Utah Property Tax Laws

Executive Summary

Utah's property tax system is governed by a set of laws and regulations commonly referred to as "Truth in Taxation". The objective of these rules is to keep property taxes from rising simply as a result of increasing property values. Each year the Utah State Tax Commission determines each taxing entity's "Certified Tax Rate". Anytime a taxing entity assesses a property tax rate higher than the certified rate, the entity must advertise that rate as a tax increase.

The basic calculation takes the entity's previous year's tax revenue and divides it by the current year's assessed value for those same properties. Increases in property tax values will lower the certified rate, while decreases in values will increase the certified rate. Thus, the taxing entity would receive the same tax revenue as the previous year. The only new revenue to be received is from improvements to properties, referred to as new growth.

The table below give a simple, fictitious example to demonstrate how this process works. The attached full document goes into greater detail with additional examples on how Utah's property tax system works.

For this example, let's assume in 2020 the taxable value of property in the City of Lehi is $7 billion and the current tax rate is .0015.

	Taxable Property Value	Tax Rate	Tax Collections
2020 – All Property	$7,000,000,000	.001500	$10,500,000
2021 – Existing Property	$7,700,000,000	.001364	$10,500,000
2021 - New property	$200,000,000	.001364	$272,727
2021 – Total (New Base)	$7,900,000,000	.001364	$10,772,727

As shown in the table the total property tax collections for Lehi in 2020 is $10,500,000. If existing property values increase 10% from 2020 to 2021, the certified tax rate would decrease from .001500 to .001364 to offset for the increase in value. The result is Lehi would receive the same revenue, from existing properties, in 2021 as it did in 2020.

Continuing the example, if an additional $200 million in property improvements is constructed within the City during 2020, that new construction (growth) will be taxed at the certified rate. So, the tax collections for the new growth total $272,727 and the City would collect a total of $10,772,727 for 2021. Afterwards, a new base is established, and the process will repeat itself the following year.

Tax on individual properties could increase or decrease based on their relative assessment from Utah County. If your property increases at a rate higher than the average rate in the City, your taxes would increase. If your property increases at a rate lower than the city average, your taxes would decrease.

If you are interested in learning more about Utah's property laws, you are encouraged to read the full document below.

Utah Property Tax Laws

Laws regarding the taxation of property vary from state to state. Many states have implemented laws and regulations to provide property owners relief from rapidly rising property values. Utah has its own unique protocols to protect property owners. Title 59, chapter 2, part 9 of the Utah Code contains these laws, which are commonly referred to as “Truth in Taxation” laws. While the calculations can get complicated, the overall objective is relatively simple. Each year the State calculates, for every taxing entity, a property tax rate known as a “certified” tax rate. This rate is intended to provide the same revenue for existing properties as the taxing entity received during the previous fiscal year. Additional revenue is allowed for new properties (growth) in the taxing entities’ boundaries. However, no new revenue should be realized as a result of growth in property valuation. Any additional revenue above the certified rate is considered a tax increase and needs to follow truth in taxation laws. This document is intended to provide a brief explanation of how these truth in taxation laws impact individual taxpayers as well as the purpose for which Lehi City is considering an increase to the certified rate.

Property Tax Calculation

Each year, the county assessor for each respective property assigns a market value. This can be based on an actual physical assessment, or a statistical analysis based on a variety of factors such as comparable sales and economic data. Once a market value is determined, taxes are assessed differently for a primary residence than for all other properties. Primary residences are taxed at 55% of market value while other properties are taxed at 100% of market value. The taxable value is then multiplied by the entities tax rate to determine the taxes levied to each individual property.

For example, Lehi’s property tax rate for fiscal year 2021-2022 is .001429. If you own a home in Lehi with a market value of $500,000, you will pay $392.98 in taxes for that property to Lehi City. The calculation would be $500,000 * 55% = $275,000 * .001429 = $392.98.

Continuing the example. If the value of all properties in Lehi increased 10% over the year, the certified rate would reduce to compensate for the increase in valuation. A 10% increase in property values would reduce the certified rate from .001429 to .001299. Assuming your property also increased in value by 10%, then your new calculation for property taxes would be $550,000 * 55% = $302,500 * .001299 = $392.98. Thus, the amount of taxes you pay would not increase from the previous year to the current year. These calculations are summarized in the chart below.

