# A VISUAL GUIDE TO TAX MODERNIZATION IN UTAH

## PART FOUR: INDIVIDUAL INCOME TAX

April 2023

Kem C. Gardner
POLICY INSTITUTE
THE UNIVERSITY OF UTAH
DAVID ECCLES SCHOOL OF BUSINESS

*"No government can exist without taxation. This money must necessarily be levied on the people; and the grand art consists of levying so as not to oppress."*

Frederick the Great

Utahns share a common interest in a state and local tax system that provides for our needs, keeps the economy strong, and remains viable over the long term. This visual guide, which is the fourth in a series, illustrates key components of Utah's income tax – the fastest growing and most volatile major tax.

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*Prepared by: Phil Dean, Natalie Roney, Andrea Brandley, Nate Christensen, Kate Bradford, McKenna Pastorik*

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Dear Policymaker:

Utah's individual income tax is the state's single largest tax revenue source, generating nearly $6.8 billion in FY 2022. In Utah's tax portfolio, the individual income tax offers many notable attributes: strong growth, downside volatility, constitutional constraints, tax burden balancing, and taxation of household and certain business income.

Since income tax enactment in 1931, the Utah Constitution and the Legislature's budget policies intertwined income taxes with education funding, often in connection with school property taxes. The exact form of those constitutional and budget connections varied over time. A 2024 ballot measure will ask Utah's voters to decide whether or not to adjust the constitutional earmark of income taxes if certain education funding conditions remain in place.

Utah originally imposed income taxes to maintain solvency amid massive property tax defaults during the Great Depression. The Legislature first imposed income taxes with a 4% top rate, and soon thereafter increased the top rate to 5% in FY 1935. Utah's top tax rate peaked at 7.75% in the mid-1970s and continued into the 1980s. Since this time, the Legislature reduced tax rates, and, with the recently-enacted cut, Utah's single income tax rate now stands at 4.65%.

This visual guide will help policymakers better understand income and Utah's individual income tax. Major topics include the following:

- **Defining and Measuring Income** – Although seemingly simple, defining and measuring income in practice presents various complications. Different entities use different income definitions for different purposes.
- **Income Tax Base** – Utah's income tax base begins with the federal definition of adjusted gross income (AGI), which includes a broad array of income sources such as wages, interest, dividends, pensions and other retirement income, and capital gains. Some federal deductions enter Utah's system via tax credits.
- **Income Tax Rates** – Utah's statutory tax rate currently stands at 4.65%. Because of tax credits, Utah's median 2021 effective tax rate was about 3.3%. Many taxpayers pay higher marginal tax rates.
- **Income Tax Revenues** – Utah's income tax revenue grows strongly overall but is volatile. When income tax revenues drop dramatically, this creates state budgeting challenges, including challenges to consistently fund education over the business cycle.

The Kem C. Gardner Policy Institute prepares informed research that guides informed discussions and leads to INFORMED DECISIONS™. We present this visual guide to assist you in your policy deliberations.

With appreciation,

**Natalie Gochnour**
Associate Dean and Director
Kem C. Gardner Policy Institute
David Eccles School of Business
University of Utah

**Phil Dean**
Chief Economist and
Public Finance Senior Research Fellow
Kem C. Gardner Policy Institute
University of Utah

**Gary Cornia**
Senior Advisor,
Kem C. Gardner Policy Institute
University of Utah, and
Emeritus Dean,
Marriott School of Business
Brigham Young University

# Income Tax Overview

The individual income tax represents Utah's single largest state and local government revenue source, generating nearly $6.8 billion in FY 2022. Utah's state-imposed income tax applies uniformly statewide, unlike some states that allow a local income tax. The income tax features many notable attributes: growth paired with volatility, constitutional limitation, tax burden balancing, and business and household taxation.

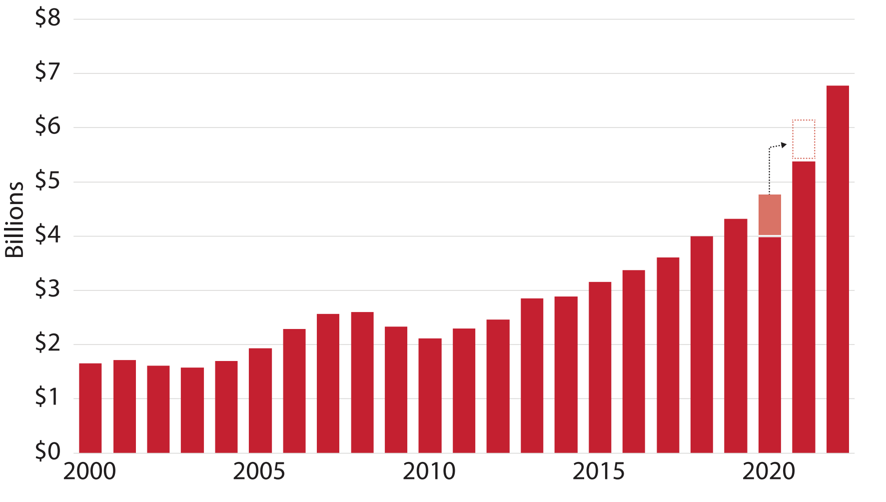
## Growth Paired with Volatility

In recent decades, the income tax's revenue growth outpaced growth in Utah's two other major taxes (property tax and sales and use tax), even with income tax rate cuts. In fact, since full implementation of Utah's current single rate system in 2008, Utah's income tax has more than paced with the economy as measured by gross domestic product (GDP) or personal income (Figure 1). This strong income tax base growth helps to offset fuel taxes and sales and use taxes whose tax bases have grown over time, but historically failed to pace with the economy.

Yet the income tax's growth can be quite inconsistent. High growth years generate significant revenues (Figures 2 and 3), while the downside declines produce significant state budget challenges. Historically, these volatility difficulties heavily impacted education funding over the business cycle. However, a statutory funding redesign that accompanied the 2020 constitutional Amendment G mitigates downside risk for public education by setting aside funds for future enrollment growth and prioritizing inflationary adjustments to school funding over time.

***Utah's nominal individual income tax revenues grew dramatically over the past decade***

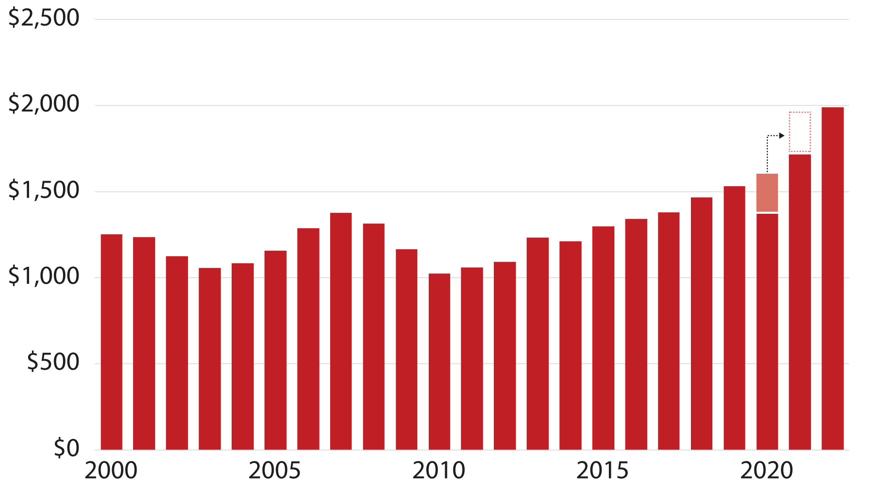
Figure 2: Nominal Individual Income Tax Revenues, FY 2000-2022




Note: The pandemic income tax filing deadline delay from April 15 to July 15, 2020 artificially shifted nearly $750 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 reached record levels***

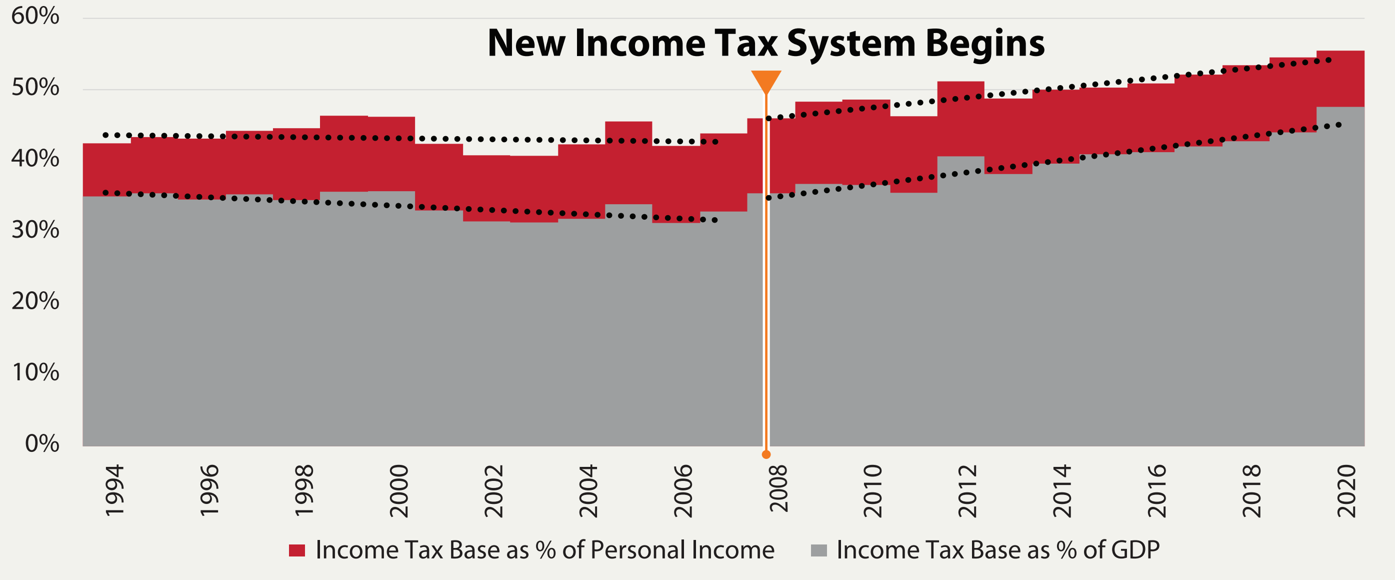
Figure 3: Real Per Capita Individual Income Tax Revenues, FY 2000-2022




Note: The pandemic income tax filing deadline delay from April 15 to July 15, 2020 artificially shifted nearly $750 million from FY 2020 into FY 2021.
Source: Utah State Tax Commission

***Growth in Utah's income tax base more than paces with Utah's economy***

Figure 1: Individual Income Tax Base as a Percent of Utah GDP and Personal Income, 1994-2020




Note: Individual income tax base adjusts state taxable income for the impact of state tax credits.

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

# Constitutional Limitation

When originally imposed in 1931 amid the Great Depression, the Utah Constitution allocated 75% of income tax for public education, with the remaining 25% deposited into the state's General Fund (Figure 4). Beginning in 1948, concurrent with creation of the state Minimum School Program, the Utah Constitution limited income tax revenue's use solely for public education. In 1996, a constitutional amendment expanded the revenue use limitation to include higher education. A 2020 constitutional amendment (Amendment G) also allowed income taxes to be used for non-education services for children or individuals with a disability. In its 2023 general session, the Utah Legislature placed a measure on the 2024 ballot that would further increase constitutional flexibility in the use of Utah's income taxes, providing certain school funding provisions remain in place.

# Tax Burden Balancing

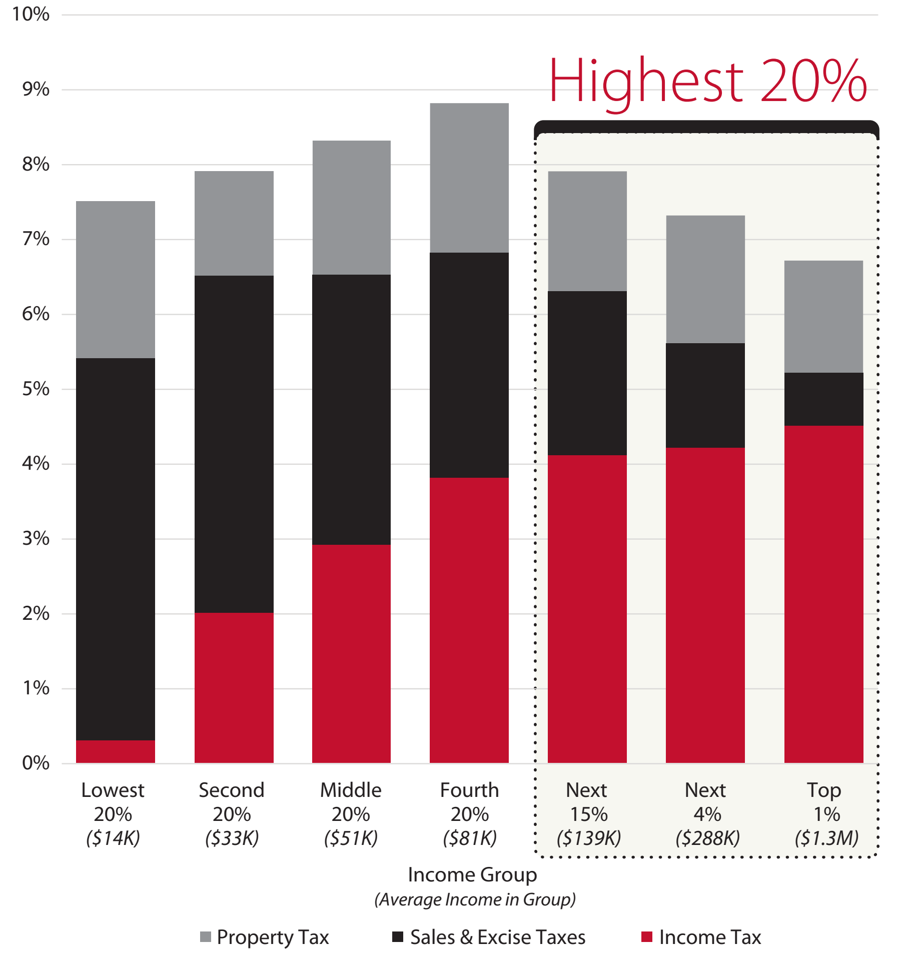
The income tax system creates the most flexible opportunities to balance out the fairness of Utah's tax system. For example, it can offset the sales and use tax's regressivity or the property tax's cash flow challenges for low-income taxpayers.

Even with a single rate, Utah's income tax remains moderately progressive through tax credits (Figure 5). This means higher-income households pay a larger share of their income in the tax than lower-income households. In fact, tax law exempts many low-income households from even filing, while others end up with zero individual income tax liability after claiming tax credits on a return. In other words, unlike the sales and use tax that all households pay either directly or indirectly, not everyone pays income taxes.

Utah residents pay by far the largest share of individual income tax, with non-residents or part-time residents paying about 6% of the total. This stands in contrast to the sales and use tax and fuel taxes, of which non-residents pay a larger share.*

***Moderately progressive income tax serves as counterbalance to sales and excise tax regressivity***

Figure 5: Estimated Utah State and Local Tax Burden as a Percent of Annual Income for Working-Age Households




Note: Estimates include 2018 impacts of Utah-imposed taxes, excluding the impacts of taxes imposed in other states that are borne by Utah residents.
Source: Institute on Taxation and Economic Policy

# Business & Household Taxation

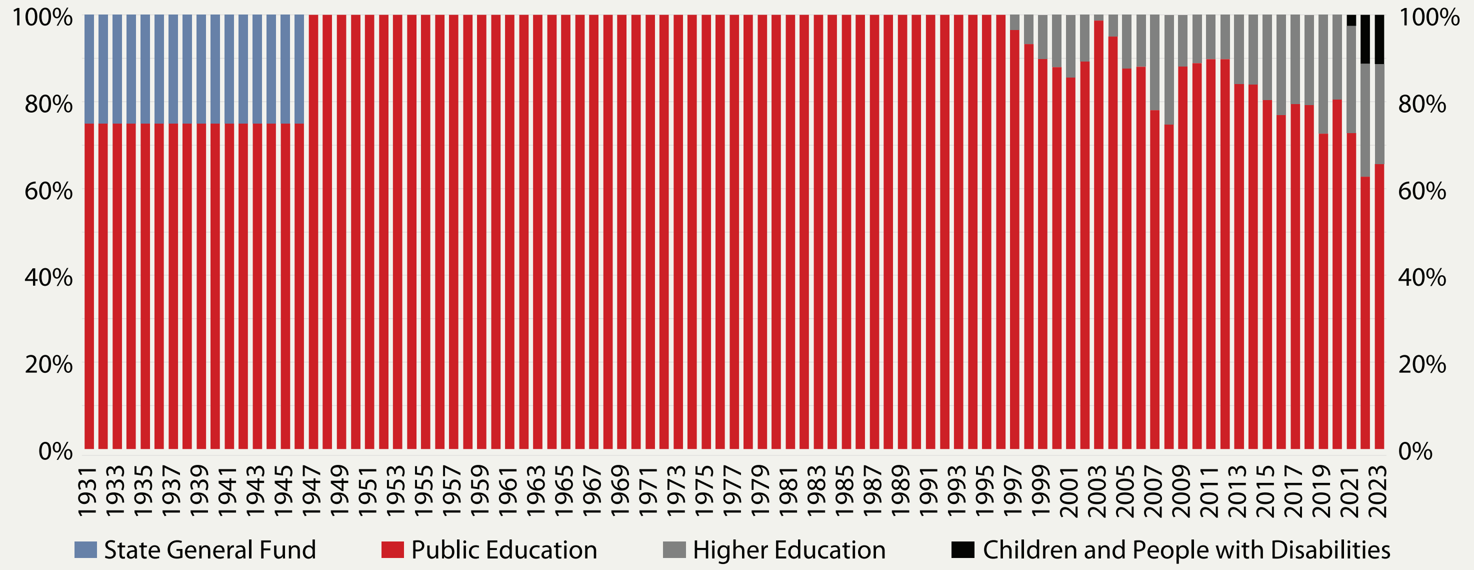
In addition to taxing households, the individual income tax system taxes certain business income. This includes business income from sole proprietorships and pass-through entities, such as income from a limited liability company (LLC) or certain types of corporations (S-corps) taxed at the individual owner level rather than the company level. Although this report includes these amounts in the individual income tax totals, a future report will delve into more detail on business income taxation, including through the individual income tax and corporate franchise and income tax systems.

* Although estimates vary, Utah could be exporting roughly 10-20% of these taxes to non-residents.

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

Figure 4: Use of Income Tax Revenues in Utah, FY 1931–2023

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



# Our State's Challenges and Opportunities

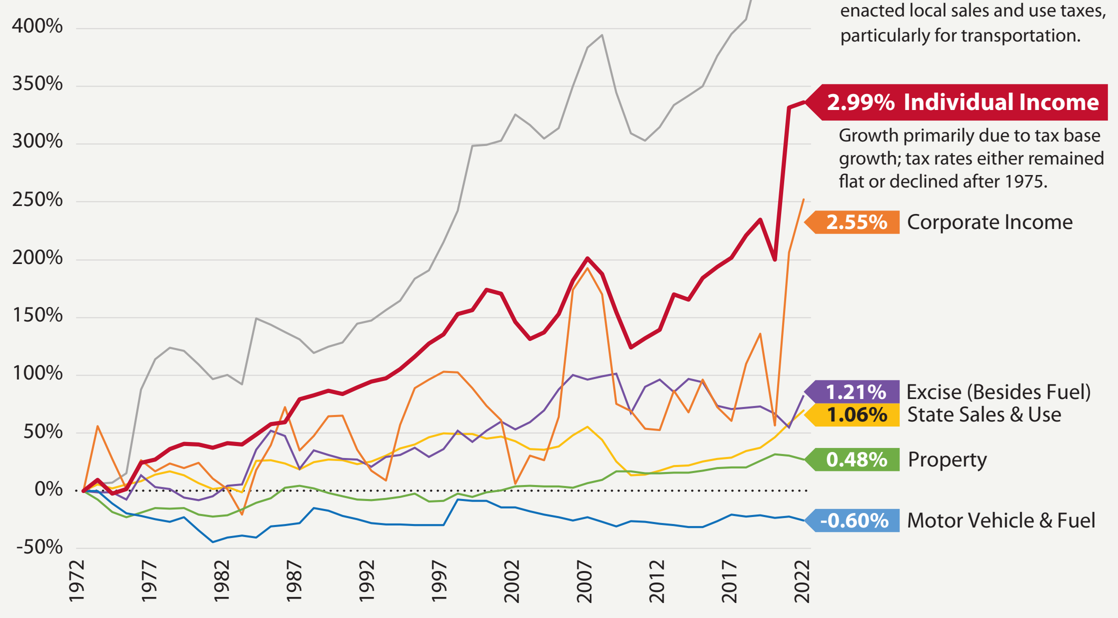
A continuously changing world creates many fiscal challenges and opportunities. To ensure Utah's future prosperity, Utah's state and local revenue systems need to continue to adapt and align with the modern economy.

