

TTARA Webinar

November 17, 2020

SWAPPING FOR DOLLARS:

Trading Higher Sales Taxes for Lower Property Taxes



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www.ttara.org



2020 VIRTUAL
ANNUAL MEETING
TEXAS TAXPAYERS
TTARA
AND RESEARCH ASSOCIATION
DECEMBER 8-9, 2020

[Register Today!](#)
To be held virtually with EventMobi
Agenda and more details available at **www.ttara.org**

Question #1

Do You Hate Property Taxes?

Question #2

How Do You Feel About Sales Taxes?

The Tax We Love to Hate

- Why the property tax gets such a bad rap
 - Biggest we pay
 - Highly visible – billed in a lump sum
 - Goes up year after year
 - Paid on the same thing over and over again
 - Not directly related to ability to pay – measured by value, not income
 - Subjective in nature – based on estimate of value

The Tax We Tolerate

- Why the sales tax gets a pass
 - Less visible
 - Paid a little at a time
 - “Voluntary” – owed only when you decide to buy
 - Based on a stated sales price

Sales Tax Characteristics

- Applies to purchase of all goods unless exempted and certain defined services
- Levied on total purchase price
- Same rate unless changed by Legislature
- Revenue depends on volume of sales which is closely related to state of economy
- Volatile revenue pattern

Property Tax Characteristics

- Applies to real and tangible personal property used to produce income (business personal property)
- Levied on market value as determined each year by county appraisal district
- Tax rate set each year – only tax to do so
- Levy matches spending
- Stable, increasing revenue pattern – “shock absorber” tax

Swap Options

Billions \$

All Property Taxes	67.3
City	11.1
County	11.0
SPD	8.9
All ISD	36.2
ISD I&S	7.8
ISD M&O	28.4

Swap Options

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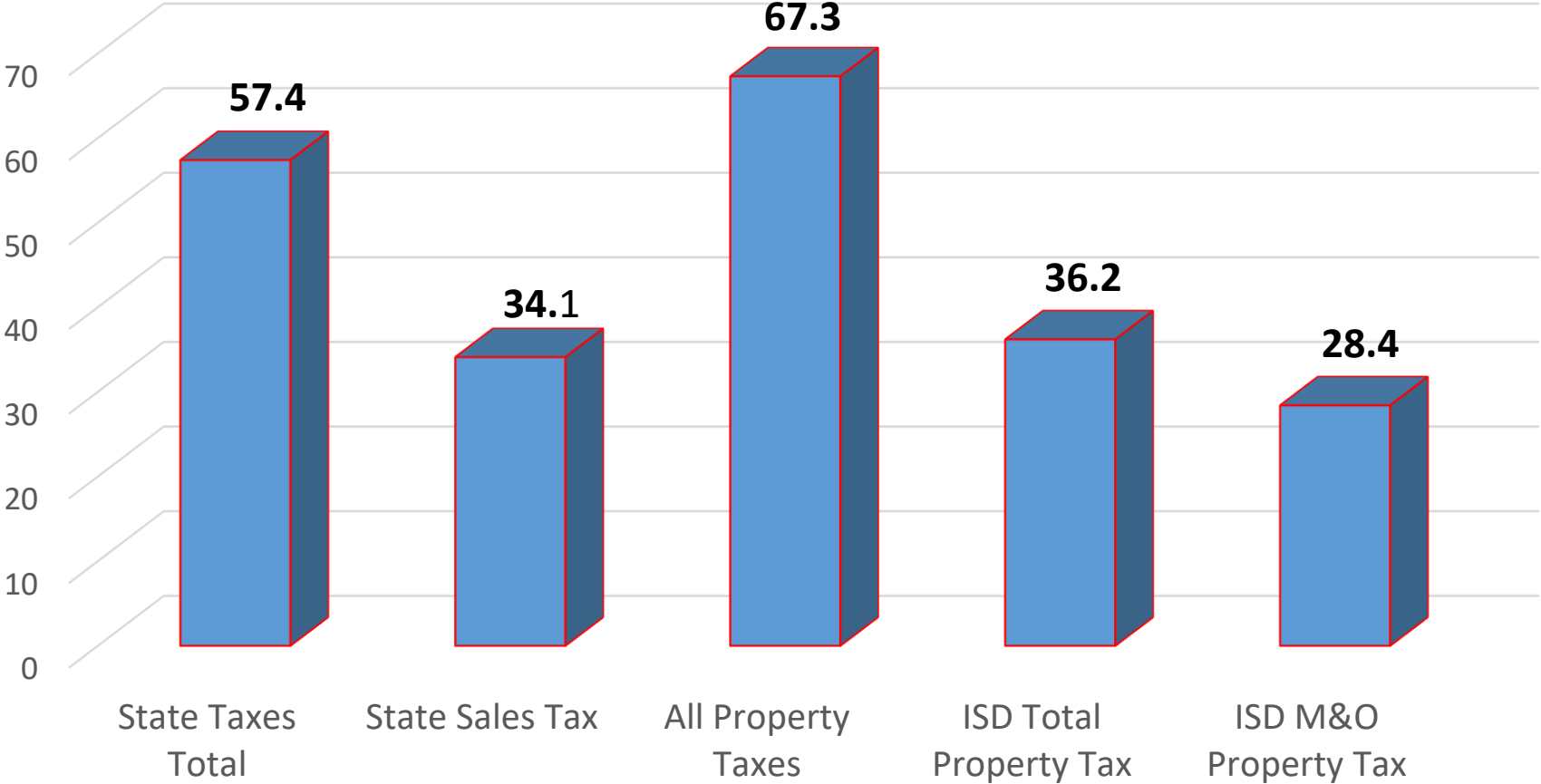
Swap Options

