

BACK TO BASICS

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The final nail has been hammered into the Texas economy's new coffin. On Tuesday, Republican leaders finished ramrodding the Sharp tax proposal through the legislature. The Texas Senate approved the plan, and the Governor is expected to sign the bill in relatively short order. Republican leaders will soon hit the campaign trail, claiming victory in the school finance battle.

Passage of this legislation is anything but a victory. To the contrary, the Texas Republicans who supported this plan have violated the principles of economic conservatism that they claim to hold most dear.

Of course, Sharp plan proponents dispute this description of the new taxes that they have so enthusiastically supported. Instead, they go so far as to claim that their plan is a tax decrease. My good friend, Tom Pauken, has argued that property tax cuts will equal \$15.5 billion over the next three years, while the business tax will bring in a net increase of only \$7.2 billion. I respect Tom, but I don't buy these numbers. The legislation that the Governor is expected to sign does not adequately protect homeowners from future increases in their property taxes. Taxes are sure to skyrocket, again, within a matter of years. Moreover, as I have argued before, I believe plan proponents have vastly underestimated the amount of taxes that businesses, particularly small businesses, will be forced to pay.

But let's say, just for argument's sake, that I am wrong. Let's assume for the moment that the bill really is a tax decrease and that fewer taxes, overall, could be paid in the great State of Texas. Even given these (very questionable) assumptions, the plan is still problematic for three reasons:

First, the plan is not be a tax decrease so much as it is an attempt to redistribute wealth. Property taxes are broad-based. Anyone with a residence in the State of Texas pays some portion of it. Even renters bear the burden of property taxes because the cost is worked into their rent. The franchise tax, by contrast, will be levied only on business owners. The tax is meant to benefit all Texans, yet it is imposed only on one segment of society. Worse, the brunt falls on those who create jobs in our great state. The new franchise tax punishes the engine that drives the Texas economy.

Second, small businesses will disproportionately suffer, in part, because they have a tendency to rent, rather than own. They are unlikely to see significant benefits from the property tax decrease. Yes, in theory, small businesses should benefit from lower rents when their landlords' property tax costs go down. Given enough time, they probably would. In reality, these rent decreases will not be automatic. Instead, they will depend upon the terms and length of each company's lease. By the time many of these leases run out, property taxes will likely have increased again, as discussed above. Rent savings will thus never be recognized by many companies. Nor does the tax decrease on residential property make up for this situation. Few small business owners live in a home that is large enough to make up for a franchise tax increase of 400 percent or more.

Third, the new franchise tax replaces a visible tax with a hidden tax. Remember that I said that the franchise tax is an "attempt" to redistribute wealth. Business owners, of course, will not want to bear the burden of these new taxes, alone. Indeed, such exponential increases in their overhead would drive many out of business. Instead, these companies will incorporate the cost of their new taxes into the cost of the goods and services that they sell. Ultimately, the people who think they got rid of their property tax costs will find that they are paying the tax anyway, every time they visit their local sandwich shop or pay someone to fix their leaky pipe.

Hidden taxes are bad for everybody. They conceal the cost of government, burying it in the cost of our goods and services. Government is able to expand and grow easily, under the radar, before many taxpayers realize how very big the government has gotten. Even if the franchise taxes enacted today really are fewer, in total, than the property taxes were, such a situation will not last long. Too many incentives pull in the opposite direction.

To the degree that we must be taxed, visible taxes are preferable because they promote the opposite scenario. The cost of government is obvious to everyone. When government gets too big or too expensive, all taxpayers are able to see the problem. The end result is that government is forced to stay as small as possible. When it fails to do so, the taxpayers revolt. Today's rebellion against highly visible property taxes is healthy. It has occurred primarily because our state and local governments have failed to live within their means.

We have an election coming up this November. Let's focus on electing officials who understand these most basic principles of the Republican party platform.