## 1 Be Mindful of Revenue Growth and Volatility

Utah's revenue sources grow differently. Over the past 50 years, individual income tax and corporate income tax revenues grew rapidly (Figure 6). But along with that strong growth comes strong volatility. That is, a healthy economy spins off major revenue increases, while a weak economy results in major revenue declines in individual and corporate income tax revenues. As general sales taxes and excise taxes (such as fuel taxes) fell behind, policymakers shifted higher education funding from sales taxes to income taxes, and transportation funding from fuel tax user charges to state and local general sales taxes.

***Income tax combines growth with volatility***

Figure 6: Cumulative and Compound Annual Rate of Change in Real Tax Revenues per Capita by Tax Type, FY 1972–2022



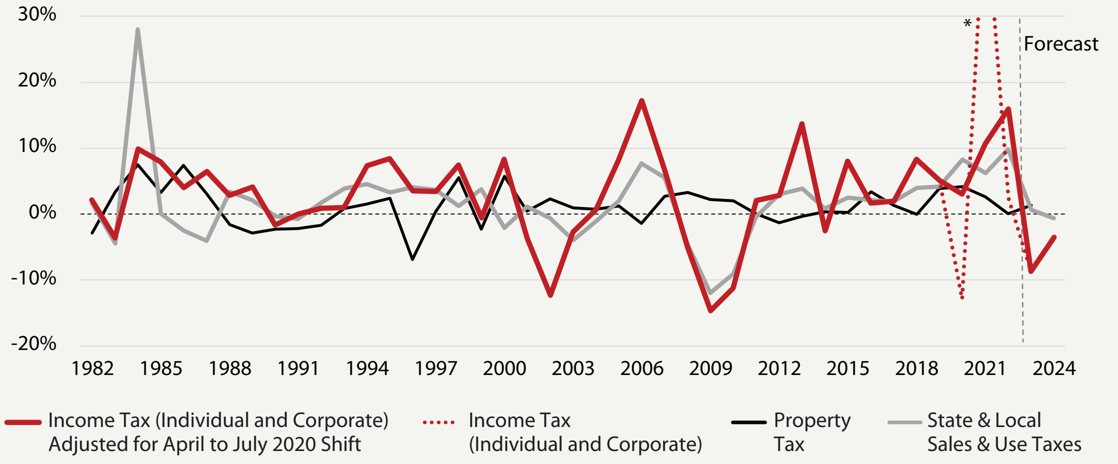

Sources: Utah State Tax Commission and Utah Population Committee

## 2 Consider Impacts of Tax Base on Tax Revenue Volatility

Among the three largest revenue sources that make up about 90% of Utah's state and local revenues, income tax revenues grow the most, even with flat or decreasing income tax rates since 1975. This occurs because Utah's income tax base paces quite well with the economy (Figure 1). The more stable property tax base also paces well with the economy. Conversely, the tax base for the general sales and use tax has historically misaligned with the economy, although it paced better the past several years.

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

Figure 7: Year-Over Percent Change in Real Tax Revenues per Capita by Major Tax Type, FY 1982–2024




*The 2020 income tax filing deadline shifted from April to July 2020, artificially shifting nearly $800 million of individual and corporate income tax revenues from FY 2020 to FY 2021. This shift resulted in a nearly 50% year-over spike.
Note: Income tax includes inheritance tax until FY 2011.

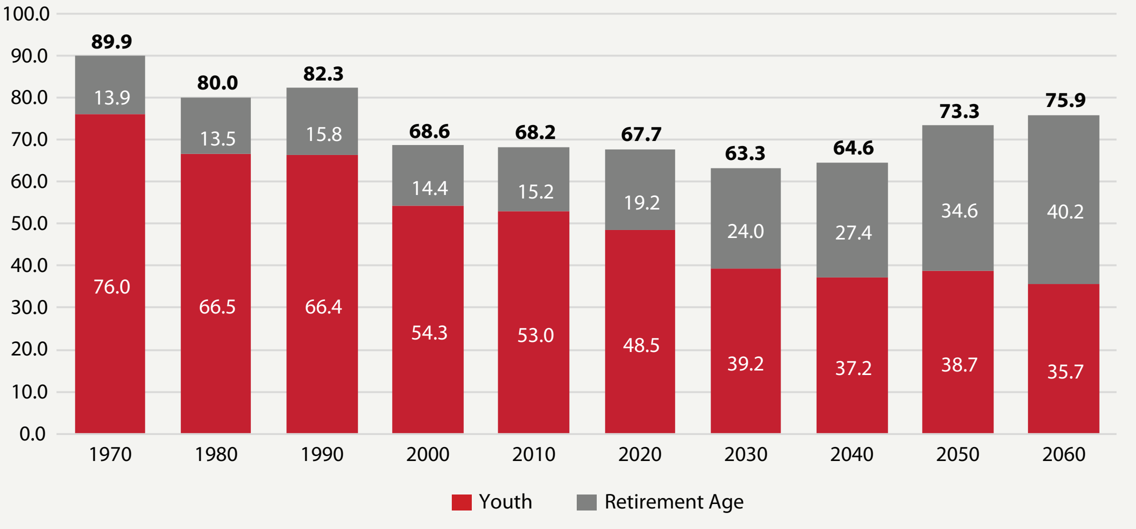
Sources: Kem C. Gardner Policy Institute analysis of Utah State Tax Commission, Utah Population Committee, and State Revenue Forecast data

## 3 Plan for Utah's Changing Age Composition

The composition of Utah's population changed dramatically over the past 50 years (Figure 8). While Utah's average age remains the youngest in the nation, Utah's population is aging. Projections suggest continued future decline in the youth dependency ratio from current levels. In fact, projections indicate that by 2040, Utah's youth dependency ratio will be less than half of what it was in 1970. At the same time, projections indicate the over-65 segment of the population (at present largely supported by federal programs such as Social Security and Medicare) will increase.

***Utah's dependency ratio for youth under 18 projected to decline in next two decades***

Figure 8: Utah Dependency Ratios, 1970–2060




Note: Dependency Ratios are computed as the number of nonworking age persons per 100 working age (18-64 year old) persons in the population. Youth are less than 18 years old and retirement age is 65 years and older.

Source: Kem C. Gardner Policy Institute

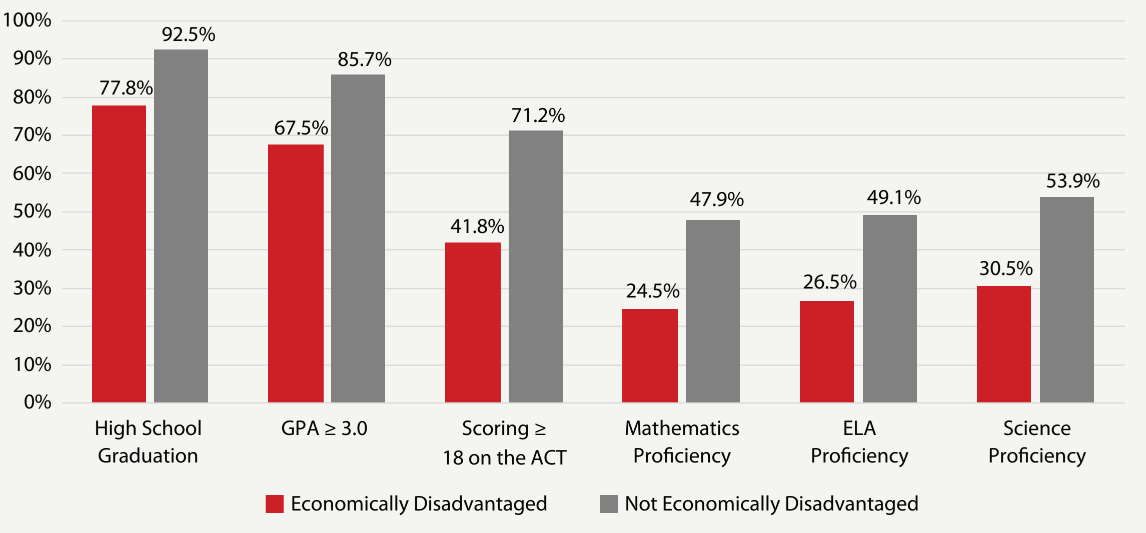
As the dependency ratio for youth continues to decline, state policymakers will likely face much less K-12 enrollment growth pressure than in recent decades. In fact, absent strong in-migration, K-12 enrollment statewide will decline in the immediate future. This fiscal relief will create opportunities to (a) allocate funding previously allocated to cover enrollment growth to sizably increase per-pupil spending, (b) shift resources to increase funding for other public programs, or (c) reduce taxes. Each decision carries tradeoffs.

## 4 Address Challenges Facing Utah's Economically Disadvantaged Students

Although projections suggest flatter or even declining K-12 enrollment in coming years, this does not mean Utah's education funding systems only have beneficial tailwinds. Rather, Utah faces significant headwinds, particularly with economically disadvantaged students. Fewer than 50% of students in grades 3-8 who are not economically disadvantaged scored proficient in mathematics and English Language Arts in 2021, indicating significant room for improvement in outcomes for all student groups.

***Utah's economically disadvantaged students face major challenges***

Figure 9: Utah K-12 Student Achievement, 2018–2021




Note: ELA stands for English Language Arts. Math proficiency, ELA proficiency, Science Proficiency, and graduation rates are all from 2021. ACT is 2018. GPA is 2019. Math, ELA, and Science proficiencies as measured by the RISE test, grades 3-8. "Economically disadvantaged" refers to students receiving free/reduced lunch.

Source: Kem C. Gardner Policy Institute analysis of Utah State Board of Education data

As Figure 9 shows, Utah's economically disadvantaged students fare even worse, falling far behind their peers. This matters not only for educational outcomes, but also for future economic outcomes. Educational attainment ties closely to economic attainment, and many Utah students are being left behind. This presents major long-term implications for Utah's future workforce.

# Current Issues

## Constitutional Amendment Vote: November 2024

In its 2023 general session, the Utah Legislature voted to place on the November 2024 ballot a proposal to amend the Utah Constitution to widen the use of income taxes. Currently, the Utah Constitution requires the Legislature to use income taxes only for education (K-12 and higher) and, with a 2020 constitutional amendment, other services for children and services for people with disabilities (Figure 4).

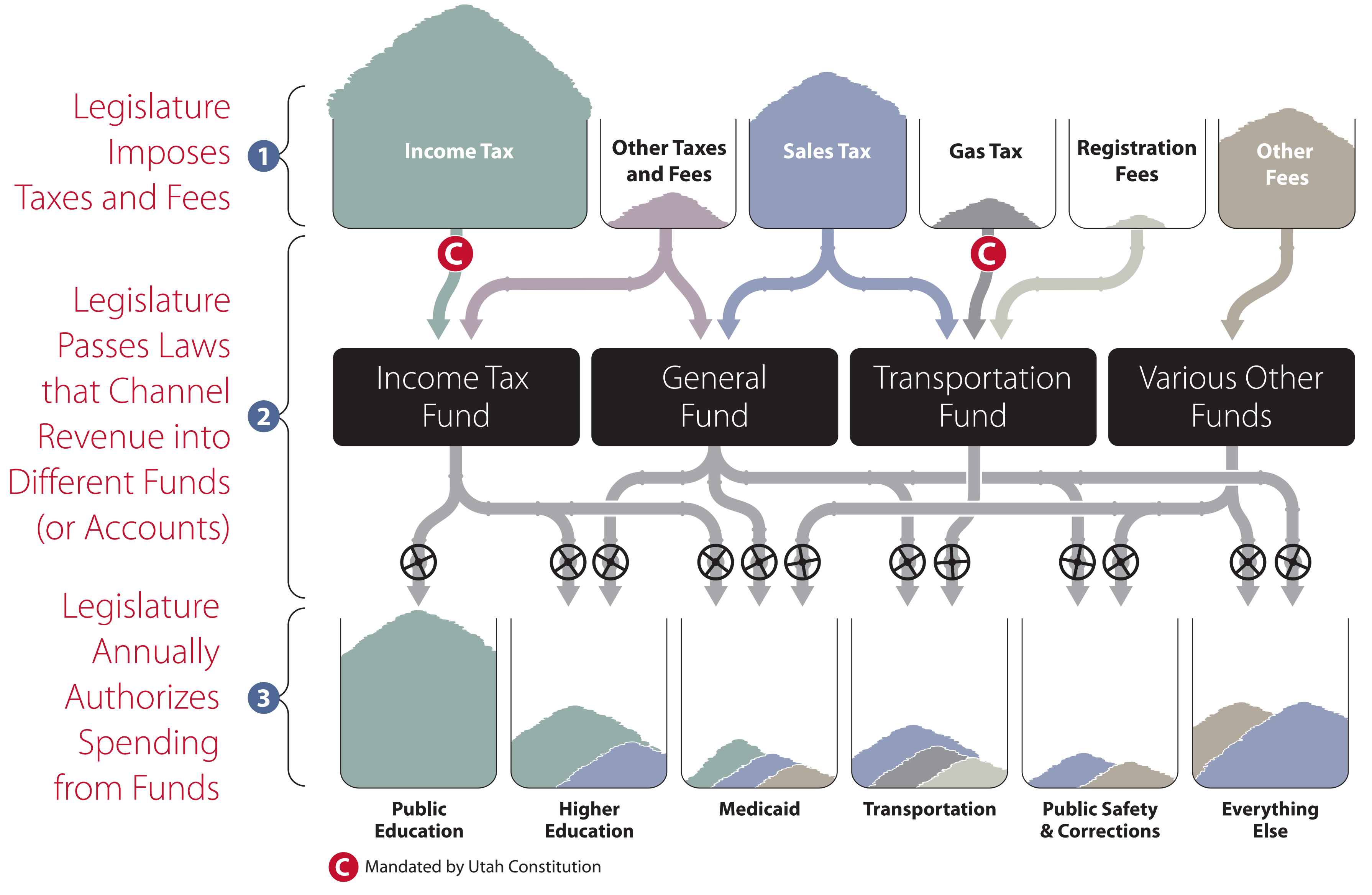
The proposed amendment would permit the Legislature to use income taxes for any purpose if the state maintains "a statutory public education funding framework that: (i) uses a portion of revenue growth for expenditures from the Uniform School Fund for changes in student enrollment and long-term inflation; and (ii) provides a budgetary stabilization account." This would directly provide a K-12 public funding framework in the Utah Constitution itself. Since the state already sets aside funding for K-12 public education enrollment growth, inflation, and budget stabilization, in practice this change could allow income taxes to be used for any purpose. In addition, if the amendment passes, a bill passed during the 2023 session would increase certain per-student funding if enrollment drops in coming years (as seems likely).

In the past two budget cycles, the Legislature has, on a one-time basis, largely maxed out its budget flexibility under existing constitutional arrangements. Using its existing flexibility, the Legislature shifted dollars between state accounts near the maximum extent possible under conventional interpretations of its budget flexibility. Although roughly $1.5 billion in ongoing funding flexibility remains available, largely tapping out one-time flexibility in the most recent budget cycles highlights the state's flexibility challenge.

Why does state budget flexibility matter? Over time, this reduced flexibility potentially impairs the Legislature's ability to fund General Fund programs such as law enforcement and public safety, housing, water (including the Great Salt Lake) and other infrastructure, air quality, mental health services, and health care services (including Medicaid).

***With income and fuel taxes, the Utah Constitution constrains Legislature's broad powers to control tax and fee allocations***

Figure 10: Utah's State Budget Allocation Process




Sources: Kem C. Gardner Policy Institute analysis of Utah Governor's Office of Planning and Budget and Office of the Legislative Fiscal Analyst data

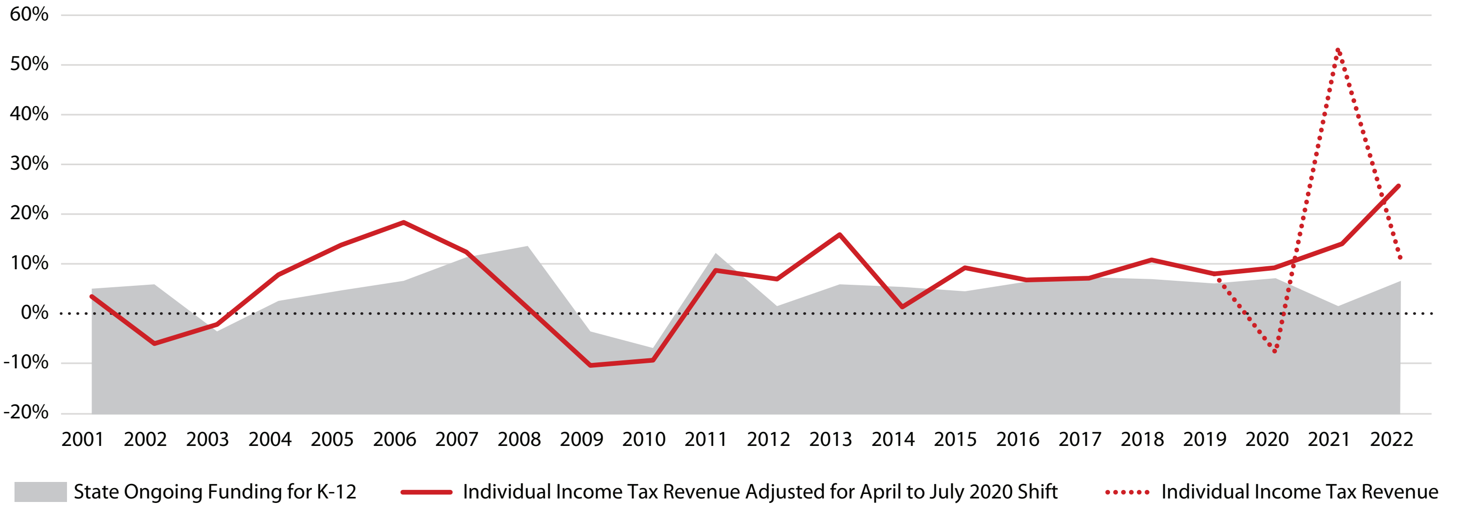
## How can the Legislature respond to its state budget flexibility challenge?

- **Replace Sales Taxes for Infrastructure with User Fees**
  Increase user charges to pay for transportation and water infrastructure, freeing up over $1 billion in sales tax revenue shifted from the General Fund to transportation and water funds in recent decades
- **Adjust State Revenue Source Composition**
  Cut income taxes and/or increase sales taxes
- **Limit Funding for General Fund Programs**
  Limit state funding for General Fund programs (law enforcement & public safety, housing, water, air quality, mental health services, and health care services, including Medicaid)
- **Re-evaluate Budget Flexibility Options Under Existing Constitutional Language**
  Reconsider interpretations of funding for public education, higher education, services for children, and services for people with disabilities (Different budget flexibility interpretations may carry different risks of violating the Utah Constitution)
- **Amend Utah Constitution to Enhance State Budget Flexibility**
  Amend the Utah Constitution to increase budget flexibility in use of income taxes

***State K-12 funding somewhat followed income tax changes in recent decades***

Figure 11: Year-Over Change in State Ongoing Public Education Funding and Individual Income Tax Revenue

Source: Utah State Tax Commission and Utah Governor's Office of Planning and Budget




# Tax Burden Considerations

In recent years, the Legislature cut Utah's single income tax rate (from 5.00% to 4.65%). The majority of this benefit goes to high-income households, who pay most of the income tax. At the same time, the highest income households actually pay a smaller share of their overall income in all Utah state and local taxes compared to those at other income levels (Figure 5). Further income tax rate cuts (particularly if accompanied by sales tax rate increases as has occurred in recent years at the local level for transportation) may make Utah's overall state and local tax system regressive if not somehow offset with tax cuts for low- and middle-income households.

