

Time to Include Equity in Texas' Taxing System

By Bill Hobby

On July 1, a month and a half from today, the Governor's Task Force on Revenue will report on the condition of the state's finances and recommend changes in the state's taxes.

Nobody knows what those recommendations will be, but the information presented to the task force shows that some changes are clearly needed. Texans' taxes are low compared to those in other states, but the tax structure doesn't keep pace with the needs of a growing population. Moreover, the increased reliance on sales and property taxes puts an unfair burden on homeowners and businesses who are least able to pay.

Texans pay below the national averages of state and local taxes. In 1989, Texas ranked 48th in per capita state taxes: \$822.46. The national average was \$1140.98. Over half of those state taxes were sales taxes that are not deductible from the federal income tax. State income taxes are deductible. Texans paid \$1563 each in combined state and local taxes, ranking 34th among the 50 states. The national average was \$1892. In local taxes, however, Texans paid \$741, almost the national average of \$745.

Texans have an unenviable distinction among local taxpayers across the country. Local taxes in Texas have increased more than in any other state in the past few years. These increases have happened for two reasons, both beyond the control of country, city, and school district officials. As public school costs have increased, school districts have had no choice but to take up more of the burden by raising property taxes. Also, virtually all the metropolitan counties are under court orders to build new jails.

The term "property tax" is misleading. "Property" doesn't pay taxes. People do. Property values, and therefore taxes, often go up for reasons the property owner has nothing to do with. A homeowner's income may go down, or a business may lose money, but property taxes can go up. T'aint't fair. Of course, limiting school property taxes reduces "local control". Those who are first to complain about high local taxes are generally the biggest advocates of "local control". That's the way life is. You can't have it both ways.

The corporate franchise tax is another tax that is not fair. As the name implies, it is a tax only on corporations. Other forms of business enterprise, such as partnerships, go free.

When the tax was passed 75 years ago, corporations were almost the only way business was done. Today, many service businesses are partnerships, and services are the fastest growing part of our economy. Real estate ventures, law firms, and accounting firms, for example, are exempt from this tax.

Like the property tax, the franchise tax is a tax on capital and therefore discourages investment in Texas when we desperately need it to attract new industries and jobs into the state. One bright, competitive, part of the tax picture in Texas is that we are beginning a three-year phaseout of the sales tax on industrial equipment. That tax is yet another way in which our present tax system hampers growth by discouraging investment.

If our present tax system slows growth by making Texas less able to compete for new jobs, and makes it difficult for Texas to provide the quality education and other public services employers and employees demand, how should it be changed?

We should put a limit on property taxes, repeal the corporate franchise tax, and substitute an income tax that is deductible from the federal income tax. Such a tax, like all others, is unpopular. It can only be justified by asking which tax people like more. Do Texans want even higher property taxes? Definitely not.

Do they want a higher sales tax, when the combined state and local rate (8.25%) is already the third highest in the country? No. High property and sales taxes mean that those Texans least able to pay already pay more of the (low) cost of government than in any other state.

Or maybe Texans want poorer schools. Or more felons on the street because there is no room in the jails or prisons. Nobody believes that.

It's time for Texas to have a rational tax structure that encourages growth and is based on ability to pay, but only if the anti-business, anti-growth taxes we now pay are limited or repealed. (Hobby was appointed to the Governor's Task Force on Revenue by Lt. Gov. Bob Bullock. All figures are from data prepared by the Comptroller's Office or the Legislative Budget Board.)

Written in 1991.