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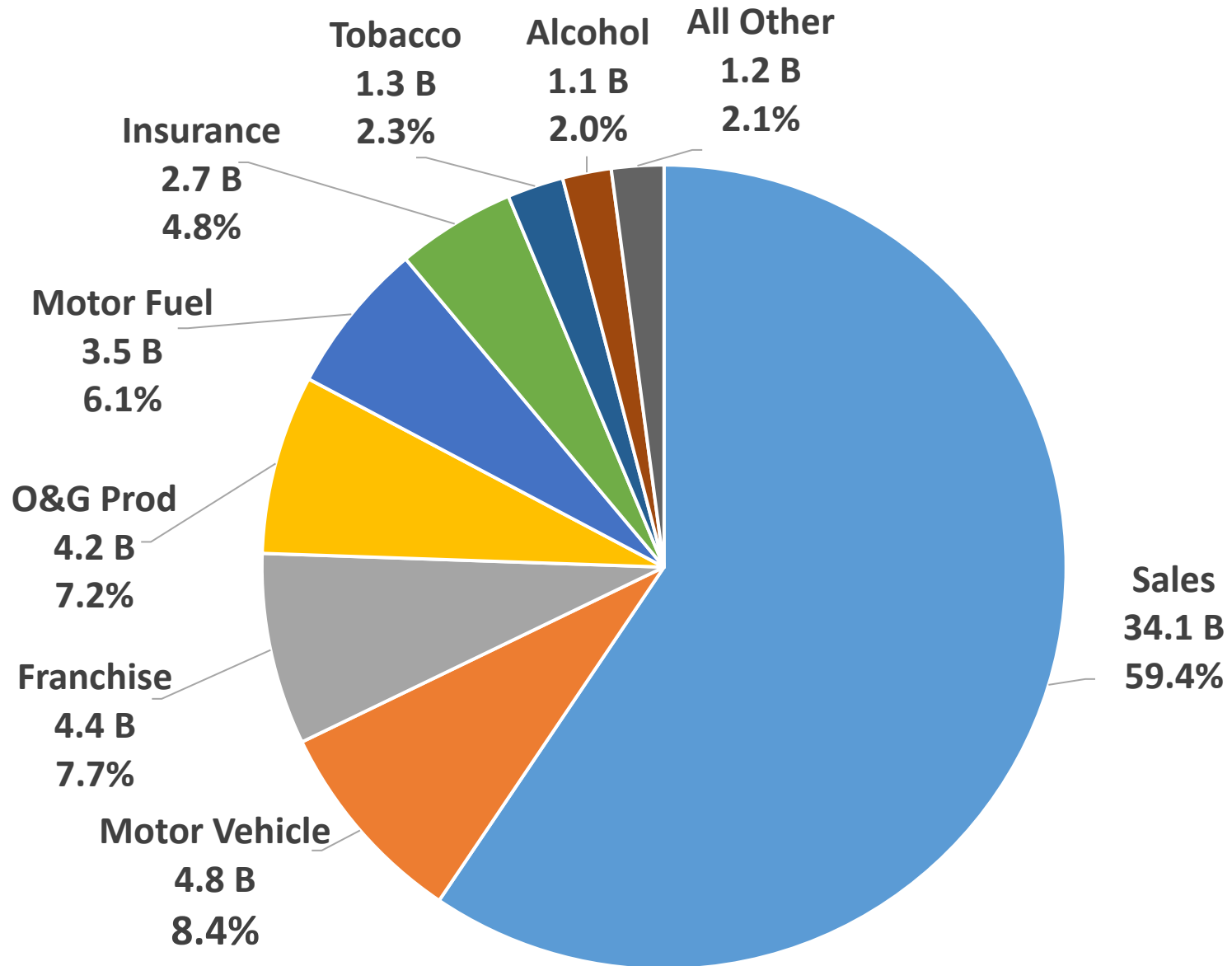
Tax Levies - 2020

