



Shifts in Property Tax Liability



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SLCo Council Presentation
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Outline

- How do certified tax rates work?
 - Certified tax rate is that rate which will yield the taxing entity the same property tax revenue that it budgeted in the previous year, excluding new growth.
- Why do certified tax rates lead to shifts in tax liability?
 - Natural shifts, i.e., one sector grows faster than another (residential faster than commercial).
 - Legislatively enacted shifts, such as exemption threshold increase, exempting supplies, and others.
 - Legislatively enacted reductions for centrally assessed.
- What we do to hold the line.
 - Use the most advanced models in the state
 - Cutting-edge commercial valuations
 - Keep valuations accurate in court
- What you can do.
 - Learn that it's important to learn about proposed legislation that results in tax shifts.



TRUTH IN TAXATION

Truth-in-taxation prohibits units of local government from obtaining windfall revenues as a result of revaluation or equalization.

§59-2-303.1 &
§59-2-102, 918, 924



CERTIFIED TAX RATE

is that rate which will yield the **taxing entity** the same property tax revenue that it budgeted in the previous year, excluding new growth.



TRUTH IN TAXATION

Utah State property tax law requires that

when property *values* rise



property tax *rates* must fall.



Calculation of the Tax Rate

Suppose your house has a taxable value of \$200,000 and the tax rate last year was 1%. This year the taxable value increased 10% to \$220,000, the average change in value within that tax entity. The tax rate will be changed to 0.91% for that entity to receive the same funds as last year.

Last Years Value: $\$200,000 \times .01 = \$2,000$

This Year Value: $\$220,000 \times .0091 = \$2,000$

Each taxing entity calculates the tax rate based on the total property values within the entity's boundary.

TRUTH IN TAXATION

REASONS WHY A PROPERTY OWNER'S TAXES
MIGHT GO UP DESPITE 'TRUTH IN TAXATION'

- Variation in Market Values Within a Taxing Entity

Above the average CHANGE in value within Entity – Taxes Increase

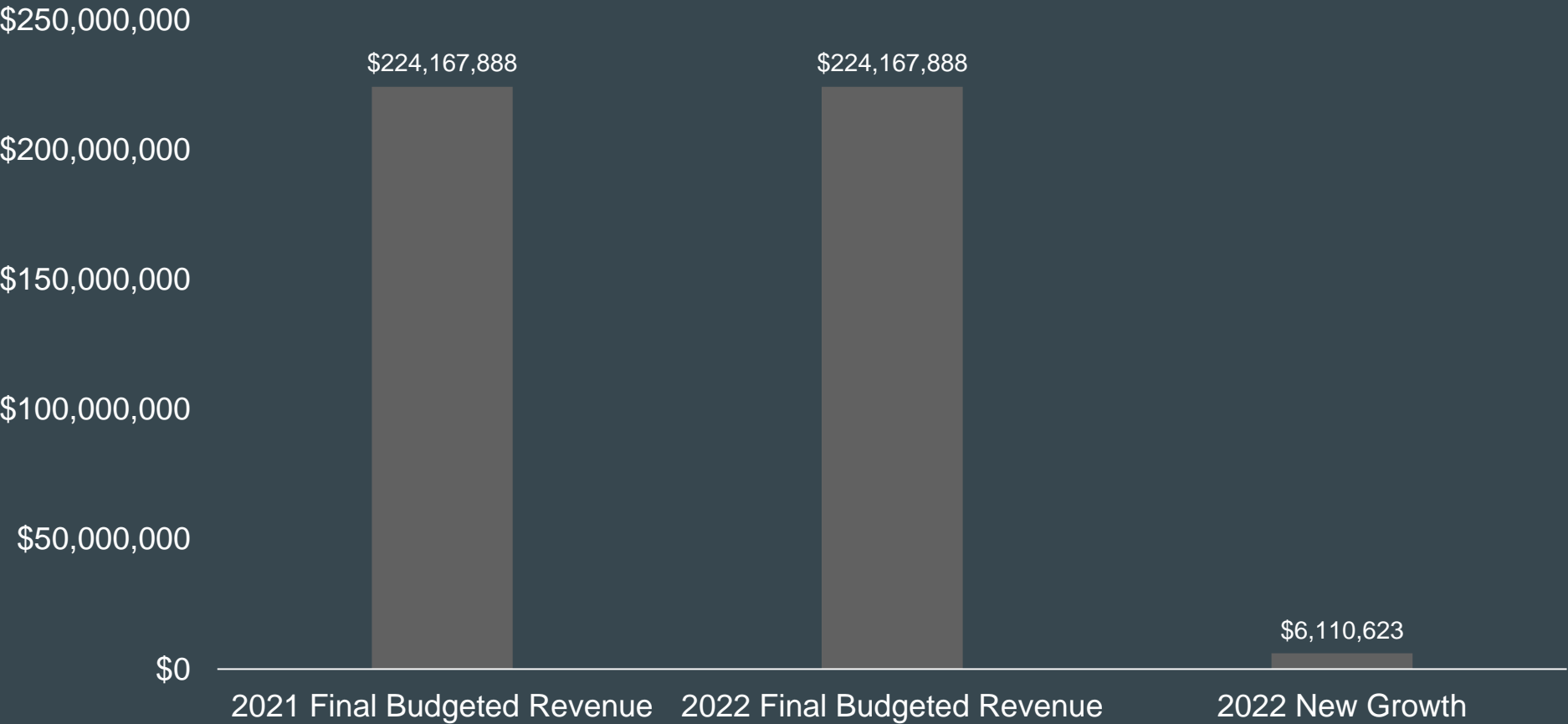
Below the average CHANGE in value within Entity – Taxes Decrease



