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THE EDUCATION TAX

Income Taxation in Utah



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The mission of Utah Foundation is to promote a thriving economy, a well-prepared workforce, and a high quality of life for Utahns by performing thorough, well-supported research that helps policymakers, business and community leaders, and citizens better understand complex issues and providing practical, well-reasoned recommendations for policy change.

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“Not alone in the United States, but all over the civilized world the question of taxation is the big problem.”

- Utah Gov. Simon Bamberger, 1920

INTRODUCTION

The income tax is one of the legs of Utah’s “three-legged stool” of tax revenues, along with the property and sales taxes. It is the largest of the three in 2017, bringing in approximately \$3.6 billion.¹ While federal income taxes are often a target for jokes on complexity, Utah’s state income taxes are relatively straightforward. Income taxes are a frequent focus for those who want increases for education on the one hand and those who want decreases to stimulate the economy on the other.

This report helps readers understand the income tax. To do so, it explains how the tax is imposed, examines recent changes and explores the impacts of potential changes.

This is the second installment in Utah Foundation’s Utah Tax Policy Series. The previous report addressed property taxes; the next report will address sales taxes.

BACKGROUND

Utah first implemented a state income tax in 1931 in an effort to limit reliance on the property tax, which was the sole tax levied before that time. When first implemented, the tax had a graduated rate, with the highest rate at 4%. The rates and gradations changed several times over the decades until 2008, when the Utah Legislature changed the tax into a single-rate tax at 5% (which was reduced to 4.95% in 2018). While nominally it appears as a flat tax, with all income earners paying the same rate, the Taxpayer Tax Credit infuses the system with a level of progressivity.

