

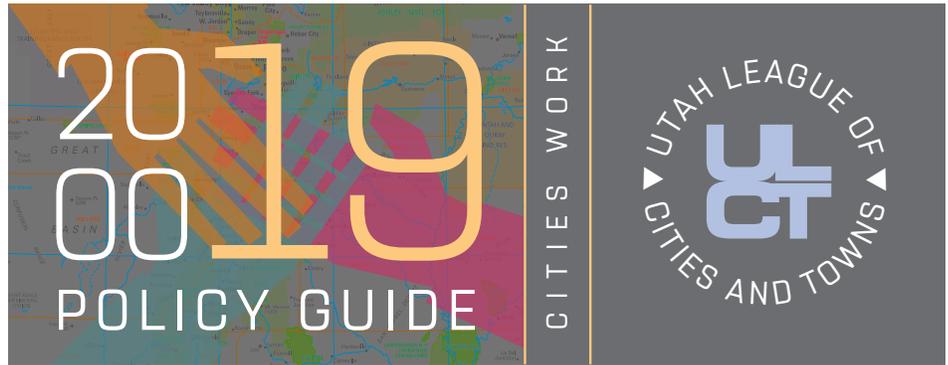
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**REPORT:**

## Making sense of cities and sales tax

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# Whose money is it?

Sales tax is a principal revenue source for cities. The state's general fund is also largely funded by sales tax.

## Who sets the sales tax rate?

There are various sales tax rates—all authorized by the Legislature. There is only one sales tax rate that is imposed statewide. The other tax rates are imposed at the option of cities and counties. In several cases revenues from these levies are restricted to specific expenditures.

The most common local option tax levy, equal to 1%, has currently been imposed by all Utah cities and may be used for general fund expenditures. Revenue from this rate—referred to as the “local option 1%”—is also shared among Utah cities. The sales tax base, those items that are subject to sales tax, is determined by the Legislature. The state sales tax base and the “local option 1%” are the same and include food in that base. Food is not part of the other locally imposed taxes.

## How does the “local option 1%” work?

Initially authorized in 1959, revenue from the original local option tax belonged entirely to the city where a purchase was made—the “point of sale.” In 1983, the Legislature authorized an increase in the rate but required that cities that imposed the increase rate share the tax revenue among all cities who had imposed the tax. This new distribution formula—known as the “50/50” formula—means that half of every sales tax dollar remains in the city where the sales takes place and the other half is distributed to all cities according to their percentage of the state population.

Utah cities created this new formula as a means of providing for a fairer distribution of sales tax revenue between cities that are retail centers and those that are bedroom communities. It also meant that all cities had a stake in retail development throughout the state.

The additional revenue from the 1983 levy plus the creation of a hold-harmless provision were necessary to avoid any city from losing revenue from the new distribution formula.

## What do cities want?

ULCT has consistently opposed any changes in the formula without new sales tax money being part of the equation. Without new money, the same pie is merely being sliced into different pieces creating winners and losers and pitting cities against each other. The additional money was critical to the creation of the 1983 compromise. In general Utah cities are satisfied with the current “50/50” distribution formula.

## The “local option 1%” is city money.

All sales tax revenue belongs to the taxpayer. However, the reasons why certain taxes were established and what entity imposed the tax is also important. While initially authorized by the Legislature, the “local option 1%” was imposed by ordinance in each city—it was their local option to do so. Cities have based key economic decisions around the current tax structure. The “50/50” formula was created by Utah cities. Any changes need to come from the cities themselves and have the support of a consensus of all Utah communities.