Fiscal Period	Property Valuation	Lehi City Tax Rate	Lehi City Tax Levy
Year 1	$500,000	.001429	$392.98
Year 2	$550,000	.001299	$392.98

This calculation is relatively straightforward. However, certain factors can complicate this scenario. Some of these are explained below.

Relative Property Value

The example above assumes the increase in value of your property mirrors the increase of all properties within the city. In practice, this is unlikely to be the case. While the value of all property within the City may have increased 10%, the value of your individual property could have increased more or less than 10%. If your property increased more than 10%, your taxes would go up. If your property increased less than 10% your taxes would go down. The chart below shows an example of a property increasing 15% in value as well a property increasing 5% in value based on the same data as the previous example:

Increase in Property Value	Property Valuation	Lehi City Tax Rate	Lehi City Tax Levy
15% Increase	$575,000	.001299	$410.81
5% Increase	$525,000	.001299	$375.09

So, whether your tax levy goes up or down depends not on your specific valuation but rather on whether your property value increased faster or slower than the entire city.

A simple example of the principles is illustrated in Appendix A.

Multiple Taxing Entities
The example we've been using only assumes one taxing entity, which is Lehi City. However, your home in Lehi is subject to tax levies by multiple other entities. These entities include: Utah County, Alpine School District, Central Utah Water Conservancy, and North Utah County Water Conservancy. Your actual tax levy for your property is determined not only by the tax levy assessed by each of these taxing entities but also by the relative value of your property to other properties within each taxing district. The taxing districts could encompass all of Alpine School District, or all of Utah County.

No Inflation Component
Utah's property tax laws have no allowance for inflation in the certified tax rate calculation. New revenue for taxing entities is allowed for the construction of new improvements, but not for inflation. However, it needs to be emphasized that the construction of new improvements in the city leads to increases in expenditures for roads, police and fire services, and parks. More residents and more businesses bring in additional revenue but also incur additional costs.

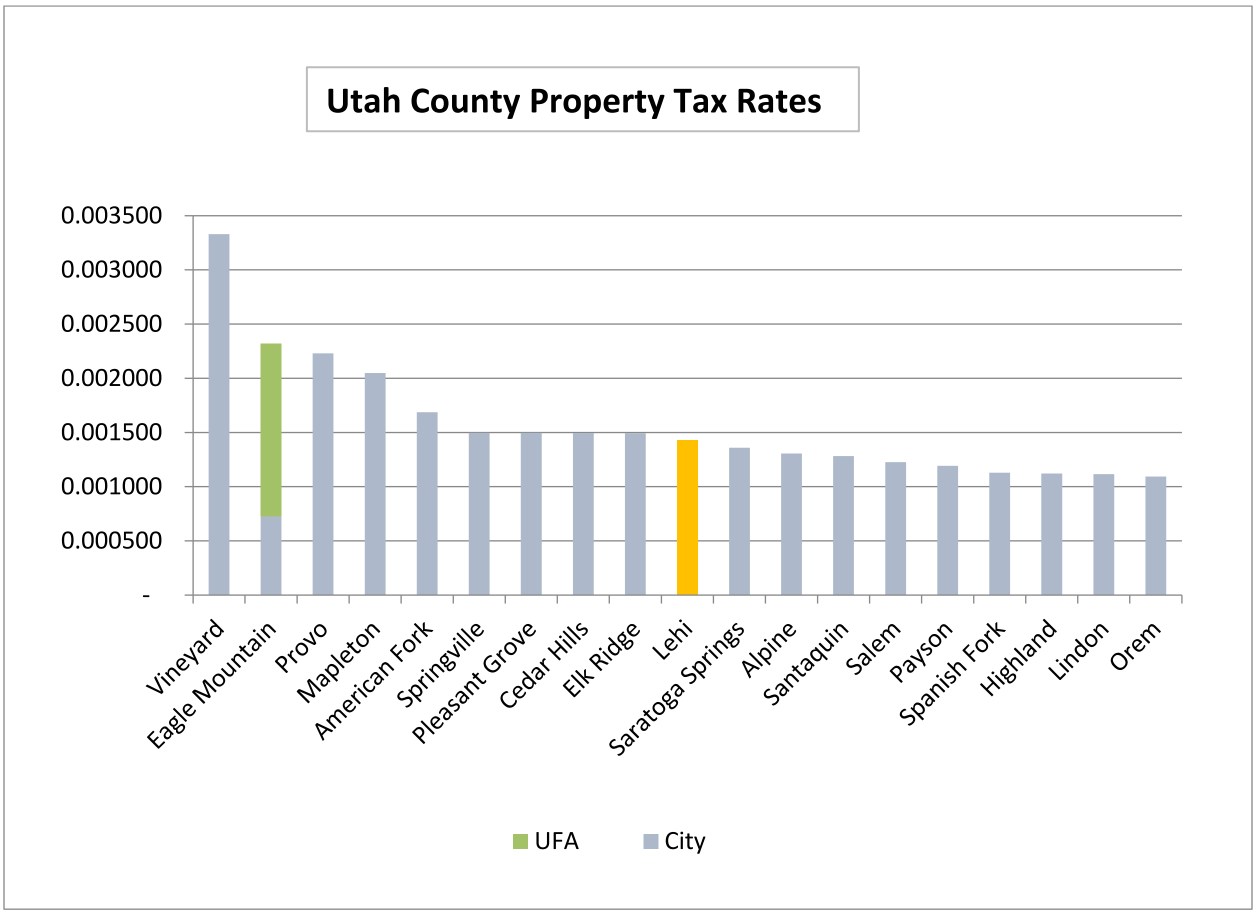
The intent of the law is for taxing entities to periodically evaluate their tax rate to get current with prevailing costs. If a taxing entity has not adjusted property taxes in 10 years, that entity is paying today's prices with dollars from 10 years ago. Even the Utah Taxpayers Association, who has significant influence on the State's property tax laws has said that periodically, "you do need to look at re-capturing inflation in your property tax revenue."