- State Assessed Shift (Utilities, Mines, Airlines, etc.)
- Taxpayer Voted Bond
- Property Tax Increase Following Truth In Taxation Hearing
- Legislation, i.e., HB 293

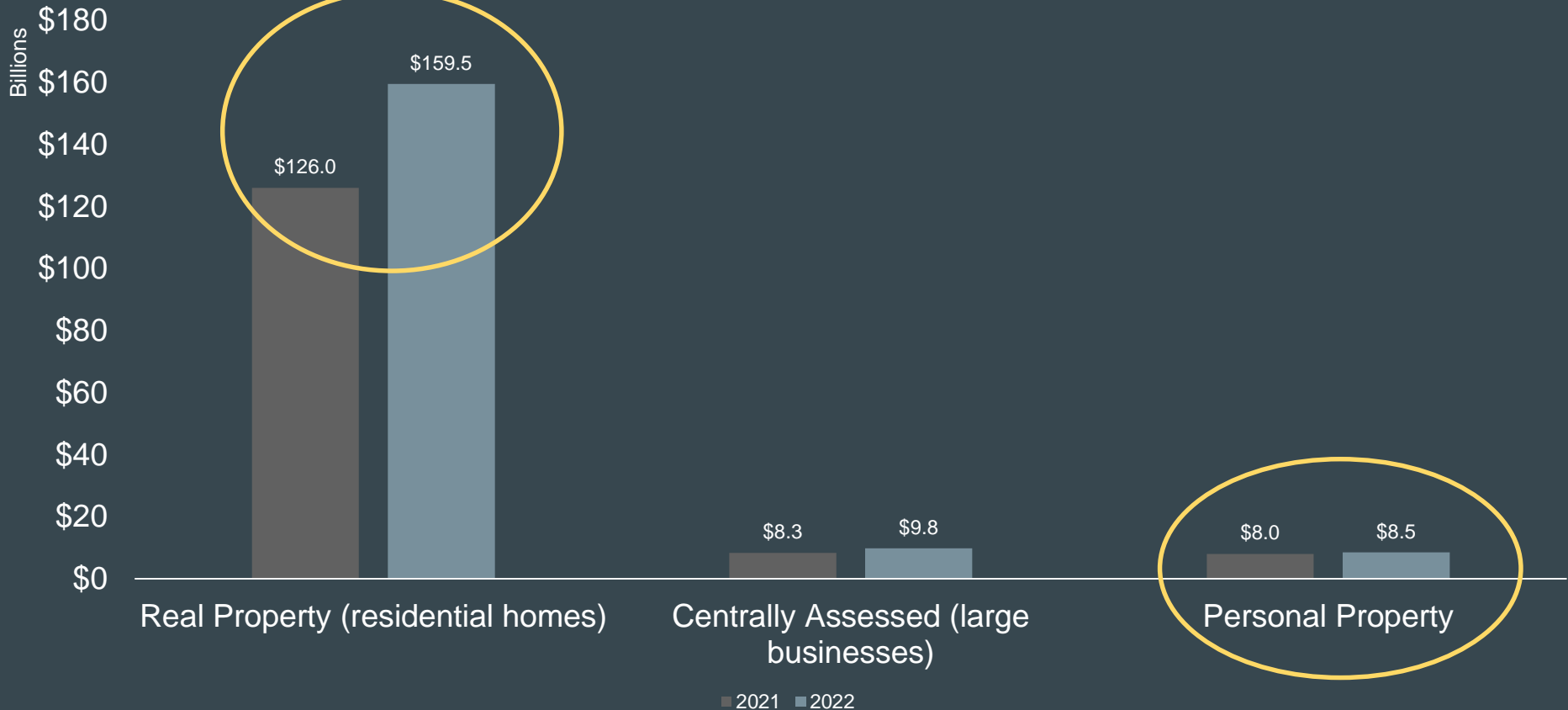
The Certified Rate: What You Saw This Year. Residential Property Grew Faster.

Budgeted Property Tax Revenue - Salt Lake County



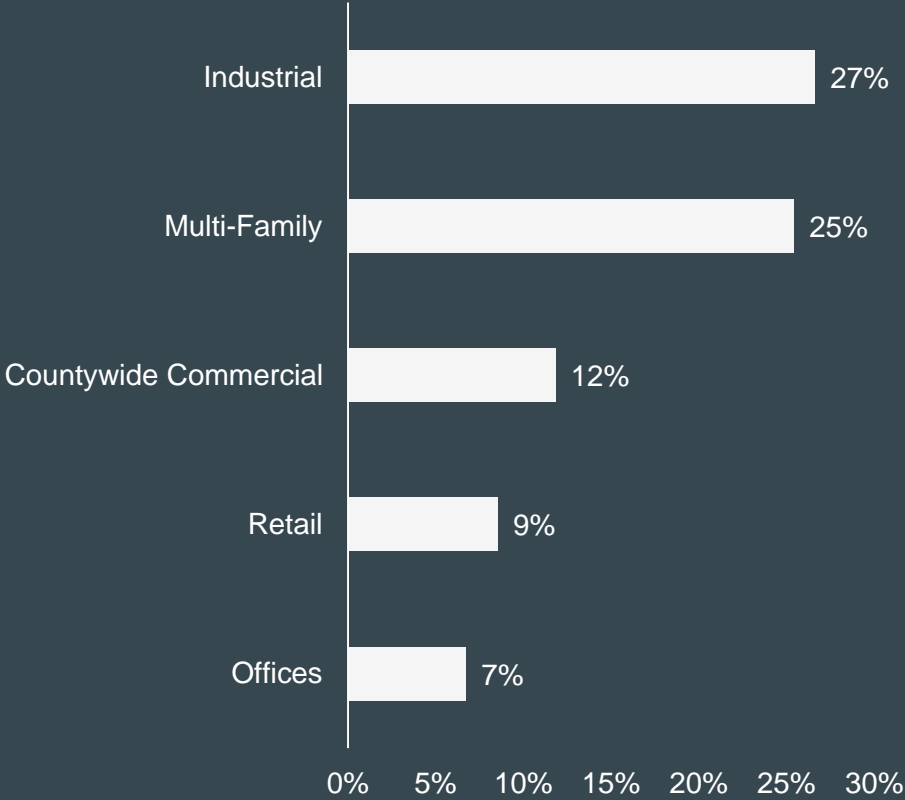
The Certified Rate: What You Saw This Year. Residential Property Grew Faster.

