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Texas Tax Reforms 2006-07

James LeBas

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What Drove Reform Effort?

- Property taxes too high
- Economy and tax system out of sync
- Courts threatening to close the schools

Economy and Tax System Were Out of Sync



Economy and Tax System Were Out of Sync

Time Of Change/ Time Of Choice

TAX EQUITY AND THE TEXAS ECONOMY

And today--again--the Texas economy has changed fundamentally. New technology and service industries have become a way of life, both in the personal lives and the business lives of Texans.

There are whole industries today--enormously important and profitable industries--that weren't even dreamed of 25 years ago.

This new economy has been described by many names: service, information, space age, diversified.

But our tax structure remains tied to the past, to hard products and assets attached to the ground.

**A SPECIAL
*Financial
Report***
August 1986

BOB BULLOCK TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

Economy and Tax System Were Out of Sync

CHAPTER I

INTRODUCTION AND BACKGROUND

Thirty years ago, the Texas economy was much simpler. It was driven by oil and gas, manufacturing, and agriculture. Those industries provided most of the jobs and income, and the former two accounted, either directly or indirectly, for most of the revenues required to fund Texas' state government.

As recently as a decade ago, the oil and gas industry paid twenty-eight per cent of the state's taxes. But then oil prices collapsed in the mid-1980s, and the industry's tax share plummeted. It is now below eight per cent. With Texas oil production currently at only fifty per cent of its 1972 peak, it is obvious that the oil and gas industry will never again single handedly fuel the state's economy and state government's revenue needs.

FINAL REPORT OF THE
GOVERNOR'S TASK FORCE ON REVENUE

JULY 19, 1991

Economy and Tax System Were Out of Sync

Impact of the Proposal on Businesses

The Governor's proposal improves the overall tax structure, aligning it better with the economic structure of a modern Texas. Taxes on capital intensive industries will tend to lessen, while taxes on labor intensive industries will tend to increase. Taxes on individuals will decline substantially. The overall net impact of the plan is to reduce taxes by nearly \$500 million a year.

Cutting Texas Taxes

State of Texas
George W. Bush, Governor
January 1997

Economy and Tax System Were Out of Sync

HOUSTON (AP) - School property taxes will remain high and health care problems could worsen if Texas does not revamp its tax structure, Lt. Gov. David Dewhurst said.

