
Texas State and Local Taxes from the Taxpayers' Perspective

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Tax Incidence

There are two basic types of taxpayers:

1. *Businesses*, and
2. *Individuals*.

In Texas, *individuals* incur direct taxes on many of their purchases and their real estate, but unlike most states, not on their income.

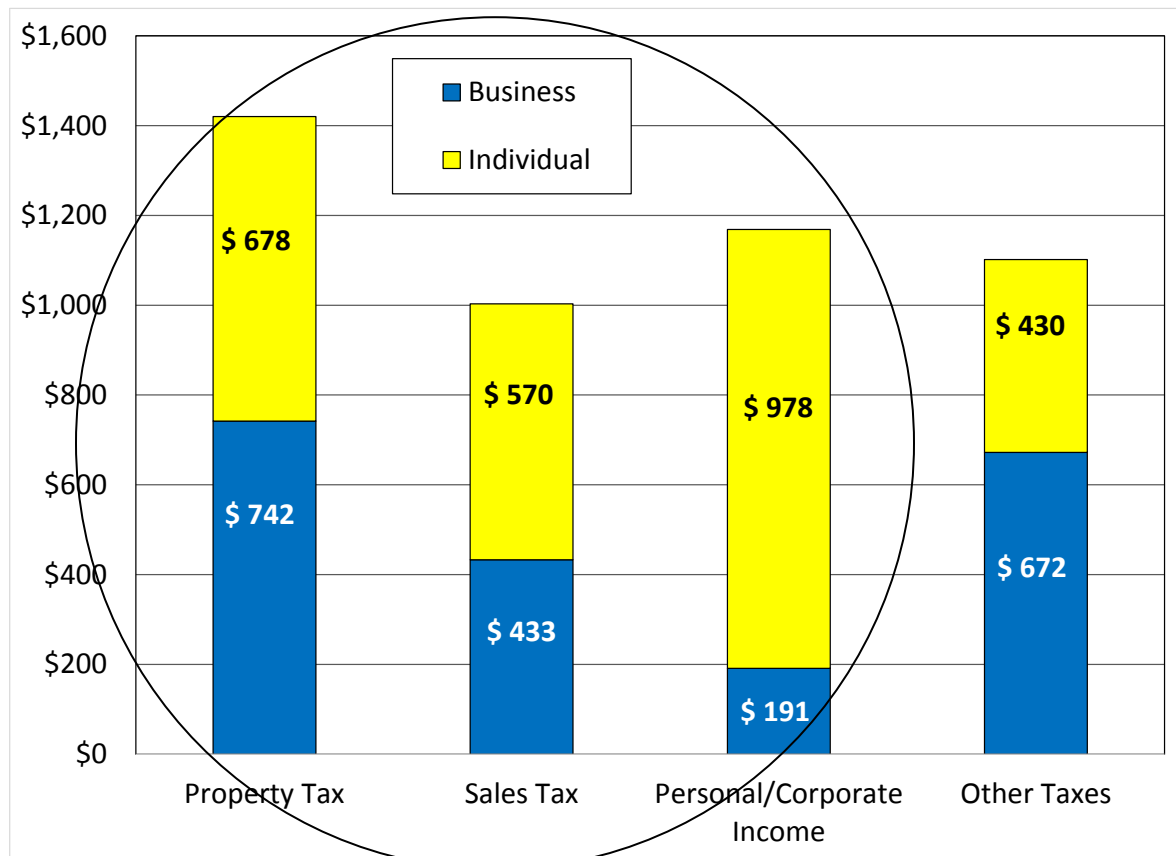
Businesses may incur taxes on their purchases (e.g. sales tax, fuels taxes), their real estate and personal assets (e.g. property tax), and be subject to special industry taxes on gross receipts (e.g. utilities, insurance). Businesses respond to taxes in one of three ways:

1. Pass the cost of the tax forward to individuals in the form of higher prices,
2. Pass the tax backward to owners in the form of lower profits, and/or
3. Pass the tax backward to individuals by reducing expenses, such as payroll or relocating or shifting investment to a lower cost location.

Note about the initial incidence assignments in this analysis...

