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THE UTAH TAXPAYER

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Tax Relief for Utahns is Long Overdue

Not only has the time come for tax relief for taxpayers in Utah, but there is also plenty of revenue available for a meaningful cut within the prudently managed budget that Utah's Legislature has crafted during the pandemic.

Sales Tax Revenues Are Growing Rapidly

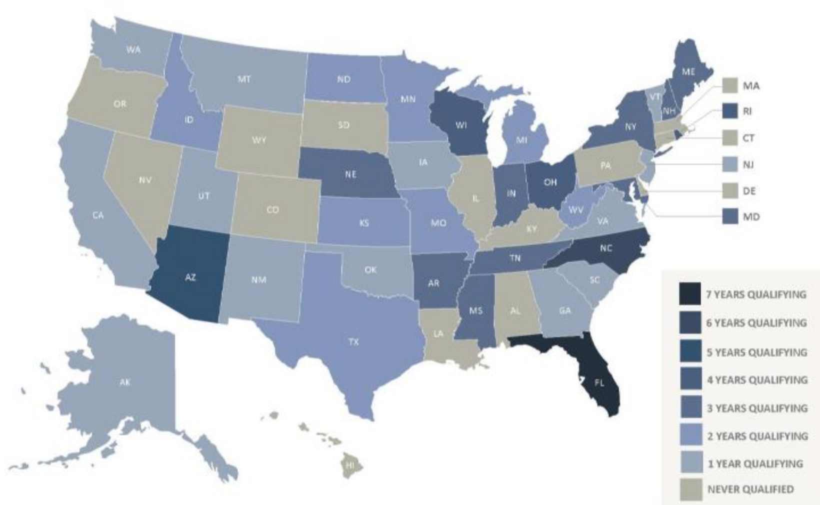
Due to the skilled management by legislative leaders and the sound tax policy that has been in place in Utah for decades, Utah is weathering the current economic storm surprisingly well.

It might come as a surprise to some that sales tax revenue in Utah in 2020 has actually INCREASED over 2019 levels. For the first three months of fiscal year 2020 (July to September) sales tax revenue is almost 8% higher than the first quarter of the previous fiscal year. With the collection of sales tax on all online purchases in Utah beginning back in 2019, general fund revenues from sales taxes have been growing at a higher rate than before, and even during the pandemic, the additional uptick in online shopping has more than offset economic weakness in certain areas like tourism and travel.

In fact, using data your Taxpayers Association has collected from the Utah State Tax Commission, as the dust is settling on what "new" amount of revenue Utah is collecting after the *Wayfair* decision by the U.S. Supreme Court in 2018, our calculations show that Utah is collecting an additional $250 million annually compared to before. That is almost exactly the amount Utah State Tax Commission Chair John Valentine predicted would be coming several years ago.

Fears of faltering sales tax growth seem to now be unfounded and there is plenty of room for Utah to continue to chip away at burdensome, job-killing sales taxes on business inputs that still exist on businesses of every size in Utah.

FIGURE 3 | STATES QUALIFYING FOR *STATE TAX CUT ROUNDUP* DURING THE 2013-2019 LEGISLATIVE SESSIONS



<u>**Why Cut Utah's Income Tax?**</u>

However, the income tax is where Utah needs to provide badly needed relief in several specific areas. The good news is that there is plenty of room to do it.

While many states have been nipping at our heels as the state with the best economic outlook and job growth, Utah's income tax rate and structure has remained stagnant for well over a decade. Our flat tax rate of 4.95% is simply too high. As this map from ALEC (American Legislative Exchange Council) shows, since 2013, only 14 states ranked worse than Utah in enacting meaningful tax relief. We are in danger of losing our #1 spot for the best economic outlook in the nation if meaningful reform is not done soon.

How to Cut Utah's Income Tax Rate

Governor Herbert wisely called for a $200 million dollar tax cut at the beginning of 2019 and Speaker of the House Brad Wilson called for an even bigger cut of $225 million. They know that is the best medicine for Utah's economy. The income tax rate was going to be cut to 4.66% with the recent tax reform bill that was repealed. Moving the rate down towards 4.5% or lower is the direction Utah should be moving. A significant cut is not only the right medicine, there is also plenty of revenue to do it.