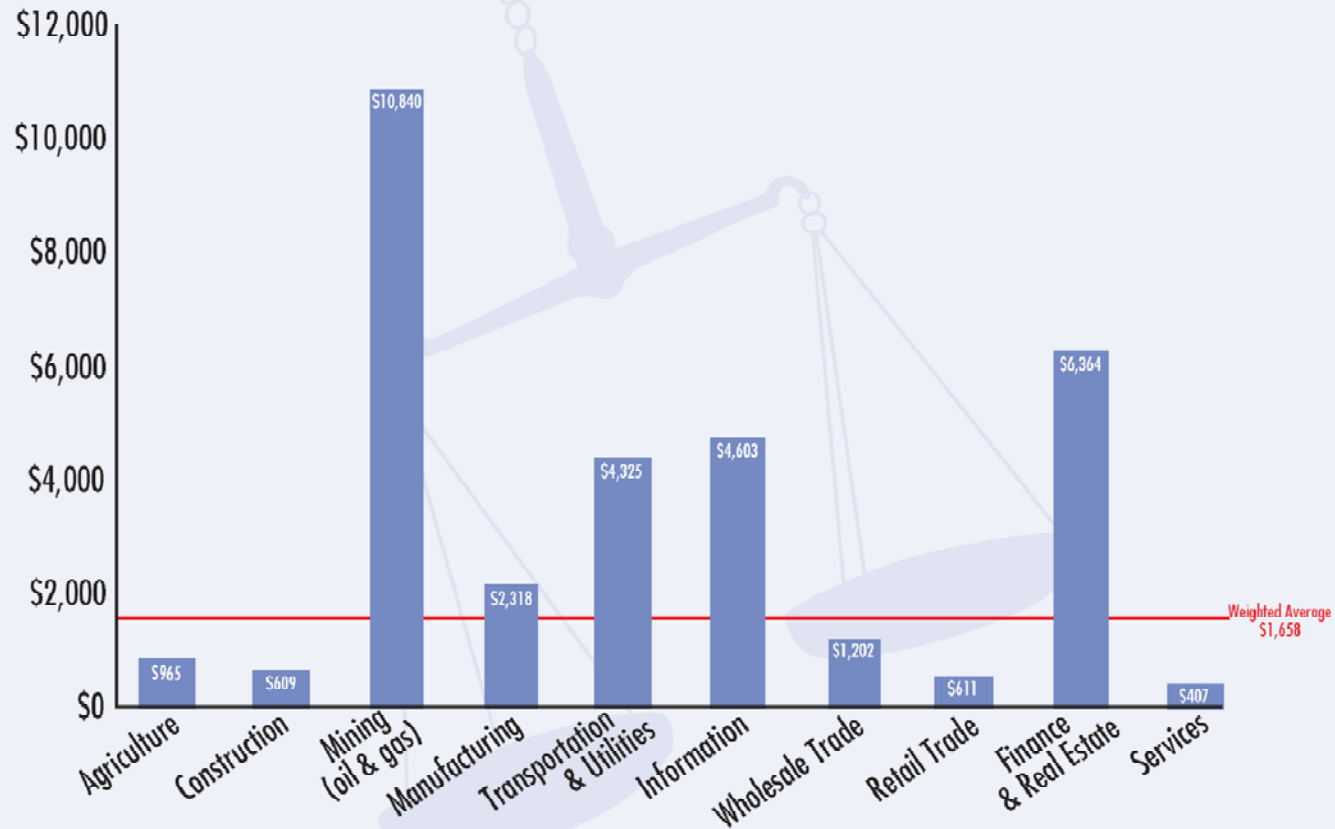
"That's one of the reasons I wanted to get a broad-based business tax for school finance," he told the Houston Chronicle's Editorial Board Wednesday.

Education, health care and other public needs could receive more funding with a tax that treated different forms of business and all sectors of the state's economy equally, Dewhurst said. The plan could include tax breaks for companies that provide health care plans for their employees.

Dewhurst touts changes in tax structure
ASSOCIATED PRESS

Friday, September 2, 2005

Business-Paid State & Local Taxes Per Employee for the Support of Texas Public Schools, Estimated by Sector Fiscal 2004



