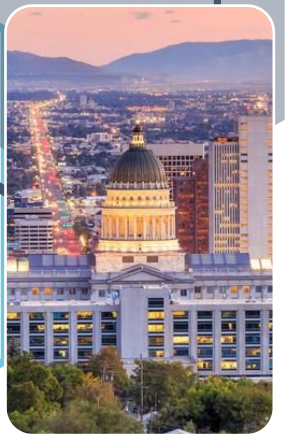
UTAH ASSOCIATION OF COUNTIES

The Unifying Voice for County Government

COUNTY TAX MODERNIZATION AND RESTRUCTURING

2019



Utah's Taxation of Tangible Personal Property & Auditing

Matrix of Evaluation (Scale of 1 = Poor, 2 = Fair, 3 = Average, 4 = Good, 5 = Excellent)

Fair/Equitable: 5
This tax is required to be equitably applied based on the value of the property. The property value is depreciated annually based on a state approved depreciation schedule – reported annually.

Transparent: 5
The tax is transparent to the payer and is calculated by the payer annually.

Ease of Administration: 2-3
Small business often complains that completing the "schedule of property" is burdensome. In recent years we have exempted the reporting requirement for most small business owners. However, larger businesses still have to complete the schedule.

Impact on the Tax Base: 4-5
Tangible personal property is a significant portion of the property tax base. On average, it is approximately 10% of the locally assessed tax base and is also a component of the centrally assessed tax base. Changes to the tangible personal property tax can have significant impacts on local tax districts, where it can be a majority of the total value in the taxing district.

Need for Modernization: 3
Changes to the tangible personal property tax were proffered in the 2019 legislative session, where large increase was included to the "exemption" for small businesses. Additionally, we significantly altered the reporting requirement to make reporting much easier on small business. Additionally, our assessors are currently working on online reporting, which will also ease the administrative burden.

Overview and History of the Tax

- Most business property, real and personal, is subject to property tax. Real property consists of land, buildings and other improvements. Personal property is everything not treated as real property, including furniture, fixtures, machinery, equipment, supplies, etc.
- Tangible Personal Property Taxes are based upon the location and status of property as of January 1 of each year and are a primary source of revenue to local government entities including counties, school districts, cities and towns, and a variety of special districts. Taxes are due on May 15 each year.
- Utah motor vehicles are charged a fee-in-lieu of property taxes based on age of the vehicle.
- All tangible personal property is taxable unless **exempted**. (see exemptions below)

CURRENT EXEMPTIONS:

1. Tangible personal property with a total aggregate fair market value of $15,000 or less per taxpayer within a single county. (This exemption covers 60+ percent of all businesses)
2. If a taxpayer is exempted under the fair market value of $15,000 or less for five consecutive years, a county assessor may not require the taxpayer to file a signed statement for each continuing consecutive year for which the taxpayer qualifies for the exemption.
3. An item of tangible personal property not critical to the actual business operation of a business, with an acquisition cost of less than $150, will be exempt.
4. An item of expensed personal property having an acquisition cost of $1,000 or less and having a percent good of 15 percent or less.
5. If a taxpayer qualifies for exemption #3 and #4 listed above, a county assessor may not require the taxpayer to include the item on a signed statement.

6. Inventory held for resale in the normal course of business.
7. Farm equipment and machinery used primarily for agricultural production, livestock, household furnishings, intangible personal property (patents, trademarks, goodwill, etc.), and property used for irrigation purposes.

DISTRIBUTION FOR 2017 (By Class of Political Subdivision)

- School Districts | 55.18% | $1,767,258,773
- Counties | 17.77% | $568,972,826
- Cities and Towns | 14.06% | $450,410,118
- Special Districts | 12.99% | $415,844,486

- **Audits** are performed by The Property Tax Division of the State Tax Commission. Audits are selected based on a variety of criteria, including failure to file the annual Personal Property Signed Statement. A business selected for an audit is notified by mail two weeks in advance of the audit. The auditor will call to schedule an on-site inspection of the property and the accounting records. Audit results may be appealed to the county board of equalization.

Pro's and Con's to the Tax

Pros:

- Some of the largest taxpayers in counties are business personal property accounts.
- Broadens the property tax base.
- Supports some tax areas, keeping real property taxes lower.

