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## WHERE DID ALL THE MONEY GO?

Legislative budget-writers are warning that they will be very little money available for new spending in the state budget currently under consideration in the Capitol. This is a stark contrast to the last two legislative sessions, during which lawmakers competed over who could cut the most taxes. Unsurprisingly, there is a direct connection between the tax-cut fever of the past sessions and the tight budget scenario now. The tax cuts enacted in 1997 and 1999 have reduced the amount of state revenue available to fund the 2002-03 budget by \$2.6 billion.

The largest revenue loss is due to two property tax measures passed in 1997. The amount of a home's value exempted from school property taxes was raised from \$5,000 to \$15,000. In addition, the amount by which the appraised value of a home can increase each year was capped at 10 percent. These two provisions reduce the value of property that school districts can tax. Since the state guarantees each district a certain amount of revenue for each penny of tax rate, the state must make up for the lost local revenue. In fiscal 2002-03, this is expected to cost the state \$1.6 billion – more than 60 percent of the total expected revenue loss.

In 1999, the Legislature passed a number of business tax breaks. The largest, a franchise tax credit for research and development activities, is estimated to cost the state \$266 million in fiscal 2002-03. The total cost of all business exemptions and credits passed last session is \$608 million.

The Legislature also directed certain breaks at consumers, primarily the "back-to-school" sales tax holiday in August for clothing and footwear up to \$100 per item and a sales tax exemption for non-prescription ("over-the-counter") drugs. New consumer tax provisions will reduce state revenue by \$396 million in fiscal 2002-03.

These projections are from a report released by the Comptroller last week, *Tax Exemptions and Tax Incidence*, (<http://cpa.state.tx.us/taxinfo/incidence/>) which gives six-year estimates of the cost of tax provisions. According to this report, the 2004-2005 state budget will face revenue losses of \$2.9 billion. The fastest percentage growth in tax breaks will be for sales-tax exemptions for timber items (which is being phased in), data processing and information services, and Internet access fees -- reflecting the growing importance of the New Economy on the state tax system.

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Projected loss in 2004-05 = \$2.9 billion.

The fastest percentage is growth in exemptions for timber items (which is being phased in), data and information services, and Internet access.

## How Much More Would the Legislature Have to Spend if They Hadn't Cut Taxes in 1997 and 1999?

Tax Cut	Cost for 2002-03	% of Total
	(millions)	
Homestead exemption	1,284.3	49%
10% cap on appraisal	312.2	12%
Over-the-counter drugs	299.3	12%
R&D	265.8	10%
Investment credit	115.7	4%
Small business	97.6	4%
Sales tax holiday	68.5	3%
Job creation	58.0	2%
Internet access	28.2	1%
Data, information services	38.8	1%
Timber	11.7	0%
After-school care	10.7	0%
Child care	9.7	0%
<b>TOTAL</b>	<b>2,600.5</b>	<b>100%</b>

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