Taxable Value, 2021 and 2022 - SLCo

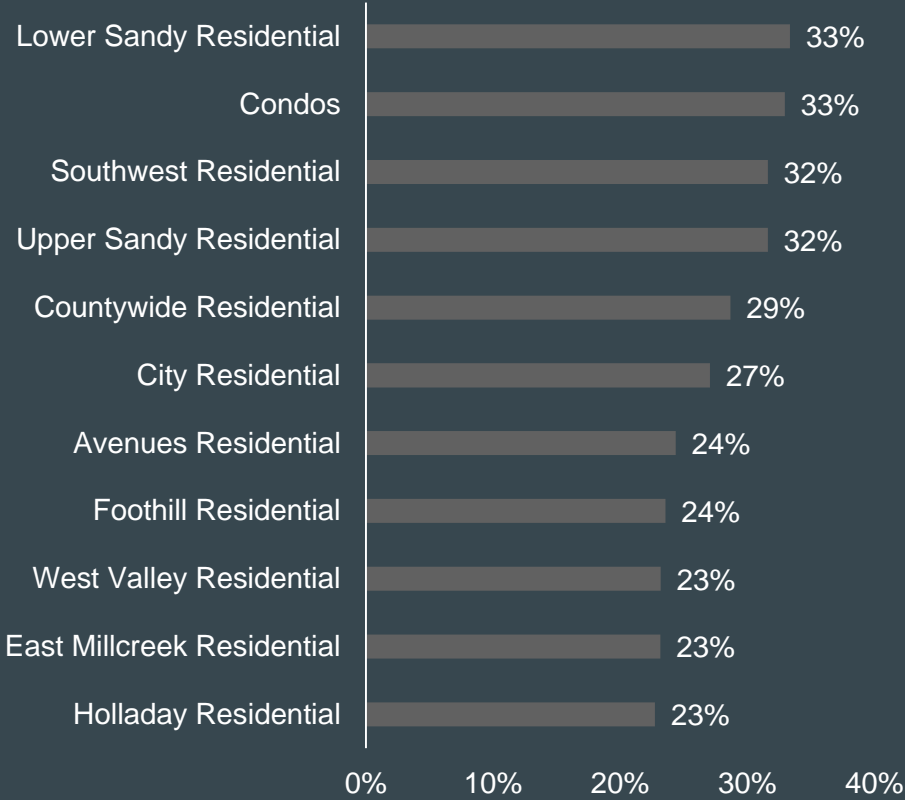


The Certified Rate: What You Saw This Year. Residential Property Grew Faster.

Median Year-over-Year Change in Value, Jan. 2021 - Jan. 2022



Median Year-over-Year Change in Value, Jan. 2021 - Jan. 2022



What else has caused a shift in property tax liability?

Exemptions

Increase personal property threshold to \$25,000

Exempting personal property supplies

Exempting refinery pollution control equipment



Reduction of Centrally Assessed Valuations

Telecommunication Properties (beginning in 2023) (40% estimated reduction)

Airlines (40% reduction)



Commercial Properties Valuations Grew Slower than Residential

This is a natural shift from commercial to residential due to market forces.



Why does the certified tax rate not decrease as residential values rise?

Tax Increment Financing

Tax revenue on new growth is paid to developers. Traditional RDA and State established areas, such as The Point, The Inland Port, and the Military Installation Defense Authority.

Tax Shifts

Including those caused by the natural shift from commercial to residential.

Tax Increases by Taxing Entities

To keep budgets growing with inflation.

Legislation

HB 293

HB 293 - Freezing the Basic Rate

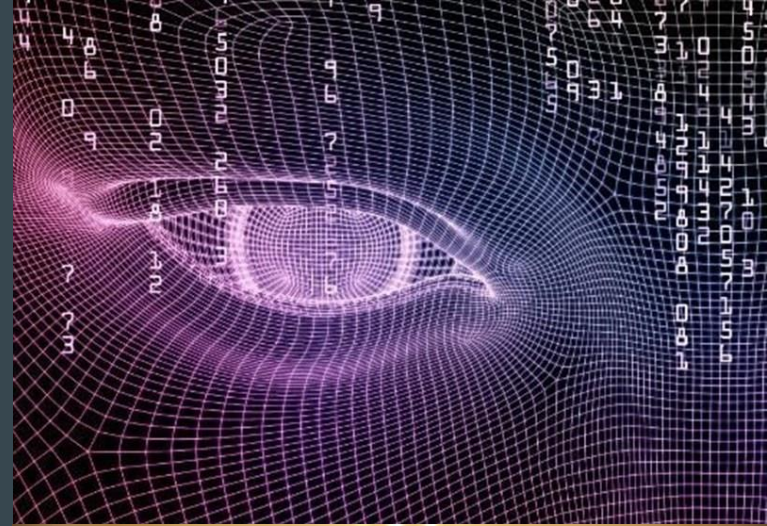
HB 293 of the 2018 General Session (Freezing the Basic Rate).