Cons:

- Compliance with filing requirements can be difficult for some small taxpayers.
- Compliance and administration costs are disproportionately high compared to centrally assessed/real property assessments. Regardless of taxable value, the process costs business owners both time and treasure.
- The process is esoteric and not well understood by many.
- Legislation is difficult for most business owners to understand and changes almost every year.

Recent Legislative Efforts

HB0231S01 - Tangible Personal Property Revisions – 2019 Session – Passed (Eases the administrative burden)
SB0042S01 - Tangible Personal Property Amendments – 2019 Session – Failed (Full repeal of the tax)

Policy Considerations

- 2019: Eliminating the filing requirement for exempt businesses, which meet certain conditions, was a giant leap forward. Any additional changes will require a constitutional amendment and will create significant shift of tax burden to other real property owners.

County Impact and Suggestions for Modernization

The Legislature should look to modernize the following aspects:

1. The largest complaint about business personal property is the compliance cost incurred. The best way to reduce these costs is an online filing system. A system of this type will reduce the compliance costs to the customer by a) retaining prior year(s) records, b) performing depreciation and tax calculations automatically, and c) reducing the time required to complete the filing. Online filing reduces the costs to the administrator by a) reducing processing time (approximately seven times faster than paper filings) b) reduces printing and postage costs by approximately 80%, and c) refocuses staff duties to more productive tasks like discovery, real property reappraisal, etc.

2. Include business personal property required for the operation of residential income and lodging properties into the real property valuation. Reduce the regulatory burden on these property owners and increase efficiencies in county assessor's offices by allowing a county assessor to value business personal property, used in conjunction with apartment/lodging buildings, as an economic unit. Currently, the apartment owner

is required to file a business personal property rendition with the county assessor's office. State law forces all parties involved to process forms for no reason other than it is required. This wastes the time and money of the apartment owner and the taxpayer at large. Enabling the county assessor to value the business personal property with the real property as an economic unit offers several advantages. First, it reduces the regulatory burden on the business owner. Second, it reduces the cost to the taxpayer at large by reducing the number of accounts that require processing. Third, by valuing the real and personal property together, it creates a more efficient, and accurate, way of capturing the market value of the equipment. Note: Operating on the assumption that the current business personal property valuation methodology is accurate, the shift is revenue neutral.

3. Assign mobile homes an age-based fee (based on the motor vehicle model), rather than taxing them on the fair market value. Most of these structures have a minimal value that does not change with, or follow, the real estate market.

Utah's Taxation of Centrally Assessed Property

Matrix of Evaluation (Scale of 1 = Poor, 2 = Fair, 3 = Average, 4 = Good, 5 = Excellent)

Fair/Equitable: 5
This tax is required to be equitably applied based on the value of the property – reported annually.

Transparent: 5
The tax is transparent to the payer and is calculated by the Tax Commission annually.

Ease of Administration: 3
While the tax is easy to administer, it is often a source of disagreement on the calculated valuation, leading to expensive litigation regarding the Tax Commissions valuation. Any change in valuation has an impact to the overall tax base as well as the judgment levy, which is used to offset a loss in valuation.

Impact on the Tax Base: 5
In the aggregate the centrally assessed property comprises approximately 10% of the total property tax base. However, it can be substantially more significant in some counties where major manufacturing, or industrial uses exist (Example: Millard centrally assessed tax base is approximately 65% of the total property value -- IPP Power Plant).

Need for Modernization: 3
Significant changes to the appeal provisions occurred in the 2015 legislative session, and it was suggested that we would reexamine the changes in the coming years.

Overview and History of the Tax

- The Property Tax Division of the State Tax Commission is responsible for assessing mining properties and other properties that operate **across county lines**, such as utilities, mines, telecommunications or transportation companies like airlines and railroads.
- Property owners submit self-reporting affidavits by March 1st of each year and have the right to appeal by August 1st. Affected counties also have the right to file an appeal in the assessment, in fact, it is not unusual for both the taxpayer and the affected counties to file appeals on the same assessment.
- Tax dollars belong to the counties in which the property operates.
- There were 21 centrally assessed cases appealed in 2018.

