

# Income Tax Insights

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## Income taxes bring growth, volatility, and tax burden balancing to Utah's tax portfolio

**Growth** - In recent decades, income tax revenue growth outpaced growth in the two other major taxes (property tax and sales and use tax), even with tax rate cuts. In fact, since full implementation of Utah's current single rate system in 2008, Utah's income tax base has more than paced with the economy. This strong income tax base growth helps to offset fuel taxes and sales and use taxes whose bases have grown over time, but historically failed to pace with economic growth.

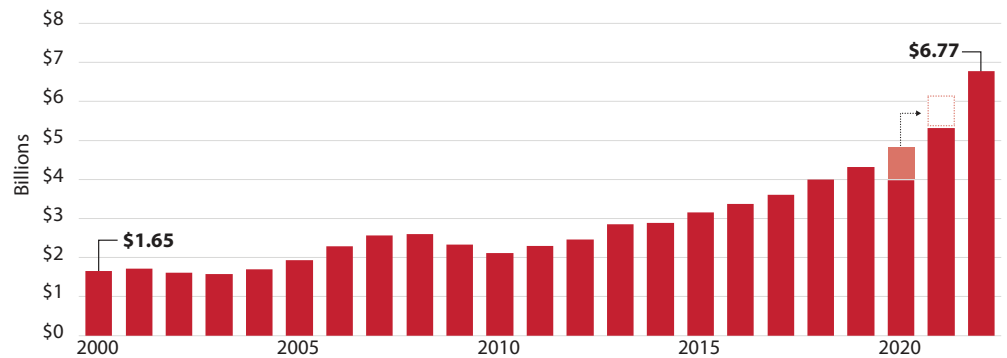
**Volatility** - Income tax revenue can be quite inconsistent over the business cycle. By some measures, Utah ranks among the most volatile state income tax systems. High growth years produce plentiful income tax revenues, while economic cycle downsides produce major state budget challenges.

**Tax Burden Balancing** - Even with a single rate, Utah's income tax remains moderately progressive through tax credits. That is, low-income taxpayers pay a smaller share of their annual income in the income tax than high-income taxpayers. This income tax progressivity balances out the regressivity of other taxes to produce a state and local system that is roughly proportional, although with some regressivity at upper income levels. The ability to more narrowly target income tax provisions creates the most flexible opportunities to balance out Utah's tax system, such as by offsetting the sales and use tax's regressivity or the property tax's cash flow challenges for fixed-income taxpayers.

### Utah's individual income tax revenues grew dramatically over the past decade.

Figure 1: Nominal Individual Income Tax Revenues, FY 2000-2022

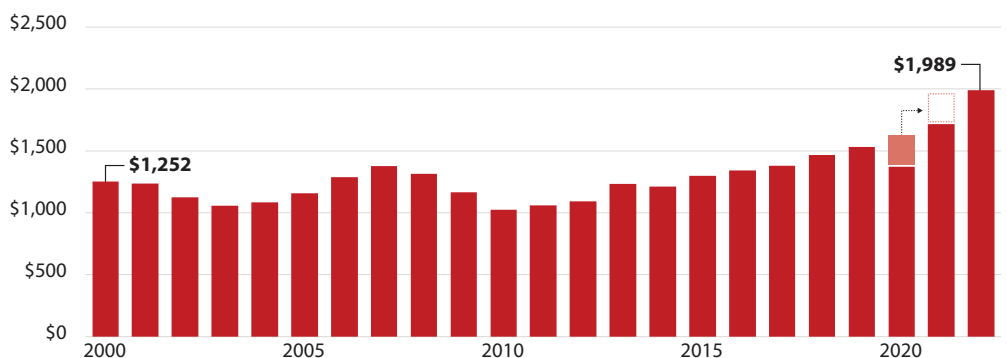
Note: The pandemic income tax filing deadline delay from April 15 to July 15, 2020 artificially shifted nearly \$800 million from FY 2020 into FY 2021.  
 Source: Utah State Tax Commission



### Adjusting for inflation, population growth, and filing deadline shift, FY 2022 income tax collections were very high by historical standards.