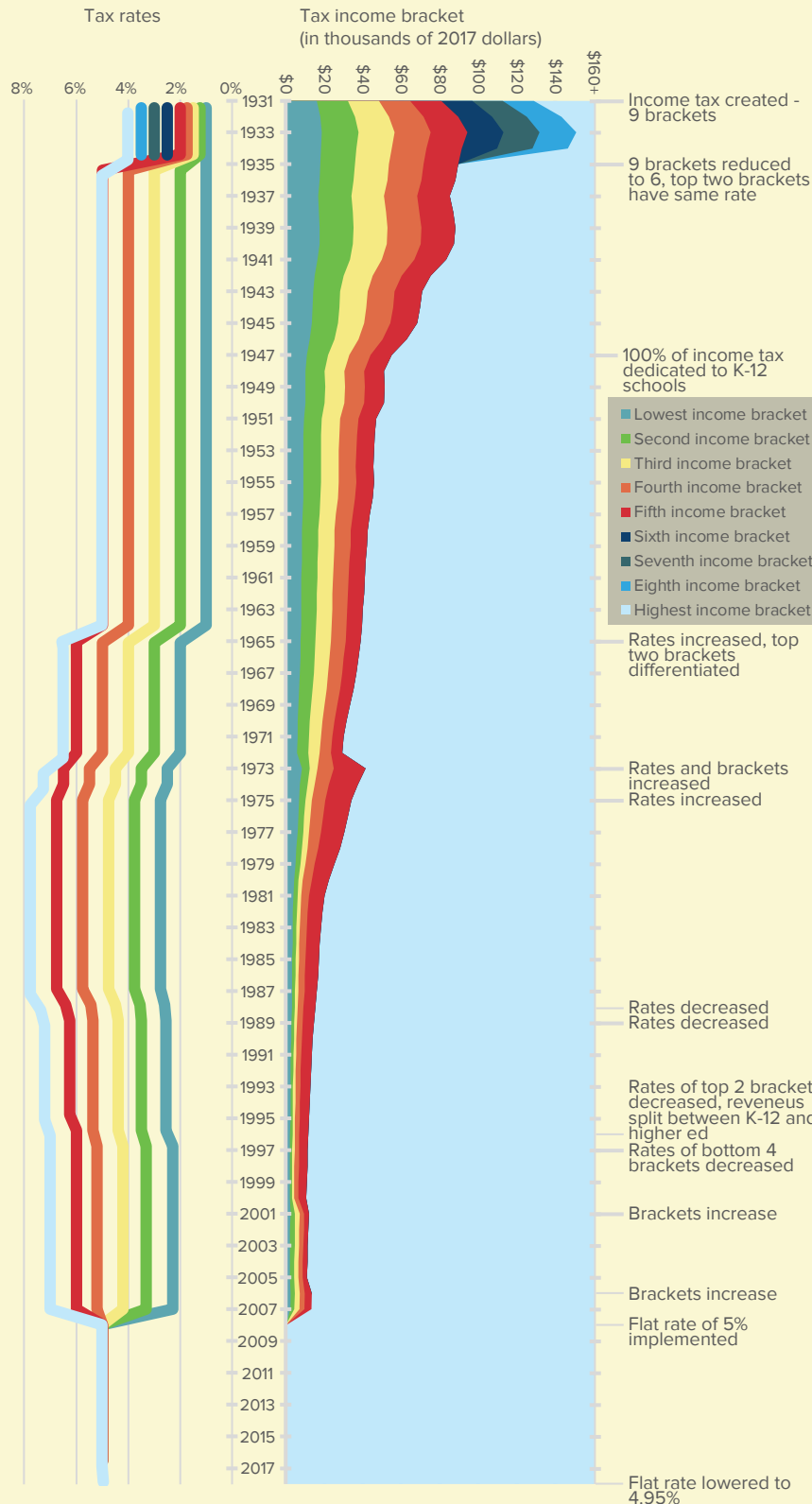


KEY FINDINGS OF THIS REPORT

- The highest-earning 20% of income tax filers produce two-thirds of Utah’s income tax revenue. They earn 60% of the income in the state.
- The lower-earning half of income tax filers generate only 7% of Utah’s income tax revenue and earn 12% of the income.
- The Legislature’s decision to drop Utah’s top marginal income tax rate from 5% to 4.95% meant Utah’s ranking dropped from 30th to 34th nationally. However, based on the most recent data, Utah’s income tax burden per \$1,000 of personal income ranks 16th nationally.
- Among Utah’s six neighboring states, only Idaho’s top tax rate is higher. Two neighboring states, Nevada and Wyoming collect no income tax.
- Utah’s largest income tax credit, the Taxpayer Tax Credit, reduced state revenue by about \$1.2 billion in 2016.
- While the nominal 5% tax rate applies to all income earners, the Taxpayer Tax Credit reduces the median effective rate (the rate people actually end up paying) to 3%.
- Cutting income taxes is not a silver bullet for economic growth. While income tax rates matter, there are an array of other factors that come into play as well.
- Utah is set to receive a windfall in income tax revenues as a result of the 2017 federal tax reform. The Utah Legislature’s recent .05% reduction in income tax rates will decrease this windfall, but will not result in a significant tax cut for households.
- The federal income tax changes mean that lower- and moderate-income households benefiting from the Utah Taxpayer Tax Credit will pay more in Utah state income taxes. While the Legislature acted to reduce the windfall from the federal tax change by reducing the tax rate, the combined changes will disproportionately benefit the highest income earners.

Utah's income tax used to be more progressive.

Figure 1: Timeline of Utah's Income Tax Rates and Income Brackets



Source: Utah State Tax Commission.

Unlike local property taxes and sales taxes (which are levied by both state and local governments) the income tax is levied solely by the state. As a result, property and sales taxes vary by jurisdiction, whereas the income tax rate provisions apply statewide.

What Counts as Income?

Utah takes the federal adjusted gross income (AGI) as a baseline for determining the amount of income tax each taxpayer owes. This simplifies the filing process for Utah taxpayers because it is a known element of their federal taxes. However, it also means that if the federal government changes what is included in the AGI, it affects Utah's tax revenues.

Currently the federal government defines the AGI as the sum of wages, salaries, tips, taxable interest, ordinary dividends, business income, income from rental real estate, royalties, partnerships, or trusts, capital or other gains, and qualifying pensions, annuities and retirement distributions. It should be noted that the state includes a number of additional types of income, with the most significant being interest earned on municipal bonds. But those additional sources account for less than 1% of taxable revenue, and almost all of it comes from interest on municipal bonds.

How is Income Taxed?

Unlike property taxes, income is taxed at the state level. However, the state essentially conscripts employers as tax collectors. Employers are required to withhold employee taxes if they do business for longer than 60 calendar days, pay wages to any employee for work done in Utah, pay a Utah resident for work done outside of Utah, or pay a contractor.² Employee withholdings represent 82% of the revenues generated by the income tax. The remaining 18% are classified as "final payments," and taxpayers make these when filing their state income tax returns. Employees in cer-

tain cases can elect to not have their income taxes withheld if they attest on their W-4 that they had no tax liability the previous year and expect no liability for the current year.

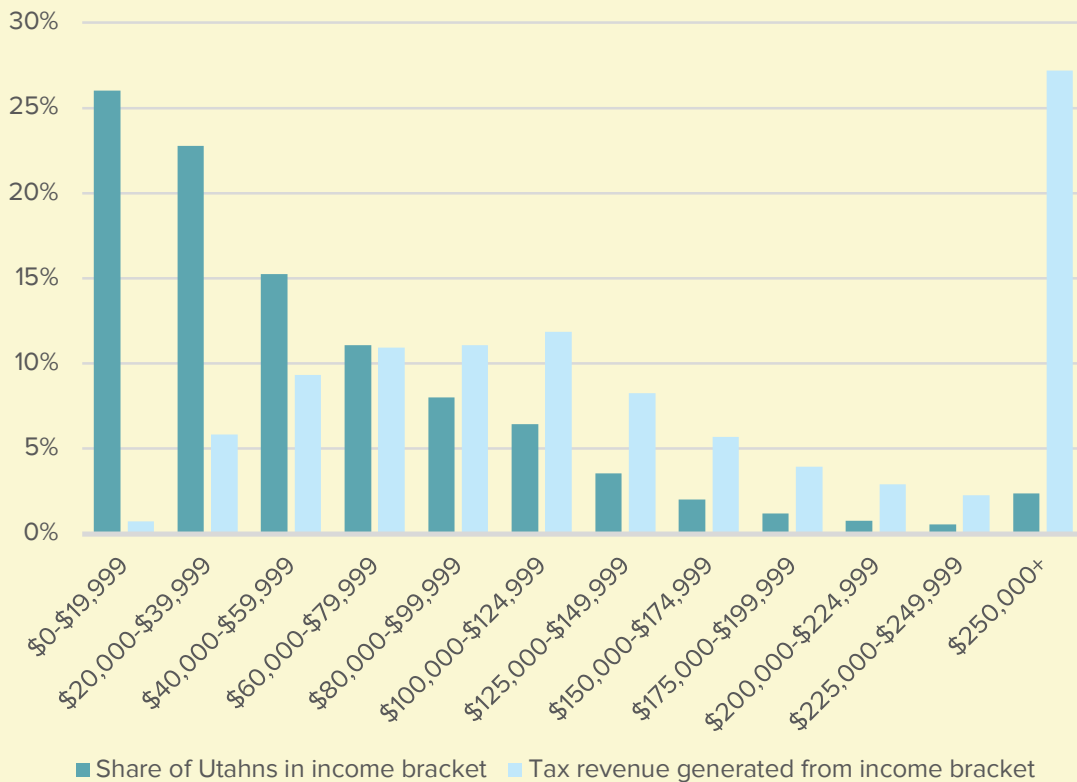
Most Utahns must file an income tax return to ensure they have paid all their tax liability. Utah requires a return if an individual is a full- or part-time resident and must file a federal return; if an individual is a non-resident with income in Utah; or if a taxpayer wants a refund of overpaid income tax. Americans are not required to file income tax returns if their income is under certain limits, dependent on age and marital status.³ However, in many cases it can still be beneficial to file returns (both at the state and local level) to receive refunds on overpaid taxes or to take advantage of refundable tax credits.

Who Pays?

Residents and non-residents pay income taxes in Utah. Non-residents pay income taxes on income earned within the state, but residents and part-time residents must pay income taxes on all income earned while residents, whether that income was earned in Utah or elsewhere. (Part-time residents pay based on all their income, reduced by multiplying it by the proportion of time spent in the state.)