Efforts to Mitigate the Shift

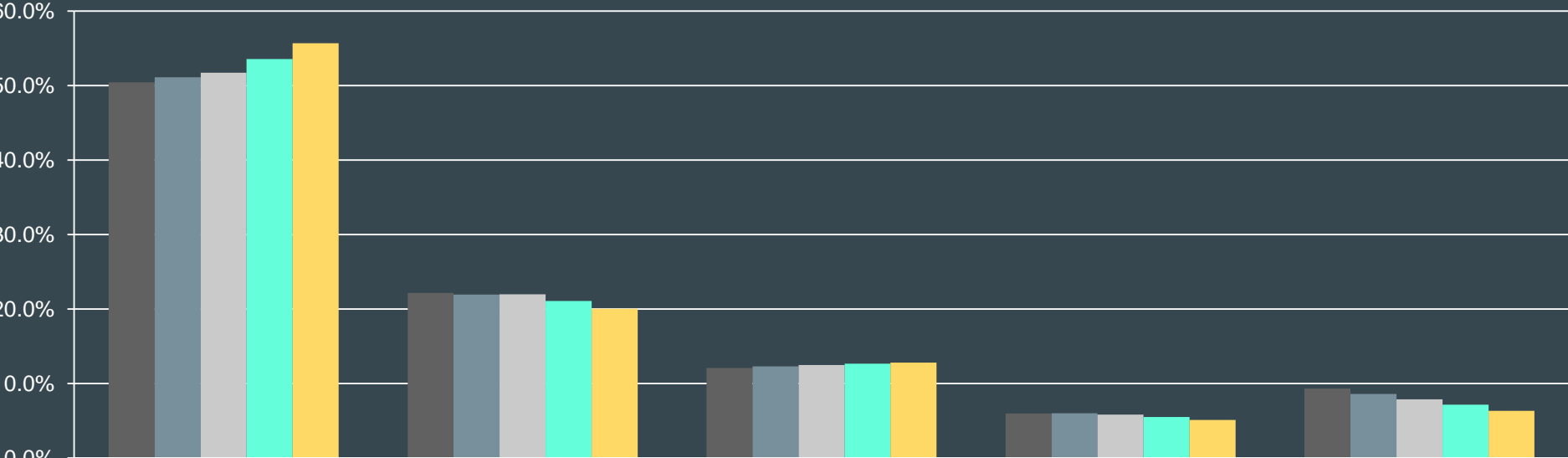
SLCo is the standard in Utah for mass appraisal and at the cutting-edge of assessment valuation for residential and commercial properties.

Defending valuations and holding the line at the Tax Commission, the Third District Court level, as well as the Utah Supreme Court with WalMart, Walgreens, Amazon and many other commercial taxpayers.



The Increasing Reliance on Primary Residential for Property Tax, and the Declining Reliance on Commercial, Personal Property, and Centrally Assessed

