



Economic Benefits of Cutting the Margin Tax

Testimony before the House Ways and Means Committee in support of CSHB 32

by Vance Ginn, Ph.D.

Chairman Bonnen and Members of the Committee:

My name is Dr. Vance Ginn and I am the chief economist in the Center for Fiscal Policy at the Texas Public Policy Foundation, a non-profit, non-partisan free market think tank based here in Austin. Thank you for the opportunity to speak today in support of the Committee Substitute for House Bill 32 that provides substantial tax relief to Texans by cutting both business franchise tax rates by 25 percent and increasing the EZ filing revenue cap to \$20 million at a lower 0.331 percent rate on January 1, 2016.

My remarks today will focus on the economic effects of the revised franchise tax, commonly known as the margin tax, and the benefits of ultimately eliminating it.

Texas has substantial funds available for the upcoming 2016-17 budget, making this session the ideal moment in the state's history to reduce the burden of this costly, inefficient tax without replacing lost revenue with another tax. This would free capital that businesses could use to invest and create new jobs and allow all Texans to have greater opportunity to prosper.

The truth is that the margin tax has been a failure. It has failed to help keep local property taxes low. It has failed to meet revenue expectations. It has failed to keep the state out of court over the financing of public schools. Additionally, it's not only the roughly \$5 billion per year in revenue it collects that burdens businesses, but it's also the substantial compliance costs whether a business owes anything or not that limit their economic potential.

Studies modeling the dynamic fiscal and economic effects of phasing out or repealing the margin tax find substantial economic benefits. These include potentially tens of thousands of net new private sector jobs created and billions in net new investment and personal income across Texas, increasing sales tax revenue and other tax revenues that over time could replace much of—if not all—the loss from eliminating the margin tax.

Building on the capital and margin tax literature, the Foundation recently published the report *Economic Effects of Eliminating Texas' Business Margin Tax* that runs a dynamic econometric model generating forecast results supporting the findings in previous research that margin tax repeal would be highly beneficial for all Texans, including:

- More prosperity: Texas could gain \$10.8 billion in new real (inflation-adjusted) personal income after the first year and accumulate a total \$16 billion increase within five years compared with the baseline.
- More jobs: Net new private sector nonfarm employment could increase by 67,800 after the first year and add a cumulative 129,200 net new jobs five years after eliminating the margin tax compared with the status quo.

After full elimination of the margin tax, Texas will join three other states (i.e. Nevada, South Dakota, and Wyoming) without a direct business tax or a personal income tax. While this will enhance the future of Texas' economy, the stakes are much higher than one state's prosperity alone. This transformational policy would make Texas a leader for America—and even the world—in tax policy.

By spurring job creation and reducing the tax burden, the combination of no business tax or personal income tax supports the potential to lift hundreds of thousands of Texans, and possibly many more Americans, out of poverty. Now is the time to pass CSHB 32 to substantially cut the margin tax burden so that it is eventually put on a path to elimination so all Texans benefit.

Thank you for your time and I look forward to answering your questions. ★

About the Author



Vance Ginn, Ph.D. is an economist in the Center for Fiscal Policy at the Texas Public Policy Foundation. In 2006, he graduated with honors from Texas Tech University with a B.B.A in economics and accounting and minors in political science and mathematics. After interning for a U.S. Texas Congressman in Washington, D.C., he started his doctoral degree in economics at Texas Tech University and graduated in 2013.

Before joining the Foundation in September 2013, Ginn interned at the Foundation as a Charles G. Koch Summer Fellow in 2011 and taught at three universities and one community college in Texas. He has successfully published peer-reviewed articles in academic journals, commentaries in multiple outlets, and posts in free market blogs. His research interests include free markets, fiscal policy, energy topics, monetary issues, and economic modeling.

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