SUBJECT: Decreasing the state sales tax rate

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 9 ayes — D. Bonnen, Bohac, Button, Darby, Martinez Fischer, Murphy, Springer, C. Turner, Wray

0 nays

2 absent — Y. Davis, Parker

WITNESSES: For — James LeBas, Texas Association of Manufacturers, AECT, TxOGA, and Texas Chemical Council; Talmadge Heflin, Texas Public Policy Foundation; Ronnie Volkening, Texas Retailers Association; Dale Craymer, Texas Taxpayers and Research Association; (*Registered, but did not testify*: Adrian Acevedo, Anadarko Petroleum Corp.; Jon Fisher, Associated Builders and Contractors of Texas; Dan Hinkle, British Petroleum, EOG Resources; Greg Macksood, Chesapeake Energy; Richard Lawson, Chevron; Michael Weaver, Church Group; Warren Mayberry, DuPont; Marty Allday, Enbridge Energy; Samantha Omey, ExxonMobil; Angela Smith, Fredericksburg Tea Party; Mindy Ellmer, Lyondell Basell Industries; Lindsay Sander, Markwest Energy; Will Newton, NFIB/Texas; Julie Moore, Occidental Petroleum; Ed Longanecker, Texas Independent Producers and Royalty Owners Association; Cade Campbell, SM Energy Co.; Sarah Matz, TechAmerica; Bill Stevens, Texas Alliance of Energy Producers; Richard A. (Tony) Bennett, Texas Association of Manufacturers; Scott Norman, Texas Association of Builders; Bill Hammond and Stephen Minick, Texas Association of Business; Daniel Gonzalez, Texas Association of Realtors; Hector Rivero, Texas Chemical Council; Matt Burgin, Texas Food and Fuel Association; Justin Bragiel, Texas Hotel and Lodging Association; Todd Staples, Texas Oil and Gas Association; Thure Cannon, Texas Pipeline Association; Kenneth Besserman, Texas Restaurant Association; John W. Fainter Jr., the Association of Electric Companies of Texas, Inc.; Daniel Womack, the Dow Chemical Company; Matt Long; Sandy Ward)

Against — Cheasty Anderson and Patrick Bresette, Children's Defense Fund-Texas; (*Registered, but did not testify*: Renee Lopez, Bob Kafka, and Albert Metz, Adapt of Texas; Dick Lavine, Center for Public Policy Priorities; Dennis Borel, Coalition of Texans with Disabilities; Will Francis, National Association of Social Workers-Texas Chapter; Cathy Cranston, Personal Attendant Coalition of Texas; Eileen Garcia, Texans Care for Children; John Patrick, Texas AFL-CIO; Dwight Harris, Texas American Federation of Teachers; Harrison Hiner, Texas State Employees Union; Maxie Gallardo, Workers Defense Project; Freddy Gonzalez; Jennifer McPhail; Ronnie Montgomery; Shirley Montgomery)

On — Kevin Kavanaugh, Legislative Budget Board; (*Registered, but did not testify*: Ursula Parks, Legislative Budget Board; Tom Currah, Texas Comptroller of Public Accounts)

DIGEST:

CSHB 31 would decrease the state sales tax rate from 6.25 percent to 5.95 percent.

This bill would take effect October 1, 2015, and would not affect tax liability accruing before that date.

SUPPORTERS SAY:

CSHB 31 would produce economic effects that could ripple through the business climate by reducing the state sales tax, generating billions of dollars in economic activity and stimulating the creation of thousands of jobs. This bill would reduce the tax burden on every household in the state.

Demand-side impact. CSHB 31 would result in a broad reduction in the effective tax burden borne by Texans. In so doing, it could stimulate consumption, which drives job growth. Job growth, in turn, stimulates more consumption. The consumer, not the government, is the most economically efficient agent. Reducing the sales tax would put more money in consumers' pockets, allowing more money to be used more efficiently in the economy.

Everyone in the state pays the sales tax at some point during the year, so cutting the sales tax would be broader and more visible than any other type of tax cut.

Supply-side impact. Cutting the sales tax could create thousands of new jobs and make a good business climate even better. The Legislative Budget Board's (LBB's) tax/fee equity note indicates that businesses would benefit from the bill. That benefit would be turned directly into economic activity and jobs. The LBB estimates that this bill, in conjunction with HB 32 by D. Bonnen, which is also on today's calendar, could create 72,300 new jobs by 2020 and grow economic output by $21.7 billion.

The bill could significantly improve the business climate and attract new investment to the state. Texas currently has the 12th-highest sales tax in the nation. The tax rate following the passage of this bill could be the 24th-lowest, making it more likely that businesses would relocate to the state.

Sales taxes disproportionately burden small businesses, which could grow to be the major employers of tomorrow. Texas should help small businesses succeed and provide a business-friendly climate in which they can thrive by lowering the sales tax and spurring consumer spending.

Tax cut alternatives. A sales tax cut would be better for the Texas economy than an increase in the homestead exemption. Studies consistently show that sales taxes have a greater negative effect on economic activity than property taxes. The LBB estimates that over five years, a sales tax cut could create 42,350 more jobs and spark $5.2 billion more in GDP growth than an equivalent increase in the homestead exemption.

