

TAX SYSTEM DESIGN - ADMINISTRATION AND COMPLIANCE



How Can a Tax System Promote Easy Administration and Compliance?

Ensuring Reasonable Administrative and Compliance Burdens for Households, Businesses, and Government

An ideal tax system minimizes burdens of compliance and administration. It clearly specifies how to determine the tax amount and related tax procedures; balances the cost-benefit ratio for collection, administration, and enforcement; minimizes the costs borne by businesses and households to comply with tax laws (including both explicit out-of-pocket compliance costs, as well as implicit costs such as time); and ensures efficient filing and reporting requirements.

“...taxes must be collected, at some cost both to the tax agency and the taxpayer, and this collection must be enforced, again at some cost to the agency and the individual.”

– James Alm¹

Introduction

Tax burdens extend beyond the dollar amount of tax paid and associated drag on economic activity (“deadweight loss”). These additional burdens include compliance costs for households and businesses and administrative costs for governments. Different taxes incur different compliance and administrative costs.

Informed policymakers consider the tradeoffs of ease of administration and compliance in the context of competing tax design ideals. For example:

- **Fairness** - Tax system complexity, often created in the name of fairness, drives up compliance and administrative costs. Figuring out how to navigate complicated tax rules requires more private and public sector time and expense. Even tax policy changes intended to simplify the tax system “may actually expand the tax code and result in tangential complexity due to exceptions to new rules, phased-in implementation, and interaction with other provisions.”²
- **Reliable Revenue Sufficiency** - Ease of compliance and administration may impair revenue reliability and sufficiency. With income taxes, for example, Utah enacted rolling conformity with the federal Internal Revenue Code in 1973. This benefits taxpayers with greater compliance simplicity and the public sector with lower administrative costs as federal and state officials cooperate on auditing

efforts. But federal code changes can also lead to a lack of clarity on federal tax administration decisions and even state revenue loss. Following enactment of federal H.R. 1 in 2025, preliminary forecasts indicate Utah will lose out on \$200-\$400 million in ongoing state income tax revenue the state would otherwise collect.

- **Localized Control** – Using inherent fiscal sovereignty, each state designs its own tax system. Mandated national uniformity among all state tax systems could potentially create efficiency benefits, but states would lose localized control. Within Utah, cities can only impose taxes as authorized by the Legislature. This promotes tax uniformity and more efficient administration but reduces local control. Other states favor more local control over efficiency. For example, some Colorado home rule cities administer their own local sales and use taxes.

While lessening the burden where appropriate constitutes a worthy policy goal, achieving a well-functioning tax system requires some level of administrative and compliance costs.

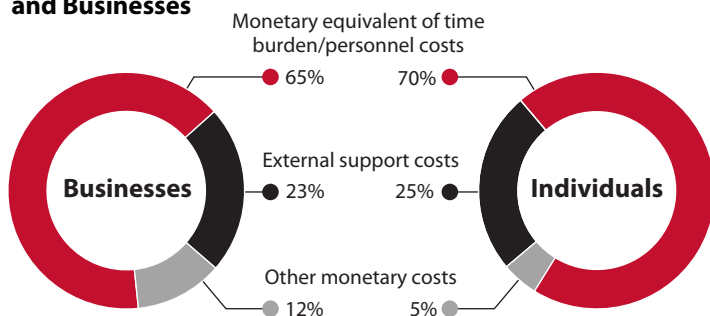
“There is no constituency for tax simplification.”

– Val Oveson, former National Taxpayer Advocate for the Internal Revenue Service, Utah Lieutenant Governor, and Utah Tax Commissioner

Table 1: Compliance and Administrative Burdens by Major Tax Type and Entity

	Households	Businesses	Government
Sales Tax		Sellers source sales and collect and remit sales taxes Tax record-keeping, preparation, and filing	State administers state and local sales taxes
Income Tax	Tax record-keeping, preparation and filing	Tax record-keeping, preparation, and filing Income tax withholding and remittance for employees	State administers individual and corporate income taxes
Property Tax	If appealing property valuation, knowledge of market value vs. assessed value of property and time/resources to appeal valuation	Personal property tracking and recordkeeping If appealing property valuation, knowledge of market value vs. assessed value of property and time/resources to appeal valuation	Counties value locally assessed properties and administer property tax State assesses centrally assessed property and provides administrative support to county assessors State audits personal property assessment

Source: Kem C. Gardner Policy Institute

Figure 1: Tax Compliance Cost Shares for Individuals and Businesses

Source: Eichfelder and Vaillancourt, 2014

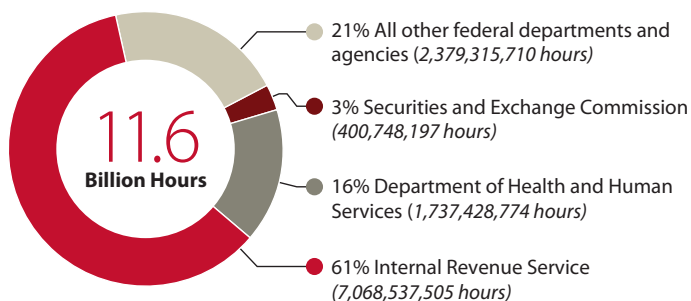
For example, tax enforcement and auditing deter tax evasion and help the government collect taxes legally owed. Cutting audit costs could undermine revenue collection and a fair distribution of the tax burden while promoting tax evasion. Increasing tax system compliance promotes fairness (another tax system ideal) by ensuring all taxpayers pay what they owe. Policymakers must determine the tradeoff between administrative and compliance burden, revenue collections, fairness, and other policy goals.

Compliance and Administrative Burdens by Tax Type

Compliance and administrative burdens vary by tax type for payers and administrators. Table 1 summarizes basic activities, separate from the actual financial burden of the tax payment.