# Federal Tax Changes

Many federal tax changes adopted in 2017 under the Tax Cut and Jobs Act expire after 2025. Although not immediately impacting state revenues, in the coming legislative session, the Legislature may need to contemplate state revenue impacts if Congress does not extend the federal tax changes. Although Congress will likely extend at least some of these changes, any non-extended portions that carry over into the state tax base or tax credits may materially impact state revenues. These changes include the near-doubling of the standard deduction, adjustments to itemized deductions, and elimination of federal personal exemptions, along with many other provisions. Utah adopted a state-level personal exemption in response to the federal changes. Depending on federal action, a reversal of some or all of these provisions could either increase or decrease state taxpayer liabilities.

## Inflationary Impacts

High inflation created economic challenges over the past two years, including up to a 10.4% year-over Consumer Price Index (CPI) increase in Utah's Mountain region in March 2022. Inflation impacts the income tax in various ways.

Over time, wages and other income sources generally tend to increase with inflation, although not perfectly. Higher inflation also tends to lead to higher interest rates. This can increase nominal household and firm interest earnings, but also moderate or decrease economic growth. To the extent it impacts asset values, inflation can also impact capital gain income.

Although Utah doesn't have bracketed income tax rates like the federal government, the state provides a taxpayer tax credit that creates an overall moderately progressive income tax structure. The state income tax system does index for inflation in this taxpayer tax credit via (a) the starting point for phasing out this credit, (b) the federal standard deduction (indexed at the federal level and carries over the state level), and (c) the state dependent exemption that folds into the taxpayer tax credit.

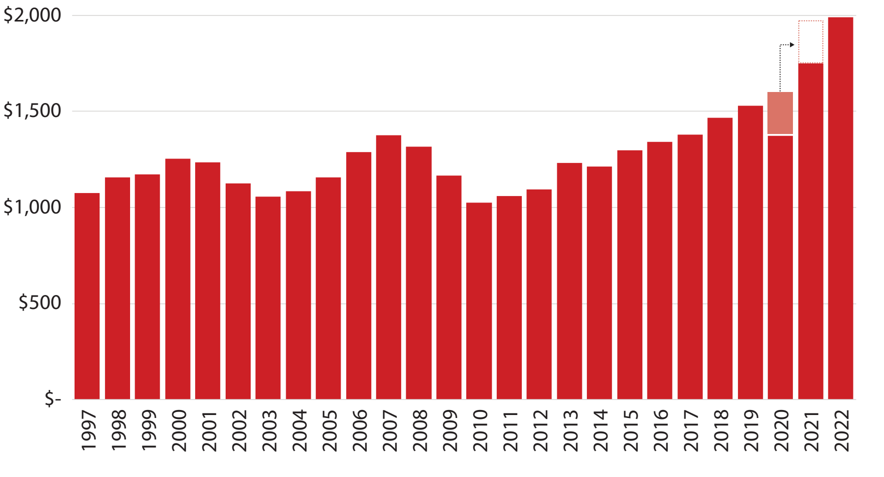
## Budgeting Uncertainty

In recent years, the state experienced extremely strong income tax revenue growth. To date, strong revenue collections continue. However, it remains unclear if this growth will prove to be sustainable over time, or if a portion will revert to more traditional real per capita amounts (Figure 12).

Adding to the income tax revenue uncertainty in coming years, HB 444 of the 2022 legislative session allows taxpayers to use pass-through entities (such as an LLC) to mitigate the $10,000 federal cap on itemized deductions of state and local taxes on a federal individual income tax return. This has and may continue to change taxpayer filing and tax payment timing behavior, particularly for high-income filers. For example, by December 2022, taxpayers remitted about $565 million in payments that may otherwise have been made in April 2023. Because a sizable share of high-income filers file income tax return extensions, it may be several filing cycles before the full effects on state revenues are known.

***Utah real per capita income tax revenue spiked to about $2,000 in FY 2022***

Figure 12: Real Individual Income Tax Revenue Per Capita, FY 1997-2022




Source: U.S. Bureau of Economic Analysis, Utah State Tax Commission, and U.S. Census Bureau

In short, even in the midst of very strong revenue growth in recent years, historical income tax revenue volatility creates budgeting uncertainty.

> *"Income is an important measure of a taxpayer's capacity to bear the cost of government."*
>
> John Mikesell

> *"A crucial element of any income tax is that it creates incentives for individuals to change their behavior."*
>
> Ronald Fisher

# What is Income?

Although seemingly a simple concept, actually defining income turns out to be quite challenging. At its core, income represents a flow of economic resources for an individual or group over a specified time period. But differing approaches to defining which flowing resources, which individuals or groups, and which time periods can lead to differing outcomes and, in turn, interpretations of appropriate public policy.

It is easy to think of income, consumption, and wealth as discrete economic wellbeing concepts - but they interconnect deeply. After-tax income flow can either (a) be spent on consumption flows or (b) increase the stock of wealth through saving. Income and consumption are flow variables measured over a specific time period, such as a month or a year. Wealth is a stock variable measured at a discrete point in time. Increases and decreases in income, consumption, or wealth influence each other.

For example, an employee's $10,000 annual pay raise increases income. This increased income will be divided between expanding current consumption (ex. $8,000) and increasing wealth (ex. stored future consumption of $2,000).

Similarly, a retirement stock portfolio valuation drop reduces wealth (ex. $25,000) and consequently also future ability to consume (ex. $25,000).

Utah's state and local tax system includes elements of all of these, with individual and corporate income taxes imposed on most income, general sales taxes on certain consumption items (most goods and selected services), and property tax on certain types of wealth (primarily real property and certain tangible personal property).

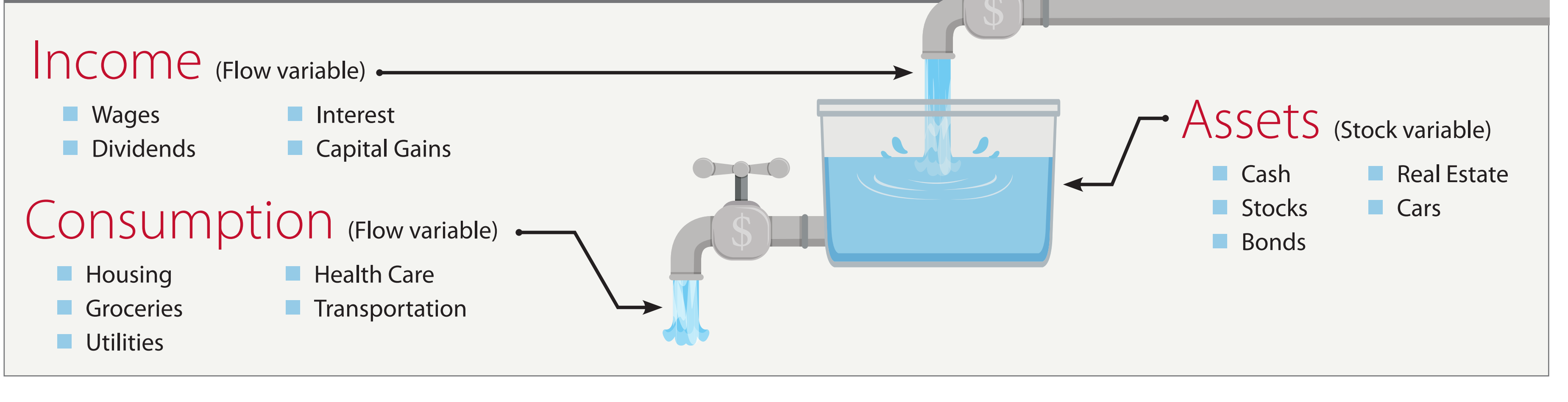
> *"[Income is] the algebraic sum of the market value of rights exercised in consumption and the change in the value of the store of property rights between the beginning and end of the period in question."*
>
> —**Henry Simons**

### Haig-Simons Economic Income

The Haig-Simons definition of income, a prominent theoretical income concept in economics, directly ties income to consumption. Under this definition, a resource that increases the ability to consume either now (actual consumption within the current period) or in the future (net worth increase) is income. It does not matter whether income materializes as money or an in-kind payment such as a car, house, or health insurance. If it represents actual consumption or increased future consumption capability, it is income. However, this theoretical concept would be hard to fully measure in practice and differs from many real-world definitions.

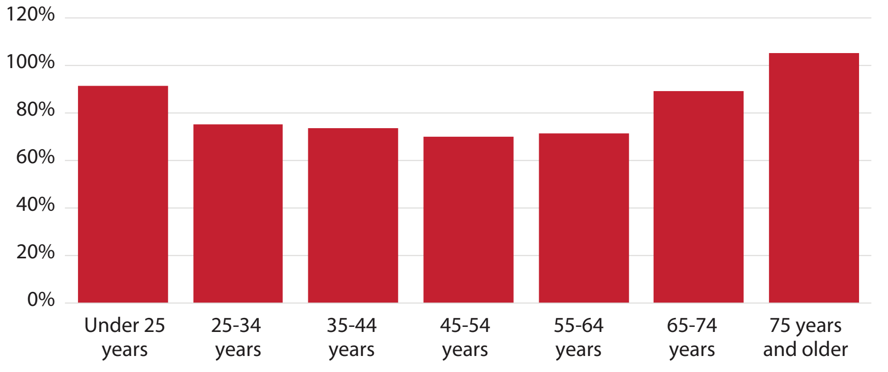
> *"[Income is] the money value of the net accretion to one's economic power between two points of time."*
>
> —**Robert Haig**

## Income, Consumption, and Wealth



## *Youngest and oldest tend to spend the most relative to current income*

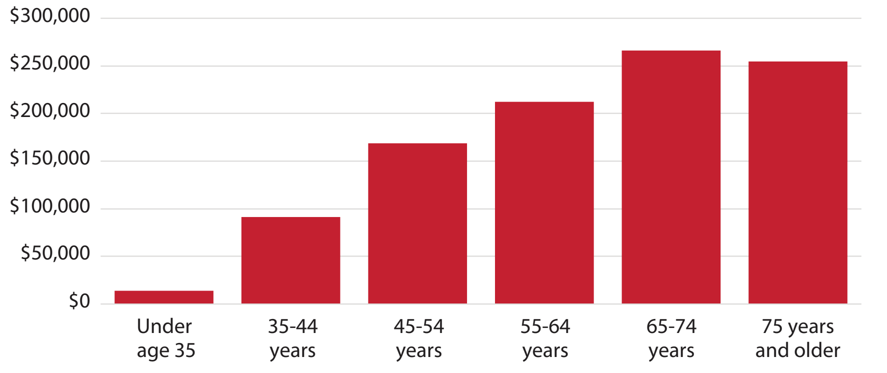
Figure 13: U.S. Expenditures as a Share of Income by Age, 2021




Source: U.S. Bureau of Labor Statistics

## *Average wealth starts low at younger ages and tends to increase until retirement begins*

Figure 14: U.S. Median Net Worth by Age of Householder, 2019

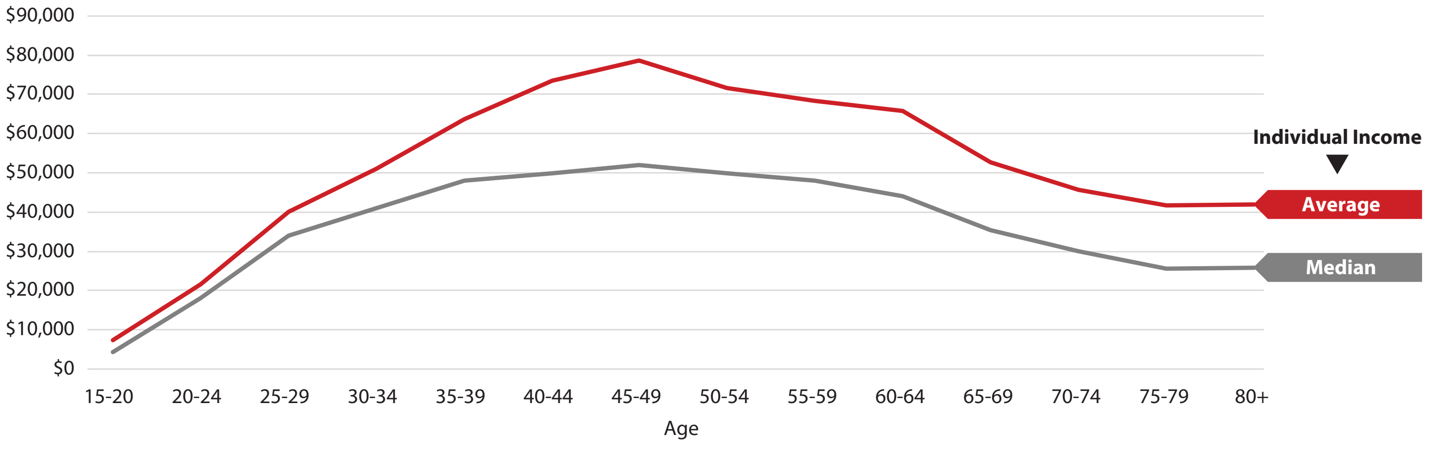



Note: The Federal Reserve measures net worth as the difference between a household's gross assets and gross liabilities.
Source: Board of Governors of the Federal Reserve System

## *Incomes (and income taxes) tend to follow a life cycle*

Figure 15: Individual Income by Age in Utah, 2021

Source: Kem C. Gardner Policy Institute analysis of U.S. Census Bureau American Community Survey 2021 1-Year Microdata




### Consumption Flow

People fund consumption either by (a) using current income, or (b) by drawing down wealth (either spending accumulated prior savings or through borrowing, which can be thought of as negative wealth). Some economists view consumption as the best indicator of economic wellbeing because people smooth consumption decisions over time.

For example, a young couple may choose to buy a larger house than currently needed because they're taking into account planned future family size. Similarly, a retiree with a savings stockpile accumulated over a lifetime may use that wealth stock to fund current consumption even though current income is lower than in prime earning years. In other words, comparing consumption decisions only to current income may distort the view of actual economic wellbeing.

### Wealth Stock

Unlike income and consumption flows measured over a period of time, the stock of wealth is usually a snapshot at a single point in time. People hold wealth in a variety of assets, such as cash, business ownership, real estate, intellectual property, or tangible personal property such as a car, art, or furniture. Each asset carries different risks, growth prospects, and liquidity. Asset wealth transmits consumption capability into the future. Wealth increases as asset values accumulate from increased valuation of existing assets and new wealth additions from income flows not consumed. Wealth declines when asset values decrease or people use assets to fund current consumption. Borrowing reduces wealth by placing claims on future income or assets.

### Lifetime Income Flow

People make consumption decisions based on expected lifetime incomes. Although everyone's individual situation varies, as Figure 15  shows, incomes generally follow a life cycle in which incomes start low as people enter the workforce in their late teens and early 20s and grow as they gain experience over time. Then, average incomes tend to decline after the highest income years in the early 50s, and gradually decline through retirement.

Also, note that Figure 15 highlights the differences between average and median incomes. Average incomes are higher than median incomes, reflecting the impact of high income outliers. While sometimes average and median income are used interchangeably, they actually diverge quite significantly as income earners enter their 30s, with average incomes over 50% higher than median incomes.

In general, regressive taxes like the sales tax tend to be less regressive and progressive taxes like the income tax less progressive when measured over a lifetime, rather than over a single year. At the same time, households experience different economic challenges at different points in their lifetime, so annual tax incidence estimates also provide important contextual understanding.

# Income Unit of Analysis

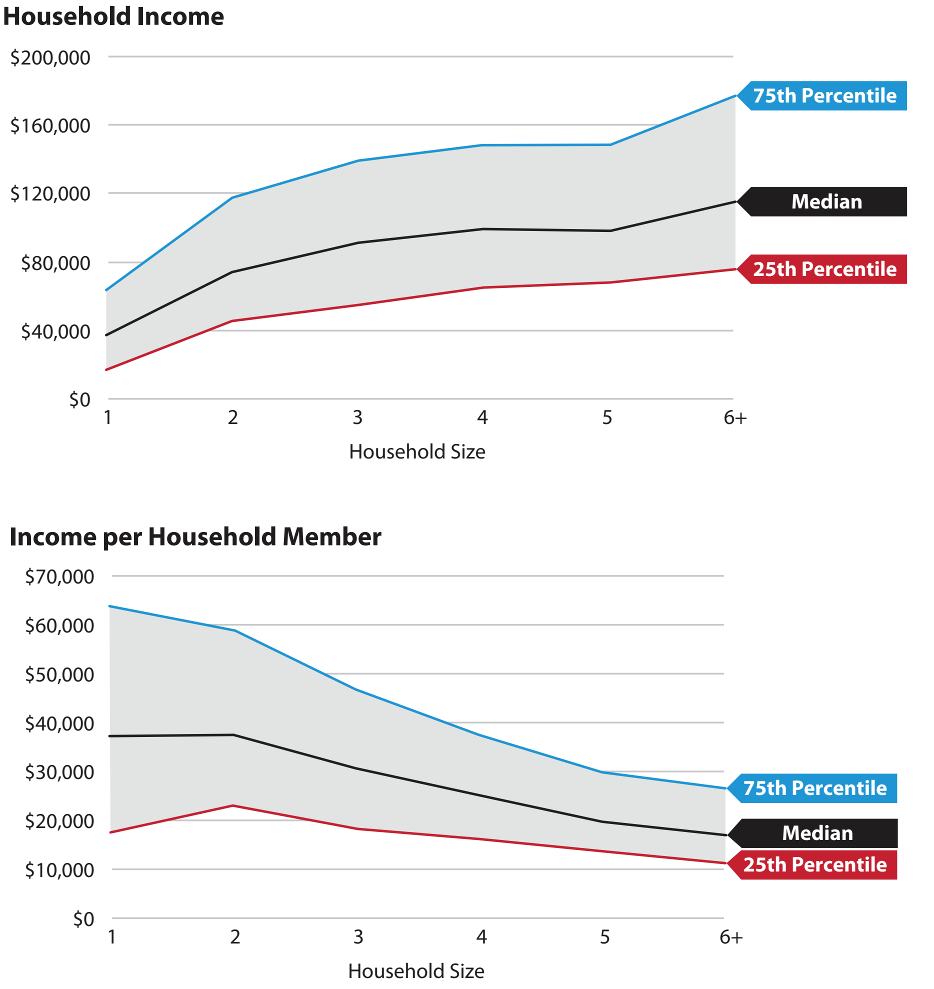
As with other economic data, the selected unit of analysis matters. Income may be reported on an individual basis, a tax return that includes a single person or multiple people, or on a household basis, depending on the data source. Different units of analysis provide different insights.

For example, median household income generally increases with household size. The Census Bureau's 2021 estimate of median income for a Utah household with 6 or more people totals about $119,000 annually, while that of a single person household is about $37,000 (Figure 16). Using this lens, a single person may appear to be worse off economically. Both age (more seasoned workers earn more money on average) and the number of workers (larger households have more workers on average) likely influence this result. Understanding the influence of household size on household income should be a critical consideration when comparing median household incomes.

Conversely, as also shown in Figure 16, when measured on a per-household-member basis, single person households have the largest median incomes (around $37,000), while the largest households have less than half that amount ($17,000). Using this lens, a single person may appear to be better off economically. Understanding economic wellbeing requires understanding both total household and per-person income, as well as consumption and wealth.

