

# **The Utah Corporate Franchise Tax: An Overview**

## **Who Pays? By Size and Major Industry: 2001**

### **Getting Our Fair Share**

A state does not get to tax all the income belonging to a corporation doing business within its borders, but may only tax that part that represents its share of the income generated by the corporation. Determining the share is, however, fraught with difficulty, since assigning the actual profit created in a state is next to impossible. If XYZ Corporation produces composted fertilizer in Wyoming and ships it to a Utah outlet for sale, where does the profit occur? Utah may like to say that since all the sales occur in Utah, the only cost that can be subtracted from Utah sales is the actual cost of production in Wyoming. The firm may want to take as much of the profit in Wyoming as possible since profits are not taxed there, saying the only profit occurring in Utah is the revenue minus the retailing cost minus the price at the border which would include a healthy profit for Wyoming production.

To get around endless arguments about where the "true profit" occurred, the general practice among the states is to divide the total profit among according to the firm's relative economic presence in the state. Utah defines the presence, as do many other states, as the average of the wage share, the sales share, and the property share in Utah. (See the section on apportionment for clarification.) The fraction is called the "apportionment fraction," and when it is applied to an amount, such as "net income" it is called "apportioned net income." In simple terms, an apportioned amount is that amount that is relevant for Utah purposes.

In this report, with the exception of the section on apportionment, all data is reported in apportioned form as it is relevant to Utah.

### **Our Fair Share of What?**

What goes in the corporate tax base and what is allowed as a deduction is very complicated, with many fine nuances and details. As a rule, the state tax base is close to the federal base, with minor exceptions, which we will survey here.

Table1 reports the magnitude of various income measures for 2001. The first column designates the item from the form and the second column the line number from the form. (For a better understanding of the various lines, the state form should be studied.) The next column shows the raw apportioned data and the final shows the relation to federal taxable income.)

The Net Utah Taxable Income line shows that various state adjustments 80% of unadjusted income is taxed. Thus the effective rate is 4% as the final line shows.

The dollar amounts reported in this section are for firms paying taxes on the basis of income rather than due to the minimum tax, since the income magnitudes are irrelevant in determining taxes for these firms.

**TABLE 1**

VARIABLE	2001 LINE #	\$ Million	RELATIVE TO UNADJUSTED INCOME
RETURNS		6,070	
UNADJUSTED INCOME	1	\$3,106.1	100.0%
ADJUSTED INCOME	4	\$2,818.6	90.7%
APPORTIONABLE INCOME	8	\$2,740.7	88.2%
UTAH TAXABLE	12	\$2,742.4	88.3%
NET UTAH TAXABLE	14	\$2,508.8	80.8%
TAX	15	\$125.4	4.0%

**TAX PAYMENTS BY INCOME CLASS**

Table 2 reports the dollar value and share of taxes paid for non-minimum taxpayers, as reported on tax returns for 2001. The most obvious fact is that the large corporations pay a very large share of taxes. Companies with a net apportioned income larger than \$1 million paid nearly 80 percent of the taxes, and those with income less than \$100,000 paid less than 4.8 percent of the taxes.

**TABLE 2**

INCOME CLASS	RETURNS	TAX	SHARE OF TAX
\$ 1 - 2,000	163	\$16,300	0.0%
\$ 2,001 - 10,000	1,501	\$388,994	0.3%
\$ 10,001 - 20,000	827	\$599,228	0.5%
\$ 20,001 - 30,000	525	\$652,101	0.5%
\$ 30,001 - 40,000	384	\$666,677	0.5%
\$ 40,001 - 50,000	343	\$773,632	0.6%
\$ 50,001 - 75,000	525	\$1,595,486	1.3%
\$ 75,001 - 100,000	287	\$1,228,262	1.0%
\$ 100,001 - 500,000	949	\$10,512,981	8.4%
\$ 500,001 - 1,000,000	224	\$7,858,912	6.3%
\$1,000,001 - 5,000,000	244	\$26,452,490	21.1%
\$5,000,001 -10,000,000	49	\$17,574,048	14.0%
OVER \$10,000,000	49	\$57,121,112	45.5%
TOTAL	6,070	\$125,440,223	100.0%

## TAX RETURNS BY INDUSTRY

Table 3 is similar in content and structure to the previous table but includes all corporate taxpayers. The Manufacturing, Finance and Insurance, Wholesale, and Retail were the four largest payers. Each paid over \$15 million. The largest average payments were in the Management and Mining sectors.

**TABLE 3**

SECTOR	RETURNS	TAX	SHARE OF TAX	TAX PER RETURN
AGRICULTURE, FORESTRY, FISHING	51	\$80,466	0.1%	\$1,578
MINING	98	\$6,229,167	4.9%	\$63,563
UTILITIES	13	\$1,300	0.0%	\$100
CONSTRUCTION	1,188	\$3,736,427	2.9%	\$3,145
MANUFACTURING	964	\$20,320,407	16.0%	\$21,079
WHOLESALE	1,480	\$17,989,522	14.2%	\$12,155
RETAIL	1,131	\$16,704,178	13.1%	\$14,769
TRANSPORTATION, WAREHOUSING	297	\$4,298,043	3.4%	\$14,472
INFORMATION	262	\$1,773,245	1.4%	\$6,768
FINANCE, INSURANCE	634	\$18,002,020	14.2%	\$28,394
REAL ESTATE, RENTAL, LEASING	433	\$1,385,214	1.1%	\$3,199
PROFESSIONAL, SCIENTIFIC, TECHNICAL SERVICES	1,322	\$4,813,319	3.8%	\$3,641
MANAGEMENT	53	\$12,108,197	9.5%	\$228,457
ADMINISTRATIVE AND SUPPORT	515	\$2,167,760	1.7%	\$4,209
EDUCATIONAL SERVICES	74	\$92,833	0.1%	\$1,255
HEALTH CARE AND SOCIAL ASSISTANCE	1,081	\$1,894,117	1.5%	\$1,752
ARTS, ENTERTAINMENT, AND RECREATION	85	\$94,945	0.1%	\$1,117
ACCOMODATION AND FOOD SERVICE	417	\$1,715,125	1.3%	\$4,113
OTHER SERVICES	446	\$872,140	0.7%	\$1,955
OTHER, OR NON-DISCLOSABLE	11,980	\$12,807,198	10.1%	\$1,069
TOTAL	22,524	\$127,085,623	100.0%	\$5,642