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Capitol stirring again with calls for bigger sales tax: Some want to end property taxes; others say wait and see

By Kate Alexander

A bigger and broader sales tax is being kicked around at the Texas Capitol once again by legislators wanting to scrap the new business tax and further reduce property taxes.

“We need to return Texas to a business-friendly climate. We need to make home ownership affordable. We need to fund our schools for the long term, and the best way to do this is through sales tax,” said state Sen. Dan Patrick, R-Houston.

He has called for repealing the business tax while boosting the sales tax 2 percentage points — from the current total of 8.25 percent for both state and local taxes — and applying it to some now-exempt items. That increase would generate an estimated \$6 billion a year, about double the amount raised by the changes to the business tax.

Many Republicans, including Patrick, have long embraced the idea of relying more on the sales tax to pay for government services. At its convention this month, the Texas Republican Party included abolishing the school property tax — to be replaced with the sales tax and spending cuts — in its platform.

“The fairest way to tax people is on what they consume and their ability to pay, not on where they live,” Patrick said.

But state Rep. Jim Keffer, chairman of the tax-writing House Ways and Means Committee, has little appetite for another debate over expanding the sales tax.

“We’ve been down that road before, and it was not a very pleasant journey,” said Keffer, R-Eastland.

Lifting the sales tax exemptions for manufacturing materials and groceries, which would produce the most revenue, were not popular ideas, Keffer said, and the biggest beneficiaries of a higher sales tax rate would be Texas’ neighboring states.

Though he agrees with the goal of reducing property taxes, Keffer said the business tax was established to do just that and should be given a chance to work.

People criticizing the tax “need a workable — and I underline workable — alternative policy,” Keffer said.

Some taxpayers prefer the sales tax because it is paid incrementally, whereas the property tax is paid in a lump sum and can increase even when a property owner’s ability to pay does not, experts say. But the sales tax hits some taxpayers harder than others.

“Lower- and middle-income families spend everything they have ... just to buy things that their families need,” said Dick Lavine of the Center for Public Policy Priorities in Austin.

Increasing the reliance on sales tax has its problems, said Robert Ward, deputy director of the Rockefeller Institute of Government at the State University of New York.

“A 10 percent sales tax is a very high sales tax,” Ward said. “At some point, a high tax rate drives economic activity out entirely or at least underground.”

Having broad-based and diverse sources of revenue is the best way to shelter government from the ups and downs of the economy, Ward said.

The most expansive suggestion for changing the sales tax comes from Talmadge Heflin, a former legislator and director of fiscal policy for the Texas Public Policy Foundation.

Heflin, who once led the House Appropriations Committee, said a broader sales tax could provide enough money to wipe out all \$35 billion in property taxes collected this year by Texas school districts, cities, counties and other entities.

To raise that kind of money, the sales tax would have to apply to new kinds of transactions, including property sales, Heflin said.

“If you truly believe that the (property) tax is too high, that it is causing a problem within our soci-

ety, rather than tinkering with it, just eliminate it,” Heflin said. “It allows you to own property free and clear without having essentially to rent it from government entities.”

John Kennedy of the Texas Taxpayers and Research Association said replacing all property taxes would have extreme consequences for governments’ finances and the larger economy.

Taxpayers, not legislators, should decide what changes to make in property taxes, he said, and to do that, taxpayers need better information about the taxes they pay and the services they fund.