



## Franchise Tax Reform Benefits Texans

Testimony before the House Ways and Means Committee in support of SB 7

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 SB 7 that provides tax relief to Texans by reducing the state's business franchise tax rates by 15 percent and raises the revenue ceiling to \$20 million to file the EZ form at a lower 0.331 percent tax rate.

My remarks today will focus on the economic effects of the revised franchise tax, commonly known as the margin tax, and the benefits to Texans of its immediate elimination.

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 and other tax revenues that 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 economic model that generates forecast results supporting the findings in previous research, 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 after 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.

By eliminating the margin tax, Texas will join three other states (i.e. Nevada, South Dakota, and Wyoming) without a direct business tax or an individual 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.

The combination of no business tax or income tax supports the potential to lift hundreds of thousands of Texans, and possibly many more Americans, out of poverty. It's time to make the largest franchise tax cut possible with the biggest economic boost for all Texans coming from full elimination.

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.

## About the Texas Public Policy Foundation

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The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