- Sales and motor vehicle sales taxes: tax due is on the sale of a taxable item and is paid by the *purchaser*. For example, while a retailer collects the tax and remits it to the state, the tax is paid by the purchaser.
- Property tax is paid by the *owner* of the property, whether an individual or a business.
- Though assessed on the refiner, motor fuels taxes are assigned to the consumer, since state law requires the tax be passed on to the consumer.
- Franchise tax is paid by the business entity.
- Severance taxes and industry gross receipts taxes are paid by the business.
- Excise taxes on consumer products (tobacco and alcohol) are predominately paid by the consumer.

The “Three Legged Stool” of State and Local Taxes US Per Capita Average, 2012



Source: Derived from Council on State Taxation, *Total State and Local Business Taxes, 2013* and data from the US Bureau of the Census.

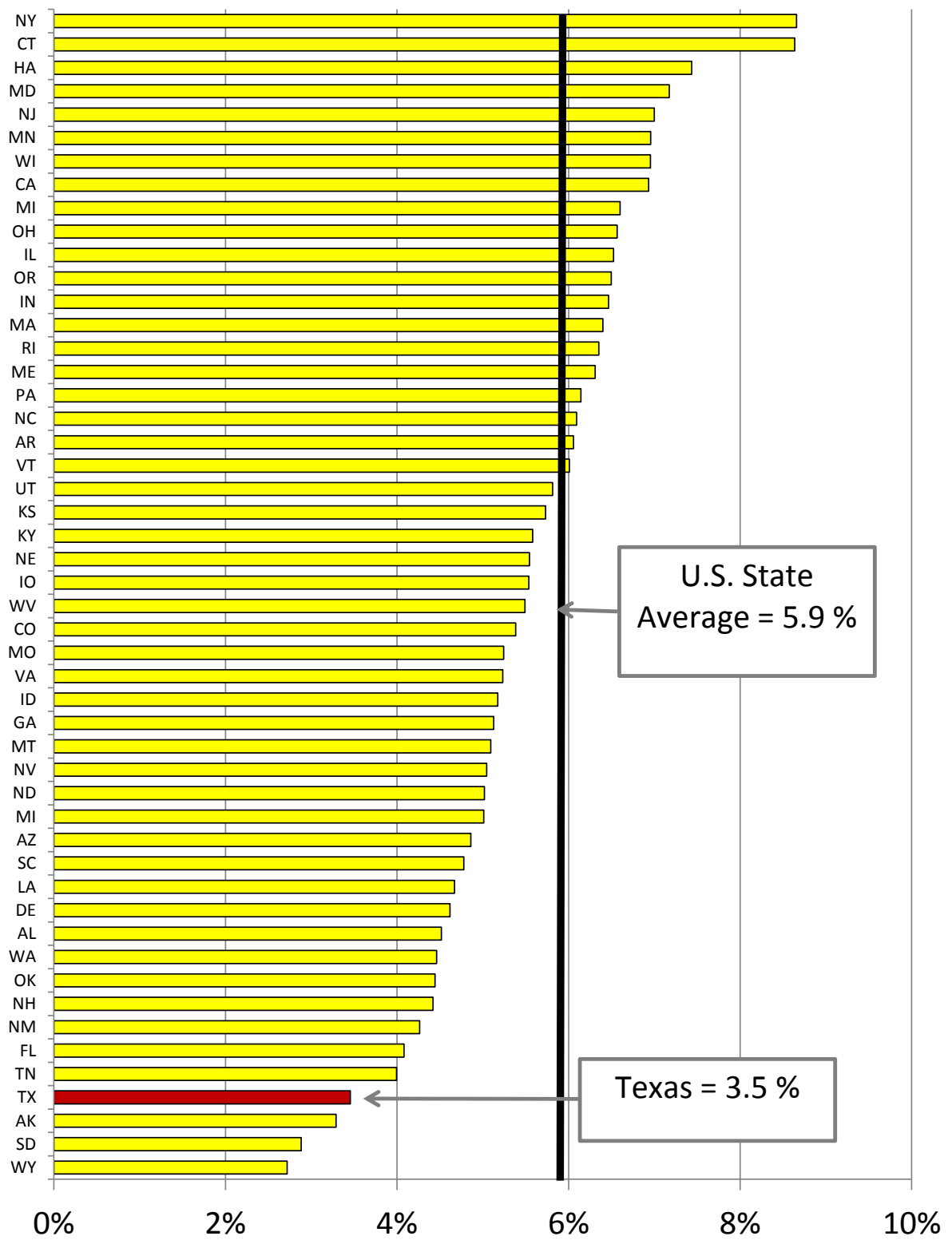
State and local tax systems are often described as a “three legged stool,” relying on 1) sales, 2) property and 3) income taxes (commonly ignoring excise taxes such as fuels, alcohol, tobacco, etc., and special industry taxes, such as severance, utility, hotel, etc.).

