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Growing but Narrowing: Long-Term Structural Changes in Utah's Sales Tax Base

Utah's sales tax base grew with inflation and population growth in recent decades, but failed to pace with economic growth until recently.

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Growing but Narrowing: Long-Term Structural Changes in Utah’s Sales Tax Base

Analysis in Brief

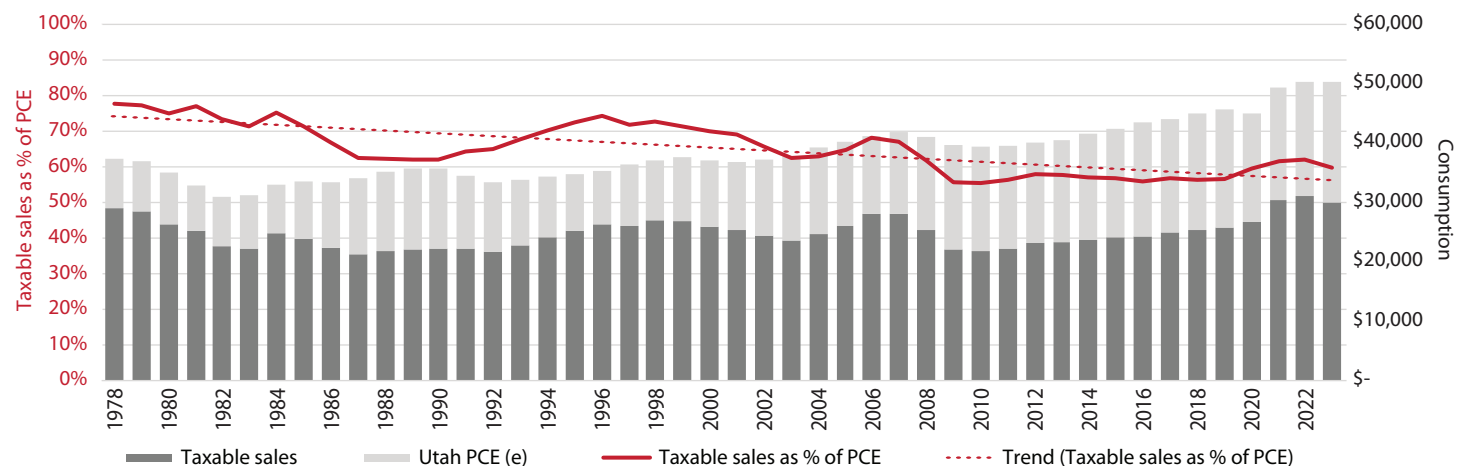
Utah’s sales tax, comprising roughly one-third of total Utah tax revenue collections, serves as a critical revenue source that funds basic services provided by the state and local governments. Long-term changes in population, inflation, and consumption patterns affect the amount of sales tax collected, as do policy changes like tax rate changes and sales tax exemptions. Additionally, policy choices such as earmarks constrain the amount of available revenue for general government purposes.

Key Findings

- **Utah’s sales tax portfolio weights shifted from the state to local governments**—In FY 2023, combined state and local general sales taxes comprised approximately one-third of total Utah tax revenue collections. Although this combined sales tax proportion remains roughly the same as the 1970s portfolio, sales taxes shifted from the state to local governments. This local increase came primarily through local rate increases, particularly in earmarked local sales taxes.
- **The share of consumption taxed in Utah declined**—In the late 1970s, Utah’s sales tax base covered approximately 78% of total consumption. However, as households and businesses consume a larger share of services (less often subject to sales tax) and a smaller share of goods (nearly always subject to sales tax), the share of total consumption taxed in Utah declined to less than 60% in 2023, which is up from 2008-2019 share levels.

- **Local sales tax increases generate revenue to meet increasing service demands and offset other diminishing revenue sources**—Utah statute allows counties, cities, and towns to impose various local option sales taxes. Statute authorizes local governments to impose certain sales taxes for general purposes (\$1.4 billion imposed statewide), while earmarking funds from other sales taxes for specific uses, such as transportation (\$1.1 billion statewide). Local option sales taxes offset (a) motor vehicle and gas tax revenues that are shrinking as a share of total revenues, as well as (b) resistance to imposing municipal and county property taxes.
- **State and local sales tax earmarks reduce the share of unrestricted revenue available to fund general government**— In FY 2023, the state earmarked 27% of state sales tax, an increase from just 3% in FY 1998. Approximately 20% of all state sales tax revenue now goes to transportation. Additional state earmarks fund Medicaid, water projects, outdoor recreation, and emergency food agencies. Local earmarked sales taxes make up about 45% of total local sales tax revenues, with local transportation sales taxes alone generating significant revenue – over \$816 million in FY 2023.

Utah Real Per Capita Taxable Sales as a Percent of Utah Personal Consumption Expenditures (PCE), 1978–2023 (\$2023)



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

Introduction

Sales and use tax (sales tax) pays for basic services Utahns rely on every day, often without noticing. This array of public services includes public safety, courts, corrections, air quality, health care, water, transit, and roads, among many others.

The landscape for this critical revenue source continues to change. Nominal sales tax collections grew over the past 25 years because of inflation and because Utah enjoys one of the country’s most dynamic economies, thanks to population and industry growth, a young and educated workforce, and a diversified economy.

However, long-term structural changes also impact the sales tax. These changes include consumption shifting away from goods and toward services, a declining fertility rate and slowing population growth rate, and policy interventions such as tax rate changes and sales tax exemptions.

Sales Tax in Utah’s Tax Portfolio

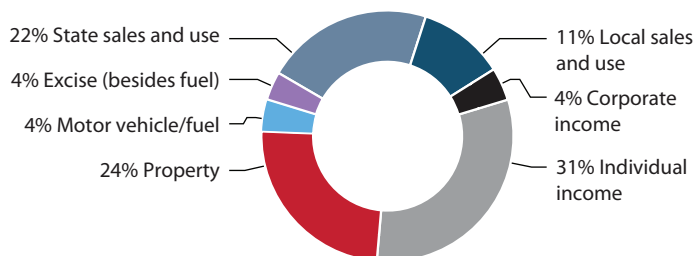
Utah’s sales tax dates to the Great Depression (1933) and remains a major revenue source for the state and local governments today. At \$6.8 billion in FY 2023, state and local general sales tax revenues combined equal about a third of total Utah tax revenue collections (Figure 1). Of this total, the state imposes about \$4.5 billion (22% of total tax collections) and counties, cities, and towns impose the remaining \$2.3 billion (11% of total tax collections).