***Larger households tend to have higher total income and less income per person***

Figure 16: Utah Median Household Income by Household Size, 2021

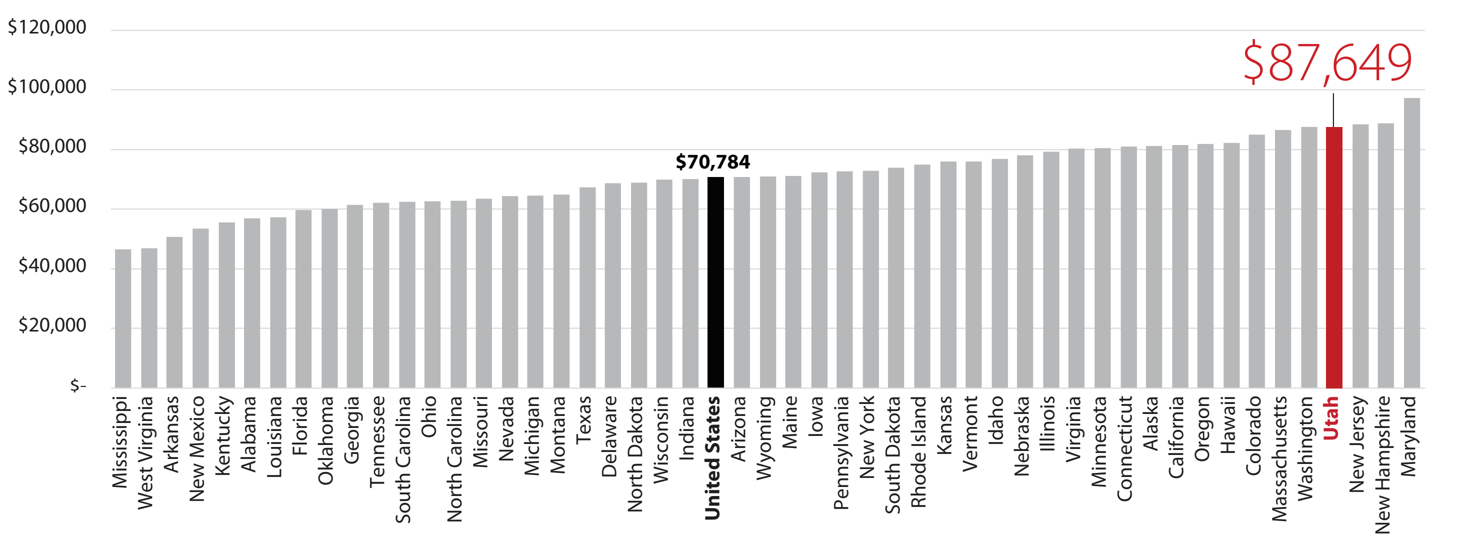



Note: All estimates based only on households; persons living in group quarters are omitted.
Source: U.S. Census Bureau, American Community Survey 2021, IPUMS USA, University of Minnesota, www.ipums.org

***Utah's median household income among the highest in nation***

Figure 17: Median Household Income by State, 2021

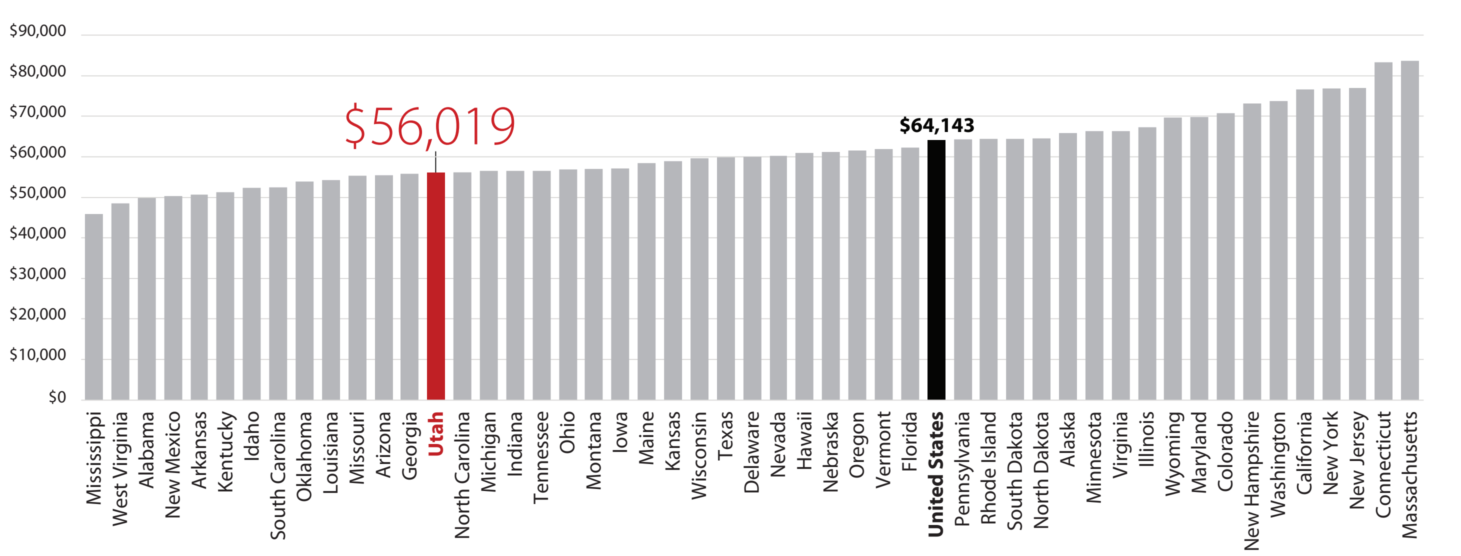
Source: U.S. Census Bureau




***Utah's per capita personal income well below national average***

Figure 18: Per Capita Personal Income by State, 2021

Source: U.S. Census Bureau and U.S. Bureau of Economic Analysis



# Common Income Definitions Differ Dramatically

Many government agencies, including the U.S. Census Bureau (money income), U.S. Bureau of Labor Statistics (household income), and U.S. Bureau of Economic Analysis (personal income) have their own income definitions (Table 1). However, these definitions are not as broad as the economic definition of income and differ from each other, sometimes dramatically, even though people often inappropriately use them interchangeably.

Key differences include the exclusion of in-kind government transfers (food stamps, housing, Medicaid, etc.) and the exclusion of capital gains or losses (an increase or decrease in the value of assets). Definitions which exclude these items understate actual income, particularly for high-income households (capital gains) and low-income households (government transfer payments).

Flows of income drive daily financial decisions for households and businesses. Similarly, policymakers use income measures to impose taxes, allocate government transfers, conduct distributive analyses, and make broader normative comparisons.

**Major Income Definitions Vary**

Yet income has no standard definition. Relying on inconsistent stories told by differing income measures may lead to different policy conclusions. As such, understanding how income definitions vary can better inform decisions.

Various entities, including the Internal Revenue Service (IRS), Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), and U.S. Census Bureau employ widely used income measures. These measures commonly include certain income sources, such as wages, business income, rental income, interest, and dividends.

But even for the same income source, meaningful differences exist. For example, even though every major income measure includes wages as income, Table 2 shows a sizable $10 billion range for Utah wages, due to measurement or definitional variations between the measures.

**How Do Major Measures Differ?**

Entities' different income definitions meet different agency purposes. BEA, for example, excludes capital gains (and losses) from national income and production accounting measures because BEA aims to measure current production, whereas long-term capital gains (and losses) accrue over time. The IRS definition, however, does include realized capital gains (and losses) because its initial definition prior to adjustments includes "all income from whatever source derived." Many government transfer payments, meanwhile, fall outside the IRS' total income definition, but fall within definitions for government assistance programs.

Importantly, income source composition differs by income level. So exclusion of common income sources may distort understanding of economic wellbeing. For example, many commonly-used definitions exclude income components that particularly affect high-income (capital gains) or low-income households (certain transfer payments).

***Various entities estimate income for different purposes***

Table 1. Commonly-Referenced Income Measures

| | Source | Name | Purpose | General Description |
|---|---|---|---|---|
| **Economic Concept** | Haig-Simons | Economic Income | Theoretical income defintion | Consumption plus changes in net worth |
| **Taxation** | Internal Revenue Service | Total Income | Income taxation | All income from whatever source derived, except as provided by Internal Revenue Code exclusions or exceptions |
| **Economic and Demographic Data** | Bureau of Economic Analysis (BEA) | Personal Income | National income and product accounts | Income received in return for labor, land, and capital used in current production, plus current transfer receipts less government social insurance contributions |
| | Bureau of Labor Statistics (BLS) | Money Income | Consumer expenditure survey | Total money earnings and selected money receipts |
| | Federal Reserve | Family Income | Consumer finance survey | Total money income for primary economic unit (family) |
| | U.S. Census Bureau | Money Income *(Although the Census Bureau has other definitions, this definition predominates)* | Demographic and economic data on individuals, households, and different geographies | Pre-tax money income received on a regular basis (exclusive of certain money receipts such as capital gains) |
| **Government Benefit Allocation** | U.S. Dept. of Education | Total Income | Education benefits (FAFSA) | Student and family income |
| | U.S. Dept. of Agriculture | Gross Income | Food assistance (SNAP) | Cash income from all sources, including pre-tax earned income and unearned income |

## Imputed Income Sources

While some income sources are readily identified, other income amounts are much harder to determine. For example, the theoretical Haig-Simons income definition accounts for actual consumption plus incremental asset value growth. However, estimating non-cash benefits outside the market economy proves challenging, so many of these non-cash benefits that economists consider income remain outside many common income definitions. Household production, for instance, includes cooking, cleaning, childcare, and other jobs that households could purchase through marketplace transactions. But these within-household activities fall outside most income measures because no transaction occurs.

Still, imputed income holds important implications for consumption. Only BEA includes estimates for imputed rent on owner-occupied housing and imputed investment income. Table 2 shows other wide estimate ranges—especially among interest and dividends, explained by the inclusion of imputed interest and dividend income by some agencies.

***Common income measures are not interchangeable because they vary significantly***

Table 2. Commonly-Referenced Income Measures

✔ Yes ✘ No **Some**

| | | Estimated Utah Amount $ billions (2020) | Haig-Simons | Internal Revenue Service (IRS) | Bureau of Economic Analysis (BEA) | Bureau of Labor Statistics (BLS) | Federal Reserve | U.S. Census Bureau | U.S. Dept. of Education | U.S. Dept. of Agriculture |
|---|---|---|---|---|---|---|---|---|---|---|
| Labor | Wages | $79-89 | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Labor | Employer health care contributions | $7-8 | ✔ | ✘ | ✔ | ✘ | ✘ | ✘ | ✘ | ✘ |
| Labor | Employment non-health-care fringe benefits | $6 | ✔ | Some | ✔ | ✘ | Some | ✘ | Some | ✘ |
| Labor | Employer retirement contributions | $3-4 | ✔ | ✘ | ✔ | ✘ | ✘ | ✘ | Some | ✘ |
| Labor | Employer Social Security contributions | $10-11 | ✔ | ✘ | ✘[1] | ✘ | ✘ | ✘ | ✘ | ✘ |
| Labor | Retirement & pension income | $9-10 | ✔ | Some | ✘ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Labor | Household production (imputed services) | $50 | ✔ | ✘ | Some | ✘ | ✘ | ✘ | ✘ | ✘ |
| Property | Rent & royalties from property | $6 | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Property | Interest[2] | $1-14 | ✔ | Some | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Property | Net imputed rent | $5 | ✔ | ✘ | ✔ | ✘ | ✘ | ✘ | ✘ | ✘ |
| Capital | Dividends | $2-14 | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Capital | Net business income | $22 | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Capital | Capital gain - realized | $10 | ✔ | ✔ | ✘ | ✘ | ✔ | ✘ | ✔ | ✔ |
| Capital | Capital gain - unrealized | $23 | ✔ | ✘ | ✘ | ✘ | ✘ | ✘ | ✘ | ✘ |
| Capital | Imputed investment income (e.g., on pension funds, insurance funds, etc.) | $2 | ✔ | ✘ | ✔ | ✘ | ✘ | ✘ | ✘ | ✘ |
| Transfer Payments | Unemployment insurance payments | $1-2 | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Transfer Payments | Workers' compensation payments | $0.05 | ✔ | ✘ | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Transfer Payments | Social Security | $6-7 | ✔ | Some | ✔ | ✔ | ✔ | ✔ | Some | ✔ |
| Transfer Payments | Earned Income Tax Credit (EITC) | $0.5 | ✔ | ✘ | ✔ | ✘ | ✘ | ✘ | ✘ | ✘ |
| Transfer Payments | Government cash transfers besides EITC | $1 | ✔ | Some | ✔ | ✔ | ✔ | ✔ | ✘ | ✔ |
| Transfer Payments | In-kind government transfers (food stamps, housing, WIC, Medicaid, Medicare, etc.) | $11-13 | ✔ | ✘ | ✔ | ✘ | Some | ✘ | ✘ | ✘ |
| Transfer Payments | Supplemental Security Income (SSI) | $0.2 | ✔ | ✘ | ✔ | ✔ | ✔ | ✔ | ✘ | ✔ |
| Transfer Payments | Disability & survivor payments (Non-SSI) | $0.2 | ✔ | Some | ✘ | ✘ | ✔ | ✔ | ✔ | ✔ |
| Transfer Payments | Veterans' payments (besides educational) | $0.9 | ✔ | ✘ | ✔ | ✔ | ✘ | ✔ | ✔ | ✔ |
| Transfer Payments | Private cash transfers/gifts/transfers from non-profits | $1 | ✔ | ✘ | ✘ | Some | ✔ | ✔ | ✔ | Some |
| Transfer Payments | Alimony | $0.1 | ✔ | Some | ✘ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Transfer Payments | Child support | $0.02 | ✔ | ✘ | ✘ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Transfer Payments | Educational assistance (other than as compensation) | $0.9 | ✔ | ✘ | ✔ | Some | Some | ✔ | ✘ | ✘ |
| | **Estimated Total State Income Amount ($ billions, 2020)** | | **N/A** | **$119** | **$171** | **$77** (Labor income only) | **$109**[3] (2019) | **$127** | **N/A** | **N/A** |

1. Added then deducted; nets to zero
2. Includes monetary and imputed interest
3. Estimated using average U.S. household income as reported by the Federal Reserve multiplied by number of Utah households as reported by U.S. Census Bureau.

Note: This material is for informational purposes only and is not intended to provide, and should not be relied on for, tax, legal, or accounting advice.
The information presented in this table represents the general rule. Exceptions may apply.

Sources: Individual entities listed above and John Brooks, *The Definitions of Income*

# Individual Income Tax Base

To understand income taxes, policymakers must understand the income tax base. This comprehension includes a knowledge of the relationship between federal and state income taxes, major sources of income, Utah wage comparisons, who pays income taxes, and the use of deductions and credits.

## Federal Income Taxes

**TOTAL INCOME Includes Income from:**

- Wages
- Dividends
- Capital Gains
- Interest
- Pension
- Social Security
- Unemployment
- Rental Income
- 401k

**Minus Deductions**

**Above the Line Examples:**

- Health Savings Account
- Student Loan Interest
- IRA Contributions

**Adjusted Gross Income (AGI)**

**Minus Deductions**

**Whichever is Greater:**

**Standard:**

- Single or Married Filing Separately: $13,850
- Married Filing Jointly or Surviving Spouse: $27,700
- Head of Household: $20,800

OR

**Itemized:**

- Home Mortgage Interest Deduction
- Charitable Contributions
- State and Local Taxes up to $10,000
- Medical and Dental Expenses Above 7.5% of AGI
- Other

**Taxable Income**

**Times Tax Rate**

**Federal Rate per Income Level**

**Single:**

| | |
|---|---|
| $0–$11,000 | 10% |
| $11,001–$44,725 | 12% |
| $44,726–$95,375 | 22% |
| $95,376–$182,100 | 24% |
| $182,101–$231,250 | 32% |
| $231,251–$578,125 | 35% |
| $578,126 or more | 37% |

**Married Filing Jointly**

| | |
|---|---|
| $0–$22,000 | 10% |
| $22,001–$89,450 | 12% |
| $89,451–$190,750 | 22% |
| $190,751–$364,200 | 24% |
| $364,201–$462,500 | 32% |
| $462,501–$693,750 | 35% |
| $693,751 or more | 37% |

**Taxes Owed**

**Minus Credits**

**Top 5:**

- Earned Income Tax Credit
- Child Tax Credit
- Saver's Credit
- American Opportunity Credit
- Lifetime Learning Credit

**Taxes Due**

**Paid Through Withholding, Quarterly Estimated Payments, and/or Final Payment**

Note: Numbers are for tax year 2023.

Source: Kem C. Gardner Policy Institute analysis of Internal Revenue Service and Utah State Tax Commission data

**Federal Adjusted Gross Income is the Base Amount for State Income Tax**

**Federal Standard or Itemized Deductions are the Base for the State Taxpayer Tax Credit**

**Deduction Reduces Taxable Income**

**$20,000** Deduction
**X 4.65%** Tax Rate
= **$930** Reduction in tax

**Credit Reduces Tax Directly**

**$1,200** Tax Credit
($20,000 x 6%)
= **$1,200** Reduction in tax

## Utah Income Taxes

**Adjusted Gross Income (AGI)**

**Adjustments**

- State-specific adjustments for additional income sources and additional deductions

**Taxable Income**

**Times State Tax Rate**

**4.65%**

**Taxes Owed**

**Minus Credits**

Utah's income tax system remains moderately progressive due primarily to the "taxpayer tax credit." Certain taxpayers can also claim other credits.

**Taxpayer Tax Credit**

A taxpayer calculates the taxpayer tax credit by multiplying the taxpayer's federal standard or itemized deductions and a state-level personal exemption by 6%. Because the 6.00% used for this calculation is nearly 30% greater than the 4.65% tax rate, the tax credit calculation before phaseout is nearly 30% more generous than adopting the federal tax deduction would be. This tax credit phases out 1.3 cents per dollar above certain income thresholds (in 2022, about $15,500 for single and $31,000 married filers filing jointly). It is most generous for lower-income filers, often completely eliminating their state income tax. The highest income returns receive little or no credit because it is phased out.

**Other State Credits:**

- Retirement Credit
- Social Security Tax Credit
- Earned Income Tax Credit

**Taxes Due**

**Paid Through Withholding and/or Final Payment**

> *"Adjusted gross income (AGI) is the tax law measure of aggregate tax-bearing capacity."*
>
> John Mikesell

# Major Sources of Income in Utah

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

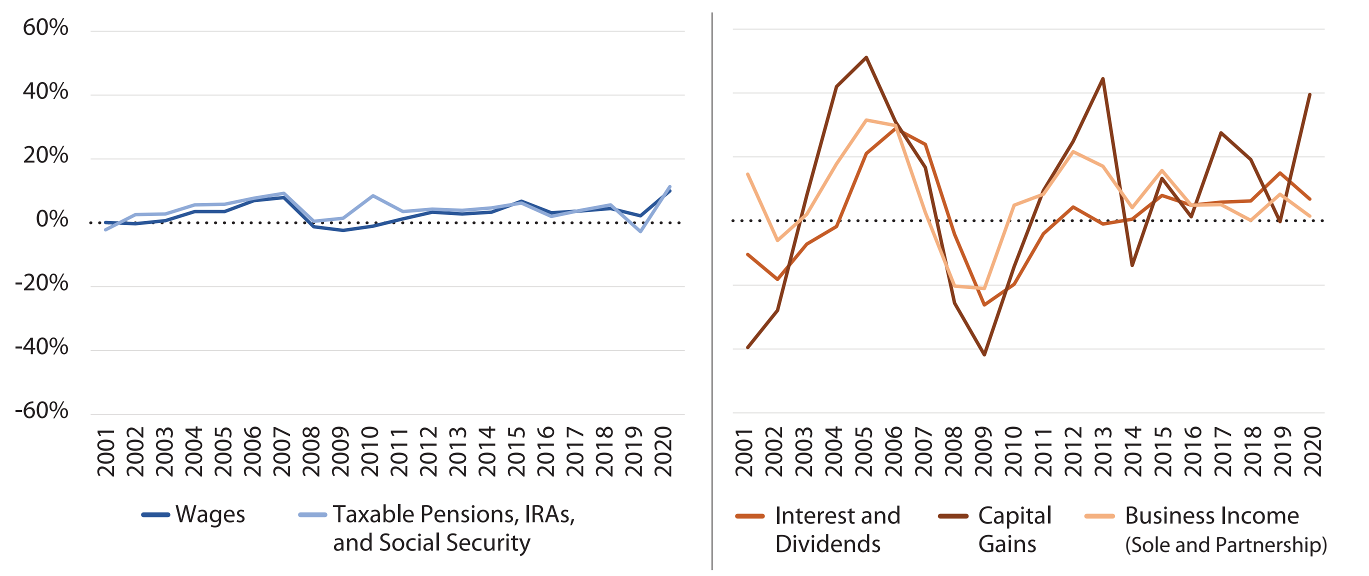
Figure 19: Utah Individual Income by Source, 2020

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


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

Figure 20: Year-Over Growth Rates for Various Major Sources of Utah Individual Income, 2001-2020

