

Oppose Exceeding the Two Percent Cap on Combined Local Sales Tax Rates

AECT Position: Oppose

Background

- Under current Texas law, local governments are limited to a maximum combined sales tax rate of two percent. Various proposals would raise that cap, allowing for higher sales taxes.

Discussion

- The two percent cap has stood the test of time. For over two decades, the cap has been one of the most durable fiscal protections for Texas taxpayers in law, withstanding several attempts to breach it.
- Nearly half of the sales tax is paid by businesses on their own purchases, and Texas already imposes some of the highest combined sales tax rates in the nation. An increase in sales tax is an increase in business tax and could impair Texas' competitiveness by increasing the cost of doing business here.
- New taxing authority reduces the tax cost certainty of doing business. Businesses would be exposed to unexpected cost increases if local entities suddenly raised the sales tax. Today, the maximum local sales tax rate is a known.
- Local sales taxes dedicated to property tax relief would not necessarily produce long-term property tax relief. Property taxes could rise back up through a variety of forces, and taxpayers would be left with increases in both property and sales taxes.
- The distribution of taxable sales is very uneven across local governments in Texas. Sales tax imposed for a specific purpose – whether that purpose is transit, property tax replacement, or any other narrowly defined program – could poorly align those who pay compared to those who benefit.