

Making Utah Taxes Fair for All Families

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Written by: Taylor Throne



Most of us don't *enjoy* paying taxes. We do it, though, because pooling our money together through taxes makes it possible for us to have roads, schools, libraries and parks, fire fighters and law enforcement, and so many more public goods that none of us could afford on our own.

Tax policy (the ways we choose to collect taxes) impacts everyone, and often in many different ways. You may have very recently paid sales tax on your groceries, gas tax at the pump, property taxes on your home or through your rent, and of course, income tax on the money you earn.

From state to state, tax policy is unique; no two states collect taxes the same way. Tax policy also changes a lot over time. Different types of taxes affect people differently, depending on whether they have higher or lower incomes.



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States with the most unfair tax structures typically have:

- have no or little income tax,
- have no refundable tax credits, and
- rely on high sales and excise* taxes.

How Fair is Utah's Tax Structure?

Analysis by the Institute on Taxation and Economic Policy (ITEP) shows that in Utah, low- and middle-income families pay more of their income in taxes than the wealthiest households.

We judge Utah's tax fairness holistically, by looking at *all* the taxes that are paid by families at different income levels. This is the "effective tax rate," or the share of overall household income a family spends on income, sales/excise and property taxes in a year. The table below shows the effective tax rate of Utah households, depending on how much income they earn each year.

In Utah, 20% of families make less than \$23,000 per year. These families pay approximately 7.5% of their total income in state and local taxes. By comparison, the top 1% of Utah families - which are earning more than \$487,000 per year - pay an effective tax rate of only 6.6%.

But the Utah families who pay the most in taxes are those in the middle. Middle-income households (making between \$40,000 and \$104,000 per year) have an effective income tax rate from 8.1% to 8.8% - the highest effective tax rate of all income levels.



Towards Fairness: Tax Credits that Actually Work for Working Families

One way to make our state tax structure more fair is through carefully constructed income tax credits. When tax credits cut out families that pay less in income tax - like our [non-refundable Earned Income](#) and Child Tax Credits - then the families who are struggling most, benefit the least. Some legislators argue that families who don't pay

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as much income tax don't "deserve" to fully benefit from tax credits. But those families clearly pay more in *overall* taxes than any other income group.

Babies don't pay any taxes - but the households they live in do. Working families with young children deserve a tax system that supports them as they care for and raise the future leaders of our state. Having a fair tax structure in Utah means making sure children, and the households they are living in, have enough money to afford the things they need.

[Learn How Better Income Tax Credits Help Families](#)

Glossary

Effective Tax Rate: the share of income a family spends on taxes. This is calculated by dividing the amount families pay in taxes by their annual household income.

* **Excise Tax:** a tax directly levied on certain goods by a state, such as fuel, liquor, or cell phone plans. They are paid by the merchant before the goods can be sold and passed to the consumer through higher prices before the sales tax is added.

Nonrefundable Tax Credit: reduces the taxes owed - allows a taxpayer to only receive a reduction of their tax liability until it reaches zero.

Refundable Tax Credit: allows a taxpayer to receive a refund if the credit they receive is greater than their tax liability.

Tax Credit: a dollar-for-dollar amount that a taxpayer claims on their tax return to reduce the income tax they owe. You can use this to reduce your tax bill and potentially increase your refund amount.

Tax Liability: the amount of taxes owed by a taxpayer to the government before taking into account allowable tax credits.

Tax Policy: policies that determine how we to collect taxes.

Sources

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- <https://itep.org/whopays/>
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