

Controversial business tax back in front of Senate

By John Austin CNHI State Reporter 12 hrs ago



AUSTIN — Gov. Greg Abbott said in his state of the state address that he wanted to cut the business franchise tax until it “fits in a coffin,” and while reports of its demise may be premature, vital signs aren’t strong.

The House last week passed a bill that would hasten the end, then sent its version to the Senate, which approved a different franchise tax-cut measure, Senate Bill 17, earlier in the session.

Still, while conservatives are encouraged over what they believe could be a significant boost for the Texas economy if a bill does reach the governor’s desk, opponents say that the damage to public-education funding will outweigh any economic benefit that might accrue from killing the tax on businesses.

That’s not to mention the hit property owners would take in having to make up the difference in taxes if lawmakers succeed in phasing out the levy on business, critics say.

“Losing the franchise tax would be like losing the lottery,” which puts about \$1 billion annually into public-education funding, said Dick Lavine, a senior fiscal analyst at the Center for the liberal-leaning Public Policy Priorities in Austin. “Somebody has to pay for schools.”

Vance Ginn, an economist at the conservative Texas Public Policy Foundation in Austin, said that shouldn’t be a problem.

The franchise tax — or as it’s now known, the margins tax — “is horrible,” Ginn said, and shouldn’t have been implemented in the first place.

“We don’t have a revenue problem,” Ginn said, “we have a spending problem.”

Explaining House Bill 28 in a recent blog post, Ginn wrote that it would use “the lesser of either surplus dollars at the end of a fiscal period, or \$3.5 billion to buy down the margins tax rates, and would abolish the tax when the rate reached 15 percent or less.”

The Senate version, Ginn wrote, is “a tax-cut ‘trigger’ bill whereby half of the estimated general revenue for the upcoming biennium that exceeds a 5 percent increase from the prior biennium would trigger a cut in the margins tax rates each budget period until elimination.”

Confusing as the competing bills may be, the impact would be clear, according to Ginn’s analysis.

Eliminating the tax could put up to \$16 billion in “new personal income and about 130,000 new private sector jobs over five years above the status quo,” Ginn wrote, or “\$5 billion in new personal income and almost 42,000 new private sector jobs five years after elimination.”

Dale K. Craymer, president of the Texas Taxpayers & Research Association in Austin said the tax is “decidedly unpopular,” “incredibly complicated” and “costly to administer.”

Yet, said state Rep. Donna Howard, D-Austin, eliminating the tax “makes no fiscal sense” and is “certainly not conservative.”

The vote on HB 28 came the day after lawmakers went into the wee hours over a sanctuary cities bill.

The tax-cut measure passed the House 96-39.

“It’s eventually going to lead to a crisis for Texas’ if enacted, said Rob D’Amico, communications director for the Texas American Federation of Teachers. “We’re definitely against it.”

As of Thursday afternoon, the Senate’s finance committee hadn’t yet set a meeting to take up the bill next week.

With the session’s finale looming at month’s end, and infighting over a budget still to contend with, finding time to eliminate the margins tax isn’t yet a done deal, despite the political will to kill it.

“Neither the House or the Senate has given a hearing to the other’s bill,” Lavine said. “They’re a few steps short of that.”

Unlike Lavine, Craymer supported the House bill, but he agrees that there’s still work to do if the governor is going to get his wish this session.

“There’s no middle ground” between the House and Senate versions of a margins, Craymer said. “They can’t split the difference.”

John Austin covers the Texas Statehouse for CNHI's newspapers and websites. Reach him at jaustin@cni.com.