For comparison, in FY 2023 locally-imposed property taxes totaled \$5.0 billion (24% of total revenue), while the \$7.3 billion in state-imposed income taxes came from individual income (\$6.4 billion, 31% of total tax collections) and corporate income taxes (\$0.9 billion, 4% of total revenues).

As Figure 2 shows, policy and economic changes shifted these tax portfolio proportions over time. The revenue shares for state sales and use tax, property tax, and motor vehicle and fuel taxes diminished over the last 50 years, while the state income tax and local sales tax shares increased.

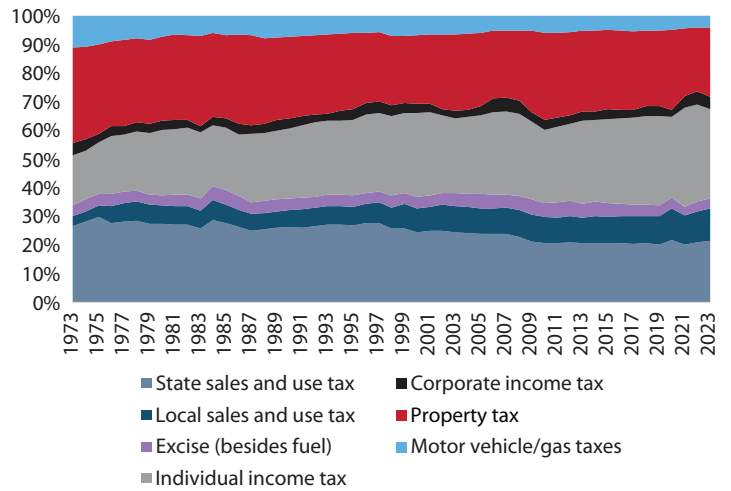
At the state level, individual income tax (see *State Sales Tax Earmarks* section below) represents the most significant revenue source by far, followed by sales tax. For counties, cities, and towns, local sales taxes emerged as an increasingly

Figure 1: FY 2023 Total Utah State and Local Tax Collections



Source: Utah State Tax Commission

Figure 2: Share of Utah Total Tax Revenue by Type, 1973-2023



Source: Utah State Tax Commission

important tax over time. Property tax (a majority of which funds K-12 education) serves as the other major local tax source, although its tax share diminished somewhat, in particular after the adoption of Utah’s Truth in Taxation system requiring local governments to follow a process that includes salient public advertisement and a hearing before implementing property tax revenue increases.

Sales Tax Drivers

Between 1998 and 2023, statewide real per capita taxable sales grew from about \$26,700 to \$29,900, a compound annual growth rate of 0.4% (Figure 3). That is, the sales tax base grew a little above inflation and population growth. However, most of this real per capita growth occurred only in the past several years, as real per capita taxable sales declined between 1998 and 2019 (from about \$26,700 in 1998 to \$25,800 in 2019).

Why do sales tax collections vary over time? Tax revenues reflect the combined impacts of both economic changes (particularly population growth and inflation, along with consumption preferences, industry mix, etc.) and tax policy changes (tax rate adjustments and base expansion or narrowing).

Population Growth and Inflation

Inflation and population growth alone account for about 90% of the sales tax base growth over the past 25 years. For example, Utah’s strong population growth (2.1 million population in 1998 to 3.5 million in 2023, a compound annual growth rate of 1.9%) drives sales tax growth. Similarly, inflation (which grew at a compound annual rate of 2.6% between 1998 and 2023) also drives nominal sales tax growth.

In fact, prior to the COVID-19 pandemic, Utah’s real per capita taxable sales remained slightly lower than in 1998. Official state forecasts call for real per capita sales trending toward historic norms, but still remaining above pre-pandemic levels. The Utah

Revenue Assumptions Working Group (RAWG) forecasts real per capita taxable sales at approximately \$29,800 in 2024 and \$30,000 in 2025, below the pandemic peak of \$31,200 in 2022, but above 2019's pre-pandemic level of \$25,800.

Tax Policy

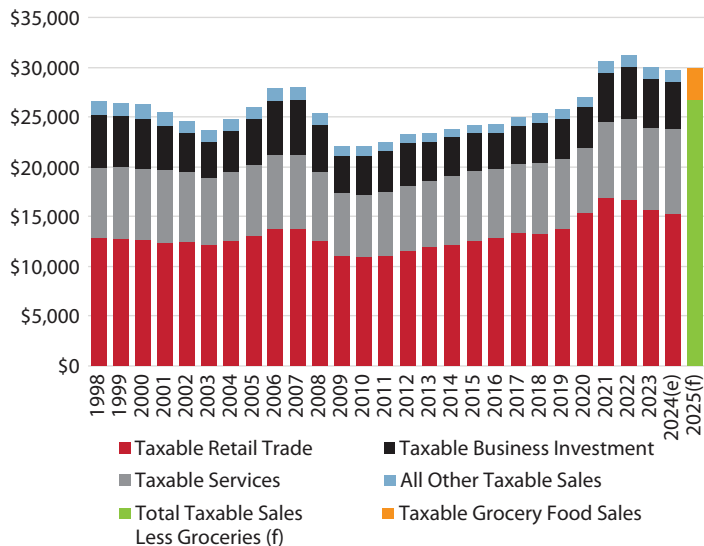
Over the same period, tax policy narrowed the sales tax base primarily by removing a number of business inputs from the sales tax base, such as manufacturing inputs with a useful life less than three years. Offsetting this tax base narrowing, collection of a much larger share of remote sales through a series of administrative actions, statutory changes, and a major U.S. Supreme Court decision increased collections in a manner similar to an expansion of the tax base.¹ If voters approve a constitutional amendment on the November 2024 ballot related to state uses of income tax, the state will remove its sales tax on groceries, a base-narrowing which would partially offset the increase from remote sales collections.