We cannot forget that an $80 million set aside for tax cuts is STILL in the budget from the previous year and that relief needs to be given to taxpayers. There is also a growing amount of surplus revenue based on the revenue assumptions that were set back in June when COVID budget adjustments were made by the Legislature.

By our calculations this surplus in the income tax fund will soon eclipse $50 million. Adding that to the original set aside there is $130 million and growing for an income tax cut. That would allow Utah to move its income tax rate down 10 basis points to 4.85% and put $130 million right into the pockets of taxpayers as they struggle to recover from the pandemic.

Education Funding Would Be Protected

There are some who claim that cutting the income tax or expanding its uses would harm education. As the Legislature adjusted budgets due to the ongoing COVID-19 pandemic all state budget appropriations were pulled back EXCEPT for education, which was generously funded. Public education even saw a funding INCREASE. We believe Utah is the only state in the nation to do that.

In addition, if Constitutional Amendment G passes, HB 357 will be fully enacted, which means that education is first in line for guaranteed funding in the future before anything like this is considered.

In fact, cutting the income tax rate leads to greater education funding in the future. The golden rule of tax policy has always been: if you want more of something- you tax it less. Utah's own history is another solid example of that fact.

Since Utah cut it's income tax rate from 7% to 5% back in 2008, income tax revenues have ballooned from $2.6 billion in 2009 to $4.8 billion in 2019. That is an additional $2.2 billion annually that goes into the Education Fund.

Cut Taxes on Social Security

The second area where Utahns need income tax relief is on their social security benefits. Utah is still one of only a handful of states that still levies state income tax on senior citizens social security benefits. It is long past time to eliminate this burdensome tax on our senior citizens. Representative Walt Brooks (St. George) has pioneered this idea with previous bills and Senator Wayne Harper (Taylorsville) has joined the effort with a similar bill this year. The fiscal note for such bills have been around $15 million. There is plenty of surplus revenue to pass this tax cut as well.

Tax relief for Utah taxpayers is long overdue. **The Legislature should cut the income tax rate to 4.85% and eliminate income tax on our senior citizens' social security benefits**. There is more than enough room in the budget to do it while keeping education whole. Your Utah Taxpayers Association will be doing everything we can to make it a reality.

My Corner: Constitutional Amendment G Will Protect Education Funding During Lean Years

Originally published in Utah Policy on October 16, 2020.

As a member and sometimes chair of the Public Education Appropriations Committee during my 26 years in the Utah Senate, without question, the most difficult challenge we faced was the task of cutting school district and charter school spending during economic downturns. Following the 9/11 recession we had to cut $110 million from public education funding and it took three years before we were able to restore funding to its previous level. But the Great Recession triggered by the 2008 collapse in the housing market, forced our committee to cut a whopping $787 million from public education. It took nine years to restore funding to the 2008 level of $3.6 billion.

Constitutional Amendment G, if approved by voters will ensure that these types of funding cuts will never happen again.

The measure, along with its implementing legislation, HB 357 (2020), would move education funding (about $3.4 billion initially) into a constitutionally protected account which can be used only for K-12 education. It also guarantees that education funding will automatically be increased to cover the costs of enrollment growth and inflation. No other state would have such guarantees for future funding of their children's education.

These guarantees would be made possible by reserving a portion of ongoing revenues to meet future education needs. The measures would also allow school districts the flexibility of using school construction capital outlay property taxes for operational expenses during economic downturns.

Amendment G would also expand the uses of Utah's income taxes to be expanded to include spending for children and people with disabilities. As an example, medical research has shown that if young children on the autism spectrum receive treatment services early, the costs of these taxpayer provided services can be significantly reduced later on as the child grows older.

Opponents of Amendment G argue that expanding the uses of Utah's income taxes would reduce education spending, in spite of the guarantees for growing funding for student growth and inflation regardless of economic declines.

To understand why opponents are wrong about this we need only look at what happened since the Constitution was amended in 1996. At that time voters expanded the use of the income tax to include higher education in addition to public education. Opponents of the 1996 amendment claimed that general fund transfers to public and higher education would be decimated as higher education took more and more income tax funding that had previously been guaranteed solely for public education. The facts prove this did not happen.

In the 24 years since 1996, the Utah Legislature has spent $9.55 billion of general fund revenues for public education and higher education or an average of $382 million annually. The fears about the 1996 Constitutional amendment were unfounded just as are fears over Constitutional Amendment G.