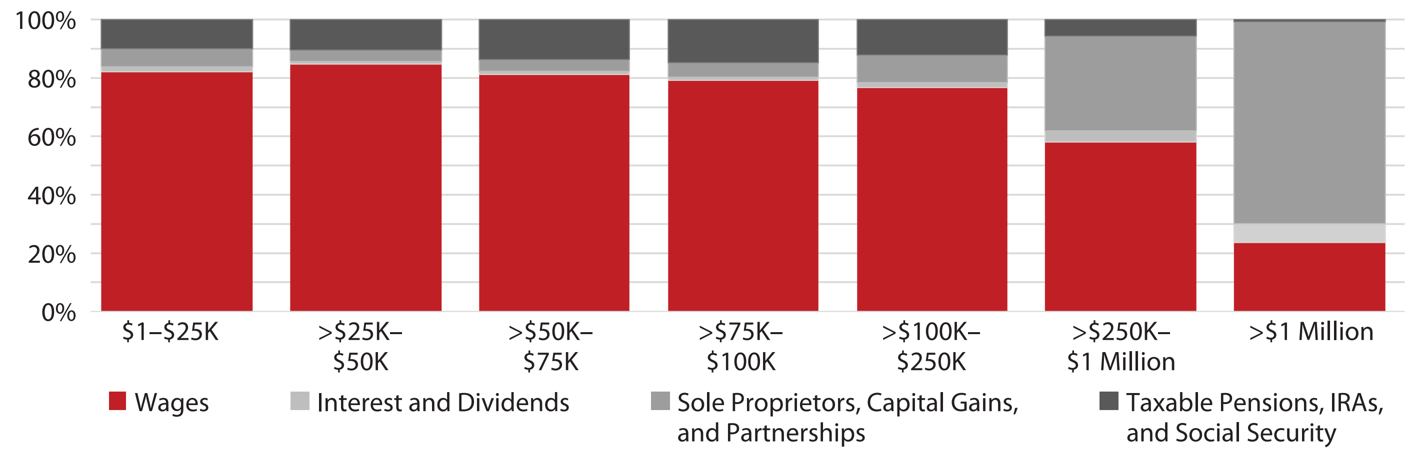
Source: Utah State Tax Commission




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

Figure 21: Income Source Composition by Utah Income Level, 2020

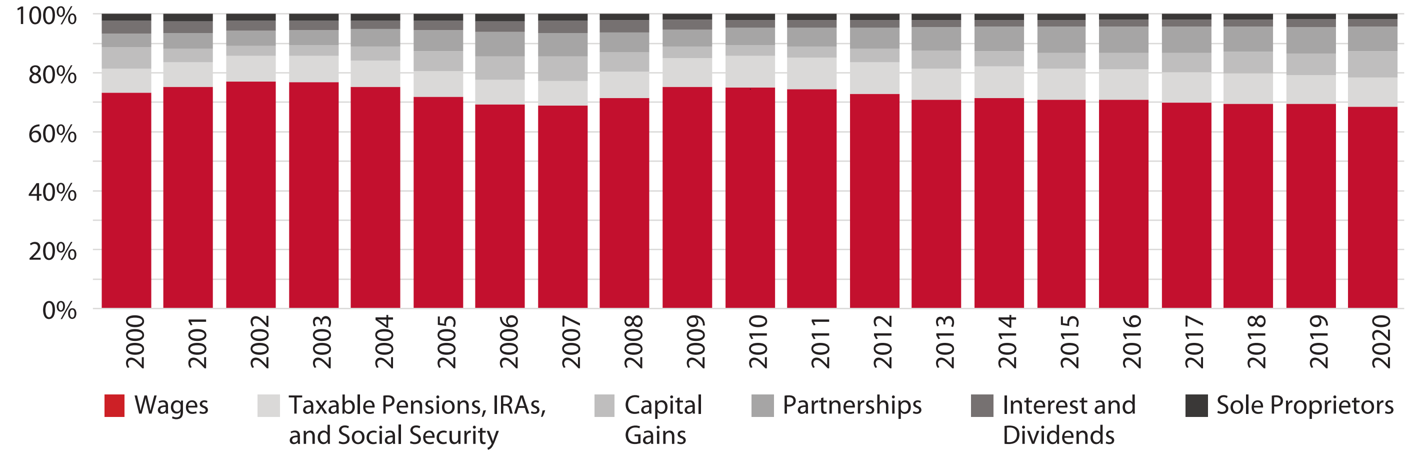
Source: Utah State Tax Commission




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

Figure 22: Composition of Utah Individual Income Sources, 2000-2020

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



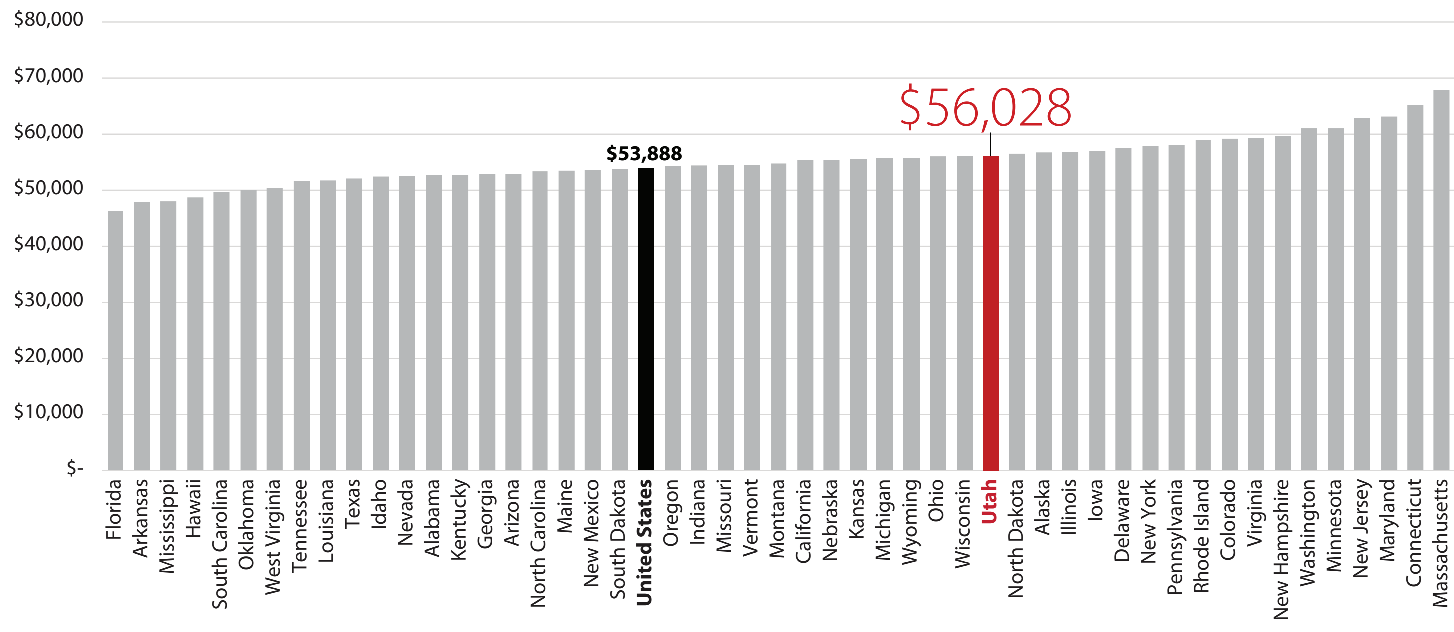
# Understanding Wages: Is Utah Really a Low-Wage State?

***Utah full-time worker wages adjusted for purchasing power higher than national average***

Figure 23: Full-time Worker Median Wages Adjusted for Purchasing Power by State, 2021

Note: Uses U.S. Bureau of Economic Analysis purchasing power parity estimates by state.

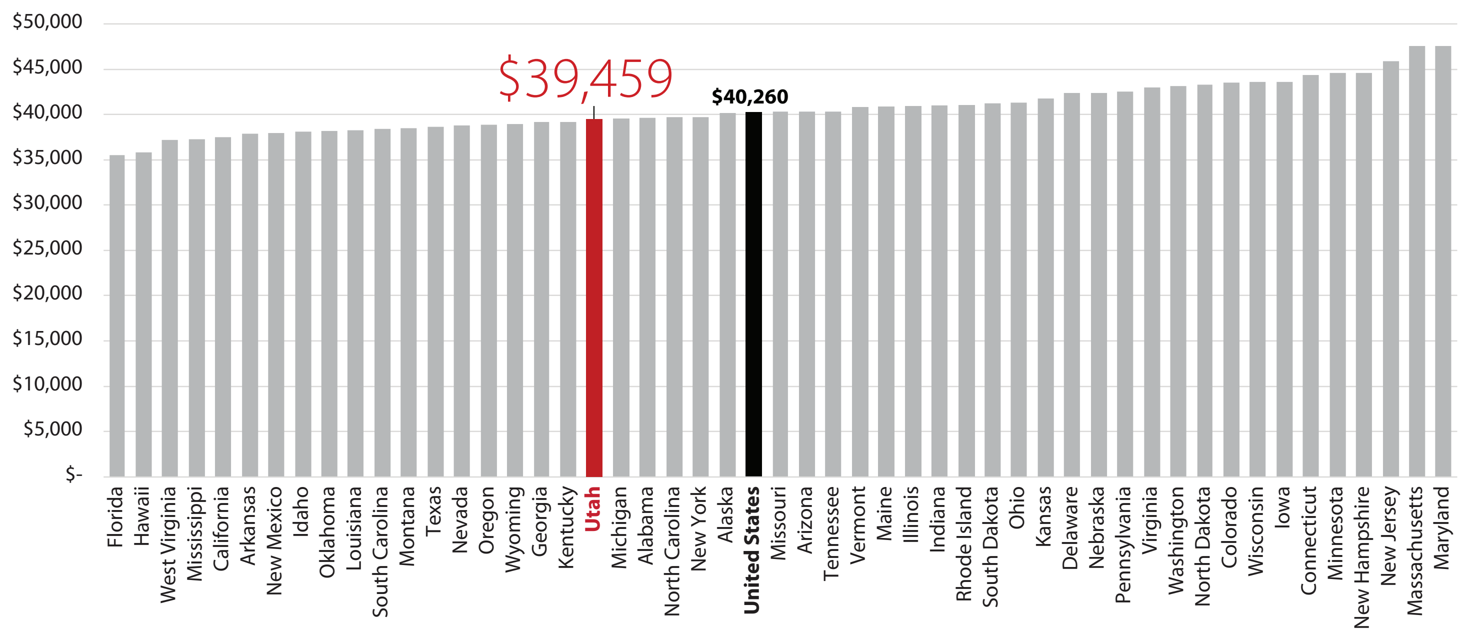
Sources: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics




***Part-time workers pull down Utah's average wage***

Figure 24: Full- and Part-time Worker Median Wages Adjusted for Purchasing Power by State, 2021

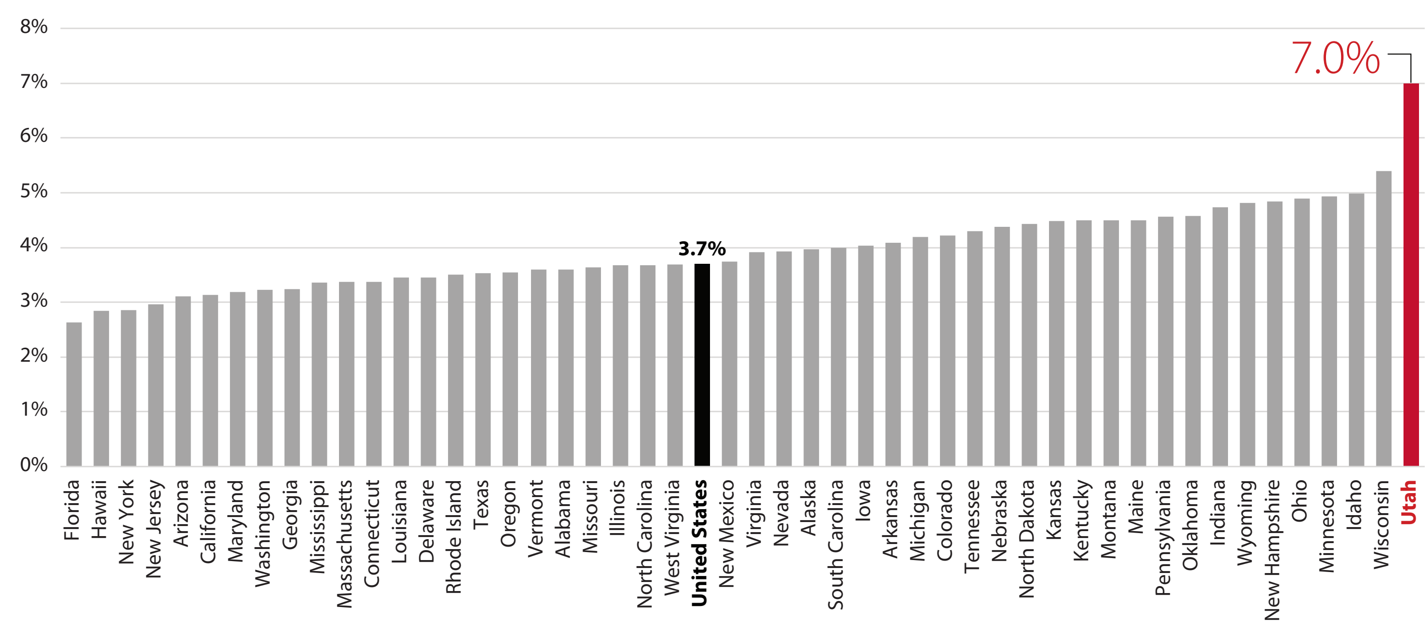
Sources: U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics




***Utah's teenagers as a share of labor force largest by far among states***

Figure 25: Teenagers as a Share of Labor Force by State, 2021

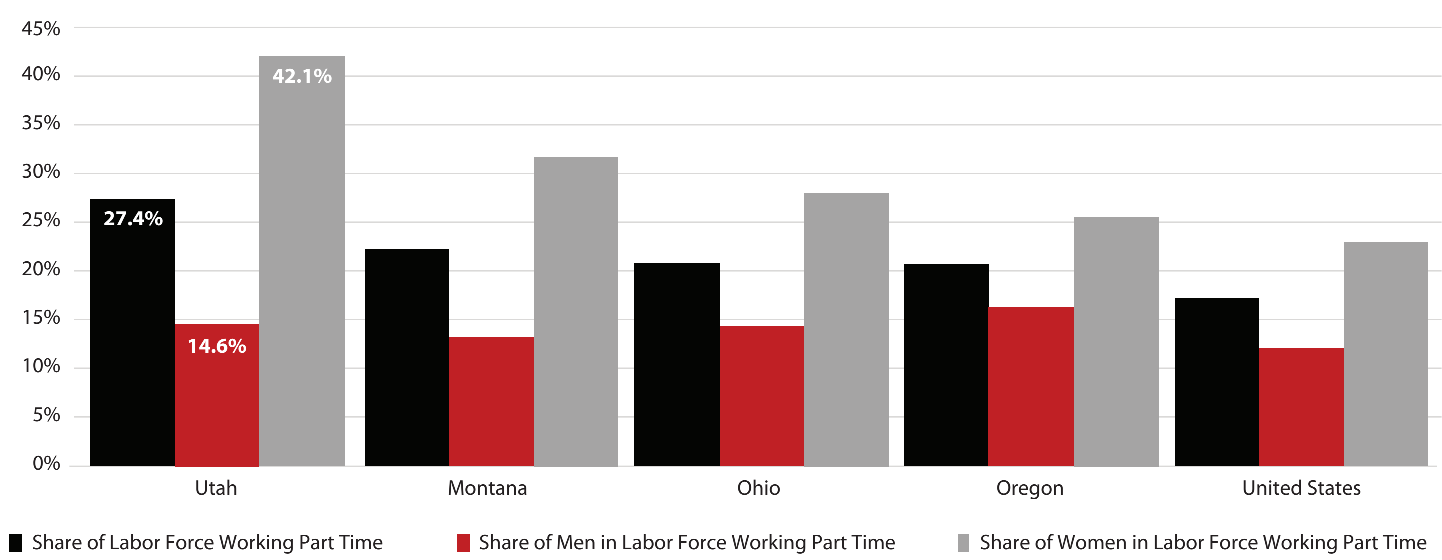
Source: U.S. Bureau of Labor Statistics




***Utah has highest share of part-time workers***

Figure 26: States with Highest Share of Part-Time Workers, Total and by Sex, 2021

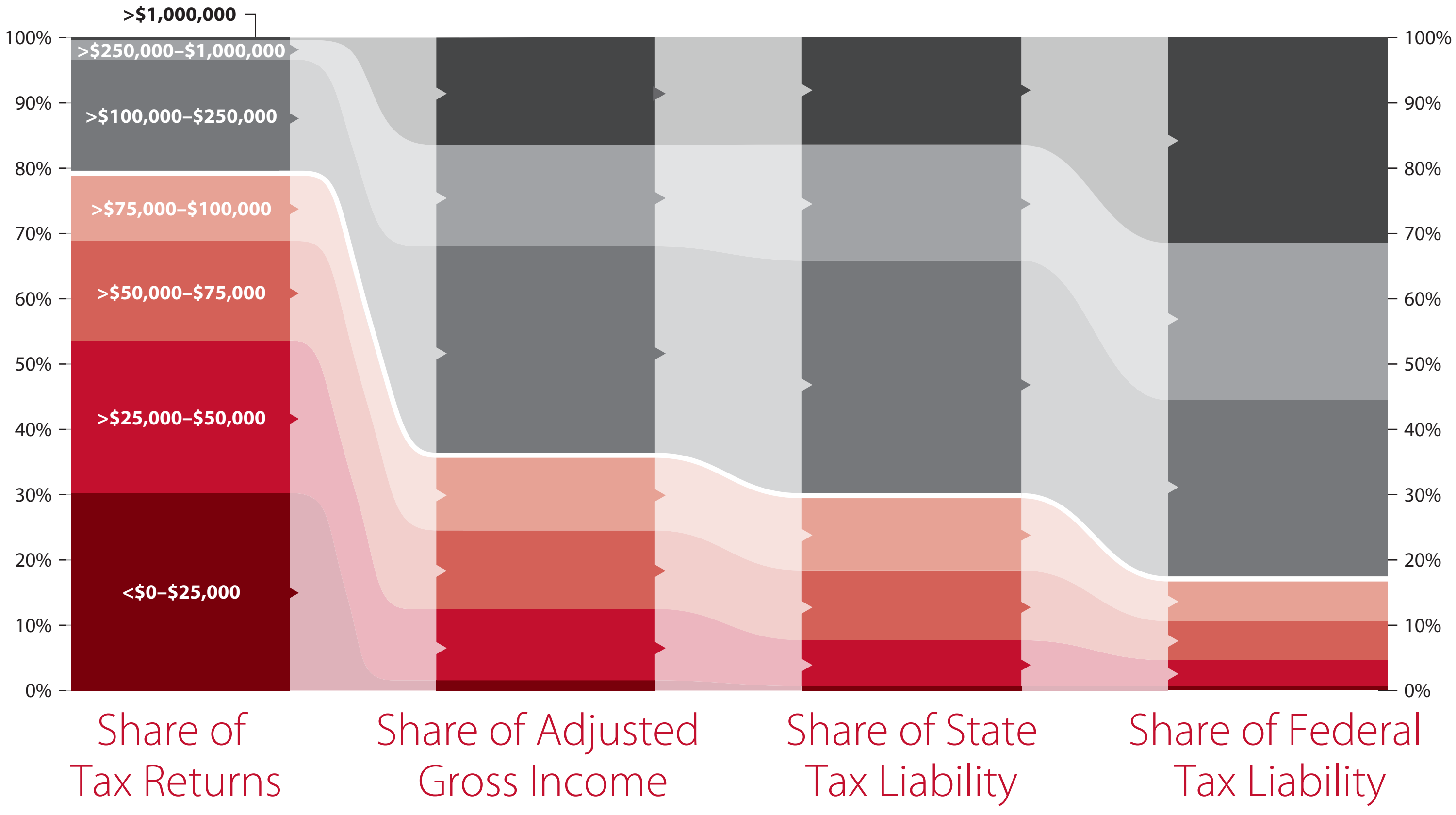
Source: U.S. Census Bureau



***High-income filers get most of the income, pay most of the income tax***

Figure 27: Utah Return-Level Share of Returns, AGI, State Tax, and Federal Tax by Income Group for Full-Year Resident Filers, 2020

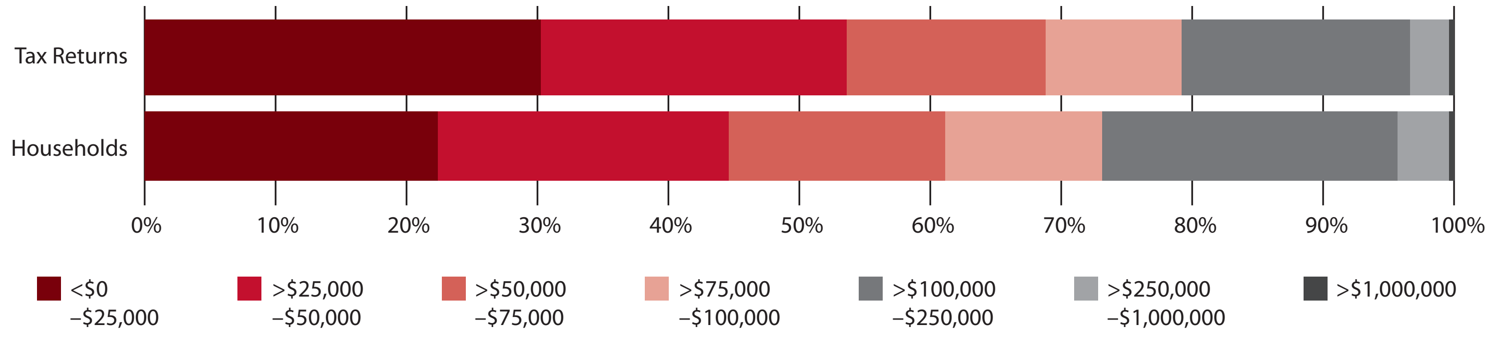
Source: Utah State Tax Commission




***Not all low-income tax return filers come from low-income households***

Figure 28: Utah Tax Returns and Households by Income Group, 2020

Source: Utah State Tax Commission




**Not All Utahns Pay State Income Taxes**

State law exempts those with income below the federal standard deduction (and now-inactive federal personal exemption) from even filing an income tax return. Some may also illegally evade the tax. In addition, 25% of state tax returns have no ultimate tax liability due primarily to tax credits. Viewed through a population lens, tax returns do not include roughly 13% of Utahns. Another 17% of Utahns accounted for on a tax return end up with no tax liability. That is, an estimated 30% of Utahns live in a household that does not pay individual income taxes (they do pay other taxes such as the sales tax). Some people have income tax withheld but do not file a return.

