



The Utah Taxpayer

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Tax Freedom Day Comes Earlier Due to Federal Tax Cuts

Utah's Tax Freedom Day: April 27

Americans can celebrate Tax Freedom Day on the 117th day of 2002 — Saturday, April 27. This year's Tax Freedom day comes two days earlier than in 2001 and four days earlier than in 2000 — the year when Tax Freedom Day fell later than ever in the year — May 1.

Tax Freedom Day is the day when Americans will finally have earned enough money to pay off their total tax bill for the year, if every penny they have earned to that point has gone for taxes. All income that's officially called income by the government is counted, and everything the government considers a tax is counted. Taxes at all levels of government are included, whether levied by the federal government or state and local governments.

Tax Freedom day is calculated each year by the Tax Foundation of Washington, D. C.

Utah's Tax Freedom Day

Utah's Tax Freedom Day arrives on April 23 this year, four days earlier than

national Tax Freedom Day. But Utah's 27th place ranking among the 50 states is not because of low state and local taxes — we're eighth highest in state and local taxes this year. The reason Utah's Tax Freedom Day comes earlier is that federal taxes don't take the same bite out of Utah

worker's paychecks because Utahns tend to have more dependent exemptions, more mortgage deductions, and more charitable deductions than the nation as a whole.

According to the Tax Foundation, two factors are combining to make the average American tax burden lighter in 2002: federal tax reductions and a slower economy. Federal tax cuts in 2001 and 2002 lowered this year's average federal tax burden, and the recession in 2001 followed by slow growth in subsequent months arrested the growth of tax collections at all levels.

Tax Freedom Day gives Americans an easy way to gauge the overall tax take, a task that can be quite daunting due to the multiplicity of taxes at each level of government, especially the "hidden taxes" and fees that are often buried in the cost of living. In effect, Tax Freedom Day provides taxpayers with a "tax barometer" that measures the total tax burden over time and by state.

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24th Annual Taxes Now Conference

The 24th Annual Utah Taxes Now Conference has been slated for the morning of Friday, May 17, 2002, at the Hilton Hotel in Salt Lake City.

The half-day seminar will review the tax-related legislation passed recently by the Utah Legislature affecting Utah taxpayers, state and local governments, and school districts. Please mark your calendars and plan to attend this important event. CLE and CPE credit will be available.

Will Utah Ever Index State Income Tax Brackets For Inflation?

Very few people are aware that Utah automatically increases state individual income taxes by \$4 million every year. This \$4 million increase is in excess of inflation and population growth and occurs without debate, discussion, or vote. Your Taxpayers Association believes the legislature must index tax brackets for inflation to prevent this hidden, annual, automatic tax increase.

When brackets are not adjusted for inflation, the percentage of a taxpayer's salary that is taxed at the highest rate increases as his or her salary increases. As a consequence, income tax payments increase faster than wages. This is especially pronounced for low wage workers. For example, a Utah worker with a taxable income of \$14,000 will experience a 4% tax increase for a 3% increase in wages.

Utah's high income tax burden, 14th highest in the nation when measured as a percentage of personal income, is not caused by high rates but by low brackets. Overall, Utahns pay 25% more of their income towards state income taxes than residents in other states. Utah residents with incomes between \$35,000 and \$50,000 pay nearly a third more state income tax than their counterparts in other states. Utah's highest rate, 7%, is basically the same as the average top rate for states that impose an income tax. Of the 34 states and the District of Columbia that have a state income tax with brackets (several states have flat taxes or no income taxes), only three have lower top brackets than Utah. In the other 33 states, the top bracket begins on average at \$60,000. The 34-state average lowest tax

bracket is \$9,400 which is higher than Utah's highest bracket of \$8,626.

In the 1970s, when inflation was a huge problem and "bracket creep" was a major issue, the U.S. Congress instituted automatic bracket adjustments for the federal income tax. Since 1973, tax brackets in Utah have been adjusted only once, and that was a 15% increase by the 2001 legislature. Had Utah's top bracket been adjusted continuously for inflation since 1973, the top bracket today would begin at \$27,300 instead of \$8,626.