Billions \$



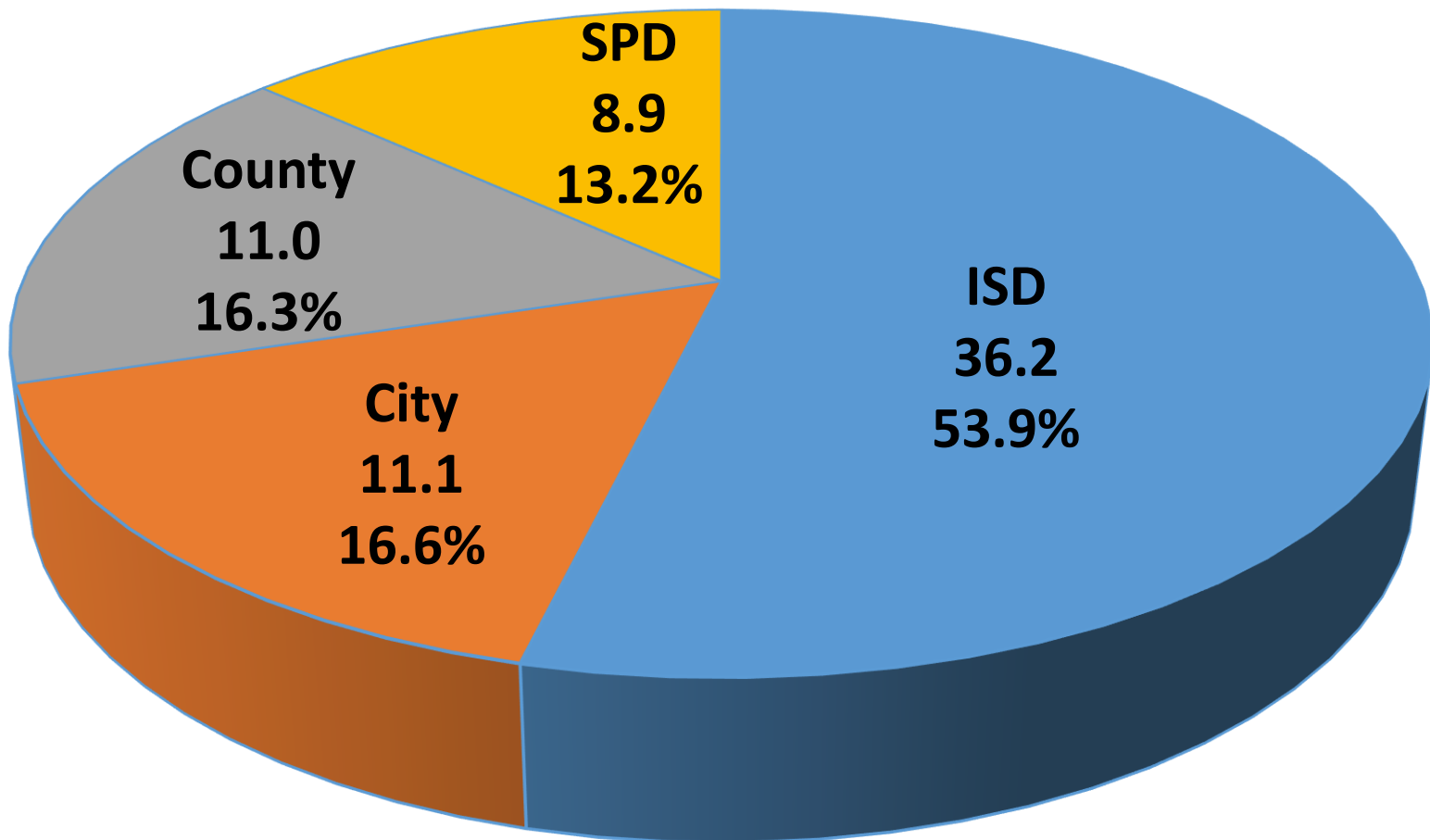
Note: Property Tax Levies on 1/1/19 Values (Tax Year 2019)

