Utah Property Tax
Myth Busters

Utah Property Tax: Trends and Choices
January 17, 2024
Our purpose is to help people make INFORMED DECISIONS™
“Don’t tax you, don’t tax me, tax that fellow behind the tree.”
Russell Long

“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

“The universal truth about taxation is that people want government without paying for it. The history of taxation is the story of a struggle among individuals and groups intent upon achieving that goal for themselves or for their groups.”
Glenn W. Fisher
Overview of Utah’s Property Tax

1. Property Tax in Utah’s Tax Portfolio
2. Key Property Tax Features
3. Property Tax Myth Busters
Property Tax in Utah’s Tax Portfolio
Tax Policy Tradeoffs

• Each tax exhibits strengths and weaknesses

• Carefully consider and confront tradeoffs among strengths and weaknesses

• Both from a system-wide perspective and on a tax-by-tax basis, work to minimize weaknesses to benefit from strengths
Households at different income levels pay more or less in different taxes.
Utah’s Tax Portfolio in FY 2023

- **Property, $5.0, 24%**
- **Sales - State, $4.5, 22%**
- **Sales - Local, $2.3, 11%**
- **Income - Individual, $6.4, 31%**
- **Income - Corporate, $0.9, 4%**
- **Motor Vehicle, $0.9, 4%**
- **Non-Motor-Vehicle Excise, $0.7, 4%**

$ in billions

Source: Utah State Tax Commission
Utah’s Tax Portfolio Real Per Capita
Cumulative 50-Year and Annual Long-Term Growth Rates

CAGR: 3.9%

Source: Utah State Tax Commission
Property Tax Features
Utah Property Tax Features

- Local (schools largest piece of property tax funding)
- Comparatively stable
- Transparent
- Direct
- Complex
- Broadest base of major taxes and paces with economy

- Lowest rate of major taxes
- Many services funded tie closely to property and property values
- Economically efficient
- Govt bears comparatively larger share of administrative burden
Property Tax Myth Busters
Fundamental Provision:

“So that each person and corporation pays a tax in proportion to the fair market value of his, her, or its tangible property, all tangible property in the State that is not exempt under the laws of the United States or under this Constitution shall be:

(a) assessed at a uniform and equal rate in proportion to its fair market value, to be ascertained as provided by law; and

(b) taxed at a uniform and equal rate.”

Utah Constitution Article XIII, Section 2 [Property Tax]
Myth 1 – The Utah Constitution is Silent on Property Taxes

Constitutional Exceptions to General Rule:

• Government property
• Religious property
• Up to 45% of fair market value of residential property
• Household furnishing and equipment
• Agricultural land at value for agricultural purposes
• Various others
Myth 2 – Property Tax Only Funds Counties Since Counties Collect the Property Tax

$5.0 billion in billions

- School, $3.0, 60%
- County, $0.7, 15%
- City/Town, $0.7, 13%
- Limited-purpose, $0.6, 12%

Share of Increase since 2018

Source: Utah State Tax Commission
Property Taxes Intertwine with School Funding

Source: National Center for Education Statistics
About 2/3 of School Property Taxes Fund Operational Expenses (Primarily Salaries), Remainder to Debt Service and Other Capital Expenses
Myth 3 – Property Tax Revenues Automatically Go Up With Value Increases

"Certified Tax Rate" adjusts down to offset valuation increases

<table>
<thead>
<tr>
<th>Year</th>
<th>Previously Existing Property</th>
<th>New Growth</th>
<th>Entity-wide Taxable Value</th>
<th>Certified Tax Rate*</th>
<th>Imposed Tax Rate</th>
<th>Tax Revenue ($ millions)</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>$200 Million</td>
<td>$0</td>
<td>$200 Million</td>
<td>1.00%</td>
<td>1.00%</td>
<td>$2.0</td>
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<tr>
<td>2</td>
<td>$400 Million</td>
<td>$40 Million</td>
<td>$400 Million</td>
<td>0.50%</td>
<td>0.50%</td>
<td>$2.2</td>
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<td>3</td>
<td>$660 Million</td>
<td>$90 Million</td>
<td>$660 Million</td>
<td>0.33%</td>
<td>0.40%</td>
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</tbody>
</table>

* Adjusts yearly to meet target tax revenue

- Target Tax Revenue from Previously Existing Property
- Tax Revenue from "New Growth" (Newly-created Property)
Total Property Tax Rates Decreased Over Past Decade

Source: Utah State Tax Commission
Myth 4 – Because of Truth in Taxation, Property Tax Revenues Never Increase

Nominal Property Taxes, 2000 - 2022

Source: Utah State Tax Commission

Kem C. Gardner Policy Institute
Real Per Capita Property Taxes Have Also Increased in Recent Years

Real Per Capita Property Taxes, 2000 - 2022

Source: Utah State Tax Commission
How Can Property Tax Revenues Increase?

