

Open Letter to the Tax Restructuring and Equalization Task Force (TREF) Tax Reforms for Low- and Moderate-Income Utahns

9/24/19 DRAFT – for release Sept 26, 2019, 4pm, Aspen Room, Senate Bldg





Dear Senators, Representatives, and Other Members of the TREF:

We, the undersigned organizations that work with and advocate for low- and moderate-income Utahns, urge you to consider the impact on the most vulnerable Utahns of any tax policy changes that you propose this year.

We urge you to address the two major challenges facing our tax structure as it impacts lower-income Utahns:

- 1) **Utah’s current system of taxation is regressive**, in the sense that it requires lower-income Utahns to pay a higher share of their incomes to state and local government than it asks of the highest-income Utahns, even though about 100,000 lower-income Utah households are forced into – or deeper into – poverty by their tax burden every year.

STATE AND LOCAL TAXES IN UTAH
Share of Family Income

INCOME GROUP	TOP 20%						
	LOWEST 20%	SECOND 20%	MIDDLE 20%	FOURTH 20%	NEXT 15%	NEXT 4%	TOP 1%
INCOME RANGE	Less than \$22,900	\$22,900 to \$39,600	\$39,600 to \$63,900	\$63,900 to \$104,300	\$104,300 to \$202,400	\$202,400 to \$486,500	over \$486,500
AVERAGE INCOME IN GROUP	\$14,100	\$32,500	\$50,600	\$80,800	\$139,400	\$288,400	\$1,300,500
 SALES & EXCISE TAXES	5.1%	4.5%	3.6%	3.0%	2.2%	1.4%	0.7%
General Sales—Individuals	2.6%	2.5%	2.0%	1.7%	1.3%	0.9%	0.4%
Other Sales & Excise—Ind.	1.0%	0.8%	0.5%	0.4%	0.3%	0.1%	0.0%
Sales & Excise on Business	1.5%	1.3%	1.1%	0.9%	0.6%	0.4%	0.2%
 PROPERTY TAXES	2.1%	1.4%	1.7%	2.0%	1.6%	1.7%	1.5%
Home, Rent, Car—Individuals	2.1%	1.4%	1.7%	1.9%	1.5%	1.3%	0.4%
Other Property Taxes	0.0%	0.0%	0.1%	0.1%	0.1%	0.4%	1.1%
 INCOME TAXES	0.3%	2.0%	2.9%	3.8%	4.1%	4.2%	4.5%
Personal Income Tax	0.3%	2.0%	2.8%	3.8%	4.0%	4.2%	4.4%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
 TOTAL TAXES	7.5%	7.9%	8.2%	8.8%	7.9%	7.3%	6.7%

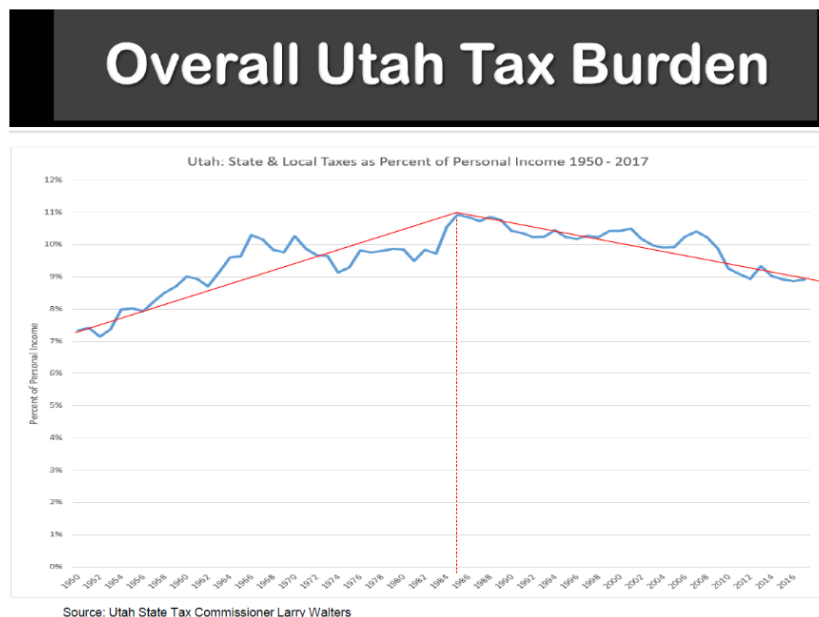
Individual figures may not sum to totals due to rounding.

This regressivity could be addressed with policy changes including the following:

- a. A Utah Earned Income Tax Credit (EITC) to allow the working poor to keep more of what they earn
- b. Remove the sales tax entirely from food, as 34 other states have done.
- c. Remove the state tax on Social Security benefits for low- and moderate-income seniors; Utah is one of only thirteen states that tax these benefits.

- d. Restore the income tax rate to 5% or increase it above that level. (Because the majority of all Utah income is earned by the top quintile of taxpayers, and because the Utah income tax more closely matches Utah's income distribution than any other tax, most of such an income tax rate increase would be paid by the top-earning 20% of Utahns, while most lower-income Utahns are shielded from income tax rate increases.)
- e. Disclose and evaluate the effectiveness of tax expenditures (revenue lost to the taxing system because of tax deductions, exemptions, credits, and exclusions); Utah's lack of transparency in this area of taxation earned us a [C grade from the Volcker Alliance](#), a leading evaluator of state budgetary practices founded by former Federal Reserve chairman Paul Volcker.