**Distribution of Income and Income Taxes**

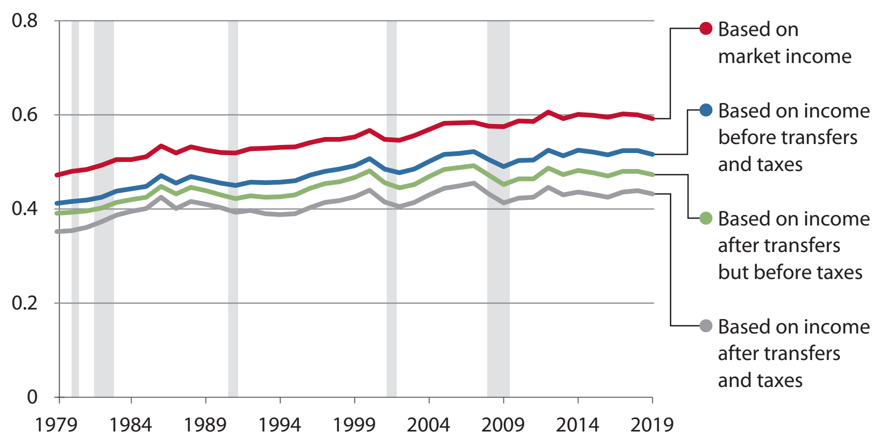
As Figure 27 shows, high-income tax filers get most of the adjusted gross income (AGI) and pay most of the state income tax. For example, the 0.3% of filers with AGI above $1 million have over 16% of Utah's AGI and pay over 16% of Utah's income taxes, while the nearly 3% of filers with AGI between $250,000 and $1 million also have about 16% of AGI and pay about 18% of the tax. Said differently, about 3.3% of tax filers get about 32% of AGI and pay about 34% of the state income tax. The federal income tax is highly progressive, so the highest income earners pay even more of the Utah taxpayers' share of federal income taxes.

**Income Inequality Over Time**

Many argue that income increasingly shifted upward to higher income households with higher income and wealth in recent decades. Explanations for this shift include globalization, automation, market power of large corporations, and government tax and spending policy. Others argue that income measures commonly used to approximate income inequality fail to account for taxes and transfer income (Table 2), that consumption better measures wellbeing, and that absolute measures of standard of living have improved overall, even for those with a smaller share of income.

***Income inequality has increased in recent decades, but magnitude varies depending on income measure selected***

Figure 29: U.S. Income Inequality as Measured by the Gini Coefficient, 1979–2019

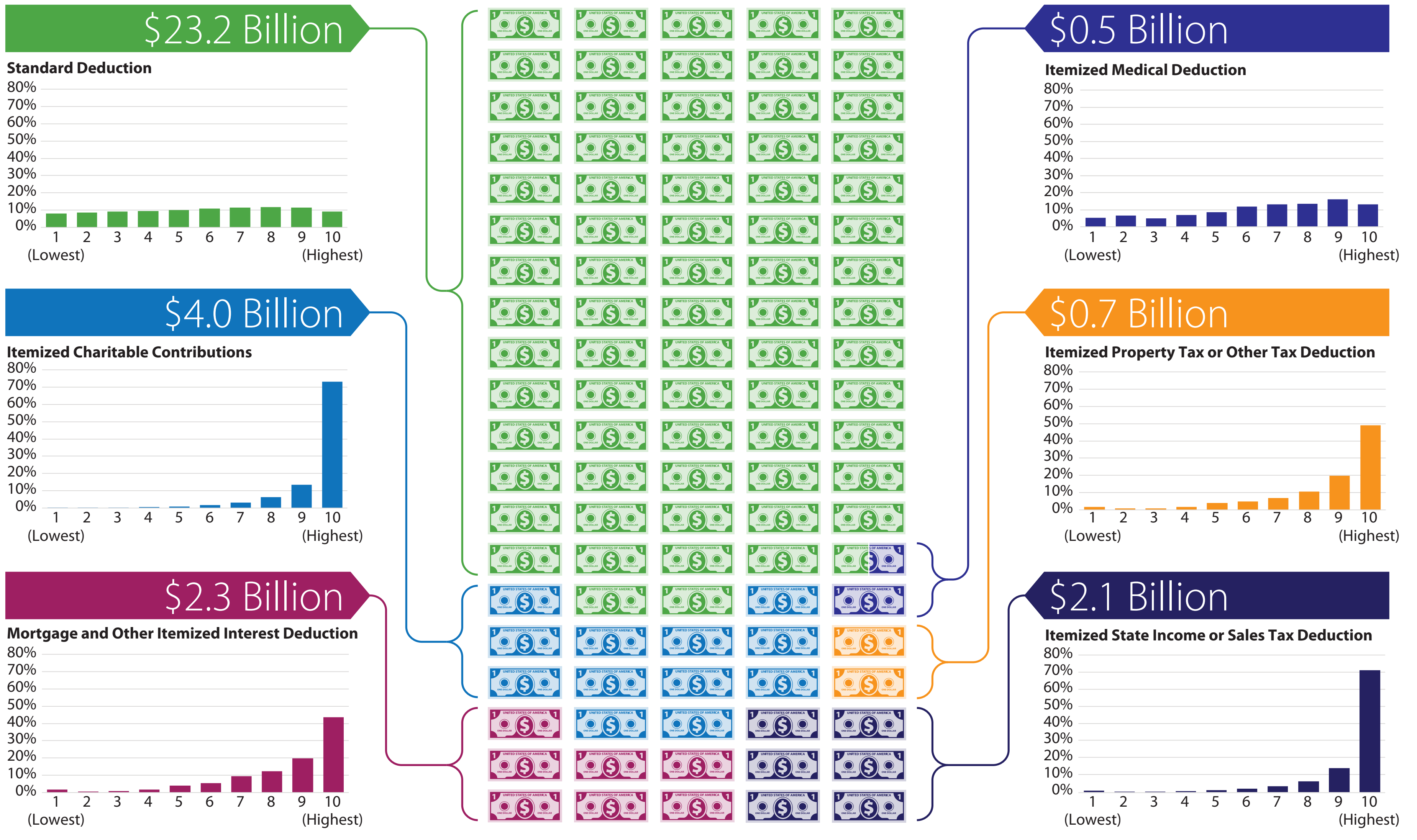



Note: Gini Coefficient scores range from 0 to 1, with a 0 indicating perfect equality and a 1 indicating perfect inequality. Shaded areas indicate periods of recession.

Source: Congressional Budget Office

## *Standard deduction largest deduction claimed; itemized deductions largely benefit high-income households*

Figure 30: Share of Federal Deduction Value by Utah Household Income Decile, 2020

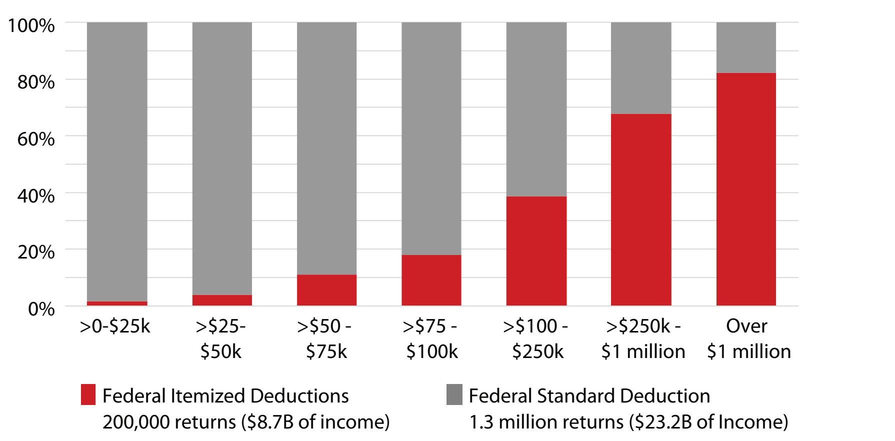



Note: This data may differ from return-level data because it is aggregated to households.

Source: Utah State Tax Commission

## *Most low- and middle-income returns claim standard deduction; most high-income returns itemize deductions*

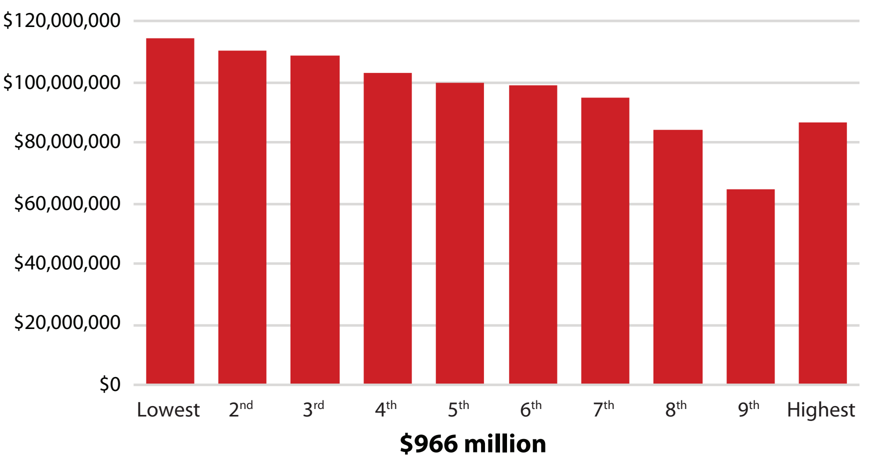
Figure 31: Itemized vs Standard Deductions by Utah AGI Class, 2020




Source: Utah State Tax Commission

## *Taxpayer tax credit is the largest state tax credit*

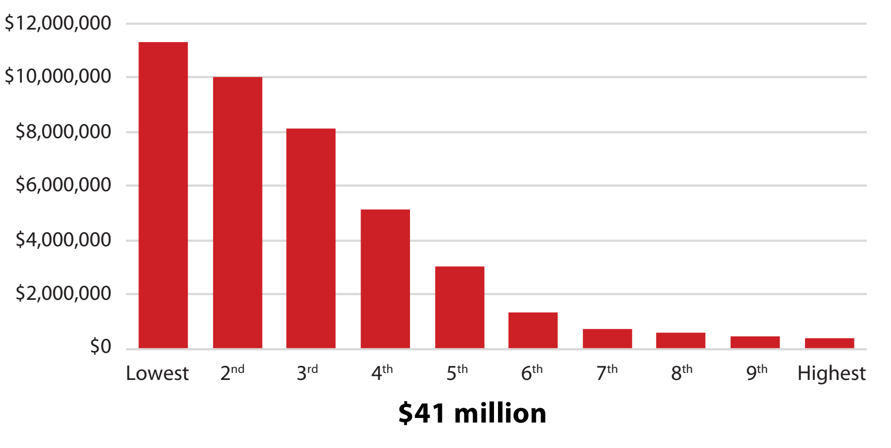
Figure 33: State Taxpayer Tax Credit by Utah Household Income Decile, 2020




Source: Utah State Tax Commission

## *Retirement tax credit largely benefits low- to middle-income returns*

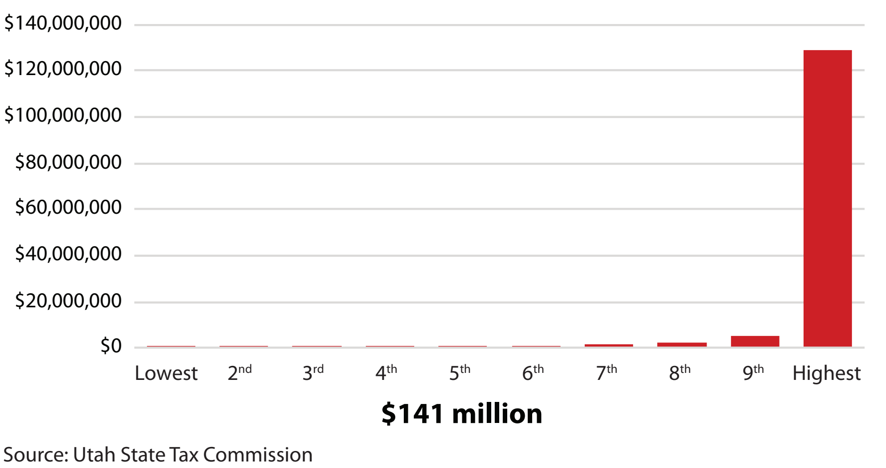
Figure 32: State Retirement Tax Credit by Utah Household Income Decile, 2020




Source: Utah State Tax Commission

## *High-income households often pay income tax in multiple states and receive tax credit to offset other states' tax*

Figure 34: State Credit for Income Taxes Paid to Other States by Utah Household Income Decile, 2020




Source: Utah State Tax Commission

# Individual Income Tax Rates

Although some call Utah's income tax system a "flat tax," a "single rate tax" better describes its design. The term "flat tax" generally means a single income tax rate applied universally to all income. Even though Utah has a single 4.65% statutory tax rate (2023), this rate does not apply universally to all income, predominantly because of tax credits. Utah's tax system is moderately progressive, due primarily to a tax credit called the "taxpayer tax credit" that most filers claim. That is, those at higher income levels generally pay a larger share of their income in individual income tax than lower income households do (Figure 38).

**Comparison with Other States**

Figure 36 compares Utah's statutory income tax rate with other states' highest marginal income tax rate. As shown, seven states do not impose an income tax - these states impose higher rates on other major taxes like the property tax or sales and use tax. Of the 43 states that do impose the individual income tax, Utah's tax rate ranks 33rd highest (meaning ten states that impose an income tax have lower tax rates).

**Marginal Tax Rates: Statutory vs Actual**

A marginal tax rate is the rate on an incremental dollar of income earned. Utah's 2023 statutory tax rate is 4.65% (Figure 35). However, this is not the actual marginal tax percentage most taxpayers pay on a marginal dollar earned. Most taxpayers pay 5.95% of each incremental dollar due to the taxpayer tax credit phaseout (Figure 37).

In other words, a person earning $100 more in income will pay $5.95 more in state individual income tax, not $4.65 more. The difference from the 4.65% statutory rate is the 1.30% taxpayer tax credit phaseout. Taxpayers receiving other credits with phaseouts may pay higher actual marginal tax rates.

## Statutory tax rate

The income tax rate imposed by statute, before any adjustments for tax credit phaseouts. As of 2023, Utah's statutory tax rate is 4.65%.

## Effective tax rate

The effective tax rate is tax liability divided by income, representing the percentage of income paid in tax (or average tax rate on **ALL** dollars of income). For most filers, the effective tax rate will be less than 4.65%. As of 2021, the statewide median effective tax rate per return is 3.30%.

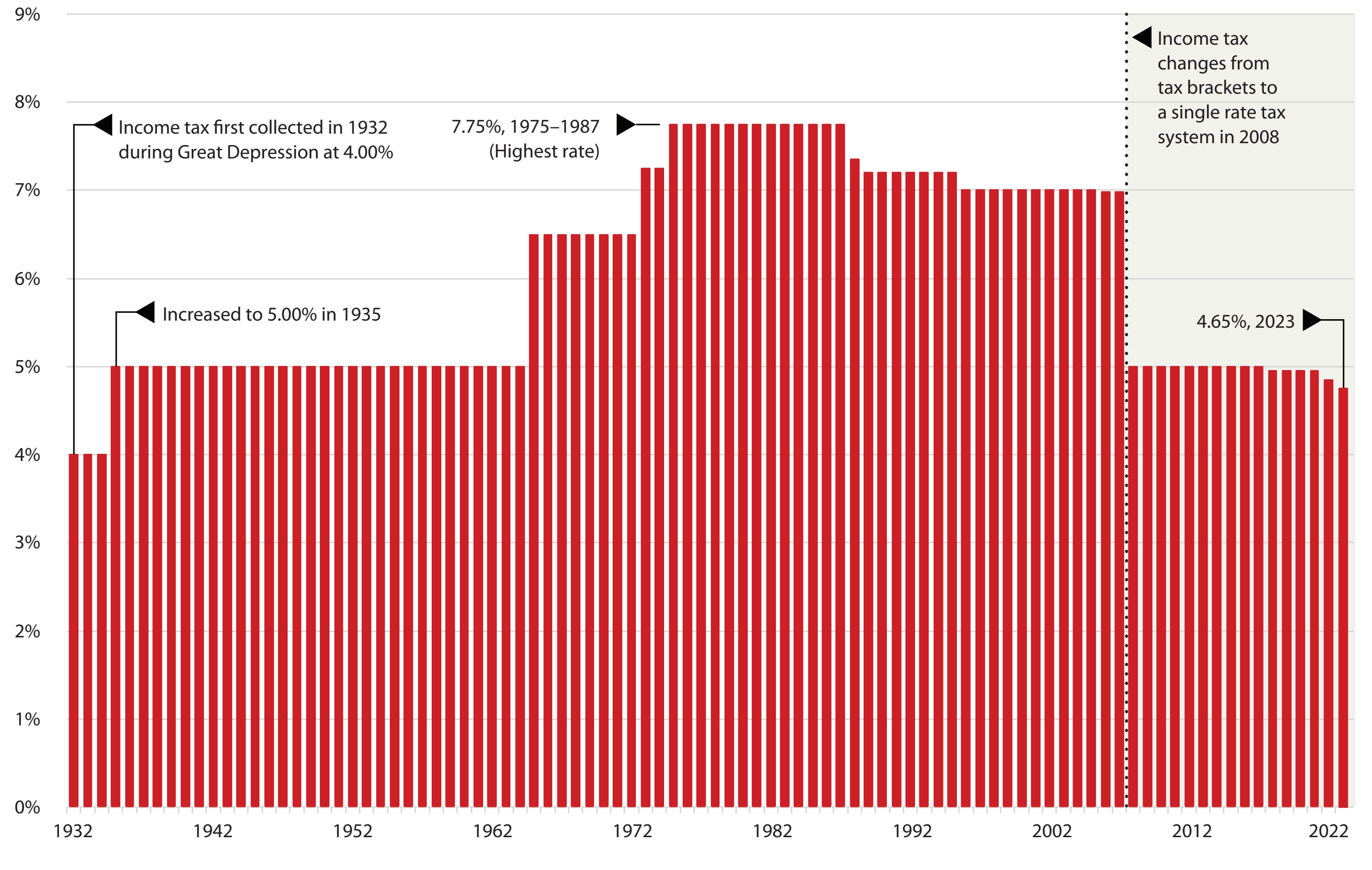
## Marginal tax rate

The marginal tax rate is the net tax rate on the **NEXT** dollar of income. It may vary from the statutory tax rate due to tax credits, including credit phaseouts. Most taxpayers pay an actual marginal tax rate of 5.95% (4.65% statutory rate + 1.30% taxpayer tax credit phaseout rate).