The highest-earning 2.5% of Utah tax filers generate 27% of the revenues.

Figure 2: Share of Tax Filers Compared to Share of Income Tax Revenue Produced, by Income Bracket



Source: Utah State Tax Commission.



WHO IS CONSIDERED A UTAH RESIDENT?

Individuals are considered Utah residents if they are in the state for 183 or more days (roughly six months and a day). There are also cases where individuals can be considered residents even if never actually lived in Utah. This refers to Utah's laws about domicile, or the legal jurisdiction to which people are bound. Individuals domiciled in Utah are considered residents for tax purposes. Utah considers people who have dependents enrolled in public K-12 school, or are themselves or have a spouse attending Utah colleges or universities as resident students. Utah also considers most individuals domiciled in Utah if they file income tax returns as residents, are registered to vote in Utah, or maintain a residence in Utah and receive lower property tax rates due to the properties' status as their primary residence. Individuals can also be domiciled in Utah if their permanent home (to which they will return after prolonged absences from the state) is located within Utah, or if their connection to Utah is stronger than their connection to any other place.

The general idea behind these qualifications for domicile is that these individuals benefit from state services or benefits like education, property tax breaks or voting. As such, these individuals have a responsibility to help pay for the services or benefits.

The overwhelming bulk of income tax revenues come from Utah residents.

Two-thirds of Utah's income tax revenues stem from the 20% of income tax filers with the highest incomes. (See Figure 2.) Meanwhile, the poorest 20% of income tax filers generate less than 1% of the total revenues. At least 42% of income tax filers earning less than \$10,000 represent working dependents and many more are likely full or part-time students and have very little tax liability. The lower-earning 50% of Utah tax filers provide only 7% of Utah's income tax while the higher-earning 50% provide 93% of Utah's income tax revenues.⁴

UTAH'S INCOME TAX BURDEN

In 2007, Utah passed legislation reforming the state income tax. As a result, the income tax burden on Utahns declined substantially, from \$31.14 per \$1,000 of personal income in 2007 to \$24.44 in 2010. It has since climbed to \$27.51 per \$1,000 of personal income (as of 2015).

While the state's individual income tax burden has decreased in recent years, it remains high when compared to other states. As of 2015, Utah had the 16th highest individual income tax burden. Utah's high tax burden is often explained by the income tax's role in funding education and Utah's largest-in-the-nation share of school-aged children.

The state ranking of tax burden from Utah's individual income tax has been relatively stable during the past two decades. Ranging between 11th and 18th place, Utah's state income tax has averaged about 14th place among states.*

**Utah Foundation calculations from U.S. Census data.*



UTAH COMPARED TO OTHER STATES

There are numerous ways to compare income tax rates. Often, state comparisons look at the income tax rate of the highest bracket alone. As of 2017, Utah ranks 30th highest nationally (tied with three others) and 5th highest among 11 western states by this measure.⁵ Once the 2018 income tax cuts take effect, Utah will be tied at 34th place, meaning that there are only 15 states with a lower tax rate. Seven states nationally, and three states in the west (Wyoming, Nevada and Washington) do not collect income taxes at all. Tennessee and New Hampshire both have a 5% rate, but only on interest; salaries and wages are not taxed. With a tax rate at 4.95%, Utah's standing among western states will remain unchanged. Among Utah's four neighboring states that do collect income taxes, only Idaho's top tax rate is higher.

However, looking at the top rate alone can obscure the tax burden on those who earn income under the maximum tax bracket. One way to measure tax burden is to look at the taxes per

\$1,000 earned. When using this method, Utah's income tax burden of \$27.51 per \$1,000 of personal income ranks 16th nationally, and 4th among western states. (Interestingly, while Idaho has a higher rate, it has a lower burden.)⁶

THE 1996 CONSTITUTIONAL AMENDMENT: LONG-TERM EFFECTS

The state first started collecting income tax during the Great Depression, in 1931. In 1946 Utahns passed a constitutional amendment to dedicate all the proceeds from the income tax to education. For the next half century, the state's K-12 education system alone received the proceeds of the state's income tax. In 1996 another constitutional amendment allowed the state's higher education system to receive income tax revenue as well. The policy change had a significant impact. Had this law not passed, under the current tax rates, Utah's K-12 education system would have access to an additional \$686 million in 2018.⁷

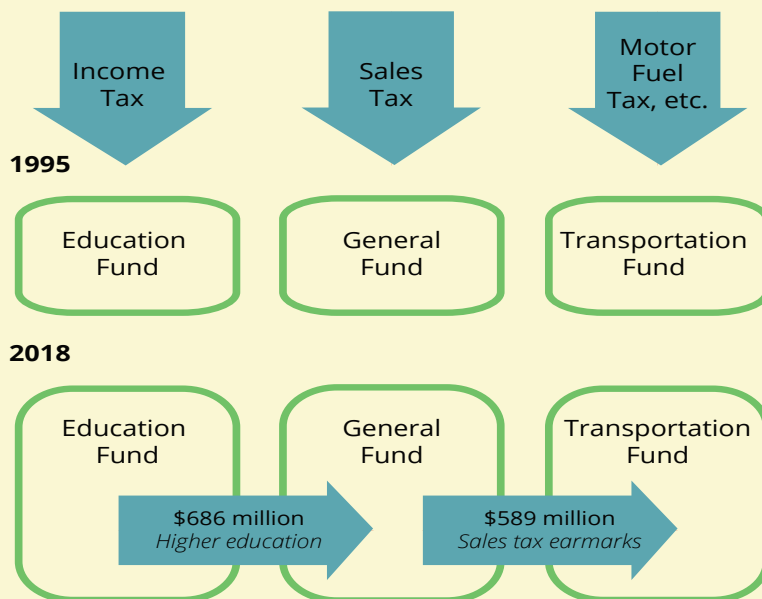
The 1996 amendment also allowed greater fungibility for revenues from the income tax. Prior to the amendment, higher education had been funded through the general fund, which primarily draws on sales tax revenues. By allowing higher education access to income tax revenues, policymakers could free up general funds for other programs, essentially producing the same result as if income tax funds had been directly authorized to fund those other programs. (See Figure 3.)