2) For decades, Utah's overall level of taxation relative to the state's economy has been dropping, as illustrated in the chart below from the Utah State Tax Commission:



The unfortunate result is that we are left with a tax structure that fails to generate sufficient revenues to allow our state and local governmental entities to properly meet their responsibilities and fulfill their appropriate role in a number of critical areas, including the following:

- a. **Education:** Utah ranks last nationally for our per-pupil investment in K-12 education. Particular areas of weakness include:
 - Teacher turnover rates are higher than the national average. One study found the majority of new teachers leave within seven years.

- Pre-K: Utah ranks 36th for our percent of lower-income 3- and 4-year-olds attending pre-school, private or public. We are also 1 of only 7 states not to have statewide public preschool programs. (The state offers only small-scale programs in a limited number of local school districts.) Yet we know from multiple research sources that every dollar invested in high-quality day care and preschools produces at least a \$7 return on that investment in future years.
- Kindergarten: Only a third of Utah kids participate in full-day kindergarten, less than half the national average, because local school districts can't afford to offer it. Voices for Utah Children estimates that it would cost at least \$75 million to offer full-day K to all Utah kids (not including potential capital costs).
- According to the [January 2019 report](#) of the Utah Afterschool Network, the need for after-school programs exceeds the supply many times over, leaving tens of thousands of children completely unsupervised, meaning they are less likely to do their homework and more likely to engage in unsafe activities.

In addition to these input measures, Utah is also lagging behind in terms of several significant educational outcome measures:

- Our high school graduation rates are lower than national averages for nearly every racial and ethnic category, including our two largest, Whites and Latinos.
- Among Millennials (ages 25-34), our percent of college graduates (BA/BS or higher) lags behind national trends overall and among women.

Moreover, Utah is in the midst of a demographic transformation that is enriching our state immeasurably but also resulting in majority-minority gaps at a scale that is unprecedented in our history. For example, in our education system:

- Our gap between White and Latino high school graduation rates is larger than the national gap.
- Education Week recently reported that Utah ranks in the worst 10 states for our growing educational achievement gap between haves and have-nots.
- We are beginning to see concentrations of minority poverty that threaten to give rise to the type of segregation and socio-economic isolation that are common in other parts of the country but that Utah has largely avoided until now.

- b. **Infrastructure:** Utah's [investment has fallen behind](#) by billions of dollars. This is another area where the Volcker Alliance ranked Utah in the worst nine states for failing to track and disclose to the public the dollar value of deferred infrastructure replacement costs. In addition, Internet infrastructure is lacking in some rural counties, limiting their integration into Utah's fast-growing economy.
- c. **Mental Health and Drug Treatment:** Utah was recently ranked last in the nation for our inability to meet the mental health needs of our communities, according to a recent [report from the Kem C. Gardner Policy Institute](#). Underfunding of drug treatment and mental health services costs taxpayers more in the long run as prison recidivism rates rise because the needed services are not available. Estimates are that Utah meets only 15% of the need for these vital, life-saving services.
- d. **Affordable housing** units fall 41,266 units short of meeting the need for the 64,797 households earning less than \$24,600, yet the annual \$2.2 million state allocation to the Olene Walker Housing Loan Fund has not changed in over two decades, despite inflation of over 60%. Among extremely low-income renter households, 71% pay more than 50% of their income for housing, which is considered a severe housing burden. This year, the Olene Walker Housing Loan Fund used up most of its annual \$14 million budget at its very first meeting of the fiscal year (made up of both state and federal funds).
- e. **Health care:** Our rates of uninsured children are higher than national averages – and rising – especially among the one-in-six of our children who are Latino. In Utah 35,000 or 5% of White children are uninsured (national rank = 36th place), compared to 31,000 or 18% of Latino children (rank = 46th = last place in 2017).
- f. **Disability services:** The 2018 annual report from the Utah Department of Human Services' Division of Services for People with Disabilities reports that the wait list for disability services grew to a record level of 3,000 individuals last year and that the average time on the wait list is 5.7 years.
- g. **Seniors:** The official poverty measure undercounts senior poverty because it does not consider the impact of out-of-pocket medical expenses. A [2018 study found](#) that seniors spent \$5,503 per person on out-of-pocket medical expenses

in 2013, making up 41% of their Social Security income. (For most seniors, [Social Security](#) is the majority of their income, and it makes up 90% or more of income for 21% of married couples and about 45% of unmarried seniors.)

- h. **Domestic Violence:** Although Utah's overall homicide rate is significantly lower than the national average, domestic-violence-related homicides constitute over 40% of Utah's adult homicides compared to 30% nationally. Several thousand women continue to be turned away annually from crisis shelters because of lack of capacity. Additional state funding would allow the Utah Domestic Violence Coalition to substantially increase the capacity of overburdened crisis shelters.

Given the large number of urgent needs that are not being met because of our chronic shortage of public revenues, we are concerned that Utah is missing the opportunity to make critically important upfront investments now that would allow us to reap substantial rewards in the future, and that our most vulnerable neighbors will pay the greatest price as a result.

Thus, we urge you to consider the ways that the state tax structure impacts single parents, disabled adults, low-income children, seniors on fixed incomes, and other vulnerable population groups as you decide on your tax restructuring and equalization proposals.

Finally, thank you for all the time and effort you are personally investing as volunteer members of this important Task Force, and for all that you do for our state through this and other forms of public service.

Yours truly,

*Catholic Diocese of Salt Lake City
Coalition of Religious Communities
Community Action Program of Utah
Comunidades Unidas
Crossroads Urban Center*

*RESULTS Utah
Utah Citizens' Counsel
Utah Housing Coalition
Utahns Against Hunger
Voices for Utah Children*