2020 State Tax Revenue - \$57.4 B

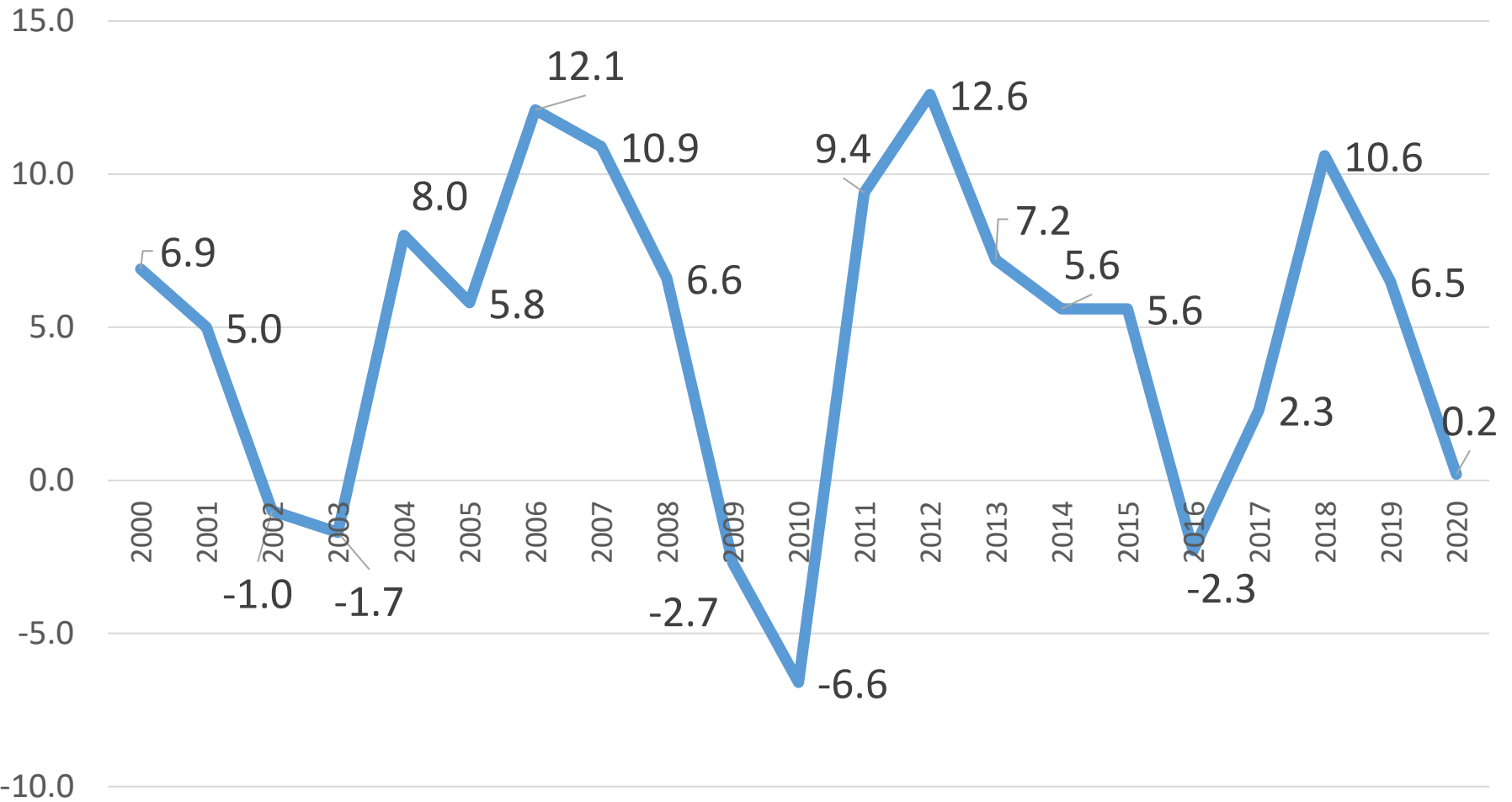


Tax Year 2019 Property Tax Levies

\$67.3 B

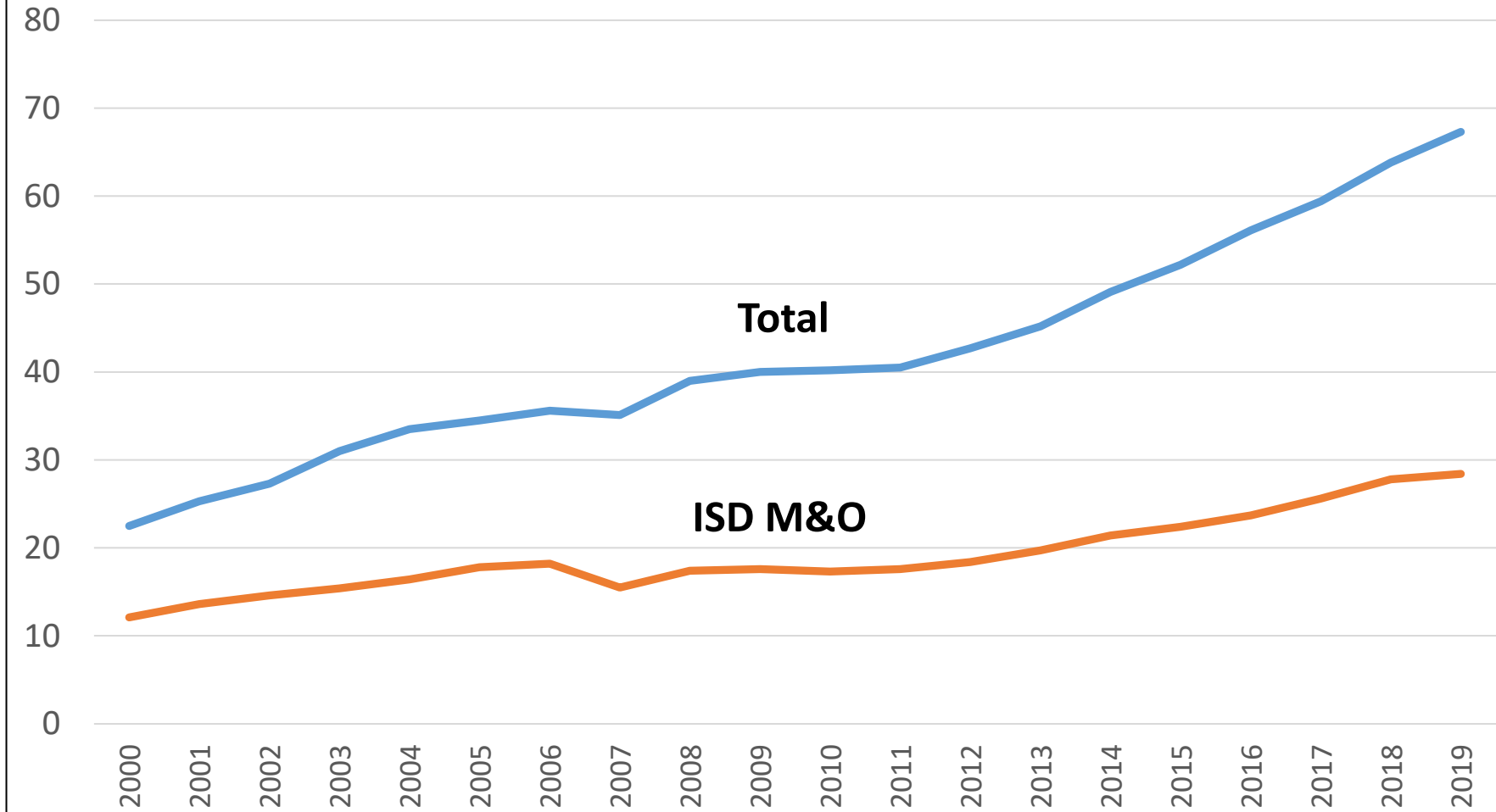


Annual % Change in State Sales Tax Revenue



Property Tax Levy - 2000-2019

Billions \$



House Ways & Means Committee

Interim Charge #2

Study and consider possible methods of providing property tax relief, including potential sources of revenue that may be used to reduce or eliminate school district maintenance and operations property tax rates.

Study on District Property Tax Compression

Legislative Budget Board

September 2020



What's Really Involved?