INCOME TAX CREDITS

While the nominal 5% income tax rate applies to all income earners, the median effective tax rate is 3%. The difference is due to tax credits. Utah has a Taxpayer Tax

Previously separate "buckets" of funding have been connected since 1996.

Figure 3: How the Education Fund's income tax connects with other funds



Source: Utah State Tax Commission.

Credit that essentially everyone claims as a part of filing their state tax return. This tax credit represents about \$1.2 billion of foregone annual state revenue – roughly one-third of all income tax revenues. While nearly all taxpayers claim the credit, it phases out at higher incomes. The tax credit is equivalent to 6% of deductions and exemptions claimed, minus \$13 for every thousand dollars earned over \$13,978 for single filers (\$27,956 for married filing jointly). The income phaseout completely eclipses the credit at higher incomes. While ultimately the size of the credit depends on marital status, family size and itemized deductions, most tax filers with income above \$150,000 do not receive any benefit from the Taxpayer Tax Credit.

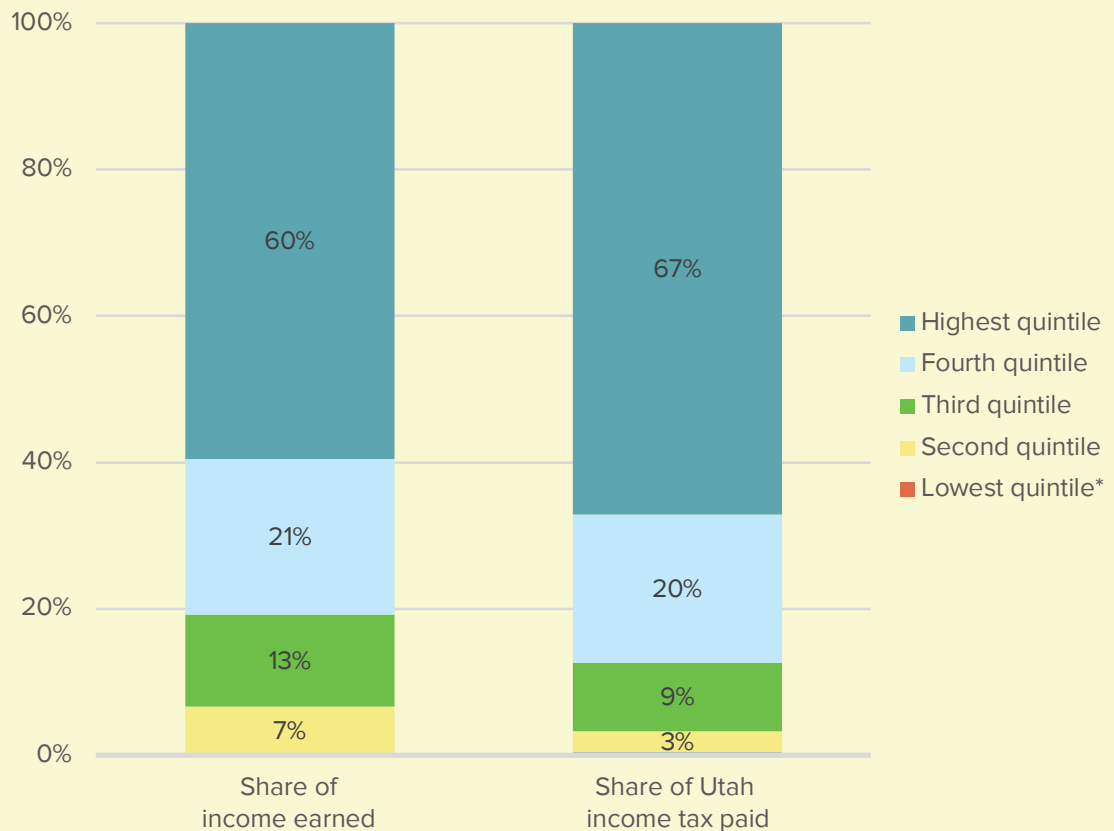
Aside from the Taxpayer Tax Credit, Utahns took advantage of 36 other income tax credits in 2016. The largest of these tax credits were for taxes paid to another state, or funding retirement accounts, research activities, solar projects and enterprise zones. Altogether, these represent another \$200 million of foregone revenue.

PROGRESSIVITY

The Taxpayer Tax Credit introduces progressivity into the tax system. A proportional tax system is one in which individuals pay a tax proportional to their income. A regressive tax, such as the sales tax, taxes lower income earners at a higher proportion relative to their income while progressive tax systems tax

Utah's income tax system is somewhat progressive.

Figure 4: Utah Tax Liability Compared to Income Earned, by Quintile, 2016



* Equal to 0%.
Source: Utah State Tax Commission.

higher income earners at a higher proportion relative to their income. (See Figure 6.) Because the Taxpayer Tax Credit phases out at higher levels of income, the highest quintile (top 20%) of tax filers pay a higher share of taxes than the share of income they earn. However, Utah’s income tax system is still far less progressive than that of the federal government or a state such as the highly progressive California, where the highest quintile brings in 65% of the earnings (compared to 60% in Utah), but pays 90% of the taxes (compared to 67% in Utah). (See Utah’s rates in Figure 4.) The Federal Income Tax is also quite progressive. While the highest quintile earns only 63% of the income in the nation, it pays 83% of the income taxes.