In contrast to state income taxes, property taxes cannot be increased unless a Truth-in-Taxation process occurs first. This process requires that local governments publicly disclose the intent to increase property taxes and then hold a

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My Corner

By Howard Stephenson

There's an initiative petition circulating around the state which could be devastating to Utah's future job creation.



Mr. Stephenson

Frustrated with what they say is the Legislature's failure to adequately raise the fees on radioactive waste disposal, an initiative petition is being circulated to impose massive new taxes on a single

Utah corporation — Envirocare. The tax would be earmarked for education and the homeless. Some of its supporters had earlier this year unsuccessfully tried to get the Utah Legislature to impose a new sales tax for the homeless.

The petition will be distributed throughout the state by paid signature gatherers seeking the required 76,180 signatures to place the "Radioactive Waste Restrictions Act" (RWRA), a 35 page document, on the November 2002 ballot for voter approval, bypassing the legislature and governor in the process.

Signatures equal to ten percent of those who voted in the last election for governor must be collected in each of 20 of Utah's 29 counties by June 3, 2002.

Regardless of whether Envirocare could withstand more taxes (and there are many who believe the tax would be more than the gross revenues of the company, putting them out of business) and despite legitimate needs of public education and the homeless, this initiative should be stopped in its tracks.

The right of the people to use initiative and referendum must always be protected. These are the tools the electorate must always have to keep elected officials responsive to the will of the people. Without these safeguards, elected representatives become arrogant.

Having said that, I believe the initiative process is the worst possible way to make laws. The legislative process is bad enough, having been compared to the dis-

Tax Day Press Conference

As Utahns rushed to the post office to mail their state and federal income tax forms, the Association held a press conference to highlight this year's \$4 million state income tax increase. Utah's major TV news stations covered the event along with radio and print media reporters.



Because of the state's failure to index Utah's income tax brackets, Utahns pay an annual automatic tax increase of \$4 million. Because of the stealthy nature of the increase, the Association sees this as a hidden tax increase that escapes public scrutiny.

Tax brackets were adjusted during the 2001 legislative session, resulting in

an \$18 million income tax cut. Legislation to automatically adjust tax brackets annually failed to win approval in the 2002 legislative session.

gusting practice of making sausages, but the initiative process is much, much worse.

First, an initiative cannot be amended throughout the process as a similar proposal could be in legislative debate.

Second, people can be enticed to sign the petition based on the signature collector's biased explanation of what the

"...to single out one solitary business for punitive taxes is unconscionable. Where will it stop?"

proposal does and when the issue appears on the ballot, the best funded advertising campaign usually wins, regardless of the merits of the issue.

Third, under current Utah law, the initiative can be used to discriminate against various classes of citizens and businesses. Since the electorate doesn't have an ox being gored, and especially if a worthy cause is to receive the money, why not sign the petition and vote for the proposal? After all, businesses have plenty of money.

It's one thing for the people to circulate petitions to refer a general tax increase passed by the legislature to a vote of the people, but to single out one solitary

business for punitive taxes is unconscionable. Where will it stop? I can think of a few other Utah businesses who would likely be the next targets including certain types of mining and manufacturing.

Passage of this initiative might actually reduce taxes for education by curtailing economic growth.

The hypocritical thing about this initiative is that it entices people to create a funding source for education and homelessness with a funding source petition signers would like to stop.

Thankfully, a broad-based consortium of business organizations and employers have formed the Utah Employers Coalition (UEC) to oppose the RWRA petition. Membership includes the Utah Manufacturers Association, Utah Mining Association, Utah Food Industry Association, Utah Taxpayers Association, Utah Farm Bureau Federation, and many others. The UEC is working to thwart the signature collection process by encouraging citizens in at least 10 small counties to not sign the petition. They can be reached at 801 363-3885.

In the meantime, if you're asked to sign the petition between now and the first part of June, just say no! And if you've already signed it, just contact your county clerk and have your name removed from the petition.

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Utah's Tax Freedom Day: April 27

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Working for Each Type of Tax

Individual income taxes represent the largest component of Americans' tax bills. In 2002, Americans will have to work an average of 51 days to pay federal, state and local income taxes. Another 29 days will be spent working for payroll taxes, which fund social insurance programs such as Social Security and Medicare.

