



## Time for Tax Relief

### Testimony before the House Ways and Means Committee on CSHB 31

by The Honorable Talmadge Heflin

Chairman Bonnen and Members of the Committee:

My name is Talmadge Heflin and I am the director of 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 on the importance of keeping taxes low by cutting the state's sales tax rate.

My remarks today will focus on the Committee Substitute for House Bill 31 that would provide permanent, meaningful state sales tax relief to Texans.

Although no one likes to pay taxes, they are an inevitable part of funding core government functions. As such, a policymaker's challenge is to develop an efficient tax system that provides necessary revenue while doing the least economic harm. A policymaker should take care, however, as not all methods of raising revenue are created equal.

In the publication *How Big Government Hurts the Economy*, the Foundation compares the past economic performance of the nine states without a personal income tax (including Texas) to the nine with the highest marginal income tax rates (including California) and the 50-state average. The study's results show clear differences.

In every category examined—including Gross State Product, Personal Income, Non-Farm Payroll Employment, Population, and State and Local Tax Revenue—the states without a personal income tax performed better than the states with the highest marginal personal income tax rates. Not only that, but the nine states without an income tax also outperformed the national average in every category, often by a wide margin.

While it's important that Texas never have a personal income tax, it's also important that the state's tax system remains competitive by keeping the overall tax burden

low no matter which taxes it implements. To get the largest economic boost, the Foundation's research *Economic Effects of Eliminating Texas' Business Margin Tax* finds that putting the margin tax on a path to elimination would be the best avenue.

Reducing the state sales tax rate is another option to put more money in the hands of capable taxpayers. Since the 2008-09 biennium, sales tax revenue increased by 28 percent representing roughly 55 percent of total tax collections in FY 2014-15.

With consumers paying 60 percent of state sales taxes and businesses paying the other 40 percent, cutting the sales tax rate by 0.3 percent as directed by CSHB 31 would benefit consumers and businesses by having more money to allocate as they see fit. More money in the hands of businesses would also contribute to additional investment and hiring opportunities that would benefit Texans.

Though Texas benefits from not having a personal income tax, the state's 6.25 percent sales tax rate is the 12th most punitive in the nation according to the Tax Foundation. If you include the average local sales tax rate of 1.80 percent, the 8.05 percent state and local sales tax rate is also the nation's 12th highest.

By lowering state sales tax rate by 0.3 percent to 5.95 percent, CSHB 31 would make the state more competitive by increasing the state's ranking 13 spots to 25th nationwide. In addition to not having a personal income tax, a lower state sales tax rate would make it cheaper to purchase goods and services benefitting consumers and businesses.

In terms of simplicity, the sales tax is among the easiest for taxpayers to understand and pay since the rate is generally known beforehand and levied automatically at the time

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of purchase. This is a unique feature that sets the sales tax apart from most other taxes laden with time-consuming paperwork and other compliance costs, such as the margin tax. Though we agree with reducing the footprint of government so that overall taxes remain low, the Foundation finds the best opportunity to boost the economy and benefit Texans is by repealing the margin tax.

CSHB 31 takes steps in the right direction to making Texas more competitive and leaves more money in the hands of taxpayers by reducing the state's sales tax rate.

Thank you for your time and I look forward to answering any questions that you may have. ★

## About the Author



**The Honorable Talmadge Heflin** is the director of the Foundation's Center for Fiscal Policy. Prior to joining the Foundation, Heflin served the people of Harris County as a state representative for 11 terms. Well regarded as a legislative leader on budget and tax issues by Democratic and Republican speakers alike, he for several terms was the only House member to serve on both the Ways and Means and Appropriations committees. In the 78th Session, Heflin served as chairman of the House Committee on Appropriations. He navigated a \$10 billion state budget shortfall through targeted spending cuts that allowed Texans to avoid a tax increase.

## About the Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute. The Foundation's mission is to promote and defend liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

Funded by thousands of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

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.