DISTRIBUTION FOR 2017 (By Class of Political Subdivision)

- School Districts | 55.18% | $1,767,258,773
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Pro's and Con's to the Tax

Pros:

- New growth in business valuations can increase local government budgets.

Cons:

- Can be hard to determine the appropriate taxable value of property.
- It is common for this tax to be appealed by the taxpayer. Companies often dispute their assessment as too high and the appeals process can take a long time to be resolved, sometimes up to 7-10 years.

- When taxes decrease on centrally assessed properties, a judgment levy requires taxes go up on homes and local businesses to make up the difference or the governments affected absorb the loss of revenues.
- Change in valuation is considered new growth and value changes are hard to predict.

Recent Legislative Efforts

HB21 - Changes to Property Tax – 2018 Session – Passed (Clarified elements of the tax appeal process)
SB165 – Property Tax Valuation and Assessment – 2015 Session – Passed (Created a new tax appeal structure)

Policy Considerations

- Does the current appeals process work well?
- Centrally Assessed Properties are subject to tangible personal property tax as a part of their valuation, this accounts for a significant amount of the value in these properties and should be heavily considered when contemplating changes to that element of the tax.

County Impact and Suggestions for Modernization

Counties and all other taxing districts are heavily impacted by centrally assessed property taxes. Particularly communities that are less populated and operate with smaller budgets. The process of determining appropriate taxable value of property influences what citizens pay individually in property taxes. Counties are interested in protecting taxpayers and grow concerned when the tax burden is shifted away from centrally assessed businesses and onto homeowners and small business owners, but also want to ensure valuations are accurate and fair to businesses.

Taxpayers can appeal their valuation and will often attempt to prove their valuation should be less in order to be taxed a reduced amount. Based on the findings of the appeal, if the value of the centrally assessed property decreases, a judgement levy will be awarded and require all locally assessed taxpayers to pay the difference. There is no additional money collected by the county if a business is assessed a lesser value but if the valuation is determined to be accurate or higher, the county will then collect the taxes from the centrally assessed business. This appeals process can be long and burdensome.

Utah's Taxation of Real Property

Matrix of Evaluation (Scale of 1 = Poor, 2 = Fair, 3 = Average, 4 = Good, 5 = Excellent)

Fair/Equitable: 5
This tax is required to be equitably applied based on the value of the property.

Transparent: 5
The tax is transparent with an annual notice provided to the property owner. Increases in the tax are required to go through truth-in-taxation process.

Ease of Administration: 5
The tax is easy to administer, appeal and collect.

Impact on the Tax Base: 5
Locally assessed real property is the largest component of the property tax base. Due to truth in taxation, changes in value, however, do not get reflected in the budgets of the taxing entities. The tax rate "floats" to make the revenue equal to what was collected in the previous year.

Need for Modernization: 4
No significant changes have been made to the real property tax system in quite some time. Recognizing the impact of inflation, our existing truth-in-taxation system does not afford taxing entities growth to address inflationary pressures. As the major funding source for local schools and counties, we believe some inflationary adjuster is warranted.

Overview and History of the Tax

- Real property is any right, title, estate, or interest in land including all minerals located in, on, or under the land. All buildings, fixtures, and improvements to the land that are permanently attached. All water rights, rights-of-way, rents, issues, profits, income, tenements, inherited property, claims (including mining claims), and privileges belonging to, used, or enjoyed with the land or any part of the land.
- The 29 county governments administer residential and commercial real property taxes in Utah.
- Primary & secondary residential land and buildings are included.
- Commercial & industrial land and buildings are included as well as agricultural buildings.
- The county assessor appraises residential and commercial property at 100% of its fair market value and applies a uniform valuation, which means similar properties should have similar values.
- The taxable value of a property is 100% of its fair market value for commercial property. The Utah Constitution permits the legislature to exempt up to 45% of the fair market value of primary residential property from property taxation. That exemption is currently set at 45%. Rental properties are eligible for the exemption; secondary homes and business properties are not eligible.