***Utah's top income tax rate now lowest in nearly ninety years***

Figure 35: Top Statutory Marginal Tax Rate in Utah, 1932-2022

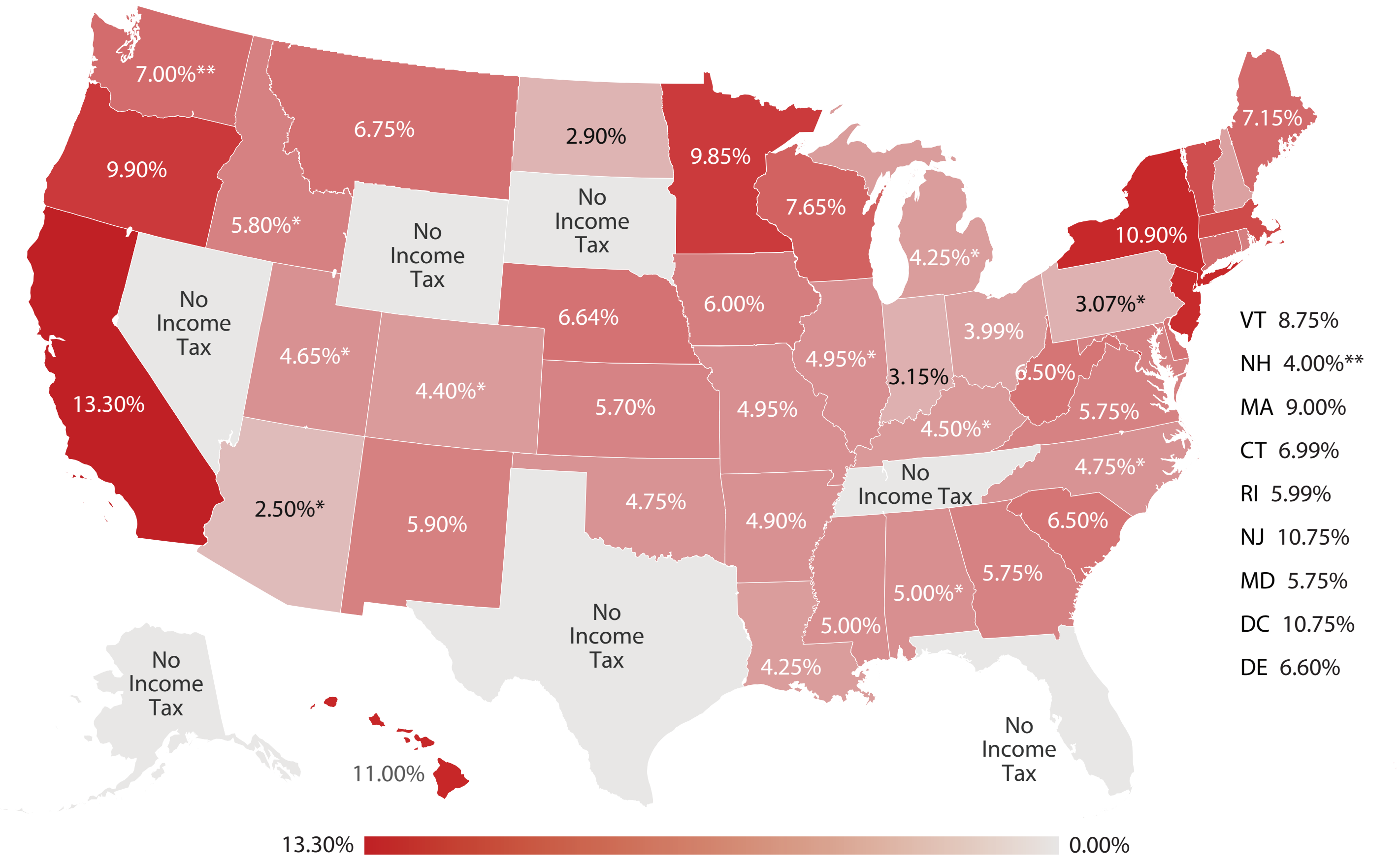
Source: Utah State Tax Commission



***Income tax rates vary dramatically among states***

Figure 36: Top Marginal Individual Income Tax Rates by State, 2023

*State has a single income tax rate.
**Washington taxes capital gains income only; New Hampshire taxes interest and dividends income only.
Source: Tax Foundation

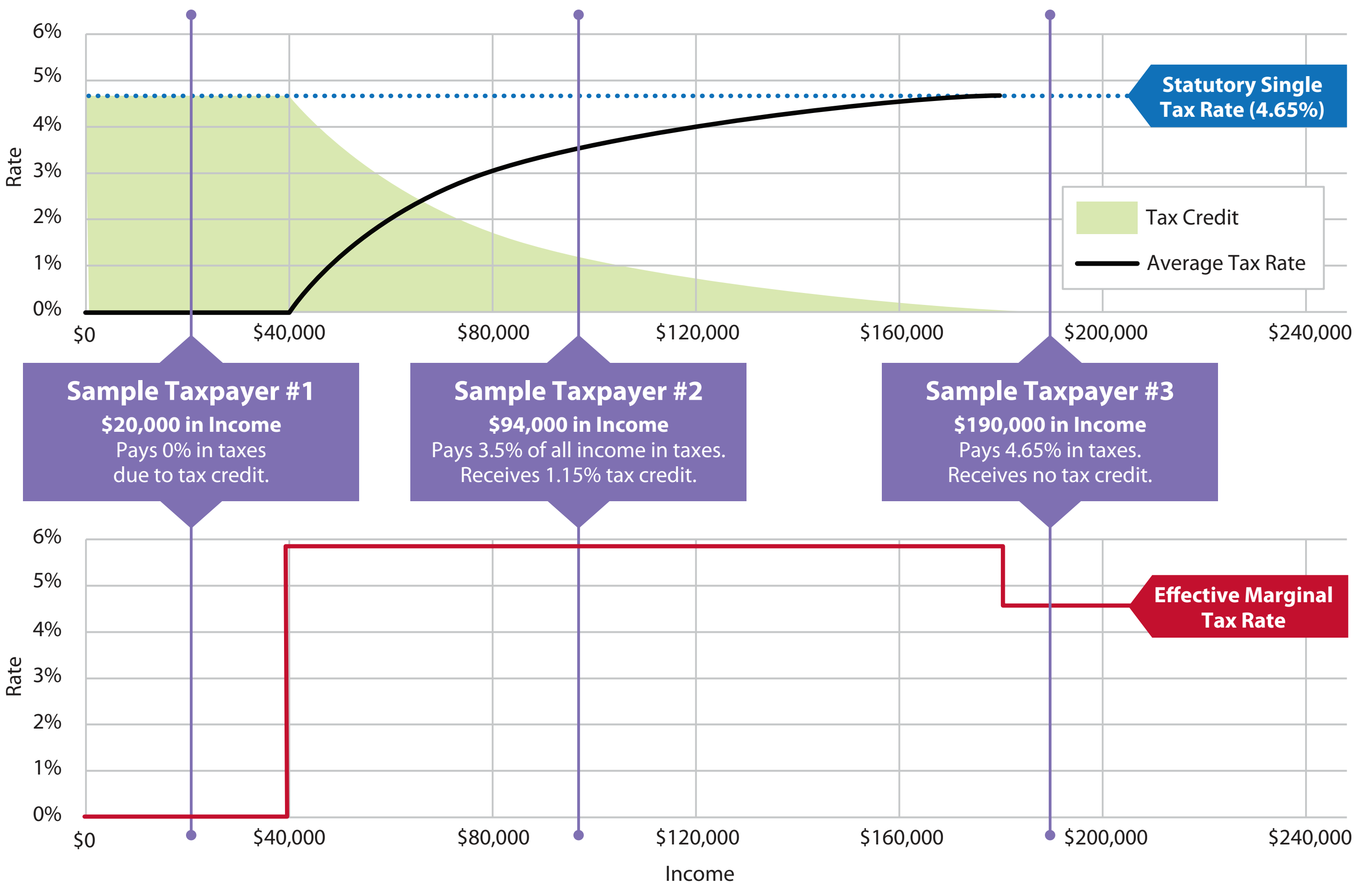



***Most taxpayers pay less than the 4.65% statutory tax rate due to tax credits, but marginal rate higher***

Figure 37: Example of Differing Statutory and Effective Tax Rates at Different Income Levels

Note: Assumes standard deduction, two personal exemptions, and married-joint filing status. Other tax situations will vary.

Source: Kem C. Gardner Policy Institute

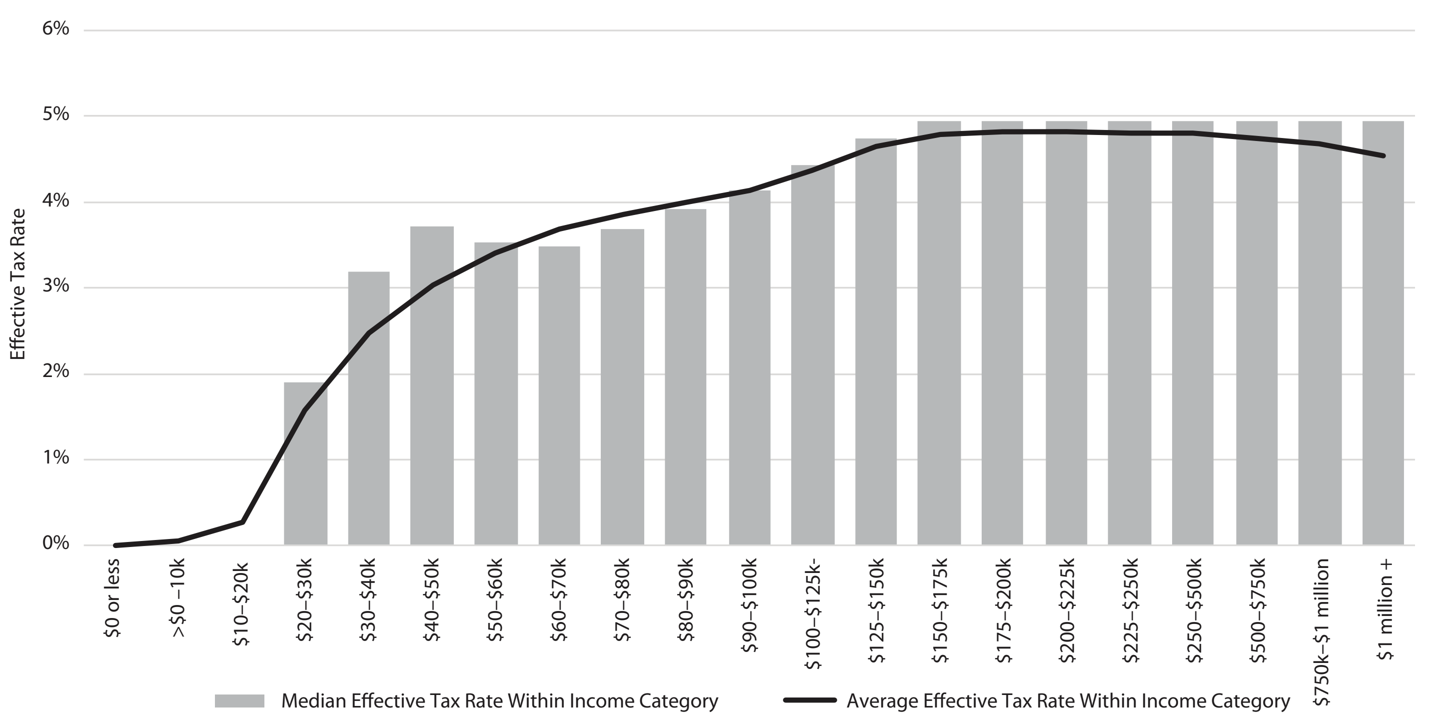



***Utah's income tax system moderately progressive***

Figure 38: Utah Effective Tax Rates, 2021

Note: Statutory income tax rate was 4.95% in 2021.

Source: Utah State Tax Commission



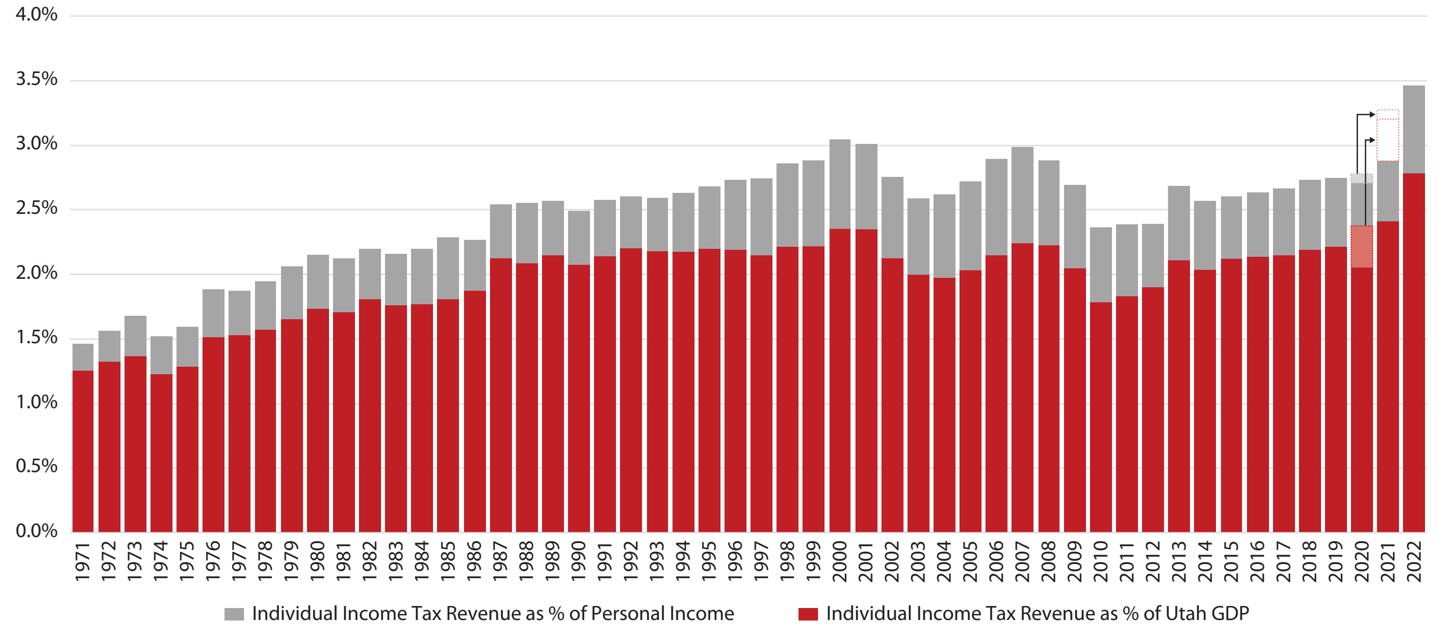
# Individual Income Tax Revenue

Key factors of Utah's individual income tax revenue in recent years include growth and volatility. Utah now relies more heavily on income tax revenues than many states and than Utah has historically. This means policymakers may need to consider various budgeting approaches to manage increasing volatility.

***Income tax revenue as a percent of the economy grew in recent years and spiked in FY 2022***

Figure 39: Utah Individual Income Tax Revenue as a Percent of Personal Income and GDP, FY 1971–2022

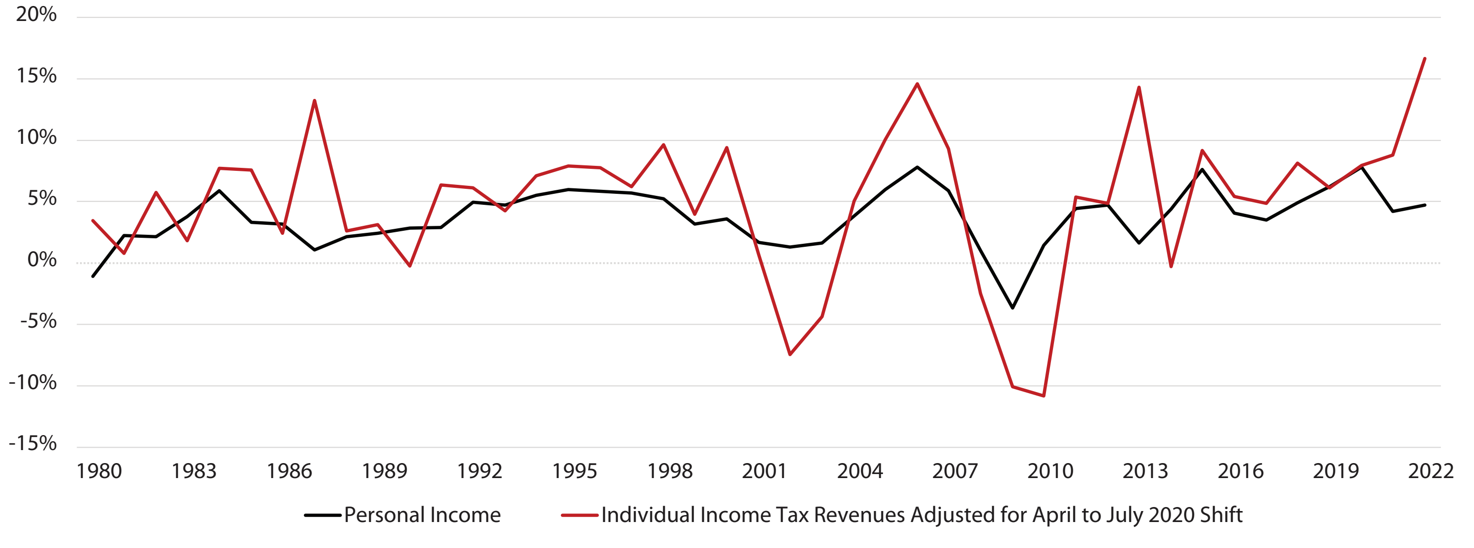
Sources: Utah State Tax Commission and U.S. Bureau of Economic Analysis




***Individual income tax revenue more volatile than personal income***

Figure 40: Utah Personal Income and Individual Income Tax Revenue Year-Over Percent Change, FY 1980–2022

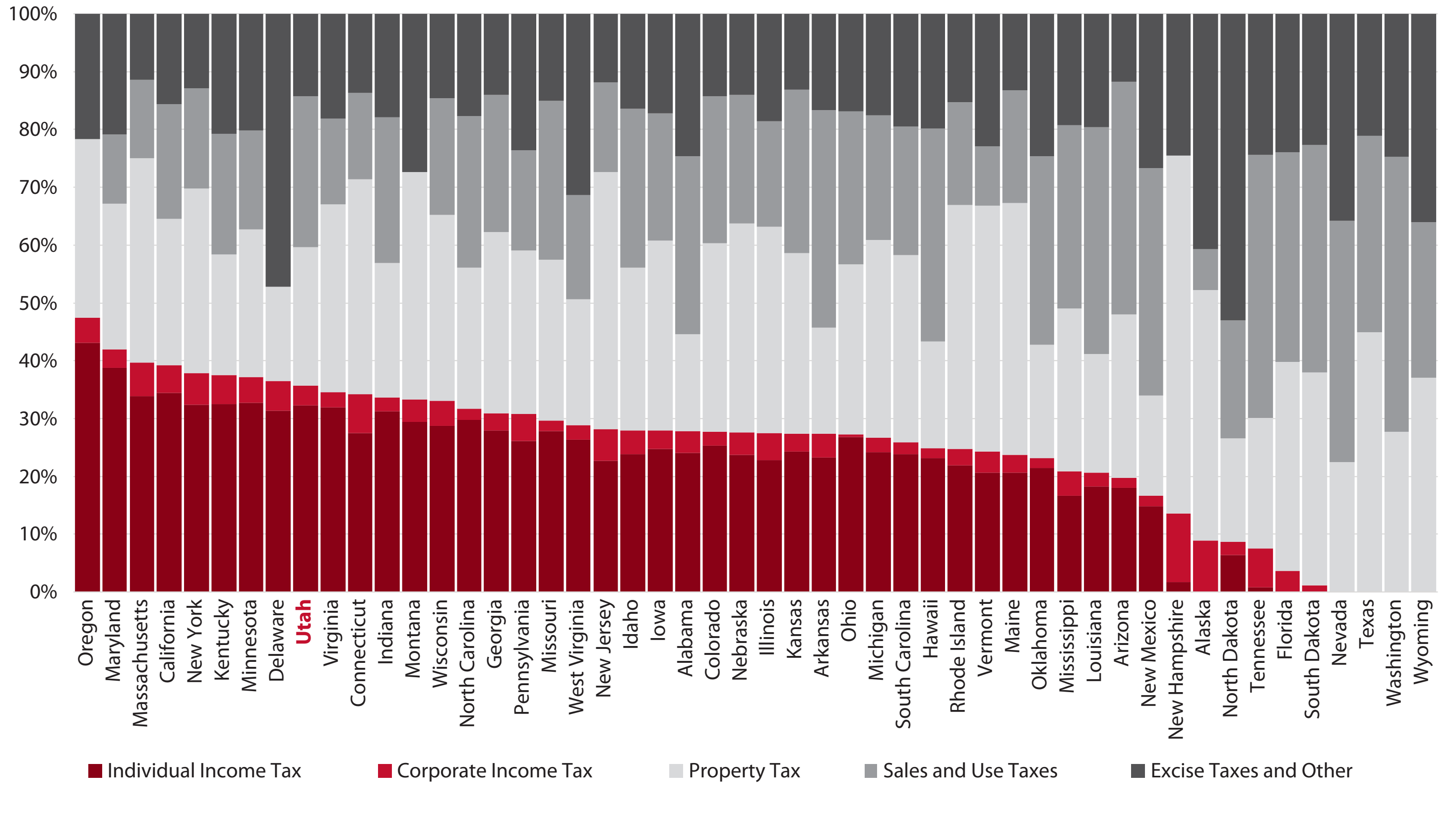
Sources: Utah State Tax Commission and U.S. Bureau of Economic Analysis