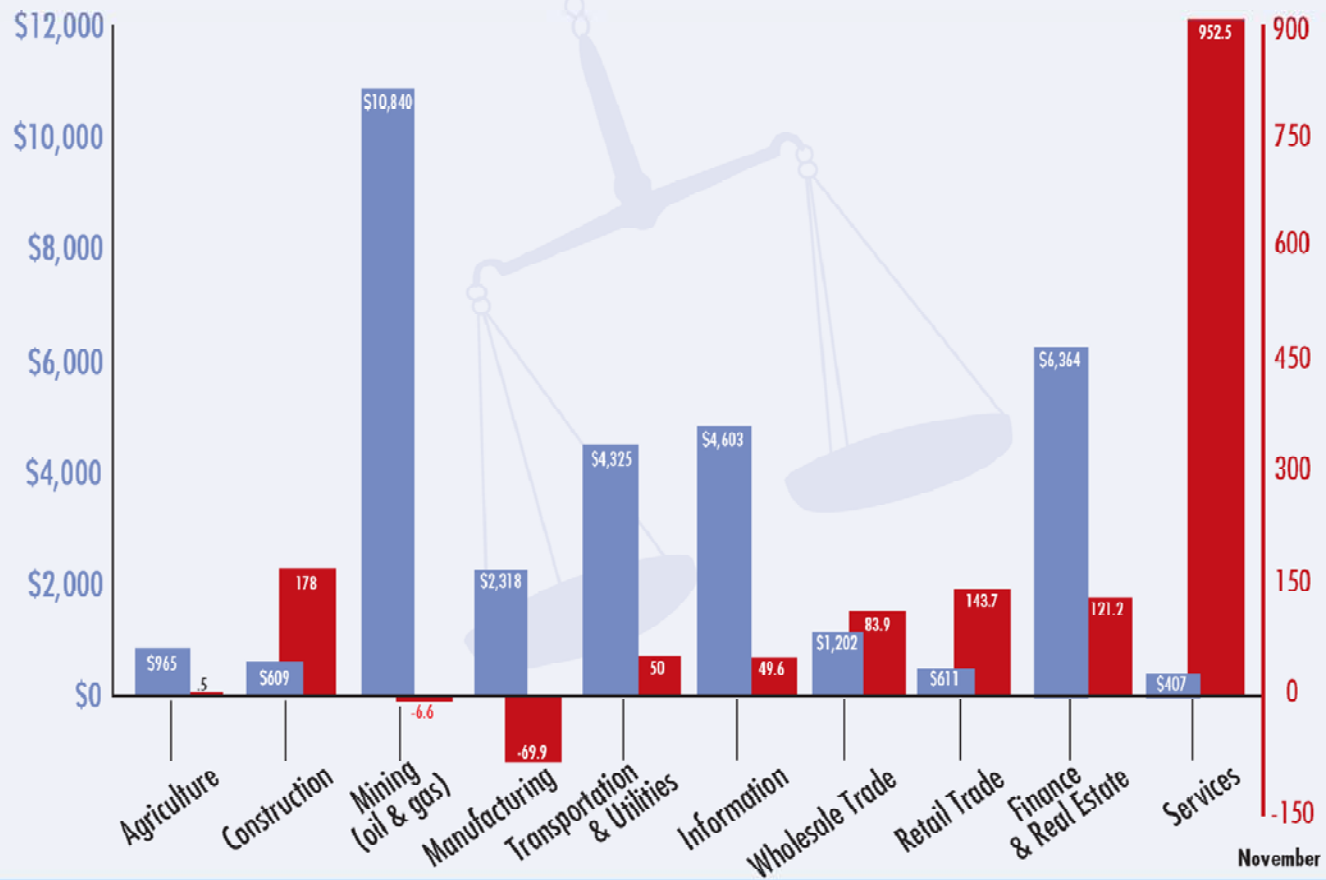
Texas Tax Reform Commission

Data Sources: Texas Comptroller's Office, Texas Taxpayers and Research Association

November 2005

Business-Paid State & Local Taxes Per Employee and Growth in Thousands of Employees

- Business-Paid State & Local Taxes Per Employee for the Support of Texas Public Schools, Estimated by Sector, Fiscal 2004
- Growth in Thousands of Employees, Estimated by Sector 1994-2004



Texas Tax Reform Commission

Data Sources: Texas Comptroller's Office, Texas Taxpayers and Research Association

November 2005

“With the growth in the economy occurring in the lightly taxed industries, Texas cannot grow its way out of its tax problem. Rather, we’re growing our way into it.”

TAX FAIRNESS; Property Tax Relief for Texans

Report of the Texas Tax Reform Commission, 2006

Courts Threatening to Close the Schools

We now hold, as did the district court, that local ad valorem taxes have become a state property tax in violation of Article VIII, section 1-e, as we warned ten years ago they inevitably would, absent a change in course, which has not happened. ... To end the constitutional violation, we agree with the district court that the use of the current system must be enjoined.

— Supreme Court of Texas, November 22, 2005

Design Considerations for the Revised Franchise Tax

- More closely resemble the economy
- Low rate
- Broad-based
- Apply to all liability-shielded business types
- Be legal (“Bullock Amendment”)
- Close Loopholes
- Increase the revenue

TTRC Plan, Time of Enactment

Fiscal 2008:

Reformed Franchise Tax	\$3.4 billion
Tobacco Taxes	\$0.7 billion
Increased Tax Compliance Measures	\$0.1 Billion
Surplus Revenue	\$1.7 billion