2017 DISTRIBUTION OF PROPERTY TAX (BY ENTITIY TYPE)

- School Districts | 55.18% | $1,767,258,773
- Counties | 17.77% | $568,972,826
- Cities and Towns 14.06% $450,410,118
- Special Districts | 12.99% | $415,844,486

Pro's and Con's to the Tax

Pros:

- Ad valorem taxation of real property in Utah provides a very stable foundation for taxing entities.
- The most "fair" tax if administered properly, with each property owner bearing a proportionate share of the load.

Cons:

- Valuation of real property is labor intensive.

Recent Legislative Efforts

HB0011S02 – Property Tax Amendments – 2019 Session – Passed
HB0024 - Property Tax Exemptions, Deferrals, and Abatements Amendments – 2019 Session – Passed
SB0013 - Income Tax Domicile Amendments – 2019 Session – Passed
SB0240 - Property Tax Exemption for Wildfire Prevention – 2019 Session – Failed

Policy Considerations

- As the major funding source for counties, modest growth in property tax is critical to meeting the essential services of counties. Specific tax levies for infrastructure (gas tax/sales tax) are not cover the cost of maintenance and growth pressures. The general sales tax, while still a major piece of the revenue pie is largely collected and used by cities, leaving the unincorporated areas of the county with the property tax as the funding tool of choice. Without some annual growth, relative to CPI in the property tax we are finding it much more difficult to meet the needs of our shared constituents.

County Impact and Suggestions for Modernization

The Legislature should look to modernize the following aspects:

1. In order to prevent the "lurching" effect caused as a result of Truth in taxation requirements in the current law, allow counties to receive a CPI adjustment to the property tax before triggering Truth in Taxation. This will provide some modest growth for our counties, where they lack existing tools to address growth pressures and inflationary pressures in their budget. This would not require the county to take the CPI adjustment but would build it in as a part of the budgeting process for counties. Because counties only have ¼ the sales tax rate as cities, are not allowed to impose an energy tax, are not imposing impact fees, this is only tax area where counties can affect their revenue picture to meet the growing demands on county services, which include: infrastructure, homeless resources, behavioral health services, policing and jail services, surveying, recording, assessment, elections, etc.

2. Repeal the review of property characteristics requirement now in statute. The driving force behind this section of code was the lack of annual revaluation by some counties. This resulted in a very large year over year change in property value in specific areas. This in turn resulted in a very abrupt shift in the property tax burden for the impacted property owners. The code in question focuses on reviewing characteristics. While this is useful to some extent, it does not solve the valuation question. It does create more labor costs to comply. Each year county assessor's offices dedicate labor hours to review the characteristics of all properties located within the county, whether the properties are improved or not. This time is better spent with valuation and discovery tasks. Suggestion: Remove the requirement to review characteristics of vacant land and extend the time between review of improved properties to reduce redundancy and allow assessors to focus on valuation related activities.

Transportation Taxes and the B&C Formula

Matrix of Evaluation (Scale of 1 = Poor, 2 = Fair, 3 = Average, 4 = Good, 5 = Excellent)

Fair/Equitable: 5
This tax is required to be equitably applied based on the value of the property.

Transparent: 5
The tax is transparent with an annual notice provided to the property owner. Increases in the tax are required to go through truth-in-taxation process.

Ease of Administration: 5
The tax is easy to administer, appeal and collect.

Impact on the Tax Base: 5
Locally assessed real property is the largest component of the property tax base. Due to truth in taxation, changes in value, however, do not get reflected in the budgets of the taxing entities. The tax rate "floats" to make the revenue equal to what was collected in the previous year.

Need for Modernization: 4
No significant changes have been made to the real property tax system in quite some time. Recognizing the impact of inflation, our existing truth-in-taxation system does not afford taxing entities growth to address inflationary pressures. As the major funding source for local schools and counties, we believe some inflationary adjuster is warranted.