Texas’ lack of a personal income tax saves the average Texan \$978 per year.

Texas makes up for the lack of a personal income tax in two ways:

1. A lower level of state and local spending
2. Higher sales, property, and other taxes than those of other states.

Individual Tax Burden Relative to Personal Income



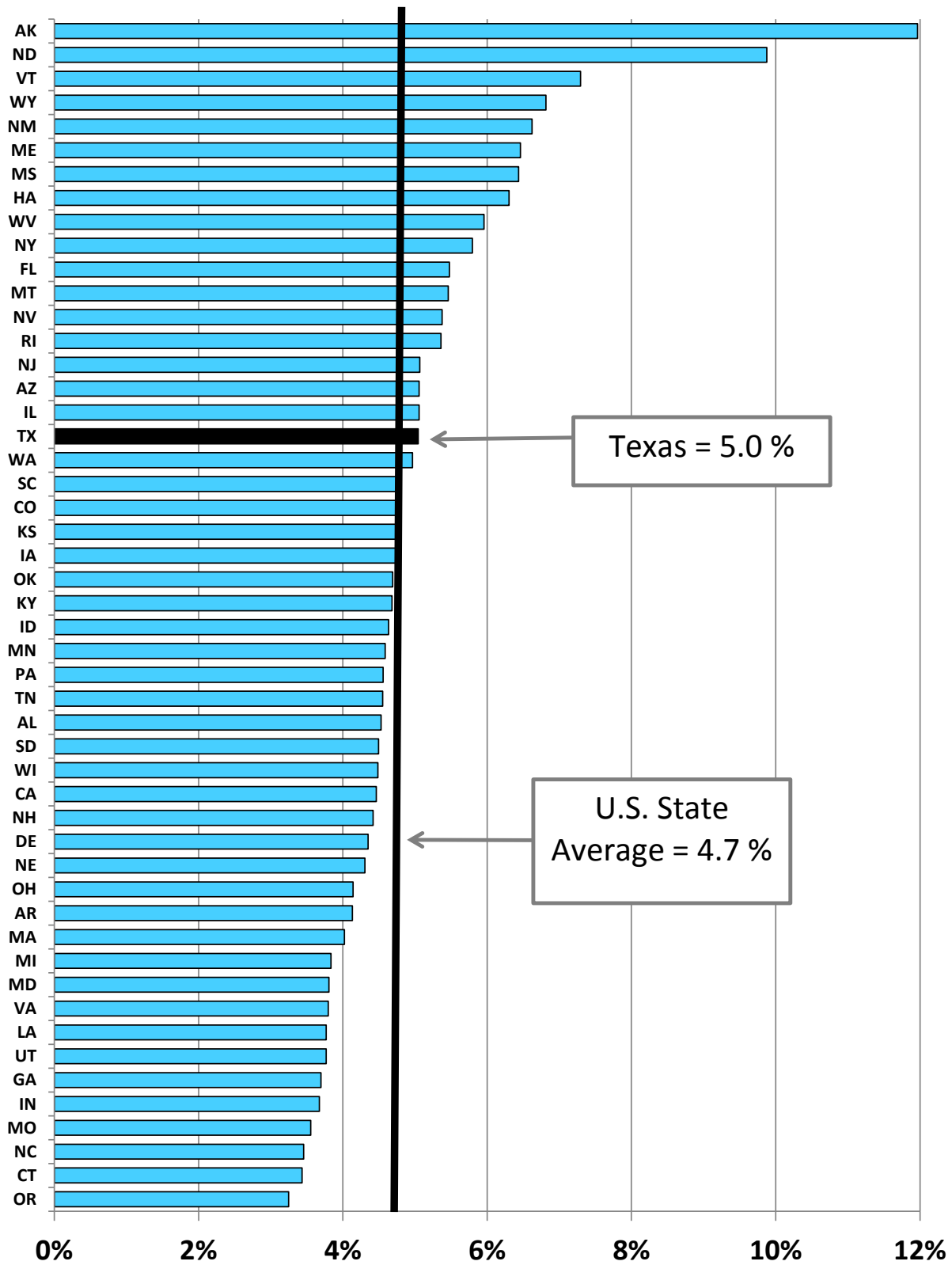
U.S. State Average = 5.9 %

Texas = 3.5 %

: Derived from Council on State Taxation: Total State and Local Business Taxes, 2013.