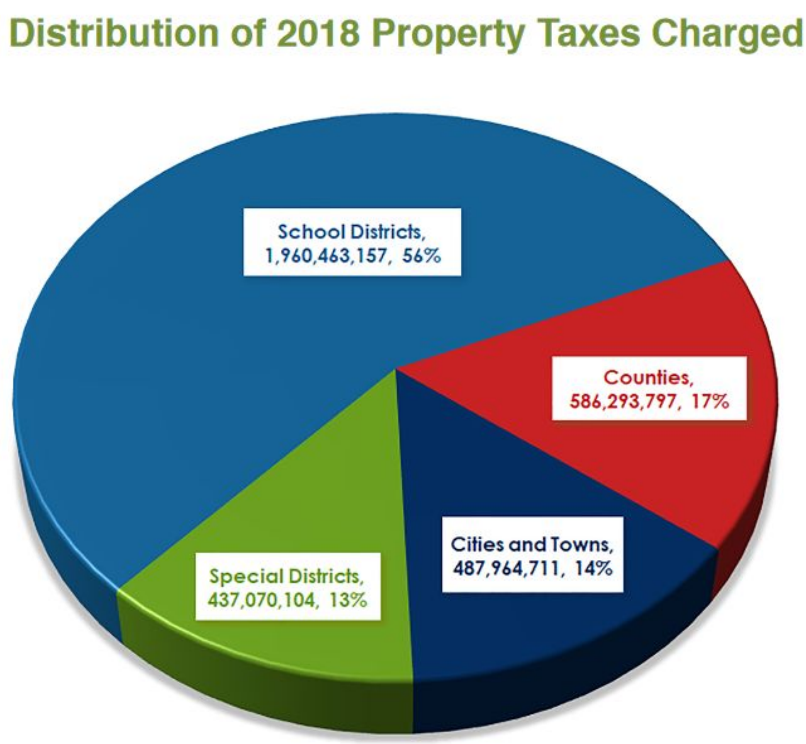
Utah voters can ensure better, more stable funding for our school children's education, especially during economic hard times by voting YES on Amendment G.

Demystifying Utah's Property Tax Law and Why We Have the Best Property Tax Laws in the Nation

Total property tax revenues in Utah will reach $3.471 billion for 2019 (excluding motor vehicles), up from $3.202 billion the prior year, according to calculations by the Utah Taxpayers Association based on data from the Utah State Tax Commission.

Considering property taxes are one of the most complex and often misunderstood taxes that the government levies, let's investigate and learn all about why Utah's property tax laws are the shining example of the entire country.

Effective Tax Rates and Taxes Charged by Local Governments



School districts receive about 56% of total property tax revenues, up from 54% ten years ago. School districts charged $1.96 billion in property taxes in 2018. View the associated table to see the remainder of the breakdown.

Local governments with large assessments of business and secondary residential property generally have lower property tax rates. At the city level, property taxes are impacted by cities' decisions to impose utility franchise taxes. Most urban cities impose this tax while many rural towns do not.

City property tax rates are also impacted by city sales tax bases, which explains why so many mayors, council members, and city "economic development" directors like to subsidize retail businesses to draw those industries into their city. Often city leadership will "defer" property taxes to lure these developments to unfairly gain additional sales tax revenue on the backs of their property taxpayers. This is a gamble which the Association generally opposes.

Also impacting a city's property tax rate is whether services such as library, water, and fire protection are provided by the city or by a special service district. In Salt Lake County, for example, some cities will ask the Unified Fire Authority to provide fire protection services in their cities. This way, the city's property tax rate is kept lower, but the taxpayer still ends up paying for the service through a separate levy. Some cities claim their property tax rates are low by having a special district provide these services, but the additional levies must be taken into account as public safety is generally considered a city function.

In some cases, a city with municipal power charges electric rates higher than needed to cover power costs and uses the "profit" to bolster their general funds in order to avoid going through the Truth-in-Taxation process.

How Does Truth-in-Taxation Work?