***Tax portfolios for state and local governments vary; Utah more reliant on income taxes than most states***

Figure 41: Source of State and Local Tax Revenues by State, 2019

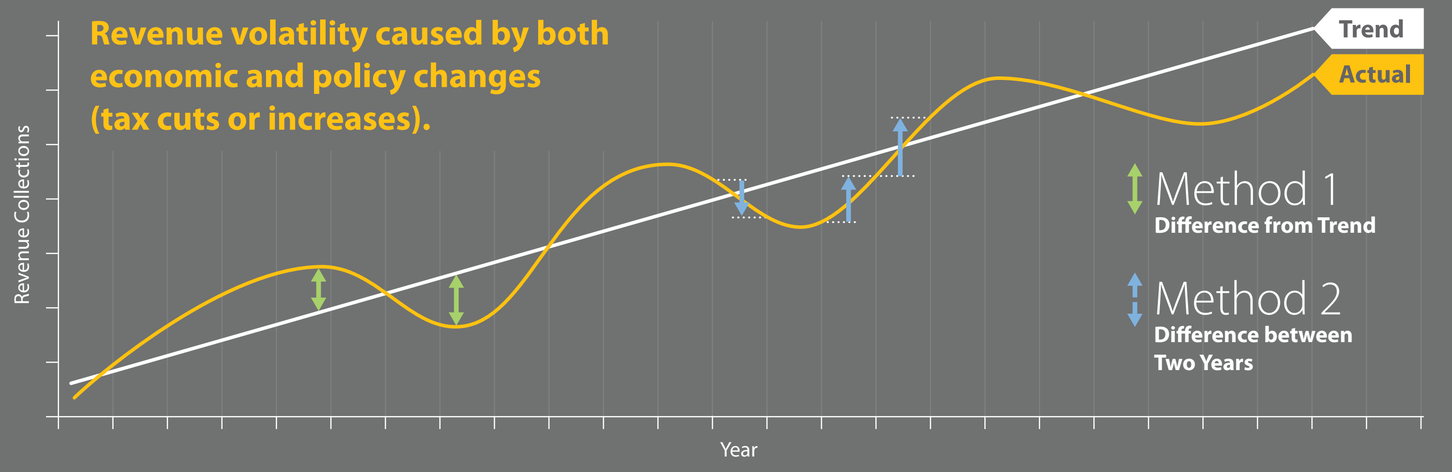
Source: U.S. Census Bureau



***Different revenue volatility measurements give different results***

Figure 42: Illustration of Two Approaches to Measuring Revenue Volatility

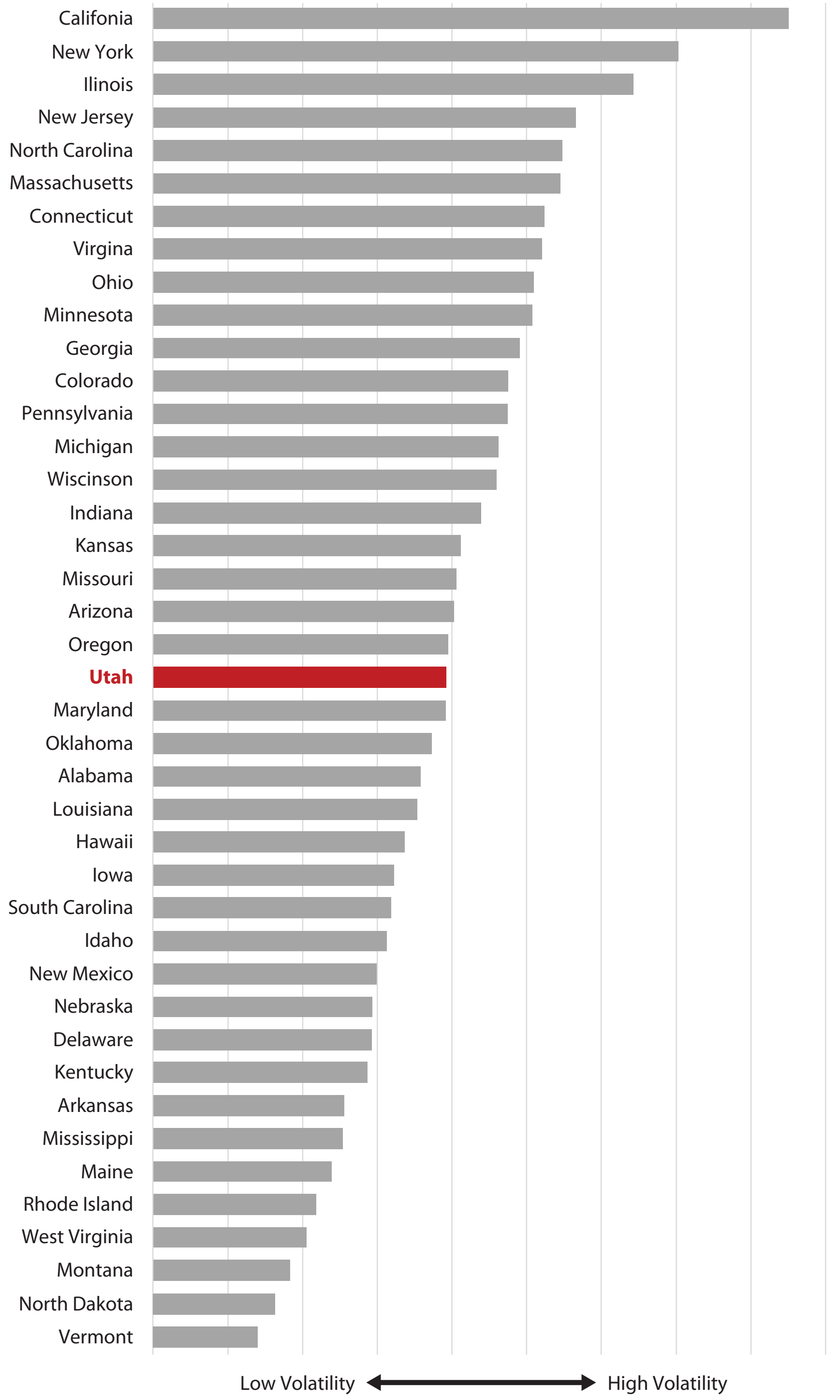
Source: Kem C. Gardner Policy Institute




By several measures, Utah's income tax volatility ranks among the middle of states, although rankings vary by method and time period. The figures below show individual income tax revenue volatility in the two decades prior to the pandemic. In part because Utah does not collect quarterly estimated payments, the tax filing deadline shift from FY 2020 into FY 2021 impacted Utah more heavily than other states, so measures including these years show much higher volatility for Utah. Highlighting potential measurement issues, North Dakota's individual income tax ranks 2nd least volatile by method one but is the most volatile according to method two.

***When measuring volatility from trend (Method 1), Utah individual income tax ranks 21st most volatile***

Figure 43: Individual Income Tax Revenue Volatility by State, FY 1999-2019

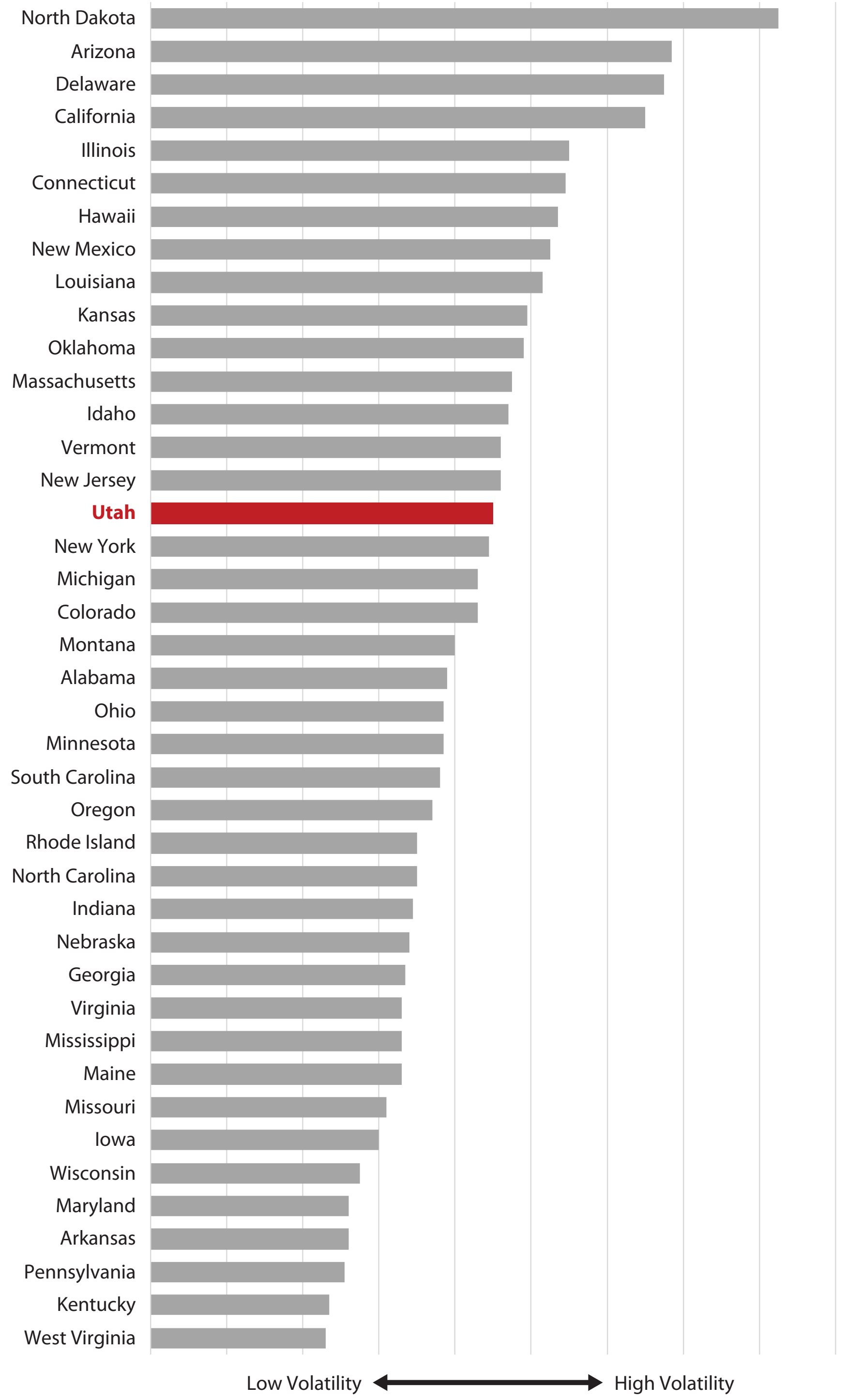



Note: Volatility index is calculated as the log of the absolute value of the residual from trend and scaled between 0 and 1. States not listed either do not impose an individual income tax or do not impose a broad-based individual income tax.

Source: Calculation based on methods by Seegert, N. (2015). The Performance of State Tax Portfolios During and After the Great Recession. National Tax Journal. 68(4): 901-918. https://www.journals.uchicago.edu/doi/abs/10.17310/ntj.2015.4.01?cookieSet=1

***When measuring total volatility (Method 2), Utah individual income tax ranks 16th most volatile***

Figure 44: Individual Income Tax Revenue Volatility by State, FY 1999-2019

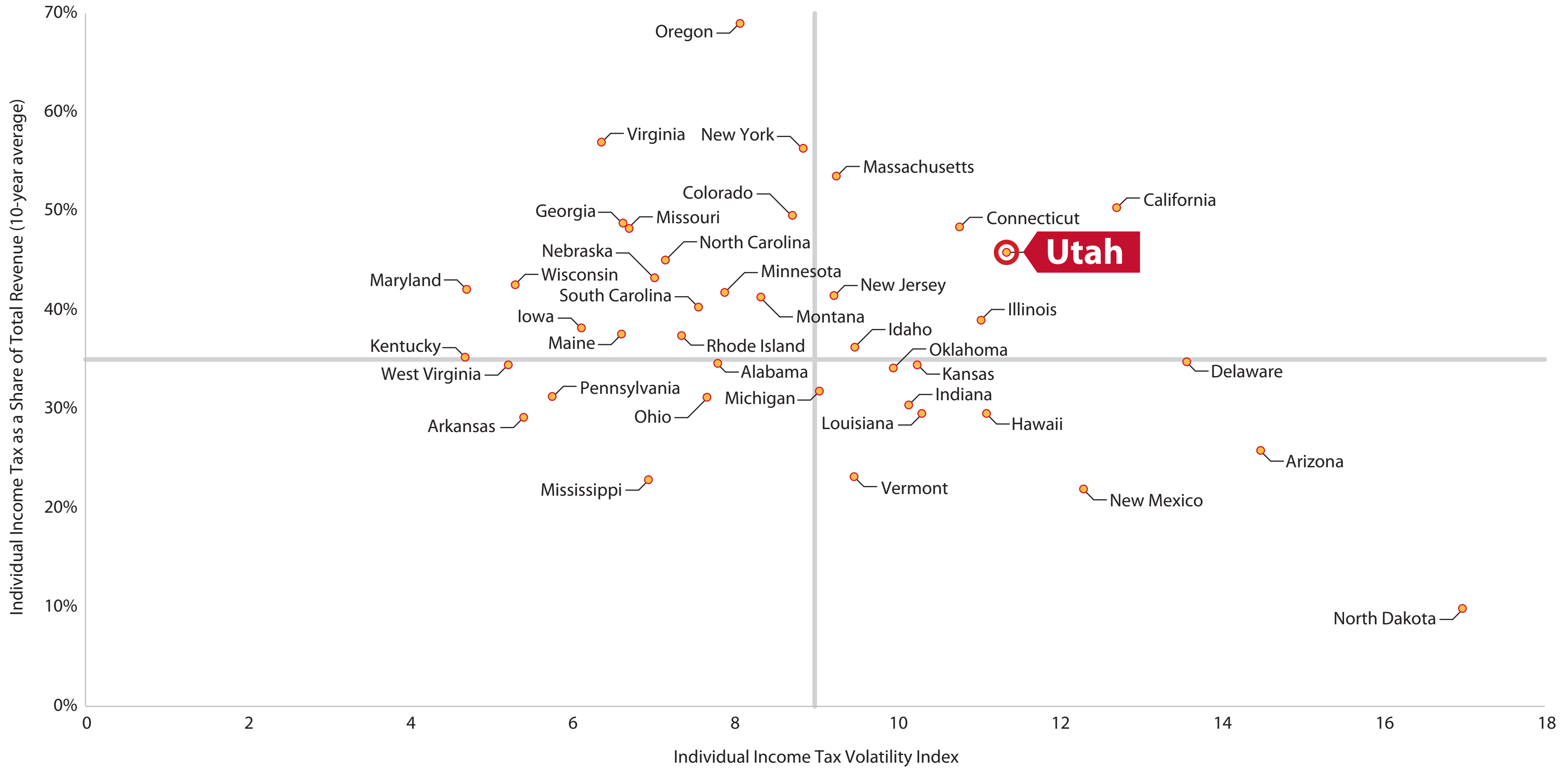



Note: The overall volatility score is based on the sample standard deviation of the yearly percent change in a state's total tax revenue. States not listed either do not impose an individual income tax or do not impose a broad-based individual income tax.

Source: The Pew Charitable Trusts

***With one volatility measure, Utah's income tax among most volatile when FY 2020 included; Utah relies on this revenue source heavily***

Figure 45: State Individual Income Tax Volatility Index and Individual Income Tax as a Share of Total Revenue, 2000–2020




Source: The Pew Charitable Trusts

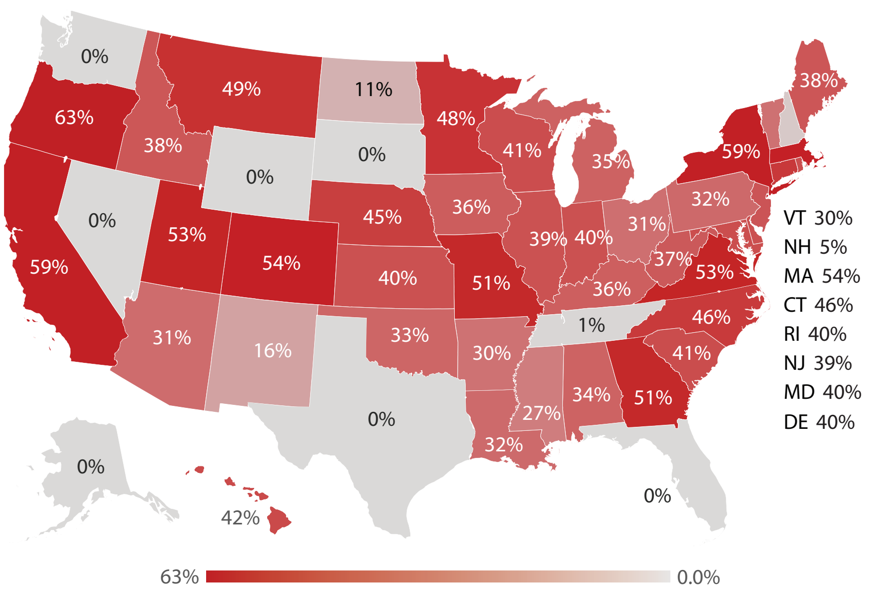
## Income Tax Revenue Volatility

Utah's income tax volatility in recent decades created budget challenges. Even though income tax revenues tend to decline during recessions, government service demands (including for education) do not decline. General Fund social service programs tend to be countercyclical, meaning service demand actually increases as firm layoffs lead to household income declines.

Multiple studies indicate that state tax systems nationwide have become more volatile in recent decades, primarily due to increased income tax reliance. Some measures show Utah has higher-than-average income tax volatility, while others show Utah less volatile. Prior to the past few decades, nominal individual income tax revenues rarely declined. In fact, collections declined in only six years between 1932 and 2000 (never declining between 1970 and 2000). Year-over revenue dropped in five years since 2000.

***Utah relies on income tax more than most other states***

Figure 46: Share of State-Only Tax Revenue from Individual Income Tax, 2021




Source: U.S. Census Bureau

*Increasing volatility means that budgeting approaches that served Utah well in prior decades may need continual adjustments to maintain structural budget balance over the modern business cycle.*

**Various budget design options exist for managing increased volatility:**

- Make the income tax less volatile
- Shift from income taxes to less volatile taxes like the property tax or fuel user charges
- Conservatively estimate revenues *(knowing this will create year-end surpluses most years)*
- Grow budget reserves such as rainy day funds

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**Kem C. Gardner Policy Institute**
Thomas S. Monson Center | 411 E. South Temple Street
Salt Lake City, UT 84111 | 801-585-5618 | gardner.utah.edu

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