High tax compliance burdens on households and businesses create economic inefficiency, increasing the effective tax burden without increasing revenue for public services. Business compliance costs vary by firm size. Tax compliance burdens as a share of income tend to decrease as business size increases, due to economies of scale and the increasing feasibility of employee specialization in compliance activities. Thus, compliance burdens tend to be higher for small businesses. Due to this effect, some academic literature indicates that significant tax compliance burdens may reduce entrepreneurship and business start-ups.³

Medium and large businesses (more than 50 employees) tend to spend less than 1% of net sales on compliance costs,

Figure 2: Total Annual Paperwork Hours by Federal Agency

Source: National Taxpayers Union Foundation from federal data

whereas small businesses (less than 50 employees) may spend between 1% and 10%. Average business costs break down as 65% personnel cost, 23% cost for external support, and 12% other monetary expenses. In aggregate, in 2013 IRS researchers estimated annual federal income tax private sector compliance costs topped \$150 billion (about \$50 billion for individuals/households and \$100 billion for businesses), exceeding 10% of federal income tax revenue for that year.⁴

Academic literature finds that employee tax compliance costs tend to comprise less than 1% of income, although self-employed taxpayers face higher costs as a share of income.⁵ Self-employed taxpayers may spend almost three times as much time on income tax compliance and are twice as likely to pay external support costs.^{6,7} The monetary equivalent of time effort comprises approximately 70% of compliance burden cost for households, while external costs, such as paying for a tax adviser or tax software, make up about 25%, and other monetary expenses comprise the remaining 5%.

Similarly, the National Taxpayers Union Foundation finds the average IRS tax form 1040 filer spends \$290 in out-of-pocket filing costs and spends 13 hours preparing an income tax return. In aggregate, U.S. taxpayers spend over 7 billion hours for tax compliance, resulting in an estimated \$316 billion in lost productivity, as well as spending over \$140 billion in monetary tax preparation and compliance costs.

Income Tax Filing

Tax filing represents the primary income tax compliance activity for households and businesses. Unlike the early decades of Utah's income tax collection, both individual and corporate income taxes piggyback on the federal income tax system.

This approach simplifies compliance and administrative burdens. But conforming can also raise other issues such as revenue sufficiency or fairness.

In Utah, online filing simplified the process for filers and improved government's administrative burden by increasing uniformity in returns. In FY 2012, online filing of individual income tax returns totaled over 75%, while online filing only comprised less than 40% of business returns (for a combined 60% of all income tax returns). In 2015, the Legislature required online filing for employer withholding returns, with an associated fee for noncompliance. As of FY 2025, business returns reached 98% electronic filing, along with 93% of individual returns, totaling 95% of all income tax returns.

Regardless of filing method, administrative burden rises as the number of tax filers increases. Between 1994 and 2024, total Utah individual income tax filers more than doubled, from over 788,000 to nearly 1.7 million (Figure 4). The share of part-year resident and non-resident filers increased from 8% in 1994 to 12% in 2024. Corporate filers increased from over 21,000 in 1994 to nearly 30,000 in 2023.

Sales Tax Filing

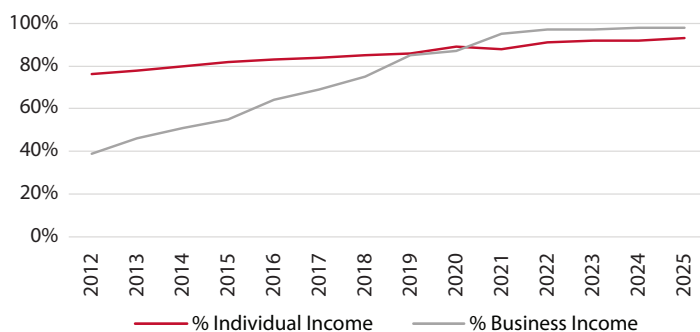
Sellers must file sales tax returns and remit sales tax. As of FY 2025, 100% of sellers file sales tax electronically. The number of sellers filing at least one return within the year increased about 3.5% annually on average between 2008 and 2024. Between 2018 and 2019, the number of sellers filing at least one return increased approximately 10% (nearly 8,700 new sellers) due largely to new online sales tax collection resulting from the U.S. Supreme Court's *Wayfair* decision and Utah's conforming legislation, as well as legislation requiring marketplace facilitator sales tax remittance (Figure 5).

To reduce administrative burden on small businesses, sales tax sellers with less than \$50,000 in annual sales and use tax liability may file quarterly or monthly returns. Sellers with at least \$50,000 in annual sales and use tax liability must file monthly. Additionally, recent legislation repealed the state's 200-transaction threshold for remote sellers without physical nexus to register for Utah sales and use tax.

Sellers that file monthly, whether voluntarily or due to the statutory requirement, and that file and pay timely, may retain 1.31% of the sales tax remittance amount as compensation for their administrative burden.

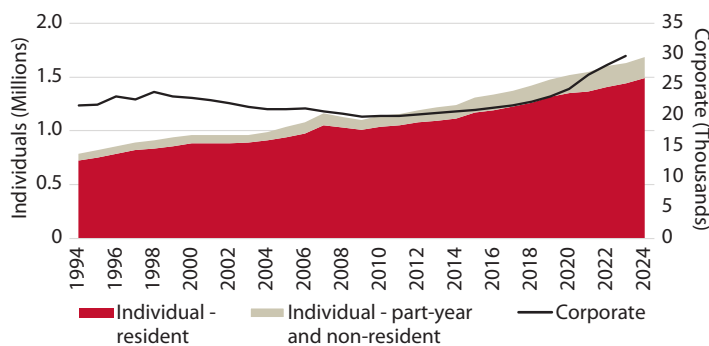
Additionally, sellers benefit from "float" on sales tax funds because they do not remit collected sales tax immediately upon receipt from customers. This means they can invest it and

Figure 3: Share of Utah State Income Tax Returns Filed Electronically



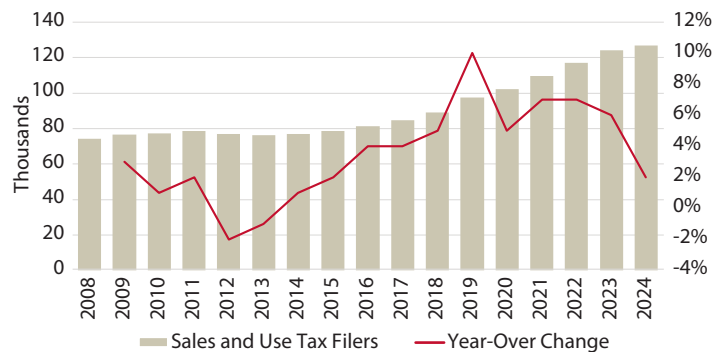
Source: Utah State Tax Commission

Figure 4: Utah Income Tax Filers



Source: Utah State Tax Commission

Figure 5: Number and Percent Change of Utah Sales and Use Tax Filers



Source: Utah State Tax Commission

benefit from interest income prior to remittance. For large retailers in particular, this generates significant revenue. For example, a large retailer could generate hundreds of thousands or even millions of dollars in "float" interest earnings per store, in addition to the 1.31% seller discount.

