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THE UTAH TAXPAYER

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City Government Takes $635 from Every Man, Woman, and Child on Average

According to calculations done by your Taxpayers Association, Utah citizens in FY 2018 paid roughly $635 of their income to city government, $24 more than the prior year. Utahns also paid $24.41 of each $1,000 earned by resident in their respective city, representing 2.4% of total taxpayer income.

The Utah Taxpayers Association's 2019 Cost of City Governments report, based on FY 2018 data, shows the relationship between city government revenue and citizen income in Utah's 50 largest cities. This data provides a snapshot of on average how much of each thousand dollars earned by a citizen is consumed by the city government in Utah.

Salt Lake City collects nearly $1,400 per capita in taxes and fees, ranking it the highest in the state. Salt Lake City taxpayers pay more than double the statewide average. In addition, this is roughly $200 more than the next city, which is Bluffdale. Bluffdale taxpayers pay $1,189 on in city taxes each year.

On the other end of the spectrum, Clinton City residents only pay $395 in taxes per capita, coming in at the report's lowest. Next lowest is Bountiful, whose residents pay $418. The Utah Taxpayers Association would like to thank the elected officials of both these cities for ensuring their residents are not overly burdened with taxes.

Looking at another metric, Salt Lake City also ranks high in the amount of taxes and fees its residents pay per $1,000 of income. Salt Lake City residents pay $42.44 per $1,000 of income, which is nearly double the statewide average. However, South Salt Lake City ranks higher, coming in at $51.77 per $1,000 of resident income.

The Cost of City Government also doesn't account for taxes and fees across other levels of government, but only shows the cost of the city government to residents. The only exception to this is member cities of public safety special districts, such as the Salt Lake Valley Law Enforcement Service Area or the South Davis Metro Fire Department.

These member cities may not have public safety services which come from the general fund, but their citizens are still paying for these services. We have included the levy and revenue from these special districts in the total cost of city government. This is based on the taxable area in a city, then multiplied by that year's tax rate. This report uses two different metrics in determining the burden of city government on taxpayers. The first metric, revenue from taxes and fees per capita, shows how much revenue the city collects in taxes and fees per resident in the city. This figure is useful in comparing different cities and indicates the level of fiscal restraint exercised by elected officials in various cities.

The second metric, revenue from taxes and fees per $1,000 of citizen income, shows the individualized burden on taxpayers by controlling for income. This figure indicates how much a taxpayer's consumption ability is impacted by the city government and illustrates the personal impact of government spending on individuals. Controlling for income does not justify higher government spending in cities with higher income residents.

The report is chock full of helpful information in the upcoming Truth in Taxation process as cities look to increase property taxes. Included in this report is the cities' tax rates (including public safety), government revenue from taxes and fees, and per capita income.

To view the report, click here.

My Corner: What Every Taxpayer Needs to Know about Utah's Current Tax Reform Process

The first wave of the Tax Restructuring and Equalization Task Force town hall-style meetings have been held and there are more to come before the Task Force sits down to fulfill its purpose. Its stated purpose when these meetings began are to "Assure sustainable, adequate, and flexible funding to meet the needs of Utah citizens, including education, public safety, social services, transportation, recreation, and environmental quality".

Your Taxpayers Association has attended all of the town hall meetings and intends to attend the remaining meetings.

The Task Force was established by the Utah Legislature through passage of HB 495 (Schultz, Hemmert) following public outcry against HB 441 (Quinn) when it was unveiled only ten days before the conclusion of the 45 day 2019 session. In its original version, HB 441 would have imposed hundreds of millions of dollars in tax increases and decimated the Utah economy by imposing massive pyramiding through taxes on business services.

In his testimony at the Box Elder public hearings, Association Vice President Rusty Cannon warned the Task Force about the danger of tax pyramiding which had been a major component of HB 441. He said any new taxes on services must be limited to final consumption. He also argued that whether the sales tax base is expanded or not, the most urgent tax policy change needed to sustain Utah's economic leadership is to cut income tax rates.

