

The Quorum Report

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PANEL GIVES ALTERNATIVE MARGINS TAX MIXED REVIEW AT CONFERENCE

Conservatives favor a consumption tax to address ed needs.

John Sharp's proposed *alternative margins tax* got mixed reviews from a predominantly conservative panel at this week's *Texas Association of Business* conference.

Sharp's alternative margins tax – which taxes gross receipts minus a choice in deduction of either personnel costs or cost of goods sold – has yet to be formally announced. But TAB's **Bill Hammond** presented the tax as an issue of discussion for a tax panel comprised of **Rep. John Otto (R-Dayton)**, **Byron Schломach** of the *Texas Public Policy Foundation* and **Scott McCown** of the *Center for Public Policy Priorities*.

Certainly this was a stacked deck for a tax discussion. Schломach, like many of the more conservative members of the House, has been on the record for a consumption tax. He would get rid of the franchise tax altogether. Both Schломach and Otto favor sales tax expansion. McCown is a vocal proponent for an income tax in the state.

Asked by Bill Hammond for an opinion on the *alternative margins tax*, Otto said he would prefer to take the excess funds currently available and drop the current tax rate by at least 30 cents. If the *Texas Tax Reform Commission* could produce another 50 cents in savings, Otto said he would prefer to see all of it devoted to property tax cuts.

The unfortunate reality is that tax rates will creep back to the tax cap as soon as taxes are cut, Otto said. Otto supports a *rollback provision*, sending a district tax rate out for a vote whenever budgets exceed the estimated costs of population growth and inflation rates.

“If you lower their taxes and put the mechanism in place to let them have a voice how much the taxes are going to go back up, they will vote,” Otto said. “There needs to be some kind of control put in place so we're not back at the \$1.50 and right back in this same boat again.”

McCown said the question of a business tax needed to be re-framed. Too often the statement is that a low tax is good for business and a high tax is bad for business. What business needs to understand is the economic consequence of taxes, especially when it comes to limits that must be placed on public infrastructure such as education, he said.

When it comes to a percentage of income that goes to state and local taxes, Texas ranks 41st in the country. Schломach would later counter that the business taxes in the state, even adjusted, are 7th in the country. Putting even one additional percent into taxes -- that would make a 10 percent combined state and local tax-- would generate another \$7.35 billion per year to use for both property tax reductions and education investments.

A simple income tax – targeted below the average state income tax – could raise \$18 billion a year, McCown said. McCown

suggested that property taxes could be reduced to 50 cents and still provide another \$6 billion per year for educational spending. An investment of \$4 billion in a state income tax also yields \$2 billion in deductions off federal income taxes, which currently is not available to Texans.

Schlomach is a skeptic when it comes to the any type of business tax. Many have touted a “broad-based low rate tax,” but Schlomach said such a tax usually ends up modified to the point where it creates “little pockets of privilege.” A complicated tax system – with substantial documentation -- is inevitable over time, he said.

A business tax is the worst kind of tax because it is a hidden tax, Schlomach said. Schlomach argued that the best tax option is a sales tax because it is a straightforward, transparent option. Because a sales tax is not hidden, pressure is placed on the system to keep the rate low. Everyone, in every income bracket, understands the cost.

A sales tax, Schlomach said, already has a collection mechanism in place. On the other hand, a business tax directly taxes job creation and investment innovation. A consumption tax does not, and it does not discourage desirable behaviors, even at low rates. All things being equal, a consumption tax will produce a more vigorous business climate, Schlomach told the business group.

”We keep trying to do something with the franchise tax to try to make it work better,” Schlomach said. “What we ought to do is just let it go, do away with it.”

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