

# Property Tax vs. Sales Tax

# Equity

- Fairness must be considered by anyone examining a tax system or proposal.
- Taxpayers consider equity, and so do policy makers.
- The proposal must be evaluated with consideration toward equity.

# What is fair?

- Must meet two basic criteria:

- Horizontal Equity

- People with a similar ability to pay taxes should pay the same or similar amounts.

- Vertical Equity

- People with a greater ability to pay taxes should pay more.

# Horizontal Equity

- Two households with the same income will experience very different tax burdens.
- A family of four will spend more than a family of two.
  - Larger families require more consumables (clothing, shoes, etc.)
- Little choice or control
  - Larger families have to purchase consumables for more people.

# Vertical Equity

- Plan would force poor to pay larger portions of their income. Currently:
  - Wealthiest 20% of households pay 1.7% of their income to sales taxes
  - Poorest 20% pay 5.4% of their income to sales taxes
- Poor will see no savings with an increased sales tax.
- Converting to the sales tax will save the highest earning families 21% over what they currently pay.

- No matter the very marginal impact that an increased sales tax might improve the economy, it is inherently unfair.

# School Finance

- This proposal would lead to a tremendous negative impact on local control and school finance.
- Local control: Taxpayers "buy in" into local school districts by paying property taxes.
- State control: State would control money and thus control decisions.

# If State controlled...

- Less leeway under a system where all the money came from the state, as opposed to the leeway that exists in the current system.
  - Funding would have to be much more equalized than it currently is.
  - Converting to this system would be the ultimate Robin Hood system.

# Frisco ISD

- Chapter 41 school district
- With greater than average property wealth per student, they can raise more than the average district for education.
- If that went unchecked, the education system would be unconstitutional because it would treat children across the state so differently.
- So, some of the Frisco wealth is recaptured and then redistributed to a poor district.

- Average state spending - \$5,735 per WADA
- Frisco spends \$6,504 per WADA (or 12% more)
  - Allows for higher paid teachers and principals, or computers, or any myriad of things.

# County Education Districts

- Legislature tried to equalize funding by developing a school finance system of county education districts.
  - Wealthy school districts sued after they found their funding very closely matching that of other districts.
  - Court found that county education districts were an unconstitutional state property tax

# Equalized funding with Sales Tax Revenue

- State would be constitutionally bound to eliminate the funding discrepancies in short order. Two options:
  - Give less money to the wealthy districts.
  - Set the state on a path to much higher taxes to bring the poor districts up.

- "Good schools" are strongly considered when selecting a home.
- The more people that want to move into a school district, the more prices are pushed up, and the higher property values go up.
- People will not risk the investment in their homes and their children's future for a tax savings of a few hundred dollars.
- Given the increased value of a home in a good district, eliminating property taxes will likely decrease home values.
- If a district drops from high spending to average spending, homes will be less highly prized.

# Texas as a low tax state

- Two important resources have helped to offset tax collections: oil and natural gas.
  - State lands set aside after the Republic was created, long before oil was a desirable commodity.
  - State owns the oil and gas under these lands, and receives large royalty and lease payments from the extraction of those minerals.
- Not considered "tax revenue," but replaces hundreds of millions of dollars of tax dollars every year.

# Rainy Day Fund

- \$8 billion in Rainy Day Fund comes exclusively from oil and gas severance collections.
- This will help us to partially cover a potential \$12 billion budget shortfall in the next Legislative Session.

# Benefits of Oil and Gas Revenue

- At a much lower tax cost than normal, Texas has built two world class universities.
- Graduates return great profit to the state and improve personal income figures.
- Textbooks for school children.

# Demographic Change

- Migration has shifted from the northeast to the south and west.
- Out of 10 states with high personal income growth, 7 are in the west or southwest.
- Out of 10 states with low personal income growth, only 1 is in the south and 0 are in the west.

- As more people move in, personal income grows.
- Correct question is not how much did personal income grow, but what happened to average income?
- Since 2002, Texas' per capita income growth is less than 3% greater than the U.S. average.
- Human capital is growing through natural migration, whether that is people coming from other states or other countries.

# Workforce

- Large Hispanic population that provides an available workforce unmatched in this country.
- Problem that Texas faces is maximizing that human capital.
  - Educational attainment in Texas lags the rest of the country.

- Growth occurs for many reasons, some natural, and not exclusively due to our tax policy as the report implies.
- Without accounting for these factors, the benefits of a plan may be exaggerated or understated.

# Business Attraction Factors

- Availability, quality, and cost of workforce
- Access to important markets
- Efficient transportation system
- Pollution
- Energy Costs
- Quality of life
- Crime
- Schools

- Depending on the study, taxes fall between 7th and 13th in priority.
- Taxes matter, but aren't among most important factors in choosing a business location.

# Tax "leakage"

- With a sales tax rate at 15+ percent, the incentive to get around the tax would be greater.
  - Shoppers will go to Mexico or border states for large savings.
- Texas merchants and employees will lose considerably when people travel outside the state to make purchases.

# "Leakage" as an equity issue

- As border area residents shop in other states, people in central Texas will be forced to make up for the loss of revenue.
- The wealthy will be able to travel easier outside the state and purchase there.

# Property Tax vs. Sales Tax

- Would shift the heaviest burden to those who are least able to pay it.
- Volatility in relying on most of the state's income on one tax.
  - If we relied almost exclusively on sales taxes, we would be trying to deal with a huge cash flow issue right now.
  - Because property taxes are based on annual appraisals, revenues are not nearly as volatile as sales taxes have proven to be during recessions.
- Political problems surrounding school finance.
  - Retailers would put up a big political fight to avoid shifting the tax burden of capitol intensive industries to them and their consumers.

- Oil and gas revenues enable Texas to be a low tax state.
- Demographic changes are producing some natural growth.
- Taxes ranks well behind many other factors in business location decision.
- Tax "leakage" or evading the tax would unfairly shift the tax burden.
- Casual relationship between low taxation and high growth is unsubstantiated.