



## **Voices for Utah Children Tax and Fiscal Policy Positions and Recommendations**

The Mission of Voices for Utah Children is to make Utah a place where all children thrive. We start with one basic question: "Is it good for kids?" At Voices, we believe that every child deserves the opportunity to reach his or her full potential. To achieve this vision, we focus on five key areas that benefit the healthy development of all children.

- Health: all children deserve to receive affordable, comprehensive and high-quality health care;
- School Readiness: all children and their parents deserve to receive the services and support they need to enable them to start school prepared for success;
- Safety: all children deserve to be safe in their homes and communities from all forms of abuse, neglect, exploitation and violence.
- Economic Stability: all children deserve to live in families that can provide for their needs and make investments in their future;
- Diversity: all children deserve to achieve their full potential in a society that closes opportunity gaps and recognizes and values diversity.

Utah tax policy has a significant impact on a family's ability to provide for their children's needs and invest in their future. Tax policy drives the quality of public education and healthcare. Tax policy makes communities safe and livable. Tax policy builds a sustainable economy that provides employment now and into the future.

During the 2019 Legislative Session lawmakers created a tax reform task force to modernize and reform Utah tax policy. Task force members have been appointed and meetings throughout the state will be scheduled. Voices has prepared this document to outline our tax policy positions, to make recommendations and to urge policy makers to carefully consider the impact of their decisions on families and their children. This document may change as recommendations from the task force emerge.

### **Policy Position #1**

**Utah tax policy should raise revenue to meet current priorities and create sustainable long term revenue for the future.**

Utah is at a multi-decade low for overall taxes. Analysis by the Utah Foundation looked at data between 1993 to 2012 to calculate the tax burden as a ratio of government revenue per \$1000 of personal income.<sup>1</sup> Findings reveal the increased reliance on fees to pay for state and local services and a shift from the state to local governments to raise new taxes or impose fees.

The report also raises the question of whether Utah is setting aside enough resources each year to invest in our children, the foundation of our future success and prosperity. And it raises concern that Utah will be ill-prepared for the next economic downturn.

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<sup>1</sup> Easing the Burden: Utah Taxes Taking Lowest Share of Income in 20 years, Research Report #726, January 2015



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### **Earmarks**

Earmarks defined: Setting aside funds for a particular purpose or project.

Utah's state income tax is constitutionally earmarked for Public and Higher Education. Transportation Earmarks are legislatively mandated to fund large infrastructure projects - roads and bridges.

Utah's legislature relies on earmarks to target general fund revenues to meet newly identified needs rather than looking for other revenue sources to fund those needs. As a result, ongoing critical government services funded by the general fund are starved for revenue, making it difficult for Utah to meet its obligations.

In a 2015 report presented to the Legislature, the Tax Review Commission (TRC) examined earmarks and recommended rolling back about 95% of them. In a letter to the Legislature, the TRC wrote, "In nearly all cases, the TRC opposes earmarks to the state sales and use tax." The TRC's full report is online at <http://le.utah.gov/interim/2015/pdf/00005293.pdf>.

Voices agrees with the premise that earmarks are difficult to repeal and take away the legislature's ability to adjust state spending to meet Utah's evolving needs. Removing Utah's other earmark – constitutionally mandated income tax to fund public education – should be part of the discussion and carefully considered. Utah is the only state with such a mandate and yet Utah's per pupil spending is dead last among the states. The Legislative Fiscal Analyst Office projects an increase in the student population of 1.02% for the 2019 fall school year. Without the mandate, are legislators able to support education funding that increases with student growth and inflation? Will legislators make a commitment to support adequate education funding despite economic downturns?

### **User Fees**

User fees are a fee, tax or payment paid to a local or state entity to raise revenue for a specific service, facility or product. Utah charges fees for drivers or professional licenses. Tolls are user fees for driving on highways that can be used to raise revenue for infrastructure needs. State parks charge a fee to use and maintain facilities in state parks.

