

OP-ED

The Monster in the Closet—A State Income Tax

by F. Scott McCown and Dick Lavine

Many a child lays awake at night for fear that the monster in the closet will attack them the moment they close their eyes. But when they finally face their fear and fling open the closet door--there is no monster!

Texans need to face our own fear of the Monster in the Closet—the state income tax. If we can find the courage to fling open the door, we too will discover that there is no monster.

Lt. Gov. Dewhurst isn't afraid of monsters. While he hasn't yet summoned the courage to fling open the income-tax door, he has had the gumption to actually propose a specific school finance plan. He wants to buy down school property taxes from \$1.50 to \$0.75 by raising the state sales tax from 6.25% to 7.85% and by applying the tax to most services that are currently exempt, except health care. Added to our local sales tax, Texans would pay a sales tax of nearly 10% on almost all purchases, including cars and trucks.

By mustering the courage to confront the Monster in the Closet, Texans can do even better. If you have enough courage to even consider the income tax and compare it to the sales tax, then look through this crack in the door:

Using the income tax of an average Middle American state – Kansas – and applying its rates and exemptions to Texas, you can see how an income tax works. A Kansas family of four with an income of under \$24,100 pays no income tax, and the top rate is capped at 6.45% on taxable income.

In Texas, a tax like Kansas' would generate roughly \$18 billion a year. The Texas Constitution guarantees that two-thirds – \$12 billion – would go back to taxpayers in lower property taxes, cutting school taxes not to \$0.75 but to \$0.15! The remaining \$6 billion would go to education. Then, the sales tax money now used for the state's share of education would be freed to fund the rest of state government, including higher education, public safety, and health and human services.

Uncle Sam would pick up a share of the cost, since state income taxes – unlike sales taxes – are deductible on our federal tax returns. In effect, the federal government would subsidize our property tax relief and public education system.

An income tax would reflect our economic growth better than a sales tax, generating more revenue each year to pay for growth in enrollment and the costs of education without raising tax rates.

In contrast, using higher sales taxes only to buy down property taxes leaves Texas without a way to pay the increased costs of education and other critical state services. Ultimately, Texans would end up with a revenue-starved state despite high sales taxes, or our property taxes would sneak back up.

An income tax is also fairer than a sales tax. Our sales tax is already one of the highest in the country and a very unfair tax. The comptroller has calculated that the sales tax takes nearly four times the percentage of income from a low-income family than from a high-income family. A property tax isn't great, but at least it's better than the sales tax. The cost to a low-income family is only three times that of a high-income family.

Lt. Governor Dewhurst has proposed to shelter some low-income families from the higher sales taxes, which we applaud. With the income tax, though, it is easy to be fair to everybody by granting a large exemption for every family, and then applying slightly higher tax rates to those who can afford to pay more. These higher-income families would in turn receive the most benefit from the federal tax deduction.

If we open the income-tax door, we don't have to worry about the income tax jumping out and eating us as soon as we turn our backs. The Texas Constitution guarantees that an income tax cannot be adopted without a vote of the people, and once adopted, that the tax rate cannot be raised without another vote of the people. The Constitution also requires that two-thirds of the revenue from an income tax go to cut property taxes and dedicates the other one-third to education. Plus, the Constitution guarantees that property tax rates cannot go back up without a vote of the people.

Isn't it time we faced our fears and considered a state income tax?

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