Figure 2: Utah Real Per Capita Individual Income Tax Revenues, FY 2000-2022

Source: Utah State Tax Commission

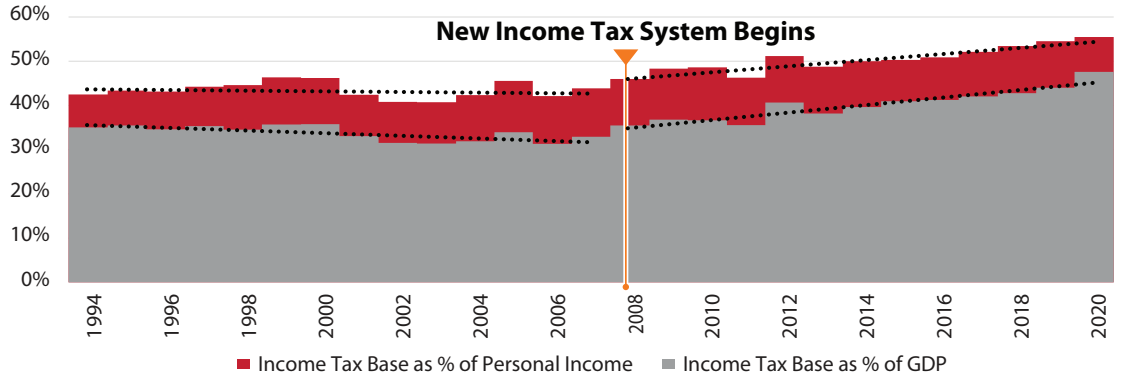


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**Growth in Utah's income tax base keeps pace with Utah's economy.**

Figure 3: Individual Income Tax Base as a Percent of Utah GDP and Personal Income, 1994-2020

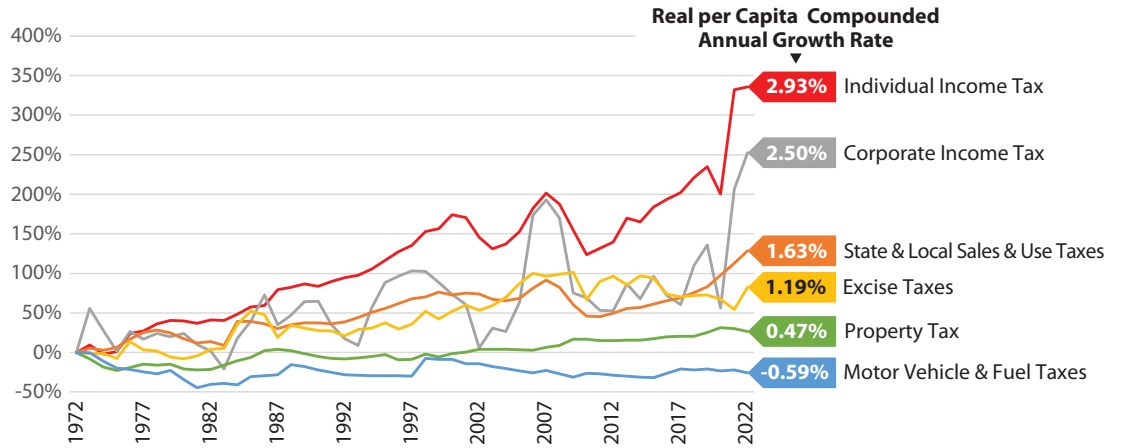
Sources: Utah State Tax Commission and U.S. Bureau of Economic Analysis



**Income tax combines growth with volatility.**

Figure 4: Utah Cumulative and Compounded Annual Rate of Change in Real Tax Revenue per Capita by Tax Type, FY 1972 to 2022

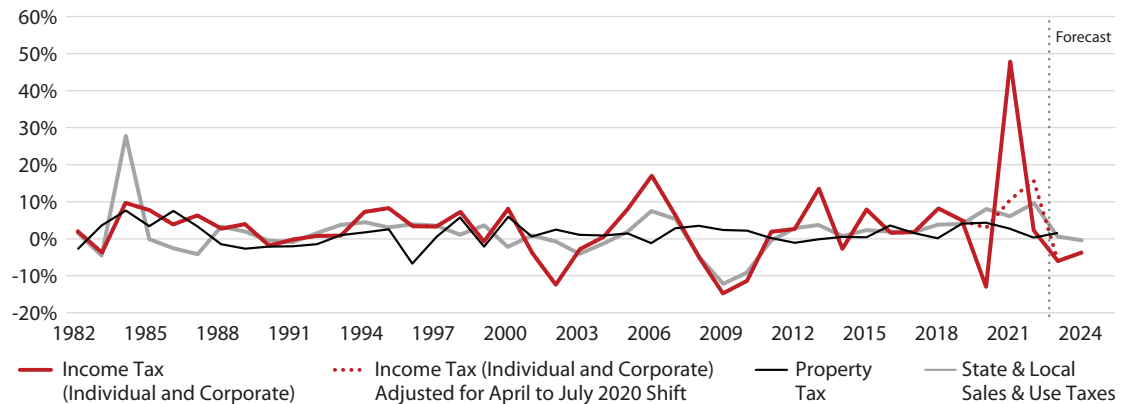
Sources: Utah State Tax Commission and Utah Population Committee