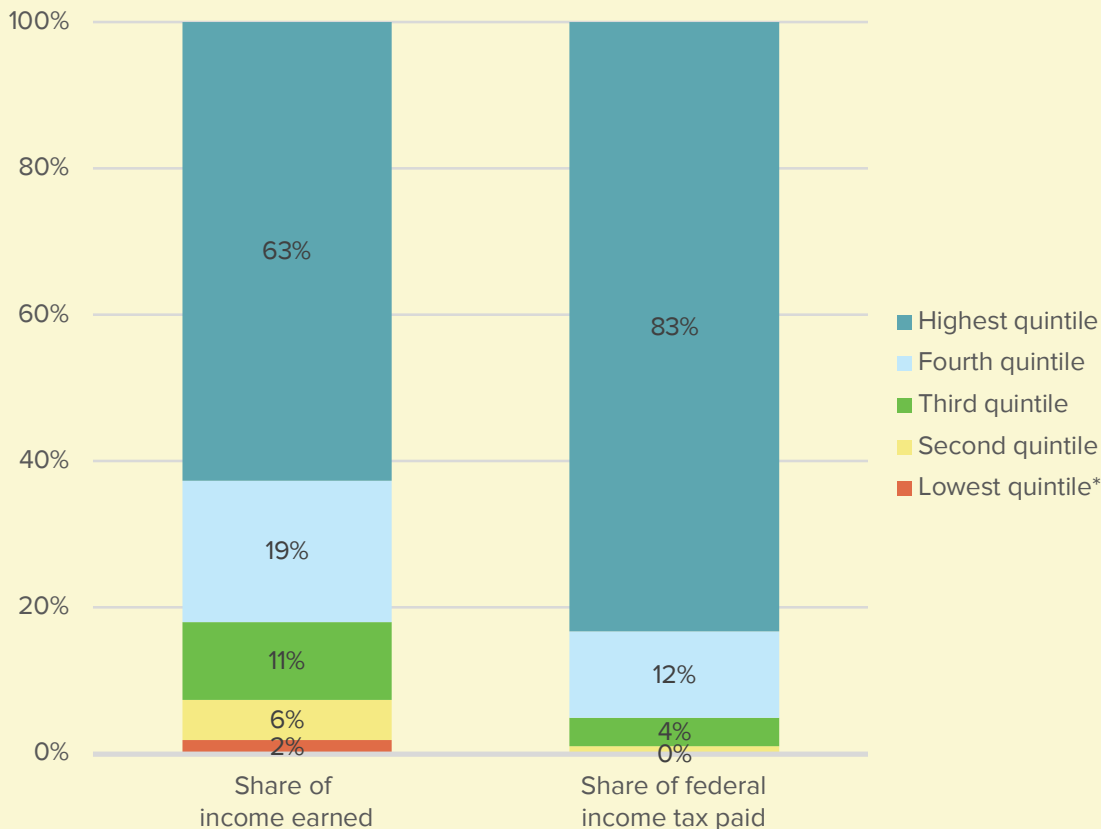
Even in a proportionate system, one of the widely acknowledged properties of the income tax is that it aligns with one’s ability to pay. The more income a Utah household earns, the more it is able to contribute.

One argument in favor of having a progressive income tax is that it offsets the regressive nature of other taxes such as sales tax. In short, the goal is to make the overall tax system fairer.

However, definitions of fairness can vary. While some might consider it fair that those who earn more pay a higher share of their income, others consider the only fair option one where all income levels contribute proportionally. Further-

The federal income tax system is significantly more progressive than Utah’s system (which is shown in Figure 4).

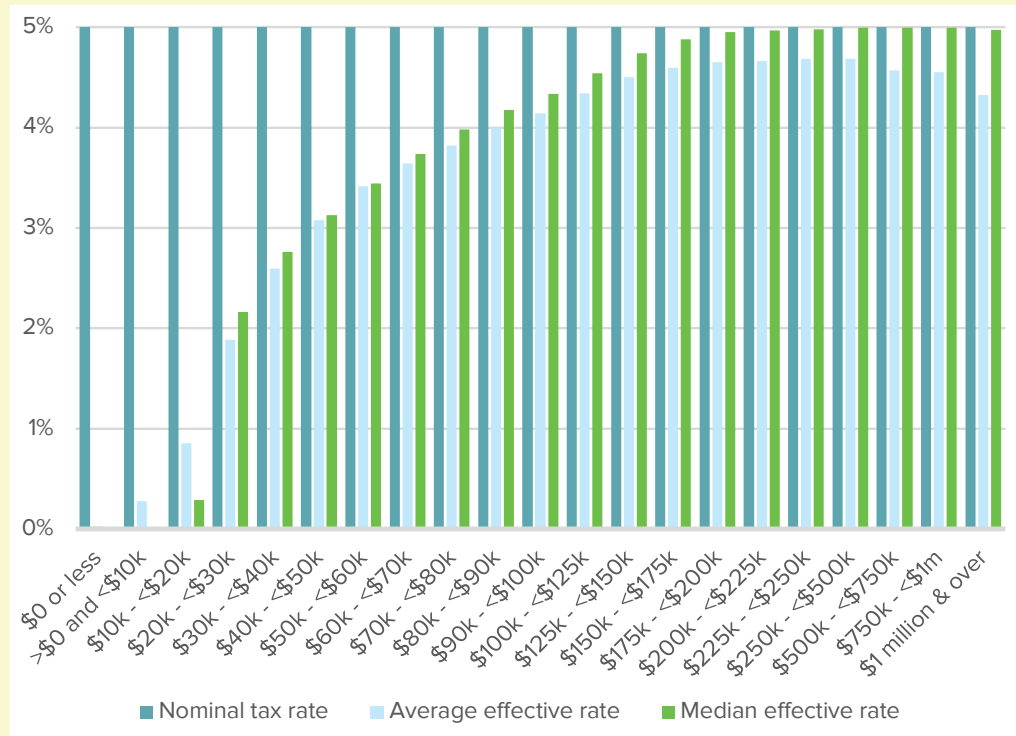
Figure 5: U.S. Tax Liability Compared to Income Earned, by Quintile, 2015



* Equal to 0% for income tax paid.
Source: Utah State Tax Commission.

Utah's Taxpayer Tax Credit drives progressivity in effective rates.

Figure 6: Utah's Nominal Tax Rate Compared to the Median Effective Tax Rate, by Income Bracket, 2016



Source: Utah State Tax Commission.

more, some would argue that participation in paying the public sector's bills is a means of engaging the public and ensuring responsible citizenship. In other words, under a highly progressive tax system, large segments of the population may be more likely to ignore government waste or favor economically detrimental tax increases because the consequences do not meaningfully hit their pocketbooks.