Increasing Tax System Complexity

Academic literature finds that complexity of tax law represents the most significant driver of high tax compliance burdens.⁸ Complexity may arise through various mechanisms (see box). While these policy elements normally drive tax system complexity, inefficient tax administration processes may also worsen complexity.

Each of Utah's primary taxes includes exemptions and credits that increase complexity and thus administrative and compliance burden. For example, Utah's income tax system includes a large number of tax credits, each with its own set of rules (Table 2). As of FY 2025, Utah sales tax code includes nearly 100 sales tax exemptions (Table 3). Utah's property tax also includes provisions such as the 45% primary residential exemption, special treatment for certain farm property, and a circuit breaker program that add complexity.

Income Tax Complexity

In tax year 2023, individual income tax filers claimed 43 distinct income tax credits, while corporate filers claimed 21 distinct income tax credits (Table 2). Policymakers could shift many of these credits to the expenditure side of the state ledger, simplifying the income tax code. For example, the state could incentivize low-income housing construction by appropriating state dollars for these programs instead of offering income tax credits. While this could simplify income tax filing and administration, it would create administrative burden in other areas of government.

Tax code complexity and resulting administrative and compliance burdens represent one of many tax policy tradeoffs. While these credits, exemptions, and deductions add administrative and compliance complexity, each attempts to further another policy goal.

In addition to state tax code, most households and businesses interact with the federal tax system, which includes its own nuances and increasing complexity. As the National Taxpayer Advocate noted in its 2012 report to Congress, the preceding decade saw over 4,500 changes to federal tax code.⁹ Tax compliance burden is of such significance to the Internal Revenue Service (IRS) that it conducts a random survey of approximately 20,000 income taxpayers annually to estimate taxpayer compliance burden (ironically, the survey creates an additional burden for taxpayers).

Growing Sales Tax Complexity

Sales tax complexity continues to grow rapidly, due to sales tax exemptions, the proliferation of different sales tax rates (including local sales taxes imposed on varying tax bases), and the growth in sales tax areas. In particular, the relatively recent proliferation of sales tax areas increases sales tax rate and administrative complexity.

Sales Tax Areas

From the inception of the state sales tax in 1933 through 1959, the state imposed a single rate and functioned as the sole tax area. The Legislature authorized municipalities to impose a sales tax in 1959. Various other county and city or town rates followed over time, including the county option in 1998.

Forms of Tax Code Complexity

- Number of taxes
- Number and understand-ability of tax regulations
- Number of tax rates
- Number of tax exemptions
- Number of tax deductions and tax credits
- Frequency of tax law changes
- Number of tax expenditures
- Anti-tax avoidance rules

Source: Eichfelder and Vaillancourt

In 2007, the creation of the Military Installation Development Authority (MIDA) marked the first sales tax development zone, which created a tax "island" within another jurisdiction. Dozens of additional sales tax areas, including special limited purpose districts within land use authorities like the Inland Port, Military Installation Development Authority, and Point of the Mountain, as well as housing and transit reinvestment zones and public infrastructure districts (PIDs), followed. While these sales tax areas often exist to promote economic or community development goals, their proliferation comes at the expense of tax system complexity. Since 2000, the number of sales tax areas increased by nearly 100, from 271 at the beginning of FY 2000 to 367 at the beginning of FY 2025, with the sharpest increases in the past two years. The state added 26 sales tax areas between FY 2023 and FY 2024, and an additional 31 areas between FY 2024 and FY 2025 (Figure 6). These sales tax areas create complexity related to administration, including sourcing and compliance.

From a compliance perspective, the proliferation of sales tax areas increases complexity for sellers, who generally must know and source the jurisdiction of each of their sales. This proves burdensome for a variety of sellers, from small businesses lacking the administrative capacity to track sourcing at this level of detail to large national or multinational companies with little knowledge of Utah's tax areas.

Sales Tax Base Differences

The state does not have a uniform sales tax base for all state and local sales taxes. For example, the sales tax base for the state sales tax and general local option and county option sales taxes includes grocery food purchases and auto sales. However, the bases for local option sales taxes for transportation, rural hospitals, town option, city/town option, and arts, botanical, cultural, and zoological organizations ("ZAP"/"RAP" taxes) exclude grocery food purchases unless they are part of a bundled transaction, and the bases for impacted communities (resort communities, state correctional facility, and capital city revitalization) sales taxes also exclude grocery food purchases as well as vehicle sales. The non-uniformity of sales tax bases adds complexity to sales tax administration and compliance in Utah.

Table 2: Statutory Individual and Corporate Income Tax Credits Claimed, Tax Year 2023