Some taxes are less apparent to the taxpayer than income and payroll taxes. Foremost among these "hidden taxes" are sales and excise taxes. Americans will work 18 days to pay these add-on taxes that raise the prices of nearly all goods and services. Another 11 days will be spent working to pay property taxes, mostly levied by local governments. Americans will then have to work an additional 8

days to pay their share of corporate income taxes, which are collected from companies but ultimately paid by consumers, employees, and shareholders.

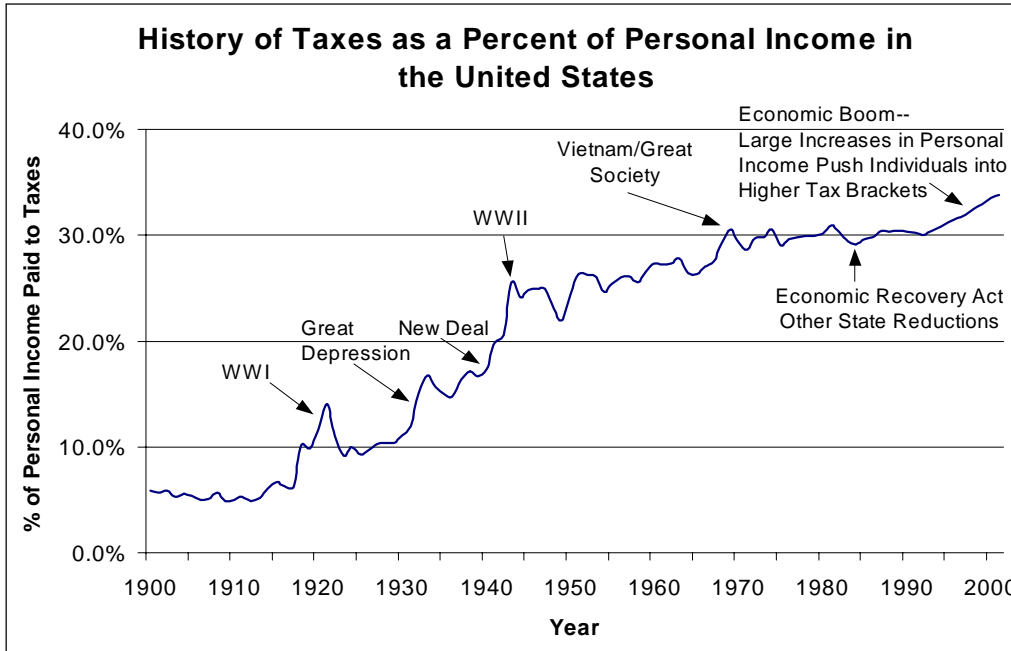
Taxes and Other Expenses

The number of days that the average American must work to pay taxes can be compared to the price of other important categories of consumer spending. Americans will work longer to pay for government (117 days) than they will for

food, clothing, and shelter combined (106 days). Only in the last decade have taxes exceeded spending on these basic necessities, and federal taxes alone cost Americans more (80 days) than any of the other major budget item.

How Utah Compares

To facilitate comparisons of state/local tax burdens, the new Tax Freedom Day report also presents each state's tax burden with federal taxes excluded for the last decade. The nation's average state/local tax burden is 10.2 percent of residents' income, with the highest being Maine's 12.8 percent and the lowest being Alaska's 6.3 percent. Utah's was eighth highest at 11.2%. The Tax Foundation's full report can be found on the web at taxfoundation.org.



Paycheck Protection Update: Ruling a Setback To Taxpayers

The legal battle over the Voluntary Contributions Act (aka "Paycheck Protection") continues. On April 29th, Judge Stephen L. Henriod denied the state's request to lift the preliminary injunction against implementation of the Act. As a result, taxpayers will continue to act as a collection agent for public employee union PACs until at least October, when the case goes to trial. Many observers interpret this ruling as a temporary setback for taxpayers and a victory for the Utah Public Employees Union (UPEA) and the Utah Education Association (UEA).

Attorneys for the state attempted to have the injunction partially lifted by requesting that the Labor Code provisions and the Election Code provisions be considered separately. Judge Henriod ruled that the provisions are so intertwined that they are unable to operate independently from each other.