Overview and History of the Gas Tax and the B&C Distribution Formula:

- Gas tax and vehicle registration fees have been the bedrock of transportation funding for decades. However, with population growth and with it, capacity and maintenance obligations growing exponentially, the need for augmentation of the gas tax has been critical. The legislature and local government have used locally imposed sales taxes to augment the gas tax. Currently sales tax is largely being used for capacity improvements, whereas the gas tax is being used for maintenance.
- The gas tax generates roughly $560M annually, with cities and counties splitting 30% of that amount ($169M). Those funds are used to provide the maintenance needs for over 36,000 miles of local roads. That is only $4600/mile, far less than what is needed to meet our basic maintenance obligations. In the last decade we have added nearly 3000 miles of new roads to the local system. A 10% increase in lane miles added, and that amount continues to grow, which adds to the future maintenance obligations for local government.
- The current distribution formula: The gas tax is centrally collected with 70% of all receipts staying with the state to support UDOT efforts and 30% of all funds being sent to cities and counties to split. The cities and counties split their 30% based on a weighted distribution formula that is based on lane miles and population. The current formula certainly addresses the issues of utilization but does not effectively address small, rural areas with large land areas and expansive lane miles but limited population to support the maintenance obligations of these areas.

The Sales Taxes:

- In 2015 HB 362 – Transportation Infrastructure Funding passed which authorized counties to enact a 0.25 percent general sales tax for transportation. The county legislative body would then have to vote to put an opinion question on the ballot then get a majority of voter approval in the general election. The funds would be allocated as follows in areas with transit service: 0.10 percent to the transit provider, 0.10 percent to cities &

towns, and 0.05 percent to the county. In areas without transit service, 0.10 percent to cities & towns and 0.15 percent to the county. In November 2015, voters of Carbon, Davis, Duchesne, Grand, Rich, San Juan, Sevier, Tooele, and Weber approved the measure. The tax was implemented in all those counties - with the exception of Tooele - on April 1, 2016. Tooele County imposed this tax beginning July 1, 2016. In Davis, Weber, and Tooele, of the 0.25 percent increase, 0.1 percent goes to cities, 0.1 percent to the Utah Transit Authority, and 0.05 percent to the respective county. In counties that do not have a transit district, 0.1 percent goes to the cities and 0.15 goes to the counties.

- In 2018 SB 136 – Transportation Governance Amendments passed which modified HB 362 and allowed a county to impose the local option by action of the commission or council. 67 percent of the cities within the county would also have to pass a resolution supporting the imposition. If the 0.25 percent local option was imposed from October 1, 2018 to June 30, 2019, 100% of the funds went to the County. Beginning July 1, 2019, the 0.25 percent will be allocated: 0.10 percent directly to the cities; 0.10 percent to UTA for transit service and projects; and 0.05 percent to the County.
- If a county has not imposed the 4th quarter by June 30, 2020, then cities with transit service will have the option to impose it, with 0.125% going to the city, and 0.125% to the transit district. Beginning July 1, 2019, counties may impose a new local option sales tax of 0.20% for transit capital expenses and service delivery. In the UTA district, counties can only impose the new 0.20% if they have already imposed the other four quarters. Local option sales taxes not imposed by June 30, 2022 expire ("use it or lose it"). This applies only to the 3rd and 4th quarters in counties fully in the UTA district (Weber, Davis, Salt Lake, Utah Counties), and to the city imposition option for the 4th quarter. The new 0.20% county option expires June 30, 2023.

Pro's and Con's to the Tax

Gas Tax:

Pros:

- Directly tied to the usage of the vehicle.
- Has an inflationary component built into the tax.

Cons:

- Does not cover the costs related to population growth pressure or inflationary pressure.
- Lacks capacity for much additional change in the rate.

Sales Tax:

Pros:

- Inflationary component is inherent.
- Augments the gas tax to address capacity and maintenance needs.

Cons:

- Is not transparent to the end user or tied to usage.
- Convoluted distribution formula is difficult for many to understand.

Recent Legislative Efforts

SB 136 – Transportation Governance Amendments – 2018 Session - Passed
HB 362 – Transportation Infrastructure Funding – 2015 Session – Passed
SB0072 - Transportation Governance and Funding Revisions – 2019 Session – Passed

Policy Considerations

- The legislature has spent considerable time attempting to address the issue of infrastructure funding and has made significant strides in the recent years. Changes to the gas tax rate, plus an annual price-based adjustment, plus the addition of the county option sales tax, which is shared by transit, cities and counties, are all great steps forward.

