

The image shows the Texas State Capitol dome in Austin, Texas, with the Statue of Liberty on top. The dome is white and has a large, ornate design. The sky is blue with some white clouds. The image is positioned on the left side of the slide.

Testimony before the Select Committee on Property Tax Reform

November 28, 2018

TEXAS TAXPAYERS
TTARA
AND RESEARCH ASSOCIATION

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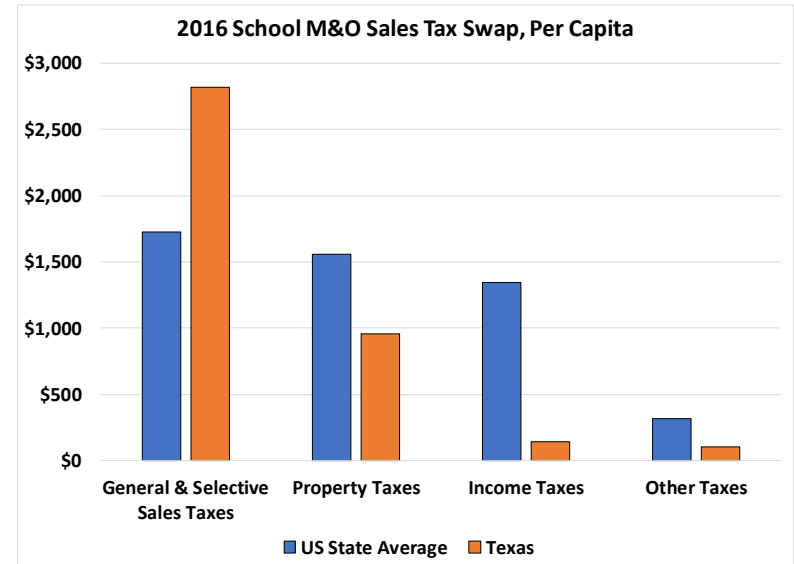
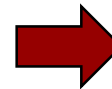
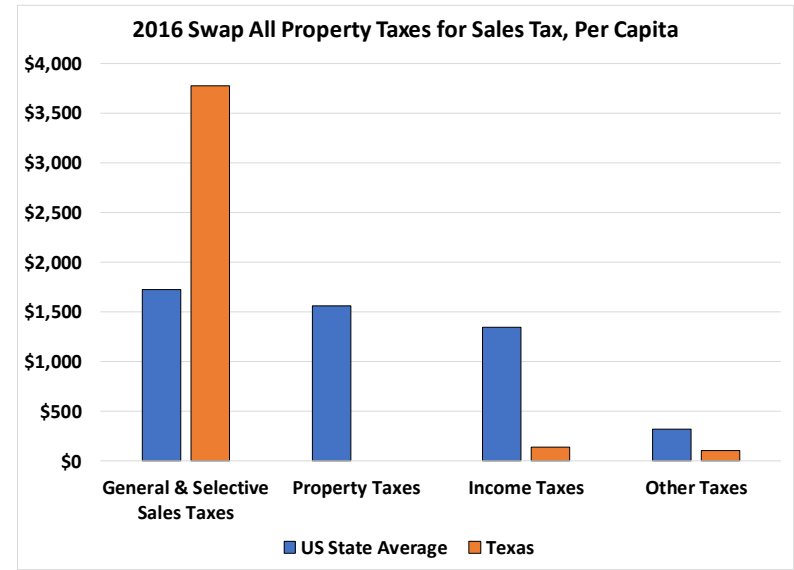
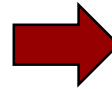
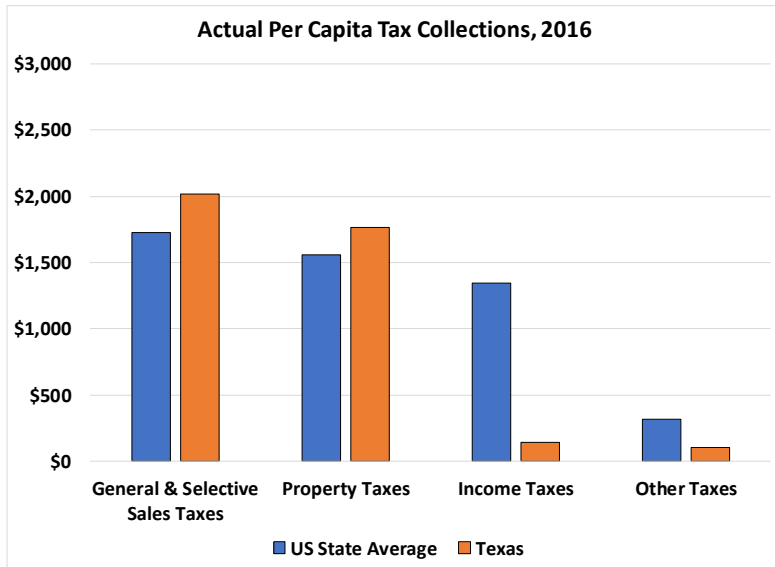
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Interim Charge

Study the feasibility of replacing the property tax with sales tax or other consumption tax revenue, with emphasis on school maintenance and operations tax. Evaluate whether some local property taxes lend themselves to a swap more than others. Quantify the short-term and long-term economic effects of a tax swap. Identify a target property tax rate and evaluate how to reach that target with a consumption tax swap.

