

MEASURING THE TRUE COSTS OF A PROPERTY TAX-SALES TAX TRADEOUT

Keffer commissioned study confronts TPPF and Empower Texans tax proposals; says local control eliminated when taxpayers denied control of their tax dollars

State Rep. Jim Keffer today unveiled a new study he commissioned to seriously evaluate the impact of replacing Texas property taxes with consumption taxes. The study was conducted by former Deputy Comptroller Billy Hamilton who sliced and diced the proposition.

His primary thesis is startling.

Hamilton writes, "One thing is certain. The tax rate would be eye-popping. The property tax currently produces more than \$40 billion a year in Texas for all local governments. The state sales tax in 2011 produced about \$21.5 billion at a tax rate of 6.25 percent."

He continues that to simply replace the missing revenue would require adding another 11.6% to the current 6.25% charged by the state. Add the additional 2% collected by cities, counties and transit authorities, and suddenly the sales tax rate jumps to a staggering 19.85%.

In commissioning the report as part of his project, Texas Tax Truth, Keffer is challenging two vocal proponents of the property tax—sales tax swap: the Texas Public Policy Foundation and Tim Dunn's Texans for Fiscal Responsibility/Empower Texans administered by Michael Quinn Sullivan.

Most recently, TPPF's Talmadge Heflin and Chuck DeVore submitted testimony to House Ways and Means calling for replacing the property tax with a consumption tax.

In addition, Empower Texans has made the consumption tax a centerpiece question in its consideration of candidate endorsements. Question 5 in the recent questionnaire submitted to legislative candidates asked, "End-user consumption taxes have been demonstrated to be the least economically harmful, and most efficient and transparent way to generate government revenue. Tax incidence analysis by the Office of the Comptroller and others demonstrate that consumption taxes are also fairer than the other forms of taxation. Would you support moving Texas away from property taxes in favor of the existing sales and use tax?"

It followed with a simple yes or no question, "Texas should phase out property taxes in favor of end-user consumption taxes?"

Empower Texans has endorsed six Senate candidates and three dozen House candidates in the 2012 cycle. However, it is impossible to tell how the forty-two individuals responded to the questionnaire on the question of property taxes vs. sales taxes.

Advocates argue that eliminating some sales tax exemptions would expand the base of taxable items and reduce the rate. But Hamilton points out that the Legislature has preferred to increase exemptions rather than eliminate them and that the current list of exemptions including food, medicine and real estate have been in place since 1990.

Hamilton also explains that eliminating property taxes would deny virtually all local governments' and school districts any independence since they would have to come hat in hand to the state for any and all funding.

Anyone who watches the Legislature knows that one of things it does best is cost-shift downstream to local governments while withholding funding. Local control sounds good but is a mirage if local taxpayers have no control over their own tax dollars.

But the free market would work. A 20% sales tax would create an economic bonanza for Texas' neighboring states as people voted with their feet. Hamilton does not mention it but Texas retailers complained about all the sales they once lost to Amazon because of a meager 8.25% cost advantage when Amazon did not collect sales tax.