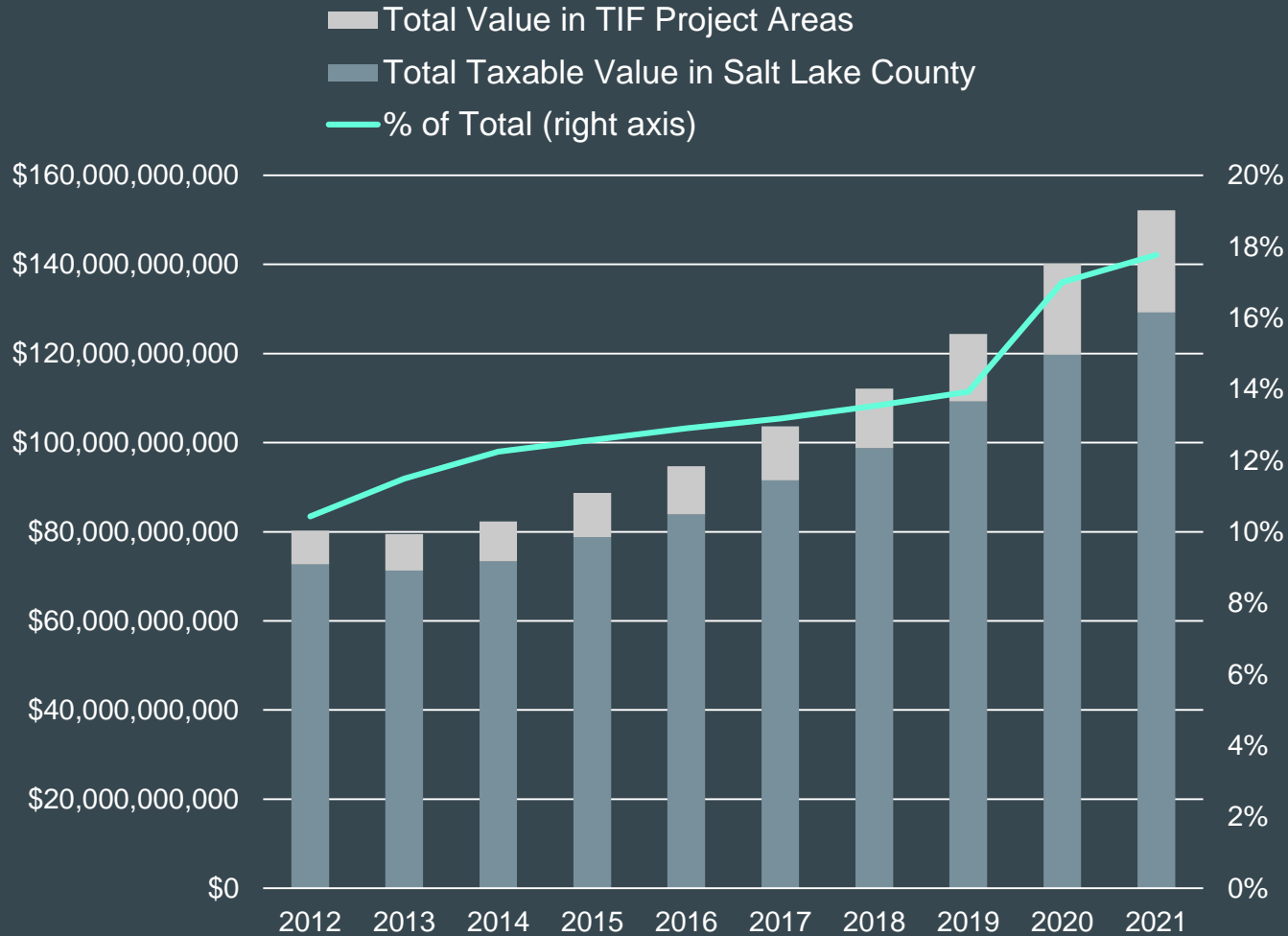
2018 2019 2020 2021 2022



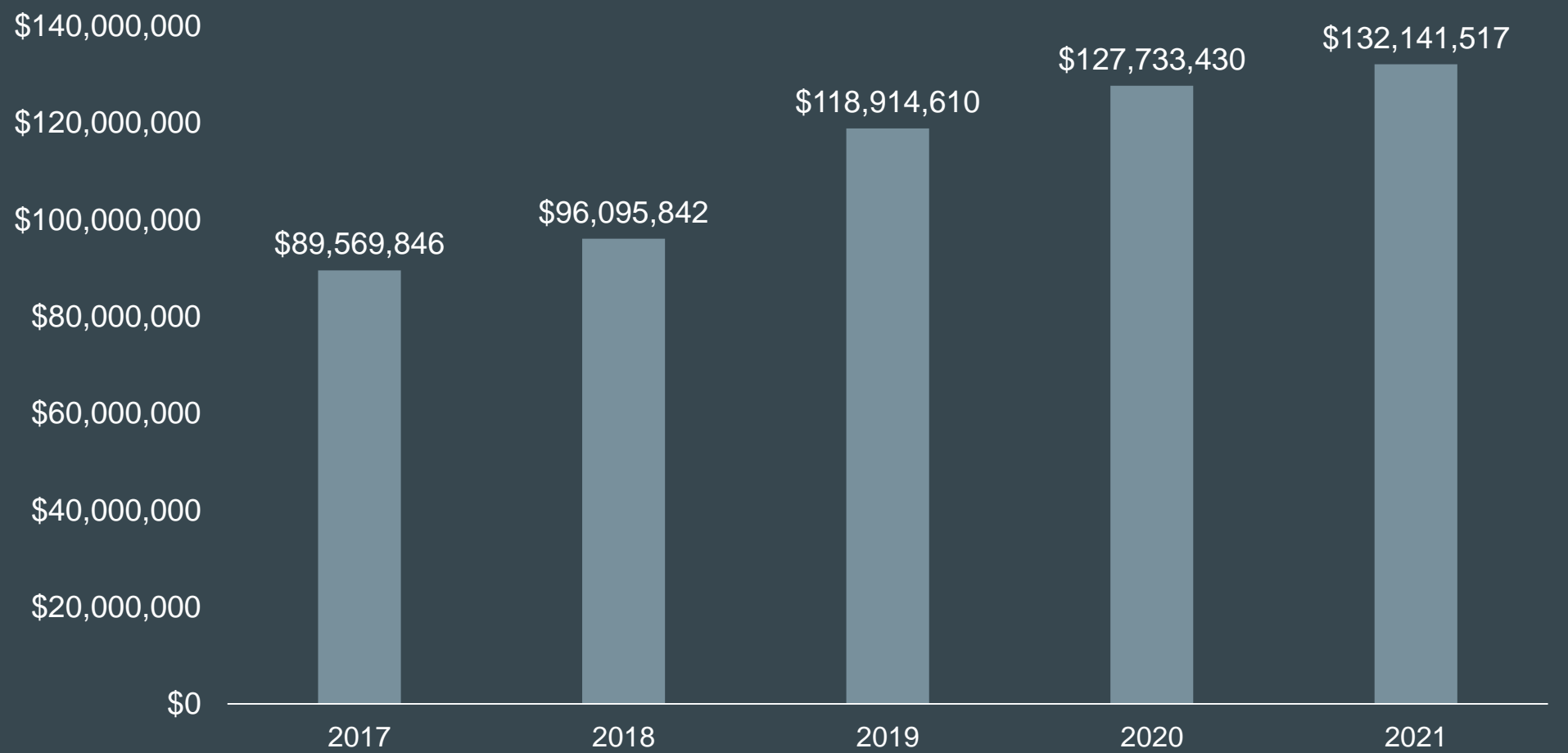
	Primary Residential	Commercial	Secondary homes, FAA	Personal Property	Centrally Assessed
2018	50.4%	22.2%	12.1%	6.0%	9.3%
2019	51.1%	21.9%	12.3%	6.0%	8.6%
2020	51.7%	22.0%	12.5%	5.9%	7.9%
2021	53.6%	21.1%	12.7%	5.5%	7.2%
2022	55.7%	20.1%	12.8%	5.1%	6.3%

Redevelopment agencies play a role in tax shifts - They take out a portion of the tax base (lowering taxes for some) and putting pressure on the county rate (shifting taxes to other property owners).