Truth-in-Taxation (TNT) is a revenue-driven system, not a rate-driven system. Generally, as valuations of existing property increase, property tax rates decrease. This automatic reduction in property tax rates prevents local governments from getting a windfall simply because valuations have increased. For example, if valuations of existing property increase by 20%, the property tax rate decreases by 16.7% to maintain revenue neutrality as demonstrated by the following equation: (100% + 20%) * (100% - 16.7%) = 100% of original tax = no change

The reduced property tax rate is known as the certified tax rate (CTR). This rate is then applied to all property, including "new growth." While local governments receive increased revenues due to new growth, TNT includes no automatic adjustment for inflation, which is by design.

How can property tax revenues increase so much when local governments do not get automatic inflationary increases?

Under Truth-in-Taxation, property tax rates are reduced as valuations of existing properties increase.

This reduced rate – called the certified tax rate (CTR) – is then applied to all properties, including new growth. However, under certain conditions, property tax revenues can increase much faster than combined inflation and population growth.

The first condition is that local governments adopt a tax rate that is higher than the certified tax rate. Local governments can adopt rates that are higher than the certified tax rate if they go through the Truth-in-Taxation notification process. Most local property tax rates have statutory maximum levels.

The second condition is that local governments issue bonds, which are exempt from CTR calculations. In some cases, local governments – particularly school districts -- issue bonds to pay for capital expenses.

The third condition is that property valuations increase rapidly. Even though increased valuations of existing properties do not create additional revenues for local governments, rapid increases in "new growth" valuations can substantially increase property tax revenues. In 2008 and 2009, property valuations actually decreased in some areas, but in previous years rapid property valuation increases allowed local governments to increase revenues above inflation while not exceeding the certified tax rate.

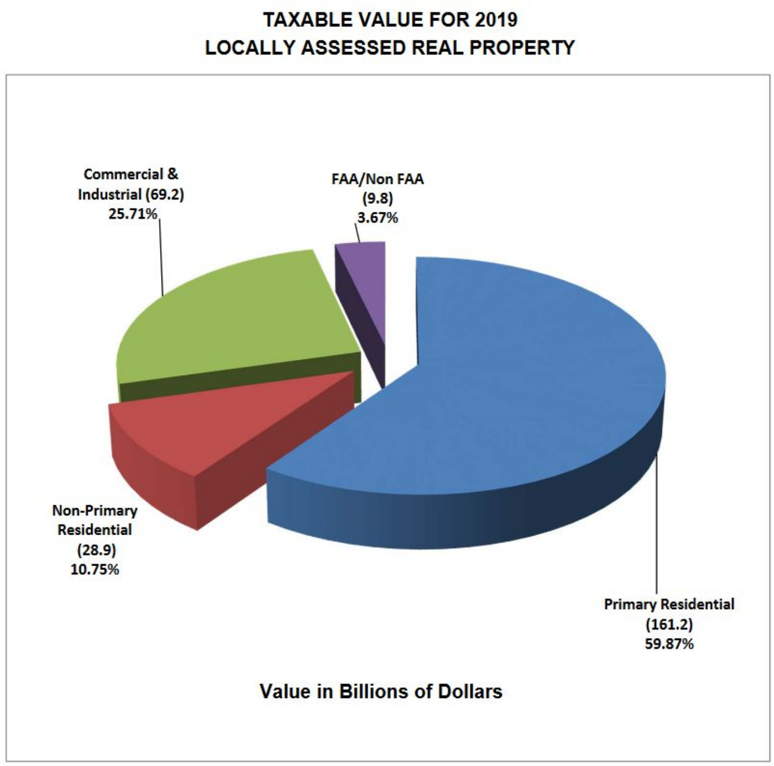
Does Truth-in-Taxation unnecessarily restrict property tax revenue growth?

Over the years, opponents of TNT have argued that TNT does not allow property tax revenues to grow fast enough, although they won't be making that argument too loudly this year since property taxes are faring much better than sales taxes. TNT opponents argue that property tax revenues as a percent of total personal income have decreased since TNT's enactment. However, most or all of this decrease is attributable to property tax reductions unrelated to TNT. During the 1990s, the Legislature reduced the statewide basic levy for education twice, and also allowed counties to impose a sales tax in return for reducing property taxes.

Value of Primary Residence Exemption

Primary residences in Utah receive a 45% exemption on property taxes. This is one of the largest tax exemptions in Utah, even though sales tax exemptions for manufacturers receive much more publicity. The largest single exemption is probably the exclusion for items for resale.