Research shows that user fees can be barriers to access and obtaining services especially for lower income Utahns. Who bears the burden? If charged to businesses/corporations the costs are passed on to consumers/citizens. Like earmarks, fees targeted to specific projects are usually kept on the books and revenue generated may be diverted to fund other projects.

### **Policy Position #2**

**Utah tax policy should not exacerbate income inequality.**

### **Tax Cuts**





Low and middle income families still pay a higher proportion of their income in taxes. Tax cuts targeted to low and middle income families will make Utah's tax system fairer and more equitable.

# Voices for Utah Children

## Tax and Fiscal Policy Positions and Recommendations

### STATE AND LOCAL TAXES IN UTAH

Share of Family Income

| INCOME GROUP  | LOWEST 20%         | SECOND 20%           | MIDDLE 20%           | FOURTH 20%            | TOP 20%                |                        |                |
|---|--------------------|----------------------|----------------------|-----------------------|------------------------|------------------------|----------------|
|   |                    |                      |                      |                       | NEXT 15%               | NEXT 4%                | TOP 1%         |
| INCOME RANGE  | Less than \$22,900 | \$22,900 to \$39,600 | \$39,600 to \$63,900 | \$63,900 to \$104,300 | \$104,300 to \$202,400 | \$202,400 to \$486,500 | over \$486,500 |
| AVERAGE INCOME IN GROUP   | \$14,100           | \$32,500             | \$50,600             | \$80,800              | \$139,400              | \$288,400              | \$1,300,500    |
|  <b>SALES &amp; EXCISE TAXES</b> | <b>5.1%</b>        | <b>4.5%</b>          | <b>3.6%</b>          | <b>3.0%</b>           | <b>2.2%</b>            | <b>1.4%</b>            | <b>0.7%</b>    |
| General Sales—Individuals   | 2.6%               | 2.5%                 | 2.0%                 | 1.7%                  | 1.3%                   | 0.9%                   | 0.4%           |
| Other Sales & Excise—Ind.   | 1.0%               | 0.8%                 | 0.5%                 | 0.4%                  | 0.3%                   | 0.1%                   | 0.0%           |
| Sales & Excise on Business  | 1.5%               | 1.3%                 | 1.1%                 | 0.9%                  | 0.6%                   | 0.4%                   | 0.2%           |
|  <b>PROPERTY TAXES</b>           | <b>2.1%</b>        | <b>1.4%</b>          | <b>1.7%</b>          | <b>2.0%</b>           | <b>1.6%</b>            | <b>1.7%</b>            | <b>1.5%</b>    |
| Home, Rent, Car—Individuals   | 2.1%               | 1.4%                 | 1.7%                 | 1.9%                  | 1.5%                   | 1.3%                   | 0.4%           |
| Other Property Taxes  | 0.0%               | 0.0%                 | 0.1%                 | 0.1%                  | 0.1%                   | 0.4%                   | 1.1%           |
|  <b>INCOME TAXES</b>             | <b>0.3%</b>        | <b>2.0%</b>          | <b>2.9%</b>          | <b>3.8%</b>           | <b>4.1%</b>            | <b>4.2%</b>            | <b>4.5%</b>    |
| Personal Income Tax   | 0.3%               | 2.0%                 | 2.8%                 | 3.8%                  | 4.0%                   | 4.2%                   | 4.4%           |
| Corporate Income Tax  | 0.0%               | 0.0%                 | 0.0%                 | 0.0%                  | 0.0%                   | 0.1%                   | 0.1%           |
|  <b>TOTAL TAXES</b>             | <b>7.5%</b>        | <b>7.9%</b>          | <b>8.2%</b>          | <b>8.8%</b>           | <b>7.9%</b>            | <b>7.3%</b>            | <b>6.7%</b>    |

Individual figures may not sum to totals due to rounding.

### State Earned Income Tax Credit (EITC)

Low income families pay a larger portion of their income in state and local taxes. A state EITC will offset their tax burden so they can keep more of what they earn.