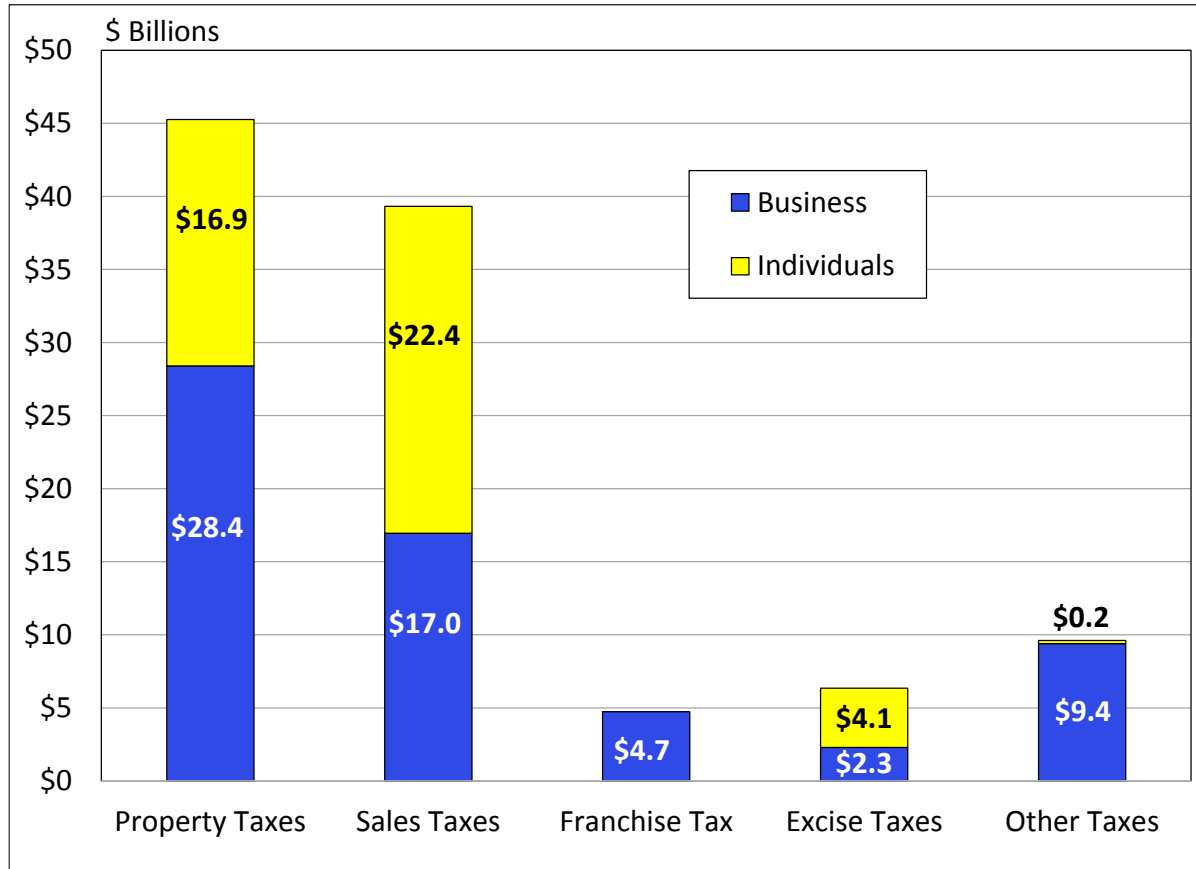
Source

Business Taxes Relative to Private Economic Output



Source: Council on State Taxation: Total State and Local Business Taxes, 2012.

Who Pays Texas Taxes?



Data is for 2014.

Source: Texas Taxpayers and Research Association

The biggest tax businesses pay in Texas is not the franchise tax—what is typically thought of as Texas’ “business tax.” The biggest tax paid by the business community is the property tax—levied by over 1,000 independent school districts, 254 counties, over 1,000 cities, and over 1,600 special purpose taxing units throughout the state.