The value of the 45% exemption can be calculated two different ways. First, if the exemption were removed and certified tax rates were not reduced, yielding a revenue windfall for local governments, then the value of the 45% exemption would be $938 million annually. Second, if the exemption were removed and certified tax rates were reduced to maintain revenue neutrality, then the value of the 45% exemption would be $298 million.



Why did my property taxes increase so much this year?

Generally, when property valuations increase, property tax rates decrease to maintain revenue neutrality (excluding new growth). This revenue-neutral rate is called the certified tax rate. This rate is then applied to all properties, including new residential and commercial developments. Increased valuations due to new developments do not reduce the property tax rate.

Despite Truth-in-Taxation's ratcheting down of property tax rates as valuations of existing properties increase, sometimes property owners see a higher property tax bill. Sometimes, property owners see a decrease. There are several reasons why.

Property valuations increase faster in one area than in others.

If a given property's valuation increases faster than the average property in a given tax entity, that property will experience a tax increase. Property valuations can increase faster in some areas than in other areas for two reasons.

First, properties are periodically reassessed. As a result, properties that were recently reassessed by the county will typically experience larger valuation increases than properties that were not reassessed recently. Second, real estate market demand may push up the value of some properties faster than others.

Using the above example, if existing property valuations increase 20% county-wide, the tax rate is reduced by 16.7% to maintain revenue neutrality (excluding new growth).

However, properties that increased faster than the county (and/or school district/city/special service district) average will experience an increase in property taxes while others will experience a decrease. In the end, it all works out because other parts of the county and school district will be reassessed in following years and their taxes will increase while everyone else's decreases. Properties that experience a large increase due to assessment were probably undervalued in previous years.

Local governments issue voter approved general obligation bonds.

A local government's property tax rate is a sum of several tax levies. In most cases, one of the property tax levies is used to pay off voter-approved general obligation (GO) bonds. These debt service levies are NOT subject to Truth-in-Taxation. Therefore, if a local government issues a voter approved bond, property taxes may increase even though the local government's other levies were reduced by the Truth-in-Taxation process.

Local government raises taxes

Truth-in-Taxation does not prevent local governments from raising taxes. Once the certified tax rate has been calculated by the Utah State Tax Commission, local governments have the option of exceeding the certified tax rate. When local governments decide to exceed the certified tax rate, they must go through the Truth-in-Taxation notification and hearing process. Annually, about half of school districts increase their rates above the certified tax rate, and about 20% of counties and 5% to 10% of cities increase their rates above the certified tax rate.

Certified tax rates do not include adjustments for inflation. Therefore, local governments occasionally increase property tax rates to recoup inflationary losses. Sometimes, the proposed increases do more than offset inflation, sometimes less.

Local government imposes judgment levy

Occasionally, large taxpayers successfully appeal their property valuations, just as home owners successfully appeal their property valuations. In some cases, these large taxpayer appeals take several years to resolve. When that happens, the local governments must refund the property tax overpayment from previous years. In such situations, local governments have the option of imposing a one-time judgment levy to cover the costs of the tax refund. In these cases, property taxes may increase even though Truth-in-Taxation has reduced other levies. Residential appeals, on the other hand, are generally resolved quickly, which means that refunds of multi-year overpayments are not an issue for residences.

Board of Equalization Adjustments

Just as local governments are allowed to impose one-time judgment levies to cover costs of refunding previous years' overpayments to large taxpayers, tax rates are increased when any property owner (large and small) successfully appeal current-year property taxes. This adjustment is called the board-of equalization (BOE) adjustment. This increases the certified tax rate.

Delinquent Taxpayers

Every year, some property owners do not pay their property taxes, usually due to financial hardships. (Property owners are required to pay their taxes even when they appeal.) When this happens, tax rates increase to hold local governments harmless.

BOE (3-year moving average) and collection (5-year moving average) adjustments do not change much from year to year, especially in large taxing entities like school districts and counties.

However, in small cities/towns and special service districts, a couple of delinquent taxpayers or successful property tax appeals can increase the certified tax rate for all taxpayers.

Centrally Assessed Properties

Centrally assessed properties, such as utilities and mines, are assessed by the Utah State Tax Commission, and their impact on certified tax rates is different than locally assessed properties. When valuations of centrally assessed properties increase, certified tax rates are not reduced. As a result, local governments receive a windfall. When valuations of centrally assessed valuations decrease, these decreases are subtracted from the increases in locally assessed new growth. If the reduction in centrally assessed valuation exceeds the increase in locally assessed new growth, then the certified tax rate is increased to ensure that local governments do not receive less revenue than in the previous year.

