
The Business Activity Tax

Is The BAT A Homerun Or A Strike-Out?

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Some in the Texas Legislature are presently considering several proposals to replace at least a portion of the school property tax with a business activity tax (better known as a value-added tax). It is believed this proposal would enable the state to eliminate “Robin Hood” and provide funds to alleviate

educational disadvantages caused by existing property tax limitations.

Without taking a position on the business activity tax, the Texas Public Policy Foundation's free market philosophy dictates that any tax policy alternative be fully considered in the marketplace of ideas. To this end, the strengths and weaknesses of any proposed policy must be considered and that is the purpose of this paper.

All too often, policy changes that have profound economic effects are made with little regard to the economics of the issue. For example, some years ago, popular sentiment in favor of "taxing the rich" encouraged the U.S. Congress to impose taxes on various "luxury" goods such as furs, small private aircraft, and yachts. Tax revenues plummeted as the rich went elsewhere for their luxuries. At the same time, the middle class workers who made the luxury goods were rendered unemployed.

Policymakers ignore economic analysis at the peril of themselves and their constituents. The politics of making policy are not avoidable. The economic effects of politically determined policy are even less avoidable. Just as potential policy changes have their political positives and negatives, so too do they have their economic positives and negatives. The business activity tax is no different.



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