Credit	Individual		Corporate	
	Number Claimed	Total Value	Number Claimed	Total Value
At Home Parent	1,744	\$176,800		
Qualified Shelter Workshop	83	\$13,781		
Capital Gains Transaction	102	\$629,463		
Clean Fuel Vehicle	<10	\$300,000	<10	\$200,000
Historic Preservation	202	\$3,641,227	<10	\$200,000
Enterprise Zone	1,073	\$11,923,167	22	\$383,665
State Low-Income Housing	45	\$23,346	<10	\$4,500,000
Recycling Zone	<10	\$8,000	<10	\$1,750,000
Increased Research	2,274	\$50,060,292	487	\$119,369,309
Machinery for Research	27	\$163,036	<10	\$450,000
Retirement Tax Credit	43,392	\$24,287,931		
Organ Donation Expense	62	\$167,987		
UESP Credit	21,789	\$4,693,468		
Renewable Residential Energy	3,182	\$2,511,118		
Health Benefit Plan	22,189	\$3,789,360		
Solar Project	<10	\$70,000		
Gold and Silver Coin Sales	48	\$43,485		
Veteran Employment	<10	\$4,000		
Employing Homeless Persons	19	\$15,271		
Natural Gas Heavy Duty Vehicle	<10	\$250,000		
High-Cost Infrastructure	<10	\$1,000	<10	\$2,750,000
Alternative Energy Development	<10	\$40,000		
Investment in Life Science	<10	\$2,000		
Achieving a Better Life	123	\$220,529		
Military Survivor Benefits	63	\$249,665		
Special Needs Opportunity Scholarship	162	\$1,343,384		
Social Security Benefits	110,709	\$69,865,121		
Military Retirement Pay	12,520	\$22,232,167		
Earned Income Tax Credit	141,292	\$68,108,494		
Rural Jobs Creation with Carryforward	33	\$739,041	<10	\$6,000,000
Nonrefundable Adoption Expenses	25	\$64,893		
Motion Picture Production	19	\$1,807,925	11	\$15,651,072
Renewable Commercial Energy	443	\$1,123,391	17	\$3,876,572
Economic Development	49	\$590,436	20	\$25,633,119
Agricultural Fuel Tax Credit	291	\$120,616		
Farm Hand Tool	36	\$5,808	<10	\$1,000
Mental Health Practitioner – Recently Licensed	216	\$2,240,019		
Mental Health Practitioner – Underserved Populations	129	\$1,350,000		
Volunteer Retired Psychiatrist	<10	\$80,000		
Nonrenewable Hydrogen Production System	<10	\$1,000		
Refundable Adoption Expenses	<10	\$15,000		
Targeted Business Tax Credit			<10	\$1,000
Mineral Production Withholding Tax Credit			116	\$4,376,507
Agricultural Off-Highway Gas/Undyed Diesel			20	\$9,942
Carson Smith Opportunity Scholarship			<10	\$300,000
Utah Municipal, U.S. and Agency Bond Interest			92	\$2,281,845
Total	362,341	\$273 million	785	\$188 million

Note: Table excludes tax payment credits, including taxes paid to another state, passthrough entity taxes, and prepayment.

Source: Utah State Tax Commission

Sales Tax Rate Differences

Sales tax rates vary significantly throughout the state, in the interest of local control. This includes 30 different rates ranging from a low of 6.35% to a high of 9.55% (Figure 7).

Sales Tax Exemptions

Sales tax exemptions continue to grow over time. While done in the name of fairness or economic efficiency, the line-drawing associated with these competing tax ideals drive increased tax complexity.

Temporary Excise Taxes And Assessments

In 2025, the Utah Legislature enacted two temporary taxes: a local impact mitigation excise tax on oil and gas produced in Utah between January 1, 2026 and January 1, 2029, and an energy project assessment on renewable energy project parent entities in Utah between January 1, 2026 and January 1, 2028. While these limited-duration taxes may generate significant revenue while enacted (the fiscal notes estimate up to approximately \$4 million annually from the local impact mitigation tax and up to approximately \$2 million annually from the renewable energy project assessment), the high start-up costs to impose new taxes offset some of the additional revenue. The Tax Commission estimates up to approximately \$235,000 in increased annual costs for the duration of the taxes for programming, form design, staff training, implementation, public education, testing, audit, and maintenance of the new taxes, including additional FTEs. The high start-up administration and compliance for a short duration before the tax sunsets create tax system inefficiency.

Property Tax Complexity

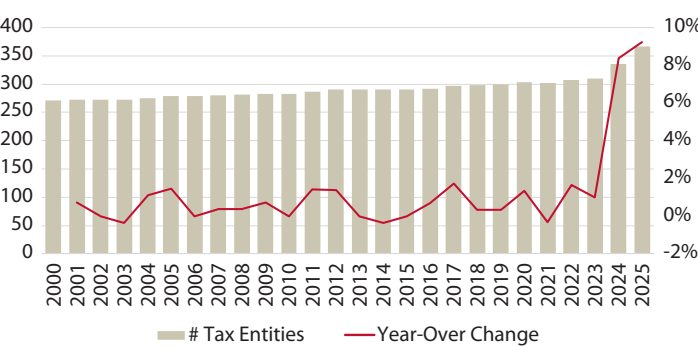
State statute authorizes local taxing entities, including counties, cities, towns, school districts, special taxing districts, special districts, and certain other political subdivisions to levy a property tax. The statutory term “tax area” refers to a geographic area created by the overlapping boundaries of taxing entities. Figure 8 presents an example of six taxing entities – a county, two school districts, city, water district, and mosquito abatement district – which intersect to form 19 different tax areas, with tax areas levying a different combined property tax rate. Increasing numbers of special taxing districts result in administrative complexity.

In 2024, the Tax Commission oversaw property tax administration for 1,625 distinct tax areas in Utah, including oversight of tax rates and budgeted property tax revenues.¹⁰

Tax System Simplification

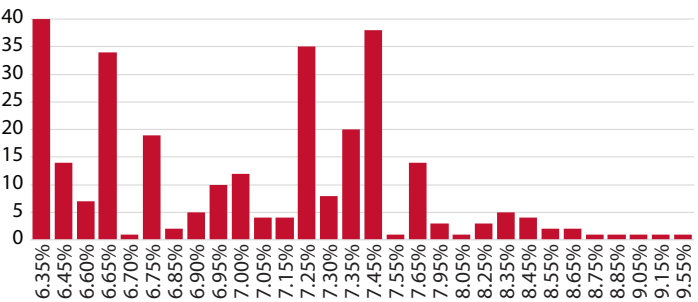
While many tax policy changes add complexity to the tax system, policymakers sometimes also make changes in an effort to simplify the tax system. For example, as discussed above, the proliferation of sales tax areas creates highly complex overlapping jurisdictions and results in sourcing challenges for vendors. In an