These meetings often begin with an introduction to the "problem" as some in the Legislature see it. Their monologuing generally lasts about an hour, leaving a paltry 90-seconds for the public to speak their minds.

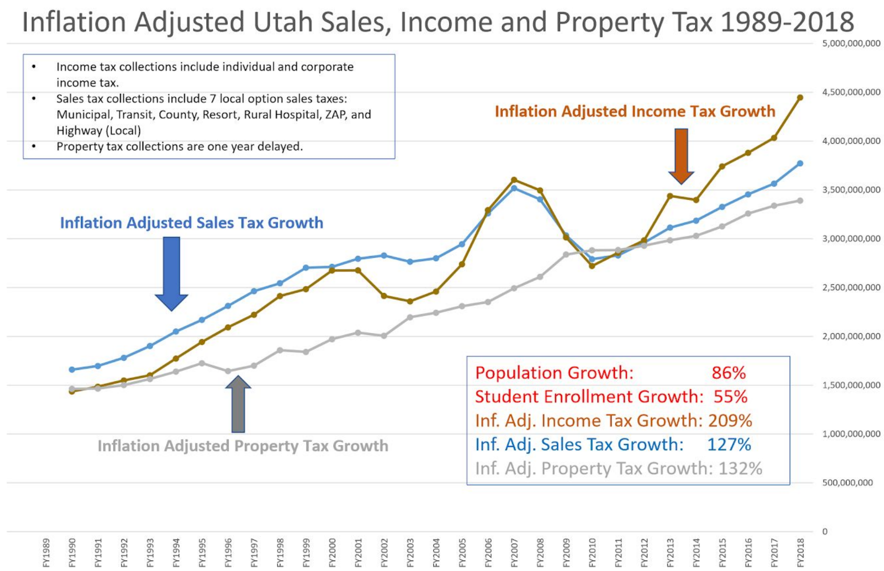
The Task Force released a two-page statement of Vision, Purpose, Principles, and Process were available to all attendees. Several members of the public who came to testify before the Task Force referred to them as they made their 90 second statements.

Some of those testifying at the town meetings asked how a state with over a billion dollar surplus coming into the 2019 legislative session can claim a revenue problem. Several others brought data showing that Utah state spending is growing much faster than inflation and population combined.

I am encouraged by the eight Guiding Principles adopted by the Task Force in its organizing meeting. These principles are essentially those which have guided your Taxpayers Association over the last four decades as we have worked to establish policies to make the Utah economy number one in the nation: Competitive, Sufficient, Sustainable, Stable, Flexible, Fair, Simple, and Transparent. If the Task Force adheres to those principles we can expect it to deliver sound recommendations to the Legislature.

While the statement of Vision, Purpose, Principles, and Process is a sound roadmap for arriving at optimal tax policy, the expanded wording of Process Item (2) raises concerns because it appears to create a biased argument of insufficient funding for essential services going forward. "Substantiate the revenue imbalance due to a shifting economy and validate the demands of current and projected population growth on the state budget for continued investment in education, transportation, water, air quality, public safety and health care."

During my comments at the Salt Lake County hearing I presented the task force with the graph which had been presented by Taxpayers Association Board Chair Morris Jackson at the Utah Taxes Now Conference.



While Utah population over the last three decades grew 86% and K-12 Student enrollments grew by 55%, all of the taxes in the three legged stool grew much faster even in real dollars. Inflation-adjusted state and local sales tax revenues grew by 127%, inflation-adjusted Property Tax revenues grew by 132% and inflation-adjusted combined corporate and individual income tax revenue grew by 209%. I reminded the task force that Utah has a legislatively created silo/earmark problem, not a revenue problem.

As can be seen from the chart, Utah's property tax is recession proof due to your Taxpayers Association's success in passing the Truth-in-Taxation (TnT) law in 1985 which limits the "certified rate" to the previous year's property tax revenue plus new growth. This certified rate kept budgets secure even during the housing bubble recession which began in 2008. TnT also protected taxpayers over the years from excessive property tax hikes. It caused Utah's property tax ranking among the 50 states to drop from 24th highest in 1985 to 36th today. In spite of this, inflation-adjusted property tax revenues have grown 46% faster than Utah's population. Does Utah have a revenue problem?

