Volume 34 February 2009 Number 1

The Utah Taxpayer

A Publication of the Utah Taxpayers Association
1578 West 1700 South♦Suite 201♦Salt Lake City, Utah 84104♦(801) 972-8814

February 2009 Articles

Do Businesses Get all the Tax Breaks?

During recessions, taxpayers can count on the following proposals from the Utah Legislature:

- Raising tobacco taxes
- Reducing or eliminating sales tax exemptions for businesses

While the Legislature generally turns a blind eye to the tens of millions of property tax dollars that local governments give to retailers and developers (about half of these property tax dollars are diverted from school districts), some legislators predictably consider reducing or repealing sales tax exemptions for export-oriented or import supplanting businesses, such as mining or manufacturing.

How much were sales tax exemptions in FY2008?

In FY2008, state sales tax exemptions totaled $755 million, based on data from the Utah State Tax Commission. This amount includes tax exemptions for individuals such as the reduced sales tax rate on unprepared food (1.75% compared to 4.65% in 2008 and 4.70% in 2009) and the reduced sales tax rate (2.0%) on residential energy usage.

At the local level, which includes city, county, and mass transit/roads levies, sales tax exemptions amounted to $232 million. Sales of unprepared food and residential energy are not taxed at a lower rate at the local level.

These amounts, a combined $986 million, do not include the exclusion of items for resale.

Who's getting the tax breaks?

Contrary to many assertions, businesses do not get all or even most of the sales tax breaks. In FY2008, businesses received 46% of state sales tax exemptions and 58% of local sales tax exemptions. Of the combined state and local sales tax exemptions, businesses received 49%. The Utah Taxpayers Association has been tracking these exemptions for several years, and the percentage for business has consistently been between 45% and 49%.

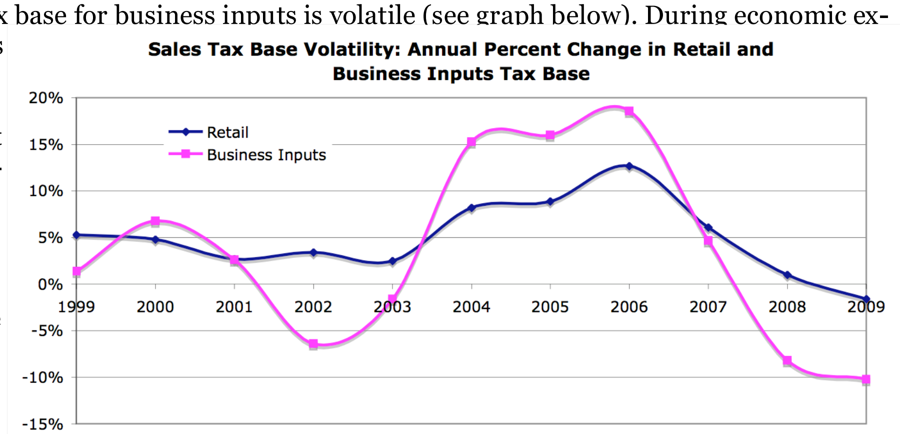
However, with property taxes, businesses receive only a small amount of total tax breaks. Primary residences, including apartments, receive a 45% exemption on property taxes. In 2008, the value of this exemption was $886 million, assuming property tax rates were not reduced to ensure revenue neutrality. Even if rates were lowered, the value of the primary residential exemption is $269 million. Businesses received $85 million in RDA subsidies in 2007, mostly for retail.

Due to enforcement and compliance issues, household non-vehicular personal property is exempted from property tax. Business personal property is not exempt.

Exempting business inputs from sales taxes is a good idea

In recent decades, the Utah Legislature has wisely exempted many business inputs from sales taxes for the following reasons:

- Taxing outputs and exempting inputs shows the true cost of government. When business inputs are taxed, the cost of government is hidden the the prices of items that consumers and businesses purchase.
- Taxing inputs discourages investment by making investment more expensive
- The sales tax base for business inputs is volatile (see graph below). During economic expansions, businesses dramatically increase purchases of capital equipment and dramatically decrease these purchases during recessions. Retail sales tax base is more stable than the business input sales tax base, even though the reduction in the



sales tax on food has made the retail sales tax base a little less stable.