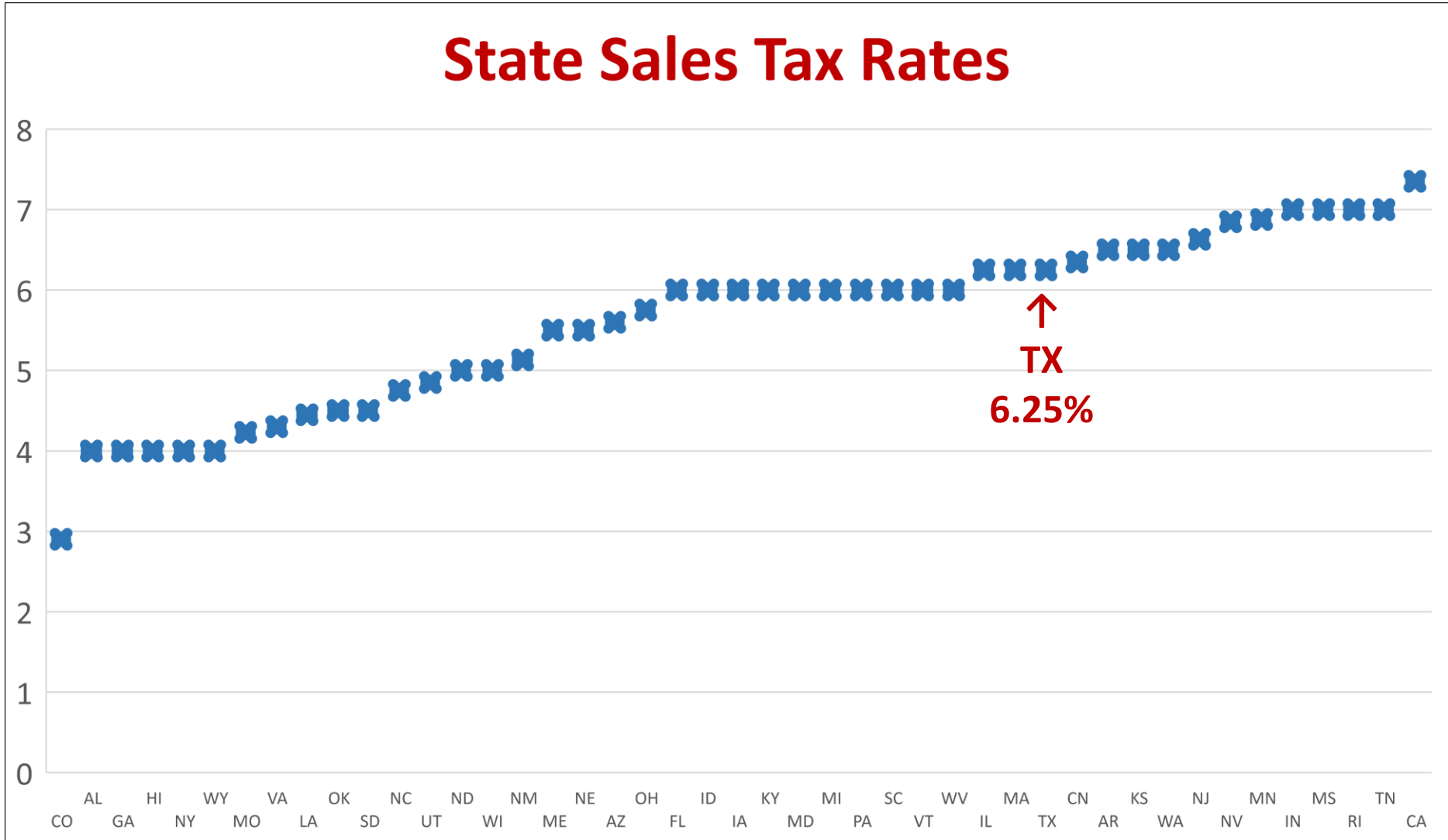
- Setting a Target: How Much Property Tax Reduction?
- Raise the Sales Tax Rate?
- Eliminate Exemptions and Exclusions?
- Tax Burden Shift
- Preserve and Protect Property Tax Reduction
- Fiscal Policy Consequences

How Much Property Tax Reduction?

