

# Truth in Taxation

**By John Merrifield,  
Professor of Economics  
Director, Entrepreneurial Conservatism Institute**  
April 16, 2007

In Utah, local governments have to raise the tax rate to increase property tax revenue from existing property improvements. Without a vote to increase tax rates, only new construction (the result of population growth) can increase local government revenue from property taxation.

Here's how it works. Each year, the tax rate drops automatically, by law, to offset the rise in total appraised value of existing property improvements. To achieve revenue growth from unaltered properties, the authorities must announce a truth in taxation hearing, at which time the elected representatives can vote themselves additional revenue by voting to raise property tax rates. Utah has low property tax rates (~1/2 of those in Texas) because elected representatives can restrain spending if the alternative is to have to go on record for a tax rate increase. In Texas, property value growth yields stealth taxation. The government gets more of your earnings without having to vote to do it.

The Utah policy isn't perfect. For example, politicians shouldn't have to suffer labeling as a tax raiser just to keep tax revenue growing at the rate of inflation. The brilliant truth in taxation concept applied in Utah should only demand an elected official vote to hike rates to increase revenue by more than the rate of inflation. The other problem is a propensity to have infrequent, but large rate hikes. Inflation or pressing government service priorities, together with reluctance to go on record as in favor of higher tax rates, can delay appropriate rate hikes, and then to avoid raising rates again soon, they enact large rate hikes. To avoid sporadic large rate hikes, an improved Truth in Taxation law would include an annual rate hike ceiling equal to, for example, assessed value growth. That would mean that a return to the rates in place prior to the automatic Truth in Taxation adjustment is the basis for the maximum annual increase in property tax liability. That definition of 'maximum' is what most Texas property owners face most of the time.

The Truth in Taxation concept is appropriate for every tax. To grow government, our elected representatives should announce what program addition or expansion they think is important enough that you should keep a smaller fraction of your earnings, and then go on record in favor of a tax hike large enough to pay for it. So, for example, if taxable sales increase by ten percent, and the rate of inflation is four percent (assume constant population), the sales tax rate should automatically adjust downward by six percent (not percentage points; for example a drop from 8% to 7.55% is a six percent drop). Then, if our elected representatives want sales tax revenues to increase, they can vote to increase the sales tax rate up to as high as its pre-automatic adjustment level.