Property Tax Reduction **\$5.8 billion**

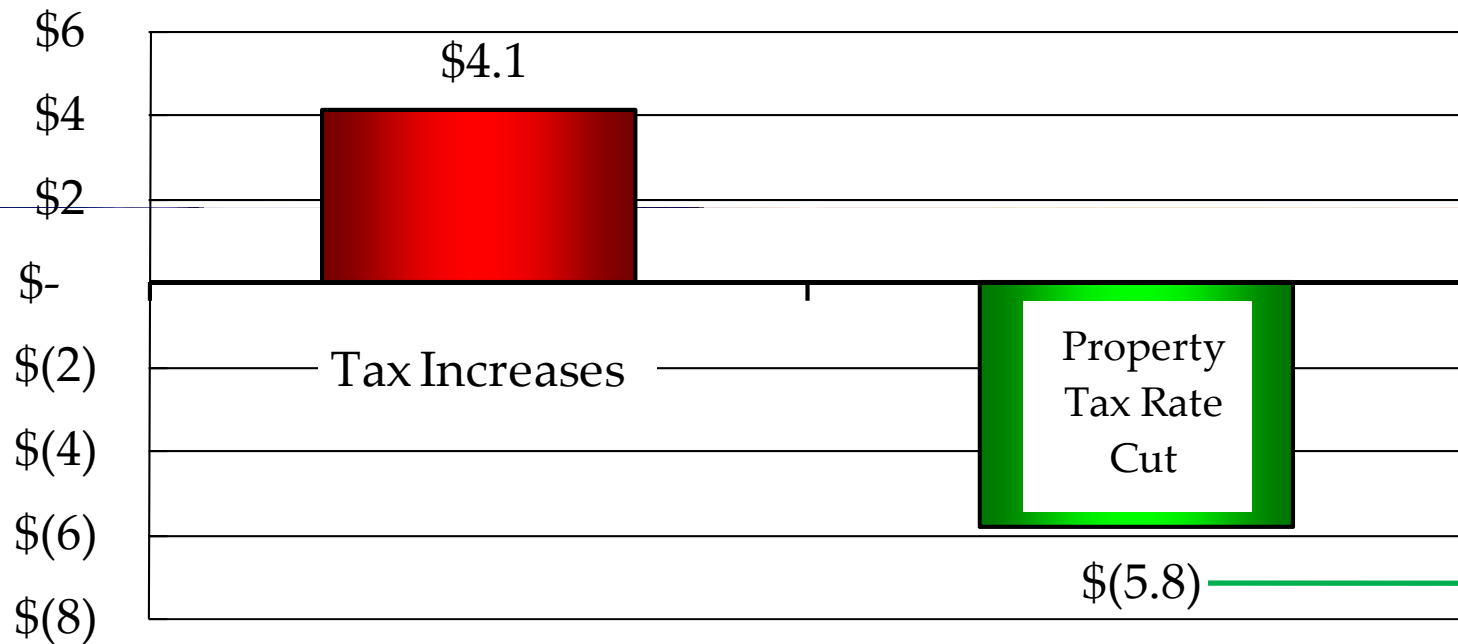
The above estimates were developed by the LBB in 2006. By the end of the 2007 session, the estimated cost of the property tax reduction had risen to **\$7.0 billion**, driving the amount to be borne from the surplus to \$2.7 billion.

Endorsing the Plan

American Cancer Society –Texas Division	Texas Airline Association	Texas Parent Teacher Association
American Forest and Paper Association	Texas Apartment Association	Texas Press Association
American Heart Association - Texas Affiliate	Texas Association of Business	Texas Restaurant Association
American Lung Association of Texas	Texas Association of Builders	Texas School Alliance
American Electronics Association	Texas Association of Manufacturers	Texas Society of Professional Engineers
Automotive Parts and Service Association	Texas Association of Realtors	Texas State Association of Firefighters
Association of Chemical Industry of Texas	Texas Council of Engineering Companies	Texas Taxpayers and Research Association
AT&T	Texas Credit Union League	Texas Trial Lawyers Association
Beer Alliance of Texas	Texas Chemical Council	Valero Energy Corporation
Campaign for Tobacco-Free Kids	Texas Daily Newspaper Association	Wholesale Beer Distributors of Texas
Greater Dallas Chamber	Texas Economic Development Council	Corpus Christi Chamber
Greater Houston Partnership	Texas Farm Bureau	El Paso Chamber
Hispanics for Opportunity, Progress and Education	Texas Forest Industries Council	Arlington Chamber
Home and Land Association of Texas	Texas Hospital Association	Fort Worth Chamber
Non Profits for Tax Fairness – Texas	Texas Instruments	Dallas Chamber
Pineywoods Economic Partnership	Texas Motor Transportation Association	San Antonio Chamber
Shell	Texas Oil & Gas Association	Texas Association of Mexican-American Chambers of Commerce