Industry Mix

Of the sales tax supersectors, taxable retail trade grew the fastest, at 0.8% annually. At the same time, taxable services such as accommodations, car repairs, and admissions grew by 0.6% annually. Taxable business investment declined (-0.4% growth rate) over the same period, in part due to enacted sales tax exemptions.

Non-store retailers (real per capita annual growth rate of 9.5%), and professional, scientific, and technical services (4.6% annual growth) grew the fastest among major sales-taxable economic sectors. Major sectors that experienced real per capita taxable sales declines included food and beverage retail stores (-1.5%) and manufacturing (-1.1%).

Figure 3: Utah Real Per Capita Taxable Sales (\$2023), 1998-2025(e)



Source: Utah State Tax Commission, Utah Revenue Assumptions Working Group (RAWG), U.S. Bureau of Labor Statistics, Kem C. Gardner Policy Institute

Shifting Consumption Trends – Goods vs. Services

Today's knowledge-based Information Age economy looks very different than 1998's economy, not to mention the economy of 1933 when Utah set up its sales tax. In addition to other changes, the Internet's advent revolutionized how we interact with each other, society, and the economy.

One prominent effect is consumption shifting away from goods toward services. For example, a typical 1998 consumer might purchase a music CD or a movie DVD. A consumer today will likely subscribe to a streaming service to enjoy music, shows, and movies.

The combined impact of consumption patterns and tax policy changes eroded the sales tax base over time relative to the economy, even as the sales tax base grew overall. Figure 4 shows the long-term change in Utah taxable sales compared to total consumption from 1978 through 2023.² Over time, the proportion of total consumption taxed decreased from nearly 78% in 1978 to under 60% in 2023. That is, Utah's sales tax base narrowed by about 20% relative to the economy, even as taxable sales grew overall. In the years between the Great Recession and the COVID pandemic, the percentage of consumption taxed largely leveled, due to increasing taxable sales resulting from income gains and policy changes related to taxation of remote sales. However, in more than half of these years, total consumption grew at a faster rate than taxable sales.

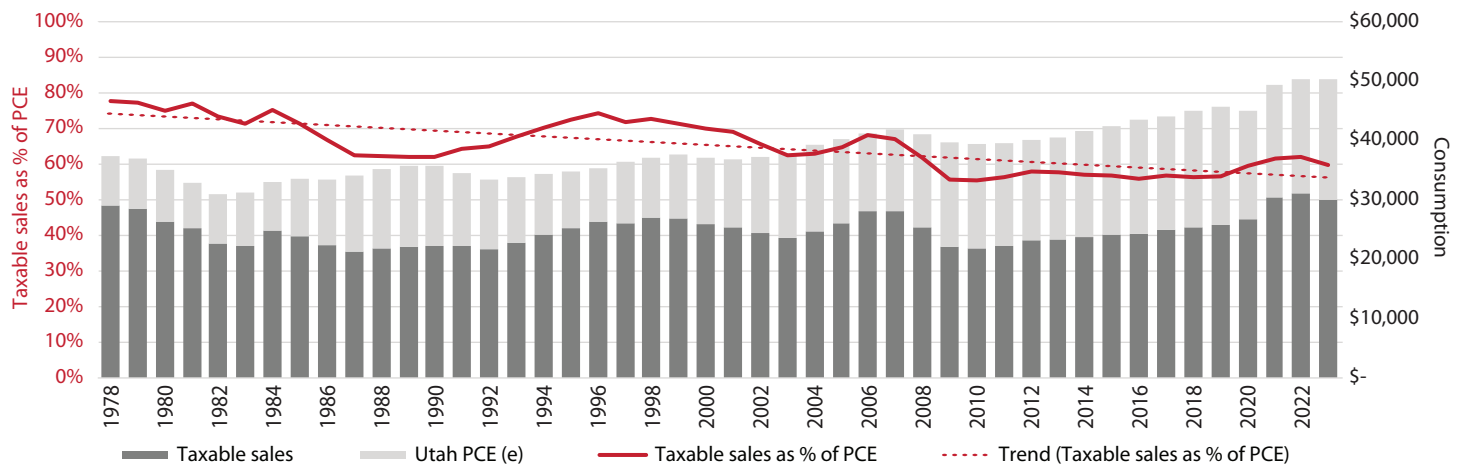
Sales taxes alter prices unequally, with some sectors paying a roughly 7% statewide average sales tax rate and others not paying that tax. This tax treatment disparity impacts society's resource allocation, raising issues of both economic efficiency (size of the economic pie) and equity (distribution of that economic pie).

Historically, firms collected sales tax at the point of sale for most goods; the music store consumer would pay sales tax upon purchasing the CD or DVD. However, policymakers enacting the sales tax during the Great Depression did not formulate Utah state tax code to address the advent of a largely service-based information economy. So as Utah's tax system gradually evolved over time, service taxation today is not uniform.

While many services remain outside the sales tax base, sales tax does apply to selected services such as accommodations, restaurant sales, admissions, leasing of tangible personal property and products transferred electronically, telecommunications, and repair and cleaning of tangible personal property, among others. The taxation of services also may present administrative challenges that are less relevant to the taxation of goods, including sourcing.

Even for the same business, some aspects will be sales-taxable and others not. For example, a salon will collect and remit sales taxes on shampoo and nail polish sold separately to a customer, but not on a haircut or nail service, or for shampoo and nail polish used in providing the hair cut or nail services.