**Income tax is the most volatile of Utah's three major taxes.**

Figure 5: Year-Over Percent Change in Real Tax Revenue per Capita by Major Tax Type, FY 1982 to 2024

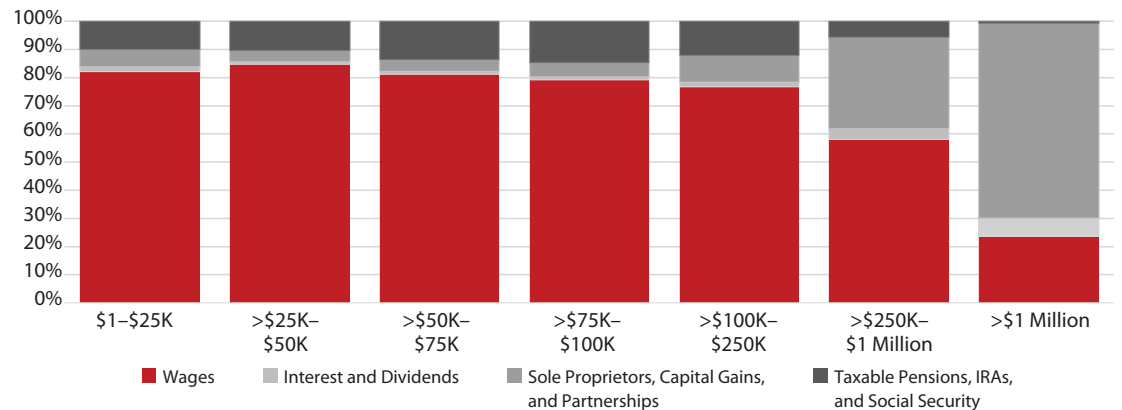
Sources: Utah State Tax Commission and Utah Population Committee



**Low- and middle-income households rely on wage income, while high-income households rely on non-wage income.**

Figure 6: Utah Income Source Composition by Income Level, 2020

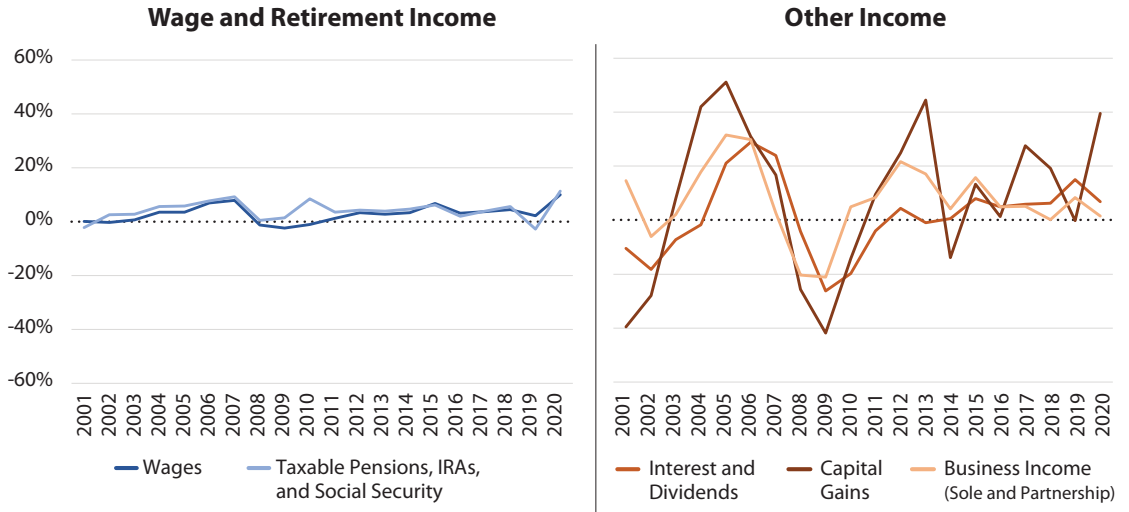
Source: Utah State Tax Commission



**Wage and retirement income exhibit steady growth, while other income sources are much more volatile.**

Figure 7: Year-Over Growth Rates for Various Major Sources of Utah Individual Income, 2001-2020

