

SUBJECT: Increasing the sales tax rate by 1 cent to decrease property taxes

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 6 ayes — Burrows, Guillen, Murphy, Noble, Sanford, Wray

2 nays — Martinez Fischer, E. Rodriguez

3 absent — Bohac, Cole, Shaheen

WITNESSES: For — Terry Holcomb, Republican Party of Texas; Roy Morales; (*Registered, but did not testify:* Adam Haynes, Conference of Urban Counties; Seth Rau, San Antonio ISD; Grover Campbell, Texas Association of School Boards; Missy Bender, Texas School Coalition; Ryan Ash, Texas Taxpayers and Research Association; Gail Stanart)

Against — (*Registered, but did not testify:* Kendall Smith, Accent Food Services, TMVA; Joe Hamill, American Federation of State, County, and Municipal Employees; Jorge Martinez, Americans For Prosperity, The LIBRE Initiative, Concerned Veterans for America; Adam Cahn, Cahnman's Musings; Dick Lavine, Center for Public Policy Priorities; Maggie Stern, Children's Defense Fund; Egan Little, L C Vending, TMVA; Mary Cullinane, League of Women Voters of Texas; Fatima Menendez, Mexican American Legal Defense and Educational Fund; Rene Lara, Texas AFL-CIO; Vance Ginn, Texas Public Policy Foundation; Bill Kelberlau; Crystal Main; Michael Openshaw;)

On — (*Registered, but did not testify:* Priscilla Camacho, Dallas Regional Chamber)

BACKGROUND: Tax Code ch. 151 imposes state sales and use taxes on the sale, storage, use, or other consumption of taxable items in the state at the rate of 6.25 percent.

Education Code sec. 42.2516 defines the state compression percentage as the percentage of a school district's adopted maintenance and operations

tax rate for the 2005 tax year that serves as the basis for state funding.

If not established by appropriation for a school year, the commissioner of education determines the state compression percentage based on the percentage by which a district is able to reduce the district's maintenance and operations tax rate for that year, as compared to the district's adopted maintenance and operations tax rate for the 2005 tax year, as a result of state funds appropriated for that year from the property tax relief fund or from another funding source available for school district property tax relief.

DIGEST:

CSHB 4621 would increase the state rate of sales and use tax to 7.25 percent. State sales and use taxes collected in excess of the current rate of 6.25 percent could be used only to provide property tax relief through the reduction of the state compression percentage.

The bill would take effect January 1, 2020, but only if the constitutional amendment proposed by the 86th Legislature, Regular Session, 2019, to provide property tax relief by reducing school district maintenance and operations ad valorem tax rates and increasing the state sales and use tax rates was approved by the voters. If that amendment was not approved, the bill would have no effect.

**SUPPORTERS
SAY:**

CSHB 4621 would provide much-needed property tax relief by way of a 1-cent increase in the state sales tax, giving peace of mind to Texans that they no longer would be taxed out of their homes and businesses and promoting continued economic growth.

Fairness. The sales tax is less burdensome and more efficient than school property taxes, and increasing the sales tax by 1 cent could raise billions of dollars for property tax relief.

In many Texas communities, property taxes have been growing faster than average income, imposing a substantial financial burden on taxpayers. Rising property taxes have caused Texans to be taxed out of their homes, not purchase homes at all, or go out of business. According to a March

2019 University of Texas/Texas Tribune poll, nearly 60 percent of Texas voters said they paid too much in property taxes. Increasing the sales tax by 1 cent to lower property taxes would provide these Texans with long-term property tax relief.

The sales tax is less burdensome than the property tax because it is paid only when a taxable item is purchased. Property taxes are paid year after year, with costs compounding over time, and hit low- and fixed-income Texans especially hard.

Property taxes are also less fair than sales taxes in that they rely on subjective valuations of appraisal districts, with tax rates being set by local governments with little taxpayer input. In contrast, sales taxes are based on objective market transactions with rates that have remained fairly stable over time. Increasing the sales tax also would spread the costs of government to people who visit Texas from out-of-state, saving in-state taxpayers money.

The state has extensive experience with sales taxes, which allows for accurate estimates of the revenue that would be raised by increasing the sales tax. This experience would allow the state to avoid the outcome of past attempts to lower property taxes through the margin tax and provide more permanent property tax relief.

Stability. The bill would stabilize property tax growth and give families more control over their tax bills. While families can choose to consume less in order to reduce the amount they pay in sales taxes, most cannot choose the home they own from year to year to reduce their property tax burden. By increasing the state's reliance on sales tax, the bill would empower Texans to determine how much they paid to state and local governments.

Economy. Increasing the sales tax to lower property taxes also would promote continued economic growth. Reducing property taxes means reducing taxes on capital, which would allow businesses to make more investments and create more jobs in the state. A property tax reduction

also could lead to less expensive consumer products because retailers' rents would be lower, and the savings likely would be passed on to tenants and consumers.

OPPONENTS
SAY:

CSHB 4621 would increase an unfair tax that historically has proven to be an unstable source of revenue and could jeopardize the provision of public services and potentially put Texas businesses at a competitive disadvantage compared to businesses in other states.

Fairness. The bill would unfairly shift the state's tax burden onto those least able to pay it by increasing the sales tax to pay for a decrease in property taxes. If the proposed sales tax increase were enacted, Texas would be tied with California for having the highest state sales tax rate in the nation. This increase would disproportionately affect lower income individuals, as they often pay a higher percentage of their income toward sales tax than their wealthier neighbors.

According to the Legislative Budget Board, taxpayers would not begin to benefit from the tax swap unless they had an annual income of at least \$100,000, and households with an income of between \$100,000 and \$150,000 would receive only modest savings. According to a March 2019 University of Texas/Texas Tribune poll, more than 70 percent of voters disapprove of increasing the sales tax.

Stability. The bill would replace a relatively stable tax base with one that is less stable. Sales taxes are not a reliable source of revenue because they vary based on consumer spending. Over the past 20 years, sales tax revenues have decreased five times, while property values decreased only once.

The state budget is already highly dependent on sales tax revenue. The sensitivity of sales tax to economic fluctuations has caused budgetary difficulties in the past, leading to cutbacks in public services. Increasing reliance on sales tax would make public services even more vulnerable to economic downturns.

Economy. Increasing the sales tax could harm the state's economy by increasing prices for consumers. Higher prices would put Texas businesses at a competitive disadvantage, discouraging shoppers from neighboring states from coming to Texas and making the state a less attractive place to locate jobs and investment.

OTHER
OPPONENTS
SAY:

CSHB 4621 would not provide lasting property tax relief and would increase the size of government unnecessarily. The state attempted to use the margin tax to buy down property taxes in the past with little success.

NOTES:

CSHB 4621 is the enabling legislation for HJR 3 by Huberty, which would amend the Texas Constitution to impose the state sales and use tax at a rate of 7.25 percent, with the resulting increase in tax revenue to be used to provide property tax relief by reducing school district maintenance and operations tax rates. HJR 3 is on the Constitutional Amendments Calendar for second reading consideration today.