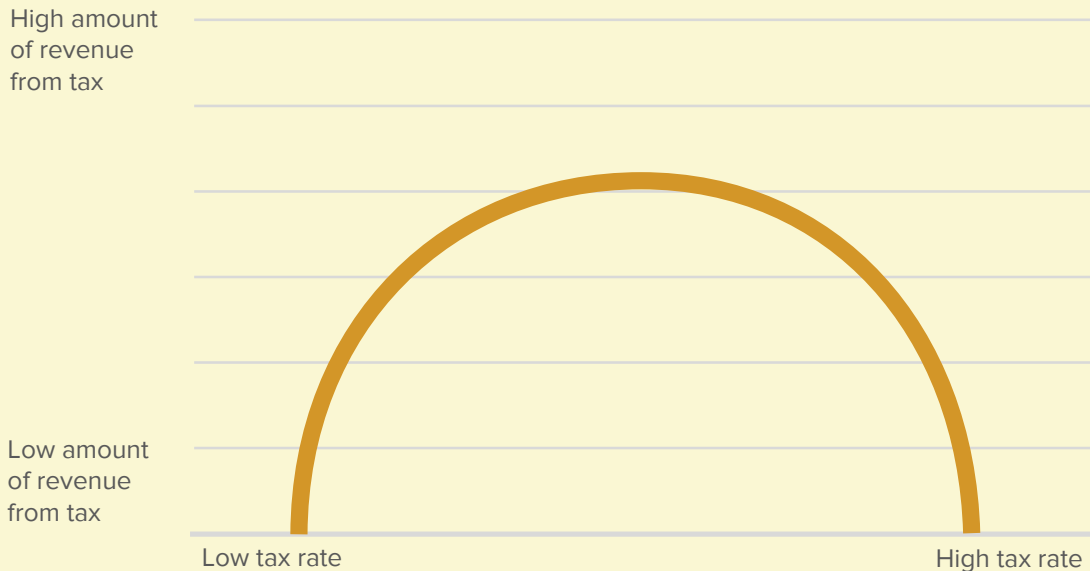
THE IMPACTS OF TAX RATE CHANGES

When the Utah Legislature discusses the income tax, it usually revolves around a few topics. Because income tax is designated specifically for education, it is an obvious source for additional revenues to increase the state's education funding. As Utah ranks last in terms of spending per pupil and below average in terms of the share of income Utahns' contribute toward education, such debates can be expected. Opposition to tax increases is usually discussed in terms of economic prosperity and development.

While increasing income taxes effectively reduces the disposable incomes of Utahns, opponents of tax increases often focus on the overall impact of higher taxes on the state economy. It is widely recognized among economists that taxes distort economic behavior, and the higher the tax rates, the greater the distortion. In other words, taxes change the way people behave, and higher taxes inspire greater efforts

The Laffer Curve demonstrates the theoretical relationship between tax rates and tax revenues generated by those rates.

Figure 7: Example of the Laffer Curve



to avoid paying them. Generally, economists encourage a low level of taxation that applies to a broad base (or as many people as possible). The mantra “lower the rate, broaden the base” is a common refrain among many concerned with tax policy.

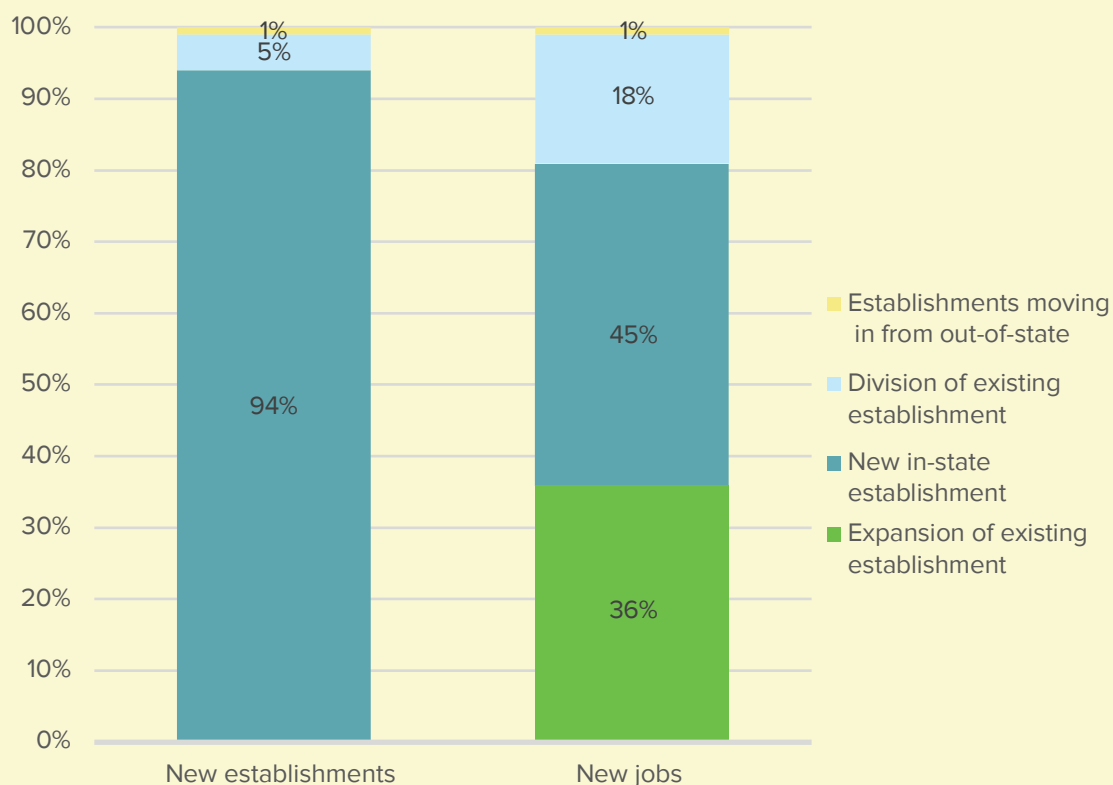
Opponents of tax increases often refer to the concept demonstrated by the Laffer Curve. The Laffer Curve (named for the economist Art Laffer, who popularized the idea) is a simple graph that expresses the conceptual idea behind the relationship between tax rates and tax revenues generated by those rates. (See Figure 7.) When looking at low tax rates, increasing the rates would increase the amount of revenue generated by the tax. However, if the tax rate is too high, it might actually reduce the amount of revenues generated by the state because more individuals will take additional actions to avoid paying the tax – including relocating to other states.