Cannon's Canon: Finding Free Market Solutions to Address Climate Issues

Your Taxpayers Association's opposition to Utah municipalities' participation in the financially risky and unproven small modular nuclear reactor project has led some to believe your Taxpayers Association opposes clean energy and nuclear energy. Nothing could be further from the truth.

Climate change and clean energy are serious issues for Utah businesses and consumers alike. While there exists a need to address these issues, lawmakers and policymakers must do so in a way that leverages the free market in order to ensure that funding for climate action initiatives does not fall squarely on the backs of taxpayers.

Growing Climate Solutions Act
That is one of the reasons the U.S. Congress's bipartisan Growing Climate Solutions Act is such an important piece of legislation. The bill was introduced this past summer by Indiana Senator Mike Braun (R) and a broad bipartisan coalition of senators and representatives in the House, including Utah Representative John Curtis (R).

If passed, the Growing Climate Solutions Act would help increase the adoption of climate-friendly agricultural techniques and processes that would help lower carbon emissions through a voluntary, market-based approach. The solution outlined in this bill is not a carbon tax or cap and trade—and, unlike the UAMPS Small Modular Nuclear Reactor program, it would not pile new financial burdens on taxpayers here in Utah or anywhere else.

Growth-Friendly Certification Program
Instead, this legislation would simply create a certification program at the U.S. Department of Agriculture (USDA) to help streamline entry and participation in existing carbon credit markets for farmers, foresters, and ranchers. That includes providing access to reliable information on these markets as well as technical assistance for farmers to voluntarily adopt carbon-reducing practices.

This new program will help connect landowners and agricultural producers to private-sector entities that will be certified by the USDA who can help implement and incorporate carbon-reduction practices, such as carbon sequestration, and monetize these practices. Not only will that help open up new revenue streams for Utah's hard-hit farmers, ranchers, and foresters, but it will enable them to help play a role in reducing the impacts of climate change while at the same time improving soil health and quality.

Again, when compared to the potentially disastrous UAMPS Small Modular Nuclear Reactor program, which could face significant financial overruns that end up hitting Utah ratepayers in their wallets, this legislation takes a much more practical—and taxpayer-friendly—approach. By leveraging the free market to help interested landowners voluntarily adopt carbon-reducing agricultural practices, the Growing Climate Solutions Act sets a good example of how policymakers should be working to address issues related to climate change and clean energy.

Ultimately, there is no reason why combating climate change and spurring the development of new, clean energy solutions should not also bolster our economy, without infringing upon taxpayers' rights. That is what the Growing Climate Solutions Act offers, and it is how members of Congress and the Utah legislature should view these issues moving forward.

Association Accomplishments During October:

- Continued outreach to various city council members to discuss UAMPS
- Met with members of legislative leadership to discuss Association legislative priorities
- Testified in Revenue and Taxation Interim Committee advocating for tax cuts and removing sales taxes on business inputs
- Weighed in on multiple election issues, including urging voters to support Amendment G and encouraging Kaysville voters to reject a proposal for a municipal fiber network

In the News

- Murray City Council Votes to Withdraw from Nuclear Power Project
  - Murray City is 4th City to Exit Small Modular Nuclear Project: Salt Lake Tribune
- Constitutional Amendment G Will Protect Education Funding in Lean Years
  - Op Ed on Constitutional Amendment G: Utah Policy
- Amendment G would Protect and Stabilize Education Funding
  - Why Howard Stephenson Changed his Mind on School Funding: KSL
- 5 Reasons to Vote Yes on Amendment G
  - Amendment G will Not Raise Taxes and will Ensure Budget Cuts Won't Impact Education: KSL
- Will Local Municipalities still be on the Hook?
  - Municipalities Should Not Take on the Financial Risk as a Seed Investor: St George Utah
- Western Weber County Incorporation Spur Intense Debate
  - Incorporation Typically Leads to Higher Taxes: Standard-Examiner
- Bountiful and Beaver Back out of Nuclear Power Project
  - Bountiful and Beaver Bring the Total to Six Cities that Declined to Invest in Nuclear: Deseret News