It is significant to note that inflation adjusted state and local sales tax revenue grew much faster than population (127%) in spite of significant exemptions including manufacturing equipment, mining equipment, wind & solar power generation, data centers and others. The steep growth slope in the income tax (209%) was actually in large part due to the economic growth induced by these sales tax exemptions. Does Utah have a revenue problem?

Important to the work done by the legislative members of the Task Force is the expertise brought by its four non-voting members. Steve Young, an attorney at Holland & Hart, is one of the most respected sales tax experts in the state. Dr. Gary Cornia is a former State Tax Commissioner who helped craft Utah's Truth-in-Taxation law, a nationally recognized property tax expert and recently retired Dean of the Marriott School of Management at Brigham Young University. Keith Prescott is a CPA tax practitioner who has served many years as a member and chair of the Tax Review Commission. He assisted in producing the sales tax studies of 2004, 2005, and 2009. Kristen Cox is the executive director of the Utah Governor's Office of

Management and Budget (GOMB). Previously, Kristen served as the executive director of the Department of Workforce Services (DWS) where she led an effort to reduce costs by nearly 40 percent while simultaneously improving quality during a time of significant caseload growth of almost 60 percent due to the 2008 economic recession.

These four non-voting experts are expected to make their most significant contribution to the work of the Task Force as it begins the post town meeting phase of its process. It is important to note that Young, Cornia, and Prescott have past records suggesting opposition to business tax pyramiding.

Cox, on the other hand has strongly supported business-to-business taxes where services are not integral to production of the product. For example, integral to manufacturing are component parts and machinery. The Governor's Office argues that accounting, engineering, janitorial and security services, and advertising are not integral to production and therefore should be taxed. Your Taxpayers Association's most important task in this process will be to oppose this position. We believe that the bright line to avoid sales tax pyramiding is the IRS code on deductibility of business expenses.

The Salt Lake Chamber had also supported HB 441 during the legislative session, which called for tax pyramiding. Hopefully, the Chamber's position has changed as the Task Force begins its process. .

Jonathan Williams Says Utah Won't Be Number One for Economic Outlook Much Longer Unless Some Bold Changes Are Made

The Utah Business Coalition hosted a breakfast for legislators on June interim day to hear from Jonathan Williams, Chief Economist and Vice President for State Fiscal Reform at the American Legislative Exchange Council (ALEC). Mr. Williams shared his thoughts on tax reform efforts in Utah and across the nation.

Mr. Williams told the roughly 100 attendees, which included legislators and business leaders, that many states have been using the Tax Cuts and Jobs Act, passed by Congress in December of 2017, as a platform to cut taxes on the state level. For example, Iowa and Missouri enacted the largest tax cuts in their states' histories. Even Bernie Sanders' home state of Vermont cut income taxes. Many states have been proactively enhancing their competitive position while conforming with the federal legislation.

He noted Utah has the envious position of being #1 for 12 years in a row in the Rich States, Poor States Economic Outlook rankings, but that also means other states are working hard to catch up to and surpass Utah. One of the great policies that has kept Utah in the front of the pack is its Truth In Taxation laws regarding property taxes, which the Utah Taxpayers Association and State Tax Commission jointly created legislatively in 1985. The accountability and transparency of that system puts the state in a much better position than those states that sneakily raise property taxes year after year. Utah's effort to move to a single, flat income tax rate more than a decade ago was a key effort in making Utah a leader.

Utah's pension reform efforts have also helped Utah avoid what Mr. Williams sees as the "major existential threat" to states in the future. Ballooning pension liabilities and declining funding ratios continue to be a problem even with the decade long rally in equity markets. He said those issues are going to cause major tax increases for those states at some point. Many states have continued to kick the can down the road with the benefit of the equity rally, but another recession will drive even more states to react in crisis mode when they can no longer avoid the problem. Utah's efforts several years ago to make needed changes to its pension system has made it a leader in the nation and an example other states should follow.

