

Utah’s Property Tax Burden

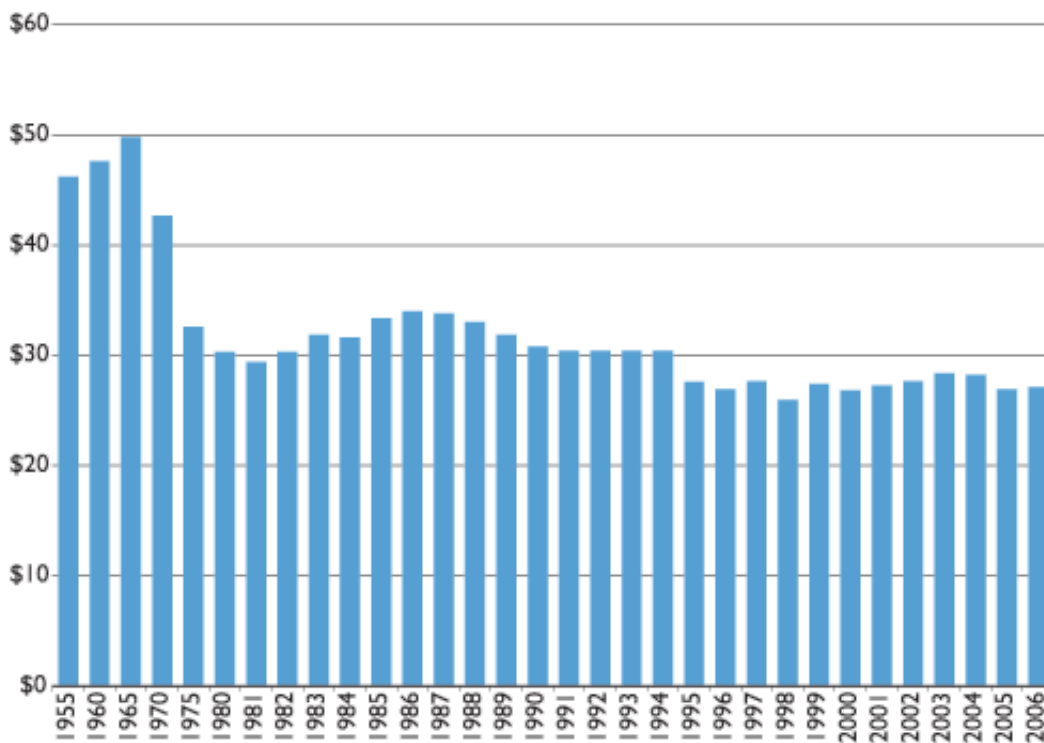
February 26, 2008

In recent months, Utah policymakers have had discussions about reducing property taxes. The desire to reduce property taxes is largely a result of rapid increases in property values in 2006 and 2007, causing some homeowners to shoulder significant increases in property tax bills.

As these discussions ensue, it is valuable to review some data and information on Utah’s property tax, showing where the tax burden has been in past years and how Utah’s property tax compares to other states.

Figure 1 shows Utah’s property tax burden expressed as aggregate dollars paid per \$1,000 of statewide personal income. This includes all property taxes – residential, commercial, agricultural, personal property (business equipment), and taxes on all other types of property. The tax burden was very high in the 1960s and fell sharply between 1965 and 1980. The tax revolt that began in California in the 1970s had some impact on Utah’s tax policies as it did for many states.

Figure 1: Utah Property Tax Burden Per \$1,000 Personal Income



Sources: Utah State Tax Commission; Utah Foundation, *Financing Government in Utah* (2000); and U.S. Bureau of Economic Analysis.

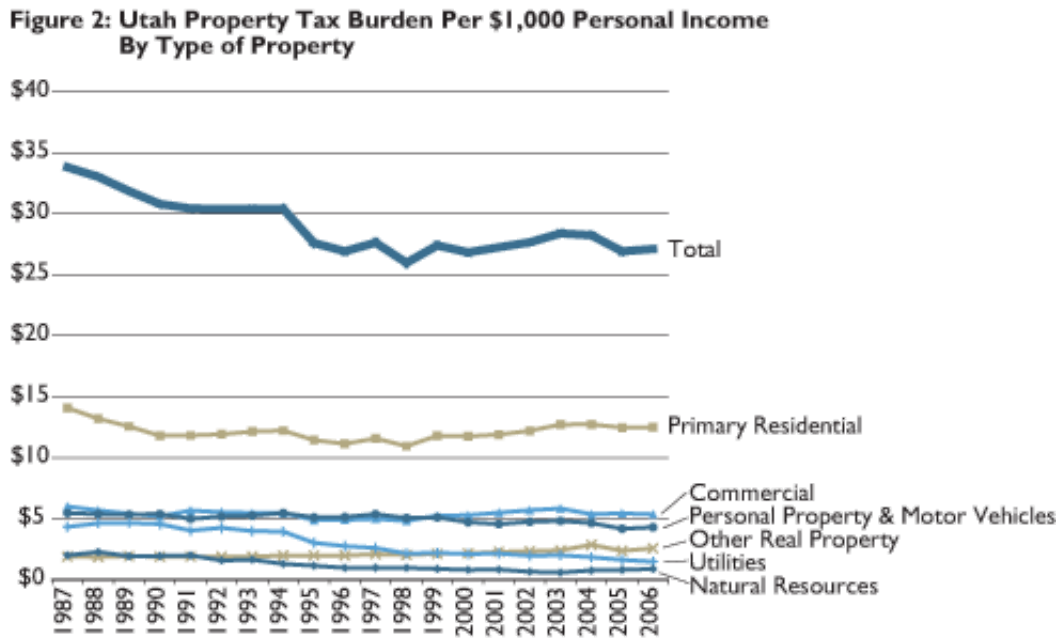
In the 1980s, the property tax burden began to rise again, and in response, Utah’s “Truth-in-Taxation” law was adopted in 1985 (its actual title was the “Tax Increase Disclosure Act”). This law remains in effect today and requires local governments to fully disclose, through public notices and hearings, any increases in property taxes. Tax increases were defined very strictly by Truth-in-Taxation, basically labeling any increase in revenues over a previous year’s property tax revenues as a tax increase unless the increase is caused by new development. These tax increase notices and hearings cause political pressure for local councils and boards to reduce property tax rates as property values increase to avoid being blamed for tax increases.