Property Tax Outlook
Often taxing entities do everything possible to avoid going through the truth-in-taxation process to raise property taxes. In 2019 Utah County went through the truth-in-taxation process for the first time in 33 years. Prolonging a tax increase for such an extended period generally will result in a very significant increase. In Utah County's case, the proposed tax increase was 100%, or double the existing tax rate. Prior to proposing a tax rate increase, the County had operated at a deficit for multiple years and even considered selling off County-owned properties to fund operations. Operating a budget in this manner is neither conservative nor prudent. Reserves are established for emergency situations. An entity is less able to respond to economic or physical emergencies if reserves are depleted rather than raising taxes to keep pace with inflation.

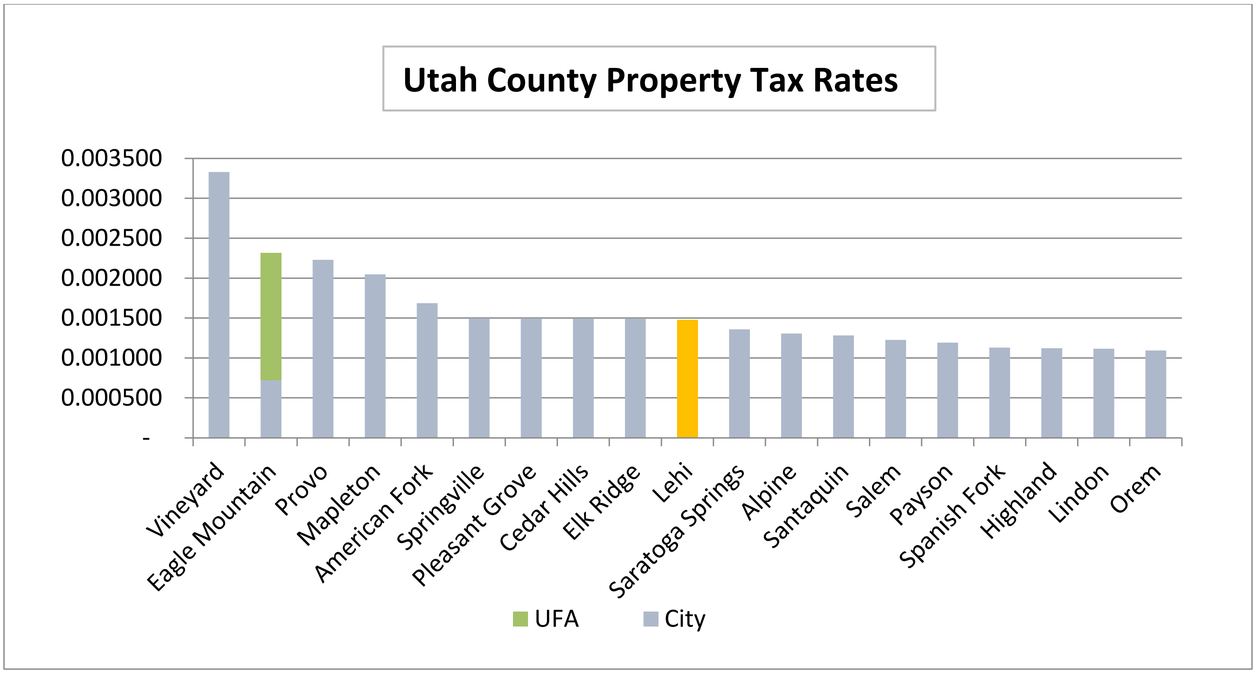
In the 2023 budget, Lehi City is proposing a modest 3.4% increase in property taxes. It is our opinion that smaller, more frequent adjustments to the property tax rate is more palatable and affordable to residents than infrequent substantial increases. A 3.4% increase would equate to approximately $1.25 per month for the owner of an average Lehi residence.