Mr. Williams said Utah has always acted with prudence. Slow, measured efforts have steered the state in the right way on spending and taxation. Observing the rule of "first, do no harm" is important in making sure Utah doesn't endanger its #1 ranking for economic outlook. On the other hand, states run the risk of falling behind simply by doing nothing. Sixteen states have recently substantially cut taxes and the environment is very competitive.

Similar advice was given by Indiana Senator Brandt Hershman at the recent Utah Taxes Now Conference. In explaining how Indiana moved from 24th place to 3rd place in ALEC's Rich States Poor States rankings, he advised Utah policymakers to "Act boldly and implement slowly," something Kansas failed to do with their now infamous bold tax cuts many of which have now been repealed. Utah has followed this advice over the years as the legislature repealed sales taxes on business inputs first by exempting industry groups one at a time and by delaying the effective date for a year and phasing the exemption over three years. This gave the positive economic effects time to kick in while the sales tax revenue from the exempted inputs slowly tapered off.

Mr. Williams said that personal property tax is also an area where many states have worked to eliminate taxes altogether, and Utah could do much more in that arena. Regarding any expansion of sales tax on services, economists and tax policy experts across the political spectrum all agree that any business to business sales taxation should be completely avoided.

Utah is unique in that it has the constitutional earmark for education in the income tax structure. That issue needs to be front and center in the discussions, Mr. Williams told the crowd. Legislators need the ability to do priority-based budgeting and have the flexibility they need in crafting the budget each year. Any conversation about tax reform in Utah should have the removal of that earmark in it.

Mr. Williams mentioned three broad principles that ALEC has learned over the years on a national basis that are important to achieving sound fiscal policies. First, capital based taxes (income taxes, capital gains taxes) are the most damaging types of taxes. A tax on capital, dollar for dollar, is more harmful than a tax on final consumption. For states that are overly reliant on capital taxes (like California with a top tax rate of 13.3%) you see their boom and bust cycle play out over and over again. Even outgoing Democrat Governor Jerry Brown of California admitted that they were overly reliant on progressive income taxes and capital gains taxes.

The second principle to remember is to always resist the urge to have government pick winners and losers with tax policy. ALEC believes strongly in tax neutrality and a level playing field for all. There should be no preferential treatment for an entity that would provide an unfair competitive advantage in the marketplace.

Finally, the third and most important principle is that state governments need to consider spending and taxation as two sides of the same fiscal coin. Going forward, Utah will need to keep spending growth under control as one of the key elements of keeping Utah's competitive advantage alive regardless of any tax policy that is decided upon. Utah's future will depend heavily on how frugally the state behaves.

Mr Williams answered questions from legislators before the event was over. One of the questions was: Even though Utah has been ranked #1 for so long, is there an area where we still struggle that we could do better?

His unequivocal answer was: Cut Utah's income tax rate. He said other states have been much more aggressive in cutting their rates. Utah had been stuck at 5% for a long time and only went to 4.95% recently. He said over the last five years we've seen well over 30 states reduce tax rates, especially on capital and income. Utah needs to remember how mobile capital is today and remain competitive. Utah has fallen behind on the income tax front. A lower rate is needed to attract capital to Utah and keep taxpayers in Utah.

An additional question was asked relating to Utah's current effort to expand the sales tax base: How you define what a "business to business transaction" is in relation to the conversation around sales tax on services? Mr. Williams suggested that the best method is a bright line between business transactions and final consumption. The best method would be to establish that line with IRS deductible expenses for a business, using IRC Section 162. If the IRS allows it to be deductible as a business expense, Utah should not impose a sales tax on it.

Mr. Williams provided wise counsel on what Utah can do to remain the envy of the country when it comes to the best economic outlook and sound tax policy. Legislators and members of the Utah Business Coalition benefited greatly from hearing his national perspective.