Utah’s Truth-in-Taxation law has been very effective at reducing the property tax burden over time. Brigham Young University professors Gary Cornia and Lawrence Walters described in a 2006 paper how Truth-in-

Taxation had consistently reduced the burden of locally-imposed property taxes on residential property (excluding the state-mandated basic levy for schools) from 1987 through 2001.^[1]

As shown in Figure 1, the property tax burden remains lower now than in the mid-1980s, although there was a slight upward trend in the early part of this decade. Again, Figure 1 includes all property taxes, and it is useful to see how the burden has changed over time for the various types of property. Figure 2 shows the same measure of burden, property taxes per \$1,000 of personal income, separated by property type, in the years since passage of Utah's Truth-in-Taxation law.

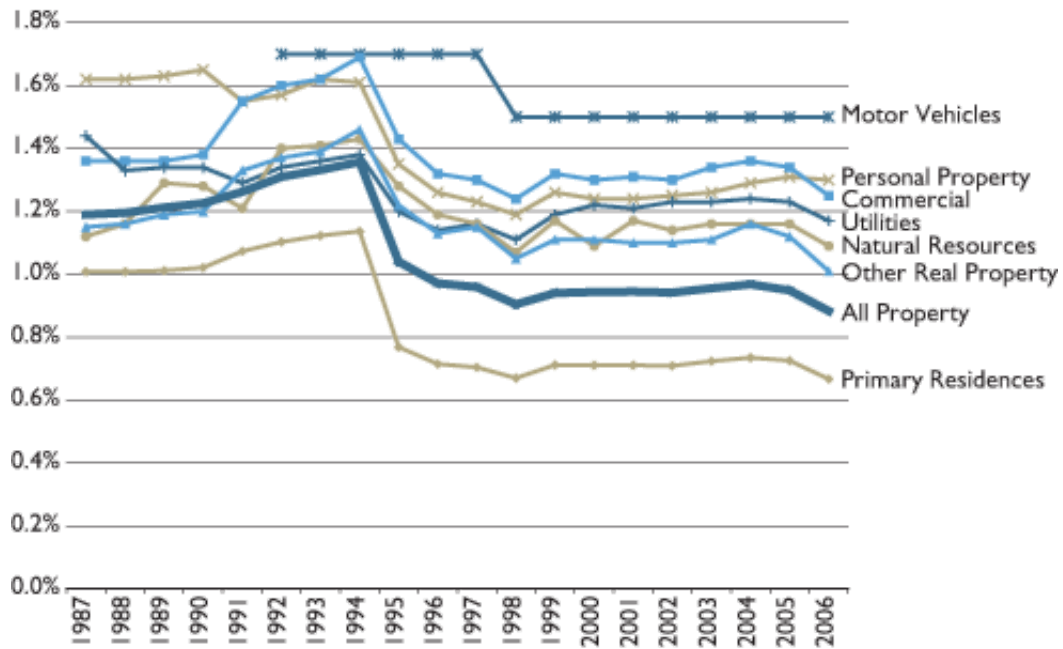
Figure 2 shows that the tax burden on primary residences has been somewhat stable in the past 16 years, with a slight increasing trend from 1999 through 2003, then slightly dropping. Although much smaller in total dollars, more significant changes were occurring in the tax burdens on personal property, motor vehicles, utility properties, and natural resources (mining, oil and gas extraction, etc.), which have generally declined since 1990. These declining tax burdens could be a result of tax policy choices or they could result from declining property values.



Sources: Utah State Tax Commission and U.S. Bureau of Economic Analysis.

Figure 3 helps clarify this by showing the effective tax rates calculated by the Utah State Tax Commission for each of these types of properties over time. All property types experienced a lowering of effective tax rates in the mid-1990s, when the Legislature significantly reduced the state-mandated basic levy for schools. Prior to the large basic levy reductions in 1995 and 1996, the Legislature had increased the tax exemption for primary residences in 1991 and 1994, but those changes did not result in a lower tax burden or a lower effective tax rate on residences. The basic levy reductions had a much more direct impact on residential property tax burdens, and the reductions also affected all types of property except motor vehicles.