The sales tax is a state tax, meaning that any tax cuts could not be offset by either locally controlled tax rates increasing or appraisal values rising, as is the case with property tax cuts. Cutting the sales tax would be the best way to secure permanent tax relief for Texans.

Although cutting or eliminating the franchise tax is an important goal, a sales tax cut could do more for the economy than a decrease in the franchise tax. According an analysis by the LBB, a $3 billion cut in the sales tax could create 14,800 more jobs than an equivalent cut in the franchise tax.

Spending alternatives. Current versions of the state budget include increases to funding in many areas of vital state services. It is likely that both public education and transportation will receive additional funding. The state already is set to invest more, and the revenue lost under this bill would not be needed.

This bill could decrease the footprint of the government and allow Texans to make decisions about how they want to spend the money saved in sales tax that are best for themselves and the economy. There always will be another government program to fund, and we should adopt tax policies that allow us to focus on the programs and services that provide the greatest return on investment.

Revenue stability. Even with the sales tax cut, the state would have sufficient revenue to meet its obligations in future biennia. The budget surplus in this biennium is likely to continue. Although oil prices and severance tax revenue are low, oil probably will not stay at its current price. If it does, the state is estimated to have about $11 billion in the rainy day fund at the beginning of the next biennium. The state still would have a safety net to rely on in the event of an unexpected decrease in tax revenue.

The state should strive to keep tax collections low in comparison to economic growth. The Texas Conservative Coalition Research Institute estimates that while revenue increased by 6.7 percent in 2014, the state saw only 3.7 percent economic growth. If this trend continues, the government’s footprint will expand, decreasing economic efficiency. Reducing the sales tax rate would be a step toward aligning revenue with the state’s economic growth.

OPPONENTS SAY:

CSHB 31 would provide an insignificant benefit to the average Texan and could forgo better investments that might be made with the lost tax revenue. It also could pose a threat to fiscal stability in future biennia.

Demand-side impacts. The overall impact to an average household may not be significant, and many may not notice. The average Texan might see only $3.37 per month in tax relief.

Supply-side impacts. Because the state does not have a personal income tax, which usually is considered to be the most economically harmful, Texas has a significant advantage over many other states when it comes to attracting businesses. Decreasing the sales tax rate would do little to improve an already excellent business climate.

Although these aggregate gains seem impressive, they could ultimately be shortsighted. Not funding critical infrastructure, such as schools and transportation, could cost more in long run. Texas could become less competitive and costs could begin to add up.

Spending alternatives. The bill could cost the state more than $2.6 billion in tax revenue during the 2016-17 biennium. This money can and should be spent elsewhere. The state has an obligation to adequately fund basic services that help protect Texas' future.

There are many ways to invest tax revenue that would save the state billions in future biennia. Studies show that every dollar spent on pre-kindergarten education saves the state anywhere from $3.50 to $7. This is because pre-kindergarten education decreases the likelihood of reliance on special education and social services in later years. Investments in this area also lead to increased high school graduation rates, leaving the state's economy more competitive and its workforce more educated. Funding for public education in general is still not back to pre-2011 levels, when the state cut a significant amount from school budgets. The state needs to fund this obligation before considering a tax cut.

Investing in transportation also would pay more dividends in the long run than a tax cut. The Texas A&M Transportation Institute found that delays and fuel costs as a result of congestion cost the state $10.1 billion and more than 472 million hours of travel time. TRIP, a national transportation research group, found that an inadequate transportation system costs Texas more than $23 billion per year, which includes costs from congestion, air pollution, and public safety. In other words, billions of dollars are lost every year because Texas does not properly fund its transportation infrastructure.

Revenue Stability. This tax cut may not be sustainable. Severance tax revenue from oil and gas sales has increased significantly because of the shale oil boom. However, these severance taxes, as well as the state's revenue estimates, are heavily reliant on the price of oil rising. There is no guarantee of this happening, and numerous unpredictable geopolitical factors could affect the price of oil.

Some of the current surplus was left over from last session. The state has no guarantee of such a luxury in the 2018-19 biennium. Making tax cuts from a one-time influx of money would not be the most responsible approach because revenue is variable and tax cuts are permanent. The political climate of the state would not allow a tax hike, and this could leave the state in a difficult fiscal situation in future biennia, which might have to be solved by cutting vital state services.

OTHER OPPONENTS SAY:

Tax cut alternatives. The state has a variety of other opportunities to cut taxes and return money to the taxpayer. The state should consider increasing the homestead exemption instead because cutting property taxes would have a variety of positive economic benefits.

The state also should consider reducing or possibly eliminating the franchise tax. Cutting the sales tax would not have as big an effect because there is an additional degree of separation between consumption and job creation. A franchise tax cut would directly impact job growth and have a greater economic impact in the long run.

NOTES:

According to the Legislative Budget Board's fiscal note, CSHB 31 would have a negative net impact of $2.66 billion to general revenue through fiscal 2016-17. The tax/fee equity note states that the bill would reduce the effective tax rate on all households by 0.12 percent and reduce the taxes on all households by 1.38 percent