Another Economic Perspective

Interestingly, later that day another economist put a different twist on Utah's economic success. In an economic report given to the Revenue & Taxation Interim Committee Mark Knold, Supervising Economist at the Utah Department of Workforce Services reported Utah's employment grew 22.7% from our Pre-Recession High putting Utah #1 among the 50 states in employment expansion since the Great Recession. He stated the biggest reason for Utah's economic expansion is that we have younger workers dominating the labor force and that Utah is at the heart of the five states whose populations have grown more than 70% since 1990, much faster than the national population growth of 31%.

Your Taxpayers Association would suggest that Mr. Knold's figures better describe the demographic effects of Utah's economic expansion, rather than the causes. On the other hand, Mr. Williams' presentation clearly identified many of the causes of Utah's economic success.

School Districts Take $469 Million From Students Under Pressure from Cities and Counties That Look to Spur Economic Development

In June's meeting of the Economic Development and Workforce Services Interim Committee, legislators looked into the relationship between school districts, community reinvestment areas, and tax increment financing.

A year ago, a report from your Taxpayers Association revealed that school districts paid more than $90 million annually in tax increment financing to community reinvestment areas. Now, a legislative committee is looking at that relationship and whether precious school resources are being used appropriately for these types of deals.

As a reminder, a community reinvestment area is created by a city or county legislative body to incentivize economic development, whether that be retail, commercial, or residential. CRAs have funded projects from stadium and arena construction and renovations to solar farms to car dealerships.

Following the creation of the CRA, the legislative body can propose property tax incentives, called tax increment, to lure developers into the area. These incentives come directly from the taxing entities that collect property tax, which include school districts, cities, counties, and special districts.

However, tax increment is not automatically collected. The taxing entities that collect tax from the CRA property must individually vote to approve the funding of the area, since tax revenue will be earmarked from their respective property tax revenues to the newly created development. This investment may include covering the costs of building infrastructure.

Because of the complex relationship between the local school districts and the state, some state revenue is used to backfill local education dollars that are used in TIF.

Over a five-year period, 47% of the total $468,972,612 (inflation-adjusted) was reimbursed by the state through income taxes, which primarily funds the weighted pupil unit. That means more than $250 million of school district revenue was lost to CRAs.

Interestingly, many of the school districts that pay millions, even after reimbursement from state money in TIF to CRAs are also some of the lowest funded per-pupil spending in the state. Sen. Dan McCay pointed this out while using the Taxpayers Association's 2019 School Spending Report. For example, Tooele School District, which is the lowest per-pupil spending in Utah in FY 2018, paid out more than $17 million in TIF, but only $7,689,815 was reimbursed by the state.

Even more glaring is Murray School District, which spends about $700 less per-pupil than the statewide average, and only received 26.7% of the money it sends to CRAs back.

Sen. McCay argued that students are directly paying for economic incentives, and there's a policy call to be made whether that is the correct action to take.

Legislators questioned why school districts are so eager to give away millions in their funding source to provide for economic development, which they may not receive benefits from for decades.

Many presenters tried to answer this question, but Terry Shoemaker of the Utah Schools Boards Association claimed that many school boards want to play nice with their local communities, and can sometimes feel pressured into accepting deals that they otherwise would question. Mr. Shoemaker said that other entities ought to involve school districts earlier in the conversation, to ensure that school boards have an opportunity to voice their opinion and make revisions in order to protect school dollars.

During his presentation, Mr. Shoemaker mentioned that changes in the law have allowed school districts more flexibility by placing a CRA as an interlocal agreement that an entity can sign on to if they choose, rather than a majority vote through the Taxing Entity Committee.

Another one of the recommendations the School Boards Association made to the committee is to limit the number of years school districts participate in a CRA. Many CRAs are often extended past the agreed upon deadline, which prevents school districts from receiving the benefits from the investment they made through the TIF.

While no final recommendations were accepted by the committee, the conversation is ongoing. We will continue to monitor this issue as we head towards the 2020 Session and beyond.