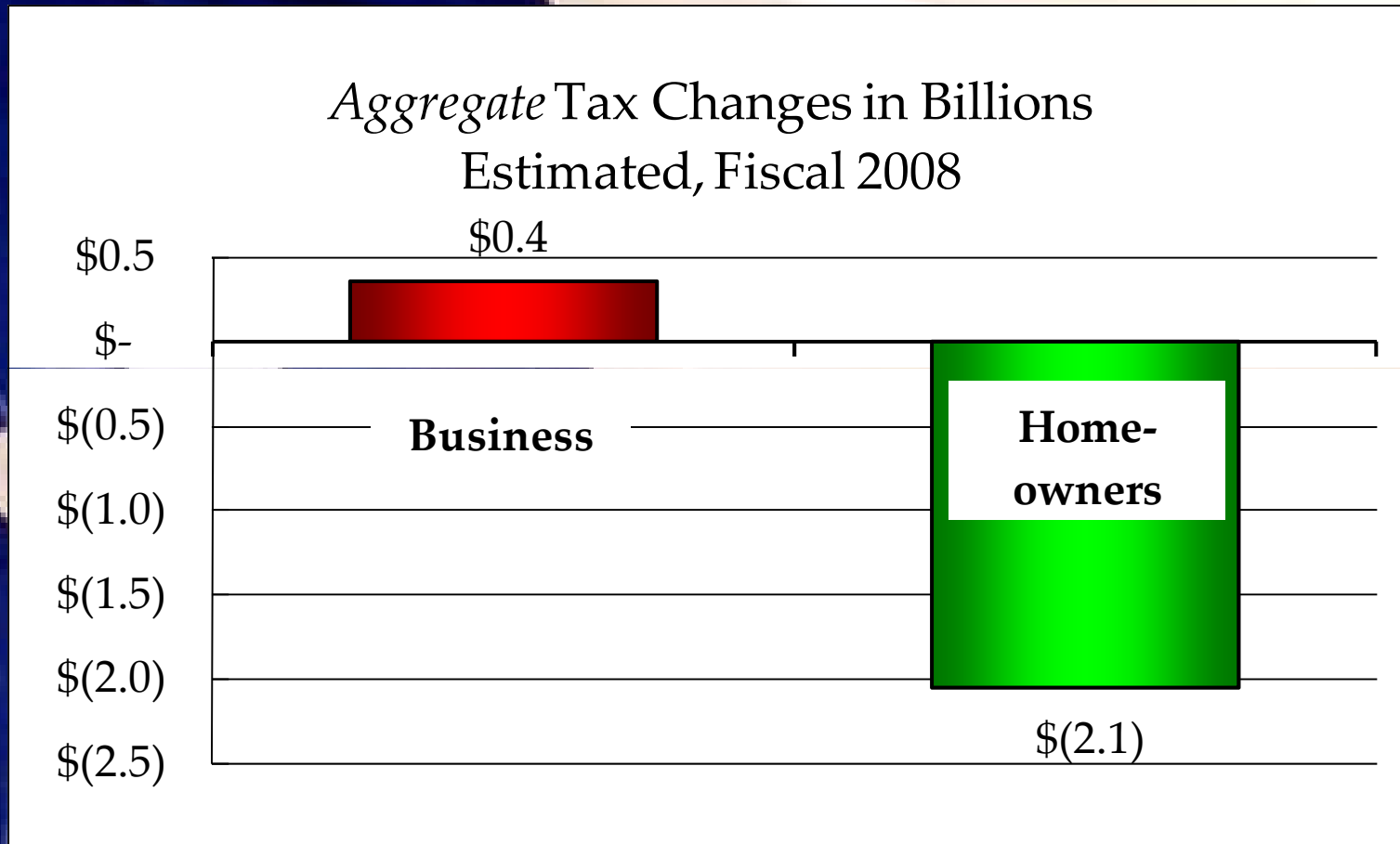
A Net Tax Cut...