Redevelopment Agencies Also Shift Tax Liability



CDA/RDA Payouts, 2017-2021



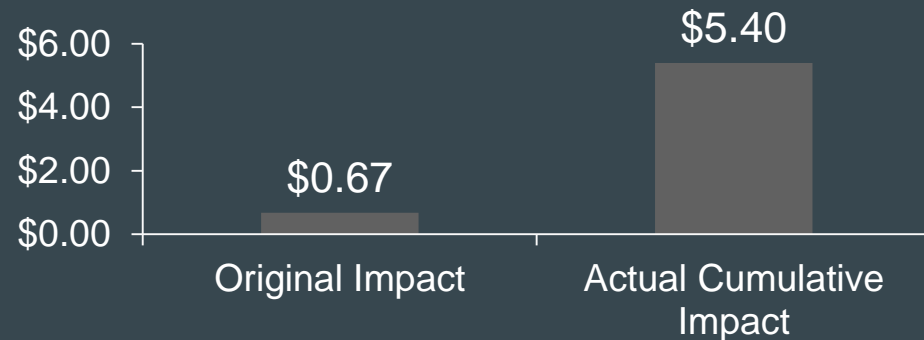
Constitutional Amendment 1 of 2006 - Personal Property Tax

H.B. 338 became law on January 1, 2007. Under HB 338, if the value of all of a business or individual taxpayer's personal property is \$3,500 or less, the taxpayer would not be required to pay tax on that property. **After 2007, the intent was to adjust the \$3,500 amount annually for inflation.**

Personal Property Exemption Threshold		
Original Amount	Inflation-Adjusted	Actual
\$3,500	\$4,819	\$25,000
Growth→	38%	614%
	Factor difference→	16x

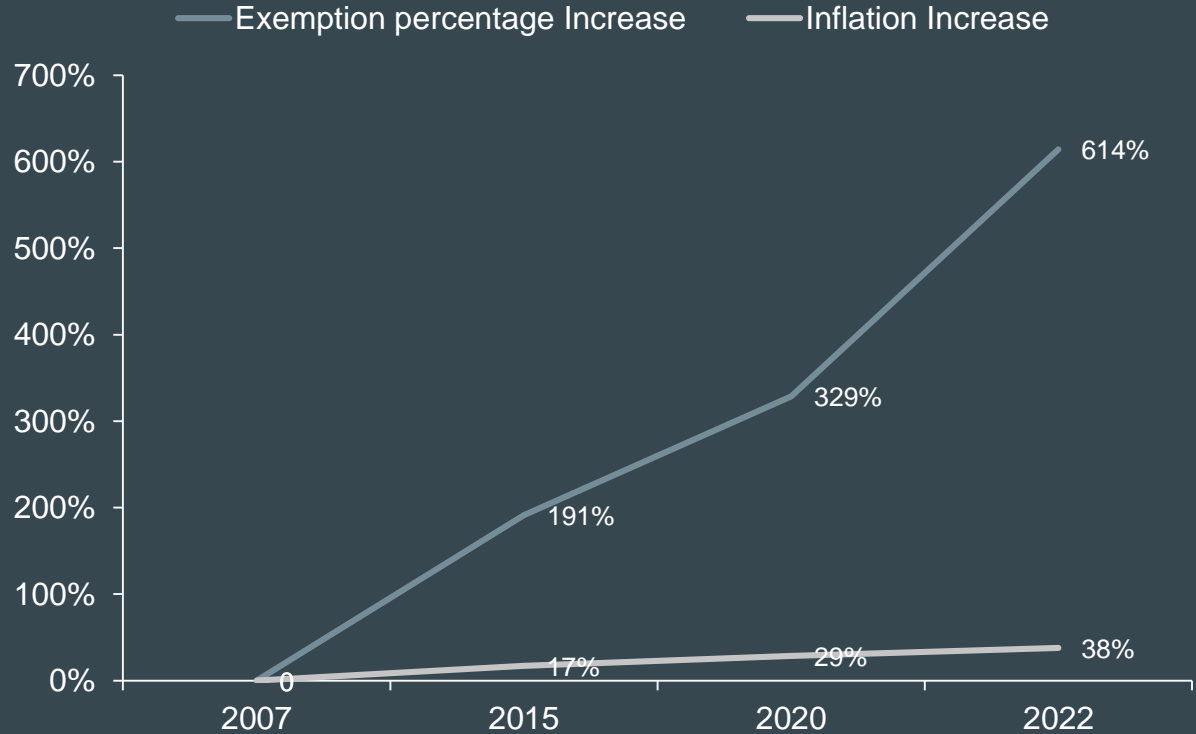
Original Fiscal impact. The current annual amount of the shift that will occur under HB 338 is estimated to be about \$1.06 million statewide. That amount is less than one-tenth of one percent of the approximately \$1.6 billion in annual property taxes currently collected statewide, **or about \$0.67 cents per every \$1,000 in property taxes.**