Source: Utah State Tax Commission



**Wages are the single largest source of income.**

Figure 8: Utah Individual Income by Source, 2020

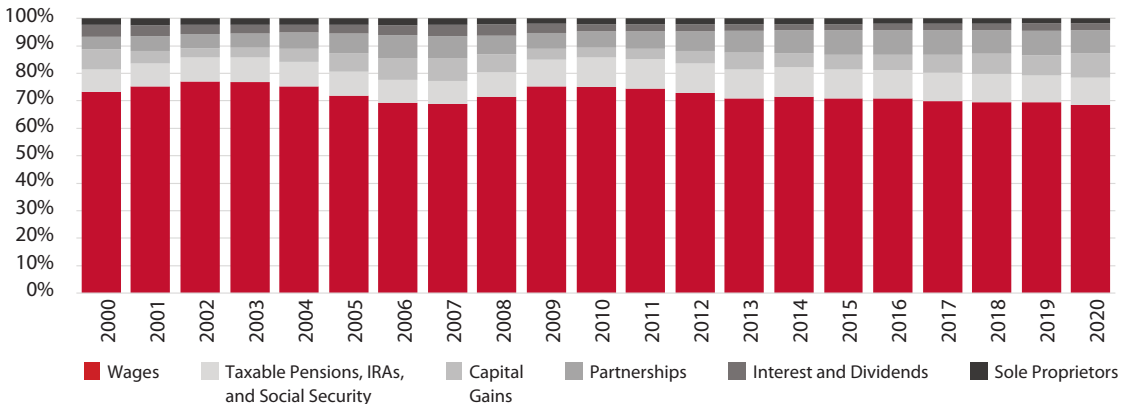
Note: Other income is excluded from the graph as it totals to a negative number.  
Source: Utah State Tax Commission



**Volatile non-wage income sources make up an increasing share of individual income.**

Figure 9: Composition of Individual Income Sources, 2000-2020

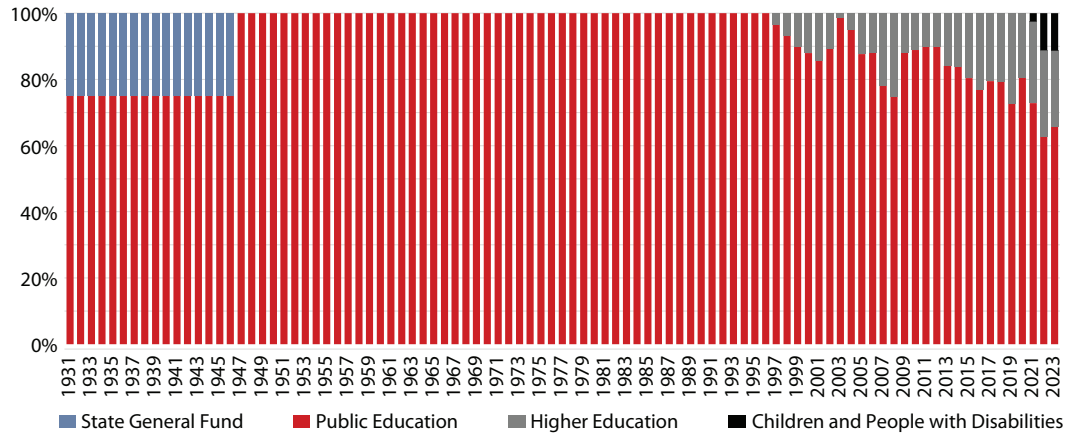
Note: Other income is excluded as it totals to a negative number.  
Source: Utah State Tax Commission



