

The Utah Corporate Franchise Tax: An Overview

Who Pays? By Size and Major Industry: 2004

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.

Table 1 reports the magnitude of various income measures for 2004. 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 after various state adjustments 87.4 (73.5 in 2003) percent of unadjusted income was taxed. The difference between line 12 and 14, which is loss carry backs, was much smaller than in 2003. Thus the effective rate is 4.4 (3.7) percent 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	LINE #	AMOUNT \$ Million	RELATIVE TO UNADJUSTED INCOME
RETURNS		5473	
UNADJUSTED INCOME	1	\$3,646.1	100.0%
ADJUSTED INCOME	4	\$3,298.4	90.5%
APPORTIONABLE INCOME	8	\$3,219.9	88.3%
UTAH TAXABLE	12	\$3,326.8	91.2%
NET UTAH TAXABLE	14	\$3,185.5	87.4%
TAX	15	\$159.3	4.4%

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 2004. 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 85.7 percent of the taxes, and those with income less than \$100,000 paid 3.4 percent of the taxes.

TABLE 2

INCOME CLASS	RETURNS	TAX	SHARE OF TAX
\$ 1 - 2,000	63	\$6,300	0.0%
\$ 2,001 - 10,000	1,342	\$344,989	0.2%
\$ 10,001 - 20,000	762	\$559,015	0.4%
\$ 20,001 - 30,000	471	\$581,430	0.4%
\$ 30,001 - 40,000	312	\$541,740	0.3%
\$ 40,001 - 50,000	290	\$655,464	0.4%
\$ 50,001 - 75,000	510	\$1,556,378	1.0%
\$ 75,001 - 100,000	255	\$1,098,556	0.7%
\$ 100,001 - 500,000	840	\$9,284,189	5.8%
\$ 500,001 - 1,000,000	228	\$8,077,885	5.1%
\$1,000,001 - 5,000,000	278	\$30,793,193	19.3%
\$5,000,001 -10,000,000	55	\$20,013,112	12.6%
OVER \$10,000,000	67	\$85,763,138	53.8%
TOTAL	5,473	\$159,275,389	100.0%

TAX RETURNS BY INDUSTRY

Table 3 is similar in content and structure to the previous table but includes all corporate taxpayers. The Other/Non-Disclosable, Manufacturing, Finance and Insurance, Retail, and Wholesale were the five largest payers. Each paid over \$19 million. The largest average payments were in the Management, Mining, Finance and Insurance, and Manufacturing sectors.

TABLE 3

SECTOR	RETURNS	TAX	SHARE OF TAX
AGRICULTURE, FORESTRY, FISHING	59	\$189,236	0.1%
MINING	89	\$8,605,860	5.4%
UTILITIES	14	\$1,400	0.0%
CONSTRUCTION	1,113	\$3,413,653	2.1%
MANUFACTURING	790	\$25,959,123	16.1%
WHOLESALE	1,459	\$19,806,874	12.3%
RETAIL	1,003	\$20,516,546	12.8%
TRANSPORTATION, WAREHOUSING	295	\$2,822,720	1.8%
INFORMATION	267	\$2,455,421	1.5%
FINANCE, INSURANCE	628	\$22,551,741	14.0%
REAL ESTATE, RENTAL, LEASING	434	\$1,110,467	0.7%
PROFESSIONAL, SCIENTIFIC, TECHNICAL SERVICES	1,423	\$8,988,347	5.6%
MANAGEMENT	58	\$8,024,609	5.0%
ADMINISTRATIVE AND SUPPORT	574	\$4,333,959	2.7%
EDUCATIONAL SERVICES	83	\$124,912	0.1%
HEALTH CARE AND SOCIAL ASSISTANCE	1,010	\$3,138,930	2.0%
ARTS, ENTERTAINMENT, AND RECREATION	84	\$415,362	0.3%
ACCOMODATION AND FOOD SERVICE	351	\$1,537,836	1.0%
OTHER SERVICES, PUBLIC ADMIN	409	\$578,772	0.4%
OTHER, OR NON-DISCLOSABLE	10,859	\$26,252,521	16.3%
TOTAL	21,002	\$160,828,289	100.0%