Figure 6: Utah Sales Tax Areas, Count and % Change



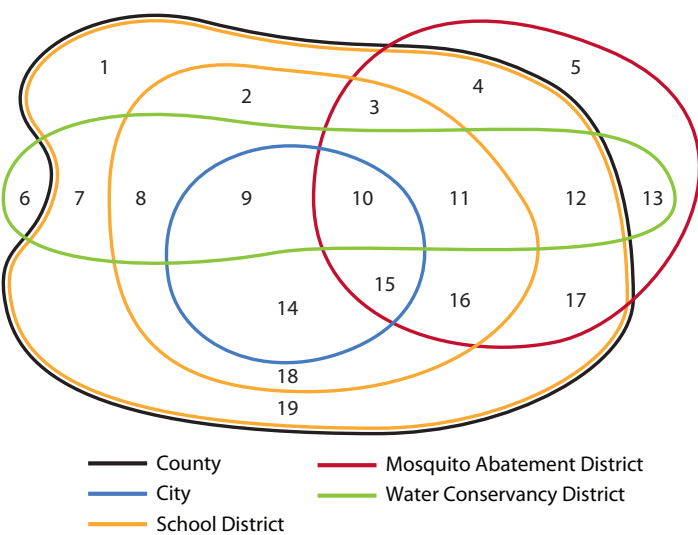
Source: Utah State Tax Commission

Figure 7: Total Sales Tax Rate Frequency, 2025 Q4



Note: Excludes taxing area islands, such as land use authorities and reinvestment zones
Source: Utah State Tax Commission

Figure 8: Tax Areas and Taxing Entities



Source: Utah State Tax Commission

effort to address this, in 2025 the Legislature passed [S.B. 316](#), which instructs “Schedule J” remote sellers to source their sales technically occurring within a qualified development zone to the jurisdiction (usually city) that would have received the sales tax distribution in the absence of the qualified development zone (i.e., the ocean in which the sales tax island floats).

Additionally, in 2008, Utah transitioned from a graduated income tax rate system to a flat tax rate. This change simplified the tax system in some ways by eliminating some deductions and a bracketed rate structure. At the same time, it added

Table 3: Statutory Sales Tax Exemptions and Estimated State Revenue Impacts, FY 2024

Business Inputs	Estimated State Sales Tax Revenue Impact
Certain products purchased by airlines for in-flight use or consumption	\$2,900,000
Aircraft parts and equipment for installation in certain aircraft	\$10,800,000
Commercials, films, and other audio / video sold to broadcasters and others	\$9,000,000
Pollution control equipment (includes consumables)	\$9,300,000
Machinery, equipment, or parts to manufacturers and others	\$228,900,000
Certain equipment under certain aerospace or electronics contracts with the federal government	\$10,600,000
Certain products primarily used in farming operations	\$95,200,000
Hay	\$16,400,000
Non-returnable containers, labels, casings for use in packaging TPP	Insufficient Data
Property stored in the state for resale	Insufficient Data
Product purchased for resale in its original form or as a component part of a manufactured good	Insufficient Data
Intrastate telecommunications services or fuel for use in compounding a taxable service	\$11,000,000
Certain products used by a steel mill	\$306,000
Telecommunications service for purposes of providing telecommunications service	\$5,400,000
Vehicle or products installed on a vehicle used by an authorized carrier	\$22,200,000
Electricity to ski resorts for lifts	\$370,000
Ski resort equipment and parts	\$104,000
Natural gas, electricity, coal, fuel oil, and other fuels for industrial use	\$55,000,000
Semiconductor fabricating, processing, research, or development materials	\$10,200,000
Vehicles used for temporary sporting events	Less Than \$1,000
Sale-leaseback transactions	Insufficient Data
Machinery or equipment purchased by the film industry and used to produce certain media	\$5,100,000
Certain machinery, equipment, etc. for or by an alternative energy electricity production facility	Insufficient Data
Certain machinery, equipment, etc. for or by a waste energy production facility	Insufficient Data
Certain purchases for or by a facility that produces fuel from alternative energy	Insufficient Data
Building materials shipped out of state and incorporated into real property	Insufficient Data
Address list or database used to send direct mail	\$2,200,000
Certain machinery, equipment, or software purchased by or for a telecommunications service provider	\$17,300,000
Products used in the research and development of alternative energy technology	Insufficient Data
Business property purchased outside the state and brought into the state after first use	Insufficient Data
Construction materials for Salt Lake International Airport (material converted to real property only)	\$9,200,000
Construction materials for new airport in 2nd class county (material converted to real property only)	\$0
Fuel sold to a common carrier railroad and used in a locomotive engine	\$0
Products sold to an aircraft repair provider if used to repair aircraft not registered in Utah	\$360,000
Construction materials for life science research facility (material converted to real property only)	\$950,000
Machinery, equipment, or parts used in qualified research (three-year life)	\$20,100,000
Product used in preparation of food if seller and purchaser are the same (seller already paid sales tax)	Insufficient Data
Amusement and recreation machinery or equipment (three-year life; business must charge fee to use)	\$700,000
Short-term lodging consumables	\$3,140,000
Database access (viewing or retrieval of information)	\$1,600,000
Machinery, equipment, or parts used for electronic financial payment services (three-year life)	\$2,420,000
Business property temporarily brought into the state by an out-of-state business for disaster-related work	\$0
Molten magnesium	\$890,000
Machinery, equipment, or parts purchased by certain data centers (one-year economic life)	Insufficient Data
Machinery, equipment, etc. purchased by a refinery and used in a specified activity	\$2,900,000
Medical Laboratories	\$260,000
Construction and operation costs of electrical cooperative	\$410,000
Consumable tangible personal property used in taxable service	\$4,500,000
Subtotal	\$559,710,000
Non-Business Inputs - Charitable/Government	
State and local government purchases except for certain construction materials	\$66,600,000
Sales to or by religious or charitable organizations	\$16,500,000
Certain food or alcohol served by religious, charitable, medical or higher education	\$2,370,000
Food stamp purchases	\$7,300,000
WIC purchases	\$481,000
Sales relating to schools and fundraising sales	\$200,000
Copies and publications by a government entity	\$630,000
Sales to a public transit district (includes construction materials converted to real property)	\$432,000
Sales to or by Heber Valley Railroad	\$210,000
Sales of goods and services at a National Guard morale, welfare, and recreation facility	\$28,000
Subtotal	\$94,751,000

Table 3: Statutory Sales Tax Exemptions and Estimated Revenue Impacts, FY 2024 (Continued)

