



A long-standing legacy in shaping Texas fiscal policy

Bad Math: Replacing property taxes with higher sales taxes doesn't add up for Texans

By Dale Craymer

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It's no exaggeration to say that Texans don't like paying property taxes, as we have some of the highest in the nation. Could we kiss those tax bills goodbye by modestly increasing the sales tax? That's among the property tax relief options now floating around the Texas Capitol.

If it sounds too good to be true — you're right. Even a cursory look at the numbers shows that swapping property taxes for a higher sales tax is unrealistic.

In 2016, Texans paid \$36 billion in state and local sales taxes. Property taxes totaled more than \$56 billion, far more than what a few more pennies added to the sales tax would raise.

In fact, the current state sales tax rate of 6.25 percent would have to almost quadruple to a whopping 23 percent to wipe out the property tax, according to a 2012 analysis by the state comptroller's office. Add another 2 percent for current local taxes and you're looking at a 25 percent sales tax rate — a quarter in tax on every dollar you spend!

That astronomical rate would drive most Texas storefronts out of business as Texans drive to lower-tax states to shop or order goods online from retailers that don't collect sales tax. Though state law requires Texans to remit those uncollected sales taxes on their own, few ever do.

If such an increase in the sales tax rate isn't viable, what about eliminating tax exemption "loopholes"? Among the items that then would be taxed: groceries; gas, water and electric bills; and services from a long list of providers including doctors, dentists, nurses, other health care professionals, lawyers, accountants, real estate agents, architects, auto mechanics and construction laborers.

Unfortunately, taxing all those items would only generate \$12 billion, cutting your property tax bill by only 20 percent, leaving \$44 billion in property taxes still to pay.

What other exempt items could be taxed? Cars? Motor fuels? Insurance premiums? That's double taxation as all those are currently subject to a different tax. Manufacturing materials? That could add another \$12 billion or so, but it would be a huge blow to the state's business climate as Texas would be the only state taxing raw materials.

Even with a massive and economically harmful expansion of the sales tax base, the rate still would need to rise well into double digits.

Some have suggested extending the sales tax to real estate sales — land, houses, office buildings, factories, etc. That would require a constitutional amendment, asking the same Texans who in 2015 voted overwhelmingly (86 percent) to bar a real estate tax to reverse themselves. Regardless, let's see how that might work.

Currently, a new homebuyer is expected to make a down payment of 20 percent of a home's purchase price. For a \$175,000 home, that's \$35,000. Add another \$20,000 to \$25,000 in sales tax, and a young couple might need to save \$60,000, putting that first home even further from their reach. And, at resale, sellers couldn't recover the sales taxes paid.

A sales tax would be devastating to new homebuyers and to the home building industry so critical to our state's economic health. And eliminating one tax on a home only to replace it with an even higher tax up front makes no sense.

The property/sales tax swap is more than a spreadsheet challenge — the resulting system has to be workable and fund government at all levels, not just school districts, but also cities, counties and special districts.

Small towns and rural areas would see their property tax base traded for a non-existent sales tax base. Larger cities with a broad array of retail would suck dollars away from their smaller neighbors. To remedy this, we'd need to levy a statewide sales tax and then allocate funds to local governments — the same type of system that has kept the state in court over equitable public school funding for decades.

Like all Texans, I'm certainly no fan of the property tax. But I do caution against falling for misleading tax policy talk that tries to sell the unrealistic dream of a painless way to eliminate your property taxes.

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