Come-on TPPF, Get Your Analyses Correct

By Stuart Greenfield, Ph.D.

Talmadge Heflin and Chuck Devore of the Texas Public Policy Foundation (TPPF) and Billy Hamilton, former Deputy Comptroller of Pubic Accounts have engaged in a continuing exchange on replacing local property taxes with an increase in the state sales tax. The TPPF proposals are based on two major articles which have asserted that replacing the property tax with an increased state sales tax or with an increased sales tax base would be beneficial to the state. Billy Hamilton, a former colleague, in his "Big Ideas" piece has counted that such a dramatic policy change would require an increase, using the current sales tax base, in the required state sales tax rate (17.85 percent), that was 21.4 percent greater than that estimated by TPPF and Empower Texas.

The studies from TPPF hit the trifecta using incorrect data, an elementary mathematical error, and erroneous methodology. Reviewing the TPPF errors should assist others in providing accurate analysis when proposing policy changes.

The 2009 study by Reagan economist Dr. Arthur Laffer achieved the trifecta, by first using Census data which overstated the amount of sales tax received by the state compared to the amount reported by the Comptroller. They compounded this error by using state and local sales tax collections as opposed to state sales tax collections. This resulted in TPPF using $22.5 billion in 2006 instead of the $18.3 billion in state sales tax collections reported by the Comptroller's Office. Their math error was dividing their 23 percent higher state sales tax receipts by the lower state sales tax rate of 6.25 percent and not the combined state and local sales tax rate of 8%. Using an inflated numerator and smaller divisor increases the resulting tax base dramatically. This allowed TPPF to incorrectly calculate a dramatically lower total state sales tax rate (14.7 percent) to replace the property tax.

Had TPPF used the appropriate combined state and local tax rate of 8%, and the Comptroller's data of the tax base would have been 281.3 billion. Using the correct sales tax base would have resulted in a replacement tax rate of 19.6 percent ($55.0 billion/$281.3 billion), which is about the same Texas rate reported in "A Big Idea." It would appear that the 21.1 percent difference in the replacement rate resulted from TPPF and Empower Texas using incorrect data, along with a flawed methodology.

Mr. Heflin and Mr. Devore apparently recognized their math, data, and methodology error and offered an alternative approach to promote their policy. In a recent Houston Chronicle piece, these authors now maintain that, "broadening the base to include services taxed in at least one other state would allow Texas to eliminate all property taxes with a sales tax rate of 9 percent."

Proposing services that are taxed in another state now be taxed in Texas, would result in all services that are either currently exempt or excluded from the sales tax now subject to the sales tax. Among the services taxed in other states are health care services, automotive services, child care services, and legal services. These services would contribute $1.7 billion, $451.8 million, $121.7 million, and $422.9 million, respectively in increased revenue.

Adjusting the data from the Comptroller's tax exemption and tax incidence study for 2011, would result in a sales tax base of around $370 billion in 2006, the base year used by TPPF in their 2009 study. Given that sales and property tax amounted to $54 billion in 2006, the correct tax rate with services in the tax base would be 14.5 percent. Ironically, this is the incorrect rate they estimated in their initial study. If the tax base included both items exempt and excluded from the state sales tax, the replacement tax rate would be 7.6 percent rather than the 9 percent Mr. Heflin and Mr. Devore suggested in their article.

Mr. Heflin and Mr. Devore have once again failed to perform the rigorous and robust analysis required for computing the correct tax rate necessary to replace the property tax rate with a state sales tax. The Comptroller's Office, which is responsible for providing an estimate of changes to the state tax system, has estimated that replacing the entire property tax receipts would require a state sales tax rate of 23 percent. Adding the 1.8 percent rate for local sales taxes would result in a aggregate sales tax rate of almost 25 percent.

Their erroneous analysis aside, I would hope that local government entities that impose a local sales tax would donate to TPPF and Empower Texas, so they can continue their Herculean, but mistake prone efforts to replace the property tax with an increased state sales tax base. Were all excluded services subject to the state sales tax, local governments in 2011 would have received an additional $1.8 billion in sales tax receipts. So local officials, I would hope you'll put a few shekels aside to assist TPPF and Empower Texas to continue their error-prone analysis, especially one that would provide you mucho dollars.