



## **Testimony for Texas House Ways & Means Committee – HB 59**

**March 15, 2020**

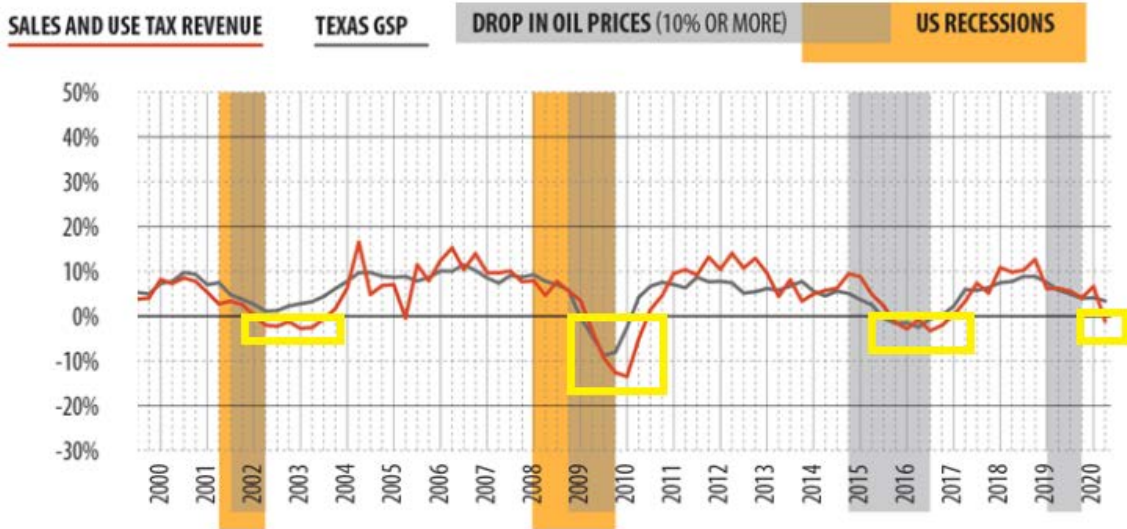
**Dick Lavine, Senior Fiscal Analyst**

The House Ways & Means Committee on Monday will hear a very dangerous proposal – HB 59 by Rep. Andrew Murr – which would almost completely eliminate the school property tax that is the foundation for supporting our public schools. To replace this essential source of revenue, a committee would be appointed to consider creating new taxes or increasing existing consumption taxes, like the sales tax.

Relying on consumption taxes to reduce school property tax rates is the wrong approach for two major reasons. First, sales taxes and similar taxes are volatile, so further linking growing school enrollment to an erratic tax is misguided. Second, consumption taxes, by their very nature, take the most from Texans who have the least, placing extra barriers in front of families working toward the middle class. This is because low and moderate-income families spend a much larger portion of their income on goods subject to the sales tax, outweighing any property tax savings. The net result of making schools more reliant on consumption taxes would unavoidably be higher taxes on all households except for the 20 percent of families with annual incomes of roughly \$157,000.

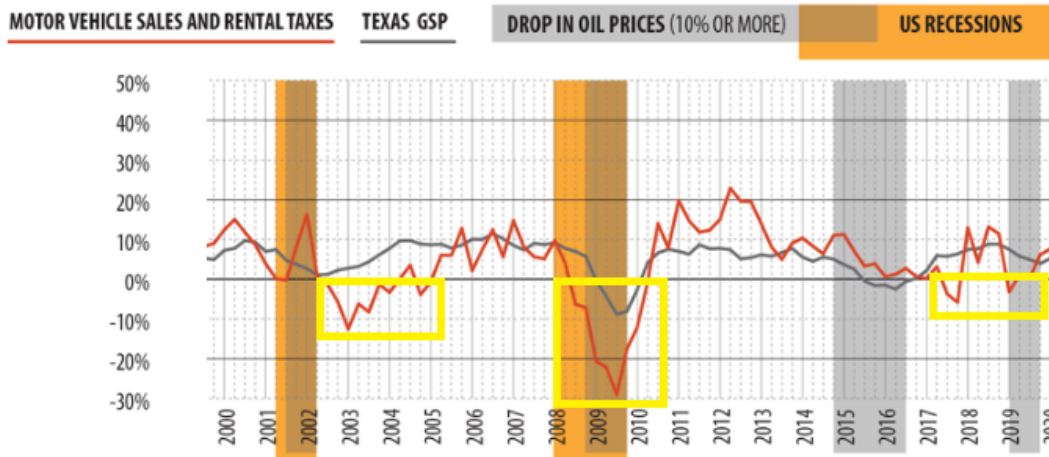
These charts show that the property tax is a more stable support for schools and other public services, compared to consumption taxes such as the state's general and motor vehicle sales taxes.<sup>i</sup>