School districts assess approximately 55 percent of all property taxes paid in the state, with cities and counties accounting for roughly 16 percent each and special districts approximately 12 percent.

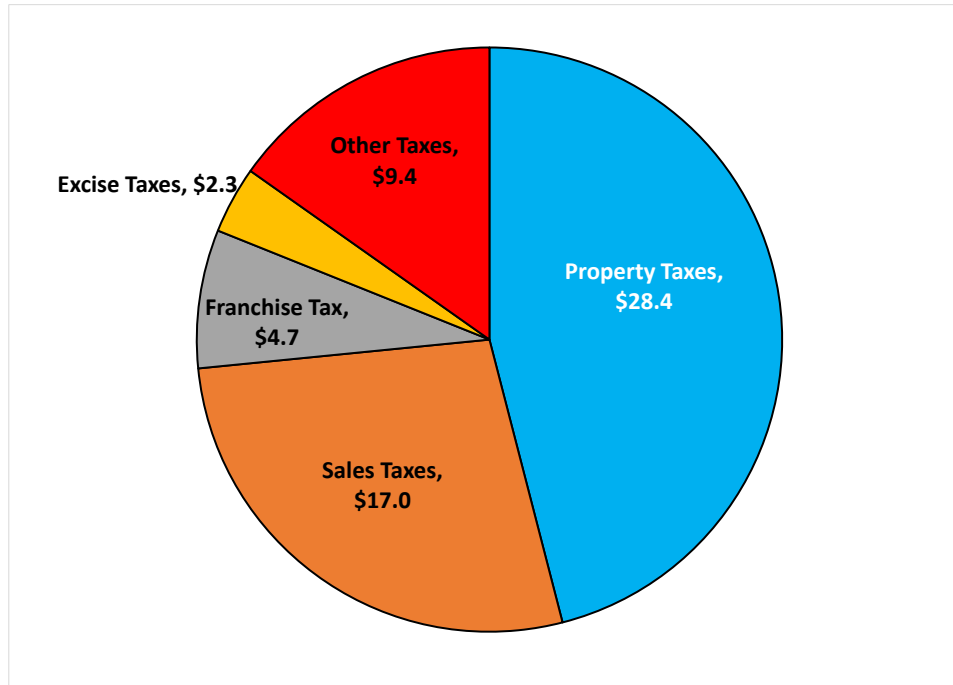
The second largest tax businesses pay in Texas are the sales taxes paid to the state and to over 1,400 taxing jurisdictions—mostly cities, but also metropolitan transit authorities, and other special purpose districts.

Heavy reliance on property and sales taxes tends to make Texas’ tax system more regressive than those of income-taxing states (i.e. lower income families see a greater portion of their income going to pay taxes than do higher income families).

Who Pays Texas Taxes?

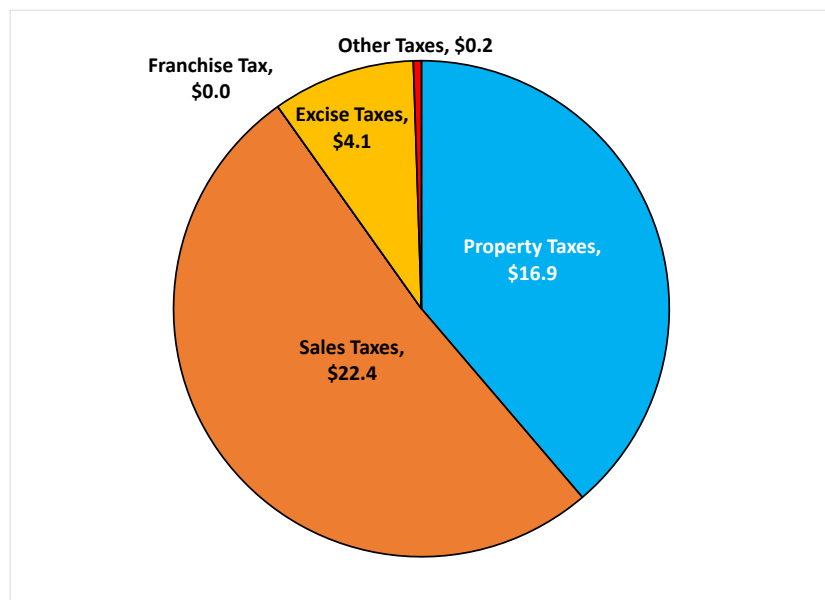
Taxes Paid by Business (\$ billions)

