Conclusion: Tax Restructuring Committee Report

Introduction

The preceding committee reports have called upon the State of Utah to increase its investment in many public needs. The role of Utah's state and local tax system is to raise revenue to provide such essential public services. In recent years, policy makers have recognized that the system needs updates to adapt to changing economic conditions and reflect other policy considerations.

The Utah Citizen's Counsel (UCC) followed the Utah Legislature's restructuring efforts over the past two years. We attended legislative committee meetings, testified at public hearings of the Tax Restructuring and Equalization Task Force, and took positions urging postponement and more extensive study. The tax reform plan that eventually passed the Legislature in 2019 ultimately failed to receive public support and was rescinded by the 2020 Legislature.

This concluding section of our 2020 report is based on the positions and priorities that are documented and explained in the preceding reports, as well as UCC positions on tax restructuring that emerged from our examination of the tax restructuring efforts of the 2019-2020 legislative sessions. Fundamentally, the UCC believes that our state and local tax system does not yield sufficient revenue to properly address the state's education, health and human services, and physical infrastructure needs.

Below is a statement of principles that we believe should guide changes to Utah's state and local tax system, followed by a statement of priorities for increased spending, and options to increase revenue, all of which deserve serious, detailed consideration by the Utah Legislature.

Principles

The UCC believes that an optimal state and local tax system:

1. Raises sufficient revenue to meet public needs.
2. Includes a diversity of sources to provide reasonable stability in changing economic conditions.
3. Ensures a fair distribution of the tax burden, recognizing differences in ability to pay.
4. Is accountable to taxpayers and avoids conflicts of interest and special treatment of narrow interests.
5. Minimizes the nontransparent use of tax preferences and establishes clear, regular, and independent evaluation for public review; or replaces them with direct, visible appropriations, subject to annual justification.
6. Ensures that taxes are simple to pay and simple to collect.
7. Is economically neutral, not unduly influencing spending and investment choices, except as incentives encouraging market decisions having broad public value (e.g., taxes and fees for highway usage) or to discourage externalities causing public harm (e.g., carbon tax to reduce pollution or global warming).

Priorities for Increased Expenditures

State tax revenues are used for three major spending priorities:

1. Public education and higher education, funded primarily from taxes on income and including all of Utah's public schools, colleges, universities, and technical colleges.
2. Programs that provide essential health and human services, funded primarily from the General Fund (sales tax receipts) and including health care, employment services, family and disability services, criminal justice, environmental health, and conservation of natural resources.
3. New infrastructure and maintenance of existing infrastructure, partially funded from user fees, & including public buildings, water conservation projects, and transportation (public & private).

We see inadequate funding for many of these programs and believe enhanced revenue is needed:

a) to strengthen the quality of the public schools and develop a statewide, high-quality preschool system,
b) to adopt policies that enhance economic inclusion, including a livable wage for all workers, and ensure non-discrimination in hiring practices and employment;
c) to increase the availability of affordable housing and reduce poverty,
d) to ensure access to child care for working parents,
e) to address crucial criminal justice and law enforcement reforms,
f) to improve environmental health programs that conserve natural resources and reduce air, water, and ground pollution,
g) to provide improved preventative health services and access to quality, individual health care services at a reasonable cost;
h) to support universal broadband to allow modern delivery of many of these programs.[1]

Options for Raising Sufficient Revenue

Policy makers should consider the following changes to various tax bases and rates, consistent with the principles stated above:

1. Gradually broaden the sales tax base in a way that reflects the economy as a whole, supports economic neutrality, protects interstate competitiveness.
2. Eliminate the current state sales tax earmarks that subsidize highway construction.
3. Find new sources of revenue for highway construction and maintenance, including increasing the motor fuel tax and user fees on trucks (to reflect the added impact that these vehicles have on road maintenance costs), and imposing tolls where appropriate and feasible.
4. Adopt a revenue-neutral carbon tax to decrease negative externalities (e.g., adverse health conditions, air pollution, and climate warming) associated with the burning of fossil fuels.
5. Increase bonding for roads and housing construction when interest rates are low.
6. Free up current capital reserves now held for projects that are an inefficient use of resources and environmentally unhealthy (e.g., Lake Powell Pipeline, Bear River Dam, Inland Port).

7. Encourage water districts to increase tiered user rates to encourage conservation.
8. Review sales tax preferences and tax preferences for economic development. If they are no longer justified, then eliminate them; if the performance requirements for economic development purposes are not met, then exact a tax repayment obligation.
9. Adopt a modest increase in the progressivity of the state individual income tax rate.
10. Maintain the rate floor of the minimum basic state property tax beyond its FY 2023 expiration date, to allow increases in property tax revenue as property values increase.

