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Medina tax swap proposal comes at a cost

Critics say eliminating all property taxes would reduce local control.



ENLARGE PHOTO
Republican Debra Medina wants to raise sales tax rate.

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By **Kate Alexander**
AMERICAN-STATESMAN STAFF

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Debra Medina, the feisty Republican running for governor, promises Texans that she will liberate them from their property taxes.

"I talk about that for freedom reasons first," Medina said at the Jan. 29 gubernatorial debate.

"We've surrendered private property ownership to the ever-growing state — we lease our property in the form of ever increasing rents known as property taxes," she wrote on her campaign Web site. "We've forgotten that ownership is an essential element of freedom."

A call to eliminate property taxes might resonate with many taxpayers, beleaguered by the demands for more money from schools, cities, counties, emergency districts and more when their wallets are thin.

But critics say the freedom Medina promises would come at a huge cost to local taxpayers because they would lose a critical element of control over the governments closest to them.

As envisioned by Medina, the property taxes now paid by Texans — \$39 billion as of last year — would be replaced with a sales tax applied to more services and to real estate transfers.

Texas would be the only state not to have local property taxes, if Medina's plan were to be adopted, according to the Tax Foundation, a nonpartisan tax research group based in Washington.

The state would collect the sales tax dollars and redistribute them to local governments based on "sharing formulas," according to the campaign's Web site. Campaign officials did not provide someone to explain Medina's plan.

The practical effect would be to make local governments beholden to state government for every tax dollar and thus concentrate decision-making power in the Texas Capitol, said Kail Padgitt, a staff economist for the Tax Foundation.

"Cities and schools and other governmental entities would be at the mercy of us in Austin, and they would have no local control, which is one of the banner themes in Republican politics," said state Rep. Rene Oliveira, D-Brownsville, chairman of the House Ways and Means Committee.

Property taxes might be painful and unpopular, but they are a tangible connection between the people and their local government that allows the taxpayers to shape the government, Padgitt said.

Taxpayers in one city might not be willing to pay for new parks, for example, while the residents of a neighboring city would regularly approve property tax increases to pay for more trees and open space.

To get the community you want, Padgitt said, "you need to be attached to the cost of those parks."

Talmadge Heflin, director of the Texas Public Policy Foundation's Center for Fiscal Policy, said local governments would not lose decision-making control but they would lose the unfair advantage they now have over taxpayers. Local officials often claim to be lowering taxes by reducing the property tax rate but are actually increasing their revenue and the burden on property owners because of rising property values, he said.

"I see it as making (local governments) more of a partner with the taxpayer than they have to be today because they can manipulate the system," said Heflin, a former chairman of the House Appropriations Committee and a longtime proponent of eliminating the property tax.

To bolster her tax swap proposal, Medina repeatedly cites a 2009 study commissioned by the public policy foundation, an advocate of limited government. That study concluded that eliminating the property tax was practical and would stimulate more economic activity.

Repealing the property tax is not a new idea, though it has never really caught fire among state Republican leaders, largely because they are skeptical about whether it could work, Heflin said. But Medina's embrace of the idea is helping to address that "believability factor," he said.

The study provided "good evidence that if you can muster the political will, a change like this could have a positive effect ... on the people of the state," Heflin said.

Padgitt said there is an economic advantage of a broad, low-rate sales tax because it spreads the tax burden and doesn't unduly influence consumers' decision-making.

But applying the tax to too many business-to-business transactions might lead to a "tax pyramid" where taxes paid at every stage of production are rolled into the final consumer price — and then taxed again.

"You want all goods to be taxed once," Padgitt said.

And there are questions as to how low that sales tax rate could actually be and still generate the dollars needed to run every political entity in Texas.

The combined state and local sales tax rate is now 8.25 percent, which generated \$21 billion for state services and \$6 billion for local jurisdictions in 2009.

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The Texas Public Policy Foundation study found that an average sales tax rate of 14.5 percent could raise enough to equal all the property and sales tax collections without changing what is now taxed. Applying the tax to more services and to real estate sales would allow a lower tax rate of 9 percent.

Any additions to the tax base, particularly real estate, would be likely to set off a political firestorm.

Oliveira said the foundation's research is based on outdated figures that reflect a period of healthy economic growth. After a precipitous decline in sales over the past year, collecting enough money now would require a tax rate as high as 21 percent, the lawmaker said.