Change (or Shift) in Property Tax Attributable to Personal Property



The Move to Lower Personal Property Tax Liability

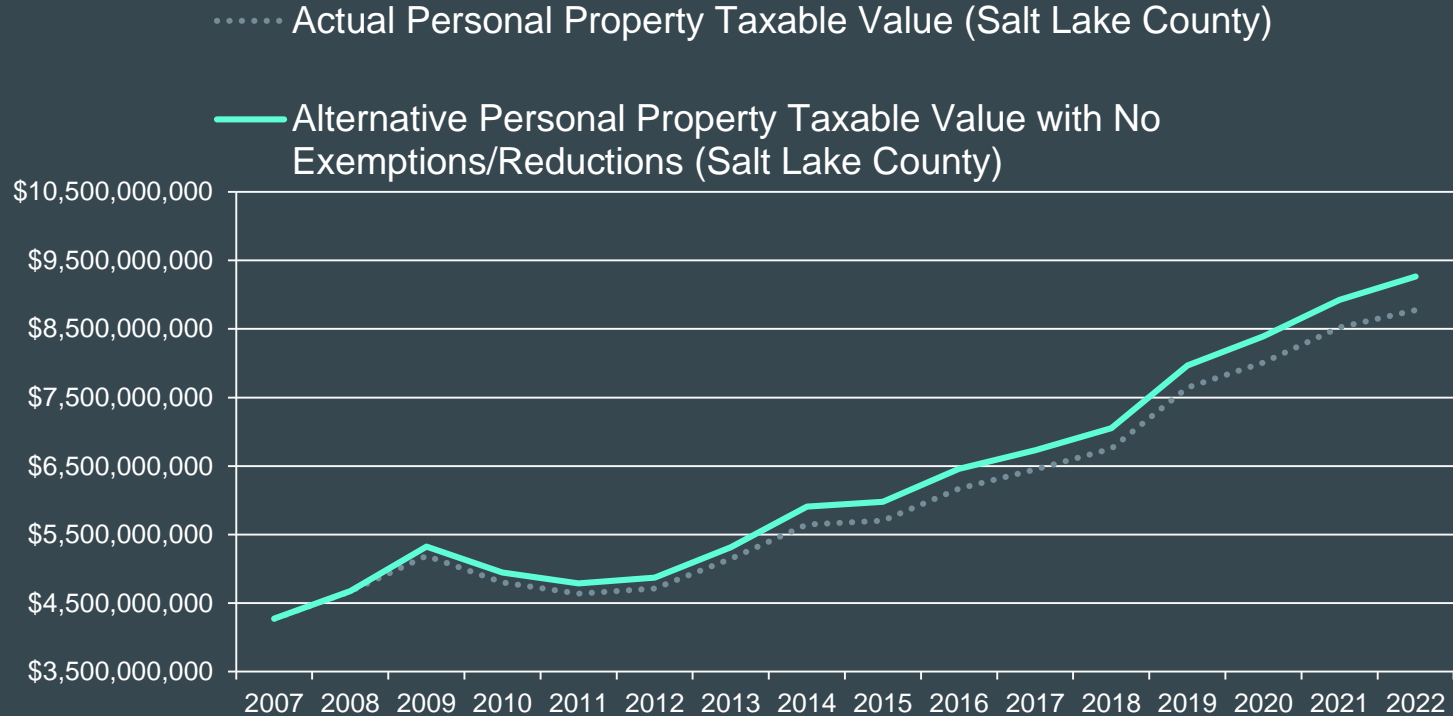
Percentage Increase in the Exemption Threshold by Legislation vs. Inflation, 2007 to 2022



Sound Tax Policy Expands the Base and Lowers the Rate

Actual Personal Property Taxable Value and Alternative Personal Property Taxable Value with No Exemptions/Reductions (Salt Lake County)

Source: Fiscal notes for passed bills (<https://www.le.utah.gov>.) The reported revenue impact to local governments, businesses, and individuals was converted to taxable value based upon the average effective personal property tax rate for the year. The impact from a given bill was grown forward at 5%. In this graphic, Salt Lake County's impact is estimated as the historical percentage of total personal property Salt Lake County has represented of the total statewide.



Highlights of the Personal Property Tax Shifts Since 2006

2006: HB 338 - PP exemption of \$3,500 beginning in tax year 2007. Shift of \$136,800 in tax revenue.

2008: HB 77 - depreciation schedule introduced/option to designate certain TPP as “expensed personal property”. Shift of \$3,500,000 in tax revenue.

2013: HB 67 & SB 35 - Increased exemption per taxpayer per county to \$10,000 from \$3,500. Shift of \$2,700,000 in tax revenue.

2019: HB 231 - Increased exemption per taxpayer per county to \$15,000 from \$10,000. Implemented \$150 acquisition cost threshold. Shift of \$1,400,000 in tax revenue.

2020: HB 53 - Increased acquisition cost threshold to \$500.

2021: SB 18 - Increased exemption per taxpayer per county from \$15,000 to \$25,000. Revenue decrease to counties/schools of \$2,000,000 rather than a shift.

2022: SB 93 - Exempts supplies used in the course of business from personal property tax. Per fiscal note, results in a statewide property tax shift of \$5.2 million.

2022: SB 20 – Lowered the property tax of telecommunications providers. Per fiscal note, \$19 million shift.

The Certified Rate if Personal Property Tax Goes to Zero - Example

$$\text{Certified Tax Rate} = \frac{\text{Last Year's Budgeted Revenue (BR)}}{\text{Taxable Value}} = \frac{\text{BR}}{\text{Primary Residential} + \text{Commercial} + \text{Other Real} + \text{Personal Property} + \text{Natural Resources} + \text{Utilities}}$$

$$\text{Certified Tax Rate} = \frac{\text{Last Year's Budgeted Revenue (BR)}}{\text{Taxable Value}} = \frac{\$1}{\$100 + \$20 + \$5 + \$8 + \$3 + \$10} = 0.0068 = 0.68\%$$

$$\text{Certified Tax Rate} = \frac{\text{Last Year's Budgeted Revenue (BR)}}{\text{Taxable Value}} = \frac{\$1}{\$100 + \$20 + \$5 + \$0 + \$3 + \$10} = 0.0072 = 0.72\%$$

