

STATE SALES TAX

Description

Texas has a state sales tax rate of 6.25 percent. Additionally, local entities (e.g., counties, cities) can impose a local sales tax of up to two percent. An increase to the statewide sales tax could be dedicated to the Highway Fund.

How Will This Help?

Provide additional funds for transportation –

Increasing the statewide sales tax rate would provide funds to reduce traffic congestion and help maintain the safety and quality of Texas roads and bridges.

Help funds keep pace with rising highway construction costs –

Since 1991, roadway construction costs have almost doubled. Increasing the statewide sales tax would help transportation revenues keep pace with rising construction costs.

Fuel tax revenues are eroded by increased fuel efficiency –

Fuel tax revenues will likely decrease over time. The expected growth in future population means more people traveling on the roadways and consuming more fuel. However, today's more fuel efficient cars and trucks pay lower fuel tax per mile than when the tax rates were last set twenty years ago. As vehicles become more fuel efficient and alternative fuel vehicles become more common, the number of gallons needed to go the same distance will decrease. While benefits such as a smaller carbon footprint and the ability to travel further per gallon are gained, the resulting decrease in fuel consumption means less gas and diesel tax revenue raised to tackle the rising transportation needs. Increasing the current revenue stream will help slow the effects of decreasing fuel tax revenues.

Reduce need for borrowing – Texas has increasingly turned to debt mechanisms such as bonds as a way to finance transportation improvements. Texas could help slow a growing trend of using the “credit card” to pay for roadway projects by increasing the statewide sales tax.

What's the Down-Side?

- **General opposition to fee increases** – The Legislature and the public have recently been opposed to tax or fee increases.
- **Non-user tax** – A statewide sales tax increase would not be limited to roadway users but would affect every consumer in the state.
- **Revenues are economically driven** – The amount of revenue created is dependent upon the amount of goods purchased by consumers and can be difficult to predict.
- **Reduced tax capacity** – Raising the sales tax and dedicating the increase to transportation lowers the likelihood of the public accepting an additional sales tax increase for General Revenue funding.



Who: State

Cost to Collect: Low

Sustainability: ●●●○○

Reliability: ●○○○○

Implementation: Easy

Estimated Funding Yield

2012 Collection: \$16.1 billion¹ in Limited Sales and Use Tax.

One Percentage Point Increase: \$2.6 billion for transportation a year.

From 2014 to 2017: \$10.3 billion for transportation.



Implementation Issues

- Low cost to implement.
- Legislative action is required to implement this funding change.
- Voters/users would need to be educated regarding the costs and benefits.

Around the Nation

Arkansas approved a constitutional amendment to raise the state sales tax by 0.5% for 10 years for state, county, and city surface transportation projects. This program will dedicate the state's portion of revenues to securing general obligation bonds for up to \$1.3 billion to finance a statewide four-lane highway program. This amendment was approved by voters in a statewide election in 2012 (HJR 1001).

Georgia approved legislation that divided the state into 12 separate tax districts. The law then required a referendum to be decided on in each district about whether to increase the regional sales tax by one percent. In 2012, an election was held and 3 out of 12 of these districts approved the sales tax increase. (HB 277)

California increased, temporarily, the rate of the General Fund portion of the state Sales and Use Tax by one percent—from the current rate of five percent—to a rate of six percent (AB 3c 2009)

Minnesota, in 2008, increased fees on the leases and rental of vehicles from three percent to five percent of the sale price of the vehicle. (HF 2800)

North Carolina authorized counties to pay for transit improvements with up to a half-cent sales tax increase, if approved by voters. (HB 148, 2009)

¹ Texas Comptroller of Public Accounts