- While all business inputs should be exempt, the Utah Legislature has wisely decided to prioritize export –oriented and import supplanting industries such as manufacturing and agriculture and productivity-enhancing industries like telecommunications.

Why not consider reducing or eliminating property tax breaks for developers and retailers?

For years, the Utah Taxpayers Association has lobbied against property tax subsidies for locally-driven retail, recreation, and entertainment. About 50% of these subsidies are diverted from school districts. When one city diverts property taxes from the local school district, taxpayers statewide are impacted. The statewide basic levy for education, which is set at 0.001250 in FY2009 and will generate $261 million, is the fundamental part of Utah's school equalization formula. When a city diverts basic levy dollars to a developer, the local school district receives state income tax dollars to make up the loss. These are dollars that would have gone to other districts if the diversion had not occurred.

1. Are increased consumer expenditures the key to long-term economic growth?

No. In a global economy, long-term economic growth is driven by production, exporting goods and services, and improving productivity. Consumption does not drive Utah's long-term economic growth, especially since most of the things we consume are made elsewhere. If we wanted to increase long-term economic growth, we would save and invest more and consume less. If we want to ultimately consume more (and who doesn't?), then we need to produce more first. With the profits from production and increased efficiency, we increase our consumption.

2. Will retailers avoid Utah if we don't subsidize them?

No. If sufficient aggregate disposable income exists in a certain area, retailers will come without subsidies. It's been that way for millennia. We don't have to worry about not having places to spend our money. Retail markets are very efficient. If government wanted to increase consumer expenditures, then government should cut individual taxes instead of subsidizing retailers.

3. Do government subsidies for retail outlets increase consumer expenditures?

No. Even if consumption were the engine of economic growth, Utahns won't increase expenditures simply because government subsidizes a new retail outlet. Utahns already have numerous places to spend discretionary dollars. Besides, considering our low savings rates (which fortunately have increased slightly in recent months,. we're already spending more than we should.

This applies to retail and recreation outlets that are offering something "new." For example, when Real Salt Lake was asking for taxpayer handouts, some proponents argued that since professional soccer was "new" to Utah, this would create economic growth. However, unless Utahns have been hiding money in mattresses, consumer expenditures associated with Real Salt Lake are simply being diverted from existing expenditures or from savings and investment. Besides, if government really wanted us to spend more money, they would cut our taxes, not give subsidies to retailers.

> **Quote of the Month #1**
>
> ***"There is nothing inherently unsustainable about employing a high-priced, unionized work force."***
>
> Associate professor of sociology at Wesleyan University Jonathan Cutler on how unionizing imports would level the playing field for the big three.
>
> Source: SLTribune 12/11/08

Sometimes, RDA supporters will justify subsidies for a retail development because one of the many retailers in the development will offer something exotic that Utahns can currently purchase only in places like New York or Paris. However, the sales taxes generated off these purchases are miniscule compared to the nearly $90 million in property tax dollars that are diverted annually, mainly to retailers.

4. Are property tax increments "found money?"

No. RDA proponents argue that increased valuation from new retail outlets can be diverted to cover the costs of the development because the property tax increment is "new" or "found" money. In areas of no population growth, retail tax increments are a zero sum game and subsidies for retail simply shift consumption from one location to another without creating a net increase. In areas of population growth, retail tax increments are needed to cover the costs associated with population growth. Besides, if tax increments are "found money," shouldn't all new businesses get RDAs?

5. Do RDAs (or more specifically EDAs) make sense for office parks?

No. Most office park tenants are Realtors, accountants, attorneys, and other professionals with primarily local customers. Again, like traditional retail, this type of economic activity is driven by local demand and subsidizing office parks won't give us more Realtors and lawyers anyway. Occasionally, a professional firm has the option of serving Utah customers from offices in other states like California. In most cases, these firms will come to Utah on their own, but if an incentive is needed, it is more efficient to offer the incentive directly to the potential tenant than to an entire business park.