Figure 4: Utah Real Per Capita Taxable Sales as a Percent of Utah Personal Consumption Expenditures (PCE), 1978–2023 (\$2023)



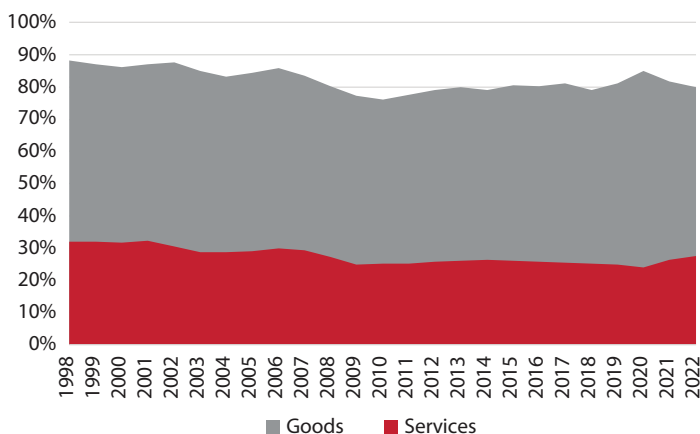
Source: Utah State Tax Commission, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Census Bureau

This spotty taxation of household services, coupled with the consumption shift away from goods toward services, results in a large disparity in the taxation of household consumption between goods and services. In 1998, Utah’s sales tax system covered approximately 88% of goods consumed in Utah, whereas it taxed about 32% of services. As of 2022, Utah’s sales tax narrowed compared to 1998, covering 80% of household goods consumption and only 28% of household services consumption (Figure 5).

Pandemic-Era Sales Tax Shifts

Over the last 25 years, the compound annual growth rate of real per capita services consumption stood at 1.1%, compared to 1.4% for goods. However, COVID-era abnormalities skew this long-term measure for goods consumption. From 1998 to 2019, annual growth for Utah real per capita goods consumption totaled 0.7%, compared to 1.1% for services.

Figure 5: Taxable Sales as a Percent of Utah Personal Consumption Expenditures for Goods and Services, 1998-2022



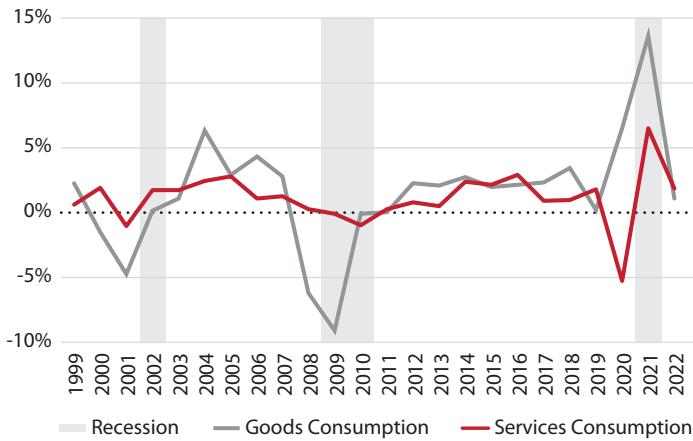
Source: Utah State Tax Commission, U.S. Bureau of Economic Analysis

COVID-19’s onset rendered many services limited or unavailable, such as accommodations, arts and entertainment, and travel. Additionally, federal COVID funding increased available income for much of the population through stimulus checks, student loan and mortgage relief, and enhanced unemployment benefits. Nationwide, real per capita disposable personal income increased 6.0% between 2019 and 2020, and an additional 3.0% between 2020 and 2021, well above the compound annual growth rate of 1.6% between 1998 and 2019.

With extra resources, changing preferences, and service availability limitations, the long-term structural economic shift towards service consumption rapidly reversed, as people began purchasing goods related to home improvement, entertainment, and recreation. Between 2019 and 2020, Utah real per capita goods consumption grew at a sizable 6.5%, compared to 0.2% the year before. In contrast, Utah real per capita service consumption shrunk by 5.3%, compared to 1.8% positive growth the year before. Similarly, between 2020 and 2021, goods consumption grew by 13.6%, compared to 6.5% growth in services. However, by 2022, the trend again reversed, as goods grew by only 1.1%, and services grew by 1.8%. Many forecasters project the long-term trend of consumption favoring services will continue.

To the extent that services remain taxed in a patchwork fashion, Utah’s sales tax base will likely grow due to inflation and population growth but face challenges pacing with economic growth, largely driven by the service sector. Moreover, to the extent that goods consumption generally remains more volatile than services consumption (Figure 6), that volatility may continue to challenge state budget makers moving forward.

Figure 6: Annual Percent Change in Utah Real Per Capita Consumption, 1999-2022



Source: Utah State Tax Commission, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Kem C. Gardner Policy Institute

Sales Tax Policy Changes

In addition to economic shifts, tax policy alters sales taxes through adjustments to the tax base and tax rates. Major Utah tax policy shifts in recent decades include adjustments to the collected tax base through changes to remote sales and sales tax exemptions and through tax rate adjustments, primarily via local rate increases.

Sales Tax Base – Remote Sales

The advent of remote and online sales represents another significant structural change in the sales tax landscape. Remote sales became commonplace before the COVID-19 pandemic, but exploded once the pandemic hit and rendered in-person consumption challenging and, in some cases, prohibited during the onset of the pandemic.

Utah first imposed a use tax in 1937, legally requiring individuals and businesses that purchase goods or services for use in Utah but purchased elsewhere to remit tax on those goods and services. However, enforcement proved extremely challenging, especially at the individual or household level. Thus, compliance remained minimal until recent years, when legal decisions and policy changes responded to the changing landscape and increase in both remote and online sales. Prior to these decisions and changes, the state collected some sales tax on remote sales, primarily from businesses and lesser amounts from households. Utah used to offer a discount on tax remission for remote sales from companies that voluntarily remitted sales tax on their remote sales.

Additionally, some companies entered into voluntary compliance agreements to remit sales tax on remote sales. In calendar year 2015, the year before major changes in remote and online sales taxation began, the state recorded approximately \$400 million in remote taxable sales (representing about \$18.8 million in state revenues).

