

COMMENTARY

## **Schlomach: Class warfare should not decide tax policy**

**Byron Schlomach, TEXAS PUBLIC POLICY FOUNDATION**

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Envy: the desire for others' traits, status, abilities or situation. It is one of the seven deadly sins. No one would admit to using envy as a top criterion to judge or determine public policy.

Unfortunately, envy is playing a big role in the state's tax debate through complaints that our tax system is "regressive." Every time the Texas Tax Reform Commission has met, the envy industry has been out in force, denouncing the sales tax and calling for an income tax to make others "pay their fair share" of a growing and even more bloated government.

A regressive tax is one that confiscates a greater percentage of low incomes than high incomes. A progressive tax does just the opposite — taxing a higher percentage from high incomes.

Regressivity sounds terrible. It is terrible. The problem is that taxation — and big government — is regressive by its nature, even when a tax is intended to be progressive.

Take the federal luxury tax, for example. Passed in the late 1980s during President George H.W. Bush's administration, it was supposed to tax the rich by taxing new fur coats, planes, yachts and jewelry. The effect was the decimation of these industries. In turn, many middle- and low-income luxury industry employees were thrown out of work.

By the time President Clinton took office, it had become clear— even to the envy industry — that the luxury tax cost more in unemployment insurance than it gained in revenue. The people who bore the brunt of the tax

were not the rich. They could buy used, shop elsewhere or do without. Meanwhile, the low- and middle-income workers in the luxury industries paid the tax in lost income.

So a tax with the appearance of being progressive was actually regressive. Even the "progressive" income tax is likely to have regressive effects. That is because high-income individuals do save and invest a lot of their money. That translates into jobs for those with more modest incomes.

Punitive taxes on high incomes therefore cost jobs because less is saved and invested. The regressive nature of such taxes is impossible to forecast, especially when they have long existed, but easy to see after they have taken their disastrous effect on people's lives.

A consumption tax, like our state's sales tax, is alleged to be unduly regressive. It is regressive, but only because it is a tax. One reason it is regressive, though, is because low-income individuals actually do have jobs. Consumption taxes, because they do not directly penalize investment, encourage work and employment in comparison to other taxes, such as income and business taxes.

The Texas comptroller publishes a study of the state's taxes every two years. Taking economic effects into account, the last four studies show that the state's main business tax — the franchise tax — is more regressive than the sales tax.

And while some might think taxing business goes after the wealthy, they would be wrong. These documents from the state clearly demonstrate that low-income individuals actually bear a greater percentage of the franchise tax's weight than they do the sales tax.

Now, for those class-warfare profiteers in the envy industry, appearances seem to matter more than economic effects. A supposedly progressive tax will destroy jobs and be insidiously regressive in its effects.

It's time to forego the economic sin of envy and work toward a tax system that truly promotes opportunity and economic prosperity for all. Improvements to the current consumption tax will do just that.

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