Most economists agree on the basic principles of the Laffer Curve, but fewer agree on its practical applications. Much of the disagreement revolves around where it peaks. Estimates have varied between a total income tax rate of 30% and 70%.⁸ When the idea was first popularized in 1974, the highest tax rate was 70% on income over \$100,000 (roughly \$500,000 in today’s dollars).⁹ With a tax rate at 70%, it is quite arguable that raising the rate might produce less revenue as higher-earning individuals take more drastic steps to obscure their income or generate income in ways that are taxed at a lower rate. This is particularly true in a more globalized economy, in which capital can flow from one location to another with greater ease.

Looking at the more recent data, a 2005 estimate of a 10% federal income tax cut indicated that the reduction would produce less revenue, even after accounting for potential new economic growth spurred by the tax cut.¹⁰ In 2017, a nationwide panel of more than 30 prominent economists estimated that while a federal tax cut would stimulate the economy and result in a higher GDP than under the status quo, it almost certainly would not result in higher net tax revenues, even considering the additional economic activity.¹¹

The overwhelming majority of new jobs and new establishments are created from within the state.

Figure 8: New Establishments and New Jobs by Source, 1996-2013



Source: *Your Economy*, Utah Foundation calculations.

Ultimately, it seems unlikely that Utah – with a nominal income tax rate at 5% and a median effective income tax rate at 3% – is at the threshold where reducing the rate might bring in additional revenue, particularly with the economy already growing at a steady clip. While a tax cut very well might stimulate the economy, at Utah’s levels of taxation, it is unlikely to generate additional revenue, at least in the short term.

A related topic is the impact the income tax has on convincing businesses to move to Utah. The idea is simple and straightforward: The lower the state income tax, the more likely a business would be to move to Utah where its employees, and especially its corporate officers, would have the largest disposable income. While the idea is simple, reality is somewhat more complicated. The decision on where to move is dependent on a number of factors, such as taxation, regulation, and geographic location (for transportation, distribution, or logistical purposes or because it is near required resources). Other factors also play a major role, such as the quality and quantity of the labor pool, the costs of operation (e.g. the costs of living, the costs of inputs and the costs of utilities), the availability of shared inputs with similar companies or supply chain partners, and whether the location has the required transportation or information infrastructure.

When analyzing a database of the creation, movement and destruction of jobs and establishments across the 50 states from 1996 to 2013, some interesting trends emerge.¹² Across all states, companies moving into new states generally represent



less than 2% of all new establishments per year. Since they usually have more jobs than other new companies (such as startups and spinoffs), they represent a slightly higher share of new jobs created, but still only 2.3%. Utah is below this nationwide average with companies moving into the state averaging only 1.4% of the new jobs created each year, which may be in part because homegrown businesses have been successful in creating new jobs. (See Figure 8.) The overwhelming number of additional establishments to a state comes from the creation of new establishments, an average of 92% across all states every year. These generally account for 40% of the new jobs created in each state each year. Roughly the same amount of new jobs is created by the expansion of existing companies.

The remainder are from the division of existing establishments.

There are seven states that do not impose income taxes.¹³ When comparing these seven states to the other 43, they actually had a smaller portion of jobs created from outside companies moving in. Utah, meanwhile, is second among states in terms of the number of new jobs created by new establishments.

In short, it might not be wise to assign brass-ring status to relocating companies when relocations make up a tiny fraction of new job creation. The smarter economic play in many cases might be creating and preserving the conditions that allow local businesses to thrive. In a 2015 survey of local employers, Utah Foundation found that for 32% of the 151 participating companies, the single greatest factor impeding their growth was Utah's limited labor pool. Only 3% cited taxes. In other words, lower taxes do not appear to be a top priority for these companies.

One recent example demonstrates the limits of tax cuts in sparking economic growth. In 2012, Kansas passed a law generally reducing individual income taxes and completely removing the individual income tax for pass-through entities (businesses where profits are claimed as individual income by one or more owners rather than the business paying a corporate income tax). The legislation sharply reduced the tax burden of the income tax, dropping Kansas from 21st in the nation in 2011 to 38th in 2015.¹⁴ The legislation was hailed as Kansas' "real life experiment" that would deliver a "shot of adrenaline into the heart of the Kansas economy" thus proving the impact of tax-friendly policies on economic growth.¹⁵ However, Kansas did not grow any faster than before the change or faster than any of its neighboring states by most economic measures during this time period.¹⁶ The policy's defenders identify some ways in which the economy improved.¹⁷ But the strong, widespread economic growth promised by those promoting the tax decrease did not materialize.

Meanwhile, Kansas' state government entered a period of tremendous financial strain. Many services were cut back and other taxes were increased to compensate. Proponents of the income tax cuts argue that while the state lowered rates, it failed to broaden the base, leaving in place many of the exemptions and deductions that existed previously. Moreover, in the mind of many of the proponents of the legislation, the lower revenues should have forced the state to shrink government services.

THE CORPORATE INCOME TAX

Utah's corporate income tax bears many similarities to the individual tax: 5% of income is taxed (4.95% as of 2018) or \$100, whichever is greater, and all the revenues go toward education. Many of the corporate income tax credits are duplicates of individual income tax credits. While Utah's individual and corporate income tax rates are the same, that is not the case among all states. In 2016, the corporate income tax brought in \$338 million, roughly one-tenth of the amount the individual income tax brought in. It accounts for about 3.5% of state revenue.

In terms of corporate income tax rates for the highest brackets, Utah ranks 40th (tied with Mississippi and South Carolina) and seventh among 11 western states. With the 2018 rate of 4.95%, Utah drop to 42nd, though its standing among western states will remain unchanged.