Starting in 2016, a series of legal decisions and policy changes provided for the taxation of most remote sales, including sales from marketplace facilitators. These changes, coupled with the effects of the pandemic, resulted in a jump from \$400 million in remote taxable sales in 2015 to \$13.2 billion in remote taxable sales in 2023. This represents a significant increase in state remote sales tax revenue collections (including both shifts from brick-and-mortar sellers and new collections), from approximately \$19 million in 2015 to \$638 million in 2023. A companion report on short-term sales tax trends discusses this issue in greater depth.

Sales Tax Base – Exemptions

Sales tax exemptions narrow the sales tax base, all else equal. The Utah State Tax Commission estimates that state foregone revenue from sales tax exemptions is greater than \$1.4 billion in FY 2023.³

Exemption proponents often raise arguments of equity and economic efficiency (such as issues of double taxation) and question the “all else equal” assumption due to expanded economic activity growing the tax base and thereby offsetting the tax exemption’s potential revenue loss. Opponents raise concerns about the narrowing base and the equity issues it raises and argue that rather than growing the tax base over time, exemptions simply shift the tax burden to other taxpayers who don’t receive exemptions.

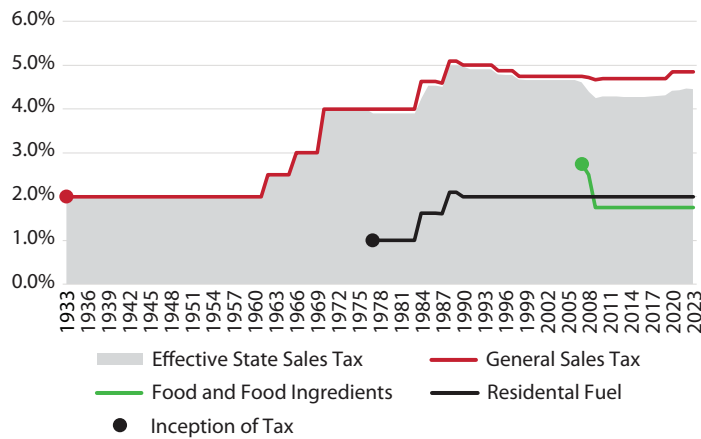
The Legislature enacted the largest sales tax exemption for aviation, motor, and special fuels at the sales tax’s 1933 inception. These fuels remain subject to separate excise taxes, but if subject to standard state sales tax would generate approximately \$375 million. Since 1998, the Legislature enacted 46 new sales tax exemptions, the largest of which include water in a pipe, conduit, ditch, or reservoir (est. FY 2023 value \$30 million) and machinery, equipment, or parts used in qualified research with at least a three-year life (est. FY 2023 value \$19 million); the Legislature also significantly expanded certain exemptions over the same period.

Other large exemptions also have long histories. The Legislature exempted prescription drugs, syringes, and stoma supplies in 1976 (current estimated value of foregone revenue \$216 million). Additionally, the Legislature exempted machinery, equipment, or parts to manufacturers and others with a three-year or longer life in 1985, and expanded the exemption in 2018 (current estimated value of foregone revenue is \$219 million).

Rates - State Sales Tax

Tax rate changes constitute another important policy change component. When originally implemented in 1933, Utah imposed a 2.00% state sales tax rate. Policymakers gradually raised this rate over time, hitting 4.00% in FY 1970. In FY 1977, the Legislature enacted the first differential state rate, for residential fuel, set at the general rate minus 3.00%, and eventually changed to a flat 2.00% in 1990. The state-imposed

Figure 7: Utah State Sales Tax Rate History, FY 1933 to 2023



Source: Utah State Tax Commission

sales tax rate peaked at 5.00% in 1990, and began decreasing in FY 1995, to 4.875%. It dropped to 4.75% in FY 1998, down again to 4.65% in FY 2008, and then increased to 4.70% in FY 2009. Through a Medicaid expansion citizen initiative, voters increased the state sales tax rate to its current 4.85% level, effective in FY 2019. Besides fuel, groceries (food and food ingredients) now also have a differential rate of 1.75%, effective in 2008.

Figure 7 shows these state rates over time. The differentiation of residential fuel and food and food ingredients, which were taxed at the general sales tax rate until policy changes differentiated them, results in an effective tax rate lower than the general sales tax rate. That is, because parts of the sales tax base used to be subject to the full state sales tax rate but are now subject to lower differential rates, the average tax rate for all taxable sales combined decreased (Figure 7). With the inception of each differential rate, the effective state rate decreases slightly. As of FY 2023, the weighted effective state rate stood at 4.45%.

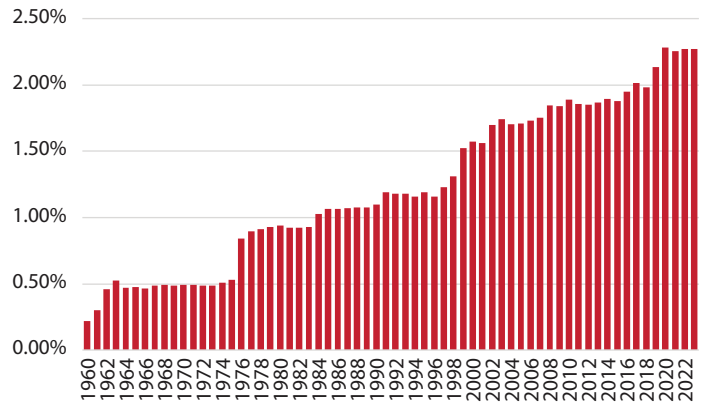
Rates - Local Sales Tax

Utah counties, cities, and towns can only impose sales taxes as authorized in statute. The Legislature first approved a general local option sales tax in FY 1960, at a 0.5% rate. The authorized rate increased over time to its current 1.00% rate in 1990. All authorized entities now impose this tax, so it is uniform statewide.

In exchange for a county property tax cut, the Legislature authorized a general county option sales tax in 1998, at a rate of 0.25% (which remains unchanged since). All counties currently impose this tax. The general 1.00% local municipal rate and 0.25% county rate, both now imposed statewide, have remained constant in recent decades.

