.36%</b>	
Alabama	12.12%	30	8.30%	45
Alaska	17.51%	3	14.30%	3
Arizona	11.15%	44	9.06%	39
Arkansas	12.45%	26	10.27%	21
California	13.97%	8	11.04%	13
Colorado	11.62%	39	9.13%	38
Connecticut	11.91%	35	11.11%	12
Delaware	11.76%	36	9.97%	27
Florida	11.21%	43	8.03%	49
Georgia	11.45%	41	8.98%	41
Hawaii	15.71%	4	12.63%	4
Idaho	11.64%	38	8.95%	42
Illinois	13.06%	15	11.57%	8
Indiana	12.05%	32	9.50%	32
Iowa	13.64%	12	10.16%	24
Kansas	12.50%	24	9.52%	31
Kentucky	12.29%	28	9.98%	26
Louisiana	12.27%	29	9.32%	36
Maine	13.82%	9	11.94%	6
Maryland	12.05%	33	10.59%	16
Massachusetts	11.74%	37	10.37%	20
Michigan	12.04%	34	9.45%	34
Minnesota	14.04%	7	11.78%	7
Mississippi	14.72%	6	10.39%	19
Missouri	10.64%	46	8.62%	43
Montana	11.50%	40	9.67%	29
Nebraska	12.87%	18	10.45%	18
Nevada	12.32%	27	9.89%	28
New Hampshire	9.39%	50	8.27%	46
New Jersey	13.03%	16	11.44%	9
New Mexico	13.56%	14	11.19%	11
New York	17.51%	2	15.19%	2
North Carolina	12.76%	19	9.47%	33
North Dakota	19.29%	1	17.36%	1
Ohio	12.55%	22	10.21%	22
Oklahoma	10.04%	48	8.17%	48
Oregon	13.61%	13	10.19%	23
Pennsylvania	12.05%	31	10.04%	25
Rhode Island	12.53%	23	11.00%	14
South Carolina	13.80%	10	9.01%	40
South Dakota	9.60%	49	8.21%	47
Tennessee	10.22%	47	7.88%	50
Texas	11.23%	42	9.19%	37
<b>Utah</b>	<b>12.70%</b>	<b>20</b>	<b>9.60%</b>	<b>30</b>
Vermont	12.94%	17	11.99%	5
Virginia	10.99%	45	8.60%	44
Washington	12.47%	25	9.38%	35
West Virginia	13.68%	11	11.27%	10
Wisconsin	12.70%	21	10.56%	17
Wyoming	15.12%	5	11.00%	15

\*50-State Tax and Fee, Tax Burden and Revenue Comparison, Fiscal Year 2014 from *How Utah Compares*, published by the Utah Taxpayers Association.

This chart shows the nationwide average for taxes and fees and taxes individually as a percentage of personal income, along with a 50-state comparison.

## 2017 Legislative Outlook Conference Previews Top Issues from Key Policymakers

With over 100 attendees and top leaders discussing tax policy, our annual Legislative Outlook Conference held on January 9th, 2017 was a huge success.

We heard from top lawmakers from both the House of Representatives and Senate, and policy experts on topics to be considered during the 2017 Legislative Session, including panels and presentations on:

- Utah 2.0 - Paving the way for a brighter economic future through decreasing the tax burden on Utah businesses
- Leveling the playing field among retailers
- Discussion on a proposal to increase the income tax by 17.5%.
- Shining a light on Utah's special service districts

Did you miss it? Good news! You can listen to the entire conference by clicking here. You can also view the presentations at our website, [www.utahtaxpayers.org](http://www.utahtaxpayers.org).



Over 100 attendees at the Utah Taxpayers Association's Legislative Outlook Conference, held on January 9, 2017

### Association Accomplishments During January:

- ❖ Hosted the 2017 Legislative Outlook Conference
- ❖ Worked with lawmakers on advancing Utah 2.0 initiative
- ❖ Began lobbying taxpayer-friendly legislation
- ❖ Completed 2016 *Action and Results* publication
- ❖ Published the 2016 How Utah Compares Report
- ❖ Spoke on behalf of remote sales tax legislation in the Senate Revenue and Taxation Committee

#### In the News:

- ❖ Income Tax Hike Proposal
  - [Lawmakers offer alternatives to income tax increase: Salt Lake Tribune](#)
  - [Education funding has lawmakers' attention: Deseret News](#)
  - [Op-Ed: Alternatives to the income tax hike proposal: Salt Lake Tribune](#)
- ❖ Legislative Outlook Conference
  - [Utah Taxpayers Association Conference includes discussions on income, sales tax: ABC4Utah](#)