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Replacing Property Taxes with Sales Taxes is the Wrong Answer for Texas Families and Public Schools

Public education is the foundation of our democracy and the engine of our economy, and Texans have a collective responsibility to ensure that public education is adequately supported. This responsibility needs to be fairly distributed among Texas families in a way that supports economic growth. Recently, some have proposed that Texas replace local school property taxes, or even all local property taxes, by increasing the rate of the state sales tax or expanding the sales tax to more goods and services. Such a tax swap would be a bad deal for businesses, families, and public education. This policy page outlines the reasons why.

Replacing school property taxes by increasing the sales tax would mean nearly doubling the current state sales tax rate

Local school property taxes generated about \$22 billion for the 2011-12 school year. To generate that amount of money from the current sales tax base, the tax rate would have to be raised from 6.25 percent to more than 12 percent. Altogether, cities, counties, and special districts (community colleges, hospital districts, etc.) raised another nearly \$20 billion. To replace all property taxes in the state would require a state sales tax rate close to 18 percent. Add the current local sales tax of 2 percent, and the sales tax rate in most parts of the state would approach 20 percent.

Most families would pay more if a higher sales tax replaced property taxes

The sales tax is extremely regressive, meaning it takes a much larger percentage of the income of a low- or moderate-income family than of a higher-income family. For 80 percent of Texans, replacing the property taxes with a higher sales tax would mean a much larger overall tax bill. Only families earning more than \$125,000 would benefit.

To generate enough money without raising the sales tax rate, the tax would have to cover necessities.

Families would have to pay sales taxes on currently untaxed items like groceries, doctors' visits, medicine, and natural gas, electricity and water used in the home. Businesses would also have to pay on essential business and professional services.

Replacing property taxes with sales taxes would destabilize funding for public education

When it comes to something as important as public education, Texas should not put all its eggs in one basket. Using both property and sales taxes buffers our schools from economic downturns. While the sales tax is the major source of state tax revenue, collections can be quite volatile. In fact, sales tax

revenue fell in 2002 and 2003 and again in 2009 and 2010. In contrast, property tax values are much more stable and can provide a better base of support for public education.

Eliminating local school property taxes would sever an important link between a community and its public schools

Under the current system, if a community wishes to raise its own property taxes to improve its local schools, it can vote to do so. If school funding were centralized into the state sales tax, this opportunity would be cut off. Schools would only have the amount of money per student assigned by the state to all school districts. Communities could no longer add to this basic level of funding with local property taxes to supplement the basic state program.

Texas has better choices for reducing property taxes than trading for more sales taxes

Property taxes can go up even when a family's ability to pay those taxes has not changed. Most states address this problem by offering a "circuit breaker program," which cuts off property taxes that exceed a certain percentage of a family's income. Texas could adopt a circuit breaker too.

The tax that best reflects a family's ability to pay is a state personal income tax. With a personal income tax, school property taxes could be reduced to next to nothing, families would contribute to supporting schools directly in keeping with their ability to pay taxes, and we could make the investments we need in the future of Texas by meeting the educational needs of our children. If Texas is not yet ready to adopt a personal income tax, however, our state should at least not make our tax system worse by an ill-advised trade of property taxes for sales taxes.

Highlights

- To raise as much money as local school property taxes do now, the state sales tax would have to be nearly doubled. To replace all local property taxes, the sales tax in most parts of the state would approach 20 percent.
- As an alternative to a higher rate, families would have to pay taxes on groceries, medicine, electricity, gas, and water.
- Higher sales taxes make Texas businesses less competitive.
- Overall, taxes on most Texas families would go up.
- Sales taxes are more sensitive to economic downturns; public schools would lose a stable source of funding.
- Greater financial dependency on state-levied taxes would mean less local control over schools.
- Local school districts would lose the opportunity to supplement state funding with additional local tax dollars.
- A "circuit breaker" program could limit property tax bills to better reflect a person's ability to pay.
- A personal income tax to fund public education would be a fairer, more stable source of funding for the long term.

For More Information

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