- Each 1¢ sales tax rate now raises about \$5.4 B
($34,023,916,225 \div 6.25 = 5,443,826,596$)
- Each 1¢ ISD M&O property tax reduction costs about \$280 M
- A 1¢ sales tax rate hike would pay for about a 20¢ ISD property tax rate reduction
- On average, about an 8% overall tax bill reduction – roughly equivalent to one year's growth

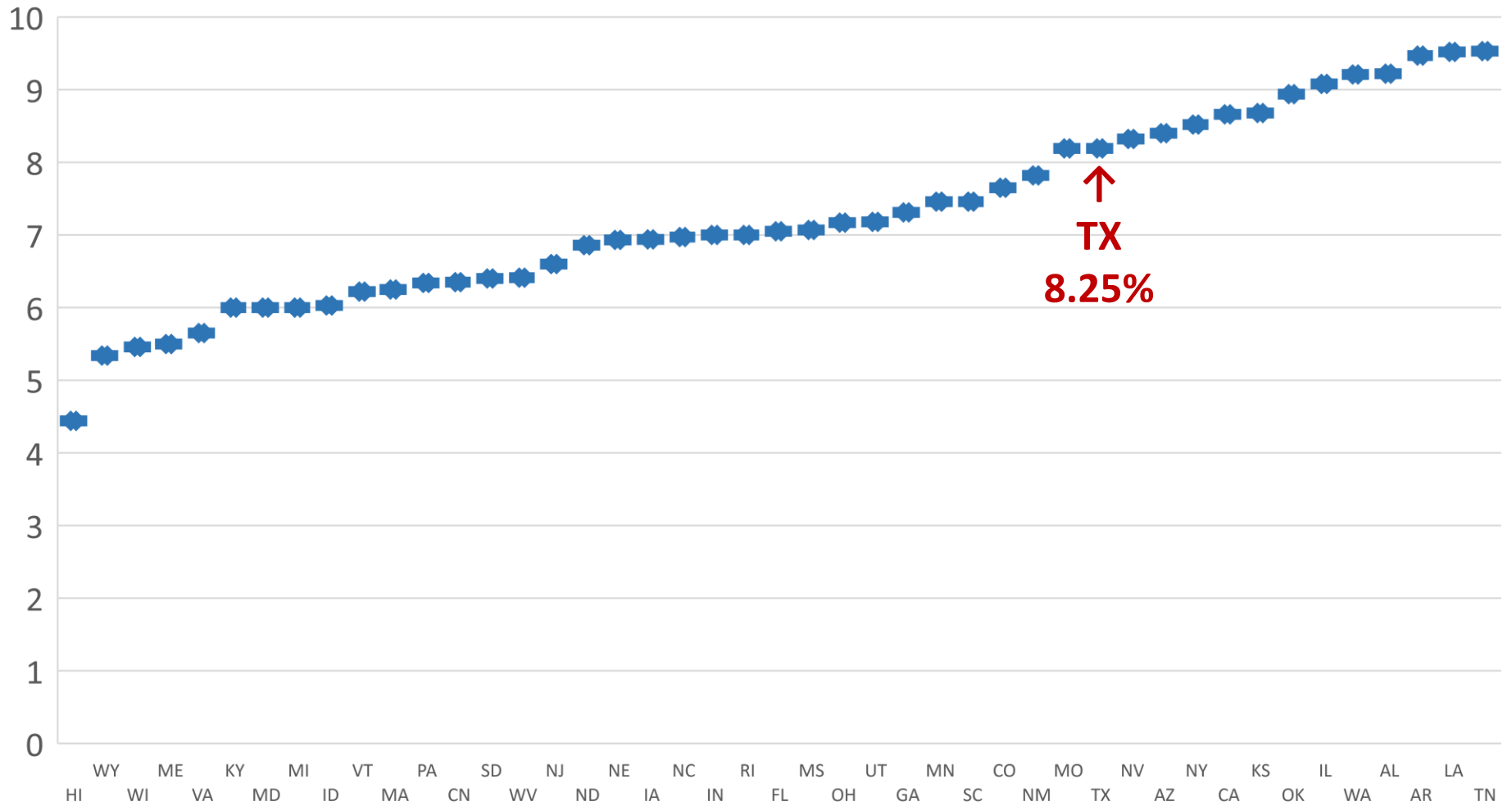
Raise The Rate?

State Sales Tax Rates



Raise The Rate?

State & Average Local Sales Tax Rates



Why Have Tax Exemptions & Exclusions?

- Prevent tax pyramiding
- Avoid business distortions
- Minimize adverse economic consequences
- Reduce regressivity to avoid adverse fiscal impact on low-income individuals
- Facilitate efficient tax administration/compliance
- Encourage purchase of certain items

Tax Exemptions & Tax Incidence

Comptroller of Public Accounts

(November 2018)

The exemption estimates are unadjusted amounts, meaning that elimination or repeal of a specific exemption would not necessarily produce the dollar amounts cited in this report. Actual receipts would depend on enforcement, taxpayer compliance, effective dates of legislation repealing the exemption, taxpayer discounts, and the exact wording of the legislation.

