



March 10, 2005

An Economically Sound Solution That Meets Texas' Revenue Needs And Eliminates The Franchise Tax

Before voting on House Bill 3, the **Texas Public Policy Foundation**, the **Texas Conservative Coalition Research Institute** and the **National Federation of Independent Business** respectfully request the members of the Texas Legislature to consider the following:

- **A tax on payroll will cost 65,000 to 75,000 Texans their jobs**, according to various econometric estimates.
- The current focus on a 50-cent school property tax reduction is undermining the tax debate; **it is only because the shift is so large that new taxes must be considered**.
- The **difference between a 50 cent cut and a 25 cent cut** in the local school M&O property tax **amounts to \$24 per month** for the median homeowner in Texas.
- The Texas Public Policy Foundation's chief economist has calculated that the **current franchise tax can be eliminated**, and the school property tax cut 25 cents without creating a new tax. This can be accomplished:
 - ✓ Without taxing food or health care or drugs,
 - ✓ With a broadening of the sales tax base only to currently untaxed *final* goods and services mostly consumed by the those with higher incomes,
 - ✓ With a modest increase in the sales tax rate (less than HB 3's), and
 - ✓ With increases in some excise taxes that have not kept up with inflation.
- The Legislature should also consider a tax on punitive damage awards, which is estimated to raise \$450 million in California.

Shifting Texas' tax system toward more of a consumption base will ultimately create jobs and continue Texas on its impressive trend of attracting more business to Texas. The sales tax is also now tax-deductible, making it much more of an attractive alternative.

Consumption taxes are the proven, economically sound approach to taxation.

As noted by Federal Reserve chairman Alan Greenspan just last week: "Many economists believe that **a consumption tax would be best from the perspective of promoting economic growth** – particularly if one were designing a system from scratch – because a consumption tax is likely to favor saving and capital formation."