**EXHIBIT 4: YEAR-OVER-YEAR CHANGE IN SALES AND USE TAX REVENUE, FIRST QUARTER FISCAL 1983 – SECOND QUARTER FISCAL 2020**



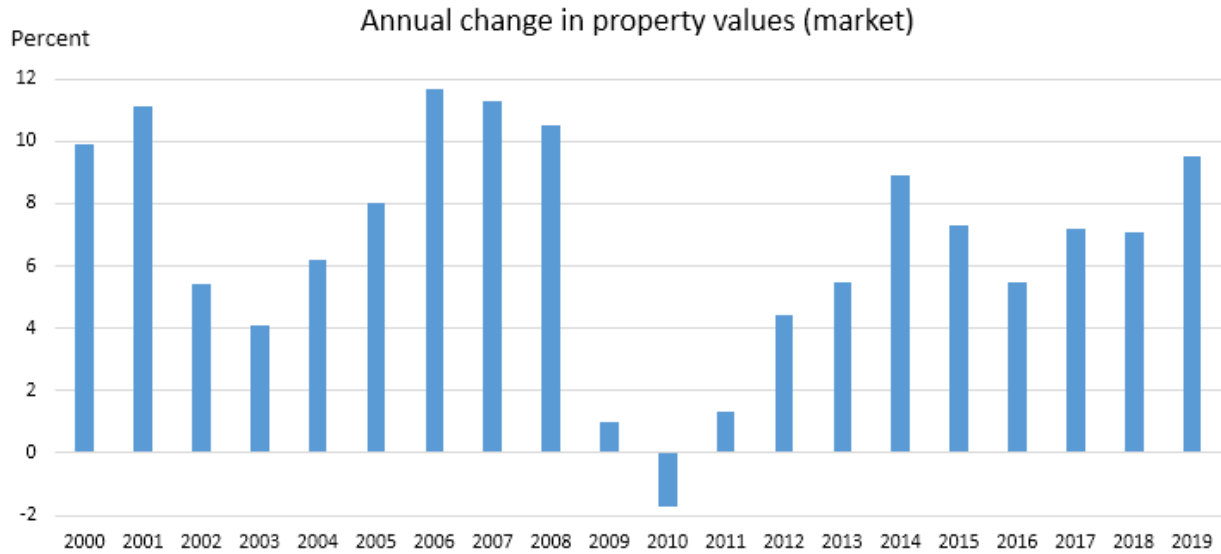
Sources: Texas Comptroller of Public Accounts, National Bureau of Economic Research and IHS Markit

**EXHIBIT 7: YEAR-OVER-YEAR CHANGE IN MOTOR VEHICLE SALES AND RENTAL TAXES, FIRST QUARTER FISCAL 1983 – SECOND QUARTER FISCAL 2020**



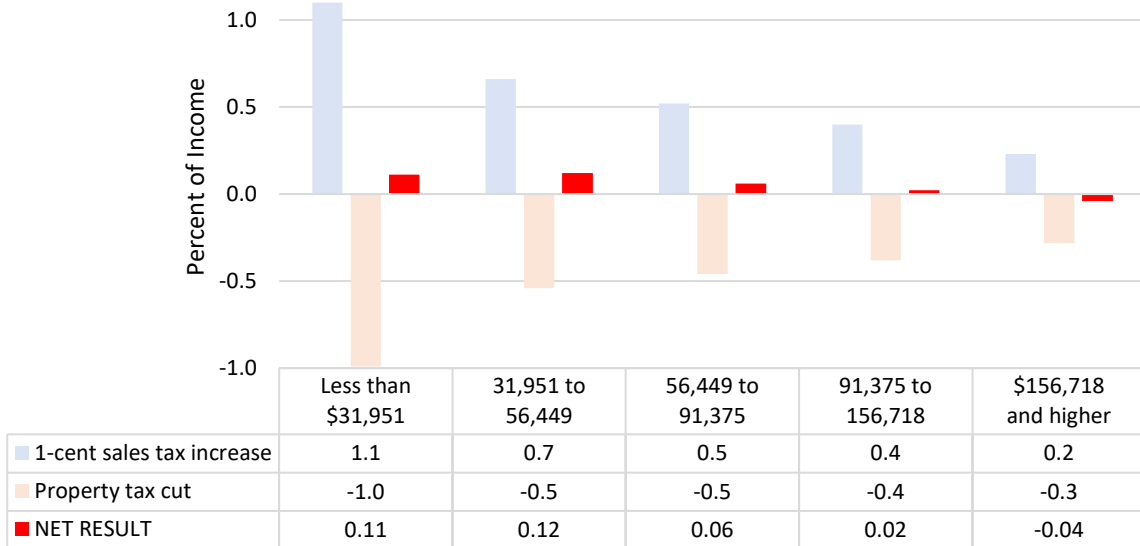
Note: Large YoY gains in collections occurred following increases in the Texas motor vehicle sales tax rate, which rose from 4.0 percent to 5.0 percent in 1984; to 6.0 percent in 1987; and to 6.25 percent in 1991. Collections also rose substantially immediately following the Great Recession, primarily due to pent-up demand for motor vehicles and low interest rates.