A state EITC is:

- easy to administer and less expensive than other tax cuts
- a proven, cost-effective way to reduce poverty and improve educational, health, and employment outcomes
- Eligible working families could receive 10% of the federal EITC – up to \$640 depending on income and number of children.
- 29 other states fund their own EITC.

### Refundable State Child Tax Credit

During last summer's (2018) second special session, legislators passed a non-refundable state child tax credit (CTC) to mitigate the impact of federal tax reform. Making the Utah CTC refundable will help low income families keep more of the money they earn.

### Reduce Sales Tax Rate

Because sales taxes are regressive, they could be offset by entirely removing the sales tax on food or by further reducing the final sales tax rate.



# Voices for Utah Children Tax and Fiscal Policy Positions and Recommendations

## State Income Tax Cut: Targeted to lower and middle income families

### Impact scenarios based on changing state income tax from 4.95% to 4.75%

#### UT: Targeted Income Tax Rate Reductions

| All Utah Residents, 2019 Incomes | Lowest 20%         | Second 20%          | Middle 20%          | Fourth 20%           | Next 15%              | Next 4%               | Top 1%              |
|----------------------------------|--------------------|---------------------|---------------------|----------------------|-----------------------|-----------------------|---------------------|
| Income Range                     | Less than \$26,000 | \$26,000 – \$47,000 | \$47,000 – \$75,000 | \$75,000 – \$121,000 | \$121,000 – \$238,000 | \$238,000 – \$591,000 | \$591,000 – Or More |
| Average Income in Group          | \$16,000           | \$38,000            | \$60,000            | \$94,000             | \$164,000             | \$339,000             | \$1,654,000         |

#### Scenario 1: Decrease PIT Rate from 4.95% to 4.75% for ALL Taxpayers

|                           | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% | State Tax Change (\$1000) |
|---------------------------|------------|------------|------------|------------|----------|---------|--------|---------------------------|
| Tax Change as % of Income | -0.1%      | -0.1%      | -0.1%      | -0.2%      | -0.2%    | -0.2%   | -0.2%  |                           |
| Average Tax Change        | -10        | -54        | -90        | -160       | -269     | -558    | -2,792 | -195,000                  |

|                          |     |     |      |      |      |      |        |
|--------------------------|-----|-----|------|------|------|------|--------|
| % with Income Tax Cut    | 27% | 79% | 84%  | 95%  | 98%  | 100% | 100%   |
| Avg. Cut for Those w/Cut | -37 | -68 | -107 | -169 | -274 | -559 | -2,792 |
| Share of Tax Cut         | 1%  | 7%  | 12%  | 21%  | 26%  | 15%  | 18%    |

#### Scenario 2: Decrease PIT Rate from 4.95% to 4.75% only on first \$75,000 of Taxable Income

|                           | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% | State Tax Change (\$1000) |
|---------------------------|------------|------------|------------|------------|----------|---------|--------|---------------------------|
| Tax Change as % of Income | -0.1%      | -0.1%      | -0.1%      | -0.1%      | -0.1%    | -0.0%   | -0.0%  |                           |
| Average Tax Change        | -10        | -54        | -90        | -136       | -146     | -150    | -150   | -111,000                  |

|                          |     |     |      |      |      |      |      |
|--------------------------|-----|-----|------|------|------|------|------|
| % with Income Tax Cut    | 27% | 79% | 84%  | 95%  | 98%  | 100% | 100% |
| Avg. Cut for Those w/Cut | -37 | -68 | -107 | -143 | -149 | -150 | -150 |
| Share of Tax Cut         | 2%  | 12% | 21%  | 31%  | 25%  | 7%   | 2%   |

