

UTAHNS
FOR
PUBLIC
SCHOOLS

EDUCATION FUNDING AT RISK POLICY RECOMMENDATIONS

BASED ON THE SCHOOL FUNDING AND TAX POLICY SERIES 2010

Education Funding at Risk

POLICY RECOMMENDATIONS

Education Funding at Risk

Some recent and other not so recent changes in the Utah tax structure have resulted in a diminished ability to pay for public education, including class size reduction, attracting and retaining quality teachers, and up-to-date materials and technology.

#1. Diverting Education Funds from K-12 Public Education—Constitutional Amendment

- When the income tax dedicated to funding public education was established during the Great Depression, the citizens of Utah at that time made a contract with future generations. They guaranteed a dedicated funding stream to provide a free public education for all Utah children.
- A 1996 constitutional amendment allowing income tax money to flow to higher education eliminated the protection for K-12 funding.
- Instead of working with three separate, dedicated funds, the legislature now can shift resources from one fund to another according to their own priorities.
- These changes have cost public schools from \$250 million to \$761 million per year. In fiscal year 2007-08, K-12 lost \$761 million.

Policy Recommendation: Protect and prioritize K-12 funding (return to dedicated revenue streams or limit the amount or percentage of Education Fund revenues that can be directed toward other projects).

#2. Corporate Tax Breaks

- That there is a need for tax breaks for businesses in Utah is not apparent, at least when compared to other states. Utah has one of the lowest corporate income rates in the nation.
- Utah's five percent corporate tax rate is higher than the rates of only four other states, and is one-third less than the average state tax rate of 7.5 percent (FTA).

- As a result of its low rate on corporate profits and on other business activities, a recent study of business taxes in the fifty states by Ernst & Young found that only five states received less of their state tax revenue from all forms of businesses taxes than does Utah.¹

Policy Recommendation: Utah already has one of the lowest corporate tax rates. There is no demonstrated need to reduce it further.

#2.a More Sales Tax Exemptions

Since 1981, the number of specific sales tax exemptions has increased from 11 to 68. That's more than a 600% increase.

Policy recommendation: Treat exemptions like expenditures during the budgeting process; implement accountability procedures that require economic growth goals to be met.

#2.b Corporate Property Tax Breaks

- Fifteen years ago, in fiscal year 1995, natural resource companies and utilities paid 17% of Utah's total property tax. In fiscal year 2006-07, these same companies paid about half as much, or 8.7%.²
- For natural resource companies, the effective property tax rate (taxes as a percent of value) fell from 1.48% in fiscal year 1995 to 0.89% in fiscal year 2007. Though natural resource property values increased 158% in this period, property taxes only rose 58%.
- For utility companies, property taxes have not grown with inflation and population.
- If these rates had been allowed to grow, corporate property taxes would have brought in another \$90 million per year for K-12 public education.

¹ Total State and Local Business Taxes: 50-State Estimates for Fiscal Year 2007, Ernst & Young.

² Annual Reports of the Utah State Tax Commission, fiscal years 1995 -2007, <http://tax.utah.gov/research/reports.html>

Education Funding at Risk

POLICY RECOMMENDATIONS

Policy Recommendation: Corporations should pay their fair share of property taxes.

#2.c Corporate Franchise Tax Cuts

- Over the past four years, bills in the Legislature have called for material reductions to or a complete elimination of the corporate franchise tax.
- The most recent example, is second substitute SB 28 (2008 General Session, by Sen. Howard Stephenson), called for a drastic reduction in corporate taxes for companies that export most of their products.
- Had SB 28 passed, it would have reduced the tax liability of some of Utah's richest corporations from millions of dollars to a level below what an average family pays in income taxes.
- For example, a company making \$100,000,000 in profits, could end up paying only \$500 in Utah corporate tax, which is less than a third of the median income tax burden for Utah families.

Policy recommendation: Don't cut or eliminate corporate franchise tax.

#3. Cuts to Basic Minimum Program Property Tax

- Reductions in property taxes are always popular, but not always justified. A 2007 study conducted by the Government of the District of Columbia³ looked at the tax burden on typical families living in the major cities in each of the 50 states. That study found that for a typical family of four at the \$50,000 income level, property taxes in Utah are only 65% of the U.S. average.

Policy recommendation: Allow for some small growth for inflationary and/or enrollment growth; freeze the rate so it can't go below a specified floor. (This could be done while still providing protection for lower income and fixed income families.)

#4. Income Tax Breaks Benefit the Wealthy

- The move to a "flat tax" reduces K-12 education funding by \$220 million per year.
- Revenue from high-income taxpayers (more than \$500,000 per year) with large capital gains will decrease by about \$15 million per year. (This loss of revenue results from the difference between the old system's top effective rate of 5.76% and the new system's 5% marginal rate.)

Policy recommendation: Return to progressive income tax, reducing the burden on low- and middle-income families; make flat-tax revenue neutral.

Utahns for Public Schools Mission

In order to advance the quality of public education through improved state and local policymaking, UTPS will prepare and disseminate accurate, timely information; support well-informed public engagement; and advocate for ethical and transparent governance.

This research report was commissioned by Utahns for Public Schools. For more information about Utahns for Public Schools, please visit our website: utahnsforpublicschools.org.

³ Tax Rates and Tax Burdens—A Nationwide Comparison, Government of the District of Columbia (2007).