Tax Changes in Billions



The above estimates were developed by the LBB in 2006. By the end of the 2007 session, the estimated cost of the property tax reduction had risen to **\$7.0 billion**, driving the net tax cut to \$2.7 billion.

...for Homeowners



The above estimates were developed by the LBB in 2006. By the end of the 2007 session, the estimated amount of the property tax reduction had risen from \$5.8 billion to \$7.0 billion. The business/ homeowner split of this additional \$1.2 billion is not available.

Is The Tax Working?

Economic Representativeness

	Total M&O and Fran. Tax Before Relief	Property Tax Relief	Fran. Tax Change	Total M&O and Fran. Tax After Relief	Net Change In Tax	Percent Change in Tax	Share of Tax Before	Share of Tax After	Share of Gross State Product
Agriculture	\$300	(\$85)	(\$0)	\$215	(\$85)	-28.4%	2.1%	1.7%	0.8%
Mining	1,647	(376)	(57)	1,214	(433)	-26.3%	11.4%	9.8%	6.7%
Utilities and Transportation	2,060	(535)	121	1,645	(415)	-20.1%	14.3%	13.3%	7.3%
Construction	233	(35)	104	303	70	29.9%	1.6%	2.4%	5.1%
Manufacturing	2,326	(549)	274	2,051	(276)	-11.8%	16.2%	16.5%	13.0%
Wholesale and Retail	1,541	(313)	230	1,458	(83)	-5.4%	10.7%	11.7%	15.8%
Information	954	(243)	139	850	(104)	-10.9%	6.6%	6.8%	5.1%
Finance, Insurance, and Real Estate	3,868	(1,092)	228	3,004	(864)	-22.3%	26.9%	24.2%	19.7%
All Other Services	1,468	(334)	540	1,674	206	14.0%	10.2%	13.5%	26.5%
Total	\$14,397	(\$3,562)	\$1,577	\$12,412	(\$1,985)	-13.8%	100.0%	100.0%	100.0%

SOURCE: Business Tax Advisory Committee, 2009

Is The Tax Working?

Size of Business

Tax as a Percent of Business' Revenue

Business by size of Revenue (gross receipts)

		0-0.5	0.5-1.0	1.0-5.0	5.0-10.0	10.0-50.0	50.0-100.0	100.0-250.0	250.0-1	1bil.-5	5bil-10	Over 10
	All taxpayers	mil.	mil.	mil.	mil.	mil.	mil.	mil.	bil.	bil.	bil.	bil.
Old tax	0.16%	0.31%	0.24%	0.19%	0.18%	0.20%	0.21%	0.20%	0.21%	0.19%	0.21%	0.10%
New tax	0.20%	0.03%	0.23%	0.28%	0.25%	0.23%	0.22%	0.22%	0.24%	0.23%	0.18%	0.14%

SOURCE: Business Tax Advisory Committee, 2009

Is The Tax Working?

Economic Representativeness

“In summary, the report indicates that franchise tax liability increased for all sizes of taxpayers except the very smallest, and that the tax now reflects the economy more closely than it did before the margin calculation.”

SOURCE: Business Tax Advisory Committee, 2009

Is The Tax Working?

Revenue Performance

- Fiscal 2008
- Estimated: \$5.87 billion
- Actual: \$4.45 billion

SOURCE: Texas Comptroller's Office

Overall Scorecard

Feature	Policy	Taxpayer	Success?
Resemble the Economy	😊		✓
Low Rate, Broad Base	😊		✓
Applies to all liability-shielded	😊		✓
Legal ("Bullock Amendment")	😊		✓
Close Loopholes	😊	😡	✓
Revenue Increased	😊	😡	✗
Simple		😡	✗

The background of the slide is the Texas state flag, which features a blue field with a white five-pointed star on the left, and a white field with a red horizontal stripe at the bottom on the right.

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