1. Property Tax
2. Sales Tax
3. Franchise Tax
4. Other Taxes
(Severance, Utilities, Insurance, Hotel, etc.)
5. Excise Taxes
(Motor Fuels, Tobacco, Alcohol)



Taxes Paid by Individuals (\$ billions)

1. Sales Taxes
2. Property Taxes
3. Excise Taxes
(Motor Fuels, Alcohol, Tobacco, Hotel, etc.)
4. Other Taxes



Key Texas Tax Rates and Bases Compared to Other States

Tax	Current Rate and Base	Comparison
Sales Tax Rate	<p>State Tax Rate: 6.25%</p> <p>Local Taxes: Generally capped at 2.0 %; average is 1.9%</p> <p>Average Combined Rate: 8.15%</p>	<p>State Rate: 11th (tied) highest</p> <p>Combined Rate: 11th highest</p>
Sales Tax Base	<p>Generally applies to all sales of tangible personal property excluding food, medicine and residential or industrial utilities; and a number of services</p>	<p>Texas' base is generally broader than that of other states because we tend to tax more services than other states (only 7 states tax more services)</p>
Property Tax Rate	<p><u>Residential property</u>: average effective tax rate in 2013 was just under 2.0 percent of market value</p> <p><u>Industrial property</u>: average effective tax rate in 2013 was just under 2.6% of market value</p>	<p><u>Residential property</u>: Texas' effective tax rates rank us 16th highest nationally</p> <p><u>Industrial property</u>: Texas' effective tax rates rank us 6th highest nationally</p>
Property Tax Base	<p>Texas taxes all real estate plus any tangible personal property used for business purposes (equipment and inventory); goods in interstate commerce are exempted at local option (i.e. Freeport property)</p>	<p>Texas' base is generally broader than that of other states: 11 states exempt all business tangible personal property; inventories are generally exempt in all but 7 states; 29 states offer some type of Freeport exemption</p>
Business Franchise Tax	<p>Texas' franchise tax is unlike the net business income tax levied by most other states; Texas' effective tax rate relative to economic output was 0.35% in 2013.</p>	<p>Relative to economic output, Texas' franchise tax ranks 27th highest among the states, about 10 percent below the national average.</p>

Key Texas Tax Rates and Bases Compared to Other States

Tax	Good	Bad
Property Tax	<ul style="list-style-type: none"> Property is professionally appraised (generally) Tax base is generally <u>uniform</u> with property assessed at market value (i.e., no differential treatment or “split roll”) Tax rates apply equally to all property Abatement (Tax Code Chapter 312) and limitation (Tax Code Chapter 313) programs offer <i>temporary</i> incentives to mitigate impact of high property taxes “Freeport” law allows local tax exemption for goods in interstate commerce 	<ul style="list-style-type: none"> Property tax rates are <u>high</u> Property tax base is very <u>broad</u> and includes business personal property (equipment <u>and</u> inventories) More generous exemptions for homestead property shifts the tax burden to business State’s school tax limitation program (Chapter 313) is overly complex, administratively burdensome, and less beneficial than comparable programs in other states (because of supplemental payments to school districts)
Sales Tax	<ul style="list-style-type: none"> Texas exempts equipment and machinery used <i>directly</i> in manufacturing (as do most states) Utilities used in manufacturing are exempt Raw materials are exempt (as they are in every state) 	<ul style="list-style-type: none"> Sales tax rate(s) is/are <u>high</u> Sales tax base is <u>broader</u> than that of most states Equipment and materials <i>indirectly</i> used in manufacturing are taxed Sales taxes are <u>regressive</u>, impacting lower income households relatively more
Franchise Tax	<ul style="list-style-type: none"> Tax applies equally to all forms of liability-protected businesses Manufacturers can deduct cost of goods sold, which is the largest part of their expenses Tax rate is low 	<ul style="list-style-type: none"> Tax is complex, particularly the definition of “cost of goods sold”, the deduction elected by almost all manufacturers Tax is not income sensitive Most (7 out of 8) businesses are exempt from paying the tax