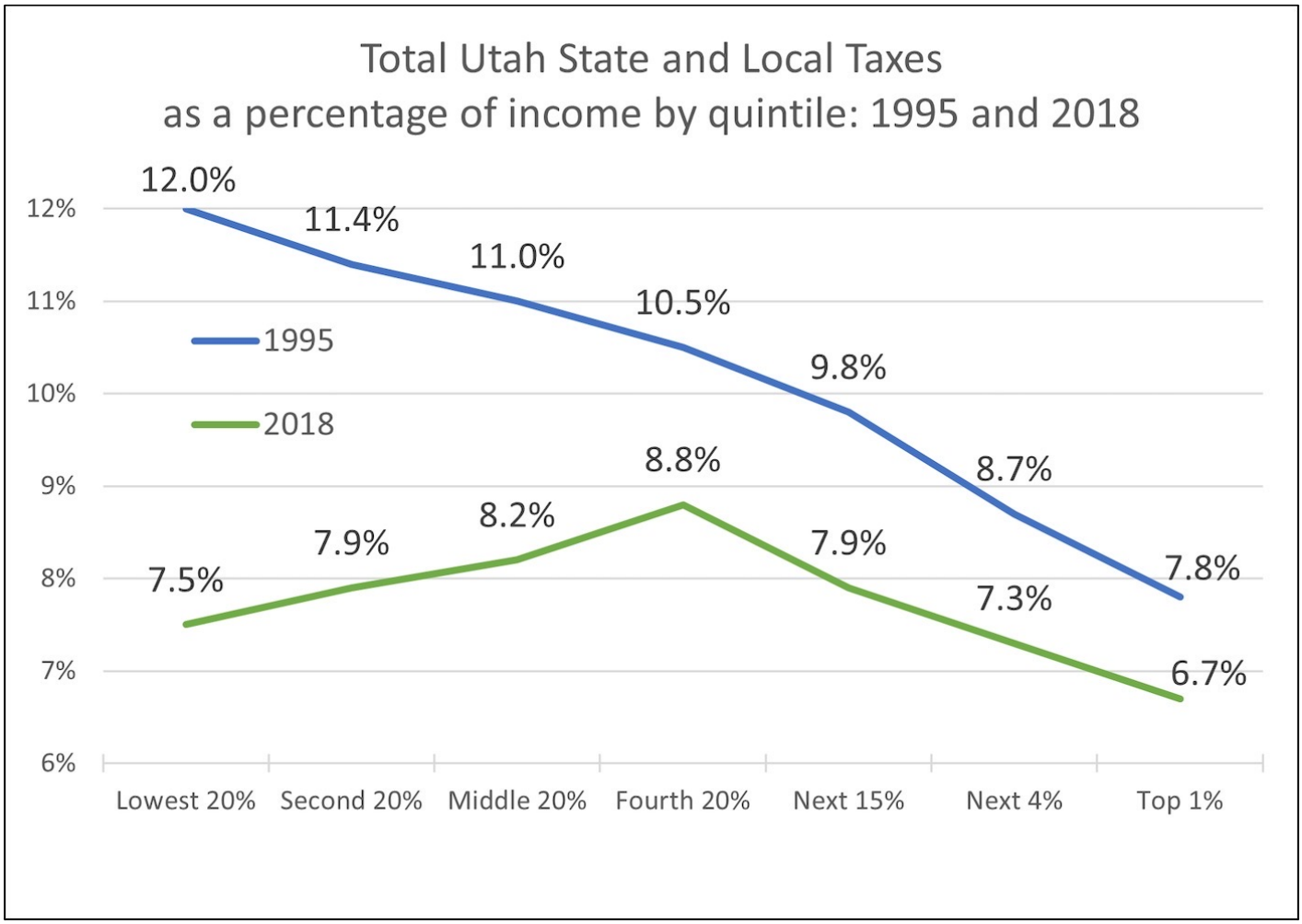
Utah Tax Incidence History: 1995 - 2018

Published: Monday, 13 January 2020 14:52
Written by: Matthew Weinstein



Utah is in the midst of the most intense debate over taxes that our state has seen in many years. In December the Legislature passed a major tax restructuring package following a year of public hearings and legislative deliberations. Days later, citizens from across the political spectrum filed a petition to roll back the new law. Media reports are that citizens around the state are collecting tens of thousands of signatures to bring the new law before the voters in a referendum this November.