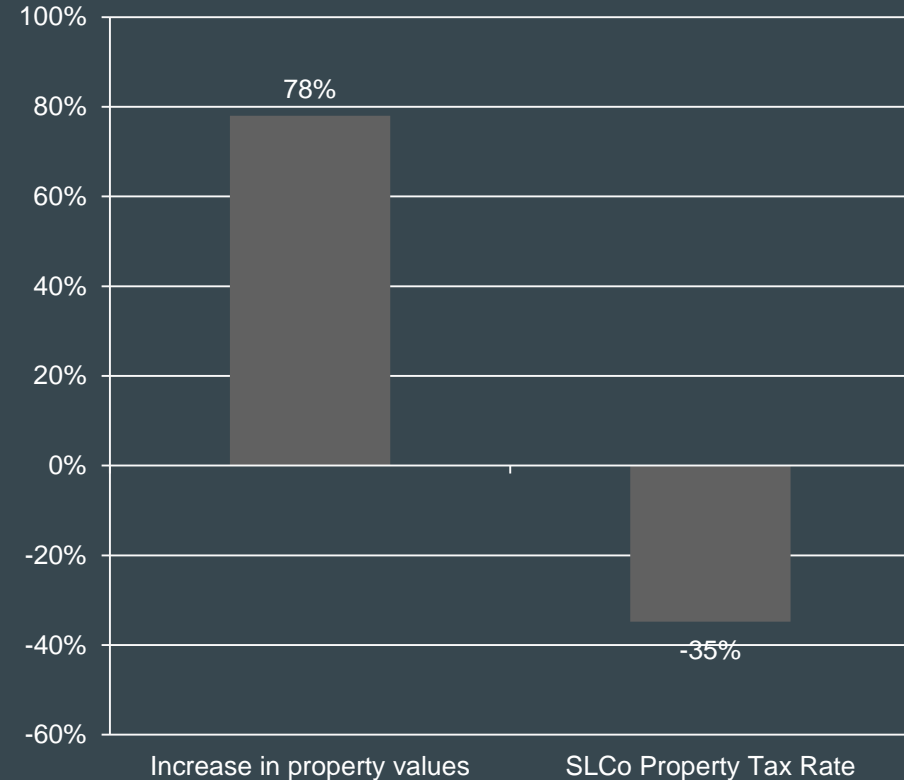
6% Tax Shift in Perpetuity

Summing Up: The Rise in Values, Decline in the Property Tax Rate in SLCo

Why did the rate only drop by 35% when the values increased 78% from 2017 to 2022?

- **New growth**
- **Shrinking of the tax base:**
- **Lower centrally assessed valuations**
- **Exemptions (threshold increase)**
- **Payments to RDAs**

Percentage Change in Tax Rates from 2017 to 2022



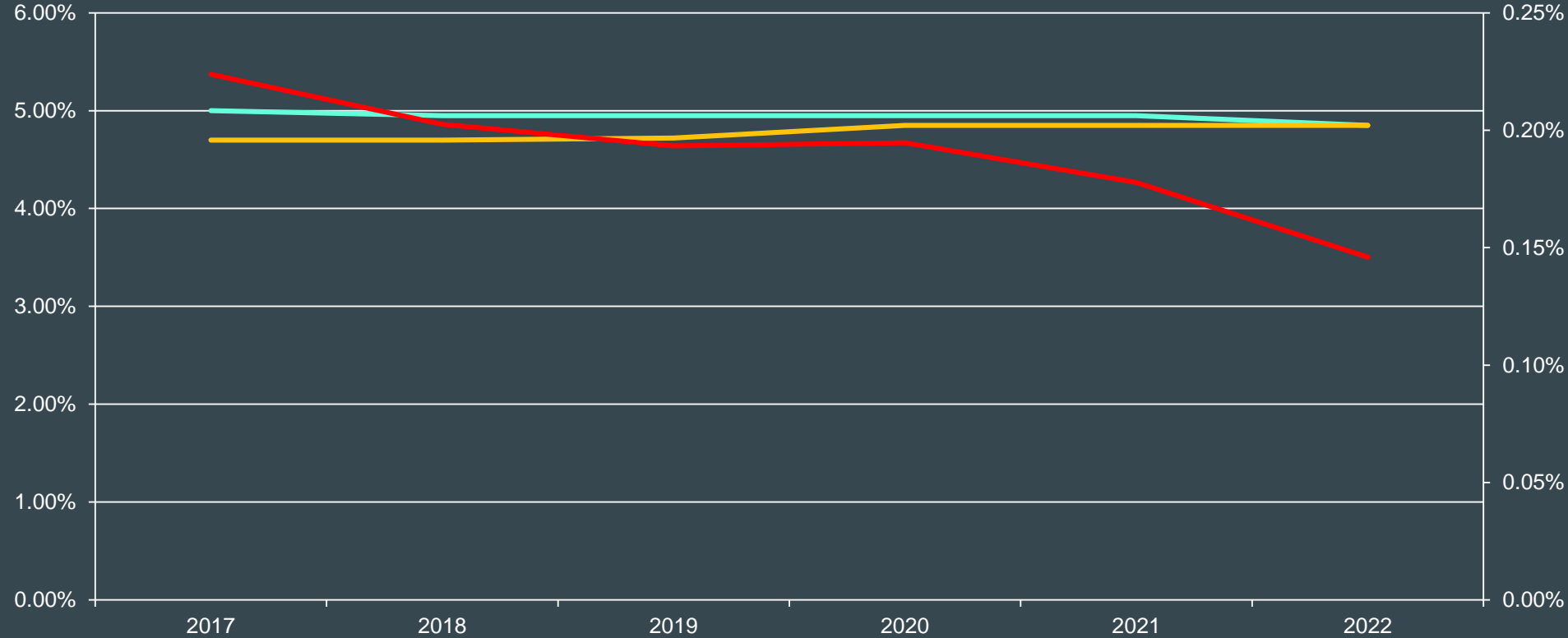
The Property Tax Rate is Falling Much Faster

SLCo Property Tax Rate, State Income Tax Rate, and State Sales Tax Rate

State Income Tax Rate (left axis)

State Sales Tax Rate (left axis)

SLCo Property Tax Rate (right axis)



Be Willing to Take Necessary Action



**Shift
Happens**