6. Are RDAs needed to remove "blight"?

No. Utah has very little blight, and blight should not be defined as anything that makes a parcel of land less than 100% perfect for development. Virtually all parcels have upfront costs such as site preparation, bringing utilities and roads in, environmental cleanup, etc. We should define blight as land that has negative value and therefore won't be developed without some sort of incentive.

My Corner - by Royce Van Tassell

Budgets, taxes and the recession:

What the recession has done to the budgets of taxpaying Utahns, and how they want the Legislature to balance the state budget

With government revenues down, the papers are full of stories describing the challenges the tax and spend lobby is facing. Cutting the state budget is difficult, but these news stories miss the real story. As a new poll commissioned by the Utah Taxpayers shows, the real story is the tremendous cuts the recession is forcing on average Utah taxpayers.

According to a poll conducted last week for the Utah Taxpayers Association, the recession has forced 58.2% of Utahns to cut their budgets by as much as 16%. Business is slowing; people are nervous about how to pay their bills. Many taxpayers are have eliminated discretionary purchases, and are even cutting back on critical items like medical care, food, even insurance.

Chart 1: Since the recession began, how much, if any, has your household had to cut back on its monthly budget?

Chart 1: Since the recession began, how much, if any, has your household had to cut back on its monthly budget?

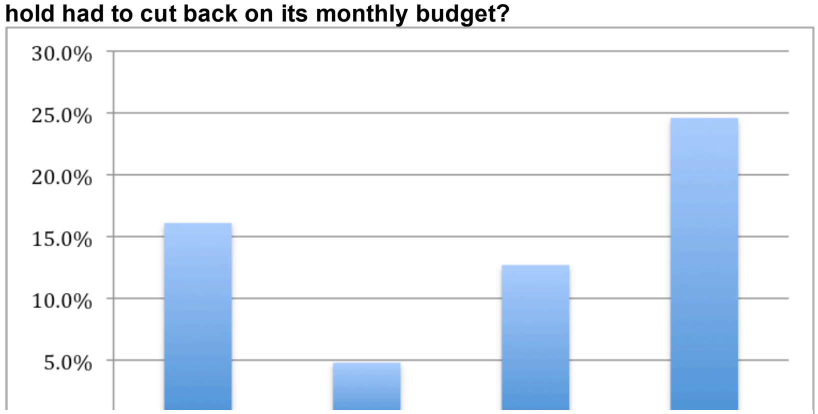
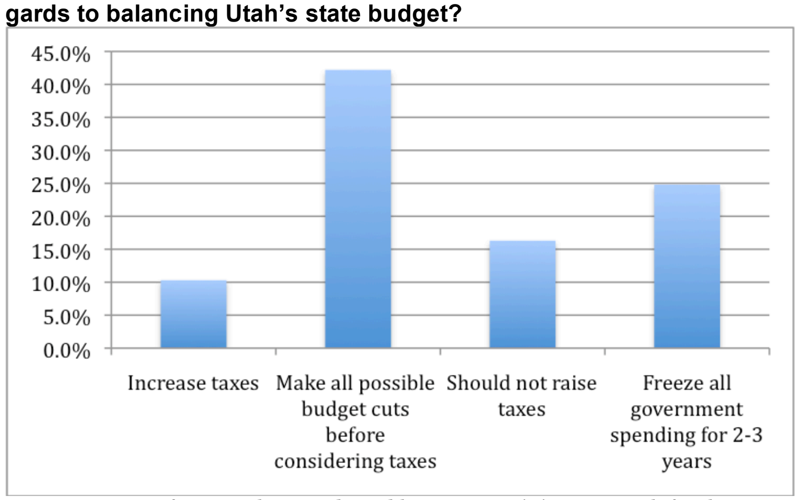


Chart 2: Which of the following best describes your feelings in regards to balancing Utah's state budget?



Source: Survey of 400 Utahns conducted by NSON Opinion Research for the Utah Taxpayers Association.

