



Strengths of the Sales Tax

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THE ISSUE

All taxes are not created equal. Some, such as the income tax, discourage productivity; others, such as the property tax, depress investment; and still others, such as the sales tax, target consumption.

In each instance, the type of tax levied determines which activity is penalized and, in turn, affects how consumers behave.

Suppose we taxed shoes heavily but not socks. Pretty soon, “socks” fashioned with heavy soles would become acceptable workplace attire. Actual shoes would be only for high fashion and inclement weather. On the other hand, if we taxed socks heavily and not shoes, sandals would likely become the norm, and shoe interiors would probably be fashioned with soft, removable inserts that do not meet the tax man’s definition of socks.

Thus the challenge for lawmakers is to develop a tax system that does the least amount of economic damage and minimizes interference in consumer choice, while still obtaining the needed revenues.

Of all the major taxes, sales taxes represent the “best” tax—simple, transparent, and focused on consumption rather than other determinants.

A conventional sales tax applies only to the end-user, meaning that the person consuming the final product bears the tax’s ultimate cost. Consequently, the tax can

be administered in a relatively simple manner. The seller need only add the cost of the tax to the final product and collect it on the government’s behalf. Such simplicity avoids the need for many of the big bureaucratic organizations associated with other forms of taxes—i.e., appraisal districts, appraisal review boards, and other taxing jurisdictions, in all their various incarnations—and the need for taxpayers to support them.

The sales tax’s simplicity also means that taxpayers, freed from otherwise time-consuming paperwork, are free to pursue other, more productive activities.

Transparency is another important feature of the sales tax. After each purchase, every consumer is provided with a receipt clearly showing the amount of sales tax paid in addition to the price of the actual good. Since the sales tax is acknowledged after every purchase, manipulating the tax rate without public knowledge is virtually impossible. This is an important safeguard against back-door tax hikes and other stealth maneuvers to raise taxes.

While other taxes focus on investment and income to generate revenue, the sales tax focuses on consumption. It does not dissuade people and businesses from saving, investing, or becoming more productive. Nor does it interfere with wage gains.

As compared to the other major forms of taxation, the sales tax is clearly the least intrusive and the easiest to understand. It also promises the most attractive outcomes.

THE FACTS

- ★ Sales taxes offer a system that is simple, transparent, fair, and causes the least amount of economic damage.
- ★ The sales tax only penalizes personal consumption. Job creation, private investment, and wage gains are not significantly affected.
- ★ Only five states—Alaska, Delaware, Montana, New Hampshire, and Oregon—have no sales taxes.
- ★ Texas has an above average state sales tax rate, at 6.25 percent, combined with a local option of adding up to 2 percent.
- ★ Texas' active business climate has been bolstered by the state's reliance on the sales tax.

RECOMMENDATIONS

- ★ Texas government should continue to rely on state income from the sales tax.
- ★ Due to the high property tax rates faced by Texas taxpayers—compared to residents of other states—the Legislature should consider eliminating the property tax burden by broadening the base of goods and services subject to the sales tax.

- ★ Any increase in the sales tax base or the sales tax rate should be accompanied by reductions in other taxes.

RESOURCES

The Case for Converting from Property Taxes to Sales Taxes by The Honorable Talmadge Heflin, Texas Public Policy Foundation (Mar. 2008) <http://www.texaspolicy.com/pdf/2008-03-PB04-propertytaxes-th.pdf>.

Tax Policy and Economic Growth in the States by Barry W. Poulson and Jules G. Kaplan, Texas Public Policy Foundation (Oct. 2007) <http://www.texaspolicy.com/pdf/2007-10-PP26-poulson.pdf>.

All Taxes are Not Created Equal by Byron Schломach, Texas Public Policy Foundation (Mar. 2006) <http://www.texaspolicy.com/pdf/2006-02-PP-consumptiontax-BS.pdf>. ★

