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SMARTER TAXES = BETTER TEXAS

By Dick Lavine

Received your latest property tax appraisal? If you're like most homeowners you're suffering a little sticker shock watching your property taxes go up and up.

Wonder why this is happening?

It's because our school finance system is already at its limit. The state doesn't have enough money to keep up its share of public school costs, so local school boards have been forced to push property tax rates higher and higher. Many districts are already at the maximum tax rate, and most of the others are approaching it.

Another reason for sticker shock is that your property taxes are unrelated to your ability to pay them. If your home's value increases, you owe more money, even if your paycheck has stayed the same.

School costs are not the only pressure on state and local budgets. Texas is growing fast, and demands for all sorts of services are increasing dramatically. This is no surprise; we all want good schools, world-class colleges, efficient transportation, and secure prisons.

Candidates understand this and are promising a better Texas. But they're offering new programs at the same time the state is having problems just keeping current programs going. They also pretend that we don't need any more money. Remember: if it sounds too good to be true, it probably is.

So how do we meet the needs of a growing state and ease our property tax burden?

First we must try to fix the current system. We can try to make sure that everyone is paying their fair share of property taxes. We can try to scrub the Tax Code of wasteful tax breaks. We can try to bring the sales tax up to date by taxing services, the fastest growing part of our modern economy. But even these changes won't be enough to fund schools, roads, and prisons or cut our sales and property taxes.

So, what else can we do? Well, there is a different kind of tax that could help support the Texas we all want, reduce our property taxes and reflect our ability to pay – an income tax. But Texas does not have an income tax.

What if we did?

Remember that the Texas Constitution guarantees that an income tax cannot be adopted without a statewide referendum. And if we adopt an income tax, two-thirds of the revenue would go to cut property taxes. The other one-third would be dedicated to education. The Legislature couldn't even raise the tax rate without going back to voters for approval. That's all in the Constitution.

So, if Texas adopted an income tax like that of Kansas, a typical state, most Texas families would pay less in taxes. The income tax and the mandatory property tax cuts would mean that more than 60 percent of families would see a tax cut. The highest-income families, who would pay the most in a new state income tax, would also receive the most benefit from the federal deduction for state income taxes.

The property tax cuts would be huge. Here are the numbers: the income tax would generate \$17.3 billion in new revenue. By law, two-thirds of this – \$11.5 billion – would go back to taxpayers in the form of lower property taxes. This would be enough to virtually eliminate school property taxes in our state, cutting school property taxes by 85 percent! The remaining revenue from the income tax – \$5.8 billion – would support education.

Uncle Sam would help out through deductions on Texans' federal tax returns, which would reduce our federal income taxes by \$1.8 billion a year. That's money that otherwise would have gone to Washington, but would instead stay in Texas.

A state income tax is not a cure-all. We would still face enormous challenges in building our future. But we need to take a good hard look at all our options. There may be alternatives out there that would be better for all of us.

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