In the midst of this very active and engaging public debate, which will likely continue whatever the outcome of the petition-gathering effort, it is worth asking how the legislation that was passed fits into the history of Utah's taxes over the last several decades. Have Utah's taxes been going up or down, and for whom? Which income

Phoca PDF

groups have been winners and losers in recent decades? Did the new legislation continue past trends or shift things in a new direction?

During the fall semester of 2020, two economics department undergraduate students from the University of Utah, Nelson Lotz and Gabriella Rebol, researched this question by reviewing the results of the Institute on Taxation and Economic Policy's report series *Who Pays: A Distributional Analysis of the Tax Systems in All 50 States*, which was published in 2018, 2015, 2013, 2009, 2003, and 1995. Each of the reports looks at how much Utahns at each income level pay in taxes as a share of their income. The report includes all taxes paid at the state and local level, including sales, excise (including the gas tax), property, and income taxes, The population is broken up into quintiles by income level, and the top 20% of earners are broken down even further. The table below shows the income levels for each of the income groups from the most recent year of ITEP's data, 2018:

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 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	$14,100	$32,500	$50,600	$80,800	$139,400	$288,400	$1,300,500

Source: Who Pays? 6th edition 2018 Institute of Taxation and Economic Policy

The Tableau charts below show the average tax rate for each of the income groups for each of the three major types of tax and for all Utah state and local taxes combined for each year of results. The chart allows the viewer to show each year's results separately or together on the same chart so that it is easier to see what direction the trend is moving in for each successive year of data.

var divElement = document.getElementById('viz1579033117450'); var vizElement = divElement.getElementsByTagName('object')[0]; if (divElement.offsetWidth > 800) {

Phoca PDF

vizElement.style.width = '1000px'; vizElement.style.height = '650px'; } else if (divElement.offsetWidth > 500) { vizElement.style.width = '1000px'; vizElement.style.height = '650px'; } else { vizElement.style.width = '100%'; vizElement.style.height = '1000px'; } var scriptElement = document.createElement('script'); scriptElement.src = 'https://public.tableau.com/javascripts/api/viz_v1.js'; vizElement.parentNode.insertBefore(scriptElement, vizElement);

Discussion of Results

TOTAL INCLUDING ALL STATE AND LOCAL TAXES

Beginning with the results for the total of all state and local taxes, the data from ITEP show that from 1995 to 2018, Utah moved toward a more equitable tax system. In 1995, Utah's tax system fit the classic definition of a regressive tax structure, with the overall effective tax rate including all state and local taxes being highest for the lowest income quintile at 12% of income and then falling steadily from there so that the highest income 1% of taxpayers paid the lowest tax rate of any income group, just 7.8% of their incomes. By 2018, however, the lowest income fifth of Utahns saw their overall tax rate fall to 7.5%, and the tax rate rose for each successively higher income level to 7.9% for the second quintile, then 8.2% for the middle quintile, and then 8.8% for the fourth quintile, those earning between $64,000 and $104,000. However, that 8.8% rate for the fourth quintile is the highest tax rate paid by any income group, and the tax rate falls sharply for higher incomes, reaching a low of 6.7% for the wealthiest 1% of tax filers, the lowest rate for any Utah income group.

Additionally, all of the quintiles have seen a substantial reduction in the total percentage of income paid in taxes from 1995 to 2018. This finding is consistent with research from the Utah State Tax Commission and the Utah Foundation finding that Utah has steadily reduced its overall level of taxation in recent decades.