Value of Exemptions (2020)

Exemptions Total - \$37.2 B

Consumer Items - 5.8 – 16% of Total

- Groceries 3.3
- Residential utilities 0.9
- Drugs 1.1

Agricultural - 0.8 – 2%

- Feed, seed & fertilizer 0.6
- Machinery & equipment 0.1

Manufacturing - 11.8 – 32%

- Raw Materials 10.4
- Machinery & equipment 0.9
- Utilities 0.5
- Packaging & wrapping 0.3

Taxed by other law - 16.7 – 45%

- Insurance Premiums 7.6
- Motor vehicles 4.4
- Gasoline & diesel 3.5

Governments & non-profits 0.5

Newspapers, magazines, internet 0.3

Everything Else - 1.1 - 3%

Value of Services Exclusions (2020)

Services Total - \$8.4 B

Professional services - 2.7 – 32% of Total

- Legal 0.6
- Architectural & engineering 0.6
- Accounting & auditing 0.4

Health care - 2.6 – 31%

- Doctors 1.3
- Dentists 0.5

Housing costs - 0.7 – 8%

- Residential construction 0.2
- Residential repair & remodeling 0.1
- Real estate brokerage & agency 0.4

Cost of living - 0.9 – 10%

- Auto repair 0.4
- Child day care 0.2
- Barber & beauty 0.1

Cost of doing business - 1.6 – 19%

- Freight hauling 0.5
- Nonresidential construction 0.4
- Temporary labor 0.4

Tax Exemptions & Tax Incidence

Comptroller of Public Accounts
(November 2018)

While the following tables may be of great interest for policymakers, it nevertheless must be recognized that the results depend not upon hard science but upon subjective assumptions—and that the only thing that can be said with certainty is that no one really knows how taxes (particularly those levied on property and business) are shifted.

Winners & Losers?

% Initial Tax Distribution

	<u>Business</u>	<u>Individuals</u>
Property Tax	52.9	47.1
Sales Tax	42.4	57.6

Winners & Losers?

% Business Tax Distribution by Industry

	<u>Property</u>	<u>Sales</u>
Agriculture	1.5	0.3
Mining (O&G)	7.9	7.1
Utility & Transportation	7.7	5.1
Construction	1.7	5.5
Manufacturing	8.5	4.7
Retail & Wholesale Trade	3.2	4.9
Information	2.6	2.5
Finance, Insurance Real Estate	15.2	2.7
Other Services	4.7	9.5

Winners & Losers?

Final Incidence - % Paid

<u>Household Income</u>	<u>Property</u>	<u>Sales</u>
Less than \$37,630	6.5	7.3
37,630 – 66,112	8.4	10.4
66,112 – 99,619	12.4	14.0
99,619 – 149,453	17.9	18.4
149,453 and above	34.7	29.0
Non-resident	20.1	20.8

Stymie Property Tax Creep

- Safeguards essential to prevent tax relief erosion
- Lessons from 2006
 - ISD M&O taxes reduced 1/3 or 50¢
 - About a 17% reduction in overall rates over 2 years
 - Paid for largely with new franchise “margin” tax
 - Taxpayers barely noticed
 - Rising property value, tax hikes by other taxing units and record school bond elections filled the gap
 - In second year of implementation, property taxes were 10% higher than in year before reduction
 - Tax relief real but largely unnoticed
- Fill in sales tax revenue dips

Fiscal Policy Consequences

- Most impactful tax policy change since sales tax adoption in 1961
- Less stable state and local revenue system
- Restrict state budget flexibility
- Eliminate sales tax as option to respond to state revenue needs
- Other taxes source of additional revenue, especially margin tax

Concluding Observations

- Far from a simple proposition
- Gordian knot of revenue neutral “tax reform” – balancing negatives of raising one to lower another
- No income tax causes high property and sales taxes
- Little room to hike sales taxes to noticeably cut property taxes
- Texas’ very high property taxes unquestionably a “sore thumb”
- Trading one “sore thumb” for another may not be best way to achieve desired positive policy result

Words of Wisdom

Longtime Texas Research League Executive Director

James W. (Jim) McGrew:

“You can’t buy down property taxes.”

Former House Ways & Means Committee Chairman

Stanley D. (Stan) Schlueter

“The problem with revenue neutral tax reform is that no one thanks you for the taxes you cut, but they all remember you for the ones you raised.”

Thanks for Joining Us!

If you have any questions or comments, please feel free to contact TTARA staff.

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