Revenue and Taxation Interim Committee

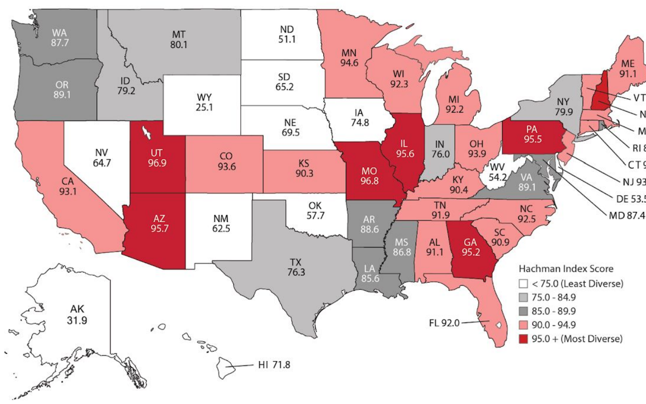
The June Revenue & Taxation Committee received an economic update from Juliette Tennert of the Kem C. Gardner Institute. She noted that of the 50 states, Utah has the greatest economic diversity at 96.9 on the Hachman Index of Economic Diversity. Utah's industrial structure mirrors the U.S.

Tax Commissioner Rebecca Rockwell reported on sourcing and distribution of local option sales taxes in light of the Wayfair decision which triggered sales tax collections on out-of-state remote sellers.

Tax Commission Chair John Valentine made recommendations on how income of nonresidents should be taxed.

Utah has the most diverse economy in the nation

Hachman Index of Economic Diversity



Source: Kem C. Gardner Policy Institute

Staff Counsel Andrea Valenti Arthur reported on the income-based property tax circuit breaker eligibility and Christine R. Gilbert presented a draft legislation relating to the relationship of the Tax Commission and the counties in administration of property tax relief. No action was taken for lack of a quorum.

More than Half of All Businesses in Utah are Exempt from the Personal Property Tax, Following Action Taken During the 2019 Session

The issue of Tangible Personal Property Taxes has generated a lot of discussion at the legislature in recent years. Many believe it imposes an unrealistic compliance burden on businesses and should be eliminated, at least for small businesses. Others feel it is an important revenue stream for government that needs to remain in place; that eliminating it would impose a tax shift to other property taxpayers. Most states tax personal property the same as real property, most have exempted certain types of personal property, while a few have exempted personal property entirely from property taxation.

The Utah Constitution has long provided an exemption from personal property taxes for household furnishings, furniture, and equipment used exclusively by the owner of that property in maintaining the owner's home (Homeowners also get a 45% exemption on the value of their primary residence). Consequently, the personal property tax in Utah applies only to businesses. However, the Constitution allows the legislature to exempt business tangible personal property that, if subject to property tax, would generate an inconsequential amount of revenue.

One specific area of that tax that is often the root of frustration for small businesses is the personal property audits conducted by the State Tax Commission or the county assessor in Weber County and Salt Lake County. Stories are often told of burdensome and extensive document requests by the auditors and audits that last several days and produce a result of no change to taxes owed or a miniscule amount of additional taxes owed. The question is often asked, is the personal property tax and the audits it requires worth the State or the taxpayer's time and money?

More than Half of Personal Property Owners Are Now Exempt.

The recent increase in the previous $10,000 exemption amount to $15,000 from House Bill 231 (Lisonbee and McCay) will provide a total exemption from personal property taxes for thousands more small businesses. Besides exempting these taxpayers entirely from personal property taxes, that law allows taxpayers who remain under that $15,000 threshold for five years to not file again until their property values rise to more than $15,000. Salt Lake County Assessor Kevin Jacobs says the $15,000 exemption will ensure about 50% of businesses in Salt Lake County will pay no personal property taxes at all. Weber County Assessor John Ulibarri said well over two-thirds of businesses owning personal property in his county will be exempt from the tax under the new law and in smaller counties with only small businesses, all of them could be entirely exempt from business personal property taxes.