**The use of income taxes has shifted in recent decades with constitutional changes.**

Figure 10: Use of Income Tax Revenue in Utah, FY 1931–2023

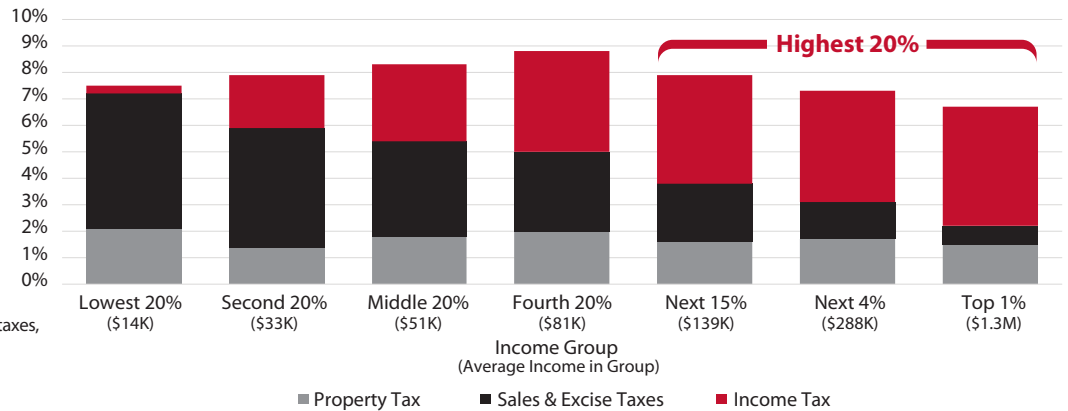
Source: Kem C. Gardner Policy Institute based on data from Utah Governor's Office of Planning and Budget and Legislative Fiscal Analyst



**Moderately progressive income tax serves as an offset to sales and excise tax regressivity.**

Figure 11: Estimated State and Local Tax Burden as a Percent of Annual Income for Utah Working-Age Households

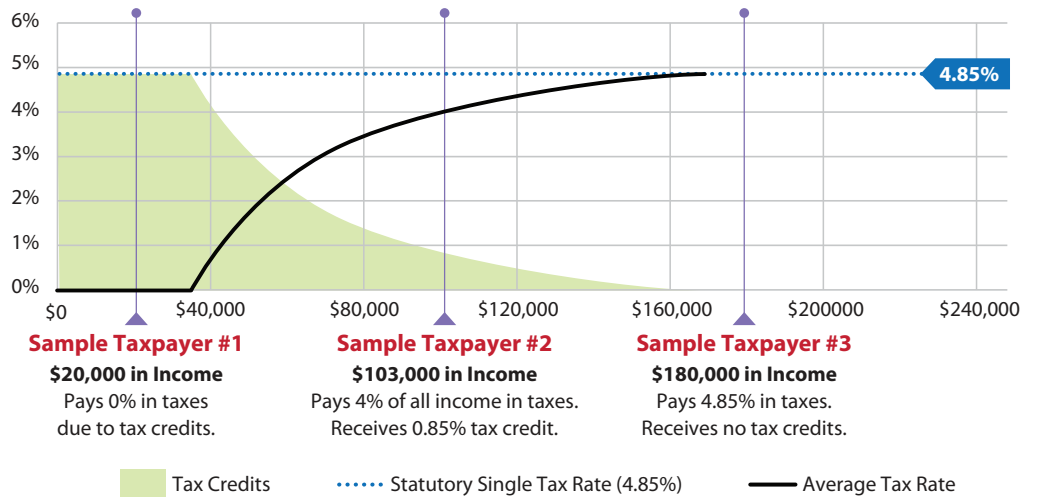
Note: Estimates include impacts of Utah-imposed taxes, so they exclude impacts of taxes imposed in other states that are borne by Utah residents. Source: Institute on Taxation and Economic Policy



**Most Utah taxpayers pay less than the 4.85% statutory tax rate due to tax credits.**

Figure 12: Example of Differing Statutory and Effective Tax Rates at Different Income Levels

Note: Assumes standard deduction and two personal exemptions. Source: Kem C. Gardner Policy Institute



### Major Income Tax Considerations in 2023

- **Growth** – Will state income tax revenues continue growing strongly as they have recently?
- **Volatility** – Is recent strong revenue growth sustainable over the business cycle? Are contingency plans in place if income tax revenues take a turn for the worse?
- **Income Tax Fund Uses** – How much constitutional flexibility should the Legislature have to allocate income taxes revenues to different potential uses?
- **Tax Levels** – Should the state cut income taxes? If so, by how much and with which mechanisms (tax rate, tax credits, etc.)?
- **Tax Burden Distribution** – If income taxes are cut, what is the distribution between low-income, middle-income, and high-income households? Should the income tax be used as an offset to other taxes, such as the property tax?

Source: Kem C. Gardner Public Finance Council