



Texans Benefit from Franchise Tax Cuts

Testimony before the Senate Finance Committee in support of HB 32

by Vance Ginn, Ph.D.

Chair Nelson 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 in Austin. Thank you for the opportunity to speak today in support of HB 32 that provides tax relief to Texans by reducing the state's business franchise tax rates by 25 percent, raises the revenue ceiling to \$20 million to file the EZ form at a lower 0.331 percent tax rate, and puts mechanisms in place to ultimately eliminate it.

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 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.

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 generating forecast results that support the findings in previous research on this topic, 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, translating into an average \$2,400 per family of four.

- 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.

These economic gains would contribute to increases in sales tax and other tax revenues replacing much of—if not all—the loss from eliminating the margin tax.

By eliminating the margin tax, Texas will join only Nevada, South Dakota, and Wyoming without a direct business tax or an individual income tax. The Tax Foundation finds that full repeal would generate more entrepreneurial activity as Texas improves her business tax climate from 10th to 3rd best nationwide.

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.

It's time to make the largest franchise tax cut possible with the biggest economic boost for all Texans coming from full elimination. If there is no agreement on which taxes to cut, property or sales, the research is clear that the biggest economic boost would come from putting all of the almost \$5 billion being discussed toward cutting the margin tax, preferably eliminating it in the second year of the biennium.

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 a community college in Texas. He has 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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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.