Figure 3: Utah Effective Property Tax Rates



Source: Utah State Tax Commission.

Other tax policy changes affected these tax rates in the 1990s, including a swap of county property tax reductions for sales tax increases, and several years in which voter approval was required for imposition of tax rates in excess of the Truth-in-Taxation calculated rates. After 1998, effective tax rates rose again and then remained level to slightly increasing for most types of property.

In addition to reviewing Utah's own experience with property taxes, it is useful to compare Utah to other states to assess how burdensome Utah's property tax may be in comparison. Figure 4 is excerpted from a detailed study by the Minnesota Taxpayers Association on property taxes in the 50 states and Washington, DC. It shows that taxes on a \$300,000 home in Salt Lake City compare very favorably to taxes in other states. Utah has one of the lowest property taxes, ranking 45th in this comparison. The Minnesota study also compares taxes on other types of property, including businesses, apartments, lower-priced homes, and property in a rural community. In each ranking, Utah is well below the national average.

**Figure 4: Property Taxes on a \$300,000 Primary Residence
By Major City in Each State, Taxes Payable in 2006***

Rank	State	City	Net Tax	Effective Tax Rate
1	Michigan	Detroit	\$10,003	3.33%
2	New York	Buffalo	7,635	2.55%
3	Pennsylvania	Philadelphia	7,290	2.43%
4	Illinois	Aurora	7,257	2.42%
5	Wisconsin	Milwaukee	6,977	2.33%
6	Texas	Houston	6,453	2.15%
7	New Jersey	Newark	6,083	2.03%
8	Nebraska	Omaha	5,997	2.00%
9	North Dakota	Fargo	5,962	1.99%
10	Connecticut	Bridgeport	5,708	1.90%
11	Maryland	Baltimore City	5,616	1.87%
12	Tennessee	Memphis	5,605	1.87%
13	Iowa	Des Moines	5,577	1.86%
14	Indiana	Indianapolis	5,188	1.73%
15	Florida	Jacksonville	4,654	1.55%
16	Illinois	Chicago	4,490	1.50%
17	New Hampshire	Manchester	4,450	1.48%
18	Maine	Portland	4,447	1.48%
19	Vermont	Burlington	4,438	1.48%
20	Mississippi	Jackson	4,382	1.46%
21	Missouri	Kansas City	4,362	1.45%
22	Louisiana	New Orleans	4,315	1.44%
23	Alaska	Anchorage	4,164	1.39%
24	Georgia	Atlanta	4,148	1.38%
25	Minnesota	Minneapolis	3,924	1.31%
26	Arkansas	Little Rock	3,737	1.25%
27	Ohio	Columbus	3,686	1.23%
28	South Dakota	Sioux Falls	3,665	1.22%
29	Kansas	Wichita	3,626	1.21%
30	North Carolina	Charlotte	3,584	1.20%
31	Oregon	Portland	3,549	1.18%
32	California	Los Angeles	3,455	1.15%
33	Nevada	Las Vegas	3,376	1.13%
34	New Mexico	Albuquerque	3,354	1.12%
35	Kentucky	Louisville	3,314	1.11%
36	South Carolina	Columbia	3,258	1.09%
37	Oklahoma	Oklahoma City	3,218	1.07%
38	Rhode Island	Providence	3,215	1.07%
39	Montana	Billings	3,150	1.05%
40	Delaware	Wilmington	3,041	1.01%
41	Arizona	Phoenix	2,719	0.91%
42	Washington	Seattle	2,646	0.88%
43	Idaho	Boise	2,621	0.87%
44	West Virginia	Charleston	2,423	0.81%
45	Utah	Salt Lake City	2,235	0.75%
46	Virginia	Virginia Beach	2,222	0.74%
47	Alabama	Birmingham	2,026	0.68%
48	District of Columbia	Washington	2,018	0.67%
49	Wyoming	Cheyenne	1,943	0.65%
50	New York	New York City	1,631	0.54%
51	Massachusetts	Boston	1,624	0.54%
52	Colorado	Denver	1,590	0.53%
53	Hawaii	Honolulu	871	0.29%
Average			\$4,093	1.36%

* New York and Illinois have two cities listed, because New York City and Chicago are quite different than other cities in those states.

Source: Minnesota Taxpayers Association, *50-State Property Tax Comparison Study, Payable Year 2006*.

In conclusion, Utah's Truth-in-Taxation law has generally been effective at holding the property tax burden at a low level, although during the rapid increases in property values in the 1990s, additional tax relief was enacted to counter the rising tax bills. Since the late 1990s, Utah's property tax burden has been on a slight upward trend for primary residences. Nevertheless, the level of taxation on homes in Utah remains very low compared to other states.

Endnotes:

[1] "Full Disclosure: Controlling Property Tax Increases During Periods of Increasing Housing Values", National Tax Journal, Vol. LIX, No. 3, September 2006.

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