- With changes in gas efficiency and technology, major changes are still warranted on the gas tax to address modern-era technology and the growing need for maintenance dollars for our ever-expanding transportation system.
- Local roads comprise roughly 70% of the overall lane miles in the state, we receive 30% of the gas tax
- Transportation related taxes are only covering about 50% of the total amount spent annually on local road maintenance needs

County Impact and Suggestions for Modernization

- Now that we have largely settled in on the imposition of the sales taxes and fully implemented the gas tax, we believe that some effort should be given to stay ahead of the emerging technologies that will lessen the value of the gas tax (electric vehicles). We have begun a study of a Vehicle Miles Traveled Tax (VMT) and believe the legislature should continue to pursue this as a viable next step to address long-term funding needs.
- Rural areas of our state, which have significant maintenance obligations due to the number of lane miles they maintain, with limited funding tools, need to be given some alternative funding solutions. Due to their rural nature the sales tax is not as viable as it is on the Wasatch Front. Either changes to the gas tax or the distribution of that tax, or other alternatives need to be explored in order to support our rural areas. Under the current structure we are losing significant ground on our rural maintenance needs. Possible examination of registration fees, tolling in resort areas, changes to the B/C allocation and other options should be explored at this time to support our rural areas.

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Utah's Transient Room Tax (TRT) and Resort Community Tax

Overview and History of the Tax

Transient Room Tax (TRT)

- Transient room tax (TRT) can be imposed by a county, city or town to rent temporary lodging for stays of less than 30 consecutive days at hotels, motels, inns, campgrounds, rental homes, etc.
- TRT is charged in addition to sales and other applicable taxes.
- Utah imposes a statewide tax on temporary lodging of 0.32 percent.
- Counties may impose a county-wide tax on temporary lodging of up to 4.25 percent. They are required to spend at least 47 percent of the proceeds on promoting tourism in their county. The other 53 percent can be used for tourism projects or mitigation.
- Cities and towns may impose tax on temporary lodging of up to 1 percent. Cities and towns that meet certain requirements may impose an additional transient room tax of up to 0.5 percent on temporary lodging.
- Salt Lake County imposes an extra tourism tax on temporary lodging of 0.5 percent.
- Current tax rates are posted online at www.tax.utah.gov/sales/rates

Resort Community Tax

- The resort community tax can only be levied by cities and is levied at two different rates.
- 17 cities/towns impose the tax.
  - 1.1% is the basic resort community tax rate.
  - 0.5% is the optional, additional resort community tax rate
- The tax can only be imposed in cities where the transient room capacity is greater than 66% of the permanent population for that city.

Recent Legislative Efforts

- HB0266S01 - Resort Communities Transient Room Tax Amendments – 2019 Session – Passed
- H.B. 367 - Transient Room Tax Amendments – 2018 Session – Passed
- Audit of the TRT Promotion Funding – 2019 - Completed

Policy Considerations

RESORT COMMUNITY

- A municipality may levy a resort communities tax of up to 1.1 percent of the purchase price on a transaction subject to state sales tax and an additional .50 percent may be imposed upon voter approval if the transient room capacity of the municipality is greater than or equal to 66 percent of its U.S. Census population. **Should counties be given the authority to impose a resort communities sales tax in "resort affected areas" as well?**
- We are seeing the resort impacts "spill" into the unincorporated area of many of the counties that are home to resort towns that currently have the authorization to impose the tax. (Wasatch, Summit, Grand, Washington)

TRANSIENT ROOM TAX

- Statewide TRT revenues have increased 53 percent in the last five years due to increased hotel stays. Counties can charge a tax of up to 4.25 percent on hotel or other accommodation stays and are then required to spend at least 47 percent of the proceeds on promoting tourism in their county
- In the recent legislative audit completed in 2019 All eight sampled counties reported a desire for the Legislature to relax the requirement that 47 percent be spent exclusively on tourism promotion to enable more spending on projects or mitigation, depending on county size. Tourism tax flexibility is critical in ensuring a positive experience while visiting in these areas. In many areas infrastructure demands, affordable housing demands and public safety demands related to the tourism industry are outstripping the tool required to mitigate the impact.