Statute also authorizes additional local general sales taxes. These include general local option sales taxes for transportation and other specific uses. Of these local taxes, the widely-imposed

Figure 8: Effective Statewide Local Sales Tax Rate, FY 1960 - 2023



Source: Utah State Tax Commission

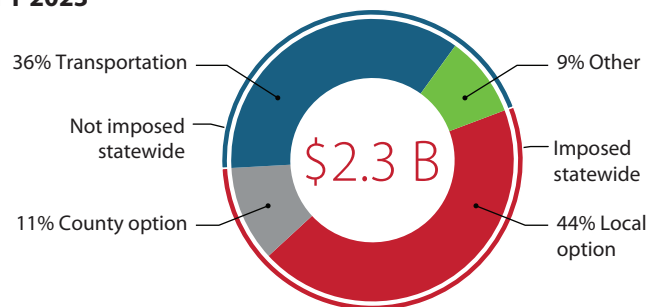
local option transportation taxes generate the most revenue – over \$816 million in FY 2023. The imposition of several local sales tax rates increased the effective tax rate, from the inception of the county option in 1960 and its rate of 0.5%, to an effective rate of 2.28% in FY 2023 (Figure 8).

In addition, certain localities can impose excise taxes on specific purchases such as the tourism, recreation, cultural, convention, and airport facilities (TRCCA) taxes and the transient room tax (TRT). While not explored included in this paper, a future brief will explore these taxes in more depth.

Even with basically flat state and general-purpose local sales taxes in recent decades, the proliferation of local option sales taxes resulted in rising overall sales tax rates. For example, as of January 1, 2024, several counties and municipalities (including Murray, South Salt Lake, several municipalities in Utah County, and Riverdale) impose combined local sales tax rates of over 2.50%, with a maximum combined local sales tax of 4.20% in the resort community of Park City. The statewide average local sales tax rate is a combined 2.27%.

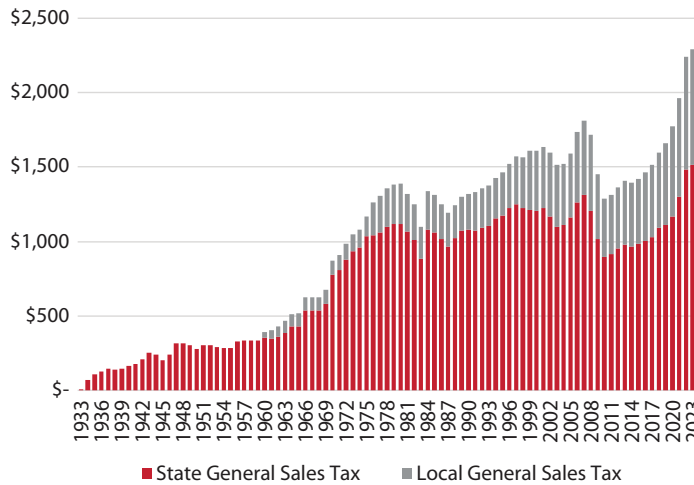
Additionally, the recent proliferation of sales tax areas results in increasing sales tax rate and administrative complexity. From the inception of the state sales tax in 1933 through

Figure 9: Utah Local Option General Sales Tax Revenue, FY 2023



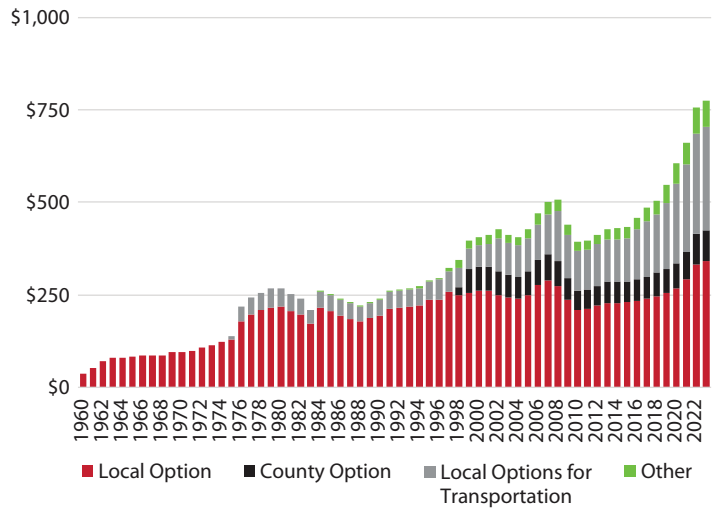
Source: Utah State Tax Commission

Figure 10: Real Per Capita State and Local General Sales Tax Collections (\$2023), 1933–2023



Source: Utah State Tax Commission, U.S. Bureau of Labor Statistics, Kem C. Gardner Policy Institute

Figure 11: Real Per Capita Local General Sales Tax Collections (\$2023), 1960–2023



Source: Utah State Tax Commission, U.S. Bureau of Labor Statistics, Kem C. Gardner Policy Institute

Table 1: Select Local Government General Sales Tax Rates as of 2024 Q2⁴

	General Purpose						Earmarked					Local Rate Total
	Statewide		Not Statewide				Transportation			Other		
	Local	County	Town	City/Town	Resort	Correctional Facility	Public Transit*	Municipal Highways	County and 2nd Class County Option for Airports, Highways, Public Transit	Botanical, Cultural, Zoo	Rural Hospital	
Beaver County (unincorporated)	1.00%	0.25%							0.25%			1.50%
Cedar City	1.00%	0.25%					0.25%			0.10%		1.60%
Davis County (unincorporated)	1.00%	0.25%					0.80%		0.25%			2.30%
Dutch John	1.00%	0.25%			1.10%				0.25%		1.00%	3.60%
Escalante	1.00%	0.25%			1.10%				0.25%		1.00%	3.60%
Green River	1.00%	0.25%			1.50%			0.30%	0.25%	0.10%		3.40%
Logan	1.00%	0.25%					0.55%		0.25%	0.10%		2.15%
Morgan City	1.00%	0.25%					0.25%	0.25%	0.25%	0.10%		2.10%
Ogden	1.00%	0.25%					0.80%		0.25%	0.10%		2.40%
Park City	1.00%	0.25%			1.60%		1.00%		0.25%	0.10%		4.20%
Piute County	1.00%	0.25%					0.25%					1.50%
Price	1.00%	0.25%						0.30%	0.25%	0.10%		1.90%
Provo	1.00%	0.25%					0.75%		0.50%	0.10%		2.60%
Riverdale	1.00%	0.25%	0.20%				0.80%		0.25%	0.10%		2.60%
Salt Lake City	1.00%	0.25%				0.50%	0.80%		0.25%	0.10%		2.90%
Snowville	1.00%	0.25%	1.00%						0.25%			2.50%
Springdale	1.00%	0.25%			1.60%				0.25%	0.10%		3.20%
St. George	1.00%	0.25%						0.30%	0.25%	0.10%		1.90%
Vernal	1.00%	0.25%		0.20%			0.25%	0.30%		0.10%		2.10%

