

Raising the Sales Tax Rate Is Not the Way to Lower School Property Taxes

by Dick Lavine, Senior Fiscal Analyst

Some legislators and other state and local officials are pushing ill-considered proposals to replace property taxes with higher sales taxes. The property tax provides major support for our schools, cities, counties, community colleges and hospital districts.

A risky scheme like raising the sales tax rate could give Texas the highest rate in the country and hurt the Texas economy. Relying even 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 it.

Property taxes fund our schools, roads, public safety, health care and other local public services

Our economic prosperity relies on the public structures we have created. The schools, roads, bridges and parks we enjoy today in Texas were made possible by the public investments of previous generations. Similarly, the taxes we pay now will support infrastructure for our children and grandchildren.

We all know it takes sufficient investment to support thriving communities, and the property tax accounts for nearly half of all state and local taxes paid in Texas. More than half of property taxes go to support public education, which is key to an educated population and skilled workforce. The rest goes in relatively similar proportions to our cities, counties, and special districts such as community colleges and hospital districts.

A high sales tax rate would hurt the Texas economy

During the 2016-17 school year, the school maintenance and operations (M&O) property tax raised \$23.7 billion, and the state sales tax of 6.25 cents brought in \$28.9 billion. Therefore replacing school M&O property taxes would require an increase in the state sales tax of more than five cents. And since this would discourage sales by increasing the price to the consumer, an even higher tax rate would be required to generate the same amount of revenue currently raised by the property tax.

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 We must also eliminate wasteful or outdated tax exemptions and special giveaways.

Texas' current state sales tax is 13th highest among the states. Adding the most common 2 percent local sales tax rate to that pushes Texas to 12th in average combined sales tax rate.

The increase in the state sales tax needed to replace school M&O taxes, resulting in a state/local tax rate of close to 14%, would leave Texas with the country's highest sales tax, putting Texas businesses at a competitive disadvantage.

Local governments are more connected to the needs of their communities

Eliminating the M&O tax would gut the ability of local communities to decide how much to invest in their children. Because there would no longer be a local tax rate set by the local school board, with approval of local voters through an election, all funding would

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be decided at the state level. By maintaining the ability of local communities to decide tax rates, we keep decision making closer to affected residents. This means that local tax and budget policies are more responsive to the desires of local taxpayers.

The sales tax alone would not be a reliable source of support for schools

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. This volatility has caused difficulties in the state budget, which is highly dependent on sales tax revenue, forcing cutbacks in state services and making long-term commitments difficult.

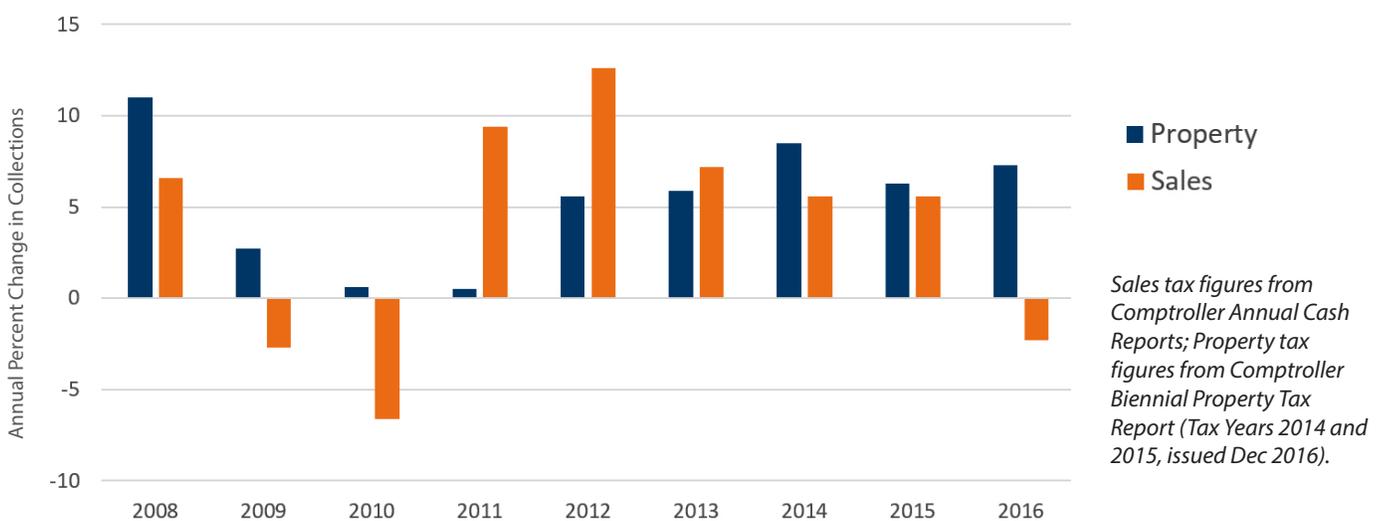
In contrast, property taxes provide a more stable base of support. Property values do not fluctuate as much as taxable sales. In addition, property tax rates can change from year to year in response to changes in the value of property being taxed to maintain necessary revenue. It would be far more disruptive to change sales tax rates annually, since every retailer in the state would have to reprogram their checkout systems to reflect the new rate.

The sales tax takes the most from those with 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 sales taxes, while higher-income families pay only 1.7 percent. Tripling the sales tax rate would hold down families struggling to work their way up into the middle class.

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 roads, schools and other things we all want while ensuring that no one is paying an unfair 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.

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



CPPP is an independent public policy organization that uses research, analysis and advocacy to promote solutions that enable Texans of all backgrounds to reach their full potential. Learn more at CPPP.org. For more information, please contact Oliver Bernstein at bernstein@cppp.org or call 512.823.2875.