Here is the percentage and dollar savings for each income group from the 1995-2018 overall tax reduction:

Lowest-	Second	Middle	Fourth	Next	Next 4%	Top 1%

Phoca PDF

	income quintile	quintile	quintile	quintile	15%		of filers
Change in tax rate 1995-2018 (percentage points)	-4.5%	-3.5%	-2.8%	-1.7%	-1.9%	-1.4%	-1.1%
Change in annual tax paid (2018 $$)	-$720	-$1,330	-$1,680	-$1,598	-$3,116	-$4,746	-$18,194
Share of the total tax cut going to each quintile	7.6%	14.0%	17.6%	16.8%		44.1%	
Aggregate annual tax cut to each quintile (2018 $$)	$180 million	$332.5 million	$420 million	$399.5 million	$584m	$237m	$227m
					$1.049 billion total for top quintile		

Thus, we can see that the greatest percent-of-income tax reduction over the time period 1995-2018 went to the lowest-income Utahns, while the largest tax cut in dollar terms went to the wealthiest. The total aggregate annual tax cut by 2018 added up to $2.38 billion. In other words, if Utahns had paid 1995 tax rates on their 2018 incomes, Utah state and local governments would have received an additional $2.38 billion in revenue.

INCOME TAX

Income tax as a share of personal income has declined for Utahns of all income groups since 1995. The income tax remains the state's only non-regressive tax,

Phoca PDF

lining up with Utah's top-heavy income distribution (though not as top-heavy as the nation's). Three-fifths of all personal income taxes are paid by the top one-fifth of taxpayers, which lines up with the state's income distribution, in which three-fifths of all income is earned by the top one-fifth of earners, according to Tax Commission data.

PROPERTY TAX

For all income groups, property tax has dropped as a percent of income in Utah since 1995. As a percent of income, the tax is still heaviest on the lowest earning quintile. However, the tax no longer retains its entirely regressive structure. The second quintile of income earners in the state now pay the least in property taxes as a share of their personal income compared to other income groups.

SALES & EXCISE TAXES

From 1995 to 2018, all of Utah’s income groups have seen a reduction in sales and excise taxes (mainly the gas tax) as a percentage of income. The lowest and second quintile have seen the biggest reduction in sales taxes with the lowest quintile’s sales taxes dropping from 7.5% of income in 1995 to 5.1% in 2018. In Utah, sales and excise taxes have a clear regressive tax structure with lowest quintile paying the highest rate and each successive quintile paying less.