Comparative Property Tax Rates

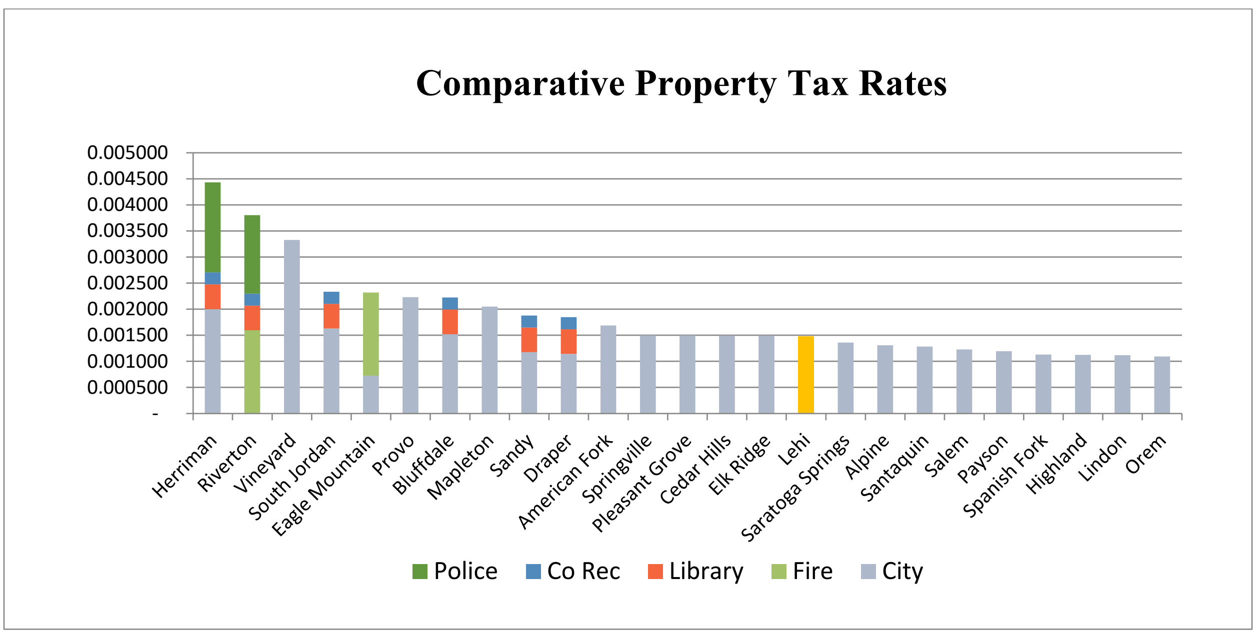
Certainly, decisions made by city leaders are not made in a vacuum. It wouldn't be prudent for Lehi to have significantly higher property tax rates than other neighboring cities. Lehi's tax levy for FY 2022 is .001429. If we compare that to other cities in Utah County, it is evident that Lehi ranks in the middle of the pack compared to other cities in Utah County. The tax rate for Unified Fire is included with Eagle Mountain's tax rate since their residents pay that specific tax to the Fire Authority.