This decline in household budgets shows how difficult taxpayers' cuts are. When asked to specify what kinds of cuts the recession has foisted on Utahns, they responded with statements like these:

1. My husband's job has been cut as of next month.
2. Everything by 35%.
3. Medical doctor appointments and prescription drugs.
4. Going to the dentist and doctor and gas for car.
5. Using food storage.
6. New hearing aid.
7. We are cutting back our insurance.

Unfortunately, these voices don't get heard during the Legislature's committee hearings. In evaluating whether to cut this program or that program, Legislators hear story after story of "critical" programs that are "necessary" to preserve this or that person's quality of life.

Many of these anecdotes are heart-rending; state programs help many, many people. Nevertheless, Legislators cannot allow the sum of these anecdotes to trump the demonstrable pain that all Utahns are facing.

In the same poll, we also asked taxpayers how they would balance the state budget: cuts in spending, increase taxes, freeze government spending, or some combination of the above. Only 10.3% of Utahns favor increasing taxes, while a cumulative 83.3% of Utahns want spending cuts, or are opposed to tax increases. (The remaining respondents didn't know, or had no opinion.)

THE
Utah Taxpayer
Since 1922
THE UTAH TAXPAYERS ASSOCIATION
1578 West 1700 South #201
Salt Lake City, Utah 84104

A publication of the Utah Taxpayers Association, a non-profit association working for greater efficiency and economy in government.

Address Service Request

PRST STD
US POSTAGE
PAID
SALT LAKE CITY, UT
PERMIT, NO.801

These numbers are unequivocal. Utahns have no appetite for a tax increase. The hard working taxpayers of the state are making difficult cuts in their own budgets; they expect their elected representatives to make the same hard decisions.

Utah K-12 Spending per Student Surpasses $8,000 in2008

Utah school districts and charter schools spent $8,224 per student in FY2008 according to the Utah Taxpayers Association's annual analysis of financial data from the Utah State Office of Education. FY2008 is the most current data from the USOE and covers the school year that ended June 30, 2008. The state portion of the FY2008 budget was approved by the 2007 Utah Legislature and was the last year for the foreseeable future in which education spending will increase dramatically.

How did districts and charters spend their $8,224 per student in FY2008?

The following chart illustrates how Utah's school districts and charter schools spent their funds in FY2008.

Utah K-12 Spending per Student, including Fund 21 Expenditures

Spending Category	FY2008 Amount
Instruction	$4,254
Student services	$223
Media/library	$275
Administration	$594
Plant operation and maintenance	$535
Transportation	$221
Total operations	**$6,102**
Interest	$203
Facility construction	$1,587
Food service	$332
Total	**$8,224**

Calculations by Utah Taxpayers Associa-

In FY2008, the percent of total operations – which excludes interest facility, construction, and debt service – spent on instruction was 69.7%, about one percentage point higher than in previous years. Most of this increase is attributable to the inclusion of expenditures (fund 21) that had not been reported in previous years.

Comparisons to FY2007

Officially, per student spending increased 17.3% in FY2008 compared to FY2007, but some of this increase is attributable to the inclusion of fund 21 expenditures in FY2008 that were not reported in previous years. Excluding fund 21 expenditures, per student expenditures increased 14.6% as detailed in the following chart:

Spending Category	FY2007	FY2008	Percent Chg
Instruction	$3,634	$4,063	11.8%
Student services	$199	$223	12.1%
Media/library	$251	$275	9.6%
Administration	$550	$594	8.0%
Plant operation and maintenance	$511	$535	4.7%
Transportation	$203	$221	8.9%
Total operations	**$5,348**	**$5,911**	**10.5%**
Interest	$168	$203	20.8%
Facility construction	$1,178	$1,587	34.7%
Food service	$315	$332	5.3%
Total	**$7,009**	**$8,032**	**14.6%**

Calculations by Utah Taxpayers Association based on USOE data.

Calculations by Utah Taxpayers Association based on USOE data.

Coming soon: additional analysis on K-12 spending

In future editions of the newsletter, the association will present analyses on the following K-12 education finance topics:

- Funding sources for K-12 education
- A district-by-district comparison of expenditures and revenues
- An analysis of charter school expenditures
- A comparison of districts to charters

Per student administrative