

The most basic thing about taxes is that their source must be current income. A system that forces people to sell property in order to pay tax will not endure. Probably the simplest form of tax is an income tax but we Texans would probably throw out every legislator who supported that. So we have taxes on sales and on property, but it's now becoming clear that we do not really understand them.

One current hot button is the tax levied by the state and the feds on the sale of gasoline. This tax was enacted, rather sensibly, to provide funds to maintain and build roads. The good sense was that we would tax the people who use and need roads. There was probably, in the beginning, a recognition that we would need an increasing revenue stream from this tax in order to finance roads. The tax levy, however, has been a fixed 20 cents a gallon to the state for decades. The federal portion, from which Texans also benefit, has also been a fixed rate per gallon. I am sure that in the 1980s legislators knew everything would cost more in 2007 because of inflation. I suppose they thought a fixed tax rate could work in this situation because there would be more vehicles on our roads using ever more gasoline. That has happened, but at the same time the efficiency of motor vehicles has greatly improved. That, coupled with the legislature siphoning off parts of the gas tax revenues for things other than roads, has resulted in the source of funds for roads growing much slower than the cost of roads.

One solution proposed to remedy this is to build toll roads; a solution that faces growing opposition. The bottom line of this quandary goes back to the point that the source of tax revenue must be incomes. Just as the cost of roads has escalated since the 1980s, so have personal and corporate incomes. We need new roads and there is more than one way to affordably tap incomes to provide the revenue they require. We can either ask citizens to pay tolls or we can index the gasoline tax to the rate at which incomes rise. It is by now crystal clear that a fixed tax rate per gallon of gas won't work.

There is a mirror image of this problem in the taxes we levy to pay for schools. That is property tax, and in Texas we have had a remarkable experience. About thirty years ago we had the famous Edgewood vs. Kirby case which concluded that our method of financing schools was unconstitutional.

This was covered in one of the sessions during my year in the Leadership San Antonio program. The presenter explained that the problem lay in the fact that property tax rates in Edgewood ISD were much higher than rates in wealthier ISDs. There are two parts to property tax; the rate and the assessed value of the property. The tax is determined by multiplying the rate by the value.

Realizing that tax must come from income I asked the presenter how the ratio of property tax to incomes in the Edgewood ISD compared to the same ratios in Northside or Alamo Heights. My question set off a storm and it was never answered. What had obviously happened was that the revenue requirements in Edgewood ISD coupled with low property valuations necessitated the high tax rates, and the courts said that was unfair.

Today we are seeing another side of property taxes. Valuations are increasing significantly and tax rates are being held steady. The result is that taxes paid by homeowners are rising, and, in many cases, faster than incomes. This is not sustainable. And there are complicating factors. One is the inability of taxing authorities to find out actual sales prices; especially of commercial properties. This is coupled with a widespread effort to control these tax increases by capping valuations. That one leaves me shaking my head. Why do we want to pay people whose job is to determine property values to, specifically, not do their job?

Property tax and gasoline tax must be paid out of income. If property values rise faster than incomes then property tax rates must decline. The taxes paid can rise only in line with incomes. The gasoline tax can rise in line with inflation. The taxes paid can rise in line with incomes.