Non-Business Inputs - Economic Development	
Aircraft manufactured in Utah	\$81,000
Certain electricity produced from a new alternative energy source	\$330,000
Fuel cell	\$69,000
Sales of rail rolling stock manufactured in Utah	\$485,000
Subtotal	\$965,000
Non-Business Inputs - Economic Efficiency	
Aviation, motor, special fuels (jet, gas, diesel, etc.)	\$325,000,000
Vending machine food sold for \$1 or less under certain circumstances	\$123,000
Primarily unassisted cleaning of property (coin operated laundry, etc.)	\$4,460,000
Non-resident vehicle that is not registered or used in the state except under specified circumstances	\$11,300,000
Isolated or occasional sales if not regularly engaged in business	Insufficient Data
Vehicle trade-ins and other trades as part payment for a purchase	\$101,500,000
Exclusive sale of seasonal crops and plants if sold during the harvest season by the producer	\$742,000
Product brought in by a nonresident for use (product may not be used for business in the state)	Insufficient Data
Product for which sales tax was paid to another state (must pay difference if Utah tax is greater)	Insufficient Data
Non-resident boat that is not registered or used in the state except under specified circumstances	\$163,000
45% of a new and 100% of a used manufactured home (based on sales price)	\$5,400,000
Use of unassisted amusement device	\$970,000
Hotel accommodations and services taxed by the Navajo Nation	\$92,000
Currency or coinage that is legal tender	Insufficient Data
Gold, silver, platinum (bars, coins, etc.; not legal tender; content 50%+ gold, silver, or platinum)	Insufficient Data
Pawnbroker repurchases or redemptions	\$1,780,000
Municipal taxes or fees levied on purchaser for enhanced level of municipal service	\$13,000
Car wash that does not include cleaning the interior of the vehicle	\$11,000
MIDA accommodations and services	\$140,000
Note, leaf, foil or film used as currency	Insufficient Data
Certain construction products sold between related entities	\$2,400,000
Subtotal	\$454,094,000
Non-Business Inputs - Healthcare	
Prescription drugs, syringes, and stoma supplies	\$225,500,000
Prescribed durable medical equipment for home use	\$6,290,000
Sales to or by a nonprofit that provides certain services to persons age 60+	\$2,050,000
Prescribed mobility enhancing equipment	\$1,550,000
Prosthetic device (prescribed or purchased by medical facility)	\$1,160,000
Prescribed disposable home medical supplies	\$3,050,000
Medical cannabis	\$5,720,000
Subtotal	\$245,320,000
Non-Business Inputs/Other	
Newspapers or newspaper subscriptions	\$2,590,000
Admissions to college athletic events	\$1,230,000
Water in a pipe, conduit, ditch or reservoir	\$31,500,000
Textbooks purchased by a student (not including a college book store; seller sales primarily textbooks)	\$280,000
Admission to an indoor skydiving, rock climbing, or surfing facility	\$240,000
Subtotal	\$35,840,000
Total	\$1,390,680,000

Source: Utah State Tax Commission

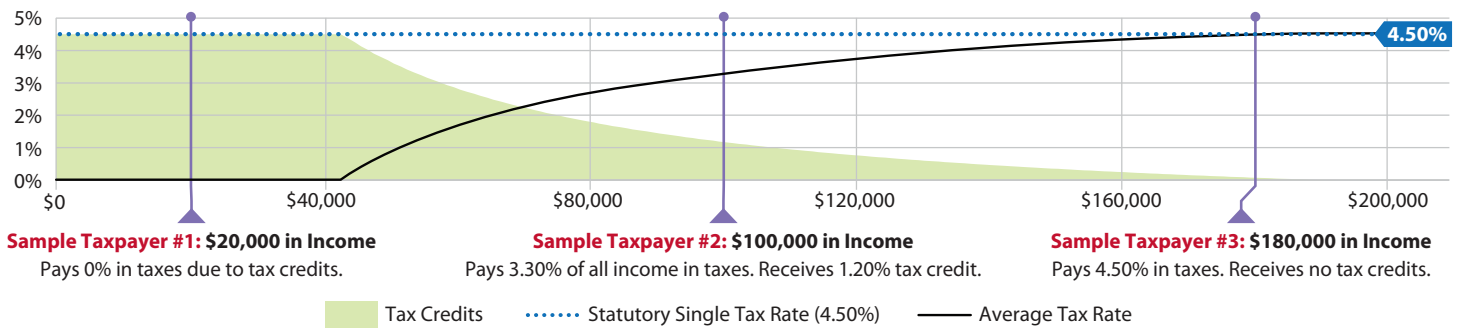
different complexity, such as with the taxpayer tax credit which phases out as income increases (Figure 9).

Additionally, policymakers enacted a uniform age-based fee in lieu of property taxes for personal property (“fee-in-lieu”) in 1995. Prior to this change, owners of personal property registered with the state such as motor vehicles and boats paid an *ad valorem* (value-based) tax, similar to the tax on other property like a house or business building. This change to a fee-in-lieu-of-property-tax eliminated the need to value this personal property, an inherent administrative burden

exacerbated due to the mobile nature of personal property. While favoring administrative simplicity, this policy change raised issues of equity, as it shifted more of the property tax onto lower income households (consider the owner of a new \$100,000 BMW paying the same \$150 fee-in-lieu as the owner of a two-year-old \$20,000 Ford).

These examples illustrate that, while policy changes may help simplify tax system administration and compliance burden in some ways, they often create additional complexity in other ways or result in tradeoffs with other tax system ideals.

Figure 9: Examples of Differing Statutory and Effective Tax Rates at Different Income Levels



Note: Assumes standard deduction, two personal exemptions, and married filing joint status. Other tax situations will vary.
Source: Kem C. Gardner Policy Institute

Enforceability and the Tax Gap

As different taxes have different administrative burdens, taxes also vary in their enforceability and related costs. Ultimately, the ideal of perfect compliance proves daunting, due to both intentional tax evasion and unintentional filing errors.