When looking in terms of the revenue generated per \$1,000 of personal income, Utah ranks 27th in the nation and fifth among 11 western states.

They point out that Kansas policymakers failed to make the tough decisions to shrink the government to match lower revenues.¹⁸ Ultimately Kansas' legislature largely reversed the tax cuts.

A common concern about high tax rates is the migration of capital. In a highly connected world it is easier than ever to relocate businesses, jobs and individuals to other places with a lower tax rate. One might expect income taxes to also influence where workers choose to relocate. However, when comparing the average state tax burden from 1993-2010 with the change in adjusted gross income from net migration during the same time period, Utah Foundation actually found a weakly positive correlation. In other words, states with a higher tax burden were slightly more likely to see growth in their AGI from net migration. In fact, five of the nine states that do not tax wages and salaries saw a decrease in their AGI from net migration and none of these states had a change in AGI from net migration above average.¹⁹ It appears likely from the data that other factors outweigh the impact of higher income tax rates.

THE IMPACT OF FEDERAL INCOME TAX REFORMS IN UTAH

At the end of 2017, Congress passed the most significant tax reform legislation since the 1980s. The federal tax code overhaul changes personal exemptions and federal deductions, both of which are used to calculate Utah's Taxpayer Tax Credit. State economists have estimated that these tax changes would create an \$80 million tax windfall for the state.²¹ To be clear, these additional revenues will come from some Utahns paying more in income taxes, even if their federal tax liability decreases. In addition, those who will be paying more in state taxes will generally be lower- and middle-income Utahns who receive the Taxpayer Tax Credit. Because the Taxpayer Tax Credit is based on deductions and exemptions, the impact of the federal tax changes are highly dependent on household and family circumstances. Generally speaking, larger families will see the biggest impact (both single and married households with more than two children will have a higher state income tax liability). Single, middle-income Utahns could see a tax decrease of \$160 and a married, middle-income couple with no children a decrease of nearly \$400. However, middle-income households with three or more children could see increases of \$300, and middle-income households with five or more children could see increases of more than \$600.

In the 2018 legislative session, the state legislature passed a bill that decreased state income taxes from 5% to 4.95% to reduce the windfall for state government. However, Utahns at all income levels will benefit from the tax cut. The combined effect of the two tax changes: Higher-income earners will benefit indirectly at the expense of Utahns earning lower levels of income. Utah's income tax system will become slightly less progressive.



THE EARNED INCOME TAX CREDIT (EITC)

The EITC at the federal level is a refundable tax credit for working low-income Americans. It is often considered as a conservative alternative to the minimum wage and is partially responsible (in conjunction with the Child Tax Credit) for lifting nearly 10 million Americans out of poverty and making more than twice that number less poor.²⁰ Since the implementation at the federal level in 1975, 29 states have also instituted some type of variant that again targets low-income citizens who have earned income. Over the past decade, legislators have suggested several versions of a state EITC for Utah. In 2018, another proposal, HB 57, failed to pass the Utah Legislature. This proposed version of the EITC would have targeted Utahns affected by intergenerational poverty who also qualify for the federal EITC.

Lowering the tax rate to 4.95% will not have a major impact on Utah households.

Figure 9: Estimated, Average Impact of a 4.95% Tax Rate by Income Bracket

Household income bracket	Average annual income taxes at 5%	Average annual income taxes at 4.95%	Difference
\$0-\$29,999	\$235	\$229	-\$6
\$30,000-\$49,999	1,182	1,163	-19
\$50,000-\$69,999	2,286	2,256	-30
\$70,000-\$110,999	3,888	3,844	-44
\$111,000+	9,214	9,121	-93

Source: Utah State Tax Commission; Utah Foundation calculations.

However, the increase based on federal changes and the recent tax rate reduction will have a minimal impact on the average household. In a previous research brief, Utah Foundation outlined the average impact of the income tax rate reduction for several income levels. (See Figure 9.) The 0.05% reduction will not have a major impact on most households. (Find the full discussion at www.utahfoundation.org/reports/considering-cut-utahs-income-tax/.)

CONCLUSION

Compared to Utah's sales and property taxes, Utah's income tax is fairly straightforward. All state income is taxed at 5%, but Utah's Taxpayer Tax Credit softens the tax liability for lower incomes and larger families. It costs the state about \$1.2 billion annually and is the source of the slight progressivity in Utah's income tax structure.

The income tax was previously reserved for K-12 education funds. However, the 1996 constitutional amendment allowing higher education programs to use funds generated with the income tax freed up greater funding flexibility for state government in general and ultimately led to less funding for the K-12 system.

Policymakers often focus on the economic benefits of lowering taxes; however, the impact is not guaranteed. While tax decreases have the potential to increase economic growth, there are many other economic factors at play that can limit or mitigate the impact of a lower tax rate. Utahns should also be wary of promises that tax reductions will pay for themselves. It is unlikely that lowering current income tax rates would generate more revenue, at least in the short term. Furthermore, it is unclear that there is a burning need to try to stimulate growth through tax cuts in light of the state's healthy economy.

On the other hand, the public and policymakers should be aware that any large tax increases could have a negative impact on the economy. While national data demonstrate that net migration is not tightly linked to income tax rates, a significant income tax increase would reduce the disposable income of Utahns, with potential negative impacts on sales tax revenues and the economy at large.

ENDNOTES

- 1 These three taxes are relatively close and any given year one might jump above another. In addition, there are sometimes diverse ways of classifying tax revenues that can sometimes lead to some ambiguity. Utah State Tax Commission, “TC-23: Twelve Month Revenue Summary,” September 2017, <https://tax.utah.gov/esu/revenue-reports/summary2017.pdf>.
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19 Data from the following sources; personal income from the Bureau of Economic Analysis; state and local tax revenues from the US Census; AGI of net migration from Tax Foundation. Utah Foundation calculations. While our report only mentions the relationship between AGI change from net migration and the average income tax burden from 1993-2010, similar analyses were performed using different metrics such as the average overall tax burden including all taxes and mandatory fees and the change in individual income tax burden from 1993-2010, producing similar results of a weak positive correlation.

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