Sources: Texas Comptroller of Public Accounts, National Bureau of Economic Research and IHS Markit



Below is analysis of an increase in the state sales tax of 1% (from the current 6.25% to 7.25%) to replace school property taxes – a proposal that was made in the 2019 session – to show how most Texas households would experience a tax increase.

### Most Texas Households Would See a Tax Increase if Revenue from 1-cent State Sales Tax Hike Replaced School Property Taxes



■ 1-cent sales tax increase   ■ Property tax cut   ■ NET RESULT

## Taking the Most From Those With the Least

Our state’s tax system is already upside down, asking the most from low-income families. In Texas, the wealthiest residents pay an average of 4.1 percent of their income in state and local taxes, compared to 16.8 percent for residents with the lowest incomes.

Our sales tax in particular falls more heavily on low and moderate-income families because these households usually spend most of their income providing for their families. Wealthier 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 6.9 percent of their income directly or indirectly in state sales taxes, while wealthier income families pay only 1.5 percent.

Increasing the sales tax rate would hold down families struggling to work their way into the middle class. Using all of the increased sales tax revenue to reduce school property taxes would increase taxes paid by most Texas families. Taxes would increase for 80 percent of households, while only the 20 percent of Texans with annual incomes over \$157,000 would benefit, since they are the only group whose property taxes would drop more than their sales taxes would increase.

The school property tax **takes a more equitable percentage** of income from families at every income level. This may be because families at different income levels spend similar percentages of their income on housing. In addition, business owners who generally make more income are frequently more responsible for business property taxes. The homestead exemption, which is currently \$25,000, and the 65-and-over tax ceiling reduce school property taxes, particularly for lower-income homeowners.

## Gambling With School Funding

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. State sales tax collections have dropped in five of the past 20 years. When the economy slows down during a recession, people and businesses tend to buy fewer things, which means lower sales tax collections. This volatility has already caused difficulties in the state budget, which is highly dependent on sales taxes, forcing cutbacks in school funding in the past 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 can change from year to year in response to changes in the value of property being taxed to maintain necessary revenue. It is far more disruptive to change sales tax rates annually, since every retailer in the state would have to reprogram their checkout systems to reflect the new rate.

## Hurting the Texas Economy

The current state sales tax in Texas is 13th highest in the country. Adding another one percent would have pushed Texas to the highest state sales tax rate in the U.S.- tied with California. This would put Texas businesses at a competitive disadvantage, discouraging consumers from neighboring states who currently travel to Texas to shop.

## The Solution Is Simple

Texas is wealthy and fast-growing, but our public investments don't always keep up with the needs of our state. With the right tax policies, we can invest in schools, roads and other things we all want while ensuring that everyone is paying their fair share. Let's continue the legacy of our parents and grandparents, who made the investments we benefit from today and plant the seeds now for a healthy and vibrant Texas.

If lawmakers truly want to maintain funding for schools while lowering property taxes, they should make sure that all property owners – especially commercial and industrial property owners – are paying their fair share in taxes by **eliminating wasteful or outdated tax exemptions and special giveaways**. Or, rather than raise the sales tax rate, the Legislature should bring the sales tax up to date to reflect the modern service economy by taxing business and professional services, such as those provided by lawyers, accountants, stockbrokers, real estate agents, and management consultants.

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<sup>i</sup> Sales tax charts are from <https://comptroller.texas.gov/economy/fiscal-notes/2020/may/recession.php>, edited to show only 2000-2020. Highlighting added. The property tax chart is based on <https://comptroller.texas.gov/taxes/property-tax/reports/index.php#biennial>