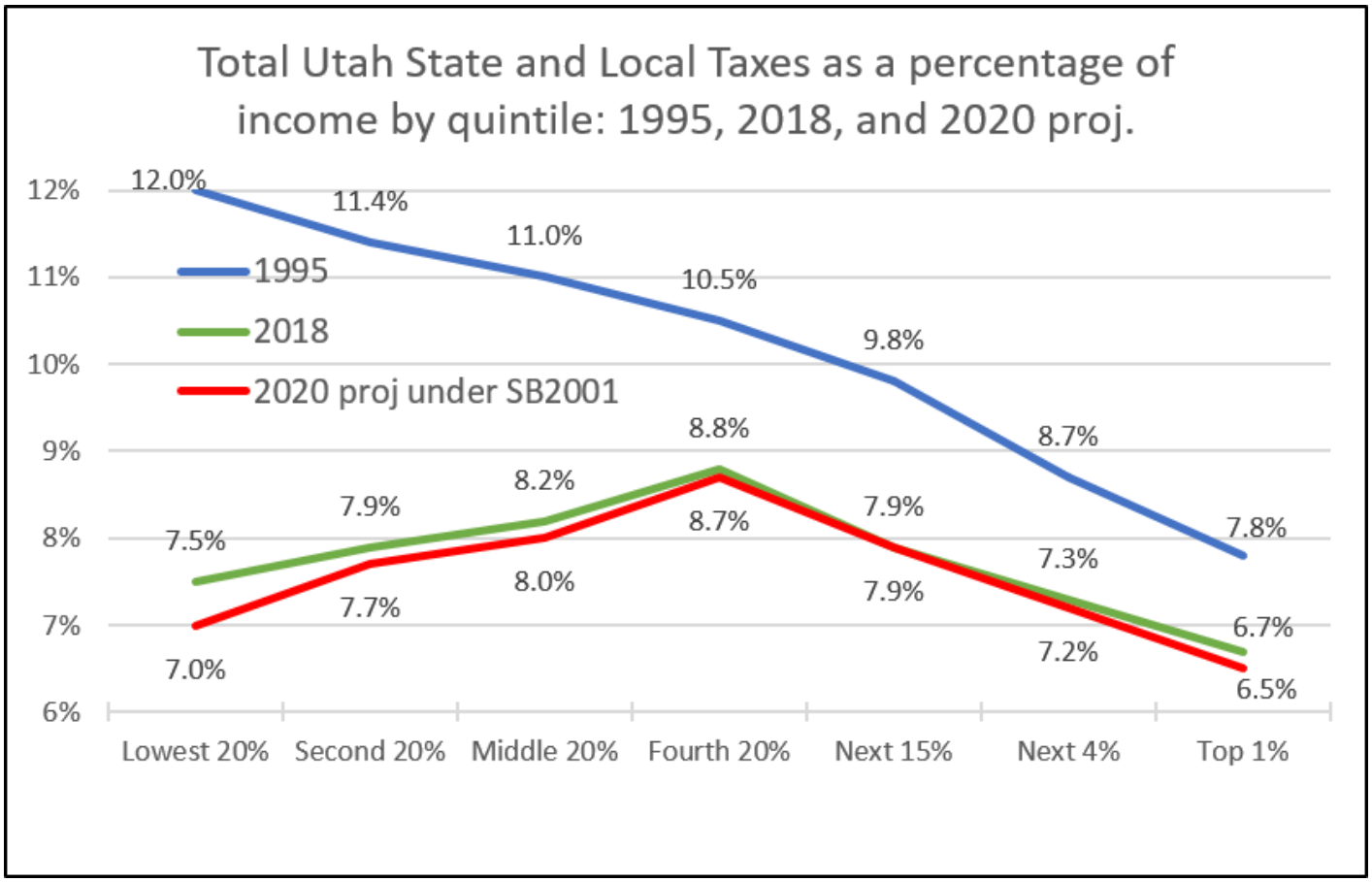
The December 2019 Tax Restructuring: Consistent with the 1995-2018 Tax Cutting Trend

To return to the question raised above: Is the December 2019 legislative action embodied in SB 2001 consistent with the 1995-2018 tax cutting trend or a break with tradition? The answer is clearly that it continues the tax cutting trend, as the legislation is projected to reduce tax levels for every income group, as shown in this chart:

Phoca PDF

Utah Tax Incidence History: 1995 - 2018

Published: Monday, 13 January 2020 14:52
Written by: Matthew Weinstein



On the positive side, it is noteworthy that the largest percent-of-income tax cut in the December 2019 package goes to the lowest-income quintile of Utahns -- half a percentage point, from 7.5% of income to 7% of income. (This projection is based on the assumption that all low-income Utahns file for the new Grocery Tax Credit (GTC). If only 75% of low-income Utahns file for the GTC (the same percentage of eligible lower-income Utahns that file for the federal Earned Income Tax Credit (EITC)), then we project that the overall tax rate for the lowest-income quintile of Utahns drops to 7.2%, which is still the largest percent-of-income tax cut for any income group.)

On the negative side (from the perspective of wanting to reduce Utah's tax regressivity while still generating sufficient public resources to invest in Utah's next generation), it must also be noted that SB2001's largest tax cut in dollar terms goes to the top quintile of Utah earners – nearly half of the entire net in-state tax cut, or about $100 million out of the total net in-state tax cut estimated by the Legislature at $208 million -- with about $60 million of that $100 million going to the top 1% of Utahns, those earning over about half a million dollars a year. This works out to an

Phoca PDF

average tax cut of $3,300 per household for the top 1%, compared to an average tax cut of about $80 per household for the lowest-income quintile of Utahns, if they file for the new Grocery Tax Credit (low-income Utahns who don't file for the new GTC will end up paying about $100 per household more each year in taxes).

THIS ITEM IS AVAILABLE AS A DOWNLOADABLE AND PRINTABLE PDF FILE 

HERE.

Phoca PDF