



Clarendon  
Enterprise  
Clarendon, TX  
Circ. 1348  
From Page:  
2  
6/24/2004  
91351



180

## Feds should restore sales tax deduction

By Byron Schlomach, Ph.D.

Finally the folks in Washington are doing something to help Texas.

For those who believe in limited government and personal liberty, the most horrifying development of the recent special session on school finance was talk of instituting some type of income tax. This makes all the more welcome the news that our federal representatives are working to once again make state and local sales taxes deductible on the federal income tax.

The only tax a large number of Texans can deduct is the property tax. However, this is the tax that everyone agrees is too high.

Most economists agree consumption taxes – like the sales tax – do the least harm to an economy. Taxing goods and services purchased by the final consumer avoids taxing the same thing repeatedly, it does not discourage work, and actually encourages saving.

A big impediment for the last 18 years to shifting from property to sales taxes has been the lack of federal tax deductibility for sales taxes.

A simple – and very expected – vote by the U.S. House on HR 4520 this month could bring sales tax deductibility a step closer. After that, the burden will rest with the U.S. Senate to send this long-overdue reform to the president for his signature.

It was estimated by the Comptroller's office that for every dollar shifted from the property tax to the sales tax, Texans would lose 14 cents in federal income tax deduction. A \$2 billion shift from the property tax to the sales tax would have directly cost Texas taxpayers \$280 million dollars – more in economic terms.

In 2003, over \$14 billion of all state

tax revenues were collected through the state sales tax. That means Texans lost almost \$2 billion in federal income tax deductions.

Current federal tax policy forces states to adopt an income tax. Income taxes admittedly have some great characteristics. The personal income tax, gross receipts tax, business activity tax, and payroll tax all tax broadly and can raise a lot of money at a very low rate.

But heroin has a lot of desirable characteristics, too. So many wonderful uses did heroin have when it was discovered, it was considered "heroic" and thus its name: "hero-in." Only later was its dangerously addictive quality realized.

Similarly, income taxes are addictive and dangerous.

Ohio was once like Texas. Three decades ago it had a thriving economy with the nation's third lowest tax burden. Then, Ohio's politicians imposed an income tax, with the federal tax code giving them cover. That cover may have shielded the politicians, but it left the economy very cold.

Today, Ohio has the third highest tax burden. It leads the nation in the number of individuals in their prime earning years leaving for work in other states.

It has only been since 1986 that the state and local sales tax has not been deductible. That mistake has long needed correcting.

It is time the federal government stopped encouraging states to dig their own economic graves. It's up to the U.S. Senate to help states put away their shovels.

Byron Schlomach, Ph.D., is the chief economist for the Texas Public Policy Foundation.