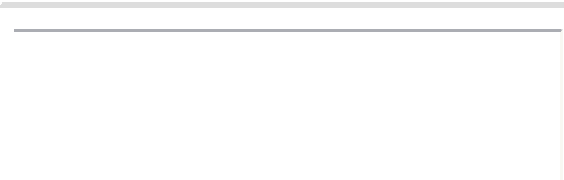
The result would be a generous tax cut for wealthier Texans, and low- and middle-income families would bear a disproportionate cost for public services, Oliveira said.

"You want to make a tax system where everyone is participating and participating in as fair a way as possible," Oliveira said. "Why would we want to shift an enormous amount of this tax burden to those who can least pay it?"

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 **LRSchuler** Score: 0 Reply
 8:45 AM on February 8, 2010
 We DO NOT have control over our local governments, or their spending, now....
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 **realbeer** Score: 1 Reply
 8:32 AM on February 8, 2010
 I lived in a Texas town that valued more than anything else having the lowest city property tax bite possible, Burleson, Texas. And that's what we had. But we also had the poorest performing schools in the area, the ugliest thoroughfares, a police department that constantly lost officers to higher paying cities, an all volunteer fire department that was the last on the scene and with questionable equipment, and city roads that were so rough that your new car was rattled apart from all of the pot holes. Did I mention that our children had to walk to school in the streets because the city did not support sidewalks? There are two kinds of freedoms, the freedom from something (taxes) and the freedom to have something (livable conditions.) So far, we hear mostly from those looking for a free ride, or else those who are willing to live in neighborhood squalor. Burleson finally caught on and made some changes. For those who like to pay nothing, move to Mexico because that's what you're talking about.
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 **leo123** Score: 1 Reply
 8:26 AM on February 8, 2010
 Ms. Medina's Peter-robbing-Paul plan has no substance. Yes..our property taxes are too high and citizens should not continue to be penalized for trying to own their own homes. The level of services that we require need substantial funding and there are really only two potential pockets to pick i.e. the property pocket or the income pocket. The property "worth" guessing game will never be equitable. We desperately need to establish a bullet proof formula that will collect a fair share of property taxes from upper echelon properties that currently are taxed in many cases at 1/2 and even less of their true market value. The "haves" don't like paying taxes and since they control the lawmaking process the "have-nots" will continue to pick up a disproportionate share of the burden unless we come up with a better formula.
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 **jbtb4d** Score: 0 Reply
 8:22 AM on February 8, 2010
 She's got my vote! Perry hasn't done a damn thing about this extortion called property taxes!!!!!!!!!!!!!!!!!!!!!!!!!!!!
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 **Hacksaw2** Score: 0 Reply
 7:58 AM on February 8, 2010
 What the heck; let' s try something new. I'm paying taxes out the whazoo now and still have no control of the local government. They do what ever they please regardless of what the people want. The only change I can see is an improvement in my life style by not having to pay yearly rent payments to the county tax assesor.
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 Score: 0 Reply