The 2001 legislature narrowly passed the Voluntary Contributions Act sponsored by Rep. Chad Bennion (R-Murray), and your Taxpayers Association played a major role in securing passage of the law. At the legislature, your Taxpayers Association successfully argued that state and local governments should not be using taxpayer resources to collect

"As a result, taxpayers will continue to act as a collection agent for public employee union PACs until at least October, when the case goes to trial"

union PAC dues. The Association maintained that union PACs should collect contributions the same way other private organizations collect contributions. Currently, state

government as well as school districts, cities, and counties collect union PAC dues via payroll deductions and transfer the collections to the unions.

Using the government as a collection agent has allowed the public employee unions to amass huge campaign war chests which allow the unions to contribute liberally to the campaigns of legislative candidates who are typically not friendly to taxpayers. In the 2000 elections, public employee unions, particularly the UPEA and the UEA, contributed several hundred thousand dollars to candidates in both parties. These massive contributions explain why public employee unions wield influence at the legislature that is disproportionately large compared to the number of workers in Utah that are employed by local and state governments.

Your Taxpayers Association will continue to monitor this situation.

Your Taxpayers Association In Action - April 2002

Your Taxpayers Association held a **press conference at the Utah State Tax Commission on Tax Day, April 15**. The purpose of the conference was to call attention to the state's failure to index income tax brackets for inflation. Newspapers and major television stations covered the event. Later that week, the Deseret News editorial page agreed with the Association's call for this important reform.

Your Taxpayers Association and the Utah Foundation were asked to speak to members of the **Sutherland Institute** regarding the state economy. The Association presented information regarding the anticipated 100,000-student enrollment increase and how such growth could impact state and local taxes.

The 2002 legislature passed SJR6 which instructs the **Tax Review Commission** to investigate the tax-exempt status of public entities that compete against the private sector. The Taxpayers Association addressed the committee and expressed its concerns that private sector companies are at a disadvantage when their public sector competitors are exempt from taxes. Additionally, the Association pointed out that customers of investor-owned utilities have taxes embedded in their rates while customers of municipal utilities do not. Therefore, since all income taxes and 53% of property taxes are spent for education, customers of private sector utilities are contributing more to public education than customers of municipal utilities.

The **Legislature's Interim Revenue and Taxation Committee** asked four groups to address the committee regarding Utah's business tax climate. Your Taxpayers Association told the committee that excessive business taxes stifle economic growth and make Utah less attractive for business investment. Additionally, the Association told the committee that corporate franchise taxes were too volatile to be a significant revenue source. Corporate tax revenues for the current fiscal year are expected to be down nearly 50% from their high in 1998.

The **Southeastern Utah Association of Governments** invited the Association to speak at its monthly meeting in Price regarding RDAs and EDAs. The Associa-

tion pointed out that RDAs are frequently used to subsidize projects that would have been built anyway even if school district property taxes were not diverted to the developer.

Local NPR affiliate KCPW (88.3 FM and 105.1 FM) invited the Taxpayers Association to speak live on the air on April 5th and on April 16th. The topics of discussion were the Association's recently released school district expenditure report and the recently concluded legislative session. KCPW frequently invites the Taxpayers Association to speak on their programs.

K-Talk (630AM) invited Association to speak about indexing of state income tax brackets.

Indexing State Income Tax Brackets

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hearing to allow for public comment. State income taxes, on the other hand, are automatically increased every year without any notification by the legislature or input from the public.

Opponents of indexing tax brackets argue that government needs the additional revenue, even if it is a hidden tax increase. However, since 1985, population growth and inflation have increased at a combined rate of 128% while state income tax revenues have increased at a much faster rate of 294%, much faster than any other source of state and local government revenue in Utah. By contrast,

property tax revenues, which are subject to Truth-in-Taxation laws, have increased 135%, roughly equal to inflation plus population growth. Total state and local revenues in Utah have increased 192% since 1985, much higher than the 128% growth rate of inflation and population. Clearly, government revenues have more than kept pace with the state's needs.

In the 2002 legislature, Sen. Curt Bramble (R-Provo) introduced a bill that would have annually adjusted income tax brackets for inflation. Due to the state's fiscal situation, the bill died in the Senate even though most senators indicated support for the bill.