Texas with a Swap



- Currently, Texas general sales taxes per capita are 22 percent higher than that of the average state
- Currently, Texas property taxes per capita are 13 percent higher than that of the average state

Texas Property Taxes Compared to Other States

Effective Tax Rate on:	Urban Properties			Rural Properties		
	Texas	US	% Diff	Texas	US	% Diff
Median Value Homestead	1.80%	1.50%	20%	1.75%	1.34%	30%
Apartment	2.35%	1.83%	28%	2.59%	1.62%	59%
\$25 ml Commercial Property	2.36%	2.09%	13%	2.14%	1.77%	21%
\$25 ml Industrial Property	2.53%	1.53%	65%	2.59%	1.32	96%

Source: Lincoln Institute of Land Policy, 50 State Property Tax Comparison Study, 2017

Texas' effective property tax rates are high because our nominal tax rates are high, and our property tax base is broader than that of most states (Texas taxes business personal property, including inventories, which are exempt in most states).

Texas Sales Taxes Compared to Other States

- 45 states impose a general sales tax; 5 do not.
- Texas' effective combined state and local sales tax rate is the 12th highest in the nation, 8 percent higher than that of the average state.
- Texas' sales tax base is 13 percent broader than the average state as Texas subjects a number of services to the sales tax, while many other states do not (Federation of Tax Administrators identifies 83 services Texas taxes compared to 58 for the average state).

Range of Sales Tax Options to Replace All Property Taxes

Total Tax Rate ...or...	Expand Tax Base
<p>~ 25%</p>	<ul style="list-style-type: none"> • Raw Materials • Gas & Electricity (Industrial & Home) • Manufacturing Equipment & Machinery • Groceries and all other consumer items • Services (Lawyers, Doctors, Construction, etc.) • Agricultural equipment & supplies • Advertising • Motor Fuels • Real Estate Sales • Insurance Premiums • Real Estate Sales • Many billions of dollars to be determined

Range of Sales Tax Options to Replace Just School M&O

Total Tax Rate	...or...	Expand Tax Base
<p>~ 14.5%</p>		<ul style="list-style-type: none"> • Gas & Electricity (Industrial & Home) • Manufacturing Equipment & Machinery • Groceries • Water • Medicine • Services (Lawyers, Doctors, Child Day Care, Funerals, Construction, etc.) • Agricultural Equipment & Supplies • Motor Fuels (would have to eliminate dedication to highways) • Insurance Premiums

Challenges of Expanding the Sales Tax Base

- The recent *Wayfair* decision allows states to require remote sellers to collect tax on sales to customers in their state, greatly eliminating opportunities for sales tax avoidance.
- *Wayfair* makes it substantially easier for states to collect tax on sales of *tangible personal property*.
- Unresolved is how states would assess and collect sales tax on *services* and what the economic impacts would be on Texas service businesses. Is tax due:
 - where the service is performed,
 - where the benefit of the service is received,
 - or based on the location of the purchaser of the service?

If Texas Taxed Legal Services, Is Tax Due If...

1. A Texan hires a Texas law firm to write a contract for use in Texas?
2. A Texan hires a New York law firm to write a contract for use in Texas?
3. A Texan hires a Texas law firm to write a contract for use in Georgia?
4. A Texan hires a New York law firm to write a contract for use in Georgia?
5. A New Yorker hires a Texas law firm to write a contract for use in Texas?
6. A New Yorker hires a Texas law firm to write a contract for use in Texas, but the work is done out of the law firm's Georgia office?
7. A New Yorker hires a Texas law firm to draft a contract for use in Georgia?
8. A New Yorker hires a Georgia law firm to draft a contract for use in Texas?

Conclusions, Total Elimination of the Property Tax

- For all the talk and attention a sales/property tax swap has generated, no one has introduced a bill showing how it would be accomplished.
- A massive expansion of the sales tax in lieu of the property tax could simply trade one sore thumb for another creating a number of economic distortions.
- Eliminating all property taxes is just not feasible:
 - Local governments would either 1) suffer massive revenue redistribution if the sales tax is locally-imposed, or 2) have to rely on the state to allocate sales taxes if the sales tax is imposed statewide, and
 - Bond holders may not accept a pledge of sales tax revenue, meaning there may be no way to finance local infrastructure.

Conclusions, Elimination of the School M&O Tax

- Replacing the school M&O tax is a more reasonable target, but still fraught with challenges.
- The list of new items to be subject to sales tax is both economically, technically, and politically daunting.
- Schools would be totally reliant on state funding formulas unless the legislature allowed a property tax for local option enrichment.
- New limits would have to be placed on property taxes levied by other jurisdictions to prevent tax creep.

If you have any questions or
comments, please feel free to contact
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