Conclusion

A society's productive resources consist of both its human capital and physical infrastructure. Utah's leaders should provide thoughtful and careful attention to both by making investments that will maintain a healthy economy and a flourishing culture.

Utahns' tax burden has been falling while its physical and cultural infrastructure needs have been growing. The percent of total personal income paid in state and local taxes dropped from 11.1% in 2000 to 9.6% in 2014.[2] A recent Utah Foundation report noted that Utah's tax burden in 2016 was its lowest in 25 years, at $103.86 per $1,000 of personal income. By that year, the report also showed that Utah's tax burden had fallen to 31st in the nation, while in 2003 and 2004, Utah had the sixth highest tax burden in the nation.[3] Since 2000, the school-age percentage of the population has remained over twenty percent,[4] and needs of the school-age population from an increasingly diverse society have grown.

This falling tax burden is the result of a number of factors, including the 2007 introduction of a single income tax rate of 5%; a combined legislative cut of $400 million to state individual income taxes, sales taxes, and business taxes in 2006 and 2007,[5] and Utah's "Truth in Taxation" law that constrained the growth in property tax revenue by requiring public notice and hearing if a local taxing entity wished to budget more than the existing amount of property tax revenue.[6] During its 2018 General Session, the Legislature cut the individual income tax rate from 5% to 4.95%, reducing individual income tax revenue by about $56 million in FY 2020.[7]

Prudent policymakers know that needed up-front investments can save money in the long run. This applies both to physical infrastructure and human capital. Keeping up with physical infrastructure needs avoids future remedial costs. Similarly, investments in such areas as physical and mental health care, child poverty reduction, quality public education, criminal justice reform, and clean air and water save taxpayers from higher costs of dealing with the consequences of future deprivation and disease. This year's pandemic and economic downturn have revealed and dramatized where our human service needs are greatest. They provide opportunities to do something now to assure that Utah residents can enjoy a more productive, more equitable, safer, and more promising future.

Endnotes for Conclusion: Tax Restructuring Report

[1] See the proposals in "Utah Leads Together IV," *Utah Economic Response Task Force* (June 17, 2020), accessed October 2020, https://coronavirus-download.utah.gov/Governor/Utah_Leads_Together_Version_4.0_061720.pdf.

[2] "The Way We Tax," Presentation by the Office of Legislative Research and General Counsel, February 4, 2017, accessed October 27, 2020, https://le.utah.gov/interim/2019/pdf/00002410.pdf.

[3] "Utah Priorities 2020, Priority No. 2: State Taxes and Spending," (August 25, 2020), accessed October 5, 2020, https://www.utahfoundation.org/reports/utah-priority-no-2-state-taxes-and-spending/.

[4] In 2000, 22.8 percent of the state's population was school age, and in 2018, 21.5% of the population was of school age. See "Demographic Profile" (November 2019), *Kem C. Gardner Policy Institute*, accessed October 30, 2020, https://gardner.utah.edu/wp-content/uploads/State-of-Utah-Demographic-Profile-2010-2018.pdf.

[5] "Tax Relief and Reform: What Does it Mean for Utah Taxpayers," Office of Legislative Research and General Counsel, March, 2007, accessed October 27, 2020, https://le.utah.gov/lrgc/Briefings/TaxReliefandReform2007.pdf.

[6] Utah's 1985 "Truth in Taxation" law made local governments fearful of public reaction if they proposed an increase in property taxes even to keep up with inflation. See Lee Davidson, "Did Truth in Taxation law backfire? It led many Utah cities to dodge tax hikes for years, only to double them now," *Salt Lake Tribune*, July 15, 2018, accessed October 13, 2020, https://www.sltrib.com/news/politics/2018/07/14/did-truth-taxation-law/.

[7] "Fiscal Note for HB293, Fifth Substitute, 2018 General Session," Office of the Legislative Fiscal Analyst, accessed October 27, 2020, https://le.utah.gov/~2018/bills/static/HB0293.html. The cut to the individual income tax rate was meant to offset, in whole or in part, the anticipated increase in state income tax revenue caused by zeroing out the federal personal exemption in the 2017 federal Tax Cuts and Jobs Act. The 2018 legislation also reduced the state corporate income tax rate from 5.0% to 4.95 %. The modification of the state corporate income tax will reduce Education Fund revenues by an additional $27.6 million beginning in FY 2022 when the change is fully implemented.