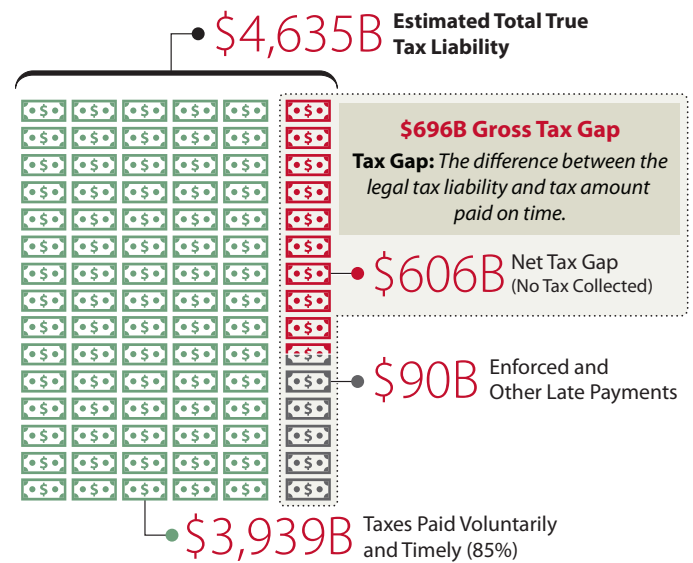
Taxes with robust reporting structures, particularly those relying on third parties to report, collect, and/or remit taxes, tend to be both the easiest to comply with and enforce. For example, most businesses use third parties to deduct payroll and income taxes on wages and salaries prior to employees receiving their paychecks. This results in high compliance and low underreporting and tax gap. According to the IRS, tax returns misreport only about 1% of wages and salaries. Conversely, other generally self-reported income sources such as rents and royalties, farm income, and self-employment income show lower compliance, higher shares of underreporting (over 60%), and higher tax gaps, while also being more difficult to enforce.

Although the legal incidence generally falls on purchasers, sales tax systems also generally lead to higher rates of compliance and enforceability because of third-party responsibility through businesses reporting, collecting, and remitting taxes. Compliance increased further following the *Wayfair* decision as well as state marketplace facilitator laws.¹¹

The IRS estimates the federal income tax gap, or the difference between aggregate legal national tax liability and the amount paid timely. The gross difference, or the “gap,” includes the nonfiling gap, the underreporting gap, and the underpayment gap. The net gap is the remaining portion of the gross gap following enforcement efforts and late payments, or the tax gap that will likely never be recovered. For tax year 2022, the IRS estimates total true tax liability, including individual income, corporate, employment, and estate taxes, to be \$4.6 trillion, with \$3.9 trillion paid voluntarily and timely, for a voluntary compliance rate of 85%.

While the resulting gross tax gap is \$696 billion, the IRS estimates an additional \$90 billion to be paid late or paid through enforcement efforts, thus resulting in a net tax gap of \$606 billion (86.9% net compliance rate, or 13.1% noncompliance). Individual

Figure 10: Estimated Federal Income Tax Gap, Tax Year 2022



Source: Internal Revenue Service

income tax represents the majority of the tax gap. In FFY 2022, federal spending totaled approximately \$6.3 trillion; thus, the net tax gap comprised approximately 9.6% of the federal budget. The net tax gap makes up a larger share of total federal revenue, at approximately 12.4% of federal revenue (\$4.9 trillion) for the year. Because closing the tax gap would generate more revenue than currently collected, if spending were held constant, closing the tax gap could also result in a lowering of the tax rate, promoting economic efficiency and reducing deadweight loss. While tax enforcement requires resources, in 2017 the IRS estimated that every \$1 of investment in enforcement would yield \$12 in additional owed but uncollected revenue.

Utah State Tax Commission

In FY 2025, the Tax Commission’s budget totaled just over \$134 million. The agency receives most of its ongoing funding from the General Fund, Income Tax Fund, and its administrative charge restricted account (discussed further below), as well as the Transportation Fund, various restricted accounts, and a small share of federal funds. As of FY 2026, the Tax Commission’s

real (inflation-adjusted) per capita budget totaled less than in FY 2016, indicating that its budget grows below the rate of inflation and population growth, even with increasing complexity in state tax systems (Figure 11). The Tax Commission employs 723 full-time equivalent (FTE) employees as of FY 2025.

State statute authorizes the Tax Commission to retain an administrative charge from most local option sales taxes, as well as other fees and charges, up to a maximum of 1.5% of collections from each qualifying tax, fee, or charge to offset administration costs. As of FY 2025, the Tax Commission charges a 0.65% administrative charge (less than half the authorized level), which generated about \$18 million in FY 2025 (about 13% of its annual budget).

The Tax Commission administers the state income tax and state and local sales taxes. Additionally, for the property tax it assesses mines, public utilities, and other centrally assessed properties, adjusts and equalizes property valuation and assessment between counties, and provides resources for county assessors responsible for residential, business, and personal property valuation. It also houses the Motor Vehicle Division (DMV), including vehicle registrations and administration and supervision of Utah's motor vehicle laws. While the administration function is its largest, the Commission also functions as the initial arbiter of tax appeals, conducting quasi-judicial hearings on state tax matters with the assistance of administrative law judges and the four members of the Commission, appointed by the governor and confirmed by the Senate.

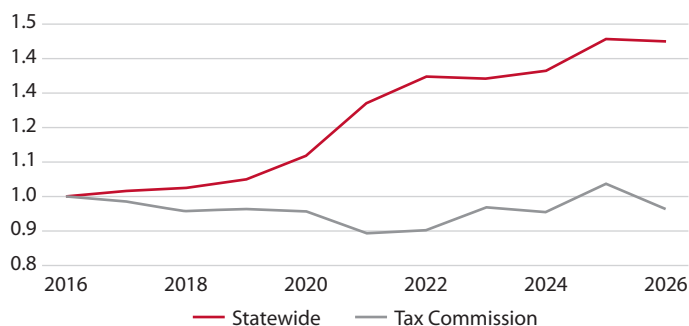
Conformity with Federal Policy and Other States

Federal Tax Policy

Utah, along with 17 other states and Washington, D.C., engages in full rolling conformity with the IRS' Internal Revenue Code (IRC). Thus, when Congress changes the IRC as occurred recently in H.R. 1, Utah automatically conforms to these changes. Utah's conformity with federal code usually results in simplification and administrative efficiency. For example, the more closely Utah's calculation for adjusted gross income mirrors federal adjusted gross income (FAGI), the fewer separate calculations Utah taxpayers and the Tax Commission must make. Additionally, Utah can share data and piggyback on the federal government's audit resources, which reduces state-level audit costs.