1. “New Growth” – Newly built property comes onto tax rolls

2. Local Policy Decision – Truth in taxation hearings to increase above certified rate
   • No automatic inflationary increase
   • Increased number of taxing entities held truth in taxation hearings (ex: nearly ½ of school districts in 2023)
   • Voted bond increases

3. State Policy Decision – Our Schools Now school funding compromise
   • Statewide school property tax 5-year rate freeze
     • 2018, 2019, 2020, 2021, 2022
     • With high value increases above expected amounts, Legislature cut rate in 2022
     • 2023 forward revert to normal rate adjustment process
   • Other provisions:
     • Income tax rate cut 5.00 to 4.95% (further rate cuts since)
     • Voter opinion question – pay for roads more with gas tax, use freed-up money to fund schools (did not pass)

Herbert signs Our Schools Now compromise legislation By Marjorie Cortez
Apr 16, 2018, 3:27pm MST
Myth 5 – Tax Changes Are Consistent Among Properties and Property Types

Source: Utah State Tax Commission
Property Values Shift Imposed Taxes Between Taxpayers

Taxing entity boards establish tax revenue amounts. Assessed property values allocate the tax amounts among taxpayers.

**Example Taxpayers**

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
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</thead>
<tbody>
<tr>
<td><strong>Taxable Value</strong></td>
<td>$350,000</td>
<td>$1,500,000</td>
<td>$400,000</td>
<td>$250,000</td>
<td>$800,000</td>
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<tr>
<td><strong>Taxes Paid</strong></td>
<td>$3,500</td>
<td>$15,000</td>
<td>$4,000</td>
<td>$2,500</td>
<td>$8,000</td>
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<tr>
<td><strong>Taxable Value</strong></td>
<td>$400,000</td>
<td>$1,500,000</td>
<td>$800,000</td>
<td>$600,000</td>
<td>$750,000</td>
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<tr>
<td><strong>Taxes Paid</strong></td>
<td>$2,000</td>
<td>$7,500</td>
<td>$4,000</td>
<td>$3,000</td>
<td>$3,750</td>
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- Value increases, tax decreases
- Value the same, tax decreases
- Value increases, tax constant
- Value increases, tax increases
- Value decreases, tax decreases
Average Property Tax Collection per Parcel in Utah
2016-2022

Source: Utah State Tax Commission
Residential Property Tax Collections by Type, 2016-2022

Source: Utah State Tax Commission
Average % Change in Property Tax Collection per Parcel in Utah
2019-2022

Tax Collection Per Parcel, by Property Type, 2022

Source: Utah State Tax Commission
Myth 6 – Utah’s Property Taxes Are High Compared to Other States

Median Property Taxes Paid by County, 2021 (5-year Estimate)

Note: Missing values are due to small sample sizes in low-population counties. U.S. Census Bureau, 2021 American Community Survey, dataset 2021013
Myth 6 – Utah’s Property Taxes Are High Compared to Other States

- As of 2022, Utah’s property tax as % of owner-occupied property is 0.56% of property value

- **Utah ranks 46th highest** property tax on owner-occupied property

Source: U.S. Census Bureau 2022 ACS
**Myth 7 – Changing Property Taxes Will Necessarily Improve Affordability for New Homebuyers**

- Example monthly payments 2019 and current
  - Increased property value
  - Increased interest rate
  - Decreased tax rate

- By far largest payment impact driven by higher home value and interest rate

- With excess demand and relatively inelastic supply, property tax reduction likely offset by higher value – no improvement in affordability
Legislature Has Increased Targeted Efforts to Address Property Taxes for Elderly on Fixed Incomes

• Property tax circuit breaker

• Property tax deferrals
Takeaways

• Property tax intertwines deeply with school funding

• Utah’s property tax system is complex – take time to gain understanding of how it works

• Data is key to making informed decisions

• Carefully contemplate and confront tradeoffs when making policy choices