

BAD DEAL: Higher Local Sales Taxes Are Not the Way to Lower Local Property Taxes

by Dick Lavine, Senior Fiscal Analyst

The Texas House of Representatives may soon consider a bad idea that would allow certain cities and counties to replace their property taxes with higher sales taxes. Property taxes provide major support for our cities and counties, which pay for public safety, roads, parks and libraries.

House Bill 705 is a risky scheme that would raise the sales tax rate and could give Texas the highest rate in the country. Higher sales taxes can hurt the Texas economy. Relying more on sales taxes would make public services more vulnerable to economic fluctuations and shift the responsibility for funding these services onto the Texas families least able to afford higher costs.

The sales tax takes the most from those who have the least.

Low- and moderate-income families usually spend all of their income providing for their families, while higher-income families can afford to set aside savings or spend money on non-taxable services like lawyers or accountants. As a result, lower-income Texas families pay 7.5 percent of their income directly or indirectly in state sales taxes, while higher-income families pay only 1.7 percent. Increasing the sales tax rate would hold down families struggling to work their way into the middle class.

Swapping a sales tax for property taxes would increase taxes paid by most Texas families. Taxes would increase for 80 percent of households, while only the one-fifth of Texans with annual incomes of over \$150,000 would benefit.

A high sales tax rate would hurt the Texas economy.

HB 705 would allow city councils or county commissioners courts to impose a local sales tax of up to two percent in place of its property tax for maintenance and operations. Maintenance and operations property taxes go to annual expenses such as salaries and health care benefits for police officers, firefighters and paramedics. This local sales

THERE'S A BETTER WAY!

Instead, lawmakers should guarantee that everyone is paying their fair share of supporting our public services by ensuring that all property – especially commercial and industrial property – is on the tax rolls for its full market value. We must also eliminate wasteful or outdated tax exemptions and special giveaways.

tax bump would be in addition to the 8.25 percent sales tax currently imposed in most urban areas in Texas, resulting in a tax rate of **up to 12.25 percent!**

Such a high sales tax rate would discourage purchases by increasing the price to consumers. The bill would reduce the revenue received by the state of Texas – which relies on the sales tax for nearly 60 percent of all state tax revenue – by several hundred million dollars a year. It could also reduce sales taxes received by a city that did not choose to abolish its property taxes but was located in a county that imposed the full two percent additional tax.

Higher Local Sales Taxes Are Not the Way to Lower Local Property Taxes

Texas' current state sales tax is 13th highest among the states. Adding an additional four percent local sales tax rate to that would push Texas to the highest combined sales tax rate in the U.S. This would put Texas businesses at a competitive disadvantage, discouraging shoppers from neighboring states who currently travel to Texas to shop.

The sales tax alone would not be a reliable source of support for our major cities and counties.

A good revenue source should be able to deliver consistent support for public services. The sales tax fails this test, since sales are very sensitive to changes in the economy, falling in five of the past 20 years. When the economy slows down (like during a recession), people tend to buy fewer things, which means lower sales tax collections. This volatility has often caused difficulties in the state budget, which is already highly dependent on sales tax revenue, forcing cutbacks in state services and making long-term commitments difficult.

In contrast, property taxes provide a more stable base of support. Property values do not fluctuate as much as taxable sales. In addition, property tax rates change from year to year in response to

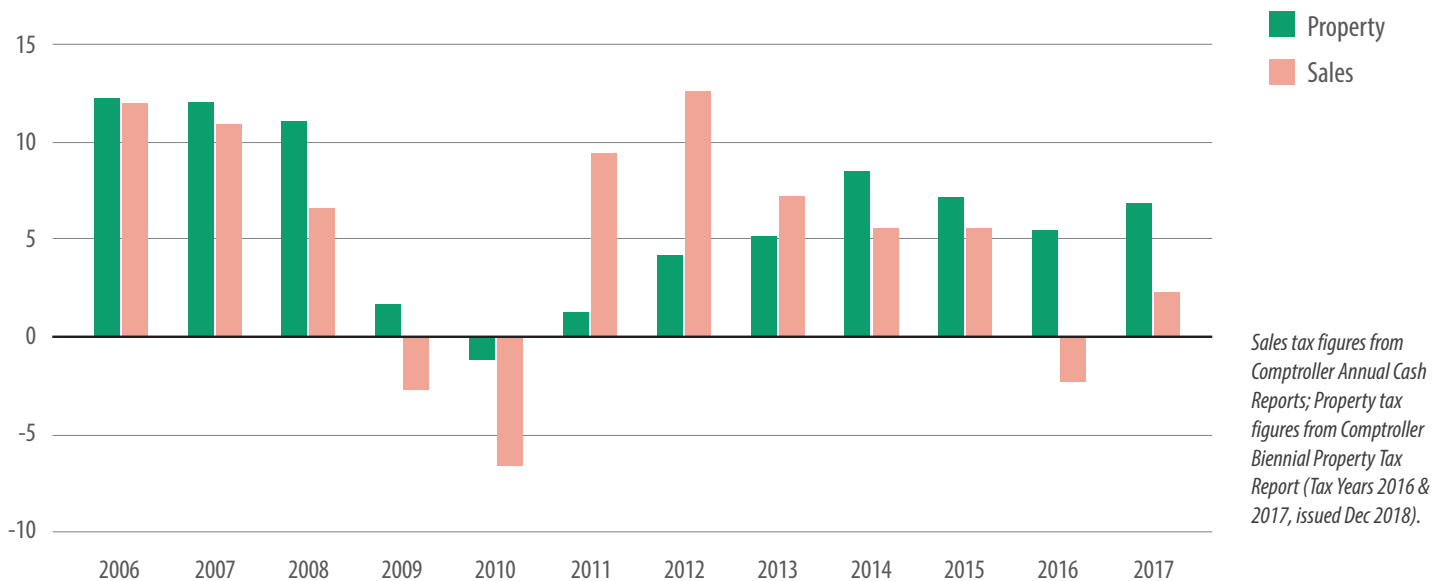
changes in the value of property being taxed to maintain necessary revenue. It would be far more disruptive to change sales tax rates annually, since every retailer in the city or county would have to reprogram their checkout systems to reflect the new rate.

If lawmakers want to reduce property taxes, they should boost state funding for public education. Currently local property taxpayers have to pay more than their fair share of the cost of public education because state funding has dropped.

City and county property taxes fund our public safety, roads, parks and other local public services.

Cities and counties spend more than half of their annual budgets on public safety. Cities pay for police officers, firefighters and paramedics, while counties are responsible for courts and jails. In most communities, property taxes provide the bulk of the revenue to support these vital services, which are key to the economic prosperity of our communities. Sales taxes are unreliable and put an outsized burden on low-income Texans, making the sales tax an inadequate replacement way to pay for these critical services.

Sales Taxes are a Less Reliable Source of Support Than Property Taxes



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