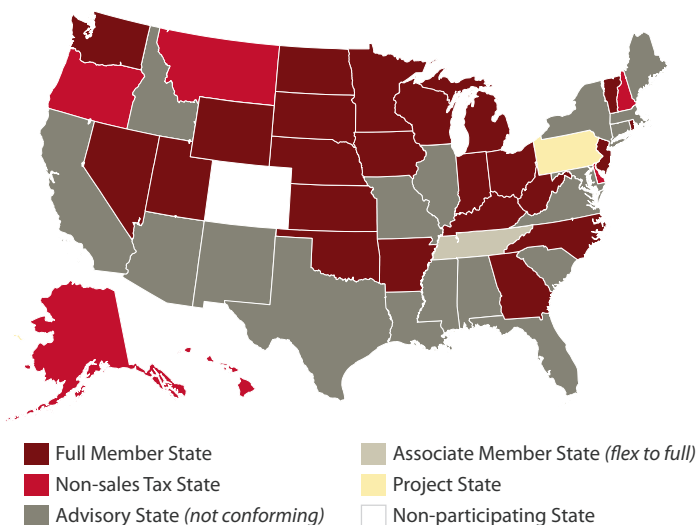
However, Utah's rolling conformity may have other implications. For example, if the federal government changes definitions relating to adjusted gross income, Utah may receive a revenue windfall or it may experience drops in income tax revenue. Due to changes in FAGI in 2025's H.R. 1, Utah's rolling conformity will likely result in decreased state income tax revenue of approximately \$200-\$400 million annually compared to what it would otherwise collect.

Figure 11: Growth Index, Utah State Tax Commission vs. Statewide Operating and Capital Budgets



Source: Utah Compendium of Budget Information (COBI)

Figure 12: Member States, Streamlined Sales Tax



Source: Streamlined Sales Tax Governing Board, Inc.

Streamlined Sales Tax (SST)

The Streamlined Sales Tax Project and subsequent Streamlined Sales and Use Tax Agreement resulted from the efforts of several national governmental organizations, including the National Governors Association, the National Conference of State Legislatures, the National League of Cities, and the Federation of Tax Administrators, to improve the administration of the sales tax, with the ultimate goal of passing federal legislation on remote sales tax collection. Although the U.S. Supreme Court resolved the issues surrounding remote sales tax in its *South Dakota v. Wayfair, Inc.* decision in 2018, SST continues to promote simplification and modernization of state sales and use tax collection and administration across the U.S. The agreement attempts to improve and find relative uniformity among member states in the following areas of sales tax law:

1. State-level administration
2. Uniformity of state and local sales tax bases
3. Simplification of state and local tax rates
4. Uniform sourcing rules for all transactions

This uniformity across many state lines provides particular benefit to national or multinational sellers with sales in many states, by simplifying and making more efficient their tax collection efforts. Additionally, Utah's participation in SST protects the state against litigation related to dormant Commerce Clause constitutional challenges. SST also requires states to submit a set of disclosed practices, so even where uniformity is not mandated, the disclosed practices give sellers and taxpayers added information about how the state handles certain topics around sales tax.

As of 2018, 24 of the 45 states with a general sales and use tax, including Utah, adopted legislation conforming to the principles of SST. Along with many Utah legislators and governors over the years, the Utah State Tax Commission played a major role in both leading and supporting the SST efforts.

Multistate Tax Commission

The Multistate Tax Commission, an intergovernmental state tax agency, promotes uniform and consistent tax policy and administration across U.S. states. Utah is one of 15 compact member states. Utah state statute enacts the compact, which includes provisions related to apportionment of tax bases, uniformity or compatibility of tax systems, facilitation of taxpayer convenience and compliance, and avoidance of duplicative taxation.

One provision of the compact, the Uniform Division of Income for Tax Purposes Act (UDITPA), addresses state taxation of businesses that operate in multiple states, with particular attention to income apportionment and sales allocation. Similar to SST, Utah's compliance with UDITPA facilitates simplification of business income taxation across states, provides surety to businesses, and reduces the risk of both double-taxing income and creating "nowhere" income.

International Fuel Tax Agreement (IFTA)

The International Fuel Tax Agreement, a tax collection agreement among the 48 contiguous U.S. states as well as 10 Canadian provinces, provides for the uniform administration of motor fuel taxation for motor vehicles operating across member jurisdiction boundaries. The program allows carriers to file one fuel report per quarter for all participating jurisdictions, thus simplifying compliance burden for multistate and international

(U.S. and Canada) carriers. The home jurisdiction collects the appropriate fuel tax and distributes it to the other relevant jurisdictions.

Forward Thinking

Technological innovation and policy changes may result in administration and compliance changes for taxes in the future.

Automation and Technology

The advent of artificial intelligence and improved automation techniques could make tax administration more efficient, thus reducing administrative and compliance burdens and costs. For example, improved technology could more effectively and efficiently track and source taxable sales or assess properties. In 2024, the Legislature passed a bill allowing the use of aerial imagery, automated valuation modeling, and other technologically advanced methods to assist in property valuation. However, technological adoption generally requires up-front investment and may create initial process friction.

State-level Property Tax Data System

State law requires the Tax Commission to oversee property tax administration, including the requirement that auditors and treasurers utilize state-certified systems. However, disconnects sometimes occur between state-level and county-level systems, resulting in errors. While the Tax Commission holds oversight responsibility, producing reports and exercising oversight proves challenging. Aligning technology systems through the Multi-county Appraisal Trust (MCAT) may allow for improved consistency in administration.

Conclusion

Tax systems inherently include administration and compliance costs, but the minimization of those burdens can improve other tax system ideals such as fairness and efficiency. Policymakers weigh these tradeoffs, recognizing that reducing administrative or compliance costs too far can weaken enforcement, undermine equity, or jeopardize revenue sufficiency. A balanced approach acknowledges some necessary burden to sustain a fair and effective tax system, while carefully evaluating opportunities to achieve simplification and efficiency gains without sacrificing broader policy goals.

Endnotes

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