County Impact and Suggestions for Modernization

The Legislature should look to modernize the following aspects:

We are home to 5 national parks, numerous internationally recognized festivals (Sundance), amazing state/local recreational opportunities and, of course, unparalleled skiing which truly make Utah an international place of interest. With that we have a series of local taxes that are meant to address the impacts of tourism and provide the resources for a world-class visit. We do, however, believe our current resources are in need of modernization and flexibility.

Just as the state is looking to remove revenue silos, allowing for more budgeting flexibility to meet the growing needs, we too seek the same thing as local governments in this area. With that in mind we would suggest the following;

a. Allow greater flexibility in the TRT tax to allow for tourism impact mitigation. The current mandate to promote is critical, but we also need greater flexibility to address and mitigate the impact if we want to maintain a positive tourism experience.
b. As the legislative audit suggests, we would also suggest a reformatted reporting process that provides improved accountability for the use of TRT tax.
c. With the on-set of the market for vacation rentals (AirB&B), the need for compliance and remittance of the appropriate tax is critical. Currently our State's ability to ensure remittance is limited for these types of uses and needs to be improved with increase compliance tools at the Tax Commission level.
d. Allow affected areas of the unincorporated county to be designated as "resort areas" and thus qualify to adopt the Resort Community Sales tax. These would be unincorporated areas next to ski resorts and winter sports areas (Summit and Wasatch County), and unincorporated areas near National Parks (Grand, Washington, Garfield and Wayne).

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Utah's General Sales & Use Taxes

Overview and History of the Tax

- In 1933 the Utah sales tax was first introduced as a revenue source after property tax collections dropped dramatically during the Great Depression. The use tax was added in 1937 to complement the existing sales tax.
- The Utah State Tax Commission administers all state and local sales and use taxes. The state sales and use tax rate of 4.7 percent applies to sales of tangible personal property made within the state. The seller collects sales tax from the buyer and pays it to the Tax Commission monthly, quarterly or annually. A buyer without a sales tax account pays use tax to the Tax Commission.
- Sales and use taxes are transaction taxes. This means the transaction is taxed, not the actual goods or services. The buyer is the actual taxpayer.
- In addition to the state sales tax counties are also authorized to impose the county option (.25% general sales tax), cities are authorized to impose the local option (1% general sales tax) and then there are several additional sales taxes for specific uses ranging from transportation to zoo authorizations.
- The legislature has also provided some exemptions on reductions in sales tax for various products, most notably the reduction in the STATE rate for food items and several sales tax exemptions for "business inputs".
- For many years the issue of internet-based sales tax has vexed state/local governments. With the recent Quill decision, collection and remittance of internet sales tax has been largely handled by requiring remittance by the vendor.
- Current list of combined sales and use tax rates

Pro's and Con's to the Tax

Pros:

- Economic growth results in an increase in this revenue source.
- With recent Quill decision the sales tax is largely equally applied to traditional and E-Commerce.

Cons:

- The tax is regressive in nature, where a larger proportionate share the income of low-income individuals is spent on sales tax.
- As our economy moves toward less goods and more services, the tax is generally not applied to many services that make up the modern-day economy.

Policy Considerations

- Any change to the state tax base will have an effect on local governments tax base.
- Each community/county has a different tax base composition, making statewide change difficult to predict the localized impact on the local tax base and local tax revenue.
- The tax base was destabilized when we removed food from the base. At that time food was considered to be approximately 8-10% of the tax base and the most stable portion of the base. Its removal had two effects on the base, destabilizing and shrinking the base.

County Impact and Suggestions for Modernization

The Legislature should look to modernize the following aspects:

- If the State decides to look at broad changes in the sales tax base, allow for a structured roll-out of the base changes when it is applied to the local rates, so that we can fully examine the localized impact to the base expansion/rate change before local governments are included.

- The State should reexamine the removal of food from the sales tax base. It has had a destabilizing effect on the tax base that will be acutely felt during an economic downturn.

- Some States, such as Texas, have allowed a specific levy of Sales Tax for economic development activity. Because of concerns with the use of property tax in RDAs and Tax Increment Financing (TIF), we may also want to explore a sales tax as an alternative economic development funding tool.

- Examine ways that we can compel greater compliance with online sales tax reporting and remittance. This is a new area of broad taxation and there is high likelihood of escaped tax.