As shown on the chart on the next page, if a 3.4% increase were added to these existing rates, the impact would not impact Lehi's position relative to other cities. It is likely that small, frequent adjustments to the City's tax rate would not significantly impact the city's relative position regarding tax levy, but rather over the long run would keep the City at a rate comparable to other cities.

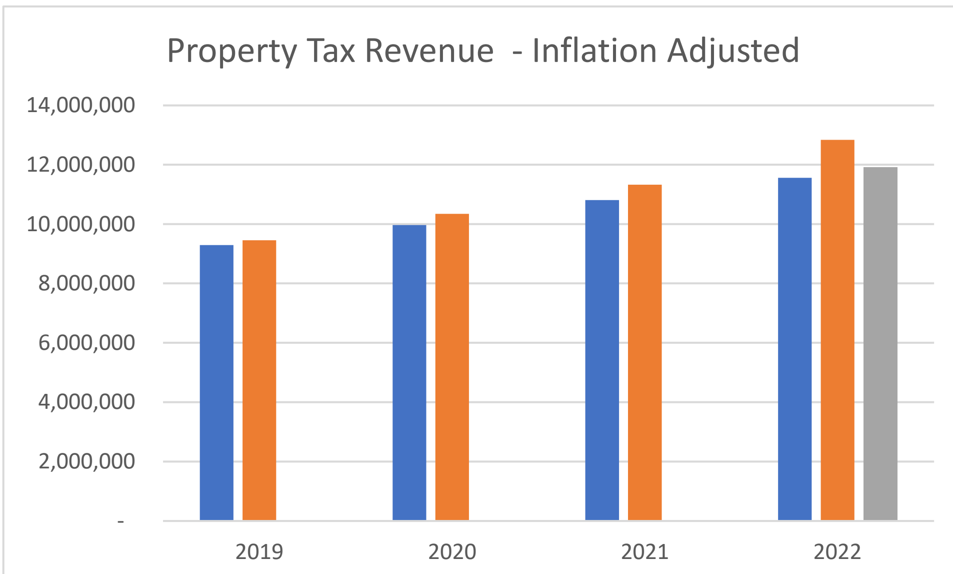


Another consideration is the city's property tax base relative to cities in the Southern part of Salt Lake County. Lehi is competition for employees with these cities. Particularly in relation to public safety employees. Salt Lake County cities typically pay higher property tax rates than Utah County cities. If we add these cities to the chart above, it is evident that Lehi's tax rate lags, which impacts our ability to compete with some of these cities for employees. The chart below shows these comparative tax rates.



Loss in Purchasing Power

For illustration purposes, the chart below shows the loss in purchasing power from inflation. Just looking at the four years from 2019 – 2022, the blue bar represents actual property tax revenues. The orange bar represents what property tax Lehi City would have received if the certified rate was adjusted for inflation. The gray bar in 2022 represents the amount of revenue the City would have received if the proposed 3.74% property tax was implemented last year. Lehi City has not implemented a property tax increase for at least 20 years. Certainly, this increase does not compensate for 20 years of inflation. Lehi has been fortunate to have high commercial growth as well as solid retail sales tax growth which has offset the slower growth of property tax revenues.



Conclusion

Utah property tax laws are not generally understood by most of the public. Understanding the law supporting property tax levies is helpful to understand one of the primary funding sources for general city services. The proposal to make an adjustment to Lehi's property tax rate is not an effort to tax Lehi residents to excess, but rather an attempt to recapture a portion of purchasing power lost to inflation. Periodic adjustments to the city's tax rate will help Lehi to remain competitive with other cities in attracting and retaining employees. Small and more frequent adjustments to the certified rate will help to avoid large, severe future increases while maintaining a strong financial foundation and wise tax policy.