*Includes mass transit, additional mass transit, fixed guideway, county option for public transit, and state supplemental taxes.
Source: Utah State Tax Commission

1959, the state functioned as the sole tax area, with a uniform rate and distribution statewide. The Legislature authorized municipalities to impose a sales tax in 1959, with the county option following in 1998, with various other county and city or town rates interspersed over time. Then, in 2007, the creation of the Military Installation Development Authority (MIDA) marked the first sales tax development zone, which creates a tax “island” within another jurisdiction. Dozens of additional sales tax areas, housing and transit reinvestment zones, and transit district areas followed, including areas related to the Inland Port, Point of the Mountain, and the Hotel Convention Center. These sales tax development zones create complexity related to administration, including sourcing, and compliance.

Earmarks and Structural Budget Issues

State Sales Tax Earmarks

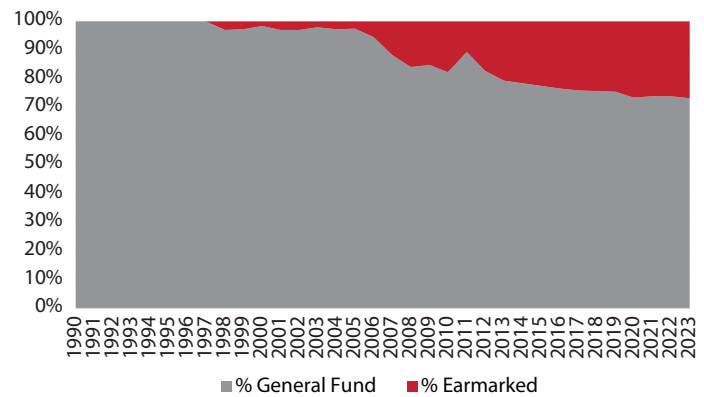
Utah enacted its first general sales tax in 1933, in the midst of the Great Depression. While originally set at 0.75% with a two-year sunset, another bill in a special legislative session a few months later repealed the sunset date and increased the rate to 2.00%, among other changes. The Legislature earmarked sales tax revenue for the Emergency Relief Fund to mitigate the effects of the Great Depression. The Legislature eliminated the earmark in 1955 and deposited all sales tax into the state General Fund until 1994, when it enacted the first state sales tax earmark for water and transportation projects.

The increasing number of sales tax earmarks at the state and local level reduces the share of unrestricted sales tax revenue available to fund general government. The current structure of the Utah state tax system is unique in the U.S., in that the Utah Constitution earmarks the income tax (which generates over 1.5 times the revenue of the state portion of the sales tax) for public education and higher education and, more recently, children and individuals with disabilities.⁵ This provision constrains the state’s budget flexibility for income tax revenue. All other functions of general government, including transportation, Medicaid, housing and homeless services, air quality, administrative services, courts, public safety and corrections must come from the sales tax and other smaller revenue sources.

Additionally, the income tax grows faster than sales tax. Between FY 1998 and FY 2019, the compound annual growth rate of real state sales tax collections was 1.5%, compared to 3.1% for the individual and corporate income taxes combined. When adjusting for population as well as inflation, the rates are -0.2% for sales tax, compared to 1.2% for combined income tax.

The increasing number of sales tax earmarks compounds this structural imbalance by guaranteeing funding for particular programs, largely transportation, but resulting in smaller amounts of unrestricted sales tax revenue for other purposes. Since the inception of the first state sales tax earmarks for water

Figure 12: Share of State Sales Tax Deposited into General Fund vs. Earmarked



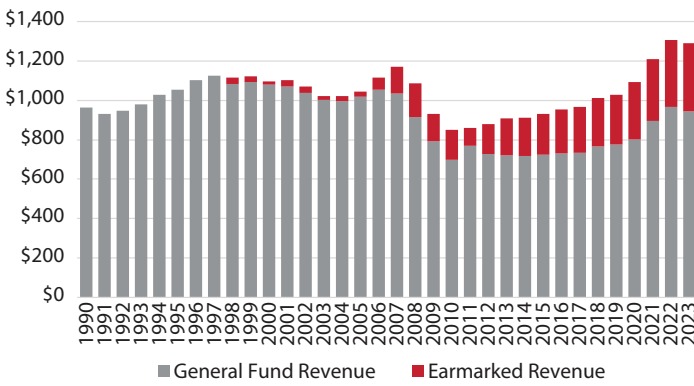
Source: Utah State Tax Commission

and transportation projects in alternating years, in FY 1995, when unrestricted sales tax revenue comprised 97% of total state sales tax revenue, the share of unrestricted state sales tax revenue decreased to 73% in FY 2023 (Figure 12).

