

**PUBLIC SCHOOL FINANCE REFORM
- THE EFFECT OF TAXING REAL ESTATE SERVICES**

Our current public school financing structure, widely known as “Robin Hood,” has long been the enemy that will not perish. Many politicians and school boards criticize the current funding mechanism as being unfair, mainly because of the recapture provisions, which take funds from wealthy districts and distribute them to poorer ones. At the same time, homeowners are being unduly burdened with escalating property taxes with no end in sight. Something must be done to alleviate the burden to all entities.

However, the action of the Texas Senate during the 78th Regular Session is not the correct avenue to raise revenue for our public school system. Had the bill been signed into law, all services, including real estate services, would have been taxed as high as 9.25%! This would have a significant impact on the real estate industry, homebuyers and sellers, and the overall Texas economy.

The National Association of REALTORS® conducted a report on the issue of expanding sales-tax bases to include real estate services. The report analyzed what impact a tax on services would have on the ability of homebuyers to attain a home and how much additional cost would be added to the entire real estate purchase. The report assumed a **6%** sales tax rate and included the most common services associated with the purchase of residential property. Based on the preliminary results, homebuyers would experience an additional **\$621 increase in the cost of buying a home**. However, calculating the increase in costs for Texas’ sales tax rate of **6.25%** would yield an **increase of \$775**. If the local option of **2%** was added in, the cost of purchasing a home would **increase by \$1,022**. According to the report, home sales in Texas would **decline** by almost **3%** when real estate services are taxed at a rate of 6%. Home sales in Texas sharply decline proportionate to a sales-tax increase.

Extending the sales tax base to include services is tempting because it may be an opportunity to quickly increase sales tax revenue and increase tax equity among all taxpayers. However, the net effect of a sales tax on real estate services is vastly different once analyzed. According to the report published by the National Association of REALTORS®, the impact would include:

- a. sales taxation of real estate services increases closing costs and the cost of homeownership and reduces the demand for housing;
- b. housing has a multiplier effect on the economy and thus the total economic impact is larger than the direct impact;
- c. housing costs will increase if the labor component of construction is included in the sales tax base; and
- d. the costs of operating real estate brokerages will increase if the sales tax is applied to services purchased by brokerage firms such as legal, accounting, and data processing.

The overall impact of taxing real estate services is likely to hinder further economic recovery.