	<p>voodoophil 7:52 AM on February 8, 2010</p> <p>Property tax is extremely regressive in that larger commercial tracts are rarely appraised at their true market value while we homeowners constantly fight to keep our values down. Since Medina likely won't win and even if she did we're not likely to get rid of property tax I suggest incremental improvements to the current system. Standardized, state-wide standards for appraisal districts, including a requirement for credentialed appraisers. Ratifying Jeff Wentworth's proposal to allow districts access to property sales data. We also need to tighten the ag exemption loophole. Like most big problems there's not a silver-bullet solution to the unfair nature of property taxes. The situation is exacerbated by the fact that most people escrow their property taxes and are only vaguely aware of what they are paying.</p>	<p>Report Abuse</p>
	<p>Darrell Score: 0 7:18 AM on February 8, 2010</p> <p>So someone could create great wealth having paid very little tax in terms of percentage of wealth (See Bill Gates) compared to the average working stiff who slugs out a 40 hour work week and is raising a family.? The only fair tax is a graduated scale income tax. Flat tax rates are not fair. ALL INCOME should be taxed on a graduated scale. It's the scale and percentage we should be debating.</p>	<p>Reply</p>
	<p>jamesdugan Score: 1 12:42 AM on February 8, 2010</p> <p>Might I add; the headline states:</p> <p>Critics say eliminating all property taxes would reduce local control.</p> <p>It should read:</p> <p>Supporters say eliminating all property tax would reduce the control that local governments have over our wallets.</p> <p>Beyond buying necessities of life, an individual would have the choice of whether they would like to be taxed or save (novel idea, I know) their money. To me, this freedom of choice represents an improvement over paying a mandatory rent payment to the government.</p>	<p>Reply</p>
	<p>jamesdugan Score: 0 12:31 AM on February 8, 2010</p> <p>"You want to make a tax system where everyone is participating and participating in as fair a way as possible," Oliveira said.</p> <p>In my opinion, a consumption tax is much more "fair" than property tax and would allow everyone to participate.</p> <p>Find a way not to tax basic necessities (e.g., groceries) and let the chips fall where they may. The "wealthier Texans" will still be buying luxury items and being taxed 14% on them.</p> <p>I'm not certain the plan will personally save my household money but the concept of property tax (at least for one's homestead) being anti-freedom is correct and Medina will get my vote. Even if I hated this idea, she is a hundred-times better than Perry or KBH.</p>	<p>Reply</p>
	<p>freedomworks Score: 0 10:09 PM on February 7, 2010</p> <p>Oliveira said the foundation's research is based on outdated figures that reflect a period of healthy economic growth. After a precipitous decline in sales over the past year, collecting enough money now would require a tax rate as high as 21 percent , the lawmaker said.</p> <p>I WOULD BE IN A HEALTHIER ECONOMIC MOOD IF I DIDNT HAVE TO PAY PROPERTY TAXES!</p>	<p>Reply</p>
	<p>freedomworks Score: 0 9:59 PM on February 7, 2010</p> <p>http://www.medinafortexas.com/propertyTax.php</p> <p>we can do this this texas- lets show our fellow americans freedom works!!</p>	<p>Reply</p>
	<p>freedomworks Score: 0 9:55 PM on February 7, 2010</p>	<p>Reply</p>
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But is it really possible to completely replace property taxes in Texas by expanding the sales tax base?

Yes. The Texas Public Policy Foundation (TPPF) released a study in April, 2009 showing that simply expanding the sales tax base to include categories of goods and services that are not currently taxed in Texas, but that are taxed in other states, would replace almost all the revenues currently collected by the property tax. Examples of some services that we currently do not tax include mining services, drilling services, legal services, limousine services and others. By also adding in a one-time sales tax on the sale of property (as opposed to an annual tax on property ownership), the TPPF study showed that we could replace the entire property tax revenues with a modest increase in the sales tax rate to 8.8 percent.



[freedomworks](#) Score: 0
9:53 PM on February 7, 2010

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Local taxing jurisdictions already can and do set local sales taxes in many cases, the revenues from which are simply returned to the local jurisdiction within a few weeks after collection by the State Comptroller. And Texas already has several revenue sharing plans in place to support local school districts, the newest of which was implemented as part of our 2006 state-wide school finance reform. That particular reform allocated State sales tax and other revenues to enable local school districts to reduce their maintenance and operations property tax rates by 11% in 2007 and 33% in 2008.

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9:52 PM on February 7, 2010

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We also have two so-called "tax rate equalization programs" -- the Instructional Facilities Allotment program and the Existing Debt Allotment program -- both of which assist less wealthy districts by providing revenues to enable them to issue new bond debt or service existing bond debt. And under the Foundation School Program, which has been in place since 1949, the bulk of funding for all of Texas' public schools comes from a mix of state revenues and local property tax receipts, which are allocated in accordance with specified formulas to help meet the needs of Texas schoolchildren wherever they happen to live. All of these programs allocate State revenues to local districts to make up for differences in their property tax bases, or to enable them to grant limited property tax relief to their residents and local businesses, without compromising local control over local education. Our proposal would simply build on these programs so as to eliminate local property taxes altogether.

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[freedomworks](#) Score: 0
9:51 PM on February 7, 2010

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Sharing formulas would take account of local economic growth, population demographics, historical tax receipts, and current and projected debt service requirements, but the key is that we already have such programs in place right now. We strongly believe as a matter of principle in keeping as much control over local affairs at the most local level of government possible, and this reform would be implemented with that principle as our guide.

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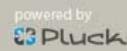


[Antonious](#) Score: 0
9:13 PM on February 7, 2010

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I would bet the new sales tax rate would be 25-30%, without property tax. If as stated it would only raise the sales tax rate from 8.25% to 9% then I say go for it...why not? Probably because it ain't true.

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