Transportation earmarks comprise the majority of state sales tax diversions; in FY 2023, they totaled nearly \$893 million, approximately 75% of all state sales tax earmarks and 20% of all state sales tax collected. Sales tax earmarks for transportation increased as the dedicated source of transportation funding (motor fuel taxes) diminished. Utah’s motor fuel tax is a per gallon tax. It generated less revenue on an inflation-adjusted per capita basis in recent years, despite regular rate increases, due to the increasing fuel economy of vehicles and the adoption of hybrid and electric vehicles in place of internal combustion engine vehicles. Real motor vehicle tax collection growth rates have slowed each decade in recent years; between FY 1980 and FY 1989, the compound annual growth rate was 3.0%; it dropped to 2.6% between FY 1990 and FY 1999, and declined to -2.6% between FY 2000 and FY 2009 (in part due to the Great Recession at the end of this decade). In comparison to the state sales tax, which grew on an inflation-adjusted basis by 1.4% between FY 1999 and FY 2019, the motor vehicle tax grew by only 0.3%; additionally, when adjusting for population, both rates were negative over the period. Thus, as the designated revenue source for transportation grew at a slower rate than sales tax over time, policymakers tapped sales tax to help fund transportation and infrastructure projects for the growing state. This shifted the tax away from a user fee structure to a general tax not closely tied to the level of transportation usage.

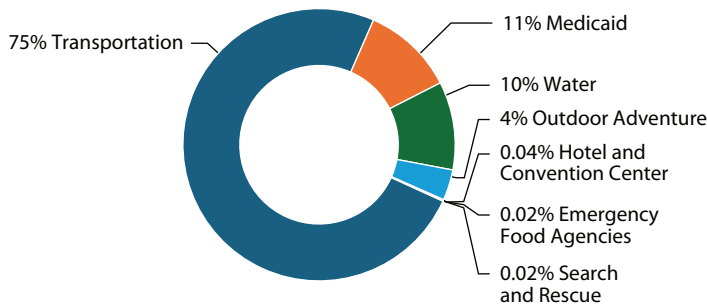
Other General Fund diversions, seen in Figure 14, include water and natural resources, Medicaid expansion, and outdoor adventure.

Figure 13: Real per Capita State Sales Tax Collections Deposited to General Fund and Earmarked Funds



Source: Utah State Tax Commission, U.S. Bureau of Labor Statistics, Kem C. Gardner Policy Institute

Figure 14: Distribution of State Sales Tax Earmarks



Source: Utah State Tax Commission

Table 2: Authorized Utah Local General Sales Taxes, 2024

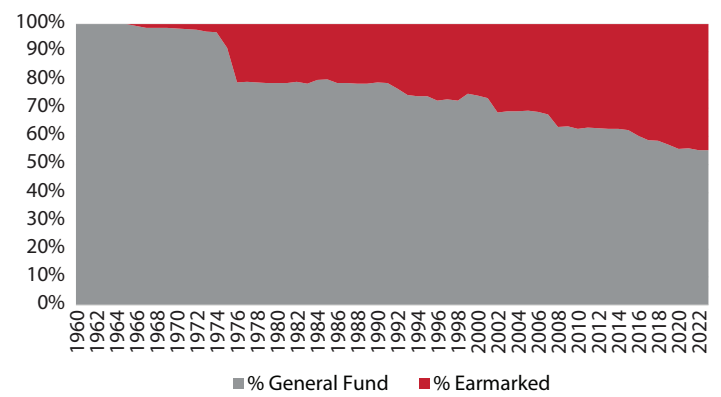
General Fund Taxes	Earmarked Taxes
<ul style="list-style-type: none"> Local option sales and use (1.00%) County option sales and use (0.25%) Town option (1.00%) City or town option (0.20%) Resort communities (1.60%) Correctional facility (0.50%) Capital city revitalization (0.50%) Supplemental state sales and use (0.30%) 	<ul style="list-style-type: none"> Mass transit (0.25%) Additional mass transit (0.25%) Fixed guideway (0.30%) Municipal highways (0.30%) County of the second class airport, highway, and transit (0.25%) County option for highways and public transit (0.25%) County option for public transit (0.20%) Transportation infrastructure (0.25%) County public transit (0.20%) Botanical, cultural, recreational, and zoological (0.10%) Rural county health care facilities (1.00%) Local option diversion to emergency food and homeless shelters County option diversion to emergency food agencies

Source: Utah State Code

Endnotes

1. Since 1937 with adoption of the use tax, the legal tax base included these purchases even though they largely went uncollected.
2. The U.S. Bureau of Economic Analysis reports state-level personal consumption expenditure (PCE) data starting in 1997. This analysis uses various methodologies to estimate Utah PCE numbers for 1978 through 1996 and for 2023.
3. Even for the Tax Commission, estimating foregone revenue for many exemptions proves very difficult. Tax filings rarely track sales at a product level. Moreover, the Legislature enacts some sales tax exemptions proactively, in anticipation of the production and sale of certain goods or services, but before an appreciable tax base exists for that good or service.
4. All local tax rates are available from the Utah State Tax Commission at <https://tax.utah.gov/sales/rates>
5. In November 2024, Utah voters will vote on a constitutional amendment that removes this earmark while implementing a constitutional provision for education funding.

Figure 15: Share of Local Taxes Deposited into Local General Fund vs. Earmarked



Source: Utah State Tax Commission

Local Sales Tax Earmarks

A similar trend toward increased earmarking in recent decades occurred at the local level. Growth in local sales taxes comes primarily from earmarked taxes, including those for transportation. Because the policy design of Utah’s gas tax doesn’t allow revenue to pace with transportation demands, policymakers seek other funding sources. At the inception of local option sales taxes in 1960, state law authorized the deposit of all revenues into the local government’s general fund, for general government uses. However, many of the local option sales taxes enacted in recent years earmark funds for specific uses, such as transportation, such that, in FY 2023, only 55% of local option taxes are deposited into the local general fund, and 45% are earmarked for specific uses (see Figure 15).

Conclusion

Sales tax remains a critical component of Utah’s tax portfolio, at both the state and local level. While population growth, inflation, and Utah’s thriving economy bolster sales tax collections, the changing economic landscape also strains the current sales tax structure. Increasing demands for government services, shifting consumption patterns that favor less-taxed services over goods, declines in other revenue sources, and policy changes such as earmarks and exemptions put pressure on the general sales tax. Utah policymakers may consider policies to ensure that all levels of government have sufficient, sustainable, and steady revenue to meet the needs of Utah’s population.

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