#### Scenario 3: Decrease PIT Rate from 4.95% to 4.75% only on first \$75,000 of Taxable Income for Single/Married Filing Status, \$150,000 for Married Jointly/Head of Household

|                           | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% | State Tax Change (\$1000) |
|---------------------------|------------|------------|------------|------------|----------|---------|--------|---------------------------|
| Tax Change as % of Income | -0.1%      | -0.1%      | -0.1%      | -0.2%      | -0.1%    | -0.1%   | -0.0%  |                           |
| Average Tax Change        | -10        | -54        | -90        | -156       | -246     | -281    | -290   | -144,000                  |

|                          |     |     |      |      |      |      |      |
|--------------------------|-----|-----|------|------|------|------|------|
| % with Income Tax Cut    | 27% | 79% | 84%  | 95%  | 98%  | 100% | 100% |
| Avg. Cut for Those w/Cut | -37 | -68 | -107 | -164 | -250 | -281 | -290 |
| Share of Tax Cut         | 2%  | 10% | 16%  | 28%  | 33%  | 10%  | 3%   |

#### Scenario 4: Decrease PIT Rate from 4.95% to 4.75% only on first \$37,500 of Taxable Income for Single/Married Filing Status, \$75,000 for Married Jointly/Head of Household

|                           | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% | State Tax Change (\$1000) |
|---------------------------|------------|------------|------------|------------|----------|---------|--------|---------------------------|
| Tax Change as % of Income | -0.1%      | -0.1%      | -0.1%      | -0.1%      | -0.1%    | -0.0%   | -0.0%  |                           |
| Average Tax Change        | -10        | -52        | -81        | -121       | -140     | -142    | -145   | -103,000                  |

|                          |     |     |     |      |      |      |      |
|--------------------------|-----|-----|-----|------|------|------|------|
| % with Income Tax Cut    | 27% | 79% | 84% | 95%  | 98%  | 100% | 100% |
| Avg. Cut for Those w/Cut | -37 | -66 | -96 | -127 | -142 | -142 | -145 |
| Share of Tax Cut         | 2%  | 13% | 20% | 30%  | 26%  | 7%   | 2%   |

Source: Institute on Taxation and Economic Policy, 4.29.2019



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### Property Tax

Property tax supports local government services. As noted in the Utah Foundation's Easing the Burden Research Report, careful study must consider how statewide property tax hikes to cover the impact of declines in state income tax or sales tax could increase the tax burden to local governments and be especially burdensome to rural areas. In addition, property taxes put a disproportionate burden on low and moderate income families.

### Gas Tax

State gas taxes raise revenue to fund road construction and are increasingly proposed to fund other priorities such as education and clean air programs. On January 1, 2019 tax rates were raised to 30 cents per gallon for gasoline and diesel. Added to each gallon of fuel is the federal fuel tax - 18.4 cents per gallon for gasoline and 24.4 cents for diesel.

### Policy Position #3

#### Utah tax policy should ensure corporations and businesses pay their fair share

The Governor's Office and the Legislative Fiscal Analyst Office have identified areas of the Utah economy that are excluded from Utah's sales tax base. Taking a hard look at minimizing tax exemptions and closing tax loopholes will make Utah's tax policy more equitable.

### OTHER CONCERNS

- ✓ For every tax increase there has been a tax decrease, i.e., implementation of internet sales tax offset by a manufacturing tax exemption
- ✓ Tax Incidence – who ultimately will pay the sales tax? It appears it will be passed on to consumers in the form of:
  - taxes on consumer goods and service
  - higher prices on goods and services
  - lower wages
  - decreased earnings for shareholders
- ✓ User taxes, such a "mileage" tax harm rural areas where residents must drive many miles for work, school, etc.
- ✓ In the minds of the public there is confusion about tax cuts and tax modernization
- ✓ Consideration of shifting more education funding to property tax – what that means to counties that don't have the same property values as richer counties.
- ✓ Income tax revenue volatility due to federal tax reform
- ✓ Yet to be answered - why Utah public education is chronically underfunded (policy driven?)
- ✓ The food tax dilemma– low income families see immediate relief rather than waiting a year to obtain a refund.