Rep. Karianne Lisonbee

Sen. Dan McCay

Another feature of House Bill 231 is the exemption for items valued less than $150 which are not essential to the nature of the business. For example, microwave and toaster ovens, coffee makers, and similar items are now excluded from reporting requirements.

Personal Property Tax Audit Horror Stories Debunked

Recent Tax Commission analysis appears to dispel the horror stories repeated to legislators about the onerous nature of personal property audits and the unreasonable amount of time personal property audits lasted. In response to legislative concerns about these stories, Tax Commission auditors began recording audit times since January 2019. The tracking of 282 audits revealed that 83% of personal property audits lasted less than 45 minutes on site. This involves reviewing the owner's listing of personal property and doing a quick walk-through of the property. All of the audits, except 3, lasted 90 minutes or less. Only 3 lasted 2 to 3 hours, and none of the audits lasted longer than 3 hours. This suggests that complaints about lengthy personal property audits are unfounded.

It appears many taxpayers are confusing Personal Property Tax Audits with Sales Tax Audits since in most cases they involve a visit from the Utah State Tax Commission. According to State Tax Commission Executive Director Scott Smith, sales tax audits typically take three to five days at the place of business and require the business owner to produce significant amounts of records. What's more, the findings on sales tax audits typically take sixty to ninety days to reach the business.

Data Reveal Personal Property Audits Necessary, Even for Exempt Businesses

Your Utah Taxpayers Association recently requested data to better understand the impact of personal property audits on small business owners. We are grateful to Weber County Assessor John Ulibarri and the Property Tax Division of the Utah State Tax Commission for providing data that sheds some light on the impacts of personal property audits on business owners. The data reveal misconceptions about personal property audits.

First, over a five year period, examining 15,475 personal property audits conducted by the State Tax Commission, approximately 54% resulted in a tax bill change of $375 or less. Considering the time the audits take, the resources spent on the audit, as well as the cost to the taxpayer, it is fair to ask if a $375 change is a worthwhile return.

Second, an analysis of 5,441 audits on accounts reporting taxable values of $15,000 or less was done. According to that analysis, 63% of those audits produced a tax bill change of $375 or less. As expected, this is an even higher percentage than the entire pool amount of 54% mentioned above. It should be noted that the proportion of audits yielding significant increases in taxes owed is NOT reflective of personal property taxpayers in general. As Weber County Assessor John Ulibarri says, the audits are not conducted randomly. Instead, algorithms are used to identify outliers within business types and these are those who tend to get audited. He also said most audit deficiencies appear to be unintentional, not deliberate; that most business operators try to be honest

While the audits of nearly two-thirds of those claiming less than $15,000 in personal property assets yielded additional taxes of $375 or less, the analysis of audits also showed that 11% of the audits yielded a change in taxable value of $100,000 or more and those accounts added approximately $1.27 billion in value to the tax rolls of Utah. In other words, these taxpayers claimed personal property assets valued less than $15,000 but in fact had personal property valued more than $100,000. Whether these businesses were intentionally hiding personal property from taxation or whether the mistakes were unintentional, your Taxpayers Association has long supported requiring all taxpayers to pay their legally owed tax obligations. Otherwise, law abiding taxpayers end up paying more to make up for scofflaws. It is therefore appropriate that HB 231 provides that majority of businesses which now will pay zero personal property taxes because they are under the $15,000 exemption threshold, and those who after five years are not required to even file annually, will still be subject to personal property audits.

IF YOUR PERSONAL PROPERTY AUDIT EXPERIENCE IS DIFFERENT THAN DESCRIBED HERE, PLEASE CONTACT YOUR TAXPAYERS ASSOCIATION AT 801-972-8814, OR email taxwatch@utahtaxpayers.org.

Association Accomplishments During June:

- Held the 2019 "Teed Off on Taxes" golf tournament
- Attended and commented at state tax reform task force public meetings in Salt Lake, Box Elder, Sevier and Washington counties.
- Presented on state tax reform at a Silicon Slopes town hall.
- Attended Revenue and Taxation Interim Committee and other meetings at the State Capitol.
- Met with Provo School District about a proposed property tax increase.