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Concept of ending property taxes shouldn't be ignored

By Robert Brincefield
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State Comptroller Susan Combs told the audience gathered at the Mabee Center Thursday morning to go shop. It was a familiar refrain and one public officials speaking on the economy often use. Combs, the keynote speaker at this year's Economic Summit sponsored by the Brownwood Economic Development Corporation and the Chamber of Commerce, put it into perspective. Combs said sales taxes represent 60 percent of all taxes collected and consumers contribute the majority of them.

After her prepared remarks, Combs answered questions and one had to do with property taxes. In the first debate between the three Republican candidates for governor, Debra Medina advocated the elimination of property taxes in Texas. Combs told the audience that studies have shown that replacing property taxes with a sales tax would raise the rate to 23 or 24 cents on the dollar. The comptroller added that having a variety of tax bases minimizes the loss in state revenue if any one of them suffers a decline.

Talmadge Heflin, director of the Center for Fiscal Policy at the Texas Public Policy Foundation, wrote an op-ed piece that appeared in last Monday's Fort Worth Star-Telegram. Heflin's thesis was that Texas could eliminate the burden of property tax and it would require only modest changes. The change would be to implement a broad-based state sales tax. According to an economic study commissioned by the foundation, if the state were to eliminate property taxes today, and replace them with a broad-based sales tax, the rate could be as low as 9 percent, if it taxed all services that are taxed in at least one other state. The move would be revenue neutral, meaning it would generate the same amount of money for the state and local governments. Heflin said that if the state were to keep the current base for sales taxes and add only the sale of property the newly adjusted sales tax rate could be set at 12.5 percent and still generate the same amount of revenue. I can only assume the comptroller's estimate of a sales tax rate necessary if property taxes were eliminated was a comparison to the current sales tax base.

Given her time in Austin and the exposure she has had to the system and the influence of lobbyists she may not have even considered expanding the base knowing the fights that would ensue.

Why even bother? After all taxes are taxes. Later in the day, at another meeting, Brownwood Mayor Bert Massey was recounting a fact he learned on a trip to St. Paul to negotiate a PILOT agreement with the 3M Company. Massey said the corporate people told him that in all of the states where 3M has plants, and that includes those with state income taxes, their largest tax burden is the plant in Brownwood because of Texas' high property taxes. Business growth and job creation are essential for the continued growth and prosperity of Texas. The report from the Public Policy Foundation estimates that tax reform would lead to a net gain of new jobs, during a five-year horizon of between 125,000 and 300,000 over what the normal job growth during the period would be without a change in taxes.

The foundation's research demonstrated that personal income could grow as much as \$3.3 billion in the first year following an elimination of property taxes. Not to mention the relief that homeowners would experience from the ever-increasing appraisals and the growing expenses of local governments that drive property taxes higher and threaten their ability to remain in their homes. The change in tax systems could also help de-bureaucratize local governments around the state. According to Heflin, more than 3,700 local government entities, cities, counties and school districts, administer a property tax. With the elimination of this system the resources could be focused elsewhere.

Combs said the state lost a net 275,000 jobs in 2009 and she said at this point they do not know exactly what the budget shortfall will be next year when the legislative session begins – but it will be sizable. It seems to me the time is right to seriously examine a change in tax systems. I don't suspect the process will be as simple as the Public Policy Foundation says, and I am not campaigning for Debra Medina, but there are too many plus sides for us to just ignore the idea.

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